

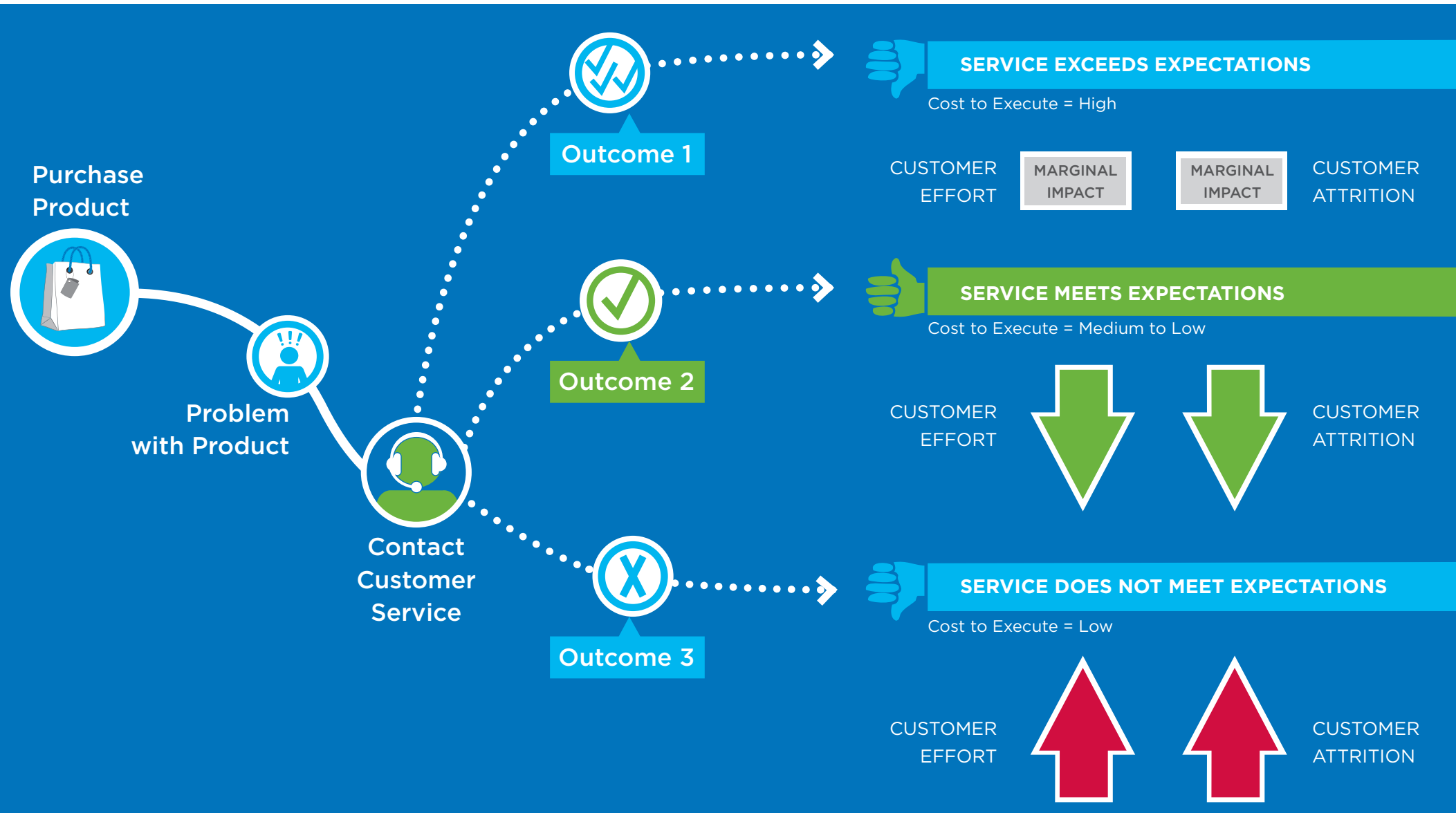


EXECUTIVE GUIDANCE FOR 2014

Blinded by Delight

Why Service Fails and How to Fix It

Delight doesn't pay...



