Benchmarking Your Customer Experience Program

Medallia
INSTITUTE

WHY THIS MATTERS

Companies most often look to benchmarks to understand how their performance stacks up against others. But rather than being the end of the conversation, benchmarks can be used to generate a dialog about strategy, improvement, and innovation. This report outlines the strengths and limitations of metrics-driven (quantitative) and practice-driven (qualitative) benchmarking to help CX leaders determine how and when to use each strategy. Successful benchmarking leads to new insights, informs ongoing strategy, and empowers companies to take action.

KEY FINDINGS

- **Metrics-driven benchmarking** helps companies quantify their current state compared to others in terms of both performance with customers (e.g., Net Promoter Score) and customer feedback program health (e.g., survey response rate). It can also point them in the direction of promising investments. When companies know exactly which metrics they are aiming to change, employees across the organization can align around common objectives and track performance over time.

- **Practice-driven benchmarking** drives qualitative learning from a diverse set of customer-centric teams or companies, digging into how leaders achieve success with customers. This approach can help organizations identify and act on ideas for innovation in order to reach the next level of performance.

Benchmarking Objectives

Cobblers measuring the size of a new shoe against a line on their workbench coined the term "benchmark" to describe their process. The connection to today's usage is clear: companies look to benchmarks to understand how their performance stacks up against others. But rather than being the end of the conversation, benchmarks can be used to generate a dialog about strategy, improvement, and innovation.

The objective of benchmarking is not only to identify top performers, but also to understand what they do differently to drive success. Companies can then adapt and incorporate these best practices into their own operations, fueling innovation and testing for impact along the way.

> Benchmarks can be used to generate a dialog about strategy, improvement, and innovation.

In the realm of customer experience management (CEM), the best way to approach this practice depends heavily on the goals of your program and what you hope to learn from the benchmarking exercise. This report outlines the strengths and limitations of metrics-driven (quantitative) and practice-driven (qualitative) benchmarking to help companies determine how and when to use each strategy.

In addition to choosing a metrics- or practice-driven strategy, the scope of a given benchmarking exercise is important to consider at the outset. The scope may be internal—comparing different teams or programs within an organization, or changes over time—or external—comparing performance across organizations.

"Service leaders are almost evenly divided on the importance of tracking their own data versus the importance of benchmarking themselves against peers," according to a 2013 poll by advisory firm CEB (now part of Gartner). A 2017 Accenture-Medallia survey of global CX professionals shows that companies are indeed divided: 56 percent of CX professionals report using external benchmarks, and 55 percent benchmark their own performance over time. Just over one third (37 percent) report using both internal and external benchmarks.[1]

Only 37% of CX professionals report using a combined strategy of internal and external benchmarking

No matter which strategy—or mix of strategies—you choose, the key lies in taking action. A successful benchmarking exercise drives prioritization, inspires concrete actions to improve the customer experience, and helps companies understand the impact of their initiatives over time.

Benchmarking Strategies

Metrics-driven benchmarking can help quantify the current state of your program compared to others in terms of both customer experience metrics (e.g., Net Promoter Score) and program health metrics (e.g., survey response rate). This approach can also point you toward promising opportunities for improvement and investment. When companies know exactly which metrics they are aiming to change, employees across the organization can align around common objectives and track performance against those objectives over time. **Practice-driven benchmarking** drives qualitative learning from a diverse set of customer-centric teams or companies, digging into how leaders achieve success. This approach helps companies identify new practices or innovative ideas that can help them get to the next level of performance.

[1] Accenture-Medallia Customer-Driven Learning and Innovation, 2017.

Metrics-Driven Benchmarking

Metrics-driven benchmarking can be appealing to CX leaders looking to make quantitative comparisons: a single number that offers a clear assessment of performance with customers is tempting. However, the reality of that single number is rarely so simple. When you use benchmarks to look at one part of a complicated process and make high-stakes decisions based on the results, you may run into some unintended consequences. For example, setting short-term goals for improving customer scores based solely on the performance of a competitor may lead to unrealistic expectations and, in turn, encourage employees to try to game the system.

CX leaders should think carefully about the tradeoffs inherent in a metrics-driven approach (see Figure 1). In the proper context, metrics-driven benchmarking can provide valuable insights. But if comparison groups, measurement methods, or specific metrics are too different, this approach runs the risk of providing data that can lead to misleading conclusions. Companies learn best from a metrics-driven approach when they understand its strengths and limitations, as well as the principles that guide meaningful comparisons.

