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Ipsos Loyalty

Drive your results with target-setting analytics

Bharath Vijayendra
Sherri Loweke

GAME CHANGERS Ipsos

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This white paper outlines key tenets of the roadmap for target-setting success. We will address the importance of determining the right overall VOC measures *and* laying the right foundations. This includes establishing a target time horizon for corporate VOC targets, determining relevant KPIs, cascading targets to operational units – and then tracking performance against targets.

How Good Are Your VOC Targets?

Customer satisfaction management has long been a strategic imperative for many firms. Your company may be heavily invested in Voice of Customer (**VOC**) survey programs that track customer sentiment at multiple touchpoints of the customer's journey. Realizing that improving the customer experience has a direct impact on customer loyalty and advocacy, which in turn drives ROI, most firms today have moved beyond simply measuring customer satisfaction to leveraging insights that directly inform strategic planning.

Given the impact of improving the customer experience on the bottom line, VOC targets are typically an integral component of corporate performance dashboards, and often included in employee bonus and compensation plans as well. Including measurable VOC targets directly in strategic planning provides many benefits:

- ✓ It instills a **customer-focused mindset**
- ✓ It **motivates employees** to prioritize impactful initiatives
- ✓ It **rewards actions** that improve the bottom line
- ✓ Having measurable objectives **ensures accountability**

As a senior executive or a manager supporting customer experience initiatives, you may find yourself wrestling with how to set next year's VOC target or challenged with explaining why some business units failed to meet their target. Yes, you have targets in hand – but do you know how good your targets are?

Despite the widespread use of targets in customer satisfaction programs, the process of establishing targets remains problematic for many companies. The root cause of this difficulty often stems from allowing subjective judgment to cloud the target-setting process or failing to use a balanced, objective approach. At the extreme, poor target-setting can result in mis-aligned resource allocation and demoralized employees who have been tasked with meeting performance expectations that are unrealistic. Even worse, your company may fail to achieve its growth potential if your objectives are not ambitious enough to spur employees to take the bold actions necessary to achieve expected "downstream" business results.

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A Data-Driven Approach To Target Setting

It is easy to be lulled into setting targets that rely heavily on subjective judgment. Often it seems easier to simplify the process by taking this year's performance as a baseline and surmising that "adding 1-2 points" to next year's target seems sensible. Facing pressure to improve short-term performance, senior executives often push for aggressive targets that are not realistic considering their firm's current business environment, resources, or capabilities. On the flip side, managers and employees who are compensated for reaching objectives often lobby for targets that are too conservative and don't require thinking outside the box or challenging the status quo.

How can you assess how effective *your targets* are? Your company may be employing a judgment-based approach if you find it difficult to articulate the rationale behind the targets selected.

Setting targets that are objective, challenging yet achievable, and easy to explain might seem like an insurmountable task. However, objective statistically-based approaches to target setting exist that are not unduly difficult to implement and are far more defensible to senior management and employees alike.

DATA-DRIVEN TARGET SETTING -

- **Ties directly** to ROI or bottom line corporate objectives
- **Adjusts as needed** to account for mitigating factors such as changes to your VOC survey or method, shifts in customer profiles or product mix, or seasonality
- **Establishes thresholds** that correspond to statistically significant change, differentiating "true" improvement from random variability
- Incorporates a **long-term planning horizon** that connects annual goals to 3 or 5-year strategic planning cycles

Targets that fit these criteria are far more likely to garner the buy-in necessary to motivate employees to stretch enough to meet your company's strategic objectives. Beyond these fundamentals, the ultimate value your company will derive from establishing targets increases exponentially when the target-setting process incorporates **linkages** across VOC metrics and organization levels, **competitive positioning** goals, and a mechanism for making **mid-course adjustments** to ensure that annual goals can be met.

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1 Establish a corporate target for overall VOC measure

How can strategic target-setting help achieve best-in-class industry performance?

