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INNOVATE THE EXPERIENCE, NOT JUST THE PRODUCT

Leading-edge brands are rethinking the whole customer journey

Randall Stone and Rick Wise

To get to the top of customer ratings of major airlines, Delta had to go beyond providing cleaner planes and fewer lost bags: The legacy carrier redesigned customers’ experiences by transforming its planes into workspaces and remodeling its gate lounges to include high-tech amenities. New health insurer Oscar figured out a way to sell insurance the way Amazon sells everything else. Lodging rental site Airbnb completely redefined how people can find a place to stay.

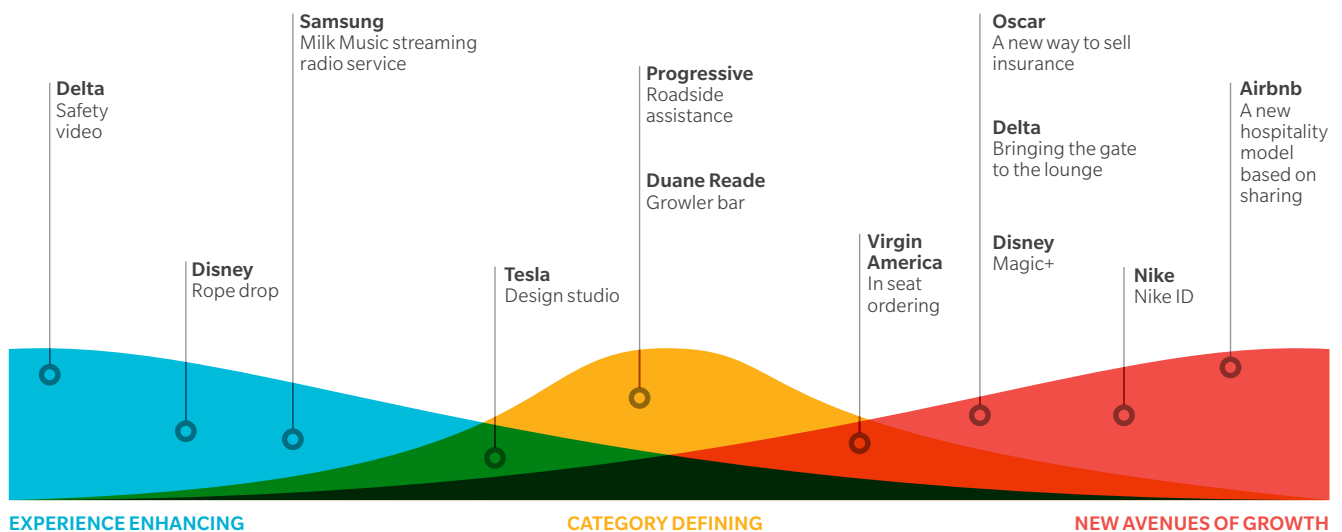
Across an array of industries, companies are realizing that redesigning the customer experience – not just traditional product features – is the best way to differentiate their brand and grow. For decades, companies have

focused on innovating products, devoting the majority of their research and development budget to traditional product development. But adding features and incorporating new technologies are delivering less value: While research and development spending rose nearly six percent in 2013, revenue for the same companies rose less than one percent.

Thanks in large part to the greater amount of information provided by digital and social media, customers are likely to switch brands with each new alluring offer. As a result, fewer than half of the world’s top brands are considered to be “unique” by customers, our research shows.

A SPECTRUM OF SIGNATURE MOMENTS

COMPANIES ARE REIMAGINING THE CUSTOMER EXPERIENCE BY INTRODUCING INNOVATIONS THAT SURROUND THE CORE OFFER, WHICH CAN RANGE FROM ENHANCEMENTS TO COMPLETELY NEW AVENUES OF GROWTH



Source: Lippincott.



In response, companies are trying to build loyalty by innovating the user experience – by looking at all of the interactions that customers have around a product, both before and after their purchase. Within these moments, companies identify the points at which customers make emotional connections and then invest in changes that customers will notice and remember.

Of course, experience innovation is not entirely new, as the long-term success of Virgin Atlantic airport clubs, Nike flagship stores, and Starbucks cafes can attest. These innovators showed that it’s not just about the planes, shoes, or coffee, but rather how customers feel when they use the product or service.

But while many companies recognize this fact, few as yet deliver on it, or even approach it the right way. According to research firm Forrester, more than 80 percent of senior business leaders say that their companies are focused on improving the customer experience. Yet 85 percent have no systematic approach to determining what a differentiated customer experience looks like, let alone how to come up with a new one.

To better connect with customers, companies need to define and then mine a spectrum of “signature moments.” Even minor adjustments can be surprisingly emotional drivers. For example, Disney sometimes unexpectedly opens its theme park fifteen minutes early to feed off the “I’m about to be at Disney World” thrill.

Innovating the customer experience can significantly boost efficiency, such as by taking entire steps out of processes or changing their sequence – with the bonus of reducing the cost to serve customers. For insurer Progressive’s customers, on-site accident support is a perk, but it also lowers fraud losses. Eyewear retailer Warby Parker offers a streamlined buying process that also lessens the company’s costs.

Healthcare innovators such as CareMore and Iora Health pay up front for wellness coaches who can help patients head off health problems – but in doing so cut acute care costs by orders of magnitude.

Armed with more detailed data on how their customers behave, some companies are even identifying new avenues of growth. For example, Apple’s ancillary services such as iTunes, iCloud, and AppleCare provide a consistently growing revenue stream even as new products come and go.

The bottom-line value of experience innovation can be seen in a recent study we conducted of more than 500 consumer-facing brands. The stock prices of companies that are innovating to deliver a richer customer experience have tended to appreciate eight percent faster than the laggards, as well as outperform benchmark indices such as the Standard and Poor’s 500.

This gap will only grow, as leaders will continue to push the limits of experience innovation. For example, one technology client recently found that it could up its customer renewals by altering the way it conducts tasks as basic as identifying customer needs, entering contracts, and providing training and ongoing service. These experiential elements increased renewals by nearly double, whereas product improvement had a ceiling of 10 to 20 percent.

Innovating the customer experience is fast becoming a competitive necessity. Those that don’t revamp their customers’ experiences are likely to lose their attention and affection. And there’s no excuse not to try, since new mobile and social technologies mean that a company can engage with its customers at any place and any time.

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