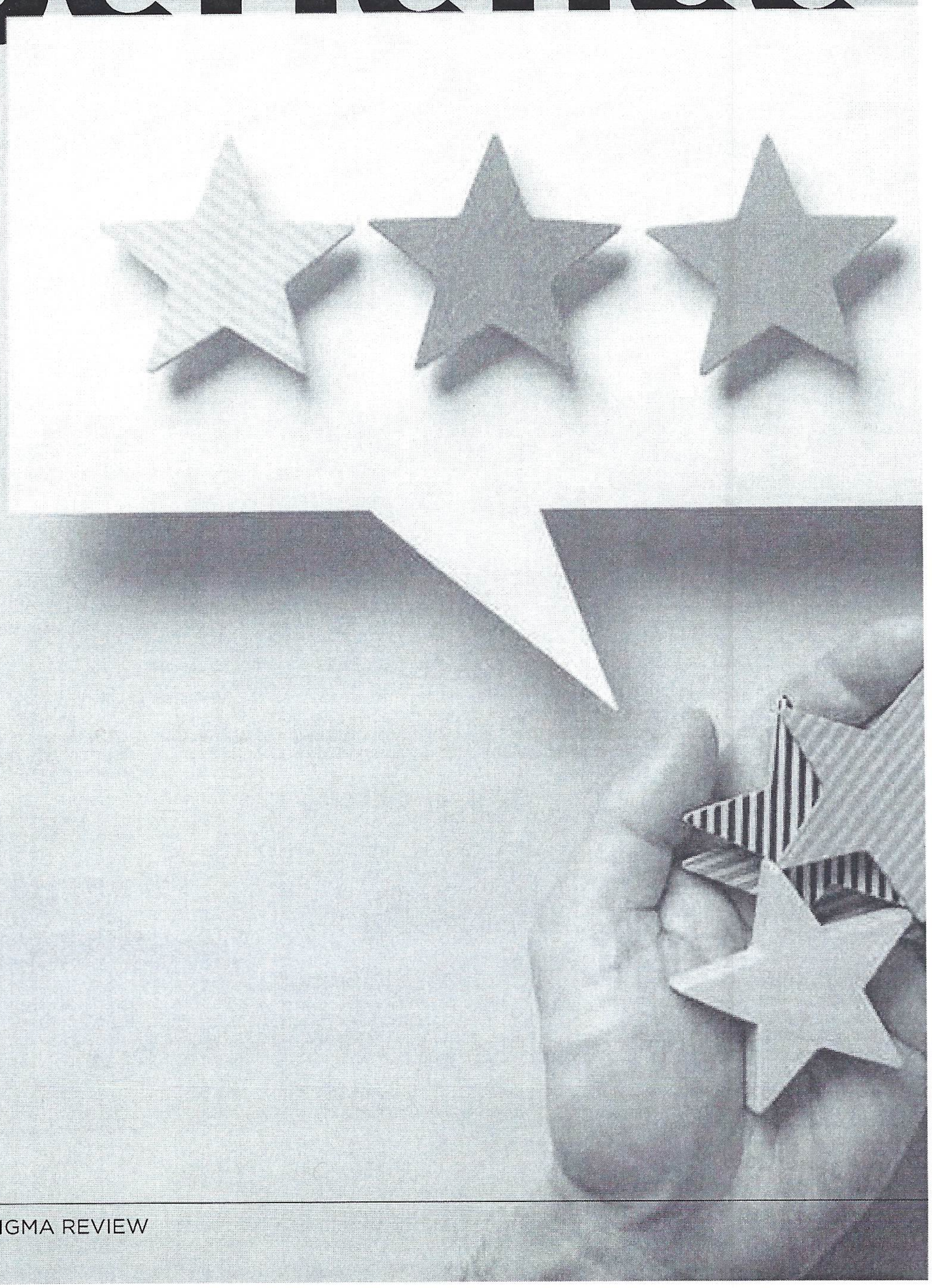
