



USING CUSTOMER AND EMPLOYEE FEEDBACK TO DRIVE INCREASED REVENUE AND PROFITABILITY

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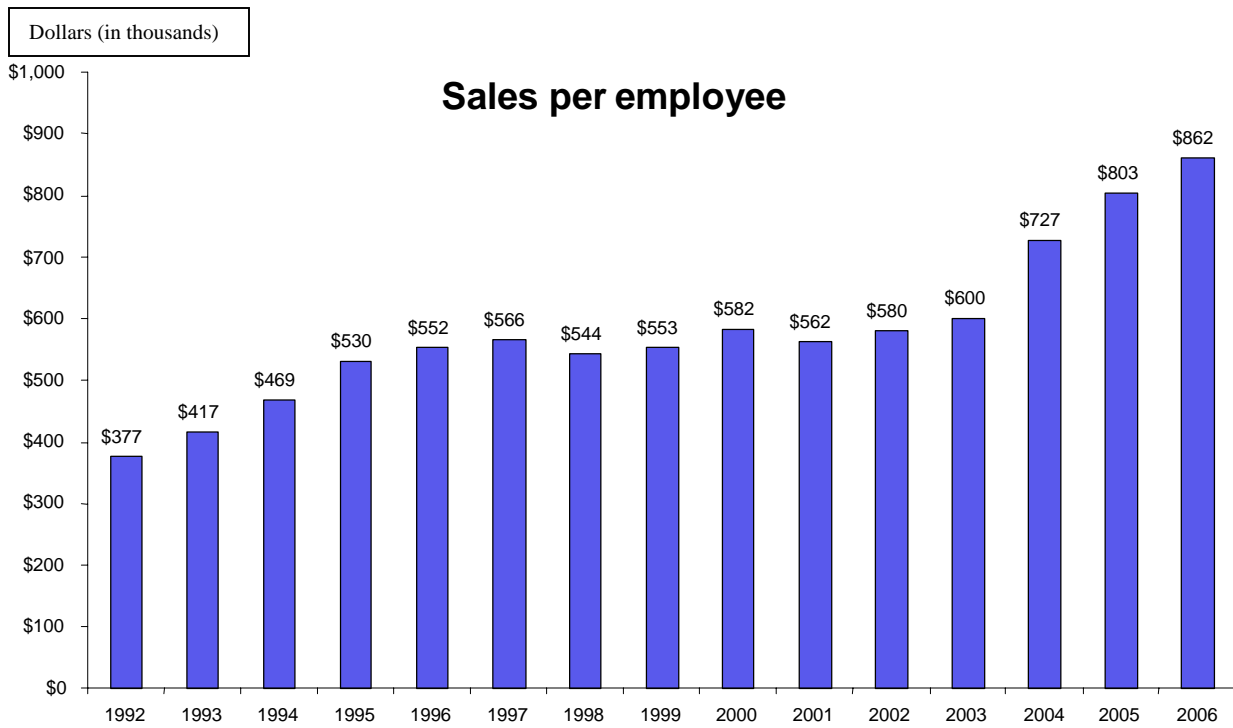
This is the story of a small manufacturing company that made a strategic decision that resulted in one of the highest levels of growth in their industry. The company name used in this story is fictitious but the facts are true.

In the 1970's KXZ Manufacturing was one of the smaller players in a business that included several national giants. Their production capacity was much smaller than some of their large competitors. Rather than compete with these larger competitors on volume and price, KXZ Manufacturing's management team chose the strategy of staying close to its customers and identifying unique customized products. The intent of this strategy was to identify market niches and unique customer needs that would be overlooked by their large competitors.

Pursuing this strategy over the past 20 years, KXZ Manufacturing has outpaced their market in revenue and profitability growth. Not only have they been able to capture and hold on to the low volume customers, but KXZ has also been able to go head-to-head with their large competitors with larger volume, commodity type products.

