A HARVARD BUSINESS REVIEW ANALYTIC SERVICES REPORT

Harvard Business Review

ADVANCING THE CUSTOMER EXPERIENCE

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PROVIDING POTENT CUSTOMER experiences is moving to the top of corporate agendas. Forrester Research analyst Michael Gazala predicted that in 2015 the race to create the best customer experience will hit the gas pedal. "Since 2007, the average customer experience in the industries that Forrester tracks has gone up across the board, and the number of truly awful experiences has dropped like a rock." [1]

Indeed, a growing majority of executives believe that better customer experiences should provide a competitive advantage for their companies, according to a 2014 survey by Harvard Business Review Analytic Services[2]: nearly half said customer experience must be a strategic priority. However, the vast majority of companies struggle to tie customer experience investments to business outcomes—even companies at the leading edge. Figure 1

The contrast begs two broad questions:

- What prompts organizations to make customer experience a strategic priority, and what ensures success?
- How do companies keep the momentum going and increase focus on specific customer experience challenges whose impact on business outcomes isn't always clear?

In interviews with experts and executives charged with fortifying customer experiences, we found clear answers to these questions. First, businesses need to make improved customer experiences more than a process improvement exercise. To have impact, powerful customer experiences must become integral to how a business defines itself and competes. That strategy, in turn, must be embedded in the organization's culture through leadership actions and the training of all employees.

To drive momentum, businesses should create a portfolio of self-funding initiatives that lead systematically to the desired end game. To measure efforts along the way, many organizations are using proxies such as customer lifetime value and reduction in churn rates. Ultimately, companies should turn to advanced analytics to tie customer experience investments directly to business outcomes.

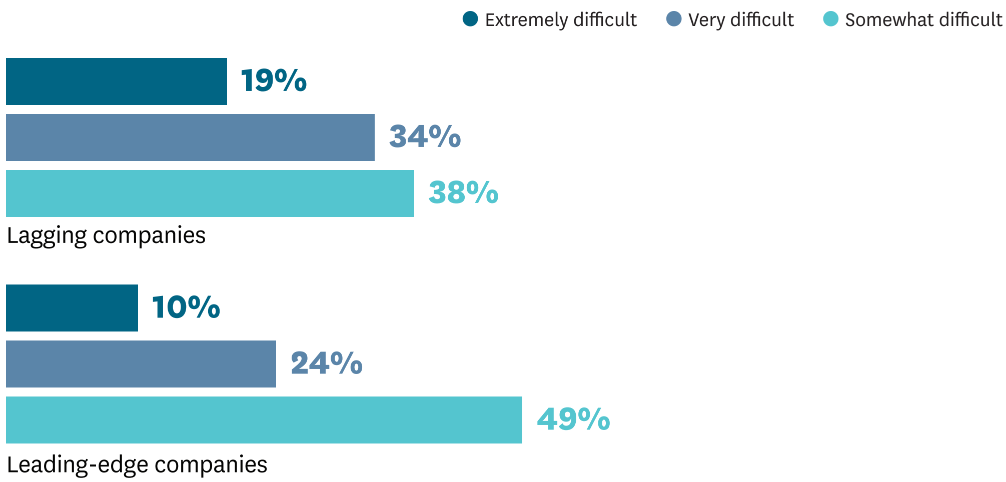
THE IMPETUS BEHIND GREAT CUSTOMER EXPERIENCES

Senior leaders have the numbers. They know when their companies are losing market share. They can see when their customer satisfaction scores are falling against those of competitors. And they are all too aware of the dismal consequences of a miffed clientele. A recent study found that nearly 60 percent of customers see no improvements in their relationships with businesses and 25 percent will defect after only one poor encounter.[3]

FIGURE 1

TYING CUSTOMER EXPERIENCE TO BUSINESS OUTCOMES IS DIFFICULT FOR EVERYONE

How difficult is it to tie customer experience investments to business outcomes?



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Joseph Pine, who along with James Gilmore coined the concept of the experience economy, says that many corporate leaders see the sagging numbers as indicators of commoditization. In many industries, competitors can readily match most product innovations, making product differentiation a losing strategic battle. The same holds true for operational efficiencies. “Any industry can sustain one or two players that tackle commoditization by cutting costs and becoming highly efficient at scale,” says Pine. “The rest need something more. Experiences are what come naturally after goods and services.”

