JACQUETTE
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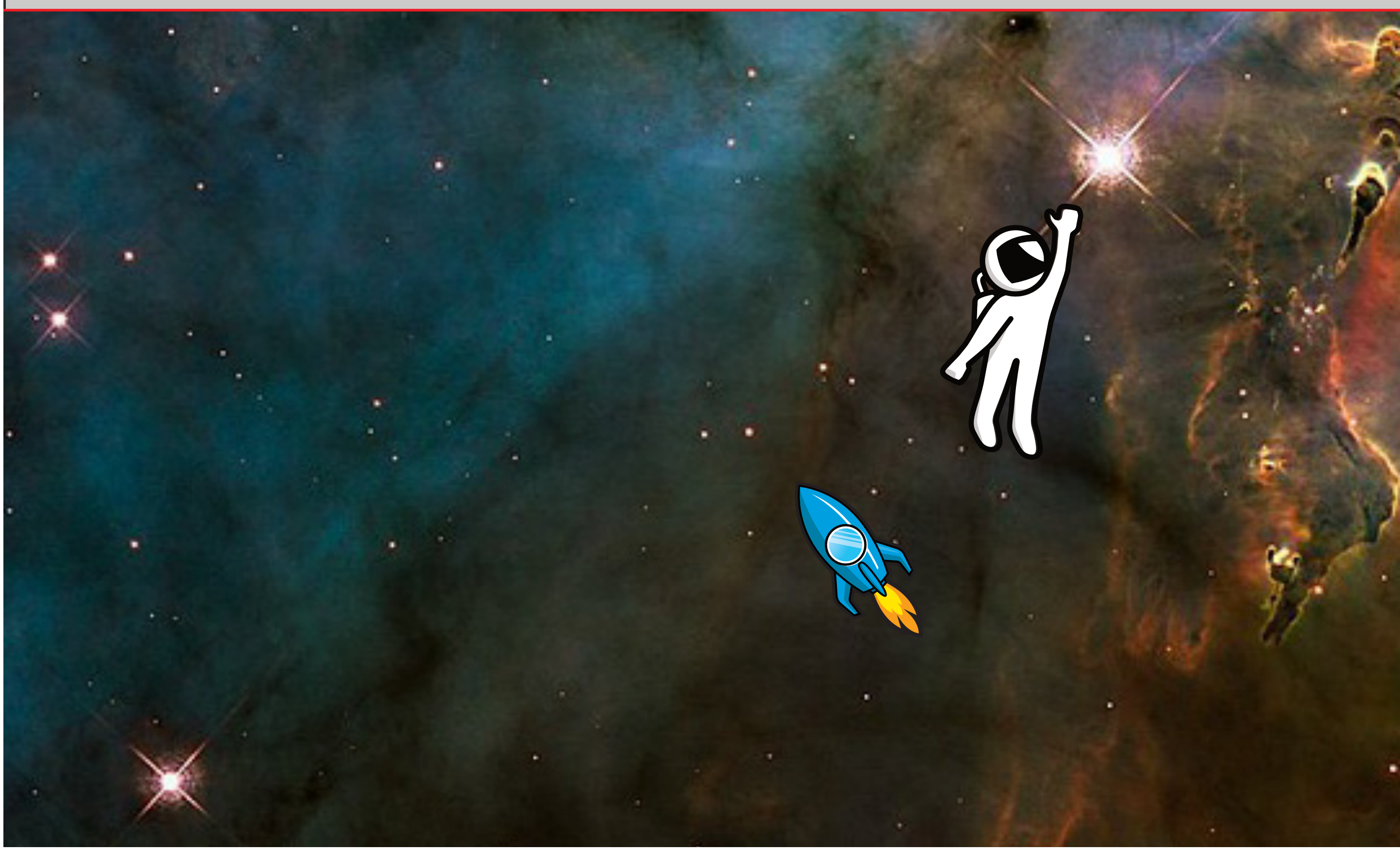
MORE THAN A FAD: THE BUSINESS CASE FOR CUSTOMER EXPERIENCE



Customer experience is a hot topic. After a decades-long slow burn under the guise of customer service, customer experience design seems to have appeared out of nowhere. Every management consultancy, marketing firm, and software vendor talks about customer experience (and its less formal moniker, CX).

