FORRESTER®

The Missing Human Connection

A Story Of Financial Risk

Reality Of Loyalty

The loyalty of a customer is a powerful economic engine. This is not a measure of the value customers create, often measured in lifetime customer value or Net Promoter Score[1] (NPS). Instead, loyalty is an emotional measure of affinity that compels positive action. Loyalty is inherently an emotional human connection.

Forrester's Customer Experience Index (CX Index™) results strongly suggest that the human connection between consumers and brands is, well, not connecting.

To be fair, current market and some internal dynamics are unfavorable to creating and sustaining emotional connections — and those dynamics are gaining strength:

Declining trust

Declining trust in institutions broadly and brands specifically.

Switch incentives

An increase in switch incentives driven by advertising money and, in some cases, virtually buying customers, turning some markets into veritable washing machines.

New competitors

New entrants and commerce platforms that capture customers' imagination and capitalize on their desire to experiment.

Fading differentiation

Undifferentiated digital experiences that mute brand distinctions and limit memorable, signature experiences.

Internal silos

Internal silos that are poorly tuned to customers' journeys, placing the internal operations ahead of the human connection.

Underperforming loyalty programs

Loyalty programs that underperform as they prioritize "the next transaction" over any real durable affinity.

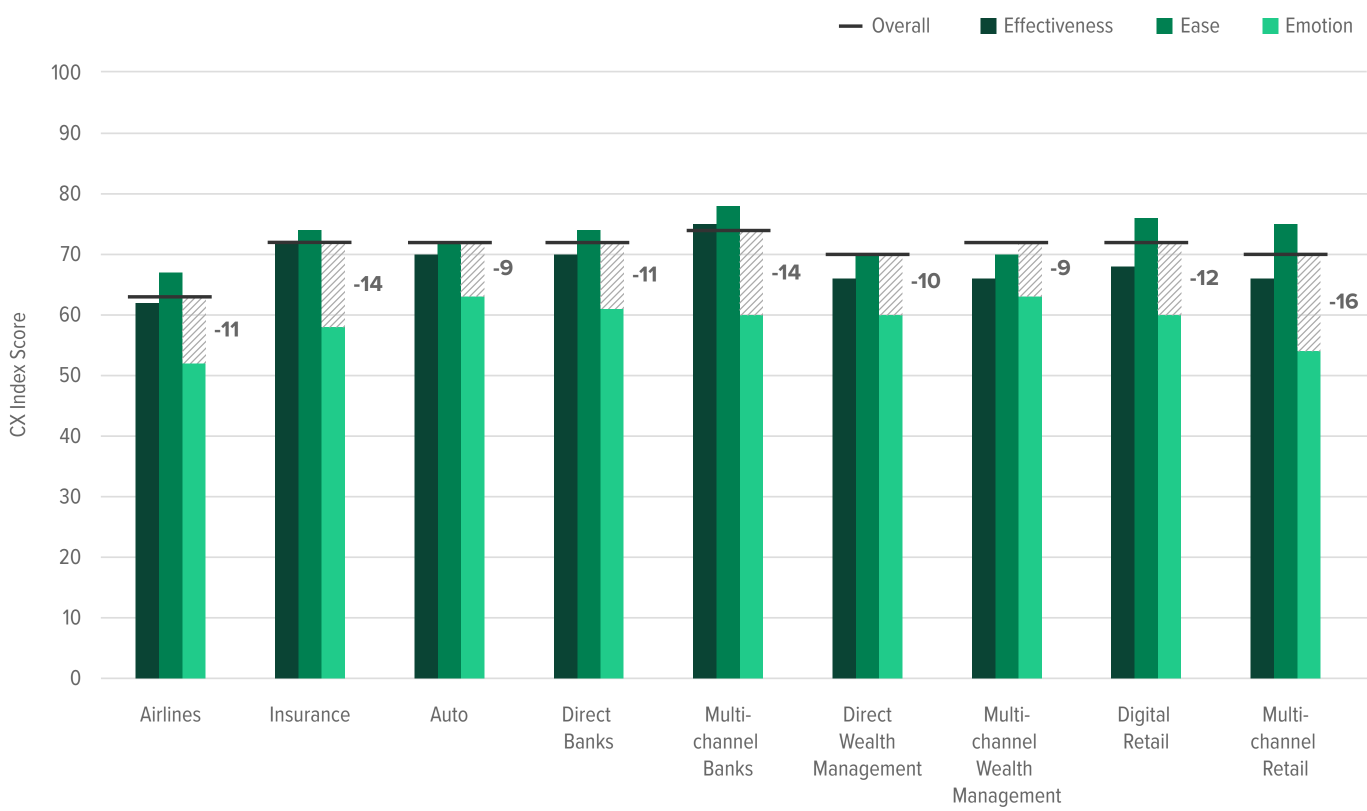
Customer preferences

It is not clear what a rational expectation for loyalty should be. It is not "zero" and it is not unabashed devotion, but somewhere between those points.

