

# The Total Economic Impact™ Of The smg360® Customer Experience (CX) Solution

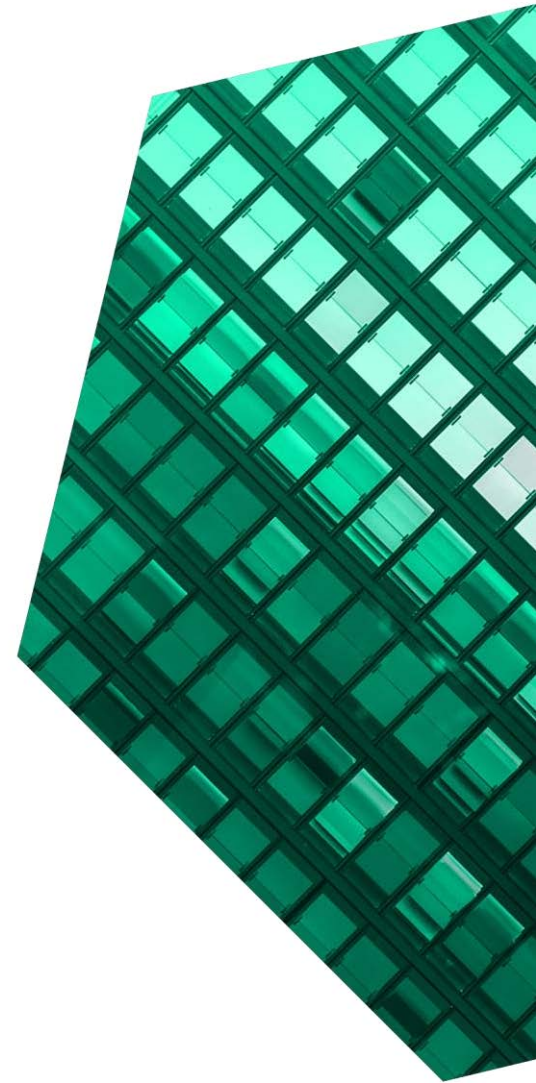
Cost Savings And Business Benefits  
Enabled By SMG

JUNE 2021

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## ABOUT FORRESTER CONSULTING

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## Executive Summary

SMG's smg360 customer experience (CX) solution goes well beyond doing surveys and providing findings or monitoring social media and providing summaries and alerts. This solution offers varying levels of customer experience managed services with analysts who have industry expertise. It offers benchmarking to a subsegment level within industries, and the analysts don't just integrate data and present findings — they share industry best practices and provide insights that are frequently acted upon immediately.

SMG is an enterprise-level experience management (XM) provider that offers software with a service (SaaS), combining an end-to-end platform with hands-on professional services to improve customer, patient, employee, and brand experiences. SMG helps organizations turn data from multiple sources into actionable insights that generate new revenue, grow existing revenue, reduce customer churn, improves customer satisfaction, and drives operational efficiencies.

SMG commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by utilizing [smg360 customer experience \(CX\) solution](#) for both SMG's technologies and their managed services. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of the smg360 customer experience solution on their organizations.

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed four customers with experience using the smg360 customer experience solution. For the purposes of this study, Forrester aggregated the experiences of the interviewed customers and combined the results into a single [composite organization](#).

Prior to using SMG, the interviewees felt their organizations lacked actionable insights due to the time it took to get information and the lack of customer understanding the information provided.

### KEY STATISTICS



Return on investment (ROI)

**551%**



Net present value (NPV)

**\$12.44M**

The interviewees' information also did not help them understand how their organizations compared to other brands within their industry, both as a whole and within different segments.

After the investment in SMG, the interviewees discovered that SMG is a partner that understands their organization's industry, business, and areas of focus. Interviewees spoke positively about the surveys that SMG prepares and executes, along with the additional data integrated with the survey data, thorough analyses, and presentation of findings and recommendations. The trust and confidence in SMG's recommendations is so great that all interviewees report frequently developing an implementation plan the same day the recommendations are made.

## KEY FINDINGS

**Quantified benefits.** Risk-adjusted present value (PV) quantified benefits include:

- **Revenue increases associated with SMG-driven improvements of \$4,969,055 over three years.** Interviewees spoke of SMG-driven business improvements that drove higher customer satisfaction ratings, customer retention, return rates, conversion rates, and an increase in average transaction value.
- **License savings of \$3,321,610 over three years.** Prior to SMG, each interviewees' organization used other solutions. Interviewees noted that their SMG license costs less than the licenses for the legacy solutions.
- **Marketing cost reductions of \$2,751,074 over three years.** SMG has helped all four interviewees understand their customers better. Some of the interviewees noted a significant reduction in their organizations' marketing spending because they were able to match specific campaigns to a more targeted set of customers.
- **Labor turnover cost reduction of \$2,849,403 over three years.** Interviewees shared that the customer-first focus — as well as workplace process improvements — improved employee retention. Turnover was reduced for both commissioned and non-commissioned employees.
- **Process improvements leading to operational and contact center cost reductions of \$809,983.** Organizations implemented process improvements that led to labor efficiencies, a reduction in customer complaints, and a decrease in the need for recovery activities because of SMG's findings and recommendations. Customer satisfaction (CSAT) improvements and reduced recovery activities have led to a noticeable reduction in call center volume.

