
THE 2017 CUSTOMER EXPERIENCE ROI STUDY AIRLINE INDUSTRY EDITION

Demonstrating the business value of a great customer experience...

A MESSAGE FROM WATERMARK'S FOUNDER

The U.S. airline industry certainly isn't renowned for the quality of its customer experience.

Fees are going up, leg room is going down, and – if you're lucky – you won't get dragged off the plane due to overbooking of seats (as happened in a widely publicized incident earlier this year).

Many in the industry question the true value of a differentiated customer experience, given that the four biggest U.S. air carriers control 80% of the market and enjoy near-monopoly conditions at many airports.

Those competitive conditions do make it difficult for fliers to completely boycott an airline that consistently mistreats them.

“As it turns out, airlines get quite a lift from a great customer experience.”

However, we suspected that there were still ample opportunities for consumers to exercise choice in carriers, or to at least influence other fliers' behaviors via word of mouth.

And, so, as we have done with other industries in prior [studies](#), we set out to determine if there really is a Customer Experience ROI, even in the seemingly commoditized business of air travel.

What we discovered should be of keen interest to airline executives, as well as any business leader who questions the value of customer-centricity. That's because, as it turns out, airlines get quite a lift from a great customer experience.

Regards,



Jon Picoult
Founder & Principal
Watermark Consulting

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THE CHALLENGE

What's a great, differentiated customer experience really worth to an airline?

It's a vexing question for the industry. Many airline executives publicly tout their commitment to the customer, but then are reluctant to invest in customer experience improvements – unsure of the financial return they really deliver.

As a result, many airlines continue to subject their customers to a variety of aggravations and indignities – such as cramped seating, hidden fees, overbooked flights, excessive 800-line hold times, and excruciatingly restrictive mileage award redemption policies.

To help industry leaders understand the overarching influence of a great customer experience (as well as a poor one), we sought to elevate the dialogue.

That meant getting the industry to focus, at least for a moment, not on the cost/benefit of specific customer experience initiatives, but rather, on the macro impact of an effective customer experience strategy.

We accomplished this by studying the cumulative total stock returns for two model portfolios – comprised of the Top 3 (“Leaders”) and Bottom 3 (“Laggards”) publicly traded companies in J.D. Power and Associates’ annual North America Airline Satisfaction Study.

Our analysis focused on the period from 2011 to 2016, after the most recent wave of airline consolidation was largely completed.

As the following page vividly illustrates, the results of our study (covering six years of stock performance) were quite compelling:

