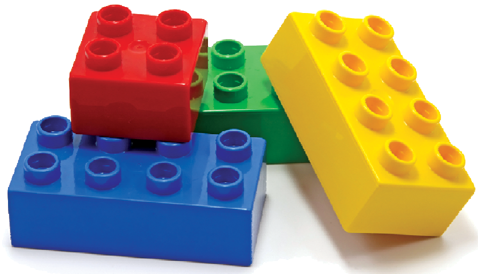
HTK Horizon™

Customer Experience Management

A unified approach to marketing and customer service, using CRM data and acquired knowledge to “target” an improved customer experience; achieving greater loyalty, leading to reduced churn and higher revenue.



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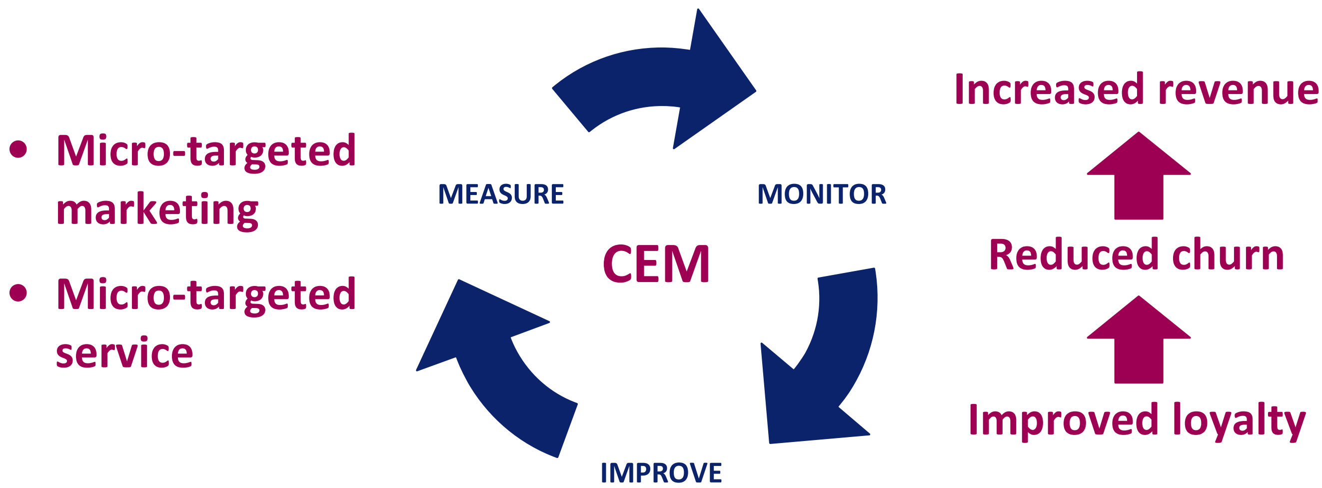
Introduction

The concept of customer experience was first introduced by Pine and Gilmore in their 1998 Harvard Business Review article. They believe that successful businesses influence people through engaging, authentic experiences that render personal value. Indeed, it has become widely recognised that "personalisation" of an experience can significantly influence the customers' perception of quality, and enhance their overall experience of doing business with an organisation.

Organisations cannot avoid creating and adding to that overall experience, every time they interact with a customer, whether that be a positive or negative outcome. As such, numerous analysts and commentators who write about Customer Relationship Management (CRM) have increasingly recognised the importance of managing the customer's experience.

Furthermore, it has been shown that a customer's perception of an organisation is built as a result of their interactions across all contact channels (including web, phone, email and mobile) and that a positive customer experience can ultimately result in repeat business. Forrester research (2009) has shown that the annual revenue gains from a modest difference in customer experience can total $311 million for a large hotel. On average, customer experience leaders have a loyalty-advantage of more than 14%.

An organisation's ability to deliver an experience that sets it apart in the eyes of its customers, serves to increase spend with the organisation and, optimally, to inspire loyalty to its brand. Loyalty, it has been said, is now driven primarily by an organisation's interaction with its customers, and how well it delivers on their wants and needs.



An emerging business requirement

With products becoming commoditised, price differentiation no longer sustainable and customers demanding more, companies are focusing on delivering superior customer experiences.

