Taking the Wheel

Now is the time for quality professionals **to manage, steer customer experience**

CUSTOMER EXPERIENCE HAS become the mantra of senior management looking to enhance revenue and margins. In fact, more companies are trying to differentiate themselves not only on product quality, but also on total customer experience.[1] Enhancing the customer experience has been set as a significant corporate goal by about 86% of companies.[2]

Looking at the program agendas of more than a dozen recent and upcoming quality conferences indicates the quality profession doesn't seem to be directing much attention to the customer experience. Beyond a few mentions of quality culture, there's no implication the customer experience should be a key part of the quality function's role or that quality could actually lead the customer experience effort.

Customer experience should be the key to quality's future because many quality professionals already have the necessary skills to take the lead. In some cases, quality executives may even have the opportunity to become chief customer officers.

by John Goodman

In 50 Words Or Less

- More organizations are paying close attention to the customer experience to sustain and grow business, but many don't have a systematic approach to manage it.
- Quality professionals should take the lead in this effort, in part because of their analytical and implementation skills, and voice of the customer experience.

Therefore, the quality function must reallocate significant resources away from traditional cost reduction, efficiency and operational quality projects, and put it toward collecting and analyzing a broader, unified voice of the customer (VOC) and managing the customer experience. VOC is the critical element needed to guide and manage the customer experience. This reallocation could easily create a tenfold increase on the department's impact on the organization's bottom line.

Creating an economic imperative

In many organizations, lean Six Sigma initiatives are aimed at enhanced efficiency and cost cutting. The real payoff of an enhanced customer experience is enhanced revenue, positive word of mouth and increased margins.

The customer experience framework, shown in Figure 1, allows the VOC and quality improvement activities to be placed in the context of the overall customer experience, which includes the revenue generating intended basic customer experience as well as the cost producing service contacts.[3]

Technical Assistance Research Programs (TARP) estimates these create five to 20 times the impact as traditional efficiency enhancement activities, in terms of contributing to the bottom line based on the following three areas:

1. Enhanced revenue through improved loyalty. Avoiding customer problems increases loyalty by an average of 20%. This is measured by comparing the stated repurchase intention of customers who have encountered problems with the repurchase intention of customers who have not encountered any recent problems.

Similar research has found that resolving an existing problem raises loyalty from 30 to 50% versus leaving it unresolved.[4]

In multiple studies, TARP examined advertising and marketing costs expended for each new customer obtained and compared it with the average goodwill expenditure required to recover the loyalty of a previously dissatisfied customer. The advertising cost alone was five times as much as the cost to keep an existing customer.
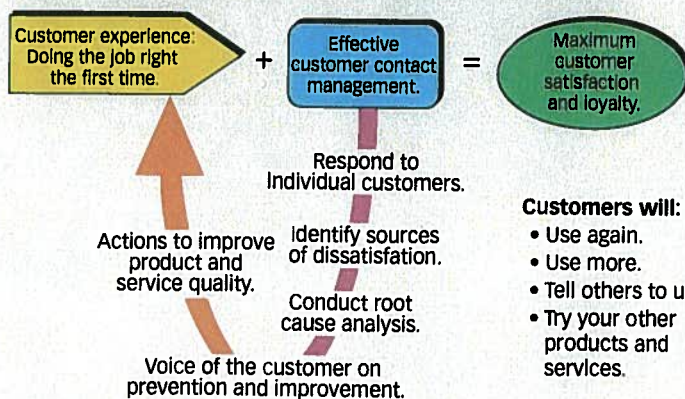
2. Word of mouth. A negative experience causes two to four times as much word of mouth (or "word of mouse"[5] on the web) as a positive experience. Marketing executives from more than 200 companies were asked to estimate the percentage of new customers gained from customer referrals versus advertising and direct marketing techniques. For almost all organizations queried, at least 25%—and sometimes as much as 75%—of new customers were obtained via word-of-mouth referrals.[6]

3. Margin. In many TARP studies, survey respondents in banking, insurance, technology and catalog sales were asked, "How satisfied are you with the prices and fees charged?" There was a strong—and certainly not surprising—relationship between problem experience and sensitivity to price.

Among 3,000 banking customer respondents represented in Figure 2, only 10% without any recent problems were dissatisfied with fees and charges. More than twice as many (22%) were sensitive to current prices when they had experienced a recent problem. If the problems were frequent, the percentage doubled again to 46%, and customers said, "Given what I'm paying, I should not be having these problems."

Enhancing the customer experience and preventing problems increases all three factors affecting profit: retention, word of mouth and margins.

VOC to create the economic imperative

TARP reviewed scores of VOC processes over the last decade[7,8] and learned that VOC is fragmented and almost dysfunctional in most organizations.

The VOC process tends to be hobbled by fragmented data collection and little analytic knowledge that can integrate survey, customer contact, internal operation, financial and logistics data to describe the customer experience. The VOC process also lacks experts who can suggest strategies and processes for fixing the problems uncovered.

Formula for maximizing the customer experience / FIGURE 1

Customer experience: Doing the job right the first time. + Effective customer contact management. = Maximum customer satisfaction and loyalty.

