Connecting the Dots: How to Measure and Prove the ROI of Customer Experience Work

An McorpCX Lessons Learned Webinar: Quantify the ROI of customer experience, proving value in terms that business leaders understand, and can embrace.

September 21, 2022

mcorpcx

Your hosts for today:

Stephen Shay
Vice President
McorpCX

- Senior technology and Customer Experience strategist
- Former Microsoft General Manager responsible for building internal Customer Experience practice
- Sales, Operations, and IT background responsible for leading cross-company, transformational initiatives

Tracie Scott
Senior Solutions
Consultant, McorpCX

- More than 20 years' experience in software development and data analysis
- Deep experience in CX programs in the enterprise B-to-B high-tech industry
- Leverages qualitative and quantitative research techniques, journey mapping, and change management tools to enhance customer outcomes

Michael Hinshaw
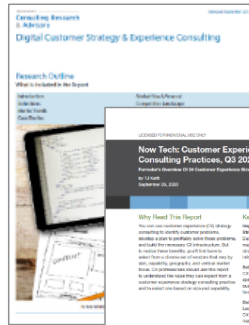Founder and President,
McorpCX

- CX industry pioneer and thought leader on over a dozen "Global CX Thought Leaders to Watch" lists
- Best-selling author: *Smart Customers, Stupid Companies: Why Only Intelligent Companies Will Thrive, and How To Be One of Them*
- Mentor and Richard H. Holton Teaching Fellow at U.C. Berkeley's Haas Business School

mcorp cx

A pioneering customer experience consultancy, we are a boutique with 20 years of 'experience industry' leadership

Media recognition for our thought leadership

Bloomberg Businessweek

CNBC

FAST COMPANY

TIME

THE HUFFINGTON POST

Harvard Business Review

Forbes

## Analyst Recognition as a Top 25 global Customer and Employee Experience expert

Kennedy: Digital Customer Strategy and Experience Consulting

Forrester: Customer Experience Strategy Consulting

Forrester: Employee Experience Consulting

Best-selling book on Digital Customer Experience innovation

SMART CUSTOMERS STUPID COMPANIES

WHY ONLY INTELLIGENT COMPANIES WILL THRIVE, AND HOW TO BE ONE OF THEM

MICHAEL HINSHAW · BRUCE KASANOFF
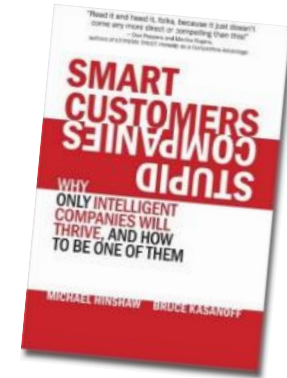
"One of the most exciting business books I've ever read."

- Don Peppers
Founder, Peppers & Rogers

We serve mid-market and enterprise clients across a handful of core industries in consumer, B2B and B2B2C market models

Financial Services	NEVADA STATE BANK	CUNA MUTUAL GROUP	Principal	OneAZ CREDIT UNION	T.Rowe Price INVEST WITH CONFIDENCE
Insurance	AMERICAN FAMILY INSURANCE	The Hanover Insurance Group	Jewelers Mutual GROUP	Protective	RLI DIFFERENT WORKS
Retail	DANONE	BEST BUY	Tanger Outlets	lululemon athletica	STAPLES
Technology	intel	CISCO	Microsoft	RA Rockwell Automation	SanDisk
Other	SFO San Francisco International Airport	Pfizer	Roche	blue california	Biogen

mcorpcx

Customer Experience and Experience Management is all we do, and all we have ever done, across three core areas

Building Experience Management Capabilities

Design and launch XM capabilities, workforce education & practitioner training

Transforming Customer and Employee Experiences

Human-centered experience design, persona, segmentation, journey mapping

Running VoC and Listening Systems ('Listen, Analyze, Act')

92+ Voice-of-Customer programs designed, delivered and operated

Today: Why you should care about CX ROI (+how to link it to CX efforts); Doing the 'right' things the 'right' way; Defensible, credible, and compelling; Doing the math; Beyond the math; Selective listening; In closing…

Tell us about your CX optimization.

We feel it'll cost more to improve our CX versus the benefit we'll get from it. **46%**

We are resource constrained and have other higher priorities. **35%**

We don't understand our customers' friction points. **26%**

Image / Licensed: Adobe Stock

So, how do you prove the benefit of CX? In a word: Value.

Value → More $ In → More $ Per Customer → More Products Per Customer; Longer Relationships

More $ In → More Customers → Better Marketing; Better Sales

Value → Less $ Out → Better Use of Resources → More Efficient Employees; More Effective Employees

