

SERVICE 2020: RETURN ON SERVICE



A BDO REPORT

written by the Economist Intelligence Unit

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FOREWORD



by Allan Evans,
BDO Global Head
of Clients & Markets

It's not rocket science to understand that service quality has a bearing on businesses' long-term success – and the current challenging economic climate has served to emphasise this as companies strive to distinguish themselves in an increasingly competitive marketplace. The competition for customers is going to be fierce in every market and sector and companies are right to focus on quality, value, price and innovation – but not if service quality is neglected.

In September 2013, we joined forces with the Economist Intelligence Unit (EIU) and launched a research programme to investigate how defined and acknowledged the link between customer service and profit is, and whether businesses pay enough heed to the correlation. The survey sought to investigate what companies think their customers want, how they are adapting their customer service offerings and what impact their service strategy has on the bottom line.

The survey report did confirm that businesses throughout the world acknowledge that good customer service is important to their financial performance: 84% of the companies surveyed believe this to be true. Of those that rated their own service as excellent, the largest proportion did show above average financial performance compared to their peer group. However, measuring the impact of customer service on the bottom line is not easy and businesses are struggling to quantify this – although there is some evidence that poor service is hindering profitability. Negativity is easier to see, and 59% of our respondents have had a customer failing result in a clear and significant impact on their bottom line – but only 36% have a formal strategy in place that addresses this link. Companies are simply not investing enough in customer service, and neither are they apportioning responsibility for it at Board level – 62% give this responsibility to other departments such as HR and marketing, with only 28% having a designated head of customer service.

At BDO we are passionate about service and have long been aware of its importance to our success. As a network, we've always been committed to delivering good service, but in the last 12 months we have dialled up that commitment and now our vision is to be the leader for exceptional client service. Service quality is embedded in everything we do – it is not confined to a client service department – and all our people are aware of what constitutes exceptional client service. We have clearly defined what exceptional service means for us and for our clients and strive to live up to its attributes every day and in everything we do. It's a simple but effective

approach that ensures we not only meet our clients' needs but exceed their expectations. It's about being clear and open in our communications and always delivering what we promise.

We pay strict attention to the people that make up our client service teams and aim always to provide the right people for the client – as well as the right working environment for our people. Above all, we recognise that all our clients are different and that they therefore appreciate a relationship with their service provider that is more personal than uniform and reflects the kind of business they are, as well as their culture. Only then can we create tangible value that's based on trustworthy insight and advice.

“**Exceptional service has to be fluid, occasionally spontaneous and always genuine**”

Our commitment to service quality means that we are set up to adapt to our individual clients' needs and provide them with the right service mix – and this gives us return, again and again, all over the world: and we have the proof that this approach works. In the past year BDO firms from Sweden to Brazil to the UK and as far apart as Argentina and the Netherlands – to name but a few – have all been recognised in external client satisfaction surveys, achieving outstanding results and outperforming competitors.

Our objective is to continually improve the service that we deliver to our clients because we know that our clients expect more. You know – as we do – that customer service is the key to success, so we also want to get you thinking more about service and its importance to business success – and of course to help you improve the service you deliver. The relationships BDO partners build with their clients put us in a good position to help you develop clear and effective strategies so that you too can make a return on service.

We would like to talk to you about how to focus on the link between service quality and the bottom line, because we believe that we can deliver the best outcome for your business, wherever you are in the world. It's important that you define what customer service means to your company and be prepared to invest in perfecting how you deliver it. This means putting a formal strategy in place to enhance service quality at every touch point with your customers, making sure you have the right people in place to deliver exceptional service, and actively measuring your performance so that you can respond to feedback and continually improve. Let us help you to develop your strategy and to ensure a good return on service.

EXECUTIVE SUMMARY

Businesses throughout the world acknowledge that good customer service is essential to long-term success. But defining and quantifying the link between the two is difficult. Some emphasise the time it takes to deliver products and services, while others concentrate on quality, value for money or responsiveness to customer queries.

For many, however, good service is increasingly about a much broader set of values that incorporates the whole customer experience, from initial marketing to an ongoing, after-sales relationship. Measuring the impact of customer service on the bottom line is not easy, and surprisingly few companies understand the link between service excellence and financial performance.

Nevertheless, the trend towards an increasingly global marketplace and the effect of the social media revolution are giving consumers more power, so that being able to prove the return on investment for customer service spending – as well as perfecting an online engagement strategy – is likely to become increasingly essential to companies in all sectors over the next few years.

Top executives will also have to deal with leadership issues such as the position of customer satisfaction on the corporate agenda, and the need to ensure that a focus on the customer is engrained at all levels of an organisation.

In order to investigate these trends and more, The Economist Intelligence Unit (EIU) formed an independent steering committee of customer service experts to help define what customer service means in practice and to advise on a survey of 832 companies in Europe, North America and Asia, which was conducted at the end of 2013. The EIU also interviewed both independent experts and customer service specialists at corporations in four industry sectors: retail, natural resources, financial services, and technology, media and telecommunications (TMT). The connection between good customer service and financial performance was then analysed by comparing survey respondents' ratings of their own service with independently verified financial results.

“84% of the companies surveyed believe that customer service is either very or moderately important to their financial performance but they still struggle to recognise and measure its impact”

THE KEY FINDINGS INCLUDE:

BUSINESSES ARE UNCLEAR ABOUT THE LINK WITH THE BOTTOM LINE

Most companies (84%) believe that customer service is either very or moderately important to their financial performance, but they still struggle to recognise and measure its impact. Only one in three say that customer service failings have led to a fall in revenue, and even fewer say their share prices have been affected by customer problems. This may be because just over one-third (36%) of companies have a formal strategy that recognises the link between customer service and performance. However, there is recognition that such a strategy is needed, as a significant number of respondents (41%) say they are working on it.

TOO MANY METRICS MAKE GETTING A CLEAR PICTURE OF THE EFFECT OF SERVICE DIFFICULT

Businesses throughout the world face a difficult task in ensuring that they have accurate figures on the overall customer experience, the performance of front-line staff and problem resolution. Net Promoter Score (NPS) is widely used as a measure of customer service success, with 35% of these companies using it globally. But other metrics are preferred by many others, and there is little consensus on the best approach, both for measuring service quality and its impact on financial performance.

COMPANIES DO NOT PRIORITISE SERVICE

The majority of companies think they offer good quality customer service, and it is recognised as one of the most important factors in retaining customers. But in general, quality and value are viewed as most important in winning new customers, with only 15% of companies saying customer service quality is their primary means of competing. This may be due to companies thinking of quality and value as separate from service, rather than including these attributes as part of the overall customer experience.

ENGAGEMENT IS STILL LOW-TECH

Traditional forms of customer engagement, such as the phone and the sales force, continue to be critical to companies' customer service. Social media is used by 36% of companies, but only one in ten use instant messaging. This may indicate that companies still see channels of engagement with the personal touch as a better means of communicating with customers. As engagement is so critical, the training of customer service staff is also likely to require a special focus in the future in order to maximise the best service delivery.

INVESTMENT NEEDS FOCUS

Many companies have invested in customer service in the past couple of years and plan to do so again in the future, although they are struggling to measure the return on these investments. Less than a quarter (22%) have seen a measureable improvement in financial performance post-investment, with the largest proportion (34%) saying their investment seems to have brought improvements – but there are no figures to confirm its impact on the bottom line. High priorities for investment include improving the customer experience, customer loyalty and satisfaction and service delivery, as well as upgrading technology. Importance is also attached to research and development and staff training: 40% of the companies surveyed expect to spend money on these areas.

ROOM FOR IMPROVEMENT AT THE TOP

Customer service is under-represented at board level, and globally only 28% of companies have a head of customer service on the board. Customer service operations are often represented by the heads of sales and marketing or human resources. Another issue for company leaders is that executives do not see being customer-focused as especially helpful to their careers.

Only a third (36%) of companies have a formal strategy that recognises the link between customer service and performance: (41%) say they are working on it.

59% say they have had a customer service failure which had some kind of clear, significant financial impact

One in four companies have failed to invest in customer service in the past two years

Only 28% have a dedicated head of customer service on the board



METHODOLOGY

ABOUT THIS REPORT

In September 2013 The Economist Intelligence Unit (EIU), on behalf of the international accounting network BDO, formed a steering committee of independent customer service experts to help direct a research programme investigating the link between good customer service and strong financial performance. This committee was instrumental in shaping a survey, conducted in October and November 2013, of 832 companies around the world with annual revenues of US\$50m-2bn.

The respondents were drawn from the EIU's Opinion Leaders panel of over 100,000 senior executives globally, and then selected for country, industry and seniority. Geographically, 221 respondents were from North America, 406 from Europe and 205 from Asia. The sample was very senior, with 423 from the C-suite or board level and 409 other senior executives. Respondents were roughly evenly split between four industries: financial services (218), technology media and telecoms (212), retail (203) and natural resources (199). Companies surveyed were concentrated in the mid-market, with 25% having global annual revenues of US\$50m-100m, 33% US\$100m-500m, 22% US\$500m-1bn, and 20% US\$1bn-2bn.



The report was written by Paul Solman and edited by Monica Woodley of The Economist Intelligence Unit, with additional work by Melissa Carson and Victoria van Lennep.

A range of independent customer service experts and customer service specialists, including CEOs and company founders, were also interviewed for the report. We would like to thank the following people for their contribution to this research (listed alphabetically):

- Richard Bailey, senior vice-president of customer support and service at HP
- George Beaton, founder of Beaton Research+ Consulting, an Australia-based research group
- Jo Causon, chief executive of the Institute of Customer Service and creator of the UK Customer Service Index
- Jason Chu, chairman of the Asia Pacific Customer Services Consortium, a Hong Kong-based industry group
- Claes Fornell, distinguished Donald C. Cook professor (emeritus) of business administration at the University of Michigan, chairman of CFI Group, founder of the American Customer Satisfaction Index and designer of similar indices in Europe, South America, Africa and Asia
- Eric Fraterman, customer focus consultant and founder of the Center for Excellence in Customer Satisfaction
- Hans Hylkema, director of Customeyes, a Netherlands-based customer service consultancy
- Samita Malik, chief distribution officer of MetLife Hong Kong, which is part of the US-based financial services company
- Don Peppers, co-founder of Peppers and Rogers Group, a US-based consultancy
- Fred Reichheld, a partner at Bain & Co, a US-based management consultancy, and creator of Net Promoter Score (NPS)
- Colin Shaw, founder and chief executive of Beyond Philosophy, a US-based customer experience consultancy
- Rob Siefker, director of customer loyalty at Zappos, the US online retailer
- Fiona Templeton, customer experience manager at Scottish Water, a UK utility
- Pavel Titov, chairman of the board of directors at Abrau Durso, a Russia-based wine producer
- Ashok Vaswani, chief executive of retail and business banking at Barclays
- Dr Gilbert Wong, executive director of the Poon Kam Kai Institute of Management, the executive education and management consultancy arm of the Faculty of Business and Economics, and an associate professor at the School of Business at the University of Hong Kong.

INTRODUCTION



**In this digital age,
where social media
and online 
customer forums
play a
significant role,
consumer opinions
are increasingly
powerful”**

How important is customer service to a company's financial performance? Most business leaders and senior executives would acknowledge that keeping customers satisfied is essential to long-term success. Happy customers are more likely to spend more and to recommend products or services to friends and colleagues. Cost, product quality and value for money are important, but most businesses understand that it is worth making the effort to ensure that customers receive good service at every touch point, as well as that any problems are dealt with quickly and efficiently.

But quantifying the effect of good customer service on the financial performance of a company is difficult. This report investigates how companies perceive the value of customer service, how they measure its effectiveness, and the role they expect it to play in their financial performance in the next few years.

To answer these questions, The Economist Intelligence Unit (EIU), on behalf of the international accounting network BDO, formed an independent steering committee of customer service experts who advised on a survey of over 800 companies in Europe, North America and Asia. The results show that while most of the businesses surveyed instinctively accept the need for good customer service, far fewer have seen tangible proof of a direct correlation between customer service and the bottom line or share price movement. This could be because they are unclear about how to quantify the impact of service – a difficult task, as we found when attempting to analyse the respondents' customer service delivery in relation to their financial performance.

In this digital age, where social media and online customer forums play a significant role, consumer opinions are increasingly powerful. The influence that comments on Facebook and Twitter exert over business reputations has been proven time and again. As a result, good service and customer satisfaction have never been more important, and the companies surveyed agree that these factors are likely to become even more critical in future.

The world's most successful companies understand that customer focus is essential – but the experts interviewed for this report believe many other companies still have lessons to learn.

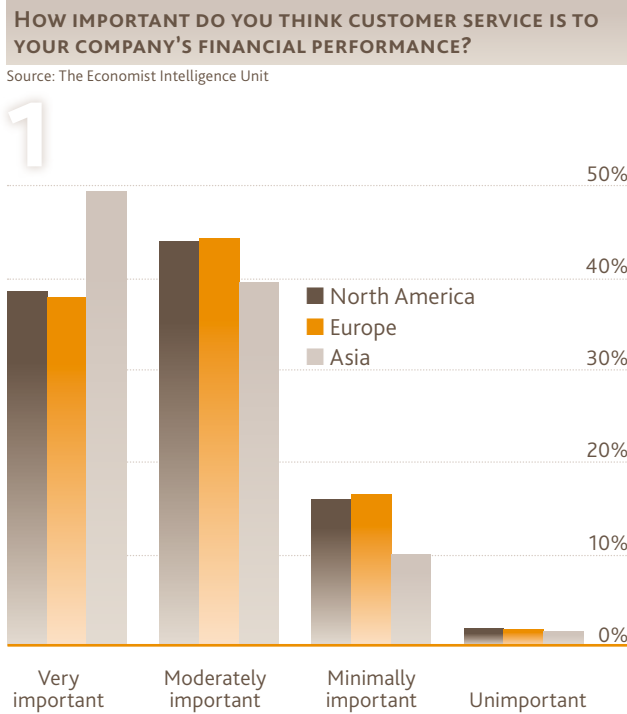
1 BUSINESSES ARE UNCLEAR ABOUT THE LINK WITH THE BOTTOM LINE

AS A GENERAL PRINCIPLE, COMPANIES UNDERSTAND THAT CUSTOMER SERVICE IS IMPORTANT TO THEIR BUSINESS: DONE WELL, GOOD SERVICE WILL KEEP CUSTOMERS COMING BACK AND SPENDING MORE MONEY, AS WELL AS RECOMMENDING THE BUSINESS TO OTHERS.

