

A Forrester Total Economic Impact™
Study Commissioned By Medallia
April 2018

The Total Economic Impact™ Of Medallia Experience Cloud

Cost Savings And Business Benefits
Enabled By Medallia's Customer
Feedback Management Platform

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Executive Summary

Medallia commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying the Medallia Experience Cloud. The purpose of this study is to provide readers with a framework to evaluate the potential financial impact for their organizations.

The Medallia Experience Cloud is a customer feedback management (CFM) platform that provides advanced analytics, actionable insights, and automated workflows to improve customer experience (CX). To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed six customers with years of experience using this platform.

Prior to using the Medallia Experience Cloud, interviewed organizations had deployed various customer feedback programs. However, organizations reported that their previous solutions did not provide meaningful CX insights, did not provide a mechanism for effectively acting on what insights were generated, and could not effectively scale to match their organization.

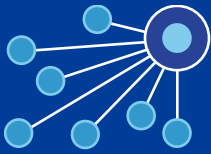
Forrester developed a composite organization based on data gathered from the customer interviews to reflect the total economic impact that the Medallia Experience Cloud could have on an organization. The composite organization is representative of the organizations that Forrester interviewed and is used to present the aggregate financial analysis in this study. All values are reported in risk-adjusted three-year present value (PV) unless otherwise indicated. Note that these numbers will vary based on industry, size of company, size of deployment, and other aspects particular to a specific organization.

Key Findings

Quantified benefits. The following benefits reflect the financial analysis associated with the composite organization:

- › **Improved customer experience leading to an increase in net income of \$20.1 million.** Using customer feedback obtained through the Medallia platform, interviewed organizations were able to make improvements to their organizations' overall customer experience, improving overall Net Promoter Score (NPS). This led to an increase in top-line revenue and subsequently net income.
- › **Operational efficiencies resulting in a savings of \$13.8 million.** Interviewed organizations were able to improve organizational operations by aligning business and strategic initiatives with the insights gained from the Medallia platform. Additionally, call volume to service desks was significantly reduced due to its enabling of organizations to systematically identify and reduce customer pain points.
- › **Cost avoidance of the previous solution totaling \$1.7 million.** Interviewed organizations noted avoided costs of their previous installed solution that was replaced.

Benefits



Net income due to improved customer experience:

\$20.1 million



Operational efficiencies:

\$13.8 million



Previous solution cost avoidance:

\$1.7 million



Benefits PV
\$35.6 million



NPV
\$30.4 million



Payback
< 6 months



ROI
591%

Unquantified benefits. The interviewed organizations experienced additional qualitative benefits. These are not quantified in the financial analysis, but were mentioned as significant benefits by customers:

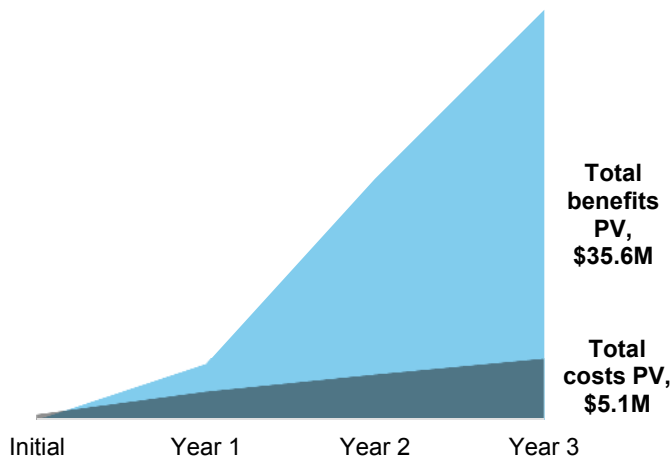
- › Active executive engagement in CX and the Medallia platform.
- › A shift in overall organizational culture towards CX.
- › Improved employee engagement and retention.
- › Faster closed loop cycle.
- › Reductions in survey length and improved response rates.

Costs. The following costs reflect the financial analysis associated with the composite organization.

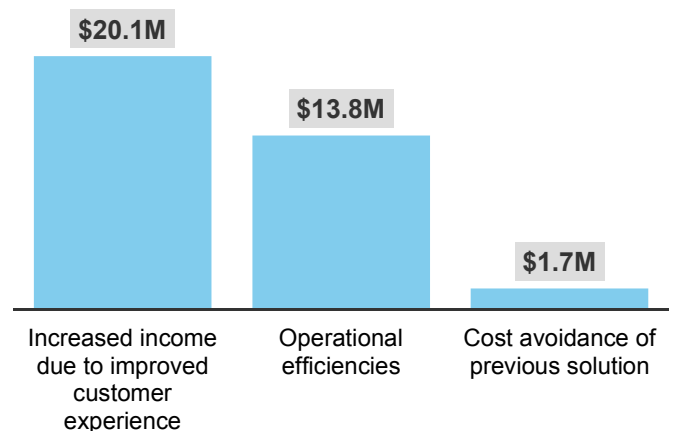
- › **Medallia Experience Cloud costs totaling \$2.6 million.** Determining the cost for this study is complicated because of the many variables that drive pricing, including the scale of the CX program undertaken and the company's relative need for program customizations. Readers should recognize that the pricing in this study is representative of the composite organization.
- › **Internal costs totaling \$2.6 million.** Interviewed organizations noted internal organizational costs for deployment in addition to the direct Medallia Experience Cloud costs. Specifically, customers noted internal costs associated with implementation and with day-to-day management of the Medallia solution.

