

# SoftwareCEO Exclusives

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## Service, schmervice: Happy customers don't matter; it's the *loyal* ones who'll make or break your software firm

by [Bruce Hadley](#), Founder, **SoftwareCEO**

If we lined up 100 software CEOs and asked them about the level of customer service their companies provide, what do you think they'd say?

Here's our bet: At least half of them would say they provide "great" or "excellent" service; in fact, they'd highlight it as a competitive advantage, a distinguishing part of their value proposition.

And the other half of our hypothetical 100? They'd claim to provide good service. Count on it.

So, if *all* software companies provide good or great service, why do we keep running into tech reps who can't solve our problems, service reps who won't issue refunds, and "black hole" websites with no contact information?

And if all software companies claim the same thing, how can you verify that your service really *is* that good?

Finally — and perhaps most important — how do you know whether your great service makes its way to the bottom line? After all, it's well and good to serve customers, but if there's no profit in it, you won't be around long to serve anyone.

To hack our way through these thorny issues of customer satisfaction and retention, we went to two sources:

- Tony Arias, a rags-to-riches-to-rags-to-riches software entrepreneur who claims that all his success — and it's pretty remarkable success, with the awards to back it up — is based on superior service; and
- Robert Dubicki, who's spent a ton of time analyzing how service and support translate into loyalty, which in turn translates into revenue. His company, [The Agili-T Group](#), helps software firms fine-tune customer lifecycle profitability.

Let's start with Arias.

His software company, [NCG Medical Systems](#), with 28 employees in Altamonte Springs, Fla., was just voted #1 in customer satisfaction by the [Professional Association of Health Care Office Management](#), an industry group with 3,000 members.

And NCG manages to combine great service with fast-track growth: Revenues grew 30 percent last year, and the company was named one of Orlando 's Top 25 technology businesses a couple of years ago.

But it's the human interest side of this story that perhaps explains why Arias is so driven to give back to the customers who give to him.

### From rags...

At the age of 12, Tony Arias left his home and family in Cuba as part of Operation Pedro Pan.

This was a clandestine operation coordinated by the CIA and Cuban

dissidents between 1960 and 1962 in which over 14,000 children were sent to the U.S. by their families in Cuba. Like many of these children, Arias arrived in Miami with no money, no family, no home, and only the possessions in his suitcase.

A year later, Arias moved to Aquadilla, Puerto Rico with an aunt and uncle; they were the first Cuban refugees to relocate in Aquadilla. He completed his education there, built and sold a successful CPA business, and started developing software.

### **To riches...**

"This will really date me, but I started out as an **IBM** Third Party Programmer," he says. "In the late 1970s, they would sell the hardware, and they would refer to us the software sale. That's how I started.

"Basically, I resold other people's software and developed my own. I was more a service-oriented entity -- and that was my fort é -- providing good service and implementation."

In the early 1980s, with the advent of the IBM PC, Arias was granted an IBM PC dealership, so he packed up his wife and three children and moved to Orlando to open a computer retail store.

### **To rags again.**

Unfortunately, IBM also recruited lots of competition, all within a small geographic area. "We were supposed to make a lot of money, but I lost my shirt," Arias says, then reconsiders: "No, I lost everything."

To this day, Arias counts that as the single biggest mistake he's made in the business: abandoning the development and service side to sell someone else's product rather than his own.

Today, NCG occupies an enviable niche: medical billing and electronic medical records (EMR) software for small to mid-size offices. An average invoice is \$20,000, on a perpetual license with annual maintenance fees between 10 and 20 percent per year.

"President Bush just went on record a few months ago and said he wants all the doctors in the nation to have an EMR system within 10 years," Arias says.

"We saw that coming several years ago, since we already knew the healthcare market. The practice management software market is 95 to 97 percent penetrated, but the EMR market is only about 10 percent — in other words, 90 percent of the doctors out there still need it."

### **Happy camper strategy #1: Use superior service as a selling point.**

NCG competes with large companies with large arsenals — for example, **GE**, **Misys**, and **WebMD** — but this doesn't worry Arias. In fact, there's a chink in the armor here where he figures his superior service will win the war.

"My competitors do well in the very large clinics, the ones that have 100 doctors or more. We can really cater to the needs of the small offices. Most of my business comes from people who had software from one of the larger competitors, and they convert to ours — because service is so key.

"Even if you go back 20 years ago, the best software is only as good as its support; this has always been true. You can have great software, but the users will not be satisfied if the support is not there."