IN FACT, 84% OF THE COMPANIES SURVEYED GLOBALLY IN THIS REPORT BELIEVE THAT CUSTOMER SERVICE IS EITHER VERY OR MODERATELY IMPORTANT TO THEIR FINANCIAL PERFORMANCE.

Customer service is of particular importance in the Asia-Pacific region, where almost nine in ten (89%) recognise it as very or moderately important. The region is closely followed by western Europe and North America, where 83% and 82% respectively share the same view, with only a slightly lower percentage – 78% – in eastern Europe. However, there are no notable differences in perceptions about this issue across the industries surveyed: retail; financial services; technology, media and telecommunications (TMT); and natural resources.

And companies are correct in recognising this important link, according to Claes Fornell, distinguished Donald C. Cook professor (emeritus) of business administration at the University of Michigan and chairman of CFI Group, a provider of customer feedback insights through analytics. As founder of the American Customer Satisfaction Index and designer of similar indices in Europe, South America, Africa and Asia, Mr Fornell has not only studied the connection between customer service and share price performance, but he also puts his money where his mouth is, running a hedge fund that invests in companies with a strong reputation in customer satisfaction.



"For just about any time period we have returns that are far above market," he says. "Here and there you find that, for one reason or another, it didn't work. But on the average, the relationship [between customer service and share price performance] is very strong." He adds: "If you have highly satisfied customers, what is likely to happen? They are likely to come back."

There have been numerous studies that look closely at specific companies to unpick the service-to-bottom-line link. In his book *The Starbucks Experience*, Joseph Michelli describes building and maintaining relationships as one of the strategies used by the company to move from a single Seattle coffee shop to a multinational corporation where employees are empowered to deliver a high level of service that always benefits the customer – by, for example, encouraging employees to manage unusual requests with a "how?" instead of a "yes" or "no".

Jo Causon, chief executive of the Institute of Customer Service (ICS) and creator of the UK Customer Service Index (UKCSI), which tracks performance in 13 sectors, says: "In the retail sector, for example, I can show a direct correlation between customer satisfaction and market share, and between sales growth and satisfaction."

In 2012 retail food companies which scored above the sector average for satisfaction in the UKCSI showed an average sales growth of 9% year on year and an average market share growth of 0.12%. That compared with average sales growth of 3% and an average drop in market share of 0.18% for companies whose UKCSI satisfaction rate was below the average.

Ms Causon adds: "In other sectors, it's very clear that there's a correlation in terms of recommendation or repeat purchase or loyalty."

This survey's top-level comparison of the financial performance of the respondents and their own rating of their customer service quality found that good service is not necessarily an indicator of strong financial performance. Of those who rated their own service as excellent – and there are clearly limitations to a company's own assessment of its service quality – the largest proportion did show above-average financial performance compared with their peer group, but similar numbers also showed average and below-average performance. Similarly, those with average or poor service were slightly more likely to show below-average financial performance, but not conclusively so.

CUSTOMER SERVICE VERSUS FINANCIAL PERFORMANCE

2

CUSTOMER SERVICE RANKING ¹	FINANCIAL PERFORMANCE ²		
	Below average	Average	Above average
Excellent	34%	28%	38%
Above average	33%	33%	34%
Average/below average	35%	42%	23%

Sources: 1 Economist Intelligence Unit; 2 Crif via Orbis.

Note: companies' financial performance is ranked by scores of the financial health of a company, based on historical financial data such as ROE, ROI, ROA, current ratio, etc.

For individual companies, making the customer-service-to-bottom-line connection is not often a priority in practice. Fully six in ten have no formal strategy for recognising the customer service connection, according to the survey, although 41% report that they are actively working on it. To summarise: the vast majority acknowledge the key role of customer service for their business, but just over one-third (36%) actually have a clear service strategy in place to quantify its importance.

Larger companies are slightly more likely than others to have a formal customer service strategy – more than two-fifths of companies (42%) with revenue of US\$1bn-2bn do so. Companies in the natural resources industry are also the most likely to have a formal strategy in place (42%), whereas the majority of respondents in the financial services, retail and TMT sectors say they are working on it.

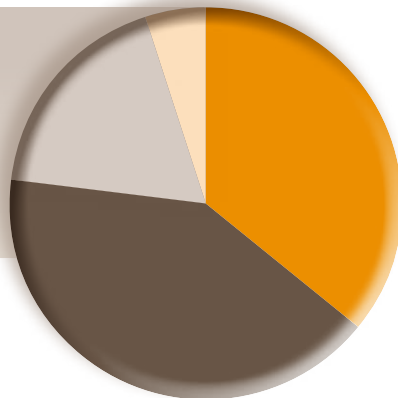
“98% say they track the costs and benefits associated with customer services”

1

3

DOES YOUR COMPANY HAVE A FORMAL STRATEGY THAT RECOGNISES A LINK BETWEEN CUSTOMER SERVICE AND FINANCIAL PERFORMANCE?

Source:
The Economist Intelligence Unit



yes	36%
no, but working on it	41%
no	18%
don't know	5%

"I think there is a fundamental issue about belief in the numbers," says Colin Shaw, founder and chief executive of Beyond Philosophy, a US-based customer experience consultancy. With other areas of company management, such as leadership training, it can be difficult to find figures that prove return on investment (ROI), he points out, "but companies instinctively know that it's a good idea – which it obviously is – and will spend money on it. With customer service, they don't really believe it's important."

He adds: "Businesses are still very much left-brain. They're not thinking about the emotional part of the customer experience, about how the customer feels."

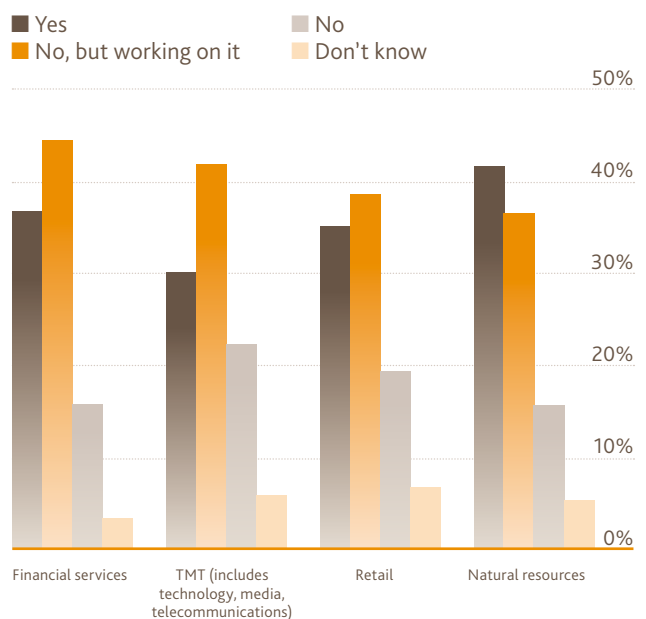
So it is something of a vicious circle when it comes to quantifying the effects of good customer service and recognising its importance to the bottom line. Companies with a formal strategy to measure the impact of customer service are more likely to say that service is very important to their financial performance – 53% compared with 24% of those without such a strategy. Simply put, if you are not looking for the effect, you do not recognise it.

However, companies are more likely to note the negative effects of poor customer service. Over half (59%) say they have had a customer service failure which had some kind of clear, significant financial impact on their company. But making a clear connection with the bottom line still proves difficult – just over one quarter (28%) say they have experienced

4

DOES YOUR COMPANY HAVE A FORMAL STRATEGY THAT RECOGNISES A LINK BETWEEN CUSTOMER SERVICE AND FINANCIAL PERFORMANCE?

Source: The Economist Intelligence Unit



a customer service failure that has hit revenue, and just 15% feel their share prices have been affected.

Ms Causon does not agree with Mr Shaw that companies "doubt the numbers", but believes that many do not know where to start. She says: "There are ways of proving the ROI, and organisations need to focus on that more. But it is complex, and one of the challenges is to translate that back to the boardroom so that the board can see the correlation."

Popular financial metrics to measure the ROI of customer service, according to the survey, include gross margin (percentage of total services revenue that the service organisation retains after direct costs associated with service operations), which is used by more than half of the companies surveyed globally, and hourly labour burden rate (salary or wages + overtime + cost of employee benefits + cost of applicable taxes), used by 45%.

"The best measure, I think," Mr Fornell says, "is to compute something that's often referred to as customer lifetime value or customer equity value, which is the value for each customer that you have. And there I think you see a very strong relationship."

The value of customer retention can be calculated directly, for example by measuring the number of customers retained over a period of time with respect to the level of satisfaction they reported at the beginning of the time period. Clear and significant proportionate relationships have

been found for service providers using this approach, but it can be hard to do. Customer value can also be projected to estimate the number of customers who will be lost going forward by looking at such values as the percentage who complain and, among these, the percentage who are mollified versus the percentage who remain dissatisfied. In both cases, a financial value – for example lost revenue – can be calculated.

Valuing customer service is further complicated because, typically, many organisations simply do not know the profitability of their existing customers, according to W. Earl Sasser, a Baker Foundation Professor at Harvard Business School in his book *The Value Profit Chain*. As a result, he points out, they treat all customers basically the same.

Nevertheless, there are signs of a growing recognition that the financial value of customer service warrants closer scrutiny. Almost all the companies surveyed (98%) say they track the costs and benefits associated with customer services (cost to serve). The most popular of these metrics is customer spending and profitability by market segment (more relevant for retail and natural resources companies) and profitability by customer (more applicable for those in the financial services and TMT sectors). Both are used by well over half of the companies surveyed globally. Equally, more than half of companies compare customer inquiries or complaints to the spending or costs associated with those customers.

"Most customer-centric initiatives involve some effort to quantify the business case for good service," says Don Peppers, co-founder of Peppers and Rogers Group, a US-based consultancy. "A lot of times the link is drawn through non-financial metrics like NPS or customer satisfaction – they artificially link those scores to some financial performance figures, or maybe they use those scores as executive compensation triggers. But in my view, if you don't attempt to estimate the actual economic value of the customer, you don't really have any ammunition to talk about how much value the customer is creating."

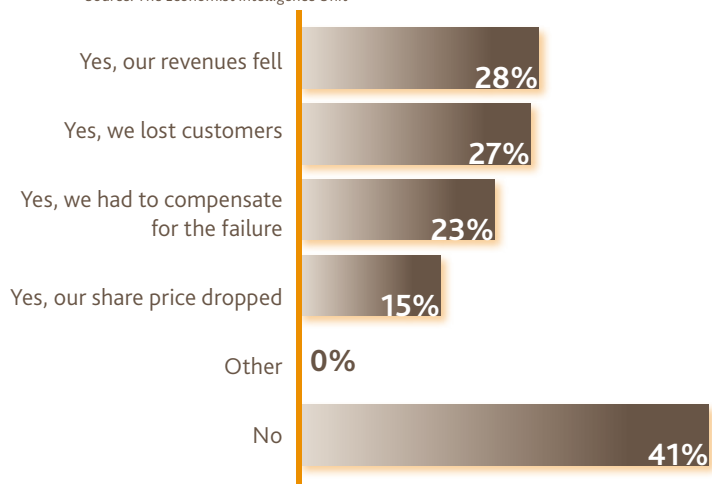
When asked which drivers of ROI in customer service are most important, approximately one-third of companies cite four metrics: whether customers believe the company's products or services are good value; whether customers recommend the business to others; the whole customer experience from the customer viewpoint; and whether customers continue to buy from the company. Quality of customer-facing staff is used by just over one-quarter of companies.

Customer dissatisfaction is also seen as an important indicator. Hans Hylkema, director of Customeyes, a Netherlands-based customer research company, says: "In a lot of organisations, customer satisfaction is a difficult metric to manage. What is quite easy to manage is the dissatisfaction level that is related to customer service. If you put your effort on decreasing dissatisfaction, it will increase satisfaction, but it is a different mind-set."

5

HAVE YOU EVER HAD A CUSTOMER SERVICE FAILURE WHICH HAD A CLEAR, SIGNIFICANT FINANCIAL IMPACT ON YOUR COMPANY? SELECT ALL THAT APPLY.

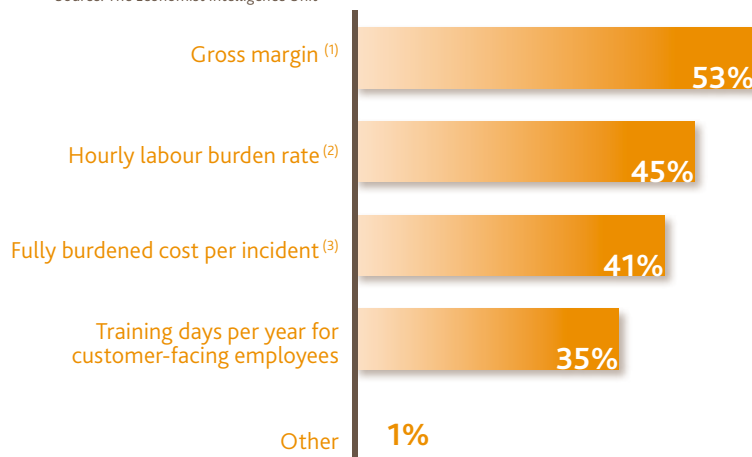
Source: The Economist Intelligence Unit



6

WHICH OF THE FOLLOWING FINANCIAL METRICS DOES YOUR COMPANY USE TO MEASURE THE ROI OF CUSTOMER SERVICE? SELECT ALL THAT APPLY.

