

Will False CX Optimism Derail Digital Transformation Efforts?

Digital transformation and CX leaders report digital acceleration, ambitious goals, and measurement challenges

-
- **Introduction** 3
 - **Research Overview** 4
 - **Key Insights** 5
 - **OCX Cognition Recommendations** 12

Introduction

Corporate digital transformation initiatives are accelerating, and customer experience leaders have carved out a key role for themselves in this critical business shift, according to original research by OCX Cognition and SANDSIV. The increased pace has gotten a boost from the global pandemic, but perhaps because there is no single standard for tracking progress, leaders have an unrealistic view of their competitive positions in relation to digital progress. Here, we share key findings and recommendations based on research conducted with a global panel of senior leaders in digital transformation and customer experience roles.

Our research discovered that the vast majority of digital transformation and CX leaders think their corporate digital transformation matches or bests their competitors, a statistical impossibility. Measuring the outcomes of digital transformation progress can be challenging; respondents say their companies consider improved customer retention, satisfaction, and improved operational metrics to be core success indicators. A critical gap: few companies have established a formal method of linking such metrics to financial outcomes.

Shortfalls in measurement capabilities matter, especially because the global phenomenon of digital transformation will continue to accelerate. The global digital transformation market size was valued at US\$ 284 billion in 2019 and is growing at a compound annual growth rate of 22.5%. (Source: Grand View Research <https://www.grandviewresearch.com/industry-analysis/digital-transformation-market>). The banking and financial services industry is currently the largest transformation segment, with over a quarter of the 2019 market. Government, IT & telecom, and manufacturing follow. Healthcare is growing fastest.

Our research explored areas including:

- **Maturity** of digital transformation and customer experience initiatives
- **Methods** for measuring digital transformation progress
- **Linkages** between CX initiatives and financial outcomes
- **Senior leadership** involvement in transformation efforts
- **Impact of the pandemic** on speed and scale of digital transformation investments

We report on several key findings and conclude by recommending several actions designed to ensure that customers and customer loyalty are at the heart of corporate and CX digital transformations.

OCX Cognition / sandsiv+

OCX Cognition delivers a cloud-based technology and data science platform for predicting customer health, linking operational performance data and providing a unified view of customer status across the organization.

SANDSIV is a high-growth technology company providing cutting-edge end-to-end customer experience management software platforms to enable organizations to better understand their customers and improve their bottom line.

Research Overview

During a period of six weeks in July and August of this year, OCX Cognition and SANDSIV engaged a global panel of chief customer and digital officers and senior CX and digitalization practitioners in a survey to explore the relationship between customer experience management and digital transformation activities. Invitees to the research responded to a set of questions ranging from the assessment of the state of CX and digitalization in the organization to the approaches and progress metrics used to advance these complex enterprisewide transformations.

