

# Calculating the ROI of Customer Experience

How to Quantify the Impact of Your CX Investments



Pointillist®

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The importance of calculating your customer experience ROI cannot be overstated—how will you build, measure and regularly optimize your customer experience efforts if you don't know the return on your CX investments?

Customer experience leaders often face hurdles in budget approval because customer experience ROI has not been forecasted or quantitatively expressed. All the time and effort spent in designing a modern, responsive customer experience program can go to waste if you are not able to articulate in numbers the value that it will bring to your organization.

In order to put CX initiatives on a level-footing with other business programs, it isn't enough to simply provide the soft benefits. *You need a quantitative assessment to make a strong business case and obtain approval for continued investment.*

**Customer Experience ROI = Return/Investment**



# 2 Steps to Calculate CX Return



Customer experience return can be expressed as:

$$\text{Return} = \text{Benefit} - \text{Investment}$$

Therefore, to calculate the CX return, we need to quantitatively measure customer experience benefits. Measuring benefits is the toughest part of the ROI calculation and the reason why most CX practitioners avoid ROI calculation.

Calculating benefits is difficult because it involves taking into account hard quantitative metrics impacted by customer experience, as well as more qualitative ones. Moreover, a clear link needs to be established between customer experience and business metrics.



# Step 1. Choose the Business Metrics Most Impacted by CX

**Investing in customer experience is of paramount importance today and has several quantifiable benefits.**

The key, however, is to choose the business metrics that are best suited to your particular industry and business.

The following section contains a list of business metrics most commonly used for customer experience ROI calculation.

## ANALYTICS DASHBOARD

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
Sales per countries



# Revenue

Top-line revenue is the most common business metric to consider. A recent Forrester study found that the revenue of CX leaders outgrew the revenue of their CX laggard competitors by 5 to 1.

Another data point for the revenue impact of CX comes from the Forrester Customer Experience Index (CX Index™). An analysis of this index showed that the biggest companies in certain industries can earn up to hundreds of millions of dollars in incremental revenue for every one point of increase in Forrester's Customer Experience Index (CX Index™).

1-point improvement in CX Index™ score results in:					
		Annual incremental revenue per customer (from a 1-point increase)*	x	Average number of customers per company†	= Total revenue
	Auto manufacturers: mass market	\$48.50	x	18 million	= \$873 million
	Hotels: upscale	\$7.54	x	44 million	= \$332 million
	Wireless service providers	\$3.39	x	82 million	= \$278 million
	Big-box retailers	\$2.44	x	100 million	= \$244 million
	Auto and home insurance providers	\$14.32	x	15 million	= \$215 million
	Airlines	\$3.49	x	48 million	= \$168 million
	Traditional retail banks	\$8.27	x	15 million	= \$124 million
	TV service providers	\$6.11	x	17 million	= \$104 million
	Internet service providers	\$5.26	x	16 million	= \$84 million
	Rental car providers	\$1.67	x	40 million	= \$67 million
	Auto manufacturers: luxury	\$104.16	x	350,000	= \$36 million
	Direct banks	\$9.96	x	3 million	= \$30 million
	Credit card providers	\$0.08	x	61 million	= \$5 million

Base: 122,500 US online adult customers (ages 18+) of at least one industry who interacted with that industry within the past 12 months (bases vary by industry)

Source: Forrester Data Customer Experience Index Online Survey, US Consumers 2016

\*This analysis shows the effect on revenue potential of increasing CX Index scores by one point from the average CX Index score of the largest brands in the industry. Curves for individual brands differ from this industry curve. For brands that don't have a linear relationship between CX and revenue, the revenue effect of improving CX by one point will vary greatly depending on the CX Index score that serves as the starting point for this analysis.

†The number of customers represents that of a big player in the industry based on inputs that include Consumer Technographics® data, Forrester's analysts, and publicly available industry data.

# Customer Retention

Improving customer experience has a direct impact on increasing customer retention and reducing churn. With the low cost of switching, most customers are quick to move to competitors when they have a poor experience. However, they also reward good customer experience with continued loyalty.

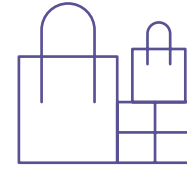
Financial Services firm 'X' is trying to increase retention by improving customer experience. For the purposes of this illustration, there is an assumption of no new sales in Year 1 or Year 2. The table above shows how a lift of 10% in retention leads to a revenue increase of \$105 million for the firm.

Customers who have a high-quality experience are 2.7 times more likely to keep doing business with a brand than customers who have a low-quality experience.

