Vex: A New Model for Customer-Centered Growth

gongos | WE MAKE CUSTOMER CENTRICITY HAPPEN

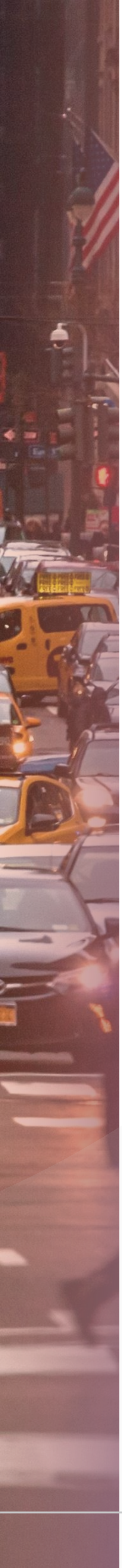


Table of Contents

BEYOND KPIs

The Hidden Metrics

In today's dynamic landscape of rising consumer expectations and stakeholder capitalism, leaders of organizations across the globe are striving to put the customer at the center of all they do. Still, many are questioning whether a customer-centric philosophy effectively translates from an ideal state to a business reality. Executive decision making is still largely shaped by a metric-driven mindset, with Key Performance Indicators (KPIs) such as revenue, profitability, and operational efficiency at the top of the list. And while customer-focused KPIs exist, including measures such as acquisition, retention, spend, and a myriad of customer sentiments (e.g., CSAT, NPS, CES), the vast majority of these metrics are not customer centric at all, but rather a representation of how customers advance and serve business goals.

For decades, teams have been established (e.g., consumer insights, customer experience, customer success) and millions of dollars have been spent on listening to the customer. However, most teams don't have mechanisms in place to operationalize customer centricity beyond a one-sided view of the customer through the lens of KPIs. Furthermore, when the proverbial rubber hits the road, many organizations prioritize business impact over customer impact, as the connection between the two can be challenging to demonstrate.

The missing link between a customer-centered vision and an organization that truly acts on that vision is the ability to tangibly demonstrate the value to the organization in a way that satisfies its breadth of stakeholders and eliminates a false choice between customer outcomes and business outcomes.

And while metrics such as CSAT or NPS have been shown to drive business success, they miss the most important aspect of a truly customer-centric culture—understanding customer needs and delivering on them better than anyone else. Is satisfaction really what customers need and value? We surmise not.

So, Gongos set out on a mission to establish a quantifiable link between what customers and businesses value—resulting in a model that we refer to as the Value Exchange (Vex) Model. The model numerically demonstrates the connection between 15 universal human goals (or Customer Performance Indicators) and financial outcomes for businesses.

> *"Unfortunately, self-reported scores and misinterpretations of the NPS framework have sown confusion and diminished its credibility. Inexperienced practitioners abused it by doing things like linking Net Promoter Scores to bonuses for frontline employees, which made them care more about their scores than about learning to better serve customers."*
>
> **"Net Promoter 3.0"**
> **Reichheld, Darnell, Burns**
> HBR Nov./Dec. 2021

THE VEX
Value Proposition

Our recently launched patent-pending Value Exchange (Vex) Model is based on the premise that when corporations deliver on the functional, emotional, and social goals that matter most to customers, revenue growth will occur. Our data suggest that corporations are leaving millions, if not billions, on the table by not aligning their efforts and offerings to customers' most important goals.

The Vex Model offers an analytical model of value exchange, connecting the dots between Customer Performance Indicators (CPIs) and business outcomes. At its core, the Vex Model pinpoints which CPIs, or combination of CPIs, will result in the greatest revenue lift when effectively delivered upon.

Identify new opportunities for customer-centered growth.

- ✓ What CPIs matter the most/least in maximizing the value of your current customers? How does this compare to others?
- ✓ How much growth in Future Customer Value can be expected through improvements on these CPIs? How does this compare to others?

  > Where should you be investing?
  >
  > Where should you stop investing?

Fuel the innovation pipeline and identify priority areas for investment.

- ✓ For each CPI identified as a driver of growth:

  > How are you providing meaningful value to your customers today?
  >
  > How can you improve the value you provide to your customers?
  >
  > What are top performers on these CPIs doing to deliver meaningful value to their customers?

Detect early warnings of competitive and market threats to business performance.

- ✓ What are the most significant threats to your FCV if no improvements are made?

