



This Business Success Metric Eats Utilization for Breakfast in Service Firms

Strategies for building a culture-driven service firm



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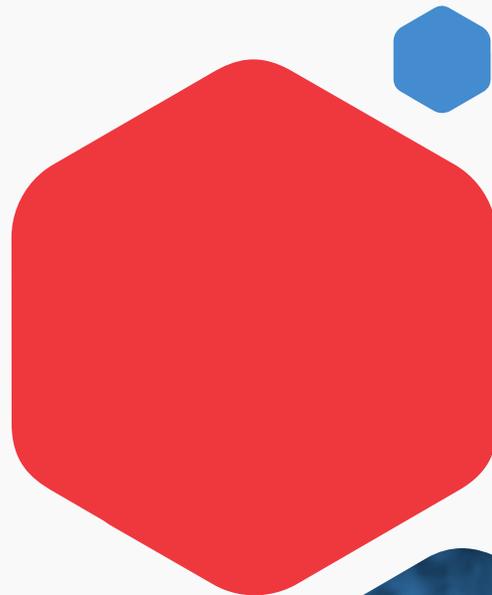


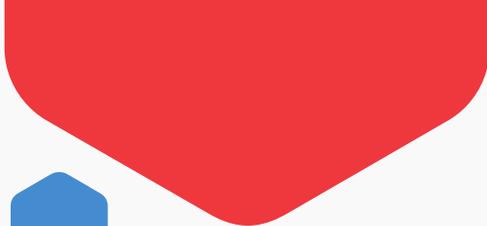
Introduction

“Culture eats strategy for breakfast,” is one of those sayings 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 and generate repeat business and customer referrals.





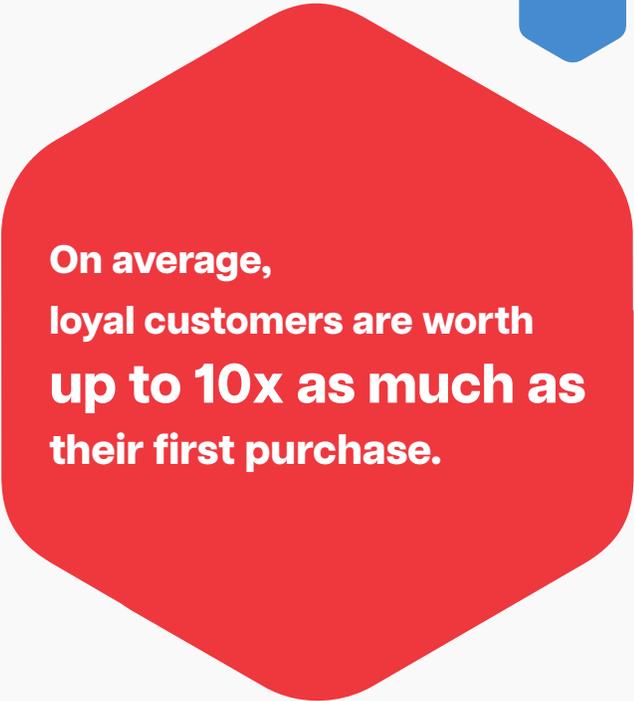
There are plenty of companies that deliver great customer service and are hugely successful. Apple is the most valuable company in the world, approaching \$1-trillion in market value, and it is consistently ranked among the leaders in customer service. Other customer service leaders, such as Amazon, Ritz-Carlton and Rackspace, 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.

But those companies all sell a product or a personal experience. Professional services firms – like architecture, engineering, technology, and business consulting firms – 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 quiet customers – are a solid foundation that mitigates much of the risk of competition and business cycles.