**“SMG has helped us change to have a customer-centric culture. We used to talk about customer satisfaction as an afterthought, once a month. We talk about customer satisfaction every day now at all levels of the company.”**

*Retail managing director, European retailer*

## Samples Of Individual Company Results



Customer “Highly satisfied” rating increased from 83% to 88% (last 2 years)



2% increase in transaction value (over last two years)



150 basis point market share increase (2019 vs. 2018)



Conversion rate from 32% to 38% (over last two years)



200 basis point reduction in employee turnover (2019 vs. 2018)

Base: Four decision-makers at organizations using smg360 customer experience (CX) solution  
Source: A commissioned study conducted by Forrester Consulting on behalf of SMG, May 2021

**Unquantified benefits.** Benefits that are not quantified for this study include the following:

- **SMG supports top-to-bottom customer-centric culture change.** Interviewees noted that leadership pays attention to SMG's findings and recommendations. They also report that various corporate organizations benefit from SMG and field organizations typically look at SMG daily.
- **SMG analysts are part of the customer experience team.** All interviewees spoke highly of their assigned analysts. They report that the analysts are great partners, and their assigned analyst typically remains with them throughout their organizations' relationship with SMG.

**“[SMG’s] insights and the relationship they have with us really sets them apart. We are a multi-billion-dollar-a-year company that doesn’t have a customer experience team — we have SMG, and they deliver. That says a lot.”**

*Store communications manager, US retailer*

- **SMG analysts are industry experts and care about their clients’ successes.** SMG analysts have industry expertise, but also work to understand their clients’ specific businesses and focus on areas that the clients consider important. Interviewees report that their SMG team cares about their success.

**“SMG has given us really good insights, sometimes real-time and sometimes through a short project, and those insights have given us the opportunity to change ourselves to support changing consumer behavior.”**

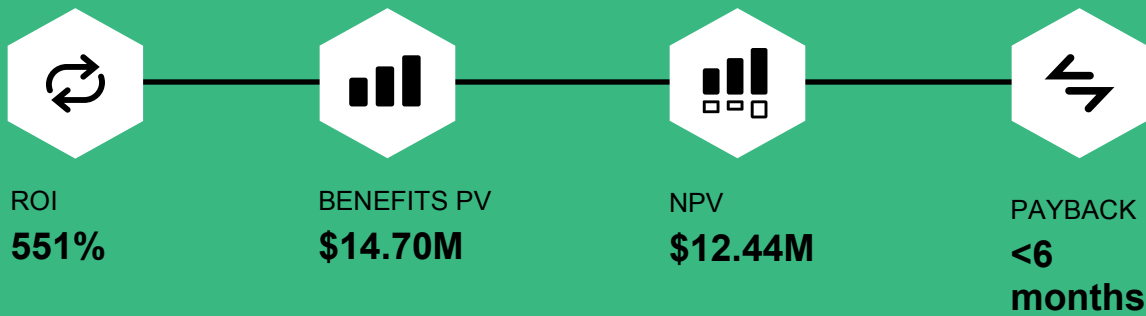
*Retail managing director, European retailer*

- **Trust in SMG’s analyses, findings, and recommendations leads to faster time-to-market changes.** Three of the four interviewees report holding strategy meetings after SMG analyst briefings and frequently develop execution plans within these meetings. Their confidence in SMG’s findings and recommendations saves time on internal validations and analysis, while getting valuable improvements implemented sooner.
- **Reducing the role of emotions in the decision-making process.** Some interviewees noted that SMG allows them to focus on what their customers want, taking departmental emotions out of the decision-making process.

