This Business Success Metric Eats Utilization For Breakfast in Service Firms

Strategies for building a culture-driven service firm

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Inside this document

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▲ Source: Hiverhq

Introduction

The old saying, "culture eats strategy for breakfast," is one of those aphorisms that makes business managers roll their eyes. After all, in professional services (PS) don't companies succeed by executing well-planned utilization strategies? Keep your professionals fully utilized with billable work and you will make money.

It turns out the answer is "maybe not." Maybe there are good short-term results, offset by occasional dips. Maybe there are new business wins, offset by attrition. Two steps forward, one step back. Maybe clients are mostly stable but they aren't singing your praises. It all depends on how you define success.

But what if your strategy for building a successful and profitable PS business was to create a culture driven by a commitment to customer satisfaction rather than utilization? In such a case, culture is not an irritant to business performance but rather a guiding force for behavior that can increase customer engagement, reduce customer acquisition costs, increase customer retention, generate repeat business and customer referrals.
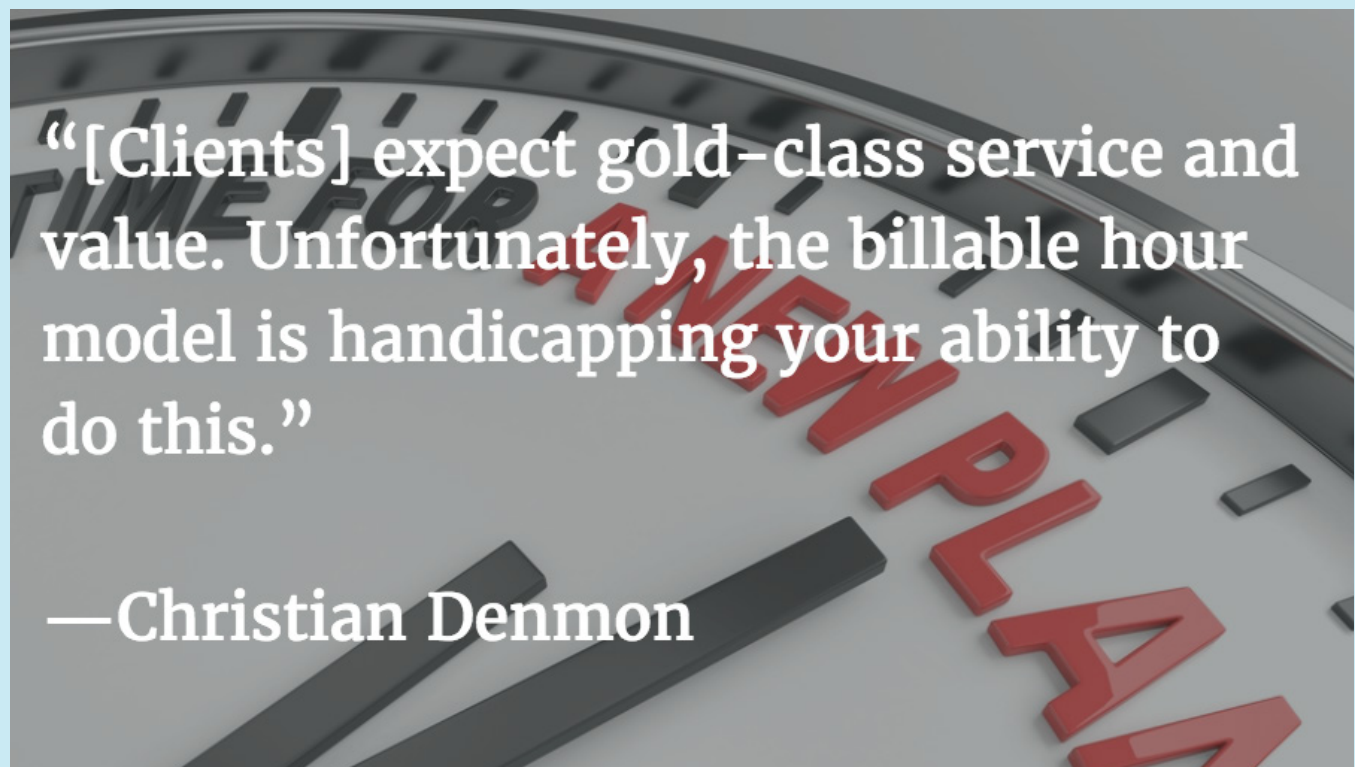
There are plenty of examples of companies that deliver great customer service and are hugely successful. Apple is the most valuable company in the world, approaching $1-trillion in market value, and it is consistently ranked among the leaders in customer service. Other customer service leaders, such as Amazon, Ritz-Carlton, Rackspace, and Southwest Airlines, convert happy customers into profits. Ironically, the online shoe company, Zappos, which used to be the Harvard case study on the business benefits of a customer service culture, saw its culture eroded by a new management style that confused employees as to their primary mission.