As an important part of the implementation of this strategy to provide superior customer service, KXZ Manufacturing contracted with Diagnostics Plus to conduct regular customer and employee surveys. The CEO of KXZ Manufacturing reported, "Almost all of the improvements that we have made over the past 15 years have been based on employee and customer feedback that we have received." This comment acknowledges that customer and employee feedback are at the heart of a strategy to improve customer loyalty, employee loyalty and revenue growth.

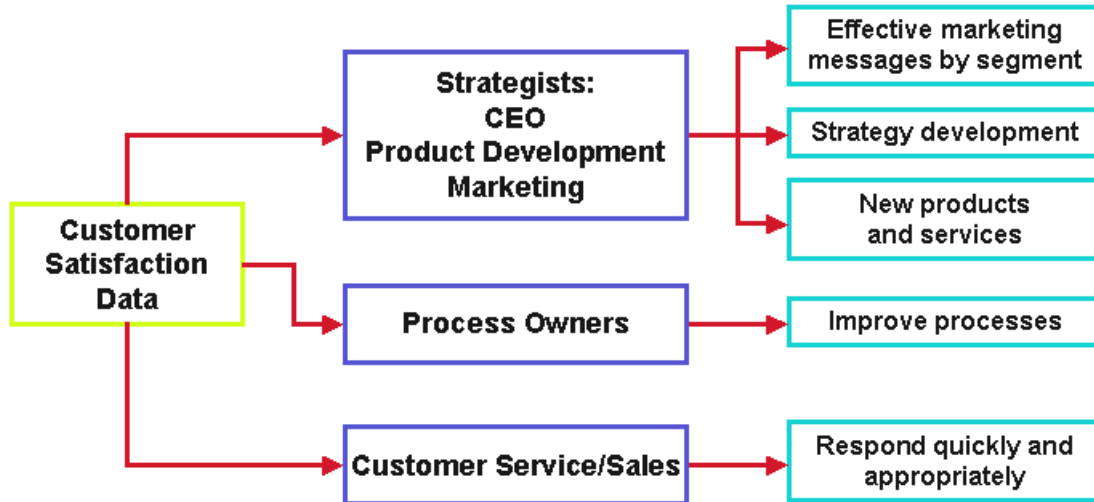
KXZ Manufacturing's dramatic growth in revenue per employee is depicted in the following growth, which shows a 228% increase from 1992 to the present time.



KXZ Manufacturing has excelled at making use of the results of customer surveys to improve their competitive position in the eyes of their customers and potential customers. The following diagram shows the different ways that customer feedback data have been used in decision making. KYZ has chosen a simple and direct approach to manage their company's growth. They have developed a disciplined approach to obtaining good customer and employee feedback and have used this information to drive change that has improved their quality and their efficiency.

Customer Research

Customer feedback must be disseminated throughout the organization



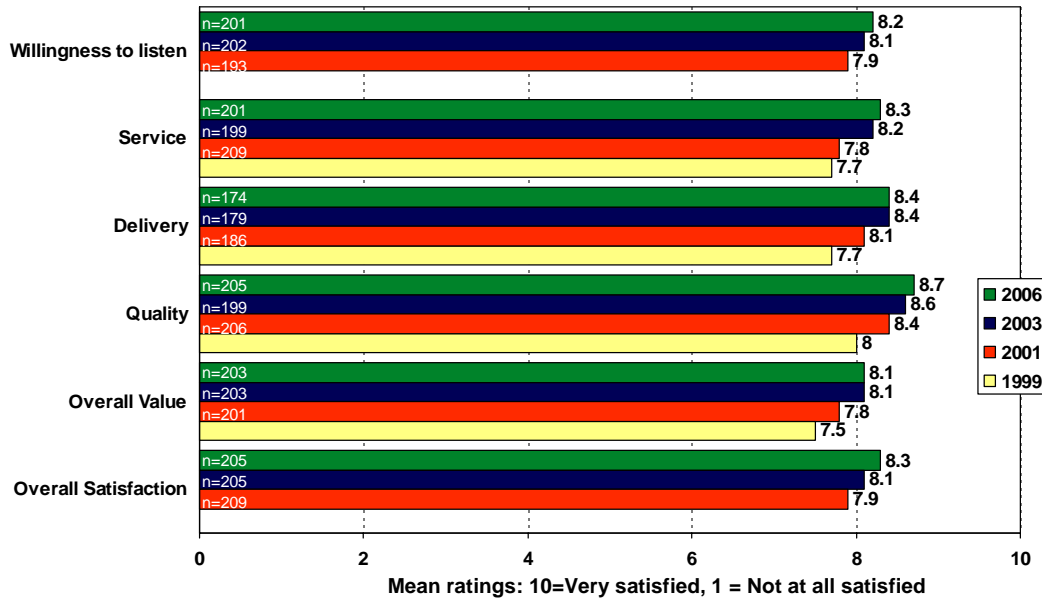
CUSTOMER FEEDBACK AND KXZ MANUFACTURING'S SUCCESS

