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# Does Customer Experience Really Drive Business Success?

**The Relationship Between Superior Customer Experience And Growth**

by Harley Manning

July 15, 2015

## Why Read This Report

It's the age of the customer, when technology and economic forces have changed the world to such a great extent that an obsession with winning, serving, and retaining customers is the only possible response. Transforming the customer experience is one of four critical market imperatives required for shifting companies toward customer obsession. But how can customer experience (CX) professionals prove that to their executives? Not by pointing to the stock market gains that accrue to CX leaders because there's too much noise in the data. Instead, the proof lies in comparing the revenue growth of companies with superior customer experience to that of their direct competitors with comparatively inferior customer experience. This report details how we went about doing exactly that and the surprising results we uncovered.

## Key Takeaways

**Evaluating The ROI Of Good CX By Total Stock Market Returns Can Be Misleading**
Over a multiyear period, the total stock returns of a portfolio of CX leaders beat those of a portfolio of CX laggards. However, factors ranging from market bubbles to large corporations rolling up diverse types of businesses into a single ticker symbol can obscure the true relationship between CX and business success.

**Correlating CX To Revenue Growth Reveals The Real Business Value Of CX**
CX drives three types of customer loyalty: retention, enrichment, and recommendation. Increased customer loyalty in turn tends to drive increased revenue growth. But for these drivers to affect an industry, customers must be free to switch providers, and providers must offer differentiated CX.

**CX Drives Revenue Growth To Different Degrees Depending On Industry Dynamics**
Companies with customers who have many equally convenient and strongly differentiated choices -- like online retailers and investment firms -- see major revenue upside from superior CX. Companies with trapped customers, like health insurers, or little CX differentiation among direct competitors, like traditional retailers, will see less impact on their revenue growth.

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by Harley Manning
with Michael E. Gazala, Bill Doyle, James L. McQuivey Christopher Mines, Peter Mueller, Sucharita Mulpuru, Corey Stearns, Dylan Czarnecki, Carla O'Connor, and Kara Hartig

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We used Forrester's US Consumer Customer Experience Index (CX Index™), complemented by third-party customer satisfaction scores, to identify direct competitors with significant differences in the quality of their experience and then analyzed their US Securities and Exchange Commission (SEC) filings to build models that compared their revenue growth. We also interviewed user companies, including AT&T, DirecTV, Humana, Southwest Airlines, and United Airlines.

## Related Research Documents

Customer Advocacy 2014: How US Consumers Rate Their Financial Institutions

The Customer Experience Index, 2014

The US Customer Experience Index, Q1 2015

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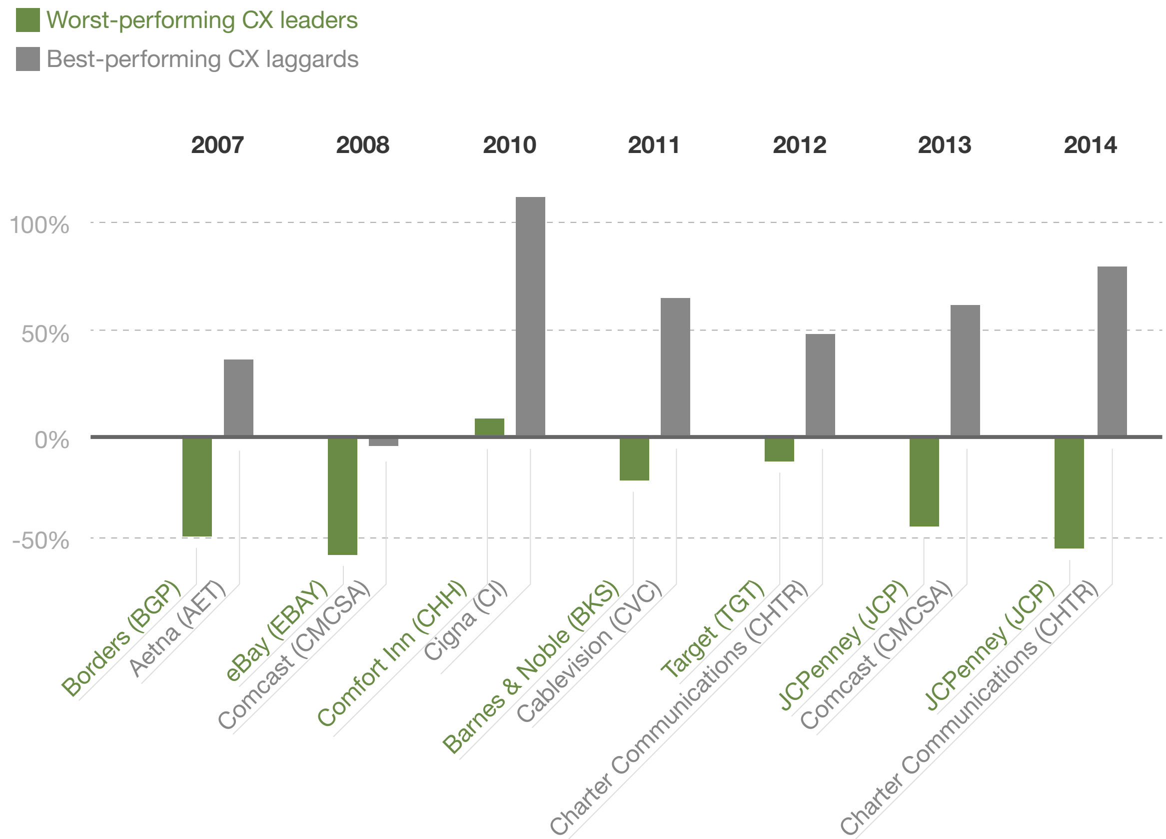
## Does Good CX Pay Off? You Can't Prove It With Stock Market Returns

Over an eight-year period from 2007 to 2014, the total returns from a portfolio of CX leaders outperformed both a portfolio of CX laggards and the S&P 500.[1] Forrester has been talking about those findings for years, and they're true. But if you're a customer experience professional, there's something else about that study that you need to know: When you crack open the two portfolios, you find some stock market losers among the CX leaders, and vice versa (see Figure 1).

› **CX leaders like Borders and JCPenney tanked.** Borders ranked No. 2 overall in Forrester's 2007 CX Index, even as it careened toward oblivion and its stock returned -50% for the year.[2] Its ever-shrinking customer base apparently loved it even as it was preparing to shutter its stores. JCPenney shoppers also gave it high marks for CX in both 2013 and 2014; its stock returns for those years were -43% and -54%, respectively.

› **CX laggards like Cigna and Comcast soared.** Both the health insurance industry and the cable industry deliver famously bad customer experiences. But in 2010, CX laggard Cigna's stock returned 110%, and in 2013, Comcast's returned 60%. Results like these make it hard to argue that poor customer experience drags on business performance.

