Customer experience

Cutting through the hype to find real value

What's the trick to getting customer experience right? Knowing what customers truly value and delivering on that profitably.



pwc

Customer experience: Cutting through the hype to find real value

There's a lot of hype out there about the "experience economy" these days. The term is hardly a new one, though. It's been around for nearly two decades.[1] And, any number of companies have proved adept at delivering experiences for much longer than that. They range from experience pioneers like Disney, with its amusement parks and movies, to a product company like Coca-Cola, which has created not only tasty beverages, but also the emotionally resonant experience of buying the world a Coke and keeping it company. So why is it only now that we're living in the *Age of Experience*?

Well, if you regard customer experience (CX) as the aggregate impact of every interaction a customer has with a company's product, service, solutions, and brand messaging, that impact is much greater today than it used to be. CX is taking place across many more touchpoints than in the past. Plus it's happening pretty much around the clock, and in multiple communities, including virtual ones where word travels faster and with higher visibility than ever before—not just from customers to brands, but also from brands to customers.

Todays "always on" customer wants experiences to be available around the clock and across multiple touchpoints, both old and new.



With more channels and around-the-clock connection come heightened customer expectations. It's generally no longer enough to provide an excellent and well-delivered product, accompanied by good customer service. Today's customers want more than that. And so in recent years we've seen many businesses change or supplement their standard approach to CX.

Take L.L. Bean, which has been selling outdoor apparel and gear for over a century, first mainly through catalog orders and then, later, via its stores, outlets, and website. The company has responded to the 21st century craving for experience by creating its Outdoor Discovery School—customers can choose from over 100 courses on the L.L. Bean website, signing up for classes ranging from animal-tracking lessons to snowshoeing instruction.[2] For people who can't physically make it to a Discovery School location to attend a class, there are other CX opportunities, such as the Million Moment Mission campaign, which encouraged L.L. Bean fans to share outdoor moments by posting videos, photos, and commentary via social media channels like Twitter, Facebook, and YouTube.[3]

Not only do today's customers want this type of a broader experience array, they're demanding it more readily and loudly than before, thanks in large part to the immediacy and amplification of social media. And they're willing to pay for the best of these experiences. Consider just the millennial generation[4] alone: As they move into their prime spending years, millennials who say they prefer "experiences" over "things" are projected to spend more than a trillion dollars annually in the US.[5]

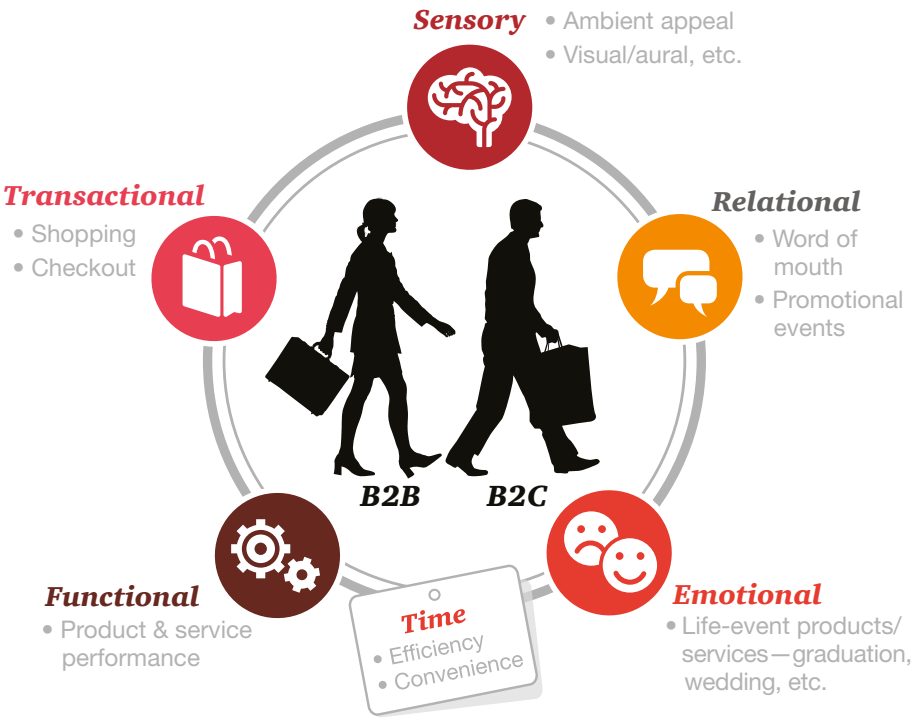
Back to the future

Even companies that have long been adept at delivering satisfying customer experiences across multiple dimensions—transactional (ease of purchase), functional (ease of use), sensory (e.g., scented candles in a hotel lobby), emotional (the relational warmth of a diamond ring), social ("keeping the world company"), etc.—are under pressure to up their game.

