



INSIGHT REPORT

ROI of Customer Experience, 2018

CX HIGHLY CORRELATES TO LOYALTY ACROSS 20 INDUSTRIES, DELIVERS UP TO \$1B OVER 3 YEARS

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EXECUTIVE SUMMARY

To understand the connection between customer experience (CX) and loyalty, we examined feedback from 10,000 U.S. consumers describing both their experiences with and their loyalty to different companies. The CX scores used in this model come from the 2018 Temkin Experience Ratings (TxR), which evaluated 318 companies across 20 industries. Our analysis shows that:

- The correlation between CX and repurchasing is very high ($R = 0.82$).
- There's a 21-point difference in Net Promoter Score between consumers who've had a very good experience with a company and those who've had a very poor experience.
- CX is made up of three components – success, effort, and emotion. While all three elements impact customer loyalty, an improvement in emotion drives the most significant increase in loyalty.
- We built a model to estimate how a modest improvement in CX would impact the revenue of a typical \$1 billion company across in 20 industries. On average, companies can gain \$775 million over three years. Software companies stand to earn the most (\$1 billion over three years), while utilities stand to earn the least (\$476 million over three years).
- We also describe a five-step process for calculating the ROI of CX for your organization.

CUSTOMER EXPERIENCE IS HIGHLY CORRELATED WITH LOYALTY

A recent Temkin Group study found that more than half of large companies have ambitions to provide the best customer experience (CX) in their industry.¹ Why do so many companies aspire to deliver a first-class customer experience? Beyond simply being a “good” thing to provide, many executives emphasize the importance of delivering excellent CX because they recognize the clear link between CX and loyalty. To determine exactly how customer experience affects loyalty, we asked 10,000 U.S. consumers about both their experiences with and their loyalty to 318 U.S. companies across 20 industries, and then we analyzed their responses.² The results show that CX:

- **Correlates with repurchasing.** We looked at how likely consumers are to repurchase products from each of the 318 U.S. companies evaluated and then compared those numbers to each firm's 2018 Temkin Experience Ratings score. We found a strong

¹ See the Temkin Group Insight Report, “The State of CX Management, 2018,” (April 2018).

² For the CX ratings, we used the 2018 Temkin Experience Ratings, which evaluates three areas of an experience: success, effort, and emotion. To normalize scores across the industry, the analysis compares the data for each company with their industry average. See the Temkin Group Insight Report, “Temkin Experience Ratings, 2018,” (March 2018).

connection between the two datasets, with a correlation coefficient of .82 (see Figure 1).³

- **Links to Net Promoter Score.** We also found that CX strongly correlates to Net Promoter Score (NPS)⁴ (see Figure 2). The average NPS of companies in the highest quintile of the Temkin Experience Ratings is 10.6 points above their industry average – more than 21 points higher than the average NPS of companies in the bottom quintile.
- **Significantly impacts emotion.** In addition to comparing overall customer experience to different loyalty behaviors, we also specifically looked at how each of the three elements of customer experience – success, effort, and emotion – affects each of the five loyalty behaviors (see Figure 3). This analysis looks at consumer attitudes across all companies and industries and is based on whether consumers gave organizations a low, medium, or high customer experience rating. While an improvement in any one of the three components of customer experience does increase all areas of loyalty, an improvement in the emotion component provides the biggest lift.

CX IMPROVEMENT RESULTS: UP TO \$1.1B IN REVENUE OVER THREE YEARS

To help translate the connection between CX and loyalty into tangible, bottom-line numbers, we built a model that calculates how a modest increase in CX will result in additional revenue across 20 industries. We analyzed the three-year impact for a company with \$1 billion in annual revenues (see Figure 4).⁵ Our analysis evaluates how loyalty differs between the consumers who gave companies a “mediocre” CX rating and those who gave companies a “good” CX rating (see Figure 5). The results show that (see Figures 6 and 7):

- **Revenues could increase the most for software companies, the least for utilities.** On average, companies can gain \$775 million over three years by modestly improving the experience they deliver to customers. Software companies have the most to gain from improving CX (\$1 billion), while utilities have the least to gain (\$476 million).
- **Software can retain the most revenue.** Software companies stand to retain the most business from existing customers (\$347 million), whereas TV service providers stand to retain the least business (\$131 million).
- **Fast food can gain the most additional purchases.** The amount of new business from existing customers ranges from \$360 million at the top for fast food chains down to \$41 million at the bottom for health plans.

³ For the repurchasing data, we looked at consumers' responses to the question: How likely are you to consider purchasing more products or services from these companies in the future? We included the percentage of consumers who selected either 6 or 7 on a scale from 1 (“extremely unlikely”) to 7 (“extremely likely”).

⁴ See the Temkin Group Insight Report, “Net Promoter Score Benchmark Study, 2017,” (October 2017). Net Promoter Score, Net Promoter, and NPS are registered trademarks of Bain & Company, Satmetrix Systems, and Fred Reichheld.

⁵ In order to show a high-level analysis of revenue impact, we make many assumptions at an industry-level. We highly recommend that companies use the raw data to better understand how CX improvements will affect their specific business. The model assumes a company size of \$1 billion and adds the additional revenue gains over three years.

- **Word of mouth most affects computer makers.** Computer makers see the highest impact from good and bad comments on their volume of business (\$221 million), while recommendations affect utilities the least (\$100 million).
- **Software firms can sell the most new products.** When it comes to additional purchases of new offerings, software makers can add \$185 million, while health plans, utilities, and parcel delivery services can add \$35 million.
- **Rental cars could benefit most from customers' forgiveness.** Rental car agencies can save \$77 million, while utilities can save \$15 million.

CX AND LOYALTY ACROSS 20 INDUSTRIES

As part of our analysis, we examined exactly how loyal consumers feel to companies across 20 industries based on how they rated their experiences with those companies (see Figure 8). This data can help companies build their own analysis of CX economics. When we looked at the averages across all of the industries, we discovered that CX influences how likely the customer is to:

- **Recommend a company.** Eighty-eight percent of consumers who rate a company's CX as "very good" are likely to recommend the company, compared with only 15% of those who rate a company's CX as "very poor" (see Figure 9).
- **Repurchase from a company.** Eighty-seven percent of the consumers who gave a company a "very good" CX rating report being "very likely" to repurchase from that company, while only 18% of those who gave a company a "very poor" CX rating say the same (see Figure 10).
- **Trust a company.** While 81% of the consumers who gave a company a "very good" CX rating say they are "very likely" to trust that company, only 15% of those who gave a company a "very poor" CX rating say the same (see Figure 11).
- **Forgive a company.** Sixty-seven percent of consumers are "very likely" to forgive a company for a mistake if they think it delivers "very good" CX, whereas only 15% of consumers are "very likely" to forgive a company if they think it delivers "very poor" CX (see Figure 12).
- **Try a new offering right away.** Of the consumers who gave a company a "very good" CX rating, 58% of them report being "very likely" to try that company's new product or service immediately after it's introduced (see Figure 13). Meanwhile, only 13% of consumers who gave a company a "very poor" CX rating feel the same.

