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Calculating the ROI of Customer Experience Initiatives

Overview

Financial services operations leaders accept the importance of providing good experiences for their customers, members and clients. But many hesitate to commit significant resources to improving the customer experience (CX) without a clear understanding of the ROI. Our research indicates that merely proving the overall ROI of strong CX is unlikely to provide adequate guidance to shift decision making and priorities. Effective CX ROI models must link customer attitudes and behaviors to granular, relevant and adjustable operational variables rather than overall drivers of company performance.

Key Findings

- Satisfactory CX is correlated with customer loyalty. Validating the link between CX improvements and business ROI is crucial to driving action and identifying the right investments.

- The standard model for calculating the CX investments' ROI links these investments directly to larger financial outcomes. But this assumes all customers are equally affected by all CX improvements.

- Financial services operations leaders should use focused ROI models to determine the value of CX investments. These models correlate individual investments with specific CX metric improvements, providing a strong case for prioritizing specific initiatives.

Introduction

Satisfied customers spend more, churn less, share recommendations and are often cheaper to serve. CX is therefore one of the biggest levers financial services operations

leaders can pull to influence customer loyalty. Our research shows 66% of changes in loyalty can be attributed to changes in experience, while only 13% can be attributed to other factors, such as price.

However, stakeholders are often skeptical of strategic CX improvement investments and are rightfully wary of acting without knowing the impact it will have on their operational budgets and the implications for their established priorities. As a result, CX leaders in financial services face internal demand for proof that makes stronger business cases for specific CX improvement initiatives.
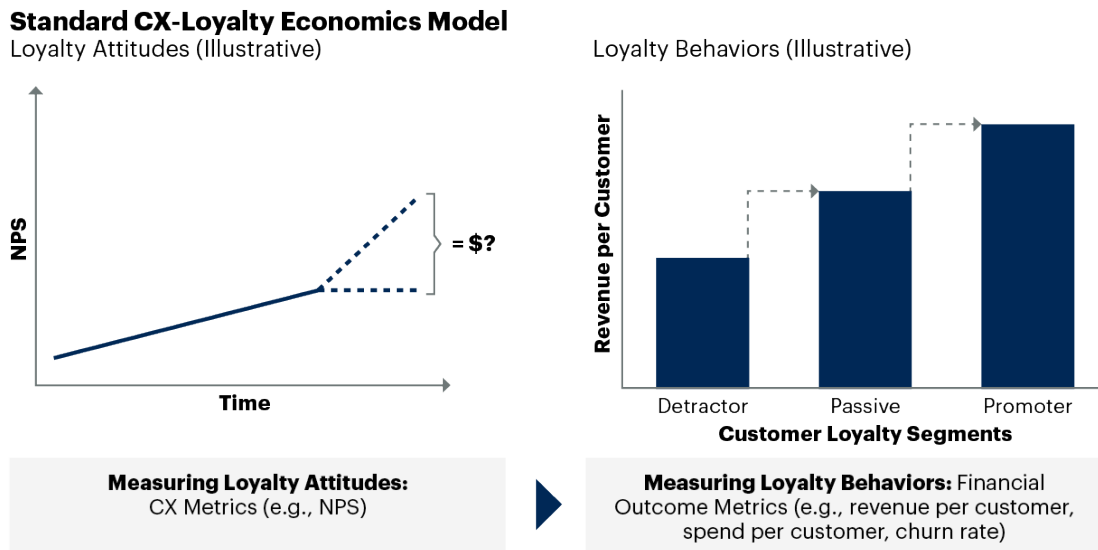
To drive action, financial services operations leaders must validate the link between CX and business ROI to help prioritize and optimize company investments. These calculations identify which CX improvement initiatives will yield the highest rates of return while avoiding the costs associated with under- or overserving customers.

The Standard Loyalty Economics Model

Modeling the economics of customer loyalty requires correlating changes in the experience to shifts in customer behavior (as measured by key business drivers such as customer profitability). The most common equation describes that relationship in terms of the financial impact incremental improvements in loyalty have on the whole financial institution (see Figure 1). This standard calculation involves three steps:

1. **Determine relevant financial outcomes.** Determine the financial behaviors and outcomes that are affected by customer loyalty, such as attrition and customer profitability.

