CS/D&CB '93 PRACTITIONERS' PANEL PRESENTATIONS

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The following edited passages are from the transcriptions of the practitioners' panel presented at the 1993 CS/D&CB Conference held at the University of Tennessee at Knoxville.

DAVID SCHUMANN (MODERATOR):

It is my pleasure to introduce this next panel. In developing this conference, we wanted to include some panels that would bring to discussion some ideas and issues from the world of the practitioner. The University of Tennessee and our College of Business Administration has as part of its mandate increased partnerships with business and industry. With this mandate in mind, it was believed that the attenders of this conference would benefit from the feedback of those professionals who are applying notions of "consumer/customer satisfaction" in their work on a daily basis. This panel of distinguished practitioners are continually dealing with customer satisfaction data, customer satisfaction measurement systems, and customer satisfaction based strategies. What I have asked them to do is to give us a sense of what specifically they are trying, and to describe some of the problems they face.

Panel Membership: Rob York is the Director of Total Quality Management at Kraft Food Ingredients in Memphis, Charlene Stocker is the Manager of Customer Value, Satisfaction and Appreciation in Customer Ordering and Processing at Procter and Gamble. Bala Subramanian is the Corporate Director of Marketing Research and Competitive Strategies at Promise Company. Andy McGill, a former consultant and now Director of the University of Michigan's Global Business Partnership, will serve as the discussant.

ROB YORK:

I'd like to say it is a pleasure for me to be here. I am one of those other guys in the industry setting and my title as Director of Total Quality Management, a lot of people say, what in the world do you do? That is a question that is sometimes difficult to explain. But, what I want to do is, first of all, let me tell you a little bit about Kraft Food Ingredients. Most of you know the Kraft brands, Kraft General Foods, a company that is owned by Phillip Morris. Kraft Food Ingredients is a subsidiary of Kraft General Foods and we are in the industrial foods business supplying food ingredients to manufacturers of food products. So we have a little different view. This morning I notice we are talking a lot about consumer satisfaction, if you will. Well, we are in a different business. We don't come face to face with the consumer. So that opens up some different avenues of opportunities or problems issues if you will.

In our business, a lot of times we talk about customer satisfaction but rarely do we fully integrate the concept throughout the organization. I just want to touch briefly on what are some of the issues we face within our organization and I am sure some of these other organizations face these same issues. I am going to run through these briefly if I can without going into a lot of detail. I have surfaced five real issues, questions, issues if you will that we face.

The first one is "Doing what we say we are going to do." I can get up here and talk for hours on what we should be doing and it sounds great, something we as students study, you as university colleagues, you talk about, but how do we do what we say we are going to do. From our perspective, it comes down to three points. The first one is really beginning to understand the organizational culture. Every organization has a different culture of course and what is the organizational culture's impact on customer satisfaction? Something that we really wrestle with and I could probably spend two hours talking about that or all day I guess. The second point is empowering employees, kind of a buzz word - empowerment. But really empowering our employees to deliver customer satisfaction. Releasing them, if you will, from the traditional barriers that sometimes restrict or prevent them from really delivering customer satisfaction. And the third point here in doing what we say we will do is communicating customer expectations to the organization. Many times we find out what the customer wants, we hear it from many different avenues, complaints, surveys, whatever. But a lot of times there is a disconnect from receiving this information and then getting that information throughout the organization so it can be acted upon.

The second point we face in our business, in the industrial foods business, is at what point does price become a dissatisfier in our industry? We can talk customer satisfaction all we want but in many cases, in our business, it gets down to one simple decision and that is, what is your price? We were talking before I stood up here today - we can deliver all the bells and whistles, but is the customer really interested in paying for them or is that something that is just expected along with the product. So at what point does price become a dissatisfier? What really is that price-satisfaction relationship and at what point are those an equilibrium, if you will? How do we in our business provide the extras in a business that is characterized by razor thin margins and we are in a high volume, extremely high volume, low margin business. Or in many cases right now, a no margin business. So how do we go about delivering those extras that the customers want when our margins just do not allow us to support that?

The third point that I want to surface here is how do we go about capturing and then analyzing actionable satisfaction data? You have been talking about this problem this morning, capturing the data is easier said than done. The point I want to make here is how do we go about asking the right questions to the right people. We may have on one hand our sales people dealing with the buyers who make the contracts, make the decision to purchase from us. On the other hand, there are many other people in the organization in the technology end of the business, the operations end, the logistics end, that really come in contact with us day after day, and those are the ones that truly are our customers that we are trying to please. So, how do we go about asking those people the right questions?

