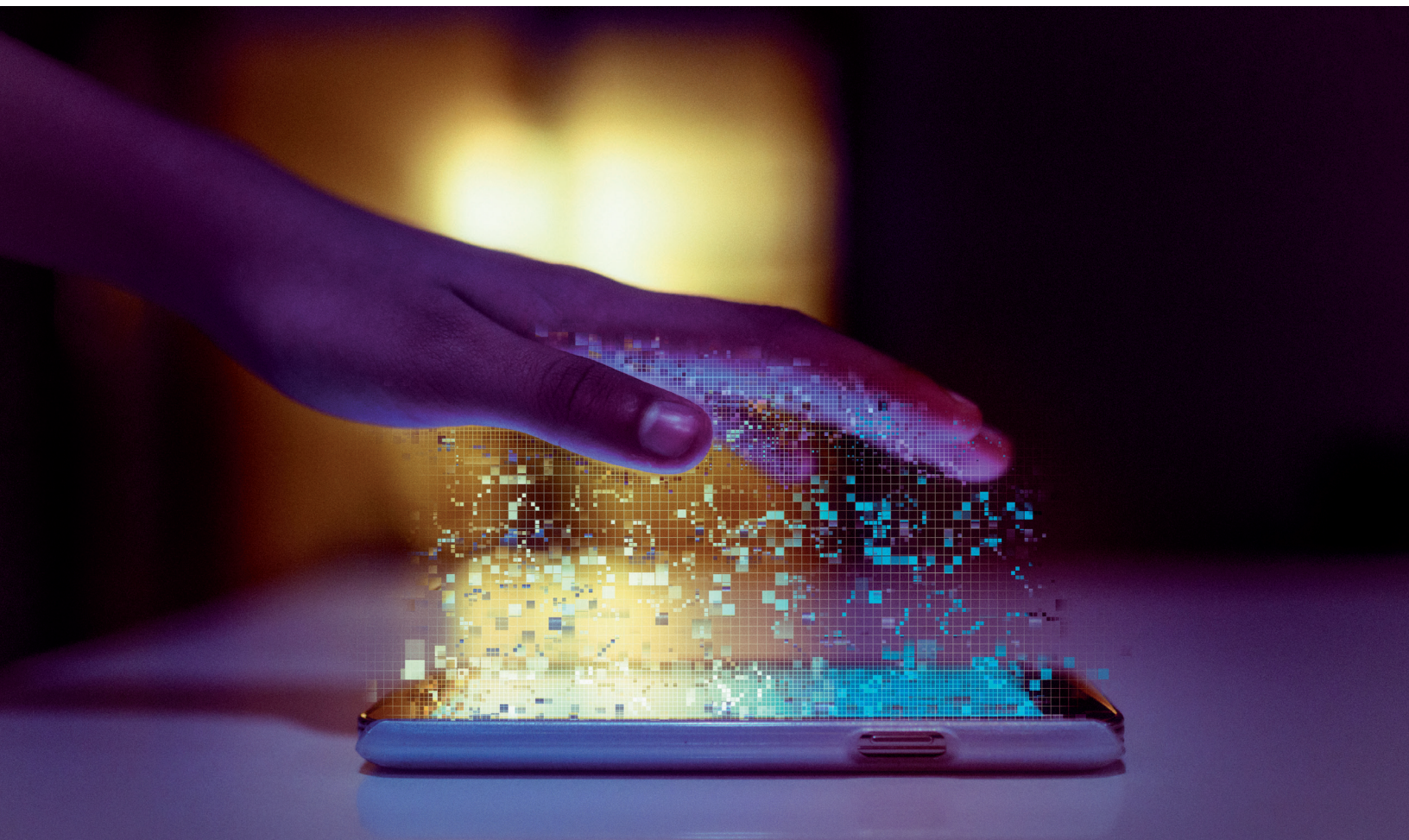


# Mastering the digital advantage in transforming customer experience

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Digital services and operations are raising the competitive bar in every sector. To capture the opportunity, incumbents should embrace a new operating model that dramatically improves the digital customer experience. Here's how.

