



CX for Skeptics: Showing the ROI of CX

Choose one of three approaches,
and get Finance and Analytics to help with the math



Heart of the
Customer



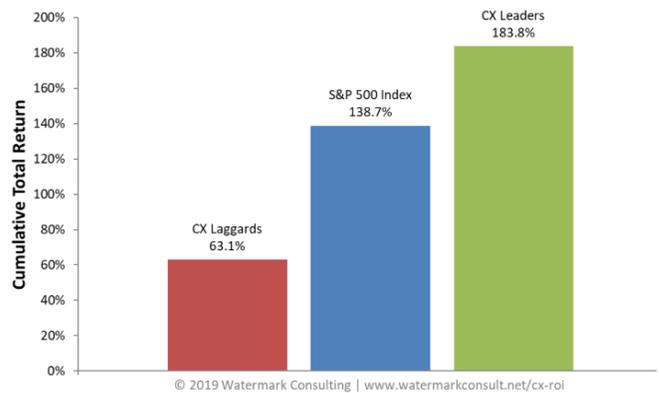
CX for Skeptics: Showing the ROI of CX

Choose one of three approaches, and get Finance and Analytics to help with the math

Overview

If you're like most customer experience (CX) practitioners, you believe CX essentially drives the business, because if you improve customer results, business results are bound to follow, right? You'll retain more customers, sell them more, and create more referrals.

Multiple studies back this up. Watermark Consulting found that companies with superior customer experience generate stock returns [45 points higher](#)¹ than the general market. Meanwhile, the XM Institute found that companies that improved their customer experience scores by 10% saw a [25.8% increase](#)² in three-year revenue. And Siegel+Gale found that the “simplest” brands – those that have succeeded most in delighting customers with their ease of use – outperformed major stock indexes [by 679%](#)³ over a 10-year period.



Unfortunately, it's a lot more challenging to show the impact of CX within one company than it is across dozens or hundreds of companies, as these studies do. According to [Maxie Schmidt-Subramanian](#)⁴ at Forrester, “only 14% of CX professionals strongly agreed that the return on investing in CX is well established in their firms.” Additionally, [CustomerThink](#)⁵ found that 75% of CX programs couldn't show a business or competitive value to their work.

Citing these studies won't do the trick at your annual budget-request meeting. Can you imagine telling your leadership that broad data shows improving customer experience can result in more than 25% growth in revenue, then taking credit for the company's 10% growth rate because you made some CX improvements the previous year? How do you think your peers in Sales and Marketing would react to your claim?

You'd be laughed out of the room.

CX has been an established discipline for at least ten years, and executives are getting impatient to see its impact in terms that are meaningful to them. In fact, Forrester predicts that in 2020, [one in four CX pros](#)⁶ will lose their jobs, precisely because they *aren't* showing impact.

But showing the ROI of CX could not only help you keep your job, it might also help you do it better: According to Gartner, CX leaders who show the relationship between their initiatives and business outcomes are [more likely to expect budget increases](#).⁷

This white paper explores three possible ways you can link your CX program to business outcomes in terms that will impress the C-suite: End-to-End CX Impact; Behavioral or Operational CX Impact; and Journey CX Impact. Choose the one that's right for you based on the maturity of your CX program and the data you can access. We also identify the relationships that you're going to want to build early on in your efforts in order to ensure your success. (It turns out the Beatles were right: You'll get by with a little help from your friends.)



Make friends and influence people

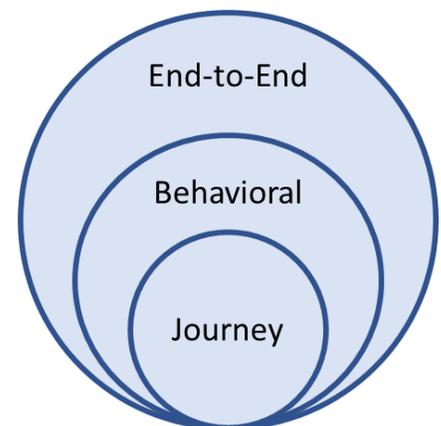
Before you begin, take the time to construct a pipeline that generates a flow of information and support.

1. **Find a friend in Finance.** Finance people provide instant credibility, especially when it comes to numbers – they're really good at math! – and they not only have access to the financial data critical to building your case, they can also do most of the calculations for you.
2. **Compile years of survey data.** One-time data sets are of little value, since they don't show business impact over time. You're going to need a range of results tied to the individual or company that completed the survey.
3. **Get access to behavioral and operational data.** This brings in figures Finance probably doesn't have. The specific data varies by industry, but might include on-site product delivery success, complaints, repeat order information, product lines ordered, and the like. See more detail below.
4. **Acquire an ally in Analytics.** Your Analytics capability may be found in different parts of the organization, such as Marketing, Digital, or even CX. Finance's calculations focus on different items than Analytics', so your best bet is to make connections in both departments, then unite to find the right questions and interpret the results.

