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For: Customer Experience Professionals

The Business Impact Of Customer Experience, 2013

by Maxie Schmidt-Subramanian, June 10, 2013

KEY TAKEAWAYS

Customer Experience Correlates To Loyalty

Forrester once again found a high correlation between consumers' rating of a firm in the Customer Experience Index (CXi) and their willingness to buy from the company again and their likelihood to recommend that company. Also, the higher the CXi score is, the less likely a customer is to defect, although that relationship is not quite as strong.

Better Customer Experience Can Mean Millions In Revenue

Firms with high CXi scores have more customers who purchase again, don't switch to competitors, and recommend the company. Our models show that the loyalty-based revenue benefit for firms going from below- to above-industry-average CXi scores ranged from $88 million for consumer electronics manufacturers to $3.1 billion for wireless providers.

The Business Impact Of Customer Experience, 2013

Business Case: The Experience-Driven Organization Playbook

by Maxie Schmidt-Subramanian
with Harley Manning, Jason Knott, and Molly Murphy

WHY READ THIS REPORT

Years of Forrester data confirm the strong relationship between the quality of a firm's customer experience (CX) and loyalty. We built three simple models to estimate the impact customer experience has on three loyalty measures: willingness to consider the company for another purchase, likelihood to switch business, and likelihood to recommend. This year, we made a significant update to our assumptions to reflect the fact that a few large players dominate most industries in our study, and we therefore show the impact on those dominant players. CX professionals should use the interactive version of the models provided in the report to discover a range of benefit scenarios tailored to their company's unique situation, which will help prove their business case and drive transformation into an experience-driven organization.

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Notes & Resources

As part of an online survey in Q4 2012, Forrester asked 7,506 US consumers about their interactions with 154 large US brands in a range of different industries. We used that data to model the effect that better customer experience might have on companies in 13 of those industries.

Related Research Documents

The State Of Customer Experience Management, 2013
March 22, 2013

The Customer Experience Index, 2013
January 15, 2013

Executive Q&A: Forrester's Customer Experience Index
January 4, 2013

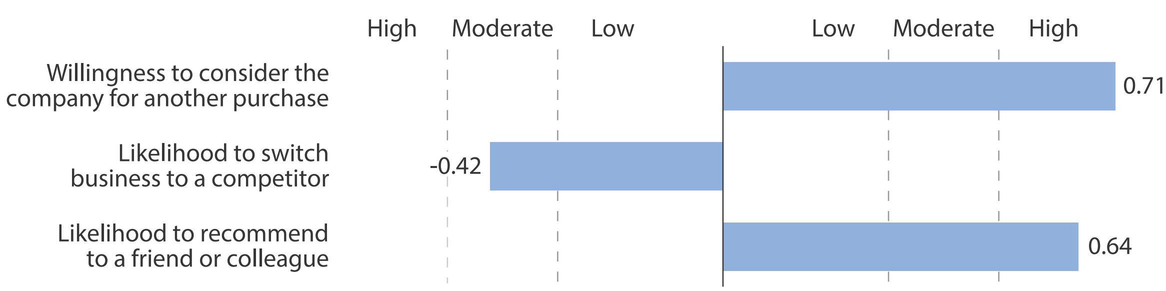
CUSTOMER EXPERIENCE STRONGLY CORRELATES TO LOYALTY

How strong is the correlation between customer experience and customer loyalty in 2013? To find out, Forrester once again examined the statistical relationship between how customers rate companies in our Customer Experience Index (CXi) and their willingness to consider the company for another purchase, likelihood to switch business to a competitor, and likelihood to recommend to a friend or colleague. As in previous years, our research and analysis shows that:

- **Customer experience highly correlates to future business.** We found a high correlation between consumers' CXi rating of a company and their willingness to buy from the company again (0.71) (see Figure 1). Similarly, we found an inverse correlation between a brand's CXi score and customers' likelihood to switch business to competitors (-0.42). That means that the higher the CXi score, the lower the number of customers who intend to defect.[1]

- **Customer experience also links directly to word of mouth.** We also confirmed the strong correlation between how customers rate their experience with a company and their likelihood to recommend that firm to a friend or colleague (0.64).

