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The Smoking Gun

Definitive proof of the return on investment in providing superior service

You can have a great product, but it takes world-class service to create brand loyalty.

Based on extensive research, interviews, and analysis of various businesses, The DiJulius Group has determined the following trends in levels of customer service:

Level	Description	Companies (%)
1	Unacceptable	12
2	Below average	29
3	Average	38
4	Above average	18
5	World class	3

According to this study, 41 percent of companies are operating at unacceptable (1) or below average (2) levels of customer service, while 38 percent of companies are delivering average customer service (3). If you total that up (1, 2, and 3) 79 percent of the companies provide a level of customer service which is average at best. Which leaves us having a good customer experience about one-fifth of the time (level 4) and we only have an exceptional experience with 3 percent of the companies we deal with (level 5).

> You can say what you want about who you (think you) are, but people believe what they experience.
>
> —*Jack Mackey, Vice President, Service Management Group*

In Denial

Think about your business, what level of customer service does your company deliver? Now, from a customer's perspective, reconsider your answer. The sad truth is that the majority of businesses rank their customer service higher than their customers rank them. The following research reveals how much companies are in the dark about the level of service they are providing.

Bain & Company, a business consulting firm, surveyed customers of 362 companies and found:

- Only 8 percent of customers surveyed described their experience as superior.
- Yet, 80 percent of the companies surveyed believe that the service they provided was indeed superior.[1]

How can 80 percent of the companies think they are providing superior service, but only 8 percent of their customers agree with them? Who's right? The customer!

These findings are very similar to those uncovered by The DiJulius Group. Thousands of companies have taken our Company Service Aptitude Test (C-SAT), which is a detailed, self-assessment survey that managers take to find out what level of customer service they deliver. The C-SAT has proven to be an accurate indicator of the company's customer service level.

Prior to taking the test, participants are asked to rate their company.

> Before beginning, please select which level you believe best describes your company's customer service:
>
> Level 1 Unacceptable
>
> Level 2 Below Average
>
> Level 3 Average
>
> Level 4 Above Average
>
> Level 5 World Class

In this pretest question, approximately 53 percent of participants rate the quality of their service at one to two levels higher than the level determined by the C-SAT. You can take the C-SAT by visiting www.thedijuliusgroup.com/SAT. It is also discussed in detail in Chapter 4, Levels of Customer Service.

Perception Is Reality

The majority of companies don't realize the level of customer service they are delivering or that their own standards for good customer service are considerably lower than their customer's standards.

Could *They* Be *Us*?

After I speak about how to improve customer service, several people line up to tell me their personal horror stories, offering me material for my next book. I constantly hear things like, "You wouldn't believe how bad *they* treated me." and "Listen to what *they* did." This begs the question: If all of us agree and nod our heads at how bad they are at customer service, then who are the *they*? The answer is: *They* are *us*! We all can't be the victims. We need to assess our own businesses and accept that there is a good chance we and our companies are contributing to the crisis in some way.

No one will argue that there is a customer service crisis and that the majority of businesses do not make customer service a priority in their hiring, training, or treatment of their customers. Why is that? The answer: Because providing excellent customer service is a lot of work. It means you have to have systems, processes, hiring standards, training, and service recovery protocols in place. It is much easier for an entrepreneur, who is very educated and skilled at his profession, to open a business, hire some people, and start operating. Many assume that providing customer service is common sense: Just take care of the customer. Most organizations make significant investment in customer service a very low priority and it is the first thing that is cut out of the budget when times get tough, not realizing the major impact it has on the bottom line.

Customer Service and Its Impact on Sales

Is an investment in customer service really worth it? How does the level of customer service a company delivers truly impact key drivers such as customer retention, sales, profit, cash flow, stock prices, employee turnover, and a company's vulnerability to fluctuations in the economy and third-party conditions (i.e., gasoline prices, housing market).

Customer Satisfaction and Stock Prices

In an article from the *American Management Association's Journal of Marketing*, January 2006, titled "Customer Satisfaction and Stock Prices: High Returns, Low Risk," author Claes Fornell asks the question, "Does an investment in customer satisfaction lead to excess returns?" The empirical evidence presented in the article suggests that the answer is yes![2] Let me repeat that:

> The empirical evidence suggests that an investment in customer satisfaction does lead to high returns at low risk.

