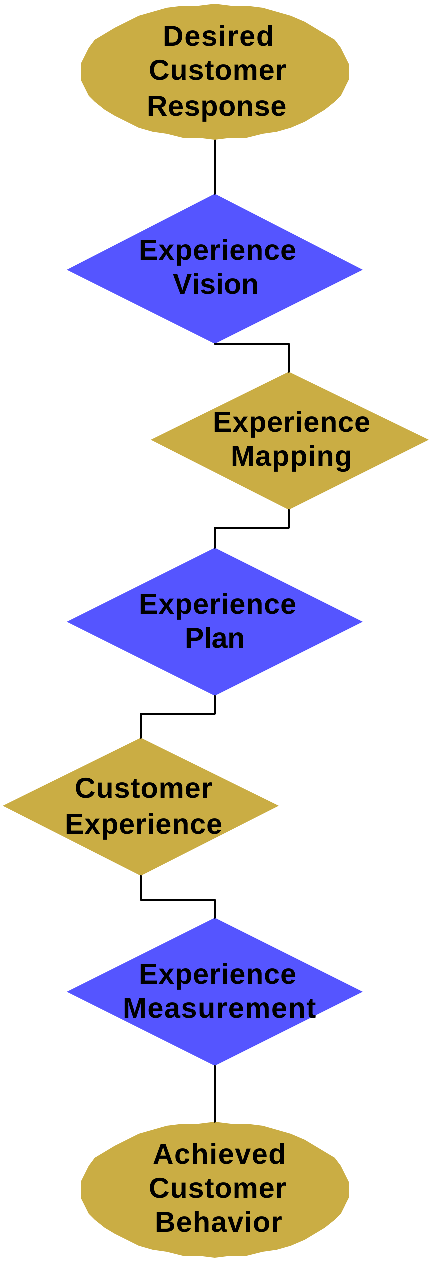

Best Practices in Managing Customer Behavior using Customer Experience Mapping™

Resulting in Lower Customer Risk and Increased Revenues

A White Paper

Executive Summary

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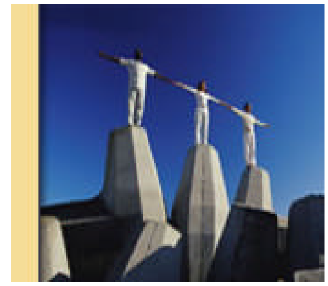
3 Summary

Best Practices in Managing Customer Behavior using Customer Experience Mapping™



One of the top 3 "mission critical" issues facing senior management today is trying to manage customer behavior, primarily to better forecast revenues, predict growth and reduce risk. Organizations have spent billions of dollars and lost millions of customers by having inconsistent and unpredictable customer behavior – all primarily due to random acts of excellence and chaos by their employees.

We haven't found a senior corporate officer yet who doesn't believe they could do a better job managing their revenues and risk if there was greater consistency, predictability, and repetitiveness in customer behavior. Similarly, we also found that random acts of excellence and chaos by employees are the major cause leading to inconsistent and unpredictable customer behavior.

For example, if you walk into your bank on four separate days and visit a new teller each day, how many different customer experiences are you most likely to encounter? Four is the most frequent answer we hear - even from bank President's. Yet these four, very simple, random customer experiences can significantly impact a customer's behavior and how they will ultimately perceive and respond to future messages and offers.

While it is sometimes difficult to determine exactly which random acts of excellence or chaos are causing the most damage to an organization's revenue and customer retention, finding the specific issue doesn't appear to be critical to the solution. The core issue is, *"How can an organization significantly reduce random acts by employees to help make customer behavior more consistent, predictable and repetitive?"*

The answer to this question and the solution to this "mission critical" issue is the basis of this white paper. We started our research on this customer management issue over 7 years ago. We found the core reason why organizations have had little success in significantly reducing random acts by employees is that current solutions primarily focus on "qualitative" employee behavior modification. Our research discovered that the only solution with long lasting results requires a "quantitative" approach. This approach is where the actual customer experience is "engineered" to form a framework that directs both the employee and customer behavior towards the desired response. The process used to accomplish this "engineering" is called Customer Experience Mapping™.

