CUSTOMER EXPERIENCE

Linking the customer experience to value

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Many customer-experience transformations stall because leaders can't show how these efforts create value. Patiently building a business case can fund them, secure buy-in, and build momentum.

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The road to failed customer-experience programs is paved with good intentions. Executives are quick to see the end-game benefits of a customer-centric strategy: more satisfied customers, increased loyalty, a lower cost to serve, and more engaged employees. But they often fail to understand clearly what a superior customer experience is worth and exactly how it will generate value. At a recent roundtable, fewer than half of the customer-experience leaders present could say what ten points of net promoter score would be worth to their businesses.

Many companies begin their efforts to change the customer experience with a broad aspiration to transform it. Executives launch disruptive initiatives to delight customers with bold moves and innovations. But they often fail to quantify the economic outcomes of differences in customer experiences, so their efforts end up having clear costs and unclear near-term results. Customer-experience transformations invariably raise questions about business policies, cross-functional priorities, and how to invest in innovation. Without a quantified link to value and a sound business case, such efforts often can't show early gains, build momentum among functional executives, and earn a seat at the strategy table. They stall before they ever really get going.

There is a better way, anchored in science, fresh research, and a structured methodology. We also find that the most successful programs are self-funding—early wins remove costs from the system and simplify the business. Those savings can then fund medium-term initiatives to innovate, to change the trajectory of the customer experience, and to support some of the boldest actions. With a self-funding business case, a customer-experience program can maintain momentum and build buy-in throughout an organization.

Make no mistake, however: building an unambiguous link between the customer experience and value requires patience and discipline to invest early in an analytic approach. It is easy to skip this step

for the sake of speed, but that is a mistake every time. When establishing a link to value is done well, it provides a clear view of what matters to customers, where to focus, and how to keep the customer experience high on the list of strategic priorities.

In essence, getting the logic and the math right for a successful program requires a structured approach and real science to achieve three objectives: building an explicit link to value, directing investments to where they will do the most good, and designing a detailed road map populated with early successes to self-fund the transformation.

Building an explicit link to value

Companies investing to improve the customer experience must be clearer about what it is actually worth and exactly how the improvements will generate value. To construct this link, start by defining the customer behavior that creates value for your business and then follow customer satisfaction over time to quantify the economic outcomes of different experiences. Several steps can help.

Develop a hypothesis about customer outcomes that matter. Start by identifying the specific customer behavior and outcomes that underpin value in your industry. For example, in the telecom sector, more satisfied customers should be less likely to churn, have fewer issues that escalate into calls, and sign up for more products. Airlines will focus on capturing a greater share of trips and trip revenues and on lowering the cost to serve. Business outcomes will vary by industry, but the principle is the same— postulate three to five hypotheses about the outcome measures that deliver value.

Link what customers say to what they do. The next step is to link what customers say in satisfaction surveys with their behavior over time. Begin by building a customer-level data set of the results of past surveys that asked respondents about their overall satisfaction or willingness to recommend your products or services. Using an email or

customer identifier (with due regard to customer privacy concerns and in compliance with applicable regulations, of course), most companies can link survey results back to their databases. Query your customer database to pull down two to three years of monthly data for each priority outcome measure. For example, a pay-TV company matched its historical willingness-to-recommend survey responses at a customer level, on the one hand, with two years of monthly data on customer retention, cost to serve, revenues, product upgrades, and referrals, on the other. This type of link will form the backbone of your customer-experience data analysis.

Analyze the historical performance of real customer cohorts. Using customer data linked to survey respondents, analyze customers you designate as satisfied, neutral, or dissatisfied over a period of one to two years. How much less subject to churn are satisfied customers than dissatisfied ones? What about generating expensive calls, adding additional lines of business, or defaulting on loans? For each group of customers and segments, summarize the one- to two-year outcomes. Those with larger differences among dissatisfied, neutral, and satisfied customers tend to link more solidly to value. Leading customer-experience companies use these data to estimate the value, at an enterprise level, of moving 5 percent of their dissatisfied customers to a neutral status.

Look at the trend to take a forward-looking view. Successful customer-experience programs look forward, not backward, in assessing the link to value. Building a business case solely on backward loyalty data may overinflate the economics in ways that bias investment decisions. For example, since 2009 the stated loyalty of customers has dropped by 20 percent for pay-TV companies that provide an average customer experience. By looking at year-over-year changes in outcome measures for dissatisfied, neutral, and satisfied customers, companies can build a view of where the link to value is heading.

