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Topic Overview: Customer Experience In A Down Economy

by Harley Manning and Moira Dorsey
for Customer Experience Professionals

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by **Harley Manning and Moira Dorsey**

with Bruce D. Temkin, Megan Burns, and Rachel Zinser

EXECUTIVE SUMMARY

As markets around the world continue to decline, credit stays tight, and job cuts escalate, making the case for customer experience will be even more of a challenge. But firms can ensure that the experiences they offer don't degrade — and hopefully improve — during the economic downturn. To do this, customer experience professionals should focus on keeping current projects from getting cut, making the business case for funding new projects, investing in small projects that pay large dividends, and identifying the investments they must make to achieve the next level of Experience-Based Differentiation (EBD) maturity when the inevitable recovery occurs and budgets improve.

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NOTES & RESOURCES

Forrester compiled its most pertinent research on customer experience in a down economy to provide an overview of its research and perspectives on this subject.

Related Research Documents

["Fixing Known Usability Problems Pays Off"](#)
October 10, 2008

["How To Get Funding For Web Site Improvements"](#)
June 17, 2008

["Eight Steps For Keeping Customer Experience Momentum During An Economic Downturn"](#)
April 25, 2008

WHY CUSTOMER EXPERIENCE MATTERS EVEN MORE IN A RECESSION

Making the case for customer experience just got tougher. As markets around the world continue to decline, credit stays tight, and job cuts escalate, customer experience projects will come under assault.¹ Cost cuts may be unavoidable, but they won't come without pain to the business in the form of:

- **Lost revenues.** There is a direct correlation between investing in a great customer experience and increased revenues. Forrester examined the correlation between the customer experiences delivered by 112 US firms and the loyalty of their customers, and we found that good customer experience correlates highly to loyalty.² When we looked at how this might affect the annual revenues of individual companies, we found that customer experience quality could cause a swing of \$242 million for a large bank and \$184 million for a large retailer.³ FedEx employees promise to “make every FedEx experience outstanding,” and customer experience professionals at the firm have found that a 1% improvement in customer retention resulted in \$100 million in revenues.⁴
- **Increased costs.** Cutting investments in customer experiences can increase costs for years to come. During the economic downturn in 2001, executives at Dell prioritized cost efficiency over the experience of dealing with phone agents. As a result, Dell's head of customer service told *BusinessWeek* in 2006 that they “were transferring and, still today, are transferring close to 45% of calls. That's out of a half a million calls from consumers a week.”⁵
- **Missed opportunities.** As customer experience practices begin to mature, we find a considerable distance between leaders and laggards. In Forrester's 2008 Customer Experience Index, for instance, we found that the gap within an industry ranged from 15% for investment firms to more than 35% for ISPs and credit card providers.⁶ Customer experience leaders that freeze or slow development may be more easy to catch now than in more flush economic times. For firms looking to close the gap, this represents an opportunity to catch up by investing in improving customer experiences for their customers.

BEST PRACTICES FOR CUSTOMER EXPERIENCE DURING TOUGH ECONOMIC TIMES

Firms can ensure that the experiences they offer don't degrade — and hopefully improve — during the economic downturn. To do this, customer experience professionals should:

- **Keep momentum for current projects.** It's easier to hold on to funding for in-flight efforts than it is to sell the business on new initiatives — especially in a downturn.
- **Get funding for new projects.** Even during tough times, some projects will get the green light. Knowing how to win out against competing proposals is key to snagging scarce resources.

- **Focus on big bangs for small bucks when budgets tighten.** Despite best efforts, some cuts may be inevitable. But even a small budget can fund serious improvements when customer experience professionals concentrate on the right types of project.
- **Maintain a long-term perspective.** While managing in a recession can demand a dynamic shifting of priorities — oftentimes focusing more on cost cutting and short-term goals — customer experience professionals should find ways to stay on the path to longer-term objectives. As Jeff Immelt told GE's top executives: "Keep your business safe, but keep building for the future."⁷

Keep Momentum For Current Projects

To avoid second-guessing by execs, customer experience professionals should highlight the economic downside of abandoning projects, surface the risks of ignoring customer needs, and communicate relentlessly across the organization.

- ▶ [Eight Steps For Keeping Customer Experience Momentum During An Economic Downturn](#)
Bruce D. Temkin
- ▶ [The Business Impact Of Customer Experience](#)
Bruce D. Temkin

Get Funding For New Projects

Successful proposals typically require a solid business case. Our analysis of business cases that won funding for customer experience projects shows that they typically appeal to decision-makers on three levels: authority, logic, and emotion.

- ▶ [Bulletproof Your Business Case For Improving Customer Experience](#)
Megan Burns
- ▶ [How Much Will Your Web Site Metrics Improve?](#)
Megan Burns
- ▶ [How To Get Funding For Web Site Improvements](#)
Megan Burns
- ▶ [The Business Case Self-Test](#)
Megan Burns
- ▶ [Top Decision Criteria For Execs Who Approve Web Customer Experience Budgets](#)
Megan Burns

Focus On Big Bangs For Small Bucks When Budgets Tighten

Focus on well-understood usability problems with known fixes that produce clear ROI — a winning formula in any economy. Beyond dealing with the basics, firms should fight hard to keep customer research projects intact, even if they have to reduce costs by doing some of the work in-house.

