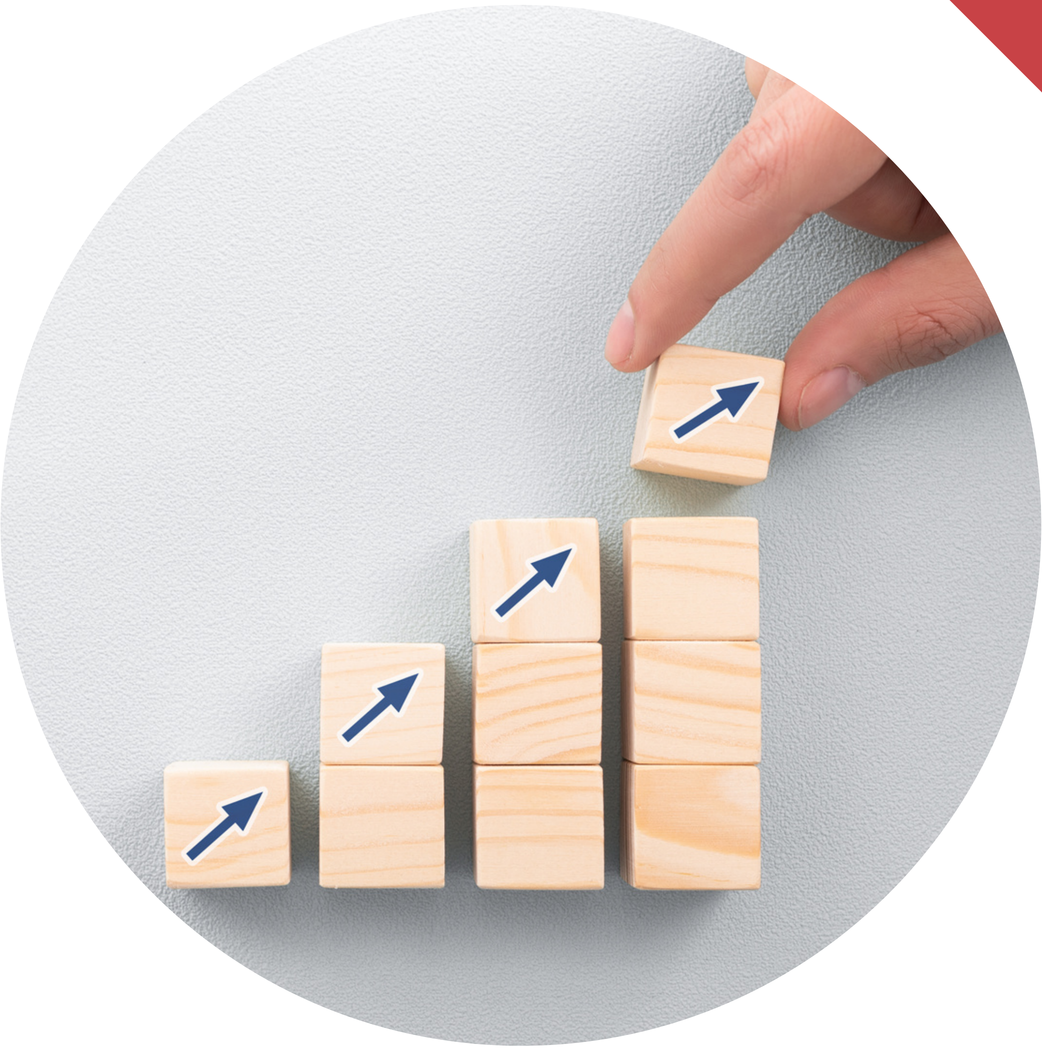

CUSTOMER EXPERIENCE

# CXM-ROI BUSINESS CASE

White Paper

DR. JUKKA HEKANAHO

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# SUMMARY

CXM (Customer Experience Management) is a set of business processes and practices that can provide clear revenue advantages to companies that adopt it as a company-wide ethos.

CXM is a wide-ranging discipline that requires a strong commitment of resources across all departments to ensure the greatest chance of success. Furthermore, CXM requires decisive corporate leadership and a clearly defined implementation strategy from the beginning. Additionally, a functioning CXM platform requires a potentially large investment in technology.

As we see, customer experience management cannot be approached lightly. It requires a determined effort and, more importantly, strong buy-in from executives and decision makers to ensure momentum is maintained. Unfortunately, it can be very difficult to demonstrate the ROI of a planned CXM project before implementation, as it is difficult to define concrete financial benefits in the pre-implementation phase.

