



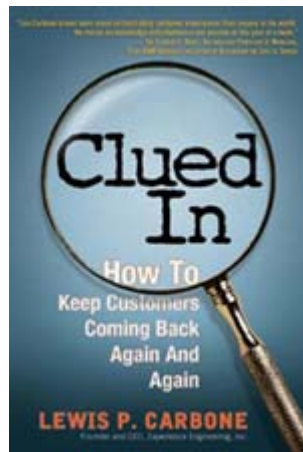
## Lou Carbone – A Cool Friend of Tom Peters



Lou Carbone has been exploring the dynamics of experience value creation and management for 20 years. He founded and currently serves as CEO of Experience Engineering, an experience-consulting firm whose clients include IBM, General Motors, Avis, Allstate, Audi, Blockbuster, RBC Financial, Office Depot, H&R Block, Taco Bell, Allina Health System, and many other leading organizations. Carbone collaborated with Steve Haeckel on "Engineering Customer Experiences," the seminal article that introduced the concept of customer experience.

He's the author of:

***Clued In: How To Keep Customers Coming Back Again and Again.***



**tompeters.com** asks ...

**What's your background and experience? I think you wrote an article in 1994 with a coauthor for *Harvard Business Review*?**

**LC:** It was in 1994, in Marketing Management, and it was probably one of the first articles to talk about the systematic management of experience as a value proposition.

**And how had you gotten to that? For most of us, that was way ahead of the experience curve.**

**LC:** It truly was. And in fact, people looked at me at that time like I was smoking the drapes. My background is in advertising, so my tremendous

appreciation for the creative process and design and thinking outside of the box and the impact of that was there.

I spent a number of years in advertising. But for me, the real light came on when I was working back in the early '80s, late '70s, at an agency in Detroit, which was Campbell-Ewald Advertising, which was owned by Interpublic. I was on the account side, and I was handling three significant pieces of business that shaped my understanding of experience.

One was Howard Johnson's Restaurants, which, as you know, virtually no longer exist. The other was Disney, and the third was American Tourister Luggage. But, in particular, a company called Hillenbrand Industries, which owns Batesville Casket Company, shaped my understanding. Now, one would say, "What in the hell did you ever learn about customer experience from a casket company?"

Well, Batesville Casket is the number one manufacturer of high-end caskets in the world. They are out of Batesville, Indiana, and were owned by a family called Hillenbrand. They also own Hill-Rom Furniture, and at that time they had acquired American Tourister. Now, here are these folks who are so extraordinarily successful in these two businesses, and they buy American Tourister Luggage, which arguably could have had one of the most significant brands in the U.S. with all of the gorilla advertising, except that the gorilla was more associated with Samsonite than it was with American Tourister. What happens often is that people will confuse what message to associate with whom when it's pure advertising as branding. People would see an American Tourister commercial and think it was Samsonite because Samsonite had a larger market share. I was fascinated by that phenomenon. I was also amazed at how Hillenbrand couldn't understand how to get American Tourister on track, but they thought this was their great foray into consumer marketing and branding.

Yet they had a stronger brand in the casket business because they realized that that business was all about emotion. They would actually plant a tree for every individual who bought a Batesville casket. About two months later, the family would get a certificate in the mail that a tree was planted in the Pacific Northwest in memory of their loved one.

**Wow.**

**LC:** I got them as a client just after my dad had passed away. I remember opening the mail and getting this certificate and actually getting verklempt, as they would say on Saturday Night Live. I thought to myself, "What a neat thing for someone to do." Later, when I had cousins who had family pass away, I would be summoned to help them make the casket selection because I felt so strongly about Batesville.

That's just one piece of my awareness of the power of experience and what experience was about.

**It's interesting that you connected it immediately with your emotions and that you sensed that there had been purpose and design in how it made you feel. When this could have been a pretty cold and depressing transaction.**

**LC:** Oh, especially when you hear all the bad things about them selling you a casket and you're a vulnerable person at that time.

**Exactly.**

**LC:** Simultaneously to working on that, I was working on Howard Johnson's Restaurants, and we flew up to the headquarters in Quincy, Massachusetts. Mike Hostage was the CEO at the time, and he had come from Continental Baking. It was owned by the Imperial Group in London, and we were looking at the customer satisfaction studies which, you know, really aren't an indicator of whether you're hanging on to customers or not, as we now know as a result of people like Fred Reichheld and so on. But at the time, those were the only indications. What we could see is when we advertised, customer satisfaction went down because we were bringing more new customers in.

