Table of Contents

1. Secure Customer Loyalty.. 2
2. How to Maximize the Benefits of Word of Mouth?.. 3
3. How to Address the Needs of Dissatisfied Customers? 4
4. How to Profit from Customer Service Recovery? 5
5. How to Fulfill an Unconditional Service Guarantee?....................................... 7
6. How to Create a Refund & Exchange Policy 10
7. Why Implement a Quality Management Program?....................................... 11

Source: Government of Canada

1. Secure Customer Loyalty

Most of my customers are satisfied. Why should I worry?

For years, research undertaken by academics and private companies showed that high-quality products and services designed to meet customer needs would create high levels of customer satisfaction, and therefore, increase customer loyalty.

However, in-depth satisfaction studies by Xerox Corporation of its office-products customers shattered this conventional wisdom. The firm's totally satisfied customers were six times more likely to repurchase Xerox products in the 18 months following the study than were its satisfied customers. Merely satisfying customers who had the freedom to make choices was not enough to keep them loyal. Xerox found that the only truly loyal customer is the totally satisfied customer.

So, managers should be concerned rather than heartened if the majority of their customers fall into the satisfied category. Merely satisfied customers are ripe targets for competitors because they are easy converts. Some might ask, "Why did these customers say they were satisfied in the first place?" The answer is that, "Regardless of how they feel, customers of companies with reasonably good product or service quality tend to find it difficult to respond negatively to customer-satisfaction surveys."

In markets with intense competition, there is a tremendous difference between the loyalty of satisfied and completely satisfied customers. In his study of the loyalty of retail-banking depositors, John Larson, Vice-president of Opinion Research Corporation in Princeton, New Jersey, found that completely satisfied customers were nearly 42 percent more likely to be loyal than merely satisfied customers.

The British Airways' management team subscribed to W. Edwards Deming's views that merely satisfying customers is not enough to retain their business, and that customer retention is crucial. As Deming put it, "Profit comes from repeat customers -- those that boast about the product or service." British Airways changed its approach to customer relations: championing the customer as opposed to defending the company.

How can I increase customer loyalty?

Follow a three-phase approach to increase customer satisfaction and loyalty.

Steps	Action
Step 1 - From dissatisfied to satisfied customer	Deliver, at competitive prices, basic products or services as expected by anyone in the industry.
Step 2 - From satisfied to totally satisfied customer	▪ Examine your product and service from the customer's perspective to pinpoint and eliminate irritants (making it very easy to do business with you). ▪ Constantly improve product or service delivery to meet (and even exceed) customer expectation (providing more than yesterday and less than tomorrow). ▪ Develop proactive service recovery to make amends when something goes wrong and provide customers with

	feedback of results.
Step 3 - To maintain total customer satisfaction (highly loyal)	▪ Repeat actions from Step 2. ▪ Be consistent and very dependable.

Examples

In the last decade, a large number of car dealerships have expanded their services to include overnight and express drop-off, loaner vehicles, and free washing and waxing. Some also have instituted the practice of checking back with customers within 24 hours to make sure the problem was fixed properly. If there is still a problem, fixing it becomes a top priority.

An independent multiplex movie theater in the southwest United States excels in figuring out irritants from the customer's perspective. Its managers discovered that customers' actual movie-going experience started about two blocks from the theater, where the typical customer enters the traffic approaching the parking lot and starts to become anxious about parking and purchasing a ticket. To address such concerns, the theater's managers placed attendants two blocks from the theatre to sell tickets and help people enter the parking lot.

The managers discovered that customers also resented having to leave the viewing area to stand in line in the lobby to buy food. In response, the theater began to serve food throughout the facility; it even served seated customers until the main feature began.

Finally, the managers learned that customers detested dirty bathrooms. In response, the theater began cleaning its bathrooms four times an hour. The end results: a large number of highly satisfied, highly loyal customers.

In the final analysis, the company that will survive and flourish over the long term is the one that continually works to improve its products or service delivery to meet (and even exceed) customer expectations.

2. How to Maximize the Benefits of Word of Mouth?

What do my customers really think about my products and services?

There are five major categories of approaches that companies can use to listen to their customers. Most highly successful companies employ several, if not all.
Customer-satisfaction Indices
Surveying customers about their level of satisfaction and plotting the results can help managers understand just how satisfied or dissatisfied customers really are. The fact that such indices are quantitative makes them a useful tool for comparing results from different time periods, locations and business units.

1. Feedback: To ensure early detection and quick resolution of mistakes, it is important to review the company's approach to soliciting and acting on customers' comments, complaints and questions.

