



Optimizing Customer Satisfaction and Maximizing Performance

Many organizations, especially those with successful customer satisfaction measurement programs, ultimately ask “When is enough really enough?” Their measurement-inspired action plans and ongoing investments yield an assessment of customer touch points that indicates continued improvement. But, overall customer satisfaction and desired financial outcomes remain elusive.

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Introduction

Financial returns from an effective measurement program are the result of optimizing investments in customer satisfaction, that is, *avoiding both under investment and over investment in performance improvement*. The operational questions thus become “How do you avoid under investing when performance improvements are expensive and there appears to be no potential for a return in customer satisfaction?” and “At what point should a company stop investing in performance improvements because there is no real additional return available (customers cannot buy more and they can not be more loyal)?”

The reality is that customers do not respond in a linear fashion to the improved performance of a product or service provider. Very rarely do we see, across a wide spectrum, consistent company performance improvement met by consistently more favorable customer behavior. In fact, most customer behavior is impacted by *non-linear diminishing returns*. In this context, exceeding customer expectations may sound like a good goal but does not make good business sense. The provider gains little or no return on customer satisfaction investments and misses the opportunity for better returns elsewhere.

The Complexities of Customer Behavior

Non-linear returns on customer satisfaction investments manifest the deep complexities of customer behavior. This is especially the case when customer satisfaction approaches an expected or ideal level. The optimization of investments in customer satisfaction requires an analysis that goes to the root of these expectations and their resulting behaviors (or lack thereof). Examples of sector-related performance improvements resulting in non-linear customer behavior include:

- Financial Services – loan processing time, fee/cost sensitivity, branch density
- Retail – availability of associates, time to check out, problem resolution outcomes

- Contact Centers – time to answer, time to resolution, first-call resolution
- General Services – performance, reliability, warranty and returns

In these examples, we observe that a company’s performance improvement has varying impacts on customer behavior. And, depending on a number of factors, better company performance does not always produce the sought-after customer behavior. Specifically, many companies focus their improvement efforts on areas they believe will yield a linear change in customer behavior. These companies base their customer satisfaction action plans (measurement programs) on the premise that, for every increment of improvement in performance, their customers predictably will change behavior.

However, theory holds and practice demonstrates that there are points at which performance improvements do not produce in-kind behavioral changes among customers. These points are thresholds or levels at which there is a shift in the relationship between input (performance improvement) and output (change in customer behavior). A lower threshold may represent the point where performance has no impact on customer satisfaction and/or the point where performance must improve before customer satisfaction will improve.

A good example is the customer in the checkout line who is very dissatisfied with a ten-minute wait but not any more satisfied with a five-minute wait. Here, the threshold that positively impacts satisfaction (or at least does not lessen it) occurs at some point under five minutes. Conversely, an upper threshold often represents performance that is beyond the ability to drive customer satisfaction. Our customer in the checkout line may be satisfied with a one-minute wait, but not more satisfied by a 20-second wait or even no wait at all.

In this example, the company needs to establish processes for staffing that will provide customer service at intervals of less than five minutes, but not less than one minute. Understanding the non-linear relationship between improved performance and customer satisfaction allows management to tune staffing resources effectively to optimize customer satisfaction. With this understanding, management also

avoids expending resources in pursuit of a point beyond which there will be no impact on customer behavior.

We can visualize the complexities of non-linear customer behavior in a series of graphs that track behavioral impacts, that is, the non-linear relationships between performance improvement and customer behavior (see *Figure 1*). The most common shapes emergent in these graphs are:

- A single change in slope, where customer satisfaction does not change until a minimum threshold is reached, or where customer satisfaction stops increasing as the upper threshold is reached.
- Two slope changes, also known as the S- or Z-shaped ramp function, where there is a combination of the minimum and upper thresholds.

*A less common non-linear shape for these relationships is the U- or V-shape. For example, this shape might represent a diner at a restaurant who is not satisfied if the waiter does not appear within 15 minutes (poor service), and if the waiter shows up every 30 seconds (annoying excessive service). The diner's satisfaction is achieved somewhere in between.

