Five ways to quantify the ROI of customer experience management

Measure Your Outcomes

In the customer experience space, return on investment (ROI) is a term often thrown around but rarely defined.

That lack of clarity can be problematic, especially when businesses are faced with decisions about which investment they should make to drive the biggest impact on customer experience. Should they spend on digital customer engagement, a store redesign, or a new delivery logistics system?

What are the things your business should consider when deciding what investment to make in customer experience improvement? This short paper outlines five ways to quantify your investments, with a focus on investing in customer experience improvement to increase sales to existing customers, lower staff turnover costs, and increase brand value.

Read on—we'll discuss several areas in the context of ROI as it relates to customer experience management (CEM) and offer examples of the ROI real companies have achieved using CEM programs powered by Medallia.

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1. Reduce At-Risk Revenue. Recover Potentially Lost Customers.

A CEM program should allow businesses to close the loop with customers, identifying those who are at risk of defecting in time to pull them back into the fold. Consider this example of a customer at an industry-leading hotel.

During the customer's visit to this hotel, a string of poor customer service interactions left him frustrated and angry. Unhelpful receptionists, delays during check-in, and a missed wake-up call ensured that the customer would not be staying at the hotel again.

Shortly after his stay ended, a link to an online survey arrived in his inbox. Though he was busy, the customer took the time to fill it out, naming the offending employees. Not even 24 hours later, he received a call from the hotel manager apologizing sincerely and offering him a free night's stay the next time he was in town. Delighted, the customer accepted the offer and renewed his loyalty to that hotel brand.

What the hotel chain lost in revenue from offering the customer a free night was more than made up in the ROI of future visits the customer is likely to make, as well as any referrals he may make to friends and family members based on one outstanding act of service recovery.

2. Engage Existing Customers as a Sustainable Engine for Growth.

Good CEM programs allow businesses to identify their most loyal customers and single them out for rewards and promotional offers. The ROI of these actions translates into more future visits and more money spent.

Data collected by Medallia shows that in a single transaction at a top apparel chain, the strongest brand advocates of the business spend 15% more than brand non-advocates. That activity is also an indication of future behavior: within three months of responding to the survey, these loyal brand fans will make 10 to 15% more visits and spend 10 to 15% more than those who were less than thrilled with their shopping experience.

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The bottom line is that fans of your business will spend more, and more frequently. Using CEM tools to engage them—to understand what they like, and don't like and to market specifically to them—further increases the ROI of these programs.

3. Reduce the Costs of New Customer Acquisition.

When positive buzz about your company abounds, new customers tend to follow. Think Apple or Nordstrom. CEM can help businesses follow in the footsteps of these iconic companies and attract new customers almost effortlessly.

By tracking various CEM metrics such as likelihood to recommend, businesses can see how many "wow" customer stories they're generating over time, and compare that to the number of "ouch" stories circulating. One level deeper, businesses can identify the trends and root causes behind the numbers—for example, by using text analysis of open-ended comments correlated with positive or negative scores. Finally, businesses can facilitate fan word-of-mouth by pointing promoters to social media sites like TripAdvisor, Facebook, and Twitter.

4. Engage Employees. Reduce Staff Turnover and Hiring Costs.

Businesses can also use CEM programs to measure satisfaction and engagement among employees, and take steps to improve if necessary. Common metrics include employee satisfaction score and employee churn rate.

A body of research demonstrates that engaged employees are less likely to quit, even for more money, and more likely to refer friends and family to apply to work for their companies (our experience backs this up.) This in turn reduces the cost of recruiting, hiring, and training new employees. For more information, see the research of Daniel Pink, whose book "Drive: The Surprising Truth About What Motivates Us" is a mainstay in our library.

5. Reduce the Cost of Customer and Employee Feedback Infrastructure.

Businesses are switching in droves from siloed or one-off customer satisfaction programs that tend to reside within a functional group and are offered by point solution vendors. Instead they are switching to unified, operational programs enabled by scalable, real-time CEM software deployed across the customer journey. Siloed programs tend to create blind spots with regard to various aspects of the customer journey. While the group that is capturing feedback might understand what a team needs to do to improve, often issues are cross-fuctional. A program can miss them if it focuses on a single area or keeps feedback separate and not easy to compare across the business.

Siloed programs can be more expensive than unified programs, because each group has to invest in implementing and maintaining different solutions. The average cost of each siloed program can be up to $250K. In a large or complex organization with many groups and product lines, the costs can add up fast. A unified CEM program brings together customer feedback data from across customer interaction points, providing a holistic view of the customer and allowing teams to understand weak and strong points in your products, services, and processes. Leaders can understand where to invest time and resources to drive improvement. Cross-functional issues are clear and prioritized, driving improvement that directly impacts satisfaction. And while the business benefits of a single, unified program go beyond cost efficiencies, a unified CEM program has a lower total cost of ownership resulting from reduced system management, maintenance, and training expenses.

To summarize, here are five ways businesses earn ROI from CEM programs:

- ✔ Recover at-risk customers.

- ✔ Engage existing customers.

- ✔ Reduce cost of new customer acquisition.

- ✔ Engage employees and reduce staff turnover.

- ✔ Reduce cost of feedback infrastructure.

About Medallia

Medallia® is the Customer Experience Management (CEM) company that is trusted by hundreds of the world's leading brands, including Four Seasons, GE, Gold's Gym, Sephora, Verizon, and Zurich Insurance. We enable companies to survey and capture customer feedback across Web, social, mobile, and contact center channels, understand it in real-time, and take action to improve the customer experience (CX). We offer world-class engineering, technology innovation, a customer-centric services organization, and a Software-as-a-Service (SaaS) application that is accessed by all your employees, from the C-suite through to the frontline. Medallia helps companies create customers who love your business. Founded in 2001, Medallia has regional headquarters in Silicon Valley, London, and Buenos Aires. Learn more at www.Medallia.com.

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