

Watermark Consulting 2021 Customer Experience ROI Study (Airline Industry Edition)

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



A Message From Watermark's Founder

The U.S. airline industry certainly isn't renowned for the quality of its customer experience (CX).

Fees go up, leg room goes down, and – if you're lucky – you won't get dragged off the plane due to overbooking of seats (as happened in a widely publicized incident a few years back).

Many in the industry question the true value of a differentiated customer experience, given that the four biggest U.S. air carriers control approximately two-thirds of the market and enjoy near-monopoly conditions at many airports.

Those competitive conditions do make it difficult for fliers to completely boycott an airline that consistently mistreats them.

However, we suspected that there were still ample opportunities for consumers to exercise choice in carriers, or to at least influence other fliers' behaviors via word of mouth.

We discovered that airlines get quite a lift from a great customer experience.

And, so, as we have done with other industries in prior studies, we set out to determine if there really is a Customer Experience ROI, even in the seemingly commoditized business of air travel.

We employed an approach similar to that used in our original cross-industry Customer Experience ROI Study, assessing the value of a great customer experience in a language that every business executive would understand – the language of shareholder value.

What we discovered should be of keen interest to airline executives, as well as any business leader who questions the value of customer-centricity. That's because, as it turns out, airlines get quite a lift from a great customer experience.

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.

Best regards,



Jon Picoult
Founder & Principal, Watermark Consulting
Author, [From Impressed To Obsessed](#)

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The Business Challenge

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

It's a vexing question for the industry. Many airline executives publicly tout their commitment to the customer, but then are reluctant to invest in customer experience improvements, unsure of the financial return they really deliver.

As a result, many airlines continue to subject their customers to a variety of aggravations and indignities – such as cramped seating, hidden fees, overbooked flights, excessive 800-line hold times, and excruciatingly restrictive mileage award redemption policies.

To help industry 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 the industry 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 3 (“Leaders”) and Bottom 3 (“Laggards”) publicly traded companies in J.D. Power and Associates’ annual North America Airline Satisfaction Study.

Our analysis focused on the period following 2010, after the most recent wave of airline consolidation was largely completed.

As the graphic in the next section vividly illustrates, the results of our study were 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 Airline Customer Experience Leaders and Laggards.

For each year covered by the study, Leaders and Laggards were defined as the Top 3 and Bottom 3 publicly traded airlines in J.D. Power and Associates’ annual North America Airline Satisfaction Study (combining both Traditional and Low-Cost carrier ratings). Those ranking slots generally equated to the top third and bottom third of public companies evaluated.

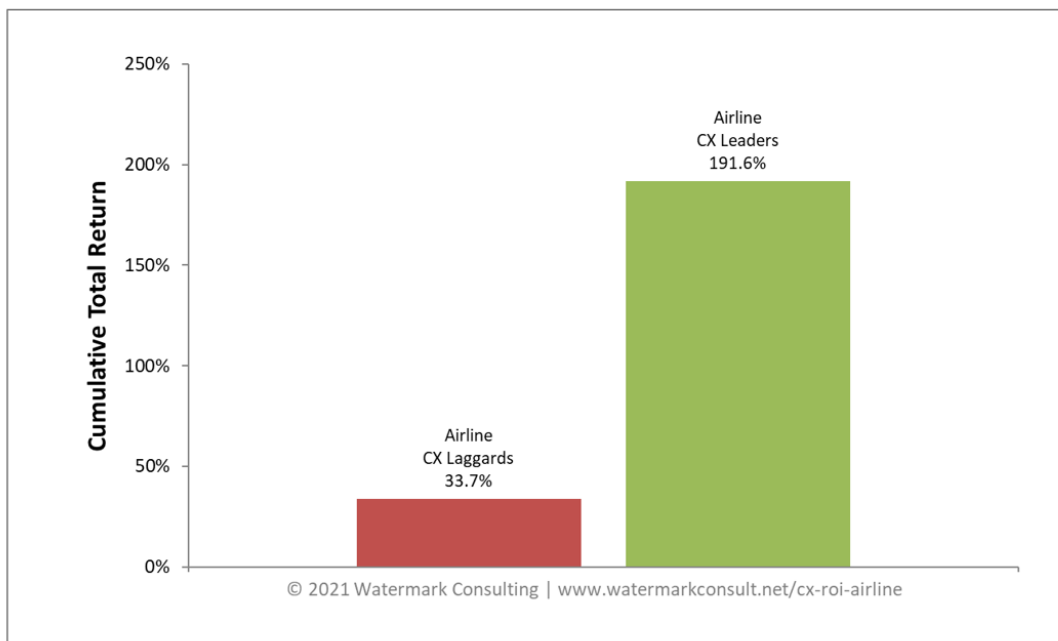
Portfolio returns were based on the prior-year performance of the Leaders and Laggards, to ensure that the results were not influenced by the publication of the J.D. Power study itself.

