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## The Business Impact Of Customer Experience, 2010

What A Higher Customer Experience Index Score Can Do For Revenue

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### EXECUTIVE SUMMARY

To help customer experience professionals prove the business value of a better enterprise customer experience, we built simple models that show how revenue increases when a company's Customer Experience Index (CxPi) score goes up. Our models show that the benefits are significant across all 13 industries we looked at. Wireless carriers and hotels have the largest potential upside: more than \$1 billion. Customer experience professionals should use the interactive models in this report to estimate the range of benefits their firm might see. That data — combined with customers' verbatim comments and customer experience stories — will help customer experience leaders make a powerful case for change.

### BETTER CUSTOMER EXPERIENCE CAN BE WORTH MILLIONS IN ANNUAL REVENUE

Forrester's research shows that a better customer experience drives improvement for three types of customer loyalty: willingness to consider another purchase, likelihood to switch business to a competitor, and likelihood to recommend to a friend or colleague (see Figure 1). But how does that affect a company's bottom line? To answer this question, we built models that estimate the revenue impact of loyalty increases that happen when a company's CxPi score goes up 10 percentage points.<sup>1</sup> The model captures revenue benefits from three sources (see Figure 2 and see Figure 3):

- **Incremental purchases from existing customers in the same year.** When a company's score rises in Forrester's CxPi, the percentage of customers who are willing to purchase from it goes up, too. Even if only a fraction of those customers actually make another purchase in the same year, the effect on revenue can range from \$6 million for retailers to \$689 million for hotels.
- **Revenue saved by lower churn.** Firms that score higher in our CxPi have fewer customers who say that they're likely to take their business elsewhere. Even if a percentage of those at-risk customers still defect, the absolute number of customers lost decreases. As a result, our models show that revenue saved ranges from \$35 million for retailers to \$964 million for wireless carriers.
- **New sales driven by word of mouth.** Higher CxPi scores mean more customers who say that they're willing to recommend a firm. We combined the rate of change in that metric with data about the number of people consumers tell about good experiences. We found that companies can see incremental sales from people who go on to buy after hearing positive word of mouth, ranging from \$4 million for retailers to \$110 million for wireless carriers.

**Figure 1** Increase In Three Loyalty Measures With A 1-Point Increase In CxPi Score

	<b>Willingness to consider the provider for another purchase</b>	<b>Likelihood to switch business to another provider</b>	<b>Likelihood to recommend the provider to a friend or colleague</b>
Airlines	0.282	0.189	0.285
Banks	0.316	0.246	0.316
Credit card providers	0.307	0.242	0.302
Health plans (medical insurers)	0.118	0.146	0.272
Hotels	0.348	0.234	0.330
Insurance providers	0.299	0.231	0.299
Internet service providers	0.316	0.246	0.316
Investment firms	0.293	0.218	0.312
PC manufacturers	0.278	0.188	0.288
Retailers	0.102	0.196	0.282
Shippers	0.267	0.190	0.282
TV service providers	0.282	0.203	0.305
Wireless carriers	0.283	0.214	0.285

■ Smallest rate of change    ■ Largest rate of change

Base: US online consumers

Source: North American Technographics® Customer Experience Online Survey, Q4 2009 (US)

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Source: Forrester Research, Inc.

