Interview

Customer
first
thinking.

The Customer Experience Gap

An Interview with Colin Shaw, CX Pioneer and Founder/CEO, Beyond Philosophy

Colin Shaw:

Colin Shaw is one of the world's foremost experts on customer experience and the author of "The Intuitive Customer".

You hear it practically everywhere these days – the mantra, *We Put Customers First*. A claim every business now believes it needs to emphatically declare. It shows up in corporate mission statements. On wall posters. In Letters to Shareholders. On the corporate web site. In anthem videos. Even CEOs will give lip service to it, except, of course, when they're in front of shareholders. Because, for most businesses, profit still comes first. But since that is no longer politically correct to admit, at least out loud, most businesses prefer to give the impression they care a lot about their customers.

If that was true, of course, customer satisfaction levels would not have flatlined since 2010. Over that time span, according to the American Customer Satisfaction Index, almost 80% of companies have been unable to improve their customer satisfaction ratings. The easy fixes were checked off long ago – the worst pain points alleviated. The challenge today is living up to the continually evolving expectations of customers. Which is why CX has moved to the top of the corporate priority list. Every business leader now realizes that the quality of the customer experience has become a competitive battleground.

The problem is that digital disrupters keep moving the goalposts, raising customer expectations even higher. While COVID panicked companies into upgrading their e-commerce infrastructure, there remains a large gap between the transformational changes that need to be made and the capability to make them happen. An even larger gap exists between what businesses think they know about the needs of customers and what those customers actually see as essential. That knowledge gap is difficult to eliminate if a business is not close to its customers - if it has no clue how customers feel about their experience. Without knowing the true extent of those feelings, it becomes hard to know what should be fixed next.

Lack of corporate urgency is also a factor. If a business is content with incremental improvement, or is just looking to muzzle the noisiest complainers, or prefers to minimize the pain that accompanies radical change, customer attitudes are unlikely to improve anytime soon. Even the most ardent internal crusader will eventually wilt after too many times hearing "That's not how we do business". For a transformation initiative to succeed, everyone has to buy in to the importance of it. Especially executive management.

An unequivocal CX vision statement and charter will help to keep everyone aligned and on track; otherwise the internal barriers will seem insurmountable. The transformation process begins with customer insight – what customers really want, even if they don't quite know themselves – followed by a reimagining of what an ideal experience looks like. And then the various transformation initiatives must be carefully lined up and staged based on the financial trade-off between the best interests of the customer and the degree of time and effort required. The eventual payoff must be clear to everyone and that means figuring out the impact of those changes on future cash flow. Above all, it means developing an organizational culture committed to putting customers first.

All of that can be a complex and formidable undertaking. Which is why it requires a customer experience pro like Colin Shaw to craft a proper transformation roadmap. He is a pioneer in the field, having written a series of best-selling books on CX. His latest book, "The Intuitive Customer", explores why companies are struggling to improve their customer satisfaction, starting with the fact that people's intuitive feelings about their experience matters much more than what they might rationally think about it. People's loyalty, he believes, is formed out of memories. The goal in experience design, therefore, is to leave people with memorable moments.

I started by asking Colin what motivated him to start his consultancy 20 years ago when at that time customer experience was not the hot topic it is today.

CS **Colin Shaw (CS)**: Reading Pine and Gilmore's book, "The Experience Economy," which came out in 1998[1]. I thought, bloody hell, yeah, this is going to happen. And then I spent the next couple of years trying to improve the customer experience at BT and realizing this is going to be a big area of change for business. So I had that very difficult conversation with your wife when you want to suddenly take a big career jump and think to yourself, "Well, maybe I'm going to end up in the local job center looking for a job in six months if this doesn't work." So I set up Beyond Philosophy back in 2002.

SS **Stephen Shaw (SS):** What was the thinking behind the Beyond Philosophy name?

CS When I was back in corporate life, there was a load of clever people who used to come in from all of the big consultancy companies with great ideas. But when you asked, "How do we actually do that?", they never had a straight answer. The best thinking in the world means nothing unless you can operationalize it - actually change a customer's experience. So you've got to have the thinking, the strategy, the philosophy, but you've got to go beyond it and do something. Don't just talk about it, do it.

SS 2002 was very different time, very call center focused. Is that where most of your early client work was spent, improving contact centers?

