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CXM ROI

BUSINESS CASE

WHITE PAPER

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EXECUTIVE SUMMARY

Customer Experience Management (CXM) is a set of business processes and practices that can be used to deliver clearly positive benefits to revenue, for businesses that adopt it as an enterprise wide ethic

CXM is a wide reaching discipline, one that takes a firm commitment of resources, across multiple departments, to ensure the highest possibility of success. Furthermore, CXM will require firm governance, and a well-defined strategy for implementation from the outset. Additionally, a working CXM platform will also require a potentially large investment in technology.

As we can see, Customer Experience Management is not something that can be approached lightly. It needs a firm commitment, and more importantly, it requires solid buy in from senior level staff and decision makers, to make sure it maintains momentum. Unfortunately, it can be very difficult to prove ROI on a planned CXM project before it is implemented, as it is tricky to define tangible financial benefits during the pre- implementation stage.

In this white paper, we are going to outline a way to prove the ROI of Customer Experience Management, by highlighting the potential gains, and measuring the financial impact of them. We will present several business cases that demonstrate the effectiveness of this approach for proving the ROI of Customer Experience Management.

INTRODUCTION

Customer Experience Management is a business methodology that combines operational processes, procedures and technology, to monitor, measure and improve the customer experience. It also includes delivering the capability to extract actionable Customer Intelligence (CI) from the things we learn from our customers.

The Voice of the Customer (VoC) is a powerful business tool if used correctly. One that can tell us what our customers really want and need, as well as how we can improve upon delivering on these wants and needs.

The goal of CXM is to optimize all interactions between the business and its customers, capturing feedback at each touchpoint, and produce actionable business insights from the CI gained by this process. This can result in deeper relationships between the customer and the business, lowering churn rate, and increasing levels of customer loyalty and advocacy.

The basic commercial benefits of CXM can be defined thus:

- Increased levels of customer loyalty resulting in a lower churn rate.
- Increased levels of customer share-of-wallet resulting in a higher customer lifetime value.
- Increased levels of customer advocacy resulting in more word of mouth sales.

The customer experience is defined not only via the more traditional channels such as point of sale, customer service communications, etc. But also through newer channels such as social media. To manage the customer experience properly, the business needs to define a strategy that provides a fully holistic view of the customer journey. This view will need to include all internal touchpoints that the customer has across the entire enterprise, and all external touchpoints. Voice of the Customer applications become essential to create this kind of 360 degree view.

Customer Experience Management is fast becoming a must have business practice. Companies that fail to embrace CXM now, will lose market share to competitors as they begin to assimilate and action the Voice of the Customer.

Industry surveys have demonstrated that almost all of the companies that excel at CXM within their market and region, are able to generate a greater level of profits, compared to companies that have yet to embrace CXM. Of course, these kinds of industry surveys often deliver rather generalized arguments to support their findings. Rarely are they suitable for gaining buy-in at senior level for CXM. What we need, is a bullet proof business case for CXM.

THE CXM BUSINESS CASE

As with any strategic business initiative, the benefits of Customer Experience Management can be calculated through ROI by confronting the investments and gains in a net present value calculation. However, with CXM, it can be difficult to discern exact figures to apply to such a calculation. Often this means estimating some parameters. Within this CXM business case, we will demonstrate how a realistic ROI for CXM can be estimated.

The overall formula for calculating the ROI of Customer Experience Management business case is:

