A DOZEN PROBLEMS WITH APPLIED CUSTOMER MEASUREMENT

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ABSTRACT

Most organizations today understand the importance of satisfying customers. Many have formal processes in place for survey-based customer satisfaction measurement. While right in intent, a large number of these programs have not kept pace with evolving ways of viewing, measuring, and managing customer relationships. Twelve common problems are described, characterizing specific ways in which applied customer measurement approaches fall short. Discussion of each problem helps to raise improvement possibilities for applied corporate researchers, and, offers fertile topical areas for academically-oriented researchers. Addressing the set of twelve issues in total also can be viewed as prescriptive for a progressive, up-to-date program of applied customer measurement.

INTRODUCTION

This paper will be unusual for what might typically be seen in the Journal of Customer Satisfaction, Dissatisfaction and Complaining Behavior. A main differentiator is the greater degree of applied/practitioner emphasis. The content is largely experiential rather than theoretical or empirical. Twelve issues are described that emanate from my work with major national and international organizations in the realm of customer satisfaction and customer loyalty measurement and management. Further, I do not claim to be the originating source of all of these ideas. Many of the individual issues have been discussed to varying extents from academic and/or practitioner perspectives across a variety of authors and outlets. So then, what is the unique value of a paper like this for the usual CS/D readership? At least a few important elements are especially relevant.

First, to my knowledge, the *compilation* of this set of issues, in a condensed simultaneous treatment, is unique. Considering the set of issues together in this way affords researchers in the CS/D area a fresh opportunity to "zoom out" from their specialized research foci and recapture a more comprehensive view of customers and their behavior. That is not trivial, particularly given the emphasis on customer relationships in recent years. Relationships are complex, with many facets and stages, and we would do well as researchers to consider them more holistically from start to finish. From a consumer behavior perspective, that means considering elements of other stages of typical CB models in their bearing on CS/D issues, not focusing exclusively on post-purchase evaluation processes.

Second, each of the twelve issues represents a fertile substantive area, within which are encompassed a variety of important sub questions for further research attention. In that sense, the paper sketches a broad set of important related lines of potential research activity.

Third, for the academic researcher interested in studying problems with applied relevance, the set of twelve issues represents a menu of current "hot buttons" for some of today's best companies. Thus academic research advancements within the set of twelve issues can offer great potential value to organizations.

Taken together, my hope is that thoughtful practitioners and academicians alike will consider these dozen issues and undertake activities aimed at addressing them. By doing so, I believe we can enhance the state of our field, both in terms of academic research and in terms of applied practice. An overview listing of the dozen issues is provided in Table 1. The rest of the paper contains a more detailed discussion of each issue in turn.

PROBLEM ONE. FAILURE TO CONNECT CUSTOMER MEASUREMENTS TO FINANCIALS

Managers today are very concerned about return on investment (ROI). With tighter and tighter scrutiny around expenses, an eye toward cost reduction, and organization-wide constraints on spending, inevitably the value of customer measurement programs is questioned. "It is costing us a million dollars a year to track customer satisfaction! What's the payoff?"

Table 1
A Dozen Problems with Applied Customer Measurement

1. Failure to connect measurements to financials
2. The assumption that all customer loss is bad
3. Viewing satisfaction in absolute terms
4. Believing that measuring is doing
5. Assuming staying or leaving hinges solely on satisfaction
6. Ignoring behavioral moderators
7. Stopping short at the outcome of retention
8. Studying current customers to understand defection
9. Ignoring customer acquisition dynamics
10. Neglecting contact employees as a critical controllable
11. Missing integrative opportunities
12. Failing to leverage available technologies

Somehow, companies need to demonstrate that customer measurement not only pays for itself, but also produces a return. While there are available lenses through which to view the question (e.g., cost of customer defections, return on quality, customer equity, customer life time value analysis, etc.), in practice, organizational departments responsible for customer satisfaction measurement often fail to take *any* steps to link their survey measures to financial data. Amazingly, financial data often are readily available which would allow for the testing/demonstration of such linkages.

More than ever before, companies are able to manage customer relationships at the individual customer/account level, and companies often have behavioral data at that level on things like types of purchases, amounts of purchases, frequencies of purchases, and so on. Further, those kinds of behavioral measures often are tracked over time. If we also are collecting customer survey measurements at the individual customer/account level over time, there is a clear opportunity to connect these streams of data quantitatively. Even in many B2C settings where large numbers of customers are involved, there still may be survey and financial metrics available at the individual level, at least for samples of the customer base. And, even if individual level data do not exist in some mass-market B2C situations, often linkable customer and financial data exist at some higher-level aggregated unit of analysis (e.g., segment, store, region, period, etc.).

Certainly there are some very elegant financial approaches that have been proposed, but, some very basic explorations can be sufficient in demonstrating to senior management the linkage between customer measurements and financial performance. For example, in my work at Walker Information, we typically use customer measurements to classify respondents into one of four loyalty segments. Whenever a client of ours provides customer-level spending metrics, we can connect our categorical classification to financial metrics by matching on a common customer identifier. We then examine whether ensuing customer behaviors show important variations as a function of the loyalty segmentation.

Do highly loyal customers tend to increase their total purchases and spending by greater relative amounts than less loyal customers? It is a testable question. We can do something as simple as using behaviors 12 months prior to the survey as a baseline, then expressing the 12 months after the survey as a percentage of that baseline. It is a powerful way to show a company, with their own data, that earning higher levels of customer loyalty pays off in specifically quantifiable ways. That kind of financial linkage information can be especially powerful when companies also have statistical models of how best to influence customers' loyalty levels. Then companies can construct simple "what if" scenarios showing how much total revenues might be expected to increase if the proportion of customers in the most loyal segment were to increase by some specified amount due to projected changes in levels of selected model components.

