"A focus on customer experience and an outside-in perspective are the cornerstones of business success."

BILL MCNABB,
chairman and CEO, Vanguard

HARLEY MANNING
KERRY BODINE
FORRESTER RESEARCH

OUTSIDE IN

THE POWER of PUTTING CUSTOMERS at the CENTER of YOUR BUSINESS

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PART I

THE VALUE OF CUSTOMER EXPERIENCE

1

You Need Your Customers More Than They Need You

KEVIN PETERS SAT alone in his car in the rain, watching the entrance of an Office Depot store. He was wearing a baseball cap and a well-worn pair of jeans.

Over the course of the last half hour he'd watched one customer after another emerge from the store. None of them carried a shopping bag. On their way out, they walked past an Office Depot employee leaning against a wall under the awning, smoking a cigarette out of the rain.

Kevin was torn. On the one hand, he didn't want anyone to know he was there. As the president of Office Depot's North American retail division, he'd come to this parking lot in New Jersey on a gray, dreary day to get a firsthand look at how customers experienced one of his stores. His method, already followed at dozens of other locations, was to observe customers coming and going, then enter, walk the aisles, and talk to customers about whether they were finding what they needed and how they liked the store in general.

The success of each visit hinged on the store manager not knowing he was there. Kevin wanted to see the store as a customer on a shop-

ping trip, not as an executive on an inspection tour. But this situation was too much. Frustrated customers were leaving without products while one of his employees not only ignored them but laid down a cloud of tobacco smoke for them to walk through on their way out the door. Should he blow his cover by telling the manager to get his slacking employee back in the store to help shoppers?

Kevin made a decision: This couldn't stand. There was no way he was going to sit idly by and watch his business erode one customer at a time. He abandoned his undercover plans, got out of his car, and walked into the store on a new mission.

Because he'd planned to go incognito, Kevin hadn't bothered to find out the name of the store manager. But he knew that every retail location has a stanchion near the front of the store with a picture of the manager and, right under it, this service promise: "If you are not satisfied with your shopping experience, please see me or another manager on duty." Kevin walked over to the stanchion, looked up to see what the store manager looked like — and found a picture of the smoking employee outside.

When he tells this story you can see very real pain in Kevin's face and hear it in his voice. "The darn store manager! The person with whom we trusted our customer relationship." He pauses and repeats, "The person with whom we trusted our customer relationship."

What Went Wrong at Office Depot?

What underlying problem brought Kevin hundreds of miles away from his executive office in Boca Raton, Florida, and into one of his own stores — in disguise?

The story began months earlier when Kevin first got the job of president. It wasn't a great time to take over the helm of a retail chain. The economic downturn that began in 2008 had not been kind to retailers in general, and Office Depot's store sales had declined even more than those of its competitors.

What puzzled Kevin was that, even as sales declined, Office De-

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pot's "mystery shopping" scores — compiled by a third-party research firm — were going through the roof. How could this be? How could customers be having a great in-store experience while not actually buying anything? The answer clearly didn't lie in Office Depot's Boca Raton headquarters, so Kevin set out to find it in the stores.

Kevin visited over seventy locations across the United States fully expecting to find a differentiated experience — one that set Office Depot apart from other office supply stores and big box retailers. He didn't. Instead, the experiences he found ranged from, in his own words, "poor to fair and, on a few occasions, good." But never good enough to truly differentiate Office Depot from its customers' other options.

By the time Kevin finished talking to hundreds of customers and watching them while they shopped, he'd begun to solve the puzzle. The mystery-shopping scores were actually correct — they were just asking the wrong questions: "Are the floors clean?" and "Are the shelves fully stocked?" As Kevin put it, "Who cares?"

Not his customers, as it turned out. They're mostly small-business owners who don't make money when they're not in front of a client or preparing work for a client. They want to find the office products they came for, quickly and easily. In other words, they want to get in, buy, and get out.

But Office Depot stores didn't help them do that. They were large and their signage was cluttered and confusing, making the stores hard for customers to navigate. Employees, both associates and managers, were neither as empathetic nor as helpful as they should have been. They had been coached all along to focus on tasks, not on building relationships with customers by listening carefully and responding to their needs. Wham, bam, thank you customer, and — oh, wait — did you forget to buy something? Sorry, I was so busy stocking the shelves and fixing the planogram that I missed that part.

Ultimately, Kevin knew that if he wanted to reverse the downward slide in sales, he needed to transform virtually every aspect of his in-store experience. Quickly.[1]

You Are in the Customer Experience Business — Whether You Know It or Not

This book is about customer experience, something that is fundamental to the success of every business. For most companies, customer experience is the single greatest predictor of whether customers will return — or defect to a competitor. It's so critical that even virtual monopolies like cable providers and health insurers suffer when they fail at it (which most do, as we'll see in the next chapter).

Customer experience goes to the heart of *everything* you do — how you conduct your business, the way your people behave when they interact with customers and each other, the value you provide. You literally can't afford to ignore it, because your customers take it personally each and every time they touch your products, your services, and your support.

So why are so many business leaders seemingly blind to the importance of customer experience? Primarily, it's because they don't know what they don't know — starting with what "customer experience" actually means. Sure, most executives have at least heard the term "customer experience," but they often believe it's just another way of saying "customer satisfaction."

That misunderstanding is a disaster in the making. Because if you *don't* understand what customer experience is and why it's important, you risk losing your customers to companies that do — think Apple, Amazon, Southwest Airlines, or USAA.

To appreciate what customer experience *really* means, let's start by clearing up a few of the more enduring misconceptions about it. We'll do that by listing some of the things that customer experience is *not.*

It's not soft and fluffy. *Of course* you love your customers — if not for them, you couldn't pay your mortgage. But loving your customers won't help you succeed unless you *do* something about it, like offering them products that meet their needs, and making it easy to find, buy, and use those products — all critical aspects of customer experience.

It's not customer service. People call customer service when they have a problem. So equating customer service with customer experience is like saying that a safety net is a trapeze act. Yes, the net is important to the act. But if the performer needs to use the net then something has gone wrong with the show.

It's not usability. Yes, people appreciate it when a product or service is easy to use. And ease of use has helped drive the success of products and services ranging from Apple's iPod to YouTube video uploads. But usability is just one piece of the customer experience puzzle — and not even the most important piece. Take your car, for example. Even if the steering wheel is easy to turn and the brake pedal feels just right, your driving experience will still be miserable if the car fails to meet your basic needs, like running reliably and stopping safely.

So if those are some of the things that customer experience is *not* — what, then, *is* it?