Source: The Economist Intelligence Unit



⁽¹⁾ (percentage of total services revenue that the service organisation retains after direct costs associated with service operations)

⁽²⁾ (salary or wages + overtime + cost of employee benefits + cost of applicable taxes)

⁽³⁾ (total costs divided by number of incidents resolved in a specific period)

2 TOO MANY METRICS

MAKE GETTING A CLEAR PICTURE OF THE EFFECT OF SERVICE DIFFICULT

WHEN 68% OF CUSTOMERS TAKE THEIR BUSINESS ELSEWHERE BECAUSE OF POOR CUSTOMER SERVICE, ACCORDING TO A STUDY BY THE US CHAMBER OF COMMERCE AND US SMALL BUSINESS ADMINISTRATION, IT IS PLAINLY OF STRATEGIC IMPORTANCE HOW COMPANIES ARE MEASURING CUSTOMER SERVICE.

BUT A WIDE RANGE OF METRICS IS BEING USED BY THE COMPANIES SURVEYED IN AN ATTEMPT TO MEASURE THE EFFECT OF CUSTOMER SERVICE ON THEIR FINANCIAL PERFORMANCE, AND THERE SEEMS TO BE EVEN LESS CONSENSUS ON THE NON-FINANCIAL METRICS USED TO MONITOR THE OVERALL SUCCESS OF CUSTOMER SERVICE OPERATIONS.

Companies use between three and five non-financial metrics on average to assess their customer service performance. But each of the ten metrics tested in the survey are used by just 30-50% of companies. Ms Causon says: "We often measure what is easiest to measure. But the most important thing is that an organisation should be looking at the range of measures that are relevant to its customers."

Rob Siefker, director of customer loyalty at Zappos, the US online retailer, concurs. "There is no magic metric or number that we look at versus some other company," he says. "The data is there and available for every company. It comes down to what data you find important and how you decide to run your business around that."

Survey respondents see customer trust as the best non-financial measure of customer experience – this is employed by 46% globally and more than half of the companies in Asia. Other popular metrics include repeat purchase intent (43%), customer delight (42%), measures of the quality of products and services (41%) as well as of billing (41%), and customer effort (40%). After these come measures of after-sales service (37%) and of the friendliness or professionalism of staff (36%). NPS falls near the bottom in terms of frequency of use (35%), although this may be because it is, relatively speaking, a newer measure. Measurement of the ease of doing business is the least used (32%) among this list of ten different metrics.

DEFINING CUSTOMER SERVICE METRICS

CUSTOMER TRUST

a customer's agreement with a company's demonstrated values and confidence in the likelihood that his/her service expectations will be met

REPEAT PURCHASE INTENT

how likely a customer is to purchase a company's goods/services again

CUSTOMER DELIGHT

surprising a customer by exceeding his/her expectations and thus creating a positive emotional reaction

CUSTOMER EFFORT

the amount of effort that the customer personally has to make to ensure that his/her request is dealt with

7

WHICH OF THE FOLLOWING NON-FINANCIAL METRICS DOES YOUR COMPANY USE TO TRACK THE OVERALL CUSTOMER EXPERIENCE? SELECT ALL THAT APPLY.

Source: The Economist Intelligence Unit



Customer effort was found to be the key to customer loyalty by a study published in the *Harvard Business Review* in July 2010, entitled "Stop Trying to Delight Your Customers". The researchers found that reducing customer effort is critical to building customer loyalty – far more than delighting customers. And acting deliberately to improve customer service, they found, can have a measureable impact on reducing customer service costs and decreasing customer churn.

For Zappos, Mr Siefker says repeat purchase is a vital metric. "We look at customer lifetime, how much they are ordering with us, how much they spend with the company," he says. "We look at core demographics, how frequently people are contacting us in the lifetime of being our customer."

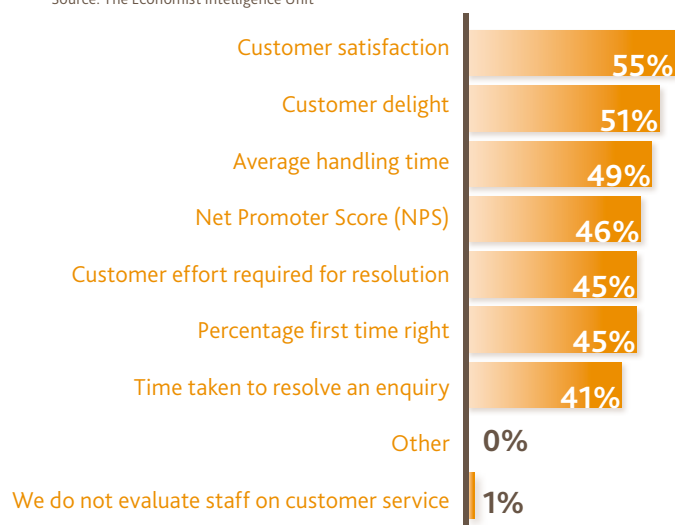
Repeat purchase is also promoted by experts such as George Beaton, founder of Beaton Research+ Consulting, an Australia-based research group, who believes the focus of customer services metrics needs to be firmly grounded in financial outcomes. "The metrics that count are the ones that come from and about the customers and can be directly related to the financial statements of the company," he says.

Dr Beaton identifies six key metrics for businesses: customer retention, share of the customer spend, income from customers who are referred by word of mouth, size of addressable market, gross margin, and how much of the company's growth is organic.

8

WHICH OF THE FOLLOWING NON-FINANCIAL METRICS OF CUSTOMER SERVICE ARE FRONT-LINE STAFF EVALUATED ON? SELECT ALL THAT APPLY.

Source: The Economist Intelligence Unit



"You'll notice NPS [despite its growing popularity] is not among my six measures," he says. "It's easy to measure NPS, but where does it relate directly to our profit-and-loss statement or our balance sheet? It's indirect. I would much prefer a measure like retention and income from word of mouth. Those are far more powerful measures and will speak to the chief financial officer more than an NPS number."

NPS has become one of the most renowned customer satisfaction approaches over the last decade, despite the still lower levels of uptake among global companies compared with other metrics. It was created by Fred Reichheld, advisory partner at US-based management consultancy Bain & Co, and has been praised for its simplicity, which involves asking customers how likely they are to recommend a company to friends and colleagues.

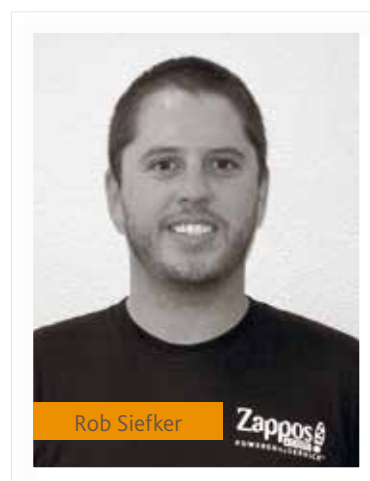
The evidence is overwhelming that turning customers into promoters is the way to build a company, Mr Reichheld says. "A company can have a temporary lock on a market or a unique technology, and they can get away with abusing customers for a short period of time," he says. "But over the long haul, we haven't seen a better way to grow a business than that old, common-sense wisdom of earn the loyalty of your customers and employees."

Barclays switched to NPS about a year ago. The bank uses other metrics, but Ashok Vaswani, chief executive of retail and business banking, says NPS is central to measuring success. "We say we are measuring our journey to becoming the go-to bank by NPS," he says. "It forces a continuous improvement culture. A big win is that the whole company is geared towards driving a super NPS score."

Barclays's move to NPS has been accompanied by a new approach to staff incentives. "In the old days, front-line sales people were incentivised based on the products they sold," Mr Vaswani says. "We shifted completely to service incentives, using independent surveys to check service scores, and compensation was based on that."

"More recently, we are moving away even from that because we believe that it's a team effort, and establishing who delivered good service is difficult. So we are moving to a collective team award based on whether the services scores for the company are met."

NPS is also popular in evaluating the performance of front-line customer service staff, for which it is used by about half (46%) of the companies surveyed globally. Mr Siefker says: "In the call centre, our focus is on responsiveness and quality. We look at it a little differently in the way that we manage our customer service. But we do know that customers who interact with the call centre are more engaged and have a greater personal experience and are more likely to tell [positive] stories [about the company]."



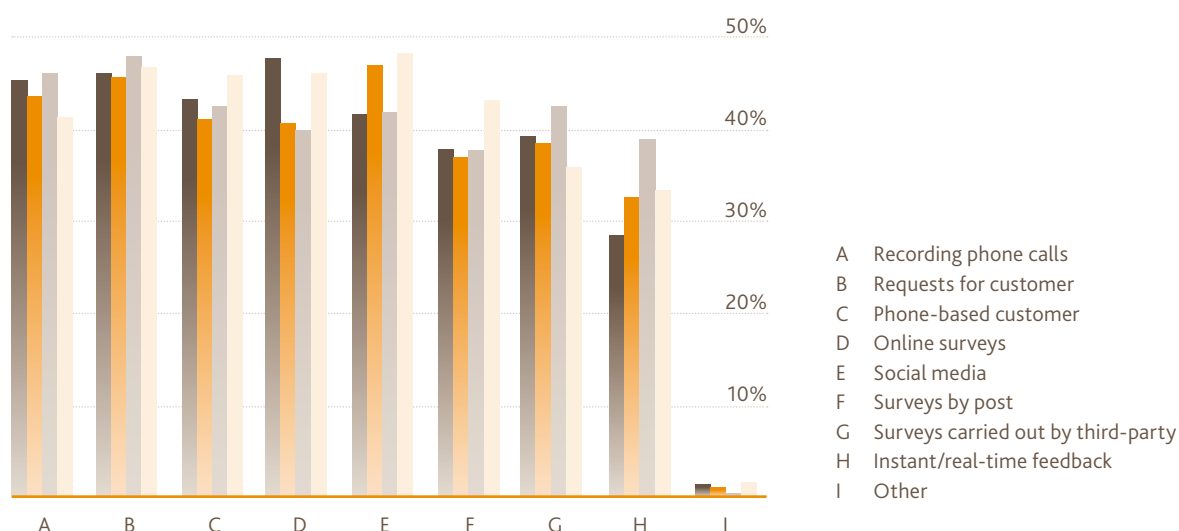
The most popular measures remain customer satisfaction (used by 55%), customer delight (51%) and average handling time (49%).

9

WHAT STEPS DOES YOUR COMPANY TAKE TO SEEK FEEDBACK ABOUT CUSTOMER SERVICE PERFORMANCE? SELECT ALL THAT APPLY.

Source: The Economist Intelligence Unit

- Financial services
- TMT (includes IT, technology, entertainment, media, publishing and telecoms)
- Retail
- Natural resources (includes energy, pulp and paper, metals and mining)



Some companies clearly devote a great deal of energy to seeking feedback about the quality of their customer service. Recording phone calls with customers, requesting customer feedback at the point of sale, phone-based customer satisfaction surveys, online surveys and social media are all employed by between 40% and 50% of companies, while postal surveys and instant/real-time feedback are also important.

In monitoring the quality of complaints handling, the most popular metrics are response and resolution rates, employed by almost half of companies surveyed, together with first contact resolution and hold time and abandonment rates. Only ten companies of the over 800 surveyed do not monitor the quality of complaints handling.

By industry, online surveys are the most popular method for seeking feedback about customer service performance in the financial services sector, while TMT and natural resources prefer social media, and retailers tend to use requests for customer feedback at point of sale.

There are signs, though, that companies are somewhat swamped by the sheer number and diversity of metrics available. "There are way too many surveys in the world – there is complete survey fatigue and pollution," says Mr Reichheld. "While it is well intentioned, asking customers millions of questions is absurd."

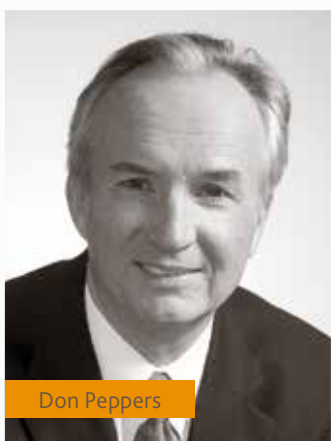
In his opinion, the advantage of NPS is that it is based on a simple question that can be understood by everyone in the company. "I think what you need is very short surveys with just a few questions that get to the point of 'have I succeeded in delighting you or failed miserably?'" Mr Reichheld says. "Then we need conversations with customers. To try and dig into the nature of a human relationship with an online survey of 50 questions creates analysis paralysis."

Others, meanwhile, argue for more detailed metrics. Mr Peppers says: "NPS has done the world a terrific service by putting customer service on the executive dashboard. It's an extremely easy metric to understand. But it isn't perfect and it needs a lot of support – for example, just because your NPS falls there is no diagnostic information, you don't know why it falls."

Dr Beaton adds: "I think there is dreadful confusion around metrics. NPS has got a place, but it is not sufficient alone. It doesn't directly relate to the P&L [profit and loss] or the balance sheet. It's financial performance that matters, and that has to relate back to customer buying behaviour."

Metrics also need to be tailored to the sector and market – and, perhaps most importantly, to customers themselves. Jason Chu, chairman of the Asia Pacific Customer Services Consortium (APCSC), a Hong Kong-based industry group, says: "NPS is becoming popular in Asia, especially among the multinational companies. But we also see a lot of companies conduct customer feedback with contact cards – it is part of their service delivery quality assurance. As well as satisfaction, the companies will measure courtesy, knowledge and professionalism."

“Companies clearly devote a great deal of energy to seeking feedback about the quality of their customer service”



Don Peppers



Jason Chu

2

"Receiving customer compliments and appreciation letters is also very important in Asia and is one of the best practice CSQS standards [Customer Service Quality Standards recommended by the APCSC]," he adds. "It's an excellent way of measuring whether a company has exceeded customer expectations."

Companies should see the measurement of customer satisfaction as a predictive indicator, emphasises Ms Causon of the ICS. "Financials tell the CEO where the organisation has been, but customer satisfaction data give some good indications of where it is going. The board must be reviewing the metrics regularly."

