



# Wise investments, winning experiences

**How mastering Customer  
Experience (CX) Economics  
drives ROI in the new reality**



February 2021

[kpmg.com](http://kpmg.com)

# Adapting to the new reality

Among other things, 2020 will be known as the year that forever changed business. Rapid digital acceleration in response to the pandemic altered many of our daily routines and behaviors, including the way we work, play, learn, socialize, visit the doctor, and shop, to name a few.

According to 80 percent of global CEOs in the KPMG 2020 Global CEO survey, COVID-19 fast-tracked digital transformation efforts, particularly in the digital operations of their organizations. In fact, 30 percent cited their progress as “years ahead of where they expected to be right now.”

For customers, virtual experiences became the norm and digital holdouts, who previously shopped by in-person experiences only, migrated into the digital crowd. As health and safety became top priorities, the pandemic not only created more virtual customer interactions but steepened digital adoption curves underpinned by these quickly shifting mindsets and behaviors.

And many of these changes are likely here to stay. As such, organizations realize they need to continue digitizing their operations while protecting and prioritizing revenue growth and improving customer experiences to meet evolving expectations. At the same time, ongoing market uncertainty keeps cost optimization top of mind for executives, as pressures mount to make every investment dollar count. Organizations are fully aware of the need to create exceptional customer experiences to drive loyalty and compete in the new reality, but at what cost to the business?





As our research of customer experience leaders reveal, organizations that are customer obsessed continue to excel in the marketplace, not only because they use customer experience as a point of differentiation but because they are seeing economic returns on their investments. These companies have learned to master Customer Experience (CX) Economics.

CX Economics involves striking the right balance between what customers expect and what makes financial sense for an organization to deliver. It's the "sweet spot" that results in profitable growth. Achieving this profitable growth occurs when a business understands its customers' expectations and tempers them against the returns its CX investments can support and yield.

In this paper, we'll explore how the unfolding digital landscape and ongoing market uncertainty will continue to influence customer behaviors and impact businesses. We'll highlight how mastering CX economics in the new reality can help organizations deliver quality customer experiences and drive profitable return on investments at a time when it's needed most.

# Exploring CX Economics

Deriving economic value from an investment in customer experience relies on having a true understanding of what the customer wants.

Advanced tools and technologies make it easier and easier to harness customer data and insights that help decipher customer preferences, wants and needs. By gaining a better understanding of the customer, an organization can determine and prioritize the type of experience(s) to deliver and target value to capture from the CX investment(s) made.

For example, which customer experience has a greater impact on profit loss: An over-the-top customer experience or a negative one? It's no surprise that failing to meet a customer's expectations can have serious negative consequences. Falling short on expectations directly impacts customer retention and repurchase behaviors, which can result in lower profits and decreased market share.

But exceeding customer expectations can also negatively impact profits. Often the costs of delighting customers exceed the potential value it generates. In their efforts to surprise and delight customers or without proper planning, organizations can generate higher-than-necessary operating costs, which also can result in profit loss.

Therefore, CX Economics plays a vital role in determining an effective customer experience strategy. As **Figure 1** illustrates, the ability to strike the right balance between what customers expect and what an organization should deliver plays a direct role in the value customer experience will bring to the business.

## Customer centricity is not about just spending more on experience

**Economic value is lost** when experience fails to meet expectations resulting in **lost revenue and share**.



Customer Expectations



Customer Experience



**Economic value is lost** when experience significantly exceeds expectations resulting in **higher** than necessary **operating costs**.

Organizations need to continually evolve their understanding about their customers' expectations and needs. But it's equally important to understand the value those customers bring to the organization. Therefore, maintaining the right balance between meeting customer expectations and understanding the economic value to attach to specific experiences and customers is critically important. Some organizations invest so much in customer experience that their cost structure becomes untenable and fails to yield positive business impact.



