

## **PREFACE**

*“The only thing constant in life is change.”*

I am not sure who that phrase is attributed to, but it is why this book was written. About ten years ago, Kath Giel and I (Earl Naumann) wrote “Customer Satisfaction Measurement and Management”. Although it was a bit long and wordy, that book did a pretty good job of describing how to design and implement a customer satisfaction program, circa 1995. In today’s business environment, I would view that book as incomplete.

The implication is that the “state of the art” on most subjects from 5-10 years ago is no longer “state of the art”. “State of the art” is an evolving, elusive concept. The goal of this book is to discuss the major trends that have been taking place in becoming a customer centered organization. More specifically, this book will examine how the concept of customer satisfaction has evolved over the past ten years. But the fact of the matter is that achieving high customer satisfaction and loyalty requires a lot more now than it did ten years ago.

There is a well-known phrase in management, “What gets measured, gets managed”. Since being customer centered is an important plank in corporate strategy, this book is about how customer perceptions and behaviors can and should be measured. And, of course, the book also addresses how an organization should use the customer data once it is gathered.

## **THREE MAJOR TRENDS**

There are three major trends that have taken place in the concept of being customer centered in the past ten years. These trends are not mutually exclusive. Indeed, they are closely

related to one another. The three trends are the need to document the financial benefits of achieving high levels of customer satisfaction, the shift from a focus on customer satisfaction to a focus on customer loyalty, and the need to use customer feedback as one of the drivers of process improvement and/or organizational change. These trends have broad implications.

## **Financial Benefits**

At one time, increasing “total customer satisfaction” was like motherhood and apple pie in corporate America. It just seemed like the right thing to do. However, just doing the right thing was a pretty weak justification for corporate strategy. Senior executives want to see exactly how improving customer satisfaction will pay off financially. Senior executives know that they will be evaluated on their own ability to deliver profitability and stock price increases.

Senior executives can calculate the financial impact if 5,000 employees are “downsized”. They can calculate the financial impact of a 20% reduction in supply chain costs. They can calculate the financial impact of a 10% increase in market share. Senior executives also want to be able to calculate the financial impact of increases in customer satisfaction and loyalty. Therefore, the financial impact of becoming more customer centered must also be calculated.

The financial impact of being customer centered can be calculated in a variety of ways. Customer satisfaction scores can be linked to revenue growth, customer loyalty rates, and market share. Customer complaint resolution can also be linked to subsequent behaviors. Customer feedback can be linked to cost reductions in process improvements. And customer perceptions can be linked to an organization’s stock price.

All of these financial impacts require linking changes in customer perceptions and behaviors to changes in various types of financial measures. Most of these require longitudinal tracking over several years of data.

### **Evolution to Loyalty**

Years ago, many people viewed a customer satisfaction program as consisting of a few general questions on a short survey instrument. With few questions and little detail, this type of program generated little meaningful data. More or less, this approach was of little real value.

Gradually, the concept of customer satisfaction broadened. Organizations began measuring customer perceptions of various dimensions of product and service quality. Price and value perceptions were then added. At this point, the term customer value management emerged.

The difference between customer satisfaction and customer value was largely conceptual. Customer value was generally viewed as the broader more inclusive concept. Somewhere toward the mid to late 1990's, dimensions of image and relationship were added to customer value. The concept of customer value now has five major components: product quality, service quality, price perceptions, image, and quality of relationship. And each of these components could have sub-categories of attributes.

Unfortunately, customer satisfaction scores and/or customer value perceptions were somewhat deficient as predictors of customer loyalty. Perhaps 60-70% of the variation in customer loyalty, in a business to business context, could be explained by customer satisfaction and value scores. Therefore, I began investigating what else was influencing customer loyalty.

I found that, to predict customer loyalty in a business-to-business context, you must examine a whole array of issues that extend well beyond traditional customer satisfaction and

value concepts. Customer satisfaction data is necessary, but not sufficient, to accurately predict loyalty. Managing customer loyalty requires a far deeper understanding of customers.

There are two broad categories of issues that influence customer loyalty. One category of issues consists of those performance characteristics that are largely under the control of the supplier in a business relationship. These issues would typically be measured in a good customer satisfaction or customer value program. These issues can be clearly identified, and they can easily be measured. And because they can be identified and measured, a supplier's performance on these issues can also be managed. To predict customer loyalty, these issues must be identified, measured, and managed. That is the focus of a large portion of this book.

The second broad category consists of issues that are well beyond the control of a supplier. These are issues that influence decision making in client organizations. Some of the issues might be trends in the client's industry. Other issues might be the client's market position in the industry. Other issues may be changes in strategy or management within the client organization. To accurately predict customer loyalty, these types of issues must be monitored and evaluated. While a supplier cannot control these influences, a supplier can proactively develop strategies that address them. Therefore, discussions throughout this book will address how to monitor these uncontrollable issues that influence clients and their purchasing decisions.

### **Customer Driven Process Improvement**

The third major trend in customer satisfaction is the use of customer input to drive organizational change. Customer feedback can be used to identify which processes should be changed and how those processes should be changed. In essence, those processes that create value for customers should be designed to meet or exceed customer expectations. This is what

the “managing” part of this book is about. First, an organization must understand what a customer wants and expects in a product or service. This understanding of customer expectations must be in detail, including all of the 40-100 criteria, or attributes, that customers use to evaluate suppliers.

Each of the attributes must then be grouped to match an organization’s value creating processes. For example, service processes might include sales, billing, and technical support. The attributes expected by the customer should be viewed as process outcomes. Internal process performance metrics should be aligned with the customer expectations. In this way, customer expectations are tied directly to an organization’s processes.

Once the customer expectations have been defined as process outcomes, the processes need to be improved to optimize the delivery of those desired outcomes. This typically requires a detailed mapping of processes, breaking the process into all of the separate activities that must be completed to meet the customer expectations.

Meeting or exceeding customer expectations is only one of the benefits of customer driven process improvement. Reducing cycle time, both for individual activities as well as for the entire process, also typically results. Reducing cycle time is one of the contributors to another benefit, cost reduction. These benefits consistently result from customer driven process improvement.

## **SUMMARY**

Collectively, these three major trends have changed how organizations measure their progress toward becoming more customer centered. Tracking financial benefits requires good customer databases that link changes in customer perceptions to subsequent financial metrics over time. The shift to customer loyalty requires a deeper understanding of how customers make

decisions, and also requires monitoring a wider array of variables. Customer driven process improvement requires that process design and performance metrics be linked to customers.

The goal of this book is to discuss the current “state of the art” of becoming customer centered as an organization. This requires an understanding of how these three major trends have shifted the focus from a simplistic view on customer satisfaction to a more comprehensive focus on achieving customer loyalty.