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The CFO: A Key Player on the Customer Experience Team

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The CFO: A Key Player on the Customer Experience Team

The scope of the CFO role has steadily expanded since the dawn of the digital era. The CFO, who once maintained an inward focus on the business and was concerned mostly with financial control, reporting, and performance management, is now expected to wear multiple hats.

To deliver on the mandate to build the organization's long-term value, the CFO has evolved into a sort of internal venture capitalist, applying the skills and capabilities of a strategist, data scientist, and overseer of digital transformation initiatives to identify opportunities and risks. The multiple roles contribute to a broad perspective on the organization and the marketplace that the CFO draws on to serve as the face and voice of the company when interacting with investors and analysts. And as a growing number of companies have come to view customer experience (CX) as a key competitive differentiator, the CFO is now taking a hand in CX improvement initiatives as well.

In a recent Harvard Business Review Analytic Services survey of 1,091 business leaders, 58% of respondents say the CFO and the finance function are players on their organization's CX team. That majority agrees that the finance function will be significantly or somewhat involved in their organization's approach to CX over the next two years. **FIGURE 1**

Joel Maynes and Alex Rawson encapsulated the reason for the CFO's involvement in CX in a 2016 McKinsey & Co. article, in which they argue: "Companies investing to improve the customer experience must be clearer about what it is actually worth and exactly how the improvements will generate value."[1] Defining the value of an experience and forecasting the return generated by improvement are tasks that lie squarely within the finance function's wheelhouse and should earn the CFO a voice in any CX conversation.

HIGHLIGHTS

As a growing number of companies have come to view customer experience (CX) as a **key competitive differentiator**, the CFO is now taking a hand in CX improvement initiatives.

A disciplined approach to customer lifetime value **helps companies control costs** even as they deliver a great CX.

The CFO is ultimately responsible for measuring **how far along the path toward true customer-centricity** a company has progressed.

> “When contemplating any business decision, the CFO must always ask, ‘What will be the impact on the customer?’” says Jon Picoult, founder and principal of Watermark.

More specifically, the CFO can contribute to CX initiatives in three distinct ways: The CFO can define and prioritize the improvements that will deliver the most value to the organization and the customer; set targets and timelines for generating returns on CX investments; and make a convincing case to the C-suite and investors that a customer-centric outlook and great CX are essential to creating and growing enterprise value in today’s marketplace. The CFO must “ensure that customer experience is part of the strategic resource allocation and measure the outcomes,” says George Quinn, CFO of Zurich Insurance. “Saying it doesn’t equal doing it, but making sure the organization is investing and spending more on the topic gives a higher chance that you’ll succeed.”

Behind all the CFO’s activities should be “a core belief that when you do right by the customer, you do right by the organization and its employees, shareholders, and all the other stakeholders,” says Jon Picoult, founder and principal of Watermark, a Massachusetts-based CX consultancy. “When contemplating any business decision, the CFO must always ask, ‘What will be the impact on the customer?’”

The CFO must be driven by that belief not because it’s currently fashionable or because it’s what the market expects to hear, but because of the overwhelming quantitative evidence of the immense financial impact of winning customer loyalty via a superior CX. Research from Bain & Co. shows that loyalty leaders—companies that top their industries in net promoter scores (NPS) or customer satisfaction rankings for three or more years—report roughly 2.5 times faster revenue growth than their industry peers and return two to five times more to shareholders over a 10-year period. [2]

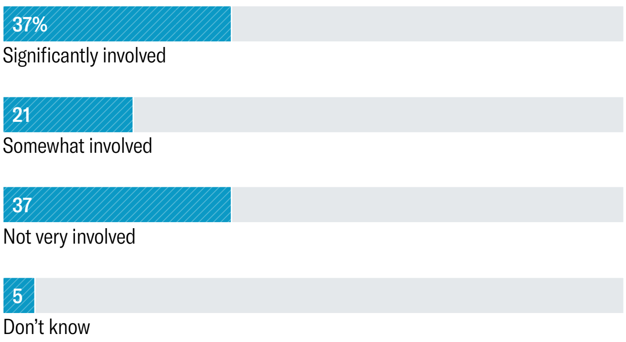
With an overarching mandate to add value to the enterprise, the CFO has a positive obligation to support ambitious CX initiatives to inspire the loyalty of customers and increase their lifetime value.

FIGURE 1

CFOs Have a Voice in the Customer Experience Conversation

Most companies expect the CFO to be a player in CX initiatives.

To what extent do you believe the finance function will be involved in your organization’s approach to CX over the next two years?



Source: Harvard Business Review Analytic Services Survey, December 2020

Clinching the Case for Customer Experience

It is often a challenge to mobilize C-suite and investor support for new CX initiatives. In Picoult’s previous incarnation as a corporate executive, the Watermark founder was troubled that many of his colleagues, including those in the C-suite, “said the right thing in public about the value of a great CX, but in private, [they] harbored skepticism about it.” He decided to speak to the doubters in what he calls “the universal language of business: stock price.”