CS No, not really, although my last role in corporate life was running call centers. But no, the early work was more in strategy, helping people understand, first of all, what a customer experience is. And the second area was implementation - how do we actually do this? How do we measure it? How do we monetize it? All those types of things.

SS Was CX a hard sell at that time? Customer experience was not that common a term, notwithstanding Gilmore and Pine's best-selling book.

CS Nobody understood what the hell customer experience was! But there were loads of people who wanted to learn about it. By then I had written my first book on the subject[2] and so I had the credibility of a big publishing house.

SS One of the main tenets of your latest book is that knowing how people actually feel about an experience, not just what they think about it, is pretty important - that loyalty is, in fact, a function of memory.

CS Yeah, absolutely, and I think that's probably the biggest thing I've learned in the last ten years. Memory is really important to customer loyalty. So there's a guy by the name of Professor Daniel Kahneman[3]. He's one of my heroes. And what Kahneman says is that we don't choose between experiences; we choose between memories of an experience. So by definition, loyalty is a function of memory.

SS Is that a good or bad memory - or a range of emotion, from positive to negative?

CS Nothing is ever binary. There's always shades of gray. What Kahneman talks about is how we remember an experience. We remember the peak emotion that we felt and we remember the end emotion that we felt[4]. Now to your point, the peak emotion or the end emotion could be positive or negative. It could be that you have a good peak and a bad end. So you need to understand how customers think and how they make decisions. If you're doing journey mapping, what is the peak emotion that your customers are feeling? What is the end emotion? Is that the emotion that you want them to feel? And does that emotion drive value or not? Most organizations don't know the emotion that they're trying to evoke, and they certainly don't know if it drives value. So knowing that memory is really important: what are the implications, what should I do, and how do I do it?

SS People experience a rollercoaster of emotions across different channels, where you might have a bad experience here, a "meh" experience there. Do you average out those emotions? Or is it the last emotion you felt?

CS It's an averaging out but with a bias towards the end. So if I was to quiz you on your best restaurant, there will undoubtedly have been times when things didn't go 100% well, but you've not written it off just yet. Or it could be that they did something really bad to you which makes you vow, "I'm never going back there again." You are intuitively making a gut decision based upon all of those things. When I ask, "What's the best restaurant?", it's an intuitive choice. You don't sit down and say, "That's a very interesting question, Colin. Let me get a spreadsheet out and mark down what happened each time I went there." It's not a rational choice, it's an intuitive decision. The restaurant doesn't want you to think about which restaurant you're going to; they want you to automatically decide, "I'm going there."

SS In your book you use the term, "cognitive depletion" – another one is "cognitive misers". Is that just a polite way of saying people are really lazy, irrational thinkers?

CS We have two ways we make decisions: intuitive and rational. The intuitive decision is made automatically. You don't have to think about it. It doesn't take much effort. The rational part of your brain makes rational choices. So if I said to you, "What's 147 times 212?" you would have to sit down and think about it - and don't ask me the answer because I haven't got a bloody clue - but you get the idea, okay? There's effort involved. Under normal circumstances, we make intuitive decisions because it's easy, and it's instantaneous, and it's based upon what we've done before. Human beings have evolved to make those types of choices because thinking takes power and energy. Where do we get energy from? Food. In primitive times, food was scarce, and therefore, we developed, evolved, in a way to minimize effort. So cognitive depletion is a very posh way of saying, "I'm tired and I don't wanna think about it."

SS Another term you use is "emotional signature" where you'll go into a company and profile where a business is on an emotional spectrum. How hard is that to change? The example I think of immediately, because of your BT background, is telcos. The whole industry is viewed with such disdain. How is that "guilt by association" even possible to reverse?

CS Yeah, it just seems like a race to the bottom, and why is that the case? Because the telcos are making enough money as it is! So the motivation to change is not there. The problem with telcos is they don't want to see the opportunity. I remember talking to a bunch of German actuaries at an insurance company - and German actuaries are not exactly known for their emotional intelligence. One of the guys said to me, "Colin, I understand all this emotional stuff, but prove to me that we will gain a return from this." And that was a very good challenge, okay? So we went on a quest trying to understand which emotions drive value. And what we discovered was that there are 20 emotions that drive and destroy value. What you want to do is define the emotional signature – the emotions you want to evoke - and then start to change the experience by evoking those emotions. Let me give you an example. Maersk is the largest container shipping company in the world. Very left-brain oriented. By focusing on the emotional parts of the experience, they improved their Net Promoter Score by 40 points over a 30-month period that led to a 10% rise in shipping volumes.