Again, consider Coca-Cola: What started as a highly successful television commercial 45 years ago[6] has evolved into today's #ShareACoke campaign,[7] which merges data-driven insights, personalization, social sharing, and interactivity. In doing so, the newer campaign aims to deliver essentially the same experience that Coca-Cola did in 1971—the warm glow of keeping the world company. The difference is that the world has since grown, and so have the technologies connecting it.

Conversely those technologies are also shrinking the world down to a more-intimate size when it comes to buyer-seller relationships. The Information Age has, in essence, taken us back to the future. In today's vast online global marketplace, we're now seeing a return to the one-to-one connectivity that nearly all pre-Industrial-Age businesses and customers once enjoyed: Sellers are getting instant feedback from buyers—about whom they know a great deal, thanks to big data, including details that, back in the day, only a local merchant would have known—and company reputations are being made (or undone) through word of mouth.

Customers have always experienced products, services and brands across multiple dimensions, both now and before the digital age.



But many of today's multi-layered global organizations came of age in the era of vast distribution networks and mass marketing, which "pushed" products out to customers. They weren't designed to compete in today's virtual bazaar. And yet, clearly, given the right CX efforts, such businesses can in fact compete in an interactive "vendor stall" environment, as Coca-Cola and other enduring brands have demonstrated.

It's not just iconic brands that understand the value of delivering great customer experiences. All companies, big and small, retail and business-to-business (B2B), have a vested interest in getting CX right. Still, great customer experience by itself does not generate growth and profits; the overall business does, as the head of any company will tell you. Indeed, 85% of the US business leaders who participated in PwC's 2016 US CEO Survey said that today their customers primarily seek a traditional mix of core deliverables—namely cost, convenience, and functionality. Meanwhile, a much smaller 15% of CEOs said their customers

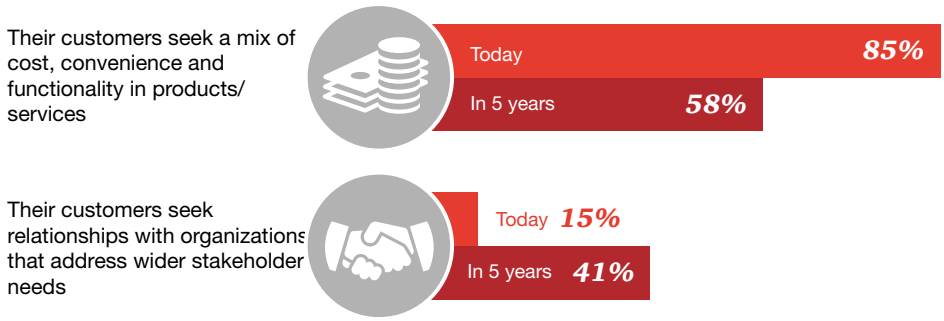
seek relationships with companies that address wider stakeholder needs, beyond just those of the customer.

But what about five years from now? When asked to peer into the future, CEOs view a markedly different landscape: Forty-one percent of them expect they'll see customers increasingly gravitate toward organizations that care about social and ethical issues, such as the impact of manufacturing operations on human rights, workplace safety, and the environment. In short, CEOs believe more customers will want cost, functionality, and convenience to be wrapped in a corporate ethos that makes those customers feel good not only about the brand, but also about themselves by virtue of associating with the brand.

But do CEOs think ethos (the ethical component of it particularly) will ultimately matter as much or more to customers than practical aspects of customer experience, such as ease of use and speedy delivery? No. And, indeed, the implicit assumption that issues like human rights and the environment matter more to millennials than to, say, the boomers (the generation who brought us flower power and Earth Day), decades ago or now, is debatable. What has in fact changed is technology. Today, technology delivers a steady stream of online information, making it easier for customers to weigh things like corporate social responsibility in their overall calculus of a brand's appeal and value.

CEOs say customers want businesses to meet more than just the needs of buyers

And they think this expectation will rise significantly, with a greater focus on the relational aspect of customer experience.



Q: Thinking about the wider stakeholder expectations you see, which of these statements best describes successful organizations in your sector today and in five years' time?
Base: 97 US CEOS, including those responding "don't know"
Source: PwC, 2016 US CEO Survey, January 2016

Getting CX right: Make sure you don't lose your identity (or shirt) in the process

Does this shift in emphasis make it necessary for companies to serve up dramatically different customer experiences than in the past? In some cases, yes; but oftentimes, no. While some companies may race to outdo—and often, outspend—each other in creating the best experiences for their customers, other companies may choose instead to deliver a reliably consistent brand experience without getting too fancy about it.