Figure 1 Correlation Between CXi Score And Three Loyalty Metrics



Base: US online adults (ages 18+) who have interacted with brands in the past 90 days

Source: North American Technographics® Customer Experience Online Survey, Q4 2012 (US)

97721 Source: Forrester Research, Inc.

BETTER CUSTOMER EXPERIENCE CAN BE WORTH MILLIONS IN ANNUAL REVENUE

The strong correlation between CXi and loyalty means that companies with higher CXi scores tend to have more customers who will buy from them again, who won't take their business elsewhere, and who will recommend them to a friend (see Figure 2).[2] We built models of the loyalty-based revenue benefits that CXi leaders enjoy versus their competitors in the same industry with below-average CXi scores. These models capture benefits in three categories (see Figure 3):

- **Incremental purchases from existing customers in the same year.** Firms that move from below average to above average in the CXi have more customers who say they are willing to buy from them again.[3] Even if only a fraction of those customers make another purchase in the same year, the revenue benefit can range from a low of $39 million for consumer electronics manufacturers to more than $1.3 billion for wireless service providers, whose extremely large subscriber bases mean that even a small percentage change in repeat purchasers translates into a very large dollar value.

- **Revenue saved by lower churn.** Firms with above-average CXi scores have fewer customers who want to take their business elsewhere. Even if some of those at-risk customers defect anyway, the absolute number of customers lost still decreases. As a result, our models show that retained revenue ranges from $30 million for investment firms, where customers have a lower propensity to change providers even if they have a bad experience, to $1.7 billion for wireless providers, where their large number of customers once again drives big revenue change.

- **New sales driven by word of mouth.** With higher CXi scores come more customers who are willing to recommend a company to a friend or colleague. Using Forrester data about the number of people consumers tell about a good customer experience, we found that firms can see incremental sales from positive word of mouth that range from $2 million for investment firms to $176 million for airlines, which benefit from the potential of their enormous customer bases to create extensive word of mouth.

Figure 2 Difference In Loyalty Scores Among Customer Experience Leaders And Laggards

Percentage-point difference in average loyalty scores for companies above and below average in CXi

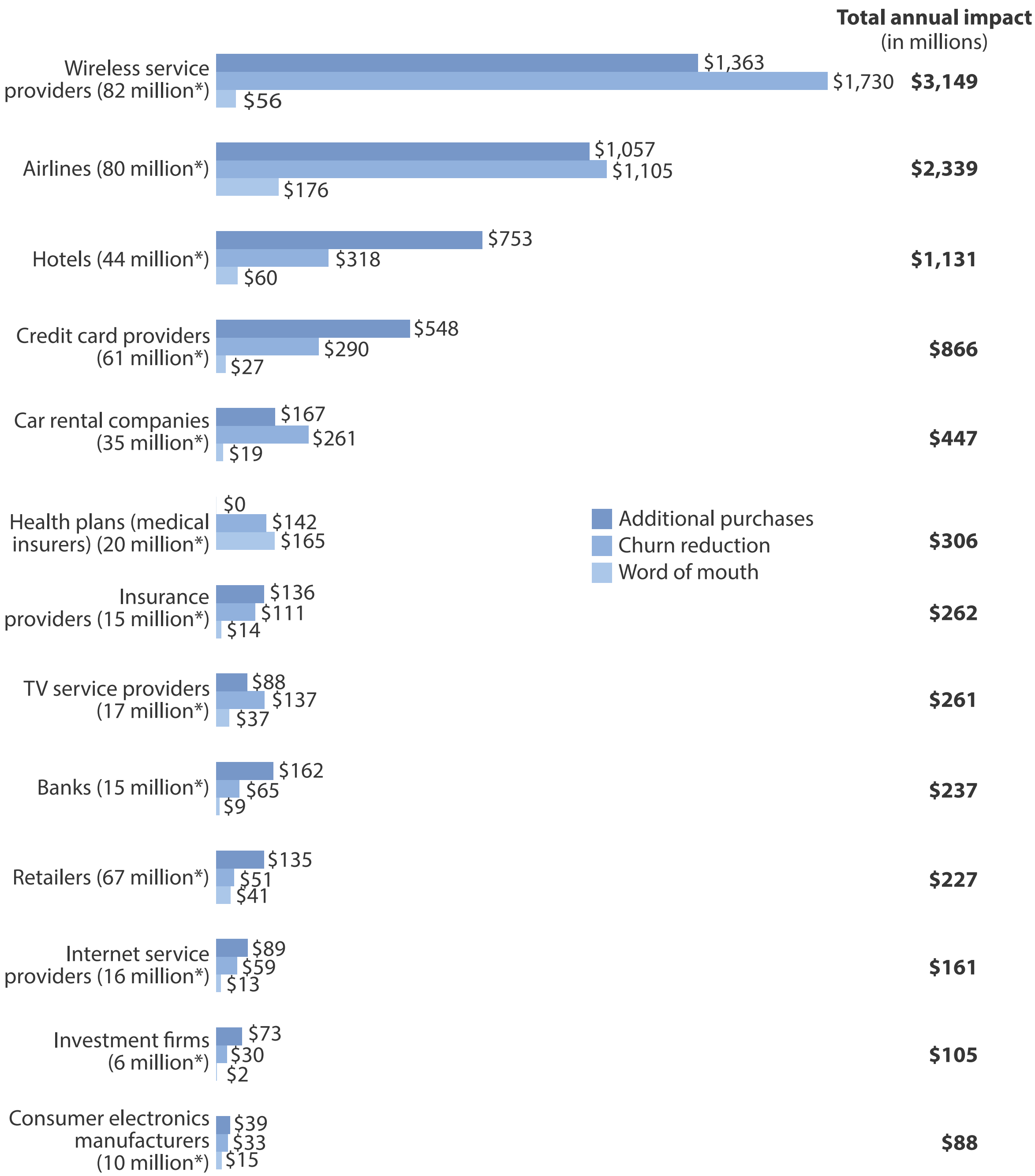
	Willingness to consider the company for another purchase	Likelihood to switch business to a competitor	Likelihood to recommend to a friend or colleague
Airlines	16	-12	17
Banks	14	-12	16
Car rental companies	8	-9	6
Consumer electronics manufacturers	8	-4	9
Credit card providers	9	-5	9
Health insurance plans	5	-7	5
Hotels	11	-7	11
Insurance companies	4	-5	5
Internet service providers	9	-3	11
Investment firms	10	-7	3
Retailers	3	-1	5
TV service providers	8	-4	13
Wireless service providers	9	-11	4