- Forrester

No. of Customers	1,000,000
Avg. Revenue Per Customer	\$1,500
Retention Rate	70%
No. Of Customers <u>At Start Of Year 2</u> (at 70% retention rate)	700,000
No. Of Customers At End Of Year 2 (at 70% retention rate)	490,000
No. Of Customers At End Of Year 2 (at 80% retention rate)	560,000
Additional Revenue In Year 2 Due to Increased Retention	$\$1,500 \times (560,000 - 490,000) = \$105,000,000$

# Cross-sell/Upsell



No. of Customers	1,000,000
Avg. No. of Products Per Customer	3
Avg. Revenue Per Customer	\$1,500
Revenue from an Additional Product	\$500
% of Customers Who Buy an Additional Product in Year 2	10%
Additional Revenue from Upsell/Cross-sell	$\$500 \times (10\% \text{ of } 1,000,000) = \$50,000,000$

Customers who are delighted with their experience spend more with a business by buying additional products and services. They enjoy interacting with your company and keep coming back for more.

Using the same example of financial services firm 'X', we can show the revenue impact of cross-sell and upsell as illustrated in the table above.



# Customer Satisfaction

Measuring the revenue impact of increased customer satisfaction is the hardest part of the customer experience ROI calculation. Businesses are used to thinking of customer satisfaction as a warm, fuzzy concept which is hard to quantitatively pin down.

***But the revenue impact of customer satisfaction can and must be measured.***

Use your key customer satisfaction metric (NPS®, CSAT or another) for this calculation. Determine what a 1-point increase in Net Promoter Score or CSAT

is worth in terms of additional sales or improved customer retention.

That number is the revenue impact of increased customer satisfaction.

# RATE YOUR EXPERIENCE



# Cost-to-Serve

Improving customer experience has a direct impact on reducing the cost-to-serve customers, as it results in streamlined processes, reduced call volumes to the customer care center and efficiencies from understanding the end-to-end customer journey.

**Let us explain through the example of Retail Bank 'A':**

Bank 'A' receives 4 million calls annually in its customer care center, accounting for a huge chunk of its total expenditure.

Using customer journey analytics and call center data, Bank A realized that 15% of the calls were about problems that could have been easily resolved through customer self-service, such as setting up a fraud alert on the bank's mobile app.

Bank A has, therefore, correctly assumed that by providing more self-service options and improving the user experience on mobile apps, as well as improving call handling, they can substantially reduce the call center cost.

No. of Calls in Customer Care Center Annually	10,000,000
Cost Per Call	\$5
Expected Reduction in Calls	15%
Total Cost Savings	$\$5 \times (15\% \text{ of } 10,000,000) = \$7,500,000$

# Step 2. Use Customer Journey Analytics to Show the Link Between Business Metrics and CX

Choosing the right business metrics and calculating their quantitative impact is a crucial and difficult first step. Pat yourself on the back for successfully conquering it!

But how do you know for sure that these business metrics were impacted by customer experience?

