



Justifying a Service Improvement Plan

WHAT IS THE BOTTOM LINE OF GREAT CUSTOMER SERVICE



The Daniel Group

400 Clarice Avenue, Suite 200, Charlotte, NC 28204 | 877-967-4242 | thedanielgroup.com

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What is the Bottom Line of Great Customer Service?

When considering ServiceConnect, it is important to look at the financial and other outcomes from such a program. We want to share some of what we have learned on this topic.

Outline

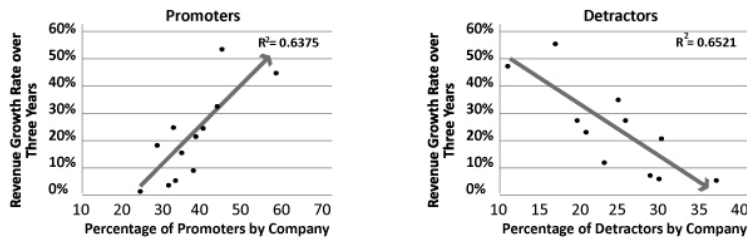
- Faster Growth
- Increased Shareholder Value
- Higher Customer Spend
- Increased Share of Customers' Service "Wallet"
- Trust and Share of Wallet
- Increased Account Profitability
- Reduced Billing Adjustments
- Increased Referrals
- Conclusion

Faster Growth

The chart below is from the book *Answering the Ultimate Question*. It looks at growth rates by promoters and detractors and, as you can see, revenue grows more quickly where the customer satisfaction is higher than lower. Simon Lyons, COO of Aggreko, a global power systems company, has been a long-time supporter of continuously measuring customer satisfaction because of its positive impact on the business.

Revenue Growth Rates by Promoters and Detractors

Source: Satmetrix client data. Average international NPS from 2002-2004 (N = 12, n = 80,000); public financial data 2003-2005 or 2004-2006 depending on fiscal year.



An Operational Approach, Not a Research Project.

Increased Shareholder Value

The following is from “Customer Satisfaction, Cash Flow, and Shareholder Value,” a working paper published by the Marketing Science Institute in 2006: “Overall, [the authors] find that customer satisfaction creates shareholder value by significantly increasing a firm’s cash flow and reducing cash flow variability. More specifically, a one-point increase in a firm’s customer satisfaction score (measured on a 0-100 index score) results in an increase of over 7% in a firm’s future net operational cash flow (an average of \$40 million in their dataset) and a decrease of 4% in its variability.”

The authors use the American Customer Satisfaction Index (ASCI) from the University of Michigan as the basis for their research. Many, not all, of the companies in the index, are consumer-oriented so someone could argue against this if they wished. However, my point is that we are all consumers of one thing or another. Our expectations are many times set by personal experiences outside of the work world. My suspicion is that this is true for Cat customers as well. I will email this article separately as it is difficult to find.

Higher Customer Spend

From the “Microeconomics of Customer Relationships” (*MIT Sloan Management Review*, Winter 2006, Reichheld). “Though all this calculation may sound complex, it isn’t. Using only publicly available data, for example, a small team in 2003 calculated the value of promoters and detractors to Dell Inc., which has the highest NPS in the Wintel personal-computer business. Securities analysts estimated at the time that each of Dell’s 8 million consumer customers was worth \$210 in annual revenue to the company.

Surveying a sample of these customers, researchers found out that 60% of Dell's customers were promoters. They further discovered that promoter customers spent, on average, \$118 more per year than did other types of customers. This may not sound like much except that collectively this means Dell generated \$566 million in revenue that would not have otherwise been there had they not had this many promoter customers.

Increased Share of Customers' Service "Wallet"

Intuitively, one would think that the greater the trust, the more likely a customer is to be loyal and spend money with your firm. There is a good deal of research to support this intuition. One especially interesting example of the research comes from the *Journal of Targeting, Measurement, and Analysis for Marketing* ("Customer Satisfaction, Customer Retention", *Journal of Targeting, Measurement, and Analysis for Marketing*, London, September 2003, Chatura Ranaweera and Jaideep Prabhu).

