

The New Metrics

Customer Experience and ROI

*An Inverse Ratio Whitepaper
New and Revised Version
August 2000*

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Take Away

Improving the experience people have with your business is the most powerful way to form lasting and profitable relationships with customers, clients, partners, suppliers, and employees. A failure of user understanding is at the root of poorly performing websites. E-businesses that evaluate, architect, and measure the real experiences of real people will create products that blow away competitors. This whitepaper presents an overview of how to measure actual customer experience and calculate ROI.

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Take Away ²

The Customer Experience Today ⁴

The New Customers ⁵

The Value of Your Customers ⁶

Evaluating Your Customers'
Experience ⁷

Improving the Customer Experience ⁹

The Costs and Benefits of
Measurement ¹⁰

The New Metrics ¹¹

Return on Investment (ROI) ¹³

About Inverse Ratio ¹⁴

The Customer Experience Today

The customer experience is your company.

The customer experience for e-businesses is the customer's total interaction with your company—from when they first become aware of your company to long after they've made a transaction. All websites foster an experience; often this experience is *not* planned to match customers' expectations or needs. A good customer experience recognizes the interests, lifestyles, and goals of real customers, whether they are consumers, partners, or employees. Usability, relationship-building, functionality, content, and value are critical components of the customer experience.

On the Internet, real people are left out of the experience.

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Fortune 1000 companies spent between \$1.5 and \$2.1 million in 1999 on website redesigns without knowing whether the experience of customers improved.

- 67% of web shoppers click out of the shopping cart before completing a purchase.¹
- 35% of people who experienced problems on a particular site left that site for another.²
- 45% abandon websites with poor navigability, slow download times, or confusing content.³

Despite these numbers, Fortune 1000 companies spent between \$1.5 and \$2.1 million in 1999 on website redesigns without knowing whether the experience of customers improved.⁴

Competitors are a click away.

When people are unhappy with a website they are very likely to go to a competitor's site. There are dozens of other websites and wireless applications providing similar products and services. The source of competition isn't even limited to the same industry. The best sites on the web just set customer expectations higher. The indicators couldn't get any clearer. The customer experience is the competitive battleground for e-businesses.

¹ Net Effect, June 1999.

² Anderson Consulting, "1999 Holiday E-Commerce", February 2000.

³ Boston Consulting Group, March 2000.

⁴ Forrester Research, "Why Most Web Sites Fail", November 1998.

The New Customers

The web customer is changing.

The online buyer will become much more representative of mainstream society in this next year, with the majority of US households gaining personal Internet access in the year 2000. New online shoppers are more likely to include older people, parents with children at home, people with lower education and income levels, and more women.

Online shoppers in years past tended to be “early adopters”—they were highly educated, high-income consumers. Late adopters, up to 70 percent of the population, won’t tolerate buggy products with a high learning curve. These new customers spend less time online and visit fewer websites, leaving less time to capture their attention.⁵ These customers are not willing to fight through “high concept design” or “technological sophistication” just for the privilege to spend their money.

New customers will come with new technologies.

Soon, customers will move online through wireless, information appliances, and other interactive devices. These customers will bring expectations about convenience and time saving above all else. The average mobile phone user is far less tolerant of complexity than a PC user. For every key press that is required for a particular function, the use of that feature is reduced by 50 percent. Only 5 percent of mobile phone subscribers use voice mail for this very reason.⁶

The Internet will finally go global.

By year-end 2000, only 42 percent of the world's active Internet users will come from the US. This percentage will continue to decline as Internet use rapidly accelerates worldwide. By 2003, the US share will drop to 36 percent of total active users.⁷ Europe, Latin America, and China are the Internet markets of the future. The content and language of e-business will become more diverse as Internet companies provide unique local content.

⁵ MediaMetrix and McKinsey & Company, July 2000.

⁶ David Hayden, “Hello, Half a Billion of Us Want the Web via Phone”, Internet World, Nov 15, 1999.

⁷ EMarketer, “eGlobal Report”, February 2000.

The Value of Your Customers

Companies spend a lot of money driving traffic, but don't win customers.

