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**Delighting**

**Customers**

**Online**

**e S t r a t e g y B r i e f**

## Delighting Customers Online

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One in five customers has abandoned purchases because no one answered her inquiry... A third of customers encountered technical problems in placing orders... Six percent of packages never arrived... And one in three customers was so disappointed he will not return. Do these figures sound like the death knell of a failing monolith? In fact, they come from analysts' reports<sup>1</sup> on customer service at leading online retailers in the past few months. The novelty of online shopping is wearing off, and customers are impatient with out-of-stock products, poor product information, and technical glitches. Will online retailers who really understand customer service please step forward? There are customers for you to claim.

Fought on price, the first e-commerce battle cut out the middle man and stripped margins. As the market flooded with cut-price competitors, the focus of online competition moved away from head-to-head price wars towards inventive ways of hooking profitable customers. Today, clicks-and-mortar companies that can bring their loyal customers online and keep them there with a superior value proposition have a huge built-in advantage over pure plays. At the same time, retailers with a reputation to protect have a lot to lose—if they get customer service wrong online they can damage their offline businesses. The next e-commerce battle is about winning hearts, not just pocket books. To triumph, and collect the profits that loyalty brings, retailers must learn to delight their customers through excellent service, online and off. **(Figures 1 and 2)**

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### Pure plays are winning (for now)

To date, pure plays are winning the most adherents, claiming the top six slots in Resource Marketing's customer-service ratings<sup>2</sup>. Even Nordstrom, king of bricks-and-mortar customer service, came in a poor 17th, below online newcomer Bluefly. The reason—pure plays are doing the basics better. An Institute of Customer Service<sup>3</sup> study in the UK found 70 percent of Internet travel companies responded to e-mail inquiries within six hours, compared with just 10 percent of clicks-and-mortar travel agents. Even more disturbing for traditional companies, pure plays are leapfrogging clicks-and-mortar service offers. In three key sectors—apparel, consumer electronics, and groceries<sup>4</sup>—10 percent of customers say better service is the reason they shop online. Such stories should ring alarm bells for clicks-and-mortar retailers. Even if they are not yet losing significant share to the Internet, rising customer expectations online could threaten traditional businesses.

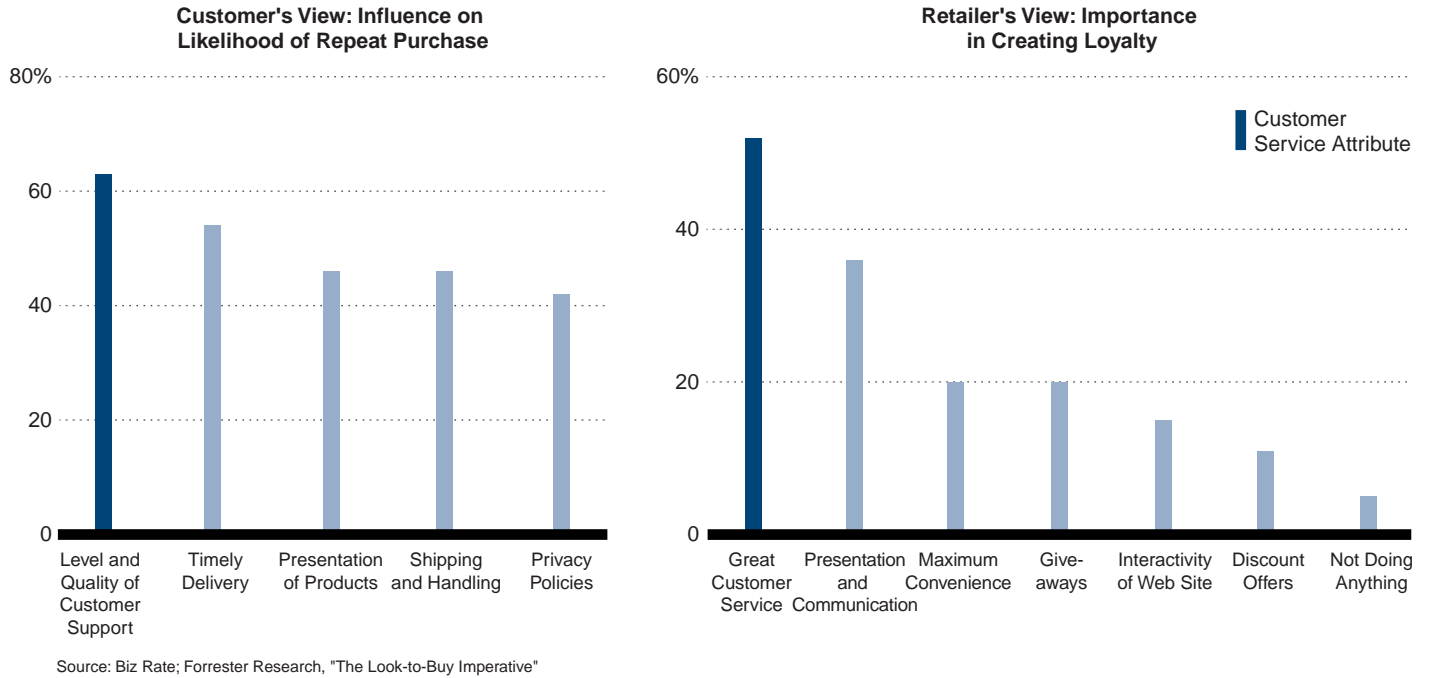
<sup>1</sup> PeopleSupport.com, Resource.com

