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Communication Paper

Common Assumptions That Are Barriers to Service Improvement

By John Goodman, Vice Chairman, TARP

There is an ongoing drumbeat of service innovation in approximately the top twenty percent of companies. These innovations can be classified into three areas:

1. **Delivering products and services that completely meet customer expectations** in a manner that leads to less need for supplemental customer service, thereby providing higher value to the customer. For example, HP, Key Bank, FedEx and Allstate proactively educate customers on how to avoid problems, thereby preventing their occurrence and lowering service cost. Further, they have appointed Chief Customer Officers with preview across the end-to-end customer experience to assure that marketing and sales set expectations that operations can and will fulfill.
2. **Enhanced customer service delivery and problem solving process**. Problem solving is based on flexible response to tailor the solution to the particular customer problem accompanied with clear believable explanations of why the company did what it did. The front line is empowered to achieve first contact resolution and to further educate the customer and provide value adds as appropriate. These approaches are practiced by Compass Bank, American Express and Firestone. Further, companies like AAA, Whirlpool and Electronic Systems Inc of Norfolk practice motivation via celebration and recognition of great service where employees periodically present successes in front of their team.
3. **An enhanced use of Voice of the Customer (VOC) to improve the basic product and service delivery process.** Companies like 3M, Toyota, NJ Natural Gas and Cisco Systems combine surveys, internal metrics and structured and unstructured customer contact data to create a more impactful, less expensive unified picture of the customer experience. This picture is then converted into revenue and word of mouth impact estimates the CFO will accept.

All of these innovations were possible because the organizations recognized and overcame the following assumptions and beliefs which still hold back improvement of service in a majority of companies. These assumptions include:

1. Front line employees are the causes of most customer dissatisfaction
2. No news is good news
3. Almost everyone is price driven
4. Answering the phone really fast is the key to great service
5. Great service costs more than good service
6. Once you are at 90% satisfaction, it gets dramatically more expensive to move the needle
7. Everyone wants personalized service and to talk to a human being
8. The customer is always right
9. Our benchmarking shows that we're better than average so we're OK.
10. We have a comprehensive survey process, therefore we have a great Voice of the Customer system

Each of these beliefs results in serious mistakes in resource allocation and impedes fundamental improvements in service. The following is a review of how each myth leads to incorrect decisions and allocations.

Myth 1: Front line employees cause most customer dissatisfaction. This is reinforced by some flawed research (somewhat based on folklore) on why customers leave; it suggests that over 79% leave due to employee attitude. The best way to improve service is to intensely monitor and coach front-line employees to do what they are told and to have a better attitude.

Fact: A majority of customer dissatisfaction is caused by factors other than employee attitude and mistakes. These other factors often prevent employees from providing effective service.

TARP has found that more than 95% of employees come to work wanting to do a good job, but are stymied by product-related unpleasant surprises, incorrect expectations created by marketing and sales, programmed responses that don't satisfy the customer and broken processes that don't deliver on promises made by the front line. These types of issues cause 40-60% of dissatisfaction. Also, customers cause 20% of their own dissatisfaction by failing to understand the product limitations, failing to read directions, making errors or stupid actions (like attempting to whiten teeth with household bleach - true story!).

The solution is to identify customers' key points of pain and, for the major points of pain, determine if the cause is employee error or attitude, a product with built-in problem, a broken process, marketing over-promising, or a customer error/expectation. Call monitoring which focuses on why the customer called more than how the employee responds is an excellent source of this diagnostic information.

Lesson: Execute a true root-cause analysis of dissatisfaction. In most cases, the process, product, or customer is at fault and needs to be fixed.

Myth 2: If complaints are going down, things are getting better.

Fact: Fewer complaints often mean fewer people are complaining because they've given up.

