CUSTOMER EXPERIENCE

Putting behavioral psychology to work to improve the customer experience

MARCH 2016

Applying the principles of behavioral psychology can improve the quality of customer interactions and build brand recognition as a customer-centric organization.

Dilip Bhattacharjee, Keith Gilson, and Hyo Yeon

It's an all-too-familiar story. As a leader at your company, you've made enhancing your customers' experience a priority. You've invested in products, in people, and in the service-delivery processes to put your customers first. Yet when you tally customer-satisfaction survey results and other metrics of customer experience, your spirits drop. You see that customer-satisfaction scores are not improving in line with the changes that you know customers can see each day in the services you are delivering. They're not even moving as much as your minimum estimates.

Executives at far too many companies share this disappointment. Naturally, you'd like to receive credit for the effort of improving your customers' experience. But you also know that there are significant economic benefits in going beyond simply improving products and services by paying equal attention to customer expectations and how customers perceive their treatment at individual touchpoints and throughout the full customer journey. It is possible, for example, to share the same level of operational performance with competitors yet secure higher brand recognition as a customer-centric organization. In a wide range of industries, it is also possible to reduce churn, improve cross-selling, and boost customer referrals.

Leading players in improving customer experience understand this. One tool they find increasingly effective is to apply the principles of behavioral

psychology to smartly design products and services to improve the quality of customer interactions. Behavioral scientists tell us that these interactions are influenced powerfully by considerations such as the sequence in which customers encounter painful and pleasurable experiences. By focusing on these principles and implementing them masterfully, companies can design and manage service encounters to maximize customer satisfaction. They can also improve the chances that customers will give them recognition and credit for all their investments in the experience offered.

Behaving well, and badly
A vast body of research within the field of behavioral psychology offers valuable insights into how customers experience service interactions and form their opinions and memories of those encounters. Research undertaken by Nobel laureate Daniel Kahneman and George Loewenstein forms the foundation upon which the practical principles have been developed. In addition, work by pioneers such as Dan Ariely, Uri Gneezy, John List, and Richard Thaler has also had a significant impact on how individuals make decisions. Based on this work, McKinsey has developed a framework for categorizing common actions that attempt to spur particular behaviors from individuals in consumer and other settings. The framework is called CHOICES, which is an acronym for context, habit, other people, incentives, congruence, emotions, and salience (Exhibit 1).

Customer interactions are influenced powerfully by considerations such as the sequence in which customers encounter painful and pleasurable experiences.

In work specific to customer experience, one pilot study at a consumer-services firm found that improvements in net promoter scores accrued from behavioral-psychology initiatives rather than from improvements in operations (Exhibit 2).

In other work, leading researchers Richard Chase and Sriram Dasu identified three major factors that occur during customer-journey experiences and drive customer perceptions and levels of satisfaction.[1] These principles can often be applied at little

additional cost and help to ensure that companies receive credit for the experience they deliver:

- *Sequence.* Days, weeks, and months after using a product or service, customers tend to disproportionately recall the high and low points of their customer journeys and not all the individual aspects of it. Moreover, how a company sequences high points in relation to low points can materially change the perception of the service received: in particular, unpleasant
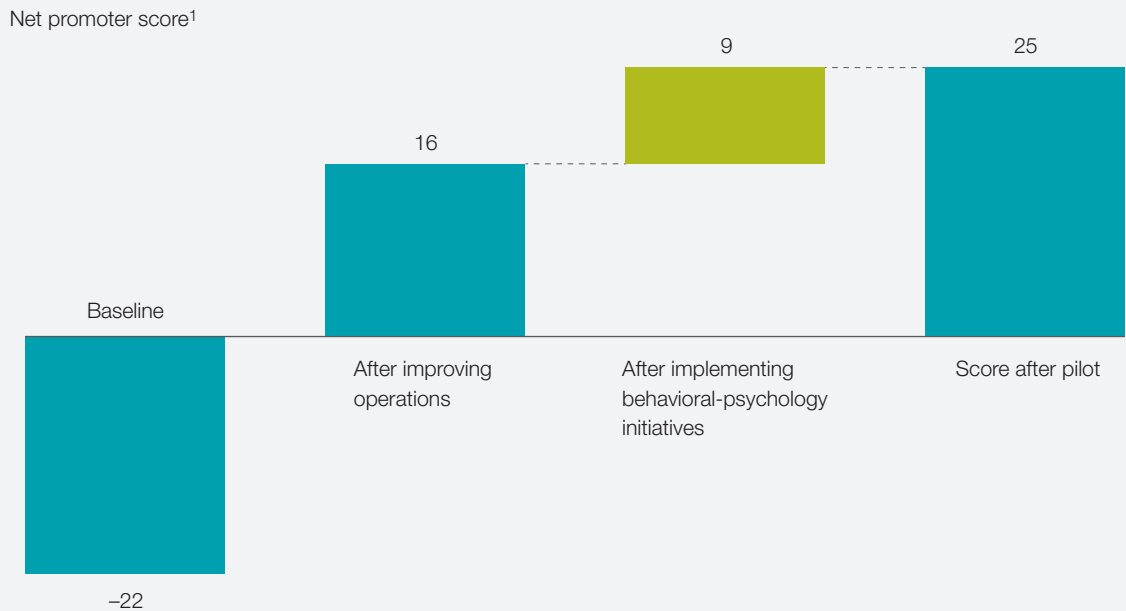
Exhibit 1   **The CHOICES framework of behavioral drivers created by McKinsey's Behavioral Insight Lab helps determine relevant interventions.**

