The Guide to Customer Centricity

An Introduction to
Operational Customer Experience Management

MEDALLIA

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Customers have more power than ever.

They're armed with information — a vast supply of it available on the Internet — and it's undermining the traditional ways of building a brand. It's creating transparency and allowing consumers to share their experiences more easily. And as customers' power has grown, so too have their expectations, encouraged by the delightful and disruptive experiences of leaders like Uber, and emboldened by services like Amazon. Don't deliver an experience that meets these expectations? Well, your customers have many alternatives, and those alternatives are only a click away.

It's no surprise, then, that some have heralded this as the Age of the Customer.

All of this is changing the way that companies compete. From telecom and retail to B2B and banking, traditional sources of competitive advantage have eroded. Barriers to entry are collapsing, and new players are entering the market all the time, outmaneuvering and slaying those who aren't as innovative or customer-focused.

So what can you do about it?

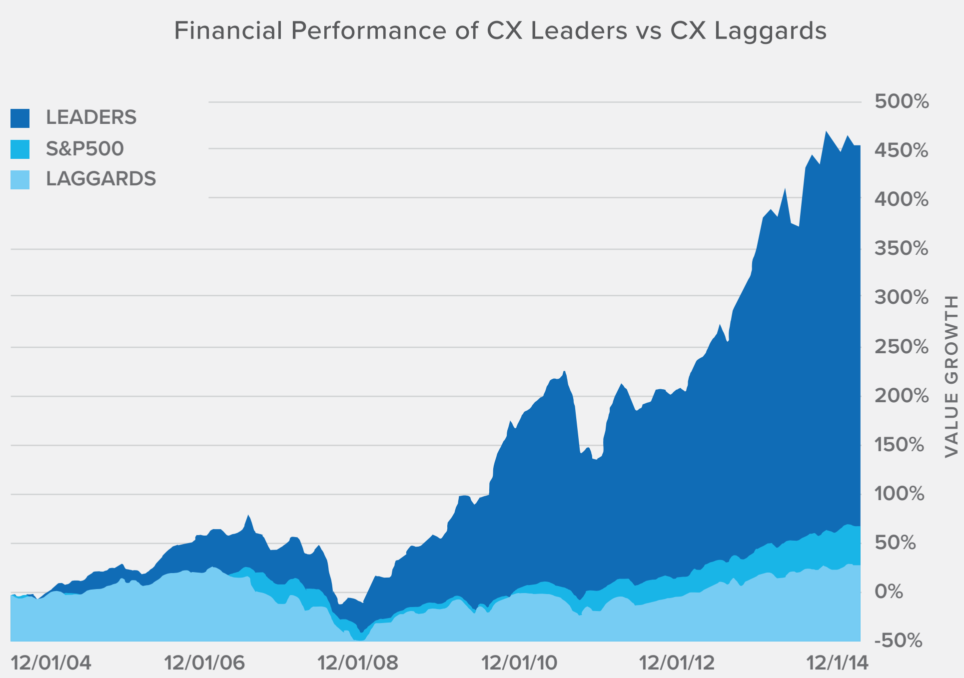
What we're seeing: experience is becoming the key source of sustainable competitive differentiation. Medallia research published in the Harvard Business Review quantified the impact. Controlling for all factors other than the quality of the experience individual customers had when they walked through the doors of a business, we looked at how much each customer spent with that business over the course of the next year.

In effect, we are able to see the financial impact of customer experience by looking at the subsequent spending of customers based on the quality of their experience.

That impact turns out to be rather dramatic:

Of course, this trend — that better experiences result in better returns — might feel intuitive at the individual customer level. Does it hold true for entire companies?

The answer is a definitive "yes." Companies that deliver the best experiences see far higher returns than those delivering the worst — and higher returns than the S&P 500.

