

STRA TIVITY

01. STRATEGY

02. CREATIVITY

Customer Experience Management Study

Lack of Customer Experience: a major obstacle on the road to business growth

Service Excellence at Risk

A year long study of attitudes toward customer loyalty and customer experience management among customer service executives and marketing executives indicates that the weakest area of customer relationships is not relationship building, but rather the core value proposition/customer experience. The majority of employees lack the conviction of their product's or service's value and do not agree that their company deserves the customer's loyalty. In addition, major discrepancies between companies' declarations and execution were found. Although the subject of customer service and customer experience is high on the "declared" agenda, the reality is far from it:

- 60% claimed that their relationships with the customer are not well defined and structured
- 42% claimed that their company takes any customer that is willing to pay. In B2B and services businesses the numbers are 72% and 69% respectively
- 46% claimed that their executives are not meeting with customers frequently
- Only 32% claimed that their compensation is tied to quality of service
- Only 37% agreed that they have the tools to service and resolve customer problems
- Only 36% agreed that their company invests in people more than in technology (38% in the US and 10% in Europe)
- Only 36% of European respondents agreed their company deserves the customer's loyalty vs. 54% of the American respondents

Lack of Definition and Criteria

The above results demonstrate that there are fundamental flaws in company – customer experiences. The issue of a well-defined and structured relationship with a customer when the expectations are clear on both sides is far from being addressed. While 41% of the U.S. respondents agreed that the role of the customer is well defined, only 17% of their European counterparts agreed with that statement. This represents a lack of full understanding of what companies are seeking from their relationships with customers. As such, it is impossible to maximize opportunities or deliver full value to customers. When confronted with questions such as "how long does the company seek to have a relationship" and "with what level of margins," the percentage of respondents who were able to answer those questions was in the single digit range.

Over 41% of the respondents agreed that their company takes any customer that is willing to pay. When segmented by industry, it was surprising to discover that in the relationship-intensive industries such as B2B, the number jumped to 52%. These numbers represent a lack of basic selection of customers who are suitable and will appreciate the company’s proposed experience and which one will not. Lack of basic customer selection leads to relationships with the wrong customers who will later become unprofitable. This approach represents a strong *product* rather than *customer* focus.

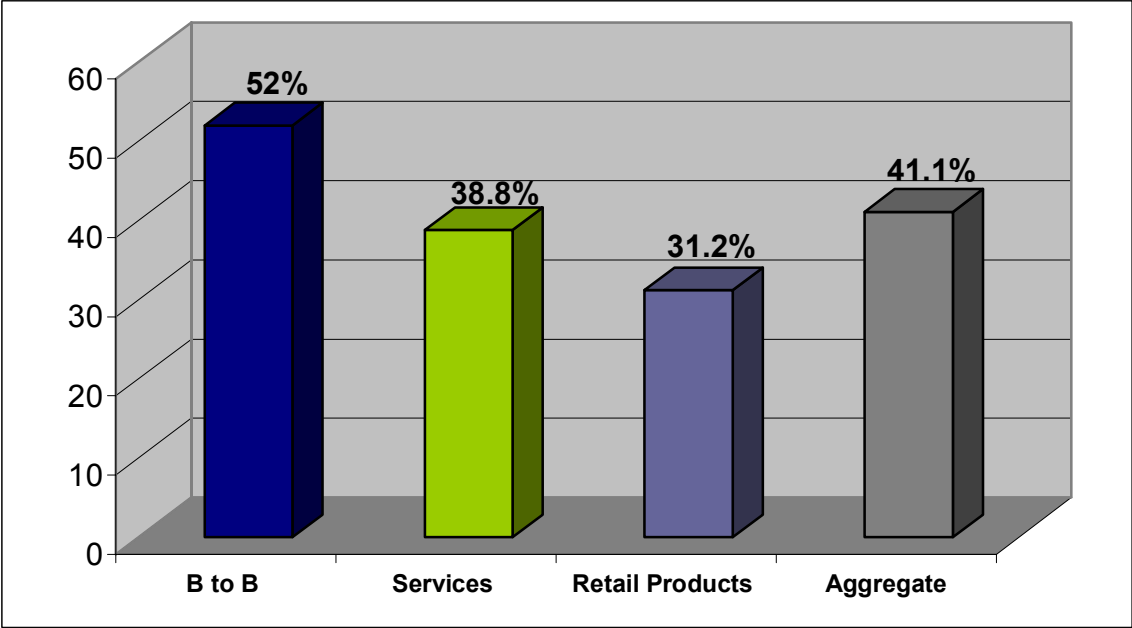


Figure 1: Company is willing to take any customer willing to pay, by industry segments

