



A few tips on...

MEASURING THE EXPERIENCE

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If you're going to centre your corporation on customer experience, you have to be able to measure it

Ray Davis
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The crucial question is 'HOW?'

For many organisations, customer satisfaction has been the key measure of loyalty. Satisfied customers were equated with loyal customers. No longer.

Traditional measures of customer satisfaction have little to do with customer experience or financial performance, for that matter. 'It is estimated that 80% of customers who switch suppliers express satisfaction with their previous supplier.

In his classic HBR article '**The one number you need to grow**', Frederick Reichheld suggested that '**advocacy**' rather than satisfaction, was the key driver of revenue growth. This is the extent to which customers prefer a supplier and then refer friends and colleagues to them.

When the late Steve Jobs introduced the iPad at the annual Apple convention, the reaction of the audience was more akin to a religious meeting than a product launch. Apple customers are passionate champions for the brand in a way few other technology users are.

How does this translate into money? Satmetrix research into the computer hardware industry found that Apple advocates generate revenues of \$4,500 for the brand compared with competitors' customers who contribute just \$2,600. The difference is the emotional connection with the brand: Apple customers are willing to pay more, repurchase more frequently and refer other customers.

This advocacy, says Reichheld, can be measured through his loyalty metric, the Net Promoter Score (NPS) which subtracts those customers who are dissatisfied from those who are highly satisfied.

In his book **The Ultimate Question**, NPS is touted as the most important metric for business, an assertion that has been actively debated since its debut most notably by authors such

as Tim Keiningham of Ipsos Loyalty and Matthew Dixon of the Corporate Executive Board.

So is NPS the answer?

Advocacy requires you to know who your most profitable customers are and to consistently deliver a customer experience so as to create a high degree of trust in your brand. Only then will these loyal and highly profitable customers be prepared to recommend your organisation to others.

However, advocacy, like satisfaction and indeed profitability are lagging indicators – the RESULT of differentiation and customer preference. You need to measure the leading indicators of customer experience and your performance on the key drivers of customer loyalty and advocacy as well.

The customer experience scorecard

The best way of doing this is to build a scorecard which is a process wherein metrics are causally linked to one another, and together form a coherent system that can predict future results. It is a strategic tool that focuses the organisation on customer value creation and provides a succinct and powerful way to communicate the essence of customer focus strategy to all employees. It helps everyone understand what is critical to the company and its customers, and ultimately drives employee behaviour. It also provides a means to measure the Return on Investment (ROI) of customer experience improvement efforts.

We've outlined a framework on the next page to show you how you might approach this.

MEASURING THE EXPERIENCE

STEP 1

Starting on the right-hand side of the model, identify the critical measures for each element of the scorecard.

STEP 2

Then for each measure define three elements. These include the goal, the metric and the target. As far as possible, ensure that each element within each box meets the criteria listed on the right:

Goal

- Statement of strategic intent
- A desired result

Metric

- Measurable value of a goal
- Obtainable
- Reliable
- Precise
- Always expressed as a number
- Controllable

Target

- Based on baseline, capability, competition, process limits, customer expectations
- Near term hurdle

THE CUSTOMER EXPERIENCE SCORECARD



| Goal | Metric | Target | Drives |
|---------------------------------|-------------------------------|----------|---------|
| Retain existing customers | Churn | <15% | Revenue |
| Acquire new customers | Customer advocacy | > 10% | Orders |
| Increase customer profitability | Average value per transaction | \$16,000 | Margin |
| Improve brand preference | Ease of use | 9/10 CSI | NPS |

Source: Managing the Customer Experience by Shaun Smith and Joe Wheeler

MEASURING THE EXPERIENCE

STEP 3

With your team, review the 'strawman' scorecard that you have created. Check to see that you can trace the causal link between and explain how each measure drives the goals, metrics and targets in the box to its immediate right.

Ask the team:

- What do you like about the scorecard?
- Does it reflect the dynamics of the business?
- What is unclear?
- What do we need to change?

Revise as appropriate

THE CUSTOMER EXPERIENCE SCORECARD

Critical success factors

- Focus on the few key metrics that are critical to success.
- Choose the stakeholders that will be involved in creating the scorecard carefully. This is an opportunity to align key stakeholders regarding expectations and outcomes for the business and provides an excellent opportunity to build buy-in, alignment and commitment.
- Be sure you understand how baseline data used in setting targets was calculated.
- Review the scorecard regularly and in particular, test the relationships between metrics to identify the key leading indicators.

People

| Goal | Metrics/target |
|------|----------------|
| | |

Product/ Service

| Goal | Metrics/target |
|------|----------------|
| | |

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Customer experience

| Goal | Metrics/target |
|------|----------------|
| | |

>

Customer behaviour

| Goal | Metrics/target |
|------|----------------|
| | |

>

Customer growth goals

| Goal | Metrics/target |
|------|----------------|
| | |

Process

| Goal | Metrics/target |
|------|----------------|
| | |

MEASURING THE EXPERIENCE

Are you measuring the right things?

Before you build your scorecard you first need to know some important drivers of business performance so that you can focus on the things that are likely to have the biggest impact on your results. For example:

- Do we know who our most profitable customers/clients are? (Not necessarily the largest!)
- How much business do they represent compared with our average customers?
- How much of their share of wallet do we enjoy?
- What are the three most important customer expectations that drive loyalty in our business?
- To what extent do we consistently deliver a distinctive experience for our most profitable customers against these expectations?
- To what extent do we consistently deliver a positive and distinctive experience for our employees?
- How do our customers believe we compare against our competitors on quality and price?
- What proportion of our customer base is loyal?
- What proportion of our employee base is loyal?
- What are the biggest drivers of revenue in our business? Footfall? Conversion? Cross-sell? Add-on sale? Retention etc.
- What is our advocacy index and the level of organic growth that we can expect from referral? (What is our NPS?)

If you do not know the answers to these questions but would like to find out, you may find our CEM customer experience survey helpful. You'll find out more about this in the Tools section of our website.

Most organisations turn to their customer satisfaction data for the answer but gain little in the way of insight. That's because many satisfaction surveys measure satisfaction against a pre-determined set of generic values, and not those of their target customers.

CEM+ Snapshot

The starting point for the CEM+ Survey is to find out firstly what your target customers value and then identify to what extent their experience of your company meets these needs. The research tool then evaluates to what extent your brand promise, product offering and customer experience are differentiated and deliver customer value. It measures external service value, customer satisfaction, loyalty and advocacy.

- It's powerful - creates insight about your current customer experience and how to improve it
- It's simple - by focusing on your target customers, you achieve fast but reliable results
- It's straightforward - recommendations focus only on those key areas that add value to your customers. You get insight rather than mountains of data
- It's cost-effective - simple and achievable within a limited budget, saves revenue and retention

Introduction

We've specifically designed our approach to avoid unnecessary complexity, lengthy processes and heaps of data that add little insight. Our customer experience research focuses only on those factors that really make a difference: the key values and expectations of your most profitable customers. How you measure up in delivering these, the loyalty these customers feel towards your company and, most importantly, the word or three things you need to do to increase their advocacy.

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