If you want to prioritize your CX efforts and track the impact of CX initiatives over time, metrics-driven benchmarking can be a good option. Understanding how your customer ratings and reviews compare to those of other companies (or teams, regions, and so forth) can help make the case for where to invest and then build energy around improvement efforts.

When a large global banking company wanted to understand what new offerings would most impact customers' experience with the brand, it started by benchmarking its digital product against industry peers, using customer experience ratings as the primary performance metric. The benchmarking effort revealed a significant gap in the company's ability to deliver the seamless experience customers wanted; ease of use for its digital product was lagging well behind competitors. With these data in hand, the CX team made the case for dedicated resources to improve the offering and focused their efforts on making the product easier for customers to use, tracking progress against their goals with the same metric.

Companies can also use a metrics-based strategy to compare the CX performance of different departments or regions within the same organization. One technology company holds weekly huddles with team leads from each retail store to compare the most recent customer scores and talk about what is going well and what isn't. The previous week's scores are used as a benchmark to improve upon, and teams can learn from what their colleagues have tried. These cross-store comparisons lead to valuable learning across teams and functions and spur action—not only are best practices identified, they are far more likely to be implemented across the organization.

Figure 1: Tradeoffs inherent in metrics-driven benchmarking

Strengths	Limitations
Guides prioritization	Can lead to more questions than answers
Quantifies relative performance	Expensive and time-consuming to do well
Creates clear measure(s) of success	Often not actionable—does not address the "how"

However, metrics-driven benchmarks are not always directly actionable on their own. Sometimes there is a gap between the summary statistic and knowing what to do to get better. One CX practitioner from a leading telecommunications company recalls that after paying for external benchmarks for years, “People were just talking about the numbers, and not taking action, so we ultimately dropped them.” While benchmarking can support valuable learning, the process must be designed carefully to avoid generating more questions than answers, miring teams in data exercises, and leading to endless debate about the underlying details.

> Metrics-driven benchmarks are not always directly actionable on their own.

Differences in how customer feedback is collected can add complexity to the interpretation of external (and to a lesser extent, internal) benchmarks. For example, companies in the same industry or departments within the same organization may:

- Use different survey question wording or response scales to measure customer satisfaction
- Survey customers at different frequencies or points along the customer journey (e.g., transaction verses relationship surveys)
- Apply different weighting strategies to match survey responses to segments in their customer base

These differences and numerous others can get in the way of accurate and meaningful comparisons. Another critical difference worth noting is the gap between market research surveys, which are typically conducted by external firms on behalf of a company (commonly used for building industry comparison sets), and survey programs conducted by individual companies polling their own customers. Customers respond differently to these survey methods, in part because they are asked for feedback at different times. Company-led feedback programs survey customers immediately after a transaction to measure their reactions to a specific interaction. Market research programs, on the other hand, often survey customers much later and ask them to make judgments based on their overall experience with a brand relative to others in a comparison set. Company-led feedback is more likely to garner specific, useful information about what a company can do to improve because the feedback is direct, tailored to the company’s needs, and immediate. Companies should exercise caution when comparing the two types of feedback, because scores tend to be systematically higher when the company itself asks for feedback. This pattern is due to method differences rather than actual performance.

Most metrics-driven benchmarks are expensive and time-consuming to do well, and they should be interpreted with caution. While they can be incredibly useful for gauging relative performance or changes in performance over time, taking the numbers too literally can sometimes lead a company down the wrong path. For example, a contact center that sets goals around industry benchmarks for time to serve may inadvertently create unhappy customers who keep calling back with unresolved issues. Aiming to match the score of a market leader without understanding context can waste valuable time and resources.

One way to guard against overindexing to a single number is staying clear and intentional about the goal of a given benchmarking exercise. As a first step, companies should determine what to measure and why. In the world of customer experience, this often means determining which performance metric(s) are most relevant to a company’s business objectives.

Customer experience ratings represent one category of metrics, but other types of metrics can also play an important role in benchmarking progress toward CX goals. Program health metrics—such as customer response and abandonment rates—can be particularly informative, especially to more mature programs trying to bring their performance to the next level. Benchmarking these metrics can uncover areas for improving customer surveys and other program design choices, ultimately helping the company to learn more effectively from its customers.

One essential question to start with is "How successfully is my program collecting high-quality, representative data?" Examining health metrics across different surveys and over time can help optimize survey design and improve the mix of feedback sources (e.g., post-transaction and relationship surveys, social reviews, employee ideas) to capture relevant feedback from a representative sample of the customer base.

