



Capturing The ROI Of CX

A GUIDE TO DEMONSTRATING
CX PERFORMANCE

Capturing The ROI Of CX Transformation

Customer experience (CX) professionals often struggle to show how their efforts will produce business results. When their efforts fail, requests for funding hits a wall, projects stall out, and CX pros may find themselves out of a job.

To avoid that fate, create business cases for your initiatives — especially large-scale CX transformation efforts that come with big price tags. Armed with an ROI model, you can make a compelling argument for transformation and boil it down to a “one-sentence business case” that follows a time-tested formula for winning support:

We intend to transform our customer experience to increase customer-generated revenue while reducing customer-related expense, which will bring \$X of incremental benefit, at a cost of \$Y, for an ROI of Z%.

Tips For A Compelling CX Business Case

A business case should always start with benefits.

The single greatest mistake that CX professionals can make when pitching their projects is to lead with a budget request.

Fortunately, CX transformation has many quantifiable benefits. Analysis shows that the largest companies in some industries can earn up to hundreds of millions of dollars in incremental revenue for every 1-point increase in Forrester's Customer Experience Index (CX Index™). [\(see endnote 1\)](#)

Don't try to create the perfect model.

If stakeholders are skeptical about the financial benefits of CX, they're more likely to ask for proof that your model's assumptions are right. Don't go down that rabbit hole. Instead, remind them that all models include assumptions; rarely, if ever, do all these assumptions turn out to be exactly right. To err on the side of caution, use conservative estimates.

Connect the model to executives' hot buttons.

To get traction with their ROI model, CX transformation leaders also need to face emotional issues head on.

Before you do any modeling, ask yourself: What success metrics will get executives' attention? Learn what keeps your C-suite up at night — not just their “hard” goals but also their “vanity” goals.

- Hard goals are metrics like Net Promoter Score (NPS), share of wallet, market share, revenue growth, or profitability. [\(see endnote 2\)](#)
- Vanity goals relate to the personal success of an executive — for example, the CEO's desire to beat a particular competitor.

We recommend that you comb through company documents (e.g., emails to all employees), attend meetings (e.g., investor calls), and interview executives' direct reports to discover what the execs talk about first and most.

Create memes that will help the ROI of CX evangelize itself.

Richard Dawkins coined the term “meme,” which is an idea, behavior, or style that spreads from person to person within a culture. [\(see endnote 3\)](#) We know from our research into culture transformation that memes can become part of organizational lore and make living customer-centric values second nature. [\(see endnote 4\)](#) Pick two to three interesting, easy-to-remember stats and start repeating them to colleagues, whether executives or individual contributors, front office or back office.

- Positive memes could include: “Each 1-point increase in our NPS score is worth \$1 million in revenue.”
- Negative memes can be equally effective. For example: “Bad website experience costs us \$5 million per year because one in three unhappy customers calls us.”

How To Create A CX ROI Model

To illustrate the process of creating an ROI model for CX transformation, we built a simple but realistic business case for a fictional company, “Acme Bank.”

With 3 million customers across 10 states, Acme is a full-service bank. It offers a portfolio of retail banking products and wealth management services. The bank’s customer-generated revenue has been in decline for several years. Internal CX champions convinced the CEO that a CX transformation could turn the situation around. He asked the team to create a business case. They used the following process.

Step 1: Documented The Current Situation

- **Declining revenue.** Acme's revenue decreased as customers abandoned the bank for competitors. Remaining customers purchased fewer additional products. In the two years prior to the start of Acme's CX transformation, customer retention shrank from 78% to 70% and its cross-/upsell rate decreased from 12% to 10%.
- **Shrinking market share.** In the past decade, Acme Bank's market share shrank from 30% to 20%. About 50% of this loss was due to customers defecting to its big national bank competitor. To compete, Acme lowered its prices and cut costs. This had the unintended consequence of worsening CX quality, which aggravated its problems by driving some customers to seek better experiences at community banks and credit unions.
- **Frustrated and uncertain customers.** Through surveys, Acme found that its customers felt banking with them was less convenient and less personal than banking with competitors. From analysis of the CX quality drivers captured by the surveys, as well as journey mapping efforts, the CX team discovered that the most problematic customer issues resulted from siloed customer data, a call center that frequently transferred callers without resolving customer issues, and customer frustration with a poor mobile app.