Base: US online adults (ages 18+) who have interacted with brands in the past 90 days

Source: North American Technographics® Customer Experience Online Survey, Q4 2012 (US)

97721 Source: Forrester Research, Inc.

Figure 3 Better Customer Experience Drives Millions In Revenue Benefit Across Industries



Base: US online adults (ages 18+) who have interacted with brands in the past 90 days
(numbers have been rounded to the nearest whole number)

Source: North American Technographics® Customer Experience Online Survey, Q4 2012 (US)
*Average number of customers per company in each industry, based on internal and external Forrester Research

97721 Source: Forrester Research, Inc.

Wireless Providers, Airlines, And Hotels Have The Most To Gain

While the revenue benefits of a better customer experience were positive across all 13 of the industries we modeled, it's also clear that some industries stand to benefit more than others. Our models show that:

- **Potential revenue benefits top $3 billion for wireless service providers.** If a wireless provider were to move from a below-average CXi score to an above-average score, it could see more than $3.1 billion in total revenue benefit. Given the relatively low average industry rating of 65 in Forrester's CXi, wireless providers have significant opportunity to improve their customer experience and reap these benefits.[4]

- **Airlines stand to gain more than $2 billion in revenue.** The potential revenue upside for airlines is more than $2 billion. However, unlike wireless providers, most will see little of this potential revenue. That's because, as we noted last year, airlines make far more money by charging baggage fees and change fees, which create an inherently poor experience. In 2012, the industry collected more than $6 billion in these two types of fees, the highest amount since the fees became a market reality five years ago.[5] This trend is likely to continue: Delta Air Lines, American Airlines, United Airlines, and US Airways recently raised prices for changing tickets from $150 to $200.[6]

- **Hotels could see a revenue boost of more than $1 billion.** Moving from a below-average customer experience to an above-average customer experience could mean an upside of more than $1.1 billion for a hotel. This is a very achievable opportunity. Even though hotels already have the second highest average rating in the CXi, this year, three hotels significantly improved their scores through tactics like better aligning their website features with customer preferences and retraining employees to deliver a better experience.[7]

- **Credit card providers have nearly $900 million in upside revenue potential.** An additional $548 million in revenue from current customers plus up to $290 million resulting from churn reduction account for the bulk of this opportunity. While these numbers are impressive in themselves, they don't reflect the additional opportunity to reduce costs by eliminating fines levied against banks for delivering poor service. In 2012, the Consumer Financial Protection Bureau logged more than 15,000 complaints against 76 financial institutions and imposed a total of $536.5 million in fines and consumer refunds collectively on Capital One, Discover, and American Express.[8]

RECOMMENDATIONS

BUILD YOUR OWN MODELS TO PROVE CUSTOMER EXPERIENCE IS BIG BUSINESS

These simple models capture the relationship between customer experience and loyalty and reflect the potential benefits for a sample company in each industry. Customer experience professionals who need to make the case for improving customer experience should customize these models to estimate the upside for their own firm. To do that:

- **Plug in your actual numbers.** A customizable Excel spreadsheet version of the model in Figure 3 is available online. Companies can download that file and update the assumptions to reflect their firm's actual number of customers and revenue per customer per year. Once that's done, run a few different scenarios to see how revenue might change under a range of conservative, aggressive, and likely conditions. For example, you might see what would happen if you closed 25%, 50%, or 75% of the loyalty gap between customer experience leaders and laggards. Or you might adjust the assumptions to reflect a higher actual repurchase rate if repeat purchases are more common in your industry.

