KPMG

How much is customer experience worth?

Mastering the economics of the CX journey

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Achieve an appropriate balance of value

It's clear that the customer truly is king. Customers live in a world with 24/7 access to almost anything and have many more options than ever before. This leaves companies eagerly vying for their attention, hoping to stand out in a crowded marketplace by providing a superior customer experience.†

And that's not always easy to do. Customer expectations of highly personalized experiences continue to evolve daily. Many are quick to go elsewhere if they don't receive the desired experience.

As a result, organizations are investing record amounts in enhancing the customer experience. Analysts predict that over the next five years, customer experience will overtake price and product as the number one brand differentiator. Almost nine-out-of-ten organizations expect to be competing primarily on the basis of customer experience.[1]

As customer experience rises in importance, seismic shifts in customer demographics and rapidly advancing technology will make it even more challenging to deliver the appropriate experience. Meanwhile, capital investments and operating costs to provide these experiences will continue to climb. To be effective and invest wisely, organizations need to gain a thorough understanding of Customer Experience (CX) Journey Economics.

CX Journey Economics are about striking the right balance between what customers expect and what financially makes sense for your company to deliver. Organizations that master the economics of customer experience will be able to optimize spend and investments while delivering winning customer experiences.

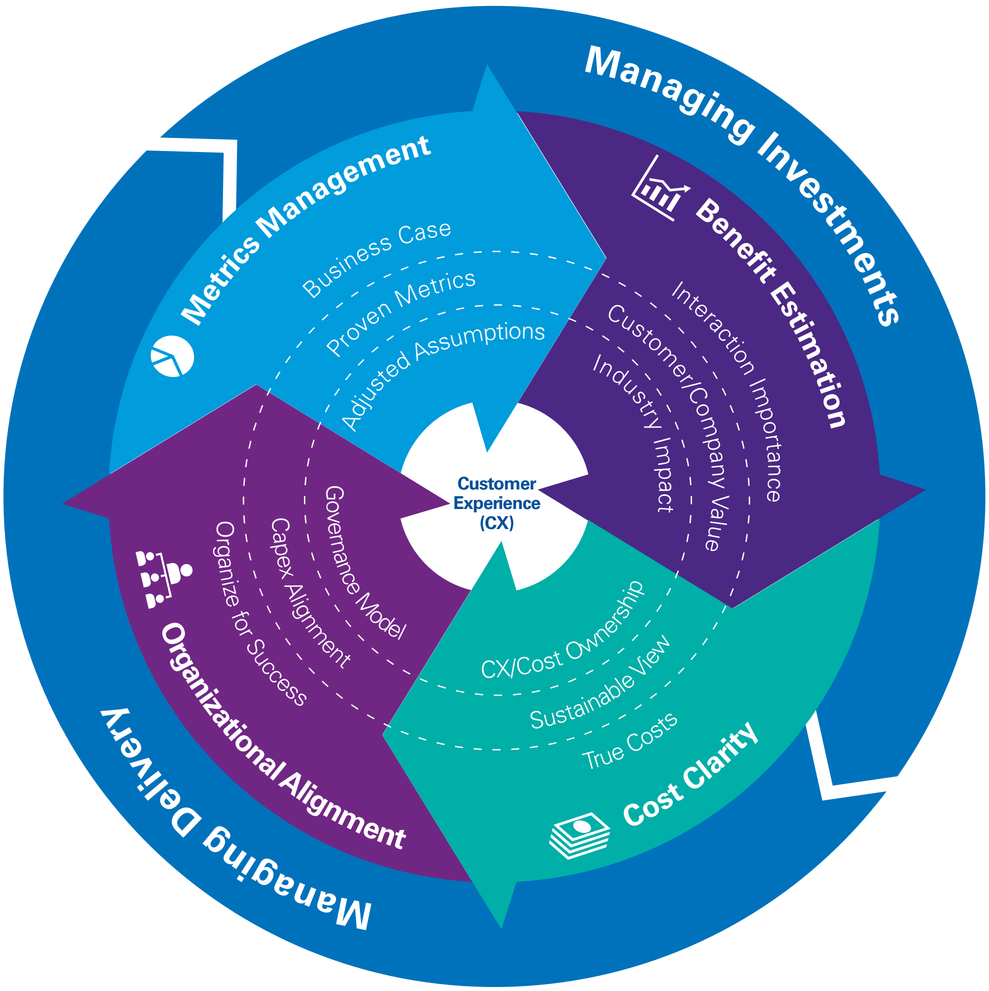
† KPMG defines customer experience (CX) as the sum of all interactions a customer has with a company from the point of awareness and consideration through purchase and use of the product or service.

