Proving the ROI of Your Customer Experience Investment

Introduction

One of the biggest obstacle's customer experience change-makers face in pushing their organisations towards customer centricity is convincing executives that the investment will yield a return. Compared to areas such as sales and marketing, customer experience is often seen as the "softer" part of business. While sales, for instance, can be directly tied to revenue growth, and marketing campaigns are linked to the number of leads they convert and customers they acquire, customer experience tends to be more of an intangible factor.

So, what is the Return on Investment (**ROI)** of customer experience, and how does one prove it?

The key to getting executives on board with customer experience begins with proving that it improves on the bottom line. Tying customer-focused initiatives to income and statistics illustrates a better narrative than anecdotal proof. Studies have shown that the ROI of customer experience is quite impressive.
Consider the following findings (Morgan, 2020):

- Customer-centric companies are 60% more profitable than companies that do not focus on customers.
- Brands with superior customer experience bring in 5.7 times more revenue than competitors that lag in customer experience.
- 84% of companies that work to improve their customer experience report an increase in their revenue.

From this, we can deduce that when done right, investing in customer experience brings a strong return on investment. The key is using data to prove the ROI of CX and use this data to outline a clear and substantive story since it is difficult to directly measure the impact of a CX program.

In this paper, we will endeavour to use the Service Profit Chain model in conjunction with the Satisfaction Profit Chain model to prove the profitability of Customer Experience. Furthermore, we will look at the other crucial aspects across the business which impact CX such as employee experience, customer satisfaction and, complaint management, among others. By considering the overall ecosystem within an organisation, we will show how a CX strategy links to the broader organisational strategy, which together contributes meaningfully to ROI.

Measuring Success and Return on Investment

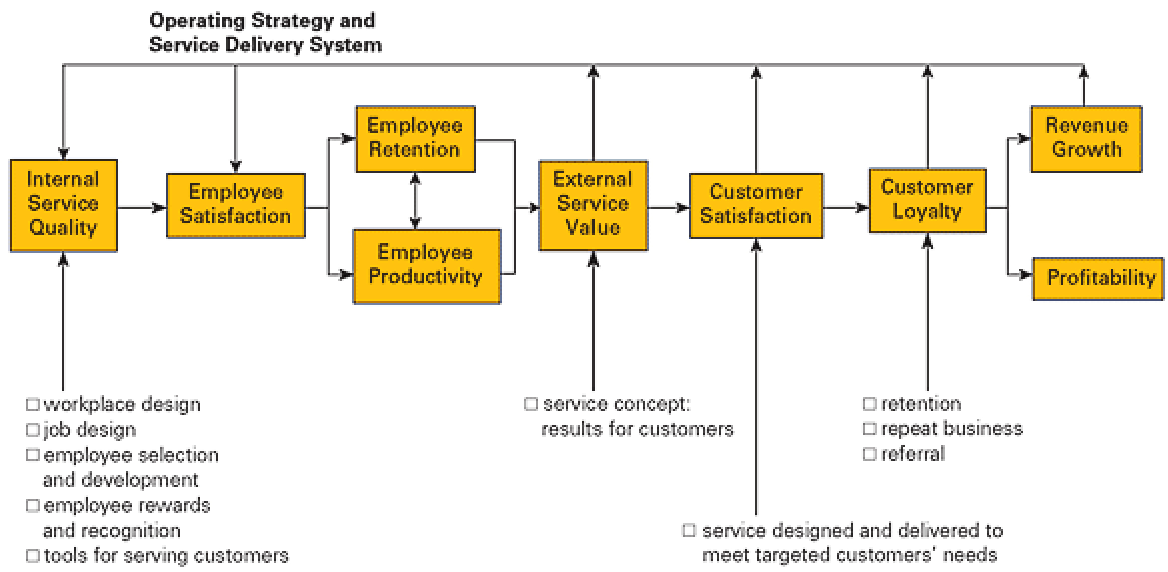
The Service-Profit Chain

An organisation's CX strategy will often be considered successful once they are able to create a link between profitability and CX key drivers – that is showing that positive customer experiences result in more/return customers.