Less $ Out → Lower Cost of Resources → Fewer Resources; More Efficient Resources
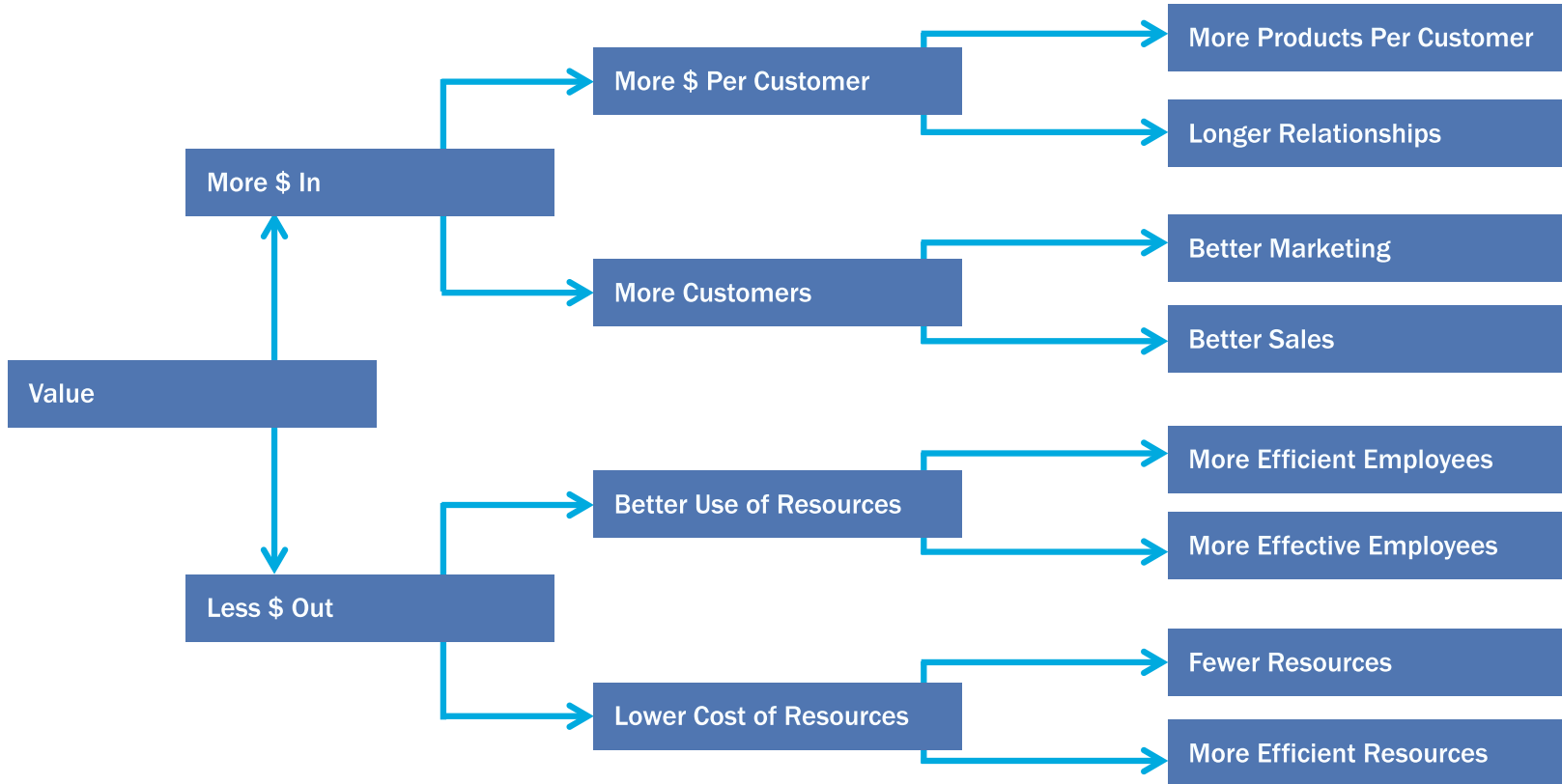
Connecting the dots between customer experience and value means moving from feelings to facts

=

```
More Products Per Customer ┐
                           ├──> More $ Per Customer ──┐
Longer Relationships ──────┘                          │
                                                       ├──> More $ In ──┐
Better Marketing ──┐                                   │                │
                   ├──> More Customers ────────────────┘                │
Better Sales ──────┘                                                    ├──> Value
                                                                        │
More Efficient Employees ──┐                                            │
                           ├──> Better Use of Resources ──┐            │
More Effective Employees ──┘                              │            │
                                                           ├──> Less $ Out ──┘
Fewer Resources ──┐                                       │
                  ├──> Lower Cost of Resources ───────────┘
More Efficient Resources ──┘
```

