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Best Practices to Prove the
Business Value of
Customer Experience

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Best Practices to Prove the Business Value of Customer Experience

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CustomerThink's mission is to help business leaders develop and implement customer-centric business strategies. We do this by publishing high-quality articles, blogs, and discussion; conducting research on key issues and trends; and facilitating interactions with a global panel of experts.

CustomerThink was founded in 2000 by Bob Thompson, CEO and Editor-in-Chief, who is responsible for the site's editorial vision and research agenda. Thompson researches leading trends in customer-centric business management; blogs about industry developments; writes articles and reports; and gives keynotes at conferences worldwide. Contact him at bob@customerthink.com or visit www.customerthink.com.

Contents

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Executive Summary

Despite much enthusiasm at executive levels, along with investments in Customer Experience (CX) teams and initiatives over the past decade, only one in four companies are "winning" – able to quantify benefits or achieve a competitive edge. About six in ten CX initiatives can cite benefits but **can't make an ROI-based business case**.

Now, more than ever, CX leaders must show that improving experiences will deliver value to customers *and* the business. The current economic crisis will put extraordinary pressure on spending. This study found **two-thirds of respondents expect budgets to decrease in 2020** as a result of the COVID-19 pandemic.

This report explores how CX leaders can more effectively create and sell a business case internally to get financial support. In short: **A CX business case must answer the "WIIFM" question: What's In It For Me?**

CX professionals often advocate for a customer-centric point of view and evangelize that satisfied customers create long-term value for a business. But this approach is not effective in gaining funding in organizations mainly focused on achieving traditional operational goals. Based on nearly 50 interviews and 200 survey responses, three practices were identified to help CX leaders get to "yes."

1. Learn What "Success" Means to Prospective CX Supporters

CX professionals may be misled by surveys claiming that 80% or more of business leaders believe CX is the key to competing. Or, by finding "customer satisfaction" among a list of metrics masquerading as Key Performance Indicators (KPIs). A critical first step is to thoroughly research what drives the success of both potential sponsors (funders) and stakeholders (affected users and other influencers).

2. Develop an ROI Strategy to Link CX to Business Success

Top management may be receptive to the argument that CX improvements will boost long-term growth. But the operational levels at most companies are still focused on achieving tactical results, such as prospect engagement (marketing), closed orders (sales), or caseload efficiency (service). The ROI strategy should show value tailored to the success drivers *currently* in use.

3. Prove CX Value with Cost/Benefit Analysis and Intangibles

A cost/benefit analysis is a must for any CX program, regardless of whether it is formally required. Furthermore, the business case should include stakeholder endorsements and important intangible factors – all packaged into a document or presentation easily digested by supporters. In some cases, a successful pilot or detailed implementation plan will help seal the deal.

Bottom line: For CX to get the funding needed to deliver a win for customers, CX leaders must also show how it delivers wins for sponsors and stakeholders.

What is "Winning" at Customer Experience Management?

Before diving into the "ROI" question, let's start with a brief CX status based on prior CustomerThink research.[1]

While definitions vary, in plain language Customer Experience Management (CXM) means making changes to what the company controls (touchpoints, processes, employee behaviors, product capabilities, etc.) to influence perceived experiences (CX) in a positive direction. Perceptions are usually measured with surveys to derive metrics like Customer Satisfaction (CSAT), Net Promoter Score (NPS), or Customer Effort Score (CES).

Industry experts advocate for a holistic approach considering all possible interactions and resulting perceptions. However, business leaders don't necessarily agree. For roughly one-third of companies, key stakeholders see CXM more narrowly as another term for customer surveys, service/support, or process improvement.

Therefore, it's imperative for CX leaders to clearly define and secure agreement to a CX initiatives' scope and **key outcomes** with sponsoring executives and supporters. As will be discussed in this report, CX benefits must include a payback based on hard numbers that are directly related to these outcomes.

CustomerThink defines a CX initiative as "Winning" if it can quantify benefits or helped the company gain a competitive edge. "Developing" initiatives report signs of improvement but can't quantify benefits, while those in a "Starting" status are not able to report any results yet.

25%

Winning
Quantified benefits
or competitive edge

58%

Developing
Signs of CX
Improvement

17%

Starting
No Results Yet
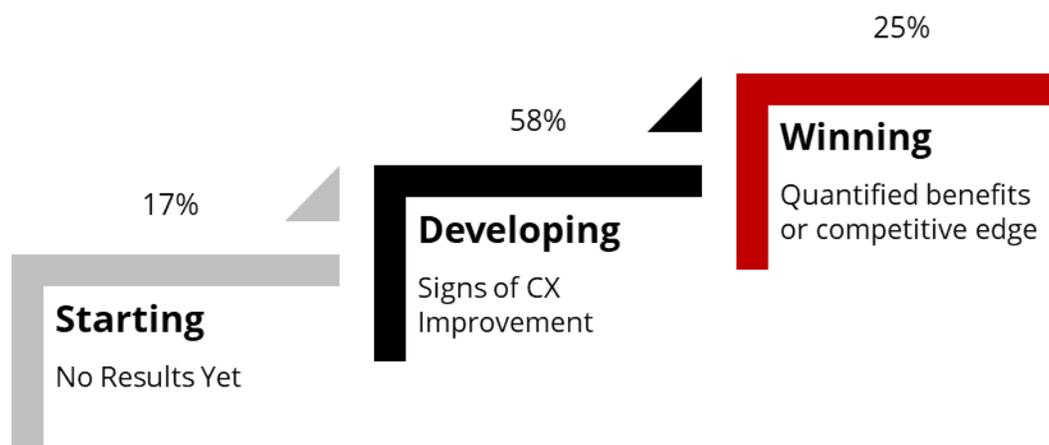
Figure 1 – Status of CX Initiatives

CX professionals involved with Developing initiatives often cite numerous benefits, including increased customer satisfaction, brand building, revenue growth, cost reduction, and more. Unfortunately, beliefs and feelings are not enough to satisfy executives with budget authority. While there is often conceptual agreement that improving CX is the right thing to do, "show me the money" is more likely to be the attitude of senior leaders.