An inevitable question from finance is always, "*What is the return on investment of the CX Program?*" The good news is that since the concept of customer satisfaction was first introduced around four decades ago, theorists have hypothesised that higher customer satisfaction would lead to repeat purchasing and cross selling, ultimately alluding to the notion of positive associations between customer satisfaction, revenue and therefore profitability.

The diagram below depicts the links in the Service Profit Chain, as proposed by Heskett., Jones., Loveman., Earl Sasser. Jr., & Schlesinger., (1994):

The Links in the Service-Profit Chain



(Heskett et al, 1994)

The Key Elements of The Service Profit Chain (Hohnen, n.d.):

- **Profit and Growth**: Although a large majority of successful service companies have a purpose other than making profits this is still a recognised and necessary simple measure of success.
- **Customer Loyalty**: A high degree of customer loyalty has been found to be the number one factor driving profits and growth in the service business. A 'solid fan club' that loves your services is an invaluable asset, and if you have a greater number of loyal customers than your competitors do, you will more than likely outperform them.

- **Customer Satisfaction**: Evidence shows that there can be no loyalty without first having a high level of satisfaction. Satisfaction is closely linked with expectations. When we get what we expect, we are basically satisfied. If we get less than we expected, we are dissatisfied.
- **Value**: For a service experience to provide basic satisfaction, it must be valuable to the customer. The world is full of examples of companies that got lost along the way and forgot that value is not about what the company believes it is delivering, but rather about what the customer believes he or she is getting, and how the perceived feelings and or emotion which are evoked as a result.
- **Productivity**: The ability to understand and decode what customers are really asking for and to convert that desire into delivering the appropriate products and services has, now more than ever, become a crucial frontline employee skill.
- **Employee Loyalty**: Retaining great service people in their positions over time has a direct effect on our ability to deliver value to our customers.
- **Employee Satisfaction**: The obvious first step to employee loyalty is basic employee satisfaction. Basic employee satisfaction is closely connected to job context (employee experience) – the environment in which they get to do their job.
- **Internal Quality**: To reach a basic level of employee satisfaction and, hopefully over time, more than just that, we need to at look at job context and job content. Getting employee context and content right helps drive the dream team cycle.

In practice however, the quest for ROI on your CX program will likely prove to be elusive simply because the data on individual customer cost to serve and revenue is often hard to come by. However, all is not lost. We are able to consider the Satisfaction Profit Chain for further insights to the direct inputs and the resulting outputs which impact on ROI.

The Key Relationships and Links

Profit and growth are stimulated primarily by customer loyalty. As previously mentioned, according to the service profit chain loyalty is a direct result of high customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal, and productive employees.

The service-profit chain is also defined by a special kind of leadership. CEOs of exemplary service companies emphasise the importance of each employee and customer. For these CEOs, the focus on customers and employees is no empty slogan tailored to an annual management meeting. On the contrary, it I believed that hiring employees who have the right attitude is so important that the hiring process takes on a "patina of spirituality" (HBR, 2008). In addition, "anyone who looks at things solely in terms of factors that can easily be quantified is missing the heart of business, which is people."
Furthermore, employee satisfaction is a result from high-quality support services and policies that empower employees to serve customers well – also called internal quality. According to the service profit chain, If you wish to influence the upper level (growth and profit) you need to look at the bottom level first which is internal quality. Getting this level working well will in turn positively influence the upper level.

The Satisfaction Profit Chain

Historical models such as the Satisfaction Profit Chain (Anderson and Mittal, 2000) and the Service Profit Chain (Heskett, Sasser and Schlesinger, 1994) support the notion of positive associations between customer satisfaction, revenue, and profitability.