**On average,
loyal customers are worth
up to 10x as much as
their first purchase.**

Source: <https://www.nicereply.com/blog/importance-of-customer-satisfaction/>

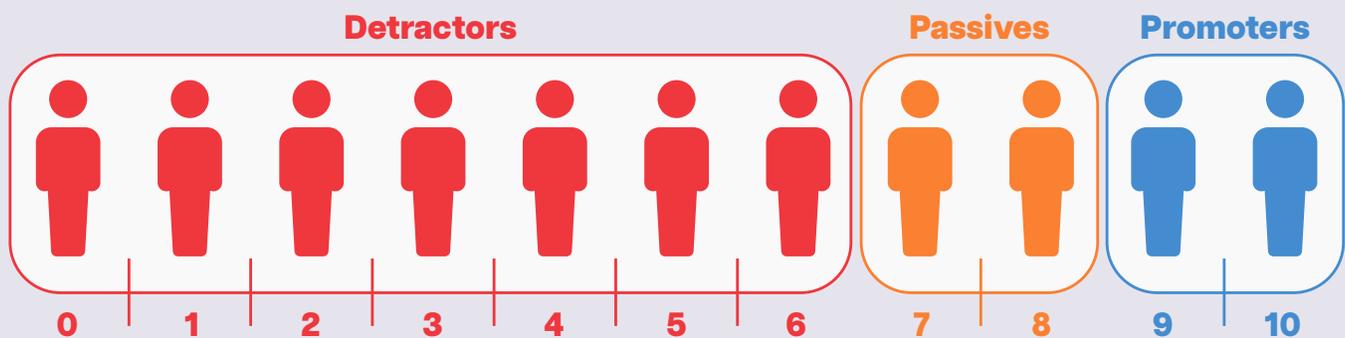


The art and science of a service culture

The art and science of a service culture

Creating a customer service culture requires prioritizing other behaviors ahead of utilization. It requires a metric 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.