In this paper, we outline a way to demonstrate the ROI of CXM by highlighting potential gains and measuring its financial impact. We present several business cases that demonstrate the effectiveness of this approach in demonstrating the ROI of CXM.

# INTRODUCTION

Customer experience management is a business methodology that combines operational processes, procedures and technologies to monitor, measure and improve the customer experience. It also includes providing the ability to extract actionable customer intelligence (CI) from what we learn from our customers. The Voice of the Customer (VoC), when used correctly, is a powerful tool for any company. It tells us what our customers really want and need, and also how we can improve at meeting those wants and needs.

The goal of CXM is to optimize all interactions between the company and its customers, capture feedback at every touchpoint, and derive actionable business insights from the insights gained through this process. This can lead to deeper customer-business relationships, reduce churn rates, and boost customer loyalty and advocacy.

The basic business advantages of CXM can be defined as follows:

- Increasing customer retention rate reduces churn rate.
- Increasing wallet share increases customer lifetime value.
- Increased customer loyalty rate, which translates into more word-of-mouth recommendations.

Customer experience is not only defined by more traditional channels, such as point of sale, communication with customer service, etc., but also by newer channels, such as social media. To properly manage the customer experience, the company must define a strategy that offers a completely holistic view of the customer journey. This vision should include all internal touchpoints that the customer has throughout the company and all external touchpoints. Voice of the Customer applications are essential to creating this type of 360-degree view.
CXM as a business practice is increasingly essential. Companies that do not adopt CXM now will lose market share to competitors who are beginning to assimilate and apply the voice of the customer.

Industry surveys have shown that almost all companies that excel in CXM in their market and region achieve greater profits than companies that have not yet adopted CXM. Of course, these types of sectoral surveys usually offer quite general arguments to support their conclusions. They rarely lend themselves to gaining CXM buy-in at the executive level. What is needed is a bulletproof 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, considering investments and benefits in a net present value calculation. With CXM, however, it can be difficult to extract exact figures for such a calculation. It is often necessary to estimate some parameters. For this CXM business case, we will show how to calculate a realistic ROI for CXM.

The basic formula to calculate the ROI of the CXM business case is:
CXM business case = first stage profits + second stage profits - capital expenditure.

In this case, the benefits are estimated and investments using a net present value calculation based on different dimensions, which is discussed in section 4.
Unfortunately, the benefits of CXM are usually not completely linear. They depend on the company's CXM maturity level and the penetration of CXM into the company's daily operations and culture. To realize more benefits, the company often has to overcome new internal challenges and reach the next level of CXM maturity.

To learn more about CXM maturity, download our free resources at www.sandsiv.com.

The typical evolution of CXM investments is shown in Figure 1:

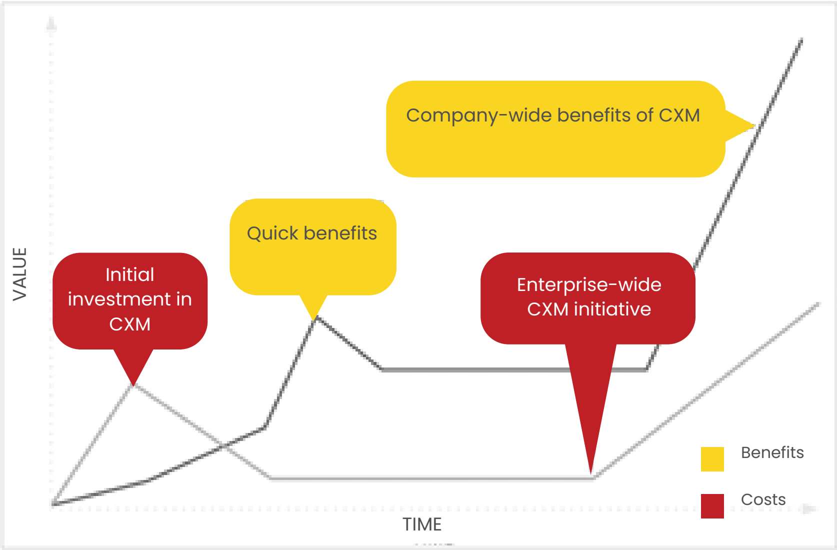



Figure 1: CX investments + profit development

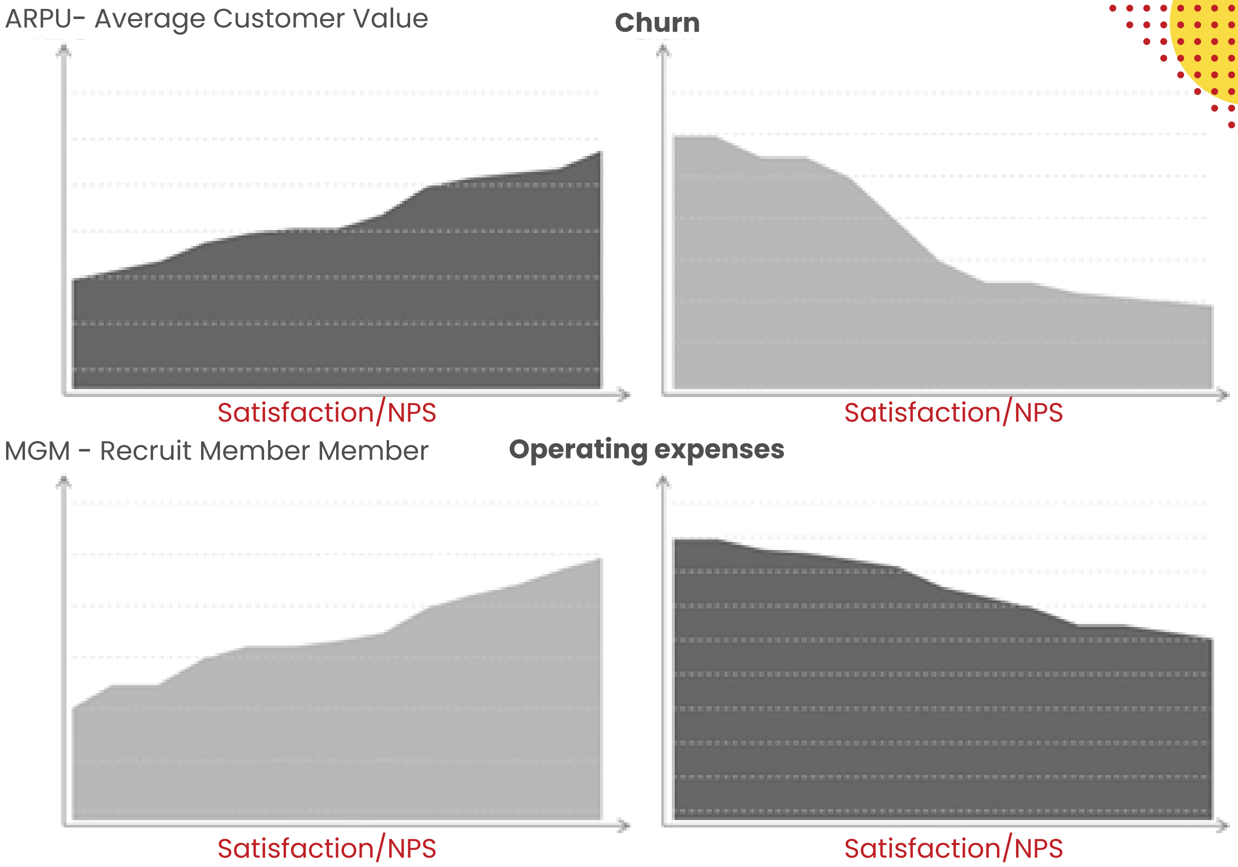
# HOW TO CALCULATE THE BENEFITS OF CXM

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 the relevant benefits and costs. For example, consider the measurement of average prices.

If we can demonstrate that customer satisfaction is positively and significantly correlated with higher average prices, we have a potential profit lever that we can use to support a CXM business case. Likewise, if we can demonstrate that improved customer satisfaction is negatively correlated with the number of calls received in a call center, we have a potential cost-saving lever that we can use to support a CXM business case.
In general, we find the situation illustrated in Figure 2.

Satisfied customers have, on average, higher spending, a lower churn rate, a higher number of actual referrals (in MGM terms, "member-gets- member", member recruitment) and lower costs operatives for key positions. And that, of course, is exactly why CXM works and what makes it a viable business model. This isn't just theory - SANDSIV and its customers have proven these correlations time and time again.

