Putting customer experience at the heart of next-generation operating models

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The benefits of improved customer experience can be fleeting unless changes to supporting back-end operations are made as well.

Digital is reshaping customer experience in almost every sector. Digital first attackers are entering markets with radically new offers, disrupting the ways that companies and customers interact and setting a high bar for simplicity, personalization, and interactivity.

To not only stay in the game but capture new sources of value, incumbents will need to reinvent their customer experience. That begins with bringing in data and analytics-based insights about what really matters to customers and how best to deliver it to them. Some companies fail to capture the full benefits of their improvement efforts because they concentrate on optimizing individual touchpoints rather than tackling the customer experience as customers actually experience it—a complete journey that cuts across multiple functions and channels.

The other imperative for companies is to explicitly tie the reinvented customer experience to their operations. If they focus only on the front-end experience and don't change the back-end operations that support it, the new experience is unlikely to be sustainable. Changes will be needed in both underlying processes and the way employees work.

Enhancing the customer experience can bring rich rewards. Across industries, satisfied customers spend more and stay more loyal over time. In banking, customers are seven times more likely to increase their deposits and twice as likely to open an additional account if they rate a bank as excellent (with a customer-satisfaction score of nine or ten out of ten) rather than average (six to eight out of ten). Similarly, pay-TV customers who rate their provider as excellent tend to stay with it for up to twice as long as they would a provider they rate as average or below (see sidebar, "About the research").

More broadly, the effect of customer satisfaction on total return to shareholders (TRS) is dramatic. If we compare the TRS of companies with above- and below-average customer satisfaction scores, the leaders achieve four times the growth in value of the laggards over a ten-year period, according to data from the American Customer Satisfaction Index and the Medallia Institute (Exhibit 1).

About the research

McKinsey conducted a survey of more than 5,000 US customers to analyze customer preferences and trends and understand what drives satisfaction in six major industries: banking, hotels, health care, health insurance, utilities, and pay TV. In banking, the team deepened the analysis by taking a sample of 18 financial institutions and seven retail products and surveying 10,000 respondents to understand their channel preferences and satisfaction with customer journeys. The team sought to identify the key drivers of satisfaction, pinpoint the journeys that mattered most to customer experience, assess their contribution to overall satisfaction, and compare each bank's performance across these journeys with that of peers and the industry as a whole.

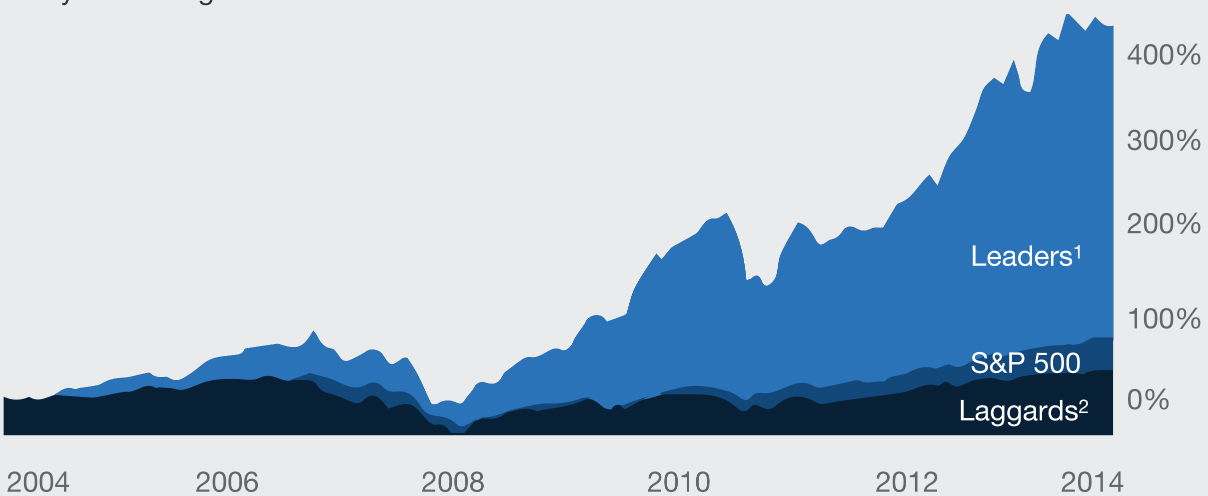
This article highlights two lessons to help companies capture the greatest value from improving their customer experience.