Claes Fornell, is the director of the American Customer Satisfaction Index (ACSI) and a professor at the Stephen M. Ross School of Business at the University of Michigan. ACSI is a leading indicator of consumer behavior, measuring the satisfaction of consumers across the U.S. economy. Extensive research proves that an increase or decrease in customer satisfaction, not only greatly impacts each individual organization, but has a significant impact on the future health of the economy.[3]

Equally amazing, the author's findings suggest that satisfied customers are economic assets with high return and low risk. The study also proved that the leading ACSI companies consistently outperformed the market by considerable margins.[4]

It is conclusive that organizations that consistently deliver superior customer service generally enjoy more repeat business, less price elasticity, higher price points, more cross-selling opportunities, greater marketing efficiency, and a host of other factors that usually lead to earnings growth. These companies also enjoy lower expenditures related to warranties, complaints, defective goods, higher employee satisfaction, and market share. In addition, several research studies find that higher customer satisfaction has a positive impact on employee loyalty, cost competitiveness, profitable performance, and long-term growth.[5]

These findings are consistent with previous studies that revealed that companies with higher levels of customer satisfaction are more likely to enjoy higher levels of net cash flow. Similarly, superior customer service companies typically have lower costs of sales and marketing. Remarkably, a one-point improvement in a company's ASCI score can result in as much as a 7 percent increase in cash flow.[6]

If good customer service translates into all the previously mentioned gains, such as repeat business, future revenue, increased market share, productivity, cost competitiveness, long-term growth, less customer defection, and lower employee turnover, it is logical that these factors will eventually affect stock prices and company valuations. And if that is the case, it would be difficult not to take seriously the notion of customer satisfaction as a real, intangible, economic asset.[7]

Irrefutable Evidence

Several studies compared the top ACSI companies against the market with regards to stock performance over six years, from 1997 to 2003, a period where the stock market had both ups and downs, to show the benefits of good customer service. The results were astonishing. While many businesses know the importance of providing consistent superior customer service, it is unlikely they realize how profound the benefits are. The top customer satisfaction companies (based on their ASCI scores) outperformed the Dow Jones by 93 percent, S&P 500 by 200 percent, and NASDAQ by 335 percent. The results conclusively show that customer satisfaction pays off in up-markets and down-markets. When the stock market dropped in value, the stock prices of companies with highly satisfied customers seemed to have benefited from some degree of insulation. Figures 1.1 through 1.3 show the cumulative returns over time.

A second study from a different time period, comparing the top ASCI companies versus the DJIA, S&P, and NASDAQ markets had similar results. The ASCI companies outperformed the markets each and every year. Figure 1.4 shows the five-year cumulative results.

No one can argue that these results are extraordinary. There are very few actions or strategies a business can implement, if any at all, that can produce comparable financial results. Firms that do better than their competition in terms of satisfying customers (as measured by ACSI) generate superior returns at lower systematic risk.[8]

To demonstrate the significance customer satisfaction has on the financial success of an organization, Figure 1.5 compares the companies

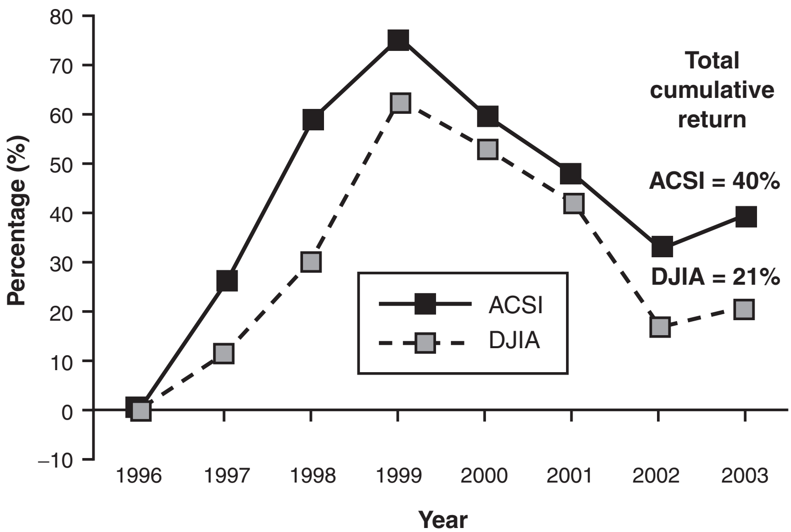

FIGURE 1.1 Top ACSI Companies versus Dow Jones (February 18, 1997, through May 21, 2003). From "Customer Satisfaction and Stock Prices: High Returns, Low Risk," by Claes Fornell, Sunil Mithas, Forrest V. Morgeson III, and M.S. Krishnan, 2006, *Journal of Marketing,* 70 (January), 3–14. Reprinted with permission from *Journal of Marketing* published by American Marketing Association.