BUILD YOUR OWN CX ROI MODEL

As with all industry-wide research, any single company's results may vary considerably from these aggregated results. That's why we recommend companies build their own models for tying loyalty (and revenues) to customer experience measures (see Figure 14). Here's some advice to consider as you undertake this effort:

- **Enlist your CFO.** Even if you have the brightest business analysts in the world on your team, if you do not involve the CFO's team, the finance leader will always question your financial models and assumptions.
- **Use existing metrics.** Try to make your case based on the business metrics that your 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 story lines, so make sure that you organize your results in a way that is easy for people to understand.

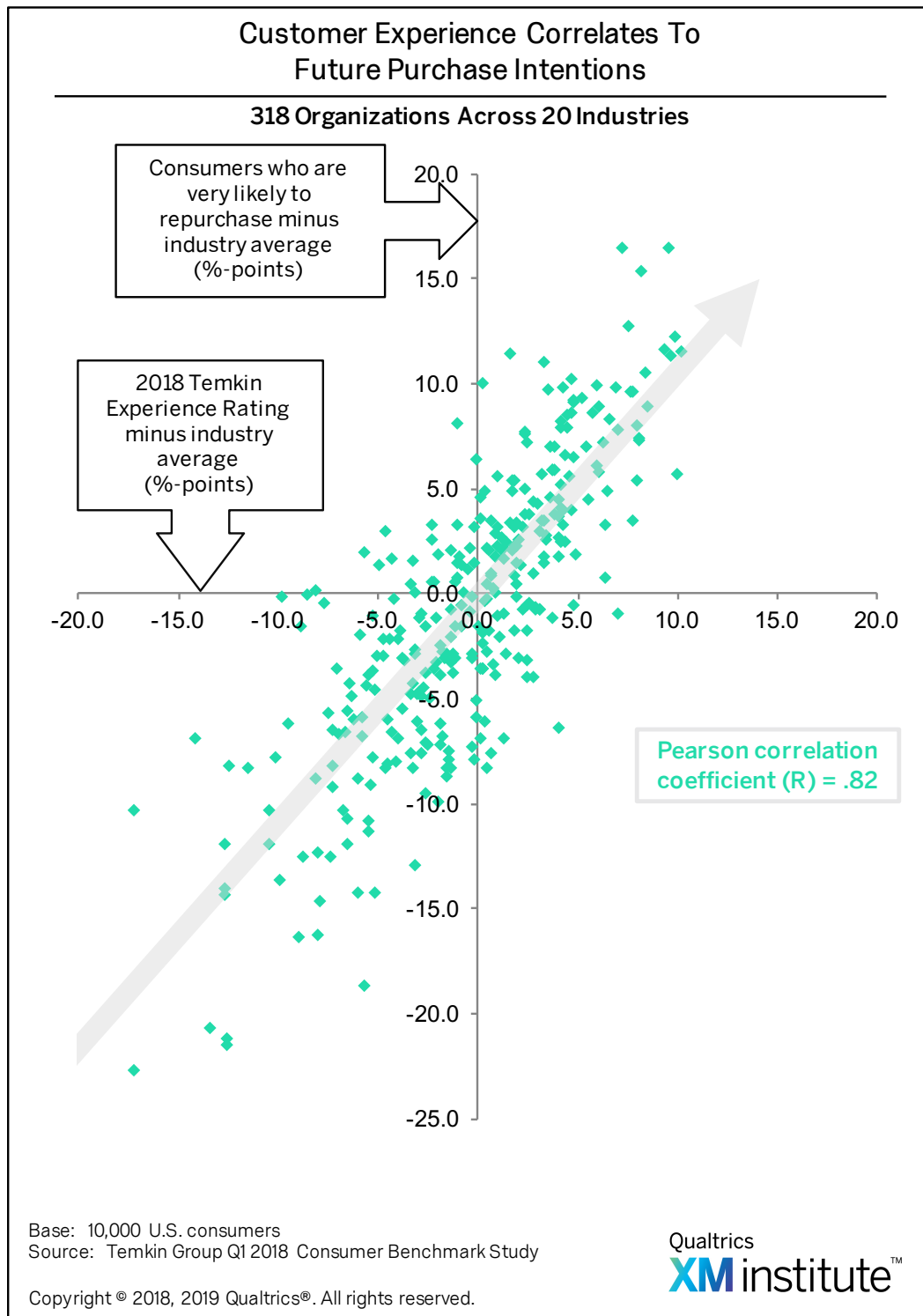


Figure 1

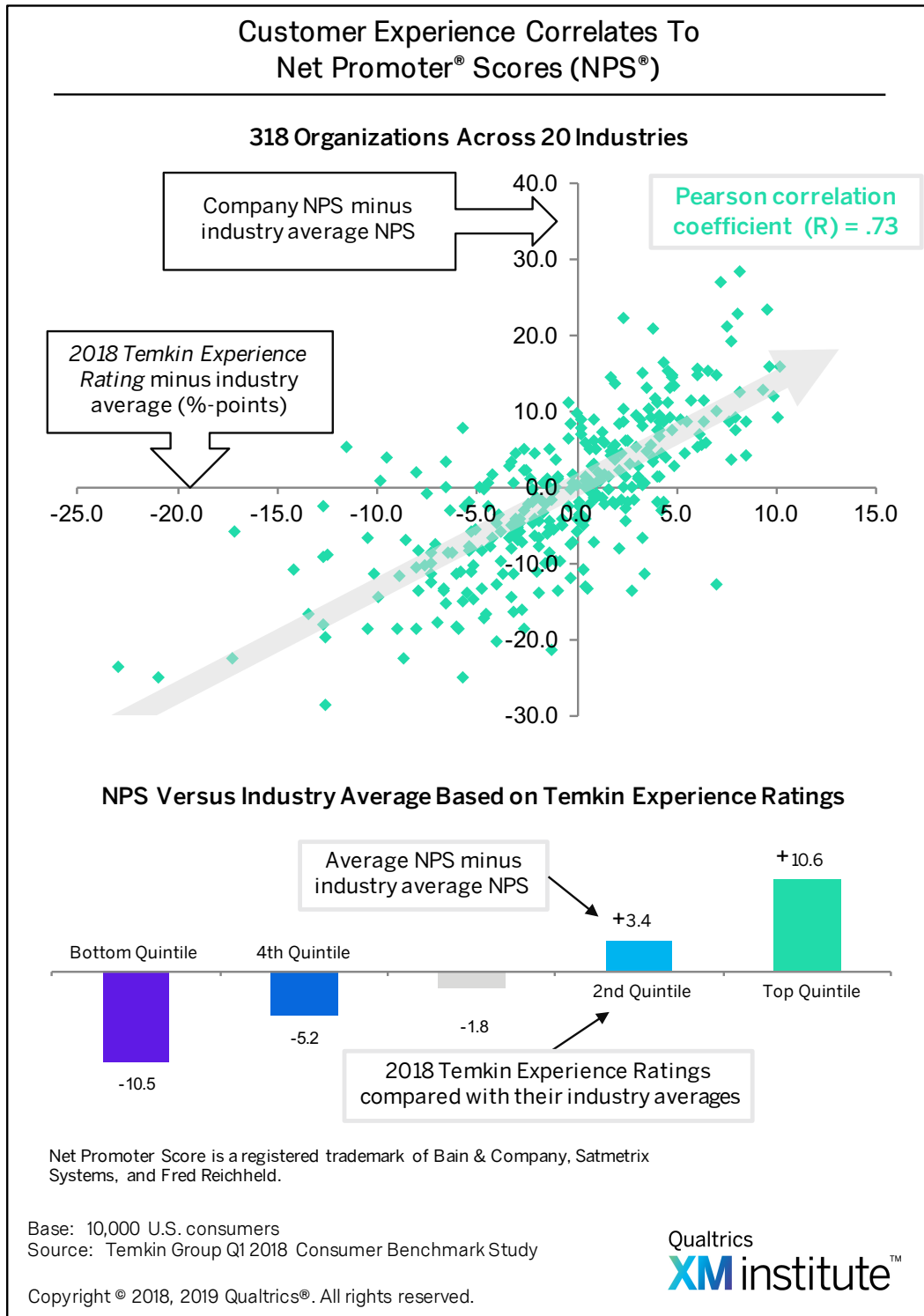


Figure 2

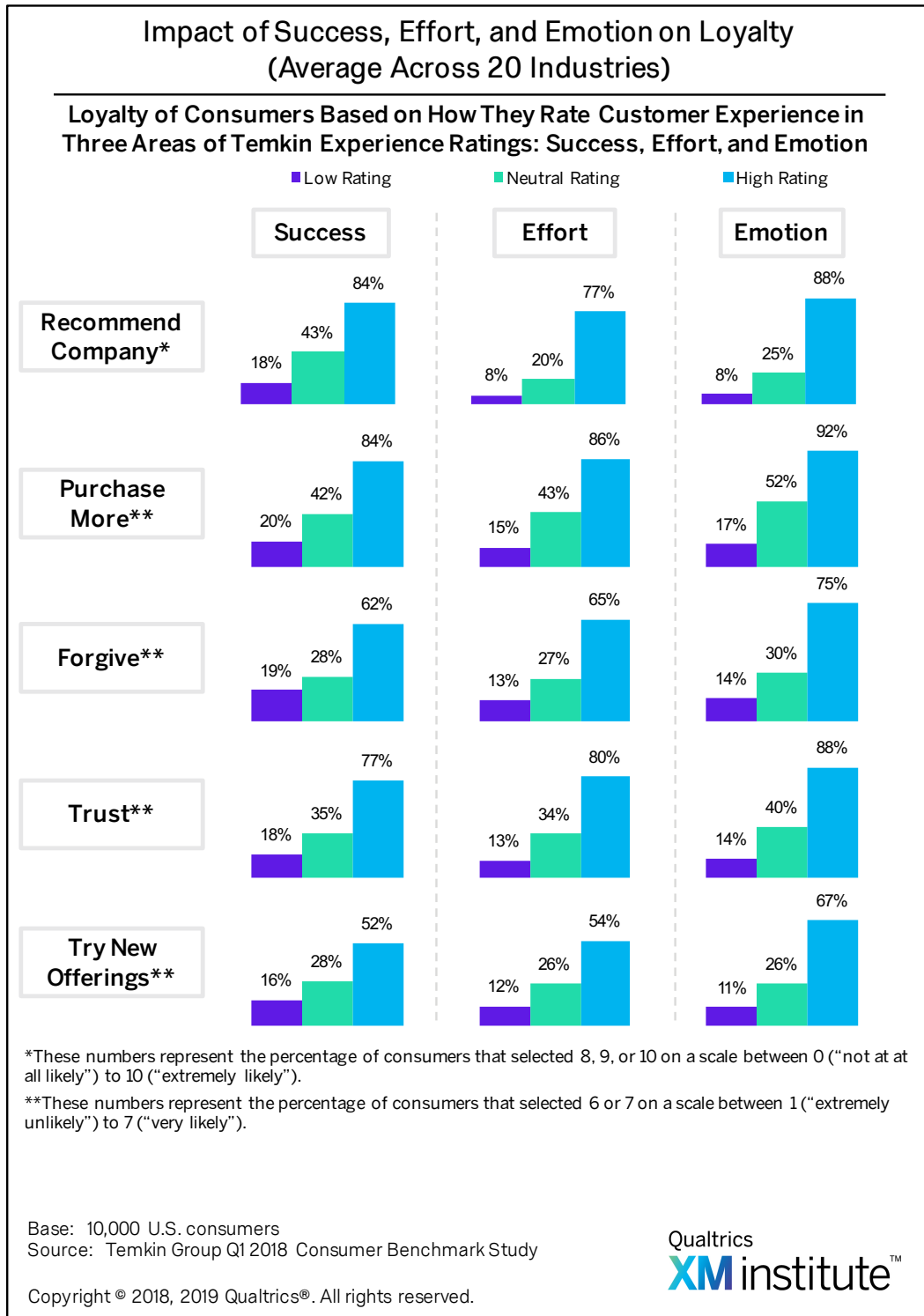


Figure 3

Elements Used in Model to Derive Revenue Impact Based on Improvement in Customer Experience

Basic assumptions in model:

- Companies have \$1 billion in annual revenues
- Examines revenue impact over three years
- Revenue impact will differ across industries for each year based on factors such as ease of switching providers
- Inputs to model include data from Temkin Group's Q3 2017 and Q1 2018 Consumer Benchmark Studies (10,000 U.S. consumers in each) along with estimates based on Temkin Group's judgment

Areas of Revenue that Increase Due to Improvement in CX

Revenue Area	Description
Retain existing business	The amount of existing business that customers will continue to do with company. Influenced by industry-level data on consumers' likelihood to repurchase.
Save business after a very bad experience	Business that companies are able to save after delivering a bad experience. Influenced by industry-level data on percentage of consumers that experience a very bad experience, the willingness of consumers to forgive companies after a bad experience, and their change in spending after those experiences.
Sell additional products and services	Additional purchases that consumers will make above their basic relationships. Influenced by industry-level data on consumers' likelihood to repurchase and estimates of how much add-on business is typical across industries.
Sell new offerings	Purchases that consumers make of new products and services offered by companies. Influenced by industry-level data on consumers' likelihood to try new offerings from companies and estimates of how much business comes from new business that is typical across industries.
Word of mouth	Purchases that result from consumers telling other people about their experiences. Combines additional purchases from positive word of mouth along with lost purchases from negative word of mouth. Influenced by industry-level data on consumers' likelihood to recommend and estimates of how many people they tell about the experience and the influence that those comments have on the decisions of other consumers.

