Customer Experience
A boardroom topic

Don't dash Customer Experience first if things go different.

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1. Introduction

You can run a business and sell products or services without ever using the phrase Customer Experience, and yet it still happens. Customer Experience (CX) is the sum of each interaction a customer has with an organization and how they feel about it. That happens no matter what, and even more important, whenever the customer decides to do so, consciously and unconsciously.

The way to leverage CX in an organization is to understand that intentional, proactive, and positive CX leads to real results for any organization and any customer. But CX is still often seen as a soft skill or something that's nice to have but not 'really necessary'.

Imagine if an organization had one or two quarters where sales expectations weren't met. What if the board says, 'let's get rid of sales'. Odd, Absurd? There is a basic understanding that investing in sales means earning business results. So why is this not (always) the same for CX?

Although scholars have proven that investment in Customer Experience is worth it (Wetzels, 2023), why do 'we' have to convince ourselves, or the board, or investors or others that we keep investing in CX again and again.

2. Financial impact – a case for the board

As mentioned earlier in my first post on the relation between CX and business economics, literature suggests that Customer Experiences can lead to greater customer loyalty and secure future revenues (Fornell, 1992; Rust et al., 1994). Better Customer Experiences also help to reduce the cost of future customer transactions and acquisition. Furthermore, it will decrease price elasticity of demand and minimize the likelihood that customers will defect if quality falters (see Anderson et al., 1994).

Joel Maynes and Alex Rawson encapsulated the reason for the C-suite involvement in CX in a 2016 McKinsey & Co. article, in which they argue:

"Companies investing to improve the customer experience must be clearer about what it is actually worth and exactly how the improvements will generate value."

CX is not just for the CMO – it is a financial affair
With an overarching mandate to add value to the organization, the board has a positive obligation to support CX initiatives to inspire the loyalty of customers and increase their lifetime value. But it is often a challenge to mobilize C-suite support for new Customer Experience initiatives. In 2020 Harvard Business Review Analytic Services survey of 1,091 business leaders, 58% of respondents say the CFO and the finance function are players on their organization's CX team. That majority agrees that the finance function will be significantly involved in their organization's approach to CX over the next years.

Maybe this sounds new to you? But frankly speaking, it should make sense isn't. If we all agree CX will add value to the top & bottom line of an organization, a CFO should be receptive to every CX initiative.

Defining the value of CX and forecasting the return generated by improvement are tasks that lie squarely within the marketing and finance function's wheelhouse and should earn the CMO and CFO voice in any CX conversation. Ultimately, the board is responsible for measuring how far along the path toward true customer-centricity a company has progressed.

Don't dash CX first if things go different
The best organizations focus on CX in ways that lead to business outcomes. They do this by understanding:

- that CX is a growth mindset and should always be top of mind
- that CX is a strategy which provides business outcomes
- that CX requires business discipline and clear performance indicators

3. CX is a growth mindset - X-Led Growth Mindset
At the heart of this consumer-centric shift lies the notion of experience-led growth. This strategy revolves around placing the Customer Experience at the front and center of business operations. McKinsey introduced Experience-led growth as a strategy to define desired financial outcomes combined with prioritized CX improvements that will deliver that outcome.

According to McKinsey, growth outperformers are much more likely to know their customers personally, to have a compelling growth story to tell their employees and shareholders, and to use (predictive) analytics to deliver the right messages to the right customers at the right time. A clear focus on long-term growth makes them outliers, as most companies optimize for shorter-term profit. They observed that successful experience-led growth strategies - those that increase customer satisfaction by at least 20 percent - can deliver a range of significant financial benefits:

- Increase cross-sell rates by 15 to 25 percent,
- Boost organizations' share of wallet by 5 to 10 percent,
- Increase cross-sell rates, and
- Improve customer satisfaction and engagement by 20 to 30 percent.

X led Growth is not new
Experience-Led Growth is not new. It is built on the idea that the best path to profitability is to figure out what matters most to your customers. Experience-led Growth enables organizations to treat their unique Customer Experience as their key competitive advantage. This means proactively investing in and consciously building a distinctive customer experience across the whole customer journey.

Most Experience-led growth strategies are about jump-starting with customer loyalty, which is indeed an essential driver of sustainable business growth, but I argue that Experience-led growth strategies are not just about existing customers, it is about each individual interacting with your organization, new, existing, potentially to churn, or a potential new customer in the household of an existing customer.