Step 2: Estimated The Potential Range Of CX-Fueled Benefits

Next, the CX transformation team estimated the range of possible economic benefits for their initiative.

- **Documented starting assumptions.** The team documented the baseline for their current number of customers, revenue per customer, and value of an incremental purchase. Acme's largest customer segment stood out: customers who owned a checking account, a savings account, and a credit card. Analysis showed that people in this group generated substantial annual revenue, making it highly desirable to retain them and attract more of them. Additionally, analysis showed that these customers were likely to buy additional products when highly satisfied and were good candidates to buy a money market account, which would bring in an additional \$100 per customer annually.

Acme customers starting assumptions	
Total customers	3 million
Customers in target segment	2 million
Average annual revenue per customer in target segment	\$400
Average annual revenue per additional money market account	\$100

- **Confirmed the potential for increasing customer loyalty by improving CX.** The team analyzed survey data to estimate how much improving customer experience might increase three types of loyalty for Acme Bank: retention, enrichment, and advocacy. Forrester's CX Index shows that in the banking industry, improving customer experience is highly correlated with increasing all three types of loyalty. The Acme team's data and analysis confirmed that this was also true of their customers.
- **Defined realistic ranges of potential CX and loyalty improvement.** To make its estimates as accurate and defensible as possible, the CX transformation team looked back at previous changes in customer behavior. The last time the bank rolled out a major new improvement that resonated well with customers — its first mobile app — customer satisfaction scores increased by 5 points, which led to a 5-percentage-point increase in customer retention.

The team reasoned that with an enterprisewide CX transformation, they could do far better. For a low benefit, they assumed a retention rate increase of 10 percentage points by the end of the transformation, double what they got from the mobile app. [\(see endnote 5\)](#)

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After further discussion, they concluded that the best they could do for a high benefit would be a 15-percentage-point increase in the customer retention rate by the end of the transformation — 50% better than the low case.

- **Identified a cost reduction opportunity in the call center.** Each year, Acme received an average of 1 million calls to the contact center — a huge expenditure considering its customer base of just 3 million. Call center data revealed that almost 20% of customers had to call at least twice before resolving their issue and that 50% of calls were about issues that could have been resolved by customers through online self-service. The transformation team expected a large potential reduction of customer service costs by improving call handling and providing more self-service options through their website and mobile app. To estimate call reduction rates, the team used data on how the bank's first mobile app reduced call center traffic by providing limited self-service options, as well as information gathered through journey mapping on the reasons why customers called and how those issues could be resolved more effectively.

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Step 3: Estimated Necessary Investments Along A CX Transformation Timeline

Acme's CX leaders then estimated how much to invest and when. They:

- **Planned the initiatives necessary to achieve their transformation goals.** The CX team needed a database management system to better process and access customer data and power a more full-featured mobile app. Second, they required a fully staffed CX team to coordinate various initiatives and design intended experiences. Third, they had to retrain call center agents to more effectively resolve customer issues to prevent callbacks. Finally, they needed to create a new, full-featured mobile app.
- **Created a timeline for the CX initiatives.** The forecast helped predict when costs for each initiative would take place:

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- **Estimated the cost ranges for each investment.** Acme's executives created a set of low- and high-investment estimates for each initiative. To predict training costs, the CX transformation team looked at how much the company spends to train new call center agents and used that as a benchmark for retraining. Acme's IT team was an essential resource in predicting cost ranges for most of the other initiatives in its transformation. Ultimately, the CX transformation leaders estimated the total investment to range from \$19 million for their low-cost model up to \$28 million for the high-cost model.