These dynamics conspire to create customer and financial risk. Our 2018 CX Index results show — for the third consecutive year — a dangerous emotional gap with customers. This is not a touchy-feely consideration about delighting customers as a matter of altruism: Emotion continues to be the most potent driver for growth. This is, at its heart, crass and clear financial risk.

The chart below shows the gap between the overall CX score and the scores for effectiveness, ease, and emotion (the three core dimensions of CX quality). The nature of engagement, value delivery, and experience vary across the nine industries — and yet the story is remarkably similar.

2018 CX Index Results



Source: Forrester Analytics Customer Experience Index Online Survey, US Consumers 2018

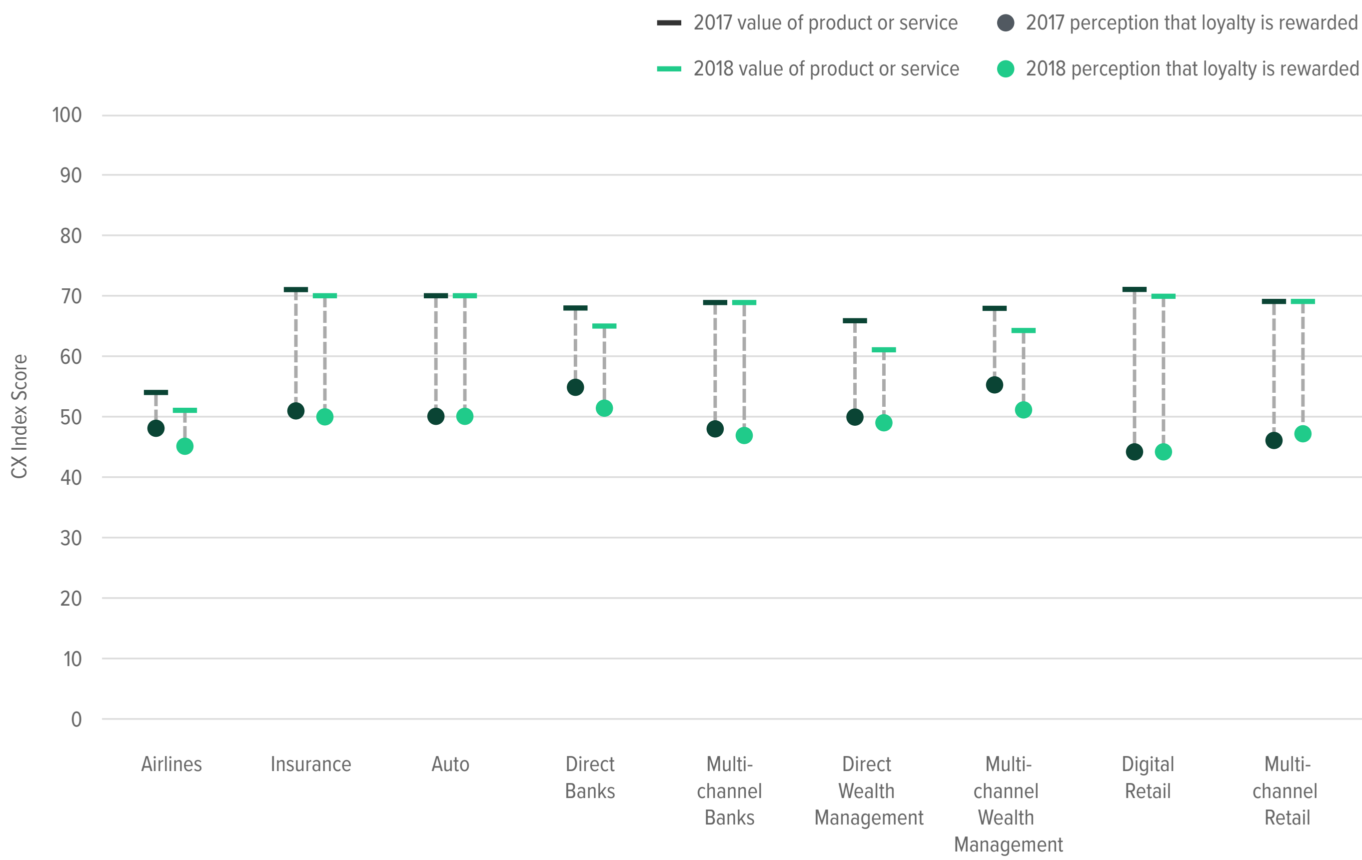
The lack of emotional attachment makes it all too easy for your customers to move spend or churn; this is especially true as the barriers to exit continue to fall and more companies create direct financial incentives to switch.

