Introduction

Just when companies are becoming comfortable with the idea of Customer Relationship Management (CRM), a new term has emerged: Customer Experience Management (CEM). The two are similar in many ways, not least in that they are both difficult to define. Neither can be identified with a unique product or a specific technology; rather, they both comprise a group best understood when compared side by side.

The idea at the center of CRM can be stated in the following way: Every time a company and a customer interact, the company learns something about the customer. By capturing, sharing, analyzing and acting upon this information, companies can better manage individual customer profitability.

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CEM's premise is almost the mirror image. It says that every time a company and a customer interact, the customer learns something about the company. Depending upon what is learned from each experience, customers may alter their behavior in ways that affect their individual profitability. Thus, by managing these experiences, companies can orchestrate more profitable relationships with their customers.

In a sense, this is a classic nature vs. nurture argument. CRM uses profiling, micro-segmentation and predictive analyses to identify each customer's figurative genetic structure. CRM thus uncovers the preferences and propensities of customers so that they can be nudged towards optimal profitability.

CEM, on the other hand, looks at the environment. It gathers and analyzes information about the dynamics of interactions between companies and customers. This information is fed back to the company in a self-calibrating system that (in theory) makes optimal use of every opportunity to influence customer behavior.

Obviously these are overlapping approaches, and both have merit if designed and applied intelligently. Up until now the spotlight has predominantly been on CRM, in part because it is technologically impressive (as well as astonishingly expensive). Unfortunately, CRM has not been nearly as effective as promised; according to some estimates, from 50% to 70% of CRM initiatives fail to achieve their goals.

As CRM is more widely used, its weaknesses become more apparent. Analysts have become fond of noting that there is no R in CRM (some go so far as to say there is no C, either). The idea of a "relationship" with customers seems hollow: CRM is very good at receiving, but not very good at giving. It asks customers to provide access and information without telling them what they will get in return. It pigeonholes customers based on past actions without informing them how to build a more advantageous profile. It prompts customers to become more valuable to the company without promising greater value from the company.

Furthermore, while CRM is fairly effective at measuring its own successes, it does not provide much information about its failures. It can record when customers respond positively to its automated prompting and prodding, but it doesn't give much insight when customers do not respond in the predicted way. CRM is thus unable to determine whether failures are the result of faulty assumptions, incorrect information or poor execution. It is also unable to tell how these "failed" interactions affect the customer relationship; it treats all failures as neutral, when in fact the fabric of the relationship may have been weakened or undermined by a poorly executed service encounter.

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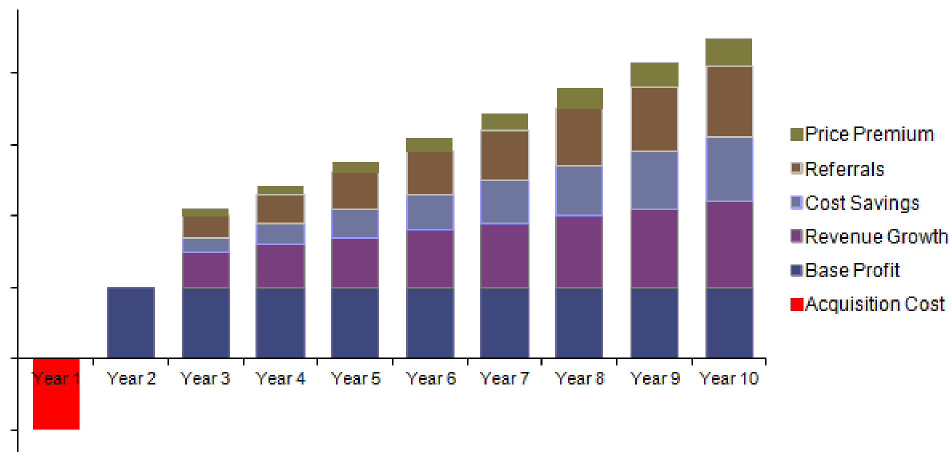
CEM's strengths lie in precisely the areas where CRM is weak. By focusing on the experiences of customers and how those experiences affect behavior, CEM examines both the quality of the company's execution and the efficacy of the result. It aligns customer needs with the company's ability to fulfill those needs, leading to business relationships that are mutually beneficial and that both parties – company and customer – are motivated to improve.

CEM and the Loyalty Curve

The notion that customer experiences can be strategically managed is consistent with the so-called "loyalty effect", which says that the longer customers stay with a company the more profitable they become.