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But those companies all sell a product or a personal experience. Professional services firms - law, accounting, technology and business consulting firms, etc. – sell expertise and outcomes. One could argue their clients only care about the outcome, not whether their consultant remembers their birthday.

In fact, it's not an either/or equation. But for the last 70 years, professional services companies have focused on hourly billings as the be-all and end-all of success, trying to create profit by maximizing the number of hours billed by individual professionals.

In today's era of increasingly commoditized services, with many firms offering the same suite, this decades-old utilization model of business management looks short-sighted and risky.

But satisfied, happy customers – very different than uncomplaining customers – are a solid foundation that mitigates much of the risk of competition and business cycles.


"[Clients] expect gold-class service and value. Unfortunately, the billable hour model is handicapping your ability to do this."

—Christian Denmon

▲ Source: Lawyerist

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The art and science of a service culture

Creating a customer service culture requires prioritizing other behaviors ahead of utilization. It requires a different metric - something like Net Promoter Score (NPS), a systematic, regular measurement of customer loyalty.

The NPS survey is one simple question: "how likely is it that you would recommend our company/product/service to a friend?" Respondents are asked to give their answer on a 0-10 scale. Those who award a 9 or 10 are considered promoters. They are likely to be very loyal clients, provide independent recommendations, and buy more often. Those who score themselves a 7 or 8 are considered passives, and those who rank themselves as a 0-6 are considered detractors and are a threat to the relationship.

▼ Source: CheckMarket
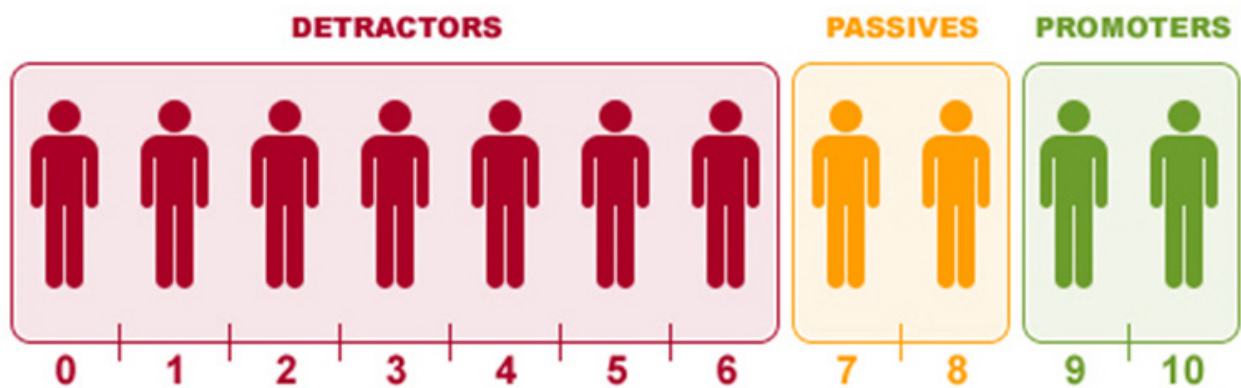
The NPS is not without detractors – but overwhelmingly, evidence supports that client satisfaction metrics are the best predictors of healthy growth.

Today, PS firms that want profitable long-term relationships with clients incorporate continuous client satisfaction measurements into their project management dashboards.

They know it costs a lot more to win a new customer than it does to maintain and expand business with an existing customer.

Forward-looking service firms are even willing to sacrifice a few points of margin on a project if it means a client will come back and recommend them to others.

▲ Source: QuestionPro

Choose your employee brag points: "I bill a lot" or "customers love us"

A customer satisfaction culture also reduces costly employee churn because NPS and other customer satisfaction measurements motivate employees much more than metrics like utilization, which can be a demotivator.

