



# The untapped potential from delivering for customers

Organizations that truly deliver for customers know that understanding what they want is only a first step: the whole enterprise must evolve to meet customers' priorities.

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**How often do organizations** make the right promises to customers, follow through on them, and keep doing so year after year? Not nearly as often as most would hope, despite the commitment that so many organizations have made to gathering and using “customer insights.”

Too often the data companies look to for these insights do not help in making the operational decisions that are crucial for customers to get what they value. Moreover, the parts of the organization that are most responsible for turning promises into reality may be too rigid and isolated from customers to respond quickly to their changing circumstances. Not surprisingly, everyone has heard stories about operations teams that are in the dark about new marketing strategies, resulting in confusion in the field.

Lean management recognizes that to bridge the gap, an organization not only must understand its customers better but also, and equally important, must better translate those insights across the enterprise, so that all its operations more closely match customers’ priorities. And as those priorities evolve, so must the organization’s, as it continually searches for new ideas that customers will see as further reason to do business with it.

To reach that point, however, we find that the typical organization must rethink how it looks at customers and at itself, usually through three stages: reorienting around the customer’s journey, making that journey effortless, and engaging emotionally with the customer throughout the journey.

As a first move, an organization focuses on the basics: providing what customers want (and not what they don’t), how they want it, at the right combination of quality and price, all while

minimizing resource use. It learns to view fulfillment of customer promises not as a succession of transactions or touchpoints, such as funding a loan or answering a call-center request, but as *streams of value*, or “*journeys*,” that have a start, middle, and end, which carry the customer from request through to fulfillment. Rearranging how the organization operates so that these journeys flow quickly and smoothly results in greater stability, allowing the organization to better balance its resources in response to incoming workflow.

In competitive industries, just giving customers what they say they want is no longer enough. “How” begins to matter even more than “what”: an organization that makes it easier for customers to interact with it, or that provides more value for the same cost, will tend to make inroads over its peers. And by this stage, the lean organization’s new capabilities allow it to do more. Its *journey perspective* matures, letting the organization start to anticipate customer needs even before customers are necessarily aware of them. Rather than just provide the service the way customers say they want it, the organization can make the whole process effortless in ways the customer might not have imagined.

A few organizations have reached an even more powerful “virtuous cycle” that yields the greatest competitive advantage. The systems that the organization has built allow its people to develop a *deeper understanding of customer psychology*, to the point that they can move beyond serving customers to engage emotionally with them—to making their experience of the company memorable because it strengthens an emotional connection.

Attaining even the first stage will require time and patience. A European energy company, described

in more detail in “The truth about customer experience,” added €4 million in revenues just by smoothing the process for customers who moved their households—part of a broader transformation that has netted more than €50 million. Yet pushing further promises even better results. One multinational financial institution, for example, has spent the past several years systematically building on earlier successes to raise its customer-satisfaction scores in every segment from retail customers to large corporations.

#### Understanding needs in operational terms

Organizations now know more about their customers than they ever have before. But despite the technological and analytic breakthroughs that have made amassing customer insights so easy, the payoff has often been disappointing, especially considering that less expensive efforts can yield better results (see sidebar “What price loyalty?”).

In our experience, problems with delivering for customers result from a failure to align the insights the organization is gathering with its operational ecosystem. A South American bank provides a typical example in its handling of customer complaints: it spent enormous amounts of time, money, and managerial energy on defining different types of complaints with almost-scientific precision. But the outcome was a list of some 1,300 different issues, each with its own resolution process. For the frontline employees trying to resolve complaints in branches or over the phone, the list was of no use—it left them making vague, hollow-sounding promises of when the bank might be able to address the customer’s issue. And just keeping track of the relevant information requirements became almost impossible, multiplying the opportunities for further error and delay.

Gathering and assessing data—even with unprecedented detail—clearly was not sufficient to address customer needs. The bank needed a broader understanding both of the customer’s experience and of its own operations so that it could bring them into a closer balance.