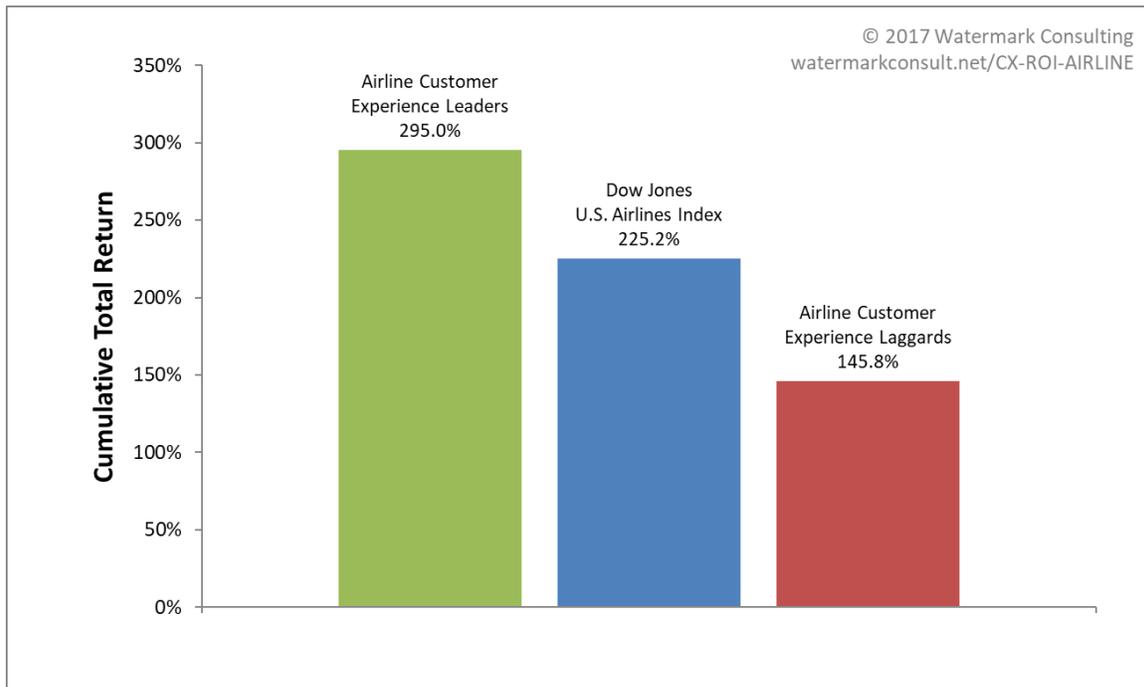
How The Study Was Conducted

Our analysis was based on the cumulative total stock return for equally weighted, annually readjusted model portfolios comprised of Airline Customer Experience Leaders and Laggards. For each year covered by the study, Leaders and Laggards were defined as the Top 3 and Bottom 3 publicly traded airlines in J.D. Power and Associates’ annual North America Airline Satisfaction Study (combining both Traditional and Low-Cost carrier ratings). Portfolio returns were based on the prior-year performance of the Leaders and Laggards, to ensure that the results were not influenced by the publication of the J.D. Power study itself.

THE RESULTS

Airline Customer Experience Leaders Outperform the Market

6-Year Stock Performance of North American Airline Customer Experience Leaders vs. Laggards (2011-2016)



Watermark defines Airline Customer Experience Leaders and Laggards as the Top 3 and Bottom 3 publicly traded airlines in J.D. Power's 2012-2017 North America Airline Satisfaction Studies. Comparison is based on performance of equally weighted, annually readjusted stock portfolios of Customer Experience Leaders and Laggards.

- ➔ Airline Customer Experience Leaders outperformed the industry, generating a total return that was *70 points higher* than the Dow Jones U.S. Airlines Market Index.
- ➔ The industry's Customer Experience Laggards trailed far behind, posting a total return that was *79 points lower* than that of the broader U.S. Airline sector.
- ➔ Over the six-year period, the Airline Customer Experience Leaders generated a total return which was *more than double* that of the Laggards.

KEY TAKEAWAYS

These results, reflecting over half a decade of company performance, offer a striking reminder of how a great customer experience is rewarded over the long-term, by customers and investors alike.

The Airline Leaders in this study are enjoying the many benefits accorded by a positive, memorable customer experience:

- **Higher revenues** – due to better retention, less price sensitivity, greater wallet share and positive word-of-mouth.
- **Lower expenses** – due to reduced acquisition costs, fewer complaints, and the less intense service requirements of happy, loyal customers.

In contrast, the Laggards' performance is being weighed down by just the opposite – a poor experience that stokes customer frustration, increases attrition, generates negative word-of-mouth and drives up operating expenses.

“A great customer experience can deliver tremendous strategic and economic value to a business, in a way that’s difficult for competitors to replicate.”

The competitive opportunity implied by this study is compelling, because the reality today is that many sources of competitive differentiation can be fleeting. Product innovations can be mimicked, technology advances can be copied, and cost leadership is difficult to achieve let alone sustain.

But a great customer experience, and the internal ecosystem supporting it, can deliver tremendous strategic and economic value to a business, in a way that’s difficult for competitors to replicate.

KEY TAKEAWAYS

For virtually all of the six years covered by our analysis, the same three airlines dominated the J.D. Power rankings: JetBlue, Southwest and Alaska Airlines.

Understanding how these carriers create such a positive impression is instructive not just for business leaders in the airline industry, but those in *any* industry:

While all three carriers clearly embrace time-tested best practices for customer experience engineering, they apply those principles to their business in some especially noteworthy ways:

- **They are keenly focused on organizational culture.**

All three airlines recognize the importance of creating a workplace culture that fosters customer experience excellence. While they don't have identical cultures, they do have distinctive, customer-centric cultures. Those cultural traits weave their way through every inch of these companies, from hiring practices to incentive programs to behavioral norms. It creates unparalleled strategic alignment across each firm, cultivating a workforce that is friendly and helpful, from the 800-line service center all the way to the ticket counter.

