

BREAKING THE CODE

**CUSTOMER-DRIVEN
LEARNING AND
INNOVATION**

CONTENT

ACCELERATING GROWTH AND INNOVATION WITH CUSTOMER-DRIVEN LEARNING

UNDERSTANDING CUSTOMER-DRIVEN
LEARNING AND INNOVATION

LISTENING POSTS: GATHERING CUSTOMER FEEDBACK ACROSS ALL CHANNELS AND TOUCHPOINTS

LEARNING SYSTEMS: COMBINING HUMAN INTELLIGENCE AND TECHNOLOGY

CUSTOMER-CENTRIC ALIGNMENT THAT FUELS INNOVATION

PUTTING IT ALL TOGETHER: LEADERS DRIVE REVENUE GROWTH BY FUELING INNOVATION WITH REAL-TIME CUSTOMER FEEDBACK

ANY IMPROVEMENT HELPS, BUT
COMBINING COMPETENCIES
MULTIPLIES THE EFFECT

USING CUSTOMER-DRIVEN INNOVATION TO NAVIGATE A CUSTOMER-DRIVEN WORLD

BREAKING THE CODE CUSTOMER-DRIVEN LEARNING AND INNOVATION

The best-performing companies use customer feedback to fuel learning and innovation. This research reveals the formula for doing it well.

3

5

6

8

11

13

14

15

ACCELERATING GROWTH

WITH CUSTOMER-DRIVEN
LEARNING AND INNOVATION

It has never been easier to know what's on your customers' minds.

Through feedback, behaviors and data, consumers are making their desires felt. That includes what makes them tick—or just ticked off. Companies that learn from this treasure trove of customer data and use it to innovate their products and services will be well positioned to thrive in the years ahead. And if you're looking to up the ante even further, listening to your employees—especially those in direct contact with customers—helps even more.

The following scenario is being played out in wood-paneled boardrooms across the country. Imagine this: You're the CEO of an auto and home insurance company. Your board of directors wants to know how you plan to tackle some of the toughest challenges facing your company and the industry overall.

- Decreasing demand, as millennials buy automobiles and homes at a lower rate than their predecessors
- Reduced brand loyalty, as well-informed consumers evaluate competing brands, using online tools and aggregators that are cutting into your margins
- Rising claims costs due to higher auto and repair prices
- The need for better integration of customer data, as consumers expect to move across channels in a consistent and seamless experience

These challenges are real, and hard to ignore. According to a 2017 Accenture estimate, they could reduce an insurance company's profitability by 40 percent over the next five years.¹ And the business of insurance is just one example—no industry is immune.

A solution is possible, but it requires a big shift in how you operate and how you innovate. It requires a company-wide focus on customer-centricity and improving the customer experience—and ultimately using both to drive and achieve innovation.

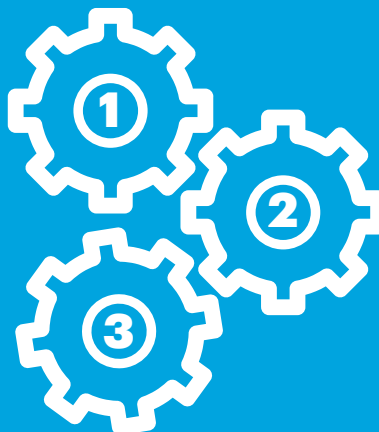
The ability to create new sources of customer value—not just once, but continuously—has become a key differentiator and source of competitive advantage in virtually every market.

HOW DO THE BEST COMPANIES ACCOMPLISH THIS?

Our research suggests that customer-driven innovators—companies that both enhance and learn from the customer experience—have three main competencies that allow them to consistently deliver greater customer value:

Listening posts that capture sentiment across all channels.

Customer-centric alignment that makes it possible for companies to act and adapt rapidly.



Learning systems that use digital intelligence to spark and enable human ingenuity.

Leading customer-driven innovators do these three things—and combine them better—than do laggards. In fact, they use them as their engine for growth and innovation.

¹ "Perfect Storm Threatens to Sink Insurers Earnings by Nearly 40%," Accenture, January 3, 2017 decisions

UNDERSTANDING CUSTOMER-DRIVEN LEARNING AND INNOVATION

To better understand the specific practices that customer-driven innovators use to anticipate, act on, and adapt to the changing expectations of a more empowered consumer, Accenture and Medallia surveyed 450 senior customer experience and marketing executives across the US, Canada, UK, Germany and Australia. Respondents worked in large enterprises, most earning \$1 billion or more in annual sales, across a range of industries.

