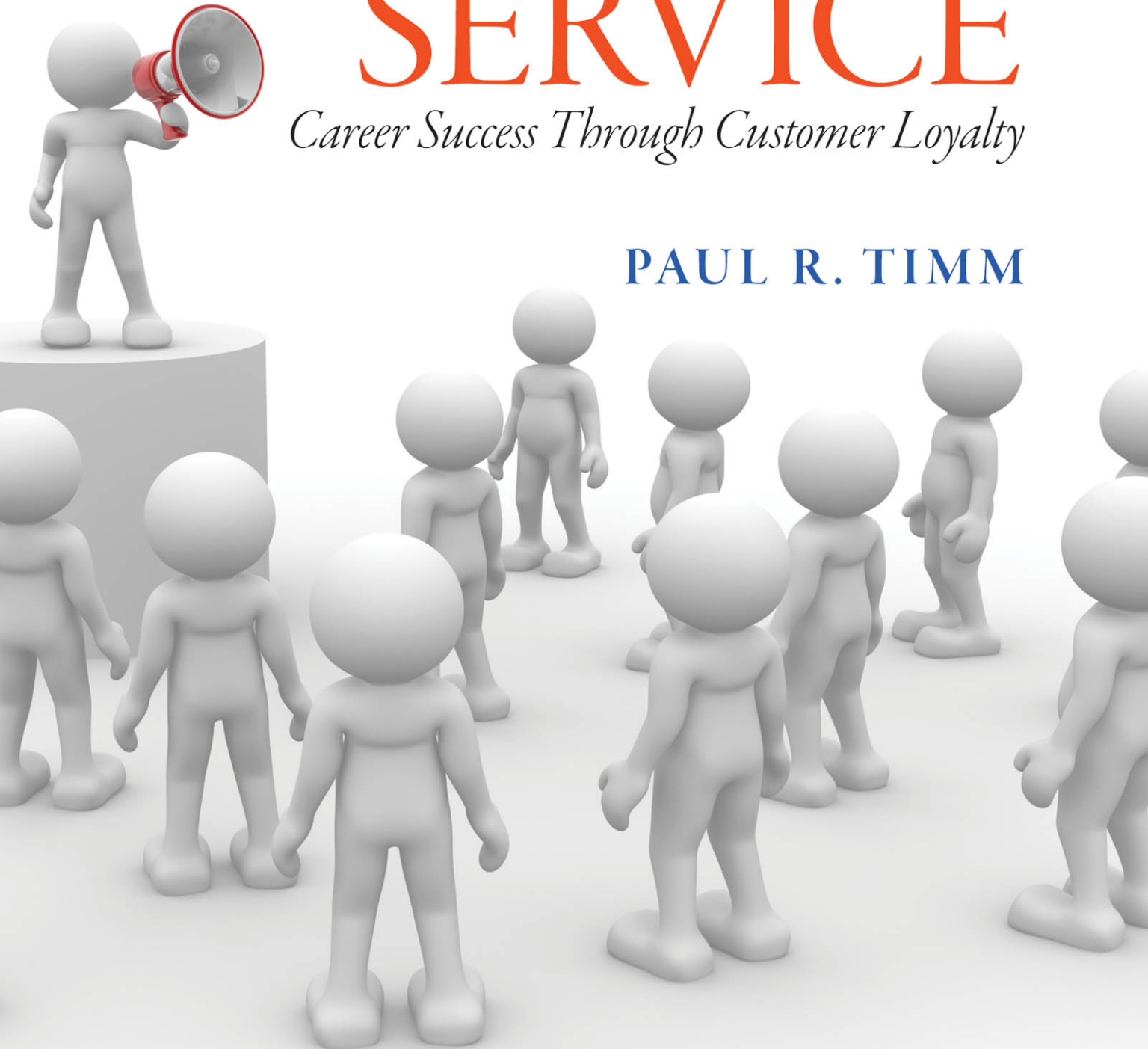


SIXTH EDITION

CUSTOMER SERVICE

Career Success Through Customer Loyalty

PAUL R. TIMM



BUILDING SKILLS FOR CAREER SUCCESS!

This book gives you a clear and usable process for developing the skills, attitudes, and thinking patterns needed to win customer satisfaction and loyalty. The process includes developing

- A heightened awareness of the challenges and opportunities in customer service
- The willingness and ability to gather performance-enhancing feedback
- Specific behaviors that engage customers
- Telephone techniques for excellent service
- The ability to create friendly web sites, personable email, and clear written messages that delight customers
- The tools for dealing with and recovering unhappy customers
- An understanding of the powerful impact of giving customers more than they anticipate
- Specific techniques for exceeding expectations in value, information, convenience and timing, thus creating greater customer loyalty
- The ability to lead, expand, and empower the service process
- Specific behaviors for personal and professional success
- Skills for managing others in the pursuit of service excellence
- An understanding of the future directions in customer service

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CAREER SUCCESS THROUGH CUSTOMER LOYALTY

Paul R. Timm

Emeritus Professor of Organizational Leadership and Strategy

Marriott School of Management

Brigham Young University

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CONTENTS

From the Author vi

About the Author x

Chapter 1 Know Why Service Matters 1

Gaining a Focus on Service Importance 2

Customer Relationships Can Become Partnerships 4

Positive Word of Mouth Gets and Keeps Customers 5

The Damaging Cost of a Lost Customer 6

Translating Slogans and Good Intentions into a Strategy 9

Customer Service Core Competencies 10

The Ultimate Goal: Developing Customer Loyalty for Life 11

Final Thoughts 14

Summary of Key Ideas 14 • *Key Concepts* 14 • *Reviewing the Facts* 15 • *Applying the Ideas: Interview Service Providers* 15 • *Building a Customer Service Strategy: Your Ongoing Case* 16 • *Notes* 17

Part 1 LIFE: Little Things 19

Chapter 2 Use Behaviors that Engage Your Customers 20

Behavior and Personality Factors That Please Customers 21

Individual Behavior Action Tips that Convey Personality 22

Action Tips for Making Contact with Customers 24

Action Tips for Establishing Rapport with Customers 26

Action Tips to Communicate Reassurance to Customers 28

Action Tips for Projecting Professionalism 29

Organizational Action Tips that Convey a Customer-Centered Culture 30

A Final Thought 35

Summary of Key Ideas 35 • *Key Concepts* 36 • *Reviewing the*

Facts 36 • *Applying the Ideas: How Do Behaviors Influence Customer Loyalty?* 36 • *Applying the Ideas: Hooray for Waffle House* 37 • *Building a Customer Service Strategy: Your Ongoing Case* 39 • *Notes* 39

Chapter 3 Listen to Your Customer (a Big “Little Thing”) 40

Doesn't Anybody Ever Listen? 41

Poor Listening = The #1 Communication Problem 42

The Difference between Listening and Merely Hearing 43

What Contributes to Listening? 43

Listening Habits to Avoid 48

Positive Steps to Better Listening 52

A Final Thought 55

Summary of Key Ideas 55 • *Key Concepts* 55 • *Reviewing the Facts* 55 • *Applying the Ideas: Discover Your Listening Style* 56 • *Building a Customer Service Strategy: Your Ongoing Case* 58