Many companies have aspirational goals of achieving VOC performance equal to the 'Best-in-Class' (BIC) competitor in their industry. Targets can be developed that directly aim to improve your firm's positioning on J.D. Power or other syndicated or competitive measures over a 3-year or longer time horizon. Linking your company's internal VOC metrics to competitive measures and predicting your future competitive standing will help determine how aggressive company targets need to be to attain the desired BIC position.

When identifying the competitive brand(s) to benchmark as BIC, it is important to consider the consistency of their performance over time and across multiple data sources, as well as brand comparability (e.g. is there considerable cross-shopping between your respective brands?).

> "The process often involves conducting key driver analysis and using scenario-testing predictive tools to determine the required targets for each key driver"

After selecting a competitor to benchmark, you will need to forecast their performance on the competitive survey over the next several years. Evaluating the historical relationship between scores on the syndicated or other competitive survey and your internal VOC survey will allow you to establish a 'transfer equation' that aligns the two programs. When doing this, adjust internal scores to reflect the composition of other survey programs as closely as possible (e.g. fielding time period, product mix, survey method). Different methods can be used to establish the transfer equation, ranging from simple ratio analysis to regression analysis.

Once the long-term internal VOC target is established, the next step is to establish reasonable Year 1 and 2 interim targets required to reach the long-term BIC objective. The best approach entails a deep-dive analysis of all relevant proprietary VOC diagnostics. This will reveal the factors impacting expected results and identify areas for focused attention that will lead to improvement in next year's syndicated or competitive survey results. The process often involves conducting key driver analysis and using scenario-testing predictive tools to determine the required targets for each key driver.

2 Link the corporate target to business units and KPIs

How should targets be set for each operating unit?

To translate a business strategy into action, your organization must link its overall goals clearly to each operating unit. If the corporate target is not directly tied to individual targets set at each level of your operations (e.g. division, region, territory, or branch office), employees will not know how to support the strategy because they find it difficult to see how it applies to them.

To tie corporate VOC objectives to operational levels, targets for fractional entities need to be set such that, *if all entities meet their respective targets, the overall company target will be met as well.*

