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Three Steps to a Profitable, Modern Service Organization

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Executive Overview

Transitioning your support organization or contact center from a cost center to a profit center is an onerous process that can be difficult to navigate within an organization. Yet, it is a journey that must be purposely undertaken, performed crisply and executed successfully for your organization to thrive in the competitive world. Being viewed as a cost center creates an endless journey of continuous cost cutting, funding reduction, justification and re-justification of every investment and the need to always be more efficient this year than last. It is a self-destructing cycle that ends with an underfunded support organization attempting to provide ever increasing services to an ever demanding customer community in an ever more competitive market. The historical mantra has been simple: "do more with less;" when the discussion should be focused on creating organizational value, defining competitive differentiation, creating loyal customers, and promoting profitable growth.

This guide has been written for the business leader who would like to lead a transformation from a cost center to a profit center. It also provides that leader with a broadly accepted financial model with which to measure and demonstrate the organization's value and progress. Its intention is to "get the organization ahead of the curve" and to become a profitable entity that is capable of generating its own funding and revenues.

This guide does not provide a detailed list of KPIs or metrics, how to start tracking these measurements, or how to identify target numbers that make sense for your organization. Rather, this document defines a transformational strategy and a valuation framework from which to demonstrate organizational value. For further information on specific measurement criteria, please consult *Customer Experience (CX) Metrics and Key Performance Indicators, an Oracle White Paper*.

Becoming Trapped

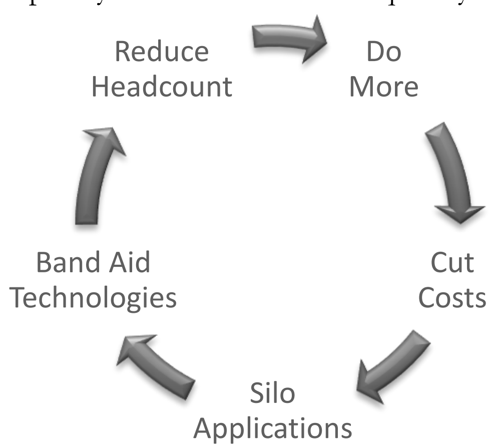
Historically, many organizations have viewed their support organization as a necessity. Something they had to have in order to remain in business. The prevailing view was simple: "customers will not buy our product/service without some level of support, but customers do not buy our product/service because of our support. We, therefore, view support as a necessity with the goal to deliver minimal service at the lowest possible cost." These organizations were funded on a cost-budget basis.

The concept was to oblige the center to do ever more with an ever decreasing budget. Support more customers with fewer agents/service representatives. Do more support without upgrading technology capabilities. Offer more channels with minimal funding. The focus was frequently on how to reduce handle time, shave a second here or there, lower the cost of a "support second" by going off-shore, or to defer investments by stretching last year's technology yet another year.

However, efficiency has its limits and frequently has adverse effects. The maximum efficiency that can be gained, is limited by the total budget it has been assigned. It is not possible to save more than has been allocated. The efficiency potential is finite–and becomes more difficult to capture incremental efficiencies with each passing year.

Additionally, efficiencies can be captured only once. Once the efficiency is captured, it becomes the baseline for next year's budget. It is not possible to reapply last year's efficiency to the next year since it is already part of the model going forward. In order to improve, additional efficiencies must be uncovered.

As budgets are cut year-after-year to provide additional value to the organization, the quality of support diminishes, technologies age and workaround processes become more prevalent, which leads to more inefficiencies. Personnel become frustrated, customers become frustrated and you fall further and further behind your competition. Cheap, quick, easy siloed technologies are implemented as "temporary band-aids" in the hopes of staying close to the competition; but "temporary band-aids" all too frequently become "permanent band-aids" It becomes a vicious circle spiraling downward and the organization is trapped.



Trapped and Under Attack

The "trapped customer support organization" comes under attack on multiple fronts. First, new competition surfaces or existing competition learns that customers do buy because of support. This new, enlightened competition starts to provide better customer support and takes your market share.

"Trapped support organizations" must also respond to the newly empowered customer, who for the most part, is not trapped by a single supplier. Customers have been empowered by easy-to-obtain and readily available information at their fingertips; and the ability to socially broadcast their experience as fast as you deliver it (or don't). Customers who do not receive a satisfactory customer experience will quickly switch to another provider.

