

Five under-tapped pockets of profit and performance improvement in customer management

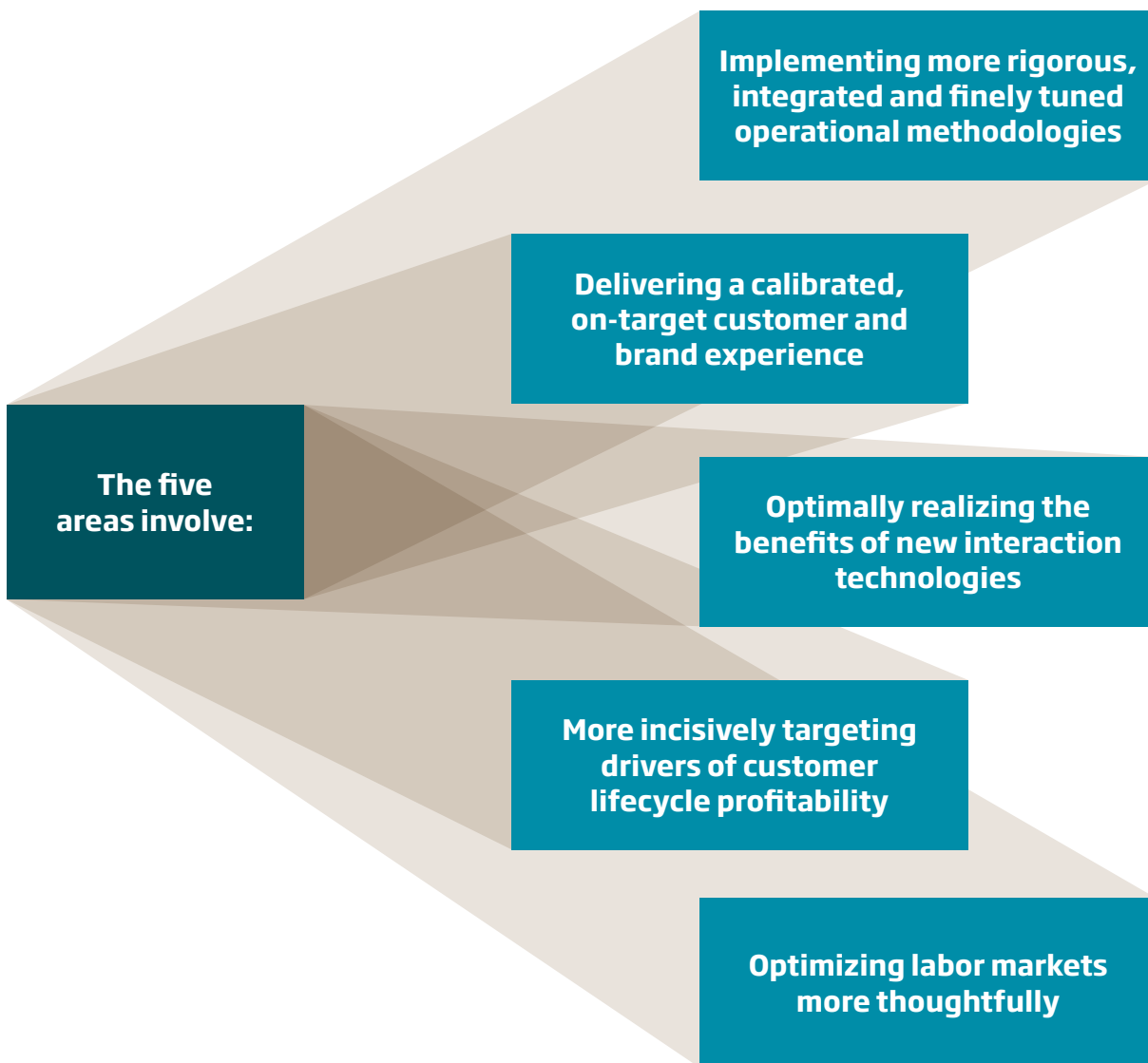
By John Hall, Managing Director

For many years now, customer management operations teams have been challenged to improve performance – they have continually been pushed to improve productivity, implement new channels, and deliver a better experience to customers. And for the most part, these challenges have been met: typically consumers are benefitting from a lot more choices and easier access to information in their contact with providers; in many cases, cost centers have been transformed into revenue-generating profit centers while still delivering high quality service; and best practices in customer contact have become widely known and have been broadly implemented.

