MEDALLIA INSTITUTE

Lessons From The Intersection of Brand and Customer Experience

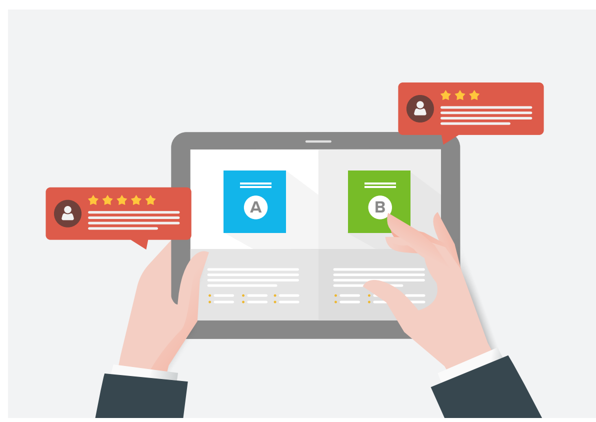
Early in 2009, as America was reeling from the financial meltdown, Allstate Insurance ran a new ad campaign. It included a television commercial showing Depression-era photographs that morph into color images of people enjoying simple pleasures: family, friends, a good meal. Allstate had weathered 12 recessions, the narrator tells us, and after economic fears subside, people return to what they know and can count on. Allstate, founded in 1931, had made it through troubled times before. Using its signature "In Good Hands" slogan to remind viewers of its longstanding reputation, the company was able to differentiate itself from low-price competitors hyping discounts.

Marketers are puzzling over how they can get the biggest bang for their marketing buck

It was a classic and successful example of brand marketing. The trouble is that customers today, armed with smartphones and social media, depend less on brand marketing and advertising to inform their purchase decisions and more on other customers, online reviews, and apps designed to compare terms and pricing. Said Allstate's former senior vice president of marketing, Lisa Cochrane: "I can do the best marketing and communication possible, and have the best campaigns, but if the customer has a bad experience [and complains on social media], then all that marketing has been for naught."

Insurers aren't the only ones questioning the value of traditional brand marketing. Stanford professor Itamar Simonson and Emanuel Rosen, authors of the influential 2014 book *Absolute Value*, argue that long-held beliefs about consumer decision-making need to change with the times. Marketers in many industries, from retail and hospitality to financial services and telecommunications, are puzzling over how they can get the biggest bang for their marketing buck. Should they continue to focus heavily on brand strategy, positioning, and advertising, or redirect resources to defining, tracking, and providing a superior customer experience?

Claims that strong customer relationships trump brands in a digital world make for great headlines. But rarely is the reality so definitive. That is what we found when we partnered with a large international luxury retailer to look at the interplay between brand and customer experience. The company operates more than 130 retail stores, each representing one of 30 different brands across four countries. It provides a unique context for examining the relationship between customer experience and brand because it requires all stores to collect customer feedback using the same measurement system, metrics, and technology. This allowed us to examine whether differences in customer experience, across a variety of brands, influenced revenue growth—for both individual stores and the brand overall.



Using a statistical method called hierarchical linear modeling (HLM), we looked at customer experience ratings and sales for each store and brand within a 15-month period. HLM is designed to analyze data that occurs across multiple levels (e.g., stores nested within brands) using specific algorithms to account for shared variance. For each shopping transaction, customers rated their overall experience on a scale of 0 to 10. Customers rating their experience a 9 or 10 were considered “promoters;" those rating it 7 or 8 were considered “passives;" and those rating it a 6 or below were considered “detractors.” In total, we looked at more than 65,000 customer ratings and almost three million transactions, aggregated at both the store and brand levels.

A Great Customer Experience Increases Sales for Both Stores and Brands

We found that customer experience did indeed affect revenue for both stores and brands, but in different ways. Not surprisingly, customers appeared to spend more at the store and with the brand overall when they had a positive shopping experience. On average, for every 10-percentage-point increase in promoters at a given store, the retailer saw a 21 percent increase in monthly store sales. Similarly, for every 10-percentage-point increase in promoters across the brand, monthly brand sales climbed about 22 percent. But that’s where the similarities ended.

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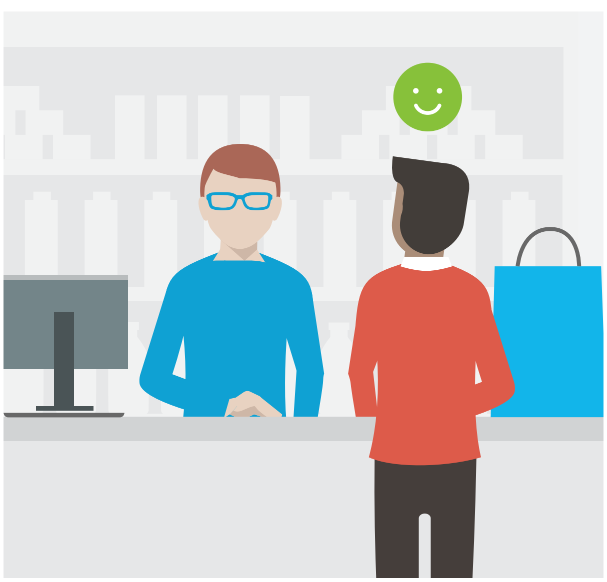

A Bad Customer Experience Hurts Store Sales But Not Brand Sales

Negative customer experiences played out differently. When a store had an increase in detractors, store sales fell—by a lot. For every 10-percentage-point increase in detractors, average monthly store sales dropped 43 percent. But when we looked at the impact of detractors on the brand, we saw a very different story. A 10-percentage-point increase in detractors at the brand level did not significantly affect sales for the brand overall.

