

## Techniques

# A practical path to customer loyalty

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### Abstract

Describes, utilising practical examples/results, how Nortel Wireless Networks initially recognised the need to enhance the existing emphasis on purely customer satisfaction to that of an evolving focus on customer loyalty, i.e. retaining customers and generating repeat orders. It also highlights how the business evolved the existing customer satisfaction process taking into account global customer base requirements such as language, culture and respondent influence within the recipient organisation, the process by which this was enacted, and the rationale behind the evolution from a customer satisfaction strategy to that of a customer value management methodology leading towards increased customer loyalty. Details the current process by which customer value management is being rolled out through the organisation.

## Background

Central to an organisation's "total quality management" (TQM) strategy is the ability of that organisation to "continuously improve" the operating effectiveness of the business (Figure 1).

This must be undertaken in such a manner as to balance/align/recognise the needs of two stakeholders (customers and employees), while at the same time delivering the necessary financial return for the third stakeholder – the shareholders.

The way in which "continuous improvement" is enacted within an organisation can vary considerably. From an expression of intent, as described by a "mission statement" displayed in the foyer of a business, to an implementation of a systematic process of continuous improvement. The latter being based on both quantitative, and qualitative, information from the basis of a customer/market-driven perspective.

Within NORTEL globally, the adoption of business excellence models such as the European Foundation for Quality Management (EFQM) or the Malcolm Baldrige Business Model, have been progressively adopted over the past few years.

These being the manner by which qualitative and quantitative information is gathered and assessed with the aim of enabling "continuous improvement" to be undertaken.

Both models focusing on the need for a business to reflect the importance of the customer.

Progressive implementation of these business excellence models across NORTEL has also brought about the realisation that the model has uses beyond that as purely a means of self-assessment within the business (Figure 2).

Within the fixed wireless access business of NORTEL wireless networks, for example, we have made use of the models' "results" categories as a focus for prioritisation of the businesses' process re-engineering (BPR) activities.

This strategy being preferred rather than adopting the approach to BPR which often results in an organisation attempting to simultaneously "re-engineer" every process within the business.

A "simultaneous" approach, without prioritising which process delivers the greatest capability for the desired improvement in

Figure 1 In search of continuous improvement



customer satisfaction, and thus business results, is at best inefficient, and at worst, causes operational ineffectiveness.

**The importance of process management**

As the ability to “continuously improve” is a central element of any “TQM” strategy so also is the need to adopt process management as the foundation by which the business architecture is constructed.

This comes about when an organisation acknowledges that “business results” are market driven rather than technology led, and that the customer sees the output from a business as the product of a series of processes rather than the output of departmental “silos”, i.e. the customer needs to receive optimised service quality and product quality through a relationship of mutual trust.

All of which can only be delivered by a clear understanding of the contribution made

by cross-functional business processes to customer satisfaction.

Within NORTEL Fixed Wireless Access division, we have progressively established a process-based business model architecture as a means to facilitate continuous improvement of business processes and hence enable the measurement of operational performance within the business, by the metrics associated with this model.

Within the “metrics set” are metrics of both a financial and non-financial nature.

The “traditional” financial measurements for a business have been progressively complemented by others such as employee satisfaction (ESAT), process management, customer satisfaction (CSAT), market share, win/lost analysis and others.