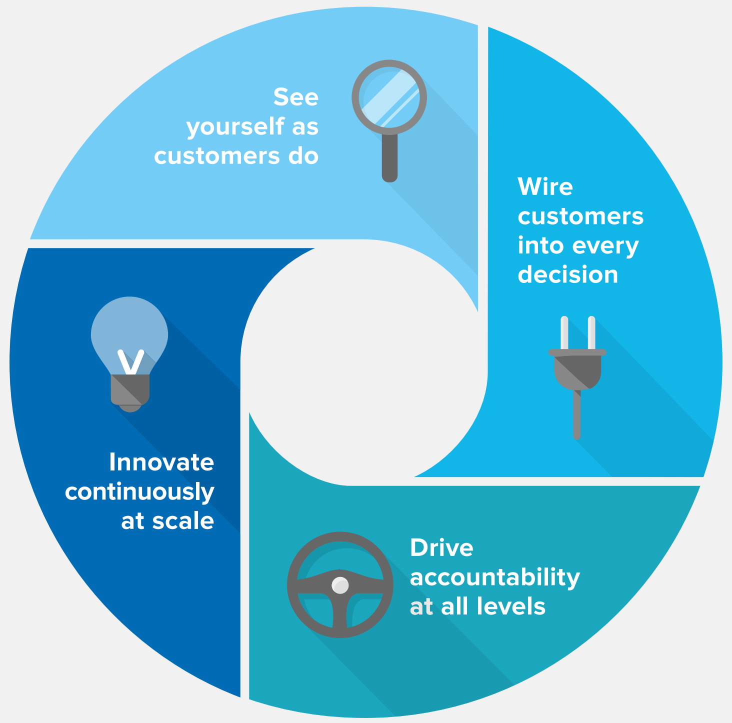


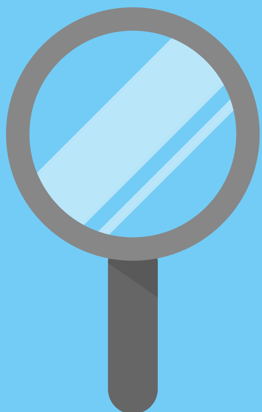
SOURCE: Medallia Analysis. Leaders and laggards are defined using the American Consumer Satisfaction Index

How can companies — especially large, global ones with thousands of employees across many operational silos — achieve these results? How can they focus their operations around delivering great, profitable experiences in a systematic and sustainable way?

This is a question that we've spent a lot of time on, both with some of the leading researchers in the world and with some of the world's leading brands. And we've found four key capabilities that allow companies to win with their customers. They're not practices operating in isolation. They're mutually reinforcing capabilities designed to discover, disseminate, develop, and implement customer-driven insights.

This is your guide to putting these capabilities for customer centricity into place.





See Yourself as Customers Do

Your customers know you better than you know yourself.

It can be tough to hear this, but as customers have been empowered by information, it's increasingly true, even for the world's top brands. You have market research dating from weeks or even months ago; they have the Internet. You have customer data stuck in organizational silos; they have five senses and rapidly increasing expectations. You have multiple (and multiplying) channels through which to engage with your brand; they each have a customer journey.

It wasn't always like this. The relationships used to be simpler. Easier for brands to fully understand. Manage. And, ultimately, control. But now, the old world of marketing, advertising, products, services, and word of mouth has been replaced by a complex network of multi-channel interactions, mobile, and unsolicited social media conversations.

It's not that companies in this new world lack stakeholders concerned about the customer experience. The problem is that these stakeholders typically focus on only one part of the experience, and they do so in an ever-increasing number of organizational silos. The data that's then collected on the customer experience is a reflection of this. Rather than a mirror, reflecting a complete view of the customer journey, it offers only snapshots of various touchpoints.

As a result, there's no longer one place to see how the entire company is performing in the eyes of the customer — data that can show a company its reflection. And those mirrors that have been put in place? Well, they work more like shards. The data is fragmented across multiple systems and silos, it's stale, and it shows only a small part of the total story. Think about the form these shards typically take:

- **Market research:** Reports that provide only a sample of customers and don't track individual customer journeys. They're provided in aggregate to select teams inside an organization, they are typically informative but not actionable, and the information is frequently dated by the time it is shared.

