Henley Centre for Customer Management

Henley Business School
UNIVERSITY OF READING

Linking Customer Experience to Business Performance: A Literature review

Dr. Anne Dibley

August 2017

Table of contents

1. What is customer experience?

Before examining literature relating to possible links between customer experience and business performance, it is important to define our terms.

Customer experience can be defined as, “the customer’s subjective response to the holistic customer journey across all direct and indirect touchpoints with the brand” (Clark, 2017). This definition encapsulates the key dimensions of customer experience.

Firstly, each person’s experience is unique (subjective).

Secondly, our experience is coloured by brand touchpoints that are outside of the firm’s control; for example, a ferry company has no control over traffic jams on the way to the port, but this impacts on a customer’s experience of taking a ferry to France, just as the on-board experience does.

Thirdly, the end-to-end experience is critical, as we make judgements about our overall experience (holistic).

Finally, the experience is a journey which takes place over a period of time, starting from the point where a customer begins to consider making a purchase, and which extends beyond the point of purchase to usage and possibly divestment of the product or service.

It is clearly important for firms to manage the experience that their customers have, as far as this is possible. Customer experience management can be defined as, “the management process of understanding, designing and co-creating the customer experience so as to achieve the goals of both parties (Clark, 2017). It is important to note the co-creative nature of customer experience management, to enable mutual benefits to be achieved.

2. What do we mean by business performance and how can it be measured?

For the purposes of this project, the term 'business performance' refers to return on investment. In the journal articles examined in this literature review, the following measures are commonly used to determine the value of investing in customer experience initiatives:

- Additional or future spend by customers
- Likelihood to stay loyal to the brand/company
- Likelihood to recommend your company/offering
- Cost savings

It is important to acknowledge that many initiatives designed to improve customer experience, are also intended to reduce costs. There is no inherent contradiction here, as initiatives can achieve both goals, for example, by digitizing customer care. In one case examined by Banfi et al, a mobile operator's eCare initiatives reduced call centre volume by 20% in 8 months, significantly reducing costs while improving their net promoter score (Banfi et al, 2017).

3. Evidence of a link between customer experience and business performance

3.1. Evidence across industries

A wide-ranging research study by Forrester (Schmidt-Subramanian, 2014) provides convincing evidence of a correlation between good customer experience and business performance. An online survey was conducted with 7,538 US consumers regarding their interactions with 175 large US brands, across a range of 13 different industries. Respondents were asked to rate their experience of interactions with a brand, and their behaviour relating to that brand. Forrester used the data to model the effects that improved customer experience could have on companies in the 13 different industries.

The study's findings revealed a correlation between a high customer experience score and the following three areas:

- Customer loyalty to a company
- Repeat purchases
- Customers who would recommend the company/brand

The higher the quality of the customer's experience, the less likely the customer is to defect to another supplier, and the more likely the firm is to get positive mentions from its customers. Their modelling showed that the loyalty-based revenue benefit for a firm going from a below average customer experience index score for its industry to an above average score for its industry ranged from a low of $55 million for consumer internet service providers, to a high of $1.6 billion for wireless providers (Schmidt-Subramanian, 2014).

This study also identified incremental sales from positive word of mouth that range from $6 million for car rental firms to $491 million for health insurance companies (Schmidt-Subramanian, 2014). It was shown that both laggards and leaders can benefit from improving customer experience. Laggards, that is, firms who are well behind the curve on customer experience, can make quick gains. Leaders in the field of customer experience can also continue to benefit by keeping ahead through ongoing innovation, thus avoiding being caught up by their competitors (Schmidt-Subramanian, 2014).

Peter Kriss, a senior research scientist at Medalla, has also found that it is possible to quantify the impact of customer experience. According to Kriss's research (HBR Webinar, 2017), customer experience has a significant impact on future spending, and is a major driver of future revenue, as well as potentially leading to cost savings. Kriss presents a specific example of renewing subscriptions to an online service. Among customers who described their experience as poor, 43% renewed their subscription. Among customers with a positive experience, 75% renewed their subscription.

In addition, Cho's hotel sector study (2014) found a direct link between customer experience and market performance.