For Arias, therefore, the Field of Dreams mantra is not "build a great product and they will come," but, rather, "build in great service, and the business will come."

For him, it's as simple as this: "Make sure your clients are happy, because those are the ones that are going to get you other clients."

But is this true? Is building a business as simple as keeping the customer

satisfied? Yes and no, says Robert Dubicki.

"According to research by **IntelliQuest**, most users of technology report a high degree of satisfaction," he says, "but there is no statistically significant difference between the satisfaction scores of the top brands.

"IT satisfaction scores, based on customer surveys, hover around 82 to 86 percent, according to studies by research firm **Walker Information** in [2002](#) and [2004](#).

"But customer satisfaction requires a context: Are your customers early adopters or are you in a mature market with many competitors? Are the switching costs high? Have you just introduced a major new product upgrade?

"These all have a bearing upon the levels of satisfaction in your customer base."

### **Happy camper strategy #2: Don't confuse satisfaction with loyalty.**

"A 'satisfied' score is indicative of simply meeting baseline requirements," Dubicki says.

"In other words, you are par for the course. 'Satisfaction' is a reflection of the past, an attitude, but is not a good predictor of future customer behavior. Customer loyalty is a better predictor of behavior.

"In fact, research by **Bain & Co.** found that 60 to 80 percent of 'lost' customers reported in a survey — *just prior to defecting* — that they were 'satisfied' or 'very satisfied.' Looking only at satisfaction provides an incomplete picture."

OK, then what's the answer? How do we get at meaningful predictors of the relationship between satisfaction and sales?

"There are lot of people who talk about satisfaction and loyalty, but they're two different things," Dubicki says. "If you just look at satisfaction all by itself, it doesn't really mean anything."

### **Happy camper strategy #3: To make the transition from satisfaction to loyalty, you need to know what it looks like.**

As Dubicki points out, "satisfied" does not necessarily mean "loyal." The former makes you feel good; the latter makes you money.

Loyal customers, says Dubicki:

- Buy more
- Typically pay more
- Buy more often
- Recommend more
- Provide free advertising/promotion
- Provide valuable referrals
- Stay with you longer
- Present opportunities to cross-sell and up-sell
- Are lower risk to competitive threats
- Cost five to 10 times less to sell to than new prospects

"There's considerable market research that supports all of this," he says.

"['Loyalty Rules'](#) by Fred Reichheld is a great book to get started on the subject."

That's a nice list and a nice idea, but what, exactly, is customer loyalty? How do you know when you've got it?

Dubicki defines loyalty as an *emotional* attachment to a company brand, product or service. Loyalty may represent:

- A high degree of satisfaction
- Expected continued use of a product or service
- An intent to repurchase in the future

- A willingness to make recommendations
- A perceived win-win relationship

"Be careful with this concept of loyalty," Dubicki says. "Not all customers are the same. Some customers will appear to be loyal, but they are simply trapped or locked-in because of high switching costs. Making this distinction is very important."

#### **Happy camper strategy #4: Find out what's important to your customers, and why.**

"The reason you're trying to satisfy the customer is to hold on to them," says Dubicki.

"This is why a lot of the surveys out there look at other factors. If the customer just says 'I'm satisfied,' OK, that's great, but that's useless information.

"You need to find out what's important to them — then you're not only finding out whether they're satisfied, but whether they value what you're selling them.

"Without formal feedback mechanisms, you're driving in the dark. Face it, you need feedback on a regular basis from customers as to what you are doing right, what is important to them, and where you need to improve. This is the first place to start.

"Many ISVs will say they currently do this to some degree, but much of the information is captured in an anecdotal fashion, not monitored over time, and not acted on.

He recommends that software firms regularly survey customers in depth, and get in the habit of measuring satisfaction as a corporate performance metric.

"If there are sources of customer dissatisfaction, talk about them with customers and employees to find a solution. Provide progress reports on what is being done. Make it an ongoing internal program."

#### **Happy camper strategy #5: Just the fact that you're doing satisfaction surveys makes you different.**

A recent report by [Software Minds](#), "[B2B Software Marketing Best Practices and Budgets](#)," shows that surveys like those done by NCG Medical Systems are not the norm.

Only 55 percent of software providers with annual revenues greater than \$3 million conduct any type of satisfaction surveys. Only 23 percent of ISVs with revenues under \$3 million perform such surveys.

Dubicki thinks this data illustrates a huge opportunity: "To put this another way, nearly half of 'established' software vendors do not formally gather customer feedback. Now, that is dead reckoning!"

