



EXPERIENCE ECONOMICS

Aligning Customer Experience Investment
to Financial Value



.|| NORTH HIGHLAND INSIGHTS

Experience EconomicsSM helps leaders prioritize and chart a path forward by integrating customer needs and business value. At the same time, it helps build the operational muscle needed to quickly adapt and respond to evolving customer expectations.

The following report draws on the results of a North Highland-sponsored survey from February 2019 that encapsulates the perspectives of 300 cross-functional business leaders at U.S. and U.K.-based organizations with annual revenues in excess of \$1 billion. Survey questions gauged measurement techniques, prioritization, and decision-making capabilities related to Customer Experience (CX).

.|| KEY TAKEAWAYS

The problem: Customer experience (CX) efforts can significantly affect performance, but many companies struggle to pinpoint the elements that drive sustainable business growth. As a result, organizations blindly chase improvements that fail to yield optimal business value.

The analysis: Quantifying the intersection of business objectives and customer needs allows companies to identify, map, and predict CX initiatives, improvements, and activities that drive the greatest return.

The solution: North Highland developed Experience Economics, the practice of attributing value to customer experience in a way that aligns the opportunity and focus areas of the business and results to better inform the design, prioritization, and operationalization of CX activities. Our recommended strategy is three-fold:

- Evaluate CX through experience analysis and value mapping
- Prioritize initiatives that drive the most value
- Formalize value measurement and management methods

Are you making the right CX decisions?

- ① This perspective is intended for those who aren't certain in their CX investment decisions; in most cases these are cross-functional executives accountable for various parts of CX and the leaders charged with setting the course for strategic growth in their organizations.

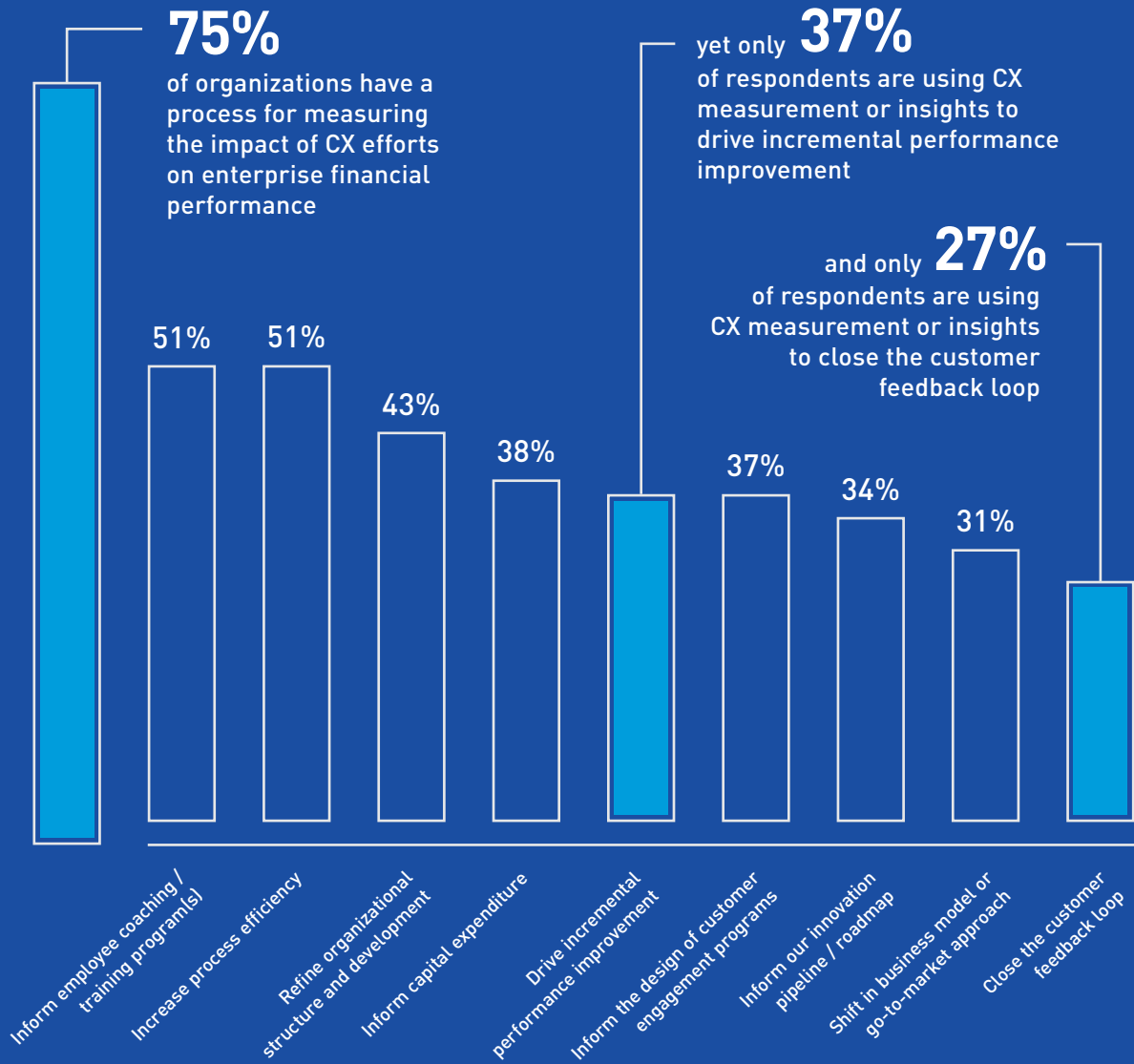
The customer is always right, or so the adage goes. Customer satisfaction has long been a fundamental driver of business, and today's industry titans have only raised the bar. Companies like Amazon, Zappos, and USAA are leading the charge on CX by harnessing the power of customer-centric business models. But highlighting these companies' success in delivering great experiences that meet customer needs would tell just half the story. A sustainable customer-centric model is only found at the intersection of business objectives and customer needs, where strategic decisions can be made that will enhance both business and customer value.