The trouble is, even with all this improvement and innovation, management teams are still being challenged to deliver more and are often left asking themselves, “What more can I do?”

Vertex has seen this conundrum at many companies – and we assert that there is still more that a skilled customer management operations team can do to build on its successful improvements and continuously drive up balanced performance.

We have identified five areas where typically more can be done to drive up customer management operational performance:



In this paper, we elaborate on each of these and provide some real-life examples that we hope will help to uncover areas in your own operations where you can “do more” to meet the ever present imperative for performance improvement.

1. Finely-tuned operational performance methodologies

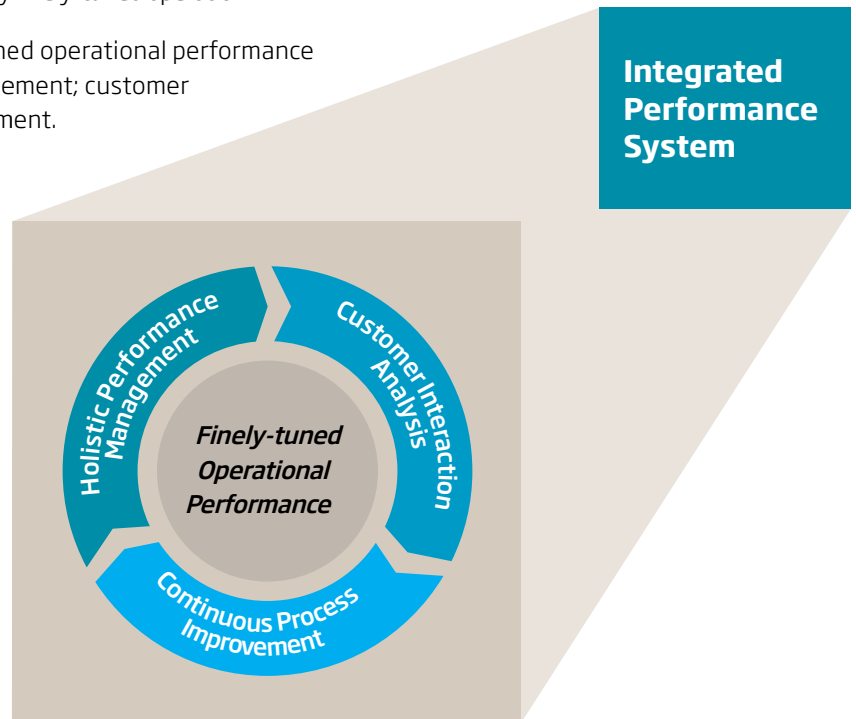
It is well known that the basis for any high-performing services operation is a balanced performance scorecard, because successful operational performance requires artfully balancing cost with quality and often with other dimensions such as revenue generation, debt collection, and compliance. The reality of large front-line workforces also lends itself to scorecards because each individual contributes to total performance. A scorecard makes the employee's contribution transparent, suggesting opportunities to improve it, replicate it or replace it. For these reasons, almost all operators pay lip service to a balanced scorecard as their key tool for performance improvement. But so many have sub-optimally implemented it in their organizations or have not complemented it with other critical tools and methodologies to deliver a truly finely-tuned operation.

The most successful approaches to achieve finely-tuned operational performance have three key elements: holistic performance management; customer interaction analysis; and continuous process improvement.

Holistic performance management is at the heart of any world-class operation – it goes beyond just scorecard reporting but represents an integrated process of target-setting, root cause analysis and action planning. Targets are not set simply based on arbitrary improvement goals like “10%” or “average or better” but on individual capability to perform at a given point in time.

