McKinsey & Company

Operations

The CEO guide to customer experience

August 2016 | Executive Briefing

Companies that create exceptional customer experiences can set themselves apart from their competitors.

What do my customers want? The savviest executives are asking this question more frequently than ever, and rightly so. Leading companies understand that they are in the customer-experience business, and they understand that *how* an organization delivers for customers is beginning to be as important as *what* it delivers.

This CEO guide taps the expertise of McKinsey and other experts to explore the fundamentals of customer interaction, as well as the steps necessary to redesign the business in a more customer-centric fashion and to organize it for optimal business outcomes. For a quick look at how to improve the customer experience, see the summary infographic.

Infographic

To improve customer experience, move from
touchpoints to journeys

Observe

Customer journeys consist of a progression of touchpoints that together add up to the experience customers get when they interact with companies. Seeing the world as their customers do helps leading companies better organize and mobilize their employees around customer needs.

Shape

Designing the customer experience requires reshaping interactions into different sequences and, though the effort may start small, soon entails digitizing processes, reorienting company cultures, and nimbly refining new approaches in the field.

Perform

Rewiring a company to provide leading customer experiences is a journey in itself, often taking two to four years and requiring high

to four years and requiring high engagement from company leaders and frontline workers alike.

Armed with advanced analytics, customer-experience leaders gain rapid insights to build customer loyalty, make employees happier, achieve revenue gains of 5 to 10 percent, and reduce costs by 15 to 25 percent within two or three years. But it takes patience and guts to train an organization to see the world through the customer's eyes and to redesign functions to create value in a customer-centric way. The management task begins with considering the customer—not the organization—at the center of the exercise.

Observe: Understand the interaction through the customer's eyes

Technology has handed customers unprecedented power to dictate the rules in purchasing goods and services. Three-quarters of them, research finds, expect "now" service within five minutes of making contact online. A similar share want a simple experience, use comparison apps when they shop, and put as much trust in online reviews as in personal recommendations. Increasingly, customers expect from all players the same kind of immediacy, personalization, and convenience that they receive from leading practitioners such as Google and Amazon.

Central to connecting better with customers is putting in place several building blocks of a comprehensive improvement in customer experience.

Identify and understand the customer's journey.

It means paying attention to the complete, end-to-end experience customers have with a company from their perspective. Too many companies focus on individual interaction touchpoints devoted to billing, onboarding, service calls, and the like. In contrast, a customer journey spans a progression of touchpoints and has a clearly defined beginning and end.

The advantage of focusing on journeys is twofold.

First, even if employees execute well on individual touchpoint interactions, the overall experience can still disappoint (Exhibit 1). More important, McKinsey research finds that customer journeys are significantly more strongly correlated with business outcomes than are touchpoints. A recent McKinsey survey,[1] for example, indicates customer satisfaction with health insurance is 73 percent more likely when journeys work well than when only touchpoints do. Similarly, customers of hotels that get the journey right may be 61 percent more willing to recommend than customers of hotels that merely focus on touchpoints.
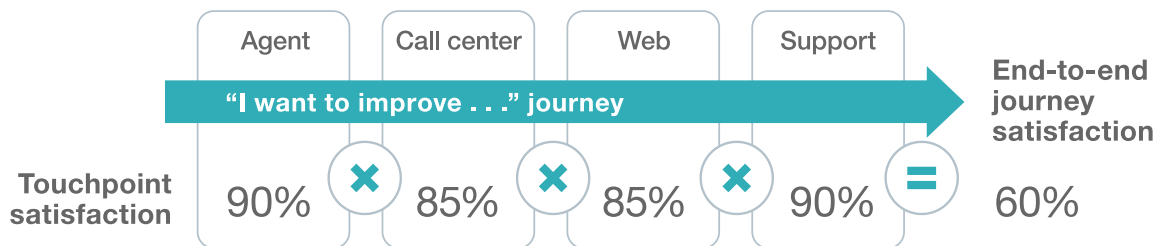
Exhibit 1

Best-in-class companies optimize customer journeys, not just touchpoints.

Customers experience companies through end-to-end experiences, not touchpoints

| Sales and onboarding | Change to account | Moving/ new car | Resolving a problem |

Individual touchpoints may perform well even if the overall experience is poor

	Agent	Call center	Web	Support	End-to-end journey satisfaction
"I want to improve . . ." journey					
Touchpoint satisfaction	90%	85%	85%	90%	60%

McKinsey&Company | Source: McKinsey Digital Labs

Quantify what matters to your customers.

Customers hold companies to high standards for product quality, service performance, and price. How can companies determine which of these factors are the most critical to the customer segments they serve? Which generate the highest economic value? In most companies, there are a handful of critical customer journeys. Understanding them, customer segment by customer segment, helps a business to maintain focus, have a positive impact on customer satisfaction, and begin the process of redesigning functions around customer needs. Analytical tools and big data sources from operations and finance can help

organizations parse the factors driving what customers say satisfies them and also the actual customer behavior that creates economic value. Sometimes initial assumptions are overturned. In one airport case study, customer satisfaction had more to do with the behavior of security personnel than with time spent in line (Exhibit 2). For a full view of the airport's insightful customer-satisfaction exercise, see "Developing a customer-experience vision."

