May 8, 2008

Customer Service: A Keystone Of Your Corporate Revenue Strategy

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EXECUTIVE SUMMARY

Despite the pressure to become a profit center, most organizations' customer service and contact centers continue to miss the mark on becoming a strategic business partner and are not considered part of the corporate revenue strategy. However, new Securities and Exchange Commission (SEC) regulations and data are making decisions about positioning customer service for success more relevant than ever before. This presents an opportunity for customer service professionals to accomplish goals they may have previously lacked the data to justify. The transformation of customer service from a "cost center" model to a "profit center" paradigm entails a commitment to change from all levels within an organization — from C-level executives to call center agents. Customer service leaders can serve as the change catalyst by helping executive leadership decide if customer service is a financial priority, tuning up their own leadership and business case development skills, and helping agents understand the why and how of being a brand ambassador.

THREE CATALYSTS MAKE CUSTOMER SERVICE AN EXECUTIVE-LEVEL DUTY

Most executives give good lip service to superior customer service, and some have even funded technology and process improvement efforts to help elevate their customer IQ. But these same executives also face pressure to cut costs and deliver near-term results — a pressure that is becoming stronger in an uncertain economic environment. The result: underfunded and understaffed customer service initiatives that ultimately erode customer loyalty and lifetime value, both of which have a direct effect on revenue and profits. Business-to-consumer (B2C) and business-to-business (B2B) companies continue to report low customer service capabilities, but Forrester believes that those days are rapidly coming to a close (see Figure 1).[1] Here's why:

- **Evidence of a direct financial tie to revenue.** Studies reveal that customer service and the contact center directly affect corporate revenue (see Figure 2). An Accenture study cites customer service and converting customer information into business intelligence as the business improvement initiatives that produce the highest impact on a company's financial success.[2] For example, a typical $1 billion business could add $40 million in profit by increasing its customer-facing capabilities by 10%. According to research by Claes Fornell (the American Customer Satisfaction Index [ACSI]), a company's stock price is related to customer satisfaction.[3] This means that executive decisions that erode customer service are eroding corporate profitability. The studies also provide the data customer service leaders need to create their own business cases and executable strategies; show revenue gain/loss; and justify the required changes in objectives, goals, and expenditures.

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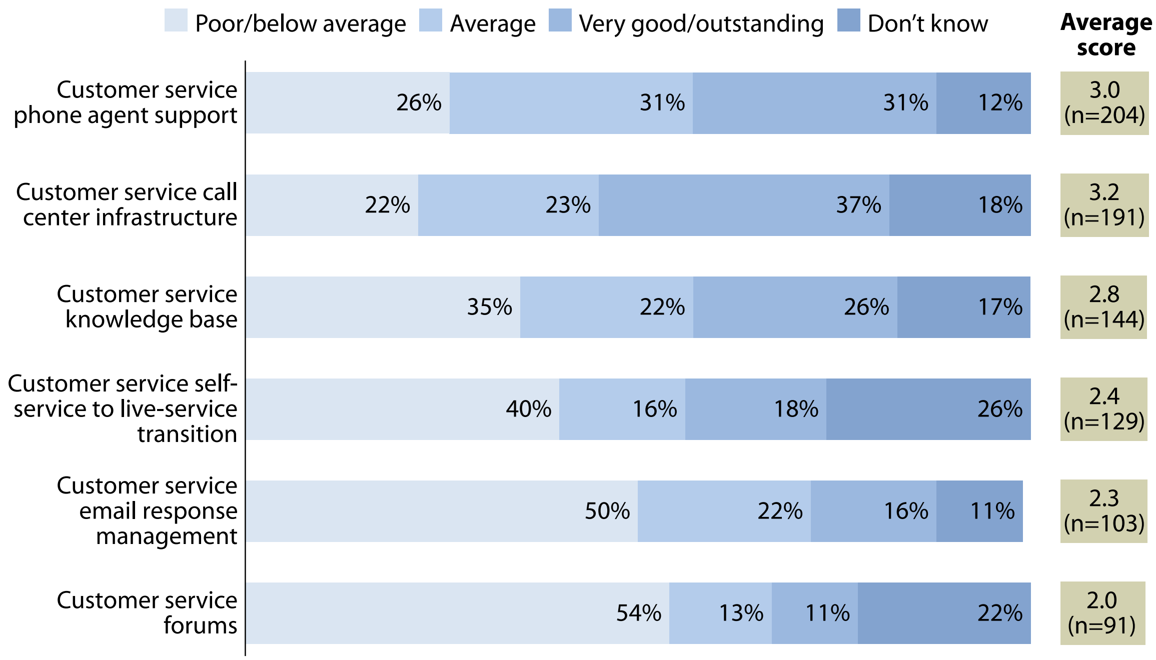
- **Direct executive accountability for large expenditures.** With the SEC now requiring extensive documentation for executive pay-for-performance shareholder reports, never before have executive compensation decisions been so tightly linked to the decisions they make.[4] This SEC ruling is certainly the most sweeping move on executive accountability and compensation in 15 years. And because results in customer service and contact centers are so easily measured, a well-executed (or poorly executed) strategy can provide excellent SEC report material. Plus, monetary executive accountability for enterprise software initiatives would certainly set a long-needed precedent.