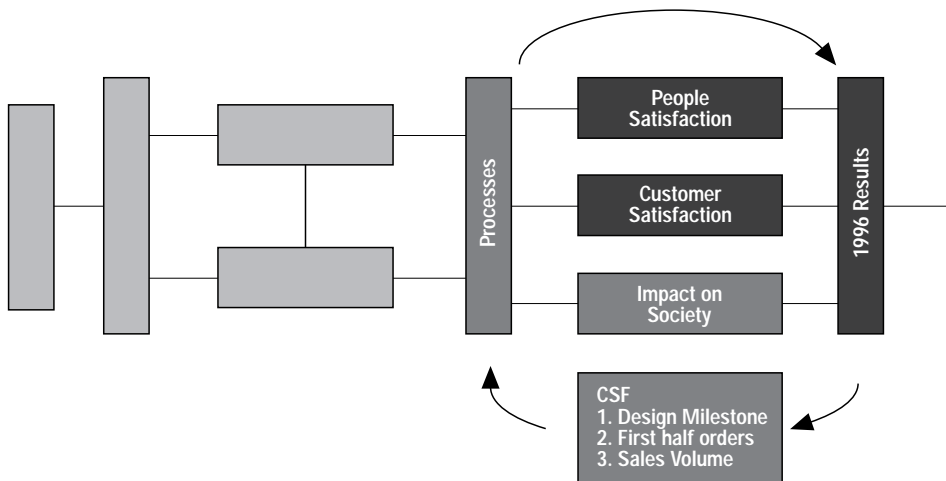
**Focus on the customer**

Within the above business metrics, it is CSAT, that has received the most recent focus for “continuous improvement” within Fixed Wireless Access, thus permitting the organisation to plan to maximise competitive advantage via the application of a strategy of customer value management (CVM).

The CVM strategy being evolved within NORTEL is based on the approach to customer value as described by Gale (1994), and is being progressively enhanced by NORTEL to complement existing continuous improvement programmes.

Traditional CSAT methodologies do not necessarily enable an organisation to understand the key purchasing attributes for a given

Figure 2 Use of the EFQM model beyond self-assessment



customer, permitting at best a view of customer value based on the perception by the supplier (i.e. the organisation requesting the survey) of what survey attributes (e.g. delivery, hardware quality, documentation, etc.) are believed to be of value to that customer.

However, what attributes are surveyed are more often reflective of those attributes deemed of value to the supplier than the customer.

The survey script, or questionnaire used, is therefore flawed and the resultant information, duly reported to senior management as an acceptable CSAT result, can seriously mislead an organisation into believing that a satisfactory state exists in respect of the customer/supplier relationship.

Similarly, these flawed data can result in costly improvement programmes being implemented in areas of low priority for the customer.

This situation is brought about primarily because the organisation has failed to acknowledge or understand that a customer purchases on the value provided by a supplier in terms of the satisfaction with the quality of goods, services in relation to the price paid.

In other words, the relative value of the product or service in respect of the price paid must be taken into account when assessing CSAT (in NORTEL's CVM process, this analysis is termed the relative customer value (RCV)).

NORTEL along with other organisations, has, from an analysis of CSAT results against "repeat buys", statistically shown that it is only those customers who have rated NORTEL as "excellent", or who have described themselves as being "very satisfied" within our CSAT surveys, who can be shown to have consistently placed repeat or follow-on orders.

Those customers rating us as "good" or whom are "satisfied" are only 50 per cent likely to remain "loyal" as demonstrated by repeat orders, and hence are equally as likely to buy from our competition in the future.

It was, therefore, recognised that what was needed was a strategy and implementation process which moved the traditional CSAT approach towards the application of CVM methodologies and tools.

Only by such application, can a sustained improvement in customer loyalty, and attendant improvement in business results/

competitive positioning over time, be achieved.

Hence the focus shifts emphasis from reactive through proactive to predictive.

### Customer value management strategy

The aim of a CVM strategy must be the provision of products and services to customers that are perceived by the customer to be of greater value than they could expect to purchase/receive from the competition in similar markets.

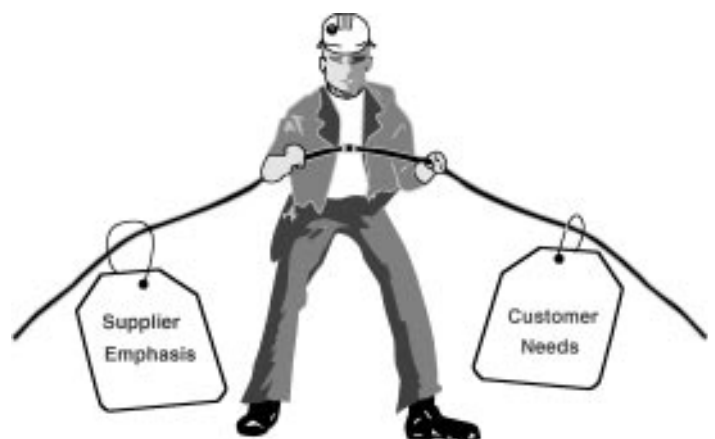
Indeed, it is the competitive advantage provided by the application of a CVM strategy that not only provides for a continuous improvement of business processes and operational effectiveness, but also provides the competitive intelligence by which strategic planning for increased market share can be brought about.