Using our Customer Experience Mapping™ process and methodology creates a Best Practices solution for more effectively managing customer behavior, which allows organizations to both increase revenues while lowering their customer risk. The overview of this solution, along with a detailed case study, is contained in this white paper. To fully understand the complete methodology of how the Customer Experience Mapping™ process works, we refer you to our recently published book, "Creating and Delivering Totally Awesome Customer Experiences."

Executive Overview

Every interaction or "experience" a customer has with an organization (whether planned or unplanned) has an impact on customer behavior. With this said, the only way to truly manage the behavior of the customer is to focus on a better method of orchestrating customer experiences, which lead directly to the desired customer response.

The primary result of engineering and orchestrating customer experiences, in a quantitative way, is to consistently and predictably manage customer behavior. This approach gives organizations the ability to migrate customers from being dissatisfied to being satisfied, and from being satisfied to being loyal. And when you have loyal customers, you are better equipped to more accurately forecast revenues, better predict corporate growth and lower your overall customer (and organizational) risk.

For example, consider the situation where organizations are able to manage the customer's behavior from be a satisfied customer to becoming a loyal customer. IBM thinks a 1% increase in customer loyalty is worth $257 million in revenues. A Xerox study also shows delighted customers are six times more likely to repurchase a company's product over the span of one to two years than merely satisfied customers.

In addition, what if you could manage the customer behavior of dissatisfied customers and keep them from defecting to the competition? A Harvard Business Review study indicates a 5 percent decrease in client defections can increase profits by more than 25 percent.

Finally, wouldn't it be great if you could reduce your cost of sales by evoking the powerful "word-of-mouth" behavior in your customer? Fortune Magazine says that 85% of dissatisfied customers tell 10 people, delighted customers tell 8 people, while a satisfied customer tells only 5 people!

Changes in customer behavior don't just happen. They require the careful orchestration (or engineering) of customer experiences to control the random acts of excellence and chaos delivered by employees. When great experiences happen, great results happen. American Express found that 43% of their customers that have a positive experience with their customer service people caused them to use their credit card more often.

With financial facts such as these, it is no wonder corporate America annually spends billions of dollars on a variety of solutions—all aimed at making customer behavior more predictable, consistent and repetitive.

So why haven't these investments paid off?

Today, most current approaches to solving customer behavior problems center around "qualitative" methods, aimed at modifying employee behavior. It is believed that a change in employee behavior will result in a change in customer behavior. For example, remember the book, "Who Moved My Cheese?" This was a fun book, full of good thoughts on employee change management, something most people could relate to.

Unfortunately, most people have a great deal of difficulty modifying their own behavior and turning new ideas into new behavior, without tools and structure to help them. Many of our friends and colleagues, most of whom are involved in management, bought these "Cheese Books," only to find out a year later that very little change in behavior actually occurred.

Unfortunately, "qualitative methods" focus on modifying employee behavior, which in turn are supposed to affect customer behavior. These methods leave far too much of the customer experience open to interpretation by "customer facing" employees, often which are the lowest paid, least motivated employees in the organization. The results—no measurable change in either employee or customer behavior.

Qualitative employee behavior solutions fall into four main categories:

- Being nicer to the customer
- Doing what the customer wants
- Doing more for the customer (wanted or unwanted)
- Better anticipation of customer needs

Our research found that qualitative employee behavior solutions can create some short term successes, especially during the training and immediate follow-up phases. We also found that over time, the effectiveness of these qualitative solutions did not demonstrate any real "stickiness" or proven economic success in managing customer behavior. Qualitative solutions rarely have any lasting impact on customer retention, positive customer migration, sustainable increases in revenues, improved loyalty or the lowering of customer (or organizational) risk.

Research indicates that solutions, which exhibit lasting behavioral changes and significant economic impact, require structure. Lasting change also requires true business process change to assure consistency, predictability, and repeatability. Referring back to our bank teller example, it's ironic that most of us would have expected four different experiences from four different tellers, yet few of us would ever expect our deposit and other banking transactions to be processed differently. This dichotomy in applying business processes to operations but not to customer experiences, is the major cause of random acts of excellence and chaos by employees. This leads to inconsistent, unpredictable and non-repetitive customer behavior.

The true management of customer behavior must focus on creating and delivering consistent and repeatable customer experiences, which direct employee activities towards accomplishing a desired customer response.

