PuMP® How-to Kit

Measures That Matter For Stellar Customer Relationships

Above and Beyond Satisfaction and Complaints

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about the author, Stacey Barr

Stacey Barr shows business owners how to move their business performance from where it is, to where they want it to be. She achieves this through a strong focus on the results that matter and making measured progress toward reaching them.

Measurement is not sexy. But that doesn't make it any less effective: if you want to change the performance of your business, measuring will make it happen faster and easier. That's what Stacey is passionate about – making it fun, easy and faster for people to measure what matters in their business, empowering them to take control of its destiny.

Stacey quickly became known for her passion and practicality through sharing simple, step-by-step how-to information via her website and free email newsletters and through the popularity of her 2-day Performance Measure Blueprint Workshops running throughout Australia.

In addition Stacey provides coaching and consulting services to many Government agencies, corporations, non-profit organisations and small to medium enterprises throughout Australia and internationally.

Find out more at www.staceybarr.com

Introduction

We're going to examine some of the most essential results that define success for a customer relationship process - where you're delivering your products and services to your customers and hopefully giving them at least everything they expected and paid for – and we'll look at how to measure those results.

And we're not going to talk about customer complaints or customer satisfaction as the key measures of the customer relationship process! These are old hat measures, and they do very little in comprehensively assessing the value of your customer relationship.

But giving you a long list of the latest customer measures won't help you. Neither will your trawling through websites and books to find customer measures. You'll be focused on the wrong thing because it's actually far less about the latest measures and absolutely about the results you want from your customer relationship process.

So what we need to do is first work out what are the common results that define a successful customer relationship management process, and THEN we can find and link the array of latest customer measures to those results. A measure linked to a result is a measure with a clear purpose. Let's not perpetuate that bad habit of measuring stuff without have a very good reason why.

So today we'll follow 5 Steps together, so you can see what matters enough to measure about customer relationships, what the nine essential measures are, and how to implement those measures to improve your customer relationship management process.

The steps are:

STEP 1: Understanding the customer relationship

STEP 2: Defining the customer relationship results that matter

STEP 3: Choosing the customer measures

STEP 4: Implementing the customer measures

STEP 5: Using the customer measures

STEP 1: Understanding the customer relationship

As with any relationship, there are at least two sides:

- what the customer gets from your business, relative to what they want
- what your business gets from your customers, relative to what you want

So for a customer relationship to truly be successful, you have to make sure that both sides are getting what they want.

And these two sides give us the starting point for deciding what is worth measuring about customers. So let's go on to Step 2 now, and create that list of which results for customer relationships are worth measuring.

STEP 2: Defining the customer relationship results that matter

If you don't want to waste time and effort and lots of confusion by jumping onto the latest hip measures for customer relationships – like Net Promoter Score or Customer Engagement Ratio – then you first need a rationale, and starting point that will help you work out which measures you need, what exactly they are telling you about, and how they tie together to give you a full picture of your customer relationship process. That way, those measures will lead you more easily to action and improvement of your customer relationships.

This means we need to talk about results, because behind every great measure is an even better result that is important for you to achieve, and that your chosen measures should help you track, test and tune toward greater business success.

For our two sides of the customer relationship, we have several important results:

What the customer gets from your business, relative to what they want

Firstly, from the customer perspective, there are two results that matter:

1. customers get a very high return on the money and effort they invest in us
2. customers expectations of us are constantly exceeded

What your business gets from your customers, relative to what you want

Secondly, from the company perspective, there are three results you will want. The first one is:

3. customers are profitable to us

It's about customers adding to the bottom line of the business and not taking away from the bottom line, and it's a no-brainer why that matters!

No doubt you've heard that it's at least 6 times more costly to sell product or service to a new customer than to sell that same product or service to an existing customer. That makes our fourth result particularly important:

4. customers are loyal to us

There's also rising attention given to the power of referrals, which is essentially getting your customers to do your marketing for you. So our fifth result is:

5. customers love us so much they tell their colleagues and friends to use us

And because it's proven to be a powerful driver result of these three company-perspective results, we'll include a fourth:

6. customers are emotionally engaged with us

Let's now look at how you can measure each of these essential results for your customer relationship process. That's Step 3 in our process: choosing the customer measures.