Figure 2: Typical CX Correlations

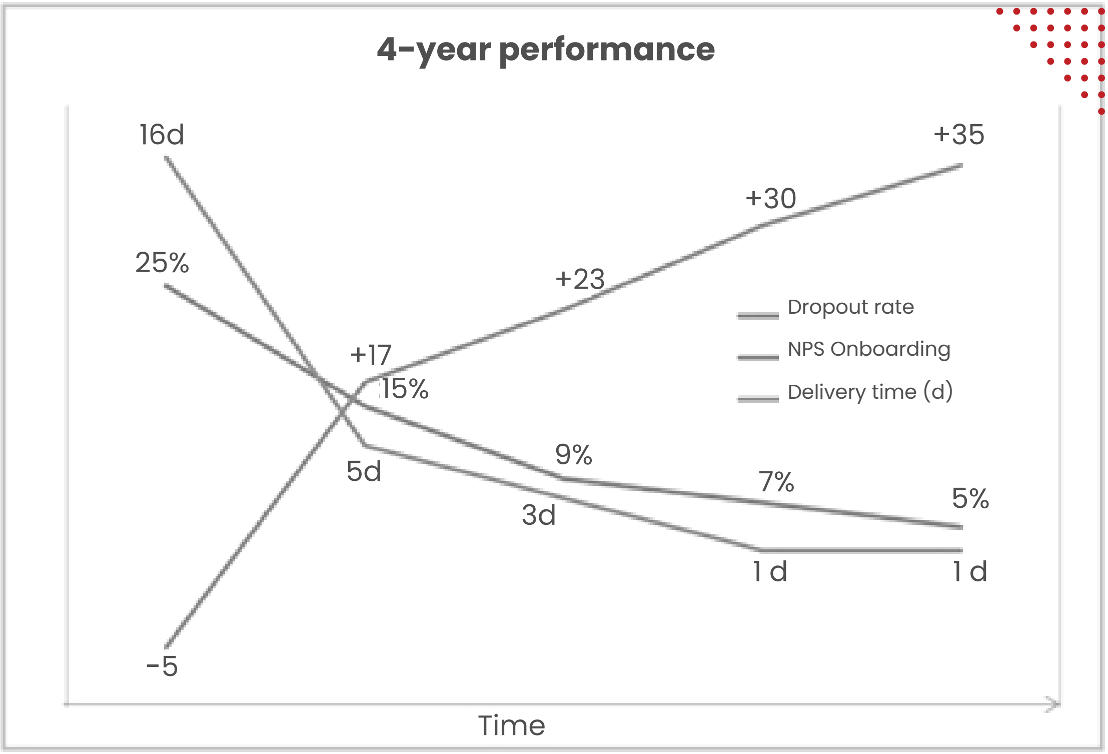



An even stronger business case for CXM can be created after a CXM initiative has been running for some time. At that point we can do a post-hoc analysis of the improvement (if any) achieved thanks to CXM, instead of just evaluating what the real benefits of CXM are. In this case, we have the situation shown in Figure 3, where we can directly demonstrate the positive gains and cost reductions caused by CXM improvements.

But how can we develop a CXM business case if we don't have any measure of the customer satisfaction? Or if it is impossible, compare customer satisfaction with benefits and costs? In this case, we would need to work with industry benchmarks as a basis for initial estimates of benefits and costs.

Of course, this leads to a more theoretical CXM business case, since we are using generic industry data rather than actual company data. Still, it should be enough to show the kind of improvements the company would need to make to regain parity with its competitors, many of which may already be pursuing mature CXM initiatives.

Figure 3: Post analysis of the impact of CXM by UPC Cablecom




## CXM business case – UPC Cablecom

A concrete example of a CXM business case as defined in the previous sections is the one shown by UPC Cablecom. SANDSIV has supported the company in its CXM improvement program since 2009. As part of this program, the company has continually improved its onboarding process based on analysis of customer feedback.

Redesigned processes, driven by customer insights, have led to much shorter and easier onboarding. This, in turn, has had a very positive effect on customer churn during onboarding.

For example, delivery time was reduced by 16 times and the process for new customers was significantly optimized. As a direct result, UPC Cablecom's NPS score improved by a whopping 40 points. UPC Cablecom analyzed the financial impact of these improvements and was able to map the impressive benefits of this well-managed CXM program. In fact, the end result was a demonstrable decline in casualties to one-fifth of the pre-program level (Figure 3).

