

# Watermark Consulting 2019 Customer Experience ROI Study

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



## A Message From Watermark's Founder

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Nine years ago, we launched the Customer Experience (CX) ROI Study in response to a sad but true reality:

Many business leaders pay lip service to the concept of customer experience – publicly affirming its importance, but privately skeptical of its value.

We wondered... how could one illustrate the influence of a great customer experience, in a language that every business leader could understand and appreciate?

And so, the CX ROI Study was born, depicting the impact of good and bad customer experiences, using the universal business “language” of stock market value.

**This year's study provides the strongest support yet for why every company should make differentiating their customer experience a top priority.**

It's become one of the most widely cited analyses of its kind, and has proven to be an effective tool for opening people's eyes to the competitive advantage accorded by a great customer experience.

This year's study provides the strongest support yet for why every company – public or private, large or small – should make differentiating their customer experience a top priority.

Thank you for the interest in our study. I wish you the best as you work to turn more of *your* customers into raving fans.

Regards,



Jon Picoult  
Founder & Principal  
Watermark Consulting

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## The Business Challenge

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

It's a question that seems to vex lots of business executives, many of whom publicly tout their commitment to the customer, but then are reluctant to invest in customer experience improvements.

As a result, companies continue to subject their customers to complicated sales processes, cluttered websites, dizzying 800-line menus, long wait times, incompetent service, unintelligible correspondence and products that are just plain difficult to use.

To help business 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 executives 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 10 (“Leaders”) and Bottom 10 (“Laggards”) publicly traded companies in customer experience. (See the sidebar for more details on the study's methodology.)

As the following page vividly illustrates, the results of our latest analysis (covering *eleven* years of stock performance) are 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 Customer Experience (CX) Leaders and Laggards.

For each year covered by the study, CX Leaders and CX Laggards were identified via publicly available third-party customer experience rankings (Forrester Research's CX Index from 2007-2015, and Temkin Group's Experience Ratings from 2016-2018). Both of these firms' CX rankings are based on surveys of ten thousand or more U.S. consumers.

In any given year, the Leaders and Laggards were defined as the Top 10 and Bottom 10 publicly traded companies in these rankings.

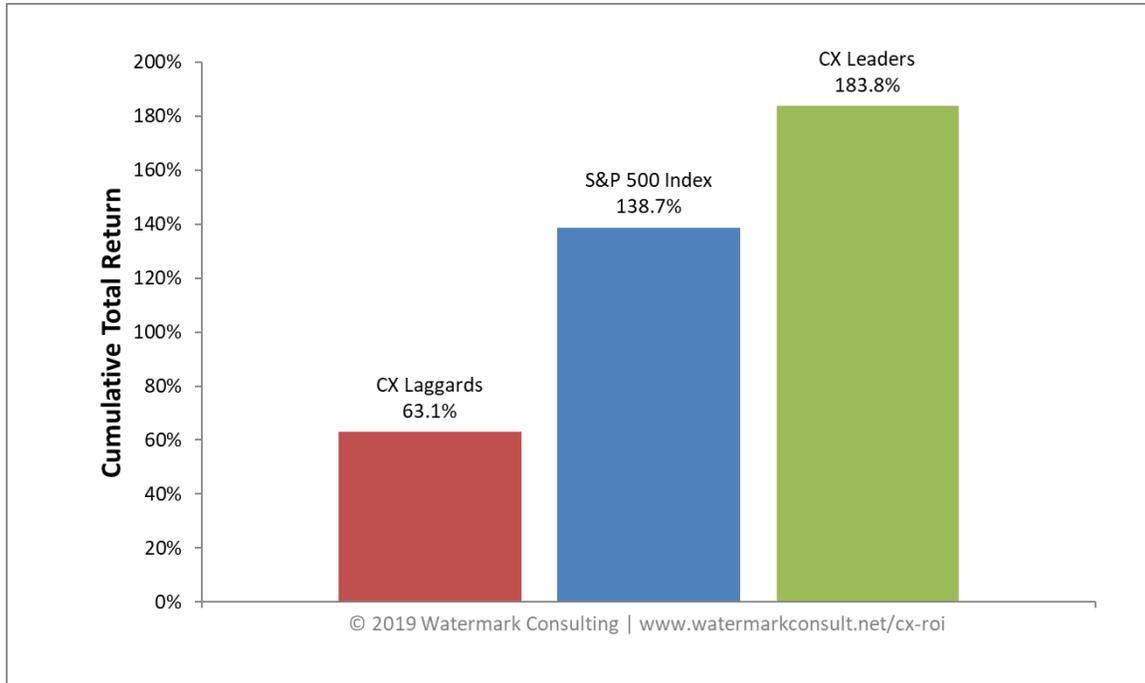
Portfolio returns were based on the prior-year performance of the Leaders and Laggards, to ensure that the results were not influenced by the publication of the research studies themselves.