I guess you can turn this point around, and that is asking the right people the right questions meaning when we go and ask the buyer if he is satisfied, many times he is focusing just strictly on price when the rest of the organization may be in turmoil. But the buyer many times is judged on the price of that product compared to his budget. That is what he is going to concentrate on. So a lot of these extras we are not able to always capture because the buyer does not get that information.

The fourth issue that we face in our organization again in industrial business is the efficient investment in a quality infrastructure to support satisfaction initiatives. Again, I can get up and talk and say all the right things, but as an organization, do we have the investment in systems, in people, and also the capital resources to support what we need to do in the area of customer satisfaction? It costs a lot of money to go out there and create this quality infrastructure to deliver value. And again, in business that is high volume/low margin, a lot of times businesses like ours do not have the resources available to put into customer satisfaction such as we heard this morning, talking about investing hundreds of thousands of dollars in research. We can't do that. We just don't have the - I hate to use money as an excuse, but that is just not where we are in an industrial business. So it is a difficult balance, if you will. How do we balance these? This is the issue that we are really facing today - systems. I am sure P&G faces this as well. I would venture to say they have systems far superior to ours. It costs a lot of money to develop these systems and something that we are wrestling with.

And finally, I guess this is one of my favorites - a problem facing business today and that is using complaints and complaint data as an improvement opportunity. Many times, the culture of an organization, it gets back to what I was saying earlier about culture. Many times the culture within an organization tends to hide complaint data. Why do we hide complaint data? Well, you know, it shows that we are doing something wrong. Well, that is not really the case. We tend to view complaints as negative when complaints should be in my mind used as a positive factor. Many organizations today have measurement, individual performance measures, based on complaint data. If you are the manager of a shipping operation, say, you don't want to have customer complaints. So, if you are judged on bringing your complaint numbers down by 10 percent this year, well, there are many ways to bring them down. One way is not to record them. So, what you often do is try to hide those complaints. An issue that we face is moving beyond the use of complaints as a judgment tool. Many times when a complaint comes in, we go and try to find out who caused this error, and it is used as a judgment tool instead of saying we have an issue here, what is the root cause and let's work to eliminate that root cause. It gets back to the culture and I would say that is one of the major issues that we face in our organization today. That is the use of complaints as a judgment instead of an improvement opportunity.

I leave you with this, as I thought through this, I said "what can we as an industrial business, how can we challenge you?" The first point is to identify the characteristics that describe a culture which supports and also achieves world class customer satisfaction. I think one of the major things we face is the culture barriers within a company that tend to restrict this whole drive towards customer satisfaction. There is resistance within a culture. So how do we really get to identify what makes a world class company a world class company? What are those characteristics.

And to kind of piggyback on that, is there a correlation between an empowered work force and a satisfied customer? The example this morning of Holiday Inn's sending you out to get your medicine, that was an empowered employee that made a decision on the spot. Do we always have empowered employees who are willing and able to make those decisions without fear of judgment or retribution? You can talk about it, but actually making those decisions on the spot are two separate things.

In an industrial business, as I talked before, what factors create satisfaction which influence customer buying decisions. So many times today in our business, the decision is made on price. The other factors are expected. For example, on-time shipments, that is expected. That may not cause satisfaction, but it is certainly going to cause dissatisfaction. So we have to really begin to understand what creates satisfaction. And are these different from consumer or service industries and I would venture to say they are. There was a comment this morning that alluded to the fact that maybe they are not different. I would like to see some work done on that. Are they different? Consumer business versus an industrial business. I would say they are.

The last point is assisting us in industry moving beyond a band-aid approach to satisfaction. And when I say band-aid approach to satisfaction, so many times we will see some dissatisfaction and we will rush to pacify that customer if you will. Well, we do little to eliminate the cause of that dissatisfaction and it crops up again and again. We are always firefighting if you will. We need to move beyond the band-aid approach to satisfaction and really begin to understand, within the organization, what is causing this dissatisfaction. And also developing some strategies, if you will, to eliminate the adversarial relationships. When I say the adversarial relationships, I am talking about within our company, where they exist between sales and operations and technology, but also the relationships between our organization and our customers as well. What can we do to build a partnership type relationship? The band-aid approach moves the customer from an adversarial relationship up to neutral, pacifying if you will. We want to try to move from a neutral position into a partnership relationship. How do we go about doing this? Thank you.

CHARLENE STOCKER:

If I sound a little disjointed, it is because I have almost scrapped my speech here, but I wanted to be able to build on what Bob had to say because everything he is doing I can stand up here and say ditto and sit down but I want to give you the next phase of that.

To build on a couple of things, let me just start with my intro and tell you what we at P&G do, and then build on what else is there, what do we need help with and some of your questions on proactivity. Also I would like to talk about integration of information from the different levels of organization because it is important and it is needed.

