



CFI Group **Insights** for Winter 2007

Welcome to the winter 2007 issue of CFI Group Insights.

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Optimizing Customer Satisfaction, Maximizing Results

Phil Doriot, PhD

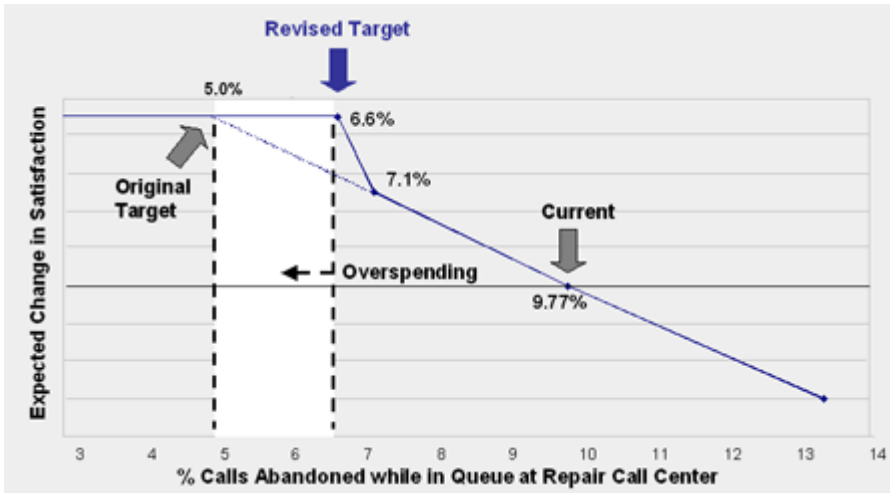
CFI Group Partner and Program Director

Many organizations, even those that have had successful measurement programs in place for a while, will ask the question: When is Enough Really Enough? The value from an effective measurement program comes from optimizing investments in customer satisfaction. But how do you avoid over investing where there is no payback on improving customer satisfaction, or under investing where highly-valuable customer satisfaction returns are still available?

The reality is that many customer behaviors are impacted by diminishing returns ([click here](#)). Exceeding expectations may sound good, but it does not make good business sense to do so because of declining returns from customer satisfaction investments, or from missing an opportunity for better return on customer satisfaction elsewhere.

Here is a real-world example. This client's contact center was looking at the relationship between call abandonment and satisfaction. They were at 9.77% abandonment of repair calls and, based on linear analysis and qualitative "best practices" advice, were thinking that 5% would be an optimal abandonment rate. However, after analyzing the data looking for non-linear relationships (inflection points), CFI determined that diminishing returns on improvement in call abandonment began to show up at 7.1%, and that customer satisfaction wasn't impacted greatly once the percentage abandonment reached 6.6%.

Setting targets too aggressively results in overspending

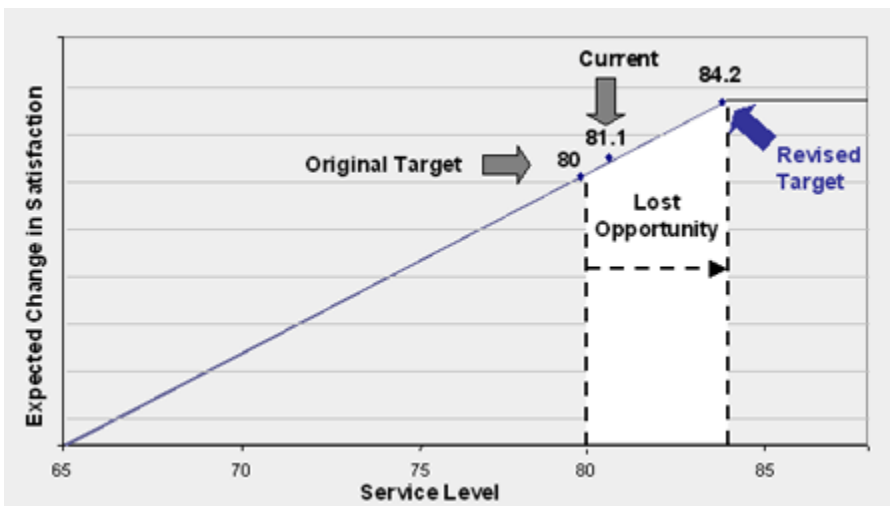


To reach the original target of 5%, the client would have had to make significant additional investments in new facilities and its contact center staff. This investment was estimated at over ten million dollars, plus additional on-going operating costs. After seeing the analysis, the client opted not to make that investment because they could get to the optimum abandonment rate of 6.6% within their existing facility with a more modest investment in operating costs.

