Block 2 The Building Blocks of Performance Measurement

Unit 3 Measurement and the customer
The Course Team

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Unit 3 Measurement and the customer

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Aims

- To examine the role of the customer in commercial and not-for-profit organizations.
- To discuss the importance of external or customer orientation.
- To introduce a generic methodology for assessing customer satisfaction.
- To describe and discuss a range of measurement techniques.
- To illustrate these techniques with examples and short case studies.

Objectives

After studying this unit, you should:

- Have a good understanding of the value of measuring your delivery to your customer.
- Appreciate the importance of identifying your customers' needs and assessing your effectiveness in meeting those needs.
- Have been introduced to the concepts of marketing research methodology.
- Understand some of the principles of interpreting data.
- Appreciate how measurement can create as well as assess competitive advantage.
- Have been introduced to the concept of 'benchmarking'.
- Be familiar with the application of performance measurement across a range of products and services.
1 Introduction

It has been very fashionable, throughout the late 1980s and early 1990s, to give attention to the priorities of consumers. We are inundated by statements of commitment to customer satisfaction by suppliers in all walks of life – in the public services and state-owned industries as well as in commerce and industry. We are told that the wishes of the customer are paramount, and that customer service is the primary objective of all organizations.

It is possible to be somewhat sceptical about these claims, for three reasons. First, because of the obvious gap that we, as consumers, continue to see between the intent and the practice. Second, because such claims for primacy can have little basis in logic or reason. The objective for any organization must be to meet legitimate customer needs at a profit (if commercial) or within available resources. Effective marketing therefore consists of identifying those customer needs that fit with the skills and resources of the supplying organization, and then meeting those needs better than alternative suppliers (competitors) can. Third, there is a body of opinion which rejects the whole concept of consumerism. This extends beyond traditional socialism, with its claim that the needs of society override those of the individual, to argue that both individual and social consumption must be reduced in order to slow environmental destruction.

In measuring the performance of organizations, therefore, it is necessary to balance a number of competing objectives, in order to satisfy a range of stakeholders. These will certainly include customers, but they will also cover employees, owners/shareholders, managers, the community in which the organization operates and indeed the global environment. Attempting to reconcile the needs of these different interest groups is the essence of senior management, and is addressed in Block 4 of this course. In this unit we will be focusing on just one of these groups – the customer. As we discuss how organizations can measure their delivery to customers, we should therefore always be aware that, while excellence in customer service is undoubtedly necessary for success, it is rarely sufficient.

In this unit we address first, in Section 2, the subject of identifying and meeting the needs of the customer. We discuss who customers are and how their needs differ. In Section 3 we look at measurement of performance in the context of an organization’s external focus. To be successful, an organization has to be better than alternative suppliers of the product or service at meeting the customers’ needs. In the context of not-for-profit organizations, the organization is competing not only for customers but also for funds or resources: it therefore needs to be able to assess its performance in terms of both meeting customer/client needs and using resources cost-effectively. We introduce the concept of benchmarking.

In Section 4, we present a structure for measurement, in which we distinguish between continuous monitoring of performance, as part of routine management practice; regular assessment, carried out periodically either in-house or by external agencies; and occasional surveys, typically executed by external agencies. In this section we also review research methods and their strengths and weaknesses with respect to the measurement of consumer opinion.
The three approaches to measuring performance are discussed in more detail in Sections 5, 6 and 7. We examine their application in a wide range of organizations offering an even wider range of goods and services. We do not develop case studies in detail, but rather we explore a large number of real-life examples that illustrate good, and sometimes not-so-good, practice.

In Section 8, we conclude by bringing the different approaches together in terms of designing programmes for monitoring delivery to the customer.
2 The importance of the customer

Every organization exists because of the customer – the end-user who consumes the product or service that is being supplied. This is just as true for the public sector as it is for the private, and it applies equally to those goods and services that are paid for by the tax-payer (public services) or by donations (charities) as it does to those paid directly by the consumer.

Although the logic of this predominance of the customer is inescapable, the behaviour of many individuals and organizations suggests that they do not recognize it. The charge – of neglect or abuse of the consumer – can be laid against organizations in both the public and the private sector. This should be seen as part of a continuum – a long-running trend to make all organizations accountable to their customers. It began in the USA and Western Europe where ‘consumerism’ in the 1960s first targeted consumer goods companies. It then extended to service organizations, and eventually to the public sector, for example the ‘Citizen’s Charter’ of the UK government in 1991. In parallel with these movements in the West, the collapse of the command economies of Eastern Europe has led to an explosion of consumer-led demands and expectations – which are frustrated by the lack of manufacturing and managerial infrastructure.

In the West, consumerism is now accepted as an essential part of the fabric of modern society. It is therefore no longer sufficient for Western organizations to base their mission and strategy solely on the basis of customer service. This does not differentiate them from their competitors – in the terminology of strategic management, this competitive advantage is not sustainable. Excellent customer service is increasingly expected as a business norm – a requirement to be in the market at all, and certainly not a guarantor of success. Organizations that built themselves on exceptional levels of customer service – for example, Marks and Spencer – find that this is now matched by their rivals, and they have to raise service levels further or find other areas in which to establish a competitive advantage. The well documented resurgence of SAS in the airline industry in the 1980s was based on a comprehensive, focused effort to meet the needs of the business traveller. In time, other airlines met these standards, the competitive advantage established by SAS was lost and their performance fell away accordingly.

With acceptance of the role of the consumer, emphasis in the strategic management of organizations has shifted to a broader, all-embracing view of performance. This is demonstrated by the growing recognition of the importance of quality in all aspects of an organization’s activities – total quality – which is covered in Unit 7. In parallel, there is the increasing awareness of the responsibilities that organizations have towards a wider range of stakeholders, including society as a whole and its environment – which we discuss in Block 4.

We can therefore see that there has been an evolution of organizational objectives, which can be illustrated as follows.

```
Production and operations
  ↓
 Systems
  ↓
 Customer satisfaction
  ↓
 Total quality
  ↓
 Environmental awareness

Productivity
  ↓
 Competitive advantage
  ↓
 Social responsibility
```
This evolution of priorities does not, however, obviate the need to ensure that customer satisfaction is developed and maintained at the highest levels. Although much of the debate in the early 1980s about excellence in organizations now seems to be outdated, the emphasis on customer orientation as a requisite for success continues to be valid. Peters and Waterman (1982, p. 156) argue that:

... the excellent companies really are close to their customers. ... Other companies talk about it; the excellent companies do it.

The emphasis on customer-orientation in successful companies is relevant not simply because it increases the effectiveness of the marketing and sales activities – although this would be sufficient justification in itself. It also bring benefits in other key respects:

- It provides a culture and a focus with which employees can identify, and can create a strong sense of personal accountability/motivation.
- It can provide the basis for establishing a sustainable competitive advantage, which can in turn become an effective barrier to entry for competitors.
- It can become a fertile source of new product ideas.

We see therefore that there is convincing evidence that a strong awareness of and association with the needs of the customer brings widespread benefits to organizations. We see too that, to achieve this, measurement and feedback are essential. In the rest of this unit we will explore how measurement can be made and how feedback can be put to good use.

**Activity 1**

Would you describe your organization as having a strong customer-orientation? What are the structural or behavioural characteristics (indicators) of the organization that demonstrate this customer-orientation? From your own experience, can you identify other organizations that demonstrate strong or weak customer-orientation? Have you made this judgement by applying consistent criteria to all the organizations, or are you strongly influenced by isolated incidents? Does it matter?

**Comment**

In most organizations there are many hints in the behaviour, processes and terminology which indicate the extent to which it is customer-orientated. How eager are senior staff to meet and listen to customers? How well informed are the internal service and staff departments about the characteristics and needs of the organization's external customers? Is most time at review meetings spent on customer-related issues? Do you know how well you are performing in comparison with your competitors?

It is worth mentioning here that, although the majority of employees may not be dealing directly with external customers, they have internal customers and the same imperative – to meet customer needs efficiently and effectively – applies also to them. All the time, however, there must be an awareness of the external customer, and an appreciation that internal services are a means to an end and not an end in themselves.
A characteristic of successful organizations is their ability to remain in close touch with their external environment. This enables them to utilize and adapt their internal resources to meet threats and exploit opportunities. We call this external focus, and it can be considered to consist of three elements.

1. An awareness of the impact of external events – to achieve continuing success, organizations need to assess and evaluate those environmental factors which are beyond their control but can have a major influence on success or failure. These issues are discussed in depth in B885 The Challenge of the External Environment.

2. An awareness of competition – successful organizations are constantly aware of what their competitors are doing, and are measuring their own performance and products against those of the competition. It is this awareness of the importance of competition, or rivalry, that is at the centre of Porter’s five-forces analysis of industry structure, which is discussed at length in B881 Strategic Management.

3. An awareness of the needs of the customer – as we have already discussed, the needs of the customer are of primary importance, and should be the focus of an organization’s external awareness.

Commercial organizations generally begin life with a product or service idea that meets a customer need, and generates the revenue base on which the organization can be built. New products are introduced, distribution channels established and production facilities developed. With good management, this growth in size and complexity is not allowed to divert the attention of the organization away from its initial focus on customers and their needs. In too many cases, however, the running of the organization becomes all-consuming, and the culture and style become increasingly internally focused.

Lack of attention to customers and the market can also become an issue in high-technology companies, where the culture and style of the organization are centred on the technology or features of the product/service rather than the benefits that these may offer to the customer. Recognition of this problem was the key to the successful turnaround of ICL, the UK computer company, in the mid-1980s, as the following excerpt illustrates.

ICL’s strategy of being market rather than product led highlights the influence that a change in strategy can have upon the structures of an organization. You have seen that ICL first reviewed its own resources relative to the industry’s and determined its strengths and weaknesses which resulted in its concentration on a few vertical markets – ‘We’ve had to shift the emphasis from excellence in technology to excellence in markets.’ The main element of the strategy saw ICL moving into information and service with a more customer-focused approach.

(B881, Unit 10, p. 13)

This assessment of ICL was written before it was acquired by Fujitsu. The current culture and approach in the company is discussed in the Case Study Booklet. When reading it, consider whether and how this attitude and culture has changed as a result of the change in ownership.