We measure customer satisfaction in four different functions. I am talking business to business customer satisfaction between Procter and Gamble and its purchasing customers. We look at four integrated functions: senior management, buyers, distribution, and retail operations. We define our customers as the top 150 purchasing customers. Customers are asked to endorse a survey by a number of manufacturers but we select these customers regionally and for the type of business that they do in their industry. Thus we are answering the question then, what is satisfaction, and how are we determining what it is to ask them the questions.

What we are looking for is overall image of P&G on how they view us, performance of sales personnel, customer service personnel, and distribution personnel. This relates back to the issues about inter-company functions and how they relate. Products packaging, pricing and promotion, distribution and delivery systems, we ask them to rate us as 1 - one of the best to 5 - one of the worst. We also are talking here about open suggestions from manufacturers. We include on our surveys, "give us ideas of improvement," " what are important things for your overall impression?" and "what do the most highly rated companies that you work with do?" -- to give us ideas.

How do we measure this? We do a mail survey to have it be somewhat objective. We follow up on interviews. So in the process of getting mailed interviews back, we start to process a little bit the data that starts to give us questions. We start to then go out and ask more questions on how to relate the data. We also do all of the things that you asked questions about which statistically come up - what are the key drivers important to customers? One, what are they telling you but, two, what do the stats tell you? How do they answer the question? There is probably some academic lingo for that, but I am speaking English here today. We also go through the statistical significance of the different parts of the survey and rate and rank all of the customers, their responses and the companies that they rated.

We end up with a huge report. We also report the data by the functions that we measure. So what do the senior members think? What do the people in the process and closest to the process think? What do the people that we sort of touch in the retail business think and how about the people unloading the trucks? So we try to integrate all of this with regard to the whole system. We report the data corporately because P&G is a corporate entity. We also report it by sector where it is available. A box is a box. So in the warehouse they don't care what is in the box. But, when you are at the retail store, how does this product stack versus that product? They do have an opinion. Just as your buyers who will buy diapers versus buying shampoo, they will have a differing opinion. So you try to relate to the different segments their parts of the information to gain validity and to try to make sure that each piece can marry together and get, not only appropriate impression, but the actual data at the level each person can use.

Now, the question comes in as how do we apply the data. We are working on a yearly basis. When you are talking about customer to customer satisfaction, you need to be able to stretch that as far apart as you can because you can't be going in and asking the same person the same question all the time, everybody is busy. So we have it down to a year. We may be stretching it to 15-18 months.

Basically, we measure functionally and we deploy the data between the sales department, product supply department and the customer service department. We also take a look at our action plans and develop action plans by customer and regionally where the data suggest. But we also prioritize our daily work. This model probably looks similar to things people have seen with regard to low satisfaction and high satisfaction, low scores and high scores and what you do is you chart your different attributes and you come up with them all over the board. Well, the stuff that had low satisfaction and a low priority is not important to them. If it is also low on their priority list, we don't work on it. The stuff that we get the high scores, high satisfaction numbers, we are doing all right. But, how would we move the stuff that is right on the line and may be important to them up into the scales and get competitive advantages with those particular attributes.

Now, we talk about some of the nitty gritty here. What else is there? This is our customer satisfaction grid, here is innovation. We have responsiveness here. We have reliability here. We need to provide to our customers on the day-to-day, on-time complete, damage free. If you don't deliver to them reliably all of the time, every time, when you ask them a question all they are going to tell you is, I don't get what I order. I can't sit down and strategize and tell you what you need to do for me for 2010 if you can't deliver my order tomorrow. So I am still sitting in my basics. Once you can get your basics right, then you can start to get into being responsive with some of the new and different ideas that they may be willing to think about.

What we can't get from them though we have tried, is what are the things that in 2010 that we need to plan for today. We need to start thinking about and integrating new concepts into the systems. That is what is going to get us future profitability, that is what is going to get us the market. That is what is going to pay the bill for the profit sharing customers. Because no matter which way you look at it, what it comes down to is the bottom line. It is price on the day-to-day. So, what we are trying to do is ask questions and get answers.

However, organizationally we have some problems with integrating the data. One of the key things is that business to business customer satisfaction is too new. There are too few data points for any of you in this room to tell me what does this mean in relationship to "I got a 72." Is 72 good? How high is up? Does the scale really work between 50 and 78 or is the scale really between 70 and 83? Then 72 is pretty good. We don't have enough data points to be able to do all this nice fancy work on it to be able to get the bang for the buck to go back to the people who are paying the bills, to say this information needs to happen, you need to continue doing the studies. Right now everybody's dollars are stretched. Everybody is in a recessionary period. Everybody is looking at the money they are spending. Are they getting their bang for their buck out of customer satisfaction measures? Good question.