First, how do you find out what really matters to customers? Companies that excel at this do two things: they streamline their operations and take out cost, and they create new experiences and tap new sources of value. Many organizations simply take a "problem view"—treating internal processes as a cost that needs to be reduced, and looking for customer pain points that need to be eliminated. That's a good place to start, but if it's the only view, it misses out on the idea of creating additional customer value.

EXHIBIT 1 **How customer satisfaction correlates to total return to shareholders.**

Total return to shareholders for companies with above- and below-average customer-satisfaction scores / %

Ten-year value growth



[1]Companies with above-average American Customer Satisfaction Index scores within their industry
[2]Companies with below-average ACSI scores within their industry

McKinsey&Company | Source: Medallia

One insurance company invested time in deepening its understanding of the distress customers suffer when they have an automobile accident and make a claim. The insurer found customers were extremely dissatisfied with the lengthy process of filing a claim over the phone, especially the number of back-and-forth calls with the loss adjuster and the lack of transparency on the status of the claim. The insurer used this understanding of customer pain points to create a new mobile app that enables a claim to be filed within a couple of minutes, sends messages to update customers on the status of their claim, and provides real-time processing and cash payout. To create additional value for customers, the insurer went a step further and created a function that allows customers to make appointments with a repair shop directly via the app.

Another insurer, the start-up Lemonade, allows distressed customers who have lost property to submit a claim via a video message on their mobile phone.[1] The company reviews the message using anti-fraud algorithms, cross-references it against the customer's policy, and then transfers

1 https://blog.lemonade.com/2017/01/01/lemonade-sets-new-world-record/?utm_source=instantclaim&utm_medium=facebook&utm_campaign=firstinstantclaim&utm_content=pr_post

the appropriate funds to the customer's bank account. While these are still early days for the start-up, it is declaring speeds for processing claims in matters of seconds.

By showing empathy with customers and helping to fix their problems (and even delighting them in the process), companies like these can tap into a source of tremendous value, find new business opportunities, and shift their operating model over time.

Once a company has found out what its customers value, it faces the second big question: how do you link customer experience to operational improvements? Most organizations manage operations, track performance, and measure customer satisfaction along functional lines. Yet the best way to tackle customer experience is to follow it from the customer's point of view, along a journey that cuts across functions and channels. That's because customers frequently use multiple channels to interact with their service provider, and need multiple interactions to complete a transaction.

Imagine you are a customer trying to resolve an issue. You may need to visit a retail outlet, phone a call center, visit a website, use an app, or any combination of these. Exhibit 2 shows that even if you are satisfied with each of these interactions individually, rating them at 85 to 90 percent, your satisfaction with the whole customer journey from beginning to end—calculated as the product of all four interactions—can still be low, just 60 percent in this case. To create a great customer journey, you need more than great touchpoints.

Understanding what matters—and what doesn't

Before rethinking your customer experience, look first at your product, price, service, and brand. If a product is unreliable or its price is too high, not even the most delightful customer experience will redeem it. Once these essentials are in place, work out which journeys matter most to customer experience and assess how you perform in each one so that you can prioritize what to fix to get the most impact from your improvement effort.

