STRATEGIES FOR CALCULATING THE ROI OF YOUR VOC PROGRAMME AND HOW TO ACCOUNT FOR THE VALUE IN IT

CXINDEX

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When setting out on a new Customer Experience programme you need to be able to show a quantifiable return to the business. It is well known that a digital Voice-of-the-Customer (VoC) initiative can deliver tremendous financial returns for any organization but measuring the precise monetary value of CX programs is challenging, as not all of the benefits are quantifiable and in some circumstances people fail to recognise the benefits that they are delivering.

In this White Paper, we set out some strategies for measuring ROI from a CX programme. People often forget some of the value that is being brought and here we bring some of the lessons that we have learnt at CX Index on our journey to date. While it should seem obvious that improving customer satisfaction, loyalty and brand advocacy is a long run game to improving profitability, executives and investors often expect an immediate understanding of potential results to justify the monetary expenditure of their investments into VOC programs. As Lynn Hunsaker notes, a successful VoC initiative is not about transforming the customers, it is about transforming the company.[1]

The inherent logic of a VoC program is that it increases the number of happy customers; happy customers spend more than average; therefore profits increase. Ultimately, measuring the value of a VoC program must be done through qualitative analysis, rather than through traditional accounting metrics and requires an understanding that the short-term benefits may not exist.

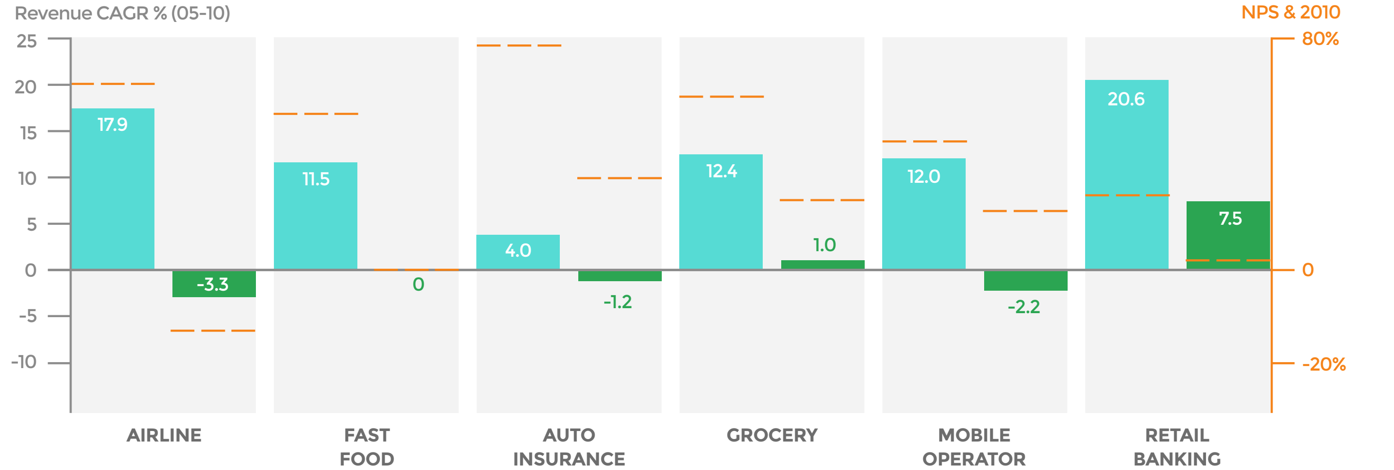
[2]

GREAT CUSTOMER EXPERIENCES BOOST BUSINESS RESULTS

Research has consistently found that companies that deliver outstanding customer experience achieve superior business results compared to their peers.

Leader revenue growth
Laggard revenue growth
NPS

NPS VS. REVENUE GROWTH RATES (U.S. EXAMPLES):



[3]

The strategies outlined below will enable you to develop a process for measuring the ROI of a VoC program implementation. You will learn that the process requires time and patience. If poorly planned, it will be destined to fail, as poorly persuaded executives will lead to a rocky implementation.

