Chapter 9

Measuring Impact

Fundamentally, personalization is about serving the customer: giving them quality, value for money, and convenience—with the utmost speed. Customer satisfaction is, naturally, a true indicator of personalization success. And when properly nurtured, the customer satisfaction that a company generates translates into customer lifetime value—the other true (and ultimate) measure of personalization success.

Thus, given the substantial investments that personalization at scale requires, companies need to be sure they are indeed moving the needle on those two indicators. Investments should, of course, be prioritized based on their potential upside. Quick wins are crucial for securing the funding for further game-changing progress over the medium term. They not only prove the value, but in many cases make the personalization program mostly, and sometimes even fully, self-funding. As we explained in the previous chapter, meeting these requirements calls for a personalization head: someone whose job it is to wake up every day thinking about personalization across the enterprise. This person is accountable for delivering results, measured in customer outcomes and in return on investment.

A personalization P&L is an essential tool for any personalization program. It provides a 360-degree view of the costs and benefits of personalization to the business. In this way, it helps companies to continue investing in improving the customer experience, winning more customers, and making more customers for life.

Let's look at how to develop a personalization P&L, starting with the core metrics.

Customer Satisfaction and Loyalty: The Pivotal KPIs

Certainly, every company undertaking a personalization effort needs KPIs that show how the customer experience is improving. But although customer satisfaction is a universal goal, the KPIs that reflect it can differ substantially from sector to sector.

Retail, fashion, and consumer packaged-goods companies need to track new-product trial, traffic, transaction frequency, average order value, conversion, and repeat-purchase rates. Such companies should calculate the number of "one and done" customers they have had and estimate what percentage of them they could lure back—even just once. They should ask themselves: How might we boost the purchasing frequency of our loyalty program members, whom we know more about? What potential use cases could increase cross-selling and upselling—perhaps, for instance, personalizing add-to-cart recommendations or offers?

Companies in sectors that provide services and experiences, such as travel and tourism, telecom, and banking, need to pinpoint the main drivers of service satisfaction and loyalty. Service satisfaction comes down to "moments of truth": for an airline, how quickly lost baggage is returned or a flight delay resolved; for a telecom company, how fast service is restored after a disruption; and generally, for any enterprise, how promptly a complaint or special request is addressed. Loyalty is measured based on the components of customer lifetime value, including a customer cohort's frequency, switching behavior, and overall spend. Subscription-based businesses will track customer acquisition cost, spend-per-member over time, and churn rates.

Finally, businesses that sell outcomes, such as health insurers and care providers, will focus on measuring those outcomes. Spend per customer and churn rates still matter, of course, but for these businesses, customer goals—such as lowering one's blood pressure, improving one's diet, or maintaining overall health—are most important.

In addition to these hard metrics, softer (or leading) indicators, such as customer engagement, are useful, regardless of sector, for determining whether and where the inputs of personalization are generating enough interactions. These include the number of personalized impressions (e.g., the number of times customers interact with personalized content), website traffic, app downloads, monthly active users, email sign-ups and open

rates, and store-visit frequency. The hard metrics validate whether those interactions are of the right quality, enabling executives to adapt their tactics accordingly. One large retailer worked to quantify the total number of interactions happening annually with customers across all channels and set explicit goals to eliminate low-value interactions (such as emails with low open rates) and increase the share of personalized interactions from 10 percent to 50 percent.

Measuring Customer Relationship Value with the Engagement Ladder

Customer satisfaction metrics tell you about an individual experience. But what about the *total* customer experience—the ongoing relationship? How do you know you're achieving the ultimate purpose of personalization? Which pathways do your loyal customers take over time—in other words, what actions do they take that solidify their loyalty more quickly? And how can you spur more customers to follow those pathways so that you create even more advocates for your company, with ever-better customer experiences?