In other words, software firms that don't survey their customers are trying to navigate by the stars, instead of using a compass or, even better, a GPS device.

#### **Happy camper strategy #6: If you can't survey, send out the troops.**

"I rely a lot on our surveys, but I also rely a lot on my sales people giving me feedback," Arias says.

"We have actual live bodies — sales people and field technicians — going into accounts on a quarterly basis to find out how things are going.

"Most customers, not all, but 60 to 70 percent of them, will be visited every quarter. Not everyone is going to fill out a survey — some never will — so it's the only way you can get feedback."

#### **Happy camper strategy #7: Don't ask people to talk to machines.**

The first indicator of great support, as far as Arias is concerned, is the amount

of time it takes a customer to reach a living, breathing human being on the phone.

"We tried an automated phone system with all kinds of bells and whistles," he says. "With that system, we would pick up messages and return phone calls. But people perceived that as not good service. They like to have the human contact.

"What we do now is this: A live operator picks up the phone, acknowledges the problem, gives you a ticket number, and you will get a call back; 80 to 90 percent of the time, the call back will be within 15 minutes."

#### **Happy camper strategy #8: Don't expect the internet to solve your support problems.**

"We tried web-based support two years ago, but we did not see it lower our costs," Arias says.

"It's still available out there, and people will occasionally e-mail us, but we will generally call them back rather than send them an e-mail. They prefer to talk to someone.

"From time to time we still talk about moving support to the web, but it's always been voted down."

#### **Happy camper strategy #9: Finding good support people means knowing where to look.**

"You need to have good people. They need to be well trained, that's for sure," Arias says.

"We look in two places: medical offices, where we can find individuals who want to be out in the computer industry. And, we look to other help desk environments.

"We don't have the high-pressure environment that some of the big help desk entities have — ours is more laid back — and that is attractive to many. Plus, our pay and benefits are competitive.

"If they come from the software industry, they don't have to be trained on computers, only on our product. Before they can use our software, they've got to know what it is used for. They need to know what medical billing is all about.

"Once they understand that, they get trained on our software by people who've work here for many years. Sometimes we'll send them to a client site, where they'll see how medical billing works. The client gets free personnel, so they're happy with that."

A new NCG support hire who's computer literate spends a month in training, and listens in on support phone calls for one to two weeks; they should be "live" in about 45 days, Arias says.

#### **Happy camper strategy #10: But don't put too much emphasis on your help desk.**

Great support is important, but it isn't the only thing, Dubicki warns; don't put all your marbles in that circle.

"Among software companies, there is a tendency to over-emphasize the service experience — to assume that the help desk, for example, is what shapes customer satisfaction.

"Many other factors come into play in forming customer perceptions, including migration policies, pricing, technology strategy, corporate leadership, and so on.

"This becomes the corporate brand: what you stand for. Your brand equity. This is where there is great opportunity for a software vendor to differentiate itself.

"Let's say you've got a couple of competitors in your niche. For example, **Expandable Software** is in the ERP space, they're relatively small, but they differentiate themselves by focusing on small to mid-size manufacturers, and they really focus on service.

"They make it a very large part of their messaging — so, service gets associated with their brand.

"When a customer is making the value judgment about staying with these guys or not, that becomes a point of comparison: 'If we go off to XYZ competitors, will they be able to satisfy that service component as well?'"

### **Happy camper strategy #11: Put communication feedback loops in place that include the CEO.**

At NCG, there's an "active notification server" that escalates unresolved calls to different people at successively higher levels.

If a technical rep hasn't resolved the call after one-half hour, it's automatically routed to a higher-level specialist. At one hour, it goes to the head of support. If the issue is still unresolved after two hours, the CEO — Arias — gets an e-mail.

"Normally, I don't get any of those," he says. "They don't want me to see any. If I do get an escalated e-mail, I'll contact my people to find out what's going on."

Arias says his first-level people — general customer support people who answer the initial call — can resolve 10 percent of the issues; these tend to be the non-technical sort.

At the next level, 50 percent of the calls are resolved by a tech support rep. At the next layer, another 20 to 30 percent will be taken care of by senior specialists. Only 10 percent of all calls make it to the head of support and/or programmers.

By the way, be sure to keep your customers in the feedback loop, too. "Even if we can't solve the problem, the client at least wants to be kept abreast of the situation," Arias says.

### **Happy camper strategy #12: Base employee rewards on customer satisfaction.**

Arias gives the support department head a reward budget that's based on scores received in NCG's satisfaction surveys.