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1 Hunsaker, L., 19 April 2017. Value Chain Solution to VoC ROI. CXPA.
2 Powton, M., 20 March 2017. Connecting VoC with ROI: Making a business case for your Voice of the Customer Program. Customer Think.
3 Sirohi, N. & Dickey, J., 2014. The Omnichannel Evolution of the Contact Center. Customer Strategist, 6(3).

ORGANIZE STAKEHOLDERS

According to Gartner, there are three groups of stakeholders that must be considered when endeavoring on a VoC initiative: finance, IT and the business process owners who are affected.[4] It is essential that all of the departments that may influence the VoC initiative understand the perspectives of the other stakeholders and the costs associated with the project. Alignment with your finance team is of particular importance as it is the part of the organisation that is best equipped to understand how CX initiatives can bring operational and financial value.[5] As Gartner notes, IT-enabled business initiatives often fail due to diverging perspectives on objectives amongst key stakeholders. The entire venture must be collaborative or it will ultimately fail.

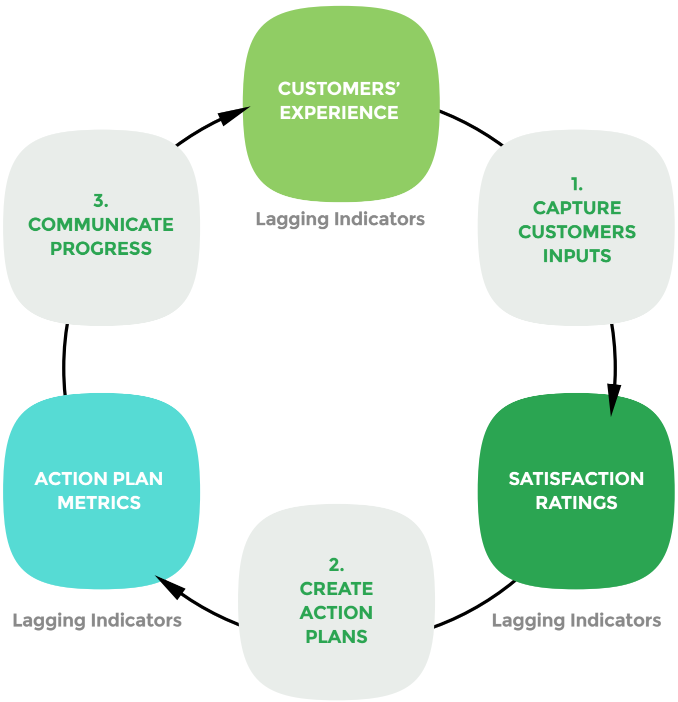
SET ATTAINABLE GOALS

If we make the assumption that relevant stakeholders are on board, communication is the key to success. With buy-in achieved, next you need to ensure that people know what the goals are. IT and other relevant departments must engage in a conversation to ensure everyone understands the relevance, potential and capabilities of the program.

Ultimately, through this knowledge transfer, IT will grow to understand how the technology will influence the day-to-day operations of the teams elsewhere in the organization and the various business owners will understand how the technology will affect their part of the business. It is important to mitigate against any misunderstandings regarding the impact of the program on each relevant department and on its revenue.

Gartner cites this as the most important part of any VoC process, as determining what is reasonable within an organization will require an audit of all stakeholders' priorities and the corresponding accountability.[6]

Based on the knowledge gained from these conversations, you should be able to clearly define the desired outcomes and corresponding responsibilities through negotiations amongst the key stakeholders.



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Deciding on appropriate outcomes is important as the outcomes often form the basis for analysis, which helps you to determine the customer interactions that have the biggest impact on performance. These are often referred to as the drivers of CX. A key understanding of these drivers will enable you to better allocate resources.

4 Davies, J., 30 April 2018. How to Measure the ROI of a Voice of the Customer Program. Gartner.
5 Williams, L., 22 June 2018. Three essential strategies for providing financial return on customer experience. Customer Think.
6 Davies, 2018.
7 Hunsaker, L., 2017.

SELECT METRICS, INTEGRATE DATA & CAPTURE FEEDBACK

No two organizations are the same and the metrics that make sense for your business might not make sense for others. In terms of specific VoC metrics, focus on those associated with how VoC data affect operational performance and those that measure how well the program is performing (i.e., survey response rate).