"We are seeing a lot of emphasis on what the customer wants" says Julio Hernandez, KPMG's US Customer Advisory leader and Global Customer Center of Excellence leader. "Yes, you need to understand everything about your customers' expectations and needs, but you also need to understand the value those customers bring to your organization. There needs to be the right balance between meeting your customers' expectations and understanding the value to attach to it. There are a lot of organizations investing so much in customer experience that their cost structure becomes untenable."

There is significant romanticism over the customer experience in the market today. You'll hear recommendations to delight customers regardless of cost, implying the more you invest in customer experience, the greater the financial return. In fact, the relationship between customer experience and financial return is much more complex. The CX Journey Economics Model helps determine an appropriate balance of value.

Figure 1 – CX Journey Economics Model

CX Journey Economics is a strategic process designed to strike the right balance between the experience customers expect and what financially makes sense for companies to deliver.



Spotlight on marketing

Marketing departments face ever-increasing pressure to demonstrate a return on investment — and to align those investments to a customer-centric strategy. But that's a tall order when many marketing functions are organized around products and brands versus customers.

How can companies optimize their customer experience when each brand or product has different priorities, often with overlapping customer bases? How should marketing departments allocate their brand spend? In multi-tier distribution models, how can companies ensure a consistent, cost-effective customer experience at each point of interaction, especially when distributors and retailers have different metrics for success?

"As customer experience continues to become more important, marketing teams must make it part of their strategy and metrics versus moving only at a tactical level," said Rick Rose, Principal, Advisory, Customer Solutions. "For example, leading organizations are thinking about factors like customer lifetime value and acquisition costs, and they're aligning those factors to an experience metric."

Invest wisely in customer experience

It's no secret that failing to meet your customer's expectations can have serious negative consequences. Falling short on expectations directly impacts customer retention and repurchase behaviors,[2] which can result in lower profits and decreased market share.

However, exceeding customer expectations can also negatively impact profits. Often, the costs of delighting customers exceeds the potential value it can generate. In their efforts to surprise and delight customers, organizations can generate higher-than-necessary operating costs, which also can result in profit loss.

Interestingly, failing to meet customer expectations has been shown to have twice the negative impact as delighting customers has a positive impact.[3] And delighting customers reaches a point of diminishing returns quickly.[4]

Therefore, CX Journey Economics plays a vital role in determining an effective customer experience strategy.

As **Figure 2** illustrates, the ability to strike the right balance between what customers expect and what an organization should deliver plays a direct role in the value customer experience will bring to the business.

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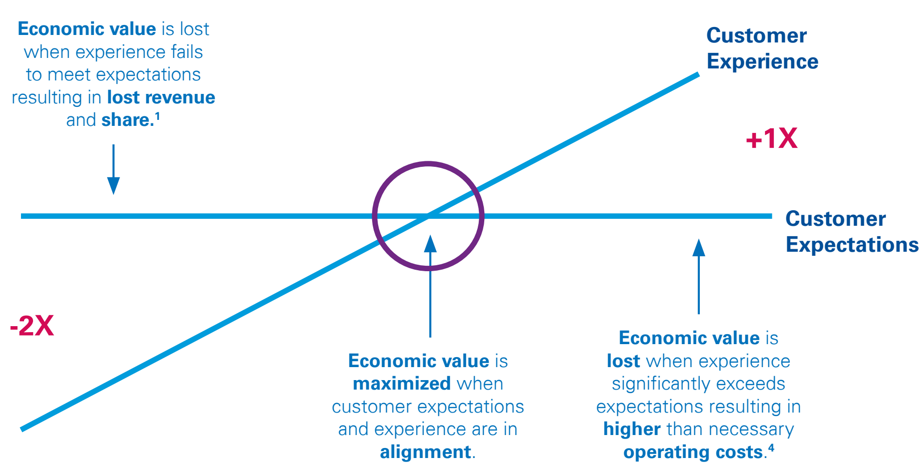
Figure 2 – Striking the Right Balance

Balancing between what customers expect and what an organization should deliver plays a direct role in the value CX brings to a business. Both under and over delivery of customer experience negatively impacts economic value.