The increasing importance of social media could also have an impact on customer service metrics in the future, says Mr Peppers. "Everyone has different indices," he says. "Some are more accurate than others, some have diagnostics, some are survey-based. My feeling is that as the world becomes more interconnected, surveys that are invasive will be replaced by simple sentiment analysis, looking at social media commentary and the word of mouth of customers that is already lying around".

Retail web sites such as Amazon allow customers to rate and comment on the products they purchase. Even long-time consumer champions such as Which? magazine recognise that they can no longer simply hand their recommendations down and have added to their sites "members' reviews" on everything from televisions to credit cards. The difference between a positive and negative review can be critical to a company's success.

Mr Peppers adds: "The resource pool for unsolicited customer comment, which is essentially unbiased, is growing very rapidly, and I think it will displace more and more survey work, other than the more scientific surveys designed to drill down and understand the whys and wherefores."

“**Social is probably the most exciting phenomenon now in customer service**”

Richard Bailey, HP

“**There are way too many surveys in the world – there is complete survey fatigue and pollution**”

Fred Reicheld, Bain & Co.



Fred Reicheld

Case study: HP

Richard Bailey



Customer service metrics are central to HP's service strategy. Richard Bailey, senior vice-president of customer support and services, says the IT group has long used delight metrics to track its approval ratings with customers, but in 2013 it moved to using Net Promoter Score (NPS), which has become its dominant customer satisfaction metric.

"Over the last few years we have enhanced the way we measure customer satisfaction. In doing so, we are able to engage with our customers during each aspect of their relationship with us, whether they are in-warranty or out-of warranty" Mr Bailey says.

HP chose NPS for two reasons, he says: "NPS is probably the highest bar you can set in terms of the tool set. And it's more than just looking at one customer touch point – it requires you to be more inclusive and makes sure you are delivering a great customer experience throughout the organisation: from marketing to support and services."

Engaging via social media is a vital tool – especially given HP's position as one of the world's leading technology groups. "Delivering a great customer experience is pivotal to HP and to HP's capacity to be successful," says Mr Bailey. "Social is probably the most exciting phenomenon now in customer service."

Over 2013 and 2014 HP will have doubled its previous investments in customer service, focusing on customer relationship management systems and business intelligence. The company has also invested heavily in social media, the web and chat, Mr Bailey says. "The reality is that customers talk to each other as much as they talk to HP, and we need to be an active participant in those conversations."

3 COMPANIES DO NOT PRIORITISE SERVICE

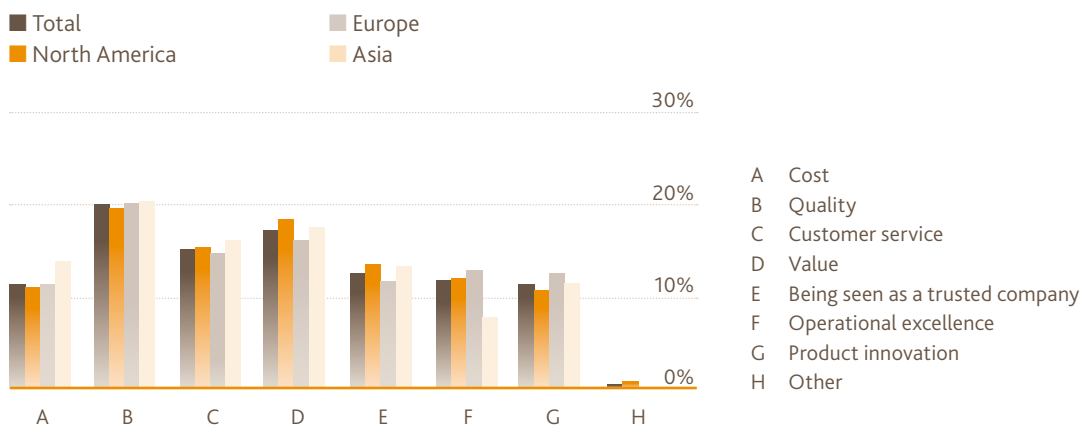
IN HIGHLY COMPETITIVE MARKETS, CUSTOMER SERVICE QUALITY CAN BE A POWERFUL WAY FOR COMPANIES TO DIFFERENTIATE THEMSELVES.

YET THERE ARE SIGNS THAT MANY COMPANIES UNDERESTIMATE ITS IMPORTANCE COMPARED WITH OTHER FACTORS SUCH AS PRODUCT QUALITY, VALUE AND COST – ALTHOUGH SOME VIEW QUALITY AND VALUE AS INEXORABLY INTERTWINED WITH SERVICE.

10

ON WHICH OF THE FOLLOWING DOES YOUR COMPANY
PRIMARILY COMPETE?

Source: The Economist Intelligence Unit



The survey found that three-quarters of companies describe their customer service as above average or excellent: none describe it as poor. But only 15% think customer service is their primary means of competing, and they see the service attributes of quality and value as the most important, cited by 20% and 17% of respondents, respectively.

Customers themselves, however, seem to value customer service more highly. For example, two-thirds (66%) of consumers say they are willing to spend more with a company they believe provides excellent customer service, according to research carried out recently in the US. They are willing to spend 13% more, on average.

There are geographical differences too – companies in the US, the UK, Germany and Australia see quality as the most important means of competing, according to the survey, while those in Canada and Russia put value at the top of the list. Quality also scores highest in respect of winning new customers, with 43% of companies globally citing it as the most important factor; value is second, cost third and customer service fourth.

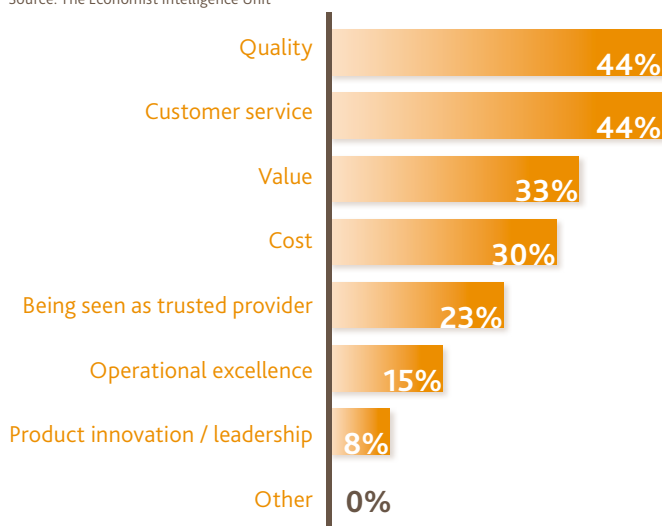
When it comes to retaining customers, there are signs that companies recognise the central role that customer service plays: customer service and product quality are the number one factors here, each cited by 44% of companies.

Ms Causon says: "It's interesting that most companies think their service is good or above average. On the one hand, it shows that they recognise the importance of it. But not everybody can be above average, and the UK Customer Satisfaction Index shows that, while customer satisfaction in the UK has improved over time, it has now started to plateau."

11

WHICH OF THE FOLLOWING FACTORS ARE THE MOST IMPORTANT IN RETAINING EXISTING CUSTOMERS? SELECT UP TO TWO.

Source: The Economist Intelligence Unit



She adds: "There still is quite a lot of confusion about what customer service is. It is not just a department or a function. The organisations that get this right are the ones that get good customer service across the whole value chain, from the boardroom to the delivery aspect."

A broader view of customer service which encompasses quality and value, as well as the integration of service principles across an organisation, is becoming more vital. For example, the growth of online commerce has created a new breed of retailers such as Amazon and Zappos, for whom success depends as much on good service as on the products they provide. Every business sector is feeling the pressure to operate at least partly via the Internet, while social media is giving customers greater power. As a result, companies are being forced to rethink what customer service means to them.

Explaining the Zappos approach, Mr Siefker says: "We think of ourselves as a customer service company. It doesn't matter what department you are in, you have a customer, whether they are internal or external, and every day we try to keep customer focus in mind."

That ethos is instilled in Zappos staff from day one. "We have a four-week on-boarding process for everyone in the company," he says. "Whether you are starting in the call centre or you are going to be an engineer or an accountant, you go through the same training and everyone learns about our culture. You also learn how to work in the call centre, and everyone in the company – no matter what they are hired for – is required to talk to customers on the phone and do that job." And that ethos has had a positive financial impact. In 2008 Zappos hit US\$1bn in annual sales, two years earlier than expected, and in 2009 it was bought by Amazon for US\$940m.

“66% of consumers say they are willing to spend more with a company they believe provides excellent customer service”

2012 Global Customer Service Barometer, Findings in the United States
A research report conducted by Echo Research for American Express

3

China's increasing role in the global economy
could force more companies across the world
to focus on customer service

*A broader view of customer service
which encompasses quality and value,
as well as the integration of service principles
across an organisation,
is becoming more vital*

There are signs
that companies recognise
the central role
that customer service plays



Companies need to understand the difference between the traditional concept of good service and the more complex notion of customer experience, says Mr Shaw of Beyond Philosophy. "Most organisations wouldn't include sales and marketing as part of customer service," he says. "Customer experience is a more holistic thing – about how you bought the product, about the marketing you have seen and about customer service."

The problem for many businesses, he believes, is that they remain to be convinced about the importance of customer experience. "Most organisations tell you their experience is above average, and most customers will tell you it's not," he says. "Organisations are still too concerned about what is happening internally, and they don't have a proper view of the customer. They are obsessed with cost, quality and value, and they don't believe that improving customer experience will generate money."

The survey suggests that only 11% of companies globally believe that serving customers' needs takes precedence over serving internal needs – a mind-set that is likely to have to change if many of them are to survive.

Chinese business leaders appear to understand this. More than one-fifth of the surveyed companies in China view customer service as a whole as their primary means of competing, just edging ahead of quality, which is the priority for companies in Asia as a whole.

Mr Chu of the APCSC believes that China's cultural background emphasises the importance of customer relationships. "Within the culture, people will look at whether you are providing a good, respectful service to consider whether they should continue to come back to you," he says. "That's one of the basic expectations of business conduct. Asia's cheap manufacturing and labour costs also mean that good service is an important differentiator for many businesses", he says.

Indeed, China's increasing role in the global economy could force more companies across the world to focus on customer service as a means of competing with this Asian powerhouse.

However, there are positive signs that companies in the rest of the world are beginning to accept the power of customer service. This is seen in the number of survey respondents who believe strongly that their executives should set an example in their approach to customers: more than two-fifths of companies say executives demonstrate with their actions that customer satisfaction is important. Another third say their companies are committed to the idea of creating satisfied customers, aiming to do things right first time rather than having to undo mistakes.

12

WHICH OF THE FOLLOWING STATEMENTS BEST DESCRIBES YOUR COMPANY'S APPROACH TO CUSTOMER SERVICE? SELECT UP TO TWO.

Source: The Economist Intelligence Unit



“

We think of ourselves as a customer service company”

Rob Siefker, Zappos

Case study: **METLIFE HONG KONG**

Samita Malik



Focusing on customers is at the heart of business strategy for MetLife Hong Kong. "Serving customers well is a key way to differentiate in an industry and a market that otherwise lends itself to very little differentiation," says Samita Malik, chief distribution officer of the group, which is part of the US-based financial services company.

What MetLife terms "customer centricity" is part of its enterprise strategy and an important component of its incentive system for managers, so that key performance indicators include customer centricity targets. "Driving change and really making something part of the DNA of a company starts from the top," she says. "For us, that's very true with customer centricity."

MetLife's VOC (voice of customer) programme involves systematically collecting customer feedback, identifying areas of dissatisfaction, and working with global and local managers to solve problems. Ms Malik says company leaders listen to customer calls regularly, and at monthly meetings with the chief executive always discuss customer feedback.

MetLife uses a range of metrics to monitor its customer service operations, including customer satisfaction and first-time resolution of phone calls, but its key metric is Net Promoter Score (NPS). It has also set up a customer centricity council, comprising senior executives from across the business, which monitors and directs initiatives. "The council and its regional arms work with countries to ensure that initiatives are not just launched, but that there are metrics in place and we are measuring success," Ms Malik says.

"As we have focused on customer centricity, one of things we have realised is that there are already a lot of ways customers communicate with us," she adds. "The key difference is turning on the organisation's listening ability and our level of empathy, so that we really understand our customers' needs. That's more important than devising ways to collect customer feedback."

“

The key difference is turning on the organisation's listening ability and our level of empathy, so that we **really understand our customers' needs**”

Samita Malik, Metlife Hong Kong

4 ENGAGEMENT IS STILL LOW-TECH

THE INTERNET REVOLUTION OF THE PAST 20 YEARS HAS PERMEATED EVERY BUSINESS SECTOR AND MARKET. 'WEB 2.0' AND THE SPREAD OF SOCIAL MEDIA HAVE FUNDAMENTALLY TRANSFORMED THE WAY MOST ORGANISATIONS ENGAGE WITH CUSTOMERS.

THAT, AT LEAST, IS THE THEORY. BUT THE SURVEY SUGGESTS THAT THE IMPACT OF THE DIGITAL REVOLUTION MAY NOT YET BE AS ALL-ENCOMPASSING AS MANY PEOPLE BELIEVE.

One-third of companies globally use social media to engage with their customers, and only one in ten uses instant messaging. Somewhat surprisingly, companies in North America – the birthplace of the Internet revolution and supposed home of good customer service – use instant messaging less than the global average, with only 7% of them reporting that it is part of their customer engagement strategy.

Email – a symbol of the early days of the World Wide Web and often dismissed as irrelevant by social media advocates – is still the most popular method of interacting with customers, used by two-thirds of companies globally. Almost half of companies say they use their web sites, and just over half use mobile devices.

Traditional methods of communication, such as the phone and an in-person sales force, are still fundamental to more than half of companies surveyed, while close to one-third still communicate by post.