2. **Leverage voice-of-the-customer (VOC) data.** Analyze customer feedback surveys using metrics such as Net Promoter Score (NPS) and Customer Satisfaction (CSAT), calculating financial behaviors for groups of customers with varying attitudes to identify differences in loyalty.

3. **Define the CX-loyalty relationship.** Run regression analyses to determine the equation that explains the financial benefit of moving customers to higher levels of satisfaction.

Figure 1: Standard CX-Loyalty Economics Model

Standard CX-Loyalty Economics Model

Loyalty Attitudes (Illustrative)

Loyalty Behaviors (Illustrative)

Measuring Loyalty Attitudes:
CX Metrics (e.g., NPS)

Measuring Loyalty Behaviors: Financial Outcome Metrics (e.g., revenue per customer, spend per customer, churn rate)

Source: Gartner

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Standard loyalty economics models provide a macrolevel view of CX improvements' business value, as demonstrated by the change in metrics such as NPS and other customer feedback averages. The appeal of this straightforward approach is that this calculation can be applied to any number of potential scenarios. Once CX metrics have been correlated with business performance, this type of model assumes companies can project the likely financial benefit of any potential CX improvement.

In reality, standard calculations have limited utility for most financial institutions because **all CX improvement is not created equal**. Standard calculations assume that each CX and loyalty metric holds the same weight as others and that the benefit of improving enterprise CX is the same no matter how good the experience already is. Unfortunately, the value of improved CX may differ greatly in moving from poor to acceptable versus moving from good to great. While the standard model is compelling in its simplicity, the lack of nuance actually diminishes the likelihood stakeholders will accept its output at face value.

"The more we focused on the NPS score, the less we knew what to do. We didn't know what was more valuable, trying to move detractors to passives or [trying to move] passives to promoters. Ultimately, we found that points were not equal in value; thus a standard loyalty economics model would not hold in making a case for CX improvement initiatives."

Director of Customer Experience
Telecommunications Organization

Although CX ROI calculations matter, the type of calculation matters more. Standard models connect customer attitudes with aggregate behaviors, but focused CX ROI calculations require an additional step of connecting customer attitudes with specific operational variables that are controlled by internal stakeholders. This link supports prescriptive decision making and helps efficiently prioritize — and generate buy-in for — strategic CX improvement initiatives.

Calculating a Focused Loyalty Economic Model

To build a credible CX ROI model that yields relevant data for internal stakeholders, financial services operations leaders should focus less on the overall relationship between CX and aggregate business value. Instead, they should use loyalty data to answer a narrower question: Which actions should the financial institution take with specific customer groups, and at which moments, to generate the benefits of increased loyalty?

By addressing this more focused question, the results of an ROI calculation can:

- More accurately demonstrate the correlation between customer loyalty and improvements in a CX metric (such as CSAT or NPS).
- Identify specific variables to adjust in order to improve CX.
- Ultimately help drive business outcomes.

This focused loyalty economics model is relevant for internal stakeholders because it translates CX outcomes back into the specific levers or touchpoint variables within stakeholders' control (see Figure 2).
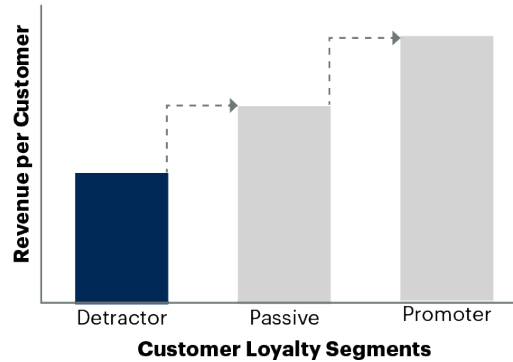
Figure 2: Operational Loyalty Economics Model

