

CODEXX WHITEPAPER

Increasing client loyalty to drive financial improvement

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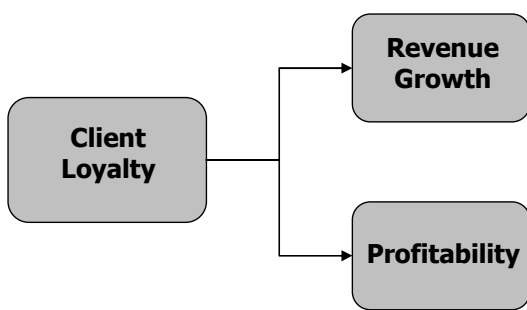


Introduction

Codexx whitepapers provide an informed and independent view of new or topical business thinking. This whitepaper examines the challenges and opportunities in improving the loyalty of clients and customers who purchase a service from an organisation. This service may be a professional service (such as accounting, law or consulting), a technical support service (such as maintenance or repair), a creative service (such as design, entertainment or leisure) or a service supporting fulfilment of a product (such as web purchasing, car or house buying). Note that the terms 'client' and 'customer' are both used to describe buyers. For convenience and also because the term implies a longer term, closer relationship, the term 'client' is preferred in this paper.

Client loyalty – what's it worth to you?

Client loyalty is always important, but never more so than in the depths of a recession. These are the times when you need your best clients to keep placing their business with you. Whilst you may be giving increased focus on your internal costs and efficiency to address the downturn in demand, you can't afford to take your eye off your key clients. Most businesses have a sales profile that is consistent with Mr Pareto's 80:20 rule – 20% of your clients will account for 80% of your revenue (or thereabouts). Losing a major client is a serious blow to any business at any time, but when the economy is booming, there is every likelihood that the shortfall can be eventually made up from new work. But in times like now when growth is a term more commonly applied to bankruptcies,



redundancies and debt - not revenue - losing key clients can be a disaster. High client loyalty directly impacts both revenue growth and profitability, for the simple reason that little marketing is required for existing clients and loyal clients are much more likely to buy other services from you. A study in 1995 by the consultants AD Little found that a 5% increase in customer loyalty generated an increase in profits of between 25-85%. So retaining key clients is critical to commercial success.

Figure 1: Impact of client loyalty

So what do you do to stop clients defecting? Well naturally you need to ensure that they are happy with you. And that means providing them with the best possible service and one that is sufficiently competitive that your clients will not accept the costs of change and move their business to a rival.

Only delighted clients are loyal

Client satisfaction is a term that is regularly bandied about in businesses. Many businesses will seek to measure client satisfaction following a project completion or – for major clients – on a yearly basis. However, the valuable messages from clients do not always get through to the appropriate management.

Figure 2: Only delighted clients are loyal



For instance, if client satisfaction measures are a KPI (key performance indicator) within the business or linked to compensation, then a conflict of interest can arise between 'only a good score will do' and 'what did the client really think of our work?' Also there is the client view to consider - unless the project went so poorly that they are seeking compensation, often they will not want the hassle of making and then having to defend any critical complaints, but will mark the work 'Satisfactory' or simply not complete any satisfaction survey and next time they need the service will go to another provider. If you are to gain benefit from a client satisfaction survey you must approach clients with a demonstrably open mind, indeed one that welcomes any criticism and suggestion. Some organisations have a goal of eliminating client complaints – which on the surface would seem admirable, but would actually result in loss of client feedback (a better goal would be to reduce the severity of the matters being complained about through service improvement, so that complaints effectively become improvement suggestions).

As a result, many firms do not have a clear understanding as to their clients' level of satisfaction nor whether they would be likely to defect if they were introduced to a new rival proposition, particularly one that was at a lower price. Nor are they using the information they are getting to improve service to their clients in a structured way. And it is critical to do so. For as shown in Figure 2, clients that are merely satisfied will not be loyal – they may well defect if a rival proposition is perceived to be superior (in dimensions critical to them – price, function etc.). Did you notice the deliberate choice of words there? *Perceived* to be superior. Clients know your service, as they have experienced it 'warts and all'. But they will only know of many of your competitors' offerings through perception alone – based on marketing messages and the experience of colleagues. This is why delighted clients are so powerful, as they become advocates for your firm – and also why dissatisfied clients are so toxic. The best way to sell your service to a new prospect is not to sell it at all, but to have it 'sold' for you by an existing client through enthusiastic recommendation. So not only do loyal clients lower your cost of marketing for them, they help in growing new business.

