[redacted]

Step-By-Step Guide: Measuring Customer Service ROI

Written By Mathew Patterson · April 10, 2024

In the corporate world, departments are often divided into two groups: cost centers and profit centers. Customer service is typically considered a cost center — a part of the business that does not directly produce profit and, instead, costs the company money to operate.

Most businesses have limited funding, so when they allocate their budgets for each quarter, the areas of the business that are profit centers very often receive the most funds.

That can leave customer service teams underfunded and overworked since they can't usually reduce their incoming workload. However, if a customer service team could show a solid return on investment, they would have a stronger hand to play in budget meetings.

For this reason, customer service ROI should be a standard metric for every team.

What is return on investment (ROI)?

Return on investment (ROI) is a metric that compares how much a team earns to how much it costs. It's calculated using a simple formula: ((money gained - money spent) / money spent) x 100 = ROI.

$$\frac{(\text{money gained} - \text{money spent})}{\text{money spent}} \times 100$$

So if you spend $100 on customer service and, as a result of that service, you earn $150, your return on investment is 50% (150 - 100 = 50; 50 / 100 = 0.5; 0.5 x 100 = 50%).

It all sounds so neat and simple; certainly the equation itself is easy. However, getting accurate numbers to fill into the calculation — and accounting for more qualitative support impact — present a real challenge for customer service teams.

ROI: A simple metric that's complicated to measure

Calculating ROI requires knowing two things:

1. How much you are investing
2. How much you earn from making that investment

For a sales team, calculating ROI is reasonably straightforward. If it costs $100,000 a year to employ a full time sales rep, and that rep generates $500,000 in profit, then that's a great return.

Of course, there are more details involved than that, but it's still easy to tell if a salesperson is generating a profit. Their daily work can be directly tied to the revenue they bring in.

For customer service teams, it's reasonably easy to measure the costs of staff, training, and tools, but it's more difficult to get an accurate number for money earned (or costs reduced).

Support staff aren't directly making sales or generating new income; they're working with existing customers who are already accounted for, in terms of ROI, as sales or marketing wins.

Yet we know that great customer service does correlate with business success, and at an individual level, it's clear that people prefer to give their money to companies who look after them.

The challenge is finding a way to fairly account for the portion of the company income that customer service is responsible for.

How to measure customer service ROI

Most customer service teams generate ROI in the following three ways:

- **Upgrades:** Existing customers spend more money because support teams helped them understand the service better.
- **Retention:** Customers stay with the company longer than they would have without great support.
- **Expansion:** Customer service acts as a marketing channel by giving customers great experiences that they share with others.

With those metrics in mind, you can take the following four steps to start measuring your customer service ROI.

1. Decide which behaviors you want to affect

Start by thinking about your business. What actions would you need your customers to take in order to generate upgrade, retention, or expansion income?

For example, at Help Scout, those customer actions might include:

- Moving from our Standard Plan to our Plus Plan (upgrade income).
- Signing up for another year of Help Scout service (retention).
- Mentioning our products in a blog post about the tools they love (expansion).

Write down as many actions as you can think of.

Next, think about what behaviors your customer service team can adopt to have the biggest positive impact on those customer actions.

Finally, combine the customer service team behaviors and customer actions into active statements using this template: "When (customer service team behavior), our customers will (customer action)."

For example, "When we deliver consistently high-quality service, our customers will…"

- Keep their monthly subscription with us instead of canceling it.
- Purchase more items from our store than customers who have never contacted support.
- Share their great experiences with their friends or networks, leading to new customers.

Of course, customers don't need to take these actions every single time — just enough that your team can genuinely change the frequency of those behaviors by offering great service over time.

All of this leaves you with two questions:

1. How does your support team encourage more of those customer behaviors in a cost-effective way?
2. What metrics can you use to tell when it is working?

Remember: You can improve your ROI by increasing the return *and* by reducing the investment required to get that return.

