



Understanding financial implications of customer service

By Don Hales

My greatest claim to fame in the world of customer service is that seven years ago, assisted by my colleagues at Quest Media, I launched the National Customer Service Awards and I remain the chairman of judges for the programme to this day.

Nowadays I combine that activity with speaking, writing and consulting on customer service and my specialist subject is helping people understand the financial case for great customer service

Since launching the Awards programme over seven years ago, I have listened to over 1,000 great presentations by outstanding individuals and teams talking

about the excellent service that they deliver. The trouble with listening to all those great presentations however is that it distorts your perception levels. I can easily lull myself into thinking how great customer service is in the UK but reality quickly hits me as I return to the real world of being a customer and away from the "judging arena" I find myself dealing with insurance companies, retail outlets, local authorities, utility companies, telecoms providers and so on.

About a year ago, I asked the 2,300 customer service professionals who read my Newsletter three questions which I asked them to score on a scale of 1-10:

1. How important is customer service to your organisation?
2. How good would you rate customer service in the UK, across the board, today?
3. When an organisation finds the need to cut costs, for whatever reason, how vulnerable is customer service to be cut back as part of the cost saving?

I do not suppose that the answers will surprise anyone but for the record the thousand plus customer service professionals who responded to my questions said that:

1. Customer service is vitally important to an organisation, scoring it 9.2 out of 10
2. Generally customer service standards in the UK are low, scoring just 4.9 out of 10



3. Despite its importance, customer service is vulnerable to cutbacks with a score of 8.1 out of 10.

So where is the logic here? We do not seem to know if we are coming or going. On the one hand the feeling is that customer service is vitally important to the well being of an organisation, but overall, we are not getting it right yet, despite its importance and modest delivery we are ever ready to cut costs, and by implication, delivery - almost at a whim.

Before explaining why I think this is, I want to relate a couple of bad news customer service stories, which appeared in the national press at the beginning of this year.

The first concerns a railway company.

Two young boys (10 & 14) were ejected from a train taking them from London to Devon just after the start of their journey because

the guard found that they had the wrong tickets - not that they did not have tickets but that they were technically incorrect.

This was sufficient reason for the guard to abandon them on a cold station in the very middle of a bleak winter day without any means of getting home.

What had happened was that they had been to stay with school friends in London. They had travelled up a few days earlier accompanied by their father, who had then returned to the family home in Devon by return. The boys stayed several days with their chums and were then put on a train in London by the friends' parents and were to be met at the other end by their own father.

The problem was that they had all travelled under a family saver ticket and, of course, for the return journey an adult did not accompany them.

Even here the guard had been given two opportunities to avoid the drastic action that he took. Firstly a lady passenger, seeing the boys' plight offered to pay their fare but the guard refused. Secondly one of the boys contacted his father on his mobile and the father offered to pay by credit card but again the guard refused on the grounds that he had no evidence that the voice on the phone was the father!

Naturally after the boys were abandoned on the first station at which the train stopped the father rang the railway company who agreed that such action was entirely inappropriate and after profuse apologies the boys were put on the next available train. But trains from that station to Devon are not every five minutes or so and the boys eventually arrived home many hours later than planned, cold, tired and very miserable.

The second case involves a membership motoring organisation

Unfortunately one of their members suffered



a heart attack whilst out driving. He was taken to hospital by ambulance but was pronounced dead on arrival at the hospital.

Obviously this was a big shock to his family and a few days later, as they began to pick up the pieces, they went to recover the car from the place where it had been abandoned by the emergency services. Predictably it would not start - the battery was flat. No problem his membership card was in the glove compartment.

They phoned the organisation to ask for roadside assistance to which he was entitled.

However the contact centre agent was quick to point out that the membership died with the member and that one of the relatives would have to join - there and then - if roadside assistance was to be provided.

Again the organisation has subsequently apologised and agreed that the behaviour of their agent was inappropriate and the correct action should have been to provide the assistance and subsequently invite membership for future use.

In both cases the Guard and the Contact Centre Agent were, no doubt, technically correct in their interpretation of the company's terms and conditions but completely out-of-touch with their company's philosophy to customer care and they clearly had no idea of the VALUE of a customer.