The specific mechanics are not my point here. Theorists and modelers can invent any number of sophisticated and reasonable approaches. My point here is to note the typical *absence* of such a financial linkage effort in many companies. Far too many organizations fail to link customer metrics to financial metrics. Sadly, the required ingredients often are already at hand, at least for some basic initial analysis. The very premise upon which the measurement program probably came into being –

financial payoff – remains unproven. Managerial attention and action surely will suffer whenever a compelling, company-specific, empirically-grounded financial case has not been built.

PROBLEM TWO. THE ASSUMPTION THAT ALL CUSTOMER LOSS IS BAD

It is accepted by many managers that all customers are not equal – some are more desirable than others. That kind of thinking is resident in deeply engrained organizational ideas like "the 80/20 rule." It also is inherently present when companies strategically focus on certain target markets and segments regarding customer *acquisition*. Interestingly, however, this way of thinking often has *not* been applied to the existing customer base.

Consider by way of parallel how organizations manage their employee base. Some employees are top performers. Others are "helped to seek better-fitting opportunities elsewhere." Why shouldn't the same case be made for customers? Some customers are served in the context of excellent win-win relationships. Others might be better served elsewhere. We may not necessarily "fire" them, but we might allow our level of business to dissipate. Certainly, we want to be ethical in providing everything a customer is buying. But, in terms of time, effort, additional resources, why would we exert extraordinary energy to retain customers that are a net drain on our performance?

Some customers are highly desirable. Perhaps their volumes are substantial. Perhaps they produce high levels of profit. Perhaps they have the potential for great future growth. Perhaps it is easy to do business with them. Perhaps they fit some desirable profile. We can focus our best resources on these best customers. Other customers who actually hinder our performance in financial or other ways, we might simply "let go" over time.

For too long we've mindlessly chanted the mantra that it is better to keep a customer than to have to replace one. That simply is not unconditionally true. Some customers cost companies money even in the long term. They may be producing essentially negative revenues. Wouldn't it be a good thing to "lose" a customer like that? Certainly we need to be careful about potential negative repercussions like negative word-of-mouth. If in the process of shedding undesirable customers we engender a negativity that seeps into the market, it could cause this kind of strategy to backfire. However, in some situations it can be accomplished quite easily. For example, in B2B settings where periodic requests for proposals or bids are standard, a company might simply choose not to re-bid on business for an undesirable customer.

Intelligent use of customer data can help to define which customers we might want to keep and which customers we might not want to keep. For example, is there a "kind" of customer that experiences our products and services in highly favorable ways? What kind of customer tends to come into the relationship and stay in the relationship, all else equal? What kind of customer tends to grow across time? What kind requires little in terms of technical or other support? These questions beg for segmentation and profiling, and not necessarily along traditional lines of region, product, or other demographic/firmographic characteristics.

We must develop a deeper understanding of our existing customer base. Customers fitting highly desirable profiles might be the ones to get "platinum" levels of service and sales efforts. Customers not fitting the profile might be good candidates for more of a maintenance strategy. And, we might want to lose undesirable customers from our customer base entirely, at least if the situation cannot be improved. While it may seem like customer satisfaction blasphemy, a leaner meaner customer base could be more profitable and better for the business in the long run, than a bigger customer base with many undesirables. An added benefit is that in creating the desirable profile, a company also has written an excellent set of specifications for new customer acquisition (more on that topic under the discussion of Problem Nine).

PROBLEM THREE. VIEWING SATISFACTION IN ABSOLUTE TERMS

Many organizations view customer measurements in absolute terms. For example, let's

say Company Z uses a survey process to measure customer satisfaction on a 10-point scale. Let's say Z reports the mean across customers as a key corporate performance metric. For sake of argument, assume the mean value is 7.8 in some given measurement period. Is that good? Is that bad? If 10 is "very satisfied" and 1 is "very dissatisfied," at least we have some reference for interpreting the 7.8 number. However, the number in the absolute alone can be quite misleading. If for example we have a single primary competitor who achieves a rating of 9.5, will we still pat ourselves on the back for our 7.8? Not likely. This "high absolute but low relative" scenario makes it clear that there is danger in viewing satisfaction in absolute terms alone.

The interpretation of performance should hinge jointly on at least two dimensions: absolute level of performance, and performance relative to competition. For simplicity in our discussion here, let's consider an example of satisfaction with product quality. Assume this has been measured in both absolute and relative terms. Further, let's consider each performance dimension dichotomously. Obviously in practice there are more gradations than that, but this simplified view will allow me to make my point. In this dichotomized world, a focus on absolute performance would result only in two types of conclusions. Either we are doing well on product quality, or we are not doing well. However, when we also consider performance relative to the competition, there are four, not two, possible conclusions. These are shown in Figure 1.

The off-diagonal cells reveal the importance of this joint absolute and relative view. First, consider the Low Absolute-High Relative cell. Had we considered absolute performance only, we might have concluded product quality was an area of weakness for the company. Likely, we would not have tried to communicate our capabilities as a strength to the market in our marketing communications. However, now knowing that our performance relative to competition is fairly strong, we might have quite a different take on the absolute figure. Certainly, it is a point for improvement. However, it also is a point of positive competitive differentiation. Strategically, we might want to broaden our lead while simultaneously beginning to leverage the existing gap through marketing communications.