It should come as no surprise: Our research shows that 70 percent of companies strongly believe that their CX efforts impact financial performance. It makes sense; when you invest in improvements that matter, you are likely to generate lift. And while a company may broadly state that an improved customer experience has resulted in a positive business outcome, the challenge comes when trying to pinpoint precisely which element of improved customer interactions or experiences are driving corresponding improvements in advocacy, satisfaction, and, ultimately, growth.

North Highland surveyed 300 cross-functional business leaders at organizations in the U.S. and U.K. regarding how and why they measure CX. Among the key findings:

- CSAT is the most used and most important metric to measure enterprise-level customer experience.
- Over two-thirds of respondents measure customer experience to improve customer service/care.
- Over half of respondent organizations measure the lift or decline in their enterprise-level customer experience metrics in terms of both customer value and business value.
- Survey respondents reported that their organizations are primarily measuring the business value of customer experience by correlating revenue (e.g. reduced churn, increased share of wallet, increased up-sell / cross-sell).
- Only 27 percent of respondents are using CX measurement and insights to close the customer feedback loop.

ACTIONS BASED ON INSIGHT



SURVEY QUESTION:

What actions has your organization taken based on customer experience measurement and/or insights?

Because of this complexity, we find that companies often spend CX dollars ineffectively and can frequently misallocate scarce resources. In effect, many are blindly chasing CX improvements that don't yield optimal business value.

CX is a top-three strategic priority for executive respondents in recent North Highland Beacon research.¹ As with any top priority, an approach to measurement and evaluating progress is important. Most organizations have metrics in place to measure their CX. In fact, our research shows most companies use several methodologies and utilize three different metrics on average (with CSAT being the most common). But dig beneath these top-line CX metrics and measures, and things get a little blurry. Our research shows that most companies haven't correlated customer value drivers (i.e. what is most important to the customer in the context of their experience) to business value drivers (i.e. what is most important to achieving our business objectives) with any degree of exactness or prediction.