©

mcorp**cx**
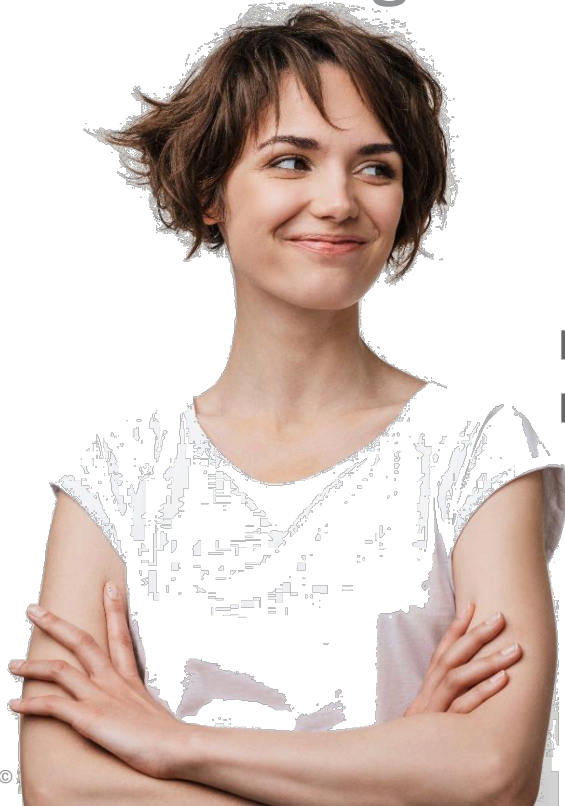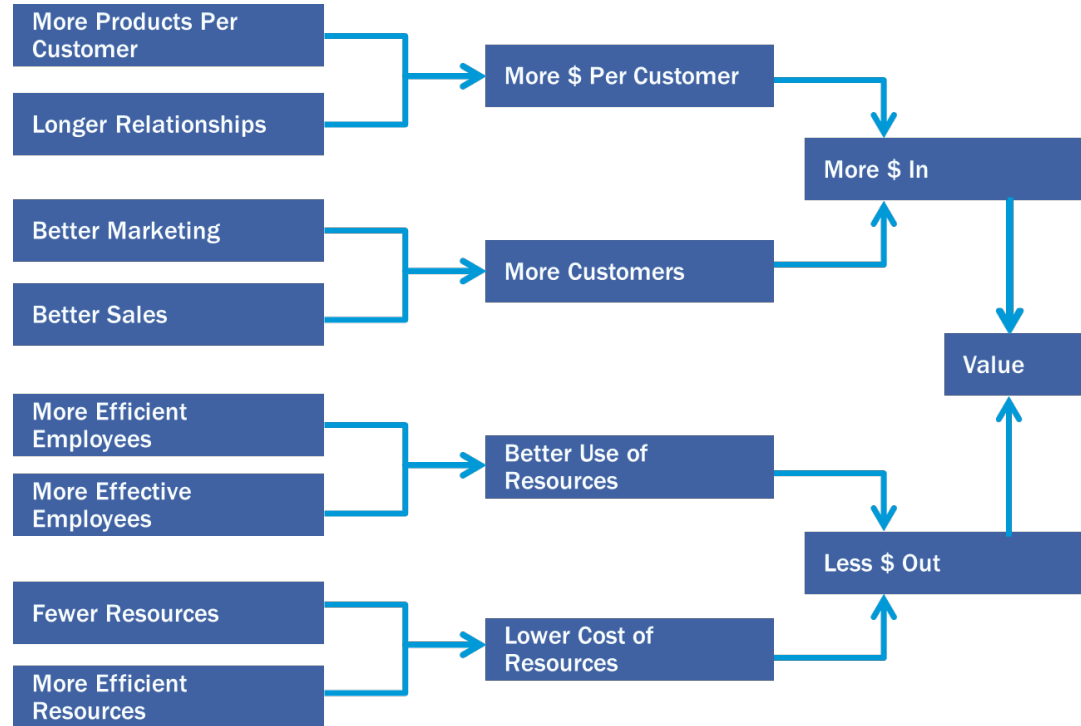
These 5 proven, repeatable steps link CX efforts to ROI

1.
Establish Experience Measures to Test

For Example...

- Satisfaction (CSAT, NSAT)
- Customer Effort (CES)
- Ease of Doing Business
- CX or Loyalty Index
- Loyalty, NPS

2.
Identify Business Metrics that Matter

For Example...

- Revenue
- Retention
- Share of Wallet
- Re-Purchase
- Lifetime Value

3.
Measure CX and Business Linkages

Define the Relationship...

- Informative
- Highly Directional
- Specific and Actionable
- Detailed and Rigorous

4.
Determine Impact of Potential Changes

Understand the Levers...

- Multiple Linear Regression
- Structural Equation Modeling
- Causal Modeling

5.
Prioritize the Highest Impact Changes

Assess the Value...

- Experience Improvement
- Cost Reduction
- Process Improvement
- Revenue Enhancement
- Total Economic Impact

