Customer metrics: sideshow or game changer?

Customer metrics as a catalyst for genuine change

Global Strategy Group

Capturing customer data and linking findings to business strategy and operating metrics can deliver breakthrough insight. If a company is genuinely committed to customer-centricity, then the leadership team must agree an integrated approach to designing, implementing, and embedding the use of customer metrics, linked to staff incentives. It is important to avoid a ‘one-size-fits-all’ approach of singular metrics, and adopt a more balanced, nuanced set of metrics which reflect the subtleties of customer behavior.

Peter Bull
KPMG in the UK

Anit Roy-Choudhury
KPMG in the UK
Customer metrics can catalyze genuine change

Many organizations fail to harness insights from customer metrics to drive performance.

Capturing customer data and linking findings to business strategy and operating metrics can deliver breakthrough insight. Further, embedding customer metrics into staff incentives can create a customer-centric culture, well equipped to deliver profitable growth. Customer insight is, however, a complex area, and companies should be wary of jumping to simplistic — and possibly false — conclusions.

As companies strive to learn more and more about their customers, new ways to measure attitudes and behavior continue to emerge. Metrics such as Net Promoter Score® (NPS®),¹ and more recently, the Customer Effort Score (CES), have each been heralded as ‘the next big thing’ to make organizations more customer-centric. However, all too often these new metrics fail to live up to expectations, and end up as just another soon-forgotten management fad, or, worse still, the organization blindly implements changes using misunderstood scores.

There are several reasons why customer metrics fail to fulfil their promise. One reason for under-achievement is the (unrealistic) hope that a single metric can act as a ‘silver bullet’ to transform the business. For example, simply knowing that a customer is satisfied does not necessarily explain why she/he feels this way, nor does it tell you which part of your offering has had the greatest positive impact. Although single metrics are powerful in their simplicity, and can highlight the problem to solve, they may be less clear over what is causing this problem, and how to resolve it. To get to the root, organizations should analyze customers in greater depth, understand their motivations, why they feel and act the way they do, and generate strategies and tactics that address their needs more closely.

One reason for under-achievement is the (unrealistic) hope that a single metric can act as a ‘silver bullet’ to transform the business.

Spotlight: engineering firm

This company adopted NPS®: a metric that measures word-of-mouth recommendations, as its main performance indicator. However, in a sector where business is won through openly published tenders, for which any company can bid, NPS® was a weaker predictor of growth and performance than expected.

NPS® eventually found its place as a way to track account management performance within existing customers, and was then linked to the performance appraisals of account managers working for these clients.

© 2016 KPMG International Cooperative (“KPMG International”). KPMG International provides no client services and is a Swiss entity with which the independent member firms of the KPMG network are affiliated. All rights reserved.
Customer metrics are often misused.

In some instances, customer metrics are treated as market research (interesting, but not critical, observations) rather than performance data (key indicators of organizational success).

Consequently, these metrics are not employed to support important decisions on product development, branding, pricing, packaging and service. Customer metrics should be seen as strong evidence that drives specific commercial action, with individuals accountable for tracking the outcomes of their decisions.

Finally, even when customer metrics are integrated into decision-making, their usage is often limited to customer-facing functions such as Sales, Marketing and Customer Service.

Some common customer metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Promoter Score® (NPS®): measures the loyalty that exists between a provider and a consumer, with the customer asked to answer how likely they are to recommend this company. To calculate the score, take the percentage of customers that are considered ‘promoters’ and subtract the percentage that are considered “detractors.”</td>
<td>— proven links to growth</td>
<td>— insights lack depth and require further analysis of other customer drivers</td>
</tr>
<tr>
<td>Customer Effort Score (CES): a powerful metric to measure your customer service satisfaction with one single question: “How much effort did the customer have to put forth to do business with your company?” The underlying principle is that service organizations create loyal customers primarily by reducing customer effort.</td>
<td>— measures the basics of customer experience and therefore helps to develop ‘hygiene’ factors</td>
<td>— focuses on service interactions, primarily in contact centers</td>
</tr>
<tr>
<td>Customer satisfaction (CSat): a measure of how products and services supplied by a company meet or surpass customer expectations, typically defined as reported experience of a percentage of total customers.</td>
<td>— provides in-depth understanding of satisfaction levels across specific customer interactions, products and services</td>
<td>— tends to measure the experience as a whole, rather than identify specific issues</td>
</tr>
<tr>
<td></td>
<td>— can be easily customized</td>
<td>— often based on an intricate model to predict causal relationships and business outcomes</td>
</tr>
<tr>
<td></td>
<td>— can be linked to churn rates.</td>
<td></td>
</tr>
</tbody>
</table>
The key to deriving value from customer metrics lies in taking a holistic view, developing a deeper understanding of customer motivation and behavior, and embedding customer-centricity across the organization. The following three steps steer companies toward this goal, aided by continual learning and refinement:

1. **Identify & align with your intent**
2. **Design the metrics**
3. **Implement & embed the metrics**

Three steps to drive change through customer metrics
1. Define your intent

Organizations should be clear about what they hope to achieve from their customer metrics, and how these will be utilized and shared across the business.