<sup>2</sup> Resource Marketing, E-Commerce Watch, January 2000

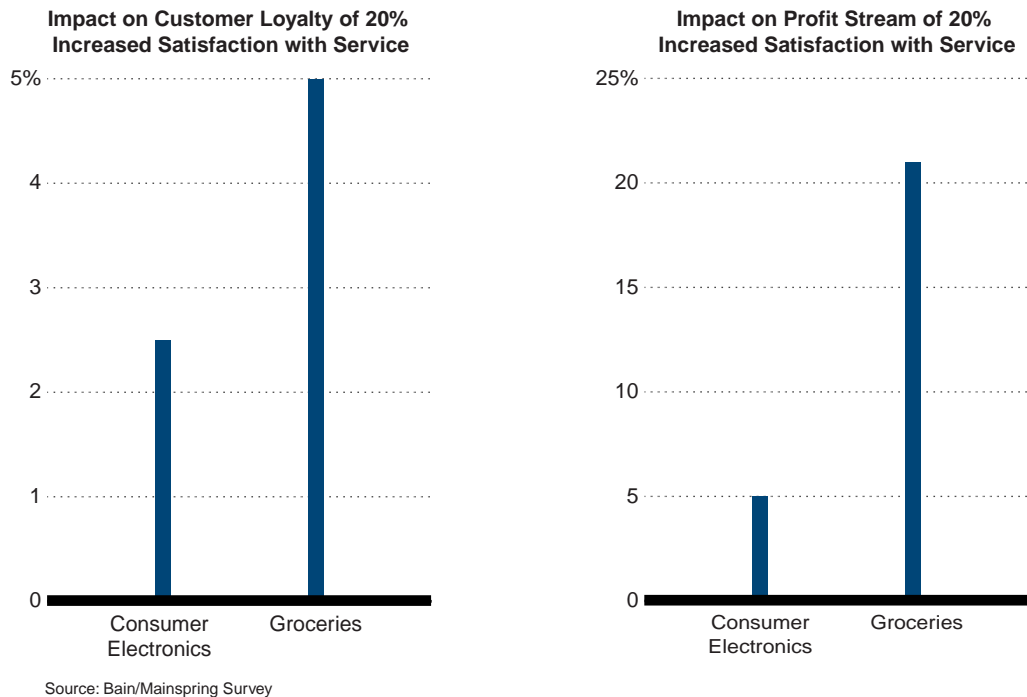
<sup>3</sup> Trusting the Internet: Developing an eService Strategy, Institute of Customer Service, February 2000

<sup>4</sup> In a joint survey conducted by Bain & Company and Mainspring, 2,116 online shoppers in three online retail categories (apparel, groceries, and consumer electronics and appliances) provided information on their Internet spending habits and usage patterns.