A holistic approach also encompasses a comprehensive management system drawing on data analytics, best practice assessment and calibration, and systematic “one-on-one” and “one-on-multiple” discussions of performance. It includes a significant emphasis on coaching, self-assessment, and individual recommitment to increasingly higher levels of performance. The best approaches make employees feel special in their role interacting with customers, handling a case, or processing a transaction—and rewards them commensurately (financially and otherwise). Holistic performance management starts on the first day of employee training and continues on even when top quartile achievement is reached.

The second critical element of finely tuned operations involves customer interaction analysis – systematic analysis of customer contact data to gain a deeper understanding of your customers' behaviors and why they are calling. Very rarely do we see customer contact insights being mined in the most effective ways where the content of phone calls or other correspondence is broken down, understood, and classified. Approaches such as agent call classification and keystroke analysis by themselves are inadequate. Regularly listening to a statistically relevant sample of calls has worked well, but few have been able to sustain the resources to do so on a continuous basis, which is what is required to achieve sustained benefits.



Fortunately, automated voice analytics tools are now available, and coupled with analysis of interactions in other channels, can provide a complete view of the remote customer experience without intensive people resourcing. These insights can be used to drive a variety of continuous improvement initiatives in channel deflection, call suppression, agent coaching, interaction scripting, and overall customer experience (and even product) design. Fully capturing these insights requires sustained investment in analytical activity as well as continuous improvement loops and interfaces to front-line operations and related processes company-wide.

Lastly, the third element, continuous process improvement, is nothing new to most operational management teams. Excellent methodologies like Six Sigma can deliver good results. In our view, the application of “lean manufacturing” techniques in the services environment is a powerful methodology but is typically underexploited. Fully benefitting from “lean” techniques requires access to well-trained resources (who have the experience and tools to identify and eliminate waste), but also needs to include a thorough implementation of “lean” principles and practices at the supervisor and front-line worker level. The best “lean” operations have a different “kaizen-like” culture, not just a few process re-configuration projects under their belt. Our observation is that most customer service operations today have experimented with “lean”, but few have truly embraced it in order to capture its real continuous performance improvement potential.

Finely-Tuned Operational Performance in Action

A large North American utility implemented an operational performance program that focused on customer experience rather than an internal view of agent performance and quality control processes. This program leveraged the three elements of holistic performance management, customer interaction analysis, and continuous process improvement.

Key elements of the program included:

- A specially designed evaluation form, guidelines and marking framework supported by Quality Skill Element Analysis (QSEA)
- Customer surveying utilizing a sophisticated analytics tool
- Root cause analysis of escalations followed by focused coaching and performance reporting
- A specially designed communications, reward and recognition campaign focused on the main elements of providing great customer experience
- Improved calibration procedures

Results were impressive, and included a:

- 43% reduction in total number of escalated calls within two months even though call volume increased by 18%
- Jump in customer satisfaction of 19 points (58% to 77%) in one year
- 9% increase in “first-call resolution” within 3 months

2. Delivering a calibrated, on-target customer and brand experience

In today's environment, providing poor customer service can quickly put your business at risk. However, what is less obvious is the importance of providing effective brand projection and on-target customer experience as a means to boost profitability. Although in many ways these two objectives are distinct, they are inextricably linked and must be managed in tandem to exploit the profit opportunity that exists. Let's start with brand projection.

The power of a strong and consistent brand is that it elicits with consumers a feeling or "experience" about a company that can create commitment and loyalty. Most successful brands are clearly articulated by their companies with the desired feeling and related brand values defined in detail. The trick for customer management operators, of course, is to ensure that every interaction with customers remains consistent with the company's target brand image.

