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IDC TECHNOLOGY SPOTLIGHT

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This IDC Technology Spotlight discusses the challenges faced by organizations in connecting their investments in customer experience technologies, services, and organizational change to the actual outcome of those efforts.

Connecting the Bottom Line to Customer Experience Improvement

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Introduction

Today's marketplace is hypercompetitive. Products are becoming less of a key to brand differentiation. Instead, the customer experience is becoming the measure by which customers judge companies. The customer experience isn't the responsibility of just a single department or office; rather, it stretches across the totality of the customer journey and therefore the company. To remain competitive, an organization needs to create a compelling integrated customer experience (CX) that reduces the friction between the company and the customer over the lifetime of the relationship and that evolves with the customer over time.

For this reason, end-user companies are investing in technology, services, and design in hopes of improving CX and increasing the bottom line. But how do companies really know whether their CX investments are providing the promised returns? Many times, they don't.

AT A GLANCE

WHAT'S IMPORTANT

Customers are making more purchase choices based on their experience with a company rather than on the product itself. It is critical for companies to provide that differentiated experience, which requires more than just a Net Promoter Score (NPS). Companies need real insight into the customer and all the factors that impact the customer's purchase choice, the capacity to use those criteria to drive improved customer experience, and the ability to tie the impact of those criteria back to the bottom line.

This IDC Technology Spotlight discusses the challenges faced by organizations in connecting their investments in CX technologies, services, and organizational change to the actual outcome of those efforts.

Digital Transformation Is Driving the CX Transformation

A reciprocal and growing relationship of adoption, use, and evolution is happening between companies and customers around technology and experience. Early adopter customers or enthusiasts embrace new consumer technologies and methods; visionary companies monitoring the edge work at interacting and engaging with customers through that technology channel. Once the initial companies establish a significant beachhead, the middle majority of customers begin to adopt the technology as do the late majority of companies, and the cycle continues as new technologies enter the market.

For technology enthusiasts and innovators, the relationship is based upon what's next or what's cool. But for the early majority and late majority of consumers, it's really about the experience with the company. This is a marked shift in attitude driven in part by technology. Previously, customers made purchase decisions based upon a limited universe of products or services. Today, we are in a period where customers are offered an expansive universe of products and services, so the experience the customer has with the company is now more important than ever.

Companies Are Taking on CX Improvement Efforts…

Most companies understand the value of a good experience for the customer and what it means to improving satisfaction, retention, and loyalty. By considering and applying a customer-centric strategy that involves leadership, business process improvement, and technology adoption, companies are striving to improve the experience a customer has with them. Much of this effort is driven by the digital transformation of both the end customer and the company.

There is a synergistic cycle of innovation and adoption of technology between brands and customers. Customers are being digitally transformed as they adopt technologies such as mobile devices, applications, and home-based Internet of Things (IoT) devices. As consumers integrate these devices into their day-to-day life, they have a digital experience that raises the bar for their other customer interactions. On the other side, less leading-edge companies are trying to boost the experience they provide to the level that the customer has now come to expect. The result is a significant amount of investment by companies to maintain parity.

According to IDC's 2017 *Customer Experience Barometer Survey,* 31% of respondents said they were increasing their spending by 6–9% to improve the customer experience, and 35% said they were increasing spending by 3–6%. Overall, IDC found that the average increase in spending to improve the customer's experience was almost 8%. Companies believe in the importance of good CX and are investing in it. But are they getting the expected return in value on their investment?

…But Success Is Hard to Determine

Most companies understand the value of a good experience and what it means to improving customer satisfaction, retention, and loyalty. They also hope that it will lead to an improved bottom line and financial returns. However, many companies are unable to conclusively determine the impact of an improved CX initiative on the bottom line or whether it yielded the promised returns.

CX improvement initiatives often focus on the relational aspect between the company and the customer. This includes increasing the number of channels for interaction, improving the usability of applications and websites, reducing customer pain points and barriers at key junctures in the interaction, reducing processing time between interaction and action, and generally improving the relationship between the brand and the customer.

However, while these goals are important to improving CX, they don't tie back to the hard measures of business such as bottom-line revenue, increased profits, and improved efficiency. Within the CX realm, the hard measures are key performance indicators such as Net Promoter Score (NPS), customer satisfaction, brand equity, and first response. Companies assume a correlation between the softer goals of improvement efforts and changes in the hard business measures, but they often lack the data and tools to connect the two.

Measuring Success Starts with Understanding the Customer

The starting point for providing a better customer experience is understanding the customer. Too often legacy brands will say that they understand their customers because they have dealt with them for years. The problem is that yesterday's customers, even if they are the same individuals, are not the same as today's customers. Existing customers change as newer, younger customers come to the brand. They also adopt new engagement technologies as their goals and reasons for interacting with the brand change. Maintaining engagement now requires that a brand constantly reeducate itself about its customers.

Shifting the Thinking on Customers

What brands know about their customers is no longer enough. They need to rethink and reexamine not only what they know but also how they understand their customers. For many years, brands have used customer segmentation models and personas to design customer experiences. Segmentation models group customers by a limited set of high-level characteristics and attributes thought to be critical to brand engagement. Personas build on the segmentation model by using those characteristics and attributes to create an artificial demographic of one or more ideal customers.

