

Developing a customer experience

Excellent customer experience need not be elusive



Excellent customer experience (CEX) remains elusive. A frequent consequence is missed revenue opportunities, or worse: customer disappointment or unmet service obligations, which can lead to fines, revenue loss, reputational damage, customer loss or, in the extreme cases, losing the right to operate. Companies struggle with CEX due to lack of clear accountability at board level, or because they do not challenge their assumptions about what they think customers really want, or *how they really feel* about the service or product being offered. Consequently, they may focus on the wrong areas. The result is that all too often organizations do not know which physical or digital assets to invest in. Arthur D. Little's leading approach to end-to-end CEX combines a multi-disciplinary team across customer experience, asset management and operations, partnered with digital strategy and transformation, because CEX requires a holistic response involving the whole organization. Linking CEX and CRM with operations and asset management enables personalization of the customer journey, improves asset investment decisions and maintenance, and allows organizations to manage disruption better. This Viewpoint sets out key considerations and a four-step process to invigorate CEX for your customers.

Despite focus, organizations struggle with customer experience

Customer experience is critical. Yet the art and science behind CEX are blurred, and companies do not always achieve the results they desire. Consumers have choice, and failure to understand and meet customer expectations or to deliver service obligations leads to disappointment or conflict. This typically results in lost revenue, reputational damage and customer churn. For regulated companies, poor CEX could also result in hefty fines and, in extreme cases, losing the right to operate.

Although the downside is significant, missing the opportunity for increased revenue opportunities from good CEX is perhaps the most powerful driver for improvement. Our analysis indicates that there is a link between improved financial performance and CEX champions, leading to stronger customer loyalty, which has a positive impact on the top line (e.g. revenue, share of wallet, lower price sensitivity) and bottom line (e.g. lower acquisition costs, fewer complaints and less intensive service requirements from more satisfied customers).

Why do companies struggle so much with customer experience? First, CEX rarely has accountability in the boardroom. To quote one of our clients, *"Everyone has a point of view on what we should do with customer experience, but no one has end-to-end accountability for it"* (VP Continuous Improvement, FTSE 100 company). When budget

cuts are required, CEX projects are often the first to go. The lack of accountability in CEX results in silos, fragmented CEX and initiatives that fail to achieve their intended benefits.

Second, companies may not have comprehensive understanding of their customers' expectations across the end-to-end journey and incorporating of both physical and digital channels. Management and analysis of customer data all too often becomes a burden. Lack of, incomplete or irrelevant data can lead to "analysis paralysis" or costly investments that do not enhance CEX in ways that customers recognize. Companies are too often guilty of failing to challenge their underlying assumptions about customer expectations.

Companies do not know which physical or digital assets they should invest in to improve customer experience

Consequently, companies do not know which services or assets to invest in because they have poor understanding of who their customers are and what they might want today or five to ten years from now. Much of the time this is because customers do not know what they want themselves. As Henry Ford reportedly observed, if he had consulted them, his customers would have asked for faster horses. Additionally, digital capabilities and technologies are disrupting known business models, and it often feels like a losing battle to keep up with the pace of change. Furthermore, companies may need to face the fact that they are unable to afford what customers want.

Companies face difficult choices in positioning services that can vary from basic services that deliver obligations or minimize disappointment or conflict, to premium services that maximize customer delight. Organizations are seduced by tantalizing business cases that offer to leap the CEX chasm by investing in maximizing delight (and revenue). Yet, customer frustration may result from disruption to the basic services they are after. Overall, we have noticed that this leaves consumer organizations, including airports, rail operators, retailers, banks and education companies, asking similar questions:

- How do we differentiate our services?
- Are we optimizing the right things?
- How do we deal with disruption?
- What assets should we invest in today when we do not know what our customers will want in five to ten years?

At Arthur D. Little, we apply a multidisciplinary approach across customer experience, asset management and operations, together with digital strategy and transformation to answer these questions, because CEX challenges require a response involving the whole organization.

Key considerations for customer experience

1. Focus on physical and digital CEX by linking consumer insight, CRM and asset management

CEX improvements should not focus solely on digital, but need to consider the interactions customers have in the real and online worlds, and the implications of this on asset investment and cost.

When identifying improvement levers, it is important to consider a balance between hard, soft and human levers. Hard levers relate to tangible assets, and imply a significant CapEx investment. Soft levers relate to the implementation of new technologies – for example, use of CRM, mobile apps and social media can involve medium to high CapEx and significant OpEx investment. Human levers relate to actions at human level – low CapEx but significant OpEx costs (e.g. training, internal communications and behavioral change).

