



Customer Experience Measurement

What to Measure and Why

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INTRODUCTION

Choosing customer experience metrics to drive organizational behaviors and communicate with managers is a huge undertaking. The metrics you choose will affect everything from modeling capabilities to engaging management for resource allocation. This paper frames the metrics discussion around two components: 1) Understanding stability and growth opportunities; and 2) Mitigating risk and defection.

SIX CONSIDERATIONS IN SELECTING METRICS

To begin, consider these six criteria when choosing metrics to measure customer experience. These criteria encompass communication, modeling, and industry components:

- Easily communicated: Teams and management understand what the metrics mean and can be united to act.
- Encourages variability: Metrics need to have variability in the scores. If all customers give uniformly positive or negative ratings, or if the scale is not wide enough to detect differences, you won't be able to create accurate models.
- Sensitivity: Metrics need to be sensitive to change over time. It's discouraging and frustrating to drive performance improvements and not be able to detect corresponding improvements in metrics like satisfaction and loyalty.
- Industry relevance: Not all metrics pertain to every industry. Most controversial is the likelihood to recommend. You'll need to consider whether that's a good question for your industry—for example, is it likely that a customer would highly recommend a fast food restaurant location?
- Financial outcomes: Customer experience metrics should correspond to financial outcomes. You should be able to create models showing that improvements in customer satisfaction (or other metrics) have a clear financial ROI.
- Match to other data streams: The metrics across all data streams need to be the same. Ensure that questions and scales match exactly in all instruments, including mystery shop and customer satisfaction questionnaires, panel studies, contact center questions, etc.

STABILITY AND GROWTH VS. RISK AND DEFECTION

Given those criteria, let's look at specific metrics and what they assess. The measurement of loyalty has two components: 1) Understanding stability and growth opportunities; and 2) Mitigating risk and defection. These two components are not the same thing and both must be measured.

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Stability

1	Attitudinal Loyalty	<ul style="list-style-type: none"> • Say positive things • Recommend • Consider as first choice to buy more products and services • Do more business
2	Commitment	<ul style="list-style-type: none"> • Emotional engagement with the brand • Willing to make concessions in convenience or price

Risk

3	Competitive Vulnerability	<ul style="list-style-type: none"> • Current baseline business (wallet share/trip share) • Increase/reduction in overall baseline business • Switch to a competitor for some or all of business
4	Problems & Complaints	<ul style="list-style-type: none"> • External complaints to other customers or prospects via social media and other channels • Internal complaints using “proper” channels like contact center, employee, response cards or internet

In the sections below, we provide examples for each set of metrics and suggestions for providing management insights.

Attitudinal Loyalty

Attitudinal loyalty metrics assess the customer’s likelihood to say positive things about the brand or location to other people; to recommend; to consider that location or brand their first choice to buy more products and services; and the likelihood of doing more business with that location/brand.

The “Big Three” questions - all attitudinal loyalty questions - appear on virtually every customer experience survey. They include:

1. Satisfaction: How satisfied were you with your overall experience?
2. Return: How likely are you to return to this location/repurchase this product or service?
3. Recommendation: How likely are you to recommend this location (or product/service) to a friend or colleague?

Our research shows that these three questions tend to be correlated—however, they are NOT the same. We have found 5% to 15% differences in top box scores for loyalty vs. satisfaction, and the diagram below illustrates why this is critically important to separate.

	Low Loyalty	High Loyalty	TOTAL
High Satisfaction	6.5%	74.5%	81.0%
Low Satisfaction	11.0%	8.0%	19.0%
TOTAL	17.5%	82.5%	100.0%

..... Highly satisfied and highly likely to continue

..... Minimum amount at risk

We highly recommend that your suite of customer experience metrics includes questions that assess how vulnerable you are to competitive threats.

High Loyalty/High Satisfaction: In the table, 74.5% of customers gave both high satisfaction and high likelihood to return/re-purchase ratings. They had a good experience and say they'll come back. This number reflects the stable revenue base. All other quadrants represent some amount of risk.

