June 22, 2009

Customer Experience Boosts Revenue

by Bruce D. Temkin
for Customer Experience Professionals

Includes data from Consumer Technographics®

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Modest Improvements Can Bring In $177 Million To $311 Million Per Year

by Bruce D. Temkin
with Moira Dorsey, William Chu, and Angela Beckers

EXECUTIVE SUMMARY

Forrester's previous research has shown a high correlation between customer experience and three key elements of loyal behavior: willingness to buy more, reluctance to switch, and likelihood to recommend. But how does that affect a company's bottom line? To answer that question, we looked at the percentage of loyal customers within the customer bases of more than 100 companies. It turns out that customer experience leaders have an advantage of more than 14% over customer experience laggards across all three areas of loyalty. The annual revenue gains from a modest difference in customer experience can total $311 million for a large hotel. Banks and hotels garner the largest gains from their current customers, while airlines get the most from an increase in positive word of mouth. Customer experience professionals should use this information to build customized business plans.

TABLE OF CONTENTS

2 **Customer Experience Differences Create A Loyalty Gap**

6 **Quality Customer Experience Generates Up To $311 Million Per Year**

Large Firms Can Gain $177 Million To $311 Million Per Year

RECOMMENDATIONS

9 **Build Your Own Customer Experience Business Case**

10 **Supplemental Material**

NOTES & RESOURCES

As part of an online survey in Q4 2008, Forrester asked 4,564 US consumers about their relationships with airlines, banks, cell phone service providers, credit card providers, hotels, insurance firms, Internet service providers, investment firms, medical insurance companies, PC manufacturers, retailers, and TV service providers.

Related Research Documents

"How Customer Experience Drives Word Of Mouth"
May 28, 2009

"Customer Experience Correlates To Loyalty"
February 17, 2009

"The Customer Experience Index, 2008"
December 12, 2008

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CUSTOMER EXPERIENCE DIFFERENCES CREATE A LOYALTY GAP

Forrester's Customer Experience Index (CxPi) ranked the customer experience of 113 organizations.[1] But why would any firm care where it ended up on the list? Because customer experience correlates to loyalty (see Figure 1).[2] To understand this phenomenon, we separated the firms into four quartiles based on how their CxPi score compared with the average CxPi for their industry (see Figure 2).[3] When we compared consumer loyalty between the top and bottom quartiles, we found these differences (see Figure 3):

- **More customers willing to purchase: 14.4%.** Compared to their industry averages, the companies in the top quartile of CxPi scores had 6.7% more customers that were willing to consider them for another purchase. Companies in the bottom quartile had 7.7% less than their industry norm.

- **More customers reluctant to switch: 15.8%.** Among companies with the best customer experience, the number of customers who were reluctant to switch away from them was 8.2% higher than the industry average. Among those with the worst customer experience, the number was 7.6% lower than the average.

- **More customers likely to recommend: 16.6%.** When it came to having customers recommend their firms, companies with the highest customer experience scores had 8.4% more of these recommenders than their industry average. Poor customer experience performers fell 8.2% below the industry mean.