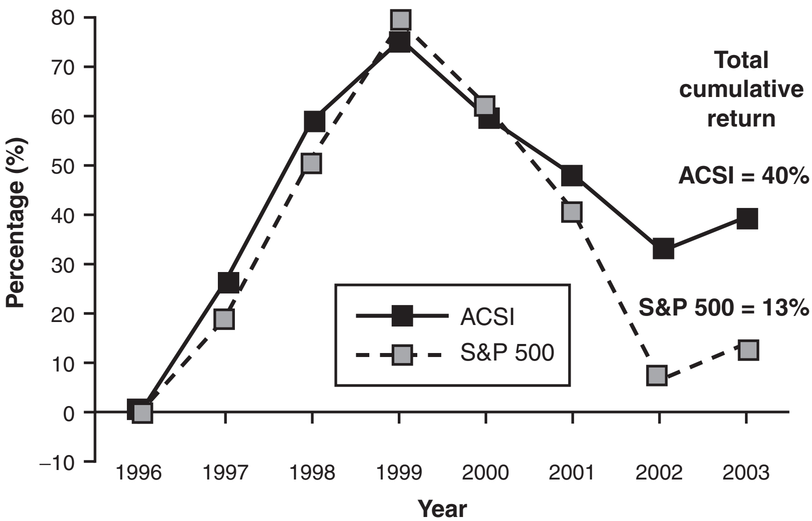

FIGURE 1.2 Top ACSI Companies versus S&P 500 (February 18, 1997, through May 21, 2003). From "Customer Satisfaction and Stock Prices: High Returns, Low Risk," by Claes Fornell, Sunil Mithas, Forrest V. Morgeson III, and M.S. Krishnan, 2006, *Journal of Marketing*, 70 (January), 3–14. Reprinted with permission from *Journal of Marketing* published by American Marketing Association.

with the top 50 percent ACSI scores versus the bottom 50 percent. The top 50 percent generated an average of $42 billion in shareholder wealth, while the bottom 50 percent created only $23 billion. One point of customer satisfaction translates into 3 percent of market value increase.[9]

In a study done by the Ken Blanchard Companies, 74 percent of companies declared their organizations were highly focused on customer service improvements. However, only 44 percent indicated that they had a formal process for achieving these desired results.[10]

Stone Ages

Most companies' financial measurement methodologies for customer satisfaction are extremely misleading and too primitive to be useful. This won't change unless shareholders, corporate boards, and investors put more pressure on companies to account for intangible assets more effectively. Customer satisfaction should be considered an economic asset on the balance sheet and every executive should know the correlation between the level of customer service their company provides and the bottom line.

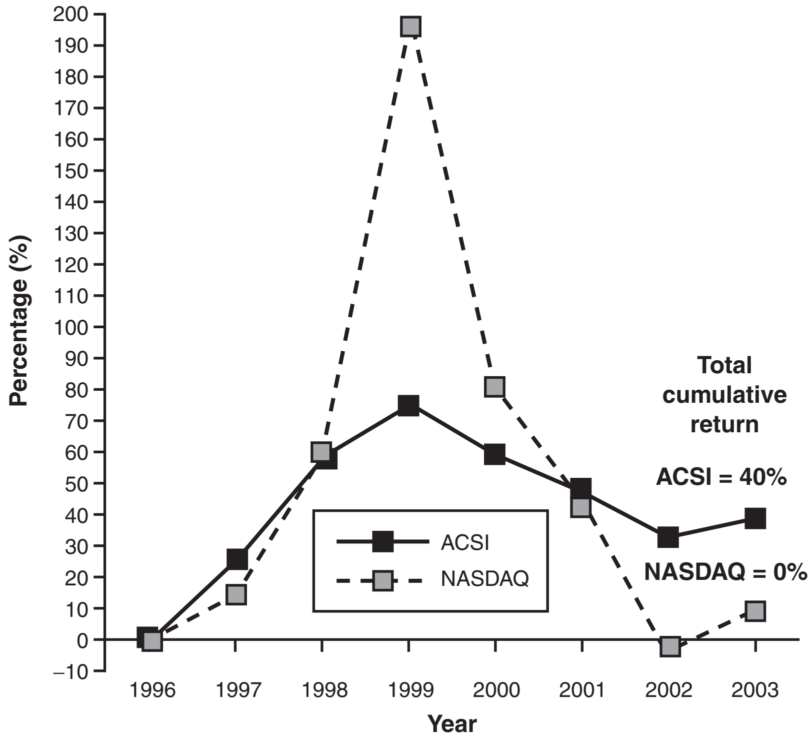

FIGURE 1.3 **Top ACSI Companies versus NASDAQ (February 18, 1997, through May 21, 2003). From "Customer Satisfaction and Stock Prices: High Returns, Low Risk," by Claes Fornell, Sunil Mithas, Forrest V. Morgeson III, and M.S. Krishnan, 2006, *Journal of Marketing*, 70 (January), 3–14. Reprinted with permission from *Journal of Marketing* published by American Marketing Association.**

But if customer service is that important, why is it not represented on profit and loss statements or balance sheets? There are line items for advertising, marketing, people development, entertainment, but usually nothing for customer service. Our financial reporting seems to be in the Dark Ages with regards to its omission of factors such as customer service and customer satisfaction. "It is often difficult to translate, accounting doesn't help. Investment in customer service can't be capitalized, nor does it show up as an asset. After all, an intangible, feel-good asset such as customer satisfaction can't be captured on the balance sheet. So spending to improve customer service and customer retention is usually treated as a cost rather than an investment. The result is that those