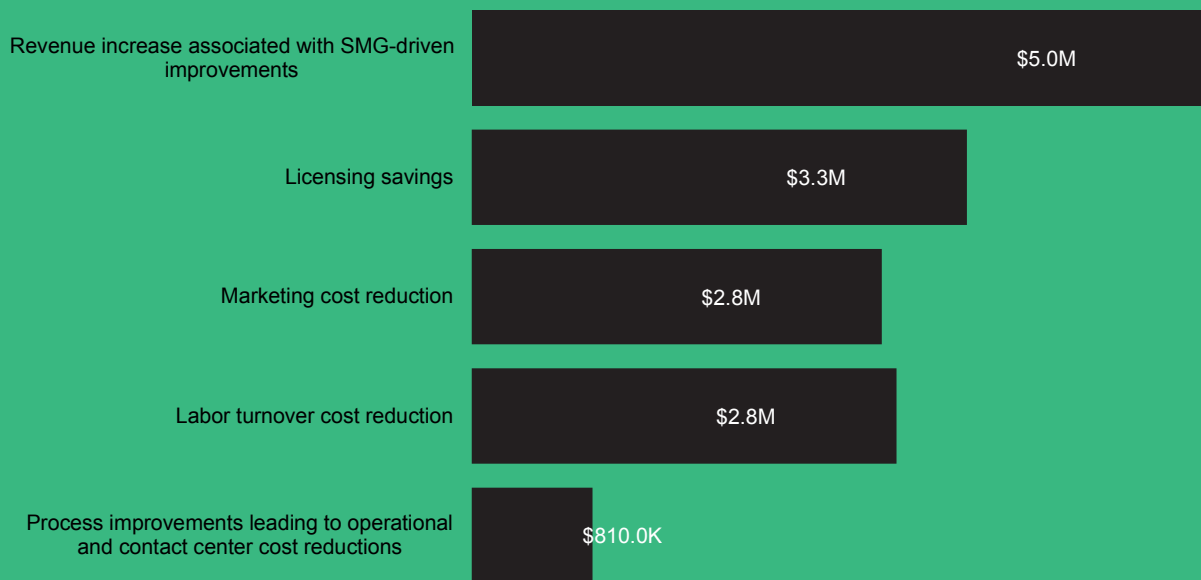
**Costs.** Risk-adjusted PV costs include:

- **Implementation and licensing cost of \$2,259,277 over three years.** SMG provides a fixed price for their portion of the implementation with no change requests for the four clients in this study. Interviewees saw these implementation costs as reasonable. The costs varied based upon the before state, technical complexity, and process change adjustments. Licensing varied based upon specific products licensed, size, and analyst arrangements.

The customer interviews and financial analysis found that a composite organization experiences benefits of \$14.70 million over three years versus costs of \$2.26 million adding up to a net present value (NPV) of \$12.44 million and an ROI of 551%.



### Benefits (Three-Year)



“Our SMG analysts understand our industry, understand our business, and pay attention to where our focus is. They survey based upon their understandings, they do a thorough analysis, and they present us with their findings, including making recommendations on what we should do. We take their recommendations very seriously and frequently start developing an implementation plan the same day. SMG plays an integral role in our efforts to continually improve.”

*US customer experience manager, quick service restaurant chain*

## TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for those organizations considering an investment in the smg360 customer experience solution.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the impact that the smg360 customer experience solution can have on an organization.

### DISCLOSURES

Readers should be aware of the following:

This study is commissioned by SMG and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the study to determine the appropriateness of an investment in the smg360 customer experience (CX) solution.

SMG reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.

SMG provided the customer names for the interviews but did not participate in the interviews.



### DUE DILIGENCE

Interviewed SMG stakeholders and Forrester analysts to gather data relative to the smg360 customer experience solution.



### CUSTOMER INTERVIEWS

Interviewed four decision-makers at organizations using the smg360 customer experience solution to obtain data with respect to costs, benefits, and risks.



### COMPOSITE ORGANIZATION

Designed a composite organization based on characteristics of the interviewed organizations.



### FINANCIAL MODEL FRAMEWORK

Constructed a financial model representative of the interviews using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the interviewed organizations.



### CASE STUDY

Employed four fundamental elements of TEI in modeling the investment impact: benefits, costs, flexibility, and risks. Given the increasing sophistication of ROI analyses related to IT investments, Forrester's TEI methodology provides a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

# The SMG360 Customer Experience Solution Customer Journey

■ Drivers leading to the smg360 customer experience solution investment

Interviewed Organizations			
Industry	Region	Interviewee	Revenue
Retail	United States	Store communications manager	More than \$10 billion
Quick service restaurants	Global (US division)	US customer experience manager	More than \$5 billion (US)
Retail	Europe	Retail managing director	More than \$200 million
Grocery	United States	Consumer affairs director	More than \$15 billion

## KEY CHALLENGES

Before investing in the smg360 customer experience solution, interviewees used one or multiple other solutions. These solutions frequently provided them with outdated information, leading interviewees to worry that they didn't understand their customers. They also didn't understand how their organization compared to other brands within the industry.

The interviewees' organizations struggled with common challenges, including:

- **Not having the right knowledge or data about customers to drive decisions.** Before SMG, interviewees stated their organizations struggled to know what their customers really wanted. Their organizations sometimes knew that they were having trouble in certain areas but didn't know what to do to resolve them. They lacked the actionable data and analysis necessary to optimize their customers' experience.

**“We wanted to get the true view of our customers. We wanted more real customers giving real feedback in real time.”**

*Retail managing director, European retailer*

- **Not having findings or data soon enough.** Interviewees reported employees — especially field people — needed faster feedback. With the pandemic, timeliness became more critical at all levels of their companies.
- **A lack of understanding of their competitors.** Interviewees noted that their companies want to track how they are doing compared to other companies in their industry.