#### Following a journey

Today, most organizations think of customer interactions as individual interactions or *touchpoints*, such as a customer lodging a complaint or a credit review for a loan application (this is also discussed in “The truth about customer experience”). Touchpoints thus shape organizational design, with employees arranged into separate groups such as “tellers” or “customer service” or “underwriting.”

But customers do not experience processes in this way. They see a goal that they want to achieve, and the steps matter only if they seem to get in the way. The fact that the underwriting and call-center units may be entirely distinct is irrelevant to the customer; from the customer’s (and even the organization’s) perspective, the reason those units exist is that they are all involved in approving her business loan.

Even tasks that seem purely transactional are journeys, albeit simpler ones. And, like the customer applying for a loan, the South American bank’s customer with a complaint to resolve was completely indifferent as to which internal unit the resolution came from, so long as it resolved the problem completely and quickly—in other words, so long as it involved as few obstacles as possible.

#### Unblocking value streams

The bank experiences the customer’s journey as a value stream, or the sequence of activities involved in providing a service—in this case,

resolving the customer's problem. The obstacles that customers can see on their journeys, such as long wait times for complaint resolution, block value streams and, in many cases, the creation of value as well.

Furthermore, visible obstacles are usually only symptoms of much deeper issues that the

organization must address (see "Building a problem-solving culture that lasts"). Lean management thus provides a comprehensive series of diagnostics that assess value streams from start to finish, uncovering blockages. It then builds new capabilities that reduce the blockages and create capacity so that the organization can handle more volume, define

## What price loyalty?

One of the central questions that organizations confront in thinking about customer experience is return on investment—how likely is it that the investment will create loyalty, and how does that loyalty translate into revenue?

For many organizations, skepticism on both points keeps them from committing more deeply to improving customer experience, instead keeping it as more of a marketing exercise than a source of real operational or strategic insight. Perhaps it is no surprise, then, that despite years of promising "customer centricity," meeting customers' expectations still represents a huge challenge for many organizations—and, in far too many cases, a huge change. In the United States, for example, the American Customer Satisfaction Index<sup>1</sup> tracks sector and company customer-service survey scores from 1994 to the present. Over that period, scores in sectors such as finance, retail, and air transport barely budged, even though their baselines were all well below 80 on the 100-point scale. Indeed, the highest scores were in mature manufacturing industries such as automotive, personal care, and televisions and video players.<sup>2</sup>

This period also saw an explosion in customer data, with the rise of the Internet providing unprecedented opportunities to assess how customers really behave—what information they use, which product combinations they want, how they respond to different prices. Yet the fact that customer satisfaction has barely moved suggests a deep disconnect between customers and the organizations trying to serve them, one that even today's customer insights cannot alone address.

While teasing out the long-term effects of greater loyalty is inherently difficult, organizations that manage to strengthen customer experience are seeing encouraging results, and often with only modest financial outlays. At a European bank, for example, delays in processing commercial loans had led customers to abandon 8 percent of loan applications before completion. Targeted changes that sped up response times largely eliminated that type of "leakage." Similarly, customer-experience investments at an emerging-market credit-card operation reduced its churn rate by more than 30 percent, while also increasing sales of other products.

<sup>1</sup>A collaboration among the American Society for Quality, CFI Group, and the University of Michigan Ross School of Business.

<sup>2</sup>National, Sector, and Industry Benchmarks, American Customer Satisfaction Index, October 2013 (theacsi.org).

## Building capacity

In turning customer insights into a new operational design, one of the most important tasks is better management of capacity. That comprises four elements: tighter management of demand, a more flexible operating system, agile matching of supply to demand, and transparent performance metrics. Together the four make it possible for the organization to meet customer demand at the optimal junction of quantity, quality, speed, and cost.

