MONETIZING CUSTOMER EXPERIENCE

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A brand promise communicates to customers what they can expect at every interaction.

Management guru Peter Drucker, often referred to as the founder of modern management, famously proclaimed "the purpose of business is to create and keep a customer." While acquiring new customers is important, the customers you keep drive profitable growth. Although more and more companies today are recognizing the importance of delivering on their promises, few of them know how to monetize the value of customer experience in a focused, deliberate, and profitable way.

Despite the rise in the interest in customer experience, many executives still ponder these questions: "How can we build a business case to prove that customer experience improvements drive business results?" and "How can we show a return on our investment?"

Annual customer loyalty scores aren't enough to prove the value of focusing on customer experience. Instead, there must be a direct connection between customer experience improvements to business growth—a system created that shows a return on investment through market share improvements, revenue growth, or cost containment.

What is Customer Experience?

Customer experience is the result of interactions that occur through a series of steps, encounters and moments along a journey that influence a customer's relationship with, and perception of, a brand or organization. Key moments of truth exist along the journey where customers may pause to evaluate the experience or make a crucial decision to stay or leave, giving them an opportunity to form or change an opinion about a company or brand.

Customer experience management is a discipline or methodology used to comprehensively manage a customer's interaction with a company and its brand. It includes designing, organizing and overseeing every interaction between a customer and the organization throughout the customer lifecycle. A brand promise communicates to customers what they can expect at every interaction. The promise is reflected in 'brand cues' provided to customers throughout their experience, either subtle or overt, to reinforce the brand. Customer experience design is the process by which these brand cues are created and orchestrated as part of the experience to deliver on the promise.

Customer-centric leaders unite the organization in building a shared view of the ideal 'branded' customer journey. They embrace customer experience as a cultural adoption and a core operating model for their organization and build an enterprise-wide system to ensure customer needs and expectations are visible throughout the company at all times.

Customer-centric organizations are fully aligned on what actions are critical for driving revenue, rescuing customers at risk, and retaining and growing share of wallet. They reap the benefits of delivering exceptional customer experiences through repeat business, valuable word of mouth advertising and reduced cost to serve.

A customer-focused culture is a vital ingredient to the success of every strategic account manager (SAM). There is nothing more frustrating for account executives than to successfully move through a sales process only to experience disappointment during the implementation phase when the company fails to deliver on its promises. It is the promises you keep, not the promises you make that determine customer-led growth.

Strategic account managers (SAMs) have a challenging task of delivering on customer promises. Innovative solutions co-created with a strategic partner need enterprise-wide commitment and often require re-structuring and aligning business processes across buyer-seller boundaries. Organizations need a deep understanding of how to execute a comprehensive SAM customer strategy in order to deliver on the customer value proposition.

Why Has Customer Experience Become So Popular?

Organizations that have mastered the ability to design and implement a consistent customer experience that is branded and are able to deliver on their brand promise at every interaction have a distinct competitive advantage.

Research by Accenture[1] reported there is an increasingly prevalent phenomenon for the use of customer experience to disrupt, define and reshape markets especially by new entrants. Eight in 10 executives surveyed in 2015 believe new entrants are better at providing positive customer experiences than traditional players in the industry.

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With so many potential benefits, it makes sense that customer experience is rapidly becoming an important aspect of a company's growth strategy. In 2014, Janet LeBlanc + Associates collaborated with the Peppers & Rogers Group to understand the state of customer centricity across North America.[2] Of the 350 senior business leaders surveyed from a wide range of industries, only 13 percent reported they considered their company to be truly customer centric compared to 72 percent who were either in a developing or transforming phase to being customer driven.

How to Create a Customer-Centric Culture

Creating a customer-centric culture is one of the most challenging tasks. To be considered truly customer centric, everyone in the organization must have a shared vision of the ideal experience and know their role in making it happen.

Most senior leaders significantly underestimate the time it takes to lay the foundation to build a customer-centric culture. Without strong executive support and strategic alignment, organizations move too slowly, stagnate and lose their way.

Creating a customer-centric culture requires:

- A strong coalition and strategic alignment across the entire enterprise to a shared vision of the ideal experience;
- A team of passionate senior leaders who actively channel the voice of the customer;
- A strong will to aggressively understand customer economics and expectations;
- A clear definition of what the company and employees need to do differently to deliver the ideal customer experience; and
- A system of measurement and reward to accelerate change.

