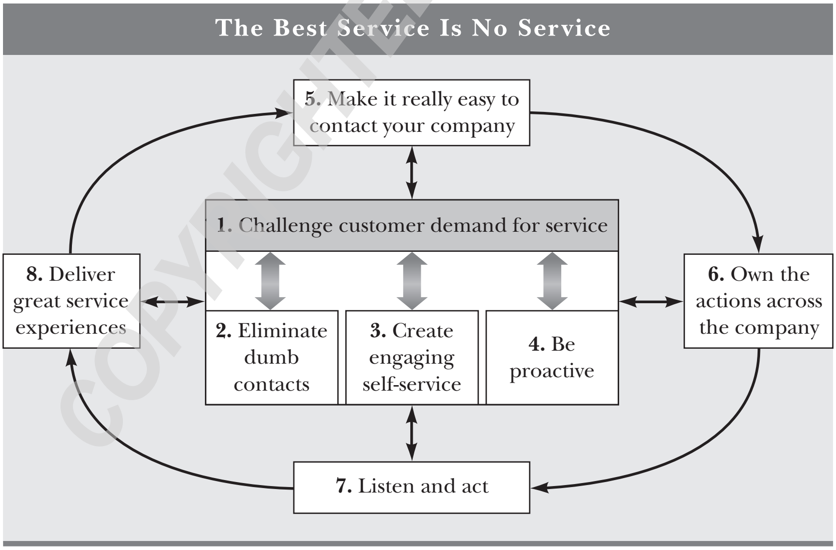
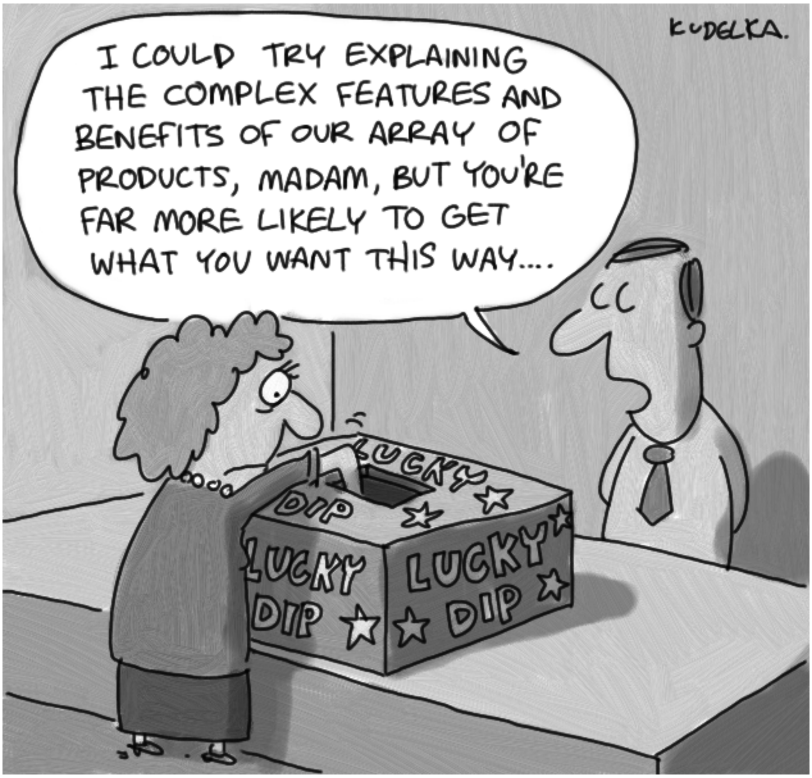
Chapter One

Challenge Customer Demand for Service
Instead of Coping with Demand

Insanity: doing the same thing over and over again and expecting different results.
—Albert Einstein





The Problem with Customer Service Today

Over the past twenty years, we have enjoyed unprecedented innovation in product design, technologies, and services to make our life easier, but, sadly, we have not often seen customer service improve at the same rate. Although some companies have embraced new technologies and business practices to create what we call Best Service, in many industries customer service is stuck, in others it's broken, and unfortunately it's getting worse. The Best Service companies are raising customer expectations of what is possible, widening the gap.

Before we begin our exploration of the seven Best Practice Principles, in this chapter we will first ask, "Why is service broken?" We'll examine the ways in which companies and government bodies have largely forgotten what the customer wants and needs, how to service those requirements quickly and completely, and how to challenge the demand in the first place. One of the reasons for this situation is that CEOs and other senior executives are often detached from the day-to-day support operations that touch their customers. Many treat customer service as a necessary evil or as a cost center to be run with interchangeable parts rather than as the heartbeat of the company. Very few treat it as the canary in the coal mine that can provide invaluable feedback about the company's competition, current product faults, future requirements, and much more.

We will then explore how service can be fixed using the seven Best Service Principles to overcome service challenges, and lay out the agenda for the rest of the book. We will provide examples of companies that are getting it right and the benefits they are obtaining.

For those readers who are still unconvinced, we will profile three possible objections to the Best Service Principles and explain why these objections are misplaced. We will then wrap up with reasons why service matters to the company and to the customer.

Why Is Service Broken?

With all the advances in management theory, processes, and technology, customer service should be getting better. However, we find overwhelming evidence that companies continue to subject their customers to more and more "dumb things," experiences and interactions that make no sense to the customer and almost always prompt multiple contacts and perhaps a blog entry as well. Let's look at some examples:

- A leading IT company calculated that it took customers on average five minutes to navigate its interactive voice response (IVR) menus before being put on hold to speak to someone, and it still had trouble routing the customer to the right person.
- A major telecommunications provider forced customers to use a speech recognition IVR system, knowing that 89 percent of their requests would fail.
- An online retailer refused to publish phone numbers on its Web sites.

- A utility forces customers with temporary age or disability concessions to call in and claim them for every bill they receive, even though the concessions have a known expiration date.
- Many companies will not allow someone who is not the official account holder to interact with an account, even when all the person wants to do is pay money into that account for the account holder.
- A large mobile phone company calls its customers to advise them about their account usage, but then forces these customers to identify themselves. "Didn't you just call me?" the customers ask.
- Many companies send bills for zero amounts or amounts so small that their automated payment systems will not accept the payment (for example, less than $5.00). The cost of sending the bill and processing the payment using a person-to-person interaction is greater than the revenue received!

