Customer Experience
Maturity Monitor

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The State of Customer Experience Capabilities and Competencies

SAS

JUBELIRER
Research Education Consulting

Peppers & Rogers Group

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Executive Overview

At this very moment, it is happening. Across channels and touchpoints, customers are experiencing your company. Whether interacting on the Web, through a call center, on the phone, by way of e-mail or face-to-face, customers are experientially assessing the extent to which your company values their patronage. Those experiences are collectively serving to strengthen relationships—or, if your company is failing to fulfill its brand promise and to delight customers, are instead weakening the bond between your customers and your business.

Amazingly, only 20 percent of companies today even try to know the state of their customer experience success by measuring it holistically across all channels.[1] There may be a reason. While the majority understand that the quality of the experience impacts important customer behaviors such as loyalty (81 percent), advocacy (81 percent), and spending (73 percent)[2], almost half (47 percent) lack a customer experience management process.[3] A key obstacle cited by many (61 percent) for measuring the customer experience is the difficulty of monetizing the value of investments for improvement[1]—despite the fact that it does make a significant difference. Repurchase intentions can vary by 15 percent and likelihood to switch to a competitor by 18 percent depending on the quality of the customer experience.[4] Perhaps these realizations are the reason why 85 percent of companies state that customer experience will play a critical or very important role in their competitiveness.[5]

Maximizing competitiveness begins with the awareness that the *experience* that a customer has with your company solidly trumps the impact of any marketing message or advertising campaign. Today, more so than ever before, customers listen with their eyes to see what a company *does* rather than with their ears to hear what the company *says*. Customers feel first, think second[6]—and interactions with a company strongly influence their heart and produce a longer lasting impact than communications directed toward their heads. For example, after a negative experience with a company, 47 percent of consumers admit to swearing or shouting, and 29 percent have gotten a headache, felt their chest tighten and/or cried.[7] Because the repercussions multiplicatively extend beyond a single individual to a large circle of friends and acquaintances by way of social media and networking,

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While the majority of companies understand that the quality of the experience impacts important customer behaviors such as loyalty, advocacy, and spending, almost half lack a customer experience management process.

getting the customer experience right is now of paramount importance. For these reasons, Peppers & Rogers Group partnered with SAS and Jubelirer Research to undertake the first in a global series of empirical investigations designed to:

- Understand the customer experience management philosophy, strategies and tactics across a broad base of companies
- Explore the advantages that accrue to companies with superior customer experience capabilities and competencies
- Document the organizational and technological enablers and inhibitors to delivering excellent customer experiences
- Assess the maturation of companies along a developmental continuum

These questions are vital for companies seeking to build authentic and profitable long-term relationships with their customers, especially in the presence of today's strong headwinds hindering marketing effectiveness.

Because the repercussions extend to a large circle of friends and acquaintances by way of social media, getting the customer experience right is now of paramount importance.

Research in Brief

The Customer Experience Maturity Monitor employed two distinct but complementary approaches: qualitative research, to directly hear the voices of marketers and listen to their strategies, successes, and struggles; and quantitative methods, to explore specific hypotheses concerning the topic of customer experience.

The qualitative research consisted of structured telephone interviews, while the quantitative research was implemented using an online questionnaire, designed to require no more than 15 minutes to complete. To qualify as a respondent for the quantitative portion, two criteria were assessed: involvement in making decisions about the company's marketing activities, customer interactions or channel strategies; and annual company revenue for 2007 of at least USD$100 million. A total of 227 respondents were included in the research study.

The sample for both the qualitative and quantitative research was drawn from customers and prospects of SAS, as well as subscribers and registered users to Peppers & Rogers Group's 1to1 Media publications and BetterManagement.com. Individuals were generally Managers and Vice Presidents in the areas of marketing, analytics, and CRM. Select comments from these executives are found throughout the paper in the "verbatim" boxes.

All differences discussed in this white paper are statistically significant, with the probability of the observed difference occurring purely by chance being no more than 0.20 (and, in the majority of comparisons, substantially less). The implication is that the reported findings are not due to random variation arising from the sample of respondents, but likely reflect actual differences in the population of companies.

For complete information on the research approach, please see page 24.

Winds of Change

"Usually companies rely more on brand perceptions, but they are realizing the customer experience is the number one influencer of brand perception, so they're paying more attention to customer experience." —*Survey Verbatim*

The winds of change are blowing and, as a result, the old ideas of marketing are being dispersed and replaced by the new realities of the importance of the customer experience with rapidity. Failure to grasp and to react to the fundamentals of these changes is causing an upheaval in many marketing departments, as evidenced in part by the fact that 50 percent of all newly hired Chief Marketing Officers are appointed to repair broken marketing organizations.[8]

Six Powerful Forces Are Reshaping Marketing

Six forces (see Figure 1) are reshaping the landscape of the discipline of marketing. They are not a consequence of the state of the economy, nor of the latest consumer fad. These forces are persistent, persuasive and powerful. Appreciating them is a first step toward understanding the appropriate action to be taken.

survey verbatim

"The greatest need for improvement is having everyone understand that building the relationship is more important that the transaction."

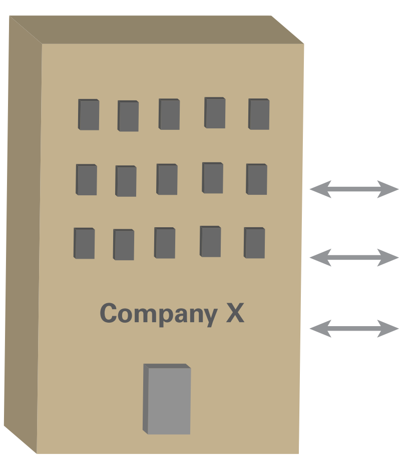
1. Marketers are losing control

It has now been two years since *TIME Magazine* named as its "person of the year" a familiar face: "You."[9] The cover story was about "community and collaboration on a scale never seen before," "the cosmic compendium of knowledge Wikipedia and the million-channel people's network YouTube and the online metropolis MySpace," and "the many wrestling power from the few and helping one another for nothing and how that will not only change the world, but also change the way the world changes."[10]

For marketers, this change has exposed the myth that a brand belongs to a business—it belongs, instead, to the marketplace.[11] Brand managers can no longer *control* the conversation,

Figure 1: **The Forces Reshaping Marketing**

The landscape of marketing is being reshaped by persistent, persuasive and powerful forces, causing companies to recognize a new reality: superior customer experiences have become critical for securing competitive advantage.



1. **Marketers are losing control.** Power is shifting to customers.
2. **Customers become belligerent.** Customers are increasingly intolerant of poor experiences and share their dissatisfaction.
3. **Products and price are at parity.** Customer experience is the new differentiator.
4. **Multichannel choice adds complexity.** A successful multichannel customer experience requires continuity, consistency and correctness of interactions.
5. **Marketers can't treat different customers differently.** Focus investments on the customer experience.
6. **A short-term focus prevails.** Success means balancing today's revenue requirements with long-term value.

Source: SAS Institute Inc. and Peppers & Rogers Group

but only *facilitate* it among customers at physical and virtual social gatherings on networking Websites. Word of mouth is now perceived as twice as important as traditional media by consumers, with 91 percent of consumers stating that they are likely to use a product or service based upon a recommendation.[12] Because nearly everyone (86 percent) is in the game of recommending a product or service,[12] each customer's experience becomes a potent lever point to amplify the impact of marketing, for better or for worse.

2. Customers are becoming belligerent

Customers are becoming increasingly intolerant of inferior experiences, and taking matters into their own hands. Literally.