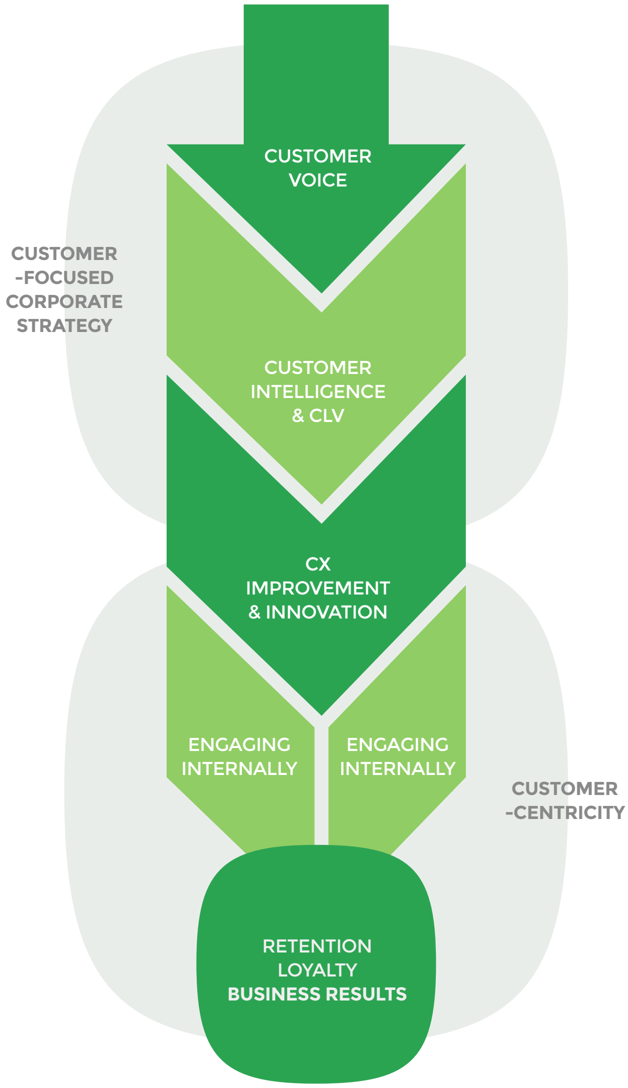
Your financial team can identify the high-level financial metrics that can be quantitatively linked back to accounting metrics by determining the parts of the business that will be influenced by an improvement in customer experience.[8] In addition, traditional CX metrics are in no way financial but are highly desirable to gauge the impact of the program and how customer experience is improving.

Furthermore, evidence has shown a relationship between NPS and annual revenue, so these measurements can supplement any financial metrics when explaining the ROI of a VoC initiative. Bruce Temkin suggests grouping customers based on CX metrics and using business metrics to analyze the difference between the groups.

To gain key insights into your customer base, link profiles of your customers, transactional data and behavioral data with CX metrics. Prescriptive analytics should then be applied to recommend your best course of action they will enable you to determine what improvements are important and reasonably attainable.[9]

Depending on your goals and business model, measurable business outcomes such as purchase amount and frequency, product returns and number of calls to customer support may be included when you ultimately calculate ROI.[10]

As Peter Kriss notes in Harvard Business Review, a transaction-based business will be concerned with the purchase amount and return frequency, while a subscription-based business will be concerned with upselling and retention.[11]



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Hunsaker suggests looking at metrics as a value chain to maximize the ROI of a VoC program.

Click **here** to download our CX metrics infographic.

8 Williams, 2018.
9 Temkin, B., 2014. Turn Customer Metrics Into Business ROI. Customer Strategist, 6(3).
10 Reisenwitz, C., 7 July 2017. How to Quantitatively Measure Customer Experience ROI. Capterra.
11 Kriss, P., 1 August 2014. The Value of Customer Experience, Quantified. Harvard Business Review.
12 Hunsaker, L., 2017.

ACCOUNT FOR VALUE THAT QUALITATIVE DATA BRINGS

When looking to calculate the value of a VoC initiative, one area that often gets overlooked is the impact of qualitative data. VoC programmes often come under pressure when the impact of results is not shown in a short time frame, and there are certain areas where quick wins can be uncovered.