SS Go back to my point about telcos: turning the ship around is a bit of a challenge, and so I presume you need to convince senior management that this is going to pay off in the end.

CS Yeah, absolutely, and therefore, typically you do it in stages. And again, Maersk was a classic example. "Look, your marketplace is very commoditized. The cost of shipping cargo around the world is constantly being driven down, there are more players in the market. How else are you going to compete? Don't you think you need to look at improving the experience?" "Okay, but we don't want to commit." "Okay, let's do this research before we put a business case together." So we put a business case together. "Now let's run a pilot in certain parts of the world to see if this plays out. Oh, look, it's playing out. We're starting to get better returns in the pilot regions. Okay, so now let's look at rolling out." But you're right, it's not instantaneous. There are quick wins that you can gain pretty instantly within the first three to six months, but to get the big returns it takes time.

SS Another example you cite is Ricoh Canada. I think today their NPS is something like 74%. They credit you with being the main reason for their success. Was that because the executive management viewed the challenge as a holistic one, not a patchwork exercise?

CS Yeah, absolutely. So the CEO didn't dictate to his people but he showed the opportunity that was there. We then did what we call "getting it" sessions, so in other words, getting people to understand what customer experience is, talking through case studies, showing them what other organizations had done, getting them to think about the type of thing they needed to do to change. You never get a phone call saying, "Hey, come in. We've decided to run a company-wide initiative to improve the experience." You have to prove that it works. And you always get the doubters. You always get the people that don't think it's the right thing, and that's fine. Just work with the people that do.

SS Customer satisfaction is the lowest it's been in two decades. If customer experience is so important, what accounts for the lack of progress?

CS The American Customer Satisfaction Index has been around now for, well, since 1994, if memory serves me correctly[5]. For the period of time between 2010 and 2019, only one third of organizations improved their customer experience. Now for me, I am gobsmacked by that. Despite all the resources they've put in, despite all the consultants they've employed, the question clearly becomes, why? One of the big reasons is people are focused on the wrong things, okay?

So here's the issue: You shouldn't necessarily listen to what your customers ask for. Organizations are focusing too much on what customers are telling them they want, and it's not what they actually want. I wish I had a dollar for every time I hear a client say, "Our customers only buy on price." We've never, ever found, in the hundreds of pieces of research that we've done for clients, that people make a decision solely based upon price. It's never the number one thing that's important. There are things that are far more important than price.

The other thing that's been happening is organizations have not really given their people the latitude to change things enough. They've given them responsibility without authority. And I think the third thing is that clearly the pandemic has exaggerated the cracks in organizations. So they've cut back on staff, they've stopped training people, they just want to get as many bodies as they can in the customer service center because they've got calls to answer. It doesn't matter if they're the right people or the wrong people, they just need to get people to answer phone calls. They push you to the website and the web site's not designed to answer your questions.

SS CSAT used to be the standard measure of customer satisfaction until NPS displaced it. Do companies need a broader basket of metrics to really improve the customer experience?

CS Yeah, short answer is yes. The longer answer is, I like Net Promoter and I've known Fred [Reichheld] for ages. I think it is a good measure but it is only one measure. One of the key questions that we ask our clients, which is a really, really simple question that most organizations can't answer, is, "What is the experience that you're trying to deliver?". And what you typically find is, people will have an opinion of what it is, but that opinion will be different depending on what part of the organization you're dealing with. So sales will say one thing, marketing will say something else, customer service will say something else. Why am I saying this in the context of NPS? To give you an example, Maersk Line wanted their customers to trust them, to feel cared for, and to feel pleased, no matter what type of interaction. And so you measure that. You measure whether customers are feeling those things by asking them those questions directly. So I think Net Promoter is a measure which is good, and it's simple to understand, and everything else, but there are a number of other measures that should go alongside it as well that are equally as important, and too many organizations think NPS is the ultimate answer and it's not.

SS What's the ideal customer feedback loop look like? There's the measurement piece - got it, but what about the diagnostic part?

