

$$V_t = V_n * T^2$$

The trust equation – or, how to make CX your operating system to create new value for all stakeholders

By Felix Stöckle

After decades of failed attempts to achieve real customer-centricity, customer experience has become board-room talk in many businesses – and the holy grail of finally putting the customer first. Recent studies underline the hype, stating that 89% of companies expect to compete mostly on the basis of customer experience¹ and that by the year 2020 customer experience will overtake product and price² as the key brand differentiator.

But how can a business leverage the potential of holistically managing its customers' experience? And, how can a strategic management of the customer experience become the *business operating system* for the entire organization, creating new value for all stakeholders?

To achieve this goal, it's important to first under-

stand that customer experience management is not a new marketing buzzword but asks for a long-term transformation of the governance system, operating model and corporate culture of your business.

Customer Experience as an operating system for your business

Although, today, many customer experience initiatives are still initiated by marketing, *customer experience* should not be confused with just a new phrase to describe the *path to purchase*. The same is true for *customer journeys*, which are not the sequence of people surfing digital channels (as many digital agencies define it), but describe the entire *end-to-end experience* including *all* interactions of a customer with a brand or business. So, although some CX professionals might already start rolling their eyes, it's vital to

¹ Gartner, „The role of customer experience“, 2016

² Walker, „Customers 2020 – a progress report“, 2017

| PLAN & ESTABLISH | DRIVE & LISTEN | CONNECT & SHAPE | PERFORM & DELIVER |
|--|--|--|--|
| Designing the overall CX transformation architecture | Understanding CX through customers & employees eyes | Redesigning the CX and business OS from customer back | Aligning the org to deliver against tangible CX outcomes |
| Benchmark key success factors (internally & externally) and blueprint detailed road map | Identify customer AND employee experience to holistically understand CX maturity & ecosystem | Integrate into existing projects and communicate early wins to demonstrate value creation | Walk the talk and use internal coms to boost and speed up transformation |
| Define a clear CX vision including actionable CX standards to guide the transformation | Design and establish Customer & Employee Listening and run initial cycle of research | Establish metrics that drive CX focus and implement in operating model | Continuously shape employee experience and empower people to deliver |
| Define org blueprint and recruit a dedicated inter-disciplinary CX team to manage the effort | Implement Data Management Platform to store, integrate and analyze heterogeneous data sets | Define integration of CX team in strategy projects and run add. projects to optimize/reinvent customer & employee journeys across the business – using agile processes, behavioral psychology and digital technologies | Train and recruit to build capabilities and drive CX mind-set |
| Put cross-functional governance in place (decision rights, charters, strategy integration) | Quantify what matters to customers AND employees, and link to value creation | | Embed CX metrics in formal and informal reward and recognition systems |

HOW TO MAKE CUSTOMER EXPERIENCE THE OPERATING SYSTEM OF YOUR BUSINESS: Holistic customer experience management in most cases asks for a far-reaching business transformation. This transformation is successful if it is based on a strategic and systematic approach.

point out the above as many misunderstandings when talking about *customer experience* already start with a lack of common language (please see *Glossary* for some more clarity).

Moreover, the inevitable challenge that most marketers face when launching a CX initiative is that they are lacking a real mandate to design and manage the entire customer experience. The responsibility is split across the entire organization – beyond marketing, other functions like sales, production, logistics, service, finance, etc. are equally involved. Thus, any optimization of the customer experience requires to factor in the entire *business ecosystem* – including all front-end and back-office staff, structures and processes, systems and technologies.

In a first step, the customer experience, often visualized as an *end-to-end customer journey*, enables companies to watch, analyze and understand their organization and performance across all touchpoints through the eyes of its customers. First and foremost this is a change in perspective, that, at its core, is a paradigm shift towards customer-centricity in itself – often for the very first time.