One such area where value is often not accounted for is from within customer comments. While businesses will often make changes based on customer comments, frequently when these changes occur they are not accounted for. This is a lost opportunity, as when the time comes to review the VoC programme, it is very useful to be able to state what has been implemented because of the programme and to be able to specify from where the changes are being derived.

The following types of questions can unlock ample value, but when people look to calculate ROI the value is often forgotten:

What can we do to improve the quality of experience?

Why did you have a poor / great experience?

What can we do better next time?

There should be a place, within your software application is best, where all actions that have been taken on comments are noted. Any of the actions that are taken on foot of a VoC initiative should be costed and accounted for.

A customer suggestion could, for example, lead to the introduction of a new product or a change in process. If a new product is introduced, how successful has it been and has it added value to the bottom line? Do not forget to account for these actions when calculating the ROI of CX.

ACCOUNT FOR VALUE OF INCREASED ADVOCACY

It can be difficult to place a value on an increase in brand advocacy and the value of customer comments on review sites. That being said, we do know that people flock to sites such as Google Reviews, Trustpilot and TripAdvisor to review your brand and that

- 90% of consumers read online reviews before visiting a business
- 86% of people will hesitate to purchase from a business with negative online reviews
- Customers are likely to spend 31% more on a business with "Excellent" reviews[13]

This is an area where there is little research, as it can be very difficult to quantify, however, one study conducted by the Cornell Centre for Hospitality research quantified the value of online reviews for hotels

> **"A one-point swing on Travelocity's 5-point rating scale on average sways room rates by 11%. Factoring in multiple review sites, a 1% increase in the hotel's "online reputation score" was found to boost RevPAR by almost 1%, the study found.[14]**

These results are very significant and show clear value and ROI in this aspect of customer advocacy.

Note: In building out CX Index™ platform over the past six years, we have continuously innovated and developed features on our journey to help our customers win at customer experience. A powerful by-product of this and valuable feature is our Social Advocate™ tool. Social Advocate™ is a really neat application that automates the process of asking your happy customers to leave feedback on review sites and other social media platforms, if you would like to learn more about it you can download our brochure **here**.

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[13] Saleh, K. (n.d.) The Importance Of Online Customer Reviews Infographic. Invesp.
[14] Anderson, C.K. & Lawrence, B., November 2014. The Influence of Online Reputation and Product Heterogeneity on Service Firm Financial Performance. Cornell University School of Hotel Administration.

MEASURE – TCO

The improvements targeted in the previous step must be translated into potential financial returns. From the plan outlined above, the Total Cost of Ownership (TCO) should be measurable. An organization will find that either the benefits are less than the cost of the initiative or that there will be an acceptable return when weighing the benefits and costs. This step will ultimately determine if the program is worth pursuing and provides a mechanism for monitoring the success of the initiative.