It's what products and services your company offers, how you manage your business, and what your brand stands for. It's what your customers think happened when they tried to learn about and evaluate your product, tried to buy it, tried to use it, and maybe tried to get help with a problem. What's more, it's how they felt about those interactions: excited, happy, and reassured, or nervous, disappointed, and frustrated.

Customer experience is how your customers perceive their interactions with your company.

Once you understand that, you can manage your business from the outside in, bringing the perspective of your customers to every decision you make.

Who are your customers? They're *both* the people who have purchased your goods or services *and* those who intend to buy your goods or services. Even if they don't actually buy anything, their active interest in buying puts them on our radar. That interest leads them to interact with you through your marketing efforts, your retail locations, your websites, and any other channels you support. And that leads

them to form perceptions of their experience — perceptions that will determine what happens next.

What qualifies as an interaction? Here's how we think about interactions: they're reciprocal. Your customer takes an action such as visiting your store or website. Your company responds in some way. Maybe an associate walks up to your customer, or the website pops up an invitation to chat. Your customer then responds to your company's response — asking the associate a question or accepting the chat invitation — and so it goes until your customer achieves her goal, or gives up. When you string a series of these interactions together you end up with the steps in the customer journey (see figure 1-1).

Which brings us back to where we started: *Customer experience is how your customers perceive their interactions with your company.*

As it turns out, those perceptions matter a lot — as FedEx discovered.

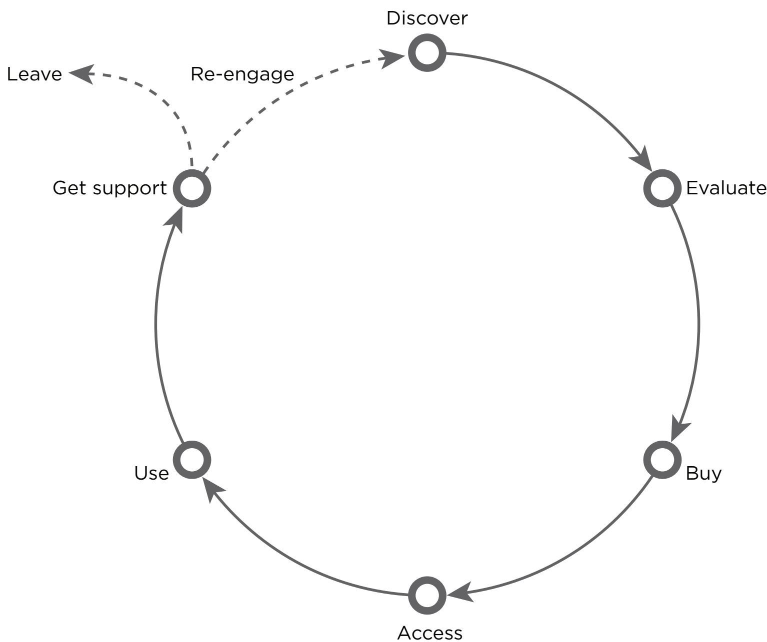
CASE STUDY: FEDEX EASES CUSTOMER WORRIES

Looking out from within the FedEx world headquarters in Memphis, Tennessee, it might seem that the customer experience starts with logistics.

The company ships about 3.5 million packages per day in a mind-boggling ballet of planes. If you were to hang around its "Super Hub" at the Memphis International Airport for a month, you'd see about five thousand FedEx aircraft pass through. There are parking slots there for up to 175 aircraft at any one time. Handling all the packages that come off those planes takes twelve thousand FedEx employees and more than three hundred miles of conveyor belts that move hundreds of thousands of packages per hour. It's like magic.

But looking from the outside in, the customer experience begins when FedEx picks up a package or when the customer drops one off. For many customers, drop-off involves a trip to one of six-hundred-plus World Service Centers and FedEx Office locations. FedEx had always treated the FedEx World Service Center locations as convenient places for customers who want to fly in, drop off a pack-

Figure 1-1: The Customer Journey



age, and fly back out again as quickly as possible. They even had a name for this type of customer — the Frisbee. FedEx thought that Frisbees accounted for the majority of walk-in traffic at these locations.

FedEx management believed they had been doing a pretty good job of serving these customers. But satisfaction surveys told them that not all customers were pleased with the experience. So in 2000, FedEx hired Ziba, a design and innovation consultancy, to help redesign the customer experience at the FedEx World Service Center locations. As part of that work, Ziba interviewed and observed FedEx customers to determine how they shipped packages and how they thought about shipping packages.

The results of the study were surprising. Only about 10 percent of the service-center customers were Frisbees. The rest fell evenly into three behavioral clusters based on how prepared they were when they

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walked in the door, and how much help they wanted from a FedEx employee. Of these groups, the most intriguing of all were the ones that FedEx dubbed *Confirmers.*

Confirmers are, in a word, uneasy. They walk in the door well prepared, with wrapped packages and a clear sense of how long it will take the packages to get where they're supposed to go. But even so, they can't help worrying that something bad might happen.

At the time, FedEx team members did something that made perfect sense to them but made Confirmers nervous. When a Confirmer handed over a package to a team member, the team member would process it and then place it on a pile (affectionately dubbed "the leaning tower of packages").

These FedEx team members knew — with a high degree of confidence — that each and every package in the pile would get to its intended destination. For them, the shipping process was working. But just seeing that pile sent a signal to Confirmers that their packages were *not* going to make it to their intended destination. Based on that simple visual cue, they thought that the shipping process looked broken.

As a result, Confirmers were on the verge of a panic attack because they believed something *with no basis in objective reality* ("My package will get lost because it's on that pile!"). And that made them highly at risk of taking their shipping business elsewhere.

The solution that transformed shipping into a great experience for Confirmers was elegantly simple. FedEx placed a wall with five presort windows behind the service counter. FedEx then trained their agents to take a package from a customer, say thanks, turn around, and slide the package through one of the windows. That sent a highly visible signal that the package was safe and sound and well on its way.

What was behind the agent wall? The leaning tower of packages.[2]

The Three Levels of Customer Experience

As we've already seen, customer experience is about customer perceptions. The research that Ziba conducted for FedEx reveals something

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fundamental about those perceptions. What was it about the shipping experience that disturbed Confirmers? After all, every time they used FedEx their packages got to the right destinations at the promised times — FedEx had optimized the shipping process with that goal in mind. Yet despite the fact that their needs were being met, quickly and easily, Confirmers were not having a good experience.