The first element, rigorous and frequent analysis of demand, eliminates items with low value to customers and, where possible, smooths the arrival of demand to reduce variability and operational strain, while building flexibility to accommodate the variability that cannot be eliminated. The organization will need accurate, responsive tools for tracking demand in detail; for insurance claim processing, for example, this would start with arrival patterns for claims by

customer segment, type of claim, and region. The data might show that, for most of the year, auto-property-damage claims in the Southeast average 10,000 per month but spike to 15,000 per month in the winter. Meanwhile, in the North Central region, the same claims average 8,000 per month but spike to 12,000 during summer storms. The organization can then build “baseload” teams that handle the constant numbers, while cross-training a “peak” team to provide supplemental coverage for each region’s peak season.

Counterintuitively, flexibility depends to a great degree on standardization. By developing “standard work” documents that codify employees’ best practices, the organization enables all employees to improve the quality, quantity, and speed of their work, while making it easier for managers to move tasks from one employee to another as demand and capacity shift—

new ways of working, or have time for other activities altogether, such as long-term strategic initiatives or innovation opportunities.

Value-stream mapping<sup>1</sup> shows, for example, where two different functions involved in a process use the same information but fail to share it, resulting in two identical queries to the customer. Touch-time data highlight the gaps between the amount of time a customer request is actually worked on (or “touched”) and the amount of time it spends not being worked on. From the results of these and other analyses,

the organization can create an end-to-end map of value streams that correlates much more closely with the customer’s view. Rather than centering its attention on a relationship-manager team, a credit department, a compliance group, and a funding desk, a bank can begin to see how each unit helps—or hinders—a business-loan application.

In parallel, the organization must also improve how it handles its day-to-day tasks. The most urgent is more sophisticated demand and capacity management at every step in a journey,

<sup>1</sup>This is also known as material and information flow analysis, or MIFA.

whether because of normal variation or because of unexpected events. Likewise, employee skills will require standard definitions, along with monitoring as employees learn more. From that, the organization can develop a “skills matrix” that summarizes the total skills available at any point in time, highlighting any priority areas for additional training. The combination allowed a European financial institution to meet a sudden spike in demand for one of its products by reallocating personnel that it already knew had the right advanced training.

On a daily basis, line managers will need a defined method for estimating resource requirements and making adjustments as circumstances evolve. Ideally, a step-by-step guide will help these managers set up their team each day, based on demand forecasts, the skills matrix, and resource availability. A more detailed planning tool will translate actual volume data into staffing requirements, with indicators showing how well

demand is being met so that the managers can easily see which areas are over or under capacity. More-senior managers, with the crucial task of balancing resources among teams, will then follow up with quick huddles over the course of the day, reallocating work or staffing as needed depending on current conditions.

The final component, performance metrics, provides crucial reinforcement by helping define targets and supporting capability and capacity. The data underpin daily meetings that review previous performance, uncover problems, and identify potential best practices that others can learn from. And they inform the regular dialogues between managers and employees, in which managers check processes and help employees build their skills.

so that the organization can match its resources more effectively to the dynamics of the actual work. Ideally, the organization wants sufficient flexibility so that it can fulfill its promise to each customer by having the right person available at the right time to work on that customer’s demand (see sidebar “Building capacity”).

That takes effort. But it usually creates additional time as well, which the organization can devote to additional problem solving and cross-training—measures that, in turn, help improve quality management, production flow, and fulfillment

practices. The result is tighter resource utilization and better responsiveness to customers.

Once the South American bank realized that its elaborate complaint classifications did not work in a way that made commercial or operational sense, it completely reassessed its approach in a way that let it improve on its customer promises. Rather than defining each specific complaint type, the new focus would be on channeling complaints to the employees best able to resolve them quickly and completely—an especially powerful technique

in service environments where, as this bank discovered, other forms of segmentation prove too complex.

For simpler complaints, frontline employees in branches and call centers would provide the solution on the spot. If a complaint required somewhat more work, the front line would refer it to a resolution team and promise a response in two days. Those two categories accounted for almost all complaints. Only the most complex issues—such as ones that raised legal or compliance issues—would go to specialists in the relevant fields, where resolution might take five days. The result reduced delays by 70 percent and allowed the bank to cancel a costly upgrade it had planned for its customer e-mail system.