STEP 3: Choosing the customer measures

We're not going to dominate our list with those two most commonly used metrics of customer satisfaction and complaints, and here's why…

Customer satisfaction has been researched and compared with other "states or feelings" that customers can have toward a company, and it usually comes up poorly in terms of predicting profitability. Extremely satisfied customers have been shown, by research conducted by the Gallup Organization, to be no more profitable than customers less than extremely satisfied.

And extremely satisfied customers have been shown to be less profitable than customers who are also "fully engaged" with the company. So customer satisfaction, while it did a fab job of focusing organisations on customer service in the 1980s and early 1990s, is no longer among the most powerful and transformational measures for customer relationships. As Gallup say in one of their articles: *Satisfaction without engagement? Worthless. Satisfaction with engagement? Priceless.*

And on the topic of Number of Complaints as a measure of customer relationships, the diagnosis is even worse. Firstly, complaints are usually offered up by customers who are passionate enough to complain. There will certainly be customers who defect and leave you, who couldn't be bothered complaining. And Number of Complaints only offers you one side of the customer experience spectrum: they only tell you the bad side and not how frequent or how impressive the good side is, when customers are delighted with your product or service.

And personally, I also try to avoid measuring "in the negative", where you're measuring what you don't want. It keeps your attention on what you don't want – and how to avoid it – rather than keeping you focused on what you do want, and how you're going to achieve that.

My advice is don't bother measuring Number of Complaints, but have a system for managing them as one of those "moments of truth" in the customer relationship. And you may still get value from measuring customer satisfaction, but don't use it as the ultimate measure of your customer relationships because it's just not powerful and all-encompassing enough. It only has value when used in companion with other measures.

Now let's go through our customer relationship success results that we covered before, and look at how we can measure each of them. Here's a reminder of what those results are:

1. customers get a very high return on the money and effort they invest in us
2. customers' expectations of us are constantly exceeded

3. customers are profitable to us
4. customers are loyal to us
5. customers love us so much they tell their colleagues and friends to use us
6. customers are emotionally engaged with us

Customers get a very high return on the money and effort they invest in us

Our first customer relationship success result is "customers get a very high return on the money and effort they invest in us". The simplest measure to track this is:

1. **Customer Perception of Value = the average rating of customers' overall perceptions of the value they get from using your product or service, relative to the cost or effort associated with using it**

This isn't the same as customer satisfication, because you're asking the customer to weigh up what value they got for the investment. Customer satisfaction is just about how they felt about what they got. It's much less specific.

Customers' expectations of us are constantly exceeded

Our second customer relationship success result is "customers' expectations of us are constantly exceeded". If customer satisfaction fits anywhere, it's here.

2. **Overall Customer Satisfaction = the average rating of customers' overall satisfaction with the service or product.**

Another useful measure for this result is:

3. **Exceeding Customer Expectations = the percentage of customers whose expectations of our product or service were exceeded.**

I probably wouldn't use both Overall Customer Satisfaction and Exceeding Customer Expectations – I'd pick one and stick with it. It can be very subtle, but these first three measures are so different from each other, even though they are survey based. It's all in what question you ask your customers.

Customers are profitable to us

The third customer relationship success result is "customers are profitable to us". One of the most spoken about customer related measures of recent years is Customer Lifetime

Value. And it's a very good fit as evidence of how profitable our current customer base is to us.

4. **Customer Lifetime Value = the present value of the future cash flows attributed to the customer relationship.**

But even I find Customer Lifetime Value to be slightly esoteric, and I prefer the simplicity of this measure:

5. **Customer Profitablity = the difference between the revenues earned from and the costs associated with the customer relationship during a specified period.**

Customers are loyal to us

"Customers are loyal to us" is our fourth customer relationship success result. It's also called Customer Retention and it's usually got a lot to do with the length of relationship a customer has with you. A very common method of measuring retention, well in fact it's measuring the opposite of retention really, is:

> Customer Churn = the number of customers who *discontinue* a service during a particular time period divided by the average total number of customers over that same time period.

So you could really flip this around to create Customer Retention, and this is the measure we'll keep:

6. **Customer Retention = the number of customers who continue a service during a particular time period divided by the average total number of customers over that same time period.**

Customers love us so much they tell their colleagues and friends to use us

Our fifth customer relationship success result is "customers love us so much they tell their colleagues and friends to use us". A very hip measure lately is the Net Promoter Score, and its intention is to guage the net impact of how your customers speak of you to their friends and colleagues.