Intention to Execution Gap

While a surprising 73% of respondents agreed that their employer deserved their loyalty, when asked about the specific actions, the agreement level dropped:

- Only 37% agreed that their company invests in people more than technology
- Only 37% agreed that they have the tools and authority to solve customer problems
- Only 33% agreed that the compensation plan emphasizes quality over productivity

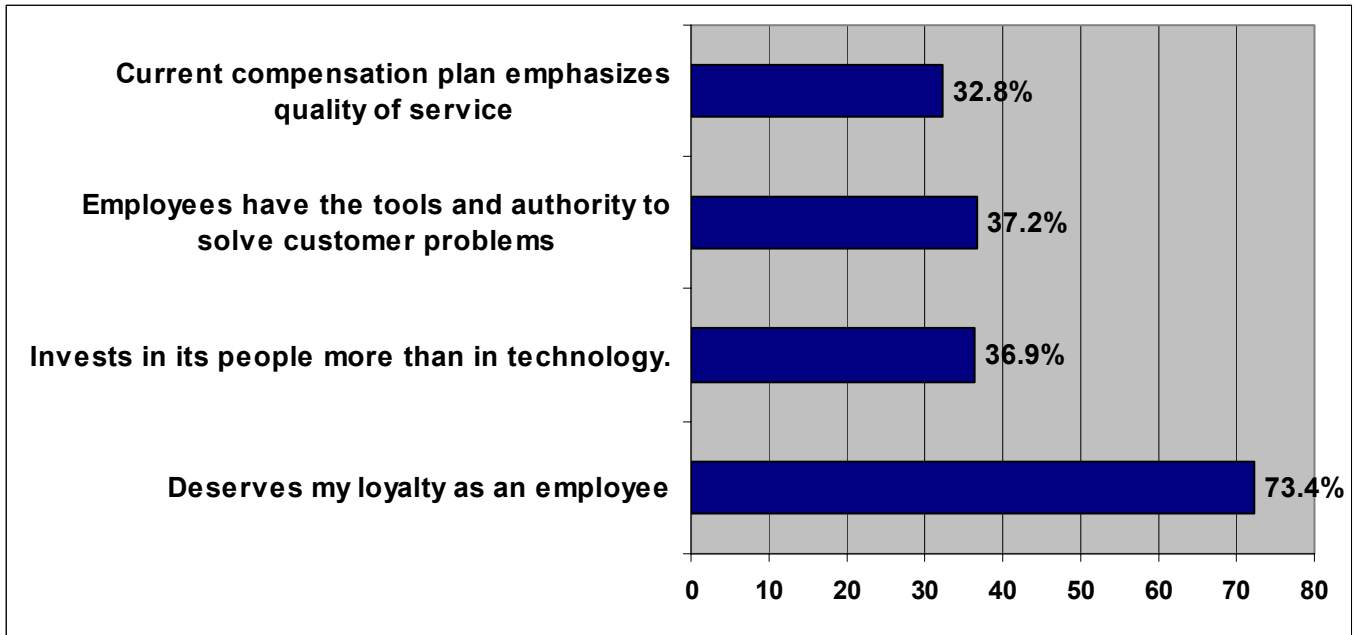


Figure 2: Respondents indicate low level of confidence in tools and commitment to employees.

The above results are alarming especially because they are coming from executives and not employees. If the general conviction among the leaders is that about 2/3 do not have the tools, authority or investment to service customers, they will act accordingly. The likelihood of delivering excellence and differentiating service is remote. In an era with an ever-increasing commoditization of products and services, companies are increasingly more dependent on their service personnel to create differentiating, premium, commanding experiences. The above results indicate that they are far from being able to do so.

