A New Approach to Customer Satisfaction Improvement

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Customer Processworks ™

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A New Approach to Customer Satisfaction Improvement

- Professional services firms have historically focused on client solutions in which they have expertise; for example:
  - McKinsey, Bain, BCG promote strategy solutions
  - Accenture, IBM, Oracle promote information systems solutions
  - Companies such as A.G. Edwards and the Big 4 accounting firms focus on financial solutions
  - Mercer, Towers-Perrin focus on human resource solutions
  - J.D. Power, R.L. Polk, A.C. Nielsen promote information solutions

- This makes sense because each firm wants to lead with its strengths!

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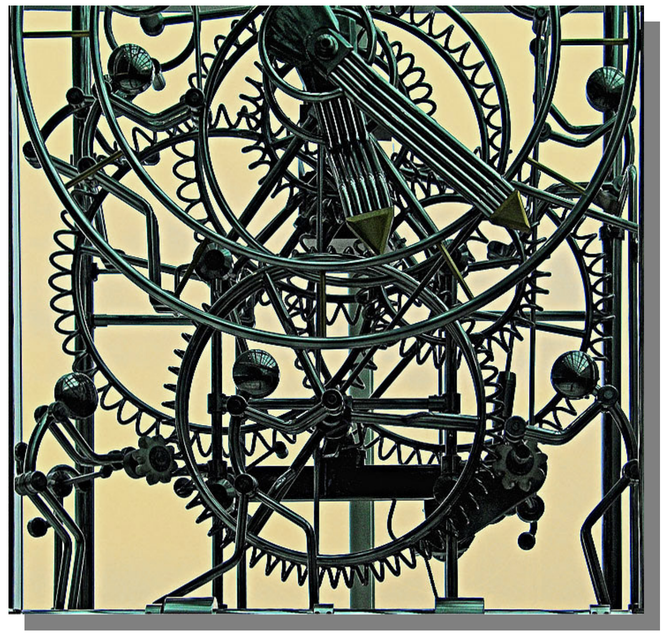
- However, there are a couple of weaknesses with this approach:
  - Business issues are more complex than single solutions can successfully address
  - Business leaders understand this and are looking for more comprehensive solutions



- Yes this presents an opportunity for organizations to improve both:
  - Customer Satisfaction

    and

  - Business Performance

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- First of all, it's important to understand that the average U.S. automobile dealership is under tremendous financial pressure
  - NADA financial data for 2006 showed the following mismatch between U.S. dealership revenue and gross profit:

Department	Revenue %	Gross Profit %
New Vehicle Sales	59%	-5%
Used Vehicle Sales	29%	28%
Service and Parts	12%	77%

    - In other words, 3/4th of dealership profitability is generated by about 1/8th of the business
  - In 2006 the typical U.S. dealership generated $32 million in sales and about $ .5 million in net profit before taxes; that's a 1.5% annual profit margin
    - This means the typical dealer—who thinks in monthly terms—is writing checks for about $2.61 million every month while earning $2.65 million to cover those costs and expenses

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- Given the background of these financial pressures, here's what you see in a typical dealership:
  - Management relies heavily on incentive and commission pay plans in order to reduce its largest expense (personnel = 8% of total sales but 65% of expenses)
  - Incentive and commission pay plans do not attract stable, high-quality personnel

  - Recognizing the quality of the people they are hiring, dealership owners put in place highly compensated and aggressive management teams that:
    - Focus everyone's job on sales and profitability
    - Keep a tight leash on their employees (e.g., forbidding decision-making on the part of most employees)
    - Have little background or interest in managing process or developing people

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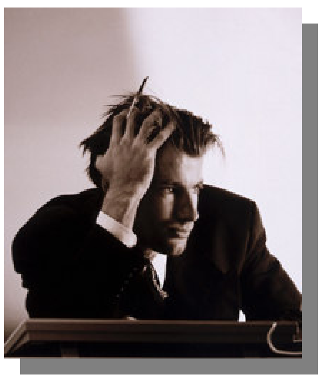
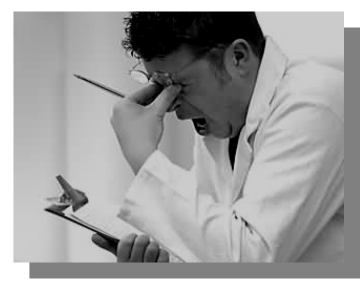
- What you see in a typical dealership… (continued)
  - Employees interacting with customers tend to be ineffective in sales and service positions
    - Due to who they are in the first place, the uncertainty of their incomes, and the fact that they are not permitted to work autonomously, as most other adults do



  - Customer experiences are not good enough for customers to remain loyal to the dealership or recommend others to do business with the store:
    - Employees always seem to be new, lacking knowledge of products, services, and dealership operations
    - Business processes are designed to generate sales and profitability, and not to give customers positive buying and service experiences
  - Employee experiences are not good either—because of the nature of their jobs and inability to earn livable wages—so they are not loyal to the dealership either



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- What you see in a typical dealership… (continued)
  - Dealership expenses rise:
    - Managers who are effective at manufacturing profitability with low skilled employees are very expensive, some on the sales side costing $250,000 and more per year
    - Advertising and promotion expenses climb because the dealership can't generate repeat or referral business
    - Hiring and training expenses climb as employees defect for other jobs (and often *any* other job)
    - Good will expenses increase as customers have bad experiences for which they demand compensation
    - The lack of process, controls, and consistency bleeds into the business office where operations are reactive and incapable of taking advantage of standard cost reduction, loss prevention, and asset management techniques

  - And the cycle continues…

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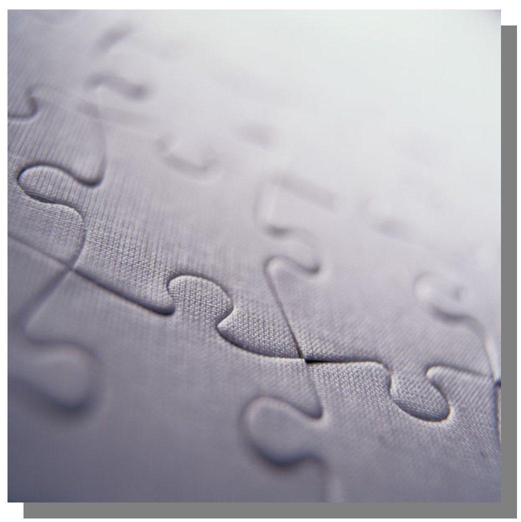
- So in reality, what's needed is a solution that integrates:
  - Dealership profitability,
  - Effective and consistent business process,
  - Employee retention,

    ~ and ~
  - Customer satisfaction, loyalty, and advocacy



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- What the new approach to improving customer satisfaction looks like:
  - Instituting financial management systems to kick-start the process by generating additional profitability…
  - Replacing high-priced management rock stars—to generate even more profitability—with people-oriented professional managers focused on…
    - Hiring and developing more qualified and professional employees
    - Instituting and managing customer- and employee-satisfying business processes
  - So that customers have better buying and service experiences…
  - And remain loyal to the dealership while bringing in referral business…
  - And so that employees can be treated like adults, enjoy their jobs, and earn a decent living…
  - And remain loyal to the dealership while continuing to improve their knowledge and skills
  - All of which increases dealership revenues while lowering advertising, human resource, and policy expenses

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- What this looks like: (continued)