## The Results

In the 2019 iteration of our Customer Experience ROI study, CX Leaders continued to shine, while CX Laggards continued to struggle.

### Customer Experience Leaders Outperform The Market

11-Year Stock Performance of Customer Experience (CX) Leaders vs. Laggards (2007-2017)



- ➔ CX Leaders outperformed the broader market, generating a total return that was *45 points higher* than the S&P 500 Index.
- ➔ CX Laggards trailed far behind, posting a total return that was *76 points lower* than that of the broader market.
- ➔ CX Leaders generated a total cumulative return that was nearly *three times greater* than that of the CX Laggards.

## The Backstory: Leaders vs. Laggards

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It's worth reiterating that this analysis reflects *over a decade* of performance results, spanning an entire economic cycle, from the pre-recession market peak in 2007 to the post-recession recovery that continues today.

While there are obviously many factors that influence a company's stock price, the results of this study indicate that, over the long-term, a great customer experience helps build business value, while a poor customer experience erodes it. That's an important takeaway, for public and private entities alike.

What creates that enhanced value? Answering that question requires understanding the economic calculus of a great customer experience. When a company consistently delivers an impressive experience to customers, it triggers behaviors that influence business financials in two important ways:

**Revenue growth.** When most people think about the economic benefit from a great customer experience, this is where their heads go. And that's entirely appropriate, because revenue growth is indeed one clear advantage of customer experience excellence. Why? Happy, loyal customers have better retention, they're less price-sensitive and they're more willing to entertain offers for other products and services – all helping to raise revenue. Plus, because they love you so much, they spread positive word-of-mouth and refer new customers to you – lifting revenue even higher.

**Expense control.** This is the part of customer experience economic equation that most businesses fail to appreciate. (It's also why using revenue growth, alone, to demonstrate the ROI of customer experience is misguided.) When you have happy, loyal customers, it helps to better control – if not reduce – your expenses. For example, due to all the customer referrals you're getting, you can spend less on new business acquisition – which reduces expenses. In addition, happy customers tend to complain less, putting reduced stress on your operating infrastructure (e.g., lower call volumes), thereby also helping to keep expenses in check.

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

Of course, these economic dynamics cut both ways. Customer Experience Laggards struggle to raise revenue (e.g., poor retention, high price-sensitivity, limited cross-purchasing, negative word-of-mouth) and they're burdened with higher expenses (e.g., to acquire new customers, and to deal with the existing unhappy ones). This weighs on their long-term profitability and makes them less valuable in the eyes of the market.

## The Backstory: Leaders vs. Laggards

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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.

## Learn From The Leaders

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How do Customer Experience Leading firms 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 customer experience – principles that can very likely be applied to your own organization:

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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.

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2

**They nail the basics, and then deliver pleasant surprises.** To achieve customer experience excellence, the Leaders 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, all of which help to create memorable peaks in the experience that strengthen customer engagement.

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3

**They understand that great experiences are intentional and 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.

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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.

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**They recognize the link between the customer and employee experience.** Happy, engaged employees help create happy, loyal customers (who, in turn, help 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.

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## About Watermark Consulting

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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 800,000 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](http://www.watermarkconsult.net).

### **wa • ter • mark**

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

### Contact Us

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

Phone: 860.658.4381  
E-Mail: [hello@watermarkconsult.net](mailto:hello@watermarkconsult.net)  
Web: [www.watermarkconsult.net](http://www.watermarkconsult.net)