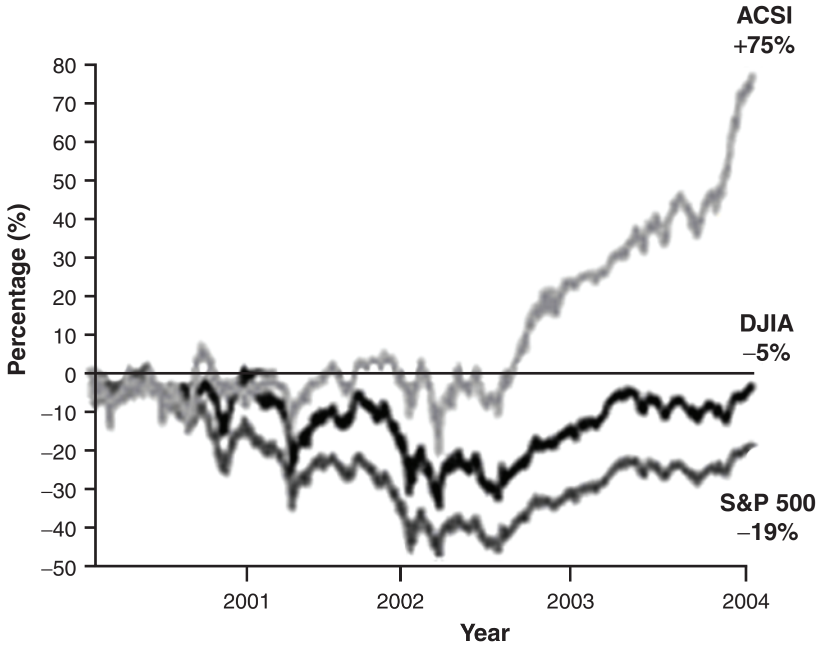

FIGURE 1.4 Top ACSI Companies versus DJIA, S&P, and NASDAQ Markets (April 11, 2000, through December 31, 2004). From "Customer Satisfaction and Stock Prices: High Returns, Low Risk," by Claes Fornell, Sunil Mithas, Forrest V. Morgeson III, and M.S. Krishnan, 2006, *Journal of Marketing*, 70 (January), 3–14. Reprinted with permission from *Journal of Marketing* published by American Marketing Association.

costs are recorded before the benefits of the investment are realized," says Fornell.[11]

Consider the case of Amazon.com. Their pursuit of a better customer experience has turned out to be exactly right. Amazon estimates they have 72 million active customers, who, in a single quarter, spend an average of $184 a year on the site, up from $150 the year before.

Amazon's return customer business is proof that customer service pays off. With a customer retention rate that consistently hovers around 80 percent, their typical customer is worth about five purchases. By increasing their retention rate to 85 percent, the typical customer will average seven purchases. An increase of only two purchases, right? Well, multiply that additional two purchases by the average purchase price of each order and then by their 72 million users worldwide and it becomes a pretty significant increase. As Fornell points out, "Organizations need to figure a way to apply economic systems that link customer satisfaction to shareholder value."

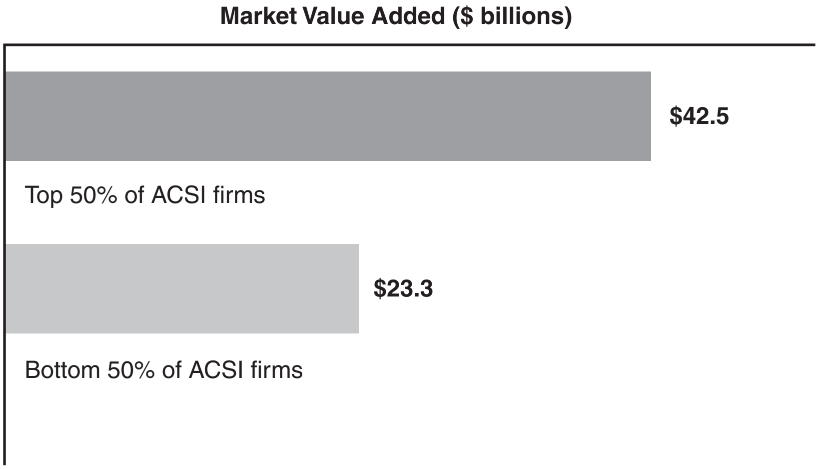

FIGURE 1.5 Comparing the Top 50 Percent ACSI Firms versus Bottom 50 Percent in Shareholder Wealth. (From "High-Tech the Old-Fashioned Way: An Interview with Tom Siebel of Siebel Systems," by Tom Siebel and Bronwyn Fryer, 2001, *Harvard Business Review*, March. Copyright 2001 by the Harvard Business School Publishing Corporation, all rights reserved. Reprinted with permission.) *Note:* ACSI and MVA data for 1999 base: 73 U.S. companies.