The customer data you already have in hand provides a wealth of information from which to draw insights. One tool we developed to help brands organize and systematically assess these insights is the Engagement Ladder. It represents a hierarchy of customer status levels (rungs), from "lapsed" to "brand advocates," along with the company's goal for each level. While the actual rungs in the ladder will be different for every company, the Engagement Ladder concept can be applied equally to all companies, regardless of whether they sell products, services, subscriptions, or outcomes.

Every company has its own characteristic Engagement Ladder pattern in the evolution toward customer lifetime value. Figure 9-1 shows this pattern for a beauty retailer client, based on its CRM data. For each rung in the ladder, we mapped the company's annual spend, customer satisfaction scores, churn rates, and customer lifetime value. We also calculated the "headroom": the amount of incremental sales the company could potentially trigger from customers who were similar to the highest-value customers in their rung, but who were not yet engaging with the company to the same extent.

FIGURE 9-1

A beauty retailer's Engagement Ladder

Segment	Key insight about segment	Examples of tactics to pilot
Brand advocates	2x as valuable as next segment	Incentivize referrals to friends
Multicategory	Churn rate ½ of single-category	Drive loyalty program engagement
Single-category regulars	Trialing items in new categories is most likely to increase CLV	Incentivize trial in new categories
Deal seekers	Likely to shop at competitors	Reward regular purchase of replenishment items
Disengaged	New products drive engagement	Target content around new launches
Lapsed	Unlikely to return after 6 months	Invest drive to website in first 3 months after lapsing

This retailer in particular had an abundance of "one and done" customers in the middle of the ladder—the price-sensitive "deal seekers." Many were spending the bulk of their category dollars with competitors, and the somewhat loyal customers were essentially single-category replenishment buyers who were replacing items like shampoo. For such customers, personalization could be used to recommend an appropriate item from the company's wide assortment, while also catering to the needs of its more-frequent customers—multicategory buyers who were usually interested in hearing about the company's loyalty program, the latest new products, seasonal items, or exclusive limited-time-only items.

To create your own Engagement Ladder, start by analyzing your CRM data over the past three to five years. What main actions lead to customers increasing their spending over time? This might be downloading the app, buying in multiple categories, taking advantage of a promotion, coming in with their friends, and so on. Identify the most valuable triggers and define segments with progressively greater lifetime value. Analyze the key metrics for each segment, such as churn rates, satisfaction scores, engagement with new products, or digital channels, to derive insights that can be turned into personalization tactics. Laying out the data in this way enables a company to size the potential upside from personalization; revealing, for example, how much it is worth—in frequency, spend, and retention—to

move 10 percent of customers up to the next level. It also suggests pragmatic actions to test.

The Personalization Top and Bottom Lines

Instituting these customer metrics is an important prerequisite for running personalization as a business. The next step is creating a bona fide personalization P&L to support executive decision-making. Your CFO and finance team should play an active role in setting up the P&L so that the metrics that justify your business case for added investments are deemed credible. This is especially important considering the many priorities competing for capital in every organization.

While lower-cost AI tools are removing barriers for smaller companies to adopt personalization, the investments are still significant and should be managed for measurable value creation in specific areas. At the same time, too many companies launch multimillion, three- to five-year Customer 360 initiatives to unify their customer data and solve all martech issues, only to pause the initiative after a year or so and be no closer to tangibly improving the customer experience. Most organizations, however, err in the opposite direction: they underinvest simply because they don't rigorously measure the total personalization P&L. That's why it is absolutely critical to have a robust means of tracking the value from personalization from the get-go, and to do so on a regular basis.

