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Through passengers' eyes

Delivering the "right" customer experience

Fairly or unfairly, travelers evaluate airlines based on a variety of experiences—some of which the airlines control, some of which they don't. No one blames a supermarket if the roads on the way to the store are under construction. A department store's reputation doesn't suffer if it's raining outside. But if an airline passenger has an unsatisfying travel experience, there's just as much chance it's because of a long line at the airport security checkpoint, icy weather, or a dated terminal building as it is because of a lost bag or an overbooking.

The passenger airline industry is a very complex business. It faces a combination of challenges that other industries do not such as employing large, geographically dispersed workforces (often highly unionized) with seniority pay scales, asset intensive operations, virtual networks that include international alliances and domestic code-share and regional partnerships, continued safety threats, and heavy governmental regulations (e.g., taxes, seat size). All of these complexities further complicate efforts to deliver a consistently engaging customer experience.

But every industry must perform against its unique challenges. While passenger airlines have shown improvement, there's clearly room for more. According to the American Customer Satisfaction Index, the airline industry customer satisfaction score has steadily increased over the past five years, but still ranks 37 out of 43 industries.[1] That's a neighborhood they share with cell phone and cable television companies.

All industries—and their customers—are living in an age of customer experience (CX). Next-generation travelers have high expectations from living in a customer experience-driven world, and competing airlines, including new ones that build customer experience into their DNA, are poised to take away business. Faced with pressures like these, traditional industries are making significant investments to improve their offerings. Given the airline industry's history of low profit margins and resulting inability to invest in technology overhauls, they continue to play catch up to many other industries.

In addition, disruptive entrants such as ride-share and online retail companies have invented new ways to serve customers. For the airline industry, traditional airline business models could be disrupted by newcomers such as subscription private jet services offering a high-touch service, alternative models significantly lowering costs (e.g., Norwegian Air, Spirit Airlines), virtual reality providing an alternative to travel—and should the hyperloop move beyond the conceptual stage, it could threaten airlines' built-in advantage of speed.

Amid all these challenges, according to Forrester Research, on average, each US airline is leaving as much as $1.4 billion in annual revenue on the table by not making improvements to their CX.[2] This revenue may be captured before, during, or after the flight when airlines have the opportunity to establish customer stickiness as well as garnering ancillary sales. These ancillary offerings often provide much higher margins with much less complexity and effort than the product of flying the passenger.

For these reasons, airlines should continue to improve their CX by focusing on the parts of CX they do control and then taking initiative to exert influence over parts they don't control directly. We see some of this starting in the marketplace today. Airlines have begun to staff representatives to assist with expediting travelers at TSA checkpoints. Airlines are pushing airport authorities to improve their facilities. Airlines can further address their customer satisfaction woes by pushing their focus beyond the negative. Address pain points? Fix problems? Of course. But it's also important to look beyond the checklist and to delight customers in the moments that matter. Often airlines can deliver a great experience at these moments by providing higher-margin ancillary offerings, which is good for the customer and the airline.

Does that mean it's time to pull out all the stops? Not necessarily. There is a difference between needing to provide the most stellar customer experience and the "right" customer experience in the moment. Finding that fit involves a series of steps:

- Outline a CX ambition that aligns with your strategy and customer segmentation
- Articulate the value you are trying to capture
- Understand the capabilities you need to achieve true value and build those capabilities
- Clearly define and socialize how you will monitor and measure success
- Continue to invest and to track value

[1] American Customer Satisfaction Index, ASCI Travel Report, 2016
[2] Forrester, The Business Impact of Customer Experience, 2014