**FIGURE 1** Total Stock Market Returns For Worst-Performing CX Leaders/Best-Performing Laggards




Source: Morningstar

## We Analyzed Revenue Growth To Determine The True Business Impact Of CX

What's going on? Does customer experience really matter to business success — or is CX just the latest hype? To find out, we set aside the metric of total stock market returns, which gets distorted by factors ranging from valuation bubbles, Federal Reserve policy, and the simple fact that a single ticker symbol often represents highly diverse businesses within a monolithic corporation. Instead, we settled on a metric that's the No. 1 priority of global business leaders surveyed by Forrester: revenue growth.[3] Then we:

- **Identified direct competitors with significant differences in CX quality.** First we selected pairs of companies that compete directly for the same types of customers, where one of the competitors is an industry leader in our CX Index and the other lags significantly behind. Furthermore, we complemented our own CX rankings with customer satisfaction scores from J.D. Power and/or the American Customer Satisfaction Index (ACSI).

› **Built models that compared the growth of leaders and laggards over time.** Armed with financial data culled from annual reports and SEC filings like Forms 10-K and 10-Q, we isolated the revenue streams for specific lines of business within large corporations and calculated the compound annual growth rate (CAGR) of their revenue from 2010 to 2014.[4] This allowed us to compare direct competitors and determine whether or not customer experience actually correlates with growth.

## Better CX Correlates With Higher Revenue Growth In Most Industries

In all, we examined five industries with diverse competitive dynamics and revenue models. The only notable thing these industries have in common is that the end user of their products or services is a consumer.

### Cable: CX Leader AT&T U-Verse Dwarfed CX Laggard Comcast By Double Digits

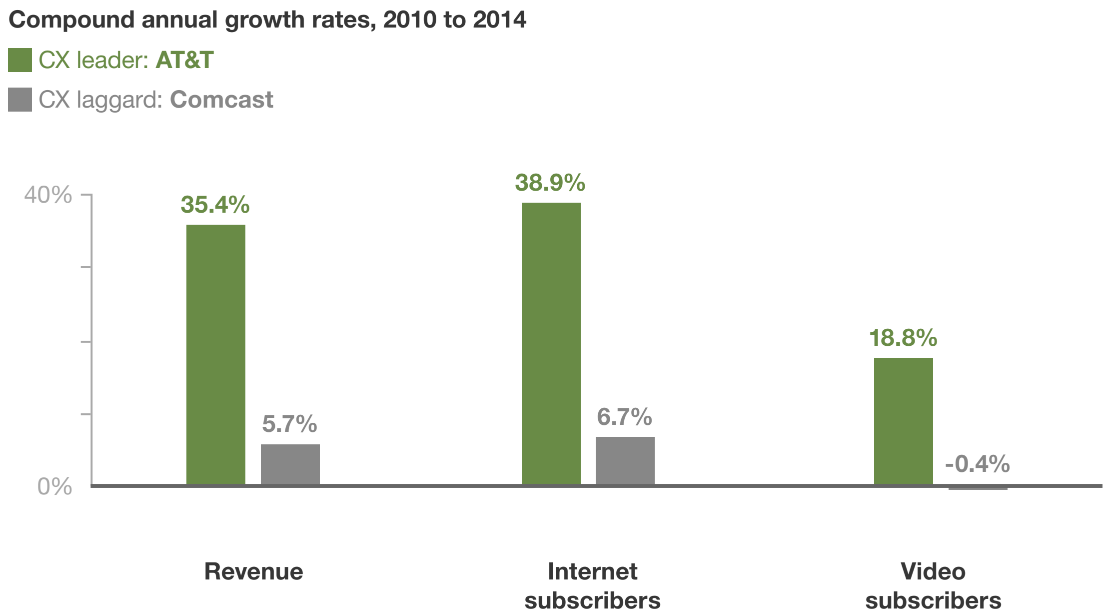
AT&T U-verse tied for the highest-scoring Internet service provider (ISP) in Forrester's most recent CX Index rankings. It also scored near the top of our television service provider rankings. Comcast's Xfinity brand was the lowest-scoring brand in both industries.

The financials of U-verse are buried in the annual report of AT&T: a massive corporation that also includes a giant wireless business. Similarly, Comcast's cable operation is just one of five business segments in Comcast's annual reports. We teased out the revenue and subscriber numbers for both corporations' cable offerings (ISP plus video). When we compared them with each other, we found that from 2010 to 2014 (see Figure 2):[5]

› **AT&T showed surprisingly superior revenue growth.** There was a stark contrast between the revenue growth rates of our leader and laggard. AT&T had a CAGR of more than 35%. During that same period, Comcast's revenue grew less than 6%.

› **AT&T also crushed Comcast in subscriber growth.** To understand the reason behind this difference in revenue growth, we examined the customer growth of both providers. AT&T had double-digit growth among its both Internet and video service subscribers. Comcast had single-digit growth among its Internet subscribers and negative growth among its video subscribers.

**FIGURE 2** Revenue Growth Rates For Two Competitors In The Cable Industry




Source: US Securities and Exchange Commission filings by AT&T and Comcast

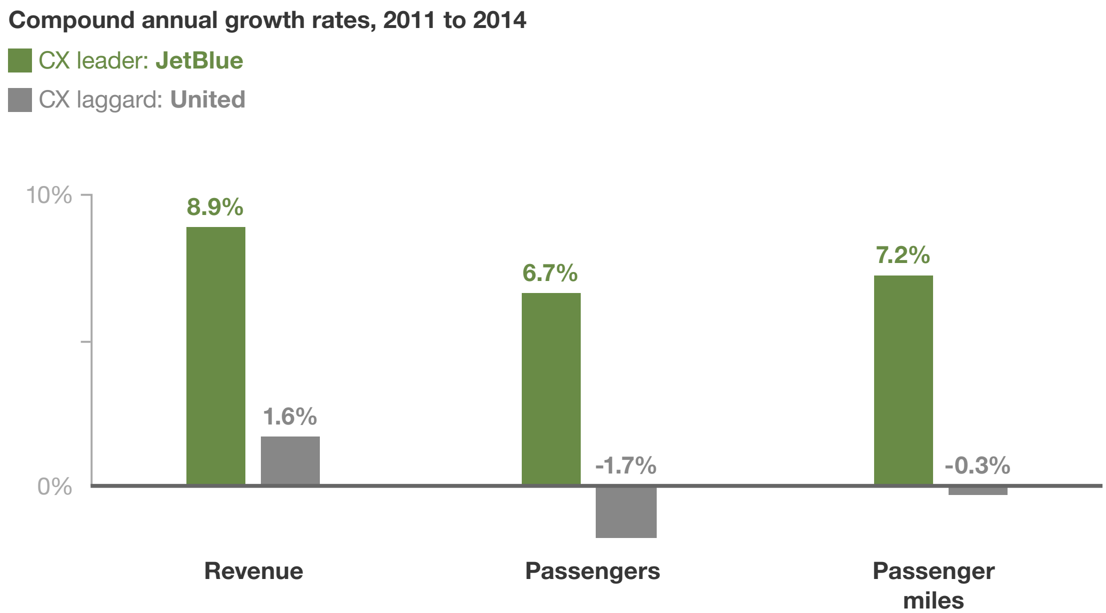
## Airlines: CX Leader JetBlue Outgrew CX Laggard United On Three Key Metrics