**“We wanted to understand how we compare to other brands within our industry, not only as a whole but also in different segments. We felt that was key to helping us determine what solutions we needed to put in place over the short-term and the long-term.”**

*Customer experience manager, US quick service restaurant chain*

## COMPOSITE ORGANIZATION

Based on the interviews, Forrester constructed a TEI framework, a composite company, and a ROI analysis that illustrates the areas financially affected. The composite organization is representative of the four companies that Forrester interviewed and is used to present the aggregate financial analysis in the next section. The composite organization has the following characteristics:

**Description of composite.** The company is in either the retail or restaurant space with \$1 billion in annual revenue the first year. The composite's results are based on the smg360 customer experience solution. It receives monthly presentations of findings, validations, and recommendations. The SMG mobile application provides real-time social media communications feedback that's relevant to the field.

### Key assumptions

- **\$1 billion annual revenue**
- **Retail or restaurant**
- **1 to 2 existing customer experience solutions**
- **Only uses SMG's smg360 customer experience solution**

# Analysis Of Benefits

■ Quantified benefit data as applied to the composite

## Total Benefits

Ref.	Benefit	Year 1	Year 2	Year 3	Total	Present Value
Atr	Revenue increase associated with SMG-driven improvements	\$1,620,000	\$2,003,400	\$2,449,872	\$6,073,272	\$4,969,055
Btr	Licensing savings	\$1,275,000	\$1,338,750	\$1,405,688	\$4,019,438	\$3,321,610
Ctr	Marketing cost reduction	\$1,056,000	\$1,108,800	\$1,164,240	\$3,329,040	\$2,751,074
Dtr	Labor turnover cost reduction	\$1,120,500	\$1,147,500	\$1,174,500	\$3,442,500	\$2,849,403
Etr	Process improvements leading to operational and contact center cost reductions	\$315,000	\$326,250	\$338,063	\$979,313	\$809,983
Total benefits (risk-adjusted)		\$5,386,500	\$5,924,700	\$6,532,362	\$17,843,562	\$14,701,125

## REVENUE INCREASE ASSOCIATED WITH SMG-DRIVEN IMPROVEMENTS

**Evidence and data.** Interviewees shared information on improvements to revenue, transaction size, conversion rates, customer retention, market share, and Net Promoter Score<sup>SM</sup> (NPS).<sup>1</sup> Revenues rose, or held steady, for all four clients during the pandemic. Top initiatives that clients credited with driving these KPI improvements were associated with SMG findings and recommendations.

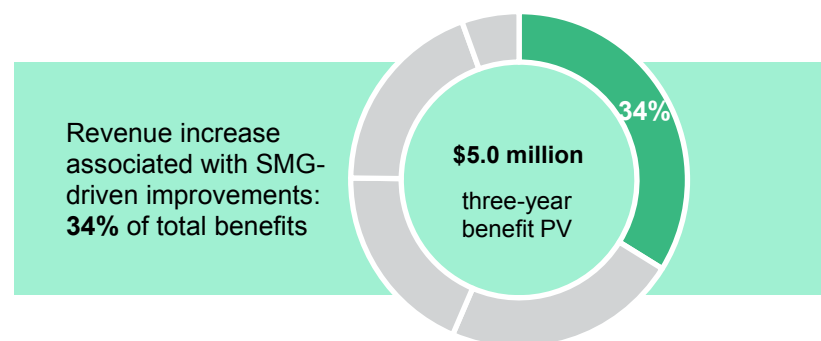
**Modeling and assumptions.** The composite organization sees a 5% revenue increase Year 1 with SMG, a 6.5% increase in Year 2, and a 7.5% increase in Year 3. SMG is credited with 25% of the revenue improvements due to two factors:

- Some revenue changes are due to market conditions or other actions the composite takes independent of SMG's recommendations.
- After SMG provides findings and recommendations, the composite performs validation or further analyses as needed, as well as planning and execution.

**Risks.** Forrester identified the following risks associated with SMG-driven revenue increases:

- The amount of validation and data analysis done after SMG recommendations are made.
- The extent that the SMG recommendations are followed.
- The quality, thoroughness, and effort involved in the execution of the SMG recommendations.
- The internal buy-in of a customer-centric culture.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of \$4,969,055.



## Revenue Increase Associated With SMG-Driven Improvements

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
A1	Annual revenue	Composite	\$1,060,000,000	\$1,134,200,000	\$1,224,936,000
A2	Revenue growth	Y1: \$1.06B-\$1.0B Y2 and Y3: A1 <sub>CY</sub> -A1 <sub>PY</sub>	\$60,000,000	\$74,200,000	\$90,736,000
A3	Percentage of growth credited to SMG insights and recommendations	Estimate	30%	30%	30%
A4	Subtotal: Revenue growth associated with SMG-driven improvements	A2*A3	\$18,000,000	\$22,260,000	\$27,220,800
A5	Net margin	Estimate	10%	10%	10%
At	Revenue increase associated with SMG-driven improvements	A4*A5	\$1,800,000	\$2,226,000	\$2,722,080
	Risk adjustment	↓10%			
Atr	Revenue increase associated with SMG-driven improvements (risk-adjusted)		\$1,620,000	\$2,003,400	\$2,449,872
Three-year total: \$6,073,272			Three-year present value: \$4,969,055		

