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Intuitively, most people recognize the value of a great customer experience. Brands that deliver them are ones that we want to interact with as customers — that we become loyal to, and that we recommend to our friends and family. But as executives leading businesses, the value of delivering such an experience is often a lot less clear, because it can be hard to quantify. Rationales for focusing on customer experience tend to be driven by a gut belief that it's just "the right thing to do." The problem with this is that often, whether experience is a priority or not simply becomes a battle of opinions.

It was for this reason that we wanted to explore ways of quantifying the impact of good versus poor customer experiences — and then see what the value was in delivering them. In order to do so, we gained access to experience and revenue data from two global, $1B+ businesses. One of these was a transaction-based business; the other, a relationship-based subscription business.

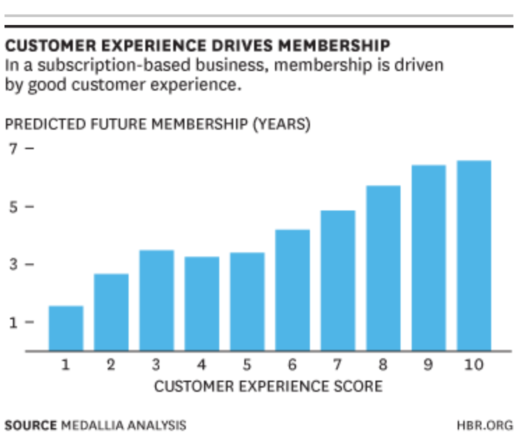
What we found: not only it is possible to quantify the impact of customer experience — but the effects are huge.

We looked at two companies with different revenue models — one transactional, the other subscription-based — using two common elements that are relevant to all industries: customer feedback, and future spending by individual customers. To see the effect of experience on future spending, we looked at experience data from individual customers at a point in time, and then looked at those individual customers' spending behaviors over the subsequent year. While transactional businesses primarily care about return frequency and spend per visit, subscription-oriented industries focus on retention, cross-sell, and upsell. We used multiple regression to account for factors that might drive these outcomes other than customer experience — for instance, the fact that exercise enthusiasts might simply enjoy their gym membership more regardless of experience —

and estimate how much of the behavioral differences were due to past customer experience. After doing so, it soon became clear: customer experience is a major driver of future revenue.

What we found: after controlling for other factors that drive repeat purchases in the transaction-based business (for example, how often the customer needs the type of goods and services that the company sells), customers who had the best past experiences spend 140% more compared to those who had the poorest past experience.

The results for the subscription-based business were equally impressive. Whereas a transaction-based business is interested in how often customers return, a subscription-based business is primarily interested in how long their customers remain loyal. Our findings: A member who rates as having the poorest experience has only a 43% chance of being a member a year later. Compare this to a member who gives one of the top two experience scores — they would have a 74% chance of remaining a member for at least another year. We were also able to use this data to predict future membership length based on the quality of experience. The difference: on average, a member who gives the lowest score will likely only remain a member for a little over a year. Compare that to a member who gives the highest score — they are likely to remain a member for another six years.



These are dramatic differences.

Of course, the rationale we often hear for not investing to deliver a great experience is that the cost is high. Speaking to executives inside these businesses, however, we often hear the opposite. That is: delivering great experiences actually *reduces* the cost to serve customers from what it was previously. Unhappy customers are expensive — being, for example, more likely to return products or more likely to require support. Systematically solve the source of dissatisfaction, you don't just make them more likely to return — you reduce the amount they cost you to serve. For example, Sprint has gone on record as suggesting that as part of their focus on improving the customer experience, they've managed to reduce their customer care costs by as much as 33%.

It's time to stop the philosophical debate about whether investing in the experience of your customers is the right business decision. This isn't a question of beliefs — it's a question about the behavior of your customers. Connect the right data, and not only is it possible to quantify the impact of the difference between delivering a great experience and delivering a poor one — but it will demonstrate to everyone in your organization just how big that impact can be.

Peter Kriss is a Senior Research Scientist at Medallia and the Director of Research for Vision Prize. By integrating behavioral research and technology, he helps structure communication in ways that promote better social and economic outcomes. Connect with him on Twitter at @peterkriss. To receive an email when he posts, click here.