In fact, while 75 percent of organizations have a process for measuring the impact of CX efforts on enterprise financial performance, only 37 percent report using CX acumen to drive performance improvement. This means that while there may be some basic measures in place to evaluate broad investment impact, the

vast majority of organizations are not employing repeatable and scalable methods that have predictable impact against specific business drivers. Therefore, predicting the impact of CX initiatives and developing corresponding business cases to fuel investments is, at best, a shot in the dark. It can seem like a new exercise for each and every initiative. In addition, respondents note that in many cases impact estimates are dismissed and discounted before they are even discussed at senior levels. With nearly one-third of consumers severing ties with a company after just one bad experience,² that's an implication with potentially serious consequences: one that the aforementioned leaders in customer-centricity have long since resolved by creating process, culture, and governance that enables appropriate strategic investment.

Quantifying the intersection of business objectives and customer needs allows companies to identify, map, and predict the CX initiatives, improvements, and activities that will drive the greatest return. North Highland's proprietary solution is Experience Economics: the practice of attributing value to customer experience in a way that aligns to the opportunity and focus areas of a business and creates a unifying process for designing, prioritizing, and operationalizing CX investments.

CASE STUDY

EXPERIENCE ECONOMICS AS A CATALYST FOR CX TRANSFORMATION

A leading healthcare insurer engaged North Highland to understand its member journeys and identify the investments needed to improve member satisfaction and retention.

Through a multi-disciplinary approach to defining, justifying, measuring, and prioritizing CX initiatives, we identified and designed a sequence of phased activities needed to ramp up member satisfaction and facilitate the organization's transformation from transactional healthcare payor to holistic health partner. North Highland:

- Defined and analyzed opportunities across the member journey
- Revealed and prioritized opportunities based on proven member value and projected business impact
- Aligned organizational capabilities to support future vision
- Established metrics to monitor the impact and ongoing health of experience improvements
- Built a strategic horizon for shifting the paradigm from healthcare payor to holistic health partner

WHERE CURRENT METRICS FALL SHORT

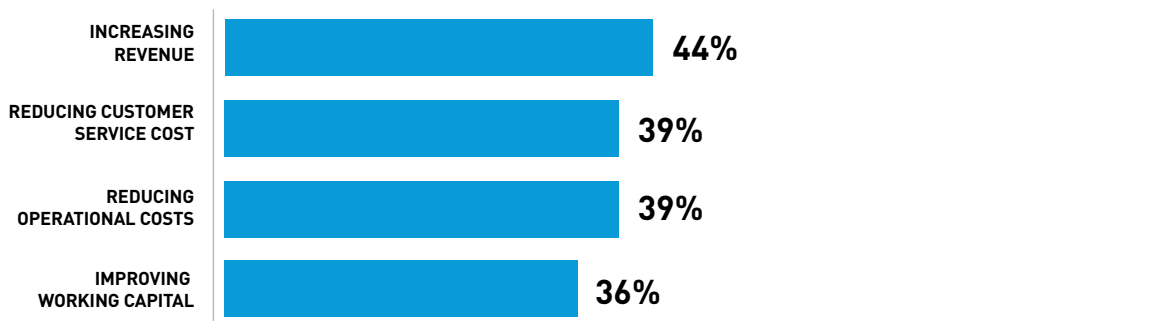
Imagine being able to predict the impact of your investment in CX. For a restaurant, is it better to have clean bathrooms or invest in sourcing local ingredients to enhance your menu? Would your retail store benefit more from self-checkout options or a more empathetic staff? For B2B organizations, would clients respond better if services were more convenient and enabled by a stronger sales support organization, or would demand grow with less expensive offerings paired with higher self-service requirements? This level of diagnostic and scenario planning is critical for building CX strategy and business cases, prioritizing initiatives, and focusing innovation efforts in the right areas. Successful customer-centric organizations embed a prioritization framework for capturing and infusing business and customer value into their strategic planning.