More than often, a business' interaction with its customers is looked at inside-out. However, once a business changes perspective, it becomes secondary what internal reasons are driving customer frustration (i.e. a long, bureaucratic internal processes). Instead, a holistic analysis of the customer experience enables a business to see itself through its customer's eyes and solve any issues customer-back.

If done right, customers' journeys and customer

experience management have the potential to become the OS – the *operating system* – for your entire business. However, it also demands, that the responsibility and stewardship for CX is anchored at the very top, not in functional departments. Moreover, the usual '*functional verticality*' of most companies needs to be transformed into an '*interdisciplinary horizontality*' across all departments and functions, asking for a new *governance & operating model*. Obviously, this is not a project driven by marketing, but a *long-term business transformation*. Unfortunately, many businesses are still too afraid to get on that journey, although they are risking their future by not doing so.

The risks those companies take are emphasized by some additional data that compare CX champions with CX laggards³:

- 86% of customers are willing to pay a price premium of up to 25% for a better customer experience
- 25% of customers will defect after just one bad experience
- CX leaders, who offer their customers a great experience, exceed gross margins of competitors by 26+%, reduce operating costs by 15+% AND boost staff morale and engagement at the same time
- Across industries, successful CX optimization projects typically achieve revenue growth of 5-10 % and cost reductions of 15-25% within just 2-3 years

³ McKinsey, „Creating value through transforming customer journeys”, 2017

Especially the last bullet should be motivation enough for every CEO to put CX on top of his or her agenda. The good news being, that although a customer experience transformation might ask for some substantial upfront investments, those usually amortize in less than 2 years. In other words, a successful CX transformation is *self-financing!*

Datanomics becomes the foundation for customer experience in the platform economy

So why did companies not start making customer experience their operating system before? A simple answer to this question is the old management wisdom: "You can only manage, what you can measure."

In addition to the challenge of transforming their operating model from 'vertical' to 'horizontal', many companies simply lacked a systematic approach to understanding, analyzing and using their knowledge about how they interact with their customers.

Here, the global digitization of business models and processes that took place in recent years under the headline '*digital transformation*', acts as a game changer. The resulting opportunities are based on two interconnected developments:

1. Digitization, on the one hand, is generating an exponentially increasing number of *data points* about customers' behaviors that were previously unavailable or had to be laboriously collected – almost automatically, without having to do anything about it. This raises the question of how this data can be meaningfully used in the interests of both, your customers and your business.
2. On the other hand, digitization allows for streamlining and simplifying the interactions with your customers and making them more efficient – i.e. through automation, robotics, artificial intelligence and machine learning. However, the complexity of customer experience management is increasing in the same way new data points and opportunities arise.

In the immediate future, this evolution will not

only allow businesses to generate comprehensive *log files* of their customers' behaviors, needs and expectations at every point of the customer journey, but also enable them to leverage that knowledge to automatically tailor the customer experience to the specific, situation-based needs of each of those customers. Something, that has not been possible so far. This evolution is turning customer experience management into a *data play* that will be most successful for those businesses that best manage the synthesizing and use of data to drive the customer experience and underlying business processes.

At the same time, this evolution also leads to some completely different questions: Will purely analog touchpoints, in which customers and employees interact in conventional ways, disappear? How many jobs will be lost? Will the '*unconditional basic income*' be the last option for people to make a living in the age of technology?

As long as machines lack any form of real creativity and empathy, and we will continue to feel the need for human interaction in many situations, this will certainly not lead to machines completely replacing humans in the foreseeable future.

Nevertheless, it can be expected that there will be less and less solely analog touchpoints. Instead, there will be an increasing connection between humans and technology - or the increasing digitization of hitherto purely analog, human interactions. The resulting '*hybrid touchpoints*' will be digitally enabled – on the one hand increasing efficiency and productivity, while at the same time offering the potential to truly measure and control all interactions along the *customer end-to-end journey*. The potential here is to increase the satisfaction of all stakeholders – not just customers, but also employees, shareholders and the society as a whole.