The Results

Ten years of airline satisfaction rankings were incorporated into our analysis. The graph below shows the cumulative total shareholder return across that period for the Customer Experience Leaders and Laggards.

Airline Customer Experience Leaders Outperform

10-Year Stock Performance of Customer Experience (CX) Leaders vs. Laggards (2011-2020)



Airline Customer Experience Leaders far outperformed the Laggards, and the size of the performance differential (**nearly 160 points**) was striking.



Airline Customer Experience Leaders generated a total cumulative return that was **5.7 times greater** than that of the Customer Experience Laggards.



The shareholder return disparity between CX Leaders and Laggards has **more than doubled** over the past few years, significantly widening the performance chasm between the two groups.

The Backstory: Customer Experience Leaders vs. Laggards

As this study demonstrates, the fortunes of Airline Customer Experience Leaders and Laggards diverge in a dramatic and revealing way. What's driving the disparity in performance across these two groups?

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:



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.



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 customer experience ROI 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.

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.

Learn From The Leaders

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:

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 CX investments requires more than just satisfying customers, it requires *impressing them*.

2

They leave nothing to chance.

The Leading companies have a keen understanding of the wide array of live, print, and digital touchpoints that comprise their customer experience. They design each of these touchpoints very intentionally, carefully choreographing the interaction to create an experience that consistently nails the basics and also delivers pleasant surprises.

3

They shape memories, not just experiences.

How people remember the customer experience is arguably more important than the experience itself, as it's those memories that ultimately drive repurchase and referral behavior. The Leading companies recognize this, and they use cognitive science to engineer customer experiences that people enjoy in the moment but also remember in the future.

4

They infuse the experience with emotional resonance.

People's affinity toward a business is ultimately shaped by how they *feel* after interacting with the company, its representatives, and/or its products. CX-leading firms appreciate this, and so they engineer experiences that don't just focus on customers' rational requirements, but also address their emotional needs.

5

They focus on both the customer *and* the 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 sides of this equation – obsessing not just over their customers, but also over the employees who serve them.

Implications For Airlines

For much of the decade covered by our analysis, the same three airlines dominated the J.D. Power rankings: JetBlue, Southwest and Alaska Airlines. (Worth noting, though – Delta Airlines has steadily climbed in the rankings, hitting #1 in 2021.)

Understanding how these carriers create such a positive impression is instructive not just for business leaders in the airline industry, but those in any industry:

While these carriers clearly embrace time-tested best practices for customer experience engineering, they apply those principles to their business in some especially noteworthy ways, providing a lesson for companies both inside and outside of the airline industry:

- **Focus on organizational culture.** The CX-leading airlines recognize the importance of creating a workplace culture that fosters customer experience excellence. While they don't have identical cultures, they do have distinctive, customer-centric cultures. Those cultural traits weave their way through every inch of these companies, from hiring practices to incentive programs to behavioral norms. It creates unparalleled strategic alignment across each firm, cultivating a workforce that is friendly and helpful, from the 800-line service center all the way to the ticket counter.
- **Equip staff with the right tools.** Seeding an organization with the right staff only gets you so far. If they're not properly empowered, if they're not equipped with the right tools, then even the best-intentioned employees will struggle to deliver a great customer experience. CX-leading airlines understand that if you have the right people on board with the right tools in hand, everything else falls into place. They give their workforce the necessary training and decision latitude so employees have both the motivation and the authority to serve customers with distinction.
- **Advocate for customers.** In an industry where most firms seem to exploit their monopolistic position at the expense of customer interests, CX-leading airlines – each in their own way – provide tangible illustrations of customer advocacy. Southwest eliminates concealed fees (such as baggage and ticket change charges) with its “Transparency” approach. JetBlue allows families to pool and share their mileage points, so they can earn award trips faster. Alaska Airlines offers a 20-minute baggage delivery guarantee, backed by actual passenger compensation. And, more recently, during the Covid-19 pandemic, Delta blocked middle seats for *over a year* to facilitate onboard social distancing – the longest such policy of any major airline. These are all examples of how CX-leading airlines elicit a strong emotional response from customers, by demonstrating that they've “got your back.”