Figure 4

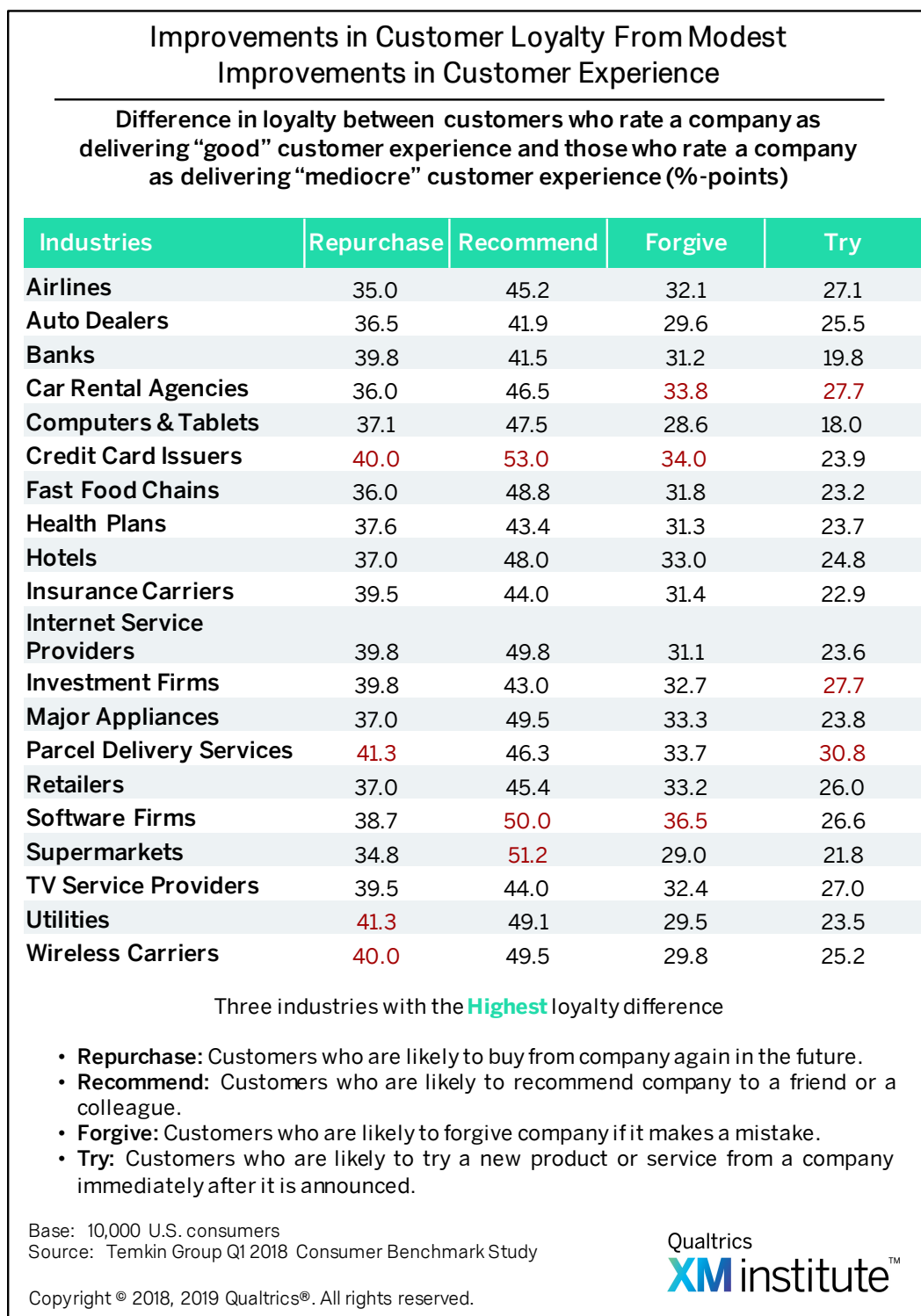


Figure 5

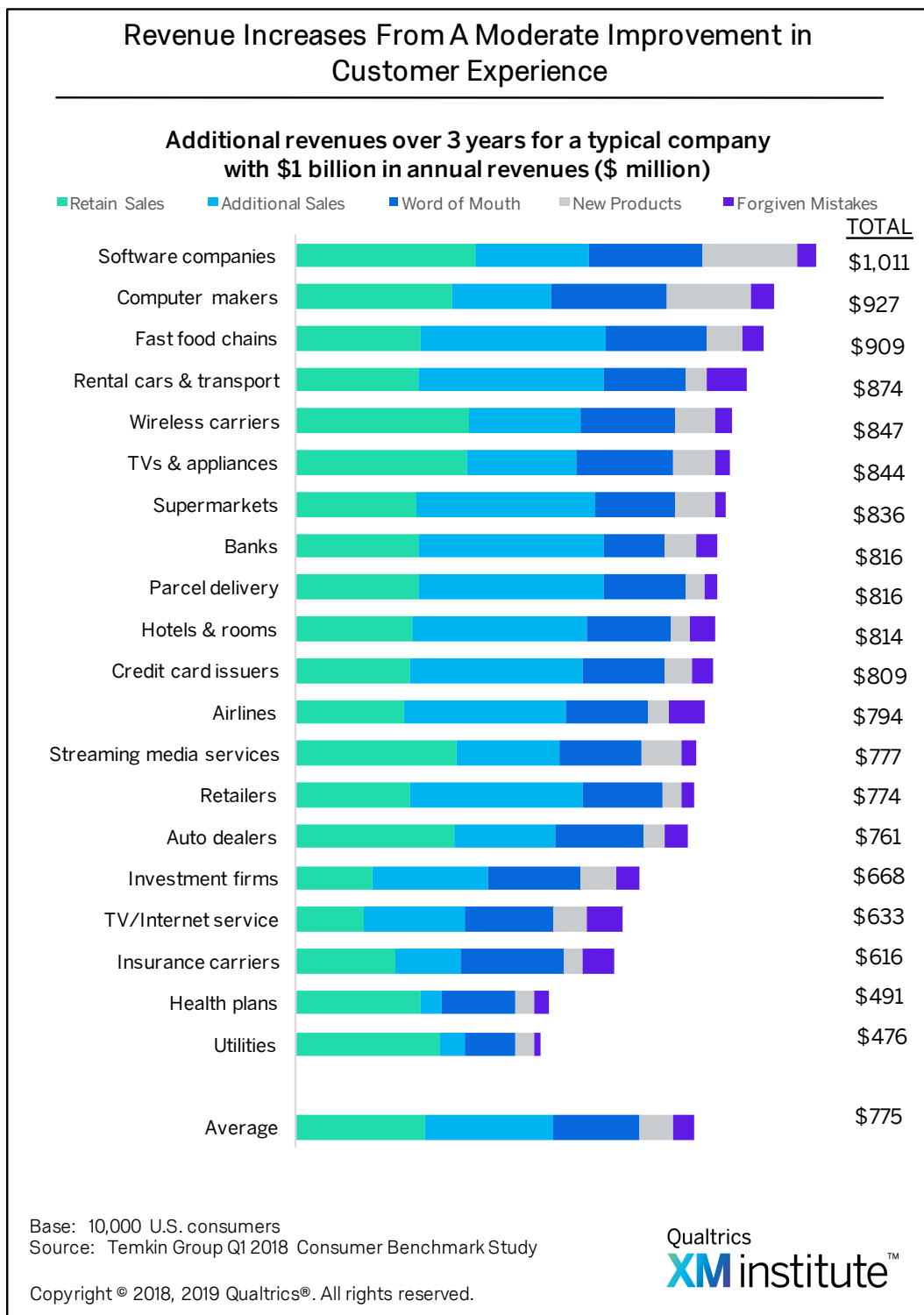


Figure 6

Revenue Increases From A Moderate Improvement in Customer Experience (Details)						
Additional revenues over 3 years for a typical company with \$1 billion in annual revenues (\$ million)						
Industries	Retain Sales	Addition al Sales	Word of Mouth	New Products	Forgiven Mistakes	TOTAL
Software companies	\$347	\$223	\$219	\$185	\$36	\$1,011
Computer makers	\$302	\$194	\$221	\$166	\$43	\$927
Fast food chains	\$240	\$360	\$195	\$72	\$42	\$909
Rental cars & transport	\$239	\$358	\$159	\$41	\$77	\$874
Wireless carriers	\$336	\$216	\$183	\$76	\$36	\$847
TVs & appliances	\$332	\$213	\$188	\$81	\$30	\$844
Supermarkets	\$232	\$348	\$155	\$80	\$21	\$836
Banks	\$239	\$358	\$119	\$59	\$41	\$816
Parcel delivery services	\$239	\$358	\$159	\$35	\$25	\$816
Hotels & rooms	\$226	\$338	\$164	\$36	\$50	\$814
Credit card issuers	\$223	\$334	\$158	\$54	\$40	\$809
Airlines	\$210	\$315	\$160	\$41	\$69	\$794
Streaming media services	\$311	\$200	\$158	\$78	\$29	\$777
Retailers	\$222	\$333	\$158	\$36	\$25	\$774
Auto dealers	\$306	\$197	\$172	\$38	\$47	\$761
Investment firms	\$148	\$222	\$183	\$69	\$46	\$668
TV/Internet service providers	\$131	\$196	\$172	\$65	\$69	\$633
Insurance carriers	\$194	\$125	\$201	\$37	\$59	\$616
Health plans	\$243	\$41	\$142	\$35	\$30	\$491
Utilities	\$279	\$46	\$100	\$35	\$15	\$476
Average	\$250	\$249	\$168	\$66	\$42	\$775

Base: 10,000 U.S. consumers
Source: Temkin Group Q1 2018 Consumer Benchmark Study