Now customers not only stay with the company longer, but they also spend more. The turnover rate of satisfied customers now exceeds 70%, compared to a 20% loss of dissatisfied customers.

All of this leads to a very positive CXM business model and additional revenues of several million per year.

The UPC Cablecom case clearly demonstrates that CXM is a long-term initiative that requires continuous improvement, driven by customer needs to generate benefits.

# THE DIMENSIONS OF A CXM BUSINESS CASE

In this section we examine the different dimensions that are relevant to the calculation needed to create a CXM business case.

## Investments in CXM

The actual investments required for a CXM initiative can be divided into direct investments in CXM technology and CXM equipment, as well as investments in new business processes, employee training, and other investments necessary for the internal implementation of CXM.

Investing in CXM technology starts with VoC-related products and services, such as tools to capture transactional customer feedback, to analyze VoC data, such as text mining tools, and applications to present the data. such as dashboards and reports.

Additionally, it may be necessary to invest in tools to apply VoC data. Other IT costs must also be taken into account, such as integrating VoC technology into existing infrastructure. This typically involves implementing complex automated selection or campaign management processes (for transactional customer reviews) and integrating the results into the data warehouse or CRM systems. In some cases, this includes developing new functionality for CRM or call center applications that enable CXM-driven processes.

In terms of staff development, we have two facets. Firstly, there is the direct investment in the CXM team and secondly, there is the investment in training other staff members in the processes and methodologies necessary to introduce CXM into the organization.

This includes staff with direct customer contact, such as call center and point-of-sale staff, as well as other employees who play a role at some point in the customer journey.

## Benefits of CXM

To "bring order to the chaos of profits", we first have to divide the profits into first and second levels. Top-tier benefits are easily tied to an ongoing CXM initiative. They refer to a specific stage of the life cycle and can often be linked to a specific activity. Second-stage benefits are general in nature, are often not directly related to individual activities, tend to occur in later stages of CXM maturity, and can only be quantified retrospectively.

# TOP-LEVEL EARNINGS

As mentioned above, top-line wins extend throughout the customer lifecycle and can be divided into three separate phases of the customer lifecycle: New Customer Acquisition Phase, Active Customer Phase, and Customer Acquisition Phase. retention/recovery.

**New customer acquisition phase**

This phase is driven by marketing and sales activities and is usually one of the main cost drivers on companies' balance sheets. The benefits of CXM in this phase include an improvement in the acquisition phase thanks to positive word of mouth, as well as an improvement in MGM (member-get-member) and the corresponding savings in sales and marketing costs.

In general, word of mouth is difficult to quantify and can only be estimated through market research. However, in the case of GMM improvement, direct and valid estimates can be made. Top-tier CXM wins in the customer acquisition phase include:

- Additional income thanks to positive word of mouth
- Lower marketing costs thanks to more targeted campaigns
- Improved referral rate thanks to "partner-to-partner" programs.

**Customer acquisition phase - Benefits study**

A large European travel company calculated a valid business case to improve customer satisfaction and its impact on recommendations. Using NPS measured at different stages of the customer lifecycle, he was able to show that NPS advocates (score 9-10) recommended the company to their peers and were five times more likely to use the Member-Get-Member program than customers. with lower NPS score (score 0-3).
He was also able to calculate the direct financial effect of improving the NPS score of the MGM program. An increase of 5 points in NPS translated into an additional annual turnover of more than 12 million through the acquisition of new customers. This increase in turnover was the result of two factors: the number of new customers acquired through referrals and the higher average order value of these new customers.

## Active clients phase

The active customer phase is characterized by building, developing and maintaining the customer relationship. This requires investments in the customer relationship in the form of customer operations (contact center, problem management, complaints, information on the website, customer communication, etc.), infrastructure costs and other process costs (supply chain management, document management, etc.).

As for benefits, of course, the customer generates income through the purchase of new products and services or through continuous subscriptions. The revenue side of the equation is often measured as ARPU (average revenue per unit), and companies try to increase ARPU. However, from a CXM perspective, ARPU is a misnomer.
The income does not come from the units, but from the customers. Behind each unit there are one or several people with needs and emotions who have decided to invest their money in the company's products/services based on their overall perception of their experience with the company.