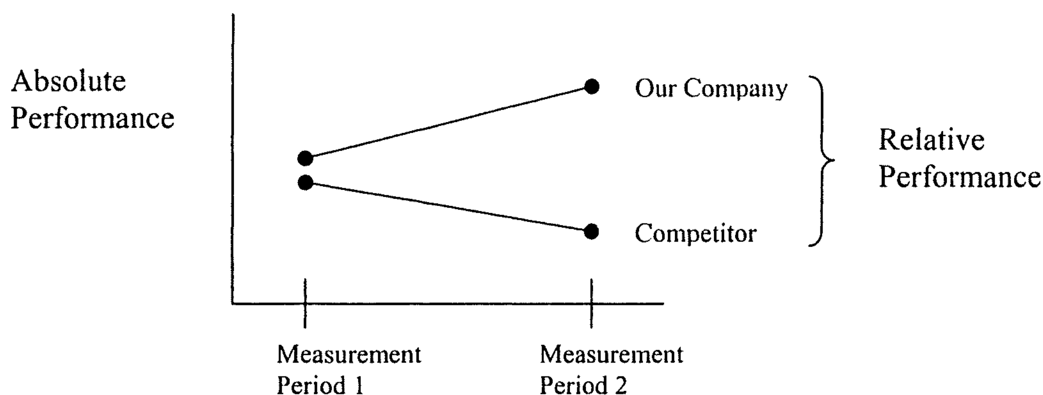
Figure 1
Joint Consideration of Absolute and Relative Performance

Performance Relative to Competitors		Absolute Performance: Low	Absolute Performance: High
	High	Grow Point of Difference	Market Strength
	Low	Market Weakness	Dangerous Delusion

Even more important is the other off diagonal cell – the High Absolute, Low Relative cell. What a dangerous delusion it is for a company to believe that they are performing above board simply because their absolute scores are high. Relative to competition, they are faring poorly. Again, consider the product quality example. The absolute scores might lead the company to feel they are doing very well. Meanwhile, competition is severely beating them on that dimension. And while the company might be tempted to tout product quality in marketing communications as a corporate strength, that tactic would likely erode market credibility. If customers know other companies are far better, while the company is extolling its virtues the likely consequence is to seriously erode brand credibility, and perhaps erode any image of integrity. From a CS/D perspective, marketing communications like that also would be setting an expectation for high levels of performance, which, when the experience is considered relative to competition, ends up negatively disconfirming expectations, thus producing dissatisfaction.

A third dimension could be considered here as well. It is the dimension of time. It too involves a relative perspective. Specifically, how are performance levels improving or declining in comparison to the prior measurement period? The original mean of 7.8 implies one thing if we were at

Figure 2
Absolute, Relative, and Time-Related Performance



9.2 the measurement period before. We've significantly declined – obviously a bad thing. If however we previously were at 6.5, we might be quite thrilled with the 7.8 performance, particularly if competitors' scores had declined across the same time period. Figure 2 shows one possible graphic display that incorporates absolute levels of performance, performance relative to competition, and performance relative to some prior period, all in a single display. Clearly it is not an "absolute only" proposition. Joint consideration of all information in the display will determine how we interpret our current performance.

The main point here is simple: consideration of absolute measures in isolation, without considering relative competitive and perhaps time-based performance, can be quite misleading and problematic.

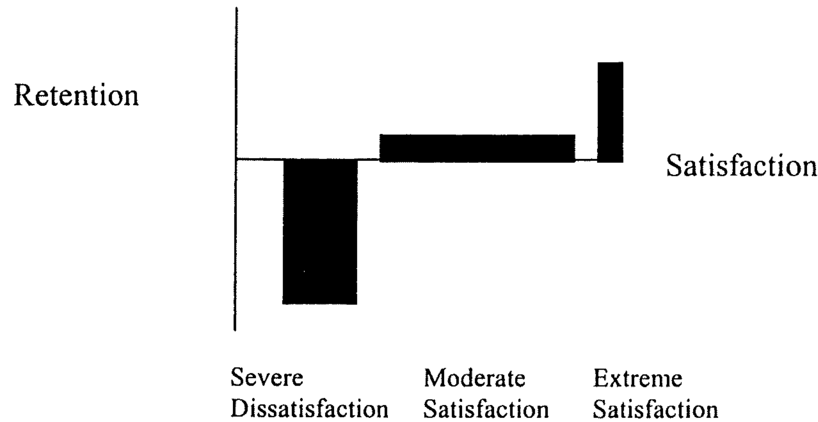
PROBLEM FOUR. BELIEVING THAT MEASURING IS DOING

Another mantra that needs revisiting is as follows: "What gets measured gets done." While the quote may be pervasive, it also is fallacious. Often, what gets measured does not get done. Some companies seem to believe that *measurement* of customer opinion is the main thing that is required. However, that in itself has little to do with proactive *management* of customer experiences and customer relationships. There is a difference between measurement and management. Management implies that action is being taken in response to what was discovered through measurement.

I once heard a client state it cleverly. He said measurement alone is a bit like someone repeatedly stepping on the scale expecting to see weight loss. Certainly the scale can be helpful as a gage on how well the objective of weight loss is or isn't progressing. However, it simply would be wishful thinking to expect the measurement itself to magically make the change objective materialize.

Too many companies implement customer measurement initiatives believing they are doing something to improve relationships with customers. But companies that stop at the measurement phase will be severely disappointed with the outcomes. "Why are we paying all this money to measure customer satisfaction? Our scores have stayed flat for the past five periods." Hello! What improvement initiatives have you put into place to make change happen? If the answer is none, don't expect your scores to go up. Measuring is not doing. In reality, customer data must become actionable business intelligence that sparks organizational assignment of responsibility to make changes happen, with some associated system of accountability in place to ensure that it does.