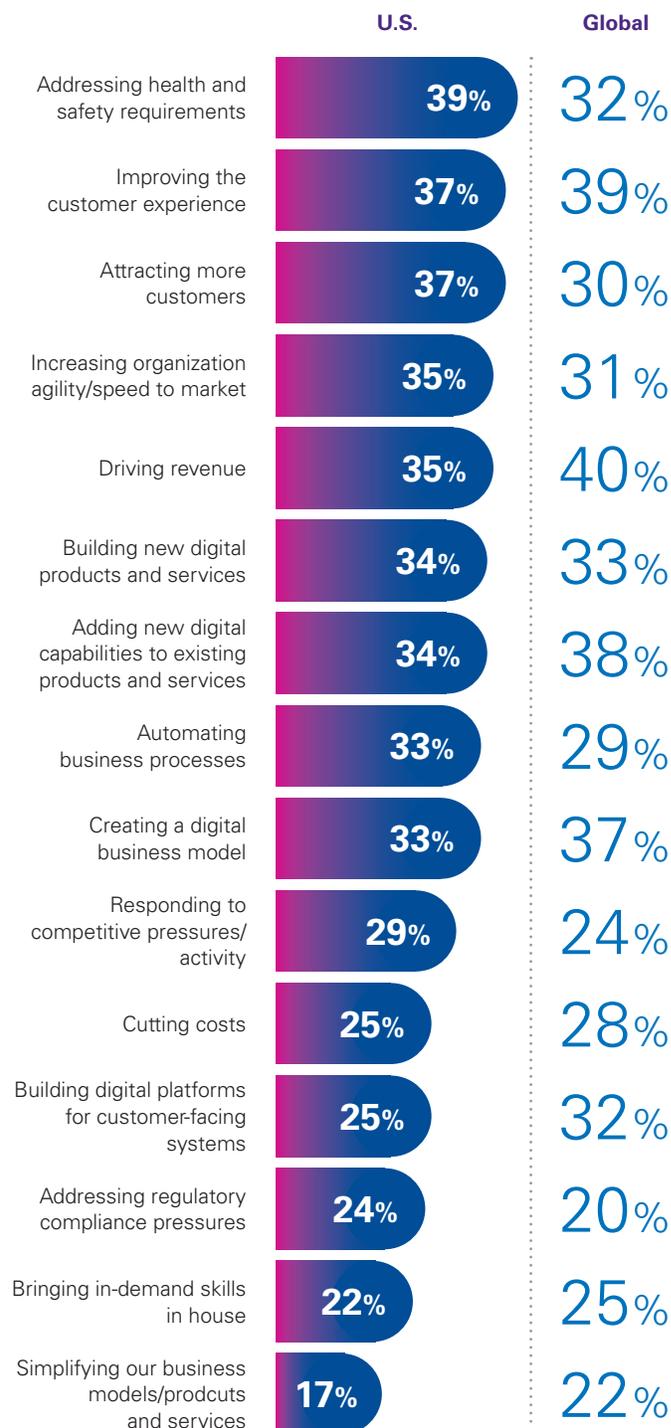
# Pioneering a new digital frontier

According to 75 percent of CEOs in the KPMG 2020 Global CEO survey, the COVID-19 pandemic has accelerated the need and creation of seamless digital customer experiences.

In addition, 64 percent said it has also accelerated the creation of new digital business models and revenue streams. While organizations prioritize finding ways to drive revenue and improve the customer experience by applying CX Economics, digital initiatives will play a key role in supporting these and other business priorities.



## Top postpandemic priorities for organizations



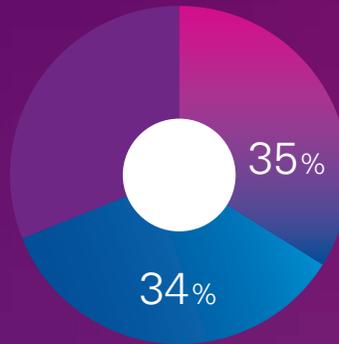
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, July 2020



69%

have moderately or significantly accelerated elements of their DT strategy as a result of the pandemic

Global 67%



We have had to significantly accelerate elements of our digital transformation strategy

We have had to moderately accelerate elements of our digital transformation strategy

### Increasing strategies and budgets

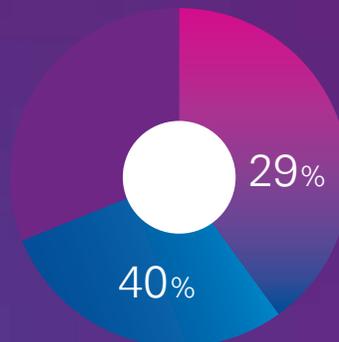
Two-thirds of DT leaders report digital transformation as a high or top priority even before the pandemic, but digital transformation strategies have ignited since then to enable business continuity, maintain operations and serve customers.

As a result, 69 percent of DT decision-makers report accelerating elements of their digital transformation strategies. And where strategy leads, budgets follow. Sixty-nine percent of organizations have increased DT budgets as a result of COVID-19. This acceleration of digital efforts and augmentation of digital budgets presents a tremendous opportunity to design and deliver CX experiences that generate positive returns by harnessing CX Economics.

69%

have moderately or significantly increased their DT budget as a result of COVID-19

Global 63%



We have had to significantly accelerate elements of our digital transformation strategy

We have had to moderately accelerate elements of our digital transformation strategy



**Customer-centricity is on the rise**

Meanwhile customer-centricity continues to climb higher as a focus for most organizations with 82 percent of DT decision-makers citing it as a high or top priority prepandemic. Since then, it has only grown in focus, with 78 percent reporting it as somewhat or significantly higher priority.