"I'll tell them, 'If you reach 4.0, you're going to get \$1,000; if you reach 4.25, it'll be \$2,000,' and so on. The support manager can then divvy up the bonus within the group as he sees fit."

Satisfaction scores are based on a combination of customer surveys and internally generated reports that track important metrics: average response time, average resolution time, how many calls, how many calls per attendant.

And what do these metrics look like at NCG?

"Our average response time has been hovering around 12 to 16 minutes," Arias says. "Resolution runs about 20 minutes — total. On the client evaluations, over time, the overall composite score is 4.5 out of 5.0."

Customer surveys are sent out electronically, and are always mercifully brief: five short questions, Arias says. Response rates are high, with 30 percent of NCG customers taking the time to answer.

Arias has one other metric to gauge the health of his support operation: the ratio of revenue to expense.

"Our support revenue should be two-and-a-half to three times the direct payroll cost," he says. "As long as I'm in that range, I'm happy. If it's lower than that, we're over-staffed or there's some other problem."

Dubicki agrees that for a customer retention program to work, you have to tie your employees' compensations plans to satisfaction metrics.

"It's important not only at the executive level," he says, "but in all positions that touch customers. Accountability helps provide focus and identify priorities for improvement.

"Create internal roundtables on ways to improve customer satisfaction, based on formal feedback rather than 'gut feel.'"

### **Happy camper strategy #13: Make customer satisfaction benchmarks and rewards visible and public.**

Unless your employees understand that satisfaction is a priority at the highest level, they're not likely to embrace it themselves, Dubicki says.

"Senior management must provide leadership in setting a business context that is customer-centric: Why we do what we do, how we need to do it and when, in order to satisfy our customers.

"This needs to be visible and talked about regularly by management, with everyone in the organization as well as customers. You will get the best results when there is commitment and strong support by employees, the president, and senior management."

How to best do this? At your regular company meetings, Dubicki says. (You do have regular all-company meetings, don't you?)

"List customer satisfaction as an agenda item every quarter. Talk about what you have done in the past quarter to improve customer satisfaction. It could be that you got back some survey results, and maybe the CEO goes over those results with everyone.

"Whatever it is, you need to make it concrete, so that people understand that the actions in their jobs — and I'm not just talking about the people in support — touch upon customer satisfaction.

"In your meeting, you might also pick out one area or group. Let the people in marcom, for example, talk about the specific things they are doing to build and maintain customer satisfaction, and the reasons why. Others in the organization see that and make the connection."

### **Happy camper strategy #14: When measuring loyalty among your customers, older is better.**

"Customers, not prospects, are the true acid test here," Dubicki says.

Your marketing people will tend to focus on the quarterly license revenues they see coming in from new customers.

"But all that is happening there is a faith-based sale. A newly signed customer is simply buying a promise, formulated on set expectations.

"Actual customers, over time, have hard-earned experiences with your products and services. They form opinions. This is where the game of improving customer satisfaction and retention truly plays out."

### **Happy camper strategy #15: Know your ROI on loyalty programs.**

All this happy talk about loyalty doesn't mean it should become an all-consuming focus for your software firm.

"Don't focus on retention at all costs — that's insane," Dubicki says. "It comes down to making business decisions — trade-offs — between the customers who are worth keeping and those who are marginal.

"The 80/20 rule still holds true, in most cases: The top 20 percent of your customers very likely generate most of your revenues.

"So, segment your customer base. Focus your efforts on keeping the high-margin customers happy. *Very* happy. Don't blow product development and

loyalty program money on marginal customers."

**Happy camper strategy #16: You cannot increase loyalty on guesses; research is key.**

OK, so how do you grow your retention rates? It won't come from blind, shotgun-style giveaways, Dubicki says.

"Many people wrongly assume they'll build loyalty by over-extending themselves: Over-satisfying customers, always exceeding expectations, putting out new and improved products. This is a very naïve view.

"Being smart about it involves understanding what your customers truly value and focusing your energies there. Aligning your brand, products and services with customer expectations is a much better way of going about it.

"For example, it's great to trumpet a 24x7x365 support desk, but if the majority of your customers don't see a value in that, then you're wasting money.

"This is where simply looking at a raw satisfaction score can be deceiving. In seeking customer feedback, you also must learn what is important to them — and what is not."

