Managing the Customer Experience

Going from Good to Great

Despite the fact that Customer Experience Management (CEX) has been around for many years now, most companies still struggle to become great in delivering a superior experience to their customers. Why is that the case when we know that customer experience delivers real value? Arthur D. Little can offer a Maturity Model and methodology to help companies along the road from good to great CEX.

In this Viewpoint, Arthur D. Little presents thoughts, experiences and methodology on how to become great at customer experience management. We will introduce the relevance of customer experience and our assessment of the current situation. We will also present Arthur D. Little's customer experience maturity model and give examples of today's leaders in CEX. Finally, we will give you a short overview of our approach on how to become great in customer experience.

Today, CEX is not only a way to differentiate, but can also add significant value to the bottom line

Customer Experience Management is more important than ever for three reasons. First, customer experience is playing a critical role in companies' ability to differentiate. Second, customers' expectations are changing, driven mainly by "the new kids on the block" like Amazon and successful over-the-top players, such as WhatsApp. Service, brand and customer experience are becoming part of the product, and consumers are becoming more price sensitive due to the challenging economic environment. Third, scale matters less and customer experience management is very much skill driven.

There is also a strong economic argument for investments into customer experience. While investments into hardware and product enhancements can pay off in an economic up-cycle, investments in service innovation pay off in any economic cycle. During times when there is pressure to cut costs, it may be tempting to decrease spending on customer service. Losing focus on customer service, however, can adversely impact brand perception and service standards across all customer touch points and can negatively impact the top-line. Consumers abandon their brand relationship due to bad service approximately twice a year on average internationally. A study by Arthur D. Little showed that a one percentage point increase in the Customer Satisfaction Index leads to a 2.9 percent increase in Average Revenue per User (ARPU) and to a 3.2 percent decrease in churn in the mobile telecommunications sector.[1]

Customers' expectations of customer service are increasingly based on companies outside the telecommunications industry, such as Apple or market players offering OTT services, which raises the bar of customers' expectations of products and services. For many Internet companies, a 360° view on the customer and the ability to offer personalized service is something to be expected, whereas other companies are still struggling to gather consistent and comprehensive information about their customers.

Customer experience issues are now, more than ever, on Executives´ agenda. Enhancing the responsibilities of the Chief Customer Officer and supporting projects to measure client activity across all channels holistically are becoming a strategic priority.

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1 Arthur D. Little study: "Relationships between Customer Satisfaction and ARPU" October 2008

Companies need to overcome common barriers and focus on exceeding customer expectations

Companies face many barriers in delivering a superior customer experience, such as the inability to overcome organizational silos in order to deliver an end-to-end experience. Often companies also lack a breakdown of a customer experience ambition onto all touch points, an alignment of the Key Performance Indicators (KPI) and an incentive system with customer promises, as well as top management support.

Market leaders in customer experience have managed to identify three levers for superior customer experience: employees, governance, and insight management. Employees are one of the first points to transform customer experience; they are the first line of contact with customers and should be trained and rewarded to surpass customer needs. Another key point to transform is governance. Customer-centered organizations create a corporate level responsibility and make CEX a powerful function. Last but not least, CEX leaders spend more time better understanding the needs of the different customer segments or even individual customers, in order to be able to provide them with more personalized service.

How does a company go from good to great? In our view, it is about delivering a branded, personalized, end-to-end experience across all touch points. For most companies, this requires a major transformation to become customer-centric across all activities. The ultimate objective is for the experience to exceed customers' expectations, appeal to the customer on an emotional level and turn him into a fan.

Arthur D. Little's Maturity Model assists companies evaluate their CEX management

Arthur D. Little has worked with companies around the globe to determine their degree of customer experience readiness, utilizing its CEX maturity model to assess development within the organization and identify key practices that are required to improve maturity. Arthur D. Little's model comprises five degrees of maturity that an organization can reach over time in a step-by-step, evolutionary process.

What differentiates a mature organization from an immature organization in terms of customer experience management? In an immature organization, employees and management improvise customer experience management programs on a project basis. Even if a customer-specific measurement has been defined, it is not rigorously followed or enforced. The immature organization is reactionary, and managers are usually focused on solving immediate crises. Priority is given to fixing the basics, rather than achieving a level of outstanding excellence.

A mature organization possesses an organization-wide ability for managing customer experience on a continuous basis.

