Justify Customer Experience Initiatives Using 4 Approaches

Published 6 July 2020 - ID G00727264 - 15 min read
By Analysts Michael Chiu, Ed Thompson, Don Scheibenreif, Jake Dunne

A Gartner survey identified the inability to demonstrate the value or ROI of CX as a high-stakes situation requiring attention. To address this situation, application leaders should choose which of our four justifications of CX initiatives is best suited to their circumstances.

More on This Topic
This is part of an in-depth collection of research. See the collection:
- The 4 High-Stakes Situations Most Likely to Threaten Your Customer Experience Initiative

Overview

Key Findings
- The proliferation of data over the past decade has left many organizations awash in information, but this information is often disorganized and, as a result, underutilized when justifying customer experience (CX) initiatives, investments and projects.
- Justifications of CX frequently employ anecdotal, emotive, or self-evident angles (“happy customers are repeat customers”). But this does not go deep enough into the rational and financial reasons for CX.
- Organizations often confuse the justifications for CX as an overall function with those of individual CX projects.
- Application leaders who favor a one-size-fits-all approach to justifying CX risk misaligning the answer they provide with its context.

Recommendations
Application leaders supporting customer experience should select one or more of these four approaches to justifying CX:
- Justify the value of CX by comparing the differences in financial performance between happy and unhappy customers.
- Justify CX by using industry research to link the behaviors of satisfied customers to financial gains.
Analysis

Introduction

This research focuses on one of the most dangerous high-stakes situations that those who support CX may face: the inability to demonstrate the value or ROI of one or more CX projects, which leads the CFO to question all future investments.

High-stakes CX situations include those that can result in a significant negative outcome for an organization, its employees, systems, channels or products. They can be highly disruptive and result in the CX leaders (or application leaders supporting CX) losing their jobs. They can even threaten the existence of the organization’s CX initiative itself.

Gartner’s 2019 Customer Experience Innovation survey evaluated some of the high-stakes situations that CX teams may face (see “Survey Analysis: Customer Experience Maturity and Investment Priorities, 2019”).

The four most dangerous high-stakes situations are listed below, followed by our research for each:

- Economic or financial pressure causes a cost-cutting drive focused on reducing the spend on CX projects (see “What to Do When Your CX Budget Gets Cut”)
- The executive team is on board with the CX initiative, but the next level is not (see “What to Do When the C-Suite Endorses Customer Experience, but the Next Level Pushes Back”)
- Launch of the CX initiative stalls because executives are unconvinced of its importance (see “What to Do If C-Suite Executives Stall the Launch of Your Customer Experience Initiative”)
- The inability to demonstrate value or ROI of one or more CX projects leads the CFO to question all future investments (this research note)

Example Situation Analysis: The Inability to Demonstrate Value or ROI of One or More CX Projects Leads the CFO to Question All Future Investments

Cynthia is an application leader who supports customer experience at a national restaurant chain. Recently, the economic climate has worsened. To ensure the company is employing its resources cost-effectively, and to improve the quality of its decisions, executives have begun requesting justifications for the company’s key projects.
Cynthia plans to support the broader CX team in responding to this request. At present, the team appeals to logic to justify CX (“great CX will keep our customers coming back”), but Cynthia realizes the need for a more robust defense. She wants to establish a justification of CX as an overarching function, as well as one for individual CX projects. Furthermore, she believes that using only internal data to show the value of CX is insufficient, and intends to obtain justifications of CX from outside her own company.

**Overview of the Four Response Types to Justify Customer Experience**

The COVID-19 crisis has led many executives to focus on cost optimization, motivating them to better understand the returns and value of various organizational functions of which CX is one. To effectively and credibly respond to such questions, application leaders supporting customer experience should utilize four approaches depending on the situation they are facing, as Table 1 illustrates.

<table>
<thead>
<tr>
<th>Response Type</th>
<th>Description</th>
<th>Best for These Circumstances</th>
<th>Level of Effort to Produce</th>
<th>Corporate Culture Most Suited For</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cohort analysis</td>
<td>Shows the financial value of increasing customer satisfaction by tying it to customer behavior</td>
<td>High-level discussions about making an enterprisewide investment in CX</td>
<td>High</td>
<td>Analytical</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Estimates of the financial impact of increases or decreases in customer sentiment are needed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry research</td>
<td>Third-party research studies on the benefits of customer experience</td>
<td>High-level discussions about making an enterprisewide investment in CX</td>
<td>Low</td>
<td>Both analytical and conceptual/storytelling</td>
</tr>
<tr>
<td></td>
<td></td>
<td>As an addition to another response type</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
These responses can be used informally during conversations to justify the value of CX, or they can be incorporated into a more formal business case for CX. These approaches can be mixed and matched depending on the audience, the intent of the message and the desired level of effort invested.