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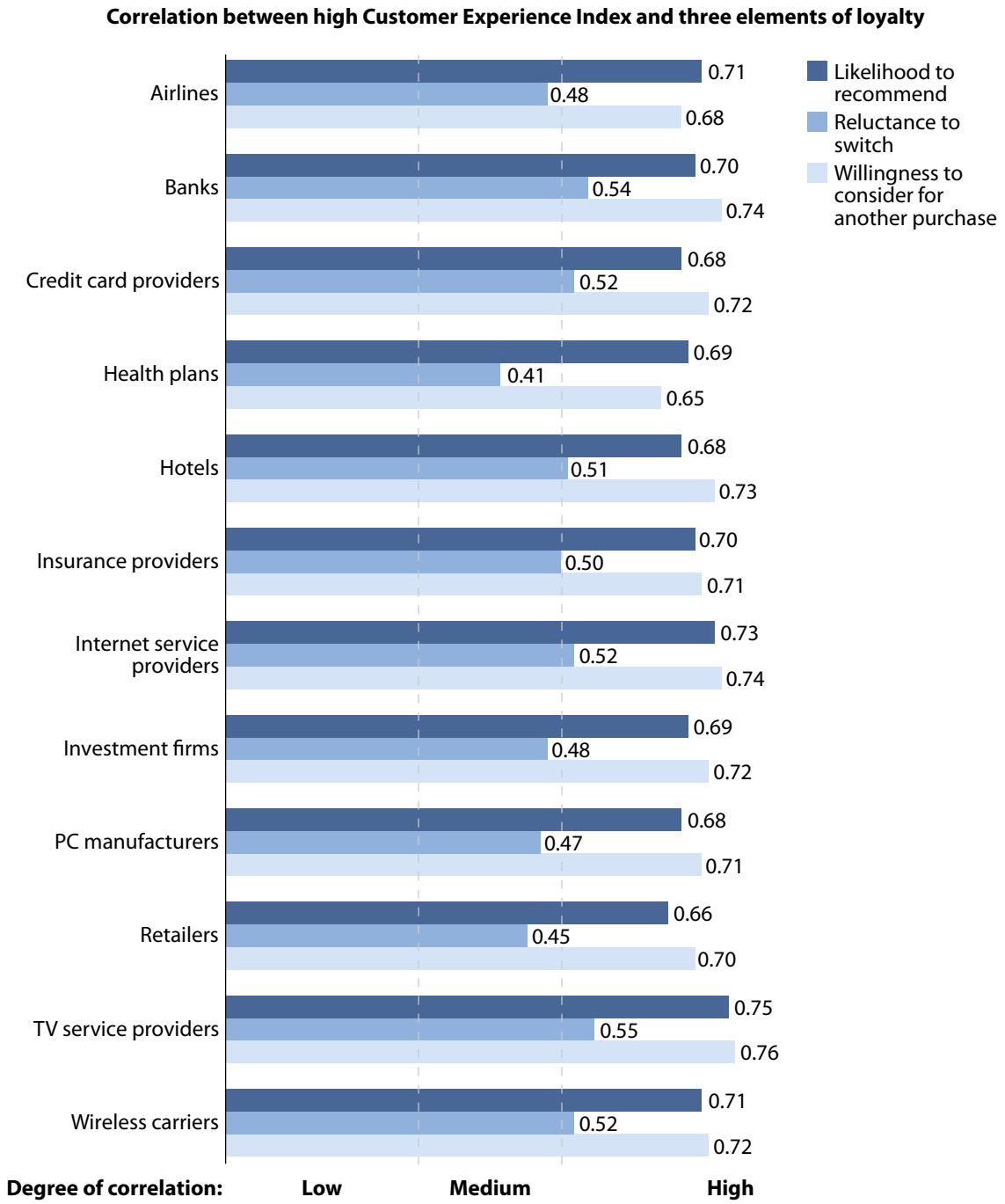
Figure 1 Customer Experience Correlates With Loyalty



Base: US online consumers who interact with firms in these industries

Source: North American Technographics® Customer Experience Online Survey, Q4 2008

54750 Source: Forrester Research, Inc.

Figure 2 Customer Experience Index Relative To Industry Averages

Firms were grouped by their CxPi score relative to the CxPi score for their industry.

Company (industry)

