October 4, 2011

Why Customer Experience? Why Now?
The Strategic Imperative Your Company Can't Afford To Ignore

by Kerry Bodine and Moira Dorsey
with Allison Stone

EXECUTIVE SUMMARY

We've entered the age of the customer — an era where a focus on customers matters more than any other strategic imperative. Companies are waking up to the fact that customers' perceptions have a profound impact on business metrics ranging from brand equity and customer loyalty to increased revenue and cost savings. But while every executive knows that customers matter, most companies simply don't approach their interactions with customers in a disciplined way. Lip service won't cut it anymore. For businesses to succeed, they need to get serious about the way they define, implement, and manage the customer experience.

CUSTOMER-CENTRICITY: YOUR BEST BET FOR SUSTAINABLE COMPETITIVE ADVANTAGE

For decades, companies have been promising to delight customers, while simultaneously disappointing them in nearly every channel.[1] That tactic won't cut it anymore. Why not? We've entered a new era that Forrester calls the age of the customer — a time when focus on the customer matters more than any other strategic imperative (see Figure 1).[2] In the age of the customer, companies find that:
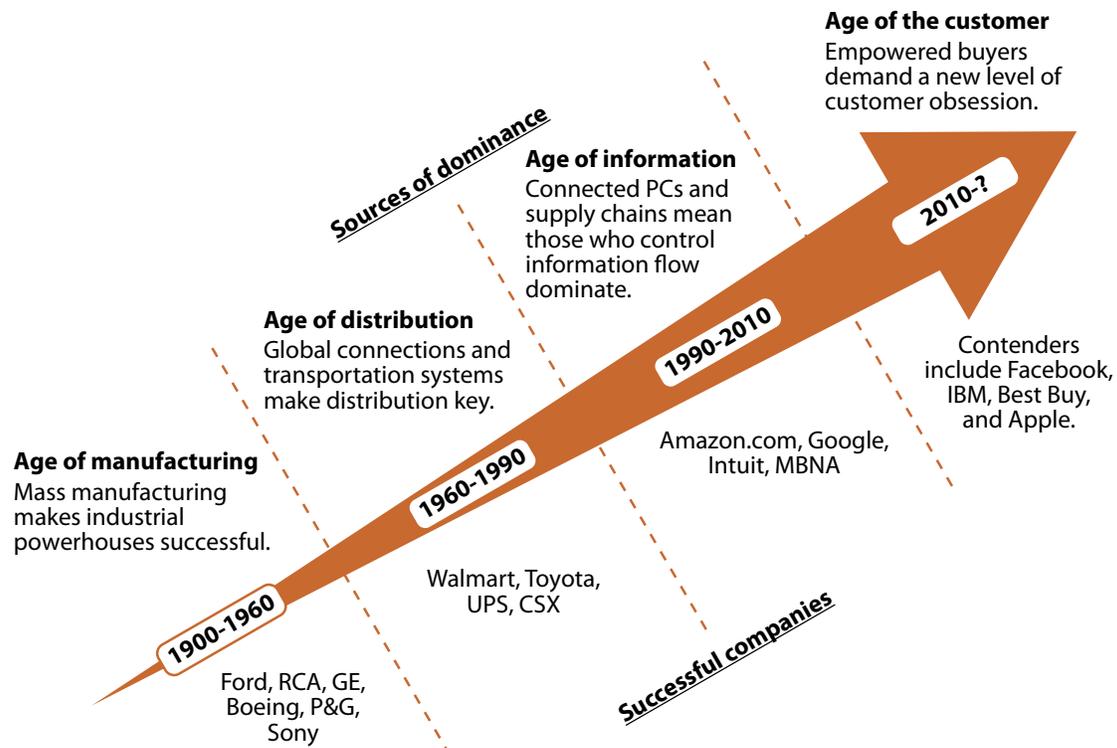
- **Commoditization has stripped away existing sources of differentiation.** Competitive barriers of the past like manufacturing strength, distribution power, and information mastery can't save you today. One by one, each of these corporate investments has been commoditized. Now every company — and even enterprising individuals with smartphones — can tap into global factories and supply chains. And after huge IT investments, companies are realizing that the Internet cloud provides all of the computing resources they need.