7. **Net Promoter Score = the percentage of customers who are Promoters less the percentage who are Detractors, as an indicator of the overall promotion our customers are likely to do for us.**

We'll see soon how you can work out who are the Promoters and who are the Detractors, but basically this is a nice and simple measure that's widely adopted and is building a strong following, and that means there's quite a bit of benchmarking data for you to compare your company with.

There's another good measure for this result of customers referring your company to others, and it's this:

8. **Customer Referral Value = the value of the business brought in by the new customers that your existing customers refer, less the marketing costs that prompted your existing customers to make the referrals.**

Customers are emotionally engaged with us

Our sixth and final customer relationship success result is "customers are emotionally engaged with us". One of the simplest and most rigourous measures for how emotionally engaged customers are with a company, that I've come across so far anyway, is this one:

9. **Customer Engagement Ratio = the proportion of fully engaged to actively disengaged customers**

It's based on an 11-item engagement survey that covers four key attributes of engagement: Confidence, Integrity, Pride and Passion. The survey classifies customers into 4 distinct groups: Fully Engaged, Engaged, Disengaged, Actively Disengaged.

Other customer relationship measures

Now, certainly there are more customer related measures out there! And you don't have to limit yourself to the nine that I've offered you here. But before you take on any customer measure at all, make sure it relates very directly either to one of the six customer relationship results we've explored, or to another important customer relationship result that you've identified is important to you.

For example, a couple of additional measures that also relate to our sixth customer relationship success result, which was "customers are emotionally engaged with us" are:

> Frequency of Feedback = average number of suggestions or comments volunteered by customers in relation to our products, services or brand.
>
> Loyalty Through Poor Service Experiences = the percentage of customers who experience a breakdown in our service delivery, and are retained despite the breakdown.

And there are other measures, which would relate to slightly different but certainly related results, and many in fact would be drivers of the results we've talked about. Let's go through just a few now, to give you a taste:

> Share of Pocket = the percentage of customers' actual spend on products and services in our category which they pay to us, versus our competitors.

Mean Time Between Purchases = the average time between each purchase that a customer makes with us.

Average Transaction Value = the average value of all the transactions a customer has made with us.

Debtor Days = the average number of days it takes to collect payments from customers.

True Fans = the number of customers who have purchased every product or service we offer.

Customer Recency = the average days since customer last purchased or visited.

Repeater Customers = the average purchases or visits per customer.

Customer Acquisition Cost = the average total marketing spend to attract each customer.

Remember: no matter what you measure, always be sure that you have defined the important result you want to achieve or create or change, before you even think about what the measure should be. Don’t try and retrofit your measures to results, because you’ll end up measuring the wrong things for the wrong reasons.

Summary of the customer measures

But let’s go back and review our 9 powerful measures for a customer relationship, and I’ll summarise them now for you:

1. Customer Perception of Value = the average rating of customers’ overall perceptions of the value they get from using your product or service, relative to the cost or effort associated with using it
2. Overall Customer Satisfaction = the average rating of customers’ overall satisfaction with the service or product.
3. Exceeding Customer Expectations = the percentage of customers whose expectations of our product or service were exceeded.
4. Customer Lifetime Value = the present value of the future cash flows attributed to the customer relationship.
5. Customer Profitablity = the difference between the revenues earned from and the costs associated with the customer relationship during a specified period.
6. Customer Retention = the number of customers who *continue* a service during a particular time period divided by the average total number of customers over that same time period.

7. Net Promoter Score = the percentage of customers who are Promoters less the percentage who are Detractors, as an indicator of the overall promotion our customers are likely to do for us.
8. Customer Referral Value = the value of the business brought in by the new customers that your existing customers refer, less the marketing costs that prompted your existing customers to make the referrals.
9. Customer Engagement Ratio = the proportion of fully engaged to actively disengaged customers

STEP 4: Implementing the customer measures

So we've quickly looked at the 9 customer relationship measures, and now we're going to delve a little deeper and talk about some of the practicalities with measuring each of them:

Customer Perception of Value

This is the average rating of customers' overall perceptions of the value they get from using your product or service, relative to the cost or effort associated with using it

This is a question that you ask your customers in a survey, and it would go something like this: "How do you rate the value you have received from our product or service, relative to the investment you made in that product or service?". The idea is to get customers thinking about the whole package, and its net effect on their business or their life. Obviously, the higher the value customers believe they are getting from you, the better the customer relationship.