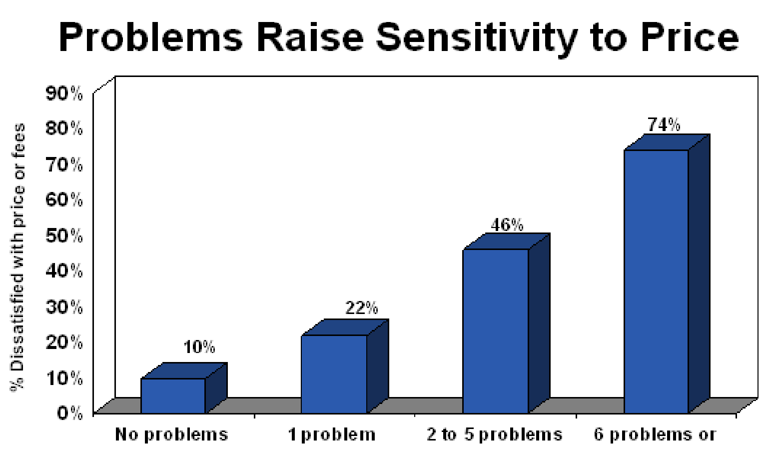
In the last three years, TARP has recently observed a significant decline in complaint rates due to customers feeling that complaining will do no good. When asked why they didn't complain, we are seeing a growth in the reason, "It won't do any good". Customers assume that policies are fixed and inflexible. They draw their expectations from dealing with other companies where the final answer is, "That's our policy and there is no appeal". We find the ratio of customers with problems to those who complain to HQ or an 800 number can be as high as 200 to 1 with a few cases as high as 2,000 to 1. Complaint rates also vary by type of issue, being higher about billing and lower for mistreatment or feeling misled. Ironically these latter issues do more damage to loyalty.

Lesson: Monitor complaint rates at least every other year – go to a random sample of customers and ask what problems they've had and if they contacted anyone about the problem.

Myth 3: Service is nice but price wins customers – look at Wal-Mart!

Fact: Some customers, probably about a third of the market, will always prefer price, but most prefer great service and will pay for it.

A majority of customers will pay more for higher quality. In fact, TARP has found, in most markets, that sensitivity to price in retail banking, for example, is strongly correlated with problem encounters (as illustrated in the following chart). Fewer problems result in lower sensitivity to price as shown with this survey of more than 3,000 retail banking customers.



Less sensitivity to price means the ability to achieve better margins and a 1% increase in price can lead to a 12% increase in profits (assuming the average cost of goods sold and G&A totaling 88%)

Lesson: Quantify the revenue and word of mouth cost of less than perfect service in a conservative manner and you will gain the support of the CFO and the CMO.

Myth 4: Answer the phone really fast –any time on hold makes people mad.
Fact: It is more important what happens after you answer the phone than how fast you answer.

TARP's data shows that, in most environments, you can keep customers on hold or answer can be delayed for more than 30 seconds (and often up to a minute!) if, when you answer the phone, you completely handle the customer's issue. If the problem is completely handled to the customer's satisfaction there is no discernable impact on satisfaction due to the 30 or 60 second delay. Real sensitivity that impacts satisfaction does not occur until you get close to 2 minutes.

Lesson: Aim to answer in less than a minute and devote the resources you save to making sure you handle the call to completion on first contact.

Myth 5: It costs more to give great service than to give just good service.
Fact: TARP generally finds that the revenue and word of mouth implications of enhanced service are ten to twenty times the cost of delivering the improved service and satisfaction.

The reason for this finding is that less than perfect service and completely met expectations is actually more expensive in terms of rework and extra work. Further, improved service often means preventing problems from taking place, eliminating onerous policies, trusting the customer and assuring that sales sets proper expectations and products meet those expectations.

Lesson: Conservatively quantify the revenue and word of mouth implications of your existing problem rate using only one or two years of revenue as the value of the customer and you'll see in almost all cases that the damage of problems is much greater than the cost of preventing them.

Myth 6: Once we're at 90% satisfaction and loyalty, the law of diminishing returns kicks in and we should declare victory.
Fact: Easily fixed points of pain still exist and cause serious damage to revenue and word of mouth even at top performance levels.

TARP has worked with financial, catalog, and retail clients who have the very highest satisfaction and loyalty scores in their industry, but every company was able to identify customer "points of pain" that were easily resolved, and, when fixed, resulted in even higher scores. Further, customers don't just compare you to your direct competitors. For example, an East Coast power company asked customers "who provides better service than we do?" and gave its customers choices like Amazon and FedEx. This company learned how they could borrow service strategies from different industries to improve service beyond what people expected for "just a power company."

