

Investing in Customer Experience to Grow

Report on the Maturity of Customer Experience in the Spanish Market

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The Association for the Development of Customer Experience (DEC) is made up of leading Spanish and international brands and experts in Customer Experience. Founded in March, 2014, it was the first business and professional organization to promote best practices and to seek excellence in Customer Experience throughout Spain and Latin America. Its goal is to develop the concept of Customer Experience throughout society so that our companies become recognized for providing a unique, differential and profitable experience that generates strong ties with their customers, and that this be the pillar for the sustainable growth of their performance.

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Prologue from the President of DEC

Customer Experience is a key strategic area for companies, as it plays an essential role in differentiating oneself and generating growth. Nonetheless, organizations frequently lack methodologies and tools which would allow them to advance in a systematic manner and obtain measurable results. DEC and BCG, a leader and important reference in the field, have studied the maturity of Customer Experience in order to enable companies to develop their own path to excellence.

This report presents -for the first time- a methodology to measure companies' progress in Customer Experience through a two-fold perspective of internal company vision and external customer vision based on 25,000 consumer surveys. The combination of both analyses shows that companies with more solid and developed internal Customer Experience models generate improved customer perceptions and assessments. The combination of both analyses shows that companies with more solid and developed internal Customer Experience models generate improved customer perceptions and assessments.

The study also demonstrates that companies which provide their customers with good experiences grow between 8% and 26% more than those which do poorly, as they improve retention rates, customer engagement and recommendation levels.

It is important to remember that best practices not only provide customers with what they expect from a rational perspective (product, service and price-quality ratio), they surprise customers, engage them emotionally and they reflect the brand. In order to do so, they have placed the Customer Experience at the center of their strategy and company and, what is even more difficult, they do so on a daily basis.

We will continue working to ensure that customers enjoy their relationship with our brands and that they are the pillar of our growth.

Kind regards,

A handwritten signature in blue ink, appearing to read 'Jorge Martínez-Arroyo', with a horizontal line underneath.

Jorge Martínez-Arroyo
President of DEC (Association for the Development of Customer Experience)

Customer Experience is of great interest today, appearing in the news and publications, and it is included on the agendas of management boards. What is more, many of the organizations which strive to improve their Customer Experience recognize that their results improve: they achieve increased growth since their customers spend more, they have reduced churn rates, and they have increased recommendation rates. On the other hand, there are still many cases in which adjustments are limited to including the concept of Customer Experience in communications and to making minor changes that, unfortunately, aren't perceived nor valued by their customers and employees.

Most companies still haven't developed comprehensive Customer Experience models. Some sectors, such as the technology industry, seem to be advancing quicker, but there is still an acute lack of units which are truly and exclusively dedicated to Customer Experience. In many companies, the area forms part of the marketing department or is a sub-directorate "hidden" within another department. That being said, to achieve a significant impact, an independent area must be created which reports directly or indirectly to general management, but with enough visibility, authority and resources to propose initiatives to improve Customer Experience that involve the rest of the organization.

Customer Experience in Spain is at a similar level of development as in neighboring countries which are currently considering the concept with the seriousness it deserves. In some cases, large multinational companies are incorporating it into their sectors in Spain, but, in others, it is Spanish companies themselves that are innovating and leading in Customer Experience.

Although we have already completed part of the journey by convincing ourselves of its relevance, still few companies rigorously quantify the returns that investing in Customer Experience offers. In order to measure the economic benefits of Customer Experience initiatives and offer companies a powerful tool to help them improve, The Boston Consulting Group (BCG) has created a study for DEC which analyzes the Customer Experience in large Spanish companies from different sectors with a holistic perspective that combines two mutually related perspectives: the internal vision of companies and customer vision.

On one hand, this study includes customer vision through the BCG-developed Brand Advocacy Index (BAI), which is a database of 1,500,000 responses regarding over 1,000 brands in 35 different sectors -including B2C and B2B- which is used in 35 countries. BAI is a strategic metric that precisely measures Customer Experience according to real customer and non-customer recommendations and critiques of brands, as well as their impact on growth. The tool is easy to use, intuitive, comprehensive and is used to calculate a brand's Customer Experience according to stories generated from positive and negative experiences. It measures all the elements that form part of the Customer Experience, including rational dimensions, such as price, service and product, as well as emotional dimensions. This analysis of Customer Experience in Spain has been carried out through 25,000 customer surveys on 200 brands from 15 different sectors.

On the other hand, the study includes the self-evaluation of over 60 companies that are leaders in their respective sectors that have assessed their Customer Experience models according to the Customer Ripple, a tool designed by DEC experts, as a roadmap for professionals in Customer Experience. The Customer Ripple includes the following "five I's" that, together, make up the internal Customer Experience model: Identity and strategy, Impulse of the organization, Involvement of employees, Interaction, and Interpretation and action. The maturity of internal

Customer Ripple models is quantified by using the Customer Experience Development Index (CEDI).

Through this report, DEC and The Boston Consulting Group aim to position themselves as references in Customer Experience in Spain and Latin America to offer companies tools and examples of best practices which help them improve and achieve material results.

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Customer Experience: Investment with a clear impact

For the first time, organizations have a metric available which allows them to precisely understand the degree of maturity of Customer Experience in their brands and of competition. BAI helps to identify segments and areas in which a brand is weak or strong, and to understand why this is to make investment decisions focused on actions which will provide as much growth and returns as possible.

The BCG tool offers three additional strategic benefits. On one hand, BAI reveals which factors in Customer Experience lead individuals to recommend a brand, as well as a brand's performance in each of these factors. On the other hand, it sheds light on influential factors which are often overlooked. Even so, customer recommendations are always essential and, in some sectors and for some brands, recommendations or critiques from past or non-customers are a determining factor for increased or reduced revenues. Finally, since scale is irrelevant, results are perfectly comparable between industries and countries, thereby facilitating its implementation as a global metric.

All of this is achieved with a high degree of precision since it measures real recommendations and critiques, and it directly explores stories regarding Customer Experience that explain the positive or negative experience.

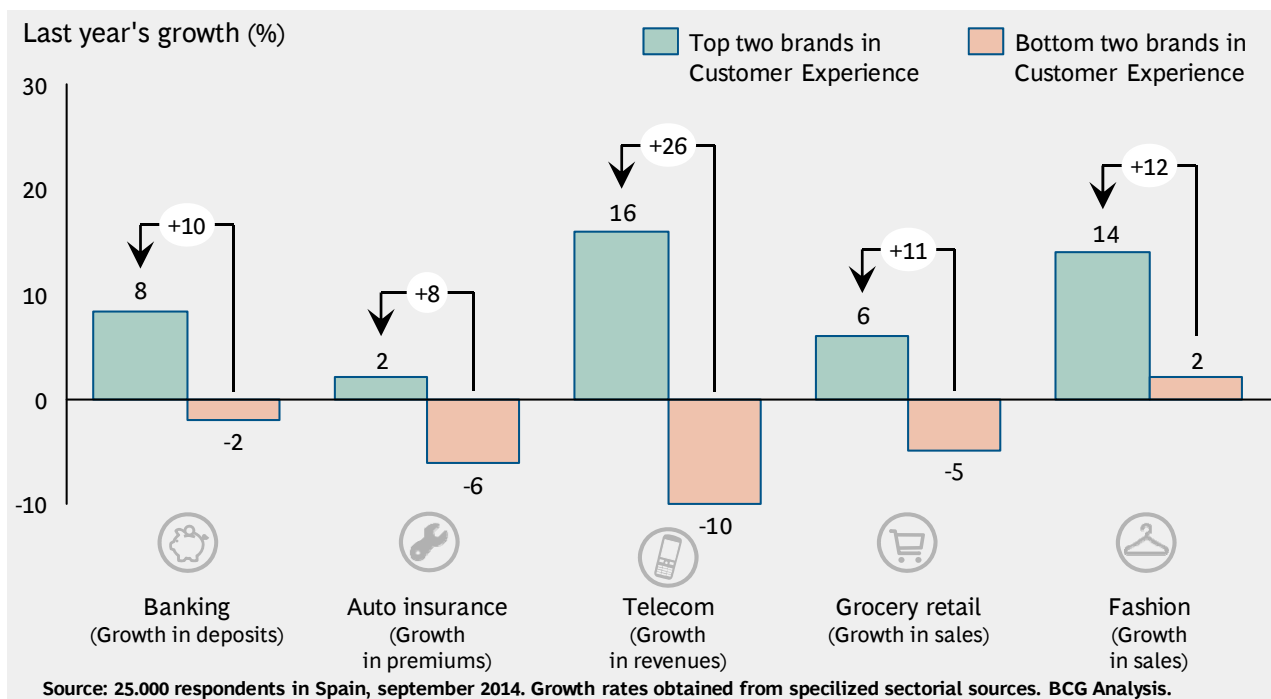
Companies with a good Customer experience grow more. The correlation between a brand's BAI and increased revenues varies by sector, but it is typically between 70% and 90% (by applying Pearson's correlation coefficient).