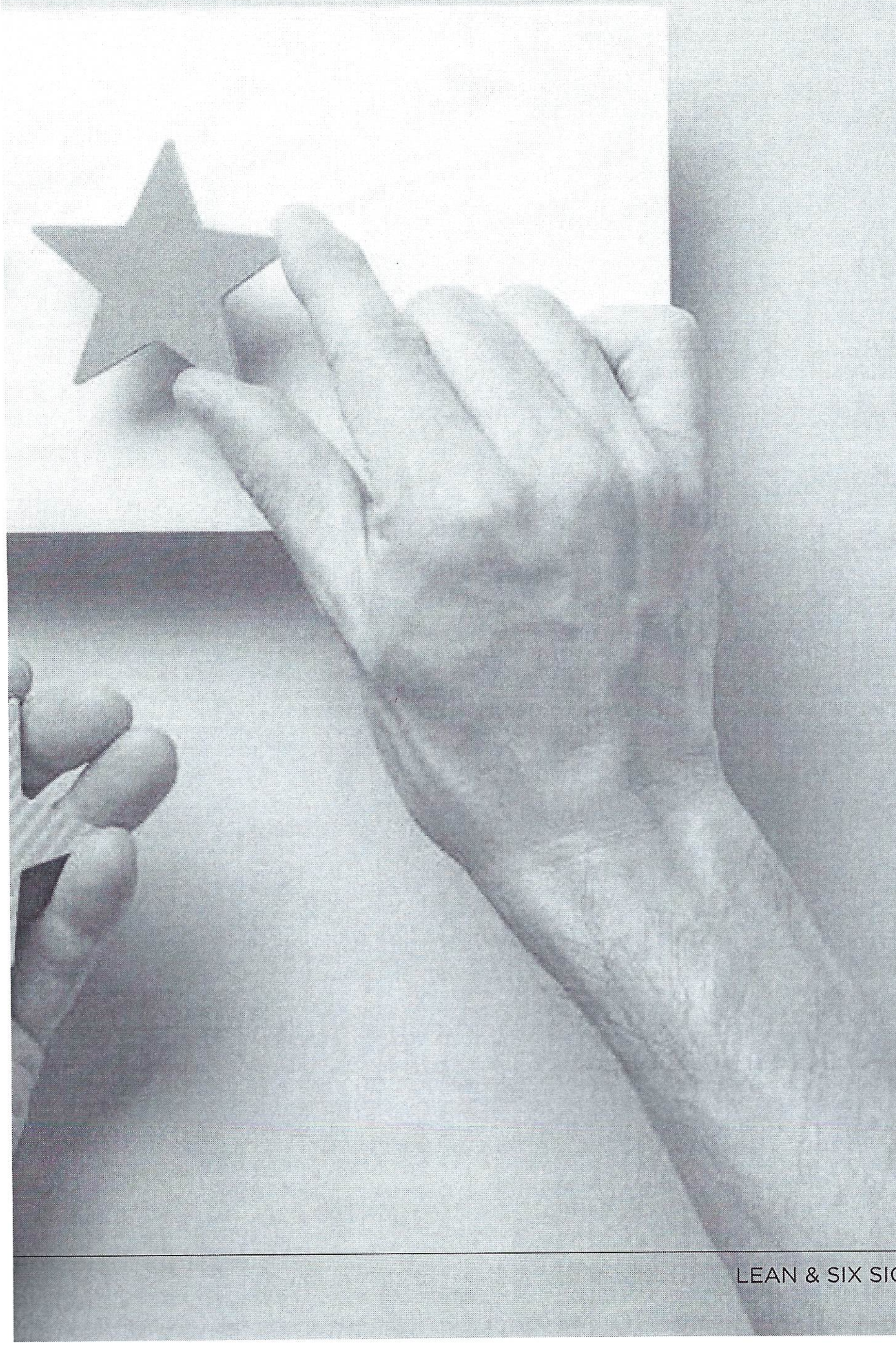
Behind the Customer Experience