To fully understand why, you need to know that customers perceive their experiences at three different levels: *meets needs, easy,* and *enjoyable* (see figure 1-2). Every time they interact with a product, a service, a person, or an automated system, they judge how well the interaction helped them achieve their goals, how much effort they had to invest in the interaction, and how much they enjoyed the interaction. FedEx employees nailed the first two levels but blew it at the third when they failed to grasp how customers felt about the shipping process.

Figure 1-2: The Customer Experience Pyramid

Kerry stumbled upon the original version of this model — the customer experience pyramid — in an academic paper by Dr. Elizabeth B. N. Sanders when she was getting her master's degree in human-computer interaction from Carnegie Mellon.[3] Like a lot of thinking

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that's ahead of its time, Dr. Sanders's 1992 paper hasn't gotten the attention it deserves. We've applied it in our own research for a number of years and tuned the version you see here as a result of our findings. It proves out beautifully in the real world — as we'll demonstrate in chapter 2.

Indeed, this model is so helpful when it comes to understanding customer experience that it's worth spending some time on. Let's start with the first level, meeting needs. That's at the base of the pyramid for a reason: It's the bedrock.

What if Office Depot never had printer paper or toner in stock? What if FedEx couldn't get packages to the right destinations? These would be company-killing failures beyond rescue by a sympathetic customer care representative. Game over, thanks for playing.

When "Easy" Offers Competitive Advantage

But when companies do meet basic needs — and all of them must if they want to keep their doors open — the next level of customer experience always comes into play. Well, almost always. As it turns out, being easy to work with is optional *only* for businesses where customers literally have no choice.

Let's look at a fairly benign example that illustrates this point: the Ford Model T. It was not exactly "user friendly." It took two people to start a Tin Lizzie: one sitting in the driver's seat and one standing in front of the vehicle and turning a crank. The person turning the crank took a big risk. Sometimes the engine would "kick back" and start spinning the crank in the opposite direction, a design flaw that broke many a crank-turner's wrist.

Yet in its day, the Model T was a huge commercial success because it was the only affordable car for the masses. It let Ford win out in the marketplace by owning the base of the customer experience pyramid.

Today Ford couldn't give away a vehicle that started with a crank and might break your wrist in the process. With tons of competition for low-priced vehicles, the company pays tons more attention to ease of use. Now for well under twenty grand you can buy a new Fiesta

with touch-screen controls, a voice-activated navigation system, and a hands-free dock for your phone.

Who *can* get away with being hard to do business with in this day and age? Ironically, the best example we could come up with also has to do with cars: the Department of Motor Vehicles. And the only reason they can get away with it is because customers can't take their business elsewhere — yet.

In contrast, we've see many examples where ease of doing business created a competitive advantage — or an entire industry. It was possible to upload video to the web, but not much consumer-created video was actually *on* the web until YouTube came along and made uploading easy. Digital music players didn't catch on because it was hard to get music onto them. Then Apple launched iTunes and iPods (which also led to iPhones and iPads and a market capitalization of $589 billion as of this writing). Netflix, eBay plus PayPal — there's real money to be made by lowering the barriers to customers using your product or service.

Meeting needs. Making it easy to buy a product or use a service or get customer service. It's not hard to believe that these are important aspects of a customer experience. But what about the idea that a company should make customer interactions enjoyable? Not everyone agrees that "enjoyable" is a key part of customer experience. Some people want to believe that only a few industries, like media or retail, need to worry about being enjoyable to work with, and not, say, manufacturing or shipping.

But remember our FedEx customer, the Confirmer. No offense meant to our friends in Memphis, but package shipping has got to be one of the least glamorous industries on the planet. Yet FedEx has an entire customer segment whose experience — and therefore continued business — hinges on positive emotional engagement. And FedEx does something about it. Because when it comes to customer experience, package shipping is also one of the most competitive industries on the planet.

Let's take a moment and see how these three levels of customer experience — meets needs, easy, and enjoyable — work together in a real-life scenario.

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One Bad Experience Can Be All It Takes to Lose a Customer

Harley lives in Winchester, Massachusetts. Until recently, Comcast was his only option for cable service. Then competition came to Winchester. Verizon laid fiber-optic cables down Harley's street and soon afterward started aggressively marketing its FiOS service. The direct mail and television ads were relentless. Eager young Verizon employees knocked on his door every weekend looking to make a pitch. Soon friends began telling Harley that they'd switched and were delighted with the quality of their new Internet access, television package, and phone service.

However, none of this convinced him to switch — Comcast met his needs. The TV picture quality was good and the online service was fast. Plus, switching seemed like it would be a lot of effort.

Then something relatively minor happened. It started when Harley couldn't get online at his usual time: 5:30 a.m. The last time this had happened, just a month earlier, he'd wasted an hour trying to fix the problem before calling customer service to discover that there was a network outage. This time he immediately picked up the phone and dialed customer service. After navigating an unhelpful automated voice response system, he got through to a service representative. The rep, monosyllabic and grumpy, confirmed that the network was down — and failed to offer any insight as to when it might come back.

After Harley hung up, he had a delayed reaction. To be blunt, he got pissed off. He knew that the phone agent couldn't restore his service. But he sure as hell could have been polite, and an apology would have been nice. At that moment Comcast hit the customer experience nadir: It was not meeting Harley's needs because the service was down; it was not easy to use because he'd had to fight his way through its frustrating phone menu in order to get help; and it was decidedly not enjoyable because when he *did* get "help" it was from Mr. Grumpy. Later that morning, Harley called Verizon and made an appointment to have FiOS installed.[4]

It would be easy to dismiss this story as an isolated anecdote except for two facts. The first is that Comcast has an explicitly stated goal of becoming number one in customer experience. Its website includes this pledge: "Comcast will deliver a superior experience to our customers every day. Our products will be the best and we will offer the most customer-friendly and reliable service in the market." The second is that Comcast customers give it the lowest customer experience rating in its industry — and close to the lowest customer experience rating of any company in any industry we've studied. In other words, there are a lot of people out there having a similar experience to Harley.

If you juxtapose what Comcast says it wants to do with what its customers say it actually does, it's clear that Comcast could hardly do worse at achieving its customer experience goals.

Why Customer Experience? Why Now?