The tendency towards internal focus can be even more pronounced in not-for-profit organizations, where there may be no tradition of customer focus, and little accountability for meeting customer needs. Although by no means all such
organizations are guilty of this charge, there are many examples of hospitals, schools, local authorities and government departments which appear to be managed as much to meet the needs of the practitioners or providers as those of the users or clients.

Indeed, it was recognition of the internal focus of such organizations that led to the customer charter movement of the early 1990s in the UK, whereby most public sector organizations (and some private sector companies as well) have made a public declaration of their policies and objectives towards their customers. Early in this movement was the Citizen’s Charter (see Box 1). Although introduced by the Conservative government in 1991, empowerment of the consumer of public services was espoused by all the major political parties in the UK. It was a logical extension of the growth of consumerism in the 1980s.

**Box 1  What is the Citizen's Charter?**

The Citizen's Charter is a bold programme to improve public services in the 1990s. It has four clear aims. It will:
- work for better quality in every public service
- give people more choice
- make sure that everyone is told what kind of service they can expect to receive
- make sure that people know what to do if something goes wrong.


Obviously, the statement of intent does not in itself necessarily lead to any improvement in practice. At this stage it is enough to say that the publication of a customer's charter is not in itself a sufficient step towards establishing an external focus in an organization.

A common cause of internal focus in organizations is the existence of a monopoly. This can apply whether the monopoly derives from technological lead, from patent protection or as a consequence of regulation. Monopolies exist in both public and private sector organizations, and encompass products and services. Examples abound in everyday life. In most countries postal services are a state-controlled monopoly. Until the break-up of AT&T in the USA and the privatization of British Telecom in the UK, telecommunications were a monopoly in both these countries. Manufacturing is not exempt from these charges, and both IBM and Rank Xerox were faced with the need for fundamental changes in strategy and culture when their technological dominance no longer allowed them to control the market and take the customer for granted. (These cases are discussed in Unit 10 of B881 Strategic Management.) This is illustrated in the following excerpt from an article on IBM.

*IBM – In a Big Mess*

*Copyright material removed*

*OpenLearn*

*(The Economist, 6 February 1988, p. 70)*
The problem that IBM had in making the necessary adjustment to the marketplace is illustrated by this excerpt from a letter to *The Economist* in December 1991:

> The problem erupted into a crisis with the huge ($4.7 billion) trading loss in 1992. *The Economist* again reported this in terms of a failure to respond to market and customer needs.

> It is relatively easy for an organization to retain at least an appearance of external focus when it is growing. While demand and sales, profit and employment are increasing, organizations can tolerate a lack of focus in their operations. It is when that growth slows or stops, however, that the true style of the organization becomes apparent. The important measure therefore is: how does an organization behave when it is under stress? Does it retain or improve its customer focus? Or does it turn inwards, concentrating on internal procedures, processes, structures and costs? Too often the latter is the response of organizations to slowing sales or declining profits. While it may well be important to evaluate and improve internal efficiency, a preoccupation with internal issues at the expense of the customer cannot fail to harm the prospects for recovery. By focusing on internal measures, therefore, organizations may be assessing the wrong aspects of performance.

We have now arrived at our first criterion for measurement of delivery to the customer. This refers to attitudes within the organization, which in turn derive from the culture, behavioural norms and leadership style of that organization. You can measure or assess these in a variety of ways, and you can derive your own criteria. The following set of characteristics, drawn up by Peter Killing (1990, personal communication), describes well those organizations which have lost sight of their external customers.
Internally focused organizations:
1. Are absorbed by internal issues.
2. Are indifferent to market information.
3. Set priorities based on internal criteria.
4. Seek political solutions to conflicts.
5. Guard boundaries, work in boxes.
7. Measure progress by internal standards/budgets.
8. Resist change.

In the following sections, we address the different methods that can be used to assess the quality of an organization's delivery to its customers. However, these are unlikely to be effective unless there is recognition of and commitment to the importance of customer service within the organization. Now do the following activity to assess the degree of internal/external focus in your own organization.

**Activity 2**

Using Killing's checklist, how many of the features of internal focus do you recognize in your own organization? Score yourself out of eight.

If appropriate, do this activity separately for the part of the organization in which you work, and for the organization as a whole.

What indicators have you used to measure these characteristics?

If your organization scores more than three, try to analyse why such a degree of internal focus has developed.

**Comment**

It would be surprising if you did not score on some of the characteristics. It is in the nature of vertically integrated hierarchical organizations that much energy is directed at internal issues. This is often reinforced by procedures for individual assessment and criteria for promotion. In one large organization in which I worked, a world-wide initiative to increase team-working to improve customer-orientation was largely negated by the parallel introduction of a personal performance assessment system that was based entirely on bounded, hierarchical job descriptions and success criteria. The move by many organizations towards a flatter network-based structure is an attempt to redirect energies outside the organization.
4 A structure for measurement

We have emphasized the concept of external focus because it is important to avoid the trap of measuring performance only in terms of internal functions or activities. In this section we discuss the key role that measurement plays in understanding customer needs, identifying and segmenting the market, delivering the product or service, and assessing the effectiveness of this delivery.

4.1 The marketing model

We can present the relationship between measurement and an organization's marketing functions in the form of a model (Figure 1).

This will be familiar to you. It presents marketing as a control loop, which can be applied by all organizations to all markets. The key actions are to:

- **Analyze** the market, the competition and the external environment.
- **Identify** the benefits offered, the customers' needs, the market segments.
- **Deliver** the product/service package, the customer promise.
- **Set** customer-focused standards, performance targets.
- **Measure** the level of delivery, customer satisfaction, competitive edge.
- **Feedback** customer information to modify the product/service package.

This model will be set in a broader framework of corporate and marketing objectives. These will define the context in which marketing strategies will be formulated and specific customer, product and service objectives will be set. Without these objectives being defined, it is not possible to set the targets against which performance can be measured. While the objectives may or may not be quantified, it is essential that the targets themselves are SMART – specific, measurable, achievable, relevant and time-related.

The process of measurement is critical to the marketing model: it monitors the effectiveness of delivery to the customer, assesses performance against targets and enables the product/service package to be modified. The response time between output (delivery), measurement and corrective action is critical to the effective operation of this model: problems can occur if the response time is either too short (over-reaction) or too long (lack of reaction). Flexible organizations are more likely to succeed than those which are slow to react to changing customer demands or market conditions (Michael Green, 1993, personal communication).

![Figure 1 The marketing model](image-url)
4.2 Understanding the customer

Most organizations have more than one customer, and their needs are unlikely to be the same (see also Unit 7, Measuring and Managing Quality). We can define several different categories of customer: the consumer or end-user; the distributor or agent; the professional practitioner or trader who uses the services or facilities to carry out his or her profession or trade; the internal customer, within the same organization, who uses the product or service. These categories may be obvious, but it is nevertheless worth ensuring that the distinctions are clear.

A product or service is designed to meet the needs of the consumer. In the private sector the consumer eventually pays the bill, so it is clearly of paramount importance to ensure that his or her needs are being fully met. Any measurement of performance must therefore take account of the end-user. However, the relationship between the consumer and the supplier can be very complex. For many organizations, the person or organization placing the order and paying the bill is not the end-user but some form of intermediary. This can be a distributor, a broker, a manufacturing organization or a purchasing department. In the public services, the link between the provider and the user of services can be very indirect, and decisions on the range, quality and allocation of services could be made by administrators or politicians. Because public services are often paid largely from general tax revenues and are free at the point of use, price is not an effective tool for matching supply and demand. It is this lack of a price mechanism, combined with the de facto monopoly enjoyed by most public services, that has resulted in the traditional lack of direct accountability of these services to the end-user. This is often exacerbated by the reluctance of the consumer to complain or to insist on a better service.

A professional practitioner may also be involved in the purchasing chain. This applies particularly in the case of the supply of services, but can also occur with the supply of products. Clinicians in a hospital would be a good example.

For many individuals, particularly in larger organizations, their customer is internal to the organization. Ideally, they should be aware of the needs of the external customers, and their product or service delivery should be implemented with the needs of the external customer in mind. Nevertheless, their performance will be judged from the viewpoint of the needs of the internal customer.

The point that we are making here of course is that in the delivery of most goods and services the supply chain has several links. Each link can be a separate transaction, with its own supplier and customer, each seeking a particular set of benefits and therefore each with his or her own well defined needs.

We can illustrate this using the example of this course. It was prepared by a course team of academics and specialist writers, whose objective was to present certain academic and professional concepts in a challenging but accessible form. The course team had to satisfy the needs of the consumers – the students – while also complying with the University's academic standards. Once written, responsibility for delivery of the course then passes to the University's regional centres which have three groups of customers – students, employers and the tutors, who are appointed by the regional centre and are responsible for actual delivery to the students. Now do the following activity for your own organization.
Activity 3

Analyse the different groups of customer supplied by your organization. Try to sort them into categories.

Describe the way in which purchasing decisions are made by each category. Are these purchasing decisions dependent on or influenced by other individuals or bodies?

Comment

Although there are exceptions (some financial transactions, for example, are made directly between the provider and the consumer, such as the purchase of a mortgage), organizations typically have several levels or categories of customers, whose needs will not be the same. The organization is therefore faced with trade-offs. This is not surprising: management is primarily about making choices between competing objectives and priorities. In the example given above, the course team has to reconcile the academic objectives of the University with the more practical interests of students and employers.

It follows, therefore, that, if organizations have several customers with divergent requirements, effective measurement of customer performance can only be attempted when the roles and needs of the different customers can be defined. So the first steps towards measurement of delivery to the customer are to understand who are the customers and what are their needs.

Now read the following brief case study and answer the questions at the end of it.

Case Study

The University's leasing contract for photocopiers had expired. The existing machines were poor and out-dated. The Manager of Print and Reprographics decided that there had been enough advances in photocopier technology for the University to acquire brand new machines at the leading edge of photocopier technology development. An added requirement was a reduction in operating costs. The lease of all the machines from one supplier would mean the negotiation of a better deal in terms of cost per copy and other price considerations, such as after-sales service. Thus both design and price factors fed into the decision to replace the photocopiers.