Companies that ranked in the top quartile of customer experience *and* reported their customer experience was improving were classified as “leaders”. Companies that ranked in the bottom quartile and said their customer experience was static or declining were classified as “laggards”.

We then examined whether leaders and laggards differed in terms of their overall performance. We found that leaders were 32 percent more likely than laggards to create innovative products and services based on customer feedback. They were also 86 percent more likely to achieve revenue growth. We concluded that our leaders were more likely to be customer-driven innovators than other companies.

So what did these “leaders” do differently to break away from the pack? Our research reveals that three competencies underlie superior customer-driven learning and innovation.

LISTENING POSTS

GATHERING CUSTOMER FEEDBACK ACROSS ALL CHANNELS AND TOUCHPOINTS

The tried and true way of evaluating what customers like and don't like—and predicting what they're likely to like better in the future—is tired and no longer true. Customers today search for information about products and services 24x7 using social media, review sites, and other online resources. At the same time, they share information about their own experiences using these same channels—rating providers, writing detailed reviews, and commenting on every aspect of every interaction with the brands they both love and hate. Some companies might view this as a liability. But customer-driven innovators view this wealth of direct customer feedback as a huge, never-ending source of customer and competitor intelligence.

To learn from a broad range of customer input, the leaders in our study leveraged a variety of different *listening posts*. These listening posts included solicited feedback from formal surveys, unsolicited feedback and behavior captured through social and other digital channels, and insights from their own employees.

Social media listening was especially valuable, since customers responding online often have strong views and a lot to share. Specifically, we found that companies that listened to customers via social media, online reviews, and other unsolicited channels were 15 percentage points more likely to improve their customer experience than companies that neglected these channels.

Customer experience leaders also listen to customers by tracking their behavior through a variety of digital mechanisms (e.g., click patterns, purchase behavior, drop off rates). Integrating feedback with digital data sources that capture customer behavior (e.g., devices in the internet of things) made companies 9 percentage points more likely to improve customer experience. The combination of the “what” (behavior) and the “why” (comments) leads companies to deeper insights than either source would reveal on its own.



Perhaps most importantly, employees themselves are fonts of information that companies should not overlook—especially customer-facing employees who communicate directly with customers and therefore hear their concerns first-hand. Companies that capture employee suggestions are 7 percentage points more likely to improve the customer experience than companies that neglect to ask their own employees for input on improving the customer experience. What’s more, companies that document observations from employee-customer interactions and follow-ups are 8 percentage points more likely to improve their customer experience. When employees provide additional context and document additional information from their interactions, companies can gain a much richer understanding of what their customers want from their experience, and identify the root cause of issues getting in the way.

While each of these types of listening posts proved valuable on their own, companies derived even greater value when using them together.

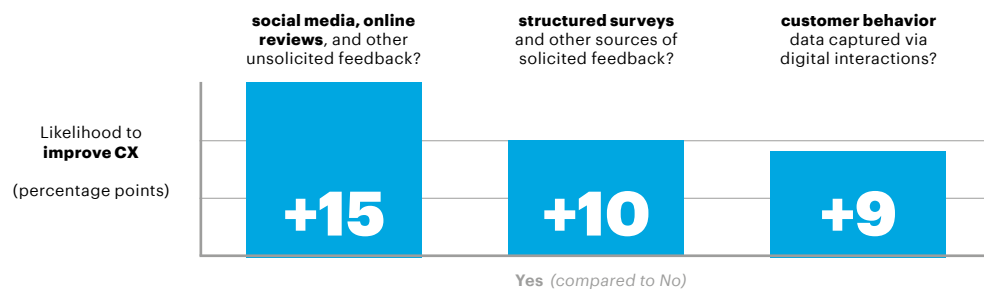
We found that companies that combine robust customer and employee listening posts are

60%

more likely to improve customer experience than are companies that have no robust listening posts. Listening more, in more places, helps companies continuously improve.

