

CEM+ Calculator



HOW DO YOU PREDICT THE ROI OF CUSTOMER EXPERIENCE?

A key obstacle cited by many executives for measuring the customer experience is the difficulty of monetising the value of investments for improvement, despite the fact that it does make a significant difference.*

CEM+ Snapshot

The CEM Calculator is the first step to help you connect ROI to customer experience. It enables you to predict the likely effects of an improved customer experience on financial performance. It achieves the following:

- Gives you an indication of your likely return on investment
- Translates customer satisfaction and advocacy directly into the drivers of growth
- Enables you to undertake detailed 'what if' scenario planning
- Enables accurate forecasts of customer acquisition, sales revenue and retention
- Enables you to forecast the impact of improving your NPS scores on revenue growth

Introduction

Despite all of the research and focus on customer experience, the fact remains that many executives fail to convince their Board to commit to any significant CEM investment. The result is often compromise – an attempt to improve certain aspects of customer service or product, but little focus on implementing the major cultural change needed to deliver a consistent and differentiated experience. As Ronan Dunne (O2's CEO) says:

“

It only works when it ALL works.**

So how do we make the case to the CFO that a better experience will lead to a better bottom line? The CEM+ Calculator provides a first step for helping you achieve this. It monetises the benefits of the likely increase in customer loyalty and referral and enables your Customer Experience Officer to talk to your Chief Financial Officer in a language he or she understands.

*SOURCE: Experience Maturity Monitor SAS Institute Inc and Peppers and Rogers Group

**SOURCE: Bold – how to be brave in business and win by Shaun Smith and Andy Milligan (Kogan Page 2011)

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How it works

The CEM Calculator takes real data from your organisation in terms of number of customers, their purchase behaviour and current levels of satisfaction.

It then factors in all the likely implementation costs. Finally, it takes the primary direct effects of improved customer experience and projects the likely impact on revenues. In this way, the model enables you to analyse various 'what-if' scenarios and helps you focus your budget and internal resource in the most effective way.

Given the many variables affecting organisational performance, no ROI model can ever predict results with 100% accuracy. What the CEM+ Calculator can do however is to provide you with a sound basis for executive discussion about the likely impact on the revenue and profit of investing in the customer experience, thus making the decision no different to any other form of capital investment.

Of course there are a range of indirect positive effects from an investment in CEM, not least brand affinity, lower marketing costs and improving the customer mix. But here we focus on what can be directly measured.

Can work in tandem with NPS

Although NPS continues to divide opinions in the marketing world, it is increasingly used by organisations worldwide as a sound measure of customer advocacy. The CEM Calculator can work in conjunction with the NPS to provide an even more compelling predictor of the likely results of CEM implementation.

Let us assume that 'OldCo' has a net promoter score of -10. Left to its own devices, over time the customer base will decline as the retention rate falls and acquisition also declines through the word-of-mouth effect of dissatisfied customers. The value of each customer will decline as they buy less and complain more. The results over a five-year period will tell a sorry tale: **the company grows slowly and then only because of significant marketing and sales investments.** OldCo decides to transform itself with an investment in a customer experience improvement programme. It is now 'NewCo'. NewCo finds itself growing faster. Customer value increases, costs per customer decline and marketing and sales costs fall. Its NPS improves over time to +35, bringing increased retention, improved acquisition through positive word-of-mouth and higher spend per customer.

The CEM Calculator can help you make the case for improving your customer experience or track results over time so that you have an accurate understanding of the impact of improvements.

RETURN ON INVESTMENT



- Research costs
- Training design, facilitation and associated venue/ material costs
- Internal communication and marketing of the programme
- Any additional internal manpower needed
- External guidance, support & expertise

- Insight – identifying the values that drive customer loyalty and advocacy
- Brand promise definition & customer experience design
- Organisational alignment (People, Process, Product)
- Measurement and evaluation
- Roll-out (if conducting an initial pilot programme)

Customer loyalty, acquisition and customer spend increase

CEM focuses effort on your most profitable customers. This results in increased customer retention, higher frequency of purchase and usually higher spend, as well as increasing advocacy and subsequent customer acquisition. (UK bank First Direct has an NPS of 74% and gets one new customer every 8 seconds through referral).

Employee satisfaction and productivity grow

- Clarity about the brand promise creates a shared sense of purpose, vision and brand values that drive the experience
- CEM helps create an employee experience that achieves higher employee satisfaction and retention
- With the right skills, knowledge and confidence, employees become much more proactive in creating opportunities to cross-sell and increase value per transaction
- Technology and process improvements result in greater efficiency and productivity