If we consider the growth of the two brands with the best BAI -due to the positive experiences their customers have had- compared to two brands with the worst BAI -due to their inferior experience- the results are elucidative. Depending on the sector analyzed, the difference in growth between the best and worst varies between 8% and 26% p.a. in Spain (Figure 1).

Differences are greater in the mobile telephone sector at 26 p.p. between the best and worst, which can in part be explained by the fact that the sector has a high level of innovation and commercial aggressiveness, and due to the appearance of new entrants with differentiated proposals. The smallest difference is in auto and bank insurance, two sectors with reduced levels of innovation and in which switching entities is oftentimes difficult. Even so, the difference in growth between the best and worst banks is of 10 p.p., which could represent an additional €10,000 in deposits for a medium-sized bank.

The correlation between Customer Experience and growth is based on three variables which play a key role in growth. On one hand, customers with better experiences generate more revenues. On the other, they are less likely to switch brands, thereby reducing churn rates. By recommending the company that provided them the positive experience, customers also contribute to the acquisition of new customers.

Figure 1: Companies with a good Customer Experience grow more



There is a clear relation between Customer Experience and increased revenues in companies which have contractual relations. By classifying customers according to the experience that telecommunications and broadband companies provide them, our study reveals that 38% of those who claim to have a good experience contract two products from the same company, compared to 27% for those with a bad experience. The same occurs with gas and electricity providers: 30% of customers with a good experience contract two products, compared to 14% of those which have had a bad Customer Experience.

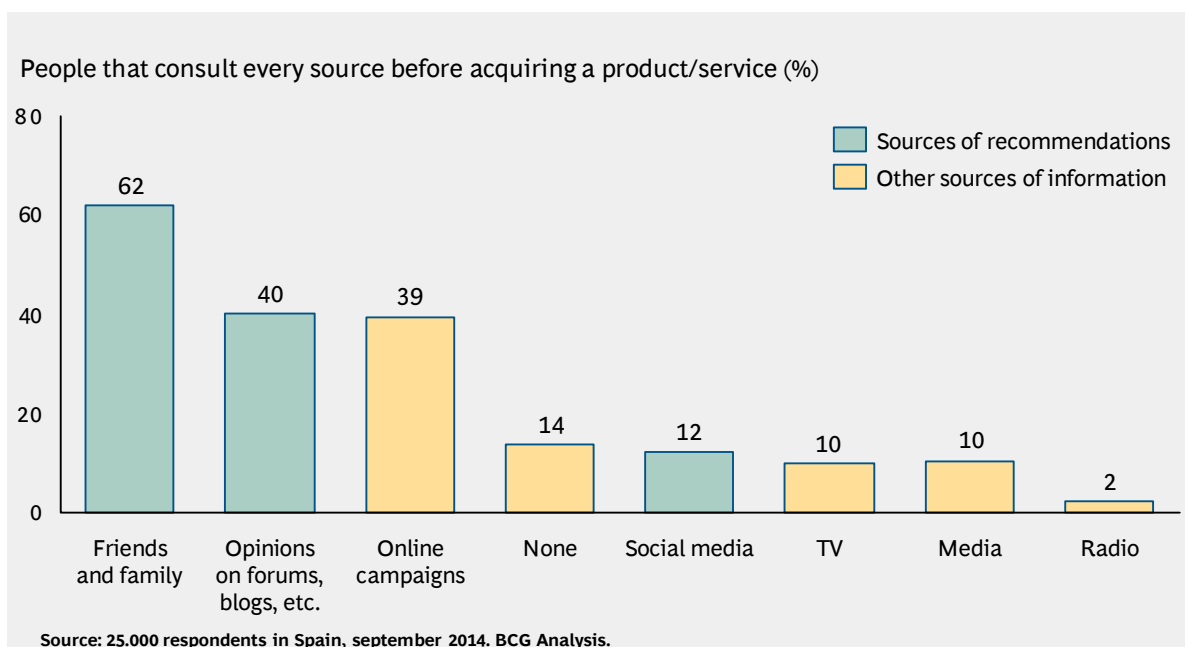
In sectors without contractual relations, the impact of a good experience on revenues is even greater due to the existence of barriers to change. In transportation, 30% of customers with a good experience make over 50% of their travel arrangements with the same company, compared to 7% of those which have a worse Customer Experience. In fashion, 33% of customers with a better experience purchase over 50% of their clothes at the same chain, compared to 3%. The paradigmatic example is grocery retail, in which 96% of customers that claim to have had a good experience purchase over 50% of their food at the same establishment, compared to the 4% in the case of those that have a worse Customer Experience.

Customer Experience is also directly related to churn rates, that is, to the number of customers that decide to switch service providers. The impact of experience on the churn variable for banking customers is the most noteworthy since, among customers with good experiences, only 1% are determined to switch entities compared to 51% of those with a worse experience. These proportions are similar in health insurance, in which 2% of customers that have had a good experience actively seek out a new insurer, compared to 52% of those that have had worse experiences, and in auto insurance, at 3% and 50% respectively. In energy and mobile phone

providers, rates are at 2% and 4%, respectively, for customers with a good experience that want to switch providers, and 27% and 41% for customers that claim to have had worse experiences.

A good Customer Experience also leads to elevated recommendation levels. In order to analyze this variable, one must take into account that the main sources of information to choose a brand, generally speaking, are the recommendations of family and friends, along with those of other independent consumers on forums and blogs. This results in increased customer acquisitions. According to BCG analysis, customers which have had a good experience with a company become their best salesmen since, on average, they recommend it four times per quarter. This means that there is a relevant correlation between recommendations from customers with good experiences and the acquisition of new customers (Figure 2).

Figure 2: Customers with a good experience recommend and capture new customers



These three variables have a different impact in sectors which require that their customers be engaged in the medium or long term. A customer who claims to have had a bad experience with their energy, telephone or bank product providers may find it difficult to switch companies or stop consuming certain products, so the quality of their experience may not modify these variables. Nonetheless, it is important to consider that, although engaged, these customers make recommendations and critiques as much as others, or more, which can limit a company's capacity to capture new customers and grow.

Additionally, the phenomenon of recommendations cannot be limited to the period in which the customers, as such, are still engaged with a company. In order to analyze this factor in its totality, one must consider the fact that past customers continue to express opinions regarding their Customer Experience once they are no longer customers. In fact, 14% of a brand's past customers continue to speak highly of their experience, while 30% of past customers continue to critique companies which they are former customers of when their relationship has ended, thereby causing considerable damage to the brand.