The negative impact of under-delivery can be up to twice as great as the positive impact of over-delivery.[6]

Make the most of your journey

Do most organizations manage the economics of the customer journey effectively? Unfortunately, no. For many organizations, investments in improving the customer experience doesn't generate enough value, provide an acceptable return on investment (ROI) or promote consistent and sustainable organizational processes.

Our work with clients and independent research shows that organizations often fail to:

Manage by metrics

Create an effective business case based on financial measures that have a proven association with customer experience.

Recognize true benefit potential

Generate an accurate estimation of the benefit potential possible from customer experience.

Gain clarity on costs

Obtain comprehensive data on customer experience costs accrued across the organization.

Align organizational support for success

Consider the organizational effort required to support customer experience.

Manage by metrics

Even when organizations develop business cases for customer experience, many fail to ground their investment plans on financial/customer measures with a clear linkage to value generation. For example, we recommend linking investments designed to repair experience shortfalls to specific customer activity measures such as attrition, repurchase rates and/or customer lifetime value. Such measures can then be translated into a financial impact.

However, when investments are designed to exceed customer expectations or meet competitive benchmarks, research shows the impact is most often seen in measures relating to loyalty, such as the intent to recommend and repurchase patterns.[5]

The downside is that typically there is a fall-off between levels of intent and actual behavior. This makes it more difficult to measure the true impact of delighting customers. Organizations need to reflect this fall-off when estimating the impact delighting customers will have on their retention and repurchase activity.

The link between customer experience and profit, stock performance, market share, and share of wallet are even more tenuous. Academic research and business analysis have failed to demonstrate a strong recurring relationship between customer experience and these financial measures. **Figure 3** provides additional context on the relationship of customer experience to key financial measures.

As pressures to prove the value of customer experience mount, companies will need to become more sophisticated in their ability to understand and manage CX Journey Economics.

"Corporate boards now require far more rigorous business cases for major investments in customer experience" says Adrian Clamp, KPMG's UK National Customer Advisory lead. "UK customer experience teams have had to move beyond simple Net Promoter Scores as the sole measure of CX success."

Even when organizations develop business cases for customer experience, many fail to ground their investment plans on financial/customer measures with a clear linkage to value generation.

Key takeaways

- **Consider customer experience investments with the same level of due diligence you would consider other business investments. Develop a business case to guide the investment decision.**
- **Ensure investments to meet customer expectations and to address broken experiences are tied to metrics with proven association to customer experience.**
- **Moderate assessments of value generation from investments designed to delight customers to account for their diminishing returns.**

Figure 3 – Financial Measures Table

Academic research and business analysis have failed to demonstrate a strong recurring relationship between customer experience and many key financial measures.

Financial Measures	Relationship to CX
Revenue[7,8]	• There is strong evidence of a positive relationship between customer experience and revenue. • However, this relationship reaches a point of diminishing returns rather quickly. • Under-delivering on customer experience has a much higher negative impact on a company's revenue than over-delivering has a positive impact.
Stock Performance[9]	• There is no compelling evidence to indicate that better customer experience translates into a higher share price. • Research by Bloomberg Businessweek revealed that only 1 percent of market performance can be tied directly to customer satisfaction.
Profit[10]	• Despite multiple attempts to link profit to customer satisfaction, to-date no one has been successful in revealing a casual relationship between customer satisfaction and profit.
Market Share[11]	• Research indicates that there is no relationship between CX and market share. In fact, the CX of market share leaders can lag that of niche competitors. • Companies with higher market share serve a more diverse customer set making it more difficult for them to achieve high satisfaction ratings than their niche competitors who serve a more homogenous customer base. • For some companies, as their market share declines their customer satisfaction increases.
Share of Wallet[12]	• There is a lack of definitive evidence to suggest a direct correlation between customer satisfaction and share of wallet. Higher levels of customer satisfaction show a weak relationship to share of wallet if a company is not the customer's preferred brand.

