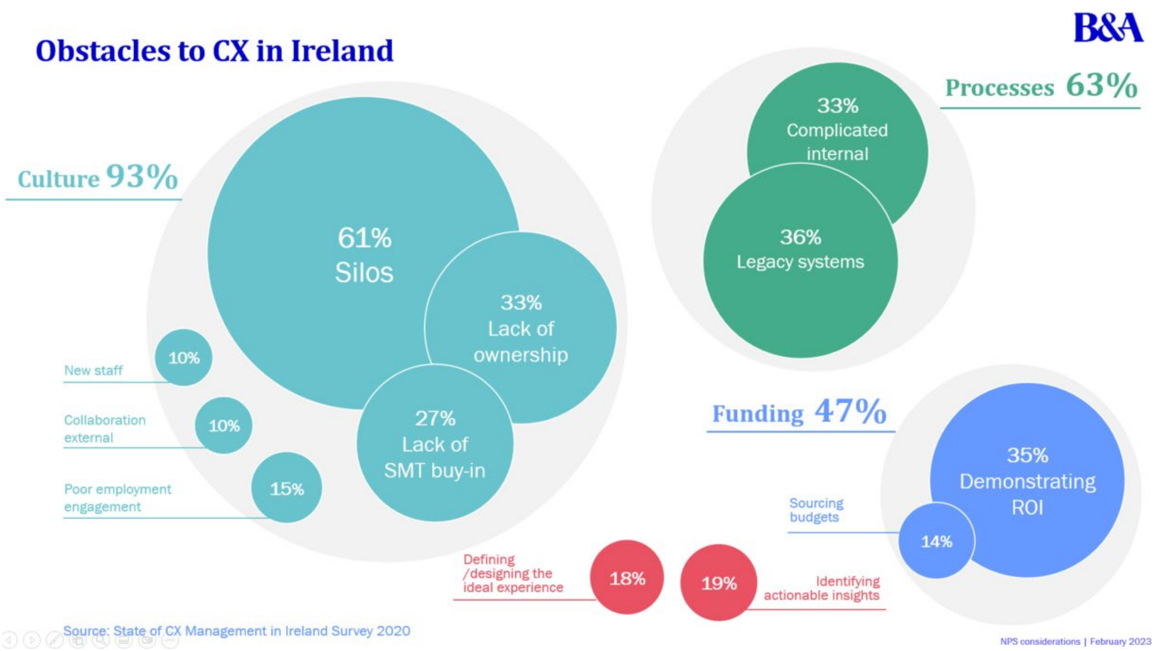
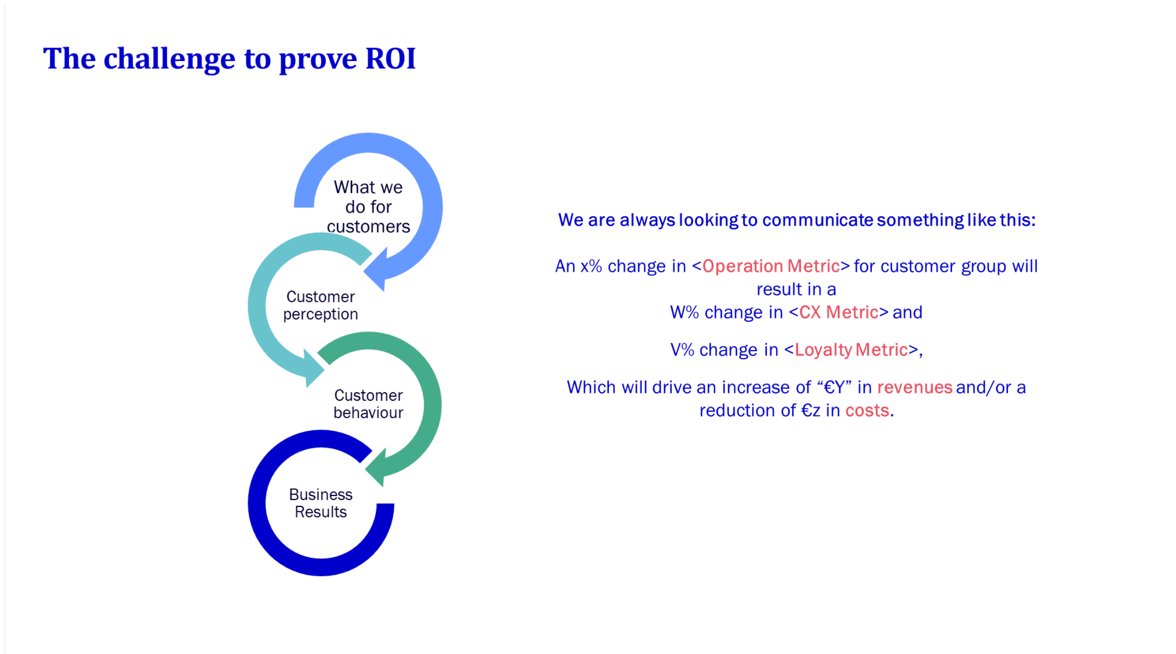
How to start making the case for investment in customer experience