The model as per Anderson and Mittal, (2000), can be seen below:

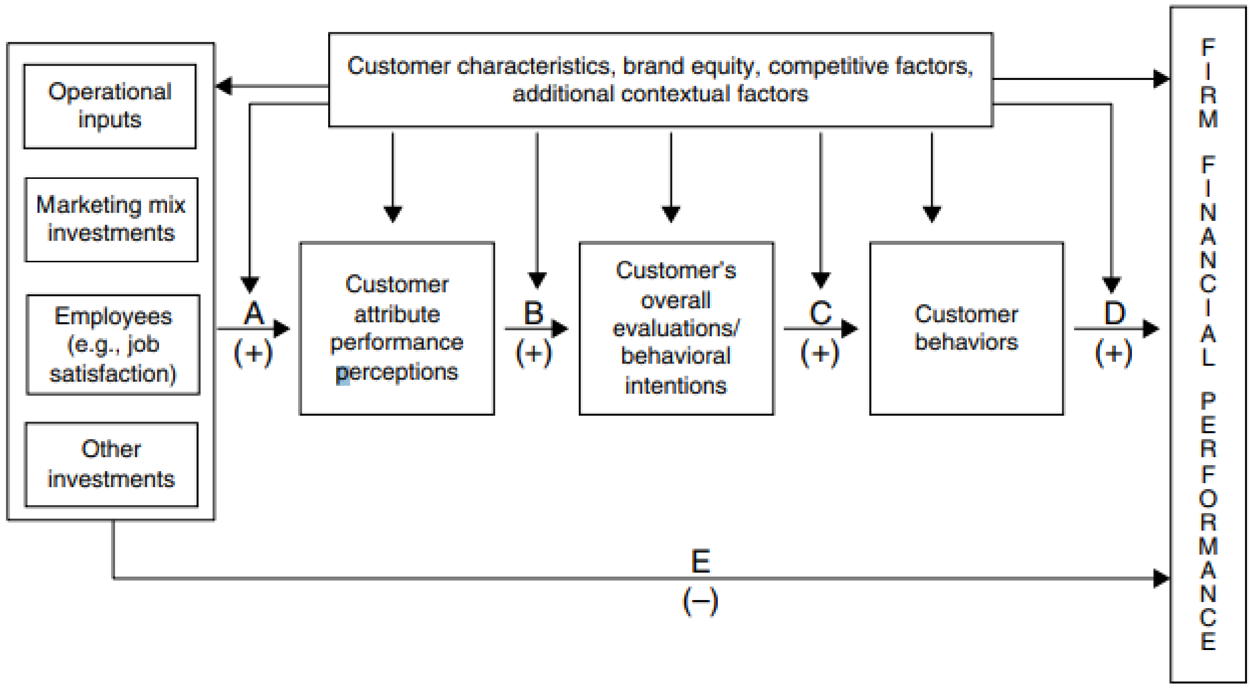
(Anderson & Mittal, 2000)

Whilst further studies (Frennea, Mittal, & Westbrook, 2014), offer a more comprehensive diagram, they suggest that a system's perspective provides the theoretical basis for the SPC framework (Reidenbach and Oliva 1981). In a systems perspective "complex phenomena are conceptualised as a system that consists of various subsystems that work in tandem and evolve over time" (Frennea, et al., 2014).

A system generally consists of a set of inputs, throughputs, and outputs with their interrelationships defining the system. Typically, these interrelationships can and do evolve over time and may vary across different systems and subsystems. In an organisational context (Morgan 1986), researchers have envisioned organisations as living systems that use inputs (for instance, production factors), transform them (for example, through production), and produce outputs that satisfy customers' needs and wants (for example, utility).

For marketing systems this approach is particularly useful and can be considered as the theoretical basis of the SPC framework (Frennea, et al., 2014). To fully understand the SPC it is therefore useful to understand the various inputs, throughputs, and outputs, as well as their interrelationships. The framework generally implies inputs, as those decisions that are under the organisation's control, throughputs as customer psychological processes (perceptions, judgments, attitudes, intentions), outputs as customer behaviours (for example, repurchase, cross-buying, word of mouth) as a result of the preceding actions by the organisation, and associated firm outcomes (for example, increased sales, profitability, market share).

