



The Daniel Group

The Case for Improving the B2B Customer Experience

*How better customer experiences can help you drive
profitable growth and create competitive advantage*

**“I preferred the Other Brand’s product
...but I bought yours instead.”**

- Agricultural Machinery customer, 2014

Introduction

I preferred the Other Brand's product... but I bought yours instead.

- *Agricultural Machinery customer feedback comment, 2014*¹

Why didn't this customer buy the product he preferred, and what did the successful company do to win his business? You'd be forgiven for thinking price was the deciding factor, but in this case it was the customer's positive sales experience at the winning brand's dealer. Simply put, the customer experience trumped product preference.

This striking comment and thousands others like it we've heard from B2B customers illustrate the importance of the customer experience – both before and after the sale – in driving purchasing decisions and brand loyalty.

Yet while most companies acknowledge the critical importance of taking care of their customers, many do not yet apply the same level of rigor and resources to improving the customer experience as they do to other key customer purchase drivers, such as product and pricing. And for good reason. Until recently, the customer experience was not well defined or understood, and limited data existed to help managers judge its relative importance versus other priorities. This made it difficult to justify investments in improvement efforts.

The purpose of this whitepaper is to address these challenges, by helping B2B companies understand the nature and importance of the customer experience and the benefits of improving it.

We highlight a growing body of research which indicates that customer experience improvements can help companies generate profitable growth and create durable competitive advantage. This is especially important given the strategic environment in which many B2B companies now operate, in which competitors can quickly eliminate product innovation advantages and customer expectations are rising².

What is the “Customer Experience”?

The customer experience is the sum of all the interactions a customer has with your company, from initial consideration of your product or service through purchase, delivery, set-up and support. It encompasses all the channels, people, and processes your customers use to interact with you. For B2B companies, this can be especially complex: Business customers often have multiple individuals, departments, and geographic locations making purchase decisions and requiring ongoing support.

It's Not Customer Service. The customer experience is the view of your company through the *customer's* lens while customer service typically views the customer through your *company's* lens. While customer service has often been seen by companies as a post-sale support cost center to be managed as efficiently as possible, customer experience is more commonly associated with the goal of creating a satisfied and loyal customer base in order to drive profitable growth.

Nor is it Customer Satisfaction or Loyalty. Customer experience also differs from customer satisfaction and loyalty. While the customer experience comprises the interactions of customers with your company, customer satisfaction and loyalty are *outcomes* of those interactions. In fact, they are frequently used as performance metrics to judge the success of customer experience improvement efforts.

How important is the Customer Experience?

Great customer experiences help you build loyalty and generate recommendations, which in turn help you grow your business (Figure 1).

And because the customer experience encompasses *all* the interactions your customer has with you, it follows that *each* interaction matters. Even the small ones.

This line of thinking may be common sense, but until recently little data were available to support it, making it difficult to build a business case to support customer experience improvement efforts. Are great customer experiences simply a nice-to-have, or can they really move company-level dials on revenue growth, efficiency, and shareholder value? A growing body of research suggests the latter.



Figure 1.

A 2015 study by Watermark Consulting found that the stock performance of customer experience leaders handily beat the S&P 500 Index over an 8-year period, while laggards fell significantly short (Figure 2).

Customer Experience Leaders Outperform the Market



Figure 2. Source: Watermark Consulting

The study compared the stock market performance of the top 10 and bottom 10 ranked publicly traded companies on Forrester Research’s Customer Experience Index. It named these top- and bottom-ranked groups Customer Experience “leaders” and “laggards”, respectively. Over an 8-year period, leaders outperformed the S&P 500 by 35% in cumulative returns³. Laggards, meanwhile, underperformed the S&P 500 by 45% and leaders by 80%.

These are profound differences in

long-term shareholder value creation, which is arguably the ultimate measure of management effectiveness.

The superior stock performance of customer experience leaders was likely driven by a combination of top and bottom line benefits. These benefits are explored below in the context of the company functions that most directly influence and benefit from customer experience improvements.

Sales & Marketing Benefits

Recent research indicates a strong relationship between customer experience excellence and key measures of customer loyalty. In other words, customer *do* return favors: if you take care of your customers, they will reward you with a loyalty tailwind which strengthens your sales and marketing efforts.

In a 2013 study involving 7,538 consumer surveys across 175 US firms, Forrester Research found strong correlations between great customer experiences – those with high ratings on effectiveness, ease, and emotional engagement – and key measures of customer loyalty, including customers’ willingness to repurchase and remain loyal, as well as their likelihood to recommend a company to others (Figure 3)⁴.