Trapped organizations must also compete for scarce internal funding. Investments for cost-centric customer support organizations have a difficult time competing against sales, marketing, or product R&D. Investments for cost centers always fall below revenue generation centers. The trapped organization falls to the bottom of the budget list and is "designated for investment next year," but next year turns into the following year, and the year following that, and so on.

Over time, these forces take their toll on the organization as it slips further and further behind the competition and de facto industry's support standards. Investment requirements become larger each year and more difficult to obtain, as organizations struggle to simply "tread water." Fortunately, there is a better way–a much better way.

The CX Value Equation

In order to escape the trap, an economic framework must be established to measure and illustrate the value of the service organization. Customer service organizations must be viewed in a holistic manor as a component of the total customer experience (CX) with your brand. The framework must account for the full value of CX, and the contribution made by customer service. To this end, we recommend the use of the CX Value Equation.

Customer Experience (CX) is a complex practice area that requires clear vision, the right tools, and great execution to succeed. The measured value of contribution made by customer service must be considered across three major areas: Efficiency (E), Retention (R), and Acquisition (A). These areas play a critical role in any business, whether it's listed on a stock exchange, publically or privately owned, or a non -profit or government organization. When combined, we refer to these three areas as the CX Value Equation:

$$CX = E + R + A$$

Efficiency *allows an organization to do more with less;*

Retention *is the ability of an organization to keep and grow the customers it already has; and*

Acquisition *refers to the ability of an organization to increase its customer base.*

The CX Value Equation effectively defines a financial bridge between a CX customer service strategy and the organization's profit line. It facilitates conversations about customer service investments, priorities and returns on investment (ROI).

Three Areas of Financial Focus

The value equation consists of three main financial areas: Efficiency, Retention, and Acquisition. These financial areas are explored here along with the primary business challenges for each area. Each practice area has three identified business challenges, yielding a total of nine business challenges for success.

EFFICIENCY (Lower Effort)	RETENTION (Strengthen Relationships)	ACQUISITION (Increase Revenue)
INCREASE PRODUCTIVITY	INCREASE SHARE OF WALLET	GENERATE MORE OPPORTUNITIES
DECREASE COST OF OPERATIONS	IMPROVE LOYALTY	INCREASE BRAND EQUITY
INCREASE SELF SERVICE	DRIVE ADVOCACY	INCREASE MARKET SHARE

Efficiency focuses on doing the right operational activity to deliver the desired results at a lower cost to the organization. There are also three important business challenges in this area:

- Increase **Return on Invested Capital (ROIC) or Economic Value Add (EVA),** both are key measures of a company's efficiency. Increases in these areas typically indicate a strengthening of the company's financial position.
- The major challenge represents traditional accounting of the expenses associated with the customer interaction and **Decreasing the Cost of Operations**. These expenses refer to those costs associated with servicing the customer base either before they purchase a product or after.
- At most organizations, the largest cost associated with doing business is its employees. Improving the **Productivity** of this asset can go a long way toward improving the overall impact that employees have, and toward delivering a great customer experience.

Retention focuses on how organizations keep their customers, to reduce churn and to increase their lifetime value. There are three important business challenges associated with Retention:

- The first challenge is to create customer **Loyalty**. A customer who is loyal is one who resists switching to another brand or doing business with another organization.
- Driving **Advocacy** is a desired goal that goes beyond loyalty. In the social age, advocacy is a key component of any company's success measurement. Customer advocates are those who tell their friends, family, or colleagues about how much they enjoy doing business with the organization.
- **Increasing the Share of Wallet** for each customer drives higher profit. Expanding sales through expansion of sales to each customer is one of the best and most profitable approaches to increasing revenues.

Acquisition focuses on how an organization can increase its customer base by gaining new or additional customers. Acquisition can be decomposed into three business challenges:

- **Generate More Opportunities** is the first challenge of acquisition. More opportunities are generated through an increase in visitor and customer traffic (either physically at a store or digitally on a website) so there are additional situations for sales transactions. Organizations benefit from having a respected brand and from being highly visible and creating great customer experiences.
- **Increasing Brand Equity** is a key objective of most companies. Increasing Brand Equity builds corporate value, and can influence key sales and customer measurements such as increasing the average value of an order, improving customer conversion rates and driving higher revenues.
- **Increase in Market Share** provides companies with sustainability, growth, and pricing power. Improving market share typically leads to an overall better financial position for companies.