Securing a representative sample of customers can be especially important for understanding customers who may be inherently less invested in sharing their experience. In the hospitality industry, for example, capturing feedback from first-time guests who are not yet enrolled in a brand's loyalty program can be helpful in understanding changing traveler trends. Keeping response rates high and survey abandonment low increases the probability of getting a representative sample of customers from each segment and accurately understanding market dynamics.

> Organizations must think creatively about who they can learn from.

Metrics-driven benchmarking can be powerful when used in the right context. However, the necessity of constraining metrics-driven benchmarking efforts to customer experience programs in similar businesses and with similar metrics can limit the influx of new ideas by focusing solely on direct competitors. Using metrics alone may dissuade companies from making big changes or even generating new ideas. In contrast, one of the strengths of practice driven benchmarking is its potential to look across business models and companies in different segments—or even industries—to come up with new ways of doing things.

Practice-driven Benchmarking

Numbers in a vacuum can be dangerous. Practice-driven benchmarking involves looking beyond scores to behaviors and management practices in order to find creative solutions to perennial challenges and stimulate a step change in performance.

One of the strengths of practice-driven benchmarking (see Figure 2) is the ability to look at practices across a broader comparison set, beyond a company's direct competitors.

Figure 2: Tradeoffs inherent in practice-driven benchmarking

Strengths	Limitations
Actionable—focused on the how	Quantifying performance still matters
Leads to bigger, more innovative ideas	May lead to bigger, riskier bets—iteration is key
Increases the number of companies to learn from	Leaders may discount the comparison organization

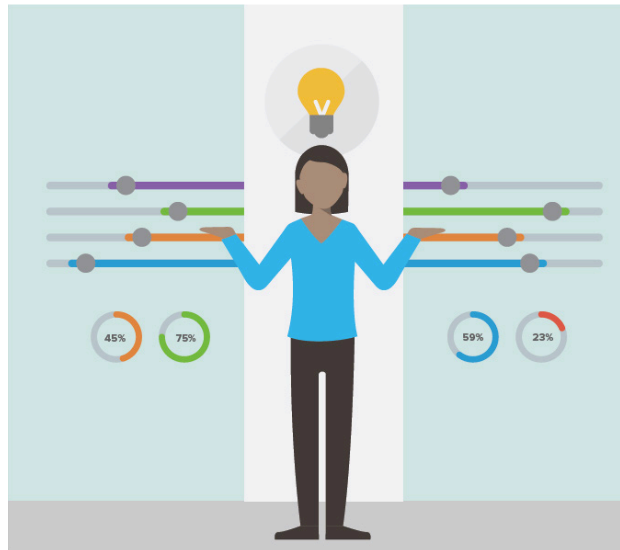
Because consumer expectations are changing more rapidly than ever, it is essential for organizations to think creatively about who they can learn from. Understanding how leading companies deliver great customer experiences in other industries or segments can introduce new ways of thinking and spark ideas for innovation. A pharmaceutical company, for example, might learn about new ways of designing product fulfillment by benchmarking the retail practices of leading technology companies like Amazon and Apple. The strategies of disrupters can also be a rich source of innovative ideas. Within the hospitality industry for example, Airbnb has focused on providing authentic, local experiences to travelers. Hotel companies are now investing in more destination-specific experiences to meet customer expectations.

If they're not careful, large, established companies can easily develop a dangerous mindset: "The disrupters don't have the same constraints—

> CX leaders must be careful not to fall into the all-too-common trap of overinterpreting success stories.

they're totally different." Focusing solely on your own successes can breed insularity and reluctance to change, which makes it even more important for established companies to seek out new ways of thinking. As Intuit's CEO Brad Smith puts it, "So many times you'll find there are solutions that apply to your industry or problem that you wouldn't have thought about if you hadn't first looked outside."

While a practice-driven approach to benchmarking can lead to bigger and more innovative ideas, CX leaders must be careful not to fall into the all-too-common trap of over interpreting success stories. By looking solely at the practices of highly successful companies and ignoring those of less successful ones—creating selection bias—it's difficult to isolate which practices contribute most to a company's success. In fact, it's quite possible that leaders and laggards rely on many of the same strategies. It's what they do differently that matters most to understanding CX success. The best step to take to avoid selection bias is to get all the data you can on failure.



One financial services company redesigned its CX program by learning from both its top and bottom performers. The company first used an internal, metrics-driven benchmark to identify the branch locations that had the best and worst customer scores. A cross-functional team was then sent out to observe and interview the top ten and bottom ten branch locations to understand what was driving success with customers—a practice-driven benchmarking strategy. The team then shared what it had learned and scaled the practices that worked best by putting them in place across the organization.