Step 4: Created A Stakeholder-Ready ROI Model

Once the transformation team had laid out their starting assumptions and estimated potential benefits and costs, it came time to create an Excel model to calculate the actual ROI.

Although the leadership team estimated that the CX transformation would take three years, they knew that major parts of the initiative would be completed at the end of the first year. Therefore, their model assumed that some benefits would begin to accrue at the beginning of the second year.

The model showed that at the end of the second year, those potential benefits ranged from a low of \$44 million to a high of \$65 million. At the end of the third year, the total benefits were projected to range from a low of \$126 million to a high of \$198 million.

After entering costs into the model, the CX transformation team projected ROI ranging from a risk-adjusted low of 392% after three years for the low-benefit/low-cost case to a risk-adjusted high of 421% for the high-benefit/high-cost case over the same period.

Estimated ROI

Low case	Year 1	Year 2	Year 3	Total (Present value)*	Total (Risk-adjusted)†
Total benefits	—	\$43,467,000	\$82,624,800	\$98,000,376	\$89,816,529
Total costs	\$15,672,000	\$1,692,000	\$1,272,000	\$16,601,292	\$18,261,421
Net cash flow	(\$15,672,000)	\$41,775,000	\$81,352,800	\$81,399,084	\$71,555,107
ROI					392%

High case	Year 1	Year 2	Year 3	Total (Present value)*	Total (Risk-adjusted)†
Total benefits	—	\$6,410,000	\$82,624,800	\$153,500,925	\$140,818,285
Total costs	\$21,680,000	\$3,260,000	\$2,880,000	\$24,567,092	\$27,023,802
Net cash flow	(\$21,680,000)	\$61,650,000	\$130,160,500	\$129,032,832	\$113,794,483
ROI					421%

*Present value is calculated using a 10% discount rate according to Forrester's Total Economic Impact™ (TEI) framework.

†Risk-adjusted values are calculated before the ROI calculation. Each benefit and cost number is multiplied by a specific risk factor.

To create the model, the team:

- **Listed all the assumptions in a separate worksheet.** They followed the best practice of listing all their assumptions in a single place so they could easily discuss them with stakeholders and update them if necessary — then have any changes cascade through the model.
- **Planned for a delayed onset of benefits.** Acme's CX transformation leaders already knew that benefits wouldn't begin until the second year of the effort and that those benefits would be less than in the third year of the effort when all major initiatives were up and running. When they created their ROI model, they therefore assumed no benefit in the first year, 50% of the target benefit in the second year, and the full benefit in the third year. In addition to making the model more realistic, that approach set expectations for the CEO and the board of directors and fended off potential impatience with a perceived lack of progress during the first year.
- **Included a risk adjustment to account for potential externalities.** Based on previous experience rolling out new services, the Acme executives knew that not everything goes as planned. Initiatives may cost more than anticipated, and the impact of those initiatives might produce smaller-than-expected returns. [\(see endnote 6\)](#) The CX transformation team adjusted for this risk based on their confidence in improvement rate assumptions and cost forecasts. For example, they heavily discounted the benefit potential from customer recommendations because they had based their assumptions on data from customer surveys, which are less reliable sources of insight than actual customer behavior.
- Acme's CX team knew that the ROI model would be used by management teams with varying degrees of financial literacy across the company, so they made the most important takeaways as easy to understand as possible. The benefit, cost, and ROI were clearly stated up front for the two potential models — one with a low cost and resulting lower benefits and one with a higher cost and associated higher benefits. The model also included all the line-item assumptions and resulting calculations used to arrive at their conclusions in case colleagues wanted to modify inputs for their own purposes, like running "what if" scenarios.