Today, organizations commonly try to attribute value to CX via one of three challenged models:

1. **Financial and operational performance equate to customer value.** All organizations rely on a multitude of metrics to evaluate their operational and financial performance. Many less advanced organizations believe financial success is the same as customer success; however, strong operational and financial performance is not a reflection of the current experience companies are providing customers. In other words profitability and achieving operational objectives do not equate to customer satisfaction or advocacy (and therefore future growth potential). Instead, these measures may simply

MEASURING BUSINESS VALUE

Survey respondents reported that their organizations are primarily measuring the business value of customer experience by looking at revenue impact (e.g. reduce churn, increase share of wallet, increase up-sell / cross-sell).



SURVEY QUESTION:

Our organization measures the business value of customer experience by looking at the following factors.

mean that the business is effective today while leveraging historical customer loyalty and customer inertia, and in some cases, even pulling forward future potential value by making optimum long-term value tradeoffs in order to achieve quarterly or annual period impact.

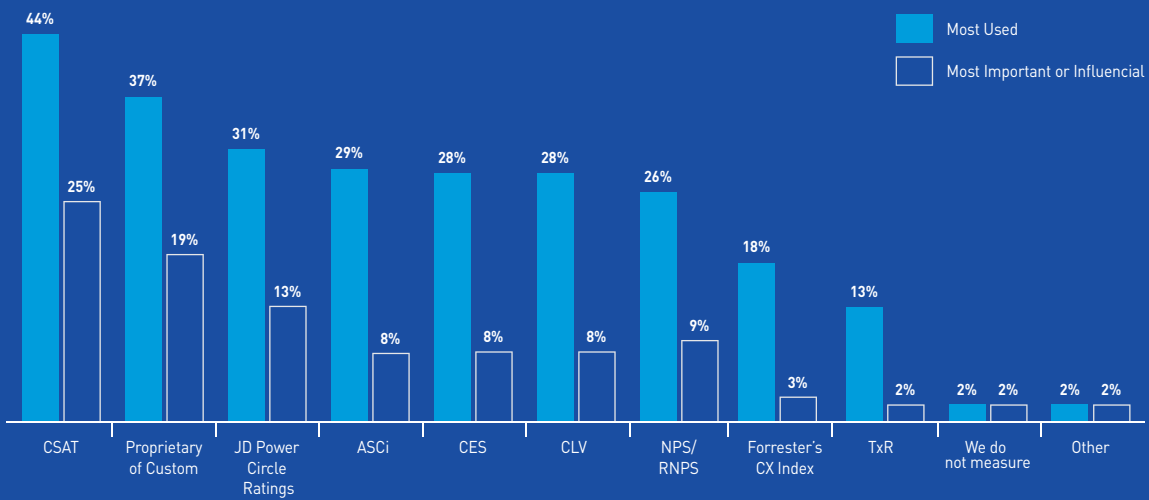
2. **Net Promoter myopia.** Many organizations use a Net Promoter Score® (NPS®) or other similar anchor metrics to track CX. Members of the C-suite care about these metrics, because it's increasingly more common for their compensation to be tied to this measure in some way. Indeed, 87 percent of respondents in our research say that CX is a formal part of performance goals at the highest level of their organization. While there may be consensus on the value of this measure, the ability to tie changes in CX metrics to strategic business objectives, or predict what actions will positively affect improvement in NPS metrics, is often the critical blind spot. It's common for organizations to focus on NPS and work backward, a method that trades simplicity for actionability. Business leaders often do "not understand what drives value," concluded Michael Niczyporuk, a former Chief Strategy Officer at a leading financial services company. "[They're] not connecting the dots between the underlying experience and business outcomes."