Linking customer insight with CRM and asset management provides five key benefits:

1. CRM is the backbone that enables delivery of personalized services to customers by understanding their preferences.
2. Investment decisions for new assets can be improved by deriving insight from asset, consumer and CRM perspectives.
3. Insight from CEX and CRM can help asset owners manage and maintain existing assets, particularly where there may be pain points for customers.

4. Weaving together this insight helps to inform the trade-off between spending on new services or assets versus meeting ongoing service obligations.
5. If there is any deviation from the service provision, linking this insight together will provide better management of customer experience – for example, by improving communications during disruption or the response time to fix an incident, which will keep the organization and customers up to date on issue resolution.

2. Provide clear accountability for CEX across the organization

A focus on customer experience has impact across the entire organization. The operating model has to be adjusted to meet the demands of focusing on customers and delivering a CEX strategy. The challenge is twofold: first, to create a CEX entity within the organization and make sure the end-to-end vision is owned and articulated; and second, to ensure that others within the organization do not feel reduced accountability in delivering CEX.

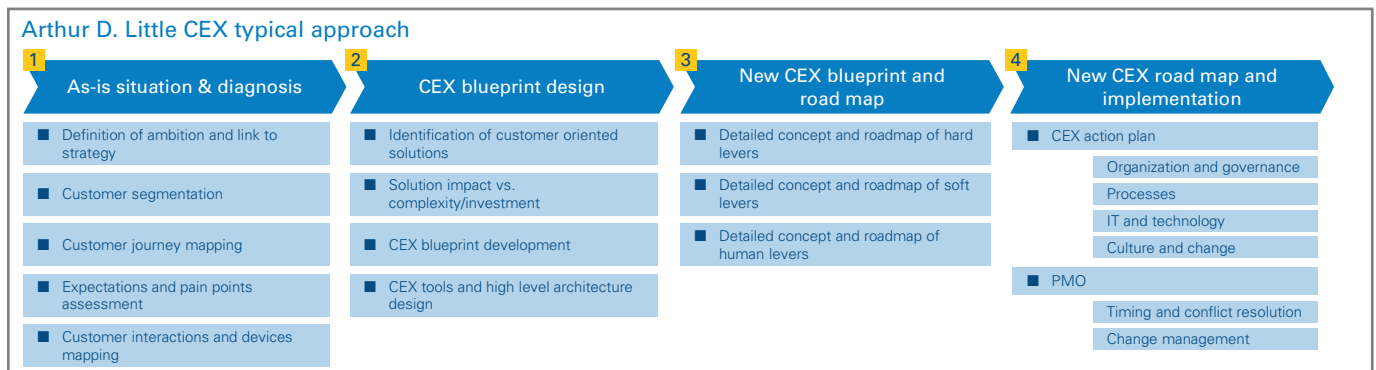
Consequently, clear accountability for CEX at board level should secure a complementary, customer-centric vision across the organization, in order to access necessary funds and resources. Although we do not stipulate a complete operating model change to a customer-centric organization, we believe a review should consider the following three questions:

1. Is accountability for customer experience made clear across the organization through appropriate reporting lines and governance?
2. Are you clear on the end-to-end journey to deliver the customer experience?
3. Are employees across the organization clear on how to deliver CEX to customers?

3. Leverage digital transformation that is “more start-up than corporate” by delivering in an Agile way

Nowadays, good customer experience inherently involves a significant digital element. Digital capability provides a cost-effective route to linking enterprise systems together, in order to derive insight and improve efficiencies, deliver service obligations, interact with customers to increase revenue, improve customer experiences, or all of the above.

In our experience, traditional enterprise approaches to technology can be costly and too often fail to deliver the required results. The biggest cause of failure in any IT project is the gradual divergence between business needs, what is specified, and what is delivered. There is a more significant divergence between the first two because IT “best practice” has typically focused on bridging the gap between specification and delivery.



Additionally, a traditional “Waterfall” approach to technology implementation increases risk to delivery as a significant portion of time is spent planning up front – which cannot account for all unknowns.

Agile execution allows companies to focus on the minimum viable unit that will enhance customer experience, with results measurable in weeks, not months or years. Prioritizing delivery of working software over specification minimizes risk by reducing the time to produce a working product that can be iterated to meet changing business needs. We find Agile approaches best support delivery of digital products and apps.

Digital opportunities and issues should be challenged and tested with memes such as “What Would the Web do”, “Show me, don’t tell me”, and “Tell me why not” to create real-world breakthroughs. An Agile digital-engineering capability is best delivered through small, loosely coupled teams, which, as a rule of thumb, consists of six to ten people (the so called a “two-pizza team”). These teams can leverage broader ecosystems of digital experts and engineering partners to provide access to expertise and the latest tools and techniques used by digital powerhouses (e.g. Netflix, Amazon and Google).