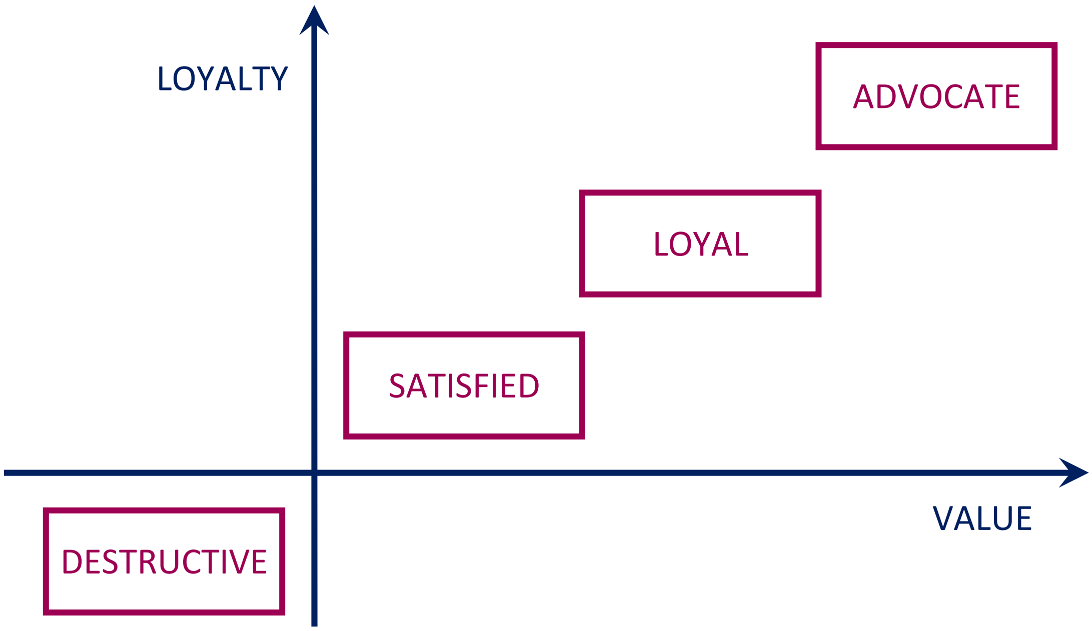
A 2009 study [2] of 860 corporate executives revealed that companies who have increased their investment in customer experience management over the past three years report higher customer referral rates. Other key business metrics such as market share, retention, profitability and customer satisfaction, all directly relate to CEM performance.

The customer experience has emerged as the single most important aspect in achieving success, across all industries [3].

For example, Starbucks spent less than $10m on advertising from 1987 to 1998, and yet added over 2,000 new stores to accommodate growing sales. Starbucks massive popularity was based on the positive experience that drove its customers to recommend their store to friends and family [4].

From CRM to CEM

Traditionally, managing the customer relationship has been the domain of CRM. The goal of customer experience management (CEM) is to create the customer loyalty that drives financial value, by moving customers from “satisfied” to “advocate” and by reducing the number of poor experiences that can lead to unsatisfied customers and the destruction of value.



CRM strategies and solutions are designed to focus on rational aspects such as product, price and enterprise process, with minimal or no focus on customer needs and desires. The result can be a sharp mismatch between the organisation’s approach to customer expectations and what customers actually want, resulting in the failure of many CRM implementations.

Research [6] has shown that only 50% of a customer experience derives from the physical performance of an organisation, such as product and price. Unfortunately, customer research that stops there usually leads companies to formulate a strategy based solely on the foundation that customers basically want “better and cheaper”, and while this is always true, it is not the full story.

> Where CRM is enterprise-focused and designed to manage customers for maximum efficiency, CEM is a strategy that focuses the operations and processes of a business around individual customer needs.

Jones and Sasser pointed out in a classic Harvard Business Review paper [7] that rationally satisfied customers defect just the same as unsatisfied customers. Given that one of the key goals of almost all customer strategy is to drive customer loyalty, the Jones and Sasser finding is troubling for customer strategists.

At least half of any experience is made up from largely subconscious factors such as the senses stimulated and the emotions evoked, and these aspects play a tremendously important part in customer behaviour and decision making.

CRM alone is not enough to underpin a sound and competitive strategy for customer-engagement.