  > Where are you trailing others?
  >
  > Where is there opportunity for competitive/industry disruption down the road?

- ✓ How much value are your customers delivering to you today? How does this compare to others?
- ✓ Who are your most valuable customers? How do your most valuable customers compare to your average/typical customers? How do your most valuable customers compare to competitors?

ORGANIZATIONAL

Use Cases

NPS And Executive Incentives

A company is strongly focused on NPS, a metric that's central to business decisions, as well as its management incentive structure. Their enterprise data teams have linked NPS to other KPIs for the company, but their teams struggle to prioritize initiatives and drive actions on this basis. With its ability to connect customer value to universal human goals, the Value Exchange (Vex) Model is the missing piece. It helps them correlate NPS to more relatable and specific customer goals that their customers are trying to achieve. This helps them know which CPI levers to pull to move the needle on NPS. The Vex Model allows them to create a deeper level of employee understanding, so teams can deliver more meaningful and enduring solutions for customers. With knowledge of CPIs, leaders can reprioritize investments and initiatives based on a deeper appreciation of what will impact NPS, ultimately driving value for the business and their customers.

Moving Beyond Product Centricity

An organization is shifting from a product-centric to customer-centric strategy, driving an enterprise mandate across its many business units. While on board with the idea, individual units are struggling to translate that strategy into day-to-day activities, as the initiative lacks clarity and is too broad to drive action. By implementing the Vex Model at the business-unit level, customer goals can be evaluated more granularly – ultimately providing a customized set of CPIs for each brand to activate against. With these priorities in place, the teams are able to integrate customer goals into existing workstreams, driving customer-focused innovation.

From Journey Mapping To Goal Mapping

A company has recently conducted a journey mapping exercise, with a goal to improve the customer experience by uncovering pain points throughout the journey. While the exercise proved insightful, the team is finding it challenging to truly activate against the insights. To drive greater impact, the Vex Model identifies the top 3 CPIs that drive revenue growth for the organization. Mapping these CPIs to the customer journey enables a more targeted and tangible strategy for driving meaningful action for customers through identifying pain points that detract from delivery on those CPIs. Taking these opportunities into a design-thinking initiative ensures a customer-centric experience strategy that aligns customer goals to revenue growth.

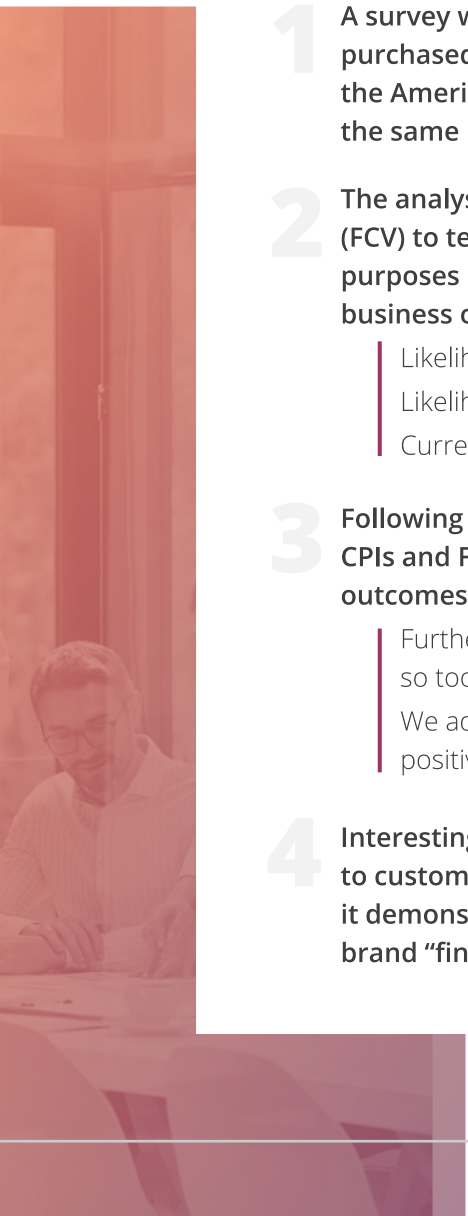
MAPPING & VALIDATING

Customer Performance Indicators (CPIs)

Our universal set of 15 CPIs were established and validated through a three-step process. The first was desk research based on two inputs: Bain's Elements of Value℠ (2018) and The Hines Value Model which explored 23 human need-states that reflect the future of human consumerism. From there we developed a mapping exercise to determine a comprehensive set of overall desired outcomes, resulting in 15 CPIs.

