Achieving Competitive Advantage

Keys to Winning with a Superior Customer Experience

A White Paper
by Jim Cobb & Ann Wilson

BLOODHOUND
G R O U P

Contents

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Overview

» 89% of companies compete primarily on customer experiences.[1]

» 80% of companies believe they deliver superior experiences, but only 8% of customers agree.[2]

» Brands delivering better customer experiences enjoy greater loyalty, advocacy and profitability.

» Better customer experiences evolve from customer-centric cultures.

» These cultures are characterized by empathy for the customer, holistic thinking about the journey, knowledge-sharing and an outcome-focused orientation.

Introduction

We live in an experience-driven economy. Approachable, easy-to-engage brands that meet or exceed expectations are almost always winners.

The Temkin Group, a leading customer experience research firm, estimates the financial benefits of modest customer experience improvements for a $1 billion company can be as much as $775 million over three years.[3] And Watermark Consulting's analysis of top customer experience brands revealed a total cumulative return that was nearly three times greater than that of the customer experience laggards.[4]

So why is a great customer experience so rare?

What a brand means to us boils down to the type of emotional experience we have with it. Ongoing, positive, meaningful experiences lead to repeat buying behavior and sales growth.

Through the study of neuroscience, we also know that emotionally engaging experiences are stored more vividly than other kinds of memories. The more senses an experience engages, the more likely it is to create long-term memories. Highly engaging, positive customer experiences, therefore, exert a compelling, commensurate influence on brand adoption and advocacy over time.

This paper explores obstacles to developing and delivering a superior customer experience and provides guidelines for achieving better organization-wide results.

Challenges to Customer Experience Delivery

Customers have more choices than ever before. Past brand differentiators are now table stakes for maintaining share. The vast majority of companies not only are challenged to meet higher customer expectations but also are finding it difficult to maintain brand relevance in today's fast-paced, technology-disrupted markets.

Most enterprises have recognized the competitive importance of customer experience. Today, 89% of companies compete primarily on the basis of the customer experience their brands deliver, up from 36% in 2010. However, fewer than half of these companies believe the experience they deliver is superior to their competitors'.[1]

Closer examination suggests a less-than-optimal organizational structure and culture are the root cause of poor experience delivery, customer frustration and defections. Companies need to interface effectively with customers not only in person, over the phone and by email, but also when they connect via Twitter, Facebook, WhatsApp, Instagram and other social media.

Organizational structure and turnover often inhibit employee ability to address customer needs quickly and effectively. In many industries, turnover is high and retaining good employees is becoming more difficult. Temporary staff, AI software and fluid teams are sometimes more focused on tasks than on serving customer needs.

The significance of this internal challenge is reflected in the fact that only 32% of U.S. employees are enthusiastic about and committed to their work.[5] And only 12% of companies have cultures sufficiently motivating to give them a competitive advantage.[6]

The fact is, traditional organizational structure has not changed in more than a century and is burdened by politically laden silos and slow decision-making.

> ## 89% of companies compete primarily on the basis of customer experience.

The paradox lies in the balance between control and empowerment.

Traditional organizations are structured for stability, accountability and control, a model that worked in an age when customer behavior was more predictable and there were fewer competitors to disrupt the status quo.

By contrast, today's successful companies are organized to be agile, empowering their employees to respond to customer needs and deliver superior experiences.

Process for Achieving the Desired Experience

The first rule in branding is to know, understand and respect your customer. But no matter how closely the marketing team abides by this rule, delivery of a consistent branded experience is virtually impossible without a customer-centric culture.

The CMO Council reports that only 14% of marketers identify customer-centricity as a hallmark of their companies and only 11% believe their customers would agree with this cultural characterization.[7] This means if your company can make the transition to customer-centricity, you will likely achieve the experience differentiation and competitive advantage you desire.

This transition will require commitment from the CEO down throughout the entire organization, as well as a serious reality check on both the company's vision and your brand proposition's relevance to customers.

Employing an outside consultant to facilitate this process will help ensure the initiative receives the proper level of strategic priority and stays on track for implementation.

Interviewing senior and middle managers is an important first step in the process. These interviews:

» Help managers understand the intent and importance of the customer-centric focus to the brand's long-term viability.