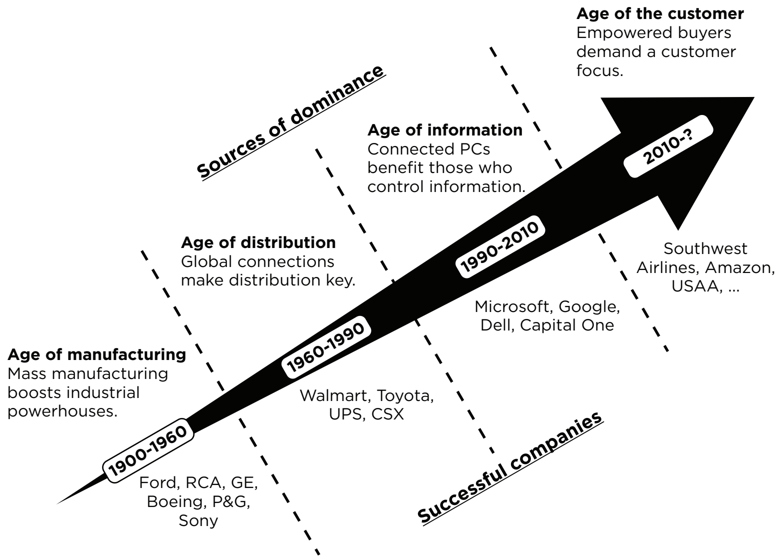
Based on our research with hundreds of companies, the challenges faced by Office Depot, FedEx, and Comcast are far from unusual. In fact, they're typical.

For decades, companies have been paying lip service to the idea of delighting customers while simultaneously disappointing them. That approach won't cut it anymore. Recent market shifts have brought us into a new era, one Forrester calls *the age of the customer* — a time when focus on the customer matters more than any other strategic imperative (see figure 1-3).[5]

Competitive barriers of the past — manufacturing strength, distribution power, information mastery — can't save companies today. One by one, each of these corporate investments have been commoditized. Now every company, and even enterprising individuals with smartphones, can tap into global factories and supply chains. And after huge IT investments, companies are realizing that the Internet cloud provides all of the computing resources they need.

Industry boundaries have dissolved. Automakers compete not just against one another but also against Zipcar, the wildly popular car-

Figure 1-3: We Have Entered the Age of the Customer



sharing service that makes the need for urban car ownership go away. Likewise, Google News, Expedia, and iPads undercut newspapers, travel agents, and laptop manufacturers, respectively. And eBay alone swallows massive amounts of profit from the retail industry as a whole.

Amid all of this, customers have more power than ever. With online reviews, social networks, and mobile web access, it's easy for customers to know even more than sellers about products, services, competitors, and pricing.[6]

The game has changed, and we all know it. Organizations sincerely want to deliver an improved customer experience, but overwhelmingly they fail to see the whole picture — how the back office, trusted business partners, incentive programs, and entrenched business processes undermine that effort.

Outside In aims to fix the problem by revealing the new imperative: creating and nurturing a system of interdependent, self-reinforcing practices that align employees, partners, processes, policies, and technology around customers. This is not just the same old "focus on the customer" message. It requires a new way to manage, looking deep

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into every process and incentive to see whether it supports the overall goal: *Deliver a great customer experience.*

In the next chapter, we'll show you the money — the economic impact of improving customer experience. Then we'll introduce you to a simple tool that reveals *where* you must focus your efforts in order to make those improvements. After that we'll describe the six disciplines that companies need to master if they truly want to take improving customer experience from a bumper-sticker slogan to a self-sustaining, competitive advantage.

Ready? Because it's time to do the numbers.

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Customer Experience Means Billions to Business

Parrish Arturi is senior vice president, customer experience, at Fidelity Investments, a company with a long history of taking customer experience seriously. In fact, the customer experience function that Parrish runs had been around for roughly six years when he took over.

Parrish raised his hand to run the customer experience organization in the middle of 2010 because he saw an opportunity. Up until that time the group had been narrowly focused on measurement — helping employees understand customer feedback and then put plans in place for making improvements. But Fidelity had recently upped the ante on customer experience by making it a major part of its five-year business plan. That led Parrish to believe that the time was right to expand the group's role at the enterprise level and take a more proactive approach.

He immediately began to focus on process improvement — going after systemic problems that got in the way of Fidelity serving its customers. Because some of the problems were big "rocks" and others just "pebbles," he introduced an innovative process improvement of his own. Instead of asking people to submit full-blown business requests for small projects, he got a pool of money dedicated to paying for little

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changes. By requiring appropriately lightweight justifications for these minor requests he was able to tackle more projects, faster.

One of these small projects began when a service rep noticed that a large number of people were having trouble logging in to their accounts through an automated phone system. The rep started a thread about the situation on a Fidelity discussion board dedicated to generating ideas for experience improvements. Parrish's team, the owners of the board, saw the thread and flagged it for attention.

The team then worked with the people who manage the phone system to identify the root cause of the login issue and quickly launch a solution. Although the total cost of that fix was less than twenty thousand dollars, it saves Fidelity $4 million a year by averting calls to customer service. It was just one of over one hundred and sixty projects that came through Fidelity's experience improvement system in 2011. Together those projects accounted for over $24 million in annual savings.

Fixing small problems and generating big savings is great. But over time Parrish realized that he could tackle more fundamental process changes by looking at key moments from the customers' perspective. His team identified problem resolution as one of these moments, and piloted an improved model for helping high net worth customers when they ran into trouble. Any time one of these well-heeled investors hit a snag, Fidelity assigned a case manager who followed their issue through to a solution. The program not only drastically reduced the amount of time to resolve problems — a benefit to customers — it was also a big hit with Fidelity employees such as the account executives, who liked having a single person working on their behalf to help resolve a major client's problem.

As promising as this sounds, Parrish didn't take it for granted that these efforts produced business results. Like all successful customer experience professionals, he carefully tracked the impact of the program and similar outreach efforts. As expected, there was a huge decrease in unhappy customers: The number of customers in the "detractor" category dropped by more than half.[1] Just as encouraging, there was a large increase in the number of happy customers.

Because his team could identify specific customers who'd become

"promoters," they were able to determine how much more these people were investing with Fidelity. Clients who said they'd had a good experience put four and a half times more cash into their accounts than clients who said they'd had a poor experience. In total, this larger group of happy high net worth customers increased their investments with Fidelity by several billion dollars.

Did these results surprise his executives? "It didn't surprise them," Parrish explains. "This all makes intuitive sense. Having the specific numbers just puts the exclamation point on the business case."

When You Treat It As a Business Discipline, Customer Experience Leads to Profits

Here's the fundamental lesson of Parrish Arturi at Fidelity: *Customer experience leads to profits.* But not because it makes your customers feel warm and fuzzy, and not when it's just a slogan. Customer experience leads to profits . . . *if you treat it as a business discipline.*

In fact, customer experience is the greatest untapped source of both decreased costs and increased revenue in most industries — but only if you take the time to understand what underlies it and how you can benefit financially from improving it. And that is something that you *must* learn how to do. Customer experience fails to gain traction at companies that treat it like something soft and squishy.