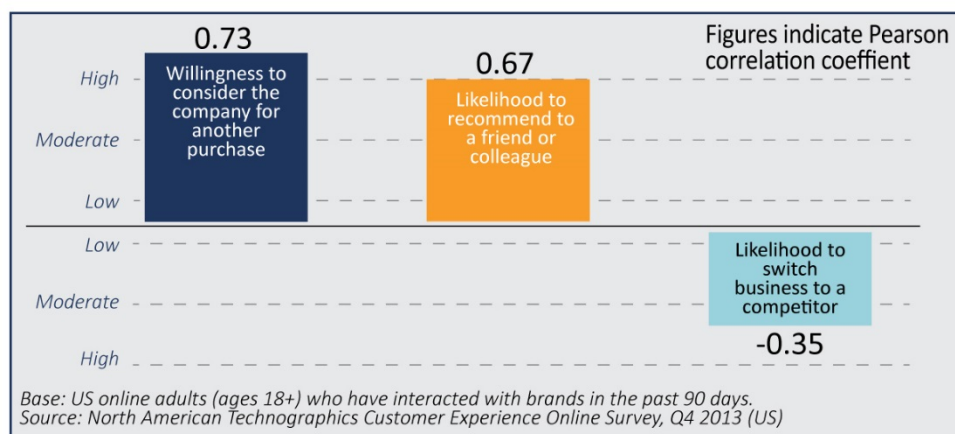


Figure 3. Source: Forrester Research

In our own experience conducting voice-of-customer interviews for B2B agricultural machinery dealers, we found that one-third of their customers had referred a dealer to someone else within the last six months (Figure 4). And almost all of these referrals were from those who had self-identified as “promoter” customers, i.e. highly likely to recommend the company, while only 9% were from non-promoter customers^{5,6}. Given the strong link between customer experience and likelihood to recommend, the implication is that excellent experiences translate into a healthy flow of word of mouth referrals, while mediocre or simply good-enough experiences generate a lower rate of referrals.

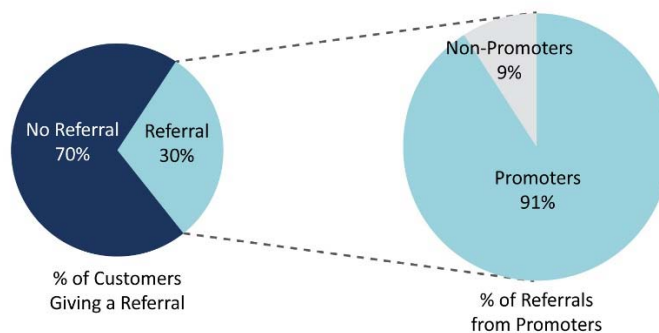


Figure 4. Source: The Daniel Group Research

Customer loyalty, in turn, has been linked to above-average long-term revenue company growth. Bain & Co. correlated relative Net Promoter Score (NPS) rankings of industry competitors with measures of organic growth and found that over a 20-year period, the companies with the highest NPS scores in their respective industries, i.e. loyalty leaders, grew at twice the rate of their industry peers (Figure 5)⁷.

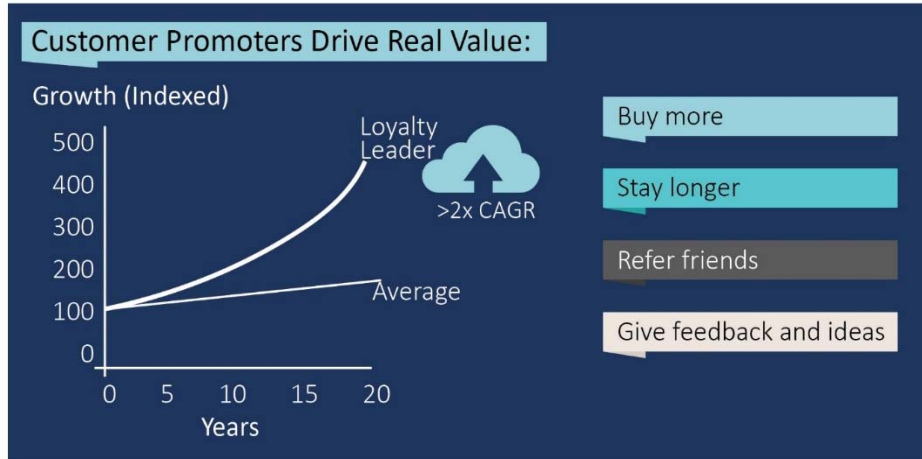


Figure 5. Source: Bain & Co.

Specific to B2B companies, CEB's Challenger Sale research conducted after the financial crisis of 2008 and continuing today, has found that 53% of B2B customer loyalty is driven by *how* a company sells to and supports customers, not *what* it sells⁸. In other words, the customer experience is as important as the product itself.