The CVM strategy and implementation process must therefore provide:

- a focus on the customer perception of value as opposed to the supplier's perception;
- the means to identify the key purchase criteria/attributes of the customer and their importance to the customer;
- the means by which customer needs are broken down into actionable parts and linked to internal process measures/customer account improvement plans; such that the business emphasis is truly aligned with the customer needs and values (Figure 3).

The execution of a CVM strategy requires both a systematic process, which in itself can be continuously improved within the context

Figure 3 Aligning supplier and customer strategy



of the whole business model, together with the application of specific tools.

The three principal tools/methodologies utilised within the NORTEL Fixed Wireless Access CVM process are the construction of customer specific:

- (1) Value trees;
- (2) value profiles;
- (3) value maps.

### CVM process

The process evolved by NORTEL Fixed Wireless Access for CVM implementation builds on the existing CSAT process, itself used to continue the organisation's progression from a technology-led, to market-driven, organisation.

The process takes into account the global nature of our customer base in respect of the cultural considerations associated with survey planning and participant selection.

The application of the tools associated with the CVM survey process similarly takes into account the scope of the area of responsibility and contract knowledge of the participant.

In short, CVM, in its broadest sense, addresses the relationship aspects of any particular customer account and together with the application of the RCV analysis from the survey activity, provides a comprehensive means of measuring and delivering, true customer value.

### Customer value tree

Within the context of the overall NORTEL process for CVM, the creation of a customer-specific value tree forms the key element.

The creation of the customer-specific value tree needs to take into account the business priorities/contract view of both the customers decision makers (those who ultimately make a "repeat purchase" decision), as well as the contract influencers/technical authorities/network operations staff who, by virtue of their respective responsibility within the customer's organisation, have more of a direct understanding of NORTEL's performance against the customer's expectation.

The methodology employed is to systematically derive a diagrammatic representation of those attributes deemed to be of most importance in respect of value provided to the customer.

Starting initially with "worth what paid for" in terms of product/service and price and subsequently defining the constituent parts of these and other attributes, increasingly questioning/identifying the sub-elements which contribute to each attribute (Figure 4).

Subsequent "attribute decomposition" (i.e. breaking down each attribute into its constituent parts) is undertaken during the surveying activity (undertaken by a third party engaged by NORTEL) until sufficient detail is obtained to understand those sub-elements and their respective contribution to customer-perceived value.

The "tree" thus constructed is then reviewed to establish the importance weighting placed by the customer on the attributes so defined.

The manner by which this is undertaken consists of apportioning a percentage score to each identified attribute, such that the total at each successive level of "attribute decomposition" adds up to 100 per cent.

By this activity, a picture begins to emerge of those key purchasing attributes of most importance and hence value to the customer from their own perception, and hence most likely to "drive" the decision to place repeat orders.

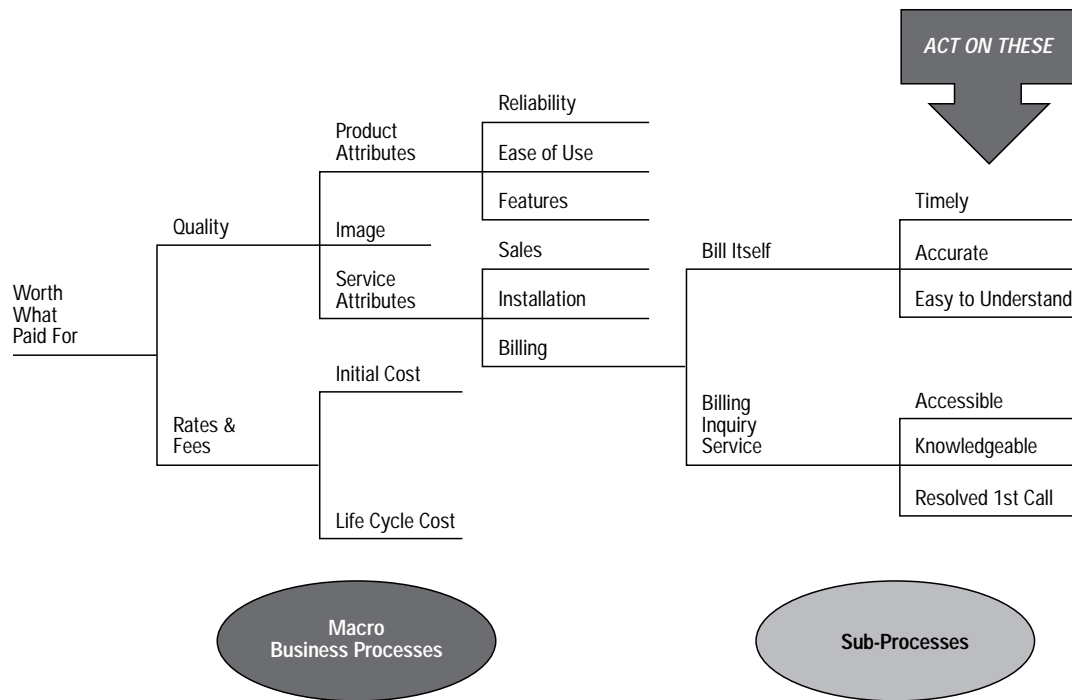
The tree is then again reviewed from the customers' perspective of how NORTEL is performing against the attributes, previously identified and weighted, using a scale of 1-10, where 1 indicates complete dissatisfaction and 10 complete satisfaction.

