Capturing The ROI Of CX

A Guide To Demonstrating CX Performance

Making The Financial Argument For CX

When customer experience (CX) professionals are unable to show the financial benefits of their work, budgets get slashed, projects stall out, and CX jobs get cut. 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, Memorable CX Business Case

A compelling business case always starts 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, especially when CX is in tight alignment with customer-facing functions like marketing and digital. Enterprises like these realize 2.4x higher revenue growth and 2.0x higher growth in profitability than their competitors, according to Forrester's State Of Customer Obsession Survey, 2022.

Below, we've compiled tips for creating a business case that will earn your initiatives the support and investment they deserve:

Don't try to create the perfect model.

If stakeholders are skeptical about CX, they're more likely to ask for proof that your model's financial 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.

- 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. Forrester's culture transformation research shows that memes can become part of organizational lore and make living customer-centric values second nature. Leverage this power for yourself — 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 could include: "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%, while the cross-/upsell rate decreased from 12% to 10%.

- **Shrinking market share.** In the past decade, Acme's market share shrank from 30% to 20%. About half of this loss came from 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 Acme's 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:
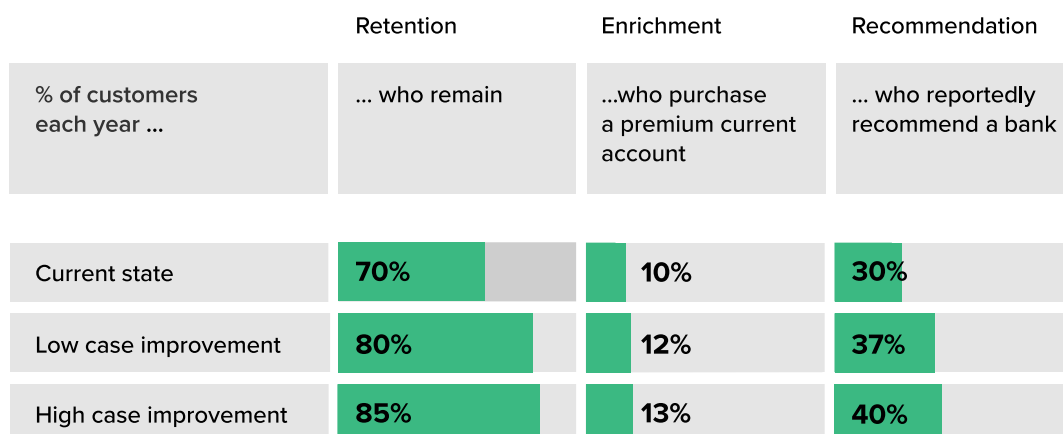# ESTIMATED THE POTENTIAL RANGE OF
CX-FUELLED BENEFITS

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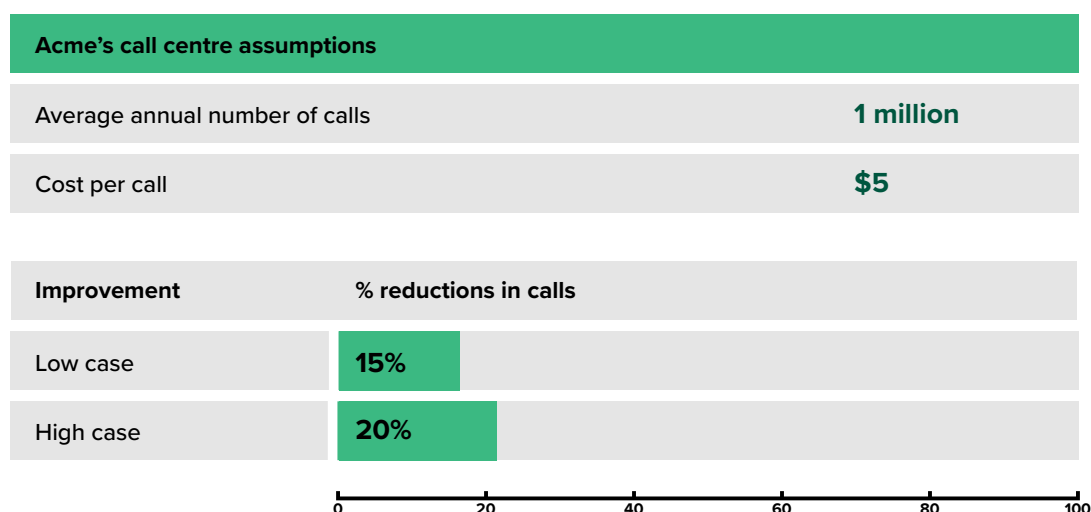
Acme customers starting assumptions	
Total customers	3 million
Customers in target segment	2 million
Average annual revenue per customer in target segment	$400
Average annual revenue per additional money market account	$100

- **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: retention, enrichment, and advocacy. The Forrester CX Index shows that in the banking industry, improving customer experience is highly correlated with increasing all three types of loyalty. Acme's CX team used data analysis to confirm that this was 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 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 enterprise-wide 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. After further discussion, they concluded that the highest reasonable benefit would be a 15-percentage-point increase in the customer retention rate — 50% better than the low case.