Charting your CX ambition

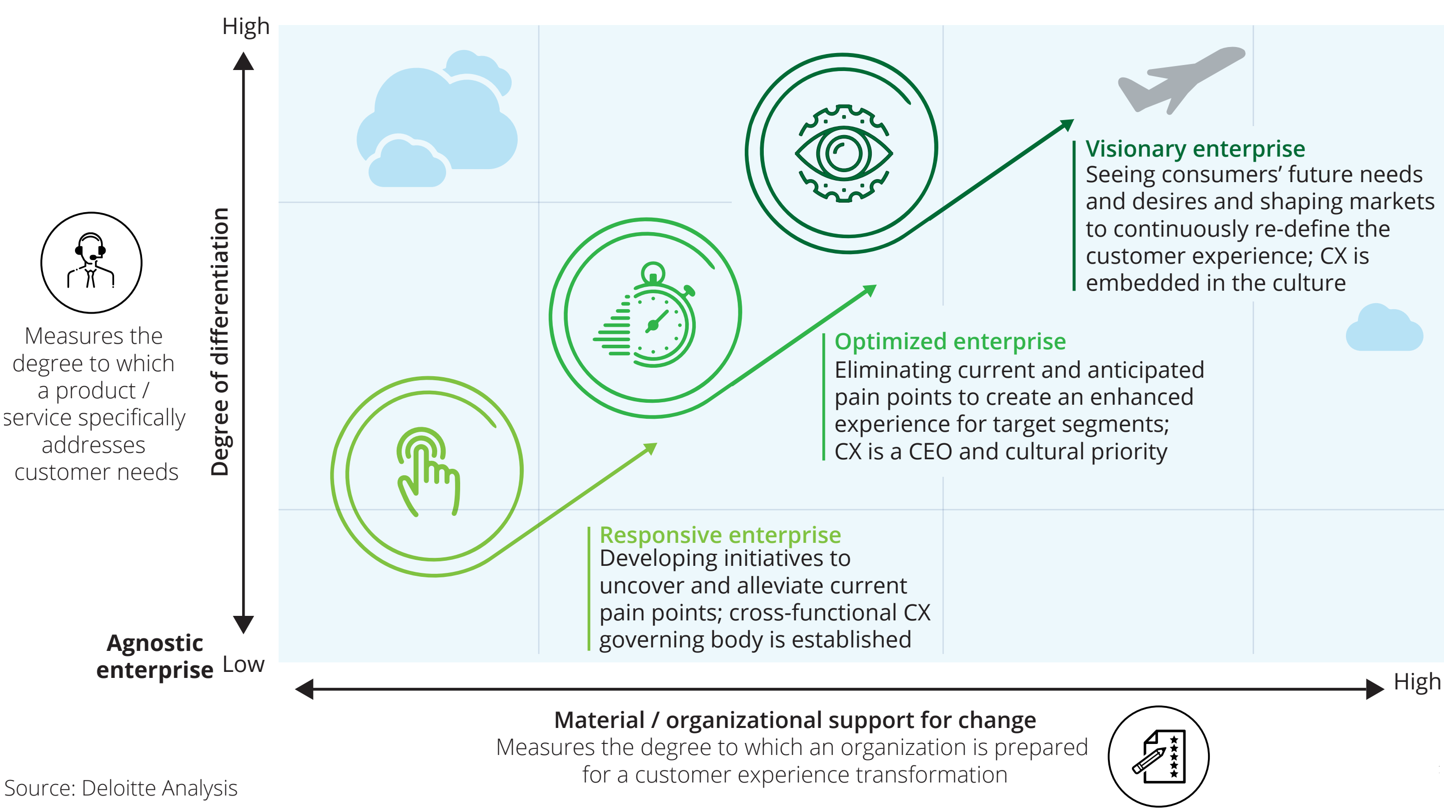
When people think of CX, they may think only of high-touch or luxury brands—the ones that embed incredible responsiveness in their cultures and invite customers to expect the best of everything. But that's a false equivalency. Every brand, at every level, has the opportunity to deliver an effective and revenue-enhancing CX. The measure of that is not how much they spend, but how well the CX aligns with the brand vision and corporate strategy.

For an airline, that involves creating the CX that is best aligned with what their customer segments expect and desire and what the airline can deliver. "Visionary" brands that sense customers' future needs and embed CX into their cultures occupy the upper reaches of a spectrum. These are companies that have a clearly defined CX strategy, customer-focused employees, and a deep understanding of the different needs and wants of their targeted customer segments.