According to its Customer Bill of Rights, JetBlue Airways is "dedicated to bringing humanity back to air travel."[6] Since its first flight in 2000, the upstart airline has competed based on superior customer experience. It was the top airline in Forrester's CX Index in 2015 and tied for the No. 9 spot across all industries. Additionally, it was the top-rated airline for 2015 in the ACSI. Conversely, United Airlines has consistently been at or near the bottom of our CX Index and came in 21 points below JetBlue in the 2015 ACSI rankings. To negate the effects of United's 2010 acquisition of Continental Airlines, we started our comparison of these two firms in 2011. We found that (see Figure 3):

› **JetBlue's revenue grew more than five times faster than United's revenue.** Over this three-year period, JetBlue turned in a very strong revenue CAGR of 8.9%. In contrast, United only managed to grow its revenues by 1.6%. Because United does vastly more international business than JetBlue, we also calculated United's CAGR for just its domestic routes. That tipped the comparison even more in JetBlue's favor because it brought United's CAGR down to 0.6%.[7]

› **JetBlue also outgrew United on two important industry-specific metrics.** During this time period, JetBlue's revenue passengers (someone who has paid an airline for his or her seat) grew by 6.7% while United's revenue passengers actually shrank. Just as telling, JetBlue's revenue passenger miles (a paying passenger flying one mile) grew by 7.2% while United's revenue passenger miles were essentially flat. Taken together, these numbers say that JetBlue attracted more net new customers and that its customers flew more miles with it, while United lost customers and flew paying passengers fewer miles.

**FIGURE 3** Revenue Growth Rates For Two Competitors In The Airline Industry




Source: US Securities and Exchange Commission filings by JetBlue Airways and United Continental Holdings

### Investment Firms: Leaders Edward Jones And Charles Schwab Crushed Laggards

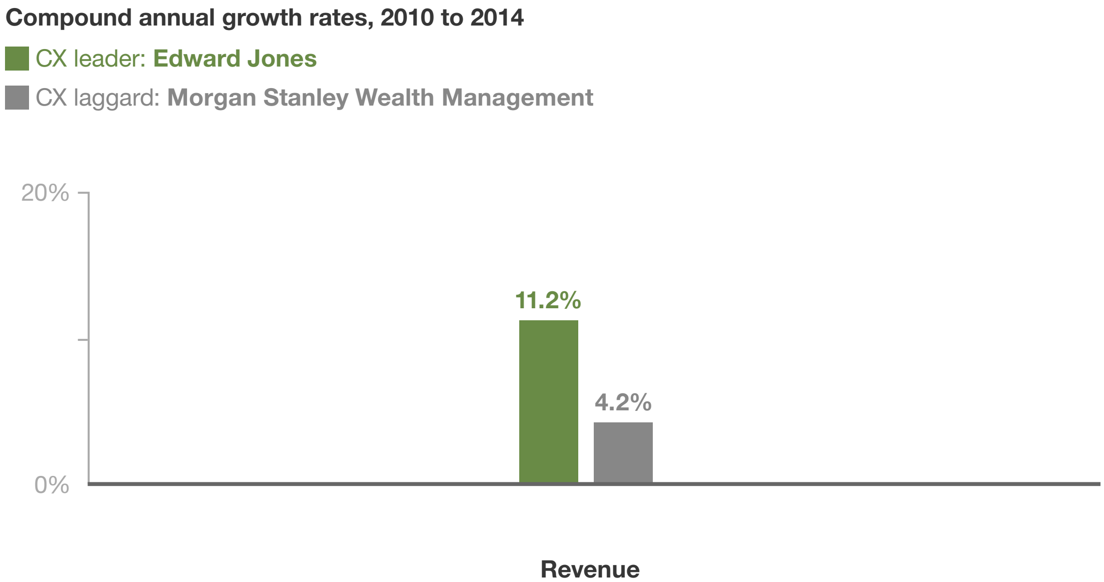
Not all investment firms compete for the same types of customers. So we compared two competitors in the full-service investments category — CX leader Edward Jones versus comparative CX laggard Morgan Stanley Wealth Management — as well as two competitors in the direct investments category — CX leader Charles Schwab and its CX laggard rival E-Trade (see Figure 4).

› **Edward Jones grew almost three times faster than Morgan Stanley Wealth Management.** Edward Jones has a highly differentiated strategy that emphasizes personal relationships between customers and their local financial advisors. The firm has risen steadily in our CX Index rankings; this year, it tied for fourth place overall across all industries. It is also a top performer in Forrester's Customer Advocacy Rankings, and highly rated in J. D. Power's industry rankings for 2015.[8] This strong across-the-board showing carries through to Jones' four-year revenue CAGR of 11.2%, which easily beats the 4.2% revenue CAGR of Morgan Stanley during the same period.

› **Charles Schwab grew at a double-digit rate while E-Trade's revenue shrank.** Schwab puts a strong emphasis on running its business "through client's eyes," a focus that led it to be an early industry adopter of customer ratings and reviews.[9] In 2015, the firm tied for 13th place overall across all industries in our CX Index ratings. It was also significantly ahead of its competitor E-Trade in our Customer Advocacy Rankings and J. D. Power's overall satisfaction rankings. In our analysis, we found that Schwab's four-year revenue CAGR was 13.1% — far outstripping the -2.8% we calculated for the struggling E-Trade.

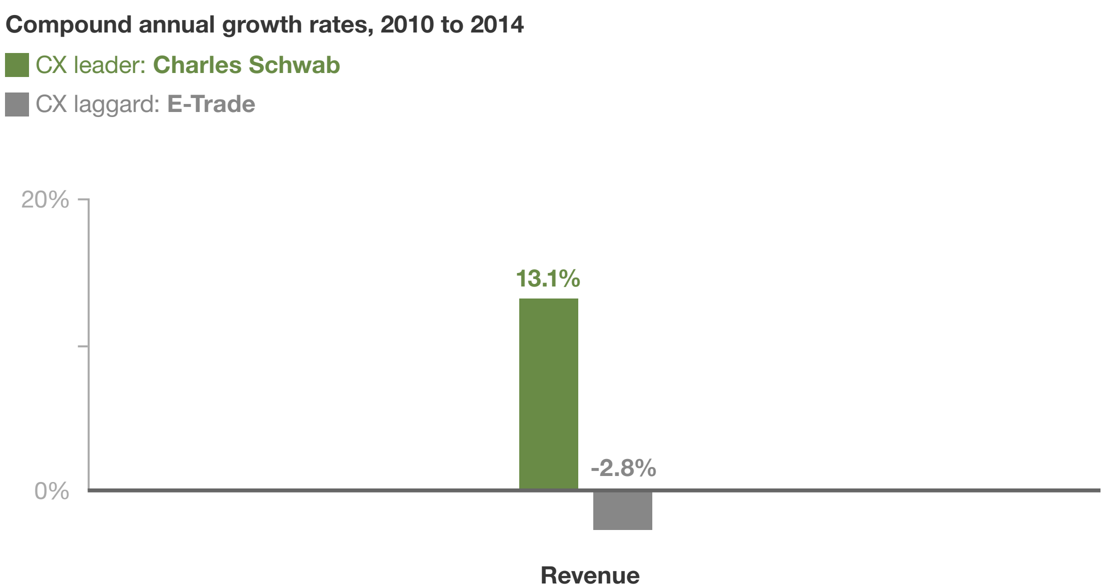
**FIGURE 4** Revenue Growth Rates For Competitors In The Investments Industry

