

MAKING SURE CUSTOMERS LOVE YOU

When the economy turns sour, it's more important than ever to make sure you are satisfying your customers. Here's how you can measure customer satisfaction and grow sales during this recession.

Winning companies view the current economic downturn as an opportunity to gain market share. They conduct annual customer satisfaction studies to identify what type of service their customers value and how their companies are doing in providing this service. They then execute specific actions to provide customers with this service so they can earn even more business from them.

Customer satisfaction is without a doubt the determining factor for sustainable profitability, and measuring it is critical. If customers are not satisfied, they will find other distributors that will meet their needs. To measure their satisfaction, you need an objective, structured, continuous process. To provide our clients with this tool, we have developed a Customer Satisfaction Index (CSI) and have found that poor CSI ratings are a leading indicator of future decline even if current financial health indicators are positive. Over the past 26 years, my firm has conducted customer satisfaction research for many well-known electrical distributors, including Springfield Electric Supply

Co., Western Extralite, The Hite Co., Granite City Electric Supply, Summit Electric Supply, Rexel USA and Electric Supply Inc.

With the electrical distributors for whom we have annually tracked customer satisfaction, we have found one common denominator — they achieve continuous, sustainable competitive advantages. We have found through our electrical distribution research that maximizing customer satisfaction will increase sales, improve profitability and grow market share.

We are now in the midst of a prolonged economic downturn, the likes of which none of us has ever witnessed. Most electrical distributors are focused on cutting costs, which will likely have a negative impact on customer satisfaction as employees are laid off, deliveries are reduced, etc.

Look at the cost-cutting measures that the U.S. airline industry has undergone and the concurrent downward spiral in airline customer satisfaction. Southwest Airlines is ahead of all other U.S. airlines in customer satisfaction with a CSI rating of 79 percent

By Thomas J. O'Connor

during 2008. Unlike the other airlines, Southwest did not reduce aircraft, cut back on flights, raise prices or charge for a second checked bag. The entire airline industry recorded a dismal poor 62 percent CSI rating versus Southwest's 79 percent. As a result, Southwest continues to grow and remains the industry leader in profitability. Southwest Airlines is the lone bright spot in the U.S. airline industry due to its strategic approach to lead the industry in customer satisfaction.

When analyzing the results from a customer satisfaction study, you get the CSI rating by adding the number of Excellent (rating = 5) and Very Good (rating = 4) scores derived from a series of questions and dividing by the total number of responses to obtain a CSI percentage. Examples of these questions are included in this article. The CSI rating technique measures customer service in many different industries. For example, Southwest Airlines achieved a 79 percent CSI rating during 2008, and our leading electrical distributor clients achieved between 72 percent to 74 percent. These electrical distributors concurrently achieve high ROTA (return on total assets).

Like Southwest Airlines, smart electrical distributors will seize this economic upheaval as a great opportunity to take market share from their competition by achieving higher levels of customer satisfaction while those around them provide lower satisfaction levels. Both the airlines and electrical distribution operate in mature industries. Are you going to be a Southwest Airlines electrical distributor that garners high customer satisfaction and enjoys continued sales growth, improved profitability and sustainable competitive advantage? Or are you going to be among the dinosaur "legacy" carrier electrical distributors that only focus on cost-cutting measures during 2009 and receive declining customer satisfaction ratings?

Measurement process. To measure customer satisfaction, you need a formalized, objective tool for accurately

MEASURING YOUR SERVICE PROVIDERS

Please rate the following people in each area by writing in the appropriate number in each box: (5 = excellent; 4 = very good; 3 = average; 2 = fair; and 1 = poor.)

Sales Function	Friendly	Responsive	Knowledgeable
Counter salespeople			
Inside salespeople			
Outside salespeople			

Your Customer Satisfaction Index (CSI) goal for all of these categories is 80 percent. My clients' median CSI scores for inside salespeople are 77 percent for being "friendly"; 76 percent for being "responsive"; and 81 percent for being "knowledgeable."

MEASURING KEY CUSTOMER SERVICE

Circle the appropriate number.

	Excellent	Very Good	Average	Fair	Poor
Order-fill rates	5	4	3	2	1
Order accuracy	5	4	3	2	1
On-time delivery	5	4	3	2	1
Competitive pricing	5	4	3	2	1
Consistent pricing	5	4	3	2	1
Invoicing accuracy	5	4	3	2	1

Your Customer Satisfaction Index (CSI) goal for all customer service categories is also 80 percent, with the exception of "competitive pricing," which should be 60 percent. My clients' median CSI score for "order accuracy" is 75 percent.

measuring how your customers rate your people, customer service processes, and how you compare to your competition by customer type (primary, secondary, tertiary), by market (contractor, industrial, institutional, etc.) and by branch location. The primary intention for customer satisfaction is to collect information on how an organization is performing in the eyes of its customers, and what specifically needs to be changed for customers to give the company more business. Mail surveys and online surveys are effective quantitative customer satisfaction measurement tools. Quantitative research produces statistically reliable information that can be generalized to a larger population.

Mail surveys are a quantitative

research data collection method in which respondents complete questionnaires on paper and return them via the mail. My firm encloses a self-addressed business reply envelope and a one-dollar bill as an incentive to complete and return mail surveys. Offering an incentive is very important, and research results show it will typically lift response rates by 10 percent to 15 percent. Survey research also indicates that using a one dollar bill as an incentive garners a better response rate than an entry for a sweepstakes drawing.

