A **Mindshare Technologies** white paper

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But, Will Customer Measurement Improve Our Profits?

(Version 2)

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Why Measure?

Our approach at Mindshare Technologies is built on two very simple axioms of business. Literally thousands of books and research projects have explored the direct correlation between **"Satisfaction," "Loyalty,"** and **"Profits."** But they all boil down to these two simple ideas:

1) *Loyal customers and productive, loyal employees drive a company's financial success.*
2) *"That which gets measured one time improves, that which gets measured continuously improves exponentially."*

This really isn't brain surgery or rocket science. It just makes sense. But backing up common sense is a growing body of research that supports the correlation between employee loyalty, customer loyalty, and the future profits of the business. My purpose in this paper is to outline **the basics** of the correlation between loyalty and profits and to present the case for continuous customer and employee feedback.

Services and Promises

One way of explaining the relationships required for a business to be successful is described by Zeithaml, Bitner, and Gremler in their book *Services Marketing: Integrating Customer Focus across the Firm*. They explain that service relationships are all about **promises**.

1) Through *external marketing* (e.g. advertising), a company is **"making promises"** with its customers.

2) Through *internal support and marketing* the company is **"enabling promises"** by providing employees with the necessary tools and support to do their job effectively.

3) Finally, in actually *delivering the service*, the company is **"keeping promises."**

Problems arise in business when these three areas are not in alignment. For example, if a restaurant has helped set customer expectations through external marketing, but then the actual experience is sub-par, the customer will not return. Similarly, if the employee is not happy because he does not have the necessary tools or training to do the job, then the customer experience will be diminished.

Mindshare provides tools to measure effectiveness and satisfaction in each of these three areas.

How do loyal customers & employees drive a company's financial success?

Employee Loyalty:

Loyal employees enjoy their jobs and stay. The longer an employee stays with a company, the better they become at their job, the better they understand their products, and the better they will be at satisfying customer needs. As they stay loyal, turnover is reduced. As employee turnover is reduced, costs decline.
The result: loyal employees, better served customers, lower costs.

Customer Loyalty:

Over time, satisfied customers generally become loyal customers (see further discussion below). As they receive consistently satisfying experiences, their trust and confidence increases – they keep coming back and they tell their friends. Revenue per customer increases as they buy additional products and services. Acquisition costs decline and operating costs are reduced. **The result:** higher revenues, more referrals, lower costs.

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Are companies investing enough in loyalty?
It is amazing how many companies don't really understand the long-term value of a loyal customer or employee. They will spend vast sums of money on advertising and promotions trying to attract new customers, while at the same time they neglect or spend little resources on the existing customers who are currently giving them business. Similarly, they will expend enormous resources on the hidden costs of employee turnover while they skimp on employee tools, training and feedback.

The technical difference between "satisfaction" and "loyalty"

I need to point out that customer satisfaction & customer loyalty are not the same thing. In fact, a consistent research finding is that 60-80% of lost customers reported being 'very satisfied' or 'satisfied' just prior to defecting. There are some detailed academic studies outlining the difference between loyalty and satisfaction. It is generally accepted now that loyalty is a higher-order commitment than satisfaction, and that loyalty involves invoking some sort of emotional attachment from the customer. It is also true that customers can be satisfied, but not committed, not loyal, and therefore they won't return, or act as a reference to their friends. Here's a summary of the differences – of course the descriptions below have been polarized for effect:

SATISFIED CUSTOMERS
· Transaction focus
· Negotiate price
· Shop for bargains
· Slow to pay
· Point out problems
· Continually tempted by competition
· Don't tell others about you

LOYAL CUSTOMERS
· Relationship focus
· Focused on value
· Choose you first
· Pay on time
· Forgive occasional mistakes
· Less inclined to switch
· Provide word-of-mouth "advertising"

For a more detailed understanding of loyalty, I recommend reading some of the books listed in the reference list. The academics love to debate this kind of stuff. And it is true that loyalty is a higher-order that we should all strive for. However, it is also true that it may take only one horrific service experience for a customer to never even give the emotional attachment of loyalty a second subconscious thought.

I tell the academics and the consultants – that yes, it is true, a customer can be satisfied, yet still not loyal. But, on the other hand, if they have a bad experience in your establishment, it may not matter how emotionally attached a customer has become to you. If I walk into your bathroom, and it's filthy, much of the academic talk about 'satisfaction' vs. 'loyalty' disappears.