Customer Perception of Value is usually measured through a survey, and on a rating scale of 7 or 10 points. You don't have to label every point in the scale, and it's easiest and clearest to label just the extreme points and the mid point. With my own value survey, the rating of 1 is labelled "Complete Waste", the rating of point of 10 is labelled "Outstanding Value" and inbetween the ratings of 5 and 6 is the label "Only Just Worthwhile".

To calculate the Customer Perception of Value measure, you're just averaging the ratings for that question in your survey.

Overall Customer Satisfaction

This is the average rating of customers' overall satisfaction with the service or product.

Data requirements

Let's make something clear right up front: Overall Customer Satisfaction is most definitely NOT the average of a range of satisfaction ratings that each come from questions in a survey that relate to a range of service attributes.

Imagine you have a customer satisfaction survey, and you ask a dozen questions, like: "How satisifed are you with the professionalism of our staff?" or "How satisfied are you with how quickly we respond to your enquiries?" or "How satisfied are you with the accuracy of our reports?" or "How satisfied are you with the colour range of our handbags?" Even though it's important to measure satisfaction with specific attributes of your product or service, your Overall Customer Satisfaction measure is not an index based on averaging all the individual satisfaction ratings.

It has to be a question in its own right. That's because it's more accurate that way. You can never be sure that the other more specific questions in your survey are a true and complete representation of everything that affects overall satisfaction, or of the relative weight that customers put on each of those attributes when they judge overall satisfaction. It's so much easier and more accurate to simply add the question to your survey: "How satisfied are you, overall, with our service to you?"

The scale I prefer is a 1 to 10 point scale, and that's mostly from experience and finding that a 5-point or 7-point scale has lots of people circling in between two ratings rather than picking one of those provided. It rarely happens with a 10-point scale, it seems like there's enough to choose from.

Calculation

You calculate your Overall Customer Satisfaction rating as the average of the ratings customers provided. That gives you a better picture than the % of customers who rated above five. Anyone rating less than a seven or eight probably isn't really satisfied anyway. And using the average makes it easier to pick up smaller changes in your Overall Customer Satisfaction too. Your average can move because more people are rating higher than a 5 but not quite as high as an 8, but your % of customers rating above a 7 won't change at all.

Exceeding Customer Expectations

This is the percentage of customers whose expectations of our product or service were exceeded.

Data requirements

Exceeding Customer Expectations is different to satisfaction in the way the question is asked, and the kind of scale customers are rating on. In its simplest form, you'd ask a question like "Overall, how well did we meet your expectations of the service or product?" and you give three options: expectations were not met; expectations were only just met; and expectations were exceeded.

You can expand this out to a 5 or 7 point scale, but the key is to keep the scale based on an odd number, so you can always retain that middle rating of "expectations were only just met", which is like a balance point. If you use a 5 or 7 point scale, you don't have to give the extra ratings a label of their own – you can just keep the labels for either extreme of the rating scale, and the middle point.

So in the case of a 7 point scale, rating 1 would be labelled "expectations were not met", rating 2 and 3 would be unlabelled, rating 4 would be labelled "expectations were only just met", ratings 5 and 6 would be unlabelled, and rating 7 would be labelled "expectations were exceeded".

Clearly surveys are the way to gather data like this. And like with Customer Satisfaction, you can measure expectations for a range of service or product attributes.

Calculation

Unlike Customer Satisfaction, it seems to make more sense to calculate the measure of Exceeding Customer Expectations as a percentage, where you're looking at the percentage of customers whose expectations were exceeded. It's a nice and clear result to focus on, and it makes intuitive sense to people: you want to exceed the expectations of as many customers as possible.

And I think you should choose between Overall Customer Satisfaction and Exceeding Customer Expectations, rather than doing both. It just seems a waste.

Customer Lifetime Value

This is the present value of the future cash flows attributed to the customer relationship.