8 out of 10 organizations prioritized a customer-centric strategy prior to COVID-19

**Majority are pushing their strategy higher up the priority list as a result of the pandemic**

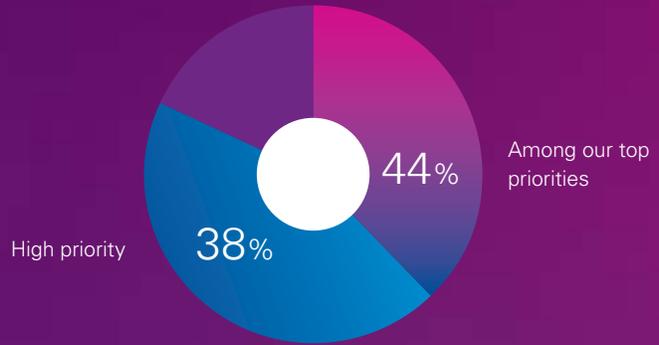
Q25. Prior to the onset of COVID-19, what was your organization/institution placing on its customer-centric strategy?

Q26. How has the onset of COVID-19 changed your organization's/institution's prioritization of its customer-centric strategy

82%

say their customer-centric strategy was a high or top priority prior to the pandemic

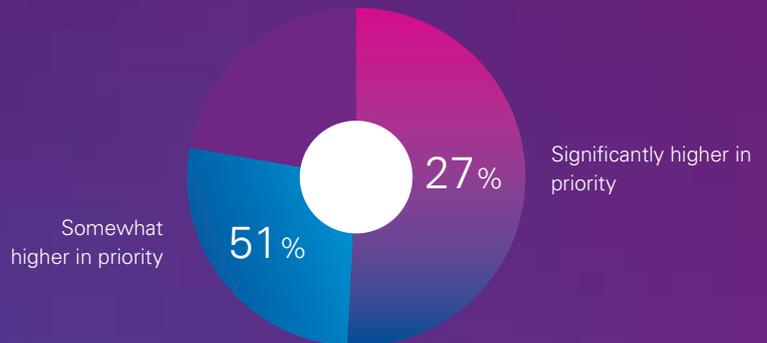
Global 80%



78%

say their customer-centric strategy is a somewhat or significantly higher priority as a result of COVID-19

Global 72%



# Enhancing the personalized experience

So, in the new reality, what is the composition of a great customer experience?

Our research over the last ten years shows us that excellent experiences are grounded within the Six Pillars of Customer Experience, one of which is personalization. Personalization—along with empathy—drives the emotional connection with customers and will be a differentiating factor in providing quality experiences in a competitive virtual environment.

Personalization is the most valuable component of most experiences. It involves demonstrating that organizations understand their customers' specific circumstances and will adapt the experience accordingly. Timely, personalized interactions help to reinforce customer satisfaction and drive loyalty.

Relevant, real-time personalized interactions are the expected norm. Yet research shows many firms are still unable to deliver a satisfying personalized experience. The benefits of getting personalization right are significant in improving customer relationships, revenue, cost of acquisition and marketing efficiency.

It's important not to confuse a personalized experience with making the experience human, such as greeting a user by name when signing in on a mobile app or website with a tailored experience. Personalized experiences are ones that are customized to the customer's distinct needs—which include making the experience human but going further. Customizing the experience to a customer's specific needs, which may shift based on different factors such as objective, current interaction channel, or past interactions, is what is meant by personalization. Consider this example, in which a customer has called the contact center three times in one day and has an open service request to resolve a payment on an insurance claim. Later that same evening, when the customer logs into the company's mobile app, she is presented with a status update of her claim rather than an irrelevant popup ad. Personalization that is done well requires that context, content, and communication come together to create something that is customized to the individual at the moment that matters.

In the new reality, this will become increasingly important. Customers will continue to demand more personalized experiences that address their evolving needs, and organizations will compete on how to best meet them.

## The Six Pillars of Customer Experience



### 1. Personalization

Use individualized attention to drive emotional connection



### 2. Resolution

Turn a poor experience into a great one



### 3. Integrity

Be trustworthy and engender trust



### 4. Time and effort

Minimize customer effort and "creating" frictionless processes



### 5. Expectations

Manage, meet and exceed customer expectations



### 6. Empathy

Achieve an understanding of the customer's circumstances to drive deep rapport.