Chapter 4 Use the Telephone Correctly for Good Service 59

Know the Benefits and Drawbacks of Telephone Communication 60

Action Tips for Telephone Use Professionalism 61

Action Tips on What to Do and Say 63

Action Tips for Expressing Yourself on the Phone 66

Action Tips for Efficient Use of the Phone 70

Call Centers: Centralized Phone Handling 73

A Final Thought 74

Summary of Key Ideas 74 • *Key Concepts* 75 • *Reviewing the Facts* 75 • *Applying the Ideas: Try Rewording for a Better Tone* 75 •

Applying the Ideas: Hear the Difference 75 • Building a Customer Service Strategy: Your Ongoing Case 77 • Note 77

Chapter 5 Use Friendly Web Sites and Electronic Communication 78

What Is Web-Based Customer Service? 78

Recognize Disadvantages of Web-Based E-Service 82

Apply Action Tips for Avoiding E-Service Problems 83

Utilize Action Tips for Evaluating and Growing E-Service Effectiveness 85

A Final Thought 86

Summary of Key Ideas 88 • Key Concepts 88 • Reviewing the Facts 88 • Applying the Ideas: Explore the World of E-Service 88 • Building a Customer Service Strategy: Your Ongoing Case 90 • Notes 90

Part 2 LIFE: Insight 91

Chapter 6 Recognize and Deal with Customer Turnoffs 92

Be Aware. Be Very Aware—Recognize Pet Peeves about Customer Service 93

Gaining Insight: What Turns Customers Off? 94

Create Loyal Customers 102

Some Final Thoughts 104

Summary of Key Ideas 104 • Key Concepts 105 • Reviewing the Facts 105 • Applying the Ideas 105 • Building a Customer Service Strategy: Your Ongoing Case 108 • Notes 108

Chapter 7 Insight into Emerging Trends in Customer Service 109

Companies Need to Enhance “One-to-One” Personalization of Customer Service 110

Companies need to understand Shifting Demographic Needs 113

Companies Need to Grasp that Customers Expect Transparency and Trust 114

Understand that Some Things Remain Consistent 115

A Final Thought 119

Summary of Key Ideas 120 • Key Concepts 120 • Reviewing the Facts 120 • Applying the Ideas 120 • Building a Customer Service Strategy: Your Ongoing Case 122 • Notes 122

Part 3 LIFE: Feedback 123

Chapter 8 Get Customer Feedback 124

Why Feedback Is Vitaly Important 125

Reinforce, Don’t Challenge the Customer 128

Act on Complaints in Productive Ways 130

Other Proactive Ways to Get Feedback 131

A Final Thought 137

Summary of Key Ideas 137 • Key Concepts 138 • Reviewing the Facts 138 • Applying the Ideas: Getting Customer Feedback 138 • Building a Customer Service Strategy: Your Ongoing Case 140 • Notes 141

Chapter 9 Recover the Potentially Lost Customer 142

Understand the Case for Customer Recovery 142

Maintain Healthy Attitudes about Customer Recovery 143

Develop Your Recovery Skills 145

Handle the Occasional Customer from Hell 149

Handle a Nasty Complaint Letter or Email 150

Use Human Relations Skills to Convey Appropriate Tone 151

A Final Thought 157

Summary of Key Ideas 157 • Key Concepts 157 • Self-Test Questions 157 • Application activity Defusing and Recovering the Unhappy Customer 158 • Building a Customer Service Strategy: Your Ongoing Case 159 • Note 159

Part 4 LIFE: Expectations 161

Chapter 10 Exceed Expectations with Value 162

Define A-Plus Value: What It Is 162

Create an Enhanced Sense of Intrinsic and Associated Value 164

Seven Ways to Enhance the Perception of Value 166

A Final Thought 174

Summary of Key Ideas 174 • Key Concepts 174 • Reviewing the Facts 175 • Applying the Ideas 175 • Building a Customer Service Strategy: Your Ongoing Case 177 • Notes 177

Chapter 11 Exceeding Customers Expectations with Information 178

Recognize the Nature of A-Plus Information 179

Know How to Produce A-Plus Information 181

Use Techniques that Enhance Message Clarity 184

Create and Support Customer User Groups and Classes 185

Pay Special Attention to A-Plus Information in E-Commerce 186

Evaluate Your A-Plus Information Efforts 187

A Final Thought 188

Summary of Key Ideas 188 • Key Concepts 188 • Reviewing the Facts 189 • Applying the Ideas 189 • Building a Customer Service Strategy: Your Ongoing Case 190 • Notes 191

Chapter 12 Exceed Customer Expectation with Convenience and Timing 192

Understand A-Plus Convenience and Timing 192

How to Produce A-Plus Convenience 193

Give Serious Regard to Customer Time and Convenience 194

Consider the Use of Virtual Waiting Techniques 196

Make Things Easier for Customers 197

Create Once-and-Done Service 197

Make Doing Business Easy 197

Offer Ancillary Services 198

Simplify the Product 198

Measure Your A-Plus Convenience Efforts 199

A Final Thought 200

Summary of Key Ideas 200 • Key Concepts 200 • Reviewing the Facts 201 • Applying the Ideas 201 • Building a Customer Service Strategy: Your Ongoing Case 202 • Notes 202

Part 5 Living Life and Leading Others 203

Chapter 13 Influencing Others to Give Great Service 204

Articulate a Vision: What Managers Should Do First 205

Plan a Strategy for Customer Loyalty 206

Organizing Processes, People, and Resources to Achieve the Vision 207

Lead and Motivate Employees 208

Acknowledge that Customer Service Work can be Stressful 209

Create and Sustain an Effective Organizational Culture 211

Continuously Harvest A-Plus Ideas 212

Influencing Others to Change 214

Control the Processes 216

Empower Employees 217

Tie the Reward System to Appropriate Actions 218

A Final Thought 219

Summary of Key Ideas 219 • Key Concepts 220 • Reviewing the Facts 220 • Applying the Ideas 220 • Building a Customer Service Strategy: Your Ongoing Case 222 • Notes 222

Appendix: How to Lead or Participate in an A-Plus Idea-Generating Meeting 223

Index 228

FROM THE AUTHOR

YOU MAY BE ASKING: WHAT'S IN THIS BOOK FOR ME?

Thank you for considering this book. By doing so you are making a potential investment. You may be spending some money for the book or, at least, you will be making an investment of your time to read it. You have the right to ask, “What’s in it for me?” That’s a fair question.

Here is a direct answer: learning to build your customer service skills will have a powerful impact on your career success as well as success in other areas of your life. Is this an overstatement? I don’t really think so. Based on my 30-plus years of organizational experience in many capacities, I feel confident in saying that there is a direct relationship between service skills and career achievement.

My reasoning lies in the fact that a loyal customer is a company’s most valuable asset. Without customers, no organization can long exist, and customer loyalty is built one relationship at a time with people just like you.