Three ways to calculate the ROI of CX

While there are countless variations on ways to prove your business impact, we've found these three approaches are the most useful ways to jumpstart the conversation:

1. **End-to-End CX Impact.** This is the classic method, linking your overall CX measurement with sales, revenue, or profitability. But for most organizations it's also the hardest to prove.
2. **Behavioral or Operational CX Impact.** For this approach, you can use behavioral or operational data, or specific survey question results, to link customer behavior to financial outcomes like increased revenue or decreased costs.
3. **Journey CX Impact.** Often overlooked, this is the easiest way to measure – and drive – impact, by focusing on behaviors and interventions within key journeys, rather than trying to measure the totality of the experience.



Option 1: Calculating End-to-End CX Impact

This is the approach your CEO likely expects. The thinking is that by improving overall scores you should see improved financial outcomes, usually in revenue.

This exercise typically involves linking a survey metric to something like profit, share of wallet, or cost to serve, so the first step is to determine the overall survey metric you'll compare. For many companies, this is the net promoter score (NPS), which captures how likely a customer is to recommend your company. Since Fred Reichheld of Bain & Company introduced it in 2003, NPS has grown to become one of the most popular ways to measure CX.



CX FOR SKEPTICS: SHOWING THE ROI OF CX

For example, Comcast has found a distinct tie between NPS and churn (a customer's likelihood to cancel their account), as well as to customer lifetime value (CLV), a calculation of average revenue over the length of time someone has been a customer.

Next, you'll need to look at potential financial outcome metrics. Some typical metrics include:

- **Account revenue.** Be sure to analyze the scores with revenue on an individual basis. Looking at overall results can create a murky picture. For example, if scores go up 1% while your organization adds new products that increase revenue by 5%, how do you know whether the increase is because of CX improvements or the new product?
- **Account profitability.** Not all organizations can measure this, but this strikes at the core of CX philosophy – by creating a better experience, customers should spend more with you and be less expensive to serve.
- **Renewal rate/churn rate.** These are two sides of the same coin. Some organizations have a more difficult time measuring this than others. For example, how much time must pass before a retailer's non-returning customer is assumed to be lost?
- **Share of wallet.** This reflects the percentage of discretionary spending in a category, and how much of this your firm is capturing. This is typically very difficult to measure without using a survey, but very compelling when you can show the linkage.
- **Referrals.** Some banks and retailers offer promotions to customers who provide referrals. Customers who give a higher score should be more likely to refer you, so capturing that data and relating it to your CX program is a measure of value. Unfortunately, we haven't found many CX programs that look at this information, even though it's a potential goldmine.
- **Number of repeat orders.** Or more commonly, its ugly cousin, customers who only order once. One-time customers are expensive, since acquisition costs can't be spread over time.
- **Cost to serve.** Service calls and delivery costs are two typical factors in cost to serve. Immature programs don't track these costs back to the individual account, which is important. Reducing friction in the customer experience means a less costly relationship for both your customers and your company.

Sometimes, looking at the linkage between high-level scores and profitability tells you something you don't want to know:

Heart of the Customer mapped customer journeys for a bank that focused extensively on fees as a way to generate revenue.

*We compared their NPS with individual account revenue, profitability, and number of products. Instead of a positive correlation, we found it was slightly negative – **higher NPS correlated with lower financial metrics.***

The bank's most valuable customers were those who generated the most fee revenue, and they were less thrilled with the bank than less-profitable customers were.

As you can see, there are many financial metrics to compare. Which should you use? Account profitability is often the best indicator, but difficult to analyze without a large-scale effort. Your best is going to be to look at where your company and executives are focused, then work backward to see which financial factors most

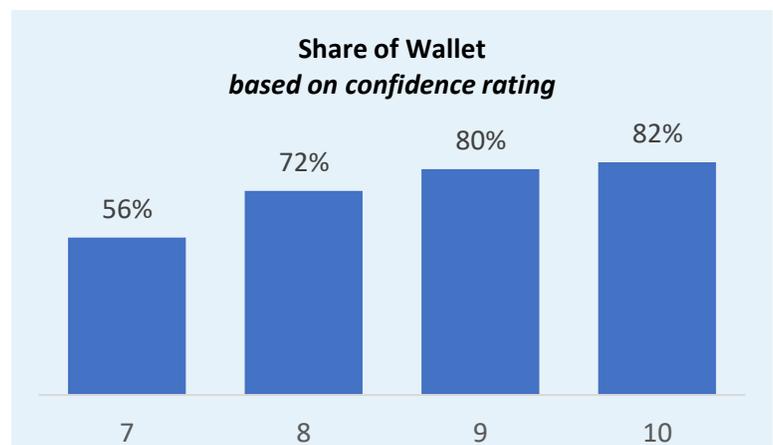


CX FOR SKEPTICS: SHOWING THE ROI OF CX

reflect their strategy. For example, a high-growth company would likely focus on revenue and share of wallet, while one that is more stable might look to churn rate and cost to serve. Interview your sponsors and spend some time with Finance to discover what the organization most values, then use this as your polestar.