Top quartile	Second quartile	Third quartile	Bottom quartile
A credit union (bank)	Anthem (BCBS) (health plan)	Aetna (health plan)	AAA (insurance)
A credit union (investment firm)	BJ's Wholesale Club (retailer)	Allstate Insurance (insurance)	Best Buy (retailer)
Alltel (wireless carrier)	Charles Schwab (investment firm)	American Airlines (airline)	Capital One (bank)
Amazon.com (retailer)	AT&T (wireless carrier)	An independent insurance agent (insurance)	Charter Communications (ISP)
American Express (credit card)	CVS (retailer)	Bank of America (bank)	Charter Communications (TV service)
AOL (America Online) (ISP)	DISH Network (EchoStar Satellite) (TV service)	Bank of America (credit card)	Circuit City (retailer)
Apple (PC manufacturer)	eBay (retailer)	Capital One (credit card)	Citibank (bank)
AT&T (ISP)	Edward Jones (investment firm)	Chase (credit card)	Comcast (ISP)
Barnes & Noble (retailer)	Gateway (PC manufacturer)	CIGNA (health plan)	Comcast (TV service)
BellSouth (ISP)	Holiday Inn (hotel)	Citigroup (credit card)	Comfort Inn (hotel)
Borders (retailer)	Holiday Inn Express (hotel)	Compaq (PC manufacturer)	Dell (PC manufacturer)
Bright House (TV service)	JCPenney (retailer)	Continental Airlines (airline)	Delta Air Lines (airline)
Costco (retailer)	Kohl's (retailer)	Cox Communications (ISP)	Farmers Insurance Group (insurance)
Cox Communications (TV service)	Lowe's (retailer)	Fidelity Investments (investment firm)	HSBC (credit card)
DirecTV (TV service)	Medicare (health plan)	Geico (insurance)	JP Morgan Chase (bank)
Discover Financial Services (credit card)	National City (bank)	Hewlett-Packard (PC manufacturer)	Liberty Mutual Insurance (insurance)
Hampton Inn/Suites (hotel)	Old Navy (retailer)	Hilton Hotels (hotel)	Medicaid (health plan)
Kaiser (health plan)	Sam's Club (retailer)	The Home Depot (retailer)	Merrill Lynch (investment firm)
Marriott Hotels & Resorts (hotel)	State Farm (insurance)	Kmart (retailer)	Northwest Airlines (airline)
MSN (Microsoft Network) (ISP)	SunTrust Bank (bank)	Macy's (retailer)	Office Depot (retailer)
Other cable TV provider (TV service)	Target (retailer)	Nationwide Mutual Insurance (insurance)	RadioShack (retailer)
Progressive (insurance)	T-Mobile (wireless carrier)	Other full-service brokerage (investment firm)	Sprint (wireless carrier)
Qwest Communications (ISP)	Toys "R" Us (retailer)	Road Runner (Time Warner Cable) (ISP)	Time Warner Cable (TV service)
Southwest Airlines (airline)	TracFone Wireless (wireless carrier)	Sears (retailer)	United/Ted (airline)
USAA (credit card)	TriCare (health plan)	Staples (retailer)	US Airways (airline)
USAA (insurance)	U.S. Bancorp (bank)	United Healthcare (health plan)	Wachovia (bank)
The Vanguard Group (investment firm)	Verizon (ISP)	Walgreens (retailer)	Washington Mutual (bank)
Wells Fargo (credit card)	Verizon Wireless (wireless carrier)	Wal-Mart (retailer)	Washington Mutual (credit card)
		Wells Fargo (bank)	