Translate your customers' journey into financial data to drive business results



Topic
Customer experience

Author
John Goodman

Email
jgoodman@customercaremc.com

Lean Six Sigma (LSS) practitioners often are starved for the resources needed to attack the full range of opportunities they identify. Most LSS analysts justify projects with cost savings, but that strategy limits the type and number of projects that get funded. A much more compelling business case can be made by augmenting cost savings justifications with topline revenue and word-of-mouth (WOM) impact, which typically is 10 to 20 times the cost invested.

In his 1992 book, *The Quality Secret*, author William Conway first suggested that lost sales are the largest form of enterprise waste.[1]

This article explains how to quantify the revenue and WOM implications of LSS projects across the entire customer experience (CX). Three steps are required to effectively quantify the payoff of an enhanced CX:

1. Create a broader, unified voice of the customer (VOC) that covers the entire CX.
2. Make a compelling business case for action using revenue and WOM impacts.
3. Obtain buy-in from the CFO and chief marketing officer (CMO).

Customer surveys can quantify noncomplaint behavior, allowing complaints and warranty claims to be extrapolated to the entire marketplace.

Create a broader, unified VOC covering the entire CX

The VOC must include the full range of data describing the CX, from the initial marketing message to final billing and renewal. Many quality processes ignore marketing and sales because they are hard to measure and have poorly defined processes.[2] Additionally, many data sources report only the tip of the iceberg of customer dissatisfaction.[3]

No one data source provides complete coverage of the entire end-to-end CX. Further, each data source has blind spots. If a delivery service has a container of packages that misses a flight, for example, at least three data sources can describe the event: operational exception data quantifying the number of packages affected, customer complaints about missing packages and survey data describing customer dissatisfaction. Each data source has strengths and weaknesses, and describes different dimensions of the failure.

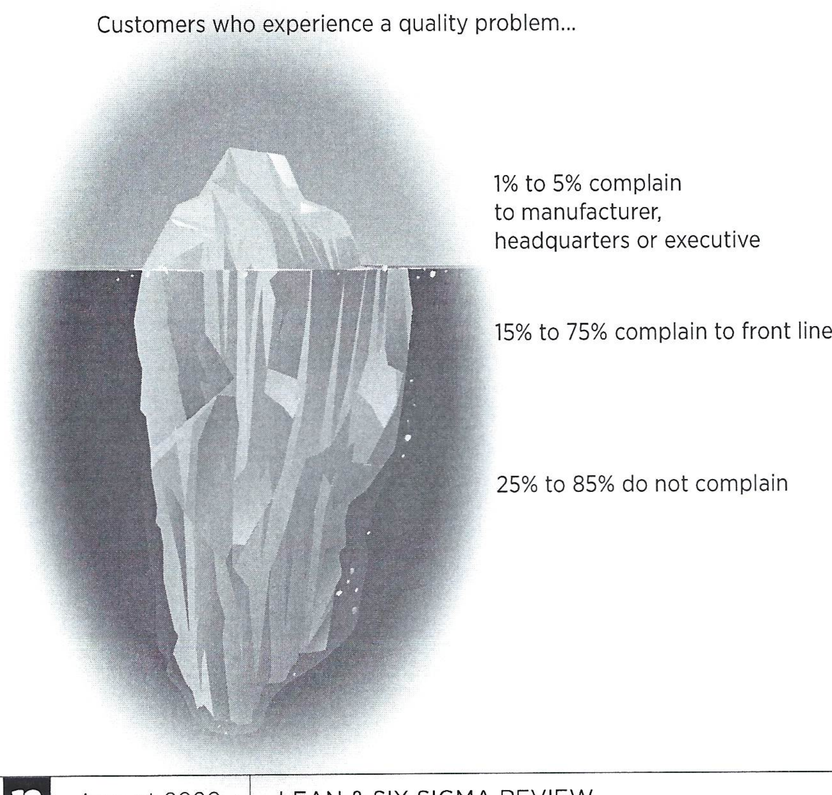
Surveys are critical for describing the marketing and sales phases of the CX, as well as web self-service, because other data sources often are lacking. The survey should prompt the customer with a list of granular issues, such as a product being hard to assemble. Including such a list results in up to three times more problems being surfaced. Customers often fail to complain about difficulties using products because of the perceived hassle involved. When presented with a list, however, they will report the issue.

The organization I work for, Customer Care Measurement and Consulting (CCMC), finds that in every marketplace—even in business-to-business environments—customers complain about only the most serious problems, if any at all. To the degree that product sales are through third-party or distribution channels or retailers, the organization is further insulated from customer problem reports. Figure 1 illustrates customer complaint behavior in most environments.[4] Customer surveys can quantify such noncomplaint behavior, allowing complaints and warranty claims to be extrapolated to the entire marketplace.