E-businesses spend a lot of money trying to bring in new customers through advertising. People might click on clever ads but will not buy unless they have a positive experience. The average company spends \$45 to acquire a customer who spends

<i>The Value of Increasing Conversion Rates</i>			
<i>Conversion rate</i>	2%	4%	8%
Advertising	\$10,000	\$10,000	\$10,000
Visitors	5,000	5,000	5,000
Transactions	100	200	400
Cost/Transaction	\$100	\$50	\$25

\$35 and never returns.⁸ For a pure-play e-commerce startup, the costs for customer acquisition may run as high as \$95 per customer.⁹ Knowing your customer can certainly help you advertise more effectively. But providing a good customer experience is even more effective for converting browsers to buyers. Recent research indicates that \$1 spent on advertising produced \$5 in total revenue, while \$1 spent on customer experience improvements yielded more than \$60.¹⁰

Customer loyalty is the key to profitability.

Customer loyalty, measured in repeat purchases and referrals, is the key driver of profitability for online businesses. The more often a customer visits a site, the more likely that customer will spend an increasing amount of money. The costs are high when customers don't return because of a bad experience, even for a small percentage of users. If only 20% of 1,000 visitors don't return due to poor experience, the lost cost of their lifetime value could be over 1 million dollars.¹¹ To add insult to injury, a single dissatisfied web customer may tell as many as ten friends causing your company to lose even more revenue and eroding your brand.¹²

⁸ William Bulkeley, "E-Tailers Misjudged the Web, And Now They're Paying," Wall Street Journal Interactive, April 5, 2000.

⁹ McKinsey & Company, August 2000.

¹⁰ Creative Good, "Holiday '99 E-Commerce", September 1999.

¹¹ Mainspring and Bain & Company, April 2000.

¹² Forrester Research, "Why Web Sites Fail". November 1998.

Evaluating Your Customers' Experience

Few companies invest in the customer experience.

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Vendors who make subjective statements like, "the site will be easier to use" reduce the value of the customer experience to its lowest level.

Most companies develop and launch websites without any customer-centered activities. In a way, "testing" the customer experience takes place in the field, once the site is launched. Sites can be rejected at the time when acceptance is most critical—when people are looking at them for the first time.

Few web integrators and interactive agencies analyze, design, and test the customer experience for measurable results.

Vendors who make subjective statements like, "the site will be easier to use" reduce the value of the customer experience to its lowest level. The fact is that with so few companies paying attention to their customers' experience, businesses that provide a positive experience can easily position themselves as leaders.

Even fewer measure their success.

Very few companies measure the quality of their customer experience over time. The most common measurement techniques are the least effective. Typically, companies use market research, log file analysis, data mining, or usability software to measure customer experience. All of these techniques can provide some insight into your customers' experience, but the picture they provide is incomplete.

Market research techniques, like surveys and focus groups, measure reported satisfaction. The tools of conventional market research rely on the customers' ability to articulate the connections between products, services, and their lives. Likes and dislikes reported in surveys or focus groups are a poor predictor of actual use.

Hits, page views, and user sessions indicate very little about actual user experiences. You need an answer to "Why didn't more shoppers buy?" and your log file analysis software can only tell you that "300 customers purchased yesterday" and that "the average order size was \$21.11". Log file data provides only a starting point for the measurement of your customers' experience. E-businesses investing in

large-scale customer tracking systems for 1-to-1 marketing, will discover similar deficiencies in customer understanding.

The latest measurement tool is usability software that promises a complete picture of the site's usability based on checking links and download times. Like the log file analysis tools, these software packages are only a starting point for improving the customers' experience. They tell you what's wrong but they don't tell you why or how to fix it.

Going to the customer is the best way to evaluate customer experience.

The customer experience cannot be understood without going to real people. Observing your customers as they use your site or application is the only way to truly understand who your customers are, what they think, how they do things, why they use the sites, products, or services they use. Usability testing is an effective way to measure how easily and effectively customers can accomplish typical tasks. In order to provide a complete picture of how customers interact with an e-business, the testing should be open-ended to assess overall satisfaction and usefulness. The results are a snapshot of how customers complete certain key activities—like finding product information or purchasing an item—on your site.

