



When Customer Experience Pays Off

The Benefits That Accrue When Executives Measure the Total Customer Experience

aces™





...how does an executive know that the firm delivers exceptional customer experiences?

We all know that great customer experiences lead to good things. Consider the online retailing pioneer, Amazon.com. Started in the early 1990s to offer the "Earth's Biggest Selection" of books, CDs, videos, DVDs, electronics, and more, it has grown to become a household name that today boasts \$19B in revenue and a 18% YOY growth rate. Nearly everyone has their own Amazon story to tell. Yet most of us would agree that Amazon's reputation is not based upon any specific product line of its own. Amazon's success comes from the breadth of products available for order and from its highly efficient service.

How does Amazon do it? It has one of the world's most powerful IT environments devoted solely to order taking and fulfillment. And

Amazon surrounds those functions with all sorts of customer experience focused capabilities. When you visit the Amazon website it recognizes you and recommends products based on your past purchases. It has a dynamic catalog and pricing, retains your credit information if you want it to, lets you review your orders and shipment status, and so on.

In his landmark Journal of Marketing research article "Customer Satisfaction and Stock Returns Risk," linking customer experiences and company valuation, Sundar Bharadwaj, associate professor of marketing at Emory University's Goizueta Business School stated in a Knowledge at Emory publication(1):

"The argument of the paper is that if I'm satisfied with the firm as a customer, I tend to be loyal and I tend to buy more from the firm. The firm has a richer understanding of my needs so they can more efficiently sell to me, which lowers their costs," explains Bharadwaj. "They can plan their internal operations given that they understand me very well. That could lower their costs. I'm less prone to switch to other companies even if other companies come up with better offers. So, I stay with this firm and work with them."

Which begs the question – how does an executive know that the firm delivers exceptional customer experiences? And if experiences are falling short, how do you recognize and address the problems?

Perfect Order Isn't Enough...

Companies in order management and distribution businesses already have some form of delivery performance metrics in place, but typically these measures fall into the "perfect order" realm – Did I ship a complete order on time? Although metrics like these say a lot about

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physical shipment processes, it doesn't tell us much about what customers experience. For example, an order may have shipped on time, but a customer may end up waiting longer than necessary because the package missed the carrier cutoff times and now must wait through a period of weekend inactivity. This shipment may be more expensive too, because of the freight class selection – arriving at the same time, but costing more. Equally important, poor integration of systems means the order may have required costly, time consuming manual handling because of missing data or it may have experienced significant lag time due to batch and overnight integration between disparate systems.

Indeed, a pioneer in the field, Dr. Gerald Zaltman author of *How Customers Think: Essential Insights into the Mind of the Market* made this point:

“The tangible attributes of a product or service have far less influence on consumer preference than the unconscious sensory and emotional elements derived from the total experience.”

In other words, customer loyalty is more a result of how customers feel about the overall experience they receive than what they rationally think about your products or services. Executives unable to measure and understand the totality of the customer experience are at far greater risk than those who can.

Understanding the complete customer experience requires monitoring the customer experience from the customer's viewpoint - not from an internal one - through the entire order lifecycle. How easy is it to order and how long it takes to receive the product? It's equally important to analyze how the technology foundation either enables or hampers the achievement of a perfect customer experience.

At Jagged Peak, we've taken these issues to heart and we've developed and use an advanced set of metrics we call ACES to measure customer experiences and the factors contributing to them. ACES allows us to see performance from the customer point of view and provides a tangible set of metrics for business accountability.

*The **ACES** model measures the customer experience you deliver by quantifying the performance of your order taking and fulfillment processes and the Enterprise applications supporting it.*

There are three lenses to look through and measure to help understand and manage customer experience performance.

- **The Customer Lens** - This measures the performance of the business processes and tools customers use during the order placement activity. It measures things such as the rate of returning customers, abandoned shopping carts, and when orders go wrong and customers require additional services, such as a product return.
- **The Fulfillment Lens** - This measures the physical aspect of the customer experience

ACES is based on the premise that every action, or lack of action, has a cost and can be linked to financial performance.

process – fulfillment operations. Did we make good decisions and get the product to our customer in the best possible time and at the lowest cost. This view measures business processes from the instant an order is placed until it is delivered to the location the customer designates – not just the placement with a carrier. It measures the total time customers wait to receive products ordered and total fulfillment costs.