Additional research by CEB found that individual self-image was a stronger driver for key purchase influencers in B2B businesses than company value added or professional value added⁹. In other words, the buyers' perception of how the purchase personally reflected on them was top of mind: they want to feel proud to have made that purchase decision, win respect, and strengthen their sense of community within their organization. Delivering a superior customer experience is a critical step to generating that type of emotional engagement and hence brand preference.

Customer Support & Operations Benefits

In addition to top-line benefits for sales and marketing functions, customer experience improvement efforts have been associated with benefits for customer support and operations functions. Forrester research found that over 50% of the annual revenue impact of customer loyalty for US wireless service providers, which was highly correlated with good customer experiences, was due to lower rates of customer churn, a key performance metric for many customer support functions in both B2C and B2B companies¹⁰.

Financial Benefits

- Work Order Cost to LMC Analysis
- Invoiced, backed out, adjusted, and invoiced again
 - Flat Rate variances
 - Gross Profit adjustments (Accounted for Labor Class)
 - Rework - expenses

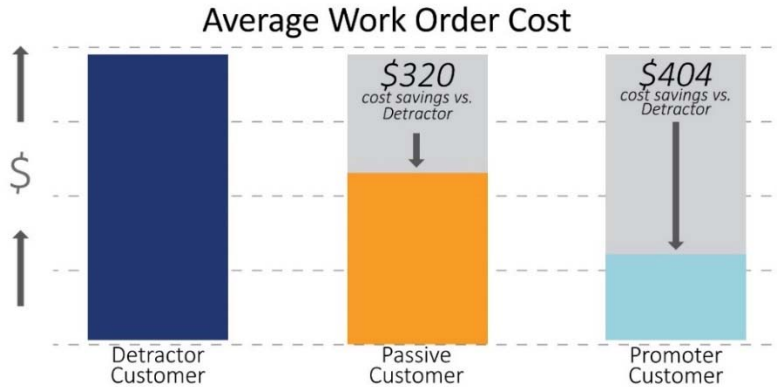


Figure 6. Source: Louisiana Machinery

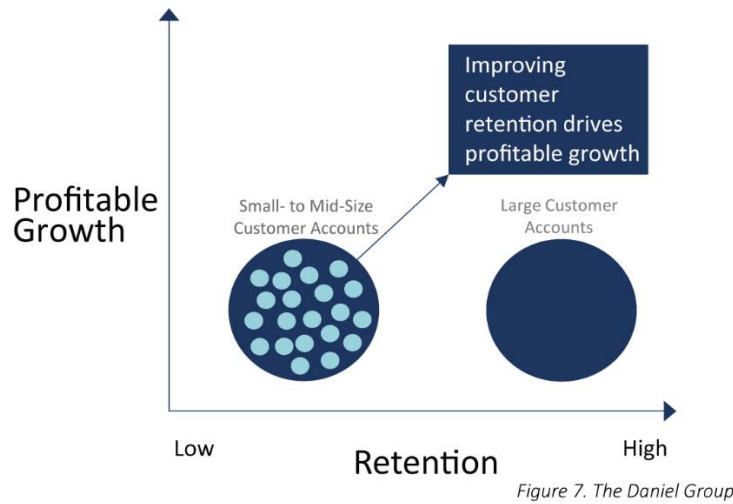
Customer support and operations functions may also be able to deliver bottom line benefits for their business via lower per-account costs. For example, Louisiana Machinery, the Caterpillar dealer for the state of Louisiana and a client of The Daniel Group, mapped billing adjustment expenses to levels of customer loyalty (Figure 6). It found that its cost of adjustments for Detractor customers (those who would be unlikely to recommend the dealer to others) were significantly greater on average than costs associated with Promoter customers (those who would be very likely to recommend the dealer to others). It calculated that if it were able to improve the customer experience enough to move a reasonable number of Detractor customers to Passive status and Passive customers to Promoters, it could generate annual savings in excess of \$1,000,000.

Customer experience improvement efforts can also help customer support and operations functions identify other valuable benefits to deliver to the company, such as service recovery opportunities and proactive service improvement opportunities based on customer feedback.

A Hidden Opportunity for B2B Companies: Small-to-Mid Sized Customers

A significant revenue and profit growth opportunity for many B2B companies lies in increasing retention of small- and mid-size customer accounts. Compared to larger customer accounts, small- and mid-size customer segments often boast higher profit margins yet lower retention rates. It follows that a modest increase in retention or share of wallet in these segments can drive significant profitable growth (Figure 7). Investing in customer experience improvements to deliver such gains is a promising option, especially since it typically does not involve price concessions. However, these investments in smaller customer segments are often overlooked or deprioritized due to large, must-win accounts taking a disproportionate share of management attention and company resources.