3.2. Evidence of a link between multi-sensory customer experience and business performance

Many successful initiatives to improve customer experience are process-based (for example, simplifying the on-boarding process for customers) or field-based (for example, giving front-line employees customer service training) but initiatives relating to atmosphere, aesthetics, and the sensory and physical environment can also have a significant impact on customer experience. Nigam (2012) investigated the impact of service experiences that appeal to the senses (for example, aesthetics and playfulness) in a fast-food restaurant setting, and concluded that experiential value has a positive influence on purchase intention.

Spence et al's (2014) research discusses the positive influence of store atmospherics. They discuss the significant interactive effects of ambience and design on consumers' perceptions of retailer image and price acceptability. They highlight the complexity of managing sensations, and assert that managers must consider how optimal stimulation can be achieved to realise a greater return on investment. An example of the successful achievement of this is the case of IKEA, where lower lighting in the glassware section led to increased sales (Hulten, 2012, cited in Spence et al, 2014), perhaps creating a more relaxed ambience. In a similar vein, playing French music in a wine store led to French wine outselling German wine. In contrast, when German music was played, German wine outsold French wine. Sensory cues are mediated by cognition, and associations between products and atmospheric cues are important.

Other examples of sensory initiatives influencing purchase intention are that fast tempo music was found to encourage people to eat and drink more in a restaurant (Spence, 2012). Conversely, turnover at a supermarket increased by almost 40% when a lower tempo of music was played (Millman, 1982, cited in Spence, 2014). People were found to spend longer in the aisles and consequently purchased more. Similarly, blue atmospheres (which are felt to be relaxing) and other visually appealing environments have been found to encourage longer browsing and promote purchase intentions (Spence et al, 2014).

Ambient scent, touch and taste have also been found to influence purchase behaviour. Purchase likelihood for sports shoes was found to increase when the shoppers tried on the shoes in a mixed floral-scented room, rather than in an unscented room, and in addition, shoppers showed a higher willingness to pay (Miller, 1991, cited in Spence et al, 2014). Similarly, Samsung has introduced a honeydew melon scent, to go with a green colour scheme in stores, while Sony Style Stores have a, 'subtle fragrance of vanilla and mandarin orange', which wafts down on shoppers. Scent memory is believed to be the strongest of all the senses, and the belief is that by creating a more pleasant environment, these scent-based initiatives will positively influence purchase behaviour (Spence et al, 2014).

In-store tastings play an important role in encouraging purchase, while touch has also been discovered to influence purchase behaviour. Customers often like to touch products; for example, when Asda removed wrapping from some of their brands, sales soared. However, customers do not like to buy certain products that may have been touched by others (Spence et al, 2014).

Some retailers have used multisensory atmospherics with excellent results; for example, the Rainforest Café, renowned for its remarkable exhibits, cascading waterfalls, customised sound effects, huge canopies and animation (Spence et al, 2014). However, a good multi-sensory experience will not necessarily fend off innovative competitors who offer better value, more relevant products and services; for example, Abercrombie & Fitch enjoys substantial traffic in-store, but have not particularly boosted sales. Nonetheless, published studies demonstrate that investing in multi-sensory atmospherics at the point of purchase can indeed increase sales.

4. How to build an explicit link between customer experience and value to the firm

4.1. Define the customer behaviours that create value for your business

While senior executives can see the benefits to customers of enhanced customer experience, many fail to understand how it creates value for the firm. By building an explicit link between customer experience and the value it brings to the firm, managers can create a self-funding business case for customer experience initiatives, can gain buy-in throughout the organisation, and can maintain momentum (Maynes & Rawson, 2016).

The first step in building this link is to define the customer behaviours that create value for your business, and then follow customer satisfaction scores over time to quantify the economic outcomes of different experiences (Maynes & Rawson, 2016). For example, the desired customer behaviours and possible measures are:

- Customers buying your products → customer revenues
- Customers continuing to buy your products → customer retention
- Customers willing to recommend your product → advocacy

These can be used as the firm's outcome measures. The final measure, advocacy, is becoming more and more important as, increasingly, customers examine online reviews before purchasing products or services.

Each firm should develop its own hypotheses regarding the customer outcomes that matter most. For example, for a telecoms company, customers who have a positive experience should be less likely to churn, should have fewer issues that escalate into calls, and should sign up for more products. Customer retention, reduced call volume, and cross-selling/up-selling of products may be useful outcome measures. Airlines, on the other hand, may focus on capturing a greater share of trips and trip revenues, and on lowering the cost to serve. It is recommended that a firm postulates 3-5 hypotheses relating to the outcome measures that deliver value (Maynes & Rawson, 2016).