3. **A focus on customer efficiency as a proxy for CX.** Leaders focusing on improving CX performance may often take a customer efficiency focus, which is a key CX enabler and certainly strongly correlated to outcomes. It's the long-term CX (and corresponding growth and revenue) implications of a singular focus on efficiency and effort that are typically uncertain and filled with assumptions related to customer behavior and preference. These are assumptions leaders often fail to validate. For example, when measuring CX at the point of interaction, a higher percentage of companies use efficiency metrics (42 percent) than multi-dimensional anchor metrics such as NPS (27 percent).

No matter which of these models (or other models with similar challenges) an organization employs, the universal limitation of all single measure-based approaches is that, by themselves, they are reflective versus actionable. Compare it to a set of instructions with every page but the last missing; you know what you've got in the end but not the "how" and "why" that got you there. Actionability requires quantifying the interrelationships and dependencies between what is desirable (customer value) and viable (business value) to understand improvement requirements, develop concept solutions, prioritize investments, deliver improvements, and ultimately achieve the largest long-term impact.

METRICS USED TO MEASURE ENTERPRISE-LEVEL CX

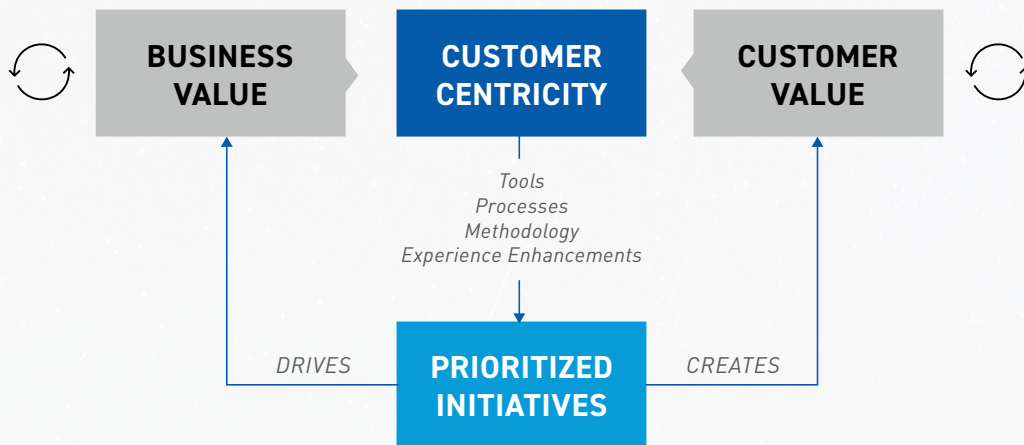
According to survey respondents, CSAT is the most used and most important metric in measuring enterprise-level customer experience.



SURVEY QUESTION:

Which metric(s) does your organization use to measure enterprise-level customer experience? (Enterprise-level customer experience is defined as the sum of all interactions between a customer and an organization as they are perceived, understood, and remembered over time.)

Select the enterprise-level customer experience metric which is most important (or influential) for your organization.



HOW EXPERIENCE ECONOMICS MARRIES THE "WHAT" AND "WHY" OF CX

Successful customer-centric organizations embed a framework for capturing and infusing business and customer value into their strategic planning. With Experience Economics, “what if” scenario planning and intentional customer-aligned value mapping marry the “what” and the “why” of CX simultaneously. This approach has proven to optimize enterprise investment portfolios, reduce risk, diminish the impact of internal politics and personal ego on decision-making, and focus executives and organizations on making decisions that align to positive customer-centric business outcomes.

This methodology evaluates drivers like revenue, costs, capital, and asset efficiency and links them with quantified customer needs, expectations, and jobs to be done to meet customer desires.

WE RECOMMEND THAT ORGANIZATIONS PURSUE A THREE-PART APPROACH TO BUILD A COMPARABLE ENTERPRISE MODEL.

1. EVALUATE CX THROUGH EXPERIENCE ANALYSIS AND VALUE MAPPING to align the organization on success, customer needs, and business value.

“ Pretty much every organization has gone to some satisfaction metric because they’re inherently benchmarkable, and while they’re lagging indicators, they’re potentially leading indicators of purchase intent,” Niczyporuk asserts.