Service Vision—To Be the Most Customer-Centric Company in the World

In an article that appeared in the January 5, 2008, edition of the *New York Times*, business columnist Joe Nocera noted that Amazon's stock continues to rise, in spite of Wall Street analysts' predictions of the stocks demise due to its focus on such frills as putting customers first. Nocera talks about an incident a few days before Christmas, where he ordered a PlayStation, a $500 gift, through Amazon.com. After it was delivered, signed for by a neighbor, and left in the building's lobby, the package disappeared. To Nocera's surprise and delight, an Amazon customer service representative sent out a replacement unit, which arrived on Christmas Eve. Not only did Amazon not charge him for the replacement, but they didn't even charge him for the shipping.[12]

So why were Wall Street analysts so wrong in predicting the demise of Amazon? Could it be these supposed stock prognosticators put too much emphasis on margins and short-term results and not enough emphasis on the customer service practices that help create a lasting company?[13]

In the article, Nocera went on to recall a recent interview with Jeffrey Bezos, Amazon's founder and CEO, where he explained his "obsession" with customers: "I'm so obsessed with the drivers of the customer experience, I believe that the success we have had over the past 12 years has been driven exclusively by that customer experience. We are not great advertisers. So we start with customers, figure out what they want, and figure out how to get it to them." Amazon has really had only one stated goal since it began: to be the most customer-centric company in the world.

It appears Amazon is succeeding. Millions of people instinctively go to Amazon when they want to buy something online because they have come to trust the company in a way they trust few other online entities. Amazon's technology, its interface, and its one-click buying service are all incredibly easy to use. It offers suggestions for further products that actually appeal to its customers. Its Amazon Prime program—for a $79 annual fee you get two-day free shipping—is enormously popular. Unlike most e-commerce sites, when you have a problem, the customer service telephone number isn't hard to find. Amazon is even willing to correct mistakes that it didn't make.

All of this, however, comes at a price. Customer service isn't cheap. Amazon has invested heavily in improving the customer experience. Take for instance, in just one year, Amazon spent over $600 million in shipping. Wall Street, however, has never placed much value in Mr. Bezos's emphasis on customers. What he has viewed as money well spent toward building customer loyalty, many investors saw as giving away money that should have gone to the bottom line. "What makes their core business so compelling is that they are focused on everything the customer wants," said Scott W. Devitt, who follows Amazon for Stifel Nicolaus & Company. "When you act in that manner, many times Wall Street doesn't appreciate it." What Wall Street wanted from Amazon is what it always wants: short-term results. Precisely what Dell tried to give investors when it scrimped on customer service and what eBay did when it heaped new costs on its most dedicated sellers. Eventually, these short-sighted decisions caught up with both companies.

There is simply no question that Mr. Bezos's investment in his customers, and his focus on the long term, has paid off, even if he had to take some hits to the stock price along the way. Mr. Bezos has said, "If you did something good for one customer, they would tell 100 customers."[14]

Companies and the Customers Who Hate Them

An article that appeared in the *Harvard Business Review*, June 2007 talks about how companies need to create less company-centric and more customer-centric policies.[15] If customer satisfaction creates loyalty and loyalty produces profit, then why do so many companies infuriate their customers with contracts, hidden fees, fine print, and unnecessary penalties? The article's authors, Gail McGovern and Youngme Moon suggest it is because companies have found that confused and ill-informed customers can be the most profitable.

Perfect examples of these companies are cell-phone carriers, banks, and credit card companies that profit from customers who fail to understand or follow the rules about minutes used, minimum balances, overdrafts, or payment deadlines. It has been estimated that 50 percent of U.S. cell-phone carriers' income is derived from penalizing fees. These strategies may be profitable in the short term, but in today's technology age, public sentiment spreads like wildfire, damaging a company's reputation in blogs and company-specific hate sites.[16]

What many of these companies have in common is that, even though they appear to take their customers for granted, their customers have little choice but to deal with it. Want to change your cell-phone company? Be ready to pay a hefty penalty to break your contract. Want to dump your internet provider? That may be difficult when one provider monopolizes your area.

Standard customer turnover in the cell-phone industry is 25 percent a year, which is shocking, especially considering most have customers sign contracts. This heavy turnover increases the amount of money that needs to be spent to replace these customers through aggressive marketing and advertising. In 2005, the U.S. cell-phone service industry spent more than $6 billion on ads.[17] Which begs the question, how much better would their customer retention and satisfaction be if they took half that $6 billion and put it toward customer service training of their call centers, technical support agents, and retail associates?