It's often about the simple things, points out the CEO of a healthcare delivery company in describing his take on great customer experience: "So what does that mean? That consumers say [our] people respect them, connect with them, engage them, understand who they are, listen to them, and make them part of the decision-making process."[8]

So then, what *is* the trick to getting CX right? Staying focused on the age-old question of what customers truly value, as well as *where* and *when* they value it. For instance, many of the customers who shop at Amazon presumably value the personalized offers that the online vendor presents to them the minute they enter the site. As it happens, many of those customers might also shop at Costco. That being the case, should Costco spend time, effort, money, and other resources on revamping its stores to make the shopping experience there less impersonal, in the hope of enhancing the appeal for Amazon customers? No,

not if creating a deep customer intimacy isn't actually needed in that context; not if Costco customers don't value the intimacy by showing their willingness to pay for it as part of the Costco shopping experience. And, most importantly, not if it's contrary to Costco's underlying business strategy (as indeed it is).[9]

Ultimately, businesses must balance what they do for customers with how it actually generates value—both for those customers and for the business. And they shouldn't do it at the cost of their business's core identity and capabilities.

"Brand DNA shouldn't change," says Liz Smith, CEO of Bloomin' Brands, Inc. whose portfolio of restaurants includes casual and fine dining brands such as Outback Steakhouse and Fleming's Prime Steakhouse & Wine Bar. But she also readily admits that a brand shouldn't keep doing the same old thing if something new might improve on the same ol' (or perhaps ought to replace it altogether). And so, says Smith, "A mantra at Bloomin' Brands for the past couple of years has been, "If we don't like change, we're going to like irrelevance a lot less." Most CEOs would probably agree with her.[10]

Sizing up CX's worth: Are you getting the right return on your investment?

One way to find out whether CX efforts are indeed paying off is to measure their impact with metrics that gauge the achievement of desired outcomes, such as the contribution of CX to meeting financial goals. There are various metrics out there, including customer satisfaction, customer loyalty (e.g., Net Promoter Score), brand awareness, churn rate, and conversion rate, to name just several. But to be truly useful, these measures must tie directly to revenue and profitability.[11] One such metric is customer lifetime value (CLV), which may merit a second look by companies that haven't considered it in the past.

CLV's unit of analysis is the customer, not the product, making the customer an asset, so to speak, whose worth can be assessed using financial valuation, customer-insight data, and predictive analytics. Today, this information can be collected and analyzed with a breadth and depth barely imaginable when CLV first appeared as a metric about a generation ago. Indeed, you could argue that the CLV concept was ahead of its time; technology has since caught up with it. Now companies can use CLV to obtain a much richer picture of how each customer engages with a brand, based on her actual behaviors (including purchasing behaviors), and predict how that will play out in the future.

A company that wants to get the biggest bang for its CX bucks can use CLV to track exactly *which* experiences a specific customer is receiving from the company and to what degree each of those experiences has (or hasn't) generated value from that customer. And then, more importantly, the company can calculate to what degree further CX investments in that particular customer are likely to generate future value for the business. Though typically used by business-to-consumer (B2C) companies, CLV works well for B2B businesses, too. Regardless of the measure a company chooses, it will ideally link current CX investments with long-term business objectives to help ensure that the return on investment isn't a short-lived one.

Today, customer information can be collected and analyzed with a depth and breadth barely imaginable when customer lifetime value first appeared as a metric.

Full throttle ahead: But which CX levers should you pull? The choice isn't as simple as it may seem.

There are any number of levers a company can pull to excel at—and generate long-term value from—customer experience. But from where we sit, roughly half a dozen levers merit the most attention. At a glance, these might seem like no-brainers. But pulling the right levers in the right combination can be tricky, especially for businesses that are organized around functions, not customer-centricity, as is the case at many companies.