At Howard Johnson meetings then, they'd be talking about using cheaper straws, shutting the commissaries down, going from 4-ply to 2-ply napkins to save X number of dollars. "We don't need 28 signature flavors. [Even though Howard Johnson had pioneered the concept way back in 1925.] Let's close the commissary down that makes our HoJo fried clams. We can buy them from someone else. We don't have to make our own connoisseur hotdogs and buns." They kept taking all this emotional equity, these clues, out of the experience, in the interests of cost-reduction to become the low-cost producer.

**When you say hotdog, I can still remember the Howard Johnson's hotdog. They had the side-cut roll, and, you know, that was actually a great little experience—just the way they served a hotdog.**

**LC:** Absolutely, and the little wrappers, the caramelized butter on the outside of the bun. In fact, they didn't call it a hotdog; they called it a frankfurter. I was watching this stuff going on, and we were telling them, "You need to re-concept here and understand what you're doing." And they kept building new concept designs that were literally warmed-over Howard Johnsons of what they considered to be "let's look more like the competition" versus "let's understand what equity we have, from the customer back, from what our customers value and desire when they do business with us."

So I was really shocked by that, because at the same time I was watching them just not pay attention to any of the detail that created these emotions. They used to have a menu that you could wear as a cap. I remember going down to Florida in the '50s wearing one of those caps in the backseat of the car, going from orange roof to orange roof. I'm very ashamed to say I was working with them when they were boarding up buildings and leaving orange roofs out there, which were a huge clue to the public of their failure, in an almost predictive kind of sense of, "Oh, they mustn't be so great because they're closing restaurants right and left and don't even bother to hide the orange roofs."

In fact, in the book, I took a picture of one of the orange roofs peeling through at an X-rated motel in Dallas. What is it, 20 years after they vanished from the face of the earth? It was like a prehistoric dig, an archeological dig.

**I think when I first came to Boston, out on Route 2 near Concord, there was an old Howard Johnson's that was just at the end of its**

**life. Then that became an orange roof with nothing inside, and now it's turned into some other chain restaurant.**

**LC:** As you would say up in New England, it's become a [Boston accent] Bickford's. [laughter]

At the same time, I was the official liaison from the agency for three of our clients that are Disney participants, and I was working with Disney. I'd be up in Boston talking about throwing all this stuff out, and then I'd fly down to Disney and they were talking about the temperature and velocity of the wind blowing in your face. They were talking about the temperature of an ice cream bar. They were talking about what is it that I feel when I walk into this area. What are the feelings I'm having? And I was thinking to myself, "Holy God, the difference between these two organizations in terms of understanding what customers are experiencing as value is like night-and-day."

**Right, but then part of that is explained by the fact that Walt Disney understood the importance of peoples' emotions because he was a storyteller.**

**LC:** Yes. I think there are a few people that understood. I don't think Ray Kroc understood it, even though McDonald's up until the last year or two was one of the greatest examples of make-and-sell in terms of profits and product and putting out the same thing consistently. They still understood the emotional needs of the customer. Ray Kroc did understand, however, that perception is reality. He designed the kitchen so the fry machine was on one side and the shake machine was on the other side. From a process perspective it was more efficient to have them side by side, but he wanted to get the choreography of people going back and forth and rushing from machine to machine to create this sense of speed. It may have actually been slower. So, Ray Kroc, like Walt Disney, had extraordinary sensitivities to the realities of how people perceived the reality of experiences and the management of all the clues embedded in that.

I began to realize that Disney was extraordinary at sensing what customers desired on an emotional basis and how to deliver that. But what I was also fascinated by was that the Disney Attractions Group, as an organization, didn't understand what they had—that intuitive and instinctive sense of the rigor around customers' emotions that was built into the system. I believe Disney management didn't really understand the underlying principles that created the "pixie dust." And it's that blindness that has led them into their current problems.

As an example of that, they ended up retailing Disney in their retail operations, rather than Disney-fying retail. In other words, they didn't apply to their stores that extraordinary capability for understanding customer emotion.

