

Temkin Group **Insight** Report



The ROI of Customer Experience

Analysis Shows High Correlation Between
Customer Experience and Loyalty

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Executive Summary

An analysis of US and UK consumers shows that customer experience is highly correlated to loyalty. Customer experience leaders have more than a 16 percentage point advantage over customer experience laggards in consumers' willingness to buy more, their reluctance to switch business away, and their likelihood to recommend. A modest increase in customer experience can result in a gain over three years of up to \$382 million for US companies and up to £263 million for UK firms, depending on the industry. While the case for loyalty is compelling, companies should determine the business impact that customer experience has on their specific business by following our five step process. To achieve these results, however, companies must create customer experience metrics programs that embed these measurements into how they run their business.

Customer Experience Improvements Are Worth \$100s and £100s of Millions

Walt Disney once said: "*Do what you do so well that they want to see it again and bring their friends.*" That insight makes an explicit connection between customer experience and loyalty. But is it a valid statement or just the ramblings of a visionary? To examine the connection between customer experience and loyalty, we analyzed two recent surveys with data from 10,000 US consumers and 3,000 UK consumers. Our analysis examined consumer feedback on 206 US companies and 66 UK firms that provided the input to (see Figure 1):

- **Measure customer experience.** We used the 2012 Temkin Experience Ratings to establish customer experience levels. Consumers rated three components of their experiences: *functional, accessible, and emotional*.¹
- **Measure loyalty.** We used the 2012 Temkin Loyalty Ratings to establish customer loyalty levels. Consumers were asked how loyal they are to companies in three areas: *likelihood to recommend, reluctance to switch, and willingness to repurchase*.²
- **Run regressions.** We analyzed the connection between customer experience and loyalty by running a regression analysis between the experience and loyalty ratings. The data showed a high degree of correlation for both the US and UK.

US Companies Can Gain \$380 Million Over Three Years

We examined the data on 206 US firms across 18 industries and found:

- **A high correlation coefficient.** We analyzed the correlation between Temkin Experience Ratings and the Temkin Loyalty Ratings for US companies. To account for differences across

¹ See the February 2012 Temkin Group Report, *2012 Temkin Experience Ratings*.

² See the March 2012 Temkin Group Report, *2012 Temkin Loyalty Ratings*.

industries, we normalized the data by comparing companies to their industry averages. Our regression analysis uncovered a very high correlation coefficient (R) of 0.83 (see Figure 2).³

- **More than an 18-point loyalty gap for customer experience leaders.** We divided the companies into quintiles based on how their Temkin Experience Ratings compared to the average in their industries. We then examined consumer loyalty to those groups in the three components of the Temkin Loyalty Ratings (see Figure 3). Compared with companies in the bottom quintile of customer experience, customer experience leaders in the top quintile have 19.5 percentage points more customers likely to recommend them, 19.2 percentage points more customers reluctant to switch business away from them, and 18.4 percentage points more customers willing to make more purchases from them.
- **Customer experience influences likelihood to recommend the most.** To understand how each component of customer experience affects each area of loyalty, we looked at the slope of the regression lines for each of nine comparisons of loyalty and experience (see Figure 4).⁴ Across all 18 industries we examined, the largest correlation is between the emotional component of experience and the likelihood of consumers to recommend. Of the three loyalty areas, switching business away from a provider is the least affected by customer experience.
- **Customer experience is worth \$100s of millions.** Using the data from our regression analysis, we built a model to estimate the typical revenue increases that a \$1 billion company can generate over three years by making a modest improvement in their company's customer experience (see Figure 5).⁵ The increase ranges from \$141 million for health plans to \$382 million for fast food chains.

UK Companies Can Gain £263 Million Over Three Years

We examined the data on 66 UK firms across six industries and found:

- **A high correlation coefficient.** We analyzed the Temkin Experience Ratings and the Temkin Loyalty Ratings for UK companies. To account for differences across industries, we normalized the data by comparing companies to their industry averages. Our regression analysis uncovered a very high correlation coefficient (R) of 0.89 (see Figure 6).
- **More than a 16-point loyalty gap for customer experience leaders.** We divided the companies into quartiles based on how their Temkin Experience Ratings compared to the average in their industries. We then examined consumer loyalty to those groups in three components of the Temkin Loyalty Ratings (see Figure 7). Compared with companies in the bottom quartile of customer experience, customer experience leaders in the top quartile have 19.1 percentage points more customers likely to recommend them, 19.8 percentage

³ Correlation coefficient is a number between -1 and +1 that measures the degree of association between two variables (in this case, Temkin Experience Ratings and Temkin Loyalty Ratings). A correlation above 0.7 or below -0.7 are considered to be strong.

⁴ The slope of the regression line shows how much change there will be in the Temkin Loyalty Ratings based on a change in the Temkin Experience Ratings. It represents the slope of the straight line that is drawn that best fits all of the data points.

⁵ A modest improvement in customer experience was defined as a 10 percentage point increase in Temkin Experience Ratings

points more customers reluctant to switch business away from them, and 16.5 percentage points more customers willing to make more purchases from them.

- **Customer experience is worth £100s of millions.** Using the data from our regression analysis, we built a model to estimate the typical revenue increases that a £1 billion company can generate over three years by making a modest improvement in their company's customer experience (see Figure 8). The increase ranges from £145 million for insurance carriers to £263 million for retailers.

Learning from the Customer Experience-Loyalty Connection

Customer experience is correlated to loyalty, especially when it comes to customers buying products and making recommendations to their friends and relatives. But what should customer experience professionals do with this information?