Liberate Your Service Organization

With a firm understanding of the CX Value Equation, you now have a tool to illustrate the service organization's value. You are ready to free your organization from its self-imposed trap. Use the value equation model to self-fund the transformation from cost to profit as illustrated below:

EFFICIENCY (Lower Effort)	RETENTION (Strengthen Relationships)	ACQUISITION (Increase Revenue)
- $$ SAVE HERE	=) INVEST HERE	+ GROW HERE
RIGHT CHANNEL SERVICE AND REDUCE COSTS HERE	7 TO 10 TIMES CHEAPER TO RETAIN THAN TO ACQUIRE NEW	MORE OPPORTUNITIES FROM BRAND LOYALYSTS

Trapped support organizations typically have the ability to become more efficient through modern customer service techniques–frequently the investment can be recaptured within the same budget cycle. By capturing these early efficiency savings, the trapped organization can fund additional modern approaches and improve customer retention by strengthening relationships. This, in turn, reduces customer churn and generates additional revenues and profits that can be used to take the organization to the next area of the value equation: acquisition.

The CX Value Equation is the economic model for demonstrating increased organizational value. Moving to a modern customer service organization is the strategy for delivering the economic benefits.

Three Steps to a Modern, Profitable Service Organization

The key to transforming your organization is to modernize the organization, capture the benefits, and illustrate the benefits. Here are the steps to modernize and turn your organization into a profit center:

Step 1
Set Metrics and Baseline

Gain agreement on the specific CX Value Equation metrics and baseline your service organization

Step 2
Modernize

Modernize your service organization:
"Get Going" to ***save budget*** by doing foundational activities
"Get Better" by ***investing*** in retention
"Get Ahead" and ***generate revenues*** by personalizing interactions

Step 3
Evolve

Continue to measure, demonstrate economic improvement and evolve

Step 1: Set Metrics and Baseline

Begin by thinking about specific measurements through the lens of your own organization's business model. Start with the efficiency metrics. These are the easiest to identify. Get a handle on the important ones, such as self-service and first contact resolution rates. Add retention metrics to the model prior to publishing it. Great candidate metrics include Customer Effort Score (CES), Net Promoter Score (NPS), and Customer Satisfaction (CSAT) indexes. Finally, add acquisition measurements with metrics like number of opportunities and referral rates. Work with other internal groups to develop the specific metrics that reflect your organization's activities and its contribution.

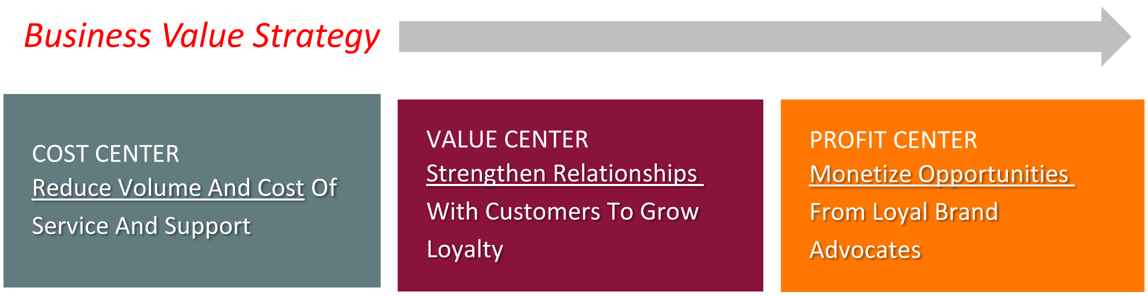
It is easy to feel overwhelmed by the number of different measurement points that are available for the model. While a comprehensive approach across all CX areas is best, depending on the situation, it might make most sense to break the problem down into smaller pieces and begin with a single area first. Continue to refine the model and improve it as you gain experience and expertise. Align your specific metrics to the CX Value Equation and use its framework to illustrate the growing value of your organization and your successful investments.

For further information on specific measurement criteria, please consult *Customer Experience (CX) Metrics and Key Performance Indicators*, an Oracle White Paper.

