

The ROI of Customer Empathy





IT WAS TRUE WHEN LEWIS CARBONE AND STEPHAN HAECKEL [coined the term “customer experience”](#) (CX) back in 1994, and it is far truer today: “Customers always get more than they bargain for,” they wrote, “because a product or service always comes with an experience.”

Their argument—that people develop a total impression of a company based on a series of positive or negative clues the company delivers—revolutionized the way firms conduct themselves. As enterprises quickly absorbed and acted on the idea that impersonal or offhanded interactions between customers and employees could cost them business, service became paramount, at least in principle. Companies also came to recognize that if the products they were offering weren’t selling, it might not be the fault of marketing but the fault of the product’s design. In fact, a poorly targeted product often did worse than simply languish on a store shelf: It could turn off shoppers permanently from associating with a brand. The mantra, quite rightly, became *know your customer*—and know them well.

The advent of the Internet, which vastly expanded commerce opportunities, drove home these lessons tenfold. But it also created a lattice-work of influences that shaped the feelings consumers have about a company or brand. With every new channel, platform, and social media site, making sense of customers’ impressions, hopes, irritants, and attitudes became more complex. Today, the [Customer Experience Professionals Association](#) says customer experience is the perception people form of a business “based on interactions across all touchpoints, people and technology over time.” As consumers increasingly opted for mobile devices and embraced new technology like interactive TV to purchase goods and services, deeply understanding customers became even more challenging for marketing, sales, and product executives working to provide seamless omnichannel experiences. In response, companies have turned to technology in their efforts



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to track the customer journey, amassing data as they do so.

But the data they have been gathering is only useful if it truly serves the customer experience—something that has become especially evident given recent world events. More and more, consumers are flocking to e-commerce options—a trend that was accelerated by the pandemic, but which also predates it and will continue long into the future. At the same time, however, the rise of supply chain—related shortages has tested customers’ patience, and they are more pragmatic than ever. [McKinsey](#) reports that more than 60% of consumers in the U.S. experienced out-of-stock items over a three-month period during the pandemic; as a result, nearly 40% of this group switched brands or products and 32% switched retailers.

The shifting consumer loyalties that such statistics reveal appear to have clarified minds in the C-suite. Executives recognized that the information derived from clicks and page views wasn’t doing much on its own to maintain customer allegiance. Getting long-standing customers to stick by their companies—and new ones to come calling—took a human touch and an authentic demonstration of customer empathy. As a result, achieving this empathy has escalated from a marketing and sales priority to a critical organizational success



factor. That remains the case as we enter the post-pandemic economy.

To evaluate this emerging trend, in October 2021, [UserTesting](#), a leader in video-based human insight, conducted a survey of 200 CEOs located in North America, Europe, and the Asia-Pacific region. Of these, 60% were CEOs of small- and medium-sized companies (up to 250 employees and 251 to 1,000 employees, respectively), and 40% led large enterprises with more than 1,000 employees. The goal of the survey was to explore the role that CEOs play in building understanding of customers, as well as their perceptions of the importance of customer empathy in relation to driving business outcomes. To complement this research, interviews with experts on the front lines of the customer empathy movement were conducted.

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Source: [McKinsey](#)



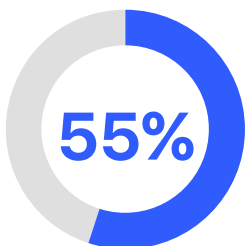
CEOs AGREE: ATTENTION MUST BE PAID TO CUSTOMER EMPATHY

One development the survey confirmed was that CEOs clearly recognize the impact that empathy has on the customer experience. They ranked five aspects of CX in terms of priority for improvement in the post-pandemic environment. High-quality in-person experiences are the top priority (55%), followed by employees demonstrating empathy in customer interactions (42%). The other priorities are personalized high-touch digital experiences (40%), seamless omnichannel experiences (29%), and connecting with customers through emotional design (13%).

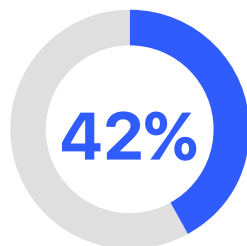
Priorities differ to an extent across industries, reflecting the opportunities each has for in-person customer interactions—and the benefits they all derive from these opportunities. For example, CEOs of financial services firms are most likely to assign priority to both high-quality in-person experiences (67% vs. 55% overall) and demonstrating empathy in customer interactions (50% vs. 42%). But those in the manufacturing industry are most likely to make personalized high-touch digital experiences a priority (50% vs. 40%). And technology CEOs are most likely to point to seamless omnichannel experiences (43% vs. 29%). Still, the research points to wide recognition across the board that securing strong personal relationships and supporting empathetic interactions are top of mind for business leaders.