### Justify the Value of CX by Comparing the Differences in Financial Performance of Happy Versus Unhappy Customers

What is the expected financial benefit accruing to an organization which improves customer sentiment by one point? A cohort analysis performed on your customer base can help answer this question. Use such an analysis to produce an illustration of the financial benefits of improved customer sentiment. The cohort analysis described here entails dividing customers into cohorts according to your voice of the customer (VoC) survey data, and linking each cohort to financial outcomes.

Start with your organization's common measurements of customer sentiment: This may be the Net Promoter Score (NPS), customer satisfaction score (CSAT) or another measurement.

Make an entry for each customer to be included in this analysis and, within each entry, list out that customer's corresponding sentiment score.

From there, quantify the financial value of customer behaviors and append that information to the entry. These could include:

<table>
<thead>
<tr>
<th>CX projects’ ROI</th>
<th>Illustrates the financial value of individual CX projects</th>
<th>Situations which call for financial justifications of individual CX projects</th>
<th>Medium to High</th>
<th>Analytical</th>
</tr>
</thead>
</table>

| Conceptual approach | Justifies CX in terms of strategy, risk mitigation, and consequences of inaction | For when concrete data and analysis is impractical and/or challenging | As an addition to another response type | Medium | Conceptual/storytelling |

Source: Gartner
- Core product revenue
- Cross-sell/upsell revenue
- Average customer lifetime revenue
- Purchase recency
- Purchase frequency
- Amount spent per purchase
- Revenue generated from referrals
- Cost to serve
- Churn
- Profitability

The result is the hypothetical company depicted in Figure 1 below. This company elected to use NPS as the basis of its cohort analysis. NPS asks, “How likely is it that you would recommend [brand] to a friend or colleague?” followed by a zero (extremely unlikely) to 10 (extremely likely) point scale.

