THE KEY TO YOUR CX SUCCESS

Finding the right customer experience KPI for your business

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Key Performance Indicators (KPIs) are central to customer experience measurement and management. Customer-centric brands use them as the rallying call of the voice of the customer to unite their organisations and drive action to improve the customer experience. Individuals and teams often receive targets, and renumeration, based on KPI performance. KPIs at both business and individual levels serve therefore to drive customer-focused action and improved business performance. This makes the KPI a uniquely powerful tool for change. Consequently, it is essential for organisations to be sure that their KPI – or KPIs – are right for them.

This paper makes the case that there is no single KPI that is 'right' for all organisations, and that establishing the best organisation-appropriate KPI means identifying a metric that drives positive organisational change by giving, for example, a clear indication of customer retention/loyalty, spend or operational efficiency. Without this certainty, pursuing KPI improvements may not take businesses in their desired direction.

THE INGREDIENTS OF A GOOD KPI

Driving desirable business outcomes is a minimum requirement of all KPIs and can mean that different KPIs are better suited to different studies. For example, KPIs focusing on customer retention/loyalty and spend/value are often best suited to holistic studies looking at the customer's overall experience of, and relationship with, a brand. In contrast, KPIs reflecting operational efficiency sit better in studies that focus on measuring a single, specific transaction. We will look more at how to validate whether a KPI reflects the right business outcome later in this paper.

At a more functional level, KPIs naturally vary in complexity. What is right for one organisation will be too complex for another and too simplistic for another. The KPI question needs to be clearly understandable to the customer, so that robust, reliable data can be collected. That same KPI question, its results – and any accompanying calculation – need also to be clearly understandable to the business, so that the entire organisation buys into why it is asked and how it is calculated. Endorsement of complex composite metrics using 'black box calculations' is hard to achieve, and the focus of organisations should be on delivering action on the basis of the KPI, not questioning how they are derived or whether they are 'fair.'

Beyond this there are a number of other criteria that KPIs should meet. These are outlined here.

1. FIT THE CULTURE OF THE ORGANISATION

This can mean using a simple metric, such as the Net Promoter Score[1] (NPS®)[2] or overall satisfaction, if simplicity is most likely to gain organisational buy-in. In other cases, this may mean using a more complex, composite metric that reflects the different facets of the organisation's customer experience. In all cases, the rationale behind the choice of metric needs to be clear and transparent from boardroom to frontline staff.

Moreover, it's not just the choice of metric that needs to be understood, but also the choice of *how* that metric is reported. Taking the example of NPS, a target of achieving a 9 or 10 (i.e. promoter) at a customer transaction is not unusual, or in many cases unreasonable. However, frontline staff need to know why there is a focus on 9 or 10 – particularly when staff work in complaints, or low engagement sectors, or areas of a business where a 9 or 10 can feel like an arbitrary or unachievable target. For example, consider the difference in likelihood for a customer to score a central heating/boiler technician a 9 or 10 out of 10 when their boiler is repaired in the depths of winter, restoring hot water and heating to them, versus a routine boiler servicing in the summer.

2. MATCH THE SOPHISTICATION AND MATURITY OF THE ORGANISATION'S CUSTOMER EXPERIENCE OFFER

This means ensuring that what is measured is most urgent or relevant to the business now. For example, if an organisation is struggling to meet the functional needs of its customers then a functionally focused KPI such as overall satisfaction can be very useful.

However, if customers' functional needs are met in almost all cases, then adding an emotional layer by means of a composite KPI encompassing the functional and emotional can transition the KPI from a needs-based metric to a measure of relationship strength with the brand's customers[3].

3. FIT THE NATURE/SECTOR OF THE ORGANISATION THEY ARE USED IN

The KPI needs to feel like a natural question to ask a customer using a given sector or in a particular role. For example, within a business-to-business (B2B) context care needs to be taken over who is answering the question. If non-decision makers are surveyed, then asking likelihood to continue may deliver results that are not closely linked to reality.

To take a business-to-consumer (B2C) example, in low engagement categories (e.g. insurance) customers may not feel that they have enough experience of a brand to recommend it or even say whether they are satisfied with it. Churn-orientated metrics such likelihood to continue may be more helpful here.

In other instances, customers may have no choice over their supplier (e.g. workplace pension providers, healthcare providers that are solely accessed via health insurers) so recommendation is less relevant and likelihood to continue is not under the customers' control. Overall satisfaction or other needs-based metrics may be more suitable.

