

BEYOND CUSTOMER SATISFACTION



**The Competitive Advantage &
Financial Benefit in Building a
Loyal Customer Base**

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OVERVIEW

Customer satisfaction has emerged as a significant business challenge, critical success factor – and strategic differentiator. It is essential in today's highly competitive market for a company to have a customer focused strategy linked with an effective operating model in order to stay relevant, competitive, and profitable. Companies that understand customer motivations and expectations and link this information with internal operating improvements can deliver a customer buying experience that will differentiate its product/service offering from the competition and deliver significant operating and financial benefits.

This report highlights key strategies and course of action for implementing a collaborative customer survey and process improvement program. The results can propel a company in moving *Beyond Customer Satisfaction* and building a loyal customer base.

Topics include:

- 1) **Business Value** – install best practice solutions that improve the customer buying experience, increase the level of satisfaction, and generate measurable operating and financial benefits
- 2) **Customer Perspective** – identify internal process issues and high payback areas with direct impact on customer satisfaction, retention, and sales growth
- 3) **Process Improvement** – pinpoint critical customer-facing activities, cost-drivers, and inefficient processes to improve business efficiency, responsiveness, and performance that can reduce 'cash-to-cash' cycle time
- 4) **Tools & Techniques** – outline customer survey techniques that identify and prioritize operating/process improvements that have the greatest impact on customer satisfaction and generate the highest return on investment

CUSTOMER EXPECTATIONS on the Rise

It takes very little in today's competitive market to persuade a customer to 'fire' a company and purchase from its competitor – even if a customer views service as satisfactory. Though the loss of a customer is frustrating, the loss of a major customer, typically representing a large percentage of sales, can be devastating. In most cases this decision is based on customer opinion and sentiment that their needs or expectations have not been met.

It is well documented that customer expectations are on the rise. A leading international consulting firm's global research on customer satisfaction confirmed this exact point. Respondents rated customer service as fair, poor or terrible at 42% in 2008 versus 39% in 2007. In total the data acknowledged that the overall quality of customer service was less favorable in 2008 as compared to 2007.

In addition, the study reported that 33% of respondents indicated their service expectations are higher today than one year ago. Showing a concerning trend, 52% of respondents also reported their expectations are higher today than five years ago. These results could be considered an accurate indicator – and potential alert of the magnitude that improving customer satisfaction can have on a company's success.

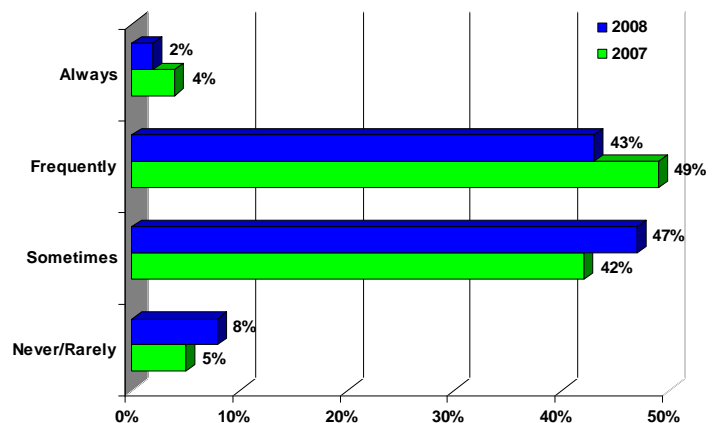
DON'T THINK EXPECTATIONS ARE RISING?

One of the most illuminating – make that shocking findings from a recent customer study was that two out of three respondents, or 67%, switched providers at least once in the past year due to poor customer service experience. The estimated cost of this lost business exceeded \$31 Million. Adding to this revelation is the fact that these results represent the highest level of switching reported in all four years the survey has been conducted.

Source: Accenture, Global Customer Satisfaction Report, 2008

Figure 1 illustrates the decline in overall company performance across three of four key customer satisfaction categories. Further analysis of this graph indicates that customer service levels in aggregate for the two key satisfaction categories of 'Frequently' and 'Always' decreased by 8%. An alarming fact highlighted by this data is the 60% increase in the 'Never/Rarely' category in 2008 as compared to 2007.

Figure 1. Meeting Customer Service Expectations



Source: Accenture, Global Customer Satisfaction Report, 2008

Considering this heightened state of customer expectations, companies are experiencing immense pressure to be more attentive and responsive to this competitive market condition. Adding fuel to the fire is the predicament that companies often struggle with ways in which to effectively keep the pulse of customer sentiment in order to identify and resolve their problems. Without an effective strategy to attain customer feedback and link with process improvements, a company may be unaware of the danger of customer dissatisfaction and the potential for losing business. In response to this challenge, many companies are implementing a collaborative strategy that generates direct customer feedback and links this valuable information with specific process improvements.

The key word is *collaborative*. Linking customer feedback directly with process improvement can deliver the greatest value for both a company and

its customers. Simply conducting customer surveys but not taking action to improve identified deficiencies can waste time and money. Conversely, conducting process improvements without input from customers to identify specific problem areas will be less effective and not have the greatest impact on customer satisfaction, thus reducing the return on investment for expended time, effort, and cost.

The solution is in taking a proactive approach that elevates these initiatives to a strategic planning level. This ardent focus is essential in developing a repeatable customer survey and process improvement program that can increase company performance to include:

- increase operating efficiency
- enhance competitive advantage
- improve customer satisfaction
- build customer loyalty
- drive profitable growth

An additional benefit with this integrated approach is in establishing key performance indicators and benchmarks from which future improvements can be measured and operating and financial benefits quantified.

The successful result from this collaborative strategy will create more efficient operating processes that increase the speed in moving a sales order through the company and to the customer. The increased efficiency and speed in completing the customer buying transaction can significantly reduce a company's 'cash-to-cash' cycle time – the process of converting costs into profits. This has a direct and positive impact on one of the most important financial performance measures – cash flow.

