

Customer Value Optimization (CVO™)

*A methodology for improving customer experience, loyalty,
and lifetime value*

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I. Executive Summary

Customer Value Optimization (CVO™) is a systematic methodology for a business to determine its customers' top priorities *conclusively and with precision* at any given time, to more effectively align its service objectives and the structures to deliver them.

This paper will examine a streamlined, practical, and results-based approach that has its roots in both statistical and financial theory and models, drawing upon academic references with a business purpose. A straightforward value proposition is supported by case examples and tangible benefits.

CVO™ is a rigorous, fact-based, methodology that helps companies understand and act on those aspects of their customer relationships that most affect enterprise growth and profitability.

The CVO™ method consists of three basic steps or phases that allow a business (with a focus on the customer contact center) to:

- 1) Audit the *Voice of the Business* for its view of Customer needs through:
 - Organizational Review and Fact-Finding
 - Financial and Operating Impacts
- 2) Determine the Roadmap for the *Voice of the Customer* based on facts and data:
 - In-Depth Analysis of Customer Comments
 - Statistical Modeling of Survey Data and Feedback
- 3) Align Business and Customer priorities with:
 - Prioritization of Projects and Action Plans
 - Focused Measurement Systems

We further develop the concept that quality service, customer satisfaction and loyalty provide measurable return to the business, or *Return-on-Service*. We then challenge schools of thought that view these as “soft” measures, or regard high service levels as inconsistent with strong revenues and expense reduction. Rather, the body of evidence is shifting to support new metrics that focus on the customer as a realistic and powerful yardstick for success.

Components of the CVO™ methodology are generally accepted practice and commonly employed on a standalone basis. However, we will show a specific combination of these techniques that leads to a uniquely valuable outcome, one that achieves a comprehensive *alignment of business priorities with customer perspectives* to maximize their loyalty and advocacy.

Finally, CVO™ fully exploits each company's *own data* as the primary engine for improved decision-making. We reveal a well-kept secret: that gaining significant benefit and added-value from existing information does not depend on acquiring new technology or conducting extensive research! Recommendations for such investments may result, but only if shown to have relevant impact on customer experience. In addition to its rigorous approach, the CVO™ methodology is therefore a practical, cost-effective means of utilizing and actually leveraging company resources.

II. CVO™ Value Proposition

Loyal customer relationships are the *ultimate competitive advantage* for sustaining a profitable and growing business. With ongoing changes in technology, markets and price-points, this loyalty remains the steadfast differentiator in customer retention, continued customer sales, their product/service experiences and recommendations to others.

Customer Loyalty & Shareholder Value

Upon finding a product or service that meets their needs, most customers would prefer to remain loyal than search for an alternative. As such, they are the most cost-effective sales and advertising force available to any business. Loyal customers require no pay, training or outsourcing, and yet they:

- Generate revenue through repeat business and warm sales recommendations with higher “stick” potential.
- Save operating expense through reduced customer churn/switching and new customer acquisition costs.

Understanding what drives customer satisfaction, retention and loyalty also reduces rework costs associated with NOT meeting customer needs in the first place, i.e., return trips, multiple callbacks, refunds and service penalties. Conversely, a continued emphasis on force reduction to the *exclusion* of service can only lead to fewer people having less time to do more work of poor quality from processes and systems that do not meet customer needs in the first place.

In addition to customer loyalty being an untapped resource for improving sustainable financial performance, it holds similar corollaries for marketing, particularly in brand development. Understanding what’s important to customers and delivering consistently on those attributes helps develop a brand that is relevant to the customer target and extends the delivery of the brand promise throughout the organization.

Research confirms the strong relationship between customer loyalty and shareholder value, but without a precise, actionable understanding of loyalty drivers, a considerable portion of that value can be left stranded.

The alignment of priorities around the customer from executive leadership to front-line employees weaves a “Golden Thread” throughout the enterprise. This applies whether the goals are marketing, financial or operational in nature, providing a common focus for employees in contact centers, technical support or product/service delivery functions (customer “touch-points¹”). This focus pays dividends across the many opportunities to touch the customer as “Moments of Truth” if done well.

This paper presents a target application for CVO™ analysis that is primarily focused on (but not limited to) the contact center environment with the added value of aligning what are often perceived as divergent business vs. customer needs.

¹ TouchPoint Mapping™, a registered trademark of TouchPoint Metrics, is a process for understanding where and how customers develop relationships through key interactions with the business.

III. Theory and Research Behind CVO™

It has long been held (and also misperceived) that providing good service and maintaining low costs are mutually exclusive, a zero-sum game that comes down to a tradeoff between the two. But solid research has been amassed over the years to support the linkage between customer satisfaction, loyalty and shareholder value. The Technical Assistance Research Program (TARP), Gustaffson and Johnson, the University of Michigan and Coopers & Lybrand have contributed notable works in this area, along with others cited in the Conclusion of this paper (Section IX).