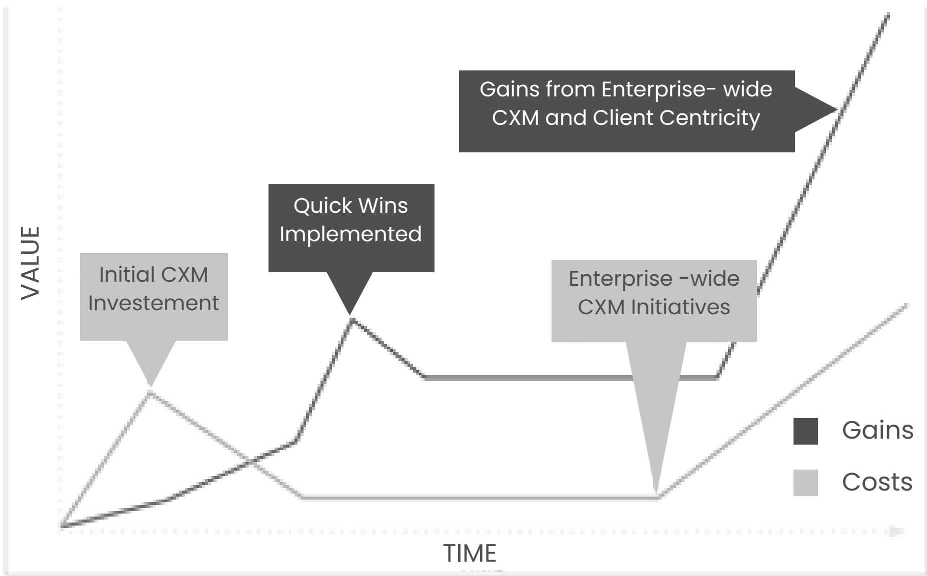
CXM Business Case = 1st Tier Gains + 2nd Tier Gains – Investments

In this case, gains and investments will be estimated using a net present value calculation using different dimensions, which is covered in section 4. Unfortunately, the gains of CXM are often not entirely linear. They depend upon the CXM maturity level of the company, the penetration of CXM within the daily operation of the company, and within corporate culture. Most typically, to unlock further gains the company will need to overcome new internal challenges, and progress to the next level of CXM maturity.

For more information about Customer Experience Management Maturity, download further free resources from www.sandsiv.com.

The typical development of CXM investments is shown in figure 1 below:

Figure 1: CX investments + gains development



HOW TO ESTIMATE THE BENEFITS OF CXM

Potentially, the most effective way to estimate the future benefits of CXM, is to use existing customer satisfaction data (CSAT, NPS or other KPI) if available, and correlate it with relevant gains and costs.

For example, consider the measuring of average pricing. If we can demonstrate that customer satisfaction correlates positively and significantly with higher average pricing, then we have a potential gain lever we can use in support of a CXM business case.

In the same fashion, if we can prove that improved customer satisfaction correlates negatively with the number of calls received by a call center, then we have a potential cost saving lever we can us in support of a CXM business case.

In general, we find we have a situation that is represented by figure 2. Customers that are more satisfied, show on average, a higher spending, lower churn rate, higher actual recommendations (in terms of member get member), and lower operational costs on main ticket items. This is, of course, the very reason why CXM works, and what makes it a viable business model. This is not simply theory, SandSIV and its clients have proven these correlations time and time again.