A key point to be made is that a customer survey and process improvement program should not be mutually exclusive, but mutually dependent. The greatest value is achieved

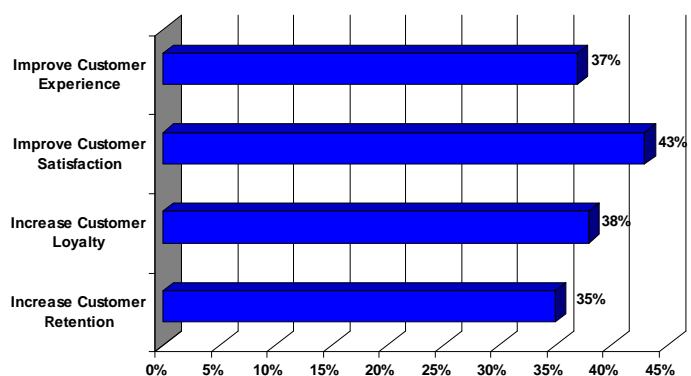
when these practices are effectively linked and executed. This enables a company to go beyond the ubiquitous 'satisfied' customer and establish a loyal customer – the lifeblood of any business!

BUSINESS VALUE in Building a Loyal Customer Base

Improving customer satisfaction, retention, loyalty, and buying experience has surfaced as top pressures for many companies. This pressure is driven by the need not simply to meet but to exceed customer expectations in order to stay relevant, improve profitability, drive growth, and increase competitive advantage.

Figure 2 highlights a recent survey of 150 diverse enterprises and the top customer-focus issues and pressures confronting these organizations. Though improving customer satisfaction scored the highest, increasing customer loyalty was second and emphasizes its importance in a company's overall business strategy. It can be assumed that improving customer satisfaction will have a tangential and beneficial effect in a company's effort to improve performance in these other critical areas.

Figure 2. Top Business Pressures



Source: Aberdeen Group, The ROI on Customer Feedback, 2009

These leading customer issues have also created 'boardroom' exposure and interest as evident through a prominent professional services firm's research. It determined that the majority of

executives believe compromising customer satisfaction can be a regrettable mistake. As such, interview results with senior executives from 11 leading service delivery companies were quite conclusive. Ten out of eleven agreed that improving the customer's experience is rapidly rising in importance to their companies, customers – even competitors.

Invoking the adage, “put your money where your mouth is” appears to be directly aligned with these executive's perspective. A 2009 study determined that despite uncertain economic conditions, 55% of companies surveyed have made ZERO budget cuts directly related to customer feedback initiatives AND 19% of respondents stating they will increase spend in this area.

These results further illuminate the common viewpoint on the high risk in losing a customer by simply thinking service is ‘good enough’ or satisfactory. It is apparent companies agree that investing in initiatives that improve the customer satisfaction and buying experience create a competitive weapon and contribute to business success. This focus and strategy is becoming top-of-mind with many companies considering the measureable benefits and business value that can be achieved in transforming a satisfied customer into a *loyal* customer.

The Loyalty Factor

Building customer loyalty is a significant goal for any company of any size. Customer loyalty can be described as the tendency of a customer to **choose** a particular company's product or service over another. This is a true and significant distinction from simply a satisfied customer. Customers may express satisfaction, but satisfaction does not equal loyalty. They can be satisfied but not loyal. Loyalty is demonstrated through the actions of a customer ‘choosing and purchasing’ a specific

company's product or service versus its competitor's.

Defining customer loyalty is one thing. Achieving it is another. Considering the time, effort and cost in launching this collaborative strategy a company should ask a fundamental question. Is there tangible and measureable value in going beyond a satisfied customer and establishing a loyal customer?

Simple answer - ABSOLUTELY!

An industry-leading international customer assessment firm completed an in-depth statistical analysis of approximately 20,000 customer surveys. The goal was to quantify the economic value of a customer.

The results from the study were quite notable:

- Totally Satisfied customers are as much as **10 times** more likely to buy again than a customer who is merely ‘somewhat satisfied’
- Totally Satisfied customers contribute **2.6 times** as much revenue as a ‘somewhat satisfied’ customer
- Totally Satisfied customers contribute **14 times** as much revenue as a ‘somewhat dissatisfied’ customer
- Totally Dissatisfied customers decrease revenue at a rate equal to **1.8 times** what a ‘totally satisfied’ customer contributes to a business

Source: InfoQuest International, LLC

Note: The correlation between a Totally Satisfied customer and Loyal customer is provided in the Customer Perspective section of this report.

These financial benefits are compelling and create the business case for a company to develop an actionable strategy for building a loyal customer base. The question then becomes, “How does a company identify the key drivers of customer satisfaction in order to improve its operating

performance, increase customer satisfaction, and build customer loyalty?"

Simple answer – ASK YOUR CUSTOMER!

CUSTOMER PERSPECTIVE is Core to Building Loyalty

All companies should have their antennae tuned at peak sensitivity to receive intelligence on what customers expect, value, and what it takes to retain them.



**“See your business through
your Customer’s eyes.”**



The significance of direct customer feedback on a company’s success cannot be overstated. When properly planned, generated, and interpreted, this valuable information can be an effective tool that increases customer satisfaction, retention and sales. Moreover, it can be the *lens* into the customer’s unmet needs, future objectives – even the decision making process and buying criteria for purchasing a company’s products or services.

Armed with this intelligence and ammunition, a company can more effectively target new business opportunities with both existing and prospective customers. It also provides a unique advantage in delivering customer/market insight for tailoring a company’s value proposition directly at customer needs. This is competitive advantage that will distinguish a company from its competitor, quickly open new business opportunities, and improve sales close ratios.

Many an hour is spent by companies in boardrooms, conference rooms, restaurants, coffee shops, and yes, even golf courses devising strategies for improving customer satisfaction.

