

CX Led Profitable Growth Flywheel



The virtuous cycle that reflects the impact of Customer Experiences on Profitable Growth

Patrick Burggraaf

1. Introduction

In this article I introduce the **CX Led Profitable Growth Flywheel**. A mechanism that reflects the impact of Customer Experiences on Profitable Growth. A flywheel is a system that generates an output that can be invested as an input and often have multiple growth loops/wheels and can be seen as a superimposition of loops. A great example is Uber and Amazon where multiple actors create a lock in with each other.

The CX Led Profitable Growth Flywheel has multiple loops where Customer Experiences generates two key outputs; customer satisfaction and competitive advantage which both find their way to Profitable Growth input. See below in figure 1 my illustration which will be explained further in this article.

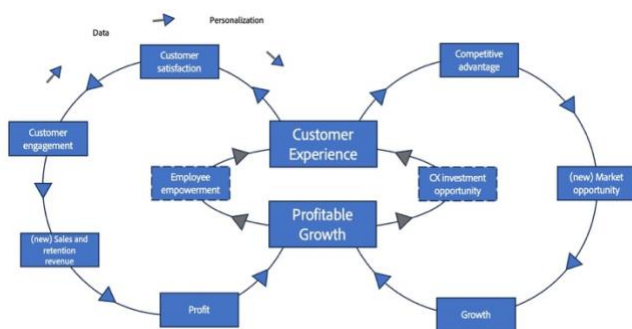


Fig. 1 CX Led Profitable Growth Flywheel

Profitable Growth – ‘a key business metric’

Nailing down long-term success in business boils down to optimizing the balance between growth and profitability. **Growth** is all about a business’ expansion in size or market share, while **profitability** zeroes in on the revenue a business rakes in compared to its expenses. To solidify the foundation for profitable growth, it is key to carve out a growth strategy that zeroes in on both of these aspects.

Customer Experiences (CX) is one way to pull this off. For those who have read my articles before, I am intrigued by the impact of Customer Experiences on Business Economics and Growth.

When I put on my CX glasses and review the different profitability and growth strategies defined by different scholars, e.g. Zook and Allen (2001) in their book Profit from the core, I can only confirm that CX has a significant economic and business value. In fact, profit and growth from customer relationships is the lifeblood of all businesses and different scholars have found evidence of this relationship (Lywood et al., 2009. Ilias et al., 2020. Wetzels et al., 2023).

2. Introducing the ‘CX Led Profitable Growth Flywheel’

McKinsey (Bough et al, 2023) recently introduced a renewed way to create value, Experience-Led growth. Bough et al (2023) argues that businesses who can differentiate from the competition by providing a distinctive Customer Experience hones a powerful strategy for driving profitable growth. Experience-Led growth strategies boost customer engagement, satisfaction, and retention. In return this increases business metrics like share of wallet, repeat purchases as well as financial metrics like net revenue retention and net new sales. This is not new, in fact, the importance of Customer Experience has been introduced a long time ago and have become more widely known after Pine and Gilmore’s Experience Economy publication in 1998.

But how does Customer Experience accelerate business and financial metrics?

The answer is not straightforward unfortunately. With the introduction of the CX Led Profitable Growth Flywheel I give it a try. Customer Experience (when seen on 30.000 feet) has influence on customer satisfaction (Klaus, 2013) and Competitive Advantage (Vidili, 2021). Both have their own growth loop which converts the output of Customer Experiences into input for Profitable Growth. The customer satisfaction growth loop (left loop in figure 1) generates profit for the business by turning satisfaction into more engagement resulting in new sales and net retention revenue. The competitive advantage growth loop (right loop in figure 1) turns competitive advantage into profits by creating (new) market opportunities. Think about entering a new market by innovations etc.

The flywheel concept really takes off when the impact of CX on Profitable Growth is transmitted to investment and improvement of CX. See the two internal loops with employee empowerment and CX investment opportunity.

The growth loops all together create the flywheel. One of the key characteristics of a flywheel is that once in motion, they are difficult to slow down.

This raises the question, does this also apply to the CX Led profitable growth flywheel?

In line with my previous hypothesis, my answer is no. My last article was about Customer Experience Elasticity which reflects how a change in Customer Experience impacts Profitable Growth. My hypothesis is that when Customer Experience exceeds a certain threshold, the impact on profitable growth is lost. Although not empirically proven (which is work in progress), I argue that there is a momentum where the flywheel slows down and the impact disappears. See below my hypothesis shown in a figure where the impact of Customer Experience on Profitable Growth is flattening.

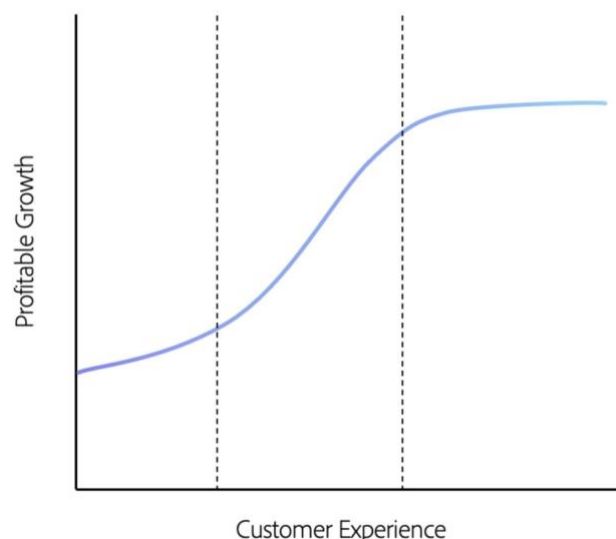


Fig 2. Customer Experience Elasticity – linking CX with profitable growth.

Food for thought?

Maybe the flywheel I introduced is not a flywheel but more of a growth loop, or the elements in the flywheel might not be correct or too limited. Even with that in mind, my assertion remains that same after my previous articles on the impact of Customer Experience on demand and supply on macro level and profitable growth on business level. Don't hesitate to reach out to me, I'd love to hear you opinion or thoughts.

3. References

C. Zook and T. Allen, *Profit from the Core: Growth Strategies in an Era of Turbulence*, Harvard Business School Press, Boston (2001).

Ilias, S., & Shamsudin, M. F. (2020). Customer satisfaction and business growth. *Journal of Undergraduate Social Science and Technology*, 2(2).

Klaus, P. P., & Maklan, S. (2013). Towards a better measure of customer experience. *International journal of market research*, 55(2), 227-246.

Lywood, J., Stone, M., & Ekinici, Y. (2009). Customer experience and profitability: An application of the empathy rating index (ERIC) in UK call centres. *Journal of Database Marketing & Customer Strategy Management*, 16, 207-214.

Pine, B. J., & Gilmore, J. H. (1998). *Welcome to the experience economy* (Vol. 76, No. 4, pp. 97-105). Cambridge, MA, USA: Harvard Business Review Press.

Vidili, I. (2021). Customer experience: The new competitive advantage for companies that want their customer at the center of their business. In *Handbook of Research on User Experience in Web 2.0 Technologies and Its Impact on Universities and Businesses* (pp. 183-209). IGI Global.

Wetzels, R. W., & Wetzels, M. (2023). There is a secret to success: Linking customer experience management practices to profitability. *Journal of Retailing and Consumer Services*, 73, 103338.