Consistency is not about delivering exactly the same brand experience to each and every customer, but rather about meeting each customer's expectation about how the brand experience feels. This is particularly important when the brand is meant to project important values – examples include Disney, The Gap, and Four Seasons Hotels. Multiple, consistent interactions with a distinct brand build on each other to create a familiarity or an emotional connection that, if the fit is good, create commitment and loyalty over time. Failing to deliver this expected experience in a given interaction can create dissonance, which if serious enough or repeated enough times, will corrode loyalty.

The best customer management teams distill these brand values and desired experiences into clear imperatives for operations which include:

- Scripting and training content that link directly to conveying brand values
- Clear definition of what a desired brand-consistent interaction is and the ability to measure each contact against it
- Demographically and empathetically matching agents to customer values and target audience

Can your organization demonstrate its success at effective brand projection with clear reporting on relevant measures? Have you systematically linked your hiring and coaching practices to the brands you are supporting? Can your leadership team detect an on-brand or off-brand interaction by listening to a call or reviewing an email response? Can you do more to achieve consistency? As we have learned, loyalty is the most important driver of customer profitability in almost all situations – and consistent brand experiences are at the heart of loyalty.

A great brand experience or high satisfaction with the customer experience are clearly desired outcomes, but by their nature can be costly to deliver. This can lead to sub-optimal short-term trade-offs of customer experience versus profitability. One of the most underexploited pockets of performance improvement is "sweet spot" customer delivery: targeting levels of service to align closely to the point where the customer is indifferent about receiving more, and the cost to deliver more is significant.

Wait time is a classic example: the longer the wait time, the unhappier the customer will be. While this is generally true, in fact the value to the customer decreases as the wait decreases. Therefore, reducing wait time from 15 seconds to 10 seconds may mean almost nothing from a customer satisfaction point of view – but in fact might be quite costly to implement. Leaving the wait time at this illustrative “sweet spot” of 15 seconds optimizes both the cost and experience dimensions of performance.

Have you identified all of the customer breakpoints in your key interactions? Do you know where you might get the best return on investments from improving the target brand experience? Have you identified where you could lower service levels without negatively impacting satisfaction and loyalty?

On Target Customer and Brand Experience in Action

A large European conservation charity had the challenge of reducing its overall customer management costs while maintaining strong relationships with its 3.5 million subscribing members. As the steward of cherished historic buildings and gardens, this charity could not afford to damage its brand image as a trusted national institution.

The charity developed an innovative strategy that managed brand projection and on-target customer experience in tandem. The approach tackled multiple channels including live agent interaction, web, email and white mail. The charity started with an assessment of the brand projection they wished to maintain in the market, and evaluated each channel against this overarching objective.

Each channel was then optimized to deliver the on-target customer experience in line with the desired brand projection. Customers were then segmented to get a view into the required capacity of each channel to serve its members.

The new customer management solution effectively handles 650,000 live interactions, 100,000 emails and 250,000 pieces of mail correspondence per year while maintaining strong brand projection. Results have included a 24% increase in the number of member email addresses with permission for marketing (to 1.2 million addresses), and first time call resolution improvement from 88% to 94%. In all, the charity generated an additional \$30 million in income with overall efficiency savings of over \$2 million.

3. Optimally realizing the benefits of new interaction technologies

Mobile commerce, smart phone applications, and social media promise to transform how companies interact and sell to their customers, and taking advantage of them is a key source of performance improvement for any customer management operation. Our experience is that too few companies take advantage of these innovations as soon as they should. These new technologies promise to reduce costs, to enable more intimate and sticky relationships, to offer more point-of-sale opportunities, and to transform customer lifestyles in a way that will create many new product and service opportunities. They cannot be ignored, and customer management operators move slowly at their peril. On the other hand, the difficulty of successfully implementing these technology deployments should not be underestimated, and there are real pitfalls in being an early adopter. But “fear, uncertainty and doubt” is not the successful strategy here.

