Customer Satisfaction and Loyalty Conference

On March 25th,

The Leadership Factor held its 10th annual UK Customer Satisfaction and Loyalty Conference. Past venues have included Old Trafford and Stamford Bridge football grounds, the Lowry and even Coronation Street but for the last two years convenience of travel has ruled the day and the event was hosted at the Manchester Airport Radisson. As usual there was a mix of speakers from industry and from The Leadership Factor, and the audience was treated to some very stimulating presentations, a brief flavour of which is outlined in this article.

Driving change through customer feedback

Linda Wallace, Executive Director of Customer Service, Richmond Housing Partnership

First up was Linda Wallace from Richmond Housing Partnership (RHP), a major London social landlord, owning and managing more than 8,500 homes in Richmond & Hounslow. The company has 220 staff and an annual turnover of £33m. Housing associations are 'not for profit' businesses with a remit to provide affordable quality homes to less advantaged members of society. The average rent charged for a RHP home is £85 per week compared with a weekly market rate of around £220 for comparable properties. RHP is a Times Top 100 employer and has won awards for 'Public Servant of the Year' and London Excellence Awards for Partnership and Leadership.

80% of RHP customers are tenants and 20% of customers are leaseholders who own their home (e.g. apartments typically bought by Council tenants under the 'right to buy' in blocks now managed and serviced by RHP). It's a challenging customer base with around two thirds of tenants receiving housing benefit and even the home owners may be on low incomes. RHP has a high proportion of older customers, high levels of long term illness and disability and about 18% come from minority communities.

Other challenges flagged up by Linda include the fact that customers will say they are not customers, that the company's income is fixed (set by government formula), there are limits on how much they can diversify the business and limits on the options they can offer to customers. There is also considerable uncertainty in the sector about where customer service fits in compared with other organisational objectives such as social purpose.

Why customer satisfaction?

Well RHP has decided that customer service really does matter and that there are benefits from improving customer satisfaction. Although they can't increase their income from improved customer loyalty, they can reduce losses from customer churn and reduce the general cost of servicing customers if dissatisfaction falls. Improving customer satisfaction is often free, because it's usually about staff consistently engaging in the behaviours that customers expect. For example, they do keep customers informed, they do call back when they promised, they do sort the problem first time by the agreed deadline. These behaviours don't require more staff, just consistency from existing staff and if they happen, the cost of customer service will fall because staff are not having to deal with customers chasing up promises that were made but not kept.

Social landlords can also use customer feedback to improve the efficiency of services such as repairs and maintenance, especially where they are contracted out to service partners. Tasking contractors with improving customer satisfaction as well as controlling costs is becoming increasingly widespread across many industries and can be monitored through tracking surveys.

Figure 1:RHP's shopping trolley principle

Linda has developed the 'shopping trolley' principle to measuring and improving customer satisfaction (see Figure 1). Basic but spot on. We all know we should do this, but how many companies really do it properly? Very few – but RHP is one of the exceptions. They have a very clear customer feedback process based on quarterly customer satisfaction surveys conducted by The Leadership Factor and known internally as the RHP Wheel (see Figure 2).

Figure 2:The RHP Wheel

The Dog Muck Theory

To ensure that the shopping trolley principle happens in practice, Linda has developed the dog muck theory! RHP have understood that the best way to improve customer satisfaction is not to try to address too many issues. Their policy is to tackle a few things, to implement them across the whole organisation and to do them well. This fits in completely with The Leadership Factor's advice to focus on a small number of PFIs (priorities for improvement) from customer satisfaction surveys, usually based on the biggest gaps between importance and satisfaction scores. One of the things that RHP focused on was dissatisfaction with the amount of dog mess. Based on the number of customer contact staff and the typical frequency of interactions, Linda calculated that RHP could tell customers 48,000 times in three months about what they're doing to reduce dog mess on their estates! This means that customers can see that RHP cares how they feel and can notice a link between providing feedback and improvements taking place, plus also ensuring that staff are plugged into how customers are feeling.