**Figure 2** Assumptions Used As Inputs For The Customer Experience Revenue Model


**2-1 Basic assumptions**

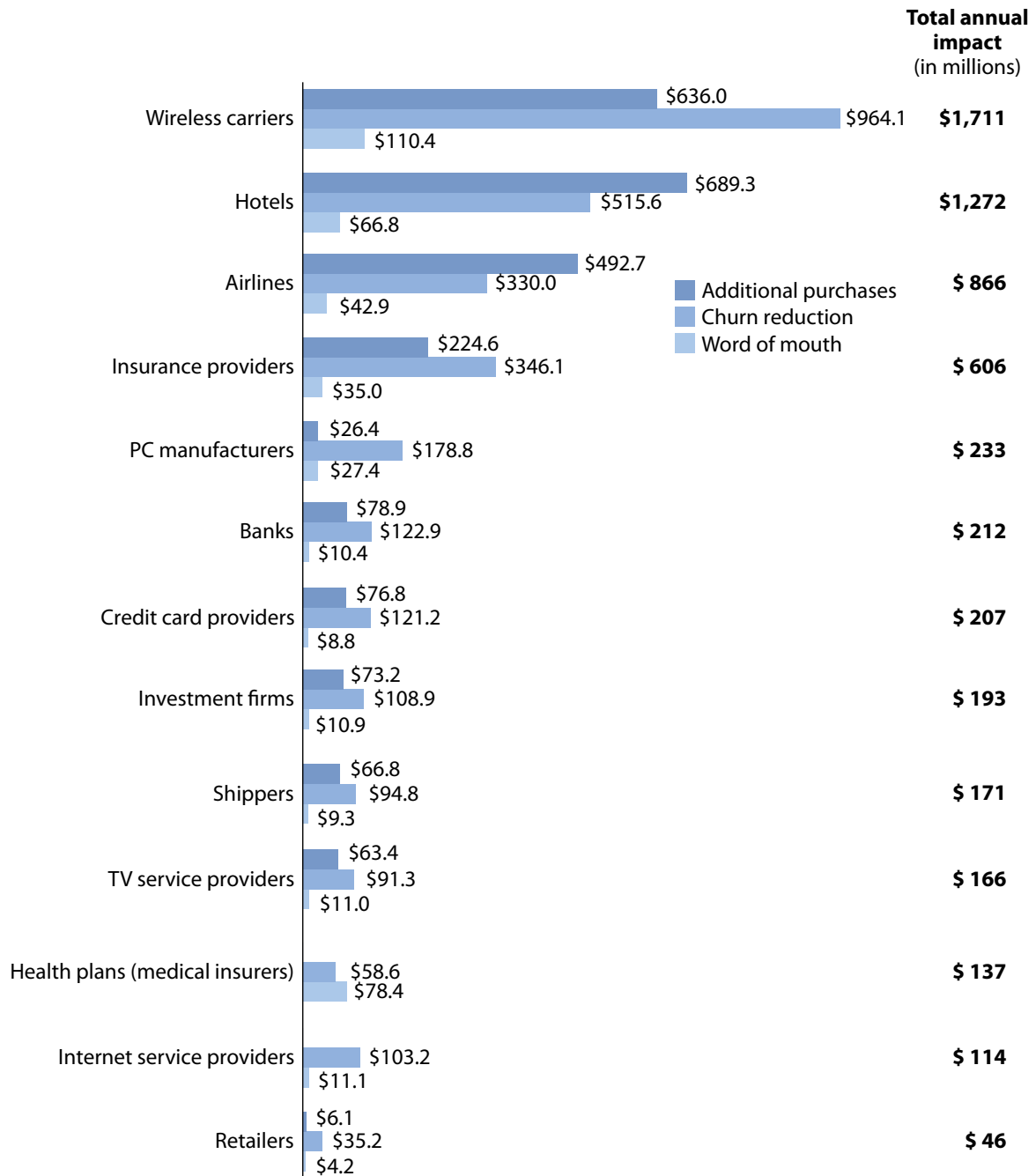
	<b>Number of customers (B2C)</b>	<b>Average basic annual relationship</b>	<b>Average incremental relationship</b>	<b>% of customers willing to purchase again who actually do</b>	<b>% of unhappy customers who actually switch business away</b>
Airlines	35 million	\$500	\$1,000	0.5%	1.0%
Banks	10 million	\$500	\$500	0.5%	1.0%
Credit card providers	10 million	\$500	\$500	0.5%	1.0%
Health plans (medical insurers)	4 million	\$10,000	\$0	0.0%	0.1%
Hotels	44 million	\$500	\$900	0.5%	1.0%
Insurance providers	15 million	\$1,000	\$1,000	0.5%	1.0%
Internet service providers	7 million	\$600	\$0	0.0%	1.0%
Investment firms	10 million	\$500	\$500	0.5%	1.0%
PC manufacturers	19 million	\$500	\$100	0.5%	1.0%
Retailers	4 million	\$450	\$300	0.5%	1.0%
Shippers	10 million	\$500	\$500	0.5%	1.0%
TV service providers	9 million	\$500	\$500	0.5%	1.0%
Wireless carriers	75 million	\$600	\$600	0.5%	1.0%