2. Market Research: It is absolutely critical to understand why a customer defects. Most customers will blame the price or some other basic product attribute to avoid discussing the real issue. Carefully questioning departing customers is important for two reasons: to isolate those attributes of the company's product or service that are causing customers to leave, and to make a last-ditch attempt to keep the customer.

One company found that it recaptured a full 35 percent of its defectors just by contacting them and listening to them earnestly.

3. Front-line Personnel: A company must train employees who have direct contact with customers to listen effectively and to make the first attempts at amends when customers have had bad experiences. The employees must also have access to processes to capture the information and pass it along to the rest of the company.

4. Strategic Activities: Some companies go to extremes to involve the customer in every level of their business. For example, South-west Airlines actually invited frequent fliers to assist it in the first screening of flight attendants.

How important is word of mouth in consumer decisions?

A Thomson Lightstone/Marketing Magazine/Omnitel poll for the Canadian Congress of Advertising asked 2004 Canadians about information sources they rely on to make up their mind about which product to buy. The top source was "talking to friends, family and work colleagues," chosen by 67 percent. More than one quarter of respondents named five traditional media. Ian Lightstone, Director of Thompson Lightstone and Company of Toronto, says the survey shows "the importance of word-of-mouth and the reputation of a brand. It will have an impact in terms of consumer loyalty."

Ernest Dichter at the Institute for Motivational Research of Croton-on-Hudson, New York, believes that reliance on word-of-mouth varies with the economic and psychic risk involved. When the risk is high - in the choice of an automobile, for example, compared to the choice of a detergent -- word-of-mouth is possibly the strongest ally a product can have.

A study conducted by the White House Office of Consumer Affairs in the United States found that each unhappy customer will share their grievance with at least nine other people, and that 13 percent of unhappy customers will tell 20 people or more. Unfortunately, satisfied customers tell only half as many people (five other people, on average) of their positive experience. A marketer, therefore, needs two new satisfied customers for every dissatisfied customer just to maintain current status.

3. How to Address the Needs of Dissatisfied Customers?

If most unhappy customers do not complain, how do I find out why they are dissatisfied?

The average business does not hear from 96 percent of its unhappy customers.

There are many ways businesses can encourage members of this "silent majority" to identify themselves so the company can win them back:

- Solicit complaints - make it easy for unhappy customers to tell you what their problems are. Solve them as quickly as possible and with a smile.
- Keep records of why complaints occur.
- Analyze how complaints can be prevented and make changes in your products and marketing procedures when appropriate.
- Provide incentives to encourage your salespeople to carry out the policies described above.

The simplest approach is to make it easy for customers to complain. Many businesses have established "800" numbers; even if the customer has nothing to say, the company has sent the signal that it cares.

- British Airways installed "Video Point" booths at Heathrow Airport in London so that travellers can tape their comments upon arrival.
- Maine Savings Bank in Portland offers its patrons one dollar for every letter they write suggesting ways to improve service. The bank averages more than 500 letters a year from customers, who might otherwise have kept their ideas to themselves. It extended its branch hours after many customers suggested it.
- The Toronto Dominion Bank offered customers a five-dollar bill if they waited more than five minutes in line or if its automated teller machines were down.

An even more aggressive approach to unearthing problems is to look for trouble in the making - to listen carefully for offhand comments customers make and to tune into and anticipate their needs.

More formal "listening devices," such as questionnaires and customer suggestion boxes, are effective only if someone monitors them continually and promptly acts on complaints and suggestions.

Identifying a problem (read "opportunity") quickly - even before it registers with the customer - is fruitful only if the company responds quickly.

4. How to Profit from Customer Service Recovery?

How are frustrated customers turned into loyal ones?

A good recovery can turn angry, frustrated customers into loyal ones. It can create more goodwill than if things had gone smoothly in the first place.

British Airways found that the vast majority of those customers with problems who did complain - 87 percent - did not defect. Customers who take the time and energy to complain are doing companies a favour, and can help them stay in business.

Diana Nemeroff, Corporate Director of Customer Affairs at Citicorp/Citibank, recommends three strategies Citibank found valuable:

Trust the customer

Service policies that assume customers are honest and that only the occasional crook must be caught set the appropriate ethical standard.

First-request service

A customer should only have to contact a business once to have his or her problem solved or question answered. Ideally, this can be done immediately. If this is not possible, the business takes on the follow-up burden.

Manage customers' expectations

When follow-up is necessary, telling the customer what to expect can significantly increase his or her satisfaction. When the service investigations department in one Citibank branch instituted this particular procedure, specifying time frames for next steps, customers' satisfaction increased by 40 percent.