Figure 1. Example Cohort Analysis
### Example Cohort Analysis

<table>
<thead>
<tr>
<th>Customer</th>
<th>Net Promoter Score</th>
<th>Core Product</th>
<th>Cross-Sell, Upsell</th>
<th>Referral</th>
<th>Average Customer Lifetime (Years)</th>
<th>Lifetime Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer 1</td>
<td>10</td>
<td>$80</td>
<td>$40</td>
<td>$20</td>
<td>10</td>
<td>$1,400</td>
</tr>
<tr>
<td>Customer 2</td>
<td>10</td>
<td>$100</td>
<td>$50</td>
<td>$30</td>
<td>12</td>
<td>$2,160</td>
</tr>
<tr>
<td>Customer 3</td>
<td>10</td>
<td>$80</td>
<td>$30</td>
<td>$30</td>
<td>12</td>
<td>$1,680</td>
</tr>
<tr>
<td>Customer 4</td>
<td>9</td>
<td>$90</td>
<td>$60</td>
<td>$10</td>
<td>11</td>
<td>$1,760</td>
</tr>
<tr>
<td>Customer 5</td>
<td>9</td>
<td>$70</td>
<td>$20</td>
<td>$20</td>
<td>7</td>
<td>$770</td>
</tr>
<tr>
<td>Customer 6</td>
<td>9</td>
<td>$70</td>
<td>$50</td>
<td>$20</td>
<td>10</td>
<td>$1,400</td>
</tr>
<tr>
<td>Customer 7</td>
<td>8</td>
<td>$50</td>
<td>$30</td>
<td>$20</td>
<td>6</td>
<td>$600</td>
</tr>
<tr>
<td>Customer 8</td>
<td>8</td>
<td>$50</td>
<td>$20</td>
<td>$10</td>
<td>8</td>
<td>$640</td>
</tr>
<tr>
<td>Customer 9</td>
<td>8</td>
<td>$50</td>
<td>$10</td>
<td>$10</td>
<td>8</td>
<td>$560</td>
</tr>
<tr>
<td>Customer 10</td>
<td>7</td>
<td>$40</td>
<td>$30</td>
<td>$0</td>
<td>7</td>
<td>$490</td>
</tr>
<tr>
<td>Customer 11</td>
<td>7</td>
<td>$50</td>
<td>$30</td>
<td>$10</td>
<td>8</td>
<td>$720</td>
</tr>
<tr>
<td>Customer 12</td>
<td>6</td>
<td>$40</td>
<td>$10</td>
<td>$10</td>
<td>4</td>
<td>$240</td>
</tr>
<tr>
<td>Customer 13</td>
<td>5</td>
<td>$40</td>
<td>$0</td>
<td>$0</td>
<td>4</td>
<td>$160</td>
</tr>
<tr>
<td>Customer 14</td>
<td>5</td>
<td>$30</td>
<td>$20</td>
<td>$0</td>
<td>5</td>
<td>$250</td>
</tr>
<tr>
<td>Customer 15</td>
<td>4</td>
<td>$50</td>
<td>$10</td>
<td>$20</td>
<td>2</td>
<td>$160</td>
</tr>
<tr>
<td>Customer 16</td>
<td>3</td>
<td>$40</td>
<td>$10</td>
<td>$0</td>
<td>4</td>
<td>$200</td>
</tr>
<tr>
<td>Customer 17</td>
<td>2</td>
<td>$20</td>
<td>$0</td>
<td>$0</td>
<td>2</td>
<td>$40</td>
</tr>
<tr>
<td>Customer 18</td>
<td>1</td>
<td>$20</td>
<td>$0</td>
<td>$10</td>
<td>2</td>
<td>$60</td>
</tr>
<tr>
<td>Customer 19</td>
<td>0</td>
<td>$20</td>
<td>$10</td>
<td>$0</td>
<td>2</td>
<td>$60</td>
</tr>
<tr>
<td>Customer 20</td>
<td>0</td>
<td>$20</td>
<td>$0</td>
<td>$10</td>
<td>1</td>
<td>$30</td>
</tr>
</tbody>
</table>

#### Promoters (10, 9) | Average Lifetime Revenue: $1,528

#### Passives (8, 7) | Average Lifetime Revenue: $602

#### Detractors (6, 5, 4, 3, 2, 1, 0) | Average Lifetime Revenue: $133

Comparisons can now be made between the major segments of customers, which, in the case of NPS, refer to Promoters (those providing 10s and 9s as responses), Passives (8s and 7s), and Detractors (6s down through 0s). The average lifetime revenue of these segments are:

- **Promoters:** $1,528
- **Passives:** $602
- **Detractors:** $133

From this analysis you can conclude that moving one customer upward from the Detractor cohort ($133) to the Passive one ($602) should result in an increase in lifetime revenue of $469, on average ($602 — $133 = $469).
Increase that customer’s satisfaction again by moving the customer from the Passive cohort ($602) to the Promoter one ($1,528), and there should be an incremental $926 gain to lifetime revenue ($1,528 — $602 = $926).

Will such increases (or decreases) in financial value happen every time a customer’s sentiment changes? No. This analysis cannot predict with exact specificity how an individual customer’s financial value will change when their satisfaction changes. But cohort analyses, such as the one above, demonstrate links between customer sentiment and financials in general. As such they are still useful ways to demonstrate the financial value of CX, particularly during high-level discussions about making an enterprisewide investment in CX. And for organizations with analytical cultures, this method works well.

Justify CX Through Industry Research Linking the Behaviors of Satisfied Customers to Financial Gains

An additional justification for making an enterprisewide investment in CX can be generated from industry research. For those organizations open to industry research, it can be presented as a stand-alone or be attached to any of the other three justifications in this note. Depending on the research, this method can work for either analytical or conceptual/storytelling cultures. There is substantial industry research demonstrating the positive behaviors of satisfied customers and how they generate financial value for organizations. The following are a few examples of such research studies (see “How Much Customer Satisfaction Is Enough to Foster Loyalty and Differentiate Your Brand?”):

- A landmark Xerox study from the 1990s demonstrated that totally satisfied customers were six times more likely than satisfied customers to repurchase Xerox products over the following 18 months.  