But the challenge doesn't end there. The delay between the change in a score and a resulting change in financial results can be a confounding variable. For example, if a car dealership offers a great experience today, their customer isn't likely to buy a new vehicle tomorrow. Quantifying this relationship can require more advanced analytics than a back-of-the-napkin calculation.

For one of our clients, we knew that "confidence in the brand" was the best predictor of customer buying behavior. We asked survey respondents to name their top two manufacturers and how much they spent with each. The resulting graph showed exactly what you would hope to see: clients who scored confidence a 10 gave our client 82% of their business, compared to 56% for those who gave it a 7. This relationship shows correlation, but an argument could be made that the causation arrow might go either way. Do customers who are more confident in a brand give a higher share of wallet, or do those who give more business to a company develop more confidence? With a sufficient sample size, it's more powerful to show *changes* to the score, and see whether these predict increases in share of wallet or other financial metrics.



While calculating End-to-End CX impact is the most straightforward of the three approaches, finding linkage isn't always easy. So many variables affect revenue and an overall score that there may be no easily identified relationship. It typically requires a sizeable number of customers, so this method is best for large B2B companies with many individual transactions, or B2C companies that can tie survey results to individual behavior, such as through loyalty card usage. A large software company, for example, which might sell only once every two or three years, probably couldn't use this. And smaller companies can have a harder time showing such connections, because of the flux in scores and revenue. But don't give up if you can't find an overall relationship. We have two other methods that may work for you.

Option 2: Calculating Behavioral or Operational CX Impact

Using behavioral or operational data is an important way to learn more about customers, but one that is typically uncomfortable for CX, where survey data is often preferred. The data can either show areas that need attention or the outcome of a CX program's improvement efforts.

In the dozens of interviews we've conducted with CX pros, we've found that only the most mature CX programs incorporate this data, which might include number of orders per customer, unit margin, product mix, or complaints. As one CFO we interviewed told us, "The CX team always seems to gravitate a little too quickly to use survey data."

Accessing the required data can be challenging. Data silos are common, and it might be hard to get approval for access. But the effort pays off. Gartner recommends using that data [to get executives' attention](#)⁸ by



CX FOR SKEPTICS: SHOWING THE ROI OF CX

combining customer satisfaction data with transactional and operational data to prove that “satisfied customers drive up revenue, reduce costs, and grow your business.”

If the data is unavailable, an alternative is to substitute survey questions that ask about behavior, though they're not as compelling to the C-suite. We've found that most CX practitioners give up too easily on the data, which severely limits their persuasion skills when presenting to leadership.

Because there are so many pieces of behavioral and operational data available, this method of analysis requires more advanced analytical skills and model building, as relationships can vary. On the input side, common measurements vary by industry. Some include:

- **Complaint data.** Number of complaints, time to resolve, severity of complaints, escalations.
- **Product delivery information.** Percent of on-time deliveries, order errors.
- **Invoices.** Incorrect invoices, late payments.
- **Onboarding time to value.** The amount of time from purchase to when the customer is able to be fully operational.
- **Product cancellations.**
- **Driver survey scores.** Confidence in products, satisfaction with service, etc.

*A manufacturing client was able to show how several **behavioral data measurements**, including on-time delivery and complaints, impacted their overall survey scores. They were also able to show how their survey scores impacted several critical business factors, such as product margin and number of product lines ordered.*

*A financial services client was able to tie communications to a survey score on confidence in the product, and then able to **link this confidence to decreased calls** to the contact center.*

Now compare your data to the financial outcomes listed previously. (This often requires an analyst to build a model and test the various inputs and outputs earlier to find the most powerful linkages.)

Discovering a strong linkage between efforts and outcomes is invaluable to a CX program, because it immediately prioritizes where to focus. For the manufacturing client referenced in the box above, this led to a complete overhaul of their complaint-handling process, with CX in the driver's seat.