...making life easier does.

For maximum returns, design a low-effort organization.



Track Customer Effort—Not Customer Satisfaction



Provide a Guided Resolution Experience



Solve the Customer's Next, Not Just Current, Problem



Engineer Experiences to Reduce Customers' Perceived Effort



Create a Judgment Climate to Enable and Empower Staff

Although not always true in the past, most organizations today embrace “customer centricity” across their operations that affect customers. When it comes to product development, communications, and sales and service, most organizations not only are mindful of customers’ needs but also have deliberately built systems to ensure the customer is the focal point. Entire industries have sprung up to help organizations surpass competitors in meeting customer expectations.

Organizations engaged in this quest often find themselves chasing superlatives. Simply satisfying customers is no longer adequate; companies need to delight them, dedicating significant resources to the effort because the reward seems worth it.

This unquestioning dedication of resources prompted CEB to research how customer service quality affects customer behaviors—specifically loyalty. We concluded that customers whose expectations have been exceeded are no more loyal than are those whose expectations have simply been met.

If there is no reward for delight, then what role—if any—should service play? Our research finds that service is critical to preventing customer disloyalty and that certain service experiences are far more likely to cause customer churn than others. Specifically, customers will punish organizations that require them to expend a great deal of effort to handle their service request. **Ninety-six percent of customers who put forth high effort in service interactions are more disloyal**, while only 9% of those with low-effort interactions are more disloyal.

These findings are critical for organizations seeking to be more customer-centric. Regardless of other benefits organizations provide, customers must view their service as “low effort.” Armed with this knowledge, the best organizations are coordinating their product teams, customer service, and other customer-facing or customer-impacting groups to reduce the effort required to purchase and use their products and services. The service function itself must also evolve, and IT, HR, and other internal functions have to adapt.

No Rewards for Delight

Many organizations use some measure of customer satisfaction to gauge service success and drive service strategy. They do so assuming that customer satisfaction is an important driver of customer loyalty: the more satisfied a customer is with their service interaction, the more loyal that customer will be. This approach makes sense and explains why so many organizations invest in technology upgrades, frontline staff skill development, and firm-wide policy changes.

But our study of more than 97,000 consumers and business customers globally shows a weak relationship between satisfaction and loyalty. In fact, 20% of satisfied customers say they intend to leave their provider, while 28% of dissatisfied customers say they intend to stay. This data proves that customer satisfaction is a poor—and potentially dangerous—guide for gauging service strategy progress and resource allocation.

Some organizations attempt to combat satisfaction's inadequacy by far exceeding customers' service expectations. The majority of organizations (89%) report that delighting customers will lead to higher loyalty and is a goal worth pursuing. But our study found that exceeding customer expectations does not lead to measurable loyalty gains.

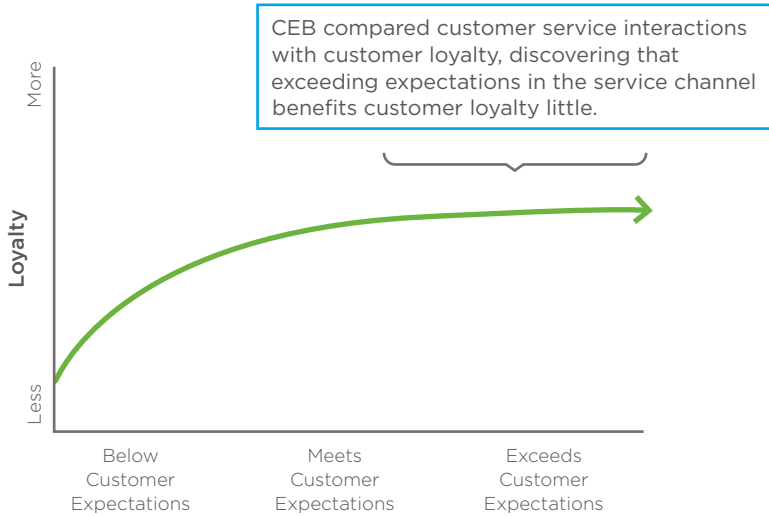
We measured loyalty through the customer's intent to repurchase, increase spend, and spread positive word-of-mouth about the organization. Our data shows that loyalty increases when customers' expectations are met and remains unchanged when they are exceeded.