**Revenue growth rates for two competitors in the full-service investments industry**




Source: US Securities and Exchange Commission filings by Edward Jones and Morgan Stanley

**Revenue growth rates for two competitors in the direct investments industry**




Source: US Securities and Exchange Commission filings by Charles Schwab and E-Trade

### Retailers: Superior Online Experience Trounces The Traditional Retail Experience

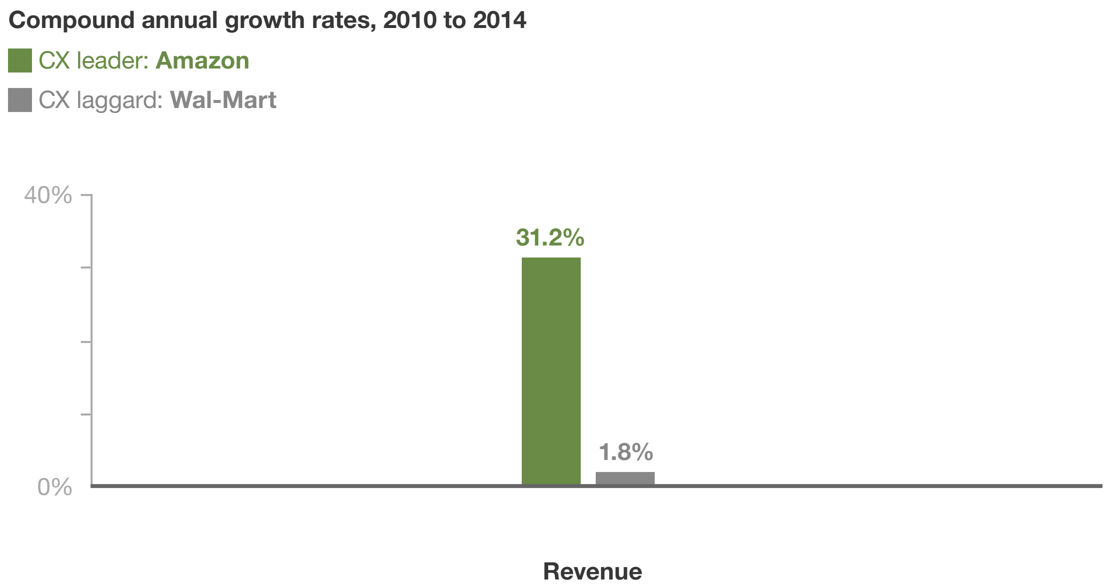
In retail, most direct competitors have undifferentiated customer experiences. For example, Costco and Sam's Club have CX Index and ACSI scores that are virtually identical. The same is true for JCPenney and Macy's, Home Depot and Lowe's, and many other large retailers that go head to head. This CX parity stopped us from making the direct comparisons between CX leaders and CX laggards that we did in other industries.

However, when we separated online-only retailers from traditional retailers (bricks and clicks) in our CX Index, we saw some glaring differences. Online-only retailers like Amazon, eBay, and Etsy placed far ahead of traditional retailers: Their industry *average* score was the same as the *highest* score among the traditional retailers. As proxies for online CX versus offline CX, we therefore compared the largest high-scoring online retailer, Amazon, with the largest traditional retailer, Wal-Mart — which scored somewhat below the average for its peers. We found that:

› **Online-only CX leader Amazon left Wal-Mart's overall revenue growth in the dust.** Amazon's four-year US revenue CAGR of 31% was almost 16 times Wal-Mart's US revenue CAGR of just under 2% (see Figure 5). The fact that online beats traditional is not surprising: Online retailing benefits from the rapid growth of the Internet, including mobile.[10] The magnitude of the difference is, however, notable given that Amazon grew off of a very large base during this period and almost tripled its US net sales from $18.7 billion to $55.5 billion.

› **Wal-Mart's online revenue trumped its own overall revenue performance.** Forrester's US Consumer CX Index, Q1 2015, study found that customers who said that their most recent interaction with Wal-Mart was via its website scored the retailer about five points higher than customers who said that their most recent interaction with Wal-Mart was through any other touchpoint — another vote for the superiority of online CX. The results of this enhanced experience are reflected in Wal-Mart's global online revenue CAGR from 2010 to 2014, which grew 31.3%. During the same period, its US same-store brick-and-mortar sales were essentially flat.

**FIGURE 5** Revenue Growth Rates For Two Competitors In The Retail Industry




Source: US Securities and Exchange Commission filings by Amazon and Wal-Mart

### Health Insurance Providers: For CX Leaders And Laggards, We Call It A Draw

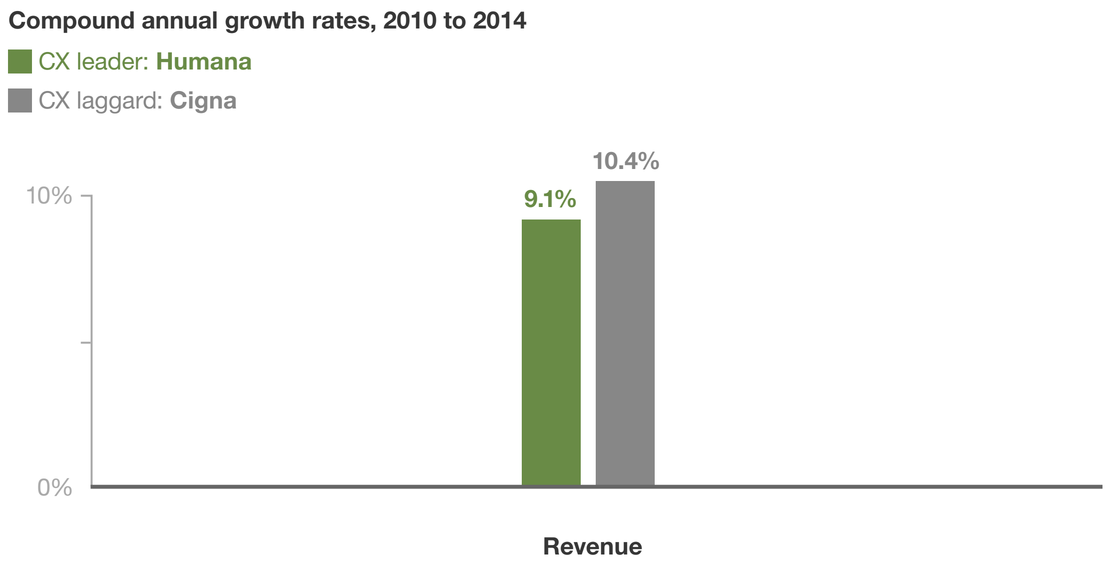
Like investment firms, health insurance providers don't all compete for the same customers. Most firms are regional, while a few are national. Some have large Medicare businesses; others don't. An important distinction is that their balance of sales among large-group customers, small-business customers, and individual subscribers varies widely. After careful industry analysis, we compared two sets of competitors with similar characteristics: national rivals Humana (an industry CX leader) and Cigna (an industry CX laggard) as well as regional CX leader Blue Cross Blue Shield (BCBS) of Michigan and regional CX laggard Health Net (see Figure 6).