## LICENSING SAVINGS

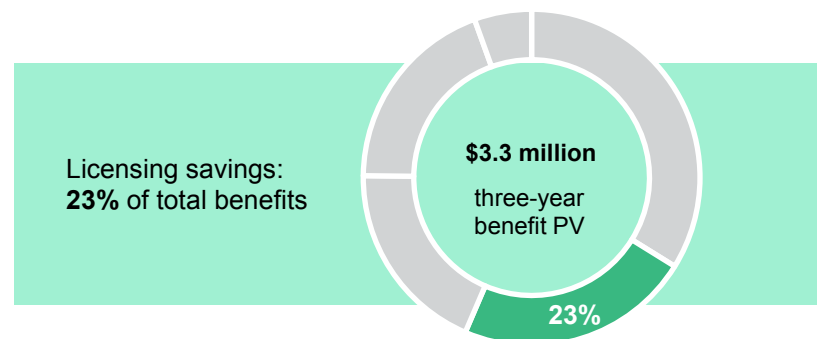
**Evidence and data.** All customers had one or more customer experience solutions prior to engaging SMG. The cost of the eliminated solutions averaged 30% above the cost of SMG's licensing.

**Modeling and assumptions.** The composite organization assumes a 5% increase in cost in the SMG license and the same cost increase is applied to the licensing costs of the eliminated solutions.

**Risks.** Forrester identified the following risks associated with licensing savings:

- Prior licensing costs will vary across companies, and it is likely that internal labor associated with customer experience will vary, too.
- Prior licensing costs may have been discounted more than the composite or full list price might have been paid.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a three-year, risk-adjusted total PV of \$3,321,610.



## Licensing Savings

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
B1	Previous solution(s) licensing cost (5% growth)	Customer average	\$1,500,000	\$1,575,000	\$1,653,750
Bt	Licensing savings	B1	\$1,500,000	\$1,575,000	\$1,653,750
	Risk adjustment	↓15%			
Btr	Licensing savings (risk-adjusted)		\$1,275,000	\$1,338,750	\$1,405,688
Three-year total: \$4,019,438			Three-year present value: \$3,321,610		

## MARKETING COST REDUCTION

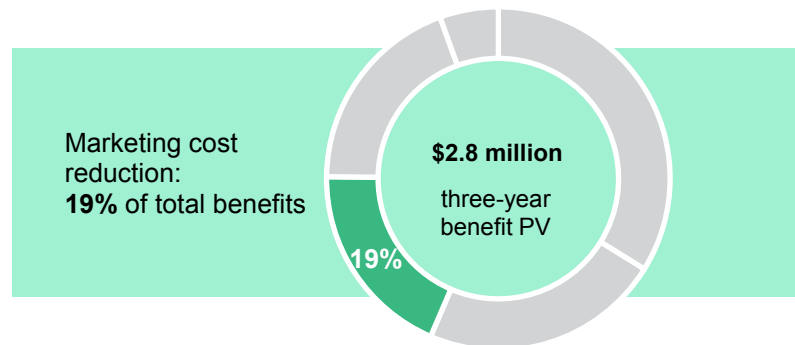
**Evidence and data.** Interviewees described how SMG provided them with more insights into different types of customers. This allowed them to be more effective and efficient with targeted marketing campaigns. The improved efficiency provided significant savings. The retail managing director of the European retailer stated, “Due to SMG’s ability to expand our customer attribute tracking, we were able to reduce our targeted marketing campaigns in certain areas by an average of 20%.”

**Modeling and assumptions.** The composite organization trims its targeting marketing budget. This budget starts at \$20 million per year with a 5% year-over-year growth. SMG provides the composite with 33% of cost savings.

**Risks.** Forrester identified the following risks associated with a marketing cost reduction:

- Marketing’s level of engagement with SMG and their trust of SMG’s findings and recommendations.
- The ability to identify customer attributes for specific companies.
- The marketing budget may vary significantly.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 20%, yielding a three-year, risk-adjusted total PV of \$2,751,074.



