



Five Warning Signs for **Danger** Ahead on Your Customer-Centric Journey

Bob Thompson
CEO, CustomerThink Corp.
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Dangerous Curves Ahead

These days, much of what businesses produce and sell can be commoditized. Customer-centricity can be a strategy to win the battle for customers' hearts, minds and wallets by differentiating and gaining a sustainable competitive edge.

But chances are you've encountered organizations—perhaps even your own—that don't always seem to care about customers. Their phone calls and emails aren't answered. Products aren't designed for their needs. Communication is mostly a marketing-and-sales monologue that leaves little room for the customer's voice to be heard.

Warning Signs

1. Not Ready to Leap From a "Burning Platform"
2. Can't Link Customer-Centricity to Business Results
3. Don't Know What Target Customers Value
4. Wrong Signposts to Keep on Track
5. Don't Treat Employees Like Customers

The focus of this paper is on the key elements needed to launch and sustain a successful customer-centric journey. Based on an April 2008 online survey of CustomerThink members and in-depth interviews, we learned that it's critical to take a holistic approach to Customer-Centric Business Management (CBM), defined as:

Delivering the total customer value that drives genuinely loyal customer attitudes and behaviors in a target market, resulting in competitive differentiation and long-term profitable growth for the enterprise.

There's good news. By and large, business leaders do understand the concept behind customer-centricity: to deliver what customers want to build satisfied and loyal relationships. And about half of those we surveyed believed that a customer-centric approach had helped improve the performance of their organizations.

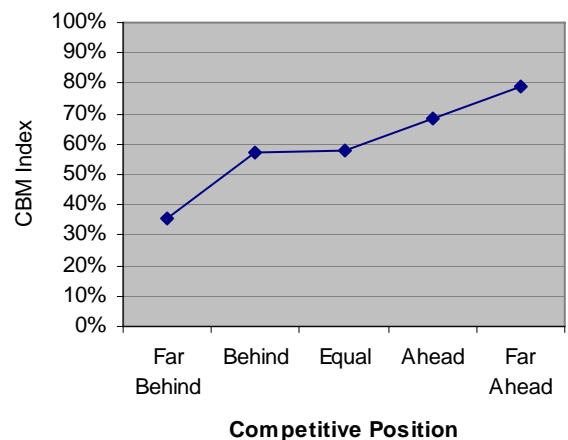
We also found solid evidence that those hitting on "all cylinders" of CustomerThink's six-factor CBM effectiveness assessment outperformed their competitors (see chart). Isn't that the point of *any* good business strategy?

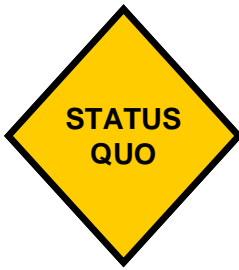
Yet the majority of our survey-takers and interviewees lacked details on exactly *how* running a customer-centric business delivered business value. In other words, where is the payoff for giving customers what they want?

That's why this paper highlights the major obstacles you will probably face on your journey.

Building a successful customer-centric business doesn't have to be a leap of faith. Pick the right path and watch out for the warning signs that you're getting off track.

Customer-Centric Business Management





No. 1: Not Ready to Leap From a “Burning Platform”

Leaders must feel a compelling reason to change.

When the oil platform Piper Alpha in the North Sea caught fire, trapping a worker, he chose to jump. A probable death in the freezing waters was better than certain death in the fire. Happily, he was rescued and survived.

A “burning platform” means a strong sense of urgency. If you are in a leadership position, this is your job and yours alone. If the fire doesn’t burn within you to create a customer-centric business strategy, don’t expect the organization to take it seriously. That urgency can stem from current business issues, such as slowing growth, declining profits or loss of market share. Or you can motivate the organization to act before it’s too late, by painting a vivid picture of impending challenges or fleeting opportunities.

Most often, those businesses that made the leap to customer-centricity had a burning platform. When the New Zealand government changed its funding for universities, the University of Auckland felt the flames. It rolled out a university-wide, multi-year initiative born out of having to work smarter to attract new applicants, convert them to students and keep students through to graduation.

Another example is a software integration company based in Kenya. After growth slowed, a new general manager realized that future success would depend less on new customer acquisition and more on retention and deeper relationships with existing customers. That sparked a major drive to change how the company did business, including personnel, measurements and systems.