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[1] "Customer Experience at a Crossroads: What Drives CX Success?", CustomerThink research report, January 2019

Customer service/support is an emphasis for about 70% of CX initiatives, but other stages get at least a moderate amount of attention (Figure 2). What's notable is that **Winning CX initiatives have a more consistent focus across the journey**.
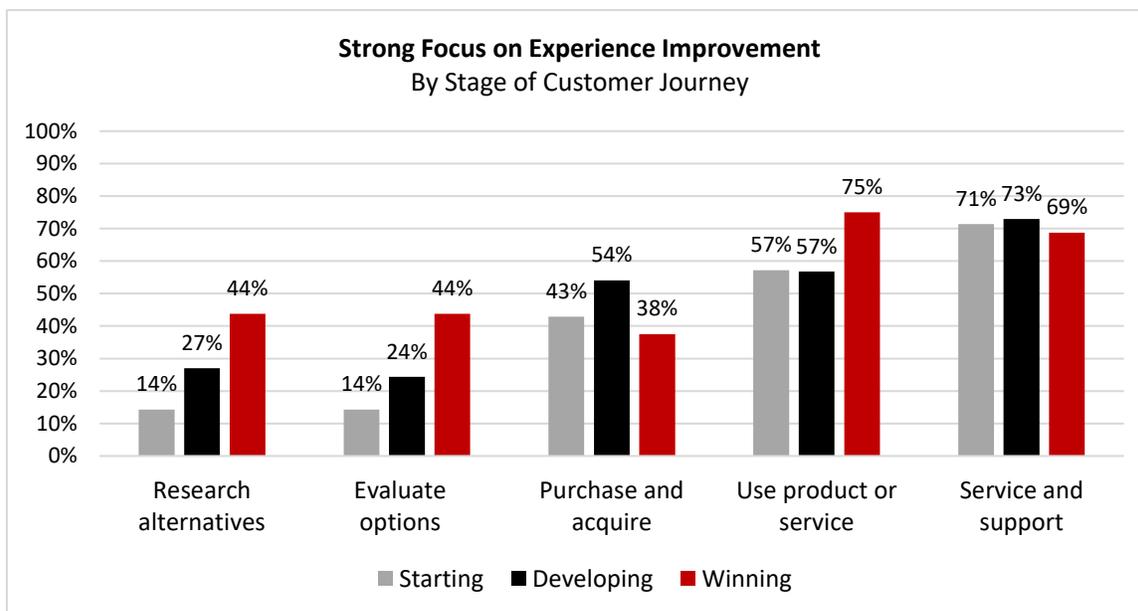
Figure 2 – CX Focus by Stage of Customer Journey

Net Promoter® Score (NPS) and Customer Satisfaction (CSAT) are the two most popular metrics, with Customer Effort Score (CES) and likelihood to buy or recommend also widely used. In this report, **"customer satisfaction" will be used generically to mean the metric(s) used to monitor the health of customer relationships.**

Please note that no one metric, or combination of metrics, has been found to be a success driver by itself. CustomerThink research found five practices that differentiated Winning and Developing CX initiatives. The highlighted fourth practice is the subject of this new research.

Best Practices for CX Success

1. Take an outside-in perspective to understand and act on customer feedback
2. Develop customer journey maps to diagnose and improve experiences
3. Have a commonly understood brand vision and promise that guides CX strategy
4. **Create a business case to connect CX improvements with key business outcomes**
5. Support CX efforts with committed senior executives who are personally engaged

Why shouldn't CXM be considered just a cost of doing business? Elite brands, where CX thinking is deeply integrated into the culture, may not see a strong need for formal justification. For most companies, however, investments in people, technology, and programs will require CX leaders to compete for budget dollars just everyone else. Unfortunately, for Developing initiatives about half are missing the needed metrics, measurement, and ROI skills (vs. just 19% for Winning initiatives). That's a gap this report aims to close!

Learn What "Success" Means to Prospective CX Supporters

Let's start by reframing the "ROI" issue to what it actually is: **Internal Selling**. Creating a spreadsheet showing the potential return on CX investments won't work if the benefits don't relate to critical business issues. Here's an example to illustrate from a CX leader of a large technology firm:[2]

> *My first justification for a CX program was turned down. When I went back to ask "why?" I found that I had not done my homework. One leader said that he didn't want to invest in something that solved a problem he didn't have. I had shown how great customer experience leads to higher customer retention rates. But the company was already experiencing very high retention and was focusing, instead, on how to gain new customers. Clearly, my argument was a good one – but not for that company!*

As will become clear, the "success drivers" – key factors in the success of organization leaders – are often quite different from customer satisfaction and loyalty metrics at the heart of CX thinking. That's a huge problem.

Increasing Customer Satisfaction is the Core CX Idea

There's no real debate about what "success" means in the CX world. Increase customer satisfaction and over time companies will see higher revenue growth because "happier" customers are more likely to remain customers, buy more, and refer others. Forrester claims that increasing a brand's CX Index™ (a measure of CX quality including effectiveness, ease, and emotion) by just one point can equal up to $1 million in incremental revenue.[3]

The CX formula: **Improve Customer Experiences > Increase Customer Satisfaction > Grow Revenue**

Customer satisfaction (again, using the term generically) is reflected in virtually all CX definitions, including this one from Gartner[4]:

> *"Customer experience management (CEM) is the practice of designing and reacting to customer interactions to meet or exceed their expectations, leading to greater customer satisfaction, loyalty and advocacy.*

Now, just to be clear about what these terms mean:

- **Customer experiences** are how customer perceive their interactions with a company (buying, usage, service, … anything). Perceptions are typically captured via surveys, although other techniques exist.
- **Customer satisfaction** is a measure of how well customer expectations were met. Did the experience meet, exceed, or fall short of what the customer expected?
- **Loyalty** refers to both retention (continuing a customer relationship) and advocacy (having a positive feeling about a brand), which may lead to referral behavior.

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[2] https://customerthink.com/7-global-cx-experts-reveal-how-to-prove-the-business-value-of-customer-experience/
[3] https://go.forrester.com/customer-experience/
[4] https://www.gartner.com/en/information-technology/glossary/customer-experience-management-cem

Satisfaction and loyalty tend to rise and fall together, but not always. It's possible to have highly satisfied customers who don't buy again due to change in circumstances. Or, customers may be unhappy but appear to be loyal (retained) because they have limited choices or are trapped in a long-term contract.