We saw an example of this a few years ago when we were invited to run a workshop at a client's offsite meeting. The meeting had been called by the president of one of the company's divisions and included all of the president's direct reports. They had gathered because the CEO had issued a directive: The company was to become number one in customer experience for its industry.

Here's the catch: The directive had come down *two years earlier* and no one had done a thing about it. Now the division president, who had just stepped into the job, aimed to fix that situation.

There were about twenty people in the room, and after a while it became clear that the group had divided into two camps. The majority had shown up excited about improving customer experience and became even more excited as we got into specific ways to do that. But

there were also three skeptics who became increasingly negative over the course of the day.

Finally, the most senior naysayer summed up his objections: "I have the funding to do two projects next year. One will bring us $5 million in annual revenue, and one will bring us $3 million in annual savings. Improving customer experience sounds great in theory, but what specific projects do you have that will earn more than $5 million or save more than $3 million? Tell me and I'll do one of those instead."

The pro–customer experience side of the room was outraged. Prioritizing customer experience projects was a "no-brainer," right? Every company needs customers, so it's obvious that customer experience is important. Besides, the CEO had decreed that they would be number one in customer experience!

As we stood at the front of the room, we watched the debate grow heated. Finally we interrupted and, to their evident surprise, addressed the most vocal customer experience enthusiasts. "Hold on a minute. He's right. You have got to learn how to build business cases for customer experience projects. If you show up with a business plan that has all cost and no benefit you will lose out every time to projects that show ROI."

We've seen similar situations many times. The customer experience champions in the room were enthusiastic, but lacked the business discipline needed to turn their excitement into action. Instead — after two years of inaction — they sat in that room debating what, if anything, to do about their situation. They were paralyzed because they hadn't approached customer experience from the perspective of the business results it delivers — unlike Dan Hesse at Sprint.

CASE STUDY: SPRINT'S CEO SAVES BILLIONS BY IMPROVING CUSTOMER EXPERIENCE

In June 2010, Sprint CEO Dan Hesse gave the opening keynote speech at Forrester's Customer Experience Forum. Tall, with a deep voice and a surprisingly open manner for someone who runs a major corporation, Dan leads the third-largest wireless telecommunications network in the United States.

"You may be wondering why someone from Sprint is giving a speech about customer experience," he began, essentially inviting everyone to reflect on their poor experiences with mobile operators. After a pause to let that sink in, he resumed. "Perhaps some of you have been that kid on a team who won the 'most improved' award." His punch line got a good laugh from the audience.

Dan had taken over as CEO in December 2007. Nobody was laughing then — Sprint had been bleeding red ink, losing customers faster than any of its major competitors. It had the lowest customer satisfaction scores of all of them.[2] In Sprint's internal presentations, managers highlighted the problem through customer complaints. These ranged from the polite ("Candidly, I encountered problems in almost every facet of my Sprint relationship") to the blunt ("Your service sucks").

Customers weren't shy about calling the company when they had a problem, and there were lots of problems. Even though Sprint employed an army of contact center agents to handle the calls, they could only cope with less than half of them. The remaining calls were outsourced to third parties at fees that rose in proportion to volume. To make matters worse, when service reps couldn't solve a problem — which happened a lot — they tried to make things right by giving customers credits. As Dan's director of customer experience, Tim Gay, put it, "When your customer experience is bad you buy off your customers — you give them a fifty-dollar credit." The result: Poor experience was taking a massive toll between call center outsourcing fees and customer compensation.

The deadly combination of fleeing customers and rising costs led Dan to set three priorities during his first week on the job: improve customer experience, strengthen the brand, and generate cash. "I always put customer experience first, then brand, then cash because it is a logical sequence," he explains. "You might argue that customer experience is first among equals. It really comes down to customers — attracting and retaining customers is how we generate cash."

And generating cash was an especially big deal for the cash-strapped wireless carrier. Dan reasoned that he had to focus everyone in the company not just on improving customer experience, but also on do-

ing it in ways that would unquestionably benefit the bottom line. But how?

He settled on a simple yet effective strategy: Drive down the number of calls to customer service. He went with this approach for several reasons. For one, each call was tagged with a reason code such as "dropped call" or "couldn't understand the bill." That made it possible to create a list of the most frequent drivers of customer dissatisfaction. And this unambiguous data gave his team a starting point for tracing and attacking each problem's root cause.

Another reason was that Dan could hold the appropriate part of the organization accountable for fixing specific problems. "Most customer contacts had someone other than the person in charge of the call center who was responsible. Take dropped calls. I held the network person responsible for getting those calls to go down."

Here's how the process worked in practice. Having identified the biggest call drivers from the data, Dan's customer experience team traced their root causes. Then they worked with the responsible department — like marketing, IT, or billing — to resolve the underlying issues. For example, many calls were traced back to customer confusion about Sprint's large number of calling plans. The company responded by reducing the total number of plans even as it introduced a small number of unlimited "Simply Everything" plans — reinforcing Sprint's brand position as one of simplicity and value.

The real beauty of this strategy was that, even as it advanced the longer-term goal of reducing churn, it delivered near-term results by cutting costs. "Once we started knocking down these call reason codes," Dan explains, "we were able to close the third-party call centers, which made an immediate improvement to our bottom line."

This strategy of reducing calls to customer service was a smashing success. Even the near-term business results were staggering. The cost savings alone added up to over $1.7 billion *per year* as a result of fewer outsourced calls and fewer customer credits.

Unsurprisingly, Sprint's customer satisfaction scores rose as well. The once dead-last company came in first among major wireless carriers in the 2012 American Customer Satisfaction Index.[3] By early 2011,

improved customer satisfaction had already brought Sprint's customer churn rate to its lowest level in company history.

As we write this, it's unclear how the Sprint story will *ultimately* turn out. In 2011, Dan Hesse moved into a new, more costly phase of customer experience improvements. He cut a deal with Apple to sell the iPhone — an expensive but necessary move given that his two major rivals offered the super-hot device. He also doubled his capital investment in Sprint's network in order to support increased data traffic from smartphone users.

While these were absolutely the right moves to make, the size of the total investment made the market skittish and threatened his support by shortsighted investors. Customer experience improvements can usually help, but can't always get you out of a crisis in time. Even so, despite the dip in 2011, Sprint's shareholder return for the total period from 2009 (when Dan began his efforts) to early 2012 (as we write this) has outperformed competitors.

