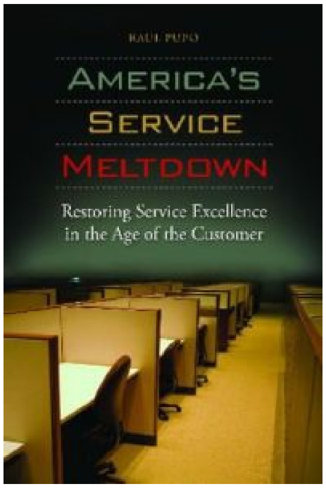

Book America's Service Meltdown

Restoring Service Excellence in the Age of the Customer

Raul Pupo
Praeger, 2010
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Recommendation

Treating customers right is an established business maxim. Oddly, few businesses really abide by it. Raul Pupo brings his insights and firsthand accounts to this readable, informative book about how all businesses can enhance customer service, which simply is good business and applied common sense. But most businesses fall victim to Industrial Age thinking, myopic leadership, bad strategic planning and inertia. While Pupo does not present any breakthrough concepts, he provides great examples and makes clear points about how to implement customer-friendly service. *BooksInShort* recommends his rundown on “critical service factors” to suppliers who want to build or revamp their businesses to be more customer-centric.

Take-Aways

- In today’s market, customers have more power and demand personalized service.
- Service is work that is done for and on behalf of other people.
- Leaders who commit to customer service inspire improved employee performance.
- Companies that commit to service demonstrate sound ethics.
- A company should deliver to customers what it promises, and never do what it says it won’t.
- Advertising, customer testimonials and marketing activities attract customers; only quality service retains them.
- Service delivery managers should have access to top management, including the CEO.
- Customers indicate dissatisfaction by spending less and then they defect.
- Data on customer attrition helps suppliers expand service, differentiate themselves and remain competitive.
- To know how to improve, contrast the highest-rated aspects of your customer service with the lowest.

Summary

Critical Service Factors

Service is not intangible. Service is work done for and on behalf of other people. It’s real and measurable. A 2007 study found that 59% of customers in the United States stop doing business with companies after a bad service experience. The same study found that 41% of respondents worldwide usually classify service as fair, poor or terrible, while only 5% deem it excellent.

> “Customer retention strategies are...service strategies.”

Effective service delivery depends on managing a set of "critical service factors," specific actions that create a direct, positive customer experience. This set of parameters calls for systematically assessing company functions that touch your customers. These factors are:

- **Affirming top executives' commitment** – Leaders who demonstrate good customer service improve their employees' performance. This requires the ability and fortitude to change traditions and implement reforms. You must be confident when making these changes.
- **Making the customer the center of business strategy** – Corporate strategy often is based on a company's strengths, such as leveraging special corporate resources, superior technology or cost containment. These strengths drive organizational structure, mission statements and vision. But too many of them many ignore the customer.
- **Developing a "service ethic"** – Companies that commit to service also must demonstrate sound ethics and implement a reward system for employees who deliver great service. Hold open, direct discussions about performance lapses and ways to improve service.
- **Empowering frontline employees** – Support and train workers who have face-to-face contact with customers, such as call center staffers, bank tellers, nurses and salespeople. Give them the knowledge and authority to solve customer problems immediately.

> "In the service and information age, it is fanciful – perilous – to craft a business strategy that is not at heart a customer-focused strategy."

Implementing just one of these elements will not work. These steps interact in the delivery of consistent, top-line customer service.

It Starts at the Top

Customer focus starts at the executive level. Customer-apathetic executives create customer-apathetic employees. Worse, many companies have such long-entrenched anticustomer practices that they become "institutionally incapable" of breaking this syndrome. For example, the Arthur Andersen accounting firm's practice of focusing on billable hours but not providing true accountability contributed to its demise in 2002.

> "The most powerful nation on the face of the earth is seeing its businesses experience...a service meltdown."

