

Making CEM work- A white paper

More and more organisations are talking about Customer Experience Management (CEM) and the concept is becoming adopted in the fast growth markets in Eastern Europe, but the reality is that few organisations know what it takes to successfully implement CEM. This white paper will share some of the best practice lessons for making CEM work.

In the fall of 2001, researchers at Satmetrix Systems conducted a study to empirically determine if there were any links between improved customer satisfaction and higher price-to-earnings ratios. What they discovered proved more startling than anticipated. The research revealed that the P/E ratios of companies with above average customer loyalty index scores were more than double those of their competitors. That spread translated into a \$1 billion market valuation for even the smallest Fortune 1000 firm. A study by Montgomery and Accenture over that same period concluded that "Superior relationship management is worth half your bottom line" No wonder then that compelling findings like these spawned the Customer Experience Management movement and gave rise to numerous books on the topic and even more consultancies promising to transform businesses overnight. Unfortunately, the reality, for many organisations, is that they have found it difficult to implement CEM and to realise the promised business results.

CEM as a concept, has become well established in the US and UK markets and is becoming increasingly a 'hot' topic in the newer eastern European markets. We hypothesised in Smith+co, that these markets would follow a similar trajectory as their US and UK counterparts along a path of awareness, enthusiasm, adoption and finally, for some, disillusionment. But could we share the lessons of successful implementations to increase the probability of success of CEM in these markets? To answer these questions we decided to conduct research in the Polish market in early 2008 with our partners, Executive Conversation Polska and Persona Global, to find out the level of awareness, enthusiasm and the current status of implementation of CEM. We used a number of dimensions identified in our book 'Managing the customer experience-turning customers into advocates'¹ In this article we shall share our findings, but more importantly, some of the lessons we have learned in working with organisations world-wide to implement CEM successfully. To that extent the lessons we will share are universal and have relevance for the many US and UK companies still struggling to execute CEM strategies.

Execution is the hardest part of creating a customer experience because in order to deploy successfully we have to mobilise employees at all levels and align competing agendas, functions and executives. This is no easy task. Perhaps that is why that so many of the exemplars of Customer Experience tend to be organisations led by passionate founders or CEO's that see it as a primary source of differentiation. Think of Starbucks, Amazon, Southwest Airlines or Virgin and inevitably you quickly think of Howard Schultz, Jeff Bezos, Herb Kelleher and Richard Branson. CEM can work just as successfully and achieve startling results in large mature corporates too; but the risks are greater. In our work with leading brands around the world we have seen a number of mistakes that are common to many failed initiatives. The good news is that they are all avoidable; so what are the pitfalls to watch out for in implementing your own customer experience initiative? An awareness of these will help you plan for them and finds ways to mitigate the risk of their occurring in your own organisation.

¹ Managing the Customer experience-turning customers into advocates. Shaun Smith and Joe Wheeler. FT Prentice Hall 2002.

1. Successful deployment requires the active and continuing involvement of leadership

Leadership is vital for any significant organisational change yet, as we concluded in our book 'Uncommon Practice- people who deliver a great brand experience'² most leaders 'stumble the mumble' rather than 'walk the talk'. They fail to clearly communicate its importance to the organisation and then fail to take decisive action to demonstrate that it is high on the management agenda. Our survey in the Polish market revealed some interesting perspectives in this regard. For example, 63 percent of the senior management respondents in our survey agreed with the statement 'Leaders make decisions that are consistent with our customer experience strategy' yet only 41 percent of their non-management colleagues agreed with them: This matters. No matter how committed to customer experience you **feel** it is what you **do** that counts. We found the highest correlation in the survey between those respondents agreeing with the statement just mentioned and 'Our company's top executives demonstrate their commitment to our customer experience strategy'.

Our experience has shown, time and time again, that the most significant factor in creating strong companies are leaders who take personal responsibility for communicating, demonstrating and rewarding brand or company values. Amazon.com CEO Jeff Bezos says "Our mission is to be the earth's most customer-centric company". Jeff Bezos and his executive team personally demonstrate their commitment to this mission through their actions and decisions and in the process have created an enviable reputation for reliability and one of the most widely recognised brands in the world today. Amazon reports one of the highest Net Promoter Scores (highly satisfied customers) we have seen.

2. Ensuring cross-functional ownership is vital

If the CEO or President recognises that it will take more than rhetoric to make a difference the next common mistake is asking the Marketing VP, HR Director or Customer Service Executive to 'fix the problem'. The brand and the customer experience must be owned collectively by the senior management team. Each function has its particular part to play but to be successful, these three functions must operate as what we refer to as a 'Triad' to optimise resources, efforts and budgets to create an organisation-wide strategy for delivering the brand.

