



# ROI of Customer Experience Management

How to Connect the NPS® to Financial Metrics

# Introduction

Social media, product evaluations, online reviews—all of these have become popular channels for customers to both inform themselves about companies and products before buying and to help make purchasing decisions.



- ✓ **Around 76%** of German internet users read product reviews before buying ([BVDW](#))
- ✓ **38%** of German internet users trust online reviews more than business advice ([Voycer](#))
- ✓ **45%** of German internet users write online reviews themselves ([Bitkom](#))
- ✓ Potential customers' willingness to buy increases by **53%** through authentic user content (Bitkom)
- ✓ **53%** of German internet users confirm that their purchase decision is influenced by positive product reviews ([Bitkom](#))

With all this data available, it is not surprising that most companies are now concentrating on creating a positive experience for all of their customers, not just by keeping an eye on the customer experience, but by constantly improving it. It is precisely this customer experience—the personal experience with a company, a brand, a product—that decides whether a customer rating is positive or not.

One method that is suitable for successful customer experience management (known as CEM or CXM for short) is the Net Promoter System. As with any other investment, the question of the relationship between costs and profits pops up—or in other words, the return on investment (ROI).

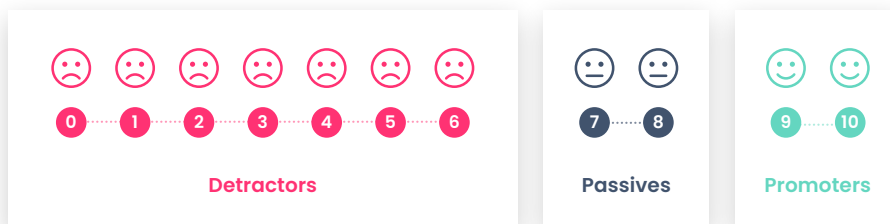
In this white paper, we explain how NPS-based customer experience management can be linked to financial metrics and allows one to calculate the Return on Investment.



# Why NPS is a Useful CX Metric

The Net Promoter Score is a well-known and cross-sector metric used to query customer feedback and to determine customer loyalty.

On a scale from 0 to 10, customers can rate how likely they would recommend a company, its product, or its service. In a follow-up question, customers can use a free text field to explain why they chose the respective value. Based on their ratings, the respondents are grouped in the following way:



**This combination of quantitative and qualitative feedback offers companies, in addition to an indicator of how customer loyalty and satisfaction stands, many other advantages:**

- ✓ As an Indicator for management on the developments in individual company areas.
- ✓ Increased motivation for employees, since they can orient themselves on a fixed key figure.
- ✓ Comparability of performance within your own industry.
- ✓ Results which can be used to optimize the customer experience.
- ✓ Feedback queries can be used flexibly—for example in relation to a product, the brand, or a specific process.

# Why ROI Is also Important in Customer Experience Management

Common CX metrics—such as NPS—are accepted and used in many companies. However, it turns out that too little initiative is being taken to react to the results of the key figures and to use the data sensibly.

Customer feedback is often seen as a mere collection of data that does not generate any clearly recognizable added value for the company. As a result, customer experience management is often labeled as a non-quantifiable discipline. Most company employees fail to understand that a positive customer experience or increasing NPS has a direct impact on sales. This is often due to the lack of a link between the CX system and a metric that illustrates its profitability: The ROI of customer experience management.

By calculating this ROI, every organization can prove that CX measures not only increase customer loyalty and contribute to successful customer retention, but also have a positive impact on sales figures.

## Why Measuring ROI in CX Management Is a Challenge

However, it is not uncommon for this link between ROI and NPS or CX Management to be criticized as some factors are considered intangible. The most common criticisms include:

- × Results of CX Management are often not visible within a fixed time frame, but rather develop gradually and over an indefinable period. It is therefore often difficult to draw conclusions about specific measures.
- × Many CX managers are not used to orienting themselves to facts and figures, but rather trained on qualitative input.
- × A general link between CX metrics and financial metrics must first be proven.
- × In some cases, CX measures can make the customer happier, but still do not encourage them to buy again, and so there are no significant financial effects.
- × Although the exact figures from the investment in CX Management are known, it is difficult to clearly assign the financial income to a specific measure.

It is not uncommon to lack a link between the CX system and a metric that illustrates its return on investment: the ROI of customer experience management.