Increase in sales revenue

- X% from new customers
- X% sales per customer
- X% value per transaction

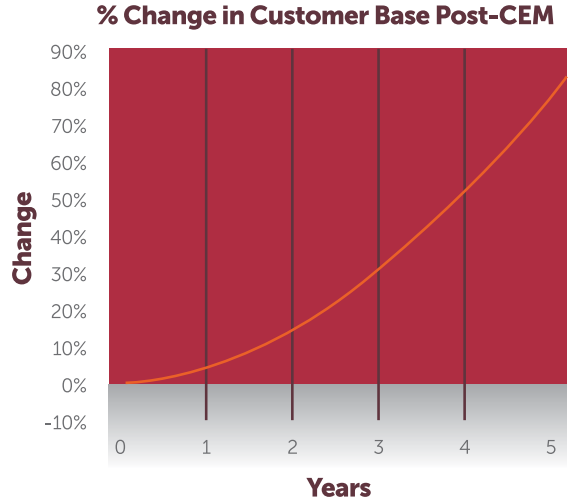
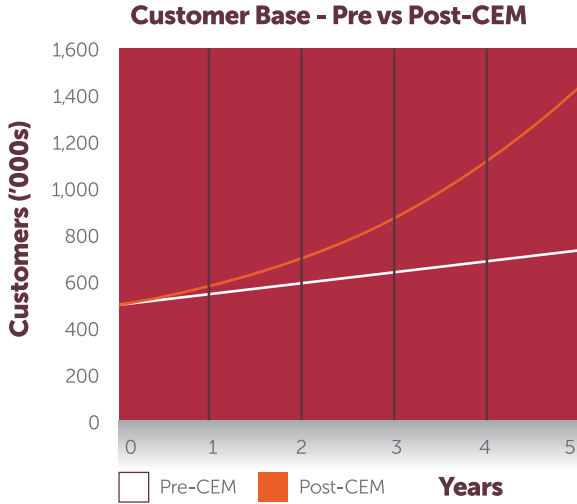
Cost reduction

- Reduced recruitment costs as the brand becomes more attractive, employees less likely to leave and more likely to refer to others
- Reduced cost of complaint handling
- Reduced marketing and sales costs to acquire new customers

IMPACT OF CEM ON CUSTOMER BASE

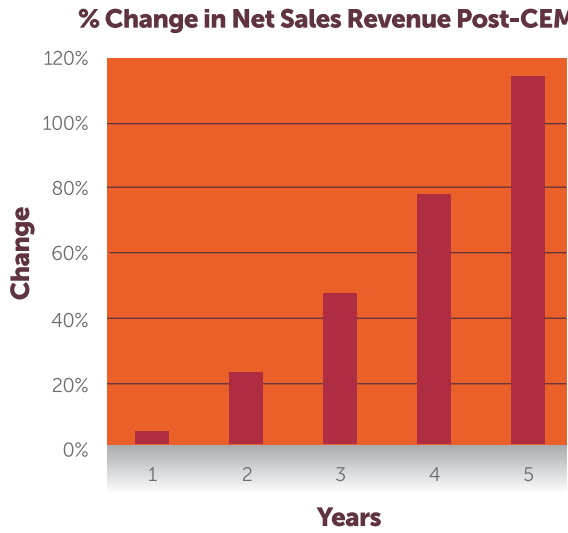
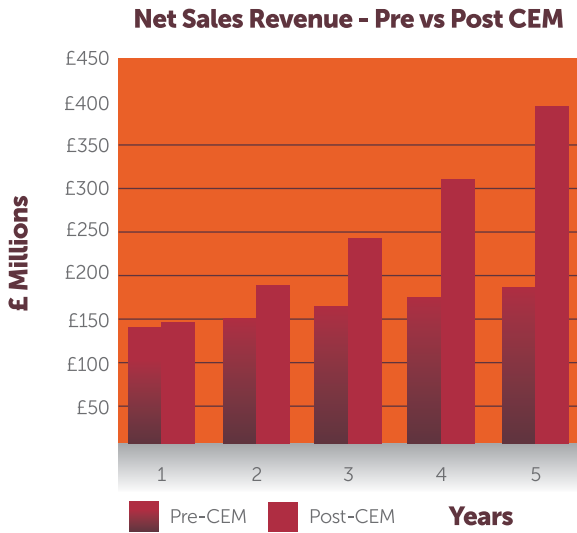
Illustrative results for NewCo