Remember the recent case of Ms. Mona Shaw, an elderly woman who had a disappointing set of experiences with a "bunch of sub-moronic imbeciles" (otherwise known as customer service representatives from the cable company)? She arrived at the local office, hammer in hand, and whacked the keyboard, monitor and telephone of an aghast assistant.[13,14] Ms. Shaw isn't without sympathizers. After a negative customer experience, 12 percent of consumers acknowledge that they have dreamed of picketing and/or defacing a company's headquarters.[7]

survey verbatim

"The biggest area for improvement is working with front-line staff to deliver an experience that is consistent and that is on-going."

In ways more numerous (but less hostile), customers are actively seeking to suppress intrusive marketing experiences. There is, in fact, a growing market for anti-marketing solutions. Consider, for example, the successful Do-Not-Call National Registry,[15] which added 30,000 telephone numbers to its list *per hour* during its first two months.[16] Its success has spawned a National Do-Not-Mail List,[17] and consideration is being given to the creation of a Do-Not-Track List that would prohibit marketers from monitoring the online activities of consumers.[18] Additionally, the majority (70 percent) of TiVo households use the product to skip advertisements when watching recorded programs.[19]

What is an intrusive marketing experience? One that is neither permission-based nor customized and relevant, reflecting the company's knowledge of an individual's value and needs. In summary, such disappointing experiences arise when a company fails to adopt the customer's perspective. Unfortunately, these occurrences are too common—and a backlash has resulted. Those firms that provide welcoming and warm customer experiences, however, have the opportunity to stand apart from the crowd.

3. Products and price are at parity

Theodore Levitt, a renowned professor of marketing, once wrote that "There is no such thing as a commodity. All goods and services are differentiable."[20] Perhaps technically true, but increasingly any unique product differentiation enjoyed by a company is quickly copied by a competitor, resulting in a never ending game of "catch up" that yields, at best, a transitory market advantage. Additionally, reliance on product differentiation trains a company's customers to use purchase criteria that promote comparative shopping and ultimately undermine long-term loyalty.

survey verbatim

"The only difference between us and our competition is the service we offer. It's not about product, it's not about price, but it's about the relationship."

The same is true of pricing. In today's marketplace, it is easy use Google Product Search, for example, to compare prices for a specific product; or to use a shopping bot such as mySimon or PriceSCAN to automatically inspect numerous e-commerce Websites to find the best price.

Under these conditions, the customer's experience is becoming the new differentiator. Consider that more U.S. adults cite "good customer service" (52 percent) as an extremely important consideration versus "good prices" (38 percent) in engendering loyalty to a company,[21] and four out of five will *never* purchase again from a company that delivers a bad experience.[7]

4. Multichannel choice adds complexity

The goal isn't hard to understand. Customers desire the flexibility afforded by the choice of multiple interaction channels (e.g., phone, Web, e-mail), yet also demand an integrated and unified experience. A conversation begun through one channel needs to seamlessly continue if an alternate channel is subsequently used. Regardless of the channel employed, the correctness and the completeness of the information provided must be consistent.

survey verbatim

"What is working best is our ability to identify a unique customer across all of the channels."

For example, an examination of the multichannel customer experience at four major U.S. banks revealed several weaknesses, including: lost continuity across e-mail and phone channels, phone and interactive voice response problems, lack of contextual help on Websites, and the inability to confirm a phone conversation using another channel.[22]

"Channels operating as independent units, or worse, competing against one another, only confuse your customers,"[23] note Don Peppers and Martha Rogers, Ph.D., founding partners, Peppers & Rogers Group. "Customers expect that you will remember their contact information, purchase history, brand preferences, etc., irrespective of channels." Despite this clear customer requirement, only 46 percent of companies have put in place a corporate-wide program focused on improving the multichannel experience.[5]

5. Marketers can't treat different customers differently

Treating different customers differently is the heart of one-to-one marketing. In contrast to micro-targeting in which customers are assigned to one of several groups based upon static attributes and then treated uniformly, one-to-one marketing is built upon a learning relationship. The dynamic value and needs of individuals are continuously discovered and updated—knowledge which is then used by the company to customize its own behavior toward the individual. Yet today many companies lack the marketing and operations infrastructure together with the organizational discipline to make it happen.

survey verbatim

"Our mass mailings are customized by name, but not by need. We are not truly one-to-one yet."

"The experience delivered to a most valuable customer may be a substantially enhanced version of the experience delivered to other customers, and it may be further tailored depending upon that customer's own needs," explains Rogers. Therefore, customer experience excellence requires a company to have the ability to apportion limited resources in a non-uniform allocation across different customers.

6. A short-term focus prevails

Companies that want more revenue tomorrow should start by building stronger customer relationships today. Accomplishing this objective requires a long-term focus, because transforming an organization so that it adopts the customer's point-of-view takes time and discipline. In the absence of adopting a long-term focus, a dedication to crafting and delivering excellent customer experiences is difficult.

survey verbatim

"It's always about the bottom line and quarterly performance. That's for every major corporation in the U.S. Anyone who tells you otherwise is lying."

Failing to invest in (or reducing budget already allocated to) the management and improvement of customers' experience may improve cash flows in the near term. The "savings" from reduction in the quality of customers' experiences, however, will come at the expense of upcoming cash flows. Companies should never forget that customers have memories, and poor experiences will alter customers' likelihood to purchase in the future.

Source of Competitive Advantage

survey verbatim

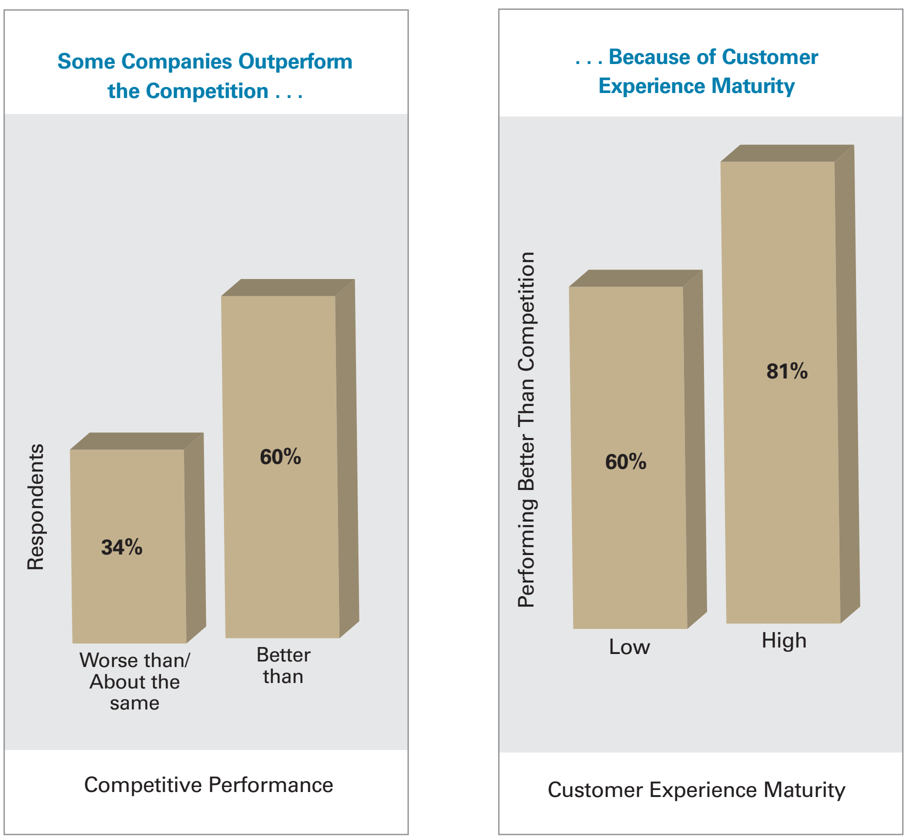
"If you don't do customer experience management, you will go out of business."