Emotions drive value

Here's a very simple formula to remember. The question is how much the formula is worth – financially – to your organisation [8].

Customer Delight = Customer Expectation + 1

As an example from Colin Shaw's book, the large courier, TNT, has enjoyed 100% growth in revenues, doubled its customer base, substantially reduced its customer churn, increased the effectiveness of its marketing campaigns by 20%, and reduced employee attrition by 13%. All of this was achieved by understanding the detail of the customer experience, and how emotions drive value.

Organisations are often obsessed with the physical aspects of their customer experience. They have meeting after meeting about the delivery timescales, lead times, range of products, the time it takes to answer a phone call, the cost of customer mailers etc.

But ask yourself this: If 50% of a customer experience is about emotions, how many meetings do you have where you discuss the emotions that you are evoking in your customers? How many meetings do you have where you truly debate the emotional impact that the experience you provide is having on customer loyalty?

Do you know what your customers' physical and emotional expectations are? When they come into your store; or when your salesman calls; or when you put them through umpteen layers of voice-menu systems and call-queues?

And if you don't, how do you expect to meet, let alone exceed, those expectations?

"There will be a number of actions your organization undertakes that, knowingly or unknowingly, are evoking these emotions"

The first step when seeking to improve the customer-experience is to remove the "negative emotions" that can destroy loyalty and bear a significant financial cost the organisation (not just through customer churn, but through complaint handling etc).

Many of these emotions have become synonymous with 'spam marketing' and poorly designed interactive voice (IVR) services.

Measure, monitor and improve

Enterprise Feedback Management (EFM) techniques can be used to collect valuable insight from customers (and from staff and partners if appropriate) creating an opportunity to harness that feedback and deliver marketing, sales and service programmes that better meet the needs and desires of customers – improving their experience of doing business with the organisation.

Remembering that customer experience is a blend of an organisation's physical performance, the senses stimulated and the emotions evoked, the challenge is to measure each against a benchmark of customer expectations across all moments of contact.

> "To deliver the 'plus one', to exceed something, you need to know what that 'something' is in the first place. If you don't, then how do you expect to meet, let alone exceed, those expectations?"

EFM can be "active" in the format of targeted surveys and questioning (typically within a few minutes of a customer interaction, and perhaps also as a routine questionnaire), or "passive" through published feedback channels that customers can be reminded of, for instance at point-of-sale or on their monthly invoice. Passive channels can be extremely useful and effective in capturing feedback, and the range of passive channels now extends to social-media sites and other "word of mouth" forums.

> "Word of mouth is powerful. Organisations can't control what people say, but they can influence the experience they have as a customer."

It is particularly important to remember that the "brand" of an organisation directly reflects the customer experience provided, and a good brand can become soured in a frighteningly short period.

The principal task facing Starbucks today is how to regain the brand's old magic. Starbucks began as a cool, hip, downtown-style hideout serving handmade coffee drinks of Euro-café quality, but lost that somewhere on the road to becoming a global coffee behemoth. Getting it back won't be easy.

> "Brand is purely and simply the sum-total of all customer experiences served-up by the organisation. The brand is the experience."

We all know that bad experiences travel faster and wider than good ones (through friends, family, colleagues and acquaintances) and that correcting the psychological impact of a bad experience can take up to ten good ones, so it is vitally important that organisations endeavour to provide the best possible experience they can – consistently, as a customer promise – and measure their effectiveness in doing that, feeding-back real-time customer experience into positive operational change.

From an emotional perspective, research [8] has shown that if customers feel 'valued, 'trusted, 'safe' and 'cared for', they are likely to be loyal to an organisation and recommend it to others when asked. Furthermore, customers who feel 'happy' and 'pleased' are likely to be advocates who will proactively tell people about the organisation that serves those emotions.

It has also been shown that 'stimulated', 'indulgent' and 'interested' customers are likely to spend more money, in the short-term.

Implementing a better experience

Even today, the majority of companies will treat the majority of customers as equal. They will not differentiate in their marketing or in the way that they serve those customers on a daily basis. The marketing emails and newsletters they send, the products and services that they promote, the way that they answer the phone and respond to inbound enquiries, will be the same for everyone.

There is certainly something to be said for treating all customers with the same integrity, but to "white wash" all customers with the same lazy brush-strokes is short-sighted at best. Indeed, it's a situation that has come about through the advent of electronic communications and the desire to "automate" routine tasks, making it easier and cheaper to reach-out to a large audience.

