Selling Service and Quality to the CFO and CMO

by John Goodman, Vice Chairman and David Beinhacker, Research Director

Great service and quality have broad impact on the top and bottom line, so it's no surprise that the top priority these days among senior management looking to enhance revenue via an enhanced Customer Experience (CE). There are 5 ways Customer Experience can help companies boost revenue and cut costs. We will explain each of the five impacts – three of which enhance the top line and two which impact the bottom line by reducing cost. Further, I'll do so in a language that will help you explain the value of customer service, quality and customer experience to the CMO and CFO.

Focus on CE is a huge opportunity for service and contact center directors if they create the capability to measure, guide, and enhance service. Done right, these results can open the door for an aspiring head of service to become the Chief Customer Officer (CCO). To get the gig, you'll have to develop a new way of operating and communicating which quantifies your revenue and word of mouth (WOM) impact and uses the Voice of the Customer (VOC) to move you from firefighting into a preventive mode of service. This approach could easily create a ten-fold increase on the impact of service in the company's bottom line.

The top line impacts are 1) enhanced revenue from reduced problems (and how they are handled); 2) enhanced revenue from word of mouth; and 3) enhanced margins due to less sensitivity to price. Let's look at each of these in more detail:

1. **Reduced attrition from problem avoidance/management:** Avoiding customer problems prevents damage to loyalty. The average damage to customer loyalty is 20% per problem. Therefore, the revenue impact of avoiding five problems is equal to wining one new customer. (Calculation is 5 customers times an average decrease of 20% in loyalty = one whole customer at risk who is retained if the five problems are prevented.) Resolving an existing problem raises loyalty from 30 to 50% versus if it is left unresolved. The cost of winning a new customer is almost always 5-10 times the cost of handling a problem to a successful conclusion. In a B2B environment, it can easily cost 10-20 times as much to win a new customer as it is to resolve the problem.

2. **Word Of Mouth (WOM):** A negative experience usually causes two to four times as much negative word of mouth (or "word of mouse"[1] on the Web) as a positive experience. Great service can foster positive WOM which reduces your marketing expenses. When you demonstrate its impact, CMOs will invest in service to foster positive WOM.[2]

3. **Margin:** Sensitivity to price rises exponentially when problems occur, doubling on the initial occurrence and doubling again with multiple occurances.

The two cost reduction impacts are reduced service costs via prevention and reduced risk and legal costs. The bottom line impacts of prevention and VOC can be quantified via:

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[1] I coined the term "word of mouse" in 1999 in the first study of online support for the Consumer Electronics Association.
[2] Goodman, John, "Treat Your Customers as Your Prime Media Rep", BrandWeek, Sept. 12, 2005, page 16

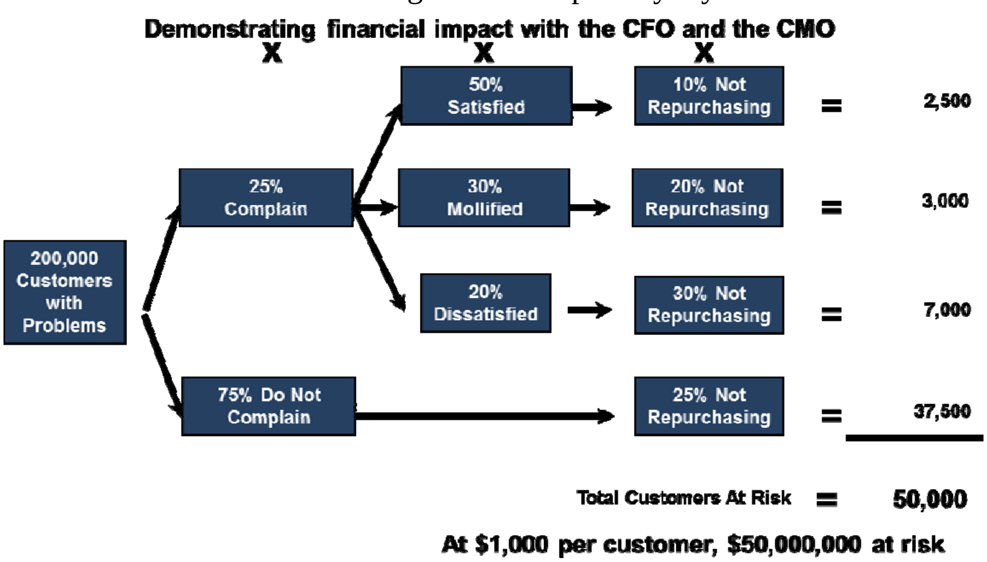
4. **Reduced service costs** – In most companies, 30% of service contacts are preventable if there was better communication up front. An effective VOC can reduce or eliminate many of these contacts by highlighting problems that can be prevented by policy changes or proactive customer education. The VOC process, by analyzing satisfaction and escalation by type of customer issue, can also identify response rules that are not working, resulting in frustrated employees. In over a dozen employee surveys I have executed, I've found that up to 50% of voluntary turnover among good employees is due to lack of effective tools. One of the most important tools is pursuasive response rules that the customer accepts.