Customer centricity programs and measures are accurately defined and communicated, and work activities are carried out according to the planned program. Roles and responsibilities are clear throughout the project and organization. In a mature organization, managers monitor the customer experience holistically and continuously, based on cross-channel KPI.

Arthur D. Little's maturity model for customer experience management is composed of five dimensions. Instead of focusing on classic criteria like efficiency or effectiveness, the model examines the complexity, integrity and degree of completeness of customer experience management programs. It provides companies with a holistic structure to judge their current status in each of these areas. The classification of each level of maturity takes a topic-oriented evolution approach into consideration (see Figure 1).

When applying Arthur D. Little's CEX maturity model, underlying conditions must be taken into account. Customer Experience objectives need to be aligned with the strategic goals of the company, such as a focus on attracting new customers. Target maturity levels need to be defined (e.g. where "state-of-the-art" level should be attained and where the "basic" level is sufficient). Specific market characteristics, life cycle positions of customers and their respective demands, as well as branding and related market positioning need to be considered.

Best-practice examples give inspiration in each CEX area

Arthur D. Little has identified companies that outperform in the maturity model's dimensions and thus each represent state-of-the-art (Level 5) CEX maturity.

Branded Customer Strategy: Apple

Steve Jobs established customer experience as a company driver. Apple controls customer experience from end-to-end. During the product design phase, there is a strong focus on usability – Apple is recognized world-wide for its excellence in this area. Retail stores and the post-sales phone channel contribute to constituting brand value. Apple created a new store concept that enhances traditional sales by combining an Internet cafe ambience with the possibility to address any usability or technical questions related to Apple products.

Personalization: Ritz Carlton

Ritz-Carlton wows customers through personalization, based on motivated and well-trained employees and the use of a distinguished global CRM system. For example, rooms are personalized based on past requests without the need to ask for this service. Furthermore, each employee is able to spend up to $2000 per incident for compensation without the need for prior approval. For example poor service, such as forgotten laundry, can be compensated for with a bottle of wine – not any bottle, but one that was ordered last in the restaurant. This service dedication is trained every day; all staff attend a 15-minute daily "lineup".

Figure 1: Arthur D. Little's CEX Maturity Model

Maturity / CEX Area	Level 1 "Fragmentary"	Level 2 "Basic"	Level 3 "Established"	Level 4 "Excellent"	Level 5 "State-of-the-art"	Best-practice example
Branded Customer Strategy	■ No brand attributes considered for CEX / ambition strategy	■ CEX unit aware of brand attributes, but not formally broken down into CEX strategy	■ Branding attributes formulated on highest level for CEX strategy as "guiding principle"	■ Key brand attribute used for CEX strategy and broken down on touch points	■ All brand attributes fully broken down on all touch-points ■ Close link between brand and CEX strategy	**Apple**
Personalization	■ No differentiation of CEX strategy by segments	■ Rough differentiation started, mainly by value (e.g. gold / silver customers for service) ■ Differentiation for certain segments only	■ Rough differentiation started driven by customer needs	■ Detailed differentiation according to segment specific preferences and economic drivers	■ Personalization based on individual demands incl. economic drivers	**Ritz-Carlton**
e2e Experience	■ No e2e experience, isolated and symptom based optimization of touch-points under own control (e.g. own shops, Care)	■ No e2e experience, but some root causes are being addressed when optimizing major touch-points under own control	■ Delivery of CEX across more operational touch-points incl. third party channels	■ Delivery of CEX across all operational touch-points incl. third party channels and products	■ Full e2e experience comprising all touch-points along the customer journey incl. product design	**Nike**
Governance	■ No ownership for CEX defined ■ No interlinkage of business units	■ CEX not a central function, but scattered low level responsibilities	■ Center of Excellence established ■ Cooperation across business units driven by one driver	■ Clear roles and responsibilities ■ CEX team acting company-wide ■ CEX board	■ Own CEX division on board level ■ Customer focused management across all business units	**Zappos (subsidiary of Amazon)**
Everlasting Mindset Change	■ Mindset change not addressed ■ No experience driven vision and mission defined	■ Objectives and related HR strategy defined ■ Isolated activities, e.g. training courses for front-liners	■ More comprehensive mindset-change program started comprising all functions	■ Customer experience accepted as key design and behavioral parameter ■ CEX trainings started	■ CEX as truly lived value and behavior ■ Continues CEX training programs ■ CEX culture	**Southwest Airlines**
Controlling & Measurement	■ No CEX specific KPIs in place ■ Focus on traditional channel related KPIs	■ Scorecard for CEX is defined ■ Implementation pending	■ Approved CEX KPI system implemented ■ Measures will be derived centrally	■ KPI scheme fully adapted by also removing CEX-hindering KPIs	■ Continuous performance improvement on a centralized top level	**Telefonica**