We could go on, but you get the idea; you will find many more examples of these dumb things throughout the book.

A news story emerged recently about one company's poor service, and within twenty-four hours, seven hundred people had recorded their similar bitter experiences on two related Web sites. Customers can now express their frustration publicly in blogs and Internet feedback sites, and they are strident when they encounter poor service. Here's a small sampling of some of the headlines on just a few of the many sites where customers are ranting:

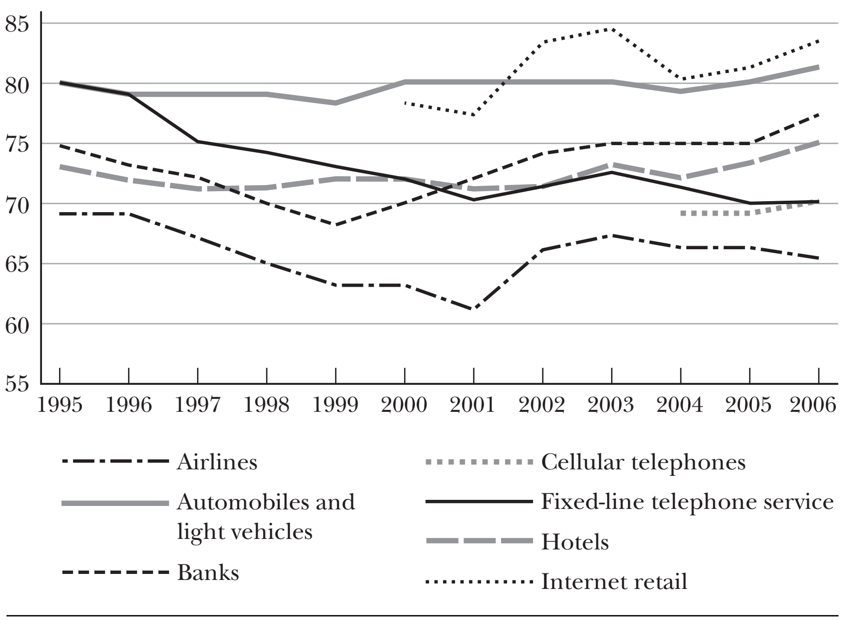
"What Is the Value of Customer Service? (meaty question)"
"The Customer Service Hall of Shame"
"Tales from seething souls in phone hell"
The "Get Human 500 Database"

Customers are showing their frustration in other ways. A study by the U.K. National Consumer Council found that across all industries, switching levels had increased 52 percent, and people who had switched were happier with the result. The impacts of service failure are significant.[1]

Some consumers yearn for the "good old days" when their local branch manager or the owner of their corner store recognized them by name, knew their preferences, and anticipated their needs when they walked in. Maybe they're right—as companies have become larger and more diverse, senior management has become separated from those interacting with customers. There is increased geographical separation from those who "manage" service and those who deliver it. Contact centers are already farther from the customer than the branch or local office used to be. Headquarters may be at yet another location, and trends such as outsourcing have added another layer of remoteness, separating customer experiences from those who own and manage them.

There is evidence that service is declining, only recently returning to earlier levels, or at best is stuck in the industries that have high "service intensity"—those where service plays a key part of the total solution for customers, such as airlines, telecommunication companies, online retailers, and financial services (see Figure 1.1). The American Customer Satisfaction Index (ACSI) tracks satisfaction with businesses and brands (not just service).

FIGURE 1.1: ACSI SCORES BY INDUSTRY, 1995–2006



Source: www.theacsi.org

Only the Internet retail industry has improved by 5 percentage points over the past six-plus years; four other service-intensive industries have lost ground. What have the Internet retail industries been doing that others have not? Why can't other service-intensive industries match this improvement? We will explore the lessons that the service leaders, such as Amazon and eBay, have learned and the mechanisms they are applying to get service right and to strive for what we term Best Service. This problem isn't confined to the United States. In the United Kingdom, consumers are equally unhappy. A study by Accenture found that two-thirds of customers believed that service had not improved in the last five years.[2]

Articles over the past several years have captured the mood and some of the symptoms of poor customer service and experiences. Some eye-catching headlines tell much of the story:

"You Call This Service?"
"Customers Find Service Put on Hold; Filing Complaints Isn't Easy, Getting Action Even Tougher"
"Cases of 'Customer Rage' Mount as Bad Service Prompts Venting"
"37 Fruitless Calls"
"Bruising the Customers Costs Companies Dear"
"Luxury Goods Without the Luxury Service"
"Companies Find They Can't Buy Love with Bargains"
"Whatever Happened to Customer Service?"
"Press '0' If You've Had Enough"
"1-800-USELESS"
"Does Customer Service Still Exist?"

At the heart of the issue, there are stark data on the amount of contacts customers have to make to get things done. As we pointed out earlier, none of us wakes up the morning wanting to call our utility company to find out why our latest invoice balance doesn't make sense, nor do we want to contact our bank—no matter how "friendly" it is—to complain that our last check didn't make it in time to the loan company. Instead, we expect everything to work perfectly and do not want to bother ourselves to call or send an e-mail or text message. Yet companies invest huge amounts of time and money to handle or "cope" with the demand that they have created. Too few companies ask why their customers need to spend their precious time to ask for help, clear up their confusion, or find out how something is supposed to work.

Let's consider how often some organizations force us to make contact with them:

- A leading cable TV company requires three contacts for each new connection—why not just one contact?
- Some mobile phone companies handle as many as ten to twelve contacts per subscriber per year, whereas others have only three to four. Why do we need to call mobile providers so often? Shouldn't we just be making calls and paying bills, preferably online?
- A water utility was averaging two contacts for each fault call. The first call should have been enough to fix the problem. The subsequent calls asked "Why isn't it fixed yet?" or "When are you coming to fix it?" Not good enough.
- A leading self-service bank averaged one contact per customer per year and nearly two for each new customer. Don't we sign up for self-service applications like Internet banking so that we don't have to call? Other banks have half this contact rate, so clearly something is broken.
- A leading insurance company was averaging more than two contacts per claim. The first contact makes sense, setting the claim in motion, but why were subsequent contacts needed?
- "Customers reported making an average of 3.5 contacts in an attempt to resolve their most serious customer-service problem in the past year."[3] Why isn't this 1.0 contact or, perish the thought, zero contacts because nothing needs to be resolved in the first place?

