



Jeneanne Rae



Katie Waterson

Customer Experience Design in Services

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Presented by Peer Insight:

Jeneanne Rae, Co-founder and President

and

Katie Waterson, Director of Consulting Services

"It is my prediction that in this new age, customer experience will decide the winners and losers in almost every industry imaginable."

Jeneanne Rae, Co-founder Peer Insight

Services now account for over 80% of our U.S. economy. It's a staggering statistic given that this country was economically built on the back of industrial manufacturing. So why is the body of knowledge on the subject of service innovation so relatively small?

On June 6th, Peer Insight's co-founder and president Jeneanne Rae and director of consulting services Katie Waterson, led a group of business leaders on an exploration of service innovation and the design of exemplar customer experiences.

Through a series of exploratory exercises, workshop participants, including representatives from CVS, Design Continuum, Equity National, and BankRI were given several 'secrets' to building a *customer experience* business model (think service innovation on steroids). From a fresh look at research fundamentals - the building blocks of effective innovation – to how to challenge assumptions and construct a brand vision, Jeneanne and Katie immersed us in the *how* of customer experience design.

Jeneanne Rae, for those not familiar, is the 'doyenne of service innovation.' (An eccentric title bestowed on her by friend and *BusinessWeek* editor Bruce Nussbaum, doyenne means wise woman of a body of knowledge.) An apt designation because Rae is one of a handful of people with extensive experience in both business *and* design.

Peer Insight—the company she co-founded—is a research and advisory firm focused on innovation and customer experience issues. The company also leads a consortium of over 40 major corporations. With more than 100 projects in their database, her firm is building an empirical database of what’s working (and not) in service innovation.

The Service Sector is Dominating Our Economy

Let’s begin with a few sobering facts. The U.S. has undergone an industrial metamorphosis. Manufacturing’s share of the total private U.S. workforce has been cut in half since the late 70s, shrinking to a mere 10% in 2006. According to a 2005 report¹, in the U.S., 84% of companies, 70% of payroll, and 79% of employees are in the service sector.

Sources of profitability are changing too. In 2005, within the nation’s top 10 non-energy firms, 85% of profits came from services². If you accept that customer experience is the backbone of the service industry, why do so few companies know how to innovate upon it?

The *it* Factor: What’s the Difference Between a Good Service and a Good Experience?

“People don’t want goods or services. They want experiences,” said Jeneanne. “And people will pay a premium for those experiences.”

~~Three~~ Four Classes of Economic Output

Commodities <i>Supply Chain Optimization</i>	Products & Goods <i>Quality</i>	Services <i>Consistency</i>	Customer Experience <i>Orchestration</i>
			

¹ Source: *The Coalition of Service Industries, 2005*

² Source: *Peer Insight Research*

Eighty percent of Starbucks' revenues come from customers who visit their stores an average of 18 times a month.³ That's the difference between providing a good service and a stellar experience. It requires *orchestration* across the business model. At the core of this orchestration is a tightly woven framework based on a customer-centric brand vision, empathetic research and optimized IT Systems.