The service value chain

A powerful approach to monitoring and improving service to clients is the concept of the *service value chain* (Figure 3). This shows how service quality and value + effective employees delivers highly satisfied and loyal clients and hence bottom line benefits. To generate high levels of client satisfaction, the service value chain must be effective across the whole chain, as any weak link can result in a service failure. This is why service to an internal client (e.g. a department or another office) needs to be excellent to enable them in turn to provide an excellent service to the ultimate external client. In a services business, it is your people who typically provide the service and so their performance is critical. They must realise the required values of their firm in the way they work and interact with clients. However, people are individuals and this creates a challenge in providing a consistent service at target quality levels.

In addition, the service also needs to be delivered in a profitable way. Therefore, to meet the goals of service, consistency and margin, the service needs to be considered as a business process and designed and operated to best deliver the service to clients. The employees delivering the service must be trained to deliver this service, the process then monitored to ensure it is operating as planned and employees engaged and involved in maintaining and improving the service experience.

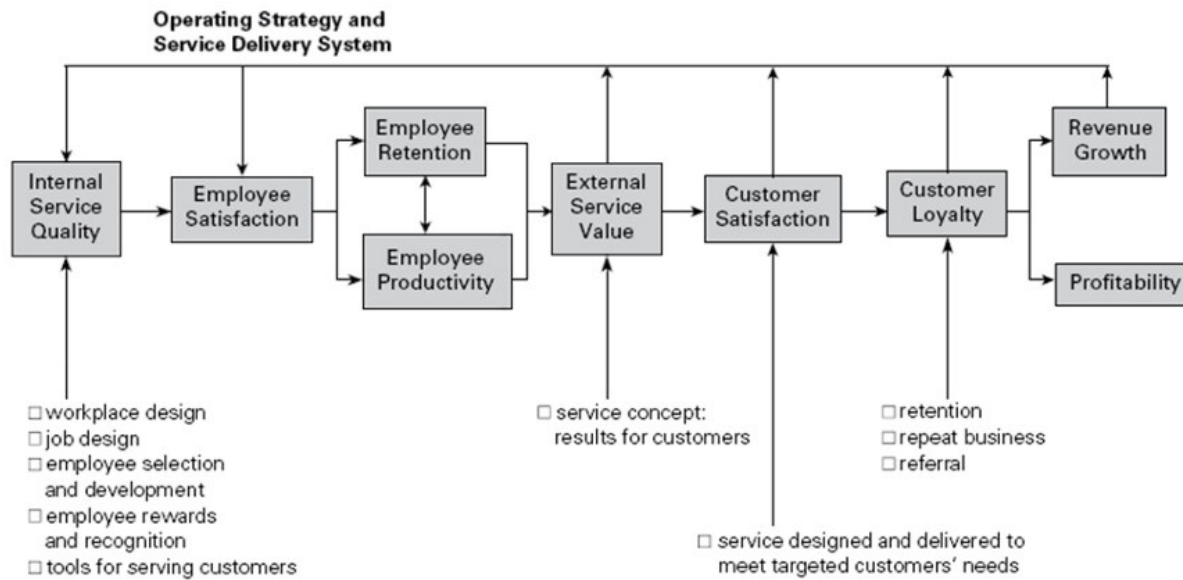


Figure 3: The service value chain

Source: "Putting the service-profit chain to work", Heskett J.L. et al, Harvard Business Review, 1994

Applying process thinking to the service experience

Business process thinking can be a challenging concept in some areas of services – particularly in professional services. As shown in Figure 4, both products and services can be placed against a *continuum of uniqueness*, with one end representing highly repetitive products and services and the other end true ‘one-offs’. The humble hamburger is a repetitive product, produced in its billions every year (although even here there is some configuration of weight, extra fillings etc.). In a services environment, an insurance claim or a probate typically falls into this area. These services are sometimes referred to as ‘commoditised’ services where providers and clients often believe little differentiation can be made. (This is not always the case however - witness Starbucks elevation of the humble coffee bean to become the core of a high margin offering that is a café, a meeting room, an internet connection, a place for networking, a place for romance...).