Asian consumers lag behind in fully accepting digital forms of engagement, says Mr Chu of the APCSC. He believes that, culturally, they have a special connection with personal service, and businesses often see social media and e-commerce as a method of cutting costs, rather than an innovative and efficient way of building strong customer relationships.

"Social media and instant messaging have been more widely adopted by the information technology and telecoms sectors," Mr Chu says. "Most companies in Asia are more conservative and are not ready to embrace the social media as a formal customer service channel yet."

The survey results suggest that many companies remain unconvinced about just how deeply social media could affect customer engagement going forward. Currently, only 15% believe that social media will become the most important method of engaging with customers, and more than one-quarter believe that it will be as important in 2020 as it is now.

Even if the social media revolution has not been as transformative as many advocates believe, almost half of the companies surveyed agree that it will become more important by 2020. And some are starting to show a stronger commitment to its use.

The survey reveals that those respondents who have a strategy for recognising the link between service and financial performance (see Chapter 1) are more likely to agree that social media will become the most important tool for customer engagement in 2020. The same can be said of those who have seen a measurable improvement from an investment in customer service (see Chapter 5). Furthermore, those companies that recognise a link between social media and customer service performance appear to be prepared to invest in both.

“Investment in social media technology will be critical”

Hans Hylkema, Customeyes

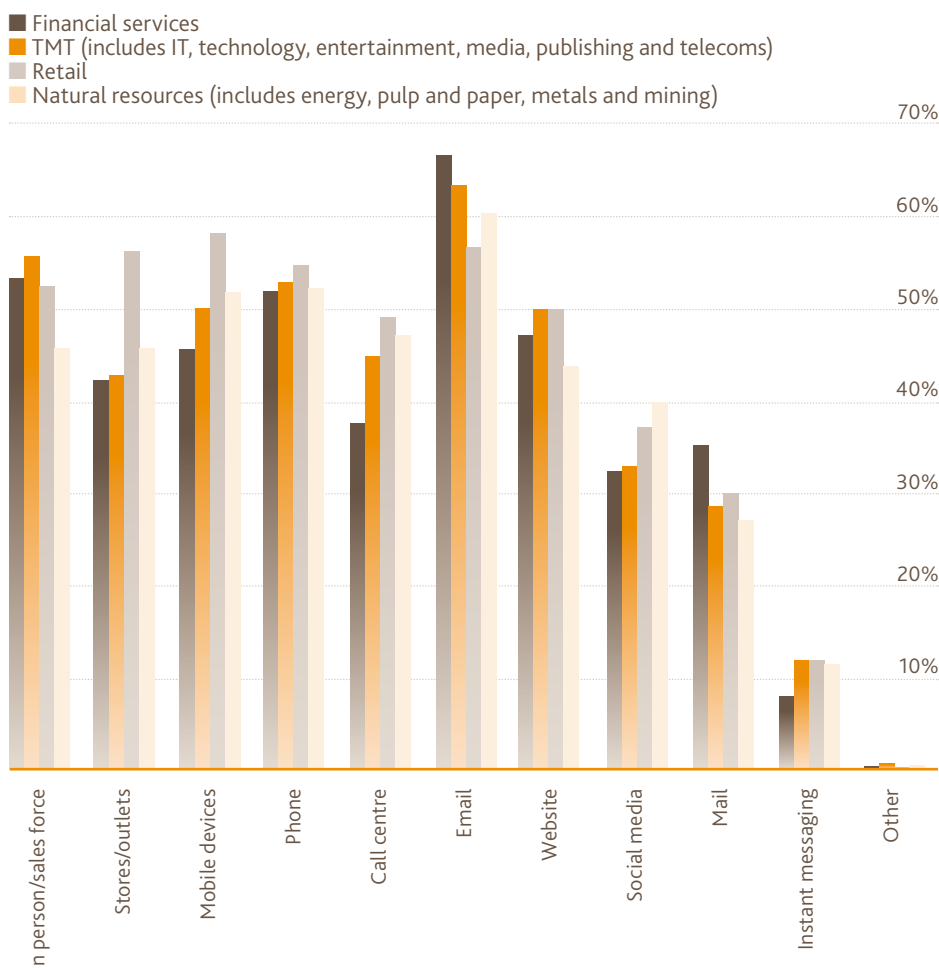


Hans Hylkema

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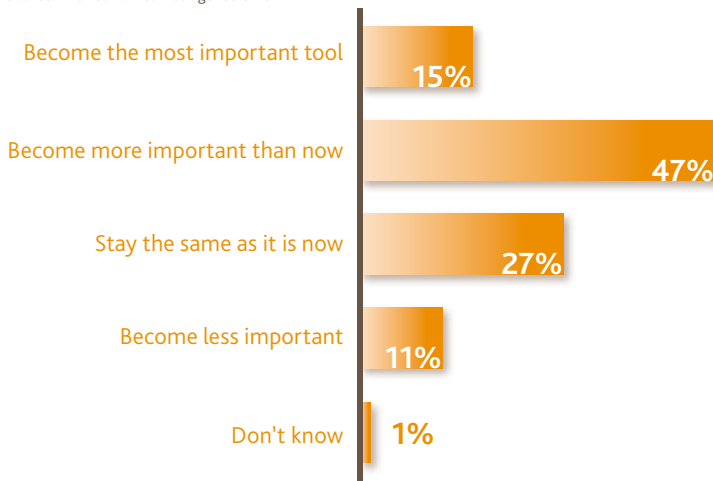
WHICH OF THE FOLLOWING CHANNELS DO YOU REGULARLY USE TO INTERACT WITH CUSTOMERS?
SELECT ALL THAT APPLY.

Source: The Economist Intelligence Unit



HOW IMPORTANT DO YOU BELIEVE SOCIAL MEDIA WILL BE TO CUSTOMER ENGAGEMENT IN 2020?

Source: The Economist Intelligence Unit



Clearly, the digital revolution is still in progress. "The market will decide what forms of engagement people use," says Mr Siefker of Zappos. "Facebook and Twitter did not exist ten years ago. What's going to happen over the next ten years may not exist now. But how we think about it is that our customers are in this environment communicating with each other, and if we're not present in these different areas, then we can't communicate with them."

Whatever happens, the trick for companies, says Mr Hylkema of Customeyes, will be to ensure that they are prepared. "If you are an organisation, you need to open up the channels," he says. Investment in social media technology will be critical (see Chapter 5).

One important lesson, according to Mr Hylkema, is to engage with customers on the channel of their choice. "When somebody contacts you via a certain channel, stick to that channel," he advises. "If they are approaching you via the Internet and you give them a call, it's always difficult; if they ask you a question on Twitter, reply to them that way."

He adds: "If you are a customer service department, you need to organise all the channels. Then you will see for yourself what the customer is using."

"A stronger commitment to training is seen in those companies that recognise the link between customer service and financial performance"

Staff training is an area that is likely to require a special focus from companies if they are to optimise customer engagement, especially as the personal touch remains essential. Many appear to accept the importance of training in this respect, although the number of days per year allocated for it remains small for most of the companies surveyed.

A total of 82% of companies globally provide fewer than two days' specialised customer service training a year, with almost one-third admitting that the training they provide is on-the-job only. European companies seem more committed to specialised training than those in North America, while Asian businesses are the least committed, with on-the-job-only training being the preferred method for one-third of the companies surveyed.

It is notable that a stronger commitment to training is seen in those companies that recognise the link between customer service and financial performance, and in those that have seen success from investment in service. One-quarter of companies which believe that service is very important to financial performance give at least two days' specialised, formal training a year, compared with 14% of the others.

The figures suggest that the Zappos approach to immersing employees in a company-wide customer service culture is still unusual. In addition to the company's comprehensive induction training (see Chapter 3), Mr Siefker says: "During the [Christmas] holidays, everyone in the company who has gone through the training is required to work on the phones for eight hours during our busiest time of the year. This is both to help us because we need the people-hours to handle the volume, but also to make sure they get a regular connection with the experience of talking to a customer."

Case study: **SCOTTISH WATER**

Fiona Templeton



Providing the right training and support to customer service staff is central to Scottish Water's goal of providing that personal touch. The UK-based utility group focused on improving training with its HELP (How Empathy Lifts Performance) and HELP TOO programmes. "We felt it was so important that, as part of our strategy, we needed to invest in our people and make sure they had the right skills to be able to meet the needs of customers," says Fiona Templeton, Scottish Water's customer experience manager.

The training programmes were developed as a result of listening to customers, she says. "It is very much focused on how you approach a customer on the doorstep, how you build that initial rapport that is needed to reassure them. It's really about bringing to life the need for empathy and some of those softer skills."

Field team training is complemented by professionally accredited courses, developed in conjunction with the UK's Institute of Customer Service. Just as important as the initial training, says Ms Templeton, is ensuring that managers are able to coach staff and reinforce correct behaviour.

The company has long tracked customer satisfaction, but moving towards a customer experience score has been an important step, she adds. Improvements in performance helped to reduce customer service costs by 5% in 2012, while complaints were cut by 34%.

Ms Templeton concludes: "We are able to link the customer and their issue through to the person that answered the telephone... through to the individuals that went out and investigated at their home or on the street, and then through to the individuals that carried out the work. So we can see the whole customer journey and see the satisfaction with each stage."

5 INVESTMENT NEEDS

FOCUS

THE COMPANIES SURVEYED HAVE MADE SIGNIFICANT INVESTMENTS TO IMPROVE THEIR CUSTOMER SERVICE OPERATIONS IN RECENT YEARS, AND CONTINUE TO SEE SUCH INVESTMENTS AS A PRIORITY. CLOSE TO ONE-THIRD HAVE MADE INVESTMENTS IN THE PAST TWO YEARS, AND ONE-QUARTER MORE HAVE DONE SO IN THE PAST YEAR.

THOSE THAT RATE THEMSELVES AS PROVIDING EXCELLENT SERVICE ARE MORE LIKELY TO HAVE INVESTED IN THE PAST YEAR OR SIX MONTHS – ONE-HALF HAVE DONE SO, COMPARED WITH JUST 28% OF THOSE WITH AVERAGE OR POOR SERVICE.

However, many companies remain unable to measure the financial return of spending on improving service delivery. When asked about the success of recent spending in terms of ROI, the most popular response is that "it seems to have brought improvements, but there are no figures to confirm its impact on the bottom line". Just over one-third of companies feel this way about their investment in customer service.

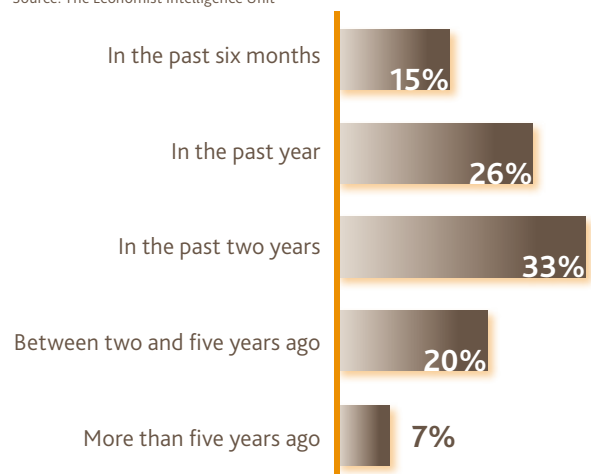
Close to one-quarter of companies globally say that a recent customer service investment has made no impact on the bottom line – just a few percentage points higher than those who believe it has brought a measurable improvement. But companies that rate their service as excellent are more likely to say they have seen a measurable improvement from their investment – 33% compared with just 16% of those that rate their service as average or poor: clearly the quality of the investment is crucial as to whether it has a financial impact.

The good news is that many companies intend to spend more to ensure their customer service operations are up to date. About half of the over 800 companies in the survey aim to make improvements in customer satisfaction, customer experience, customer loyalty and service delivery. More than one-third of companies also intend to target both the resolution of queries and complaints and the quality and training of staff.

15

WHEN DID YOUR COMPANY LAST MAKE A SIGNIFICANT CAPITAL INVESTMENT TO IMPROVE CUSTOMER SERVICE?

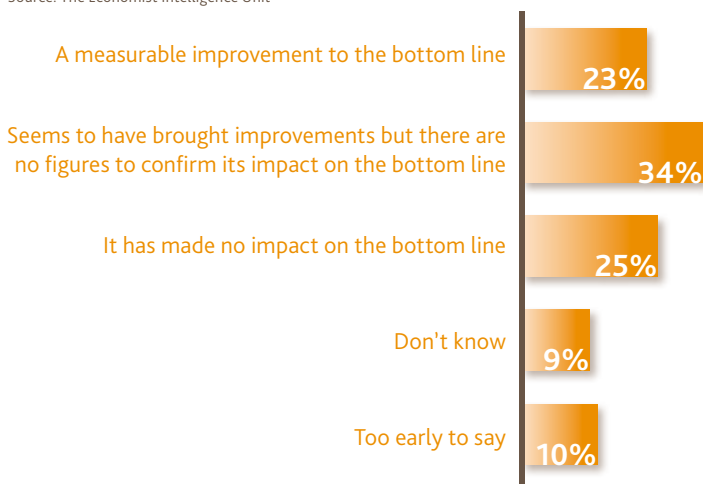
Source: The Economist Intelligence Unit



16

OVERALL, HOW SUCCESSFUL HAS THE INVESTMENT BEEN IN TERMS OF ROI?

Source: The Economist Intelligence Unit



When asked about the specific areas in which they are looking to invest in the coming year to improve customer service, companies cite research and development (R&D) and staff training/development as top priorities, each cited by approximately 45% of companies. Similar numbers of respondents also plan to upgrade customer-facing technology, such as customer relationship management systems and data analytics, and to spend money on defining service standards.

Companies with a strategy for recognising the link between good service and financial performance are more likely to be looking to invest in the coming year in innovation, R&D, plant/machinery and staff training.

Mr Vaswani of Barclays identifies digital systems as one of the bank's top investment priorities. "Customer service has become the core of everything we do – it's not even a customer service strategy, it's our business strategy," he emphasises.