Sure, every organization talks about giving great service. Likewise, people in all kinds of professions acknowledge the importance of serving their customers, clients, patients, shareholders, passengers, employees, and other stakeholders. Despite these good intentions, everyday experience quickly shows that great service is not commonplace. Far too often, customers receive less-than-great value, are forced to wrestle with ineffective processes, or encounter people who make them want to do business somewhere else.

You can change those negative experiences for people you serve. You can help your organization and your career by translating your good service intentions into a workable plan. This book provides much of what you need to devise such a plan. Build your career success by applying proven principles that create customer satisfaction and loyalty. Your customers can and will become your promoters, fueling positive word of mouth and repeat business.

The true winners in today’s economy do more than just talk about great service—they find ways to consistently deliver it. The payoff is enormous.

Other books on customer service often take one of two forms: Either they give an assortment of tips and techniques for boosting service quality or they describe the story of one company’s successes—“how we did it at X Corporation.” Such books can have value, of course, as long as the reader can effectively apply these ideas to his or her own organization. But such books seldom show a systematic way to build the specific skills needed to succeed with customers.

This book is a response to the need for a different approach to learning the skills needed to be an exceptional service provider. It is skill-based and offers practical, immediately applicable information. In *Customer Service*, I tie together the best information from bookstore trade books and school textbooks—and present it in an easy-to-remember format.

Some of what you’ll learn includes ways of developing the following aspects:

- A heightened awareness of the challenges and opportunities in customer service
- The willingness and ability to gather performance-enhancing feedback
- Specific personal and communication behaviors that engage customers
- Telephone techniques for excellent service
- The ability to maximize technology and create friendly Web sites, personable email, and clear written messages that delight customers
- An enhanced level of customer trust—their confidence in your desire to be ethical and fair
- Tools for dealing with and recovering disappointed or unhappy customers
- An understanding of the powerful impact of exceeding expectations and the enhanced likelihood that they will give more back to you in repeat business, positive word of mouth, and the like
- Specific techniques for exceeding expectations in value, information, convenience, and timing, thus creating greater customer loyalty

- The ability to lead, expand, and empower the service process
- Skills for managing others in the pursuit of service excellence
- An understanding of the future directions in customer service

KEY FEATURES OF THIS BOOK

I have worked hard to make this book enjoyable and engaging with features like these:

- **The Way It Is** stories and illustrations start each chapter by showing the current state of customer service in a variety of organizations, large and small.

The Way It Is ... What Happened to the "Service Economy"?

In the rather distant past, flying commercial airlines was an adventure afforded only the economically upscale and successful people. Passengers dressed in suits and dresses (as shown in the recent television program *Pan Am*). They were served by uniformed flight attendants with white-glove service fit for a king or queen. If you have flown lately, you know that service standard no longer exists, triggering feature articles such as one in *USA Today* titled "Oh, the humiliation of flying."¹ Although airlines face unusual service experience has diminished.

SERVICE SNAPSHOT

Steph Remembers Sparky

Stephanie Burge owns a used-car business specializing in high-quality cars with a lot of life still in them. And Steph herself has a lot of life in her! She works tirelessly to build relationships with her repeat customers. Literally hundreds of people in her city wouldn't even bother shopping elsewhere. When they (or someone they care about) need a good car, they just go over and see Steph. They know she can be trusted to give them a good deal on a good car.

family. Their conversations seem to pick up where they left off last time—even if it's been months or even years.

The "little thing" that sealed the deal for a continuing business relationship for one customer was when he stopped to look at a spiffy red sports car she had on her lot. Several years earlier he had owned a Mazda Miata which he named Sparky. They had no sooner begun talking about sports cars when Steph asked, "Are you think-

- **Service Snapshots** briefly cite innovative ideas and practices of real people giving real service.

- **Action Tips** show you, the reader, how to apply specific ideas discussed.

ACTION TIPS FOR TELEPHONE USE PROFESSIONALISM

Action Tip 1—Check Your Phone Use Attitudes

People tend to have a love-hate relationship with the telephone. Of course, we all know that the telephone can be a powerful tool for sales, information gathering, and relationship building—by receiving and initiating calls, we can accomplish a lot. Yet some people are phone shy. They are hesitant to call others and sometimes hesitant about answering incoming calls. They perceive the phone call as an intrusion on their other activities. Perhaps this attitude is reinforced by the annoyance of dinner-time telemarketers.

Some people see the incoming call as an annoyance. That call should be seen as an opportunity.

LOOK INSIDE

Applying the Mrs. Williams Example to Your Company

Let's take a few moments and go back to the Mrs. Williams example, but instead use your own organization. Suppose that you lose one customer and the other statistics hold true. Take a few moments to calculate the numbers as they apply to your organization. If you work for a nonprofit or

government agency where the dollar sales are not a relevant measure, calculate the number of people who may be aggravated or upset with you and your organization. Think in terms of the psychological price that must be paid as you deal with frustrated, angry, upset patrons on a day-to-day basis.

- **Look Inside** activities are a series of self-evaluations that can help you better understand your own behaviors and attitudes about service.

- **Another Look** segments feature the thinking of people with fresh ideas and, sometimes, contrasting opinion. These can stimulate your thinking about fresh and creative applications of ideas.

ANOTHER LOOK

Why Customer Satisfaction Is Not Enough

World-class organizations unleash their potential for growth by optimizing their customer relationships. Organizations that have optimized engagement have outperformed their competitors by 26 percent in gross margin and 85 percent in sales growth. Their customers buy more, spend more, return more often, and stay longer.

that month. Those who reported being "extremely satisfied" but did not also have a strong emotional connection to the (month) and spent less (\$144). In this case, extreme satisfaction represented no added value to the store.

Probes

1. What does this research suggest about companies that simply measure customer satisfaction?

Several studies by the Gallup polling organization look at the connection between customer satisfaction and

Reviewing the Facts

1. What defines a "customer" (using this term in the broad sense)?
2. What are some attitudes or orientations that define a customer relationship? What factors account for a strengthening of this relationship?
3. In what ways are customer service skills valuable even in nonprofit organizations (or organizations that have no competitors)?
4. Why does word-of-mouth "advertising" work so effectively?
5. How do ripple effects escalate the problem of the lost customer?
6. What three key characteristics define real customer loyalty according to the Gallup organization?
7. What do we mean by an "engaged" customer, and how does this relate to customer loyalty?
8. What characteristics are often confused with customer loyalty but do not represent real loyalty?
9. What are the six core competencies? Give a brief example of each as it applies to your business or job.

Applying the Ideas: Interview Service Providers

1. Interview five people about their customer service attitudes. Specifically, ask them to describe their internal and external customers and ask what they do to best serve.
3. Describe three businesses that have won your customer loyalty—places you enjoy doing business and are likely to remain a customer. Make a list of what, specifically, causes you

- **Reviewing the Facts** and **Applying the Ideas** sections at the end of each chapter recap and let you test yourself for comprehension of key points.