The figure below represents the Elements of the Satisfaction Profit Chain (Frennea, et al., 2014):



(Frennea, et al, 2014)

The SPC Diagram Explained

Input: the inputs to an SPC are the operational factors of the business, that is, those resources used by the organisation to improve how customers perceive product and service attributes. They include production inputs such as employees, raw materials, technology, facilities, and infrastructure, but may also include inputs designed to directly affect customer perceptions (such as, brand equity and communication) (Frennea, et al, 2014).

The choice of production elements directly affects customers' perceptions of service or product attributes. Factors such as waiting time at a bank, the timely departure of an airline flight, or the comfort of an automobile. Strategically, a firm should deploy resources to enhance inputs that impact those attributes most influential to customers' overall perceptions and judgments, and behaviours.

In many cases, inputs can be employee-focused constructs such as employee satisfaction, commitment, and performance because they presumably are associated with the level of effort that employees may input in improving service quality and satisfying customers. Applications of the service profit chain have increasingly moved beyond the employee-centric logic- traditionally specified as inputs, to include all types of organisational-level inputs that influence customer perceptions and behaviour (Frennea, et al, 2014).

In part, the shift to a more general framework is a response to technological advances which have reduced the need for employees to interact with customers in industries previously characterised by extensive interaction. Self-service technologies are in effect technological interfaces that allow customers to obtain a service without direct employee involvement (Frennea, et al, 2014). In the banking industry, for example, automated teller machines (ATMs), online banking, and banking apps have reduced the reliance on employees to deliver service, ultimately resulting in increased overall customer satisfaction. In addition, customers can now perform a wide array of market behaviour—purchasing groceries, mailing packages, and trading securities— largely without interacting with employees. In these situations, employee satisfaction may be less relevant to customer perceptions and behaviour. This shift to reduced employee interaction has clear implications for other performance attributes that play a larger role in driving overall customer satisfaction. Thus, for instance, in high technology companies, the level of innovative product features may be an input, whereas for industrial/B2B firms, inputs may involve the level of on-site support provided by the organisation to its customers in addition to the machinery supplied (Frennea, et al, 2014).

Throughput: this refers to customer assessments so those inputs that result in market offerings, communications, and ancillary services that give rise to customer perceptions of differing levels of attribute performance. The throughput concept encompasses these mediating constructs—key customer perceptions at the attribute and overall level—through which the organisation's operational inputs are transformed into outputs, its economic results.

The literature amply demonstrates that attribute performance perceptions influence customer evaluations of service and product quality, overall satisfaction (Anderson and Mittal 2000), and behavioural intentions (Frennea, et al, 2014). The theoretical basis for this link is the multi-attribute conceptualisation of customer satisfaction and service quality (Anderson and Mittal 2000; Parasuraman et al. 1988), which argues that overall customer satisfaction—a global evaluation—is a function of attribute-level perceptions. Moreover, the conceptualisation proposes that the extent to which a change in customers' attribute-performance perceptions leads to a change in the global customer evaluations indicates the importance of that attribute (Anderson and Mittal 2000).

A firm's resource allocation to the various attributes seen by customers can then be based on their relative importance. Thus, the strategic purpose in quantitatively evaluating this link is to isolate the "key driver" attributes- those which have the highest impact on subsequent overall customer evaluations. The choice of which global evaluative construct to use—overall perceived service quality or overall satisfaction—is context dependent and will likely vary by organisation (Frennea, et al, 2014).

Methodologically, the importance of different attributes can be statistically determined using techniques such as regression analysis that assess the impact of a unit change in attribute performance on a corresponding change in overall satisfaction. Together, attribute performance perceptions and global evaluations constitute throughput.

Output: this refers to customer behaviours and the organisation's performance outcomes. While the preceding section describes the translation of organisations' operational choices into customer perceptions, throughput also consists of the transformation of the latter into outputs, which includes both customer loyalty behaviours and financial outcomes.

