customer
THINK

Yes, Virginia, There Is A Return On Customer Experience Investments

By Jon Picoult, Watermark Consulting
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In some business circles, getting people to believe in a return on customer experience investments is a lot like getting them to acknowledge the existence of Santa Claus.

Admittedly, it can be difficult to quantify a specific profit or revenue impact from some types of experience enhancers – more robust "voice of the customer" programs, more polished customer statements, better trained front-line personnel, streamlined customer touchpoints, a more user-friendly website, etc. The financials surrounding such initiatives are much less precise than those of hard-dollar initiatives, like the renegotiation of real estate leases or the consolidation of corporate functions.

Of course, that doesn't mean customer experience investments have any less of a compelling return than these other endeavors. It just takes a little more work to quantify it. And, frankly, in some cases, it requires a leap of faith.

Leap of Faith?
I know what you're thinking. Most Chief Financial Officers won't look kindly on a business case grounded in a leap of faith.

The fact of the matter is, though, there are plenty of big business decisions that are routinely made with limited quantification and a healthy leap of faith. Corporate re-brandings, advertising programs, synergistic mergers, and even the hiring of highly compensated, star CEOs – these are all examples of initiatives that bring with them a good deal of risk and expense, yet must be green lit without the benefit of a precise, quantifiable business case.

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How does a senior executive, CFO or Board member give their assent under such circumstances? They complement what limited hard data may be available with gut instinct. They get comfortable taking a leap of faith because they simply *believe* in the concept behind the investment, whether it's the power of a reinvigorated brand, the potential unlocked by an acquisition, or some other venture.

So when executives push back on customer experience investments, citing the absence of an iron clad, quantifiable business case, their reservations may actually reflect a deeper skepticism about the true value of customer experiences strategies.

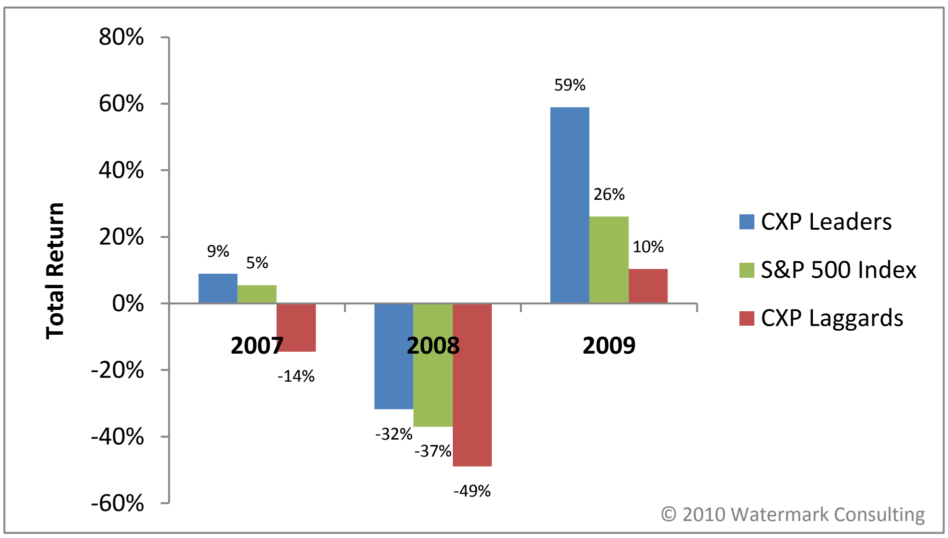
One way to address such underlying skepticism is to elevate the dialogue, getting executives – even for just a moment – to focus less on project-by-project justifications and more on the macro impact of experience-oriented business strategies.

Is The Market Rewarding Customer Experience Leaders?
To that end, Watermark Consulting recently conducted an analysis of stock market performance for customer experience leaders and laggards over the past three years, a time period encompassing the market's run up to its all-time high in late 2007, to its Great Recession-induced nadir in early 2009, to its more recent bounce back.

To identify the leaders and laggards, we used Forrester Research's 2007 Customer Experience Index study, picking the top ten and bottom ten publicly traded companies from Forrester's rankings. Then we compared the total return from investing in an equally-weighted portfolio of customer experience leaders to that for customer experience laggards and the broader market (as reflected by the S&P 500 index).

The results were quite revealing:

Stock Performance of Customer Experience Leaders, Laggards and S&P 500



From 2007 through 2009, through the best and worst of times, the customer experience Leader portfolio outperformed the broader stock market, generating cumulative total returns that were 41% better than the S&P 500 Index and 145% better than the customer experience Laggard portfolio.

During each of the three years, the Leader portfolio *always* outperformed the index and the Laggard portfolio *always* underperformed the index. Looking at these data points, it certainly appears that customer delight and customer misery have very different influences on company stock performance.

In addition, while the Leaders portfolio declined in value during the depths of the recession, the decline was less pronounced than that for the broader market. As the recession abated in 2009, the Leaders portfolio also proved quite resilient, more than doubling the return of the S&P 500.

This performance profile supports the notion that customer experience leaders are somewhat cushioned from the most severe impacts of economic downturns, because they represent one of the last places consumers cut back and one of the first places to which they return.

What The Numbers Really Mean

There are plenty of criticisms that could be lobbed at this analysis: the three-year time period is too short, the Leader and Laggard sample sizes are too small, the Forrester study isn't a good measure of customer experience excellence, stock market returns aren't good indicators of long-term company performance, etc.

No analysis is perfect and this one is hardly meant to suggest that any company embracing a strategy of customer experience differentiation will outperform the S&P by over 40%. There are many variables at play, not the least among them pure execution (embracing a strategy and actually implementing it are two very different things).

These results are also not meant to preclude attempts to cost justify customer experience improvement efforts on a project-by-project basis. That rigor must remain; this data merely provides some much-needed air cover.

What this analysis *does* suggest is this: companies that successfully bring great, end-to-end customer experiences to the marketplace are rewarded – by consumers and investors. Their operational excellence and attention to detail, their simple and straightforward communication, their well-equipped and genuinely helpful front-line staff – the sum of these parts pays off in the end, even if the precise impact of individual components is uncertain at best.

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Hopefully, by framing the return on customer experience excellence in terms executives can easily understand (stock price and market value), this analysis will begin chipping away at the lingering doubts that some of them harbor towards experience-oriented investments.

And with that target of skepticism removed, all that's left to figure out is who eats the milk and cookies on Christmas Eve.

Jon Picoult is the Founder of Watermark Consulting, a firm that helps businesses improve their customer loyalty and employee engagement, turning everyday people into loyal brand advocates. Prior to founding Watermark, Jon held senior executive roles in service, technology, sales and marketing at Fortune 100 companies. Learn more at www.watermarkconsult.net.