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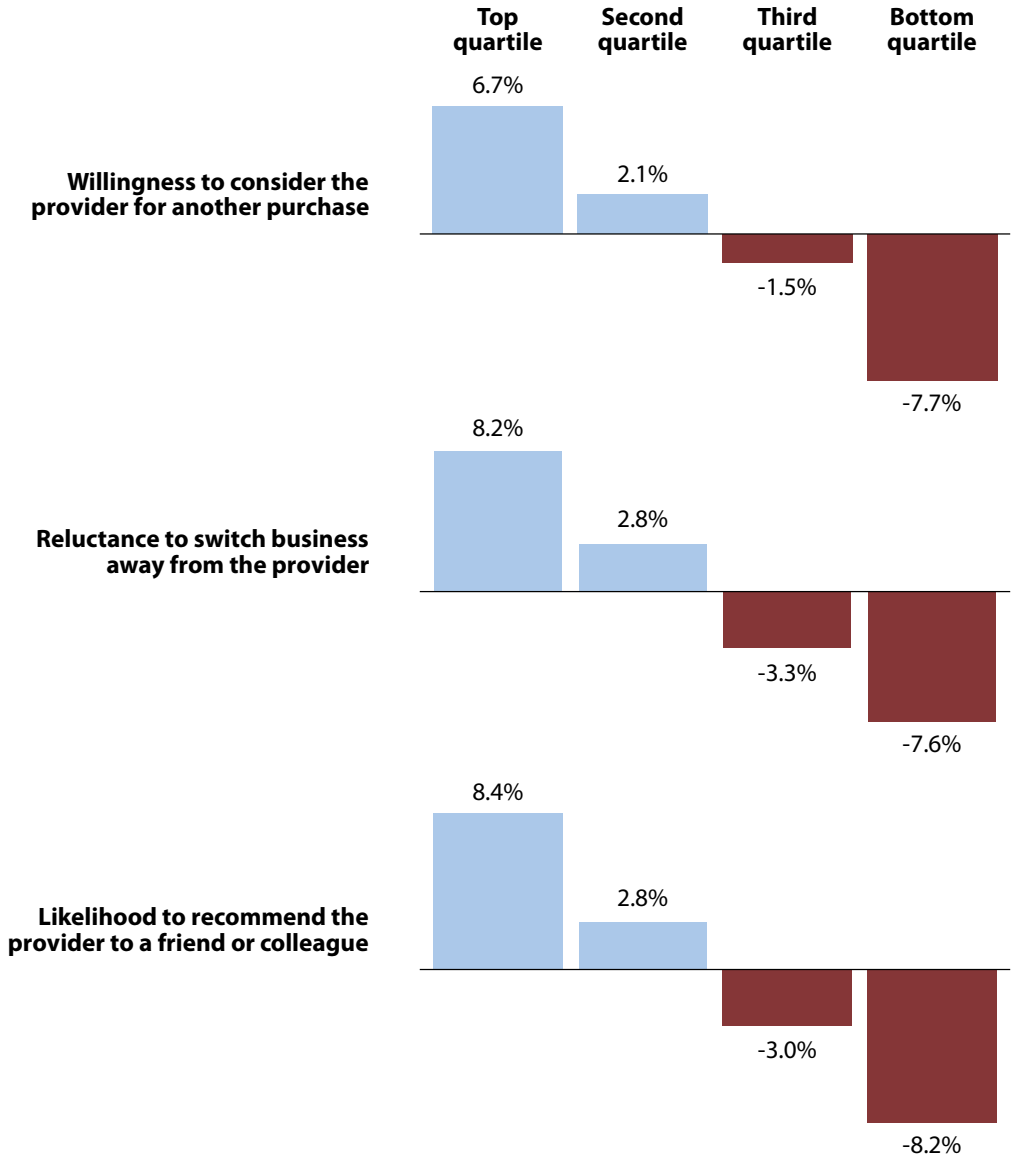
Figure 3 Loyalty Levels Based On Customer Experience Index Ratings

Percentage of customers who are loyal compared with industry averages across three loyalty measures

Quartiles are based on companies' CxPi scores compared with their industry average.



Base: US online consumers

Source: North American Technographics® Customer Experience Online Survey, Q4 2008

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QUALITY CUSTOMER EXPERIENCE GENERATES UP TO $311 MILLION PER YEAR

While it's clear that customer experience creates more loyalty, what does that mean to a company's bottom line? To answer this question, we built a model that estimates the revenue impact of this increase in loyalty. As a first step, we did a regression analysis that identified the slope of the line that connects customer experience with loyalty (see Figure 4-1).[4] The results highlighted that customer experience has the largest impact on (see Figure 4-2):

- **Willingness to repurchase from banks and hotels.** The slope of the line that connects customer experience and customers' willingness to repurchase is steepest for banks and hotels (.309). At the other end of the spectrum, the impact of customer experience on this area of loyalty is lowest for health plans (.229) and retailers (.250).

- **Reluctance to switch from banks and hotels.** As with repurchasing, the number of customers who are reluctant to switch providers increases the most with customer experience for banks and hotels (.259). The slopes of these lines for health plans (.165) and PC manufacturers (.211) are the lowest for any area of loyalty.

- **Likelihood to recommend banks and TV service providers.** The steepest slope we found was that of the line between customer experience and the likelihood to recommend a bank (.316). Next on the list was TV service providers (.309). PC manufacturers (.274) and health plans (.277) had the lowest slopes in this category.

Large Firms Can Gain $177 Million To $311 Million Per Year

Using the connection between customer experience and these three areas of loyalty, Forrester created a model that estimates the annual revenue change for a large company associated with a modest 10-percentage-point swing in the CxPi in 12 industries (see Figure 5). This change in customer experience results in:

- **Up to $311 million per year.** The annual revenue associated with this swing in customer experience is the highest for hotels at $311 million. For all of the remaining industries except health plans, the change is more than $260 million per year on a base of $10 billion in revenues.