We recommend B2B companies analyze their rates of small- to mid-size customer segment retention and profitability to explore the potential return on investment in this area.



Should Our Company Invest in Customer Experience Improvement?

Many B2B companies have created formal customer experience improvement programs¹¹ and are increasing their investments in this area. In a 2014 Accenture study, more than 80% of B2B executives said customer experience is a strategic priority and that they would be investing more year-over-year in this area¹².

If your competitors have not yet prioritized the customer experience, your company may have an opportunity to differentiate and win market share by doing so. And if your competitors are already actively investing in this area, your company may need to invest in order to meet rising customer expectations.

The benefits of investing in customer experience improvement must be weighed against cost, complexity, and risk. While customer experience improvement programs can be complex and effortful and the most powerful benefits often take several years to realize, in our experience it is possible to structure such efforts in a phased manner to start small and simple, capturing early wins to justify continuing and expanded investment. Intelligent program design, staffing, and metric selection helps minimize risks and maximize the odds of adoption by employees and appreciation by customers.

While improving the customer experience and, ultimately, delivering consistently excellent experiences is neither simple nor easy, the investment is justified by the powerful business benefits of profitable revenue growth and durable competitive advantage.

About The Daniel Group

The Daniel Group helps B2B clients measure, manage, and improve the customer experience. Since 1989, we have provided services to a wide range of companies from Fortune 500 companies to independent manufacturers, distributors, material handling companies, and technology companies. Our ServiceConnect voice-of-customer feedback program is deployed at many leading heavy equipment, industrial, and transportation companies including 75% of Caterpillar dealers in North America, AGCO Corporation, and Okuma America Corporation among others.

To learn more about how we may be able to help you improve your customer experience, please visit us at www.thedanielgroup.com, or contact a member of our management team:

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End Notes

¹ The Daniel Group, 2014. Customer feedback interview comment, edited for brevity and confidentiality of the brands referenced by the customer.

² Accenture, B2B Customer Experience: Stop Playing to Win and Stop Playing Not to Lose, 2014. <https://www.accenture.com/us-en/insight-b2b-global-customer-experience-start-playing-to-win>. In a survey of 1,450 B2B executives, between 70-75% agreed that higher customer expectations are influencing their company's customer experience strategy.

³ Watermark Consulting, THE 2015 CUSTOMER EXPERIENCE ROI STUDY, 2015. <http://www.watermarkconsult.net/docs/Watermark-Customer-Experience-ROI-Study.pdf>. Watermark defines Customer Experience Leaders and Laggards as the top ten and bottom ten rated public companies in Forrester Research's 2007-2015 Customer Experience Index studies. Comparison is based on performance of equally-weighted, annually readjusted stock portfolios of Customer Experience Leaders and Laggards relative to the S&P 500 Index.

⁴ Forrester Research, The Business Impact of Customer Experience, 2014. http://resources.moxiesoft.com/rs/moxiesoft/images/%0DBusiness_Impact_Of_CX_2014.pdf.

⁵ The Daniel Group internal research, 2013.

⁶ Net Promoter® and NPS® are registered trademarks and Net Promoter Score and Net Promoter System are trademarks of Bain & Company, Satmetrix Systems and Fred Reichheld.

⁷ Bain & Company, How is Net Promoter Score related to growth? Retrieved June 2015 from: <http://www.netpromotersystem.com/about/how-is-nps-related-to-growth.aspx>

⁸ Dixon, Matthew, and Brent Adamson. *The Challenger Sale*. New York: Portfolio/Penguin, 2011. Print.

⁹ CEB, Why Self Image Matters in B2B Sales, 2015. <https://hbr.org/2015/04/why-self-image-matters-in-b2b-sales>

¹⁰ Forrester Research. Forrester Perspectives: The Business Impact of Customer Experience, 2013. http://images.email.forrester.com/Web/Forrester/%7B694f6f15-e76d-4688-bf6b-13a23f46d489%7D_Forrester-Perspective-CX-Final.pdf

¹¹ Bain & Company maintains a list of companies at <http://www.netpromotersystem.com/about/companies-using-nps.aspx#Service> who have publicly cited their use of the Net Promoter System, a customer feedback system based on the Net Promoter Score, a popular customer loyalty metric, including many Industrial and B2B firms. Additionally, The Daniel Group has helped over 50 B2B companies implement customer feedback programs designed to improve the customer experience across a number of industries including heavy equipment, machine tools, transportation, material handling, and industrial compressors.

¹² Accenture, B2B Customer Experience: Stop Playing to Win and Stop Playing Not to Lose, 2014. <https://www.accenture.com/us-en/insight-b2b-global-customer-experience-start-playing-to-win>