4.2. Analyse customer experience data and link this to behaviour and financial outcomes

Kriss (2017) discusses the need to take customer experience and customer satisfaction data and link this to future spending. (Customer satisfaction is widely accepted as a key element and integral part of customer experience.) It is, of course, important to be aware of and allow for other influences on future spending in any data modelling system. Arguably, other factors might have a stronger impact on purchase behaviour in business-to-business sectors, where industry or organisational changes can dramatically affect relationships with customers and suppliers. Schmidt-Subramanian (2014) recommend running a few different scenarios to see how revenues might change under a range of conservative, aggressive and likely conditions; cost savings should also be included in the model.

Data modelling can demonstrate the link between customer experience and desired outcomes such as loyalty measures (Schmidt-Subramanian, 2014). It is essential that customer experience or satisfaction data can be linked to customer level financial outcomes. In other words, it is important to link what customers say about your products/services with what their actual purchasing behaviour is over time. The financial outcomes must obviously relate to a period of time *after* the customer experience/satisfaction data have been collected. This can be challenging for companies, as data are often siloed, and customer feedback data and customer level financial data may reside in separate systems (Kriss, 2017; Maynes & Rawson, 2016).

Maynes & Rawson (2016) suggest building a customer level data set of the results of past satisfaction surveys, or 'willingness to recommend' surveys, and using an email/customer identifier to link the survey results back to their databases. The survey responses should be matched to each of the firm's priority outcome measures, for example, 'willingness to recommend' survey data could be matched to data on customer retention, cost to serve, revenues or product upgrades purchased. This type of link forms the backbone of the firm's customer experience data analysis (Maynes & Rawson, 2016).

With a customer-level database of this nature, it becomes possible to analyse the historical performance of real customer cohorts. Using customer data linked to survey respondents, a firm can analyse customers designated as 'satisfied', 'neutral' or 'dissatisfied' over a period of, for example, one to two years. It can then be determined, for example, how much less likely to churn 'satisfied' customers are, and how much more likely they are to purchase additional products and services (Maynes & Rawson, 2016). This data can be used, for instance, to estimate the value, at a firm level, of moving 5% of 'dissatisfied' customers to 'neutral'. According to Maynes & Rawson (2016), tracking outcomes over time for each important customer segment is the best way to quantify the value of the customer experience.

Analysing trends can help companies take a forward looking view. For example, PayTV companies providing an 'average' customer experience found that stated loyalty of customers has dropped by 20% since 2009. Looking at trends in outcome measures for 'dissatisfied', 'neutral' and 'satisfied' customers, firms can build a view of where the link to value is heading (Maynes & Rawson, 2016).

4.3. Capture actionable feedback

In order to determine how to improve customer experience it is essential to have a detailed understanding of exactly what customers do and do not like about their customer journey. This requires firms to capture high quality, actionable feedback. Opinionlab (Anon, 2016) recommends capturing feedback in the moment of truth, through easy to use engagement platforms (for example, giving feedback via a mobile device). In this way, firms can see at which point in the customer journey their processes fall short, and can take immediate action to rectify the problem. Ideally, customer experience should be improved in real time, if technology allows (Kriss, 2016); for example, feedback could be sent directly to an operations team who could provide an instant solution (Opinionlab, 2016).

In order for feedback to be as precise as possible, firms should ask targeted questions relating to particular elements of customer experience; for example, firms can have feedback comments cards attached to particular pages on their website (Opinionlab, 2016). It is important for any feedback mechanisms to be as simple as possible. Kriss (2016) recommends thinking of the survey experience as part of the overall customer experience; for example, ask one question such as, 'how likely are you to recommend this product/service to a friend?' and leave a comments box for the customer to indicate the main reason for this (Kriss, 2016). This is a useful question to ask, along with, for example, 'how likely are you to repurchase?' as these questions have a tighter connection to desired outcomes, and tend to be more predictive than less specific questions (Kriss, 2016).