Successes include improved customer satisfaction results through focusing on the complaints and enquiries processes, immediate feedback through the survey on changes RHP has made in contracting for grounds maintenance and improved customer perception of RHP's anti social behaviour service after just 3 months. How has it all happened? Basically it's all down to Linda's Bananarama principle. For those of you too young (or old!) to remember the 1980s,

"It ain't what you do it's the way that you do it...... that's what gets results.

Are some customers worth 139 times more than others?

Jim Alexander: The Leadership Factor

In the 2003 in *"The Value-Profit Chain"*, Harvard professors Heskett, Sasser and Schlesinger[1] came up with the rather incredible assertion that on average, a company's most loyal customers are worth 139 times as much as its least loyal ones. In appendix C at the back of the book, they outlined the complicated maths involved in reaching this conclusion. To save everyone a lot of time and even more grief in figuring out how this works, Jim Alexander explained it all.

First, Harvard classified customers into 6 loyalty levels, as follows:

Antagonists
Actively seeking alternatives and telling others not to buy

Hostages
Dissatisfied but have no alternative, would leave if they could and won't recommend

Mercenaries
OK but uncommitted and tend to be highly price-sensitive and buy low margin products

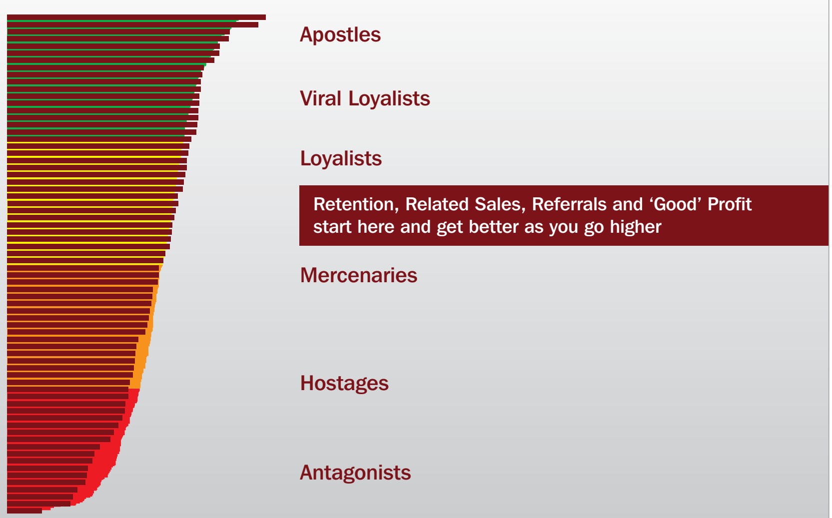
Loyalists
Happy to buy again but not happy enough to spread the word

Viral loyalists
Happy enough to spread the word and are prepared to pay extra for the relationship

Apostles
So happy they don't even look elsewhere, and use their influence to persuade others. In addition they will suggest improvements and behave more like owners.

Jim pointed out that to segment their own customer base into the loyalty categories, companies could overlay their customer satisfaction scores on top of The Leadership Factor's customer satisfaction benchmarking league table as shown in Figure 3.

Figure 3: Defining your own loyalty segments



Harvard used their results from studying customer behaviours over many years and made the following assumptions to calculate the Customer Lifetime (10 year) Value (CLV) of each customer type for the fictional but representative Acme Home Products company:

- Taking first year sales value as x the CLV is calculated as units of x.
- Acquisition cost is taken as 0.25x for all first time customers, but customers acquired through referrals have no acquisition cost.
- Antagonists stop buying after the first year, during which they provide a 30% margin. They discourage others at a rate of two customers per year for three years so the value lost to Acme is a weighted average of the CLV of all others apart from hostages.
- Hostages buy at a constant rate of 6x (6 times that of a Mercenary) and at 30% margin over 10 years. They attract no new customers.
- Mercenaries buy at a constant rate of x at 25% margin for 5 years
- Loyalists buy at a rate of 6x in the first year and grow by 10% per year. Margin starts at 30% and increases 2% per year in years 2 to 5.
- Viral loyalists are the same but also bring in three extra customers per year in years 2 to 5 of their 10 year life (1 out of three being a new loyalist).