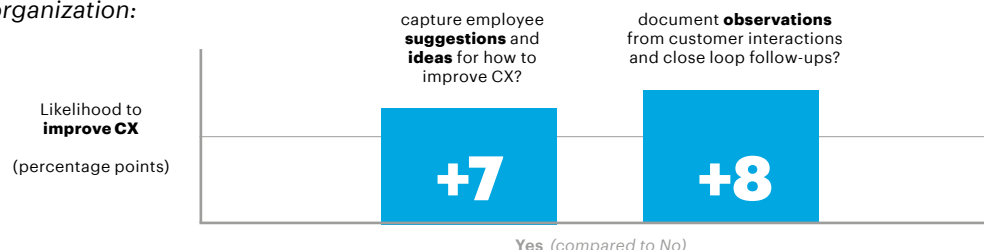
CX leaders develop listening posts to hear from **customers...**

Does your organization collect:



...and employees

Does your organization:



LEARNING SYSTEMS

COMBINING HUMAN INTELLIGENCE AND TECHNOLOGY



Effective listening posts can generate massive amounts of raw customer experience data. To benefit from that information, however, companies need learning systems that can make sense of it and point the way to promising action. The most effective learning systems use technology to augment and stimulate human ingenuity, helping people to extract new insights, surface new opportunities for innovation, and systematically test their ideas to determine what customers will value most.

Our findings indicate that customer-driven innovators develop extensive learning systems that integrate both human- and machine-based capabilities.

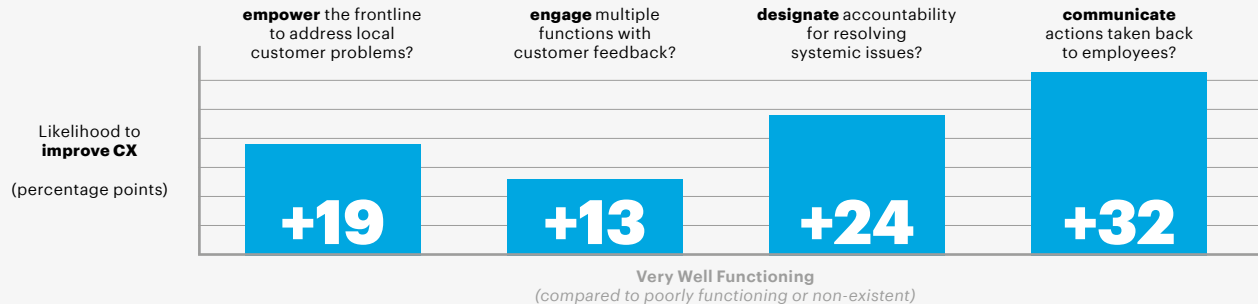
The importance of human intelligence cannot be underestimated. We found that companies are significantly more likely to improve CX if they empower their customer-facing employees to solve problems (19 percentage points more likely), engage functions across their organizations with feedback (13 percentage points), designate accountability for resolving systemic issues (24 percentage points), or communicate to employees about actions taken (32 percentage points).

These same actions are also associated with higher levels of innovation, and the charts on the following page show which actions result in success.

CX leaders implement systems to turn human intelligence into action

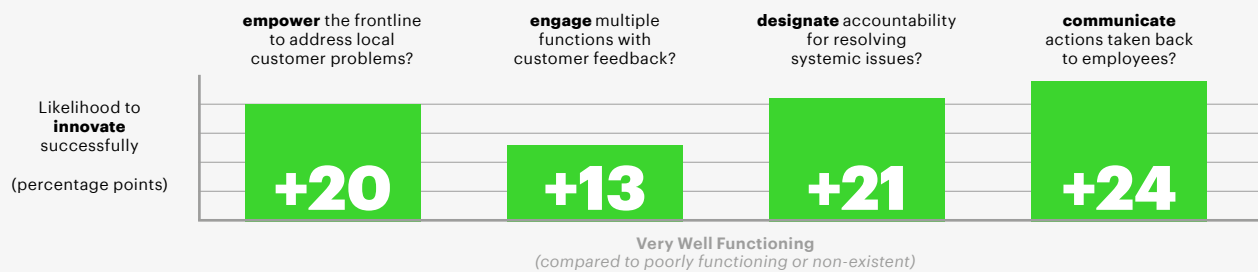
Learning Systems Fuel CX Improvement

Does your organization have a system in place to:



Learning Systems Fuel Innovation with Feedback

Does your organization have a system in place to:



Companies that use technology to support these practices become even more effective at driving improvement with customers and generating innovative new ideas for new customer value. For example, distributing customer feedback—giving employees across the business access to what customers are saying via listening posts—enables individuals and teams to extract insights and test the impact of changes they have made to improve products or services. Companies that have systems in place to test the impact of these changes are