Companies should not try to maximize revenue from a mythical “average unit,” but rather delve deeper into the needs of each customer and try to improve their experience. The increase in ARPU will then come by itself.
Top-tier CXM gains in the active customer phase consist of components that directly impact ARPU as well as relevant cost savings. Among them would be:

- Higher prices
- Higher sales volume
- Additional purchases of products/services
- Reduction of customer-oriented operating costs
- Reduction of customer-facing infrastructure costs
- Reduction of other costs of customer-oriented processes

The entire active customer lifecycle is divided into different phases such as onboarding, development, and stable customer. The costs and benefits of CXM in different phases are weighted differently.

For example, there are typically higher operational costs early in the onboarding phase due to the initial setup and supply chain process. Additionally, new customers often receive additional products/services at a special introductory price in the hopes of triggering an upsell/cross-sell, so the ARPU is much lower.

## The retention/recovery phase

Most companies treat customers who enter the retention/return phase in a special way. Mature companies have retention/return programs that predict customers likely to switch suppliers and attract them through specific retention campaigns. In most cases, these retention offers include the offering of products/services at reduced prices. From a short-term economic perspective, this is viable. It is better to retain customers with reduced turnover than to lose them completely. However, most of the time the customer's pain point, the root of the original problem, is not addressed. CXM is focused on addressing these pain points, before they even occur. This leads to higher customer retention rates and lower churn rates.

The benefits of the first stage in the retention/recovery phase are:

- Reduced customer retention costs
- Reduction of acquisition costs
- Longer customer life cycle
- Increased prices (due to reduced need for aggressive retention offers).

## Customer retention/recovery phase Case study

One media company connected the dots between customer experience and customer retention/churn. Using further analysis of both at-risk and losing customer cases, he was able to demonstrate the value of CXM in reducing both the number of customers losing customers and the number of retention cases addressed. Aggressive prices were offered to avoid losing customers.

By comparing the situation over a year, they were able to demonstrate the real impact of CXM on churn and the associated financial impact. The analysis showed a 4-fold lower risk of churn for promoters compared to detractors with an NPS of 0-3. It also showed that significant improvements had been made to CXM throughout the year. This translated into an increase in NPS of more than 10 points, which in turn had a direct impact on revenue of more than €20 million per year, simply through the reduction of churn and the savings derived from the reduction of retention offers and costs of the churn prevention process.

# SECOND LEVEL PROFITS

There are also more general benefits attributed to CXM that cannot be linked to a specific CXM activity. These benefits tend to manifest as the company moves through the CXM maturity levels, becoming more customer-centric, more receptive to, and more responsive to the customer voice.

We attribute these gains overall to second-tier CXM gains. These can range from savings in market research and marketing costs, to savings in website development and maintenance, to savings in personnel costs, as employees find it more rewarding to work for a company focused on the customer that takes good care of its customers, rather than for a product-focused company where customer is nothing more than a loose word in marketing communications.