Picoult offered them striking findings obtained by plotting the cumulative total returns posted by companies identified in benchmarking studies as CX leaders or laggards against the Standard & Poor’s 500-stock index. Across the 11 years from 2007 to 2017, the shares of CX leaders delivered a cumulative total return nearly three times greater than the total returns of CX laggards. **FIGURE 2**

As an influential advocate for the customer and CX, the CFO can use those numbers to win over the skeptics and gain the C-suite’s support for ambitious and often substantial CX investments—citing the loyalty leaders’ cumulative returns as an indicator of potential ROI.

Customer-centricity is more than the key lever to creating value; it’s a perspective that can help the CFO do a better

“If we can break down revenue into customer acquisition, retention, repeat purchases, and spend, we can do a better job than Wall Street of projecting your revenue and understanding the behavior underneath it,” says Peter Fader, the Frances and Pei-Yuan Chen Professor of Marketing at the Wharton School.

job of planning, analysis, and forecasting. Peter Fader, the Frances and Pei-Yuan Chen Professor of Marketing at the Wharton School in Philadelphia, has found that “if we can break down revenue into customer acquisition, retention, repeat purchases, and spend, we can do a better job than Wall Street of projecting your revenue and understanding the behavior underneath it.”

CFOs, who already devote significant time and energy to forecasting, can use such revenue analyses to project every customer’s lifetime value, a metric that some companies now use to guide everything from setting research and development (R&D) priorities to targeting advertising campaigns. Such analyses “must include external perspectives,” Zurich’s Quinn contends. “Perception data is readily and increasingly available but is too often ignored or discarded if it doesn’t fit the self-image. If you can combine this [data] with a little curiosity and willingness to ask the question so obvious no one else has asked it, you can reduce the risk that your customers leave gradually and then suddenly.”

The CFO’s customer-centricity can also help their organizations avoid what Picoult calls “dumb, avoidable mistakes,” such as the one that some airlines made in handling refunds to customers whose flights were canceled during the early weeks of the Covid-19 pandemic. Many fliers complained that airlines were balking at giving full refunds or refusing to issue credits to customers who subsequently booked flights costing less than the canceled flight. “It smacks of executives trying to cling to every dollar the customer has pledged to them without appreciating the resulting optics,” Picoult says. An effective CFO, he argues, would alert other senior leaders to the long-term costs of such moves, whatever the short-term benefit might be.

The CFO’s customer-centric perspective should also govern how companies approach the transition to recurring-revenue, subscription-based models, Picoult maintains. Although companies that have adopted such models have posted enviable results during the pandemic, the transition poses a serious risk. “It’s easy to revert to questionable business practices when running a recurring-revenue business,” Picoult says. Such practices include “not engaging your customer because you’re afraid of reminding them that they’re still paying for a subscription,” he adds. “That’s a very dangerous place to be from a customer experience standpoint. The moment the consumer feels they’re being exploited and they’re not really garnering the value from the relationship that they expected, the game is up.” Or as Quinn sums up: “You shouldn’t confuse customer inertia with customer loyalty.”

Surprising and Delighting with Discipline

A company’s most valuable customers are those who create the most value for it. That precept seems obvious, but companies often overlook it when they try, as marketers like to say, to “surprise and delight” their customers.

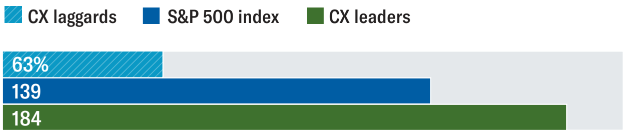
Wharton’s Fader cites a hotel company that had a long-standing practice of offering, unsolicited, free room upgrades to randomly selected customers. “Problem was,” Fader says, “most of the customers weren’t that good. Sure, they were surprised and delighted, but most of them weren’t frequent travelers and didn’t generate much value for the company.” He advised the hotelier to focus instead on pleasing those customers who, according to the analytics, have a high projected lifetime value. Those customers maintain a

FIGURE 2

Customer Experience Leaders Beat the Market

Stock performance of CX leaders and laggards over 11 years (2007–2017)

Percentage cumulative total return



Source: Watermark Consulting, 2019

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long relationship with the company (retention, in Fader's terminology) and frequently book rooms at its properties (repeat purchases). Leveraging analytics to segment customers by their potential lifetime value, Fader says, "gives companies much greater discipline in their CX initiatives."

The CFO's involvement in CX initiatives also helps companies control costs even as they deliver a great CX. Picoult cites the example of a company that restructured its customer-service center to enable first-time resolution of every customer issue. Soon after the restructuring's implementation, the company's CFO reviewed the costs of increasing the call-center headcount and equipping agents with the technology needed to see each call through to a successful outcome. The call center's costs had increased, as the CFO expected. But expense reductions in the department that handled serious, executive-level complaints more than offset the call center's higher costs. Such experiences have convinced Picoult that "the CFO needs to be an advocate for cross-silo accounting. What you often find is that ROI can be fully measured only when viewed from an enterprise perspective."