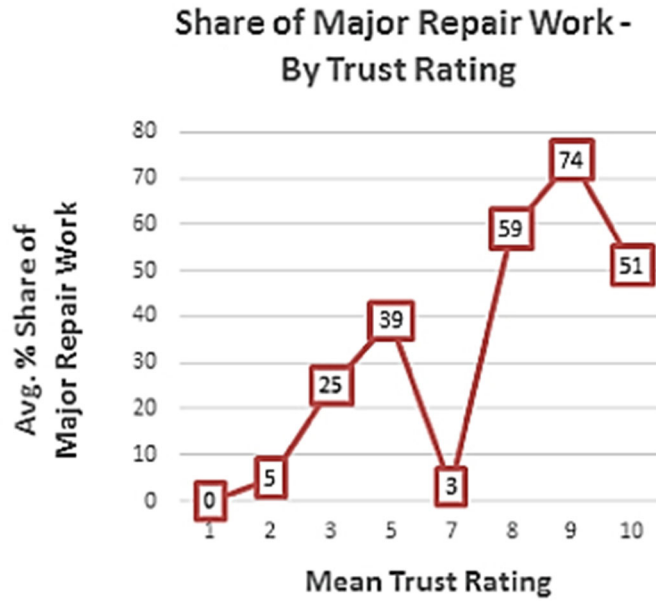
The research showed that satisfaction and trust have strong positive associations with both customer loyalty and word-of-mouth (WOM), the degree to which customers positively talk about or refer a vendor. They also discovered that trust was only slightly less important than satisfaction as a driver of WOM—something very important to most all companies, especially industrial companies since the customer universe is often relatively circumscribed.

Trust and Share of Wallet

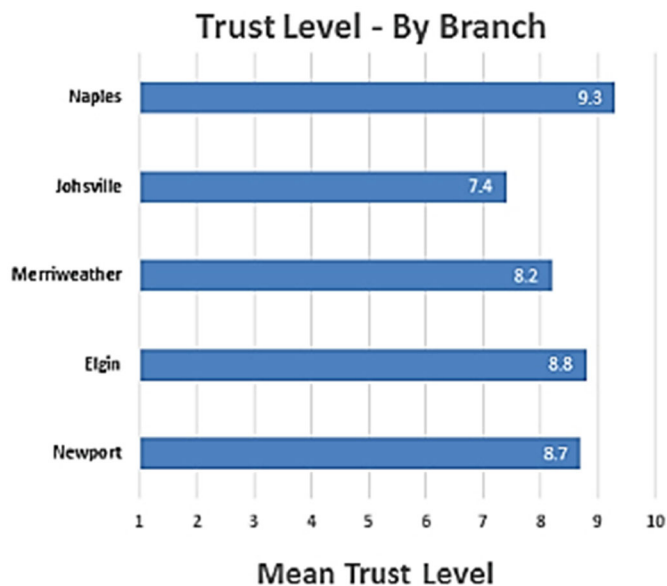
From a client research project we conducted, we discovered the impact that a strong sense of trust engenders between a provider and a customer—and the resultant benefits to the provider.

Consider:

On average, The Power Company captured a **60%** share of the major repair business from those customers who rated their trust level more than 7. At The Power Company, after-sales services are split into three areas: Minor repairs (e.g., regular maintenance); major repairs (e.g., more extensive repair work); and parts. If the rating was less than 7, the share of major repair business **dropped to 22%**. In this particular business, the difference between the shares is as much as several hundred thousand dollars per year per customer.

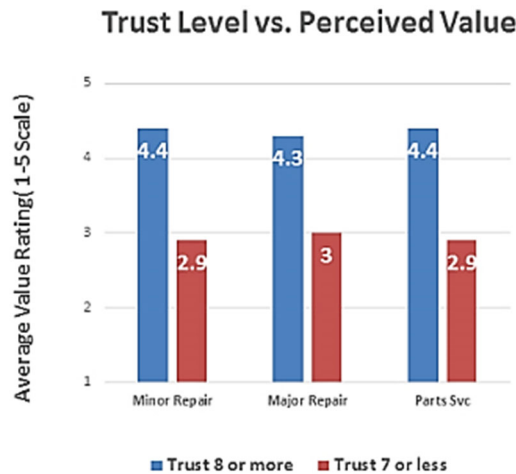


The Power Company had some branches through which it provided product support. There were significant variations in the trust rating from branch to branch. Note the mean trust rating for the Naples, Elgin, and Newport branches. In particular, the financial performances of the Naples and Newport branches were consistently better than the other branches.



Not surprisingly, there is also a connection between the level of trust and perceived value of the products and services. The chart to the right illustrates the point quite clearly. For customers

who rated The Power Company more than eight on the trust scale, they also rated their perceived value significantly higher. For example, on major repair work, those customers who rated the trust level 8 or more, rated the perceived value as 4.3 (1 to 5 scale with 5 meaning clearly superior to competition). For those customers whose trust rating was 7 or less, the perceived value was 3.0.