- **Traditional industry boundaries have dissolved.** Automakers now find themselves competing against not only other automakers but also services like Zipcar, which obviate the need for car ownership. Likewise, Google News, Expedia, and iPads undercut newspapers, travel agents, and laptop manufacturers, respectively. And eBay swallows profits from the whole retail industry. In addition, customers stack up companies — no matter what industry they're in — against firms like Southwest Airlines, Zappos.com, and Disney that are known for customer-centricity.

- **Customers have more power than ever.** With online reviews, social networks, and mobile web access, it's easy for your customers to know more about your products, services, competitors, and pricing than you. As strategy guru Michael Porter said: "Where the buyer has full information about demand, actual market prices, and even supplier costs, this usually yields the buyer greater bargaining leverage."[3] And when customers aren't happy, they don't think twice about crucifying brands on channels like Twitter and Facebook.

Why Customer Experience? Why Now?
For Customer Experience Professionals

2

Figure 1 We Have Entered The Age Of The Customer

Age of the customer
Empowered buyers demand a new level of customer obsession.

Sources of dominance

Age of information
Connected PCs and supply chains mean those who control information flow dominate.

2010-?

Age of distribution
Global connections and transportation systems make distribution key.

1990-2010

Contenders include Facebook, IBM, Best Buy, and Apple.

Age of manufacturing
Mass manufacturing makes industrial powerhouses successful.

Amazon.com, Google, Intuit, MBNA

1960-1990

Walmart, Toyota, UPS, CSX

1900-1960

Successful companies

Ford, RCA, GE, Boeing, P&G, Sony

Source: June 6, 2011, "Competitive Strategy In The Age Of The Customer" Forrester report

60903

Source: Forrester Research, Inc.

CUSTOMER EXPERIENCE TRANSLATES INTO REAL BUSINESS VALUE

Executives don't get to decide how customer-centric their companies are — customers are the ultimate arbiters. That's why Forrester defines customer experience as:

How customers perceive their interactions with your company.

Whether business-to-consumer or business-to-business (B2B) — or product- or service-focused — every company in every industry can leverage great customer experiences to:

- **Bolster brand equity.** Referencing customer service conversations, Tony Hsieh, Zappos.com's chief executive officer, wrote in *Delivering Happiness*, "Our belief is that the telephone is one of the best branding devices out there."[4] Even with conservative estimates, it's easy to make the case that the call center has influence on par with, if not greater than, that of mass advertising campaigns.[5] And the call center is *just one* of many customer touchpoints where the experience influences the customer's impression of a brand.

- **Garner customer loyalty.** Years of Forrester data confirm the strong relationship between the quality of a firm's customer experience and loyalty measures like willingness to consider the company for another purchase, likelihood to switch providers, and likelihood to recommend (see Figure 2).[6] We've also found a solid connection between customer experience ratings and Net Promoter Score (NPS) in multiple industries.[7]

- **Boost revenue.** Even small shifts in customer loyalty can translate into billions of dollars of incremental revenue each year for firms in some industries (see Figure 3).[8] Want specific examples? Last year, USAA created a seamless low-stress experience for researching, financing, and insuring vehicle purchases. The result? A 77% year-over-year increase in visitors to the carbuying site, a 15% increase in completed auto loans, and a 23% increase in vehicles sold.[9] And B2B company CDW drove $230 million in incremental revenue in just one year by following up on sales leads identified through customer loyalty surveys.[10]

- **Drive down costs.** Through its voice of the customer (VoC) program, Fidelity Investments recently identified a problem with account authentication in its interactive voice response system. It recruited a few associates to discuss the issue, identified its root cause, and quickly launched a solution. Its estimated annual cost savings from this one fix: $4 million.[11] Other companies count their savings in terms of higher employee retention and fewer customer support interactions.