- **Start the conversation around business results.** Companies should not invest in customer experience because it *seems like* a good thing to do. They should invest in it because it drives long-term business success. This report can help fuel the discussion about how improving customer experience can drive long-term success for your company. This type of business-centric conversation will help drive the level of executive commitment that companies need to stay on course for a multi-year journey (see Figure 9).
- **Build an internal ROI model.** The data in this report come with the normal caveat for any industry-wide research: your results may vary considerably from these results. So we recommend that companies build their own models for tying loyalty (and revenues) to customer experience measures (see Figure 10). Here's some advice as you undertake this effort:
 - Enlist your CFO. You may have the brightest business analysts in the world on your team, but if the CFO's team is not involved then they'll always question your financial models and assumptions.
 - Use existing metrics. Try to make your case based on the business metrics that the company already uses—it will make it easier for people to understand and will help you earn their buy-in.
 - Be conservative. Resist the temptation to use the high end of estimates for potential benefits. While the results may seem more compelling, they will also be harder to defend.
 - Create a simple story. People tend to remember very simple storylines, so make sure that you organize your results in a way that is easy for people to understand.
- **Actively use the CX metrics.** Once the connection between customer experience and loyalty is clear for your company, you need to embed the use of CX metrics within the company's ongoing measurement systems and operations. Otherwise, customer experience will never get the attention that it deserves and your firm will never reap the loyalty gains from CX improvements. Build out a CX metrics program that is consistent, impactful, integrated, and continuous (see Figure 11).⁶

⁶ See the November 2011 Temkin Group Report *State of CX Metrics, 2011*.