But what does this mean in concrete terms? Let us take healthcare as an example: Even in the future, we will want a nurse to sit at our bedside and hold our hand, when we feel miserable after a procedure. Due to available data and technical support systems, she will even have more time for it, while our necessary length of stay in hospital, and thus costs, will be reduced.

Beautiful new world?

Trust as a key variable for creating sustainable value

What we have left out of consideration so far is the question whether customers really appreciate this great new world on the horizon? And, not just since we experience badly executed personalization attempts in online advertising or fake news in social media on a daily basis. Do we really want the increasing use of technology to dominate our relationships with businesses and other organizations, and can we trust the acting parties? The amateurish attempts by companies to meaningfully use the exponentially growing (customer) data on hand tend to increase skepticism, rather than trust.

On the other hand, we don't really talk about a future to be, but a world that is. The history of digitization already is a story of *new business models*, where individual benefit is paid for with personal data. Often, without us being aware of it at any moment or without being able to comprehend how exactly this data is collected and used. On the other hand, anyone who gives him- or herself unsuspecting, must submit to complete naivety.

The problem, however, is that the big players in this business are aware of their monopoly position – and worked hard to achieve it. As a result, they keep things in-transparent or don't act in their customers' interest – at least, many customers believe so, and are probably right. This is a fire hazard, as they risk a revolution on the part of the customers. Or, alternatively, we will see an *Orwellian* future, which we also can not want to happen. Unfortunately, this problem will not go away as a result of the new GDPR by the EU, as long as it can be circumvented or nullified by individual GTCs.

For this reason, companies will only be able to sustainably improve their customers' experiences if, at the same time, they succeed in gaining the trust of their customers that they are using *their data for their benefit*, not just the benefit of the business. In other words, as a customer, our confidence in the use of our data becomes the key variable of a new *'digital value creation'*.

So, businesses are well advised not to neglect this aspect while they optimize their customer ex-

perience in their attempt to generate a competitive advantage for themselves.

A new formula for measuring the value created through customer experience

The bottom line of the above is the following *'trust formula'* – or *'value-trust-equation'* – to achieve sustainable success as a business in the digital age. Essentially, it represents the advantage you can achieve as a business by making customer experience the operating system for all your actions:

$$V_t = V_n * T^2 = \left[\frac{E + S}{P} \right] * \left[\frac{I + P}{D} \right]^2$$

$$Value_{total} = Value_{net} * Trust^2 = \left[\frac{Effort + Satisfaction}{Privacy} \right] * \left[\frac{Identity + Promise}{Delivery} \right]^2$$

The *'effort'* (E) to be made by a customer in connection with the *'satisfaction'* (S) achieved as a result, adjusted by the degree of *'loss in privacy'* (P) as part of the price to be paid, defines the *'net value added'* (V_n) for the respective customer. The actual perceived *'total value'* (V_t) then depends on the extent to which the customer trusts the company or brand. This *'trust'* (T) is defined as the sum of all previous experiences - that is, the extent to which the company or brand has actually *'delivered'* (D) against *'who'* (I) it claims to be and what it *'promised'* (P) towards its customers.

In this way, the total value added that a company generates for a customer through the customer experiences it provides can be summed up in a simple formula. Companies that want to make customer experience their *operating system* and a key value driver for their customers as well as their own business success should adopt this formula.



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GLOSSARY – Trying to define a common language

When corporate managers, consultants and agencies talk about customer experience they often mean very different things. The following glossary aims to support finding a common language:

Customer experience

The total sum of all interactions of a customer with a business over time, that shapes his/her overall perception – fluid, not static – every new interaction contributes to it.

Customer end-to-end or macro journey

The typical sequence of events a customer runs through from need creation to product/service usage & renewal.