In the face of these six forces, it is not surprising that some (60 percent) companies are outperforming the competition while others (34 percent) are at parity or worse (see Figure 2). What is startling, however, is the reason behind the observed difference: namely, a company's level of customer experience maturity. Among those companies having strong capabilities and competencies for delivering a customer experience excellence, fully 81 percent report that they outperform the competition; whereas, among companies with weaker capabilities and competencies, the number drops significantly (60 percent).

As a consequence, an important and practical question emerges: How do companies actually achieve excellence in delivering the customer experience in order to secure the benefit of competitive advantage? In the presence of these 'winds of change,' navigating forward begins with a 'map'—a structural and strategic framework to guide the journey.

Figure 2: **Customer Experience Success Drives Competitive Advantage**

A company's level of customer experience maturity is a distinguishing factor in understanding competitive performance.



Source: SAS Institute Inc. and Peppers & Rogers Group

Navigating Forward

"We truly believe that the investments we make today are like farming—we are planting seeds we don't necessarily get to harvest right away."—*Survey Verbatim*

"Achieving the competitive advantage that arises from customer experience excellence," explains Jeff Gilleland, Global Strategist for Customer Intelligence Solutions at SAS, "requires a focus upon those organizational capabilities and competencies that are most influential in deepening customer *insight*, choreographing customer *interactions*, and continuously *improving* marketing performance" (see Figure 3). It is not about generally improving customer service quality or about uniformly enhancing customer satisfaction—it is about designing an experience for each customer that is based upon knowledge of that individual, delivering it across products and channels, and measuring outcomes to guide ongoing refinements.

Achieving enterprise-level customer insight begins with data which are accurate, timely and complete across products and channels. These data are managed in a manner that facilitates reporting and analysis, to heighten the quality of business decision making and to allow customer interactions to be crafted and coordinated in a thoughtful fashion. Choreographing interactions is built upon customer insight and is strategically aligned with business goals and with customer value, to ensure that resources are expended to yield maximum effect. By examining the expected versus the obtained results from these interactions, an organization has the opportunity to continuously improve its performance. This is accomplished by measuring and reporting the impact of initiatives and optimizing the mix of marketing spend across media and channels, all with the aim of continuous learning and thereby becoming better over time.

Figure 3: **The Customer-Centric Business Model**

Achieving excellence in the delivery and management of customers' experiences requires a focus upon *insight, interaction* and *improvement*, each of which is enabled by organizational capabilities and competencies. Together, they reside on an enterprise framework and are guided by a strong customer orientation to form a closed-loop system.[24]

Source: *SAS Institute, Inc.*

It may be intuitive among marketers that enhancing the customer experience through investments in *insight*, *interaction* and *improvement* (coupled with the creation of a strong *customer orientation*) pay a dividend, but intuition is no longer accepted by senior management as a sound basis for acquiring budget. Today, funding follows facts, decisions depend on data—and, fortunately, the facts and the data are straightforward: these investments do yield competitive advantage (see Figure 4). Companies exhibiting higher levels of performance in the areas of *insight*, *interaction* and *improvement*—and those possessing a higher level of *customer orientation*—are more likely to outperform their major competitors.

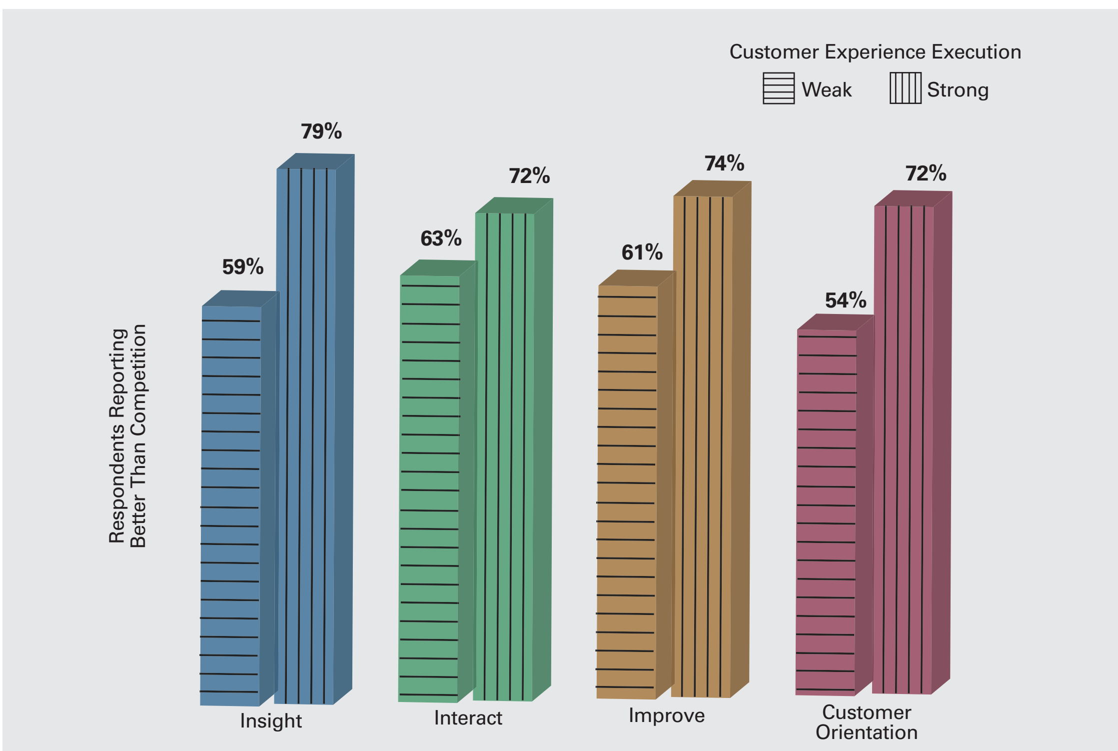
"This result is both significant and salient," notes Gilleland, "but to achieve the benefit of competitive advantage, companies need more specificity and more context." The *Customer Experience Maturity Monitor* research was designed to provide both: more details about the activities underlying *insight*, *interaction*, *improvement* and *customer orientation*; plus more information about how companies are currently performing on each of these activities and how their different maturities influence success.

survey verbatim

"Most companies don't really have a customer experience strategy. Usually companies rely more on brand perceptions, but they are realizing the customer experience is the number one influencer of brand perception."

Figure 4: **Drivers of Customer Experience Excellence Deliver Competitive Advantage**

Companies that excel in customer *insight, interaction* and *improvement*—and those which have a strong *customer orientation*—are more likely to outperform their competitors. The competitive advantage gap (measured as the difference in the percent of companies performing "good"/"excellent" versus "fair"/"poor"/"not at all") ranges from a low of 9 percentage points for *interaction* to a high of 20 for *insight.*



Source: SAS Institute Inc. and Peppers & Rogers Group

Insight

"Yes, we have a clear strategy. There are three pillars for a three- to five-year strategy. There is a team called Customer Insights that is constantly monitoring feedback on customers and going out to the various functional areas and instituting process improvements."—*Survey Verbatim*

In order to deepen customer insight, a company must be able to manage quality customer data, predict customer behavior, and profile and segment customers.

