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Measure the Value of Customer Experience Improvements

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TeleTech.

Table of Contents

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Each week there are reports that more brands are focusing on "customer experience" as a way to differentiate themselves in a marketplace of increasingly commoditized products and services. Companies like Amazon, Zappos, and USAA are routinely, and rightly, cited as exemplars of customer experience management.

This observation is underscored by a recent study conducted by Forrester Research showing that 90 percent of firms indicate customer experience is a top strategic priority. Incongruously, however, Forrester also notes that nearly the same percentage of companies (86 percent) declare that they do not actually expect to get much value from their customer experience investments.

This seeming contradiction may indicate that companies have yet to see convincing evidence that ties investments in customer experience to gains in company value. It simply isn't good enough to say that improvements in customer experience drive higher customer satisfaction, Net Promoter Scores (NPS), or Forrester's own Customer Experience Index (CXi) scores. The business impacts of these investments need to be tracked beyond these intermediary measures to hardcore financial measures that would interest a CFO.

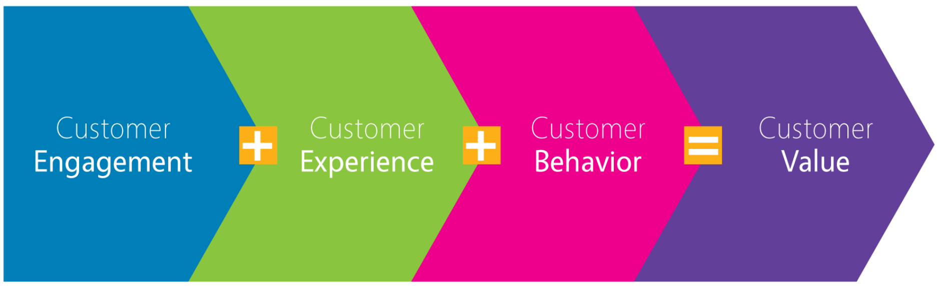
Customer experience's effect on customer value

To advance this notion, Forrester research shows that high customer experience scores for a brand do correlate with a higher "intent" for customers to purchase again, remain loyal, and recommend the brand. This is a good talking point, but the next step is a careful examination of actual customer data to show these effects.

In order to turn talk into action, it's imperative to think of "customer experience" as the totality of all customer interactions. The end-to-end customer experience is more than a contact center interaction or website purchase. It starts with engagement, which then connects to experience, behavior, and ultimately, tangible customer value (see Figure 1). With this understanding of an interconnected customer experience value chain, areas of fiscal insight begin to emerge.

For example, think of a customer interacting with a home goods supply retailer. The sequence starts with the customer having some contact or engagement with the brand. This could be a product purchase or a non-financial interaction like a phone inquiry or a visit to the brand's website. The process and outcome of that engagement will, to some degree or another, have an effect on the customer's opinion about his experience with the brand. If the experience is a good one, that would likely lead to a subsequent desired behavior, such as another purchase, recommending the brand to a family member, or liking the brand's Facebook page. That behavior will then result in a direct or indirect financial impact to the brand realized as increased sales or improved profit. This financial-impact chain of effects, if validated, is what will really get the CFO and CEO excited.

FIGURE 1: **Key Strategies**
Companies can identify the value of customer experience improvments all along the customer continuum.



The Customer Experience Value Chain

Connect the dots with Customer Experience Value Analysis

So how can a company actually tie customer experience improvements to bottom-line impact? We have created a five-step process called Customer Experience Value Analysis that integrates data analytics with customer value along the entire customer continuum to put the right financial picture into focus.

Step 1: Assemble an analytic data repository

Before you can estimate the impacts of customer experience improvements, you must know as much as possible about your customers. This means not only knowing who the customers are and what they have purchased, but also how they interact with you and how they feel about those interactions. The analysis data set therefore must have data representing all of these categories. We have found that much of this data can be found in existing CRM systems, and so this is a great place from which to pull the core data elements. We then supplement that initial repository with added data elements extracted from channel systems, service centers, and other ancillary customer contact points.