The Manager formed a team to make recommendations for the lease of photocopying equipment to the Finance Department. The team included members of his own department and a Purchasing Officer from the Finance Department. University regulations dictated that the choice must reflect the lowest prices. The decision process was made in four stages:

1. Preparation of a short-list of suppliers, based on a review of sales literature and visits to suppliers.
2. Collection of information on user needs. This was based principally on historical data on volume and type of use. Heads of Faculty were surveyed to determine changes in volume of copies, the impact of laser and other printing devices, speed and location. Heads of Faculty were also consulted about design features, although they were not informed of the design features available as this would lead to across-the-board 'trading up'.
3. A tendering document was prepared and sent to all manufacturers (16, of which 9 replied).
The replies were analysed and a decision was reached following further visits to manufacturers. The lowest price bid was rejected because there were gaps in the range of machines offered. The selected manufacturer was chosen on the basis of an attractive range of products and the best design features at an appropriate price. The selected manufacturer was able to meet all the University’s needs, thus allowing a lower cost per copy to be negotiated and a better after-sales service to be promised. The recommendation was accepted by the Finance Department and the contract was negotiated.

The Manager of Print and Reprographic Services believed that it had been important to consult users in order to avoid subsequent complaints. In the event, he was able to meet the stated needs of three of the five faculties. In effect, the key purchasing decision was the volume of copies and speed requirements of big users. Design features were selected on the basis that they facilitated these volume and speed needs. Design features that would act against these needs were disenabled by the manufacturer at the request of the purchasing team. This included the feature of double-sided copying.

Following installation of the new photocopiers, a survey was carried out among the users. Only the departmental secretaries had known that the photocopiers were to be replaced. They had been asked for comments on desired designed features (at very short notice), but had not been given information on the features available. Nevertheless, the secretaries were generally happy with the new machines, as they proved to be excellent for multiple copies and handling bulk. The collating feature was seen to be of particular value. For other users (principally academics), however, the machines were found to be visually complex, over-complicated and not user-friendly.

(This case is based on an analysis prepared by Dr Veronica Mole for the Faculty of Technology, The Open University.)

Activity 4

Now we suggest that you try to answer the following questions.

1. Who were the customers of:
   - the photocopier manufacturer
   - the Manager of Print and Reprographic Services?
2. How well did they meet their customers' needs?
3. In what ways could they evaluate their delivery to their customer(s)?
4. If you were the Manager of Print and Reprographic Services, how would you handle this contract differently?

This case study is typical of many buying decisions. There are several contributors to the decision-making process, and we can distinguish between them as follows.

- **Users** – these were the faculty secretaries and academics, who had only limited involvement in the purchasing decision. Interestingly, these end-users were not told of the range of features available.
- **Deciders** – in practice, the deciders were the team established by the Manager of Print and Reprographic Services, which was staffed largely by members of his Department.
- **Approvers** – the Finance Department approved the ultimate decision, and therefore was the key customer.
Buyer — although not entirely clear from the case study, this was probably the Finance Department. However, the Purchasing Officer would only have been responsible for administering the purchasing decision that had already been made.

Influencers — these can be very important. In this case they could have included the Heads of Faculty and the departmental secretaries. However, the approach followed by Print and Reprographics Services severely restricted the degree of influence that they could exert.

From this analysis we can see that the manufacturer's customer was Print and Reprographic Services, whose principal customer in turn was the Finance Department. We are not told how well their needs were met, and indeed the process of evaluating customer satisfaction was curious: the end-users were questioned after the purchase but not before, while the degree of satisfaction of the principal customer — Finance — does not seem to have been assessed at all.

The case study illustrates how an organization can have several categories or levels of customers, and that the needs of these customers will not necessarily be the same. The lexicon of marketing theory has been built on understanding customer needs, and we do not intend to summarize it here. You will already have covered much of it in other courses.

However, there is one final point to make — the environment in which most organizations operate is dynamic. The ability to exploit change is a characteristic of a successful organization. Observations and assessments remain valid only as long as the environmental conditions under which they were made still apply. In today's world, this may not be for very long. This is as true for customer needs as for any other aspect of management practice — and possibly more so.

It is important therefore not to be lulled into a false sense of security — not to become complacent in your belief that your information and assumptions are still valid. Most data that are collected are historical in nature, and are therefore probably already out of date by the time you receive them. It is therefore important to keep your information base updated. (This theme is developed at considerable length in B885 The Challenge of the External Environment.)

This complacency reaches such an extent in some organizations that it becomes institutionalized. Perceived wisdom about the needs of the customer, and the organization's effectiveness at meeting these needs, can be ingrained in the company culture. It can permeate all levels of the organization, and become part of the organizational paradigm.

This form of group-think when applied to the organization's views of the market and its customers is referred to as 'marketing myopia'. This myopia can afflict even successful companies — the slipping of IBM and Xerox from their all-powerful positions can be attributed largely to their failure to keep abreast of changing customer needs. The following case study illustrates how this can happen in apparently well-run organizations.

Case Study

In the mid-1970s, AB Chemicals' agricultural subsidiary was enjoying spectacular growth. It was among the most successful of AB Chemicals' businesses, and was the star performer in its industry sector. This growth was driven by their lead product, WeedGone, that had opened up a new market for herbicides. The product had unique technical characteristics that enabled it to be used as a management tool in a wide range of agricultural systems. These included weed
control in tree crops (citrus, olives, rubber, etc.) where it replaced manual weeding, and application to cereals, where it eliminated the need for ploughing. The product was covered by patents, but in any case no other product existed that offered the farmer the same benefits.

The product was very profitable, as large-scale manufacture allowed high gross margins. Marketing was based firmly on technical demonstration, and the international sales force consisted largely of qualified agriculturalists. The market was very diversified geographically, with Western Europe, South-East Asia and North America each accounting for about one-third of sales.

In the late 1970s, however, the rate of growth began to slow. The view within the company was that this reflected the high level of market penetration that had been achieved, and the slowing of growth was inevitable as the market matured. Matters came to a head when a decision was needed about expansion of manufacturing capacity. The capital required was large - around $50 million - and the consensus view in the company was that the investment was not justified given the lack of growth in the market and the impending expiry of the patents. The product manager (who was relatively new to the company) was not convinced by this view, however, and she commissioned some market research with both distributors and users in a selection of the major markets.

The results surprised everyone. Far from a maturing market, the demand was shown to be continuing to grow at around 20% annually. The real shock, however, was that most of this growth was being met by competitive products being supplied by a range of small producers who were able to evade existing patents. Although the product they supplied was of poorer quality, the lower price and more responsive supply offered real benefits to both the distributors and the end-users. AB Chemicals had always assumed that generic production would not develop because of the complexity of the manufacturing process. By the time that the market research was carried out, this complacency and lack of contact with the customers had resulted in the loss of 20% of the market share.

Once aware of this situation, AB Chemicals was able to adapt its policies and promotional programmes and succeeded, over several years, in regaining most of its lost customers. However, this was achieved at a cost - in terms of marketing expenses and lower prices - that was much higher than would have been necessary had the company properly monitored its customer performance.

The message from this case study is clear: if you lose contact with your customers you are vulnerable to changes in the market or the competitive environment. You should assume that your customers' needs are changing, and that your competitors are adapting to these changing needs. Relying on past successes can be a recipe for disaster, and the lists of organizational failure are full of examples of companies that have rested too long on their laurels.

In this section, therefore, we have identified two general rules for any organization that is seeking to measure its delivery to the customer: first, the importance of correctly understanding the range of customers and their interrelationships; and second, the importance of timing and topicality when collecting information on customer performance. Before moving on to a discussion of the measurement techniques themselves, however, we want to discuss one further general concern - the measurement paradox.
4.3 The measurement paradox

We have already referred to the danger which organizations face if they become internally focused, rather than orientated towards the needs of their customers. However, by establishing measures of customer performance, an organization is creating an internal measure of external performance. In the right hands, this need not create any problems: it can provide a tool to focus the organization outwards, and can be instrumental in developing a customer culture in the organization.

But what happens if the organization is a classical formal bureaucracy? Also known as a role culture, this can be described as follows.

This type of organization is characterized by strong functional or specialized areas, such as the finance department and the marketing department – its pillars which are coordinated by a narrow band of senior management at the top. There is a high degree of formalization and standardization: the work of the functional areas and the interaction between them is controlled by rules and procedures, defining the job and the authority which goes with it, the mode of communication and the settlement of disputes between the functional areas.

Position power is the major power source in the role culture. Individuals are selected for satisfactory performance of a role, personal power is frowned upon and expert power tolerated only in its proper place. Rules and procedures are the major methods of influence. The efficiency of this culture depends on the rationality of the allocation of work and responsibility rather than on the individual personalities.

Such organizations are widespread and can be very effective. They include most public sector organizations and many of the large commercial companies. You may well work for such an organization. If measures of performance related to delivery to the customer are introduced into such an organization, it is easy for them to become absorbed as just another set of internal standards or criteria. Managers will be required to report upwards at regular intervals on their customer delivery performance as they do on other business objectives such as sales, expenses, stock levels, etc. In other words, the measure will become internalized. We call this the measurement paradox – a process by which a measure intended to focus attention externally, on the customer, becomes transmuted into an internal rule or standard. The following case study is an illustration of this in practice.

Case Study

A large manufacturing company had enjoyed successful growth over a number of years. It had expanded internationally to the extent that the great majority of its business was outside its home market. Its product range had grown correspondingly, to around 40 basic product lines. With different local specifications, however, the total product range exceeded 5,000 items. The company had 12 basic manufacturing plants, half of them outside its home market, and 30 assembly plants serving local or regional markets. The company had a reputation for poor product delivery to the customer, and there was some evidence that this was deteriorating further, despite growing stock levels.

Faced with the need to increase investment in plant expansion and upgrading, the Board determined to overhaul its total production and supply functions.
It employed consultants to advise on the introduction of the MRP II production planning system, and committed substantial resources to investment in systems and training. The objective was to obtain significant improvements in customer delivery at the same time as reducing inventory levels. With a high level of commitment from management and staff, the system was successfully introduced over a three-year period.

MRP II also seeks to modify organizational behaviour. Two requirements are: development of a comprehensive set of performance measures, of customer service and inventory levels; and monthly meetings of all senior staff to review and where necessary act on these performance measures. The company adopted both of these practices. A substantial amount of staff time was committed to producing a complex, comprehensive performance report monthly, and each month the board and senior managers (18 in all) met for an entire day to review this report. In the initial stages, they were guided through this process by the consultants.

