WHITE PAPER

DESIGNING AND IMPROVING THE CUSTOMER EXPERIENCE IN FINANCIAL SERVICES

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Executive Summary

In this white paper, we report on the results of a two-year research project that investigated how leading financial services (FS) organisations design and improve the customer experience. Our team of academic researchers and consultants set out to uncover the practices of customer experience management used by 23 FS companies across Europe and the USA. We engaged with organisations that were successful in delivering experiences that pleased their customers as well as with firms that faced difficulties in implementing a winning customer experience strategy.

We define an experience as the customer’s cognitive and emotional responses to his/her interactions with a service delivery context. Interactional elements include the physical (e.g. bricks and mortar), the relational (e.g. staff), and the virtual (e.g. website). Customer experience management is about designing and improving these provider-customer interactions to create positive customer responses. Based on our analysis of extensive interview data and documentary evidence, we propose a framework that can help FS practitioners make better decisions about how to design and deliver effective customer experiences.

We identified 6 best practices that should be applied by FS organisations that seek to provide effective customer experiences:

**#1:** Define the end-to-end customer journey lifecycle;

**#2:** Monitor, track and improve failed moments of truth;

**#3:** Engage customers in learning activities;

**#4:** Personalise the customer experience by using transaction data;

**#5:** Apply sensory design on the tangible and visible service elements;

**#6:** Build trust through the consistent and reliable delivery of the experience.

Furthermore, we found that the FS industry has four distinctive characteristics - intangibility of the service act, information-centricity, contract complexity and membership-based customer relationships - which affect the choice and selection of these best practices. This
suggests that customer experience management is context-specific and that one approach does not fit all industries.

All in all, our research suggests that FS firms have a desire to accentuate the functional aspects of the customer experience. An effective customer experience in FS meets customers’ utilitarian needs, avoids negative emotions and reduces customer pain. Value is created when the experience provides superior utilitarian customer benefits such as speed, ease of use, confidence and security. Providing hedonic benefits (e.g. cheerfulness and excitement) and creating memorable emotional connections are only second-order considerations for FS organisations.
Background

FS organisations have started to differentiate their value propositions by customer experience. We define an experience as the customer’s responses to his/her interactions with the physical, relational and virtual elements of the service delivery context. Broadly speaking, customer experience management is about designing and improving these interactions. A recent survey reports that nearly 80% of FS organisations are increasing investments in processes, staff training, and IT systems to improve the customer experience\(^1\). For instance, the CEO of Lloyds Banking, one of the largest and oldest retail banks in the UK, recently stated: “Customer First is the most important element of our strategy. Customers need to be at the heart of our business”. This emphasis on a customer-led strategy is echoed by the CEO of Barclays: “we will transform Barclays by putting customers at the start and end of everything we do”.

Increasing product commoditisation, competition from new market players and below-par customer service figures suggest that these efforts are necessary. For instance, the latest UK Customer Satisfaction Index shows that Insurance and Banking both perform below the national average\(^2\). Similarly, the Finance & Insurance sector ranked 8\(^{th}\) out of 12 in the 2012 American Customer Satisfaction Index\(^3\). Moreover, since the beginning of the 2008 global financial crisis, the connection between the consumer and the FS sector has become increasingly strained as the shortcomings of leading organisations are regularly exposed. The continued revealing of scandals has led to the general public losing its faith and trust in the industry. For instance, Lloyds Banking Group was recently fined £28m for "serious failings" in relation to bonus schemes for retail banking sales staff, the largest fine ever imposed for retail conduct failings in the UK\(^4\).