Why Customer Experiences Should Be an Integrated Business Process

At the center of any customer purchasing decision is the customer's response behavior—which is based on the sum of the customer's experiences with the organization. Given the critical nature of the "customer experience" in managing customer behavior, we still see many organizations leaving the control of this experience in the hands of their employees. Some examples of these experiences would be the service you get at a restaurant by the server, or the personal interactions you have with the sales person on your account, or the customer service you get when you call to find out why your medical insurance just went up 30% and you didn't have a claim all last year, or that fabulous experience you had with a clerk at Walmart that has never happened again.

Random acts by employees have a significant impact and a great deal of influence on the customer's emotions, thoughts and perceptions. These perceptions shape the customer's overall response behavior towards the organization's future messages and offers. Directing employees in how they deliver these customer experiences is just as vital, if not more vital than directing them in performing their operational responsibilities.

Why It is "Mission Critical" that Customer Responses become Predictable, Consistent, and Repetitive

Making customer experiences an integrated business process helps to assure that the organization can manage their customer behavior in a best practices manner. This is the only way they can achieve the desired responses to increase revenues and customer loyalty, while at the same time, decrease customer risk by reducing customer defections and negative customer migration. An unpredictable, inconsistent and non-repetitive customer response translates directly to unpredictable revenues and greater risk to the organization and its customer.

To make customer "response" predictable, an organization must also make the customer's experience predictable. If the customer experience is not engineered for a desired customer response, the response will be determined by random acts of excellence and chaos at the discretion of their employees. In this case, employees are usually operating under their own view of what should take place with the customer, not under the view of the organization. Remember our bank teller example?

Simply put, the process of creating and delivering a consistent customer experience needs to be an integrated business process to ensure its effectiveness in reducing the number of random acts by employees to achieve the desired customer response.

The Best Practices tool for performing this level of experience engineering is called Customer Experience Mapping™. Customer Experience Mapping produces a well-engineered customer experience that is fully documented, trainable, and highly measurable. Customer experiences created by using Customer Experience Mapping yield greater predictability and consistency in eliciting the desired customer response.

Customer Experience Mapping essentially works by assembling all the necessary components into a framework called a Customer Experience Map. This gives the organization the ability to create the desired response. A "customer experience" is created from a series of Customer Experience Maps seamlessly delivered to the customer.

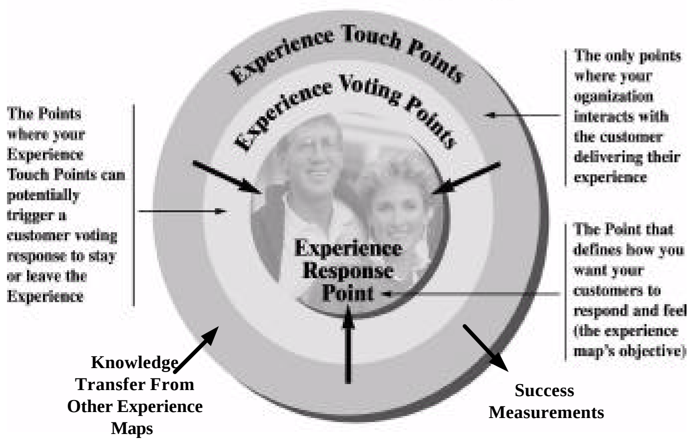
Customer Experience Mapping is both a strategic and tactical tool. Its primary objective is to protect the organization from random acts of excellence and chaos that cause customer confusion. Customer confusion clouds the understanding and true motives of the organization and prevents the formation of loyalty. This confusion often results in perceptions of "commoditization," the belief that the organizations' products and services are just the same as any other organizations' products and services—leaving price as the only true differentiator.

Customer confusion hampers an organization's efforts to achieve the desired customer response, which is necessary to make revenues and loyalty predictable. Thus, customer confusion greatly increases business risk.