# Connecting the organization

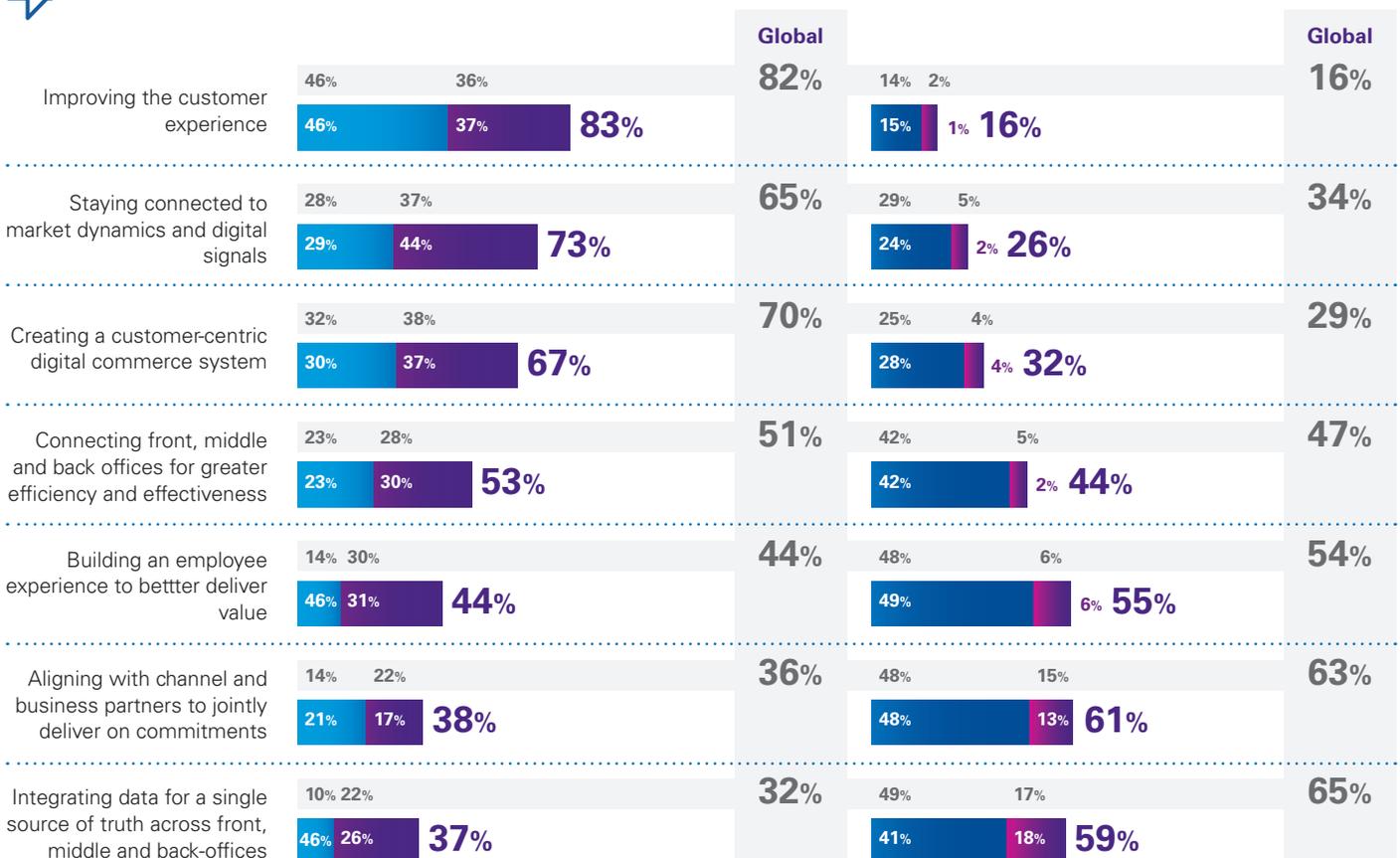
As organizations adapt to a rapidly changing marketplace, digital transformation drivers are increasingly customer focused.

Prior to the pandemic, improving the customer experience and creating a customer-centric digital commerce system were the primary drivers of digital transformation strategy, with 83 percent and 67 percent of DT leaders, respectively, counting them among their top, or on par with other, DT strategy objectives. This focus has only been amplified in light of the pandemic.

## Top digital transformation drivers are largely customer focused

Six out of 10 DT leaders are accelerating initiatives around connecting front, middle and back office

Q18. Prior to the onset of COVID-19, to what degree were the following objectives driving your digital transformation strategy?



■ Among our top digital transformation strategy objectives  
■ On par with other digital transformation strategy objectives

■ Less of a focus than other digital transformation strategy objectives  
■ Not one of our digital transformation strategy objectives