Perhaps surprisingly, a big part of the answer lies in nothing more than taking advantage of (perhaps boring but proven) business tools such as brainstorming, market research and analysis, planning and prioritization, business case preparation piloting, partnering, and project management. Here are some thoughts on a structured approach to adopting new technologies for customer interaction:

- Start with your brand values and target customer experience, and identify where each innovation could play.
- Invest in understanding each new technology well and how it could enhance the target experience.
- Understand the features in some detail, perhaps in a form of lab environment where you can test them for idea generation purposes. Engage the creativity of employees.
- Validate the new ideas based on their potential impact and consistency with the desired impact.
- Develop a view on the economics including improvements in revenue and investments in costs.
- Prioritize the ideas and validate them with research with real customers to see if the time is right to encourage behavior change. Focus on speed to value.
- Develop a piloting and integrated roll-out plan. Constantly assess results and make changes.

Such a systematic approach is not ground-breaking, but does provide the discipline and decision-making forums to ensure that new technologies are being examined and considered for implementation within your customer experience model.

Beware the pitfalls and not least of all the surprises. Take the example of a leading online seller of movie tickets who recently entered the mobile commerce space in 2009. Following this company's launch of an application to buy movie tickets via smart phone, consumers downloaded their app 2.5 million times in just six months – far more than the company had forecasted. Furthermore, the company discovered that consumers' actual behavior was quite different than expected, with mobile users searching more frequently than online users, and purchasing tickets far closer to show time as well. Both of these surprises placed strains on their customer management operations, threatening their business and their brand reputation. Although their technology deployment was ultimately quite successful, they had to deal with factors that were not in their thinking or their plan.

You should expect to encounter the unexpected, and some scenario planning in advance can help avoid adverse affects to customer interactions, brand projection, and profitability. Also watch how much you spend on in-house resources – today's open technology environment

provides lots of opportunity to benefit from partnering, collaboration, and best-of-breed solutions. But whatever you do, take a proactive approach to evaluating and deploying these new tools in the customer experience toolkit—our movie ticket seller had some bumps in the road—but their ultimate value creation was tremendous.

For companies who embrace such initiatives, the opportunity can be significant. According to ABI Research, mobile commerce sales for physical goods increased 117% in 2009 and will only accelerate in 2010. Growth beyond physical goods in such areas as financial services is also expected to be robust, with ABI predicting that by 2015, 66 million North Americans will engage in mobile banking transactions.

4. More incisively targeting drivers of customer lifecycle profitability

Understanding the lifetime value of customers has long been a holy grail for customer management—an often elusive one. But even if ultimate value is hard to pin down, many people have been successful with a lifecycle approach because of the tangible insights that can be extracted from breaking down the lifecycle into its component parts. For instance, decisions on how much to spend on acquisition can be informed by insights into how customers behave after acquisition in terms of things like attrition or up-selling. Much of this is common practice, and the benefits are already being realized. But the power of disaggregation can yield even more benefits if taken to the next level. Further breaking down the drivers of lifecycle into their most fundamental pieces can illuminate new opportunities and get to the root cause of why they are not being realized yet.

For example, perhaps exciting growth levels (say 20%) have been achieved in an online or telephone retailing channel. On the surface, this growth is very satisfying, but could more have realistically been achieved? Disaggregation can help answer this question.

What about the underlying drivers: sales conversion rate, shopping cart size, and gross margin—have they all been maximized? In one case, sales conversion rates had been rising, resulting in a rise in overall revenue growth—but basket size was declining. The problem with basket size was uncovered by disaggregating the apparently good revenue performance into its underlying drivers. The root cause was a lack of awareness customers had about complementary merchandise and point-of-sale impulse merchandise that was available to them.

To address this, the retailer—informed by the analysis—was able to design a number of initiatives to improve basket size, including:

- A better complementary and impulse merchandise strategy with clear item matching
- Better visual positioning of related items on the web site
- New wording for contact center employees to more effectively guide shoppers
- An employee performance target for basket size linked to a variety of attractive incentives.

Another retailer may know that its customers have a high propensity to abandon their “shopping carts” after they click on “checkout”. What may be less clear is why customers abandon them at this stage of the cycle. A disaggregated approach will look at each element of the online process, but will also look at other factors that can negatively impact the customer experience. The following diagram highlights a few examples of how you could go about disaggregating your “checkout” process.