- **ERP systems:** Incredibly powerful systems of management, tracking inventory with great precision and revenues down to the cent. But where's the customer in this?

- **CRM systems:** A common proxy for truly understanding the customer experience, these important systems are really your view of the customer. What she ordered. Where he lives. They have nothing to do with how the customer sees you.

None of this constitutes a proper reflection.

The result is a growing gap between customer expectations and brands' ability to create and maintain a unified, consistent customer experience across and between channels and organizational silos. A customer experience that delivers on a company's brand promise — and differentiates the company from its competitors.

The value of a unified customer experience

Performance on overall customer journeys is 20 to 30 percent more strongly correlated with revenue growth than performance at individual touchpoints.

SOURCE: McKinsey & Co. research

So how do you get the reflection that enables you to see how you're performing in the eyes of the customer? Five primary things can give you that clear picture:

- Providing feedback needs to be easy for customers, wherever and however they're engaging with your company. A Medallia Institute study looking at CX practices in over 150 unique programs in 11 different industries found that when companies use two or more modes of communication to collect feedback, they see significantly higher Net Promoter Scores — on average about 12 points higher.

- You must track the entire customer journey — not just experiences within silos. McKinsey & Company found that companies that manage customer journeys make decisions that are 20 to 30 percent better at driving value than those that just focus on touchpoints.

- You need to gather feedback from all customer segments. This means going far beyond solicited feedback.

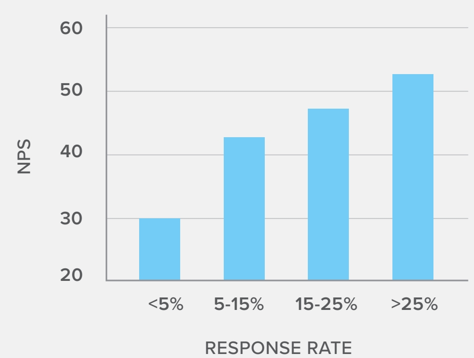
- You must pull in unsolicited feedback from anywhere customers are talking about you, from social media to call centers.

- All of this needs to happen in real time. Whether you're trying to rescue upset customers or plan strategic initiatives at the corporate level, an old picture isn't a real picture of today's customer experience.

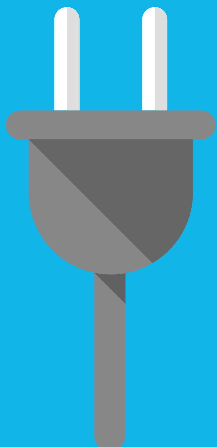
Not surprisingly, there are big benefits to getting it right:

If you’re able to unify the above five elements into a single source of information that provides both the big picture and the details, then you’re generating real, actionable, and timely data on your customers’ experiences. You’re on your way to seeing yourself as customers do — a critical first step in leveraging customer experience as a competitive differentiator and driver of positive business outcomes.

More Engagement to Capture Customer Feedback, Higher NPS



SOURCE: Medallia Benchmark 2012 & 2013. Based on regression of n-191 unique programs controlling for B2C vs. relationship, industry and indicator for call center. p<01



Wire Customers Into Every Decision

We’ve all heard companies promise to put customers first.

For the most part, they have the best of intentions. But promises mean very little if the infrastructure to deliver isn’t in place.

To really prioritize the customer, you need to get the right information about your customers to the right hands inside your organization.

Earlier, we discussed the benefits of seeing how you’re performing in the eyes of the customer. Some companies are doing a better job of this than others. But even for the leaders, responsibility for customer data usually lies with a small, centralized group: the insights team or a market research team.

It would be nice to think that these small teams are equipped to get information to the frontline in a timely and relevant fashion. But as anyone who’s seen such teams in action can attest, this isn’t always the case. Too often, the team generates a big report that tries to be “one size fits all.” The result can vary from irrelevant to overwhelming.