Customer feedback can be used to guide decision making at three levels: strategic; process improvement; individual customer. At the **strategic level**, the customer feedback provides a picture of how a company is positioned in the minds of the market place in relation to their competitors. If a company's goal is to become a high quality, high service company with a premium price, the customer feedback can identify the extent to which that position has been obtained, and which competitors are most threatening to that position. At a **process improvement** level, the customer feedback indicates those processes that, if improved, will have the greatest impact on customer satisfaction and loyalty. At the **individual customer** level, the customer feedback indicates issues that should be addressed to enhance individual relationships and increase customer loyalty.

Consistent Improvement. The customer feedback results for KXZ Manufacturing can be analyzed at the strategic positioning level by looking at the results of perceptions on five general factors: quality, service, delivery, value, willingness to listen, and overall satisfaction. The following graph shows the KXZ Manufacturing customer survey results for these general factors over the period 2001 to 2006. Although customer feedback was obtained prior to 2001, a methodological change in 2001 makes comparisons to pre-2001 data problematic. In addition to these general factor ratings, KXZ Manufacturing obtained feedback on specific features that define more precisely the actionable components of these general factors. On all of these general factors below, KXZ Manufacturing has shown consistent increases over the period 2001 to 2006.

Consistent Improvement in General Satisfaction Ratings – KXZ Manufacturing, 1999-2006.

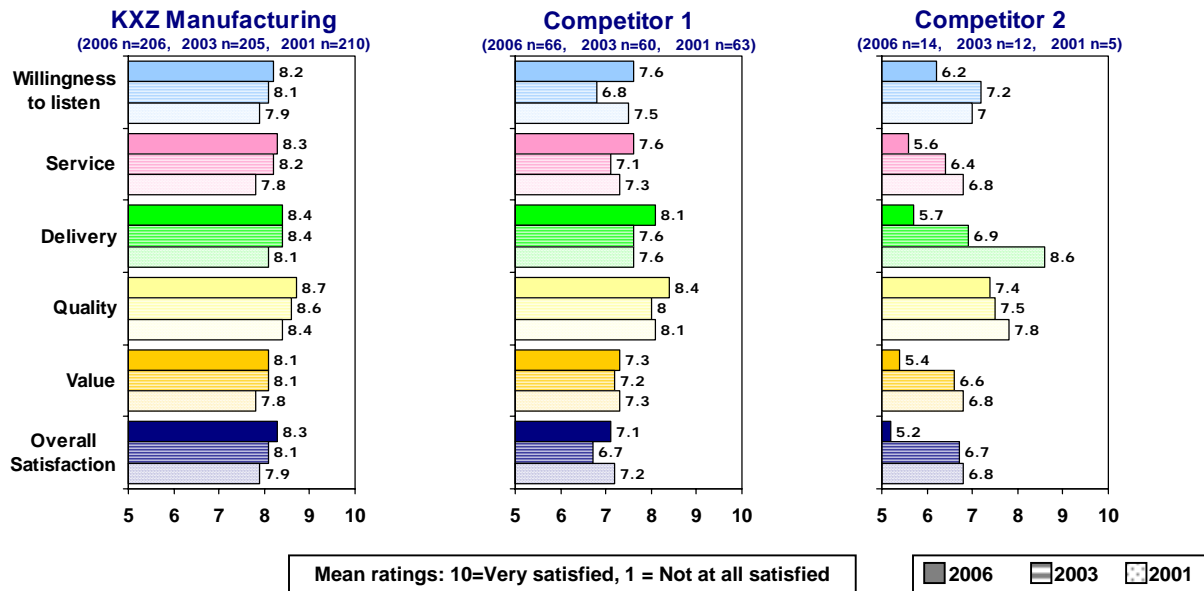
24_a-30_a. How satisfied are you with ... ?