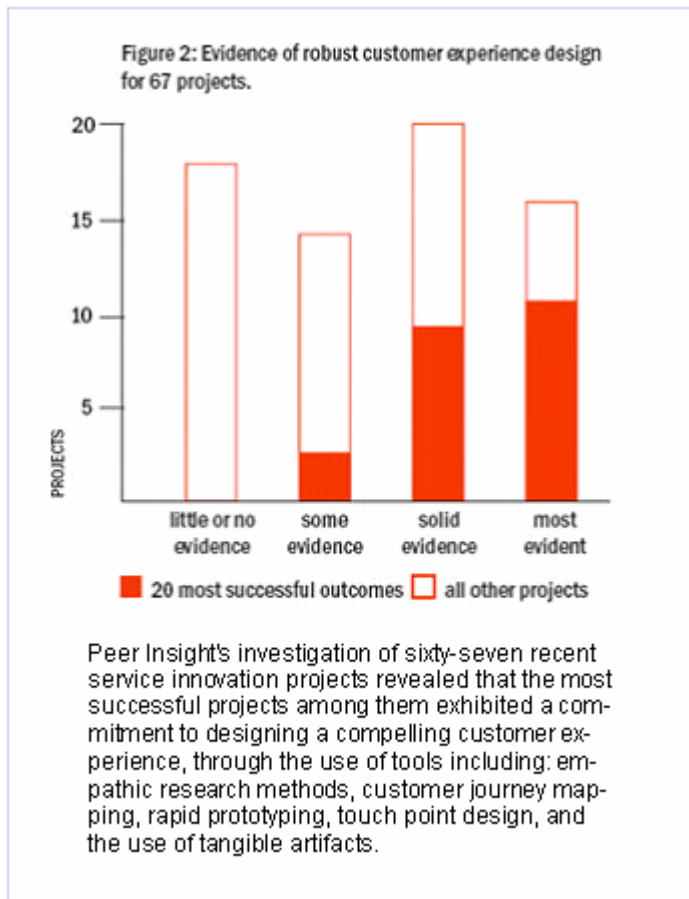
"Service innovators have to consider the ephemeral," said Rae, "and that's a change in mindset wholly different from the current way of doing things. Building an experience is sensorial. We engage the senses through see, hear, smell, taste and feeling. This is a radical shift away from a corporate culture dominated by Six Sigma management theory."

Turning ordinary into extraordinary is no easy feat. When done right, however, you end up with a "virtuous cycle of profitability" because:

1. *It creates differentiation.* Although seemingly obvious, It's why Target stands out from all other mass merchandising retailers.
2. *It promotes a raving fan mentality.* More than just positive buzz, raving fans can be a powerful tool to generating revenues. Just ask Mini Cooper.
3. *It fosters intense loyalty.* Having the ability to rely on a core base, makes it easier, says Rae, to "increase both the top and bottom lines."
4. *Consumers will pay premium prices.* Consumers will pay more for an emotionally rewarding experience. "Companies that are skilled at unlocking emotional issues, then creating economic value propositions that win with consumers, avoid commodization," said Rae.

³ "Ruthless Focus on the Customer," Jeneanne Rae, *BusinessWeek Online*, July 24, 2006

Defining Customer Value from the Outside-In



Over the course of 3+ years, Peer Insight has had unprecedented access to over 40 Global Fortune 500 companies including Diebold, P&G, GE, Sprint, AARP, Starwood, and Siemens. They've studied 104 distinct service innovation projects.

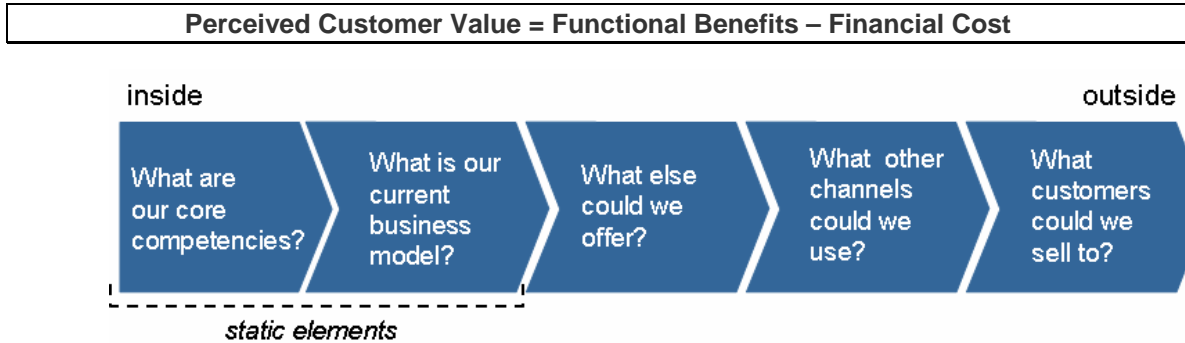
“We found,” said Rae, “that the use of a single frame – Customer Experience Design – was a key differentiator between success and mediocrity.”