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Improving customer experience delivers real benefits to companies that successfully execute customer-centric strategies. Across sectors, satisfied customers spend more, exhibit deeper loyalty to companies, and create conditions that allow companies to have lower costs and higher levels of employee engagement.<sup>1</sup> In that dynamic of value creation and durable competitive advantage, delivering digital services and operations has emerged as a prime mover in reshaping customer experience in almost every sector. As digital pure plays such as Amazon, Apple, and Uber continuously reinvent themselves by delivering simple, immediate, and individualized experiences, even traditional business-to-business<sup>2</sup> players in sectors such as chemicals and steel are making bold moves to build dynamic shared digital ecosystems around customer needs.

It is clear that customers, stoked by digital-first attackers and those playing catch-up, will only expect more digital solutions. Our research finds that growing customer expectation of superior service drives efforts to advance and refine digital solutions. In our research, 70 percent of app users preferred added functionality over “look and feel” of the app, and 61 percent of customers said they were more likely to buy from companies delivering custom content. Three-quarters of online customers said they expected help within five minutes, have used comparison services for consumer goods, and trusted online reviews as much as personal recommendations.

It is also clear that those expectations will continue to evolve quickly, pitting incumbent companies’ profitability against their ability to deliver services in new ways and master a complex landscape of technologies, marketing approaches, and operational capabilities. Within this dynamic and rapidly changing landscape, important opportunities will manifest themselves to build revenue, deepen customer experience, and reduce cost. A strong will to succeed will be a prerequisite,

but by itself will be insufficient to grasp competitive advantage. What is required is a more radical abandoning of traditional ways of working in favor of new approaches. By rethinking traditional operating models that hinder companies from achieving their potential and combining digital technologies and operating capabilities in an integrated, well-sequenced way, companies can create customer-centric strategies that can sustain new levels of speed, agility, efficiency, and precision.<sup>3</sup>

### **Toward a next-generation operating model**

One typical shortcoming of traditional operating models is a strong focus on optimizing internal capabilities instead of making the customer’s needs and wants the organization’s central orientation point. The strong individual silos that make up the organization of so many of today’s organizations are another barrier, at odds with the need for achieving truly cross-functional collaboration. Still, other companies remain loyal to big project pipelines that they deliver in a traditional waterfall-like manner, with a long development process and a big announcement at the end, rather than continuously testing and iterating change in a manner more closely tuned to market changes. Finally, in many cases a relentless top-management commitment to embracing digital solutions is missing.

From our digital customer experience and service-operations work with leading practitioners, we have distilled elements that we believe are critical in shifting away from running uncoordinated efforts within organizational silos to launching an integrated operating model organized around customer journeys or the end-to-end experience of a customer buying a product or service. This framework offers a perspective on those elements that help companies to dramatically increase digital customer experience, establish a true omnichannel perspective within their organizations, and drive digitization. In our experience it is possible for companies to successfully pursue such deep transformations, starting with a design

of the operating model, and then transforming the customer journeys that matter most, while simultaneously building an agile and cross-functional approach to customer-centric organization transformation at scale.

### The digital component in transforming customer experience

In this article we focus on what we've learned in building this operating model and the four success factors that are key to delivering superior digital experiences, as well as the challenges that companies across industries face in efforts to secure them. The success factors are as follows:

- designing and digitizing customer journeys
- increasing speed and agility in insight generation
- achieving customer adoption of digital customer journeys
- developing agility in delivering journey transformations

It is no surprise that a lot of digital journey transformations struggle to succeed, considering that running a digital customer-experience transformation is a complex, multidimensional task. It requires a combination of traditional transformation elements—such as rigorous, top-management commitment and steering—and cross-functional teamwork, as well as more digital elements, including agile delivery of technology, along all-journey transformation phases. That said, the effort can pay off handsomely; in our work we regularly observe up to 15 percent revenue increases and simultaneous reductions in cost to serve of more than 20 percent.

#### Customer-centric design of customer journeys

A key to offering an outstanding digital customer experience is creating a radical design (or redesign)

of journeys to be improved. What we have found to work extremely well is to apply design-thinking methodologies and to conduct a design boot camp. Such a starting point is also how to best begin the process of developing an agile digital delivery system within a cross-functional team.

