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When Instinct Is Not Enough

Using the right facts to shape the customer experience

By Martin Kon, Catherine Kunkemueller, and Tom Russell

Attracting and retaining customers is a continual battle for subscription businesses, and there are dozens of possible tactics to try. How does one know which actions will actually shift customer behavior and do so cost-effectively? Leading companies use an approach that we call *customer experience management* to raise the payoff of their chosen investments.

For subscription businesses such as cable TV operators, Internet service providers, telecommunications network operators, and print publishers, holding onto valuable customers and attracting new ones is a never-ending challenge. How to increase customer consideration of the product, improve customer acquisition, and reduce customer churn are questions revisited every day.

There are dozens of possible actions that companies can take to attract and keep customers. They can tweak the product, speed up delivery, lower prices, generate more marketing messages, and improve customer service. And they can adjust the company's interactions with customers at numerous points, from advertising to billing to call center conversations.

The possibilities are endless—and that's exactly the problem, because managers are constrained by time and funds. The consequences of making the wrong investments, whether related to product performance or to perception of the brand, can be huge. Think of the tens of millions of dollars poured into redesigning a newspaper, when the real cause of customer churn is damaged or missing deliveries. Or the lost revenues from a price reduction on cellular phone service, when what really would increase customer acquisition is having salespeople better explain handset features.

To make their investment decisions, managers often rely primarily on instinct and experience, hoping that what worked yesterday will answer the problem today. And they're pressured to fund initiatives according to who shouts loudest in the organization. As a result, scarce investment funds may go to initiatives that yield little return.

Fortunately, there is a more rigorous and analytical approach to deciding which of the many possible actions and investments will have the most impact on achieving the goal at hand. Leading companies have used this approach, which we call *customer experience management*, to analyze the entire customer experience, separate facts from assumptions, and use those facts to steer investments to the actions that will actually improve business outcomes. This article summarizes the process of customer experience management and shows how it raises the payoff of investments.

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The value of fact-based insights

In subscription businesses, the end-to-end customer experience can be quite complex. Each part of the organization may have different goals and attitudes about how they manage interactions with customers. Looking at just one part of the customer experience rarely yields useful insights; it's difficult to tell, for example, whether response rates have been declining because of flaws in a new retail display or in an e-mail campaign.

A piecemeal approach also makes it difficult to build a consistent identity across the different parts of the customer experience. Without consistency, the benefits of investing in one area can quickly be wiped out by actions in another.

The complexity of customer experiences, thus, requires taking a holistic view that cuts across both the customer's world and the company's many functions. A cross-functional team with a senior-level sponsor can bring together multiple perspectives.

The analysis that is subsequently undertaken, moreover, must be grounded in facts. Without good data to support the case for investment, internal debates can run on for months and the outcome is a crapshoot. So, subscription-based companies that excel in managing the customer experience try to quantify the critical issues. They ask: How does each factor influence customer churn? What factors determine perception of the brand? What are customers willing to pay for, as opposed to what they say they want?

Fact-based insights can come from several sources. You can mine existing customer research in new ways. For example, while general trends in customer satisfaction can show overall improvements, looking over time at individual users and seeing how stated satisfaction relates to actual loyalty behavior can yield other insights.

You can also link data sets typically analyzed separately. For one publishing company, we assembled an individual-respondent-level database that combined information on tenure and copy rate (circulation) with direct mail response rates (direct mail), customer service interactions (customer service), and survey data on interest in new magazine prototypes (research).

And you can conduct comprehensive primary research across the customer experience. For a cable TV provider, we surveyed current and former subscribers to assess the impact of various elements of the customer experience on loyalty, including billing, installation experience, reported service outages, price plans, telemarketing, and TV advertisements.

Not just any facts will do. Focusing on the right set of facts and metrics and linking them directly to the desired business outcome is critical. The wrong set of facts—say, those that come from stated customer satisfaction surveys—may not give an accurate diagnosis of customer behavior and should not be relied upon for decisions about how to change a product, upgrade service, or invest in a brand.