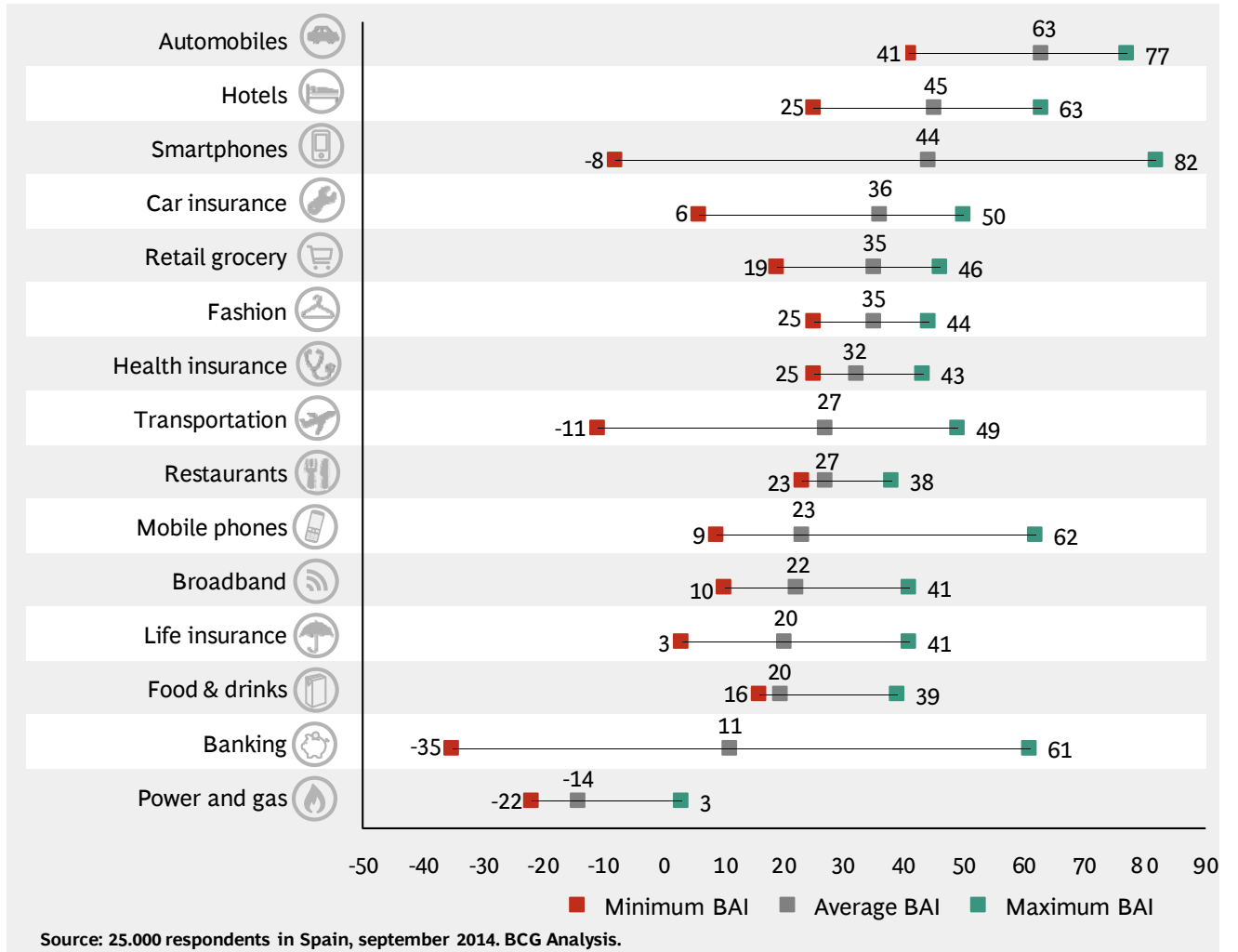
It's possible to differentiate oneself and stand out in all sectors

Improving Customer Experience may seem more complicated in certain sectors. This "reduced motivation" to undertake efforts to improve the experience of customers can be explained, to a significant extent, by greater barriers for churning customers due to the difficulty of changing providers, as occurs in sectors in which customers must perform various complicated processes, such as for a mortgage, that could tie them to an entity for decades. Nonetheless, given that the regulatory markets of neighboring countries are granting more power to customers and eliminating exit barriers, we anticipate that the most important developments in Customer Experience will take place precisely within these sectors.

However, there is considerable potential for differentiation within each and every sector. For example, in the smart-phone sector, the average BAI index is 44%, even though different companies fall within a broad range of between -8% and 82%. The sectors which generally offer a poorer Customer Experience can also include competitors with advanced Customer Experiences, such as that of banks, which have an average BAI of 11% and whose leaders reach 61% (Figure 3).

When comparing the BAI of Spanish companies compared to their counterparts around the world, worthy of mention is the position of car insurance and grocery retail companies in Spain, which are clearly above the global average in Customer Experience. For some auto insurers, this difference resides in the better experience provided by Spanish insurers, such as Mutua Madrileña, Mapfre and Línea Directa, which are clearly better than those of other multinational companies present in Spain. As for grocery retail, the sector is leading in Customer Experience in Spain due to a retailer that has generated a highly competitive landscape. Mercadona has generated an unprecedented dragging effect that has obliged large international companies, such as Lidl, to improve their proposition in Spain, with a BAI of over two times their rating in their country of origin, or Spanish companies, such as Dia, to develop levels of experience far beyond those of similar international references in their markets of origin. Mercadona has become a clear leader in Spain through a management model focused on innovation and excellence to provide its "bosses" (as Mercadona refers to its customers) with what they need.

Figure 3: Average, best and worst BAI by sector



Mercadona: Success based on Customer Experience

With a BAI of 44%, Mercadona far surpasses its competitors in Spain, where grocery retail has a BAI of 35% due to the dragging affect that Mercadona has on the market, as well as internationally, where the average BAI is but 19%. More than anything else, 50% of Mercadona's customers value the price-quality ratio and the quality of its white label, which have been developed thanks to an innovative, best practice process that perfectly involves customers, employees and suppliers. The positive shopping experience is also the fruit of other rational and emotional aspects that make it stand out. 35% of Mercadona's customers value the feeling they get as they walk through the store and shop, as well as the attentive customer service. 30% of Mercadona's customers recommend the store because they identify with the brand and support its social responsibility activities, as well as its support for local industry and its responsible treatment of employees.

Mercadona has achieved a recommendation rate of 66%, and over half of its recommenders are in fact fans that recommend the store spontaneously and without needing to be asked about it. Therefore, two-thirds of Mercadona's customers claim to have a truly positive experience.

One of the keys behind its success has been its ability to get continuous recommendations, even in areas where it wasn't present before. Basque Country is a perfect example of this phenomenon. The grocery chain opened its first store in the region in October 2014, but even before this Mercadona had a BAI of 70% -much higher than its BAI in the rest of Spain- due to consumers that shop at Mercadona when in other regions.

"It has unique products. I like to walk around the store and discover them"

"Shopping there puts me in a good mood because of how well they treat me"

BAI also analyzes the evolution of companies and sectors over time. For example, in Spain, the banking and telecommunications sectors have improved significantly over the past two years. In the case of banking, this is due to the partial recovery of customer trust. In telecommunications, improvements have been driven by new players that have promoted competitive pricing policies and superior customer service. This has created a positive dragging effect for the sector's leading companies, which have also improved their levels of Customer Experience.

In order to differentiate oneself in each sector, there are four key dimensions which clearly impact Customer Experience: the price-quality ratio, the product, the service and emotions. The importance of each one depends on the sector, as well as the population segment and country.

The price-quality ratio is defined as the perception of quality that the company provides a customer in relation to the price paid for it. This dimension is particularly relevant in products and services with limited margins for differentiation, such as energy, grocery retail and mobile phones, in which the costs and degree of transparency are most important to customers.

Products contribute to Customer Experience according to the value they provide and the extent to which they meet customer needs. Customers consider this particularly important in the case of,

for example, food and drinks, mobile devices, and automobiles, in which the product's own attributes mark a greater difference than other attributes.

The service refers to the support customers receive and the channels which are available to them, among other factors. This is particularly important for customers of transportation and car insurance, and for restaurants, along with their products, and banks, along with their prices.