Behavioral Impacts

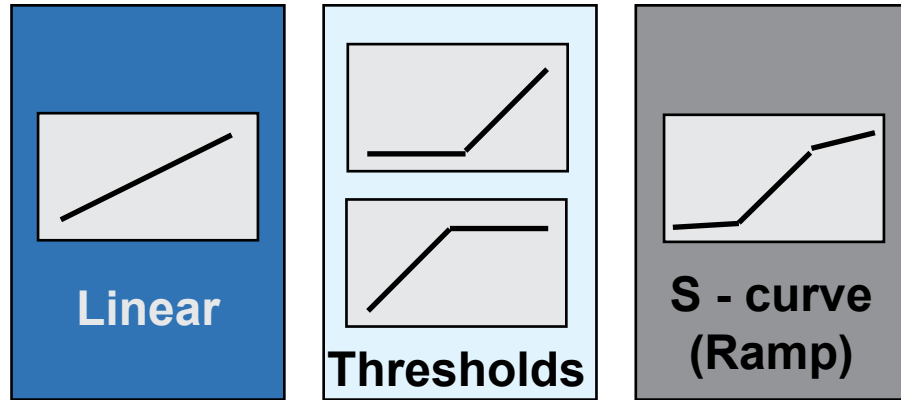


Figure 1

From the perspective of statistical modeling, we can construct a model that approximates the customer behavior curve by identifying the inflection points where the slope (return

on investment) changes. For performance improvement, this is critical to determining the optimal mix of resource allocation to maximize return.

Avoiding Over Investment

Determining the most effective allocation of resources for performance improvement is fundamental to any customer satisfaction measurement program. A recent analysis performed by CFI Group provides an excellent example of the importance of empirically-based investment decisions in avoiding over investment in performance improvement.

The contact center of a major telecommunications company set a performance improvement target for call abandonment based on “best practice” benchmarks for the industry. The company understood the importance of call abandonment as a driver of customer satisfaction. In order to reach the call abandonment target, the company was contemplating a major investment in expanded

facilities that would move customers more quickly out of call queues.

The company’s call abandonment rate ran consistently at 9.77%. Using their existing benchmarks, management proposed an improvement target of 5%, believing that this would maximize customer satisfaction (see *Figure 2*). The company asked CFI Group to evaluate company performance in this area, and to validate the suggested target or offer a different, empirically-based target. CFI Group analyzed the company’s customer satisfaction data and identified steeply diminishing returns as call abandonment reached 7.1%. Customer satisfaction showed no further improvement when the abandonment rate reached 6.6%. This was well short of the originally proposed target of 5%.

Optimizing Contact Center Metrics

Qualitative “best practice” indicated 5% was a good target.

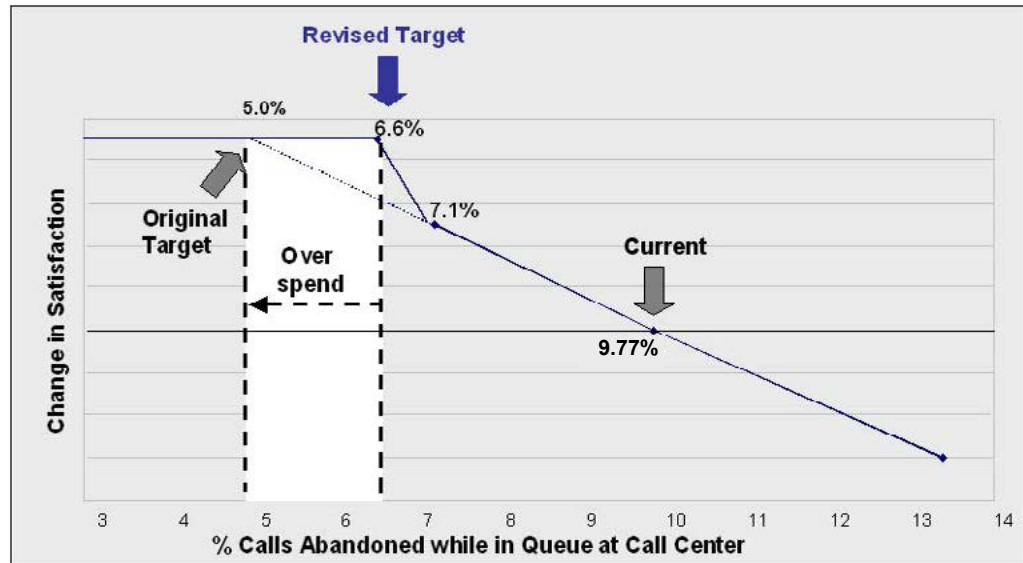


Figure 2

CFI Group’s analysis enabled the company to make an empirically-based investment decision and save approximately ten million dollars in capital investment that would have been needed to improve call abandonment from 7.1% to 5%. Moreover, by using these

same investment dollars in other business programs, the company was able to implement a process improvement program involving an automated phone tree and call queuing, both of which optimized performance improvement and maximized customer satisfaction.