Enabling Customer-Centricity

What sort of technology enabled that company's call-center agents to resolve complaints and problems with a single call? "Slick technology," Picoult says, "that obviates the need for service reps to learn all kinds of difficult, green-screen legacy systems and instead gives them a user-friendly interface that allows them to skate across many different company administrative platforms with ease. That [technology] allows them to focus less on the *transaction* and more on the *interaction*, which translates into a much better customer experience." A powerful customer relationship management (CRM) system, in short, facilitates a better customer experience.

Such systems, in tandem with thoughtfully designed metrics, can help CFOs promote cross-functional collaboration. "One of the most powerful levers for the CFO is the ability to define the dashboard for the organization to ensure it incentivizes more enterprise-wide thinking," Picoult says. "If I see that by collaborating across silos I'm going to advance some measure that will reflect kindly on me, well, I'm going to do that."

An effective CRM system can have a profound effect on culture, Fader says. By driving collaboration and giving everyone in the organization a 360-degree view of the customer, "CRM is the front line of customer-centricity," he adds. "It builds connections in the organization and helps everyone see that CX is not just the domain of one function, like marketing, but belongs to everyone." In fact, when it comes to CX technology decisions, the Harvard

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Business Review Analytic Services survey found that marketing leaders and finance leaders are equally likely to be involved (29%). **FIGURE 3**

The CFO is ultimately responsible for measuring how far along the path toward true customer-centricity a company has progressed. Quinn points out that the metrics available to the CFO to make that judgment begin with the customer. “It’s a good yardstick to approach any project by asking which customer is paying for it,” he says. The next level of metrics centers around NPS, which categorizes customers as promoters, passives, or detractors. Promoters, logically enough, have the highest lifetime value. “You retain promoters longer—they buy more products and services from you,” Picoult says. “You can quantify the value of turning a detractor into a promoter or a passive into a promoter, which helps the CFO decide how much to invest to do that profitably.” Another, more granular metric is to study the revenue and costs generated by specific CX initiatives. For example, “if you remove friction at the point of sale,” Picoult says, “what impact does that have on cart abandonment and revenue generation? That’s easy to quantify, and you can do A/B tests to determine the right levers to pull.”

If, as Picoult, Fader, and Quinn contend, CX and customer-centricity are such powerful value-creation engines for companies, it follows logically that investors would greatly benefit from knowing whether companies are building strong relationships with their customers. To deliver that information, Fader and other like-minded advocates such as Bain partner Rob Markey argue that companies should publicly disclose their customer lifetime value metrics and related information. Both Markey and Fader have urged the Financial Accounting Standards Board, the arbiter of U.S. accounting standards, to require companies to include customer-value information in their disclosures to investors, and they’re lobbying others in the business community to add their voices to the chorus.

There is no telling whether the movement to enshrine customer-value metrics in accounting standards will succeed. But the effort alone suggests that “the age of customer capitalism”[3] (to borrow from Roger Martin, former dean of the University of Toronto’s Rotman School of Business) may be at hand.

FIGURE 3

Customer Experience Technology Decisions Are Everyone’s Business

The wide impact of CX gives every function a role and a stake in tech investments.

Think about your organization’s approach to customer experience over the next two years. For each of the following specific areas, please indicate which functional leaders are likely to be involved.

Source: Harvard Business Review Analytic Services Survey, December 2020

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What's Next for Customer Experience?

An ever-growing number of companies are transforming themselves to place the customer at the heart of the business. In the process, some are discovering unforeseen opportunities to create value for their stakeholders—even in the midst of the Covid-19 pandemic. "The pandemic has accelerated some of the digital change that was happening anyway," Quinn says. "It has created an opportunity to change things more rapidly and differentiate with a more optimistic message."

CFOs are shaping great CX by instilling a customer-centric mindset throughout the organization and aligning customer-facing parts of the business with the backstage departments and functions that support CX improvement. They can link technology to incentives that promote cross-functional collaboration and help the organization sidestep the common mistakes that can hamper improvement drives.

Via metrics that guide CX teams toward the customers with the greatest potential value, CFOs can help shape the organization's culture and prioritize its CX improvement efforts. At a pivotal moment, they have the opportunity to speak the language of stock returns to convince senior executives, rank-and-file employees, and the financial markets of the economic value of customer-centricity and a superior CX. Those returns make clear, Picoult says, that "the marketplace believes that companies that deliver a great CX over the long term are more valuable than those that don't."

ENDNOTES

1. McKinsey & Co., "Linking the Customer Experience to Value," March 2016. https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/linking-the-customer-experience-to-value.
2. Markey, Rob, "Are You Undervaluing Your Customers?," *Harvard Business Review*, January-February 2020. https://hbr.org/2020/01/are-you-undervaluing-your-customers.
3. Martin, Roger L., "The Age of Customer Capitalism," *Harvard Business Review*, January 2010. https://hbr.org/2010/01/the-age-of-customer-capitalism.

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