But is this a fundamental shift in business, or just another short-lived fad? While 73% of companies with the most positive CX impact understand the link between customer experience and business results, only 35% of companies with the least positive CX impact claim the same. How do we show the rest of the world that the impact of positive CX is real?

Fear not, true believers: the data is out there, and it shows that customer experience design is much more than a fad. Customer experience leaders consistently outperform customer experience laggards.

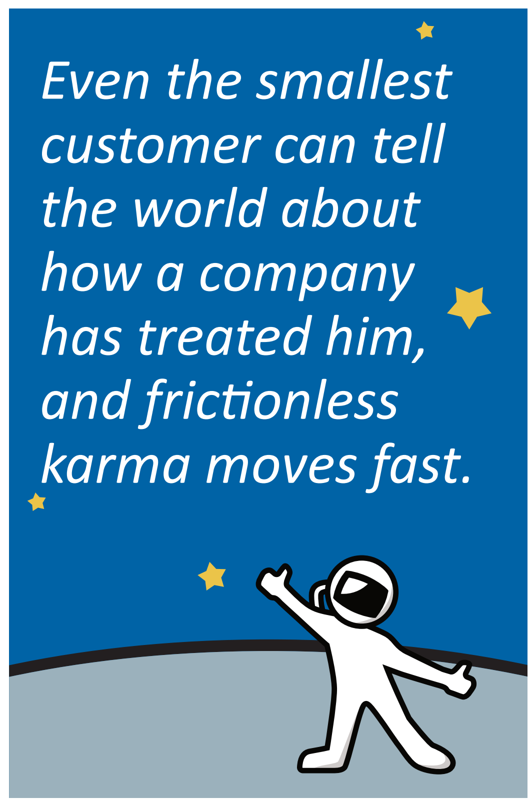
Figure 1 - Google searches for "customer experience" March 2012 to March 2017

FRICTIONLESS KARMA AND THE RISE OF THE CUSTOMER

The idea of customer experience is not a new one. For decades, organizations have talked about customer service, customer touchpoints, and being customer-centric. So why has the term "customer experience" become more prevalent, and why is the topic getting so much attention?

The answer is simple: the Internet happened. The Internet, the World Wide Web, the ubiquitous smartphone, and social media combined to change the way that customers interact with companies and vice versa. An unhappy customer now has a free, global platform to express her delight or displeasure, a phenomenon that Seth Godin describes as "frictionless karma."

Companies used to control the conversation through their sales and marketing efforts, but now the one-way lecture became a two-way dialog. Even the smallest customer can tell the world about how a company has treated him, and frictionless karma moves fast. *Very* fast. Customers gained the upper hand. An old truth repackaged as a new realization has dawned upon the companies: making your customers happy is the only real path to lasting success.



Customer experience is shorthand for all of the things that go into making a customer happy. In a small company, that experience may come directly from the way the founders treat the customers. In a larger organization, customer experience is the result of a carefully designed series of systems and processes. It's not an art, it's a science.

Customer experience is important; it's the next great battleground for businesses. Companies are talking about it because it's the only way to survive and thrive.

THE SIZE OF THE PROBLEM

CX is broad and deep. It's broad because it permeates every function in a company. Every single person in an organization should be, directly or indirectly, creating a better outcome for that organization's customers.

It's deep because it requires vision and time to dramatically change how an organization thinks about and behaves towards its customers. It's often hard to isolate the individual pieces that go into an improved customer experience and say "this one change resulted in this many dollars of increased revenue." Instead, many small changes add up to a dramatic improvement in results. Customer experience is not a magic bullet, a quick fix that launches a company to the top of its market. Instead, it is a mindset coupled with discipline over time.

Fortunately, many companies have been working on the problem of correlating customer experience design with quantifiable results like revenue, profitability, market share, and overall performance. The data is out there.