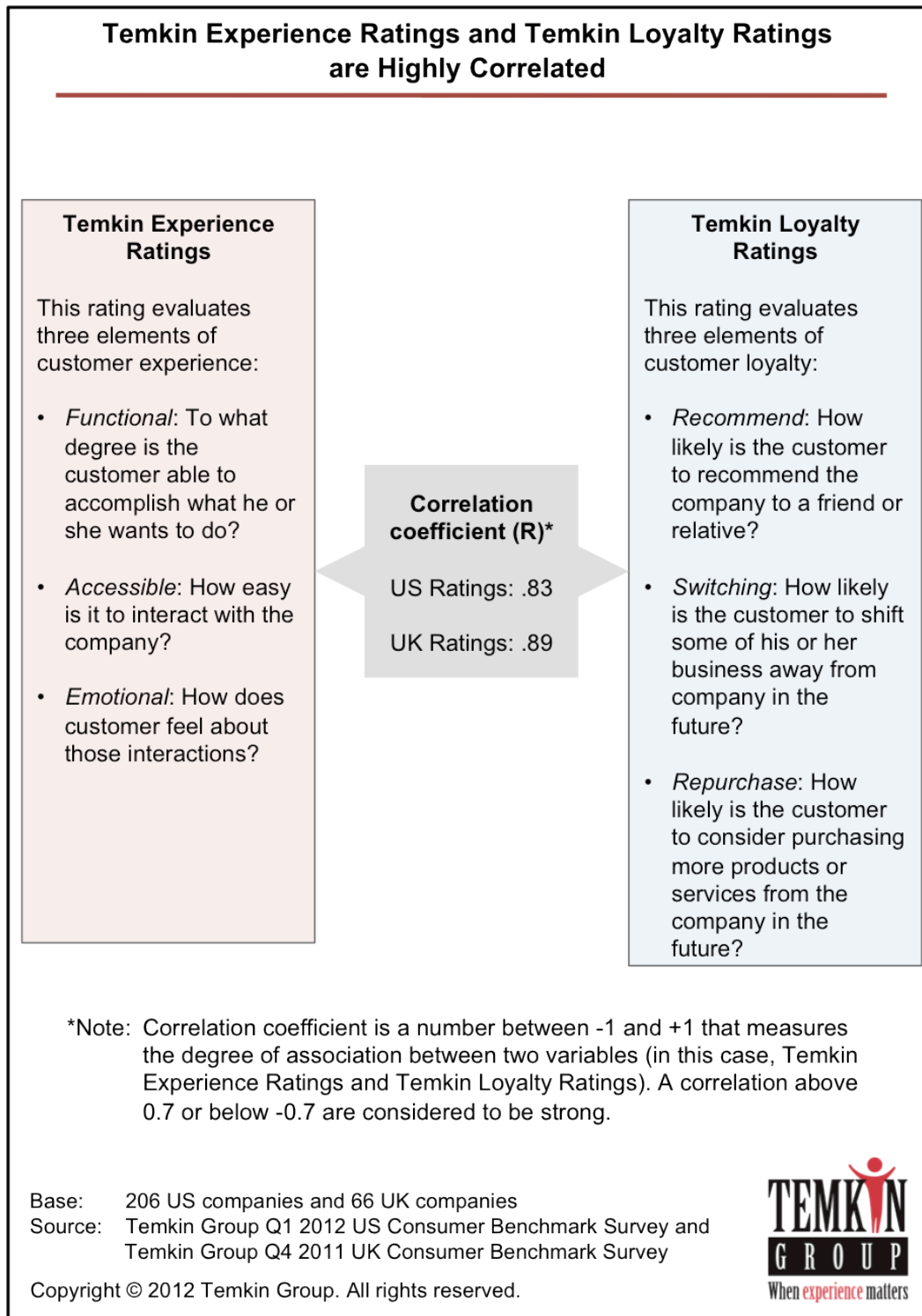


Figure 1

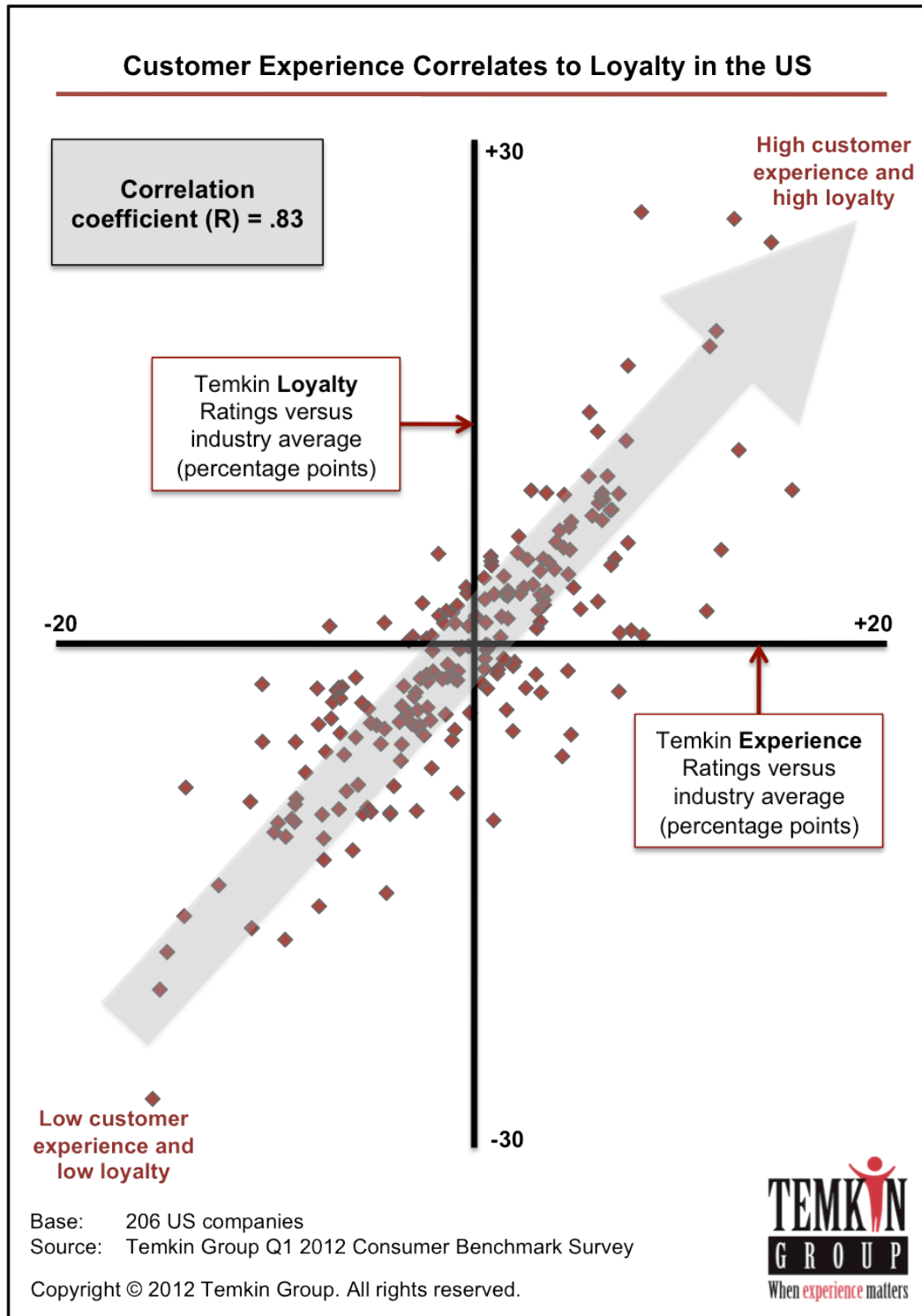