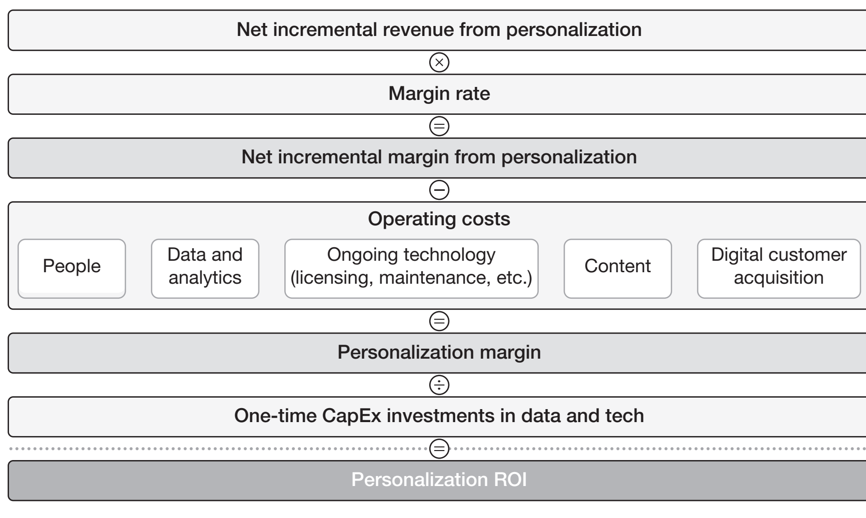
At the highest level, tracking the financials is deceptively simple. The personalization P&L statement needs only a few items: the capital cost of digital investments, net incremental revenue from personalization, operating margin, five categories of operating costs (people, data and analytics, ongoing technology, content, and digital customer acquisition), and personalization margin. (See figure 9-2.)

Creating these line items, however, is not always so simple. Most companies' existing financial reporting is not designed for personalization measurement. Determining each element underpinning the P&L requires deliberately setting up measurement systems and running programs in a way that allows you to keep track of the impact on the top and bottom lines.

First and foremost, you need to know how much net incremental revenue is being created by personalization across channels. Determining this figure can be challenging. It's one thing to measure the lift from individual

FIGURE 9-2

The personalization P&L



email campaigns or the click-throughs and conversion rates across different experiences on the website. It's quite another to ascertain the total revenue generated across the business.

There is a solution: building a universal control group (as we outlined in chapter 6). Here, you pull a group of customers out of the personalized-experiences pool for a short period of time. This is a straightforward exercise in email, text, and some parts of the app experience (e.g., in-app recommendations). In channels where this is impractical—for example, the call center, where customers are calling with complaints—you wouldn't want to "turn off" personalization. It would be more practical to compare the new personalized experience with the old approach in order to estimate the upside. In the case of the call center, for example, you might want to know to what extent the new personalized experience reduced churn rates for customers who called with complaints.

As personalization is extended across channels and different types of content (such as paid-media ads and email campaigns), it is easy to double-count the incremental revenue generation. This is why multitouch attribution and automated experimentation design are so important. These methods allow you to measure the total value of personalization across

channels and then attribute the value created per channel. Suppose you are running a personalized ad campaign in search (a sponsored link at the top of a user's search results): you will see relatively higher response rates because customers who were searching for your brand were already likely to buy. What you need to know is which of these customers received a targeted ad campaign that led them to search in the first place. Because this kind of measurement is complex and extremely time-consuming to execute manually, it is critical to automate the analysis and reporting so the team can focus on drawing out the lessons and implications. This means that dashboards as well as the data pipelines that feed them should be automated so the information from different channels and platforms is pulled into one place without additional effort for each campaign.

Now, with an accurate view of net incremental revenue, you can estimate the margin rate on this lift to build a true personalization P&L.

Operating Costs

The key operating costs in a personalization program fall into five categories:

People and change management. Beyond marketers, personalization requires data scientists (to create the data models), data engineers (to design the data pipelines, clean the data, and create the data features that the data scientists need), IT experts, UI/UX specialists, creative-content designers, and legal and regulatory experts. Some of these resources can be borrowed or reallocated from other initiatives if they don't already have formal personalization responsibilities. But often, companies need to retrain or add personnel. As organizations mature and their personalization programs scale, their investments naturally shift from manual marketing activities and content creation to automation that requires more data scientists, engineers, and tech experts. Risk management costs will also increase, as companies add more roles, tools, and procedures for managing the compliance, privacy, and other growing risks associated with the increased use of customer data and AI. On balance, we find that the personalization team will typically need to grow even if automation saves costs in some areas.