**Figure 1: Importance of customer service to loyalty**



**Figure 2: Economic impact of customer service**



That danger will increase as online customer service becomes more sophisticated across the whole customer experience—from obtaining product information, through placing and checking on an order, to getting technical support or making a complaint. Already, leading vendors offer customer services that are hard to match offline, such as personalized shopping advice, automated order processing, and instantly accessible troubleshooting. And some innovations are canceling out bricks-and-mortar stores' traditional service advantages: Home Town Stores' online sales agents—known as “netreps”—tap browsers on their electronic shoulders in real time to offer personal assistance. Further, new technology keeps adding ingredients that increase expectations. As more online retailers adopt tools—like Ask Jeeves— that understand natural language questions—customers will come to expect instant individual expert attention.

### Creating a successful offering

Creating a successful offering means facing challenges in three areas. The first is to identify which of your customer segments to keep long term and to understand their needs. The second challenge is to use the available technology to improve service to your customers and stimulate loyalty, without allowing costs to spiral. The third is to break down traditions that downplay the importance of customer service in your organization, thus clearing a path to effective implementation. Meet these challenges and you can win hearts and pocketbooks.

### Pick your customers— and understand precisely what pleases

Price-cutting pure plays like Buy.com boast triple-digit growth in their number of customers. Impressive, but are these customers profitable? In some sectors, retailers are losing money on up to 76 percent of customers<sup>5</sup>. The lesson: when you do business, off-line or on, make sure that you have your best customers in mind, and design your offer to suit them<sup>6</sup>.

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<sup>5</sup>See 'The Value of Online Customer Loyalty', Bain/Mainspring, for further information

<sup>6</sup>See 'Assuring the Price is Right Online', Bain/Mainspring, for further information

Understand what your chosen customers really need. Don't make the mistake of simply dumping your bricks-and-mortar product range online. OshKoshB'Gosh, the upscale children's apparel supplier, posted simple photos of its goods without providing essential information for home-shopping parents, such as how clothes are fastened. On the other hand, whiz-bang features that slow up the web site and are not valued waste money. Just ask troubled boo.com. Retailers should determine the role customer service plays in their value propositions and craft their offers accordingly. This might mean cutting back on frills in order to keep costs down. Southwest Airlines slashes flight costs by cutting amenities and doing away with seat allocations, then passes these savings on to customers in low ticket prices. In keeping with its pared-down approach, Southwest's Internet offering lacks the typical range of customer services. As yet, it doesn't provide an e-mail address for correspondence. Instead, the web site contains a short explanation, headed 'Why We Don't Accept E-mail', inviting visitors to write a letter instead. To some, this may seem a foolish omission, but Southwest has correctly guessed that its customers will continue to buy online while the airline develops that particular capability. Southwest sells more tickets on the Internet than any other airline.



**Are your customers turned off by basic flaws such as slow download times, insufficiently detailed product specifications, or a site that's difficult to navigate? With one in three customers encountering basic technical problems when placing orders, many companies need to get the basics right.**

Customer service is as important to Southwest Airlines as it is to any of its competitors. To win, you need to use customer (and ex-customer) feedback to understand precisely what each customer segment you serve values, and then offer it. Southwest Airlines' loyal customers appreciate low prices and expect the service level to reflect that. By contrast, in groceries the most profitable customers are in a hurry. They value easy-to-navigate web sites and immediate access to technical help when things go wrong. Attracting and retaining these customers requires best-in-class site-search facilities and help desks.