But why such focus on this one business factor? Is it that important? Can it have such a large impact on business success? Pardon the repetition but – **ABSOLUTELY!**

Countless studies and statistics have documented that companies improving customer satisfaction and buying experience can achieve significant operating and financial benefits to include:

- increase sales with existing customers
- develop new customer leads/sales
- target value proposition at customer needs
- identify buying criteria
- influence future buying decisions
- reduce price sensitivity
- improve profitability
- lower cost of sales
- shorten sales cycle
- increase sales close ratio
- improve operating efficiency
- strengthen customer relationships
- increase customer retention
- recover lost customers
- recapture lost sales
- enhance competitive advantage
- strengthen brand awareness
- increase referrals
- build customer loyalty

Where to Begin?

Companies have utilized various techniques to identify process improvement areas that have an impact on the customer experience and satisfaction level. A common approach is to take an ‘internal’ viewpoint for gauging how a company is performing at meeting customer expectations. This is typically done by relying on surveys that are limited to company personnel and associated departments, such as sales, marketing, customer service, and order processing to name a few.

Though this practice can be relatively quick and cost-effective, it may be too narrowly focused. A

potential drawback can arise in operating areas identified, as seen from an internal viewpoint, which may not be in alignment with the customer's perspective. As a result, the process improvement effort may fall short and lack the impact and payback expected on customer satisfaction. Even worse, it could totally miss the mark as viewed by the customer.

IS YOUR COMPANY ALIGNED WITH ITS CUSTOMERS?

Research that included 5,000 managers who participated in their company's customer survey process generated interesting results. These managers were able to accurately gauge customer sentiment across the various survey areas only 26% of the time when compared with actual customer feedback. However, from a positive viewpoint, this information provided high value to these companies – and needless to say their management in addressing the specific disconnects in order to better align the company with its customer expectations.

Source: InfoQuest International, LLC

This illustrates the true importance of including customers in this process to uncover what they value and declare are the most relevant problem areas. Remember, customers are confronting these problems head-on in doing business with a company, which can directly affect their interest in continuing to do business with a company.

This is not to say that company personnel and opinion should be excluded in the process, but rather it should not be the only source of information. Attaining **both** company and customer feedback is a far more powerful combination that can define the alignment of a company's perspective with its customer's. This blend of information will deliver a broad range

of feedback that illuminates process inefficiencies and improvement opportunities. It can identify specific company-customer disconnects that have a negative influence on the customer's buying decision and potentially jeopardize current and future sales.

Thinking about potential areas of disconnect, it is safe to assume one topic that frequently bubbles to the top is *pricing*. Simple to say that pricing does have an effect on a customer's purchase decision. However, recent research actually confirmed that poor customer service had a greater impact on customer defection than pricing. That is strong evidence and support for a company to focus its efforts on improving the overall customer buying experience and satisfaction level.

IT'S NOT ALWAYS ABOUT PRICE!

While price sensitivity is a key concern in any business with its potential to impact sales through lost customers, recent research indicates that customers switched providers more frequently due to poor customer service by almost a 30% higher margin than with pricing alone.

Source: Accenture, Global Customer Satisfaction Report, 2008

The Customer Survey Process

In a company's quest to build a loyal customer base, it must first understand where it is currently positioned from the customer perspective to establish a point of reference or watermark. This will support a company's long-term strategy in capturing future customer feedback to measure and compare the operating and financial impact of specific process improvements. In order for a company to establish this watermark, it needs to engage in generating and analyzing direct customer feedback. This is accomplished through customer surveys.

Be assured there is no shortage of customer survey techniques available. A simple 'customer survey' Google search generated over 26,000 hits in approximately 0.61 seconds! Recognizing that all these resources are not directly attributable to the focus or subject matter in this report, it simply illuminates the fact that this particular topic receives a fair amount of attention. Included in this vast array of resources is information on the various survey types to include written, web based, email, telephone and personal interviews, and focus groups. Each of these surveys has varying and unique attributes, value and drawbacks, many of which are outlined in this report.

To better understand these distinctions and their impact on survey effectiveness, it makes sense to touch on the technical side of the process itself. One of the more popular survey methods used in industry is the Psychometric or Likert Scale. This field of study is primarily concerned with the theory and technique of educational and psychological measurement. This includes the measurement of knowledge, abilities, personality traits, motivations, and attitudes through instruments to include tests and questionnaires, i.e., surveys. The qualitative scale in these instruments can differ from survey to survey, but typically range from 'totally satisfied' to 'totally dissatisfied.'

Categories in declining order of satisfaction include:

- Totally Satisfied
- Somewhat Satisfied
- Insufficient Information to Evaluate
- Somewhat Dissatisfied
- Totally Dissatisfied

Understanding these classifications is critical to a company gaining insight and knowledge of how and why surveys work – and the exceptional value it can deliver. Below are general definitions for these classifications:

Totally Satisfied – tends to be a loyal customer with no reason, motivation or incentive to invest time in alternatives; complete absence of unmet needs and unresolved issues.

Somewhat Satisfied – indicates a degree of satisfaction with current needs; believes there are things that could be improved; may be receptive audience to alternatives or competitive solutions.

Insufficient Information to Evaluate – not providing enough information on tendency to remain or leave current product or service provider.

Somewhat Dissatisfied – likely making an effort to search for alternatives or competitive solution to problems or issues that current provider has not or unable to resolve; simply a matter of time before decision made to choose a competitive solution.

Totally Dissatisfied – likely the decision has been made to choose competitive solution; only waiting for viable alternative to be identified.

Taking liberty in further defining these survey classifications:

- **Totally Satisfied** customer is locked business
- **Totally Dissatisfied** customer is lost business
- **Everyone in Between** is at risk and could go either way

Accordingly, it can be deduced that a Totally Satisfied customer would display the characteristics previously defined by a Loyal customer with the tendency to **choose** a particular company's product or service over its competitor's.