» Give managers a voice, enabling them to provide valuable input on organizational issues influencing strategy implementation.
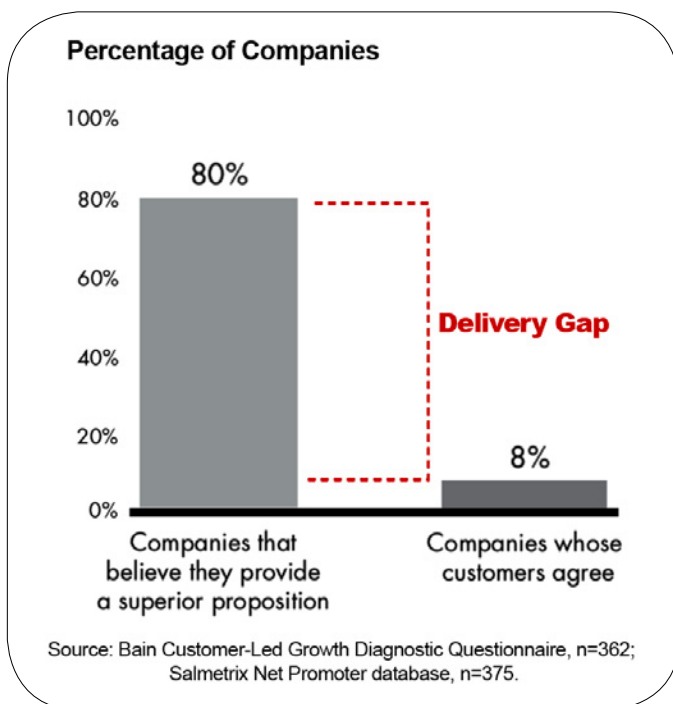
» Help identify potential gaps between market realities and employees' perceptions of customers and competitors.

» Create a basis for communicating what is expected of each employee and how the use of performance metrics is tied to customer experience delivery.

> If your company can make the transition to customer-centricity, you will likely achieve the experience differentiation and competitive advantage you desire.

Perhaps most importantly, internal interviews help reframe managers' perception of brand experience delivery from being owned by the marketing department to being owned by the entire organization.

Identifying Gaps Between Internal Perceptions and Customer Expectations

Many companies believe they are giving customers the type of experience they desire, but this is seldom the case. Research conducted by Bain & Company revealed a significant gap between internal perceptions of experience delivery and actual customer expectations.[8]

Percentage of Companies

Source: Bain Customer-Led Growth Diagnostic Questionnaire, n=362; Salmetrix Net Promoter database, n=375.

Brand perception and customer journey research conducted with end-user customers and channel partners is critical to reveal and understand the relative size and nature of gaps between internal experience perceptions and reality.

Likewise, customer journey research is especially valuable for identifying the most important touch points for creating a memorable, differentiated experience.[9] Among insights external research will provide are:

» Do products and services deliver the right type of value and have they kept up with changes over time?

» Are sales and marketing efforts effective?

» Do the current business model and organization meet the changing needs of the customer?

» What are the brand's strengths and weaknesses relative to competitors?

» What type of relationship do customers feel they have with the brand?

Based on research findings, programs can be designed to address the two or three most significant strategic gaps through organizational design modifications and training. Even modest improvements should pay immediate dividends, as suggested by the Temkin study. Moreover, the enhanced results will stand as signs of success to fuel employee enthusiasm for making other changes.

Characteristics of a Customer-Centric Culture

The roadmap to change begins by clearly defining the desired cultural behavior outcome. Companies with customer-centric cultures embody four primary characteristics. Here is a snapshot of how they operate and what approaches you can take to develop these characteristics within your organization.

Empathy Giving. Defined as "the ability to understand and share the feelings of another," empathy is the critical emotional intersection between customers and employees. It is the foundation of a customer-centric culture and critical to demonstrating that a company understands customer needs and makes decisions based on them.

Customer empathy inspires superior service delivery and relevant product creation. Ultimately, it is the basis for brand trust.

You cannot fake empathy. If the branded experience your company delivers authentically demonstrates it cares about customers, they will quickly develop subconscious positive feelings that lead to purchases and success will follow. If not, your brand may suffer the beginning of a decline.