Forrester's interviews with six existing customers and subsequent financial analysis found that an organization based on these interviewed organizations experienced benefits of \$35.6 million over three years versus costs of \$5.1 million, adding up to a net present value (NPV) of \$30.4 million and an ROI of 591%.

Financial Summary



Benefits (Three-Year)



The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

TEI Framework And Methodology

From the information provided in the interviews, Forrester has constructed a Total Economic Impact™ (TEI) framework for those organizations considering implementing the Medallia Experience Cloud.

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 Medallia solution can have on an organization:



DUE DILIGENCE

Interviewed Medallia stakeholders and Forrester analysts to gather data relative to Medallia.



CUSTOMER INTERVIEWS

Interviewed six organizations using the Medallia Experience Cloud 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 solution's impact: benefits, costs, flexibility, and risks. Given the increasing sophistication that enterprises have regarding ROI analyses related to IT investments, Forrester's TEI methodology serves to provide a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

DISCLOSURES

Readers should be aware of the following:

This study is commissioned by Medallia 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 report to determine the appropriateness of an investment in Medallia.

Medallia 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.

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

The Medallia Customer Journey

BEFORE AND AFTER THE MEDALLIA INVESTMENT

Interviewed Organizations

The following table contains details on the interviewed customers and their company's Medallia Experience Cloud program design:

INDUSTRY	INTERVIEWEE	ANNUAL REVENUE	EMPLOYEES	ACTIVE USERS
Financial services	Voice of the customer (VoC) senior director; service management leader	\$10B	10,000+	8,000
	<i>Over 25M feedback opportunities per year covering transactions and relationships; driving employee development and organizational efficiency insights</i>			
Insurance	Director of consumer research	\$10B	20,000+	6,000
	<i>Relationship feedback from customers related to satisfaction with products and service, and Voice of the Employee (VoE) feedback related to organizational effectiveness</i>			
Insurance	Head of CX	\$50B+	50,000+	17,000
	<i>Deployed across several business units in the organization, focusing on both transactional and relationship feedback</i>			
Retail	Senior director of customer insights	\$50B+	100,000+	8,500
	<i>VoE and customer post-transaction feedback related to in-store experience and products</i>			
Technology	Vice president (VP) of market insights	\$50B+	100,000+	25,000
	<i>Relationship and transactional feedback on digital experience, sales, services, technical support, and products.</i>			
Telecommunications	VP of customer insights	\$50B+	100,000+	20,000
	<i>Employee and post-transaction feedback, related to contact centers, field technical operations, retail locations, and digital interactions across business-to-business (B2B) and business-to-consumer (B2C) customers</i>			

Medallia Experience Cloud has a wide distribution of customers in terms of annual organizational revenue:

- › 33% with annual revenue less than \$1B.
- › 42% with annual revenue between \$1B and \$10B.
- › 25% with annual revenue greater than \$10B.

Based on the interviews conducted for this study, Forrester believes the findings are relevant and robust for both smaller and larger organizations.

Key Challenges Before Medallia

Before the investment in Medallia, interviewees described the following challenges with their previous solution:

- › **Inability to provide meaningful CX insights.** A service management leader in the financial services industry stated: “We had a survey vendor in place for several years, and we came to the determination that we weren’t really doing much from an insights or analytics standpoint. We were just data processing, it was just another data point that we had in terms of tracking scores or metrics.”
- › **Inability to use insights to drive meaningful organizational change.** A head of CX in the technology industry told Forrester: “All the responsibility for improving customer experience was landing on our sales organization. And that’s when I realized, we’re missing 90% of what matters to our customers in how they engage with us. I needed a digital CX management platform. I needed insights on a real-time basis. I needed the ability to put the insight into the hands of people that can act on it. And then I need to hold them accountable to make sure they’re actually doing something with it.”
- › **Inability to effectively handle organizational scale.** A service management leader in the financial services industry said: “We have a lot of records and data that we process, and unfortunately our previous vendor could only handle a day’s worth of data. This challenge was compounded when our vendor experienced outages. Medallia is able to process multiple days of data, millions of data records within a day, within hours, all without issues.”

After an extensive request for proposal (RFP) and business case process evaluating multiple vendors, interviewed organizations chose Medallia and began deployment.