Distribution channels between the manufacturer and the end-user usually filter out 90% of problems, so few get to the manufacturer. Only 5 to 10% of smaller products (worth less than $1,000) are returned under warranty. For larger products worth more than $1,000, about 25 to 50% are returned. In situations in which the customer's use of the product contributed to the problem, however, dealers often report they cover the cost of the problem without reporting it to the manufacturer.

The implication of this behavior is that for each problem an organization is aware of, there are, on average, between five and 50 other problems in the marketplace. John Adamo, director of customer quality at Moen Faucets, reported that he typically uses a multiplier of 10 because his products fall across both price ranges.

Figure 1 **ICEBERG OF PROBLEM REPORTING BEHAVIOR**

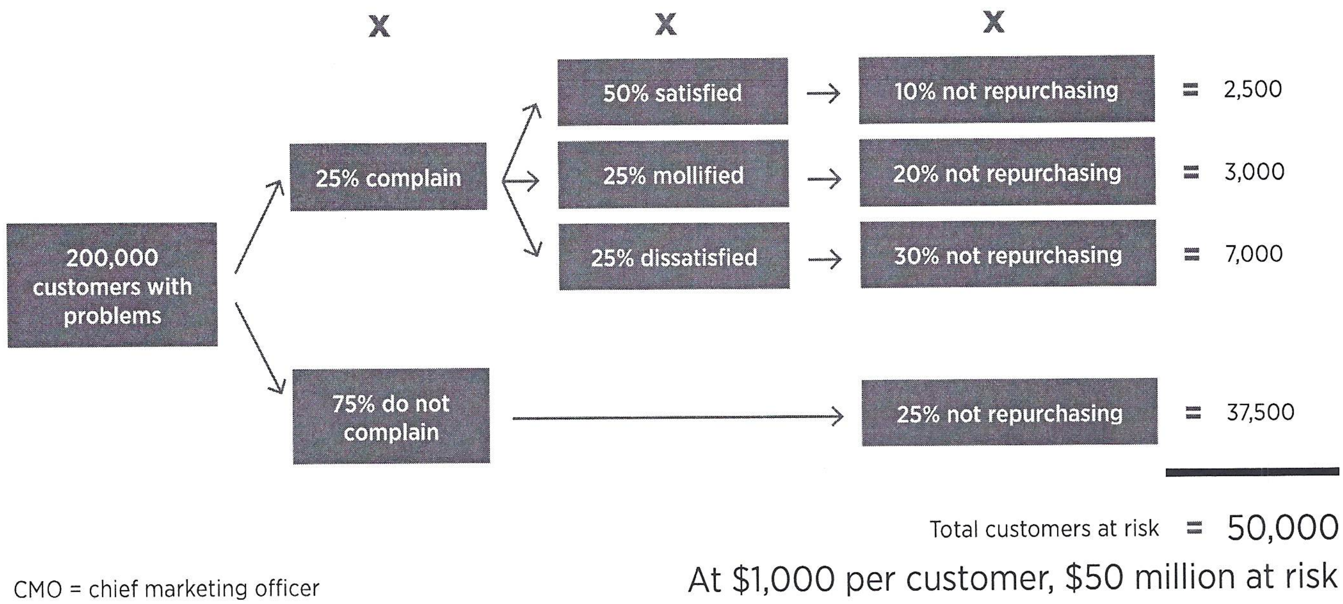


The business case for action

There are two ways LSS can help organizations boost topline revenue: reduce problems and enhance WOM.

1. **REDUCED ATTRITION FROM PROBLEM AVOIDANCE AND MANAGEMENT.** Avoiding customer problems prevents damage to loyalty. The average damage to customer loyalty is 20% per problem. Therefore, the revenue impact of avoiding five problems is equal to winning one new customer. (The calculation is: 5 customers with a problem x 20% decrease in loyalty per problem = 1 customer at risk who is retained per 5 problems prevented.) Resolving an existing problem raises loyalty from 30 to 50% versus if it is left unresolved. The cost of winning a new customer is almost always five to 10 times more

Figure 2 **DEMONSTRATING FINANCIAL IMPACT WITH THE CFO AND CMO**



CMO = chief marketing officer

than the cost of retaining an existing customer via successful problem handling.