Spotlight on sales

Sales organizations must strike a delicate balance in meeting customers' expectations and generating demand, while also considering the cost and economic return.

For example, to protect or increase market share, companies may discount prices or enhance services, but what is the cost of that approach? Other times, companies may empower field management to adjust pricing and service to acquire or retain customers, but are they aligned to the target return?

"Sales departments may offer incentives to attract new customers or upsell existing ones, but they should not exceed expectations so much that they ultimately lose economic value," said Michael Herman, Principal, Advisory, Customer Solutions. "It's critical to develop and communicate the right sales strategy — including channels, types of interactions, pricing, discounting and other factors — to ensure an appropriate level of return."

Recognize true benefit potential

Another step within CX Journey Economics is making sure you have all the necessary customer data needed to accurately estimate the potential upside from customer experience. Most organizations today have capabilities to measure customer satisfaction and identify key deficiencies in customer experience. Still, while customer satisfaction is critical data, it is only part of a complete perspective on customer experience.

Organizations need to also understand how different interactions vary in importance to customers. They can gain a greater understanding of the impact of interactions by categorizing experience factors as “must-haves,” “selectors,” or “delighters.” These categories are defined below:

Must-haves

The foundational experiences—the basics—that organizations must get right. Failure to meet expectations can have a terrible negative impact on customer satisfaction. However, exceeding must-have expectations will likely have only a neutral effect on customer experience.

Selectors

The customer experience factors that compel a customer to go with one company versus another. Failing to meet expectations will have a significant negative impact on customer satisfaction. In this case, exceeding expectations has the potential for increasing satisfaction.

Delighters

Those experiences that surprise the customer because of the high level of service received. Delighters create impact only when the overall customer experience is strong. Organizations cannot delight their way out of a poor overall experience. Additionally, human nature kicks in with delighters and over time the impact of delighters erodes as customers’ expectations are reset.

Just as not all interactions are equally important to a customer, not all customers are equally valuable to the company. The question of value works both ways, points out Hernandez.

Still, while customer satisfaction is critical data, it is only part of a complete perspective on customer experience.

Key takeaways

- **Segment your customer base around the customer experience. Identify their journeys, understand the value of each segment, and research the importance of each interaction. Be sure to understand each segment’s expectations and their current level of satisfaction with the interaction.**
- **Use this understanding of value and expectation to conduct a value gap analysis. Determine the extent of value released by improving the experience for certain customer segments at specific interactions. Use conjoint analysis and other advanced research/analytics to identify the potential customer response the investment may drive.**
- **Determine the industry impact of interactions to better understand the actual value generated by customer experience across different industry segments.**

"You need to understand what customers want and value, but you also need to understand the value the customer places on improvements and the value that they bring into the company," says Hernandez. "It's not enough to give the customer a seat and voice at the table. There needs to be a balance struck between what customers say they want, understanding what they will actually do, and knowing what value to attach to it."

At the same time, organizations must also understand their value to customers. If a company is not a customer's preferred brand, customer experience enhancements have been shown to play an insignificant role in shifting share of wallet.[13]