Improved Competitive Positioning. KXZ Manufacturing has also shown consistent improvement in relation to its major competitors. The following graph shows a comparison to its major competitors at three different points in time, indicating that KXZ Manufacturing is achieving its strategic positioning goal of being perceived as a high quality – high service company.

KXZ Manufacturing Improves Competitive Positioning

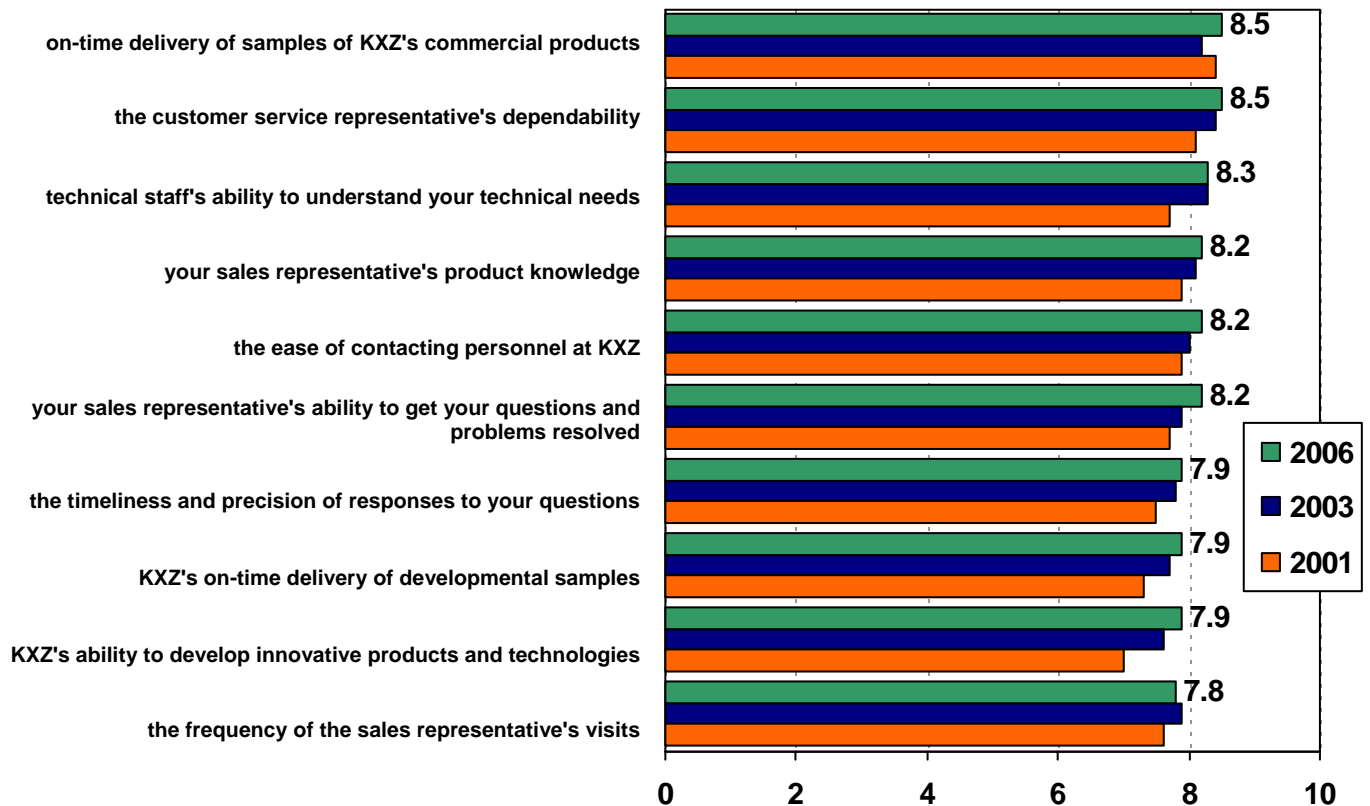
24-29. How satisfied are you with ... ?



