

# The future of customer service

*Prepared by Bain & Company and  
The Institute of Customer Service*

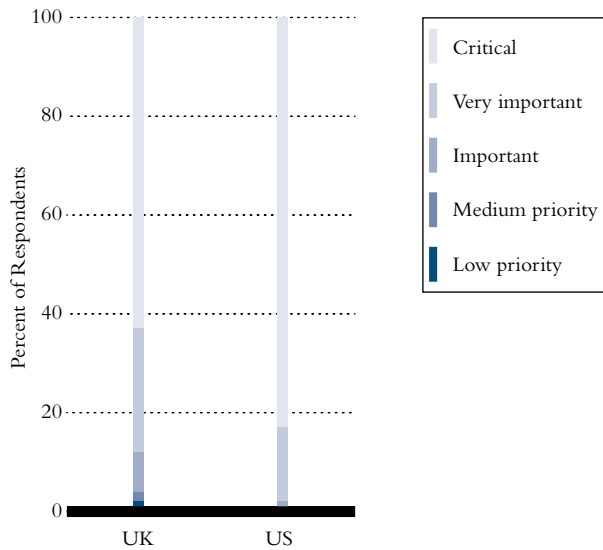
## Key trends and challenges facing customer service in the UK

What can it mean when a five-star hotel chain authorises its staff to spend up to 1,250 pounds each to tackle problems affecting customer service? Or that a prominent retailer guarantees shoppers they will never again have to queue at the checkout counter? Or that a major telecommunications company conducts more than 10,000 interviews a month with its customers? We are witnessing a new phenomenon—customer service is stepping into the limelight. It is no longer the backstage assistant to sales and marketing. On the contrary: 90% of 220 UK and US companies in a recent study commissioned by the UK-based Institute of Customer Service (ICS) saw customer service as crucial to their future business success. They're recognizing that in a competitive business environment where it can cost 10 times more to acquire a customer than to keep one, it pays handsome profits to pay close attention to customer service.

While most companies think customer service is crucial, the majority also feel they're failing to deliver the standard of service their customers expect. *(See Figures 1 & 2)* In the study, conducted for the ICS by Bain & Company, more than 70% of senior customer service executives felt they were failing to meet their customers' service expectations. However, those who were focusing on more sophisticated customer management, understanding the needs, loyalty, and profitability of different customer segments, were seeing the impact on their bottom lines. The survey concluded that customer service challenges are going to continue to increase. Tomorrow's winning businesses will be those who:

- understand the different service needs of their customers,
- understand the value of different segments of their customer base,
- set the right priorities for investment in people and technology,
- put the right people policies in place to ensure first-class service delivery,
- integrate customer service into their overall scorecard.

**Figure 1: How important do you consider customer service?**

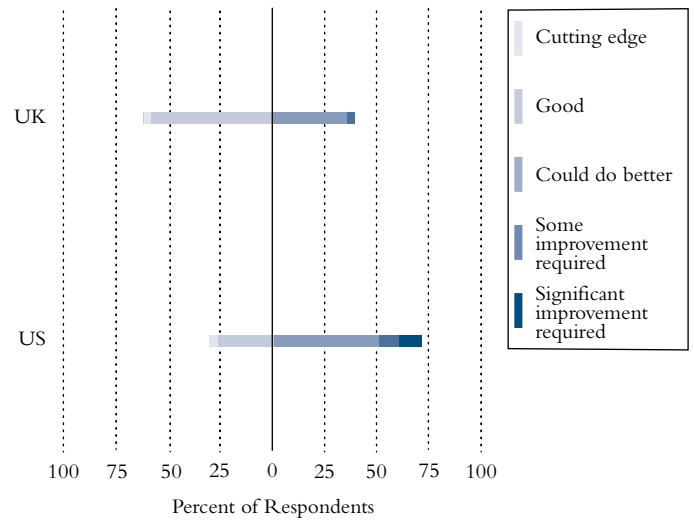


**Keeping up with growing customer expectations**

Customer service demands have increased dramatically throughout the past five years. Customers want information, and they want it now: 24 hours a day, seven days a week. When they don't get it, they are more willing to complain. One organization surveyed found callers put on hold hung up, on average, after 30 seconds—compared with 130 seconds two years ago. Others have found customers are more likely to ask to speak to the manager or to threaten legal action. And customers aren't alone in pushing up the standards. Several executives in our survey point to retailers who have improved customer service in their organizations and industries—and have raised expectations in all other sectors.