Most firms, she explained, compete based on an inside-out value chain. They operate on the false assumption that if they maximize market share from existing competencies, profits will surely follow. But

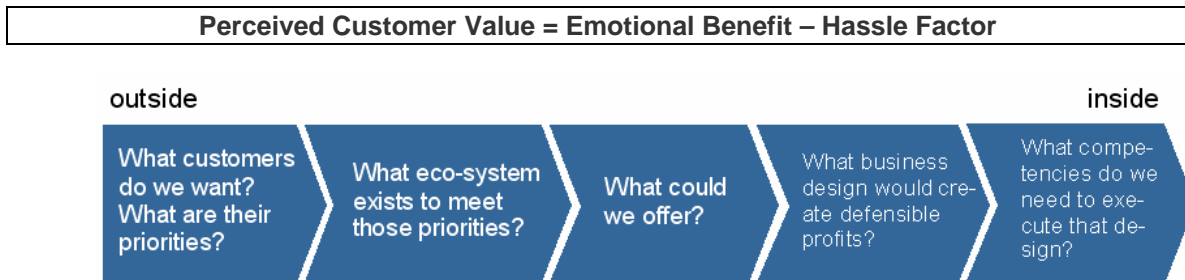
the underlying reality, says Rae, is that “if you compete only based on your current competencies and your current business model, then you get stuck in the past.”

An explicit customer experience vision operates from the outside-in. It unlocks brand equity by evoking emotion and leaves room for compromise on functionality.

Traditional Inside-Out Value Chain:



Customer Experience Outside-In Value Chain:



When you compare the functional benefits with the emotional ones, it's clear why a customer experience vision needs to focus from the outside-in. Profits, said Rae, are found in innovative business designs with greater customer relevance and defensible strategic control points.

The Rigor Behind Peer Insight's Customer Experience Design Model

Let's get to it. How do you design a customer experience? At the heart of every business strategy are underlying, unspoken assumptions about how your industry works and what your customers want. Designing a customer experience requires the ability to ditch all those assumptions. It deviates from the dominant logic about how business is done. For instance, who would ever pay full price for a music CD at a coffee shop? (Over a quarter of the three million copies of Ray Charles' *Genius Loves Company* have been sold at Starbucks.)

There is a scientific, disciplined rigor behind building a customer experience design model.

“The starting place for customer experience design is not a company’s existing set of manufacturing or operating competencies, nor is it necessarily the traditional distribution channels,” explained Jeneanne. Instead, companies should begin with a customer-centric brand vision. Katie Waterson put it succinctly when she said “Well-articulated brand values serve as the customer experience ‘North Star.’”

The important takeaway for service innovation is this: Unlike products, services are bought and consumed at the same time, so the brand becomes the direct link between the service and the customer’s experience with it. It doesn’t matter if you’re a bank, a consulting firm or a restaurant. A well-developed brand will deliver value to service companies by driving perception, awareness and recognition.

Again from Katie: “Brands create differentiation when offerings are similar and no real performance benefit can be leveraged. Most importantly, brands provide a foundation for service offerings to deliver consistent and compelling experiences.”

Secrets to Designing a Compelling Customer Experience

Secret #1: Free Yourself from the Dominant Logic of your Industry.

Customer Experience deviates from the dominant logic of most industries. But it’s a gross understatement to say that it’s challenging to step out of the norm. (Just ask our workshop participants after completing one of Jeneanne and Katie’s exercises.)

Organizations need to be comprised of broad thinkers who have an ability to see a fairly large spectrum of possibilities. They also need to bring in disparate information, specialties, and technologies and apply them in a way that may not normally have been considered. It’s about taking a problem, and turning it upside down, inside out and backwards. It’s crucial that people look outside their comfort zone, and understand the culture of the moment.