In a recent PwC study, 38% of customers reported that brand service providers do not understand their needs.[10] Lack of empathy ultimately leads to customer frustration and loss of market share. So how do you create a more customer-centric, empathetic brand experience?
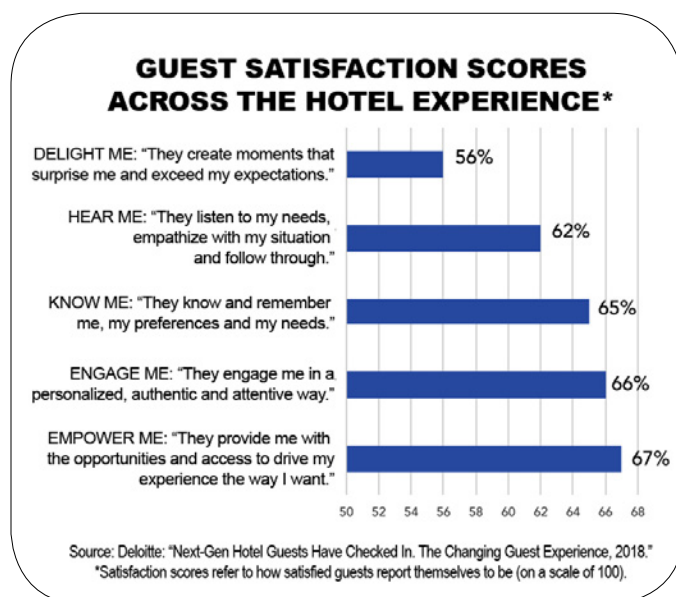
One way is to complete an Empathy Map Canvas.[11] This tool was developed by visual thinking consultant Dave Gray and refined based on his experience working with Alex Osterwalder, designer of the Business Model Canvas. The Empathy Map Canvas puts employees in the customers' shoes by asking:

- » With **whom** are they empathizing?
- » What do they need to **do**?
- » What do they **see**?
- » What do they **hear**?
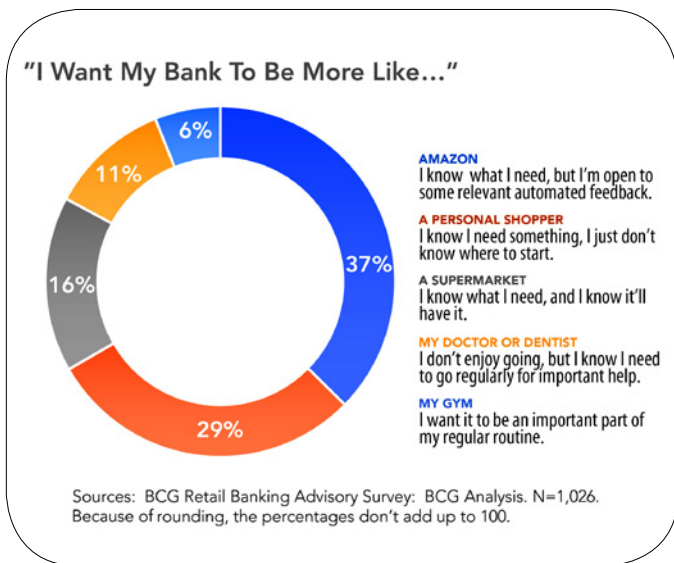- » What do they **say**?
- » What do they **do**?

Once this exercise is complete, the results can be applied along the customers' purchase journey. Using "voice-of-the-customer" research, customer satisfaction studies and customer service or sales team experience as input is important in developing an Empathy Map Canvas.

A 2018 study by Deloitte on the next-generation hotel guest experience used insights from customer satisfaction research to create an endpoint for what the customer experience should strive to deliver. The results show that key satisfaction metrics have far less to do with hotel facilities than with the person's interaction with staff. This does not mean hotel amenities are not important, but rather that they are now just the cost of entry.[12]

GUEST SATISFACTION SCORES ACROSS THE HOTEL EXPERIENCE*

DELIGHT ME: "They create moments that surprise me and exceed my expectations." — 56%

HEAR ME: "They listen to my needs, empathize with my situation and follow through." — 62%

KNOW ME: "They know and remember me, my preferences and my needs." — 65%

ENGAGE ME: "They engage me in a personalized, authentic and attentive way." — 66%

EMPOWER ME: "They provide me with the opportunities and access to drive my experience the way I want." — 67%

Source: Deloitte: "Next-Gen Hotel Guests Have Checked In. The Changing Guest Experience, 2018."
*Satisfaction scores refer to how satisfied guests report themselves to be (on a scale of 100).