› **National CX laggard Cigna edged out CX leader Humana.** We isolated and removed the revenue impact of relatively small acquisitions by both Humana and Cigna as well as the revenues from Humana's healthcare services segment and Cigna's international operations. The upshot? CX laggard Cigna's four-year revenue CAGR exceeded CX leader Humana's revenue CAGR by just more than 1 percentage point.

› **Regional CX leader BCBS of Michigan squeaked past CX laggard Health Net.** BCBS of Michigan delivered one of the most improved CX Index scores across all industries in 2014.[11] Its rise resulted from a sustained multichannel program to improve CX called "Clear and Simple," which included the launch of a redesigned website in 2013. Health Net was the lowest-scoring health insurance brand in our most recent CX Index report. When we compared our industry CX leaders and laggards, we found that BCBS of Michigan grew revenues 2.5 percentage points faster than Health Net — a win but not at the same velocity as in other industries we examined.

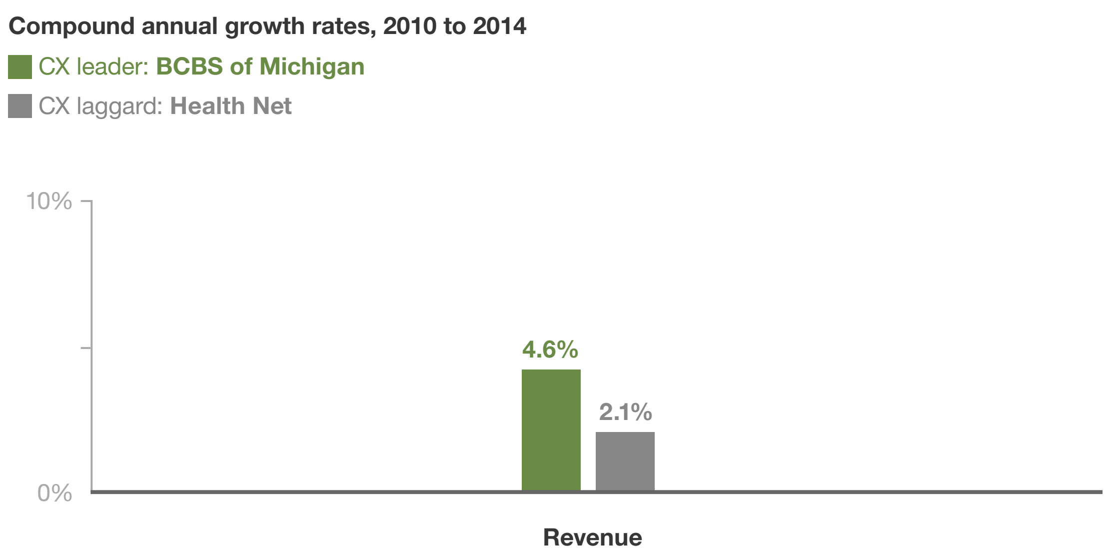
**FIGURE 6** Revenue Growth Rates For Comparable Health Insurance Providers

**Revenue growth rates for two comparable national health insurance providers**




Source: US Securities and Exchange Commission filings by Humana and Cigna

**Revenue growth rates for two comparable regional health insurance providers**



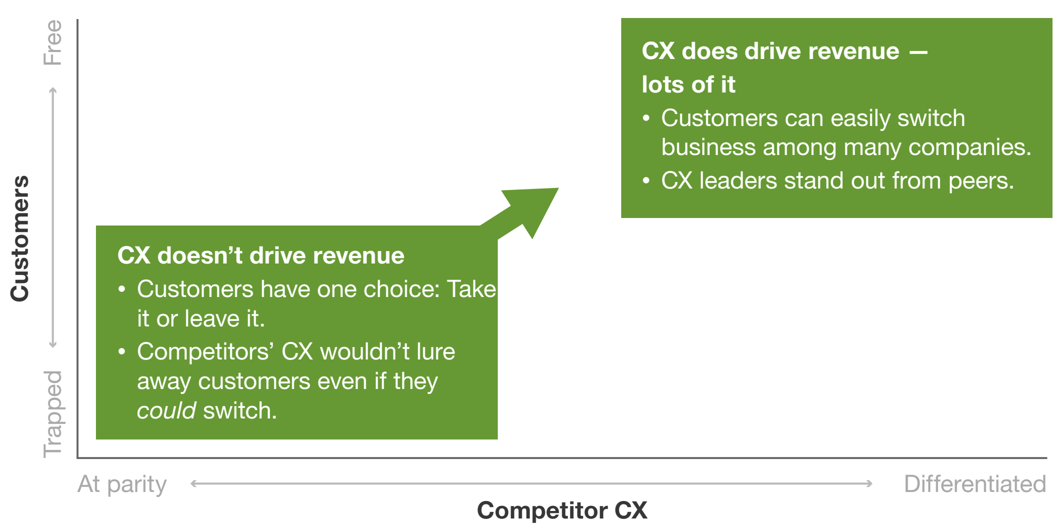

Source: BCBS of Michigan annual reports and US Securities and Exchange Commission filings by Health Net

## The CX/Revenue Growth Equation

Why doesn't customer experience always correlate with revenue growth? And why does the correlation differ by industry? To answer these questions, it's helpful to start with what we know: Good customer experience drives customer loyalty.[12] In other words, companies that deliver a better customer experience tend to retain more of their customers, get more incremental purchases from their customers, and attract more new customers through positive word of mouth. Whether that increased loyalty in turn drives revenue growth depends on two interrelated variables (see Figure 7):

- **Customers' freedom of choice.** It's not always possible or practical for customers to switch providers. Factors ranging from geography (like a town with one cable provider) to contractual obligation (employer-sponsored health plans) can leave consumers with just one choice: Take it or leave it. In these cases, it doesn't matter whether unsatisfied customers want to abandon their current relationship — they're trapped. At the other end of the spectrum, online customers who shop or make personal investments have near-infinite freedom to switch retailers or investment firms quickly and easily.
- **Competitors' CX differentiation.** The essence of competitive strategy is positioning — taking and holding a place that's different from competitors in the minds of customers. When customers don't see a meaningful difference in the customer experience that competitors provide — such as with traditional retailers in most categories — they have no motivation to switch based purely on CX. But when companies offer significantly differentiated customer experience, as we see in the airline, investment, and online-only retail industries, poor CX provides a powerful incentive to defect, and superior CX provides a compelling reason to stay.

**FIGURE 7** The CX/Revenue Growth Equation



## How The CX/Revenue Growth Equation Explains The Dynamics Of Each Industry

When we use our equation to map the industries we analyzed onto a grid, their relative potential for CX-fueled revenue growth becomes clear (see Figure 8).

› **Cable companies see substantial revenue upside on a market-by-market basis.** Cable customers can only choose among providers that lay down pipes in their town. If there's just one provider in a town — the original cable franchise — customers are trapped, and the cable operator is less motivated to provide good customer experience.[13] But as soon as AT&T or Verizon lays a second cable in a town, customers have another option — and that option has significantly better CX quality. AT&T and Verizon don't even need to be great to win business. They just need to be good enough to steal away customers from their competitors. And that's exactly what they're doing. Customers don't defect just because they can; they leave because they expect to get a better experience, and then they stay because they do get a better experience.