Companies should train employees to listen to customers and change fundamental attitudes so that complaints are viewed as opportunities for positive change, not as reasons to be defensive.

British Airway's customer-relations department can now claim to be a true champion of the customer. The retention rate among those who complain to customer relations has more than doubled, while the department's return on investment (the value of business saved plus increased loyalty and new business from referrals relative to the department's total costs) has risen 200 percent.

In training its employees, British Airways tried to help staff understand several things:

- If the company replies to a customer and claims that events did not happen as the customer suggested, then the customer perceives the company to be calling him or her a liar.

- If, after investigating, the company reports back to the customer that events indeed took place as the customer claimed, then the customer can become even more agitated, inferring that the company did not believe him or her at first.

- If the company relays information to the customer that he or she did not know, the customer may think that the company is trying to make excuses for poor service.

To deal with these issues, British Airways' customer-relations department developed a four-step process that it incorporated into all its technical and human systems.

1. Apologize and take up the problem. Customers do not care whose fault the problem was; they want an apology and they want someone to champion their cause.

2. Do it quickly. Aim to reply to the customer the same day, and if that is not possible, certainly within 72 hours. British Airways research showed that 40 to 50 percent of customers who contacted it with complaints defected if it took company staff longer than five days to respond. A speedy reply demonstrates a sense of urgency; it shows that the company really cares about the customer's feelings and situation.

3. Assure the customer that the problem is being fixed. Customers can be retained if they are confident that the operational problem they encountered will truly be addressed.

4. Do it by phone. British Airways found that customers with problems were delighted to have a customer-relations person call them.

I am all for service recovery, but at what cost?

Measurement precedes management. This is especially true for service recovery - managers often underestimate the profits lost when a customer is not satisfied and, therefore, they undermanage ways of avoiding such losses. They concentrate on attracting new customers that may actually represent unprofitable business and do not take steps to retain more valuable existing customers.

Errors have certain costs associated with them. Some take the form of money-back guarantees, warranty work or replacements, which fall on the company. But dissatisfied customers almost always get stuck with certain costs - the money they spend for phone calls, the time they spend making their cases, and the aggravation they must endure throughout. The customer left stranded on the highway because his or her car was not repaired properly might miss an important meeting, have to pay for a tow truck, and spend time waiting for the repair to be made. Many service companies conveniently overlook these hidden costs, but the customer surely will not. Companies known for excellent service will go the extra mile to cover all the costs a failure incurs or, if the inconvenience is so great that the company cannot completely compensate the customer, respond in a tone that signals the company's regret.

A study done for the White House Office of Consumer Affairs found that in households with service problems that could potentially cost more than $100, 54 percent would maintain brand loyalty if their problems were satisfactorily resolved. Only 19 percent would repeat their purchase if they were unhappy with the problem's resolution. For less expensive problems (one to five dollars), 70 percent would maintain brand loyalty if their problems were resolved satisfactorily; only 46 percent would repurchase if the problem was not fixed.

Considering how much it costs to lose a customer, few recovery efforts are too extreme. At Club Med, one lost customer costs the company at least $2400; a loyal guest visits the resorts an average of four times after the initial visit and spends roughly $1000 each time. The contribution margin is 60 percent. So, when a Club Med customer does not return, the company loses 60 percent of $4000, or $2400. It also has to replace that customer through expensive marketing efforts.

According to British Airways data, for every £1 invested in customer-retention efforts, the company received £2. The return has three components. First, expanding the number of customers whose problems were resolved up-front reduced the amount that British Airways had to spend overall on retaining customers. Second, those people customer relations retained then gave British Airways more of their business. Finally, those customers brought additional business to the airline by actively promoting it to others.

Even though a good recovery service costs time and money, a badly performed service also incurs costs. No business can afford to lose customers, if only because it costs much more to replace a customer than it does to retain one - five time more, most industry experts agree. In a recovery service, you shift the cost from constantly courting new customers to cutting customer defection. A company's effort to ensure that its customers are satisfied over the long term is rewarded by an increase in profit through repeat business, referral sales, decreased customer maintenance costs, and reduced exposure to price competition.

5. How to Fulfill an Unconditional Service Guarantee?

What is a good service guarantee?

With a good guarantee, you tell your customers where and how to complain, and that complaining is worth their time and effort. It also shows that you care. A good guarantee is:

1) Unconditional
Customers should not need a lawyer to explain the "ifs, ands and buts" of a guarantee because ideally there should not be any conditions; a customer is either satisfied or is not.