Understanding what drives customer satisfaction, retention and loyalty also reduces rework costs associated with NOT meeting customer needs in the first place.

These works have all validated the linkages between Customer Satisfaction (CSAT) and financial or other key business metrics including productivity, customer retention, employee turnover, brand loyalty and stock performance. CVO™ builds on these and in particular, the correlation of the firm's financial value (as measured by Tobin's-Q, see Figure 1) with customer satisfaction (as measured by the American Customer Satisfaction Index or ACSI).

TARP further identifies an area of customer requirements and expectations that are closely linked to customer loyalty and their willingness to recommend for the contact center environment. These fall under the category of *Easy To Do Business With* and are summarized in a March, 2004 article for ICCM Weekly by John Goodman:

- Accessibility of Information (how to contact the contact center)
- Availability of People (IVR opt-out to service rep)
- Amount of Customer Information Required (identity verification)
- Responsiveness to Requests (first contact)
- Follow-through on Commitments (without need for callback)

With the exception of “First Call Resolution”, customer satisfaction surveys tend NOT to measure these attributes yet customer comments will bear them out to varying degrees. Operationally, the contact center is usually in the midst of implementing a technology program intended to further reduce human contact with its customers! TARP observes in *What Drives Satisfaction In Your Call Center: It's Not As Simple As You Think* that customer feedback surveys are often focused on attributes that may be linked more strongly to basic operations than loyalty:

- Accessibility (speed of answer) and Time on Hold
- Rep Knowledge (clarity of explanations)
- Helpfulness (attitude, empathy)
- Courtesy (tone, professionalism)
- Follow-through (simple commitments, promises)

The Customer Value Optimization™ methodology (CVO™) is a multi-phase approach that has precedent in a growing body of business-academic publications and related works, including those cited. Using the linkage between Customer Satisfaction (CSAT), loyalty and shareholder value as foundation, CVO™ focuses on making the theory operational. The best way to leverage that correlation is to pinpoint the areas of **highest impact** to customer satisfaction overall.

FIGURE 1 depicts where CVO™ draws upon these models in bringing customer feedback to an actionable level on a case-by-case basis *for each client using their specific data from existing systems and data sources*. CVO™ consistently analyzes both *qualitative* customer feedback (verbatim comments not directly measured in the survey) in conjunction with *quantitative* feedback (directly measured by the existing survey instrument) to arrive at a robust set of client-specific *value drivers*.

In the next section of this paper, tangible case examples are cited which illustrate that, by understanding and acting upon customer priorities *from a fact-base*, the business in question also reduced **expense**, increased **revenue** or eliminated failed programs. In addition to the theoretical models shown here, significantly enhanced shareholder value can be demonstrably measured by such indicators as:

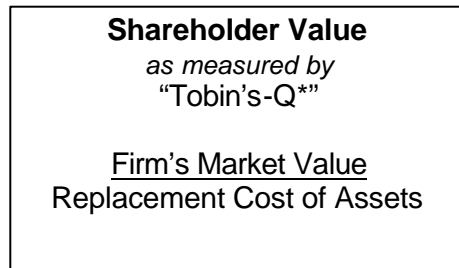
- Reduced Rework, Cycle Time & Defect Rates
- Reduced New Customer Acquisition Costs
- Increased Customer Retention, Reduced Losses to Competition
- Increased Repurchases, Renewals & Recommendations

While CVO™ builds on pre-existing theories, the approach is unique in its deliberate selection and application of techniques to achieve an *alignment of business priorities with customer perspectives for maximum loyalty and advocacy*. The aim of CVO™ methodology is to Customer Experience Management as Six Sigma is to Total Quality Management or PMI is to Project Management.

FIGURE. 1: Customer Value Optimization™

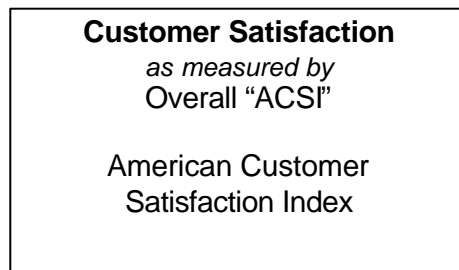
A Business Model for Improving Customer Experience, Loyalty and Profitability