Profit Contribution Per Customer



Initially, customers do not reach positive profitability until they pay off their cost of acquisition, which in some industries may take a year or more. After that the profitability of individual customers tends to grow year after year. The major dynamic driving this loyalty/profit curve is the fact that long-term customers have more opportunities to learn about the company (and vice versa), so the relationship can become increasingly efficient. Long-term customers are cheaper to maintain because they tend to use support services less and to register fewer complaints, adjusting their expectations to a range that is realistic with the company's offerings and capabilities. They may also make more frequent purchases and buy higher-ticket items as their trust in the company and knowledge of its offerings grow. Furthermore, they are more likely to attract new customers to the company through positive word-of-mouth endorsements.

But the benefits of loyalty do not occur simply because customers have more experiences with the company over time. To move up the loyalty/profit curve they need to have the types of experiences that will add to their knowledge and influence their behavior. Some experiences impart little information, and some may even contradict information learned earlier. The proportion of experiences that positively influences a customer's relationship and profitability may be small or large, and these experiences may be random or planned. The goal of CEM is to move customers up the loyalty/profit curve faster by increasing the proportion of experiences that affect behavior in a positive manner.

Categories of Customer Interaction

Such a strategy requires more than simply satisfying customers, or even delighting them. A well-designed CEM initiative should identify precisely the types of customer behaviors the company wishes to influence, and have a plan for providing experiences that influence those behaviors. It should also recognize how customer needs and expectations change at different points in the lifecycle of the relationship and account for those changes.

The mistake many companies make is to launch expensive, high-profile service initiatives with no clear idea of what they hope to accomplish and no calculation of return on investment. They create customer loyalty programs that make it more attractive for customers to stay (or more expensive for them to leave), but that seldom seek to influence other behaviors in a systematic manner. They may also raise the banner of "customer delight", believing that repeatedly delighted customers will become advocates or "apostles" for the company. But such a strategy is a blunt instrument, requiring a great deal of energy to obtain limited or uncertain results. CEM seeks a greater level of precision. It requires companies to define the customer behaviors they wish to influence, and to align their marketing message, performance standards, training content, employee incentives and measurement systems to encourage those behaviors.

It is impossible, of course, to plan every customer experience or to ensure that every experience occurs exactly as intended. However, companies can identify the types of experiences that impart the right kind of information to customers at the right times. It is useful to group these experiences into three categories of company/customer interaction: Stabilizing, Critical, and Planned.

Stabilizing

Stabilizing interactions promote customer retention, particularly in the early stages of the relationship.

Analyses of turnover patterns typically show that new customers account for the lion's share of defections. As customers become more familiar with a company's offerings and capabilities they will adjust their expectations accordingly, but in the early stages of the relationship customers are more likely to experience disappointment, and thus more likely to defect. Turnover by new customers is particularly hard on profits because many defections occur prior to break-even, resulting in a net loss for the company. Thus, experiences that stabilize the customer relationship early on ensure that a higher proportion of customers will reach positive profitability.

The keys to an effective stabilizing strategy are education, competence and consistency.

Education influences expectations, helping customers develop a realistic range of tolerance early in the relationship. It goes beyond simply informing customers about the products and services offered by the company. It systematically imparts information that tells new customers how to use the company's services more effectively and efficiently, how to obtain assistance, how to complain, and what to expect as the relationship progresses. In addition to influencing expectations, systematic education leads to greater efficiency in the way customers interact with the company, thus driving down the cost of customer service and support.

While educational efforts influence the expectations of new customers, competence and consistency validate those expectations. Every company strives to offer competent and consistent service, of course, but that objective is becoming increasingly difficult to accomplish. Companies have been reducing staff and outsourcing key services since the 1980's, often at the expense of front-line service quality. In many industries companies have also had to contend with high employee turnover rates, leading to productivity and consistency problems that are increasingly obvious to frustrated customers. In addition, the complex, multi-channel service environment that has emerged in recent years has challenged companies to present a unified identity to the market and to provide a consistent level of service across all channels and touch points.

Customers expect companies to do what they promise, and to do it every time. Any experience that contradicts that expectation weakens the relationship and increases the probability that a customer will defect. In order to demonstrate competence and consistency, companies must be able to assess their performance across channels, across locations and across time. They must be able to identify inconsistencies and deficiencies in performance at every point of interaction with customers, whether the interaction originates with company employees, out-sourced service providers, franchisees or affiliate organizations. Furthermore, these data must be integrated in such a way that they will realistically reflect the complete customer experience, not only within individual channels but also between channels.

