Original Article

Customer experience and profitability: An application of the empathy rating index (ERIC) in UK call centres

Jamie Lywood
is CEO of Harding & Yorke (www.empathy.co.uk). He is a well-known and highly respected speaker, and is directly responsible for the strategic direction of the Harding & Yorke businesses, which include measurement, benchmarking and consultancy in the Customer Experience space.

Merlin Stone
is a leading author and advisor on CRM strategy and implementation. He is Research Director at WCL, one of the United Kingdom's fastest growing management consultancies; Professor of Marketing at Bristol Business School; and Visiting Professor of Marketing at several universities, including Oxford Brookes.

Yuksel Ekinci
is a reader in Marketing at Oxford Brookes University Business School. He specialises in customer satisfaction measurement and user satisfaction with CRM.

ABSTRACT   This article explores the relationship between customer experiences with call centres and company profitability. Empirical research using data from the ERIC Programme™ of Harding & Yorke and financial data from the AMADEUS database identifies that there is a strong relationship between certain dimensions of the customer experience and profitability. The article concludes that companies need to investigate this possible relationship for their call centres, to determine whether their management of call centres is focusing on the right attributes.

Correspondence:
Merlin Stone
WCL Office, 83 Victoria Street, London, SW1H 0HW, UK
E-mail: merlin.stone@ w-c-l.com

INTRODUCTION

The literature in marketing and consumer research has historically not considered customer experience as a separate construct. Instead, researchers have concentrated on measuring service quality and customer satisfaction.[1] However, in recent years, scholars and practitioners have become increasingly aware of the need to create value for their customers in the form of experience, and creating superior customer experience has become a strategic necessity for firms to survive in competitive business environments.[2,3] A similar position can be found in the managerial field. The majority of senior business managers believe that differentiating solely on the traditional elements such as price, product and quality is no longer an effective business strategy, and even more senior managers maintain

that the customer experience is the next competitive battleground. Creating superior customer experience has become essential for repeat purchases and customer loyalty. It also affects a firm's market share, and thus provides enormous economic value for firms.[4,5]

Despite the recognition of the importance of customer experience, few firms understand what this means, what it entails and how their managers can galvanise the firm to deliver a superior customer experience.[1,5] For instance, Meyer and Schwager[6] quoted research from Bain & Company's recent customer survey that included 362 companies. Although 80 per cent of the companies surveyed believe that the experience they provide is 'superior', only 8 per cent of the customers described their experiences as 'superior'. This survey discovers a huge gap in the perception between the companies and their customers about the quality of customers' experiences. The problem in creating superior customer experience appears not only to be its supposed intangibility, but also its inherently personal nature. Customer experience exists only in the mind of an individual, and will probably be different for each customer.[7]

THE DEFINITION OF CUSTOMER EXPERIENCE

Customers' experiences result from the interaction with a company or use of the company's product or service.[3] Pine and Gilmore[8] suggest two dimensions to assist thinking about the customer experience. One dimension is the level of customer participation (from passive to active) and the other is the level of connection (or depth of relationship) between the customer and the performance – ranging from absorption to immersion. O'Loughlin *et al*,[9] on the other hand, state that the concept of customer experience consists of three components: brand experience, transactional experience and relationship experience.

These are influenced by negative and positive forces that culminate in customer satisfaction. Carbone and Haeckel[10] introduce the notion of experience cues, defined as the visual, auditory, tactile, aromatic and taste signals emitted by products, services and the environment.

Recently, marketing scholars and practitioners have begun to recognise the importance of the customer experience. Today, definitions of customer experience abound in the literature.[3] Hoch[11] stated that customer experience, as an emotional and subjective experience, is uniquely personal and changeable with the customer, product or service. Meyer and Schwager[6] defined the customer experience as the internal and subjective response from customers. Padgett and Allen[12] referred to the customer experience as a coalescing of symbolic meaning with consumers' allied behaviours, thoughts and feelings during service or product consumption. It is suggested that customer experience originates from a set of interactions between a customer and a product or company, or part of its organisation, that provokes a reaction. Pine and Gilmore[8] argue that customer experience is not an amorphous construct, but is as real an offering as any service, product or commodity. Carbone and Haeckel[10] described the customer experience as the aggregate and cumulative customer perception created during the process of learning about, acquiring, using, maintaining and sometimes disposing of a product or service. Although a review of the literature on customer experience yields many definitions, some features of the customer experience are common to most. First, it has a temporal dimension that originates from all the contact points between the customer and the firm, or the firm's offer. Second, it is strictly personal, and involves and engages a customer at different levels (rational, emotional, sensorial, physical and spiritual).[3]