This resonates with Nick Mehta, CEO of Gainsight, a customer engagement solutions company. "Talking with customers is one of the joys of my job," he says. "In fact, a few years ago I was so interested in knowing how much time I spent with our customers that I had an intern analyze my calendar. I learned that I spend 17% of my workday talking with customers. That averages out to roughly 11 clients a week, 45 clients a month, and 500 client meetings a year. And I don't just do it because I love it. I do it because I know how important building that relationship is."

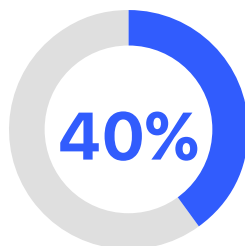
5 PRIORITY ASPECTS OF CX



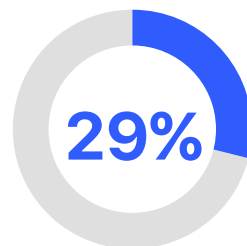
high-quality in-person experiences



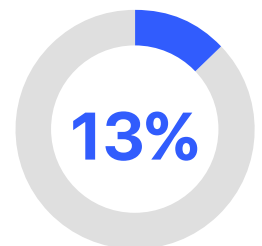
employees demonstrating empathy in customer interactions



personalized high-touch experiences



seamless omnichannel experiences



connecting with customers through emotional design

BUSINESSES MUST KEEP UP WITH THE EVOLVING CUSTOMER EXPERIENCE

The kind of relationship building Mehta speaks of is emerging as a key component of the customer experience, as CX itself is taking on new significance. CEOs responding to the survey broadly agree that CX will become even more important in the coming years. Part of the reason is linked to the explosion in popularity of online commerce. In 2020, [more than two billion people spent \\$4.2 trillion](#) shopping via the Internet. That's more than a four-fold uptake since 2014. Consumers everywhere have learned to appreciate the time-saving convenience and flexibility e-commerce offers.

At the same time, CEOs regard the expanding e-commerce juggernaut with some concern. Some 84% say that "by shopping more online, customers are increasingly exposed to best-in-class experiences, leading them to expect more from us." What's more, 92% say that rapidly adapting to changing customer expectations will be more difficult in a post-pandemic environment.

CX MATURITY

To help identify best practices, the survey asked CEOs to rate their company's maturity in terms of providing a great customer experience (CX) on the following four-point scale:

- 1 AWARE**
We know CX is important, but we haven't yet implemented a defined CX strategy, and we don't have operations in place to react to customer feedback.
- 2 REACTIVE**
We're acting on some CX goals, but it's all in reaction to feedback or issues that arise. There isn't yet a clearly defined strategy that is understood and embraced by our organization.
- 3 OPTIMIZED**
We have clear programs and investments in place that support customer-driven decision-making.
- 4 VISIONARY**
Our strategy and practices are embraced throughout our organization as integral to our company values, starting with our executive leadership team and including everyone.

Most CEOs categorize their firms as either reactive (34%) or optimized (35%), with small minorities selecting aware or visionary (17% and 13%, respectively). For analytical purposes, they were grouped into two levels: those with immature CX (51%) and those with mature CX (49%). Differences between the behavior of these two groups highlight best practices that less mature firms can emulate.





The survey also asked each CEO to rate his or her organization's level of maturity in terms of providing a great customer experience (see sidebar on page 5). The results were instructive. The nearly half (49%) who describe themselves as either "optimized" or "visionary" have views that provide insights into best practices. For one thing, they are much more likely than other CEOs to rate customer experience as a top priority in the post-pandemic business environment (44% vs. 27%). They're also more inclined to recognize challenges in adapting to rapidly changing customer expectations.

To address those challenges, they assign high value to certain practices. For example, 44% rate engaging with customers in real time as "critically important," compared with 32% of their counterparts from less mature firms. They also place more emphasis on a positive employee experience, using tools for capturing insights from human interactions and incorporating "soft" behavioral data into customer analytics.

Significantly, they don't assign a high priority to creating a culture that encourages viewing problems from the customers' point of view. The probable reason: Companies with a mature policy on CX take this approach for granted.