Success Factors Drive Behavior

In recent years, numerous studies have confirmed that CX is an important strategy to compete and differentiate. Research by CustomerThink, Gartner, Forrester, and other firms find that CX leaders outperform laggards. This has fueled interest in becoming one of those leaders.

With the vast majority of senior leaders claiming CX is a key strategy, one might expect that Key Performance Indicators (KPIs) would align. It's true that customer-related metrics (e.g. CSAT, NPS, CES, and more) are widely collected and monitored by business managers. But that's not enough to be a KPI (emphasis added):[5]

> *"Key Performance Indicators (KPIs) are the critical (key) indicators of progress toward an intended result. KPIs provide a focus for **strategic and operational improvement**, create an analytical basis for decision making and help **focus attention on what matters most**."*

CX proponents believe CSAT, NPS or some other measure of experience quality are KPIs. This study, like many other surveys in recent years, finds enthusiastic support for CX initiatives. About eight in ten of the respondents (predominantly senior managers and CX professionals) report that improving customer experience is very important to their success, and a similar percentage agree that customer satisfaction is extremely important in measuring performance.

However, three dozen interviews with managers and experts in marketing, sales, and customer service positions revealed a different reality. For them, operational metrics play a *much* greater role in success.

Here's a summary chart summarizing **primary** success drivers across the organization. CEOs strive to drive profitable growth through the combined activities of marketing and sales (revenue), and customer service (cost and efficiency). CX stands alone with its singular focus on customer satisfaction.

Primary Success Driver	CEO	Marketing	Sales	Service	CX
Revenue	★	★	★		
Cost	★			★	
Efficiency				★	
Customer Satisfaction					★

Figure 3 – Primary Success Drivers by Function

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[5] https://kpi.org/KPI-Basics1

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CustomerThink's survey found good alignment between Senior Management and Customer Experience roles, in terms of the objectives considered "very important" to their success. For both roles, "improving customer experience" was No. 1. Similar priorities were found in customer retention, employee engagement, efficiency, and cost reduction.

Objectives "Very Important" to Success

Objective	Senior Management	Customer Experience
Improving Customer Experience	75%	91%
Retaining Existing Customers	66%	66%
Increasing Sales/Revenue	58%	45%
Acquiring New Customers	57%	38%
Improving Employee Engagement	55%	53%
Growing Existing Customer Revenue	54%	43%
Operating More Efficiently	46%	47%
Reducing Risk of Non-Compliance	31%	19%
Decreasing Costs and Expenses	28%	21%

Figure 4 – Objectives Important to Success

Some statistically significant gaps can be found in a few areas, however.

- CX professionals naturally rank "improving customer experience" very highly at 91%, compared to a still leading 75% for senior managers.
- Growth-related objectives received less weight by CX professionals: increasing sales, acquiring new customers, and growing existing customer revenue.
- Senior managers were more concerned about reducing compliance risks.

The overall picture appears encouraging; senior managers support CX, and there is good alignment on several other business priorities. All good, right?

Not quite. **Appearances (and surveys) can be deceiving.**

First, consider the biases implicit in any survey like this. The survey sample in this case was drawn from CustomerThink.com community members. They become involved due to an interest in CX and customer-centricity, hence they are not representative of all businesses.

Also, CustomerThink believes that professing the importance of CX is an example of "social desirability bias" – the tendency of research subjects to give answers they think are more acceptable to makes them feel good about themselves, rather than revealing their true feelings or thoughts.[6] Put bluntly, **it's become trendy to say customer experience is a top priority.** That's "lip service" when it's not backed up with action.

CX Goals Are Not Cascading

To overcome these biases, CustomerThink used qualitative interviews to better understand job responsibilities, success factors, and how investment decisions are made within companies. They suggest a serious disconnect between top management rhetoric and how most companies operate.

When top management sets goals and creates strategies, these must be translated or "cascaded" down the organization, to ensure alignment between the declared strategy and employee activities. According to performance management expert John Courtney[7]

> *Cascading goals are goals that are translated from one level of the organization to the next. The point of a cascading goal is to get everyone from top to bottom completely aligned with the big picture organizational goal, and to make 100% sure they know exactly what to do by breaking that strategy down into clear tasks and deliverables that can be easily communicated and tracked.*

For example, to achieve profitable revenue growth objectives set by the CEO:

- Marketing is commissioned to promote the brand, stimulate demand, and drive prospect engagement;
- Revenue goals are translated into quotas for the Sales organization; and
- Costs are managed by driving efficiencies in Customer Service and other operations.

If "improving customer experience" is a key top management objective, we should see this reflected in operating units. Customer satisfaction – the heart of CX measurement – would be turned into a KPI for key stakeholders of the customer journey; namely marketing, sales, and customer service. At the very least, managers in these functional areas would see a connection between CX excellence and the objectives they are asked to achieve.

Interviews with experts and business leaders in marketing, sales, and customer service found a different reality, where **the quality of customer experiences carries little weight**. Customer satisfaction may be listed as a "key" metric but doesn't drive strategy or impact the success or failure of operational leaders.

Summing up, yes there is interest in improving customer experiences, especially at senior management levels. Most everyone will agree that's a good and right thing to do. That doesn't mean executives will invest money to make it happen.

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[6] http://psychology.iresearchnet.com/social-psychology/personality/social-desirability-bias/
[7] https://blog.performyard.com/what-are-cascading-goals-and-how-to-use-them

Develop an ROI Strategy to Link CX to Business Success

One popular method of CX justification is to compare the value of customers at different levels of customer satisfaction. Michael Hinshaw, the founder of McorpCX, advocates this basic approach for CX professionals:[8]

1. Get an average "CX score" for the top (most value) and bottom (least value) customer segments.
   The CX score is based on the satisfaction/loyalty metrics being used (CX, NPS, etc.)
   Value can be based on revenue, profit, lifetime value, etc.
2. Calculate the differences between the top and bottom 20%, and divide the difference in average value by the difference in average CX score to find out the value of better CX.

Example:

Bottom 20%: Average CSAT of 46 and value of $120
Top 20%: Average CSAT of 72 and value of $260.

Difference: 26 Points on CSAT, and $140 in value (140 / 26 = 5.38)

Conclusion: 1-point CSAT increase drives $5.38 more value per customer, a 4.5% revenue boost.

Most sophisticated models can be used, but the core idea remains the same: customer value increases with customer satisfaction. Simple.