Marketing and customer service are anything but routine tasks, and companies who treat them as such will find it increasingly difficult to create the emotions that stimulate loyalty, and enjoy more and more repeat business and referrals. Indeed, they are more likely to create the negative emotional response that can destroy brand value.

> Studies have shown that leading companies who focus on the customer experience will grow, on average, two and a half times faster than their closest competitors who don't.

Those of a certain age will often refer – typically when they've had or heard about a bad customer experience – to "*good old fashioned service*". What they mean by that is a combination of acknowledgement, recognition and personal dialogue, the subtle touches that make us feel "valued" and "cared for" when we enter into a situation where we feel that we should be remembered and treated with respect, quite reasonably, in return for the money that we spend with an organisation.

The reality that such a level of service should be regarded "old fashioned" shows that while we may have taken many steps forward in terms of the business efficiency that marketing and service automation has brought, we have taken even more steps backwards in the basic fundamentals of good business practice – at being the best in acquiring and retaining valued customers.

"Customer lifecycle" marketing

If I've just bought a new camera from you, I probably don't want to hear from you right away about the latest new model that has come onto the market, at a cheaper price, than the camera I just bought. As a customer, that's not great service – that's annoying.

What I may want to hear about, on the other hand, is the range of add-on products that you have for my camera; memory cards, water-resistant cases, software to help organise my photos, and perhaps even a referral to Amazon for a great new photography book. The lesson here is that just because you have my email address, you shouldn't necessarily send me the email.

"Customer lifecycle" service

If I phone you because my new digital SLR camera – the most expensive that you sold at the time – has broken, I have a personal expectation that I will be regarded as a "high value customer". I read your newsletter, I've bought other products from you and I evangelise my SLR on Internet forums. I'm an advocate of your brand. It was an expensive purchase for me, and my expectation is that it was an important sale for you, so I expect us both to be in-tune with regard to the urgency of resolving the situation.

After receiving an impersonal stock-reply to my email, with no offer to collect the camera or to provide a replacement, and no updates about the progress of the repair or the expected resolution date, it's no surprise that my next camera won't be from you.

Scientia potentia est

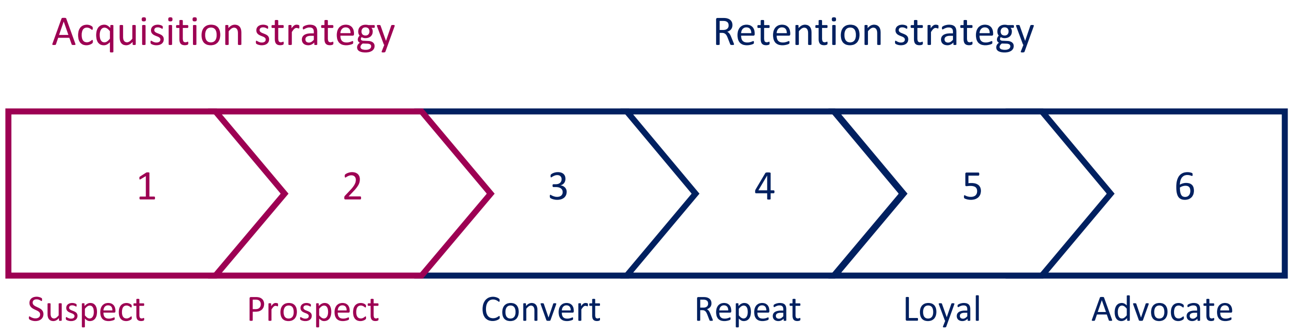
What we mean by "customer lifecycle" is that we know whether each contact on our CRM database is a new prospect, a new customer, a long-standing customer or a "word of mouth advocate". How we classify each type of customer is not the most important thing; it is the reasoning behind why we make that classification – and what we do with it – that matters most.

"Knowledge is power" (Francis Bacon, 1597)

"Power is nothing without control" (Pirelli, 1995)

First of all, am I a prospect that you're trying to acquire, or am I an existing customer that you want to retain and sell more to? That determination often forms the fundamental dichotomy of a marketing strategy; the two sides of *Acquisition* and *Retention*.