Disaggregation of Shopping Cart Abandonment at Checkout

- Is the “checkout” button properly placed on the web page?
- Is there a delay between the time the customer clicks this button and the next screen pops up?

- Are there too many fields to enter at “checkout”, making it intimidating to the customer to complete the sale?
- Is the retailer offering the proper complement of products and services to make the purchase experience compelling?

- Are too many things being sold through the process before they get to the “checkout”, creating a sort of sticker shock when it comes time to commit to payment?
- Are too few things being sold—when customers get to the checkout, do they feel they are still in need of something, so they decide to shop further, perhaps with a competitor?

Not only can disaggregation reveal missed opportunities that can be captured through better merchandising strategies and retailing tactics, but it can also help identify high value-add initiatives on the customer management front-line, like better employee training, scripting, and motivation targeted at specific drivers of revenue. Linked to a holistic performance management system, disaggregation can be extremely powerful.

Drivers of Customer Lifecycle Profitability In Action

A major low-cost airline more incisively targeted drivers of its online ticket purchasing process to significantly boost revenues. The airline specifically targeted customers who placed the purchase of a ticket in their “shopping cart” but failed to complete the transaction. Known as the “Abandoned Cart” program, the airline implemented a solution that allowed them to disaggregate the online purchasing process to know when customers behaved in this manner. Using this knowledge, the agent would then immediately contact the customer to determine the reason for the abandonment and to see if the sale could be converted.

The results were impressive. Beyond the airline gaining valuable customer insight that was used to improve the overall online purchase experience, they were able to achieve a conversion rate on these lost ticket sales in excess of 25%.

5. Optimizing labor market deployment more thoughtfully

Not so very long ago, many companies viewed the move to offshoring as one of the biggest under-tapped pockets of profitability. Today, our observation is that offshoring may not be as fashionable in the eyes of various companies, with some choosing to repatriate various functions back to North America. However, will such a move translate into better customer experience and profitability for companies who follow this path?

We believe that the best way to maximize both cost savings and the customer experience is to develop a plan that combines offshore, nearshore and domestic service capabilities for both front and back-office customer management functions.

Sweeping stereotypes such as “you can’t achieve the required quality offshore” or “voice can’t be delivered well from those countries” or “these types of processes require a lot of local context so must remain onshore” tend to be oversimplifications and are rarely accurate. Offshore quality, for instance, has to do with many things including who the offshore provider is, what cities they operate from, and one’s own internal processes for managing quality in the offshore operations.

Many offshore operations provide higher quality than a range of onshore operations. In some cases, offshoring may not be able to deliver the desired outcome, perhaps when issues related to providing a targeted brand experience are involved. In situations where companies have decided that onshoring is their principal strategy, some have been successful in still keeping a portion of their operations offshore. Frequently, these are back office or non-voice processes, but not always.

So there is no one-size-fits-all formula. We very much discourage an approach that simply favors one labor market option over another. Rather, we encourage you to apply incisive thinking about the operational solutions (and partners) that are available to you across the various geographies, and how these “smart-shoring” options can support the range of processes and customer interaction programs you need to deploy.

The right approach for a labor market strategy should consider a range of variables including availability of suppliers that can deliver high quality operations, the need for languages such as Spanish in the US, and the strength of internal vendor management and operational performance management processes among other things. The approach should also be integrated with the principles outlined above, particularly with respect to target customer experience and customer lifecycle disaggregation. Here are a few examples of how these principles can support a value creating labor market strategy:

- If the perception is that an onshore model can deliver a higher quality interaction, does it need to apply to all interactions? Applying the “sweet spot” thinking discussed previously could lead to a strategy that has some interactions delivered onshore and some offshore, where having a higher labor rate does not pay off in customer experience improvement.
- If the perception is that an onshore model can deliver better performance in the acquisition stage of the lifecycle, presumably there will be a cutoff level where some prospects will not be targeted because the amount of effort required to acquire them cannot be justified at onshore rates? Could these prospects be targeted with an offshore labor model, thereby generating additional profitable growth than a pure onshore strategy?