Welcome Virgin Mobile USA onto the scene, which entered the industry in 2002 with an unusual customer-focused strategy: a pay-as-you-go pricing plan with no hidden fees, no time of day restrictions, no contracts, and straightforward reasonable rates. With an advertising budget one tenth that of the larger players in the industry, Virgin Mobile USA, in only a few years, already had exceeded 5 million subscribers and a retention rate considerably higher than the industry average, even though its customers can leave at anytime without any penalty. They have a 90 percent customer satisfaction rating, with more than two-thirds of their customers reporting they would recommend Virgin Mobile to friends and family.[18]

The banking industry is not much better. Profits from American banks have increased so dramatically from consumer fees and overdraft penalties that Congress had to reintroduce the Consumer Overdraft

Protection Fair Practices Act. When the customer service bar is low, that means there is a great opportunity for someone to come in and steal the market. And that is exactly what the online bank ING Direct has done, offering savings accounts with no fees, no tiered interest rates, and no minimums. ING Direct is now the fourth-largest thrift bank in the United States, adding 100,000 new customers per month, with total assets of more than $60 million.[19]

The *Harvard Business Review* article offers warning signs to recognize customer unfriendly practices in your company:

- Are your most profitable customers those who have the most reason to be dissatisfied with you?
- Do you have rules you want your customers to break because doing so generates profits?
- Do you make it hard for customers to understand or abide by your rules?
- Do you depend on contracts to prevent customers from defecting?

Deteriorating customer service is not only the customer's issue. Eventually shareholders feel it the worst. For years Home Depot was known for having knowledgeable floor staff available to assist their customers and its stock price reached as high as $70. However, their customer satisfaction fell and their stock price followed by dropping to nearly half.[20]

Artificial Growth versus True Growth

Growing your business artificially may satisfy shareholders and investors short term, but it is rarely effective over the long term. Examples of artificial growth are mergers, acquisitions, price-cutting, and novelty marketing promotions. But, typically, none of that results in higher customer satisfaction, loyalty, repeat business, referrals, or sustainable growth. There is only one true growth, growth that occurs because customers love doing business with you and sing your praises to their network.[21]

"Mergers and acquisitions often lead to deteriorating customer satisfaction as companies reduce costs," Fornell said. "This was the case for banks in the late 1990s when there was considerable merger activity. It remains to be seen if history will repeat itself, but the data suggest that the recent mergers are not contributing to improved customer satisfaction."[22]

Price reduction = Resource reduction = Service reduction
= Value reduction = Customer reduction

If repeat business is created through price discounts or other means that do not cause an upward shift in a company's demand curve, the relationship with the customer will be weaker.[23] Discounting comes with cost-cutting as well, and when lower resources meet an increase in demand that will ultimately reduce the value your customers perceive your company provides. Rarely can you reduce prices without reducing your resources—staffing, amenities, options—which all reduces the service you are able to provide your customers.

When customers experience inferior service, the need for discounting becomes even greater to offset the frustration level of doing business with an organization. Thus, repeat business produced by higher customer satisfaction will be more profitable in general than repeat business generated by price discounts.[24]

A large percentage of organizations today are built not to serve but to sell. The relentless pressure for cheaper product pricing that is applied to organizations today has expedited the globalization of labor, forced the issue of outsourcing, and destroyed otherwise healthy corporate cultures. Once this happens, organizations become vulnerable to any competitor that brings a lower price to the market. No loyalty exists when the nature of the relationship between the buyer and the seller is based on price and nothing more.[25]

In an article titled "The Death of Cost-Cutting" that appeared in *Smart Business* magazine, James Lane and Hersh Chaturvedi point out that CEOs are realizing that there is a different strategy to growing their business other than cutting costs wherever possible. Price drives profits and superior customer service experiences drive price. Their survey found that businesses achieving a premium price are four times likelier to be delivering a superior customer experience.[26] A 5 percent increase in customer retention could yield 25 to 100 percent improvement in profits. Companies with the highest customer loyalty typically grow revenues at more than twice the rate of their competitors.[27]

Sustainable organizations have leaders who model a service-oriented culture that holds human beings in high regard and seeks opportunities to make a positive impact for all stakeholders.[28] Too often when new competition enters the market with a less expensive service or product, many of the other players in the industry rush to cut their prices in fear of losing market share. In many cases when companies focus on creating a relationship and providing superior service, price becomes less relevant to their customers. Instead of dropping prices and hurting margins, organizations should consider increasing the value the customers are getting for their money.

Making Price Less Relevant

Since opening in 1993, John Robert's Spa, a chain of upscale salons and spas in Cleveland, Ohio, focus has been on legendary customer service. We have won numerous awards for both service and growth, including being named one of the top 20 salons in America multiple times. Cleveland is not a big city like New York, Los Angeles, or Chicago where salons can demand high prices. The average woman's haircut price in Cleveland is $24. John Robert's Spa prices range from $45 to $110, depending on the service provider's experience.

More than 90 percent of our competitors are less expensive, in some cases considerably so, yet we are one of the busiest salons in Ohio while spending virtually nothing on advertising. Even during a sluggish economy (2001–2007), when demand for anything considered discretionary or a luxury, such as spa services (higher priced haircuts, manicures, facials, massages, pedicures, etc.) would be greatly diminished, the spas thrived. John Robert's Spa has enjoyed 15 consecutive years of revenue growth while steadily increasing prices by adding value to the services they provide. Instead of focusing on selling haircuts, John Robert's Spa focuses on creating an experience for guests that provides them with not only the fashion expertise they seek, but more importantly, an escape from daily stress and much needed rejuvenation that our bodies and mind require today (see Chapter 5).