Operational Loyalty Economics Model
Relative Weight of Touchpoint Variables in
Measuring Loyalty Attitudes (Illustrative)
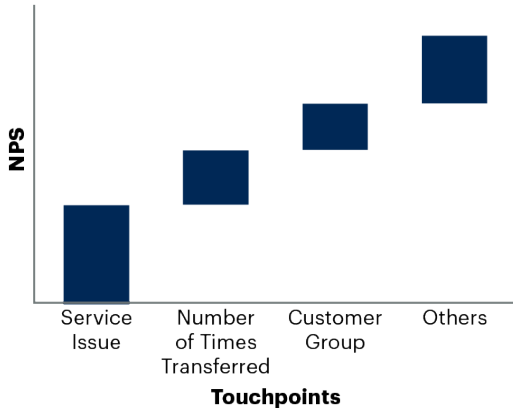
Loyalty Behaviors (Illustrative)

**Measuring the Weight
of Touchpoint Variables:**
Customer and Operational Data

- Customer attributes (e.g., groups, products,
utilization rates)
- Interaction attributes (e.g., number of calls,
number of times transferred, service issue,
time and date)

Measuring Loyalty Behaviors:
Financial Outcome Metrics (e.g., revenue per
customer, spend per customer, churn rate)

Source: Gartner

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A focused loyalty economics model distinguishes between customer loyalty segments
based on the touchpoints in play during specific customer interactions. The results
provide insight into which tangible actions financial institutions should take to improve
CX and which operational levers drive or erode overall value. The results' granularity
allows executives to provide stakeholders with a level of detail that makes a strong
case for prioritizing specific initiatives. This, in turn, gives stakeholders clarity and
confidence in their actions.

Building an operational loyalty economics model involves four steps:

1. **Identify key loyalty segments.** Segment customer survey responses by their
   expressed level of loyalty, and calculate the average differences in their effect on
   key business outcomes to identify the customer group with the greatest potential
   value from an improved CX.

2. **Understand top customer issues.** Analyze open-ended responses to customer
   surveys from key loyalty segments to better understand the frequency and intensity
   of the issues that most affect their loyalty. Consider grouping granular issues into
   higher-level themes to further contextualize customer feedback.

3. **Isolate touchpoint variables to explain attitudes and behaviors.** Use key loyalty segments' top issues to hypothesize, test and isolate specific interaction and operational variables that correlate with and collectively explain impact on customer attitudes and behaviors.

4. **Calculate the costs and benefits of altering touchpoints.** With clear understanding of the operational variables that drive differences in customer loyalty — and therefore behavior — calculate the costs and benefits of optimizing operations for CX improvement.

Step 1: Identify Key Loyalty Segments

Many companies calculate the average value of their customers, but this approach fails to consider that the "average customer" doesn't really exist and solving for an average customer will lead to suboptimal results. Therefore, the first task of the focused loyalty economics model is to reveal meaningful customer groups — in terms of their value or behavior — based on their self-reported attitudes toward the financial institution.

Depending on the customer groups they use, banks and credit unions may observe a behavioral penalty from low customer satisfaction that is larger than the benefit they observe from high customer satisfaction, or vice versa. Use customer survey responses to home in on the customer loyalty segments that will reward the firm most for CX improvements. Try the following activities to identify these customer loyalty segments:

- **Define business outcomes.** Executives and their teams should determine the business outcomes against which they want to test variables. Some examples include attrition, revenue per customer, revenue growth and wallet share.

- **Distinguish behavioral differences.** When examining customer feedback, identify any behavioral differences among your customers, and group specific customer loyalty segments to improve predictive modeling.

- **Identify breakpoints.** After parsing out customer loyalty groups, calculate the relative financial impact of changes in their loyalty.

Figure 3 shows an example of a financial institution's decomposed customer survey responses in terms of the average revenue per customer for each NPS response on a scale of 0 to 10. This example reveals the relative financial impact of various loyalty segments. In this case, NPS "detractors" — the extremely dissatisfied portion of respondents who answered 0, 1 or 2 — are the customer loyalty segment to target because the behavioral gap between them and their fellow customers is substantial.