The third phase was a quantitative survey across 20 leading, disparate brands to validate the 15 CPIs to ensure they are both exhaustive and exclusive to one another. By validating the CPIs across disparate brands, we ensured focus on only those CPIs that are universally applicable across industries. Additional customer goals may be relevant when looking at a brand or industry in isolation.

ELEMENTS OF THE QUANTITATIVE SURVEY



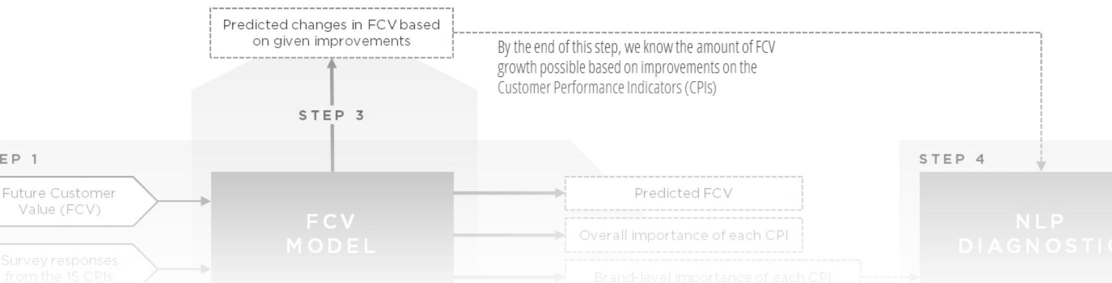
1. A survey was fielded in August 2020 with 1,000 U.S. consumers who had recently purchased one of 20 leading brands' products: 10 brands traditionally scoring high in the American Customer Satisfaction Index (ACSI) and 10 brands that scored lower on the same metric to ensure sufficient differentiation.

2. The analysis compared CPI scores to a preliminary calculation of Future Customer Value (FCV) to test which potential CPI showed a relationship with business outcomes. For the purposes of this validation phase, FCV was calculated as a weighted average of three business outcomes:
   - Likelihood to recommend the brand to others (NPS)[1]
   - Likelihood to do business with the brand in the future (brand loyalty)
   - Current share of wallet held by brand vis-à-vis direct competitors

3. Following our analysis, we found a statistically significant relationship between 15 CPIs and FCV – this proved and quantified the fact that CPIs drive financial business outcomes.
   - Furthermore, we found that as performance on a single CPI increased, so too did the FCV.
   - We additionally demonstrated a compounding effect, whereby as the number of positive CPIs increases, the predicted FCV also increases accordingly.

4. Interestingly, we found that different CPIs had different levels of importance to customers of various brands. And while these patterns may seem logical, it demonstrated that CPI "importance" is unique to each brand, like a brand "fingerprint."

[1]Note, in the syndicated results, NPS was replaced with frequency of spend when calculating FCV.



THE VEX MODEL:

How it Works

The Vex Model—or system of models— is comprised of three algorithms, all powered by machine learning.

1 **Predictive algorithm, that powers all other elements of the model**

2 **Prescriptive, or simulation and forecasting algorithm**

3 **Diagnostic, or natural language processing algorithm**

Each algorithm takes a different combination of inputs—in the form of survey response data from thousands of customers—and generates actionable output for a brand.

PREDICTIVE:
WHICH CPIS ARE MOST IMPORTANT TO A BRAND?

1. This algorithm receives survey response data that measures both Customer Performance Indicators (CPIs) and Future Customer Value (FCV). FCV is composed of 1) share of wallet, 2) frequency of spend, and 3) intent to spend into the future collected via self-reported survey data.
2. Data preprocessing helps refine noisy self-reported data into distributions more sensible for an analytical model.
3. From there, the algorithm enables us to decipher the impact each CPI has on FCV. We do this by manipulating the value of the CPIs in isolation to see how FCV responds. This analysis is applied at the overall market level, as well as the individual brand level for comparative purposes.
4. Once the most impactful CPIs have been identified, we input these into the prescriptive algorithm.