Here's the point: like many of you, after years of exploring the deep and academic nuances of customer service, I am even more convinced that the biggest wins come in executing the basics. J. Willard Marriott and Conrad Hilton expressed my sentiments on this subject better than I could. Here is what they said:

"Hot food HOT, Cold food COLD!" *(JW Marriott)*

"Remember to tuck the shower curtain inside the bathtub!" *(Conrad Hilton)*

That is why Mindshare focuses first on THE BASICS. And a focus on the basics means a focus on **MEASUREMENT**. We've found that most of our work for clients involves the measurement and improvement of five basic customer experience areas:

(1) The **product or service** they came to buy,
(2) The **person or team** that delivered it,
(3) The **process** of doing business with your organization,
(4) The **atmosphere, location**, or **method** that encompassed it,
(5) The **confidence** and **reassurance** they've felt during their experience.

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The truth is that focusing on the basics is boring. It's focus. It's details. It's sometimes drudgery. It's repetition and consistency – but that's why it's the "WIN**."** **Because nobody wants to "do boring" any more. But that's what will make you stand out.**

Linking satisfaction, loyalty and profits

The relationships between satisfaction, loyalty, and profits have been explored by numerous researchers. Two of the best known works on this subject are *The Loyalty Effect* (*by Reichheld and Teal*), and *The Service Profit Chain* by (*by Heskett, Sasser, and Schlesinger).* A brief summary of the findings presented in these two books follows. I would highly recommend reading them both to get a deeper understanding of the subject at hand.

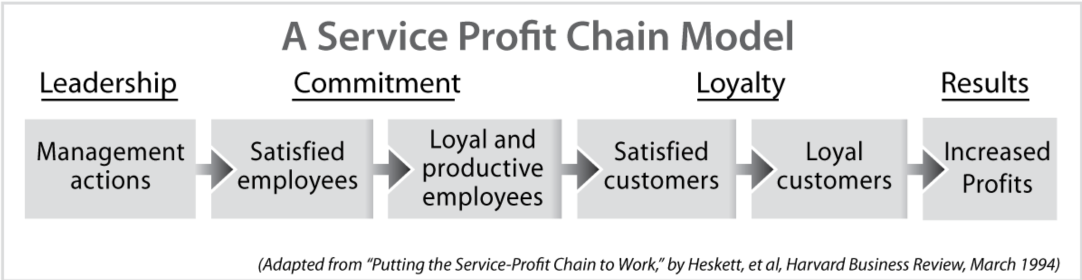
The Loyalty Effect: The Hidden Force behind Growth, Profits, and Lasting Value
(by Frederick F. Reichheld, Thomas Teal, Harvard Business School Press, Sept. 2001)

Reichheld heads up Bain & Company's Loyalty Practice and uses a wealth of real-world company examples to support his claims. This is an outstanding book for explaining and exploring the economic value of keeping a customer. In explaining those benefits, it becomes clear how important and affordable it is to keep customers. "Companies cannot succeed or grow unless they can serve their customers with a better value proposition than the competition. Measuring customer and employee loyalty can accurately gauge the weaknesses in a company's value proposition and help to prescribe a cure." The key takeaway Reichheld asserts is that building loyalty is not "a nice thing to do" – it is a business necessity. He goes on to say, "While every loyalty leader's strategy is unique, all of them build on the following eight elements: building a superior customer value proposition, finding the right customers, earning customer loyalty, finding the right employees, earning employee loyalty, gaining cost advantage through superior productivity, finding the right [capital sources], and earning [their] loyalty."

The Service Profit Chain: How Leading Companies Link Profit and Growth to Loyalty, Satisfaction, and Value
(by James L. Heskett, W. Earl Sasser, Leonard A. Schlesinger, The Free Press, April 1997)

Based on five years of painstaking research with numerous companies, these Harvard professors show how managers employ a quantifiable set of relationships that directly links profit and growth to not only customer loyalty and satisfaction, but to employee loyalty, satisfaction, and productivity. The strongest relationships the authors discovered are those between (1) profit and customer loyalty; (2) employee loyalty and customer loyalty; and (3) employee satisfaction and customer satisfaction.

Figure 2



In their book, Heskett and his fellow authors present a persuasive case (with many examples) that directly links customer and employee loyalty to company profitability.

Figure 2 – A Service Profit Chain Model, outlines their basic propositions which can be summarized as follows:

(Working backwards from right to left)

1) Profit and growth are stimulated primarily by customer loyalty.
2) Loyalty is a direct result of high customer satisfaction.
3) Satisfaction is largely influenced by the value and execution of services provided to customers.
4) Value is created by satisfied, loyal, and productive employees.
5) Employee satisfaction, loyalty, and productivity result from high-quality support services and policies that enable employees to deliver results to customers.

The Service-Profit Chain research clearly shows that when companies put employees and customers first, then employees are satisfied, their customers are loyal, and their profits increase.