- **They can't blame the technology.** There is a long history of large-scale application initiative failures, including many well-publicized Fortune 500 company lawsuits against vendors and/or system integrators. Fortunately, customer service leaders are in a position to apply the lessons learned over the last 15 years and most now report a high satisfaction with customer relationship management (CRM) application functionality and capability.[5] In fact, years of data show that poor results of corporate initiatives have been directly related to poor executive leadership — not the technology itself (see Figure 3). Shared responsibility among executives at technology vendors, system integrators, and the executives approving the purchase for their company — perhaps enforced through compensation packages tied to business results — will go a long way in preventing any executive from easily "passing the buck" when failures occur.

Figure 1 Strength Of Best Practices Capabilities For Customer Service

A spreadsheet with additional data is available online.

"Please rate your company's performance relative to each of the following customer service subcategories."
(1 [poor] to 5 [outstanding])



Base: 58 business and IT decision-makers
(percentages may not total 100 because of rounding)
("n" does not include "Don't know" responses)

Source: January 10, 2008, "Customer Service Best Practices Adoption"

45953 Source: Forrester Research, Inc.

Figure 2 Customer Service Affects The Bottom Line

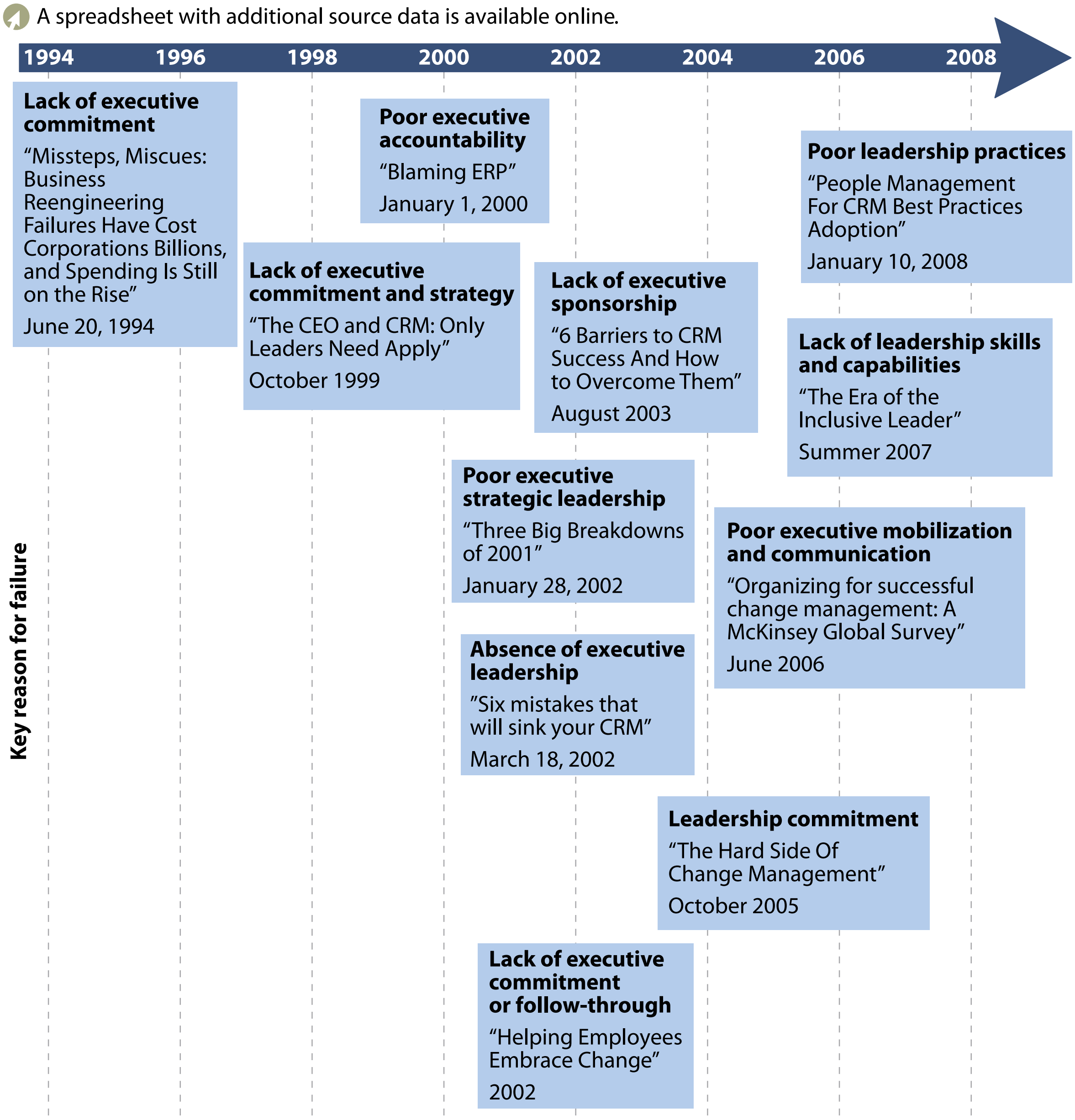
A spreadsheet with additional source data is available online.