Financial Performance Measures



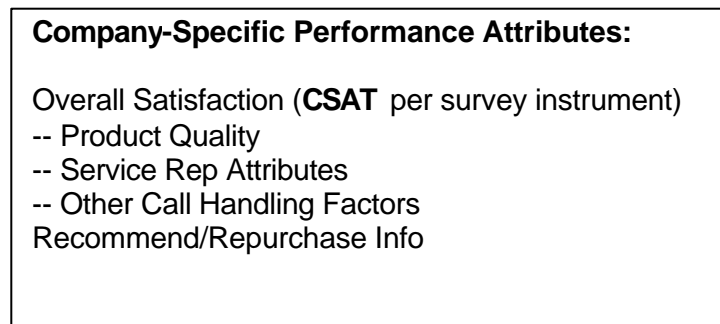
Correlation >>

Satisfaction & Loyalty Indicators



Drill-down >>

Key Driver Analytics & Modeling



KEY REFERENCES:
(see Section IX)

National Quality
Research Center/
Harriman School
(Fournell et al)

Gustaffson
& Johnson,
Rust, TARP

**Tobin's-Q is named after James Tobin of Yale University who developed it.*

IV. Practical Applications and Benefits

The following examples illustrate where leveraging the *Voice-of-the-Customer* to drive business decisions has led to more profitable results. In all, there are over a dozen applications of this methodology referenced in the Appendix (Section X):

Cellular-Wireless Contact Center Outsourcing

Business Issue: An outsource contact center was paying substantial penalties for consistently missing its service quality targets by 15-20 percentage points and therefore in jeopardy of losing its largest wireless customer for both domestic and international accounts.

Customer Focus: Initiatives to “reduce hold time” were not improving customer satisfaction (CSAT) performance. Statistical prioritization revealed significantly higher key drivers with quantifiable relationships to number of contacts and billing cycles as supporting factors (specific to the client).

Results Achieved: Refocus of customer service initiatives was shown to account for 75% of the gap between CSAT performance and target levels. Service penalties in excess of \$150,000/month were avoided and the client contract was retained (subsequently renewed/continued revenue).

Telecomm Installation and Repair Intervals

Business Issue: Marketing promotions for “same day service” created large-scale training programs in business sales offices and increases to technician workforce at installation and maintenance garages, with little impact on customer service overall.

Customer Focus: Fact-based analysis of customer feedback showed no difference in customer satisfaction between same-day and next-day installation but significantly higher preference for 24-hour repair.

Results Achieved: With a focus on keeping commitments (high customer value) instead of “forcing” same-day installation, cost reductions for scheduling changes and missed appointments also achieved increased customer satisfaction as well as revenue from fewer order cancellations. Additions to technician base were deployed to repair crews.

Global Computer Manufacturing Services

Business Issue: The largest customer (an international consulting firm) threatened defection unless this company provided consistent service policies and pricing for laptop repair (the client’s personnel traveling worldwide required urgent turnaround with minimal disruption for “break-fix” situations).

Customer Focus: Key business customer segments (from various industries) highly valued global service level agreements, standards and processes that provided predictability and measurable supplier performance. A knowledge sharing solution for the largest customers provided further control and lower cost (for a higher business volume), which was strongly preferred by the high-end market segment.

Results Achieved: The largest client was retained and eliminating call volumes to the customer contact center significantly reduced cost of service for all client segments. Supplemental feedback from other markets was used to improve Internet self-help/knowledge tools, further lowering costs.

Directory Information Services

Business Issue: Low operational performance in speed-of-answer drove contact centers to manage workforce for answering calls on the first ring, with significant associated technology investment.

Customer Focus: Factual analysis of customer feedback showed little/no difference in customer satisfaction overall for answer time (to a specified number of rings or elapsed time) when compared to quality of service, i.e., customers preferred accurate information provided in one call.

Results Achieved: Substantial workforce management savings were achieved (approx. 10%) across a dozen locations involving a 6,000 service representative base, plus avoidance of unnecessary capital investment.

This approach is particularly well suited to contact centers that seek to reclaim and demonstrate customer value otherwise left stranded by the enterprise. CVO™ can be considered industry-

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when supported by facts and
data—can have significant impact
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simultaneously.*

independent and applicable to other customer touchpoints in addition to the contact center. The recurring theme is that acting on customer priorities, *when demonstrated by facts and data*, can have significant impact on reducing expense, increasing revenue or improving productivity simultaneously.

Another significant business benefit of having gathered this type of customer intelligence is higher utilization of CRM (Customer Relationship Management) software investment for implementation purposes, to better leverage the customer’s perspective and insight. According to *CRMguru.com*, CRM software has not enjoyed high customer satisfaction levels when compared to ratings across other industries, particularly in the areas of “ease of implementation” and, ironically, “customer focus”.