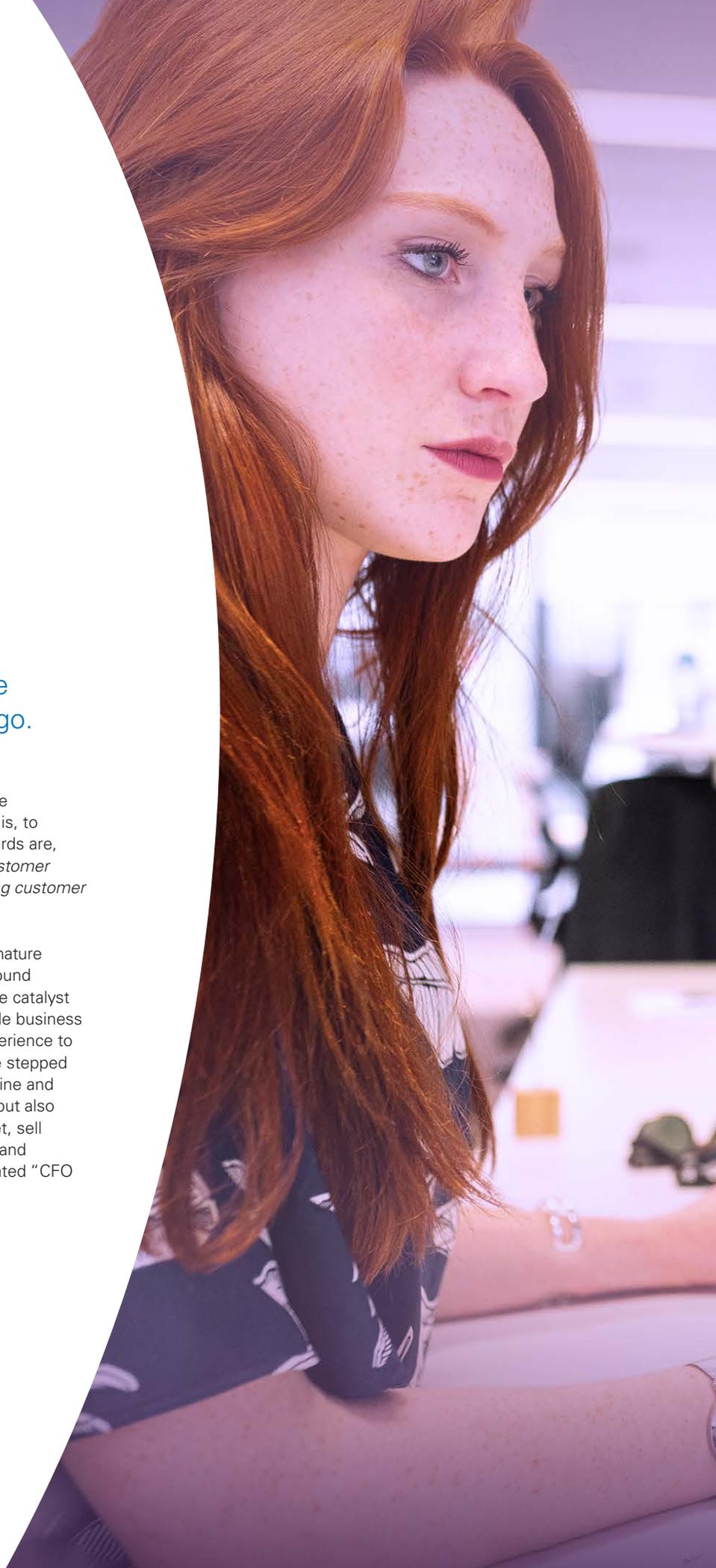


# Creating "CFO ready" experiences

Customer experience practices have been maturing rapidly since the introduction of the "age of the customer" more than a decade ago.

Our Six Pillar research gives us a specialized perspective enabling us to decode what an outstanding experience is, to look at who the customer experience leaders and laggards are, and to see they execute. *(See the 2020 KPMG U.S. Customer Experience Excellence report for more details on leading customer experience organizations.)*

Those organizations that fail to measure up may have mature customer experience practices but lack the maturity around economic discipline to navigate the CX tradeoffs. It's the catalyst that customer experience needs in order to be a credible business discipline. Increasingly, leaders are using customer experience to drive growth and economic outcomes. As such, they've stepped into a world where it is no longer acceptable to just define and deliver customer journeys and emotional connections, but also to deliver business impact through better cost to market, sell and serve, stronger experience portfolio management, and transformation oversight. These organizations have created "CFO ready" experiences.



Customer experience professionals need to set a good baseline upfront. Who are they serving? What are the customers' expectations? How are they performing? What are the underlying economics? Not having a baseline understanding to refer to is a common mistake in customer experience planning.

Without it, changes to the experience cannot be adequately measured against the previous experience. Organizations come up short by not understanding the impact of changes—positive or negative—and refining their efforts. Additionally, this lack of understanding makes it incredibly difficult to understand and prioritize where investments should be modified.

It's important to understand the baseline, understand the target, and understand the change in order to measure progress, not only in experiential level such as a contact center using measures of speed to answer or self-serve utilization metrics, but also in terms of actual results, such as cost-to-serve, NPS scores, CSAT scores or other metrics used by an organization.