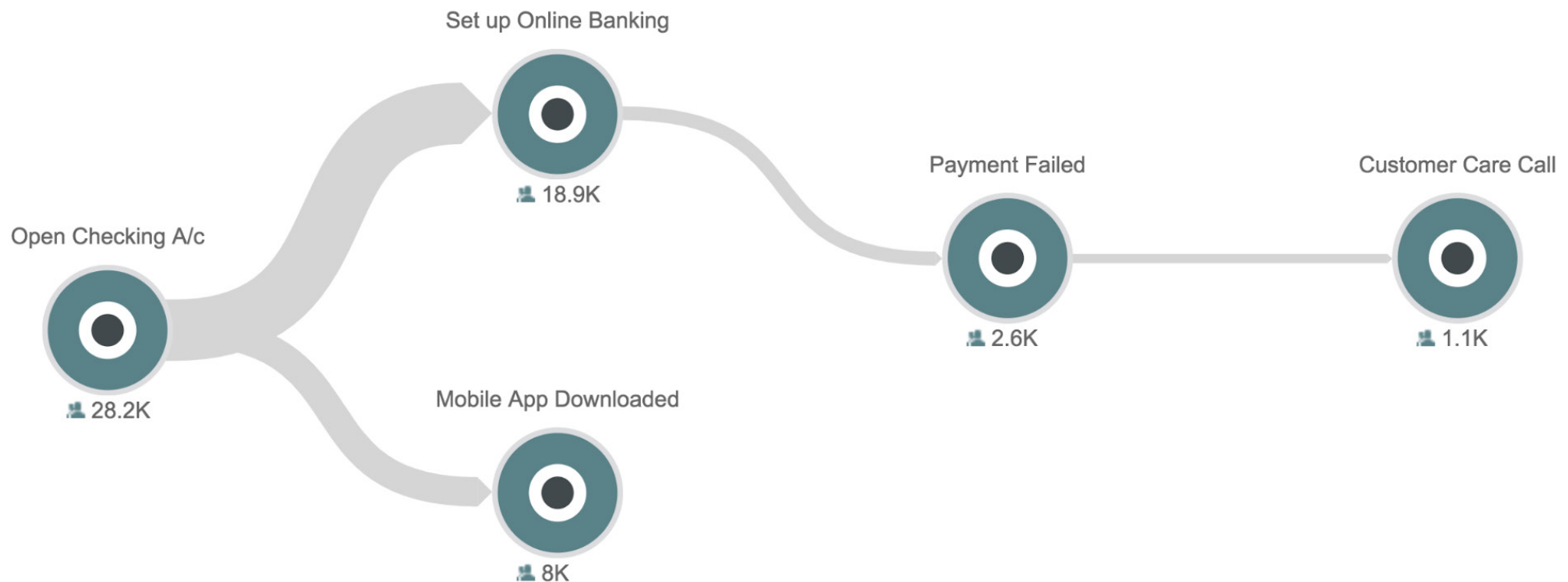
**To prove this correlation definitively, you need to employ customer journey analytics.**

Customer journey analytics can pinpoint the drivers of customer satisfaction in a uniquely quantitative way. A McKinsey study found that “performance on journeys is substantially more strongly correlated with customer satisfaction than performance on touchpoints—and performance on journeys is significantly more strongly correlated with business outcomes such as revenue, churn, and repeat purchase.”

## Identify Customer Behavior Drivers

In order to show the link between CX metrics and customer experience, you have to first discover how customer experience drives changes in customer behavior. Customer journey analytics can do this in a way that no other tool can.

It can do so without burdening your customers by asking them to fill out endless surveys (while taking into account any survey results that you have). Moreover, it analyzes the end-to-end customer journey for your entire customer base, something that no survey tool can achieve.