V. Capturing the Voice of the Business

Every business considers itself to be *customer focused*. The reality is that most are aligned by product or function with the best intentions of operating in a customer-centric manner. The question remains, what factual basis is there for knowing the customers' priorities and what is the cost of not knowing? Can it be demonstrated how well customer needs are reflected in business planning and day-to-day business practices?

The Customer Experience Audit: A Factual Basis for Where You Are Today

An essential starting point is a baseline evaluation of the degree to which customer requirements are known and acted upon as reflected by policies, processes, resources, systems and behaviors focused on delivering critical customer needs. The CVO™ structured approach *matches operational understanding of customer requirements with basic customer feedback* (e.g., summary data from existing surveys). Foundational activities for the desired outcomes will include:

- Interviews with managers and other key stakeholders to determine the degree to which customer feedback is reflected in policies, business decisions and operating procedures.
- Direct observations of front-line contact center employees at (service representatives, workforce management, etc.) to determine how customer feedback is reflected in day-to-day work practices.
- Job satisfaction interviews providing the Voice-of-the-Employee to determine underlying environmental, policy, operating or managerial issues that may ultimately impact customer interactions.
- Review and analysis of available quality assurance data (e.g., standardized service representative observations) and performance evaluation measures to determine how front-line employees are measured in relation to customer feedback.
- Review and analysis of customer complaints and/or commendations to determine the types of issues that become so extreme as to have potential for either driving customers away or cultivating their loyalty.

A structured approach to matching operational understanding of customer requirements with basic customer feedback is critical to baseline the degree to which customer requirements are known and acted upon

The key benefit is to provide a gauge as to how “in touch” the business is with the perceptions of its customers from factual information over a cross-section of data. For example, the Customer Experience Audit includes the following outcomes:

A “Golden Thread” Review: An assessment of customer needs as perceived and operationalized in the *Voice-of-the-Business*, i.e., how customer

expectations are interpreted by different parts of the organization in executing their own service delivery processes (sales representatives vs. technical support) to provide a consistent and satisfactory customer experience overall.

A “Low Hanging-Fruit” Summary: A clear identification of those high-gain/low-cost opportunities that come from the recurring customer experiences as recounted by employees or through basic workplace observations, e.g., areas of significant customer pain/dissatisfaction or operational inefficiency that can be effectively addressed with relatively little effort.

Another aspect of assessing the *Voice-of-the-Business* is the identification, from relevant data, of the benefits of meeting customer needs vs. the price of not doing so (stranded customer value) or the financial impact for customer service not meeting performance targets. This can be addressed by:

A “Stranded Value” Report: An optional activity based costing/financial framework that models the cost structure of the contact center and, through use of ‘what if’ scenarios, points to opportunities for improving productivity and performance². This allows costs to be identified for activities and/or business drivers that could potentially reduce traffic to the contact center. For example, in a self-service website, it would be focused on assessing the impact of website features/functions, rework or other “triggers” driving traffic to a customer care group, consistent with dissatisfied customer feedback or abandoned transactions (lost revenue).

Outcomes include financial reports and summaries, plus a “baseline” of activities, costs and volumes showing impact of alternative actions such as implementing new technologies, re-engineering processes, eliminating activities, etc. Key scenarios that are *best aligned with customer priorities* are then modeled for their projected impact on service time and cost.

² In-depth/full-scale applications of InterVox Group’s activity-based costing model, CAT-SCAN™, have identified immediate cost savings of 15-20% for its clients. The model also contains features that allow scenario building to project the impact of potential investment in solution alternatives and performance improvements with quantifiable ROI.

VI. Capturing the Voice of the Customer

Many businesses collect some form of customer feedback, from word-of-mouth to formal tracking systems. Some companies review service performance on a daily basis but see little change in results over time. So the question remains: Does the business ask, understand and ultimately deliver what's *important* to its customers? Can it quantify *with precision* those factors that drive customer loyalty and retention and those that do not drive ultimate customer choice? Does the business know what it means to fill these needs routinely and become customer-centric, i.e., take action to organize processes, systems, resources and behaviors to deliver value?

The Customer Value Roadmap: A Factual Basis For Knowing Where To Go

Through “mapping” of Voice-of-the-Customer data you can provide a clear decision model for prioritization of service improvement recommendations and associated allocation of resources.

The most direct route is to map out the specific statistical model that describes the relative importance weights of key service attributes on overall customer satisfaction (derived from actual survey data). These results are combined with customer verbatim comments to develop a *comprehensive pattern* or “roadmap” of quantitative and qualitative key drivers which includes:

- Determination of relative importance weights derived from a multivariate statistical model consistent with the service attributes, data elements and parameters for qualitative and quantitative information.
- Content analysis of customer verbatim comments to determine key themes, their role as rewards or penalties in customer perception, the degree to which they drive behavior and how they are measured by the existing survey instrument.
- Overlay of performance metrics against their corresponding importance weightings. These dimensions respectively define a relative ranking of key service attributes both in terms of their *effectiveness* (Doing The Right Things) and *efficiency* (Doing Things Right).

