Building a business case for CX

How financial institutions measure the ROI of experience

Medallia

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Today's Discussion

1. Why CX financial linkage matters

2. How can this work for banks?

3. How others do this well

4. Tips to get started today
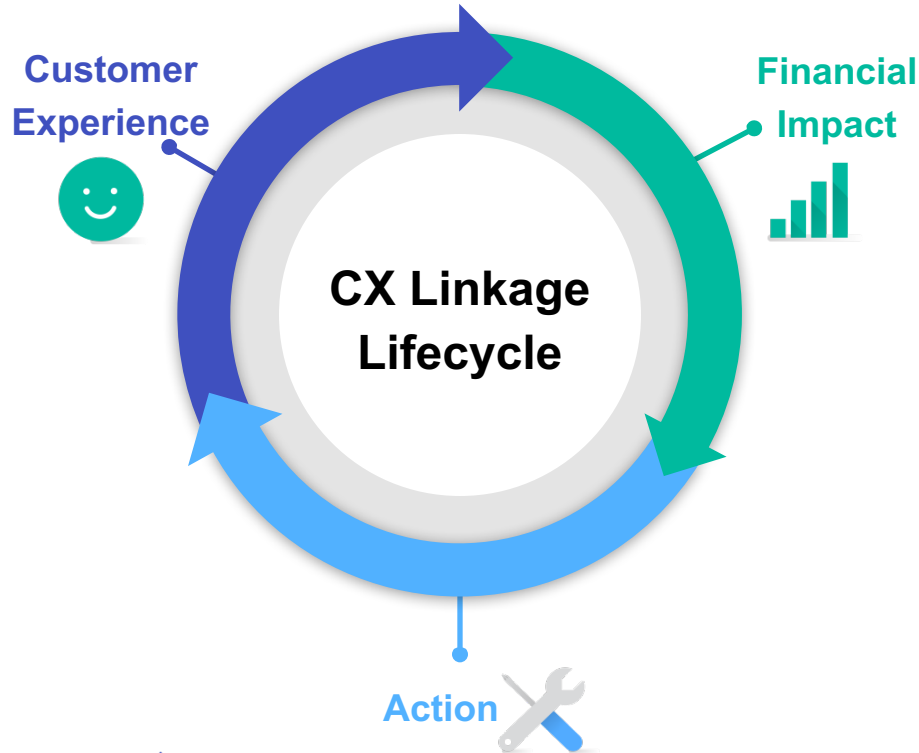
5. Questions and answers

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Why should you align CX to financial outcomes?

Benefit of Aligning CX to Financial Outcomes

Customer Experience

Financial Impact

CX Linkage Lifecycle

Action

Quantifying CX Metrics Helps You:

- **Get buy-in and justify investments so you can act**

- **Demonstrate how your actions & initiatives are effective**

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Today's Discussion

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Linking experiences to financial impact