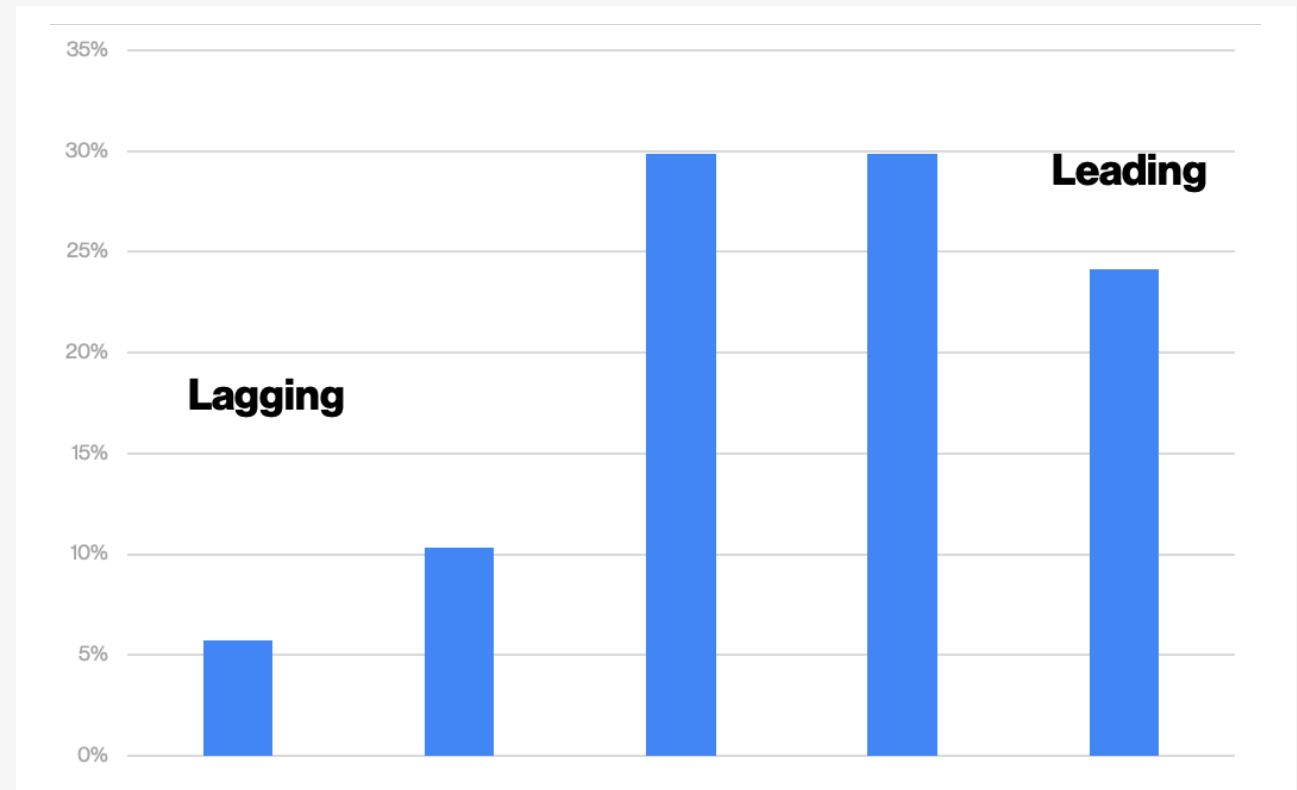


Key Findings

The vast majority, or 84%, of respondents believe their digital transformation efforts are as good as or better than those of their competitors. Similarly, 79% believe their level of innovation sets them apart or is creating a recognized leadership position for them. Neither percentage can be a reflection of the real world; it's likely that those companies are not well-informed about what their competitors are doing. Surprises await as companies fail to achieve the competitive advantages they expect. To mitigate such surprises, leaders should add competitive assessments to their ongoing efforts to understand customer perceptions and suggested improvements.

Self-assessed competitiveness

EXHIBIT 1



Respondents rated how their digital transformation efforts position them competitively.

Methods for Assessing CX Lack Innovation


Respondents have not innovated their means for understanding the customer experience. Just 14% of CX leaders said they use AI, machine learning, or similar advanced technologies as a way of measuring customer sentiment. The lack of advancement in measurement methods underscores the level of over-optimism CX leaders seem to have about their role in digital transformation. In a digitally-transformed world, AI and ML must become the primary source of customer feedback, with traditional survey methods used to calibrate AI methodologies and to provide competitive benchmarks.

Consider this common example of a customer experience program practice that relies on outdated, survey-driven customer insights: A product company sends a feedback request to customers after every delivery, and 8% of customers answer. Of these, 15% are Detractors. The most common reason given for being a Detractor turns out to be late delivery. The company has an excellent process for calling back the detractors and providing a voucher useable for future purchases as compensation for the issue.

On its face, a process like this one follows good CX practices of follow up and action driven by feedback. But it has two critical flaws that can be solved by an approach that incorporates AI for predictive scoring tied to operational data.