CUSTOMER BASE



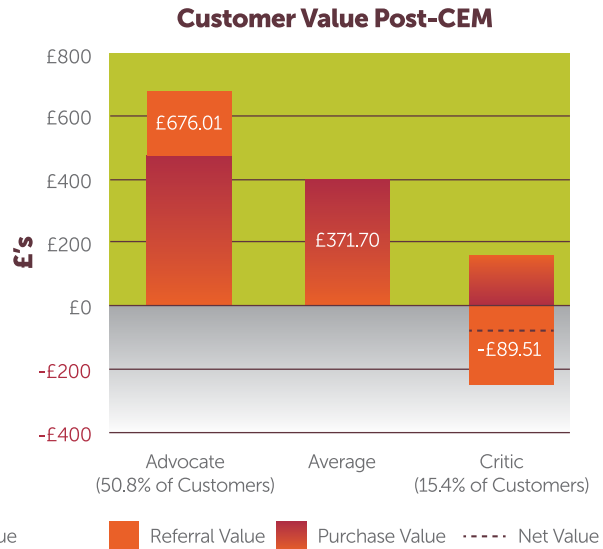
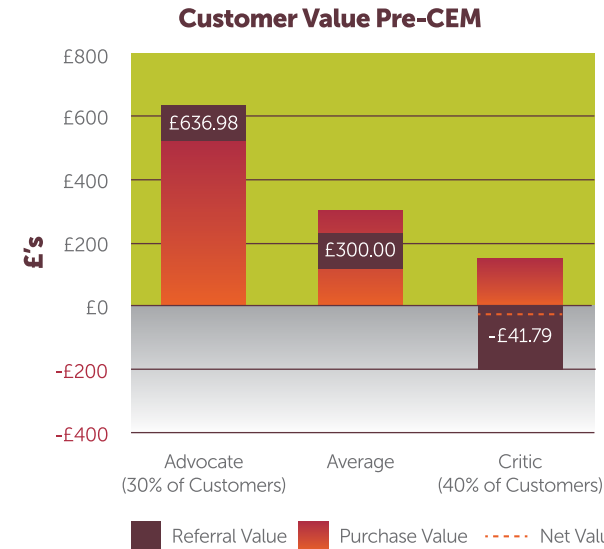
IMPACT OF CEM ON SALES REVENUE

SALES REVENUE



IMPACT OF CEM ON CUSTOMER VALUE

CUSTOMER VALUE



THE GROWTH YOU CAN EXPECT

- works for B2B organisations as well

Year 1 bar represents Average NP at 2002

Year 3 bar represents Average NP at 2004

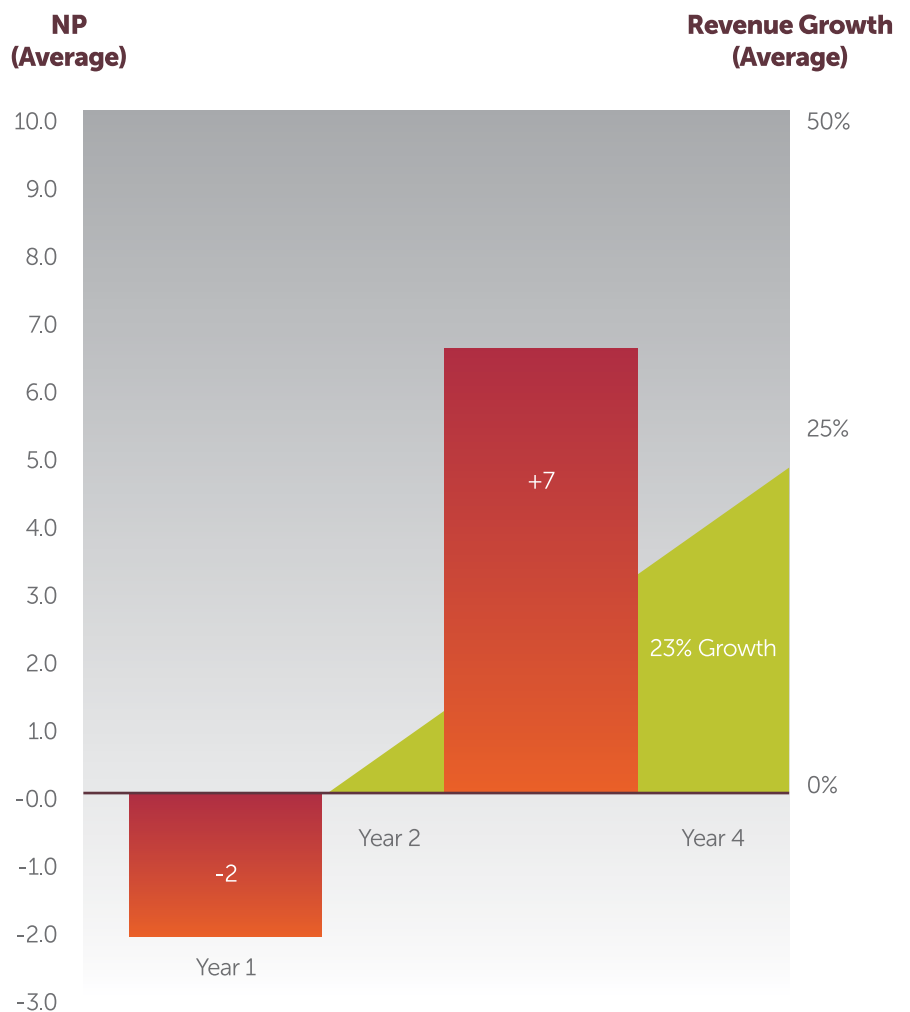
N=9 (out of 12 total, only 9 have NP at both points in time 2002 and 2004)

% Revenue Growth Rate: Computed revenue growth rate between 2003 and 2005 for each company, then averaged across companies

Selected Satmetrix B2B companies experienced 23% revenue growth over a corresponding 3 year time span (lagged by 1 year). Findings support the link between NP and financials, with NP as a **leading** indicator of revenue growth.

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SOURCE: Satmetrix client data. Average international NP scores from 2002-2004 (n = 80,000), public financial data 2003-2004