CUSTOMER EXPERIENCE AND PROFITABILITY

The relationship between the quality of the customer experience and achievement of business objectives such as profit has rarely been researched, although its importance is acknowledged. Tools such as Net Promoter Score have made claims of correlation with key business objectives that are often misinterpreted as profit ratios. Following more detailed academic research, these claims have been challenged.[13]

More confusion is created by the complete lack of correlation with traditional customer satisfaction scores used by the vast majority of organisations to measure their relationship with their customers. While we appreciate that some firms will produce independent evidence of a correlation with profit, these research initiatives, by their very nature, rarely stand up to proper academic scrutiny. Thus, Frow and Payne[5] suggested that improvements in customer experience should be based on the profit potential, and that service strategies and investment decisions should be made with the knowledge of this profit potential.

The purpose of this research is to contribute an understanding of the customer experience and investigate how the customer experience relates to company profitability through Harding & Yoke's ERIC database – the UK's most comprehensive research on customer experience with call centres.

CUSTOMER EXPERIENCE DURING CONTACT WITH CALL CENTRES

The customer experience takes place in many different ways – on the web, via e-mail, in a store, hotel, restaurant, airport or other service location, when the customer is using the product or service, and of course at call and contact centres. Although many organisations have identified the importance of the customer experience in achieving a competitive advantage, such as customer loyalty and profitability, research on call centres and voice-on-voice encounters is very limited.[14] This lack of literature arises from the fact that most research on customer experience, to date, has focused on face-to-face service and sales interactions, and relatively little is known about the special needs of telephone-related customer experience.

Call centres are an increasingly important component of the services that companies offer customers. Many business organisations provide this as their main (or only) customer interface for solving problems, resolving complaints, providing information or answering questions. Scholars suggest that service-based competition and the opportunity for high-volume, low-cost service delivery via telephone-based technology have resulted in the enormous growth of call centres. Managing the customer experience resulting from call centre encounters will likely have important implications for a firm's success.[14]

Customer experience often depends on an evaluation of the service encounter with contact employees, in face-to-face or telephone encounters. However, there are differences between these two types of encounters as far as the issue of customer experience is concerned.[15] At call centres, service encounters occur via telephone each time a customer interacts with a company. This is different from face-to-face encounters that occur between employees and customers in the non–electronic environments of service companies.[16]

In face-to-face encounters, tangible factors such as physical appearance (including dress) and body language of employees and characteristics of the tangible environment in which encounters take place are important determinants of customer experience. However, in telephone encounters, physical issues do not contribute to customer experience. Customer experience is based on factors such as empathy, reliability, responsiveness

and assurance, and thus customer experience may be influenced by the interpersonal traits of call centres. The customer-contact employee plays a major role in delivering superior customer experience.[15,16] Interestingly, the differences between the customer experience as defined by face-to-face versus telephone interactions may not be so extreme, according to research being carried out by Harding & Yorke. They are investigating the physical perception of agents by customers who interact mainly through call centres and only rarely, if ever, through face-to-face interactions. Initial findings suggest that the 'perceived' physical embodiment of the agents by the customer is very strong, and that this will vary both positively and negatively with the levels of positive and negative empathy.

Empirical evidence from studies on the effect of call centres on customers is limited and still far from sufficient. Feinberg *et al*[17] investigated the operational determinants of caller satisfaction at call centres, finding that of all the critical operational determinants, only 'percentage of calls closed on first contact' and 'average abandonment' have a significant influence on caller satisfaction. Mount and Mattila[18] examined the impact of three types of listening behaviour (attentiveness, perceptiveness and responsiveness) on call centre satisfaction and future purchase intention, finding that attentiveness and perceptiveness are the most salient dimensions of listening behaviour with regard to call centre satisfaction and future purchase intention. Research by Dean[19] indicated that both perceptions of quality and customer orientation of call centres were related to loyalty to the providing organisation, while perceptions of quality partially mediated the relationship between customer orientation and loyalty. Another study by Dean[14] investigated how the perceived customer orientation of call centre employees (customer focus and customer feedback)

related to service quality and its translation into affective commitment and customer loyalty. The main findings of this research were that customer focus was related to loyalty, with partial mediation by perceived service quality. In contrast, customer feedback exhibits a direct relationship only to affective commitment.