1. What **behaviors** will we focus on?

2. Can we **track** individual customers?

3. What is our **time horizon**?

4. Which **segments** do we focus on?
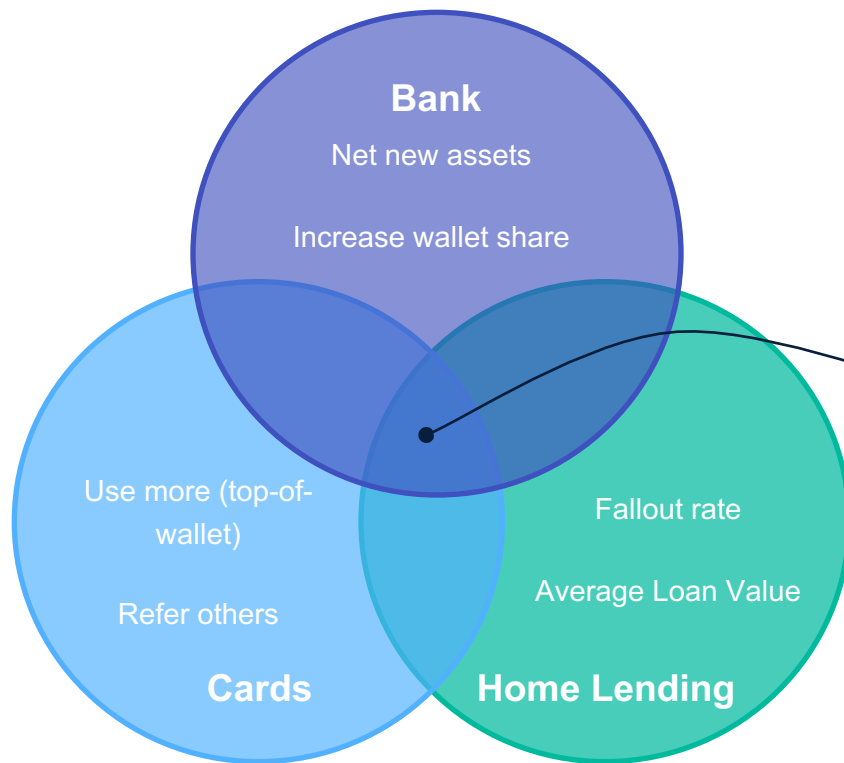
5. Which **data analysis** do we use?

#1

What **behaviors** will we focus on?

#2

Can we **track** individual customers?

Customer Journey

Research	**Pre-Approval**	**Collect Documentation**	**Loan Officer Meeting**	**Underwriting**	**Settlement, Funding and Close**

Borrower Journey

Web

Branch

Call Center

Preapproval and information on next steps and documentation requirements.

Collect all required documentation. Schedules appointment with loan officer.

Complete application and all required paperwork. Preapproval and next steps identified.

File review and conditions if applicable identified. Conditions to be met prior to closing loan.

Settlement appointment, paperwork signed at title company, loans funded and deed recorded.

Survey Types

Collect *transactional* feedback regarding critical touchpoints along the loan borrower's journey. Recent feedback enables improvement of performance & rapid resolution of issues.

Collect *relationship* feedback regarding entire loan application process post loan close. Identify improvement areas and overall satisfaction/likelihood to recommend Prospect Mortgage to family and friends.
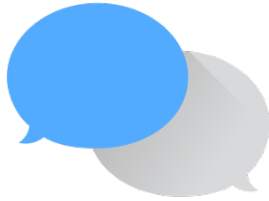
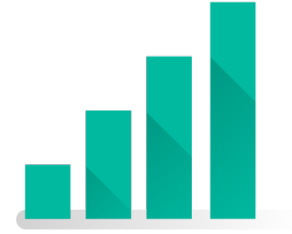**Medallia**

#3

What is our time horizon?

Customer Experience

Customer Behavior

Financial Impact

Time

Scenario 1: Mortgage fallout rate

Scenario 2: Relationship growth, churn, Cross-sell (add products)

Scenario 3: Adoption / use more (top-of-wallet)

Scenario 4: Cost to serve (# calls to CSR)

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#4

Which **segments** do we focus on?

Solutions

- Focus analysis on specific segments (target segments, high-growth, or those with good data availability)

- Use multivariate regression to account for non-experience factors, including segments

Customer Experience

Other Factors

Customer Behavior

- Demographics (age, income)
- Underlying needs (frequency of need, account size)
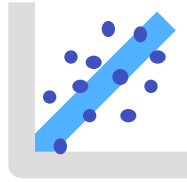- Market/economic factors

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#5

Which data analysis do we use?

Summary statistics

Within a well-defined customer segment, what differences in behavior do we observe based on customer experience scores?
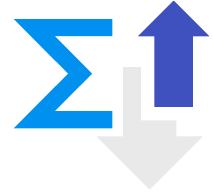
Linear Regression

If we increase our primary customer experience metric by 1 point, how much would we expect revenue to increase?