At end of day, you have to understand your customer, you need to be able to design experiences but also have to value engineer those experiences to determine where to generate revenue, where to reduce costs, and how to be able to strike the right balance by staying aligned to the organization to execute with impact.

# Making the journey worthwhile

For many organizations, investments in improving the customer experience may not generate enough value or provide an acceptable return on investment (ROI). The following four action steps—Measure, Analyze, Prioritize and Refine—can help organizations manage the economics of the customer journey effectively:

## Measure

How does measuring experiences using “outside-in” type measures such as customer satisfaction, customer effort, NPS and many other methods help? It informs whether customer expectations are met but it does not reveal what customers value.

Therefore, it’s necessary to go beyond traditional measurement tools to understand what customers truly value in the experience and why. This is where experience preference and value analytics play a major role in our outside-in suite of measures. Experience preferences give us insights into what the customer would like the experience to be versus whether did we satisfy them.

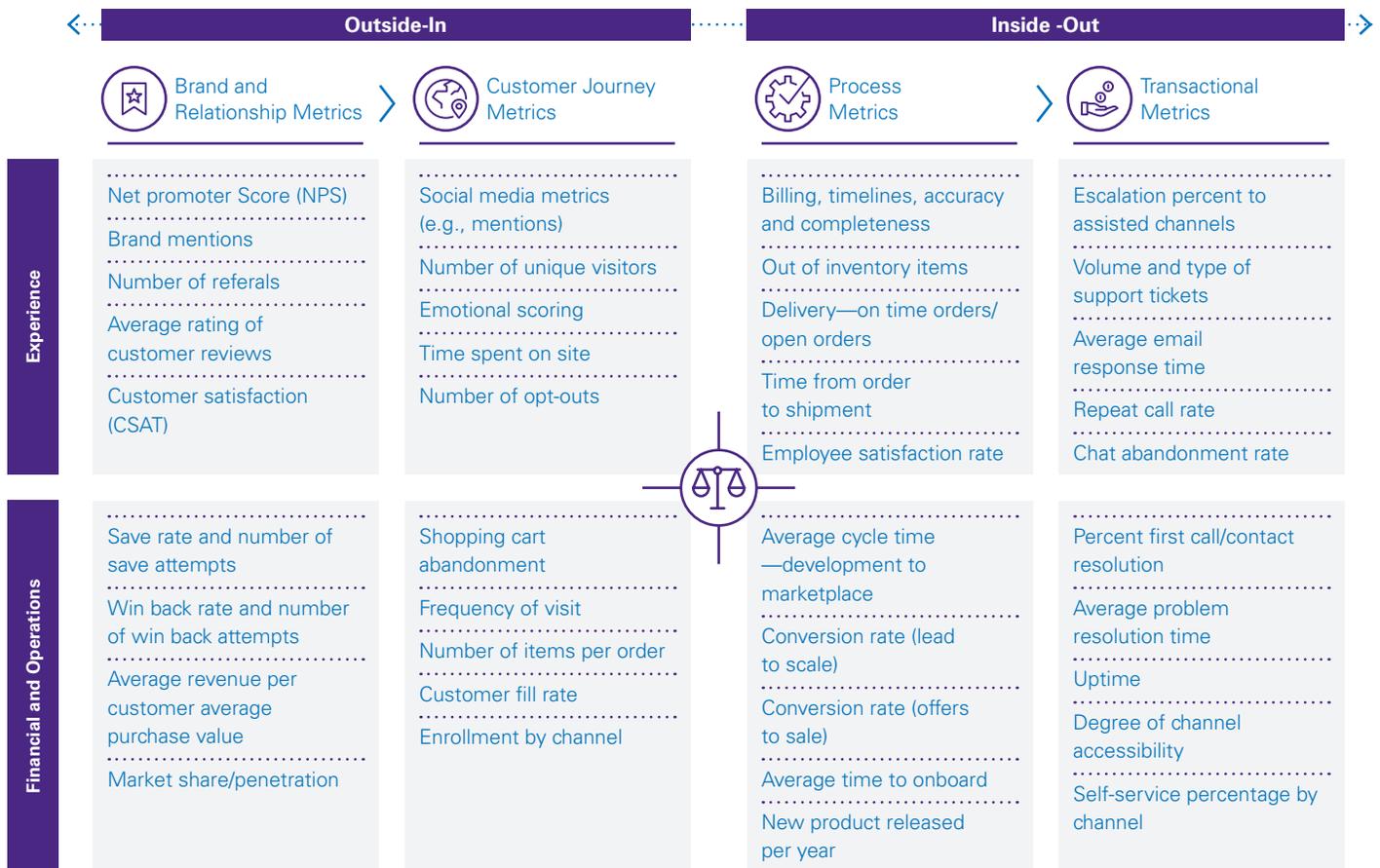
This approach allows us to understand what is important in the experience and why. Value analytics tells us the value a customer places on moments or aspects of the experience. It allows us to answer questions such as “if you were to pay for aspects of the experience, what would you genuinely pay for?” and therefore value. This approach enables us to both focus our investments in the areas of the experience that add the most value and reduce or remove the low/less valuable components to simplify the experience.