Learn to Make the Business Case for Customer Experience

So if you believe in the business benefits of customer experience, how *can* you prove your point? The surefire way for most companies is to start with cost avoidance. In hard times, that's often the only way to get funding, and, even in good times, all firms love to save money.

The simplest way to prove savings is to do what Sprint did: Find customer experience problems, fix them, and measure the actual results. Then use your findings to continuously build support for your efforts over time. If you don't have your own version of Dan Hesse behind you, start with projects small enough to get funded by someone at a lower level of the organization. This approach works for any organization that delivers a less-than-perfect experience — and that's *every* organization.

To make a profit by spending on improving customer experience, you must first find places where the spending actually matters. Just as important, you should avoid spending on experience improvements that *don't* actually matter. Take, for example, Canada Post, the postal

service for Canada. Canada Post is a crown corporation, which means that even though it's owned by the federal government of Canada, it operates much like any other business and is expected to make a profit — which it has for sixteen years in a row.[4]

A couple of years ago the customer experience team at Canada Post looked at the correlation between package scanning and customer loyalty. Packages get scanned as they pass through checkpoints on their way from whoever shipped them to whoever is receiving them. Customers use the data from these scans to track the progress of orders and get reassurance that they haven't been lost. For example, a shopper might follow along online as her package arrives in Canada from China, then gets put on a plane to Montreal, and so on.

Initially, Canada Post assumed that more scans were always better because customers would like to know every step that a package took along its route. To supply that information, the business would have to scan a package every time it changed hands. And that would add up to a lot of scans done by a lot of employees with a lot of expensive equipment.

But when the customer experience team analyzed the data, they found a clear point at which additional scans didn't increase loyalty at all. At that point other aspects of the customer experience became more important, offering a better return for Canada Post's investments. The end result was that Canada Post leaders saved money by not buying more scanning equipment than it needed.

Most Companies Have Lots of Room for Improvement

Does your company have customer experience problems? Almost certainly. We know this because we've been measuring the customer experience delivered by top brands since 2007 through our annual Customer Experience Index (CXi) — and the great majority of companies don't do well.

Here's how the CXi works. We ask more than seven thousand consumers to identify companies they do business with across thirteen industries. We ask them to tell us how well each firm met their needs,

how easy the firm was to work with, and how enjoyable each was to work with (questions that correspond to the three levels of the customer experience pyramid that we described in chapter 1 — meets needs, easy, enjoyable). Then for all three questions we calculate each firm's CXi score by subtracting the percentage of its customers who reported a bad experience from the percentage who reported a good experience. The overall CXi is an average of those three results.

We don't limit the survey results by just asking about a single channel like a retail location or a call center. Instead we take an enterprise-level approach and ask about the entire experience, which could span products, services, business units, and channels. This gives us the customers' holistic view of the brands they do business with.

Here's what we found when we ran this study in 2012 — a pretty typical year. We collected statistically significant data samples for a total of one hundred and sixty U.S. brands. Based on their scores we categorized them into five different groups: Excellent companies were at the top of the charts, receiving scores of 85 points or higher. Good companies earned scores in the 75 to 84 point range, which is respectable — kind of like getting a B minus to a B in school. Then came the Okay companies with C student scores of 65 to 74. After that were the Poor companies (55 to 64 points) and the Very Poor companies (54 points or less).

So how did these major brands do in the eyes of their customers? Only 3 percent were Excellent, and just 34 percent were Good. That left almost two-thirds of the brands in disappointing territory: 31 percent were Okay, 23 percent were Poor, and 10 percent were Very Poor (see figure 2-1).

This tells us that mediocre customer experience is the norm, and that great customer experience is rare. What this means is that customer experience is a powerful differentiator for the very few companies that do it well.

This situation presents an incredible near-term opportunity for gaining a competitive advantage. We see entire industries where simply being *adequate* at customer experience makes a company stand out. For example, health-insurance companies have owned the cellar in our Customer Experience Index every year since we began the study,

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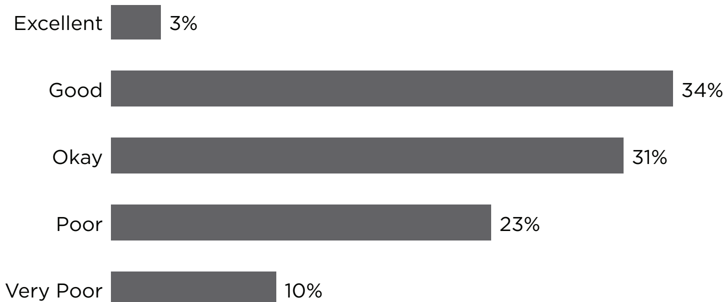
Figure 2-1: Distribution of Customer Experience Index Scores, 2012



Base: 160 large North American brands scored in Forrester's Customer Experience Index, 2012, (percentages may not total 100 because of rounding)

Source: Forrester's North American Technographics Customer Experience Online Survey, Q4 2011 (US)

and 2012 was no exception (see figure 2-2). The industry average of 55 was at the very bottom of the Poor category. Top scoring companies, like Kaiser Permanente or Blue Cross Blue Shield of Illinois, tower over the rest of the industry with their Okay score of 72. They don't have to do customer experience better than firms in general — they just have to do it better than other health-insurance companies.

Other industries performed almost as badly in the eyes of their customers. The credit card and airline industries barely made it into the Okay category. Meanwhile, wireless service providers, TV service providers, and Internet service providers all had average scores that put them squarely in the Poor category, right alongside the health-insurance companies.

If you're not in one of those industries you can breathe a sigh of relief, right? No. We find huge gaps between the leaders and the laggards within virtually every industry. For example, the top company across all industries was a bank: USAA, with its impressive score of 89. Meanwhile, the bottom-ranked bank — Bank of America — earned a score of just 55. Also in that 64-points-and-below Poor category were HSBC, U.S. Bank, Citibank, and Wells Fargo.