BITS AND PIECES: THE SUPPORTING DATA

Since outcomes-based, big-picture studies are hard to do, most practitioners of customer experience design fall back on studies of customer behavior. These studies have several advantages: they're fast, relatively inexpensive, and can use fairly large data sets of customers across companies and industries. The main disadvantage is that this sort of study shows behaviors and intermediate results, not the final outcomes that result from a company investing in customer experience design.

Nevertheless, these statistics are eye-opening, and they lay the groundwork for understanding customer behavior and how customer experience impacts a company's overall performance. The data comes from a diverse set of sources and touches on all industries.

CUSTOMER EXPERIENCE BY THE NUMBERS

5

Customers who rate you 5 on a scale from 1 to 5 are six times more likely to buy from you again, compared to "only" giving you a score of 4.8.[2]

62%

62% of global consumers switched service providers due to poor customer service experiences, up 4% from the previous year.[3]

4X

A customer is 4 times more likely to defect to a competitor if the problem is service-related than price- or product-related.[4]

91%

96% of unhappy customers don't complain, however 91% of those simply leave and never come back.[5]

6-7X

It costs 6–7 times more to acquire a new customer than to retain an existing one.[6]

86%

86% of buyers will pay more for a better customer experience, but only 1% of customers feel that vendors consistently meet their expectations.[7]

82%

82% of consumers say the number one factor that leads to a great customer service experience is having their issues resolved quickly.[8]

78%

78% of consumers have bailed on a transaction or not made an intended purchase because of a poor service experience.[9]

91%

91% of unhappy customers will not willingly do business with you again.[10]

74%

74% of consumers have spent more due to good customer service.[11]

3 out of 4

Three out of four consumers have spent more with a business due to a history of good customer service.[12]

WHY MEASURING CX OUTCOMES IS HARD

While the customer-side data is helpful, it doesn't directly demonstrate the company-level benefit that we're looking for. Sooner or later, most CEOs are going to want to know whether spending X dollars on customer experience will result in Y results, and Y had better be bigger than X.

No two companies are alike, so we can't set up a randomized trial where some nearly-identical companies invest in CX and others don't. Instead, we have to fall back on examining existing populations of companies and correlating their customer experience behavior with their financial results.

To make things even more challenging, most companies are privately held and don't typically share their financial performance. So how can we figure this out?

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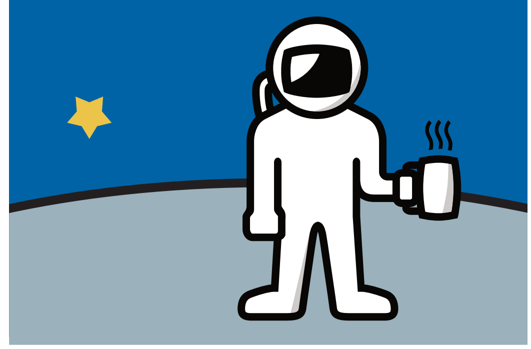


USING THE DATA WE HAVE

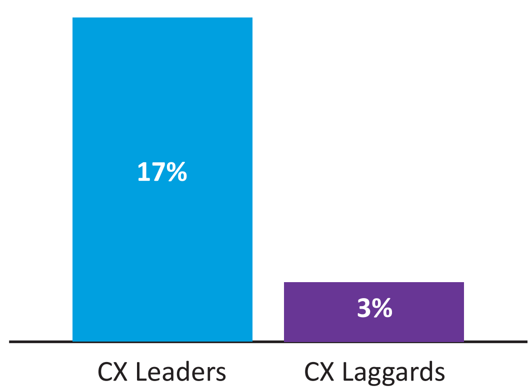
Fortunately, the business world is not completely opaque. Large, regulated, public companies in particular report their financial results both through press releases and regulatory filings. This has enabled various firms to perform solid analysis on the real impact of CX.

FORRESTER'S APPROACH AND RESULTS

Forrester is a research and analysis firm that has recently invested significant effort in understanding customer experience and how it impacts business. Among the tools in their toolbox is the CX Index, an assessment that evaluates the maturity of an organization's customer experience capability. In their study Customer Experience Drives Revenue Growth, 2016 they correlated the CX Index for leaders and laggards in several industry categories against compound annual growth rates (CAGR) for revenue over the five years ending in 2015.