Figure 3
One Example Pattern of Satisfaction-Retention Relationship



PROBLEM FIVE. ASSUMING STAYING OR LEAVING HINGES SOLELY ON SATISFACTION

It is well known now that the customer satisfaction perspective, by itself, is not comprehensive enough to use as the ultimate construct in managing customer retention. Many have built the case that satisfaction does not map directly to retention. In fact it can precede defection. Likewise, a dissatisfied customer may continue with a business (e.g., customers of a utility, customers with large investments in equipment, customers in contractual agreements, etc.).

Several problems exist in assuming a linear, symmetric, uni-causal relationship between satisfaction and retention. First, a number of possible asymmetric non-linear patterns of relationship have been proposed and observed, sometimes modified by industry sector. For an example, consider the depiction in Figure 3.

In Figure 3., severe dissatisfaction leads directly to customer loss. Then, there is a zone in which moderate levels of satisfaction contribute modestly to retention. Within that zone, little is gained for incremental gradations of "moderate satisfaction." Finally, only at the most extreme level of satisfaction (delight?), do we start to see increased association with retention. This is just one example of how the satisfaction-retention connection can work. Sometimes it does not work at all. Sometimes other patterns emerge. The point here is that the oft-assumed satisfaction-retention relationship is not axiomatic. The relationship is not necessarily (a) present, (b) symmetric, or (c) linear.

The satisfaction-retention relationship also is not uni-causal. Other factors beyond satisfaction surely influence retention. Significant work in the services area has demonstrated that a variety of other constructs play a role in the likelihood to continue doing business with a company – things like value, quality, price, market orientation, service quality, corporate image factors, and so on. Where are these other known drivers of behavior in applied customer satisfaction frameworks? Too often they are missing. What is called for then is a more comprehensive set of constructs in more comprehensive models. Models emphasizing satisfaction alone, quite simply, are misspecified. Other drivers of staying and leaving clearly are missing. Consideration of additional factors influencing customer behavior leads nicely into problem six.

PROBLEM SIX. IGNORING BEHAVIORAL MODERATORS

The general notion of moderation is that the nature of the relationship between two variables depends on the specific level of some third variable.

Making that concrete for the current discussion, it means that the nature of the relationship between satisfaction and staying/leaving behavior will hinge on the level of some other variable(s). For example, consider a dichotomous variable in the cellular phone category: "presence or absence of a multi-year contractual agreement." The level of this variable can seriously impact the relationship between satisfaction and continuation. In the absence of a contract, we might expect dissatisfaction to result in defection, and high levels of satisfaction to correlate at least somewhat with continuation. However, in the presence of a contract, dissatisfaction may not lead to defection. Most customers are unwilling to incur the stiff penalties of cancellation. The contractual agreement and the presence of switching costs moderate the relationship between satisfaction and continuation behavior.

Many companies fail to consider the important role of such potential moderators, while at the same time many potential moderators exist and plausibly do influence customer behaviors. So what moderating forces should companies consider? What might be influencing the degree to which levels of satisfaction (and other factors) do or don't translate into subsequent behaviors? A series of key questions can help to start identifying potential moderators for any given situation.

Are there any barriers to switching that restrict customers' freedom to leave at will? Are there costs to customers if they do choose to switch? Have investments been made that would be lost if a customer decided to switch? Is the general level of customer involvement low in the presence of effectively interchangeable suppliers/ products/ services, thereby making switching or not switching something that doesn't matter much? Is there a proliferation of competitive options making switching easy and even desirable? Are there frequent promotions offered by competitors that woo customers away from existing suppliers? Is the nature of the interaction with customers primarily transactional, or is there a relationship element that adds to the degree of bond established between the company and customer? These are just a few considerations that can modify the satisfaction retention relationship.

Thinking through questions like those can help companies identify and take into account specific factors that may be in operation in their particular business contexts. The main point for the problem described here is that companies often blindly believe in a kind of axiomatic 1-to-1 mapping of customer measures to behavior. The failure to consider relevant moderating forces can be a prescription for misleading estimated degrees of relationship between customer measures like satisfaction, and customer behaviors like continued purchase. Depending on the specific moderating forces at work, *not* taking them into account can lead to understated or overstated degrees of relationship.

PROBLEM SEVEN. STOPPING SHORT AT THE OUTCOME OF RETENTION

As mentioned earlier, one of the now-worn-out mantras of customer satisfaction measurement has been the notion that it costs more to get a new customer than it does to keep one you already have. This makes it sound as if the main goal is simply to maintain the existing customer base. Sometimes, customers are retained, but that maintenance really is not good for business. Consider the example of credit card owners who never use the card. They are retained, but for all practical purposes, inactive. Certainly retention in general is a vital focus for companies (qualified of course by Problem Two as described earlier). However, most companies don't merely want to avoid having to replace their customer base. Most companies are striving for something much more challenging and forward-looking – growth. This calls for an expanded view of the behavioral outcomes we study – specifically ones surrounding certain mechanisms of growth.

There are several means by which existing customers/accounts can grow. In multi-source situations, they can assign more of their business to a given supplier. Leveraging of customer-based competitive intelligence and the strategic management of satisfaction, product quality, service quality, quality of total experience, value for the money, loyalty etc., all can and should lead to greater shares of wallet.

In sole source situations and multi-source situations, growth also might involve simple

increases in volume of a given customer's/account's purchasing. Here, a few other mechanisms come into play. First is the notion of "cross-selling." Many companies offer a portfolio of products and services. It makes sense that customers' current satisfaction, loyalty, perceived quality and value, etc., can contribute to a customer's willingness to use the given supplier/vendor for additional products and services. For example, if I'm pleased about the total experience I have with my car insurance company, it may cause me to use them for my home and life insurance as well.