Customer Experience Mapping performs three critical functions. When executed properly, it helps transform a customer experience into an integrated business process. The three critical functions are:

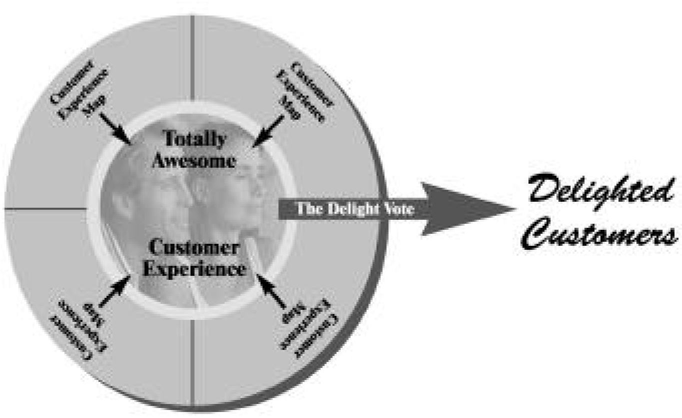
1. *Builds* effective Customer Experience Maps that employees can easily learn and follow—and management can easily measure.

Customer Experience Map Diagram



2. *Links* all the individual maps together into a seamless experience, designed to achieve the desired customer response.

The Customer Experience



3. *Documents* the maps, linkage and entire experience, so it can be continually improved while maintaining its consistency.

To help illustrate how the Customer Experience Mapping Best Practices solution works in effectively managing customer behavior to help increase revenues and lower customer risk. We will use a recent client, Spokane Teachers Credit Union (STCU) as an example.

Case Study—Using Customer Experience Mapping™ to Manage Customer Behavior

As of July 2002, the three-year new member behavior, in opening product/service accounts, showed an average of 2.07 product/service accounts per new member household. STCU's challenge was to manage new member behavior to increase the number of product/service accounts opened per new member household.

In August 2002, STCU began a project called **AME** (Awesome Member Experience), utilizing Customer Experience Mapping™ to create a "New Member Account Opening" experience to help them better manage new member behavior at an account opening. Their intent is to have this new member experience become an integrated business process in all STCU branches, starting with the North Spokane Branch.

The results of AME are summarized as follows:

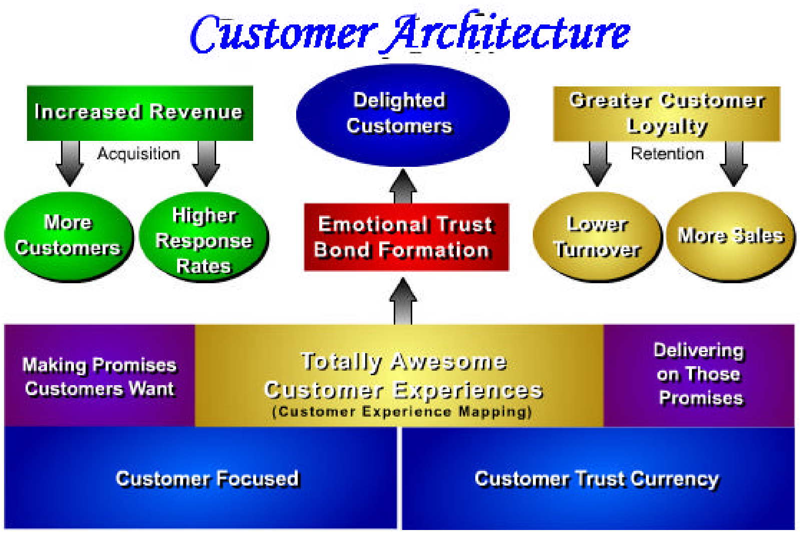
- In the two months following implementation, the average number of products/services in the North Spokane Branch increased from an average of 1.55 to 2.13, showing an increase of 38%. The control group (6 other STCU branches) increased by only 15%, resulting in a net "new member accounts opening" difference of 23%.
- Translating the above incremental account openings increases across all branches, AME will annually yield $300,000 in incremental profit and lower annual breakeven revenue by over $4,000,000.
- AME also helps manage the "member's awareness" of STCU's products and services. It makes STCU products and services much more visible and understandable by new and existing members.
- AME also managed the "cross-sell, up-sell" opportunities, while leveraging STCU's brand.
- AME represents the first step towards STCU's objective of building deeper, more proactive member relationships.
- AME forms a foundation on which a Customer Relationship Management (CRM) system can be effectively implemented. This further helps STCU manage member behavior to best fulfill member needs.
- AME also empowers employees' behavior to improve their interactions with helping members.