Figure 3: Revenue per Customer by Survey Response

Revenue per Customer by Survey Response
Illustrative
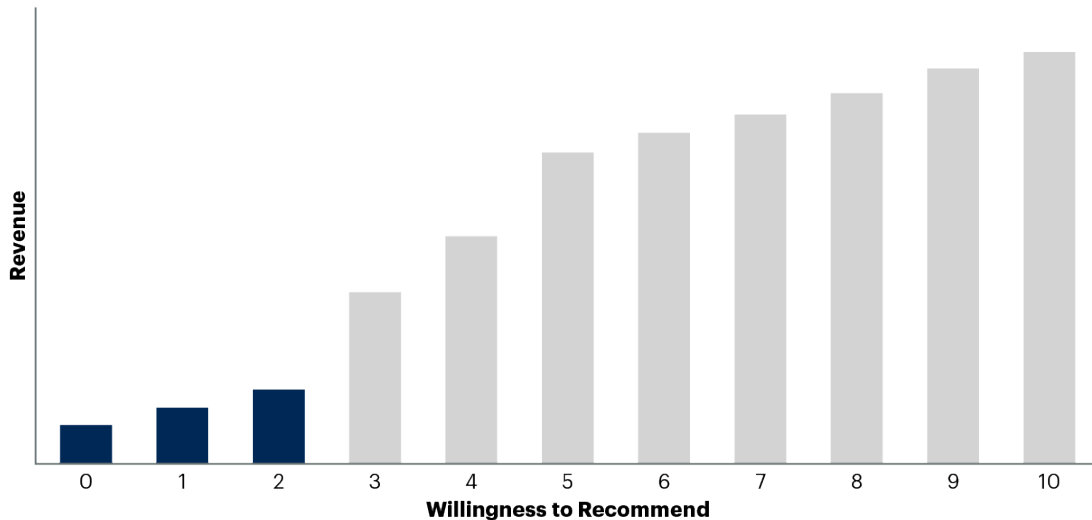
Source: Gartner

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Step 2: Understand Top Customer Issues

Once you've identified key customer loyalty segments based on relative financial value, take a deeper dive to understand the drivers for each CX category. Analyze VOC data to identify common threads that lead to a breakdown in CX for specific groups. Reading the open-ended responses from customer surveys or interviewing customers can support your efforts to synthesize data and organize around high-level themes that appear to drive customer loyalty or disloyalty.

For example, one variable that often drives customer disloyalty is the time and/or effort it takes to interact with the financial institution. Higher effort leads to greater disloyalty. Disloyalty manifests at various points in the customer journey, from making a purchase to understanding billing and disputing charges. Linking specific customers' actions and interactions back to the broader themes helps financial institutions develop a more comprehensive model for testing purposes and then identify which CX initiatives will neutralize drivers of disloyalty.

Issues that most impact the attitudes of specific customer loyalty segments appear in the data with higher frequency and intensity. For example, a detractor segment might cite (in VOC channels) problems with poor call resolution, unfair charges and difficulty in scheduling deliveries more often than any other group of customers (see Figure 4). The higher the frequency at which an issue is cited by detractors, the more "painful" the experience likely is for that group.

Another way to approach this analysis is to calculate the average survey score of a group of customer respondents who cite a particular issue. Then, focus on the customer loyalty segment with the lowest average score and the highest frequency in that issue.