So how to close the gap? Companies have no choice but to invest in customer service. First and foremost, they need to invest in people—the people who are able to influence your customers

**Figure 2: How would you rate your organisation's customer service?**



to repeat and expand purchases. What kinds of people are involved in customer service? Staff in call centers, on help desks and in checkout counters, to be sure. But also insurance brokers, sales people, and even engineers in utilities and telecommunication companies who speak with customers every day.

**The delivery of outstanding customer service will form a critical part of tomorrow's business strategies. Managers are at a crossroads—the majority of professionals with responsibility for customer service recognise that they are not meeting the needs of their customers, with 70% of our respondents recognising a shortfall in quality of service today. Yet service challenges are going to continue to increase.**

Organizations are now recognizing that all staff who have frequent contact with the customer must deliver a high level of customer service. This requires a significant shift in attitude, culture, and approach. Many people need new skills. They must put "greater emphasis on how they relate to people," one manager told us. "Historically we recruited people who were good at mental arithmetic!" Increasingly, front-line staff need excellent interpersonal skills, numerical and verbal reasoning, competency in information technology, and general commercial awareness. They must be able to resolve customer problems as they arise—which means they need the confidence, knowledge, and latitude for action to do so. In many instances, this is not today's model.

**Retaining the right people is key to success**

To put the right people in key customer service positions and motivate them to take effective action, companies should focus on the following issues: recruitment, training, recognition and incentives.

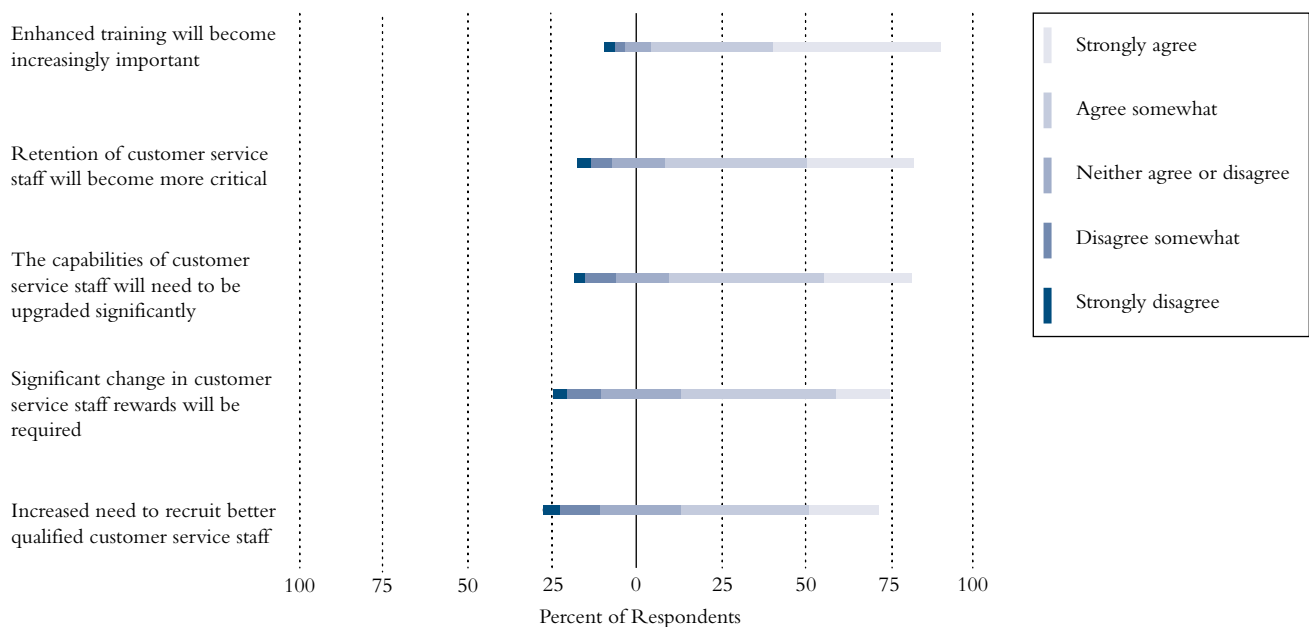
(Figure 3)

**Recruitment:** Given the demands for tomorrow's front-line staff, there surely will be a shortage of candidates. To avoid making expensive mistakes, companies will have to fine-tune sources for recruitment, which may include both shifting and refocusing efforts on pools of higher-skilled candidates. They'll also need to make sure their packages of job responsibility, training, compensation, and opportunities offer potential recruits the most compelling job prospects.