- **Banks and hotels getting the most from their existing customers.** When it comes to both the additional purchases and the reduction in churn that result from a better customer experience, banks and hotels lead the pack. Adding together both of these areas, firms in these industries can generate more than $206 million per year from their existing customers.

- **Airlines getting the most from word of mouth.** Customers often tell other people about their experiences, which can influence those other consumers' decisions.[5] This word-of-mouth dynamic is most significant for airlines, where it represents more than $118 million per year. Next on the list are wireless carriers, which can gain $111 million from these recommendations.

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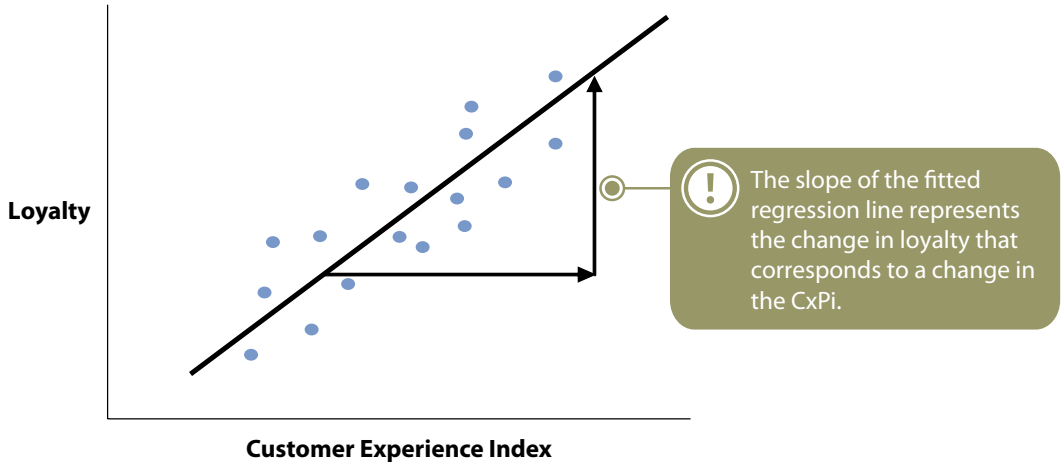
Figure 4 The Connection Between Customer Experience And Loyalty

4-1 We did a regression analysis between customer experience and loyalty



4-2 Customer experience-loyalty slopes across industries

Slope of the regression line that is fitted between the CxPi and three measures of loyalty for each industry

Largest slope Smallest slope

	Willingness to consider the provider for another purchase	Reluctance to switch business away from the provider	Likelihood to recommend the provider to a friend or colleague
Airlines	0.257	0.222	0.295
Banks	0.309	0.259	0.316
Credit card providers	0.303	0.250	0.303
Health plans	0.229	0.165	0.277
Hotels	0.309	0.259	0.304
Insurance providers	0.289	0.251	0.301
Internet service providers	0.281	0.230	0.304
Investment firms	0.287	0.227	0.295
PC manufacturers	0.269	0.211	0.274
Retailers	0.250	0.220	0.285
TV service providers	0.291	0.240	0.309
Wireless carriers	0.288	0.243	0.307

Base: US online consumers

Source: North American Technographics® Customer Experience Online Survey, Q4 2008