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Figure 7

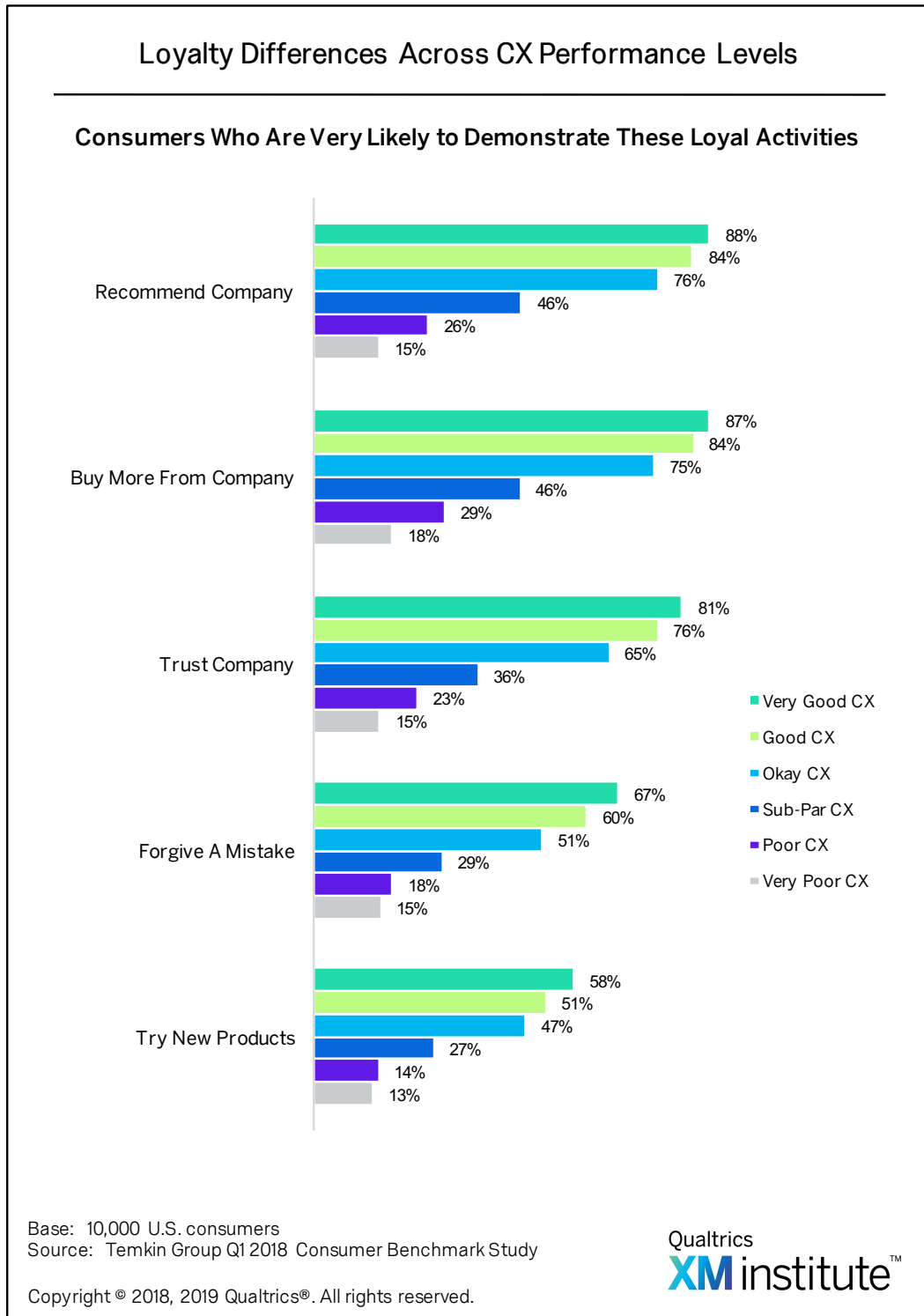


Figure 8

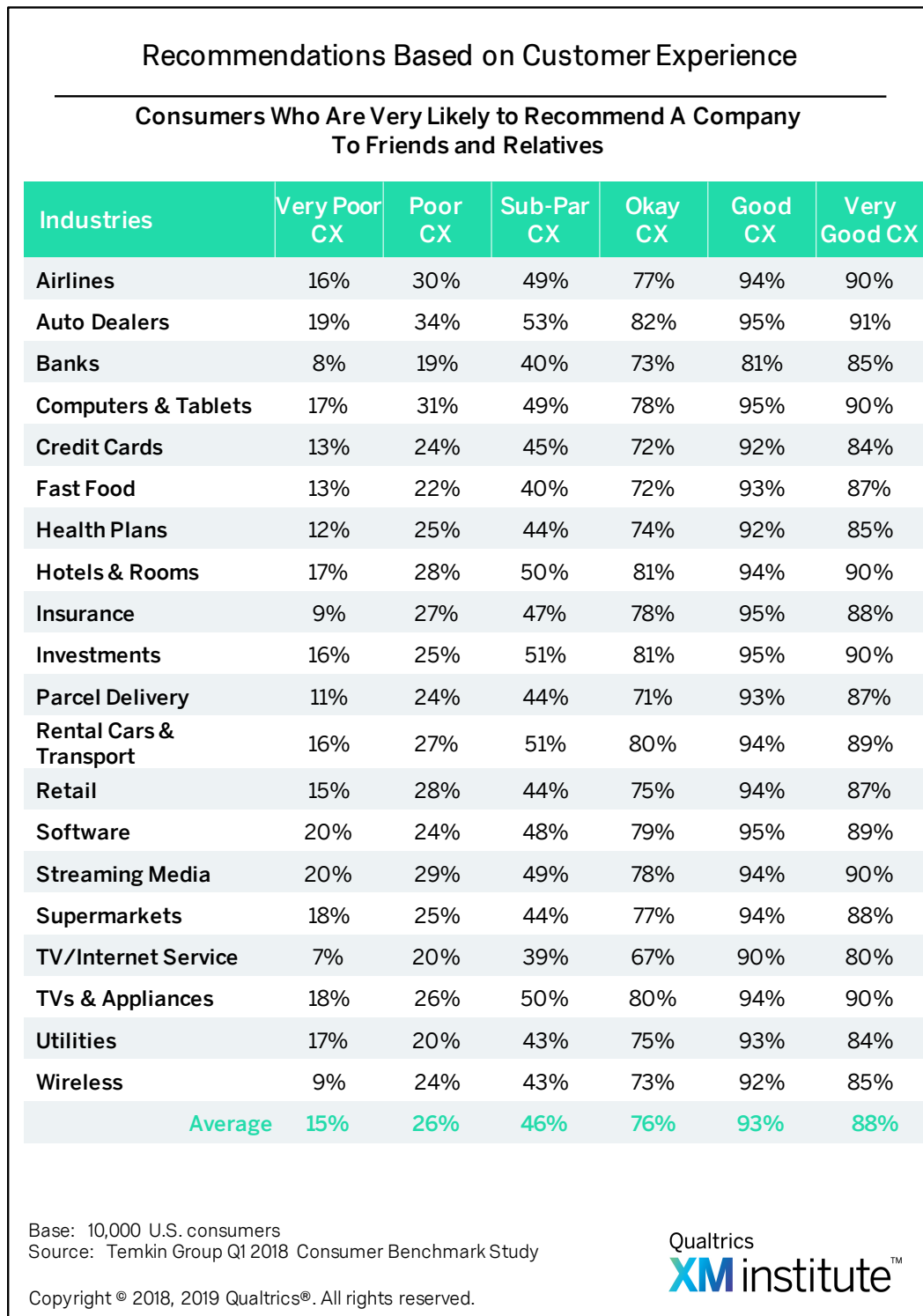


Figure 9

Likelihood to Repurchase Based on Customer Experience

Consumers Who Are Very Likely to Buy More From the Company if it Makes a Mistake Segmented by their Customer Experience Ratings

Industries	Very Poor CX	Poor CX	Sub-Par CX	Okay CX	Good CX	Very Good CX
Airlines	23%	35%	52%	80%	87%	90%
Auto Dealers	17%	30%	50%	78%	86%	89%
Banks	11%	21%	40%	72%	80%	84%
Computers & Tablets	20%	33%	50%	77%	86%	90%
Credit Cards	15%	25%	41%	71%	78%	83%
Fast Food	16%	31%	47%	77%	87%	90%
Health Plans	18%	29%	45%	73%	81%	85%
Hotels & Rooms	21%	32%	49%	79%	86%	85%
Insurance	11%	27%	45%	74%	82%	87%
Investments	16%	29%	46%	78%	86%	90%
Parcel Delivery	20%	32%	47%	76%	87%	90%
Rental Cars & Transport	19%	28%	45%	76%	84%	89%
Retail	19%	36%	51%	79%	88%	91%
Software	18%	25%	43%	75%	84%	88%
Streaming Media	24%	31%	46%	74%	83%	87%
Supermarkets	22%	36%	52%	82%	90%	93%
TV/Internet Service	9%	23%	38%	63%	72%	78%
TVs & Appliances	19%	28%	44%	75%	84%	88%
Utilities	19%	27%	42%	74%	83%	87%
Wireless	13%	25%	42%	72%	82%	85%
Average	18%	29%	46%	75%	84%	87%

Base: 10,000 U.S. consumers
Source: Temkin Group Q1 2018 Consumer Benchmark Study