We should make it clear that we are not talking about such interactions as placing orders, making payments, or using self-service solutions, such as checking balances, that the customers chose to use. Instead, we are talking about having to call or take the time to write or visit a branch to get something done or to get something fixed. In some industries, these contact rates are much worse: every contact with a technical support area of an Internet provider or computer manufacturer is a sign that something is broken. Ideally, customers should never need to make these contacts.

This book is about questioning why those contacts are necessary, in essence challenging the need for customers to use customer care or technical support lines. The reasons we argue that the Best Service Is No Service is that we know that customers would prefer not to contact companies in the way they are forced to do to get answers or solutions. They would either prefer not to make contact at all or, in many situations, prefer the flexibility and convenience of well-designed self-service that they can use whenever they have the time, or of proactive alerts to them before an issue becomes serious.

HOW DO WE FIX SERVICE?

Let's look at the issues that have prevented significant improvements in service. Here we identify seven reasons that service isn't getting better and seven responses, the Best Service Principles, to address these reasons:

1. Companies keep handling issues that are not adding value for them or for customers, so instead we need to eliminate dumb contacts.
2. Self-service is insufficient or broken, so we need to create engaging self-service that customers want and will use.
3. Service is reactive, so instead we need to exploit opportunities for proactive service with alerts.
4. Companies have made themselves hard to contact, so instead we need to make it easy to obtain service.
5. The customer service department gets blamed for others' mistakes, so instead we need to assign ownership across the whole company.
6. Companies can't listen properly, so instead we need to learn to listen and act on what customers are telling us.
7. The customer service industry is stuck with outdated practices and metrics that produce poor experiences, so instead we need to design and deliver great experiences for customers.

PRINCIPLE 1: ELIMINATE DUMB CONTACTS

Customer demand for service equals the volume of requests that customers make of companies when they need help, are confused, or have to change something. In most companies, demand is a given—lots of time and effort go into forecasting demand based on past demand, measured in thirty-minute increments across a range of contact channels. Then companies work hard at matching their resources to this demand: putting people on the right shifts at the right time, finding partners if needed, and so forth. These companies are so busy trying to manage the demand and their "service supply" that few, if any, question why the demand is there in the first place. For example, how many companies report that they have made themselves easier to deal with by reducing the demand for contact? How many boards of directors monitor their rate of contact as well as the speed and cost? Very few companies think this way (although Amazon comes close by proclaiming year-by-year reductions in contacts per order). There is an unfortunate obsession with how quickly phones and e-mails are answered. The standard across most service operations is to report and track how quickly things were done, not how well they were done or how often, or why they needed to be done at all.

This issue of demand for contact is fundamental to our thinking. If companies want to rethink service radically, they need to rethink the *need* for service. This book is titled *The Best Service Is No Service* because too many service interactions aren't necessary; they reflect, instead, as we've begun to show, the dumb things that companies have done to their customers: processes that customers don't understand, bewildering statements, incorrect letters, badly applied fees and charges, or services not working as the customer expects. Fundamental changes in service require companies to question what has driven the demand for service. In Chapter Two, we will explore how companies can follow this Principle and eliminate dumb contacts.

Principle 2: Create Engaging Self-Service

How often have you given up on a Web site or gotten lost in one? Have you ever listened to a set of toll-free menus and been overwhelmed by the choices, and tried desperately to find the option that lets you talk to an operator? How often have you filled out an application form online and then been told that you don't meet the criteria for an online application? How often have you searched for an online service and found that it is no longer available? How often have you been flummoxed by the operating manual for a new electronic device or for your new car? These are just some of the examples of the dumb things that organizations do or don't do in self-service.

When self-service works well, customers love it. Companies like Amazon and first direct couldn't have grown the way they have if customers didn't like well-designed self-service. ATMs took off because they were much more convenient than queuing in a branch. Internet banking is so convenient that it has increased the volume of transactions and inquiries that customers perform.

Why do so many companies get it wrong? Our perspective is that they understand neither the need for self-service nor how to create self-service solutions that their customers will embrace. In Chapter Three, we will explore how to follow this Principle and create self-service that customers will want to use.

Principle 3: Be Proactive

The reason why companies have to invest so much time trying to predict demand and then supplying appropriate resources is that the modus operandi is one of reactive service: if the customer calls, the company is there to deal with it. But in many cases the company knows that there is a problem yet still waits for the customer to contact the company to fix it.

Take product recalls, for example. Recently a leading company that had no idea which of its customers had the affected product needed to wait for customers to try to figure it out and then call the company, sometimes in panic mode. In Chapter Four, we will explore how companies can reverse this trend by actively approaching and dealing with the customer whenever necessary by exploiting opportunities for proactive service.

Principle 4: Make It Really Easy to Contact Your Company

Do you ever get the impression that some companies would rather not hear from you? Have you ever been on a Web site and searched in vain for a phone number to call? Have you ever found that companies expect you to get service only when they want to give it to you? If any of these situations seems familiar, it's another example of a company making itself hard to contact.

In Chapter Five, we will explore how companies need to open the taps, making it really easy for customers to reach them.

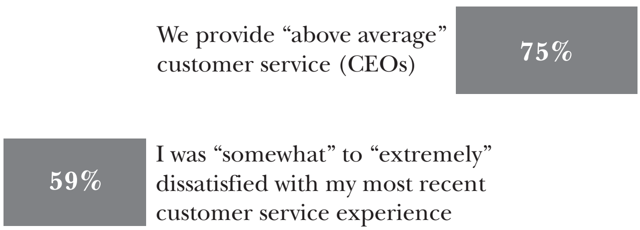
Principle 5: Own the Actions Across the Company

A bizarre myth has grown up in many companies that the head of customer service is responsible for customer service. Although we recognize that someone needs to be held accountable and be dedicated to service, we do not believe that the service operations can fix service without the help of all the other company departments and, increasingly, outside partners in the supply chain or in other functions. Although the head of service does need to forecast the demand for service, and handle those contacts well, many other areas of a business cause the customer contacts that drive the demand—for example, billing, IT, marketing, credit, and finance. IT and process and product areas can also influence how well the customer service area can service the demand. The norm is for the head of customer service to be held accountable for the standard and methods of service. Our perspective is that responsibility for service must be spread across the whole organization, so in Chapter Six, we explore how companies need to change accountability for service and follow Principle 5, putting ownership in the right place.