A second growth dynamic is the notion of "up selling." Say for example I have a "gold" level credit card for a fifty dollar per year fee. I've been a good customer and have used many of the benefits that come with the card. Now the company offers to upgrade me to a "platinum" card, with more benefits, more prestige, and of course, a higher yearly fee. No doubt there are other considerations in deciding to accept the offer or not, but again, the quality of experiences I've had with the company is likely to influence the probability of me accepting the upgrade.

A third growth dynamic is a pure volume effect. Perhaps the connection here is less direct, yet in concept it certainly is plausible, particularly in certain B2B situations. For example, if I provide a product or service to a company, and do so in a way that helps to make *their* business more successful, it may lead to higher volumes of purchase for me. Say I manufacture and supply computer chips to PC OEMs, who rate me highly on quality, service, value, satisfaction, and loyalty. Now, I invent a computer chip that is far superior to chips that exist today. OEMs that buy and use this chip sell more computers and thus continue to increase their orders with me. The loyalty I've earned preserves the increased volume I'm enjoying based on increased derived demand ultimately tracing back to my R&D innovation.

Note that none of the growth dynamics discussed so far has dealt with new customer acquisition. I will get to that in the section on problem nine. For now I've been talking about things to consider beyond mere retention in the typical, and limited, satisfaction-retention mindset still so prevalent in many companies today. Growth dynamics are a vital area of additional study.

Note too that a set of related topics emerge from this focus on within-customer/account growth. For example, segmentation of the customer base can be especially powerful here. Are there certain customers with a greater propensity to grow their business? What do those customers look like? How can they be reached? What offers will capitalize on their propensities to expand? Are there pockets of the customer base having certain unmet wants or needs? Perhaps existing or new products and services would be lucrative pursuits with those segments. Also relevant is the notion of product/service "affinities." Perhaps by analysis of our customer data, we discover that customers who purchase product A are highly likely also to purchase service K. We might therefore target the subset of "A only" purchasers with similar characteristics and attitudes as those currently buying A and K together. We might strategically market K to that subgroup.

In summary, too many companies are content to believe that they should measure satisfaction because it will help them keep their customer base. As important as that piece may be, clearly there is so much more that should be considered. Too many companies are missing opportunities to study the kinds of growth processes I've outlined. Movement in that direction could be accomplished easily as a natural extension of their current customer measurement efforts. For example, a simple step could be to add a handful of questions to assess customer propensities toward the different kinds of growth described here. Steps like that should be taken to move past the "retention only" mindset.

PROBLEM EIGHT. STUDYING CURRENT CUSTOMERS TO UNDERSTAND DEFECTION

Consider the prevalent logic: measure and manage customer satisfaction to keep customers. Stated differently, measure and manage customer satisfaction to make sure we do not lose customers. These statements appear on the surface to say the same thing. But it does beg a question about keeping vs. losing customers. If we identify the set of factors on which strong performance helps us

keep existing customers, have we by definition identified the set of factors on which poor performance leads to losing customers? I think an important distinction makes the answer no. I believe there is a fundamental flaw in the logic of studying current customers to understand customer defection. For one thing, sampling from the current customer base will provide no information from actual defectors.

A simple example may be helpful here. Consider a company that implements a substantial rate hike. Assume that their customer base is a finite mixture of two underlying segments – a highly price sensitive segment, and a quality-oriented segment. The rate hike is timed to occur a few months before the next wave of customer satisfaction measurement as an intentional attempt to create a kind of quasi-experimental design: measure, intervene, re-measure (a one-group pretest-posttest design). The data reveal that price ratings actually *improve* from the pretest to the posttest. Management pats itself on the back for a job well done: "we've raised rates and it did not affect customer satisfaction negatively. In fact, our scores on price improved!" Not so fast. Let's consider the role of defection.

Just for sake of example here, assume all of the customers in the underlying price sensitive segment terminated the business relationship immediately after the rate hike went into effect. Having exited the customer base, they were no longer active/valid when sample was drawn for the posttest survey. That means in the posttest survey, we were only surveying the quality-oriented sub segment. Where the pretest was a mixture of latent classes, the posttest was essentially only one of those classes – the one with more favorable ratings of price. The price sensitive segment is gone. Presuming the price sensitive segment was less positive in ratings of price from the start, we've removed a group of people who tended to score lower, thus leaving a group of people who tend to score higher. This accounts for the increase in price scores from pretest to posttest, and reveals why measurement of the current customer base alone can be misleading, at least with respect to issues that cause defection. Defection should be studied as its own subtopic. Churn/defection rates should be known and monitored. Lost customer research should be conducted to uncover systemic controllable root causes of loss.

For companies interested in deeply understanding the customer experience across the entire customer lifecycle, it is a mistake to focus only on current customers if we want to understand customer defection processes. Logically, how can customers who haven't defected be good informants about defection processes? To understand why customers leave, we must treat lost customers as a separate sample frame. Only by talking to lost customers can we begin to tease out underlying root causes. Did a customer leave because of something the company did to drive them away, because of something a competitor did to pull them away, or something essentially uncontrollable from a marketing standpoint (e.g., homeowners insurance cancelled when someone moved into assisted living)?

One final caveat on this section. It may be possible within the current customer base to identify customers *at risk for defection*. In fact, early identification might allow for intervention. While this approach can be highly valuable (e.g., rescuing perishing accounts), by itself, it cannot offer a comprehensive picture of defection processes for all the reasons previously described. But, the identification of current at risk customers can be aided by the use of customer defection data when done in combination.