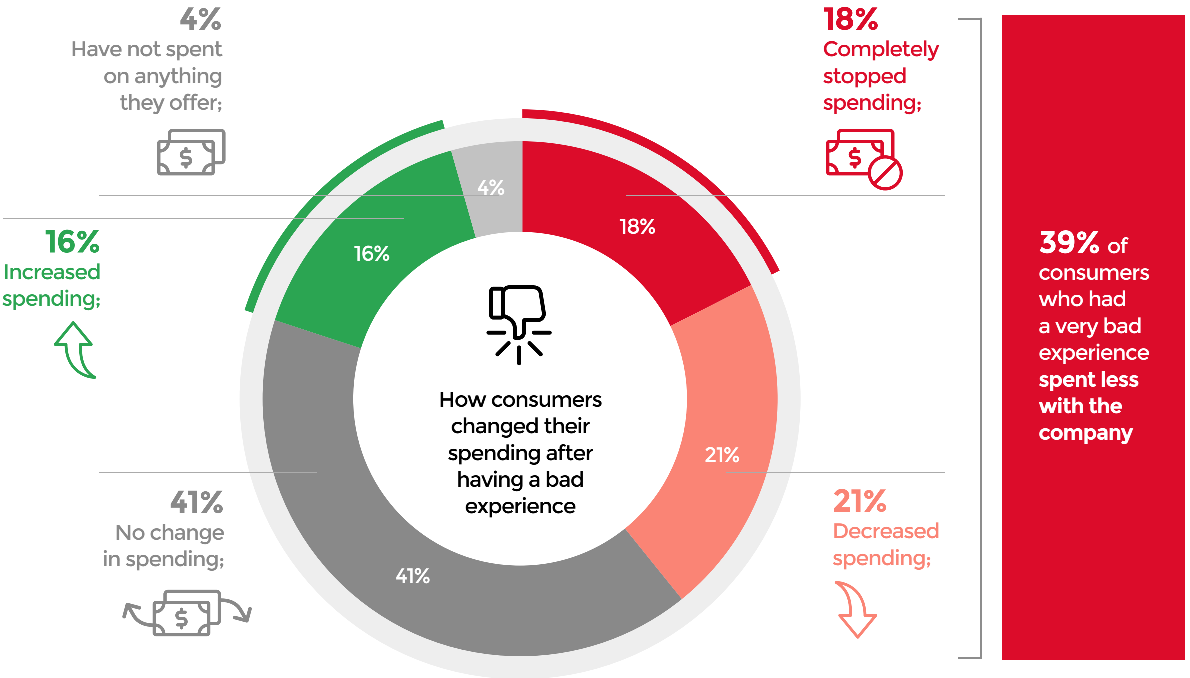
HIGHLIGHT THE COST OF A NEGATIVE EXPERIENCE

While looking to show the ROI of your VoC initiative, it's great to show all the benefits it delivers, in addition, you should also show the opportunity cost of not doing a VoC initiative.

A BAD EXPERIENCE CAN BE VERY COSTLY

10,318 bad experienced of US consumers (What Consumer Do After a Good or Bad Experience, 2017)

HOW CONSUMERS CHANGED THEIR SPENDING AFTER HAVING A BAD EXPERIENCE



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PULL IT ALL TOGETHER

The treatment we suggest here is comparable to how various streams of income and expenditure are treated within a balance sheet.

Some elements are more quantifiable than others, and no two organisations are the same, but with an allocation made for each of the forces at play, while the result will never be precise, you will certainly be able to give a clearer indication of the value that you are delivering.

A lot of the analysis will require consultation with finance, which is why it is critical from the outset to

[15] Temkin, Bruce., 3 October 2017. "The Ultimate CX Infographic, 2017." Customer Experience Matters, Temkin Group.

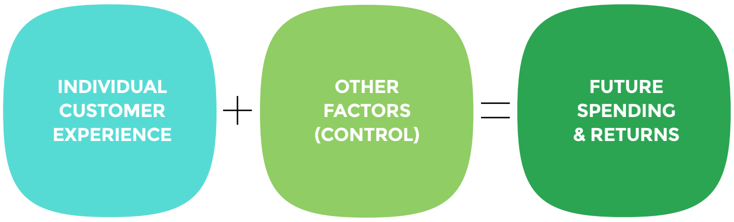
get buy-in. If you can place the elements as described in each of the phases above, it will become increasingly easy to shed light on the quantifiable value that is being delivered from a VoC initiative.

We suggest trying to account for everything. If you leave parts behind, including the cost of not having a programme, you will be underestimating the value of your VoC initiative.

When you have gathered all of the evidence, the next step is to actually measure the ROI.

MEASURE ROI

At this stage, your financial lead should feel equipped to use traditional methods to calculate the ROI of the program with the insights gained from each of the earlier steps.



ROI is calculated by dividing VoC Benefits* by costs

*VoC Benefits = Total no. of customers x % increase in highly satisfied customers x difference in revenue between highly satisfied and average consumers (per customer)

[16]

	TRANSACTIONAL BUSINESS	SUBSCRIPTION BUSINESS
Industry Examples	Retail Hospitality Travel	Utilities Telecommunications Gym
Financial Behavior	Future Spend	Renewal
Time Horizon	Annual	Annual and Lifetime
Focus Segments	Loyalty & Non-Loyalty	-
Data Analysis Method	Regression	Regression & Lifetime Value

[16] Powton, 2017.