Manage quality customer data

It is difficult, if not impossible, to design and deliver excellent experiences in the absence of knowledge of the individual customer. It is a problem faced by many companies, according to industry research. Only 34 percent of companies rate themselves as very good or outstanding in the management of customer data.[25] And, it impacts the bottom line. Businesses in the U.S. acknowledge that 7.3 percent of revenue is lost because of missed opportunities attributable to data quality or data usage.[26] Additionally, a third of companies have complained that getting the right data takes too long, and 57 percent indicated that pulling together information from multiple sources is tough.[27]

The results from the *Customer Experience Maturity Monitor* are consistent with these prior findings, and shed light on the problem. "In general, we found that companies are comparatively good at managing quality customer data at the aggregate level, but not at the individual customer level," notes Gilleland. For example, 54 percent of respondents rate the performance of their company as good or excellent in using customer satisfaction or other measures of customer affinity as key performance indicators and in measuring and reporting customer attitudes and perceptions (e.g., satisfaction). However, about half that number (26 percent) rate the performance of their company as "good" or "excellent" at creating a complete and integrated view of each customer across multiple products and channels, or at making a current view of necessary customer information available to all customer touchpoints. As a Director of Relationship Marketing at one company said, "We are not very successful in creating a 360-degree view of the customer—we are more like 60 degrees!"

survey verbatim

"We have 4,000 variables on every customer... We do information audits, have regular cleansing of the full file on a monthly basis, and use some in-house bureau tools."

To be customer focused, there must be an integrated view of the customer—across all systems, no matter which departments in the enterprise 'own' those databases. Comprehensive, complete and current information is required. Yet, the *Customer Experience Maturity Monitor* documents that these fundamentals still represent a challenge for many companies. For example, only 41 percent of respondents rate their ability to create and make available information on each customer's product ownership and usage as good or excellent, and only 30 percent rate their ability as good or excellent at creating and making easily accessible a complete and integrated view of customers' contact history (inbound and outbound).

Predict customer behavior

The renowned physicist Niels Bohr once observed that "Prediction is extremely difficult—especially about the future." Apparently, the statement applies equally well to many companies today.

From the *Customer Experience Maturity Monitor*, it is clear that predicting customer behavior remains a key opportunity. For example, only 39 percent of companies rate their performance as good or excellent in anticipating customers' purchase behaviors (e.g., calculating the probability to buy or defect to a competitor), and an even smaller number (24 percent) are good or excellent at estimating a customer's likelihood to purchase or engage by channel.

Foresight—coupled with hindsight and insight—form an integrated perspective that enables improved business decision making.[28] Management must know what will happen next (in addition to understanding what has already happened as well as why it happened), because only this knowledge allows a company to intelligently alter its behavior toward individual customers in order to maximize customer returns and to minimize business risks.

As Peppers & Rogers Group's Rogers explains, "The ability to predict is an essential element for creating compelling customer experiences, because anticipating customer needs and behaviors allows a company to proactively engage customers with customized interactions that are both relevant and timely. Customers don't simply want companies to collect information about themselves—they want (and expect) that insight to be used to add value to the relationship." In the old direct marketing paradigm, the predictive problem was "Which customers are most likely to buy product X." From a customer-focused perspective, however, the question is transformed: "Which product is most likely to be needed and wanted by customer X?"

survey verbatim

"We have predictive models and we track marketing programs so they know what's working and what's not working in terms of their segmentation efforts and offers."

Profile and segment customers

Segmentation is the process of dividing a heterogeneous collection of customers into smaller, mutually exclusive and exhaustive homogenous subsets. The objective is to enable marketing professionals to take an important and practical step toward the ultimate goal of one-to-one marketing, by beginning to understand the differences between customers.

The most important ways in which customers differ are by their value and by their needs. Value captures the worth of the customer to the company, and needs captures the worth of the company to the customer. By fulfilling the needs of each individual customer, companies grow their value to the business. In practice, this happens by organizing customers into portfolios based on needs.

Unfortunately, today too few companies are exhibiting this level of marketing sophistication. As evidenced by the *Customer Experience Maturity Monitor*, only 49 percent of companies are good or excellent at even segmenting customers based on demographics, one of the most basic dimensions to consider. Merely 40 percent of companies rate their performance as good or excellent in calculating the profitability of individual customers and just 35 percent rate themselves as good or excellent in using profitability and potential lifetime value to segment. Even fewer (29 percent) are good or excellent at employing lifestyle and attitudes as a basis for segmentation.

These findings are in alignment with other independent research on the state of the discipline of the marketing. For example, only a small number of companies store profitability (about 26 percent) or lifetime value (about 24 percent) in their customer database.[29]

survey verbatim

"There is so much information today on everybody that you can get stuck. You've got to be able to understand what you want to do, pull the correct information, and make a business decision."

When companies are able, however, to profile and segment customers, it has a significant impact. For example, Royal Bank of Canada (RBC) has successfully segmented customers based upon needs into five strategic life-stage groups, and scores each customer in terms of current and potential profitability. By aligning its operations to meet those customer needs, the market capitalization of the company has grown from $18 billion to almost $50 billion over six years.[30]

The necessity of managing customer segments has resulted in the appearance of a new organizational role in forward-looking companies: the Chief Customer Officer.[31,32] This individual creates and communicates the overall customer vision, and ultimately is responsible for the development and execution of strategies to grow the lifetime value of each customer segment.

Interaction

"If you don't interact with customer leaders and interact with those that own the sales effort, those that own the delivery activity, and have ways to measure your performance with the customers, then you are, at best, losing opportunities to understand the relationship, and may not be tracking things that are damaging it." —*Survey Verbatim*

With deep descriptive and predictive insight, a company has the opportunity to use knowledge to alter the customer experience by intelligently choreographing interactions. Doing so requires the management and optimization of segment strategies and the engagement of high-potential customers.

"Great customer data, predictive analytics, and robust customer segmentation cannot create economic value until it is used to better manage customer interaction," Gilleland explains, "and, when used appropriately, customer insight will provide perceptible value to customers by demonstrating to the customer that the company better understands his or her individual needs."

One research participant wisely and wryly described his amazement that "it is so hard to get management to understand the core ingredient and the reason they exist as a business is because there is a customer at the end of the line for the product or service they sell. It constantly dumbfounds me that it is so hard for people to grasp that."

Manage and optimize segment strategies

One-to-one marketing begins to come alive when working with customer segments. This occurs because the marketing problem to be solved varies by customer segment, and by tailoring the strategy, the tactics and the resources to each segment based upon its own unique characteristics, improved customer experiences will occur. Only by managing segments does the marketer have the necessary level of visibility into the needs and value of customers.

Managing the 'generic customer' will by definition produce an average business result, due the uniform treatment that each receives. Managing a set of customer portfolios, in contrast, has the potential to produce a significantly above average result, due to selective strategies incorporating tailored tactics. Importantly, this approach allows a company to direct the investment of resources to customers that have the greatest probability to become long-term profitable customers.

Improving business results through the management of customer segments can also be enhanced by employing advanced analytic optimization methods. Optimization addresses a critical need for all marketers today: how do I do more with less—or, alternatively, how do I get more with the same? The marketing reality is that managing the customer experience is massively multifaceted, spread across products, channels and time periods and among customer segments. Fortunately, allocating marketing resources in this reality to maximize the business benefit is possible using mathematical optimization, which solves an objective function (e.g., profitability) subject to constraints (e.g., marketing budgets, channel capacity, contact frequency rules, and product and promotional offers). By modifying assumptions, a marketer can test 'what-if' scenarios to discover the best configuration and sequencing of customer interactions.

survey verbatim

"We have a rigorous contact strategy that prevents overload."

Unfortunately, few marketers today are taking advantage of the benefits that accrue by optimizing segment strategies. As indicated by the *Customer Experience Maturity Monitor* research, only 25 percent of companies are good or excellent at using mathematical programs to maximize the profitability or ROI of marketing campaigns. "This represents a significant opportunity for most marketers," observes Gilleland, "and one that is within reach because the complexity of the technique has been overcome by the simplicity and ease-of-use of today's tools."