Consider this Case

Costco and the Power of High-Quality Relationships

Retailing wholesale club Costco has enjoyed substantial success at building customer loyalty. The warehouse outlets spend almost nothing on traditional advertising but have grown dramatically primarily by word of mouth. In short, enthusiastic Costco customers tell other people. Costco is a real-life example of how great customer relationships generate economic benefits. More than

also contribute to Costco's remarkably low inventory-shrinkage rate,²⁶ which is only 13 percent of the industry average. The company offers a generous return policy—there is no time limit on returns except for a limit of one year on computer technology items. Costco's earnings have grown at about 12–17 percent a year, over the past decade, even in a difficult economic environment.

- **Consider This Case** presents brief application cases at the end of each chapter, followed by a few probing questions designed to stimulate your thinking.

- **Building a Customer Service Strategy: Your Ongoing Case.** This feature is new to this sixth edition. Readers are encouraged to select an ongoing hypothetical case (which they refer back to after each chapter) or to apply chapter ideas to a real-world organization. You will then consider key application questions as you develop **Strategy Planning Activities**.

Building a Customer Service Strategy: Your Ongoing Case

Let's go back to the ongoing case you selected. This will be either your current employer, a specific organization you want to work in, or one of the two hypothetical organizations described in Chapter 1: Independent Auto Sales and Service (IAS) or Network Nutrition Distributors (NND). Now consider the following questions as you develop a customer service strategy.

Strategy Planning Questions

1. If you were leading the organization's customer service efforts, what are five key behaviors you would want your employees to apply? Be specific, recognizing that you may not be able to do all things at first. Target the behaviors that would have the

Overall, I believe these features make for a more enjoyable learning experience and, more importantly, provide an in-depth picture of the many facets of exceptional customer service. I think you'll agree.

New to the Sixth Edition

This sixth edition of *Customer Service* reflects a major revision with extensive new material.

Overall, the structure of the material has been reorganized to build around an easy-to-remember acronym. The acronym is the simple word “LIFE” (so I guess we'll be talking about the meaning of life!). I have found this acronym to be a useful memory aid as I teach, train, and consult with businesses across the United States and in Europe.

LIFE stands for *little things, insight, feedback, and expectations*. These terms will become more meaningful to you as you read the book. The last chapter talks about tips for *living LIFE*—applying the principles and helping others (such as employees who may report to you) do so as well.

Chapter 1 presents a compelling case for the importance of providing excellent customer service in today's economy. In the chapter, I refer to Ockham's razor—the notion that often the simplest explanation for an outcome is the best one. Simply put, good service distinguishes successful companies (and people) from the less successful.

I have added material about the importance of good service to *internal customers*—employees. The best companies to work for succeed in large measure by the relationships they build with employees. Good “service” to employees leads to decreased turnover, better recruits, and higher productivity—all of which contribute to the bottom line. Additionally, employees tend to treat their customers the way they are treated by company associates and leaders.

The central challenge of many organizations is to get beyond good intentions and slogans to clear strategies for winning customer and employee loyalty. I include some updated information about changes in the diverse nature of today's customers.

The goal remains the same: attracting and keeping long-term, loyal customers.

Chapters 2 through 5 focus on some of the “little things” that can make or break an organization's service efforts. Chapter 2 describes specific behaviors and communication techniques that create customer engagement through the power of personality. Chapter 3 presents material on the critical importance of listening as we seek to create customer loyalty. The reader will gain specific tactics (action tips) for improving this key communication skill.

Chapter 4 delves into telephone techniques and offers additional specific action tips. Phone responsiveness can be an important first step toward customer loyalty. New material on using better phrasing and on the importance of call centers is added to this edition.

Chapter 5 has been extensively reworked to show how today's organizations can make the most of those increasingly important service delivery options: Web sites, Twitter, texting, blogs, social networking, and other electronic communication. Today's customer demands almost instant responses to requests. Today's “Net generation” holds expectations about service that have not been common in the past, and most of these expectations stem from better technology.

Chapters 6 and 7 address the third letter of our LIFE acronym: Insight. Two kinds of insight are of particular value: insight into the kinds of things that are likely to turn our customers off and insight into emerging trends in our ever-changing economy. Chapter 7 considers possible future changes that can have a dramatic impact on a company's success. The possible changes are widespread, although some service factors will remain the same.

The third letter of our *LIFE* acronym refers to feedback and that is the theme addressed in Chapters 8 and 9. Chapter 8 stresses the importance of being open to customer complaints and to accept such feedback as a form of coaching. Companies improve their service to the degree that they get and use customer feedback. They also build stronger loyalty through such two-way communication. Chapter 9 further explains how we can use feedback to recover potentially lost customers. Studies show that customers who complain and experience some of these simple recovery tactics discussed in this chapter are actually more likely to be loyal to a company than customers who never have a complaint! Service recovery is a critical key to success.

The fourth letter of our LIFE acronym stands for expectations. Chapters 10, 11, and 12 deal with the most powerful ways to create customer loyalty, “exceeding customer expectations.” Chapter 10 shows ways we can surprise the customer with an enhanced sense of *value*. Chapter 11 explains how to use enhanced *information* to exceed expectations, and Chapter 12 talks about giving better *convenience* and attention to *timing*. These chapters explain why this works and specifically how you can do it. These updated chapters provide powerful ideas based on the author's years of experience as a consultant and that are not found anywhere else.

Chapters 13 is organized under a part heading called Living LIFE. It describes many things managers can do to hire service-oriented people (those with high “emotional intelligence,” for example), effectively direct their actions, and create a culture that reinforces individual efforts to give great service.

Overall, this book reflects substantial enhancements over the already-successful earlier editions. It provides a comprehensive and up-to-date look at customer service and the skills needed in today's economy.

Instructor Resources

All instructor resources can be downloaded from the Pearson Higher Ed instructor resources website at www.pearsonhighered.com/irc.

VIDEOS FROM JWA CATALOG JWA is a producer of professional commercial training films on customer service, workplace communication, and management topics in DVD format. Up to three DVD selections are available free-of-charge upon adoption of this text. Please contact your local representative for details. To see a complete listing of JWA videos, visit www.jwavideo.com.

Special Thanks

This book was developed with the help of many people. I want to especially thank my editors for their valuable input. Thanks also to the good people who took the time to review the manuscript as it developed and provide excellent guidance. These reviewers include Susan Moak Nealy, Baton Rouge Community College; Margaret Clark, Cincinnati State Technical and Community College; Cheryl Byrne, Washtenaw Community College; Talula Guntner, North Virginia Community College—Annandale; Deb Pein, Idaho State University—Pocatello; and Yun Chu, Robert Morris University.

Finally, I'd like to dedicate this book to my brilliant and talented wife, Dr. Sherron Bienvenu, and to my good friend (and the guy who got me into the study of customer service) Jack Wilson. I'd also like to thank my many students and seminar participants, especially those at Brigham Young University, Aalto University (formerly the Helsinki School of Economics and Executive Education) in Finland, and numerous client organizations.

I sincerely hope that you, my readers, enjoy using this book. I'd love to hear about your experiences. Feel free to contact me at DrTimm@gmail.com.

Paul R. Timm, Ph.D.
February 2013

ABOUT YOUR AUTHOR



I've had the privilege of writing more than 40 books on a variety of topics dealing with challenges managers and career-oriented people deal with every day. My books on customer loyalty, human relations, management communication, and self-management have been translated into dozens of languages and sell worldwide. I have also written and appear in a series of videotape training programs produced by Jack Wilson & Associates (www.JWVideo.com).