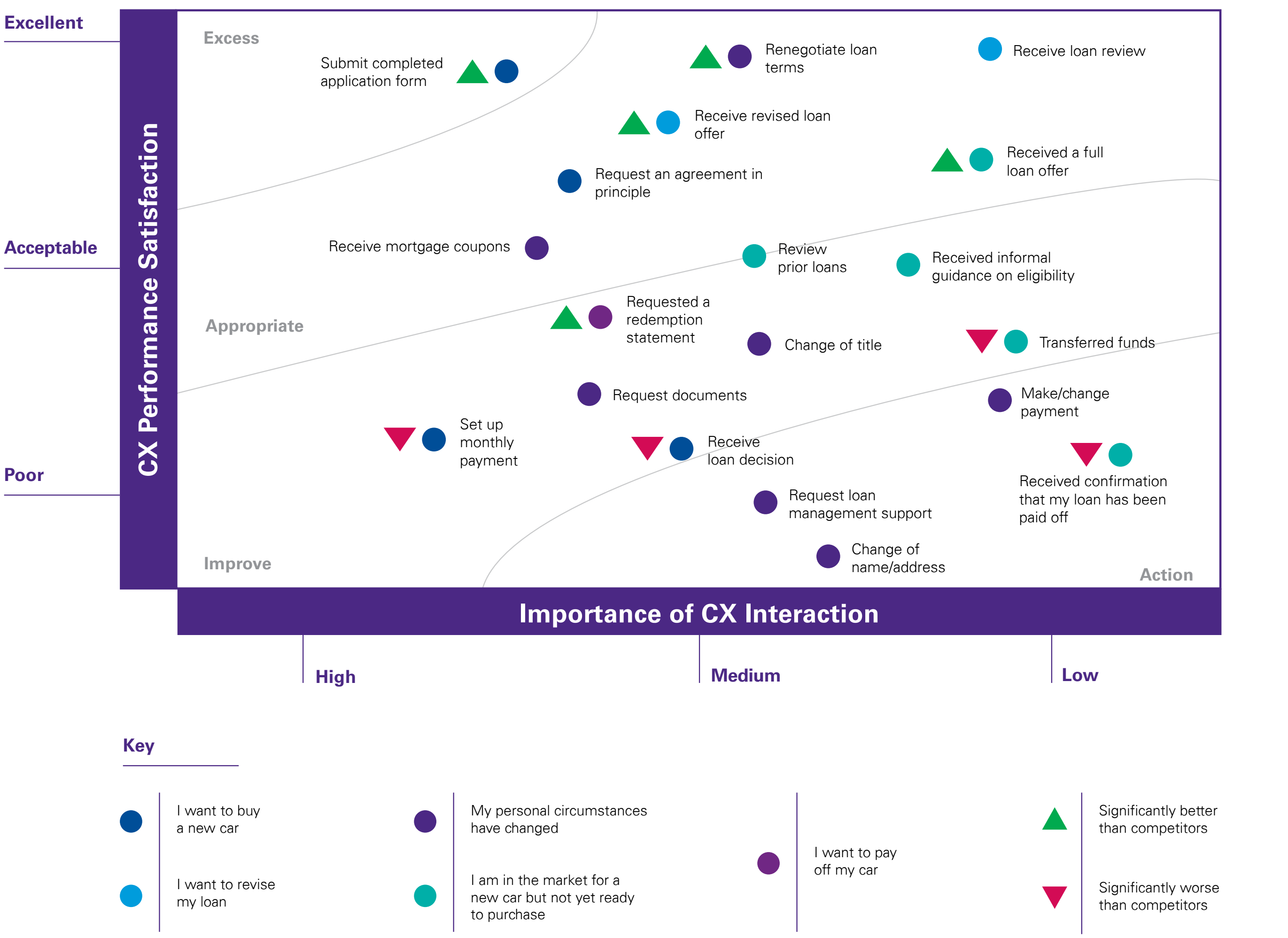
Customer experience potential is also impacted by the relationship between a company, its customer and its competitors. Industries and organizations with low consumer barriers to switching providers and where there is a perceived difference between providers can see greater positive impact from customer experience investments.[14]

For example, in industries where it is easy for consumers to switch providers—such as travel, retail, food service or consumer products—positive or negative changes in customer experience can have a noticeable impact on revenue generation.

However, in industries where there are greater barriers to switching providers—such as utilities, health care providers or banks—bad customer experience can negatively impact revenue generation but exceeding customer experience expectations does not necessarily have a positive impact on revenue generation.[15]

Figure 4 – Performance/Importance Mapping

Mapping the intersection of customer satisfaction performance with the importance of CX interactions highlights where delivery and investments need correction.



Gain clarity on costs

CX Journey Economics also includes gaining an accurate and complete picture of the costs involved in delivering customer experience.