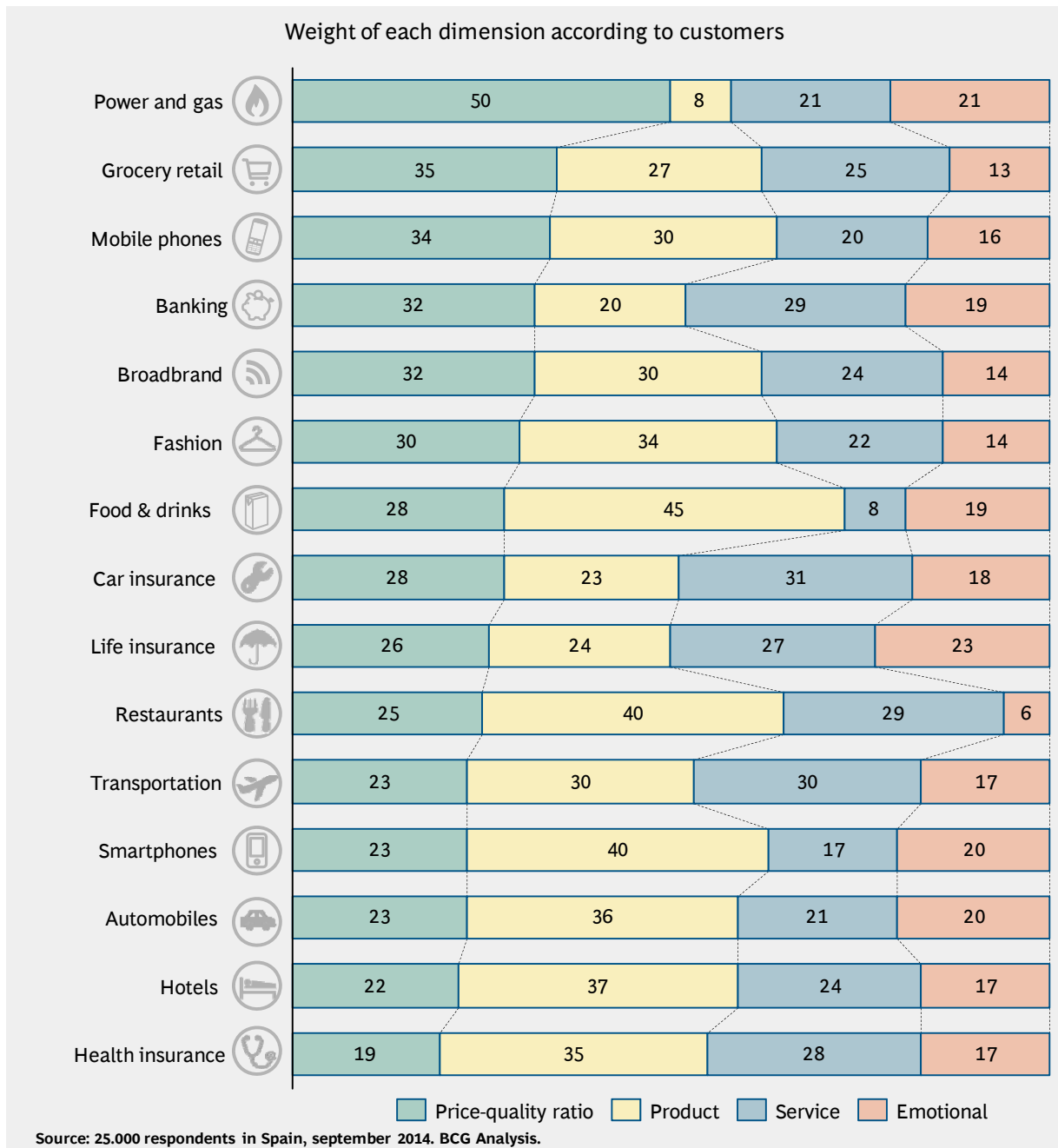
The fourth and final dimension, emotions, doesn't have a fixed position in any given sector, but rather, we consider it fundamental for customers to go from not critiquing a company to recommending it and considering it a part of their life. More than a specific characteristic, this factor is made up of all aspects of customer relations that engage them with a brand and develop loyalty. Examples of emotional elements would be trust in a company, shared interests in the form of event support and social responsibility initiatives, identification with a brand, etc. (Figure 4).

Within the four key dimensions of Customer Experience, we can go into more detail on specific factors which help to materialize them in each customer segment. As an example, for mobile devices, the product quality desired by young customers has more to do with technical and design characteristics, while adults prioritize its ease of use. In banking, young customers demand that services offer a perfect digital experience, while adults want personalized services.

Companies operating in each sector should consider which dimensions are the most relevant for their customers, in general, and for their most important customer segments, specifically, to invest in factors that are valued the most. To be more precise, companies should make an effort to understand which factors their customers value most in the experience provided, as well as which attributes distinguish them from others.

For example, the two top brands in mobile devices, according to their BAI, are Google Nexus and Apple. They both approach Customer Experience from a different perspective. Nexus considers itself to be the best brand due to its combination of superior technical characteristics, high-quality components, and best price-quality ratio on the market, while Apple offers the most attractive design and best customer service on the market, including repairs and replacements. What's more, Apple has created an innovative atmosphere (first to eliminate keyboards, among other things) and exclusivity, which has attracted many customers that are strongly emotionally attached to the brand.

Figure 4: Each dimension's weight varies considerably by sector



Emotional dimensions are key to being among the best

A poor Customer Experience occurs due to weak rational dimensions. Nonetheless, in order for Customer Experience to qualify as excellent, it is important that it include the emotional dimension since it complements some highly valued rational dimensions. Ultimately, rational dimensions are basic to avoid customer critiques but, to generate recommendations, one must also appeal to customers' emotions.

Our analysis of average data from five sectors (automobile, banking, insurance, grocery retail and mobile devices) reveals that 46% of individuals which spontaneously critique do so regarding the price-quality ratio of products or services, while only 23% mention the emotional dimension. In turn, spontaneous recommendations are more equal: 59% are based on the price-quality ratio, and 49% on the emotional dimension. In order for customers to speak highly of a brand, it isn't enough that they know they are being charged a fair price, they must also identify with the brand, trust the company and share values such as corporate social responsibility.

This same analysis applied only to the five leading companies in Customer Experience in their respective sectors places more importance on the emotional dimension than rational dimensions. When making recommendations, for fans (those who spontaneously make recommendations), the price-quality ratio loses importance to the emotional dimension at 48% and 58%, respectively.

An excellent Customer Experience creates true fans that speak highly of a company and spontaneously recommend it without being asked their opinion. Therefore, a good Customer Experience requires that certain rational dimensions be well developed, but companies aspiring to excellence must also develop emotional ties with their customers to make them into fans.

Mutua Madrileña "You can always be captivated"

In the insurance industry, Customer Experience is led by Mutua Madrileña, a company which has one of the highest BAI ratings in car insurance -at 47% versus the average 34%- and life insurance -at 41% versus the average 20%- and a level of customer identification two times higher than that of all other insurers. The importance of rational dimensions is undeniable. Mutua Madrileña is perceived as having a competitive offering, high-quality products, and a meticulously handled customer service. That being said, the retailer is truly exceptional with regards to its emotional dimensions.

Mutua Madrileña has developed the concept of "mutualists" by creating ties with customers that strengthen over time as they acquire privileges according to their time as a customer. The perspective is based on the idea that a "mutualist" is much more than a customer, and that they should be prouder of being a customer as time goes by. "Life-long" customers have better guaranteed conditions compared to new customers who don't have access to the same offers as older customers. The benefits of the membership card increase over time while the customer is engaged.

Beyond the rational dimensions, identification with a company is strengthened through personalized and highly emotional communications ranging from statements such as "An entire life by and for our customers" to personalized invitations to company sponsored events.

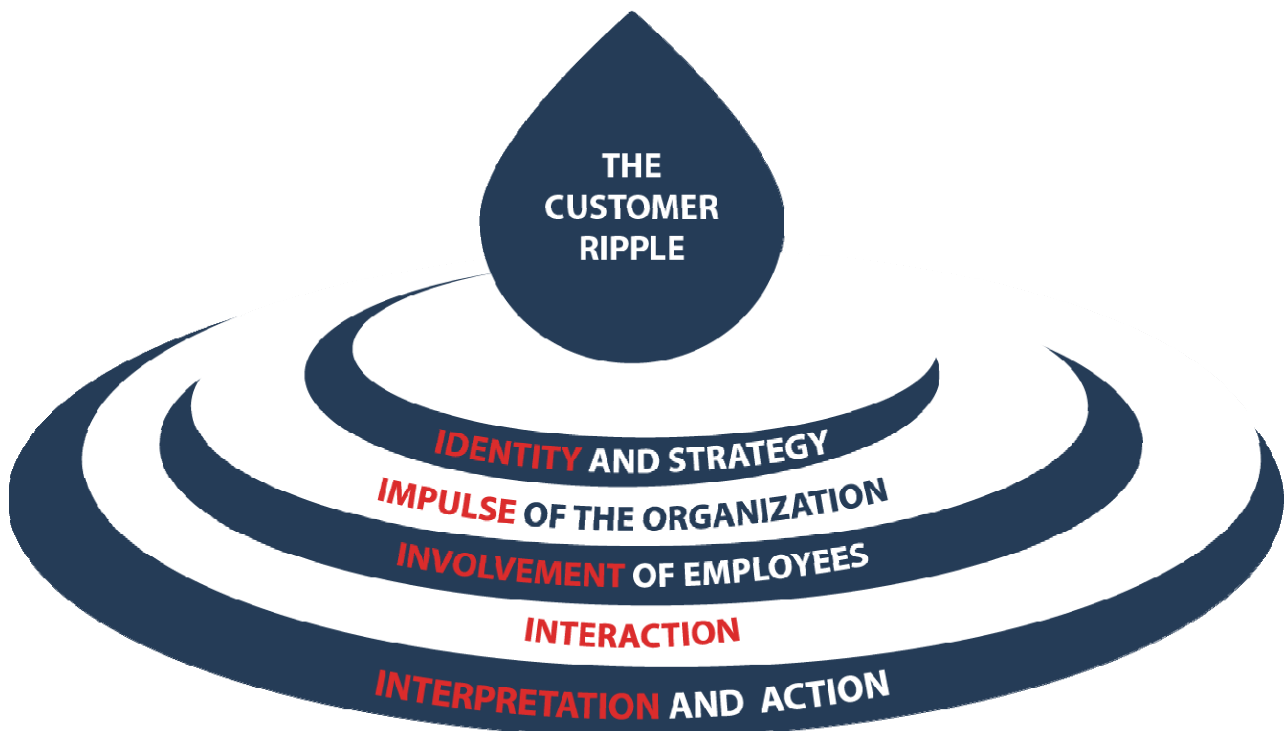
Through its Customer Experience, Mutua Madrileña makes its customers feel like an essential part of the company and emphasizes the fact that other companies in the sector struggle to reach the same level.