Another approach to understanding the customer's emotional state at the beginning of a purchase journey is to use metaphors of experiences with other products. To determine the kind of experience customers would

like to have with their bank, for example, prospects are asked questions such as: Are experiences with your bank like transactions with Amazon, a favorite supermarket or your gym? Or are they like a visit to the dentist?[13]

"I Want My Bank To Be More Like…"

6%
11%
16%
37%
29%

AMAZON
I know what I need, but I'm open to some relevant automated feedback.

A PERSONAL SHOPPER
I know I need something, I just don't know where to start.

A SUPERMARKET
I know what I need, and I know it'll have it.

MY DOCTOR OR DENTIST
I don't enjoy going, but I know I need to go regularly for important help.

MY GYM
I want it to be an important part of my regular routine.

Sources: BCG Retail Banking Advisory Survey: BCG Analysis. N=1,026. Because of rounding, the percentages don't add up to 100.
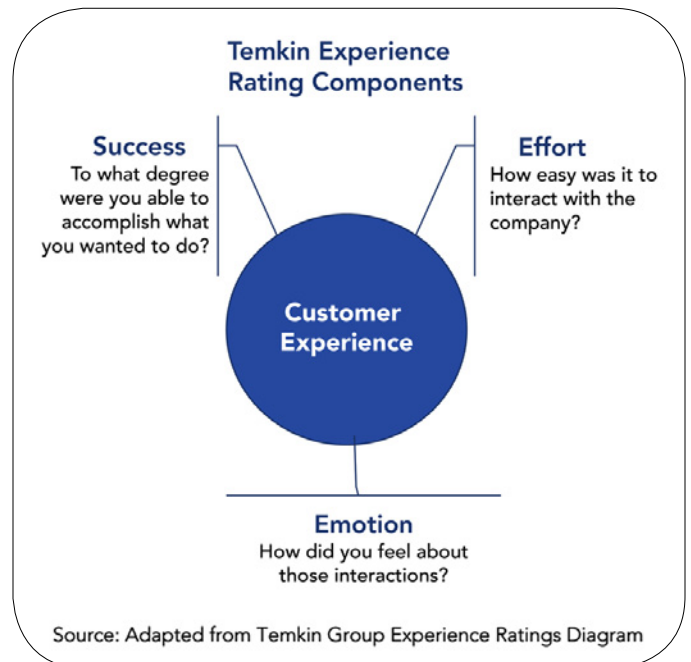
Southwest Airlines does a great job of showing travelers empathy and care. The brand's logo features a heart as an ever-present reminder to employees and customers of the company's dedication to making travel easier, less stressful and more enjoyable.

Southwest

The company's customer-centric culture is further reflected in the light-hearted nature of flight attendant announcements and passenger interactions, as well as in Southwest's community involvement agenda. The airline recently announced a partnership with Musicians on Call to bring bedside performances to hospital patients as part of its Southwest Airlines Medical Transportation Grant Program. Southwest is also the official airline of Kidd's Kids, donating an aircraft each year to provide vacation transportation to children with life-threatening conditions and their families.

Holistic Thinking. Brands with the strongest cultures view their interactions with customers holistically. Employees map out the customer journey to identify opportunities for brand "moments of truth" along the way. Apple excels at this, viewing the process from product design to advertising to retail center to the moment the customer takes the product out of the box. Careful consideration is given to making each interaction a highly memorable, positive experience.

Customer journey maps help clarify what the customer is trying to accomplish, allowing the brand team to note where the purchase journey can be made easier as well as more successful and emotionally fulfilling. These dimensions are strong predictors of brand loyalty and future purchase behavior, as detailed in the Harvard Business Review article "Stop Trying to Delight Your Customers."[14]

Temkin Experience Rating Components

Success
To what degree were you able to accomplish what you wanted to do?

Effort
How easy was it to interact with the company?

Customer Experience

Emotion
How did you feel about those interactions?

Source: Adapted from Temkin Group Experience Ratings Diagram

The piece evaluates the predictive power of Customer Satisfaction (CSAT) ratings, Net Promoter Scores (NPS) and Customer Effort Scores (CES). Of the three, CES were the most accurate predictor of

increased spending, as they holistically capture the interrelationship of effort (easy vs. hard), emotional engagement (frustration vs. satisfaction) and positive outcomes (success vs. failure) in customer experiences.

The more granular the journey map, the greater the opportunity for experience and brand purchase improvement. Internal teams focused on end-to-end betterment of the journey experience may even achieve competitive advantage by shortening the journey.