## Marketing Cost Reduction

Ref.	Metric	Calculation	Year 1	Year 2	Year 3
C1	Targeted marketing campaign budget (5% annual growth)	Customer	\$20,000,000	\$21,000,000	\$22,050,000
C2	Percentage reduction in spend vs. budget	Customer	20%	20%	20%
C3	Percentage of reduction attributed to SMG insights and recommendations	Customer	33%	33%	33%
Ct	Marketing cost reduction	C1*C2*C3	\$1,320,000	\$1,386,000	\$1,455,300
	Risk adjustment	↓20%			
Ctr	Marketing cost reduction (risk-adjusted)		\$1,056,000	\$1,108,800	\$1,164,240
Three-year total: \$3,329,040			Three-year present value: \$2,751,074		

## LABOR TURNOVER COST REDUCTION

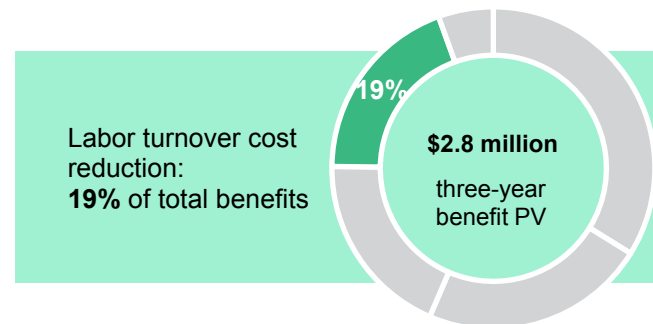
**Evidence and data.** Interviewees that became more customer-centric found that many of their employees embraced the culture change, increasing employee retention rates. This was true for commissioned and non-commissioned employees alike due to sales increases and work environment improvements.

**Modeling and assumptions.** The composite sees improved retention rates. This improved retention rate used in the model is a pre-pandemic percentage. It gives SMG 33% of the credit for the improvement in retention due to SMG's role in providing findings and recommendations that led to operational improvements within the organization. The cost of recruiting and training for new employees was estimated at \$15,000 per employee.

**Risks.** Forrester identified the following risks associated with a labor turnover cost reduction:

- Other factors driving turnover.
- The execution level of SMG's recommendations.
- The cost of recruiting and training new employees.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of \$2,849,403.



Labor Turnover Cost Reduction					
Ref.	Metric	Calculation	Year 1	Year 2	Year 3
D1	Employee count (2.5% annual growth)	Composite	10,000	10,250	10,506
D2	Percentage turnover reduction	Composite	2.50%	2.50%	2.50%
D3	Percentage of reduction associated with SMG	Estimate	33%	33%	33%
D4	Reduction in turnover (FTE)	$D1 \times D2 \times D3$	83	85	87
D5	Cost of recruiting, training, etc. per employee	Estimate	\$15,000	\$15,000	\$15,000
Dt	Labor turnover cost reduction	$D4 \times D5$	\$1,245,000	\$1,275,000	\$1,305,000
	Risk adjustment	↓ 10%			
Dtr	Labor turnover cost reduction (risk-adjusted)		\$1,120,500	\$1,147,500	\$1,174,500
Three-year total: \$3,442,500			Three-year present value: \$2,849,403		

## PROCESS IMPROVEMENTS LEADING TO OPERATIONAL AND CONTACT CENTER COST REDUCTIONS

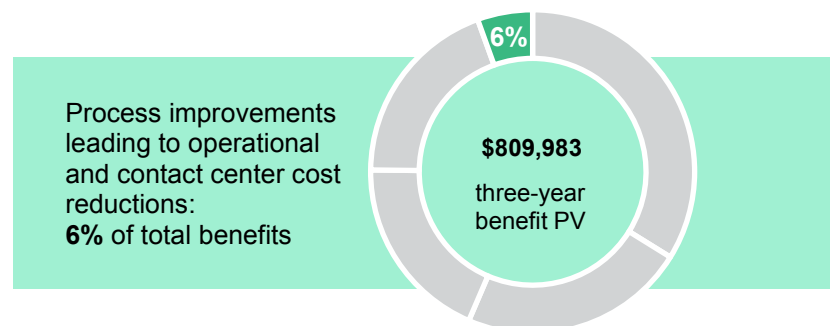
**Evidence and data.** The execution of actions taken as a result of SMG findings and recommendations solved known operational problems and improved processes. These improvements led to operational efficiencies and better customer outcomes. Customers have seen both labor savings in various operational areas as well as measurable call volume reductions in their contact centers.

**Modeling and assumptions.** The composite sees operational improvements due to a reduction in rework and direct customer problem resolution activities. It also sees labor savings due to reduced contact center volume. The composite credits SMG's insights with 50% of these reductions.

**Risks.** Forrester identified the following risks associated with process improvements leading to operational and contact center cost reductions.

- The historical ability of the company to identify and correct operational problems.
- The extent that the company is focused on identifying and correcting operational issues.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of \$809,983.