Multiple Regression

How do different customer experience attributes and other factors such as segmentation come together to influence customer behavior?
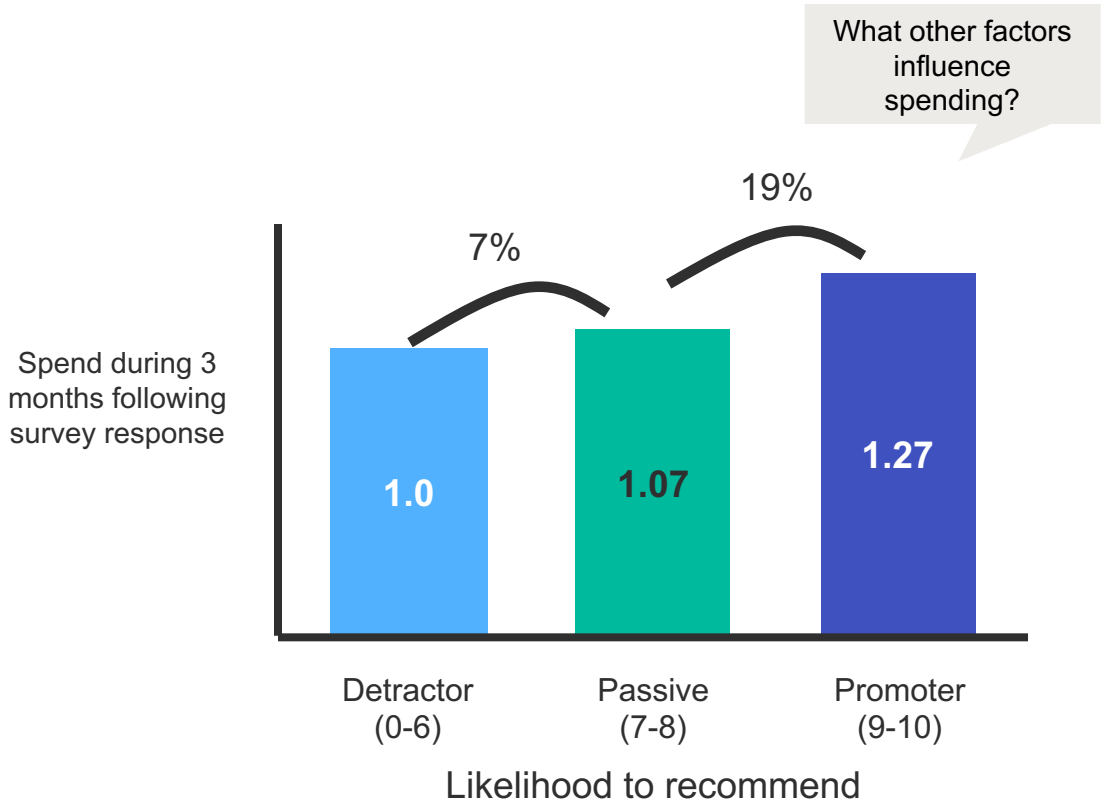
Customer lifetime value

What is the expected lifetime value of a customer, accounting for acquisition cost, revenue, cost to serve, and length of relationship?

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Modeling Individual Customer Behaviors

Think of Amy, who gave a passive score after her experience and spent $174 over the next 3 months

We know Amy's past spending, her shopping region, the channels she used, and her demographics

Regression modeling is like finding another customer exactly like Amy, but who is different in just one way, **her experience.**