The bank has made substantial investments to ensure that it can serve customers on all levels. "Customers are looking for services on the Internet and mobile, which is making a big difference to retail banking, and we have been investing heavily in that space to really get it right for customers," Mr Vaswani says.

“Customer service has become the core of everything we do – it's not even a customer service strategy, it's our business strategy”

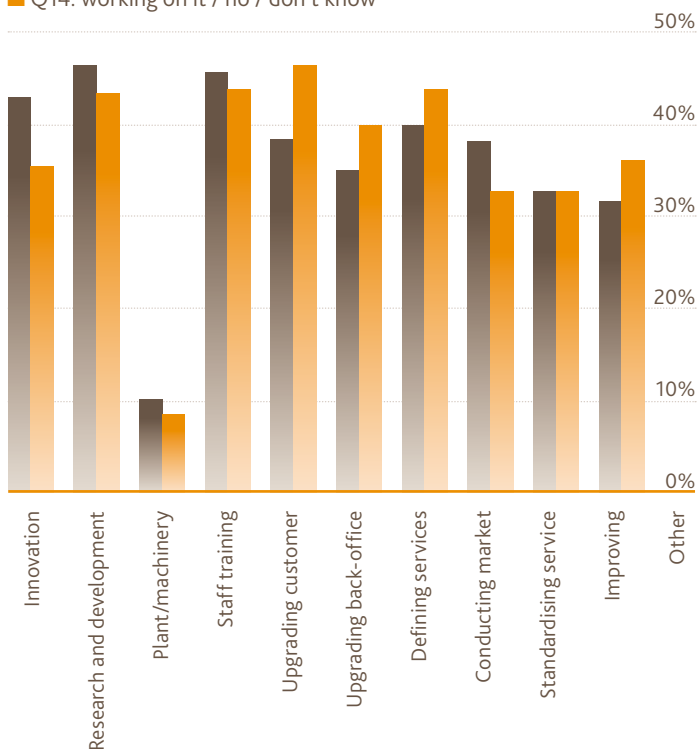
Ashok Vaswani, Barclays

DOES YOUR COMPANY HAVE A FORMAL STRATEGY THAT RECOGNISES A LINK BETWEEN CUSTOMER SERVICE AND FINANCIAL PERFORMANCE? WHAT AREAS IS YOUR COMPANY LOOKING TO INVEST IN THE COMING YEAR IN ORDER TO IMPROVE ITS CUSTOMER SERVICE?

Source: The Economist Intelligence Unit

■ Q14: yes

■ Q14: working on it / no / don't know



As well as investing in technology to enable mobile payments and a mobile banking app, Barclays has launched its Digital Eagles programme, in which staff become advocates for new technology to help customers and colleagues gain digital skills. "A lot of people equate digital to technology, but technology is the easier part," Mr Vaswani says. "It's really the colleague and customer adoption that is the difficult part. So when we say investment in digital, we mean holistic investment, which includes the people, customer and colleague adoption of digital."

Pavel Titov, chairman of the board of directors at Abrau Durso, a Russia-based wine producer, also believes that the most important target for investment is staff. "A well thought-through operation would be relatively seamless to a client," he says. "You can always invest in infrastructure like a restaurant, but customer satisfaction investment means you get decent waiters and chefs. The infrastructure for customer service does not guarantee customer service. Personnel are essential and not only front-office personnel – the whole machine needs to work smoothly."



“The infrastructure for customer service does not guarantee customer service. **Personnel are essential** and not only front-office personnel – the whole machine needs to work smoothly”

Pavel Titov, Abrau Durso



Pavel Titov



6 ROOM FOR IMPROVEMENT

ULTIMATELY, ANY OPERATION FOCUSED ON SERVICE OWES ITS SUCCESS TO SUPPORT FROM COMPANY LEADERS.

IT IS CLEAR FROM THE SURVEY THAT DECISION-MAKERS AT MANY COMPANIES ACROSS THE GLOBE ARE COMMITTED TO SATISFYING THEIR CUSTOMERS, BUT THE RESULTS ALSO SUGGEST CUSTOMER SERVICE MAY NOT BE TAKEN AS SERIOUSLY AT BOARD LEVEL AS IN OTHER DEPARTMENTS.

If you are the head of the customer service function with a seat on your company's board, you are in the minority. Globally, just over one-quarter of companies have a head of customer service on the board. Customer service operations are most often represented at board level by the head of sales and marketing (39%), while a significant number (23%) come under the head of human resources.

Country data show that the Netherlands has the highest proportion of heads of customer service on the board (33%), while the lowest proportion is in the UK (17%). Canadian companies have the highest proportion of heads of HR representing customer service on the board (30%), while German companies have the highest proportion of heads of sales and marketing (49%) with responsibility for service delivery.

It is notable that companies which have seen measurable financial improvement from investments in customer service are more likely to have a head of customer service on their board (34% compared with 26% of others). However, it is not clear whether companies recognise the value of a customer service head because they have seen the impact on the bottom line, or whether they have seen that impact because they have someone at board level who is actively monitoring it.

“A genuinely aligned, joined-up organisation sees customer service as a key part of its strategy”

Jo Causon, Institute of Customer Service

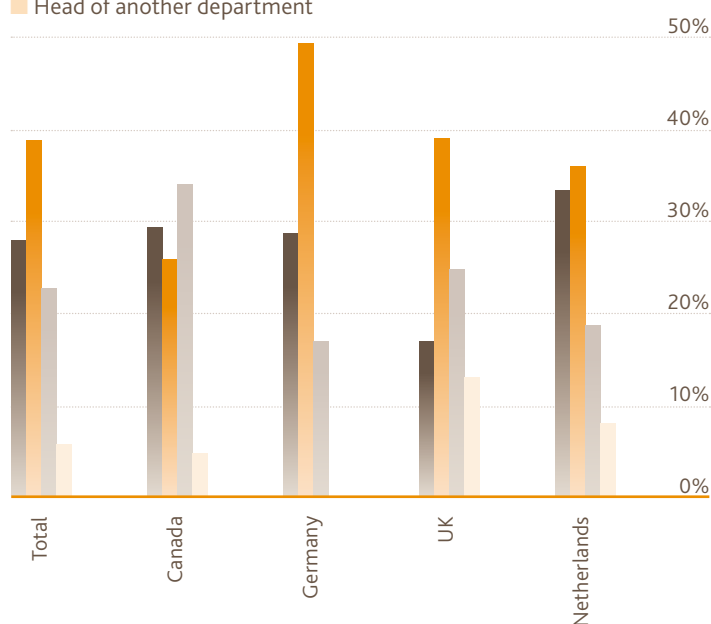
AT THE TOP

18

WHO AT YOUR COMPANY IS RESPONSIBLE AT BOARD LEVEL FOR CUSTOMER SERVICE?

Source: The Economist Intelligence Unit

- Head of customer services
- Head of sales and marketing
- Head of human resources
- Head of another department



The question is how these leadership arrangements affect the place of customer service on the corporate agenda. Ms Causon of the ICS says the lack of a board-level head of customer service could be a sign that an organisation has successfully integrated customer service. "It could mean responsibility for customer service is shared and that the board owns it, which I would see as a good thing," she says. "But it could mean there is a need for greater focus. Organisations need to review the responsibility for customer service and ensure that it's absolutely in the boardroom."

Mr Siefker of Zappos is a member of the minority – he is a head of customer service with a seat on the board. "In some ways, [board level engagement] is the ultimate question," he says. "The strongest brands in the world have created a great customer service experience. There are different ways that companies can do that, but companies don't exist without customers. It starts with our CEO and goes all the way down to our newest employee."

Perhaps more worryingly, senior executives do not see being customer-focused as especially helpful to their career paths: just over one-quarter of respondents globally feel that being seen as customer-focused is an important factor in determining who gets ahead in the organisation.

One concern, says Dr Beaton of Beaton Research+ Consulting, is that many customer service professionals "have come up a route that is about smiles rather than returns on investment, and their whole approach tends to be a training approach or a market research approach. The marketing function has done a very poor job of marketing itself. Marketing has been relegated, and with it has gone true customer service focus."

Another issue, says Ms Causon, is that customer service skills of the future are likely to be different from traditional skills. "We are seeing a shift from a quite transactional basis to a much more relationship-based economy," she says. "The skills that are going to be required are going to be of a much higher order – people with emotional intelligence, the ability to really connect with the customer, much greater insight, much greater communication, combined with very strong commercial and technological skills."

The experts interviewed for this report believe that executives at all levels and across many business sectors are increasingly recognising the importance of customer service. But there is still some distance to go before the critical role of customer service is understood – and championed – by most of the business leaders surveyed.



Jo Causon

More important than designating a customer services specialist in the boardroom is the need to have a board-level executive "responsible for the whole services package", says Mr Hylkema of Customeyes.

Mr Shaw of Beyond Philosophy agrees. "There is a growing trend for a chief customer officer who looks at the customer experience," he says. "Having customer service on the board means that it's a function like marketing or sales. Customer experience on the board is important because it looks holistically across all those channels and needs to be independent."

But he adds: "It's not happening in most organisations because, as the [survey] numbers show, it's not seen as important."

Ms Causon concludes: "Customer service isn't about having a nice day and just the front end of the business. A genuinely aligned, joined-up organisation sees customer service as a key part of its strategy and sees service, and the delivery of service, in every aspect of its business."



Colin Shaw

“Companies need to understand the difference between the traditional concept of good service and the more complex notion of customer experience... Customer experience is... more holistic”

Colin Shaw, Beyond Philosophy

CONCLUSION

The survey shows that companies in a range of industry sectors see customer service as vital to their business – 84% believe service is very or moderately important to their financial performance, and they spend a great deal of time, energy and money monitoring its success. However, there is no real consensus on which metrics to use and how to quantify its financial impact.

While 59% of survey respondents say a customer service failure has had a clear, significant financial impact on their company, just 36% have a formal strategy that recognises a link between service and financial performance. Customer service experts believe there are systems that conclusively prove customer service quality is connected to a company's bottom line and share price, but many business leaders remain unconvinced or unclear about how to make that connection within their own companies.

Nevertheless, there is a clear realisation that the customer experience will continue to grow in importance. Some companies expect digital technology – and especially social media – to become more important to customer engagement. If businesses are to survive, they will need to develop sophisticated and effective strategies to engage their customers. Companies already seem willing to invest in customer service – 74% of those surveyed have made a significant capital investment to improve customer service in the past two years – but they continue to struggle with determining the return on their investments.

It is clear from this survey that making the connection between customer service and the bottom line is not easy: there is no one simple formula that works across all companies and industries. There are people who would agree with Ms Malik of MetLife when she says that understanding customer needs "is more important than ways to collect customer feedback". Nonetheless, determining the right metrics to measure customer service performance is an important first step. Companies that are serious about delivering exceptional customer service should ask themselves a range of questions (see page 36) to assess how close they are to ensuring that good service delivery has a positive effect on their profitability.

“59% of survey respondents say a customer service failure has had a clear, significant financial impact on their company”

ASSESSING CUSTOMER SERVICE AND ITS IMPACT ON FINANCIAL PERFORMANCE: QUESTIONS FOR BUSINESS LEADERS

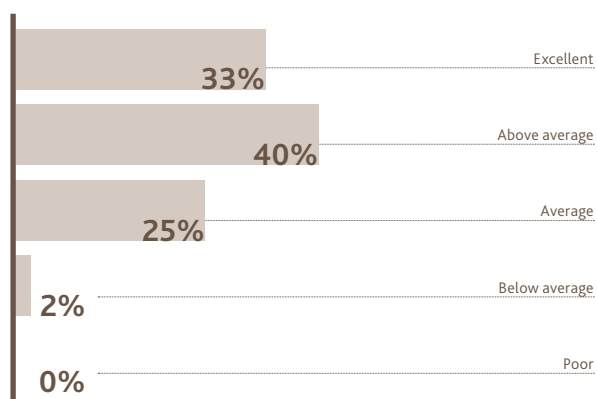
- ☐ Can you define customer service – and if so, how?
- ☐ Does your company have a formal strategy that recognises a link between customer service and financial performance?
- ☐ How do you train your staff to deliver exceptional service?
- ☐ What steps does your company take to seek feedback about customer service performance?
- ☐ Which non-financial metrics of customer service does your company use to evaluate front-line staff?
- ☐ Which non-financial metrics does your company use to track the overall customer experience?
- ☐ Which financial metrics does your company use to measure the ROI of customer service?
- ☐ How do you judge the ROI of capital investments made to improve customer service?
- ☐ Which operational metrics does your company use to monitor the quality of complaints handling?
- ☐ Which methods do you use to track the costs and benefits associated with customer services (cost to serve)?

APPENDIX

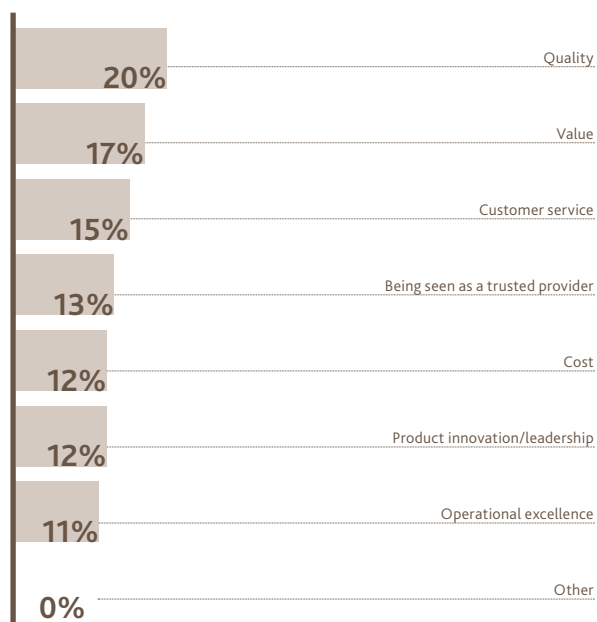
This Appendix contains the full set of charts from the SERVICE 2020: RETURN ON SERVICE Survey questionnaire, not all of which feature in the main body of this Report.