- **First**, the low response rate indicates that most Detractors have not taken the survey. This means they are still out there, spreading bad news about the company's poor delivery, or whatever it was that caused them to be a Detractor.
- **Second**, the company is failing to utilize a key data asset: operational data about 100% of deliveries. Using AI-driven insights, the company could predictively understand the Detractor status of all customers, not just survey respondents, and more quickly implement service recovery efforts, boosting loyalty.

That is what digitally-transformed CX is about; the use of AI and similar techniques to automatically categorize all customers and launch the actions you would usually only take with customers who answer surveys.



"IT complexity & tool/systems interdependencies lead to complex & lengthy development."

SURVEY RESPONDENT

A Thoughtful Approach to Digital Balance

When asked how they approach digital process design, 85% of respondents reveal that they are pursuing strategies that they hope will provide an optimal balance between online and human interactions.

Digital transformations that promote customer choice – thus improving satisfaction – are far preferable to those that prioritize cost reduction. Consider the instructive example of B2C companies that introduce digital invoicing, then start to charge for traditional invoices. Approaches like this one ignore the cost of servicing or losing customers who cannot or prefer not to engage with digital invoicing.

Companies report a balance range of motivations for for digital. They include proactive drivers such as experience improvement, growth, and differentiation on the one side, and more reactive motivations including cost reduction, 'table stakes', emergency response, and competition. Each category represents more or less half of all responses.



"Add digital where it makes sense and adds value to what the customer needs and not what we internally think is a good idea."