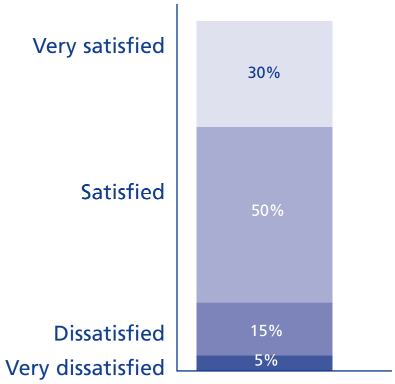
Satisfaction surveys rarely yield useful information about customer churn, for instance. Mobile customers do not say, "Ten dropped calls in a week is unacceptable, so I'd better make a note in my diary to cancel in three months' time… now where was that customer satisfaction questionnaire?" They say, "That's enough, I'm out of here right now!" Churn events are sudden moments of clarity when customers' perceptions of their service change. Surveys don't catch enough customers who have had these epiphanies, because they have already left.

The obvious alternative—surveys of customers who leave—don't always work either. Such surveys have been shown to offer misleading data, because these former customers are angry or disengaged or because they rationalize the decision. A more effective alternative is to understand how service levels and elements drive not satisfaction but churn itself, at the level of the individual member (see Exhibit 1). Establishing a direct link between service and business impact is generally a more powerful tool for managers.

Exhibit 1 **Understanding what drives customer churn**

Internet service provider example

80% of churners said they were satisfied in the survey before they left



What people said and what they did turned out to be different

Ranking of churn drivers based on customers who said they would churn	Ranking of churn drivers based on customers who actually churned
1. Slow downloads	1. User interface
2. Unstable connection	2. Content and services
3. Billing issues	3. Customer service
4. Customer service	4. Billing issues
5. User interface	5. Slow downloads
6. Content and services	6. Unstable connection

By combining demand insights about which parts of the customer experience most affect customer behavior with an economic assessment of the cost impact of a variety of initiatives, managers can quantify the relative profit impact for each initiative. This quickly focuses scarce resources on the initiatives that matter most.

Exhibit 2 **Principles of customer experience management**

- **Build a fact base to challenge assumptions.** Advanced analytical techniques can quantify issues such as how dropped calls drive churn and what factors determine customers' perceptions of the brand.
- **Link metrics to desired business outcomes.** The right metric linked to the right outcome gives an accurate diagnosis of the root causes of customer behavior.
- **Analyze the entire customer experience.** You need a holistic view to make good decisions across the organization and the product life-cycle.
- **Develop a common language.** When different departments or divisions share a common understanding of the overall customer experience, they are more likely to improve the whole rather than compete for individual, sometimes conflicting, initiatives.
- **Make the business cases for specific actions.** Combining insights into customer demand with an economic assessment of the cost impact of various initiatives allows you to quantify the relative impact on profitability.

Throughout the process of rallying efforts around a few high-impact actions, it is useful to establish a common language around the customer experience. Otherwise, each function or department that oversees a sliver of the experience will work separately to optimize its own sliver. Delivering a consistent, unified customer experience requires that each of the organization's groups talk the same language and feel joint ownership.

A newspaper publisher, for example, will improve the customer experience only when editorial, circulation, billing, delivery, and marketing staffs open up for a shared conversation. At one newspaper company, we helped to break down the walls between departments and divisions by developing a common fact base that addressed the full breadth of the customer experience. Using data from multiple divisions and conducting new research to fill in the gaps, we established a single, integrated data set. Attracting new readers became a broad-based effort—something for editorial, marketing, and delivery to strategize about jointly rather than through individual and contradictory initiatives.

The case of MediaGrand

To illustrate how this approach looks in practice, consider the case of a cable provider we will call MediaGrand. Senior management of the firm had developed a major brand repositioning that they were convinced would increase demand. But executives could not agree on what do first.

The brand touched every customer interaction from telephone service calls to direct mail to the actual product and more. All those activities could not be changed feasibly at once, yet to reach the new goals for customer acquisition and loyalty, the company had to convince customers of the new brand promise. Internal competition for the newly available funding was fierce, and new initiatives competed with repackaged existing initiatives for funding.

