

For: Customer
Experience
Professionals

The Business Impact Of Customer Experience, 2014

by Maxie Schmidt-Subramanian, March 27, 2014

KEY TAKEAWAYS

Customer Experience Correlates To Loyalty

Forrester once again found a high correlation between customer experience and consumers' loyalty to a company. Firms with high Customer Experience Index (CXi) scores have more customers who purchase again, don't switch to competitors, and recommend the company.

Better Customer Experience Can Mean Millions In Revenue

Our models show that the loyalty-based revenue benefit for a firm going from a below-average CXi score for its industry to an above-average score for its industry ranged from a low of \$55 million for consumer Internet service providers to a high of \$1.6 billion for wireless providers.

Companies Can Only Reap Rewards By Constantly Improving Their Customer Experience

Laggard firms have a huge potential reward for improving their CX. But even CX leaders can't afford to coast. They'll need to move up the path to customer experience maturity if they want to maintain a competitive edge in an era of rapidly improving experiences.



The Business Impact Of Customer Experience, 2014

Business Case: The Customer Experience Maturity Playbook

by [Maxie Schmidt-Subramanian](#)

with [Harley Manning](#), Colin Campbell, and Dylan Czarnecki

WHY READ THIS REPORT

Years of Forrester data confirm the strong relationship between the quality of a firm's customer experience (CX) and customer loyalty. We built three simple models to estimate the impact that customer experience has on three loyalty measures: willingness to consider the company for another purchase, likelihood to switch business, and likelihood to recommend. This report shows the results that our models predict for 13 industries. CX professionals should use the interactive versions of those models to explore a range of benefit scenarios tailored to their company's unique situation, which will help prove their business case and win the funding needed to move their organizations along the path to customer experience maturity.

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As part of an online survey in Q4 2013, Forrester asked 7,538 US consumers about their interactions with 175 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

[Executive Q&A: Forrester's Customer Experience Index](#)

February 18, 2014

[The Customer Experience Index, 2014](#)

January 21, 2014



HOW CUSTOMER EXPERIENCE DRIVES REVENUE

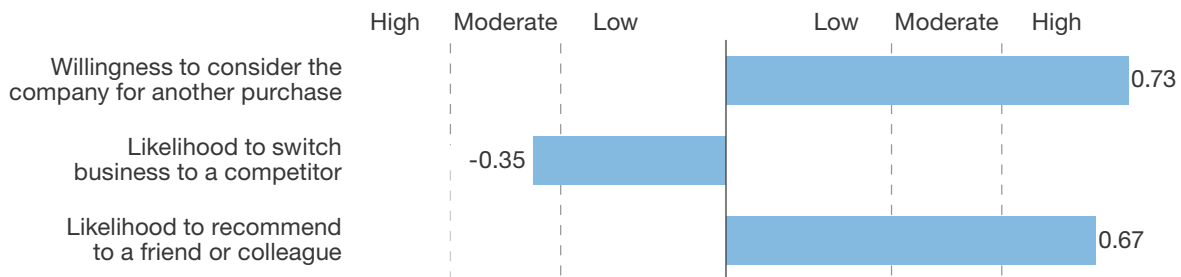
Why and how does the quality of customer experience increase revenue? To help answer this question, we drew upon data from the survey we use to produce our annual Customer Experience Index (CXi) report. That survey not only measures the quality of customer experience but also captures insight into consumer loyalty.

