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HBR STAFF

Most leaders say they're customer-centric, but if everything they measure is company-centric, how could that be true? Revenue, growth, and similar Key Performance Indicators (KPIs) measure how customers are performing for the company. But organizations that wish to be customer-centric (and maximize growth) must also measure how the company is performing for its customers.

Now, while customers typically don't have online dashboards with data visualizations that reflect how a company is performing for *them*, customers *do* bring to every interaction a purpose, problem, need, intent, or question — a desired outcome — along with expectations for how quickly or easily that outcome will be realized. These outcomes can be measured by associated Customer Performance Indicators, or CPIs.

A growing number of organizations are becoming more customer-centric by adopting, measuring, and optimizing CPIs — whether their customers are consumers or business buyers. And because customers are the one and only thing that fuel growth, how well a company performs against CPIs often serves as the most powerful lever for, and the most accurate predictor of, growth.

Consider an example from the insurance industry. When a customer is shopping around for insurance and submits an online form (or provides information over the phone), companies that provide pricing — the customer's desired outcome — within seconds are much more likely to win the customer's business than those who thank the customer for their inquiry and promise a future follow-up by an agent. In this case, the customer's intended outcome and expectation is a *fast quote*.

While one company is following its process of routing the inquiry to the appropriate agent according to geographic or other rules, the customer is collecting quotes from competitors. By the time an agent contacts the customer, she may have already completed her purchase from another company that performed better against her *fast quote* expectation. Insurance companies that measure and manage *"Fast Quote"* as a formal CPI find a direct correlation between performance on this CPI and growth.

This is the primary rationale for adopting CPIs: The more your company's attention is focused on outcomes important to your customers (CPIs), the better your company will likely perform on outcomes important to the business (KPIs).

## Distinguishing CPIs from KPIs

There are two elements that qualify a metric as a CPI. Most importantly, it must be an outcome customers say is important to them. Second, a CPI must be measurable in increments that customers actually value. Time, convenience, number of options, dollars saved, or recognition of their achievements are some increments that customers value, and there can be many others depending on the context, and if they're deemed relevant by customers.

Many assume that Net Promoter Score (NPS) — which measures a customer's willingness to recommend a company's products or services to others — is a CPI. But in reality, only companies care about their NPS; customers typically do not. So, NPS is just another KPI. While it may be a vague proxy for how well a company is performing for customers, unlike CPIs, NPS does not provide direct traceability to any single intended customer outcome or expectation, or show where the company may be falling short, all to the detriment of the company's growth.

Any group that directly or indirectly touches customers can use CPIs, including marketing, sales, product management, customer service, operations, and finance. Some real-world examples:

- **Marketing:** A top insurance company tracks *Payment Flexibility* as a CPI, as they offer online selection and management of multiple payment plan options. The company tracks how the number and types of options they offer impact customer acquisition and retention KPIs.
- **Sales:** A global provider of enterprise data center equipment tracks *Quote Turnaround Time*, which can impact successful sales in the same way as the insurance example above, but in the context of business buyers (who may not expect custom quotes within seconds, but do get impatient after a day).
- **Product management:** An audio product manufacturer discovered the CPI *Know Which Friends Like This Song*, which they measured in the increment of "number of friends," which reinforces feelings of social acceptance and well-being. This CPI was found to influence business KPIs like the amount of time customers spend streaming music, and new song purchases.
- **Customer service:** Many customer service organizations track the CPI *First Time Resolution*, which measures whether a customer's issue is addressed (to the customer's satisfaction) during their first inquiry. This impacts customer retention and lifetime value KPIs.
- **Operations:** A U.S. grocery delivery service measures the CPI *Nothing Broke* (eggs or fragile foods or containers). This CPI not only impacts KPIs like customer retention and lifetime value; it also impacts company savings associated with the cost of customer service, issuing credits, and/or replacing broken items.
- **Finance:** While many organizations track *CustomerLifetime Value*, which is a KPI that measures the value the company derives from a customer over the duration of their relationship, some (including the audio product manufacturer referenced above) are beginning to also look at the inverse: the value delivered to customers over the same duration, which can be displayed to customers in user portals, or communicated prior to renewals. Impacted KPIs include customer retention, loyalty, and classic lifetime value itself.

While these examples may not be metrics that companies have traditionally tracked, they're what customers actually care about. And by tracking what's important to customers, companies have better visibility into actions they can take to improve customer outcomes, which directly impact business performance.

When employees are only measured on and compensated for their performance on KPIs, they're naturally incentivized to do whatever is necessary to achieve that outcome for the company. This often includes manipulating customers, which customers do not like. Conversely, when employees are accountable to CPIs, they're motivated to help customers achieve the customer's desired outcome. CPIs align employee and customer interests toward shared success.

Is it any surprise, then, that companies adopting CPIs — with employee mindsets and behaviors focusing on customer outcomes — typically result in more (and often faster) sales? Or that customer sentiment, behavior, and loyalty typically improve?

## Defining Your CPIs

There are four common mistakes companies make when trying to define their own CPIs. These include: simply adopting CPIs from another company (which will only reveal what's important to *their* customers); relying on expert judgement from internal teams who assume (usually inaccurately) that "we know our customers and what they need"; focus groups (which reveal misleading groupthink); and surveys, which are the most tempting of all because of relative speed and scale.

None of these approaches work well for identifying the CPIs associated with the specific outcomes *your* customers expect when interacting with people, systems, processes, or policies in pursuit of their specific objectives. Instead, the most effective approach for identifying CPIs is contextual inquiry, an ethnographic research method in which specially trained researchers speak with or observe customers in the actual environments in which customers think about or try to achieve specific outcomes (homes, offices, stores, other locations, or traveling in between).

Researchers trained in this type of ethnography know what to look for to reveal customer frustrations, expectations, and target outcomes at specific points of their journeys, and then ask the right series of open-ended questions to gain insights that surveys wouldn't know to ask, and that customers might not be inclined to answer in a survey.

## Driving Business Performance by Connecting CPIs to KPIs

Once you've determined your own CPIs, start measuring them and look for the potential relational impact each might have on one or more of your KPIs. The subsequent hypotheses you develop about CPI-KPI relationships can be proven or disproven by running controlled experiments.

Once you've confirmed relationships between specific CPIs and KPIs, you can begin holding teams accountable to CPIs they can impact. Those employees will then be managing to the outcomes important to customers, which are what result in company growth.

It's ironic in an age where so many companies proclaim to be customer-centric, customer-first, or customer-obsessed that most still focus only on company-centric metrics. Companies that transform to adopt CPIs — and the customer-centric culture and practices that CPIs engender — will increasingly outperform competitors and be better optimized for accelerated, differentiated, and defensible growth.

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