Once you have an initial version of your model, baseline your organization's current operational position using it. Verify that you can capture the metrics, and that the process is repeatable. This baseline is your starting point and the position from which you will demonstrate your progress and contribution to the organization.

Step 2: Modernize Your Service Organization

Use the Roadmap to Modern Customer Service Strategy as the key approach to move from a cost center to a profit center. When this strategy is followed, the activity can be a self-funding. This approach will fundamentally transform your organization.



Changing from a cost center to a profit center requires that a proper foundation be established, followed by adding new capabilities and providing consistency across all interactions--and continuous innovation to remain ahead of your competition. The foundational activities are how you get going. You must resist the urge to skip steps and attempt to implement innovation on top of your trapped, outdated infrastructure.This will only lead to failure. For example, it is not possible to implement an effective virtual assistant if your foundational knowledge base has not been established and is not operating well. Skipping steps is how an organization ends up with disparate systems (e.g. stand-alone chat) and business processes that function poorly, deliver substandard service, and require manual support and workaround processes to operate. In effect, you will have used rubber bands and tape to hold together your infrasturucture–hardly an effective strategy.

Let’s lay out the steps:

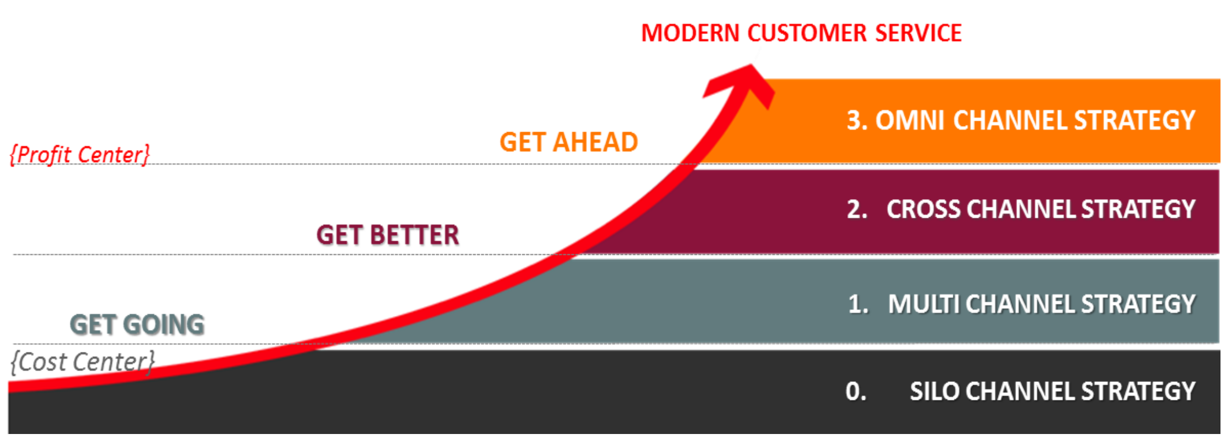
- GET GOING: reduces expensive service volumes, and transitions the interactions to less expensive approaches, generating cost savings for service investments to
- GET BETTER: bring consistent quality of service, optimize capabilities and strengthen relationships, so you can
- GET AHEAD: of the competition, monetize more opportunities, personalize interactions and be proactive in an omni-channel environment.

Step 3: Continue to Measure, Demonstrate and Evolve

Modern customer service is not a destination, but rather an evolving journey. This year's customer service capabilities become table stakes for providing service next year. Customer needs and demands will continuously change. Market forces will change. Technology will change. The Internet of Things (IoT) is upon us, and will accelerate change.

To survive and stay ahead, the modern customer service organization must continue to measure and demonstrate year-over-year improvements. The modern service organization must continue to innovate customer service with new areas and approaches. The modern service organization must measure progress, and illustrate growing value. The Roadmap to Modern provides the strategic framework, and the CX Value Equation provides the financial framework.

Conclusion



Liberating your cost-centric customer support organization can feel like an impossible task. However, by leveraging the CX Value Equation and tailoring it to your needs, you can demonstrate the true value of the services you provide to your organization. By using the Roadmap to Modern Customer Service's strategy of Get Going, Get Better, Get Ahead approach, you can self-fund and transform your center from an entity that is viewed as "overhead" or a "necessity" into a strategic, competitive asset that generates revenues and profits.

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