In a client-satisfaction culture, employees feel they have a purpose beyond being a billing machine. That sense of purpose can generate pride and satisfaction in working for an organization that is appreciated by its customers. Having regular conversations with customers about their satisfaction gives the PS organization a better understanding of their customers. These conversations result in behaviors that lead to greater customer retention and often, expanded business opportunities.

Uncomplaining customers may not be happy customers

In terms of customer retention, a quiet customer is not automatically a happy customer. If you wait for them to tell you they are unhappy, the damage has already been done. As uncomfortable as critical conversations can be, if you can make it easy for customers before they have reached a breaking point, they are more likely to give you the opportunity to fix a problem.

Without the conversation, it increases the likelihood they suffer in silence and one day come to a meeting with a contract cancelation letter in hand.

The cost to replace a customer is the sum of all you spend on marketing and sales, as well the revenue lost while you are replacing the customer. Without a reputation for excellent service, it takes a bigger spend on marketing and sales to fill the pipeline, and the likelihood of closing a deal is reduced.

Reputation is your most powerful sales tool

As a new business driver, there is a direct link between strong NPS scores and how an organization is perceived in the marketplace. In today's world of social media, a prospective client doesn't need to check your references to develop a picture of you. Invariably, they can find a defining narrative about your organization on a wide range of websites, blogs and other online media outlets. If you've done a bad job, someone will have written about it. If you've done a fantastic job, someone has probably written about that too.

But a company focused on customer satisfaction actually reduces its cost of acquisition by creating an army of advocates. The more people who are promoting you online to their friends and colleagues, the cheaper it gets as a whole to acquire customers.

With all that said, it is naive to think that creating a culture of customer satisfaction - being known far and wide as a great company to do business with - doesn't take time, money and effort. It cannot be done by an edict from the executive suite: "make our customers more loyal."

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It means taking more measurements and having more possibly uncomfortable conversations. It also means analyzing those scores and listening carefully to those conversations. It means making the results visible throughout your organization and empowering employees to do the right thing. Leadership must decide, does it make more sense to empower an employee to make a decision that has associated costs but retains a client, or to risk that client and the financial repercussions if the client leaves.

It also means training, rewarding, incentivizing and celebrating staff behaviors that are well aligned with the customer satisfaction culture. It may mean adding more support so employees can live the culture. It means creating a corporate mythology; retelling the stories that prove actions are at least as important as words. Every great customer service company has these stories.

It will cost and requires consistent support from leadership. That means when times get tough and the instinct is to fall back to financial metrics, it's still important to look to the future. An organization may be able to squeeze a few points of margin but if the actions to do that undermine the customer satisfaction culture, you might survive the short-term crisis only to find yourself with a bigger problem of unhappy, defecting customers in a few months.

These are some of the reasons business managers may roll their eyes at discussions of culture – it requires time, effort and resources to create and maintain the cultural values that seem soft and fuzzy to numbers people. That being said, it does not have to be a one-size-fits-all culture. A client that spent $5,000 with you eight years ago is probably less impactful to the business than the customer that spends $1-million a year and you may choose different levels of investment into each customer's success. But be transparent with these guidelines and take care not to send the message that good service is optional. If it's not core to the purpose of the organization, it won't stick.

Apple   amazon   NETFLIX

NPS = 72   NPS = 69   NPS = 68

▲ Source: Rentenly

Does utilization still have a place?

▲ Source: Chargify

Yes, but to help with operational planning as opposed functioning as an indicator of departmental success. Forecasting demand and then applying utilization metrics will help you determine your capacity needs. With this, you would be able to answer if you have enough staff for when times are the busiest. You can anticipate the seasonality of your hiring and the associated training efforts, hardware costs, recruitment costs, etc.

You can also determine if it is more cost effective to outsource some of the work instead of hiring more people during peak demand. If you manage all of this in your Corporate Performance Management system (CPM), you will be able to rapidly forecast throughout the year and use utilization as a driver to automatically update all of these areas. This won't just help you keep a pulse on costs, it will also ensure you are carrying the right number of productive people and not a bench of bored staff.

In the end, a strategic decision to build a culture focused on creating enthusiastically satisfied customers will outperform and outgrow one built on maximizing billability and everyone will enjoy the process a lot more. That's a business strategy no one will roll their eyes at.

About Prophix

Prophix develops innovative software that automates critical financial processes such as budgeting, planning, consolidation and reporting — improving a company's profitability and minimizing its risks. Thousands of forward-looking organizations in more than 90 countries use software from Prophix to gain increased visibility and insight into their business performance.

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