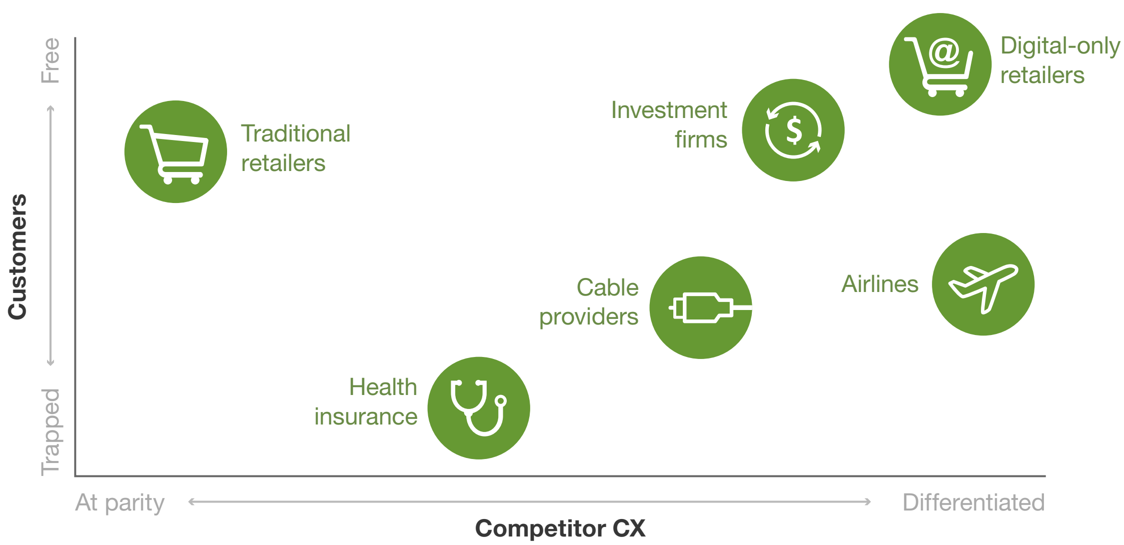
› **Airlines, like cable companies, drive revenue growth market by market.** Airline customers can only fly carriers that have gates at their local airport. Even then, not all of the carriers offer direct flights or flights with times that can work given other constraints of a trip. What's more, some of the most profitable fliers have voluntarily trapped themselves by accumulating frequent-flier miles in loyalty programs. These factors put an artificial limit on the amount of revenue growth that airlines can drive with superior CX. However, such noticeable differences between CX leaders like JetBlue, Southwest, and Virgin America and laggards like American Airlines and United means that there remains strong potential for revenue growth in the markets where they do compete.

› **Investment firms have vast potential for CX-fueled revenue growth.** Investment firms serve customers who can leave them with relatively low effort, compared with either cable companies or airlines — especially if those customers opt to manage their investments online. For this industry, CX-fueled customer loyalty can be extremely powerful in driving revenue growth. Switching accounts from one full-service firm to another requires some effort. That means there's probably more upside in improved customer retention and incremental purchases than there is in new customer acquisition for full-service firms like Edward Jones. But for a firm like Schwab, the potential to win customers from competitors through superior CX is substantial.

› **Traditional retailers face significant threats from online alternatives.** Shoppers in most markets have many brick-and-mortar options within reach but little reason to make the trip to one that's less convenient — at least not based on customer experience that's at parity for most traditional retailers. They will therefore choose retailers based on other factors, like selection, price, or location. But online is a game changer that dramatically expands freedom of choice — and those choices offer customers significantly better experiences. That's one reason why Forrester expects online retailing to grow at the expense of traditional retailers, for which sticking to the same old, same old means slow death.[14]

› **Health insurance providers can't drive much revenue growth with CX — today.** Most US consumers are trapped by the health insurance choice their employer made for them. Sure, consumers with employer-sponsored health plans could abandon those plans, go to an exchange, and switch to a different provider. That's not happening today because consumers won't willingly quadruple their costs, even for a significant improvement in CX quality.[15] The situation is different for consumers who purchase insurance in the open market. They will migrate to providers with superior customer experience over the next few years, increasing the revenue impact of CX for the industry. What's more, employer-sponsored plans are beginning to provide more consumer choice, especially through private exchanges. That dynamic will transform the plans to employer-focused but employee-driven, further increasing the revenue impact of CX.

**FIGURE 8** The CX/Revenue Growth Equation Explains The Dynamics Of Each Industry



## Craft Your Customer Experience Strategy For Growth

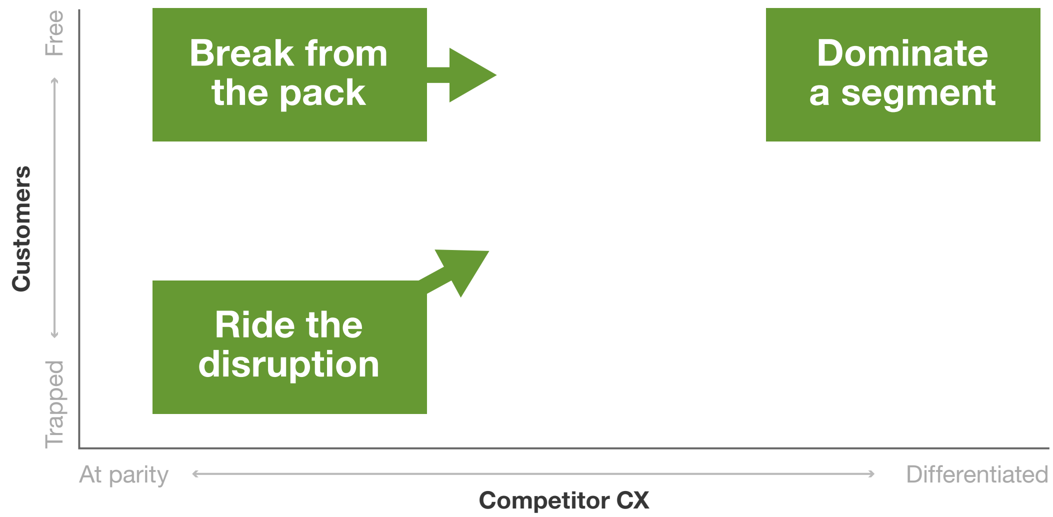
Does customer experience really drive business success? Yes, for four out of the five industries we examined, it does. As for the fifth — health insurance — change is in the air (or, less poetically, it's in new laws, new government policies, cultural shifts, and digital disruption). Customer experience professionals looking to drive revenue growth — or simply avoid revenue loss — should take the following steps.

› **Step 1: Map yourself and your competitors on our CX/revenue growth grid.** How freely can your customers move from provider to provider? Do you face strongly differentiated CX leaders and CX laggards, or are you and your direct competitors at or near parity? The answers to these questions will help you determine where your company's positioned now and whether there's an opening for you, a current competitor, or a new disruptor to gain a competitive advantage based on superior customer experience.