But forward-thinking organisations will often go much further than that, and define what is known as a "customer lifecycle model" to classify their customers and prospects into well-defined categories, based on real data. At one-end of the lifecycle model will be new prospects, and at the other will be word-of-mouth advocates. The marketing objective is to keep everyone moving in the right direction, and so tracking movement within the model is often seen as a fundamental measure of success.



The detail of the model – the groups and the rules for transition from one group to the next – will be unique to your business.

You may decide that "group 1" is defined as new prospects that have yet to respond to one of your marketing programmes, and group 2 as those prospects that you have successfully engaged in a marketing dialogue. You may also decide that a group 2 prospect will revert back to group 1 if they don't progress to a becoming a customer (group 3 or above) within 90 days.

The basic principle is that you treat each group of customers differently, based on where they sit in the model, and you adapt your marketing and service behaviour based on the specific needs, beliefs and desires of that particular segment of customers.

But above all of that, you need a strategy that underpins *why* you classify each group as such, and an operational plan for *how* you acquire the data and knowledge necessary to implement and maintain your chosen lifecycle model – and then keep it moving.

"Nothing happens until something moves" (Albert Einstein, 1921)

Personalised experience

Most established customer lifecycle models will classify customers into somewhere between two and ten "buckets" (some practitioners even use the term 'bucket', which is perhaps not entering into the spirit of the customer-experience contract!)

Going back to the mantra of "*good old fashioned service*", what's really needed is not a way to classify customers on a rough-and-ready basis, but a more finely-granular way to recognise the unique characteristics of each customer and to provide them with an experience that is tailored to them individually. We call this "micro-targeting", and it's a key principal of next-generation CEM.

"Personalisation is the single biggest contributor to the perceived quality of an organisation. Any enhancement to the customer-experience will fall directly to the bottom-line."

Micro-targeting

Micro-targeting is the implementation of a strategy to acquire and utilise all information available, in real-time, in order to personalise the customer-experience across all marketing and service channels, to reduce the frustration and other negative emotional responses cased by traditional automation, to create a sustainable cost-saving and loyalty-driven financial benefit.

We use the term "sustainable" because in recent times there has been clear evidence of the fact that traditional approaches to marketing and customer-service automation ("spam" mail, IVR, call-queues and off-shoring) can result in the loss of business.

Businesses like these approaches because they reduce cost, but customers often despise them. However, the simple fact that an email is sent rather than a hand-written letter, or that an IVR is used as the front-door to a contact centre, is not the fundamental problem. Technology is not necessarily to blame here.

The problem is a lack of attention to detail and to personalisation; to making customers feel instantly acknowledged, recognised, valued and faced with an experience that meets their expectation. It's about the loss of "*good old fashioned, personal service*".

Micro-targeting can help to personalise every customer interaction (whether that be through a manual or automated channel), to bring back those important customer-service values and standards, to improve the emotional as well as the rational perception.

Micro-targeting can bring back values of "good old fashioned service".

Who is responsible for CEM?

Customer experience is both an isolated and a cumulative process. A single bad experience can be sufficient reason for a customer to defect, and the underlying current will influence the ultimate success of any retention strategy. Managing that experience is the shared responsibility of marketing, customer service, and every customer-facing touch-point within an organisation. It is pervasive.

"Building great customer experiences is a complex enterprise; involving strategy, integration of technology, orchestrating business models, brand management and CEO commitment." [5]

Conclusion

CEM is a business imperative that applies to every customer touch-point across every channel across the entire organisation. The customer experience can be significantly enhanced through personalisation, making customers feel acknowledged and valued, and the resulting increase in loyalty will be recognised through an improvement in retention and an increase in bottom-line profit.