The results were clear: **CX leaders dramatically outperformed CX laggards.** In fact, across all industries examined by Forrester, the leaders showed 15% CAGR over five years vs. 3% for the laggards. In some industries, like retail, the results were even more pronounced: CX leader Amazon showed 27.7% CAGR over five years vs. CX laggard Walmart's 2.1%.

Compound average revenue growth, 2010 to 2015



Keep in mind that these are large, publicly-traded companies, so sustaining a 15% annual growth rate for five years is dramatic. In several of the industries that Forrester examined, like airlines or cable television providers, consumer choice is fairly limited. It's no accident that the most dramatic CX benefit happens in industries where users have freedom of choice among vendors.

THE TEMKIN GROUP'S APPROACH AND RESULTS

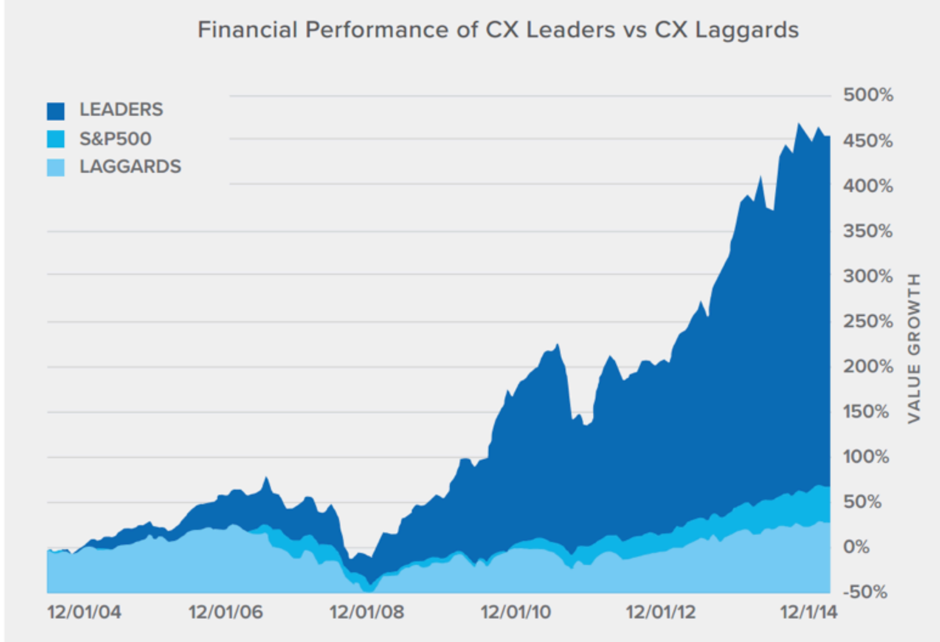
The Temkin Group is a boutique consultancy built around the work of Bruce Temkin, an early customer experience advocate (and Forrester alum). In their report *ROI of Customer Experience, 2016* they extrapolate the potential revenue gained by large companies with improved customer experience. They start by using the Temkin Experience Rating (TxR), an evaluation of companies based on feedback from 10,000 consumers. They then look at various customer behaviors that result from improved CX such as staying with the company (retained sales), expanded buying (new sales), willingness to buy new products, word-of-mouth marketing, and willingness to forgive vendor mistakes. They then allocate financial impact to each of those behaviors to determine the value of improved CX.

Their findings were similarly dramatic. According to the report, **a company with $1 billion in revenues and a modest improvement in customer experience would generate $820.7 million in additional revenue over three years.** For some industries, that number was as high as $966.9 million. That's an extra 27% of revenue each year. That's simply astonishing.

MEDALLIA'S ANALYSIS

Medallia is a company that develops and sells software to support customer experience. They performed an analysis on publicly traded companies showing return to shareholders over a ten year period. Like Forrester, they correlated the returns with the customer experience capabilities of each company; for this study, Medallia used the American Customer Satisfaction Index (ACSI). Medallia normalized ACSI scores within industries so that airlines wouldn't be compared to restaurants or cable providers.