METHODOLOGY

Measure of customer experience at call centres

Customer experience with call centres was measured by Harding & Yorke's ERIC Programme™ (Empathy Rating Index Company), which started to be developed in 2002 and was launched 2 years later in 2004. The ERIC Programme™ measures the nature of feelings resulting from being a customer, and includes semi-annual measures in the call centres of 200 companies from 12 different industries (mortgages, savings, home insurance, motor insurance, loans, credit cards, catalogue clothing, utilities, healthcare insurance, life insurance, mobile phones and telephone banking). The selected companies have a large market share in the relevant sector. They may subscribe to the service (subscribers are called 'Members') or may be included because a Member has requested it. For call centres, the research is accomplished by specialist, trained researchers calling an advertised number identified as a main brand contact for the target company (in some cases these experiences may be considerably distanced from the actual brand through the outsourcing of the call centre operations). Test calls are made to each company by the Harding & Yorke research team to ensure that the target telephone numbers are correct and that the receiving agents are able to deal with the stories and scenarios used. The trained researchers then make 40 unscripted calls over three weeks

to each company and complete an online questionnaire. Harding & Yorke researchers are recruited for their sensitivity to customers' physical and emotional needs and their ability to articulate feelings in a concise, fair and consistent way. Each researcher is trained and constantly monitored for accuracy, fairness and call-assessment techniques.

The ERIC instrument consists of 29 *empathy* questions measured on a 10-point rating scale and 11 *call process* questions that are related to how the calls are processed. The *empathy* questions include insights into the developing of the relationship, handling of the task, promotions and wrapping-up and some common values. The call process questions are grouped into five parts: *Opening Salutation* (based on three questions), *Putting on Hold* (based on two questions), *Preparing for the Call* (based on three questions), *Offering Further Assistance* (based on three questions) and *Number of Calls*. Since 2004, nearly 4 million data points have been collected and analysed by the ERIC Programme.[20] Exploratory Factor Analysis with a sample of the 5000 randomly selected customers from this database showed that the construct validity of ERIC was robust. The Cronbach α statistics suggested that the EMPATHY scale was a very reliable measure ($\alpha = 98$ per cent).[21]

Profitability: Return on capital employed (ROCE)

Having established the validity and reliability of the measures, this study sought to identify whether there was a relationship between the customer experience, as measured by Harding & Yorke, and profitability as measured by ROCE. ROCE is a financial performance indicator that represents the ratio of income before taxes, minority interest, and taxes to capital employed. This ratio indicates the efficiency and profitability of a company's capital investments. The ROCE ratio of the

companies was extracted from 'AMADEUS', a pan–European financial database.

The sample

The study sample was limited to 28 companies in which ROCE and ERIC ratings were both available. As the unit of analysis was a company, the ERIC ratings were taken from 1400 customers and aggregated to a company level. The study sample included the following companies: BT Mobile, Bupa Health Insurance, Cotton Traders, Dial-a-Phone, EDF Energy, Freemans, Grattan, Halifax Travel Insurance, Halifax Home Insurance, J D Williams, Lands' End, Legal & General, Littlewoods, MBNA, Morgan Stanley Credit Cards, Norwich Union Life, O2, Sainsbury's Bank, Scottish Hydro Electric, Scottish Power, Sony Ericsson, South East Water, South Staffs Water, Tesco Personal Finance, The Carphone Warehouse, Three Valleys Water, Virgin Mobile, Virgin Money Life Insurance, Vodafone and Yorkshire Water.

FINDINGS

OLS regression analysis assessed the influence of customer experience on ROCE. Before analysis, the suitability of the research variables was checked for the regression assumptions. Accordingly, no effect of multicollinearity appeared and the distribution of the model variables was normal.[22] Table 1 shows the influence of customer experience on profitability.

The findings suggest that the customer experience had a statistically significant influence on profitability. The intercorrelation between ERIC and ROCE was very strong ($r = 0.85$; $P < 0.05$). ERIC™ explains 72 per cent of the total variance in profitability, which is a very good prediction. Five out of the six components from the ERIC Programme™ demonstrated a statistically significant

Table 1: Customer experience and profitability

Customer experience	Profitability		
	Beta	t-value	P-value
Opening salutation	0.47	3.50	0.002*
Putting on hold	0.59	4.29	0.000*
Preparing for the call	0.14	0.97	0.342
Offering further assistance	−0.87	−5.63	0.000*
Number of calls	−1.10	−5.85	0.000*
Empathy	0.97	5.42	0.000*
(Constant)		−3.78	0.001*
R^2	0.727		
F	9.319		
P	**0.000**		

*statistically significant at the 0.01 level.

influence on ROCE, including the empathy and opening salutation dimensions.

As expressed in Table 1, a positive relationship exists between Empathy and ROCE. Empathy, in particular, had the largest positive beta coefficient (0.97), implying that it makes the strongest contribution to explaining profitability. Furthermore, every point increase on empathy projects a 16.4 per cent impact on ROCE if the other variables are held constant. This finding suggests that empathy is not only a good measure for assessing customer experience with call centres, but is also one of the key performance indicators for managing profitability.