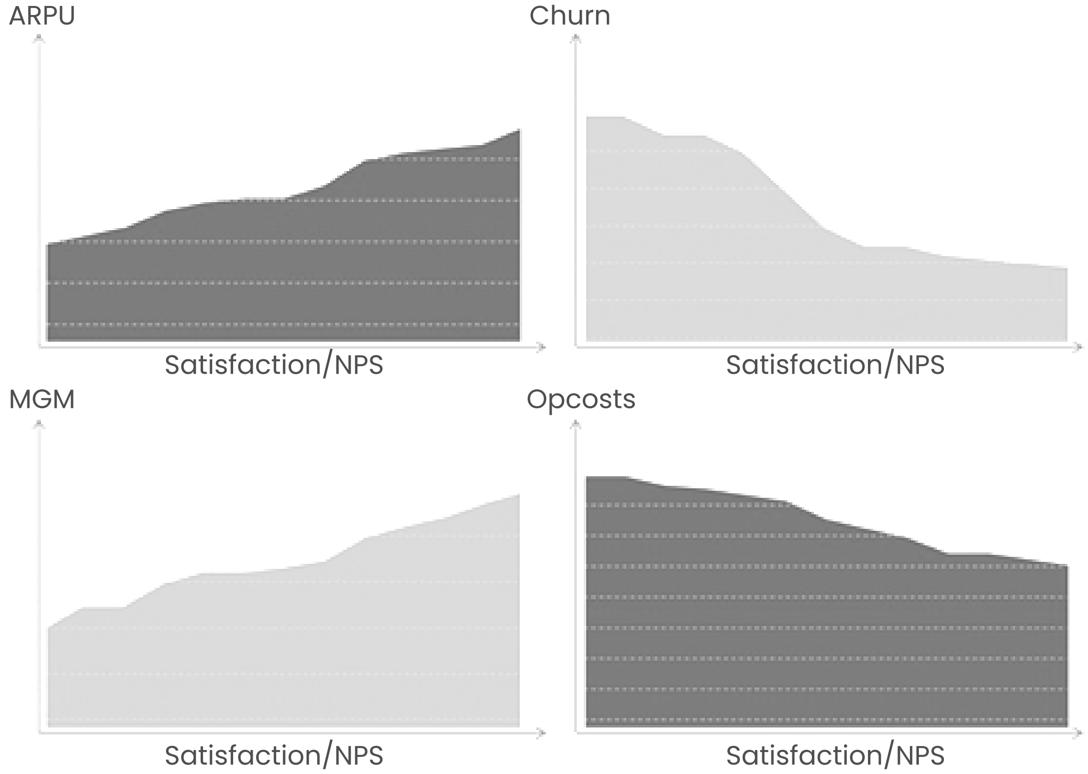


Figure 2: Typical CX correlations

An even stronger business case for CXM can be made after a CXM initiative has been running for some time. At this stage, we can perform a post analysis upon the improvement (if any) delivered by CXM, and show, not just estimate, what the real benefits of CXM are. In this case we have the situation shown in figure 3, where we can directly demonstrate the positive gains, and reduction in cost, caused by CXM improvements.

However, how can we proceed to develop a CXM business case if no measure of customer satisfaction is available?

Or if it is impossible to compare customer satisfaction with gains and costs?
In this case, we would have to work based on industry benchmarks as the basis for initial estimates of gains and costs.

This does, of course, result in a more theoretical CXM business case, as we are using generic industry data, rather than that of the actual company. Nevertheless, this should be sufficient to show the kinds of improvements the company would need to make in order to regain parity with competition, many of whom may already be operating mature CXM initiatives.