In addition, it takes substantial change- and project-management efforts to adopt the new (agile) ways of working needed to support a cross-functional

operation and rapid value creation. Personalization requires scrum masters and project managers with cross-functional and technical skill sets who are attentive to interdependencies and who can escalate and resolve issues promptly.

Data and analytics. This bucket includes costs for third-party data, licenses for data tools, and cloud-based computing costs. It can also include external expertise, such as the data scientists and engineers needed to augment internal teams. For larger companies, it is generally cost effective to staff the internal team that will conduct the ongoing analytics work (e.g., refreshing models, sustaining data tools), and rely on external resources for the one-time build work, which can be capitalized (more on this below). For smaller companies, which typically have little room for additional overhead or budget for outside resources, it is best to carve out a piece of the business—a segment, product line, geographic market—for personalization pilots, with a clear P&L that absorbs their costs and needed resources, while also accounting for the associated upside.

Ongoing technology. Typically this includes customer data platforms, content management systems, and digital asset management tools. This category also encompasses tech costs that are not capitalizable, such as everything from software licenses to hardware-maintenance costs. As companies fortify their architecture, adding more AI tools, cloud storage, cybersecurity, and so on, their licensing costs can quickly add up. As one CIO noted, "When we embed AI tools fully at scale, we do see the savings from automation. But the substantial expenditures on tech licenses can offset at least half of it."[1]

The personalization tech stack ties into the company's broader technology infrastructure and assets: namely, the call center (for customer service data) and point-of-sale systems (for transaction data). And while these broader overhead costs typically don't get treated as personalization costs, the substantial data-pipeline-maintenance costs involved in connecting these systems should in fact be included in the investment case and the budget.

Content. This category includes the costs of generating and managing new content and refreshing existing content, as well as continuously improving and launching new UI/UX and digital experiences. It also encompasses the cost of reengineering critical processes, which in addition to content

generation includes campaign launch and measurement. Agency costs for developing creative content and digital ads will also come under this rubric. Companies can explore partnerships with content publishers to avoid generating all the content they themselves need (a grocery chain, for instance, might partner with a recipe website), or they can collect and use user-generated content that fits within established brand guardrails.

Digital customer acquisition. Finally, most companies looking to accelerate their personalization effort will need to invest in expanding their existing digital customer relationships. They also need to build customer awareness and promote usage of their digital experiences across these channels by encouraging app downloads, site traffic, email sign-ups, and so on, in order to gather valuable engagement data. It's important to personalize the onboarding journey for new digital customers to give them a reason to return; customers that download an app and don't use it again within three months typically leave. Even new customers can be segmented based on information collected at sign-up or based on their first few actions or third-party data, or both. Generally, digital customer acquisition costs will be substantial up front, but if managed well, will diminish over time as the company reaches critical scale.

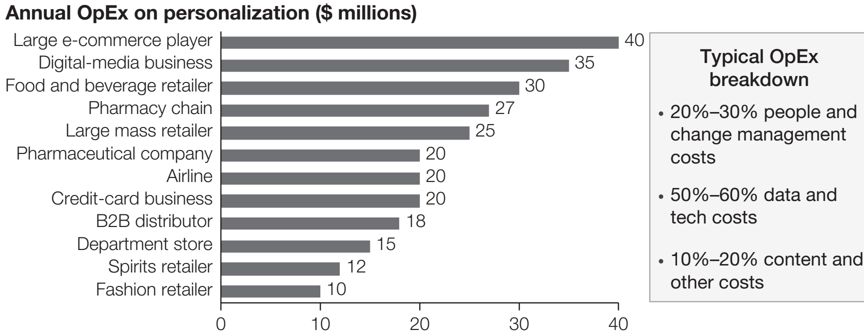
For large *Fortune* 500 corporations (exceeding $5 billion in revenues, such as those in figure 9-3) with cross-channel personalization ambitions, the above costs could amount to tens of millions of dollars annually, depending on the scale they seek and the degree of change required in their operations. However, smaller companies that can move more nimbly are finding adroit ways to personalize their customer relationships cost effectively. As we noted earlier, Brinks Home is using a combination of AI adtech tools that optimize media spend and personalized landing pages that drive conversion and Sweetgreen is leveraging off-the-shelf martech tools to personalize games and challenges in its already popular app.