"Every day I am prouder to be a part of Mutua Madrileña"

"If I would highlight anything, it would be that it makes me feel safe and worry-free"

A solid internal model leads to better customer reviews

The Association for the Development of Customer Experience has created a model which suggests that organizations should work on five areas from a holistic perspective and under the assumption that the cumulative effect will be greater than the sum of individual actions: The Customer Ripple Effect.



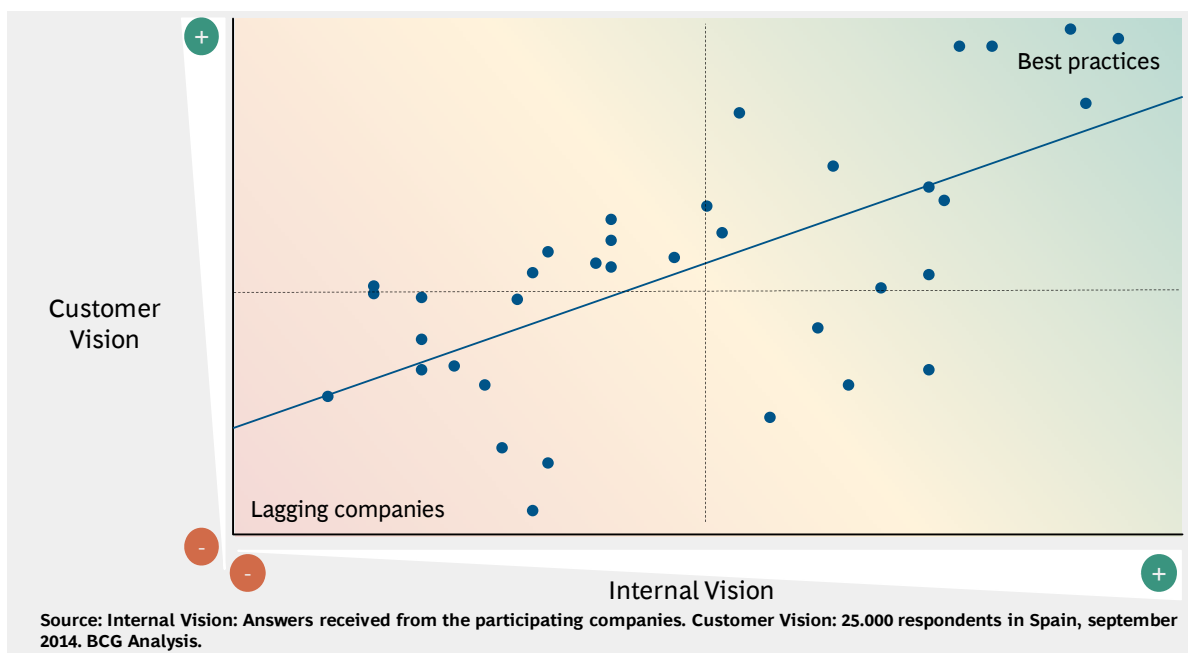
This methodology is an extremely useful tool for companies that have embarked upon the path of Customer Experience which provides some basic notions on how to integrate a dedicated area into the organization, what initial priorities must be tackled, and it also provides step-by-step guidelines on how to evolve towards more sophisticated levels of Customer Experience.

Through this methodology, we have conducted a diagnosis of the situation of Spanish companies by means of an internal self-assessment survey in which Customer Experience professionals and other managers from over 60 leading companies participated. The internal diagnosis complements the vision of customers, which is covered in the first section, to offer a comprehensive understanding of the maturity of Customer Experience in Spain.

With a Pearson's coefficient of over 70%, we have identified a clear correlation between the level of development of internal Customer Experience models and customer perceptions and assessments. Companies with better models tend to receive the best customer reviews in their respective sectors, while the companies that lag behind receive worse reviews from their customers. Similarly, we have identified companies with good models on paper that fail to

actually implement them into a specific area of vital importance in their sector (e.g., the lack of an adequate perception of price-quality) (Figure 5).

Figure 5: Close correlation between customer vision and internal Customer Experience models



The Customer Ripple Effect is composed of five areas that cover the internal development of Customer Experience. We have diagnosed each company's situation through a series of questions that have allowed us to establish conclusions regarding their level of maturity in each of these areas and to study what best practices do to differentiate themselves from others.

The Customer Experience Development Index (CEDI), which is used to quantify progress in The Customer Ripple Effect, indicates a global passing score of 60%. The difference between the best and worst companies, according to their own customers, is also reflected in the index. The top 20% in customer perceptions have a development score of 81%, compared to the bottom 20%, which only reach 42%.

When defining their Customer Experience strategy, companies should develop their Identity and strategy to ensure that they clearly specify its defining aspects. Some companies will opt for innovation, while other will focus on personalization or joviality. Any style that is well defined will work. In Spain, Identity and strategy is, on average, currently the most developed area, with an IDEC of 66%. The key question is the extent to which the identity defined by these companies is transmitted and perceived by their customers on a daily basis.

The Impulse of the organization consists of Customer Experience being promoted and led by General Management, that it have the required resources and dedication, and that it have visibility comparable to that of the company's other key strategic initiatives. In this area there is a marked different between best practices and the average. The area is a differential element in the current competitive landscape in Spain. It is a top priority to reach the same level as the best

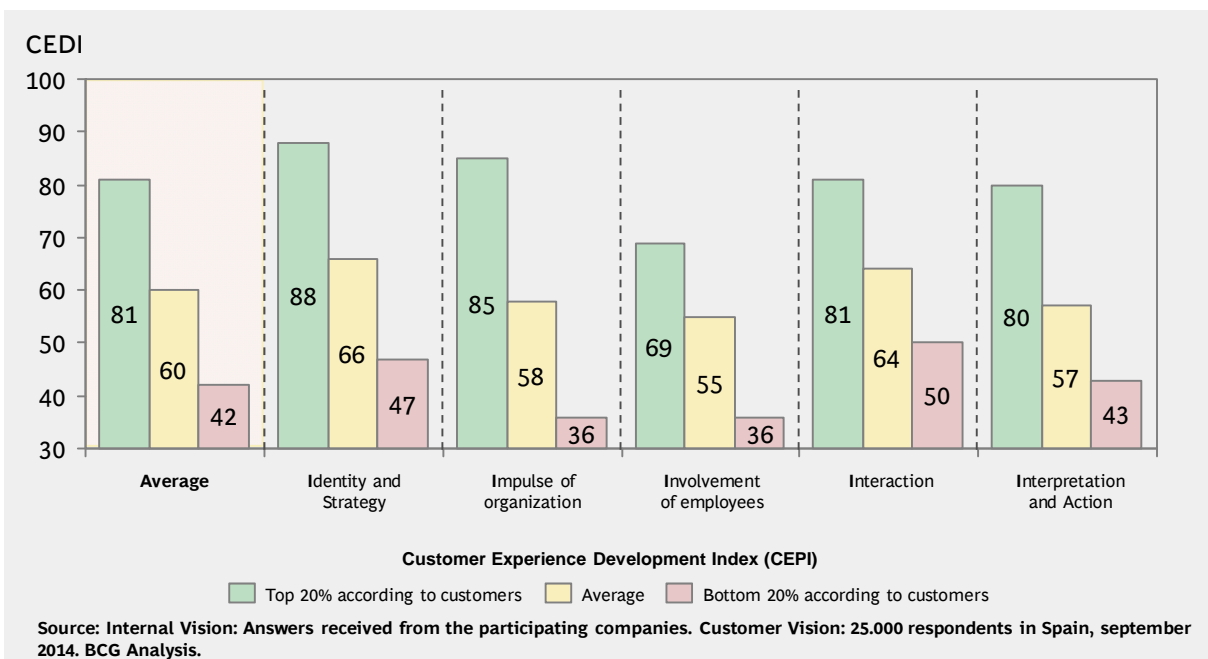
in Customer Experience, and in which the difference between the best and worst is significant, at 85% and 36% in development, respectively.