But what segmentation models and personas leave out are why people make the decisions they make — the unique aspects of the personality, attitudes, motivations, perceptions, and beliefs that impact a customer before, during, and after engagement with a brand. They also fail to consider the unique time and place — defined by life stage, lifestyle, situation, and needs — in which customers find themselves when engaging with a brand.

When a brand understands this and can delve into the factors around an NPS as an indicator of a customer's interaction with the brand, it can begin to build a correlation between the NPS and the customer to understand what drives the customer and thus the customer experience.

Tying NPS Back to Revenue

As brands understand what is important to the customer and the impact of improving those factors, they can make the next logical association and tie changes in experience back to revenue to determine whether they have yielded the shifts in bottom-line revenue and other business metrics that were promised. Brands can also examine which CX investments provide the largest return on investment (ROI) across the universe of customers.

Considering The BIO Agency

The BIO Agency (BIO) is a global digital innovation and transformation agency that delivers end-to-end services from the initial vision through creative innovation and experience design to technical development and implementation. The agency focuses on creating unique customer experiences that are seamless and intuitive and resonate with the brand. These experiences are future proofed, so they can evolve with changing business and customer needs.

BIO's distinguishing feature is that the agency links transformation projects back to hard business metrics such as NPS and revenue to make the connection between an improved customer experience and ROI. Its Experience Performance Platform (EPP) supports client efforts by using predictive analysis and a deep psychological understanding of specific customer characteristics and engagement scenarios to link CX innovation to real changes and improvements in business metrics. The EPP is a key point of difference from other agencies, providing a much deeper understanding of what customers genuinely respond to. Within the platform, users can also build custom models of the CX improvement drivers that impact revenue, loyalty, recommendations, and more.

BIO's solutions generally fall into two categories:

- **Digital innovation** efforts focus on rapidly developing leading-edge experiences to either enhance the business performance of existing solutions or create new solutions. This process begins with understanding the perspective and underlying drivers of the end customer before applying the agency's EPP approach to predict and track the impact.
- **Digital transformation** efforts are for companies that require a larger strategic shift into the core of the organization. This process is accomplished by considering not just the customer experience but also the employee experience, as well as operations and technology, and then putting the business on a path of continuous change and innovation. BIO's EPP approach ensures that business case goals are achieved.

Specific services that BIO provides to support those efforts include:

- **Strategy design.** BIO works with clients to develop a strong, integrated strategic vision of what their digital company will look like through research and insight using proprietary tools.
- **Customer experience design.** Working with the client, BIO develops a differentiating customer experience by reimagining it as one that is convenient, functional, and enjoyable. BIO has several user-centric accelerators that plug customer insight into the process.
- **Service design.** Sometimes referred to as the "plumbing," service design is the planning, organization, and business processes behind the experience that a customer receives. BIO works with the client to redesign its services and create forward-thinking experiences.
- **Employee experience design.** Employees are key in the relationship between the brand and the customer, so a critical piece in improving the customer experience is improving the employee experience. BIO works with clients to shift the culture and empower employees to support a more engaging customer experience.
- **Technical development and delivery.** Technology is a key component in the digital transformation of a brand, and BIO employs the latest technologies in-house to support the development of the tools and applications that clients require.

Challenges

Technology and services firms are working to meet the needs of end-user companies as they transform into businesses with a more digital and customer-centric orientation. However, these technology and services firms face the following challenges:

- **Addressing the lack of client sophistication.** End-user companies want to become more digitally enabled to interact and engage with customers enmeshed in a digital world. The challenge in supporting end-user firms with this goal is that it requires a certain level of insight, understanding, and sophistication for success. Digitally engaging with a customer in a way that provides value to both the customer and the company requires more than building a mobile application based upon current business processes and models. Successful clients need to be willing and able to rethink their whole business model to truly transform from non-native digital organizations to digitally enabled organizations.

» **Managing privacy and consent.** The ability to successfully interact and engage with customers requires an understanding of customers and the different groups and communities to which they belong. Recent data breaches have led to significant policy changes, such as GDPR, that constrain the availability of data and how it can be used. It is now harder to gain an understanding of customers by collecting and analyzing their data. Customer permission is needed to access this information, and many customers are reluctant to grant that access. They don't understand how access to that data impacts the ability to provide a good experience.

» **Demonstrating the bottom-line value of CX efforts.** Making the connection between CX improvement initiatives and bottom-line business impact will become critical to firms that want to continue to support end-user companies in that effort. These firms will need to go beyond NPS measures and use the data and understanding of the customer to drive targeted improvements in CX that can then be linked to correlated improvements in key business measures such as revenue.

Businesses need to show that the money spent on improving CX has improved the bottom line.

Conclusion

To survive in the hypercompetitive market, businesses need to transform the experience they offer to their customers. Few have unlimited budgets from which they can draw to try out customer experience improvements to move the bottom line. Instead, businesses need to show that the money spent on improving CX has improved the bottom line. To do that requires a new approach to understanding customers and their actions that can be modeled against business results.

About the analyst:



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Alan Webber is Research Director for Digital Strategy and Customer Experience. In this role, Alan leads IDC's Customer Experience research program and supports IDC's Chief Marketing Officer research efforts. Specific areas of research interest for Alan are the impact that technology changes have on how business and customers engage and interact, the digital transformation of the customer experience, and the impact of algorithms and analytics.

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