Figure 4: The services continuum of uniqueness

services	<ul style="list-style-type: none"> ▪ Tax advice ▪ Litigation ▪ M&A 	<ul style="list-style-type: none"> ▪ Due Diligence ▪ Audit ▪ Project management 	<ul style="list-style-type: none"> ▪ Probate ▪ Company accounts ▪ Insurance claim
level of uniqueness	One-off	New configuration	Repetitive
products	Art work	Car	Hamburger

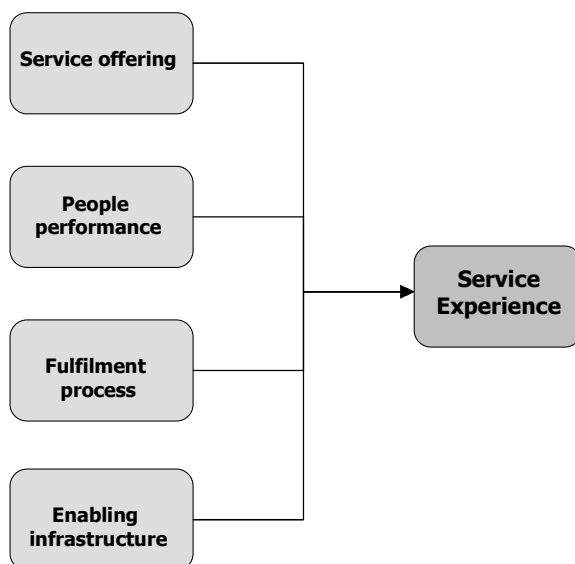
Services with more configuration include a company audit or a due diligence service for a company purchase. Whilst there are very few true one-offs, services such as litigation, design or tax advice typically comes closest, although even here there are common elements such as depositions, design elements, research etc. In professional services firms, there can be a black and white

thinking about applying business process management (BPM) in services. This thinking is that repetitive/commoditised services are suitable for BPM, but other services are 'too unique, too specialised' for this approach to work. The reality is of course that even specialist services do have common elements that are linked by a unique configuration for the job. So undoubtedly process management can be applied. To ensure consistent and high quality client service, process thinking is needed. It is needed to design a high quality experience that can be deployed across an organisation to enable a consistent service. If a service is based solely on the talents of a few key individuals and their ways of working, it will not be consistently delivered – leading to service failures - and cannot be easily scaled up without impacting quality.

It's all about the client experience

Ultimately, client satisfaction depends on their experience of your service. As shown in the service value chain, the service experience depends on a number of elements. There are four key experience enablers (Figure 5), all of which can be managed and improved to deliver an improved client experience:

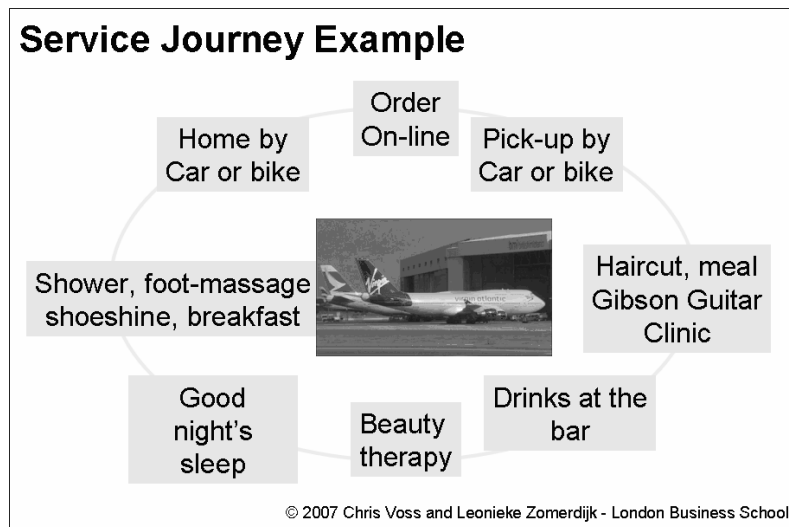
- **The service offering** – this is the service that is being provided, be it a building design, legal advice or technical support. There is a specialist content that the client is purchasing. The service offering can be improved through innovation – both incremental ('do better') improvement of the existing service or the more dramatic 'do different' reinvention of the service. One example of a service reinvention was the offset mortgage, first launched in 1997 by Britannic Money and closely followed by the Virgin One offering. This new service offering was highly attractive for customers with savings. A different example is Harley Davidson. By motorcycling performance standards Harley-Davidson's bikes are by no means 'the best' – their technology is not the latest, they are not the fastest or best handling and they do not claim to be the quality leader. Yet they are sold at a premium price and their depreciation is amongst the lowest in the industry. How is this possible? Well, comparison with other motorcycles



matters little, for Harley Davidson is more likely to be competing against the purchase of a second-hand sports car, flying lessons or an adventure holiday. Exciting lifestyle purchases that a middle-aged (typically) male might make. Harley-Davidson is not selling a product; it is selling an experience, a lifestyle statement that is compelling to many. As their Chief Executive, Jeff Bleustein said: *"It's one thing to have people buy your products; it's another for them to tattoo your name on their bodies."* Harley-Davidson's brand and image enable a profitable business selling an experience that is miles away from the cut-throat business of selling motorbikes on function and price.

Figure 5: Client experience enablers

In seeking to differentiate their service on the highly competitive North Atlantic route, Virgin Atlantic redesigned their service both to address the total 'end-to-end' customer experience (i.e. the real journey, not just the time on the plane) and to also add 'delighters to the on-plane experience. The result was a superior travel experience for business class passengers by removing hassle and adding



removing hassle and adding delighters such as bar drinks, beauty therapy or even a guitar clinic (see Figure 6). The market perception of Virgin Atlantic's service experience was so strong that many customers became strong advocates of the brand. The power of perception is well illustrated by the fact that a number of advocates of Virgin Atlantic had never even used the service!

Figure 6: The service experience at Virgin Atlantic

- People performance** – in delivering the service. As well as providing the service, employees should be following the process to ensure consistency, but also able to respond to service failings or unique client needs (if the service is anything other than a standard repetitive offering). In a services environment, people must be empowered so that they can make judgement calls on what is needed to be done to best serve the client now for the longer term benefit of the business. Clients will highly value actions taken by the service provider that will help them when something has gone wrong. Employees also need to work 'with a human face' – 'people buy people' may be an old term, but it is very true and professionals need to remember that they not only need to be specialists in law/accounting/architecture or whatever service is being offered, but also good at interpersonal skills – only then can a true relationship be made with the client. In considering the requirements of an organisation's employees in delivering a high client experience, a useful model is one of 'hearts & minds & hands': employees must *want* to deliver excellent service, they must *know* what is required and they must be *able* to deliver it (Source: Adapted from 'Managing the Customer Experience' by Smith and Wheeler).
- The fulfilment process** – that is followed in delivering the service. How will the service be provided to the client? Will it be delivered by 'grey hair' experts in a totally custom way or will it be standardised and delivered by lower skilled personnel or perhaps via the web? How much of the process can be standardised and how much has to be flexible? What approach would the client value the most? What are the key 'touch points' with the client in the process and how can excellent outcomes be achieved at each of these points? These are all key considerations in designing the service process.