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TECHNOLOGY IS JUST A MEANS TO AN END—AND THE END IS CUSTOMER EMPATHY

Addressing customers' immediate concerns is a foregone conclusion for many successful firms, according to Gregg Johnson, CEO of Invoca, the company behind an A.I.-powered platform that derives insights from analyzing the speech and text of conversations between customers and sales agents. He adds that smart enterprises have quickly moved on to predict customer needs, making offers that truly add value to the customer journey. And they're getting help from new tools.

"Fifteen years ago, there was no way to convert soft data into hard data, other than by manually entering it," he says. "But today, there's a lot of technology that can help you take that soft data and convert it into hard data. So, for example, if I'm inferring behavioral elements by looking at data, a lot of A.I. models will have a predictive confidence score that will indicate if I'm guessing accurately."



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What is critical, he adds, is to avoid the trap of focusing on numbers rather than people.

"I think we've become so oriented around digital and clicks and process and all these things that we've forgotten how to make an emotional connection with a customer," he says. "If I ran a financial services institution, I'd train my staff that if somebody calls asking about mortgages, the first response shouldn't be, 'Do you need a purchase mortgage or a refinance?' The first thing you say is: 'Congratulations. Is this your first house? That's amazing! Now, I know you're probably nervous, so I just want to let you know what this experience is going to be like.' That's not transactional. That's emotional—and a more EQ-driven approach like that leads to a very different kind of customer experience at the end of the day."

Similarly, he says, the purpose of connecting touchpoints seamlessly is to ensure that when customers do interact with a human, the agent has a dashboard with granular detail about their expectations, desires, and pain points. That way, there's no need to ask transactional

questions, and the agent has a rare opportunity to relate to the customer on a human level.

"That's where you have the chance to really shine and differentiate yourself from what other companies do," he says. "It's data that's helping you behind the scenes, but the human connection gives you a megaphone that has ten times the impact of that data."



SHARING CUSTOMER INFORMATION REQUIRES ALL HANDS ON DECK

That said, technology is unquestionably a great source of rich information, but the data is only useful if it is shared across the business, the survey suggests. Mechanisms for developing customer understanding and distributing these insights across the organization vary depending on industries and enterprises. But there is broad agreement that every team and function should play a vital role.



Survey respondents indicate that accountability starts at the top. The CEOs polled fall into three categories: A large minority (40%) indicate they are personally responsible for ensuring that customer understanding underlies the entire process, everything from designing products, through taking them to market, to building great experiences; a similar proportion (42%) say the CEO oversees the work of a senior executive who is accountable for those

outcomes; only 17% say that this accountability is spread over multiple senior executives; and just one CEO claimed no explicit role in achieving customer understanding. (Not surprisingly, CEOs at firms with 1,000 employees or more tend to say they aren't personally accountable for making customer understanding a company cornerstone. Many of them indicate that they assign accountability to multiple executives.)

"Improving a company's customer experience requires a cultural shift and company-wide commitment by each and every employee," says Andy MacMillan, CEO of UserTesting. "Every employee should be able to see, hear, and feel the customers' experience, because the role of each employee impacts the customer in some way. And the ability for all employees to understand their customers requires human insight and observing with empathy. Sharing this information across an organization is a key step to becoming an empathy-obsessed organization."

At the same time, while CEO leadership is pivotal in an organization's quest for customer understanding, success in this endeavor requires more than their input alone, the poll unequivocally signifies. More than 95% agree that understanding customer needs, expectations, and feelings is at least "somewhat" important for every team within their organization. And more than 70% agree that it is at least "very" important for every team. These findings emphasize the need for leaders from each business unit to collaborate when mapping the customer journey, creating a holistic, technology-enabled customer experience process. By exploring and comparing different customer paths and handoffs, they can identify where issues can or do occur, implement and test process solutions, and then measure the improvement.



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Professor of Strategy,
Innovation &
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Northwestern University
School of Management



DESIGNING BETTER PRODUCTS TAKES DEEP CUSTOMER UNDERSTANDING

It's also significant that CEOs consider customer understanding to be particularly critical for teams involved in marketing/brand-building (38%), operations/production and design/prototyping (38%), and product ideation (26%). To consistently win over consumers, businesses need a deep knowledge of customer needs, expectations, and feelings. Leaders keenly attuned to the customer journey can glean more than just transactional material from the information they gain from tracking that journey; they can use it to design more successful products and services.