Brand trumped customer experience when the experience was highly negative: customers appeared to attribute their bad experience to the store. An analysis of customer comments confirmed this—detractors were twice as likely to complain about issues that were largely controlled by the store, such as staff friendliness, knowledge, and availability, and other service issues. Since brand sales were unaffected, customers presumably stuck with the brand but shopped at a different location.

A So-So Customer Experience Hurts Brand Sales But Doesn’t Directly Impact Store Sales

Customers who rated their experience somewhere in the middle—neither particularly good nor particularly bad—had little impact on store-level sales but a big impact on sales at the brand level. A ten-percentage-point increase in the number of passives across the brand as a whole translated into a 39 percent decrease in monthly brand sales. But, a ten-percentage-point increase in passives at the store level had no significant effect on store-level sales.

Customers with a so-so experience appeared to attribute their experience to the brand overall, not to a given store. In contrast to detractors, who complained about store-specific service issues, passives were far more likely to grumble about issues determined by the brand. They were twice as likely to complain about store layout and location, and 20 percentage points more likely to complain about styles, product variety, and price.

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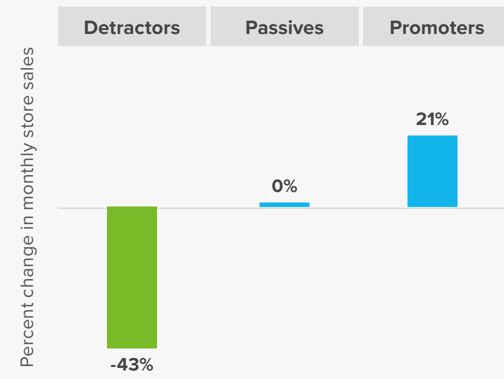
What does all of this mean for marketers? Monitoring the quality of the customer experience and its impact—across different locations and the brand overall—can provide marketers with valuable insight into where their investments can make the biggest difference. In our case, improving issues associated with a so-so customer experience, thereby reducing the percentage of passive customers, appeared to have a much greater impact on the brand than improving issues mentioned by detractors. In fact, our findings suggest that if the retailer had focused solely on improving the experience of its least satisfied customers, its efforts would have had little impact on brand sales.

Customer experience doesn't always trump the power of the brand, but understanding the dynamics between brand and customer experience will almost always help to drive growth. And, in the end, that's what today's marketers should care about most.

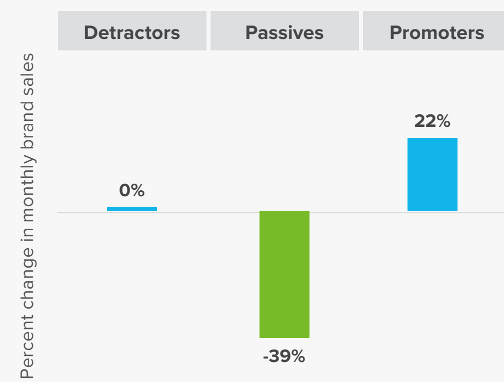
The Effect of Customer Experience on Store Sales:

Impact of a 10-percentage point increase in detractors, passives, and promoters at store



The Effect of Customer Experience on Brand Sales:

Impact of a 10-percentage point increase in detractors, passives, and promoters across brand



Beth Benjamin

Beth Benjamin is the senior director of Medallia's CX Strategy Research group and has more than 25 years of experience conducting research on organizational strategy and practice. Prior to coming to Medallia, she held positions at the Stanford Graduate School of Business, the RAND Corporation, and three management consulting firms. She has a PhD in business from the Stanford Graduate School of Business.

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Emma Sopadjieva is a senior manager of research & analytics in Medallia's CX Strategy Research group. Prior to coming to Medallia, she was a consultant for over five years in Deloitte's Financial Advisory practices in the US, the UK, and Spain. She has an MA in international economics and management from the School of Global Policy and Strategy at UCSD, and a BS in business administration and management from Bucknell University.

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Bernadette Doerr is a research and analytics manager in Medallia's CX Strategy Research group. Prior to joining Medallia, she conducted research on organizational culture and leadership while in the PhD program at the Haas School of Business and spent a decade in strategy consulting. She also holds a BS (Business) and MS (Foreign Service) from Georgetown University.

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