- **Include cost savings to complete the picture.** These models only include increases in revenue from a better customer experience. However, our past research has shown that better customer experience also saves companies millions of dollars in unnecessary sales and service costs.[9] When making the case for customer experience investments, customer experience professionals should include both types of benefits to present the most compelling — and accurate — argument for change.

- **Wrap the numbers in a compelling story.** The most successful business cases are the ones that combine financial data with information that reaches decision-makers on a personal level. When building your case, be sure to include customers' verbatim comments (written and audio/video), absolute numbers of affected customers instead of just percentages, and statements that challenge leaders to help the company live up to brand statements that promise a customer focus.[10]

SUPPLEMENTAL MATERIAL

The online version of Figure 3 is an interactive tool to estimate the change in revenue from an increase in CXi scores across 13 industries. Clients can use this model to adjust the inputs and assumptions to fit their own company, situation, or preferences.

Methodology

The model for estimating the change in revenue from an increased CXi score is based on the following inputs:

- **Estimates of the average customer base and value per customer.** We assumed the number of customers that a sample company in each of 13 industries has based on inputs that include Forrester Consumer Technographics®, Forrester analysts, publicly available industry data, and individuals at companies in those industries. This year, we updated the methodology and calculated the revenue impact for the biggest players in each industry because most of the industries in our study are dominated by a few big players. This change better reflects the true opportunity from improving customer experience. Companies with fewer customers can use the interactive Figure 3 to calculate their revenue upside. We also assumed the average revenue from each customer based on data for similar sources. We split that revenue into two parts — revenue from a basic relationship and revenue from incremental purchases made by a customer who chooses to buy from the company multiple times. For an industry in which the concept of an "incremental purchase" in a given year doesn't apply — such as health plans — we set that incremental purchase revenue to zero.

- **Difference in loyalty between firms above and below their industry average in the CXi.** We grouped companies in each industry into two buckets: customer experience leaders and customer experience laggards. Leaders were those firms that scored at or above the industry average on the CXi. Laggards were those that scored below the industry average. We then calculated the top two box scores for each company on the three loyalty measures: likelihood to recommend, willingness to consider the company for another purchase, and likelihood to switch business to a competitor. Finally we calculated the average loyalty score for each group — leaders and laggards — and the difference between the two. This year, we updated the calculation of the average loyalty scores to a weighted average of all companies in the study in order to better reflect differing sample sizes.

- **The percentage of people who do what they say they will.** We assumed that only a portion of the people who say that they will buy from a company again, will switch business away to a competitor, and will recommend the company end up following through.

Forrester also conducted the North American Technographics Customer Experience Online Survey, Q4 2012 (US), fielded in November 2012 of 7,506 US individuals ages 18 to 88. For results based on a randomly chosen sample of this size (N = 7,506), there is 95% confidence that the results have a statistical precision of plus or minus 1.13% of what they would be if the entire population of US online individuals ages 18 and older had been surveyed. Forrester weighted the data by age, gender, income, broadband adoption, and region to demographically represent the adult US online population. The survey sample size, when weighted, was 7,440. (Note: Weighted sample sizes can be different from the actual number of respondents to account for individuals generally underrepresented in online panels.) Please note that this was an online survey. Respondents who participate in online surveys have in general more experience with the Internet and feel more comfortable transacting online. The data is weighted to be representative for the total online population on the weighting targets mentioned, but this sample bias may produce results that differ from Forrester's offline benchmark survey. The sample was drawn from members of MarketTools' online panel, and respondents were motivated by receiving points that could be redeemed for a reward. The sample provided by MarketTools is not a random sample. While individuals have been randomly sampled from MarketTools' panel for this particular survey, they have previously chosen to take part in the MarketTools online panel.

ENDNOTES

1 These numbers represent the Pearson correlation coefficient between consumers' CXi score for companies and their rating for each of the three loyalty variables. This correlation coefficient can range from -1 to 1. A coefficient of 1 means a perfect positive correlation (as CXi goes up, loyalty always goes up), while a coefficient of -1 means a perfect negative correlation (as CXi goes up, loyalty goes down). A coefficient of 0 means there is no linear correlation between CXi and loyalty. Generally accepted ranges for interpretation of this coefficient mark the absolute values of 0 to 0.09 as representing no correlation, 0.1 to 0.3, as a small correlation, 0.31 to 0.5, as a medium correlation, and 0.51 to 1.0, as a strong correlation.