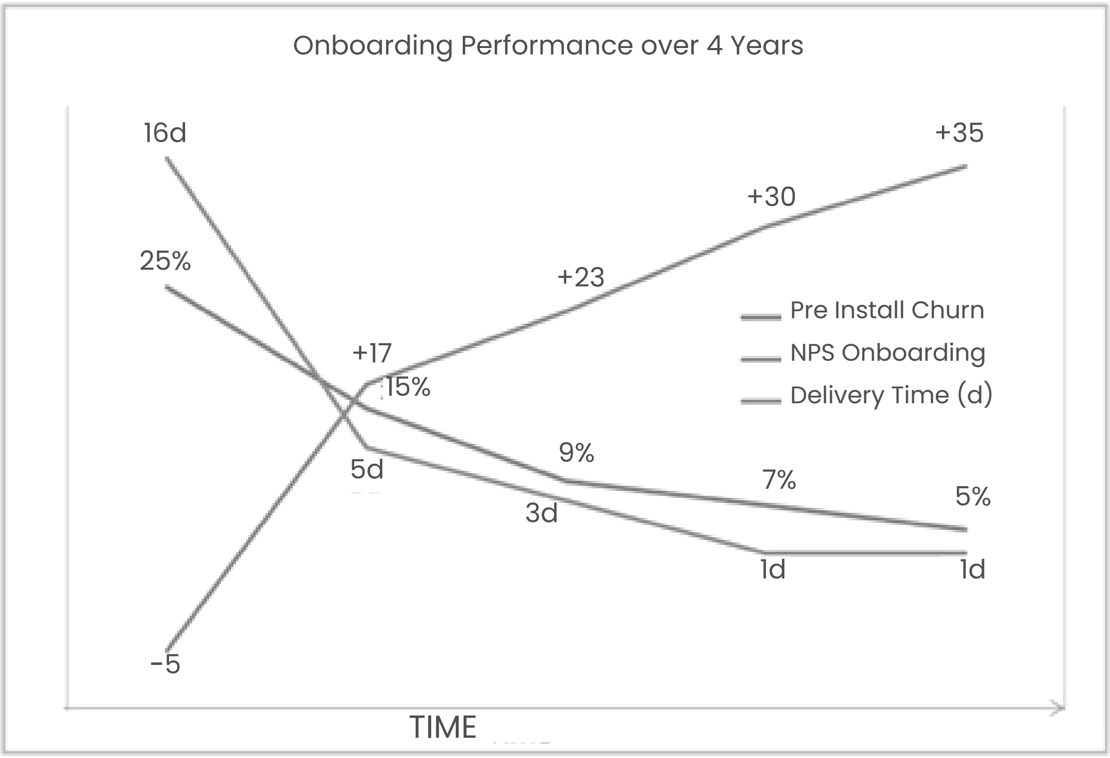


Figure 3: Post-analysis of CXM effect by upc cablecom

CXM Business Case – upc cablecom

A concrete example of a CXM business case as defined in previous sections, is that exhibited by upc cablecom. SandSIV has been assisting the company with its ongoing CXM improvement program since 2009. As part of this program, the company has been making constant improvements to its onboarding process based upon the analysis of customer feedback.

The newly designed processes, driven by customer insights, has resulted in vastly shorter, and much more customer friendly onboarding. This has, in turn, had a dramatic positive effect upon customer churn during onboarding.

For example, delivery time has been shorted 16 fold, and made a much more streamlined process for new customers. As a direct consequence of this, the upc cablecom NPS score has improved a massive 40 points. upc cablecom analyzed the financial impact of these improvements, and were able to map the impressive benefits of this well managed CXM program. In fact, the end result was a demonstrable drop in churn rate of to a fifth of its pre-program levels (Figure 3).

Now, not only do customers stay longer with the company, they also spend more. The revenue development level of satisfied customers is now over 70%, compared to 20% level in revenue loss of unsatisfied customers. All this translates into a very positive CXM business case, resulting in several million in extra revenue per year.

In the case of upc cablecom, it clearly shows that CXM is a long-term initiative that requires constant improvement, driven by customer needs, in order to produce gains.

DIMENSIONS OF A CXM BUSINESS CASE

In this section, we will take a look at the different dimensions that are relevant for the calculation required for building a CXM business case.

CXM Investments

The actual investments that are required for a CXM initiative can be divided in to direct investments in CXM technology and the CXM team, as well as investments in new business process, employee training and other investments that are required in order to implement CXM internally.

The investment in CXM technology will start with VoC related products and services, such as tools for capturing transactional customer feedback, for the analysis of VoC data, such as text mining tools, and applications for presenting VoC data, such as dashboarding and reports.

Additionally, investment in the tools that allow action to be taken on VoC data may be required. We must also consider other IT costs, such as integrating VoC technology with existing infrastructure. This will typically include implementing complex automatic selection or campaign management processes (for transactional customer feedback) and the integration of results into Data Warehouse or CRM systems. In some cases, this will involve the development of new features for CRM or call center applications that will allow the triggering of CXM driven processes.

When it comes to the development of personnel, we have two facets. Firstly there is the direct investment into the CXM team, and secondly there will need to be investments into training other employees in the processes and methodologies required to bring CXM into the enterprise.

This will include customer facing staff such as call center agents and point of sale staff, as well as others that have a role somewhere along the customer journey.

CXM Gains

In order to “bring order to the chaos of gains”, we will first need to structure the gains into first tier and second tier. The first tier gains are the ones that can be easily linked to a running CXM initiative. They relate to a particular phase of the lifecycle, and can often be associated with a specific activity. The second tier gains are more general in nature, and are often not directly related to single activities, they also tend to occur in later stages of CXM maturity, and can only be quantified after the fact.

FIRST TIER GAINS

As previously mentioned, first tier gains are distributed across the customer lifecycle, and can be divided into three separate phases of the customer lifecycle: new customer acquisition phase, active customer phase, and retention/churn phase.