The theoretical basis for this link is the concept of attitude-intention-behaviour consistency (Morwitz and Schmittlein 1992) in which overt customer behaviour, on average, is determined by prior customer attitudes and behavioural intentions. It has been empirically demonstrated repeatedly that the overall satisfaction relates directly to both customer intentions and subsequent market behaviours (Frennea, et al, 2014).

The loyalty behaviours explored in any satisfaction or service profit chain application are of necessity specific to the organisation and its market context. For instance, the most relevant loyalty behaviour for telephone service providers is the duration of customer tenure (Bolton 1998). For durable goods, the actual repurchase of the same brand may be the behaviour of interest, or in the case of automobiles, customer propensity to recommend the make and manufacturer to other customers. In the financial services industry, where a single customer can have multiple accounts with different providers, it has often been found useful to monitor "share of wallet," cross-sales, and duration of the customer's relationship with the firm (Loveman 1998). In a retail grocery store application, loyalty behaviours consist of share of grocery budget, basket size, and word of mouth (Silvestro and Cross 2000). Whatever customer behaviours are chosen for monitoring, they should be empirically related to organisation revenues and/or profitability. In fact, there is a growing literature in marketing showing a positive association between several customer behaviours and firm-level outcomes. Thus, studies show that customer retention is associated with increased revenue (Loveman 1998), word of mouth is associated with firm stock performance (Luo 2009), and increased recommendations can increase sales performance (Frennea, et al, 2014).

Integrating Inputs, Throughputs, and Output

If managers ignore the negative feedback loop, they may overestimate the consequences of their resource investments and make suboptimal decisions. At the very least, failure to do so may result in the incorrect conclusion that higher customer satisfaction unconditionally increases firm profitability. Therefore, future applications of the service and satisfaction profit chain must take this negative direct effect into account to correctly understand and quantify the total effect of resource allocations on profits.

Although it has yet to be empirically modelled, researchers should also estimate reciprocal feedback effects in the service or satisfaction profit chain through the use of time series data (Frennea, et al, 2014).

Feedback in general-systems theory refers to the process through which information concerning outputs is fed back into the system as an input and can cause change in throughput and/or output. Hence, allowing customers the opportunity and platform to provide negative feedback allows the organisation to make changes within their system which will benefit the customer and aim to prevent further negative feedback.

Conceptually, negative feedback may indicate, for instance, a bank is falling short of performance targets and needs to adjust its operational inputs to improve profits. The empirical implication is that a bank might have fewer resources with which to work and, as a result, in the next period may reduce certain inputs or allocate investments elsewhere (for example, reducing the number of fulltime employees while adding an ATM to the lobby).

How do the three elements of the service or satisfaction profit chain comprise the system as a whole? A system is simply a set of interacting parts contained within a boundary. Systems are part of a larger hierarchy: composed of multiple interrelated subsystems at a lower level and part of a supra-system at the higher level. The system may be an entire organisation (Reidenbach and Oliva 1981), a customer subgroup or segment (Danaher 1998), or a consumption process (Mittal et al. 1999).

Subsystems may be functional areas in an organisation or department, individual buyers within a customer segment, or product and service components of a consumption system. For example, a consumption system is comprised of product and service subsystems, which influence each other on top of their influence within their subsystem; that is, product satisfaction impacts behavioural intentions toward a service provider, and service satisfaction influences behavioural intentions toward a product manufacturer (Mittal et al. 1999).

Behavioural intentions, in turn, determine customer behaviours manifested in the marketplace and the resulting financial returns to the business. Thus, two different inputs are managed in order to arrive at the same outcome. Finally, an application of the SPC must address the context and/or external environment in which the chain of effects takes place. The external environment has various factors which may influence aspects of the service profit chain, such as the technical, the social-cultural, the competitive, the regulatory, and the political aspects (Reidenbach and Oliva 1981).

For instance, how do changes in employee protection laws and customer protection laws affect the strategic and operational aspects of the service and satisfaction profit chains? Recent studies have incorporated factors such as the intensity of the competitive environment (Homburg et al. 2009) or competitor performance (Bowman and Narayandas 2004), implicitly recognizing that the SPC resides in an organisation which is part of a larger supra-system. Expanding the context to larger systems such as the economic environment is especially important to address competitive dynamics among firms. For example, a firm which requires employees with specialised skills or a high level of customer proficiency in customer interactions is dependent on the quality of the labour market to deliver value to customers and returns to the business. They must also compete with rival organisations for the same pool of resources.