Some companies distribute customer data more broadly, but even then, the way they do so is often far too segmented. Customer-facing departments have their own streams of feedback, which remains siloed and isn’t available to other departments.

The end result of either approach? The organization keeps doing business as usual. Or worse, the lack of concise, targeted insights being disseminated across your organization causes leaders to form disparate views of what customers are saying — and what actions should be taken.

The Solution

To truly wire customers into every decision, companies need to first separate the signal from the noise in their data and then make sure everyone across the organization is on the same page.

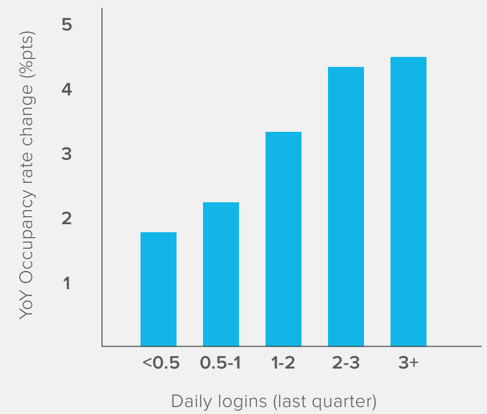
Once customer data is collected — whether it's feedback, behavioral data, or other information — it needs to be parsed in a way that makes it relevant and actionable to all the actors inside a company. This means data is tied to employee goals. This means it's easily accessible through the existing daily processes (in real time, and via mobile if people are on the go). And it means data should be presented in the context of other measures people care about, whether operational or financial.

It needs to be about them. About their jobs. About their performance. That way, they'll understand what's going well, where there's room for improvement, and how to start conceiving innovations.

Getting there isn't easy. But once you do, individuals will naturally want to pull the data into their jobs. And there's mounting evidence that the more data employees use, the greater the impact. For example, a recent study of over 200 Medallia customer experience programs found a significant positive relationship between the number of employees accessing customer feedback data and a program's NPS. The same positive connection was found in 65 B2C programs between the number of frontline users of customer feedback and a program's NPS improvement year over year.

Getting information into the right hands has even been found to impact business results. The better your employees understand customers, the better experiences they'll be able to deliver — which translates to more repeat purchases and referrals. A 2015 Medallia study of over 4,400 hotel properties quantified this impact, finding that the more frequently a property accessed customer feedback, the more its occupancy rate increased:

Accessing Feedback Frequently Drives Occupancy Growth



Effects controlling for brand, number of rooms, starting occupancy rate, and distribution of guests according to gender, age, purpose of travel, and loyalty status. n=1836 unique properties, p<01

SOURCE: Medallia Analysis

When you wire customers into every decision, you're able to finally walk the talk of customer centricity. Every employee in your organization will know what needs to be done to improve the customer experience, and every employee can make smart, coordinated decisions to help those improvements happen.

Drive Accountability at Every Level

What's the difference between a taxi and an Uber?

On a lot of levels, they're the same. A car. A driver. A passenger wanting to go somewhere. Yet each one offers an entirely different experience. Why is that?

It boils down to a key fact: Uber drivers are held accountable for the experiences they provide to customers. And Uber is able to do this by building customer feedback into how it manages its drivers and ensures quality.

Contrast this with a traditional taxi company, which holds drivers accountable for the customer experience by giving them a rulebook to follow. Any regular taxi customer can tell you how effective that strategy is.

And while most companies don't realize it, they're a lot more like traditional taxi companies than like Uber.

The Risk of the Rulebook

In an effort to help employees be more effective, most companies segment their operations into discrete pieces and teams. With this segmentation comes prescriptive workflows, well-defined rules, tight controls, and greater QA investment, all of which aim to increase efficiency and prevent costly mistakes.