It's just shocking to me that they didn't understand it. And what was so powerful was to be able to watch it from the outside and understand that what it was about was the rigor of understanding the emotional endgame, the customers' deeply desired feelings, and then the systematic management of clues that align with creating that feeling that customers have on an

unconscious level. Because certainly those customers wouldn't be able to articulate what it was they wanted.

**I know you've got a methodology, and I think you detail it pretty clearly in the book, but can you talk briefly about what does someone have to do once they understand that the experience is central to what they want to deliver to a customer?**

**LC:** I think the first thing is that people are becoming more and more aware of customer experience. The difficulty is that everyone has a different definition of customer experience. I could interview 15 people, and they will give me 15 different ways of looking at it. There are some that think it's show business. There are others that think it's customer service. There are others that think it is the way that people are treated. There are others that think it's wowing someone or delighting someone.

To me, the experience is the value proposition ultimately. The problem is that we're so oriented to "make-and-sell" in this world that everything is "let's make it and they will come and buy it."

What I think becomes crucial is to understand that experience is the value proposition, that ultimately how we feel in an experience is what we begin to associate as value with that brand.

**Right.**

**LC:** So, understanding customers more deeply in terms of what their emotions are in an experience is what I refer to as one of the three competencies to leverage experience as a value proposition. The methodology and the tools become very easy for an organization. Our company's area of expertise is understanding these competencies and the implications of these competencies on methodologies and on tools.

**One of the things I think you identify in the book is how you can't—**

**LC:** Not have an experience.

**Well, yes. You're always going to have an experience, but as you're trying to design that experience, you've also got to remain organic to what your organization is.**

**LC:** Exactly, exactly. You've got to remain authentic. You've got to do it in a way that you're not manipulative. You've got to be true to the customers' desires and feelings and how good those customers feel and what emotional needs the experience fulfills for them.

**You write about a company that wanted to design a customer experience, but they realized that they had to figure out what their employee experience was first. I thought that was a little counterintuitive, and yet, once you think about it, it's brilliant.**

**LC:** I think it goes back to the make-and-sell world. If we think about an assembly line and building products for the marketplace, the employee doesn't have a lot of input into how he does his work. I think the only study that was ever done did say something about, I think, cars built on certain days of the week were better quality than those built on other days of the week at one time?

**You never wanted to buy a car built on a Monday is what I heard.**

**LC:** Yes. And I think that should have been our first indication that even in a product make-and-sell world, the employee's emotional mindset has impact on what's derived ultimately for the customer.

**Right.**

**LC:** And that becomes even more so as we look at it in the world of experience and in the world of service. So, consequently, the employee experience becomes extraordinarily important. The two are inextricably linked. If you're creating great customer experiences, employees are energized. You don't want to work at a place that pisses people off, generally. There are synergistic effects in this value proposition around the two.

But I think the thing that becomes so crucial and what's so challenging in these times is what I would call a "fair and equitable proposition." That is, customer value, the value that I create for the customer, and the value that customers create for the company. Often we get tangled up in today's vernacular, because I could go into some companies and talk about customer value. And if you can believe it, they look at it from the perspective of whether the customer is valuable to them or not. They don't even think about the value they're creating for the customer.

**Yeah, that's frightening.**

**LC:** There are people that are talking about "we should fire some of our customers, our unprofitable customers," and that's because they don't know how to create an experiential value proposition that would make those customers profitable.

Now, an example of an organization that has understood that is Progressive Auto Insurance. I worked with Bob McMillan almost 14, 15 years ago when they first prototyped a number of concepts in South Florida. He was the President of the Florida division of Progressive Auto Insurance. That led to the introduction of the instant response vehicle that shows up at the scene of the accident and makes out a check to the client on the spot.

One of the other areas that we worked on was getting five insurance quotes from different insurance companies at the Progressive call center. Today you can get the competitive quotes by calling or by going to their website. Now talk about creating customer value. Here you actually get more business from the customer by creating honest value for them, telling them, "Here's what the five companies cost. You make the decision. I'll help you make it." Some of these other quotes are lower than Progressive's. Most companies think, "How do I edge out the other guys versus providing more value to the customer?" That's why Progressive is the most profitable insurance company today. [Progressive's website states it is the third largest auto insurance company in the U.S.]