Calculation

That's the definition that Pfeifer, Haskins & Conroy provide in their article "Customer lifetime value, customer profitability, and the treatment of acquisition spending" in the Journal of Managerial Issues Spring 2005 issue. There are other definitions around, and they are minor variations on the theme. But in general, the three components you'll need for measuring it are contribution margin, marketing cost, and probability of purchase in a given time period. Kumar and Rajan, in the Spring 2009 issue of Management Accounting Quarterly, explain that though it's called Lifetime Value, for practical reasons, it's often calculated over a 3 year period.

It's one of the hottest customer measures around at the moment, but that's not to say it doesn't have its critics.

Data requirements

The work you'll have to put into this measure of Customer Lifetime Value is not trivial. Many companies struggle to measure it consistently. Firstly, it's a very mathematical equation and attempting to describe it here won't do anything other than confuse you more. You need to have an accounting system that can attribute costs to individual customers. You need to have a good handle on the probabilities of customers repurchasing in the future. You need to be clear on your natural product lifecycles. You need to know and be able to predict your product and service margins.

Nonetheless, it's a measure that many claim to give them greater insights into their most valuable customers, so I wanted to include it in the list. It's up to you to do some more research, with your accountant, to determine if it's a measure that's worth the effort for you. And if not, the next measure we'll look at might serve you better for now.

References

"Customer lifetime value, customer profitability, and the treatment of acquisition spending" by Pfeifer, Haskins & Conroy, Journal of Managerial Issues, Spring 2005

"Profitable Customer Management: Measuring and Maximizing Customer Lifetime Value" by V. Kumar and Bharath Rajan, Management Accounting Quarterly, Spring 2009

Customer Profitability

This is the difference between the revenues earned from and the costs associated with the customer relationship during a specified period.

Data requirements

So what you're doing with this measure is looking at the profit that each customer adds to your bottom line, NOT just the revenue! If your customer relationship is a good one, then Customer Profitability will be higher.

You'll be relying on your financial system for the data for this measure. For each customer, you'll need to know the revenue they contributed, and that shouldn't be too hard. The trickier part is knowing the costs associated with each customer, because this will include cost of sales but also any relationship management costs too, like entertainment or updating records or after sales service or the marketing costs to attract them. It's up to you which costs you include in this measure, though. So I recommend you start with what you can easily get, and work toward what you ideally want.

Calculation

So basically, to calculate this measure, you're taking costs away from revenue for each customer, and then summarising this over all your customers, such as taking the average of all your individual customer profitability values. And you're doing this within a specific chosen time period, say on a monthly or quarterly or annual basis.

References

"Customer lifetime value, customer profitability, and the treatment of acquisition spending" by Pfeifer, Haskins & Conroy, Journal of Managerial Issues, Spring 2005

Customer Retention

This is the number of customers who continue a service during a particular time period divided by the average total number of customers over that same time period.

Data requirements

If you're going to measure Customer Retention, you need to think about how you'll actually know if a customer has left you, or is still with you. If they make frequent purchases, then that makes it easier, because they're still with you as long as they keep buying from you.

But when the purchases are infrequent, it's harder. So you need to work out what other indicators you could use to know with some certainty that a customer is "retained". For example, it might be the customers' attendance at breakfast seminars, reading your email newsletter, sharing their feedback or ideas on a product or service, requesting a brochure or meeting, or any other interaction they have with you that they have initiated or accepted from your invitation.

Calculation

Remember that the calculation of Customer Retention is the opposite of the broadly used Customer Churn. We're looking at counting up the number of customers that you can say are still with you at the end of a period. Let's say a month. And then calculate the average number of customers you had during the month, which is the number at the end plus the number at the start, divided by 2. And now divide your total number of retained customers by the average number of customers during the month. Voila: you have your percentage of customers retained, or your Customer Retention.

Net Promoter Score

This is the percentage of customers who are Promoters less the percentage who are Detractors, as an indicator of the overall promotion our customers are likely to do for us

Data requirements

Another measure that has its critics and it's raving fans is the Net Promoter Score, which has virtually become a movement spawned by Fred Reichheld's book "The Ultimate Question" and developed as a measure by Satmetrix, Bain & Company, and Reichheld.

The idea is that customers can be in one of 3 categories: Promoters who are loyal enthusiasts, Passives who are satisfied but unenthusiastic, and Detractors who are unhappy customers who can damage your brand. You want to grow your Promoters, don't you?