Capital Expenditures

Right from the start, personalization requires one-time capital expenditures (CapEx): up-front technology and AI investments in assets, as well as the cost of integrating them with existing systems, such as martech, the data warehouse, point-of-sale systems, and call center systems.

FIGURE 9-3

Investment benchmarks for *Fortune* 500 businesses ($5 billion+ sales)



Note: Digital customer acquisitions vary significantly depending on the scale of the customer base and are therefore not included.

Source: BCG case experience and BCG Personalization Index research, 2023.

First, as noted in chapter 7, companies need to invest in smart integration across their systems and in converting their data into a much more usable structure: building the data pipelines and APIs to aggregate data in the right place, and establishing the data management systems to clean data and add the features (such as customer and product attributes) that will feed the models. They also need to build the models and algorithms that power personalization. Personalization leaders also build rules engines (such as a next best action decisioning engine that governs which customers get which communication in which channel). All of these are reusable, capitalizable assets.

Second, companies need to buy and integrate new systems (namely, content management tools and cloud-based analytics environments) and customize new martech and digital systems. Every company's specific needs will be different, but the core components should include the systems that compose the personalization tech stack:

- Data ingestion
- Customer 360
- Targeting intelligence

- Experiment design and activation
- Content creation, content management
- Next best action (cross-channel) orchestration
- Experience delivery
- Testing and measurement learning loop

Personalization leaders realize how critical it is to achieve performance gains from the get-go in order to sustain this level of investment. As our Personalization Index research shows, personalization leaders are growing 10 percentage points faster annually than laggards and they are gaining market share.

Building the Investment Case with Quick Wins

The key to making personalization affordable is making it largely self-funding. Many personalization leaders implement programs where up-front investments are fully funded by the margin from in-year revenue growth. From the start, your personalization program should be producing gains for both the business and your customers. That's what creates momentum and mobilizes the entire C-suite. But to make personalization self-funding, you need to achieve quick wins—the kind that generate value within the first three to six months. As Art Zeighami, former chief data and analytics officer at H&M, says, "It's important to rapidly put points on the board before you ask for more resources. Create a self-funding mechanism for the next set of use cases. Once the personalization team establishes a track record of value delivery, it becomes easy to secure resources."[2]

Achieving quick wins, of course, means committing your initial investments to building the foundation that will unlock these immediate sources of value.

Identifying the quick wins isn't the hard part. Most companies have an abundance of ideas but lack the cross-functional support necessary to launch them. And although the nature of the quick wins varies by industry, there are some clear all-around winners.

For retailers, personalized email offers can generate double to triple the ROI of mass discounts, enabling incremental growth and saving promotional dollars. Department stores, fashion brands, and grocers, which have historically spent 95 percent of their promotional dollars on mass offers, are now enjoying substantial success with this approach. Companies that are predominantly e-commerce players can quickly deploy personalized recommendations across their homepage, in carousels, on product pages, in their search function, and in the shopping cart to add several points of conversion (moves that, for large sites, can each be worth tens or even hundreds of millions of dollars). Amazon funded its personalization effort by extensively leveraging personalized recommendations on its site early on, and today, small, digitally native, direct-to-consumer brands are employing these same tactics.