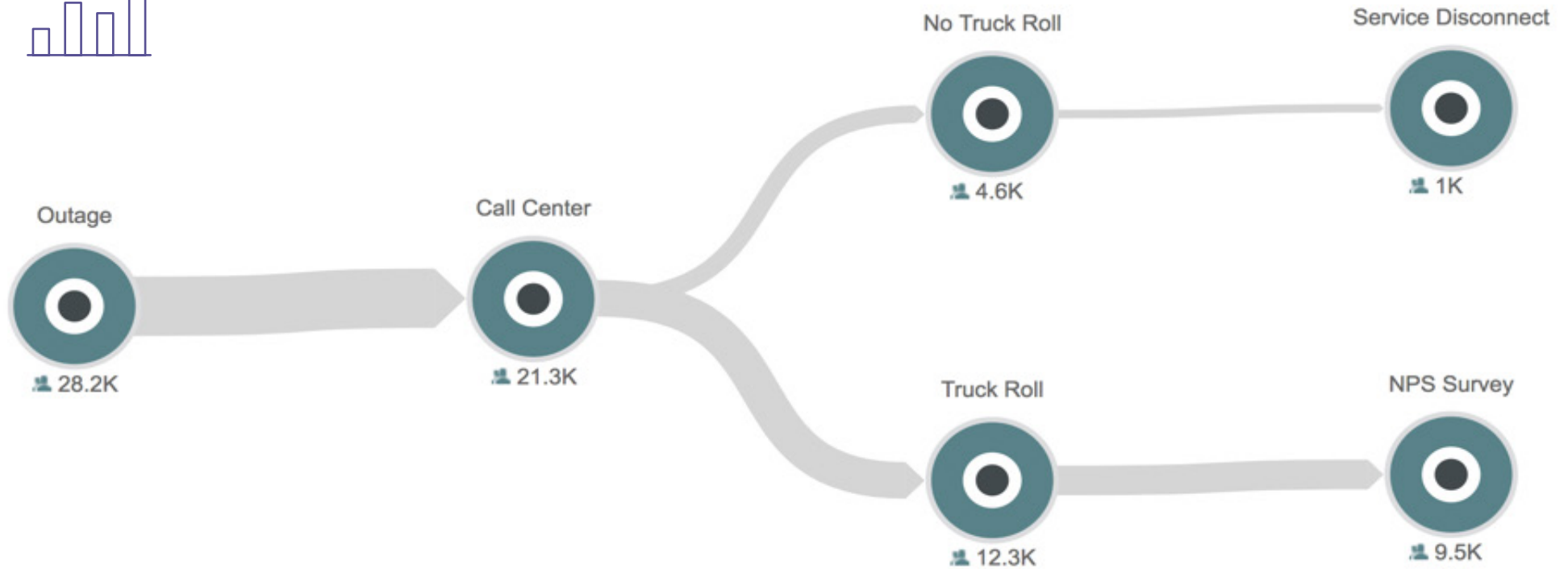
## Segment Customers

Not all customers are alike. Some bring much higher revenue while others may be strategically important. It is important to identify these important customers and focus your CX investments and efforts on them.

Relying on segmentations that are based on customer experience metrics (such as promoters and detractors) is neither accurate nor enough.

Instead, segment your customers behaviorally using customer journey analytics.





## Discover the Impact of Customer Behavior on Business Metrics

Using customer journey analytics, you can discover how your customer interacts with your business, how his behavior changes based on customer experience and how your business metrics are ultimately impacted because of this changed behavior.

# 3 Steps to Calculate CX Investment



Now that you have done the heavy lifting of calculating customer experience benefits (returns), it is time to quantify the customer experience investments that will be required to achieve those benefits.

Follow the three steps in the following pages to systematically calculate your customer experience investments.

# Step 1. Plan Which Investments Are Required

## Investment in Training

Improving customer experience in large enterprises is impossible to achieve without investing in training. This could take the form of re-training existing staff to learn new processes, or training new staff.

Regular re-training is particularly important for your call center employees. The first level of agent training is on the company's product and services, so that they are thoroughly equipped to answer any query related to a product/service without needing expert assistance. Having a product knowledge base handy often helps.

Cross-train agents on the functions of other teams or departments so they are better equipped to navigate a complex issue and connect a customer with the right resources as quickly as possible.

Similarly, training agents to isolate and get to the core of the problem is essential.





## Investment in Technology/Tools

Improving customer experience often requires upgrading your technology infrastructure, resulting in large investments. This technology infrastructure could include database management systems, CRM systems, analytics applications, self-service channels integration and many others.

As an example, many customer experience teams are investing in speech analytics and text analytics tools to enhance their customer data measurement capabilities.

## Investment in Operating Costs

Operating costs for customer experience include building and operating new mobile apps and websites, costs for running new and improved VoC surveys, the cost for cultural transformation to make your organization more customer-centric, and ongoing salary and support costs.





# Step 3. Build Cost Estimates for Investments

Now it's time to build cost estimates for each planned customer experience investment. Use past expenditures to benchmark future costs in areas like training.

Choose the partners or service providers you need for your customer experience needs and get an accurate estimate of any future expenditures.



# Calculate Customer Experience ROI

Next, let's calculate customer experience ROI by putting together all of the preceding steps.  
To illustrate this, we will go back to the hypothetical example of Financial Services Firm X.

## Base Data to Calculate Lift Assumptions

Baseline Customers in Year 1	1,000,000
Avg. Revenue Per Customer	\$1,500
Avg. No. of Products Per Customer	3
Avg. Revenue From an Additional Product	\$500
Baseline Retention Rate (No CX improvement)	70%
Retention Lift	10%
% of Customers Who Buy an Additional Product Per Year	10%
Total No. of Calls to Customer Care Center	10,000,000
Avg. Cost Per Call	\$5
Avg. Reductions in Calls Per Year	15%

# Calculate CX ROI (con't)

First, we will calculate the total benefits (retention, cross-sell/upsell, and cost savings). Then we will add all the investments we are planning to make in our customer experience program.

## Benefit Estimation

Benefits	Amount
Lifecycle Retention (10% lift per year)	$\$1,500 \times (560,000 - 490,000)$ $= \$105,000,000$
Cross-sell/Upsell Lift	$\$500 \times (10\% \text{ of } 700,000)$ $= \$35,000,000$
Cost Savings	$\$5 \times (15\% \text{ of } 10,000,000)$ $= \$7,500,000$

## Total Investments (Assumed)

Investments	Cost
Training	\$9,600,000
Technology/Tools	\$5,000,000
Operating Costs	\$1,000,000
Total Investments	\$15,600,000

# Calculate CX ROI (con't)

Now we calculate the CX ROI using the formula:  $\text{ROI \%} = ([\text{Benefits} - \text{Investments}] / \text{Investments}) \times 100$