My writing is based on more than 30 years' experience as a professor, trainer, consultant, and entrepreneur. I have held positions with large companies (Xerox and Bell South) and have led small organizations (such as Prime Learning, Inc.). I have consulted and trained with many companies and taught at universities in the United States, Finland, Scotland, Singapore, and Poland. In an earlier life, I served in a helicopter company in the U.S. Army in Vietnam.

For fun I run (marathons and triathlons), play golf, read, and enjoy observing the kinds of customer service people give—or, more often, fail to give.

I strongly believe that no arena offers as much opportunity for your professional advancement as does the field of customer service and loyalty. And with the skills taught in this book, you will greatly enhance your ability to build and sustain your greatest asset—your relationships with loyal, committed customers and employees—through exceptional service.

Know Why Service Matters

Recognizing the Role of Customer Service in Your Career Success



After reading this chapter, you should be able to

1. Explain why attracting and keeping loyal customers—people with whom we exchange value—is critical to business and personal success.
2. Describe examples of how customers are identified by various names and include both external and internal relationships.
3. Explain how customers can become partners through service intimacy and an ongoing relationship.
4. Recognize the impact of positive word of mouth in getting and keeping customers.
5. Calculate the possible impact of lost customers on a business or organization.
6. Explain six core competencies necessary for service success.
7. Understand and describe some of the challenges associated with translating slogans and good intentions into a strategy for better customer service.
8. Articulate how to get customers beyond mere satisfaction and develop ongoing customer loyalty.

The Way It Is ... What Happened to the “Service Economy”?

In the rather distant past, flying commercial airlines was an adventure afforded only the economically upscale and successful people. Passengers dressed in suits and dresses (as shown in the recent television program *Pan Am*). They were served by uniformed flight attendants with white-glove service fit for a king or queen. If you have flown lately, you know that service standard no longer exists, triggering feature articles such as one in *USA Today* titled “Oh, the humiliation of flying.”¹ Although airlines face unusual and often uncontrollable challenges, no one would argue that the general level of the airline passenger’s service experience has diminished.

Similarly, decades ago a gasoline fill-up at a “service station” was pumped by an attendant and accompanied by window washing and an oil check. That was before self-service, which is often associated with no service. In many stores, helpful retail sales associates have been replaced by do-it-yourself shopping (which has its advantages, but also reflects less service). Banks, once well regarded for sophisticated service, now charge fees for the opportunity to *speak* with an employee.

And then there is the service of repair people who come to your home. Picture this worst case illustration: Two characters show up on your doorstep from the appliance repair service. They have the appearance and demeanor of a pair of street thugs, but they smile and say hello. One of them looks at the worksheet and mispronounces your name.

They wipe their feet on the mat, carefully place their toolbox on your kitchen counter, pull out the refrigerator, and set to work. While disassembling the innards of your fridge, they chat between

Some people are wondering, “Where is the service in the ‘service economy’?”

themselves about an apparently lively weekend party but they seem to work competently. After half hour and some cussing, the older man explains to you that they had to put in a temporary part because the factory-recommended part has to be shipped from a distant city. But it’s been ordered, he reassures you. They also say that they will return and install that when it comes in. They clean up their mess, push the fridge back, and leave, promising that the part would arrive shortly.

Weeks pass and you hear nothing from them. The ordered part apparently never arrived and your refrigerator is running okay, but you wonder about possible harm due to the substandard fix. You make several calls to the company and are reassured that the part will be in soon, but after months, you have never heard from them again and keep your fingers crossed that the temporary fix will continue to work. How do you feel about this customer service?

Ah, the “service economy.”

GAINING A FOCUS ON SERVICE IMPORTANCE

Every person reading this book could describe customer service disappointments. We all encounter substandard service regularly, and much of that poor service can be attributed to poor attitudes and inappropriate behaviors of individuals and organizations. Companies make business decisions (change policies, close offices, reduce employee training, install excessively complex pricing systems, fail to follow up on commitments, etc.) with insufficient thought about the impact on customers. Individuals fail to recognize the impact of their behaviors (or lack of behaviors) on customers.

Satisfactory customer service isn’t a differentiator; it’s an expectation in any successful organization.

Despite this, every company touts its great customer service—often citing this as what differentiates it from their competition. But, when everyone claims good service as their uniqueness, it cannot, by definition, be unique. It’s an expected component—a minimum requirement for being in business. Satisfactory service is a commodity, a raw material, not the key differentiator between competing companies. Only consistently *exceptional* service can distinguish one organization from others.

Substandard or inconsistent service, however, continues to damage companies. And, in today’s world of high interconnectivity, poor service experiences are quickly shared in cyberspace. Social networks, emails, and blogs turbocharge the opportunities to broadcast sour service experiences. True, we can tell people about good and bad service, but it’s the bad experiences that are most likely to trigger a posting online. The impact on businesses and individuals is dramatic. Companies and people that consistently give good service build successful relationships while poor service providers fumble and eventually fail. It’s as simple as that.

Today’s social networking spreads the word about customer service experiences faster than ever—for better or for worse.

An industry white paper by Oracle Corporation similarly concludes that “Ultimately there are only two things that can provide unique, long-term, sustainable advantage in the marketplace—a company’s culture and the *relationships it fosters with its customers*.”²

A Simpler View

But let’s dial back the business terminology like “sustainable advantage” and “company culture” for a moment and look at the importance of customer from another perspective. Usually attributed to William of Ockham, a fourteenth-century English logician and Franciscan friar, proposed what has come to be known as “Ockham’s razor.” This logical principle asserts that, when trying to understand a situation, the simplest explanation is usually the right one. Put into the context of customer service, Ockham’s razor can slice through (pun intended) the many debates about what accounts for a business’s success. It’s really simple: The fair exchange of value with satisfied, loyal customers makes for successful organizations.

Think about competing retailers like Kmart and Walmart, for example. Since the early 1960s, these pioneering big box stores have competed head-to-head. They are very similar in many ways—sell the same kind of stuff for about the same prices in stores with similar locations and layouts and so on. They are, in essence, the same, save for some small details. Given this, if you ask people which of these two they would choose to shop at (and these were the only two

choices) the vast majority of people will say Walmart. (Your author has asked this question to thousands of people in audiences over the past 20+ years and the percentage favoring Walmart is at least 80 versus 20 for Kmart.) Is it any wonder, then, that Kmart (and merger partner Sears) sales are about \$50 billion a year while Walmart sells \$400 billion.

While many business analysts cite “supply chain management” (how efficiently the company gets products to the customer) and other complex measures as keys to Walmart’s success, I argue the Ockham’s razor logic—the simplest explanation is the best one: The shopping experience at Walmart is usually perceived as being better than at Kmart. In fairness, there are many excellent Kmart stores and also more than a few substandard Walmarts. But overall, given a choice, customers opt for the service difference provided at Walmart.

