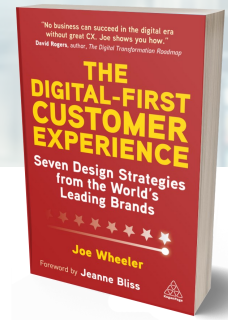


BUILD THE BUSINESS CASE

Executive Brief



There are three iterations this business case will take. The first is the Preliminary Business Case. A fact-based business case based on the customer data collected with an estimate of the projected costs to generate incremental revenue, gross margin dollars and operating expense savings. The second version is the Final Business Case, an updated version of the Preliminary Case with more precise estimates of program investments and cost-to-serve improvements. The third version is the Quarterly Update. This uses the Final Business Case as a baseline but updates it on a frequent basis, reporting the degree to which the original financial targets have been achieved or not - and if not, how the implementation is being adjusted to get back on track. Before we begin, we need to address something that is required for any discussion of business cases: The calculation of Customer Lifetime Value.

Customer Lifetime Value

There are several ways to calculate Customer Lifetime Value, including a method incorporating the value of social media. For our purposes, we will apply one that is more straightforward:

- Average purchase value – the value of all customer purchases over a particular timeframe (a year is usually easiest), divided by the number of purchases in that period.
- Average purchase frequency – divide the number of purchases in that same time period by the number of individual customers who made a transaction over the period.
- Customer value – the average purchase frequency multiplied by the average purchase value.
- Average customer lifespan – the average length of time a customer continues buying from you.

There are things missing from this formula such as the cost of acquisition and the average cost-to-serve over the customer lifespan, but they can be added later.

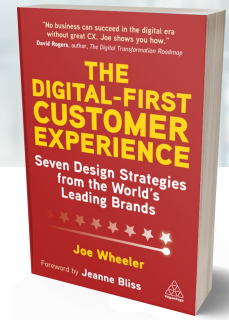
5 Steps for Building Your Business Case

Of course, there are a myriad of ways to create a business case, but let's provide an example to take the mystery out of how it is accomplished. The example follows 5 simple steps:

1. Validate the incremental value of consistently exceeding customer expectations on Key Loyalty Drivers.
2. Attribute incremental spending to the contribution of each Key (Weighted) Loyalty Driver.
3. Conduct Sensitivity Analysis to estimate incremental satisfaction and spending generated from improvement to Moments of Truth which have the most influence over the Key Loyalty Drivers.
4. Identify costs savings from improving the experience by eliminating Non-Valued Added (NVA) activities and migration of interactions to lower cost channels that improve the customer and employee experience.
5. Estimate all program costs and net incremental revenue, gross margin dollars and operating margin improvements generated by the enhanced experience.

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Again, the Business Case relies on the job you did through customer research to isolate those Moments of Truth and Loyalty Drivers that create customer loyalty and generate incremental spending. In working with a client in the home services industry, we conducted qualitative focus groups followed by a representative survey received from over 1,790 customers. From this, we generated the data we needed to prepare the Preliminary Business Case:

The top Loyalty Drivers in rank order were:

1. On-time Arrival (9.75 Influence)
2. Responsiveness (9.56)
3. Customer Service (9.33)
4. Professional Technicians (8.41)
5. Product Quality (8.20)
6. Price/Value (8.04)

The key to success was the Technician arriving on-time. When expectations for arrival were clearly communicated and met, customers became Promoters. When they arrived late, or not until the next day, they were more likely to become Detractors and then Price became the leading Value Attribute or Loyalty Driver

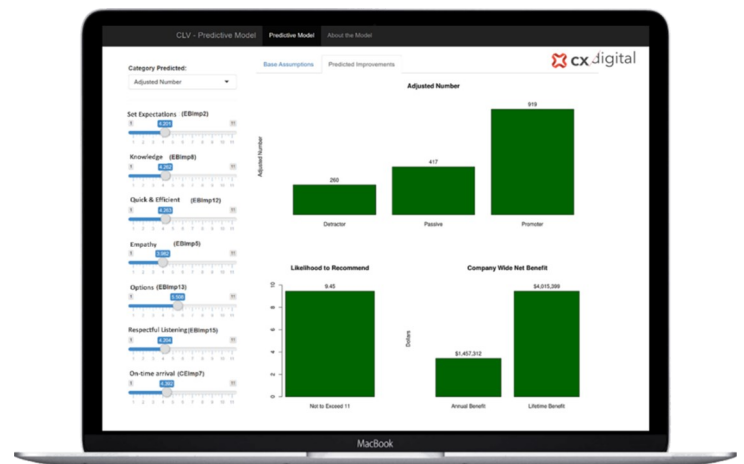


Figure 1—Predictive Model

The “Receive Service” Touchpoint was revealed to be the key Moment of Truth and several specific Interactions reinforced the perception the client had made a good decision hiring the company:

- The technician set clear expectations on what he/she would accomplish during the service call.
- The technician demonstrates thorough knowledge of their products and services.
- The technician was quick and efficient while onsite in addressing my needs.

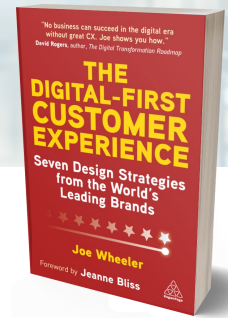
The employee behaviors where our client scored lowest on PERFORMANCE, were also the top three Employee Behaviors by IMPORTANCE.

- Provides options that will meet my needs.
- Shows empathy for my situation.
- Practices respectful listening when communicating.

The most innovative idea customers found most attractive was: “I was consistently updated via SMS messaging to confirm the Technicians expected arrival time.”