Principle 6: Listen and Act

Some companies have millions of contacts per year with their customers, yet they still spend considerable money and time researching their customers. In fact, head-office functions as marketing, product design, and IT have gotten further and further from frontline delivery, the information gap has increased between the head office's understanding of the customer and the behaviors and wants of customers as expressed at the front line. The interactions that companies have with customers today offer an amazing amount of insight about customers, the company's products and services, and even competitors—if companies can tap into what their customers are telling them. Unfortunately, most companies have not even thought to "listen" to their customers in this way when these interactions occur.

This disconnect is illustrated by the gap between the perceptions of CEOs and those of customers in general, as shown in the following graph. Over 70 percent of CEOs believe that their companies provide "above average" customer care, but nearly 60 percent of these companies' customers stated that they are somewhat or extremely upset with their most recent customer service experience.



Source: Accenture, 2007

Unfortunately, CEOs and board members are cosseted—they often fly first class, have "personal" or "relationship" bankers, get queued faster, and rarely set foot in a branch or pay their own bills. Because they have become disconnected with what their own customers experience, they will have to listen even harder.

Managers in larger companies who control market and customer research or set the budget for service rarely, if ever, spend time with the frontline staff who are dealing directly with customers. In small businesses this isn't the case—an owner who runs a restaurant or cafe doesn't need to conduct research into what his customers like or dislike. He hears it directly from customers: if customers are asking for cake or health food or gluten-free products or soy milk, the restaurant owner can respond quickly, or quickly be out of business. It's too bad that many companies have forgotten how to listen in this way. In Chapter Seven, we will describe how some companies haven't forgotten these lessons: they've become closer to the customer and thus more effective by following Principle 6, learning to listen and apply what they learn.

Principle 7: Deliver Great Service Experiences

Companies have created large centralized contact centers or service functions, separated service from sales or production, added lots of new technology, deluged themselves with meaningless or misleading metrics, and built walls around the customer service functions. They have then become stuck delivering service experiences that have forgotten the customer; stuck obsessing about speed, not quality; and stuck thinking that faster is more efficient. It is hardly a surprise that many customer experiences disappoint customers.

Companies Are Stuck with Service Experiences That Have Forgotten Who the Customer Is

Customers are often expected to navigate the organization and repeat account information and what happened ad nauseam, from agent to agent. The processes simply haven't been designed from the customers' perspective, and it shows. For example, as illustrated by the cartoon at the end of the Introduction, customers are justifiably miffed when companies (still!!) ask them to repeat their credit card number, frequent flyer account number, or order identification number after just having done so in an IVR or with another agent or, as is increasingly the case, after doing so online. "Don't you know me?!?" they might say. Then companies add in complexity for customers, such as by asking them to repeat data the company already knows or to provide information to comply with a procedure that someone in the legal department dreamed up. These are just two illustrations of experiences that haven't been designed with the customer in mind. In Chapter Eight, we will describe how to design and deliver superior customer experiences that are also simpler.

Companies Are Stuck Obsessing About Speed, Not Quality, as an Overall Measure of Service

Quality, like beauty, is in the eye of the beholder, in this case the customer. Unfortunately, measuring speed seems to be the only way that most companies measure quality. Although to some customers, "one-ring pickup" or "twenty-four-hour e-mail response" might connote a well-run outfit, such insular metrics as speed of answer or average handle time (AHT) simply cannot be equated with quality. Unfortunately, there are still benchmark studies galore supporting this misplaced theory, missing the mark entirely. Instead, quality is a complex weave (customer specific and changing like the sands on the beach) of such elements such as first contact resolution (FCR, aka "one and done"), educational and informative responses (giving more than the right answer by being proactive), and ideally doing away with the need to have to ask the question in the first place. No one likes standing in lines or waiting for phone queues, but quality starts after pickup or once the e-mail response is launched or during the chat, because that is when the customer starts taking note of "service" performance. In Chapter Eight, we will describe how to measure the right things and report on them across and up and down the organization.

Companies Are Stuck Thinking That Faster Is More Efficient

Some companies slavishly hold to an old operational-productivity shibboleth that shorter "customer handle time" is better, both overall and per staff member. Rubbish! What if your technical support representative is still in the middle of a complex solution call with a brand-new customer or one who has bought her fifth consecutive printer for her home office and the clock hits twelve minutes, the amount of time his supervisor told him is "ideal" and "the target"? Do you want him to hustle up the call and underserve? Of course not. The duration of service contacts is a complex issue, one that you need to understand very closely in order to determine overall service center staffing effectively and to link with corporate budgets and plans. However, the concept of duration falls apart when applied to any specific contact or customer service person. In Chapter Eight, we will present measures that balance speed and effectiveness, and show how to design and deliver great experiences.

Examples of Getting It Right

We have presented evidence of the malaise that has caused service to be stuck, but don't despair! The good news is that there are many shining lights—companies that are getting service right, with benefits for the companies and their customers. Each chapter will describe examples of companies that are demonstrating Better Service or Best Service behaviors. Here we will briefly introduce one example company as a preview to each Principle.

Eliminate Dumb Contacts—British Telecom

In 2001, British Telecom (BT) was receiving 2.4 million customer contacts each day; over 35 percent were repeats, and many were unnecessary. BT set about reducing these and other forms of unwanted contacts systematically, and by 2004 had reduced the contact volume to only one million per day, a 60 percent reduction; at the same time, customers were more satisfied, the BT staff was happier, and the cost savings proved that Better Service was also cheaper.

Create Engaging Self-Service—eBay

eBay represents one of the finest cases of customers' desire and willingness to use self-service. Not only do customers willingly buy directly from vendors, but the sellers themselves learn through various forms of self-service how to set up their stores on eBay, how to use eBay's payment and other services, and even what software is available to help them run their sales businesses. eBay also opens the communication channels between buyers and sellers through their seller and buyer ratings systems. If customers were unwilling to use self-service, eBay and the thousands of businesses that it supports would not be in existence today.