Respond to individual customers.

Actions to improve product and service quality.

Identify sources of dissatisfaction.

Conduct root cause analysis.

Voice of the customer on prevention and improvement.

Customers will:
• Use again.
• Use more.
• Tell others to use.
• Try your other products and services.

To effectively manage the customer experience, VOC must provide an end-to-end, unified picture of the customer experience. This VOC data analysis must allow the organization to:

- Set priorities across all the organizational silos and create the economic imperative for action.
- Assign ownership of implementing customer experience improvement projects to the function best qualified to lead the effort.
- Ensure accountability and effectiveness by measuring the process and outcome, including financial effectiveness of improvements.

An end-to-end picture covers the first presale interaction to the final billing, ensuring all issues are identified and the most critical ones are addressed. For business-to-business relationships or ongoing services such as telecommunications or financial services, the customer experience has ongoing transactions and account maintenance, and customer and channel relationship management.

Sometimes, problems customers don't complain about can do the most damage. For instance, in studies at three different office equipment companies, TARP learned that misleading promises from sales representatives did four times more damage to loyalty than machine breakdowns or repair delays. At the same time, these misleading promises were seldom complained about.

A unified picture eliminates contradictions and reduces biases. Many organizations define their VOC as customer surveys, which often highlight only top-of-mind issues. To eliminate single-source biases, an effective VOC should include surveys, customer contacts (service and sales, and structured and unstructured information) and relevant internal metrics describing what the organization has done to or for customers (such as warranty claims, invoice adjustments, late charges and missed shipment dates).

For example, operational data on missed or late deliveries often will flag a problem before it's even reported by customers. Customer calls, emails and letters provide more actionable data because they are timelier than surveys, and they indicate at the issue level the problems most seriously affecting customer loyalty. Comments and recordings can shed light on emotional effect and expectation-based causes. Also, employee input is critical to understanding causes of problems and underlying internal fire drills.

Dissatisfaction with fees rises with number of problems / FIGURE 2
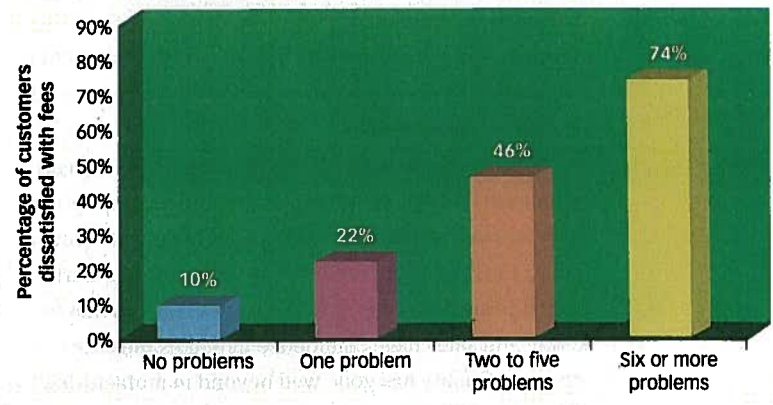
Integrating VOC data

When multiple data sources are reported separately, there are biases and contradictions, often resulting in paralysis. For example, an executive vice president of a major communications company lamented, "I get seven reports on quality at the end of each month. Three reports say things are great, three say they are OK, and one says we're having a disaster. Who is telling the truth?"

The problem is that, as noted earlier, when you ask who is in charge of the broadly defined VOC, the answer for most organizations is that many functions have a piece of VOC, each with their own favorite quality data source.

The challenge is getting the messy data to fit together, arriving at a unified decision on the best opportunities, and developing and implementing projects to execute on those opportunities.

The most challenging part of the VOC process is actually integrating the various data. For example, operations and survey data can often be projected on the customer base. Complaint data may represent only one out of 50 customers with the problem. Warranty data usually represents one out of three customers who encountered a serious failure—or one of 10 for minor issues. Unless you have a feel for this ratio or multiplier,[9] it is difficult to validly integrate such data with survey and inspection data.

MORE TO EXPERIENCE

More background on the origins of customer experience can be found in the sidebar, "Customer Experience and Quality," located on this article's webpage at www.qualityprogress.com.

Ashraf El-Gharby, manager of sensory and marketplace insights for PepsiCo NA, reported that quantification of the multiplier by type of issue and tying complaint data to other streams of data, such as inventory age, sales and inspection data, have resulted in greater effectiveness on production quality, as well as marketing and product management.

"Using rigorous, statistically projectable research to support extrapolation of each complaint to the marketplace as a whole makes our case for investment (in quality) much more credible," El-Gharby said. "Further, corroborating our case with other data sources that marketing and sales have confidence in makes the case even stronger. Quality has gone well beyond manufacturing to also address consumer expectations and how effectively the company sets and meets them."[10]

One pitfall for executives is trying to build a comprehensive VOC process without showing the value and success resulting from a unified VOC. A more successful approach is "better a small success than a big disaster." The strategy is to collect data on several candidate customer problems on an ad hoc basis from the most important three or four silos and then build the baseline business case to create the economic imperative for action, using manual analysis if needed. While messier, this approach has a dramatically higher chance of success.