Here's where we recommend companies train their CX focus most sharply

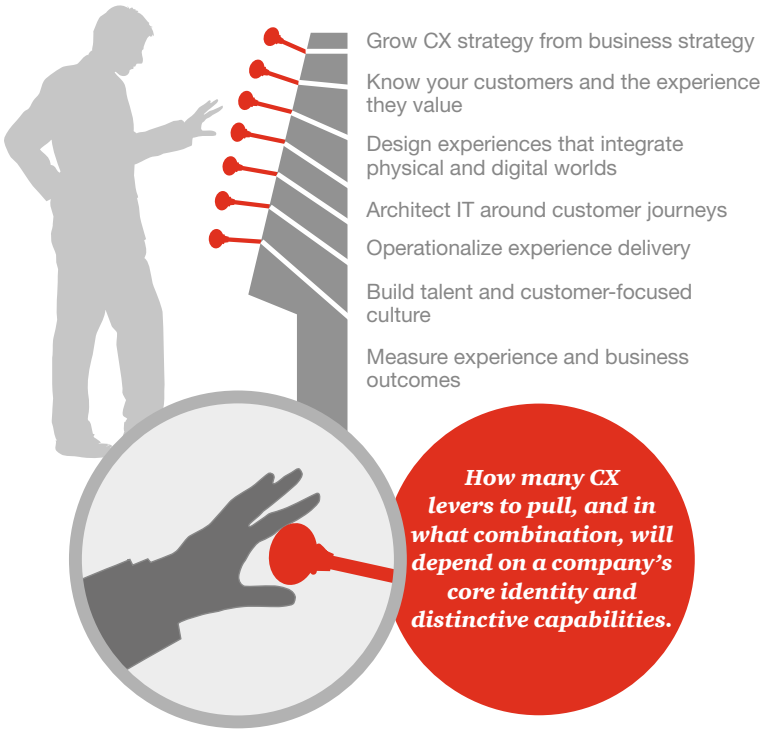
- **Grow experience strategy from business strategy** to drive business value and grow ROI for your experience investments
- **Know your customers and the experiences they truly value** and are willing to pay for
- **Design experiences that integrate physical and digital worlds** using an iterative approach
- **Architect IT around customer journeys** instead of around products, functions or lines of business
- **Operationalize experience delivery** across functions and the entire enterprise ecosystem
- **Build talent and shape customer-focused culture** that values, creates and builds upon experience excellence
- **Measure experience and business outcomes** to integrate organizational accountability and incentives

By focusing efforts on these CX strengths, companies can keep testing new ideas that will potentially create more value for customers and the business—scaling up the ideas that work and rejecting those that don't.

Will all companies need to pull each of these levers to excel at CX? No, but almost every business will have to pull at least some of them if they want to generate long-term value from their CX investments. While this may seem deceptively simple, rarely do companies find it easy to take CX from strategy to execution, and many fail in the attempt. A business should make sure that the CX strengths it develops or expands actually align with the company's core capabilities and are a natural extension of its identity.[12] If not, a business may end up spending a good deal of time, effort, resources, and money to little effect. Done right, however, a company's CX approach can actually blur the line between strategy and execution, so that the two processes are ongoing. By applying principles like design thinking, for instance, companies can rapidly prototype novel CX ideas and create more-iterative ways of working, closing the strategy-to-execution gap.

In our upcoming series of articles, we will look at each CX lever (strength) in detail. Every one of the levers is in the service of helping companies create experiences that matter. Experiences that matter are ones that deliver clear value to the customer *and* a measurable return on investment for the business. Because, ultimately, brands shouldn't be in the business of investing in experiences their customers don't value and aren't willing to pay for, or pulling CX levers that don't need to be pulled. Pulling the right levers in the right combination should help companies ensure that just the opposite proves true: CX that pays off for the long haul.

Companies can pull roughly half a dozen levers to make their customer experience(CX) investments generate the greatest return for their business.



Endnotes

1. *The term experience economy* was coined by B. Joseph Pine II and James H. Gilmore in their article "Welcome to the Experience Economy," *Harvard Business Review* July–August, 1998
2. http://www.llbean.com/llb/ods/33?page=outdoor-discovery-schools
3. http://www.llbean.com/customerService/aboutLLBean/national_park_foundation.html
4. Millennials are commonly defined as people born in the 1980s and 1990s.
5. "Millennials: Fueling the Experience Economy," *Eventbrite Insights*
6. *The Making of "I'd Like to Buy the World a Coke*," colacompany.com, Jan. 2014
7. *Summer of Sharing: "Share a Coke" Campaign Rolls Out in the US*, colacompany.com, June 2014
8. *2016 US CEO Survey*, PwC, January 2016
9. Jacob Goldstein and Robert Smith, "*The Secret to Club Stores' Success: Breaking the Rules of Retail*," Sept. 30, 2015, *Planet Money* NPR
10. *2016 US CEO Survey*, PwC, January 2016
11. *Insight to Impact: Measuring the Outcome of Customer Experience Excellence*, PwC, 2015
12. Paul Leinwand and Cesare Mainardi, *Strategy That Works*, 2016, Harvard Business Review Press

www.pwc.com/us/experience

More information

Want to learn more about customer experience? Please contact someone on the PwC team, including one of the following individuals:

Edward Landry
Principal
Strategy&
703 626 3145
edward.landry@pwc.com

Rik Reppe
Principal
PwC
612 596 4421
rik.reppe@pwc.com

© 2016 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. 150281-2016