While 58% agreed that their company is truly committed to the customer (61% in the US and 46% in Europe)

- 54.5% agreed that their company does not conduct a true dialogue with its customers
- 53.8% agreed that their executives do not meet frequently with customers
- 59.6% agreed that the role of the customer is not well defined
- 44.6% agreed that their company does not deserve the customer loyalty
- 42% agreed that their company accepts any customer that is willing to pay

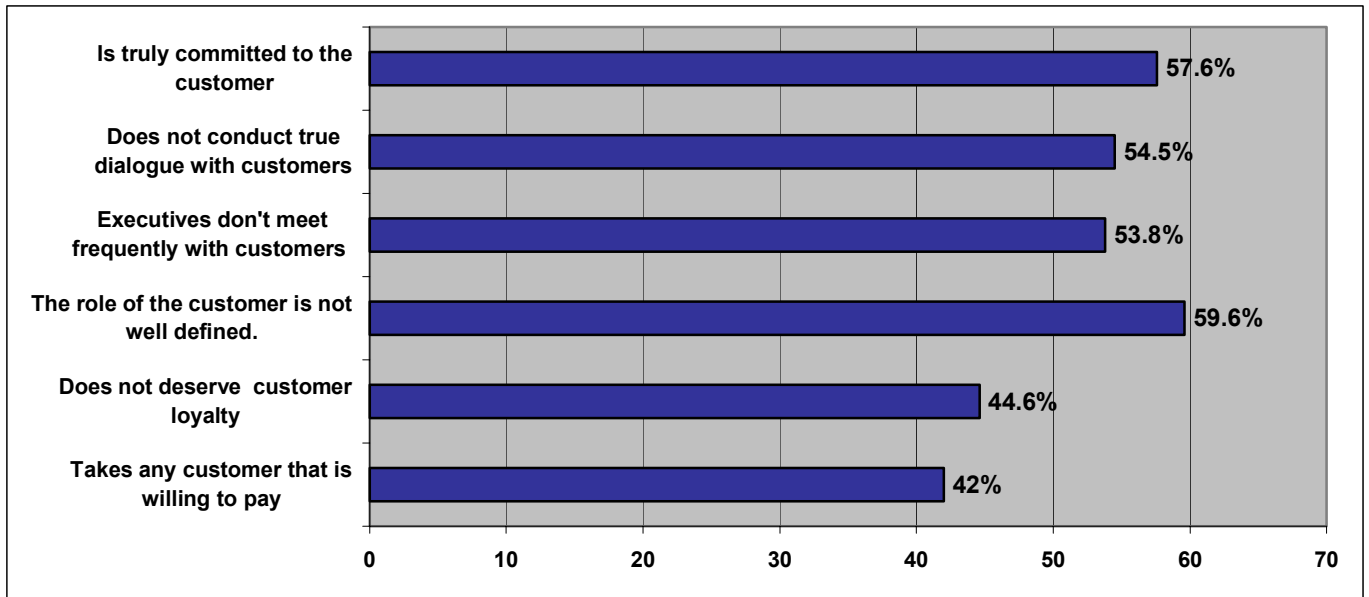


Figure 3: Data demonstrates executives hold a superficial commitment to a true customer-centric culture.

The above results indicate that a large portion of executives view their company's commitment to customers as largely superficial and not going beyond a revenue opportunity. Following the company's actions and not declarations, they are highly likely to adapt their performance accordingly.

These results represent some serious challenges ahead as companies are seeking growth and innovation. While the past few years were dedicated to forming lasting relationships, the study demonstrates that the foundations of relationships are weak and unsustainable. Companies need to shift their focus and efforts around customer strategies from the relationship level to value proposition and experiences. No relationship can thrive and last when employees remain unconvinced of the value their company provides or when the customer roles are ill defined.

Without a staff that enjoys the authority and tools to answer real customer demands, companies will not be able to differentiate their products or service and command preference or premium prices let alone expand their customer wallet share. While declarations of commitment to customers are plenty and popular, when it comes to the details and the execution, the gap between the intentions and execution is widening and requires immediate attention. Ever increasingly cynical customers and employees follow *actions*, not *declarations*. They judge and act based on what a company does, not says. Issues such as the emphasis of compensation on quality and providing the tools and authorities to the employees are the first among many steps that must be taken.