ROBERT KIRUBI
HEAD OF GLOABL CUSTOMER PROGRAMS
DHL

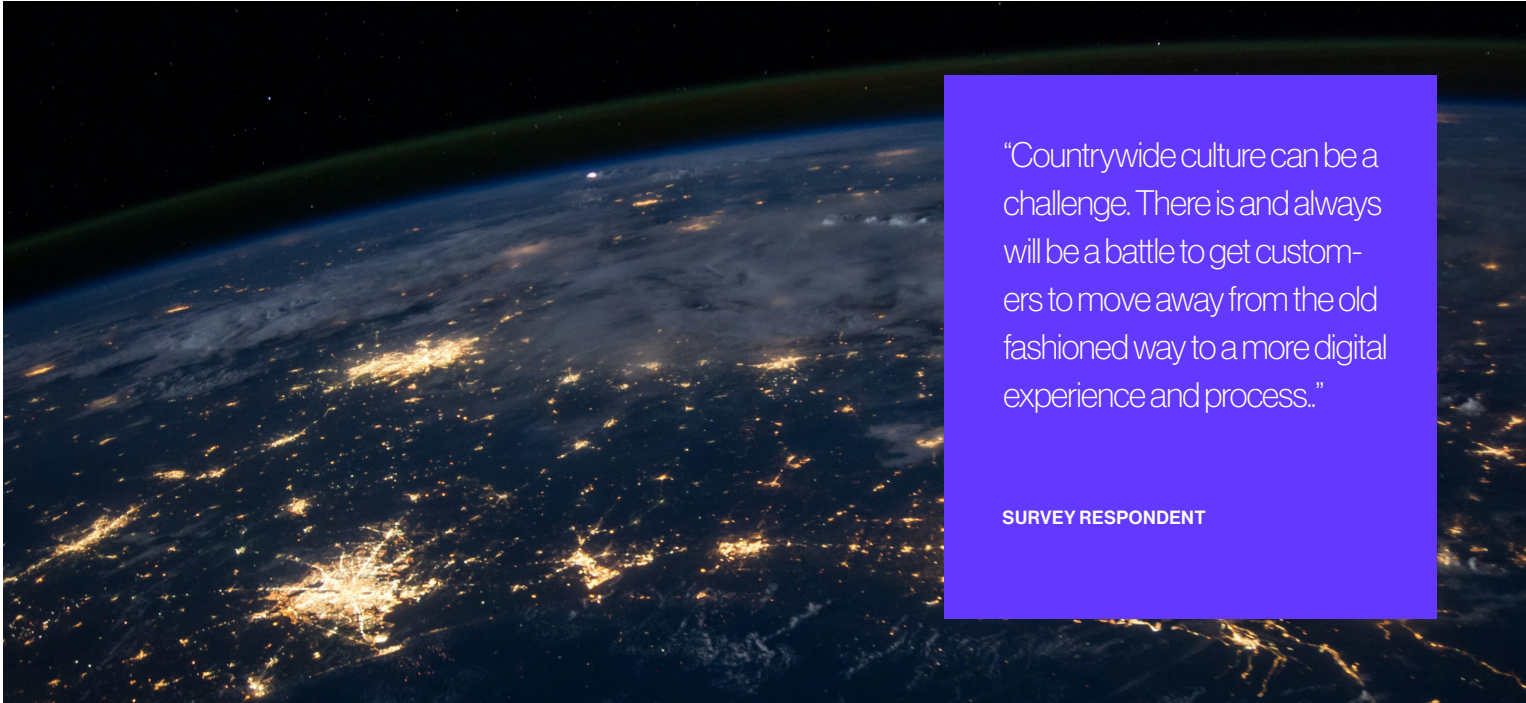
Struggling to Measure Progress

Two-thirds of companies have no formal way of tracking progress on their digital transformation journey. Nonetheless, they expect to measure success in terms of customer satisfaction, retention, and improved operational metrics.

A lack of structure progress tracking can hamper efforts to demonstrate impact. Since metrics like customer satisfaction and retention can improve or decline entirely independently of digital transformation efforts, they are unlikely to be good success indicators on their own. More productively, companies track should operational metrics that relate to the transformation and use AI tools to determine the relationship between trends for those metrics and customer behavior, including re-purchase and retention. As a step along the way, existing known operational pain point and CX metrics should also be used to be certain progress is being made.

Lack of formal success and completion criteria is problematic for any project, let alone one with significant impact on customers, resellers, implementation partners, and employees. Completion and success criteria are critical to the establishment of metrics and dashboards for monitoring progress; CX leaders can guide the practice by proposing customer-centric metrics.

Ideally, the top-level corporate metrics should be those that reflect financial outcomes driven by improved customer experience; a CX metric on its own is not likely to be effective. For most businesses desired metrics include customer retention, upselling, and new customer acquisition rates. The survey results show that two-thirds of respondents collect feedback and measure CX with the aim of simply improving the experience. Only a third of respondents link such activities to improved financial outcomes.



"Countrywide culture can be a challenge. There is and always will be a battle to get customers to move away from the old fashioned way to a more digital experience and process.."