The STCU case study demonstrates how Customer Experience Mapping helped STCU manage new member behavior through the New Member Account Opening experience. Once this experience is integrated into the branch business process, the experience will continue to drive revenues and lower customer risk.

The quality of AME's results depends on the stability of STCU's Customer Architecture. A Customer Architecture is the framework that defines how every customer interaction is managed, which ultimately determines customer behavior and revenue results.

How a Stable Customer Architecture Leads to Increased Revenues and Stronger Customer Loyalty Behavior

All of the experiences an organization creates and delivers to its customers make up its "Customer Architecture." The Customer Architecture has the greatest impact on customer behavior in the areas of customer acquisition, retention, revenue, loyalty, risk, and profitability.



A stable Customer Architecture facilitates the creation of customer experiences designed to help manage customer behavior. The more integrated the experiences are in the organization's business processes, the greater their ability to achieve desired customer responses. The integration of experiences generates revenue and builds strong customer loyalty. A stable Customer Architecture largely depends on four factors:

1. **The Foundation**—the strength of customer focus and customer trust within the organization.
2. **The Experiences**—how well customer promises are kept through the delivery of customer experiences.
3. **The Emotional Trust Bond**—how customer experiences affect the feelings and thoughts of a customer in building a bond that either strengthens or weakens relationships with the customer.
4. **The Results**—measured in terms of **increased revenues** and **greater customer loyalty**.

At the heart of any Customer Architecture is the customer experience. The stability of the Customer Architecture depends on how consistent and repetitive the organization is in creating and delivering those customer experiences. The more consistent and precise the customer experiences, the more stable the customer architecture and customer behavior.

A stable Customer Architecture significantly lowers the risk of random acts by employees. For example, the Nordstrom "Returned Goods Experience" orchestrates every customer interaction to assure that this "anxious time" for the customer is met with great energy and enthusiasm. This experience directs customer behavior towards an action of "buy without risk," giving the customer the freedom to take home what they want, it can be returned without question.

The experience builds emotional trust. Nordstrom knows that once a customer takes product from their store, the likelihood of a product return drops significantly. If Nordstrom was to leave the customer experience to the discretion of individual employees, this powerful and highly differentiating "Returned Goods Experience" would never have become such a strong part of the Nordstrom brand.

Today, most customer interactions are derived from operational processes, which are delivered by operationally trained employees, working from their own view of what the customer experience should be. Collectively, these operational processes produce unstable customer experiences and an unstable Customer Architecture. This instability leads to random acts of excellence and chaos, producing inconsistent and unpredictable customer behavior. This combination puts the organization's revenues and customer loyalty at risk.