But "connecting the dots" means starting with the end in mind…

1.
Establish Experience Measures to Test

2.
Identify Business Metrics that Matter

3.
Measure CX and Business Linkages

4.
Determine Impact of Potential Changes

5.
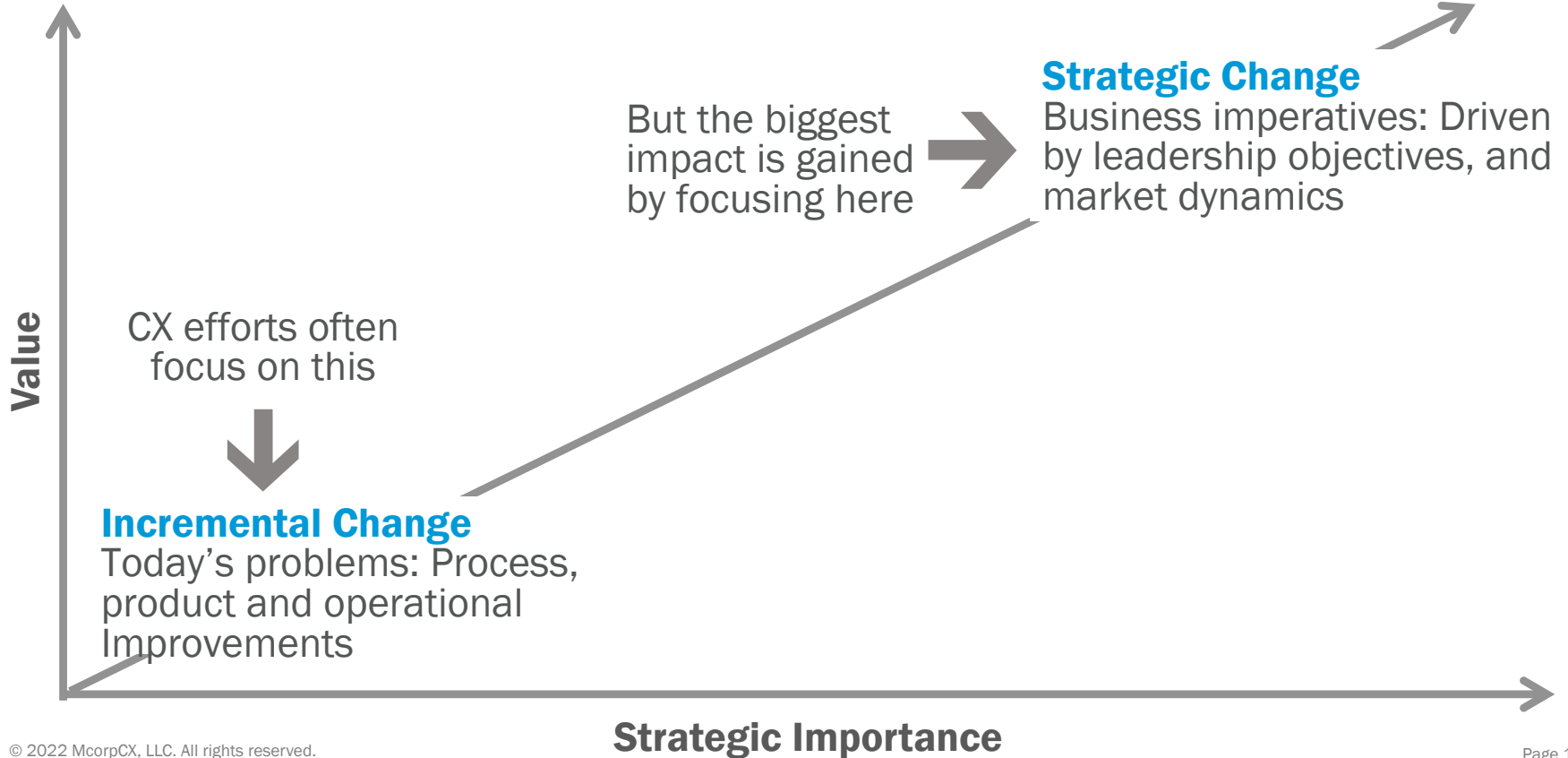Prioritize the Highest Impact Changes

Analysis Process

Analysis Approach

Today: Why you should care about CX ROI (+how to link it to CX efforts); **Doing the 'right' things the 'right' way;** Defensible, credible, and compelling; Doing the math; Beyond the math; Selective listening; In closing…

No. 5: Prioritize the Highest Impact Changes

Value

CX efforts often focus on this

But the biggest impact is gained by focusing here

Strategic Change
Business imperatives: Driven by leadership objectives, and market dynamics

Incremental Change
Today's problems: Process, product and operational Improvements

Strategic Importance

Your actions should demonstrate your leadership at guiding strategy execution by maximizing the impact of experience

Important: Drive Culture Change

Much Harder: Lone Wolf

mcorp**cx**

It's less about a list of actions and more about driving change the 'right way' with organizational (and customer) guidance

Engage and listen to stakeholders...

And prioritize customer insights...

Experience Council

Executive Sponsor

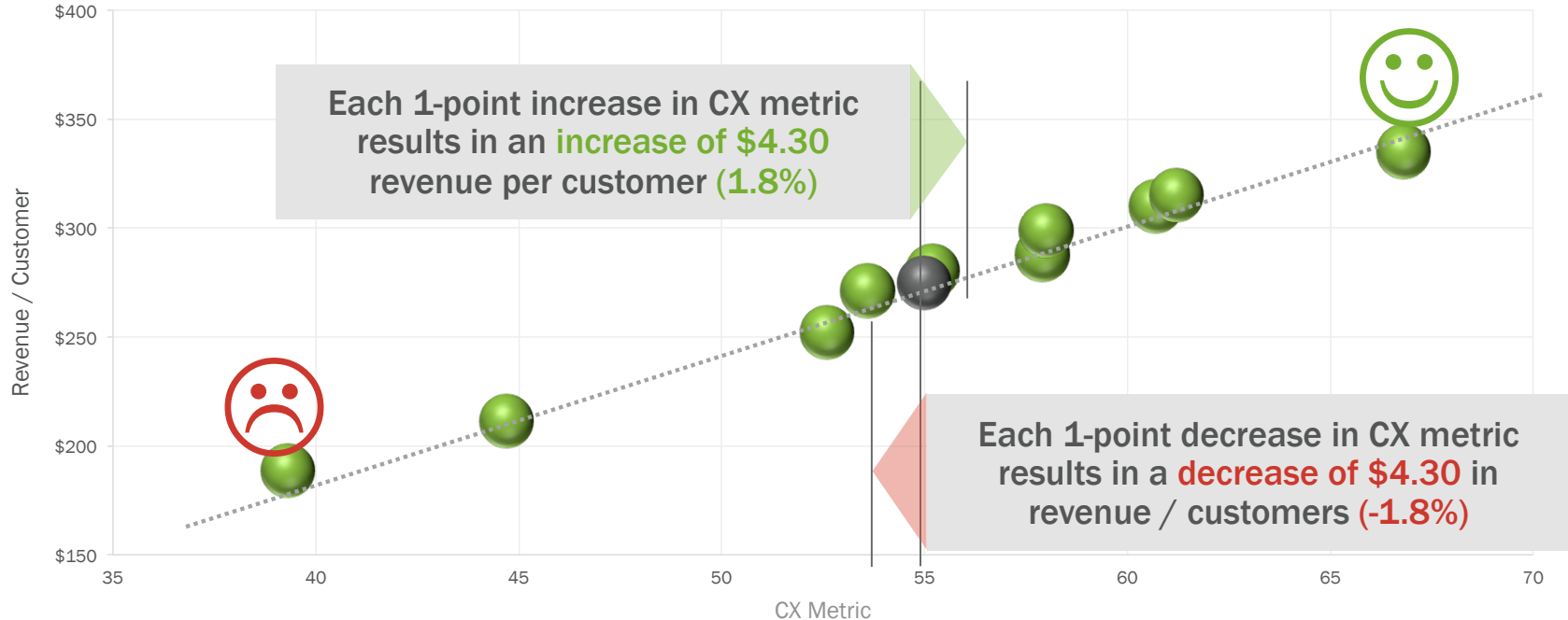**Experience Champions**

Business Leads

Voice-of-Business

Acting on...