WHAT WE RECOMMEND:

Define your CX ambition within the context of where you are.

Our research has found cross-functional misalignment to be the top barrier to CX success and developing an effective Experience Economics model. Aligning CX activities with organizational values can help organizations overcome these persistent obstacles.

Destination setting is an important step in the Experience Economics process to confirm what value means to you. Aligning organizational functions is an early first step. It’s often the case that multiple departments like marketing and IT are aligned on the value of experience but business functions like operations don’t yet see a clear linkage to their mandate. Facilitate planning sessions with pre-and post-analysis to bring stakeholders together and lay the foundation for a successful forward-looking CX strategy.

Understand customer satisfaction, advocacy, and purchase drivers with intent. Through the use of carefully crafted dialogue, observational research, and survey instruments, organizations can enrich commonly used CX metrics such as Customer Satisfaction (CSAT) and NPS and define the attitudes and behaviors that drive customer needs, barriers to meeting their expectations, and the brand value built throughout the CX.

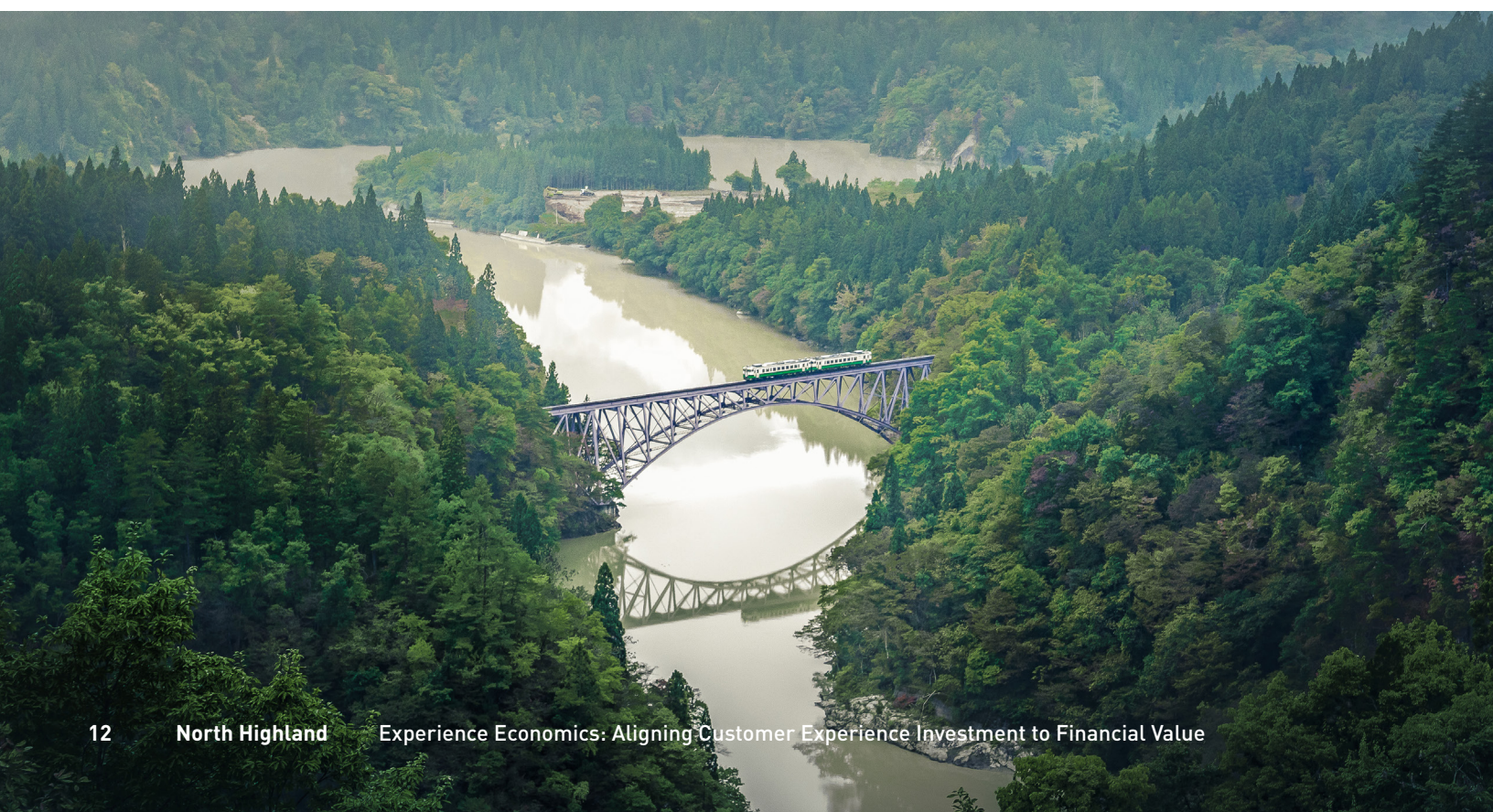
Quantify customers’ needs through quantitative insights to help drive decision-making based on validated conclusions. Surveys, Voice of Customer research, and NPS or other CX anchor metrics play an important role in determining what influences customers’ perception. While we advocate pairing the results with qualitative efforts to uncover deeper emotional and behavioral insight, quantitative metrics can create a line of sight into the CX efforts that are more likely to impact performance.