Key Results With Medallia

The interviews revealed that the investment in Medallia addressed the challenges interviewees were facing and provided additional benefits as well:

MEANINGFUL CX INSIGHTS

- › **Medallia working as a partner to develop actionable insights.** A service management leader in the financial services industry told Forrester: “Probably the most important thing about Medallia, at a senior level, was the insights and their ability to deliver on some industry benchmarking and give us guidance in terms of what we should be asking, how we should be asking it, and ultimately why we were asking those questions.”
- › **Reducing customer pain points.** A VP of customer insights in the telecommunications industry stated: “We were able to reduce the number of calls to our service desk, because we’ve addressed and eliminated many of the reasons, the root causes, of why people were calling us: technical reliability, product functionality, billing issues. This has categorically changed the game for us.”

“Medallia made certain recommendations during the RFP process that we hadn’t even considered. And when it comes down to it, anyone can come in and be a vendor; what we needed, and what we get through Medallia, is a thought partner.”

*Director of consumer research,
insurance industry*



“When we looked at the brands Medallia was working with at the time, it was clear: if you want to learn from the best, you have to go with the best.”

*Director of consumer research,
insurance industry*



DRIVING ORGANIZATIONAL CHANGE

- › **Driving a shift in organizational culture.** The ability for a single platform to collect all CFM data, its accessibility to anyone in the organization, and the direct connection to actions for closed loop feedback is how Medallia drives a shift in organizational culture. A VP of customer insights in the telecommunications industry said: “Medallia has been one of the catalysts that has really helped us think, act, and behave differently.”
- › **Enabling and energizing executive engagement.** A director of consumer research in the insurance agency told Forrester: “Our CEO is in the platform at least daily, if not multiple times a day. He’ll see a customer comment, and even though we have a closed loop process, he will proactively reach out to the district manager and ask, ‘What are we doing about this?’ When you have C-suite involvement like that, it’s pretty powerful.”
- › **Improved employee engagement.** A VP of customer insights in the telecommunications industry stated: “We’ve seen a dramatic improvement to our employee NPS since deploying Medallia.”

EFFECTIVE SCALING, AND OTHER ORGANIZATIONAL BENEFITS

- › **Experience with global deployments and large enterprises.** A VP of customer insights in the telecommunications industry stated: “Medallia clearly had experience on a global level with large brands and complex organizations, and the technology was better than anything else we had and was relatively easy to implement.”
- › **Fast implementation and deployment.** A senior director of customer insights in the retail industry told Forrester: “When we opted for the Medallia platform, the main criteria were speed and credentials on implementation. We needed to go fast, and Medallia proved to be the one that could get us there faster.”
- › **Flexible solution.** A head of CX in the insurance industry said: “Flexibility is the power of the Medallia Experience Cloud; you can tailor it to be specific for each business unit. It doesn’t have to be a centralistic solution, which is important because every business unit is different, and every country is different.”
- › **Faster closed loop process.** A director of consumer research in the insurance industry stated: “Our SLAs to close items basically went from a week down to 48 hours, and they continue to press and press. We’ve definitely seen an impact there, and I would say that’s one of the biggest benefits.”
- › **Insights to drive product improvements.** A VP of customer insights in the telecommunications industry told Forrester: “Medallia also helps us with product research, product evaluations, and product experiences. We’ve been able to tweak feature functionality within products and improve the customer experience.”

“Medallia has been really beneficial in terms of employee engagement and employee morale. They’re offering better service and better resolution to the customers they reach out to.”

*Director of consumer research,
insurance industry*



“The reason that we went with Medallia was very simple. Medallia had the best workflow capabilities that we saw in terms of putting the insight that you get into the hands of the right people on a real-time basis. And then the way that they have the alerts, and the tracking of the alerts, and the ability to escalate alerts: that whole backend system is the catalyst to action.”

*VP of market insights, technology
industry*



Composite Organization

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

Description of composite. The composite is a global conglomerate with \$9 billion in average annual revenue, growing at a rate of 2% year-over-year (YOY), prior to its investment in Medallia. Its main revenue streams include membership fees and 750 retail stores, along with other B2B and B2C lines of business (LOBs). It has 2 million total customers and 18,000 employees, which includes 750 key accounts with 150 account managers, along with 4,500 contact center agents.

Deployment characteristics. The global conglomerate composite organization has deployed the Medallia Experience Cloud for transactional and relationship surveys, both internally-facing (employees) and externally-facing (customers). The composite organization initially rolled out Medallia's Best Practices Package for Retail to its 750 stores. For Years 2 and 3, the program expanded to cover the full enterprise, including the 4,500 contact center agents and 150 key accounts.

Implementation and deployment of the Medallia Experience Cloud took four months for the initial rollout, during which time the composite phased out its previous solution over the first year. Implementation of the full enterprise package took an additional four months at the end of Year 1. The composite had the Medallia Experience Cloud deployed as its exclusive CFM platform starting in Year 2, and they hired Medallia for a moderate level of managed services reflective of the deployed solution for each year.