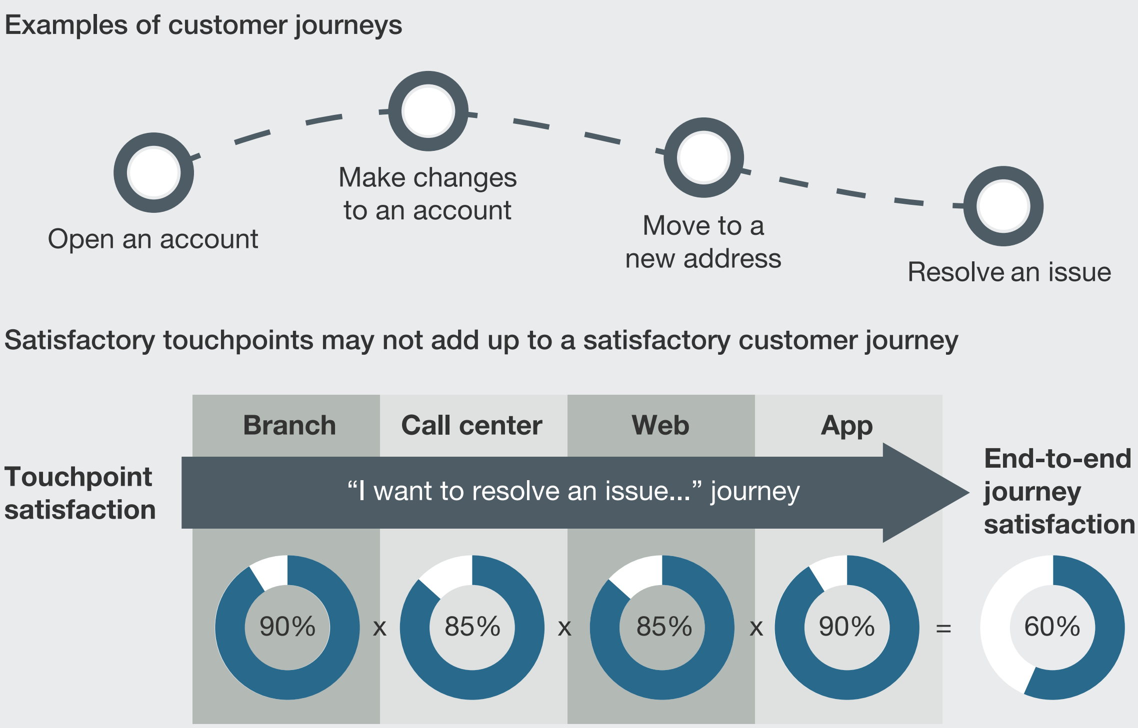
Banking is one industry where customer experience offers enormous scope for differentiation. We analyzed the main customer journeys at a sample of US financial institutions to expose "choke points" where banks consistently underperform and explore opportunities to address them (see sidebar).[2] We calculated how much each customer journey contributed to overall satisfaction and found that the most critical journeys were using a product or service (which contributed 23 percent to customer satisfaction) and resolving problems (20 percent). Onboarding new customers—signing up, setting up services, and opening new accounts—was also extremely important (Exhibit 3).

Our research indicates that US banks as a group underperform on customer satisfaction for the two journeys that matter most: product use and problem resolution. The journeys for signing up and opening a new account also rank among the worst, often requiring customers to enter vast quantities of data and navigate numerous application forms and fields.

2 For a summary of findings from our European research effort, see Joao Dias, Oana Ionutiu, Xavier Lhuer, and Jasper van Ouwerkerk, "The four pillars of distinctive customer journeys," McKinsey & Company, September 2016.

EXHIBIT 2

A customer journey can score low for satisfaction even when individual touchpoints perform well .



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A successful improvement effort begins not by taking an existing portfolio and digitizing it wholesale, but by radically simplifying both the customer experience and the product or service at its heart. One telecom provider reduced its product portfolio by 80 percent before streamlining its digital experience and supporting platform. After rationalizing its offerings, eliminating some process steps, and using readily available tools to automate others, it managed to cut its sign-up time for new customers by two-thirds.

Resolving problems is an area that many customer-facing businesses struggle to get right. Given self-serve options and simple guidance, customers can often fix problems for themselves, but companies don't always provide enough of this support, or communicate it clearly enough when they do. Another stumbling block is having customer care that mimics a company's broader organizational set-up, complete with product silos. Customers dealing with a credit-card issue and a mortgage issue can often experience two entirely different processes at the same bank, and find themselves being transferred from one function to another because each group can help with only one aspect of their problem.

When companies rethink their customer experience, digitization allows them to work backward from what customers would like to see instead of getting bogged down in incremental improvements. This clean-sheet approach encourages greater ambition, not shaving 20 percent off the time it takes to open an account, say, but slashing it by 80 percent or more. When one major North American bank revamped its deposit-account journey, it managed to reduce the time from sign-up to working account from two weeks to less than ten minutes.

Eliminating problems or saving customers—and the business—time and effort is only the beginning, though. Much more value can be created when we understand what else we can do to satisfy an unmet need or spark delight. To do that requires working much more closely and directly with customers: observing them during interactions, asking how they are feeling, and mapping their emotional state at every touchpoint in the journey.