HOW TO OPERATIONALIZE. Figure 2 illustrates how to estimate the revenue left on the table from less-than-perfect quality and service. In the example, 20% of a customer base of 1 million (or 200,000 customers) encounters problems, and 25% complain to the organization. Only 50% of complainers are completely satisfied, with the rest left mollified (somewhat happy) or completely dissatisfied. Finally, non-complainants have a 25% drop in loyalty. In Figure 2, the organization is leaving $50 million on the table due to a less-than-perfect customer experience.

There are three parameters that affect the total revenue at risk:

- Total customers with problems.[5]
- The percentage of customers who complain to the organization.
- The percentage of customers who are completely satisfied by the service system.

A CFO can clearly see the link between problems and revenue at risk. After the revenue at risk due to the status quo is quantified, you now can show the payoff of preventing problems, and to more effectively surface and resolve them.

The greatest payoff always comes from preventing problems. In the example outlined in Figure 2, if problems are reduced from 200,000 to 150,000 via customer education and process fixes, the organization reduces revenue at risk to about $35 million, adding $15 million in topline revenue.

2. ENHANCED REVENUE FROM WOM. A negative experience usually causes two to four times as much negative WOM as a positive experience. Positive WOM is the least expensive means of acquiring new customers and reduces marketing expenses. When you demonstrate its effect, CMOs will invest in LSS to foster positive WOM.[6]

HOW TO OPERATIONALIZE. The first step is to ask the CMO:

- What percentage of new customers come from personal referrals?
- How much does it cost to win a new customer via the traditional sales process?
- Can quality help manage WOM?

Personal referrals constitute at least 20% of new customers, and more than 70% in the best organizations. At Chick-fil-A, for example, the CX and insights director reports that a majority of new customers are brought in by existing customers.[7] Similarly, Michael Jannini, former president of the Cheesecake Factory, stated that the organization's marketing expenses were less than 25% of the industry average due to great WOM.[8]

The second step is to educate the CMO that every interaction with customers creates WOM. The questions are how much and whether it is positive or negative. The chart in Figure 3 (p. 14) quantifies the effect of serving 10,000 customers a week, showing a net 4,000 positive referrals. Because negative WOM has a broader reach, it is important to minimize negative experiences.

Currently, if only one out of every six of those net 4,000 positive referrals resulted in a new customer product trial, about 650 new customers would be won per week. The CMO gladly would fund more LSS WOM enhancement projects. Further, recent research indicates that referred customers are more profitable and have a 16 to 25% higher lifetime value.[9] CMOs investing in LSS to create positive WOM is superior to buying more advertising.

Figure 3 **POTENTIAL IMPACT OF A SERVICE SYSTEM THAT INTERACTS WITH 10,000 CUSTOMERS PER WEEK**

Get buy-in from CFO and CMO

The CFO and CMO value topline revenue enhancement and reduced attrition. There are four steps to obtaining buy-in on revenue:

1. **WORK FROM HALF THE CURRENT LEVEL OF CUSTOMER ATTRITION TO QUANTIFY THE OVERALL OPPORTUNITY.** Quantify annual customer attrition. In analyzing the causes of disloyalty in several hundred studies across a score of industries, CCMC found that, on average, half of customer attrition is due to problem experience, and half is due to a combination of price and basic product features.[10] Therefore, if annual attrition is 12% of 1 million customers, or 120,000 customers, then 60,000 customers are lost due to problems.
2. **USE A CONSERVATIVE VALUE OF THE CUSTOMER.** Do not use lifetime value of the customer if it is based on more than three years of revenue. Few CFOs will accept that number. To quote one CFO, "Who knows if we'll even be in this business five years from now?" At most, use three years of revenue.
3. **ESTIMATE THE REVENUE DAMAGE OF ISSUES THAT ARE RELATIVELY EASY FIXES.** Examine problem data across the CX and pick an issue that can be fixed within weeks, not months or years. It's better to have a small success than a big disaster. Use multiple data sources to quantify revenue at risk; operational data are more credible to skeptics than survey and complaint data. Have the finance department vet your analysis.
4. **MEASURE THE WOM IMPACT OF SERVICE IMPROVEMENT AND QUANTIFY FOR THE CMO.** Conduct an A/B test for the process fixes, exposing the fix to half the customers and using the traditional process for the other half. Quantify workload, loyalty and WOM using a follow-up email survey. Measure loyalty using a likelihood-to-repurchase question to estimate customer retention. The measure of WOM should have three parts:
   - Willingness to recommend on a one to 10 scale.
   - Number of friends or business associates the respondents told about the experience.
   - To the respondent's knowledge, how many of those told have acted on the WOM.