Two examples of how the fulfilment process can be improved in the service environment, based on our projects with clients: The first was for a defence services business seeking to improve

client satisfaction. Mapping of their 'bid to bill' process and a review of the performance of key touch-points with clients identified a number of improvement needs. These were particularly in the consistency of operation of the process, an increased focus on the client relationship and in application of Lean¹ thinking to reduce non-value adding activities. Together these improvements would significantly improve the client experience and thus increase client business. The second example was a project to re-engineer a service line for a major UK law firm. Mapping and analysis of the current process showed that there was not a clearly understood or consistent approach to delivering the service – thus creating quality issues and time delays – and that many tasks were being performed by over-qualified (and thus expensive) personnel. By standardising and documenting the process and implementing a new team-based organisation, the firm was able to deliver a quality process more consistently and at much lower cost with less skilled personnel.

- **Enabling infrastructure** – such as websites and other IT applications, buildings, offices and vehicles used in delivering the service. A number of professional services firms have examined the 'journey' the client makes in dealing with them. This has typically focused on the infrastructure element, e.g. 'Could they park easily? Did they get greeted properly in reception? Were the toilets clean? Did we answer the phone by the fourth ring?' These are indeed all important hygiene factors (i.e. not really noticed unless they are absent) and managing them effectively will ensure that clients are not dissatisfied, but it takes more than thick pile carpets in the office to create a delighted client. Money would be better invested in key client touch points that clients would value – such as finding information on the website or getting a rapid email response to a query.

Apple has used infrastructure to improve their customer experience through their retail strategy. It has established stores on prime high-street locations to promote the Apple brand and to do much more than simply sell their computer and iPod products. The first Apple Store opened in 2001, and they now have 177 world-wide. Apple's Vice President of Retail Strategy, Ron Johnson said, *"We want to make sure that they [the customer] have such a great experience of owning them that they will stay with us for a lifetime and become promoters to their friends. It's basically another way Apple can increase its market share – not just with the products and software but with the ownership experience. The front line of that is our store."* (Source: Daily Telegraph 21-4-07) To this end Apple's stores dedicate more than half their floor space to customers who already own Apple's products and use the store for support on existing products (using its 'Genius bar' for face-to-face problem solving sessions with Apple technicians), for learning (using the 'Studio' for learning how to further exploit Apple product functionality) for leisure (watch concerts in the Theatre) for socialising (with like-minded Apple users) and for purchasing; (oh yes - Apple products are sold here too!). Leading supermarkets have for many years used their store design and layout to create retail 'theatre' to maximise sales per square foot, through an improved customer experience. A final example is Amazon

¹ Lean is a business improvement approach initially developed by Toyota for efficiency improvement in its factories from the 1950s and now being used in industrial, service and public sector organisations world-wide. Lean value-stream mapping is a useful foundation for client experience mapping and the focus on 'waste' elimination a powerful approach to improving client value.

which of course focuses on exploiting its internet presence and its distribution operation to deliver its typically excellent customer experience.

Wow your client!

In many service sectors, such as law or accounting, there can be little differentiation between the service offering (i.e. the technical elements of legal or tax advice), the infrastructure (offices and websites are typically smart and effective), the people delivering the service (typically knowledgeable and professional) and rarely any difference in the process used to deliver the service. So clients are often left to choose a service provider on price, relationship or recommendation alone. If this situation exists, service providers must act to differentiate themselves, otherwise their service will be considered a commodity like the others. This is where innovative thinking is required to re-engineer the client experience so that a firm can clearly stand out from rivals. It also provides an effective barrier to rivals as it's fairly easy to copy a service offering, but difficult to copy an experience. Experience re-engineering can address all four of the previously discussed experience enablers. For example, in client experience projects we have applied Lean techniques to improve the effectiveness and efficiency of the service process itself, used brainstorming techniques to develop new and enhance existing services, exploited the web and other internet-enabled tools and also helped clients consider how they could *wow the client*.