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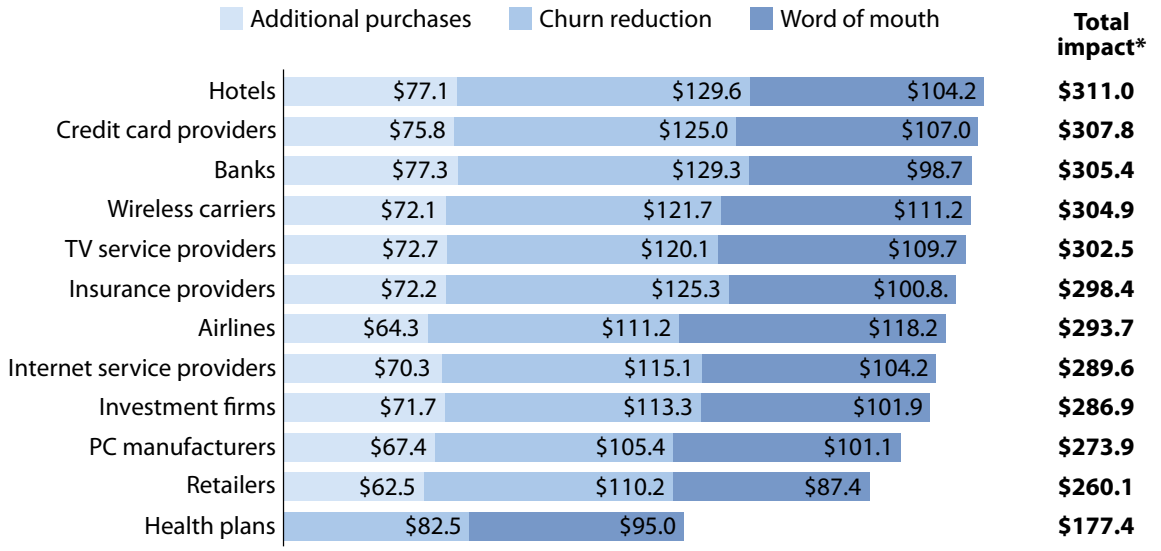
Figure 5 Customer Experience Generates Revenue

5-1 Inputs to the Customer Experience Impact Model

	Number of customers	Average basic relationship	Average additional purchases	Average number of people whom consumers told about a bad experience over the past 90 days	Percentage of people whose purchases are influenced by what they hear
Airlines	10 million	$500	$500	5.6	2%
Banks	10 million	$500	$500	4.3	2%
Credit card providers	10 million	$500	$500	4.9	2%
Health plans	10 million	$1,000	N/A*	4.8	2%
Hotels	10 million	$500	$500	4.8	2%
Insurance providers	10 million	$500	$500	4.7	2%
Internet service providers	10 million	$500	$500	4.8	2%
Investment firms	10 million	$500	$500	4.8	2%
PC manufacturers	10 million	$500	$500	5.1	2%
Retailers	10 million	$500	$500	4.3	2%
TV service providers	10 million	$500	$500	4.9	2%
Wireless carriers	10 million	$500	$500	5.0	2%

*All of the revenues for a health plan were assumed to come from base relationships, without any additional purchases.

5-2 Revenue impact from a 10-percentage-point swing in Customer Experience Index



Base: US online consumers

Source: North American Technographics® Customer Experience Online Survey, Q4 2008
*The total impact may vary due to rounding.

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RECOMMENDATIONS

BUILD YOUR OWN CUSTOMER EXPERIENCE BUSINESS CASE

While Forrester's projections estimate the economic impact of customer experience across 12 industries, companies need to develop their own models that more closely reflect their own businesses. To improve the chance of success for these efforts, make sure to focus on the content, organization, and style of the business case.[6] Here are some other things to keep in mind:

- **Get the CFO on board.** No matter how good your analysis is, it will not go far if the CFO hasn't bought into the process. Rather than trying to sell the finance department staff on your numbers, enlist them in the effort from the beginning.
- **Define a key metric.** To understand the value of customer experience to your business, you need to identify some metric that you can track, like Forrester's CxPi, customer satisfaction, or Net Promoter. Once this metric is identified, companies can estimate the value of an increase in this metric.
- **Analyze customer segments.** The impact of customer experience will likely be different for different segments of your customers. Make sure that your analysis is granular enough to look at the value of customer experience by customer segment.
- **Sell the results.** While you might come up with a compelling business case for improving customer experience, it will not serve any purpose unless stakeholders see it and believe it. You should plan on actively "selling" the findings. That's why it's important to develop a compelling presentation.[7]

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SUPPLEMENTAL MATERIAL

Methodology

The model for estimating the change in revenue is based on the following inputs:

- **A simple description of $10 billion in revenues.** We assumed that firms have 10 million customers who, on average, spend $500 per year on a base relationship and $500 per year on additional purchases. The only exception was for health plans, where we assumed that all of their revenues come from base relationships, without any additional purchases.

- **The slope of the fitted line between customer experience and loyalty.** Using a regression analysis, we identified the amount of change in loyalty based on the change in customer experience for three areas of loyalty. We developed this data for each of the 12 industries.