If in studying lost customers, we discover segments or types with particular profiles or particular experiences, we might use that as a pattern against which to screen existing customers. Almost like scoring higher probability prospects in direct marketing, now we are trying to score the existing customer base regarding probability of defection.

A second use for such profiling regards new customer acquisition. If certain kinds of customers, with identifiable characteristics, tend to come into the fold, feel their needs are not being met, and thus ultimately defect, it might be much better to try to screen out these kinds of customers before they ever enter the system! Rather than creating the profile of a target segment to acquire, here we are creating an anti-target profile – the kind of prospect we *don't* want to acquire. Thus, lost customer research can have bearing on how we deal with existing at-risk

customers, and how we think about certain elements of the customer acquisition process. It is an important, but often neglected area of study.

PROBLEM NINE. IGNORING CUSTOMER ACQUISITION DYNAMICS

The points raised so far touch upon at least three broad groups of critical interest: prospective customers, current customers, and former customers. For simplicity, let's refer to them respectively as pre-customers, customers, and post-customers. Those categories also allow us to shift from a "between groups" perspective, to a "within subjects" perspective. Rather than thinking in terms of separate groups, any given individual customer is somewhere in the process of moving through those three broad stages. Someone first is a pre-customer, then becomes a customer, then eventually may become a post-customer. When considered that way, we have a three-stage simplification of a topic discussed frequently in CRM and other marketing circles, namely the notion of the "customer lifecycle." A lot of recent talk in both academic and practitioner circles has centered on understanding the lifetime value of customers across the customer lifecycle.

The lifecycle perspective can be very valuable in its implications for customer acquisition efforts. If we clearly identify the subset of most profitable long-term current customers in our customer data base, we can create a profile characterizing those "most desirable" customers. Now we can use that profile to target pre-customers with similar profiles. Thus by studying current customers from a lifecycle perspective, we can extract information that helps guide the way we approach very targeted acquisition of pre-customers.

In fact, this profile also can help us study why we sometimes are unsuccessful at customer acquisitions. There may be many pre-customers with characteristics like those of our best customers, who for whatever reasons do not choose to become our customers. They may choose a competitive alternative for example. Wouldn't we want to understand the choice dynamics and competitive considerations taking place in that segment of pre-customers too? Again the lifecycle-based desirable profile helps us target who to study in this kind of "lost prospect" research.

Note that this line of thinking is different from traditional generic acquisition-related marketing research. Often, market research may seek to understand stages of standard consumer behavior models (awareness, consideration, choice, etc.) to find ways to acquire customers – period. The lifecycle approach offers a sharper focus. It helps not to win just any customers, but to win the kind we can keep and grow across time.

Consider for example the long distance telecom sector in the 90's. Offers and checks were flying left and right causing people to switch providers. But did the switchers stay? Were acquisition costs ever recovered to the point where profitable revenue was earned for sustained periods of time? In fact, promotions brought in the wrong kind of new customer - people who had just demonstrated their willingness to switch for a sweet enough deal! What if the telecoms instead had tried to understand the "type" of customer that comes in stays in for the long haul? What if they had then studied the choice processes and dynamics of that particular type of pre-customer? Wouldn't that have been a far better target group to go after?

Again the focus is much sharper when we use current customer intelligence to help fuel the acquisition process. It is not about acquisition in general. It is not even about going after those with the highest probability of signing up. It is about going after those who will sign up, stay in, and be excellent profitable customers across long lifecycles.

Simple tactics can help move companies in this direction. If we stratify the current customer base according to customer tenure, then try to select newer customers who fit the profile of our best longer term customers, we can intentionally over sample that particular subset, and in our customer measurement processes begin to ask some critical questions about their choice processes. What other companies were they aware of? Did they shop? Who else did they consider? What inputs were used in the final decision? What had the most impact on that decision? Did discounts, promotions, convenience, and other factors play a role? This will at least be a start to help fuel smarter acquisition efforts.

Also, there are those pre-customers with the desirable target profile that did not choose us. Presuming we can identify those "lost prospects," we can build a sample frame and survey them with the same kinds of questions described earlier. What other companies were they aware of? Did they shop? Who else did they consider? What inputs were used in the final decision? What had the most impact on that decision? This kind of information can be extremely important in driving more successful acquisition of more ideal new customers.

It also is informative to note that this focus on pre-customer acquisition really is a mirror image of what was done with post-customer defection. In the latter, we wanted to know who left and why. If some were the kinds of customers we would like to have kept, we needed to learn the root causes that made that subset leave, and to respond to those issues to save any desirable current customers who might be at-risk. And, we wanted to avoid acquiring undesirable customers who might come into the fold only to leave. Now, regarding acquisition, we want to understand customers who stay and are profitable for the long haul. Those are the kinds of customers we do want to acquire. We want to understand why pre-customers of that description do or don't choose to do business with us. Then we can begin to manage the acquisition process strategically in an attempt to acquire desirable, profitable, long term customers.

PROBLEM TEN. NEGLECTING CONTACT EMPLOYEES AS A CRITICAL CONTROLLABLE

Many companies fail to leverage the power of one of their most valuable assets – the employee base. Theorizing and empirical evidence in recent years points to one of the most logical connections imaginable. Namely, employees of an organization affect customer experiences and thus subsequent customer evaluations and behavioral responses. Customer perceptions certainly will be influenced by the quality of service received in any business transaction involving contact employees. Yet many companies that measure and attempt to manage customer satisfaction seem to completely ignore the potential power in managing the quality of inputs and outputs of customer contact employees. Companies would do well to study the critical organizational processes and influences that help to produce better employee outputs. It is a grave oversight given that the outputs of these employees become direct inputs to customers' experiences.