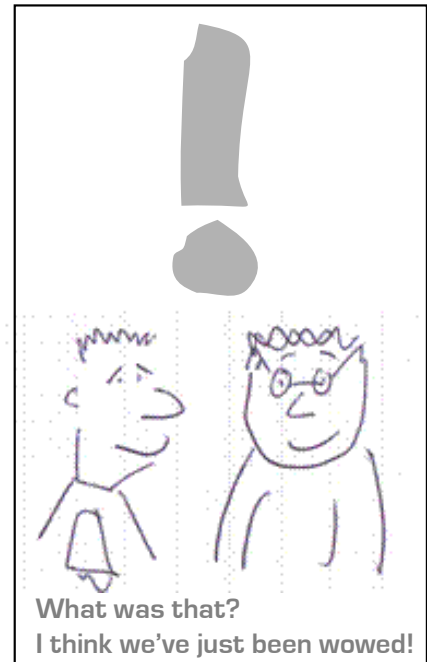


Figure 7: How can you wow your client?

'Wowing' clients requires their expectations to be exceeded – so you need to deliver something extra or work in a superior way. We're not talking about gimmicks, but something that will truly add value to the client experience. This can include providing an additional service element at no extra charge, a radical new format for the report – a podcast or video – a unique setting for a key meeting or a specific personal touch. This does not always require more money. Your firm will have capabilities and relationships that can enable you to do things that aren't expensive for you, but would be for the client and thus have high value to them. For example, PA Consulting used the Second Life virtual world to mock up a new bank layout for a client and then brought the client personnel into Second Life to 'walk through' the new layout and make suggestions for improvement. Much more valuable for the client than a traditional Powerpoint presentation.... Wowing can sometimes be very simple to achieve, such as the Estate Agent who presented house purchasers with a bunch of flowers on arrival in their new home. Guess who they will contact when it comes to selling that house? Whatever the 'wow' proves to be, it needs to be considered for each project. This requires a different service culture within a firm – one that focuses on delighting and not just satisfying clients.

Improving the loyalty of your clients

So, improving client loyalty generates clear bottom line benefits. It's obvious really. What is not so obvious is how to improve and maintain high client loyalty in the most effective way. In our experience, there are five critical success factors that need to be managed in creating high client loyalty:

- **Understand client expectations and what improvements they would value**

This means spending time with your key clients, to get to know their business and how they use your service. Try to 'walk in the clients' shoes. As the famous advertising man David Ogilvy said: *"I have always tried to sit on the same side of the table as my clients, to see problems through their eyes. When I take a total view of their business, I am better able to give them sound advice."* As well as understanding their core requirements, find out what additional elements they would value or how the service might be better delivered. To do this well requires a deep understanding of a client's business and their own customers. How do you gain this understanding? There are a number of ways, here are some: locating some of your people in your client's offices (this is how Tesco ensures their own suppliers know Tesco's business – the Tesco Week In Store (TWIST) programme gets supplier personnel in the supermarket); making the most of secondments in clients (this is a common requirement by major clients on law firms, but few law firms focus and exploit the learning opportunity this provides); close monitoring of internet forums on your products and services to identify and understand user issues; 'mystery shopping' of your own service to get an objective view as to the service experience.

- **Design the client experience to exceed the client expectations**

Mapping the current or 'AS-IS' client experience will identify improvement needs, but fixing current weaknesses alone will not necessarily deliver a superior client experience. You will need to consider innovative ideas to create a new enhanced TO-BE experience. Examples include better use of the web, texting and email to keep clients informed of status and progress (this is often a client bugbear in services as disparate as insurance claims management, probate and maintenance); increasing the value-adding time spent on the client by reducing non value-adding costs such as reviews, inspection, correction, finding files etc. using Lean techniques (we have found this a common improvement opportunity and significant waste reduction can be made); reducing the price of the service through Lean-enabled waste reduction; dramatically improving the speed and convenience of the service by making it a web-enabled self-service – this approach has transformed the purchasing of cars by enabling buyers to create and review different configurations of styles and features on the web, it has simplified the yearly renewal of car tax, it has also powered the paradigm of the 'price comparison website'. Whatever approaches are used, you need to take an innovative approach and challenge current ways of doing things. A well known example of this is Cirque du Soleil who successfully challenged the establish paradigm of 'the circus' and redesigned it to appeal to a modern audience who wanted to view stunning and sophisticated acrobatic and clown performances in a comfortable setting. They took out the animals and so-called 'star performers' and took the circus upmarket and up-margin too.