Avoiding Under Investment

It is also very common for companies to under invest in some drivers of customer satisfaction, especially when it is not clear that a significant return on investment is still possible. A recent project undertaken by CFI Group with a business services firm offers a strong example of the risks inherent in under investing. After several years of hard work in improving performance, achieving increased customer satisfaction, and realizing positive business outcomes, this company wanted to

know if there was a point at which no further improvement in return was possible.

The company had long since exceeded its original customer satisfaction target of 80. CFI Group analyzed existing customer satisfaction data and identified the amount of additional customer satisfaction still available through improved customer service (see Figure 3).

Optimize Target Setting

Setting targets too low results in lost opportunity.

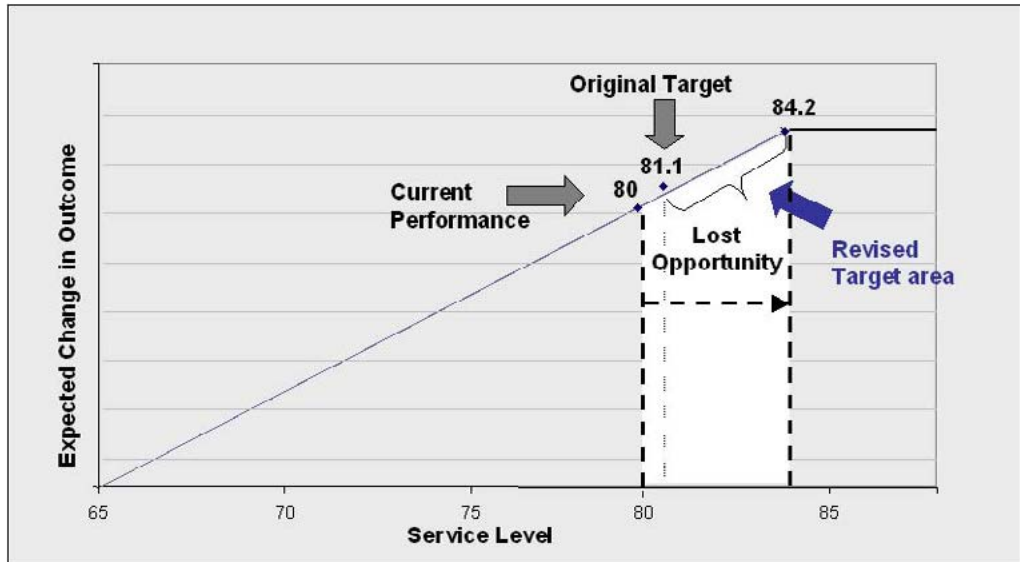


Figure 3

CFI Group also identified the point at which customer satisfaction would be optimal and would generate a maximum return from customers. CFI Group's analysis indicated that a revised target of 84.2 would maximize the company's financial return. The company was able to make an empirically-based decision to set a stretch

metric of 84.2, the point at which customers would stop rewarding improvements in company performance. By funding investments to achieve these metrics, the firm was able to seize what would otherwise have been a lost opportunity.

Successful Action Planning

An effective measurement program with a customer-focused strategy is a closed-loop process of action planning, performance improvement, and ongoing measurement and adjustment. Like a chain, the strategy is only as strong as its weakest link. Optimized targets

and process metrics require statistical rigor and a high level of precision. Without this rigor and precision, management can not and should not have confidence in a program's suggested course of action, or in the commitment to make desired changes and investments (see Figure 4).