Most companies underestimate the value of simply meeting customer expectations and overestimate the value of exceeding them. Customers simply want their question answered or their product fixed so they can go back to their lives. They enjoy a delightful experience in the moment but quickly forget it and do not factor it into future decisions.

Exceeding Customer Expectations Does Not Increase Customer Loyalty

Impact of Meeting Versus Exceeding Customer Expectations on Loyalty

n = 97,000 customers.



Source: CEB analysis.

Although this finding is surprising, it should offer executives some relief. Organizations rarely succeed in delighting customers (only 16% of the time), and doing so is costly. Eighty percent of service leaders report that their efforts to exceed customer expectations require significantly more resources than do their efforts to just meet those expectations.

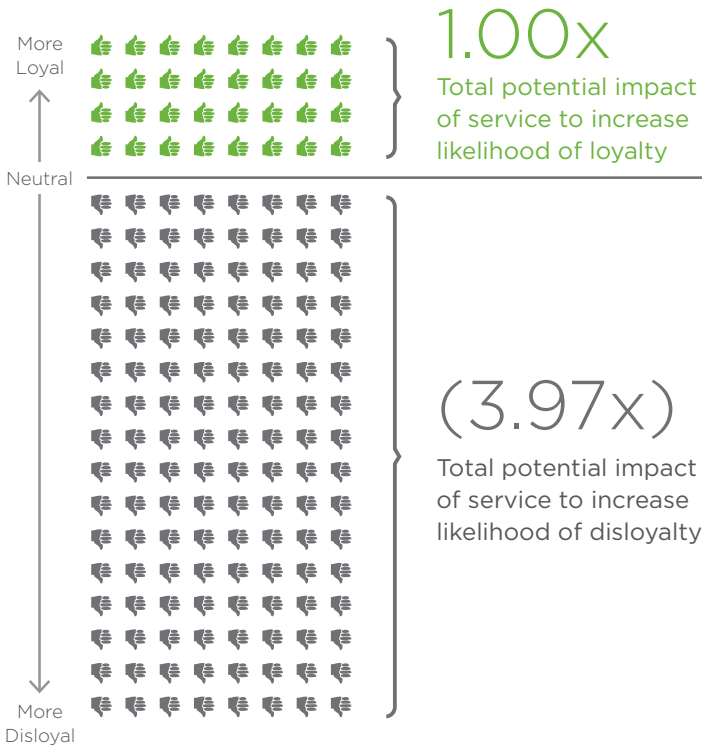
More to Lose Than to Gain

Although customers seldom reward organizations that provide a delightful service experience, they will harshly penalize those that do not meet their expectations. By quantifying the potential impact of service on loyalty in our research, this dynamic became abundantly clear. The vast majority of experiences a customer may have during a service interaction may harm loyalty, not help it. In fact, a customer is 400% more likely to be less loyal than more loyal following a service experience.

Greater Potential for Service to Drive Disloyalty Than Build Loyalty

Indexed Total Potential Impact of Customer Service on Loyalty

n = 97,000 customers.