According to Kriss (2016), it is important to isolate the process/employee behaviour that you can change. For example, if customer feedback analysis shows that being greeted and offered help on arrival (at a store/showroom) has an impact on customer spend, then focus on this! It is very easy for frontline staff to carry out this desired behaviour, so frontline staff are more likely to implement this. Kriss (2016) argues that, on the contrary, with a more generic question/survey, the employee is more likely to 'cheat' and say, for example, 'I'm going to give you a customer satisfaction survey; it would be great if you could give me a score of 10!'

In business-to-business sectors, it is often appropriate to ask for customer feedback that is more relational than transactional, and to ask for feedback less frequently (Kriss, 2016). It is essential only to ask for feedback when you know you are able to do something with this feedback. In business-to-business markets, it is often most relevant to understand how the client perceives the relationship. Firms are therefore advised to assess the perception of the quality of the relationship over time, and to categorise individual relationships as, 'improving' or 'declining' or 'no change' (Kriss, 2016). In some cases, industry changes or general changes in the external environment may be a stronger driver of business than perceptions of service quality. It is therefore important to analyse data for individual accounts to estimate the impact of changes in perceived customer experience on future revenues (Kriss, 2016).

4.4. How to set priorities for customer experience initiatives

Maynes and Rawson (2016) recommend prioritising customer experience initiatives based on their importance to customers. To identify the areas that matter most to customers, firms can produce a graded shortlist of customer pain points that need to be eliminated or fixed, along with a view of opportunities to innovate, as seen from the customer's perspective. A good example of identification of pain points that matter most to customers can be seen in the telecommunications industry. Unstructured customer feedback highlighted that a significant number of customers hated fees for early termination of contracts. As a result, a telecoms company eliminated these fees and saw a 30% year on year increase in new customers (Kriss, 2017). Similarly, customer feedback to a retail firm highlighted that a major issue for shoppers was not being able to find a sales assistant when they needed one. The retailer provided brightly coloured T-shirts for their sales staff to wear, which resulted in a 30 point increase in the overall primary salesperson metric (Kriss, 2017).

The 'link to value' analysis discussed earlier should be used to help determine the best initiatives to implement. For example, according to customer data analysis, in the health insurance sector, there is more revenue impact in moving customers from 'dissatisfied' to 'neutral' than from 'neutral' to 'promoter'. In retail banking, on the other hand, moving someone from the 80th to 90th percentile of satisfaction does have significant revenue benefit (Maynes & Rawson, 2016). It is important, therefore, to consider the specific circumstances relating to your industry and firm. Using the link to value analysis, a firm should determine whether it would be more valuable to reduce the number of 'detractors', or to create more 'promoters', and then focus its initiatives on achieving that goal, in order to maximise return on investment.

Experimentation is also recommended, rather than relying on conducting large-scale surveys, which takes significant time and investment. Firms should capture direct feedback from customers and from frontline staff in real time, or as soon as possible following an experience; firms should then test improvement initiatives quickly, and measure the impact (Kriss, 2017).

It is important to select the most important customer segments and the most important customer journeys, and to map these out carefully, from a customer perspective.

When analysing the customer journey, it is important to examine how consistently the firm performs. Improving consistency in delivering a flawless customer journey is one of the best ways to create value (Maynes & Rawson, 2016). For example, a flawless on-boarding customer journey for an energy supplier might look as follows: a single sales call; zero call-backs; service activation within 48 hours; active usage in the first 10 days, and no issues on first billing. If a company is 80-90% successful at each stage of the journey, it is likely that only 30-40% of customers will have had a flawless end-to-end experience (Maynes & Rawson, 2016). Overall journey performance is more strongly linked to economic outcomes than are touchpoints alone.

4.5. The customer journey mapping process

Maynes & Rawson (2016) recommend the following customer journey mapping process:

1. Once you have selected the most important customer journeys to focus on, assemble a cross-functional team to consider possible initiatives to improve performance. Explore which pain points and opportunities will help you differentiate your company.
2. To understand the pain points and opportunities, analyse the voice of the customer. This customer feedback can be gained through focus groups with customers who recently undertook the journey that is being analysed. Deep, structured interviews can also be conducted to highlight pain points, missed expectations, and opportunities to differentiate.
3. Capture the voice of the employee: feedback from front-line employees can be captured using focus groups, interviews and/or site visits, so that the experience of those who know the customers best can be incorporated.
4. Construct a map of the current customer journey, highlighting pain points, complexities and opportunities to streamline the journey. When listing the pain points, estimate the size of the potential impact of addressing each one, using three measures:
    - Reducing the cost to serve (e.g. fewer calls; fewer escalations); costs to implement should also be identified.
    - Capturing longer term revenues and loyalty.
    - Improving overall satisfaction/experience (e.g. assessing the potential impact of improvements at every pain point on customer ease/reducing customer effort).