Except, in years of research, CustomerThink has found very few examples of companies able to quantify the value of an increase in NPS or other metrics. It's an interesting exercise, and can certainly be used to stimulate interest in doing *something*. This is not sufficient to gain funding.

Customer satisfaction is the result of myriad interactions throughout a customer journey and over time. One key question must be answered: **Which interactions, if improved, would cause a material increase in customer satisfaction and drive key business outcomes?** This can be determined through a "key driver" analysis to determine which factors have the most impact on customer loyalty.[9] Then a more compelling proposal could be developed for senior leaders for specific CX changes found to drive business value.

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[8] https://customerthink.com/7-global-cx-experts-reveal-how-to-prove-the-business-value-of-customer-experience/
[9] https://analyticsweek.com/content/simplifying-loyalty-driver-analysis/

Selling to the Internal CX Buying Team

There's another more fundamental problem with this approach. It's a "product pitch." The CX initiative is in effect a solution to be sold. "Here are the CX features and benefits, please buy it!"

Experts in complex B2B selling recommend a more consultative approach that starts with uncovering what executives care about.

Generally speaking, top managers want to grow revenue profitably, but every business is different. A fast-growing tech startup might value new customers and revenue growth and care little about costs, for now. A mature company is a stagnant industry might want to optimize costs while exploring new market opportunities. Subscription-based companies will probably be concerned about retention.

CX professionals need to spend time researching the company's stated business strategy and interview key executives to learn the top priorities and identify areas where CX might help. If such access is not available, then the CX program will be "stuck" with justification at the operational level where the CX paradigm is much harder to sell.

Industry experts say the ideal CX sponsor is a senior leader with clout. For a mid-sized company, it could be a CEO. For large enterprises, perhaps a Chief Operating Officer or Chief Marketing Officer. They need to have a higher-level view of customer value that transcends functional silos, with the power to make investments and lead change.

The Wordlynx Wireless case is a prime example of a CEO-driven CX initiative (box)[10]. The business case was developed based on churn reduction, a critical KPI for wireless providers.

If a COO is a prospective sponsor, the CEO's buy-in and support from the CFO are also essential. The CEO for setting the tone for the company, and CFO to sign off on the numbers. If technology plays a critical role (e.g. digital transformation) then the CIO will have influence, too.

> **Worldlynx Wireless Drives Growth with Improved Buying Experience**
>
> Worldlynx Wireless was formed in 2009 to acquire 10 Bell Mobility independent wireless dealers across Canada. The new firm initially operated via 53 independent retail locations and an SMB-focused sales force.
>
> Each dealer had its own culture and operating practices. More troubling, however, was a lack of differentiation, according to then-CEO Matt De Iuliis. Bell controlled the product and pricing, leaving dealers to decide how else to win business. In 2014, De Iuliis made a big bet to differentiate on the in-store experience. This strategy was based on his prior experience at Virgin Mobile where he learned the Richard Branson ethos of a customer-centric culture driven by engaged employees.
>
> That's a great philosophy, but the business case for making this transformation was not based on happy customers or employees. Rather, the rationale to the board was about reducing churn, a key metric for the wireless industry. Ultimately, De Iuliis says the required investments (training, coaches, technology) were 30-35% of returns gained after cutting Wordlynx churn from 1.2% per month to .83% per month.
>
> What about customer satisfaction? Sure, surveys were helpful to find common customer issues that needed attention. And yes, they ultimately did confirm that customer satisfaction was inversely related to churn. But the core business case to get approval for CX investments was based on churn reduction; something the board could easily understand was directly connected to better financial performance.
>
> Source: https://customerthink.com/cx-roi-making-the-case-to-improve-the-buying-experience/

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[10] https://customerthink.com/cx-roi-making-the-case-to-improve-the-buying-experience/

But wait, there's more! Later on, executives from purchasing and H/R may get engaged and, if not happy, derail a CX program. Functional managers, if their jobs are affected, will have a voice too. Even if, say, the VP of Customer Service is not directly funding the CX initiative, the support of customer service reps may be needed to ensure success.

Getting CX funding is not a "one-call close." A coordinated effort is required to support the business goals of the lead sponsor while getting other influencers on board. B2B researchers find that it's typical for six or more people to be involved in a buying team.[11] That's likely what CX professionals will find when selling internally.

Success Drivers of Operational Executives

If the CX initiative is to be sold at the operational level of companies, the ROI strategy must reflect the business priorities of those executives. Let's take a walk along the customer journey and review what "success" looks like to organizations responsible for buying and service experiences.

Marketing: Prospect Engagement

Marketers want to stimulate engagement with prospective customers. Though quick to claim CX is part of the company strategy to differentiate, marketers are still mostly driven to attain operational goals. According to Harley Manning, VP of Customer Experience at Forrester:[12]

> *Marketers seem to be largely disconnected from the power of CX to positively impact customer acquisition, retention, and cross-sell even though they will say that they are quite dialed into CX.*

Before engaging with the marketers, CX professionals should answer this question first: Does your organization have "upstream" or "downstream" marketers?

Laura Patterson, founder of VisionEdge Marketing and author of *Fast-Track Your Business: A Customer-Centric Approach to Accelerate Market Growth,* believes marketers should work strategically to use customer and market insights to target customer segments. However, the majority of marketers are in a more tactical or "downstream" role to simply execute against marketing goals given by top management. Such goals are aligned with the core job of marketers: **driving prospect engagement** measured by traffic, clicks, leads, etc.

But some marketers operate in a more "upstream" leadership role, driving the customer acquisition strategy According to Patterson, upstream marketers are deciding "these are the customers we should keep and how (service, product, channels) and these are the companies we should go after." These are better CX prospects.

If a CX initiative is to be sold at the operational level of companies, the ROI strategy must reflect the business priorities of those executives.

All marketers want to see (and get credit for) an impact on revenue. For example, one retailer uses a mobile app to present offers based on consumer interests. Some want deals, others are responsive to cross-sells. The goal is to increase customer engagement that leads to more loyalty (repeat buying) and revenue. The marketing leader at the company selling that technology has the same goal. In a B2B role, however, the key success factor is

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[11] https://hbr.org/2017/03/the-new-sales-imperative
[12] https://customerthink.com/cx-roi-making-the-case-to-improve-the-buying-experience/

creating a demand and a pipeline (leads) for sales, as measured by Marketing Qualified Leads (MQL), a metric reflecting prospects more likely to become customers. In neither case is customer satisfaction a driving factor in the success of marketers, nor is "improving the buying experience" enough to justify spending.