Alex Rawson, a customer experience expert at McKinsey, points out that the rapid rise of social media and growth of digital customer interactions are pressuring organizations to create competitive customer experiences—reports of both positive and negative encounters can spread to millions in minutes. Technology disruptions are also creating an urgent need for innovative customer experiences. Real estate brokerage is a prime example. Because buyers can find out what they need to know about a home and community online, the real estate agent experience is becoming little more than a transaction. As a result, brokerages are striving to create more meaningful end-to-end experiences.

Although the impetus is strategic, many businesses don’t apply strategic rigor to their customer experience efforts. Instead, they often define customer experience too narrowly as one of many processes ripe for improvement. As a result, investments can fail to move the needle.

CUSTOMER EXPERIENCE AS BUSINESS RATIONALE

"Customer experience is about much more than providing a pleasant feeling in a call center," says Pine. "It is a fundamental dimension of how a company competes." The idea is centuries old. In the 1800s, for example, Marshall Field and Company created a successful retail chain premised on an experience in which the customer is always right.[4] Similarly today, companies such as Southwest and Apple have become exemplars of customer experience by making it an inextricable part of their competitive rationale. Although these consumer-oriented companies often garner the most attention, organizations across sectors are putting customer experience at the center of how they define their businesses.

Consider Illinois-based Zebra Technologies. The company is a $3+ billion provider of enterprise technologies such as chips and bar codes that can track products and materials in warehouses and across supply chains. Zebra Technologies' leaders realized that the rise of the Internet of Things will fundamentally change how the company's customers use and experience its products. Mobility, the cloud, and sensors are creating demand for flexible applications and pay-as-you-go models instead of hefty traditional IT platforms. Zebra realized that creating the customer experience it needed was much more than a process question.

Zebra was customer-centric in terms of traditional measures. For example, engineers regularly captured customer requirements and translated them into product features. However, as the customer experience evolves, engineers now map customer journeys to understand requirements that customers aren't articulating, such as sensors that can track usage. The focus on customer experience is changing everything from customer training to the financing options Zebra offers. "Too many companies see customer experience as a slogan exercise," says Philip Gerskovich, senior vice president. "We realized that if we didn't build our strategy around how customers experience our products, a start-up with that focus could eventually overtake us."

To become a meaningful element of a company's business rationale, customer experiences need to deliver demonstrable value. Pine even suggests that businesses start by asking what experiences they could offer that customers would pay for. As examples, he cites product-related theme parks that successfully charge consumers to engage with everything from toys to cars. "The experience is the marketing," says Pine.