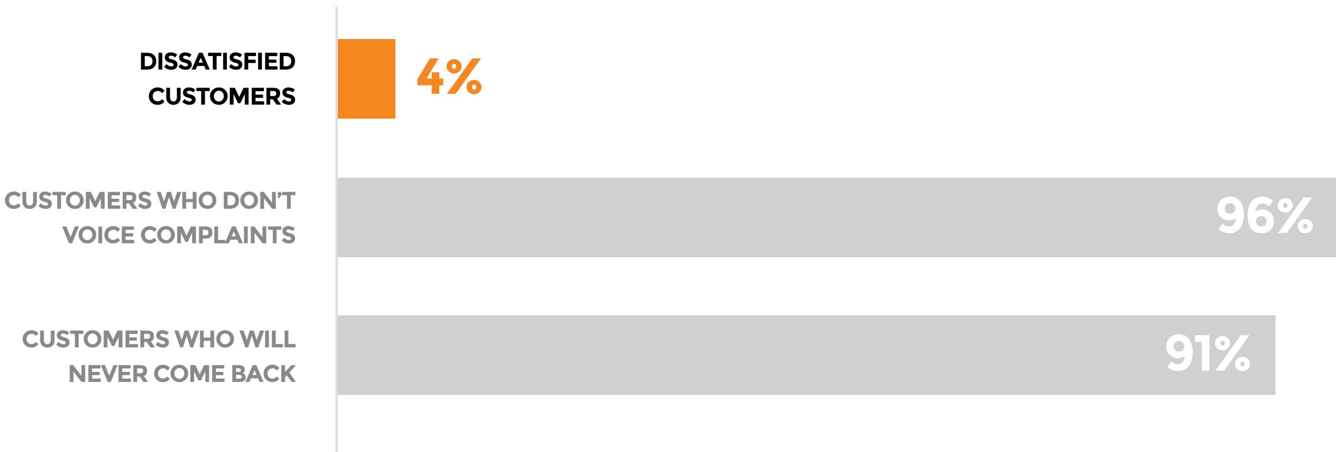
It will be very important to control for the various factors that may have an impact on return frequency or retention, such as customer demographics and prior spending. As Kriss notes, when controlling for these extenuating factors, the customers who had the best past experiences spent 140% more than customers who had the worst past experiences. He further found that in a subscription-based business, the happiest customers were likely to remain customers for six additional years, while the unhappiest customers will only be retained for a year.[17]

Predicting and preventing customer churn is of huge importance in maximizing ROI. It costs 5x more to acquire a new customer than to keep an existing one, so customer retention is less expensive and time consuming than customer acquisition.[18] It builds brand loyalty and the opportunity for word-of-mouth promotion. Retention is the key to reducing customer churn and the best way to prevent churn is to prevent it from happening in the first place.

You should identify at-risk customers and better your service for them. 70% of customers leave due to poor service. It is essential to be proactive to establish conditions in which your valued customers are happy, as you must also consider the negative impact on ROI from a customer turning into a detractor.[19] Zendesk found that 85% of customers who had a bad experience wanted to warn others about doing business with the company.[20]

Furthermore, you should be paying attention to your customer's complaints. Plaksij notes that only 4% of dissatisfied customers vocalize their complaints, while 91% simply leave and never come back, but if you do respond to a customer's complaint sufficiently, they are more likely to turn into a promoter.

A TYPICAL BUSINESS HEARS FROM 4% OF IT'S DISSATISFIED CUSTOMERS.



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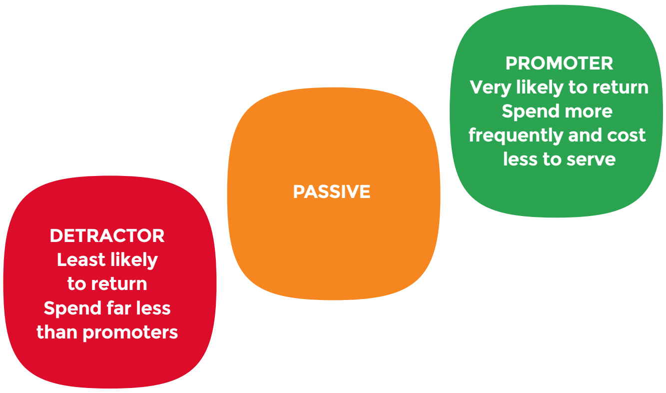
In both the subscription and transactional models it will be worth the effort to turn a passive customer into a promoter.