LSS must convince the CFO and CMO that LSS projects can measurably impact loyalty, attrition, revenue and WOM.

Celebrate the win and honor participating department heads.

The experience of an LSS manager at an insurance organization illustrates this approach. Customer service reported many customer calls asking how to print invoices. IT noted that "the customer can print their invoice—just go three clicks to the 'contact us' page to access the 'print my invoice link.'" The LSS manager suggested moving the link to the website's home page, at a negligible cost. The minor change increased customer use of the link from 30,000 per month to 120,000 per month, and calls about the issue significantly decreased and customer loyalty rose.

Action plan

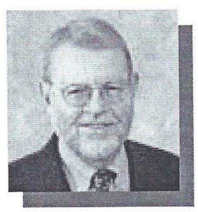
Take these steps to quantify the revenue and WOM implications of LSS projects:

- **CREATE A BROADER, MORE ROBUST VOC PROCESS THAT REFLECTS THE ENTIRE CX.** To effectively guide the CX, build a VOC that provides an end-to-end, unified picture of customer pain points. Draw on contacts, surveys, web analytics and operational failure data.[11]
- **MAKE A COMPELLING BUSINESS CASE BY ESTIMATING THE REVENUE AND WOM IMPACT.** Attack one relatively easy problem that has lingered for months or years, and that requires only moderate resources to fix. Collect data drawn from operational failures, as well as surveys and complaints.
- **WIN CFO AND CMO SUPPORT BY MEASURING THE EFFECT OF YOUR PROCESS FIX ON LOYALTY AND WOM.** Conduct an A/B test of the fix. Measure the loyalty and WOM of the customers who avoided the problem or were dazzled by the enhanced process.

LSS must convince the CFO and CMO that LSS projects can measurably impact loyalty, attrition, revenue and WOM.[12] &

REFERENCES AND NOTES

1. William Conway, *The Quality Secret*, Conway Quality Publishing, 1992.
2. John Goodman and Ken Feldman, "Quality's New Frontier," *Quality Progress*, June 2017, pp. 36-43.
3. John Goodman, "Manage Complaints to Enhance Loyalty," *Quality Progress*, February 2006, pp. 28–34.
4. John Goodman, *Customer Experience 3.0*, AMACOM, 2014.
5. To accurately understand the number of customers encountering problems but who do not complain, survey a random sample of the customer base and ask whether they had problems and if so, whether they complained.
6. John Goodman, "Treat Your Customers as Your Prime Media Rep," *BrandWeek*, Sept. 12, 2005.
7. Discussion with Vicky Soulimiotis, director of customer experience and insights, Chick-fil-A Inc., Atlanta, 2018.
8. Michael Jannini, president of the Cheesecake Factory at Arizona State University, speech before the Center for Services Leadership, W.P. Carey School of Business, November 2012.
9. Christophe Van den Bulte, Emanuel Bayer, Bernd Skiera and Philipp Schmitt, "How Customer Referral Programs Turn Social Capital Into Economic Capital," *Journal of Marketing Research*, February 2018.
10. John Goodman and Scott Broetzmann, *Strategic Customer Service*, second edition, Harper Collins, 2019.
11. Details of data collection using surveys collecting granular customer points of pain and their integrated data analysis are outlined in Goodman, *Strategic Customer Service*, chapters 5, 7 and 8, see reference 10.
12. More details on this approach and how to deflect the usual objections to the business case from cynics can be found in Goodman, *Strategic Customer Service*, see reference 10.



JOHN GOODMAN is vice chairman of Customer Care Measurement and Consulting (https://bit.ly/2CjCU4B) in Alexandria, VA. He received an MBA from Harvard Business School in Cambridge, MA, and is a member of ASQ. Goodman also is the coauthor of *Strategic Customer Service*, second edition (Harper Collins, 2019).

DILBERT