Replace Kmart and Walmart with other competing businesses you choose from. Why do you select Burger King over McDonalds, Staples over Office Max, Verizon over AT&T, Allstate over State Farm, your credit union over a bank (or the opposite of any of these)? Often we find Business-X providing virtually the same goods or services as Business Y but we develop a loyalty to one or the other. Occasionally it’s because of dramatically better prices or convenience. But, in most cases our repeat business stems from our service experience.

Rather widespread discontent with the service customers get can be viewed as a positive opportunity. The upside potential for those who give good service is unlimited. By making the process of satisfying customers a part of our daily lives, we can virtually guarantee our professional success.

It’s also more fun to work for companies that give great service—to their customers and to their employees. A quick look at *Fortune* magazine’s annual “The 100 Best Companies to Work For”³ shows service leaders like Google, Wegman’s Food Markets, REI, Edward Jones, The Container Store, Marriott, Nordstrom, eBay, FedEx, Zappos, and others—all companies that clearly illustrate the linkage between great service and great employee morale. Says consultant Chip Bell, “[These kinds of companies] boast the lowest turnover (a cost saver), the best recruits (an investment), the highest productivity (another positive hit to the balance sheet) and the greatest profits. Companies in the top 20 percent of the highly revered American Customer Satisfaction Index outperformed the Dow Jones industrials average by 90+ percent, the S&P 500 by 200+ percent and the NASDAQ by 350+ percent.”⁴

Great businesses or organizations succeed by building customer satisfaction and loyalty. Conversely, no person can make a good living long term without meeting the needs of his or her customers. That is what people *do* in organizations: They serve others. And they succeed through service.

The bottom line: satisfied, loyal customers make for successful organizations.

The upside potential for those who learn to give great service is unlimited.

What If You Don’t Work with “Customers”?

Most people would agree that a business needs customers—but not everyone works in business. What about other kinds of organizations? Does a government agency need customer satisfaction to succeed? Does a civic organization, church congregation, political party, family, service club, school, or fraternity need satisfied customers to succeed? To answer these questions, we need first to define what we mean by a customer. The common perception is that a customer is someone who buys something from you. Most people assume that to buy involves the exchange of money. In many cases, that is true enough. But an expanded definition of “customer” can be useful. In its broadest sense a customer is *someone with whom we exchange value*. Taking this broader view expands our opportunities to apply customer service skills—to our advantage.

The broad definition of “customer” is anyone with whom we exchange value.

“Customer” Implies an Exchange of Value

As human beings we are constantly exchanging value with each other. We are, by nature, social beings. When we exchange money for a product or service, we are customers. When we provide work in exchange for a wage, our boss and our company are our customers. When we participate in a civic organization or church group, the people to whom we give support, advice, ideas, or

information are our customers. When we give of ourselves to contribute to a strong family, our spouse, parents, kids, and others become our customers. When we build and maintain networks of friends and associates, we become each other's customers.

Exchanging such value involves give and take. We give and accept social support to and from friends and family. We give and take ideas and information to and from teachers or work teams. We give and accept buying recommendations to and from trusted associates; we give and take gifts and tokens of appreciation to and from others. In short, much of life involves **exchanges of value**. As such, many of our interactions are with “customers” as we have broadly defined that term. The ideas on improving customer service found in this book can be equally applied to all kinds of relationships, not just commercial transactions.

Principles of good customer service can be applied to all kinds of relationships.

External and Internal Customers

Different names for customers can imply different kinds of transactions.

In our commercial dealings, we have a lot of names for customers, often varying by the nature of our business or organization. Some examples of these names include clients, patients, passengers, patrons, members, associates, insureds, users, buyers, subscribers, readers, viewers, purchasers, end users, guests, or cases. These are **external customers**—people outside of our company with whom we do business.

Internal customers—employees—are an equally important target for customer service efforts.

Internal customers are typically a company's employees. Employee relationships are crucial to organizational success. If a company has high turnover of employees quitting and having to be replaced, it will face serious challenges. Replacement of employees bears a huge cost as the company needs to spend money and effort to attract, recruit, and train replacements.

Virtually everything we will discuss in this book about customer service also applies to employees, our internal customers.

By accepting this broader view of what it means to be and have customers, we will see that applying the principles of customer service results in much more than just business or financial success. Yes, customer service is a key to career success but, more importantly, it is a master key to success in all the relationships in one's life. By applying the customer service principles in this book to every aspect of your life, you can gain exceptional levels of success and life satisfaction.

CUSTOMER RELATIONSHIPS CAN BECOME PARTNERSHIPS

Relationships with customers can evolve into rich and fulfilling partnerships. Such customer partnerships arise from certain attitudes or orientations. True partnerships are anchored in an attitude of generosity and trust so that the people involved enjoy extending the relationship beyond just meeting a need or requirement. Generally partnerships require some joint purpose and are marked by truth, candor, and straight talk mixed with compassion and care. Having a genuine affection for partners is also helpful. People who like people do best at building partner-like relationships. And, as the song goes, people who like people are the happiest people in the world.

Is it possible to have a business that doesn't need to build relationships? Possibly. If you work for a traveling carnival and you sell cotton candy to people you will never see again, perhaps relationship building is not important. If you engage in any such one-time transactions, you might argue that you'll never deal with these people again so customer service isn't important. But such a viewpoint can be shortsighted for two reasons. First, very few businesses are one-time, isolated transactions. The potential for repeat business is always there. Second, even if your business is a transaction business, **word of mouth** to other customers can help or hurt you. If you are an unusually grouchy cotton candy vendor, people will tell others and those others may avoid even that one transaction with you. Or, if you are exceptional in your friendliness, positive word may get around. So, even transactions businesses have the potential for becoming relationship businesses.

The ideal goal in most businesses is to create partnerships with customers.

Not every customer relationship becomes a partnership, but such partnerships represent the highest level of customer-provider affiliation. Exhibit 1.1 represents two dimensions that define levels of customer relationships: the degree of **service intimacy** and the extent of ongoing

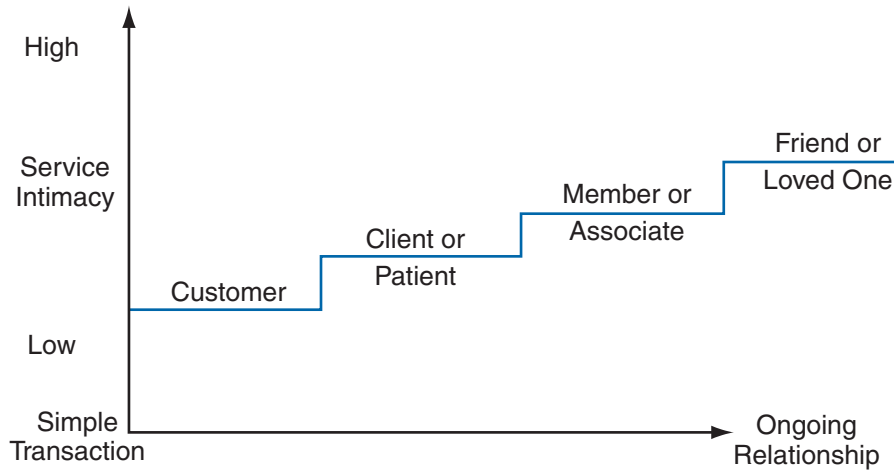


EXHIBIT 1.1 Levels of “customer” relationships.

relationship. When relationships evolve into something personally “intimate”—that is, people get to know each other and strive to meet the needs each has—and continue over a period of time, they can become rich and satisfying.