Conversely, it is very common to be under invested in some drivers of satisfaction where significant return on customer satisfaction investment is still available. But how do you know?

CFI analysis helped another client identify how much customer satisfaction improvement was still available before diminishing returns on investment kicked in. The client had exceeded their original target for satisfaction of 80.0. CFI analysis showed that the company could establish a revised higher target of 84.2 before they encountered diminishing returns, and that this higher target would maximize their financial return. This CFI client reclaimed this lost opportunity by establishing stretch metrics at this higher level and funding investments to get there.

Setting targets too low results in lost opportunity



In creating action plans, organizations should optimize investments that maximize the financial outcomes and ultimately market value. Organizations that can do this will see the benefits of maximizing the customer asset at the lowest possible, or optimum, cost.

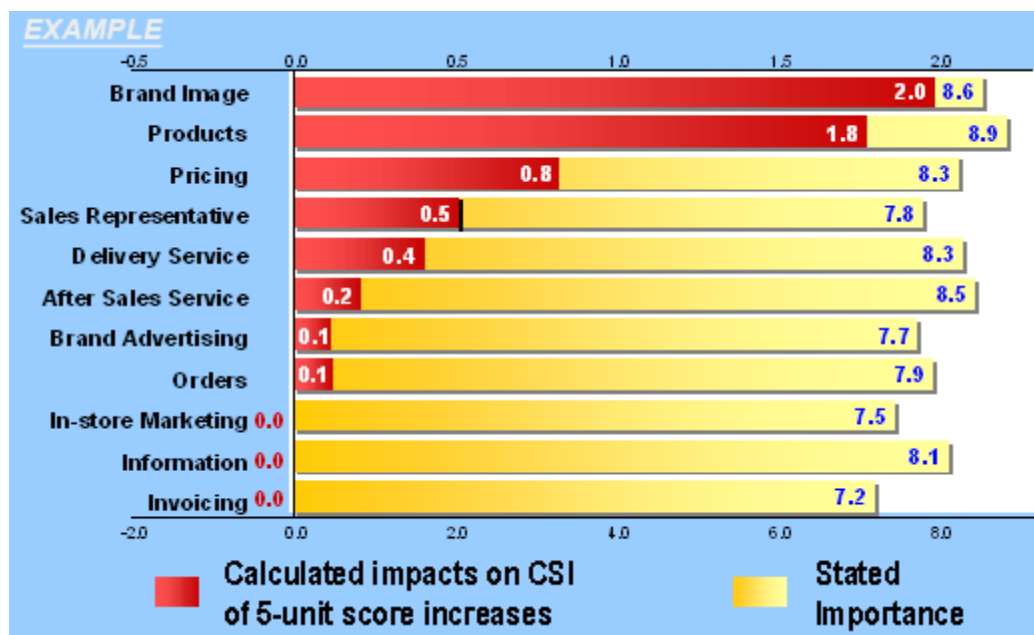
Why Derived Importance Rather Than Stated Importance?

Rick Tate, PhD
Senior Consultant

Two key measures in any customer satisfaction program are the current level of satisfaction with the attributes being measured and the importance of each attribute in determining the overall level of satisfaction. **Importance can be “stated,” that is asked directly of the customer, or “derived” mathematically from the pattern of answers to all questions relating to overall satisfaction.**

Derived importance and stated importance are often very different. This is because stated importance yields undifferentiated ratings – all attributes are important in relative terms. Customers tend to rate all performance attributes high in importance to them and leave management with little direction, or even worse, point them in the wrong direction on where to focus. Conversely, importance that is derived mathematically provides the differentiation that helps guide management insight and action.

CFI Group uses its advanced predictive modeling to determine impacts (*i.e., derived importance*) when many different causes (*i.e., quality components*) simultaneously affect an outcome (e.g., Customer Satisfaction). The chart below illustrates the results from a real case study where we asked respondents to rate importance for attributes in various areas (*i.e., Brand Image, Products, Pricing, etc*) as shown in the yellow bars, and where importance was derived through our predictive modeling framework as shown in the red bars.



Three areas – In-store Marketing, Information and Invoicing – were rated highly in stated importance but actually have no impact in differentiating respondents overall customer satisfaction (CSI). Similarly, After

Sales Service was rated very highly in stated importance but had minimal impact on customer satisfaction. The modeled results show clearly that Brand Image and Products have the most impact (i.e., derived importance) on CSI, and Pricing has a moderate impact.