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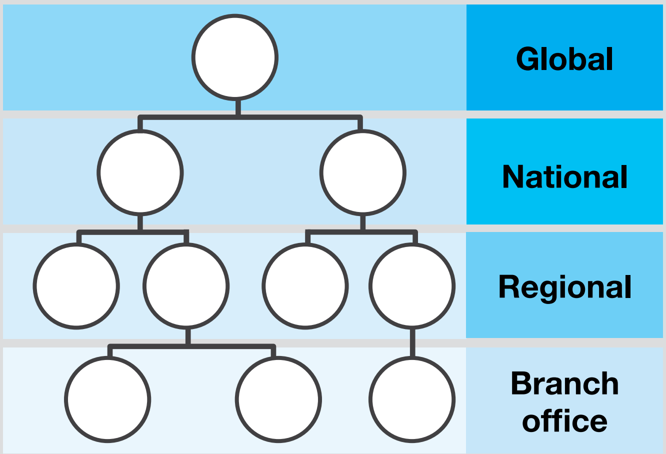
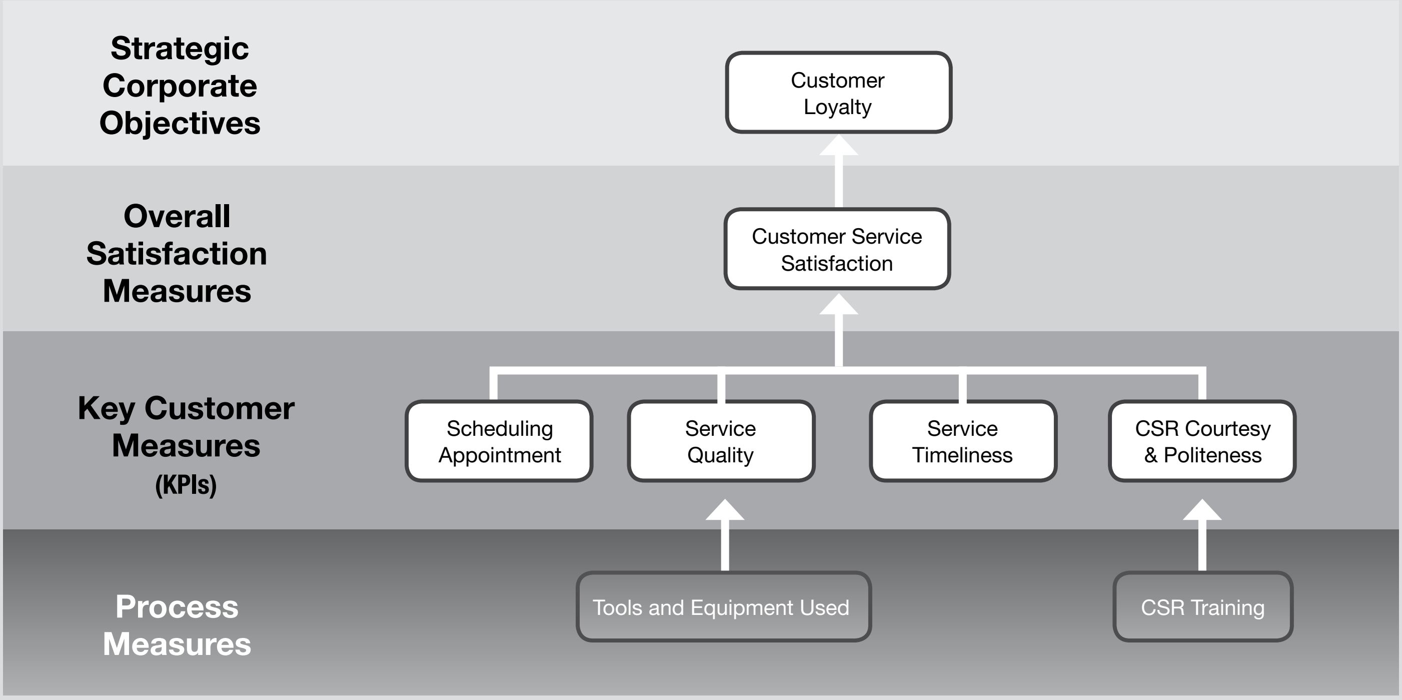
Consider the relative performance of each business unit and set customized improvement goals for each. Those familiar with tracking VOC metrics over time realize that it is a far more arduous task to realize 5 percentage point gains over last year on a metric already performing at 90% than to achieve this rate of growth on a metric whose average satisfaction hovers closer to 50%. **By the same token, the largest opportunities for improvement may exist among your lower-performing franchises or business units.** Take this into account by assessing how performance varies across operating units and consider assigning more aggressive VOC targets to below-average performers than those assigned to "stars" that are much closer to hitting the VOC score 'ceiling'.

Although your senior executives are likely focused on a high-level VOC metric like overall customer satisfaction, those in the trenches should be tracking performance on individual targets set for the Key Performance Indicators (KPIs) that tie most closely to overall satisfaction gains, as well as on the specific process measures that support these KPIs (see below). Similar to setting operational targets that roll-up to national levels, if a company meets its targets on individual VOC attributes, the likelihood of meeting the overall objective is quite high.



This linkage requires knowledge of the statistical relationship between process metrics or other diagnostic survey attributes and the overall VOC measure. This step typically involves applying multivariate statistical models to evaluate the impact on the overall VOC metric of varying performance on the key drivers. Then, desired and minimally acceptable levels of performance can be set for each key driver.



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3 Track performance to targets

When is it time to re-assess your target?