Please note that not all answers add up to 100% because of rounding up, or because respondents were able to give multiple answers to some of the questions.

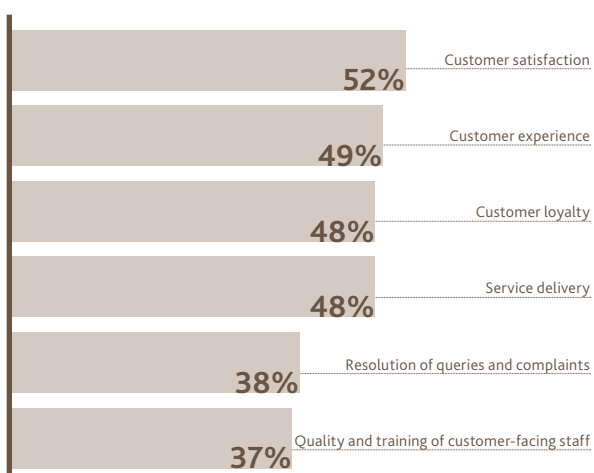
Q1 HOW WOULD YOU DESCRIBE YOUR COMPANY'S CUSTOMER SERVICE?



Q2 ON WHICH OF THE FOLLOWING DOES YOUR COMPANY PRIMARILY COMPETE?

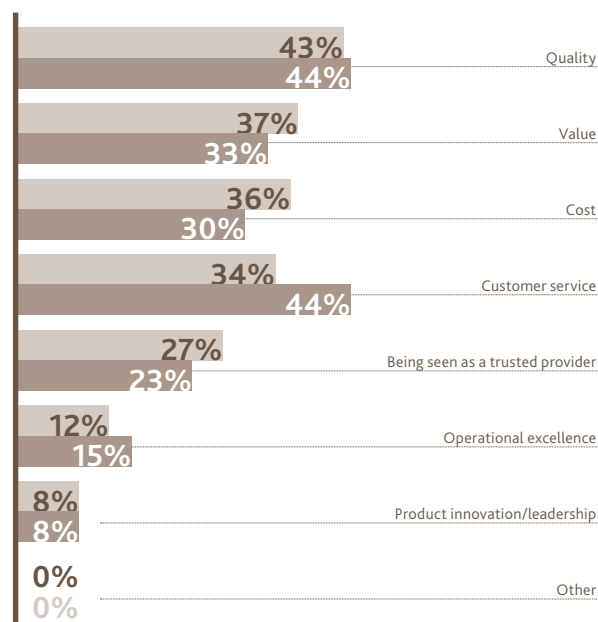


Q4 IN WHICH OF THE FOLLOWING CUSTOMER SERVICE AREAS ARE YOU AIMING TO MAKE IMPROVEMENTS? SELECT ALL THAT APPLY.

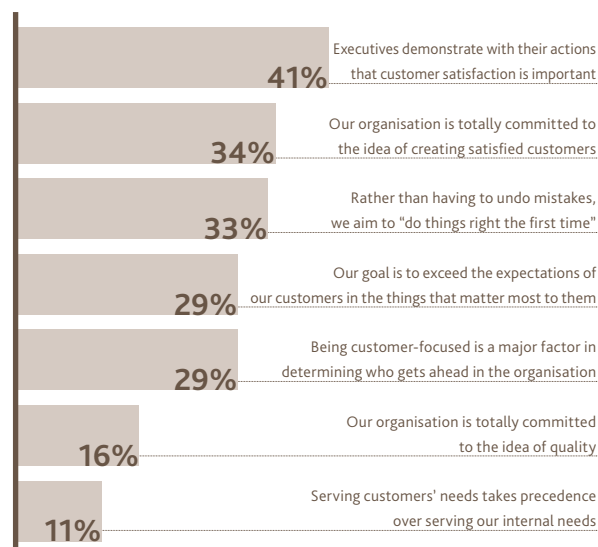


Q3 WHICH OF THE FOLLOWING FACTORS ARE THE MOST IMPORTANT IN WINNING NEW CUSTOMERS? SELECT UP TO TWO.

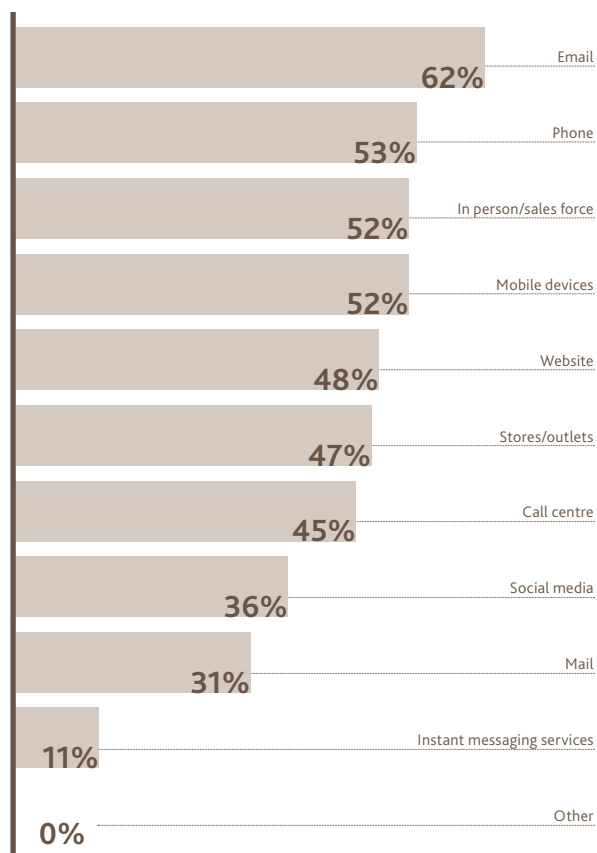
WHICH OF THE FOLLOWING FACTORS ARE THE MOST IMPORTANT IN RETAINING EXISTING CUSTOMERS? SELECT UP TO TWO.



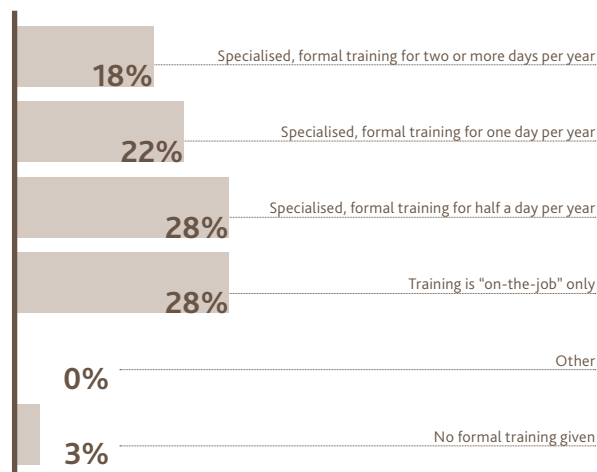
Q5 WHICH OF THE FOLLOWING STATEMENTS BEST DESCRIBES YOUR COMPANY'S APPROACH TO CUSTOMER SERVICE? SELECT UP TO TWO.



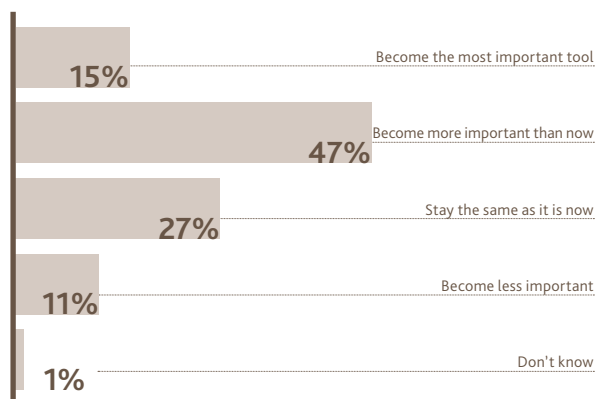
Q6 WHICH OF THE FOLLOWING CHANNELS DO YOU REGULARLY USE TO INTERACT WITH CUSTOMERS? SELECT ALL THAT APPLY.



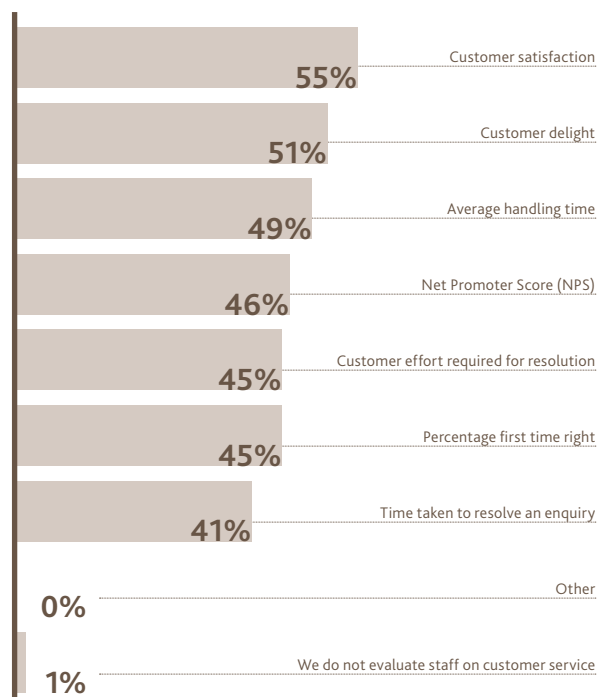
Q8 WHAT KIND OF CUSTOMER SERVICE TRAINING IS PROVIDED FOR EMPLOYEES AT YOUR COMPANY?



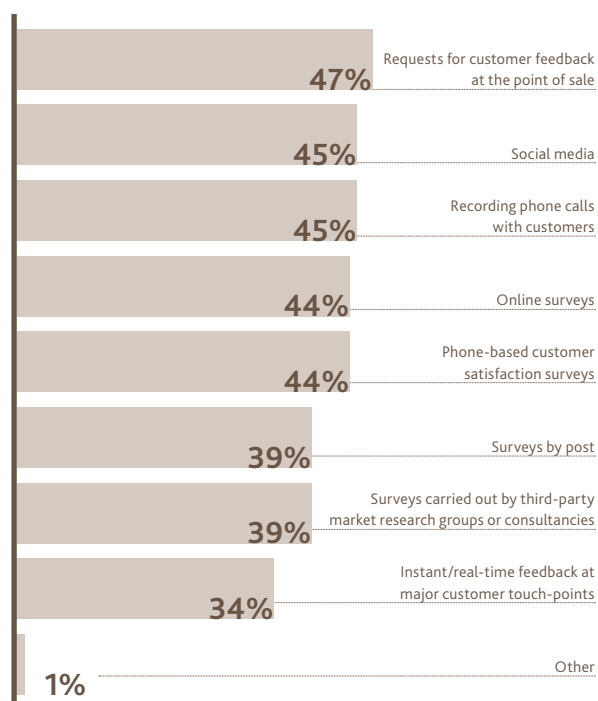
Q7 HOW IMPORTANT DO YOU BELIEVE SOCIAL MEDIA WILL BE TO CUSTOMER ENGAGEMENT IN 2020?



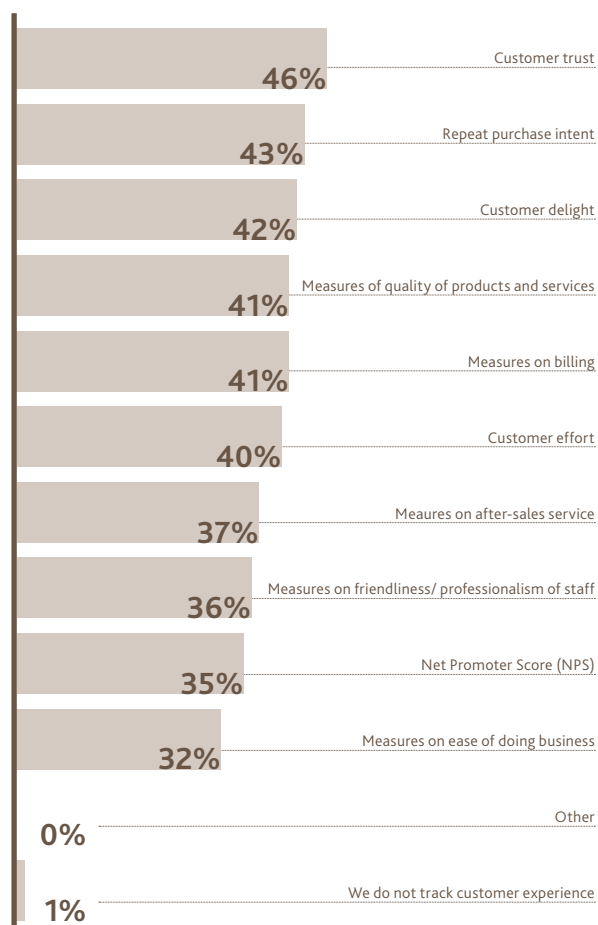
Q9 WHICH OF THE FOLLOWING NON-FINANCIAL METRICS OF CUSTOMER SERVICE ARE FRONT-LINE STAFF EVALUATED ON? SELECT ALL THAT APPLY.



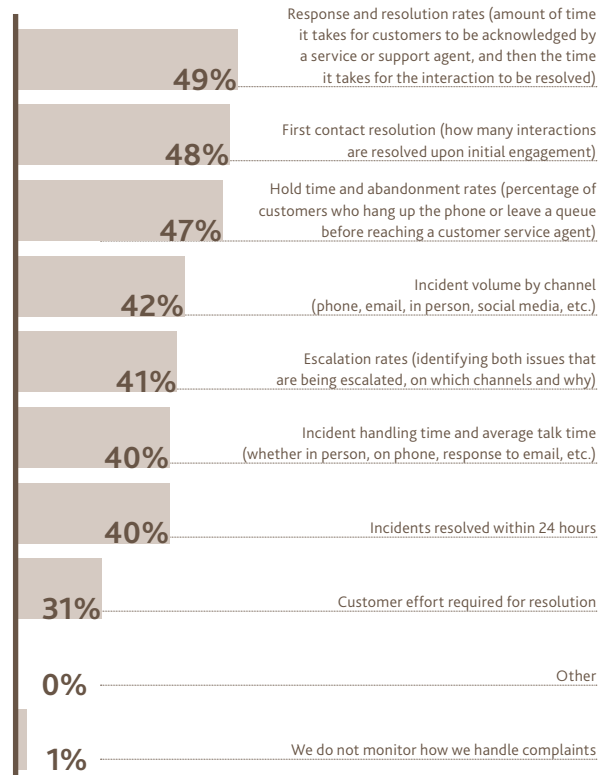
Q10 WHAT STEPS DOES YOUR COMPANY TAKE TO SEEK FEEDBACK ABOUT CUSTOMER SERVICE PERFORMANCE? SELECT ALL THAT APPLY.



