



## CFI Group Launches **Insights**, a Quarterly eNewsletter

CFI Group welcomes you to the first issue of Insights, our quarterly eNewsletter. Insights will provide a forum for sharing employee and customer satisfaction practices, expertise and experience, using knowledge gained by CFI Group consultants from more than 7,000 projects over the past 14 years.

Look for articles on:

- Industry news on customer satisfaction / customer management
- Satisfaction issues that many companies are facing
- Success stories and practice recommendations
- New products and services available from CFI Group
- Results that may surprise you - or confirm your own organization's findings
- New ideas on how to best and further utilize your employee and customer satisfaction data

This is your newsletter and we encourage you to share your experiences with us. Also, let us know what we can do to make Insights more valuable to you. Our email is [insights@cfgroup.com](mailto:insights@cfgroup.com).

Feel free to forward this newsletter to others in your organization that are interested in employee and customer satisfaction. Links to subscribe or unsubscribe are available at the bottom of the front page.

We hope you enjoy our inaugural issue and are looking forward to our second issue in Fall 2006.

### **When is Enough Really Enough?**

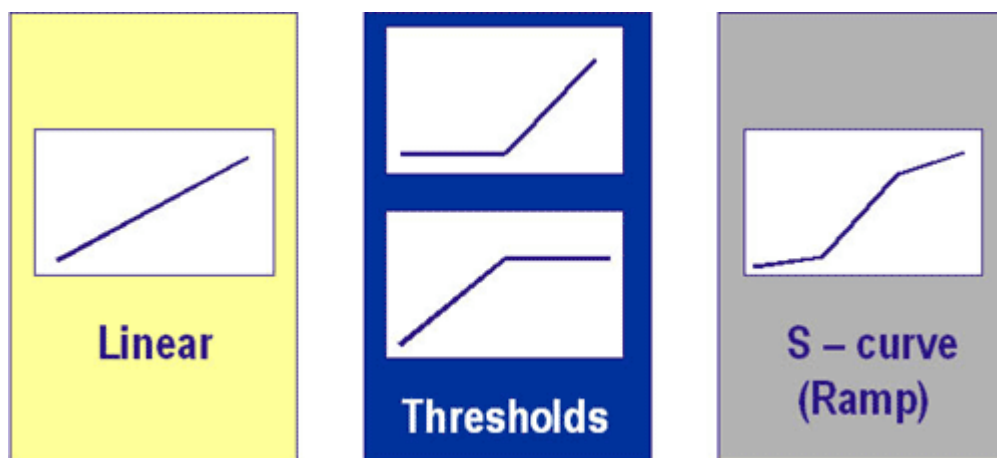
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Program Director

In predictive modeling, an assumption is generally made along the lines of "improving performance in a driver will result in a proportional increase in an outcome." For most small ranges of variation for many performance drivers, this sort of predictive relationship is both valid and accurate. But what about the law of diminishing returns? And what happens across an entire range of variation in the relationship between driver and outcome?

Traditional linear models are limited in their ability to answer this question concerning "how much is really enough?" Actual customer behavior is rarely simple and often actually performs in a non-linear fashion. The law of diminishing returns is perhaps the best known example of this non-linear relationship, but certainly it is not the only non-linear relationship.

In reality, in the measurement world, there are multiple curves that represent the non-linear relationships between performance drivers and performance results. Threshold curves are used to represent relationships where improvements in performance drivers net very little until, quite suddenly, there is an inflection point - a severe up-tick or a severe downtick - representing a deviation from a linear relationship. There are also S-curves (or Z-curves) with little incremental slope at the bottom, a steeper slope in the middle and a flattening again at the top. The significance of the flat (or zero) slope in each case is that these are the ranges where you may be over or under investing for marginal return or benefit.



Contact centers provide an excellent example for the application of non-linear modeling. With an abundance of customer behavioral data, contact centers have two critical needs: 1) a better foundation for optimizing operational processes based on what customers value most, and 2) establishing relevant "internal metrics" or key performance indicators (KPIs) that drive the desired results. The primary contact center performance measures - wait time, average handle time, and outcome - are often used simply to measure productivity without consideration for their holistic impact on satisfaction and, in turn financial performance. Non-linear modeling can help optimize these operational processes, assist in target setting and provide more effective KPIs.

For example, CFI Group recently worked with a company's call center operations and determined that the company could actually spend less to handle calls within a certain time period. Non-linear analysis showed that customer satisfaction was not positively impacted by handling calls in 10 seconds versus 15 seconds. Prior to CFI Group's involvement, the company had been contemplating a huge investment that would allow it to handle calls in 10 or fewer seconds. The non-linear modeling revealed that this was an unnecessary expenditure, thus freeing those resources to be used elsewhere.