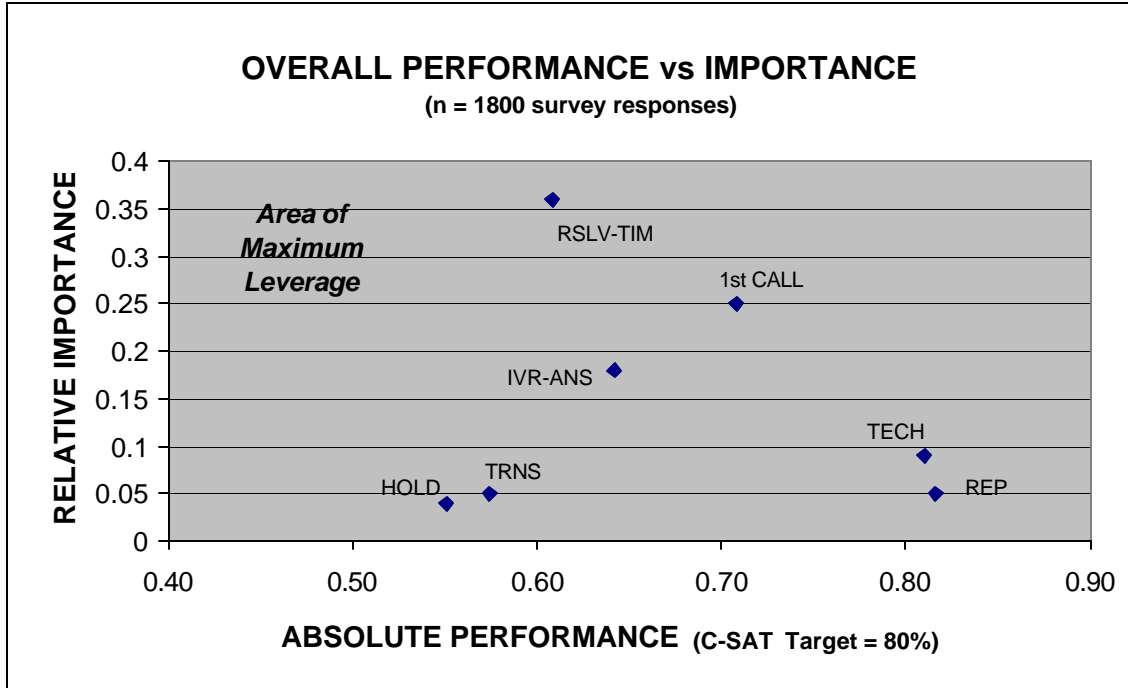
The key benefit of this critical CVO™ component is to provide a decision model for prioritization of service improvement recommendations and associated allocation of resources. For example, the Customer Value Roadmap includes the following outcomes:

Optimized Survey Design: Specific recommendations for upgrading existing surveys to capture substantive customer issues not currently measured (or dropping those found to have low impact) by the current instrument.

Reward & Penalty Map: A graphical analysis providing a comprehensive set of qualitative and quantitative customer “pain-points” and satisfaction drivers. To the extent that complaint/commendation data is available for review, a more robust *Voice-of-the Customer* perspective can be provided accounting for extreme satisfiers/dis-satisfiers.

Value /Impact Map: A precise identification of areas for maximum leverage or “lift” to achieve the most significant and sustainable performance improvements in the shortest time, providing *fact-based* support for investment in corrective actions, technology upgrades or other contact center programs. **FIGURE 2** is an example of one key element at the heart of the Customer Value Roadmap:

FIGURE 2: CVO™ VALUE/IMPACT MAP



In the above graphic, Time-to-Resolve (RSLV-TIM) and First Call Resolution (1st CALL) account for over 60% of the impact on Overall Satisfaction (CSAT). Traditional performance measurement would focus on low-scoring Hold Time (HOLD) and Call Transfer (TRNS), which together account for less than 10% of the total impact on CSAT. In this example, Customers placed low importance on Technicians and Service Representatives because they recognized that TECH’s & REP’s had little control of poor processes. This company was also investing heavily to improve Speed-of-Answer and IVR/Speech technology even though IVR-ANS was not a key driver.