To be sure, some marketing organizations are thinking more strategically. Matt Heinz, founder of B2B sales and marketing firm Heinz Marketing says the highest-performing teams use a combined revenue team of marketing, sales, and often customer success to focus on "winning together." Unfortunately, that's less than 20% of B2B marketers.

Sales: Revenue Productivity

The core job of sales professionals is to **close orders and meet revenue goals**. While customer satisfaction is understood to be a factor in the continued success of top-performing sales professionals, especially in key accounts, that's not what directly drives their success.

Put another way: No sales professional will be lauded for high NPS scores unless customers are also buying!

When selling internally to the sales organization, consider the approach of external suppliers (tech vendors, consultants, trainers). A strategy that has gained strength in the past decade is "sales enablement" – the information, training, and tools that help salespeople engage with their customers more effectively. One tech firm provides sales training and coaching integrated with content management to "deliver the best buyer experience." However, solutions are justified based on a productivity argument: helping sales reps use content more effectively to scale sales training and onboarding.

> **No sales professional will be lauded for high NPS scores unless customers are also buying!**

Customer satisfaction has little or no role in formal sales methodologies. Target Account Selling, a popular methodology initially developed about 20 years ago, is now available via a software application. The goal: "unlocking revenue growth by providing a better customer experience." Justification is not based on CX, but rather on increasing "sales velocity" in key accounts. Sales teams can improve revenue productivity by pulling one or more of the following "levers" (which don't include CX or CSAT):

- Active Opportunities
- Average Deal Size
- Win Rate Percentage
- Average Sales Cycle

None of this is surprising. Sales organizations are typically measured on quota attainment and revenue closed.

That doesn't mean CX is irrelevant to all sales organizations. Top-performing ("Level 3") sales organizations are more likely to embrace customer experience due to a customer-centric culture and a good alignment between the sales process and customer's buying path.[13] Still, 71% of sales organizations are *not* at Level 3 and thus are focused more inwardly on selling processes and productivity metrics.

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[13] "Selling in the Age of Ceaseless Change: The 2018-2019 Sales Performance Report" by CSO Insights

Customer Service: Efficient Case Management

The next stop on the customer journey is at the Customer Service department, charged with handling customer requests for information, complaints, product service requests, etc. Good customer service can have an important role in building loyalty, and it's widely understood that bad customer service is a leading cause of defection.[14] So far, so good.

This study found that customer satisfaction has a higher priority with customer service than with marketing and sales, and thus is better aligned with the CX paradigm. Unfortunately, experts say there's still a sizable gap between the priority proclaimed by senior leaders and the metrics driving most service organizations.[15]

Contact center consultant Bill Price of Driva Solutions says that while executives say they value customer satisfaction and efficiency about equally, those closer to the front lines give efficiency metrics like Average Speed of Answer and Average Handle Time about 80% of the priority.

Customer service trainer Steve DiGioia agrees. He laments that the hotel industry has become focused on efficiency, with management upping the workload to the point there is little time for personal service. A BPO manager with years of outsourcing experience likewise confirmed that top management likes efficiency measures – until a customer situation blows up. Then resources are devoted to preventing client defection.

> **While CX may be a good way to engage with executives, efficiency and cost savings often come to the forefront when it comes time to make a business case to service executives.**

Given the foregoing, it's unsurprising how external vendors tend to justify their solutions: Efficiency!

- A vendor of support software states that its solution "helps you build satisfaction and loyalty." However, the firm's ROI calculator displays only cost/efficiency benefits, such as fewer tickets, reduction in support hours, and costs savings. The CEO said that some customers do value increasing loyalty, but "it's very difficult to assess the revenue impact."
- Speech analytics can be used to find common issues in call center recordings and other unstructured content. Fixing these issues can improve customer satisfaction and reduce the need for customers to call for help. According to one prominent vendor, however, business cases are often built based on compliance (risk of fines for not meeting regulations) or optimization (improving resource efficiency).
- One chat solution provider says its solution can be used for "upgrading the customer experience." It's true that customers increasingly prefer chat or other digital channels for real-time help. But the firm's ROI calculator is based on savings due to call deflection, not CX-based loyalty and growth.

Conclusion: While CX may be a good way to engage with executives, efficiency and cost savings often come to the forefront when it comes time to make a business case to service executives.

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[14] https://www.zendesk.com/blog/customer-service-and-lifetime-customer-value/
[15] https://customerthink.com/cx-roi-how-to-justify-improving-the-customer-service-experience/

Customer Success: Retention

Customer service/support, which is often the most closely associated with CX, does not have a revenue mission. That's a problem when the goal of CX is to… grow revenue! The emerging Customer Success job can provide a partner for CX to join the revenue team.

To meet revenue goals, companies are investing in an array of marketing technology and sales enablement solutions to optimize revenue productivity, sometimes under the banner of "Revenue Operations."[16] In recent years, they are also launching specialized Customer Success Management (CSM) teams in B2B technology and other industries where subscription-based solutions are becoming more common.[17]

CSM expert Rick Adams, the founder of PracticalCSM.com, sees Customer Success as "responsible for the retention and advocacy stages of the customer journey," including:[18]

- Onboarding to get a new customer acquainted with a purchased solution
- Adoption to ensure end users are trained and supported to use the solution
- Value Realization to help customer asset the value being generated by the solution

The business case Customer Success is simple: If customers don't use and get value ("success") from a solution, they will cancel! Software-as-a-Service (SaaS) vendors realized that churn reduction was critical because it could take one to two years to recoup customer acquisition costs. In addition to improved retention rates, benefits can include expanded relationships (cross-sell and upsell), product improvements, and help with outreach to other prospects.

This trend will continue to gather strength in B2B especially because achieving goals is a more powerful loyalty driver than easy interactions. A recent B2B CX survey found that, while customer service is a key differentiator, the solution (product or service) remains the most important loyalty driver.[19] CSM is aimed at protecting that source of value.

> **Find out which metrics are used to judge management performance – driving bonuses, promotions, etc. – because this reveals the true strategies of the organization.**

This is a golden opportunity for CX leaders to partner with Customer Success and become part of the revenue team which, truth be told, is a much higher priority in most companies than customer service.