As In Past Years, Our Research Shows That Customer Experience Correlates To Loyalty

We examined the statistical relationship between how consumers rate their customer experience with companies and their willingness to consider a company for another purchase, likelihood to switch business to a competitor, and likelihood to recommend it to a friend or colleague. Our research and analysis shows that:

- **Customer experience is highly correlated to future business.** We found a high correlation between how consumers rate their experience with a company and their willingness to buy from the company again, up very slightly from 2013 (see Figure 1). This correlation means that the higher the quality of a firm's customer experience, the more likely it is to get incremental purchases from its customers.¹
- **Customer experience has a moderate inverse correlation to customer defection.** This inverse correlation means that the higher the quality of a firm's customer experience, the *less* likely it is to lose sales to competitors. We found that the inverse correlation between a brand's customer experience and customers' likelihood to switch business to competitors decreased slightly, compared with 2013, going from -0.42 to -0.35.
- **Customer experience is highly correlated to positive word of mouth.** We found a strong correlation between how consumers rate their experience with a company and their likelihood to recommend that company to a friend or colleague, also up very slightly from 2013. This correlation means that the higher the quality of a firm's customer experience, the more likely it is to get positive mentions from its customers.

Figure 1 Correlation Between Customer Experience 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 2013 (US)

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Source: Forrester Research, Inc.

But This Year, We Also Found Three New And Important Developments

Churn reduction and incremental purchases are still the biggest drivers of loyalty-based revenue growth, but their impact has decreased, compared with 2013. At the same time, the potential upside of word-of-mouth revenue has increased year over year. There are three trends behind these changes:

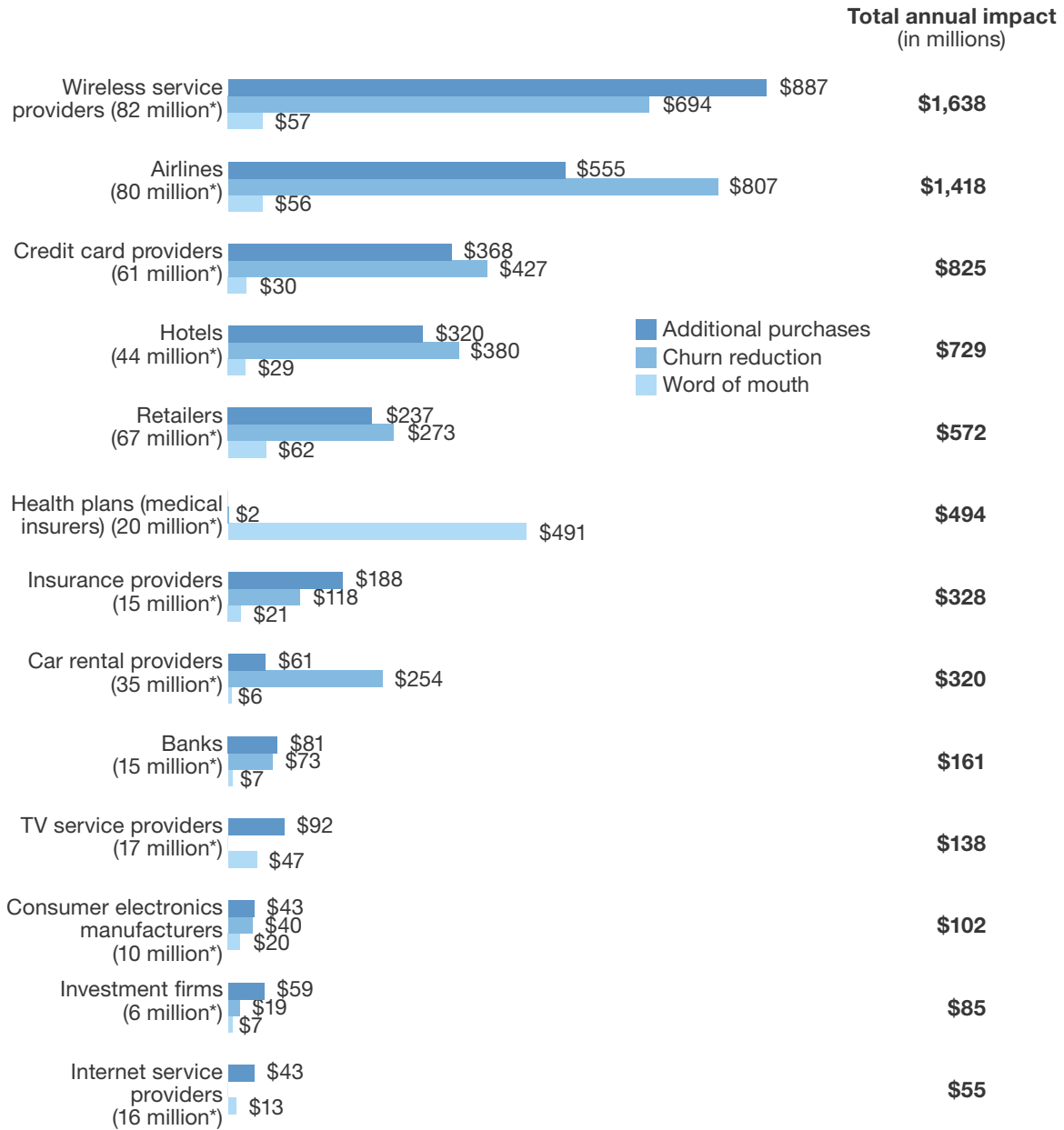
- **CXi scores trended upward and converged.** This year, CXi scores shot up, with the biggest movers coming from the most lagging industries.² This contributed to another change: Scores converged around the average for some industries, which results in fewer differences between companies at the bottom of the range and companies at the top of the range. As a consequence, companies will gain less advantage by just moving from below-average customer experience to above-average customer experience. Among the industries most affected by this trend are wireless providers and airlines.³
- **Purchase intent also converged.** We also found that the difference between the purchase intent of customers of companies with above-average CXi scores and the purchase intent of customers for companies with below-average CXi scores was not as great as in past years.⁴ As a result, companies with above-average CXi scores will not enjoy as much of an advantage over companies with low CXi scores when it comes to incremental sales of products and services.
- **More consumers told more people about their experiences.** Compared with 2013, the number of people who said that they recommended a company to at least one other person increased slightly in nearly every industry.⁵ Additionally, the number of other people whom each of those consumers made recommendations *to* grew considerably in every industry, creating a multiplier effect.⁶ The impact from the resulting increase in the number of people who received recommendations is highest for health insurance providers, followed by wireless service providers and credit card providers.⁷