In this process, the primary goal is to thoroughly rethink the way the journey works, instead of simply fixing inefficiencies along the way. The customer and his or her needs and preferences is both the starting point as well as the ongoing proof point for the work, meaning that new designs are immediately tested and iterated based on customer feedback. Within such redesign workshops, it helps to render the customer journey in a clickable prototype in order to obtain a more concrete look and feel of the actual customer experience, which can then be continuously tested with customers. Overall, the approach must, however, allow for seamless integration with existing channels, including non-digital journeys. Furthermore, legacy processes, which become redundant as a result of the new journey, should still be run in parallel until the new journey is fully operational.

One promising approach is what we call zero-based journey redesign, or designing a customer journey from scratch, without any preconception of the ultimate vision for the journey—rather than simply improving the status quo. One ambitious redesign of the instant account-opening process at a large bank eliminated 15 process steps (including significant paperwork), introduced an instant identification system (via passport and face-recognition software), and established a completely new online and mobile (and in-branch self-service) journey enabling account opening anytime and anywhere. With the inclusion of the in-branch self-service customer journey, the effort boosted self-service sales from zero to more than a third of total sales, with 50 percent higher conversion rates and a reduction in cycle time to ten minutes, compared with between two and six days previously.

Similarly, a redesign of the customer-relocation journey for a large, multinational energy company introduced an approach to automated communication that reduced process steps for customers by half and accelerated processing time by 80 percent, while also making it easy for customers to move their accounts at any time during or after their relocation, via a range of devices. These changes decreased cost to serve by 40 percent and tripled the retention rate of relocating customers. By embedding design thinking in the organization, management was also able to form a new vision of how customers could experience their redesigned services in the future for a broad range of customer journeys.

#### Increasing speed and agility in generating insights

Digitization and the fast pace of changing market and consumer dynamics require fast, frictionless “real time” insights into a multitude of different areas for decision making, specifically customer-journey management and design.

However, traditional market-research approaches are often not in line with these requirements—they take too long to be generated and don’t enable iterative step-by-step building of new experiences integrating constant customer feedback. Thus, customer-experience leaders need to find ways to be agile in generating insights, for example, by employing much more flexible and dynamic research approaches. Among these are mobile flash surveys and online focus groups, as well as the integration of these insights directly into the customer-experience design and redesign process.

Generating insights in an “agile” way in a digital-customer-experience transformation can start with conducting an in-depth user-experience assessment of current customer touchpoints, such as web properties, devices, call centers, and branches. These can then be compared with competitors. By combining this exercise with the zero-based approach to rethinking the customer journey, it

is possible to generate valuable insights as to the strengths and weaknesses of the digital customer-experience design.

During the journey design process, agile insights can then be used to rapidly test new ideas and journey steps with customers, with more scale than traditional focus groups. For example, it is possible to use an online focus group with a carefully selected target audience or live video chats with customers sitting at home testing out a new digital process on screen to provide immediate insights that can help to fine-tune key journey steps. One large European energy player used customer-experience-measurement software to integrate input from text messages, web, and email surveys. One large insurer created digital “diaries” to better understand customer pain points.

#### Achieving customer adoption of digital customer journeys

The awareness of how to build effective digital channels has risen significantly in recent years. However, a typical pitfall we observe is that many projects falter because not enough thinking goes into actively stimulating customer adoption. There are a number of reasons why customers fail to adopt digital channels. In some cases they are related to sales barriers, such as a preference for in-person contact, the speed with which a product is delivered, or e-care challenges, including a lack of personalized experience. Consequently, customers don’t embrace digital self-service channels to the degree desired, limiting efficiency gains and cost savings. Thus, orchestrating and stimulating digital customer adoption thoroughly is a key success factor.

In our experience, there is no “silver bullet” to stimulate customer adoption of digital journeys. Rather, the answer lies in pulling a combination of different levers and iterating approaches based on customer testing. Broad strategies, each with their own tactics, include informing the customer, making

the customer journey relevant to the customer, and guiding him or her to engage:

- *Informing the customer*

- *Using effective marketing techniques*, such as search engine optimization (SEO), search engine advertising (SEA), or offline campaigns, is critical for engaging consumers. Despite focusing on creating digital channels, there still needs to be a well-formed mix between traditional- and digital-media techniques. A great example for this combination is the market launch of Foodora in Germany, where the company successfully applied a mix between SEO/SEA, online awareness campaigns, and offline out-of-home penetration. Other digital pure plays like Amazon and Zalando followed similar strategies.
- *Explaining the usage of the new digital channels*, for example, through videos at physical touchpoints, can also be a highly effective mechanism to promote adoption. Players like Deutsche Telekom, which promotes new cloud services; Alaska Airlines, with home check-in and baggage-tag printing; or HSBC, with its tutorial videos on redesigned online banking are companies that have taken this approach.
- *Triggering initial usage through testing*, user groups, and by pushing reviews has allowed some players to stimulate feedback and word of mouth to gain a critical base.