Critical

Critical interactions are service encounters that lead to memorable customer experiences. While most service is routine, from time to time a situation arises that is out of the ordinary: a complaint, a question, a special request, a chance for an employee to go the extra mile. The outcomes of these critical incidents can be either positive or negative, depending upon the way the company responds to them; however, they are seldom neutral. The longer a customer remains with a company, the greater the likelihood that one or more critical interactions will have occurred.

Because they are memorable and unusual, critical interactions tend to have a powerful effect on the customer relationship. Positive outcomes lead to "customer delight" and word-of-mouth endorsements, while negative outcomes lead to customer defections, diminished share of wallet and unfavorable word-of-mouth.

The key to an effective critical interaction strategy is opportunity. Many companies have begun to treat all customer interactions as critical, leading to initiatives in which they attempt to "exceed customer expectations every time." While this may sound like a worthy objective, it is, in fact, logically unattainable. If expectations are consistently exceeded, customers will simply raise their expectations. The exceptional thus becomes routine, forcing companies to continually raise the bar, often at great expense.

The fact is, customers do not want to be delighted all the time. It is an exhausting exercise, both for the customers and the employees. Every consumer receives service dozens of times a week from a wide range of companies, and most of those interactions are, and should be, routine. However, when an exceptional circumstance does occur, companies should recognize the opportunity and be prepared to take advantage of it.

An effective CEM strategy includes systems for recording critical interactions, analyzing trends and patterns, and feeding that information back to the organization. Employees can then be trained to recognize critical opportunities, and empowered to respond to them in such a way that they will lead to positive outcomes and desired customer behaviors.

Planned

Planned interactions are intended to increase customer profitability through up-selling and cross-selling. These interactions are frequently triggered by changes in the customers' purchasing patterns, account usage, financial situation, family profile, etc. CRM analytics are becoming quite effective at recognizing such opportunities and prompting action from service and sales personnel. CEM complements CRM by recording and analyzing the quality of execution by the company and the resulting effect on customer relationships.

The key to an effective strategy for planned interactions is appropriateness. Triggered requests for increased spending must be made in the context of the customers' needs and permission; otherwise the requests will come off as clumsy and annoying. By aligning information about executional quality (cause) and customer impressions (effect), CEM helps companies build a more effective and appropriate approach to planned interactions.

What does CEM look like?

At its most basic, a Customer Experience Management system captures information about individual service events and feeds it back to the organization. The information can be gathered from customers who provide their impressions of recent service experiences, as well as from objective observers who record specific details about service execution. More sophisticated systems integrate data from both sources so that company standards and execution can be continually calibrated with customer expectations and impressions. Unlike traditional market research reporting, which is delivered weeks after the data are collected, CEM systems feed back information within days or hours of the service event, allowing employees and managers to make small, effective adjustments on an on-going basis.

Capturing and integrating data about service execution and customer impressions is important, but it is only the first step. These data need to loop back to training initiatives so that knowledge and performance deficiencies among employees are directly and continually addressed. Furthermore, CEM programs may extend the linkage to employee and manager incentives. Thus, front-line employees and supervisors continually receive feedback, training and rewards linked to their day-to-day interactions with customers.

The strength of a CEM system is in its ability to continually align company performance with customer needs and behaviors, enabling companies to make small, day-to-day adjustments as well as enterprise-wide changes.

Finally, a comprehensive CEM program also incorporates key metrics related to customer behavior and profitability, such as retention rates, average purchase amounts, store sales, complaint and resolution rates, etc. The strength of a CEM system is in its ability to continually align company performance with customer needs and behaviors, enabling companies to make small, day-to-day adjustments as well as enterprise-wide changes.

Alignment:

The concept of "continual alignment" is critical to CEM because it allows the system to function as a practical, front-line business tool that effects change on a daily basis. A truly comprehensive CEM system deals with many interlocking points of alignment. Among the most important are:

- Company message with customer expectations
- Customer expectations with company standards
- Company standards with training content
- Training content with front-line execution
- Front-line execution with rewards and incentives

Company Message ⇔ Customer Expectations

The messages companies send through advertising, merchandising and public relations are typically intended to attract new customers and influence the purchasing decisions of existing customers. However, these messages often create expectations about service and support that the company cannot meet. Customers frequently complain about such "seduce and abandon" scenarios, in which the initial promises made (or inferred) fail to align with their experiences. To increase retention, particularly among new customers, it is essential for companies to repeatedly test the effect of their messages on customer expectations, as well as to ensure that operational staff fully understand and are equipped to handle the promises made to customers.