By Clare Kavanagh, CX Specialist, B&A
February 2023

Making the case for investing in and improving CX has never been more relevant. Corona virus restrictions are taxing our ability to offer consistent, high levels of customer experience compounded by the challenge of having to do more with less as results come under pressure. This was an important issue for the CX community even before Covid. In the CXPA 2020 State of CX Management survey, 35% of Irish respondents identified demonstrating ROI as a key challenge to their efforts in championing the customer, over 40 percent of CX practitioners claimed they don't know how to do this work. The need for training and support was clear.



To gain support for CX investment we must make the link to business results. We need to show (all the way to the C-Suite) that what we do for customers has an impact on how customers perceive us. That this perception impacts on consumer behaviour, which impacts business results. This impact on results is key - CEOs and Directors are required (by something called their 'fiduciary duty') to grow the business and deliver returns to shareholders. Top and bottom line impacts are important.

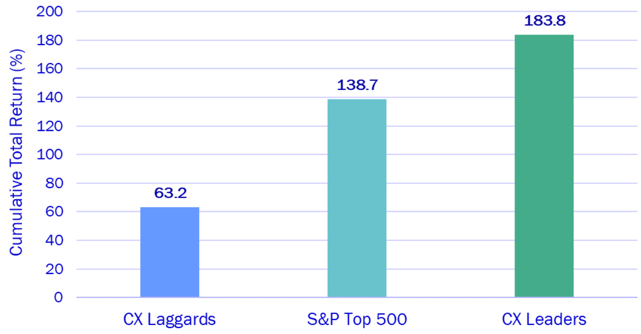


Start with simple quick and easy analyses, using available data. You'll be surprised how powerful this can be to start a discussion on the value of CX. Most of us know that organisations who excel in CX outperform the laggards, and also the general market. This example from Watermark Consulting is one of many. They are a useful reminder or a prompt to start the conversation. In our experience it is even more powerful to do a similar analysis based on your own data.

Global return on CX investment

CX LEADERS OUTPERFORM THE MARKET

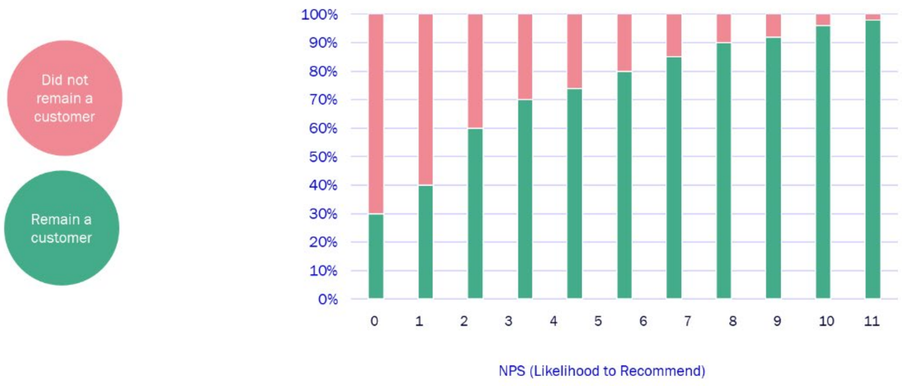
8-year Stock Performance of Customers Experience Leaders vs. Laggards vs...S&P 500 (2007 – 2017)



The Customer Experience ROI Study | Watermark Consulting

Building the case should remain simple. In the example below we show the relationship between churn data and NPS. Data that most organisations probably already have. Simple – but a clear message. Those most likely to churn are those with low NPS scores. Change the profile, change the business results...

Illustrating the impact of loyalty



Take a next step then and analyse the impact of changing satisfaction levels on revenue. Bringing us closer to the impact on results in financial terms.

In the example below, NPS is used as a proxy for satisfaction and we calculate revenue gain (€17 million!) by improving NPS/satisfaction. While more sophisticated, the steps are still simple to take and easy to communicate.

Customers with higher NPS scores spend more of their wallet with the company (higher Share of Wallet, SOW).

Calculate the total revenue and revenue contribution for Promoters, Passives and Detractors (number of customers x share of wallet by category spend)

Compare against the total revenue assuming 3% of the base or 18,000 customers moved from Passives to Promoters. Yielding a revenue lift of €17 million from a small move of customers to the promoter category!