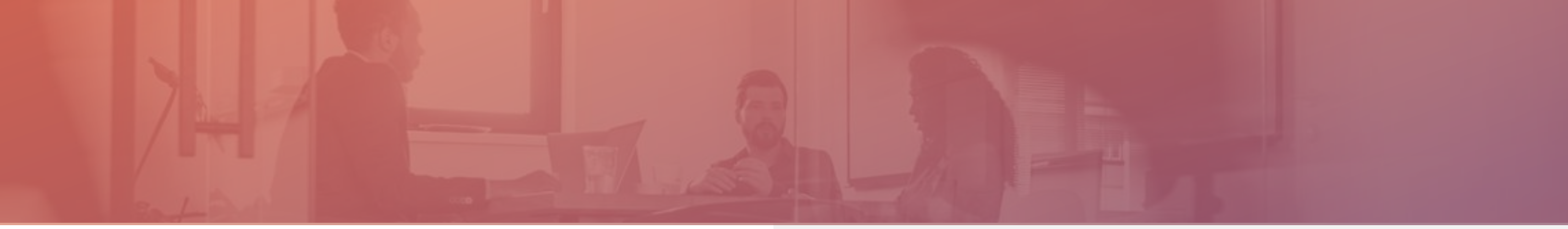
FUTURE CUSTOMER VALUE: A PROXY FOR CUSTOMER LIFETIME VALUE

The analytical engine behind the Vex Model can link customer goals to any number of business outcomes.

To demonstrate the paths available for customer-centered growth, we used Future Customer Value (FCV) as the primary business outcome variable. By taking into account customer spend, loyalty, and competitive position, FCV represents the potential future value that customers can generate for the business. FCV is calculated as a weighted average of three business outcomes:

- Current share of wallet held by brand vis-à-vis direct competitors
- Frequency of spend with that brand
- Likelihood to purchase from that brand in the future

Improving the delivery on customer goals, or CPIs, can impact any of these three outcomes, and thus increase FCV.



PRESCRIPTIVE:

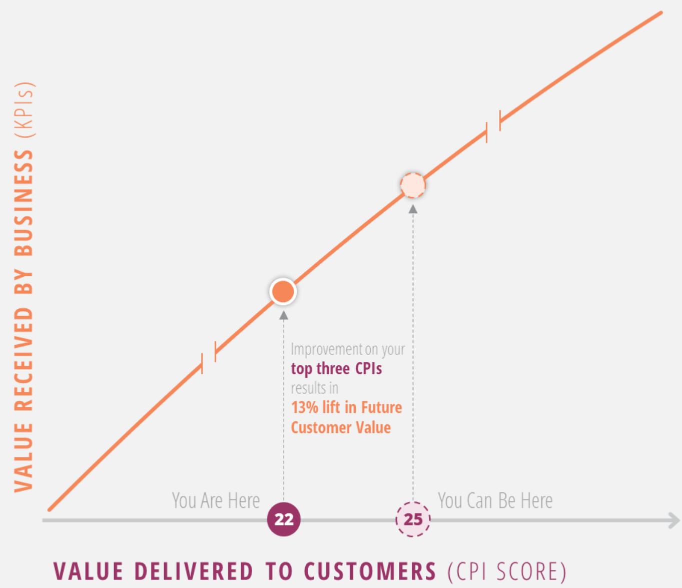
WHICH CPIS SHOULD A BRAND LEVERAGE FOR IMPACT?

1. **Simulation that models the constellation of outcomes based on improvements focused to a single CPI.**

    > In this stage, we look at how a change in any single CPI impacts the other CPIs.
    >
    > Secondly, we analyze the halo effect of any single change, exploring how the cascading changes ultimately impacts FCV.

2. **The output determines the next best action to drive growth for the company based on the value provided to the customer, based on data alone. Of course, the competitive landscape and the brand's capacity to improve will ultimately influence the best path to drive FCV.**

3. **The relationship between FCV and each CPI at the brand level can be demonstrated in the Vex Curve.™**



This Vex Curve™ represents the relationship between CPIs and FCV for a given brand. While the horizontal axis represents the CPI score for all CPIs, the noted percentage lift in FCV represents the predicted increase that can be realized when the brand focuses on its top 3, customer-stated CPIs.

DIAGNOSTIC:

HOW CAN A BRAND ACT ON HIGH-IMPACT CPIS IN RELEVANT WAYS TO IMPROVE FCV?