Medallia's analysis shows that CX leaders consistently outperformed laggards from the beginning of the ten year period, even through the Great Recession of 2008. By the end of the ten year period, laggards returned an average of 30% to shareholders, whereas the leaders returned 450%, a **fifteen-to-one** difference.



SOURCE: Medallia Analysis. Leaders and laggards are defined using the American Customer Satisfaction Index

WHAT THE DATA SHOWS

Whereas the Forrester and Medallia reports looked back at public performance data, the Temkin report attempts to extrapolate future gains by putting together the pieces that result from improved customer experience. Both approaches show clear positive impacts across a wide range of industries, even in heavily regulated industries like airlines or cable television.

The data is imperfect. It focuses on the largest companies, and it focuses almost entirely on business-to-consumer companies. CX certainly creates a bigger impact when a company's customers have many choices, so B2B companies that have limited vendors, supplies, partners, or distributors may have to work harder to produce the same benefit.

However, all three reports rely on real data gathered about real companies. Two look back on real data, one extrapolates based on behaviors, but all three show an enormous benefit to customer experience design.

BEYOND THE HARD DATA: THE "SOFT" RESULTS OF CX

Successfully implementing a customer experience strategy has other benefits that are less obvious from the data.

To consistently and successfully deliver a great experience, companies must be well-aligned. Companies with unclear goals and unaligned employees are usually CX disasters. A CX program helps improve overall alignment.

Similarly, CX leaders must have strong, well-communicated employee cultures.

CX leaders frequently become category leaders within their markets. Apple, Amazon, Nordstrom, and Southwest have all become market leaders by delivering exceptional customer experience.

CX LEADERS AND CX LAGGARDS

Both the Forrester and Temkin reports note that industries with little consumer choice (e.g., utilities) derive less benefit from improved CX compared to industries with many consumer choices (e.g., restaurants.) This is also why Medallia identified leaders and laggards by industry. Nevertheless, there were clear advantages for CX leaders in every industry.

Every industry has its CX leaders and laggards. The leaders are constantly improving CX because they have a strong culture of improvement in this area, whereas the laggards are straggling far behind. Lagging behind quickly drives a vicious feedback loop: with less disposable revenue than your competitors, you invest less in CX, which means more customers flee for the CX leaders.

This loop has killed formerly well-known brands like Circuit City, Radio Shack, Borders, and Blockbuster. When companies go out of business, they typically blame costs or market conditions, but the market condition that kills them most is that all the customers chose other companies. After all, Best Buy and Barnes and Noble are still in business. The CX leaders are the ones that survive the most challenging market conditions.

Every industry has CX leaders and laggards. Which one are you?

SIGNS THAT A COMPANY NEEDS CX

Every company needs to invest in customer experience design and development, but for some organizations the need is more urgent. So how is an executive to know whether now is the time?

Companies that are in danger of slipping from the "CX leader" to "CX laggard" end of the scale show clear and obvious signs when you know where to look:

- Customers are more price-sensitive and unwilling to accept even modest price increases.
- The company's new customer acquisition rate has dropped off. Word-of-mouth referrals have dried up compared to the past.
- Customer churn has increased. While old customers may stay around, new customers don't.
- Employee churn has increased. A great culture is necessary to deliver a great experience, so employee engagement is a canary in the coal mine for CX.
- Revenues have flattened or begun to decline.
- Market share has flattened or begun to decline.

It's not unusual to blame external factors like market decline, changing consumer habits, or macroeconomic factors like recessions for these things. However, if your market is going one way and you're going the other, or if your competitors aren't struggling as hard as you are, you would most likely benefit from improving your CX.

NEXT STEPS: HOW TO IMPROVE YOUR ORGANIZATION'S CX

If you think your organization is heading towards the CX laggard end of the scale, it's not too late. Even modest improvements in CX can have dramatic positive benefits on the bottom line.

Fortunately, improving customer experience doesn't have to involve a massive rebuilding of the business all at once. At Jacquette Consulting, we've developed a systematic approach to evaluating and improving your organization's customer experience, and we do it one manageable and affordable step at a time.

To learn more, contact Jason Cavett, Vice President, at Jacquette Consulting.

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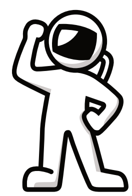

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