Key assumptions

- \$9 billion annual revenue
- 18,000 employees
- Membership, retail, and other LOBs
- Four-month implementations

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	Increased income due to improved customer experience	\$4,790,000	\$9,961,600	\$9,983,632	\$24,735,232	\$20,088,123
Btr	Operational efficiencies	\$0	\$8,734,400	\$8,749,088	\$17,483,488	\$13,791,832
Ctr	Cost avoidance of previous solution	\$391,050	\$836,640	\$836,640	\$2,064,330	\$1,675,518
Total benefits (risk-adjusted)		\$5,181,050	\$19,532,640	\$19,569,360	\$44,283,050	\$35,555,473

Benefit 1: Increased Income Due To Improved Customer Experience

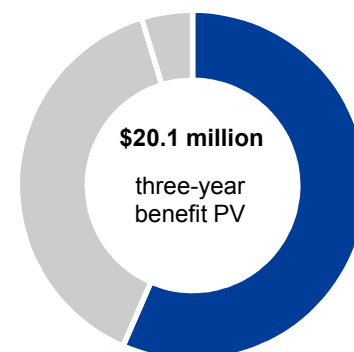
Using customer feedback obtained through the Medallia Experience Cloud, interviewed organizations were able to make improvements to their organizations' overall customer experience (for example, by reducing customer wait times for products or services), improving overall NPS. This led to an increase in revenue and revenue growth rate due to:

- › Product improvements leading to additional sales, and website improvements to remove pain points and barriers to purchases.
- › An overall improvement to customer retention rate.
- › An increase in average basket size per transaction.

Based on the customer interviews, Forrester estimates for the composite organization:

- › An average annual revenue of \$9 billion before deploying the Medallia solution, growing 2% YOY.
- › An increase in revenue of 0.05% due to product and website improvements in Year 1, which increases to 0.15% in Years 2 and 3 with the Medallia Experience Cloud deployed for the entire year and covering additional parts of the business.
- › An increase in customer retention of 1% in Year 1, which increases to 2% in Years 2 and 3.
- › Two million total customers, with an average annual value per customer of \$1,250, resulting in a \$25 million revenue impact per 1% improvement in customer retention.
 - The revenue impact per 1% improvement in customer retention varies widely depending on industry and business model. Interviewed organizations reported revenue impact values ranging from \$5 million to \$300 million per 1% improvement in customer retention.
- › An average basket size of \$75 per transaction prior to deploying the Medallia Experience Cloud, which increases by 1% in Year 1 and 2% in Years 2 and 3.

The table above shows the total of all benefits across the areas listed below, as well as present values (PVs) discounted at 10%. Over three years, the composite organization expects risk-adjusted total benefits to have a PV of over \$32 million.



Improved customer experience: **56%** of total benefits

- › An average of nearly 3.4 million transactions per month.
- › An income margin of 10%.

This benefit can vary due to uncertainty related to:

- › Average annual revenue.
- › Impact to overall revenue due to product and website improvements, increases in customer retention, and improvements to average basket size.
- › Income margin.

Impact risk is the risk that the business or technology needs of the organization may not be met by the investment, resulting in lower overall total benefits. The greater the uncertainty, the wider the potential range of outcomes for benefit estimates.

To account for these risks, Forrester adjusted this benefit downward by 20%, yielding an annual benefit ranging from \$6.0 million to \$12.5 million, with a three-year risk-adjusted total PV of \$20.1 million.

Benefit 1: Increased Income Due To Improved Customer Experience Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
A1	Average annual revenue prior to deploying the Medallia Experience Cloud	2% YoY growth	\$9,000,000,000	\$9,180,000,000	\$9,363,600,000
A2	Increase in revenue due to product and website improvements		0.05%	0.15%	0.15%
A3	<i>Subtotal: Increase in revenue due to product improvements</i>	$A1 \times A2$	\$4,500,000	\$13,770,000	\$14,045,400
A4	Increase in customer retention with the Medallia solution		1%	2%	2%
A5	Total number of customers		2,000,000	2,000,000	2,000,000
A6	Average customer value per year		\$1,250	\$1,250	\$1,250
A7	<i>Subtotal: Increase in revenue due to improved customer retention</i>	$A4 \times A5 \times A6$	\$25,000,000	\$50,000,000	\$50,000,000
A8	Average basket size for customers before the Medallia solution		\$75	\$75	\$75
A9	Increase in basket size with the Medallia solution		1%	2%	2%
A10	Average number of monthly transactions		3,375,000	3,375,000	3,375,000
A11	<i>Subtotal: Increase in revenue due to increased basket size</i>	$A8 \times A9 \times A10 \times A12$	\$30,375,000	\$60,750,000	\$60,750,000
A12	Total increased revenue due to improved customer experience	$A3 + A7 + A11$	\$59,875,000	\$124,520,000	\$124,795,400
A13	Income margin		10%	10%	10%
At	Increased income due to improved customer experience	$A12 \times A13$	\$5,987,500	\$12,452,000	\$12,479,540
	Risk adjustment	↓20%			
Atr	Increased income due to improved customer experience (risk-adjusted)		\$4,790,000	\$9,961,600	\$9,983,632