**2-2 Word-of-mouth assumptions**

	<b>% of customers willing to recommend who actually do</b>	<b>Average number of people told about a good experience over the past 90 days</b>	<b>% of consumers driven to buy by a recommendation</b>
Airlines	1%	4.3	2%
Banks	1%	3.3	2%
Credit card providers	1%	2.9	2%
Health plans (medical insurers)	1%	3.6	2%
Hotels	1%	4.6	2%
Insurance providers	1%	3.9	2%
Internet service providers	1%	4.2	2%
Investment firms	1%	3.5	2%
PC manufacturers	1%	5.0	2%
Retailers	1%	4.1	2%
Shippers	1%	3.3	2%
TV service providers	1%	4.0	2%
Wireless carriers	1%	4.3	2%

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

 The spreadsheet detailing this model is available online.



Base: US online consumers

## RECOMMENDATIONS

### BUILD YOUR OWN MODELS TO PROVE THAT CUSTOMER EXPERIENCE MEANS 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. Customer experience leaders can download that file and update the assumptions to reflect their firm's real number of customers and actual 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 raised your CxPi score by 15 points as Sprint, Comfort Inn, and Liberty Mutual Insurance did this year. 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 include increases in revenue from a better customer experience. Past research has shown that better customer experience also saves companies millions of dollars in unnecessary sales and service costs.<sup>2</sup> 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.** Executives, like all people, make decisions based on a combination of logical and emotional factors. That's why 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.<sup>3</sup>

## SUPPLEMENTAL MATERIAL

### Online Resource

The online version of Figure 3 is an interactive tool to estimate the change in revenue from an increase in CxPi 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 increased CxPi score is based on the following inputs:

- **Estimates of the average customer base and value per customer.** We assumed the number of customers that an average 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. 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 industries in which the concept of an “incremental purchase” in a given year doesn’t apply — such as health plans and Internet service providers — we set that incremental purchase revenue to zero.
- **The rate of change in loyalty companies can expect based on a change in CxPi scores.** Using a regression analysis, we identified the slope of the line between three measures of loyalty and the average CxPi scores for each of 13 industries. The slope for each industry represents the amount of change in a given loyalty metric that a company in that industry can expect if its CxPi score goes up by 1 point.
- **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 actually end up following through.
- **The number of people whom consumers tell about an experience.** In a recent research study, we asked consumers how often they told other people about good experiences across 13 industries. These estimates only account for direct communications between the customer and other people and do not account for 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 a good experience purchase from a company based on that information.

## ENDNOTES

<sup>1</sup> Forrester’s CxPi is an annual benchmark of customer experience at over 100 companies in 14 industries. In 2010, Forrester asked more than 4,600 US consumers about their interactions with a variety of companies, gauging the usefulness, ease of use, and enjoyability of those experiences. Based on these consumer responses, we calculated CxPi scores for 133 firms in 14 different industries. In this report, we modeled only 13 industries. See the January 11, 2010, “[The Customer Experience Index, 2010](#)” report.

<sup>2</sup> 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 February 17, 2010, “Web Sites That Don’t Support Customers’ Goals Waste Millions” report.

- <sup>3</sup> 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.