The insurance company mentioned earlier found that taking care of an anxious customer who had suffered an auto accident was a great opportunity to make a friend, build loyalty, and reduce claims payouts by recommending preferred repair services. In an industry where differentiation is hard to achieve through products alone, providing a turnkey service that spans the whole process from identifying the cause of damage to finding a repair provider to paying the bill proved to be a valuable new business opportunity.

Linking journeys to operations and value creation

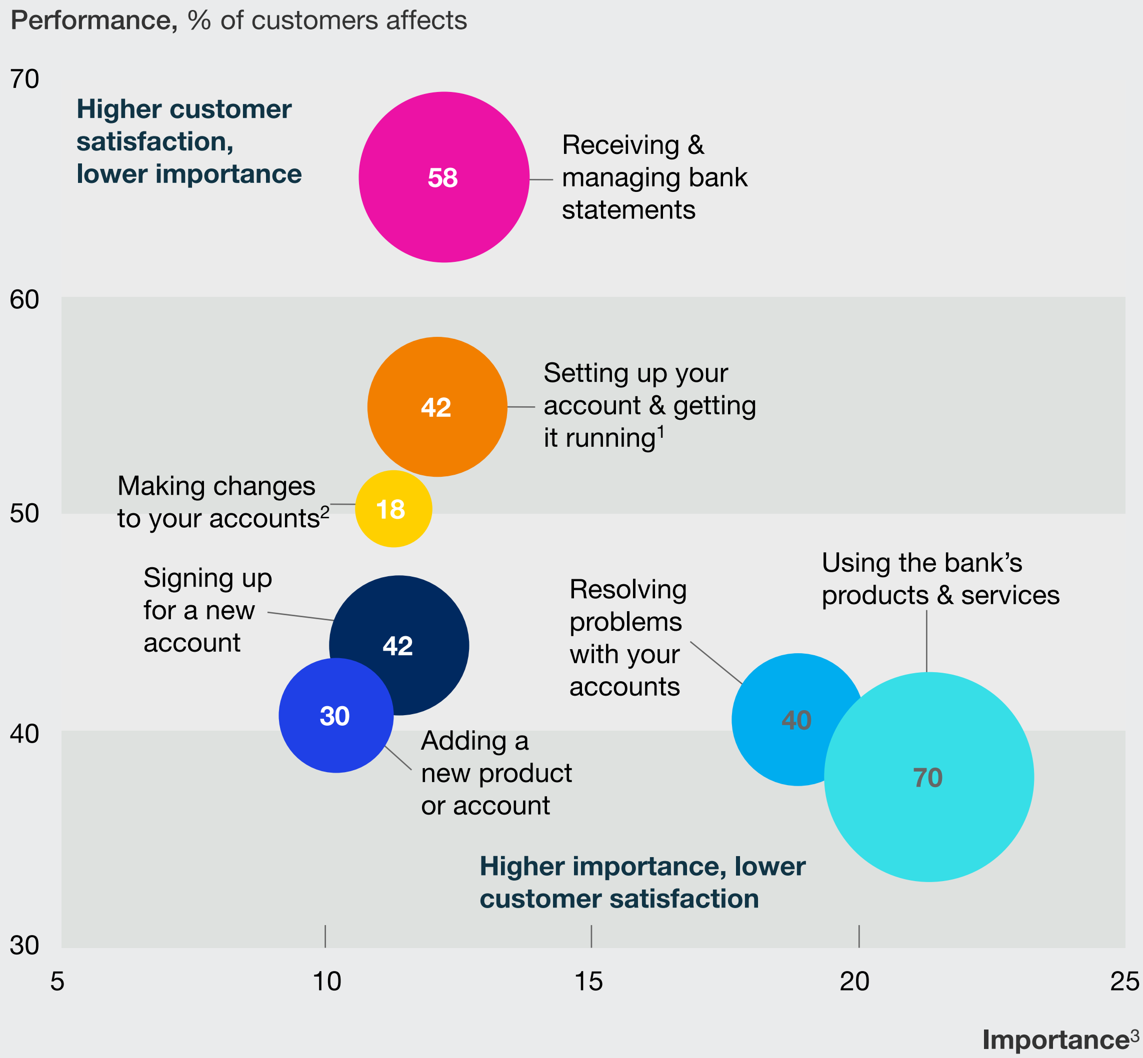
Digital innovation and user feedback provide a catalyst to simplify products and customer experience, but to capture economic value, you need to take a further step: link the new experience to underlying operational processes. That requires an understanding of two things: what creates value across a given journey from the customer's point of view (faster cycle time, personalization, cross-channel functionality, and so on) and what drives business costs and revenues (number of manual touches, extent of customer fallout, additional product sales, and so on).