High Satisfaction/Low Loyalty: These customers say that though they had a good experience, they're not especially likely to return. This means they have competitive options; The brand may not be uniquely differentiated and customers are not highly committed to the experience offered.

Low Satisfaction/Low Loyalty: These customers represent the most vulnerable part of the revenue base—they will likely leave soon and represent a substantial amount of risk to the business.

Low Satisfaction/High Loyalty: These customers feel stuck. It's likely that few competitive choices exist, so they continue spending money with the brand even though they aren't satisfied. These customers have the highest risk of switching should a new competitor arrive in the market.

Commitment

Committed customers are emotionally connected to a brand. They have had enough positive experience with the brand that they are more likely to forgive failure, remaining loyal even when they experience a problem. They will drive out of their way to shop at the brand, and will tolerate some price premium. Harley Davidson and Apple are iconic brands with high commitment from customers—and that commitment may not always seem rational.

Good questions for assessing commitment include:

"I will drive further to shop at X company, even though a competitor might be closer."

"I'm willing to spend a little more to shop at X company rather than shop at a competitor."

"I love XYZ Company."

To understand the power of commitment and its effect on the bottom line, take a look at results for one of our retail customers: Highly committed customers spend 75 cents of every category dollar with their brand—compared to 40 cents for less committed customers. Understanding what drives commitment can result in substantive financial return for your company.

Competitive Vulnerability

How vulnerable are you to competitors? How likely is it that you will lose wallet share to competitors in the next 12 months? Or worse, that customers will switch to a different competitor altogether? We highly recommend that your suite of customer experience metrics includes questions that assess how vulnerable you are to competitive threats. These include:

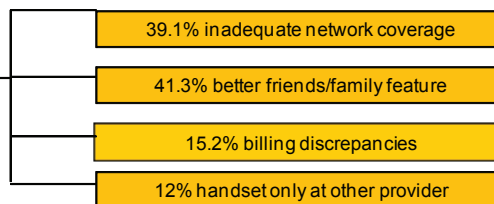
- Creating baselines of current share for your services. This might mean trip share (number of times the customer shops at your location vs. a competitors); product portfolio share (number of products vs. competitors); or dollars spent.
- Changes to the baseline: Predicting potential changes to the baseline will estimate current risk to your revenue base—you’ll need to understand to whom customers will switch, when, and why.

The following two examples show data from a study Market Force conducted for wireless carriers. We predicted churn: Which carriers will lose customers, to whom, and why. The diagram below illustrates several things. First, we estimated how much potential churn could occur for each carrier—for example, for carrier A, estimated churn is 2.7%. We also estimated whose services these customers wanted to adopt—for carrier A, 43.9% plan to switch to Carrier B. The reasons for the switch are very interesting. Two reasons stem from the competitor offering something better: 1) A better friends and family feature and 2) A desired handset. However, two reasons stem from the carrier’s inability to deliver on its own brand promise: 1) Adequate network coverage and 2) Accurate bills. Understanding whether your brand is competitively vulnerable due to better offerings vs. its failure to deliver will drive your resource allocation strategies for retaining customers.

Understanding whether your brand is competitively vulnerable due to better offerings vs. its failure to deliver will drive your resource allocation strategies for retaining customers.

Current Provider	Switching to:	Percent
Carrier A <i>2.7% Churn</i>	Carrier B	43.9%
	Carrier C	7.3%
	Carrier D	22.0%
	New Threat	9.8%
Carrier B	Carrier A	50.0%
	Carrier C	12.5%
	Carrier D	21.4%
	New Threat	0.0%
Carrier C	Carrier A	38.9%
	Carrier B	31.5%
	Carrier D	11.1%
	New Threat	3.7%
Carrier D	Carrier A	35.1%
	Carrier B	35.1%
	Carrier C	16.2%
	New Threat	2.7%