Controlling Customer Risk through Managing Customer Behavior

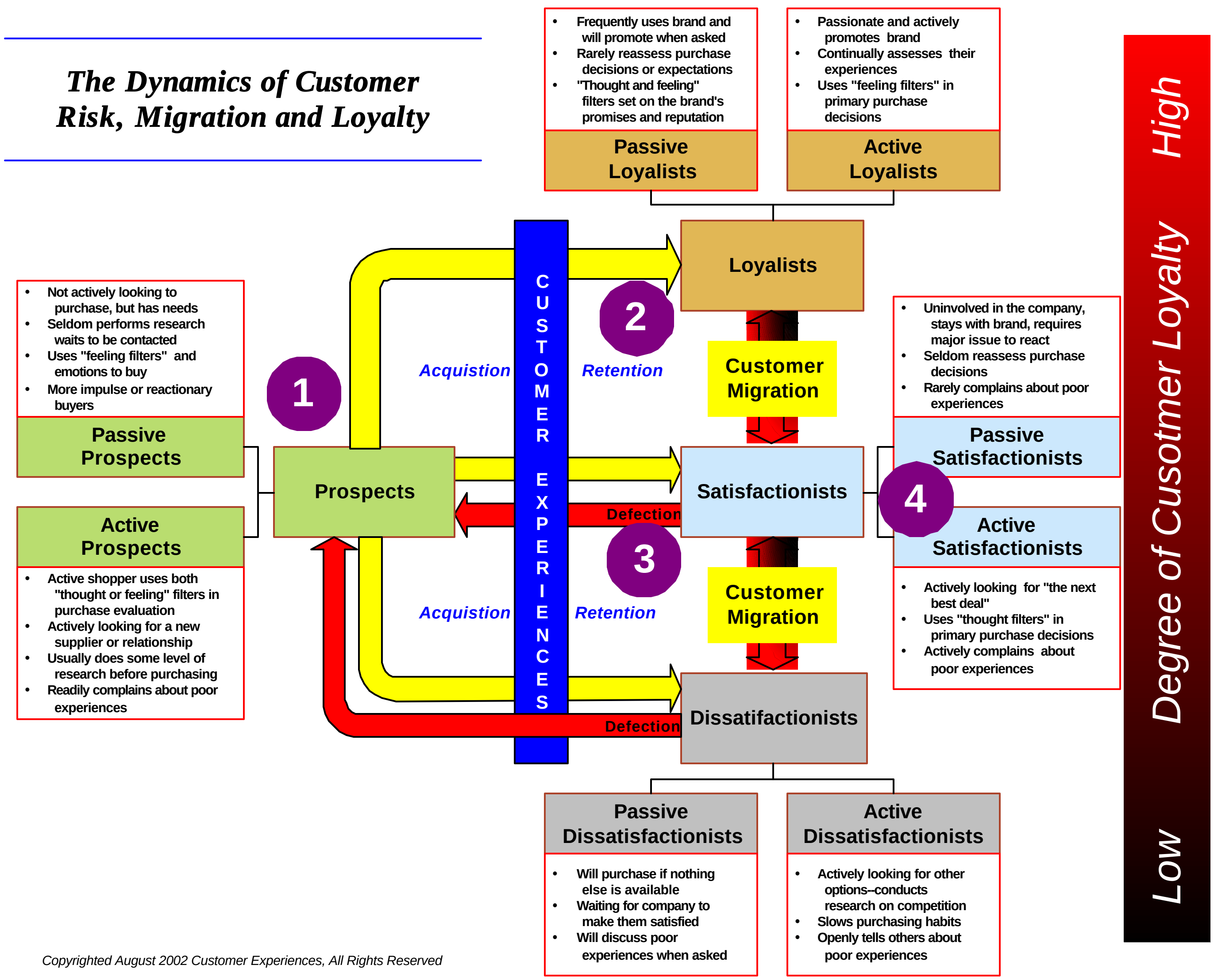
Organizations that deliver customer experiences as an integrated business process have a much stronger ability to predict customer behavior and the outcomes of the purchasing decision. This lowers customer risk.

In addition, lowering customer defection rates, improving customer penetration (share of wallet), and increasing marketing responses and close ratios all help to lower the economic risk to the organization. Managing customer behavior in the acquisition, retention and migration of customers is called *Customer Risk Management*™. Its goal is to create true Loyalists, while preventing the defection of Satisfactionists and Dissatisfactionists (see model below).

Studying this Customer Risk Management model below shows the dynamics of customer risk, migration and loyalty. Prospects **(1)** who purchase goods or services become customers and fit into one of three groups; Loyalists (10%), Satisfactionists (85%) or Dissatisfactionists (5%).

We found that Satisfactionists are the predominant group, since prospects lack the emotional trust and the experience with the organization to become immediate Loyalists.

Customer Migration **(2)** then becomes the key customer focus. The economic advantage of migrating Satisfactionists to Loyalists is about 6 times revenues —and 10 times revenues when migrating Dissatisfactionists to Loyalists, even though this path of customer migration is more difficult to achieve. Specialized customer migration strategies are required to build experiences that will affect customer migration behavior.



For example, a Passive Satisfactionist stays relatively uninvolved with the organization and tends to believe more in the organization's brand. On the other hand, an Active Satisfactionist is always looking for the "next best deal" and discounts the value of the brand, given that the products or services being evaluated have perceived equality.

On the positive side, an Active Satisfactionist's thought perceptions are much more frequent and subject to change. This allows an Active Satisfactionist to be converted into a Loyalist much faster than a Passive Satisfactionist.

An Active Loyalist is positive "word-of-mouth." They are active with other customers and prospects. They actively promote the organization's brand. Although they are constantly testing the relationship, the direct negative interaction of a "feeling nature" would have to occur for them to exhibit any downward migration behavior.