Recalling the positive financial impact directly related to these levels of satisfaction, there is compelling reason a company should consider conducting customer surveys to illuminate and quantify where it stands and how it can improve customer satisfaction. This tool can provide valuable insight into a company's strengths and

weaknesses and identify specific areas for improvement. These are the issues and areas that will have the greatest impact on customer satisfaction and disposition to remain with a company, increase business – or leave and choose its competitor.

A company's overall business performance is directly related to its success. Implementing a collaborative customer survey and process improvement program can assist a company in significantly improving its operating performance by creating the capability to:

- benchmark and compare customer sentiment and company service levels with previous year results
- identify where and how much improvement has been made
- qualify positive or negative impact of improvement on customer satisfaction
- quantify impact on company operating costs from process improvements
- differentiate company and its products and services from the competition
- demonstrate interest in customer's business
- identify areas for improvement that add direct value to customer's business
- provide lens for insight into customer issues, goals – and what they really value
- understand customer value areas for targeting value propositions and sales presentations
- gather positive and constructive customer testimonials for sales and marketing
- generate information to increase sales and marketing effectiveness
- enhance competitive advantage

The practice of assessing company performance from the customer's perspective can be a key competitive weapon and business success factor. This information will identify and direct future improvements that further improve satisfaction levels and lead to an increase in customer loyalty – *and sales*.

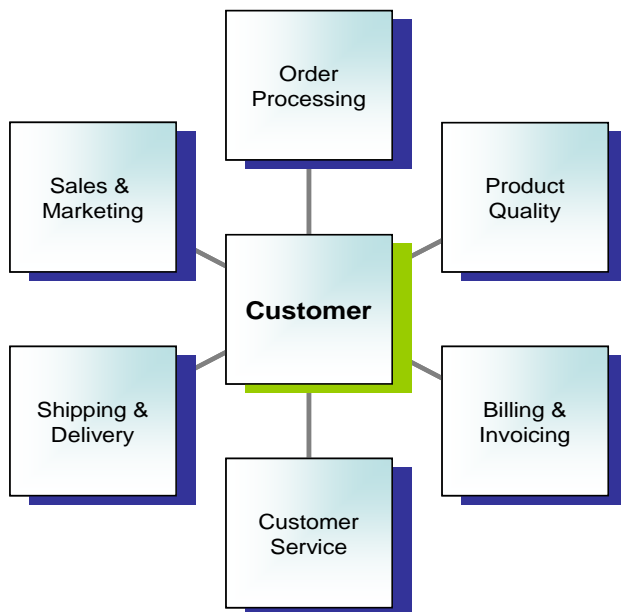
PROCESS IMPROVEMENT to Increase Business Operating Performance

Though a company's product or service is at the core of its business, this by itself does not always guarantee success. Once developed and accepted in the market place a company must then provide this product or service consistently and most importantly to the expectation and satisfaction of the customer.

Meeting these requirements is a never-ending challenge. Many processes on both the company and customer side of the business are required to get a product or service *through* a company and *to its customer*. From the company's standpoint, this highlights the 'need for speed' or simply put – process efficiency. It is just as important that customers experience this same efficiency and speed in its journey through company processes required to complete the purchase.

Figure 3 illustrates the various business processes a customer may encounter in the purchase of a company's product or service. It quickly becomes apparent that there are many steps that must be accomplished in order to complete this buying transaction. It should also be noted that each of these processes can have sub-processes that must be completed, which can further increase time and cost for the customer – and company.

Figure 3. Company-Customer Purchase Process



Though a simple example, it illuminates the typical array of processes that may cause obstacles and delays or be a factor in creating an unsatisfactory customer experience. It should be a core company goal through a continuous improvement program to keep these functional areas working in harmony and at peak performance. This underscores the importance for a company to assess and improve its business processes to create an 'ease of doing business' environment for its customers.

Considering the potential number of processes and activities a customer must navigate, it is evident that improving customer satisfaction cannot be successfully driven by any one person or department. It must become an integral part of the organization and its culture in order to provide all areas of the business with the right tools to be successful in delivering an exceptional customer experience.

The approach, success rate and overall benefit of a process improvement initiative will differ from company to company. This is due to the

fact that each company will have varying degrees of processes and complexities in its business practices.

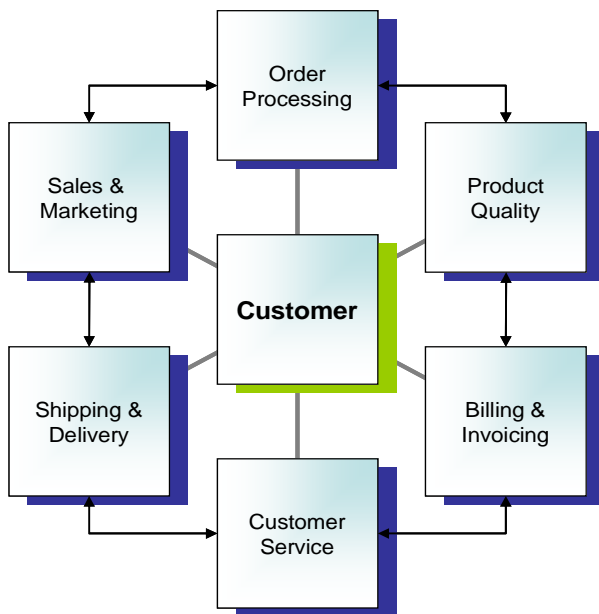
Company's considering this objective should invest sufficient time to plan objectives, build a schedule, and create targets and goals prior to launching this initiative. It first should carefully evaluate existing functional areas to understand how the various activities, processes, and operations interrelate and are carried out. It will become apparent – and possibly surprising how the level of complexity, redundancy, and inefficiency may have become embedded in what should be straight forward processes. This will help to establish baseline metrics from which improvements can be measured.