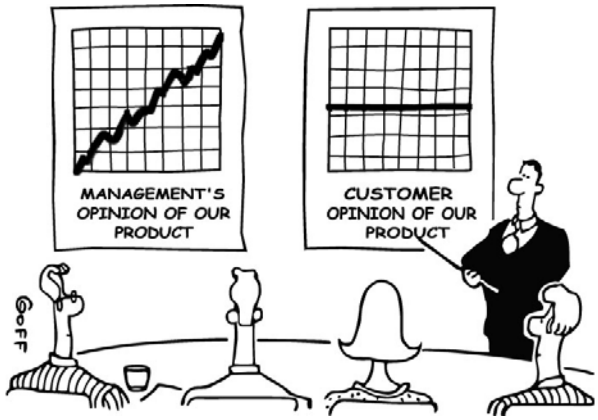
You won't know who is satisfied or loyal without continuous measurement

The overriding consensus of all the research is that there is a direct link between creating loyal customers and employees and achieving superior profits. The research supports common sense.

This finding leads us to our next obvious conclusion, which is…

…if you never measure what customers and employees think, you won't know how satisfied, loyal, and committed they are. Also without continuously gathering real-time feedback, you'll never know how to fix your deficiencies or emphasize your strengths. Consider these statistics:

- It costs 5 to 10 times as much to acquire a new customer than to keep an existing one.
- For every customer that complains, 20 to 30 will not complain, they just won't come back.
- Each dissatisfied customer will tell 8 to 10 other people about the experience. (Or, maybe a million using the web.)
- A whopping 60% - 70% of customers say they took their business elsewhere because of poor service.



Measurement is the surest way to reinforce positive behaviors or change negative ones.

As the cartoon illustrates, without accurate measurement, management's perception of reality may not match the truth about what the customer is really feeling.

When it comes to feedback, successful companies have learned the following:

Measuring customer satisfaction (at the unit level) drives loyalty
Are customers satisfied? Are they loyal? You'll never know unless you ***ask them.*** Because customer experience happens at the unit level, that is where you'll need to measure it. Then, let customers become your teachers. Seek their feedback (good and bad) and incorporate it into continual improvements in your operations. Mindshare will help you do this.

Measuring employee performance improves employee satisfaction and productivity
Good employees want to be held accountable. Mindshare allows customers to comment on employee performance, which gives them an objective measurement of their service delivery. Managers can then fine-tune training to the individual employee. Additionally, Mindshare's employee satisfaction surveys will monitor how employees feel about their work environment.

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Measurement must be an ongoing, continuous process (take a movie, not a snapshot)
Continuous measurement leads to improvement of weaknesses, emphasis on strengths, loyalty from customers and employees, repeat business and referrals.

Feedback should be real-time (not stale reports, filtered by a third party)
Waiting for customer feedback collection and analysis means that service lapses are perpetuated. Data should be collected daily and available for improvement and training immediately.

Customers should be your best source of innovative ideas
Often, companies overlook their best source of innovative ideas. As Jackie Huba explains, “Asking customers to participate in your problem-solving and idea generation is an act of courage, not of weakness.” Inviting customers into your R&D process not only provides a great source of innovation, but it also solidifies their loyalty to helping you succeed.

Summary

Customer and employee loyalty are leading predictors of future financial success.

With Mindshare, you will have at your fingertips real-time, actionable customer and employee information. Mindshare is a management tool that will assist you in understanding and resolving problems before you lose customer loyalty and employee commitment. You’ll have a system to help you predict future unit-level financial performance as you monitor your employees’ commitment and your customers’ satisfaction and loyalty.

References:

Customer Satisfaction Is Worthless, Customer Loyalty Is Priceless: How to Make Customers Love You, Keep Them Coming Back and Tell Everyone They Know, *by Jeffrey Gitomer, Bard Press, August 1998*

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The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value
by Frederick F. Reichheld, Thomas Teal, Harvard Business School Press, September 2001

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by Heskett et al., Harvard Business Review, April 1997

(**Note:** *As is common in most academic work, there are varying levels of sophistication and debate among researchers. For example, emerging themes explore the differences between “satisfaction” and “loyalty,” between “importance” and “performance,” and variations of service from merely “satisfying” customers, to absolutely “delighting” them.)*

This is how I see it.

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Please read the article that follows: *Fight the Fear: The 10 Golden Rules of Customer Feedback*

FIGHT THE FEAR: THE 10 GOLDEN RULES OF CUSTOMER FEEDBACK

OPPORTUNITES ARE OFTEN MISSED BECAUSE WE ARE BROADCASTING WHEN WE SHOULD BE LISTENING

By Ben McConnell and Jackie Huba

The biggest obstacle to knowing what customers really think about us? **Fear.**

We fear they'll tell us our product or service stinks; that we're horrible people and we should never have set foot on earth. Yet most companies never hear that type of painful feedback. Our research finds that companies with strong word of mouth and customer devotion behave like high-performance athletes when it comes to focusing on customer feedback. In effect, they are feedback machines. Customer feedback drives their marketing strategies, product development and service expectations.