Contextual research, where people are observed and interviewed in the context of their everyday use of a product or a site, can also be an effective way to gain an understanding of your customers and their experience with your e-business.

Recommendations that are the result of this kind of research are a powerful way to acquire and retain new customers, since they are grounded in an understanding of people's day-to-day lives.

Improving the Customer Experience

Customer experience evaluation is not enough.

Customer experience evaluation techniques, like usability testing, user research, or site reviews, show you potential problems that may be preventing customers from doing business with you. However, for these findings to make an impact on business, they must be translated into tactical solutions. In other words, you need to know what's wrong, but you also need to know how to make it right.

Many companies who conduct usability tests, focus groups, or other user research can't articulate how to make improvements. There are many reasons for the disconnect. Sometimes, companies get results of testing in a report that is not widely distributed or read. Or, the report may not provide concrete recommendations for improvement. In some cases, there are several possible solutions to a particular problem, so it isn't clear which is the most efficient approach. In other cases, the people who are redesigning the site do not or cannot implement the recommended changes for any number of reasons. Clearly it is not easy to implement improvements, even when everyone agrees that improvements must be made.

Prototyping and re-testing is the only way to make genuine improvements.

Companies that take the knowledge they've gained from evaluation and then translate it into actual design improvements will ultimately be the most successful. The best way to know whether a genuine improvement to the customer experience had been made is to try out solutions and test them again with real customers. This does not mean a costly redesign though. It involves spending time to make improvements to the information architecture and interface design, rather than redoing the graphic design and coding new pages. By creating a rough prototype of the improvements, whether paper "wireframe" designs or a skeletal version of the site, many suggested improvements can be tried out at a low cost and tested. This way, companies won't make the same mistake twice by releasing an untested design.

The Costs and Benefits of Measurement

Customer experience evaluation is a small part of total development costs.

When companies are spending an average of \$150,000 to \$600,000 on building or redesigning a transactional website¹³, the cost of usability testing, user research, or site evaluations is only a tiny percentage of the total costs. Getting an independent usability or customer experience firm to review or test your site typically costs between \$10,000 and \$50,000. Since a poor user experience can result in millions of dollars in lost sales, customer experience evaluation can have a huge payoff for relatively little investment. Discount usability testing, where the site is tested with fewer people without the use of a high-tech lab environment, can also provide valuable customer insight at even lower costs.

Customer experience evaluation reduces overall development costs.

When used throughout the development process customer experience evaluation, improvement, and measurement can result in significant cost savings. The cost of a complete site overhaul is

Resource Costs for Changes			
Early in project lifecycle		Late in project lifecycle	
Average Cost per hour		Average Cost per hour	
Usability specialist	\$200	Usability specialist	\$200
Information architect	\$150	Information architect	\$150
		Graphic designer	\$150
		Programmer	\$200
		Coder/Integrator	\$150
		Project manager	\$125

roughly 30 times that of incorporating testing early on.¹⁴ Customer experience evaluation methods such as contextual observation, usability testing, and rapid prototyping can be used long before the first line of code is written. And, unlike traditional market research where large sample sizes are needed to generalize results, many critical customer experience issues can be detected with a small number of customers. All this minimizes the need to bring on a large, expensive team to make changes late in the project lifecycle.

¹³ NetB2B, Web Price Index, May 2000.

¹⁴ Forrester Research, "Why Most Web Sites Fail", November 1998.

The New Metrics

All metrics must start from customer understanding.

The existence of customer experience metrics is still relatively unknown for the web. Only by understanding the needs, expectations, and behaviors of real people will your business be able to gauge success in a meaningful way. Improving the experience people have with your business offers tangible results that can be measured. There are a variety of methods to help determine ROI. These mostly center on measuring customer conversion, long-term customer value, or profit in savings.

Conversion rate is one critical metric.

Customer experience does have a measurable impact on costs and revenues. Conversion rate is directly related to the customer experience of e-business and is the most frequently measured. Conversion rate is the ratio of people who actually do something at a site (buy, register, contribute) versus those who only visit. Overall conversion of browsers to buyers is still less than 2%, even on the best sites.¹⁵ The imperatives that drive look-to-buy are: 1) easy site navigation, 2) reduced first-time purchase risk, 3) rapid checkout process, and 4) rewards for loyal customers. Each of these imperatives has a significant customer experience component that can be improved by user-centered design activities and measured by testing.