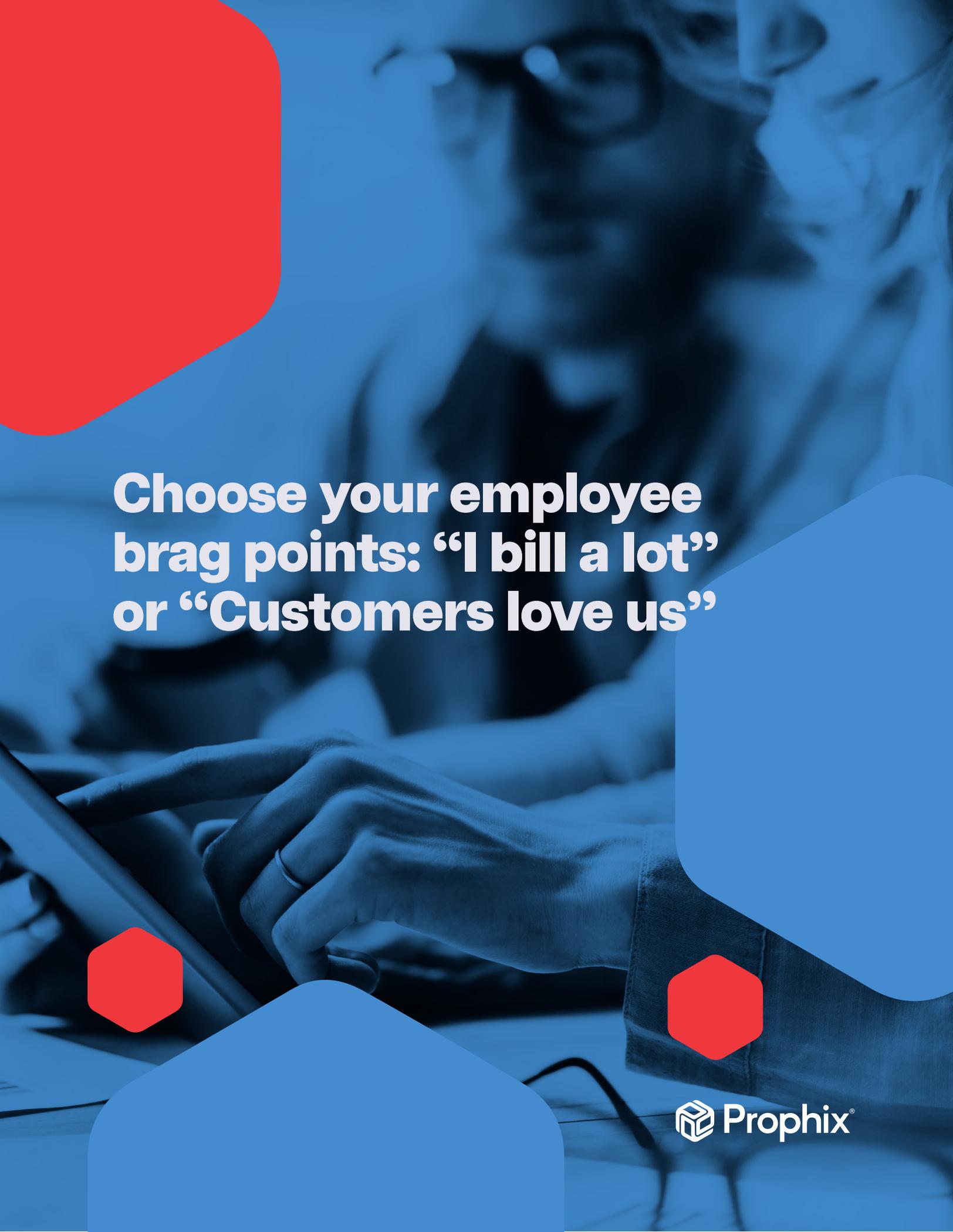


The NPS is not without detractors – but overwhelmingly, evidence supports that client satisfaction metrics are the best predictors of healthy growth.

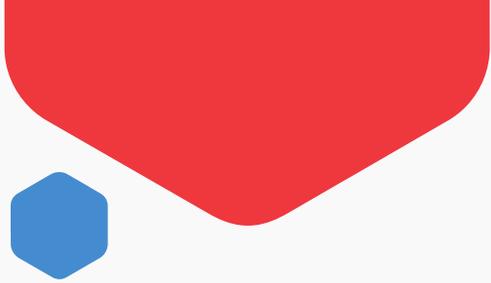
Today, PS firms that want profitable long-term relationships with clients incorporate continuous client satisfaction measurements into their project management dashboards.

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.



**Choose your employee
brag points: “I bill a lot”
or “Customers love us”**



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.

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.

What can NPS Tell Me?

Leading indicator of growth

Measures customer retention and advocacy

Quantifies customer loyalty

What Doesn't NPS Do?

Doesn't help you understand individual interactions or events

Doesn't tell you the “why”

Doesn't accurately predict success



**Quiet customers
may not be happy
customers**



Quiet 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. These conversations can be uncomfortable. If you can speak to your customers before they reach a breaking point, they are more likely to give you an opportunity to fix the 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 finding a new customer. A reputation for excellent service can reduce the spend on marketing and sales to fill the pipeline, and increases the likelihood of closing a deal.





**Reputation is
your most powerful
sales tool**



 **Prophix[®]**

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.

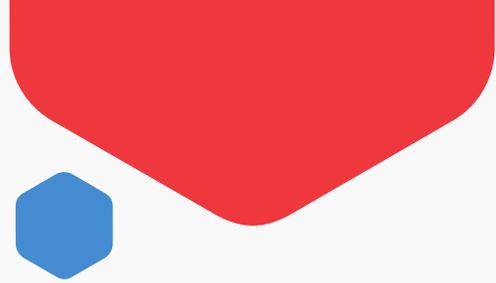
Invariably, they can find a defining narrative about your organization on a wide range of websites, blogs and other online media outlets. If you've done a bad job, someone will have written about it. If you've done a fantastic job, someone has probably written about that too.

It means taking more measurements and having 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.

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."





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.