CS Yeah, so I think the first thing is you need to think about different aspects of measurement and how you do it. So let me give an example. We were working with a home improvement organization who told us, "Our NPS is 27", just picking a number, OK? So I said to them, "Well, that's great. So which part of your journey do you need to improve to make it 30?". "Well, I don't know." So you should be measuring the different parts of the journey. That's why the feedback loop is important. The other thing is, all too often organizations are only doing research on their customers. They're not doing research on people who have left them, and they're not doing research on people who have never even been with them. And it's the last two areas that can be the most insightful because clearly you want to find out why the customer left, and what you can do to get them back. And you want to find out what people who have never been your customer think of you.

SS If I lose my best customer it's going to sting at least five times more than losing a so-so customer. Retaining those high value customers is critical. If you're going to focus on anybody, shouldn't you focus on them?

CS Yeah, most organizational segmentation is so poor, it's unbelievable. "I've got big customers, I've got small customers, and I've got medium-sized customers," or "I've got customers that buy this product or that product." For us, some form of behavioral segmentation is key.

SS Who should own the customer experience? You're a big proponent of customer experience councils. And where does marketing fit into the picture? What's the best structure for organizations to consider?

CS Ideally, there should be a Chief Customer Officer who reports to the CEO with the authority and responsibility for the total customer experience. They would work with their colleagues in different areas to improve the experience. But in practice, very few organizations do that. What's the role of marketing? Well, marketing is there, in my book, to say, which markets should we be in, what is our offering, what is our proposition in that market, and how are we going to go to market. But if you aren't going to appoint a chief experience officer, I'd probably say, "Stick it in marketing". But the reality is I've worked in organizations where marketing create brochures. They are functions of sales teams rather than anything else, particularly in the B2B space. Therefore from a more pragmatic perspective, I would ask, "Is there someone, or some part of the organization, with the respect of everyone who can help to drive change?"

SS What's the best way to overcome internal resistance to change? Do you go down the path of incentives? Is this why it's really critical that the CCO is reporting up to the CEO and not the COO to have the authority and sway to be able to overcome those forces of resistance?

CS Go back to our conversation about the telcos. They clearly don't believe that they need to do much, otherwise they would be doing it. So you need to create a sense of urgency. The other thing I would say is you've got to tell people what kind of experience you're trying to deliver. You then have to turn around and say, "The implications are you need to do this. And this is how we're going to measure you, and this is how we're going to reward you". I believe in the stick and the carrot. If you don't achieve your measures after us coaching you and doing all the right things from a management perspective, then maybe you're not the right person for this role. And the carrot is, if you achieve your target, here's an incentive for you. Here's a bonus for you to help us achieve those targets.

SS Right. But also, importantly, I imagine the C-suite can't be sending the wrong signals either. So to your point that you made earlier in this interview, you have companies, especially through the pandemic, cutting back staff, budgets, etc., sending the signal that profits trump purpose.

CS You're making me think about a conversation I had with Glenn Laverty, who was the CEO at Ricoh. I asked him one day, "Glenn, if you had your time over again, what would you do differently?". Now bear in mind that Ricoh improved their Net Promoter Score by 34 points over a 30-month period which led to a 10% rise in a shrinking printer market. He said, "I would've got customer experience measures across the organization sooner than I did."

SS You like to take clients on study tours of best-in-class companies. What do these companies have in common?

CS They believe that improving the customer experience will make more money for them, more profit. It's about the mindset of the senior team that permeates through the organization. If the mindset is only about profitability, process, transactions, then guess what? The customer experience ends up being about cost cutting. So it's the mindset.

SS So the mindset of putting customers first drives business value?

CS So yes, but the only caveat I would say is - because this is where people do make a mistake - putting customers first does not mean that you should give customers everything that they want. There are some things you can't do because it doesn't make logical business sense. But the mindset of the organization is the key.

1. The "Experience Economy" is a term first used in a 1998 HBR article by B. Joseph Pine II and James H. Gilmore, later to become a book by the same name.
2. "Building Great Customer Experiences", Palgrave Macmillan; 2002
3. Daniel Kahneman is an Israeli American psychologist and economist renowned for his work on the psychology of judgment and decision-making.
4. The peak–end rule states that our overall impression of past events is determined by we feel at its peaks and at its end.
5. The American Customer Satisfaction Index is an economic indicator that measures the satisfaction of consumers across the U.S. economy.

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