Benefit 2: Operational Efficiencies

Interviewed organizations described the following benefits related to operational efficiencies:

- › Unification of data across the organization and throughout the customer lifecycle into a single platform with the Medallia Experience Cloud provided a higher level and more comprehensive view of customer feedback. This allowed organizations to more accurately define strategic initiatives and identify insights on products and customer channels. Organizations realized an increase in operational efficiencies by more effectively aligning existing and future projects with business initiatives, and reallocating headcount (and allowing for natural attrition) as needed.
- › Organizations realized productivity improvements, as Medallia managed services enabled employees to focus on higher-value strategic tasks.
- › Additionally, organizations noted an overall decrease in service desk tickets and calls from customers, as they were able to more effectively identify and reduce customer pain points through feedback using the Medallia platform.

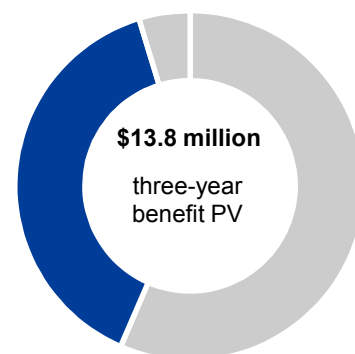
Based on the customer interviews, Forrester estimates for the composite organization:

- › An average annual revenue of \$9 billion before deploying Medallia, growing 2% YOY.
- › Starting in Year 2, a reduction in operating expenses (OPEX) equivalent to 0.01% of annual revenue, due to business alignment on strategy, insights on products, insights on customer channels, and productivity improvements.
- › A total service desk call volume of 10 million calls per year prior to deploying the Medallia Experience Cloud.
- › A 10% reduction in service desk calls in Years 2 and 3 with the full enterprise solution deployed.
- › An average cost of \$10 per service desk call.

This benefit can vary due to uncertainty related to:

- › Average annual revenue.
- › OPEX reduction due to alignment of business initiatives and productivity improvements.
- › Number of service desk calls, reduction with the Medallia Experience Cloud, and average cost per call.

To account for these risks, Forrester adjusted this benefit downward by 20%, yielding a benefit of \$8.7 million in Years 2 and 3, with a three-year risk-adjusted total PV of \$13.8 million.



Operational efficiencies:
39% of total benefits

Benefit 2: Operational Efficiencies Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
B1	Average annual revenue prior to deploying the Medallia Experience Cloud	2% YoY growth	\$9,000,000,000	\$9,180,000,000	\$9,363,600,000
B2	OPEX reduction due to business alignment on strategy, insights on products, and insights on customer channels		0.00%	0.01%	0.01%
B3	Number of service desk calls per year before the Medallia solution		10,000,000	10,000,000	10,000,000
B4	Reduction in service desk calls with the Medallia solution		0%	10%	10%
B5	Annual reduction in number of service desk calls	B3*B4	0	1,000,000	1,000,000
B6	Cost per service desk call		\$10	\$10	\$10
Bt	Operational efficiencies	B1*B2 + B5*B6	\$0	\$10,918,000	\$10,936,360
	Risk adjustment	↓20%			
Btr	Operational efficiencies (risk-adjusted)		\$0	\$8,734,400	\$8,749,088

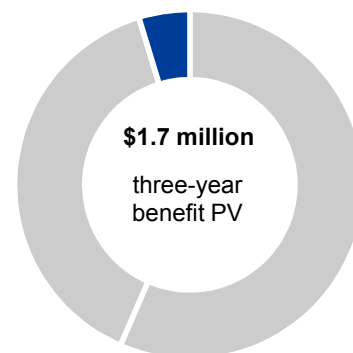
Benefit 3: Cost Avoidance Of Previous Solution

Interviewed organizations noted avoided costs of their previous installed solution that was replaced.

Based on the interviewed customers' descriptions of their previous platforms and associated costs, Forrester estimates the composite organization would have paid an annual subscription cost of \$929,600 for its previous solution. The previous solution is partially phased out in Year 1, and completely replaced in Years 2 and 3.

This benefit can vary due to uncertainty related to negotiated enterprise rates and the actual solution being replaced.

To account for these risks, Forrester adjusted this benefit downward by 10%, yielding an annual benefit ranging from \$391,050 to \$836,640, with a three-year risk-adjusted total PV of \$1.7 million.



Cost avoidance of previous solution: **5%** of total benefits

Benefit 3: Cost Avoidance Of Previous Solution Calculation Table

REF.	METRIC	CALC.	YEAR 1	YEAR 2	YEAR 3
C1	Previous solution cost		\$434,500	\$929,600	\$929,600
Ct	Cost avoidance of previous solution	C1	\$434,500	\$929,600	\$929,600
	Risk adjustment	↓10%			
Ctr	Cost avoidance of previous solution (risk-adjusted)		\$391,050	\$836,640	\$836,640

Unquantified Benefits

While there were strong and quantifiable benefits the interviewed organizations observed by using the Medallia Experience Cloud, there were significant qualitative benefits experienced as well.