BETTER CUSTOMER EXPERIENCE CAN DELIVER MILLIONS IN ANNUAL REVENUE

We built three models of the loyalty-based growth resulting from increasing customer experience from below-average to above-average. The models show revenue effects in three categories (see Figure 2):

- **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 that they are willing to buy from them again.⁸ Even if only a fraction of those customers do make another purchase in the same year, the revenue benefit can range from a low of \$43 million for Internet service providers to more than \$880 million 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 in most industries. This year, TV service providers and Internet service providers proved exceptions to this rule. Their customers' propensity to change providers was the same whether the companies have an above- or below-average customer experience. Therefore, the model shows zero incremental retained revenue for these types of firms. In contrast, the model shows that retained revenue ranges up to \$807 million for airlines, where a large number of customers drive 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. We combined this with Forrester data about recommendation behavior and found that a firm can see incremental sales from positive word of mouth that range from \$6 million for car rental providers to \$491 million for health insurance providers.

Figure 2 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 2013 (US)
 *Average number of customers per company in each industry, based on internal and external Forrester research

Airlines And Wireless Providers Have The Most To Gain

While the revenue benefits of 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 \$1.6 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 \$1.6 billion in total revenue benefit. Given the relatively low average industry rating in Forrester's CXi — a 71, which falls in the "OK" category — wireless providers have significant opportunity to improve their customer experience and reap these benefits.⁹
- **Airlines stand to gain more than \$1.4 billion in revenue.** In 2013, we noted that airlines are unlikely to improve their customer experience enough to realize significant revenue benefits because they earn so much from baggage and change fees — which inherently create a poor experience.¹⁰ This year, however, Delta Air Lines proved us wrong by raising its score 13 points, making it a close second to industry CX leader Southwest Airlines.¹¹ This means that the potential benefit for companies in this industry is far more attainable than we originally predicted.