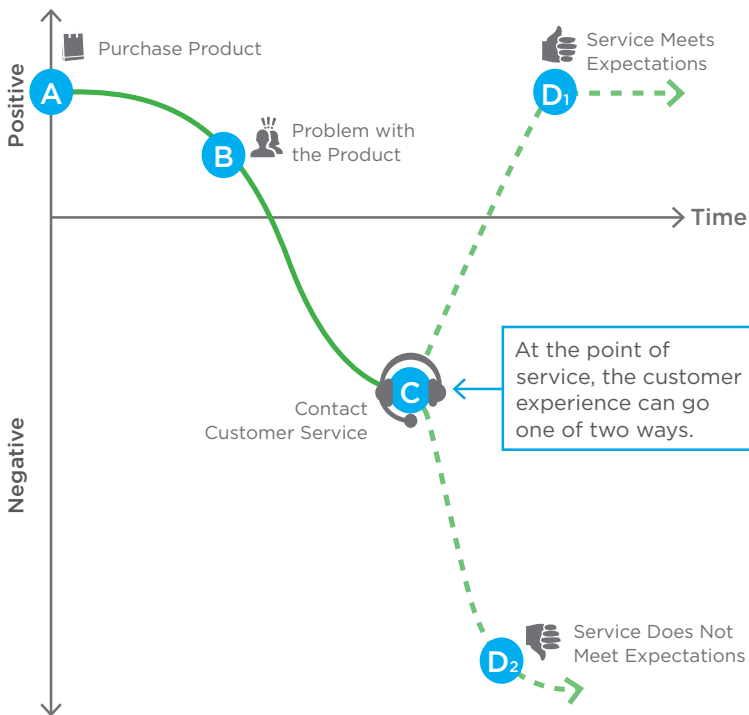


Source: CEB analysis.

To understand why customers have this disproportionately negative response, organizations must recognize why customers are in a service experience to begin with. Customers seek help for questions or problems typically because something has gone wrong with their purchase—not for enjoyment or utility. They enter that service moment in a negative state, wanting foremost to be returned to a neutral state—with the service request resolved and behind them—expecting no more and no less.

Service Either Recovers Customer to Pre-Problem State or Further Degrades Experience

Illustrative Representation of Customer Disposition



Source: CEB analysis.

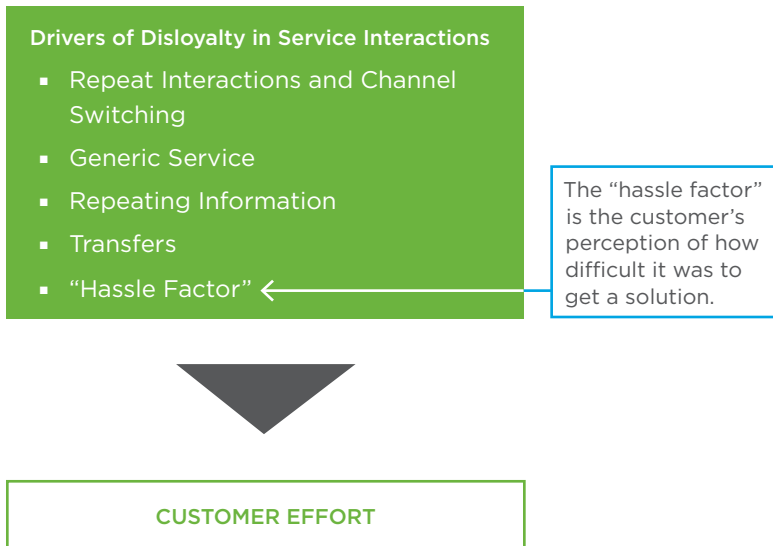
The Critical Role of Effort

When one examines the service interaction components that matter to customers—enough to influence their future loyalty behavior—and the components' impact on disloyalty, it is clear that organizations must focus on customer effort to resolve their issue.

Customer Service's Role Is to Reduce Customer Effort

Drivers of Customer Disloyalty, Ranked by Impact

n = 97,000 customers.



Source: CEB analysis.