- **They equip staff with the right tools.**

Seeding an organization with the right staff only gets you so far. If they're not properly empowered, if they're not equipped with the right tools, then even the best-intentioned employees will struggle to deliver a great customer experience. These Airline Leaders understand that if you have the right people on board with the right tools in hand, everything else falls into place. They give their workforce the necessary training and decision latitude so employees have both the motivation and the authority to serve customers with distinction.

- **They advocate for their customers.**

In an industry where most firms seem to exploit their monopolistic position at the expense of customer interests, the Airline Leaders – each in their own way – provide tangible illustrations of customer advocacy. Southwest eliminates concealed fees (such as baggage and ticket change charges) with its “Transparency” approach. JetBlue allows families to pool and share their mileage points, so they can earn award trips faster. And Alaska Airlines offers a 20-minute baggage delivery guarantee, backed by actual passenger compensation. These are all examples of how these airlines elicit a strong emotional response from customers, by demonstrating that they've “got your back.”

KEY TAKEAWAYS

It's also worth noting that the intensely positive impression that these Airline Customer Experience Leaders leave on passengers isn't just a consequence of low fares.

As many discount carriers around the world have demonstrated, low fares and a great customer experience do not necessarily go hand in hand. In addition, keep in mind that JetBlue and Southwest are no longer the low-cost providers in the U.S. airline industry (that distinction belongs to Allegiant, Frontier and Spirit).

What JetBlue, Southwest and Alaska Airlines bring to the market is a deliberately designed and consistently delivered customer experience.

It's an experience that infuses humanity and hospitality into an industry that is notably devoid of it.

It's an experience that builds shareholder value, by growing revenues and controlling expenses.

It's an experience that, quite simply, allows these widely admired airlines – like all customer experience leading firms – to repeatedly reach new heights.

LEARN FROM THE LEADERS

How do Customer Experience Leading firms – in any industry – create such positive, memorable impressions on the people they serve? It doesn't happen by accident. They all embrace some basic tenets when shaping their brand experience – principles that can very likely be applied to your own organization:

- 1 They aim for more than customer satisfaction.** Satisfied customers defect all the time. And customers who are merely satisfied are far less likely to drive business growth through referrals, repeat purchases and reduced price sensitivity. Maximizing the return on customer experience investments requires shaping interactions that cultivate loyalty, not just satisfaction.
- 2 They nail the basics, and then deliver pleasant surprises.** To achieve customer experience excellence, these companies execute on the basics exceptionally well, minimizing common customer frustrations and annoyances. They then follow that with a focus on “nice to have” elements and other pleasant surprises that further distinguish the experience.
- 3 They understand that great experiences are intentional & emotional.** The Leading companies leave nothing to chance. They understand the universe of touchpoints that comprise their customer experience and they manage each of them very intentionally – choreographing the interaction so it not only addresses customers’ rational expectations, but also stirs their emotions in a positive way.
- 4 They shape customer impressions through cognitive science.** The Leading companies manage both the reality *and* the perception of their customer experience. They understand how the human mind interprets experiences and forms memories, and they use that knowledge of cognitive science to create more positive and loyalty-enhancing customer impressions.
- 5 They recognize the link between the customer & employee experience.** Happy, engaged employees help create happy, loyal customers (who, in turn, create more happy, engaged employees!). The value of this virtuous cycle cannot be overstated, and it's why the most successful companies address both the customer and the employee sides of this equation.

ABOUT WATERMARK CONSULTING

wa • ter • mark

A distinguishing mark impressed on paper during manufacture to make it appear more distinctive and rich. Often used to prevent imitation.

What if you could “watermark” your customer experience – making it so compelling and distinctive that, like a watermark on paper, it left an indelible impression that couldn’t easily be copied? This is Watermark Consulting’s focus.

We are a boutique customer experience consultancy. We help companies impress their customers and inspire their employees – creating raving fans that drive business growth.

We’ve worked with some of the world’s foremost brands, collectively representing over 750,000 employees and \$500 billion in annual revenue.

The philosophy behind Watermark is simple: With every interaction, businesses win or lose share. Each touchpoint – be it with customers, distributors, or even employees – presents an opportunity to either build brand loyalty or erode it.

Watermark helps companies capitalize on this concept by creating end-to-end brand experiences that don’t just satisfy, but impress.

To learn more about our consulting services, educational programs or conference keynotes, please visit www.watermarkconsult.net.

Contact Us

Ask us a question, inquire about our services, or just talk through a problem. We’re happy to assist.

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