To enable the comparison of NORTEL versus the nearest competitor, the customer is then asked to rate the performance of the competition against the same attributes, again using a 1-10 scale.

Since it is the comparison of relative performance that is critical to the understanding of value provided to the customer, the ratio (RCV) of NORTEL performance to that of the competitor is then calculated and subsequently used for the purposes of creation of a customer value profile and value map.

The use of the "value tree" methodology as described thus far, is not limited to use with the customer. An additional benefit afforded by its "internal" use is that by holding a customer account specific "focus group" in advance of the "external" or customer survey activity, with attendees from the various operational functions/departments concerned with the execution of the specific customer

Figure 4 CVM value tree construction



account, a customer value profile from NORTEL’s perspective is established.

When this is ultimately compared with the customer-derived value profile, “perception” gaps can be established providing a valuable insight within the account relationship.

A derivation of the customer specific “value tree” previously described, can be constructed which enables an assessment of “attribute impact” on the overall customer view of value provided.

Simply put, the contribution made by any attribute or sub-attribute can be calculated to ascertain the degree of impact on overall customer satisfaction with value provided. Thus, improvement plans can be focused on those attributes having greatest impact.

### Customer value profile

From the previous exercise, a profile of the customer values (i.e based on an RCV analysis) most appropriate to the purchasing criteria pertaining to that point in contract performance, can be compiled.

The profile enables a clear depiction of how the NORTEL performance equates to the attributes of most importance to the customer and similarly against the competition (Table I).

From a simple review of the profiled attributes, areas can easily be seen where inappropriate emphasis has been placed on the performance of contract execution versus those areas where the customer’s expectation of performance has not been met – thus a “value gap” becomes evident, and hence provides the initial baseline from which actionable plans can be formulated to reduce such a gap.

The performance ratio (NORTEL versus competition) within the profile data provides a valuable insight into the “lagging” or “leading” aspects of performance versus the competition and can be compared with globally-accepted “world class” targets.

### CVM/RCV performance targets

The ratios provided by the analysis of RCV data from the application of CVM can themselves be used to provide an external “benchmark” of NORTEL against “world class” performance, since the application/use of CVM is progressively being used globally across a wide spectrum of industrial sectors.

A ratio of less than 0.97 is generally taken as an indication that the value provided is less than that given by the competition. The logical extrapolation being that failure to improve this ratio would ultimately result in

Table I Customer value profile

Key purchase criteria	importance weight (%)	Nortel	Competition	Ratio
<b>Product (35 per cent):</b>				
Reliability	40	8.6	8.0	1.08
Features	30	8.0	7.8	1.03
Ease of use	25	9.0	8.6	1.05
<b>Total</b>	<b>100</b>			
<b>Service (65 per cent):</b>				
Sales	39	8.3	8.1	1.03
Installation	15	8.3	8.3	1.00
Repair	23	7.9	8.1	0.98
Billing	23	7.0	8.0	0.88
<b>Total</b>	<b>100</b>			

loss of market share and potentially exit from the market segment.

A ratio of 0.98 to 1.02 would indicate that a position of parity exists with the competition, hence no distinct advantage or product differentiation exists versus the competition.