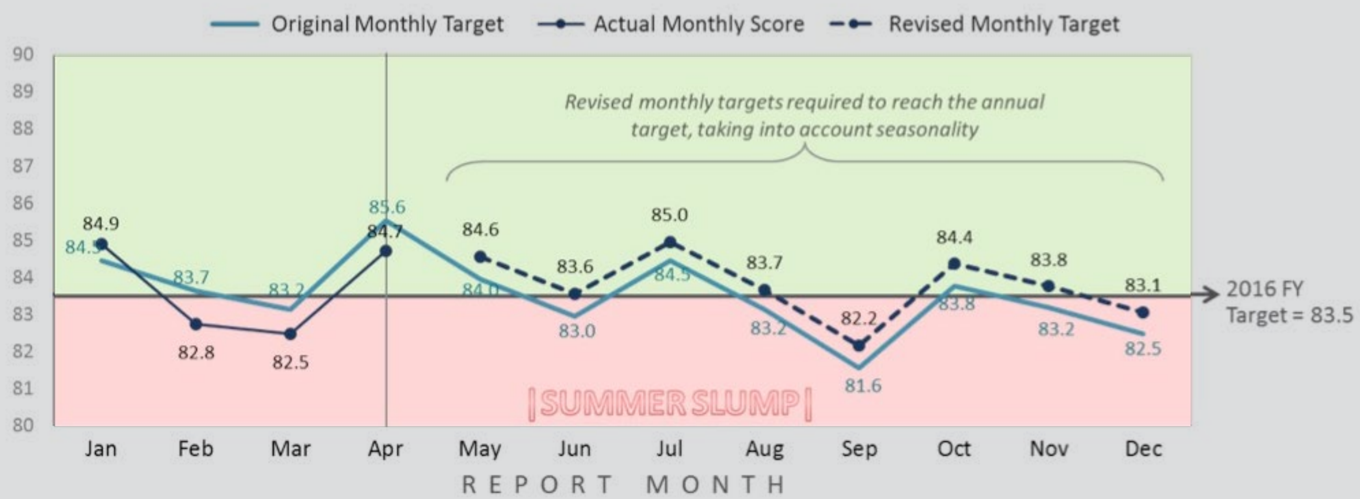
You have applied some of the techniques discussed in this article and are confident that your annual corporate objectives are valid and defensible. Your VOC target is now prominently featured on the corporate scorecard, where senior managers attentively track its every fluctuation. You find yourself well into the second quarter and are becoming increasingly alarmed when actual monthly performance continues to trend below the annual target for several months in a row. You will most certainly soon be faced with answering the question, “Are we still on track to meet our annual target?”

Whenever initial performance falls below expectations, it is critical to be able to ascertain how and if this difference can be ‘made up’ in the remaining months to get back on track toward achieving the annual goal. If your management team is reviewing scores on VOC targets regularly, it is a good idea to develop individual short-term targets that, taken collectively, allow the annual target to be reached.

For example, seasonality often plays a role in short-term target instability. Once the annual target is set, analyse historical monthly patterns to determine how much each month’s score needs to be adjusted up or down to compensate for seasonal fluctuations. By graphing actual vs. targeted monthly performance, you can quickly see if month-over-month variations are in line with expected seasonal patterns or potentially indicate a meaningful change in performance. When performance degrades further than warranted by seasonality, re-calibrating future monthly targets to compensate for initial weak performance will increase the likelihood that the annual target can be achieved.

When annual objectives are not met, a post-mortem analysis can help determine key factors contributing to below-expected performance. Techniques such as proportional contribution analysis are often helpful in isolating the relative impact of various elements potentially influencing poor results. For example, this type of analysis may reveal that 1.2 points. of the total 2-point negative gap between actual and targeted performance is attributed to low satisfaction scores in one product line, while another 0.5 points is due to a change in survey mode (moving from phone to online fielding). The remaining 0.3 point difference is found to be caused by a year-over year change in sales volume mix by customer profile, which may occur when sales decline among customers who generally have higher satisfaction rates, while at the same time increasing among customers who are historically less satisfied.