The outcome, however, was less than totally satisfactory. At first, there was little acceptance of the validity of the performance measures. 'I don't recognize these numbers' was a much-repeated response to questions on an apparent downturn in a performance measure. This led to each of the marketing, sales and production managers having pre-meetings with their staff to prepare answers to the criticisms that they knew would come from the chairman. Most of the explanations centred on the fact that a particular performance measure was misleading or inaccurate, and did not reflect properly the true performance in his or her area of responsibility. The president of the US subsidiary, who flew over to Europe to attend each meeting, complained that the measures did not take proper account of the delays at the docks for imported products. The production manager argued that changes in sales forecasts prevented him from meeting his inventory targets. The sales manager insisted that political or economic uncertainty required her to over-forecast demand in certain markets.

After a year, the internal functions had adjusted to the requirements of the new systems and procedures. Performance was measured against targets, and the result was that targets were set that were readily achievable. Performance criteria were met, and each manager could show steady progress towards the stated targets. As a consequence, however, productivity at the manufacturing plants fell significantly, and opportunistic or speculative sales were neither forecast nor achieved. Growth in inventory levels slowed, but the ratio of stock to sales did not improve.

The company described above was successful, and was a leader in its industry. It was both efficient and effective. Nevertheless, its culture resulted in the internalization and formalization of the measurement process, with the consequence that management effort became focused on the measures themselves rather than on the improvements in performance that they were intended to bring about. In this example, therefore, the role culture prevented the introduction of performance measures from being properly effective.

This paradox is also referred to in somewhat different terms by Peters and Waterman (1982). One of the distinguishing characteristics of excellent companies that they identify is 'closeness to the customer'. In discussing this, they quote a vice-president of AT&T who identifies the danger of 'over-measurement of service' which may actually detract from the delivery of customer service:
One loses sight of the individual customer. Suppose you have a ‘ninety-five percent standard’. ‘What about the five percent? Even though one hundred percent may be theoretically unobtainable, the business ought to act as if any failure is intolerable.’

(Quoted in Peters and Waterman, 1982, pp. 168-9)

They also quote a manager from American Express: ‘If you don’t shoot for one hundred percent, you are tolerating mistakes’ (p. 181). Similarly, an executive from Digital warns against treating the customer as a statistic: ‘Do you want to be part of the population struck by “failure within tolerance”? ’ (p. 181).

It may seem here that we are arguing against the purpose of this unit, which is to demonstrate the importance of measuring the performance of your organization in meeting your customers’ needs. We are not. But we do wish to alert you to the following two dangers when you introduce formal measurement techniques into your organization:

- measurement must not be allowed to become internalized to the extent that it diverts management attention from an external focus on the customers and
- setting targets for customer performance should not be allowed to codify tolerance of inadequate performance.

### 4.4 Frequency of measurement

The measurement structure should reflect the objectives of the organization. It will depend on:

- The point in the marketing control loop at which the measurement is to be carried out, e.g. identification or delivery.
- The purpose of the measurement, e.g. assessing customer needs or measuring satisfaction.
- The resources available to the organization.

There is a wide range of techniques or approaches which may be used, each with its own advantages or disadvantages. We can consider these against the following different criteria.

- **Frequency** – some activities, like complaints management and purchasing behaviour, are continuous; others, like customer care audits, may be performed regularly; while those such as market surveys or multi-client studies may be only occasional activities.
- **Representativeness** – complaints behaviour is unrepresentative whereas provided they are properly structured – market surveys should be representative of the selected population.
- **Scale** – purchasing behaviour will reflect the response of very large numbers of users, while work with focus groups will of necessity involve only small numbers.
- **Quality of information provided** – by contrast, focus groups can be expected to provide very high quality information whereas the information from postal surveys is likely to be of much less value.
Traditionally, the social sciences divide methods of gaining information into three styles.

- **Ethnographic**, in which a particular sub-set of the target population is observed intensively for a period of time. This is time-consuming and expensive to carry out, and can be questionable as to the representativeness of the group under study.

- **Survey**, whereby a sample of respondents reply to a number of fixed questions under comparable conditions. This allows information from large samples to be collected quickly and relatively cheaply, but may be superficial in measuring difficult or sensitive areas of customer behaviour.

- **Experimental**, in which the effect of a specific variable is measured by its application to one of two identical groups under control conditions. This can allow very strong conclusions to be drawn about cause and effect, but it is difficult and expensive to apply to customer behaviour.

However, this classification is not particularly helpful when you want to measure the interface between the supplier or provider on the one hand, and the consumer or user on the other. The **frequency** of collection of data is more relevant to you as a manager, whether in the private or the public sector. You will want to distinguish between **occasional** assessment methods, those that are carried out on a **regular** basis, and those that are **continuous** assessment techniques. Most managers would use all three modes, since the purpose and value of each is different.

Bringing in the trade-off in representativeness or objectivity referred to above, we can represent the different techniques of gaining information that are available to the manager as shown in Figure 2.

In the following sections we look at each of the categories of assessment and information-gathering. We identify the situations in which each can be used, and we illustrate their use with examples from a range of organizations.

| Occasional | Surveys | Multi-client studies |
| Regular    | Benchmarking | Customer care audits |
| Continuous | National barometers | Consumer appraisal |
| Self-selection | Complaints management | Purchasing behaviour |

**Figure 2** Techniques for measuring customer satisfaction
5 Occasional measurement

Market research is a general term embracing a range of techniques to collect and measure information about the market. In this section we are going to discuss surveys—a widely used technique for gathering information. The survey is often the means by which organizations establish their basic information about their customers and competitors. Surveys also frequently provide the baseline against which to measure performance. We will also talk briefly about multi-client studies, which represent one approach to commissioning survey data.

5.1 Surveys

Surveys are widely used by all types of organization. They can be qualitative or quantitative in nature, and may be carried out by the organization’s own staff or by an agency. Although the medium for collecting the data may vary—interviews, postal questionnaires, telephone surveys—the characteristics remain the same:

- A sample of respondents is required to reply to a number of fixed questions under comparable conditions.
- The respondents represent a defined population. Occasionally an entire population may be surveyed, but more normally a sample survey is conducted.
- The sample should be representative of the population from which it is drawn, thus allowing the results to be generalized to the population as a whole.
- By using the same questions, comparisons of individuals within the sample can be made.

The principal advantage of the survey technique is that it allows a lot of information to be gained in a short period at relatively low cost. Properly constructed, it allows patterns to be established and quantitative estimates to be made. It does, however, have its limitations: there is no assurance that the respondents will be wholly accurate in their responses; it is unlikely that the survey will measure the intensity with which the opinion is held; in search of comparability, survey design often pays a price in terms of oversimplification; and the information is time-specific—the results may soon become inaccurate if the variables being assessed are rapidly changing.

All of these disadvantages can be minimized by well trained and skilful interviewers, but problems of scale, timing or cost often preclude this. The well publicised errors in opinion polls relating to volatile issues such as voting intentions probably reflect all four of the disadvantages listed above.

5.2 Interpretation of survey results

Most of this unit is about ensuring that useful feedback is collected on targets relating to the customer. This section is a very brief introduction to the issues involved in judging the quality of survey feedback. If this whole area is new to you, and you want to learn more, a good elementary business or social science statistics text may be helpful. Here we can only summarize the major points.
You want to know how well the survey has measured what it set out to measure, and what weight you can safely give to the resulting information. Throughout the process, you are dealing with ambiguity and uncertainty, because you are dealing with people’s perceptions and intentions, and with their recollections of their past behaviour. People’s memories fade or are inaccurate, and their intentions change. It is obvious that you will obtain more precise data on delivery issues, such as how many customers have actually performed the behaviour that you are investigating (for example, occasionally buying a small luxury) than you will on identification of needs (for example, how many might buy a new type of biscuit). Also, people are more likely to respond accurately and in detail to questions about things that are more important to them, so that parents’ responses on child safety issues will be more detailed and consistent than their views on competing washing powders.

Given these caveats, which are really a matter of common sense, you also need to look at the more technical aspects of survey measurement. You may be presented with results like those in Table 1.

<table>
<thead>
<tr>
<th></th>
<th>Very satisfied (%)</th>
<th>Satisfied (%)</th>
<th>OK (%)</th>
<th>Not satisfied (%)</th>
<th>Very dissatisfied (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch A</td>
<td>80</td>
<td>10</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Branch B</td>
<td>70</td>
<td>25</td>
<td>4</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

_A total of 500 customers were questioned, 300 men and 200 women. They also rated 15 aspects of their branch such as 'politeness of staff' and 'ease of car parking' on 10-point scales, and answered questions about their ages, occupations and household incomes._

You know these figures are below target, now you want to know whether the survey can help you find out why. Can you do any further analysis?

The answer is it depends! There are three important questions that will determine how much further you can go with these data. They are: what were the actual figures collected; what properties or 'variables' do you want to investigate; and what is the nature of the sample itself?

The answers to these questions determine whether any patterns in the data are worth further investigation. First, can you use any other descriptive statistics, beyond the percentage? Can you give a numerical value to the pattern? Next, does this value really mean anything; can it be used to take action in your situation, or to generalize to other situations? For this we need inferential statistics.

Here we will consider the simplest pattern that is commonly found in surveys: the _correlation_, more correctly known as the _association_. An association describes the situation when one variable is connected with another. Did one branch produce much more dissatisfaction about levels of service than the other? Is the possession of a video recorder associated with a high income? Do people who hold strongly 'green' values spend more on recyclable products? Are people with fewer qualifications likely to be more satisfied with low-pay jobs?

If your data are suitable a statistic can be calculated. You can then see how strong the association is and whether it is positive or negative. You should of course be aware that any association, however strong, does not necessarily imply
causation. It simply describes a relationship found in that set of data. A famous but frivolous example can illustrate this point. A strong positive correlation was found between the average salary of the clergy and sales of rum over a few years when inflation was high. In fact, not only were the clergy minimal consumers of spirits, but rum sales by volume, as opposed to value, were in decline.