This is a simple analysis. It doesn't include costs of improving CX and assumes that former Passives will react like Promoters. Its value is in its simplicity, providing a starting platform to mobilise and secure CX investment.

Calculating the impact on revenue of improving satisfaction levels (all other aspects remaining the same)

NPS +35	% of Customers	Share of Wallet	Category spend p/a	Number of customers	Current spend with ACME inc.* (Millions)	Number of customers (3% of customers moving from Passives to Promoters)	Future spend with ACME inc.* (Millions)
Promoters	44%	93%	€2,000	264,000	€491.0	282,000	€524.5
Passives	47%	45%	€2,000	282,000	€253.8	264,000	€237.6
Detractors	9%	8%	€2,000	54,000	€8.6	54,000	€8.6
Total				**600,000**	**€753.4**	**600,000**	**€770.07**

Increase in spend with ACME inc. from a movement of 3% of customers from Passives to Promoters

€17 million (+2)

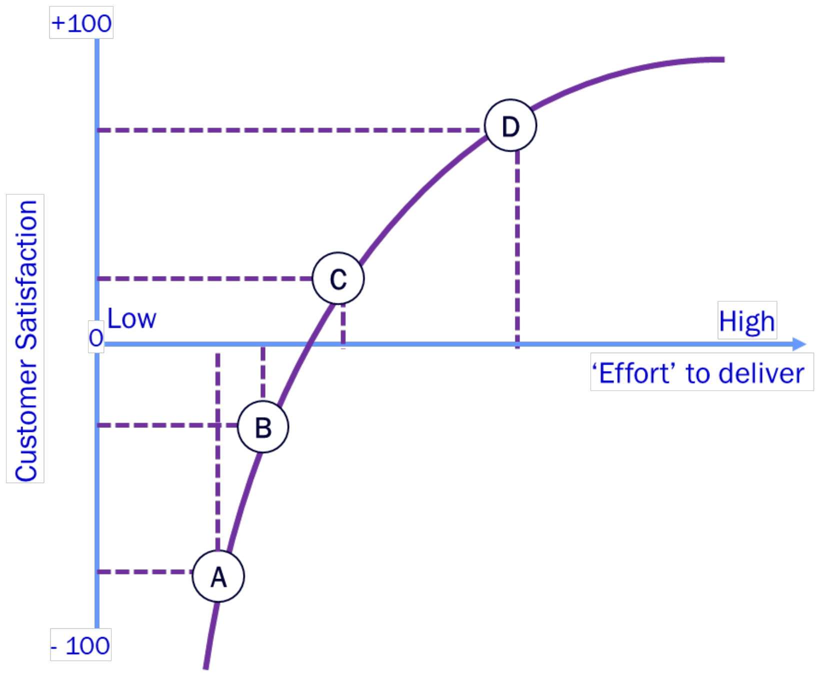
*(Avg. Category spend x No. of customers x Share of Wallet)

Diminishing Returns

One thing we should bear in mind that is that the relationship between return and investment in CX improvements is often not linear. In our experience as an organisation has high standards of CX making incremental improvements cost more.

For example in the graph below:

- Point A shows that there is a cost to delivering even a 'bad' experience
- All points (A – D) are equidistant on the vertical axis, representing equal improvements (in absolute terms) in customer satisfaction.
- However, the intervals on the horizontal axis get progressively bigger as customer satisfaction levels grow, showing that the effort or spend needed for incremental improvements are more.



Source: Peter Dorrington, XMplify Consulting

The unfortunate truth of CX is that; the better you are, the harder it is to improve and sustain momentum. In addition, it is the case that, once an 'acceptable' level of satisfaction is achieved, other factors (such as price or location) can start to take precedence in the customer's decision-making criteria.

Finally, some tips to guide you in making your case for investment:

1. Prioritise a single view of customer data. To make the link to business results, you will eventually need customer data across all stages of the customer journey.
2. Ensure your data is robust. To convince executives to invest in your project over others the data needs to be defendable, representative of the segment of interest and with a low margin of error.
3. Look for help and advice. There are many in your organisation who deal with these types of analyses. Seek out the help and advice of the CFO team. They will be a good guide as to where to get the data you need and also may help with the analysis. A joint pitch with the CFO as your partner will likely be a lot more convincing than the same argument from you alone.
4. In our experience at many can be overwhelmed by this work. We advise that you start with a tight focus. As you grow in confidence the C-Suite's confidence in you will also grow as they find your arguments are strong and rooted in financial and business fact.

This article is based on a webinar in the CXPA Ireland Summer 2020 series by Clare Kavanagh and Peter Dorrington XMplify Consulting.

B&A

Delve Deeper