22 PERCENTAGE POINTS more likely to improve CX and

24 PERCENTAGE POINTS more likely to innovate successfully.

Another way that companies achieved higher performance is by using text analytics (TA) technology to extract insights from massive amounts of unstructured data. Analyzing employee comments with such technology makes companies

12 PERCENTAGE POINTS more likely to improve customer experience.

The benefit is even greater for companies that use TA to analyze customer comments posted to social media: they are

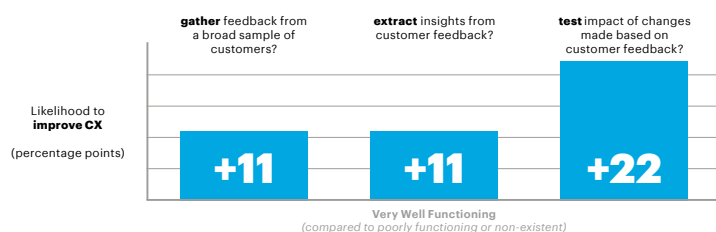
22 PERCENTAGE POINTS more likely to improve.

Today, human ingenuity can be fueled by technologies that would have been unimaginable and very costly before—especially when it comes to processing huge amounts of customer and employee feedback data. When humans guide this technology-enabled discovery process and make sure the right questions are posed at every stage, this allows for smarter decision making, commitment and action. The best companies combine human intelligence and technology in this way to improve customer experience and innovate successfully.

CX leaders leverage **technology** to surface opportunities for improvement and innovation.

Learning Systems Fuel CX Improvement

Does your organization have a system in place to:



Learning Systems Fuel Innovation with Feedback

Does your organization have a system in place to:



Comcast is carrying out a massive effort to transform the customer experience—while fostering innovation in the process. To execute on this mission, the company has developed a learning system it calls the “Elevations Process”. The system enables employees throughout the company to identify systemic issues that interfere with delivering a superior customer experience, and to propose ideas for new innovation. It serves as an employee listening post, a human and machine learning system, and a tool for prioritizing the most important issues and best ideas.

Perhaps most important, the Elevations Process helps to promote dialog across different locations and divisions—conversations that improve alignment and reinforce the company’s vigilant focus on the customer. This dialog enables executives across divisions to determine which initiatives or experiments are likely to have the greatest impact on the customer experience, and to allocate resources accordingly.

CUSTOMER-CENTRIC ALIGNMENT THAT **FUELS INNOVATION**

Listening for feedback and learning from it isn't enough. To get the full benefits from customer and employee feedback, you've got to do something about it. Our research revealed that leading customer-driven innovators take action more deliberately than do laggards.

Our research indicates that three key components characterize customer-centric alignment:

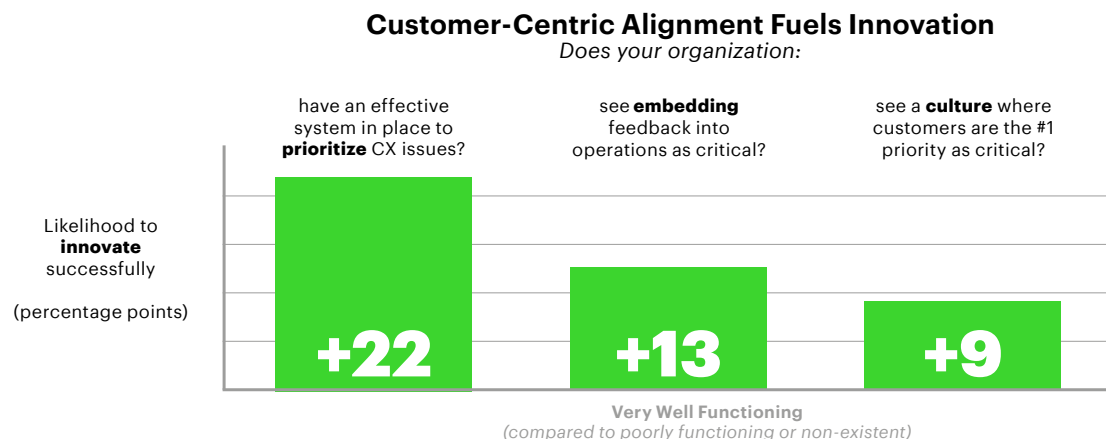
- Use CX as the lens for innovation and prioritization
- Wire feedback into core business processes
- Foster customer-centricity as the cultural norm

For example, companies with effective prioritization systems—transparent, repeatable processes that help companies identify and choose between the most critical customer initiatives—are 20 percentage points more likely than others to improve customer experience, and 25 percentage points more likely to increase revenue. This revenue data helps bolster the established link² between improving customer experience and financial performance.