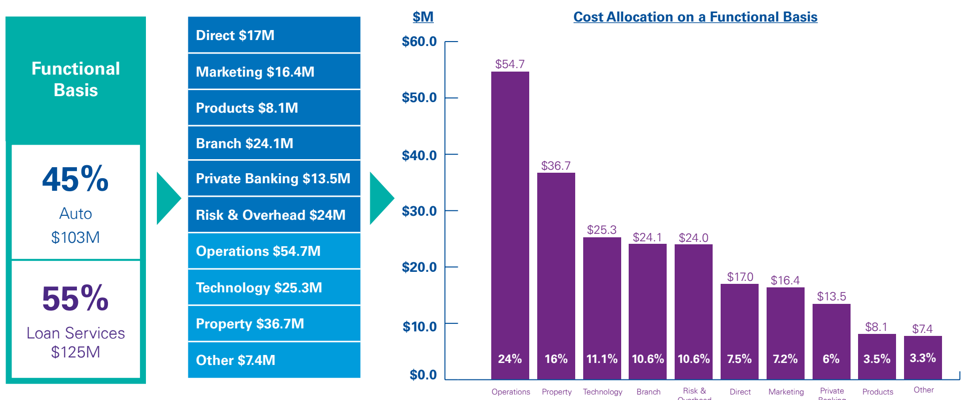
As the number of delivery channels and interaction points grow and customer demands increase, customer experience can become more complicated. The more complex customer experience becomes, the harder it may be to identify and understand customer experience costs. However, waiting is a luxury most companies can no longer afford.

Consider that 30 percent of organizations that see customer change as a major disrupter to their business say they also need to address shrinking budgets and increased efficiencies.[16] This illustrates how understanding and gaining control of customer experience costs is essentially a business imperative.

Developing a solid perspective on customer experience costs often requires companies to gather figures from multiple functions across the enterprise and then allocate these costs to specific interactions and customer journeys. Cost management and reporting is typically done at the product, function or LOB level (vertical view), which means organizations must reconfigure these costs to provide the cross-enterprise (horizontal) view of costs needed for CX Journey Economics. Many organizations currently lack an enterprise-wide set of definitions and allocation principles required to complete this process.

Figure 5.1 – CX Costs on a Functional Basis

Organizations must reconfigure CX costs from a functional to an as-consumed basis to provide the cross-enterprise view of costs required for CX Journey Economics.



Key takeaways

- **Begin the process of customer experience costing with a use case. The use case(s) provides a clear outcome which is tied to the findings. It will allow functional areas and cost categories to become part of the same costing process. Take it one step at a time. Don't try to calculate customer experience costs for every journey and every interaction at the start.**
- **Set a strategic vision for customer experience costing. Obtain executive sponsorship to ensure all the right people are involved and working together towards a clear goal.**
- **Invest the necessary time and resources needed to create a sustainable method of tracking customer experience costs. Establish standard processes, use tools, and implement policies to support a repeatable ability to calculate customer experience costs on a regular basis.**

Further, firms wishing to get a better handle on CX costs must then collect, standardize and allocate customer experience cost data from across the business. As data is often dispersed across the business, held in an inconsistent manner and housed in multiple disparate databases lacking integration, the time and investment associated with identifying and gathering data to create a snapshot of CX costs is difficult. Firms need to invest in a sustainable method for costing customer experience by implementing tools and processes that support the ongoing calculation, monitoring and managing of CX costs.

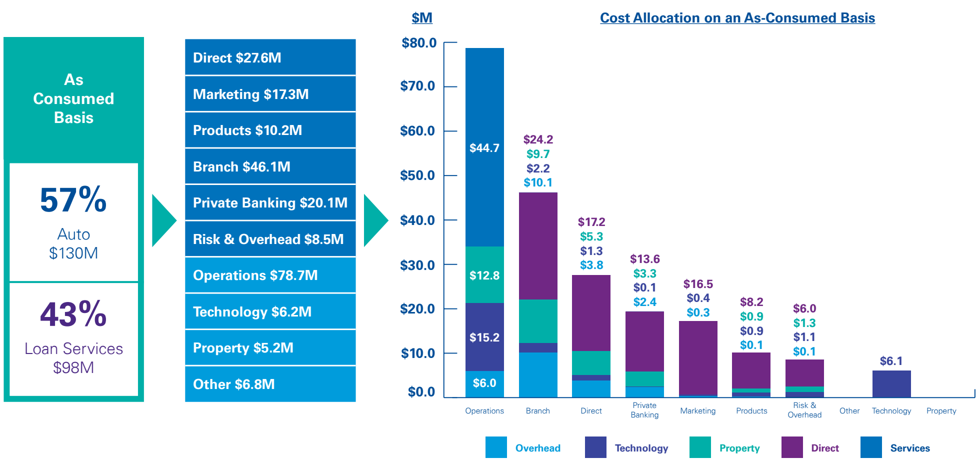
Firms must also address the organizational issues of customer experience cost ownership. Although customer experience is broadly owned, ownership of its costs is typically aligned to specific cost centers. Therefore, in some cases, those responsible for the cost may not be the same individuals responsible for customer experience execution. This dichotomy in cost-versus-customer experience delivery can result in competing priorities and an unwillingness or inability to assume responsibility for customer experience cost calculation and management.