Competitive strategy is a huge driver of change. Customer-centricity often comes to the forefront when a business decides that experience-based differentiation is critical. TELUS, a leading telecommunications company in Canada, decided to focus on customer experiences as a strategy to compete differently in a market dominated by feature and price wars. In fact, our online survey found that nearly 70 percent of respondents felt strongly that being customer-centric helped their organization “offer the best experience.”

If top management doesn’t yet feel the need to really focus on customer-centricity, all is not lost. Sometimes what’s needed to raise the priority in the boardroom is an internal success story.

Please remember that customer-centricity is not a goal. It’s a strategy, an approach to doing business. Odds are that top management is fired up driving top-line growth, increasing profitability and improving competitive differentiation. Stoke these fires by showing how customer-centricity can help, and you’ll increase the sense of urgency that’s vital to success.

Retaining “At-Risk” Customers

“We now have one functional area ... focused on customers, and it makes a huge difference in our renewal rates,” says Shar Jordan, director, education services, for the Healthcare business of Thomson Reuters.

It started as a grass-roots effort when her department created an at-risk account program, targeting top-tier customers who were considering competitors, had been given discounts or had decreased their usage. The team would travel to hospitals to train customers. “They’re thrilled. Usage goes up. They love our stuff,” Jordan said.

Corporate executives looked at what Jordan’s group was doing and then looked to roll similar programs out to the rest of the division. “My little group in one part of the company was like the pilot. It had such a dramatic effect on renewals.”



No. 2: Can't Link Customer-Centricity to Business Results

This could explain why the Big Boss is not fired up.

Numerous studies have shown that highly customer-centric businesses lead their industries. Southwest Airlines has dominated the ranking of the American Customer Satisfaction Index (ACSI) for years. Recently, it achieved a score of 79—opening up a gap of 17 points to the industry average of 62, a target most of its major competitors failed to meet.

ACSI data has been shown to predict individual firm performance such as corporate revenue and earnings growth and stock market performance. There's more. In *The Value Profit Chain: Treat Employees Like Customers and Customers Like Employees*, authors James L. Heskett, W. Earl Sasser, Jr., and Leonard A. Schlesinger conclude, based on 31 years of research, that employee engagement (satisfaction, loyalty and commitment) influence customer engagement, which ultimately drives the organization's profit and growth.

And yet our research found that most business leaders are unmoved by these studies. When it comes time to build the business case for investing in a customer-centric approach to doing business, it's exceedingly difficult to answer an executive's question: "What do I get for that?"

Although half of our survey respondents said that being customer-centric helped their organization perform better, few of those we interviewed could offer specifics on business benefits that would resonate with top executives. Nevertheless, the benefits are there, if you know where to look.

TMA Systems, a facilities management software company in Tulsa, Oklahoma, has seen how orienting the business around the customer has reaped rewards. Pat Hammock, manager, client relations, says that customers have stuck with the company when they otherwise might have left because they liked the people they dealt with and the quality of the service. "It is clear that our sales department relies heavily on the quality of our services when they're doing sales calls. That's a big factor with a lot of new clients."

Increasing Revenue per Client

Annette Balgord, principal of Balgord Software Solutions, an Oakville, Ontario, business application software consulting firm, changed the direction of her company after she stepped back and analyzed what her employees were doing. Half were "type-A" salespeople going for the kill. The other half worked more as consultants, trying to solve the customers' problems in a more nurturing manner.

Balgord, who herself never felt comfortable in the traditional sales role, decided to concentrate on key customers and build real relationships with them. The upshot? Her firm downsized its client list from 200 to about 70 *with no drop in revenue.*

In building your business case, first think about how being customer-centric supports your core business strategy. In our interviews, firms that provide custom applications or consultative services to major clients didn't struggle with a business case—because without customer-centricity, they didn't *have* a business.

Then look closely at what drives top line revenue. For example, in large businesses that depend on renewals, increasing renewal rates by even a small percentage can put millions on the top line. If profitability is more important, then use customer-centricity to deepen relationships with existing customers, as many financial institutions do today.

Still stuck for a business case? Then consider what might happen if you don't treat your customers better. The social web awaits, with a megaphone for negative word-of-mouth.



No 3: Don't Know What Target Customers Value

Ignorance is not bliss, but analysis paralysis is not the answer, either.