A negative sign on the correlation represents an inverse correlation, meaning that as the CXi score goes up, the percentage of customers who are somewhat or very likely to switch goes down. The magnitude of the correlation still represents the strength of that correlation even when it is inverse.

2 For each of the 13 industries on our model, we segmented companies into two groups: those with CXi scores at or above the industry average and those with scores below the industry average. We then calculated the average loyalty scores for each group and compared the two. Our findings show that the average loyalty scores for leaders were better than the average loyalty scores for laggards in every industry.

3 For health insurance plans, customers have little opportunity to make an incremental purchase from the company even if they want to. Most consumers have only one health insurance plan. There is variation in the price and package customers may choose to have with a firm, but that is factored into the average basic relationship and does not represent an incremental purchase in the traditional sense.

4 For more information on Forrester's Customer Experience Index and the 2013 results, see the January 15, 2013, "The Customer Experience Index, 2013" report.

5 In 2012, airlines reported a total of $3.5 billion in baggage fees and $2.6 billion from reservation change fees. Source: "Largest Airlines Report Smaller Net Loss In 4th Quarter Of 2012," Research and Innovative Technology Administration press release, May 14, 2013 (http://www.rita.dot.gov/bts/press_releases/bts023_13); Stephen Tschida, "Airlines Collected $6 Billion In Baggage, Change Fees In 2012," ABC News, May 15, 2013 (http://www.wjla.com/articles/2013/05/airlines-collected-6-billion-in-baggage-change-fees-in-2012-88825.html); and Scott Mayerowitz, "Airlines Collected Record Baggage Fees In 2012," USA Today, May 15, 2013 (http://www.usatoday.com/story/todayinthesky/2013/05/14/airlines-collected-record-baggage-fees-in-2012/2158983/).

6 In April 2013, United Airlines increased its change fee for a nonrefundable domestic ticket from $150 to $200 and for international tickets from $250 to $300. The other major airlines — United Airways, Delta,

and American Airlines — followed suit. Source: Scott McCartney, "Summer Air-Travel Survival Guide," The Wall Street Journal, May 22, 2013 (http://online.wsj.com/article/the_middle_seat.html); and Genevieve Shaw Brown, "AA, Delta Match Change Fee Increase Of United, US Airways," ABC News, May 3, 2013 (http://abcnews.go.com/Travel/airlines-increase-change-fees/story?id=19100090#.UZ9uGLXVDkU).

7 Courtyard by Marriott, Days Inns Worldwide, and Marriott Hotels and Resorts improved their scores in Forrester's Customer Experience Index from 2012 to 2013. For more details on how they went about that, see the May 21, 2013, "How Companies Improved Their Customer Experience Index Scores, 2013" report.

8 The Consumer Financial Protection Bureau (CFPB) announced that American Express will have to refund an estimated $85 million to customers plus pay a fine of $27.5 million because: "At every stage of the consumer experience, from marketing to enrollment to payment to debt collection, several American Express bank programs violated consumer protection laws." Source: "Ending Illegal Credit Card Practices," Consumer Financial Protection Bureau (http://files.consumerfinance.gov/f/201210_cfpb_AmEx_Enforcement_Factsheet.pdf).

The CFPB requires Capital One to refund an estimated $140 million to customers plus pay a $25 million fine because customers "were misled into buying credit card 'add-on products.'" Source: "Ending Deceptive Marketing Practices," Consumer Financial Protection Bureau (http://files.consumerfinance.gov/f/201207_cfpb_ending_deceptive_marketing_practices.pdf).

The CFPB also requires Discover to refund an estimated $200 million and pay a fine of $14 million because of deceptive marketing practices. Source: "Ending Deceptive Marketing Practices," Consumer Financial Protection Bureau (http://files.consumerfinance.gov/f/201209_cfpb_factsheet_settlement-with-discover-bank.pdf).

9 When US consumers can't complete a goal online, the vast majority switch to more expensive channels, most often the phone. Others give up and go to a competitor, while still others abandon their goals entirely. Simple return on investment modeling shows that for an average retailer, the result is millions of dollars in lost revenue and unnecessary costs. See the August 21, 2012, "Websites That Don't Support Customers Waste Millions" report.

10 Forrester interviewed firms that had successfully secured funding for major customer experience improvement projects and found that the most-effective business cases appeal to executives on three levels — authority, logic, and emotion. See the June 17, 2008, "How To Get Funding For Web Site Improvements" report.

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