Though there are various process improvement methodologies, it is recommended that a company take a holistic and cross-functional view of all business practices. This approach has the potential to deliver the greatest value due to the fact that a company's functional areas are all inextricably linked.

Further examination will help a company understand how each of these process areas rely on the others efficient execution to complete the customer's purchase. In addition, a cross-functional approach provides a direct line of sight into the critical linkage and interdependence of activities, inputs, cost-drivers, and technology applications across the various operating areas.

Recalling Figure 3 and its graphical representation of the direct connection between a customer and respective company processes, a simple change illustrates a company's internal process interdependence. This is shown in Figure 4.

Figure 4. Company Process Interdependence



Customer Survey Value in Process Improvement

Companies that establish objectives to improve customer satisfaction through gains in process efficiency should incorporate customer surveys to help direct and guide this effort and achieve this goal. There are also additional benefits that can be attained in a company's functional areas as a result of both the customer survey and process improvement initiative. Below is a brief overview that highlights a few functional areas and key benefits:

Sales – surveys can detect customer issues, problems, unmet needs, as well as subtle discontent that could be costing the company incremental sales – or jeopardizing existing sales. It can identify specific customers that may be approachable by your competitors and the reason why. Surveys can minimize customer defection by pinpointing and prioritizing problems that need immediate attention and correction before it becomes critical and affects the customer purchase decision. It can be a lens into the customer's current and future needs that enables a company to target its value

proposition directly at these requirements. This insight can differentiate a company from its competition to open new opportunities and improve its sales close ratio.

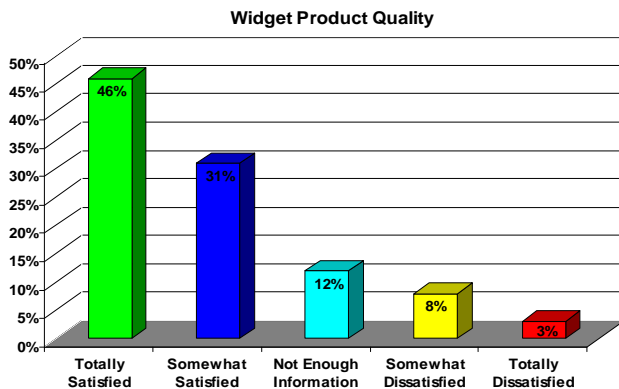
Marketing – surveys can provide excellent customer insight, market intelligence and critical trends that help a company improve its current product/service offering, value proposition, and competitive advantage. It delivers information to enhance and support R&D in its efforts to improve the company's offerings that better meet current and future customer needs. Surveys can be an excellent source to gather positive and constructive customer comments that can be used in a variety of marketing materials. It is an excellent tool for measuring brand equity and increasing a company's overall marketing effectiveness by identifying what the customer needs and values.

Manufacturing – surveys can identify various issues with lead time, product quality, packaging, etc. Taking into account the importance of product quality, some surveys are an effective tool that qualifies as a solution for meeting customer communication requirements under ISO, QS, and other quality related certification programs. It is important that a company using a particular survey type for this certification contact the survey company directly to ensure it meets all specified requirements.

Manufacturing relies on benchmarks for process control, managing variability, and measuring improvements. Surveys can support these goals by establishing customer satisfaction benchmarks relating to these manufacturing areas. These benchmarks can establish the basis from which future comparison can be made to measure and quantify improvements.

Figure 5 is an example of customer satisfaction in the area of Widget Product Quality that creates the benchmarks for future comparison.

Figure 5. Mfg Customer Satisfaction Benchmarking



Operations – surveys can provide excellent information and validation as to how the various functional areas of the company are performing. It can deliver vast amounts of valuable data that creates the nucleus from which to get all company personnel involved in working together to address and resolve customer issues and problems. Surveys also identify key drivers of customer satisfactions, and when conducted on a regular basis, can deliver measurable results that establish clear benchmarks in which to gauge improvements and cost savings across functional areas.

Where to Focus?

It is worth repeating the critical role and tremendous value of customer feedback in a process improvement initiative. It provides insightful information in specific areas where a company’s performance is excellent, acceptable, or deficient based on customer experience and level of satisfaction. However, a company needs to be aware of a key caveat with customer surveys – shelf life!

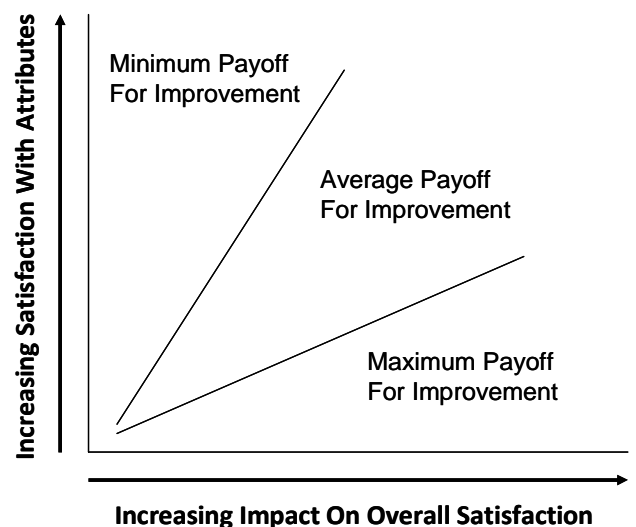
With the rapid change in today’s business setting, as well as in customer expectations, this information has the potential to rapidly decay and not accurately reflect a company’s current operating practices. This feedback is very time-sensitive. Surveys conducted 2-3 years ago without action and collecting dust create a

missed opportunity. Metaphorically speaking, a customer survey is definitely not like a fine wine – it does not get better with age.

Just as customers expect resolution of problems, companies expect return on investment from this resolution. A company’s payback can be in various forms to include creating more efficient and cost-effective business practices, minimizing customer defection and lost business, and increasing sales with existing and prospective customers.