- **The IT Lens** - IT is a necessary enabler of today's commerce and it requires rigorous measurement also. The IT lens is used to measure how effectively enterprise applications support order taking and fulfillment objectives and ultimately customer experiences. Too many companies don't recognize that there are numerous areas where powerful IT capabilities just can't deliver the right customer experiences. Overnight batch jobs that can add days not hours to turnaround cycle times, ERP class applications that can't handle credit cards and so require a whole set of manual processes, incomplete data that requires human intervention to fix orders, to name a few. Information latency and visibility are huge contributors to business performance and require ongoing measurement.

The bottom line? Your organization, regardless of customer fulfillment model – e-tailer, B2B, service provider, or distribution firm- must strive for:

- An easy ordering experience – with no errors
- Zero information latency
- On time delivery and minimal customer wait time
- An ongoing relationship with the customer that keeps them coming back

Achieving Customer Experience Superiority Pays Back In a Multitude of Ways

No business initiative is undertaken without a return on the investment, especially customer sentiment analysis. Historically, customer experience measurement has been underfunded (or neglected entirely) because many think that it offers mostly anecdotal evidence and intangible paybacks. ACES is based on the premise that every action, or lack of action, has a cost and can be linked to financial performance. Each element of the ACES model connects to a real and tangible return and shows organizations how their specific aspect of the business contributes to improving customer experience and in turn, company growth and profitability.

Focusing on the Customer and the Order Experience

Let's face it - having an e-commerce site is not a novelty, everyone one's got one (or more) and the competition is tough. You can't merely point customers to your site – it has to be good. Regardless of whether your customer orders via a B2B call center, B2B order desk, or an online retail website, you must measure how effectively that ordering process is executed.

For example, today's online sites typically capture a plethora of detailed metrics that can tell a lot about what happened during the ordering process. Yet, despite the detail of these metrics, it's likely they aren't telling the story from the customer's viewpoint. But there are hints: A lot of abandoned shopping carts? Inaccurate catalog or pricing not presented? An ineffective site search capability? A tedious checkout? Inability to promise shipment times or costs?

Understanding customer wait time and its component metrics helps identify improvement opportunities and measure progress.

Professionals that optimize e-commerce sites (for example the folks at Marketing Experiments) will attest to improvements in order conversion rates in the ranges of 80 to 140 percent. No matter where you are on the scale of order experience, there is substantial upside when your ordering process works well:

- Reduced abandoned shopping carts- higher new visitor conversion rate
- Higher returning customer rate- repeat business
- Revenue growth
- Reduced order handling staff
- Faster new product launch and product pricing updates- reduced marketing overhead

Focusing on Fulfillment Excellence

While most companies point to their perfect order performance as evidence of good performance, a little digging often shows that these metrics and arbitrary cut-offs and collection methods are internally focused and self-serving at best. What's missing? Customer wait time. This metric, along with cost, is generally ignored by most perfect order measurements.

For example, on time shipment measures operational ability to ship orders within targeted time parameters, but it does not measure transportation time. Customer wait time on the other hand, measures the span across the entire fulfillment cycle, and is a more telling measure because of its importance to customer experience and loyalty. Understanding customer wait time and its component metrics helps identify improvement opportunities and measure progress.

Likewise, cost metrics are typically excluded from perfect order measures. Some costs that need to be considered and optimized: cost of warehouse operations, transportation cost (especially when compared to an optimum cost), and total cost of inventory, including holding costs.

The upside when fulfillment operations strive for a more customer and cost focused performance:

- Reduced transportation costs
- Reduced supply chain handling costs
- Ship from best location
- Optimized inventory positioning, reduced inventory levels
- Faster turnaround of orders- minimized customer wait times
- Improved cash flow

Focusing on the IT Foundation

Execution isn't possible without the right tools. Typically, IT provides integrated business applications for order taking and fulfillment process. The promises these systems make are impressive, but they have been lean on delivery. While executives think these systems can provide instantaneous global visibility to inventory, zero information latency delivery from "buy" click to staging of the order at the right DC, and great analytic tools, they don't.

In a perfect world, IT adds no additional time or cost to a customer order, but unfortunately, it often does.