Figure 2 Correlation Between Customer Experience Ratings And Three Loyalty Metrics
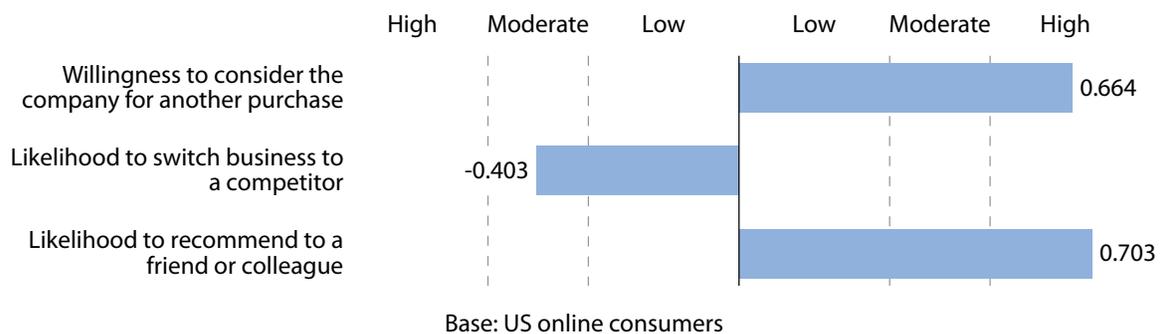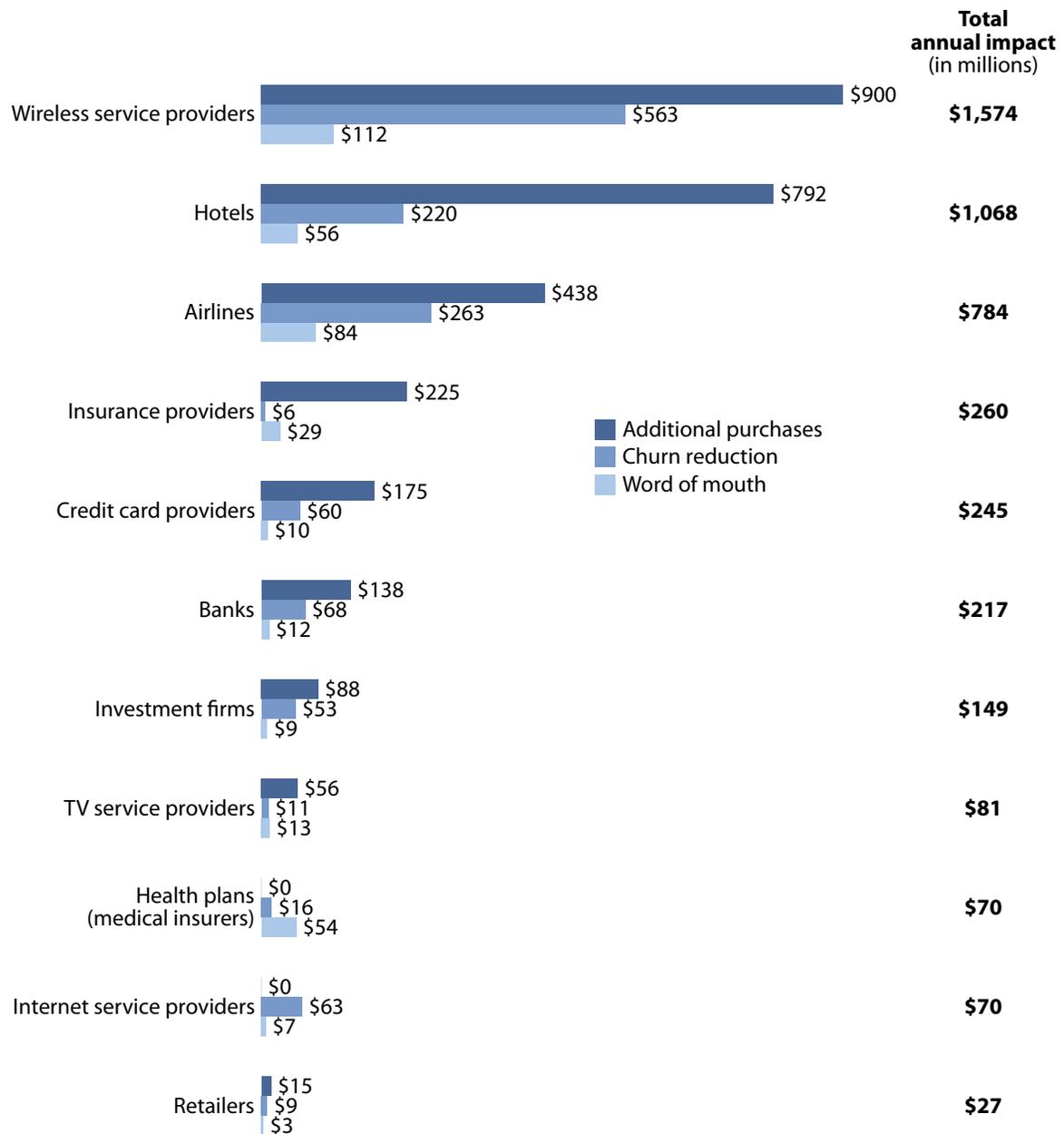