Accounting follows an obsolete customer service model dating back to World War I. Accountants first used these methods to measure internal efficiencies and to control output and costs in industrial production firms (a sector now employing only 14% of the US workforce). Such limited accounting practices cannot measure employees' intellectual capital, have no predictive value and overemphasize short-term results. Obsolete practices hinder accounting firms' ability to explain the value of complex services, consultations and the merits of their prices.

> "Human capital, intelligent, skilled and properly supported and equipped, is the fundamental resource that adds value to the customer-focused organization."

Wachovia Bank provides an example of the disconnection between slogans about high customer satisfaction rates and anticustomer practices. Around 2008, Wachovia executives approved the processing of unauthorized transactions for auction-rate securities from thousands of customer accounts. The bank was caught, fined and forced to dismiss 11,000 employees. Conversely, British retail grocer Sainsbury's demonstrated proper customer concern when its e-commerce website crashed. Sainsbury's staffers called 30,000 customers to apologize, and offered each one a $20 voucher as compensation for the inconvenience.

"Strategic Visioning"

At the corporate level, customer service suffers from the gap between strategic planning and strategy development. The problem starts when businesses follow overly analytical bureaucratic planning procedures to define their annual goals. The resulting decisions offer minor incremental changes and suffer from lack of employee input or new thinking. This preserves a negative status quo and strategic planning becomes a recipe for disaster.

> "Frontline people by the...nature of their work and proximity to the customer have the potential to become the knowledge workers...of the enterprise in the service and information age."

"Strategic visioning," the better approach, comes from listening to and learning from all company audiences. This process can be complex, fluid and fraught with uncertainty, but it heeds the customer's voice. The voice can come from current and former customers as well as visionary leaders (Apple's Steve Jobs), frontline employees, prospects and data mining for purchasing trends. Sound strategy considers what is best for the customer.

Being Well Behaved

Efforts to instill ethical behavior must come from within companies. Despite government regulation, legislating ethical business behavior is not possible. Instead, ethical behavior develops through learning, practice and reflection, elements that begin with a customer-focused mission statement. Implementing this service ethic requires consistent strategies, policies and structures. In everyday practice, these policies can be distilled into two maxims: A company should deliver to customers what it promises, and a company should not do what it says it won't. These simple dictums produce ethical, honest and forthright business practices. They also provide the basis for a "Golden Rule of service."

> "The transition to a culture of service can become an administrative nightmare."

When suppliers and customers cooperate, everyone wins. The customer's perception of quality service depends on reliability, responsiveness, the product's physical appearance and employee courtesy, knowledge and empathy. These factors, which customers regard most highly, are not priorities for most suppliers. In 2008, J.D. Powers found that airline customers were more dissatisfied by discourteous crew members than prices, reservations processes or aircraft issues.

> "Mediocre service has become institutionalized in many organizations, [as a] result of a play-it-safe, pusillanimous leadership style."

The more suppliers know about their customers, the better and more collaborative their relationship will be. This may mean producing customized products to take the place of personal service, which is reduced by self-checkout kiosks and counters in supermarkets, hospitals, hotels and video rentals. At some airlines, 70% of domestic passengers check themselves in using computers. This technology represents a challenge to companies that want to provide quality service from their employees – not their machines.

Frontline Skills

To build customer rapport, frontline service workers should have good- to above-average thinking skills, know how to conduct conversations and negotiations with customers and be computer and numerically literate. Management can use rewards to align an employee's performance with the company's work ethic. Rewards can be intrinsic boosts from the employee's self-improvement or aid to customers, or extrinsic bonuses from the company.

> "Small entrepreneurial service companies are more often led by service-savvy leaders than are large corporations."

Management should eliminate annual performance reviews that emphasize the company's arbitrary power over its subordinates. Companies also should drop policies that antagonize customers; for example, when banks charge a $40 penalty for a $5 overdraft. US banks generated $45.6 billion in overdraft fees in 2007 while incurring the wrath of their customers.