To break this stalemate, senior management worked with Mercer on a fact-based approach with which they could rationally prioritize the various initiatives. The first step was to map all the potential customer touchpoints for current subscribers and prospects, and to collect primary data on customers' perceptions of those touchpoints. Existing data on customer service calls, problem resolution reports, and marketing communications, such as direct mail and e-mail pieces, rounded out the picture.

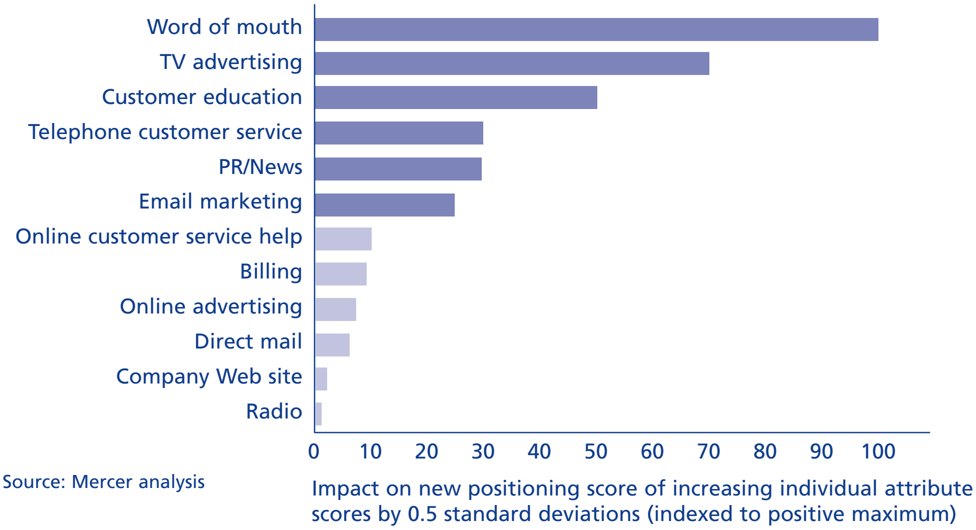
We assessed which factors drove the natural dispersion of customer perception of the brand using structural equation modeling, a common tool in customer science. This allowed us to isolate which elements were most important in shifting brand perception toward the new position.

Emerging from these analytics, the answer became clear. The most important factors influencing consumer perception of the new brand promise were word of mouth, television advertising, and, for current customers, the quality of customer education (see Exhibit 3). This set of facts quelled the internal debates (albeit disappointing the product development team) and drew the attention of senior management to a few high-impact moves.

In response, the marketing group quickly developed a word-of-mouth strategy and new consumer-focused public relations efforts, which the firm had never used before. The advertising agency got a new brief, and the resulting ads sparked buzz by connecting with what consumers wanted and signaling a positive direction for MediaGrand. The customer service

Exhibit 3 **Which touchpoints matter?**

Relative impact of customer touchpoints for a cable provider's new positioning



Source: Mercer analysis

team focused on a small set of specific initiatives that addressed gaps in service that the data revealed. The log-jam that had initially caused MediaGrand to spin its wheels on the new positioning was successfully broken, and the executives could execute the new positioning.

Improvement on three levels

Taking this holistic approach to customer experience management can improve performance of subscription businesses on three levels: basic hygiene, or meeting baseline customer needs; differentiation, or clarifying the company's competitive advantages; and brand personality, or manifesting a consistent brand across the customer experience.

Better hygiene

There are times when the basic service must improve in order to retain or attract customers. Cable TV providers need to achieve prompt on-time installations. Internet service providers need to provide connectivity without disruption or slowdowns. Newspaper publishers need to deliver the paper on time and undamaged. Wireless providers need to offer calls without drops. These are basic services, but it's not always easy to meet baseline expectations.

Failures at this level anger customers and cause them to leave out of frustration. So when some part of the customer experience fails at this level, companies must quickly and accurately identify the root cause, define specific tactical actions, and get back in the game.

We worked with a major Internet service provider, which we will call Synconnect, where serious connectivity issues, such as slow speeds and interrupted sessions, had increased customer churn sharply. Subscriber levels were plummeting, and the outlook was grim.