CHOICES[1]	Drivers of behavior	Examples of interventions
Context	People gauge information relative to other, mostly implicit benchmarks	**Prime:** Playing German music in a wine store significantly increases sales of German wine
Habit	People often act and judge without deliberation, following habits or mental shortcuts	**Expect errors:** To reduce the risk of customers losing cards, ATMs usually return the card first, then dispense cash
Other people	People are influenced by what other people do, say, or think	**Tell about others:** Tax fraud is reduced by ~15% when taxpayers are informed that most people actually do not commit fraud
Incentives	People respond to "objectively" better offers	**Give immediate gratification:** Little treats for good deeds today (eg, cash for going to the gym) can help fight procrastination
Congruence	People act to preserve a positive and consistent self-image	**Activate commitments:** Public commitments work better than promises to oneself (eg, to quit smoking)
Emotions	People are influenced by emotions and the physical state of their bodies	**Create "yes" emotions:** A photo of a happy/attractive person had the same demand effect for a bank as a mortgage-rate cut of 100 basis points
Salience	People take in messages that are easier to process and remember	**Show consequences:** Regular information on energy usage and price increases drives energy consumption down more than twice as effectively as yearly updates

[1] McKinsey's Behavioral Insight Lab developed the CHOICES framework based on the work of Dan Ariely, Uri Gneezy, Daniel Kahneman, John List, George Loewenstein, and Richard Thaler.

Source: McKinsey analysis

Exhibit 2 **Behavioral-psychology initiatives raised customer-experience scores in one consumer-services pilot.**

Net promoter score[1]

9

25

16

Baseline

After improving
operations

After implementing
behavioral-psychology
initiatives

Score after pilot

−22

[1]Before n = 58, after n = 28.
Source: McKinsey analysis

endings have a strong negative impact. Recognizing this bias in human perception, hotel chains, for example, have largely eliminated the need for business travelers to wait in line for checkout in the morning by collecting their payment information at the beginning of the overnight-stay journey. They also offer their loyal customers complimentary breakfasts as the last touchpoint. By replacing a low point at the end of the stay with a high point and time savings before departure, hotels create a positive bump in their stay experience.

- *Segments.* The frequency of high and low points of interaction also affects how services are perceived. Companies have noticed that when customers encounter all negative experiences

during one touchpoint and the company deliberately splits pleasant experiences into multiple touchpoints, it can improve the perception of service. At Disney parks, design engineers intersperse lines for popular attractions with multiple pleasurable experiences to reduce the negative impact of the long wait time. For example, the popular attraction The Twilight Zone Tower of Terror has three different themed waiting areas, a staging video shown while customers queue in a room that looks like a 1920s hotel lobby, costumed cast members interacting with guests, and cooling fans and mist. Similarly, many large trade shows combine all payment and registration requirements up front, ideally before the event, and disperse the distribution of popular events, speakers, and samples throughout the show.