The most successful companies embed customer experience throughout their organizations. We found that companies that identify “integrating feedback into operating systems and processes” as the top way of sustaining commitment to customer experience are 13 percentage points more likely to innovate successfully. For these companies, customer experience is part and parcel of their operations.

To spell it out further, embedding customer feedback into ongoing business processes leads to better alignment: it ensures common values; it reinforces a shared understanding of priorities; and it serves as a mechanism for including customer needs in decision-making and tradeoff discussions.

CX leaders design their organizations to **align** around the customer



² [“Accounting for a Great Customer Experience,” Medallia, Inc.](#)

A truly customer-centric organizational culture turns out to be at least as important as one might expect. We found that companies that identify “a culture where customers are the number one priority” as the top enabler of collaboration are twice as likely to perform in the top quartile on CX performance. This reinforces the importance of recognizing employees as a critical part of delivering, improving, and innovating on the customer experience. Culture activates employees—top to bottom, front-line to back-office.

CX leaders leverage **customer-centricity** as fundamental focus of the **culture**

Companies that identified "a **culture** where customers are the #1 priority" as the top enabler of cross-functional collaboration were



2x

as likely to be in the **top quartile** of CX performance

As customers increasingly interact with companies across multiple channels, customer experience problems rarely fit squarely within any one business unit or function. Our findings suggest that organizations can innovate more effectively when they integrate customer feedback into their ongoing planning and budgeting processes and leverage technology to surface new insights and opportunities. By integrating customer feedback into core operating processes, companies can stimulate meaningful dialogue and debate across departments.

For example, the customer experience team at a large US insurance company used text analytics to surface insights from thousands of customer comments and shared the results at one of the company’s regular planning exercises. The results prompted a cross-functional discussion that led to a better understanding of what was causing the most significant problems. Drawing on the customer feedback and other analyses, senior executives concluded that coordination gaps between the product development and sales teams were to blame. Armed with these new insights, they made the bold decision to put the two organizations into a single reporting structure rolling up to a leader who would be responsible for making sure the gaps were resolved.



PUTTING IT ALL TOGETHER

LEADERS DRIVE REVENUE GROWTH BY FUELING INNOVATION WITH REAL-TIME CUSTOMER FEEDBACK

Product and service innovation is a critical element of company success. This has traditionally been a top-down process, with executives directing development of what they believe will sell. Success in today's economy, however, requires innovation based on real-time customer feedback routed efficiently and quickly to all the right places in an organization. In this way, companies can develop new products and services that solve the biggest problems customers face now.

Our research found that leading customer-driven innovators are much more likely than are laggards to drive revenue growth, thanks to their abilities to fuel innovation with customer and employee feedback. We also learned that these leaders are more likely to use feedback effectively to fuel innovation (again compared to laggards).

Further, companies that use technology to gather and distribute customer feedback across their organizations at scale create nine times more product, service, or other innovations than do other companies.

CX leaders free the data: they share feedback across the organization to fuel ideas for innovation

Companies that see **gathering and distributing customer feedback** across the organization as critical for cross-functional collaboration implemented



9x

more new product, service, or other **innovations** over the past year

ANY IMPROVEMENT HELPS BUT COMBINING COMPETENCIES MULTIPLIES THE EFFECT

Showing results from investments in customer experience takes time. Fortunately, investing in any of the three main competencies above (listening posts, learning systems, or customer-centric alignment) will help.

