Harvard Management UPDATE

A NEWSLETTER FROM HARVARD BUSINESS PUBLISHING

ARTICLE REPRINT NO. U0812A

Strike the Right Balance Between Service Efficiency and Customer Satisfaction

by Mark Kovac, Josh Chernoff, Jeff Denneen, and Pratap Mukharji

Strike the Right Balance Between Service Efficiency and Customer Satisfaction

by Mark Kovac, Josh Chernoff, Jeff Denneen, and Pratap Mukharji

Trimming customer service costs while boosting customer satisfaction—and hence loyalty—is challenging in the best of times. During a downturn, performing this balancing act becomes both more difficult and more critical to achieve.

Many companies don't even try. They respond to straitened economic circumstances by cutting service costs and sacrificing service quality in a quest to hit short-term financial targets. When the economy starts recovering, they beef up investments in customer service to win back customers. And they find it's too late.

Look at what happened to a U.S. technology company we'll call ABC-Tek when it became one of the first to move tech support to India. Offshoring this service cut costs, but at the price of customer loyalty.

ABC-Tek's offshoring strategy wasn't a bad one. But in executing it, the company focused too much on costs and too little on managing the customer experience. Ramping up agent capabilities and productivity took longer than expected, leading to long hold times and low resolution rates. The company saw its customer satisfaction scores plummet—as well as its sales. To recover, the company had to make a large investment in improving the customer experience, from reopening U.S. call centers to significantly increasing its number of agents.

The mistakes were costly, but ABC-Tek learned from them. Its service operations are now world class. The company differentiates service delivery based on customer value and customer needs. It created a premium product queue in the U.S. while continuing to use offshore or outsourced call centers for its lowest-priced products. ABC-Tek has tied service delivery into the core value proposition for its products, in effect allowing customers to select service levels while also enabling the company to align service costs with customer value and margins.

ATTAINING SERVICE EFFICIENCY *AND* CUSTOMER SATISFACTION

Managers often view service efficiency and customer satisfaction as incompatible goals. But they don't have to be. By maintaining customer service during a slowdown, companies with a strong core of loyal customers position themselves for growth and gain a competitive edge.

Our research shows that companies with superior service operations have higher customer loyalty scores, which correlates with sustained growth. How do they do it? They invest in learning about customer needs and then translate those insights into innovations that continuously improve services. They decide what to focus on, they measure it, and they create business processes to manage those metrics over time.

Output per employee rose 50% above the company's benchmark, while revisits within seven days dropped 23%.

Leaders of Australian telecommunications company Telstra knew that their customers highly value field technicians who show up when they say they will and fix the problem at the first visit. So the company invested in an incentive system for field workers that promotes both quality and productivity. New communication tools tell each technician the number of productivity points they earn in a particular day. Points are deducted, however, if there are quality issues. Other program features, such as automated scheduling, have also boosted efficiency.

Telstra's results are impressive. Output per employee rose 50% above the company's benchmark, while revisits within seven days dropped 23%.

THREE PRACTICES THAT STRIKE AN OPTIMAL BALANCE

From our work with clients, we've identified three practices that help companies balance efficiency and quality in their service operations:

1. Segment service levels.

When electronics retailer Best Buy decided to emphasize service and make it a key part of its products' value proposition, the company retrained store employees so they could recognize and better serve different customer segments. In stores that skewed toward upscale suburban customers, staff were hired and trained to serve this customer base in ways that are subtly different from the service approach used in stores that drew younger, more urban customers. Staffing was increased during peak shopping hours so that higher-value customers could receive focused assistance.

EXECUTIVE SURVEY ON MANAGING SERVICE OPERATIONS

Most executives agree that getting service operations right is tough. When Bain & Company asked 184 executives if their companies' service operations were the most efficient in their industry, only 17% strongly agreed.

Other results from this survey:

- Only 30% strongly agreed that their service operations contributed to building customer loyalty.
- Only 26% strongly agreed that they understood the cost to service their customers and offer optimal service to each segment.
- Only 22% strongly agreed that their customer service centers offer the right mix of live and self service.

Best Buy's decision to differentiate service levels and match them to different customer segments has paid off, boosting store sales while keeping a lid on costs. By judiciously reducing staffing during off-peak times, Best Buy can afford to beef up employee hours during the busiest periods. To serve customers faster and with more flexibility, the company equipped employees with two-way radios to improve communication across the large Best Buy selling floors.