Notwithstanding the semantic distinctions about customers, it remains useful to agree that we all have customers, or people we interact with who depend on us for information, guidance, services, products, or social support—in short, value. In exchange for value we provide, they will give something back. This exchange system defines, on the most basic level, what it means to be a customer. When this exchange evolves into something more than an isolated transaction, when we move up the stair steps of relationship building through increased service intimacy over time, we will enjoy immense levels of career and personal satisfaction.

POSITIVE WORD OF MOUTH GETS AND KEEPS CUSTOMERS

New customers can be tough to get. An oft-quoted statistic says that it costs five or six times as much to get a new customer as it does to keep an existing one. So logically, it makes sense to focus on satisfying customers you already have, thus encouraging repeat business. Without customer retention, you’ll spend a lot of time and effort refilling a leaky bucket as you chase an ever-replenishing supply of new customers. (This is the dilemma faced by companies that offer shoddy products or poor service. People may buy from them one time but will not come back.)

Some people think that advertising generates sales and, undoubtedly, good ads do have an impact. A closer look, however, sees the relationship of ads-to-sales as slightly more complex. The “purchasing funnel” explains what tends to happen. Television and other mass media impact our buying decisions at the broad end of the funnel by creating awareness of products and generating interest in them. The final decision to actually buy, however, occurs at the narrow part of the funnel and this is where personal recommendations of other people have the most impact.⁵ A television industry publication concluded thus:

TV was the most impactful medium as far as awareness, consideration, preference and purchase are concerned. The Internet was second in each case. The study measured responses to ads across 15 categories, including vehicles or auto dealers, financial services, restaurants, insurance, telecommunications, home improvement and health care.

For most product categories, television made the biggest contribution to increased awareness of the product being advertised. But the size of its contribution varied by category.

Getting new customers and replacing those lost is an expensive part of any business.

For example, in the entertainment category, TV contributed 48 percent to awareness and 51 percent to interest and had an impact on purchase among 39 percent of those surveyed. For automotive, TV generated awareness for 44 percent of those surveyed and interest among 40 percent. Just 22 percent said TV impacted their purchase decision.

Consulting firm McKinsey published a discussion of word-of-mouth impact on sales in a recent newsletter.⁶ Among their conclusions are that consumers have always valued opinions expressed directly to them. Marketers may spend millions of dollars on elaborately conceived advertising campaigns, yet often what really makes up a consumer's mind is not only simple but also free: a word-of-mouth recommendation from a trusted source. As consumers overwhelmed by product choices tune out the ever-growing barrage of traditional marketing, word of mouth cuts through the noise quickly and effectively.

Indeed, word of mouth is the primary factor behind 20–50 percent of all purchasing decisions. Its influence is greatest when consumers are buying a product for the first time or when products are relatively expensive, factors that tend to make people conduct more research, seek more opinions, and deliberate longer than they otherwise would.

The article goes on to say that the influence of word of mouth will probably grow since the digital revolution has amplified and accelerated its reach to the point where word of mouth is no longer an act of intimate, one-on-one communication. Today, it also operates on a one-to-many basis: Product reviews are posted online and opinions disseminated through social networks.

Exemplary service generates positive word-of-mouth “advertising” and repeat business. People talk to others about a service experience when it is exceptional, out of the ordinary. You can offer the best products available, but if you fail to supplement them with a positive service experience, few customers will notice the difference between you and your competition. Service success is a matter of setting yourself apart from others through unexpected excellence.

The Impact of E-Commerce on Word of Mouth

Use of electronic media in the form of Web pages, email, social networking sites, and blogs are commonplace in today's business world. Such e-commerce capabilities have turbocharged the process of spreading the word about businesses—good and bad. With electronic technology, the problem and opportunity of word of mouth takes on an even greater impact.

Spreading the word about a business is simpler than ever with forwarded emails or by copying in dozens of people in our email address book. Easier yet, posting your experiences on Facebook, MySpace, or LinkedIn (which together with similar sites have millions of users) gets the word out with unimaginable efficiency. Web sites and Web logs (blogs) are popping up all over for the sole purpose of praising or trashing businesses. In the mid-1990s film *Rainman*, Dustin Hoffman's character, an autistic man, repeatedly states that “Kmart sucks” and the phrase caught on, much to the chagrin of Kmart executives. Today, Web users have the opportunity to regularly rate the relative “suckiness” of any company, and they do. Numerous sites (see, for example, www.WebGripeSites.com) provide the opportunity for anyone to evaluate a business, politician, product, entertainment, and much more. The Web provides an additional megaphone for personal opinion, thus turbocharging the power (for better or for worse) of what some call “word of mouse.”

Companies cannot long get away with mediocre service. In this age of technology and ubiquitous communication, there are few secrets. Customers will get the word out about your company's service. The challenge is to make that the good word.

THE DAMAGING COST OF A LOST CUSTOMER

As the old joke setup goes, I have good news and bad news. The bad news is that the typical company will lose 10–30 percent of its customers per year—mostly because of poor service. When customers have a choice, they'll go to the competition without hesitation. Customer satisfaction

is like an election held every day, and the people vote with their feet. If dissatisfied, they walk (sometimes run) to another provider—a competitor. When customers don't have a choice—such as in dealing with public utilities or government agencies—they'll use their feet for something else: They'll kick back. Employees will feel the brunt of customer dissatisfaction, dealing with unhappy customers day after day. The cost to the company comes when frustrated employees get fed up with hearing customer grief and leave. The company then faces the cost and disruption of having to replace employees—their internal customers.

The good news about the relatively poor state of customer service is that organizations that initiate effective customer retention programs may see profits jump 25–100 percent. Nonprofit groups or organizations with no serious competition see reduced turnover, better financial results, and happier staffs.

Calculate the Terrible Cost of the Lost Customer

What happens when poor service causes a customer to quit being a customer? Let's look at a somewhat simplified example from a business we are all familiar with: a grocery supermarket. Let me tell you the story of Mrs. Williams:

Harriet Williams, a 60-something single woman, has been shopping at Happy Jack's Super Market for many years. The store is close to home and its products competitively priced. Last week, Mrs. Williams approached the produce manager and asked, "Sonny, can I get a half head of lettuce?" He looked at her like she was crazy and curtly said, "Sorry, lady. We just sell the whole head." She was a bit embarrassed but accepted his refusal.

Later she had several other small disappointments (she wanted a quart of skim milk and they only had half-gallons), and when she checked out with her groceries she was largely ignored by the clerk who was carrying on a conversation with a fellow employee. The clerk made matters worse by abruptly demanding "two forms of ID" with Harriet's check (What do they think I am, a common criminal?) and failing to say thank you.