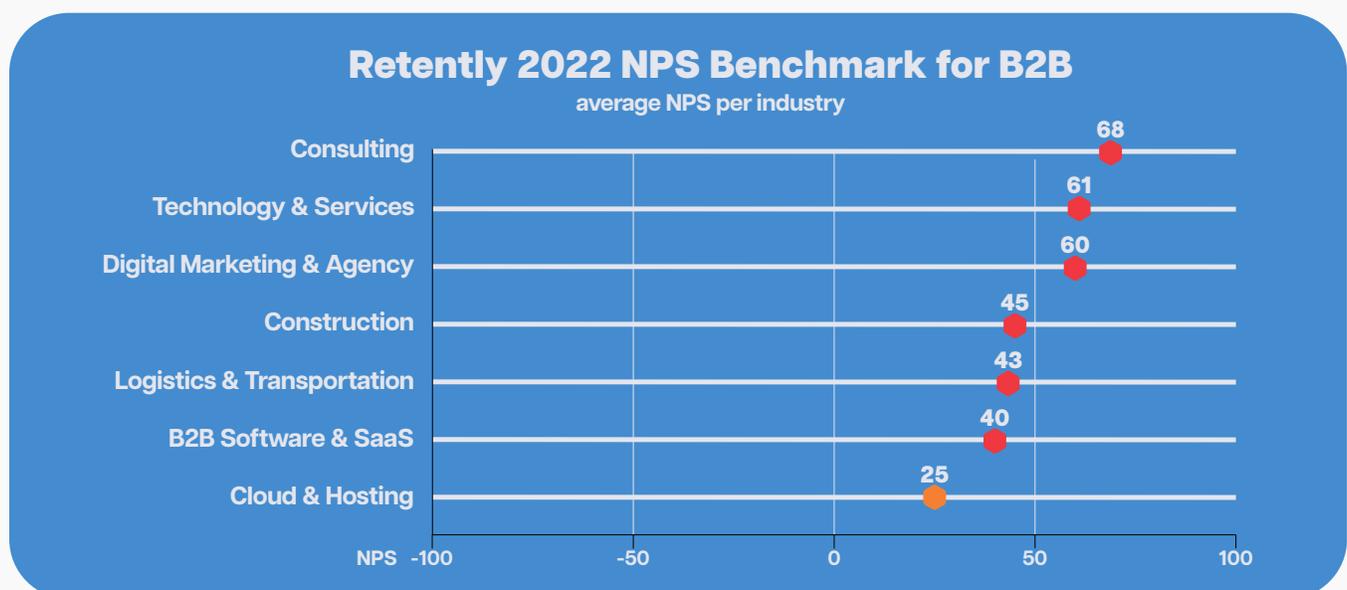
It also means training, rewarding, incentivizing and celebrating staff behaviors that are well aligned with the customer satisfaction culture. It may mean adding more support so employees can live the culture. It means creating a corporate mythology; retelling the stories that prove actions are at least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

It will come with a 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. While one-size-fits-all might not apply to the amount of money your customers spend with you, the experience you give your customers should be the same across the board. A customer that spent \$5,000 a decade ago might still talk highly about and recommend your business to everyone because of the experience you provided them with. The investment you make into your customer's experience, regardless of the amount of money they spent, can go a long way for your success. Good service isn't optional, it's required. If it's not core to the purpose of the organization, it won't stick.





**Does utilization
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Does utilization still have a place?

Yes, but to help with operational planning and management as opposed to functioning as an indicator of departmental success. Forecasting demand and then applying utilization metrics will help you determine your capacity needs. With this information, multiple levels of analysis can be completed.

Developing your ideal billing rate becomes formulaic. Profitability by customer becomes clear and not all customers are equal. You can boost your profitability by understanding the utilization rate for each customer and identifying those that are performing below your ideal threshold. This analysis will increase your ability to identify your ideal customer.

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, and recruitment costs. You can also determine if it is more cost effective to outsource some of the work instead of hiring more people during peak demand. 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 bunch of bored staff.

If you manage all of this in your Financial Performance Platform, you will be able to rapidly forecast throughout the year and use utilization as a driver to automatically update all of these areas.

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



About Prophix

Your business is evolving. And the way you plan your business activities and report on them should evolve too. To empower mid-market companies to achieve their goals, Prophix provides an integrated, cloud-based platform to the Office of Finance; one that delivers planning, budgeting, reporting, forecasting and consolidation solutions. With Prophix, finance leaders improve profitability and minimize risk and puts the focus back on what matters most – uncovering business opportunities. Prophix supports your future with AI innovations that adapts to meet your strategic realities, today and tomorrow. Over 2,500 active customers around the globe rely on Prophix to transform the way they work.

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