

Awesome Service

www.keystone-management.com

A Newsletter Exclusively for Clients of Keystone Management Services

September 2002

In This Issue

Loyalty glitch

Company UGRs™

Great recovery

Discretionary service

Monitoring and measuring customer service

About Steve Simpson

Musings on UGRs™



Company UGRs™

In a recent seminar run by Steve Simpson in Melbourne, people acquired insights into UGRs™ by completing the sentence to, 'Around here, customers are....'

Here's some of the anonymous responses we received:

- ◆ Unsympathetic to the problems we are faced with
- ◆ A necessary evil
- ◆ Required to be tolerated because management wants us to improve customer satisfaction level survey results
- ◆ Managers take customers for granted as a 'captive audience'
- ◆ An unwanted disruption to a busy day

AS

Loyalty Glitch

In the July 2002 edition of the Harvard Business Review, authors Reinartz and Kumar make some startling propositions. They contend that much of the thinking associated with the value of loyal customers is ill-directed - that not all loyal customers are profitable. Read on as we summarise some key points from this article ('The Mismanagement of Customer Loyalty', Harvard Business Review, July 2002, Werner Reinartz and V Kumar)...

Recent research into various companies has uncovered findings that fly in the face of conventional wisdom - loyal customers are not necessarily the most profitable ones. Authors Reinartz and Kumar looked at three key loyalty claims and put these to the test in research across four companies. Here's what they discovered...

Claim 1 - It costs less to serve loyal customers. Not so. The research found no evidence of loyal customers being cheaper to manage than short term customers. In one company they found long-standing customers to be more expensive to manage!

Claim 2 - Loyal customers pay higher prices for the same bundle of goods. Again, the research found this to be a spurious claim. Much of our experience as customers tells us that if we are long standing and loyal customers, we expect, and often receive cost benefits. This was supported in the study. They found that longer term customers consistently paid between 5% and 7% less than short term customers. The authors claim that loyal customers are often more price sensitive than other customers!

Claim 3 - Loyal customers market the company. There is little disagreement with the contention that word-of-mouth marketing is more powerful than any other form of marketing. Consequently, many organisations strive for loyal customers who in turn will promote them. The research included a study of a grocery store and identified two types of loyalty - behavioural loyalty (ie loyal from their repeated shopping at the store) and attitudinal loyalty (ie asked in a telephone interview how satisfied they were and if they were loyal). The research found that people who scored high on both loyalty measures were 54% more likely to be active word-of-mouth marketers than those who scored high on behavioural loyalty alone. This is a telling result, as it shows that people are more active marketers when they acknowledge their own satisfaction and loyalty!

What does all this mean? The clear message from this study is that it is a mistake to think that all loyal customers are worth investing in. The research shows evidence of some loyal customers being low profitability customers, while short term customers were highly

(continues over)

AS

Loyalty Glitch (continues)

profitable. The figure below shows the breakdown of customers when a comparison is made between loyalty and profitability, for a corporate service provider.

High Profit	20%	30%
Low Profit	29%	21%
	Short Term Customers	LongTerm Customers

These figures are enlightening in a number of respects. They show that short term customers can be highly profitable, and that long term customers can be low profit customers.

So what are the implications?

This research highlights the four customer groups that fit into each of the quadrants in the figure above. Two key customer groups are the low profitability customers - both short and long term. The short term, low profitability customers are called 'Strangers'. The authors propose that an organisation should make no investment in the relationship with these customers, and should ensure a profit is made on every transaction.

The long term, low profit customers are called 'Barnacles'. Here, organisations should determine whether spending patterns are because of a 'small wallet' (low purchasing power) or small share of the wallet. If the share of the wallet is small, effort should be directed to up and cross selling. If the wallet size is small, cost controls should be imposed.

Great Recovery

*A manager from QANTAS once said to me - 'It's humanly impossible for an organisation **not** to make a mistake - it's how the mistakes are dealt with that differentiates the good from the bad...' We think this is spot on - and it is reinforced in a true story relayed to us from Gary. Read about his experience....*

I thought I'd pass on a good customer service story to you that could have ended as a bad customer service story.

I bought two new tyres from Bob Jane T-Mart in Osborne Park, Western Australia, about May last year. As part of the service they offered to rotate the tyres and included a discount on my next wheel alignment. A couple of months ago I needed to replace the other two tyres and after ringing around decided to go back to Bob Jane's with the discount on the wheel alignment being one of the attractions.