SURVEY RESPONDENT

Financial Linkage Increases the Measurement Challenge

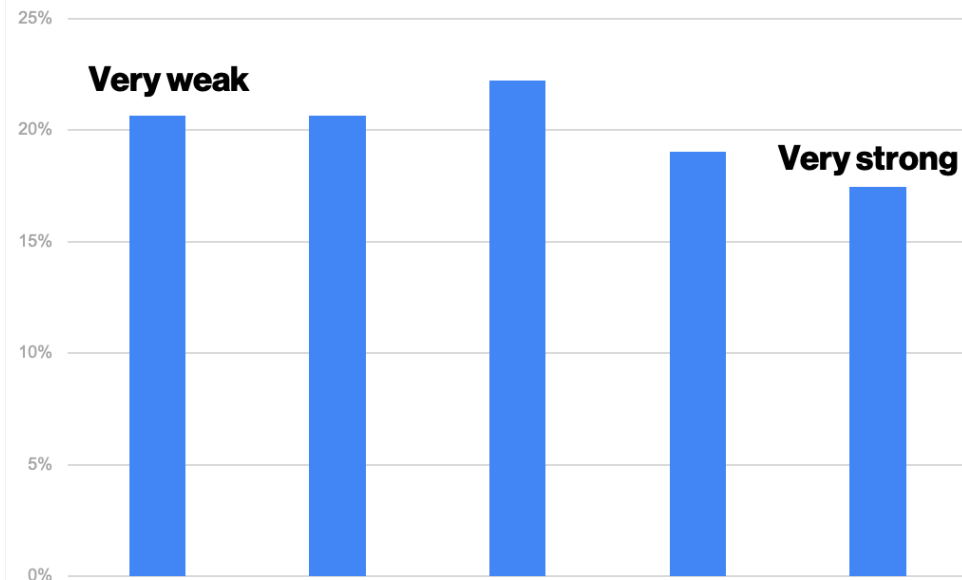
Just 17% of companies feel they are able to directly link CX performance changes to changes in financial outcomes. The inability to do so raises the strategically critical question of how to justify investments in improvements intended to improve the customer experience. At the root of an agreed-upon means of calculating the ROI of CX investment: the lack of a standard for customer lifetime value. It is difficult to determine the financial impact of losing or keeping a customer without a common understanding of what a customer is worth.

The discounted cash flow (DCF) valuation method proposed by Wharton School professor Peter Fader and Bain & Co. – along with similar methods – offers an appropriate approach when the overall value of a company is unknown. However, in many cases the value is known, sometimes simply because the company is quoted on the stock market. In the case of smaller companies, the CFO and CEO may simply have agreed what the company is worth.

A sophisticated financial calculation like DCF is extraordinarily difficult to communicate effectively. A simpler approach is based on easy-to-find, industry-specific average selling prices for companies, expressed as multiples of revenue or multiples of earnings. Whatever the method used, a good principle for companies whose only source of revenue is customers is that the value of the company and that of the customers is the same. Fixed assets and suchlike only have value because a company has customers. Ask any of the former inhabitants of empty shopping malls in the US, for example. Once there is agreement that company and customer value are the same, the ROI discussion becomes relatively simple.

Ability to Connect CX to Financial Outcomes

EXHIBIT 2



Respondents rated their ability to link CX with financial outcomes on a 1-5 scale.

Extensive CX Involvement in Digital Transformation

Doing everything from providing input to what should be transformed to measuring its effect, most CX leaders – 80% – report that they have been quite deeply involved in the transformation work. Customer interactions that have been digitized are generally, though not always, included in CX measurement and improvement processes. Remaining CX leaders need to get with the program.