When businesses are trying to see journeys as customers see them, it can be hard to shake off a frame of mind that revolves around internal processes, structures, and KPIs. It may take a deliberate effort to stop thinking "this change might be difficult to implement" or "that cost has to be reduced" and start thinking what the customer wants instead. Small changes can help to create the right mind-set, such as the insurance company's decision to stop referring to customers by their claims numbers.

Describing journeys from the customer's perspective—"*I* wait in line" or "*I* receive a bill"—is also helpful in exploring what can go wrong and how to put it right. When an airport realized that customers queuing for security checks often worried they might miss their flights, it introduced new signs giving a rough indication of waiting times. Another company investigating customers' experience of repairs found they preferred knowing when a technician would arrive to having a shorter wait with more approximate timing. This insight led the company to improve its control

EXHIBIT 3

Customer satisfaction is low for the journeys that matter most.



[1]Setting up online banking, creating automatic bill payments, ordering checks
[2]Changing address or name on account, for example
[3]Relative weight against customer satisfaction

over scheduling and start tracking the whereabouts of field staff in real time—which in turn meant investing in GPS and dynamic dispatch technology, overhauling staffing levels and costs, and rethinking the operating model.

In our survey of US customers, we also investigated which parts of banking journeys had the biggest impact on satisfaction, and how well banks performed in them. In the sign-up journey, for instance, what mattered most to customers was the smooth completion of the application, followed by the availability of information to help in choosing and comparing products and services; the choice of products and services; the ease of understanding interest rates, account fees, and other features; the simplicity of signing up online; and finally knowing the customer representative and the quality of his or her service. Among these factors, customers tended to be most satisfied with the availability of information and least satisfied with the ease of signing up online.

As well as scoring poorly for customer satisfaction in general, sign-up is also the journey that exhibits the widest gap between top performers and the industry average. Leading banks make it easy and quick, like the bank mentioned earlier that enables customers to open a functioning deposit account in under ten minutes. Any bank seeking to improve its sign-up journey should diagnose how its performance compares with industry benchmarks, customer expectations, and best practices within and beyond the industry. Then it can focus its improvement efforts on the drivers that should deliver the most impact.

Delivering a great customer experience calls for disciplined execution and consistent service delivery. By analyzing customer journeys, companies can pinpoint the operational improvements that will have the biggest effect on customer experience. In the example illustrated in Exhibit 4, a North American bank examined how satisfaction among deposit-account customers was affected by the time it took to apply for an account, activate it, and receive the account card.

If applications took more than 20 minutes to complete, the net promoter score (NPS) declined; if activating the new account took more than a day, or receiving the debit card and PIN took more than five days, the NPS fell sharply.

An understanding of break points like these helps companies focus their operational improvements and target their investments pragmatically, without reaching the stage of diminishing returns. Once the desired operational improvements have been identified, organizations can implement them by activating five key capabilities and approaches from their next-generation operating model:

1. Digitization: the process of using technology to automate and improve journeys directly.

2. Advanced analytics: the autonomous processing of data using sophisticated tools to discover insights and make recommendations.