We very much discourage an approach that simply favors one labor market option over another.

Any effective labor market strategy should take into account the rapidly accelerating trend of the home-based worker. The concept is not new—it has been around for about 15 years or so—but its use on a broader scale is rapidly accelerating and is proving to provide tangible cost and quality of service benefits. Unlike traditional customer service agents, “home agents” work at home and bring with them a unique blend of attributes and skills. First, home workers are typically looking for greater flexibility and work/life balance, and working from home tends to provide these two benefits. As a result, they are less prone to attrition than traditional agents.

Second, home workers bring a higher level of education to their positions—84% have a degree versus 34% for the typical agent. Higher education translates into faster training and greater proficiency, especially for more complex customer interactions.

Third, home workers possess a broader range of experiences than the traditional facilities-based agent. They tend to be more tech savvy and use social networking more frequently. They also tend to have held such professional and personal positions as internet entrepreneurs, educated stay-at-home mothers, teachers, retirees, underemployed executives, college/graduate students, and artists. Home agents are also well positioned to support the growing needs of bilingual customer support given the growing stature of Spanish as a second language in many parts of North America.

Home-working opens up a new labor pool for customer management operations—millions of people in large suburban and exurban areas that are traditionally not the best source of facilities-based customer contact labor because of the many competitive local opportunities for other employment. But by targeting people in these areas with a home working proposition, customer management employers can tap into this plentiful pool of high quality labor which is less interested in commuting to the facilities-based operations of the local competitive employers. Given the increasing constraints on fully tapped traditional customer management labor markets, the potential of this new home-working labor pool is a welcome development, particularly as onshore operations are being re-emphasized for some forms of interaction.

Where to Go From Here

As you think about the five under-tapped pockets of profit and performance improvement and the ideas presented in this paper, can you say you are doing enough? Our own experience is that many companies buy into these ideas and even put some of these practices in place. But all too often we see value being left on the table—either the best practices aren’t fully understood, the initiatives do not receive enough investment or skill, or management moves too soon onto other priorities.

So look through the list of opportunities we have discussed here—are there areas where you have not fully implemented or diligently persisted in some of the key proven practice areas? Where might there be some real improvement possibilities—the opportunity to have a direct positive impact on the bottom-line? Often these opportunities can be self-funded and require relatively little up-front investment. Others could be started right away without having to make additional budget requests.

Test your company’s prevailing internal wisdom as well—too often a partially implemented practice with the right “buzzword” is bandied about as “best practice”. For example, are you truly taking advantage of others’ breakthrough methodologies in your lean service excellence

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approach, and not just drawing process maps? Do you truly have insight into your customers' interaction behavior (have you implemented integrated voice and data analytics?), and is it seamlessly linked to rigorous closed loop continuous improvement and idea generation programs? Do you know if your customers are truly enjoying the brand experience that you know maximizes customer value and loyalty? Have you defined the brand experience in a way that you can measure it? Do you have an agreed process to rolling out new technologies that ensures that you optimize market success and financial investment?

Questions like these can help you assess the degree to which you are maximizing the value from your customer management operations, and can help inform what steps to take. We applaud the customer management executive who seeks to get all the value off the table and into the optimal customer experience to boost loyalty and revenue growth. Of course, you may embark on the journey on your own—or alternatively you can enlist the help of a partner that has broad experience in delivering excellent customer experiences and a natural orientation to fully tap into all five pockets of profitability.

ABOUT THE AUTHOR



John Hall has more than 25 years of business leadership in marketing & sales, strategy and operational improvement. He has an in-depth knowledge of working with large enterprises and their leadership teams to transform their businesses through technology, process improvement, and strategic focus. John has worked across a range of industries to achieve and sustain major productivity and quality improvements in call center and customer service environments.



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