Be Proactive—Novadental Clinic

Dentistry is not an industry most would associate with great service. The Novadental clinic in Australia is run by one of Melbourne's leading dentists, whose consultancy firm advises other dental practices in how to run their businesses. The clinic demonstrates how to be proactive at every level: (1) promoting dental hygiene services to patients as a form of preventive dentistry; (2) monitoring that customers are getting checkups and hygiene services at regular intervals; (3) calling each customer more than twenty-four hours in advance of each appointment to ensure that he or she will be coming; and (4) maintaining a waiting list of other customers willing to "backfill" anyone who cannot keep his or her appointment. This is not only good service for the clinic's customers, ensuring that they remember their appointments, but also prevents costly no-shows for the dental practice.

Make It Really Easy to Contact Your Company—USAA Insurance

One of the more successful U.S.-based property and casualty insurance companies is USAA; it also has the highest loyalty rate in the industry. (The biggest reason that USAA loses "members" is death, not switching to the many other choices that members have.) USAA has always made it really easy for members to contact it for service, change their address, and learn about new products. The company publishes different toll-free numbers prominently on its Web site, in monthly magazines, on invoices and other notices, and in many other media. USAA will transfer its members to other services, but it always tells the member what that number is so that the member can call directly the next time he might need help.

Own the Actions Across the Organization—Yarra Valley Water

Award-winning utility Yarra Valley Water was determined to reduce the number and cost of complaints. To do this, the company established a "complaints council" that met each month to review the ownership and cause of any complaints that had reached the regulatory body (the industry ombudsman). After the council assigned ownership of each complaint to a particular department, it charged the new owners not just with ensuring resolution of that complaint but also with reporting back to the complaints council about underlying causes that led to the complaint in the first place, and how they could be addressed. This systematic process meant that all of Yarra Valley Water's departments were drawn in to tackle service issues and forced to acknowledge and act on their impact on service contacts. The company has recognized the value of taking a strategic perspective on complaints, and the process has resulted in a significant reduction in complaints, according to the industry ombudsman, Fiona McLeod. Pat McCafferty, the general manager who established the process at Yarra Valley Water, says, "What made this process powerful was that it drew together the key players across the business into the issues that impacted customers. We recognized that we couldn't solve these problems without ensuring all those that impacted service had a seat at the table."

Listen and Act—Amazon

All contact centers hold team meetings, usually weekly one-hour sessions that bore the agents with the latest policy changes, next work-shift details, and perhaps new company product releases. Amazon decided to inject life into these weekly sessions by asking the agents, "What have our customers been saying to you this past week?" which quickly became known as WOCAS (what our customers are saying). The company produced a weekly WOCAS report that quickly became popular reading for departments outside customer service.

In one of these weekly sessions, a customer service representative mentioned that in the middle of a call about a lost password, the customer told her that she really liked Amazon's 1-Click™ service (which enables customers to click only once with a preset shipping address, shipping method, and credit card to speed the order on its way); however, she said that she often shipped to different addresses and had two credit cards, so for any shipments other than her 1-Click settings, she had to navigate through the additional checkout process, easy to do but still time consuming. Another agent remarked that he too had occasionally heard customers talk about how cool it would be to have multiple 1-Click combinations, so the first agent asked if she could lead a task force to study how this could be done. (This was a frequent process at Amazon—engaging and encouraging Amazon agents and supervisors to launch or participate in cross-company task forces.)

After a couple of months, Amazon quietly launched drop-down 1-Click, "quietly" being another of Amazon's methods. Instead of announcing that customers could register additional shipping addresses, shipping methods, and credit cards beside their current

1-Click setting, Amazon (1) researched all previous multiple combinations, (2) preloaded them into this new feature, and (3) let customers discover it, allowing the "serendipity" for which Costco is also well known in its warehouse stores. The result? Increased customer orders and more convenience for customers.

Amazon CEO and founder Jeff Bezos likes to send e-mail messages to all Amazon customers whenever the company launches a new store. One day he decided to add this line to his message: "Please write and tell me what you think about this new store!" As he often said, Amazon's customers were the company's best focus group, and once again they didn't disappoint. With his intentional invitation for responses, Bezos and the rest of Amazon collected hundreds of thousands of e-mail replies in the next week, divided into three categories: (1) "I love your other stores so don't lose focus," (2) "Thanks for letting me buy this new stuff online," and (3) "When can I also buy other products from you guys?" In that third category, Amazon mined many requests that prompted "We didn't know it was so popular!" responses across the marketing and supply chain departments, such as considerable interest in buying kitchenware and small appliances online from the company. As a result, Amazon advanced timing to launch what is now called Kitchen & Dining inside the Home & Garden store and the Apparel & Accessories store.

Deliver Great Service Experiences—Union Square Cafe

Successful NYC-based restaurateur Danny Meyer has had hit after hit, the earliest and best known being Union Square Cafe. In his recent memoir, *Setting the Table: The Transforming Power of Hospitality in Business,* Meyer echoes Best Service when he defines "enlightened hospitality" that "stands some more traditional business approaches on their head." Among the elements that Meyer carefully plants and then allows to flourish in his restaurants and catering businesses, all completely applicable to the broader topic of customer service in our book, are (1) creating a dialogue with guests and ensuring that they feel that you are doing something *for* them and not *to* them; (2) choosing to look for new ideas and "tuning in to the feedback"; (3) hiring and nurturing "agents" instead of "gatekeepers" who share optimistic warmth, intelligence, work ethic, empathy, and self-awareness; and (4) embracing mistakes with awareness, acknowledgment, apology, action, and additional generosity. Pursuing these guest-centric processes means taking time, not hurrying the guest or the meal because they blend to become one—the experience.

Possible Objections to the Principles

We think the seven Best Service Principles are common sense and, as the examples we have just discussed illustrate, the Principles work and deliver benefits. There are many more examples throughout the book. However, we have encountered companies and individuals who take issue with our philosophy, so let's deal with those possible objections before we move on in our discussion of Best Service. We will cover three of the more common objections to our thesis: the recovery theory, the cross-sell theory, and the warm body theory.