Base: US online consumers

Source: July 7, 2011, "The Business Impact Of Customer Experience, 2011" Forrester report

60903   Source: Forrester Research, Inc.

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

Total annual impact (in millions)

Industry	Additional purchases	Churn reduction	Word of mouth	Total annual impact
Wireless service providers	$900	$563	$112	**$1,574**
Hotels	$792	$220	$56	**$1,068**
Airlines	$438	$263	$84	**$784**
Insurance providers	$225	$6	$29	**$260**
Credit card providers	$175	$60	$10	**$245**
Banks	$138	$68	$12	**$217**
Investment firms	$88	$53	$9	**$149**
TV service providers	$56	$11	$13	**$81**
Health plans (medical insurers)	$0	$16	$54	**$70**
Internet service providers	$0	$63	$7	**$70**
Retailers	$15	$9	$3	**$27**

Legend:
- Additional purchases
- Churn reduction
- Word of mouth

Base: US online consumers
(numbers have been rounded to the nearest whole number)

Source: July 7, 2011, "The Business Impact Of Customer Experience, 2011" Forrester report

60903   Source: Forrester Research, Inc.

CUSTOMER EXPERIENCE IS A BUSINESS DISCIPLINE, NOT A BUMPER STICKER

Customer experience improvements won't magically materialize through wishful thinking or sporadic efforts. Customer experience is a business discipline in its own right, complete with tools, methodologies, and practices that organizations must routinely perform to define, implement, and manage the customer experience.[12] To create a companywide systematic focus on customers, customer experience professionals must work with C-level executives to:

- **Dedicate personnel to customer experience.** Customer experience initiatives won't take off if they're tacked on to people's day jobs. Over the past several years, Forrester has seen more companies appointing a chief customer officer (CCO), a single executive leading customer experience efforts across a business unit or an entire company.[13] But these execs can't do it alone — they need the support of a centralized customer experience organization that can provide cross-functional coordination, domain expertise, and operational support.[14]

- **Allocate budget to customer experience initiatives.** Today's customer experience leaders — firms like Best Buy, Apple, and US Cellular — are already laser-focused on delighting their customers, and many of them are doubling down on their customer experience investments.[15] Meanwhile, many customer experience laggards have woken up and started to invest heavily.[16] Having trouble finding the funds? Consider shifting dollars from your advertising budget to projects that will help your employees deliver on the promises you've *already* made to customers. After all, consumers trust peer recommendations far more than ads.[17]

- **Craft a customer experience strategy.** Just as your company needs an overarching corporate strategy to guide employee activities and resource allocation, it also needs a customer experience strategy to focus the organization on delivering the right type of customer interactions.[18] Simple statements like "we want to delight our customers" aren't enough.[19] The right customer experience strategy for your company will be aligned with the specifics of your corporate strategy and brand — and will help guide your prioritization of customer experience initiatives.

FROM BREAK-FIX TO BREAKTHROUGH, FORRESTER CAN HELP FOCUS YOUR EFFORTS

The list of things you *could* do to improve your firm's customer experience is nearly endless. To get real results, you need to bring focus to your customer experience efforts. Forrester can help you to prioritize initiatives that will deliver results and create sustainable change. Specifically, our analysts can work with you to:

- **Assess the maturity of your customer experience capabilities.** Whether you prefer to do it alone or get help from Forrester analysts, Forrester's customer experience maturity model can help your firm take stock of how it performs 40 essential practices today — if at all — and build a plan to turn an ad hoc set of activities into a self-improving customer experience management machine.[20]

- **Determine the root causes of your customer experience problems.** Through an interactive process we call customer experience ecosystem mapping, Forrester analysts can help you identify and document the behind-the-scenes people, activities, processes, policies, and technologies that shape every customer interaction with your company.[21] With this map in hand, you can prioritize the list of root causes that your company needs to address in order to deliver experiences that match or exceed customers' expectations.

- **Prove the ROI of customer experience improvements.** Forrester can help you demonstrate the potential business benefits of initiatives ranging from small website tweaks to full customer experience transformation projects. Using our proprietary industry data and case studies, we can help you build a model to determine what return on investment (ROI) you can realistically expect.

- **Select great partners.** Forrester analysts speak on a daily basis with the world's top customer experience design, technology, and service firms. So whether you're looking to find out more about your customers' real needs, redesign your website or retail space, create a mobile app, implement a VoC program, or design a new end-to-end service from scratch, Forrester can help you select the right partner for your specific needs.