Mail surveys are best used when the electrical distributor's target population is very well defined and easy to mail to with a contact name, company name

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and company address. Our average electrical distributor response rate with mail surveys is 39.7 percent. According to the *Journal of Business Logistics* average mail survey response rates are 14 percent.

Online surveys are best used when the electrical distributor's target population is internet-savvy and an e-mail list is available. Online survey responses are faster than mail survey responses. Our average response rate with online surveys is 23.1 percent. We believe online surveys get a lower response rate because they do not provide the cash incentive of mail surveys. Customer satisfaction surveys should be sent to all your active customers and your results should be analyzed by customer type, market and branch location.

Good third-party research firms are valuable business partners. They tend to have the following qualities:

- Their user-friendly customer satisfaction surveys have high response rates.

- As a third-party, they protect identities so customers are assured confidentiality and therefore respond candidly and honestly.

- Their Customer Satisfaction Indexes (CSI) are benchmarked against other distributors. My firm benchmarks CSI results against 34 distributors.

- Survey results are summarized and evaluated accurately and objectively with a detailed action plan to increase customer satisfaction and grow sales revenue by branch location.

KEY SUCCESS FACTORS

An industry's Key Success Factors (KSF) are competitive factors that most affect a company's ability to prosper in the marketplace. These three KSF drive electrical distributor customer satisfaction:

The company has friendly, responsive and knowledgeable service providers. These employees include but are not limited to anyone who answers the phone, counter salespeople, inside salespeople, outside salespeople, warehouse and delivery personnel and credit personnel.

Dependable stock and logistics. The company's order-fulfillment process provides high order-fill rates, high order-accuracy rates and on-time delivery.

Competitive, consistent, and accurate prices. This is another business basic that distributors cannot overlook.

At a minimum, your customer satisfaction survey design must include questions that rate these three KSF. Check out the "Measuring Your Service Providers" chart on page 67 for an example of how to measure these elements of your company's customer service. Your CSI goal for all of these categories is 80 percent.

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This index is a service to our readers. Every effort is made to maintain accuracy, but Electrical Wholesaling cannot assume responsibility for errors or omissions.

My clients' median CSI scores for "inside salespeople" are 77 percent for being "friendly"; 76 percent for being "responsive"; and 81 percent for being "knowledgeable."

The "Measuring Key Customer Service" chart on page 67 provides some additional measures of your company's customer service. Your CSI goal for all customer service categories is also 80 percent, with the exception of competitive pricing which should be 60 percent. For example, our median CSI scores for electrical distributors for order accuracy is 75 percent.

The "Comparison to Competition" chart on this page measures your company's competitive advantages, competitive strengths and competitive disadvantages. You should shoot for a "Competitive Advantages" CSI rating of 70 percent or higher and a "Competitive Strengths" CSI rating of 60 percent to 69 percent. Anything below a 60 percent frames a potential competitive disadvantage. Read "The Art of War" in *EW's* December issue to learn more about developing competitive profiles and strategies to take market share from your competitors.

Whenever doing a CSI study, be sure

COMPARISON TO COMPETITION

For the items listed below, please circle the appropriate number in each column to let us know how ABC Electric Supply compares to other electrical distributors on that item. Compared to other electrical distributors, I feel that ABC Electric Supply is...

	Quite a Bit Better	A Little Better	About the Same	Not Quite As Good	Not Nearly as Good
Order-Fill Rates	5	4	3	2	1
Order Accuracy	5	4	3	2	1
On-Time Delivery	5	4	3	2	1
Competitive Pricing	5	4	3	2	1
Consistent Pricing	5	4	3	2	1
Invoicing Accuracy	5	4	3	2	1

For this survey question, your company has a competitive advantage when it records a Customer Satisfaction Index (CSI) rating of 70 percent or higher and a competitive strength when it records a CSI rating of 60 percent to 69 percent. Anything below a 60 percent frames a potential "Competitive Disadvantage."

these pre-selected customers were not providing candid feedback because they were reluctant to deliver bad news and not do it anonymously.

Always remember that with any survey effort, it's not the measurements

sustainable competitive advantage. If customers are not satisfied, they will find other companies that will meet their needs. Poor CSI ratings are a leading indicator of future decline even if current financial health indicators are positive. The greatest opportunities abound when your competition is running for cover and waiting out this economic storm. Now is the optimal time to enlist a third-party research firm to objectively determine what your customers value most, how you are currently performing, and what specific actions you must take to gain more business. ■

Key Success Factors (KSF) have the most influence on your company's ability to prosper in the marketplace.

to contact a representative sampling of all of your customers, and not just your best accounts. Distributors occasionally do a survey on their own without professional assistance and make the mistake of pre-selecting respondents. Then they are surprised when their survey indicates high levels of customer satisfaction, but their company's sales and profits continue to decline. When my firm checked on how these distributors did their surveys, we often found

— it's all about what you do with the measurements. Taking specific actions to improve low customer satisfaction ratings or competitive disadvantages by customer type, market and branch location is the most critical step. These customer-satisfaction improvement action plans provide your customers with more value and will earn you more business from your competition.

Customer satisfaction is your largest source of sales growth, profit and

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