Diagnostics Plus worked with KXZ Manufacturing to define the specific product and service features that were most important to their customers. This list of features is developed by answering the question “What product and service features have the greatest influence on a customer’s choice of suppliers?” Answering that question is one of the most important benefits of constructing a customer survey. The following graph shows some of the features that were identified by KXZ Manufacturing and the results over the period 2001 to 2006.

Satisfaction Ratings On Actionable Product and Service Features

How satisfied are you with ... ?



Taking Action. KXZ Manufacturing's Director of Quality is responsible for analyzing the customer feedback results to identify those issues that will be the focus of an improvement activity. To assist in this task, Diagnostics Plus' analyses identified those product and service features that were the strongest predictors of customer satisfaction and loyalty. Those key drivers that show below average customer satisfaction become the prime candidates for an improvement program. In addition to the overall ratings given to a specific feature, follow-up questions are asked about how to improve features that receive low ratings. This yields a large number of specific suggestions for improvement from the customers. A team of people within the company is identified and charged with developing a corporate response to address the key driver issues. This team reports to the senior management team to obtain approval for the response program and later to report on the success of the implementation.

Response to Innovation Perceptions. In 2001 an initiative was launched in response to the relatively low satisfaction scores on “the ability of KXZ Manufacturing to develop innovative products and technologies.” The KXZ response team decided that the low satisfaction resulted from insufficient communication related to the continued flow of innovative products and technologies that were being introduced. The New Product Communication Team used e-mail campaigns and web technology to target technical contacts at their customer companies. This effort also made it easier to order new product samples, request additional information, and contact KXZ technical specialists. In 2006 the satisfaction level of customers related to KXZ innovation was significantly improved.