Extreme Detractor Amy	Passive Amy	Extreme Promoter Amy
LTR = 0		LTR = 10

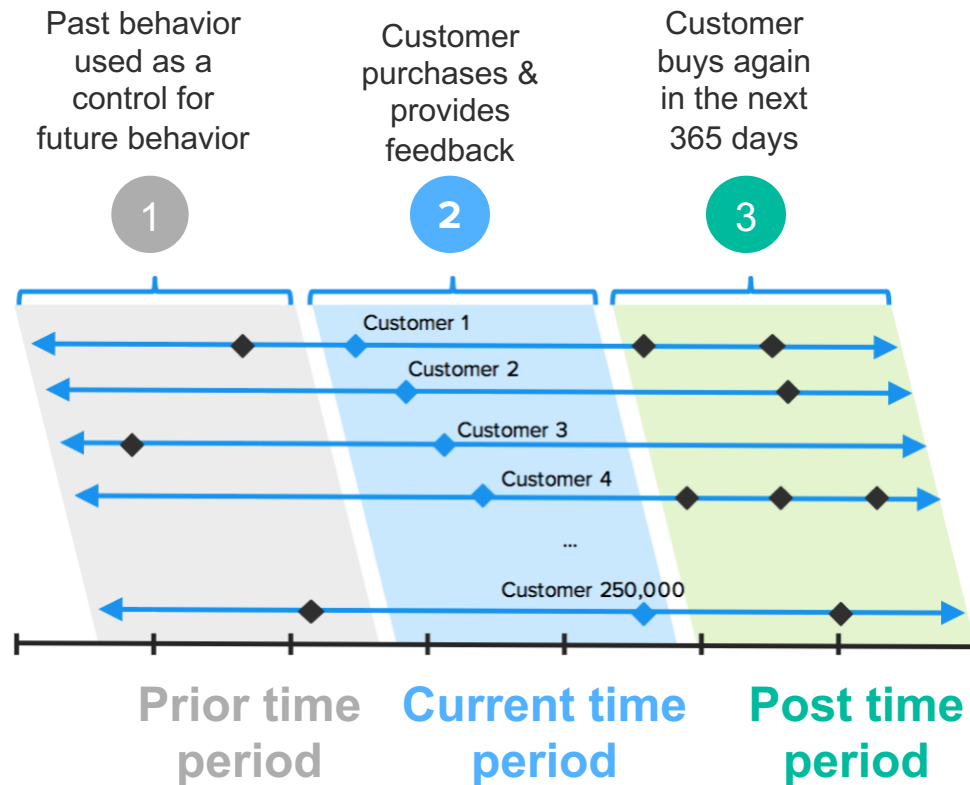Future Spend

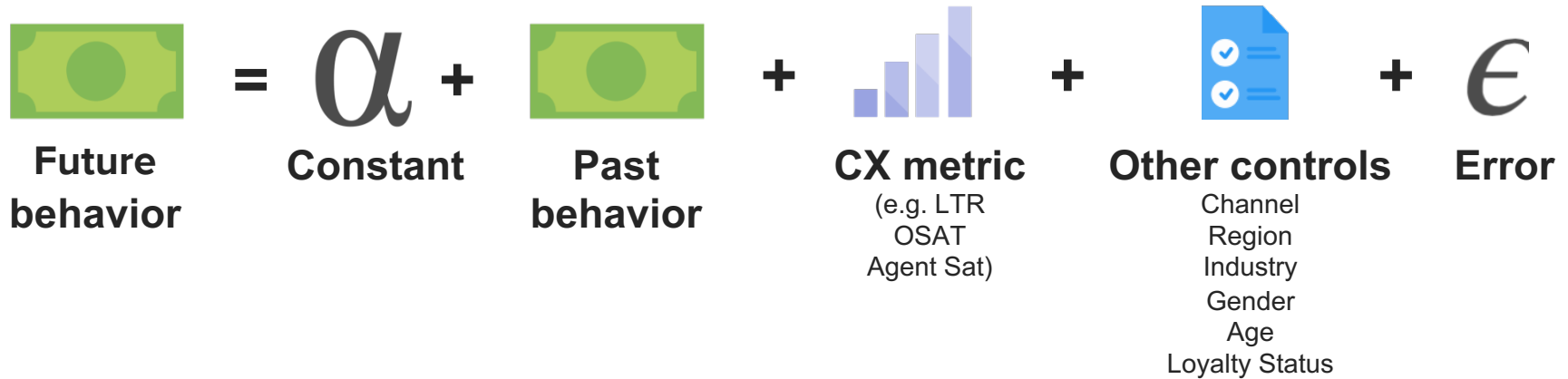| $153 | $174 | $202 |

On average, **Extreme Promoter** Amy spends **32%** more than **Extreme Detractor** Amy

Approach

Analyze the future behavior of customers who interacted and provided feedback in a given window, taking into account past behavior

Regression Analysis

Future behavior = **α Constant** + **Past behavior** + **CX metric** (e.g. LTR OSAT Agent Sat) + **Other controls** Channel Region Industry Gender Age Loyalty Status + **Error**