Should you care if your industry is near the bottom of the CXi? Or if your company's customer experience is near the bottom of its indus-

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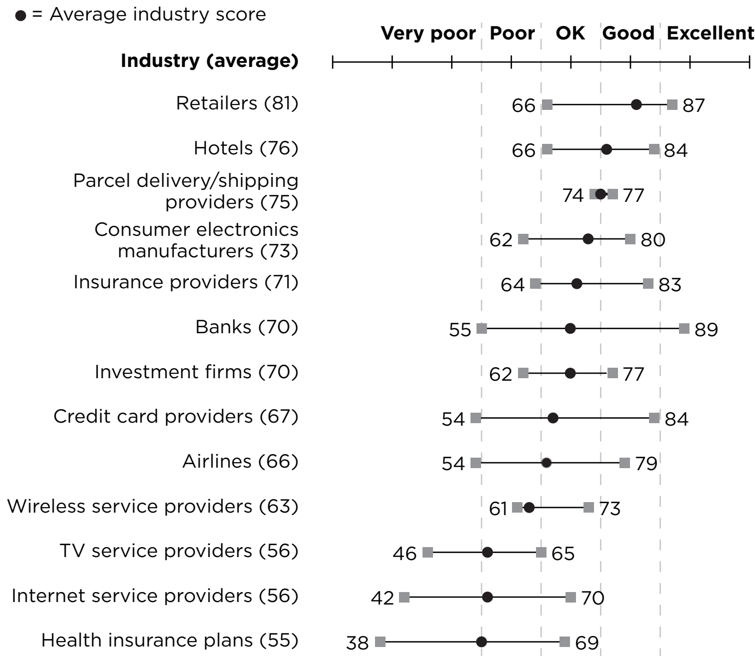
Figure 2-2: High, Low, and Average Customer Experience Index Scores By Industry



Base: US online consumers who have interacted with brands in these industries

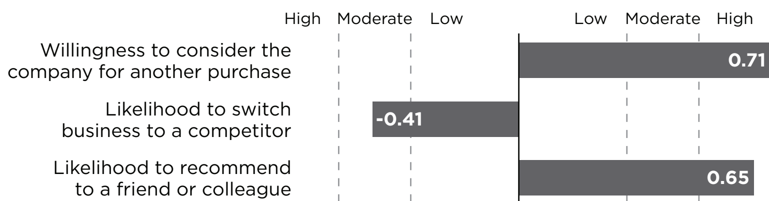
Source: Forrester's North American Technographics Customer Experience Online Survey, Q4 2011 (US)

try? Yes, because it means you're not only bleeding money from unnecessary costs, you're leaving more revenue opportunity on the table than you can probably imagine.

Customer Experience Correlates to Loyalty

Parrish Arturi proved that customer experience drives revenue from Fidelity customers. You can't afford to ignore his example because this is the case for just about everyone's customers. Unless you work for a true monopoly, it is certainly the case for your customers. There's a simple reason why this is true: Customer experience correlates to loyalty. And that means that companies with higher CXi scores have

Figure 2-3: Correlation Between CXi Scores and Loyalty Metrics



Base: US online consumers

Source: Forrester's North American Technographics Customer Experience Online Survey, Q4 2011 (US)

more customers who will buy from them again, who won't take their business elsewhere, and who will recommend them to a friend.

Here's how we know this for a fact.

When we field the CXi survey, we ask consumers to tell us three things: How willing they are to make another purchase from each company, how likely they are to switch business to a competitor, and how likely they are to recommend each company to a friend. Their answers let us calculate the relationships between customer experience and three of the most common loyalty metrics used in business today: purchase intent, churn, and word of mouth.

The relationships are impressively strong — about as strong as correlations get in the real world (see figure 2-3).[5] For purchase intent and word of mouth they're so high that *nothing else you do is likely to have more impact* on whether you'll get another sale or a recommendation from your customers. And that makes intuitive sense, doesn't it? Customers who've had bad experiences with your company won't be eager for more. Nor will they send their friends your way — not any more than you'd send *your* friends to a restaurant that served you a bad meal, or to a retailer that sold you a defective product and wouldn't take it back.

The correlation with likelihood to take business elsewhere is also significant.[6] Once again it's easy to see why. Giving your customers a bad experience — by not meeting their needs or just being rude — makes them wonder whether they wouldn't be better off buying from some-

one who isn't you. That's great for your competitors. They won't have to convince your customers to leave since you already did that for them. All they have to do is appear to be a credible alternative. For companies in industries where customer retention is a make-or-break issue — like wireless service providers — this can make the difference between profitability and failure.

The Eye-Popping Impact on Revenue

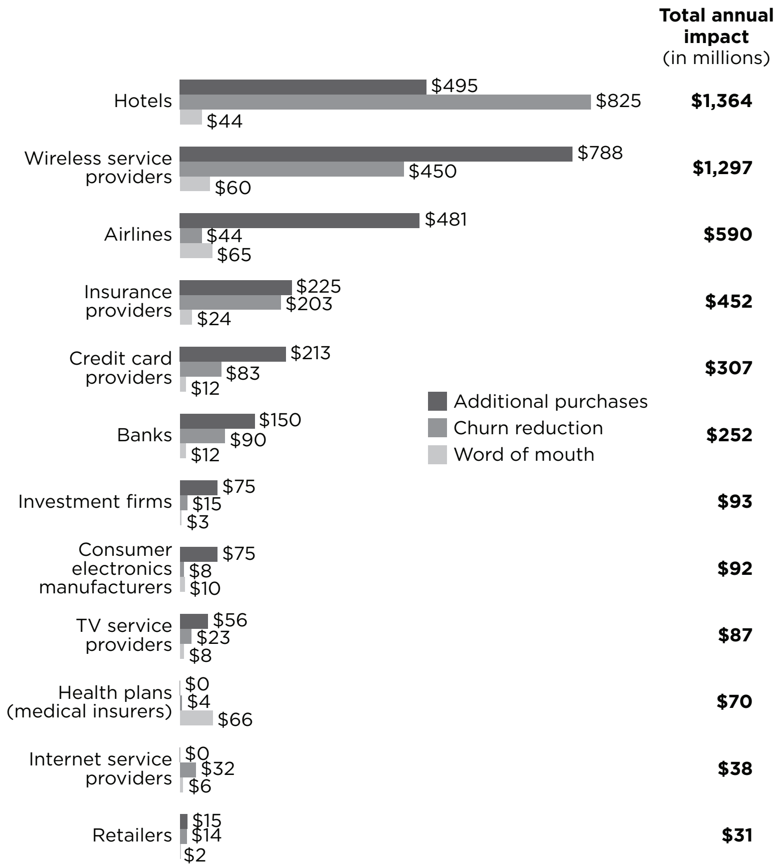
A good customer experience drives loyalty up, and a bad customer experience drives loyalty down. So what's the potential revenue benefit from driving customer loyalty up by improving customer experience? We answered that question by creating a model that predicts what would happen if a company with below-average customer experience for its industry improved to the point where it delivered an above-average customer experience for its industry.[7]

We modeled three types of revenue benefit from this improvement: incremental purchases from current customers, retained revenue as a result of lower churn, and new sales driven by word of mouth. When you add them up, the model shows that even small shifts in customer loyalty can translate into billions of dollars of incremental revenue per year for companies in two industries: hotels and wireless service providers (see figure 2-4).[8] And even the least affected industries like retailers and Internet service providers can see tens of millions of dollars in revenue benefits.