The Involvement of employees requires that all employees -both internal and external, and not only those you directly interact with customers- be conscious of the idea that customers are at the center the company's efforts, and that customers should be provided with a differential and unique experience. All business units should contribute ideas to improve Customer Experience to incorporate them as a fundamental element of policies for recruiting, incentives, training programs, etc. This is currently the least developed aspect in Spain since it requires significant effort to bring about cultural change throughout an entire organization.

Interaction with customers is, naturally, of unprecedented importance. Companies working on their Customer Experience should offer a coherent experience through all of their channels (face-to-face, website, mobile apps, social media and phone) in which all company representatives share information regarding all their previous interaction. Many companies in Spain meet the basic interaction and multi-channel requirements, but only the most advanced make use of their interaction to surprise their customers.

Interpretation and action is also a fundamental factor, although, until now, it hasn't been given the importance it deserves. An impeccable Customer Experience requires the measurement, interpretation and explication of reactions to different actions, as well as of the improvement they contribute to contribute to the Customer Experience, in order to be able to quickly correct and perfect them. Companies which are capable of quickly reacting to their errors -still few today in Spain- show how much their customers mean to them and the sincerity of their interest. Together with the Involvement of employees, at 57%, it is currently the metric with the lowest level of development (Figure 6).

Figure 6: Results from the internal self-assessment



By linking the measurement of The Customer Ripple Effect's five areas to the external vision that BAI provides, we identified a strong correlation between what people say they do in their company and what customers say they receive from them.

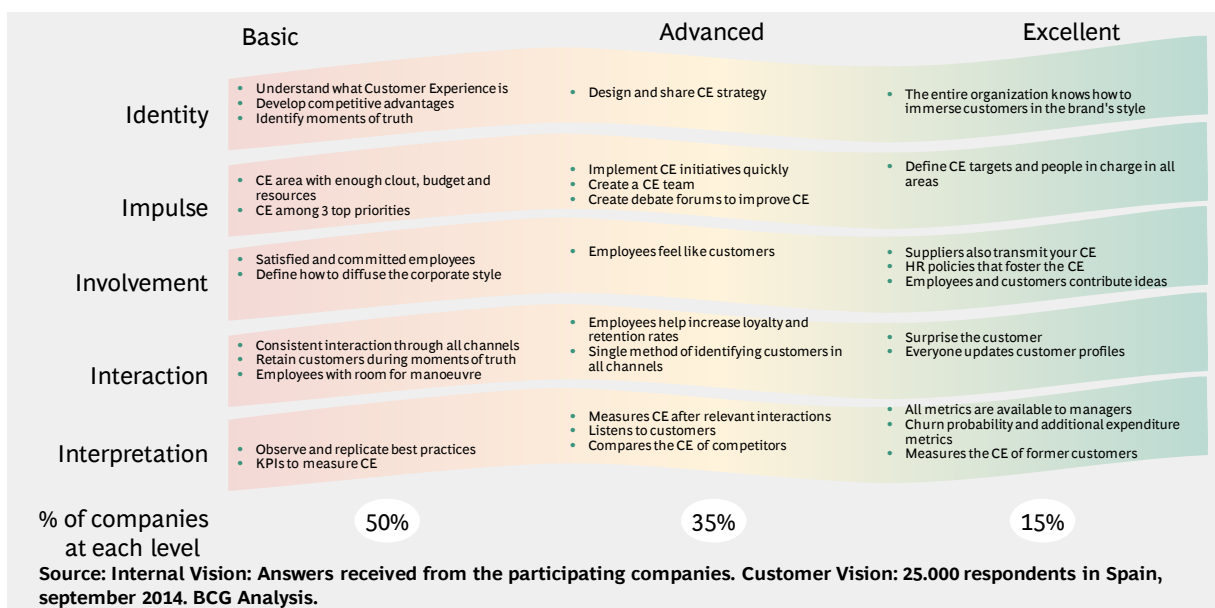
For example, companies with a more developed Identity and strategy receive better reviews regarding their customers' identification with the brand. In fact, according to the BAI, the three companies that received top internal assessments in this dimension are the best in their respective sectors and have levels of brand identification of over two times higher than the average, based on customer reviews.

Similarly, the three best companies based on internal vision in Involvement of employees receive 50% better assessments for the services their employees provide than the average from their respective sectors, according to their customers.

As for Interaction, we see that banks which have further developed this area have more highly regarded multiple channels and digital experience, and they are assessed two times better than the average for financial institutions in these two aspects which have become highly relevant for modern-day banking customers.

In each of the five "I's", we have established a series of actions for companies to implement as their Customer Experience progresses. These actions form a logical sequence in the path to excellence. Although certain flexibility may be appropriate when applying it, this is a recommended roadmap for all companies that decide to invest in improving their internal Customer Experience model (Figure 7).

Figure 7: Three levels on the path towards an excellent Customer Experience model



Our analysis of companies participating in the study reveals that most have only achieved basic levels of development in Customer Experience, while merely one-third have advanced levels. 15%

of the companies which are near excellence are technology and insurance companies, the former being well-developed around the world and, the later, which is pioneering Customer Experience in Spain.

Best practices meet multiple requirements that make them stand out from the rest. First of all, they have a clear strategy and an area dedicated to Customer Experience with enough resources and visibility to quickly execute improvement initiatives. These companies are able to achieve the commitment of their employees and third-parties by involving them, along with customers, in systems to improve the Customer Experience. In order to continuously improve, they have measurement systems that allow them to quantify improvements and to react quickly. Finally, only the best are able to establish an emotional tie with their customers.

Example of EVO Bank: The value of starting off with a strong Customer Experience model

EVO, a Spanish bank founded in March 2012, currently has 350,000 customers, primarily operates online and has a BAI of 61%, which is over five times the 11% average of banks. According to a self-assessment, at 85%, it is the best bank of those that participated and is among the five best companies surveyed in Spain.

Since its inception, EVO has made Customer Experience one of its top strategic priorities, thereby allowing it to develop a comprehensive internal model in which the five I's reach the level of a best practice in Spain.

In Identity and strategy, they begin by dedicating considerable efforts to developing a deep understanding of their customers. To do so, EVO has defined a customer profile, which they call an EVO profile, with specific characteristics regarding their use of technology, banking product needs, etc. To ensure that they adhere to this profile, they don't offer the option of receiving post mail, which dissuades potential customers that don't access the internet frequently or don't have the required technology.

In Impulse of the organization, it is worthy of mentioning that the Customer Experience area was created from day one with visibility and access to the CEO. The area has its own budget and resources, which enables it to implement initiatives that, in addition, receive support from the rest of the organization and departments which understand that their priority is to focus on their customers.

In Involvement of employees, EVO has managed to secured the participation of its employees to come up with ideas. The bank has created cross-area groups with employees from different areas that don't necessarily interact with customers, but which contribute ideas to establish Customer Experience improvement initiatives.

In Interaction, EVO has proposed the novel idea of creating communications that are explicitly intended to surprise customers. To do so, they have created cross-area groups known as "delight and seduction" which are dedicated to researching these opportunities and taking full advantage of them. For example, EVO celebrates its anniversary every March 12th by filling its branches with candy for customers, and Vogue Fashion Night offers its customers an open bar at its central office.

EVO is a best practice due to the fact that it considers both customers and non-customers in its Interpretation of its results in Customer Experience. The company has a measurement system that evaluates and interprets experiences during main interactions for as many customers as possible. This system incorporates state-of-the-art metrics, such as the BAI, to measure the strategy's impact, redefine it according to the real experience that customers claim to have, and to quantify their correlation with business results. EVO also uses other parameters for customer satisfaction during specific interactions, such as metrics on customer satisfaction and NPS.

"We believe in a bank built by people, that is transparent, simple and innovative, and which customers can trust"

* * * * *

Companies that aspire to excellence in Customer Experience must invest in a strong model developed around the five I's from The Customer Ripple Effect for the company to place customers first. This investment translates into an improved experience for their customers that will generate continuous recommendations and will feed growth in the form of increased revenues, lower churn rates and new customer acquisitions.