$$Outcome_{future} = \alpha + \beta_1 Outcome_{prior} + \beta_2(LTR) + \sum_i (\beta_i control_i) + \epsilon$$
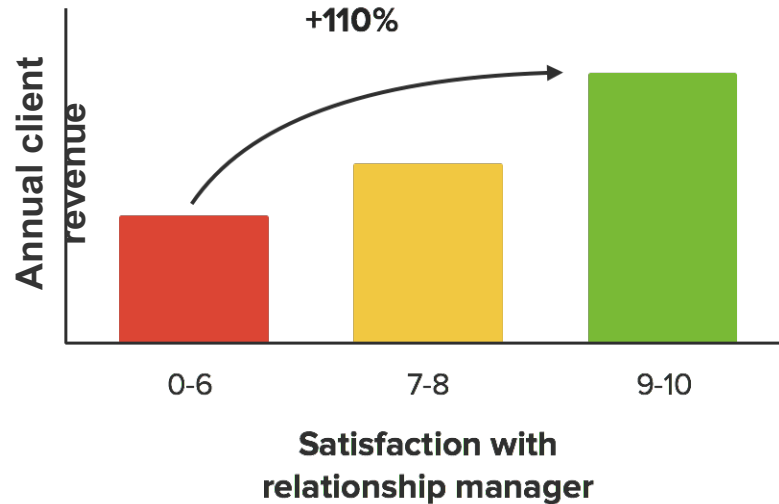
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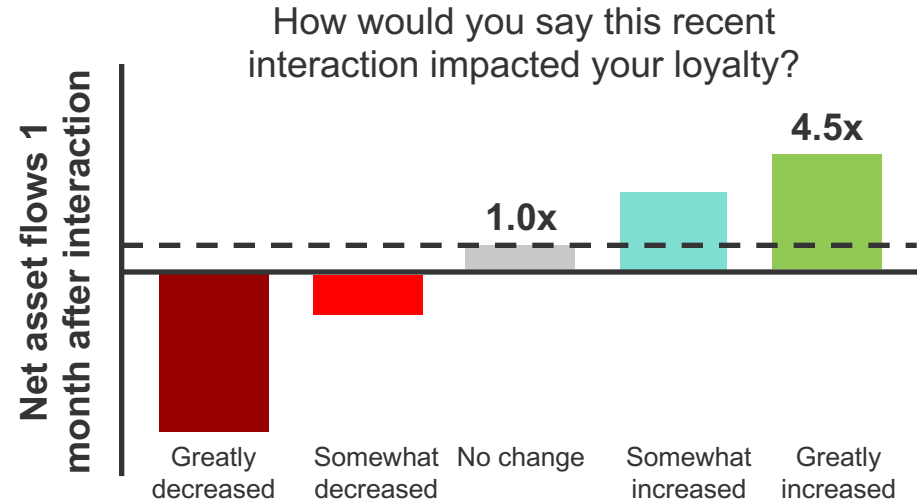
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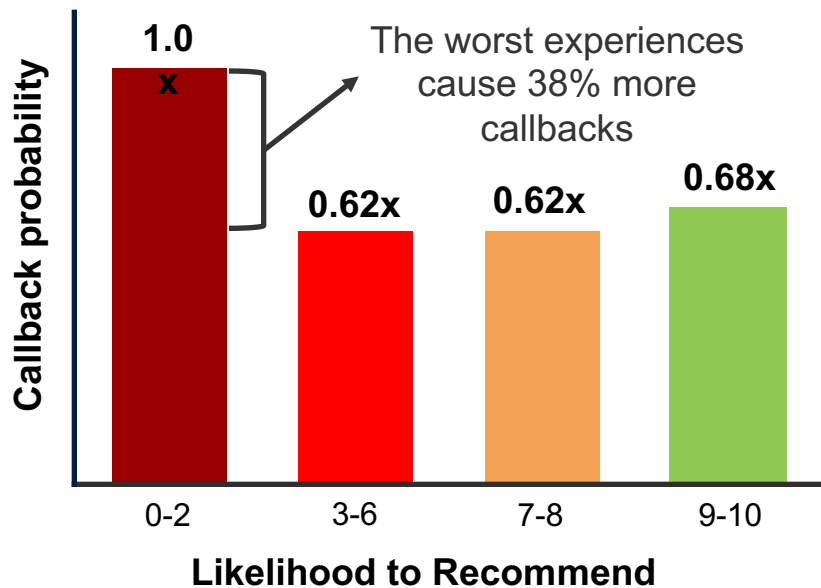
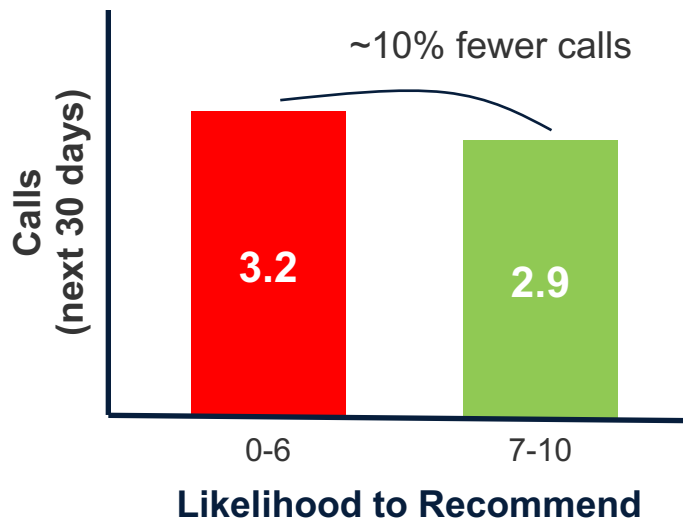Medallia

Higher Revenue & Assets

Commercial Bank

+110%

Annual client revenue

0-6   7-8   9-10

Satisfaction with relationship manager

Wealth Manager

How would you say this recent interaction impacted your loyalty?