1. **This natural language processing algorithm determines via custom lexicons/dictionaries how the simulated changes in the prescriptive model can be realized based on open-ended responses collected from consumers.**

2. **From here, we determine the themes that should be taken into account when determining how to improve performance of any given CPI based on term-based sentiment analysis.**

CASE STUDY

FROM IN-STORE TO DOT COM:

The War Of Retail Pharmacy

Most Americans would say their most frequent touchpoint with the healthcare industry is with their local pharmacy—and as a consequence of this high-stakes market, a pharmacy war has been ongoing for years. CVS and Walgreens stand as the two largest firms in the U.S., based on prescription drug sales. Both have articulated customer experience strategies and have invested significant resources in improving the experience customers have with their brands. But these strategies have differed and have led to different results.

At an overarching level, CVS and Walgreens are rather similar in their abilities to assist their customers in achieving customer goals. For instance, we found that people most value a pharmacy that can help them achieve three specific goals: makes my life simpler, gives me options, and easy access to the information I need/want. For each of these, CVS and Walgreen's customers say that the two companies are quite similar in their ability to help them achieve these CPIs.

However, CVS outperforms Walgreens on three other goals: makes me feel good, motivates me, and saves me money.

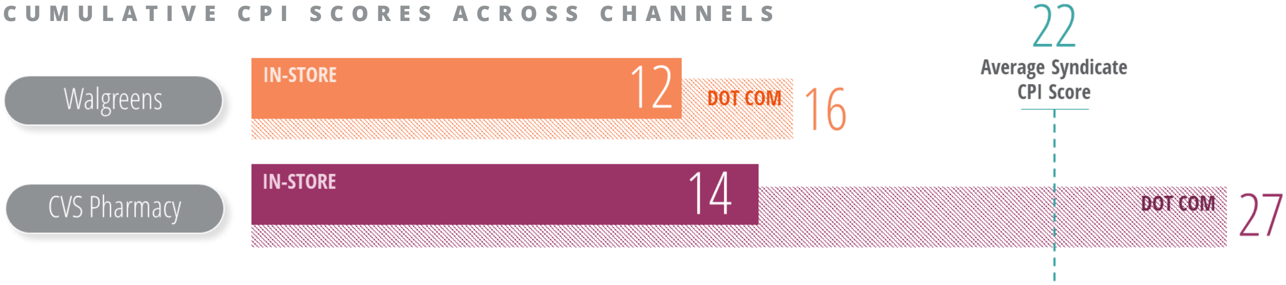
As we turn to digital channels, CVS distanced itself from Walgreens in terms of helping customers achieve CPIs. CVS spent years innovating in the digital space for customers and has spoken about the enhanced financial value of having customers interact with the brand through digital channels. Furthermore, CVS has opened a Digital Innovation Lab where new digital tools are created to make the customer experience more convenient.

These efforts have clearly resulted in customer recognition of CVS helping them achieve their goals. CVS's website/mobile app falls in the top five brands for overall CPI score across more than three dozen websites/mobile apps evaluated through our research. Bolstering CVS's statements about the value of customers who interact digitally, CVS's website/mobile app also achieves one of the 20 strongest Future Customer Value scores across our 2021 syndicate.

Walgreens, no doubt, has made strides to close the gap with their largest competitor.

In 2020, Walgreens announced a partnership with Microsoft and Adobe to create a "world-class digital experience and customer insights platform to deliver personalized healthcare and shopping offerings."

CUMULATIVE CPI SCORES ACROSS CHANNELS



THE NEW

Status Quo

In closing, the path to business growth is paved through customer centricity. Organizations today are learning to put the same discipline toward maximizing the value they deliver to customers as they do towards reaping value from them, while understanding the relationship between the two. Companies that strive to be customer centric will rise to challenge the status quo by incorporating new metrics into their decision-making playbook—ones that are defined from the vantage point of the customer. To be sure, CPIs are complementary and accretive to KPIs. Used in tandem, organizations will be in a position to move beyond legacy mindsets that have curtailed business growth for years.

Gongos, Inc. is a consultative agency whose mission is to reorient the relationship between customers and corporations to be mutually beneficial. Partnering with insights, analytics, marketing, strategy, and customer experience groups, Gongos operationalizes customer centricity by helping companies understand and activate on customer needs. Gongos was named a Forbes "Small Giant" in 2020; ranks #47 among the largest market research organizations in the U.S.; and partners with Fortune 500 clients across multiple industries including Coca-Cola, Mars Petcare, Kellogg's, U.S. Bank, UnitedHealthcare and General Motors. For further insight into Gongos, visit gongos.com. For more information about the Vex Model, visit vex.gongos.com.

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