To measure Net Promoter Score, you need a survey of some kind which asks a question "How likely is it that you would recommend our company to a friend or colleague?" and you measure responses using a scale of 0 through to 10.

Calculation

The idea is that a score of 9 or 10 indicates that the customer is a loyal enthusiast and will keep buying and keep referring your company – they are a Promoter. A customer who scores you at 6 or less is not happy and will likely tell others about you in a negative light and that's why they are called Detrators. The rest – customers who rate 7 or 8 – are called Passives because they're probably satisfied but not super keen. It's not the same as satisfaction, because you're asking that very deliberate question "How likely is it that you would recommend our company to a friend or colleague?"

So from this data, you add up the percentages for the ratings of 9 and 10. Add up the percentages for the ratings of 0 through 6. Take the second percentage away from the first percentage. And that's it! Notice that your NPS can go negative, and obviously this is bad thing. But don't expect to get 90% or anywhere near 100% - even much adored companies like Google and Apple are only in the 70% range.

References

You can get heaps more information about the Net Promoter Score, like what a good score is, setting up your survey and how to improve your Net Promoter Score, at www.netpromoter.com.

"The Ultimate Question" by Fred Reichheld, Harvard Business Press, 2006

Customer Referral Value

This is the value of the business brought in by the new customers that your existing customers refer, less the marketing costs that prompted your existing customers to make the referrals.

Data requirements

The article "How Valuable Is Word of Mouth?" by V. Kumar, J. Andrew Petersen, and Robert P. Leone in the October 2007 issue of the Harvard Business Review explains this measure very well, because it is quite complex.

All kinds of assumptions need to be made about the number of successful referrals any customer will make, and the likelihood that those referrals would not have become your customer irrespective of the referral, and it's quite a nasty looking formula – even to me, and I've done 4 years of university mathematics! And it's because CRV, Customer Referral Value, is a lifetime estimate and not a snapshot of a customer's behaviour in just one month. Customer Lifetime Value is the same.

Calculation

If you're keen on being true to Kumar, Peterson and Leone's definition of CRV, then I recommend you brush up on your algebra and then read their article. It's probably only practical and worth the effort if you're a large corporate.

And if you're not, it wouldn't hurt to start playing around just with your historic data on customer referral value – looking at which of your customers have come to you because of another customer referring them, and tallying up the total profit those referred customers have contributed so far to your bottom line. And if you divide this total by the number of customers, you have a rudimentary way to start paying attention to your customer referral value.

Customer Engagement Ratio

This is the proportion of fully engaged to actively disengaged customers

Data requirements

Like I mentioned earlier, Customer Engagement Ratio is a measure developed by the Gallup Organization, and it's based on an 11-item engagement survey that covers four key attributes of engagement: Confidence, Integrity, Pride and Passion.

Confidence is the degree that customers believe the company will fulfil its promises. Integrity is the degree that customers believe the company will do the right thing, like solving problems. Pride is the degree that customers feel good about associating with the company. And Passion is the degree to which the customer feels emotionally connected to the company or brand.

The 11 questions are:

1. Overall, how satisfied are you with [brand]?
2. How likely are you to continue to choose/repurchase [brand]?
3. How likely are you to recommend [brand] to a friend/associate?

CONFIDENCE:

4. [Brand] is a name I can always trust.
5. [Brand] always delivers on what they promise.

INTEGRITY:

6. [Brand] always treats me fairly.
7. If a problem arises, I can always count on [brand] to reach a fair and satisfactory resolution.

PRIDE:

8. I feel proud to be a [brand] customer.
9. [Brand] always treats me with respect.

PASSION:

10. [Brand] is the perfect company for people like me.

11. I can't imagine a world without [brand].

They are measured on a 5 point scale of level of agreement. Incidentally, you can see can't you, that just by adding a few additional questions, you can use a single survey to gather the data for some of the other measures we've talked about, such as Customer Satisfaction (which is the first of the above 11 questions), Exceeding Customer Expectations, Net Promoter Score and Customer Perception of Value. That's being productive!

Calculation

Based on the CE11 survey data, customers are classified into 4 distinct groups: Fully Engaged, Engaged, Disengaged, Actively Disengaged. And then to calculate the value of the Customer Engagement Ratio, which is actually expressed as odds like "8:1", you divide the number of Fully Engaged customers by the number of Actively Disengaged customers. So if you got 100 Fully Engaged customers and 20 Actively Disengaged customers then your Customer Engagement Ratio would be 100 divided by 20, which gives you 5:1.