Voice-of-the-Customer Analysis: An aggregation of findings and conclusions from Complaints/Commendations and Rewards/Penalties analyses with other relevant data built by the Customer Experience Audit. This serves to fully compare and contrast high-value customer experiences or “pain-points” from actual feedback with what the business perceives as customer needs. It is the stage at which an alignment of Business and Customer needs can occur, *the primary aim of CVO™ analysis.*

VII. Aligning Priorities

Once the Voice of the Business and the Voice of the Customer have been articulated from a fact base, the degree to which they are in synch can be clearly demonstrated. The question then becomes, does the business take action to realize the benefits of aligning its priorities with those of its customers? What is done to ensure results match expectations (customer AND business needs)? Is customer-centricity fully integrated into the business' planning, infrastructure, culture and measurements?

The Customer Loyalty Blueprint: A Factual Basis for Getting There

The final step for achieving optimum customer value is to align business priorities with those of your customers through specific and targeted adaptation of working processes, metrics, and infrastructure

The vehicle best suited for making the trip *successfully* is to align business priorities (an output of the Customer Experience Audit) with those of customers (the result of the Customer Value Roadmap) through specific and targeted adaptation of working processes, metrics, and infrastructure. This usually involves progress monitoring to reward performance or determine interventions needed and implementing potential

changes to operational programs or technology investments. Solutions as well as their ongoing effectiveness may include:

- Real-time tracking of center/agent performance against key drivers
- Development of effective Service Recovery strategies
- Root Cause Analysis (people, methods, policies, systems, etc.)
- Process (re)definition, documentation & measurement
- Systemic Corrective Actions (procedures, scripting, escalations, etc.)
- Training, skills and behaviors (re)alignment
- Technology & infrastructure adaptation (e.g., CRM)
- Leadership & agent compensation/incentives for high-quality service

CVO™ programs and Action Plan details will be unique to each company. However, there are certain areas of consistent focus and impact that provide a baseline *closure* point to having completed both the Customer Experience Audit and Customer Value Roadmap. These involve (1) the alignment of current business activities or potential investments according to relative customer impact, and, (2) the capture of feedback consistent with customer priorities.

The overarching benefit is driving solutions that are both effective with respect to customer needs and efficient with respect to business needs by definition. For example, typical outcomes of the Customer Loyalty Blueprint include:

Project Prioritization: A ranking of improvement programs or investments that the contact center has the option to pursue against the priorities and perspectives of its customers. The same model used in the Customer Experience Audit is called in to develop financial reports and summaries against the “baseline” of activities previously developed. Key scenarios that are *optimally aligned with customer priorities* are modeled for their projected impact on service time and cost, e.g., impact of avoiding unnecessary call volumes to the contact center. From there, *customer-centric* Action Plans can be implemented.

Focused Metrics: A measurement structure to obtain feedback in response to the key drivers found by the Customer Value Roadmap. This further allows the contact center to adapt quickly to changing customer issues, new dynamics in the industry or modifications to internal service delivery systems. The approach to such measurement structure typically involves:

- Accelerated Capability to obtain customer feedback on key drivers at the time of the actual transaction/interaction with the contact center, reducing the performance feedback interval to virtually real-time.
- Immediate Notification or alerts for escalation (severe instances of customer dissatisfaction, potential complaints) or other “pain-points” requiring follow-up with the customer directly.
- Online Reporting of agent performance on key drivers, or customer-centric “dashboard”, with summaries at various levels allowing timely interventions, corrective action, training/coaching and relevant process changes.

Measurements are the key means for aligning performance with priorities. If contact center representatives are held to service objectives along with sales quotas, the message given and resulting behavior places equal importance on sales and service. Taken a step further, if Quality Assurance includes what’s important to customers in the course of observations, contact center representatives are more likely to receive the training and support needed to deliver the level of service expected by customers to keep their business.

NOTE: Accelerated delivery of such information is rendered useless unless business policies and infrastructure support *taking action* by the development of appropriate service recovery strategies in direct response to customer feedback. For example, service representatives need to have the latitude and flexibility to make decisions and respond to reasonable customer requests without referring them to multiple departments (e.g., refunds, confirmation letters, etc.).

Either the Customer Experience Audit or the Customer Value Roadmap. can be performed on a standalone basis but their value is derived from having aligned priorities through the Customer Loyalty Blueprint. With these resulting structures in place, the differentiating value proposition for CVO™ is a solution set that yields technology, organizational and process improvements aligned with customer needs *by design*.