This should stimulate a valuable discussion on the ultimate intent of metrics, involving five key questions:

1. Are we searching for a top-level gauge of progress? Or are we seeking detailed insights to drive specific improvements?
2. Are we primarily looking to address poor customer satisfaction? Or are we trying to create long-term customer advocacy and loyalty?
3. Do we want to influence staff behavior across the organization? Or are we focused on the leadership team?
4. Will the metrics be linked to individual performances and incentives?
5. Do we want metrics to be ongoing, in order to continually learn and change?

Agreement and clarity on these questions from the executive leadership is essential to set the parameters for utilizing customer metrics and the degree of customer-centricity that is being envisioned.

Spotlight: global pharma company

In seeking a single, high-level customer metric to track against overall corporate results, a global pharma company was not able to link the reported scores to specific actions that could improve performance. Management realized that it needed to ask further, deeper questions on issues such as product quality, service and pricing, and integrate operational metrics that connected what customers were saying with what they were actually doing.

The company settled on a combination of metrics, including CSat, NPSSM and other brand, service and value perception measures. When linked with operational measures such as time taken to make a transaction, speed of delivery, time-to-invoice, and invoice error rate, they could determine why customers were satisfied/dissatisfied, and, ultimately, connect these findings with share of wallet and other financial performance measures.

There is clearly a strong link between customer experience and loyalty, but the nuances of such a connection are subtle.
2. Design an appropriate set of metrics

Ensure the customer metrics are clear and support the overall objectives.

The metrics should link “what they say” data (covering customer opinions and views, such as CSat or NPS®) to “what they do” data (‘real’ behavioral data including loyalty and sales).

Customer metrics should be viewed in the same way as financial metrics: as Board-level performance data that influences the view of corporate performance. Once the intent of using the metrics is clear, the appropriate set should be identified to track customer outcomes as well as the primary drivers and root causes — this set could be a combination including operating and financial metrics.

A key performance indicator (KPI) dashboard can then be used to highlight the extent to which the company, and its executives, are meeting customer goals and core business process objectives, and how these are interrelated. As with financial metrics, the presentation of results should be as simple as possible, with clear visuals, supported by an appropriate level of detail and analysis to drive action.

Spotlight: major retailer

When assessing its digital web offering, this client used classic web metrics such as drop-off rates from pages, and customers not completing orders. However, this information was not helpful in explaining why potential customers were not fully engaging with the website.

The leadership team redefined the intent of using customer metrics to be clearly focused on improving revenue performance by addressing poor levels of customer satisfaction in the web-experience. This shift led to the introduction more qualitative measures of customer experience, and asking customers their views and experiences with competitor web sites. Insights gained from these new metrics helped the company build a fuller picture of what drove customer behavior. These insights helped to formulate a fresh web strategy and design, with customer-friendly features aimed at converting viewers to sales.
3. Embed the metrics

Customer metrics are not just ‘useful’ supporting data, but are essential indicators of business performance.

All levels of staff need to appreciate the importance of meeting customer expectations, and be encouraged to prepare and study the metrics as part of their everyday jobs. By embedding metrics into the organizational operating model, companies can make a significant difference to performance:

— Core business should monitor their impact on customer metrics, and in turn can be realigned towards the highest value segments, for example, logistics processes giving valued customers better delivery terms

— Digital infrastructure and support services should maximize customer impact, they can be adapted to prioritize key segments, for example, with enhanced online/exclusive access to products

— Organizational design can also reflect the target segments, with business units devoted to specific groups of customers

— The skills and capability requirements for staff can be expanded to include a deeper appreciation of the importance of customer experience and associated metrics, as part of a broader cultural shift

— Executive incentives could be partly based upon attaining critical customer metrics.

Unbiased questions on experience, satisfaction and other measures, posed at the right point and at the right frequency, should engage both the recipients (customers) and staff. Most importantly, everyone must understand that findings need to be followed up with action. Some of the issues to be considered include:

— How can accountability be created? What decisions will need to be made as a result of gained insights? Who will make these decisions?

— How will the metrics drive behavior, for customer-facing staff, as well as employees (and possibly third parties) indirectly involved in the value delivery chain?

— How can metrics be used to drive broader cultural change?

### Becoming part of the DNA

Selecting the right metrics is, arguably, the easy part. The real challenge comes in instilling the metrics into the fabric of the organization, to create a culture that is dedicated to taking action against these metrics and delivering an excellent customer experience. Metrics should also stimulate continual learning, by evaluating how decisions impact customers, and encouraging new ways to improve products/services, delivery and customer service. The organizational objectives, portfolio of metrics, and methods of survey must be regularly reviewed and assessed, to ensure that they bring the ultimate goal of happy, satisfied customers.
Takeaways

Action points for leadership teams.

If the company is committed to customer-centricity, then executive leadership must agree a unified and integrated approach to designing, implementing, and embedding the use of customer metrics. While the route to customer centricity is not straightforward, the common pitfalls can be avoided by steering clear from a ‘one-size-fits-all’ approach of singular metrics, and adopting a more balanced, nuanced set of metrics that recognize and account for the subtleties of customer behavior — delving into the ‘why’ beyond the ‘what’.

Finally, once the set of metrics is agreed, it is imperative to embed the metrics across the organization, turning observations into actions that can drive improved customer outcomes.
1. Net Promoter, Net Promoter System, Net Promoter Score, NPS and the NPS-related emoticons are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.
The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG International Cooperative (“KPMG International”), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by CREATE, CRT093692A | June 2016