Step 2: Track all customer interactions

Today, customers are encouraged to interact with brands in the ways they most prefer. Our analysis shows that most brands have a mix of single and multichannel users. For instance, many older bank customers prefer doing their business at a branch, while younger customers generally favor digital channels, and still others in between are hybrid channel users. To gain a firm handle on individual customer experiences, customer interactions across all channels need to be assembled in the analytic data repository. This includes identifying interactions on social networks and mapping them to specific users, when possible. Our recommendation is to compile at least 12 months of history on each customer to account for seasonality and any other usage patterns.

A successful customer experience of the future will be one whose results can be understood by any CFO or Wall Street analyst.

Step 3: Monitor customer experience scores

The trickiest part of the analysis is gathering enough information regarding how customers rate their brand experiences to be able to correlate those scores with subsequent customer behavior. While many companies are now tracking NPS, CXi, or other customer satisfaction measures, typically these scores are gathered on a sample of customers and reflect more of an overall "relational" experience score rather than a "transactional" experience score tied to a specific interaction. That is, they capture what the customer feels about the brand based on an accumulation of experiences, not what he feels based on each experience separately.

In fact, it may be impractical to measure customer experience for each customer, since most customers are not willing to provide information after each interaction. However, customer experience scores can be inferred based on statistical analysis and applied to those that haven't actually answered a customer experience questionnaire. For instance, as we have done, knowing how long a customer had to wait in queue during a service call and whether the customer's problem was resolved on the first contact can be used to predict with amazing accuracy what his actual customer experience score will be. The key part is to understand the drivers of those scores.

> "Customer experience" is the totality of all customer interactions.

Fortunately, as more data is collected and analyzed, these predictions should get stronger and stronger. Meanwhile, newer and simpler data collection technologies may also encourage more customers to complete customer experience surveys and provide more feedback.

Additionally, it is important to remember that what drives customer experience scores may differ from segment to segment—some customers may value high touch, concierge-type service, while others more highly value speed and convenience, for example. The analysis must take this into account. Interestingly, we have also seen that the impacts of negative experiences can be somewhat offset by earlier positive experiences (goodwill effects), so knowing as much as you can about each customer's history is important.

Step 4: Determine related customer behavior changes

Linking a customer's experience ratings with his or her subsequent customer behavior is a fairly easy step in the process, once the necessary data elements have been amassed in the analytic data repository. For instance, for a cable operator we determined the impact that different customer service interactions had on the likelihood of a customer disconnecting his service, ranging from single resolved calls, to multiple calls, to escalated calls, to truck rolls. We also used contact center text data to understand the customer sentiment associated with the interactions to further refine those estimates.

Obviously, for customer experience improvements to have value there needs to be an incremental positive difference in customer behavior that can be attributed to them. Statistical modeling approaches are very good at isolating those gains while keeping all other factors about the customer constant.

Step 5: Evaluate customer value impacts

Finally, once all of the incremental behavioral actions have been quantified they need to be translated into a financial impact. In most instances this will be straightforward. However, in some cases, the financial gains of certain purchases may differ depending on who is purchasing them because the product margin may not the same. If, for instance, it is determined that for a particular bank, customer experience improvements have generated 1,000 additional deposit accounts, the value of those can differ significantly by customer because of the balances that are maintained. Similarly, the value of a vehicle purchase may differ between two customers depending on the trim packages and other options that are selected.

Four Ways to Speak the CFO's Language

While every company is different, improvements in customer experience will almost always drive financial value principally in four distinct, customer-focused ways. If you're not measuring these attributes in relation to your customer experience program, you're missing an opportunity to make the revenue connection and speak the CFO's language.

These examples are of common metrics that have been tracked by companies for years. What's new here is that rarely are they tracked in tandem with customer experience metrics. Combining these metrics with customer experience scores may reveal potential correlations in segments, individual customers, or the entire customer base. And with enough data, the case can be made for a causal relationship.