Most drivers of disloyalty are tied to the amount of effort a customer expends. Customers are increasingly more likely to be disloyal following high-effort experiences. And unfortunately, these experiences are common. In our study,

- 62% of customers said they had to recontact the organization,
- 56% had to re-explain their issue,
- 59% were transferred, and
- 59% had to put forth moderate to high additional effort to resolve their issue.

Building a Low-Effort Organization

Progressive organizations provide customers a low-effort experience not only to increase loyalty but also to generate operational cost savings by reducing customer escalations and unnecessary callbacks and shifting customers to lower-cost channels.

Although the organization's customer contact team oversees this effort, all functions that affect the customer must be involved. From new product development to Marketing, IT, Finance, and Legal, many functions can significantly help to reduce customer effort.

The best organizations deliver a low-effort experience in five key ways:

1. **Track Customer Effort—Not Customer Satisfaction**—Identify and prioritize improvements that result in the largest loyalty wins.
2. **Provide a Guided Resolution Experience**—Steer the customer to the lowest-effort service channel for their issue on the first try.
3. **Solve the Customer's Next, Not Just Current, Problem**—Avoid costly repeat contacts that frustrate the customer and increase costs.
4. **Engineer Experiences to Reduce Customers' Perceived Effort**—Make even a complex interaction feel like low effort by reducing customers' perceived effort to resolve their issue.
5. **Create a Judgment Climate to Enable and Empower Staff**—Frontline staff must exercise the judgment necessary to deliver tailored, low-effort—not generic or robotic—service interactions to customers.

1. Track Customer Effort—Not Customer Satisfaction

If customer satisfaction is a flawed metric that does not indicate future loyalty behaviors, what can organizations use to gauge how effectively they provide low-effort experiences? We have identified a simple measure—the Customer Effort Score™ (CES)—that more effectively focuses on future loyalty behaviors and helps executives track the service organization’s contribution to firm-level loyalty more accurately than most customer satisfaction measures can. CES predicts customer loyalty 1.8x better than customer satisfaction scores do.

Calculating Customer Effort Score 2.0 Metric

Q ■ To what extent do you agree or disagree with the following statement: “The company made it easy for me to handle my issue.”

- (1) Strongly Disagree
- (2) Disagree
- (3) Somewhat Disagree
- (4) Neither Agree nor Disagree
- (5) Somewhat Agree
- (6) Agree
- (7) Strongly Agree

CES™ 2.0 Metric
Percentage of customers at least somewhat agreeing that the company made it easy to resolve their issue

Source: CEB 2013 Customer Effort Assessment.

CES is simple for customers to answer and easy for organizations to incorporate into their surveys and track over time. By looking at the data by customer segment, customer issue type, or product line, executives can identify areas of high effort across the organization to investigate further. This exercise often exposes areas that are not only high effort for the customer but also high cost for the organization (e.g., a customer who must recontact the company several times due to a communication breakdown in the supply chain, resulting in late delivery of a product).

Although CES is part of a larger operating system that includes additional questions to reveal the reasons behind high-effort interactions, its simple version shown can help reduce customer effort and compare an organization's performance to its competitors'.