Option 3: Calculating Journey CX Impact

This third method is often overlooked, likely because it is, by definition, tied to just one journey. However, it's through journeys that your customers experience your brand, so they're critical to measuring and driving action. Journeys are also easier to affect than the overall experience, since focusing on one journey narrows potential measurements and requires fewer resources to drive change.

For this method, start with the journey in question and look for potential outcomes that show whether the journey goes well or badly. See the table on the next page for some examples of what we've used.



CX FOR SKEPTICS: SHOWING THE ROI OF CX

Journey	Measurement	Business Impact
Onboarding – Banking	% of customers who choose to use you as their primary bank	Revenue for primary vs. secondary accounts
	Number of products per customer	Increased revenue per customer
	Revenue per customer	The ultimate measure, but it can be skewed by many variables
In-Home Cancer Screening	# of completed orders per office	Revenue per physician’s office
	Patient compliance	Revenue per requested test
Onboarding – Insurance Agents	% of agents ordering multiple times	Client attrition or Customer lifetime value
	% of end clients completing the purchase of the product	Changes to revenue per agent over time
Onboarding – Distributors	Product lines per customer	Proxy for share of wallet
	Revenue per customer over time	Ultimate measurement
	Support calls per customer	Reduced costs through an improved onboarding experience
First Year of Financial Product	Number of support calls per year	Change in cost of calls over time
	% of customers taking action on their account (a proprietary measurement)	Softer, but shows the desired impact of the journey’s changes and is tied to retention
	Financial professionals selling product repeatedly	Ongoing revenue as a result of this product sale and first-year journey

By calculating the business impact of journeys, it is possible to show very targeted results for your CX program. For example, using the Onboarding – Insurance Agents journey example above, where you recreate the onboarding journey in order to improve retention. If these initiatives result in 10% more agents ordering a second product, your ROI is very straightforward.



CX FOR SKEPTICS: SHOWING THE ROI OF CX

Let's say that you onboard 500 new agents in a year, and the average revenue for each order is \$20,000. If you can improve the journey to encourage 10% of your agents to use you just one more time, your calculation becomes:

Changing Variable	Average Revenue	Impact
500 financial professions x 10% = 50	x \$20,000	= \$1 million in revenue

This calculation is unlikely to require an analyst, except perhaps to get access to the data, but you should definitely run it past your Finance buddy to validate your outcomes. Even better, have them do the presentation for you. This offers immediate credibility.

The major prerequisite for this method is that you *change* the journey. The End-to-End and Behavioral or Operational approaches leverage the entire experience, but the Journey approach begs for interventions to improve the outcome.

That's challenging for CX programs that focus more on measurement and voice of the customer. Heart of the Customer's research shows that [only a third of programs](#)⁹ will drive action from their journey mapping work. Establishing measurements can help, but strong leadership from the CX team is also required. Our upcoming white paper on measuring journey ROI will explore this in more detail.

Summary

It's more important than ever for CX professionals to show their impact to the business. By selecting the right method to calculate the ROI of your CX program, and drawing on the right resources and assistance, you can prove to your leadership what those of us in CX know to be true: Focusing on customers does indeed drive business value.

About the Author

Heart of the Customer Founder **Jim Tincher**, CCXP, is a nationally recognized customer experience expert, journey mapper, author, keynote speaker, and entrepreneur. Jim led customer experience programs at Best Buy and United HealthGroup before launching his innovative CX consultancy in 2013. Since then, Heart of the Customer has been helping start-ups to Fortune 100 organizations use voice of the customer research to improve loyalty and manage customer journeys. Jim's book, *How Hard Is It to Be Your Customer?*, is considered a must-read for leaders focused on CX, and LiveHelpNow, SupportBee, Feedbackly, Influencer Marketing, and Capterra have all named Jim a customer experience influencer to follow. To learn more, visit HeartoftheCustomer.com.

¹ <https://www.watermarkconsult.net/blog/2019/01/14/customer-experience-roi-study>

² <https://www.qualtrics.com/xm-institute/roi-of-customer-experience-2018/>

³ <https://www.forbes.com/sites/shephyken/2019/04/07/how-to-outperform-the-stock-market-by-679/#7da4209b4d3a>

⁴ <https://www.forrester.com/report/The+Top+14+Hacks+For+Your+CX+Business+Case/-/E-RES144052#figure3>

⁵ <https://customerthink.com/customer-experience-at-a-crossroads-what-drives-cx-success>

⁶ <https://go.forrester.com/blogs/predictions-2020-customer-experience>

⁷ <https://www.gartner.com/en/documents/3970294/2019-customer-experience-management-study-marketers-take>

⁸ <https://www.gartner.com/en/documents/3970294/2019-customer-experience-management-study-marketers-take>

⁹ <https://heartofthecustomer.com/4465-2>