New Customer Acquisition Phase

This phase is driven by marketing and sales activities, and is often one of the main cost drivers on company balance sheets. The CXM benefits in this phase include improved levels of acquisition through positive word-of-mouth, as well as improved member-get-member (MGM) and the relevant savings in sales and marketing costs.

In general, word-of- mouth is difficult to quantify, and can only be estimated through market studies. For MGM improvement however, it is possible to produce direct and valid estimates.

The first tier CXM gains in the customer acquisition phase include:

- Additional revenue from positive word-of-mouth.
- Lower costs of marketing due to better targeted campaigns.
- Improved referral rate via member-get-member schemes.

Customer Acquisition Phase Gains Case Study

A major European travel company calculated a valid business case for improved customer satisfaction and its impact upon referrals. By using NPS measured across different stages of the customer lifecycle, they were able to demonstrate that NPS promoters (score 9-10) were referring the company to their peers, used the member-get-member program 5 times more frequently than the lowest NPS scored customers (score 0-3).

They were also able to calculate the direct financial effect of improving the NPS score of the MGM program. An increase of NPS of 5 points, lead to over 12 million in additional yearly revenue due to new customer acquisition. This increase in revenue was a result of two factors: the number of new customers acquired through referrals, and the higher average contract value of these new customers.

Active Customer Phase

The active customer phase is characterized by the setting up, development and maintenance of the customer relationship. This requires investment into the customer relationship in the form of customer operation (contact center, issue handling, complaints, website info, customer communication, etc.), infrastructure costs, and other process costs (supply chain management, document management, etc.)
On the revenue side, the customer, of course, generates revenues by purchasing new products and services, or through continuing subscriptions. The revenue Side of the equation is often measured as ARPU (Average Revenue per Unit), with companies striving to increase ARPU.

From a CXM point of view though, ARPU is a misnomer. Revenue does not come from units, it comes from customers. Behind each unit there are one or more people with needs and emotions, who have decided to invest their money into the company's products/services, based upon their overall perception of the experiences they have had with the company. Companies should not try to maximize the revenue of a mythical "average unit", but instead go deeper into the individual customer needs and try to improve their experiences. The increase in ARPU will then follow naturally.

The different first tier CXM benefits in the active customer phase are composed of components effecting the ARPU directly, as well as relevant cost savings, thus:

- Higher pricing.
- Higher volume of sales.
- Additional product/service purchases.
- Reduction of customer driven operational costs.
- Reduction of customer driven infrastructure costs.
- Reduction of other customer driven process costs.

The full active customer lifecycle is divided into different stages such as onboarding, development and stable customer. There are different weights applied to costs and CXM benefits across the different stages. For example, at the start of the onboarding stage, there are often higher operational costs due to initial installation and the supply chain process. Also, the new customers often receive additional products/services at a special initial price, in the hopes of triggering an up-sell/cross- sell, so the ARPU is much lower.

The Retention/Churn Phase

Customers entering the retention/churn phase are treated in a special way by most companies. Mature companies have retention/churn prevention programs that predict customers that are likely to churn, and engage them through targeted retention campaigns. Typically, these retention offers include offering products/ services at a reduced price.
This is viable from a short-term economic perspective. Keeping the customer at a reduced revenue, is better than losing the customer all together. However, most often, the customer pain point that is the root of the original problem is not dealt with. CXM concentrates on removing these pain points, in the best case, before they even occur. This leads to higher rates of customer retention, and lower churn rates.

The first tier benefits in the retention/ churn phase are:

- Reduction in customer retention costs.
- Reduction of closing related costs.
- A longer customer lifecycle.
- Increased pricing (due to the lower requirement for aggressive retention offers.

Customer Retention/Churn Phase CXM Business Case

A media company connected the dots between the customer experience and retention/churn. Using a post analysis of the churn risk cases, and the effective churners, they were able to demonstrate the value of CXM for reducing both the number of churners, and number of retention cases who were offered aggressive pricing to prevent churn.