If a company cannot guarantee all elements of its service unconditionally, it should unconditionally guarantee the elements that it can control. Airlines cannot promise on-time arrival, but they can guarantee passengers will be satisfied with airport waiting areas, service on the ground and in the air, and food quality.

2) Easy to Understand and Communicate
A guarantee should be written in simple, concise language that pinpoints the promise. Customers then know precisely what they can expect and employees know precisely what is expected of them. "Five-minute" lunch service, rather than "prompt" service, creates clear expectations.

3) Meaningful
A good service guarantee is meaningful in two respects. First, it guarantees those aspects of your service that are important to your customers. It may be speedy delivery at lunch time, when many customers are in a hurry to get back to the office, but not at dinner, when fast service is not considered a priority to most patrons.

Second, a good guarantee is meaningful financially. It calls for a significant and fair pay out when the promise is not kept. What should it be? A full refund? An offer of free service next time? The answer depends on factors such as the cost of the service, the seriousness of the failure, and customers' perception of what is fair.

Example:
At one point, Domino's Pizza promised "delivery within 30 minutes or the pizza is free." Management found that customers considered this too generous; they felt uncomfortable accepting a free pizza for a mere 5- to 15- minute delay and did not always take advantage of the guarantee. Consequently, Domino's changed the guarantee to "delivery within 30 minutes or $3 off," and customers appear to consider this commitment reasonable. The important point here is that you want your customers to use your warranty as much as possible. It a sure way to discover cracks in your service or products and avoid customer defection.

4) Easy to Invoke
A customer who is already dissatisfied should not have to jump through hoops to invoke a guarantee; dissatisfaction is only exacerbated when the customer has to talk to different people, fill out forms, make telephone calls, send in written proof of purchase with a full description of the events, wait for a written reply, and go somewhere else to see someone to verify all the preceding facts, and so on.

Similarly, customers should not be made to feel guilty about invoking the guarantee. A company should encourage unhappy customers to invoke the guarantee, not put up roadblocks to keep them from speaking up.

5) Easy to Collect
Customers should not have to work hard to collect a pay out. The procedure should be easy and, equally important, quick: on-the-spot, if possible.

In your guarantee, you should not:

- promise something your customers already expect
- shroud a guarantee in so many conditions that it loses its point
- offer a guarantee so mild that it is never invoked

A guarantee that is essentially risk free to the company will be of little or no value to your customers, and may be a joke to your employees.

Why is a service guarantee important?

A guarantee is a powerful tool - both for marketing service quality and for achieving it - for five reasons.

1) A guarantee forces you to focus on customers
Knowing what customers want is essential to offering a service guarantee. A company that wants to guarantee its service, but that lacks this knowledge, may very well guarantee the wrong things.

2) A guarantee sets clear standards
A specific, unambiguous service guarantee sets standards for your organization. It tells employees what the company stands for, and it forces the company to define each employee's role and responsibilities in delivering the service. This clarity and sense of identity have the added advantage of creating employee team spirit and pride. A guarantee is far more than a simple piece of paper that puts customers at ease. It sets the tone, externally and, perhaps more importantly, internally, for your commitment to your customers and workers.

A pay out that creates financial pain when errors occur is also a powerful statement, to employees and customers alike, that management demands customer satisfaction. A significant pay out ensures that both middle and upper management will take the service guarantee seriously; it provides a strong incentive to take every step necessary to deliver. A manager who must bear the full cost of mistakes has ample incentive to figure out how to prevent them from happening.

3) A guarantee generates feedback
A guarantee creates the goal; it defines what you must do to satisfy your customers. Next, you need to know when you go wrong. A guarantee forces you to create a system for discovering errors. (The Japanese call errors "golden nuggets" because they are opportunities to learn).

4) A guarantee forces you to demand why you fail
In developing a guarantee, managers must ask questions such as the following: What failure points exist in the system? If failure points can be identified, can their origins be traced and avoided? A company that wants to promise timely service delivery, for example, must first understand its operation's capability and the factors limiting that capability. Many service executives, lacking understanding of such basic issues as system throughput time, capacity, and process flow, tend to blame workers or customers - anything but the service-delivery process.

Even if workers are a problem, managers can do several things to "fix" the organization so that it can support a guarantee, such as designing better recruiting, hiring and training processes.

5) A guarantee builds marketing muscle.
Perhaps the most obvious reason for offering a strong service guarantee is that it can boost marketing: it encourages consumers to buy your product or service by reducing the risk of the purchase decision, and it generates more sales to existing customers by enhancing loyalty.