A good example is the Sungevity solar panel journey design. This company's customer experience is so compelling, engaging and easy that it shortens the consideration phase and practically eliminates competitors from consideration.[15] To achieve this, Sungevity integrated unexpected service features that facilitated flow through the process, including:

» Automated steps making it easy for customers to collect and integrate product information and see how the panels would look on their homes.

» Proactive personalization integrating third-party sources to estimate costs, develop break-even analyses and demonstrate long-term customer savings.

» Contextualized interactions using APIs to track and update customers on project installation status.

» Innovative extensions to current associated products for energy storage and other conservation practices.

The Peloton brand of high-end workout bikes uses similar dynamics to extend the brand experi-

ence beyond equipment purchase. In fact, 70% of Peloton bikes are delivered by the company, and the brand interacts with customers on a daily basis by streaming digital content accessible via touch screens and mobile apps. Peloton's holistic approach fosters ongoing relationships, love of the experience, loyalty and client recommendations.
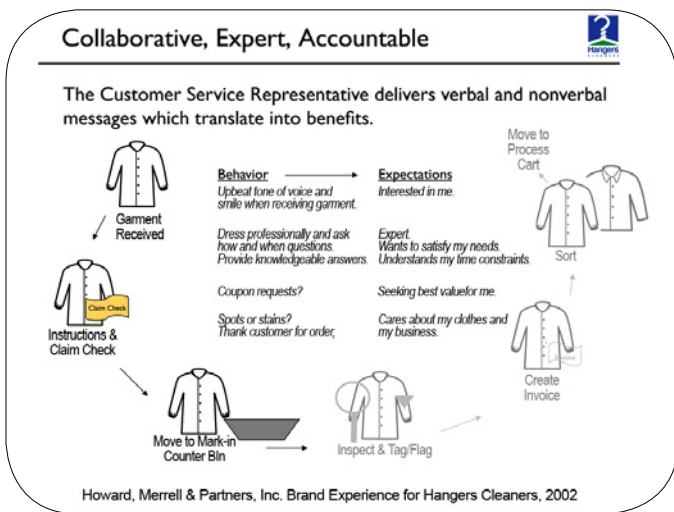
A McKinsey survey conducted in 2016 revealed customer satisfaction with health insurance is 73% more likely when the focus is on the journey rather than on touch points alone. Likewise, customers who experience a positive hotel journey are 61% more willing to recommend the hotel than when employee training focuses only on touch points.[16]

It is critical for employees to understand their role in delivering a holistic experience whenever they encounter customers along the individual decision-making journey. The most effective journeys incorporate comprehensive training on how delivery of the brand's values contributes to a positive experience.
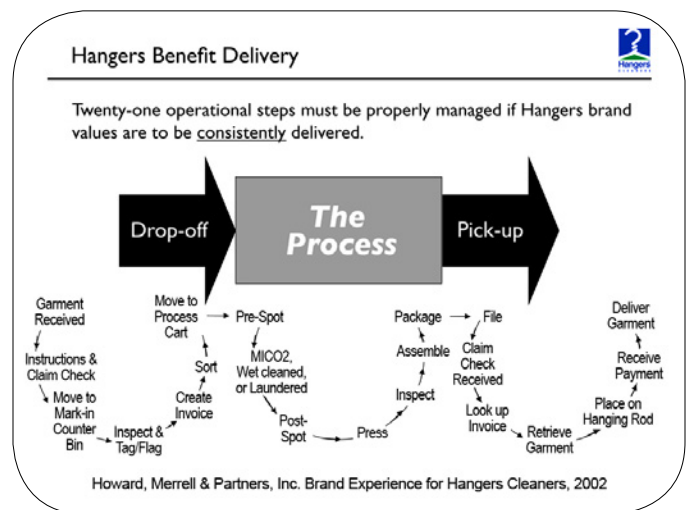
The above experience map for Hangers, an environmentally friendly dry-cleaning business, shows how brand values are delivered from customer drop-off to cleaning to pick-up.

Training focused on the anticipated experience and employee verbal and nonverbal behavior that makes the process easy, emotionally engaging and successful. Ensuring full understanding of the whole picture was key to achieving employee compliance.

Collaborative, Expert, Accountable

The Customer Service Representative delivers verbal and nonverbal messages which translate into benefits.