Optimized Action Plans with Optimized Metrics

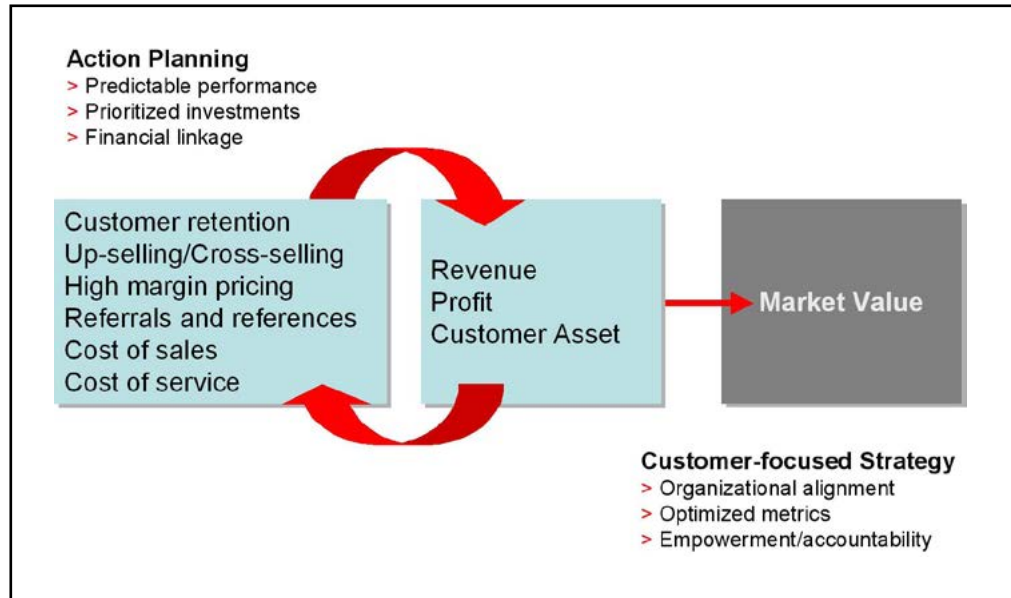


Figure 4

Action planning itself is successful only to the extent that it aligns organizational resources – people, processes and capital – in support of customer strategy. The keys to success include:

- *Communications Programs.* These are necessary to support the strategy's overall goals and to ensure empowerment and accountability for the plan.
- *Ongoing Measurement.* This determines whether or not the program is yielding an expected return on customer satisfaction. Timely and accurate measurement results are necessary to ensure the availability of requisite resources, to identify problems, and to take corrective action promptly.

- *A Focus on Optimizing Customer Satisfaction Investments.* Optimizing and prioritizing initiatives will maximize financial outcomes and, ultimately, market value.

Understanding the optimum link between a driver of satisfaction and desired financial outcomes (customer retention, up-selling/cross-selling, price tolerance, and willingness to recommend) is essential for any meaningful customer-focused strategy.

Conclusion

Even – perhaps *especially* – the most successful customer satisfaction programs may not be delivering optimum returns on investment. Understanding areas of over and under investment in performance improvement requires insight into the mind of the customer and the complexities of customer behavior. This, in turn, can result in improved customer satisfaction, a greater return on investment, and a strengthening of overall competitiveness.

Gaining these insights does not necessarily require throwing out all of a company's

existing measurement data. Rather, it involves the sophisticated use of psychometric and measurement principles. Applying advanced statistical techniques and expertise to an existing measurement program often will bring to light insights that are hidden by traditional measurement approaches. If the goal is to use customer satisfaction information to improve business outcomes, it is important to recognize that optimizing customer satisfaction, not maximizing customer satisfaction, leads to maximizing financial results.

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About CFI Group

CFI Group is a global leader in providing customer feedback insights through analytics. CFI Group provides a technology platform that leverages the science of the American Customer Satisfaction Index (ACSI). This platform continuously measures the customer experience across multiple channels, benchmarks performance, and prioritizes improvements for maximum impact.

Founded in 1988 and headquartered in Ann Arbor, Michigan, CFI Group serves global clients from a network of offices worldwide. Our clients span a variety of industries, including financial services, hospitality, manufacturing, telecom, retail and government. Regardless of your industry, we can put the power of our technology and the science of the ACSI methodology to work for you.

About the ACSI

The American Customer Satisfaction Index (ACSI) is the only uniform, cross-industry measure of customer satisfaction proven to predict financial results. Founded at the University of Michigan's Ross School of Business, the ACSI is a leading economic indicator of consumer spending in the United States.

The ACSI measures more than 230 companies and organizations across 43 industries, representing close to half of the U.S. economy. Nearly 20 years of data from the ACSI show that customer satisfaction is an indicator of financial results on both macro and microeconomic levels, including shareholder value and cash flow volatility. The U.S. Federal Government also uses the ACSI as the gold standard of satisfaction measurement for its agencies.