NET PROMOTER SCORE - ACTUAL & PROJECTED PERFORMANCE



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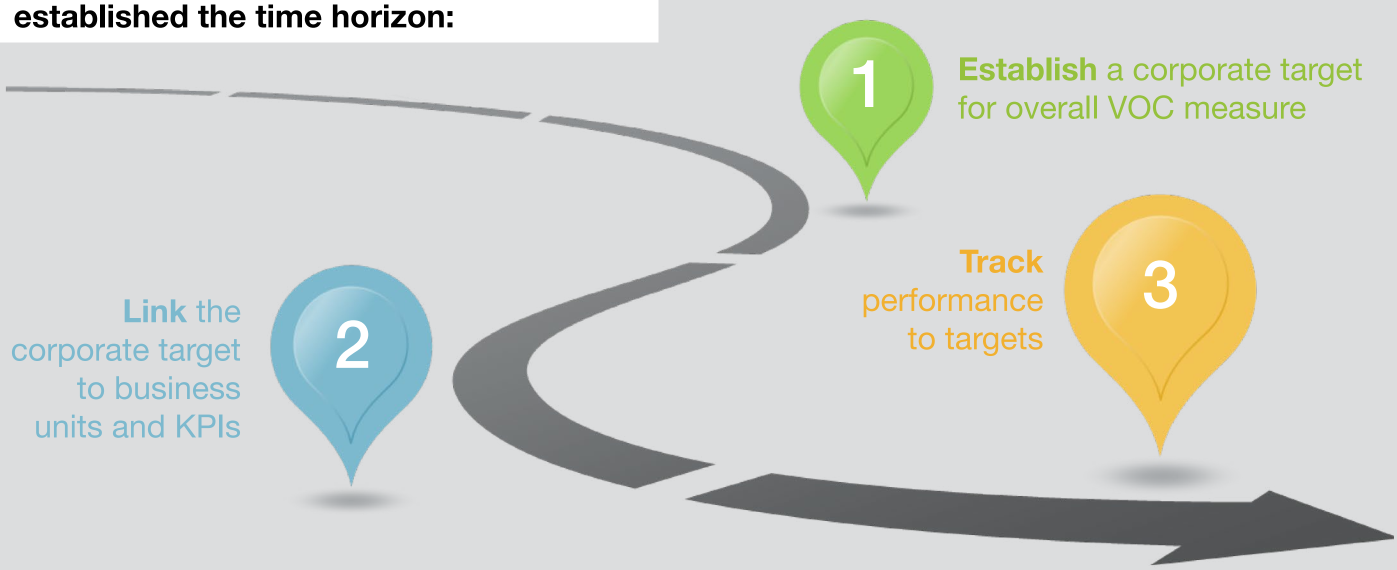
Key Implications – A Roadmap for Success

While successful target setting considers business implications such as the organisational culture, investment initiatives, and the competitive climate (e.g. stable, disruptive, new entries), it remains fundamentally a data-driven process. This article has outlined key tenets of the roadmap for target-setting success:

Once you have determined your overall VOC measure for target-setting and established the time horizon:



Today's challenge – both for those tasked with developing corporate targets and those who rely on them for strategic planning – is to establish actionable, data-driven targets that will be championed by employees at all levels of the corporation. Investing the time to develop robust, defensible VOC targets will have a huge pay-off to your company. It will direct attention to improving the customer experience and 'rally the troops' around challenging, yet achievable goals that drive the right business initiatives and optimize bottom-line results.

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Bharath (Vijay) Vijayendra
Senior Vice President, Analytics
Ipsos RDA
bharath.vijayendra@ipsos.com

Sherri Loweke
Vice President, Analytics
Ipsos RDA
sherri.loweke@ipsos.com

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www.ipsos.com
@_Ipsos
IKC@ipsos.com

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