Howard, Merrell & Partners, Inc. Brand Experience for Hangers Cleaners, 2002

Knowledge Sharing. Many companies conduct customer research, but not all share findings across the organization. Forrester Research estimates 72% of companies don't review or share customer experience metrics with employees on a regular basis.[17] Yet the ability for everyone to picture who consumes the company's product or service is critical to effective customer interactions.

HR departments often create onboarding schedules for new employees to get acquainted with the company's customers. These activities include observing sales and service managers engaging customers, along with reviewing top-line customer insight research. Knowledge-sharing companies make this an ongoing, company-wide practice.
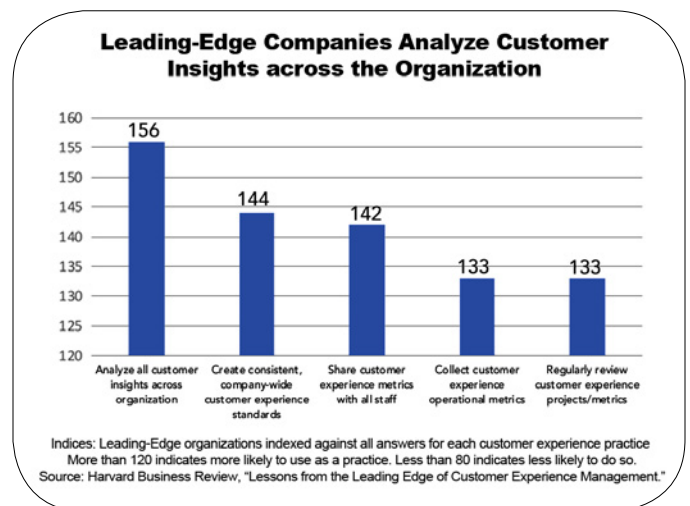

Executives at Amazon engage employees at every level of the organization by working with

them in retail environments, handling phone calls and getting out in the field to observe. Amazon started this practice in its early days during the holiday season and today refers to it as "all-hands-on-deck" sessions. The tradition is perpetuated through new employee onboarding.

Airbnb finds ways to facilitate interactions with customers through events, sales ride-alongs, advisory board participation and more. Also, when Airbnb hosts visit the company's headquarters, they always stay with employees.

Other companies facilitate interaction with and learning from customers by having employees listen in on sales and service calls, view focus groups and attend industry conferences.

Leading-Edge Companies Analyze Customer Insights across the Organization

Indices: Leading-Edge organizations indexed against all answers for each customer experience practice. More than 120 indicates more likely to use as a practice. Less than 80 indicates less likely to do so.
Source: Harvard Business Review, "Lessons from the Leading Edge of Customer Experience Management."

Leading-edge companies understand the need to analyze customer insights and share them organization-wide. A Harvard Business Review report cites an industrial power systems-maker that formed cross-functional teams within each business to serve as "a lightning rod for all customer experience challenges." Team members

rotate on and off to create "customer excellence cross-pollination throughout the business."[18]

Knowledge-sharing creates synergy within the organization. While marketers may gain a high-level understanding of customers through research, frontline employees delivering the customer experience day in and day out are in the best position to suggest ways to improve operations. The Disney brand culture engages and energizes employees to deliver positive individual guest experiences that help produce a desirable, effective, end-to-end customer journey.

Disney is constantly capturing customer experience feedback through its Disney survey team. This team's research provides input for improving Disney training, in which each employee must complete a six-week course before ever seeing a guest.[19]
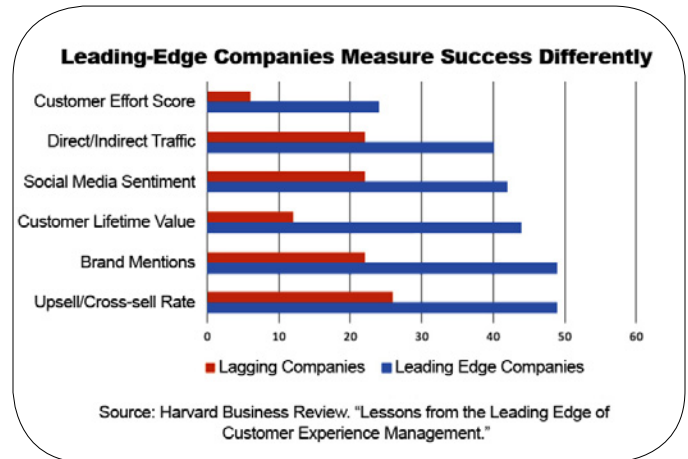
Underwriters Laboratories Employee Health & Safety Sustainability Division (ULEHSS) holds weekly meetings called "Customer First" gatherings with leaders across the organization. Customer experience feedback is shared with teams so they can collaborate on ways to make improvements.