Lesson: Don't stop improving service when you rise to the top of your industry.

Myth 7: Everyone wants to talk to a human: web and automated service are always less satisfactory.
Fact: Web and automated service are preferred for both simple transactions and, in some cases, for all transactions by some high end customer segments.

Keep in mind that most customers are not contacting you for their social experience of the day. They are contacted to get something done. If they can do it efficiently via web or interactive voice response (IVR) they are happy to do it that way. For example, one investment company found a large segment of their wealthy clients never wanted to talk to a human being and always wanted to interact by Web and email. Likewise, customers are often happy to check an account balance online or a package delivery via IVR, but, if there is an unpleasant surprise, then they will **then** want to talk to a human.

Whether companies damage customer relationships with self-service depends on who the customer is, what the customer is calling about or looking for, and the effectiveness of the tools and information you provide to use the automated systems.
Lesson: Ask customers about their preferred communications channel for issue category and transactions. Provide information in advance on how to easily use a range of channels so they can pick the most convenient one - and provide good directions – like printing the IVR menu wherever you print the phone number.

Myth 8: The customer is always right –don't ever say no.
Fact: The customer is not always right, and you can say no as long as you leave the customer feeling that he has been treated fairly.

It is alright to say no to the customer or give bad news as long as you give the customer a clear, reasonable explanation as to why the request is not possible. For example, explaining that the flight will be delayed due to a leak in the hydraulic system will not make customers happy but will keep them safe – and thankful to be on the ground. Further, at Starbucks recently, the counter person said, we're just brewing new coffee so it will be four minutes – but it will be free for you when it is ready, do you want to wait?" He provided me with options and a feeling of compensation for not getting instant gratification. If you reject the insurance claim, you need to go beyond saying read your policy to explaining why the event was excluded.

Lesson: Train your staff that it is fine to say no, but arm them with clear, believable explanations regarding why the policy is in place or why the situation occurred. Be flexible to take special action for valuable customers.

Myth 9: Our benchmarking says we are above average, therefore we are ok.
Fact: benchmarking does not give you any indication as to how good you *could* be if you tried. It tells you how you compare to others in your peer group. Also customers compare you to their last best service interaction, regardless of industry so even if you're good for your industry you may be systematically causing disappointment.

Benchmarking of performance indicators can lead to complacency and mislead companies into believing that they are performing cost effectively in the marketplace. But their customers might expect more and improvement may be easily achieved. There are often "nobrainers" even when performance seems good.

Lesson: Compare yourself to your peers but then ask your customers what points of pain they still encounter and who gives better service in that operational area. They see what processes from outside your industry could be applied in your environment. Also, for any point of pain concerning policies, ask why at least three times before you accept that it must continue.

Myth 10: We have a great survey process so we have a great Voice of the Customer System
Fact: surveys only measure what they are designed to measure. They also tend to be lagging indicators and very expensive. Customer contacts tend to be real time and internal operational metrics often are leading indicators.

For example, a delivery service often knows ten hours before you do that a package will not arrive. Then they receive the frantic phone call asking where it is. Then two days later they send out the satisfaction survey. All three sets of data are describing the same set of events. Surveys tend to be lagging indicators while operational data tends to describe what you *are about to do to the customer".* The operational data is often more accurate. For example if an ATM is down for four hours and you know 50 people per hour use it, you can impute that 200 customers were inconvenienced while you may only get one complaint and possible no surveys that mention it. Further, the operational data tends to be more credible with operations executives than complaints or surveys. Likewise, the contact data is often much more timely and gives you a level of detail that cannot be achieved by surveys.

Lesson: Integrate all available data describing the customer experience to have a more complete and compelling VOC.

Summary

Most executives want good service but are constrained by their assumptions about the causes of bad service and the barriers and costs of improvement. Many of these assumptions are dead wrong. The minute management starts questioning their assumptions and asking questions, the logjam can be broken and innovation and improvement ensue.

Acknowledgement

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