It's tempting to want lots of statistics before getting started. If only you had several years of customer satisfaction history and could do a market research study, then you could proceed, right?

Not necessarily. Instead of waiting for "perfect data," ensure that you are listening to customers in multiple ways to triangulate on the insight you need. Customer service expert Bill Price, founder and president of Driva Solutions, advises companies to mine "customer listening posts" such as focus groups, advisory councils, mystery shopping or post-contact surveys.

You also might find that customers are already telling you what they want on forums or blogs, web site feedback forms or call center agent logs—if you'll take the time to read them. Text mining is becoming a more commonplace way to learn what customers are saying when the volume becomes too high to handle manually.

Our study found a sizeable gap between how leaders (those who rated their organizations as "ahead" or "far ahead" of their competitors) and laggards ("behind" or "far behind") used customer insight to develop a customer strategy. Only 33 percent of laggards gave a Top 2 box rating to "researching what drives customer loyalty" versus 58 percent for leaders. This 25-point gap was repeated on another key question regarding "understanding how the quality of customer experiences is valued by customers"; 75 percent of leaders selected the Top 2 box.

Larger businesses often conduct market research studies to get a grasp on what really drives customer loyalty. Computer giant Hewlett-Packard developed a Total Customer Experience (TCE) methodology to identify "moments of truth" according to John Najarian, TCE Research manager. The company wanted to differentiate based on customer experience and drive business results from improving loyalty. With a push from results-oriented CEO Mark Hurd, the research organization developed models to identify factors that had a high impact on business results.

Smaller businesses may not have the resources to do such a formal "loyalty driver analysis," which enables companies to identify the common causes of loyalty so that improvement efforts can be focused in those areas. Yet decisions still need to be made. Many of the managers we interviewed stayed in touch with customers informally in meetings, phone calls and annual customer conferences. You can, too.

Of course, it never hurts to just ask your key customers directly: "What do you want?" That may be enough to lift some of the fog obscuring the road to profitable growth.

Would You Recommend? Yes!

For the past two years, the database unit of a U.S. credit reporting firm has surveyed customers annually on 12 factors stemming out of a popular loyalty indicator: "Would you recommend the business, product or service to other people?"

The surveys have returned exceedingly high scores, but Andrew Cutler, vice president of client development, says the scores tell *how* the unit is doing. *Why* it's scoring well is based on the relationships employees in his unit have built up with customers. Because the nature of their work is consultative—helping businesses mine their customer data—they meet with customers daily.



No. 4: Wrong Signposts to Keep on Track

Metrics reveal your real business strategy, not slogans on the wall.

In many industries, such as financial services, personal computers and cell phone service, customers' interactions with customer service representatives (CSRs) are one of the biggest factors in their overall satisfaction (or dissatisfaction) with their experience. What are the chances that your customers will get what they need on one call?

That's called first-contact resolution (FCR), an example of one critical operational metric that can help you keep customers happy while improving your business performance.

There's a wealth of research that links FCR with increased customer satisfaction and lower costs. Yet a classic misalignment occurs when a company advertises that customers matter and then measures agents on call volume—which encourages employees to leave customers frustrated and unhappy. David Rance, CEO of Round, a U.K.-based customer management consultancy, tells of a client that did a two-year analysis of everything the company spent—in the millions of dollars—to justify reducing the call center call-handling time. At the end of the period, actual time spent on calls had not changed.

Defining customer feedback metrics that link to loyalty is absolutely essential. It's encouraging that nearly 80 percent of respondents in CustomerThink's 2007 survey say they are conducting customer feedback surveys at least annually, up from 70 percent three years earlier.

But there's considerable debate about whether any "one number" can be applied to all businesses. Despite the popularity of Net Promoter Score®, independent research offers scant support. In the paper, *The Value of Different Customer Satisfaction and Loyalty Metrics in Predicting Business Performance* (*Marketing Science*, September 2006), authors Neil Morgan and Lop Leotte do Rego found that average satisfaction scores had the best predictive value for business performance.

Once again, smaller businesses may need to use more informal techniques, relying on good old-fashioned management judgment. Understanding your customers' *perception* is vital. Annette Balgord, principal of Oakville, Ontario, Balgord Software Solutions, acknowledges that it's difficult to get employees to concentrate on the customer's experience. "I have to keep asking them, 'How did it go today?'" An employee would tell her, "Oh, it's fine. I solved the problem." But when she asked how the customer felt, many times employees didn't know.