VIII. Return-On-Service

The linkages between customer experience, loyalty and shareholder value were presented in Section III (further references cited in the next section) and Section IV provided real-life case examples. Sections V, VI and VII then focused on prioritizing relevant data sets to develop a robust business-customer alignment. Resulting improvements that close service performance gaps while driving increased profitability can literally be termed “Return-on-Service” (ROS) and are demonstrably measured by:

- Shareholder Value and Related Measures:
 - Reduced Operating Expenses/Increased Revenues
 - Reduced Rework (repeat calls, site visits, etc.)
 - Reduced Cycle Time (duration of problem)
 - Reduced New Customer Acquisition Costs
- Customer Loyalty and Related Measures:
 - Increased Retention/Reduced Defection (“churn”)
 - Increased Repurchases/Renewals
 - Increased Referrals/Recommendations

Interestingly, Shareholder Value measures are commonly considered “hard” while Loyalty measures are considered “soft” -- but it’s clearly *hard value* when your customers won’t buy from you anymore, or recommend you to others.

The improved decision-making value of the CVO™ model comes from the Customer Value Roadmap described in Section VI of this paper. It refers to the relative customer satisfaction/CSAT “lift” that can be expected by focusing on attributes with higher vs. those with lower importance weights.

Shareholder Value measures are commonly considered “hard” while Loyalty measures are considered “soft”, but it’s clearly hard-value when a business loses customers.

EXAMPLE: A customer care center conducts phone call and e-mail surveys from which it can be estimated that contact volumes run 100,000 per month. Their current CSAT ratings are 4.5 of 7 or nominally a 65% +/- satisfaction level. If the customer’s experience were improved toward the target (say, 5.5 of 7), this would approach a much higher range of 80% overall satisfaction for upwards of 1,200,000 identifiable contacts that “touch” the customer care center annually.

An approximate 15% gap is *significant* to close and would require focused effort in areas of highest impact vs. random programs or technology upgrades that would otherwise result in misdirected (and potentially wasted) investment. If the Customer Value Roadmap had found 1-2 attributes accounting for, say, 65% of the impact on customer satisfaction, the *maximum likelihood* or “critical path” to significantly close the CSAT performance gap is focused improvement efforts in those attribute areas, potentially effecting 1.2 million customers per year.

A Reality Check On Success Measures

Ever wonder why cost reduction programs and systems almost never seem to bring in the projected ROI or why sales campaigns may fall substantially short of revenue targets? Even the stock market varies (sometimes wildly) from project earnings, causing Wall Street to reset stock prices. What then happens to the sales forecasts, marketing research studies, financial models and business case NPV's?

Dr. Sam Savage of Stanford University captured this well in his October, 2000 article for the San Jose Mercury News, *The Flaw of Averages*. Whether it is consumer behavior, contact center traffic, service delivery or other operations, these processes are all *random variables*, i.e., dynamic in nature with an underlying “distribution” or range of occurrences and outcomes. Traditional business measures tend to focus on single-point metrics, targets or averages without taking such variability into account.

And so it is with traditional measures of customer satisfaction, loyalty and shareholder value. However, what the CVO™ model does is maximize the chances of achieving performance improvements by directing them to the highest areas of impact. Using the EXAMPLE from Section VI of this paper, if *Resolve Time* and *1st Call Resolution* account for **60%** of total impact on CSAT while *Hold Time* and *Call Transfer* account for **10%**, it is **six** times as likely to close a performance gap of any significant amount by focusing on the first two attributes (as a statistically random variable, 60% of Overall Satisfaction can be explained by or attributed to them).

From a risk management perspective, this is a more realistic way to present options for decision-making (cost reduction, service improvement, etc.) than to assess solution alternatives and their associated investment as deterministic outcomes.

Another progressive view is offered by Customer Relationship Metrics in using positive customer experience as a function of ROI in a Sept., 2005 article, *New Metrics No Contact Center Can Live Without*, and modified/simplified here:

Contact Center ROI (for a given time period) =

$$\frac{\% \text{ Positive CSAT} \times \# \text{ Customers Served} \times \text{Avg. Revenue per Customer}}{\text{Fully Loaded Contact Center Costs}}$$

A novel concept for contact center return to be driven strictly by positive customer experience and not allow counting “dissatisfied” revenues for ROI purposes!

Traditional metrics can drive the wrong behavior in terms of developing and maintaining a customer-centric service delivery operation that is BOTH effective and efficient for maximizing loyalty and shareholder value. CVO™ provides a solid alternative and *highly differentiable* approach as a means to that end.

IX. Conclusion

As described in this paper, Customer Value Optimization™ delivers distinct and tangible benefits across three phases of a systematic process:

- The *Customer Experience Audit* clearly articulates the Voice-of-the-Business in its understanding of customer needs. It provides a gauge as to how “in touch” the business is with the perceptions of its customers from a broad cross-section of factual information.
- The *Customer Value Roadmap* clearly articulates the Voice-of-the-Customer in its values and preferences. It provides a robust decision model for prioritization of service improvement recommendations and associated allocation of resources.
- The *Customer Loyalty Blueprint* aligns the priorities of the business with those of its customers. It drives solutions that are both effective with respect to customer needs and efficient with respect to business needs by design.