This whole concept of value that the customer derives is huge. And the value is not just the monetary value, but the emotional value. Think of the emotional value of dealing with someone on the phone who's giving you competitive quotes. You've now moved from trying to sell something to connecting on an emotional level. Understanding a customer on a deep, unconscious, and emotional basis is what will bond them to you. The other is

managing clues in a systematic way, so that you are controlling that experience.

Then the last piece is really to frame all of the strategic initiatives experientially. How do I take a make-and-sell company and turn it into something that really understands the experiential value proposition? And how do I make that the focus of everything that I do? Jerry Zaltman, a professor [emeritus] at Harvard Business School, has done studies of the consumer mind that show that the total experience is what matters to someone buying something. It's not the product attributes and it isn't the services per se that cause people to prefer one experience over another. It's the emotional connection that's created of the total experience. And that total experience is the total sensory experience that someone has of both conscious and unconscious things that comprise the experience.

I've had this conversation with Earl Powell at the Design Management Institute, and we're talking about how we can launch an experience management institute that would work alongside the design institute so we can break the paradigm and bring design and the creative juices of the world into designing the total business proposition. We're not thinking of it in terms of just pure graphics or in terms of product design or e-commerce. It's business design. It's value proposition design.

**You have a great story in the book about a woman who is coming to interviews at different hospitals for a job, and at one place, a sign at the entrance reads "trauma" or "emergency entrance" or something. While at another hospital a sign reads "emergency care." She knows immediately that she wants to work for the place where the word "care" is in the sign.**

**LC:** Exactly. And she was unaware of why she even turned into the driveway to begin with. But it's our unconscious mind at work. I'm writing an article with Dr. Katherine LaTour, who is a PhD at UNLV now. She is an expert in the area of memory reconstruction. And I was just in Las Vegas yesterday, and we went through eight casinos, hotel properties, and literally did what we call "clue scanning."

You begin to think differently about language and signage once you begin to study this. In the casinos, for instance, you see signs that read "Unauthorized Personnel Not Permitted." Now you might not even notice a sign like that at the time, but your unconscious registers it. At Disney they've got signs that read "Exit Only Please" instead of "Do Not Enter." It's the same message, but the first one sends a much friendlier subtext with it. Things like that are so easy to fix, but most people have no idea of the messages they're sending.

I think the one thing that's pushing us in that direction is the introduction of women into the workplace. It's important that Tom is talking about this topic. I'm doing some work with the banking industry and it's clear that customers are from Venus and bankers are from Mars. We're realizing that women see things differently than men do, just the way they even view colors. My wife sees green in colors that I don't see. To me, it's just green, but to her it's different shades of green, many different shades of green. Fortunately, I

think we are entering an era where the appreciation of that value is taking hold in business.

Now, what I think men someday will have to admit is that, ultimately, the decisions we are making are not rational at all. Jerry Zaltman would tell you that everyone makes decisions based on emotion. It's not just women; men, too. What we do is we create these intellectual alibis that rationalize why we do the things we do.

**For instance, you know, women can call it "intuition," but God forbid a guy would call what he has "intuition." He's got to call it a "gut feeling." It becomes this macho thing.**

**LC:** That is so true.

So you begin to look at what I think is going to be a most exciting era because I've seen the changes just in the last few years, but I think it's incumbent on people like Tom, on people like myself. We're only part of the way there. So far all we have is what I would call a whole bunch of disparate pieces that companies traditionally try to bolt on to get a solution. And they don't integrate it into a holistic system.

What we always talk about is systems thinking, and I think that Russell Ackoff makes the comment that if you were to take a transmission from a BMW, an engine from a Mercedes, and you put them together, they're not going to work. It's the integration of the pieces. Experience engineering is all about taking all of this thinking, all that we've learned in the last decade about brain science, about research, about employees, and integrate this into what marketing should have been. Unfortunately, marketing became purely communications or sales because we bastardized the meaning of it. People that didn't understand it went out and talked about it without giving people a full benefit of what the depth of marketing should have been. We run that same risk with experience. That if people think of it as a show business thing or teaming or anything like that, they're going to miss the boat in terms of getting the full richness of what can be derived from really understanding experience as the value proposition.