VOC driving the experience

Quality is best qualified to take VOC data from the customer experience and improve the customer experience. You must use fragmentary data from multiple sources to define and assess a problem, quantify the financial impact of the problem, develop a strategy for improvement, pilot test a solution and measure the improvement. This process sounds similar to a define, measure, analyze, improve and control (DMAIC) project.

After the data on the size of the problem and its economic effect are known, executive buy-in tends to be significantly higher. Also, a champion from the department that will gain the most benefit from the improved customer experience—often marketing or operations—can usually be recruited to support the effort. This champion becomes quality's client, and quality performs the short-term heavy lifting.

At a major insurance company, for example, the quality team identified the problem related to the length of time it took to get annuity redemption forms completed by a beneficiary after a person holding the annuity died. The delay added to costs and frustrated the back-office staff handling this part of operations.

When more comprehensive VOC data were gathered, it turned out that a majority of the beneficiaries actually did not want to redeem the annuity, but they wanted to leave it invested, which was also to the company's benefit. The team suggested simple changes to the redemption form that offered multiple options for the beneficiaries, including reinvesting the proceeds. This became a win-win-win for customers, the operations' executive client and the company because it was able to retain the investment assets and income.

Quality can get a seat at the table by finding a fixable problem involving multiple functions and departments that recognize it as an issue damaging to revenue and producing extra service cost.

As Mary Ellen Burris, senior vice president of consumer affairs and customer experience at Wegmans supermarkets, said, "Let the other executive take most or all of the credit for the success. Everyone knows that you helped create the success."[11] Then you get a reputation within the organization of being someone who can help the bottom line and other executives' careers.

Taking the lead

After quality is seated at the table, taking an informal or formal leadership role for the customer experience requires delivering a consistent stream of actionable VOC-based opportunities and then defining, quantifying and improving issues that contribute to the revenue top line versus cost reduction.

When applied in order, three factors will guarantee success of the quality function and offer you the opportunity to coordinate the ongoing overall customer experience:

1. Compelling data.
2. Management commitment.
3. Successful implementation.

This is a repeatable cycle, as shown in Figure 3. After the first success, you can get more data and do it again, building from previous successes.

TARP's review of factors leading to successful VOC processes indicates that if the data are unified and com-

Coordinating the customer experience / FIGURE 3

Compelling data

Management commitment

Successful implementation

pelling, then line management, especially the marketing department and the CFO, is motivated by a desire for increased top-line revenue and will support actions leading to success.

In most cases, you can position the improved process as a pilot test that might not work. When there's a pilot test, skeptics spend less time attacking it because they believe it will fail. If properly designed and measured, a pilot test will never fail. When completed, it can produce strong enough data that show improvement skeptics can't refute.

An example of how all the concepts come together is Boeing's Baldrige-honored airlift and tanker programs, and aerospace support business. E. David Spong, a retired Boeing executive and former ASQ president, described how Boeing's quality organization contributed to gathering and interpreting customer experience data:

> "When I led Boeing's airlift and tanker programs, and aerospace support business, we used a collection of 'listening' tools to understand our customers including their feedback, expectations, complaints and even dreams. Each of the measures was used in an overall customer satisfaction index (CSI), which we tracked monthly. Not surprisingly, our efforts to address satisfaction issues led to CSI improvements. More importantly, our customers were more satisfied, and our business results improved dramatically. Revenues increased, and margin improved.
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> "Our quality organizations were involved in recording and managing many of the measures, but not all. It's a logical extension for the quality organization to own and manage the whole customer experience system. That said, quality professionals must accept this challenge and be prepared to lead it. While quality professionals are well represented in manufacturing, we must embrace service industries and bring our skills to bear to them.[12]

One of the most cost-effective methods of quality implementation is to "fix the customer" through the "psychic pizza" concept: deliver information that educates or resets expectations prior to the customer encountering the problem. For more on how companies use this and other strategies to enhance the customer experience, see the online sidebar "Changing Assumptions."

Making quality the leader

There are several ways to help quality take hold of VOC and lead customer experience at your organization:

- Get the marketing and finance departments to agree

that great customer experience will enhance retention, word of mouth and margins.
- Map key customer-facing processes; create an ad hoc, unified VOC to quantify a few opportunities for fast, measurable success; and estimate the revenue implications in a way the CFO will accept. Humanize the data with a few quotes.
- Select and address one issue using DMAIC.
- Measure and document the success, and give credit to the other executives.
- Emphasize a unified VOC in achieving the success, and select the next target issue.
- Only after several tactical successes, suggest quality could and should lead VOC and customer experience effort.

The key to quality leading the customer experience is to use the VOC to show the CFO and chief marketing officer how an improved customer experience is the foundation of an enhanced revenue stream and bottom line. Then demonstrate that quality professionals have the analytical and implementation skills, as well as the experience, to systematically improve the customer experience. QP

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