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Figure 10

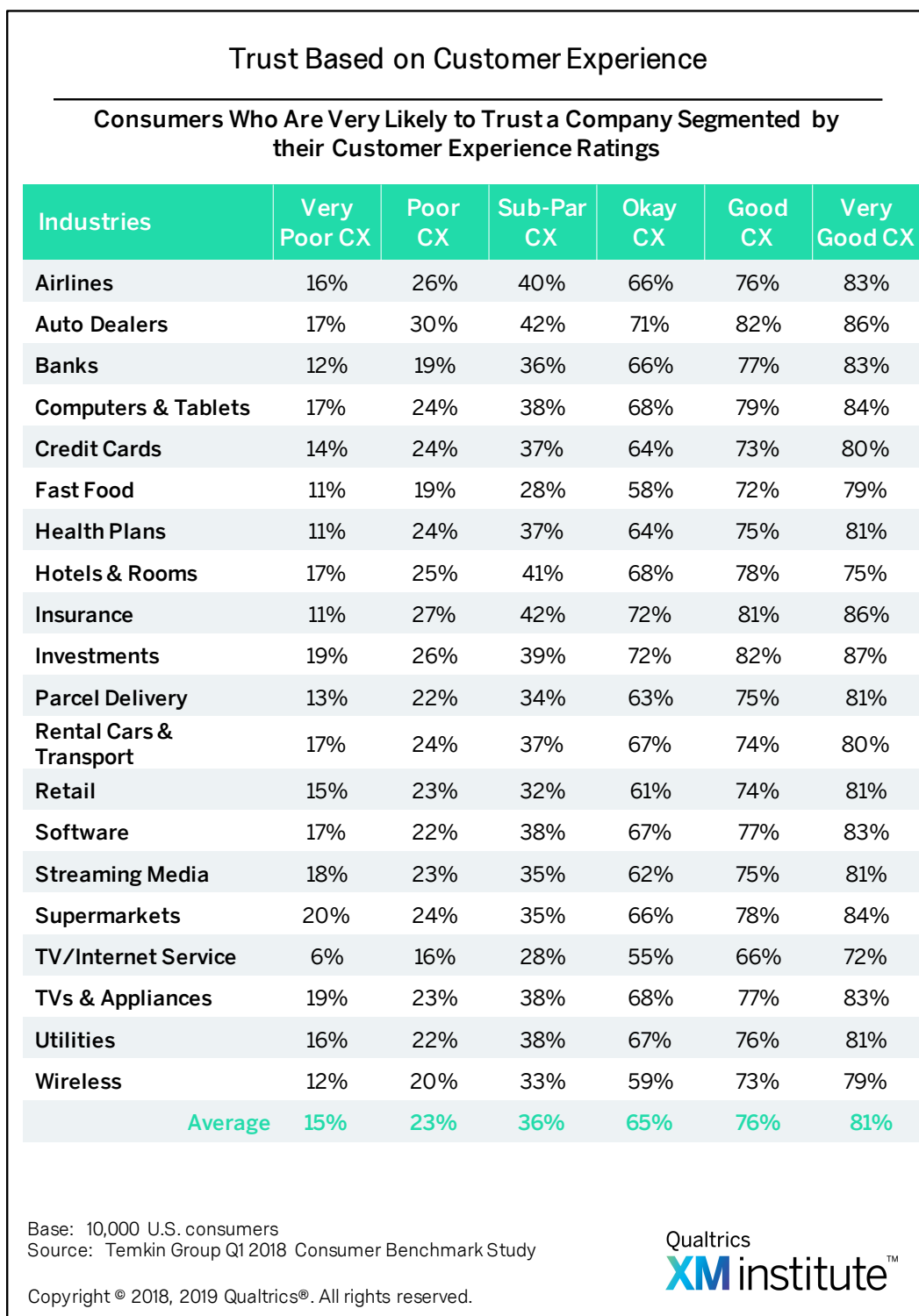


Figure 11

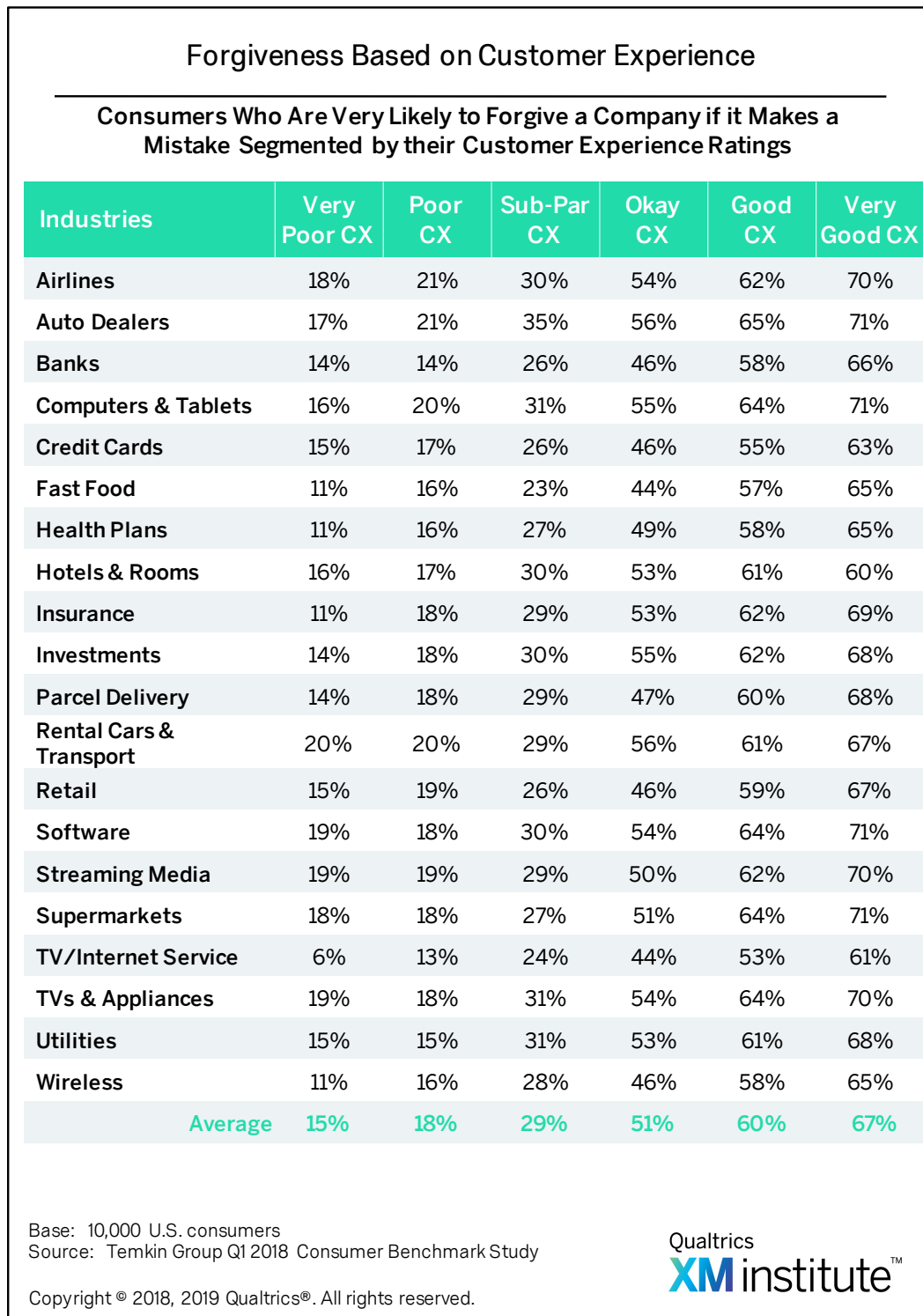