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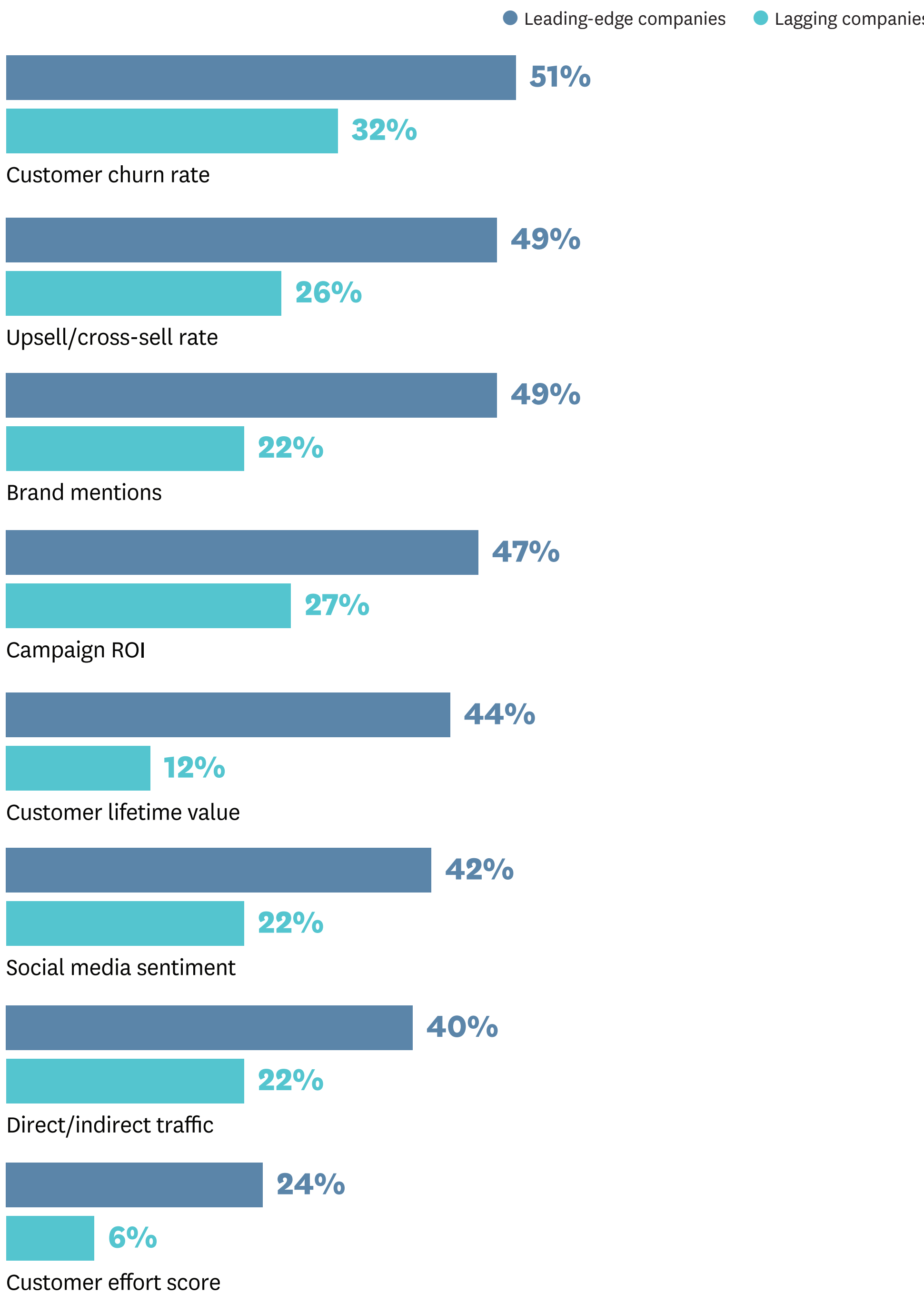
As is the case with any major strategic change, senior management must demonstrate the importance of customer experience and articulate why it is becoming central to how the business defines itself. To ground customer experience in the company culture, businesses should develop precise, meaningful principles to guide everything from investments to frontline decisions.

In advance of its 2012 opening, for example, Barclays Center in Brooklyn, New York, developed four such principles to embed customer experience in its strategy and operations. The nearly 19,000-seat arena is home to the NBA's Brooklyn Nets and also presents a wide range of entertainment. Management realized that it can't control what happens on the court or in a live show. To be competitive, the venue has to offer a customer experience that bests other arenas and even a fan's living room.

FIGURE 2

LEADING-EDGE COMPANIES MEASURE SUCCESS DIFFERENTLY

Please indicate whether or not your organization uses the following metrics to measure the success of customer experience efforts.



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Barclays Center's principles are stacked in order of importance to clearly define priorities—safety, courtesy, show (i.e., personal presentation), and proficiency. In making customer experience decisions, securing safety always takes precedence. Treating customers as individuals in a high-quality environment will get the right of way over proficiency. Becoming proficient (i.e., an expert) is also important, but often comes with experience. Safety, courtesy, and good show can be delivered almost immediately.

To determine how and when to make customer experience bets, McKinsey's Rawson suggests that companies create a balanced portfolio of projects so that the overall customer experience endeavor becomes self-funding. Projects should start with tactical efforts that provide short-term payback that can then fund longer-term efforts. For example, a retail bank that envisions a seamless customer experience that requires no branches or ATMs wouldn't only develop a full plan of how it will replace them. The bank might begin by streamlining the new account onboarding process, which could reduce the cost to serve new customers and increase retention rates. The profit from those early initiatives can then fund the next steps of the plan.

Discovering immediate opportunities needs a bottom-up approach. "Finding short-term wins requires top-down leadership and grassroots ideas," comments Rawson. To harness the insights of its frontline employees, Barclays Center established its Brooklyn Ambassador program. As Marie Chindamo, chief human relations officer and executive vice president of human resources for the Brooklyn Nets and Barclays Center, explains, "The program selects 12 outstanding employees from among thousands to train others, share experiences, and also scout for new ways to improve the customer experience." The ambassadors meet regularly with senior executives and propose new ideas and approaches. Although the program is new, it has already identified ways to improve in-seat meal and drink service in the arena's premium sections.