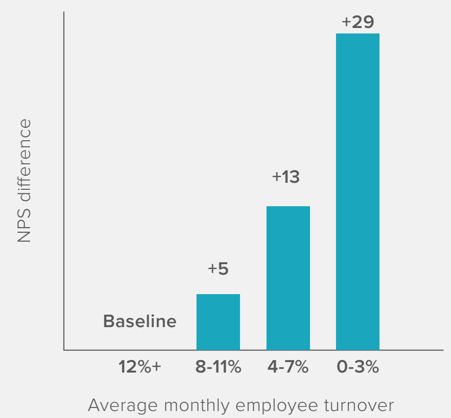
These policies and processes come with good intentions. But it's not possible for the people who put them in place to foresee everything that might happen out in the field. And when the unexpected happens, employees who have only a rulebook and a narrow area of expertise to fall back on face a difficult choice. Go off-script or, more likely, follow an ineffective policy in order to avoid punishment. The more the latter happens, the more the customer experience suffers, all because of the rules designed to improve it in the first place.

This dynamic risks more than just individual interactions. It threatens the effectiveness of employees as well.

Companies derive many benefits from employees who are deeply engaged in and committed to their work. Studies by the Great Place to Work Institute have found that companies with the highest levels of employee engagement are more profitable, perform better in the stock market, and experience lower levels of employee turnover. There are also more immediate benefits for the customer experience. A Medallia study of 800 locations in a transaction-based business found that locations with the highest employee retention scored 29 points higher on NPS than locations with the lowest retention:

Employee Retention Is Linked to Customer Satisfaction

Locations with the lowest employee turnover rates see the highest NPS



SOURCE: Medallia analysis

Unfortunately, a lack of employee empowerment — exemplified by rulebooks, rigid processes, and customer service scripts — often impedes employee engagement. No employee likes being forced to follow rules he or she knows don't work. No employee benefits from being judged on adherence to routine rather than on meeting customer needs.

For many companies, this situation leads to a downward spiral. Disengaged employees, who feel no ownership of their work and who aren't held accountable for the quality of the experiences they deliver, breed unhappy customers, who breed even more disengaged employees, and so on. In time, this cycle becomes very hard to break.

Building Accountability

No company wants to operate like this. How can firms reverse the cycle and use a more Uber-like, customer-driven model that creates competitive advantage?

They can start with clear accountability. In many companies, employees are accountable to customers only through performance reviews or corporate revenue numbers. Creating true accountability means making employees a real part of the customer relationships they are developing for the company — by providing them with customer feedback and holding them accountable for results. Here's what that entails at a high level:

- **Relevance:** Employees need to see customer feedback that's specific to the customers they serve and the teams they manage (quantitative and qualitative feedback).

- **Timeliness:** Employees better understand the impact, both positive and negative, of their work when they get feedback in real time, and at moments in their workday that are best suited to learning.

- **Context:** When customer feedback is combined with other business performance metrics, employees gain the know-how to make necessary trade-off decisions (for example, a happy customer vs. lower revenue credit).

- **Actionability:** Rather than simply showing employees what score they received, emphasize the action they should take as a result.

Emphasizing action at the employee level drives revenue

Apple found that every hour a store manager spent closing the loop with dissatisfied customers generated $1,000 in additional revenue.

SOURCE: Reichheld, Fred, "The Ultimate Question 2.0," 2011

Creating Empowerment

The above factors — relevance, timeliness, context and actionability — go a long way toward building employee accountability. But they're not the whole story. Once you've given employees a view into what customers are saying and feeling, you also have to trust and empower them to do something about it. It's the difference between Nordstrom sales associates — who are encouraged to use their best judgment when handling customer issues — and call center agents who are managed solely through a rulebook.

To move toward the Nordstrom end of the spectrum, no matter your industry or business, allow employees to be more entrepreneurial in solving problems, closing the loop with customers, and raising their voices when pattern recognition indicates a flaw that's hurting the customer experience. Doing so puts them in a better position to act quickly, resolve issues, and enable the company to stay ahead in an age when Uber and others are rapidly changing customer and employee expectations about empowerment and good service.

Or you can be a taxi company.

Innovate at Scale

Have you ever stopped to ask: why get customer feedback?