A ratio of 1.03 to 1.10 is seen as indicative of a position above parity, and hence customers see the product and services being provided as being better than the competition in terms of perceived value.

The accepted ratio for “world class” performance is generally taken as being greater than 1.10.

There is evidence to support the view that those businesses which undertake CVM and monitor performance against market share can support that the results from an application of CVM effectively “tracks” market share over any given period.

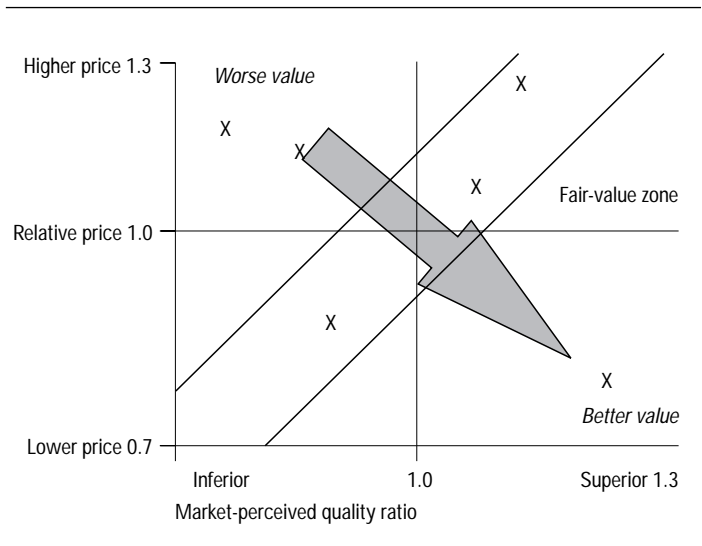
### Customer value map

The construction of a value map enables a pictorial representation of the customer value profile data (Figure 5), and takes into account the “fair value” of the product/service being offered by the supplier from the perspective of the customer.

By plotting the appropriate ratios from the specific customer value profile, the relative position of NORTEL in respect of the competition can be portrayed and hence the map can serve as an easily communicable strategic planning tool.

Specific competitive intelligence can be derived from the CVM process as described above and this can be used to complement other strategic planning methodologies and

Figure 5 Customer value map



tools so that a comprehensive picture of market positioning can be gained within the business.

### Sustainable improvement planning

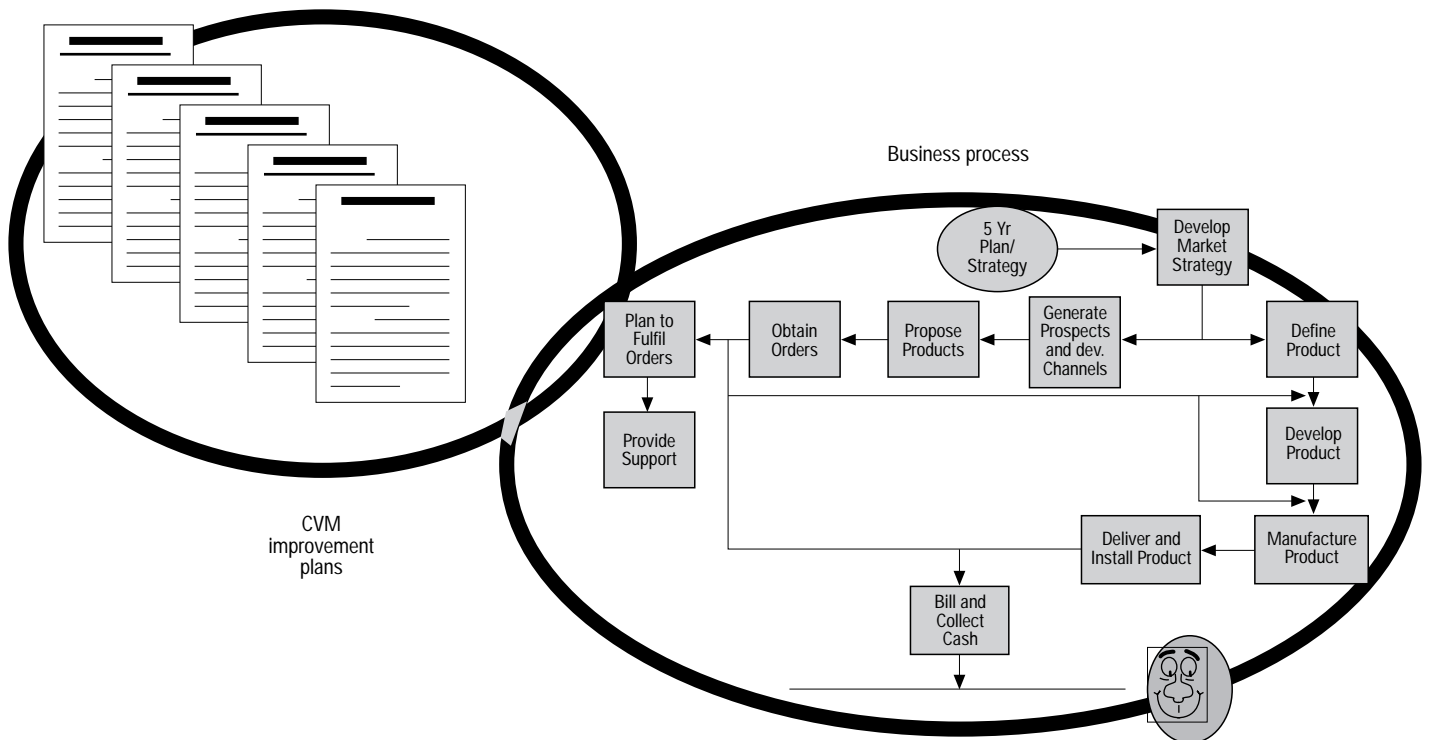
The worth of the application of CVM to NORTEL is only as far as the quality of the improvement actions taken as a result of the data afforded by the process.