Figure 2

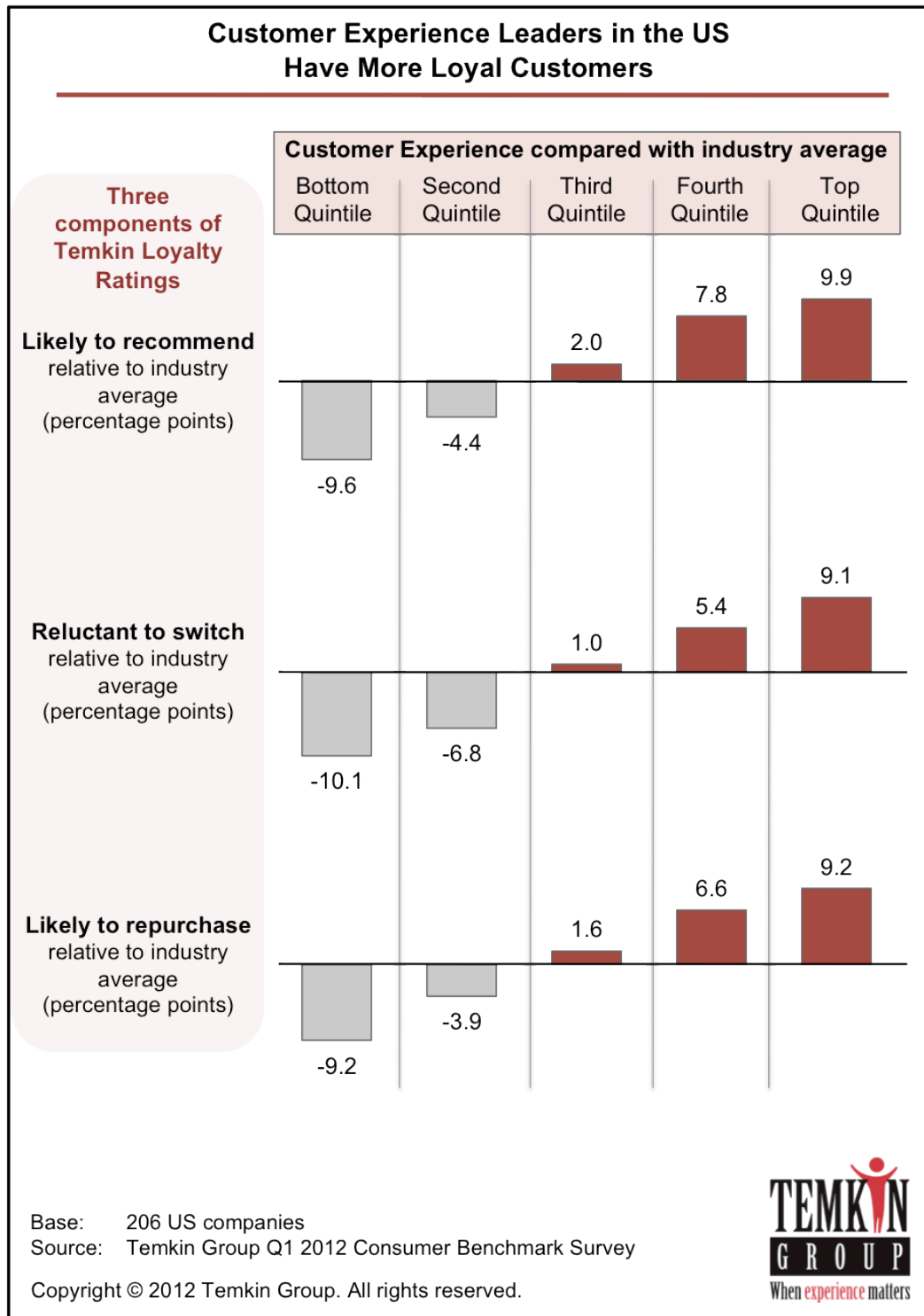