Customer sentiment and NPS, for example, can be applied throughout the customer journey to indicate points of customer frustration or areas of opportunity. Identification of the primary drivers behind these metrics can then inform the development of a repeatable, objective prioritization model.

Our research shows that qualitative and quantitative Voice of Customer research are the two most common tactics for understanding customer needs, at 46 percent and 45 percent, respectively. A smaller percentage of organizations are using techniques like social data scraping and influencer modeling, techniques that are less invasive and potentially more cost-effective than traditional ones. The Experience Economics methodology integrates multiple research techniques to align customer needs to customer value drivers within the experience.

Tools like Experience Maps can then provide a visual insights summary, grouping users based on higher-level needs and goals. Needs across the experience continuum can then be quantitatively tested to determine importance and inform driver analysis efforts for value-based prioritization.

Assign values to customer initiatives through CX Value Maps. A CX Value Map creates a direct tie between operational levers, business value, and customer value, supporting the story behind both the “what” and the “why” of a CX business focus. A clear value map shows the processes and operational drivers that will be impacted by each CX initiative and relates specific CX initiatives to value. It is a consistent and repeatable model to sustain focus on the “right” things over the course of a multi-year evolution.



2. PRIORITIZE INITIATIVES THAT DRIVE THE MOST VALUE.

With more worth now placed on the value of experience, CX metrics and benchmarks are important, but finding the path to use the metrics strategically is even more critical. This means implementing a consistent and repeatable model for choosing a focus.

WHAT WE RECOMMEND:

Identify key drivers of value and effort and **build** your prioritization model. The basic units that allow us to quantify the economic outcomes of different drivers throughout CX:

Customer value (desirability):

→ *The customer wants us to do this.*

Operational impact (feasibility):

→ *We can do this.*

Business value (viability):

→ *We can do this profitably.*

Transformation value (momentum):

→ *When we do this, we'll spur organizational momentum.*

Develop a prioritization model based on the first three levers to use as a consistent, repeatable process for decision-making. This will inform a value-driven experience improvement agenda where organizations can balance opportunities with significant customer and business value against internal organizational capabilities, foundational improvements, and critical quick wins. Then consider the efforts that will most affect organizational momentum (in the areas of alignment, inspiration, capability, and capacity) to measure the true potential of the initiative.

3. FORMALIZE VALUE MEASUREMENT AND MANAGEMENT METHODS.

With a prioritization model in place and a clear understanding of the CX improvements that can drive the most business value, an organization can begin to track the benefits of the investments and improvements that are made. Ownership and accountability can also be established more accurately.