If an association is found, the next analysis could be to calculate the probability that this result arose purely by chance, or whether it suggests something about the population from which the survey sample was drawn. Since humans are notoriously bad at estimating probabilities in even the simplest cases, mathematicians have developed inferential statistics based on the laws of probability to help us.

Statistical rules help us with confidence levels. It is common practice to agree that if the appropriate statistical test applied to your data gives a result that has only five chances in a hundred of occurring by pure chance, you can be confident at the 5% level that the association you have found is meaningful, and might also occur in the population from which you drew your sample. The other, more rigorous confidence level in popular use is the 0.01 level, when there is less than one in a hundred chances of this result arising accidentally, that is, of giving a falsely positive result. (See Table 2.)

The three questions mentioned previously help us decide which statistical tests are most appropriate to our data.

**Table 2  Confidence levels**

<table>
<thead>
<tr>
<th>Level</th>
<th>Probability (p) limits</th>
<th>Frequency of a chance occurrence</th>
<th>Odds against a chance occurrence</th>
<th>Confidence levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>( p &lt; 0.05 )</td>
<td>5 in 100</td>
<td>5%</td>
<td>19:1</td>
</tr>
<tr>
<td>High</td>
<td>( p &lt; 0.01 )</td>
<td>1 in 100</td>
<td>1%</td>
<td>99:1</td>
</tr>
</tbody>
</table>

**Question 1  What were the actual figures?**

Were the measures actual numbers, like age or income? Or were they scales, like very satisfied to very dissatisfied? Or were they simply categories, such as liked this feature or did not like it?

If the data gathered consist of actual interval numbers that can take any value over a range (continuous variables to the social scientist), they can be subjected to more complex statistical manipulations. You have more information and less uncertainty if you know people's ages in years rather than within which of four age bands they belong. So, if you gather reasonably accurate income data and the actual amounts spent on products or services, you can calculate the most familiar measure of association – the correlation coefficient – and then go on to draw fairly robust conclusions about the validity of any spending patterns identified in your sample.

But, more often, surveys use scales because they seek opinions. Because people who say they are very satisfied are not necessarily five times as satisfied as people who say they were very dissatisfied, such data have fewer mathematical properties. The opinions expressed can only be placed on the scale provided. Nevertheless, correlations can be calculated from such data, known as 'ordinal'
data, and inferential statistics can still be used to infer whether a real link has been discovered between opinions, or between opinions and behaviour.

A survey will probably also contain categorical or discrete variables. This is simply technical jargon for yes/no answers, or either/or situations. People have answered that they are female or male, vegetarian or not, and they have or have not attended their local hospital in the last six months. Categorical variables can be used to produce correlations, but other measures of association such as the chi-square technique are more commonly used. This type of information is less amenable to inferential statistics, because it involves more uncertainty, but some can be used.

In summary, the more number-like the data, the stronger the conclusions that can be drawn from them. If the data are interval numbers, the greatest danger in statistical testing is that of the false positive, indicating that a connection exists when it does not, because inappropriate techniques have been used somewhere along the line. The greatest danger with testing ordinal or categorical data is that you will get a false negative, because the tests have little mathematical information to act upon, and therefore you might miss a connection that only exists weakly. For these reasons, market researchers will try to devise questionnaires that obtain as many straightforward numerical data as possible.

If you want richer, more qualitative information from your survey as well, you must build in more open-ended questions to obtain it, and pay for the extra work involved in its analysis. If your sample was not carefully chosen to be representative anyway, this qualitative information will be especially valuable in responding to the needs of those questioned.

### Question 2  What are the variables under study?

Are the variables likely to be normally distributed within the population, for example height or weight? Or are they more like a rare disease?

The inferential statistics used to examine whether survey results are likely to have arisen by pure chance or are indicating that variables in the whole population are correlated are usually based on the familiar normal distribution curve. Even if the variable under study is rare, or little is known about it, statistical tests that depend on the normal distribution are commonly used, but this could be a mistaken assumption. For example, it is often assumed without much evidence either way that opinions on most topics are normally distributed. A different set of more complex tests is needed to examine situations where variables are unlikely to be normally distributed in the survey population.

### Question 3  What is the nature of the sample?

Was the sample representative? Was it random? How large was it? What was the response rate?

Sampling matters because, unless you know who your sample were, you cannot generalize from their results to those of a larger population. If a non-random sample from a remote village that is atypical of its area have strong views on a product or service this tells you little or nothing about the likely opinions of those in the nearest conurbation.

You will often hear that a polling organization has interviewed a representative sample of the adult population. A market researcher will tell you whether their
samples were actually random or quota, the latter being commonest for reasons of cost. Random sampling means that the population of interest to you for the questions that you are investigating can be clearly defined, and that any member of that population had a chance of being selected for the survey, so the survey sample is definitely representative of the whole population. A random sample of the electoral register for a locality might be ideal for studying the adult voting population. True random sampling is the best way of minimizing the sampling error, that is, the error that inevitably creeps in because no one sample can be completely representative of the whole population on all possible variables of interest.

However, much market research is carefully targeted towards particular age groups, income groups, household compositions and social classes. The samples taken to achieve such targets are usually quota samples. Strictly speaking, they are not representative. The researcher knows the proportion of each of the target groups in the general population. Interviewers are instructed to continue choosing people who fit the criteria given for each group, such as employed black men between 20 and 45 years old, until the chosen number of that sub-population have been interviewed. If the researchers choose their groups carefully using accurate information, and the interviewers obey instructions completely, it can be argued that a reasonably representative sample has been obtained. However, statistically the findings are harder to judge because the assumption of randomness has been violated. The sample might be biased because, for example, the quota was fulfilled by only approaching those using busy high streets, or because the social composition of the local population has altered drastically since the information on which the quotas were based was gathered. An extra source of error and uncertainty has been added. There is an extra danger if all the people who refuse to co-operate are very different from those questioned.

Survey researchers work out the sampling error, that is the amount by which their results might be inaccurate due to the impossibility of obtaining a perfectly representative sample. Thus before elections it is common to see the margin of error (usually 1% to 3% either way) reported but ignored. But clearly, if the parties concerned are close in popularity, the results are not safe.

To reduce the sampling error, it is necessary to increase the sample size, according to various formulae, all of which involve dividing by the square root of the sample size. You should note that it is the actual size of the sample, rather than its size as a percentage of the population, that affects the sampling error. If a great deal is known about the population in connection with the questions you are asking, quite a small sample can often be satisfactory as long as the response rate is sufficient. However, you must also remember that different sub-samples may be necessary to investigate different questions, so each of these sub-samples must be of sufficient size. Researchers also take into account the confidence level (see Table 2) required for their results, so that a larger sample will be needed if you insist on the 1% level.

**Conclusion**

No survey is perfect and all data interpretation must be made on the basis of understanding how much uncertainty is involved. Since people are much harder to study than inanimate materials or ears of corn, skills in survey design and the choice of appropriate statistics are necessary in order to produce high quality feedback about customers. This section aimed to help managers who are unfamiliar with the area to pinpoint crucial questions about survey results.
Survey results have a tendency to appear in reports that are either too simple or too complicated for your needs. If the results are very simple and lack detail then you should ask whether the nature of the sample and the data will permit further descriptive statistics, usually correlation coefficients, to be calculated. If these are presented, you should ask about confidence levels. If a report looks overcomplicated with a mass of unfamiliar statistics, any professional researcher should be happy to explain it to you. You should ask about the assumptions made by the tests, and their appropriateness to the sample and the variables. Only when you fully understand the strengths and weaknesses of your feedback can you decide whether or not to make changes based upon it.

5.3 When to use surveys

Surveys can be used to generate information on a regular basis, as discussed in the following section. However, they are more commonly used to generate specific information for a specific purpose. This often occurs at times of change or discontinuity in the life of the organization, and could cover events such as those described below.

Launch of a new product or service

Market surveys are the classic means of gaining information about the characteristics of need or demand for a new product. Examples include research by supermarkets before introducing organic produce to their stores, or a survey by a hospital out-patient clinic before reorganizing its appointments procedures.

This type of survey is frequently used to identify the nature of the customer benefits of the product or service, thus allowing the organization to modify or reposition the product. If carried out effectively, it then enables the supplier or provider to inform the potential consumers of the user benefits offered by the new product or service.

In areas of advanced technology, market surveys can be less effective. The value of questionnaires, however well designed, is severely limited if the respondent cannot visualize the product or service being described. This problem has led Sony, for example, to reject the concept of market surveys on the principle that it is the company’s task to invent and design products with benefits beyond the current comprehension of the consuming public. The concept of the ‘Walkman’ is one such product, for which market research would have failed to identify the high potential demand. Such an approach, however, is high-risk as it creates a total dependence on the true innovativeness of the inventor. The risks of this approach can be seen today in the area of biotechnology where, despite vast investment in research, few commercially viable applications have yet been developed – a case of solutions looking for a problem or, in marketing terminology, product features failing to deliver a customer benefit.

Entry to a new market

In many respects, entering a new market is more risky for organizations than launching a new product, because there is no history of contact with or knowledge of the new customers. Therefore, the temptation is greater to concentrate on product features rather than user benefits. This is particularly common where
there are cultural differences. Survey design and implementation are critically important in such circumstances, and examples abound of organizations that have failed to make cross-cultural transitions because of their inability to identify correctly the benefits and costs of their product/service package to users in a different culture.

One such example which has received considerable publicity over many years was Nestlé’s ill-fated programme of selling baby milk powder in Developing Countries. Based presumably on Western values, in which flexibility and choice for the mother are seen as major benefits, the company failed to foresee the negative effects that would occur in a different social and economic setting. These included the creation of dependency of low-income families on cash purchases, and the increased disease risk from the use of unclean water and bottles. However, it has to be said that these problems still may not have been identified by more detailed conventional market research: an approach to nutritional and cultural experts would also have been necessary.

**Introduction of a new strategy**

A change in top management is usually good news for market research agencies, as it often portends new commissions to provide the information with which the organization can reposition itself – or its image. Thus, when ASDA went into decline in the late 1980s it commissioned a range of surveys to determine what its customers were seeking from their supermarket.

Perhaps the most striking examples, however, rest in the public sector in the UK, where the emphasis on accountability to service-users in the early 1990s triggered intensive programmes to collect and analyse information on consumers and their needs. The health service, local authorities, newly privatized industries and even magistrates’ courts have all engaged in surveys to determine information about the users of their services.