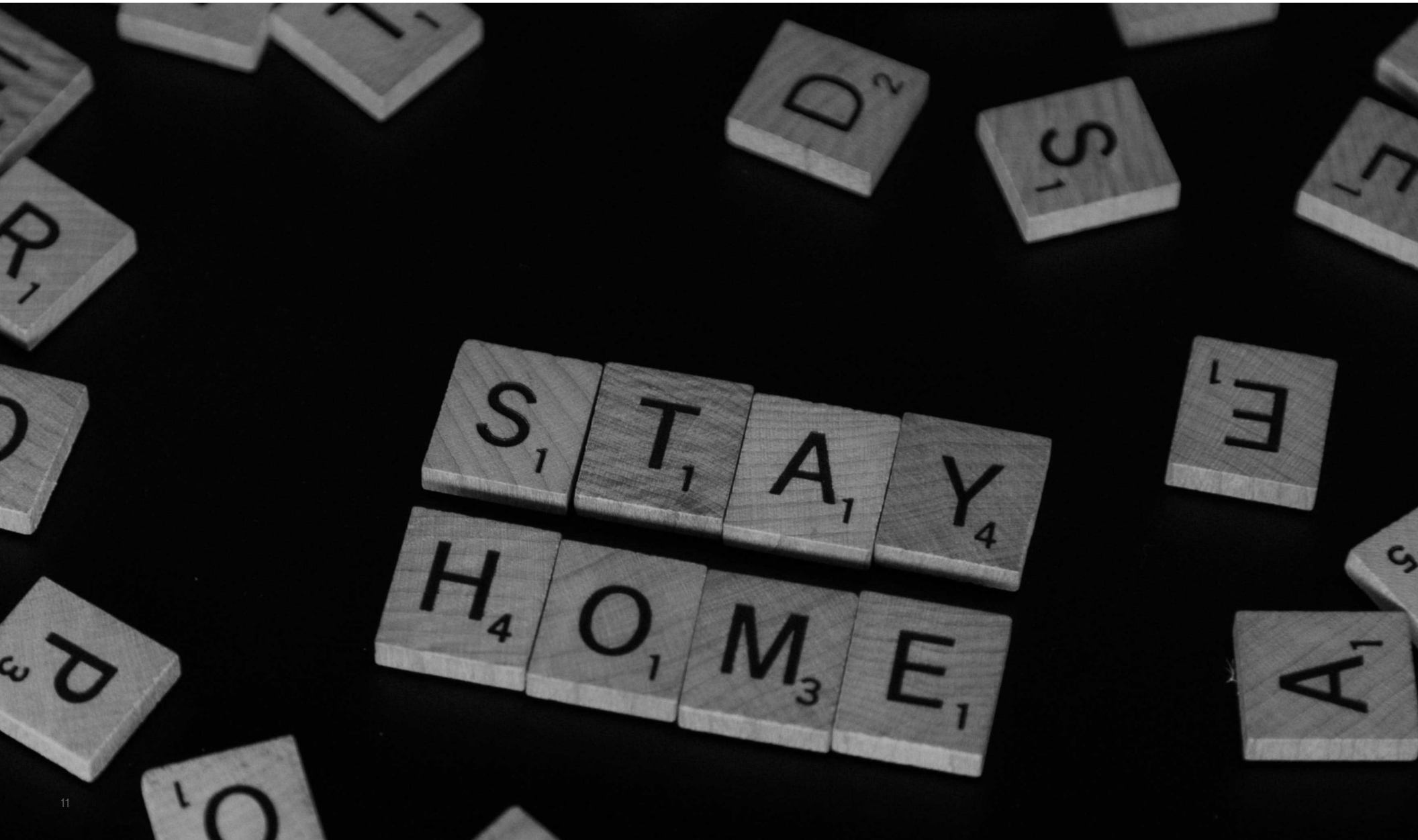
Measurement of the effect of the digitalization of analog processes is a critical reason for CX leaders to insist on being part of the digital transformation team. Companies expect the transformation to result in improved customer retention and business growth. CX leaders must implement new agile measurement systems to provide immediate and ongoing monitoring.

“Everyone has a part to play
and people matter more than
technology.”

JEREMY COX
PRINCIPAL ANALYST
OMDIA

Pandemic Pushes Progress for 70%

A substantial majority of the respondents say that Covid-19 has limited face-to-face interactions and therefore accelerated the digital transformation process. Indeed, for many, digitalization is now seen as critical to survival. The lack of direct customer contact has also meant that executives seek a science-based understanding of customers, a need uniquely met by the intersection of customer experience and digital transformation.



OCX Cognition Recommendations

The main recommendations that arise from the survey, including respondents comments about lessons and challenges, are as follows:

1. **CX leaders should collaborate proactively with IT.**

Companies usually see digital transformation as an IT project, mainly requiring IT expertise. CX leaders and their teams traditionally have little or no contact with their IT teams. That needs to change. While the IT team members are best positioned to understand what technical improvements are possible in which timeframes, CX leaders are best positioned to provide the customer viewpoint on priorities and sequence. A good place to start may be customer pain points that have been consistent over time, according to past surveys. CX leaders need to learn to speak the language of IT teams and project managers to facilitate collaboration. While it would be nice to think that this should be a mutual effort, IT teams tend to be much larger than CX teams, and the CX people therefore have the burden of making the communication work, even though this should all primarily be customer-centric work. Just as a visitor's inability to speak the language when going to a different country is the visitor's problem, CX leaders' inability to speak the IT language is the CX leaders' problem, not the other way around.