Alignment

Message ⇔ Expectations
Expectations ⇔ Standards
Standards ⇔ Training
Training ⇔ Execution
Execution ⇔ Incentives

Customer Expectations ⇔ Company Standards

Even in the most sophisticated and progressive companies, standards of service delivery can be out of sync with customer needs and expectations. One reason is that customers are seldom involved in the writing of these standards. Rather, service standards tend to be the product of mid-management committees, resulting in a hodge-podge of ideas and opinions that are more a reflection of operational expediency than of customer expectations. Furthermore, service standards have a tendency to stay in place for years with no review or adjustment to account for changes in the competitive environment or in the capabilities of the company. CEM initiatives periodically review and calibrate standards against customer needs, expectations and experiences.

Company Standards ⇔ Training Content

Training should arise from standards, not vice versa. CEM initiatives bring training managers into the process from the beginning, ensuring that as standards are adjusted, training content will follow.

Training Content ⇔ Front-line Execution

The success of most training programs is measured in terms of the participants' ability to recall the content, rather than to apply the information on the job. CEM systems, on the other hand, identify specific deficiencies in service delivery and adjust training content to address those deficiencies. In some systems specific performance gaps can trigger appropriate training reinforcement in the form of short, targeted lessons delivered on-line. Thus, employees and managers are provided with precisely the information they need to improve their service execution.

Front-line Execution ⇔ Rewards and Incentives

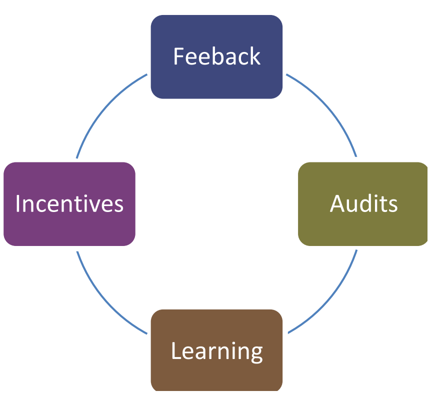
The same mechanisms and decision rules that trigger knowledge reinforcement can also trigger incentives and rewards. At the managerial level CEM incentives tend to be in the form of quarterly bonuses linked to metrics such as customer satisfaction and service execution scores. But CEM goes farther: In some cases it can link day-to-day performance metrics to rewards at the individual employee level. For example, call centers agents can receive bonus points that are immediately redeemable at on-line redemption sites. Thus, employees receive quick, meaningful rewards that reinforce the specific skills that are needed to improve customer experiences.

Through these interlocking points of alignment, CEM creates a system that is both flexible and enduring. Using constant review and recalibration, CEM avoids the boom-or-bust cycles that are typical of so many quality improvement initiatives – scenarios in which the entire organization becomes involved in a substantial outlay of effort and energy, only to see the initiative deteriorate into disjointed and ineffective programs in a year or two.

Tools and Methods

Most companies currently claiming to be CEM solution providers offer on-line customer feedback systems. These are in the form of follow-up surveys to recent customers, typically conducted over the Internet, with "instant" results provided through on-line graphical reporting. Other CEM companies concentrate on customer experiences with web sites, incorporating both customer feedback and objective web assessment data.

While these are certainly valuable tools, they address only a portion of the conceptual scope of CEM. Unfortunately, few companies now offer complete solutions (the same can be said of CRM, of course), so businesses generally must piece together tools from multiple sources. Most of these sources do not consider themselves CEM providers (yet), but nevertheless offer data collection, software or integration services that are consistent with the vision of CEM, and that can be applied to build a comprehensive CEM system.



CEM tools and methods can be grouped into the following categories:

- Customer feedback
- Performance audits and monitoring
- Learning management
- Incentives

Customer Feedback

Most companies conduct periodic customer satisfaction research to assess the opinions and experiences of their customer base. While this information can be useful, it tends to be very broad in scope, offering little practical information to the front-line. CEM takes a more targeted approach by obtaining feedback from customers about specific service encounters soon after the interaction occurs.