So going back to the original question - why does this happen?

Why, if customer service is so important - do we get it wrong so often - especially when we can get staff to understand the rules and intricacies of our offerings so easily? And why do we find that customer service is vulnerable to cuts, when it is so important?

Well, I believe that it is OUR fault - yes us the CUSTOMER SERVICE PROFESSIONALS.

I think we are so passionate about delivering great customer experiences that we do not take sufficient time and trouble to place a value on our services. This contrasts particularly with the Sales and Marketing departments who make sure that they have

all the necessary statistics to back up their arguments for greater financial support - both when the business is up and when it is down.

For sure the customer service management teams keep reams of measurements, mostly successfully proving that KPIs are being met e.g.

- Number of queries
- Resolutions - first time and otherwise
- Complaints handling
- Call waiting time
- Call time
- Assessment scores
- Customer Satisfaction scores
- Etc., etc.

Frequently we even measure the wrong things or at least things which are not really relevant to the company, and certainly not to the customer.

At this stage it is important to remember why the majority of commercial organisations exist? It is NOT to please customers but to make PROFITS. Basically the name of the game is to increase income - by selling more or raising prices whilst keeping control of expenses.

Unfortunately, in many such organisations the customer service function is seen as an expense that can potentially be cut rather than an income generator.

Before those of you working for not-for-profit organisations think you can switch off because this stuff does not apply to you - the situation is not very different. For these organisations whether they exist to empty bins, collect taxes, raise money for charity etc., they are invariably charged with doing as much as possible for the most efficient costs. Again customer service is frequently seen as a cost not a service enabler and cost reducer.

Let us now look at some examples of organisations that have managed to provide outstanding customer service by quantifying costs and resulting benefits. These are just glimpses of some examples and serve to illustrate the work that can be done to improve service and, at the same time, being able to place a value on the activity that led to the service improvement, such that the benefit is unlikely to be reversed in some indiscriminate cost cutting exercise.

The first example features an on-line

bookselling organisation that has seen dramatic growth in the last few years. About three years ago they were receiving thousands of contacts and had a staff of 500 agents dealing with the queries. The customer satisfaction surveys found that customers were very satisfied with the standard of service - all was well and in the old adage "If it ain't broke - don't fix it" - they could have left things as they were. But they did "fix it" - they researched in great detail why customers contacted them. As a result they were able to change some of their information material and their procedures and they reduced contacts by a massive 77%.

Business has continued to grow at the company but today they still have 500 agents looking after the queries. If they had been content with the customer satisfaction results, today they would need not 500.... but 2000 agents. What is that worth to the company?

If we assume 1,500 staff at say £18,000 (with National Insurance and so on) we get £2.7m and that is before you add rent and rates, telephony and I.T. As a conservative estimate, I would guess the value to the company of that piece of customer research has been worth between £4-5m a year. But not only that by removing the reasons for calling they have:

- Removed much customer frustration
- Allowed more resource to be available to deal with the remaining contacts
- Set a pattern that can be developed to introduce more cost reductions whilst improving service quality

Let's have a look at another, perhaps smaller scale example of the cost benefits of great customer service

It involves a theatre group and I picked up the story whilst attending their customer service conference at which I was speaking. (It's funny but it is the companies that are already doing it right that invite one to speak).

They are a chain of theatres, some in London's West End and many in provincial towns throughout the UK.

Until a few years ago, they thought that the success of the operation largely depended upon the quality and reputation of the show -



it might be a blockbuster like Phantom of the Opera and on occasions perhaps a less well-known and less popular show.

They thought that their main function was negotiating with the production companies to get the best shows into the theatre on the most favourable terms and beyond that, all they had to do was manage the box office, show people to their seats and maintain the fabric of the building.

Then a couple of years or so ago, they decided to see what difference they could make by overlaying superb customer service on top of the show. Now obviously in this kind of business results will take a long-time to come through. But they reasoned that if they gave great customer service to ensure a fantastic night out, customers might come back to the theatre and recommend friends even when the following show was not such a popular attraction and maybe, if you make everything welcoming and easy for them they just might spend more when they are at the theatre.