Improving ROI Models Over Time

To determine whether your CX transformation achieved the ROI you predicted, pick the metrics you'll use to gauge success — such as increased satisfaction and reduced customer churn — and record your current baseline or starting point. Create a scorecard with those metrics and use it to regularly report the status of the CX transformation and whether benefits and ROI develop in line with expectations. If reality falls short of your original forecast, adjust the model with new assumptions based on what you observe.

Forrester Can Support Your CX Transformation

Forrester offers a number of resources to support your CX transformation efforts. We can:

- **Create an ROI model.** Forrester can help you demonstrate the potential business benefits of initiatives ranging from small website tweaks to full customer experience transformation projects. Forrester's CX Index measures how good your CX is at driving loyalty. In addition, Forrester's Total Economic Impact™ (TEI) framework helps you to identify the cost, benefit, flexibility, and risk factors in an investment decision. Using our proprietary industry data like the CX Index data, case studies, and Forrester's TEI framework, we can help you build a model to determine what ROI you can realistically expect.
- **Benchmark your CX quality.** Forrester's CX Index shows you the key drivers of your firm's customer experience and how you compare against both key competitors in your industry and best-in-class companies across industries. Forrester's digital experience review methodology assesses the quality of digital customer experiences specifically.
- **Advise and consult on your initiatives.** Forrester analysts and consultants provide hands-on assistance with key initiatives like developing a CX vision and strategy; mapping customer journeys and ecosystems; designing future-state customer journeys; creating a CX measurement and voice of the customer (VoC) program; and developing a customer-centric culture. Whether it's a one-day workshop or one-week consulting engagement, Forrester can lend its CX expertise to your business efforts.

ENDNOTES

01 Forrester's CX Index data is used to calculate the customer-generated revenue potential for an increase to a brand's CX Index score. For more on how much CX can drive revenue, see the Forrester report "**How Customer Experience Drives Business Growth, 2018.**"

02 Net Promoter and NPS are registered service marks, and Net Promoter Score is a service mark, of Bain & Company, Inc., Satmetrix Systems, Inc., and Fred Reichheld.

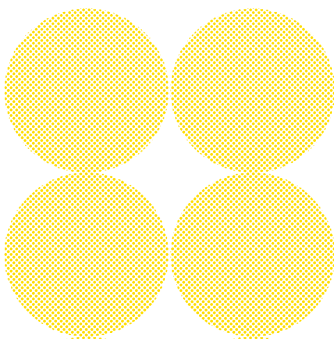
03 Richard Dawkins explains the meaning of the word meme in this video. Source: Alex Kuzoian, "Here's why memes are so much more than just funny internet photos – straight from the man who coined the term," Business Insider, October 26, 2015 (<https://www.businessinsider.com/richard-dawkins-explains-memes-2015-10>).

04 See the Forrester report "**Five Secrets Of Customer-Obsessed Cultures.**"

05 Acme looked at historical trends to estimate improvement rates. However, to fill in the example model, Forrester used data from Forrester's CX Index to estimate these improvement rates. A CX quality survey is another way that a company can inform its estimation of achievable improvement rates.

To generate the target improvement rates for the Acme ROI model, we assumed Acme's CX Index to be the US retail banking industry's average and that Acme would improve 10 CX Index score points during its three-year CX transformation effort, for the high case. Using data from Forrester's CX Index, we calculated the percentage increase to consumers' reported intent to retain, enrich (cross- and upsell), and recommend a brand when the US average CX Index score increased 1 point. With these percentages, we used a compound interest calculation to find the percentage increase to retention, enrichment, and recommendation for a 10-point CX Index score improvement. This provided us Acme's target loyalty measures for its high-benefit/high-cost model. We discounted each measure approximately 7 to 10 percentage points depending on the metrics to calculate the targets for the low-benefit/low-cost model.

06 Implementation risk is the risk that a proposed investment may deviate from the original or expected requirements, resulting in higher costs than anticipated. The greater the uncertainty, the wider the potential range of outcomes for cost estimates. Impact risk is the risk that the business or technology needs of the organization may not be met by the investment, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for benefit estimates.



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