2. **Use digital transformation as a path the customer understanding.**

Digital transformation brings the opportunity for CX leaders to understand customer sentiment and behaviors based on operational and other data. This should be positioned as a way of understanding and gaining empathy with 100% of customers, rather than the small fraction that respond to survey requests. This is possibly the most significant element of digital transformation from a CX leader's perspective.

3. **Embrace financial impact as a driver of investment in CX and digital transformation.**

The financial investments required for a successful digital transformation are considerable. For the CX components and priorities to be taken seriously, they need to be positioned as improving financial results, and not as improving NPS or some other indirect metric. The easiest financial metric to focus

on is customer retention and a calculation method has been outlined in this report. It is critical that the CX leader and the CFO interlock and agree on the principles behind the calculation, and specifically that the value of a company and the value of its customers are the same.

4. **Rethink your retention metrics.**

Many companies make a major mistake with their customer retention metrics. For example, if they start year 1 with 100 customers and still have 92 of them at the start of year 2, they (incorrectly) consider this to be a 92% retention rate. But the correct way to measure retention is financially. And the minimum acceptable retention number is 100%, measured this way. With this definition, the question to be answered is how much revenue and gross margin were coming in from 100 customers at the start of year 1 and how much is coming in at the start of year 2. (Note that it is perfectly acceptable to track the metric far more frequently than annually. A rolling monthly 12-month average works well, for example.) If the number has grown from \$10 million to \$10.7 million over 12 months, that is a 107% retention rate, irrespective of how many of the original 100 customers have stayed with you.

5. **Be worried about your competitors.**

CX and indeed overall digital transformation leaders need to be a bit more paranoid, and should pay more attention to what their competitors are doing. The current level of belief that most companies are doing as well as or better than their competitors is unrealistic. Worry!

6. **Streamline and reprioritize your success metrics.**

Finally, CX leaders need to reconsider their primary metrics as they participate in the transformation. It is not a good strategy to simply add more to an existing list. The current "Top 5 metrics" may need to be discarded and a new list agreed, probably prioritized by relative impact on financial results.

"I am a Digital Experience professional and work closely with CX professionals. The biggest challenge is incorporating CX learnings into a traditional IT project delivery framework.."

SURVEY RESPONDENT

This is the future of NPS.

Meet your CX challenges head on.

Get in Touch

success@ocxcognition.com | US: +1 650 966 6192 | UK: +44 (20) 81583492

OCXCognition™

OCX Cognition delivers the future of NPS. The company implements CX programs that result in financial value through its revolutionary NPS Outcome Engineering approach. Drawing on more than 15 years of CX expertise and 1000+ CX initiatives, OCX Cognition ensures customer experience success with a combination of technology and data science powered by AI-enabled machine learning, programmatic consulting, and research-based CX insights and education. Connect with us to see how we can transform your CX program and deliver a personalized NPS score for every customer using the systems that already run your business.

Learn more at www.ocxcognition.com

sandsiv+

SANDSIV is a Swiss software provider located in Technopark Zurich, Switzerland's main technology hub. Listed as a leading VOC vendor in Gartner's recent VOC Market report, SANDSIV has built its reputation in delivering its state-of-the-art Voice of the Customer enterprise solutions "sandsiv+" to advanced CX teams at leading organizations throughout EMEA, including leading companies in the telco, financial services, utilities, retail and transportation sectors. sandsiv+ is an agile and fully integrated enterprise CXM and VOC platform solution, that enables organizations to capture and measure customer's wants and needs, combine and compare internal and external customer data and act in real-time on relevant insights to improve customer relations and the bottom line.