At the other end of that spectrum, "CX-agnostic" enterprises are more focused on operational performance and reducing costs. They don't have the need to devote resources to CX that can be better spent elsewhere. This stance is typical in industries that have little competition, high switching costs, and little customer choice—for example, in public utilities. Given competition, there are few examples of this in the airline industry.

In between these extremes, "responsive" enterprises acknowledge the need to identify and address customer pain points, and they set up some formal governance for CX. Interestingly, in airlines, we see this stance emerge as a differentiated offering in low-cost, no-frills carriers that don't provide notable CX, but solve the "price" pain point for specific target segments by offering low prices. One step higher are the "optimized" enterprises that make CX a leadership and cultural priority. They don't just address pain points, but work to anticipate them and create better experiences for target customer segments proactively.

The CX ambition spectrum



Source: Deloitte Analysis

At every place on this ambition spectrum, there are companies in travel and elsewhere that have staked out an effective brand identity that can provide differentiation from their competition. Most travel companies can't afford to be CX-agnostic, but some have staked claims as responsive enterprises. If your match happens to fall closer to the "responsive" end than the "visionary" end of the spectrum, that is not a failure of CX. It's just your kind of CX—the kind you've determined best meets your organization's needs and customers' values. But if your company believes its customer experience strategy demands a more optimized or visionary position, it should align with the brand promise you are offering. It can be detrimental to promise an experience on one end of the CX spectrum and then to deliver a lesser experience, either operationally or emotionally. This choice also requires ongoing vigilance and adjustment, because evolving business models and fast-changing technology might mean that a CX that appears ample today will seem austere tomorrow.

Choices within choices: Drivers that put a CX strategy into practice

One way CX drives business is by inducing customers to feel an emotional connection with the airline. Building that kind of emotional connection starts not with action, but with insight—a deep understanding of the customers' needs and what they are willing to pay for are the foundation. If an airline reacts to those needs by creating differentiated and personalized interactions, customers can move beyond the logic of a purchase choice and develop an affinity for the airline that "gets" them. When customers are emotionally connected to your brand, not simply rationally selecting it, the payoff typically includes sustained loyalty, increased frequency of use, word of mouth marketing, improved primary and ancillary sales—and the benefit of the doubt if and when you make a mistake.

The effort to create that connection typically includes five key areas. In refining its CX to match its chosen place on the spectrum, an airline can think of these as five dimensions of engagement that add up to the overall experience it has chosen to deliver:

Engage me. Interact with me in a friendly, authentic way. Be hospitable and genuine with me, and treat me as a person. *For example, an airline that uses customer data this way may greet a traveler at the counter with "We are looking forward to getting you home today Ms. Smith!"*

Know me. Remember me and my preferences. Anticipate my changing needs. *For instance, the business traveler traveling with her husband and two kids today likely has different needs than when she's traveling for work.*

Hear me. Demonstrate awareness of the situation and acknowledge my needs. Listen to my unique situation. *This could involve asking a simple question: "Was there a problem with your checked luggage last trip?" Acknowledging it this time and promising to do better might make a significant impression.*

Delight me. Create moments that I will remember and share, beyond my expectations. *For example, a couple traveling on their anniversary may receive lounge passes and champagne.*

Empower me. Give me real-time and accurate information so that I can make decisions. Value my feedback and respond in an appropriate way. *This could involve flexible, intelligent tools that help a customer find the best days to travel, for example, or the ability to choose amenities, features and benefits an individual customer wants.*

Note that each of these CX dimensions is defined according to the customer's point of view, not the airline's. CX at any level is more responsive when it's designed from the customer in, not from the company out.

Virtually every airline brand has, deliberately or not, addressed these choices at one level or another. A low-frills, CX-responsive airline probably doesn't focus much on "delight me," but that may be part of its formal CX strategy and built into its way of doing business. But when an airline sets out to define its place on the CX spectrum, it makes deliberate use of each of these control areas.

The value of CX

We know CX is important to most travelers. Why is it important to airlines? After all, an "experience" is intangible. But the value airlines can drive through experience is very tangible indeed. Almost 60 percent of people say they would switch brands for a better experience. People will mention a bad brand experience to almost twice the number of people they'll tell about a good one.[3] And don't forget about that unclaimed $1.4 billion in revenue.

