

Recipe for recovery: how to beat the Recession

Exclusive research from Investor in Customers Ltd (IIC) reveals the Seven Secrets that will help your business through the recession and allow you to take advantage as the economy recovers.

In order to establish best practice across a range of businesses, we have analysed 500,000 question responses in the IIC database, from a range of sectors: financial services, business process outsourcing, IT & telecoms, marketing services, business services, manufacturing and distribution. For more about the IIC Model, please see www.investorincustomers.com/the_iic_model.htm.

Our analysis of “All Results” ie the 500,000 question responses, reveals that there are Seven Secrets that any business needs to take on board in order to help them out of the recession.

Secret 1: Segment your customers to boost profits

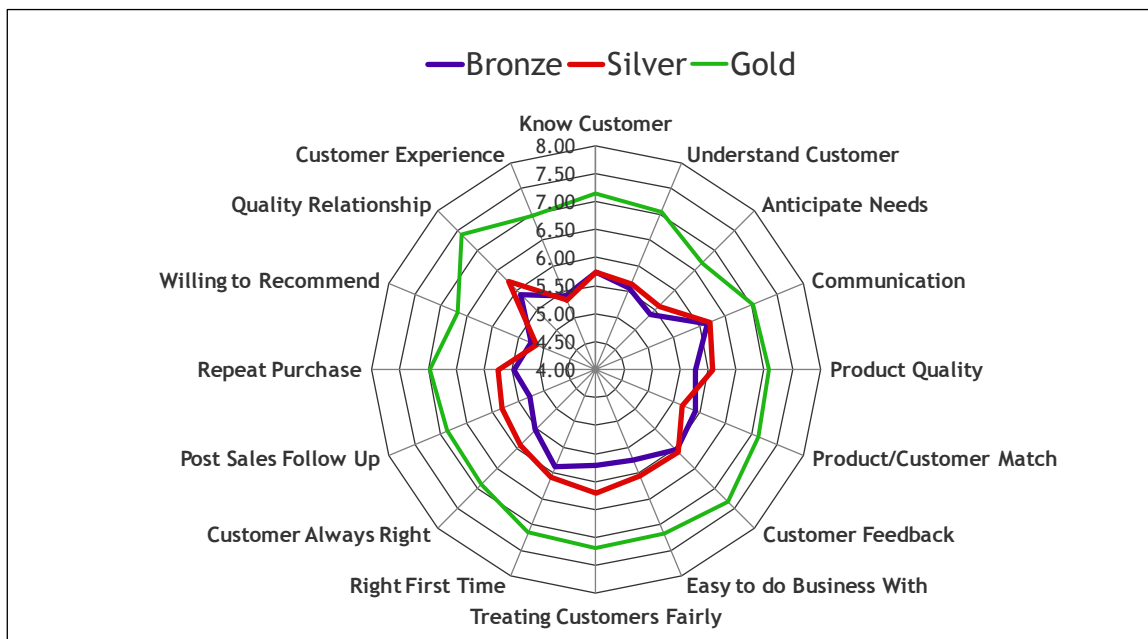
Generally speaking, businesses are able to meet the needs of their customers. In other words, without getting too carried away, customers are broadly happy. Ironically it appears companies achieve this without really understanding their customers’ needs which means they are failing to make the most of the profit potential within their customer base (see Secret 2 below). In fact, the IIC metric for “Understand Customer Needs” is the lowest ranking metric for “All Results” in the database but significantly it ranks in second place for the top scoring IIC assessed companies.

This suggests an understanding of the needs of the marketplace at macro level but a relative failure to understand the varying needs of individual customers. However, when we research the top companies we find that not only do they tend to segment their customers (typically “gold/silver/bronze” value segments) they also deliver differentiated service propositions by segment.

We conclude therefore that if companies were able to segment their customers in an effective way, they would develop an enhanced understanding at segment level which would then allow them to better understand the needs of customers in those segments, provide appropriate service backup and in that way they will open up more profitable opportunities.

We have one standout example of the benefits of segmenting customers. The chart below shows the average IIC scores for the “Bronze, Silver and Gold” customers across the 16 metrics in the IIC model. Here, the “gold” customers have responded very positively to the company’s differentiated

service proposition. Assuming that the segmentation takes account of the inherent profitability of each segment, their strategy is clearly highly successful.



Secret 2: Focus the business on Loyalty for the best results

One of the consistent factors from the studies we have carried out is that businesses struggle to convert customer good will arising from the quality service they deliver, into high loyalty factors. This Loyalty underperformance is important because you can become more profitable if you improve your loyalty factors.

Research from Frederick Reichheld and others shows that the companies with the highest loyalty factors deliver at least 10% higher profits than others in the sector.

In our experience, customers are often willing to provide testimonials and advocate but companies don't realise this nor do they have systems in place to develop referral business. In order to tap into this potential profit stream, customer loyalty must be measured and managed.