[17] Kriss, 2014.
[18] Gallo, A. 29 October 2014. The Value of Keeping the Right Customers. Harvard Business Review.
[19] Plaksij, Z., 16 May 2018. Customer Churn: 12 Ways to Stop Churn Immediately. SuperOffice.
[20] Why companies should invest in the customer experience. (n.d.). Zendesk.
[21] Plaksij, Z., 2018.

TRANSACTIONAL

To calculate the ROI of a VoC program for a traditional transactional business, you should look at how much detractors, passives, and promoters spend. By running a regression, you can understand how much more or less a customer would spend as he/she moves between levels of customer satisfaction.



SUBSCRIPTION

When calculating the ROI of a subscription-based business, you must consider lifetime value along with your regression. The regression model will give you a predicted renewal rate for different demographics to determine the future length of membership. In addition, you must examine customers' annual extra spending on top of their dues, as upselling is an important financial consideration.

Lifetime Value = membership length * (annual dues + annual extra spending)

HERE'S AN EXAMPLE...

EXPEDITION AIRWAYS PASSENGER PROFILE: HANNAH

Let's look at Hannah, who fits the profile of a frequent flyer. Hannah travels for business at least two times per month, from her home in Dublin, Ireland to other cities around Europe, and sometimes even to New York and Hong Kong.

From surveys, Expedition Airlines know how frequently Hannah flies and that her NPS score is consistently in the passive range. Expedition is losing out on share of wallet as they know Hannah rates other airlines as offering a better experience and it would follow, is electing to use them where possible.

In her survey response, Hannah gave a passive score and Expedition know that she spent €1228 in the last financial year.

Extreme Detractor Hannah	€651
Hannah (Passive)	€1228
Strong Promoter Hannah	€1791

Running a regression model is like finding another traveller exactly like Hannah, but who has had a different experience. You are able to control other factors you already know about Hannah (her gender, marital status, the amount of flying she does for business, how often she travels, how often she flies alone, etc.). Armed with this knowledge, we know that as a strong promoter, Hannah would spend **175%** more than she would as a detractor.

THE IMPORTANT QUESTION HERE IS WHAT ACTION CAN YOU TAKE?

Again, the answer can be found in the data. We can see from regression analysis that the rate of recommendation to a friend is most significantly affected by the online booking performance followed by in-flight service. After analyzing feedback from customers, you can run regression analysis, and determine that if online booking performance is raised from 4/5 to 4.5/5, then the rate of recommendation to a friend will rise from 60% to 70%.

In other words, the NPS increases. As such, the decision is made to invest a certain amount in a new booking system.

All of this takes time, but once action is taken and the strategy is implemented we can show that when the new booking system is put into place, Hannah and her cohort will move from being passives to promoters, and she may even comment on how much she likes the new booking system.

From the data, we can see that as a promoter Hannah would spend €500 more than she would as a passive customer. Having identified the best option to deliver that change and invested in enhancing the online booking process, we need to allow time to see the ultimate impact of this. As shown, if you are armed with the appropriate tools and technology, the job of measuring the impact of this type of change is largely quantifiable, but as emphasized at the outset, you must clearly communicate the strategy to relevant stakeholders to make the effort worthwhile. Doing this will afford you the time needed to properly demonstrate the outcome.

CONCLUSION

Be sure to supplement your ROI reporting with additional information on the gains incurred from a VoC initiative.

Some elements, like word-of-mouth promotion, are much more difficult to quantify, so those additional benefits must be described to stakeholders and executives through qualitative means. Factors such as strategic decision-making, performance management and customer intervention affect ROI in monetarily indeterminable ways that should not be left out of the financial discussion.

Furthermore, VoC programs can take up to five years to show financial payoff, so you should be able to explain that in the short-term the returns might not be as high as their potential.[22]

[22] Davies, 2018.

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