The real impact of investing in company performance should be continuously measured with precise parameters that allow for Customer Experience actions to be corrected or readjusted, and which guarantee continuous improvements to convert the company into a best practice and the main reference in its sector for customers.

Appendix I: Increased revenue and churn rate estimates per sector

Improving Customer Experience translates into increased growth by means of increased customer spending, improved churn rates and increased recommendations.

Increased customer spending occurs in all sectors. Figures 11 and 12 show this phenomenon in sectors both with and without contractual relations. As can be seen, customers with better experiences (green column) have more products or product families in the case of companies with contractual relations, and they spend more in the case of companies without contractual relations when compared to those that have a neutral experience (yellow column) or a bad experience (red column).

Figure 8: Increased engagement according to Customer Experience in businesses with contractual relations

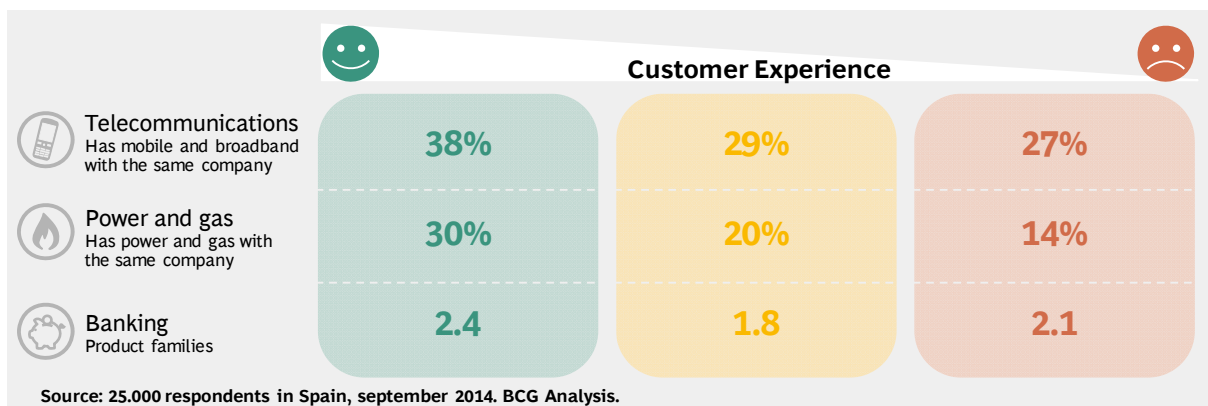
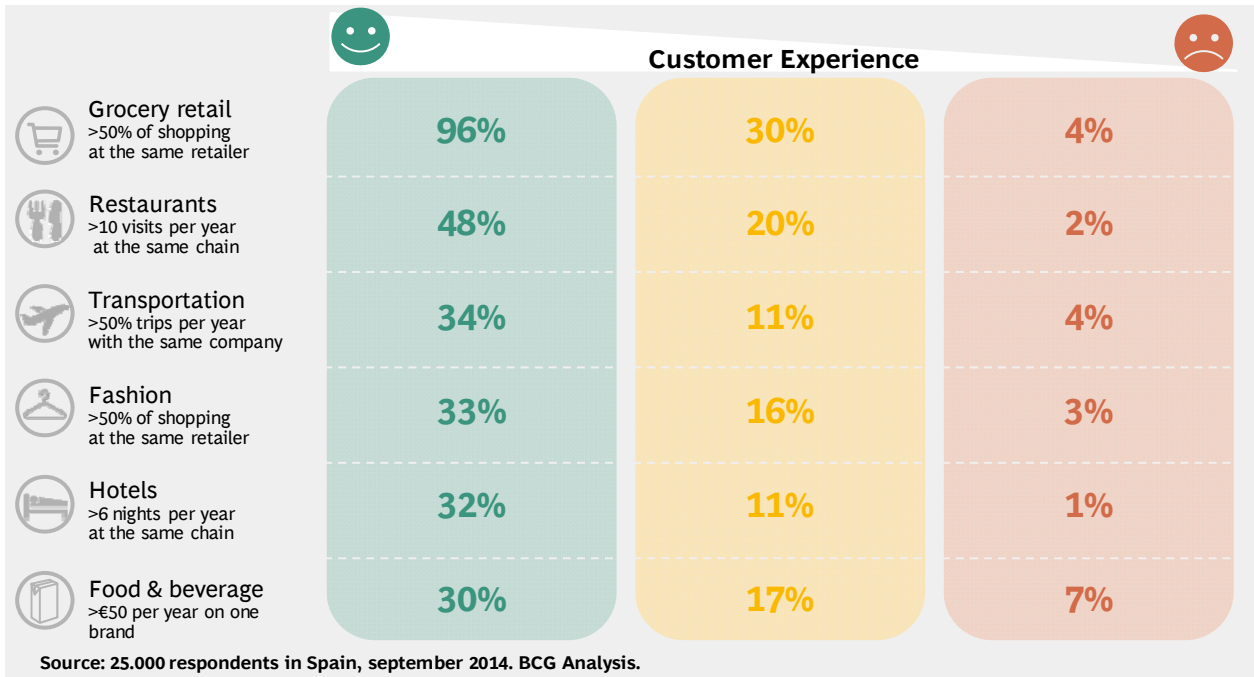
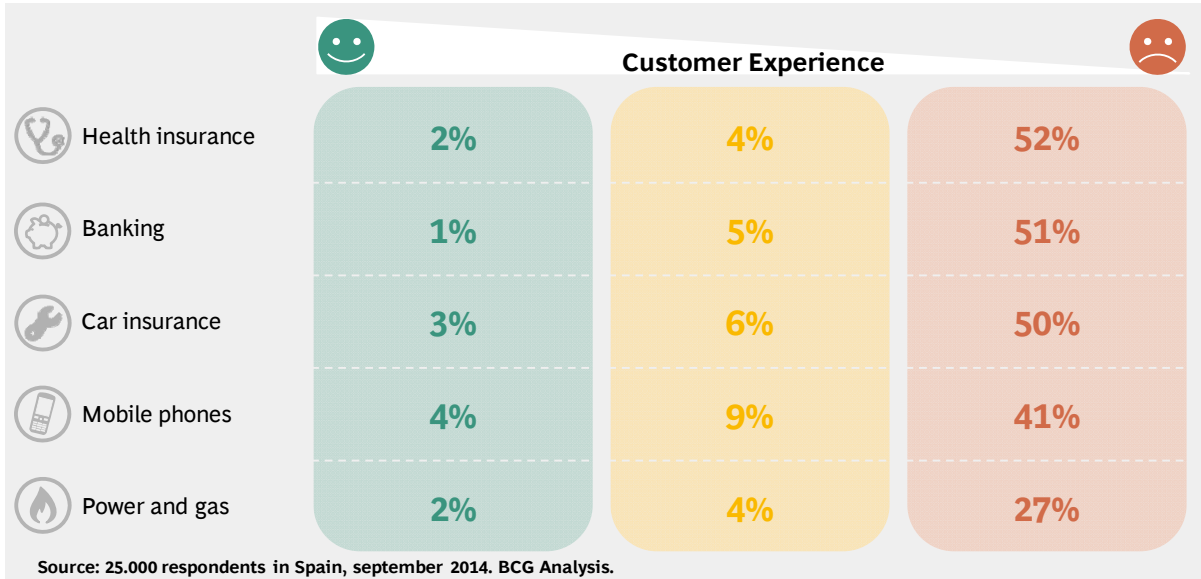


Figure 9: Increased spending according to Customer Experience in businesses without contractual relations



For businesses with contractual relations, churn rates are reduced when customers have a good experience. As seen in Figure 13, churn rates are nearly 0% when customers have a good experience, while those that have a bad experience can have churn probability rates of up to 50%. This means that customers who perceive a bad experience will leave the company sooner or later, insofar as it is possible.

Figure 10: Estimation of churn rates according to Customer Experience



Appendix II: Best brands by sector

The BAI study of 15 sectors has allowed us to create a list of the three companies that offer their customers a better customer experience in each sector. In each sector, the list of selected brands was made up of all brands with a relevant number of customers in Spain. As follows, we indicate the three best brands in sectors and sub-sectors in which the list of brands was sufficiently long to allow for differentiation. Brands are listed in alphabetical order.