> Companies spend millions creating and advertising their brands, yet the customer's experience is what drives customer perception.

When the Brand's Message Contradicts the Customer's Experience

It is a fact that nearly every market leader across many industries has the highest satisfied customer base, and usually advertises the least. Yet most executives have a difficult time investing revenue in customer service and training. Leaders who rose through customer-facing functions, are more likely to act with reference to customer experience than those who have not. In contrast, executives who rose through finance, engineering, or manufacturing often regard managing customer experience as the responsibility of sales, marketing, or customer service.[29] They will throw millions of dollars at marketing, advertising, and branding campaigns that promote a message that is contradictory to what the customer actually experiences. By investing 50 percent of your marketing budget into dramatically improving the level of your organization's customer service, you will see a significantly greater return on investment (ROI) than you were getting on your marketing and advertising dollars. Your customer base will turn into an unpaid salesforce.

Costco wholesale club, a leader in their industry in customer satisfaction, has grown to over 45 million members despite spending little on advertising or marketing. Between 1994 and 2004 Chick-fil-A grew nearly 15 percent annually, in spite of the fact they had one of the lowest advertising expense percentages to revenue in their industry. Chick-fil-A sets the bar for customer satisfaction companies in the quick service restaurant industry.[30]

In the early 1990s, Enterprise Rent-A-Car was experiencing dramatic growth; "We were seriously compromising our commitment to customer service," says CEO Andy Taylor. Enterprise has taken an aggressive strategy resurrecting their customer service. Enterprise's investment in improving their customer service has certainly paid off. Author, Fred Reichheld cited Enterprise as a model of how to generate customer loyalty.[31] "I have to say that learning to measure and manage customer service was not easy. We only had a vague idea of how difficult it would be. Of course, we didn't anticipate how great the rewards would be for our customers and our people. We were out of balance, with too much emphasis on the financial numbers and not enough on pleasing our customers. We have come a long way toward achieving a more consistent service performance," says Taylor. As a result, Enterprise has gone from $76 million in sales in 1980 to over $7 billion in sales by 2007.

Gary Loveman, COO of Harrah's Entertainment, doubled revenues and earnings by reinvigorating the company and institutionalizing a service culture. Loveman adjusted the compensation program for his general managers so that one-quarter of their bonuses depend on their customer satisfaction results. Every nonmanagement employee of the casino also receives a bonus if his or her property improved its customer service scores by 3 percent over the same period a year earlier. Harrah's has created a service curriculum that every employee had to pass, otherwise they lose their jobs. "Market by market, where our profitability and revenues greatly exceed our relative market position, there's no question but that the results are largely service driven," says Loveman. In four years, during this service makeover, Harrah's revenue grew by over 100 percent and equally as impressive, their employee turnover dropped nearly in half, from 45 percent in 1998 to 24 percent in 2001.[32]

Customer Satisfaction Is a Fortune Teller

The level of a company's satisfaction can typically be an excellent forecaster of their future success. Author Joe Calloway sums it up best, "If you want to see how a company is doing now, look at their current sales; if you want to know how a company will perform in the future, look at their current customer satisfaction scores."[33] Every company measures performance by "comp sales," or same store sales comparing current year to previous year. Rightfully so, it is one of the most important benchmarks of a company's success in their market. Service Management Group, of Kansas City, who conducts over 28 million customer surveys a year, has discovered that businesses with higher customer satisfaction have higher comp sales growth. Having a loyal customer base drives top-line growth. Figure 1.6 illustrates the effect customer satisfaction has on

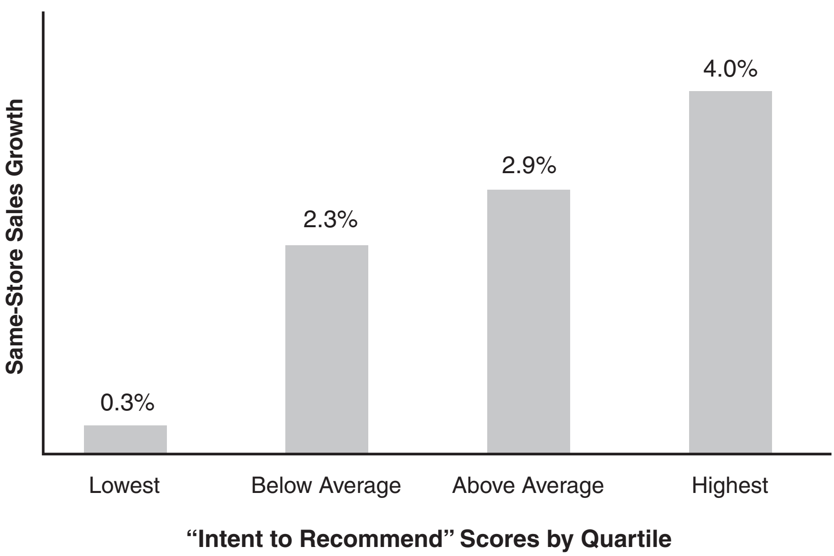

FIGURE 1.6 Loyalty Impact on Sales Growth (Service Management Client Data). ***Note:*** **Higher intent-to-recommend scores correlate with higher same-store growth.**

comp sales. Stores with the lowest "recommend scores" average comp store sales growth of 0.3 percent compared to those at the highest end of the range, which grow at an average of 4.0 percent.