Why Invest in Customer Experience?

Years of empirical research have proven a high correlation exists between customer experience and three key elements of loyal behavior: willingness to buy more, reluctance to switch, and likelihood to recommend. Customer experience leaders have an advantage over those who lag behind on all three areas of customer loyalty.

Companies that develop a loyal following are rewarded for their efforts.

As a customer's relationship with a company lengthens, profits rise—and not just a little. Companies can significantly boost profits by retaining just a small percentage more of their customers. Furthermore, as purchases rise, operating costs decline. In addition to increasing profits, loyal customers will pay a premium for branded products because of the confidence they have in the products or services being purchased. Brand advocacy is a powerful multiplier. Customers will spread valuable word-of-mouth advertising, which is infinitely more influential than any marketing message.

Companies that deliver experiences as promised are also rewarded with lower customer costs resulting from fewer customer complaints and returns, and decreased customer defection. These cost savings and additional revenues combine to produce a steady stream of profitable growth over the course of the customer's relationship with a company.

Customers generate increasingly more profits each year they stay with a company. Across a wide range of industries, the result is the same: the longer a company keeps a customer, the greater the return. When customers defect, they take all of the profit-making potential with them.

Key Indicators of Customer-Led Growth

Key drivers of customer growth related to the customers' interaction with an organization can impact both sides of the balance sheet. Expanding market share, increases in customer lifetime value and valuable customer referrals, all lead to customer growth. Conversely, decreases in complaints and lost customers, and a decline in the number of customers that slowly start to withdraw ties from an organization are key indicators of an improved customer experience.

Many of the organizations that report not seeing value from their customer experience improvement have yet to build the evidence needed to realize a return on investment. The business impact of customer experience investments need to be tracked beyond high-level loyalty measures to hard-core customer experience metrics that interest every member of the C-suite.

Understanding the Cost of Poor Quality Experiences

Many companies today lack a basic understanding of the actual cost of their customer experience or the cost of poor quality experiences. For many it is challenging to capture the true cost of servicing the customer because financial analysis is usually conducted at the functional level rather than at the customer level.

Customer defections have a powerful impact on the bottom line. They can have more to do with a company's profits than many factors usually associated with competitive advantage such as scale, market share and unit costs.

Defectors are often difficult to define. For example, a customer who shifts the majority of its business to a competitor should not be considered a retained customer. While defection rates are an important leading indicator of profit fluctuations, they also direct attention to the specific aspects of the customer experience that are causing customers to leave.

If companies knew how much it really costs to lose a customer, they would spend more time evaluating the investments needed to retain customers. Unfortunately, most financial systems focus on current period costs and revenues and ignore expected cash flows over a customer's lifetime.

Considering how difficult relationships are to strengthen, they are remarkably easy to lose. Unfortunately, only 15 percent of those surveyed in the *North American Study on Customer Centricity*[3] report measuring the cost of poor quality experiences and their impact on revenue growth.

One $7-billion supply chain management company conducted a detailed analysis of the cost of poor quality experiences during a time of significant fiscal restraint. While the CFO was looking to trim $250 million from its operating budget, the customer experience management team found that poor quality experiences cost them $300 million. A close examination of the cost to service problems, from complaints, escalations and returned goods, as well as the potential revenue erosion from customers who were considered at

Figure 1: Key Indicators of Customer-Led Growth

New Customers	The average number of new customers per year.
Annual Customer Value	The average value generated by a customer in a given year.
Customer Lifetime Value	The prediction of the net profit attributed to the entire future relationship with a customer.
Customer Share of Wallet	A customer's total spending allocated to a specific category that a business captures.
Customer Referral Rate	The number of customer-generated referrals per year (or the average number of referrals per customer).
Customer Relationship Longevity	The average number of years of a customer relationship.

risk, identified the impact poor quality had on company financials.

Additional analysis revealed a strong linkage between customers who were classified as “loyal” or “positive” and revenue growth. Conversely, customers who identified themselves as “at risk” were highly likely to abandon the company or erode their ties. A further investigation revealed that “at risk” customers defected within one year—negatively impacting not only one business line but all revenue streams. For one line of business more than 50 percent of “hesitant” or “at risk” customers defected.

Every quarter, new and lost customers should be examined for the volume and value of their sales.