Bottom line: Do you know how your customers feel about their experience with your company—and how that feeling translates into profit-building attitudes and behavior?

Establishing a Baseline

The vice chancellor of an Australian university is leading a project to make the entire organization "customer-objective oriented." Establishing baselines was eye opening. The university decided that one very important measure was conversion rates. That's a bit tricky, when inquiries from all over the world could be directed to anyone. If the university didn't track the first contact, it couldn't tell who wound up applying.

The university established a single point of contact for prospective students—and recorded those contacts. There was a bonus. "I can think of a number of examples in the last recruitment period where following up on our customers, especially when they're being courted by our competitors, has converted them back to us," said Cameron Loudon, a marketing manager for the university.



No. 5: Don't Treat Employees Like Customers

Customer-centricity must help employees succeed, too.

"Our Customers Are No. 1!" It's a catchy slogan, and chances are you've seen and heard some variation of it on posters at work or in commercials, but it won't truly translate to every employee in your company with mugs and handouts.

The business leaders who succeed in communicating customer-centricity to their people are those who do more than lip service. They align employee rewards to ends that serve the customers. They really find out what customers want. And they connect emotionally with their people.

CustomerThink's 2007 study found that loyalty leaders are twice as likely to reward employees who help improve customer loyalty. This year's online survey found that only 22 percent of competitive laggards gave a Top 2 box rating to "using performance measures and rewards to encourage employees to treat customers well" versus 50 percent for leaders.

Monetary rewards can have a high impact, of course. But a reward does not have to be financial or even a job promotion. Employees can also be motivated by a feeling of additional responsibility and accountability. Or personal growth, as they build new skills. One global manufacturer we spoke with established a formal certification program where success depends on getting high marks from customers. That's a great way to link something professionals want—recognition—with what the company needs—happy customers.

Sometimes, it just feels good when you can take good care of customers. Cameron Loudon, a marketing manager for an Australian university, tells how happy prospective students and students—customers—were when they found that call center reps were not transferring them to department after department—and that the reps felt equally good about getting praise from the customers.

As you can see in the sidebar, it *is* possible to take a feel-good concept like customer-centricity and translate it into solid business benefits. That could mean helping the marketing director to run more successful campaigns, the sales rep to close deals more effectively or the call center manager to deliver cost-effective service.

For customer-centricity to become a successful business strategy, it must be in the self-interest of every employee, from the CEO on down. In other words, managers at all levels must anticipate that their employees are thinking, whether they overtly ask or not: "What's in it for me?" Do you have a good answer?

Big Vision, Small Steps

Krista Sheridan made a business case that launching an extensive customer experience research project, creating the company's \$1.9 billion Business Solutions Division's third-largest investment in customer insight, would produce significant dividends for telecommunications firm TELUS. She projected that the research would pay for itself—and then some—just in addressing some key issues that were frustrating customers.

But when funding was pulled, Sheridan's team concentrated on building coalitions. They met with small groups to explain the sort of granular research they wanted to do that would create actionable data and answer the unique "what's in it for me?" story for each group.

Employees were yearning for that type of interest and involvement. "You had people saying, 'Finally!'" Sheridan said. "We had one woman who said, 'I'm about to go on vacation and you just made my day. I'm leaving and I'm jazzed. I can't wait to come back and start working with you on this because this is what I need.'"

About This White Paper

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About the Author—Bob Thompson, CustomerThink Corp.



Bob Thompson is CEO of CustomerThink Corp., an independent firm specializing in customer-centric business management. He is also founder of CustomerThink.com, the world's largest online community dedicated to helping business leaders improve customer-centric business strategies.

Since 1998, Thompson has researched the leading industry trends, including partner relationship management, customer value networks and customer experience management. In January 2000, he launched CRMGuru.com (renamed CustomerThink.com in 2007) which now serves 300,000 business leaders monthly through its web site and email newsletters.

Thompson is a popular keynote speaker at conferences worldwide and has written numerous articles and papers, including his most recent report, *Customer Experience Management: A Winning Business Strategy for a Flat World*. Before starting CustomerThink, he had 15 years of experience in the IT industry, including positions as business unit executive and IT strategy consultant at IBM. For more information, visit www.customerthink.com or contact Thompson at bob@customerthink.com.

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