Talking about threats to the system. They don't want to hear in different areas of the business that they only got a 69 on our products. Our PDD people spend millions and millions of dollars they think and many of our consumers think, it is the best product on the market. Well, how come we only got a 69? And also they want to discount the data. It is threatening to them because it is different. The data that we are checking, sometimes they feel should be known. The current systems that feature the volume and feature data or the old systems, the price promotion, merchandising shelf measures that we have continued to measure since the 40s and the 50s as we buy companies, what's your current shelf price, what is your measurement on your share data? That stuff still exists. We are trying to add to it and it is being discounted, even though it is good, objective data and can help move the system forward. It is totally being discounted because again the word threat. We are not part of a holistic approach.

What is the true scale again? How high is up? The customer base, this is the key one. Our customer base is smaller. Consumer data have millions of consumers. Sampling is okay. We only ship to 1200 customers. We are only interested in the top 150. Let's face it. If you are number 1199 and you buy one truck a month, your opinion, okay we will listen to it, but are you important? Are you the Wal-Marts, the K-Marts, the Targets? Are you the one that is going to buy multiple thousands and thousands of cases per month? Are we going to get a profit out of you? Okay. Can we really help you move this system forward? Being realistic, certain people's opinion have a little more weight. How do you then take a generalized survey, weight it by class of trade, by product, by function, and make the stuff meaningful to people who are looking at the whole picture. This is my role. Back to my college days, when we talked about the lot size of one and how it should be important. Lot size of one is not profitable. We are still in the business of making money. So, I can do my best at providing exactly what one person wants at one time but designing a system that can totally deliver, be profitable, be what everybody wants, is going to be a generalized system applied to each person. It may not be an individualized program.

The other question is, are we interviewing the right people? Should we be interviewing people in the mechanized systems area? What about finance people? A lot of the finance people now are integrating into many, many companies. They won't participate in surveys. They don't participate in surveys. If we don't get endorsement, we can't get people to answer questions. They are busy. So when we talk about, can we act on a complaint? Of course, when you call our customer service center, we will fix the problem. But when you send out 1400 surveys to these buyers, your response rate, this is great - we got 22 percent. Well, how do you then sell a 22 percent response rate? They are saying that it is not enough. Well, you can't get any more. Help us with that.

And last but not least, the most important piece, and I don't know if this is fundamentally correct here, but we need to create acceptance at the top management for customer satisfaction data for not only our customers but our suppliers. We need total quality in the true form, not the program of the month or taking total quality management and customizing it for our systems. Well, when you customize it for our systems, it is not truly total quality management anymore. And it has turned into the program of the month. It dies. We have to take the threat out of the system. Get the integrated people, teach us how the people systems work with objection and complaining and other data. Help the people systems integrate. Because if the people systems will accept the data, we might be able to get the old school, the upper echelon to buy into the data to help feed it through.

Also we want to review the cost versus the use of the data. Currently, right now, we have hundreds of thousands of dollars spent on consumer information. My business to business customer satisfaction data budget is a measly $400,000 a year. That is all they'll let me spend and they are thinking of cutting my budget because - who uses the data? Millions of dollars are spent on the consumer because they can tell me when you move this attribute 0.01 in this direction, you better change that piece of packing. Or we better start looking at this trend. I don't have enough data to tell them that. That is what we need.

We need help to integrate this data. We need help explaining this data. Also I need help forecasting the trends. What can I do today to help me look at the pieces and the attributes that I currently read and take those into five years and ten years out. How do I take those attributes and their ratings today, their T-driver ratings, their significance, and forecast it over the trends of what is happening economically in the next ten years and what does that mean to me today and how should I fix and maintain systems? Forecasts I think are critical, but we are not in this long enough to know what to do. That is why we come to you academics who do this for a living and say help us. We are ready, willing and able to take our passion for total quality and data, attempt to beat it up and beat it down into our systems to get people to accept this data, but we need more. We need help with forecasting. We need help with trends. We need help with the psychology of moving it through an organization. We need to take the data and say, this is not a threat to you. This is not your report card. This is just another set of data to help you be better in the future. Help you relate to your customer. Ask the right questions to see if we can help with the right program.

BALA SUBRAMANIAN:

Good afternoon and I thank you for inviting me to participate in this presentation. The context for my remarks, I want to tell you first a little bit about my company. Promise is a brand management company in primarily two businesses, casino entertainment and hotels. In casino entertainment, we are Harrah's. Harrah's is the only brand name in each of five traditional casino markets and the first to enter the booming riverboat casino market. I don't think here in Knoxville yet.