Measuring the Impact of Customer Experience Improvements

Customer experience professionals must bring a solid business case forward to secure investments for customer experience improvements. Many companies use customer loyalty data to monitor relationship health, but those who consistently act on customer data resulting from a disciplined methodology are better equipped to improve revenue growth and to prevent defection. Below are examples of the type of data to consider.

1. Knowing Your Customer

Before you can estimate the impact of customer experience improvements, you must know as much as possible about your customers: how much it costs to attract and retain them, how much they purchase, how, when and why they interact with you, and the reasons for defection. Individual customer information, if used properly, can yield a return for many years.

Senior leaders must actively pursue and care about how to manage customer growth and loss. Every employee must understand the defining moments along the customer journey that impact a customer’s decision to stay, leave, buy more or make a recommendation to others. Every quarter, new and lost customers should be examined for the volume and value of their sales. Senior leaders should talk to customers who have left to find out why they have reduced their level of engagement with the company or left altogether.

Customer experience leaders build a unified belief that customers are assets to the business and should be managed accordingly. Customer information should be viewed as an economic asset similar to new investments or acquisitions. They should promote the understanding that key customer behaviors have the potential to improve an enterprise’s productivity.

When two companies are competing for the same individual customer’s business, the company with the greatest scope of information and knowledge about that customer will probably be the more effective competitor. Cultivating profitable relationships will depend primarily on having critical information about a specific customer and using it wisely.

A basic set of indicators can illustrate the true cost of the customer experience. Company leaders need to “do the math” to know and care about the shifting behaviors of customers and the financial drivers needed to impact profitable growth.

Figure 2: Knowing Your Customer

Generated Lead	Total marketing costs divided by the number of leads generated per campaign.
New Customers Volume, Value and Costs	Total cost of sales, marketing, branding, promotional offers.
Retained Customer	Retention costs such as the difference between at-risk customers accepting a discount rate versus a satisfied customer paying full fare.
Lost Customer Volume, Value and Costs	Total revenue lost or revenue erosion resulting from lost customers.
Product Usages Increases and Decreases	Percentage increase or decrease of product usage to track customer growth or erosion.
Customer Segment Growth or Loss	Percentage increase or decrease of market share to track market growth or decline.
Cost of Poor Quality	Total cost of complaints, escalations, disputes, returns, field service costs, collection costs, special requests, repairs, legal settlements and executive escalations.
Cost to Serve	The cost to service a customer across all customer channels.

Most of this information can be found in a comprehensive CRM system, but some challenges can remain when trying to extract and analyze this level of data. Challenges are often found when:

1. Legacy systems place restrictions on the collection and manipulation of data;
2. Customers switch between products, which complicates accurate identification of which customers have actually grown, eroded or been lost to the competition;
3. Complex customer relationships develop such as mergers, bankruptcies and acquisitions which prove difficult to identify and track;
4. The population of customers under study in a particular segment is too small, making the identification of statistically significant results more difficult to prove.

2. Linking Customer Expectations to Business Metrics

A structured, enterprise-wide approach to managing customer relationships is extremely valuable to organizations that understand the economics of customer experience. By developing the tools and techniques to understand what customers value most throughout the end-to-end customer experience, organizations today can strengthen and protect relationships with their most valuable customers.

What customers want is relatively simple. Fundamentally, they want companies to understand and anticipate their needs and expectations, do everything possible to make it easy to do business with them, and have an efficient system in place to resolve problems quickly and respectfully.