Given the effort involved and the organizational issues that may arise, firms that begin the customer experience costing process with a specific use case in mind are often more successful in their efforts. Having a use case allows the firm to define how the data will be used and what insights can be gained to derive the maximum potential benefit for the organization.

CX Journey Economics also includes gaining an accurate and complete perspective of the costs involved in delivering customer experience. Firms must also address the organizational issues of customer experience ownership. Although customer experience is broadly owned, ownership of its costs is typically aligned to specific cost centers.

Figure 5.2 – CX Costs on an As-Consumed Basis

Organizations must reconfigure CX costs from a functional to an as-consumed basis to provide the cross-enterprise view of costs required for CX Journey Economics.



Spotlight on customer service

Customer service executives are under tremendous pressure from two points of view, upward pressure and downward pressure. The upward pressure comes from the continuing need to improve the overall customer service experience and downward pressure to reduce operating expenses. Most believe that to improve the experience, they have to increase their cost to serve or to reduce their operating costs will be done at the expense of the service experience.

Customer service organizations can improve the service experience at the same time as reducing operating costs. However, in order to do so, they have to strike the right balance.

For example, if a company has had an expensive white-glove service model, has it been targeted to a high-value segment or to all customers? And is that value for customers translating to value for the company? If not, the company needs to rethink their service design.

In addition, most customer service organizations have historically suffered from fragmented, disjointed, and siloed communication channels in servicing their customers. "Companies looking to add new digital channels to reduce the cost of customer service need to focus on integrating them effectively into the overall service experience. If they don't, they create more inefficiencies and wasted costs that affect the customer experience and the economic return," said Terry Walls, Customer Service Transformation Lead.

Align organizational support for success

Key takeaways

- **Change the focus to how the customer experience is going to be executed by the organization, at this stage. Develop alternative scenarios on how the new experience will be delivered. Consider the people, process and technology dimensions associated with each scenario and create prototypes to test the selected delivery scenarios against specific customer segments.**
- **Establish an effective governance model to monitor and manage customer experience and report on CX Journey Economics. At the same time, evaluate your success. Adapt changes to sustain the new experience delivery model, which may require a realignment of people or responsibilities.**
- **Consider the creation of a customer experience hub, drawing upon people from across the organization to create a virtual hub focused on customer experience excellence. These people will become leads for customer experience in their area and they can play an active role in helping to shape and lead customer experience across the organization.**

Consistent, effective delivery of customer experience is critical to value generation. Therefore, successfully aligning people, process and technology around the same vision and objectives is a key component of CX Journey Economics.

One way to initiate this process is by streamlining the organization around the customer experience and removing extra organizational layers to reduce unnecessary costs associated with its delivery. Consider the trade-off between improved customer experience and potential decreases in operating costs. This delayering can be supported with better voice-of-the-customer measurement to ensure execution transparency[17].

Even when organizations have correctly assessed the value potential from making improvements to customer experience, they often lack the necessary processes, incentives, skills and shared metrics to maximize ROI from those investments. Too often, customer interactions are managed by different functions or silos, which can lead to biases that diminish the ROI of customer experience investments. Therefore, instilling a culture change that encourages and incentivizes all functions to feel a responsibility for effective customer experience will help drive its ROI.

It's also necessary to successfully align technology and operating changes to support the customer experience. In the past, organizations have tended to see customer service as more of a resource and training issue. This has led to greater operational expense versus capital expense investments. As customer interactions become increasingly digital, capital expense investments will become more crucial.