Figure 4: Customer Issue Frequency by Loyalty Segment

Customer Issue Frequency by Loyalty Segment
Illustrative
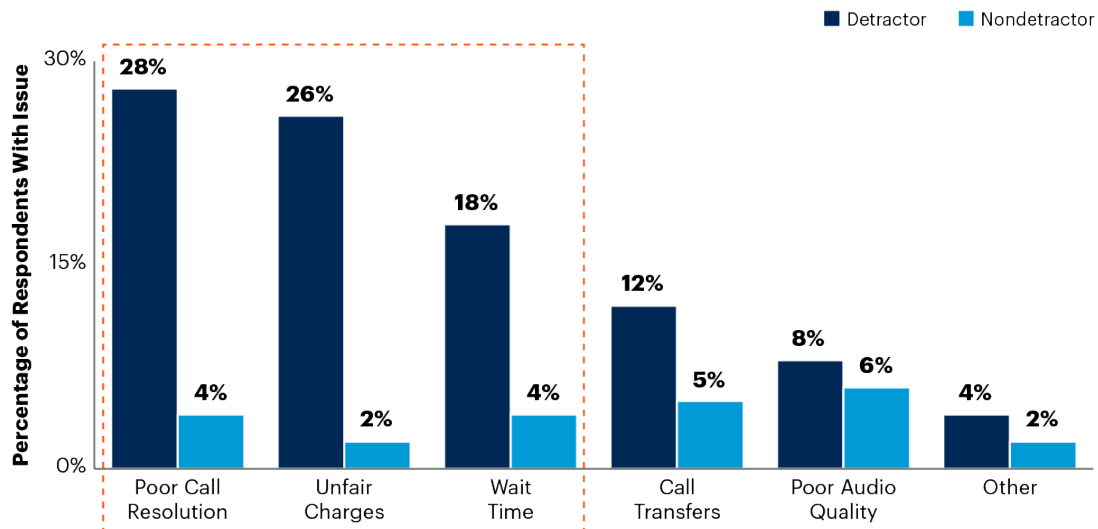
Source: Gartner

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ProTip: Keep Up the Momentum
Most executives and their teams stop after Step 2 hoping their business partners will commit to investments based on the generalized, directionally true findings from Step 1. However, calculating focused CX ROI uses more company data than customer feedback to reveal specific operational drivers of the differential economics associated with each customer loyalty segment, providing more actionable outputs for minimal additional inputs.

Step 3: Isolate Touchpoint Variables to Explain Attitudes and Behaviors

Conventional CX wisdom dictates that companies should have an outside-in perspective, considering the customers' view before anything else. This is because most companies struggle to account for the customer in their internally focused decision-making processes. But while listening to customers is important, credibly projecting CX ROI requires that the company side of the equation receives just as much attention.

In this step, use the high-impact issues identified in Step 2 to hypothesize and correlate specific operational performance variables to the issues and attitudes among key loyalty segments identified in Step 1. Then, analyze using multivariate regressions to determine how these operational performance variables relate not only to the CX metric itself but also to actual business outcomes. Use the following activities to isolate touchpoints to explain customers' attitudes and behavior:

- **Hypothesize operational variables potentially driving top issues.** Hypothesize measurable aspects of customer interactions that might account for the resulting customer attitudes about CX. To ensure the list is comprehensive, include various internal stakeholders in brainstorming sessions to come up with variables to test.

- **Leverage cross-functional partners.** Teams outside your own often have valuable enterprise knowledge and usually have access to important enterprise data. Encouraging cross-functional partnership also cultivates future buy-in to the model's predictions.

- **Avoid using synthetic metrics.** Use raw operational data rather than existing company-defined metrics. Company policy often will create a standard definition for metrics that have certain limitations or exceptions built in. For example, one company's definition of "first-call resolution" included only repeat calls made within seven days that triggered the same agent workflow. This definition discounts the possibility that a customer might have called back 10 days later, after realizing the first "fix" had altered some other aspect of their experience. In cases like this, modeling teams should avoid the predefined metric and focus on looking for organic correlations in the raw data.

Keep in mind that operational variables are not the only metrics your financial institution defines. For example, consider the difference between "on-time delivery rates," "days to delivery" and "delivery date as quoted." The focused CX ROI model requires variables that reflect data elements the organization can uniquely define for each respondent and attach to that response within the dataset. Most financial institutions will find that a deep-dive analysis of key loyalty segments' issues yields a number of driver variables. Analyzing the collection of these variables reveals the set actions the organization took with the customer, which collectively explains the customer's issue, CX feedback score and resulting future behavior (see Figure 5).