4. Understand the “art of the possible” to position CEX and convert customers to fans

We believe there is high value in creating a blueprint customer experience that considers what competitors and adjacent domains (industries that have addressed similar challenges) are doing across three levels of CEX: basic, enhanced and “wow”. **Basic** eliminates major drivers of customer dissatisfaction; **Enhanced** ensures a consistent approach towards customers across the journey, leading to day-to-day satisfaction; **“Wow”** exceeds customer expectations at selected touch points to create moments of memory.

Ultimately, organizations will create superior value by turning their customers into fans. This includes delivering the basics of the physical experience (e.g. price, product features, time to serve and channels) as well as emotional experiences that make a difference.

We do not endorse that all experience levels should be at the highest level; however, it is important to consider the “art

of the possible” and the relative positioning of interventions across CEX. There are certain points during the journey at which interventions can create memorable “wow” effects, establishing lasting emotional experiences that convert customers to fans.

5. Motivate customers to change their behavior

Rolling out a new app, service or product does not necessarily mean that customers will automatically flock to it. Improved CEX is often predicated on changing the behavior of customers, as well as making internal changes.

The focus should always be on the benefit to the customer, not to the organization, and generating tailored approaches based on driving behavioral change. Behavioral changes could be as simple as convincing customers to download your application, provide you with their personal details or set out their communication preferences.

One option is to motivate customers to improve their own experiences. By providing clear benefits (e.g. provision of information, convenience or monetary incentives) you can encourage customers to divulge their personal details.

Arthur D. Little’s pragmatic four-step process to improving CEX

Step 1: As-is analysis

Customer experience begins with setting out the ambition and linking it to the business strategy, followed by comprehensive analysis of qualitative and quantitative data across physical and digital channels. A recent but increasingly common bias is to focus on digital (e.g. digital content and digital marketing); however, in our experience it is important to consider how the offline and online journeys intertwine. An end-to-end journey enables the company to understand all the touch points available today, and to determine what the key problems or opportunities are.

It is important to critically assess the organization’s current capabilities in managing the *end to end customer experience*. Consider your company: do you believe you have the right tools to manage customer experience? Are the available tools used

effectively? If there was one element you could change today, what would it be? This includes assessment of current CRM tools, and how long-term asset investment decisions are made.

We also recommend using *customer segmentation* and *customer personas* to help with decision-making on how to interact with your customers. Segmentation is a data-rich analysis of customer experience and habits, whereas personas bring to life an archetypal portrayal of a customer. A well-thought-out set of customer personas can help train employees to make better decisions “on the ground” and lead to embedding of CEX in day-to-day operations and interactions. At this stage, it is also important to assess the current operating model to identify any gaps that could impact CEX.

Step 2: CEX target concept design

The next step includes creating a *blueprint customer experience* across the three levels of experience (basic, enhanced and “wow”). The blueprint incorporates and considers insight from both competitors and adjacent industries. It enables identification of customer-oriented solutions.

During this step, it is crucial to assess the CEX blueprint against investment, complexity and other business drivers in order to prioritize initiatives across both physical and digital channels. This can include CRM selection and high-level solution architecture.

Steps 3 and 4: New CEX and CRM detailed concepts, roadmaps and implementation

During this stage, a collaborative approach is required to agree on the *right experience to be implemented* across the customer journey, relative to specific customer segments if applicable. This can include how to use CRM to personalize CEX. We believe in fixing the basics first, as minimizing disappointment or sources of conflict will help reduce churn.

It is key to create high-level transition-state roadmaps for implementation, incorporating both physical (e.g. asset investment) and digital (e.g. development of a customer app) initiatives. We find transformation is best achieved through a series of distinct transition states, with each specifying a real and recognizable increment in business capability or market disruption.

Conclusion

An enhanced and differentiated aligned customer experience does not need to be elusive. Challenging current assumptions about customer expectations and how CEX is delivered will lead to value propositions that matter to customers. Linking insight from customers with CRM and asset management will enable personalization of CEX, improve asset investment decision-making and manage disruption better.

Analysis in isolation will not deliver superior CEX. Clear accountability and moving with digital speed (more start-up than corporate) will underpin transformation of CEX. Additionally, not all changes are internal, and organizations will need to shape customer behavior, often through incentives.

The risk of not linking the physical and digital CEX is a disjointed service to customers, which will result in an increasingly unacceptable experience. Can any organization afford not to address their CEX?

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Arthur D. Little

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Our consultants have strong practical industry experience combined with excellent knowledge of key trends and dynamics. Arthur D. Little is present in the most important business centers around the world. We are proud to serve most of the Fortune 1000 companies, in addition to other leading firms and public sector organizations.

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