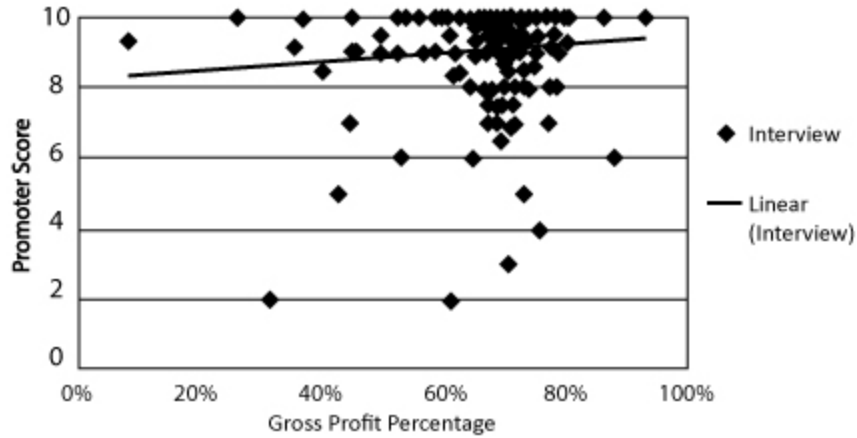


Increased Account Profitability

From an ad hoc study conducted with one Cat dealer in 2009 comparing GP% versus NPS. This is service only.

The relationship between customer loyalty at the account level as measured by the Promoter score and the gross profit of the account is unmistakable. The better the service, the more profitable the account!

Service GP% Versus Promoter Score, All Locations (12-month period ending 6/24/2009)



Service GP%/Promoter Score. >\$5k in Annual Sales from Customer

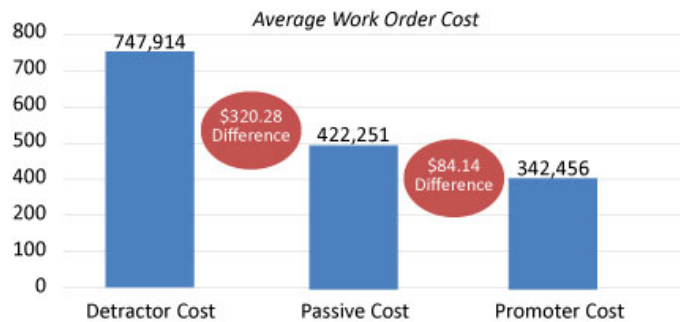
Reduced Billing Adjustments

Below are the summary results from one Caterpillar dealer that compared invoice adjustments with levels of customer satisfaction. The results are quite striking.

Financial Benefits

Work Order Cost to LMC Analysis

- Invoice, backed out, adjusted, and invoiced again
- Flat Rate variances
- Gross Profit adjustments (Accounted for Labor Class)
- Rework - expenses



Source: Louisiana Machinery

While this may not apply to all situations, for those where the service is complex it likely does. In the case of this client, the annual savings by increasing the number of Promoter customers was well more than \$1,000,000 annually.

Increased Referrals

About two years ago, we began asking customers not only their willingness to refer but have they done so. Depending on the market, we discovered that between 30% and 40% of respondents indicated they had given a referral for our clients in the last six months. What is also interesting is that 92% of these referrals came from the Promoter customers (those who gave a 9 or 10 on the "willingness to refer"). Increased customer satisfaction helps to boost your company's marketing efforts significantly.

Conclusion

There are several other studies to review but to keep this paper to a more reasonable length; these are not covered. Suffice it to say that there are significant financial returns to be realized through providing clearly superior customer service. ServiceConnect is a tool to help clients do just this.

To learn more about ServiceConnect and how it can help you measure, manage, and improve your firm's customer service, call Max Daniel at (877)967-4242, ext. 116 or by email at maxdaniel@thedanielgoup.com.

About The Daniel Group

The Daniel Group helps B2B clients measure, manage, and improve the customer experience. Since 1989, we have provided services to a wide range of companies from Fortune 500 companies to independent manufacturers, distributors, material handling companies, and technology companies. Our ServiceConnect voice-of-customer feedback program is deployed at many leading heavy equipment, industrial, and transportation companies including 75% of Caterpillar dealers in North America, AGCO Corporation, and Okuma America Corporation among others.

To learn more about how we may be able to help you improve your customer experience, please visit us at www.thedanielgroup.com, or contact a member of our management team:

Lynn Daniel, President
704.749.5018
lynndaniel@thedanielgroup.com



Doug Fowler, Chief Operating Officer
704.816.7703
dougfowler@thedanielgroup.com



Max Daniel, Business Development Manager
704.248.9113
maxdaniel@thedanielgroup.com



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