Summing up, CX pros must research the "success metrics" that drive internal behavior. Find out which metrics are used to judge management performance – driving bonuses, promotions, etc. – because this **reveals the true strategies** of the organization. The approach to CX ROI must align with those strategies.

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[16] https://customerthink.com/can-revenue-operations-revops-finally-get-b2b-sales-and-marketing-to-embrace-customer-experience/
[17] https://customerthink.com/customer-success-a-unifying-mission-for-crm-and-cxm/
[18] https://customerthink.com/how-customer-success-relates-to-customer-experience-6-takeaways-for-senior-leaders/
[19] https://www.getfeedback.com/b2b-customer-experience-2020/

Prove CX Value with Cost/Benefit Analysis and Intangibles

With a clear understanding of success drivers, and a defined strategy to link CX improvements to the forms of business value that prospective supporters care about, creating a compelling business case is the final step. Believe it or not, this is the easy part. With the proper homework and relationships, the business case is a summary of what everyone has already agreed to.

What should be in the business case? CustomerThink members were asked that question in an online survey and strongly endorsed what CX experts also say: **hard numbers are key**. A "cost/benefit analysis showing a positive ROI" was the top-ranked choice of nearly 200 respondents, with 56% rating this factor as "extremely important" in getting approval. The impact on department KPIs was third with a 47% rating.
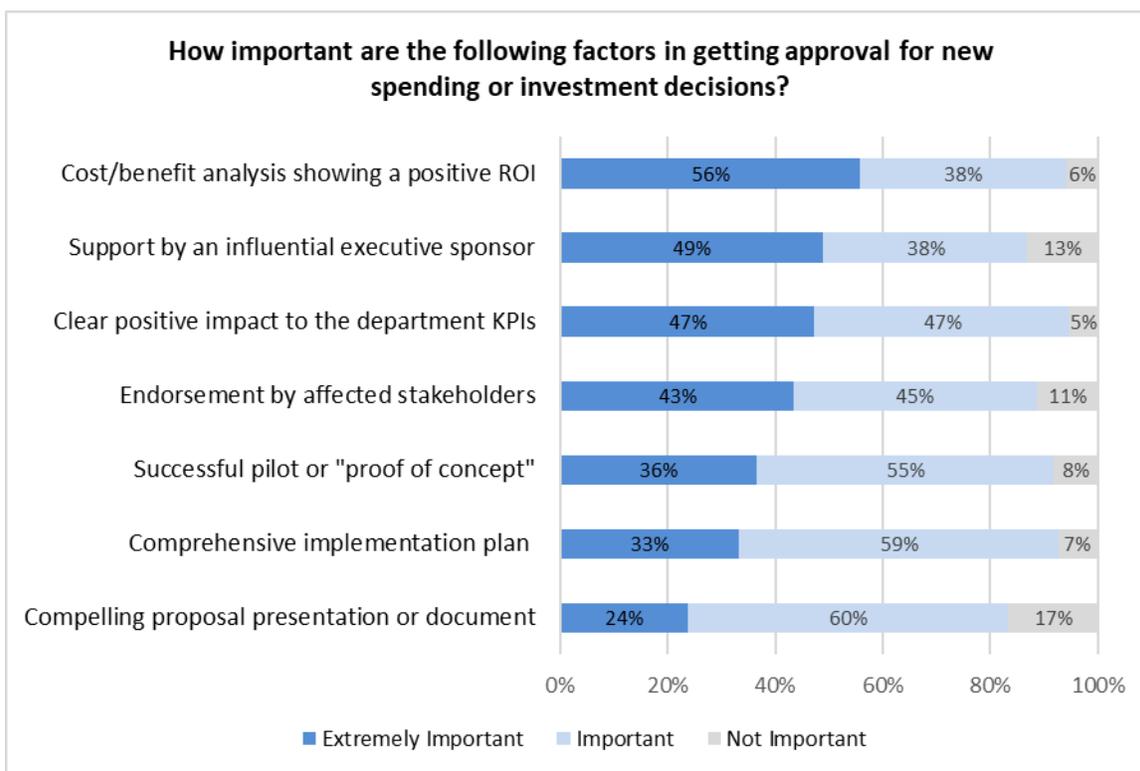

Figure 5 – Factors in Spending Decisions

Sure, numbers are the most important. But executives can be influenced by other factors (see intangibles discussion, below) and want to know that those involved in executing the initiative will back it enthusiastically. Relationships also received high ratings, including support by the executive sponsor (49%) and endorsement by affected stakeholders (43%).

For complex undertakings, risk must also be considered. How will the CX leader increase the odds that the proposed plan will be delivered on time, on budget? A successful pilot or "proof of concept" can show that the CX program, when fully implemented, is likely to deliver the expected results. Worldlynx Wireless used one pilot store to prove that improved CX cut churn, and to finetune rollout plans to all stores. Once again, CX pros should review other winning internal proposals and see whether these elements are expected.

Finally, of the seven factors survey takers were asked to consider, a "compelling proposal presentation or document" was last on the list with 24% of respondents giving "extremely important" ratings. Still, another 60% rated this factor as "important," so nearly two-thirds see value in how the business case is packaged.

Methods of ROI Calculation

Thus far, this report has used the term "ROI" generically to mean showing how the benefits of CX improvements compare to the necessary investments. Here's a brief review of common techniques.

One popular method express ROI as a percentage of net benefits to investments.

ROI = (Benefits – Investments) / Investments x 100

A 300% ROI, for instance, means that the net benefits are three times the investments (capital and operating expenses). Spend $100, get $400 back, and that's a $300 net benefit or three times the total invested.

What's missing from this ROI calculation is the *time* required to get the benefits. Say two potential projects have the same 300% ROI, but one could deliver the benefits in one year while the other takes three years. Absent other factors, the first initiative will be more attractive to executives.

Simple Payback is another way to relate benefits to spending. It answers the question: How long will it take to recoup the initial investment?

Payback Period = Amount Invested / Estimated Annual Net Cash Flow

Payback periods are often expressed in years. Let's say $200 is invested and the net benefits are $100 per year. The payback period is two years. In technology investments, it's common to see vendors pitching payback periods expressed in months, to highlight the speed of getting the initial investment back.