One important reason is knowing how your company is performing. There's also getting that information to everyone inside your organization so that they can use it to inform their decision making. But perhaps the biggest upside is that when employees understand the customer's perspective and are empowered to fix problems, they're able to come up with ideas that differentiate. They create value for shareholders and for customers.

From here, the question becomes: how do you ensure that the best ideas see the light of day?
For many large companies, the answer is complicated. They know how important it is to translate insights into innovation: PwC's Global CEO Survey identified innovation as the most sought-after growth opportunity for CEOs worldwide. Yet only 30 percent of CEOs say they have an effective organizational structure for innovation.

So which companies are succeeding?
Research — along with media attention to disruptive companies like Uber and Airbnb — tells us that young, fast companies are currently dominating innovation. A 2012 study by IESE Business School and Capgemini Consulting found that the majority of companies with high innovation success rates have less than €500m in annual revenue. The study concluded that "large companies create so much distance between the executives and those that are tasked to innovate that a disconnect exists between them."

What if there was a way to defy this trend?

A Process for Innovation

When large companies have already done the work of seeing themselves as their customers do, wiring customer voices into decision making, and driving accountability, they're set up to use their size to speed the pace of innovation in the customer experience and beyond. They can test ideas, shrink communication gaps between stakeholders, and increase the rate of learning and innovation across their organizations. The result: increased company agility and greater value for customers.

We call this approach innovation at scale.
What it means: using a large customer base and a large, complex organization to enhance ideation and testing of customer experience improvements of all sizes and kinds. Research shows that broad organizational involvement drives successful innovation. Companies can achieve this involvement by wiring experimentation processes into existing customer experience operations in order to test micro innovations quickly and concurrently and pivot to the most promising ones.

Customer data helps identify innovation opportunities

PayPal used customer feedback to ideate and prioritize customer experience improvements that ultimately drove a $2 billion increase in transaction volume.

SOURCE: Medallia Analysis

Here are three key elements of such an approach:

- **Draw ideas from different areas of the organization.** Great ideas can come from anywhere. This is famously true for groundbreaking innovations like the digital camera and the sticky note, which grew from proactive tinkering by engineers at Kodak and 3M, respectively. It is also true for small, creative service improvements, which often arise from an employee's experience dealing with a recurring customer issue.

- **Run concurrent, ongoing tests using small segments of the customer base.** Not every creative idea ends up having the desired impact. For this reason, companies that innovate effectively at scale simultaneously test improvements of all sizes and kinds with real customers to see which ideas work best. The more experiments a company runs, the faster it can home in on innovations worth pursuing. Additionally, testing an idea with customers shows its impact more accurately than using focus groups, market research, or informed guesswork.

- **Make results accessible across the organization, on an ongoing basis.** Companies that innovate effectively at scale share the results of individual innovation tests broadly, creating opportunities for other teams to emulate successful ideas and add their own perspective. This can also spark ideas or improvements that might not otherwise have emerged.

When companies have a structured, controllable system for sharing customer feedback broadly, using it to inspire improvements, and measuring the results, their entire organization becomes better at driving learning and growth. They’re also better able to fulfill the implicit promise underlying customer loyalty: when customers take the time to share their opinions, the company will listen, respond, and use what it’s learned to provide additional value.

Conclusion

When working in tandem, these four capabilities bring out the best qualities in an organization — namely, collaboration, creativity, and a radical focus on creating strong customer relationships.

If you're looking for further information on these capabilities, want to share your perspective, or are curious about how leading businesses are using them, we'd love to hear from you! Reach out to us at engage@medallia.com.

About Medallia

Medallia® is the Customer Experience Management company that is trusted by hundreds of the world's leading brands. Medallia's Software-as-a-Service application enables companies to capture customer feedback everywhere the customer is (including web, social, mobile, and contact center channels), understand it in real time, and deliver insights and action everywhere—from the C-suite to the frontline—to improve their performance. Founded in 2001, Medallia has offices in Silicon Valley, New York, London, Paris, Hong Kong, Sydney and Buenos Aires. Learn more at www.medallia.com.

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