"Human-centered design and empathy are inextricably linked," says David Schonthal, a professor at Northwestern University's Kellogg School of Management. "Human-centered design or design thinking works on the principle that at the end of every product—at the end of every service, at the end of every business process—is a human being. The most innovative companies in the world understand things about their users that their competitors have not yet figured out. It's really difficult to create value unless you truly comprehend the progress that people are seeking in their lives."

He cites as an example a health care product company with a chronic disease management platform.

"They went to great lengths to hire people who were themselves managing chronic disease, such as diabetes," he explains. "What you learn when you have people managing diabetes on the team is that competing companies refer to people with this condition as type one or type two diabetics. So one of the first principles the designers established was: 'We won't call people by the name of their disease.' Why is it that if you have cancer, you are not 'a cancer.' If you have COPD, you are not 'a COPD.' But if you have diabetes, you're a diabetic. That may sound like a subtle difference, but if you understand what that means emotionally, that radically changes your perspective on how to design for people."

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of CEOs say that getting a granular look at customer needs, expectations, and feelings has a substantial or major impact on financial performance

CX MUST BE SEEN IN A MULTIDIMENSIONAL LIGHT TO FUEL FINANCIAL PERFORMANCE

Nuances such as the one Schonthal describes shed light on the importance of regarding customers as well-rounded and complex individuals with many characteristics and dimensions. Respondents to the survey recognize this and say that every element of the customer experience is an important driver of how well the company does. In fact, virtually all of them say that the overall customer experience has at least significant impact, and more than two-thirds rate the financial impact as “substantial” (36%) or “major” (32%) on the bottom line.

CEOs say getting a granular look at customer needs, expectations, and feelings is even more important: 79% of them indicate that doing so has a substantial or major impact on financial performance. It’s notable that respondents who are personally accountable for achieving customer understanding more frequently rate each aspect of the customer experience as having major financial impact compared with counterparts who delegate that role.

DIRECT INTERACTION IS THE BEST WAY TO GAIN CUSTOMER INSIGHTS

There are also marked differences between CEOs in companies with mature and immature CX when it comes to selecting the most important means of helping employees demonstrate customer empathy. Both groups rank specialized tools for capturing specific customer information as most important. But CEOs with mature CX tend to think beyond data capture, relying on methods of interpreting and sharing this information. In that regard, they more frequently cite tools for disseminating customer information and insights across the organization (43% vs. 38%). They also point more often to systems for integrating customer information into the workflow (31% vs. 27%) and tools for interacting with customers in real time (18% vs. 12%).

“A mature, customer-driven organization starts with buy-in from the

C-suite. All of the C-level executives must be fully bought in on the importance and value of empathy and the customer experience,” says UserTesting’s MacMillan. “There is no substitute for seeing, speaking to, and hearing from customers directly. It is becoming integral for organizations, regardless of industry, to adopt the systems and technologies that help them connect with their customers. Direct customer feedback is key to delivering the products and experiences that create market leaders.”

This distinction is particularly evident in the methods that CEOs personally use to understand, empathize with, and learn from their customers. They rank direct interaction with customers as most important overall (45%), followed by customer feedback reports and market research reports (tied at 35%).





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EMPATHY REQUIRES A HOLISTIC APPROACH

In companies’ quests to get closer to the people they serve, there is good news: CEOs are optimistic about their prospects for coming to better understand their customers on a deep level. About 84% agree, and nearly 40% strongly agree, that in the future, they will develop the capacity to interpret customer-level data to predict future customer behaviors. Additionally, 90% of those polled understand that they will need to make better use of empathy to interpret customer information and drive customer-facing processes. And more than three-quarters anticipate a shift away from survey-based analytics toward more granular insights into what is driving the customer experience.

They will need every tool in the toolbox because a comprehensive approach is the only way to establish a true connection, says Gainsight’s Nick Mehta.

“Empathy isn’t an initiative,” he says. “Empathy is a cultural attribute that needs to be woven into every initiative. So it makes sense to prioritize brand, operations, design, and the like. But the companies that win long-term infuse empathy into everything.”



METHODOLOGY

FORTUNE Brand Studio and UserTesting conducted an online survey of 200 CEOs in October 2021. All respondents were located in North America, Europe, and the Asia-Pacific region. Of these, 60% were CEOs of small- and medium-sized companies (up to 250 employees and 251 to 1,000 employees, respectively), and 40% led large enterprises with more than 1,000 employees.