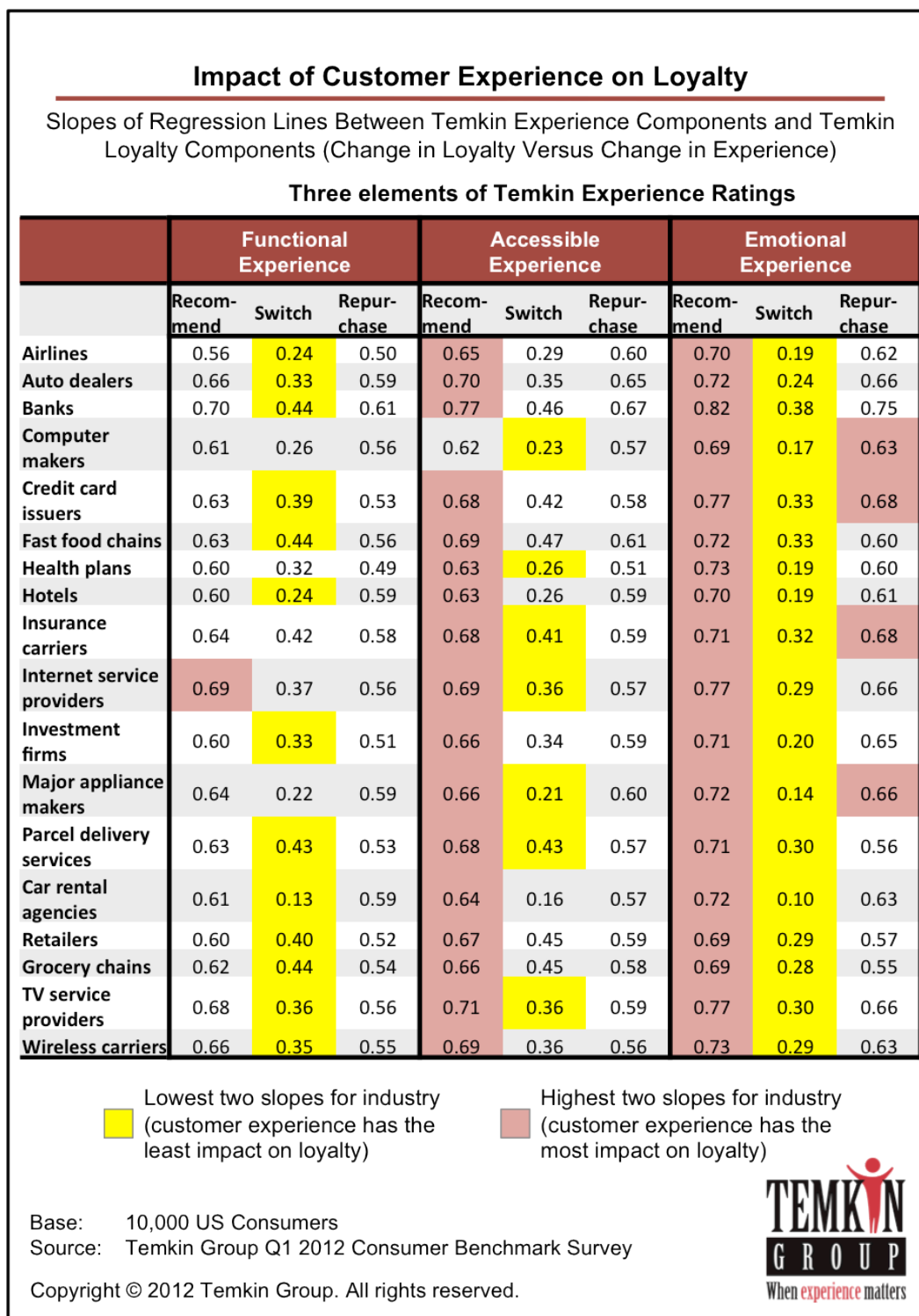
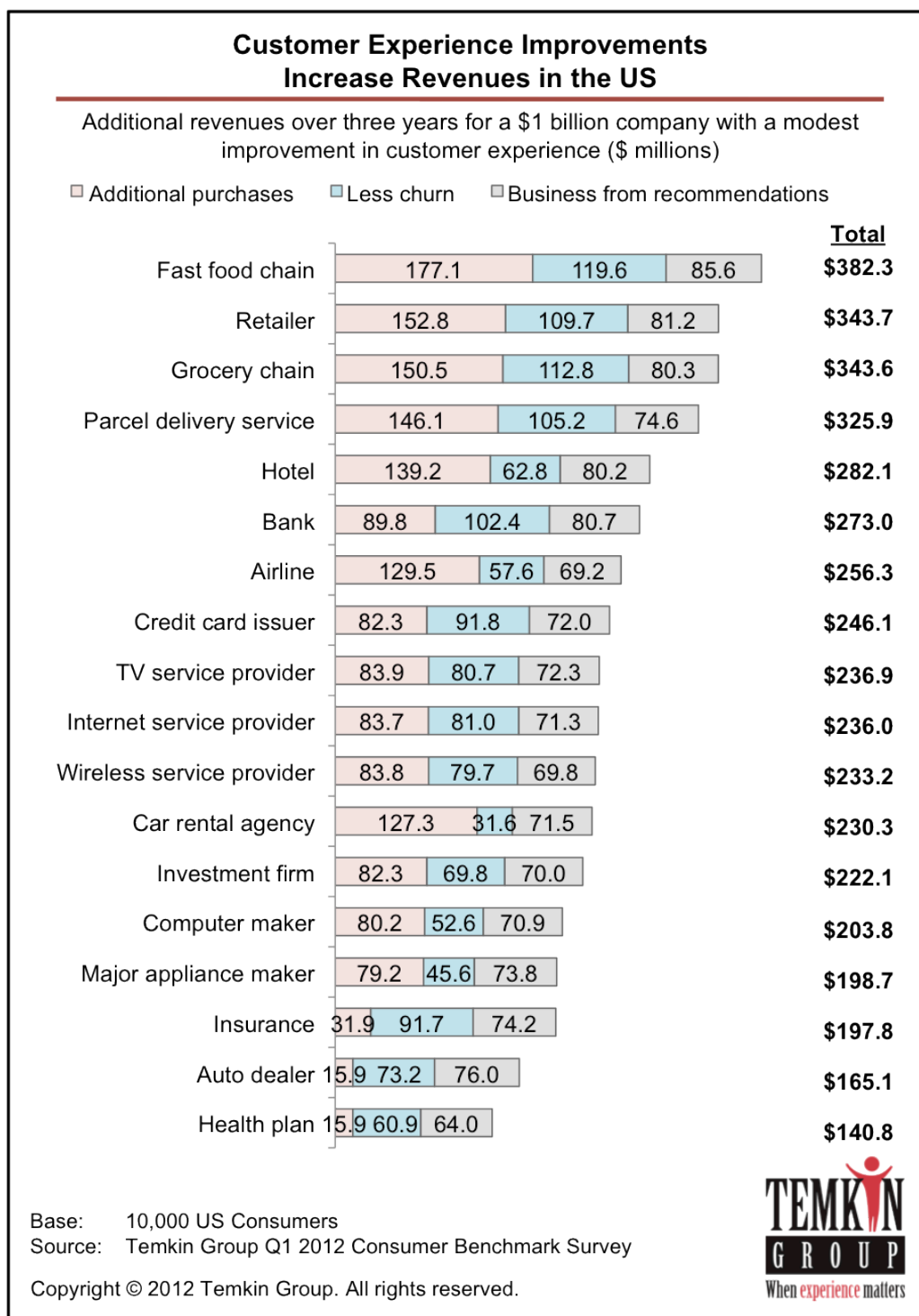