- **Monitor the actual client experience and address shortfalls**

It's not good enough to create and implement a new client experience and then leave it. You will need to check that the experience is delivering as it is supposed to. Are your people following the process? Does the service offering still match the client's requirements (or have they changed)? Is your service delivery process still competitive? Does the infrastructure need refreshing (e.g. website content, reception areas, hotel rooms)? There are a number of ways to check on this: client satisfaction surveys, mystery shopping, experience reviews. There needs to be a systematic 'Experience Assurance' process put in place, together with ownership so that you are confident that the required reviews are taking place and improvement needs are being identified and executed. Executives from Tesco and other leading supermarkets have for many years regularly visited stores to see first hand the customer experience. Managers from Continental airlines spend time with baggage handlers and staff at gates to see the customer experience through their eyes. Video can also be a powerful mechanism, Tom Kelley of the design and innovation company IDEO, recounts how one of their employees used a time lapse video of a hip-replacement patient's experience over 48 hours. It illustrated clearly the difficulty the patient had in resting due to the number of people entering and exiting the ward. (Source: 'The ten faces of innovation' by Tom Kelley).

- **Motivate, train, measure and reward your people against client experience standards**

How well are your managers and employees rewarded against client experience performance? When Gordon Bethune, the CEO of Continental Airlines was seeking to turn around the airline's poor service performance (and consequent financial losses) in the mid 1990s, he motivated staff to behave in a way that would improve key service performance. He announced that every month that Continental ranked in the top 5 airlines for on-time performance, each employee would receive \$65. At that time it was one of the poorest performers. Three months later it ranked first. Fortune magazine selected Continental as the Most Improved Company of the 1990s. Continental focused on providing a good customer experience by empowering their people and having the reward system linked to the customer experience. (Source: 'Managing the Customer Experience' by Smith and Wheeler). To drive the required changes, management must be onboard and their measurement and appraisal systems must reflect the customer experience.

- **Aim for the goal of 'Delighted and not just satisfied clients'**

As shown in Figure 2, only a Delighted Client can be expected to remain loyal. Satisfaction is just not good enough for key clients. However for years organisations have focused on 'Satisfaction' as the key client measure. Organisations need to look beyond simply satisfaction to retain their most important clients. Glasses Direct, a UK company, started up in 2004 with the goal of bringing good quality glasses to the market at much lower prices than established retailers such as Specsavers. They became the first online prescription glasses retailer, using the web and a network of opticians and suppliers to deliver glasses at significantly lower prices than existing competitors. They worked to create a specification, selection and delivery experience via the web. The process is easy and thorough, enabling users to check frame styles against their face by uploading a digital photo, typing in their glass size and prescription to check for suitable frames, online and phone support and a fast delivery process with no quibble return. The result is customers that are delighted with their high street standard glasses, ordered from the

comfort of their own home and typically at 50% of the price of competitors. Where do you think their customers will go for replacement glasses?

A systematic approach to client loyalty improvement

As an example of a systematic approach to client loyalty improvement, we'll use the Codexx Client Loyalty Improvement Programme' (CLIP). CLIP is a structured and practical approach to improving the existing client service experience and putting in place an ongoing 'Experience Assurance' process to monitor client service and make improvements as required (Figure 8 shows a summary of the approach). CLIP is based on Codexx experience in client-focused re-engineering for professional services and industrial clients. Due to resource limitations, a business needs to focus on its key clients for improvement. By selecting a key service line, the current client experience can be determined through mapping and input from a selection of clients. Mapping is powerful in that sharing a diagram of the 'AS-IS' with clients is very effective at generating useful discussion and qualitative input. Client input, either through interviews, workshops or shadowing will help determine key client needs and also ideas for value-improvement. In a recent Codexx project assessing an international engineering company's supply chain practices, telephone interviews were used with customers (and suppliers) in Europe, USA and China to determine the company's performance against key experience areas using best practice templates. This enabled quantitative scoring and hence identified improvements.