5. **Most legal, regulatory and PR disasters started as unresolved complaints.** An effective service system can reduce these disasters by between 10 and 20 percent..

Based on the three top line impacts on revenue, WOM, and improved margins due to reduced sensitivity to price, leading companies I've consulted with have invested in operations, sales and service quality improvement with renewed commitment. They have found that between 30- 50% of voluntary customer attrition is due to problems and how they have been handled (or not handled if the customer chose not to complain).

Making the detailed case for investment in Customer Experience

The following chart illustrates how to estimate the revenue left on the table by less than perfect service and quality. In this example where 20% of a customer base of 1 million (or 200,000 customers) encounter problems[3], an average of 25% will contact someone for assistance (25% requesting assistance is highly optimistic – in most cases only 5-10% complain). Of those who request assistance, only 50% are completely (top box) satisfied. Those who are not completely satisfied can be what I call mollified – somewhat happy, e.g. you apologized but could fully recover, or completely dissatisfied. Finally, we find that those who do not even ask for assistance also have a significant drop in loyalty.



In this example, the company is leaving $50 million on the table due to a less than perfect customer experience.

[3] In most companies, we find that a 20% problem rate among customers is actually small – you just don't hear about most of them. This applies to B2C customers but especially B2B customers.

There are three parameters that affect the customers experience and total revenue at risk due to problems and how they are handled. These are:

- Total customers with problems[4]
- The percentage that complain and/or use the service system
- The percentage that are completely satisfied by the service system

The CFO can clearly see the linkage between problems and revenue at risk. When they analyze the number of customers at risk due to each outcome, executives are often shocked to see that the greatest number of customers at risk are among those who never requested assistance. I usually have CFOs suggesting multiple approaches to soliciting complaints such as signs and messages, “We can only solve problems we know about!”. One travel and leisure CFO said, “For each dollar invested in complaint handling, we make seven dollars in incremental revenue. “

Once you have quantified the revenue at risk due to the current situation you are now in a position to show how investment in the service and problem prevention process will have a huge payoff. The chart below shows how improvements in each of these parameters can impact the bottom line and the revenue left on the table:

Customer Experience Improvement	Status Quo	Improve complaint rate to 40%	Improve response effectivenes s to 70%	Reduce problems by 25% to 160,000
Customers with Problems	200,000	200,000	200,000	160,000
Complaint rate	25%	40%	25%	25%
Complete Satisfaction rate	50%	50%	70%	50%
Total customers at risk	50,000	48,800	44,500	34,500
Total revenue at risk	$50,000,000	$48,800,000	$44,500,000	$34,500,000
Topline impact of improvement		$1,200,000	$5,500,000	$15,500,000

There are three strategies that a company can use to improve the current situation:

[4] To genuinely understand the number of customers encountering problems, you must survey a random sample of your customer base and ask them if they had problems and if so, did they complain. Looking at the people who complain or request service is only considering the tip of the iceberg of dissatisfaction that exists in every company.

- Problem prevention
- Getting customers to report the problems so they can be resolved
- Eand enhancing the resolution process.

The above chart shows that increasing complaint rates does add some payoff ($1.2MM) but the payoff is attenuated by the current low problem resolution rates. (There will also be an increase in the cost of handling the issues – not shown here). Improving resolution rates significantly increases revenue retention by $5.5MM. The greatest payoff ($15.5MM) comes from preventing problems.

We find that prevention is always the biggest bargain which is why proactive customer education to prevent unpleasant surprises and a sophisticated Voice of the Customer always provide at least a 500% ROI. Furthermore, Finance and Marketing can see that investments in two counterintutituve strategies actually can have big payoff – proactive problem prevention and soliciting **more** calls. It becomes obvious that getting calls from unhappy customers will always have a positive payoff – though prevention is still the best approach.