From a theoretical perspective, both elements could be incorporated as moderating influences in the service or satisfaction profit chains. For instance, specialisation may moderate the link between operational inputs and attribute performance. In addition, several organisational-level factors such as the leverage of the firm, size of the firm, degree of specialisation or expertise, the number of segments in which a firm competes, a firm's strategic emphasis (revenue growth or cost reduction) may all impact the magnitude of linkages in an SPC (Frennea, et al, 2014).

Consider Key Drivers of ROI

A closer look at each proxy within business reveals how the ROI of CX can be assessed as a whole.

Customer Satisfaction Drives Customer Loyalty

Leading service companies are currently trying to quantify customer satisfaction. Think back to your most positive customer service experience. What made it such a good one? Now, think about your worst experience related to customer service or lack thereof. What made it such a nightmare?

In successful customer service initiatives, the goal is to promote customer satisfaction. No longer is this done by attracting new customers and making the sale; customer satisfaction is now achieved by developing relationships (Nolinske, n.d.).

Customer service is not just something provided in call centres. Anyone interacting with the end user of a product or service is involved in the delivery of customer service (Nolinske, n.d.). As such, everyone in the organisation must work to ensure delivery of core business values.

Customer loyalty is not just about repeat business. Customer loyalty exists when a customer *chooses* to do business with a company even when a less expensive, more convenient, or higher quality alternative is available somewhere else.

It is no secret that retaining existing customers is less costly than recruiting new customers. That means cultivating customer loyalty is critical to the financial success of any business (Nolinske, n.d.).

Value Drives Customer Satisfaction

Customers today are strongly value oriented. But just what does that mean?
Customers tell us that value means the results they receive in relation to the total costs (both the price and other costs to customers incurred in acquiring the service). When a customer's perceived value of the product or service increased, studies suggest that their level of satisfaction further increases as a result.

It is further suggested that offering fair prices, rewards, and deals, communicating well with customers, offer a platform for feedback, an ensuring a level of professionalism is maintained are key drivers in increasing customer's perceived value (Furgison, 2016).

Employee Productivity Drives Value

Employee productivity is crucial to a company's bottom line. A fulfilled and valued employee will always work harder, be more productive and advocate for the higher good of the company. This translates and travels right down the supply chain and will be felt by the customer in various ways.

Naturally, when employees are keen to be productive and in fact enjoy their day-to-day environments, the value that they bring to the organisation is incredible, if not immeasurable. Engaged employees are happy employees, and happy employees are productive- thus benefiting your organisation's bottom line with ease.

Employee Loyalty Drives Productivity

Employee loyalty can be defined as employees who are devoted to the success of their organisation and believe that being an employee of this organisation is in their best interest. Not only do they plan to remain with the organisation, but they do not actively seek for alternative employment opportunities.

Traditional measures of the losses incurred by employee turnover concentrate only on the cost of recruiting, hiring, and training replacements. In most service jobs, the real cost of turnover is the loss of productivity and decreased customer satisfaction.

Employee Satisfaction Drives Loyalty

In one 1991 proprietary study of a property-and-casualty insurance company's employees, 30% of all dissatisfied employees registered an intention to leave the company, a potential turnover rate three times higher than that for satisfied employees (Frennea, et al, 2014). In this same case, low employee turnover was found to be linked closely to high customer satisfaction. But what drives employee satisfaction? Is it compensation, perks, or plush workplaces?