Recovery Theory

Past studies have claimed that "recovery from failure" is the best way to deliver customer loyalty and satisfaction. One famous paper in the 1990s argued that customer recovery produces more loyal customers than situations when nothing breaks. We are not saying that customer recovery is wrong (in Chapter Two we will address how to conduct recovery operations through management of repeat contacts), but we believe that the idea of focusing efforts on recovery rather than prevention is a flawed strategy. First, it's expensive—recovery costs money in time and effort. Second, it adds risk—what if the company doesn't catch all the failures? Won't that leave some customers in a deeply unsatisfied state? We are not saying that companies don't need to be great at recovery; of course they do, because even in the best company things will go wrong. However, we advocate that an even stronger strategy is to be great at avoiding the need for recovery or, in other words, preventing issues and failures in the first place rather than being really good at fixing them.

Cross-Sell Theory

A second objection occurs in industries where the perception is that every contact is good because the company can use those contacts to sell additional products or services to those customers, also called cross-selling or up-selling. There are two counters to that argument. First, if a customer is calling when she didn't want to contact you, sales efforts are likely to be wasted, producing very low success rates, stressed agents trying to make the sale, and upset customers. What can you sell when the customer is trying to track her claim for something she needed to get yesterday? What can you sell when a customer wants to return a defective item or wants his broadband connection that keeps dropping service to work? Until the company demonstrates that its claim process works, a customer is hardly likely to want more insurance; until a customer receives her first item, she will probably not want to place another order. Second, if companies can get rid of all this wasted and unneeded contact, they can reinvest all that time and effort in sales at a more appropriate time. We will illustrate this further in Chapter Four, where we describe examples of companies reaching out to customers proactively to build their relationship.

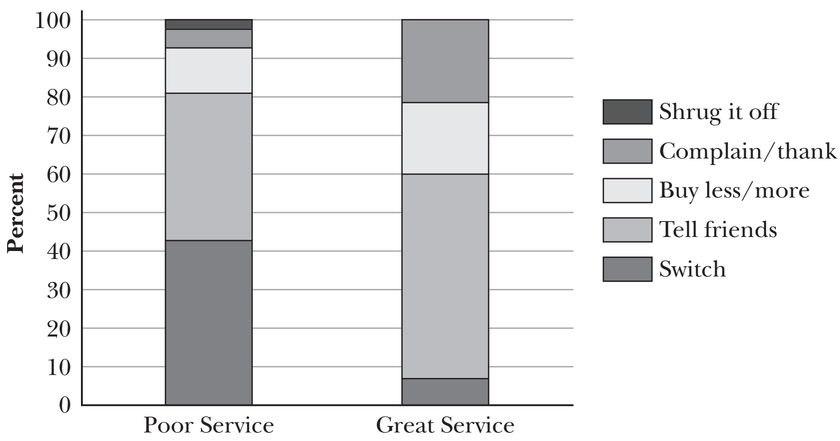
Warm Body Theory

Many executives still like to say, "Our customers want to speak to a real person and not to a machine," but nothing could be farther from the truth. This objection goes on to claim that only customer service agents (or tellers or other customer-facing employees) can provide the warmth and understanding needed to deal with customer complaints or frustration. We will argue that it is far better, cheaper, and more desirable from the customer's perspective, and for the company, to eliminate the defects or errors in the first place, design engaging self-service in as many places as possible, and be proactive. Today we're used to pumping our own gas (at least in North America), scanning items at the supermarket self-serve, and using ATMs to withdraw cash quickly. Do we miss the human touch? Maybe, but mostly we chuckle at movies like *Back to the Future* that show the gas station attendants flocking to wash windows, check oil, and pump gas—besides, we know that we're getting less expensive products or services if we can do some of the work for ourselves. Moreover, as such recent articles as "Expanding Banks Bemoan Lack of Qualified Tellers" describe, it is getting harder to find and hold on to talent.[4]

WHY SERVICE MATTERS

We have explained that service is stuck at best and sometimes broken in many service-intensive industries. Why is the fact that service is stuck or broken so important to companies? Customers who encounter bad service tell their friends, find other companies with which they want to do business, and cost companies dearly; those who encounter good service also tell their friends, stick around longer, and cost companies less. Two recent surveys punctuate these important findings. In the first, executive MBA students described what they do when they encounter poor service or great service, choosing from five possible actions (as shown in Figure 1.2). Over 40 percent of those encountering poor service said that they switch companies, as opposed to

FIGURE 1.2: "WHAT DO YOU DO WHEN YOU ENCOUNTER POOR SERVICE? GREAT SERVICE?"



Source: University of Washington executive MBA class, Bill Price, 2004 only 5 percent of those encountering great service (meaning that great service didn't save the companies from the consequences of poor products or prices); and a whopping 40 percent in each situation say that they tell their friends, spreading both the good news and the bad news to others. Intriguingly, fewer than 10 percent of those encountering poor service say that they register a complaint, confirming that complaints represent only the tip of the iceberg, and reinforcing our points in Chapter Five regarding making it really easy to contact your company so that these voices can be heard and understood.

In another, wider survey conducted by Customer Think, formerly known as CRM Guru.com, consumers with positive memorable experiences ("promoters") expressed a significantly higher propensity for recommending the products or services to friends than did those with negative memorable experiences ("detractors"). The promoters also purchased more products and services, and complained far less. The survey results appear in Figure 1.3.