Track outcomes. In our experience, the best approach to quantify the value of the customer experience is to track outcomes over time for each customer segment that matters. To set priorities and quantify payouts for improving the customer experience, every company with a program to improve it should be able to link satisfaction directly to business outcomes.

Directing investments to where they will do the most good
To be confident that your customer-experience program will generate a positive return on investment, building a link to value is necessary but not sufficient. The next step—where most companies fall short—is to base priorities for initiatives and opportunities on their importance to customers.

What matters to customers
To do this well, a company must create a model of what matters to customers, a graded short list of customer pain points to eliminate or fix, and a view of opportunities to innovate as seen from the customer's perspective. A number of actions can be taken.

Focus on customer-satisfaction issues with the highest payouts. Customer-experience break points are not standard across industries. For example, in health insurance, improving the experience of customers who are dissatisfied with the service so that they become merely passive about it has more economic impact than migrating such "passives" to the category of people willing to promote the service. However, in retail banking, every promoter does matter—moving someone from the 80th to the 90th percentile of satisfaction has a significant economic payout. Using the link-to-value analysis outlined earlier, determine if it would be more valuable to reduce the number of detractors or to create more promoters, and then focus your portfolio of customer initiatives on achieving that goal to maximize the return on your investment from the start.

Build a model around what matters to customers. End-to-end customer journeys, not individual touchpoints, are the unit to measure when setting priorities for your customer-experience investments. Why? Our research has found that journey performance is significantly more strongly linked to economic outcomes than are touchpoints alone. Modeling customer satisfaction around journeys rather than touchpoints enables you to estimate the most important end-to-end journeys across customer segments. Start by rethinking the scope of existing surveys. Test whether they cover the most important customer journeys and lesser elements of customer satisfaction. Next, expand your customer data set so that it links up with operational data, as well as input from employees and customers. Finally, you can use advanced "derived importance" analytics, such as Johnson relative weights,[1] to build a model of customer satisfaction that links perceived and operational performance on each journey with long-term costs and revenues.

In addition to identifying the most important journeys, supplement the model by exploring how consistently you perform. In our experience, improving your consistency in delivering a flawless customer journey is often one of the best ways to create value. A flawless onboarding journey, for example, might entail a single sales phone call, zero callbacks, service activation within 48 hours, active usage in the first ten days, and no issues on the first bill. A company may be 80 to 90 percent successful at each stage of that sequence, but only 30 to 40 percent of customers will have a flawless experience end to end. Done well, the satisfaction model will also help you measure the value of consistent performance.

Within journeys that matter, size and set priorities for key areas to improve. Once you know the journeys to focus on, assemble a cross-functional team to dig into possible initiatives to improve your performance. What pain points or opportunities will help you differentiate your company? Where do you want to focus first?

To create a set of pain points, analyze the voice of the customer, starting with the driver model above. But extend it into specific operational surveys, focus groups with customers who recently undertook the journey in question, and deep structured interviews to highlight pain points, missed expectations, and opportunities to differentiate. In parallel, the voice of the employee will help you gather the experience of those who know customers best—the front line. Use site visits, employee focus groups, and supervisor interviews to construct a map of the current journey and a short list of pain points, complexities, and opportunities to streamline.

Once you have listed the pain points, size the potential impact of each, using three measures: reducing the cost to serve, capturing longer-term revenues and loyalty, and improving overall satisfaction. In the customer-experience area, the most concrete business cases are often built on a near-term reduction in the cost to serve: fewer calls, escalations, technician visits, and so on. These moves remove both customer pain points and costs from the system. Then measure longer-term outcomes. For example, mobile customers who dispute their first bill are less likely to remain active 12 months later—a lagging effect common across many industries. Finally, for each journey, size the potential impact of improvements at every pain point on overall customer-satisfaction scores. Moreover, what does the model you have created suggest about the value of customer-satisfaction improvements over time? Taken together, the near-term cost, medium-term loyalty, and overall-satisfaction analysis will help you set priorities for addressing specific pain points in the journeys that matter.

Identify opportunities to innovate and disrupt in competitive white spaces. While eliminating pain points for customers is important, it is equally critical to identify areas where you can differentiate your company from competitors as customer expectations change. For example, retail-banking customers increasingly want a digital, branchless, and paperless experience. Getting ahead of that trend is far more important than incrementally improving the branch experience.

Where else can you innovate?