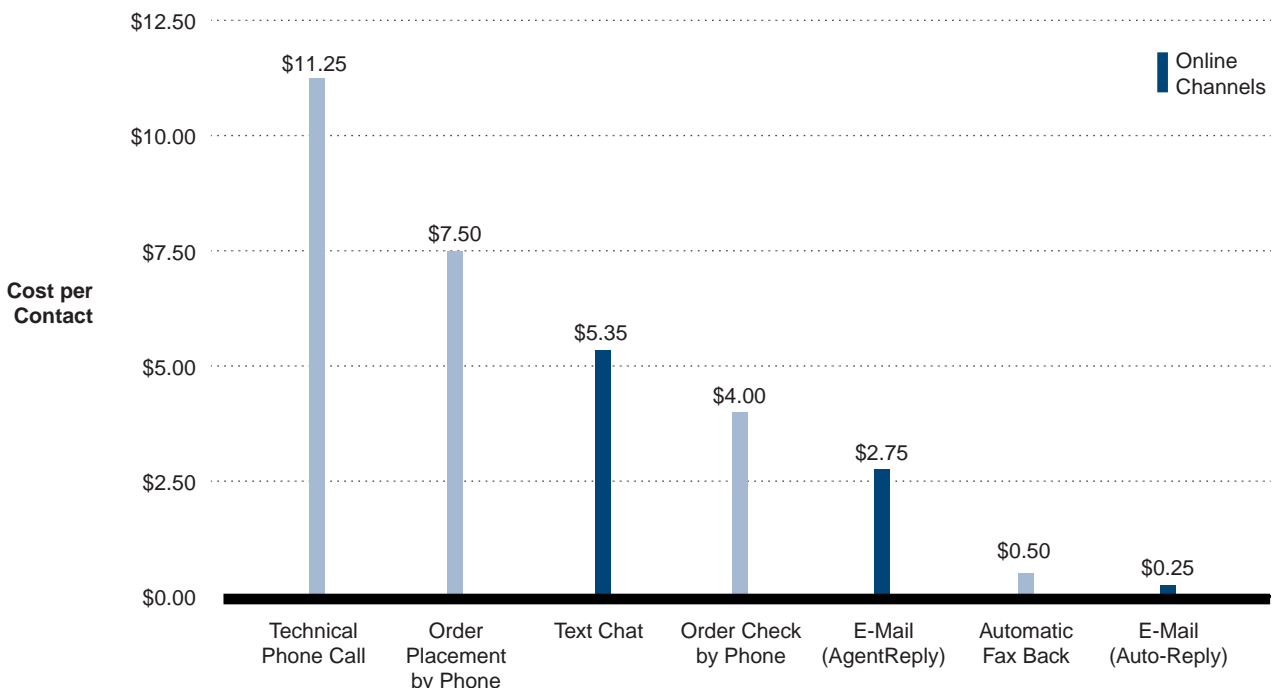
To hone your offering precisely, you should also understand defections. Are your customers turned off by basic flaws such as slow download times, insufficiently detailed product specifications, or a site that's difficult to navigate? With one in three customers encountering basic technical problems when placing orders, many companies need to get the basics right if they are to have the chance to delight.

### Use the technology

The Internet brings technology that can enhance your offer to customers and keep customer service costs down. Retailers must take advantage of these tools to stay competitive. Consider computer vendor Dell. It has features that help Internet buyers throughout their online experiences. Prospective customers can pose questions to “Ask Dudley” —a service that responds to natural language queries by dipping into Dell’s extensive knowledge base for help when making a purchase decision. They can then review prices for differently customized options online or get more information, customized to their needs, from the Dell4me support center. After placing orders, they can check delivery status online. Post-sale, customers can participate in discussions with other Dell users and access Dell’s online support facility.

In addition to enhancing service, technology can reduce costs. IBM expects to save \$750M this year by migrating “high-touch” services (those that traditionally require significant human input) like technical support onto the Internet. Many services, particularly those with high technical content, can be delivered more cheaply online through “low-touch” technologies that don’t depend on direct access to humans. A typical customer service e-mail costs less than a quarter of its telephone equivalent. **(Figure 3)** “Frequently Asked Questions” pages and “Wizards” that guide a customer through fault diagnosis also save on phone calls.

**Figure 3: Costs of customer service**



Source: Forrester Research; Bain/Mainspring

**You can help break down outdated ideas by appointing a customer-service champion at the board level and linking rewards to service measures.**

### **Remove Roadblocks to Implementation**

The biggest problem facing clicks-and-mortar retailers wanting to implement these ideas is an historical mindset that places customer service low on the agenda. For example, Toys 'R' Us had a history of poor service in its stores and an arrogant attitude towards customers that subsequently pervaded its online operations, resulting in poor performance and further damage to its reputation. Online raters slammed it for delivering Christmas gifts in January and failing to answer its toll-free customer service line<sup>7</sup>. You can help break down outdated ideas by appointing a customer-service champion at the board level and linking rewards to service measures. Wells Fargo's Online Financial Services group developed a Balanced Scorecard that included success measures such as customer satisfaction and attrition rates and the rate of cross-selling.

A second legacy of clicks-and-mortar companies' history that hinders implementation of excellent online service is capabilities—both technical and human—that don't meet today's needs. Integrated IT systems are essential to a seamless service.