- *Control.* Customers want to feel like they are in control of their journey as well as other immediate aspects of their life affected by the customer journey. The more empowered, engaged, and updated they are in the course of the journey, the less likely they are to assign blame to the company when things go wrong. A home-repair company knew from its consumer-satisfaction surveys that customers cared the most about the time it took for a repair worker to visit the home and fix the problems. However, when the company ran a pilot test, it was surprised to find that customer-satisfaction scores went up when customers were offered options for scheduling, even if each option offered meant the customer would wait longer than the company's average wait time.

Rewiring customer touchpoints and journeys

Many companies take advantage of these principles to improve the customer perception of the services received. Airlines and movie theaters allow customers to select their seats, providing customers with a sense of control. Most online retailers understand the value of allowing customers a sense of control and strive to keep their website displays, placement of buttons, and other functions consistently in line with customer habits. That said, there are also multiple examples across the industry where companies lose the opportunity to take advantage of behavioral-psychology principles. Contrast the examples of these online retailers with some cable companies and banks that routinely change the interactive-voice-response menus for callers, thus frustrating customers. Most airlines spend substantial resources on aircraft interiors, check-in, and in-flight service, but some are only now starting to invest in the last step in the passenger's journey to avoid ending on a bad note. One airline devotes resources to helping fliers collect their baggage and find transportation. Another airline now prebooks a car service. Several others actively monitor the gate readiness of ground crews to avoid delays, all with the intent of providing a positive feeling to arriving passengers.

How can companies take advantage of these principles more systematically? The best practitioners we've observed work to rewire individual touchpoints as well as the most important customer journeys (Exhibit 3). In doing so, they establish a foundation for a customer-centric reputation that can serve as a powerful element of their enterprise brand.
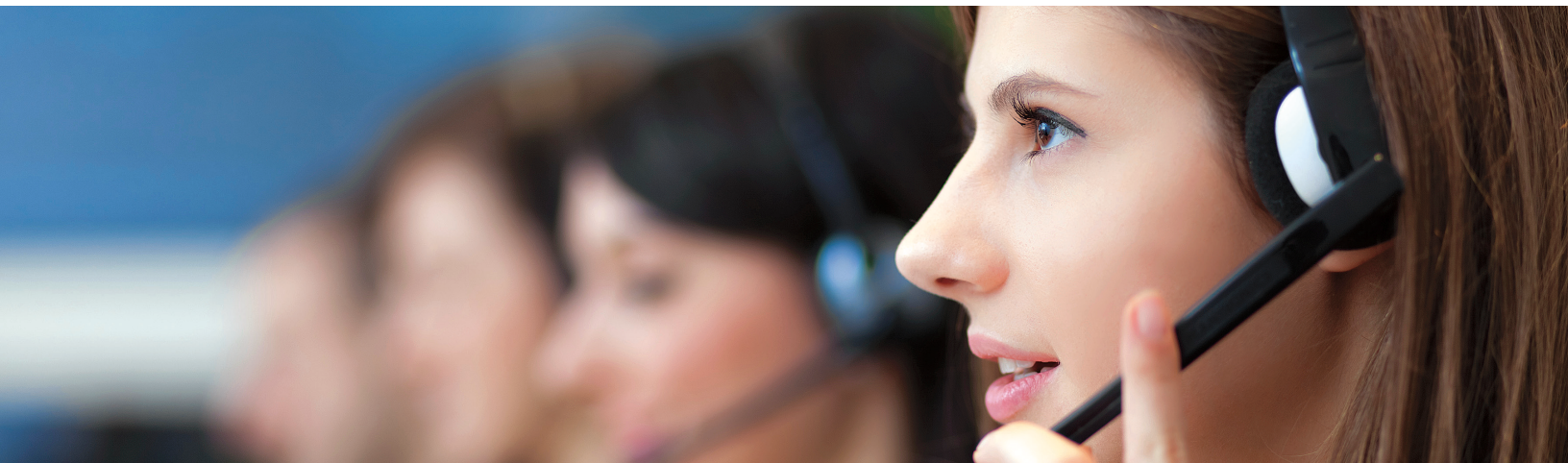
Exhibit 3   **Reworking touchpoints creates improved perceptions of service.**