2. Determine what you can measure and change

There's no benefit to tying your team's success to factors outside of their control. Useful numbers to know include the following:

- **Net Promoter Score (NPS)** – How likely your customers are to recommend you.
- Customer Satisfaction (CSAT) – Are you giving customers a level of service that will prevent them looking for alternatives?
- **Cost per contact** – How much it costs the company to answer each customer, broken down by channel.
- **Cost per conversation** – Estimate this by multiplying the cost per contact by the average number of interactions in each conversation.
- **Customer lifetime value** – How much a typical customer spends over their entire period as your customer.
- **Retention rates** – The percentage of your active customers last month that are still active this month.
- **Contact rates** – The percentage of active customers who need to contact support (about any issue) in a typical month.
- **Contact rates by area** – Break down your contact rate by product area (e.g., even if your overall contact rate is 20%, you may find the average is being pulled up by too many billing issues).

Your help desk reports will provide some of these, and your business team can likely give you others.

Find a helpful business analyst or growth specialist and ask them to walk you through the company numbers. Identify the metrics which a.) correlate well with customer and business growth and b.) your team can reasonably have an impact on.In some cases, you may be able to show close correlations between support activities and return on investment. For example:

- Customers who contact support in their first month end up staying X% longer than customers who do not have support interactions.
- When our first response time is consistently below two hours, our customer satisfaction rates rise above 94%, and our retention rate shows an increase in those months.
- The customers we work with give us 1.2 points higher NPS ratings on average, compared to customers who have not contacted support.

3. Consider indirect returns from customer support

Customer support is so much more than robotically answering direct questions from customers. Getting the most value from investing in customer service means using the support team as an incredible source of information on customers.Every customer interaction is an opportunity to learn something about your customers — how they think about your products, what language they use, what they think of your competition, how they find you, and so much more.If your team has the skills, the systems, and the internal support to collect and collate that information, they will be a continual source of feedback to the rest of the company.Putting a hard number on that sort of contribution isn't easy, but consider reporting on what you can measure. For example:

- number of bugs reported
- feature suggestions added
- sales leads who came in via support

4. Create testable ROI hypotheses

If you've done the work to figure out which customer behaviors your team can influence and how that contributes to the company's success, then you can start to run small, measurable experiments with individual ROI figures attached.For example:

If we add one more staff member in U.S. time zones for $X/year, we can bring the time to first response down under two hours. We expect that to result in an improvement to our CSAT, which we find correlates strongly to higher customer lifetime value.

In this example, you can know how many conversations that staff member will be able to handle and how much each conversation will cost, and you can confidently predict the improvement in response time and therefore CSAT. Your ROI calculation will be much more solid at this scale than it could be for customer service as a whole.Some other examples:

My team spends three hours a week answering questions about X area of our product, impacting Y customers and costing us $Z/year in support staff time. We could save that money by making (change).

During our last service outage, we handled X conversations from customers, and our response times dropped. Making our status page more visible on the contact form and on social channels would save us Y hours of time for each event.

Every time you make testable predictions, you will create new data to feed into the next one. Each bet is smaller, less risky, and much more defensible.By building up small wins, you can develop the trust you'll need to ask for longer-term investments in your team and in customer experience across the company.Learn what support metrics to measure and how to report your successes to company leadership.

Customer service ROI isn't necessarily a single percentage

Not every investment in customer service will produce the same return rate. "Investing in customer service" might mean hiring staff, buying tools, conducting training, improving rough edges in the product, or even adding new support channels.You would expect each of those to have differing return rates and differing timelines for returns, so as you work through the process of calculating the ROI for your customer service team, keep in mind that trying to tie everything into a single percentage probably won't be a useful decision-making tool — even if it were possible. Be prepared to do lots of ROI measuring.In the end, if you're willing to invest in your customer relationships, then there should be measurable financial benefits to be had, even if they cannot be reduced to a single percentage.With some forethought and with the commitment of your company leadership, you'll be able to demonstrate that value over the long term.

Like what you see? Share with a friend.

Mathew Patterson

After running a support team for years, Mat joined Help Scout, where he helps people deliver better online customer support. Subscribe to The Supportive Newsletter or find him on LinkedIn.