Q11 WHICH OF THE FOLLOWING NON-FINANCIAL METRICS DOES YOUR COMPANY USE TO TRACK THE OVERALL CUSTOMER EXPERIENCE? SELECT ALL THAT APPLY.



Q12 WHICH OF THE FOLLOWING OPERATIONAL METRICS DOES YOUR COMPANY USE TO MONITOR THE QUALITY OF COMPLAINTS HANDLING? SELECT ALL THAT APPLY.

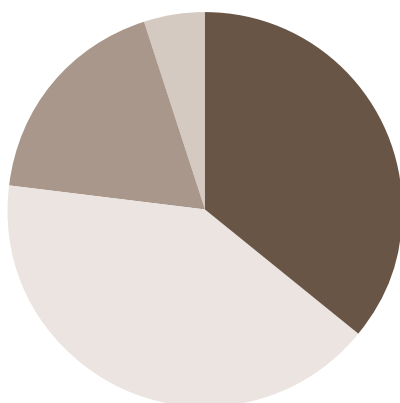


Q13 WHAT ARE THE TOP THREE KEY PERFORMANCE INDICATORS YOUR COMPANY USES TO TRACK THE OVERALL CUSTOMER EXPERIENCE?

TOP TEN RESPONSES

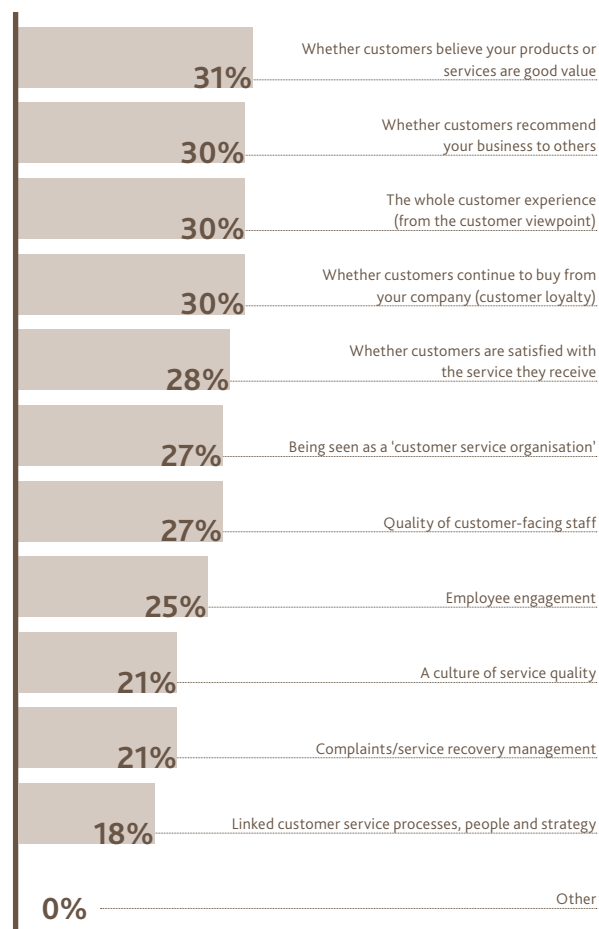
Customer feedback received
 Customer delight index
 Customer life time purchase value
 Customer loyalty
 Customer satisfaction
 Net Promoter Score
 Number of complaints received
 Number of customers retained
 Re-order rates
 Social media engagement

Q14 DOES YOUR COMPANY HAVE A FORMAL STRATEGY THAT RECOGNISES A LINK BETWEEN CUSTOMER SERVICE AND FINANCIAL PERFORMANCE?

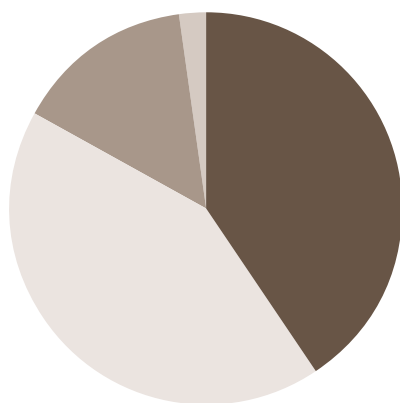


Yes	36%
No, but we are working on it	41%
No	18%
Don't know	5%

Q16 WHICH OF THE FOLLOWING DRIVERS OF ROI IN CUSTOMER SERVICE DO YOU FEEL ARE THE MOST IMPORTANT? SELECT THE TOP THREE.

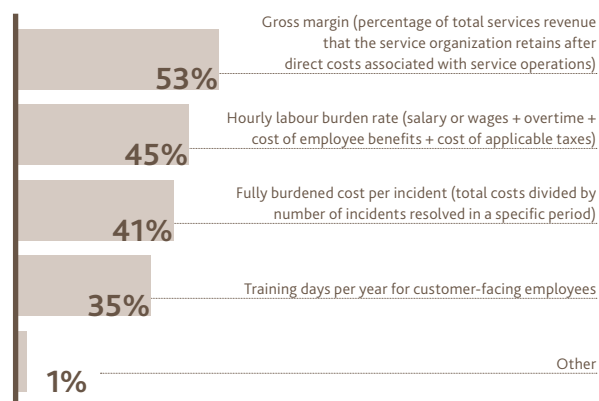


Q15 HOW IMPORTANT DO YOU THINK CUSTOMER SERVICE IS TO YOUR COMPANY'S FINANCIAL PERFORMANCE?

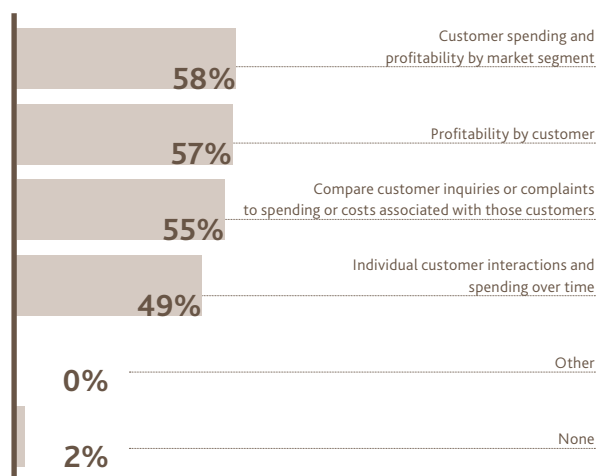


Very important	41%
Moderately important	43%
Minimally important	15%
Unimportant	2%

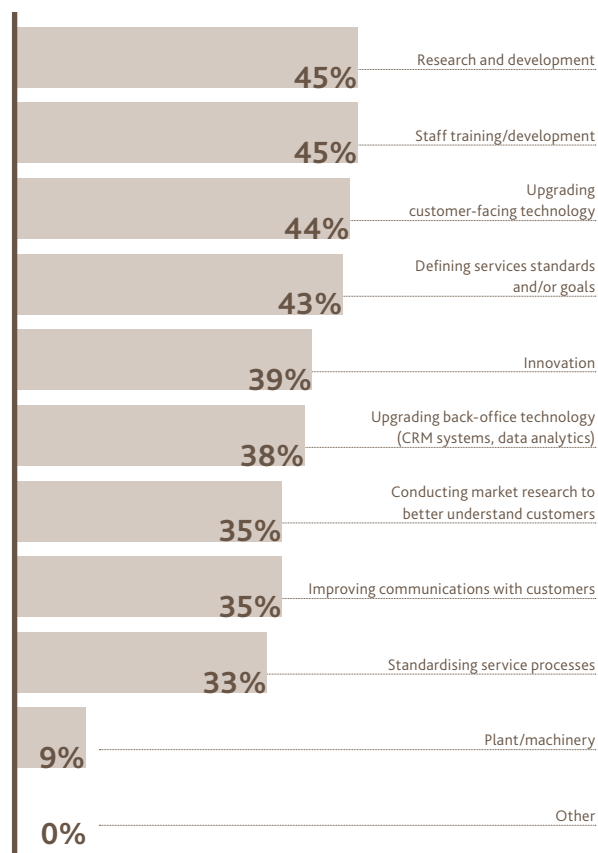
Q17 WHICH OF THE FOLLOWING FINANCIAL METRICS DOES YOUR COMPANY USE TO MEASURE THE ROI OF CUSTOMER SERVICE? SELECT ALL THAT APPLY.



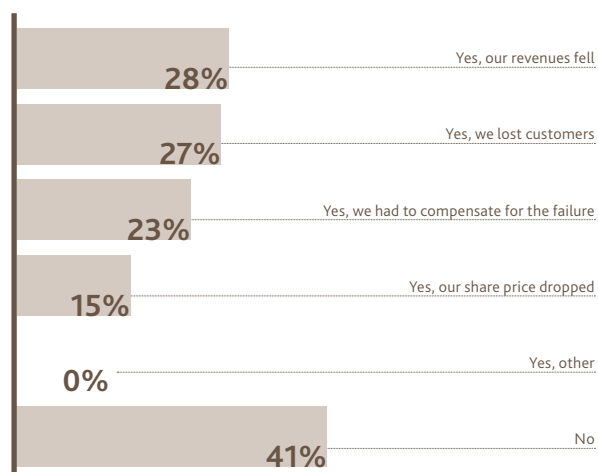
Q18 WHICH OF THE FOLLOWING METHODS DO YOU USE TO TRACK THE COSTS AND BENEFITS ASSOCIATED WITH CUSTOMER SERVICES (COST TO SERVE)? SELECT ALL THAT APPLY.



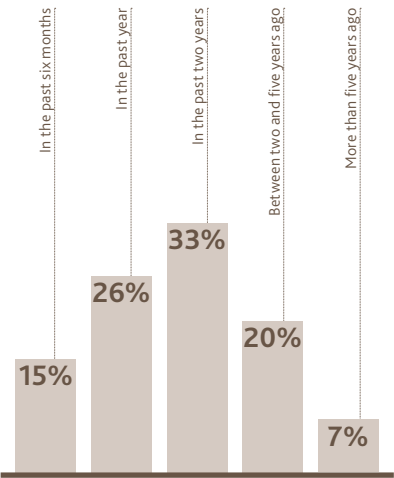
Q20 WHAT AREAS ARE YOUR COMPANY LOOKING TO INVEST IN THE COMING YEAR IN ORDER TO IMPROVE ITS CUSTOMER SERVICE?



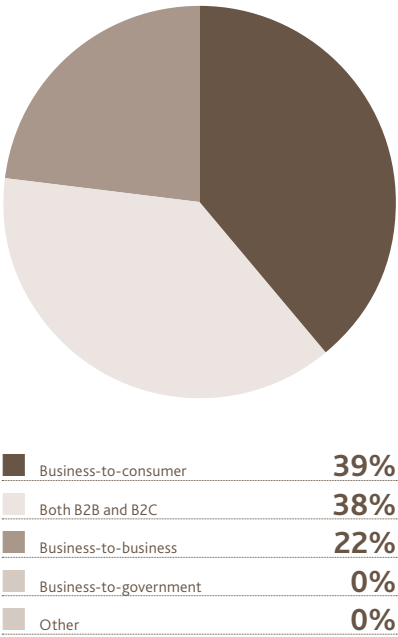
Q19 HAVE YOU EVER HAD A CUSTOMER SERVICE FAILURE WHICH HAD A CLEAR, SIGNIFICANT FINANCIAL IMPACT ON YOUR COMPANY? SELECT ALL THAT APPLY.



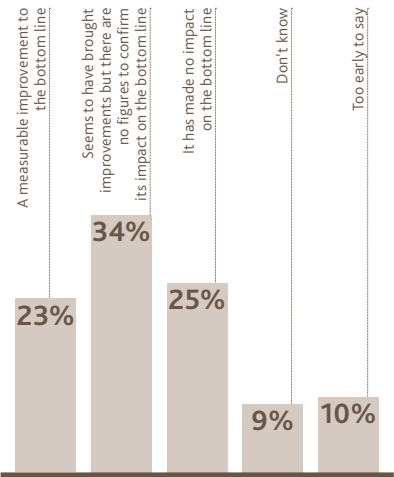
Q21 WHEN DID YOUR COMPANY LAST MAKE A SIGNIFICANT CAPITAL INVESTMENT TO IMPROVE CUSTOMER SERVICE?



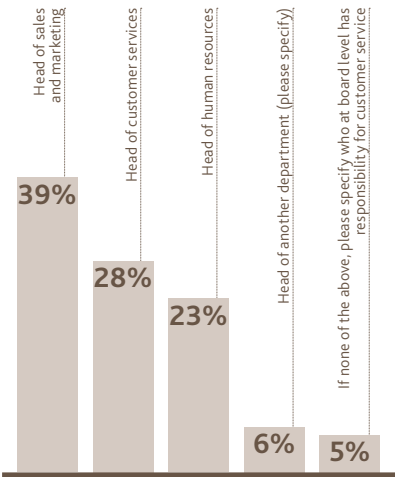
Q23 WHAT IS YOUR PRINCIPAL TARGET AUDIENCE?



Q22 OVERALL, HOW SUCCESSFUL HAS THE INVESTMENT BEEN IN TERMS OF ROI?



Q24 WHO AT YOUR COMPANY IS RESPONSIBLE AT BOARD LEVEL FOR CUSTOMER SERVICE?





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