By comparing the situation over a one year period, they were able to demonstrate the real effect of CXM on customer churn, and the associated financial impact. The analysis demonstrated a 4 time lower churn risk for promoters, compared to NPS 0-3 detractors. Additionally, it showed that great improvements had been made in CXM over the period of the year. This lead to an increase in NPS of over 10 points, which again, had a direct impact on revenue of over 20 million Euros per annum, just in the terms of reduction in churn cases, and the savings made by decreased retention offers, and the cost of the churn prevention process.

SECOND TIER GAINS

There are also more general benefits that can be attributed to CXM that cannot be linked to a specific CXM activity. These gains tend to manifest as the organization progress through CXM maturity level, becomes more customer centric, and more receptive and responsive to the Voice of the Customer.

We collectively attribute these gains to second tier CXM gains. These gains can range from savings in market research and marketing costs, savings in development and maintenance of web pages, to saving in personnel costs, as employees find it more rewarding to work for a customer centric company that cares for its customers, rather than in a product driven company where customer is just a word used in marketing communications.

The second tier benefits of CXM can include:

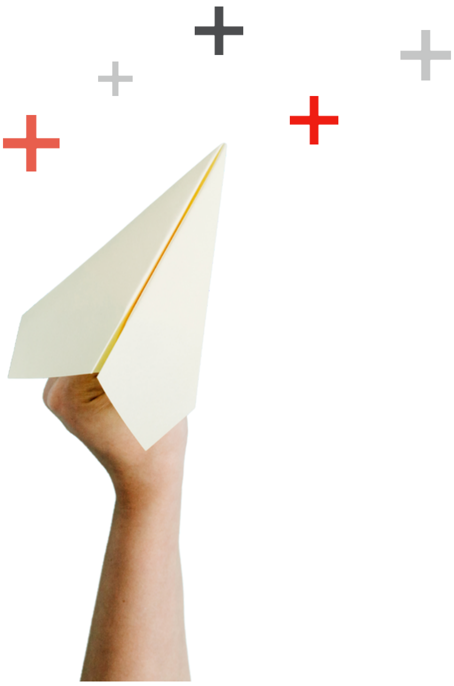
- Reduction in market research costs due to direct VoC already captured as part of CXM being used instead.
- Saving in marketing costs due to more focused marketing based on the actual wants and needs of customers.
- Reduction in process costs due to more fluent, customer need driven processes.
- Savings in customer interaction and communications costs due to more customer focused websites, self-help, guides, etc.

Second Tier CXM Gains Business Case

The OCBC Bank in Singapore undertook a complete investigation of CXM and the company's communication channels. One of the main things that was discovered, was that the company website was too complicated, and did not focus on the customer's needs, and associated processes.

Consequently, the company undertook a complete overhaul of its website, based on a more customer centric design and alignment of the website more closely to the business strategy of each business unit. The result was that the company reduced the number of different web pages from about 20,000 to just 600. This represented a large saving in the cost of maintenance of the website. In fact, the direct savings of website maintenance accounts to over 0.5 Million SGD per year. Additional, non-quantified benefits include a better customer experience in the website.

CONCLUSION



With all of these CXM relevant dimensions, it could be seen that a CXM business case can become a major project, with dozens of dimensions to be measured or estimated. In practice, this is not the case, as each business should only choose relevant dimensions to include in the CXM business case. In this way, the task of building a valid CXM business case for the current situation is reduced, by only showing the effect of the most important gains. Extra dimensions can always be added to the business case, as and when they become relevant.

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Dr. Jukka Hekanaho has 30 years of experience in data mining, and is an expert in both customer intelligence and delivering client-centric solutions within the fields of customer experience management and customer relationship management.

Prior to, and after joining SANDSIV, Dr. Hekanaho held various management positions in the financial industry and worked as customer experience consultant within various industries.

Dr. Hekanaho holds a PhD in Data Mining from Åbo Akademi University.

ABOUT sandsiv+

SANDSIV is a Swiss software provider located in Technopark Zurich, Switzerland’s main technology hub. Listed as a leading VOC vendor in Gartner’s recent VOC Market report, SANDSIV has built its reputation in delivering its state-of-the-art Voice of the Customer enterprise solutions “sandsiv+” to advanced CX teams at leading organizations throughout EMEA, including leading companies in the telco, financial services, utilities, retail and transportation sectors.

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