**Training:** To improve customer service, training should focus on three areas:

- 1] **Commercial awareness**—To deal with customer problems, employees need a broad understanding of products and the financial consequences of their decisions.
- 2] **Teamwork**—Employees need to know how to run a meeting and manage themselves in teams.
- 3] **Interpersonal skills**—Employees must know how to sell, how to deal with difficult customers, and how to keep customers happy and increase their loyalty.

Figure 3: The importance of people policies



**Recognition and incentives:** If companies want the right people in customer service, the jobs will have to be upgraded. In many organizations front-line customer service staff look like second-class citizens. Given the increasing importance of service and the need for more highly skilled people in service roles, this must change. Companies will have to recognize achievement. They'll also have to restructure rewards in line with enhanced service. "Bonuses will be set on service improvement targets," one executive told us. "Everyone's compensation must be linked to service performance and in particular to customer retention," said another. In one call center, employees are eligible for a bonus of up to 20 percent of their compensation each month. Their performance is measured in terms of:

- customer satisfaction, every 10th call triggers the mailing of a customer feedback form,
- abandoned call rate for their team, and the
- amount of time they're available to speak to customers.

Another business had already achieved real successes by changing its whole approach to keeping customer service staff on the job. Typical annual staff turnover rates in UK call centers are about 30 percent. But this company cut its turnover rate from 20 to 2 percent in a two-year period. How? It:

- hired staff with different skills and personalities,
- cut management hierarchy and set up self-managed teams,
- trained staff in new ways to give them more responsibility for problem solving, and
- linked rewards to customer service.

Employees enjoyed more interesting, better paying jobs, and fewer of them quit. At the same time, customer service improved.

### **A strategic role for customer service high-fliers**

The role of the customer service manager is changing in significant ways, too. According to one respondent: "[The customer service manager] must be able to take a more strategic view—not just deal with irate customers." Managers will need all the characteristics of good customer service, along with a deep understanding of the economics of the business. They must be prepared to take balanced decisions rapidly, and act as coaches to keep employees happy on the job. This description of the next generation of front-line managers sounds a lot like today's high-fliers. But how many high-fliers consider a career in customer service? Or indeed how many companies have put their high fliers in customer service? A fundamental image shift is probably required if customer service is to attract the best graduates away from the traditional sales, marketing, product management or finance positions.

Companies are determined to change their approach to customer service. As one CEO puts it during his road-shows: "I'll sack you if you consistently give poor customer service." Another CEO's home number is on the bottom of every one-page survey handed out to customers of a building society. Every customer who completes a survey (more than 35,000 a year) is telephoned, with a thank you or an apology.

**The status of front-line staff will need to be raised, and measures and incentives will change.**

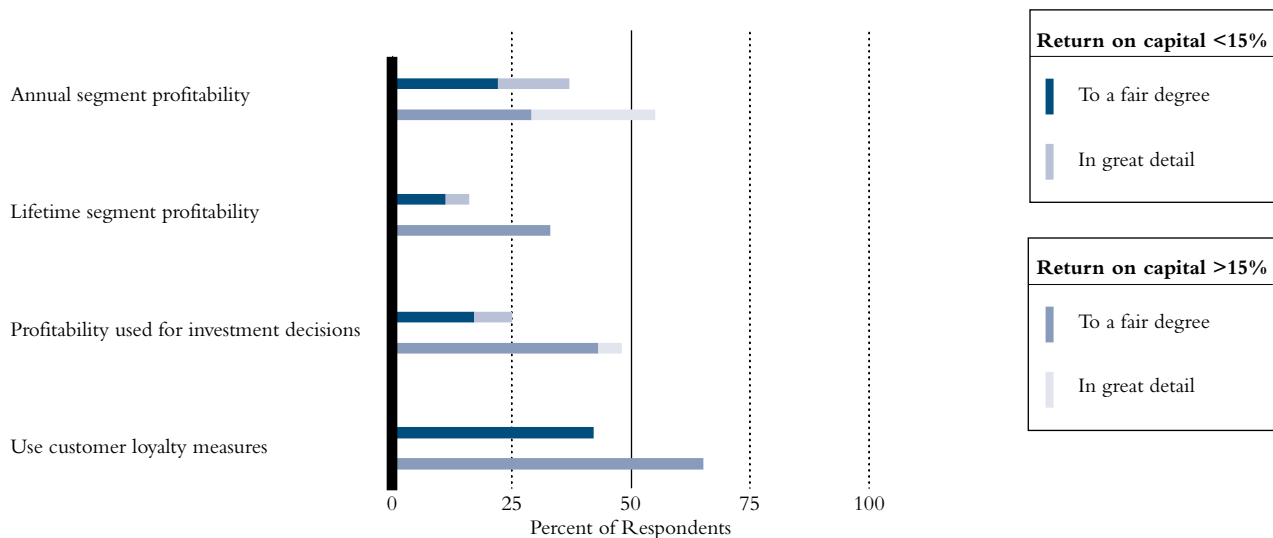
## Understand customer value segments to target service