Voice-of-customer analysis can provide a starting list of disruptive ideas. How else can you decide where to innovate? First, focus innovation resources either on important customer-experience journeys where you have a large gap against competitors or on reasonably important journeys where the gap is narrow or unclear. The model described above will help you estimate the potential for disruption in those areas.

Second, look at your operational data for digital-innovation opportunities. Which customer journeys drive the largest number of calls? For example, a typical banking customer of the diversified financial-services group United Services Automobile Association would make multiple calls to obtain a new car loan. USAA turned this process into an online digital-loan-origination solution. Journeys that generate more than six calls per customer are leading opportunities for digital innovation; you can build an economic case around reducing the cost to serve customers and promoting loyalty by engaging them more intensely.

Third, conduct ethnographic research to follow customers in their daily lives and identify unmet needs and innovation ideas. Then assess these ideas against the customer-satisfaction model to estimate the potential impact.

Designing a road map with early successes to self-fund improvements

So far, you have analyzed what matters to customers, set your priorities for customer journeys, and weighed the importance of initiatives. Now you can construct a transformation road map backed by a clear business case. Many customer-experience efforts lose momentum because the path to impact is too slow or too vague. Efforts to improve near-term quarterly performance can therefore sweep aside initiatives to improve customer-satisfaction scores. To overcome that risk, successful efforts construct road maps that ring the cash register in the near term, fund themselves in the medium term, and make a long-term impact anchored in a model of the things that matter most to customers. To create that road map, it can help to follow these steps.

Calculate each initiative's expected value, time to capture, and cost to implement

The exploration of what matters most to customers should unearth the value of initiatives under consideration and help to crystallize a short list of priority efforts. With that in hand, convert an initiative's overall potential impact into an expected value by combining the severity of an incident or opportunity (for instance, its magnitude of impact, whether it is positive or negative, or when it occurs) with its frequency (say, how often all or part of the customer base is affected). For example, a telecom company would consider a phone's technical failure a severe but infrequent event. By contrast, surprise billing changes are less severe as individual events but happen all the time. Addressing the customer shock from billing changes almost always represents greater overall value.

For each of these examples (and others), a cross-functional team must then estimate the time needed to capture the value at stake. If the expected benefit is reducing customer churn or boosting future revenues, a payoff may not be visible for more than 12 months. Finally, estimate implementation costs.

In a smart sequencing, you want to order and balance multiple initiatives: those that will affect the largest number of customers, that will pay off quickly, and that address the most severe problems or the most important areas to exploit.

Separate initiatives to help balance the portfolio

To achieve the right balance and sequence, two dimensions are critical. First, some initiatives, such as simplifying billing or revising rules on issuing customer credits, will be policy driven. Others, such as enhancing the skills and training of field technicians or boosting customer-service skills at a retail bank, will require a frontline field rollout. In general, policy initiatives can be directed centrally and are therefore faster to implement than field-driven initiatives requiring disciplined rollouts in waves. A well-sequenced road map balances both types of initiatives throughout.

Second, some initiatives will affect nearly all customers, and some will be severe opportunities that affect only a few. A good sequencing balances both because companies must ensure that a majority of their customers experience the change in some way. An overemphasis on severe incidents and opportunities is a common blind spot.

Design a balanced road map that will signal success and fund itself

With the expected value, cost, and impact timetable for each initiative in hand, and with a clear sense of which initiatives can be undertaken centrally and which require a rollout in the field, operators will have enough information to build a well-sequenced road map. Keep in mind a few design principles:

- Ensure some quick wins early. For example, make a policy change that is easy to implement, even if its impact is relatively small.

- Tackle at least one sacred cow in the early going to signal that you are serious. Every company has them—often, some pricing or policy element that the organization knows to be customer unfriendly but generates such high earnings that most executives shy away from unwinding it. Armed with a robust fact base, leaders can demonstrate the value of piloting such initiatives.

- Balance severe incidents and opportunities with frequent ones—make sure the road map will touch all customers and all employees in some way within the first year.

- Finally, use the early wins to finance investments in longer-term solutions—for example, upgrading systems or easing logjams in IT. Armed with your analysis of what matters to customers, you will typically find constructing the business case to be straightforward.

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Many companies begin customer-experience efforts with lofty ambitions but a poor grounding in linking programs to value. There is a better way. Take the time to construct a self-funding business case and you will reap company-wide buy-in as your reward. That will anchor your customer-experience program and pay dividends long after the up-front months needed to do it right have passed into history. ■