2. Provide a Guided Resolution Experience

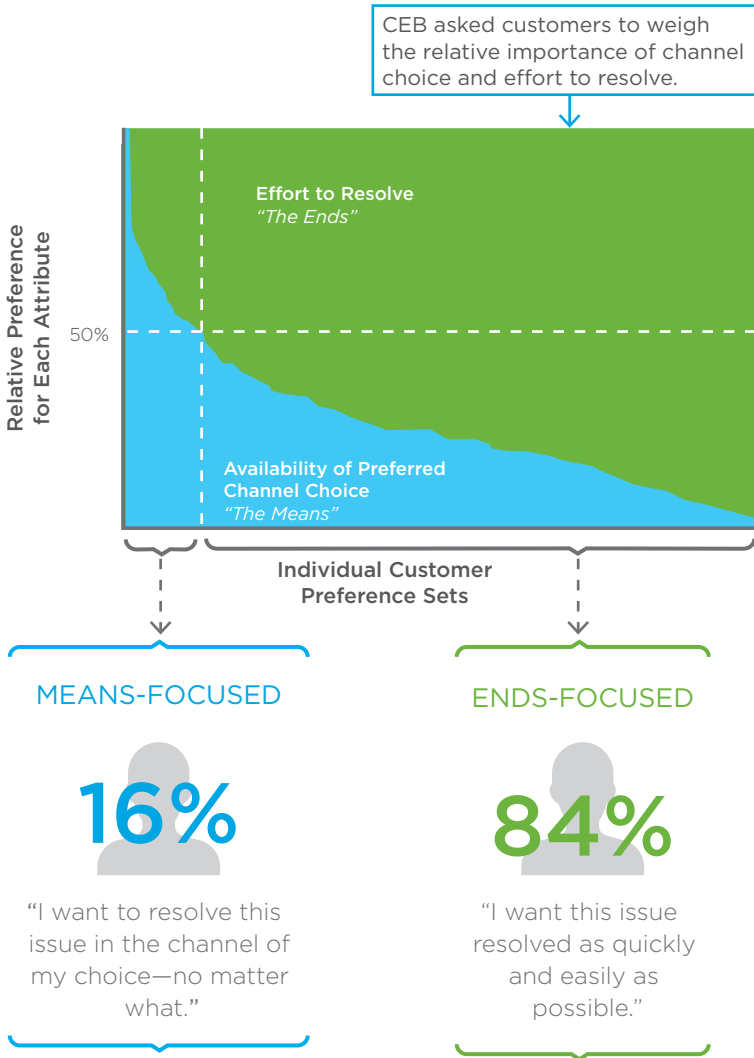
With the increase in ways customers can contact a company—which now includes phone, web chat, e-mail, website, social media, and discussion boards—leaders at most organizations believe customers want more choice in how they are served. Many organizations are investing in more service channels and greater functionality within those channels, believing that having more options will help customers expend less effort to get assistance.

But our research has shown otherwise. When customers have a question or problem, more choice actually increases their frustration and effort. Customers do not want to think about where to get help from the company; they just want an easy path to a solution. In fact, 84% of customers say they would trade off more choices from the company for quick and easy resolution of their issue.

Customers Value Fast and Easy Resolution Over Choice

Customer-Reported Data, Relative Importance Percentages

n = 996 customers.



Source: CEB 2012 Customer Expectations Survey.

Instead of choice, customers want guidance from the companies they do business with. But not every channel is equally equipped or designed to help customers. For example, it may be difficult to transmit confidential customer information via web chat. The organization knows each channels' capabilities and shortcomings so it can identify which channels to steer a customer toward—and away from. Customers are more than willing to use a new or less preferred channel, as long as they get their issue resolved. As customers increasingly go online first to get help, the service function should partner with the company's web team and IT department to consider how customers navigate the online channels today and build customer guidance tactics into the online experience.

3. Solve the Customer's Next, Not Just Current, Problem

A key factor driving customer effort is whether the customer's issue is resolved the first time they contact a company. Unfortunately, organizations are discovering that they do not view “first contact resolution” the same way their customers do. Organizations report that nearly 77% of customer issues are resolved in one contact. This is hardly the case from the customer's perspective: only 40% of customers say their issue was resolved in one contact.

For customers, many issues that seem like one-offs to the company are actually the first of several interactions customers must have with the company. With each additional interaction, both customer effort and company costs increase: it is as if companies are paying more to have less loyal customers. So how does the company reduce the number of interactions the customer has to have with it?