But we do have limited stakes casinos now in Colorado, we also have plans for an Indian Reservation casino hotel in Phoenix, Arizona. Both will operate under Harrah's name. In hotels, we have three brands in the most rapidly segments of our business. The first I want to talk about is Embassy Suites which is the leading upscale all suite brand with 105 hotels all over the US. Hampton Inn is our midscale economy brand with more than 330 hotels. And our newest brand is Homeward Suites which is focused on the extended stay traveler.

Through these brand names we serve as the Promise Company more than 50 million customers each year. Thirty million in our hotel businesses and 20 million in our casino businesses. As we open seven new casinos and more than 50 new hotels in the next 12 months, those numbers will be dramatically bigger next year. The four brands that make up Promise are successful in virtually every important measurement in both businesses, when you look at terms like occupancy, revenue per available room in our hotel side, and look at measures like drop and win per casino unit on the gaming side. But the key to our success ultimately is our complete commitment to customer satisfaction and this is evidenced in our mission statement.

The Promise mission is "...to provide the best experience to our casino entertainment and hotel customers by having the best people trained, empowered and pledged to excellence, delivering the best service, quality and value to every customer, every time, guaranteed." To make sure that we are delivering the best service, quality and value, which we think are the key elements of satisfaction, to every customer, every time, we have four, what I call listening posts, in place to keep us in close contact with our business. And this applies to all of our businesses.

These listening posts are: a quality assurance program where a trained inspector visits each hotel or casino property at least two times a year unannounced to insure our high product and service standards are met. This is a mystery shopping tour and they play customer and they take everything down. The second thing is our one hundred percent satisfaction guarantee which I think is a pioneering step that we think we have in our industry and this is really to encourage our guests to tell us when they aren't completely satisfied, offering them a hassle free money-back guarantee. The 100 percent satisfaction guarantee is really a way to enhancing communication between the employees and the guests. Like any other company, we also have a customer complaint line which just like a standard form complaint line is very similar, it is toll free but with the added incentive of the guarantee. Finally, we also have our guest satisfaction rating system. Each of these listening posts is vitally important in our effort to satisfy our customers. But for today's purposes I am going to spend more time talking about GSRS.

From our past experience we know, and this may be true of your business as well, about 40 percent of the guests we serve who experience problems never report them. The GSRS program is primarily a vehicle for getting customers to communicate problems and concerns with us. With this information, we believe we can make product and service adjustments and fulfill our mission of complete satisfaction for every customer. Our GSRS program is shaped by five underlying philosophies. First, we must contact customers while their experience is still fresh in their minds. Usually within 3-5 days after staying in one of our hotels or visiting one of our casinos. Participants in our GSRS are chosen at random from hotel checkout records and casino patron indexes. We do not want to take any chance of the deck being stacked by a few employees who want to look good.

Addresses are screened for accuracy and detailed questionnaires mailed to the guest with each step in the process being fully automated. The questionnaire is very detailed, asking over 100 questions about the guest's experience. Every aspect of their visit, from reservations to departure is covered. Immediate customer contact is crucial in getting an accurate and detailed feedback on all aspects of the stay or visit. Because at the time between our guest's departure and the time between our contact increases, information they provide loses some of its quality and accuracy and detail and in our ability to use it.

Our second philosophy is to enjoy technology. Technology to make the administration, data processing and report generation super fast and error free. Just as every step in sending out the GSRS questionnaire is automated, the same is true once the letters come back to us. Responses are tracked by optical scanners and all reports go directly from our data base to the individual hotel or casinos fax machine, usually in the dead of night. The system operates the same on Sunday as it does on Wednesday, the same on Christmas Day as on any other day.

Third, feedback from GSRS should be communicated to the front line of customer contact as quickly as possible. All the best information in the world is useless unless it is in the hands of the people who can make use of it. From those of us in our Memphis offices to know that carpet or drapes in the Hampton in Omaha are dirty is irrelevant. The general manager of that particular property who needs to know and almost immediately. One aspect of our effort to communicate the GSRS information to the front line quickly is to get it there before the monthly profit and loss statement. I can't emphasize this enough because all the talk about being a customer driven company just goes out the window if accounting reports are getting their sooner than the customer satisfaction reports. Our philosophy is that customer satisfaction drives profits and not vice versa and if we can get our managers and employees to focus on customer satisfaction, the profits will come.

Our first three philosophies for GSRS focus on speed. The fourth focuses on content. GSRS feedback should be balanced both negative and positive. Our goal is to motivate and give cause for celebration as well as to provide a prescription for directive action. Feedback from GSRS rates into two basic areas: the detailed report which gives us an upfront, close up look at every facet of the hotel or casino experience from the customer's perspective.