Sales

SALES: The most obvious benefit from high customer experience scores is increased customer purchase activity. This could be manifested in greater repeat sales of the same product or increased sales penetration into other product lines. The customer buys more frequently or buys a broader array of products than he has in the past. We've seen this occur in retail cases where greater sales are the result of more store and online visits and in larger and more diverse shopping baskets. Moreover, high customer experience scores are likely also correlated with larger purchases.

Attrition rates

ATTRITION RATES: High customer experience scores can also reduce customer churn, and thereby retain potentially jeopardized customer value. The typical retention metric examines how many customers that had purchased during one period purchased again in a subsequent period. A magazine subscriber that renews his subscription fits this definition, just as a car buyer who disposes a vehicle and then purchases another vehicle from the same manufacturer is a retained customer. However, retention may also be measured as sustained activity with certain products. For example, retaining a bank customer could mean that not only has the customer kept a particular account open, but that he has maintained the balance in that account, like a savings balance, or that he continues usage of a product like, say, a revolving line of credit that actually drives its value.

Cost to serve

COST TO SERVE: Customer value can be increased as the result of high customer experience scores, if these scores are correlated with a lower incidence of customer channel contacts or the deflection of some customer contacts to lower cost channels. For example, a better customer on-boarding process may eliminate a large volume of contacts that result from new customer purchases. This happens frequently with technology products like in-vehicle telematics or cable TV installations. Through better education and access to self-serve capabilities the customer can have a better experience, thereby reducing the need for customers to contact the brand and the cost associated with those contacts.

Similarly, value can increase if customer experience improvements increase first contact resolution, hence reducing repeat contacts. Many companies have seen their contact center costs explode due to low first contact resolution performance. Additionally, we've seen in our own analysis that the need for a customer to contact a brand repeatedly in a short time span (e.g., less than a week), particularly over the same issue, has a large negative effect on customer experience quality scores.

New customer referrals

NEW CUSTOMER REFERRALS: Finally, high customer experience scores can boost customer value is through customer acquisition. It has been shown that customer recommendations (as, say, embodied in NPS) have a significant influence on the acquisition of new customers. Even just the positive mention of a brand on social media is known to have this kind of effect, albeit to a lesser degree. So the extent to which positive customer experiences lead to more recommendations means a brand is likely to see greater customer acquisition.

Clearly, to estimate the benefits of these metrics requires a certain type and amount of data, as well as the knowhow to integrate that data into a comprehensive cause-and-effect story. That's where the value of Customer Experience Value Analysis turns front and center.

This evaluation exercise will ideally cover the aggregate gains in a number of areas from incremental purchases, reduced attrition, lower cost to serve, and greater acquisition (see sidebar), providing a comprehensive estimate of the financial benefits of customer experience improvements.

Take note: the accuracy and reliability of any analysis is highly dependent on a number of crucial factors that may or may not be within the control of the analyst. And that is no different here. In fact, the requirements of performing a Customer Experience Value Analysis may be somewhat more difficult than usual because of the novelty of bringing the components of this particular analysis together. That said, on the positive side, advances in data capture technologies and processing are making this analysis increasingly viable.

Conclusion

Customer Experience Value Analysis isn't a turnkey solution. It requires investment in technology, data experts, and a holistic look at customers and business operations. Yet elements of Customer Experience Value Analysis are beginning to pop up in the business world. There is no denying that drawing customer experience linkages from end-to-end is needed. A successful customer experience of the future will be one whose results can be understood by any CFO or Wall Street analyst. For then, and possibly only then, will the 90 percent of firms who say customer experience is a high priority actually invest in the programs to make customer experiences better.

About TeleTech

For more than 30 years, TeleTech and its subsidiaries have helped the world's most successful companies design, enable, manage and grow customer value through the delivery of superior customer experiences across the customer lifecycle. As the go-to partner for the Global 1000, the TeleTech group of companies delivers technology-enabled solutions that maximize revenue, transform customer experiences and optimize business processes. From strategic consulting to operational execution, our more than 43,000 employees drive success for clients in the communications and media, financial services, government, healthcare, technology, transportation and retail industries. Through the TeleTech Community Foundation, the company leverages its innovative leadership to ensure that students in underserved communities around the globe have access to the tools and support they need to maximize their educational outcomes.

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