Digging underneath the scores to understand what strategies customer-centric companies employ to improve the customer experience—including how they learn from their customers—can help guard against bias and identify innovations that will have real impact in another context.

For many CX leaders, validating a new approach in this way requires a new mindset. Customer experience scores are a leading indicator of business performance and can be a valuable source of information when testing new practices. Because the new approach may be risky, iterative testing is key to understanding what resonates with customers and what requires fine tuning. When Capital One reimagined the bank branch— turning some locations into cafés—it began with a tentative rollout. After validating the approach, the company is now planning to expand its café concept in other cities across the U.S.[2] Just as it is important to learn from other companies' successes and failures alike, organizations can innovate faster and more effectively by quickly identifying the strategies that work and do not work in their own business. The reality of linking innovation testing to an active CEM program means that scores will fluctuate. Rather than being cause for concern, this is a valuable source of information, and determining which changes have meaningful impact is essential to the long-term success of a customer-centric company.

Understanding the causality underlying success with customers is very different from aiming blindly for the scores of a market leader. Successful practice-driven benchmarking requires a balance between learning from what others are doing and validating new offerings by continuously listening to the company's own customers.

> Successful benchmarking leads to new insights, informs ongoing strategy, and empowers companies to take action.

Conclusions

The strategic use of benchmarks in customer experience programs is maturing from generating a passive annual report to creating a source of data whose purpose is to "inspire and provoke to enable transformational action." Customer experience management leads to competitive advantage when companies remain agile in response to ever-changing customer needs and expectations. When companies design benchmarking exercises around their learning goals, aiming to inform ongoing strategy, they are set up for success. The secret to successful benchmarking is a healthy mix of metrics-driven and practice-driven strategies that creates new insights and makes it possible for companies to take action. In addition, CX leaders must avoid becoming so obsessed with what competitors are doing that they miss new opportunities. In other words, don't be so focused on emulating leaders that you lose the opportunity to become a leader yourself.

[2] CXFS Innovation Briefing, May 2017.

RECOMMENDATIONS

Four Benchmarking Mistakes You Will Never Make Again

Comparing apples to oranges

- What to do instead: Understand differences in content, purpose, and data collection methods that may impact metrics and impede a meaningful comparison.

Generating biased insights by focusing only on high-performing teams

- What to do instead: Get all the data you can on failure. Understand the differences between successful and failed strategies to identify which practices lead to success.

Overindexing on a single score

- What to do instead: Set clear goals for what to measure and why. Use metrics to guide rather than end the conversation.

Not taking action

- What to do instead: Use benchmarking to inspire concrete action and understand the impact of CX improvement efforts over time.

Carly Kontra

Carly Kontra is a Research & Analytics Manager within Medallia's CX Strategy Research group. She completed her PhD in Cognitive Psychology at the University of Chicago while studying the impact of motor experience on perception, learning, and wisdom.

Beth Benjamin

Beth Benjamin is the senior director of Medallia's CX Strategy Research group and has more than 25 years of experience conducting research on organizational strategy and practice. Prior to coming to Medallia she held positions at the Stanford Graduate School of Business, the RAND Corporation, and three management consulting firms. She has a PhD in business from the Stanford Graduate School of Business.

Bernadette Doerr

Bernadette Doerr is a Research & Analytics Manager in Medallia's CX Strategy Research group. Prior to joining Medallia, she conducted research on organizational culture and leadership while in the PhD program at the Haas School of Business and spent a decade in strategy consulting. She also holds a BS (business) and MS (foreign service) from Georgetown University.

Emma Sopadjieva

Emma Sopadjieva is a Research & Analytics Senior Manager in Medallia's CX Strategy Research group. Prior to coming to Medallia, she was a consultant for over five years in Deloitte's Financial Advisory practices in the US, the UK, and Spain. She has an MA in international economics and management from the School of Global Policy and Strategy at UCSD, and a BS in business administration and management from Bucknell University.

About Medallia

Medallia is the pioneer and market leader in Experience Management. Medallia's award-winning SaaS platform, the Medallia Experience Cloud, leads the market in the understanding and management of experience for customers, employees and citizens. Medallia captures experience signals created on daily journeys in person, digital and IoT interactions and applies proprietary AI technology to reveal personalized and predictive insights that can drive action with tremendous business results. Using Medallia Experience Cloud, customers can reduce churn, turn detractors into promoters and buyers and create in-the-moment cross-sell and up-sell opportunities, providing clear and potent returns on investment. www.medallia.com

Follow us: medallia blog.medallia.com @Medallia