As important as it is to improve a company’s operating processes, it is more important to know which processes require the most attention and which improvements will have the greatest effect on customer satisfaction. A company can extract maximum value on its investment through the accurate analysis of customer feedback to identify and prioritize these specific functional areas. This will deliver the biggest bang for the buck and generate the greatest and most expedient value to both the customer and company. These results will build the foundation vital in establishing customer loyalty. Figure 6 illustrates a segmentation approach in targeting and prioritizing high payback improvements.

Figure 6. Attributes for Highest Satisfaction Impact



Source: InfoQuest International, LLC

BEYOND COST CUTTING

Companies are constantly challenged with rising costs. In response, many companies engage in process improvement initiatives that develop more efficient and cost-effective business practices.

A common misconception is to identify a process improvement initiative as simply an aggressive cost-cutting endeavor. Though there will be opportunities to reduce costs, this interpretation is far from its intended purpose. In many cases the results may actually recommend capital investment in personnel, technology, or automation to achieve identified efficiency improvements and cost savings.

However, there is a potential pitfall that can misdirect this initiative. That is strictly an effort to cut costs. A company must keep its eye on the strategic objective of the process improvement initiative and not narrow its focus to solely eliminate costs. A myopic view that is dedicated to cost cutting can have a detrimental effect on a company's growth and customer satisfaction as one or both could be compromised.

Companies that retain a strategic focus and *go beyond cost cutting* will increase its process efficiency and productivity, improve customer satisfaction, and build competitive advantage. The resulting operating, financial and customer benefits will clearly position a company for strong growth and profitability.

TOOLS & TECHNIQUES to Build Customer Loyalty

As previously stated, defining customer loyalty is one thing – achieving it is another. In this endeavor a company should consider a collaborative strategy that generates customer

feedback and links this information to specific business practices and process improvements. Toward this goal it is recommended a company map out its course of action that takes into account five key processes:

- 1) **Informed Selection** of an effective customer survey method to generate accurate customer feedback
- 2) **Effective Cross-Section** of customers to ensure a broad array and balance of feedback from large, small – even lost customers
- 3) **Sufficient Number** of customers to receive and participate in the survey to ensure a strong response rate
- 4) **Accurate Analysis and Interpretation** of results to uncover and identify specific customer issues and problems in order to draw accurate conclusions on the key process drivers of customer satisfaction
- 5) **Direct Linkage** of customer feedback analysis and conclusions with internal business practices to create a roadmap for an effective process improvement initiative

1) Survey Type and Selection

Gone are the days where product innovation and pricing are the keys to growth and business success. A new trend appears to be in a company's direct focus on the customer to capture actionable feedback and improve satisfaction levels that strengthen relationships for retaining and increasing business. In response companies are developing strategies that directly focus on these objectives. An industry best practice and proven solution is through customer surveys. This technique is one of the most effective tools a company can deploy to retain customers, propel sales growth, turn prospects into buyers, strengthen relations, and build customer loyalty.

As previously stated a simple internet search verified that there is no shortage of customer surveys on the market. Each of these methods has its own advantages and drawbacks. Figure 7 provides a summary of various survey methods and related attributes.

Figure 7. Customer Survey Types & Attributes

TYPE	ADVANTAGE	DRAWBACK
Web Based or Email	Low cost High # of questions Easy to administer	Very low response Patterned responses
Written	Low cost High # of questions Easy to manage	Low response Patterned responses Time consuming
Telephone	Personal contact High detail per topic Interactive	Challenge to schedule Can be intrusive Long responses Low topic count
Face-to-Face	Personal contact High detail per topic Interactive Strengthens relations	Time consuming Limited participation Costly Low topic count
Focus Group	Personal contact High detail per topic Interactive Strengthens relations	Time consuming Limited participation Costly Low topic count

Though the above table represents a brief assessment of the various survey techniques, there are surveys in each of these categories that either fall short or exceed the stated advantages and drawbacks. As an example there are a few that tout customer response rates significantly above 50%. Others use highly sophisticated analysis and modeling that support a company in drawing the most

accurate conclusions. Some have advanced capabilities that can precisely identify functional areas where specific process improvement will deliver the highest customer impact and greatest return on the company's investment.

Clearly having an effective and repeatable customer survey process is essential to a company's success. It can also enhance competitive advantage through insight into customer objectives, goals, value points, unmet needs, and purchase criteria – all factors in retaining customers and growing sales. That said, it is important that a company devote sufficient time for due diligence in the customer survey selection process. This will be time well spent in order to extract maximum value and deliver optimal survey results. It is also central in building the foundation for a company to increase its operating efficiency and improve customer satisfaction and buying experience.

2) Customer Cross-Section and Selection

A key and critical component in the survey process is identifying and selecting a representative *cross-section* of customers. This single step can play a crucial role in the effectiveness and success of the program. Though the selection of an appropriate 'mix' of customers may seem to be relatively easy, it actually can be one of the most difficult. Considering that many companies will have a broad mix of customers, in some cases the selection process may become an internal tug-of-war. This is due to the inputs and preferences from various departments and personnel in selecting who they believe are the best customers to participate in the survey.

A caveat in the selection process is the potential tendency for a company to choose a large number of high volume customers to participate in the survey. Though large customers are critical and should be included, caution should be used in not selecting a disproportionate number. This is

an understandable tendency as it can be tempting to choose more 'vital few' than smaller customers in this process.