How do you make sure that you're getting value from your investment in customer service? It's important to remember this: All customers are not, in fact, equal. Some customers provide higher margins or volume of business than others. Therefore, companies should spend more to serve and retain them than they do on other customers. In other words, you must understand the profitability of the segments in your customer base. Yet our survey shows that most companies appear not to understand customer needs by segment. Neither do they differentiate their service offering by segment. Although more than 80 percent of UK companies segment their customer base, only 40 percent of them calculate annual profitability by segment, and even fewer, 22 percent, measure lifetime profitability. Without understanding needs and profitability by segment, it is difficult to prioritize service investments and prescribe customer service levels. How do you know whether to invest in next day delivery or same day delivery if you don't know whether your customers value it and will pay for it?

Companies need the right measures in place to ensure they make the most effective investment in service, yet these measures appear to be lacking. Most companies, for instance, measure customer satisfaction, which is not always an accurate indicator of customer behavior. The real measure is customer loyalty, or repeat purchase rates and volumes—an effect measured by fewer than half of the companies in our survey. Better performing companies—those with a return on capital exceeding 15 percent—use more sophisticated measures. Some try to predict the relationship between satisfying customer needs and loyalty. Others track complaints to learn from service failure and avoid customer defection. These companies are tomorrow's winners. *(Figure 4)*

**New-model high-flier customer service managers are also emerging. But they will be in short supply.**

**Figure 4: Use of customer data: UK high performers vs. low performers**



## Test your readiness to meet tomorrow's service demands

Are you ready to meet tomorrow's service demands? Here are the four key questions:

**1 | Do you understand the service needs of different segments of your customer base?**

That includes understanding the value of your customer base—which customers are most valuable, what is important to them, and whether they will continue to use your services.

**2 | Are you setting the right priorities for your investments in people and technology?**

That means being rigorous about measuring the value of customer service investments.

**3 | Do you have the people policies in place to ensure first class service delivery?**

That includes policies for recruitment, training, recognition and incentives.

**4 | Have you integrated customer service performance into your overall corporate scorecard, including senior management compensation?**

Only 45% link senior management compensation to service performance. This must change if we are going to elevate the profile of customer service to the board room.

For each of these questions, score your organisation's capability on a scale from 1-5, with five being fully capable. If you score more than 16, you are well prepared, which your financial performance probably demonstrates already. Score 10-16, and you're in the pack—you need to work out how to move up among the leaders. Score less than 10, and you face significant challenges responding to the future of customer service.