My wife took the car in so I didn't see the work but she reported it all seem to go smoothly. A couple of days later I used the back luggage space of the car (it's a wagon) and noticed a hump under the carpet. On closer inspection the hump was due to the spare wheel cover not being replaced properly. This led to some stretching of the carpet. When I lifted the carpet to correct the problem I noticed a sticker on the cover (made of hard plastic) encouraging me to return to Bob Jane's for my future tyre needs. As you'd expect I removed it immediately because the adhesive tends to set very well on plastics and is usually impossible to remove. As it was I had to use some nail polish remover to get the last of it off.

I contacted Bob Jane and the person at the other end suggested I speak with the Manager, who at the time was not available but would call me back. This he did and when I explained my concerns he was very apologetic and annoyed that his staff had not done the right thing. He indicated they may need more training. Quality customer service was paramount to this Manager.

I thought nothing more of it because the Manager had left me with a positive feeling and I felt no need to take the matter further. About a week after the conversation I received in the mail a letter again apologising for the incidents plus a \$25 dollar voucher to be used on any service they provide.

I think this Manager takes customer service seriously and demonstrates it by doing something positive for the customer. I thought he deserved a compliment for that and I thought you'd be a great person to pass this story onto because I know you could probably make some use of it, plus it means I've given the guy a plug as well.

Our thoughts: Thanks Gary - a great story. This reinforces the value of an organisation going out of its way to rectify a problem. A simple apology would have been enough for Gary - the act of following up has prompted Gary to sit down and write about it, which requires a fair amount of motivation!

Thanks for sharing this positive story Gary - there should be more of it! And congratulations to Bob Jane T-Mart for your customer service. Hope that training kicks in soon as well!

Discretionary Service

In previous editions of Awesome Service, we've introduced the concept of 'Discretionary Service' - the service provided by any person or group that is over and above what might reasonably be expected. Here, we canvass the issue a little more...

If you have followed our articles to date on Discretionary Service, you will know that withholding it does not necessarily result in an unhappy customer. That's because Discretionary Service is the service 'over and above' what might reasonably be expected.

Why do so many organisations provide service that consistently fails to go beyond the minimum? I think that in large part, this has to do with the management mindset in the organisation.

A 'Service Obligation Mindset' is a view that customers are a *cost risk*. In this type of organisation a customer is a threat to costs in so far as they have a propensity to extract as much as possible from the company. The customer is not trustworthy.

These organisations believe that:

- ◆ Customer are price driven
- ◆ Customers have no organisational allegiance
- ◆ Customers will try to 'get' the company in any way they can

Some building companies neatly fit into this category! This is in stark contrast to a restaurant in Melbourne where there is no price list alongside the menu. When the customers have finished their meal, they pay the restaurant a price that they (the customers) feel is appropriate. Now that's the ultimate in customer trust!



Monitoring and Measuring Customer Service

Organisations everywhere are realising the need to put strategies in place to listen to customers. Surprisingly however, these strategies to hear the voice of the customer are becoming less and less effective.

There are good reasons why feedback mechanisms are failing to make an impact. Increasingly, customer feedback is seen as the sole responsibility of the Marketing Department. Circulation of results from customer feedback is done via summary reports or via an intranet - most staff have access to it, but few take an interest in it. And of course, most organisations are too financially constrained to be able to take action based on customer feedback.



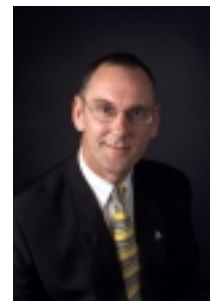
This compelling presentation by Steve Simpson highlights the imperative for a fundamental shift in emphasis on listening to customers. In a practical, no-nonsense, and 'statistical free' presentation, you will learn about powerful strategies for acquiring customer feedback. What truly sets this presentation apart is its introduction of a powerful barrier that exists in most companies that prevents customer feedback from being maximised. This previously invisible barrier - the 'FRM' is highlighted for all to see.



About Steve Simpson

Steve Simpson is an author and international speaker who helps organisations profit from improved service. Steve has featured at the 2000 and 2002 **World Conferences on Customer Service Management** in Orlando Florida – the world's largest customer service event, where he rated in the top ten speakers.

In November 2001 Steve spoke at the Annual Conference for the Society of Consumer Affairs Professionals (SOCAP) in New Orleans. He has also been an invited member of an **International Customer Service Standards Committee**, organised through the US based SOCAP.



Steve has recently featured as a keynote speaker at the International Recruitment and Consulting Services Conference and has been invited to speak at the 2003 European Customer Management Conference in London.