Implications For Airlines

It's also worth noting that the intensely positive impression that these Airline Customer Experience Leaders leave on passengers isn't just a consequence of low fares.

As many discount carriers around the world have demonstrated, low fares and a great customer experience do not necessarily go hand in hand. In addition, keep in mind that JetBlue and Southwest are no longer the low-cost providers in the U.S. airline industry (that distinction belongs to carriers such as Allegiant, Frontier and Spirit).

What CX-leading airlines bring to the market, however, is a deliberately designed and consistently delivered customer experience.

It's an experience that infuses humanity and hospitality into an industry that is notably devoid of it. An experience that builds shareholder value, by growing revenues and controlling expenses. An experience that, quite simply, allows these widely admired airlines – like all customer experience leading firms – to repeatedly reach new heights.

Ready To Turn Your Organization Into A CX Leader?

Watermark has spent years studying companies that excel in customer experience. Through that research, we've pinpointed the customer experience design secrets of these highly successful companies, and those insights serve as the foundation for all of the work we do on behalf of our clients.

What customer experience challenges is your organization facing? Below are just a few that we've helped our clients overcome:

- **“We need to make the case for customer experience at our company.”** Our [executive education](#) programs will help demonstrate the value of customer experience excellence to company leaders, and show them how time-tested CX design techniques could be applied to your business.
- **“We don't really know what customers think of us.”** Our [Consulting Services](#) include quantitative and qualitative tools which help bring the voice of your customer to the forefront, revealing game-changing insights that will spur customer experience innovation and drive your business forward.
- **“We need to rally our employees around customer experience.”** Watermark founder Jon Picoult is an acclaimed [keynote speaker](#). Invite Jon to your next all-employee meeting, sales conference or corporate event – he'll inspire your team to deliver CX excellence, and show them exactly how to do it.
- **“We need to improve our customer experience, but we're not sure where or how to start.”** Our [Consulting Services](#), including Watermark's proprietary “Customer Experience Reality Check” will evaluate your current CX and develop a detailed roadmap for turning it into a competitive differentiator.

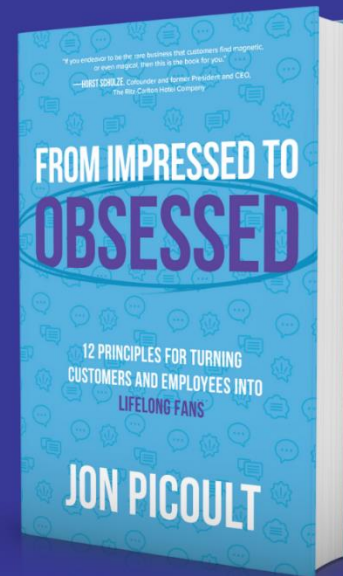
Through our Customer Experience ROI Studies, we've uncovered the techniques that top companies use to turn everyday people into loyal brand advocates. Let us help you apply the same techniques to *your* business – and turn your organization's customer experience into its greatest competitive advantage. [Contact us](#) to start the conversation.

The Definitive Guide To Customer Experience Excellence

“If you endeavor to be the rare business that customers find magnetic or even magical, then this is the book for you.”

-- Horst Schulze, Co-founder and Former President & COO, The Ritz-Carlton Hotel Company

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We wrote the book on customer experience... literally!

Accelerate your customer experience transformation by capitalizing on the insights in Watermark founder Jon Picoult's acclaimed new book, "[FROM IMPRESSED TO OBSESSED: 12 Principles for Turning Customers and Employees into Lifelong Fans.](#)"

The book will fundamentally change how you think about creating a successful, beloved business. In it, Jon explores the cognitive science behind great customer experiences, pinpointing the breakthrough, psychology-based strategies that successful companies use to create unforgettable impressions that turn more sales prospects into customers, and more customers into obsessed brand ambassadors.

Packed with intriguing case studies, engaging stories, and eye-opening research, the book details these proven strategies and illustrates how they can be applied to any type of business.

FROM IMPRESSED TO OBSESSED reveals the what, the why, and – most importantly – the how behind great customer experiences. Filled with actionable insights, the book provides an invaluable roadmap for becoming the company that everyone wants to do business with, the employer everyone wants to work for, and the leader everyone wants to follow.

About Watermark Consulting

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, helping them cultivate loyalty in both the marketplace and the workplace.

wa • ter • mark

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

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 us, please visit www.watermarkconsult.net.