Analyzing...

Listening to...

Customer Experience

Customer Council

Journey Mapping

Co-Creation

Design Thinking

Voice-of-Customer

Today: Why you should care about CX ROI (+how to link it to CX efforts); Doing the 'right' things the 'right' way; **Defensible, credible, and compelling**; Doing the math; Beyond the math; Selective listening; In closing...

mcorp·cx

No. 4: Determine the Impact of Potential Changes; Develop and present a defensible mathematical model

Each 1-point increase in CX metric results in an **increase of $4.30** revenue per customer **(1.8%)**

Each 1-point decrease in CX metric results in a **decrease of $4.30** in revenue / customers **(-1.8%)**

mcorp·cx

Our 2019 CX ROI webinar shows how to build defensible mathematical models (Link at end of this presentation...)

Improving CX Boosts Revenue

Every Single Point Increase in CX...

Average: +$4.99 or 2.0%
- Method 1: +$5.68 or 2.1%
- Method 2: +$5.00 or 2.2%
- Method 3: +$4.30 or 1.8%

Poor CX Decreases Revenue

Every Single Point Decrease in CX...

Average of: -$5.47 or 2.0%
- Method 2: +$6.33 or 2.3%
- Method 3: +$4.30 or 1.7%
- Method 4: +$5.79 or 2.1%

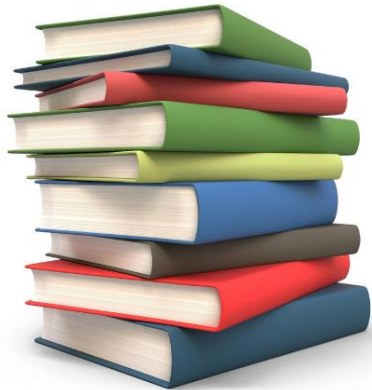## Making Value Easy to Calculate

What's a 1-Point Boost in CX Worth?
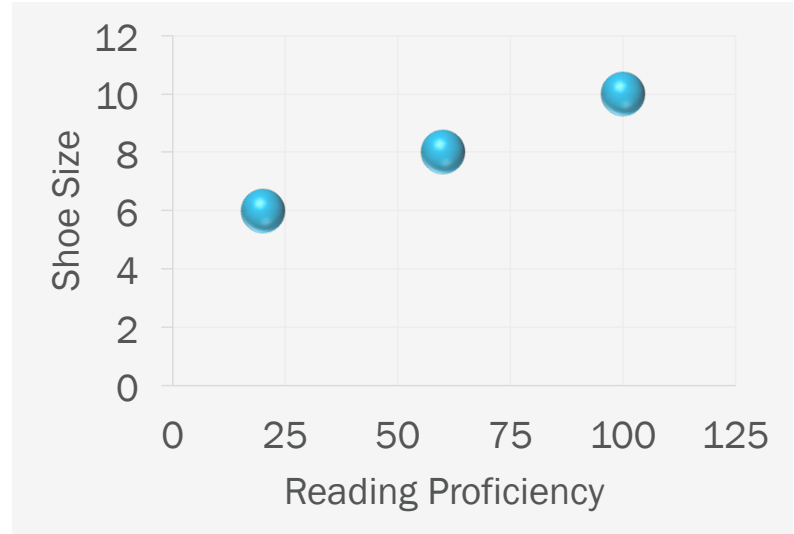
Avg. $4.99 x Number of Customers
- $4.99 x 100,000 = **+$499K**
- $4.99 x 1,000,000 = **+$4.99M**
- $4.99 x 10,000,000 = **+$49.9M**

Beyond defensibility to credibility: Demonstrate SME-level expert knowledge of the impact of operations on outcomes

Not Everything Observed...

Is Causal

mcorp·cx

But making it compelling requires understanding motivations behind executive decisions and aligning accordingly

Where one embraces	Another doubts

Story Resonates

"Enough" Rigor

Aligns to Worldview

Supports Goals

Well Communicated

Not Compelling

Disbelief in Data

Linkages Unclear

Misaligned to Goals

Poorly Communicated

Today: Why you should care about CX ROI (+how to link it to CX efforts); Doing the 'right' things the 'right' way; Defensible, credible, and compelling; **Doing the math**; Beyond the math; Selective listening; In closing…

mcorp**cx**

No. 3: Measure CX and Business Linkages

Informative	Highly Directional	Specific and Actionable	Detailed and Rigorous
Relatively Defensible	**Correlation Analysis**	**Multiple Regression**	**SEM or Causal Modeling**
▪ Based on 'reasonable assumptions' ▪ 'Enough' analysis (e.g. top 20% vs bottom 20%) to support hypothesis ▪ 'Directionally defensible'	▪ Identifies what might be related to desired outcomes ▪ Focuses you on where to pay more attention ▪ A degree of confidence	▪ Quantifies strength of key drivers on a single outcome ▪ Can prioritize key drivers based on relative impact on one outcome	▪ A predictive model ▪ Quantifies key driver effects on multiple outcomes ▪ Prioritizes drivers based on impact on multiple outcomes

Degree of Statistical Rigor →

Driver analysis reveals measurable relationships, and indicates aspects of the experience we should target to drive value

Factors to Model	Key Drivers	Outcome(s)

- **18 Touchpoints**
- **14 Attributes**
- **9 Moments of Truth**
- **6 Journey Stages**
- **8 Desired Outcomes**

We learn which factors are drivers, and the direct and indirect effects on outcomes...