Having completed this exercise, it will be possible to suggest the potential value of customer experience improvements over time.

4.6. Creating customer experience that drives business performance

As discussed, it is important to calculate each customer experience initiative's expected value and cost to implement. In addition, a time scale for implementation should be estimated. It is essential for firms to consider at which points along the customer journey they can differentiate their offerings, to try to stay ahead of trends, as customers' expectations change. Identifying opportunities to innovate and disrupt, in competitive white spaces, will help sustain business performance (Maynes & Rawson, 2016).

In order to select customer experience initiatives that will drive business performance, firms should assess the impact and frequency of the pain point to be fixed. For example, a phone's technical failure may be a severe event, but is likely to occur relatively infrequently. Surprise changes to billing may be a less severe event, but are far more frequent. Addressing the customer's shock from billing changes will almost always represent greater value for the firm (Maynes & Rawson, 2016).

It is important to have a balance of policy/process driven (e.g. simplifying billing) and field-driven (e.g. customer service training for frontline staff) initiatives, as well as, where appropriate, the kind of sensory initiatives discussed earlier (section 3.2). Addressing severe incidents should be balanced with addressing frequent ones. Some initiatives will affect nearly all customers, some will be high impact opportunities that affect a few: firms should balance both types of initiative. However, the majority of customers should experience improved customer experience in some way, in the first year. An over-emphasis on severe incidents and opportunities is a common 'blind-spot'.

Maynes & Rawson (2016) assert: "In a smart sequencing, you want to order and balance multiple initiatives; those that will affect the largest number of customers, that will pay off quickly, and that address the most severe problems or the most important areas to exploit."

It is advisable to ensure some quick 'wins' early on in the process; for example, make an easy to implement policy change, even if the impact is relatively small. These early 'wins' can be used to finance investments in longer term solutions. It is essential, however, not to shy away from important issues or from tackling a 'sacred cow'; for example, a pricing policy that is widely known not to be customer-friendly, but which is difficult to change (Maynes & Rawson, 2016).

In order for customer experience initiatives to be successful, there need to be tight connections and strong relationships between all the relevant teams (for example, operations, marketing, customer service, salesforce) (Kriss, 2017). Accountability for success should be driven at all levels of a company; improving customer experience should be integrated into the fabric of how a firm does business (Kriss, 2017).

Ongoing innovation is also crucial to success. Companies can only reap rewards by constantly improving their customer experience, to maintain a competitive edge in today's rapidly changing environment (Schmidt-Subramanian, 2014). Global organisations should behave like small companies in terms of improving their agility and their cultural readiness to experiment with new initiatives; for example, encourage, 'good variability' at the front line. In other words, reacting to customer feedback by trying new things, and experimenting in an organic way. The advantage that big companies have over small firms is that they can leverage their scale. Large firms should attempt to innovate continuously at scale. Although these firms face pressure to standardise and be efficient, if they give in to this pressure, then eventually they will lose out to a more flexible, agile competitor (Kriss, 2017).

Overall, if firms can take the time to construct a self-funding business case for customer experience initiatives, these firms will reap company-wide buy in, happier customers and enhanced business performance as their reward.

5. Conclusion

Having defined our use of the terms ‘customer experience’ and ‘business performance’, the purpose of this review of recent practitioner and academic literature was, firstly, to provide evidence of a link between customer experience and business performance.

Secondly, our aim was to provide guidance to firms on how they can establish this connection themselves, by linking customer experience data directly to customer behaviour and revenue outcomes. This data analysis can then be used to set priorities for customer experience initiatives, aided by a detailed customer journey mapping approach.

Advice has been presented on how firms can decide upon and implement improvements to customer experience that should not only result in happier customers, but should also effectively drive stronger business performance.