We are living in a market where customers are increasingly free agents and where adoption and abandonment occur at a fast pace and with little regret.

Customer initiatives and loyalty programs are designed to confront free agent dynamics, whether that means minimizing churn or inspiring the next investment or spend. The ideal, of course, is to create sustained loyal relationships.

However, our CX Index results suggest that these programs are not working as planned. While customers are broadly satisfied with the core services and products of the respective industries, they generally don't perceive that their existing levels of loyalty are rewarded. In other words, if loyalty is an economic engine, that engine is sputtering.

2017 And 2018 CX Index Results



Source: Forrester Analytics Customer Experience Index Online Survey, US Consumers 2018 and 2017

The above results are sobering. All nine industries show a notable loyalty gap: Five out of the nine show that less than 50% of customers have a positive view at all as to how companies reward their loyalty.

One of the most powerful connections between companies and humans is not functioning, serving as a wake-up call for firms to look hard at existing CX and loyalty programs that are not providing the emotional or economic lift needed in a shift-heavy market.

A Closer Look At The Human Connection In Banking And Retail

Sustained growth in banking and retail depends on customer loyalty: It is baked into banks' core business models that customers will acquire products beyond checking and savings accounts and throughout their life stages, and it is a core operation in retail.

The results signal meaningful financial risk:

Banks

Multichannel banks saw a 25-point (2017) and 27-point (2018) difference between product value and rewarded loyalty.

This gap is scary unto itself but is more of a burning platform as the competitive landscape expands to include fintech geared for experience-first operations and large commerce platforms well tuned on customers.

Banks, whether via partners or by themselves, can benefit from further lifestyle experiences that fit into the day-to-day lives of customers, creating new financial utility for customers in different life stages. The goal is to unleash the value of data before open banking neutralizes that powerful advantage. Ultimately, banks need to translate customer intimacy to competitive advantage or risk long-term relegation in the market.

Retail

Digital retailers saw a 29-point (2017) and 28-point (2018) difference between product value and rewarded loyalty.

Multichannel retailers saw a 24-point (2017) and 23-point (2018) difference between product value and rewarded loyalty.

Retail is a free agent market; loyalty programs are meant to reign in those free agents and keep them coming back for more. Results show chronic and acute underperformance as Amazon further flexes its muscles, intelligent agents threaten to move buying decisions further away from the retailer, and fulfillment pressures risk subsuming the retailer's brand to the fulfiller (e.g., Shipt).

Retailers need to place customers back at the center of strategies and operations: reimaging loyalty programs from the ground up and advancing and harmonizing digital, in-store, and fulfillment experiences in sync with customer behaviors and how they perceive and assign value. The trick will be to identify strategies that are in tune with an unforgiving market while preserving what is good and distinctive about your brand.

The numbers are shocking and unsurprising. The Age of the Customer always promised customer-led disruption. But years of relative economic prosperity — broad-based economic growth, low interest rates, and strong consumer confidence — have given companies a false sense of security. Current P&Ls may not fully show the effects of a free agent market, but they will certainly start to show as customers increase their desire to experiment and shift and as any economic weakness reveals structural flaws in how and how well companies engage customers and drive affinity.

Our advice is to act now. The cost of lost loyalty is too high, and the economic benefits of loyalty are far too compelling.

For more information on the data and research that underpins these insights, visit **forr.com/cxindex** or email us at **forresterinfo@forrester.com**.

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[1]Net Promoter and NPS are registered service marks, and Net Promoter Score is a service mark, of Bain & Company, Inc., Satmetrix Systems, Inc., and Fred Reichheld.