Key driver #1
Indirect effect

Key driver #1
Direct effect

Key Driver #1
(e.g. Mobile CX)

.45

.50

Key driver #2 is a mediator of the relationship between key driver #1 and the outcome

Key Driver #2
(e.g. Call Center)

.35

Outcome 1
(e.g. Profit)

Key Driver #3
(e.g. Feel Valued)

.25
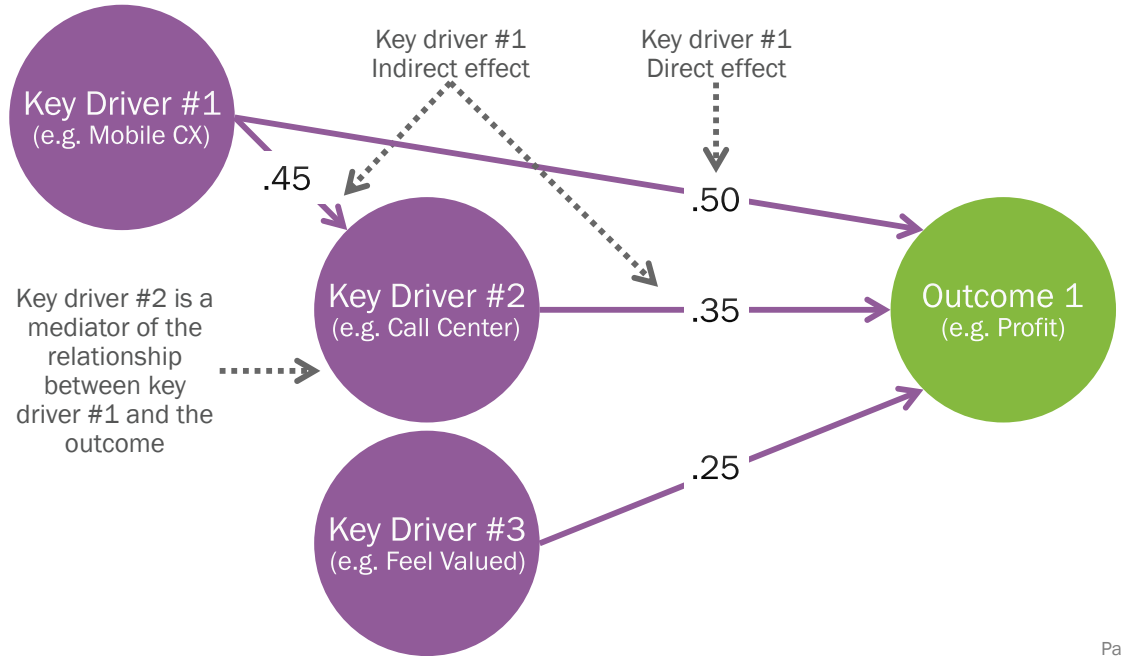
Mathematical models are never complete

"There comes a point where we need to stop just pulling people out of the river.

We need to go upstream and find out why they're falling in."

- Desmond Tutu

Keeping in mind that direct observation (always) provides unique insights, because models are rarely complete
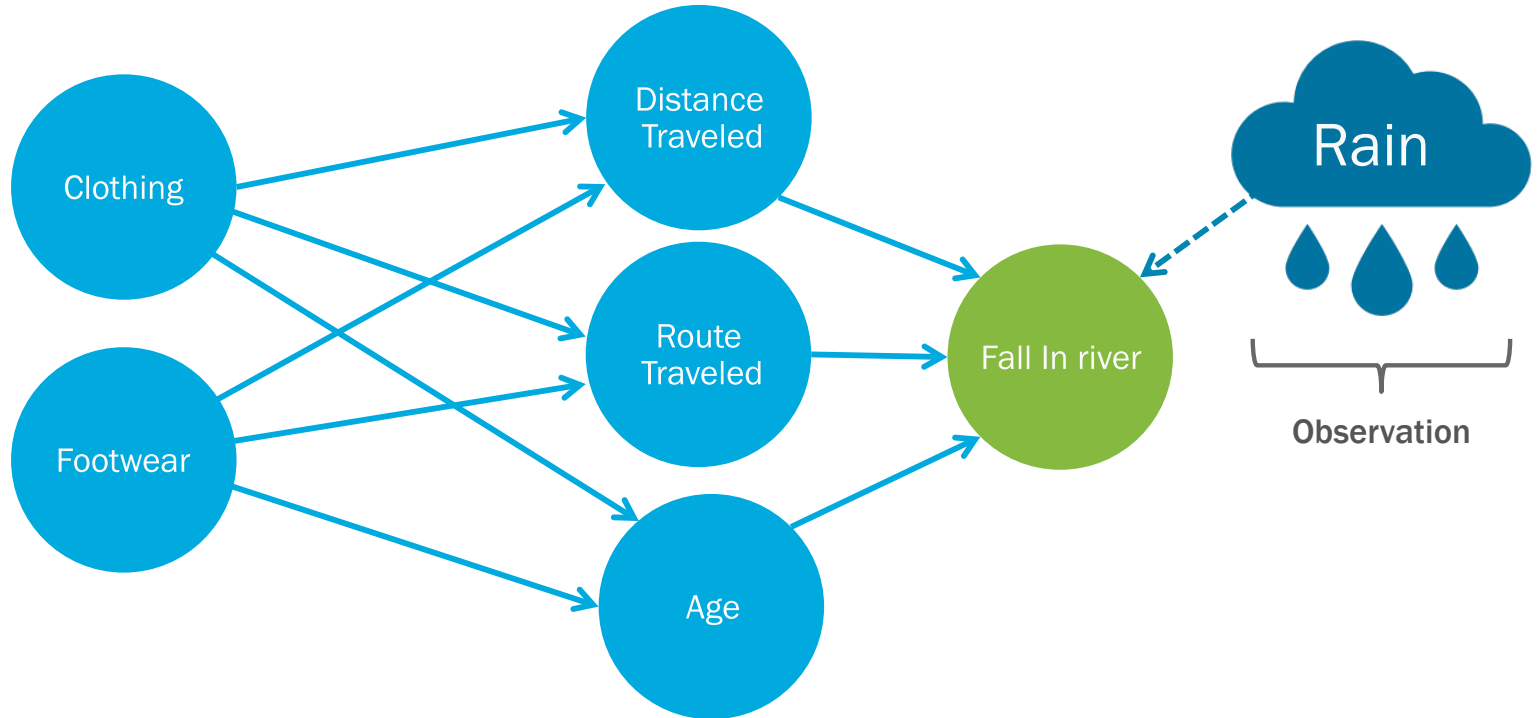
Today: Why you should care about CX ROI (+how to link it to CX efforts); Doing the 'right' things the 'right' way; Defensible, credible, and compelling; Doing the math; **Beyond the math**; Selective listening; In closing…