6. References

Anon. (2016). Five best practices to integrate voice of customer (VoC) into your customer journey mapping processes. *CRM Magazine.* August. Opinionlab.

Banfi, Francesco; Gbahoué, Boris; Schneider, Jeremy (2017). Higher satisfaction at lower costs: digitizing customer care. *McKinsey Insights, Recall no.22 – Digital Marketing.* McKinsey.com.

Cho, Jungeun (2014). The sequential relationships among operational capabilities and performance in the service industry: an empirical study. *Journal of Business.* December. Vol.20, No.2. Seoul.

Clark, Moira (2017). Services marketing: defining customer experience. *Henley Business School Lecture Material.* 20th – 21st February. Henley Business School.

Kriss, Peter (2017). The value of customer experience. *Harvard Business Review Webinar.* https://hbr.org/webinar/2015/03/the-value-of-customer-experience-quantified

Maynes, Joel & Rawson, Alex (2016). Linking the customer experience to value. *McKinsey Insights.* March.

Nigam, Ashutosh (2012). Modelling the relationship between experiential marketing, experiential value and purchase intentions in organised quick service chain restaurants, using a structural equation modelling approach. *Paradigm.* Jan-June, Vol.XVI, Iss.1, pp.70-79.

Schmidt-Subramanian, Maxie (2014). The business impact of customer experience. *Forrester Research.* March 27th. Cambridge, MA, USA, pp.1-12.

Spence, Charles; Puccinelli, Nancy M; Grewal, Dhruv; Roggeveen, Anne L (2014). Store atmospherics: A multi-sensory perspective. *Psychology & Marketing.* July. Vol.31, Iss.7, pp.472-488.

The Henley Centre for Customer Management

The primary objective of the Henley Centre for Customer Management is to promote customer focus and service excellence best practice through observing practice in leading companies and synthesising this into useful knowledge that helps members to improve their own customer management and customer service plans and implementations.

Members

Each year, the Centre aims to attract a membership of between 10 and 15 organisations, each a leader in their sector.

Members in 2016 were:

Bank of Ireland

BOC (Linde Group)

Global Payments

GM Financial

Heathrow

L&Q

Lloyds Banking Group

Make It Cheaper

Mercedes Benz Financial Services

Microsoft

Renault

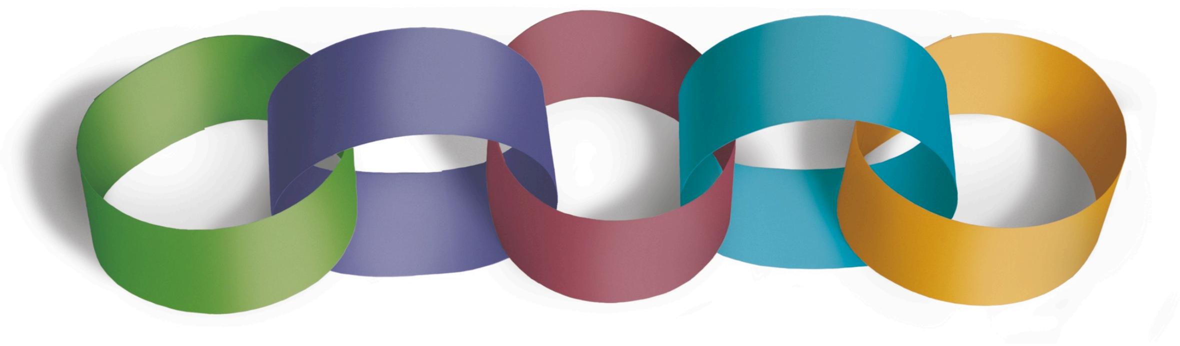
Scottish Water

Thames Water

Henley Centre for Customer Management

Henley Business School
UNIVERSITY OF READING

The Henley Centre for Customer Management is supported by members representing a diverse range of organisations.



Centre Contacts:

Director	Assistant Director	Client Relationship Executive
Professor Moira Clark	Tony Harrington	Sarah Hiles
Tel: 01491 571494	Tel: 07815 938534	Tel: 01491 418710
moira.clark@henley.ac.uk	tony_harrington@btinternet.com	sarah.hiles@henley.ac.uk

Henley Business School,
Greenlands, Henley-on-Thames, Oxfordshire RG9 3AU

Maximising Value through Relationships