Exhibit 2

Airport-security issues make up 4 of the top 10 consumer complaints about airports.

Top complaints by customers after airport travel

Confusing layout of security-screening checkpoint

Unfriendly security personnel

Lengthy security-screening process

Complete lack of seating after security screening

McKinsey&Company

Define a clear customer-experience aspiration and common purpose.

In large, distributed organizations, a distinctive customer experience depends on a collective sense of conviction and purpose to serve the customer's true needs. This purpose must be made clear to every employee through a simple, crisp statement of intent: a shared vision and aspiration that's authentic and consistent with a company's brand-value proposition. The most recognizable example of such a shared vision might be the Common Purpose[2] of the

Walt Disney Company: "We create happiness by providing the finest in entertainment for people of all ages, everywhere." The statement of purpose should then be translated into a set of simple principles or standards to guide behavior all the way down to the front line.

Customer journeys are the framework that allows a company to organize itself and mobilize employees to deliver value to customers consistently, in line with its purpose. The journey construct can help align employees around customer needs, despite functional boundaries. As McKinsey's Ron Ritter elaborated in a recent video, rallying around customers can bring the organization together.

Shape: Redesign the business from the customer back

Customer-experience leaders start with a differentiating purpose and focus on improving the most important customer journey first—whether it be opening a bank account, returning a pair of shoes, installing cable television, or even updating address and account information. Then they improve the steps that make up that journey. To manage expectations, they design supporting processes with customer psychology in mind. They transform their digital profile to remove pain points in interactions, and to set in motion the culture of continuous innovation needed to make more fundamental organizational transformations.

Apply behavioral psychology to interactions.

Deftly shaping customer perceptions can generate significant additional value. One tool leading customer-experience players deploy is behavioral psychology, used as a layer of the design process. Leading researchers have identified the major factors in customer-journey experiences that drive customer perceptions and satisfaction levels.[3] For example, savvy companies can design the sequence of interactions with customers to end on a positive note. They can merge different stages of interactions to diminish their perceived duration and engender a feeling of progress. And they can provide simple options that give customers a

feeling of control and choice. One pilot study at a consumer-services firm found that improvements in customer-satisfaction scores accrued from "soft" behavioral-psychology initiatives as well as from "hard" improvements in operations (Exhibit 3).

Exhibit 3

In one consumer-services pilot, operational improvements and behavioral-psychology initiatives raised customer-experience scores.

Customer-satisfaction score[1]

[1]Likelihood that respondent would recommend the company, product, or service to a friend or colleague; rated on a scale of 0 to 10, where 10 is most likely; score reflects the sum of responses of 9 and 10 minus the sum of responses of 0 through 6.

McKinsey&Company

Reinvent customer journeys using digital technologies.

Customers accustomed to the personalization and ease of dealing with digital natives such as Google and Amazon now expect the same kind of service from established players. Research shows that 25 percent of customers will defect after just one bad experience.

Customer-experience leaders can become even better by digitizing the processes behind the most important customer journeys. In these quick efforts, multidisciplinary teams jointly design, test, and iterate high-impact processes and journeys in the field, continually refining and rereleasing them after input from customers. Such methods help high-performing incumbents to release and scale major, customer-vetted process improvements in less than 20 weeks. Agile digital companies significantly outperform their competitors, according to some studies.[4] To achieve those results, established businesses must embrace new ways of working.

Perform: Align the organization to deliver against tangible outcomes

As the customer experience becomes a bigger focus of corporate strategy, more and more executives will face the decision to commit their organizations to a broad customer-experience transformation. The immediate challenge will be how to structure the organization and rollout, as well as figuring out where and how to get started. Applying sophisticated measurement to what your customers are saying, empowering frontline employees to deliver against your customer vision, and a customer-centric governance structure form the foundation. Securing early economic wins will deliver value and momentum for continuous innovation.

Use customer journeys to empower the front line.