4. BE A GOOD CULTURAL FIT FOR THE CUSTOMERS AS WELL AS THE ORGANISATION

The KPI needs to be relevant and intuitive to the business and its customers. For example, in some cultures recommendation is simply not the 'done thing', so NPS may not be a reliable metric to use. In other cultures – sometimes specifically even within sectors – a customer admitting anything less than a high level of satisfaction is akin to a loss of face, so overall satisfaction should not be the first choice. Understanding and pre-empting these nuances, particularly when setting up a global research programme, can be challenging but is certainly worth considering in order to receive meaningful feedback from all customers.

Moreover, if a global organisation is surveying in multiple markets, rigidly adhering to reporting thresholds such as the percentage scoring 9 and 10 does not always yield reliable results for comparison between markets due to cultural response bias. This is because cultural response bias leads certain markets to consistently give scores at a similar level on a response scale, regardless of what is being asked. This can cause some markets to appear 'artificially' more performant than others. As we discuss in our paper 'When Difference Doesn't Mean Different', cultural response bias can be mitigated, but it needs to be considered from questionnaire design through to analysis and interpretation[4].

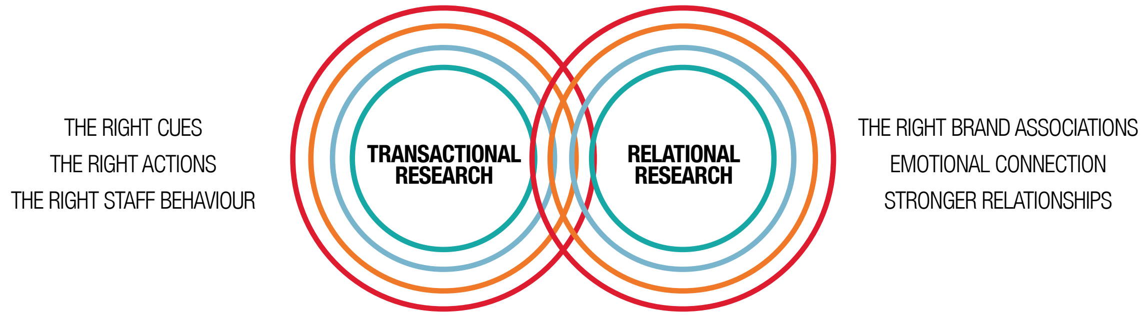
5. FIT INTO THE APPROPRIATE PART OF THE RESEARCH ECOSYSTEM

Very commonly today, organisations run multiple research studies in order to manage and improve the different aspects of their customer experience. As a result of this, an 'ecosystem' of separate studies develops.

However, adopting a strategy of using the same KPI in all studies for the sake of consistency, without considering the action that the KPI should trigger, may not deliver the most useful results. For example, as we have seen, the main concern for a relationship study may be to identify a KPI that best drives customer relationship strength; in a transaction-based study, the focus may need to be on functional assessment of whether customers' needs have been met to ensure that the transaction runs smoothly. In contrast, when inviting customers to feed back following a complaint, the most relevant focus may be the effort the customer perceived they had to put in to resolve the issue versus the perceived effort of the organisation.

If the purpose and role of each of these KPI metrics is clearly defined and understood, this approach need not drown an organisation in KPIs, but simply allow it to focus on the most appropriate metrics to drive improvements in specific aspects of the customer experience.

Figure 1 The building blocks of a CX research ecosystem



Source: Ipsos

AS ONE OF THE MOST FREQUENTLY USED KPIS TODAY, HOW DOES NET PROMOTER SCORE MEASURE UP?

NPS is a powerful and popular metric – and with good reason, because it delivers all of the ingredients of a good KPI in many cases. However, it is not a 'universal panacea'. Indeed it is not that different to other KPIs – it is often highly correlated with common metrics such as overall satisfaction and likelihood to continue. Therefore using it as a KPI should be a deliberate action and not a default reaction.

NPS has its advantages and disadvantages. These include the following:

ADVANTAGES	DISADVANTAGES
• It is simple to ask, to understand and to communicate	• It is not the best fit for every sector (e.g. low engagement sectors where customers may not feel able to recommend)
• It is concise – not adding bulk to questionnaires or board reporting	• It does not take customers' views of competitors into account. A score of 9/10 is only good if it's better than the competitors
• The calculation is easy to follow and transparent	• It is not more linked to desirable business outcomes than other KPIs – the link depends on the organisation and the business outcome
• It is a proxy for advocacy which is an important customer outcome	• It does not take account of cultural bias in multi-market studies – reaching promotion scores of 9 or 10 will be harder in some markets than others
• It drives action	• It is volatile. As a metric essentially made up of two sub-metrics (promoters and detractors), it is subject to change when one, or both, sub-metrics move

VALIDATING YOUR KPI

As we've seen, choosing a KPI is not just about selecting an easy-to-answer metric, it also needs to be connected to an organisation's bottom line or reflect desirable business outcomes. In more concrete terms this means that higher KPI scores should be associated with:

- Higher spend/product holdings
- Higher customer value
- Increased repeat purchase
- Reduced churn/increased loyalty
- Increased operational efficiency

The rationale for this is simple: given enough time and money most customer needs can be met (and a KPI can reflect this), but they need to be met profitably in order for a business to be successful, and the KPI needs to encompass this element of success.