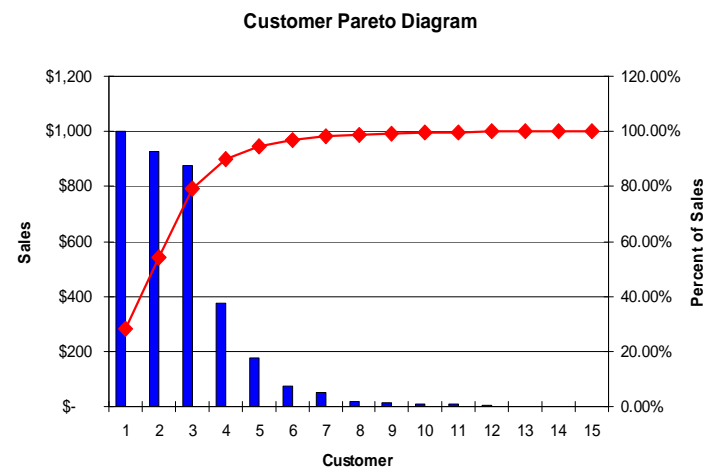
Putting it in perspective, if the scales are weighted too heavily toward these large customers – or higher value placed on this feedback than others – then there is a probability for skewed results that could yield a myopic view of the company's performance. This is attributed to a situation that can occur where top customers may receive a higher level of attention and service level than other smaller volume customers. These factors can contribute to and effect a customer's predisposition or favorable bias toward a company.

This is not suggesting that a company should scale back on its service levels or minimize large customer involvement, but rather ensure there is a strong contingency of smaller customers to deliver a diverse amount of feedback and balance of sentiment. Though smaller customers may not contribute significant financial returns, there is strong value in capturing their voice, opinion and sentiment. To this point it is recommended that a company expand its reach and include customers that may be on the lower end of the sales chart – *even lost customers.*

Companies faced with this customer selection challenge may find it beneficial to conduct further analysis on its customer base. One method frequently used is a mathematical concept called the Pareto Principle, more commonly known as the 80:20 rule. In short it states that a majority of results is produced by a minority of input. In direct relationship to business, typically a company's financial results adhere to this principle with a large portion of revenues and profits generated by a relatively small percentage of customers. There are, however, companies where these numbers can be more or less concentrated, but in most cases this theory proves to be accurate.

Figure 8 provides an example of this theory as it applies to a company's customer base. It charts the sales volume for 15 customers and shows how 3 out of 15 customers, or 20%, contribute 80% of total revenues. These customers could be classified as the 'vital few' that contribute the major effect. The remaining 12 customers or 'trivial many' contribute the minor effect that amounts to the remaining 20% of total revenues. This is not to say that smaller customers should be considered trivial. They can play an important role in a company's success. The 'vital few' and 'trivial many' labels are business vernaculars that primarily are used for illustration purposes.

Figure 8. Pareto Diagram



This principle can provide support in the selection process by breaking down or segmenting a company's customer base for better visibility into the financial impact of individual customers as well as respective industry verticals. Completing this segmentation can help a company gain deeper insight and understanding in selecting an effective cross-section of both small and large customer's across various industries. This combination of customers will contribute to the effectiveness and accuracy of survey results.

Targeting an extended bandwidth of customers can have significant value based on the fact that for some reason(s) they have not increased sales volume or left the company and chose its competitor. Moreover, this feedback could

include why a customer limits its purchases or chooses not to do business with a company.

Taking it a step further, these smaller or 'trivial many' customers could be one of the easiest and most cost-effective in which to increase sales or even recover lost business.

DON'T FORGET THE CUSTOMER

Not losing sight of the time and cost expended to conduct customer surveys, a company should strongly consider and earnestly appreciate its customer's involvement. Their time, interest, and participation to support this effort is central to the success of the survey in delivering measureable value in a company's focus to improve both customer satisfaction and overall business performance.

It is understandable that customers would expect the company to share feedback and information from its survey results. A company can meet this expectation by first taking time to directly contact its customers 'post survey' to express appreciation for their participation and note a few areas of concern that the company is directly addressing. Second, and most beneficial to both customer and company, is taking action by utilizing this valuable information to improve its business processes that make the customer's buying experience superior to that in the past.

A company that delivers on this goal can achieve strong return on its investment. It creates the opportunity to enhance customer relations and retention, improve customer loyalty, and potentially increase sales. Not to mention the overall improvement in the company's operating efficiency and resulting cost saving.

3) Number of Customers in Survey

First and foremost there is not a magic or ideal number of customers that will ensure a successful survey program. It is, however, strongly recommended that a company cast a wide net to capture a large a number of customers for participation. Regardless of a company's customer base size, it is imperative that a sufficient number is included in the survey. This is critical and instrumental in order to deliver a high response rate and broad range of customer feedback for accurate analysis and interpretation.

Though companies will have varying number of customers, of note is the fact that when a company has a large volume of business with a relatively small number of customers, it may be at considerable risk. This risk is associated with the loss of one of these key customers and the potential devastating effect it can have on the business. In these situations it is even more important that frequent customer surveys are conducted to maintain direct dialogue and generate accurate feedback on customer opinion, sentiment, and overall experience in doing business with the company. Keeping the pulse of these key customers through frequent and open communications can help minimize the risk of losing this business.

Another important point is the considerable risk when a company surveys a small number of customers – particularly large customers as previously discussed. First, this limited participation could result in a very low response rate. Second, this in turn could result in an insufficient amount of information for analysis. These factors may render the conclusions inaccurate and have a negative impact on a company's effort to link and action this information with specific process improvements.

To achieve this high participation rate it is recommended a company consider the selection of 'multiple' individuals within a customer's

organization, i.e., purchasing, accounting, customer service, receiving, etc. There is tremendous benefit in expanding the reach *within* the customer's organization to include individuals who have contact with or interact with the company on a regular basis.

Realizing that a relationship is not typically dependent on a single customer contact (let's hope not), surveying other personnel in various operating areas of the customer's organization can enhance the feedback and overall survey success. This expanded reach has the potential to uncover more of the good, bad, and ugly in a company's performance that could be masked through simply involving a single contact. It is important that other individuals selected in the customer's organization have sufficient interaction with the company in order to provide accurate and useful feedback.

As previously presented in this report, another segment of participants that can add significant value to the survey process is the company's 'internal' resources that are in direct contact with its customers. Including these individuals can assist the company and its personnel in identifying disconnects and gaining greater understanding of customer-company alignment – a key component in retaining customers and increasing sales.

