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Power Of Service

*Many corporations worldwide look to beating last year's numbers as their sign of success. Raul Pupo, CEO of Technology Infrastructure Solutions, Inc., has a slightly different formula for success. He employs the **Power of Service** to the customer. Raul provides interesting 'how to' reading in this edition.*

CUSTOMER SATISFACTION vs. CUSTOMER LOYALTY

A satisfied customer is not the same thing as a loyal customer. This is more than a distinction of semantics. A customer is satisfied so long as the value derived from the supplier's service exceeds the price the customer pays for the service. Generally speaking, the greater the customer's perception of value, the greater the level of satisfaction. And the greater the level of satisfaction, the stronger the bond between customer and supplier.

In contrast, a customer is loyal if it consistently does business with a supplier. This definition holds irrespective of whether the customer has an opportunity to defect to a competitor. A customer can be loyal, therefore, given an absence of viable competitive options. The lack of alternatives might be the result of unaffordable choices, management fiat that restricts certain supplier choices, regulatory prohibitions, or monopolistic markets.

Clearly, loyal customers might or might not be satisfied customers. Many Microsoft customers, for instance, devoid of desktop operating system alternatives (Microsoft operating systems control 3 out of every 4 personal computers of all makes, and 9 of every 10 Intel-based machines) continue to reward the company with repeat business. This, while at the same time, expressing a great deal of dissatisfaction with many of the software giant's business practices.

A dissatisfied customer, with no meaningful buyer options, can become a nightmare for the supplier. Not only is such a customer ready to bolt the moment the competitive landscape shifts, but in the interim, it is apt to engage in actions hostile to the supplier, these actions can include participating in fifth column efforts to disparage the supplier, resorting to litigation, and generally becoming a costly maintenance headache; all in an attempt to compensate for a position of weakness vis-à-vis the supplier. In such a circumstance, the supplier should hope that a competitor will materialize and take the rancorous customer away!



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Power Of Service (continued)

SERVICE QUALITY, VALUE AND PRICE

Generally speaking, customers perceive value as a function of the benefit derived from the supplier's service in relation to the price paid for the service. This means that a supplier can enhance value by employing one of three strategies:

1. Leveraging service (improving or expanding service)
2. Lowering price
3. Leveraging service and lowering price

It is standard microeconomic theory that customers seek to maximize the utility of a service, and the disutility of price. It is also standard that many suppliers seek to achieve their sales objectives by discounting price. These two factors working together have important ramifications for a supplier's marketing strategy: an effective means for a customer-focused supplier to become distanced from the pack of commodity suppliers is by relying first and foremost on the lever of service to enhance value.

A customer-focused supplier under price pressure by a competitive supplier who has mainly the lever of price with which to impact the customer's perception of value is well-advised to defend margins and force the competitor to compete on service. If that isn't possible, the customer-focused supplier can, of course, respond with its own price-lowering actions but that judgement is best made when all of the factors of the competitive situation (the marketing of strategic value of winning a customer's business, the anticipated customer life-cycle revenues, etc.) are well understood. As a rule, however, the customer-focused supplier is best served by shifting the competitive focus away from price and toward service.

SERVICE QUALITY AND PROFITABILITY

Haskett, et al, in their Harvard Business review article entitled "Putting the Service Profit Chain To Work," describe a process that begins with service quality, progresses through employee and customer satisfaction, and culminates with revenue growth. According to the propositions put forth by the authors, a series of relationships along the chain produce desired outcomes warranted by a service strategy. "Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal and productive employees. Employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers."

A customer-focused supplier provides service leadership, which attracts and retains service-oriented employees. These employees become integrated within the organization's service culture and strive to achieve and maintain satisfied customers which, in turn, results in long-term partnerships. Long-term partnerships are coincident with customer loyalty, which translates into superior revenue growth, operating cost efficiencies, and consequently—profitability.

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