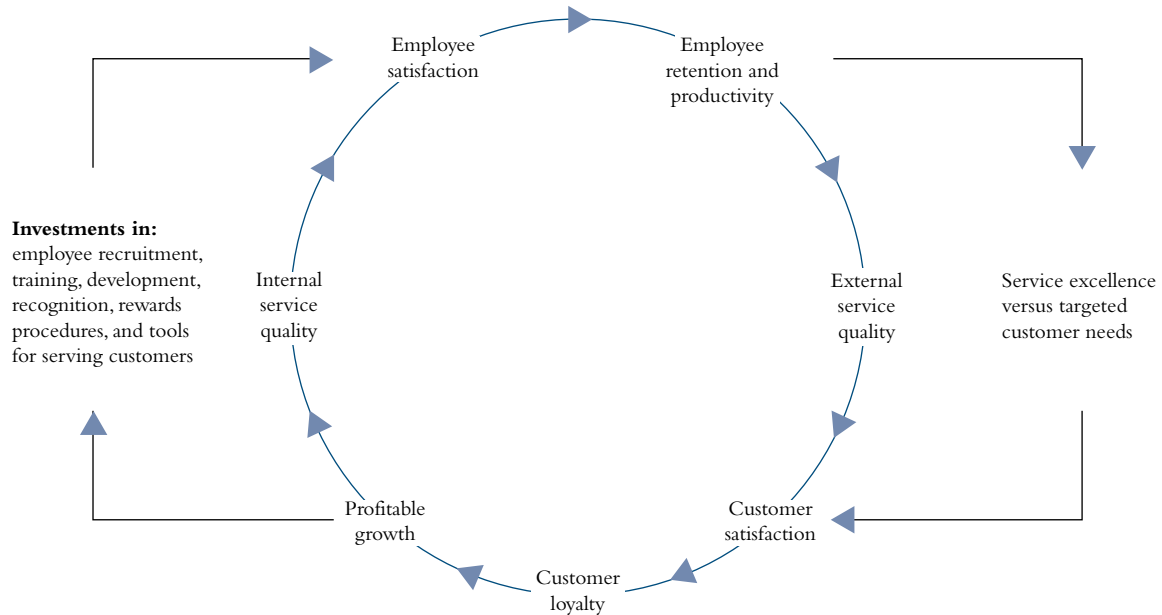
Nevertheless, most companies lack these sophisticated techniques and seem to be investing blindly. Inadequate resources are being allocated to set the frameworks, design the systems, and crunch the numbers. Without an in-depth understanding of their customer base, many companies could spend a fortune on people and technology and get little in return. Even in the US, held out as the model for superior service, only 44 percent of US respondents identified detailed customer service needs and standards for each segment of their customer base.

Investing in technology may also be vital to reducing the costs of service. But don't be fooled into thinking that technology alone will solve the people issue.

The trick is to use it to create even higher levels of consumer intimacy. By eliminating some of the routine tasks, technology can give employees more time to deal with customers.

At the end of the day, the winners in a high stakes game of customer service will be those who get the top people and equip them with the segmentation data and technology to deliver the right level of service, on time, to the customer. They must recruit the right candidates, train and recognize them, provide appropriate financial incentives, and measure their results. Do it right, and customer service will not only have found its rightful place in the limelight—it will keep the audience coming back for more. *(Figure 5)*

Figure 5: Service profit cycle



Source: *The Loyalty Effect* (Reichheld), *Harvard Business Review* and Bain & Company, Inc.

## Best Practice Companies

Those in the advance guard are already using service to differentiate themselves from their competitors.

- 1] **An airline** seeking to make itself more approachable invested in comment cards, customer forums, and a program to get customer relations staff to fly with passengers to experience problems first-hand. The result: Retention rates of customers who complained more than doubled to 80 percent
- 2] **A retailer** set different service standards depending on the time of day, based on customer research showing that morning, lunch-time, and afternoon shoppers have different needs.
- 3] **A life insurance provider** set up a team to contact and suggest alternative options to clients who wanted to cash in their policies. The result: Nearly 60 percent of the clients kept their policies.

## **Bain & Company: Strategy for sustainable results**

Bain is one of the world's leading global strategy consulting firms. Its 2,200 professionals serve major multinationals and other organizations through an integrated network of 25 offices in 18 countries. Its fact-based, "outside-in" approach is unique, and its immense experience base, developed over 25 years, covers a complete range of critical business issues in every economic sector. Bain's entire approach is based on two guiding principles: 1) working in true collaboration with clients to craft and implement practical, customised strategies that yield significant, measurable, and sustainable results, and 2) developing processes that strengthen a client's organisation and create lasting competitive advantage. The firm gauges its success solely by its clients' achievements.

## **The Institute of Customer Service**

The Institute of Customer Service is a new organisation whose principal purpose is to develop people and systems to fundamentally raise service standards, initially in the UK, then, over time, across Europe, America, and the Far East. Recognition of the crucial importance of customer service and the vital roles and contributions of everyone working in this field has prompted more than 50 leading UK companies to join forces in backing the Institute. We are working together with these companies to improve service levels by raising the skills, knowledge, and experience of those involved in customer service; by giving individuals a greater sense of their value and importance; and by increasing people's professionalism through assessment, accreditation and continuous development.

The Institute, founded in 1997 as an independent non profit-making body, commissioned this survey to examine customer service trends and highlight key issues in service delivery. The survey, carried out in 1998, questioned senior executives in a range of industries, including financial institutions, retailing, utilities and telecommunications, brewing, distilling, consumer goods, and leisure.

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