Most companies rely on a plethora of complicated applications including externalized e-commerce websites and those of their third party transportation and distribution partner. As a result, IT relies on a set of even more complicated integration tools and processes to hold them together. All of this adds up to more possible pitfalls in the already difficult process of fulfilling your customer's expectations. Some typical culprits:

- Batch jobs that run at night – adding an additional day to your fulfillment cycle
- Inadequate data integration, such as missing prices, incomplete shipping fee information, or missing SKUs, that hamper e-commerce site execution and requires additional order handling or manipulation

In a perfect world, IT adds no additional time or cost to a customer order, but unfortunately, it often does. You need to know where and why. Your customers experience these factors every day and as a result you risk losing them to competitors. And it could be due to a variety of IT-based issues: frustration or incomplete data prevented them from ever ordering online, poor information available at your call center, or delays, backorders, or inaccurate billing drove them away after the order was placed. Either way, IT can cost you business.

The Cumulative Effect of Achieving Customer Experience Superiority

The cumulative effect of excelling at each area is to provide a superior experience for your customers - leading to longer term relationships, more repeat orders, and revenue growth. Likewise the efficiencies generated by a close focus on the time and execution areas provide a lower cost structure and improved profitability.



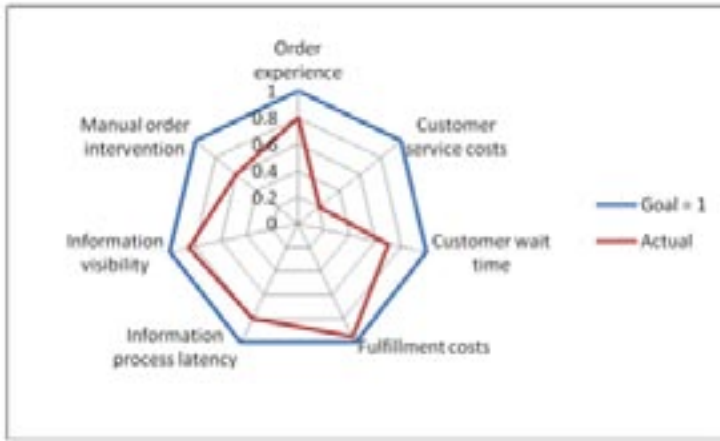
While on the surface this might all seem like apple pie and motherhood, many organizations simply can't accomplish it. The good news is that there is a new

well-defined, complete model that can be just the thing to catapult your organization to better performance – and a competitive advantage. That model is ACES.

ACES – A Holistic Measurement for Customer Experience

ACES (Achieving Customer Experience Superiority) is a new measurement model that, for the first time, measures each element of the entire order lifecycle and its impact on customer experience.

The ACES model measures the customer experience you deliver by quantifying the performance of your order taking and fulfillment processes and the enterprise applications supporting them. It provides a framework for rigorous examination of ongoing operations and identifies where to drill down to find the root causes of performance strengths and shortfalls. It allows organizations to review performance the way customers experience it so they can accelerate the kinds of improvements that earn customer loyalty.



A unique aspect of ACES is that, in many areas, especially fulfillment, it challenges the functional managers to derive optimum targets for their performance in the eyes of the customer. Likewise, these measures provide specific cause and effect relationships that can be acted upon.

It's Time to Move to This New and More Telling Metric

Like any good metric, as your ACES scores improve, customer experience and satisfaction will increase, either directly or indirectly. This relationship between improvement of a metric and improvement in stakeholder satisfaction can be significant.

ACES can be the visible link between true operating profit and your organization's actions – and strategic plans.

Improvement takes effort and resources. For there to be a payback, metrics must focus on significant gaps in performance, the things that can make a competitive difference and drive your organization to customer experience superiority and higher growth and profit. ACES can be the visible link between true operating profit and your organization's actions – and strategic plans. Indeed, the issue will not remain a back office issue either... As Sundar Bharadwaj, professor of marketing at Emory University's Goizueta Business School summarized in his Journal of Marketing report:

"The results of this study give compelling evidence that customer satisfaction is a vital component of a firm's performance and possibly worthy of more widespread public distribution. Companies need to start thinking about reporting customer satisfaction numbers in annual reports and other investor relations material." (1)

For more information about ACES and how Jagged Peak helps companies improve customer experiences, contact Vince Fabrizio at **1.800.430.1312 x-260**

<http://aces.jaggedpeak.com>

(1) Positive Feedback: Why Customer Satisfaction Means More than Just Happy Customers
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