**I'm thinking back to Howard Johnson's and what a strong brand it was. I still have mental images of the whole family in the car and how Mom would want to go to Howard Johnson's because the food was good and the bathrooms were clean. Given this boomer generation and what I'm reading is that there is a strong retro tendency. For instance, Detroit muscle cars from the '60s are now fetching six-figure prices. The boomers are starting with toys and cars, and I wonder if they won't want to recreate some of those early experiences as well. Is there any chance that Howard Johnson's could ever come back to life?**

**LC:** I don't know. I think that it probably could. It definitely could; anything can come to life. But I think what's interesting is that what Howard Johnson's says to me is that it isn't about just a great brand. That was an extraordinary brand. But unless you understand the relationship of experience and the value created experientially on both a conscious and unconscious level and the management of all those clues into a value proposition, and continue to

frame things experientially, you end up with the brand being worthless, ultimately, other than the equity that it still has.

But on the retro question, I think what's interesting, as I had this discussion with Katherine in Las Vegas recently. I said to Katherine, "You know, what has vanished from Vegas is Vegas."

**How so?**

**LC:** The closest thing left is the Golden Nugget. What I see as a great hotel is Vegas in the '50s. The Rat Pack. Bringing back the '50s and '60s version of Vegas. And it's all but vanished except for one show, which is called The Rat Pack. But with all of the theme-ing that's gone on, we've lost that kind of Sammy Davis, Frank Sinatra era of what Vegas was like. There was an era of style that existed then, not plastic. I think hotels like the Palms and the Four Seasons represent an appreciation for an emotional connection. The Palms with youth, and the Four Seasons with businessmen.

**There was the film *Ocean's 11*, which was a remake, and now they're making *Ocean's 12*, so in our popular culture there's clearly some kind of yearning for a connection to that.**

**LC:** Exactly, and you would say, "Boy, if someone were thinking about it, what they'd do is create a Vegas experience at a hotel or casino." [laughter]

**Well, Disney will probably do it first. [laughter]**

**LC:** Probably. Either that or Steve Wynn.

**Why is your company called Experience Engineering?**

**LC:** Because there's an art and a science to leveraging or optimizing experience as a value proposition. There's the ability to apply scientific method, to apply those elements that take what had primarily been an intuitive art form and begin to build some rigor around disciplines and rigor around tools that are new and distinctive for this era. And I think when our first article was written, John Deighton, a professor at Harvard Business School, wrote and said that this article was an absolute breakthrough in trying to determine that there was a science underneath value creation experientially. And he likened it to the discovery of the steam engine, and then the science of physics followed the discovery of the steam engine. He said that experience has been around for a long time and that our work was seminal in the understanding of experience as a science. The name is an experience slue that represents a blend of art and science.

**Well, I only ask the question because when I hear "experience engineering," that sounds very "guy" to me. Did you ever consider "experience design" or "experience management"?**

**LC:** Well, we have "experience design" in the book, "experience management" in the book, but as the name of the company, when I first founded the company, we were dealing with companies like General Motors, big companies. When you begin to talk about emotions, you need something to create an experiential sense of being grounded in something so that people have a comfort level. And that's what the word "engineering" in our name provided for us, a grounding and a rigor and an assurance to the client that this isn't foo-foo dust.

We did one of these programs at Avis years ago. It led to them being number one in the brand key study that was done. They've been number one in the

brand key study in 2001, 2002, and 2003—out of 147 brands in 26 categories. There was a nine percent increase in overall employee retention. The location that we prototyped moved from being last in customer satisfaction to being number one. When the CEO decided to roll the program out to 68 locations, he got up and he said, "When I first heard about this experience stuff, I thought it was nothing but foo-foo dust. I still don't understand it, but when I get letters like this ..." and then he read a letter from a customer that said, "I don't know what you've done at Newark Airport, but if the experience felt like that at other cities across the U.S., I would never use anyone else."

When you look at what Hertz was spending in advertising back in 2001, almost \$53 million, or a million dollars a week, versus \$9 million that Avis spent, about a million dollars a month, you begin to realize that the power of experience is phenomenal. Look at American Girl. Look at Harley-Davidson. Look at Starbucks. The one I think is the most amazing is the Mayo Clinic—world-renowned reputation, advertising budget almost zero.

**We can only hope that more people will catch on.**

**LC:** Yes, and not only to be successful in business, but to make the American consumer feel like they are getting value for their money.

**Thank you.**