# Customer experience matters more when economy is doing better, not worse

September 4 2014

Customer experience matters more when the economy is doing well than when it is doing poorly, according to a new study in the Articles in Advance section of *Marketing Science*, a journal of the Institute for Operations Research and the Management Sciences (INFORMS).

The study, entitled "Assessing the Influence of Economic and Customer Experience Factors on Service Purchase Behaviors" is by V Kumar, the Regents' Professor, Nita Umashankar, an assistant professor, and PhD candidates Hannah Kim and Yashoda Bhagwat, all at Robinson College of Business at Georgia State University.

The authors examine how macroeconomic indicators, such as GDP and consumer welfare, influence the way in which consumers use their past service experiences (e.g., satisfaction on their last flight) to influence their next purchase decision. The authors find, for example, that how much the enjoyment of your last flight influences your decision to fly again depends on the economic environment.

A common belief is that the economy, independent of a person's income, affects what one purchases. Consumers often feel nervous when the economy is doing poorly. The authors, however, find that the influence of the economy reaches even farther to influence the degree to which consumers incorporate past service experiences into their future purchases, especially when the economy is doing better.

Counter to received wisdom that firms should double down on improving customer experience when economic times are challenging, the authors find that firms should do so when times are good. While this may seem intuitive—firms have more cash in a thriving economy and as a result, can afford to spend more on customer experience initiatives—how customers respond to improvements in customer experience during changing economic times had not been examined.

Anecdotal evidence has been mixed. Most experts advise managers to refrain from cutting customer experience efforts to save money during a down economy because continuing relationships with customers matters most when the economy is bad. Others argue that firms should invest in satisfying customers and repairing broken relationships when times are better because they can afford to do so.

Kumar explains, "While both sides of the debate are plausible, neither has been empirically verified with real data and from the perspective of the customer. We find that customer experience matters more to customers when the economy is strong."

The research team combined data on state-level economic well-being provided by the Gallup Poll with data on hundreds of customers of a Fortune 1000 international airline carrier, including their purchase behavior and perceptions of the firm collected from multiple surveys conducted over time.

The conclusion: during positive economic times, it becomes all the more important for service firms to improve customer experience by increasing satisfaction, reducing failures, and implementing recovery efforts to enhance the positive effects of a good economy. The firm analyzed in this study doubled its gain in revenue from improvements in customer experience during a better economic period. For example, the authors find that the same improvement in customer experience yields a 10% gain in revenue when the economy is worse off but yields a 20%

gain when the economy is better.

The researchers conjecture that when the state of the economy is poor, customers focus more on price and less on customer experience. In contrast, in a better economy, customers are less price sensitive and turn their attention to other aspects of the service encounter. In particular, customers focus on how satisfied they have been in the past and whether the firm fixed any causes of dissatisfaction.

The researchers also find that while both higher and lower income consumers are likely to spend more in a strong economy, the leap in spending from a weak to a strong economy is larger for lower income consumers.

The key takeaway is that service managers can and should adapt how they position their service offerings based on the economy. When the economy is doing poorly, service firms should emphasize lower prices and better value. Service firms can explore cost-cutting initiatives to offer customers better deals. When the economy is performing well, firms should communicate superior experience such as comfort, speed, and reliability.

**More information:** pubsonline.informs.org/doi/abs … .1287/mksc.2014.0862

Provided by Institute for Operations Research and the Management Sciences