For companies that cater to high-value customers and interact directly with them on-site, such as those in luxury retail or in high-end hospitality, in-person "personalized" selling is a reliable quick win. Every sales associate can provide effective personalized service with the right information at their fingertips. The Ritz-Carlton hotel chain, which prides itself on in-person personalization to achieve high customer satisfaction from check-in to check-out, significantly outperforms many high-end competitors. While chatting at check-in, associates know that a customer's most recent stay was, say, eleven months ago, or that she had recently complained to central reservations, or that she loves hunting antiques or going to Michelin-starred restaurants when in town.

In service industries with call centers, personalized recommendations for calls related to a purchase can contribute an additional 3 to 5 percentage points of sales from cross-selling. Putting personalized information at reps' fingertips shortens the call, thus pleasing the customer and saving money.

In industries such as financial services and health care, personalizing member acquisition and onboarding is often a source of quick wins. For example, we have seen personalized credit card acquisition campaigns lead to 30 percent to 40 percent higher ROI. At one major software company, personalizing the acquisition through onboarding phases led to a 30 percent drop in cost-per-new-user rates and a 25 percent drop in attrition rates. In B2B industries, two use cases stand out for their powerful, fast impact:

personalizing lead management (customizing the timing and type of outreach to coincide with when prospects are most likely to convert), and preventing churn. In both areas, companies have achieved double-digit percentage gains from personalization.

Second-Order Payoffs

A number of second-order benefits can help bolster the case for the investment necessary for personalization—among them improved marketing ROI and efficiency, which can be two to three times those of mass-marketing methods. Beyond the marketing efficiencies gained, the insights stemming from greater customer engagement are immensely valuable to many other parts of the business, from inventory management to new-product development.

Personalization can also generate insights that can be crucial in mitigating a serious business challenge. For example, when a major card issuer lost one of its co-branded retail credit card deals, customers flooded the call center with inquiries. By having personalization data and insights at hand, the call center reps were able to switch callers to alternative credit cards or immediately identify other ways to retain them. As a result, the issuer was able to stem customer defections.

Finally, investing in personalization is an opportunity to rethink customer satisfaction metrics and data-gathering methods. For example, instead of the occasional on-site customer survey or mystery shopper evaluations, traditional banks and brick-and-mortar retailers are following the lead of digital natives and embedding instant customer feedback into their apps and web experiences (e.g., a star rating, a thumbs-up or -down). Even moves as simple as these provide real-time data that can materially improve the customer experience. Such feedback metrics are even more valuable when injected into high-priority areas (such as the app features providing personalized recommendations), as they immediately reveal what engaged customers like. These metrics can also nip engagement problems in the bud. For instance, a pop-up or banner that annoys customers because it interrupts their experience will quickly get flagged, even if it generates incremental sales.

Drawing a Road Map to Value

Capturing your share of the $2 trillion personalization prize will take significant investment and a good few years. Having a well-defined road map with clear priorities is critical. Even companies that opt for mostly off-the-shelf tech solutions must undertake integration and customization work. They also need to maintain data pipelines and secure the in-house resources to continue designing, launching, and optimizing personalized experiences. While small companies can get started with a few hundred thousand to a few million dollars for licensing and integrating off-the-shelf point solutions, we have shown that many *Fortune* 500s typically spend between $10 million and $40 million each year in ongoing costs, over and above an equivalent (or greater) amount in one-time tech CapEx. It is therefore crucial that companies align the data, tech, and content road map with the use cases that will generate the most value early on.

Indeed, one of the biggest pitfalls we see in building personalization programs is the lack of alignment across functions. The data, intelligence models, and martech delivery pipelines might be in place, but if the content development or UI/UX is delayed, so is the value creation. Given the many moving parts and dependencies, infrastructure and capabilities must be in sync or companies will find it difficult to unlock the next phase of investment.