- *Making the digital journey relevant*

- *Pooling relevant content and creating a delightful experience*, for example, by bundling functionalities in one app, is key, especially for digital channels that are not frequently used. There is only a limited number of apps that individual customers

use, and so these need to contain as much content as possible from the same company. In Turkey, insurer Allianz decided to pool functionalities for health insurance, claims submission, and other services in one app instead of offering multiple apps, which would have a much lower likelihood of usage by consumers.

- *Include high-frequency services to stay in use* (for example, gamification and feedback opportunities). An effective example of this is from the Chinese insurer Ping An, which includes multiple engaging functionalities in its Good Doctor app. In this way, the company triggered higher usage and was able to collect valuable behavioral customer data.
- *Continuously improve and innovate digital journeys*. Draw from user-experience data to increase adoption and success of digital channels over time. Based on effective user-experience assessments and customer tests, some companies have used such simple tactics as developing a new landing page or changing the colors of functional elements on websites to improve subscriptions and click-through rates.

- *Guiding the customer*

- *Providing incentives* is also a major driver for digital adoption. Offering bonus points or other financial rewards is a common approach. This strategy is exemplified by the *British Sunday Times*'s competitive pure-digital subscription offer over traditional ones.
- *Reducing the effectiveness* or limiting access to competing or legacy channels allows companies to further nudge laggard adopters. This signals commitment and confidence in new digital tools or channels.

For example, airline Wizz Air offers digital support on its website for free, while charging a service fee of 15 euros when seeking help from the call center.

To encourage customer adoption of digital journeys, it is critical to not simply rely on the quality of the channel but to find a suitable, individual solution using multiple levers to drive adoption. Furthermore, it is essential to achieve internal alignment in the organization across channel and business-unit leadership. Conflicts that arise among leaders on strategy, targets, incentives, and mind-sets can be highly disruptive.

#### Developing agile delivery of journey transformations

Delivering customer-journey projects often poses a stiff challenge to companies, particularly when it requires solving technological and IT-related issues.

Traditional waterfall delivery models build up research and testing over a long period of time and typically introduce a new effort with fanfare and a big announcement. In contrast, digital leaders increasingly rely on delivering customer-journey transformations following agile methodologies in which high-performing, cross-functional teams work toward a common, customer-centric vision, relying on real-time decision making, rapid iteration, and end products that can be presented and refined continually. There are some key advantages to this:

- Cross-functional teams—including representation from the business, information technology, and other support functions, such as back-end operations—colocate and collaboratively work together toward a single vision for a new customer experience.
- Disaggregating project complexity, by defining a minimal viable product, can deliver a product or service to the customer in only a few months, rather than in a year or more

for traditional approaches. Continuous improvement is also possible.

- A joint push for development in weekly or biweekly sprints set up the team for quick successes on a weekly or biweekly basis.
- Encouraging strong collaboration and daily interactions enables teams to identify and remove roadblocks early and pragmatically iterate designs and solutions.
- Delivery time and risk of failure is minimized simultaneously.



As digital-first disruptors reshape the business landscape, customer demands for more digital services and operational expertise are posing a challenge to incumbent players across all sectors. The response calls for a new operating model that puts the customer's needs and wants at the center of a digital transformation strategy, enabled by redesigned customer journeys and agile delivery of insights and services. ■

<sup>1</sup> See "The CEO guide to customer experience," *McKinsey Quarterly*, August 2016, McKinsey.com.

<sup>2</sup> See "Finding the right digital balance in B2B customer experience," forthcoming on McKinsey.com.

<sup>3</sup> Joao Dias, David Hamilton, Christopher Paquette, and Rohit Sood, "How to start building your next-generation operating model," March 2017, McKinsey.com.

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