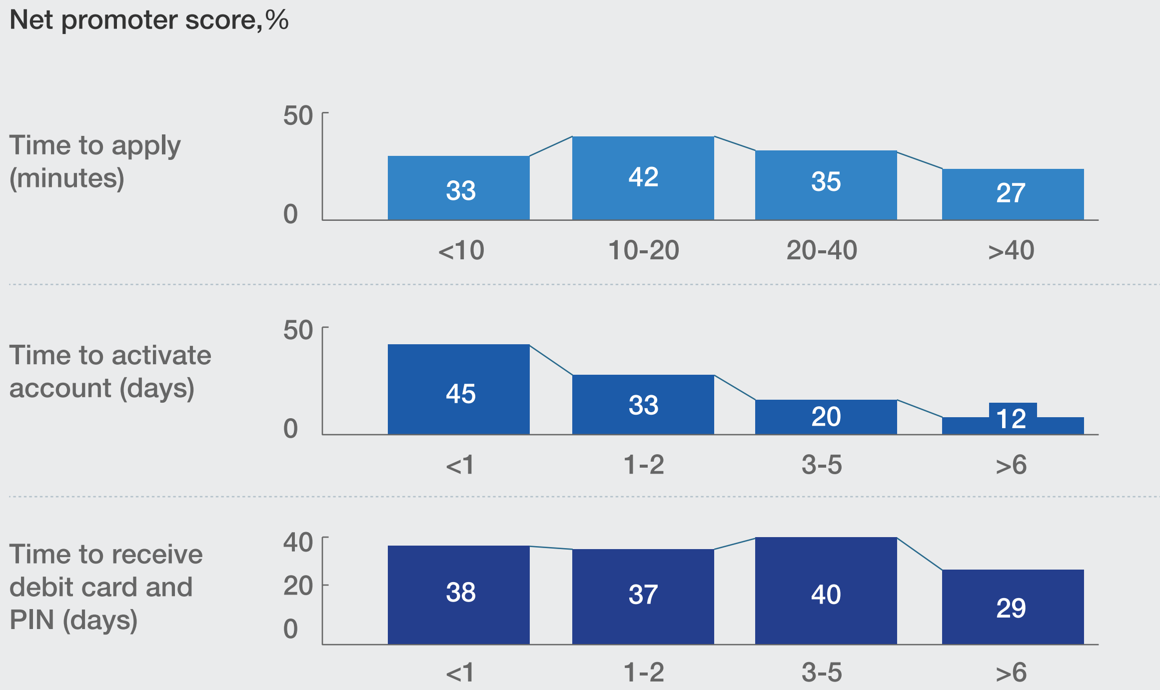
3. Intelligent process automation: a suite of business-process improvements that combines process redesign with automation and machine learning to eliminate repetitive routine tasks.

4. Business-process outsourcing: using resources outside the main business to complete specific tasks of functions.

5. Lean: a systematic approach to streamlining processes, eliminating waste, and fostering a culture of continuous improvement.

EXHIBIT 4

How operational drivers affect satisfaction for customers opening a new deposit account.



Source: McKinsey customer experience benchmarking, banking, Canada, Fall 2016

For more on this topic, see "The next-generation operating model for the digital world," on McKinsey.com.

Bringing it all together

How much companies can achieve by redesigning customer journeys is demonstrated by a leading global bank that sought to improve its customer-satisfaction ranking from average to top three in three years. To identify priorities, the team worked out how much value could flow to customers and the bank if various journeys were reimagined and digitized. It determined that onboarding journeys for all products were of most value, followed by credit-card journeys involving disputes, issuance, and fraud handling.

The work began with the transformation of just one credit-card onboarding journey. As the organization gained experience, the next wave included onboarding journeys for two products, with four in the wave after that, and so on. The choice and sequencing of the journeys to transform were always linked to value creation. Over the course of three years, and after the transformation of multiple journeys, the bank was able to boost its customer-satisfaction score by 25 percent and generate $1 billion a year in additional customer spending from its credit-card business.

As the other articles in this collection will show, much of the value of digitization comes from the way it helps organizations address multiple elements that work together to create a customer journey—not just the customer experience itself, but all the operational processes that underpin it. Our advice is:

- Start with a clear understanding of what customers value and use it to decide where to focus (and what to deemphasize).
- Guided by these priorities, simplify and streamline your underlying product and services; if you don’t, you’re likely to digitize existing complexity.
- Link customer value to the operational drivers that underpin it, then design a new operating model based on these linkages, working back from the customer and using digital tools to streamline or automate your processes in line with what customers care about.
- Tackle the most important customer journeys one by one and support the effort with operational changes to improve efficiency and speed.
- Embed agile, cross-functional ways of working and reengineer your management system to support continuous improvement.

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Organizations that take these steps can turn customer experience into a source of delight for customers and a new and sustainable source of differentiation for themselves.

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