Customer satisfaction also has a huge impact on employee loyalty and turnover. Figure 1.7 shows the higher the employee turnover, the lower the customer service satisfaction levels.

A *Harvard Business Review* article titled *Why Satisfied Customers Defect*, explains that attempts to create a complete customer satisfaction in commodity industry will often raise the product or service out of the commodity category, for example, Starbucks.[34]

As pointed out in *Authenticity* (Harvard Business School Press, 2008):[35]

> *Starbucks earns several dollars for every cup of coffee, over and above the few cents the beans are worth, precisely because it has learned to stage a distinctive coffee drinking experience centered on the ambience of each place and the theatre of making each cup. Perhaps no other company in the world more earnestly and steadfastly seeks to render authenticity—resolutely shaping how consumers perceive it to be.*

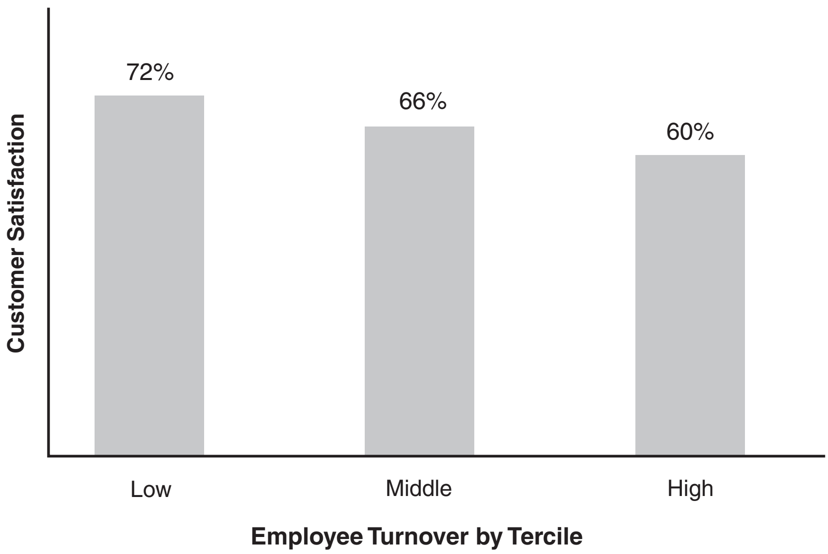

FIGURE 1.7 Employee Turnover Impact on Customer Satisfaction (Service Management Group Client Data). *Note:* Higher employee turnover reduces customer satisfaction.

Conclusion

Business has never been tougher than it is today . . . the only businesses that are surviving with long term sustainability are fanatical about differentiating themselves through the customer experience they deliver.

It Is Time to Either Get on, Get off, or Get Run over

There is conclusive proof that with the necessary investment to improve your company's customer service an organization can incur the following benefits:

- Higher customer retention
- Higher customer satisfaction
- Increased sales
- Higher comp sales
- Higher profit
- Increased cash flow
- Higher stock prices
- More shareholder earnings and value
- Lower employee turnover
- Increase in future earnings
- Reduced risk
- Less affected by the fluctuations in the economy and third-party conditions

Notes

1. Bain & Company. "HBR Understanding Customer Experience" [Bain & Company Survey], February 2007.
2. Claes Fornell, "Customer Satisfaction and Stock Prices: High Returns, Low Risk," *Journal of Marketing*, January 2006.
3. See note 1.
4. See note 1.
5. See note 1.

6. See note 1.
7. See note 1.
8. See note 1.
9. See note 1.
10. Ken Blanchard, "Key to Customer Loyalty," www.kenblanchard.com.
11. See note 2.
12. Joe Nocera, "Put Buyers First? What a Concept," *New York Times*, January 5, 2008.
13. See note 12.
14. See note 12.
15. Gail McGovern and Youngme Moon, "Companies and the Customers Who Hate Them," *Harvard Business Review*, June 2007.
16. See note 15.
17. See note 15.
18. See note 15.
19. See note 15.
20. Christopher Oster, "Customer Service Hall of Shame," *MSN Money*, April 26, 2007 12:01 AM ET, http://articles.moneycentral.msn.com/SavingandDebt/Advice/TheCustomerServiceHallOfShame.aspx.age=2/.
21. Fred Reichheld, *The Ultimate Question* (Boston, MA: Harvard Business School Press, 2006).
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