Neither of these methods takes into account the time value of money. Costs and returns are worth less and less the further in the future they occur. To address that issue, Net Present Value (NPV) represents the amount by which the expected cash flows of an investment exceeds the initial amount invested, using cash flows *discounted by an interest rate.* Put another way, NPV is today's value of expected cash flows minus today's value of investments over time.

NPV = Sum of (Net cashflow in each period t) / (1 + discount rate)^t

The "discount rate" is used to devalue future cash flows. Let's say the discount rate is 15%. After one year, the net cash flow would be divided by 1.15. After two years, the divisor becomes 1.32 (1.15 x 1.15). One year later, the divisor is 1.52 (1.15 x 1.15 x 1.15). Add up the cash flows, and a positive NPV means the stream of benefits exceeds the stream of investments.

NPV requires a monthly or annual allocation of investments and benefits. It can help executives screen out projects that are heavy on front-end investments with returns that are too far in the future.

Internal Rate of Return (IRR) is another way to factor the value of cash flows over time. Essentially, this involves setting NPV to zero then solving (using Excel or another tool) for the discount rate. Sometimes companies will establish a minimum IRR as a "hurdle rate" for investment decisions.

Which method is best? When costs and benefits are incurred in a year or two, ROI or Payback may suffice. For complex projects with costs and benefits occurring over several years, NPV provides a more accurate picture.

That said, the **best ROI method is one that is accepted and used internally for similar programs**. This should be uncovered during prior research with prospective sponsors. Get examples of other approved/funded projects and use a similar approach, rather than "pioneering" a new justification methodology.

Potential CX Returns and Investments

Regardless of the ROI method used, the business case will need to include a detailed accounting of potential benefits and expected investments or costs.

Benefits

Broadly speaking, benefits could include increased revenue, cost reductions or avoidance, and risk reduction (which generally reduces costs, management time, or bad publicity.) What's included depends directly on the type of CX program envisioned. Here are a few examples from CX experts to illustrate.[20]

Revenue could come from capturing a larger share of the customer's budget, says Strativity founder Lior Arussy:

> *During our work with a consumer products manufacturer who works through channels, we identified that their current customer experience is affecting their ability to capture a larger portion of the customer budget. When we demonstrated that they on average leave $2000 per customer on the table and capture on average only $199 per customer, they realized it is time to redesign the experience.*

Dave Fish, consumer researcher and founder of CuriosityCX, finds process improvements can increase both customer satisfaction and revenue:

> *For example, having employees take orders while in drive-through lines 1) gets people through faster, making for happier customers and 2) increases throughput through the drive-through increasing revenue. There are little tweaks like this everywhere which can improve the customer experience and by doing so make more money.*

Similarly, CX journey mapping expert Jim Tincher found better customer service can boost margins while also cutting costs:

> *Heart of the Customer mapped a journey for a manufacturer and found that customers who were happier with the way complaints were handled were more likely to purchase higher-margin products. So, reducing friction in the complaint process led to higher revenue – as well as cost reductions from decreased call volume.*

Revenue is often the "big whale" of major CX transformations, where executives strive to drive higher levels of customer loyalty and spending. Naturally, these are riskier endeavors and probably not the place to start for fledgling CX leaders.

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[20] https://customerthink.com/7-global-cx-experts-reveal-how-to-prove-the-business-value-of-customer-experience/

Fixing problems is the quickest way to improve customer satisfaction *and* reduce costs, providing a quick-win that can keep the funding flowing. According to Harley Manning of Forrester:

> *Vanguard uncovered a back-end problem that caused some digital transfers from other institutions to fail and get "kicked to paper" (the recipient got a letter in the US Mail and had to call Vanguard to complete the transfer process). Vanguard fixed the problem, which made customers happy and eliminated their need to call Vanguard (a call that the customer didn't want to make in the first place).*

Indeed, in many CX case studies reviewed for this research, cost reductions had an outsized role in ROI calculations. CX leaders only exploring revenue growth are missing a huge opportunity. According to Manning, companies able to significantly increase their CX scores all focused on business process improvements that had the dual benefits of improved customer satisfaction and decreased costs.

Still, executives with a vision for a differentiated customer experience – not just one that is just "fixed" – will need to make significant investments to change customer behavior. Revenue increases will likely take longer to realize and have more uncertainty. That's why **CX justifications should include multiple scenarios** from low (conservative) to high (aggressive) to give sponsors an idea of the range of possible outcomes.

Another key factor is the source of CX support within the company. As discussed earlier, senior managers may be more receptive to a loyalty-based business case. But operational executives are much less likely to sign off on revenue increases based on customer satisfaction increases alone. Instead, the business case should be tied to the KPIs of the department. For example:

- For marketing, show how better personalization improved prospect response rates or lead generation
- For sales, show how an improved buying experience reduces sales cycle time or increases close rates
- For customer service, show how customers can help themselves, saving them time and the company money

Costs

The spending needed to get the benefits is of course the other side of the ROI equation. Such investments are much easier to estimate. CX programs often include a Voice of Customer component to collect and analyze customer feedback and possibly operational or behavioral data. CX consultants and journey mapping experts can help identify key issues and develop plans.

For operational changes such as a shift to digital interactions, technology investments, implementation, and training are likely costs. Professional services firms may need to be contracted to help prototyping, user testing, integration, etc. if these skills are lacking within the organization.

Don't forget to include the value of management and employee time spent in training programs required to prepare them to deliver a new/improved experience.

Intangibles, Because Executives Value More Than Numbers

This report has stressed the need for formal justifications based on hard numbers. And rightly so, because it's a shaky foundation for the CX industry that so few initiatives can justify their existence.

But it's also a mistake to make the business case *only* about ROI. Executives make all kinds of decisions based on judgment and feeling, not just the numbers. The more strategic the investment, the greater the risk and

likelihood that other factors will play a role in a decision. It's also worth noting that decision-making is not as logical as it may seem. In B2B selling, it's well known that buyers will decide emotionally and then justify with logic.[21] CX leaders need to provide both.

So-called "intangible" benefits can be just as real as ROI. They just can't be assigned numbers, yet.

Start with how the initiative supports the stated business strategy of the company. Even if numbers are hard to prove, a business case should explain how the CX initiative supports strategies to differentiate, increase margins, improve employee morale, etc.

Another important source of intangible benefits should be the managers and employees affected by the CX program. With the right homework, they can be advocates and influence executive decisions. Creative CX leaders can show how they help operational managers meet their goals.