› **Step 2: Assess your potential.** If there is a CX-fueled opportunity in your industry, can your company seize it? Or will you have to settle for defending your company against some other firm that can? In all likelihood, the answer for your company will depend on two things: how much business discipline it brings to the practice of CX today and whether it can produce differentiating CX innovations in the future. To gauge your current level of CX discipline, score yourself using Forrester's CX maturity framework.[16] And to determine your innovation readiness, ask yourself how well your company can enable experimentation, reframe customer problems, and rally the troops across your organization. If design thinking sounds fanciful, or if your executives won't engage with potentially scary ideas, then sorry, but your company doesn't have what it takes to distance itself enough from competitors to make a difference.[17]

› **Step 3: Craft your CX strategy.** Now it's time to identify your business objectives and opportunities. Is revenue growth your primary goal, and if so, is it possible for your company in your industry to achieve that goal? Companies that fall in the upper-left section of our grid and can answer "yes" to these questions should try to break from the pack of "me too" competitors, as Home Depot has set out to do. Companies in the upper-right section can dominate their competitors by obsessively serving the CX needs of a desirable customer segment better than competitors, as Edward Jones has been doing. And even companies in the lower-left part of the grid can invest wisely in CX by crafting a strategy that instills customer experience discipline to manage service costs while readying their firms for accelerated efforts when disruption eventually ramps up — as it did in the cable industry (see Figure 9).

**FIGURE 9** Example CX Strategies That Are Rooted In The CX/Revenue Equation




## What It Means

## CX Leaders And Laggards Will Continue To Go Their Separate Ways

Just because a company has ignored customer experience to date doesn't mean that the company has been poorly run; that might be the case, but it doesn't follow inevitably from our findings. However, knowing why companies haven't focused on CX in the past and how they managed to succeed anyway — when combined with an understanding of their current competitive environment — helps CX professionals clarify where their firms are heading in the future.

1. **Cable: CX leaders will accelerate while CX laggards hesitate.** Legacy multisystem cable operators ignored customer experience not just because they could, but because investing in it didn't make as much economic sense as other things they could do with their money — like acquiring rivals. Today they're still obsessed with playing the end game of the decades-long mergers-and-acquisitions (M&A) binge that's consolidating the industry. Their modest efforts to improve customer experience will mostly center on fixing customer service problems — much like doubling down on more safety nets for trapeze artists instead of hiring better acrobats. Meanwhile, AT&T and Verizon are both investing in CX improvement while making strategic acquisitions that give them enhanced capabilities as well as more subscribers.[18] This will push the industry further up and to the right of the CX/revenue growth grid as the two telcos lay more fiber in more communities. Expect their already impressive growth to accelerate as fed-up customers of the legacy providers see even more reason to flee their CX laggard franchisees at the first opportunity.

2. **Airlines: Leaders and laggards will hunker down in their current positions.** The recent massive drop in oil prices gave airlines the opportunity to either lower prices in an attempt to win customers or improve their typically single-digit operating margins. They universally chose the latter path. That's symptomatic of an industry that's trying to get on firmer financial footing after it historically pursued growth over profits, contributing to a parade of Chapter 11 filings over the years by legacy carriers — and the disappearance of once-iconic brands like Continental and Trans World Airlines. JetBlue and Southwest will invest modestly to maintain their leadership positions, but we don't expect either one to unveil a major CX innovation. American and United will continue to treat CX as one tactic among many — like charging new fees or squeezing in more seats — for improving margins. However, neither one shows signs of making a serious commitment to CX as a strategy. The wild card in this game is Delta Air Lines. Its impressive commitment to becoming the "no cancellations" airline has manifested itself in a range of strategic initiatives that could move it into JetBlue and Southwest territory.[19]

3. **Investment firms: CX leaders will engage in an arms race of customer-centric innovation.** Three of the top 15 brands in our most recent CX Index are investment firms, and the investment industry ranked third overall among the 18 industries we studied. It's therefore no surprise that even a typical firm offers online features like comparisons, ratings, reviews, and immersive interactive tools that are competitive with those of the best digital-only retailers. What's more, firms with highly rated CX, like Schwab and Vanguard, are rolling out innovative digital and omnichannel products to one-up would-be disruptors like Betterment and Wealthfront.[20] Expect the wave of innovations grounded in deep customer understanding and sophisticated user-centered design to not only continue but also accelerate, especially from USAA — our top investment firm, bank, insurance provider, and credit card provider. It more than makes up for its relative lack of size through a combination of the most customer-centric culture in the business plus increasingly sophisticated CX discipline. The result: Firms that don't constantly improve their CX will see their customers stolen by those that do.

4. **Retailers: A complex battleground will ensue as some firms play to win and others, not to lose.** Factors like selection and convenience give online sellers an inherent advantage when it comes to customer experience. Some traditional retailers will seek to offset these advantages by bringing the benefits of online — including responsiveness and immersive multimedia content — to their physical spaces, as Burberry has been doing with its flagship stores. Others will try to counterbalance the Web's shop-anytime ease with efforts to extend physical store hours; some will go so far as to operate stores 24x7 with the aid of remote monitoring, more self-service, and skeletal staffs.[21] Smart players will also shift the culture of their store associates toward customer centricity by paying fewer associates more money to attract higher-quality people who can deliver a better customer experience — as Trader Joe's and The Container Store do today. Ultimately, though, the real CX/revenue growth winners will be sellers with strongly differentiated concepts that lure shoppers away from competitors with highly engaging experiences — think Birchbox, Ministry of Supply, Story, and The Trunk Club.

5. **Health insurance: Little will change as CX leaders and laggards seek to acquire each other.** Even though the health insurance industry is already moving out of the trapped quadrant, it's a long, slow process. This is only the second year of the public exchanges bringing more consumer choice into play for the industry, and private exchanges are just starting to roll out. But right now many of the major players are more focused on M&A than they are on organic growth: Anthem has reportedly made two takeover bids for Cigna, and UnitedHealthcare is said to be making a run at Aetna. Until the M&A dust settles, insurers that have already established CX improvement programs will continue to fix current problems, which will help reduce service costs while building customer goodwill. However, they'll gain little traction for more strategic transformation until industry disruption kicks into higher gear — sometime after the next President is sworn in.

# Supplemental Material

## Companies Interviewed For This Report

AT&T

DirecTV

Southwest Airlines

United Airlines

# Endnotes

[1] Watermark Consulting used data from Forrester's CX Index to create a portfolio of the top 10 publicly traded companies in the CX Index and compare them with a similar portfolio of the bottom 10 publicly traded companies in the CX Index.

[2] From 2007 to 2014, Forrester used its CX Index to benchmark how consumers rated their experience with hundreds of brands. Beginning in mid-2014, Forrester evolved the CX Index methodology so that it now measures how well a company delivers customer experiences that create and sustain customer loyalty. See the "Introducing Forrester's Next-Generation Customer Experience Index" Forrester report.

[3] Source: Forrester's Business Technographics® Global Priorities And Journey Survey, 2014.

[4] For the airline industry, we calculated the revenue CAGR from 2011 to 2014 to offset the effects of United's 2010 acquisition of Continental Airlines.

[5] During this time period, Time Warner Cable made three small acquisitions. To have a more direct comparison between Time Warner and its competitors, we removed the impact of the acquisitions on revenue growth and subscriber growth for this report. Interestingly, the revenue CAGR with acquisitions included only went up 0.34%.

[6] Check out JetBlue's Customer Bill of Rights. Source: "Customer protection," JetBlue Airways (http://www.jetblue.com/flying-on-jetblue/customer-protection/).