- ▶ [Fixing Known Usability Problems Pays Off](#)
Megan Burns
- ▶ [Making The Most Of Your Agency Web Design Budget](#)
Craig Menzies
- ▶ [Small Web Site Investments That Pay Off](#)
Adele Sage

Maintain A Long-Term Perspective

Delivering excellent customer experiences that consistently build loyalty — what Forrester calls Experience-Based Differentiation (EBD) — requires a multiyear journey. Investments in major initiatives may not be feasible during the current economic downturn. However, firms should plan ahead by identifying the investments they must make to achieve the next level of EBD maturity when the inevitable recovery occurs.

- ▶ [Customer Experience Innovation In Three Steps](#)
Bruce D. Temkin
- ▶ [Experience-Based Differentiation](#)
Bruce D. Temkin
- ▶ [The Chief Customer/Experience Officer Playbook](#)
Bruce D. Temkin
- ▶ [The Customer Experience Journey](#)
Bruce D. Temkin

UPCOMING RESEARCH

Forrester will continue to provide insights and recommendations for customer experience professionals as the economic crisis unfolds. Several documents are slated for release in the coming weeks:

How The Financial Crisis Will Affect Bank Customer Loyalty
Bill Doyle
Q4 2008

Need To Cut Costs? Improve The Web Site Experience

Megan Burns

Q4 2008

Why Innovation Matters In A Recession

Cindy Commander

Q4 2008

Customer Experience Spending Trends

Megan Burns

Q1 2009

Obstacles To Customer Experience Success, 2009

Bruce D. Temkin

Q1 2009

FOR MORE INFORMATION

Research Help Desk

Research specialists in Forrester's Research Help Desk collaborate with Forrester analysts to compile these Topic Overviews for selected areas of Forrester's coverage. If you have additional questions about this topic, please contact us at researchhelpdesk@forrester.com, and we will respond to your question within 36 hours.

Research Alerts

To be notified when a new document is published about customer experience professionals in an economic downturn or by any of the analysts listed above, [set up a Research Alert](#).

ENDNOTES

- ¹ Forrester asked its Customer Experience Peer Research Panel about the state of the economy. While most of the companies have lowered their financial outlooks, only a few felt that customer experience would become less important. However, if they do need to cut costs, companies ranked design agency services and focus groups high on the list of customer experience activities that might get trimmed back. See the April 25, 2008, "[Eight Steps For Keeping Customer Experience Momentum During An Economic Downturn](#)" report.
- ² Forrester asked nearly 5,000 consumers about their interactions with a variety of companies, gauging the usefulness, usability, and enjoyability of those experiences. Based on these consumer responses, we calculated the Customer Experience Index for 112 firms in nine different industries. Led by Costco, Borders, and Barnes & Noble, retailers dominated the top of the rankings. But on average, there's a lot of room for

improvement: Only 10% of the firms wound up with “excellent” ratings — and 21% were “poor” or “very poor.” That’s why firms should put customer experience initiatives near the top of their 2008 strategic plans and chart a course toward Experience-Based Differentiation. See the November, 21, 2007, “[The Customer Experience Index, 2007](#)” report.

- ³ We examined the correlation between the customer experiences delivered by 112 US firms (as defined by Forrester’s Customer Experience Index) and the loyalty of their customers. Our analysis shows that good customer experience correlates highly to loyalty — especially when it comes to consumers’ plans for making additional purchases. When we examined how this might affect the annual revenues of individual companies, we found that customer experience quality could cause a swing of \$242 million for a large bank and \$184 million for a large retailer. Customer experience quality was most highly connected to the purchase plans of Fifth Third’s customers and the intentions to switch of Cablevision and Nextel customers. See the March 24, 2008, “[The Business Impact Of Customer Experience](#)” report.
- ⁴ Source: Mark Colombo, senior vice president, digital access marketing, FedEx Services, speaking at Forrester’s Marketing Forum 2008.
- ⁵ Source: “Dell Spiffs Up Its Service,” *BusinessWeek*, June 13, 2006 (http://www.businessweek.com/technology/content/jun2006/tc20060612_046085.htm).
- ⁶ Forrester asked nearly 5,000 consumers about their interactions with a variety of companies, gauging the usefulness, usability, and enjoyability of those experiences. Based on these consumer responses, we calculated the Customer Experience Index for 114 firms in 12 different industries. Only 11% of the firms wound up with “excellent” ratings — and 38% were “poor” or “very poor.” The overall CxPi ratings for investment firms ranged from 62% to 77%: This 15% spread is the smallest range for any industry. Four industries ended up with CxPi spreads of more than 30%: Internet service providers (39%), credit card providers (37%), medical insurers (32%), and airlines (31%). See the December 12, 2008, “[The Customer Experience Index, 2008](#)” report.
- ⁷ Source: Steve Prokesch, “Crisis Advice from GE’s Immelt: Stay Committed to Growth,” *Harvard Business Review*, October 27, 2008 (http://discussionleader.hbsp.com/hbreditors/2008/10/leading_in_tumultuous_times_ad.html).

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