Every leading customer-experience company has motivated employees who embody the customer and brand promise in their interactions with consumers, and are empowered to do the right thing. Executives at customer-centered companies engage these employees at every level of the organization, working directly with them in retail settings, taking calls, and
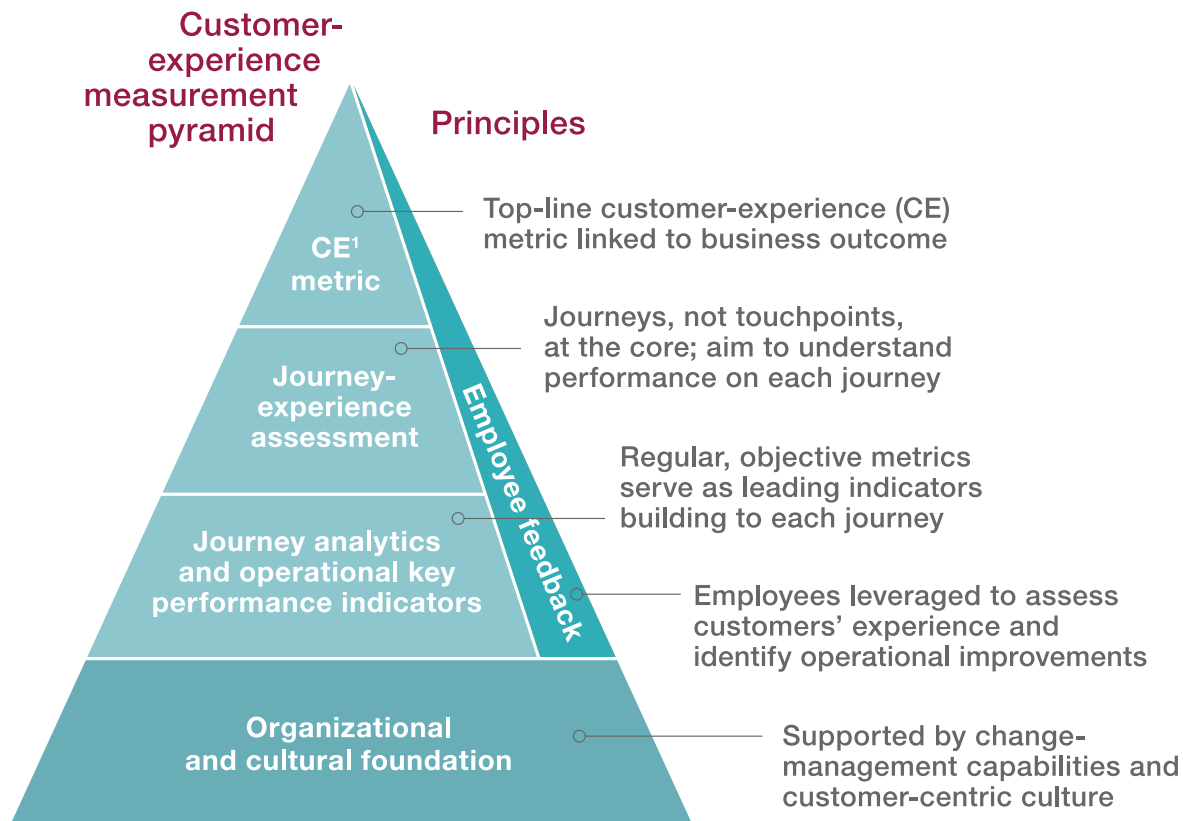
getting out into the field. In the early years, for example, Amazon famously staged "all hands on deck" sessions during the year-end holidays, a tradition that lives on in the employee-onboarding experience.[5] Some organizations create boards or panels of customers to provide a formal feedback mechanism.

Establish metrics that capture customer feedback.

The key to satisfying customers is not just to measure what happens but also to use the data to drive action throughout the organization. The type of metric used is less important than the way it is applied. The ideal customer-experience measurement system puts journeys at the center and connects them to other critical elements such as business outcomes and operational improvements. Leading practitioners start at the top, with a metric to measure the customer experience, and then cascade downward into key customer journeys and performance indicators, taking advantage of employee feedback to identify improvement opportunities (Exhibit 4).

Exhibit 4

The ideal customer-experience measurement system puts journeys at the center and connects them to other critical elements.

Customer-experience measurement pyramid

Principles

CE[1] metric — Top-line customer-experience (CE) metric linked to business outcome

Journey-experience assessment — Journeys, not touchpoints, at the core; aim to understand performance on each journey

Journey analytics and operational key performance indicators — Regular, objective metrics serve as leading indicators building to each journey

Employee feedback — Employees leveraged to assess customers' experience and identify operational improvements

Organizational and cultural foundation — Supported by change-management capabilities and customer-centric culture

McKinsey&Company | Source: McKinsey analysis

Put cross-functional governance in place.

Even for companies that collaborate smoothly, shifting to a customer-centric model that cuts across functions is not an easy task. To move from knowledge to action, companies need proper governance and leadership. Best-in-class organizations have governance structures that include a sponsor—a chief customer officer—and an executive champion for each of their primary cross-functional customer journeys. They also have full-time teams carrying out

their day-to-day work in the existing organization. To succeed, the transformation must take place within normal operations. To foster understanding and conviction, leaders at all levels must role-model the behavior they expect from these teams, constantly communicating the changes needed. Formal reinforcement mechanisms and skill-building activities at multiple levels of the organization support the transformation, as well. In a recent video, McKinsey's Ewan Duncan describes how rewiring a company in this way is typically a two- to four-year journey.

Log early wins to demonstrate value creation.

Too many customer-experience transformations stall because leaders can't show how these efforts create value. Executives, citing the benefits of improved customer relations, launch bold initiatives to delight customers that end up having clear costs and unclear near-term results. The better way is to build an explicit link to value creation by defining the outcomes that really matter, analyzing historical performance of satisfied and dissatisfied customers, and focusing on customer satisfaction issues with the highest payouts. This requires discipline and patience, but the result will be early wins that will build confidence within the organization and momentum to innovate further.

Delighting customers by mastering the concept and execution of an exceptionally good customer experience is a challenge. But it is an essential requirement for leading in an environment where customers wield growing power.