If 40% of 1,000 e-commerce retail customers do not return due to a poor experience, the revenue lost can be as much as \$2.8 million.

Cross-channel lifetime value may be even more important.

On average, 98.7% of those who visit a site do not return¹⁶, often because the experience that does not meet their needs. The cross-channel lifetime value of customers, considers the frequency and value of customer's purchases across all channels. On average, repeat customers generate nearly three times the revenues of other customers. Even for businesses where the purchase cycle is longer, like furniture, cars, and other big-ticket items, building ongoing relationships can create cross-sell or up-sell opportunities.

¹⁵ Forrester, "Making Net Shoppers Loyal", June 1999.

¹⁶ McKinsey & Company, August 2000.

If 40% of 1,000 e-commerce retail customers do not return due to an experience that is not relevant or meaningful, the long-term value lost is can be as much as \$2.8 million. By this estimate, every newly acquired customer can be expected to add \$7000 to revenue if retained through a positive customer experience.

Brand equity is tied to customer loyalty.

The relationship between customer experience and brand is even more significant on the web where your site may represent your entire business in the customer's mind. Even as more people begin to shop online, repeat buyers have declined significantly.¹⁷ Customer loyalty is tied to product selection, availability, and pricing to be sure, but is also directly affected by overall ease of use, navigation, and customer service on your website.¹⁸ The customer experience of your site affects the value your brand provides customers in terms of reduced search costs, lower perceived risk, and decision simplification.

Profit in savings is another vital measure.

Improvements to the customers experience can reduce costs across your organization. One important savings is moving offline business processes online. If modeled on the users' own work process, companies can streamline process and reduce costs significantly. Another savings is in employee, supplier, or partner productivity. People can waste hours searching for information. This quickly translates into high costs for companies. This is particularly relevant for intranets and business-to-business exchanges. Many companies report millions of dollars in savings by analyzing how people work and testing the online experience of their corporate intranet or partner extranets. A good customer experience can also reduce use of expensive support channels like phone or face-to-face customer service. With the cost of a support call ranging anywhere from \$12 to \$250 and even email support as much as \$4.50¹⁹ any improvement in the way customers interact with websites will significantly reduce costs.

¹⁷ BizRate.com, July 2000.

¹⁸ Jupiter Communications, April 2000.

¹⁹ Kristin Zhivago, "Marketing Solutions: Ways to Make Sure Web Leads to Profits," Business Marketing, September 1998.

Return on Investment (ROI)

Investing in the customer experience may seem less exciting than investing in slick design and new technologies. Unless companies can turn browsers into repeat customers and help employers and partners create value, they don't have a viable business. The customer experience is a starting point for meeting your business goals.

<i>Meeting Business Goals</i>
Increasing revenues
Reducing costs
Gaining competitive edge
Improving productivity
Building brand

For every dollar a business invests in improving the customer experience, that company will receive as much as \$100 in benefits by winning customer satisfaction and continued business. Evaluating, improving, and measuring the e-business customer experience ensures lower development costs, increased revenue, and a competitive edge. The use of concrete customer experience evaluation and measurement is unlikely to remain a luxury much longer. Increasingly, a comprehensive and continuous customer experience improvement program will be a requirement for every e-business.

About Inverse Ratio

Inverse Ratio specializes in improving the customer experience for e-businesses. We don't just point out what's wrong, we show you how to make it right. First, we help companies understand the people, environments, and contexts that make up their business. Then we produce a complete framework, including designs and documentation, for improving the experience people have with their business.

All that adds up to satisfied customers, employees, partners, and suppliers. For our clients, this means higher revenues and lower costs. By grounding development in the real experiences of real people, Inverse Ratio's clients develop products that fit with their customers' lives, adding business value, and long-term brand loyalty.

Based in New York, Inverse Ratio provides customer experience strategy, information architecture, and usability services for e-commerce sites, business-to-business marketplaces, intranets, wireless applications, and information appliances.