Typically company department personnel are selected to participate in the process and issued the same survey as the customer receives. They are asked to guess or predict how they think customers are going to respond to the same questions. This can be an insightful exercise that has the benefit of establishing a deeper understanding of existing internal perceptions and helping a company determine if it is in alignment with its customers.

The results can serve as a strong assessment tool – or in some cases a wake-up call! Overall,

including company personnel in the survey process can help answer the question,

“Do we see ourselves in the same way our customer's see us?”

4) Analysis & Interpretation of Results

The significance of accurate analysis and interpretation of customer survey data cannot be overstated. When this data is thoroughly examined it creates a detailed understanding of a company's true strengths and weaknesses as viewed from the customer perspective. The conclusions drawn from this analysis can build the blueprint for improving a company's process efficiency and operating performance that have a direct effect on increasing customer satisfaction.

Naturally one of the most important elements in generating informative customer feedback is in the development of questions. A key point is that surveys are not intended to ask a customer every possible question about their experience with or perception of a company. It is important to develop questions that are focused on operating areas and directly linked to customer-facing activities. This will enable a company to take action on this feedback and improve the speed and efficiency in completing the buying process.

Many survey techniques have an extensive list of standard questions. Though simple in its application, these questions may not get at the core of customer sentiment or allow them to openly share critical feedback. Some surveys may rely on the company itself to develop its own line of questions. This can be challenging considering many companies may not have the knowledge or experience in developing the most effective questions. Other survey techniques provide a library of performance based questions with the ability to add or customize questions across a broad range of operations, i.e., sales, order processing, customer service, billing & invoicing, and manufacturing to name a few.

Whichever the case, questions should be open-ended and performance-based to prevent a loss of interest and response, as well as create the opportunity for customers to candidly provide their opinions. This will improve survey participation and help extract insightful feedback on what the customer identifies as key problem areas.

Most important, it will allow a customer to provide input on what they value in the purchase of a company's products or services.

This in turn can be translated into a roadmap leading to actionable improvements. As a result, a company will be able to draw the right conclusions, identify and target inefficient activities, and launch an effective process improvement initiative that generates significant benefits for the customer – and company.

5) Process Improvement

Creating efficient, cost-effective and superior business performance is the goal in a process improvement initiative. This is a powerful diagnostic tool that can assist a company in examining and understanding how its processes are 'supposed to work' versus how they 'actually work' – and the cost savings directly attributed to the efficiency gains.

The results of this initiative will ensure business processes ably coalesce to deliver the product or service in the quickest and most cost-effective manner to the customer. Moreover, the increase in process efficiency and speed has a direct and positive impact on a company's 'cash-to-cash' cycle – converting costs into profits. A reduction in the cash-to-cash cycle time will significantly improve a company's financial health through strengthening its cash flow.

Company's that directly link the analysis, interpretation and conclusions from customer

surveys with process improvements have an opportunity to:

- 1) identify and target waste
- 2) develop more cost-effective processes
- 3) increase operating efficiency
- 4) reduce 'cash-to-cash' cycle time
- 5) strengthen cash flow
- 6) improve customer buying experience
- 7) fortify customer relationships
- 8) generate incremental sales with existing customers
- 9) target new customer business armed with existing customer insight

All of these benefits will contribute to improving a company's top and bottom line performance and building a loyal customer base.

SUMMARY

Quite often companies spend more time, effort and money gathering new customers than retaining their existing ones. Research shows that it can cost 4-6 times more to acquire new customer business versus increasing sales with an existing one. Though it is a business imperative to continuously seek new customers, there is significant financial reward in retaining and increasing business with existing customers. In short, one of the most valuable objectives a company can perform is a focus in not losing customers it has spent so much time, effort and money to acquire.

It is a simple fact that customers expect service when there is a problem. As such, fast and effective identification and resolution of customer problems should be a core business strength. Achieving this goal will have a high payback in retaining customers, building stronger relations, and increasing sales.

Companies can benefit from taking a proactive approach in creating the capabilities to work more collaboratively with its customer to identify,

minimize, or potentially eliminate problems. This partnership can improve a customer's overall buying experience and have a direct effect on their continuing – or increasing business with a company. In addition, companies that prioritize the effective and repeatable use of surveys and directly link to process improvements will build and deliver exceptional customer value leading to improved market competitiveness. This information can help a company 'think' about its business goals from the customer's perspective, which can better align company-customer goals for a long-term relationship and joint success.

The process for attaining customer feedback is not complicated. *A company can simply ask its customers for their opinions on products, quality, services, processes, personnel, and buying experience.* It goes without saying that customers will value a company's interest in their business needs and goals. This is simply a best practice for improving customer relationships and building customer loyalty.

Most important, company's need to realize there is more to this process than just collecting customer feedback. Customers will expect resolution of problem areas that improve the overall buying experience and potentially reduce their costs. This is where the rubber meets the road in a company's ability to effectively link and execute a customer survey and process improvement program that delivers successful results.

Though previously stated in this report, it bears repeating. It is recommended that you do not leave your customer in the dark during the survey and process improvement initiative. It is very important for a company to share information on some of the key areas of customer feedback and what it is doing to eliminate these problems. This communication will directly involve the customer in the process, show appreciation for their time, effort and

participation, and provide them with a sense of contribution and ownership in the solution.

An important point to remember is that customer feedback alone will not guarantee success or prevent a customer from leaving one company and purchasing from another. Reflecting on the focus of this report, it requires a *collaborative* strategy that directly links customer survey feedback with a process improvement initiative.

A company that successfully executes this strategy will increase operating efficiency and business performance, improve customer satisfaction, create competitive advantage, drive profitable growth, and build stronger and longer customer relationships. These are the ultimate benefits a company can achieve in going *Beyond Customer Satisfaction and Achieving Customer Loyalty*.

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