From this report, a general manager at one of our Harrah's properties can determine whether his customers are getting change for slot machines fast enough. The general manager at one of our Embassy Hotels can find out if the quality of the precooked-to-order breakfast is up to customer expectations. The respondent report, and this may be the unique thing about our program, we get out every month a respondent report by Fax, sometimes 10 pages long, which gives the general manager the names, addresses and phone numbers of everybody who answered the survey after visiting a hotel or casino and specific areas where they were dissatisfied. By reading this report, the general manager can know which customers were dissatisfied and why. By the way, we strongly encourage our general managers to contact dissatisfied guests and do whatever is necessary to salvage the business relationship.

Through these reports, the GSRS gives our front line managers a detailed accurate information on how we are fulfilling the mission statement. Our reports give enough information so that the manager can eliminate any guess work as to what needs to be done. You may have noticed that I mentioned the general manager most often as the recipient of the information from GSRS. But in reality feedback from GSRS is for all of our employees. Our most successful general managers share this information to create a sense of team work and ownership in the hotel or casino's performance. In fact, the GSRS questionnaire asks for names of employees or departments that provided exceptional service and this information is communicated back to the hotel or casino. y focusing on getting quick detailed and balanced information on customer satisfaction to our front line managers and their supervisors, we can identify weak links in our grand system, pinpoint specific problems and implement prompt effective action to bring guest satisfaction back to our stringent standards.

The fifth and final philosophy of our GSRS program is that results must be tied to compensation. One of the first things that managers in a performance driven organization learn is that if you can't count, it does not count. Before GSRS, our managers count occupancy, revenue per available room, drop, win per unit, etc. and made broad assumptions about customer satisfaction. In a sense, if a customer was silent and spending money, they were satisfied. You and I know that it is not quite that simple. In short, GSRS gives managers a systematic, reliable and fast way to count customer satisfaction and their performance evaluation. In our company, to qualify for a bonus, hotel and casino general managers must achieve an A+B rating, A-F scale, that exceeds 90 percent. By tying compensation to customer satisfaction ratings, management is sending a clear statement to all employees motivating them to supply excellent service and rewarding them when they do. As a company, Promise takes great pride in building brands that are clear leaders in customer satisfaction. In fact, as our mission statement explicitly states it, we guarantee customer satisfaction. The GSRS program plays a key role in our efforts to be proactive in customer satisfaction. With our guarantee programs in place, we cannot afford to be reactive. The core philosophies of our GSRS programs are in place, we will get information from the customer to the front line as quickly, accurately and efficiently as possible. That information will be detailed and balanced, giving managers a motivational tool as a system for solving problems. And perhaps most importantly we are making customer satisfaction count by counting it and by tying it to compensation.

ANDY MCGILL:

I have been asked to try to address the issues of customer satisfaction really coming to work from both the standpoint of the academic audience and the practitioner audience since I have been playing kind of on both of them. I was taken by all of the comments today, particularly those from Bob Woodruff and Keith Hunt about the problems of implementation and the little attention that has been paid to implementation in scholarly research. I was also quite interested in Keith's comments about affective emotion and some of the importance attached to that with respect to building strong customer loyalty.

I will tell you, if you ever wanted to try to persuade a group of executives that establishing "customer delight" should be an important goal to them, it is pretty a difficult challenge. They think that might not be quite macho enough to establish being a true business goal. I was moved by some of the comments in this panel because we talk and heard a lot about organizations doing what they say they are going to do, the production and delivery of actionable data that really matters and some of the difficulties with respect to investment systems to provide satisfaction. It is somewhat difficult to know what to invest if you don't really know the value of the customer. I submit most organizations don't and don't think about it very often.

Charlene talked a lot about the rich data. I think also very interestingly what I regard as probably the key issue and one that I am going to talk about most of the remaining time that I have and that is the attention of top people. I operate from a very strong bias and that is that most organizations know what the number one or two things, tough challenges that they might be, that if they could accomplish them, if they could solve these overwhelming problems, if they could deliver X, they would be differentially better than all of their competitors. But yet in the face of that knowledge and as much data as you want to collect to fill the room, often times in support of breaking down organizational barriers to deliver what that data suggests that you need to deliver serves as a huge and ongoing obstacle in implementation.

I think it is critical that the best information is useless if it is not used. That is critical, as Bala said, to getting it to the right people that can use it. I can't tell you the importance of what you said from my standpoint and my experience with respect to the symbolic criticalness of getting customer information to the people who operate before financial information gets there. It typically does not occur that way, and the strong tie to compensation.