Consistent with the lack of use of optimization, the *Customer Experience Maturity Monitor* research also documents that few (18 percent) companies rate their performance as good or excellent at creating and managing individual "treatment tracks" across products and channels to improve the customer experience. "Customized interactions are not commonplace," states Rogers, "but clearly the future has already happened—it is just a question of whether a company or its major competitor will get there first."

Engage high-potential customers

To successfully choreograph interactions, a company's customers must be engaged customers—especially those who have a high potential for future growth. Engagement happens in real time, triggered by events; it is bi-directional, involving both the inbound and outbound sides of each customer conversation; and it requires employees who are able to access and leverage customer information.

The experience of the customer occurs in her or his "real time," and for this reason marketers must possess the capabilities and competencies to initiate and conduct conversations in the moment. Whether the interaction is occurring on the Web, through a text chat, or on the telephone, descriptive knowledge of the individual customer—together with predictive propensities—must influence the dialog in order for it to be mutually beneficial. Alternatively, the customer is left with the feeling the company doesn't know who they are, what products they already have, or why they buy—and, as a consequence, the experience suffers.

Customer interactions can also be triggered by events—for example, by the new knowledge gained when a customer updates an account profile or when she downloads a product brochure from the company's Website. Initiating relevant and timely communications based on such events can elevate response rates by a factor of four to 10 as compared to traditional direct marketing practices.[33]

The *Customer Experience Maturity Monitor* research shows that companies are struggling with these aspects of customer engagement. Predicting best outcomes during real-time customer sessions is only done at a good or excellent level by 19 percent of companies, and just 22 percent are good or excellent at creating a systematic response based upon the identification of a significant change in a customer's behavior.

survey verbatim

"We focus on the high-value customer by looking at their amount flown and estimated future value. We track mileage, points earned, segments flown and revenue."

In addition, *Customer Experience Maturity Monitor* reveals that only 34 percent of companies are good or excellent at using customer insight to guide inbound customer interactions, a finding which is consistent with other independent research showing that 69 percent of companies have not provided customer-facing personnel with customer insights.[34] Equally troubling is that only 23 percent of companies rate their performance as good or excellent at training their employees to use customer insight during inbound interactions. Coordinating and managing outbound customer contacts at the organizational level (versus in isolated silos) across products and channels is also an area of needed improvement, with only 28 percent of companies reporting that their performance in this regard is good or excellent.

"Whether in real time, triggered by events, inbound or outbound, the quality of interactions influences a customer's likelihood to purchase at the present time—and, importantly, also impacts their future potential," notes Rogers. That potential encompasses not only the value of their actual purchases, but also the worth of their word-of-mouth recommendations to others within their immediate (e.g., family and friends) or extended communities (e.g., blogs).[35,36]

Improvement

"We are now integrating the customer service CRM data with the POS data by adding interaction history to the master database. We also want to integrate CRM data with Website data. This is a long journey ahead. We are just getting started."—*Survey Verbatim*

Whether the quality of customers' experiences is poor or excellent, all companies have room for improvement. Because customers' expectations are increasing and because competitors are becoming savvier and more sophisticated in meeting or exceeding those expectations, no company can long afford to stand still. To continuously advance marketing performance, companies today must measure and report the benefits that they deliver to the business, optimize their marketing investments to boost those benefits, and continue to learn in order to drive enhanced improvement over time. Importantly, companies must harvest the learning gained from each customer interaction in order to deepen the insight from individual customers and improve future interactions and outcomes.

Measure and report

If the ambition of a company is to enhance the customer experience in order to gain competitive advantage, then it is clearly necessary to measure and report upon marketing initiatives to assess progress toward achievement of that goal. Frederick Smith, Chairman, President and CEO of FedEx Corporation, stated the same concept more succinctly: "If it's not measured, it's not managed."

Unfortunately, it is still the case that measuring and reporting on marketing remains elusive for many companies. The CMO Council reports that the number one challenge in 2008 for 53 percent of companies is measuring the value of marketing programs and investments.[8] Among direct marketers, more than 40 percent think that it is almost impossible to measure ROI at a tactical level, and less than a third believe that their company has the ability to measure ROI.[37]

survey verbatim

"We track virtually everything—if it moves, it gets measured."

"The measurement of marketing will improve," notes Gilleland, "when it is linked to the assessment of both individual and organizational performance." The *Customer Experience Maturity Monitor* research shows that many companies have yet to make the connection. Few companies are good or excellent at using customer metrics (e.g., profitability, campaign response) to evaluate individual (30 percent) or organizational performance (43 percent).

Associating the interests of marketers with marketing performance will also accelerate change. Yet today only 31 percent of companies rate their performance as good or excellent at aligning incentive compensation to customer metrics.

"Getting marketing on track for improving the customer experience," notes Gilleland, "will require organizations to sew together the seams separating marketing resource allocation, marketing initiatives and their measurement, and contribution to the bottom line. Never forget that running through this entire 'fabric' are the 'threads' of individual customers and their experiences with your company."

Optimize marketing investment

"It is axiomatic that marketing resources are limited," states Gilleland. "Therefore, the optimization of marketing planning and investments is the new battleground on which the war to improve the customer experience will be won or lost." Today, however, few companies are good or excellent at measuring and managing marketing campaign ROI (41 percent), marketing mix ROI (30 percent), lead generation ROI (27 percent), according to the *Customer Experience Maturity Monitor* research.

The process of optimizing marketing investment requires weighing insights from primary marketing research, syndicated consumer goods sales data, and advertising reach and frequency information, among others. Historically, it has been an arduous activity, guided more by personal experiential judgment than by professional empirical examination. Today, however, advanced analytic tools allow marketers to more clearly and correctly understand how sales and profits are impacted by various configurations of marketing spend, and to conduct 'what-if' forecast simulations based upon changes in the customer or competitor landscape. "The proliferation of media channels, promotional and pricing options provide marketers with infinite combinations to manage at the market and customer level," according to Gilleland. "To manage this complexity, marketers are leveraging mathematical solutions such as Marketing Resource Management to improve decision making and marketing ROI."

survey verbatim

"We stress that 'garbage in' is 'garbage out.'"

Learn and improve

"You can't have a relationship with an individual, if you don't know or remember much about that person," states Rogers. "In the absence of knowledge, a customer is a mere contact rather than a valued client." Customer knowledge comes from the active process of learning, involving: paying attention to what is important to the customer; retaining, organizing and updating that information; and making it accessible across the enterprise to allow the customer experience to be improved.

Customers are people, whole and complete by nature. Unfortunately, customer data often is not—across departments or functions within a company, it is disperse and separate. The opportunity to deliver a coherent and well-crafted customer experience under such circumstances is limited. For example, as documented by the *Customer Experience Maturity Monitor*, only 31 percent of companies rate their performance as good or excellent in capturing the expressed needs of customers during live interactions. Additionally, only 28 percent of companies are good or excellent at updating customer profiles to reflect customer activity (e.g., purchases) as well as outbound (e.g., campaigns) and inbound (e.g., call center) contact. Not surprisingly, therefore, even fewer (21 percent) are good or excellent at changing individual customer interactions based upon changes in a customer's profile.

survey verbatim

"We're learning as we go."

"This is a lost opportunity for two reasons: first, developing customer insight that is not available to your competition is a primary source of competitive advantage for companies; and second, all meaningful human relationships require continuous sharing of information in order to grow… and deeper relationships improve loyalty," states Gilleland.

Growing customer knowledge was a key challenge for marketers in 2008, according to the CMO Council.[8] In the absence of rising to this challenge, companies will continue to struggle with the delivery of excellent customer experiences—and, as a result, will continue to be hindered in their attainment of competitive advantage.