Our research found a strong positive correlation between the statement 'We have created a partnership between marketing, HR and Operations to define and deliver the customer experience' and another survey item 'Our leaders have been trained as champions of our customer experience and are leading its implementation'. When we work with clients on CEM projects, one of our first actions is to form a Steering Group comprising executives from Marketing, Operations or customer services and HR and one of the first meetings with this group is to educate them on what it means to lead this kind of change effort. The fact is that the experience you deliver is a result of these functions working together around a common agenda. Unfortunately, in many companies the effort is fragmented and often beset with politics.

3. Focusing on your most strategically important customers

The starting point for our work is collecting customer data to inform the definition of a promise and design the new experience. The most frequent client response to this suggestion is "We already have lots of customer data and research so you don't need to bother". In reality whilst organisations undertake customer research and collect mountains of data, relatively few know who their most profitable (not largest)

² Uncommon Practice-people who deliver a great brand experience. Shaun Smith and Andy Milligan FTPrentice Hall 2002.

customers are. The fact is that a few customers will typically represent the significant proportion of your profit and these are the ones to focus improvement efforts on.

For example Harrah's, the US-based entertainment and gaming company, found that 82 percent of its profits came from just 26 percent of its customers and yet it only enjoyed 36 percent of their spend. However, when these customers were very satisfied their average spend with Harrah's increased by 24 percent. By focusing on this target segment Harrah's was able to fine-tune its offer to create greater value for these profitable customers. In the year following revenues increased by 17 percent.³

This would seem to be an area where companies in Poland too feel on strong ground because over 75 percent of executives agreed with the statement 'We have identified our most profitable customers' however, only 52 percent feel that they are clear about how these customers rate their experience on the things that are most important to them.

4. Finding out what these customers truly value

It is all very well, knowing who your most profitable customers are, but, if you do not know what these customers value and the three or four most important attributes which drive their intention to repurchase you cannot influence their behaviour. Without the answers to these questions you may have data, but you do not have insight. A key component of a branded customer experience is being differentiated in a way that is valuable to target customers.

In the case of Harrah's, the gaming experience was redesigned to increase customer satisfaction and differentiate the brand. So for example, its Total Gold loyalty program was transformed into "Total Rewards", which segmented customers into Gold, Platinum and Diamond categories, depending on their loyalty to Harrah's. Harrah's executives discovered that delays at reception were a turn-off for customers, so Gold customers benefit from fast-track lines; Platinum customers have shorter lines still; and Diamond customers have no lines at all. Harrah's share of these customers spend rose significantly.

5. Being clear about what you stand for

In 2001, UK-based bank Barclays aired a television advertisement called "Big Idea." It was a beautifully crafted ad featuring Anthony Hopkins as a big shot businessman with a big house, a big car and a big meeting to attend. The tagline was, "A big world needs a big bank." The ad received a bronze award at that year's British Television Advertising Awards, but customers replied with a less than enthusiastic, "big deal!" The ad simply reinforced common customer pre-conceptions about large banks: that they don't care about the average person and are interested only in making as much money as they can.

Contrast this with First Direct, the online U.K. bank. Executives at First Direct spoke to their most loyal customers and asked them what they liked most about the bank. Their research identified that being able to engage with a real person was an important driver of satisfaction. As a result, First Direct's advertising agency created ads that featured customers speaking of their experience calling First Direct and getting through to a real person, any time of day or night. The ad's engaging message and apparent empathy struck a chord with target customers. First Direct promises to be the bank that is "designed to fit around you, not us". It's no accident that First Direct claims to win a new customer every 8 seconds and is the UK's highest rated bank⁴ or that 36 percent of its new customers join as a result of a

³ Diamonds in the data mine. Gary Loveman Harvard Business Review 2003.

⁴ Source: Research International, November 2006 - December 2006

personal referral. First Direct's customers have become the bank's biggest advocates, reducing its costs of sale and increasing its share of these customers' spend. If you would like to see these ads please see my earlier article:

<http://www.mycustomer.com/cgi-bin/item.cgi?id=134190>

55 percent of executives in the Polish market feel that they have 'defined a brand promise that differentiates us in the eyes of our target customers' but fewer (35 percent) 'have mapped our customer touchline to determine the key points of contact our customers have with us and how our promise should be delivered at each'. This omission is quite common in our experience and takes us on to our next point because making a promise to your customers is one thing, delivering it quite another.