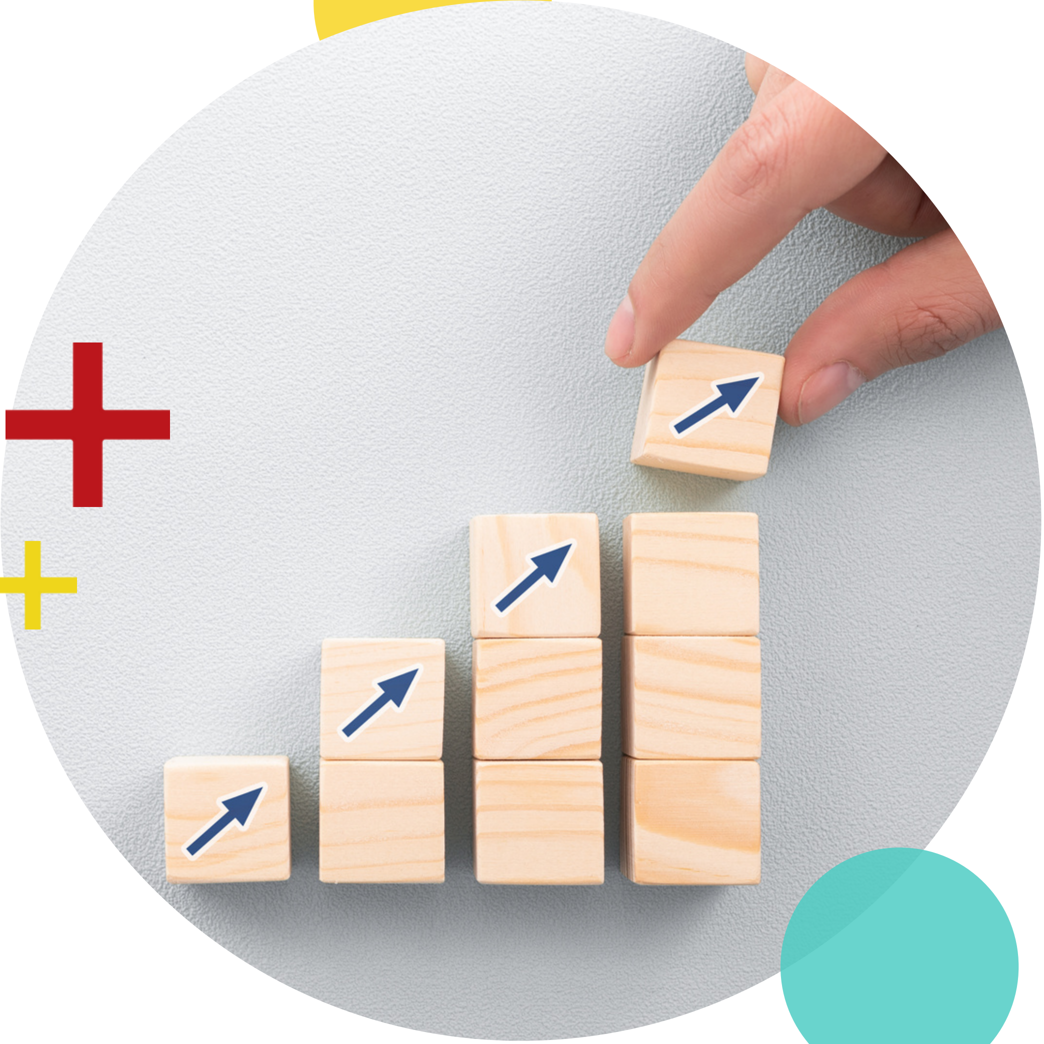
Second-tier CXM earnings may include:

- Reduction of market research costs thanks to the direct VoC already captured in the CXM.
- Savings on marketing costs thanks to more specific marketing based on customers' real wants and needs.
- Reduced process costs through smoother processes driven by customer needs
- Savings in customer interaction and communication costs thanks to more customer-focused websites, self-help, guides, etc.

## Second Level CXM Earnings Case Study

Singapore's OCBC Bank conducted a full investigation into CXM and the company's communication channels. One of the main findings was that the company's website was too complicated and did not focus on customer needs and related processes.

Consequently, the company embarked on a complete overhaul of its website, based on a more customer-centric design and closer alignment of the website to the business strategy of each business unit. As a result, the company reduced the number of different web pages from around 20,000 to just 600, resulting in huge savings on website maintenance costs. In fact, the direct savings on website maintenance amounts to over SGD 0.5 million per year. Other unquantified benefits are a better customer experience on the website.



# CONCLUSION

With all these dimensions relevant to CXM, we could see that a CXM business case can become a large project, with dozens of dimensions to measure or estimate. In practice, this is not true, as each company only needs to choose the relevant dimensions and include them in the CXM business case. Thus, the task of building a valid CXM business case for the given situation is reduced by showing only the impact of the most important gains. Additional dimensions can always be added to the business case, as long as they are relevant.

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## ABOUT THE AUTHOR

### Dr. Jukka Hekanaho

Dr. Jukka Hekanaho has 30 years of experience in data mining and is an expert in customer intelligence and delivering customer-centric solutions in the areas of customer experience management and customer relationship management. the client.
Before and after joining SANDSIV, Dr. Hekanaho held various management positions in the financial sector and worked as a CX consultant in various industries.
Dr. Hekanaho has a PhD in Data Mining from Åbo Akademi University.

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## ABOUT sandsiv+

SANDSIV is a Swiss software provider based in Technopark Zurich, the most important technology center in Switzerland. The company is listed as a leading VOC provider in Gartner's latest VOC market report. SANDSIV has built its reputation by supplying its cutting-edge Voice of the Customer solution "sandsiv+" to advanced CX teams of leading organizations in EMEA (Europe, Middle East and Africa) in sectors such as telecommunications, finance, utilities, retail retail and transportation.

## CENTRAL OFFICE


**SANDSIV Switzerland Ltd.
Technoparkstrasse 1 CH-8005 Zürich**

+41 43 205 2132

info@sandsiv.com


WWW.SANDSIV.COM