Net asset flows 1 month after interaction

1.0x   **4.5x**

Greatly decreased   Somewhat decreased   No change   Somewhat increased   Greatly increased

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Lower Costs - Effects of Omnichannel

Company A

Company B

Company A chart: Callback probability vs Likelihood to Recommend
- 0-2: 1.0x
- 3-6: 0.62x
- 7-8: 0.62x
- 9-10: 0.68x

The worst experiences cause 38% more callbacks

Company B chart: Calls (next 30 days) vs Likelihood to Recommend
- 0-6: 3.2
- 7-10: 2.9

~10% fewer calls

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How to Value a Point of Improvement

Customer-Level Linkage

Robust regression analysis to determine how a customer's experience impacts their individual behavior
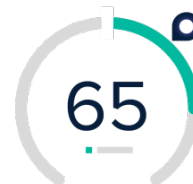
Expand to All Customers

Alternatives:
- Use Non-Responders as a segment in analysis
- Infer non-responder behavior from demographic comparisons
- Assume non-responders are the same as responders

"Size of Prize"

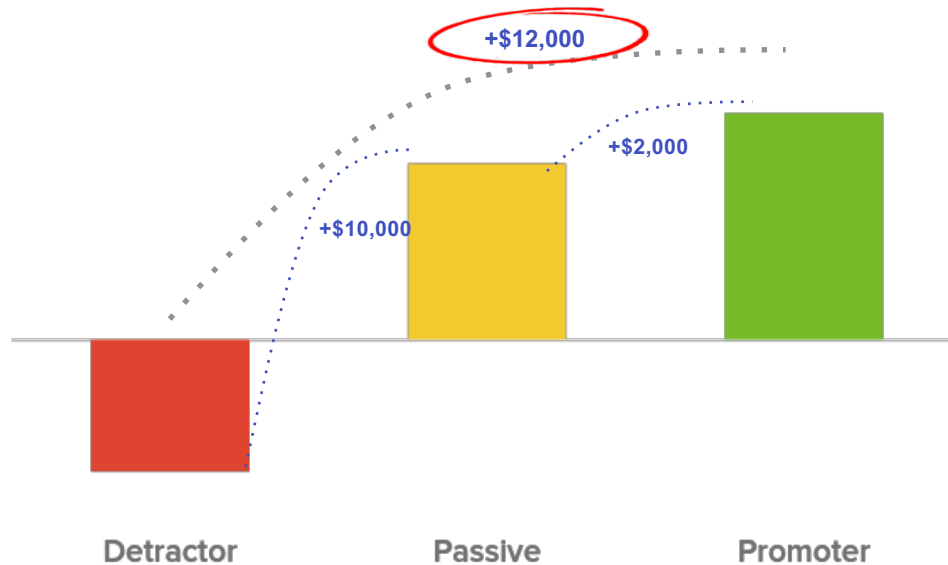Quantify how much more all customers would spend if they all were promoters (NPS = 100)

Value of a point of improvement

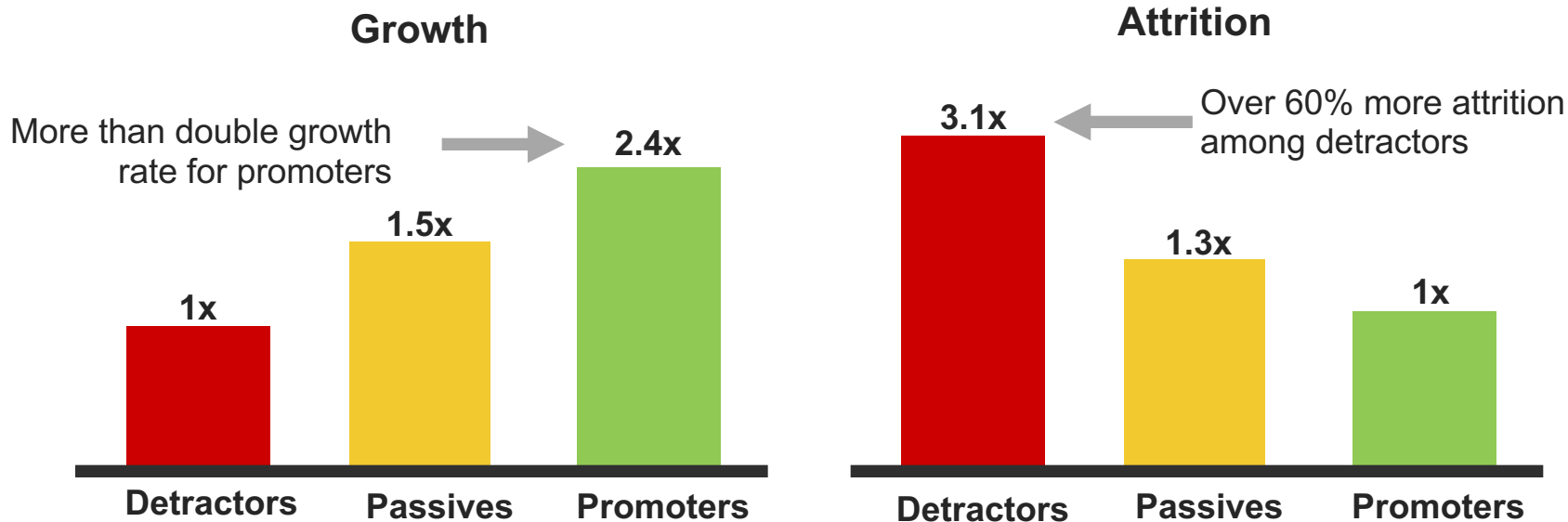Divide the size of prize by the gap between your current NPS and a perfect score of 100