- **The percentage of people who do what they say they'll do.** We assumed that only a portion of the people who say they will buy more, won't switch, and will recommend the company actually end up following through.

- **The number of people whom consumers tell told about an experience.** In a recent research report, we asked consumers how often they told other people about both good and bad experiences across 12 industries.[8] These estimates only account for direct communications between the customer and other people and do not account for more broadcast types of social media communications like blog posts, feedback on rating sites, and YouTube videos.

- **The number of people influenced by a recommendation.** We assumed that only a small portion of the people who are told about an experience (good or bad) change their behavior based on that information.

ENDNOTES

[1] Forrester asked 4,564 consumers about their interactions with a variety of companies, gauging the usefulness, usability, and enjoyability of those experiences. Based on these consumer responses, we calculated the CxPi for 113 firms in 12 different industries. Barnes & Noble and USAA topped the rankings, while Charter Communications and Medicaid came in at the bottom. Only 11% of the firms wound up with "excellent" ratings — and 38% were "poor" or "very poor." See the December 12, 2008, "The Customer Experience Index, 2008" report.

[2] Using data from nearly 4,700 consumer surveys, Forrester examined the correlation between the customer experiences delivered by more than 100 US firms and the loyalty of their customers. Our analysis shows that good customer experience correlates to consumers' willingness to repurchase, reluctance to switch, and likelihood to recommend firms across all 12 industries we examined. TV service providers, as an industry, had the strongest correlation across all three loyalty measures. Office Depot had the highest correlation

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between customer experience and repurchase plans, while US Airways had the highest correlation between customer experience and reluctance to switch. When we compared the data with our analysis from last year, the correlation between customer experience and loyalty increased in every industry. See the February 17, 2009, "Customer Experience Correlates To Loyalty" report.

[3] We subtracted each firm's CxPi from the average CxPi for its industry. The firms were arranged in order based on this gap and then segmented into four quartiles based on these rankings.

[4] Forrester ran a regression analysis between the customer experience ratings by consumers and their loyalty to those firms across three dimensions: willingness to repurchase, reluctance to switch, and likelihood to recommend. This analysis identified the line that best fit the individual data points. The slope of each line represents how much a change in customer experience results in a change in loyalty.

[5] Forrester asked more than 4,500 consumers how often they talk about experiences with companies in 12 industries. It turns out that more consumers talk about good experiences than bad experiences with eight of the industries. Retailers and banks have the most consumers saying good things about them, and TV service providers have the most consumers saying bad things. While more consumers are sharing positive feelings, consumers tell more people about a bad experience than they tell about a good experience. This negative bias is worst for airlines. As it turns out, Gen Xers and Older Boomers share news about a negative experience most frequently. See the May 28, 2009, "How Customer Experience Drives Word Of Mouth" report.

[6] To help customer experience professionals deliver compelling business cases, Forrester has created the Business Case Review Checklist For Customer Experience Professionals. This checklist should be used by business case authors to validate that their work has the content executives are looking for, organizes that content so that it tells a powerful story, and presents the argument in a way that is both easy to consume and engaging for the audience. See the August 18, 2008, "Bulletproof Your Business Case For Improving Customer Experience" report.

[7] With competition for funding tighter than ever, lack of budget is a major roadblock to many customer experience improvements in 2009. Customer experience professionals need to make their business cases stand out from the crowd. This means crafting a compelling argument and delivering that argument in a way that grabs the attention of decision-makers. Customer experience professionals can deliver business case presentations that wow by following five best practices: telling stories, using the element of surprise, bringing numbers to life with meaningful analogies, framing benefits as losses avoided, and encouraging audience participation. See the May 1, 2009, "Five Ways To Turn Business Case Presentations From Boring Into "Wow!"" report.

[8] Forrester asked more than 4,500 consumers how often they talk about experiences with companies in 12 industries. See the May 28, 2009, "How Customer Experience Drives Word Of Mouth" report.

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Forrester Research, Inc.
400 Technology Square
Cambridge, MA 02139 USA
Tel: +1 617.613.6000
Fax: +1 617.613.5000
Email: forrester@forrester.com
Nasdaq symbol: FORR
www.forrester.com

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