CSI scores for each area and the corresponding derived impacts provide management with more targeted guidance; i.e., where to: 1) improve areas with a low score but high impact and 2) maintain the level of performance in areas with a high score and high impact. Without derived importance, this targeted guidance would be questionable at best.

ACSI in Journal of Marketing: Linking Customer Satisfaction and Financial Results

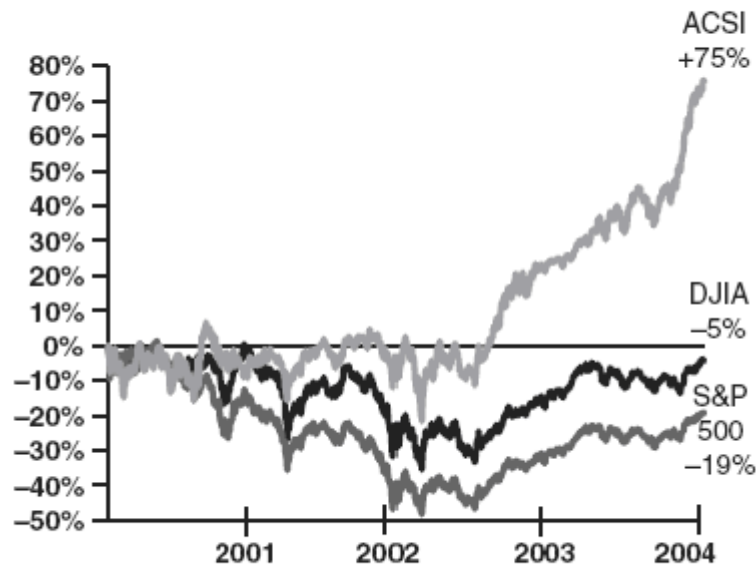
Companies know they need to compete hard for customers. Customers choose to do business with companies based on their experiences and perceptions. Satisfied customers reward companies with repeat business, more business, and a willingness to recommend the company to others. Costs of marketing and customer support are reduced. The customer wins, the company wins and shareholders profit.

It just makes sense. But, management may still want proof before they commit to major investments in customer satisfaction.

This is where peer-reviewed, academic research can help. [“Customer Satisfaction and Stock Prices: High Returns, Low Risk.”](#) was published in the January 2006 issue of the *Journal of Marketing*. Using COMPUSTAT company book values and American Customer Satisfaction Index (ACSI) scores from 1994-2002, the research concludes that **“a 1% change in ACSI is associated with a 4.6% change in market value.”**

The research analyzed an actual portfolio of ACSI companies where: 1) long positions were taken in firms with high and increasing ACSI scores (anticipating stock rises), and 2) short positions were taken in firms with low and deteriorating ACSI scores (anticipating stock declines). For the period from April 2000 to the end of 2004, **the ACSI portfolio gained 75%, compared with losses in the S&P 500 and Dow Jones Industrial Average of 19% and 4 %, respectively.** And, it did so with a beta¹ risk of .77, when compared to the S&P. Simply put, well placed investments in improving customer satisfaction produce substantial returns.

ACSI Portfolio Versus DJIA and S&P 500 (2000–2004)^a



^aApril 11, 2000, through December 31, 2004.

At the individual company level, ensuring a return on customer satisfaction relies on having better information on customer behavior for improved decision making. Armed with better information, organizations are more effective at aligning resources, improving processes and optimizing investments toward enhancing their customer asset value. More often than not, this leads to superior financial results and shareholder value.

¹Beta is a commonly used measure of volatility and systematic risk, compared to a known stock index, in this case the Standard & Poors 500.

ACSI At All-Time High: Satisfied consumers prop up the economy

Q4 2006: Retail, Finance Sectors, E-Commerce Improve Satisfaction

The American Customer Satisfaction Index (ACSI), published by the National Quality Research Center at the University of Michigan Ross Business School, issued its quarterly release for the retail and financial services sectors and e-commerce. Improvements in customer satisfaction occur in 9 of the 13 industries measured in the quarter.

The ACSI has consistently predicted future consumer spending and is an indicator of financial performance at both the company and industry level. While most economic forecasts were predicting a weakening of consumer spending for Q4 2006, the ACSI was virtually alone in suggesting solid growth. And, in fact, American consumers continued to spend money by borrowing more and/or dipping in to their savings.

The latest ACSI data suggest that satisfied consumers will continue to prop up the economy, driving consumer spending growth of between 3.5% and 4.1% for the first quarter of 2007. The ACSI reached 74.9, up 0.7% from the previous quarter and almost a 2% increase from last year. This is the highest score for the index since its first measure in 1994.



For more information on the ACSI and its most recent release, visit www.theACSI.org.