Additionally, it's important to measure the experience at the micro-experience, intervention, or "moment that mattered" level, not only at the customer journey level. Otherwise, an organization will not understand how making changes to the experience will move the needle positively or negatively. Instead, they will be lost in the multiplicity of the overall experience.

After effectively measuring from the outside-in element of the experience, organizations need to pivot to measuring the "inside-out." What is the cost of an individual experience?

Great strides have been made in understanding these measures at a transactional and process level, such as the cost to serve customers and the cost of operational complexity.

Yet, organizations rarely consider that part of the experience measurement framework. They use it for cost reduction or performance improvement efforts, but they need to bring it into the CX measurement framework. Thus, creating a balanced outside-in and inside-out CX measurement framework.



# Analyze

After establishing a balanced measurement framework, organizations can begin to analyze this data to extract the actionable insights.

Ultimately, the goal is to analyze the data at the lowest possible—and practical—level (e.g., customer, cohort or segment level.) To do so requires first using the existing customer segmentation, or cohort model, to ground the insights in the common language of the organization's segmentation model. This allows the insights to be more easily consumed in a consistent way by all the functions across the enterprise.

To reiterate, this analysis must connect and link the customer experience value measures and the operational cost measures into a singular ratio of value derived versus cost to deliver. This, combined with the ability to execute successfully on the experiences, enables classic satisfaction measures that enable a unified analysis at the experience level. As an organization matures, it can further analyze these three measurement inputs (experience value, cost to deliver and satisfaction) at a micro experience level.

Organizations should also be looking for variations across time, engagement, and segments. High levels of variation in experiences inherently drive up costs and drive down enterprise efficiency. Both the "Measure" and "Analyze" action steps are highly dependent upon the right technology to capture, ingest, normalize, and analyze the data, and distribute it across the enterprise. This is where an ecosystem of service providers can increase the speed to insights and value.



# Prioritize

This is where art meets science! Once an organization has the data and the insights, they need to make sure their prioritization process factors in their business objectives for the quarter, the year, and beyond.

Start with a filter such as insights and/or possible experience improvement areas to the stated business strategy (product growth, diversification of portfolio, segment growth, brand re-alignment, etc.) The focus on customer segments provides the initial "rosetta stone," with enhancements prioritized against the most important segments/cohorts. When considering importance, think of Customer Lifetime Value (CLV) versus individual campaigns or sales motions.

With a method and process of how to prioritize in place, an organization can simulate the suggested changes/improvements. Too often, experience enhancements are made without thought to the impact on other experiences that may share services and capabilities.

As a result, it can be like squeezing a balloon: you press down in one area and another blows up. Understanding the interrelations of an enhancement in a holistic way allows an organization to apply the last filter of compound value creation across multiple experiences. It also forces the organization to think of experience enhancements as "batch releases," just like software releases, that can be sequenced to ensure the right balance between value creation and operational risk.



# Refine

The last action, which can be the one most often overlooked within the governance model, is to constantly understand, test, learn, and then, refine.

Many organizations are very good at doing this at a project or initiative level but not at an enterprise governance level. Establishing the process, decision-making hierarchy, and investment is needed to continually refine the data, measurement, insight and prioritization capabilities across all aspects. Again, many organizations focus on the technology components, but leaders will also invest in the people responsible for executing these actions as well as the governance model. This will require “a village” to be successful. The organization needs to embrace the constant refinement of experiences as well as the enterprise grade capabilities that allow the ability to design and execute them.

The one constant is that customer expectations have grown and will continue to grow over time whether an organization’s customers are consumers or other businesses. So, the ability to constantly refine experiences in a profitable way and utilize emerging thinking, data and technologies will be the ultimate differentiator for organizations in the future.



# Conclusion

CX Economics incorporates key measurements to determine ROI and continuously evaluate an organization's customer experience execution.

It's a fluid process. It's important to remember that customer experience is an evolving journey. With the rapid acceleration of digital and continuous disruption in the marketplace, organizations must be agile and willing to adapt customer experience strategies and tactics as necessary, while paying equal attention to delivering meaningful financial results.