Australian beer company Blowfly has integrated customer feedback into its company's decision-making process by asking customer "shareholders" to determine marketing plans, product names, street-team strategies and operational decisions usually made by executive committees. In many ways, Blowfly has turned ownership of the company over to customers. This has caused so much positive word of mouth that the company—even before it was a year old—landed a hefty North American distribution deal with hip grocer Trader Joe's.

Toy retailer Build-A-Bear Workshop continuously surveys its customers asking them to rate their recent store experience, including the cleanliness of the bathrooms! Company founder Maxine Clark attributes her company's success—it has grown to 113 stores in five years doing $200 million in revenue—to its intense focus on gathering customer feedback.

The opposite approach to proactively gathering customer feedback —waiting for it to arrive on its own—is fraught with peril. Research firm TARP has found that for every person who complains, there are 26 who do not. That means if 10 customers complain, another 260 may have quietly dumped you, never to call again. To know what customers are thinking, we must ask.

Companies that operate as feedback machines—using a plus-delta model of understanding what customers love (the plus) and what they would improve (the delta)—make improvements to their operations quickly and efficiently.

"Companies that operate as feedback machines—using a plus-delta model of understanding what customers love (the plus) and what they would improve (the delta)—make improvements to their operations quickly and efficiently."

Overcome the fear of customer feedback and make a bold move toward creating volunteer referrals with these tips, the 10 Golden Rules of Customer Feedback:

1. Believe that customers possess good ideas.

How often does someone in your organization respond to an innovative idea by saying, "Our customers don't want that." But you already have had customers indicate otherwise. The naysayer is operating from a level of otherworldly omniscience and is in the wrong field of work. Other killjoys will argue that customers are incapable of knowing what really makes a product or service valuable, and therefore customer input is unnecessary. Asking customers to participate in your problem-solving and idea generation is an act of courage, not of weakness.

2. Gather customer feedback at every opportunity.

Every customer interaction is an opportunity for feedback. Avoid the trap of "we don't want to bother our customers." If our customers are busy, they will politely decline.

3. Focus on continual improvement.

As Peter Drucker once said, a business has two purposes: marketing and innovation. Enlist the aid of your highly affiliated, most passionate customers to help you improve an aspect of your business every week so that it builds monthly momentum. Word will spread quickly when a company's quality starts improving, especially if you thank specific customers for their assistance.

4. Actively solicit good and bad feedback.

The first part is relatively easy. The second question is usually the source of feedback fear. Finesse the situation by asking "what is the one thing you would change or improve about your experience with us or our product?"

5. Don't spend vast sums of money doing it.

Multiple-page customer surveys that take six months and cost the equivalent of two salaries may impress the CEO and board of directors, but they may be outdated by the time the data arrives. Short, fast surveys deliver better response rates and allow you to react rapidly to issues raised. Solve one or two problems at a time, not everything at once. Tell your customers how their feedback directly contributed to your changes.

6. Seek real-time feedback.

Kimpton Boutique hotels CEO Tom LaTour says he has three duties every day:

a. Review revenue targets
b. Manage people
c. Call 8-10 customers

With his customer plus-delta on his daily schedule, he's not the last to hear about problems. Often, he's the first. Obviously, he has the cachet to resolve issues quickly. When the CEO of a company has resolved your complaint, word spreads fast.

7. Make it easy for customers to provide feedback.

Companies as feedback machines employ multiple input points: in person, email, web sites, point-of-purchase cards or receipts, conferences and the telephone. After all, being a feedback machine is about making it easy—for the customer—to provide feedback, not what's convenient for you.

8. Leverage technology to aid your efforts

Tools that administer web-based and automated phone surveys make gathering data fast, efficient, and inexpensive. And you don't need an army of techies to use them.

9. Share customer feedback throughout the organization.

Responsibility for customer feedback extends beyond the marketing department. It's a "theology" (and practice) from the executive suite to the sales force and everyone in between. Accordingly, ensure that everyone in the company knows what customers are thinking by sharing customer feedback; product and service decisions will be better informed as a result.

10. Use feedback to make changes quickly

You can't move a mountain in a day, but you can make it easier to climb by clearing a path. Customers who evangelize their friends and colleagues love a responsive organization, especially ones that keep them in the loop of how their feedback was used (or wasn't).

Ben McConnell** and **Jackie Huba** are the authors of "Creating Customer Evangelists: How Loyal Customers Become a Volunteer Sales Force". They are not formally affiliated with Mindshare Technologies, Inc. More information on the authors and the book can be found at **www.creatingcustomerevangelists.com.

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