What's more, we have found that the loyalty of customers cannot be earned without first earning the loyalty of front line employees who serve them (see next two Secrets).

Secret 3: Share knowledge inside the business

Whilst employees know which target markets the business is focused on, they don't feel they know enough about their customers - we always see low scores for "we regularly get feedback on customer research". Unsurprisingly this leads them to believe that they are not in tune with the needs of their customers. We even find this with the top performing companies where customers often have a more positive view than the staff.

This low score for feedback about customer research is a challenge for many businesses and the lesson is simple - share knowledge.

This is important because a key conclusion from our analysis is that the closer a business is to its customers the stronger the relationships. The more motivated the workforce, the better the service they deliver which means higher satisfaction levels from customers and ultimately the greater the profit potential.

Secret 4: Recognise the efforts of your staff

“Quality relationships” is another of the 16 key metrics in the IIC model. Interestingly, we have found that customers are normally very happy but staff often fail to realise this.

For example, customers tend to believe that the company can be relied on to do what's right for its customers and that they care about building a relationship with customers. They also recognise that staff are friendly and willing to help.

Staff will normally acknowledge that they receive complimentary feedback from satisfied customers, and yet, they often feel employees are not highly motivated to see their company succeed and critically they do not feel that they are valued - they just don't think that they get sufficient recognition for the work they do.

So where a company is doing better than staff think it is, some internal PR may be required based on the customer feedback. But the bottom line is that management generally need to ensure that the culture and environment is a positive one and recognises the effort that staff put in.

Secret 5: Make sure you're easy to do business with

The internal view of the product offering is universally strong - which is what we would hope to see, after all, if the business doesn't believe in the product, how can they expect people outside the business to? However, we find the staff know there are barriers in place that make life less straightforward for customers than need be. They know because they operate the processes and deal directly with customers.

Customers themselves are ambivalent about product quality and the processes involved. They of course have alternative suppliers they can use and will be more aware of what's available in the marketplace. And you should remember the old adage that 80% of “satisfied” customers will nonetheless buy from your competitors - and 90% of “dissatisfied” customers don't complain, they simply go elsewhere.

There are clear opportunities for management to improve the customer experience in this regard, by asking their staff about the processes. They should also think about proactively checking out product quality with customers. In both cases, it is important to ensure honest feedback.

Secret 6: Ensure a single minded focus on meeting customer needs

Our analysis indicates that if a company focuses on better meeting customer needs through its products and services then that will have a positive and widespread halo effect.

So, if you can develop a better understanding of how you can meet needs more precisely (for example through segmentation or from making it easier for customers to do business with you) then you can introduce improvements that will affect the way your customers feel about your business.

If you can also make improvements in the area of service delivery - remember, you need to deal with service perceptions rather than reality - then your customers will naturally believe that you understand their needs. That then means that over time you will also see a rise in your critically important loyalty scores (which are inevitably time lagged) leading to those all important profit improvements.

We also believe that it is critical for management to communicate what they're doing both inside and outside the business. When dealing in perceptions, the old theory of "tell them what you're going to tell them; tell them; tell them what you told them" still holds good.

In fact, we also think it important for all companies to understand what their customers think about their communications because over time they help build up a perception in the customers' minds which will influence their attitude to additional purchases further down the line, so it's important to get it right.

Secret 7: Never stand still

There is one question that we ask that normally throws up a wide divergence of views

"Compared to one year ago, has the company's service improved?"

The general pattern is to see customers with the lowest score; then staff and management are invariably top. There are normally large gaps although sometimes staff and customers are reasonably aligned. Management often appear out on a limb.

We think this merits attention because high scoring companies in the IIC database generally appear to have a focus on continuous improvement.

Not only that, businesses also need to recognise that in today's fast moving markets, customer needs change over time. So, anticipating changing needs is really important if a company is going to keep ahead of its competitors.

Of course, you know that customer needs are changing - you have sales people talking to customers and prospects, front line staff are in daily contact with customers, and your strategists are

analysing market data and competitor activity all the time. What's more our research finds that most companies have processes in place to monitor changing trends.

However, most companies don't seem to operate an environment where changing needs are captured and acted upon - and we believe that you need those processes in place if you want to stay ahead of your competitors.

Final word

Of course, it's difficult to implement change but if IIC has learned anything from our assessment of best practice, it is that you have to resist the temptation to take things for granted and avoid letting fear stand in the way of positive changes that may be required. Plus, of course, you need an understanding of where the business stands currently as an essential first step to mapping your way into a profitable new future post recession.

Neil Craig

Managing Director

Investor in Customers Ltd

Seven Secrets checklist

- Segment your customers
- Focus on loyalty
- Share knowledge inside the business
- Value & recognise staff contribution
- Make sure you are easy to do business with
- Develop a single minded focus on meeting customer needs
- Never stand still