Follow-up interviews can be conducted through a variety of media, including Internet, telephone and face-to-face. Advancements in database technology and widespread access to on-line media allow the results to be reported to the appropriate employees almost immediately after being gathered. Thus, front-line workers and their supervisors are able to review the effects of service interactions while the memory is still fresh in their minds, and to make adjustments as needed.

Various market research firms and CEM providers offer quick customer feedback and on-line reporting. In service environments such as call centers, with universal access to computers and the Internet, it is possible to send electronic reports about specific service interactions back to individual employees. This is seldom possible in retail settings, however; in these cases the data may not be available on-line below the level of store or department managers, who then share the results with their teams. Some retail organizations do not yet have universal Internet access even at the store level, and thus require reports to be faxed or mailed to individual retail sites.

Collecting follow-up data from customers requires that they be identified and contacted soon after the interaction. This is relatively simple when customers visit web sites or when the company is able to link service interactions with customer account information. But even in service environments such as retail stores and restaurants, where customers are more transient and anonymous, feedback can often be gathered and reported to the front-line quickly and efficiently. The most frequently used techniques for gathering interaction-based customer feedback are:

- Telephone interviews, generally as a follow up to service. Requires customer account or contact information.
- E-mail invitations with a link to a web-based survey. Used in business-to-business relationships and with on-line retail customers.
- Web site “pop-up” surveys. Used for on-line retail service.

Interactive Voice Response (IVR) surveys. Used by restaurants and brick-and-mortar retail. Randomly generated invitations are given to customers at the point of sale, with instructions to call a toll-free number and conduct an automated survey. Generally includes an incentive, such as free merchandise or a meal.

Face-to-face interviews. Useful at gatherings such as trade shows, concerts and sports events, although not practical for on-going CEM programs in retail settings.

It should be noted that any of these methods runs the risk of annoying customers, which is obviously contrary to the goal of building stronger relationships. It is therefore essential for companies to set expectations early in the relationship by educating customers about the nature and purpose of the feedback program, and by spelling out the benefits they will receive by participating.

Performance Audits and Monitoring

While customer feedback is essential to CEM, it only looks at one side of the equation. Companies also need reliable information about their service execution, including details about specific service skills and behaviors. They need to be able to make precise comparisons among employees, stores, regions and service channels to ensure that standards are consistently followed.

Customer feedback should not be used to provide this level of detail. It is appropriate for customers to furnish information about their satisfaction, impressions and opinions, but they cannot be expected to remember specific service behaviors, the names of personnel, or details about the service environment. Trained, objective observers more appropriately provide this type of information.

Mystery Shopping

The two types of observational measurement commonly used in CEM programs are monitoring and performance auditing (also called "secret shopping" or "mystery shopping"). Monitoring involves observations of actual customer interactions, while performance auditing uses researchers who follow pre-determined service scenarios while posing as customers. Monitoring is commonly used at call centers and contact centers, and is most appropriate for interactions involving telephone, e-mail or live chat. Performance auditing can be used for any channel, as well for cross-channel scenarios and "lifecycle" studies that involve multiple interactions conducted over time.

Both monitoring and performance auditing are widely used. Unfortunately, both are also widely misused. Call monitoring, for example, is ubiquitous among call centers, but its effectiveness is often limited by a shortage of training and resources. Most call centers conduct intermittent monitoring by unit supervisors, who may wait for many days or even weeks before sharing their observations with individual agents. While useful for ad hoc coaching, such a system has inherent problems of bias, inconsistency and lack of timeliness, and is thus inappropriate for an effective CEM program. The better systems assign in-house or outsourced quality teams, which use trained monitoring agents, random selection of calls, structured monitoring and scoring forms, and immediate reporting of results.

Performance auditing programs have historically suffered from a lack of rigorous standards for selecting and training auditors (or "secret shoppers"), as well as from poorly designed measurement criteria and slow turnaround of data. Furthermore, companies employing these programs often fail to obtain sufficient acceptance from front-line managers and service workers. As a result, employees may expend more effort discrediting the program and "exposing" secret shoppers than improving their service skills.

Fortunately, this situation is changing. Many secret shopping companies are now becoming more sophisticated and rigorous in their approach. A few have designed web-based programs for hiring, training, certifying and deploying secret shoppers, resulting in wider coverage, greater consistency and better quality control. These systems also provide on-line reporting within hours instead of weeks, making the data far more salient for service personnel.