- A 2000 study of IBM’s AS/400 Division found that the ratio of revenue growth between very satisfied (first choice of five options) and satisfied (second of five options) customers was 3-to-1.

- A 2001 InfoQuest study encompassing 20,000 customer surveys in 40 countries revealed that a totally satisfied customer contributed 2.6 times as much revenue as a somewhat satisfied customer.

- A 2018 ProfitWell study of 2,000 subscription-based companies found little to no difference between companies with lower quartile NPS or midspread NPS. However, companies in the upper quartile of NPS drove 5% to 10% higher retention with approximately half as much churn and considerably more expansion revenue.
Each of these studies contains a financial component, or alternatively a connection between customer sentiment and financials (e.g., lower churn). For organizations interested in the outside perspective that industry research can provide, socialize studies such as these to support your case that CX drives value. But when it comes to execution, customize them for your organization by tapping into your organization's VoC data (see "Build a Voice-of-the-Customer Strategy to Harness the Power of Customer Data"). Find out from this data which projects will improve customer sentiment and which areas are dragging down the CX, so as to achieve tighter alignment between projects you invest in and their benefits to CX.

Justify Individual CX Projects Using Financial Measurements

If the situation calls for a financial justification of specific CX projects, as opposed to an overall enterprisewide investment in CX, utilize ROI, payback, NPV, and IRR analyses (see "4 Ways to Quantify the ROI of Your Customer Experience Projects"). Such an approach is suited for organizations with analytical cultures.

At many organizations, the COVID-19 crisis has given rise to an increased scrutiny on costs; as managers seek to extract the most return for each dollar spent. While it would be an extreme measure to eliminate the entire CX function, a more likely outcome would be cuts to the CX budget (see "What to Do If Your Customer Experience Budget Gets Cut").

Such budget cuts can require managers to defund or avoid ongoing or planned CX projects. For instance, how should a manager proceed if there is sufficient budget for one CX project but three exist? Furthermore, oftentimes CX projects will be competing for budget with non-CX projects from other parts of the company. To justify CX, at an individual project level using financial measurement methods, turn to these methods:

- **ROI.** This is one of the quickest and simplest financial assessments. The ROI calculation generates a ratio between a CX project's gains in the form of additional revenue and/or expense savings, and the cost of the CX project.

- **Payback.** The payback method answers the question, "How much time will it take for this CX project to recoup its cost?" It takes into account the upfront cost of the CX project as well as the pace at which incremental cash flows generated by that project are accumulated.

- **NPV.** NPV is a method of assessing the profitability of an investment like a project, business or other opportunity. It evaluates a set of future positive and negative cash flows and determines their value today. Critically, NPV addresses the time value of money. This is a concept based on the fact that a CX project which generates $1 today is more valuable than a CX project which generates $1 one year from now.

A 2019 study by Watermark Consulting showed stock performance cumulative total returns from 2007 to 2017 were +183.8% for CX leaders, +138.7% for the broader market S&P 500 Index, and +63.1% for CX laggards.  

[6]
Justify CX on the Basis of Strategic Gains, Risk Mitigation, and Consequences of Inaction Rationale

Sometimes it is impractical and/or challenging to obtain and analyze the requisite data to justify CX by the methods above. In the absence of such data, consider nonquantitative, conceptual justifications for CX. These justifications can be powerful enough to overcome forecasts of financial losses for CX projects; on the grounds of strategic, risk mitigation, or consequences of inaction reasons. Such approaches are more aligned to conceptual/storytelling corporate cultures.

Examples include (see “How to Prioritize Customer Experience Projects Using a Six-Point Framework”):

A **strategic justification for CX**: This concept typically focuses on how CX impacts an organization's competitive position within the market. For example, if all the competitors of an online retailer offer free shipping to customers, for strategic reasons there could be pressure for this retailer to follow suit despite the costs of such an offer. Not doing so could weaken the retailer’s competitive position. Strategic positioning doesn’t have to be reactive as in the example above. An organization could elect to proactively improve its competitive standing via CX. Say this same online retailer is evaluating a multiexperience innovation (see “Transcend Omnichannel Thinking and Embrace Multiexperience for Improved CX”). While this innovation will be costly and unprofitable for years, the retailer may proceed regardless on the basis of the innovation’s strategic value as a competitive differentiator.