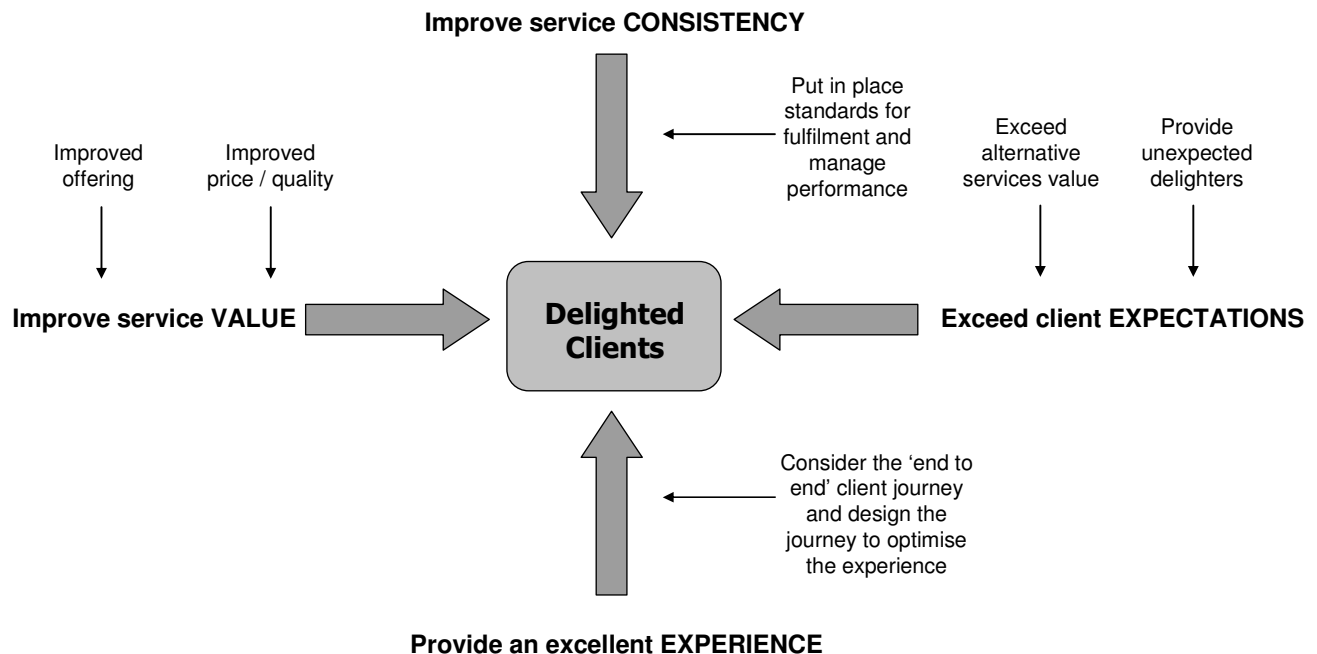


Figure 8: Improving client satisfaction through a Client Loyalty Improvement Programme (CLIP). Source: Codexx

An improved 'TO-BE' experience (covering the offering, people, process and infrastructure) can then be developed and reviewed with clients to gain their buy-in to changes and also to demonstrate the potential improvements they will receive. In implementing the planned changes,

small fast 'quick win' improvements will generate a momentum for change. In tandem with the improvements in the experience a 'closed loop' system needs to be put in place – an 'experience assurance' system – to check that the new experience is being delivered satisfactorily to the benefit of clients and the business.

Taking that first step

We've illustrated a structured approach to client loyalty improvement, but you can get started very easily. Here's how: Select a client with whom you have excellent personal relations. Invite them out for lunch, a coffee or a drink and tell them that you want to hear about their experience in dealing with your firm. And ask them to tell it like it really is. Ask some good open questions, such as: 'Why do you do business with us, rather than our competitors?' 'What do you like about our service?' 'What would you change about our service if you could?' Bite your tongue and listen. Really listen.

Further information

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