SUPPLEMENTAL MATERIAL

Methodology

Forrester conducted the North American Technographics® Customer Experience Online Survey, Q4 2010 (US), an online survey fielded in November 2010 of 7,728 US individuals ages 18 to 88. For results based on a randomly chosen sample of this size (N = 7,728), there is 95% confidence that the results have a statistical precision of plus or minus 1.4% 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 7,717. (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

can 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.

For Technographics Clients

Forrester's North American Technographics Customer Experience Online Survey, Q4 2010 (US), of 7,728 US individuals includes many additional parameters by which you can analyze the data contained in this report. Please contact your data advisor at consumerdataadvisor@forrester.com if you would like to see the data cut by:

- **Demographics.** Of the 7,717 US individuals surveyed for this report, 3,743 (48%) individuals identified themselves as male, while 3,974 (52%) identified themselves as female.

If you do not currently subscribe to Forrester's Consumer Technographics services, please contact your account manager at data@forrester.com.

ENDNOTES

[1] To assess the state of customer experience in 2011, Forrester asked more than 7,700 US consumers about their interactions with a variety of companies. Based on their responses, we calculated Customer Experience Index (CxPi) scores for 153 brands in 13 industries. This year's rankings show that only about one-third of brands earned excellent or good CxPi scores and the rest ranged from OK to very poor. See the January 11, 2011, "The Customer Experience Index, 2011" report.

[2] While companies have always, to a greater or lesser extent, called themselves "customer-centric," this is different. This is not about "customer-centric" thinking or "the customer is always right" — instead, the new power of customers means that the only sustainable competitive advantage is knowledge of and engagement with customers. See the June 6, 2011, "Competitive Strategy In The Age Of The Customer" report.

[3] Source: Michael E. Porter, *Competitive Strategy*, Free Press, 1980.

[4] Source: Tony Hsieh, *Delivering Happiness*, Business Plus, 2010.

[5] Assuming a large call center with 3,000 agents and an average of only 50 calls per agent per day, a company has the opportunity to make 1.05 million customized impressions each week — which equates to 54.6 million personal connections each year.

[6] In 2011, as in previous years, we found a high correlation between consumers' perceptions of a company and both their willingness to buy from the company again (0.66) and their likelihood to recommend that company (0.70). It's also clear that the higher the Customer Experience Index score is, the less likely a customer is to defect (-0.40). Even though this relationship was not as strong as the other two, it still demonstrates the significant power of a good customer experience to retain business. See the July 7, 2011, "The Business Impact Of Customer Experience, 2011" report.

[7] When we look at the possible real-world explanations for these findings, we conclude that more often than not an improvement in customer experience will drive higher NPS. See the July 14, 2011, "Better Customer Experience Correlates To Higher Net Promoter Scores For Banks And Retailers" report.

Net Promoter, Net Promoter Score, and NPS are registered trademarks of Bain, Satmetrix Systems, and Fred Reichheld. Source: Bain (http://www.bain.com/search.aspx?q=Net+Promoter); Satmetrix Systems (http://www.satmetrix.com/).

[8] Using data from Forrester's 2011 Customer Experience Index (CxPi), we determined the difference in loyalty metrics among companies in a given industry that scored below that industry's average on the CxPi and those that scored at or above that industry average. Using information from company websites, industry organizations, press releases, and feedback from practitioners in each industry, we estimated the number of customers that a sample company in each industry might have, the average revenue per customer generated from the simplest relationship, and the amount of incremental revenue from a customer who purchases at a higher rate than average. Where we lacked direct data from external sources, we drew on our experience in these industries to estimate customer base and revenue per customer, basic and incremental. Because the three loyalty metrics in our analysis are intent metrics, we made assumptions about the actual rate at which customers who say they are likely to purchase again, recommend, or switch actually do so. Where possible, we calibrated these assumptions to reflect industry dynamics under the advice of experts in those industries. We then combined this with data from our own surveys about the number of people customers tell about a positive experience. Finally, we created a simple model that calculates the revenue benefits from the increase in repeat purchases, reduction in churn, and increase in positive word of mouth associated with a move from a CxPi score that is below the industry average to one that is above the industry average. See the July 7, 2011, "The Business Impact Of Customer Experience, 2011" report.