Figure 4:Calculating Customer Lifetime Value

Category	% of customers	CLV over 10 years	CLV per customer
Apostles	3%	307.86	102.62
Viral Loyalists	5%	245.70	49.14
Loyalists	12%	264.84	22.07
		818.40	
Mercenaries	72%	53.28	0.74
Hostages	4%	47.28	11.82
Antagonists	4%	-180.72	-45.18
		Total 738.24	

Each Apostle is worth 139 times as much as each Mercenary!

- Apostles exhibit the purchase, loyalty, viral and persuasive characteristics for all 10 years.

To relieve us of the mental challenge of doing the calculations, Jim then explained exactly how Harvard arrived at their 139x conclusion. The steps are shown in Figure 4.

At the end of all the mental exertion, Jim drew the following conclusions:

- There is an enormous difference in value between Apostles and other types.
- The top three groups might only represent 20% of customers but produce more than 100% of the value.
- Value from Mercenaries doesn't compensate for the loss incurred from antagonists.
- Significant amounts of money should be invested in identifying and attracting Loyalists, in inducing them to become viral, and in developing Apostles by giving them information to make them more credible.
- It should also be possible to identify what might encourage the higher scoring Mercenaries to become more committed.
- Be sure that everyone in your organisation understands this.

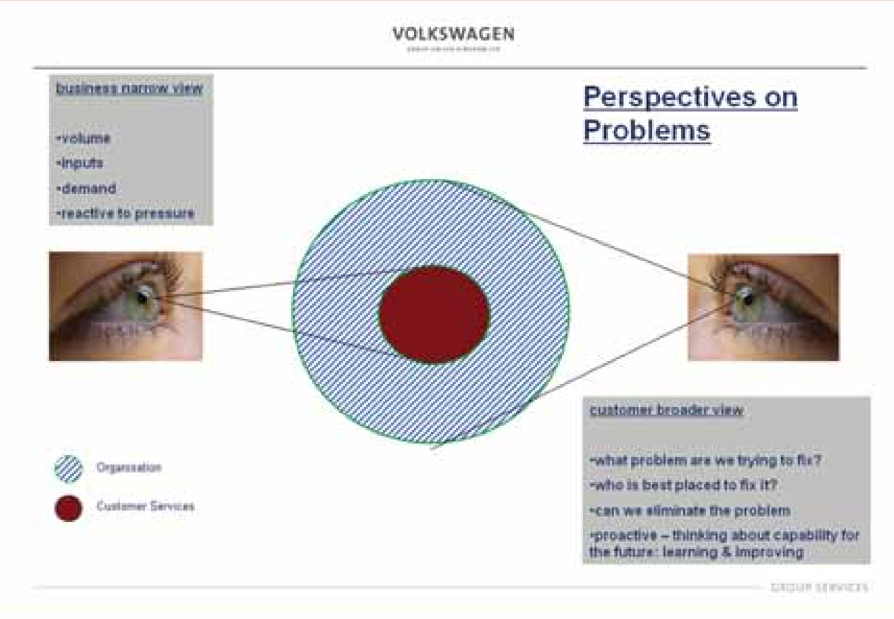
Jim finally left us with a very relevant question – Why do many companies spend vast amounts attracting and encouraging Mercenaries (price comparison websites and 'new customer only offers' especially) and almost nothing on retaining their Apostles?

A strategy for sustainable customer satisfaction

Graham Parker-Gore:
Head of Customer Contact Strategy, VW Group

Achieving the win-win of reduced costs and higher customer satisfaction was quite a theme of the 2009 conference. Graham Parker-Gore pointed out the lunacy of the opposite approach, incurring costs and giving customers a bad experience either because employees are not doing what they are supposed to do (e.g. get back to customers by the agreed deadline) or because management won't empower them (e.g. to make decisions and resolve customers' problems straight away). By contrast, getting it right first time and responding quickly makes customers happy and reduces business costs due to fewer contacts and fewer touchpoints.