When Synconnect contacted Mercer, management had spent months amassing a range of possible solutions that vastly outstripped the available resources. The team charged with solving the problem was at an impasse over competing initiatives.

Our first step was to assess what customer data existed. Much of the specific data was available, but each division collected and analyzed its own data in isolation. We built an integrated dataset at the individual customer level, combining historic information across divisions for disconnects, customer setups, customer service interactions, and so on. With this historical perspective of product performance drivers for each customer, we applied statistical techniques to isolate which features drove improved performance. In addition, we developed an economic model with the respective costs of various proposed initiatives to assess their impact on profitability.

The data revealed that the factor with the greatest impact on product performance, particularly in improving disconnects and connectivity quality, was the individual customer's hardware setup. We recommended offering a free modem upgrade to consumers, as the modems were relatively cheap and this initiative dramatically improved product performance and reduced subsequent rates of churn.

Within three months of implementing this and other initiatives, customer attrition fell by 35%. Within two years, Synconnect went from $600 million in losses to breakeven and then to profitability. By identifying which investments would make a difference in improving basic service, the company got back in the game.

Differentiation

Differentiation factors draw customers to consider the brand, subscribe, and remain loyal. For example, Internet service providers must choose among portal offerings, premium services, price reductions, promotions, and customer service. Wireless providers can emphasize price plans, coverage, handsets, or retail storefronts.

Verizon pitches the convenience of one-bill bundled offerings, while Sprint's presence in RadioShack stores allows salespeople to assist customers with pricing plans. *The Financial Times* ensures that its papers are delivered on time; the *New York Times* offers piece-part content (e.g., the crossword puzzle) through stand-alone subscriptions; the *New York Post* has a late-closing sports page. AOL delivers comprehensive customer service, while SBC pitches low-cost broadband connections. Having a defined target audience, a clear sense of what drives customer behavior, and the ability to deliver a unified customer experience are critical to keeping and growing a customer base.

Lack of differentiation leads to poor top-line growth, as customers focus their consideration set on other providers. It also drives "comparison" churn, as customers elect to get the features they want elsewhere.

The holistic approach we've described heightens differentiation by identifying which areas customers care most about and how they view a company as being distinctive. One Internet service provider we worked with was considering upgrading its network infrastructure and sought to identify the minimum level of speed improvement that customers would consider significant enough to prompt them to switch. With a holistic approach, the company identified the factors driving consideration and switching, and it defined an offer to customers that included changes to pricing and service as well as speed.

Personality
Personality is what makes a brand stand out beyond the features and service levels offered. If executed consistently, personality pervades all aspects of the offer and service. For example, U.K. wireless operator Orange was the first to invest in packaging its own brand of handsets and in per-second billing, helping to build a reputation for customer advocacy that separated Orange from some competitors. A consistent personality is remembered more than a collection of individual features, no matter how exciting those are.

Exhibit 4 **Improving performance on three levels**

Hygiene	Differentiation	Personality
Factors required to meet baseline customer needs • For Cable TV providers: prompt on-time installations • For newspaper publishers: delivering the paper on time and undamaged • For wireless providers: offering calls without drops	**Factors that draw customers to consider the brand, subscribe, and remain loyal** • For Internet service providers: price, customer service, and premium services • For wireless providers: price plans, coverage, handsets, and retail storefronts	**Factors that make a brand stand out beyond the features and service levels offered** • Orange, the U.K. wireless operator, was the first to invest in packaging its own brand of handsets and in per-second billing

Firms with an inconsistent or underwhelming personality will struggle to attract and keep customers. Isolating the areas of inconsistency or issues that most impact perception of personality, thus, contributes to effective management of brand perception. Here again, the holistic view is essential. Dissonant communication styles across billing, direct mail, and customer service can undermine the overall personality of the brand.

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Instinct or gut feel has its place in business decisions. But relying on instinct alone leads to stalemates, inertia, or, worse, scarce investment dollars poured into initiatives that have little effect on customer behavior. Instinct that is validated against solid data and analysis, by contrast, leads to more rational and productive investment decisions. Customer experience management allows managers to trade off costs and benefits with new precision and make maximum-impact investments in their service.❖