Ipsos has developed a modelling technique, 'Return on Customer Experience Investment (ROCXI)' analysis, that determines the link between KPI results and real-life business outcomes. For example, in our paper 'Money Talks or Budget Walks'[5], we showed a global automotive client that a 1% point in its KPI could result in an increase of £120 million in annual sales.

Through linking survey results with customer behavioural, commercial or operational information, ROCXI analysis can validate that a KPI does indeed reflect an organisation's financial performance.

This in turn means that an organisation can be sure that improvement efforts focused around that KPI will deliver more profitable business and gives data-supported strategic direction to customer experience improvements.

Through the development of this technique, we have found that it is not always the 'obvious' KPI that has the best link to real-life business outcomes. Consequently, we are able to test multiple KPIs to identify and validate the metric that best reflects positive commercial outcomes.

We know that establishing the commercial outcomes on which to focus can be challenging for businesses rich in customer, commercial or operational data. Choices and hypotheses need to be made – should the KPI reflect repeat purchase, for example, or increased product holding? The process of making these hypotheses can be difficult – and we are here to guide our clients – but it boils down to one central question: which commercial outcome matters most to a business and does the KPI reflect it?

Answering this one central question can bring about a customer-focused revolution within a business, meaning that even non-customer facing employees can unite around the customer experience cause, because they understand its commercial importance. It is through embedding a culture of enthusiasm for customer focus in an organisation that it is possible to deliver great customer experiences in a profitable way. We discuss this in our Customer Perspective podcast Season 3, Episode 7 'CX measurement and management... nailing great!'[6]. This podcast also gives further guidance as to how to set KPIs applicable to non-customer facing staff.

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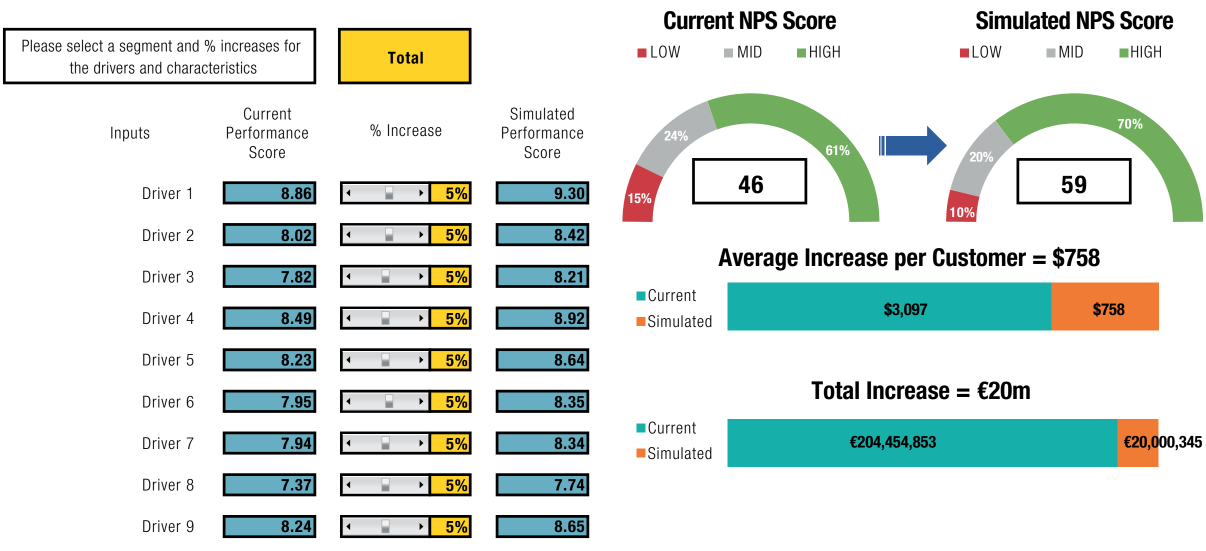
DRIVING ACTION THROUGH USING THE RIGHT DIAGNOSTICS

A KPI shows that customer needs are being met, and is proven to reflect the organisation's financial performance, is a compelling tool for driving customer-centric change. But the natural next question is how to improve that KPI?