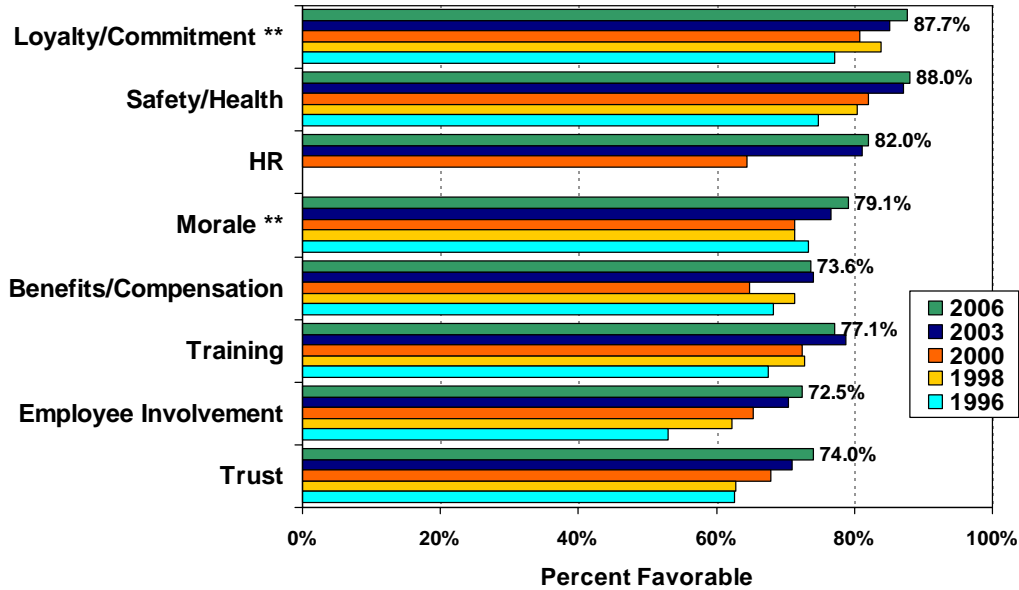
Website Improvements: Each customer survey asked for feedback to improve the KXZ website. A Website Improvement Team analyzed each customer suggestion. Changes were made in the website to make it easier for customers to order samples on-line. A variety of product related technical information was added to the website in response to customer requests. Each successive customer survey shows significant improvement in customers’ perceptions of the KXZ website.

Sales group: The KXZ customer survey yielded individual company reports that were read by the VP of Sales and his sales teams. A number of changes were made in assigning sales people to accounts in order to improve the relationship between the skills and styles of the sales people with the needs of the customers. The VP of Sales reported that there were “significant improvements in relationships” that occurred as a result of responding to specific customer responses about their relationship with the sales part of the organization.

EMPLOYEE FEEDBACK

The KXZ Manufacturing employee survey was structured in a way that was parallel to the customer survey. The employee survey measured the employees’ perceptions of general factors, such as morale, communication, performance of supervisors and general management. As in the customer survey, the employee survey also measured specific factors that were predictors of overall employee satisfaction. By correlating the results of these specific factors with overall satisfaction, the primary improvement issues were identified following each administration. The results for eight of the general factors from the employee survey are presented below.

Improved Employee Satisfaction, 1996-2006

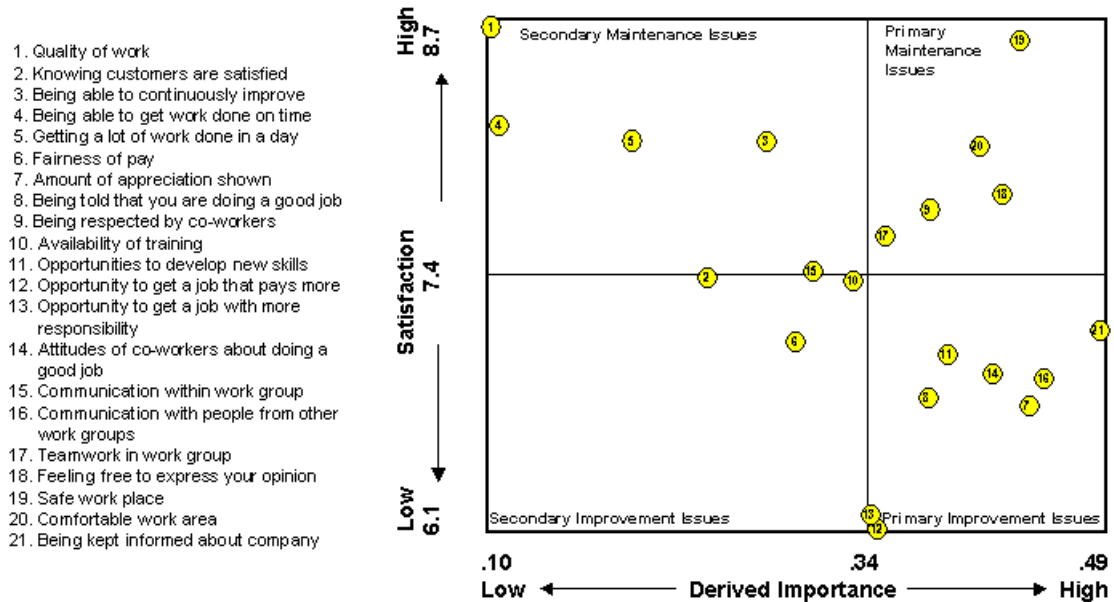


* The items used to assess this topic in 1996 were slightly different than those used in 1998 and 2000. Otherwise all comparisons are based on the same set of items within a topic.