Figure 12

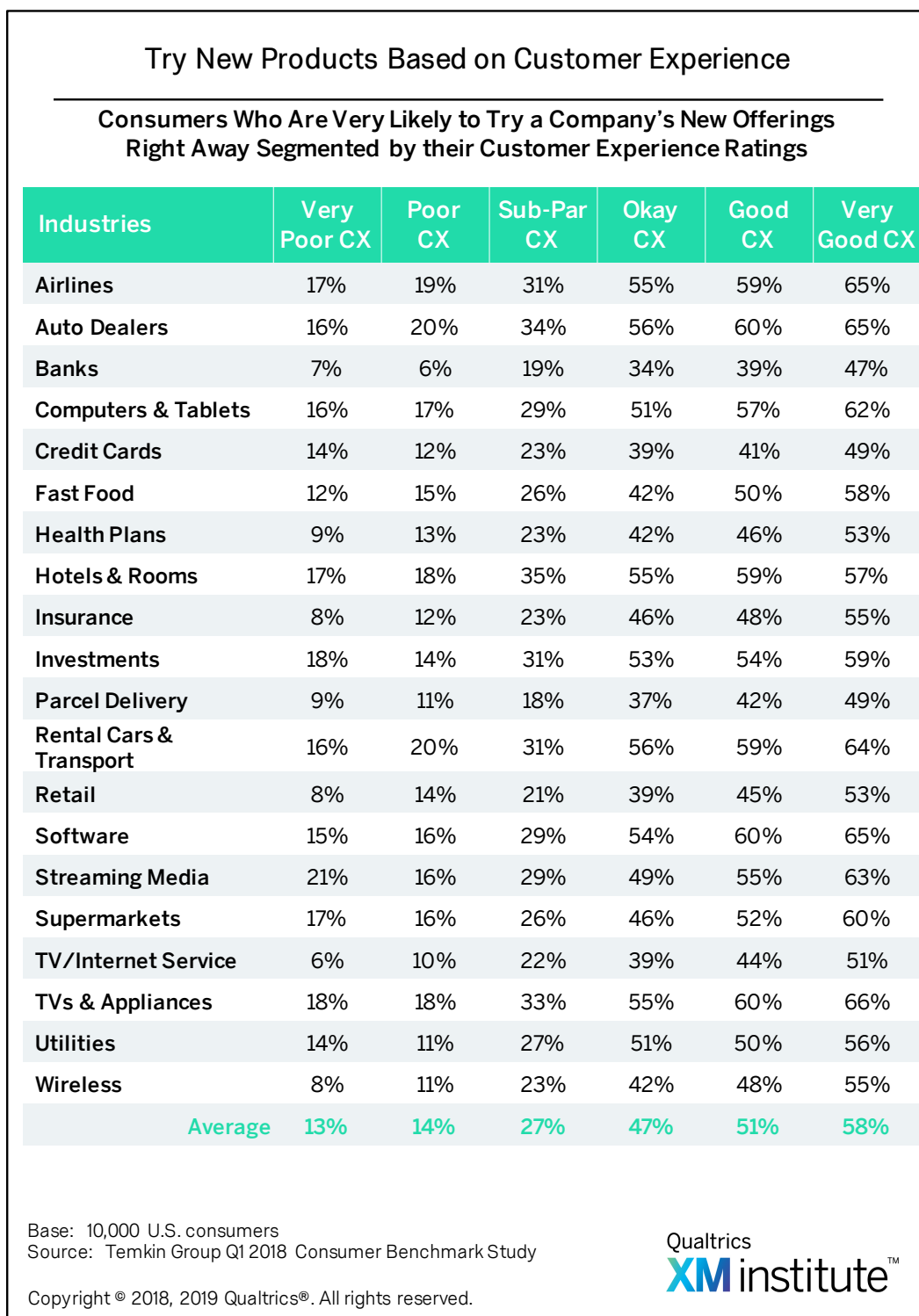


Figure 13

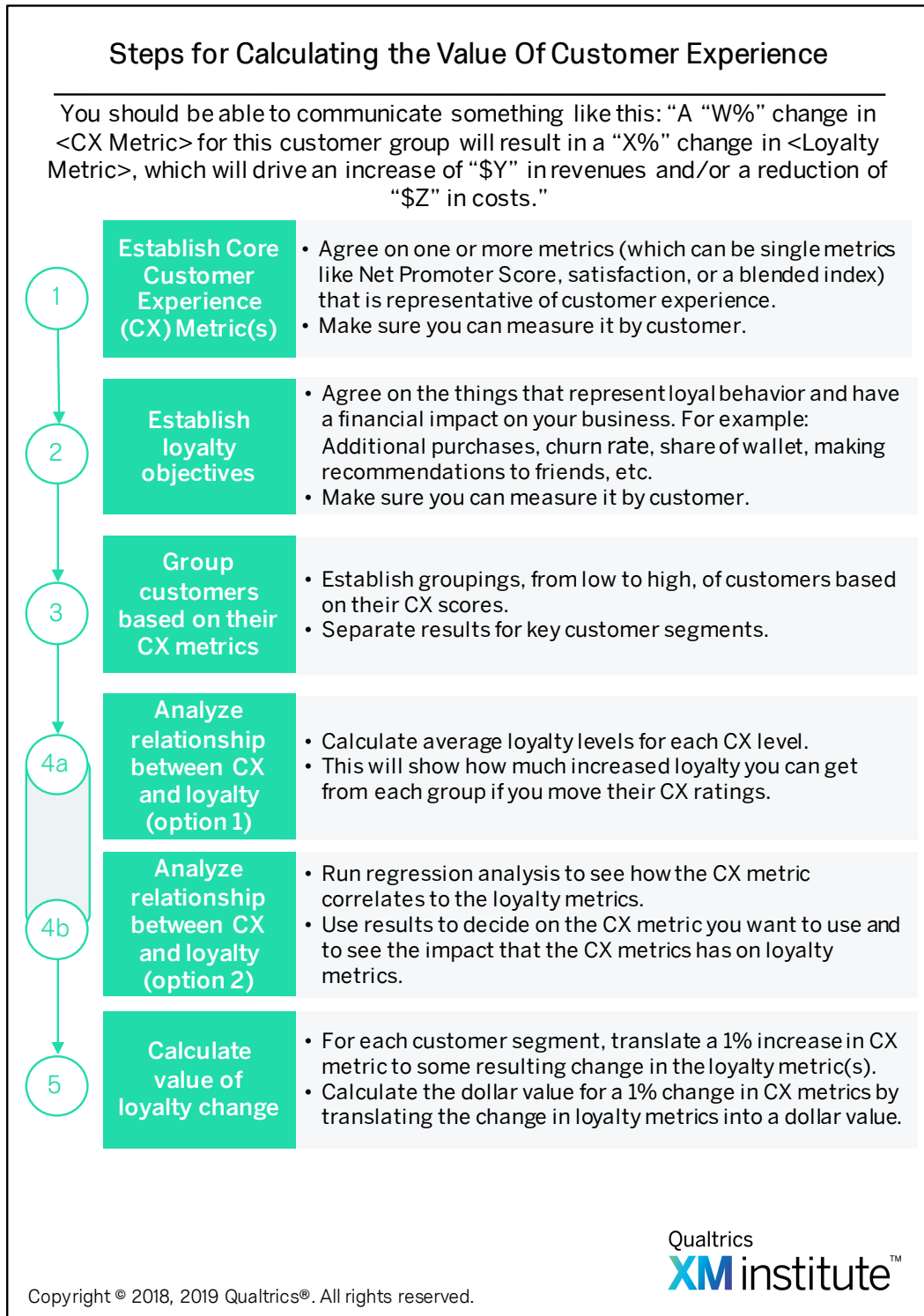


Figure 14