- › **Active executive engagement in CX and the Medallia platform.** A senior director of customer insights in the retail industry told Forrester: “Our CEO is a big supporter. Our COO uses the platform all the time. Leadership in general quotes comments from customers on the platform. We could not have better engagement right now from top leadership.” Interviewed organizations noted how crucial this executive engagement was, and is, in promoting and highlighting the value CX programs have at their organizations. Organizations noted how engaged their executives were with Medallia Experience Cloud’s mobile and desktop applications, which helped the program teams highlight the value of their CX programs to senior leaders and made executive engagement with CX visible to the broader organization.
- › **A shift in overall organizational culture towards CX.** A director of consumer research in the insurance industry, said: “With our employees just having exposure to customer feedback and verbatims, it really brings the customer experience to life and helps them write themselves into the story.” Interviewed organizations noted that employee access to real-time customer feedback information was key to driving a shift in overall culture towards CX.
- › **Improved employee engagement and retention.** A VP of customer insights in the telecommunications industry stated: “I’ve seen improvements in both good churn and bad churn. Meaning, those employees that aren’t on board, maybe slowing us down, they recognize that our CX shift isn’t just the flavor of the month or the quarter, and they leave. Those that get it, want to have an impact, they’re staying on. And as we continue to address policy, procedure, technology, etc., we’re going to continue to make their lives easier and more impactful in a favorable way to customers.”
- › **Faster closed loop cycle.** The ability to more quickly close the loop with customers has a positive impact on both customer churn and employee morale. A senior director of customer insights in the retail industry told Forrester: “Medallia’s closed loop feedback mechanism has proven to be effective, along with the simplicity of the dashboards.”
- › **Reductions in survey length and improved response rates.** An interviewee noted that Medallia was able to significantly reduce their survey lengths, improve response rates, and increase completes via mobile, all while providing valuable and action-oriented insights towards improving overall CX.

“I feel very strongly that we got a much better coaching program in place which has been powered primarily by the customer feedback. And then also, from the insights and analytics perspective, it’s given us the flexibility in areas we hadn’t been able to see or measure before. Whether it’s the surveys themselves or the overlying tools with Text Analytics, we just have much better visibility into our processes than we ever did.”

*Service management leader,
financial services industry*



Flexibility

The value of flexibility is clearly unique to each customer, and the measure of its value varies from organization to organization. There are multiple scenarios in which a customer might choose to implement the Medallia Experience Cloud and later realize additional uses and business opportunities, for example:

- › **Ability to adapt the CFM solution to fit evolving needs.** A service management leader in the financial services industry told Forrester: “Medallia is a very flexible partner with us. Sometimes we get unique ideas, and they’ve always been willing to help us figure those out, see if we can find solutions or benchmarks, and provide some guidance.”
- › **A/B testing.** The Medallia Experience Cloud allows customers to quickly A/B test customer experience solutions or pilot business process changes before rollout.
- › **Text analytics search.** Changes in customer sentiment can occur quickly, and the text analytics feature allows organizations to identify and adapt to unexpected developments.

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

Flexibility, as defined by TEI, represents an investment in additional capacity or capability that could be turned into business benefit for a future additional investment. This provides an organization with the "right" or the ability to engage in future initiatives but not the obligation to do so.

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
Dtr	Medallia costs	\$47,250	\$649,031	\$1,220,100	\$1,220,100	\$3,136,481	\$2,562,305
Etr	Internal costs	\$386,400	\$1,460,040	\$552,000	\$552,000	\$2,950,440	\$2,584,633
	Total costs (risk-adjusted)	\$433,650	\$2,109,071	\$1,772,100	\$1,772,100	\$6,086,921	\$5,146,938

Cost 1: Medallia Costs

Determining the cost for this study is complicated because of the many variables that drive pricing, including the scale of the CX program undertaken and the company's relative need for program customizations. Readers should recognize that the pricing in this study is representative of the composite organization.

Some of the companies interviewed implemented their entire Medallia programs in a single effort, while others chose to undertake a more phased approach to program implementation.

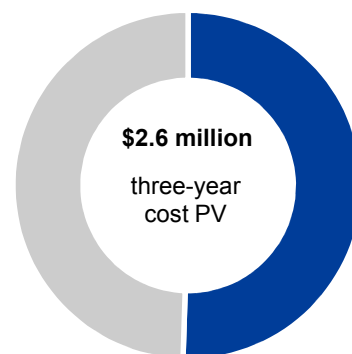
For the composite organization modeled in this study, Forrester assumes that the organization initially rolls out Medallia's Best Practices Package for Retail to its 750 stores. For Years 2 and 3, the program expands to cover the full enterprise, including 4,500 contact center agents and 150 key accounts.