The Effect of CX on Net New Assets

Net asset flows 3 months after an interaction are $12,000 greater for promoters compared to detractors

CX Improves Growth & Attrition
Leading consumer bank

Growth

More than double growth rate for promoters →

Detractors **1x**
Passives **1.5x**
Promoters **2.4x**

Attrition

Over 60% more attrition among detractors ←

Detractors **3.1x**
Passives **1.3x**
Promoters **1x**

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Tips from the Trenches

Involve **stakeholders** early to understand their priorities

Investigate **multiple** business outcome measures

Include **other factors** that help to explain the outcome

eXperience '19

THE EXPERIENCE MANAGEMENT CONFERENCE OF THE YEAR

JUNE 3–5, SAN DIEGO, CA

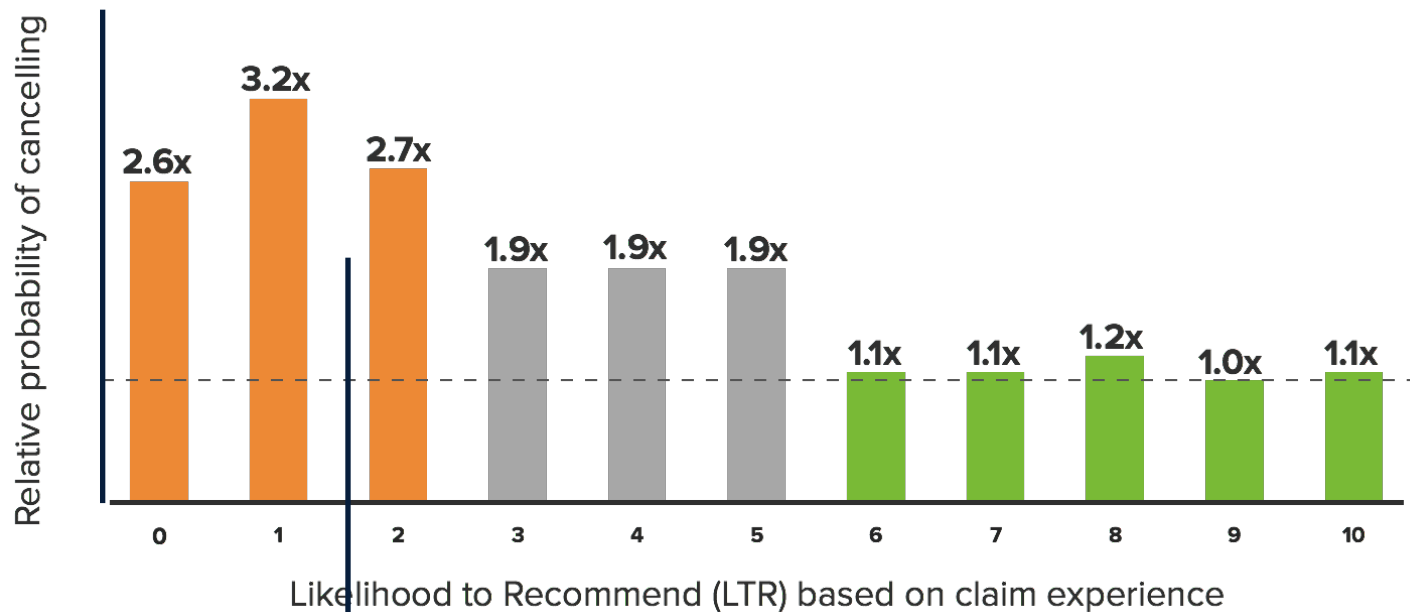Use code **EXP19WEB** to save $100 on registration!