They looked at every facet of customer service from making it easier to obtain interval drinks, organising taxis at the end of the show and ensuring that staff became part of the night's entertainment - even dressing in context with the show itself.

They did this at every one of their sites and two years later all were able to report increased attendances and uplifts in spend per customer on the night. Of course, over two whole years there would be a host of other factors that could affect results - including the economy, the weather and the perceived quality of the shows - but the fact that every theatre in the group showed substantial improvements against a background of flat attendances in the theatre world generally, indicates the level of impact that the customer service initiative had on this group.

The figures below, showing the improved results over a two-year period, relate to just one of the theatres - a small provincial site with committed and enthusiastic management.

Customer Satisfaction index **up 15%**
 Theatregoers **up 37%**
 Performances **up 25%**

Attendance per show **up 11%**
 Spend per theatregoer (ex ticket) **up 12%**
 Total Revenue (inc tickets) **up 38%**

So here we have clear and calculable evidence of great customer service making a positive contribution to the bottom line. In summary a 15% increase in customer satisfaction has led to a 38% rise in revenue and, whilst I do not have access to the profitability figures, we can safely assume that much of the extra revenue will go straight to the bottom line as very little extra expenditure has been incurred.

Other benefits resulting from this initiative?

- Production companies are happy and more likely to offer their productions to the venue
- Staff more involved
- Theatre group's reputation is growing

Just as we can put value on great customer service so we can place a value on poor service. Remember those statistics about how much it costs to gain a new customer compared with retaining an existing one - is it five, six or eight times - it depends on your business - why not debit that amount against every customer lost and credit everyone retained and set it against a budget?

Let's look at those examples we quoted at the beginning.

How much did the guard cost his company when he turfed those boys off the train?

Apart from the cost of dealing with the complaint. Do you think that the family will spend £150 on tickets when they visit these friends again or how about when the friends make a return visit to Devon?

What about the father - a successful businessman - is he more or less inclined to use the train rather than his car next time he needs to go on a long journey?

And how about the boys? In a few years time they will be driving. Are they likely to be drawn to the trains as opposed to using their own set of wheels?

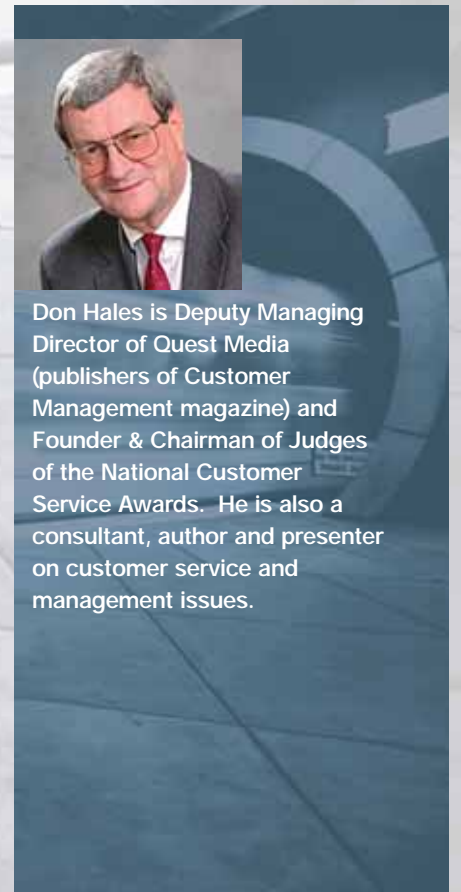
It should be possible to develop some ballpark figures as to how much business will

be lost as a result of each complaint. In this case I would conservatively estimate the lost revenue could be £500 a year for say eight years - that's £4,000 - multiply that by the number of serious complaints and the size of the problem and the value of preventing such occurrence becomes clearer.

And what about the motoring organisation? How much to handle the complaint and the PR and how many people will be deterred as a result of the family telling their story (and tell they certainly will)? How much business has been lost - maybe £400 a year for three years or so. **S**

My work today is largely focused on placing value on great and not so great customer service. I am gathering evidence and conducting research to enable companies to identify cost benefits or penalties arising from their service delivery. If you would like to add to my volume of evidence and stories or require more details of my work, please contact me on:

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