Marketers are motivated to increase brand awareness, prospect engagement, and referrals. Give them additional insights to help! Voice of Customer data is a treasure trove of insights that can help marketers understand why customers buy, or why they stop. Invite the "promoters" identified in NPS surveys to provide case studies to help bring in more customers like them.

In B2B sales, sometimes sales productivity is slowed down by issues outside their control. Even if CX does not directly impact their selling process, productivity could be boosted by fixing obstacles like overly complex contracts, product defects, or unresponsive customer service. Or, customer feedback can provide clues about the kind of buying experiences more likely to lead to deals or shopping carts.

Bank of America Turnaround Hinges on Improved CX

Bank of America has trailed in customer satisfaction ratings (ACSI) for 25 years. Even if the focus is restricted to the past 10 years, the bank's ratings were markedly below other large US banks from 2011 to 2015. But after that, ratings improved substantially.

What happened? According to Holly O'Neill, BofA Chief Client Care Executive: "Between 2013 and 2015, Bank of America pivoted from a product and fee-driven approach to a more relationship-driven approach that focused on the expertise of our people and our innovative technology."

This "pivot" was accomplished with a massive technology investment to improve digital experiences, which saved money compared to human-based support. Then BofA invested the savings in upgrading "expert advice" for customers having more complex requirements. In 2016 they launched a training Academy for frontline associates. The bank also implemented a new client survey "Voices" program which makes it easier for customers to provide input and for frontline teams to take action.

Chairman and CEO Brain Moynihan called this a "high-touch, high-tech" approach in BofA's 2017 Annual Report: "[W]e are following customer behavior to combine improvements in our 4,500 financial centers and new digital capabilities to enhance the overall customer experience however customers choose to engage with us."

In early 2019, J.D. Power rated BofA ranked highest in customer satisfaction with retail banking advice.

Source: https://customerthink.com/cx-roi-making-the-case-to-improve-the-buying-experience/

Customer service/support organizations can sometimes be a dumping ground for problems they didn't create. Be a partner in helping them. For example, CX leaders could help the VP of customer service put a cost on poor policies or products that drive call volume and costs.

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[21] https://customerthink.com/neuroscience-confirms-we-buy-on-emotion-justify-with-logic-yet-we-sell-to-mr-rational-ignore-mr-intuitive/

CX Leaders, the Next Step is Up to You!

I wrote this report for CX leaders who are passionate about customers but struggling to get internal support for CX investments. The advice I've shared is distilled from dozens of interviews of CX experts and practitioners worldwide, along with surveys completed by members of the CustomerThink online community.

Yes, CX *can* have a role in a company's success, on the top and bottom line. Talk to your executives and colleagues and I'm sure you'll find that most everyone agrees it's a good idea to improve the customer experience. But unless a CX initiative creates internal winners, their support will just be lip service.

To recap the key findings:

- Don't assume that because managers say CX is an important strategy that they will fund CX initiatives based solely on improvements in customer satisfaction. Most won't, especially at the operations level.
- Not every stated KPI is truly a driver of organizational success. Dig to learn the goals and metrics that matter most to your potential sponsors and stakeholders.
- The CX paradigm is all about growth driven by increases in customer satisfaction. But cost and efficiency benefits are easier to prove, especially in the short term.

Most important, **treat ROI as an essential element of any CX initiative**, regardless of whether sponsors require "hard numbers." Even if ROI is not needed now, it will be later. The key steps to proving CX value are:

1. **Get to know your prospective sponsors and stakeholders**. Spend time observing, or if possible, *doing* their jobs. Don't preach CX, listen and learn what drives their success. This process should stimulate ideas where CX can add value and reveal potential sources of benefits.
2. **Identify your best prospects for CX sponsorship, and tailor an ROI strategy to them**. Senior management may receptive to linking customer satisfaction to revenue, but marketing, sales, and customer service managers will want to see how *their* key metrics will improve.
3. **Estimate CX benefits and costs, and present them in a format already used internally.** External proposals can provide clues about what benefits appeal to executives. Be sure to include intangible benefits and reduce perceived risk with endorsements, pilot projects, and implementation plans.

Take advantage of the help available in the CX industry, including the Customer Experience Professionals Association which offers training and certification in "Metrics, Measurement and ROI" as one of six key skills. Independent CX consultants and analysts can help enormously, as can CX technology vendors with their years of experience justifying solutions. CustomerThink.com is a free online resource where many of the world's top CX experts share their insights for success. Reach out to our authors, connect with them, and learn from their years of experience.

Still, no class or training program will create relationships within your company. That's your job. Don't stop evangelizing CX, but balance it with listening and creating value for your business. That's the fuel that will propel your CX efforts for years to come. Good luck!

Bob Thompson
CustomerThink Founder and CEO

Appendix

Research Methodology and Limitations

Qualitative research was conducted via phone and email from March to May, 2020. Quantitative data for this research was collected in May and June, 2020, with 194 survey responses received from the 40,000 registered members of the CustomerThink.com online community.

While CustomerThink.com is a large and diverse worldwide community, members join because of their interest in customer-centric business strategy. Hence, findings may not be representative of the general business market. CustomerThink believes these findings are most applicable to developed regions of the world.

Demographics

Survey responses came mainly from senior management (35%) and CX roles (25%), with the balance distributed among marketing, sales, customer service, customer success, and IT. Respondents came a roughly even mix of small, medium, and large businesses; 75% of which were located in North America or EMEA. Respondents represented a mix of B2B and B2C enterprises, with about six out of 10 employed by firms in financial services, telecom, technology, retail, healthcare, and manufacturing.

About the Author

Bob Thompson is an international authority on customer-centric business management. He is the founder and CEO of CustomerThink Corporation, an independent research and publishing firm, and founder and editor-in-chief of CustomerThink.com, the world's largest online community dedicated to customer-centric business strategy.

An author, keynote speaker, and global expert on business management trends, Thompson has been a thought leader in customer-centricity since 1998, highlighted with his 2014 book *Hooked On Customers: The Five Habits of Legendary Customer-Centric Companies.* Thompson is also the author of numerous CX research reports including "Customer Experience at a Crossroads: What Drives CX Success?". He earned a B.S in Mathematics and an MBA at the University of California, Irvine.

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