6. Delivering the promise at every touch point

In response to the statement 'We have identified how to improve our services and processes to deliver our customer promise in a way that is consistently valuable to target customers' 41 percent of executives agreed achieving a mean score of 5.8 on the ten point scale indicating that this is a significant opportunity for many organisations. Without a rigorous process for mapping the customer touchline and designing the experience to deliver the promise the danger is that an expectation will be raised that you cannot deliver.

Stelios Haji-Ioannou, Chairman of easyGroup and founder of easyJet, makes this clear by saying: *"You can spend £15m on advertising, go bankrupt and your name can still mean nothing to people. Your brand is created out of customer contact and the experience your customers have of you"*

For example, in a blaze of publicity in September 2003 Abbey National, the UK-based bank, launched a £11million branding campaign intended to 'turn banking on its head'. The bank's 700 or so branches were re-branded with a new, softer, image and new advertising launched promising customers *"Abbey's straightforward attitude and simplified accounts will help you get on top of your money"* Unfortunately, the bank did not seem able to get on top of its own. It reported losses of £686million for the year ending 31 December 2003 in a year when most of its competitors reported record profits. It also failed to communicate the new strategy to its employees or put in place the new behaviors necessary to execute it. It lost the confidence of its people and as a result the brand experienced staff turnover 17 percent higher than the industry average. Abbey was acquired by Banco Santander Central Hispano, the Spanish bank that has since re-branded it once again. We are all only too aware of the massive decline in trust in the financial services sector. My own prediction is that we will see a return to the old fashioned intimacy of banking in past but delivered through modern-day channels. Imagine a text based relationship with your bank manager- fanciful? We'll see.

7. Providing 'branded' training to ensure that employees understand the brand story

Many organisations provide customer service training yet few are differentiated in the service they provide. The reason is that 'vanilla' training creates 'vanilla' service. This is not to say that all generic service training is bad -it is not. In fact there are some very good 'of-the-shelf' programmes that really help to improve customer-facing skills and make service more consistent. But if your goal is to differentiate from competitors this requires 'Branded Training'. In other words training that is designed to bring to life the values of your brand in a way that is consistent, intentional, differentiated and

valuable. Most importantly it has to start at the top. Some years ago, Orange, the mobile phone company launched its famous campaign 'The future's bright, the future's Orange'. The company wanted to differentiate on the basis of the customer experience rather than product functionality or price. As a result, it launched a series of road-shows that set out to bring the brand 'to life' for employees. They were taught the profiles of their target customers, what these consumers wanted, the brand values and the kind of experience that would deliver them. Orange redefined the mobile phone market and opened it up to many new consumers who were intimidated by the new technology.

One of the things we specialise in is to design 'branded training' to bring alive the promise and brand values and cascade these throughout the organisation to align the front-line in a way that is entirely 'on-brand'. It never ceases to amaze me how many organisations believe that they can differentiate their experience by buying in the same generic, so-called, 'best in class' training packages that are sold by some large trainer providers with only the name on the company name on the cover that changes.

As we would expect the larger the company, the more resources it is likely to devote to proper training. Our survey found that in those companies with less than Euro 1.3 Million turnover 51 percent of respondents disagreed with the statement 'We have created training to equip our employees to deliver the customer experience' whilst only 26 percent agreed, whilst in those larger companies enjoying turnovers in excess of Euro 130m nearly twice as many respondents (44 percent) agreed. A key ingredient of training is to build executives into the process so that they have an active role in cascading the message. This is an approach we have used very successfully in our engagements. This would seem to be true in the Polish market too because we found a high correlation between satisfaction with training and the statements 'We have continuing internal communications to build clarity and commitment around implementing the customer experience' and 'Our leaders have been trained as champions of our customer experience and are leading its implementation'.

8. Designing CEM before installing CRM systems

At the peak of CRM hype, expenditure on CRM systems was estimated to have increased between \$20billion in 2001 to \$46billion in 2004 yet one survey by Gartner research estimated that 55 percent of CRM systems drove customers away and diluted earnings.

This is because most CRM systems are installed without any thought about how they will be used to add value for the customer. These powerful systems allow companies to collect knowledge about the customer that can be used to offer them products and services tuned to their particular needs and preferences. However, for many customers the acronym 'CRM' stands for 'Constantly Receiving Mail-shots' since many organisations (and banks are the worst) use them as a blunt instrument to stalk, rather than woo, the customer through junk mail. Some software providers are now designing their products to support the customer experience and build CEM functionality into their call-centre products so that the agent is provided with all the information, tools and measures necessary to deliver the desired experience.⁵

Gartner Research Group VP Ed Thompson speaking at a 2008 CRM Summit in London said "In terms of the user experience, perhaps only 4 percent of customers can demonstrate a genuine return on investment (ROI) from CRM initiatives, mainly because most companies fail to benchmark projects and real success stories tend to be anecdotal." This takes us to our next tip for deployment.