When making a capital investment, organizations should consider if the investment is designed to impact the effectiveness or the efficiency of the customer experience. For example, organizations whose customer experience is comprised of large volumes of simple, highly similar customer interactions (e.g., a utility company customer service center) will likely see better returns from customer experience capital investments designed to support efficiency of the interaction. Companies whose customer experience is comprised of smaller volume, highly complex and differentiated interactions (e.g., heavy equipment manufacture service center) will likely see a better return from capital investments that support customer experience effectiveness.[18]

Furthermore, successful alignment should include governance models to monitor and manage customer experience and report on CX Journey Economics. The governance model for CX Journey Economics defines principles and the design and delivery of organization's customer experience journeys and its economics. It outlines roles and responsibilities for decision-making, oversight, transparent policies and processes, and clear communication structures to ensure continued reporting of CX Journey Economics metrics and feedback from the changes.

KPMG research[19] shows the most customer-centric organizations generate a customer experience plan across the entire organization. Nine-out-of-ten view customer experience transformation as an interrelated set of projects across the business, which leads to a better experience for the customer. Yet, firms that delivered customer experience results below expectations tended to begin transformation within a specific function, channel or technology.

"To get a grip on the financial impact of customer experience we're seeing organizations, around the world and across different sectors, use approaches and tools such as journey mapping to unite disparate organizations, functions, partners and suppliers around a shared view of the current experience" reports Antje-Kathrin Schumann, KPMG's National Customer Advisory lead in Germany. "At KPMG, we believe organizations should create customer experience hubs rather than building individually connected CRM systems in order to help customers have consistent experiences across all the customer touch points. This is the way to maximize sales sustainability."

Conclusion

There is significant romanticism over the customer experience in the market today. You'll hear recommendations to delight customers regardless of cost, implying the more you invest in customer experience, the greater your financial return. In fact, the relationship between customer experience and financial return is much more complex.

By focusing on four key processes within CX Journey Economics—managing by metrics; recognizing true benefit potential; gaining clarity on costs; and aligning organizational support for success— organizations can better equip themselves to plan and invest wisely in customer experience and seek insights into the real value it provides to the business.

CX Journey Economics incorporates key measurements to determine ROI and continuously evaluate an organization's customer experience execution.

"Today, many organizations over- or under-invest in customer experience as they haven't tied spend to what customers want and expect or to what the company can cost effectively deliver" says Kelly Owens, KPMG's National Customer Advisory leader in Australia. "In many cases, a customer service evolution is a better investment than a revolution. Both the company and the customer need time to truly appreciate the change."

It's important to remember that customer experience is an evolving journey. With the rapid pace of change and continuous disruption in the marketplace, organizations must be agile and willing to adapt customer experience strategies and tactics as necessary, while paying equal attention to delivering meaningful financial results.

"It's not a one-shot deal when you're customer-led," says Hernandez. "When you think about the explosion of new channels, the explosion of information and the ever-changing expectations of the consumer, you need to think about the way that you manage that on an ongoing basis. The organizations that are going to win are those that can continually understand and be guided by the economics of the customer journey."

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Julio leads KPMG LLP's (KPMG) Global Customer Advisory practice. He has over 20 years of management consulting experience focused on strategy formulation; marketing, sales, service strategy and transformation; and enterprise analytics. During his career, Julio has served clients across multiple industries including consumer goods, retail, health care, telecommunications, energy, natural resources and utilities.

As the US Customer Advisory leader and Global Customer Center of Excellence lead, Julio focuses on helping clients to engage the marketplace, attract, convert and keep customers to fuel profitable growth. Julio works with clients to design and deliver relevant customer experience that drives engagement and results in meaningful and sustainable customer relationships. Julio has served clients in North America, Europe and Asia. He has multiple patents and patents pending for both customer experience and analytics. He has also been cited in multiple periodicals including the Financial Times and Forbes. Julio has a BBA degree from Emory University and an MBA degree from Harvard Business School.

About KPMG's Customer Advisory practice

KPMG's Customer Advisory practice comprises a global team of professionals focused on driving profitable growth through improved customer experience, Omni-Enterprise transformation, and optimizing marketing, sales and service through transformation. We focus on providing the insight you need to create a customer-centric organization and the intelligence that can help you generate ROI from your investments. Our approach guides you from ambition to implementation so that you can keep your customers engaged and satisfied, while creating positive returns for your business.

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