To provide relevant and evidence-based guidance for managers involved in customer experience management, we engaged with 23 FS companies, some of which were highly

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\(^1\) IQPC, 2012, Survey Report: Customer Experience Management for Banking and Financial Services

\(^2\) UKCSI July 2013, The state of customer satisfaction in the UK, Institute of Customer Service

\(^3\) ACSI Sector Benchmarks, American Customer Satisfaction Index

successful in delivering experiences that pleased their customers whilst others faced difficulties in implementing a winning customer experience strategy. Our multi case study approach provides good opportunities for comparison. We selected leading organisations that had been running a customer experience programme for more than three years to ensure they have sufficient maturity and expertise in the area. We conducted 31 interviews with marketing, operations and customer experience managers. We also collected a variety of documents including customer journey maps, performance reports, internal research presentations and NPS data. Data analysis and synthesis enabled the development of a framework for the effective management of the customer experience in FS.

A Framework for Effective Customer Experience Management

The framework below suggests that FS organisations focus on accentuating the utilitarian aspects of the customer experience. An effective customer experience in FS is designed to avoid customer pain, rather than to delight the customer and elicit pleasurable emotions such as cheerfulness and excitement. Customer value is realised when the customer derives superior utilitarian benefits (e.g. speed, ease of use, confidence and security) from the experience.

Furthermore, our framework suggests that four industry-specific characteristics, which are difficult to manipulate or control for managers, affect how FS organisations go about designing and improving the customer experience. First, the membership-based, ongoing, and long-term nature of the customer relationship leads organisations to define the customer experience as a lifecycle that comprises a series of high-level stages, which are spread out over time. Organisations develop a deep understanding of customer processes and resources to identify value creation opportunities in the journey and determine how these opportunities are exploited. Besides, they ensure that moments of truth are delivered reliably. Moments of truth that are prone to failure are closely monitored and continually improved. Second, FS contracts and products are relatively complex. Organisations engage
customers in learning activities by taking steps to educate and guide them. This practice improves customer knowledge of and competence in financial products, processes and services, which enables customers to play their role in value creation. Third, information-intensive FS organisations collect and analyse vast amounts of data to measure the delivery of value across the critical interactions in the customer journey. Additionally, transaction data is used to understand the customer’s resources, processes and practices in order to predict changes in preferences and behaviours. This fine-grain analysis supports the delivery of tailored customer experiences. Fourth, the intangibility of FS processes makes the use of sensory design techniques on the tangible and visible elements of the service particularly important.

Framework for Customer Experience Management in FS
**Best Practice #1: Define the end-to-end customer journey lifecycle**

Organisations take a holistic perspective to define and describe the customer experience as an ongoing cycle or continuum that includes all customer interactions occurring whilst searching, buying and using the product. The journey lifecycle comprises discrete stages that are spread out over time and can be easily distinguished and managed separately. This perspective is adopted due to the membership-based nature of FS services, which are delivered continuously to customers over an extended period of time and characterised by ongoing, long-term customer relationships.

Organisations represent the customer experience in end-to-end models comprised of high-level generic stages and lower-level specific interactions. In the exhibit below, we collate and distil the journey maps of the organisations studied into a set of nine generic touchpoints or stages. They represent a typical end-to-end experience lifecycle, from ‘awareness’ through to ‘defection’ and ‘return’. Although many touchpoints are expected to be sequential (e.g. from ‘interest’ to ‘apply’), the journey is often dynamic and non-linear (e.g. a ‘concerned’ customer is likely to go back to the ‘serve’ stage if complaint resolution is satisfactory). The lower-level interactions represent the specific customer activities or transactions that are associated with each high-level stage of the lifecycle.

To build ‘good’ journey models, organisations must develop a deep understanding of the customer’s personal processes and resources through market research and the generation of customer insights using various techniques such as interviews, focus groups, and ethnography. For instance, customer shadowing is an increasingly popular technique. Following customers in their daily lives makes it possible to gather insights into the customer’s own context of product use. They then identify value creation opportunities in the journey and determine how these opportunities are best exploited. Value creation takes places across multiple points in the experience lifecycle because customers judge the superiority of their experience at different stages and their perceptions of value vary over time.
An end-to-end map of a customer journey lifecycle

Best Practice #2: Monitor, track and improve failed moments of truth

The nature of the customer journey in FS has implications for the measurement of the delivery of customer value. Organisations develop performance metrics for each stage of the customer experience. They do so because customers determine value in a processual manner through the journey and assess quality at different points in the experience lifecycle. Organisations focus on identifying, monitoring and improving interactions with high value creation potential, the so-called ‘moments of truth’ (see Exhibit). These ‘critical interactions’ have a major effect on the customer-provider relationship.