Medallia   experience.medallia.com | Current price $1095 till April 15

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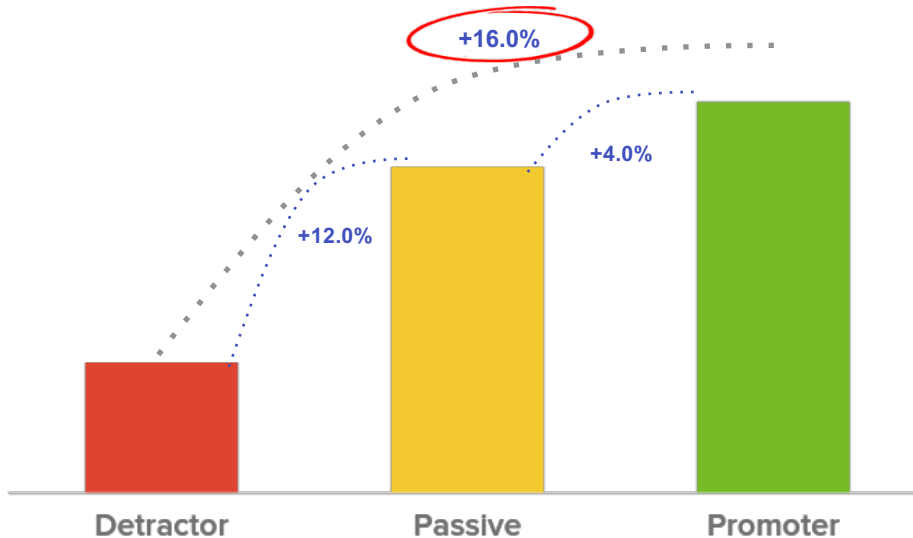4. Tips to get started today

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Appendix

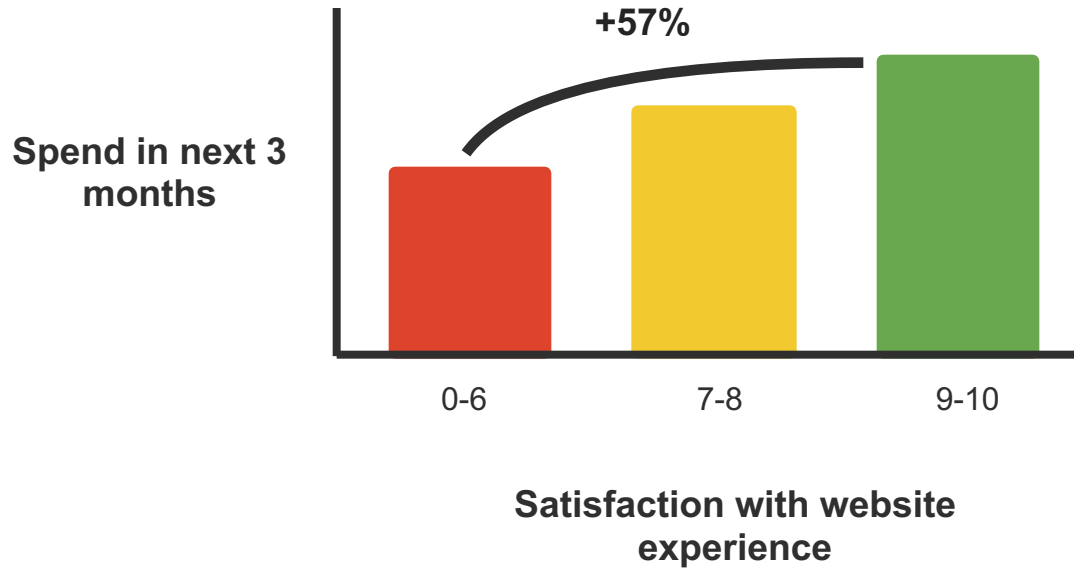# Improved Retention / Lower Churn

Insurer

What Behavior Are We Testing?

TRANSACTIONAL

SUBSCRIPTION

Return more

Buy more

Increase wallet-share

Refer others

Are easier to serve

Cross-buy

Renew more

Upgrade more

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