Figure 3

**Figure 4**

**Figure 5**

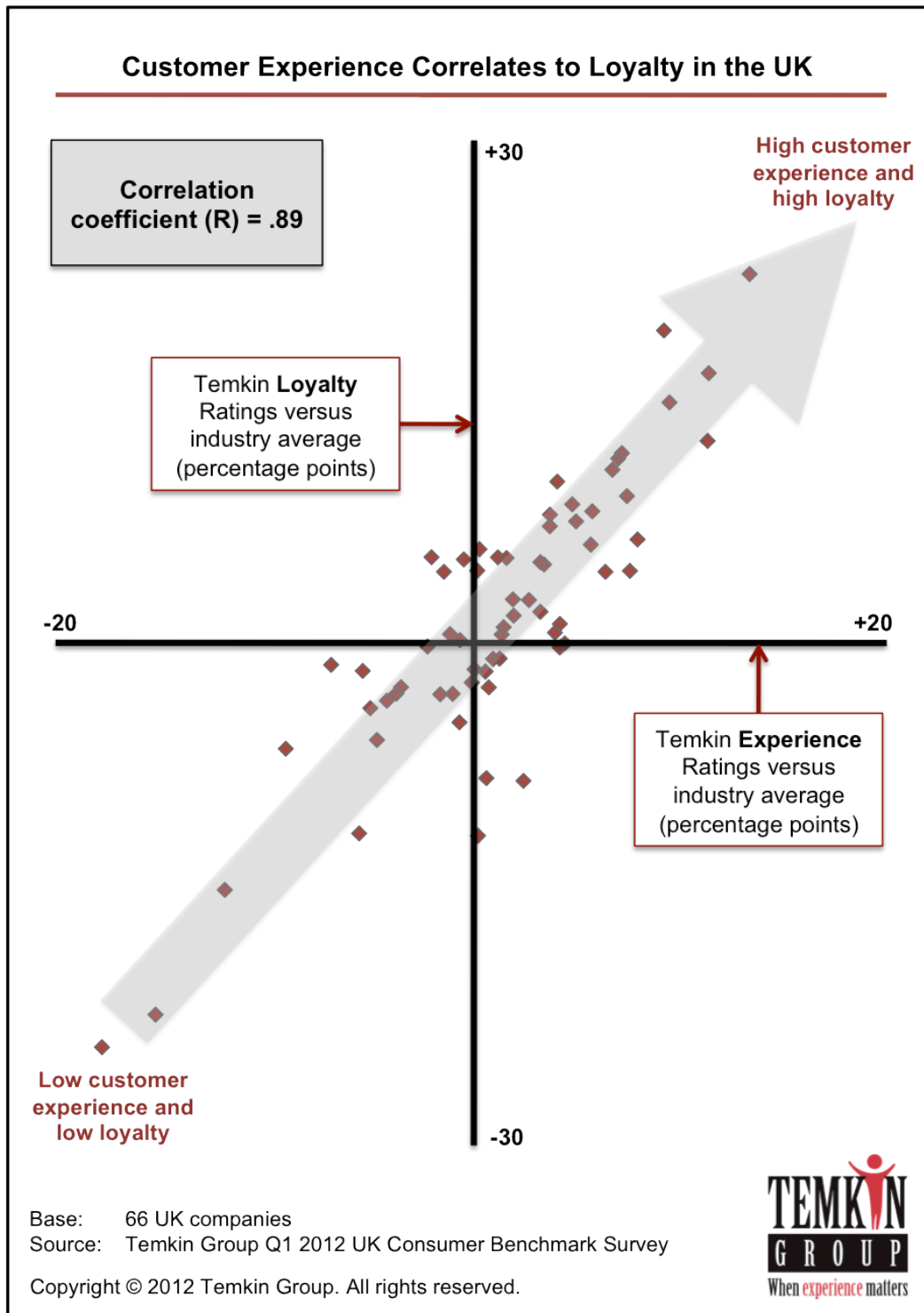


Figure 6

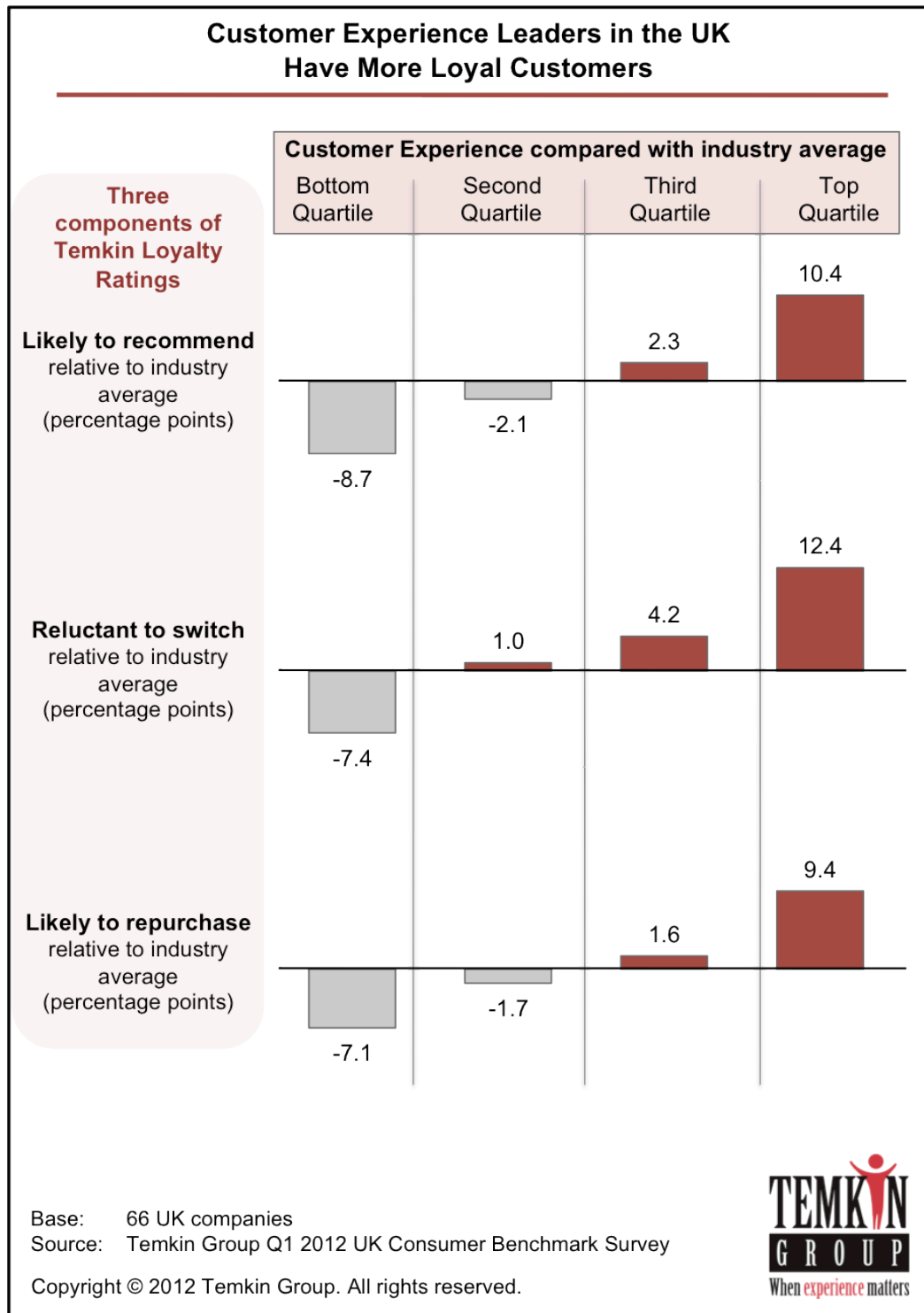


Figure 7



Figure 8

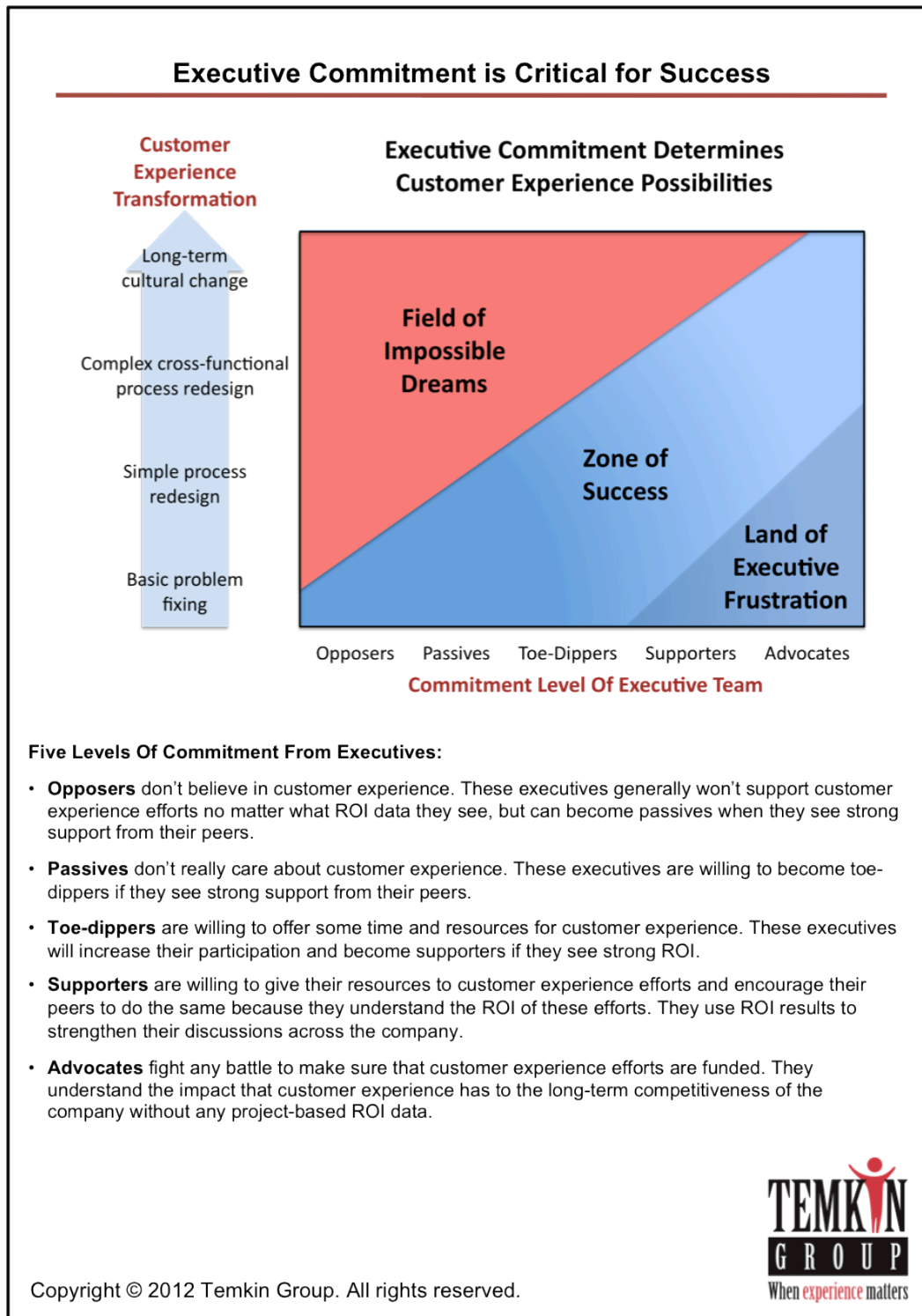


Figure 9

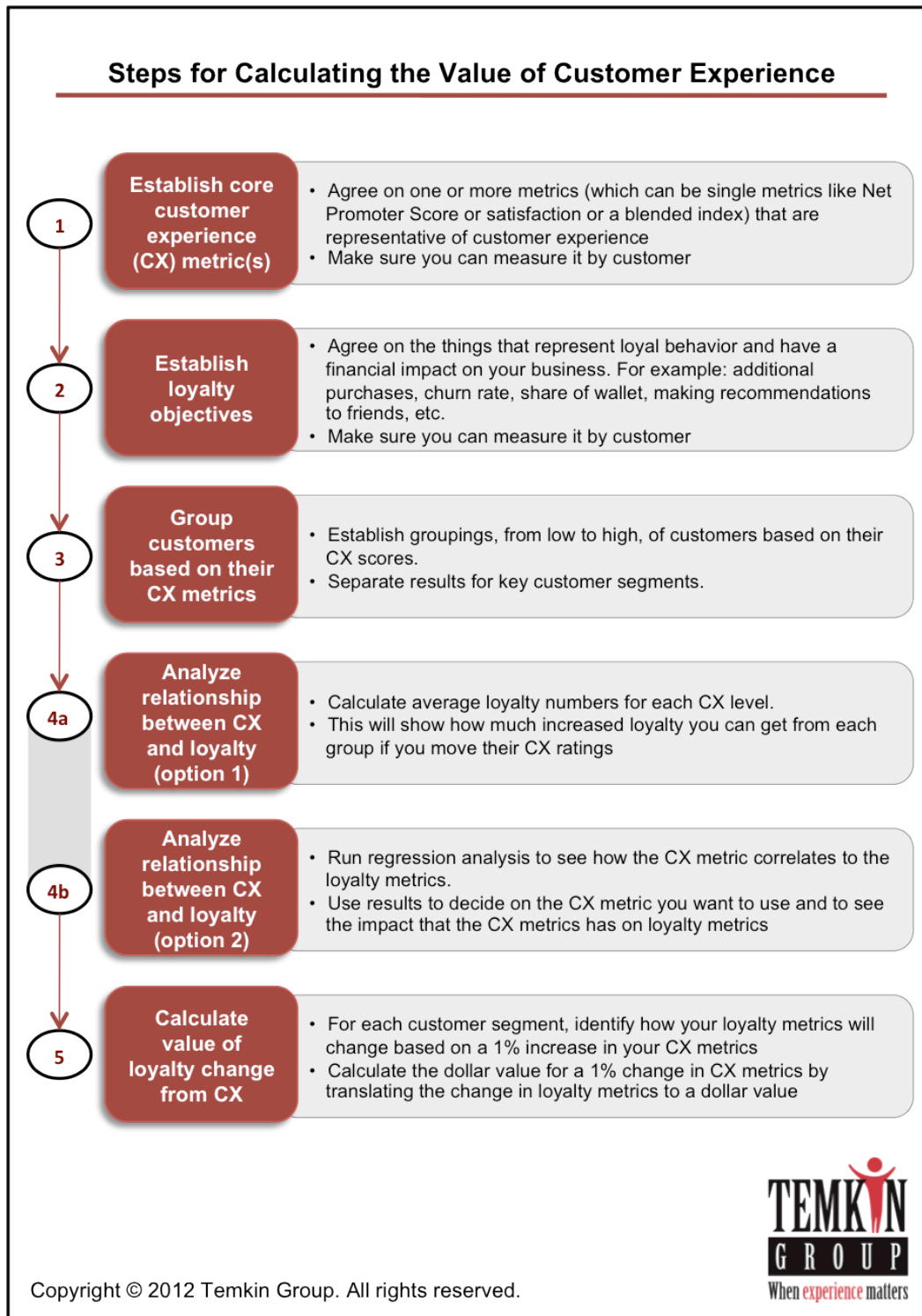


Figure 10

Temkin Group Customer Experience Metrics Assessment

1. CONSISTENT: How many of your company's operating units (divisions, geographic organizations, etc.) track and report on the same core set of customer experience metrics?