The detailed case for service to foster better word of mouth

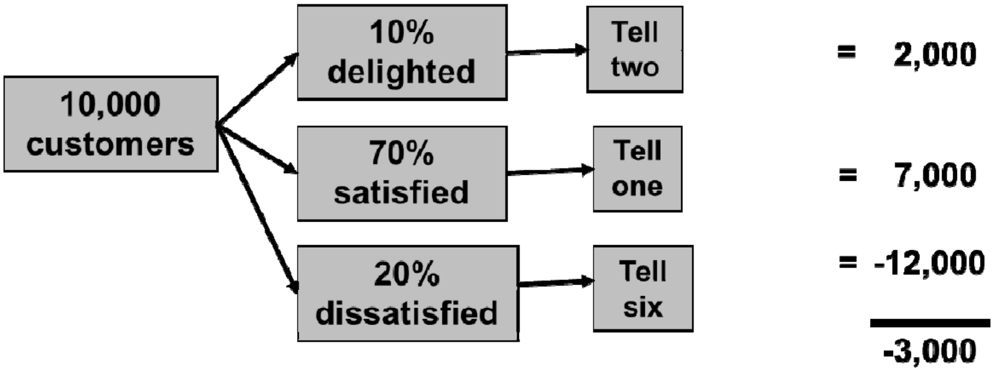
Service interactions also foster word of mouth. Great WOM is the cheapest source of new customers – your existing customers do your marketing for you. The first step is to ask your CMO a few questions:

- What percentage of new customers come from personal referrals?
- How much does it cost to win a new customer via the traditional sales process?
- Is he/she measuring the customers won via WOM?
- Would WOM management make sense as a strategy?

For the first question, the smallest number I've ever heard was 20% and in many companies it is as high as 70 or 75 percent. At Chick-Fil-A, marketing talks about new customers being dragged in by existing customers, saying, "You have to try this!" Last year, the President of The Cheesecake Factory suggested that his company's marketing expenses are less than 20 percent of the industry average due to great WOM.[5]

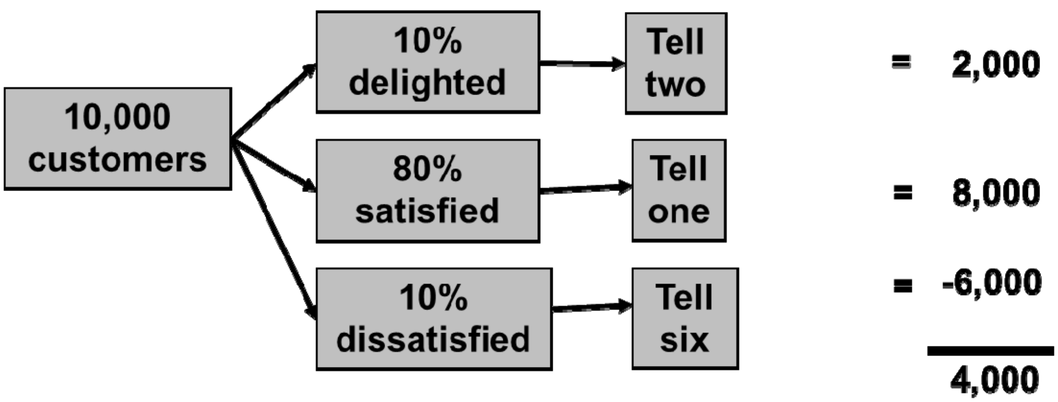
The second step is to get the CMO to understand that every interaction with customers creates some word of mouth – the only quesitons are: is the WOM positive or negative and how large the magnitude is the WOM. The following chart illustrates what the impact could be of a service system that interacts with 10,000 customers a week. Even if you are satisfying 70% and delighting a further 10% of customers, your net stream of word of mouth could be negative.

[5] Speech by Michael Jannini, President of Cheesecake Factory at Arizona State University, Center for Service Leadership, WP Carey School of Business, November 2012



20% dissatisfaction can counter 80% satisfaction

On the other hand, if you shift the 20% dissatisfied to 10%, you can see the flow of WOM go positive by several thousand cases.



10% decrease in dissatisfaction results in net positive WOM

$$\text{10,000 Referrals} \times \frac{\text{1 Action}}{\text{30 Referrals}} = \text{333 New Customers}$$

Further, if only 1 out of every 30 of the 10,000 positive referrals results in a new customer trial, your contact center, just giving routine service, could be producing over 300 new customers a week. Again, when executives look at these types of data and are asked if they ever considered investment in the contact center to create WOM, they are usually stunned – and guilty that they threw so much into advertising.

Understanding the impact of service and higher quality on margin, costs and risk

There are three other impacts that you can also at least start to quantify. They are margins, reduced costs, and reduced risk and claims.