Graham pointed out that real leaders don't control people – they challenge them and set them free. They invest in recruiting talent and developing their knowledge then empowering them to do what's best for the customer. Admittedly there is some risk attached to this, but according to Graham you can embrace risk or run from it. Avoiding risk is usually based on 'lobotomy processes' whose objective is that decisions are controlled by management not front line staff, who don't need to think, just do what it says on the screen. Of course, when the words on the screen don't seem to fit the situation (quite often), that's when the system runs into trouble, triggering escalation. Ironically this involvement of layers of higher management incurs more cost thus achieving the exact opposite of the cost saving objectives that most command and control systems are designed to achieve. True, trusting and empowering people does sometimes mean that the wrong choices will be made, but very rarely. And experience demonstrates that employees who are empowered to make decisions tend to be more focused on not giving away the company's money than the managers to whom problems are escalated!



Graham's approach at VW is based firmly on 'the lens of the customer', focusing not on what the company wants, and its own internal processes, but on understanding how the customer perceives things and on delivering what they want. A key fact about the lens of the customer concept is that the customer's lens is broader than the organisation's, as shown in Graham's diagram above.

In following this broader vision of achieving the customer's objective, VW's approach is to move the problem and the solution closer together, which often means getting the relevant expert to solve the problem, first time, probably out in the dealer network not the call centre. They also take the long term view of 'Sustainable Customer Satisfaction' based on investing in the right service culture, nurturing knowledge and making it accessible to customers, empowering people and accepting the risk and trusting that meeting customers' needs will bring the long term benefits of customer loyalty and advocacy.

Ed – It's interesting isn't it that we have to be told these basic fundamentals over and over again? The harsh reality is that improving customer satisfaction is not difficult. It's not very difficult. It's extremely difficult.

In reality, few managers would claim that it's easy, but organisations' behaviour demonstrates that they don't fully appreciate the difficulty or importance of the task. Yes, they want to improve customer satisfaction, but they also want to minimise costs. Few get this balance right. Responsibility for customer satisfaction is often vested in just one of the organisation's departments, often called Customer Service. In some businesses its head isn't even a main board member and, due to many organisations' predominant focus on controlling or reducing costs, 'quick wins' to improve customer satisfaction become highly attractive, if not the only option for the 'head of customer service'.

So desperate are many managers to make a difference at no, or virtually no cost, they become real suckers for the latest quick fix hype that they've heard at a conference or read in a book.

Many organisations place considerable emphasis and hope on short term strategies. But if the organisation is not consistently meeting customers' basic requirements these can make only a very marginal difference to the satisfaction and loyalty of the total customer base. To quote Barwise and Meehan[2], organisations "must focus on what matters most to customers, usually the generic category benefits that all competing brands provide, more or less, and not unique brand differentiators………. Everything hinges on giving customers what matters most to them, even if that proposition seems less exciting than focusing on novelty, uniqueness or the latest management or technology fad."

The key point is that customer satisfaction is not improved by low cost gimmicks and quick fixes. It takes real investment in the basic essentials of meeting customers' most important requirements.

Also at the conference, Visa explained how they had used their customer satisfaction surveys to deliver great service to internal customers in conjunction with an outside contractor of IT services; and Shop Direct outlined how they had used their surveys to improve operational performance as well as customer satisfaction. Stephen Hampshire challenged the audience to consider whether customer defections are a lesser evil than retaining dissatisfied customers. An article based on Stephen's presentation is included in this edition of Stakeholder Satisfaction and we will publish an article on Visa's work with internal customers in the next edition. S

References

1. Heskett, Sasser and Schlesinger (2003) "The Value-Profit Chain", The Free Press.
2. Barwise and Meehan (2004) "Simply Better: Winning and keeping customers by delivering what matters most", Harvard Business School Press.