Surveys are also used to assess the attitudes and needs of staff within the organization, and to use these findings when determining company policy. In the controversy about the financial collapse of the Canadian property firm Olympia and York in 1992, the following caption appeared in a newspaper opposite a picture of their huge Canary Wharf development in London’s Docklands:

*The weird feel of the place ... has put off potential Canary Wharf office workers; when Grand Met considered moving, a staff survey revealed that 60 per cent would rather find another job than move to [Docklands].*

*(The Guardian, 16 May 1992)*

**Declining performance**

Without wishing to enter the debate about what constitutes a measure of organizational performance (this is discussed in Block 4), a significant downturn in performance may necessitate a fundamental review. Management of turnaround situations was discussed at length in B881 Strategic Management, where the leadership and strategic issues were debated and illustrated.

However, effective turnaround management depends more than anything else on good information. Frequently the situation has arisen from a major shift in the market, when the received wisdom about the customer or user can no longer be accepted as valid. In this situation – which is frequently the result of a significant
change in the competition — it is important that the organization re-establishes its baseline information about its market. Survey techniques are well suited to provide this information.

An example of this is found in the declining interest in engineering as a subject for undergraduate study in the UK. This has led to increasing competition among universities to attract able students. In order to improve their understanding of their customers (students), one very well known university sends a detailed questionnaire to all students who do not accept a place. The letter, which is individually addressed and is signed by the two professors, begins:

5.4 Multi-client studies

A multi-client study is a survey carried out by a market research firm or consultancy and which is financed by the sale of the study to a number of clients. In most cases the clients will be ‘signed up’ before the study is undertaken. It is an approach that you are likely to come across at various times and, while it can be a useful and cost-effective source of information, it is worth bearing in mind several points:

1. The other clients that are participating are likely to be actual or potential competitors; therefore before taking part you will have to consider whether your participation will strengthen or weaken your competitive advantage.
2. If you do participate, it is often valuable to do so early to ensure that you are able to ‘customise’ the study to your own requirements as much as possible.
3. If the survey will include information from the participating organizations, be sure that the rules regarding confidentiality are clear.
4. As with all use of consultants, you must ensure that the staff doing the work are of sufficient calibre, and be aware that the information gained as a result of this study will become part of that consultant’s future stock-in-trade.

Despite these caveats, multi-client studies can be of considerable value, particularly if they address subjects which might otherwise not be within your own scope or competence. They are particularly useful for reviews of new technology or future trends where they often perform the function of gathering expert opinion or implementing Delphi studies (these and other forecasting techniques are covered in detail in B885 The Challenge of the External Environment).

Activity 5

Have you had experience in an organization which uses surveys to collect information on its customers?
If so, what purpose are these surveys designed to meet? Which part of the marketing control loop do they fit?
How are the surveys designed, and what sampling method is used? Does data interpretation pose any particular difficulties?
6 Regular assessment

Organizations that are externally focused will use a range of measures on a regular basis to assess and monitor the level of customer satisfaction. The variety of monitoring techniques that are available includes customer care audits, national barometers and consumer appraisal, and these will be discussed below. However, the really effective organization will also be measuring its performance by comparison with its competitors. A widely used technique here is competitive benchmarking, which we will consider first.

6.1 Benchmarking

Benchmarking consists of identifying best practice in a particular area of performance, and using this to set targets for performance and as a benchmark for measurement. Best-practice benchmarking can provide insights into the underlying reasons for the relative performance and success of an organization through the comparison of its own performance with those of the best performers in the field. Such comparisons can be made most easily with sister divisions or organizations within the same group, but more usefully with direct or near competitors in the same industry sector. However, the most useful comparisons are made with leading ‘out of industry’ companies with similar operations and with ‘best in class’ status or ‘best demonstrated practice’ in their own sector.

Many major companies, such as IBM, Rank Xerox, Ford, ICL and British Airways have used best-practice benchmarking for several years. It is now a well established management technique in the business research, analysis and planning activities of these companies at corporate and operational levels.

The article by Roger Dence in the Reader gives a comprehensive introduction to benchmarking, and you should read it at this stage. The technique was developed initially in the production and operations area, but has become increasingly used for a range of activities, including logistics and distribution, salesforce efficiency, customer service and support, and design and development. We present the technique here, in the context of customer service performance, but it will also be referred to in other units.

The benefits of benchmarking are summarized by Walleck et al. (1991, p. 3), some of the original workers in the field, as follows.

*Competitive analysis is a powerful tool ... because it quantifies gaps in cost, quality and timeliness. ... Benchmarking world-class performance within and across industries ... not only quantifies performance gaps ... [it] establishes how much a company needs to improve to be at world-class levels of functional and cross-functional performance.*

Benchmarking allows an organization to make comparisons for each stage of the value chain:

- Are we performing better than we have?
- Are we performing better than other units within the same organization?
- Are we performing better than our competitors?
- Are there other industries that are performing well and from whom we can learn?
The general process for an organization wishing to embark on a programme of benchmarking comprises six steps:

1. Decide on the key standards and variables to measure.
2. Identify the most relevant competitors and the best-in-class organization.
3. Measure regularly and objectively.
5. Specify and implement programmes to close the gap.

In his Reader article, Dence gives several examples of organizations that have made effective use of benchmarking to improve their performance. He identifies a number of general aims of the process which is a well established practice in many companies. Rank Xerox argues its benefits as follows.

Effective organizations trawl widely for comparative data. They obtain information from a wide range of sources – competitors, customers, analysts, employees, industry associations, etc. They are also creative in their selection of organizations to use as a basis for comparisons, as Table 3 shows.

### Table 3 External comparisons

<table>
<thead>
<tr>
<th>Industry</th>
<th>Performance area</th>
<th>Best-practice benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil</td>
<td>Fleet management</td>
<td>Brewers</td>
</tr>
<tr>
<td>Electronics</td>
<td>Time to market</td>
<td>Fashion house</td>
</tr>
<tr>
<td>Office equipment</td>
<td>Order processing</td>
<td>Mail order clothes</td>
</tr>
<tr>
<td>Bank</td>
<td>Process flow efficiency</td>
<td>Car manufacturer</td>
</tr>
<tr>
<td>Telephone company</td>
<td>Billing system</td>
<td>Credit card company</td>
</tr>
</tbody>
</table>

Benchmarking is not a panacea for all problems. It has its weaknesses – it lacks predictive power, it can be time-consuming, and gathering the data can be difficult. To be effective, it requires a high level of commitment throughout the organization. It can face internal opposition, particularly the argument that ‘our business is different’. When well managed, however, it can provide the impetus for continuous improvement and it can ensure that organizations are externally focused. Benchmarking is a skill, an attitude, and a practice that ensures an organization always has its sights set on excellence, not merely improvement.

**Activity 6**

Identify for your organization key activities or functions for which benchmarks could usefully be applied.

For each of these, identify:

1. Which organization would you use as the example of best practice within your industry?
2. Which organization would you use for best practice outside your industry?
3. Which criteria would you measure for comparison with the best-practice benchmark?
6.2 Customer care programmes

How can organizations best monitor the quality of their product or the level of service delivered by their staff?

If we accept that this can only be done effectively by involving their customers, what is the best way of achieving this involvement?

Once an organization has recognized the overriding priority that must be given to delivering customer satisfaction, it is then faced with these practical and deceptively difficult questions. In seeking to find answers, it can be instructive to look at the experiences of other organizations. How an organization chooses to communicate with its customer in order to monitor the quality of its service to them, will depend on the nature of the product or service being provided. Nevertheless, there are a number of general approaches that can be used, which are summarized below.

Exit

The clearest way in which the consumer expresses an opinion on the quality of the product or service is through purchasing behaviour. In the time-honoured traditions of the market-place, the dissatisfied consumer votes with his or her feet – or cheque book. From the point of view of the supplier, however, this is less than ideal as a means of gathering information. It is reactive, and the time-lag in obtaining information means that the response is very delayed. It can therefore be a very expensive way to gain information on your product from your customer! Perhaps more importantly, it provides little information on why the customer is dissatisfied, and it therefore gives the supplier little help in changing or improving the service. For these reasons, purchasing behaviour, or ‘exit’, should be regarded as a communication channel of last resort.

Voice

Of more value to management is the encouragement of customers to voice their complaints. This provides feedback which may enable management to react before the level of demand is seriously damaged.

The advantage for management from encouraging their customers to use ‘voice’ is that it can tell them more than ‘exit’. ‘Voice is rich and modulated: voice conveys more information than exit.’

(Boggis, 1991, p. 24, quoting Hirschman)

Complaints from dissatisfied customers are a powerful form of customer communication, and an organization can gain many advantages by properly managing its complaint procedures. This is discussed in more detail below. Nevertheless, an organization would be ill-advised to depend on complaints as its primary form of feedback, for many of the same reasons already discussed for ‘exit’.

Of course, organizations can collect customer opinion in a structured fashion, and most organizations today will seek to do this in one form or another, for example, customer care audits. If these are sufficiently well structured and are repeated at regular intervals, they can provide a record of progress (or otherwise) towards customer performance targets.
Two-way communications

A key tenet in marketing is the importance of communicating with the customers, to inform them of the benefits of the product or service that is available or is about to be launched. Too often, however, this is a one-way process: the supplier or provider issues many messages, but the consumer's response is limited to purchase or non-purchase. Even in consumer surveys, the agenda—in the form of the choice of the questions to be asked—is set by the supplier, not by the customer. This must bias the response, even where the questionnaire invites the respondent to comment on any matter that he or she considers to be important.

This bias can be countered by using consumer-initiated communication channels. One such technique that is commonly used is a questionnaire or rating card that is given to all customers. This variously asks them to rate the performance of the supplier in a number of areas. Although I am only a modest consumer, during the few months in which I was writing this unit I came across more than 20 such examples of customer questionnaires, covering areas as diverse as:

- hotels and conference centres
- a university department
- a ballet company
- a comprehensive school
- a holiday tour company
- a hospital
- three airports
- audio equipment
- a magistrates' court
- Eurotunnel.