#### Further horizons

Once all of these elements are stable throughout an organization, everyone from the call-center operator to the leader of the business begins to

think and feel as the customer thinks and feels. The organization can now find new opportunities to improve on the value it provides; as performance increases, its people will start to ask what is keeping it from performing still better (see “Performance from problem solving: An interview with three leaders at MassMutual”). In the nearer term, the ensuing changes can make customers’ experience effortless; eventually it can engage their emotions in a way that promotes a deep relationship.

#### Making it effortless

By increasing its analytic capabilities to cover more data sources and better integrate their findings, the organization can begin to anticipate customer needs before they surface. Some of these moves may rely on technology and big-data investments, such as the location-based coupons that credit-card issuers in some markets are already offering to smartphone users—walk past a restaurant at dinnertime and receive a text message with the night’s drink specials. But others require not much more than better use of the data that many organizations already have.

Small changes can add up. At the multinational bank mentioned earlier, customers dialing in from mobile phones had a difficult time entering their full account numbers for verification. The bank found that it could achieve the same level of security by requiring only the last four digits, reducing customer burden and call length simultaneously. It later extended the four-digit approach across all customers and platforms for even greater simplification.

Other organizations are now filling in application forms using data they have already collected from their customers. The next step is to refine the underlying processes even further to reflect deeper understandings of the customer.

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For example, first-time mortgage customers are likely to need much more help than customers who have already had at least one mortgage. For “experienced” customers, lenders could offer faster turnaround with consolidated data requests, while first-time customers would follow the detailed step-by-step process and receive extra hand-holding. Once the mortgage closes, the bank could offer to monitor the customer’s direct-deposit history and credit rating, together with interest rates, to see when the customer might qualify to refinance at a lower rate.

#### Engaging customers emotionally

A few highly advanced organizations, where customer insights, demand and capacity management, and related capabilities have attained real maturity and reliability, push customer delivery to its ultimate end: a connection that thrives at an emotional level. In a sense, these organizations are able to achieve at large scale the kind of connection that typically can occur only among networks of people who know each other exceptionally well, such as the US credit unions that perpetually outscore national banks in customer-satisfaction surveys.<sup>2</sup>

The achievements rest on the realization that emotional engagement is replicable—it’s a matter of refining procedures to include emotional elements, much in the way that salespeople learn to listen for small changes in a customer’s voice to know when to make an offer. What is crucial is that the additional elements feel genuine both to the employee and the customer. So long as they do, emotional procedures can go through the same cycle of training, practice, evaluation, and improvement as would any others.

The multinational bank from the earlier examples is successfully following this idea after it revamped its branch organization several years ago. With competition in its home market intensifying, the bank’s leaders recognized that the institution still had substantial room to improve its customer service. The mantra became not just satisfying customers but also making them feel heard and appreciated.

Everyone who might interact with a customer, from security guards through to senior managers, now gets training in emotional awareness—in recognizing and responding to customers who are upset at a financial problem or excited about a new job. Greater emotional insight carries through to process design as well. Rather than just looking for new ways to reduce wait times in branches, the bank sought ways to make the remaining wait time more enjoyable. Frontline employees bring emotional awareness into recognizing and solving customer problems: they helped establish a new procedure allowing customers to enter a branch shortly after closing time if employees can tell that the need is truly urgent, such as cashing a paycheck. Employees can likewise give a one-time waiver of credit limit to help a customer in crisis, cementing loyalty at a particularly intense “moment of truth.”

<sup>2</sup>ACSI Finance and Insurance Report 2012, American Customer Satisfaction Index, December 11, 2012 (theacsi.org).

The larger result is a highly predictable experience in which customers know in advance that the bank will follow through on its promises. Customer satisfaction has risen by between 5 and 13 percent in a single year. For every segment, it is now the most-referred bank in its home market.



Delivering consistently for customers requires much more than simply understanding them. It means making the much deeper transformation that brings all of the other lean-management

disciplines together—developing people, finding new ways of working, and connecting strategy, goals, and meaningful purpose. That combination is what makes it possible for the organization to fulfill all of the promises that together constitute a customer relationship. ○

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