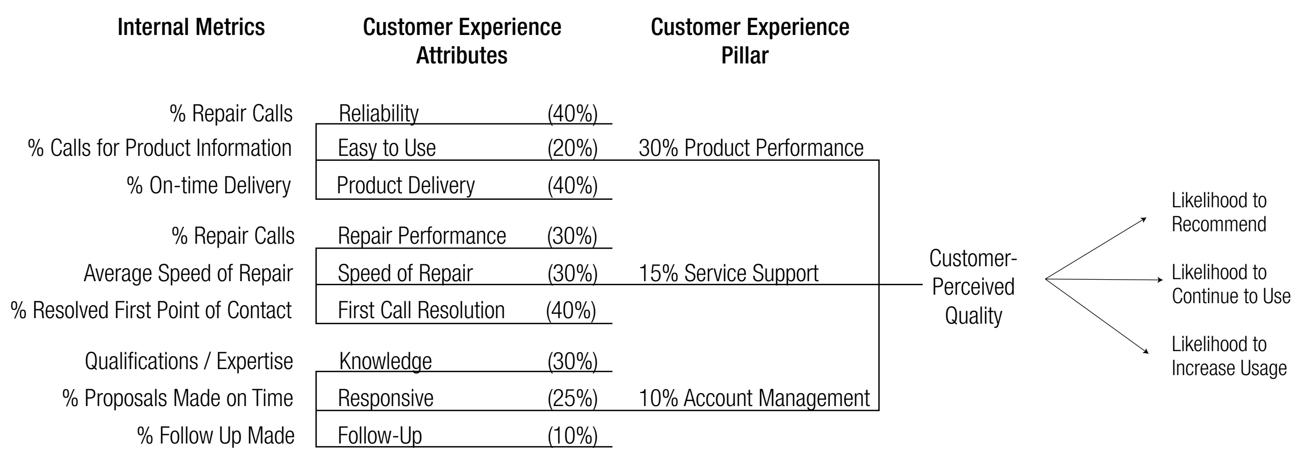
Many organizations have customer research programs in place to measure how customers perceive the overall quality of the experience. However, linking customer expectations to internal business metrics can pose a significant challenge. When customers say they expect 'reliable' product performance, we ask ourselves "what does *reliable* mean and how do we link these expectations to measurable business results?"

Figure 3 exemplifies how to structure and link customer data to business metrics. A well-defined list of attributes to describe the end-to-end customer experience is the first step towards more fully understanding customer expectations from an operational perspective. By using sophisticated customer value analysis techniques, each area of the customer experience can be assessed to identify the impact of the customer attribute on the overall perception of quality. In the Figure 3 example, product reliability has the most influence on improving customer-perceived quality. In other words, improving product performance will have the greatest influence on a customer's propensity to increase usage and recommend products or services to others.

The customer relationship and their perception of quality continues to evolve over time. How customers evaluate and assess the quality of the customer experience is a critical component to the value equation. Value is defined as the relationship between price and quality. How customers perceive the quality of the overall customer experience in relation to the price paid determines the value equation.

Staying attuned to changing

Figure 3: Linking Customer Expectations to Internal Business Metrics



expectations, continually deploying improvement plans when inevitable problems occur, and focusing on value extraction are key factors in driving profitable growth. Leaders who are focused on creating a customer-centric culture govern their organization by designing and delivering experiences that are strongly aligned with customer expectations.

Final Thoughts…

In closing, evidence suggests that organizations have a distinct competitive advantage when they have mastered the ability to design and implement a consistent, customer experience that is branded and are able to deliver on their brand promise at every interaction. That advantage comes in the form of loyalty indicators such as willingness to buy more, reluctance to switch and likelihood to recommend, as well as economic indicators such as increased profits and reduced operating costs.

Many executives understand that keeping existing customers is a key to driving growth, but few have a formalized plan to measure and improve customer experience beyond high-level loyalty measures such as satisfaction surveys.

Part of the reason why companies do not invest in customer experience is because executives struggle to make a direct connection between customer experience and business growth. Without facts connecting customer experience and market share improvements, revenue growth, or cost containment, it can be difficult to predict the impact of improved customer experiences.

Overcoming this obstacle is a challenge but well worth the effort. One key is to collect relevant data from internal sources, such as analyzing key financial drivers of customer-led growth and calculating the true cost of poor quality experiences. Another key is to link customer expectations to business metrics and manage customer information like a business asset to inform business objectives.

How customers evaluate and assess the quality of the customer experience is a critical component to the value equation.

Once the business case has been made and economics have been identified, customer experience leaders can begin transforming the company culture toward a customer-centric ideal where every employee understands and contributes to a positive customer experience.

With solid data informing decisions, a strong coalition and strategic alignment across the entire enterprise to a shared vision of the ideal experience and a team of passionate senior leaders who actively channel the voice of the customer, companies can begin to reap the rewards that result from a robust and effective strategic plan to improve customer experience. ■

[1] *B2B Customer Experience Survey, 2015*, *Accenture*

[2] *North American Study on Customer Centricity, 2014*, Janet LeBlanc + Associates Inc. in collaboration with the Peppers & Rogers Group

[3] Ibid.

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