Do all companies need to offer a guarantee?

Of course, guarantees may not be effective or practical for all firms. In general, organizations that meet the following tests probably have little to gain by offering a service guarantee:

- The company is perceived by the market to be the quality leader in its industry.
- Every employee is inculcated with the "absolute customer satisfaction" philosophy.
- Employees are empowered to take whatever corrective action is necessary to handle complaints.

- Errors are few.
- A stated guarantee would be at odds with the company's image.

How can I set up my own unconditional guarantee?

To establish an effective unconditional guarantee, you must start with a vision of error-free service. Review every step of your delivery system to identify obstacles preventing you from offering an unconditional guarantee, and design your entire organization to support your guarantee.

The success of "Bugs" Burger Bug Killer (BBBK), a Miami-based pest-extermination company, is an example of how a company can turn its situation around by analyzing the elements of its service-delivery process. By asking, "What obstacles stand in the way of our guaranteeing pest elimination?" management discovered that clients' poor cleaning and storage practices were one such obstacle. The company now requires customers to maintain sanitary practices and, in some cases, even make physical changes to their property (such as putting in walls). By changing the process, the company can guarantee the outcome.

BBBK's service guarantee to hotel and restaurant clients promises several things:

- You don't owe one penny until all pests on your premises have been eradicated.
- If you are ever dissatisfied with BBBK's service, you will receive a refund for up to 12 months of the company's services - plus fees for another exterminator of your choice for the next year.
- if a guest spots a pest on your premises, BBBK will pay for the guest's meal or room, send a letter of apology, and pay for a future meal or stay.
- If your facility is closed down due to the presence of roaches or rodents, BBBK will pay any fines, as well as all lost profits, plus $5,000.

How successful is this guarantee? The company, which operates throughout the United States, charges up to 10 times more than its competitors and yet has a disproportionately high market share in its operating areas. Its service is so outstanding that the company rarely needs to make good on its guarantee. (In 1986 it paid out only $120 000 on sales of $33 million - just enough to prove that its promises are not empty ones).

While most of BBBK's competitors claim they will reduce pests to "acceptable levels," BBBK promises to eliminate them entirely because it has a delivery mechanism in place to support its warranty.

6. How to Create a Refund & Exchange Policy

How much will a refund and exchange policy cost me?

A 1991 study by Ramsay and Enzle on the return policies of 106 Edmonton retailers, gave the following results:

- Return policies did not appear to be costly to retailers.
- Goods are often resold or returned to the manufacturer or wholesaler.
- Only seven percent of respondents discarded returned goods.

In the opinion of retailers, few sales return.

- Almost two thirds of those responding stated that one percent or less of their sales are returned.

- The respondents were reluctant to estimate the cost of providing the service to customers, but the great majority of those who responded stated that the cost was one percent or less of their gross sales.

An equitable refund and exchange policy can be just as an effective tool as advertising, promotion and merchandising. By taking constructive action, a business can turn customer discontent into greater customer loyalty. Since the long-term market value of goodwill and repeat customers may offset any immediate costs, it would appear that return policies are a negligible cost to retailers.

What elements should a good refund and exchange policy have?

A refund and exchange policy should contain at least the following information:

- the extent of the service offered
- whether you give refunds, exchange merchandise or offer other forms of compensation
- the requirements for proof of purchase
- the condition in which items must be returned to get a refund or exchange
- the length of time after purchase in which refunds or exchanges are given
- any exceptions
  - final sales items
  - custom-ordered goods
  - items about which there are hygiene concerns (e.g. underwear or bathing suits)
- type of refund given
  - for credit cards
  - for cheques

Sales staff must understand the importance of the policy and respect it. Employees at the check-out counter should be encouraged to remind customers to save receipts (if that is part of your policy) so merchandise can easily be returned. Also, if special conditions apply to certain items, staff should inform customers at the time of purchase.

The policy should be used in advertising and posted in store. Notices should be near cash registers, in fitting rooms and other appropriate locations. By announcing your policy you remind your customers that they can count on you. It is also good preventive medicine against customer dissatisfaction.

7. Why Implement a Quality Management Program?

What is a Total Quality Management Program?

Many companies have adopted Total Quality Management (TQM) programs. These programs have three key elements:

- First, the company recognizes that it is in business to serve the customer. The customer's needs must be addressed.
- Second, quality management is no longer the responsibility of the quality control department. It is the responsibility of all departments.
- Third, quality improvement never stops. Customer tastes are constantly changing and new technology is constantly developing. For these reasons, TQM focuses on continuous product improvement.