Further Analysis

Employee Loyalty

- 100% of those who strongly agreed that their company invests in people more than in technology also agreed that their company deserves their loyalty as employees (vs. 37.50% among those who strongly disagree).
- 80% of those who strongly agreed that they have the tools and authority to service the customer, agreed that their company deserves their loyalty as an employee (vs. 37.5% among those who strongly disagree).
- 82% of those who strongly agreed that their compensation emphasizes quality of service, strongly agreed that their company deserves their loyalty as employees (vs. 70% among those who strongly disagree).

In an era of growth, companies are ever more dependent on employee commitment, for it is the employees who are the engine for innovation and excellence which will drive growth due to the acquisition of new customers as well as retention of existing customers. Those companies who adapt their activities and invest in people as well as provide them with tools and authority are more likely to reduce their turnover. But more importantly, they are more likely to increase productivity and innovation.

Customer Loyalty

- 80% of those who strongly agreed that their company offers unique services or products agreed that the company deserves the customer's loyalty. (vs. 0% among those who strongly disagree)
- 75% of those who strongly disagreed that their company takes any customer that is willing to pay, agreed that their company deserve the customer's loyalty (vs. 44% among those who strongly agree)
- 82% who strongly agreed that their company conducts true dialogue with their customers, agreed that their company deserve the customer's loyalty (vs. 0% who strongly disagreed)

There is a strong correlation between a unique and well articulated customer strategy and perception of customer loyalty. A large portion of executives are still lacking the basic understanding of why should customer buy from their company versus from the competition. Lacking this understanding has far reaching implications on the way they approach their work and the customers. The greater the clarity about the value and role of the customer, and the more selective the company in their choice of customers, the more executives will be convinced that their company deserves their customer loyalty. Those who agree that their company deserves their customer's loyalty also delivers a loyalty-inducing service and reaches a level of excellence.

Employees Loyalty Leads to Customer Loyalty

- 80% of those who agreed that they have the tools and authority to service the customer, agreed that their company is committed to customers (vs. 37.5% among those who strongly disagree)
- 75% of those who strongly disagreed that their company accepts any customer that is willing to pay, agreed that their company is truly committed to customers (vs. 52% among those who strongly agree)
- 93% of those who strongly agreed that their executives meet frequently with customers, agreed that their company is truly committed to customers (vs. 60% among those who strongly disagree)
- 95% of those who strongly agreed that their role of the customer is well defined, agreed that their company is truly committed to customers. (vs. 45% among those who strongly disagree)

Despite companies' internal campaigns executives follow actions. They judge by what they see is being executed. Top executives' commitment to visit customers is a matter of being a role model and living the mission. There is a strong correlation between these actions and perception of an overall commitment to customers.

Conclusions and Recommendations

As the study demonstrates, companies must go back to basics and deal with the core value proposition/experiences to their employees and customers as opposed to dealing with relationship based activities. Without a clear experience, no loyalty program can succeed. Among the areas that require attention are:

Clarity leads to conviction - Companies must set clear definitions of the role of the customers and move beyond abstract slogans.

Executives as role models - It is time to practice what we preach. Employees are watching actions and executives play an important role.

True Mutual Dialogue – Employees take their cues from actions like that. Build a true dialogue system.

Focus leads to commitment – Taking any customer at any price leads to employee's perception of lack of loyalty.

Tools and Authority – Employees relate to tools and authority as a way to develop customer commitment. Without it, they see significantly lesser commitment.

Be Selective – Companies must select carefully which customers fit their value and experience and would appreciate it. Lack of segmentation and selection will lead to dilution of value and low service levels.

Differentiate – Make clear how your products make the impact, and it will lead to greater employee loyalty

Invest in People More than in Technology – Employees watch this indicator and it directly related to employees' loyalty and commitment.

Methodology:

The study was based on a combined assessment of a structured survey and qualitative insight gained through the delivery of over 20 CEM seminars conducted by Strativity Group around the world. The survey was created and hosted by CustomerSat Inc. using their advanced ECEM™ (Enterprise Customer Experience Management) solution. All data

analysis was performed using ECEM. 165 surveys were submitted by executives from US, Europe, Asia, and Africa, including a range of company sizes. The combination of study methods allowed for a deeper understanding of the issues and the actions required in addressing them. For more details visit: www.strativitygroup.com

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