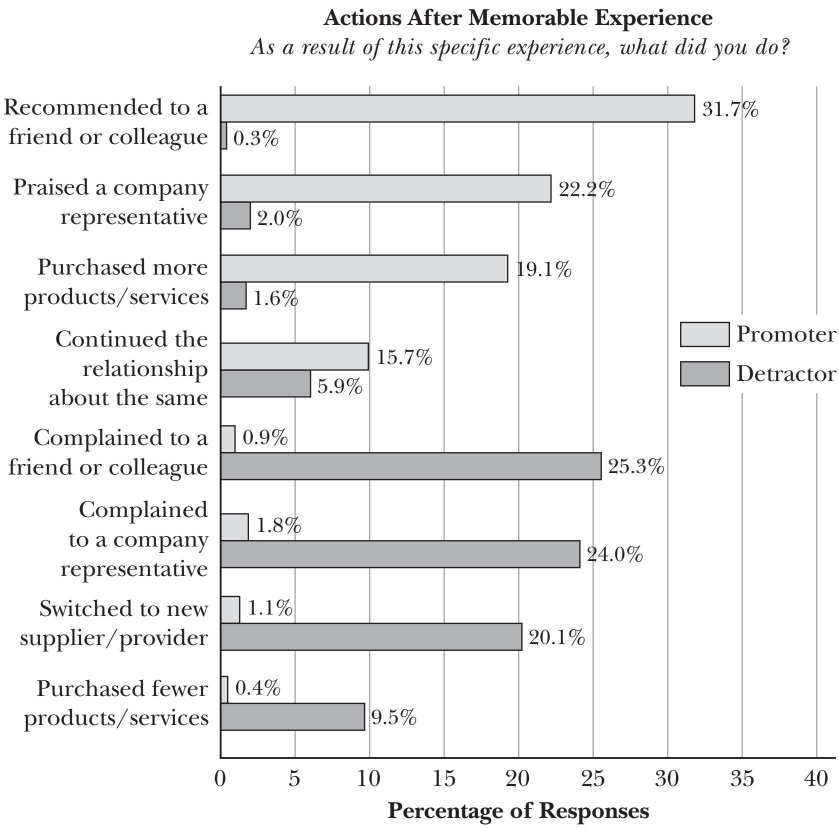
As these and other studies indicate, there are multiple "costs" or impacts of not getting service right. We will look at the revenue, cost, and brand implications in turn.

Lost Revenue

The first impact of poor service is loss of revenue. Faced with poor service experiences, in many industries customers will switch to other providers—perhaps not as a result of a single experience, so the switch might not happen immediately, but with some customers it will happen sooner or later. Sometimes companies do not pick up on the implications of service failure as they research customer switching. Customer exit surveys usually ask why the customer switched, and many customers cite such reasons as "I got a better offer" or that their new choice was "cheaper." However, the customers may have been open to the offer only because they have had service experiences that did not satisfy them. The fact that poor service experiences weakened loyalty or made customers look for alternatives is often not picked up by these types of exit research.

This is equally true in a business-to-business environment; the *Journal of Service Research* investigated the relationship between

FIGURE 1.3: PROMOTERS' AND DETRACTORS' REACTIONS TO SERVICE



Source: Thompson, 2006, p. 6. Used with permission of the author.

service received and the amount of business or share of wallet that customers would give to a given company and found that "The relationship between satisfaction and actual share-of-wallet in a business-to-business environment is not only a positive relationship but the relationship is non-linear, with the greatest positive impact occurring at the upper extreme of satisfaction levels."[5] Tom Peters reported similar issues in *The Pursuit of Wow!* citing a Forum Corporation of America report that 15 percent of customers migrated because of quality issues, and another 15 percent changed supplier because of price issues.[6] The remaining 70 percent moved because "they didn't like the human side of doing business with the prior provider of the product or service"—getting service wrong hurts the bottom line, too.

Increased Cost

We will discuss in depth the additional costs of poor service and dissatisfied customers, the largest being the cost of handling unnecessary contacts and overall demand for service, as we will describe in Chapter Two. The costs, of repeat contacts are clearly an unnecessary overhead, but these are often a fraction of the costs, of other "first time" contacts that customers would have preferred not to have made. There are further costs of handling complaints, some of which incur legal and other statutory costs. We calculated that for one utility the costs of repeat contacts and complaint handling alone represented 30 percent of its operating budget (see Figure 1.4).

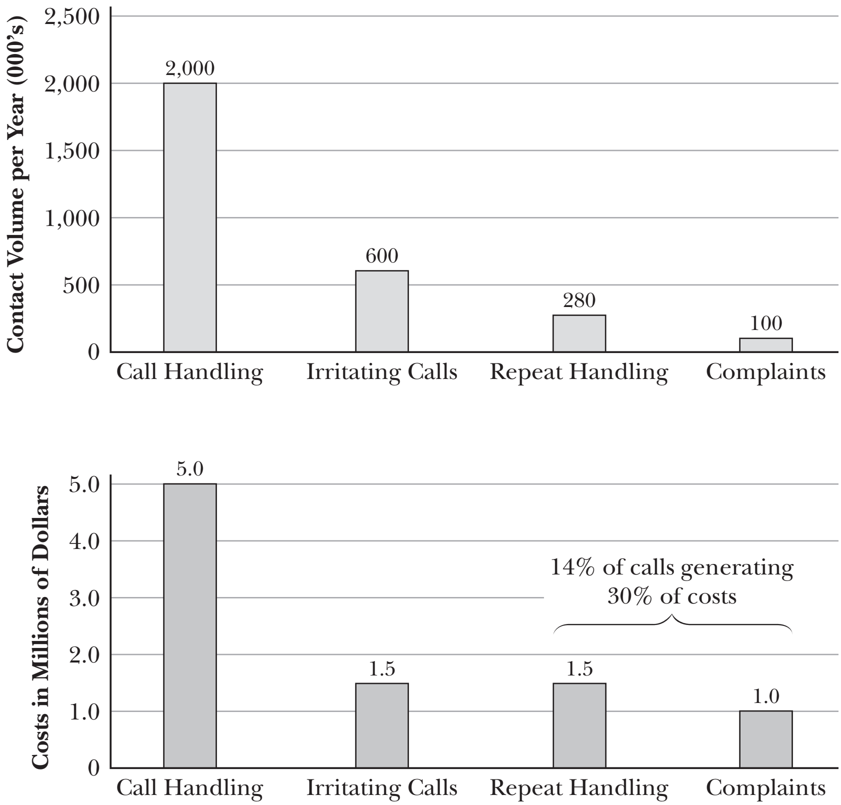
Moreover, there are other, less obvious costs of poor service. Operations that deliver poor service typically have staff who are more dissatisfied, which produces high turnover and associated replacement costs. These companies may also suffer higher write-off costs, such as waived fees or charges, and incur other additional costs, such as increased mail charges. All in all, poor service produces much higher operating costs.

There is a perception that some companies reduce the level of customer service in order to cut costs. We will prove later in the book that this is a false economy—at best it defers costs or creates a service operation that can deal only with a smaller customer base, and at worst it alienates customers who will leave in droves (and tell many others in blogs). There are few companies that are "overservicing" their customers to such an extent that they can afford to cut service without having other business impacts. The short-term strategy of cutting service to cut costs is the opposite of our recommendations in this book. We will demonstrate how to improve service and cut costs at the same time.