When companies fully share data and insights about their customers, responsibility for understanding those customers is more likely to be embraced by everyone.

Outcome-Oriented Thinking. Companies that measure desired results of customer-centric experiences are able to align and keep everyone focused on the customer. Brands like IBM link cultural behavior with its impact on customer behavior. Other companies tie compensation to customer-centric KPIs.

Leading-Edge Companies Measure Success Differently

Source: Harvard Business Review. "Lessons from the Leading Edge of Customer Experience Management."

Identifying the most critical contributors to customer value creation—from the customers' perspective—throughout their journey is key to effective outcome measurement. Is it product quality? Service quality? Price value? Empowerment created by a combination of factors? Research such as the previously cited Deloitte hotel guest study is one way to establish benchmarks for measuring satisfaction in relevant dimensions: online reservation experience, hotel-level amenities, staff interactions and more.

Analytical tools and business intelligence software are designed to help transform information from across functional areas into valuable and actionable insights. One critical example might be keeping employees focused on tasks that have the greatest impact on customer experiences, satisfaction levels and important brand reputation metrics.

As noted earlier, one relatively easy way to determine whether the company's customer experience delivery is improving is to use the Net Promoter Score (NPS) tool. Approximately two-thirds of Fortune 1000 companies use it to provide valuable customer experience feedback. NPS is calculated as the percentage of customers who

would recommend or promote your company, minus detractors—the percentage who would urge friends to stay away. (Promoters – Detractors = Net Score.)

Other measures such as customer satisfaction and customer effort scores also provide comprehensible information the entire organization can rally around and work collectively to improve.

However, more complex customer-measurement systems need to be developed across the journey and by customer segment. The most successful systems are often created as part of a large-scale transformation initiative designed and built from scratch. Attempts to use outdated, disparate systems created with different outcomes in mind seldom provide the insight needed to produce continuous experience improvement.

Bain & Company's previously mentioned report, "Closing the Delivery Gap," cites Intuit's customer-measurement system for its TurboTax product as an example of how one company improved customer experience starting with Net Promoter Score feedback.

Intuit segmented customers based on demographics, use behavior, key priorities and other factors. The results surfaced very different customer segment criteria that TurboTax could use to improve.

Based on this more granular understanding of the brand's customer segments, the TurboTax product was redesigned to deliver its benefits more efficiently. Customer advocacy rose significantly and so did sales. Most importantly, the measurement system put in place enabled employees to better understand how to respond to changing customer needs, maintain brand relevance and deliver the desired outcome of achieving competitive advantage and share growth.

Adobe, a company with a reputation as a great place to work, encourages feedback from employees on improving the customer experience and even ties its compensation program to these results. The short-term cash incentive plan is based on the company's revenues, as well as on customer success measures such as retention. This compensation program facilitates company-wide alignment to improve the customer experience.

The saying "You get the results you measure" is especially true when it comes to creating a customer-centric culture. Culture is all about how an organization behaves. Tying specific behavior to the customer experience can produce incremental improvements over time.

Key Points

» Competing on customer experience is the new battleground for brand differentiation.

» Although many companies recognize this new frontier of competition, few are achieving desired outcomes.

» Organizational structure and lack of employee empowerment can be significant barriers to experience delivery.

» Companies delivering a superior customer experience are more profitable and experience superior growth.

» A customer-centric culture is required for success.

» This culture requires the organization to be empathetic to customer needs, think of the purchase journey holistically, share knowledge about the customer freely and improve performance by linking culture to business outcomes.

Conclusion

Delivering a better customer experience is now critical to brand differentiation and long-term profitability. Few companies have the customer-centric focus and supporting culture needed to win on this emerging competitive front.

Transformation is an inside-out process and requires true understanding of the customer's needs and a shift in organizational behavior, which does not happen overnight.

Management must be strongly committed to driving desired behavior and offer ongoing recognition and reinforcement of small "wins" or changes.

Ultimately, an organization's focus on and commitment to deliver better customer experiences may be the most important strategic initiative for winning in today's highly competitive marketplace.

Learn More

For information about The Bloodhound Group process for delivering superior customer experiences, please contact:

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