

Building Customer Loyalty—The New Paradigm for Construction Performance

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Earlier construction research has brought to light a number of well-known factors that define construction project success, such as finishing on time, meeting budgets, minimizing change orders, and meeting specifications. More recent research has focused on the growing importance of positive customer relations on the part of contractors (and designers), beyond the need for cost and schedule compliance. Litigation or poor customer relations can mar an otherwise successful project. It is well known that low-bid projects are often destined for less than stellar success, as there is little consideration of past performance or customer orientation. Even the public sector, long constrained by law, has been moving away from the low-bid scenario; in the past, poor performance and low owner satisfaction levels had to be tolerated. Innovative approaches are increasingly being used to overcome these causes of dissatisfaction: CM at Risk uses owner satisfaction criteria in negotiations, and historical performance can be used to determine which bidders go on the short list. Design/build allows public agencies to base selections on qualifications or some combination of price and qualifications, rather than on low bid alone.

Other industries have placed a major emphasis on customer satisfaction and customer loyalty for many years. Organizations in those sectors have competed for the Malcolm Baldrige National Quality Award since its inception—in 1987—to improve national competitiveness through

demonstrated quality-based achievements. Several outstanding companies have won the award, among them Federal Express, Texas Instruments, Inc., Ritz-Carlton Hotel Company, Xerox Corporation, and Merrill Lynch Credit Corporation. It is worthy of note that no construction organizations have yet won a Baldrige award, although many are undoubtedly adopting quality management techniques as first steps toward that coveted goal.

The Baldrige criteria derive from seven categories of attitude and behavior that are typical of high-performance organizations: leadership, strategic planning, customer and market focus, information and analysis, human resource focus, process management, and business results. Organizations can receive a maximum of 1,000 points in these categories. Customer and market focus and customer-focused results account for 210 points and are therefore crucial to world-class performance. These categories have to do with the way in which successful organizations listen to their customers to learn about key requirements and how they come up with methods to satisfy customers, increase repeat business, and generate positive referrals. They criteria also concern themselves with complaint management, analyzing complaints for improvement, determining customer satisfaction and dissatisfaction, and benchmarking satisfaction with competitors.

As a long-term measure of performance, customer loyalty, not just satisfaction, is the key issue. Loyalty is built

by creating and balancing value for stakeholders, and loyal customers stay with their suppliers for the long term. Loyalty comes from organizational processes that deliver value and meet market needs while allowing the company to operate profitably. Customers recognize superior value on the basis of quality, price, and corporate or brand image, as well as the extent to which the voice of the customer is heard.

The following “best practices” are recommended for improving performance by building customer loyalty:

- Develop a clear strategy for enhancing customer loyalty, emphasizing activities that represent high value. Resource limitations often make it impossible to be all things to all customers. The responsiveness and proficiency of customer service operations may, for example, need to be weighed against the quality and timeliness of delivery.
- Capture the voice of the customer (VOC). Have customers define the criteria for quality, price, and value.
- Develop measurement systems to collect and analyze customer feedback—information on won/lost customers or projects is critical. Track problem resolution and the percentage of highly satisfied and highly dissatisfied customers.
- Base measurable performance goals on the VOC so those performance thresholds can be compared with customers’ needs.

- Establish a clear understanding of market segments so as to deliver value appropriately to each segment. Public-sector customers have needs that differ from those of private-sector companies; housing developers and office building investors have different needs as well. Value has different meanings for different customers.
- Establish competitive benchmarks. It's important to know how well your competitors are delivering value to their customers. You may increase the satisfaction of your customers but wind up losing them to a competitor who can satisfy their needs to a fuller extent.
- Maintain your company's image by such "soft" issues as commitment, partnership, and integrity. If a crisis occurs that jeopardizes the value delivered, responsiveness and communication with customers can keep their loyalty intact.
- Carry out root-cause analysis to see where problems originate, and then institute corrective action.
- Discard the mistaken notion that construction deals with no more than the particular project in question. Remember that each satisfied customer provides a building block for the value, trust, and corporate image that forge long-term business success.

Bearing in mind the vagaries of each construction project, it is recognized that the foregoing approaches apply not only to the contractor but also to the entire project team, including the owner, the designer, and the various subcontractors and suppliers. Above all, those involved should embrace change in order to adopt the new paradigm; like the dinosaur, those who do not change are doomed to extinction!

This column encourages positive, enlightened discourse on topics related to the continuous improvement of quality and performance in the construction industry. Interested parties may contact the writer by E-mail at conqualsb@aol.com.