According to Gallup, for average organizations, the Customer Engagement Ratio is 0.8:1. And then in world-class organizations, the Customer Engagement Ratio is 8:1. Big difference, eh?

References

"Customer Engagement", the Gallup Organization, http://www.gallup.com/consulting/49/customer-engagement.aspx

"The Constant Customer" by Alec Applebaum, Gallup Management Journal, 2001

STEP 5: Using the customer measures

The 9 customer relationship measures will only be useful if you use them! So here are some ideas for how to listen to their messages, and improve your customer relationships.

Segmenting your customers for predictive analysis

Firstly, you can take many of your customer relationship measures and use them to segment your customers. Let me give you a few examples.

The first example is to use your Net Promoter Score to find which customers are your Promoters, which are Detractors, and which are Passives. Then you know you can encourage your Promoters to keep promoting, you can tweak your service quality for the Passives to elevate more of them to Promoters, and you can analyse your Detractors to discover where the mismatch is between your offerings and their expectations, and obviously find ways to decrease the number of those Detractors that you have!

Another example is that you can calculate your Customer Lifetime Value or Customer Profitability for each customer individually, and explore which customers are the 20% who bring 80% of the value to your business. Get to know who they are, what they love about you, what motivates them to buy – and then go find more of these customers.

You can do the same kind of thing with your Customer Engagement Ratio too – find out which customers are Fully Engaged, Engaged, Disengaged, and Actively Disengaged and then develop strategies for either improving their engagement or for gracefully ending the relationships with those customers that really don't match your ideal.

Segmenting your customers like this helps you target various marketing campaigns or relationship building initatives more closely to your customers, and that increases the chances that those campaigns and initiatives will work.

Digging deeper into drivers of engagement and satisfaction

You can also dig deeper into the customer data you have, particularly the additional questions you include on your customer surveys that focus on individual and specific attributes of service.

For example, if you've measured levels of satisfaction or how well expectations have been met for a range of attributes of your service – and these might include timeliness, being kept informed, friendliness of staff, accuracy of information, ease of working with you, and whatever your customers value about the kind of service you offer – then you can do a simple Pareto analysis on the satisfaction for these individual attributes to prioritise which aspects of your service to improve first.

I helped a passenger rail service do this years ago, and we discovered that it wasn't on time running of trains that was the priority, which they always had given the most attention to, but it was in fact safety and security on trains and platforms, and the clarity of announcements, that were the priorities for their customers.

Another useful thing to do is to map and analyse the business process that most impacts the priority customer service attribute. I helped one of my clients do this when their customer survey identifed that the accuracy of invoices was the highest priority to improve. The invoices were complex, and drew on operational and financial data systems that often didn't match up and contained errors and inconsistencies.

So we flowcharted the invoicing process across an entire wall of their meeting room – everyone was surprised how complex the process was once they saw it laid out in front of them – and we looked for the major opportunities to simplify it and remove the sources of error.

Analysing customer behaviour

You can also look at other data you already have about your customers – what they buy, when they buy it, what industry they are in, how big they are, how they found you, and all other kinds of facts – and you can correlate this data with your customer relationship measures. It will give you an even richer picture of who your customers are and how you can serve them better – how you can make your customer relationships stellar!

For example, an online business could make great use of the data their email management system would keep on which customers open all the emails the business sends, which industries those customers are from, what products those customers buy most, which marketing method originally lead those customers to the business. They could slice and dice this data for customers they know have higher Customer Profitabilty values, to learn more about which products to promote to which segments of their customer base, and what kinds of marketing messages are mostly likely going to get the best conversions.

So now you have a rationale and a selection of powerful customer relationship measures to start tracking for your business or organisation!

Got questions?

Q: What questions to include in my customer survey?

Our FIRST question comes from Zoe and she asks:

> *How do I work out what questions to include in my customer survey to track those service attributes?*

A: Ask your customers what you should be surveying them about.

Zoe one of the fastest and easiest ways to do this is take a small but random sample of your customers and ask them. If your business was leadership coaching and training, you'd simply ask a question like: "When you use a leadership coaching and training service, what are the most important things to you about the whole experience?"