The composite organization opts to include a moderate level of managed services in their engagement with Medallia to maximize their results with best practice guidance; note that the split between managed services and internal labor (calculated in the Cost 2: Internal Costs section) is unique to each organization. Managed services could include services such as:

- › An assigned engagement manager, who serves as a single day-to-day point of contact within Medallia for the program and provides ongoing best practice guidance through weekly meetings with the organization's program team.
- › Quarterly program reviews on program performance, strategic planning, and business goals.
- › Insights and analytics services such as financial linkage, churn analysis, or goal setting assistance.
- › Administrative services such as monitoring integrations, file processing, and basic configuration changes.
- › Survey and reporting refreshes, new integration of data, and insights workshops to support continued program success.
- › Technical support to administrative and/or end users.

Based on the customer interviews, Forrester assumes for the composite

The table above shows the total of all costs across the areas listed below, as well as present values discounted at 10%. Over three years, the composite organization expects risk-adjusted total costs to have a PV of \$5.1 million.



**Medallia costs:
50% of total costs**

organization:

- › A software subscription cost of \$423,125 in Year 1 and \$920,000 in Years 2 and 3 to reflect the phased implementation of the Medallia Experience Cloud.
- › A moderate level of managed services, totaling \$120,000 in Year 1 and \$242,000 in Years 2 and 3.
- › Implementation services from Medallia totaling \$45,000 with the initial retail implementation, and \$75,000 in Years 1 for the full enterprise implementation going live in Year 2.

Ongoing costs can vary due to uncertainty related to:

- › Subscription costs.
- › Level of support from managed services and implementation costs from Medallia.

To account for these risks, Forrester adjusted this cost upward by 5%, yielding a three-year risk-adjusted total PV of \$2.6 million.

Implementation risk is the risk that a proposed investment may deviate from the original or expected requirements, resulting in higher costs than anticipated. The greater the uncertainty, the wider the potential range of outcomes for cost estimates.

Cost 1: Medallia Costs Calculation Table

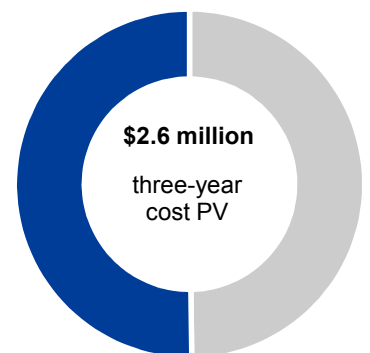
REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3
D1	Subscription costs			\$423,125	\$920,000	\$920,000
D2	Managed services			\$120,000	\$242,000	\$242,000
D3	Implementation services from Medallia		\$45,000	\$75,000		
Dt	Medallia costs	D1+D2+D3	\$45,000	\$618,125	\$1,162,000	\$1,162,000
	Risk adjustment	↑5%				
Dtr	Medallia costs (risk-adjusted)		\$47,250	\$649,031	\$1,220,100	\$1,220,100

Cost 2: Internal Costs

Interviewed organizations noted internal organizational costs for deployment in addition to the direct Medallia costs. Specifically, customers noted internal costs associated with implementation and with day-to-day management of the Medallia solution.

Interviewed organizations noted that deployment of the Medallia platform in general was quick. Internal costs included internal project management and Information Technology (IT) department costs, and training for frontline employees that would be using feedback and insights from the Medallia system.

Day-to-day internal labor costs are in addition to managed services provided by Medallia and could include day-to-day management of the Medallia platform at the organization, data science, survey designs and results reviews, insights analytics, enhancements, and developing strategy and new use cases. Interviewed organizations noted that implementing Medallia decreased low value work for the program teams around data management and report creation, allowing them to focus on higher level strategic work around CX improvements. As stated above,



Implementation costs:
50% of total costs

the split between managed services (calculated in the Cost 1: Medallia Costs section) and internal labor is unique to each organization.

Based on the customer interviews, Forrester estimates for the composite organization:

- › Four day-to-day internal labor FTEs at an average fully burdened annual salary of \$120,000 annually.
- › An initial four-month implementation time frame for deployment of the retail best practices package, and another four-month implementation at the end of Year 1 for the expansion to the full enterprise package.
- › Three internal FTEs for project management and IT support for each implementation period.
- › For initial implementation, 1,500 employees requiring four hours of training each (two employees per store), at an average fully burdened salary of \$36 per hour.
- › In Year 2, 4,500 contact center employees and 150 account managers requiring four hours of training each, at an average fully burdened salary of \$36 per hour.

Implementation costs can vary due to uncertainty related to:

- › Length of implementation.
- › Internal FTEs and associated salary.
- › Required training, and associated employee salaries.

To account for these risks, Forrester adjusted this cost upward by 15%, yielding a risk-adjusted total PV of \$2.5 million.



