

Measuring ROI of Customer Centricity- Changes in Customer Value

by Curtis N. Bingham

CHIEF CUSTOMER OFFICER
COUNCIL



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Curtis Bingham is the recognized authority on chief customer officers and the first to promote this role as a catalyst for competitive advantage. He is the creator of the CCO Roadmap, a groundbreaking work containing 100+ critical strategies essential for customer centricity. As an international speaker, author, and consultant, Curtis is passionate about creating customer strategy to sustainably grow revenue, profit, and loyalty.

Customer executives are regularly challenged to prove the value of their initiatives. To demonstrate value, executives must speak the language of business so as to allow business leaders to make comparisons and tradeoffs. Executives are primarily interested in increasing revenue, decreasing costs, and mitigating risk. To effectively demonstrate value, customer executives need to show how their customer initiatives impact one or more of these key factors. In a previous article¹, I described the historical retrospective approach whereby incremental per-customer or per-segment revenue gains are correlated with increasing loyalty and engagement. Expected change in customer value is another valuable means of demonstrating ROI.

Many companies use lifetime customer value to justify marketing and customer acquisition efforts. Similarly, positive changes in lifetime value are a result of increased preference, decreased price sensitivity, increased consumption, and greater advocacy. Conversely, lifetime value plummets in response to negative experiences as consumption drops and referrals cease.

A number of years ago, JetBlue analyzed NPS results correlated with passenger behavior and found that each detractor converted to promoter is worth \$40 additional profit and each 1-point overall NPS gain yields a \$5-8M increase in annual revenue. Highly satisfied customers increase their use of ancillary services such as seat upgrades, box food purchases, etc. Converting a detractor to a promoter yields an additional \$100-140 per customer annually, or the equivalent of another flight traveled each year plus ancillary service purchases. Conversely, negative word of mouth costs the company \$104 per detractor per year in missed revenue: \$72 in lost referrals and \$32 in unpurchased ancillary services.

¹ See www.ccocouncil.org/site/measuring-roi-of-customer-centricity-historical-correlations.aspx

A white silhouette of a lighthouse with a glowing light beam extending from its top towards the right. The lighthouse is positioned on the left side of the page, set against a blue background with a yellow curved line below it.

Put another way, every 25 customers actively promoting JetBlue to friends, family, associates, and on social media equates to one new customer flying JetBlue, whereas only 16 detractors would dissuade an existing customer from flying. By the same math, it might take 36,000 promoters to increase revenue by \$1M, but only 14,000 detractors to realize a revenue loss of \$1M. Every customer value quantification effort must begin with a tangible understanding for each key segment of the length of average customer relationships, costs of new customer acquisition, average customer value, and retention rates.

Enrich these data by examining how your most loyal and engaged customers within critical segments behave differently than your least engaged. Examine factors such as overall profitability, repeat purchase frequency and volume, longevity, share of wallet, breadth of product portfolio purchased (i.e. the ancillary services mentioned above), the number and value of new customers acquired through references and referrals provided each year. For many companies the annual value of these computations are significant and become even more so when extrapolated over the average lifetime of a customer.

Similarly, the cost of dissatisfied customers can be computed to measure the cost of status quo. What is the cost of each call into the call center? How many callbacks are required to address the same issue as a result of an inappropriate focus on average call handle time? What are the most common customer dissatisfiers and what does it cost to address them? How many credits are being offered to correct billing mistakes?

Armed with tangible proof of the ROI of investments in customer centricity, customer executives can have meaningful conversations with top leadership, enabling them to compare such investments against other priorities and make the best decisions for the company. Without these measures, “doing the right thing” will only happen in the best of times and most certainly not in the worst of times when it is most needed.*

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About CURTIS N. BINGHAM



The first to promote the role of chief customer officer (CCO) as catalyst for competitive advantage, Curtis is recognized as the world's foremost authority on CCOs. He is founder and Executive Director of the Chief Customer Officer Council™ and creator of the CCO Roadmap and the Customer Centricity Maturity Model: groundbreaking, proprietary works that assist companies achieve customer centric culture and revenue growth. Curtis is a champion of customer engagement as a critical growth engine and first to identify engagement as the next evolutionary step beyond loyalty. An international speaker, author, and consultant, Curtis is passionate about creating powerful customer strategies and trusted for his business acumen, actionable insights, and commitment to measurable business results.

About THE CHIEF CUSTOMER OFFICER COUNCIL

The CCO Council is a powerful and intimate gathering of the world's leading customer executives from widely diverse industries. The Council helps executives achieve objectives faster and more easily by leveraging best practices. It helps validate and refine strategies and initiatives to avoid experimenting at customer expense. Membership is by invitation only, and purposefully cross-pollinated with the most forward-thinking companies, large and small, so as to help customer executives deliver solid, customer-centric business results. For more information, email info@ccocouncil.org or call 978-226-8675.



LEARN MORE ABOUT CUSTOMER ENGAGEMENT

The Customer Engagement Trajectory - In this ***Bingham Advisory*** Curtis provides a framework for understanding where engagement emerges in the business-customer relationship to provide its greatest value.

In addition, you'll also learn how real world companies such as MetLife, Oracle, and Riot Games are engaging their customers and enjoying bottom line improvements to revenue and shareholder value as a result.

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