In addition, a few companies have begun employing cross-channel service scenarios that more accurately reflect the experiences of contemporary customers. Thus, secret shoppers may make a web-site purchase, send an e-mail request, track delivery of the purchased item, contact a call center with a question, and return the item to a brick-and-mortar outlet, all as part of a single scenario. Such an approach allows companies to assess service execution in separate channels as well as to test the exchange of information between channels.

Learning Management

The challenge of training employees has increased significantly in recent years. Such factors as high employee turnover, outsourced service functions and the proliferation of complex CRM tools has made it essential to train workers on a continuous basis. Unfortunately, it is seldom possible to remove busy employees from their jobs in order to provide classroom instruction.

One response to this challenge has been computer-based Learning Management Systems (LMS). Some of these systems are quite powerful, allowing managers to construct lessons and tests, build subject libraries, track employee progress and deploy specific lessons to the desktops of individuals and teams.

Companies are finding that Learning Management Systems are not an effective replacement for classroom training because the essential social dynamic of the classroom cannot be replicated on-screen. Nevertheless, LMS's are proving to be valuable for reinforcing classroom lessons and incrementally adding to the knowledge base of employees.

Learning Management Systems work very well with CEM, because lessons can be "tagged" to correspond to specific skill categories that are measured through customer feedback, monitoring and performance audits. Thus, the information that is deployed to employees on-line can directly address deficits in service delivery. These on-line lessons can be very short, allowing employees to receive focused knowledge reinforcement without appreciably interfering with their workflow.

LMS's are valuable not only for their ability to reinforce specific behaviors, but also for the analytical capability they provide to training administrators. Trainers can see which lessons are being sent most frequently and can adjust their curriculum to emphasize those skills in initial classroom sessions. They can also see whether the lessons themselves are effective. Lessons that have been repeatedly triggered and sent to employees with little effect on performance can be quickly redesigned. As a result, training content and delivery can be evaluated on its effectiveness rather than on the post-class ratings or recall of participants.

Incentives

CEM provides rich metrics for rewarding managers and service staff at all levels of the organization. The data can be aggregated, weighted and scored, allowing comparison and benchmarking among incentive recipients. These scores can then be linked to periodic bonuses, recognition, or redemption services.

The motivational power of CEM lies in the fact that the metrics it generates are relevant, easy to understand, frequently reported, and fair. Because the data are continuously viewable, managers and employees know precisely where they stand – there is no surprise at the end of bonus periods. And because the criteria are clear and achievable, incentive recipients know they have the power to affect the outcomes.

At the managerial level, a sufficient amount of data can be aggregated within bonus periods to provide a fair assessment of performance. The immediate reporting that CEM provides allows managers to view their performance against goals on a day-to-day basis so they can take action quickly. Over the course of the bonus period managers can compare stores, units or teams under their span of control and target their improvement efforts appropriately.

At the employee level, rewards need to be associated even more closely with day-to-day achievement. The emergence of on-line redemption sites now makes it possible to link performance data with incentives through a seamless electronic system. The same reporting tool that displays the results of customer feedback, monitoring and auditing can also display "points" earned, and allow employee to redeem those points for merchandise, cash or other relevant rewards. The return on investment in such systems tends to be high, as the behaviors and skills rewarded are directly aligned with customer retention, purchasing levels, word-of-mouth advertising and other profit-building activities.

Conclusion

The idea that customer experiences can be strategically managed is not entirely new. In a sense, companies have always tried to influence and manage their customers' experiences through advertising, merchandising, store design, lighting, music and, of course, service. They have always tried to deliver a consistent set of cues, messages and human interactions that, taken together, create "the customer experience." Although the term may be new, customer experience management has for many years been a fundamental consideration in the way most companies do business.

CEM is not, however, simply an old idea in a new wrapper. In recent years a number of fundamental changes have occurred in the business environment that have led to the emergence of CEM as both a strategic discipline and a fast-growing industry, complete with a wide array of tools and solution sets. The changes have been fueled by technological advancements, which have expanded the range of services available to customers, and simultaneously led to escalating customer expectations. The result is that there are now more services and products available than at any time in the past, yet customer satisfaction is on a downward slide. CEM can help reverse that slide by providing efficient business tools that make the interactions between companies and customers more rewarding for both parties.

For more information contact Eric Larse, co-founder of Seattle-based Kinesis, which helps companies plan and execute their customer experience strategies. Mr. Larse can be reached at elarse@kinesis-cem.com.