Although the Passive Loyalist is the most stable customer an organization can have, Passive Loyalists don't exhibit the same energy in promoting the organization or its brand. Passive Loyalists utilize both "thought and feeling" filters in interpreting their experiences and making decisions. They rarely reassess their Loyalty, but when they do it is because of some issue that threatens the stability of the organization, its brand or their relationship.

The highest degree of customer risk comes from customer defections **(3),** which normally occurs with the Dissatisfactionists. Defections can also come from Satisfactionists, but the frequency is much less. Loyalists very rarely defect. In addition to the three types of customers, there is also more risk of defection inherent in "Active" customers versus "Passive" customers **(4),** since active customers tend to be "testing the relationship" far more frequently than passive customers.

Desired customers responses don't just happen. Creating and delivering consistent experiences plays a major role in the acquisition, migration and prevention of customer defection. When a customer experience becomes an integrated business process, the organization becomes far more effective in identifying and responding to various types of customers in a proactive experience manner. Integrated experience processes substantially increases predictable customer responses, thus lowering customer risk.

Secondarily, experiences that become integrated business processes can be more effectively measured and improved. The accurate measurement of a customer experience leads to both the improvement of the experience and the gathering of critical "customer needs" information. Being able to more quickly and accurately predict future customer needs is a very strong competitive advantage. This is just another way the Customer Experience Mapping process reduces customer risk.

Executive Summary

Customer Experience Mapping is a Best Practices solution for managing your customer's behavior. Customer Experience Mapping reduces the "customer killers," those random acts of excellence and chaos that are committed by even your best employees.

Creating and delivering customer experiences, as an integrated business process produces consistent, predictable, and repeatable customer responses that help to increase revenues and lower customer risk.

Finally, this Best Practices solution produces experiences that can be measured and continuously improved. The results give you the ability to better manage and predict both customer and employee behavior.

* * * * *

About the Authors

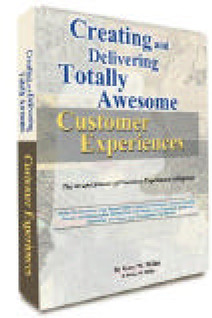
Gary Millet is founder and CEO of Customer Experiences Inc., a "Customer Architecture" firm headquartered in Salt Lake City, Utah. CEI helps organizations build and implement highly successful Customer Architectures to increase revenues and customer loyalty. As the firm's chief "Customer Architect" and customer advocate, Gary has helped numerous organizations develop, implement, and execute very unique Customer Architectures to gain a significant competitive advantage and significantly build brand. He is also the author of the highly recognized industry guide ***Graphic Arts Profitability.*** His unique background as a CPA, sales, marketing, and business process consultant and his tenure as North American president of an interactive Internet messaging company have provided a depth of understanding in the area of acquiring, retaining, and motivating customers. He also holds an MBA in marketing and finance.

Blaine Millet is also a "Customer Architect" and customer evangelist. He works with organizations on creating Customer Architecture strategies and their deployment. He has been both a Partner and Director in various consulting organizations, including the Big 5. He built a unique customer-focused consulting model and led practices that delivered increased profitability, along with increased customer acquisition/retention in various industries. In addition to his leadership roles, he personally provides consulting in the areas of strategy and customer-centric solutions. His career spans from IBM, to an Internet solutions company to consulting groups. In addition to his extensive background in sales and consulting management, he also holds an MBA in marketing and finance.

"For any organization to survive in today's competitive environment, it must focus first, and always on its customers. This book serves as a valuable and daily reference guide for managers of businesses large and small, as they move from satisfying their customers to winning their hearts."

A. Scott Anderson,
President and CEO
Zions First National Bank

Gary and Blaine are the authors of, ***"Creating and Delivering Totally Awesome Customer Experiences."*** This book contains the intellectual property from which this White Paper was produced. The book is available through Amazon, Barnes and Noble, and other fine bookstores and Internet sites, or through our Customer Experiences Inc. web site at www.customerexperiencesinc.com.



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We want to thank the Senior Management and Project Teams at STCU for their effort in doing such a wonderful job with the implementation and management of their New Member Account Opening experience. Thanks for the tremendous contribution to this White Paper.

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