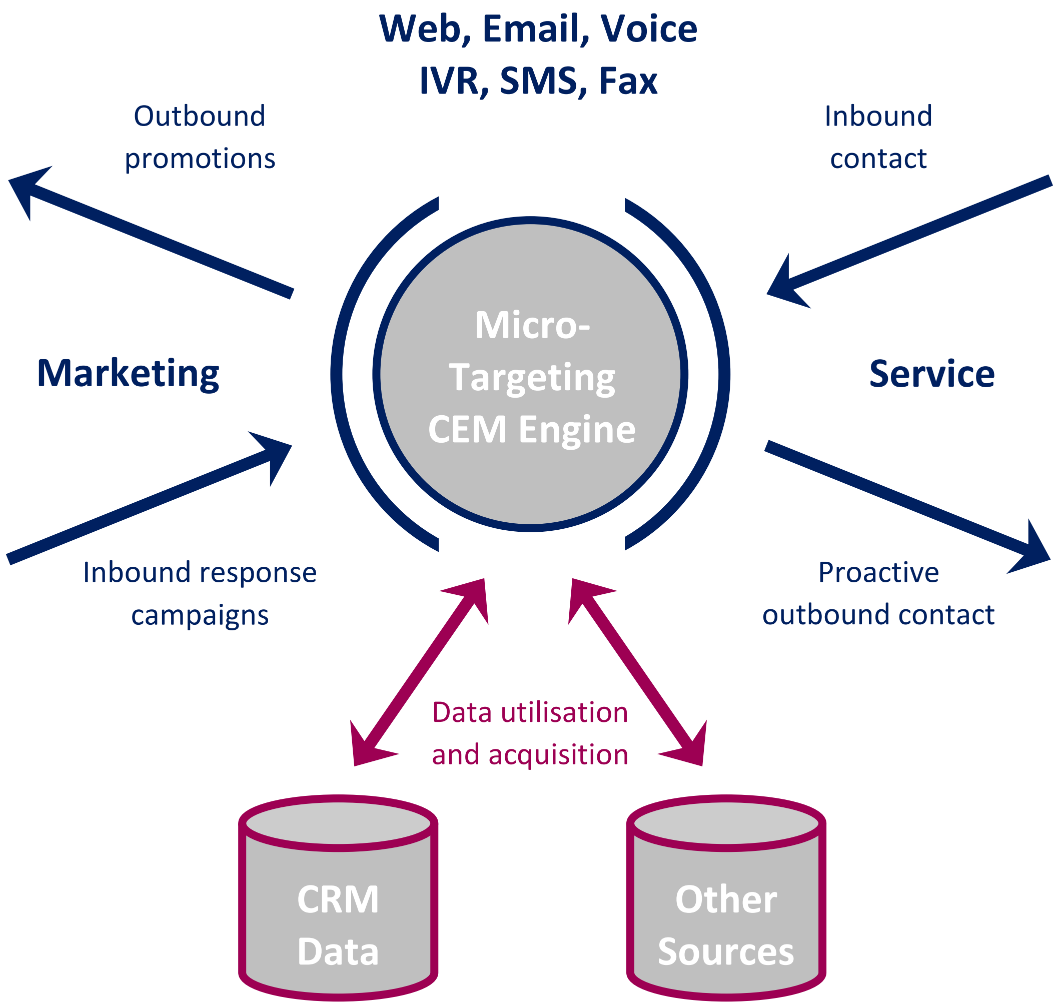
Organisations need to automate certain aspects of their marketing and service programmes, to provide the breadth of reach and scale of operations for a manageable cost, but traditional approaches have left customers cold, frustrated and demanding more.

Particularly in a challenging economy, where customers shop harder for value and competition is fierce, showing a demonstrable "commitment to the customer" through sharper marketing and personalised service can reap significant dividends.

In the endeavour to reduce costs as times become increasingly tough, businesses must not compromise the customer experience through the use of impersonal automation tools. That approach cannot be sustained, and will ultimately result in the loss of customers and the deprecation of brand values that are phenomenally hard to restore.

Instead, businesses should look at the opportunity to harness their existing CRM data, and set a strategy to acquire new data that will help them to "micro-target" their prospects and existing customers. By personalising the customer experience of automated contact channels, costs can be kept low and customer loyalty can be maintained or even improved; a real case of "more for less".

Most of all, organisations should set a strategy that brings back the values and standards of "*good old fashioned service*".



About the author

Marlon Bowser is the Managing Director of HTK and an expert in the design of interactive voice and messaging applications, to achieve more personalised business-process automation and deliver more successful marketing and service programmes.

HTK Horizon™ is a web-based platform used by large and small enterprises, public sector organisations and major corporate customers, to cost-effectively automate a wide range of marketing and service processes in a way that maximises the customer experience, ensuring a real and sustainable business advantage.

HTK is privately owned and based in the UK.

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