Author of the book 'Service Into Profit', Steve is a past Chapter President of the Australian Customer Service Association, has been an evaluator in the Australian Customer Service Awards and has been a judge in the 2001 Australian Customer Service Council Awards. He was the Customer Service Consultant for the 8th World Swimming Championships and has been recognised as an Accredited Professional Speaker by the National Speakers Association of Australia. Steve has spoken at conferences in Australia, Asia and the US. His new book - 'UGRs™ - Cracking the Corporate Culture Code' is now available. More details about Steve, including client comments are at www.keystone-management.com. For your next seminar or conference call Keystone Management Services on (61 8) 9448 4571 or email info@keystone-management.com.



Musings on UGRs™...

Our thanks to Awesome Service reader, Lyn from Western Australia, for submitting her experiences and insightful thoughts about UGRs™ (Unwritten Ground Rules) in the workplace. Lyn has won a free copy of our e-Book 'Service Into Profit'! Thanks Lyn.

In your Awesome Service Newsletter – July 2002 issue, you asked for examples of UGRs™ and how they might have developed in our workplaces. Since reading your book about UGRs™ I understood why I was having such a struggle in our workplace for far too long.

I took what I learned about UGRs™ to our team meeting. I was very encouraged by the enthusiastic response from staff. There seemed to be a collective agreement that a team development workshop on UGRs™ would be a worthwhile exercise and I shall follow up on this. In the meantime here are some UGRs™ from our organization and how they appear to have occurred.

I was employed as manager in an organization that had a history of extreme internal conflict within a team of several workers. The conflict was occurring over a period of approx 18 months. When I was appointed all the staff had left due to stress and disenchantment with the management committee for their lack of response or ability to deal with the situation, that is, apart from two workers X and Y and a few casual relief staff to fill the gaps. The team at large including worker Y, had significant issues with worker X's attitude and manner and had wanted her dismissed.

There was resistance to having a manager on the team, resistance to any change introduced and as new staff entered the workplace they were swiftly recruited to a 'side', being either X's or Y's. There was a reluctance to communicate with me as manager on work matters and information was not readily forthcoming in terms of service delivery to clients.

The obvious UGRs™ seemed to be:

- ◆ 'Don't talk to management because they don't listen'
- ◆ 'Don't rely on management for anything around here'
- ◆ 'Don't trust management'
- ◆ 'To survive around here you have to form alliances with others'

Following a formal workplace stress audit, numerous team development programs, incentive schemes, training and professional development, workshops and a few formal warnings the situation slowly improved over time. There appeared to be less inclination to establish 'sides' and clients were getting more attention and improved service. Despite the overall improvements, however, it became very clear that the 'old culture' was still living and breathing a life of its own within the group, identifying itself in the following situation.

Worker Y had been promoted to supervisor however, worker X who was still often at odds with others on the team, managed to persuade team members generally, including her original adversary Y, that management was giving her a hard time. Sympathy prevailed while Worker X struggled to meet work performance standards required by the organization, and satisfactory performance was achieved after considerable resistance to do so, for a while at least until -

Two clients complained (within the space of a few days on separate occasions) to Worker Y

about the service received from Worker X. They were very upset and didn't want to be around when Worker X came back on shift because of the manner and attitude of Worker X. (It was inadvertently brought to my attention by Worker Y and I was advised that the matter was being dealt with).

When Worker Y was later asked how this matter was addressed, it hadn't been but assured it would be the following shift. Following two inquiries from management, Worker Y had still not addressed these issues clients had with the service nor had it been brought to the attention of Worker X. Following pressure from management to respond to the complaints they were then vehemently referred to as 'just comments', not complaints and often made by clients and colleagues about Worker X and got upset by being directed to respond.

Unwritten ground rule seemed to be:
'Around here we accept the way Worker X works because it's always been this way'

Management queried duty of care principles and what this meant to Worker Y in terms of service to clients. Management challenged Worker Y's attitude to her role as supervisor, to client focused principles and duty of care to clients.

Unwritten ground rules seemed to be:

- ◆ 'Around here clients get a rough deal sometimes but that's just tough luck'
- ◆ 'Around here service satisfaction is not a priority'
- ◆ 'Around here that's just the way things are'
- ◆ 'Around here you win a few and you lose a few – no big deal'
- ◆ 'Around here we accept that this is how Worker X is sometimes'

The final outcome of this situation was a verbal warning given to Worker Y, a resignation from Worker X, improved morale within the team and improved focus on client/service satisfaction.

A new unwritten ground rule now appears to be (from communication expressed within the team)
'around here we are accountable for everything we do and say'

I believe the negative UGRs™ and poor performance originated as a result of poor management practices and a management system that was not able to support itself or the staff it employed.