Researchers/study	Customer service versus bottom-line study results
Claes Fornell University of Michigan American Customer Satisfaction Index (ACSI)	• A company's stock price is directly related to customer satisfaction.
Mark T. Wolfe and Dale A. Raaen Accenture "How Much Are Customer Relationship Management Capabilities Really Worth? What Every CEO Should Know"	• A typical $1 billion business could add $65 million in return on sales by enhancing each of its customer-facing capabilities by 10%.
Frederick F. Reichheld Bain & Company "Loyalty Rules!"	• A 5% increase in customer retention yields a 75% increase in customer net present value.
Roland T. Rust and P.K. Kannan University of Maryland "E-Service: New Directions in Theory and Practice"	• Companies adopting a revenue perspective earn better profits, both in terms of return on assets and stock appreciation, than companies that emphasize cost reductions or cost-cutting while revenue building at the same time.
Dr. Jon Anton BenchmarkPortal "Combining Service Excellence With Profitability"	• Eighty-five percent of respondents in a recent study from Purdue University indicated that they formulate their opinion of a company and its brand by the contact center and the agent. • Sixty-three percent said that they would become disloyal because of a bad experience with a contact center agent.
Don Petters and Martha Rogers, Ph.D. 1to1 Media "Return On Customer"	• The only value a company has is the value that comes from customers: the ones they have now and the ones in the future. • Customers create value for a business by increasing the company's current period and future cash flows.
Walker Information "Loyalty Report: Online Retail"	• The companies that obtained top consumer loyalty ratings had a three-year average annual operating income growth that was 682% higher than the companies that scored low in customer loyalty.
Noah Grayson Walker Information "Loyalty Report: Wireless Service Providers and Handsets"	• The study found that only 30% of handset owners and 46% of service provider subscribers are loyal customers. Comparing stock price performance over three years, the companies with loyal customers outperformed the companies with nonloyal customers by 173%.
Bruce D. Temkin Forrester Research "The Business Impact Of Customer Experience"	• The quality of customer experience could cause a swing of $242 million for a large bank and $184 million for a large retailer.

45953 Source: Forrester Research, Inc.

Figure 3 Continued Poor Executive Leadership Is Responsible For Low Corporate Success Rates

A spreadsheet with additional source data is available online.



45953 Source: Forrester Research, Inc.

CUSTOMER SERVICE MUST BECOME A STRATEGY BUSINESS PARTNER

This perfect storm of financial justification and executive-level accountability will give customer service professionals the opportunity to do what many have been pushing for all along: to begin the transformation of the customer service model from "cost center" to "profit center." This shift will require a reorientation toward a financially oriented, customer-service-centric company mindset and extensive change management initiatives. Key principles to remember:

- **Don't underestimate the power of a strong business case.** Customer service leaders and contact center professionals will need to play a strategic role by building business cases for the people, process, and technology required to provide superior customer experiences. Only with a strong business case will the executive leadership begin to realize the financial implications of poor customer service and experiences. And as a result, the value of a corporate customer experience strategy and subsequent expenditures will be justifiable. To comply with SEC's new rulings, perhaps executives will need to begin to account for wins or failures in this category to justify the correlation between their pay and performance.

- **Employees must understand that they are brand ambassadors.** Studies from scientists like Dr. Gerald Zaltman at Harvard Business School's Mind of the Market Laboratory have shown that the most important aspect to the consumer is the experience and not the tangible attributes of a product or service.[6] A customer's retention is based on the sum of all total positive interactions with a company, each interaction being that moment of truth that could send them packing to competitors. The Forrester 2007 Customer Experience Index found that customers want their interactions with companies to be useful, easy, and enjoyable.[7] This means that *all* employees must make sure *every* decision they make puts the customer's need first.