Figure 11: Three best brands in a selection of sectors, in alphabetical order, according to customer reviews

| Three top brands from each sector, according to customers | | | | |
|---|---|--|--|---|
|  Food - Dairy |  Automobiles |  Banking |  Broadband |  Beer |
| Central Lechera Asturiana Danone Hacendado | Audi Toyota Volkswagen | Bankinter EVO Bank ING Direct | Jazztel Ono Orange | Alhambra Heineken Mahou |
|  Grocery retail |  Hotels |  Fashion |  Restaurants |  Car insurance |
| Aldi Lidl Mercadona | Meliá Hotels & Resorts NH Hoteles National Paradores | ASOS Decathlon Primark | Domino's Pizza Foster's Hollywood 100 Montaditos | Línea Directa Mutua Madrileña Verti |
|  Health insurance |  Life insurance |  Smartphones |  Mobile phones |  Transportation |
| DKV Mapfre Sanitas | Mapfre Mutua Madrileña Ocaso | Apple Google Nexus HTC | Ono Simyo Yoigo | LAN Lufthansa Renfe AVE |

Source: 25.000 respondents in Spain, september 2014. BCG Analysis.

Appendix III: Methodology

In this section we cover the methodology used for both the external customer vision (BAI) and the internal vision of companies (Customer Ripple Effect)

Brand Advocacy Index

The BAI survey includes a series of simple questions to measure whether a person is a customer of a company or not, to determine if they had a good or bad Customer Experience with the brand in the recent past, and to assess the underlying reasons behind their feedback regarding the brand.

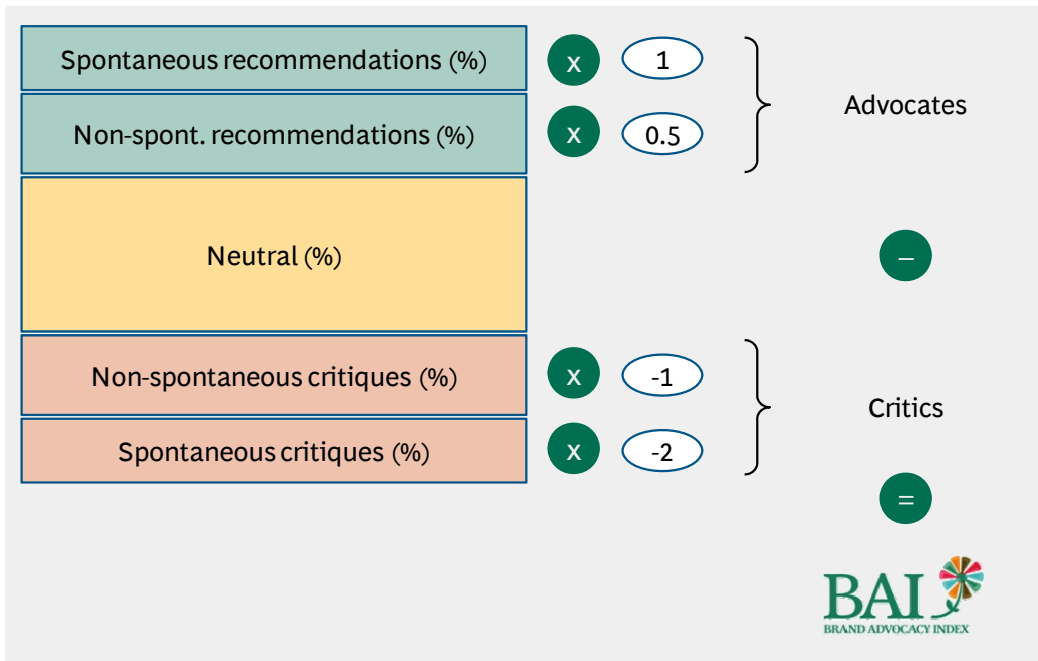
In order to do so, first of all, we apply a rigorous, weighted system for responses based on the influence of different types of recommendations and critiques. We are then able to identify two levels of recommendations and critiques according to the intensity -positive or negative- with which customers have experienced the brand.

Hence, we believe that customers who have had a significant, enjoyable experience will make spontaneous recommendations, while those that have suffered problematic experiences will always critique the brand when the opportunity arises. On the other hand, customers that have had a "non-dramatic" good or bad experiences will only recommend or critique a brand when asked about it.

Spontaneous recommenders and critics influence brands more than those that recommend or critique only when asked. Those who spontaneously talk about brands tend to share their opinion more often and to be more influential than those that only share their opinion when asked. Therefore, the BAI index doubles the weight of recommendations and critiques which are spontaneous compared that of those which aren't.

Secondly, we know that the opinion of critics are more influential than those of recommenders and, because of this, our models also double the weight of critiques compared to that of recommendations.

Figure 12: The Brand Advocacy Index weighs critiques and recommendations



For this study, we have considered recommendations and critiques expressed by current as well as past customers of a brand. Hence, BAI is calculated both for those that are currently consuming the brand and those who did in the past, thereby allowing us to establish a more complete vision of customer experiences.

The list of countries and industries studied continues to grow year by year. BCG has created detailed BAI rankings for over 35 countries throughout six continents, including USA, Canada, China, India, France, Germany, United Kingdom, Belgium, Sweden, Switzerland, Holland, Portugal, Spain, Israel, Chile, Australia, South Africa, Japan, Norway and Italy. Additionally, we have established rankings of over 35 sectors and categories -both in B2B and B2C- including automobiles, grocery retail, insurance, telecommunications, energy, banking, mobile devices, tourism, fashion, restaurants and consumer goods.

The Customer Ripple Effect

In order to determine the level of development of companies' internal Customer Experience models, we use The Customer Ripple Effect, which was developed by DEC, as a roadmap. The methodology divides the Customer Experience model into five I's: Identity and strategy, Impulse of the organization, Involvement of employees, Interaction, and Interpretation and action, each of which is made up of multiple components.

Figure 13: Elements that make up the Customer Ripple Effect's five I's

| Identity and Strategy | Impulse of the organization | Involvement of employees | Interaction | Interpretation and Action |
|--|---|--|--|---|
| <p>Brand Reflect the brand's vision, values and attributes during each interaction</p> <p>Style Differentiate the value proposition with a unique style</p> <p>Strategy Define strategic lines by prioritizing key moments, segments and potential collaboration models</p> <p>ROI Understand and predict the impact on economic results</p> | <p>Leadership Have the Board of Directors lead the focus on customers</p> <p>Organization Position the function of Customer Experience at a strategic level in the structure</p> <p>Resources Assign human and economic resources to ensure transversality</p> <p>Decision-making forums Ensure that there are enough decision-making forums to make tactical and strategic decisions</p> <p>Action Facilitate and streamline action plans</p> | <p>Employee experience Align employee and customer experiences</p> <p>Involvement Involve employees when designing the Customer Experience</p> <p>Learning Communicate with and train the entire organization</p> <p>HR policies Align HR policies</p> <p>Suppliers Extend our commitment to end-customers to our suppliers</p> | <p>Customer journey Define and implement the customer journey by segment or moments of truth</p> <p>Channel consistency Ensure consistency of the Customer Experience in different channels</p> <p>Validation Design and validate with customers</p> <p>Single view of customers Ensure a unified view of customers (systems, databases, etc.)</p> <p>Empowerment Empower employees (both internal and external)</p> <p>Standards Simplify standards to ensure that Customer Experience is the focus</p> | <p>Measurement Measure to act</p> <p>Customer voice Gather and integrate the voice of customers at moments of truth</p> <p>Analysis Understand customers do, think and feel</p> <p>Innovation Observe to innovate</p> <p>Anticipation Anticipate customer behavior</p> |

With the aim of assessing the development of Customer Experience in companies -both in general terms and for each of the five I's- we conducted a survey with 57 questions that cover all the actions needed to achieve an excellent model. The survey serves as a theoretical framework and goes into detail on each of the five I's.

For each question, those surveyed answered questions regarding their company and whether they *completely agree*, *agree*, *disagree* or *completely disagree*. In order to obtain results on a scale of 0 to 100, the following values were assigned to responses: 100 for *totally agree*, 75 for *agree*, 25 for *disagree*, and 0 for *completely disagree*. Based on the response results, the Customer Experience Development Index (CEDI) is calculated, thus allowing us to determine company development of the comprehensive model, as well as their performance in each of the five I's.

Those who responded to the survey at each company are those with the deepest knowledge of the Customer Experience model. In most cases, it is the Head of Customer Experience. In others, it is the Director of Marketing, Quality, or even the CEO.

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If you would like to obtain more information about this report, please contact any of the authors. In addition to this document, there are personalized reports with individualized, sector-based information for companies that form part of DEC or have participated in the study.

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