Figure 5: Relative Weight of Variables on Key Loyalty Segments

Relative Weight of Variables on Key Loyalty Segments
Illustrative
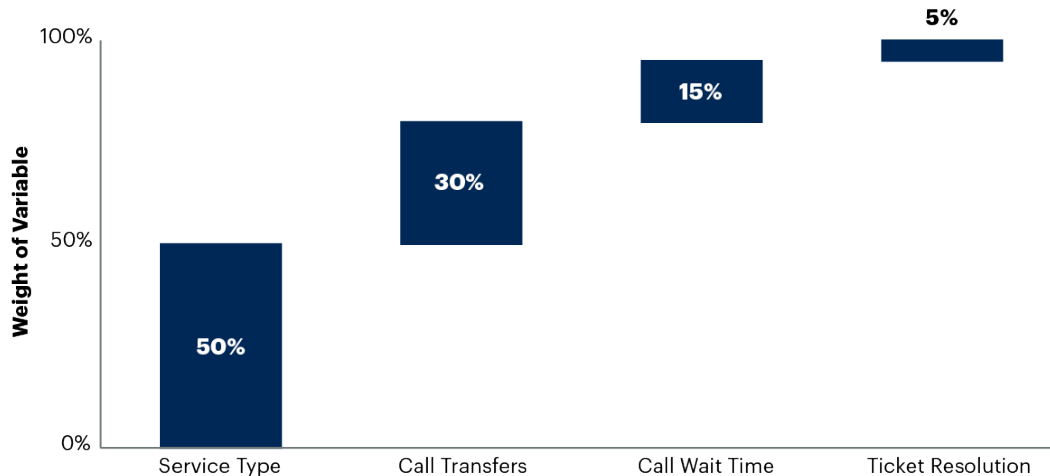
Source: Gartner

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Step 4: Calculate the Costs and Benefits of Altering Touchpoints

With a clear understanding of target customer loyalty segments and a set of predictive, operational variables related to top customer issues, financial services operations leaders can optimize their recommendations based on cost-benefit calculations. This calculation enables financial services operations leaders to optimize CX investments by improving their understanding of what the financial institution must do to change customers' attitudes and resulting behaviors by addressing their top issues.

The relative weight of the key operational variables reveals which interaction variables impact CX most, enabling stakeholders to think flexibly about the most cost-effective way to drive CX improvements.

In certain short-term scenarios, where costs and benefits are realized at the same time, cost-benefit calculations can be as simple as subtraction. However, such scenarios are rare; CX investments often have much longer payback periods. In these cases, organizations will require a net-present-value calculation in which future benefits are discounted to a present value prior to subtracting the upfront costs.

ProTip: Enlist the Finance Experts

Financial modeling is complex, and almost all companies use experts to build and execute models. Working in tandem with finance stakeholders not only promotes cross-functional collaboration and a stronger model but also helps secure stakeholder buy-in and, ultimately, the credibility of the results.

For example, the head of CX at a large home-appliance company was surprised by the finance department's enthusiastic reception of and ability to adapt the model to evaluate other company initiatives. And the CX team at a technology company built a model that its finance department validated and subsequently took ownership of.

Case in Point: Scheduling In-Home Service Calls by Type of Service

Decisions at Cox were based on intuition and what was best for the business instead of specific customer data and tested experience drivers. After building an operational loyalty economics model, Cox realized that many general internal beliefs were incorrect from the customer's perspective. For example, the company learned that service appointments for current customers should be prioritized, as they had a greater impact on overall customer satisfaction than new customer installations. Additionally, the company reconfigured its definition of "on-time technician arrival" for in-home service appointments from anytime within the two-hour window to arrival within the first hour.

Internal calculations demonstrated greater gains in NPS among specific customer loyalty segments, which translated into direct financial benefit.

Conclusion

Understanding how operational drivers of profit and loss relate directly to what matters most to specific customer groups is the key to defining the relationship between CX and ROI in a way that is relevant to business decision makers. Financial services operations leaders play a key role in making these focused CX ROI

calculations given their deep understanding of what drives customer loyalty and business. By quantifying the upside of specific, issue-driven investments in CX while providing operational clarity for stakeholders, banking leaders can provide detailed business cases for improvement initiatives.

About This Research

To understand the motivations behind stakeholders' decisions, we analyzed over 249 business partner decisions that affected the customer, were based on more complex problems or situations, and involved a difficult decision-making process for the business partner. We received additional input from C-suite executives, CX practitioners and thought leaders.