Process Improvements Leading To Operational And Contact Center Cost Reductions					
Ref.	Metric	Calculation	Year 1	Year 2	Year 3
E1	Cost reduction of error resolution due to SMG-identified process flaws (5% annual growth)	Customer	\$500,000	\$525,000	\$551,250
E2	Contact center staff reduction due to resolved process flaws	Customer	5	5	5
E3	Labor cost	Payscale	\$40,000	\$40,000	\$40,000
E4	Subtotal: Contact center cost reduction due to resolved process flaws	E2*E3	\$200,000	\$200,000	\$200,000
E5	Percentage of reduction associated with SMG	Estimate	50%	50%	50%
Et	Process improvements leading to operational and contact center cost reductions	(E1+E4)*E5	\$350,000	\$362,500	\$375,625
	Risk adjustment	↓10%			
Etr	Process improvements leading to operational and contact center cost reductions (risk-adjusted)		\$315,000	\$326,250	\$338,063
Three-year total: \$979,313			Three-year present value: \$809,983		

## UNQUANTIFIED BENEFITS

Additional benefits that customers experienced but were not able to quantify include the following:

- **SMG supports top-to-bottom customer-centric culture change.** SMG is used broadly at every level of interviewees' organizations. The US retailer's store communications manager stated: "Store managers are constantly looking at SMG feedback. District managers get emails and view reports on the application. Even the corporate store support center heavily uses text analytics to quantify results, feeding results down the chain."
- **SMG analysts are part of the customer experience team.** The retail management director of the European retailer described their relationship with their SMG analysts well: "It was very important to us to have a cultural fit with our SMG team. And I can say that it has worked out very well." The store communications manager with the US retailer said: "Not only do they have

people that know our business, but they keep the same people involved unless they change roles. When there has been a new person, they have always been a good fit, already understanding our industry and immediately providing insights. Their insights and the relationship they have with us really sets them apart."

**"Within headquarters, SMG supports us on menu innovations, initiatives, marketing, and supply chains. In the field, SMG is the primary tool used by field offices and field users to understand their customers' experiences so that they can take actions quickly to improve them."**

*Customer experience manager, US quick service restaurant chain*

- **SMG analysts are industry experts and care about their clients' successes.** Interviewees said that SMG's analysts provide value far beyond mere surveys and research findings. They find that SMG analysts do quality surveys and utilize their knowledge of the industry, their clients' specific business profile, and their clients' priorities to provide valuable recommendations.
- **Trust in SMG's analyses, findings, and recommendations leads to faster time-to-market changes.** Data from SMG's analysis, findings, and recommendations allowed interviewees to immediately create execution plans after briefings.

**"Sometimes you don't know what you don't know. In addition to providing us input on what we are asking them about, they also provide us with valuable insights on things that we hadn't thought of. SMG is pulling everything together and providing perspective that benefits from their experience and SMG's experience."**

*Store communications manager, US retailer*

**"In just 18 months with SMG, they play an integral role in completing our customer-centric strategy. Quickly taking action on SMG recommendations and validations has played a crucial role in our recent successes."**

*Retail management director, European retailer*

- **Reducing the role of emotions in the decision-making process.** Some interviewees noted that SMG allowed them to focus on what the customer wants and take departmental emotions out of the decision-making process.

## FLEXIBILITY

The value of flexibility is unique to each customer. There are multiple scenarios in which a customer might implement the smg360 customer experience solution and later realize additional uses and business opportunities, including:

- **Having a resource to act on areas of focus, including best practices, surveying, findings, and recommendations.** Having SMG resources available to focus on specific areas is valuable to interviewees' organizations. SMG provides them with their current knowledge of best practices. The interviewees noted that the analysts are experts with surveys, requiring little input after being presented with goals and requirements. The analysts also combine their industry expertise with their findings to make recommendations that are frequently executed upon.

**“We’ll ask them to focus on certain areas and they are able to come back with the voice of the customer, telling us best practices and what they think we should focus on.”**

*Consumer affairs director, US grocery*

- **The ability to quickly adjust to the pandemic.** All four interviewees' organizations benefited from SMG advice during the pandemic. One client in an industry that was hit hard by the pandemic had year-over-year sales go up 5% and their market share went up 200 basis points. The top two things that they attributed to these outcomes were SMG related: 1) an ongoing focus area that had seen prior improvements and improved on it further related to the pandemic and 2) a survey that confirmed social media observations early in the pandemic that led to very early action and a positive consumer response. The retail management director with

the European retailer said: “We had over 80,000 customer comments in the last 12 months. It has been incredibly helpful. We moved from guessing what the customers were thinking to understanding what the customers were thinking. When your corporate-wide strategy is centered around having the customer in mind with everything that you do, that is beyond important.”

**“The flexibility to be able to instantly focus on [significant operational changes] was crucial. It was all new, so we really needed to understand what was working and wasn’t working, so we could make adjustments as we went. SMG was getting enough feedback in less than five weeks to make improvements. Optimizing the process not only led to more revenue, sooner but it actually reduced costs.”**

*Store communications manager, US retailer*

Flexibility would also be quantified when evaluated as part of a specific project (described in more detail in [Appendix A](#)).

# Analysis Of Costs

■ Quantified cost data as applied to the composite

Total Costs							
Ref.	Cost	Initial	Year 1	Year 2	Year 3	Total	Present Value
Ftr	Implementation and licensing	\$110,000	\$825,000	\$866,250	\$909,563	\$2,710,813	\$2,259,277
	Total costs (risk-adjusted)	\$110,000	\$825,000	\$866,250	\$909,563	\$2,710,813	\$2,259,277

## IMPLEMENTATION AND LICENSING

**Evidence and data.** SMG provides a fixed cost towards the implementation of its customer experience solution and absorbs overages. The implementation time and client cost vary based upon the availability of data and the maturity of the customer experience organization and the communications across the organization.