⁵ Customer experience happens in the contact center. Cincom Systems white paper 2006.

9. Measuring the customer experience

Peter Drucker's maxim that 'what gets measured gets managed' is still true today. Yet most organisations focus exclusively on end-results measures. Market share, profitability and EPS growth are all vital measures of business performance but they are all lagging indicators- they are a result of differentiation, customer loyalty and brand preference. The answer is to move up-stream and measure and manage those activities that deliver the required customer experience and drive customer advocacy. Yet over 51 percent of the executives we surveyed reported that their organisation did not have a scorecard to measure the customer experience. The mean score for the statement 'We have a scorecard of indicators that provide leaders with objective and timely feedback on how well we are delivering against our promise' was the lowest achieved in the survey scoring just 4.6 on our ten-point scale.

CEO Andy Taylor and his team at US-based Enterprise Rent-A-Car only focus on one thing; the number of customers who give the highest rating for satisfaction and are willing to recommend the company to others. Frederick F. Reichheld, director emeritus of Bain & Company and author of *Loyalty Rules!* calls these enthusiasts 'Promoters' and by deducting the percentage of customers who say that they are unlikely to recommend he calculates a 'net-promoter' score. Enterprise enjoys both the highest rate of growth and, at near 35 percent, the highest net-promoter percentage in the car-rental industry according to Reichheld. World-class organizations like Amazon.com have net-promoter scores of 75-80 percent. Reichheld has been challenged on his 'one-number' approach and some academics have doubted the Net-Promoter index as being suitable for all businesses. Our own view is that measuring customer advocacy is one of the most important, but not the only metric in a company's customer experience scorecard. However, what is important is to reward the KPI's that you want to move. And that takes us to our last point.

10. Aligning KPI's with the customer experience

One of the lowest scoring items in our survey was 'Leaders measure and monitor the quality of the customer experience'. As many respondents disagreed with this statement as agreed with it. This poor result was reinforced by the fact that only 47 percent of respondents agreed with the statement 'Our leaders reward employees who put customers first'. The fact is that unless there is a link between the desired business results, the customer experience necessary to achieve it and appropriate measurement and rewards then it is unlikely to happen.

In 2007 we worked with Waterstone's, one of Europe's largest book retailers, to train all of the "colleagues" in its 340 stores using a series of specially designed modules built into the rhythm of the operation and delivered by store and departmental managers. Each of the modules focused on delivery of Waterstone's customer promise, desired customer experience and the behaviours necessary to bring it alive. Colleagues were taught to focus on a simple but powerful KPI, 'The Power of One': this is the economic impact if each bookseller sells just one more book each day to their target customers. The new behaviours were measured and reinforced by aligning its mystery shopper survey with the new customer experience and feeding back the results to the front-line on a regular basis. As a result Waterstone's saw its like-for-like sales performance increase by nearly 4.5% over the previous year having experienced flat growth for the previous three. This resulted in a large revenue increase and a significant return on investment. Interestingly, one of the organisations most frequently mentioned by survey respondents as offering a good customer experience in the Polish market is EMPiK also a book retailer. It too has adopted some of the principles we have described here.

You will have seen that many of these best practices are inter-connected. Brands are holistic and so senior leaders must manage the customer experience accordingly:

understanding that each element either reinforces or dilutes value to the customer. These are the companies who make CEM work and enjoy the business results that flow from this. Our research seems to indicate that whilst there is tremendous enthusiasm in the Polish market for CEM, many companies are in danger of learning some of the same lessons that US and UK companies have found out the hard way. We hope that these best practice lessons will make this process less painful not only for companies in the Polish market, but also those in the UK and US markets who are still seeking results from their CEM initiative.

If you wish to assess where you are on the CEM journey, you can visit our web site to complete a self-assessment that will give you an indication of what you need to do to be successful.

<http://www.shaunsmithco>.

Shaun Smith is the founder of Smith+co the leading CEM consultancy. Shaun speaks and consults internationally on the subject of the customer experience. His first book 'Uncommon Practice- people who deliver a great brand experience' investigates how leading brands differentiate, his second book 'Managing the Customer Experience- turning customers into advocates' is considered to be a landmark text book on how to create branded customer experiences. His latest book 'See, Feel, Think, Do – the power of instinct in business' investigates the role of instinct and innovation in customer experience. www.shaunsmithco.com. Shaun is also the author of the CEM+™ survey, distributed by Persona Global, which was used by Executive-Conversation Polska to conduct the research