Customer micro journey or use case

A typical sub-journey that has a dedicated start and end point within the overall customer journey (i.e. product testing, order fulfilment, payment, etc.) – use cases are describing the same sub-journeys from the customer perspective (“I need to find a product with improved specs.”, “I need to order a product.”, “I need to pay my invoice.”).

Customer touchpoint

A single interaction between customer and business on the customer journey (i.e. scrolling the website, analyzing a product spec sheet, a call with the sales rep) – the total sum of touchpoints forms the customer journey – many touchpoints can be controlled by the business, others can not (i.e. an industry database listing potential vendors, the delivery of a product carried out by a logistics company).

Micro moments or nano journeys

A single or series of event(s) that can be important when designing any touchpoint (i.e. the moment the sales rep tells the prospective customer the price of the solution, the moment the customer clicks on ‘Order’ on an e-commerce platform) – the micro moments can shape or change the entire perception of the customer experience.

Pain point

A touchpoint or micro moment, that frustrates the customer and negatively shapes his overall perception of the customer experience (i.e. he/she doesn’t receive a quote in time for an important internal meeting, the order does not arrive on time, the product doesn’t work on the company’s production line).

Moment of truth

The interactions or touchpoints that matter most to the customer (i.e. an application problem is fixed fast by the technical engineer for the customer not to lose time and money on his production line).

Unmet need

A need that the customer is fully aware of – can not yet be met by any potential supplier yet – usually offers great potential for innovation and added value.

Occasion-based need-states

Describes different needs depending on the occasion or circumstances (i.e. a customer normally expects order fulfillment within 10 working days, but for an emergency product request, he needs the product to be shipped within 24h).

Customer listening

The total sum of all research and activities to understand customers’ experiences, journeys as well their needs, expectations, buying behavior, product/service usage, satisfaction and loyalty – quantitative and qualitative; externally and internally – gained through primary and secondary research, media usage, click rates, behavioral data, sales data, product data, etc.

Data analytics & management platform

A data management system, that is capable to collect, synthesize, analyze and report disparate data points or data sets in order to transform them into customer insights.

Customer insights

Valuable information on formerly unknown or misinterpreted customer needs as a result of data aggregation and analysis – customer data from customer listening is an input to it – i.e. Uber understood, that customers want an easy and reliable way to order a taxi and don’t want to worry about how to pay the driver.

Customer segment

A distinct group of customers that share similar needs, expectations and/or behaviors – can clearly be differentiated from other customer segments – used to provide those customer segments with the right messages, channels and solutions.

Customer persona

A 'human way' of describing a typical customer segment – based rather on psychology, attitudes and needs, than product usage, sales numbers and other facts & figures – often makes the description of a customer segment more tangible.

Content management platform/system

A marketing tool to more efficiently create, tailor, manage and deliver messages and other content (images, video, etc.) to different customer segments based on their individual needs.

Marketing technology

A set or suite of tools to fully integrate the marketing process – from customer listening & segmentation, to content creation & management, to channel management & distribution, and CRM – unfortunately there is now one supplier or solution yet that incorporates all marketing tasks into one tool and created a 'gold standard'.

CX business ecosystem

The other side of the coin: mirrors the customer journey from an internal perspective – the people, processes, systems and technology used to enable the delivery of a certain touchpoint or sub-journey – needs to be fully understood in order to be able to make any CX improvements and change the operating model.

CX management platform

Similar to Marketing technology: A set or suite of tools to link all data and learnings from customer listening to the business ecosystem and all improvement and innovation initiatives – allows for an effective and efficient customer experience management.

CX management

A data-based approach to holistically manage the customer experience – focuses on three main pillars: (1) using and making internally available the data and insides gained through customer listening, (2) continuously optimizing and innovating the customer experience and (3) driving a customer-centric culture throughout the organization.

CX value creation

The analytical link between improvements in the customer experience to resulting revenue growth and cost reductions that drive the financial results and success of a business as a result of a CX transformation.