Problems and Complaints



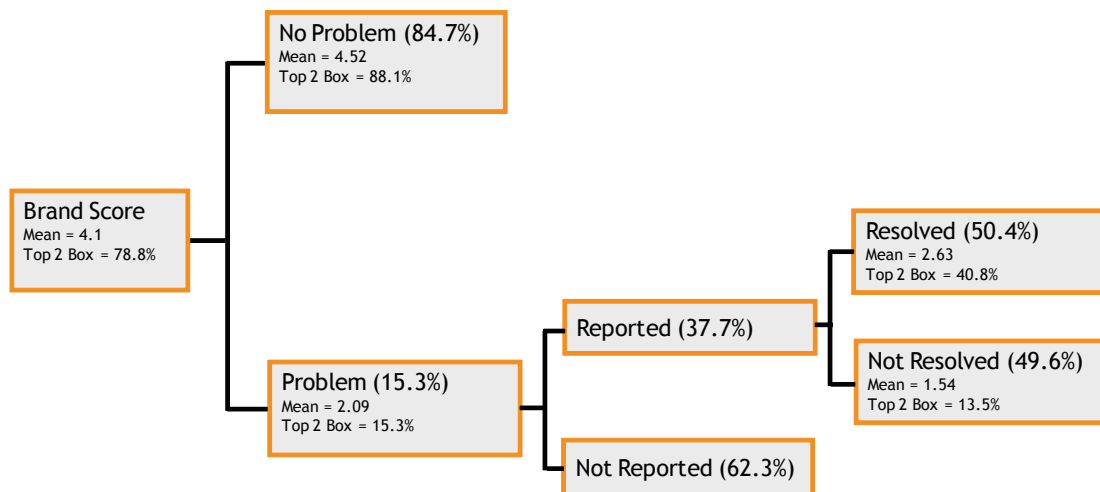
The final set of metrics measures problem experience. Problems are the key source of customer defection—and keeping problems from happening represents the best starting point for companies trying to improve customer experience. You need to measure four things about problem experience:

1. How many people experience a problem
2. What problems are experienced
3. Whether customers complain using formal channels (contact center, directly to employee, web)
4. How effective you are at resolving problems

Here's some things to remember about problem experience:

- Typically less than one-third of customers report a problem using a formal channel—competitive choice and switching costs drive this number.
- The two-thirds of customers who do not report that they experience a problem have incredible access to making their voice heard via social media. Bad news cannot be controlled and can do significant damage to a brand's reputation. Worse yet, your company can have a false impression that everything is ok—when it isn't.
- Effectively resolving problems can create committed brand advocates. There is an opportunity for your company to make lemonade out of lemons.

To illustrate, look at the diagram below. About 85% of customers did not experience a problem—but 15% did. The loyalty scores between the two groups are markedly different. As you trace through the diagram, you'll notice that about one third of the customers who experienced a problem reported that problem. Given the opportunity to resolve the problem, did the company do well at that? No! Only about 50% of the problems were resolved—and even when problems were resolved, customers did not become advocates. Loyalty scores remained low in comparison to scores for those customers who never experienced a problem.



You will need to have processes for helping every individual brand location improve on the things that matter most to your brand and to customers. Without location-level change, you will never see brand-level change.

JUST REMEMBER: IT'S NOT ABOUT THE SCORE

At the end of the day, creating metrics for measuring customer experience is only the beginning of a long journey. Your company will need to clearly identify the drivers of loyalty, commitment, competitive vulnerability, and problem experience. You will need to have processes for helping every individual brand location improve on the things that matter most to your brand and to customers. Without location-level change, you will never see brand-level change. To draw an analogy from Lance Armstrong's famous book, *It's Not About the Bike*, we emphasize "It's not about the score." You must enable your organization to take action on the insights customer experience metrics create. For advice on how to do that, see our white papers titled "Better Together" and "Managing Complexity" by clicking on the Knowledge Center at www.marketforce.com.

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