Customer Orientation

"Our philosophy has been to develop one-to-one relationships with our customers—on their terms."—*Survey Verbatim*

The capabilities and competencies that companies employ today in order to achieve excellence in delivering the customer experience encompass the themes of *insight*, *interaction* and *improvement*. There is, however, an additional component that supports and guides the company in this quest—namely, a *customer orientation* built upon trust and culture.

Trust

A customer's trust is a belief that the company has her or his best interests at heart and can be depended upon for respect, openness, tolerance and honesty.[38] Trust is essential for building authentic and productive customer experiences. If customers don't trust a company, then they will not perceive efforts toward delivering superior experiences as genuine nor will they believe that the company is seeking to sustain and grow long-term, mutually beneficial relationships. From the *Customer Experience Maturity Monitor* research, two key insights about trust emerged.

First, a company's *behavior* toward customer trust lags behind the company's *belief* in the importance of trust. While 76 percent of companies agree that customer trust is tied to the financial success of the business, only 60 percent consider how a proposed action increases or decreases customer trust when making decisions. For example, a CRM Manager at a manufacturing company acknowledged the problem by stating, "Our management does not focus enough on this issue."

survey verbatim

"If we really want customers to bring us more business and advocate for us, we need to demonstrate that we are acting like we know, look out for and reward them. Executing on this is what builds the trust."

Second, there exists a gap between a company's desire to have employees nurture customer trust and its deployment of capabilities to make it happen. Although 76 percent of companies motivate employees to treat customers fairly, only 62 percent provide the right tools and training to earn customers' trust. For example, a Manager at a technology company commented that "You've got to motivate, you've got to communicate with those employees so that they don't lose sight of the human being that is their customer"; and a Vice President at a different company summarized the challenge by saying, "You can't ask your employees to treat the customers any better than they are being treated themselves."

In summary, a *philosophy* of trust exceeds a *practice* of trust for many companies today. Under these conditions, a company's likelihood to create excellent customer experience is diminished—together with its chance to achieve competitive advantage.

survey verbatim

"It comes down to the trust issue, and having employees know that you trust them to make good decisions."

Culture

For a company to successfully earn the trust of its customers, there must exist a vibrant culture within the organization that recognizes the importance of trust and enables and empowers employees to act upon that perspective. In the absence of such a culture, the goal of improving the customer experience isn't a commitment—it's a passing project.

Culture is generally recognized as the pattern of assumptions underlying how a group intellectually understands and emotionally feels about its world, developed and validated by its experience. It is persuasive and enduring. It is a 'lens' through which all problems are 'viewed' in order to find that solution that is both the most efficient and effective. More succinctly, "Culture is what you do when no one is looking," notes Rogers. From the *Customer Experience Maturity Monitor* research, two key insights about culture were identified.

First, with regret, short-termism is alive and well. Only 42 percent of companies agree that they can do what is right, despite the pressure to make current-period financial numbers. "It is quite difficult to build and sustain a customer-oriented culture and to invest in developing and improving the customer experience if there is not a solid balance between the needs of the short term and the reality that the long view enables long-term business success," explains Rogers. For example, a Senior Vice President at a financial services institution expressed the challenge this way: "As a business, we are focused on the short term, but I try to develop metrics that show the trade-offs and build a longer-term perspective."

Second, the key precept for creating successful customer experiences—namely, treating different customers differently—isn't necessarily done by all companies. Customers clearly differ, and orchestrating an effective customer experience must be guided by a recognition of those differences. Consider that only 60 percent of companies treat different customers differently, based on an understanding of individual needs. It is important, because needs represent the 'why' behind the 'buy,' and knowledge of customer needs allow companies to craft more relevant customer experiences.

In summary, the presence of customer orientation—trust plus culture—within a company makes a difference: those with strong levels of customer orientation are much more likely to enjoy a competitive advantage than those with weak levels (72 versus 54 percent—see Figure 4). Together with having the capabilities and competencies for customer *insight*, *interaction* and *improvement*, getting *customer orientation* right means a better competitive advantage.

Figure 5: **Where Companies Succeed—and Where They Need Improvement**

Across the dimensions of customer insight, interaction and improvement, listed here are the facets of customer experience performance for which the largest (or smallest) percentage of companies are good or excellent. In examining the facets at which companies succeed, measurement emerges as a common theme. In contrast, the struggles highlight the challenge of executing the customer experience at the individual level.

Source: *SAS Institute, Inc. and Peppers & Rogers Group*

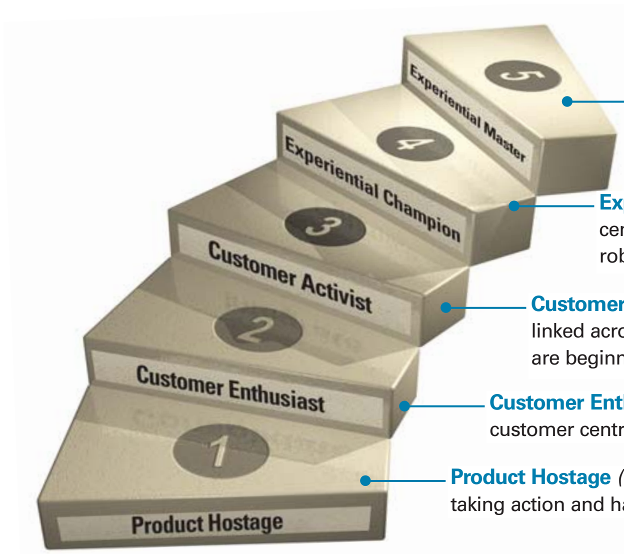
It’s a Journey

“I look at where the journey has taken us over the last six years and it is an unfolding onion. The strategy has gotten richer and deeper and broader, and though a lot of the original steps we took had it right, the scope of it has probably been surprising in terms of how extensively this will probably permeate the entire organization.” —*Survey Verbatim*

Achieving excellence in the design and delivery of the customer experience requires superior capabilities and competencies encompassing customer *insight*, *interaction* and *improvement*. Getting to the goal is a journey through a progression of five known and fixed sequential steps (see Figure 6), starting from a product-focused business model and ending with a customer-centric business model that is designed to deliver long-term profitable relationships with those customers that matter most.

Figure 6: **Customer Experience Maturity Model**

In the maturation of their customer experience excellence, companies progress along a continuum ranging from product centricity, to customer focus, to experiential mastery.



Experiential Master *(optimized)* Customer experience is a primary source of competitive advantage. Continuous customer learning and improvement is automated and optimized.

Experiential Champion *(mature capability)* Enterprise customer-centric strategy is well established. Customer insights are robust and predictive.

Customer Activist *(developed capability)* Customer data is linked across all products and touchpoints. Customer insights are beginning to impart customer knowledge.

Customer Enthusiast *(limited capability)* Early signs of customer centricity are surfacing.

Product Hostage *(no capability)* Organizations are not taking action and have no capabilities to do so.

Source: *SAS Institute, Inc.*

Customer Experience Maturity Model

Level 1: Product Hostage. Companies at this level are primarily product driven. For instance, individual customer data is not necessarily collected, coordinated and distributed across lines of business or the enterprise. As a result, the company is unable to consistently identify customers across touchpoints and channels over time, and this lack of customer knowledge prohibits the company from efficiently and effectively treating different customers differently. Organizationally, there is a lack of clarity concerning the ownership and management of customer relationships.

Level 2: Customer Enthusiast. Companies at this maturity level show early signs of customer centricity, including collecting and connecting customer data across some products and touchpoints within one or more lines of business. However, this discipline has not yet become prevalent across the entire enterprise. Customer profiles most likely contain only basic descriptive information, and customer metrics remain rudimentary.