The CVO™ methodology *fully leverages existing data captured by the business* to assess, design and execute a customer-centric contact management strategy that is both practical and cost-effective:

Assess >>

Customer Experience Audit:

- Golden Thread Review
- Low Hanging Fruit Summary
- Stranded Value Report

Design>>

Customer Value Roadmap:

- Value/Impact Map
- Reward & Penalty Maps
- Voice-of-the-Customer Report

Execute>>

Customer Loyalty Blueprint:

- Project Prioritization
- Focused Measurements
- Customer-Centric Solutions

Together, the specific application of these tools and techniques leads to a uniquely valuable outcome for achieving comprehensive *alignment of business priorities with customer perspectives for maximizing their loyalty and advocacy.*

References

In Section III, we acknowledged several noteworthy works that have validated the linkages between customer experience, loyalty and shareholder value. Specifics around these references are as follows:

- Malcolm Baldrige National Quality (MBNQ) data that has asserted correlations between customer satisfaction levels and stock performance, as reported by Fortune magazine
- Joint work by University of Michigan’s National Quality Research Center and Stony Brook’s Harriman School for Management & Policy (Fournell, Anderson, Mazvancheryl) showing linkage between the firm’s financial value and customer satisfaction (Section III, Figure 1).
- Models developed by Dr. Roland Rust, University of Maryland/American Marketing Association, aimed at identifying the financial impact of customer satisfaction performance levels and associated drivers.
- Gustaffson and Johnson’s integrated measurement/management system, *Improving Customer Satisfaction, Loyalty and Profit*, aimed at developing the Customer’s “Lens” and associated drivers (Section III, Figure 1).
- A “Revenue Enhancement” model and case studies from Stanley Brown (Coopers & Lybrand’s Centre for Excellence in Customer Satisfaction) in *What Customers Value Most* linking high satisfaction levels to increased customer retention, reduced employee turnover and improved productivity.
- TARP’s publication of a host of white papers, case studies and industry statistics that show recurring correlations between customer satisfaction (CSAT) and brand loyalty, profitability, productivity and employee satisfaction.

X. About InterVox Group

InterVox Group is a full service consulting and implementation firm that has helped chief customer officers of more than 40 small and large clients improve performance of their contact center operations. *Our business model enables companies to utilize the customer contact center as a primary driver of enterprise value.* Our collaborative, professional network of 150 senior-level consultants represent the full spectrum of CRM and call center support services, from strategy formulation to operations improvement, technology selection to implementation management. InterVox Group brings added value to our clients through rapid delivery of practical experience with less overhead than “traditional” consulting firms.

The Customer Value Optimization (CVO™) practice reflects our belief that structural improvements and performance transformation start with a fact-based understanding of customer dynamics. The CVO™ model is one of *effective strategies and solutions delivered by efficient processes that are stable (consistent/repeatable) and capable (meet/exceed expectations) to sustain customer loyalty and yield long-term shareholder value.* The delivery of “bad service 2 seconds faster” often results in dissatisfied clients calling into Customer Care and generating unnecessary traffic to the contact center. However, self-service tools (web/IVR) that facilitate more effective customer interaction ultimately reduce the need to contact Customer Care and improve user perception simultaneously. The key is in understanding *from a fact-base* those service/quality characteristics customers value most, which is what CVO™ achieves, and with measurable impact.

Applications of CVO™

The quantitative aspects of this approach have been rigorously developed and tested in real world environments. InterVox principals have successfully applied CVO™ - centric technology in precisely identifying the unique drivers of customer preference/perception for cellular-wireless, internet services, high-end business, consumer marketing, directory assistance, repair services, residence vs. small business installation, business office operations (call centers), custom calling features, electronic billing, brand image, lost customers, vendor selection and purchasing / procurement operations. Broader and more qualitative, scenario-based approaches have also been successfully applied by InterVox Group consultants in developing market segmentation, customer interaction and employee motivation strategies for other industries.

About the Author

Elaine Squittieri-Black is a successful practitioner of applied business research with over 20 years combined corporate, consulting and academic experience. She has held senior level management positions in Fortune 100 telecommunications and professional services. Elaine’s focus on bottom-line results has enabled top executives and their teams to “speak with data” in achieving more effective strategy and efficient implementation. She has successfully applied practical analytics in venues ranging from flagship product deployment (DSL) to large-scale contact center performance (7,000 service representatives). She has also helped improve areas of high customer-response sensitivity including 911, deaf/disabled services, past-due collections and annoyance calls. Elaine holds an MS in Operations Research from the Stanford University School of Engineering, a BBA in Statistics from the City University of New York and instructs applied business research at the university level.