A **risk mitigation justification for CX**: CX also can be justified by its ability to reduce risk to the organization. Risk can be mitigated in two ways: decreasing the probability of undesirable outcomes, or lessening the severity of undesirable outcomes. There are several ways that CX can mitigate risk. For example, a retailer realizes the majority of calls to its contact center are from customers wanting to know when their package will arrive. As each call costs the company an average of $10, the company builds a feature which notifies customers where their package is and the estimated date of arrival, reducing the likelihood that customers will call. This in tum mitigates the risk of the company incurring costs from such calls.

Another example would be a library whose strict fee policy for overdue books results in a worsening customer perception of the library. As part of a broader improvement to its CX, the
library decides to waive fees on overdue books for which it has more than one copy available, mitigating the risk of further damage to its public perception.

A consequences of inaction justification for CX: Doing nothing comes with a cost. Describing what will happen if an organization elects not to act can be a powerful justification for CX. Take an organization which faces an expensive upgrade to improve the CX of its app, which has not been upgraded for an extended period of time. The organization is faced with two choices: do nothing, or upgrade. The organization realizes it cannot tolerate the risk of customers defecting due to the outdated app, and despite the heavy cost of the upgrade, the organization proceeds with it. To conclude, while the financial analysis of CX as a whole or a CX project may point toward losses, an organization may proceed with it regardless if the strategic, risk mitigation, or consequences of inaction justifications are great enough.

Acronym Key and Glossary Terms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSAT</td>
<td>Customer satisfaction score</td>
</tr>
<tr>
<td>CX</td>
<td>Customer experience</td>
</tr>
<tr>
<td>IRR</td>
<td>Internal rate of return</td>
</tr>
<tr>
<td>NPS</td>
<td>Net Promoter Score</td>
</tr>
<tr>
<td>NPV</td>
<td>Net present value</td>
</tr>
<tr>
<td>VoC</td>
<td>Voice of the customer</td>
</tr>
</tbody>
</table>

Evidence

1. Gartner’s 2019 Customer Experience Innovation Survey was conducted online from 12 March through 2 April 2019. There were 244 respondents from seven countries in North America, Western Europe and Asia/Pacific: the U.K. (25%), Australia (25%), U.S. (22%), India (12%), Singapore (11%), Canada (5%) and New Zealand (1%). Respondents came from a wide range of industries and company sizes. Respondents’ companies were screened for having a minimum of $50 million worldwide annual revenue in FY18 and a minimum of 250 employees worldwide.

The objective of the study was to explore organizations’ CX maturity levels. We wanted to discover their challenges to CX maturation, the actions they take to increase their CX maturity, and the roles that technologies play in their CX initiatives.

To qualify for the study, respondents had to be leading the setting of strategic objectives and priorities for at least one CX-related project activity (85%), or on a team responsible for meeting the
strategic objectives and priorities (15%). They also had to be knowledgeable about business priorities and/or business benefits for at least one CX project in the past year.

Quotas were applied for countries, industries, roles, involvement in CX and annual revenue.

Results represent the views of the respondents surveyed.


3. “Career and Technical Education and the Malcolm Baldrige Quality Award in Education,” Western Michigan University


5. “NPS Has a Direct Correlation to Expansion Revenue,” ProfitWell


Recommended by the Authors

Survey Analysis: Customer Experience Maturity and Investment Priorities, 2019
What to Do If Your Customer Experience Budget Gets Cut
What to Do When the C-Suite Endorses Customer Experience, but the Next Level Pushes Back
What to Do If C-Suite Executives Stall the Launch of Your Customer Experience Initiative
How Much Customer Satisfaction Is Enough to Foster Loyalty and Differentiate Your Brand?
Build a Voice-of-the-Customer Strategy to Harness the Power of Customer Data
4 Ways to Quantify the ROI of Your Customer Experience Projects
How to Prioritize Customer Experience Projects Using a Six-Point Framework
Transcend Omnichannel Thinking and Embrace Multiexperience for Improved CX

Recommended For You

4 Ways to Quantify the ROI of Your Customer Experience Projects
How to Prioritize Customer Experience Projects Using a Six-Point Framework
What to Do If C-Suite Executives Stall the Launch of Your Customer Experience Initiative
What ContinuousNext Means for the Future of Customer Experience
What to Do When the C-Suite Endorses Customer Experience, but the Next Level Pushes Back