Because of its detailed knowledge of the buying habits of its different customer segments, Best Buy is able to customize store formats and product mixes to grow sales. For example, the newest Best Buy stores devote more space to growing categories like home appliances and mobile communications and less space for shrinking categories like CDs and DVDs. These new stores offer specially trained staff and service levels matching the product mix.

All these actions have gained Best Buy higher customer satisfaction ratings—and higher sales. The company constantly measures the cost of delivering different service levels against the value provided by the corresponding customer segment—and just as constantly searches for ways to reduce inefficiencies.

2. Strive for consistency over several budget cycles.

After FedEx completed a number of strategic acquisitions beginning in the 1990s to diversify and expand its portfolio, the company institutionalized what it calls "The Purple Promise"—a pledge to put the customer first on every interaction. This unifying theme promises the same high-quality service from all companies in the FedEx family, whether they offer air, ground, or freight delivery, or office business solutions.

To ensure consistent levels of service across its subsidiary companies, FedEx established FedEx Services to give customers access to the full range of FedEx transportation, supply chain, e-commerce, business, and related information services. By integrating sales, marketing, information technology, pricing, and customer service support for the global FedEx brand, FedEx Services has been able to better coordinate its revenue and yield management programs across the enterprise. The strategy of centralizing customer-service functions has helped FedEx attain and maintain customer loyalty scores that are among the highest in the industry.

FedEx manages customer service over a multiyear time horizon and sets continuous improvement goals. A strategy and planning group focused on customer service looks a few years out to determine what the customer experience should be, how operations should be structured, what new technology can be leveraged, and how core processes can be improved to reduce inefficiency and cut costs.

3. Share accountability and continually look for efficiencies.

At Telstra, field technicians aren't the only employees whose bonuses are affected by the company's track record in getting customers serviced on time—and their issues resolved in one visit. Field performance and field quality are among the metrics used for calculating bonuses for executives as high up in the organization as one level below the CEO.

When a leading insurance company that we'll call InsureCo attempted to drive down costs per call by using automation to answer more calls, it actually found its costs going up, not down. The culprit? A lack of accountability.

The company invested heavily in a broad portfolio of technology initiatives across its six customer service call centers, with the aim of using fewer agents for claims processing. When, despite these investments, InsureCo found its costs per call actually rising, the company brought in a new VP of customer service to turn the situation around.

An analysis of the existing call center plan found that nearly 100% of the cost targets were dependent on technology upgrades and improvements, yet no one in IT nor any managers in the customer service organization were accountable for realizing results from the IT investments. What InsureCo needed was good old-fashioned management oversight and process reviews.

InsureCo overhauled its call center plan based primarily on a set of non-IT-dependent initiatives to immediately reduce costs per call. For example, company leaders found that the company was significantly overdelivering against its service-level objectives. In many instances, 85%–90% of all calls were answered in 30 seconds, significantly faster than InsureCo's targeted service level of 80%. So the company increased its call response time to match its service level target, thereby saving on labor costs. The company made a smart trade-off here. Its move didn't improve customer service but neither did it significantly diminish it, and the company saw no effect in its customer satisfaction scores.

Another efficiency InsureCo realized came from adopting a staggered schedule for its workforce. By using part-time workers to meet fluctuating workload demands, the company shaved off some labor costs.

The company also discovered that it was not taking full advantage of its new call-routing technology. Each of the six call centers was run like a separate business, with staffing based on call demand. But the technology allowed InsureCo to reduce staffing costs by pooling resources. Instead of six separate queues for incoming calls, it created one. Callers were routed to the next available operator at any of the centers.

The company then supplemented these moves with a focused set of IT-dependent cost-saving initiatives. Among them: An enhanced self-service claim-processing Web site and a renewed effort to drive calls to InsureCo's interactive voice response system. Finally, for both IT and non-IT initiatives, clear accountability for meeting performance targets was established within the customer service organization.

The results from InsureCo's efforts to share accountability and reduce inefficiencies were dramatic: the company cut costs by 15% while handling 15% more calls, which translated into $35 million annually in cost savings. ◆

Mark Kovac *is a Bain & Company partner based in Dallas.* ***Josh Chernoff*** *is a partner based in Chicago.* ***Jeff Denneen*** *and* ***Pratap Mukharji*** *are partners in Atlanta. Reach them at MUOpinion@harvardbusiness.org.*

Reprint # U0812A: To order a reprint of this article, call 800-668-6705 or 617-783-7474.