As with any improvement activity, there will be both short term or “tactical” and longer term “strategic” components of any improvement planning.

In respect of the longer-term activity, it is essential that linkage is made between the improvement plans and the processes making up the business management model.

It is only by ensuring that process improvement is undertaken that a sustainable improvement in account performance can be achieved (Figure 6).

Figure 6 Aligning improvement plans with core process model



Likewise, by linking improvement actions to the appropriate business processes, quantifiable process metrics can be evolved to enable ongoing operational review at the business management level.

These “customer value metrics” can be identified from an analysis of the customer value profile as a result of conducting a cross-functional management review, during which the priorities for improvement planning are agreed from a cross-functional basis. Thereby enabling proactive action to be taken should the trend provided by the metric data so warrant.

Furthermore, by repeated use of the CVM methodology described, supplemented by additional “event-driven” surveys of, for example, results of customer training activities, installations, etc., the CVM process takes on a dynamic dimension and quantifiable, continuous improvement is permitted/facilitated.

Of equal importance is the need to share the results of the CVM activity with the appropriate customer representatives. By so doing, verification of the value tree and verbatim comments obtained during the survey interview by the independent third party can be undertaken, as well as strengthening the

account relationship between NORTEL and its customers.

### Linkage to business excellence models

The focus on customer satisfaction, as contained within the EFQM and Baldrige Business Excellence models, is addressed by the implementation of a CVM methodology; likewise the integral importance of process management within the context of CVM improvement planning is similarly reflected by both models.

Thus compatibility between CVM and the “holistic” approach to organisational continuous improvement as described by both models is established and can be seen to be complementary to the use of either models by an organisation undertaking a progressive adoption of a “TQM” strategy.

### Summary

CVM is more than the measurement of customer satisfaction. (Customer satisfaction is determined by measuring satisfaction with the quality of products and services received without consideration for cost or assessment

of the importance placed by the customer on each survey attribute.)

In its simplest terms, CVM is, therefore, a judgement made by the customer in which a mental comparison is made of what product or service is received from NORTEL relative to the costs they incur for such provision in respect of NORTEL and competitors.

For the effective implementation of CVM, the suppliers' management strategy should be one of a process-based management model so as to enable the effective implementation of sustainable operational improvement plans.

When customers perceive that the value they receive from NORTEL is higher relative

to what they can receive from competitors, they remain "loyal" to NORTEL; hence the likelihood of repeat business is significantly increased.

CVM provides both a tactical approach to customer account management and improvement, as well as providing a strategic market planning capability via the competitive intelligence and market segment information resulting from the application of the process.

## Reference

Gale, B.T. (1994), *Managing Customer Value*, Free Press.