The results of a strategic improvement analysis from the 2006 employee survey are shown in the next graph. The items in the lower right quadrant are the candidates for a continuous improvement effort aimed at improving an employee issue that shows below average satisfaction and a strong correlation with overall satisfaction.

Strategic Improvement Map

Total Group



This analysis showed that employee satisfaction with “amount of appreciation shown” (item 7) and “communication with people from other work groups” (item 16) and “being kept informed about company changes” (item 21) were aspects of employees’ lives that were below average in satisfaction and above average in terms of their predictability of overall satisfaction. In the 2006 Employee Survey, these items became candidates for improvement programs because improvement in these areas would have the biggest effect on improving overall employee satisfaction and loyalty.

Over the past 10 years a number of employee focused initiatives have been undertaken in response to the employee survey results.

Supervisory Training. In 2000, items related to supervisory behavior were rated below average by employees. A training program was initiated, beginning with upper management, then expanded to middle management and all supervisors. This training focused on listening skills and providing performance feedback. Subsequent employee surveys have shown significant increases in satisfaction with those aspects of supervisory behavior.

Recognition and Rewards. A Recognition Team was formed after the 1996 survey to improve the ways that KXZ could recognize exemplary employee behavior and communicate to employees that their positive efforts had been noticed and were appreciated. This team looked for benchmarking examples in

other companies and initiated a wide range of activities to give people special recognition for teamwork, high quality work and extra effort.

SUMMARY

While using the customer and employee survey results to drive continuous improvement, KXZ Manufacturing has shown exceptionally strong improvements in revenue and profitability. Not only did KXZ Manufacturing achieve success in providing unique, customized services and products, but by developing a responsive customer feedback program, it was able to retain and grow its high volume, commodity business as well. During the past ten years, KXZ Manufacturing has used customer and employee research provided by Diagnostics Plus to identify those improvements that will have the greatest positive impact on customer and employee loyalty. More importantly, they have developed a systematic approach for analyzing the survey results and translating those results into actions that leverage both employee and customer loyalty. As a result, they have achieved an enviable record of growth in customer satisfaction, employee satisfaction, revenue and profitability.

Diagnosics Plus Research

Diagnosics Plus is an organization specializing in assessing and analyzing customer and employee satisfaction and loyalty data. To conduct a study or to obtain a proposal for conducting such a study, contact Trish Evanitsky (tevanitsky@diagnosicsplus.com) or Jim Fong (jimf@diagnosicsplus.com) at (814) 234-2344, extensions 226 and 225 respectively.

Diagnosics Plus can also assist companies by conducting market research and product development research. The overall purpose of this research is to provide companies with the information they need to become more competitive and increase their market share.

Paul Weener is CEO and Founder of Diagnosics Plus. Prior to starting the company, Paul served on the faculty of Penn State for 17 years in Educational Psychology with an emphasis on psychological measurement and research methodology. He also served as Director of Organizational Diagnostics for the Alexander Proudfoot Consulting Company for three years, based primarily in Brussels, Belgium. Paul holds a PhD in Educational Psychology from the University of Michigan and has a Bachelors Degree in Mathematics from Calvin College (Michigan).

Trish Evanitsky is the Director of Employee Research. Trish leads a number of staff on project teams, as well as research related to employee satisfaction and organizational assessment. She has nearly two decades of experience in the market and employee research field.