[9] Auto Circle allows users to customize their search for a vehicle and obtain accurate insurance and financing costs. It aggregates both expert and user reviews of vehicles as well as pricing data that includes sales data from dealers so that users can find a fair price. It also allows members to access this information in the most relevant touchpoint and lets them share and solicit opinions about vehicles from their friends and family via Facebook. See the November 8, 2010, "USAA's Auto Circle Makes Carbuying Customized, Aggregated, Relevant, And Social" report.

[10] For CDW, customer experience is a key strategic priority. As one executive put it, "Everything we do revolves around meeting the needs of our customers." See the August 12, 2010, "Lessons Learned From Three Award-Winning Voice Of The Customer Programs" report.

[11] One Fidelity executive described the firm's objective as follows: "We will be recognized as providing the best customer experience in the financial services industry." The firm's VoC program advances it toward that goal by targeting "Moments that Matter" to customers, tapping employee insights to solve customer issues, engaging employees from the top down and bottom up, and maintaining a balanced portfolio of improvement projects. See the August 18, 2011, "Lessons Learned From The 2011 Voice Of The Customer Award Winners" report.

[12] Forrester scanned its 13 years of customer experience research and created a framework that outlines 40 essential practices across six disciplines: customer understanding, measurement, governance, strategy, design, and culture. See the September 12, 2011, "Customer Experience Maturity Defined" report.

[13] Forrester's research on more than 100 CCOs found that most of these executives have been in their jobs for two years or less time, have backgrounds as general managers, marketers, and sales leaders, and are heavily concentrated in the business services, IT, and financial services industries. The majority of them sit on the executive management team at their firms, and they are highly likely to report to the chief executive officer (CEO) or the head of a line of business. See the January 24, 2011, "The Rise Of The Chief Customer Officer" report.

[14] As the number of CCOs grows, so does the number of centralized customer experience organizations working for them. These groups help CCOs lead the firm's customer experience transformation efforts. See the April 29, 2010, "Three Secrets Of Success For Customer Experience Organizations" report.

[15] To understand how companies drive customer experience improvement, Forrester spoke to leaders at brands having Customer Experience Index scores that went up appreciably in 2011. We uncovered a variety of best practices that range from centralizing coordination of customer experience efforts to measuring and rewarding customer-centric behavior in employees. In addition to operational changes, we heard about a range of specific changes companies made to the Web, mobile, phone, and physical channels to align them with customer needs. See the April 18, 2011, "How Companies Raised Their Customer Experience Index Scores, 2011" report.

[16] Companies including Charter Communications and United Healthcare — which scored poorly in Forrester's 2010 Customer Experience Index — saw appreciable gains in our 2011 index based on significant customer experience investments. See the April 18, 2011, "How Companies Raised Their Customer Experience Index Scores, 2011" report.

[17] Seventy-three percent of online adults trust recommendations from friends and family. In contrast, the most trusted ad format — email updates that consumers have requested — garner trust from only 37%. Brand websites and ads that appear in newspapers, magazines, TV, and radio fare even worse. See the March 21, 2011, "Consumer 'Ad-itudes' Stay Strong" report.

[18] Most companies lack a customer experience strategy. As a result, their leaders struggle with decisions about funding and prioritizing projects meant to improve customer experience at the enterprise level. To craft their strategies, customer experience leaders should start with their firms' overall strategies, which define competitive positions and set customer expectations of the brand. See the September 28, 2010, "What Is The Right Customer Experience Strategy?" report.

[19] To assess the state of customer experience in 2011, Forrester surveyed 118 customer experience professionals around the globe. More than two-thirds said that their firms aim to differentiate based on customer experience. But most companies are ill-prepared to compete on that basis. Fifty-one percent of our respondents said that their firms lack a clear customer experience strategy. See the February 17, 2011, "The State Of Customer Experience, 2011" report.

[20] Forrester scanned its 13 years of customer experience research and created a framework that outlines 40 essential practices across six disciplines: customer understanding, measurement, governance, strategy, design, and culture. See the September 12, 2011, "Customer Experience Maturity Defined" report.

[21] Many customer experience initiatives don't meet their full potential — or worse, fail completely — because companies don't have a complete picture of what the customer experience actually entails or the dynamics that go into creating it. In order to break from their tunnel vision, companies need to understand, and then take control of, their customer experience ecosystem: the complex set of relationships among a company's employees, partners, and customers that determines the quality of all customer interactions. See the June 22, 2011, "The Customer Experience Ecosystem" report.