To be fair, the quality of employee outputs is an area of study for most large organizations. However, there are several reasons why those activities do not adequately address the issue at hand. Often the activities reside only in human resource related silos, typically far away organizationally from the department(s) responsible for customer measurements. Often they are internally focused, e.g., on productivity. Many times those responsible for employee measurement and management are not even at the same table with those responsible for measuring and managing customers. Further, those responsible for employee measurement and subsequent improvement actions view employees in broad structural organizational categories (e.g., marketing, finance, operations) rather than through the lens of the customer. Not surprisingly, many of the organizational improvement recommendations from employee research are posed at an overall organizational level or by functional silos. A better, more customer-focused classification framework might first segment employees on something as simple as "has direct contact with customers" versus "does not have direct customer contact." Then research would aim at finding out the issues that enable or inhibit excellence in contact employee outputs – the outputs that subsequently become customer inputs.

The management of employee issues often is not viewed or taken up explicitly as a *means* of influencing customer experiences. That clearly is a missed opportunity. Those responsible for *customer* measurement and management would do well to proactively seek intra-organizational connection and influence with the departments and individuals responsible for *employee* measurement and management. Owners of the customer processes can then influence what gets measured on the employee side, and how those measurements are analyzed. They also can become advocates and drivers of lines of action aimed at improving customer experiences. Particularly when analysis of customer data

uncovers service failures and problems traceable squarely back into certain pockets of customer contact employees, employee data in those pockets should be used to help understand and fix the internal issues affecting the quality of outputs to customers.

Those are just a few possibilities. The point here is to note that many companies do not dig into one of the most logical controllable causes of customer experience – namely the internal dynamics of customer-facing employees. Those employees help produce points of contact with customers. We must strategically manage those particular employee contexts so as to help causally drive enhanced customer experiences.

PROBLEM ELEVEN. MISSING INTEGRATIVE OPPORTUNITIES

Many organizations have seen a proliferation of available data and metrics in recent years. Largely enabled by technology, the availability of information has helped to establish more metrically-oriented managerial perspectives – e.g., balanced scorecards, Key Performance Indicators (KPIs) and so on. In fact the confluence of sophisticated software and hardware solutions allows massive numbers of metrics to be measured, organized, stored and accessed, many in real-time (more about this in Problem Twelve). Perhaps the abundance of data at least helps to explain the existence of this eleventh problem. As challenging as it may seem to know where to start in bringing big-picture order and integration to this proliferation of metrics, there is no doubt that many companies are missing yet another opportunity. That is particularly true when it comes to integrating customer-related metrics.

Here again, the notion of customer lifecycle offers a very helpful organizing lever. Consider the collection of events that take place across the customer lifecycle. Data systems typically exist at all the major mile markers. There may be a marketing communication contact system, a sales/prospect management system, a project tracking system for sold products/jobs, any number of transactional survey metrics measured across key stages of customer experience (e.g., delivery, installation, technical support, etc.), overall relationship assessments typically gathered through customer satisfaction survey processes, financial systems tracking purchase data, problem and complaint tracking systems, inbound contact tracking systems, and more. How is all this customer-centered data being coordinated, merged, analyzed, and leveraged to strengthen customer relationships? Often it simply is not.

Many companies have very disparate systems in place with no coordinated common customer identifier present through out all the systems. In fact, the quality of information housed in some of these systems is severely lacking. It is amazing to see how many companies have shortcomings in organizing available information on their own customers. This is a problem, again, of missed opportunity.

Imagine the data mining possibilities if all customer data streams were linkable by a common customer identifier. Imagine what could be done if all available data were organized temporally, from initial prospect contacts through the entire event history of the customer lifecycle. Imagine if survey data and event metrics were coordinated, tracking not just *that* an experience took place, but also connecting the experience with explicit *evaluation* of the experience through survey processes. The power of that kind of integration, particularly when event data is linked with perceptual data and financial data, is largely untapped. The unrealized possibilities are enough to thrill any data miner.

This kind of integration should not be considered only in terms of aggregate-level analyses. A very powerful aspect of this kind of integration is the promise that it offers in managing customer relationships intelligently at the individual customer or account level. Any marketing action, any sales or service contact, any outbound activity at all could be so much better focused for any given individual customer when equipped with the stockpile of all available customer data for that particular customer/account. The potential is great, but largely unrealized in many organizations. Steps must be taken to unify all customer data streams. The technological tools exist to help do so. It is a matter of seeing the bigger-picture integration possibilities, then leveraging available technologies to help make them happen.

PROBLEM TWELVE. FAILING TO LEVERAGE AVAILABLE TECHNOLOGY

It is hard to emphasize enough the high value of organizational customer data use as enabled by advanced technological systems. While CRM systems have taken a beating in trade publications for their apparent failures in producing returns on massive investments, some companies are having great success leveraging technological tools in their customer measurement and management processes. Perhaps some of this is less an issue of ineffectiveness and more an issue of diffusion of innovation. Some companies may have been early adopters of customer information systems, seeing the potential promise and power in CRM, yet struggled practically thereafter to extract all the potential value inherent in the tools. But when it comes to the use of technology as an accelerator in the effective use of customer measurements, some companies have ramped up quickly and are realizing tremendous customer-level gains because of this technological enablement.