With that kind of a set up, I would like to address what I regard as seven key issues from my experience in successful implementation. I was going to talk about this under the title of the key factors in becoming customer driven as an organization and as I heard the presentation today I sort of thought it might be a little more on target to talk about obstacles to implementing that which you already know an awful lot about but seem to struggle in terms of dealing with as managers.

The first issue I think deals with the dimensionality of customer satisfaction and indeed saying that it is two dimensional is probably simplistic. But it is infinitely more accurate than saying it is one dimensional which is what many people argue. Some suggestions around today that some of the reasons that Japanese companies are struggling in almost every industry in which they compete is because they have traditionally viewed customer satisfaction and quality as synonymous and as many of their competitors as you look product by product have caught a couple of them or approached their level of performance on quality dimensions while the Japanese still lead at the margin, very often it is an incremental leadership that consumers are unwilling to reward with incremental greater dollars in the marketplace. And that they have underinvested in the human affective emotion part of the scale by not really thinking of it as two dimensional process of product and affective base services if you will.

I will show you this picture again later. I showed it to you two years ago. I may bring it back two years from now. If the overhead holds up that long. Basically the way I find it instructive to talk with managers about this issue is looking at the dimensions of products moving from being highly differentiated to commodity like in a globally competitive environment. I don't know any product that is not moving in that direction. It is simply a matter of the pace. To be differentially better than your competitor you need to perform above the diagonal. If your marketplace which you really have very little control over, it is the hand you are dealt. Its the hand you are dealt by competitors coming from everywhere and if the point of luxury could be the highly differentiated part of the scale, you won't be there for long. Because competitors are going to see the opportunities there and come seize your marketplace and make life very difficult. So inevitably every market that I know of, every business that I know, is moving in this direction. The difficulty is when you have norms within organizations that were established down these lower cells and your marketplace moves to here and you don't turn the organization upside down to respond to that. Because to be differentially better than competitors you need to move up significantly on the customer satisfaction aspect. I work at company after company after company that has not really made that step.

One of the arguments is, and the second point I wanted to make is, avoiding the data excuse. I think more managers hide behind this one than just about any other line. The R square is not quite high enough, I don't like the way you ask this question, geez, your scale is not quite right. At the margin those excuses might really matter, but there are two or three key issues here that keep coming up. Until you really begin to fix those, let's not talk about issues 9, 10 and 11 which may be affected somewhat marginally by some of this measurement error.

How are you going to fix the two or three or one at least critical issues that all of your customers will tell you will make you better than anybody else. Let me talk quickly about one. In the auto industry, which is an industry I have spent a lot of time studying. Auto very simply does a pathetic job in customer retention. This is the industry intended and actual retention level over the period of the last decade in the aggregate and broken down by about everybody who plays in it. And typically if you can retain one third of your customers, you are a big hero in this industry.

Big contributors to that, a lot of data, not much improvement. I will focus you on simply one issue, which is honesty. Most all of this other stuff goes away if you fix honesty and there are three more slides of other measures that would also go away. We see the industry in a 6 year period having moved up not quite a point a year, to the point that fewer than half of the people who actually buy cars at an average price of almost $18,000 feel as though their sales consultant treated them honestly. So you got at least a problem of dishonesty that shows itself regularly. You have in fact a perception problem when you look at the people who sell cars and how they are thought of with respect to honesty and they are on there. But those of you -- down at the bottom, yeah -- car sales people thought of as ranking very high in honesty, last year 5 percent of the time and they lost almost half their value slipping downward badly from 8 percent.

So we now at least have a couple of pieces of information that suggest this might be a real problem. We also know that cumulatively if we try to isolate where does this come from. If you go through the negotiating volleys of the automotive transaction. You say, yeah, I want to buy a car from you, I will pay you X. No, I need this. I will give you this. I gotta go see the boss ---- if you were to start out with a very well established base of honesty, each volley drives down the base of honesty because of probably a lot of historic effects more than any other and some notions of honesty with respect to it that at the point that after three volleys you are going to lost almost 3/4 of whatever your starting baseline was anyway.

You begin to see a picture that we might want to fix this. Some of you may not be convinced. We got some intercorrelations here of a whole lot of other things related to sales consultant honesty that suggest honesty, sincerity in sales consultants concern for the customer all move together and there are huge intercorrelations with things like perception of delight, liking to be with the customer, the product represented a good value, etc. You might like to be able to solve this honesty problem and get to the negotiating issue, get away from the negotiating issue. And it turns out if you go what effectively is one price selling or narrow negotiation band that allows the person who is the sales person to negotiate within a band that you can actually end up not losing very much money at the retail level.