**Modeling and assumptions.** The licensing and client costs are in line with the composite organization's size.

**Risks.** Implementation costs will vary based upon the scope of the company and many conditions prior to implementing SMG. Licensing will vary based upon SMG products selected and contract arrangements.

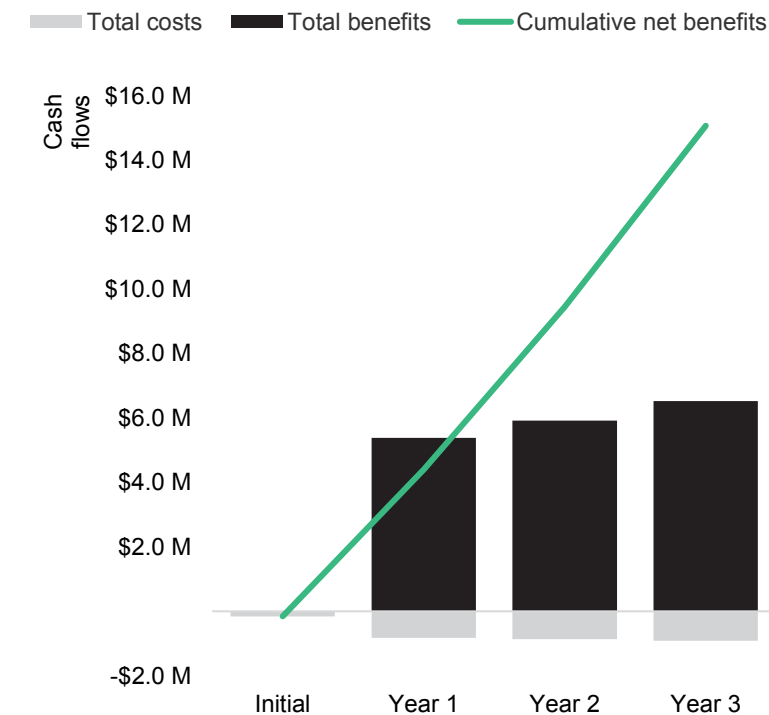
**Results.** To account for these risks, Forrester adjusted this cost upward by 10%, yielding a three-year, risk-adjusted total PV of \$2,259,277.

Implementation And Licensing						
Ref.	Metric	Calculation	Initial	Year 1	Year 2	Year 3
F1	Fixed SMG implementation cost and licensing (5% annual growth)	Composite	\$25,000	\$750,000	\$787,500	\$826,875
F2	Internal cost for implementation	Estimate	\$75,000			
Ft	Implementation and licensing	F1+F2	\$100,000	\$750,000	\$787,500	\$826,875
	Risk adjustment	↑10%				
Ftr	Implementation and licensing (risk-adjusted)		\$110,000	\$825,000	\$866,250	\$909,563
Three-year total: \$2,710,813			Three-year present value: \$2,259,277			

# Financial Summary

## CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS

### Cash Flow Chart (Risk-Adjusted)



The financial results calculated in the Benefits and Costs sections can be used to determine the ROI, NPV, and payback period for the composite organization's investment. Forrester assumes a yearly discount rate of 10% for this analysis.

These risk-adjusted ROI, NPV, and payback period values are determined by applying risk-adjustment factors to the unadjusted results in each Benefit and Cost section.

### Cash Flow Analysis (Risk-Adjusted Estimates)

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total costs	(\$110,000)	(\$825,000)	(\$866,250)	(\$909,563)	(\$2,710,813)	(\$2,259,277)
Total benefits	\$0	\$5,386,500	\$5,924,700	\$6,532,362	\$17,843,562	\$14,701,125
Net benefits	(\$110,000)	\$4,561,500	\$5,058,450	\$5,622,800	\$15,132,750	\$12,441,848
ROI						551%
Payback period (months)						<6

## Appendix A: Total Economic Impact

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

### TOTAL ECONOMIC IMPACT APPROACH

**Benefits** represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.

**Costs** consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.

**Flexibility** represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.

**Risks** measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on "triangular distribution."

The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1 that are not discounted. All other cash flows are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations in the summary tables are the sum of the initial investment and the discounted cash flows in each year. Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.



### PRESENT VALUE (PV)

The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.



### NET PRESENT VALUE (NPV)

The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.



### RETURN ON INVESTMENT (ROI)

A project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.



### DISCOUNT RATE

The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.



### PAYBACK PERIOD

The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

## Appendix B: Endnotes

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<sup>1</sup>Net Promoter and NPS are registered service marks, and Net Promoter Score is a service mark, of Bain & Company, Inc., Satmetrix Systems, Inc., and Fred Reichheld.



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