By challenging dominant logic, companies are able to churn through a number of different scenarios, and concepts in a very structured, methodical way. Don’t be fooled – challenging assumptions is a process. But when it comes to innovation, the ‘a-ha’ moment is rare. Usually, people work on a problem for a very long time, putting pieces together, through lots of trial and error. Yet to challenge an assumption, a company has an opportunity to differentiate itself on something other than price or technology.

Secret #2: Empathy is the cornerstone of customer-centered market research

What's the secret to great customer experience design? If you understand people's values better, you can create better services for them. Most of the driving principles behind design-based innovation centers on the emotional and behavioral aspects of the consumer.

A proven, viable method for achieving customer relevance can be found through empathic research. "It's a key area for customer intimacy," explained Rae, "and a great approach to asking the right questions."

Traditional market research (i.e. focus groups, consumer surveys and other forms of attribute driven data) can not address the cultural forces that trigger buying behavior. Empathetic research is vital to bringing something new to market rather than simply doing what has already been done better. Unlike "focus group" research which is typically done in isolation, empathy-driven design leverages observations and interviews in real-world settings.

"When combined together, you can produce amazing results," said Jeneanne. "It's key to moving business models past expectations to creating something truly unique and valuable."

A customer experience vision plays itself out through many emotional intangibles. A strong vision, said Jeneanne, should encompass the following:

- Identifies a specific person
- Speaks to a need in her life
- Evokes emotion
- Inspires your internal teams
- Leaves room for compromise on functionality
- Leaves the "how" vague
- Unlocks brand equity

Secret #3: Touch Points are the atomic structure of customer experiences. Map them out.

Similar to an anthropologist on location, service organizations should follow the consumer journey from discovery to return. In between, map the various touchpoints where a consumer interacts with your brand. A customer journey map is a way to describe all the experiences a customer has with your company and the emotional responses they provoke - from their first impression of your building, to speaking to staff or receiving a service.

This is an intensely rigorous process, particularly when a service offering is complex, with multiple interactions taking place over long timeframes with little by way of tangible outputs. But it's also a very useful tool to help identify the

customer's interaction with your organization, their thought processes and reactions to you, which often reveal opportunities for improvement and innovation in the customer's experience.

Brands will become successful in driving awareness, recognition and choice through consistency in execution at each touch point, for instance:

- At shelf
- Through the retailer
- Website
- Packaging
- Advertising / direct mail
- Customer service
- Commercial relationships
- Employees

“Great customer experiences start with the ‘moments of truth,’ explained Katie. “These moments of truth occur at the key touch points in a customer’s journey with his service environment.”

Conclusion:

Participants were asked at the end of the workshop what a-ha moments they had during the day. For some, it was grasping the inherent difficulty of challenging assumptions as witnessed through one of the exercises. For others, it was the realization that customer experience design is a tremendous change management issue.

One a-ha moment in particular resonated with the entire group. Jeneanne presented the following slide comparing “Customer Experience Leaders” with “Operational Excellence All-Stars”:



One participant rightfully argued that Dell, in its heyday, was a customer experience leader. (This likely holds true for everyone who now sits on the right.)

So what happened? Triumph is a trap. As companies become successful, they bank on their core competencies, incrementally innovate on those same competencies and shift much of their focus to optimization and operational excellence. But, as Jeneanne insightfully said, “you can’t shrink your way to greatness.”

Five years from now, there will be new upstarts challenging the design of the customer experience leaders today. Customer experience design must be a continual, sustaining process. To do that, companies need the flexibility to experiment with new models in an environment free of the usual trappings associated with the current model.

Experimenting with new ways to deliver value is one of the most important things an organization can do. Here at the Business Innovation Factory, we've established the state of Rhode Island as that experimental platform. With our Experience Laboratories we've created a place where partners from across industries and disciplines can design, test and refine innovative solutions and transfer what they learn back into their organizations. It's one way for companies to avoid what Clay Christensen calls “the innovation dilemma.”

Our thanks to Jeneanne Rae, Katie Waterson and our diverse group of workshop participants for a fantastic day of learning, sharing and challenging exercises.