Impact on Brand and Reputation

The third major impact of poor service is damage to brand and reputation. Once a company has a reputation for poor service, it

Figure 1.4: Comparison of Customer Contacts and Costs, Utility Company



will have great difficulty recovering. Research studies have shown that customers who have a poor service experience tell many more people than those with a good one, as shown in Figure 1.3. This is understandable behavior—as customers we expect service to be satisfactory, and when things work as they are designed, we don't feel a need to tell anyone. When we encounter poor service, our emotional response makes it far more likely that we will tell others. Companies that deliver poor service destroy their brand value.

The same week in February 2007 that *BusinessWeek* declared JetBlue Airways to be one of the top twenty-five companies in customer satisfaction in the United States, the company suffered a huge black eye when it stranded thousands of passengers during ice storms, unable to handle the crush of calls into its contact center. Although the CEO apologized profusely, the company's stock took a beating, and later the CEO stepped aside from running the company that he founded.

The combined negative impact of poor service on revenue, costs, and the brand makes it clear that delivering better service delivers improved returns for any business. The researchers at the University of Michigan who track the ACSI have been able to quantify the impact of customer satisfaction on the value of businesses over the past six years, and the results are strikingly clear: companies that satisfy their customers outperform the market and deliver superior returns (see Figure 1.5). Delivering Best Service is a strategy with great financial returns. It reduces costs, boosts revenue, and increases brand value; further examples throughout the book will illustrate the success that companies are achieving.

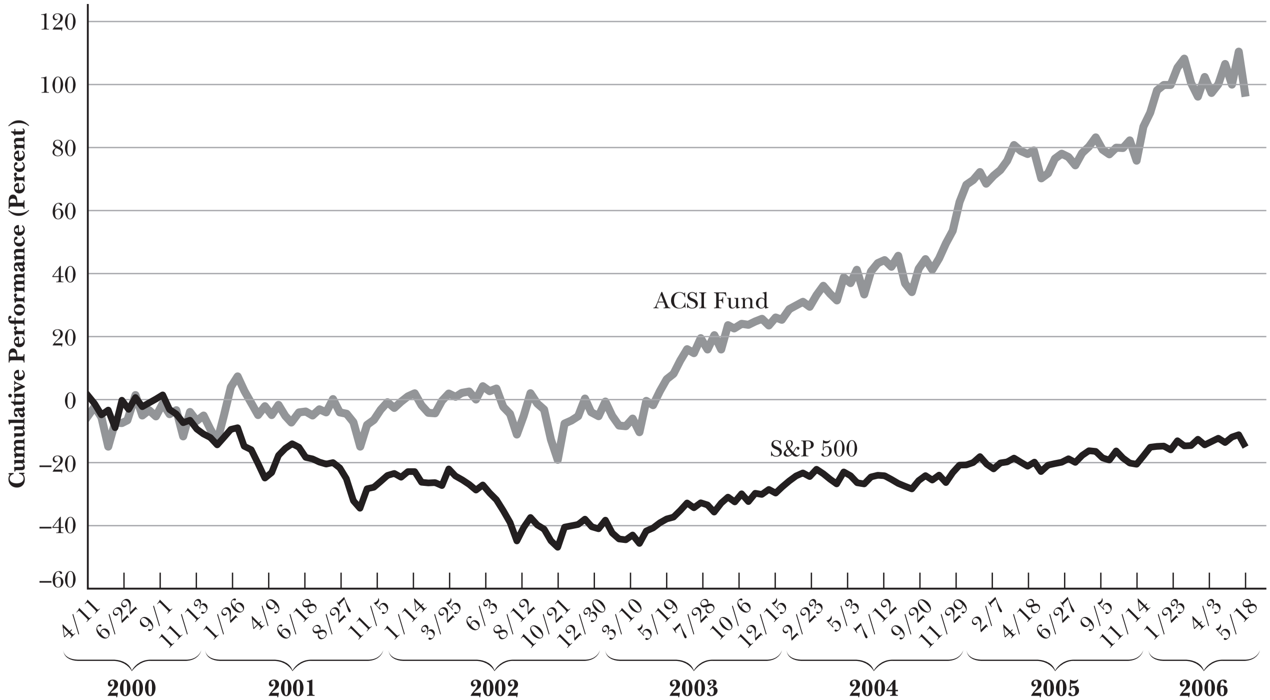
Best Service

This book presents a new canvas, a new approach for companies to take: that the Best Service companies can provide to their customers (and to their prospects) is to ensure that everything works so well and is so clearly laid out that customers do not need to bother themselves to contact customer service. Or as we've been saying, the Best Service Is No Service. We will present and dissect dumb contacts that companies force their customers to make and their customer service agents to handle, and we highlight the difference between good and bad customer service.

This Web posting sums up the disconnect that exists between frontline staff and management and highlights the gulf that needs to be breached, a key part of this book:

> I work for a utility company. A few years back I was having lunch with the Director [of Customer Service] and relayed a normal event in our customer service dept. where I spent 15 minutes on a customer call after which the customer mentioned that she's never been informed as well during my call and wished that she

Figure 1.5: Share Performance of Top-Performing ACSI Companies Compared to Market Performance



Source: S&P 500 data from msn.com; ACSI data from www.theacsi.org

> had been much sooner as she's called multiple times over the past couple years. To this my Director said that he's not so sure he wants 15 minutes spent on one customer. I was stunned and have never forgotten this. I believe wholeheartedly that spending that extra 10 minutes with this woman avoids repeat calls from her AND she'll tell two friends and they'll tell two friends, etc. So, I'm not surprised that CEO's are not aware about true customer service levels. They're still not walking the walk.[7]

We believe that a new approach, a sea change, is sorely required to prevent companies from repeating past mistakes and to help customers do without the need to seek customer service—all by challenging customer demand for support instead of simply coping with that demand, yet all the while ensuring that customers who do contact the company get awesome levels of assistance when they really need it. This quotation from an article otherwise slamming the state of U.S. customer service sums up our argument:

> I've never had to contact Amazon about any matter. I have had, in essence, no customer service from Amazon. Put another way, I have had such perfect customer service, the service itself has been transparent. That is exactly what Amazon wants. The goal is perfect customer service through no customer service.[8]