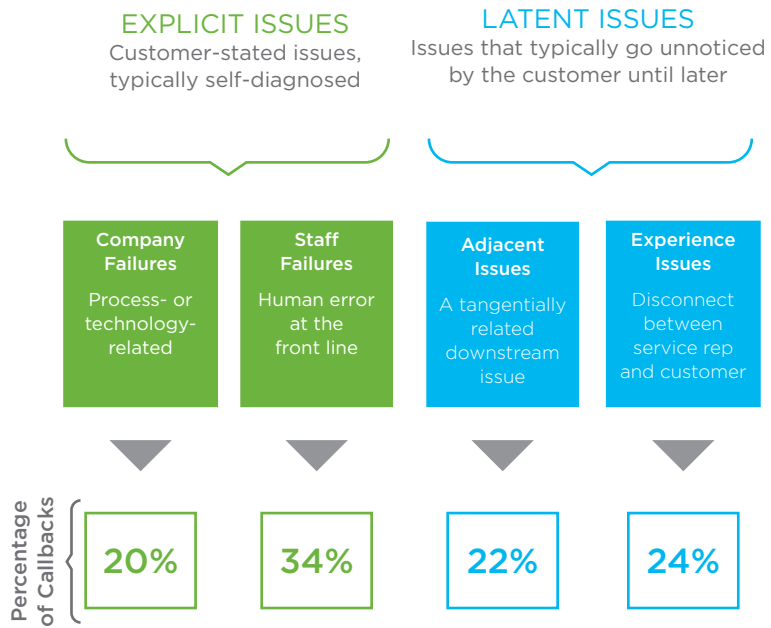
Our research found that only 54% of customer callbacks stem from explicit, visible failures such as an employee mistake or an internal process error. Those problems are typically clear to the organization and often at the heart of Six Sigma process improvements or coaching sessions. But 46% of callbacks are invisible at first glance and due to latent issues—things that do not typically emerge until later. These latent issues are either adjacent issues that are downstream implications from the original issue or experience issues caused by a disconnect between the customer and the rep.

Latent issues are ripe for improvement as most organizations have done little to preempt them—unlike explicit issues that have been pursued for years. Organizations must reveal latent issues by tapping into frontline knowledge and asking customers new kinds of questions to understand why customers have to recontact the company. Identifying these latent issues can reveal root causes within the supply chain and operations that are causing undue customer effort and inadvertently driving repeat contacts.

Drivers of Repeat Customer Contacts

Member-Reported Data

n = 50 companies.



Source: CEB analysis.

4. Engineer Experiences to Reduce Customers' Perceived Effort

Of course the organization cannot always provide a customer's exact need or resolve all issues efficiently. But that does not mean the organization cannot still reduce the customer's perception of the effort required. Even for complex or difficult issues, something can always be done to manage customer effort.

Our research shows there are two parts to what effort means to a customer: 1) what a customer has to do in the interaction, and 2) how the customer feels about the interaction. It is not uncommon for customers to say they had to do relatively little but felt like it was a high-effort experience and vice versa. We find what a customer feels makes up 65% of how they evaluate effort, while what a customer has to do only makes up 35% of the effort.

Because customers have human interactions with frontline staff, employees greatly affect how the customer feels and thus the customer's perception of effort. In fact, it is not what employees say that matters, it is how they say it. The activities that reduce customer perception of effort are more than just being polite or nice; they are part of a broader strategy we call "experience engineering"—a way to manage the customer conversation and preemptively manage customer emotions.

Typical Experience Engineering Techniques

- Use positive language.
- Position yourself as an advocate for the customer.
- Adapt your conversation style to the customer's personality type.
- Anchor the customer's expectations in a less desirable result.
- Describe alternative solutions to clarify the customer benefits through comparison.

Source: CEB analysis.

These activities are grounded in the principles of behavioral economics and include techniques such as anchoring—or strategically sequencing an option within a range of choices and positive language—that focus on what the organization can do rather than what it cannot do. Such techniques can reduce the customer's perception of effort by 55% to 77%.