Even the largest software vendors, with all their resources, can lose sight of customer priorities. For example, a [Yankee Group study of decision-makers' opinions of ERP vendors](#) in 2004 highlights some interesting gaps:

*Vendors promote speeds, feeds, and technology prowess, but according to our respondents these traits are not meaningful or relevant to the basic challenges ERP customers face today.*

*Decision-makers tell us that they want service, flexibility, and practicality.*

*Unfortunately, none of the major brands differentiates itself along these lines, leaving the door wide open for any one of the category providers to address these unmet needs.*

**Happy camper strategy #17: Your research must help you understand what your customers value.**

"All roads to customer loyalty are driven by perceptions of value," Dubicki says.

"Only when you understand what customers perceive to have value can you can grow loyalty and customer lifecycle profitability. And it isn't easy. Value is complex.

"There are tangible, objective elements such as specific product features that come into play. There is the experiential aspect, which is how they are dealt with by your people, such as support services and consulting.

"And there is the intangible, such as brand perceptions, that also factor into the equation. Are you perceived to be a market leader or laggard?

"Whether you like it or not, customers regularly weigh these elements — yours and your competitors — and the money they are spending with you, and they make a value judgment. Sometimes it's rational, sometimes it's irrational, but it's a value judgment all the same."

**Happy camper strategy #18: Dig in deeper and wider.**

Once you know what your customers value, your next step should be to capitalize on that — but in an organized fashion, Dubicki says.

"Up-selling and cross-selling should not be simply opportunistic, but part of a concerted product strategy. The more your product is entrenched in the infrastructure, the harder it makes for a customer to switch.

"One way this can be attained is by partnering with complementary product providers. You've got a foot in the customer's door; let them piggy-back on that, or vice-versa.

"Also, look closely at your upgrade and pricing policies, are you giving any financial incentives for being a loyal customer?"

### **Happy camper strategy #19: Vocalize your value.**

Everyone in your company, from the receptionist to the field consultant, should be able to consistently answer this question, Dubicki says:

*What is the key value your organization provides to its customers that makes you better than your competitors?*

"Companies are great at creating a sales pitch to prospective customers, but what about those who are currently paying you annual support and maintenance fees — and putting food on your table?

"What have you done for them lately? What value do you provide to earn their support and maintenance renewals?

"Unless you communicate regularly what they are getting for their support and maintenance fees, they will perceive they are getting little to nothing."

Dubicki offers this example of good vocalization: [Expandable Software's "differences" page](#).

### **Happy camper strategy #20: Productize your service and support offerings.**

You need to come up with a features and benefits set for your support and maintenance programs, Dubicki says.

"The customer is paying 15 to 18 percent or more in support fees; the issue is, 'What am I really getting for this?'

"Then, when you have that features and benefits set, market it. If you're selling a \$50,000 software package, those revenues really add up, and you don't want to have to spend a lot of time selling that year after year.

"This is the biggest issue why companies have a hard time getting renewals: Because customers don't understand.

"They think that 18 percent is going to some guy answering a help desk phone. And if they're not calling in for support, they don't see the value.

"You have to talk about R&D costs, product and code management, and all the other things that going into maintaining your software. And you need to talk about it all year long, not just when it comes time for them renew."

Dubicki likes IBM's [Lotus Software Maintenance FAQ page](#); it's a good, clear example of spelling out maintenance value.

### **Happy camper strategy #21: Plan for a transition from hunting to farming.**

"A challenge for software companies in particular is transitioning from simply being hunters to being also farmers," Dubicki says.

"As you move from an early-stage software company to a more mature market, those hunting skills — which served you so well early on — are still ingrained in some companies, to their detriment.

"Early-stage software companies have to be hunters, and you don't have to be that good at keeping customers. But once a company moves into a more mature market, their whole skill set has to change.

"**PeopleSoft, SAP, and Oracle** all get more than 50 percent of their revenue from their existing customers. Even if you look at just support and

maintenance fees, it hovers in the range of 30 to 40 percent.

"It's easy to see that as you transition from the early adoption stage, most revenue isn't derived from hunting."

**Happy camper strategy #22: Respect the customer lifecycle.**

"A customer who has just licensed your product will have a different set of needs and priorities than one who has been using it for five years," Dubicki says.

"With one, implementation services and help desk support are likely to be very important. With a more mature customer, upgrades — including policies and pricing — will carry more weight.

"Segment your customer base according to lifecycle, and find opportunities for providing value at different stages."

In other words, a spot survey that shows customer "satisfaction" isn't enough; you need to know what you can do throughout each customer's cycle to transform satisfaction into lifetime loyalty.

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