# Correctly Linking NPS and ROI—This Is How

Despite the previously mentioned criticisms, NPS and ROI can be linked to a meaningful metric and calculation. In order for this to work properly, the following elements must be observed:

- ✓ **Set the right KPIs**  
(e.g. repurchase rates, average shopping cart value, etc.)
- ✓ **Clearly define the associated financial data**
- ✓ **Measure changes in KPIs and financial data at fixed times**  
(e. g. quarterly)

Tip: Thanks to a clearly defined period and regular data collection, financial effects can be better assigned to a specific measure. In this way, the yield of the CX Management is broken down more precisely and can be better justified.

## How the ROI is Calculated

$$\text{ROI} = \frac{\text{(Revenue through investment - Costs of the investment)}}{\text{(Costs of the investment)}}$$



### Step 1:

## Calculate the Cost of the Investment

The costs of investing in CX Management are made up of various factors. If one continues to refer to the NPS as a CX metric, the costs for its measurement, its comparison, the responsible team and optimization programs are taken into account. Basically, companies invest in CX Management in these areas, but the factors can vary. The costs of the individual sub-areas are finally added up to obtain the total costs of the CX Management.

### Step 2:

## Calculate Revenue

To calculate the revenue of all CX measures, the customers are first divided into the three groups of promoters, passives, and detractors. Then you multiply the share of each group by the value of how much sales a promoter, a passive, and a detractor generate on average. If you add the individual sales, you get the total sales.

**Step 3:****Calculate the ROI**

In the final step, you can calculate the ROI according to the above formula by using the results from the first two steps. The logic of this calculation can be explained as follows: It is generally assumed that promoters generate more sales than passives, and these in turn more than detractors. Good CX Management generally increases the number of promoters and passives with the NPS and therefore increases sales. From the ROI formula it can be deduced that a higher turnover increases the ROI at constant costs. In short: A higher NPS means a higher turnover and therefore a higher ROI.

**An Example of the Calculation:**

Let us make the following assumption:

- ✓ On average, the shopping cart per customer is €100 with around 10,000 transactions per month.
- ✓ The overall response rate of an NPS survey sent to all customers within a month is 20 %.
- ✓ We assume **50 % promoters** and **10 % detractors** – in numbers we speak of **1,000 promoters** and **200 detractors**.

If the 200 identified critics are prevented from jumping off by successfully closing the feedback loop and successfully using feedback management to convert them into satisfied customers, a €20,000 loss of turnover is prevented. Furthermore, the promoters provide additional sales. Statistically speaking, it takes an average of 10 promoters to win a new customer. Accordingly, the 1,000 promoters identified result in an additional €10,000 turnover.

Based on our example, the correct use of the Net Promoter System and thus feedback management leads to additional sales of around €30,000 per month. Without changes in costs, ROI increases significantly along with sales. However, if there are increased costs for retention measures or new customer acquisition, the ROI can only increase if the additional costs are below the limit of €30,000.

**Be advised:**

In order to correctly calculate the ROI, detailed tests must first be carried out, since the promoters, passives, and detractors bring different levels of profitability for each company. The average value of each group can only be determined after a long observation and must be renewed at regular intervals. Depending on the industry and business model, various factors can lead to an increase in the NPS: Detractors transform into passives, passives into promoters, or a new customer adds their rating. Sales and ROI behave differently accordingly.



# How to Increase the ROI of NPS

The following measures can be taken to increase the ROI of NPS:

- ✓ Implement retention measures and thus increase repurchase rates and avoid loss of sales.
- ✓ Maintain existing customer relationships, because recommendation marketing leads to the acquisition of new customers and increases the sales potential.
- ✓ Process NPS data automatically, saving time and costs, and making work processes more efficient.
- ✓ Use the data gained sensibly and initiate measures to improve the customer experience.
- ✓ Retain customers long-term by successfully closing the feedback loop.
- ✓ Evaluate continuously: Critically examine the Net Promoter System and optimize processes.



## Conclusion

**Anyone who uses the Net Promoter System or other CX metrics should carry out ROI calculations in all company areas.**

They enable regular monitoring, reflect on the relevance of customer experience management and make it measurable. The effort involved in such a calculation seems high at first, but the figures can be quickly adjusted at a later point in time and individual CX measures can be linked to financial income.

# CX Management with zenloop

With the integrated experience management platform zenloop, NPS can be collected at all relevant touchpoints along the customer journey.

The SaaS solution automatically obtains customer feedback, analyzed and clusters it, and, as a result, derives tailored measures to retain satisfied customers and win back dissatisfied ones. In this way, every company can improve their sales through higher repurchase rates, more new customers, and thereby increase their ROI.



## Do you need more information?

Our experts are happy to help and are always available for a free consultation about zenloop and customer experience management.