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This data revealed some clear implications for the customer experience:

1. Well-defined standards that describe high-performer technician behaviors.
2. Improving actual on-time scheduling performance as well as establishing company-wide service standards associated with appointment expectations setting and communications.
3. National expansion of the SMS-based communications system for managing customer expectations around on-time arrival.
4. National expansion of service standards.
5. Development of a more robust digital ordering, tracking, and monitoring system.

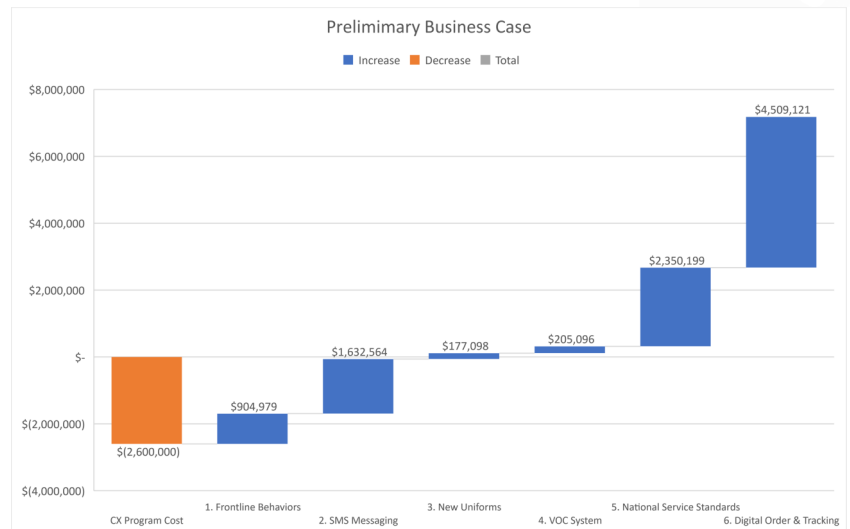


Figure 2—Business Case Waterfall Chart

But to start working on these implications we would have to demonstrate how such improvements would generate incremental economic impact. The good news was that because we were able to isolate the historical spending of all customers that completed the quantitative survey with their Detractor, Passive, Promoter groupings, we learned that a Promoter annually spent an additional 20% over non-Promoters and based on each group's retention rate, we were able to determine the Customer Lifetime Value for each.

The Predictive Model allowed us to estimate the revenue impact of increasing each of the Moments of Truth that positively impacted one or more of the Loyalty Drivers and then it automatically generated the incremental revenue impact from these improvements by growing the base of Promoters.

The Business Case

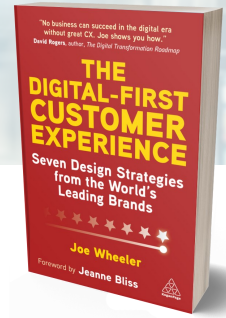
Now that we had a predictive model, we could take the various initiatives generated out of our design sessions which formed the new Customer and Employee Experience and build financial lift targets based on this data to create our Preliminary Business Case.

The total of these 6 initiatives amounted to almost \$7.2M in *incremental* revenue against program costs of approximately \$2.6M – a tidy return on investment.

This Preliminary Business Case became final once all the detailed program costs were itemized through the Implementation Planning work and a set of KPI's generated to report on program variance to the goals set out for each of the 6 initiatives.

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Summary

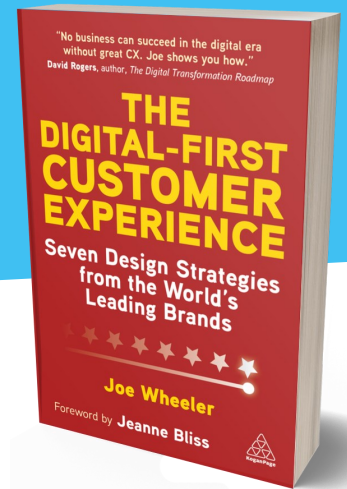
Building a Business Case requires some rigor and the support of research and financial professionals. You may invest some budget on this but if you do it well, it will be worth every penny. For every customer experience, there are a set of Loyalty Drivers and critical Moments of Truth that influence them, driving specific behaviors which will positively impact revenue and margin performance. And though you will use tools to stay connected to customers as you go into the design phase, starting with a quantitatively validated data set, isolating the desired behaviors for your most valuable customer segments is crucial for separating "the signals from the noise" and prioritizing the *right* problems to solve.

Digital First CUSTOMER EXPERIENCE

“ No business can succeed in the digital era without great CX. Joe shows you how.

David Rogers

author, The Digital Transformation Roadmap



Companies around the world are struggling to make sense of the promise and peril of digital strategies in delivering a competitively superior customer experience. Joe Wheeler's new book is the definitive guide to designing digital-first experiences customers love.

Key features-at-a-glance

- Explores the post-pandemic trends that are requiring every company to re-think how they design customer experiences that exceed expectations.
- Illustrates the best way to collect meaningful data which shows companies how to identify the right problems to solve for their customers.
- Describes how to design a digital-first customer experience driving a new level of brand loyalty.
- Helps readers identify the right technologies that will add incremental value for all stakeholders.

The book features case studies of these leading brands: Lemonade, Spotify, CEMEX, VMware, Starbucks, NIKE, and Amazon.

Part One introduces the new "3Cs", key trends associated with technology convergence, competition, and culture change in a post-pandemic world.

Part Two takes a deep dive into seven design strategies, from designing emotional peaks across channels to empowering customers through immersive experiences merging physical and digital assets.

Part Three provides a playbook for how to design digital-first experiences, including how to solve the *right* problems, develop a measurable business case, design digital-first experiences customers love,

Susan Fournier

Dean, Boston University
Questrom School of



A timely treasure for those who wonder whether, why, and how “digital” fundamentally changes the customer experience, with an added bonus “playbook” for designing business models up to the task.