Despite its popularity, however, this method of collecting information from the customer carries real disadvantages. Not only is the response rate very low—around 5%—but also those who do respond are not likely to be representative. The very process of responding—requiring as it does understanding and interest—may be sufficient to disqualify the respondent as being atypical.

Fornell (quoted in Boggis, 1991, p. 26) recommends that organizations should establish Consumer Affairs Departments to be the channel for consumer-to-supplier communications. Such departments should be:

... committed to finding and removing the causes of dissatisfaction and misunderstanding and utilising the information potential of consumer-initiated communication.
However, there is little evidence that such departments are particularly successful at establishing regular high-quality feedback, or that they effectively anticipate consumer issues. Such efforts to establish two-way communications have been criticized as being *pseudo-participatory*, and therefore less valid than other more conventional forms of communication (Boggis, 1991, p. 27). Indeed, it can be argued that the concentration of customer issues into a separate department takes responsibility from where it should properly lie – with marketing management. It may also prevent the truly creative manager from developing his or her own means of testing customer reaction. It substitutes reaction for action.

Another approach used in the establishment of two-way communications with consumers is the use of *customer care panels*. These consist of regular users of the product or service who are retained to meet regularly with management representatives of the organization. The purpose of such panels as established by British Rail is:

*... to provide an independent external view of key aspects of local customer service ...*

and to:

*Give advice on worthwhile innovation to improve customer benefits and amenities and product quality ...*

*Help local management maintain a perspective on customer needs.*

*Act as an informal sounding board for local managers.*

(Boggis, 1991, p. 28, quoting Giblin)

The health care user councils referred to by Steele (1991, p. 24) and Tesco’s consumer panels described by Boggis (1991, pp. 29–30) are other examples of customer care panels. Such panels can be useful sources of information to certain types of organization, but they too have their disadvantages. These fall into three categories:

1 **Operational** – it requires skilled management by the company representatives to ensure that panel meetings are not dominated by the company agenda. Effective two-way communication requires active listening – a high-calibre skill that is typically less than ubiquitous in most management structures.

2 **Constitutional** – customer care panels will normally be advisory in nature and unrepresentative in structure. The customers present their own views, and do not have a mandate to represent the body of consumers as a whole. And the company regards the panel as advisory, and makes no commitment to act on or respond to their recommendations.

3 **Behavioural** – there will be differences in the scope and range of issues that are of interest to the two parties. Customers are likely to be most concerned about short-term or recent issues, in contrast to the longer time horizon of the company. More importantly, there can be direct conflict between the interests of the two parties, and the management representatives may have neither the wish nor the authority to meet the expressed requirements of the customers. (Such conflicts will commonly occur on pricing policy: the dilemma is memorably but unhelpfully summarized in the words of an erstwhile colleague of mine: ‘The trouble with customers is that they want a lot for not very much!’) This can lead to the breakdown of trust and commitment within the panel.
Activity 7

Does your organization carry out a customer care programme on a regular basis? If so, what are the characteristics of this programme? Is your programme designed to generate a two-way flow of information? How do you avoid the various disadvantages that are referred to in the text?
If not, how would you set one up?

6.3 National barometers

We have discussed above various ways in which organizations can measure or assess the level of their performance as seen by their customers on a regular basis. As we have shown, none of these is ideal and the method used by any particular organization needs to be appropriate to its own needs and resources.

However, there is one example that is worthy of mention because of the ambition and scale of the exercise. This is the National Customer Satisfaction Barometer that is carried out in Sweden and is described in the Reader article by Claes Fornell.

The Customer Satisfaction Barometer (CSB) measures annually the level of customer satisfaction in 100 organizations in 30 industry sectors. It measures the quality of output as experienced by the buyer. Fornell then uses this information to explore how customer satisfaction relates to the overall strategy of the firm. In particular, the proposition that customer satisfaction and market share are positively correlated is examined.

Fornell suggests that there are structural differences between different kinds of industry. Perhaps somewhat predictably, he concludes that customer satisfaction is highest in those sectors in which industries are either supplying homogeneous products/services to a homogeneous market or differentiated products/services to a heterogeneous market. (It is interesting to examine this conclusion in the context of Porter's argument that competitive advantage derives either from cost leadership – Fornell's homogeneous product in a homogeneous market – or differentiation – differentiated products in a heterogeneous market. Porter's work is discussed in B881 Strategic Management.)

Now read the article by Claes Fornell in the Reader.
7 Continuous monitoring

Surveys, audits, barometers, customer care programmes and benchmarking are all useful mechanisms for measuring an organization's effectiveness at setting and meeting performance targets. However, organizations that are seeking to achieve a high level of external awareness and customer focus will seek to monitor the effectiveness of their delivery to their customers on a continuing basis. In this section we will examine three methods for continuous monitoring of performance: consumer appraisal, complaints handling and purchasing behaviour.

7.1 Consumer appraisal

Consumer appraisal is a general term that is applied to a range of activities which can be carried out by organizations to ensure that they are monitoring their performance on a continuing basis. As with many aspects of successful marketing, the techniques themselves are less important than the philosophy or culture within the organization that supports a customer-orientation among all its staff. The examples that we are going to discuss in this section relate to the health service, but the principles will apply across all sectors. At this stage you should read the article on consumer appraisal in the health service by Kevin Steele in the Reader.

In his article, Steele sets consumer appraisal among a range of actions that organizations need to take to make them more responsive to users. These include:

- defined standards against which to measure the results of appraisal
- a feedback process to ensure that standards are refined on the basis of appraisal results
- support and training for staff to ensure that change occurs
- commitment from managers to make changes on the basis of the results of consumer appraisal.

Although consumers can also influence the provider in other ways - through complaint systems and representation - consumer appraisal is more diverse and enables the provider to pursue a wider range of objectives and methods. It requires the provider to take the initiative in seeking information, and it may encourage users to take an active role in influencing service improvement. At its extreme, consumer appraisal can empower customers through their participation in the planning and even the delivery of the service.

Steele emphasizes that a range of techniques can be used in consumer appraisal, including formal surveys, discussion groups, in-depth interviews and standing panels. Other approaches include the following.

- **Councils** - Where the numbers of users are relatively small, they can form a council through which they can be actively involved in advice and decisions. This can happen in industrial markets as well as in the service sector. Attempts to empower parents through the increase in parent-governors on school boards is an example.
- **Accreditation** - The use of inspectors to assess and monitor the overall level and quality of service provision is a widely used technique, especially in the
public sector. It has the potential to be a powerful tool for quality control and service improvement. The danger, however, is that accreditation becomes a process for enforcing standards set by the provider rather than those identified as important by the user. Examples of accreditation in accordance with professional standards but to the potential disadvantage of the user or consumer can be found in areas as diverse as schools and colleges, hospitals and the police. The ideal – of accreditation by user representatives – may be hard to achieve in practice!

- **Quality circles** – This concept, based on small groups of staff convened to address a particular problem, is now widely accepted in many organizations. It has the disadvantage of being essentially inwardly focused. For this to be overcome, users have to be included in the quality circle. While this happens routinely where the users are internal to the organization, it is more difficult to involve external users in quality circles.

- **User records** – Steele refers to these in the context of the health service, whereby patients are encouraged to keep a diary to record their symptoms, feelings and questions. This approach could have a wide applicability in those sectors where the product or service is used over an extended period.

Steele concludes his article by examining the yardsticks against which to measure the results of consumer appraisal programmes. He identifies the ‘five consumer principles’ – information, choice, access, safety, redress – to which he adds a sixth, representation. Although he is discussing these in the context of the health service, they have a far wider applicability and are worth noting.

**Activity 8**

Identify a product or service of which you are a regular customer. Try to answer the following questions.

1. What form of consumer appraisal do you think that the supplier or provider carries out?
2. Have you seen any changes in the quality of the service over the past two years that might reflect a responsiveness to user comments?
3. What changes would you, as a user, like to see instigated over the next two years?

7.2 Complaints management

Attitude to complaints handling is one of the key determinants of the customer-orientated organization, and can reveal its true culture. Traditionally, attitudes to complaints have centred on minimizing the cost of satisfying the complaint and seeking to avoid adverse publicity. Equally importantly, the organization’s policy on complaints is reflected in staff attitudes, and this is rapidly transmitted to customers.

A complaint carries with it the sting of a reprimand, and is not welcome to the recipient within the organization. Many organizations will therefore try to satisfy the aggrieved customer as quickly, quietly and cheaply as possible. Some may try to ignore the complaint, while others will seek to avoid responsibility by passing the complaint to the distributor or by claiming that the product was...
improperly used. They may argue that the supplier has no liability. Customers will often collude in this maltreatment, by being reluctant to complain and apologetic once they do.

The reality is that customer complaints are among the most important sources of information available to an organization on the level of customer satisfaction. More importantly, there is now a considerable body of evidence demonstrating the role of an effective complaints handling system in retaining customer loyalty and intention to buy from that source again. There are other benefits such as reduced warranty and servicing bills, customer perception of quality, and the possibility of cross-selling to a satisfied complainant.

Research among US retail companies under the US Technical Assistance Research Programmes (TARP) provides powerful evidence of the importance of complaints handling:

- 96% of customers with a bad experience fail to report it because they expect no response
- 91% of dissatisfied customers do not come back
- these statistics are valid irrespective of the size of the purchase
- the average dissatisfied customer tells nine colleagues
- 13% of dissatisfied customers tell more than 20 colleagues
- it costs five times as much to gain a new customer as to retain an existing one.

At this stage you should read the article on complaints handling by Colin Adamson in the Reader.

Adamson argues convincingly that maximizing customer satisfaction requires a combination of high-quality delivery of the product or service (doing it right first time) and effective customer contact management. He expresses this diagramatically (as in Figure 3).

He goes on to point out that, used properly, complaints management has two major benefits:

- the analysis of complaints and problems can be used to increase the chance of doing it right the first time

and

- loyalty is increased by the complaints system itself.

If we accept these benefits, it is a short logical step to the conclusion that organizations should not only welcome complaints, as a valuable source of consumer information, but also that they should actually encourage their
customers or users to complain. This is a long way from the traditional attitudes towards complainants. It is necessary because, as Adamson points out, many dissatisfied customers will not complain because:

- it does not seem worth the time or trouble
- they believe no one cares
- they have no useful or known channel for complaining
- they do not want to complain about someone they deal with regularly, or who may influence future supplies.