No. 2: Identify Business Metrics that Matter

Beyond the Math: Finding the right executive metric is pivotal to success:

- Leaders are goaled on different metrics.

- Which leader(s) are critical for support, resources and funding?

- Which metrics are important to them?

- Why are those metrics important?

Recognizing that the choice may not be obvious, because appealing across business units and leaders requires balance

Revenue?

Retention?

Share of Wallet?

Re-Purchase?

Lifetime Value?

Improving one metric may have a detrimental impact on another:

- Cost vs. Bookings
- Acquisitions vs. Retention
- Share of Wallet vs. Cost

mcorp·cx

How do your leaders need to be communicated to?
(Plus: Don't assume they 'care' about customer experience…)

Controls Emotions

Asks ← | → **Tells**

ANALYTICAL

Needs: To be Right
Prefers: To Think
Weakness: Pushing

DRIVING

Needs: To be Right
Prefers: Action
Weakness: Listening

Needs: To Feel Safe
Prefers: Relationships
Weakness: Taking Action

Needs: Approval
Prefers: Spontaneity
Weakness: Impulsiveness

AMIABLE

EXPRESSIVE

Displays Emotions
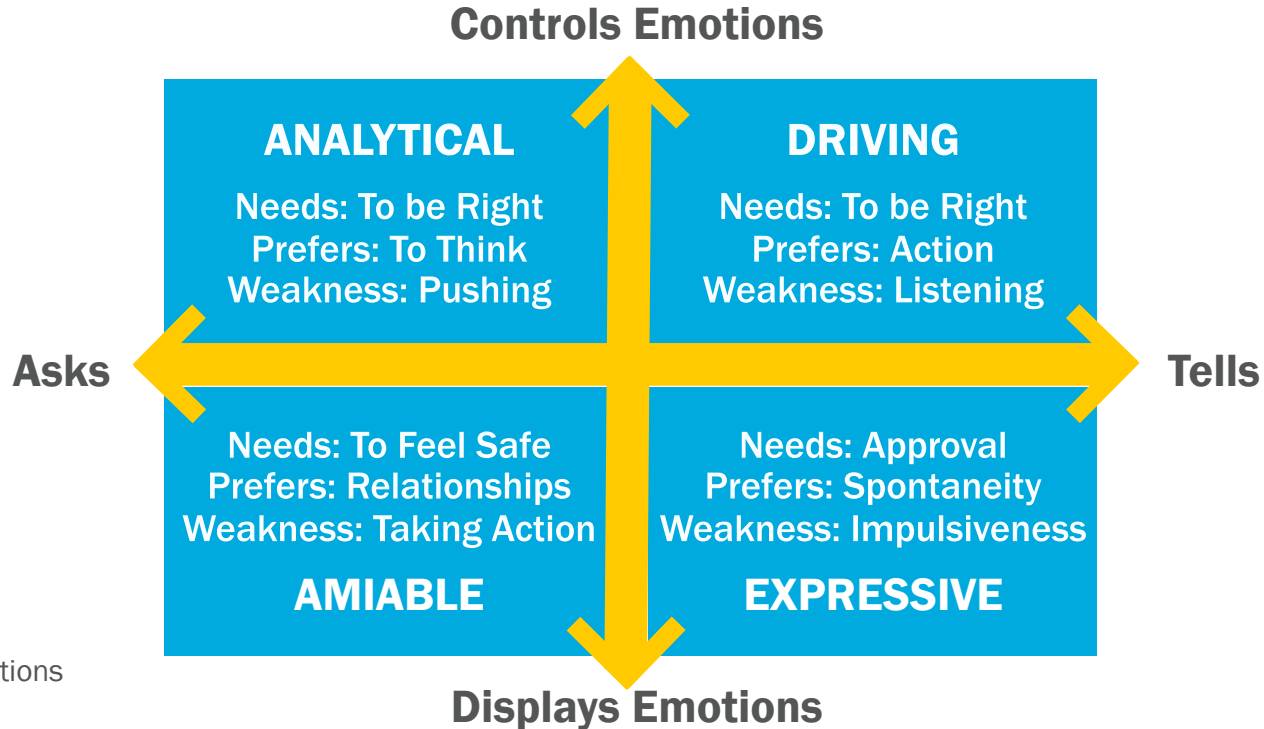
Merrill Reid
Social Communications
Style Framework