[7] In calculating United's domestic growth, we used the 2011 revenue starting number it reported for UAL on page 117 of its Form 10-K for 2012. This number is a rollup of the domestic revenues for both United and Continental in 2011 and zeroes out the effect of the Continental acquisition on growth when comparing 2011 to 2014. Source: "SEC Filings 10-K" United Continental Holdings (http://ir.united.com/phoenix.zhtml?c=83680&p=irol-SECText&TEXT=aHR0cDovL2FwaS50ZW5rd2l6YXJkLmNvbS9maWxpbmcueG1sP2lwYWdlPTg3NTEzMTEmRFNFUT0wJlNFUT0wJlNRREVTQz1TRUNUSU9OX0VOVElSRSZzdWJzaWQ9NTc%3d).

[8] Customer advocacy — the extent to which a firm's customers believe it does what's best for them, not just what's best for its own bottom line — is a top predictor of customer retention and growth. US financial services customers who rate their firms highest on customer advocacy are most likely to consider those firms for future purchases. See the "Customer Advocacy 2014: How US Consumers Rate Their Financial Institutions" Forrester report.

Source: "Aging Investors Unprepared to Transfer Wealth to Younger Generation, Advisors Need to Drive Process," J.D. Power press release, April 9, 2015 (http://www.jdpower.com/press-releases/2015-us-full-service-investor-satisfaction-study).

[9] After stumbling badly in the early 2000s, Charles Schwab bounced back, thanks to a strategy built around customer advocacy and loyalty. The strategy of driving organic growth by doing what's right for customers led senior management to sharpen pricing, improve service, and offer more investing help. The result: more customers willing to consider Schwab for a future purchase. See the "Case Study: Charles Schwab Storms Back By Focusing On Customer Loyalty" Forrester report.

[10] Benefitting from the growth of the Internet (including mobile), online retail will naturally continue to grow. But dynamic pricing, marketplaces, customization, and 3D printing will be the bigger reasons eCommerce keeps growing. See the "The Future Of Shopping" Forrester report.

[11] Forrester interviewed CX professionals at brands that showed the biggest year-over-year improvement in our annual CX benchmark. We asked them what they and their companies did to drive CX improvements and how those efforts have helped the business succeed. See the "How Companies Improved Their Customer Experience Index Scores, 2014" Forrester report.

[12] Forrester modeled the relationship between customer experience and revenue potential for each brand in our CX Index. By asking customers to tell us about their specific intentions relative to staying with, buying more from, and recommending each brand and combining this with expert inputs, we determined the revenue impact by customer for increases in the brand's CX Index score. This allowed us to build more detailed and accurate models of the overall revenue impact of CX by brand and industry. When we analyzed the relationship between CX Index scores and revenue, we found that CX drives loyalty-based revenue in every industry we analyzed. See the "How Customer Experience Drives Revenue: A New And Improved Look" Forrester report.

[13] Forrester's CX Index data reveals the differences in customer experience quality across industries. When we analyzed the 12 TV service providers in our study by their customers' ability to switch providers and their CX Index score, we found a startling relationship: Firms with customers who have more service options have, on average, higher CX Index scores than firms with customers who have limited service options. Among the 14 ISP providers in our study, we see a similar, albeit weaker, relationship. See the "CX Industry Spotlight: TV And Internet Service Providers" Forrester report.

[14] More retailers will disappear in the future, and mediocre store associates will become an endangered species. Companies must take specific measures to ensure they survive. See "The Future Of Shopping [115521]" Forrester report.

[15] In 2014, employers picked up three-quarters of the cost of the average annual employee health insurance premium. Source: "2014 Employer Health Benefits Survey," The Henry J. Kaiser Family Foundation 2014 Employer Health Benefits Survey, September 10, 2014 (http://kff.org/report-section/ehbs-2014-summary-of-findings/).

[16] CX professionals can map practices from Forrester's CX maturity framework to each of the four phases on the path to maturity. They can then assess which phase their organization is in today and which gaps they have to close before moving on to more advanced activities in their plans to build an experience-driven organization. See the "Where Are You On The Path To Customer Experience Maturity?" Forrester report.

[17] To understand what role CX professionals play in innovation efforts, Forrester talked to CX pros and innovation experts at 29 companies and agencies. What we learned is that savvy CX pros are adopting an approach to innovation focused on fostering and cultivating the conditions that give rise to innovations rather than leading the innovation effort itself. This report details the three actions that CX pros must take to create a culture of CX innovation in their organization. See the "How CX Pros Innovate" Forrester report.

[18] AT&T has invested in a range of CX improvements, from simplified ordering on its website to enhanced tools for employees. See the "How Companies Improved Their Customer Experience Index Scores, 2014" Forrester report.

AT&T recently announced plans to acquire CX Index top-ranked TV service provider DirecTV. Its real goal: building a digital platform that will give it a lasting competitive advantage on ubiquitous broadband services. See the "Quick Take: AT&T Buys DirecTV To Launch Its Digital Platform Ambitions" Forrester report.

Verizon announced that it is buying AOL for $4.4 billion. In addition to getting attractive media properties like The Huffington Post and TechCrunch, Verizon will be able to combine the ad tech stack from AOL with the unparalleled audience tracking capabilities it already developed. This will help give it the flexibility to deliver a variety of customer-friendly options ranging from more relevant ads to letting subscribers opt out of ads altogether. See the "Quick Take: Verizon Buys AOL To Recast Ad Tech's Foundations" Forrester report.

[19] In 2013, it increased its flight completion rate to 99.43%, at one point going 72 days without any cancellations of its 2,500 flights. This made it the airline with the fewest flight cancellations overall. In 2012 and 2013, Delta became the second-most on-time airline and had the fewest security delays (0.01%). What's more, the airline reduced its mishandled baggage rate by 27% year over year. There is evidence that these efforts are paying off: Delta estimates that it realized more than $80 million in costs savings due to fewer defects in operations. See the "Case Study: How Delta Air Lines Soared In The Customer Experience Index" Forrester report.

[20] Two weeks after launching its direct-to-consumer digital investment manager, Charles Schwab unveiled a version for independent Registered Investment Advisors (RIAs) and their clients. By developing its own solution and then pricing it so aggressively, Schwab is squeezing all other advisor-based investment management providers in the US. Incumbents with the most to lose include active asset managers like Allianz Asset Management and Capital Group, full-service brokerages like UBS and Wells Fargo Advisors, insurers like Northwestern Mutual Life, and even high-priced RIAs. See the "Quick Take: Schwab's Intelligent Portfolios Will Squeeze Other Investment Managers" Forrester report.

Vanguard's Personal Advisor Services exploits digital technology to bring personal guidance from a financial advisor for an annual fee of just 0.3% of a client's managed assets. Even before its formal launch yesterday, money had poured into Personal Advisor, with more than $7 billion of it being new to advisor management at Vanguard. Powered by technology like collaborative advice tools, Personal Advisor will be a transformative offer. See the "Quick Take: Vanguard's Personal Advisor Will Transform The Financial Advice Business" Forrester report.

[21] Retail will be a more difficult environment as expenses like healthcare and education eat up more of every dollar, leaving less to spend on shopping. Ultimately, this means that the same old, same old will lead to a slow, steady death for many retailers. See the "The Future Of Shopping" Forrester report.

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