Retailers And Health Insurance Have Much More To Gain Than In Previous Years

Among the 13 industries in our model, two stand out because the revenue impact of loyalty increased substantially, compared with 2013:¹²

- **Retailers stand to reap \$572 million in benefits — up 152% from 2013.** Although revenue potential increased for all three loyalty categories, the highest improvement came from reducing churn, followed by incremental purchases. That's because retailers bucked the overall trend of converged scores and still show a wide variation between the highest- and lowest-scoring companies: The lowest-scoring company, RadioShack with a CXi score of 65, is a full 25 points lower than Old Navy, which emerged as a new leader in Forrester's CXi with a score of 90.¹³
- **Health insurance providers' revenue potential is \$494 million — up 61% from 2013.** This change stems mostly from word of mouth.¹⁴ The share of people that recommend their health insurance provider after a good experience rose to 67% from 63% in 2013. And the number of people they recommended their health insurance provider to rose to 3.9 from 2.7 in 2013. That means that consumers talk to others about their health insurance experience as much as customers of retailers talk about their shopping experience. In most years, that would seem unbelievable. However, with the changes brought about by the Affordable Care Act dominating the political debate during 2013, when our CXi survey was in the field, it's not hard to understand.

RECOMMENDATIONS

BUILD THE CASE FOR INVESTING IN CUSTOMER EXPERIENCE IMPROVEMENTS

Given the upward trend in CXi scores, the stakes are high:

- **Laggards and leaders should both plan to advance along the path to CX maturity.** If your company's score lags behind your industry's average CXi score, you are putting significant revenue at risk. With a sense of urgency, assess where your firm is on the path to customer experience maturity and start moving up the path.¹⁵ Companies with an above-average customer experience can't afford to stand still, either. Those firms cannot count on customer loyalty because, increasingly, other players in the same industry are not only fixing their broken experiences but also creating experiences that match or exceed those of the leaders.
- **To get buy-in for your efforts, build your own model to prove the financial impact of CX.** Our simple models capture the relationship between customer experience and loyalty and reflect the potential benefits for the largest companies in each industry. You can and should customize these models and estimate the upside for your firm. A customizable Excel spreadsheet version of the model in Figure 2 is available online. Update the assumptions to reflect your 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. However, our past research has shown that better customer experience not only leads to increased growth but also saves companies millions of dollars in unnecessary sales and service costs.¹⁶ That's why you should also include cost savings in your model to complete the picture.

SUPPLEMENTAL MATERIAL

Online Resource

The online version of Figure 2 is an interactive tool to estimate the change in revenue from an increase in CXi scores across 13 industries. Clients can download the figure as an Excel spreadsheet. They can then 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. In 2013, 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 just a few large companies. This change better reflects the true opportunity from improving customer experience. Companies with fewer customers can use the interactive Excel spreadsheet version of Figure 2 online to calculate their revenue upside. We also assumed the average revenue from each customer based on data from 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.
- **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, switch business away to a competitor, and recommend the company end up following through.

Forrester conducted the North American Technographics Customer Experience Online Survey, Q4 2013 (US), fielded in October 2013 of 7,538 US individuals ages 18 to 88. For results based on a randomly chosen sample of this size (N = 7,538), 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 7,522. (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.

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 inverted.

² Customer experience professionals should use this report to understand their competitive environment and set goals for optimizing their customer experience management practices. See the January 21, 2014, "[The Customer Experience Index, 2014](#)" report.