Organisations adopt a data-based and fragmented approach to managing moments of truth, which are dynamically identified and monitored according to customer feedback, operational data and voice of the employee data. All interactions are initially classified according to their impact on key customer attitudes and behaviours (i.e., satisfaction, loyalty, and word of mouth). From this assessment, organisations establish a limited number of moments of truth representing what’s most important to customers. Improvement opportunities are identified based on how the organisation performs on these critical
interactions. This determines where to focus efforts to change the service delivery system and improve the customer experience in an ongoing, but reactive, manner.

Furthermore, FS organisations emphasise the importance of delivering negatively critical interactions in a reliable manner. These interactions prevent customers from achieving their goals and from building value for themselves. Organisations prioritise their efforts and allocate resources towards improving the failed moments of truth, whose management is primarily associated with a reduction of customer pain.

**Best Practice #3: Engage customers in learning activities**

Customer engagement initiatives aim to get the customer associated, interested, and involved with the provider and the offering. FS organisations have a very specific way of engaging customers. As issues of product and contract complexity remain particularly salient in FS, organisations focus on educating and guiding the customer to minimise the risk of confusion and of negative responses, a philosophy sometimes labelled “serve rather than sell”. It consists of developing and exploiting opportunities for engaging with the customer’s consumption processes and developing their skills, knowledge and competence. This provides a platform that enables customers to play their role in the value creation process. For instance, communication (e.g., letters or emails) and marketing materials (e.g., website design, product brochures) are essential in supporting and helping customers on how to best use the firm’s services and products in the course of the relationship.

Moreover, in an information-intensive industry where direct interactions are increasingly limited, communication and promotion materials are designed to ensure that they convey essential product and service information effectively by using the right tone of voice and language and, for instance, by avoiding legal terms, jargon and replacing heavy text documentation with images. For instance, a large retail bank performed a piece of research to estimate the costs of poorly written customer letters. They analysed the number of unwanted and unnecessary incoming customer queries handled in the call centre as a result of a letter sent to the customer. This led to the redesign of all direct communications to customers, including emails and letters. Their new emphasis is on being clear, easy to understand and on how to make it easy for their customers.
**Best Practice #4: Personalise the customer experience**

Organisations, within and outside the FS sector, have tended to rely on their staff to deal with customers in a personal way and adapt the service process to meet their specific needs and preferences. In FS, the systematic gathering and analysis of the transaction data of individual customers makes it possible to penetrate and understand the customer’s own context, in terms of resources, processes and desired outcomes. This deep understanding makes it possible for firms to adapt their experience development to match more closely the behaviours and preferences of individual customers.

We observed a shift from an aggregate, segment-based approach to a more personalised type of service delivery, akin to a move from B2C to B2B. Traditional marketing research focuses on understanding customer needs at an aggregate level. Organisations then design a single delivery process that caters for the largest possible number of customers in the most efficient manner. Transaction data, in contrast, are readily available at the level of individual customers. FS organisations collect and store vast amounts of operational data on how individual customers use the firm’s products and services. For instance, the nature, frequency, time, location and amount details of all credit card transactions are recorded.