4. CX is a strategy which provides business outcomes
Customer experience (CX) should be a central topic for boards of directors because it directly impacts a company's long-term success, profitability, and competitive advantage. In today's market, customers have more choices and higher expectations than ever before, making exceptional CX a critical differentiator. A strong focus on CX leads to increased customer satisfaction, loyalty, and advocacy, which in turn drives revenue growth and market share.

By integrating CX into an organizations long-term strategy, boards can drive significant business outcomes, including increased customer loyalty, improved financial performance, and a stronger competitive position. Therefore, CX should be a priority topic at the board level, guiding strategic decisions and investments to ensure enduring success.

Upstream Customer Experience
We can distinguish two levels of CX in an organization, downstream and upstream. Downstream is often seen as 'what most people visualize as customer experience, and involves advertising, promotion, brand-building, communicating and interacting with customers. While these activities are extremely important, they are primarily downstream in nature. In other words, they enhance the acceptance of a product or service that

already exists.’ It is about immediate strategies and tactics.

Downstream CX is what an organization does through its sales and marketing efforts to make money.

Upstream CX on the other hand, refers to the strategic process of identifying and fulfilling customer needs. This involves strategic, long-term activities that focus on defining a market, understanding market segments, identifying and studying customer needs and deciding on which target markets an organization should serve. It is about future building strategies and tactics.

At its most basic level, upstream marketing involves the identification of potential revenue sources. Charan (2004) and Martin (2013) argues that leaders should ask themselves the following questions when considering upstream CX:

- Where to play? (Which customers, market channels and broad product categories should we pursue?)
- How to win? (What is our value proposition? What is our business model? Which products and services address the area of opportunity?)
- How might we? (How might we solve the customers’ problems, improve their experience or revolutionize the marketplace?)
- What would have to be true? (What business metrics and resources are needed?)

Earley (2020) argues that ‘Upstream requires a longer-term investment and keen focus on performance management. It also requires delving into a different level of data−gaining deep customer insights and competitive intelligence by investing in research; understanding the principles of segmentation, positioning and differentiation; and distilling this into a strategy and plan for growth that is aligned to the business.’

5. CX requires business discipline and clear performance indicators

It’s worth noting that it is not easy to find the perfect CX performance indicator for your organization. Main reason is that CX is still seen as a nice to have and part of the marketing function in the organization. But it goes wrong when you untangle the construct of the different CX metrics.

Take Customer Lifetime Value (CLV). Customer lifetime value is a forecast of a customer’s net present contribution to a business over a set time frame. It tells managers how profitable customers will be given a set of conditions. It is a function of the terms contribution margin (revenue-variable costs), retention rate and customer acquisition costs. But contribution margin and retention rate are both functions of proposition ánd Customer Experience, whilst acquisition cost and retention rate are functions of marketing and proposition.

In other words, if an organization would like to influence this metric, the horizon needs to be broader than just marketing; it needs to include proposition, Customer Experience ánd Cost management (Peppers et all, 2006)

And what to think about Net Promotor Score (NPS). As NPS has gained in credibility over recent years there has increasingly been a top- down approach to using this measurement. NPS is extremely attractive to the board and management teams as it is a single number that appears, at least initially, to be linked to some significant KPIs. Yes, it provides a headline figure, but it does not provide the necessary tools for an organization to know what to do to influence the score. And let’s be honest, if an organization can’t do that what is the point of asking the customer for their opinion?

And, NPS has some other disadvantages:
NPS is only valid for customers, but does not provide information on non-customers or ex-customers
NPS does not reflect what is happening in the marketplace
NPS is a measurement that can be considered inward-looking.

As already mentioned by Peter Drucker (1954:37) in the early 50’s, an organizations reason for existence is primarily to satisfy the needs of customers who, if satisfied, will remain loyal to the organization. So, loyalty is only an indirect consequence of satisfaction and as such, NPS is ‘nothing more’ than the measurement of a byproduct of perceived value.

6. What to come next

As part of my ongoing research, I am conducting interviews with senior stakeholders to explore their perspectives on the relationship between customer experience (CX) and financial results. These discussions aim to uncover insights into how top executives view the impact of CX initiatives on their organization’s profitability and long-term success.

Understanding the strategic importance of CX from those at the helm provides valuable context on how organizations prioritize and measure the effectiveness of their customer-focused efforts. By gathering diverse viewpoints from industry leaders, I seek to highlight the tangible benefits of investing in exceptional customer experiences, including profitability, sales revenue, customer loyalty, and market differentiation.

The insights gained from these interviews will contribute to a comprehensive analysis of how CX strategies are linked to financial performance, providing a clearer picture of why prioritizing CX should be a key consideration for any business aiming for sustainable growth and competitive advantage.

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