Mrs. Williams left the store that day and decided that she was no longer going to do business there. Although she had shopped at Happy Jack's for many years, she realized that she had never felt that her business was appreciated. She got the overall feeling that Happy Jack's employees couldn't care less if she shopped there. She spent about 50 hard-earned dollars there every week, but to the store employees she was just another cash cow to be milked without so much as a sincere "thank you." Nobody seemed to care if she was a satisfied customer. But today is different—no more "nice" Mrs. Williams! Today she decided to buy her groceries elsewhere. Maybe—just maybe—there is a store where they'll appreciate her business.

What do the employees think about Mrs. Williams' actions? They're not worried. Life is like that. You win some; you lose some. Happy Jack's is a pretty big chain and doesn't really need Mrs. Williams. Besides, she can be a bit cranky at times and her special requests are stupid. (Who ever heard of buying a half head of lettuce!) Happy Jack's will survive just fine without her \$50 a week. Too bad she's unhappy, but a big company like this can't twist itself into contortions just to save one little old lady from going down the street to the competition. Sure, we believe in treating customers well, but we're businesspeople. Let's look at the bottom line. After all, it can hardly be considered a major financial disaster to lose a customer like Mrs. Williams. Or can it?

Acknowledge the Cost of the Lost

The employees at Happy Jack's need to recognize the "ripple effects" of their service, not just the immediate profit from an individual purchase. Just as the ripples swell when a rock is dropped into a pond, the impact of one unhappy customer can move far beyond that one person.

The shortsighted employee sees Mrs. Williams as a small customer dealing with a big company. Let's change that view: Look at the situation from another, broader perspective.

The loss of Mrs. Williams is not, of course, just a \$50 loss. It's much, much more. She was a \$50-a-week buyer. That's \$2,600 a year or \$26,000 over a decade. Perhaps she would

Ripple effects happen when upset customers tell other people.

shop at Happy Jack’s for a lifetime, but we’ll use the more conservative 10-year figure for illustration.

But the ripple effects make it much worse. Studies show that *an upset customer tells on average between 10 and 20 other people about an unhappy experience*. Some people will tell many more (especially with today’s communication media), but let’s stay conservative and assume that Mrs. Williams told 11. The same studies say that these 11 *may tell an average of 5 others each*. This could be getting serious!

How many people are likely to hear the bad news about Happy Jack’s using our very conservative example? Look at the math:

Mrs. Williams 1 person
 tells 11 others +11 people
 who tell 5 each +55 people
 Total who heard = 67 people

Are all 67 of these people going to rebel against Happy Jack’s? Probably not. Let’s assume that of these 67 customers or potential customers, only one-quarter of them decide not to shop at Happy Jack’s. Twenty-five percent of 67 (rounded) is 17.

Assume that these 17 people would also be \$50-a-week shoppers, and Happy Jack’s stands to lose \$44,200 a year, or \$442,000 in a decade, because Mrs. Williams was upset when she left the store. Somehow, giving her that half head of lettuce doesn’t sound so stupid.

Although these numbers are starting to get alarming, they are still very conservative. A typical supermarket customer can easily spend \$100 a week or more, so losing a different customer could quickly double these figures.

How Much Will It Cost to Replace These Customers?

Customer service research says that *it costs about five to six times as much to attract a new customer* (mostly advertising and promotion costs) *as it costs to keep an existing one* (where costs may include giving refunds, offering samples, replacing merchandise, or giving a half head of lettuce). One report put these figures at about \$19 to keep a customer happy versus \$118 to get a new buyer into the store.

Again, some quick math shows the real cost of the lost Mrs. Williams:

Cost of keeping Mrs. Williams happy \$19
 Cost of attracting 17 new customers \$2,006

Now let’s make our economic “facts of life” even more meaningful to each employee.

Understand How Lost Customers Mean Lost Jobs

Assuming that a company pays 50 percent in taxes and earns a profit of 5 percent after taxes, Exhibit 1.2 shows how much must be sold to pay each employee (in four different salary levels) and maintain current profit levels.

EXHIBIT 1.2 Sales needed to sustain a job.			
Salary	Benefits	After-Tax Cost	Sales Needed
\$60,000	\$27,600	\$43,800	\$876,000
\$40,000	\$18,400	\$29,200	\$584,000
\$25,000	\$11,500	\$18,250	\$365,000
\$15,000	\$ 6,900	\$10,950	\$219,000

LOOK INSIDE

Applying the Mrs. Williams Example to Your Company

Let's take a few moments and go back to the Mrs. Williams example, but instead use your own organization. Suppose that you lose one customer and the other statistics hold true. Take a few moments to calculate the numbers as they apply to your organization. If you work for a nonprofit or

government agency where the dollar sales are not a relevant measure, calculate the number of people who may be aggravated or upset with you and your organization. Think in terms of the psychological price that must be paid as you deal with frustrated, angry, upset patrons on a day-to-day basis.

These figures will vary, of course, but no businessperson would disagree that there can be a direct impact on employee jobs. If a \$15,000-a-year part-time clerk irritates as few as three or four customers *in a year*, the ripple effects can quickly exceed the amount of sales needed to maintain that job. Unfortunately, many organizations have employees who irritate three or four customers *a day!* Ouch.

TRANSLATING SLOGANS AND GOOD INTENTIONS INTO A STRATEGY

Most companies accept, or at least pay lip service to, the idea that “the customer is the boss,” that he or she is a “king” or “queen” (or at least a prince or princess!). They talk about the customer always being right. They say, ad nauseam, that the customer is “our reason for existing” as an organization. Yet despite these claims, how is the service given? Often, not great.

A significant challenge lies in translating such slogans into actions that convey these feelings and beliefs *to the customer*. Even when leaders truly believe in the importance of customer service, they still face the difficulty of getting employees to do what customers want—especially when a customer's request is a bit unusual. The problem gets trickier when you realize that the lowest-paid and least-trained employees are often those who face the customer every day. For example,

- A multibillion-dollar fast-food restaurant places its success squarely in the hands of the minimum-wage teenager taking the orders and delivering the food. The employee turnover in such businesses is huge, requiring constant training of new people.
- A huge financial institution's image is created in the mind of the customer by the entry-level teller who handles the customer's day-to-day transactions.
- A multibillion-dollar government agency is judged largely by the receptionist who answers the phone or greets the customer, thus setting a tone for any transaction. (Many a criticism of the “government bureaucracy” can be traced to a receptionist “getting off on the wrong foot” with a patron.)

The face of a company is often that of the lowest paid employees who meet the customers.

When you sincerely buy into the value of a happy, loyal customer and effectively communicate that value to each customer, you virtually guarantee your success. When you supervise others, you need to “infect” them with your same positive attitudes and skills.

What If You Are “Just an Employee?”

Businesses benefit from good service, but suppose you don't own a business. As “just an employee,” what can you gain from developing service skills? The short answer is that customer service skills are the same skills that bring success and satisfaction to all aspects of life. The best reason for learning the processes that create customer loyalty is that *it will make you feel better about your life and yourself*. Sure, there are solid business reasons as we've already discussed. But ultimately, the personal benefits can be even greater.