At the time of the study most organisations were still exploring how ‘big data’ can be best leveraged. Nonetheless, we found various examples of how firms use advanced analytics techniques to make sense of the large amounts of customer data, such as transaction data, transcripts of telephone conversations or complaint letters, which they held in their internal databases. This affords firms the ability to predict future behaviours and identify new opportunities for value creation. For instance, a large UK retail bank is able to identify customers who have bought a holiday and when and where they will go on the holiday using credit card transaction data. They contact those customers to find out what might concern them around the holiday. They can then offer a specific travel insurance package or a discount on foreign exchange as appropriate. Furthermore, understanding the preferences of individual customers helps organisations connect with their customers on the customer’s own terms. For example, a retail bank processed historic customer transaction data to determine the service channel preferences of its customers. They then implemented a large-scale marketing campaign focused on communicating with customers through their
preferred channels (e.g. email, phone calls, branches, ATMs, direct mail, text messages and online banking account).

**Best Practice #5: Apply sensory design on the tangible and visible service elements**

Sensory design aims to stimulate the senses of customers. In the information-based FS context opportunities to act on the senses by designing tactical, visual, and auditory cues in the service facility are limited. Instead, sensory design techniques are used in interactions involving ‘indirect physical contact’ between the firm and the customer. FS organisations manipulate the tangible and visible elements of the service, including marketing and communication materials, to produce affective reactions in customers and support a coherent brand experience strategy.

We found that they tend to focus on three senses through the design of product brochures and communication materials and staff training: touch, for example by using recycled or prestige paper; sight, through the use of particular colours, pictures and by adopting the right level of language in written communications with the customer; and sound, by changing the tone of regulatory messages on voicemails or adapting the tone of voice of staff to match the organisation’s brand and reputation. These cues (e.g., colours, graphics, layout, language, paper type and tone of voice) aim to provide information about the organisation and its brand and values as well as its products and services in order to support a coherent experience strategy. For instance, a mutual insurance organisation devises its product documentation materials to convey a “friendly” message by using soft colours and edges of illustration on floppy and recycled paper. In contrast, a wealth management firm used rich, deep colours and thick, premium brands for product brochures to impute quality and a premium experience.

**Best Practice #6: Build trust through the consistent and reliable delivery of the experience**

The first five best practices are key ingredients that enable an organisation to develop effective customer experiences. In order for the customer to regain the faith and trust in the industry, FS organisations must also rebuild consumer trust. This can be done by focusing on the three critical components of trust. The first component is honesty. Consumers just want FS organisations to be honest. ‘Just tell me the truth’. ‘Do what you say you are going to do’.
‘Do not try and hide anything’. Consumers do not expect organisations to get things right 100% of the time – ‘so just be honest with me when you get it wrong, and address the issue’. Secondly, customers all want the businesses they deal with to be reliable. They want to know that things will work as they should. Embedding Best Practice #2 should enable reliability to become a reality. The third component is consistency. Organisations that are able to deliver a consistent experience tend to have more satisfied and more loyal customers. Consistency becomes even more important in the multi-channel environment that FS organisations operate in. The in store experience needs to seamlessly interact with the online and mobile experiences. The brand must look, feel and operate in the same way.

**Conclusions**

This white paper provides a starting point for FS managers seeking to assess and improve their firms’ abilities to offer effective customer experiences. Managers can refer to the framework to compare their approach to customer experience management with the best practices described in the paper. The detailed examination of each individual best practice can be a source of ideas for organisations embarking on the customer experience journey. We also raise the question of the direct transferability and applicability of operational practices across sectors. Managers outside the FS sector should therefore consider the findings with caution. Furthermore, this white paper fine-tunes the existing understanding of customer experience management. For instance, a survey of managers revealed that the measurement and improvement of all customer interactions is a popular practice that is key to success⁵. Our research shows that not all touchpoints have the same value for customers. The evidence suggests that FS firms: (1) identify the moment of truth in the overall journey from the customer perspective; (2) track and monitor performance on theses critical interactions in an ongoing and systematic manner; and (3) dedicate efforts and resources to improving the failed moments of truth, which are likely to change over time.

⁵ YankeeGroup, 2008, Beyond the Customer Experience Hype: Where Are Service Providers Today in Delivering the Ideal Customer Experience?
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