Problem prevention leads to more pricing flexibility. – Across a wide range of industries, we have found that one problem doubles dissatisfaction with price and two problems doubles it again. You can quantify this in your marketplace by asking a random sample of customers three simple questions: have you had any recent quality or service problems, if so how many, and finally their satisfaction with prices and fees. You will have compelling information the CFO will accept.

Preventing unpleasant surprises reduces service workload. – If your Voice of the Customer process identifies the top five unpleasant surprises and you warn customers how to avoid them at the time of order as well as in literature and on the website, you will see contacts about those issues decline dramatically[6]. Your service and VOC process should not be shy about taking credit for the cost reductions. A good service system prevents unpleasant surprises and educates customers to avoid them. For instance, the head of service at HP reported that every two minutes invested in proactive education on products and the support website returned ten minutes in reduced service expense.

Increased resolution of problems at the front line can reduce risk by 10% or more. The majority of risk issues are first reported to the company as complaints and problems and the customer only talks to a lawyer or regulator when they have been rebuffed. This does NOT mean giving away the store. Both an auto firm and a health insurer found that saying no, but providing a clear believable explanation, resulted in lower payout AND lower dissatisfaction. Show your lawyers how poor response leads to most escalations and lawsuits and they will quickly argue for more training and empowerment for service.

4 Simple Way to Steps Moving Service and Quality to Center Stage

The process of getting CFO and CMO buy in must be gradual – better a small success than a big disaster. Go for a small success and then, over time, parlay your bit part into stardom.

Act One: Get the Facts and Come Up with the Plot

Gather some general data and then pick a couple of candidate problem issues to work on. Identify a conservative value of the average customer[7] and the percentage of new customers won via word of mouth. Gain agreement from Marketing and Finance that great WOM and less customer attrition will enhance revenue and margin and reduce cost.

Look at the customer-facing processes that generate the most complaints and identify two relatively fixable problems involving multiple functions and departments that are generally recognized as an issues causing tangible damage to revenue and/or producing extra service cost. Be sure to also look at survey data and operational data when selecting your candidate issues. Often the problems not complained about do the most damage and cost lots of money. For instance, in studies at three different copier companies, we found that being misled by sales reps did four times as much damage to loyalty than machine breakdowns or repair delays but were seldom articulated as a complaint for fear of retribution.

[6] Our research finds that such education is actually a delighter that raises loyalty while reducing problems.

[7] Do NOT use lifetime value of the customer. Few CFOs will accept that number. To quote one CFO, “Who knows if we’ll even be in this business five years from not?” Use three years of revenue at most.

Act Two: Make your Pitch

Pick one target issue that can be fixed within weeks (not months or years) and estimate the payoff of fixing an acknowledged issue. Get CFO buy-into your analysis. The best approach is what I call "better a small success than a big disaster." The strategy is to collect data on several candidate customer problems on an ad hoc basis from the most important three or four silos and then select the most promising problem (in terms of ease of fixing and executive support) and build the baseline business case and estimate the payoff using a manual analysis.

Act Three: Get an Audition and a Couple of Great Reviews

Mobilize action on that one issue and measure the loyalty of the customers who avoided the problem and/or were dazzled by the proactive education. Ask them how many friends they told and, to their knowledge, how many of those friends have tried the product. The individual numbers will be small but the cumulative impact will get big quickly. Let the line manager in the silo causing the problem get primary credit for enhanced loyalty. Once the data on the size of the problem and its economic impact is produced, buy-in from an ad hoc or existing quality improvement cross-functional team is significantly higher.

Once you have a well-documented success, you can then repeat the cycle. Soon, everyone at the table including the Chief Operating Officer (COO) and the Chief Executive Officer will look to you as the trusted advisor on how to use service to enhance revenue and word of mouth.

Act Four: Ask for an Extended Engagement

To effectively guide the CE, you have to build a VOC that provides an <u>end-to-end, unified picture</u> of the CE. <u>End-to-end</u> means from the first presale interaction to the final billing – assuring that all issues are identified and critical ones addressed. Take control of the VOC process so you control the quantification process. These steps haves been successful for service executives at several Fortune 500 companies I have worked with.

Summary

In summary, to get the resources they need the service exec and call center director must convince the CFO and CMO that a quality customer experience is the foundation of an enhanced revenue stream and great word of mouth. The key to this argument is quantifying the level of problems and their impact on loyalty WOM and sensitivity to price and showing how service can help the rest of the company prevent and/or better handle those problems.

More details of this approach and usual objections can be found in John Goodman's book, "Strategic Customer Service", Published by AMACOM.

John Goodman is Vice Chairman of CCMC. His latest book is <u>Strategic Customer Service</u>, published by AMACOM and available on Amazon. David Beinhacker is Director of Research at CCMC.