Level 3: Customer Activist. For customer activist companies, a holistic view of the customer has emerged, encompassing cross-product transactions and cross-channel interactions throughout the enterprise. As a consequence, the company is now able to successfully implement analytic investigations to derive both descriptive and predictive customer insight, including the establishment of a consistent set of customer metrics computed at the individual level. Customer communications are increasingly customized to enhance their relevance by addressing known needs, and the resulting business benefit is beginning to be measured and acknowledged by the organization.

survey verbatim

"Throughout the organization the customer experience management strategy is very uneven, inconsistent—some areas do well with it, others do poorly."

Level 4: Experiential Champion. Companies at level 4 possess robust customer data management processes and sophisticated customer insight practices. The emphasis has progressed beyond customer centricity to encompass experiential depth and breadth. Additionally, the predictability of customer-experience performance has been enhanced through the use of statistical process-control methodologies.

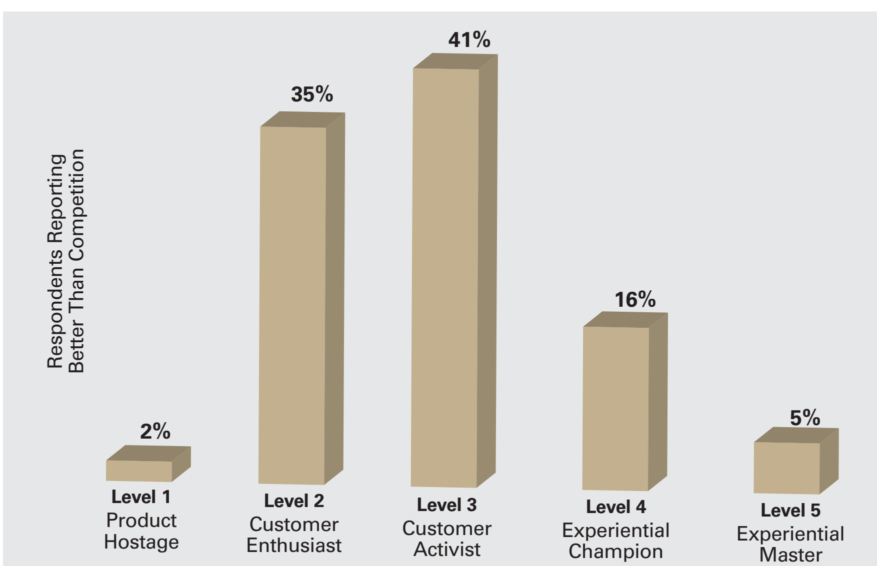
Level 5. Experiential Master. These rare companies are distinguished by a dedication to improving customer experience process performance through both incremental and innovative technological improvements, coupled with an empowered work force that is aligned with the business objectives and the company values. Quantitative process improvement objectives for the organization are established, continually revised to reflect changing business objectives, and used as criteria in managing process improvement. For such companies, the successful management of the customer experience is now a continuous, real-time reality.

Customer Experience Maturity Distribution

To examine the dispersion of companies along this maturity continuum, data from the *Customer Experience Maturity Monitor* research was used to compute a subscore on the dimensions of

Figure 7: **Customer Experience Maturity Distribution**

The distribution of companies along the levels of the Customer Experience Maturity Model shows that few have progressed to the experiential champion or master levels.



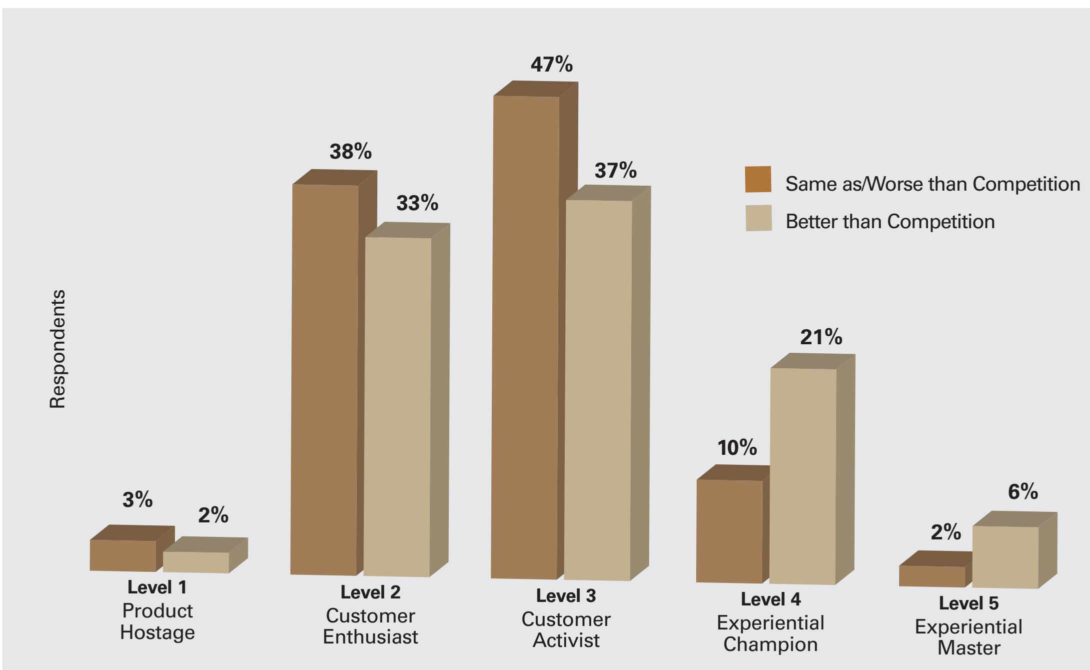
Source: SAS Institute Inc. and Peppers & Rogers Group

insight, *interaction* and *improvement* by averaging the performance ratings of the applicable questionnaire items and rounding to the nearest integer. The rating scale consisted of the following points: "my company does not do this at all," "my company does a poor job in this area," "my company does a fair job in this area," "my company does a good job in this area," and "my company does an excellent job in this area." These subscores were averaged, rounded to the nearest integer (1 to 5) and mapped to one of the five maturity levels (1 = product hostage, 2 = customer enthusiast, 3 = customer activist, 4 = experiential champion, and 5 = experiential master). The resulting distribution is depicted in Figure 7.

This analysis highlights that most companies today are at an intermediate stage along the customer experience maturity journey, residing either in the customer enthusiast or customer activist levels. This is critically important, because when companies move beyond this point to become experiential champions or experiential masters, they are more likely to enjoy competitive advantage. Advancing along the continuum isn't just nice—it is necessary for each and every business seeking to outdistance itself from its competitors (see Figure 8).

Figure 8: **The Customer Experience Advantage**

As companies advance along the levels of the Customer Experience Maturity Model, the likelihood of securing competitive advantage increases. For Experiential Champions, the competitive experience advantage is twofold; and for those at the Experiential Master level, the advantages increase to threefold.



Source: SAS Institute Inc. and Peppers & Rogers Group

Customer Experience Maturity Monitor

Try This Tool

Want to get ahead of the competition? Use this tool, derived from the *Customer Experience Maturity Monitor* research findings, to spur success. It is based upon a select subset of customer experience competencies and capabilities known to characterize companies that are outperforming their major competitor.