These are actual retail gross profit figures for a real car dealer shown in this column here, average profit of just under $4100 per car. If you established a range of half a standard deviation and said you can negotiate within this range. You can sell the product. You don't have to go see anybody. You would then authorize a price range for a vehicle with a $48,000 sticker to sell it between $44,200 and $44,900. It turns out that would get all but very few of the outliers in your distribution anyway and your average profits would be pennies different and you would have established all of the retention and referral methods that come from honesty.

So, using the data excuse as opposed to solving the problem is something that I see companies struggling with over and over. I think what one of the things that accentuates that is something that I mentioned a couple of minutes ago - understanding the dollar value of the customer. What is a customer worth to you in gross revenue and in profit, present value of transactions over time. If you can't answer that question, you don't know how much to invest in the customer. You don't know how many walls to go through and break down.

If you said that to the same car dealers, they would typically, in my experience, under-estimate that value by something between a factor of 5 and a factor of 20. In fact, if you do the math and this is with very conservative assumptions, with purchases every four years, one additional referral purchase per year and you extrapolate it out for 14 years, you will find that the dollar value of the customer is between $900,000 and $1 million in transaction sales with a net person value gross profit of slightly over $120,000. That is one customer. You would go through walls to do whatever it took to retain that customer if you did not hide behind the data excuse. Part of that is understanding the cost of recruiting a replacement customer.

The auto industry spends between, depending on its segment, between $2200 and $3000 to recruit a replacement customer. In 1985, in 1992 dollars, the auto industry did about $250 billion in retail sales. And basically that money was distributed as shown up there. I don't want to take the time to go over everything. Let me focus on the $10 billion that was spent on rebate incentives, promotion and advertising. Let me show you that same data for last year. Everything else was down but rebate incentive advertising and promotion numbers are up $40 billion. It has increased four-fold in 7 years. That is really the price of the low level customer retention which has driven this notion of having to spend $2200 to $3000 to recruit a replacement. Someone who understands those numbers is going to solve the problem.

Whose customer is it? We talked some about serving wholesale customers. Ultimately I think increasingly a lot of organizations are finding that they bear some responsibility for the end line consumer, whatever obstructionists or middle people may in line between them and the end line customer and if they try to hide behind that excuse they don't really become customer driven as an organization. The value of referral customers. Costs are for the most part fixed. Referral customers produce huge variable profits. Every study that has been done in the area by companies that I know shows referral customers produce three to seven times the profit of established customers because there are very few fixed costs that need to come out of the incremental business. Companies do little to promote and attract that business.

The final one I would like to talk about is what I regard as structural impediments to change and I really do think they are structural. If we go back to the same model that I used a while ago and we divide it into cells and part cells, think about what happens with an organizational policy, procedure, design or structure that you create in cell four and then you suddenly have to live up in cell two. And you try to get it to live there.

Let me talk about an automotive example. A luxury German car maker had been making some great strides toward breaking down the poor retention level and had done a very good job of serving his customers. On leases, they had several thousand vehicles coming up for lease renewal. Sixty days prior to lease expiration, 64 percent of those customers said they would repurchase that brand vehicle, twice the average as shown from the slide I showed you a while ago. Sixty days after lease expiration, the same customers were called and said what did you end up doing? Thirty-five percent, slightly more than average, ended up repurchasing the vehicle.

A decline of almost 30 points in the negotiating period. We asked why. The single greatest response we had was - well, what it took to settle my lease. Because normal wear and tear on tires was not regarded as an allowable lease wear item, normal wear and tear on battery is now allowed and then the usual dings and mileage adjustments and other things, cost the average person coming out of his or her lease to have to spend $3500 in cash to get out of their lease. They were pounding on tables saying I will never buy another one of these again. We traced the thing -- why does that occur? Well, because the captive financing company of the German auto maker operates as a separate entity with a mission of being profitable. There is a sales arm that operates as a separate entity that was told you must be profitable too. And they go at loggerheads all the time over things like retention rates, interest rates, support rates because they are both told they need to be profitable. This is true.

Every one of the 42 odd companies that operate in North America, all of which have their systems designed here in cell four where you have nice little niches of the world designed to your cell and you can simply maximize profits getting as much as you could out of as many different business settings as you could. If you were to break all that down and redesign it in cell two, you never had it before, I submit you would say to the people who run your finance business, "You do not maximize profits, in fact, in the optimum world, you do not make profits. You maximize your bonus by losing no money and making no money. Your only job is to serve the sales arm because there can only be one unit of this company that delivers real customer satisfaction and that ought to be the people who sell." And I think when you begin to look at organizations and the structural movement of seemingly normal routine and accepted things, you begin to find problems like this that serve as structural impediments to really achieving not the small little incremental steps creating customer satisfaction, but the big huge leaps that will provide the differential advantage and the events that come from it. Thank you.