Consider how some of the best companies in the world are now collecting, analyzing, distributing, and providing access to feedback from customers at the individual customer/account level. Customer contact information, including e-mail addresses, resides in a system. Companies choose periodic or event-based triggers to launch web-based surveys to individual customers. Customers in effect enter their own data, such that it becomes immediately available to the organization. An option is given asking customers whether or not they approve of having their name associated with the responses they just provided. Whenever the answer is yes, account managers can immediately see a spectrum of relevant ratings from that particular customer. The data are accessible online, from anywhere at any time.

If there are low ratings, or problems, the system can automatically alert the customer/account manager. Discovery of negative open-ended comments might also call for individual customer follow up. A customer/account manager also can devise a more elaborate plan for repair, recovery, or remediation. In fact the plan can be entered into the system, with specific action steps, dates, names etc., built in. Then the tool is serving not only the customer information purpose, but also acts as a "close-the-loop" enabler and a customer-driven project/task management system. Further, the system is accessible by supervisors who can ensure accountability in executing customer/account specific plans.

Basic descriptive analytic capabilities also exist in many of these systems so that data across customers can be analyzed at almost any level, by segment, by region, based on responses or response patterns, and so on. Qualitative open-ended data exists as text, entered by the respondent in the online survey process, and searchable across customers by keywords, or patterns of text association. Graphs and other reporting tools are built into the systems such that a person mining the data can post or "push" particular reports to other intra-organizational contacts (a directory of whom also can be housed within the system for extremely easy creation of custom distribution lists).

Far beyond the historic practices of customer measurement programs – e.g., paper surveys, manual data entry, long data processing times, reams of cross-tabulations, thick binder reports, lack of actionability and accountability, lack of flexibility for information users to analyze data, and many other aspects of traditional program execution – technological advancements have taken customer measurement to another level. And these are not pie-in-the-sky ideas. Systems with the capabilities described do exist and are being effectively used by companies even as I write this paper. Clearly technological advances are taking the state of practice in customer measurement and management in powerful, highly effective directions.

Available technological systems also help to solve problem eleven as outlined previously. As customer measurement processes become more automated and advanced, the ability increases to get systems to talk to other systems, to exchange data across platforms, and to warehouse massive amounts of customer data in common locations. As that kind of desired data sharing becomes more and more possible through technological means, the ability to integrate data streams as described earlier becomes an especially pragmatic reality.

Unlike some of the other problems mentioned,

this twelfth area is indeed already in play at a number of major companies. Customer data in systems like the one described also offers access to a much broader set of organizational players than ever before. Many people are getting access to, and use of, distributed voice-of-customer data from locations around the globe, 24 hours a day seven days a week.

This issue in particular is largely one of speed of technological adoption. Early on as we are, many organizations still have not put into place, or realized the power of, the kind of technological systems I've described. But for those early adopters who have put such systems into place, the results are impressive. Because of the power of these technological tools, some companies are gathering, accessing, analyzing, distributing and using customer information in ways not imagined even a handful of years ago.

CONCLUDING THOUGHTS

In the late eighties and early nineties, many companies were herding to get on the customer satisfaction bandwagon. They had become convinced that customer measurement was important to future business success. It was almost revelatory that customers themselves should be the ones to provide data on customer expectations, customer experiences, perceived service quality, perceived value, intentions to continue and intentions to give positive word of mouth recommendations. Today, most of the core ideas are well ingrained at most major corporations.

Customer measurement today may exist in any number of varied organizational functions or departments, under any number of varied names, under a variety of levels of organizational leadership. In terms of presence or absence, most large companies at least have *something* in place. The depth and breadth of that something, however, varies considerably. Certainly there are companies whose efforts and activities include state-of-the-art best practices. I have been fortunate enough to work with a number of companies possessing that kind of vision, passion, and commitment to customer measurement and management. But even among advanced forward-thinking companies, and certainly among other companies, there still are significant gaps with respect to comprehensive best-practice designs and execution. For many, there are significant missing pieces of a very important full customer measurement picture.

In this paper, I've outlined twelve specific gaps I've seen with some frequent level of recurrence. In practice, there are additional gaps from best practice that also are observed. Twelve is admittedly an arbitrarily chosen number. However the specific twelve discussed, much like a factor analytic model, capture a large proportion of the variance in that broader set of observed gaps.

Twelve problems are plenty for most organizations to consider, and fortunately it is likely that not all of the problems will be present for any given organization. That is, their customer measurement programs may already address some or even most of the issues I've raised here. But for most organizations, there also is likely to be a smaller subset of at least a few from the list, where activity is not taking place, where improvement efforts should be implemented, and where the issues described register with a certain "voltage" when considered against the organization's strategic objectives. In that sense, my hope is that this paper has outlined some broad initial directions for remedial action.

For academically-oriented researchers, my hope is that the discussion of these twelve issues will impact existing and future research agendas. Not only does consideration of the issues have the potential to make many programs of research more relevant for businesses, but also, the possibilities for hypothesis generation should be substantial. My hope would be that new lines of research activity, or new trajectories of current research activity, are sparked by the discussion of these twelve issues.

Ultimately, regardless of a given reader's sphere of practice, consideration of the twelve issues here should help to advance current practices in customer measurement, management and research. We've got to get beyond the one "kind" of measurement and research that likely comes to mind when the term "customer satisfaction" is mentioned. The set of issues here imply a far broader integrated system of many "kinds" of customer information, and many specific lines of action regarding measurement,

management, and scientific investigation. And while the depth and breadth inherent in this set of issues really does constitute something well beyond the current status quo for many companies, the dominant overriding objective has never changed. At the highest level, our goal in applied customer measurement is to use customer intelligence to facilitate profitable growth. Addressing these dozen common problems will help to further catalyze that ultimate aim.

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