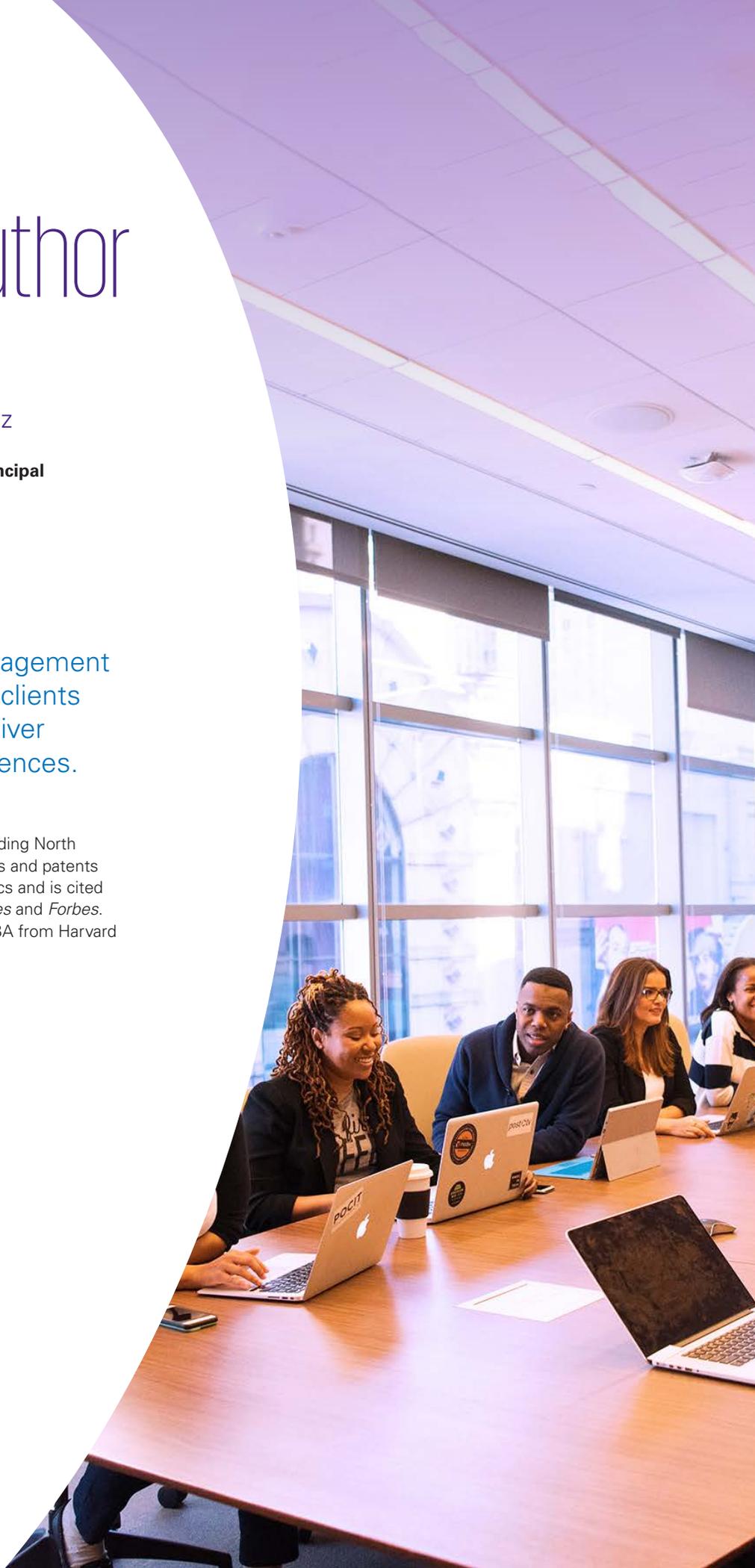
# About the author



Julio J. Hernandez  
**Global and U.S.  
Customer Advisory Principal**  
KPMG U.S.

Julio has over 25 years of management consulting experience helping clients drive profitable growth and deliver differentiated customer experiences.

He has worked with clients across the globe including North America, Europe and Asia. He has multiple patents and patents pending for both customer experience and analytics and is cited in multiple periodicals, including the *Financial Times* and *Forbes*. Julio has a BBA from Emory University and an MBA from Harvard Business School.





# How KPMG can help

At KPMG, our team of Customer Advisory specialists can help you understand what your customers need – and transform the way your organization delivers value.

Combining business experience with functional acumen, we provide you with deep economic analysis, robust customer insights and market intelligence, and strategic business direction to help you generate ROI from your investments in customer-centricity.

# Contact us



**Julio Hernandez**  
**Global Customer Center of Excellence Lead, KPMG**  
**International Customer Advisory Solutions Lead,**  
**KPMG in the U.S.**

T: 404-307-5363  
E: juliojhernandez@kpmg.com



**Jeff Mango**  
**Managing Director, Customer Experience Transformation**  
**Lead, KPMG in the U.S.**

T: 770-853-7020  
E: jmango@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

[visit.kpmg.us/SpeedoftheCustomer](https://www.kpmg.us/SpeedoftheCustomer)



© 2021 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

CREATE. | CRT134003A | February 2021