When people return to a brand after an initial experience, it's likely because they expect to repeat that experience or experience something even better. If an airline makes a certain level of CX part of its consistent brand identity, that's one more reason for people who appreciate that experience to become loyal and enthusiastic fans.

[3] HelpScout, Customer Service Facts

Putting CX strategy into action

After defining the CX ambition, companies should consider what investment is required in terms of planning, analysis, and execution of this ambition.

Consider four steps to get started:

Know your customers. What do customers value? Do all my customers value the same thing? How will I identify what the customer values? How will I quantify potential customer risk?

Establish and use a system of measurement. What goes into providing customer experience? What are the marginal costs of adjustments up or down the ambition spectrum? How will we measure both execution against our CX design as well as how our customers react to it? And, above all, what revenue value does CX send back into the airline—overall and by customer segment?

Determine your CX governance structure. Who will own this? Where will funding come from? What channels will carry decisions out to the front lines, and which ones will carry new ideas and empirical assessments back to the decision-makers?

Build the capabilities you need. Delivering on the CX value proposition you have assembled will involve building a set of integrated, self-reinforcing capabilities that enable your organization to deliver the target CX. Among these capabilities you will have foundational capabilities—those that every company requires to some degree, but which are not differentiating (e.g., data and cyber security), as well as strategic capabilities—those that create a unique competitive advantage, like establishing the right network of partners and suppliers for delivery of your organization's unique CX. It is critical that you identify which capabilities will help to deliver your unique value proposition, building them alongside the foundational capabilities your organization needs to operate on a day-to-day basis.

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How should airlines measure CX value—and the investment they put into generating it? A mass approach is likely to produce an imprecise answer. Instead, airlines should consider the value that experiences create with each individual customer, and the value each customer's level of satisfaction creates for the airline—a measure we call customer experience value.

In this view, the happiness of the customer is one variable. The value of each customer to the airline matters too. When airlines segment their customers and determine which ones drive profit, they can put more emphasis on those customers' needs in designing their CX. It takes data to find these patterns within a customer base, but airlines have these data. They need to develop or refine the tools to manage and analyze it—and the enterprise view to use those tools as an overall business imperative, not merely as a report or set of tactics. By using analytics to measure interactions, experiences, and value at the customer level, an airline can track which CX moves have the desired effects, not only on current profitability but also predicted future profitability.

Once you've taken these steps to define your place on the CX ambition spectrum, move forward with speed and intent. And don't forget that tracking the effectiveness of your CX approach and the consistency of its delivery is as important as putting it in place.

The initial decisions that set your strategy are only the opening gambit in a process of continuous refinement.

In operation, there are many building blocks to creating an effective CX, and each of them requires a different set of skills and resources. Carrying out the strategy will draw upon disciplines as diverse as culture change and master data management, from marketing and brand concepts to measurement and quantification. Some of these may reside within the organization—most airlines are very familiar with customer loyalty, for example. Airlines may need to build, acquire, or contract for others.

Conclusion

CX isn't a race in which every competitor pushes to be the first across a common finish line. It isn't a single volume knob that every competitor tries to turn "up to eleven." It's a landscape in which each competitor has its place—and for some, the right place isn't the most visibly intensive one.

Perhaps the most critical error an airline can make in this process is to confuse the "level" of CX, as customers perceive it, with the level of commitment and effort it takes to deliver on that CX. This is hard and vital work no matter what face you decide to show to the market.

Airlines operate in a complex market, and their operational challenges are complex as well. They provide their customers with safety, transportation, food and drink, entertainment, and retail—all while facing elements like the weather and third parties like airport security. Control is ultimately irrelevant: If customers like or dislike something that is part of the traveling experience, the airline's CX should account for it.

Fortunately, the arena of what airlines can control is larger than many may think. Most airlines are data rich, especially when it comes to their customers. By harnessing the power of the data they already have, carefully leveraging analytics to better understand customer experience value, and then crafting and delivering on a CX strategy that aligns with their brand promises, airlines can focus on their CX ambition and stimulate the satisfaction and loyalty that helps sustain businesses over the long-term.

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