WHAT WE RECOMMEND:

Define driver metrics to track the impact of CX changes. Driver metrics are leading indicators at a macro perception and micro interaction level that convey how outcomes are affected. For example, a call center leader might look at first-call resolution as an indicator of macro customer satisfaction. CX measurement creates a path to support CX management competencies and track the impact of changes on the overall customer journey. Once established, driver metrics can help quantify CX quality to determine if it's on target, track success of new CX initiatives, and steer CX improvement efforts.

Track benefits realization and assign ownership and goals to those who can truly impact the initiative. Any CX improvement must have a leader at the wheel to avoid organizational vagueness. Further, look across the organization for owners that reflect the appropriate point in the customer journey rather than having all CX initiatives coming from the same area within the organization.

Communicate the value of experience across the organization, which won't happen overnight. Focus on small victories that build a case for additional investment. Niczyoruk described his success with this approach: "By showing quick wins, we put together a data-driven fact pack highlighting that CX investment [resulted in] better, more reliable, controllable, and compliant outcomes."

1 ["Beacon 2019: Thriving in a Climate of Continuous Transformation,"](#) North Highland, January 2019.

2 ["What Does the Future of Customer Experience Look Like?,"](#) Marketing News, August 1, 2018.

3 ["The ROI of NPS,"](#) Satmetrix, 2018.



STRIKE THE RIGHT BALANCE BETWEEN CUSTOMER VALUE AND BUSINESS VALUE

Within two years, 91 percent of marketing leaders expect CX to be the most valuable way to measure competitiveness, which underscores the importance of your approach to measuring CX.³

When measuring CX performance, organizations too often focus on approaches that are inherently flawed, making investment decisions often a guessing game.

North Highland's Experience Economics methodology takes the guesswork out of the equation, empowering leaders with the data-driven insights needed to identify the interactions that drive increased customer satisfaction.

By evaluating business and operational drivers and marrying them with quantified customer needs, expectations, and responsibilities, organizations can move past the vagueness and imprecision of current models to effectively evaluate CX to design, prioritize, and operationalize activities for maximum impact to the bottom-line.

ABOUT OUR CX SERVICES

Since 2006, North Highland has recognized the power of customer experience in creating growth for clients. It shapes brands, moves markets, and changes how people feel about the companies they do business with. We help our clients achieve experience-based differentiation with an intentional focus:

CUSTOMER-CENTRIC TRANSFORMATION

Helping you fundamentally transform your entire business orientation by infusing new behaviors, practices, tools, technology, and processes.

CUSTOMER INSIGHTS & EMPATHY

Understanding the ever-changing needs, motivations, and value drivers of your current and future customers in order to grow, adapt and evolve your business.

CX STRATEGY & DESIGN

Planning, creating and delivering meaningful experiences across channels and touch points throughout the customer life cycle.

CX ENABLEMENT

Creating a CX-optimized organization by building capability across people, operations, content, data, and systems.

ABOUT NORTH HIGHLAND

[North Highland](#) North Highland is a global management consulting firm known for helping clients solve their most complex challenges related to customer experience and transformation. We add value and support our clients across the full spectrum of consulting, from strategy through delivery. North Highland is an employee-owned firm, headquartered in Atlanta, Georgia, with more than 3,000 consultants worldwide and 60+ offices around the globe. The firm is a member of Cordence Worldwide (www.cordenceworldwide.com), a global management consulting alliance. For more information, visit northhighland.com and connect with us on [LinkedIn](#), [Twitter](#) and [Facebook](#).

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Dave is an Associate Vice President within North Highland's Experience Design Division. He has 16 years of business strategy, product and service development, strategic planning, and customer experience strategy expertise. With an extensive background spanning product development, operations, and marketing, Dave is adept at helping our clients create strategic growth initiatives based on a human-centered design methodology.



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Dove is a leader within North Highland's CX practice. For over 15 years, she has assisted global clients with their strategic, service, and operational challenges. Dove brings extensive expertise in customer-enabled business transformation from experience strategy through operational enablement.