You can segment your customer base if you like, so you then need to take a random sample within each segment. It doesn't have to be a lot – if you can just speak to 20 or 30 customers that can be enough to start seeing some themes coming up, some attributes of service that customers are mentioning most often. They might be things like "the coach keeps me accountable to my goals" or "the coach really understands my weaknesses as a leader" or "I feel the coach has my best interests at heart". I'm really just giving examples here – but it's so important to ask your customers because they're the only ones that really know.

Then for the 5 to 7 or so attributes that come up most often, you make questions out of them and add them to your customer satisfaction survey. So one of the questions might be "Zoe keeps me accountable to my goals." and you might use a rating scale from 1 to 10 for the customer to rate their satisfaction with how well you do that for them.

Don't make it too hard – but if you don't ask your customers, then you'll end up asking questions in your customer survey that focus you on things that don't matter to your customers.

Q: Which customer measures should I start with?

Our NEXT question comes from Joe and Joe asks:

I don't have time for all these measures yet but I really want to get started. What do you recommend I do?

A: Start with a survey that has 4 simple questions...

Joe I'm going to recommend what I do for all of my products and services – it's a survey I give to customers either at the close of a training workshop or a few weeks after they've purchased an online product. And it's based on 4 very simple questions that collect the data I need for Customer Perception of Value and Net Promoter Score.

I'll use the example of my Performance Measure Blueprint Workshop survey. The first question is "Overall, how valuable was this workshop to you?" and this is a 10 point rating scale. The second question is opened ended and it asks "Why didn't you rate any higher?" The idea here is get them to tell me the main reason they didn't rate the workshop as more valuable and that's a clue to me about what to improve. If you're curious, what I've learned from this question is that people's biggest concern about the workshop is their uncertainty about what it will be like to implement what they learn back at work.

The third question in the survey is "Why didn't you rate any lower?" and the idea is to find out what they value most about the workshop. They consistently tell me they love the practicality of the tools, the comprehensiveness of the content and the presentation style. So it helps me work out what to keep doing, what to market about the workshop and how to differentiate this workshop from others.

The final question is "How likely are you to recommend this workshop to others?" and that's the data for the Net Promoter Score.

So it's a simple 4 question survey that gives me all the data I need to be sure I focus on improving the workshop only in ways that will affect the value customers get from it. And you can fit it on an A5 piece of paper so it's easy and quick for customers to fill out. The questions are also easy to ask in a telephone or email survey too.

Q: How exactly is Customer Engagement Ratio calculated?

Our final question comes from Helen, who asks:

How do I work out the number of Fully Engaged customers and the number of Actively Disengaged from the CE11 survey?

A: Only Gallup has the answer...

To compute your Customer Engagement Ratio, you divide your number of Fully Engaged customers by your number of Actively Disengaged customers. But you'll need to engage Gallup to compute your Customer Engagement Ratio because they don't publicise their method of calculating the number of Fully Engaged customers and Actively Disengaged customers.

In other words, I haven't been able to find a definition of how to convert the CE11 survey data into a count of Fully Engaged customers and a count of Actively Disengaged customers. I do know it has something to do with how the ratings given by customers combine together, but Gallup don't publicise this proprietary information.

Don't let that bother you: having data for these CE11 questions can still help you focus on how to increase the engagement of your customers. Simply look at the areas that rated the lowest, gather some more feedback and ideas from your customers on those areas, and start work on your business systems and processes to improve those areas.

A message from the author, Stacey Barr

And there you have it! We've looked at 6 important results for stellar customer relationships, 9 powerful measures to track these results, and some tips for how you can implement these measures in your business or organisation.

Remember, this is a guide and not a prescription!

If you're struggling to measure customer relationships, then the suggestions in this how-to kit should give you some traction, even if you do change your course a little later on.

And this is far better than spinning your wheels because you're not sure where or how to get started.

I hope you get started very soon in implementing your new customer measures, and that you enjoy the process of discovering the best ways to build the value in your customer relationships!

Smiles,

Stacey Barr
Maven for Measuring What Matters

P.S. If you need some hand-holding in setting up your measures, I am more than happy to help you via one-to-one coaching. You can get more information about this at http://www.staceybarr.com/coaching.html

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