Every operating unit	10	A few operating units	2
Most operating units	8	None of the operating units	0
Some operating units	5		

2. IMPACTFUL: How many of the important decisions in your company are made based on serious consideration of how they will affect customer experience metrics?

All important decisions	10	Very few of them	2
Almost all of them	8	Almost none of them	1
Many of them	6	No important decisions	0
Some of them	4		

3. INTEGRATED: To what degree does your company integrate customer experience metrics with financial metrics in the way that it operates the business and makes decisions?

Fully integrated	10	Slightly integrated	2
Mostly integrated	8	Not at all integrated	0
Moderately integrated	5		


4. CONTINUOUS: How frequently do you think that your company's leadership team actively reviews customer experience metrics?

More often than once per week	10	Two or three times per year	2
Approximately once per week	8	Once per year	1
Approximately once per month	6	Not at all	0
Approximately once per quarter	4		

TOTAL

Effectiveness of CX Metrics Program

0 to 10	Broken
11 to 16	Very poor
17 to 22	Poor
23 to 28	Okay
29 to 34	Good
35 to 40	Very good



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Figure 11

About the author, Bruce Temkin

Bruce Temkin is a Customer Experience Transformist & Managing Partner of **Temkin Group**. He is also the co-founder and Chair of the **Customer Experience Professionals Association** (cxpa.org).

Bruce is widely viewed as a leading expert in how organizations build differentiation with customer experience. He has worked with hundreds of large organizations on the strategies, operational processes, organizational structures, leadership, and culture required to sustain superior customer relationships.

Bruce is the author of the popular blog *Customer Experience Matters* where he regularly posts insights on topics such as customer experience, branding, leadership, and employee engagement. His eBook—*Six Laws of Customer Experience*—that is available for free on the blog has been downloaded by tens of thousands of people around the world.

Prior to forming Temkin Group, Bruce was Vice President & Principal Analyst with Forrester Research. During his 12 years with Forrester, he led the company's business-to-business, financial services, eBusiness, and customer experience practices. Bruce was Forrester's most-read analyst for 13 consecutive quarters and remains one of the most respected analysts in the industry.

Bruce authored several Forrester's most popular research reports on customer experience, including "Experience-Based Differentiation," "The Customer Experience Journey," and "Voice Of The Customer: The Next Generation." He created Forrester's Customer Experience Index, which rates more than 100 firms on their overall customer experience as well as Forrester's Voice of the Customer Award. He also led the creation and updates of many of Forrester's customer experience evaluation methodologies and training workshops.

Prior to Forrester, Bruce co-founded and ran a couple of Internet start-ups. He also held management positions with GE, Stratus Computers, and Fidelity Investments.

Bruce has been widely quoted in the press, including media outlets such as The New York Times, Wall Street Journal, and Business Week.

Bruce is a highly demanded public speaker who combines deep expertise with an engaging, entertaining style. He has delivered keynote speeches at hundreds of industry and corporate events and is often recognized as the top speaker.

Bruce holds a master's degree from the MIT Sloan School of Management, where he concentrated in business strategy and operations. He also holds an undergraduate degree in mechanical engineering from Union College.

About Temkin Group

Temkin Group is a research and consulting firm that helps clients increase customer loyalty by improving their customer experience. The company was founded based on four core beliefs:

Customer experience drives loyalty.

Our research and work with clients has shown that interactions with customers influences how much business they'll do with you in the future and how often they recommend you to friends and colleagues.

It's a journey, not a project.

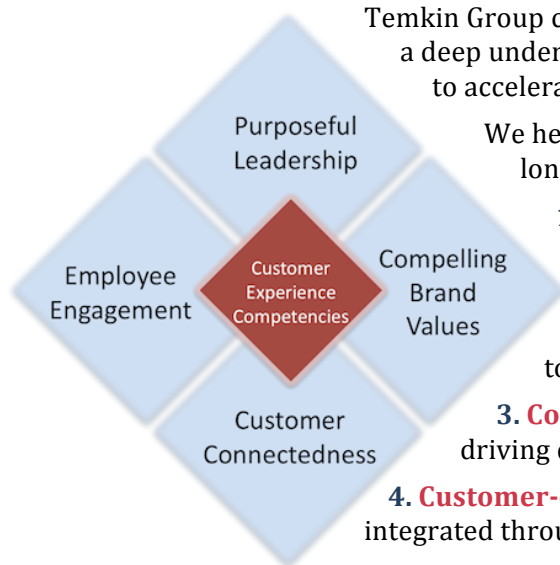
Building the capabilities to consistently delight customers doesn't happen overnight. Companies need to plan for a multi-year corporate change program.

Improvement requires systemic change.

Companies can improve isolated customer interactions, but they can't gain competitive advantage until customer experience is embedded in their operating fabric.

We can help you make a difference.

Transformation isn't easy, but leading your company to be more customer-centric is worth the effort. We help our clients accelerate their results and avoid many of the bumps along the way.



Temkin Group combines customer experience thought leadership with a deep understanding of the dynamics of large organizations to accelerate results.

We help companies build the four competencies required for long-term success:

- 1. Purposeful Leadership.** Does your leadership team operate consistently from a clear, well-articulated set of values?
- 2. Engaged Employees.** Are employees fully committed to the goals of your organization?
- 3. Compelling Brand Values.** Are your brand attributes driving decisions about how you treat customers?
- 4. Customer-connectedness.** Is customer feedback and insight deeply integrated throughout all of your internal processes?

Temkin Group provides a number of services that include:

- **Interactive workshops** to instill a common mindset, vocabulary, and approach across an organization.
- **Strategic reviews** of customer experience plans and objectives to identify opportunities for accelerating efforts and avoiding missteps along the way.
- **Assessments** of customer experience competencies to identify and close critical gaps.
- **Senior executive sessions** to ensure appropriate levels of alignment and commitment.
- **Executive coaching** to help executives leading customer experience efforts.
- **Speeches and webinars** to teach customer experience concepts.
- **Temkin Ratings** that provides quantitative data on customer experience and loyalty.