Also, they allow retailers to harness customer information to improve their offer across all channels. If your existing systems can't deliver this, you need to invest in them. In addition, your human assets—your bricks-and-mortar customer service staff—may have the wrong skills. One store executive commented, "Historically, we recruited people who were good at mental arithmetic"<sup>8</sup>. Now, online customer service representatives must be technically fluent, with the excellent literacy needed to write helpful, concise e-mails.

Companies need to consider their capabilities and decide which elements of customer service to keep in-house, and which to outsource. Many companies leverage their in-house capabilities by sub-contracting help for non-core activities. Microsoft, which does not see customer service as a core competence, routes some of its customer correspondence to a third party that answers queries on the software developer's behalf. Outsourcing such a crucial part of your business may be risky though; consider whether the right resources exist externally, and whether you are prepared to trust customer interactions to outsiders. Jack Welch has been adamant that the Internet should be used only to bring GE closer to its customers, not to outsource the precious interface. Priceline has chosen to outsource only the less-sensitive interactions with customers, and financial services providers like Mortgage.com prefer to keep all contacts in-house.

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<sup>7</sup>Resource.com, Gomez

<sup>8</sup>Bain/Institute of Customer Service survey of senior customer service executives

Putting the right formula in place is not a one-off task. Needs change fast, and Internet tools are easy to copy. Retailers should build continual review of customer service performance into management processes. To stay ahead, you need to stay in close touch with changing needs and competitor moves, and be prepared to adapt quickly.

Many of the early retailers to step forward and claim the high ground on customer service have been pure plays. Take dot-com Fogdog. Founded in 1994, it became the Internet's leading sporting goods site on the back of outstanding customer service. It doesn't offer all the latest gizmos, but it is easy to search, provides clear information, delivers reliably and makes returns easy. Last year it won multiple service awards from raters like BizRate and Gomez Advisors. Time Digital named it "overall most customer-friendly site."

Fogdog's 1999 revenue soared 750 percent with November site-hits topping its three closest competitors combined. However, Fogdog, like many other pure plays, has recently fallen out of favor with investors and analysts for failing to show profits quickly. This is the time for clicks-and-mortar retailers to take center stage—and bring their profitable customers with them. If you succeed in delighting your online customers, they will help you acquire even more adherents. Referrals from satisfied shoppers are the most effective way of building a customer base that's hard to match. So, if you are spending millions on acquiring new customers on the Internet, you should ask yourself whether at least part of the money could be better spent looking after the existing ones. If you don't claim your customers, others will.



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## **Bain & Company:**

### **Strategy for sustainable results**

Bain is one of the world's leading global business consulting firms. Its 2,500 professionals serve major multinationals and other organizations through an integrated network of 26 offices in 18 countries. Its fact-based, “outside-in” approach is unique, and its immense experience base, developed over 27 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 customized strategies that yield significant, measurable, and sustainable results, and
- 2) developing processes that strengthen a client’s organization and create lasting competitive advantage. The firm gauges its success solely by its clients’ achievements.

Bain & Company’s global e-commerce practice helps businesses achieve outstanding results in the new economy. We work with traditional companies to launch and manage online operations, and with pre-IPO clients to hone business models and accelerate to market. We also work with entrepreneurs to incubate new ideas into viable businesses, in some cases taking equity stakes through our bainlab subsidiary. Our e-commerce practice professionals work around the globe in every major industry.

## **Mainspring**

### **eStrategy Consulting**

Mainspring is the leading eStrategy consulting firm that focuses exclusively on developing actionable Internet strategies. It enables Fortune 1000 companies to protect, evolve, and transform their business for sustained competitive advantage by offering an integrated process of business, customer, and technology strategy planning. Its proprietary process hinges on the following activities to help guide clients effectively through eStrategy development:

- Building the Business Model
- Creating the Customer Experience
- Defining the Solution Architecture
- Commercializing the Business Plan

Working with Mainspring, companies identify, define, and formulate a portfolio of strategic Internet initiatives that are customized for their business and designed to create sustainable competitive advantage.


Mainspring’s core services include eStrategy Consulting, eStrategy Direct, and the eStrategy Executive Council. These services are provided to companies in the financial services; retail and consumer goods; technology, communications, and media; and manufacturing industries. Mainspring was founded in 1996 and has offices in Cambridge, Massachusetts and New York City.

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