- **Now is the time to lock in support for change management.** Change management initiatives often fall on the cutting room floor of budget-conscious projects. But for customer service to become a strategic business partner, the adoption of new strategies, programs, initiatives, roles, responsibilities, and cross-functional teams is required. This level of transformation can only occur successfully through a strategic change management program designed to shift the entire corporate culture, starting with the executive-level staff. Customer service leaders should take advantage of their executives' increased interest and financial accountability to ensure that the level of risk that customer service professionals need to lead the organization through are mitigated. To help justify the need, project leaders can cite data from recent studies like one completed by McKinsey that revealed that an initiative's ROI is directly related to an effective organizational change management (OCM) program.[8]

RECOMMENDATIONS

TREAT CUSTOMER SERVICE AS A CORPORATEWIDE INITIATIVE

Changing a culture to become financially customer service-centric requires an understanding of this type of endeavor and a commitment to making it really happen. That commitment to change requires new mindsets, information, skills, and training for all stakeholders in the initiative. To get started, customer service leaders should:

- **Help executive leadership decide if customer service is a financial priority.** To drive the process of becoming a customer-service-centric organization, customer service leaders will need to take the initiative to learn from the studies and data, begin to collect key performance indicators in their own organizations, and correlate those to executive leadership's goals. By measuring what's important to the business, customer service leaders can provide executives with a dashboard scorecard to help make new decisions.
- **Tune up leadership skills.** To lead the customer experience strategy and implementations, customer service executives will need to engage executive leadership in the initiative, as well as exhibit strong leadership skills to gain alignment and collaboration among all employees — both customer-facing and non-customer-facing. Both this, and building ROI business cases, will require specialized training.
- **Overhaul training for agents.** Not only do agents need to be trained on the correlation between their behavior and the effect on the brand, but agent training standards need to be upgraded. For training to provide an ROI, the change in the agents' behavior must be able to be related to an improvement in the bottom line. Agents should be educated on scenario-based design principles and directly participate in implementing the changes to how they do business.

ENDNOTES

1 Forrester surveyed 58 business and technology decision-makers and influencers to discover their strengths and weaknesses compared with 18 customer services best practices capabilities. See the January 10, 2008, "Customer Service Best Practices Adoption" report.

2 Accenture's yearly surveys explore the extent of the customer service challenge facing companies by illustrating the disparity between the views of customers and the perspectives of business executives. The results are eye-opening for any executive concerned with growing a business. Source: Accenture (http://www.accenture.com/Global/Research_and_Insights/By_Subject/Customer_Relationship_Mgmt/default.htm).

3 The ACSI is a national economic indicator of customer evaluations of the quality of products and services available to household consumers in the United States. It's updated each quarter with new measures for different sectors of the economy. The overall ACSI score for a given quarter factors in scores from about 200 companies in 43 industries and from government agencies over the previous four quarters. Source: American Customer Satisfaction Index (http://www.theacsi.org)

For more information, see also: Claes Fornell, *The Satisfied Customer: Winners and Losers in the Battle for Buyer Preference*, Palgrave Macmillan, 2007.

4 Because of catastrophes like Enron, the SEC is putting CEOs under more scrutiny and asking them to be more accountable to their shareholders for the decisions they make. Source: Rachel Beck, "Companies Must Explain CEO Compensation," AP News, June 9, 2007. (http://www.thefreelibrary.com/Companies+must+explain+CEO+compensation-a01610695169)

5 View the results of the survey that showed that less than half the 94 business and IT executives surveyed felt that their CRM investments met their expectations. See the March 1, 2007, "Trends 2007: Customer Relationship Management" report.

6 Harvard Business School professor Zaltman notes that despite enormous amounts of time and money dedicated to customer surveys and marketing, approximately 80% of all new products fail within six months or fall significantly short of their profit forecast. This shouldn't be surprising because there is a great mismatch between the way consumers experience and think about their world. Source: Gerald Zaltman, How Customers Think: Essential Insights into the Mind of the Market, Harvard Business School Press, 2003.

7 View the results of surveying 5,000 customers about their interactions with a variety of companies, gauging the usefulness, usability, and enjoyability of those experiences. See the November 21, 2007, "The Customer Experience Index, 2007" report.

8 Forty organizations' change management programs were studied, and it was found that companies with excellent change management programs had an ROI of 143%, and those with poor programs averaged only a 35% ROI. Source: "Helping employees embrace change," The McKinsey Quarterly, Number 4, 2002.