Number of calls and offering further assistance had a negative influence on ROCE. Arguably, these could be indicators of cost pressures. As the time spent on calls increases, so does the operating cost, and therefore extending time spent per call will negatively affect profitability.

CONCLUSIONS

Our findings suggest that customer experience with call centres had a statistically significant influence on company profitability centres. The significance of this finding for companies with call centres is relatively simple to discern. Some aspects of call centre behaviour (as measured by Harding & Yorke) are linked with profitability; however, this does not necessarily mean that they 'cause' profitability. However, companies that focus on the customer experience as measured by the ERIC Programme™ seem to be more profitable than those who do not. The empathy component of the ERIC Programme™ is seen to be a key driver of profitability: the higher the empathy rating, the greater the profitability. This study also supports other studies that suggest a positive relationship between customer experience and customer loyalty or brand image, both of which are essential for profitability. As found by this study, empathy is an essential component of customer experience. The findings suggest that while companies extend greater empathy to their customers, they must also control the cost of the call in order to manage profitability.

The results of the ERIC Programme™ show that managing call centre profitability is a complex issue. A firm's inherent ability to manage and control its costs is identified through the cultural elements of the ERIC Programme research, and support is on a case-by-case basis. However, some basic observations can be made: For example, the study found negative relationships among 'offering further assistance', 'number of calls' and profitability. Arguably, when the call centre agent offers extra help to develop better empathy with customers, the extra time increases the call centre's operating cost, and thus this would have a negative impact on profitability. Call centre managers are well aware of the fact that extra time spent on calls dramatically increases operating costs as a result of processing a high volume of calls. One of the implications of this study for call centres is that companies must determine a desirable level of empathy versus cost. Alternatively, a more cost-effective method of developing empathy with customers must be considered. This will, inevitably, involve creating an environment in which empathy

can thrive. Additional interventions may involve improvements to employee recruitment, training and retention, the use of technology, or better call routing. To create and manage sustainable empathy is not an easy task, and may require a change in customer management culture.

We may be naive to suggest a positive relationship between empathy and profitability. After all, ROCE is a general measure, resulting from the endeavours of managers in all functions. We have found a correlation, not necessarily a causal relationship. However, the correlation may be good because ERIC™ is a good measure of the quality of call centre management, which may in turn be correlated with profitability. Customer satisfaction surveys have mainly measured either the process of satisfying customers (for example did the agent say Good morning/afternoon? and so on) or the end result of an interaction (for example did the customer get what they wanted?). While the 'process' element of ERIC™ is comparable to many of these measures, the 'empathy' element measures something very different, namely, how customers are made to feel through the combination of attitudes and subsequent behaviours of call centre agents. This is closely related to a common 'gut feeling' that is difficult to articulate, but may result in customers buying more and/or staying loyal, or bad-mouthing the company and leaving. Importantly, the ERIC Programme™ captures both 'gut feeling' and some key operational measures of call centres.

A second reason for the quality of the ERIC Programme arises from the quality of the questions assessed and the scales against which they are measured. The questions are designed not to lead the answer. Thus, 'How good does it feel?' is a leading question because it implies the need for 'goodness' in an experience rather than a dispassionate response. It is fairer and more appropriate question to ask 'How does it feel?' and then let the scale reflect two opposite points and the variants between them (Harding & Yorke use a combined verbal and numeric scale).

A third reason is linked to who is doing the measurement. If customers are asked how they feel, they will often provide a logical rather than an emotional response. They do not mean to lie, but find difficulty in articulating their emotional states. Even if they can, they prefer to respond in a way that does not cause further questioning, that does not open an avenue to personal criticism or that will include a personal analysis of a prolonged relationship with the organisation. Instead of asking customers, the ERIC Programme™ uses trained researchers to analyse interactions between customers and companies. This removes the effect of any previous expectations a customer may have about an organisation, and captures emotional effects fairly and consistently. The ERIC Programme™ measures the agent rather than the customer, and reports on an organisation's culture, which is why it seems to correlate well with ROCE.

ERIC analysis and validation may reveal reward and recognition approaches for call centre workers that do not make customers feel better. 'Getting what you measure' is intensified by reward and recognition programmes, while the ERIC Programme™ aims to improve overall empathy between agent and customer, making the interaction more enjoyable and rewarding for both parties.

This research has been specifically based on the relationship between customers and organisations when interacting through call centres. However, the findings are based more on the Harding & Yorke methodology of measuring 'feelings' than on more traditional measures, and it is likely that similar outcomes and correlations will be developed though alternative channels such as internet, correspondence and face-to-face interactions. Using a

longitudinal study with a larger sample size would establish the external validity of this research. Thus, Harding & Yorke continues with its research both in the United Kingdom and overseas, and we will be re-visiting their data at regular intervals.

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