³ In the 2013 CXi, the average CXi score for the wireless industry was 65 (with a spread of 22 points between the low of 55 and the high of 77). In 2014, the average CXi score for the wireless industry was 71 (with a spread of only 12 points between the low of 62 and the high of 74). For airlines, the 2013 CXi industry average was 67 (with a spread of 27 points between the low of 54 and the high of 81), while in 2014, the industry average was 73 (with a spread of 14 points between the low of 67 and the high of 81). Source: North American Technographics Customer Experience Online Survey, Q4 2013 (US); North American Technographics Customer Experience Online Survey, Q4 2012 (US).

⁴ For example for hotels, the purchase intent for customers of companies with above-average CXi scores was 83%. That only dropped to 79% for customers of companies with below-average CXi scores — a spread of only four percentage points. In 2013, that spread was 11 percentage points. Source: North American Technographics Customer Experience Online Survey, Q4 2013 (US); North American Technographics Customer Experience Online Survey, Q4 2012 (US).

⁵ For example, for banks, it changed to 67% in 2014 from 60% in 2013. And for airlines it went to 79% in 2014 from 75% in 2013. Source: North American Technographics Customer Experience Online Survey, Q4 2013 (US); North American Technographics Customer Experience Online Survey, Q4 2012 (US).

⁶ For wireless service providers, the number of people whom consumers talk to after having a good experience rose to 4.3 (2014) from 3.3 (2013). And for car rentals, it increased to 4.2 (2014) from 3.4 (2013). Source: North American Technographics Customer Experience Online Survey, Q4 2013 (US); North American Technographics Customer Experience Online Survey, Q4 2012 (US).

⁷ We used the percentage increase from 2013 to 2014 for the number of people told to determine the industries affected most.

- ⁸ 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.
- ⁹ For more information on Forrester's Customer Experience Index and the 2014 results, see the January 21, 2014, "[The Customer Experience Index, 2014](#)" report.
- ¹⁰ In the first nine months of 2013 alone, revenue from those fees topped a whopping \$4 billion in total for the top 26 airlines. Source: "Scheduled Passenger Airlines Report Larger Net Profit in 3rd-Quarter of 2013," US Department of Transportation Research and Innovative Technology Administration (RITA) press release, December 16, 2013 (http://www.rita.dot.gov/bts/press_releases/bts058_13); "Largest Airlines Report Larger Net Profit in 2nd-Quarter of 2013," US Department of Transportation Research and Innovative Technology Administration (RITA) press release, September 30, 2013 (http://www.rita.dot.gov/bts/press_releases/bts045_13); and "Largest Airlines Report Smaller Net Loss in 1st Quarter of 2013," US Department of Transportation Research and Innovative Technology Administration (RITA) press release, June 27, 2013 (http://www.rita.dot.gov/bts/press_releases/bts031_13).
- ¹¹ Delta Air Lines, United Airlines, and US Airways all saw an increase of 13 percentage points in the 2014 Customer Experience Index. See the January 21, 2014, "[The Customer Experience Index, 2014](#)" report.
- ¹² Insurance providers stand to gain \$328 million — up 25% from last year. Additional purchases contribute the biggest share in the overall loyalty number, and there, insurance companies can also see most of the uptick year over year. The second biggest increase is for word of mouth. And consumer electronics manufacturers can gain \$102 million — up 17% from last year. Also here, additional purchases contribute the biggest share in the overall loyalty number, but most of the increase this year comes from higher word-of-mouth revenue, followed by churn prevention.
- ¹³ In 2014, there were several companies that made big moves in the Customer Experience Index. See the January 21, 2014, "[The Customer Experience Index, 2014](#)" report.
- ¹⁴ For health insurance providers, Forrester set the value of incremental purchase revenue to zero since the concept of an "incremental purchase" in a given year doesn't apply.
- ¹⁵ Forrester's customer experience maturity framework outlines the 40 essential practices companies must perform in order to design, implement, and manage customer experience in a disciplined way. See the June 27, 2013, "[The Path To Customer Experience Maturity](#)" report, and see the June 18, 2012, "[Customer Experience Maturity Assessment](#)" report.
- ¹⁶ 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.

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