As a starting point, key driver analysis can be carried out to determine the focus of improvements. However, for many organisations, incremental changes in a series of different customer experience areas may be more easily achieved than a big change in a single focus area. For this reason, Ipsos has developed a simulator tool that allows users to explore the impact that different levels or combinations of improvement in different aspects of the customer experience would have on the KPI/chosen commercial outcome. This tool is designed as a catalyst for change, showing the potential financial returns of continuing to invest in the customer experience.

Figure 2 Example ROCXI analysis simulator



Source: Ipsos

In order to drive up a KPI, the elements of the customer experience or diagnostics measured to support this improvement need to be actionable and meaningful to customers. We recommend considering both functional and relational elements of the customer experience, although as we have seen previously this will depend on the CX maturity of each organisation.

Functional elements reflect how well the basic needs of customers are being met. They are crucial to ensuring that the fundamental customer offer is working well, and may include such things as:

- Correct billing
- Helpful or knowledgeable staff
- Reliable products
- Clean or hygienic physical stores
- An easy-to-use website or app

It is important that if any of these diagnostics are identified as key to improving the KPI that it is obvious to the business how to improve them.

Relational elements reflect how well a business meets the needs of customers in a way that fosters a strong relationship with them. Ipsos has identified six dimensions to building strong customer relationships. We outline the science and rationale behind these dimensions in our paper 'The Forces of Customer Experience'[7]:

- Fair Treatment
- Certainty
- Control
- Status
- Belonging
- Enjoyment

These dimensions move understanding of customer relationships beyond simple functional fulfilment and into the realms of emotional attachment. Understanding how to improve them, however, often involves exploring which functional elements trigger the strongest relational responses.

Supporting and improving a KPI therefore often involves deploying and making use of a network of questions and diagnostics, all with the goal of improving the customer experience in the most commercially successful way possible.

IN CONCLUSION

A KPI is just one number, but an enormous amount of expectation rides on it. It needs to:

1. Be validated against the desirable business outcomes such as customer retention/loyalty, spend or operational efficiency so that there is data-driven evidence that KPI improvements will deliver commercial success

2. Be relevant to a brand's customers, fit the organisation and be appropriate to the aspect of the customer experience being assessed, so that it reflects how well customer needs are being met

3. Be supported by appropriate diagnostics that allow businesses to make informed decisions about how best to improve their KPI

This is a tall order for any number, and the choice of a KPI is a significant decision for any organisation. But, with appropriate consideration and validation, it is a decision that businesses can make with confidence.

REFERENCES

1. The Net Promoter Score asks the following question on a 0 to 10 scale: How likely is it that you would recommend [brand] to a friend or colleague? Responses are grouped into 0 to 6 (detractors), 7 to 8 (passives) and 9 to 10 (promoters). The Net Promoter Score itself is then the percentage of promoters minus the percentage of detractors.
2. Net Promoter®, NPS®, NPS Prism®, and the NPS-related emoticons are registered trademarks of Bain & Company, Inc., NICE Systems, Inc., and Fred Reichheld. Net Promoter ScoreSM and Net Promoter SystemSM are service marks of Bain & Company, Inc., NICE Systems, Inc., and Fred Reichheld.
3. Ipsos' proprietary metric Attitudinal Equity is based on combining ratings of a brand's performance with the customer's perceived closeness to the brand to deliver a holistic picture of relationship strength.
4. When Difference Doesn't Mean Different – Understanding cultural bias in global CX programmes
   https://www.ipsos.com/en/when-difference-doesnt-mean-different-understanding-cultural-bias
5. Money Talks or Budget Walks – Delivering a Return on Customer Experience Investment: ROCXI
   https://www.ipsos.com/en/money-talks-or-budget-walks
6. Customer Perspective: An Ipsos podcast Season 3: Episode 7 – CX measurement and management … nailing great!
7. The Forces of Customer Experience – The science of strong relationships in challenging times
   https://www.ipsos.com/en/forces-customer-experience

FURTHER READING

1. Getting Sticky – Emotional attachment and profitable customer relationships
   https://www.ipsos.com/en/emotional-attachment-and-profitable-customer-relationships
2. Get Fair or Fail – Why fairness is key to business success
   https://www.ipsos.com/en/get-fair-or-fail-why-fairness-key-business-success
3. Mind the Gap – Why what a brand promises and what it delivers matter
   https://www.ipsos.com/en/mind-gap-why-what-brand-promises-and-what-it-delivers-matter
4. Staying Close to your Customers – Why customer experience still matters amid COVID-19 and social distancing
   https://www.ipsos.com/en/staying-close-your-customers

LISTENING

1. Customer Perspective: An Ipsos podcast
   https://www.ipsos.com/en/customer-perspective-ipsos-podcast

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