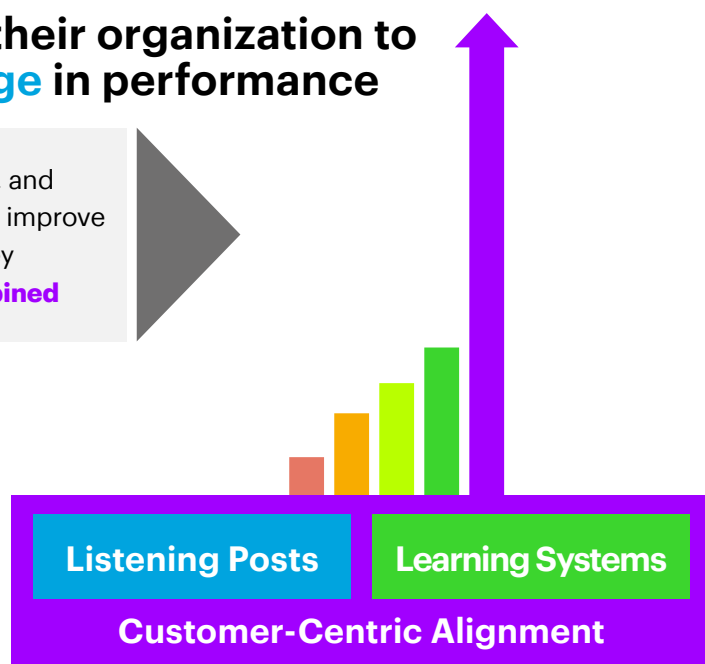
To avoid being overwhelmed by the enormity of the task, executives should start by assessing where they are. Improving any of the three competencies can be effective, but if the assessment indicates issues with listening, it is wise to start there, lest the company build up its capabilities to analyze and distribute weak customer experience data. For example, we found that companies that don't yet have a strong customer-centric culture are still more likely to innovate "very well" if they implement robust employee

listening posts. In essence, this "jump-start" gets them part of the way toward innovation levels typically seen at companies with strong customer-centric cultures.

A company's long-term goal, however, should be improvement in all three competencies, because that will multiply the effects of each. Our research shows that when companies combine strong capabilities across all three, they boost impact by innovating more effectively. In fact, they are 25 percentage points more likely to innovate "very well." This sets them up for sustainable improvement, growth, and competitiveness in the future. Technology is essential to all three competencies: it enables all of this to happen in real time.

CX leaders design their organization to drive a **step change** in performance

Listening Posts, Learning Systems, and Customer-Centric Alignment each improve performance on their own, but they **super-charge impact when combined**





USING CUSTOMER-DRIVEN INNOVATION TO **NAVIGATE A CUSTOMER- DRIVEN WORLD**

Executives facing increasingly demanding customers and threats from digital disruption must find new ways to leverage their existing assets and capabilities to gain competitive advantage. Empowering your more experienced employees with the technology and processes to learn faster and more effectively from customers can greatly increase your ability to innovate. The best customer-driven innovators create a wide variety of listening posts to capture customer input from everywhere. They establish learning systems to make sure the best ideas are identified, prioritized, and acted on. And, to expedite the innovation process, they configure their entire organization to center around their customers. By combining and aligning these practices, customer-driven innovators produce new customer value faster and more continuously. Mastering customer-driven learning and innovation is the code-breaking path to achieving and sustaining customer experience leadership.

CONTACTS

PHILIP DAVIS

Managing Director
Accenture Strategy

LAURE CORNILLON

Offering Development Senior Principal
Accenture Strategy

DORIAN STONE

Vice President, CX Strategy
Medallia, Inc.

BERNADETTE DOERR

Research & Analytics Manager, CX Strategy
Medallia, Inc.



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ABOUT MEDALLIA

Medallia's mission is simple: to create a world where companies are loved by customers and employees alike. Hundreds of the world’s best-loved brands trust Medallia’s Software-as-a-Service application to help them capture customer feedback everywhere the customer is (on the phone, in store, online, mobile), understand it in real-time, and deliver insights and action everywhere—from the C-suite to the frontline—to improve their performance. Founded in 2001, Medallia has offices in Silicon Valley, New York, London, Paris, Sydney, Buenos Aires, and Tel Aviv. Learn more at www.medallia.com.

ABOUT THE RESEARCH

Results are based on a 2017 survey that Accenture and Medallia jointly conducted of 450 professionals who oversee the customer experience at companies in the US, Canada, the UK, Germany, and Australia. Most companies in the sample (98%) had >\$1B in annual revenue, and 68% operated in B2C (32% B2B). The companies were evenly distributed across four industries: Retail; Financial Services; Products; and Communications, Technology, and Media. The three sets of factors (“competencies”) and their components (“capabilities”) were identified using iterative factor analyses (Principal Components Analysis with Varimax rotation). The remaining analyses were conducted using OLS and logistic regression, controlling for geography, size, business model (B2B vs. B2C), and industry.

To confirm performance outcomes and validate our definition of “Leaders” (leading customer-driven innovators), self-reported performance for the 40% of companies that disclosed their names in the survey were compared to publicly available customer-experience performance data. The pattern of responses was confirmatory: “Leaders” in this study’s sample performed better on CX than other companies in their industry, and they had objectively improved CX more in the past year.

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