MEASURING THE EFFORT

Although most companies struggle to tie customer experience investments to business outcomes, they do use a number of measures as proxies for those outcomes. Figure 2 For example, approximately half of leading companies measure customer churn and upsell/cross-sell rates.

McKinsey Director Ewan Duncan, however, believes that companies can tie customer experience to business outcomes with advanced analytics. The process starts by looking at all customer interactions over a few years and discovering what set or sequence of events led to the best customer experiences. The company should then tie those experiences to actual sales and costs to serve particular groups of customers. The events include all interactions that the customer had with the company, such as store visits, web site behavior, and call center contacts. Once the organization understands what set of events drives the best results, it can compare its performance on those events to competitors' and improve the experiences accordingly. The changes should drive increased revenue, which clearly links the investment to business outcomes.

Pine stresses that the most important metric is time. "Everyone values it," he says. "The real question of customer experience is whether customers see yours as time well spent." ◆

THREE STRATEGIES TO PERFECT YOUR CUSTOMER EXPERIENCE

During a recent work session, we were reflecting on something Walt Disney once said:

"Whatever you do, do it well. Do it so well that when people see you do it, they will want to come back and see you do it again, and they will want to bring others and show them how well you do what you do." —Walt Disney

Today, this advice is more important than ever. In an increasingly competitive, global economy, with the length of time to commoditization shrinking, organizations and individuals must continuously seek to differentiate themselves from their competition, and they must be intentional about delivering an exceptional service experience.

But how? At Disney Institute, we believe that you must be intentional where others are unintentional. In other words, you must overmanage the things that most other companies ignore or undermanage. Embracing this singular idea is what will begin to differentiate an organization from its competitors.

What do we mean by overmanage? It's important to point out that it's not micromanaging. Overmanaging is very different from micromanaging in that the intent is extremely positive.

Overmanaging is:

- Thinking about your challenge or goal differently than others, and to a greater degree.
- Paying extraordinary attention to the details.
- Viewing what is typical in corporate best practices as a baseline, as opposed to the accepted standard.

So, if your organization's customer experience only met expectations last year, let 2015 be the year it exceeds them. Here are three strategies any organization can implement to begin overmanaging their customer experience:

1. Create an organizational common purpose.

The essential foundation on which all other service decisions can be developed, a common purpose is a succinct explanation of what you want the customer experience to be at the emotional level. It represents to all employees what you stand for and why you exist, and it is the primary tool for getting everyone "on the same page."

2. Get to know your customers holistically.

Your knowledge of the customer must extend far beyond the boundaries of traditional service criteria. Truly understanding their needs, wants, emotions, and industry stereotypes is the key to creating personalized interactions. "Listening posts" are an excellent example of a customer-centric tool that companies can use to assess the customer experience and immediately identify areas where customer expectations are (or are not) being met and exceeded.

3. View exceptional service as an economic asset rather than an expense.

With lifetime customer relationships at stake, the return on investment for providing consistently exceptional service clearly justifies the short-term cost.

In these times of significant change, stronger innovators will inevitably outperform weaker innovators, so keep an eye on the future and ensure your customer service experience does not become a commodity.

ENDNOTES

1 Michael Gazala: The Race from Good to Great CX Hits the Gas Pedal in 2015, Forrester Research, November 7, 2014. http://blogs.forrester.com/michael_gazala/14-11-07-the_race_from_good_to_great_cx_hits_the_gas_pedal_in_2015.

2 "Lessons from the Leading Edge of Customer Experience Management," Harvard Business Review Analytic Services, 2014.

3 Infographic: The Disappointed Customer, Thunderhead.com. July 4, 2014. http://www.thunderhead.com/customer-engagement/customer-trends/infographic-disappointed-customer/?utm_campaign=CustomerEngagementCenter|US&utm_medium=cpc&utm_source=google&utm_term=customer%20experience%20research&gclid=Cj0KEQjw_IKiBRD7rPqut_OZ4qgBEiQASm4GAtuiDvicZgKohGLF117jjTYgqIa4Bv-KxfF3BAbZAv8aAn6q8P8HAQ.

4 Nina Metz: 'Mr. Selfridge:' The Man Who Invented Retail Therapy, *Chicago Tribune*, March 28, 2013. http://articles.chicagotribune.com/2013-03-28/entertainment/ct-mov-0329-chicago-closeup-20130329_1_department-store-marshall-field-co-carson-pirie-scott-co.

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