Major hotel chains have the most to gain: a total of $1.364 billion of revenue. The bulk of that money — $825 million — comes from retaining business that would have been lost to competitors. If you travel much yourself, you know that a hotel runs the risk of driving customers away when it delivers a subpar experience: You have no switching cost for taking your business elsewhere, and usually have many options when looking for a place to stay.

Hotels that go from providing a below-average experience to providing an above-average experience can also see a big revenue gain by grabbing business from their competitors. Our model shows that hotels that provide an above-average customer experience can earn an

Figure 2-4: Customer Experience Revenue Benefits



Source: Forrester's North American Technographics Customer Experience Online Survey, Q4 2011 (US)

incremental $495 million in revenue from additional night's stays by their happier, and therefore more loyal, guests.

The big wireless carriers also have a lot to gain: a total of $1.297 billion. That number includes $788 million from incremental purchases like adding a data plan or a second phone for another member of the family. It also includes $450 million of "retained revenue" — money the carrier would have lost but instead gets to keep because it lost fewer

customers. Because these carriers have tens of millions of customers, keeping even a small incremental percentage of them makes a big impact on the bottom line.

In contrast, the average large retailer stands to gain just $31 million by providing better customer experiences. Why so low? Simple: It's that word *average*. There are a lot of retailers out there, which caused us to base our assumption on a base of just 4 million customers. But if you're Walmart and 100 million customers pass through your retail stores every week, or if you're one of the other retail giants like Target, Walgreens, or The Home Depot, you can start adding zeroes to the end of that $31 million figure.[9]

No industry is totally immune from the revenue impact of customer experience. Take health-insurance providers — the average large provider could see an additional $70 million in revenue by improving its customer experience. That's despite the fact that in the United States, health-insurance plans have been virtual monopolies from the point of view of their members.

Increasingly, however, health plans face threats from new forms of competition due to changes in legislation. That means they can now benefit from putting effort into retaining their newly at-risk customers as well as from winning new customers who have choices where they didn't before.

Revenue increases ranging from tens of millions of dollars to over a billion dollars: These numbers aren't just hypothetical. Already, companies that lead in customer experience — some of them your direct competitors — have turned the potential benefits shown by our model into reality. Let's look at some of them now.

Companies That Prove the Business Benefit of Customer Experience

USAA is a diversified financial services company that has the highest Customer Experience Index score in three industries: banking, credit cards, and insurance. This translates into strong financial performance in both good times and bad. As Wayne Peacock, executive vice president of member experience, points out, USAA retains 97 percent to 98

percent of its members year after year. It also had one of its best years ever in 2008 — when most of the financial services industry tanked.

In January 2010, USAA reorganized and placed all nine thousand customer-facing employees into a single organization under Wayne. This helps the firm execute on its vision of going to market based on customer journeys, not internal business silos. For example, USAA offers auto insurance, auto loans, and a car-buying service to its members. If it took a typical approach it would let each of those lines of business sell its product in whatever way it saw fit — probably without sharing customer data across silos. Instead, in 2010 USAA launched Auto Circle, an integrated offering that supports members' journey of finding the right vehicle, paying for it, and insuring it. That move drove a 15 percent year-over-year increase in completed auto loans and a 23 percent increase in vehicles sold through its car-buying service.

USAA is on the leading edge when it comes to customer experience. Some companies reap less extreme — but still huge — results through less radical measures. In fact, just listening to customers and then closing the loop can be a game changer.

In 2009, Calvin Vass began making changes to his company's customer loyalty survey. Calvin is the senior manager, competitive analytics and market research, at CDW, a company that sells technology products and services to businesses, government agencies, and schools. He'd been doing research there since 2005, but he'd started his time at the firm in sales — and he'd never lost his focus on the practical applications of customer understanding.

Calvin engages regularly with his coworkers around the findings unearthed by his team. In return, he often gets suggestions that he then tests out. In response to one such idea he added a single question to the standard survey he fields: "What additional things would you like to talk to your sales team about?" At the time he didn't know what to expect. But with hindsight it's clear that this question is a natural fit with virtually any customer-survey program because it gets at the base of the customer experience pyramid (the "meets needs" category).

Calvin collected the answers to the new question and funneled them to the appropriate account managers. The account managers closed the loop by getting back to the customers with a simple mes-

sage: You told us that you have a need; we'd like to offer you something that could meet that need. And guess what? Customers took the CDW sales reps up on it. This seemingly simple innovation drove over $200 million in incremental revenue in just one year while also increasing customer satisfaction because the customers felt like someone was listening — which they were.

A similar approach has been proven to work in many industries, both business-to-business and business-to-consumer. In chapter 10 we'll talk about how Jim Bush transformed the American Express call centers. As part of that transformation, the company reinvented the service culture at Amex to focus on building relationships with customers rather than merely servicing transactions. Amex now trains phone agents in active listening during service interactions in order to identify unmet customer needs. For example, if an agent notices that the customer buys airline tickets frequently, the agent might highlight relevant card features like free access to airport lounges.

This program helped drive an average 20 to 25 percent growth in spending on Amex cards as customers learned to choose it over alternatives that didn't offer those benefits.[10] It also drove a 10 percent improvement in service margins, and "recommend to a friend" scores more than doubled.[11]

Where to Begin If You Want In on the Action

You can do this. If you're a CEO, you can do what Dan Hesse did — find and fix the problems that are sapping your business. If you're in charge of customer experience like Parrish Arturi you can put programs in place that increase customer loyalty and bring you more revenue just by doing the right thing for your customers. And if you work in marketing or sales or IT — or just about anywhere in your company — you can be the one to start your organization down the path to providing a better customer experience.

In the following chapters we'll give you the tools you need to compete in the age of the customer. You can't afford to ignore these tools. Over the next decades, literally *every* company will compete on the

basis of customer experience. In fact, they already do — most just don't realize what that really means, what's at stake, or how to do it well.

This may seem overwhelming. With something this big and this important, it's hard to know where to start if you want to create change. That's why in our next chapter you'll learn about a simple but remarkably effective framework that can help you do just that: the customer experience ecosystem.

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