> "A customer-centric business-planning process must start by getting to know as much as is knowable about the customer."

Companies that continuously support and train employees are investing in human capital, enabling employees to speak more authoritatively about their products and boosting morale. Frontline employee training offers clear benefits, but most companies seek to avoid the expense even though untrained workers can alienate customers. Effective worker education programs should include refresher courses and presentations on improving product knowledge and correcting billing problems. Banks can increase consumer confidence by providing current, accurate account information. Frontline employees should know how to operate the information systems that access critical data.

> "The principal charge of the customer account manager is to know thy customer."

In business-to-business relationships, top managers should focus on service delivery. Provide service managers or customer-account managers to monitor changes in customer needs and requirements. These managers need access to senior managers in sales, finance and operations to resolve customer problems. Under the best circumstances, service managers should report directly to the CEO. Service managers speak within the company for the customer, so they should be independent, trusted professionals with the skills to assess customer satisfaction.

> "Today's business leadership has to embrace a culture born not of efficiency but of effectiveness of service."

These managers' responsibilities range from developing customer profiles to conducting satisfaction surveys. They integrate the supplier's knowledge with the customer's needs. A good service manager knows more about the customer's business than the customer's employees. Ideally, the manager creates a partnership with the customer while remaining an objective advocate.

Linking Customer Satisfaction to Profitability

Customers perceive value in relation to price. A supplier can increase its value by improving or expanding services, reducing prices or both. In competitive situations, many suppliers reflexively offer to reduce price. However, avoid this tactic unless you are the lowest cost producer. Similarly, suppliers should not blindly follow customer satisfaction ratings. These surveys can reflect recent artificially high results from aggressive price promotions or product discounts. Good survey design should minimize these spikes. Results also could be misleading because satisfied customers may not be repeat or profitable clients. Survey long-term trends for more accurate results.

> "Any activity that does not benefit the customer – and that is not...required by law – should be ...eliminated."

Monitor service activities and customer response. Advertising, testimonials and other marketing activities create high expectations and attract customers, but only quality service retains them. Customers are most satisfied when your performance matches their expectations.

Companies gain insights into customer satisfaction by conducting surveys and attending informal meetings, seminars and conferences. Or your firm can get feedback after a specific event (signing a new agreement or installing a new system, for instance). Every survey technique (mail-in, face-to-face, email) has limitations and strengths. Design your surveys to solicit feedback about a specific product or business, and ask consistent questions to track the results over time. Survey methods should reflect the size of your customer population. Surveys should solicit an overall satisfaction rating for an entire service department, as opposed to ratings only for the courtesy and knowledge of the frontline staff.

Collect survey data, then tabulate and interpret it to see what improvements you need. Contrast areas with the highest number of satisfied respondents to those with the lowest. These comparisons offer the best opportunities to improve service and satisfaction ratings. Also compare satisfaction ratings to customer profitability and to the customer attrition rate. Calculate your attrition rate by dividing gross profits (revenues minus direct costs) by the total number of customers to find the average profitability per customer. Multiply this number by how many customers you have lost over a specific period. The resulting figure is the total attrition cost. Use this data for high-level planning. It becomes more useful if the company knows which specific customers are leaving and why.

Customer Defection

When customers decide to defect, they first indicate their dissatisfaction by spending less. This is "gradual attrition" and an astute customer service manager can spot it and address problems that are developing. Similarly, marketers should look at attrition costs as part of the cost of customer acquisition. Gaining more information about customer attrition helps suppliers expand their levels of service, differentiate themselves and remain competitive. The information-driven economy makes this increasingly important. Today's customers have more power and demand more personalized attention. While this will present problems for traditional companies, it will play into the hands of customer-focused suppliers who deliver quality service.

About the Author

Raul Pupo is an author, consultant and CEO of Technology Infrastructure Solutions, Inc.