<b>Benefits</b>	
Retention Lift	\$105,000,000
Cross-sell Lift	\$35,000,000
Aggregate Sales Lift	\$140,000,000
Margin Lift*	\$105,000,000
Cost Savings	\$7,500,000
<b>Total Benefits</b> (Cost Savings + Margin Lift)	\$112,500,000
<b>Investments</b>	\$15,600,000
<b>Return on Investment</b> ([(Benefits – Investments)/Investments] x 100)	621%

\*Assumes 75% Gross Margin



# How to Use CX ROI to Build a Successful CX Program

## 1. Prioritize CX Investments Based On Company Goals

By calculating customer experience ROI, you have taken a big step towards getting budget approval for your CX investments. Be sure to prioritize them not only in order of customer experience team goals, but also the goals of the company as a whole.

Interview top executives, attend town-hall meetings and comb through important documents like annual reports to ensure you are aligned with the key metrics and goals that matter for your business. Only then will you build a successful customer experience program that will be evangelized by key people in the company.





## 2. Emphasize the Cost of Inaction

Not improving customer experience (and therefore not investing in it) is no longer an option for most businesses. In an environment where customer expectations are rapidly rising and it's easier than ever to switch to another brand or provider, the cost of inaction is tremendous, mostly by way of customer churn.

## 3. Identify Quick Wins to Show Success

Use the customer experience ROI calculation to identify quick wins which will demonstrate early success. Nothing works like showing what improved customer experience looks like!

This will help in bolstering the profile of your CX program within the organization and go a long way in winning advocates and continued budget.



## 4. Measure and Track CX ROI Over a Period of Time

It is important to take a long term view when measuring customer experience ROI as both the returns and investments accrue over a period of time.

Calculating predicted ROI is good, but remember to keep measuring and tracking real customer experience ROI over a long period of time to ensure that benefits and ROI are developing in line with expectations. This will help you make adjustments in your customer experience program as needed.





## Discover and Optimize Your Customers' Journeys

Pointillist makes it easy for CX professionals to uncover and optimize the journeys that matter to your customers, so you can improve customer experience results and impact the KPIs that matter most to your business.

- Quickly understand customer behavior across all touch-points and channels over time
- Uncover and predict high-impact customer journeys
- Drive personalized, multi-channel customer experiences

Unlike other journey analytics solutions, Pointillist lets you connect the dots between customer interactions and business goals in seconds, rather than days or weeks. By using artificial intelligence to reveal high-impact journeys and predict likely behavior, Pointillist is like having a personal data scientist that's always on call.

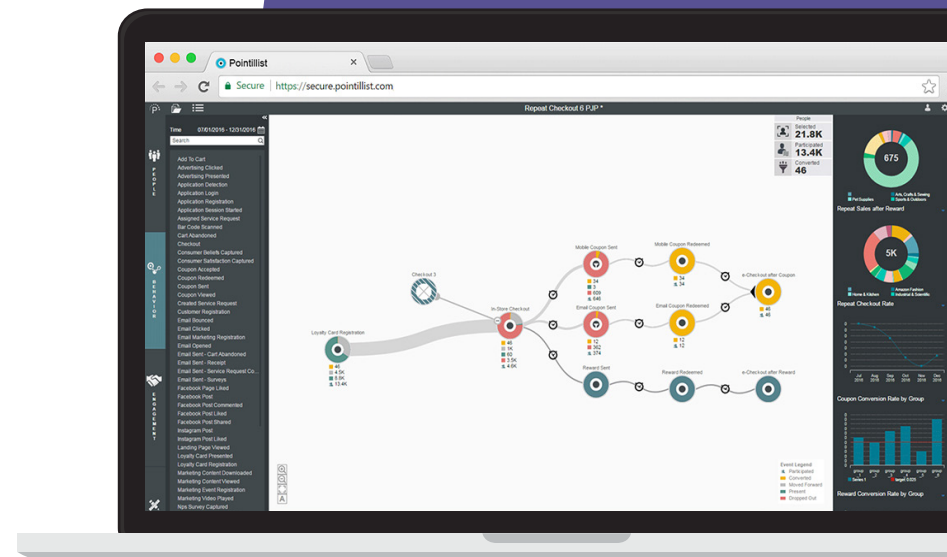
## Contact Us

321 Summer Street

Boston, MA 02210

1-888-MYJRNYS (1-888-695-7697)

[info@pointillist.com](mailto:info@pointillist.com)



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