Business	Practice	Principle
Walt Disney World	Families select and pay for their meal plans and restaurant reservations before starting their vacation, avoiding the need to pay after each dining experience at the park	Get bad experience over with early
Amazon	1-click ordering reduces the pain of entering payment details each time while checking out, whereas the pleasure of shopping is repeated with each checkout	Segment pleasure, combine pain
Cathay Pacific	Flight attendants memorize the names of passengers in premium cabins in order to say good-bye by name as fliers deplane	Finish strong
Norwegian Cruise Lines	Pioneered "Freestyle Cruising," which gives customers choice over when they dine, where they dine, and when to see entertainment	Give customers choice
Pizza Hut	Provides detailed real-time updates on order status to customers	Create a sense of control by showing where the order is
Ritz-Carlton Hotels	Greets guests with a welcome email before arrival and personalized welcome letter in the room	Create a sense of control by sticking to habits

Source: McKinsey analysis

Touchpoints

Companies looking to bring some of these approaches to their own customers' experience should start by taking a critical look at each touchpoint within their typical customer-experience journey, with an eye to incorporating approaches derived from the three principles. These are some common goals:

- Work through bad experiences early so that customers recollect the more positive, later elements of the interaction.

- Segment pleasure and combine pain for your customers so that the pleasant parts of the journey form a stronger part of customers' recollections.

- Finish on a strong, upbeat note, as the customer's final interactions will have a disproportionate impact on his or her memory of the service.

- Provide customers choice, giving them a sense of control.

- Stick to habits and prevent any surprises, again giving customers more peace of mind and thereby increasing their satisfaction with the services received.

Journeys

While winning at individual touchpoints is very important, it is not sufficient to have isolated wins

Finish on a strong, upbeat note, as the customer's final interactions will have a disproportionate impact on his or her memory of the service.

in a few channels, devices, or applications. In addition to redesigning the discrete touchpoints that make up a customer journey, companies need to take a critical look at their most important customer journeys—which could last from several days to several weeks—in order to manage customer perceptions throughout the entire journey.

Redesigning the entire journey to incorporate the principles of behavioral psychology listed above has the potential to yield sustained improvements in customer satisfaction.

For example, a leading home-mortgage company has embedded many of these principles in the process of approving mortgage applications. It consolidated all the information it requires from prospective borrowers and asks for it up front. This serves to dispatch negative customer experiences early in the 90- to 120-day approval journey. Thereafter, the company schedules regular touchpoints where agents proactively provide positive news to customers as the process moves forward through various steps. This spreads the pleasure or good news over multiple touchpoints. The company also offers customers options for ways to interact with the company. Customers can go into an online system at any time and have full transparency into the status of their application, including the expected lead time before the application moves to the next step, thus preventing surprises and providing a sense

of control. Finally, the lender works to finish the process on a strong positive note, as the loan approval is the very last interaction that customers experience during this journey.

Obstacles and remedies
The field of using behavioral-psychology principles in customer interactions by applying sequence, segments, and control is growing rapidly. Applying these often requires little additional investment and enables companies to earn credit for their improvements in service delivery.

One issue we commonly see emerge is that many initiatives to harness behavioral psychology in improving customer experience prove to be little more than disjointed trials. This is understandable. It is often difficult for companies to move to more systematic interventions at scale and to integrate them with broader transformations of their customer journeys. That's unfortunate, because when integrated with a broader program and underlying operational improvements, behavioral-psychology initiatives can help ensure customer-service investments have sustained impact. In this context they will have an amplifying effect on improvements made in service delivery.

Our work has explored the variety of ways that companies can break down some of these challenges into smaller bits. One critical issue is the inability

to quantify the impact of customer-experience initiatives (see "Linking the customer experience to value," on mckinsey.com). It's also a challenge when the existing operating model is not solid enough to integrate behavioral programs into, and when siloed functions represent a roadblock to more systematic improvement efforts (see "Leading and governing the customer-centric organization," on mckinsey.com). Finally, company cultures that resist embracing rapid and systematic prototyping of new digital initiatives are likely to find it difficult to refine behavioral elements in their customer interactions to improve service (see "Using rapid process digitization to transform the customer experience," on mckinsey.com). By breaking down these barriers, more companies can find it possible, with minimal investment, to capture the incremental value that lies in smartly applying behavioral principles. ■

[1] Richard Chase and Sriram Dasu, *The Customer Service Solution*, Columbus, OH: McGraw-Hill Education, 2013.

Dilip Bhattacharjee is a principal in McKinsey's Chicago office, **Keith Gilson** is a senior expert in the Toronto office, and **Hyo Yeon** is a digital partner in the New Jersey office.