Four months
Implementation and
deployment time per
instance

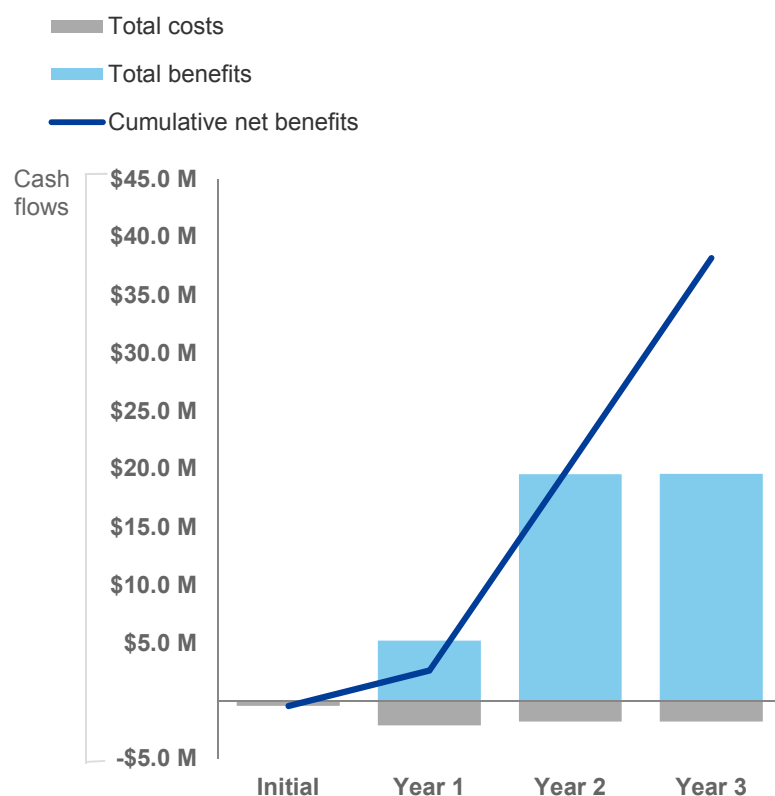
Cost 2: Implementation Costs Calculation Table

REF.	METRIC	CALC.	INITIAL	YEAR 1	YEAR 2	YEAR 3
E1	Internal day-to-day labor FTEs			4	4	4
E2	Average fully burdened annual salary		\$120,000	\$120,000	\$120,000	\$120,000
E3	Implementation time (months)		4	4		
E4	FTEs required for implementation		3	3		
E5	Average fully burdened annual salary	E2	\$120,000	\$120,000		
E6	Number of employees requiring specific training in Medallia system		1,500	4,650		
E7	Training time needed for employees	hours per employee	4	4		
E8	Average fully burdened hourly rate for employees		\$36	\$36		
Et	Internal costs	$E1 \cdot E2 + (E3/12 \cdot E4 \cdot E5) + (E6 \cdot E7 \cdot E8)$	\$336,000	\$1,269,600	\$480,000	\$480,000
	Risk adjustment	↑15%				
Etr	Internal costs (risk-adjusted)		\$386,400	\$1,460,040	\$552,000	\$552,000

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 Table (Risk-Adjusted)

	INITIAL	YEAR 1	YEAR 2	YEAR 3	TOTAL	PRESENT VALUE
Total costs	(\$433,650)	(\$2,109,071)	(\$1,772,100)	(\$1,772,100)	(\$6,086,921)	(\$5,146,938)
Total benefits	\$0	\$5,181,050	\$19,532,640	\$19,569,360	\$44,283,050	\$35,555,473
Net benefits	(\$433,650)	\$3,071,979	\$17,760,540	\$17,797,260	\$38,196,129	\$30,408,535
ROI						591%
Payback period						< 6 months

Medallia: Overview

The following information is provided by Medallia. Forrester has not validated any claims and does not endorse Medallia or its offerings.

Medallia is a SaaS-based platform that helps companies deliver better customer experiences by creating close connections between employees and customers. The Medallia Experience Cloud platform enables companies to capture customer feedback everywhere the customer is (including digital, social, physical, and contact center channels), optimize experiences in real time with powerful machine learning analytics, and deliver action-oriented insights everywhere in the business—from the C-suite to the frontline. Medallia's mobile applications further enhance employee and executive engagement alike.

The platform was built from the ground up for scale and usability for all employees, which is why the world's best-known brands and most complex organizations choose Medallia to help wire their organizations around customer experience. Medallia's deployments range from out-of-the box configurations for specific departments to custom configurations for thousands of employees and multiple businesses and geographies.

Medallia's impact is significant. Medallia clients have grown at 2x the rate of the S&P 500 and have improved their customer experience 5+ years in a row. More than half of Medallia's clients find significant cost savings as they use Medallia to streamline the business around what customers care most about.

Medallia has more than 1,200 employees and a broad ecosystem of partners around the world. The company is based in San Mateo, CA, and has multiple offices across the Americas, Europe and Asia.

[medallia.com](https://www.medallia.com)

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.