Internal Quality Drives Employee Satisfaction

What we call the *internal quality* of a working environment contributes most to employee satisfaction. Internal quality is measured by the feelings that employees have toward their jobs, colleagues, and companies. What do service employees' value most on the job? Employee satisfaction, which reflects how happy and content employees are at work, which directly links to emotional prosperity. The traditional business way of thinking was that happiness and work were not linked, with happiness being for the employees' free time. But recently there has been a shift in this thinking, as businesses have come to the realisation that employees who are happy at work commit more time and effort to their work tasks, are more productive with their outputs and their tenure with an organisation tends to be longer (Vennus, 2017). It is necessary for happiness to be a consideration in business because when people are unhappy their brains tend to disengage which decreases their capacity for critical thinking, innovation and other core functions. Employee satisfaction acts as a mediator for employee engagement. Unlike employee engagement, employee satisfaction is not a two-way exchange of effort between employer and employee.

Employee satisfaction is often used as part of the measurement of employee engagement. It can be used as a headline metric that key drivers can be regressed upon as it is a strong indicator of employee engagement as an unhappy employee is not likely to be engaged.

Calculating ROI

While there is no solid algorithm for calculating the ROI of CX, we have considered the literature and offer one here.

Essentially, **the cost to serve per customer** would consider the **cost of the CX program allocated to each customer** (amongst others). Further to this, one would need to look at the **revenue generated** for that customer to calculate customer profitability:

Customer profitability = Revenue per customer – Cost to serve per customer

The ROI could then be calculated by looking at pre and post program customer profitability:

Customer profitability POST – Customer profitability PRE = Gain from investment

$$\text{ROI} = \frac{\text{(Gain from investment – Cost of CX program)}}{\text{Cost of CX program}}$$

Inevitably however, most, if not all this data is seldom available!

In the absence of specific data on cost to serve and revenue, one could consider some other metrics which may (or may not) be easier to prove within your organisation:

The 'cost' of negative word-of-mouth

The advent of social media has resulted in the price tag on negative word of mouth reported on in the public domain becoming quite hefty

Arguably, a successful CX program prevents negative word of mouth from findings its way into the public domain and the adverse costs of such

Effectively closing the loop

Indications are that customers who have experienced a successful service recovery exhibit higher levels of customer loyalty

Reduced internal complaints / escalations

By providing customers with a channel through which to voice complaints at a transactional level, one should see the volumes of complaints decline, both through more traditional channels as well as via social media.

Conclusion

As there are numerous factors which contribute to something as abstract as customer experience, therefore there is no one formula for calculating the return on investment thereof. as not every customer (even of one organisation) will necessarily go through the same experience or even the same touch points.

However, as we have clearly seen, there is a very much tangible return on investment when it comes to CX, as difficult as it is to pinpoint- organisations experience a definite rise in revenue when they opt to invest in their CX strategy. A satisfied customer is a loyal customer, which could result in a return customer.

SPC Linkages in the satisfaction profit chain, resource investments (operational inputs) have a positive and indirect impact on revenues and profit because they exert their effects through the mediating throughputs of customer attribute perceptions, overall customer satisfaction evaluations, and customer loyalty intentions. This should not mask the fact that resource investments initially have a direct negative effect on profits. Depending on the accounting framework being used, resource investments are typically a direct fixed or variable cost that must be paid for in the hopes that they will have a positive effect on throughputs and eventually outputs. The simultaneous positive and negative effect of operational investments— particularly on profits—was not modelled in the service profit chain framework until recently.

Furthermore, hiring the right people for the right position in the right job influences the potential for employee engagement. If employees are passionate about what they do and the business they are in, they will deliver products and services that exceed expectations. Employee passion is contagious and stimulates customer satisfaction and return business.

This service-profit chain understands the important relationship between profitability, customer loyalty, and employee satisfaction. Customer loyalty is a key link in the chain between profit and growth. In fact, loyalty and value is an express outcome of customer satisfaction. Satisfied, loyal, and productive employees create this value. So, it stands to reason that employee satisfaction results from top-quality internal support structures and policies that empower staff to deliver results to their customers, thus increasing profitability.

From the discussion above, you can see that calculating the profitability of customer experience program is complicated. But having a view of all the components of the service profit chain and/or satisfaction profit chain (system) will allow you to have access to ROI within your organisation albeit indirectly.

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