5. Create a Judgment Climate to Enable and Empower Staff

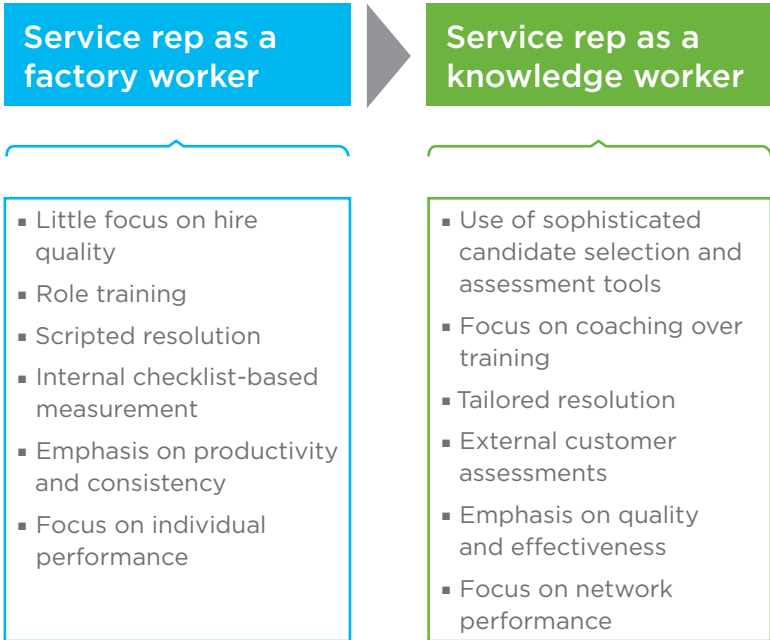
Delivering a low-effort service experience places a much heavier burden on the frontline staff in the customer service function. Customer service has long relied on a factory-like production model—churning through the call queue and adhering to scripts and checklists—but the low-effort service experience requires a more customized, responsive service interaction.

As a result, organizations cannot script or “checklist” their way to victory. Instead, they must rely on their staff’s ability to exercise the judgment required to deliver tailored experiences.

This approach requires an organizational shift in how companies think about managing the human capital in the service organization. Low-effort organizations know they can no longer rely on their legacy mass-hiring practices, one-size-fits-all training approaches or command-and-control performance management processes. Similarly, as judgment is something perfected over time, these organizations can no longer tolerate the high turnover typical among frontline staff.

Organizations must thoughtfully select and assess job candidates, focus on frontline supervisor coaching abilities instead of just training, build a performance management process that encourages and rewards the use of judgment, and understand long-term employee engagement versus short-term turnover management. By taking these steps, organizations will build a human capital management system similar to the knowledge worker models that have long been adopted elsewhere in the organization.

Shift in Frontline Employee Talent Management System Required for Low-Effort Interactions



Source: CEB analysis.

» As the desire to be a customer-centric organization continues to grow, executives must consider how customer-focused their service operations are. Doing so will require closely examining the level of effort their service function currently requires of customers. Most will find they have a long way to go and should pursue a low-effort service strategy.

Internal service providers—from HR to Finance to IT—also benefit from this research. After all, these internal clients are customers in their everyday lives and have the same expectations for ease in service interactions in their jobs. Executives leading these functions must pose hard questions to their teams regarding how easy or hard they make service for their clients.

Although the service organization is responsible for delivering low-effort service to the end customer, many of the drivers of customer effort stem from broader enterprise issues—for instance, products that are difficult to use, outdated back-office policies and processes, unintuitive customer-facing IT systems, and confusing pricing and promotions.

Low-effort organizations not only focus on delivering an easy service interaction but also use customer insight captured in the service interaction to feed improvement opportunities to all parts of the enterprise. At the end of the day, customers do not want to expend effort to get things done and will positively evaluate organizations that make it easy.

To learn more about how to become a low-effort company, as introduced in *The Effortless Experience*, visit www.effortless-experience.com. You can access complementary tools, read success stories, and download the first chapter of the book.

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