STEP 1

To see where your company stands, use the scale below to rate each of the following 10 aspects of *insight*, *interaction*, *improvement* and *customer orientation* to reflect your company's current level of performance:

PERFORMANCE	RATING
My company does not do this at all or does a poor job in this area	-1
My company does a fair job in this area	0
My company does a good or excellent job in this area	+1

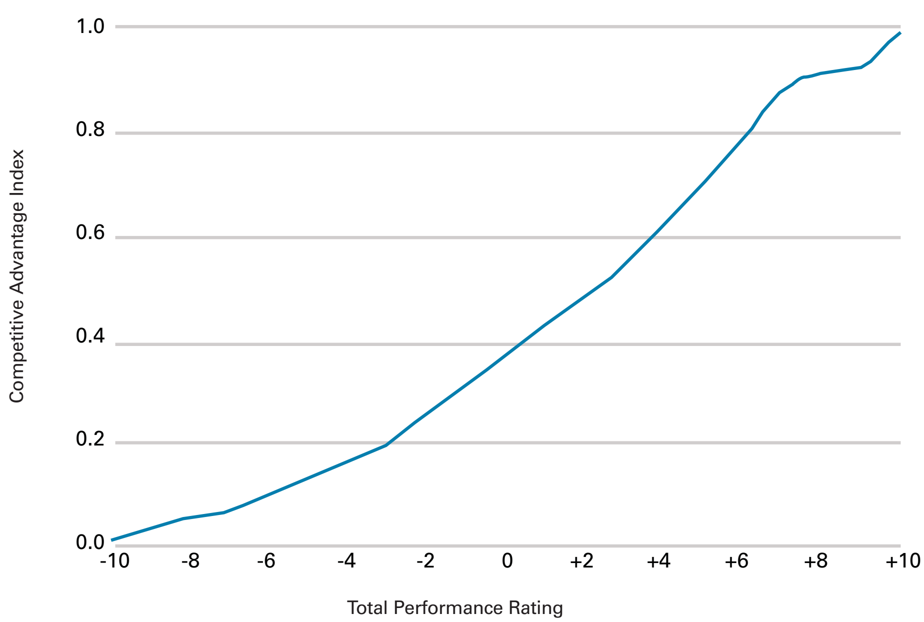
	RATING
Customers can self select channels for specific activities	
In my company, we can do what is right despite the pressure to make our current-period numbers	
Special experiences (e.g., personal Web pages) are created in response to customer preferences	
Customer attitudes and perceptions (e.g., satisfaction, loyalty, etc.) of the company are measured and reported	
Customers' purchase behaviors are anticipated and predicted (e.g., likelihood to purchase or cancel or leave)	
Customer satisfaction or other measurements of customer affinity are Key Performance Indicators (KPI)	
Customer metrics (e.g., profitability, campaign response, channel behavior) are used to measure organizational performance	
Marketing campaign ROI is measured and managed	
Customer metrics (e.g., profitability, campaign response, channel behavior) are used to measure individual performance	
Customers can choose the manner in which they are contacted by the company	
TOTAL	

STEPS 2 & 3 ►

STEP 2

Add the ratings across the 10 items to yield a total performance rating, and using the Competitive Advantage Curve depicted below, locate the rating value on the bottom horizontal axis, find the point on the curve directly above that location, and read the Competitive Advantage Index value from the left vertical axis. For example, a total performance rating of +4 corresponds to a Competitive Advantage Index of approximately 0.6.

Competitive Advantage Curve



STEP 3

Use the following table to interpret your Competitive Advantage Index value.

COMPETITIVE ADVANTAGE INDEX	INTERPRETATION
0.0 – 0.4	Company is at risk of underperforming competition
0.5 – 0.6	Company is likely to be at competitive parity
0.7 – 1.0	Company has potential to outperform competition

Source: SAS Institute Inc. and Peppers & Rogers Group

Conclusion

"You need to be a cheerleader for it all the time. You can't underestimate the importance of reinforcing the message and seeing everything you do through a customer filter." —*Survey Verbatim*

First and foremost, this research has documented what has long been suspected: namely, a company's customer experience maturity impacts its likelihood of achieving competitive advantage. In a world where sustainable success is increasingly elusive, focusing upon the creation of superior customer experiences is the best strategy. With this research in hand, companies now have a solid business rationale for strategically concentrating upon the customer experience.

However, the quality of the capabilities and competencies used by companies to deliver the customer experience is infrequently good or excellent.

Insight: Only 20 percent of companies rate their management and use of customer information from all areas of the organization as good or excellent.

Interact: Only 23 percent rate the management of customer interactions across channels as good or excellent.

Improve: Only 35 percent view their skills in continuously improving marketing performance as good or excellent.

Customer Orientation: The performance of companies in the areas of trust and culture fall short (3.7 average rating on 5.0 scale).

survey verbatim

"Business in the U.S. really misses the fact that if you go the extra mile for the consumer, they will remember that and come back to you, and the lifetime value will be dramatically impacted."

As a consequence, the customer experience maturity of companies today varies widely, with only a minority (21 percent) having progressed to advanced levels. Under these conditions, the strategic opportunity may still exist for select companies to have a "first mover" or "early adopter" advantage based upon customer experience excellence.

In addition, companies agree with the importance of establishing a customer orientation to enable a focus on the customer experience, but many still struggle to make it real. Those that do it well not only realize benefits in the short-term, but also position the company for enhanced long-term success.

The choice remains. Actively achieve marketplace advantage by concentrating upon the customer experience, or passively watch what happens to your business while your competition strengthens its relationship with customers—its own, as well as with those that were formerly yours. ■

Customer Experience Maturity Monitor

Research in Brief

The *Customer Experience Maturity Monitor* employed two distinct but complementary approaches: qualitative research, to directly hear the voices of marketers and listen to their strategies, successes, and struggles; and quantitative methods, to explore specific hypotheses concerning the topic of customer experience.

The qualitative research consisted of structured telephone interviews with a duration of one hour each, primarily gathering information about: the participant's job and characteristics of her or his company; how the company builds trust with both its employees and customers; the company's customer experience management strategy; the company's key customer touchpoints; the collection, organization and use of customer information; the measurement of customers' experience with the company; the tension between short- and long-term perspectives within the company; and the effectiveness of the company's customer experience strategies and practices. Data were gathered from 45 participants from June 6 through July 30, 2008.

The quantitative research was implemented using an online questionnaire, designed to require no more than 15 minutes to complete, and was deployed from July 25 through August 19, 2008. The primary topics about which data were gathered included: the participant's job and characteristics of her or his company; the company's customer strategy; the company's performance and investment activities related to the management and use of customer information/insight, customer interactions, and the improvement of the customer experience; and a self-reported assessment of the company's performance relative to its major competitors. To qualify as a respondent, two criteria were assessed: involvement in making decisions about the company's marketing activities, customer interactions or channel strategies; and annual company revenue for 2007 of at least USD$100 million. A total of 182 respondents met both criteria together with data quality checks, and were included in the analysis.

The companies collectively represent a broad mix of industries, including both business-to-consumer and business-to-business as well as publicly traded and privately owned firms.

The sample for both the qualitative and quantitative research was drawn from customers and prospects of SAS, as well as subscribers and registered users to Peppers & Rogers Group media publications and BetterManagement.com. Individuals were generally Managers and Vice Presidents in the areas of marketing, analytics, and CRM.

Most participants in the research disclosed the name of their company. The caliber of these companies was noteworthy, including many industry leaders such as: AAA, American Century, AT&T, Harrah's Entertainment, Hallmark, Hewlett-Packard, Microsoft, Starwood Hotels, UPS and Wells Fargo—plus over 100 others. The companies collectively represent a broad mix of industries, including both business-to-consumer and business-to-business as well as publicly traded and privately owned firms.

All differences discussed in this white paper are statistically significant, with the probability of the observed difference occurring purely by chance being no more than 0.20 (and, in the majority of comparisons, substantially less). The implication is that the reported findings are not due to random variation arising from the sample of respondents, but likely reflect actual differences in the population of companies.

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Peppers & Rogers Group

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Research Team

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