

# The death of cost-cutting

Why superior customer service experiences and innovation are the new mantras **By James Lane and Hersh Chaturvedi**

**F**or years, CEOs have cut costs wherever they could in an effort to boost the bottom line. But a new study suggests that era is waning.

By a 2-to-1 margin, executives who say they are satisfied with their profitability levels report achieving those levels through premium pricing, according to a national survey of 80 executives conducted by The Ohio State University's Fisher College of Business, Mirifex, InfoCision Management and *Smart Business*.

Pricing drives profits, and superior customer service experiences, as well as innovation, drives premium pricing. So the time to review your company's pricing attitudes is now.

Powerful evidence suggests that achieving premium pricing drives profitability, and CEOs who benchmark are 25 percent more likely to achieve their profit targets. However, 61 percent of CEOs in the survey say they don't benchmark their prices against those of their competitors.

So how do executives achieve premium pricing for their businesses? Through superior customer experiences, a la Starbucks.

The survey found that businesses achieving a premium price are four times as likely to report that they create a superior customer experience.

These same firms are twice as likely to use product or service innovation to create that superior experience. Further, once they achieve a superior customer experience, interest in pricing as an area for improvement falls off.

That said, they also report that interest in innovation remains, which suggests that these executives are confident that if they innovate, price and profit will take care of themselves.

Other findings in the survey:

- By a margin of more than 2-to-1, CEOs say design and innovation are imperatives in a competitive market.
- Exemplary customer service is a clear differentiator. Executives who achieve premium pricing say customer experience is a competitive edge about twice as often as those who do not see it as competitive.
- 76 percent of respondents say product

### Where is your competitive advantage?

Service	32%
Quality	27%
Design Innovation Marketing	25%
Low Price Leader	10%
Speed	6%

### How often do you benchmark competitors' pricing?

All the Time	4%
Frequently	14%
Sometimes	21%
Never	61%

### Do you intend to focus on innovation?

Currently Leveraging Innovation	9%
No	15%
Yes	68%
Not Sure	8%

### What survey participants said

*"Design and innovation will be one of the most important factors in our business as we move into the future. Competition from East Asia will continue to drive our business to focus on innovative, precision parts and components that are more profitable and have higher barriers to entry"*

— Jeffrey Bigler, CFO, United Titanium Inc.

*"New products are the only way to increase prices."*

— Ernest Mathia, president, Hoover Materials Handling Group

### Revenue profile of survey respondents' companies:

Under \$50 million	40%
\$50 million to \$100 million	23%
\$100 million to \$250 million	24%
\$250 million to \$750 million	9%
Over \$1 billion	5%

innovation is critical to their companies' success, more than twice as many than those who don't innovate.

■ 91 percent of executives who report superior customer experiences innovate or plan to innovate with products and/or services.

■ Executives who say innovation is a competitive imperative report they intend to innovate twice as often as those who don't.

■ CEOs who plan to innovate say they will shift investments from other initiatives to do so. More than half of those who are re-allocating capital use plan to use outsourcing as a tool to free up capital.

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