Today: Why you should care about CX ROI (+how to link it to CX efforts); Doing the 'right' things the 'right' way; Defensible, credible, and compelling; Doing the math; Beyond the math; Selective listening; In closing…

mcorp·cx

No. 1: Establish Experience Measures to Test

Business: Results	**Outcome** ("Measured")	Impact of what customers do on achieving business strategy and goals	**Business Outcomes**
Customers	**Behavior** ("Observed")	What customers do, informed by what they think	**Behavioral Measures**
	Perception ("Subjective")	What customers think about, and as a consequence of, what we have done	**CX Measures** (e.g. Overall Experience, NPS)
Business: Operating Model	**Operations** ("Observed")	What we actually do 'to and for' our customers	**Operational Metrics**

Linking experience measures back to business outcomes with metrics that allow you to assess performance against goals
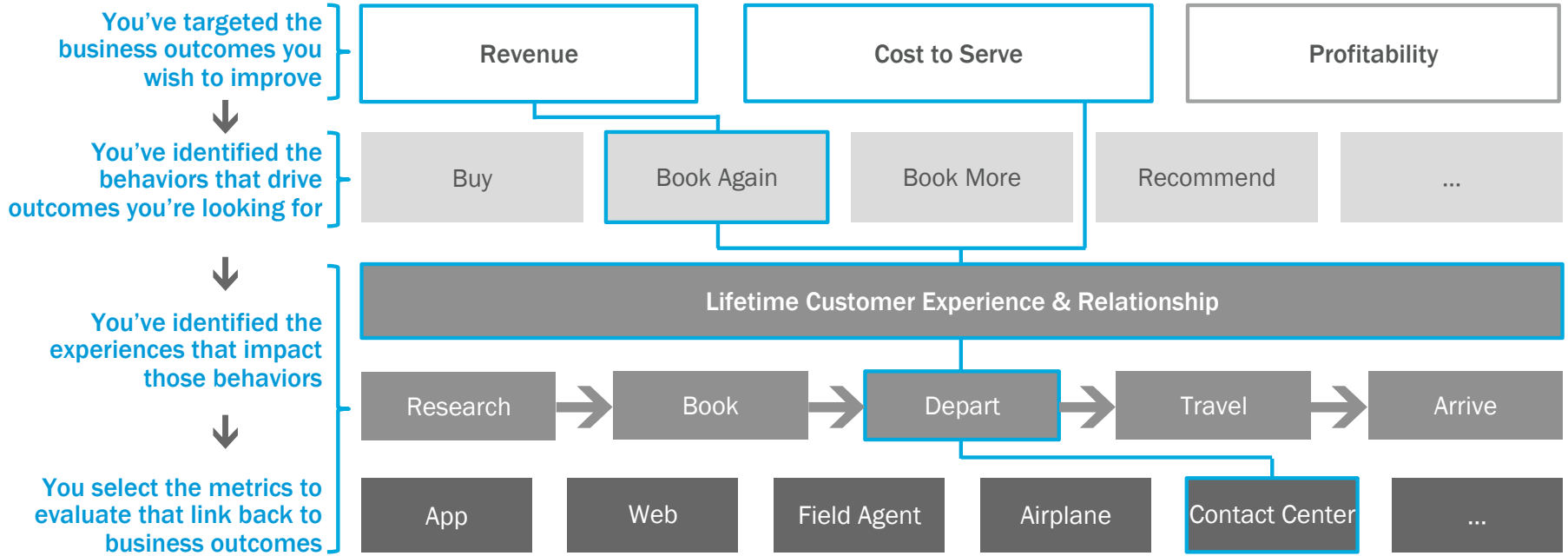
You've targeted the business outcomes you wish to improve

Revenue	Cost to Serve	Profitability

You've identified the behaviors that drive outcomes you're looking for

Buy	Book Again	Book More	Recommend	...

You've identified the experiences that impact those behaviors

Lifetime Customer Experience & Relationship

Research →	Book →	Depart →	Travel →	Arrive

You select the metrics to evaluate that link back to business outcomes

App	Web	Field Agent	Airplane	Contact Center	...

Today: Why you should care about CX ROI (+how to link it to CX efforts); Doing the 'right' things the 'right' way; Defensible, credible, and compelling; Doing the math; Beyond the math; Selective listening; **In closing...**

mcorp**cx**

In closing: Six takeaways...

Align to Strategy
Invest effort to align vision for customer experience with Business Strategy

Support Big Bets
Engage with "Big Bet" efforts for optimal customer outcomes

Align to Leadership
Intentionally link CX efforts to the business metrics that most important to execs

Stay Connected
Engage across the business to build consensus and find opportunities

Do the Math
Build a defensible linkage between CX Action Plans and key results

This is hard...
Embrace a resilient, persistent spirit and growth mindset to lead the pack!

What questions do you have? Let's chat..

Michael Hinshaw
D: 415-526-2651
mhinshaw@mcorp.cx

Stephen Shay
D: 425-761-4000
sshay@mcorp.cx

Tracie Scott
D: 408-621-5568
tscott@mcorp.cx