% of customers each year …	Retention … who remain	Enrichment …who purchase a premium current account	Recommendation … who reportedly recommend a bank
Current state	70%	10%	30%
Low case improvement	80%	12%	37%
High case improvement	85%	13%	40%

- **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've 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. They also used information gathered through journey mapping to determine why customers called and how those issues could be resolved more effectively.

Acme's call centre assumptions	
Average annual number of calls	1 million
Cost per call	$5

Improvement	% reductions in calls
Low case	15%
High case	20%

0   20   40   60   80   100

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 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 mobile app with a wider range of features.

- **Created a timeline for the CX initiatives.** The forecast helped predict when costs for each initiative would take place:

Year 1	Year 2	Year 3
Implement database management system		
Staff CX team		
	Redesign and launch mobile app	
		Maintain mobile app
	Train call center pilot group	
		Train all call center agents

- **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 laid out their starting assumptions and estimated potential benefits and costs, it was 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 by the end of the first year. Therefore, their model assumed that some benefits would begin to accrue at the beginning of the second year.

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	—	$64,910,000	$133,040,500	$153,599,925	$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.** The team 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. 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 across the company by management teams with varying degrees of financial literacy, 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.
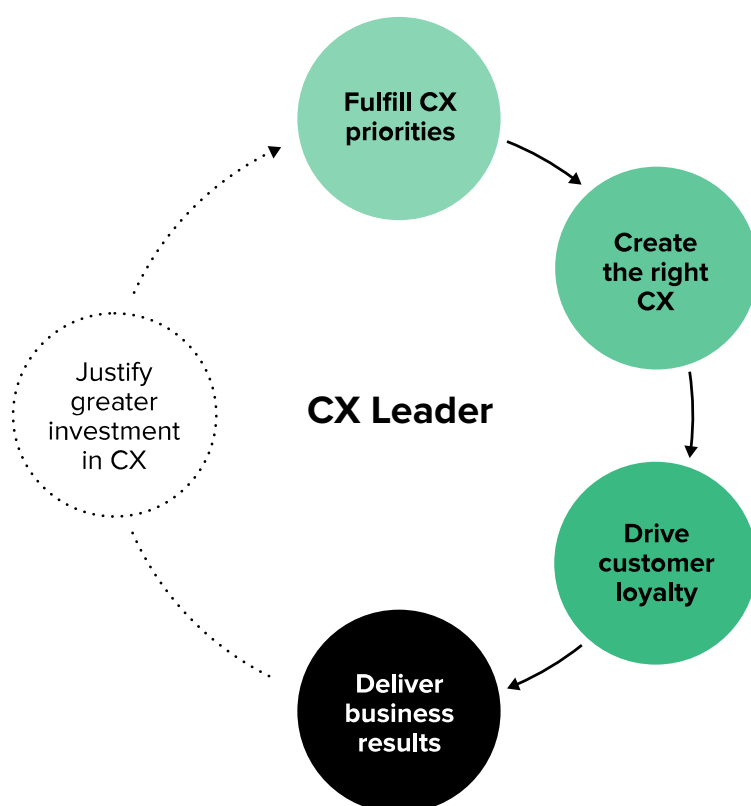
Improving ROI Models Over Time

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.

How Forrester Decisions Can Unlock Success

Forrester Decisions for Customer Experience empowers CX leaders to mature their organization and fuel predictable business growth. With a combination of bold vision, curated tools and frameworks, and hands-on guidance, you'll have what you need to deliver experiences that drive loyalty and retention.

Learn more about Forrester Decisions for Customer Experience

Fulfill CX
priorities

Create
the right
CX

Justify
greater
investment
in CX

CX Leader

Drive
customer
loyalty

Deliver
business
results

Additional Resources

How To Prove The ROI Of CX

WATCH THE WEBINAR

Get Stakeholders Excited About CX

WATCH THE WEBINAR

How To Create A Customer Experience Vision

READ THE E-BOOK