e2e Experience: Nike

Nike launched NikeID in 1999 as a service to enable customized clothing from Nike, and surpassed $100 million in revenues last year. The experience, which is integrated into their web page as well as an iPhone application, guides you through a 10-step customization process. Another example of end-to-end customer experience is "Nike +", a device which is plugged into Nike shoes to track information, such as elapsed time, distance traveled, speed and calories. It stores historical data and facilitates sharing your results with friends via a special application. "Nike +" has 5 million users and is a perfect example of how a company moves alongside the customer journey.

Governance: Zappos (Subsidiary of Amazon)

For Zappos' CEO Tonny Hsieh, customer loyalty is not just a priority, but everything. In his own words, Zappos' business model is delivering happiness to employees and customers. Zappos' culture is embellished by not measuring call times in call centers and avoiding up selling and call scripts. Instead, the company is proud of its longest call ever recorded.

Everlasting Mindset Change: Southwest Airlines

Some benchmark organizations have managed to create customers who are fans by starting with converting employees to fans, because only engaged employees can engage the customers. Southwest Airlines is a well-known example of successful delivery of low-cost, airline services that managed to differentiate by successfully creating a mindset and organizational culture, which enabled the company to deliver superior Customer Experience. Employees at Southwest feel that they work with friends in an enjoyable environment rather than with colleagues. The leadership believes in empowering the employees, which further inspires them to go to the extra mile in delivering Customer Experience.

Controlling & Measurement: Telefonica UK

Telefonica UK has set up an extensive KPI framework covering all touch points. The customer promises per touch point are translated into KPIs of how the customer shall perceive this promise. In addition, all relevant internal activities are measured to assure that delivery of these promises is on track. In a monthly update, every manager can review specific issues. The subsequent discussion is all about solutions – not about fighting the figures.

Although all customer experience leaders show competitive advantages through technology leadership, this leadership is rather a consequence of the relevant service dimensions. As Steve Jobs stated already in 1997, "one should start from customer experience and work his way backwards to technology and not the other way around". Apple's iPhone touch screen revolutionized the mobile phone market. However, the technology was a consequence of Steve Job's customer experience strategy. Likewise, Ritz-Carlton's software capabilities to register customer preferences and apply them in every stay in any hotel of the world are a consequence of the organization's willingness to outperform in service.

Arthur D. Little offers a three-step approach to achieve great customer experience

In order to create superior customer experience, Arthur D. Little proposes a 3-step approach which explains the why, what and how of CEX success:

1. Why: The first step is an as-is analysis, during which the customer journey is defined for each relevant customer segment. Issues across the journey and touch points are collected and root causes on process and system level derived. In addition, expectations per customer segment are collected. Thirdly, a customer experience ambition is defined, derived from the overall brand attributes.

2. What: In the second phase, customer experience design principles are defined, such as customer promises per touch point. A comprehensive roadmap of initiatives touching the entire business system has to be set up as "it only works when it all works". This roadmap should be structured in three phases: fixing the basics, ensuring a predictive experience and creating the wow effect. A major mindset change program is an integral part of this transformation program. A detailed business case will be calculated.

3. How: Finally, an appropriate governance model is developed, as well as a KPI framework reflecting the customer promises, as well as all internal steps to deliver these promises. Customer experience targets will be reflected in incentive schemes.

A focus on the complexity, integrity and completeness of CEX – the road to great

Based on the increasing influence of customers due to technology and information, most companies agree that customer experience is an important differentiator. It is also financially worthwhile; while investment in hardware and product enhancements can pay off in an economic up-cycle, investments in service innovation pay off in any economic cycle.

However, only a few companies excel at customer experience management and major differences exist between and within industries. Service excellence cannot be defined by scale, but only by skills. Customer experience management is complex; excellence needs to be tangible on all customer touch points and many factors need to be considered. The road to excellence is long, but it is a true differentiator.

Arthur D. Little has developed a maturity model that can be applied as a framework, enabling corporations to examine the complexity, integrity and degree of completeness of customer experience management – and thus for an evolutionary process towards excellence.

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Arthur D. Little

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