Within general customer satisfaction research, improvements at some point don't return more customer satisfaction, more loyalty or improved buying behavior. As the above example shows, if there is no payback beyond a certain point - that is, where there are no more incremental gains resulting from improved customer satisfaction, companies can stop investing and use the investment elsewhere where it will provide a better return. This leads to the question, "At what point should drivers be optimized in terms of performance?" The answer depends upon a number of factors. Two primary factors include: 1) customer segmentation, because different segments behave differently, and 2) industry profile information such as level of competition; e.g., monopolies, oligopolies, and competitive industries.

For competitive industries, customer-focused strategies need a sound underpinning based on the relationship between investment and financial return; i.e., how does an improvement in satisfaction relate to improvement in financial performance or a surrogate of financial performance - an estimation of customer loyalty and willingness to recommend. Optimizing customer satisfaction, loyalty and advocacy can provide significant competitive advantage. This is accomplished with the knowledge that investments are made in areas where there is the greatest return across the entire range of improvement.

But even in less competitive industries, organizations can still benefit. By mapping the improvement in overall satisfaction (or a behavioral surrogate) on to hard financial metrics, areas of over spending on satisfaction can be identified. By dialing back these investments, organizations can save money without penalty from loss of market share or revenue. These funds can be reallocated to other performance drivers or returned to shareholders.

If you are interested in learning more about using non-linear modeling to optimize performance, contact your Program Director directly or call Terry Redding at 734-623-5423.

## Measure for Results

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Why do we measure so much? The old saw about the army "measuring it if it moves, and painting it green if it doesn't!" pretty much describes modern business approaches to intelligence gathering. "Measuring the movers" is a reality of today's business management. Six Sigma, TQM and Continuous Improvement Programs, to name a few, have resulted in an abundance, and perhaps an overabundance of measures.

Beyond the SEC-required financial measures of business health, most of our other metrics exist in a measurement fog. This lack of clarity leads managers to ignore measures because they don't know what they mean. Or, possibly worse, they attend to relatively meaningless measures because they're told to do so.

Is there no way out? How do we prioritize important measures and minimize or eliminate less important measures? The answer, quite simply, is using comprehensive business models that link such measures as operational metrics, satisfaction drivers and business performance.

Such "linkage" models rationalize and optimize the predictive value of disparate measures by focusing managers on cause and effect relationships that drive business performance. Such models consolidate these measurements into a coordinated and integrated system that provides greater business insight than the "sum of its parts," and therefore more customer management value. As such, they are a perfect complement to holistic KPI scorecards, such as the Balanced Scorecard.

CFI Group's expertise in linkage models has been proven across a wide range of product and service industries. Here are some specific benefits of linkage models compared to simple measurements:

- Relating customer survey metrics to business process improvements and outcome measures:
  - Which aspects of customers' experiences drive better outcomes?
  - Which process measures drive improved customer experiences?
- Differentiating relevant from irrelevant process measures:
  - Focusing managers on the most critical measures
  - Recapturing wasted human, capital and time resources
  - Converting opportunity costs to productive customer value
- Answering critical organizational measurement questions:
  - Can we optimize operational business improvements to maximize business performance?
  - Can improving our internal measures better relate to customer perceptions?
- Relating employee or customer survey data to actual behavioral (financial) data:
  - What actual increase in customer retention can be expected from gains in employee or customer satisfaction?
  - What is the value of each point of customer satisfaction?

In other words, measurement is important but success depends on measuring the right things. Linkage models are the way to assess and prioritize measures and drive real performance improvements.

## **The American Customer Satisfaction Index (ACSI) Now In Its Second Decade**

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What should the U.S. Financial Markets have learned in the last decade? Customer satisfaction drives financial performance.

Established in 1994, the American Customer Satisfaction Index (ACSI) is a uniform and independent measure of household consumption experience. The ACSI tracks trends in customer satisfaction and provides valuable benchmarking insights into the consumer economy for companies, trade associations and government agencies.

The ACSI fills an econometric gap that has grown geometrically over the past seven decades. In the 1930's over 70% of the market capitalization of companies was accounted for on the balance sheet. Today, that number is less than 20%. The difference is generally accounted for as off the balance sheet "intangible assets."

A basic tenet of the ACSI is that satisfied customers represent a real, albeit intangible, asset to corporations. Customer satisfaction creates behavioral consequences that are directly linked to profitability, i.e., customer acquisition, retention, price tolerance and willingness to recommend. The preponderance of a firm's value that is represented by such intangibles demands a business measure of its own and the ACSI is that measure.

*The American Customer Satisfaction Index at Ten Years, A Summary of Findings: Implications for the Economy, Stock Returns and Management* offers a broad perspective on the relationship between ACSI and corporate profitability. Among them are the relationships between customer satisfaction and:

- Gross revenues and stock price
- Perceived quality and perceived value
- Shareholder value and value added
- Management strategy

The relationships between ACSI and corporate performance represented in these and other supporting documents should give you considerable comfort in the value of the CFI Group methodology. Both business performers and underperformers can benefit from applying CSI to improve virtually every index of financial performance.

A copy of the report is available for purchase through [www.theacsi.org](http://www.theacsi.org).