Organizations wishing to improve their responsiveness to customer needs should therefore seek to overcome these concerns. The first two will only change with consistent behaviour over time. The last two, however, can be tackled more directly. It is becoming increasingly common for suppliers to inform their customers or users of how to complain, and to establish routes for complaint that are independent of – or at least separate from – the usual supply chain. This will most normally take the form of a complaint card that is given to the customer, although some organizations will provide further information and encouragement. (The Open Business School goes some way towards this with the provision of faults cards and MBA quality issue cards with all its mailings.

There is a story – undoubtedly apocryphal – that one new course had slipped so far behind its production schedule that the only item included in the first mailing was the faults card!)

In his article, Adamson describes the results of research on the costs and benefits of improved customer service, and how the issues can be addressed in different types of organization. He concludes by outlining the evolutionary stages that an organization will pass through in its customer relations policy. It may be interesting – and possibly salutary – to identify where your organization has got to on this timetable.

Activity 9

One of the paradoxes of our consumerist society is our reluctance to link our experience as consumers with our professional roles as suppliers or providers. To see whether you also do this, identify three recent experiences that you have had as a customer where you have been dissatisfied with the product or service that you have received. Try to choose one example of a consumer good, a commercial service, and a public service that is free to you at the point of use.

For each of these examples, answer the following questions.

1. Did you complain? If so, what response did you get? If not, why not?
2. What is your attitude now to that supplier or provider, and how will that affect your decision regarding future transactions?
3. What do you think the supplier could have done differently?

Now consider your own organization, and apply the same analysis. How easy is it for a dissatisfied customer to complain? How does your organization respond to complaints? Does your organization seek to gather information on the effectiveness of its complaints handling procedure?

Finally, consider how internal customers in your organization are treated. Go through the same procedure as above, both for services that you receive internally, and for those that you provide.
7.3 Purchasing behaviour

The subject of purchasing behaviour and consumer decision-making is large and complex, and extends beyond the scope of this course. We will therefore restrict our discussion to aspects of behaviour which affect the measurement of customer satisfaction.

We referred earlier to the ultimate measure of consumer satisfaction as being that of ‘exit’ – the willingness of the customer to walk away from your product. We also discussed the limitations to the value of the feedback that this provides. Nevertheless, it remains important for an organization to know how its customers are behaving. Unlike some of the topics that have been raised earlier in this unit, the concept of measurement of the level of sales or usage of a product or service is unlikely to be either novel or contentious. In this section therefore we will address only three aspects of this first-order measurement, which we call topicality, relativity and choice.

Topicality

Every organization in some way measures the level of business that it does, be it sales made, patients treated or visitors through the door. It is important that these business measures should be consistent, should be measured at the appropriate level in the distribution chain, and should be as up-to-date as possible. The need for consistency is self-evident. The need to measure at the right point in the chain may be less apparent, but it is important in the context of the timeliness or topicality of the information provided.

A key role for any manager is to observe signals – signs of change in the business, its customers, its competitors or other external factors. Some signals are strong, and only the most myopic or internally focused organizations will fail to pick them up. The successful organization, however, is characterized by the ability to identify weak signals – signs of future changes or discontinuities that are not yet obvious. This can give an organization a substantial competitive advantage.

A change in the pattern of demand for a particular product may well first become apparent at a level that is downstream from the supplier. An obvious example is the demand for agricultural machinery, which will follow movements in the market for crops such as wheat and barley. Although in most businesses these secondary measures may be less apparent, they are likely to be just as important. As a general rule, therefore, you should measure the purchasing behaviour not only of your own customers, but also of their customers.

Included in this are your distributors. It is common for market messages to be delayed because the distributors act as a buffer, either building up stock themselves or failing to pass on information regarding the build-up of stock by their customers, who may indeed be the end-user. For this reason, many organizations now monitor closely the level of sales by distributors. This has been greatly facilitated by the development of electronic data transfer systems such as EPOS.

The other key requirement for identifying weak signals is timeliness. It is a truism in most organizations that forecasting the future is always considerably easier than understanding the present. There is always a time-lag involved in obtaining information on recent performance, and then further time is used analysing and reviewing this information. Paradoxically, modern information technology (IT) does not always help speed up this information. With the power now available, most organizations are more ambitious in their information demands, and
require ever more comprehensive sets of data. These in turn take longer to collect and analyse. It is for this reason that many managers set up their own informal information systems. Although much criticized as ‘quick and dirty’ by their IT colleagues, these informal systems can have the great advantage of timeliness, thus opening the opportunity for early warning and early response. A manager who keeps in good contact with his or her customers is likely to be adept at picking up weak or early signals.

Relativity

A measure of the level of business that an organization is achieving is a necessary but not a sufficient indicator of the purchasing behaviour of its customers. Data on sales, etc. may help monitor performance against internal criteria, although even this comparison is not always made objectively. Budgets should be based on a set of explicit assumptions concerning external events that are beyond the control of the organization, including economic, legislative and competitive factors. If this is not done then budget review meetings can be unsatisfactory events, where success is typically ascribed to professionalism and managerial excellence while shortfalls are due to external factors!

A charity’s ability to raise money, for example, is likely to be affected if there is a major crisis appeal that provides new ‘competition’ in the market for donations. The total market for beer is likely to be depressed if there is a significant increase in the duty on beer relative to other drinks. Both of these events are external to the organization but are likely to influence the level of business that that organization achieves.

Comparisons with budget do little to assess customer satisfaction, nor do they shed any light on the competitive position. Effective organizations will therefore monitor not only their own performance, but also trends in the overall market and the performance of their competitors. This allows them to monitor their own performance in relative as well as in absolute terms. This is most commonly expressed as market share. Without wishing to ascribe too much importance to a single measure, it is difficult to believe that there are many industries where market share should not be a key indicator of performance.

The mechanism for measuring the performance of the market and of the major players within it will vary. In all cases, however, it will be critical to identify correctly the market sector within which an organization is operating. This in turn requires clarity in the understanding of the strengths of the organization and of the differences between customer needs – that is, in which segment of the market is an organization operating?

We can use the Open Business School’s MBA programme as an example. The OBS can be considered to be operating in a market that consists of all MBA providers, or alternatively only distance-taught MBAs. Similarly should it consider its market to be the UK, Europe or the world? Without clarifying these definitions of its market, the OBS is unlikely to be able to come up with a sensible analysis of its performance.

Choice

In all the above discussions lies the implicit assumption that the user or consumer has a choice. Without a choice, the only ‘exit’ available to the customer is to forgo the use of the product or service entirely. Conventional measures of
performance therefore are unlikely to be of value to those organizations that have a monopoly in their market sector. In particular, the measure of market share will have little meaning.

For this reason, it is unlikely that a monopoly supplier would place great emphasis on measurements of purchasing behaviour as being reliable indicators of its effectiveness at meeting its customers’ needs. Traditionally, many monopoly suppliers have not considered the issue of customer needs to be important, and have developed an organizational culture that is focused more on the supplier or provider than the consumer. In commercial organizations this is likely to be reflected in policies of profit maximization or high levels of reinvestment in research or fixed assets: the ethical pharmaceutical industry is an example. In non-commercial organizations, the lack of customer accountability may lead to the establishment of patterns or procedures that are set by professional standards rather than by user needs.

These are not necessarily negative consequences of monopoly. The investment in research by the pharmaceutical industry has led to obvious benefits, and few of us would argue against teachers setting standards in schools or doctors in hospitals. Monopoly and oligopoly can, however, lead to a distancing from user needs, to professional arrogance or to low levels of efficiency or productivity. These can all drive the user to seek alternative solutions to his or her needs – or to accept no solution at all. This is reflected in the UK by the demand for private education and health care, by the growth in homeopathic medicine, and by the failure of a proportion of those eligible to claim social security benefits.

Even with monopolies, therefore, it behoves the supplier to establish mechanisms for monitoring and measuring levels of consumer satisfaction – in their own interests as well as those of consumers and society. The case study of AB Chemicals (in Section 4.2) illustrates the dangers of failing to keep in touch with the customer. The traumatic changes undergone by many of the public sector bodies in the UK in the late 1980s and early 1990s are further evidence of the problems that organizations can face when they become too distanced from the user.
8 Conclusions

In this unit we have addressed the question of performance measurement and the customer. We have reviewed the primacy of the customer to all organizations, and we have discussed the interconnections between an organization’s culture, its roles and procedures and its degree of external focus.

In reviewing the range of measurement techniques that are available to you and your organization, we have distinguished between those that you would use occasionally, those that can form the basis of a regular assessment programme and those that are used as part of continuous monitoring. We have illustrated them with a range of examples from both the private and the public sectors.

On the basis of this analysis, you can now design a customer performance measurement programme for your role in your own organization. The steps in this are straightforward, and are illustrated in Figure 4. As with all marketing programmes, you will want to begin with an analysis of your (internal and external) customers – who they are, what are their needs, and what other sources do they have for the product or service that you offer. If necessary and appropriate, you should categorize your customers into different segments, in each of which the customers have similar needs.

On the basis of your understanding of your customer base, you would then identify the categories of information needed to measure your effectiveness in the provision of your product or service – your effectiveness at meeting their needs, and your effectiveness at doing this better than your competitors.

Figure 4 Customer performance measurement programme
Once your information needs are identified, you must then determine the data needed to provide this information and the best routes to obtain these data. The discussion of the advantages and disadvantages of the different techniques discussed in this unit should help you in making this selection. You will probably draw on techniques from all three of the categories that have been described, but in any event you would expect to do some form of continuous monitoring.

Having established the channels of data and information, it is important to ensure that the results are reviewed and reflected in the organization's strategy and policies. At the same time, there should be a clear communication of policies on customer performance throughout the organization, so that all staff are working to a common understanding of objectives and priorities. This then must be reflected in the criteria used for reward within the organization to ensure consistency and credibility.

**Activity 10**

Identify the key elements of a customer performance measurement programme for your unit within your organization. It should include the three steps described above:

- customer audit
- selection of measurement techniques
- response process.

We hope that this unit has established a base of awareness of the importance of accountability to the customer, on which the following units will build.
References


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Text


Photo

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