

PRACTICING BEST-IN-CLASS SERVICE RECOVERY

Forward-thinking firms leverage service recovery to increase loyalty and profits.

By Stephen W. Brown



“Churn” is the term for today’s revolving-door customer base. On average, U.S. firms lose half of their customers every five years—an expensive loss. It costs far more to attract a customer than retain one.

Attracting new customers is critical, but companies are recognizing the equally important need to build loyalty. And service recovery is one tool for fostering that loyalty.

Best Practices

Best-in-class firms bolster customer loyalty through a comprehensive, integrated set of service recovery practices:

- Incorporating recovery into hiring, training, and empowerment.
- Establishing recovery guidelines and standards.
- Providing systems that promote easy access and effective responses.
- Maintaining customer and product databases.

Hiring, training, and empowerment. According to my research with marketing Professor Stephen Tax of the University of Victoria in British Columbia, Canada, 65% of complaints are initiated with front-line employees. Obviously, the ability of “frontliners” to provide strong service recovery greatly affects customer loyalty.

Ford Motor Co. starts at the beginning. All job candidates are evaluated by its “assessment center” in nine areas; service recovery abilities are judged in many of those areas. New hires then are trained in recovery skills such as interpersonal communications through Ford’s “customer assistance center.”

Such training helps employees resolve service problems “fairly” from the customer’s perspective. This is critical because our Services Marketing & Management (SMM) Center research conducted at Arizona State University shows that “fairness” accounts for 85% of the variation in customers’ satisfaction with service recovery experiences.

Yet, world-class firms know recovery must become *modus operandi*. All employees, frontline through top management, must embrace and practice service recovery with all customers.

These firms often rely on empowerment, within boundaries. Often, employees are uncomfortable with *carte blanche* empowerment, so companies such as Marriott International Inc. outline “safe zones,” such as a \$2,500 limit on compensating a customer. Marriott also clarifies for employees those situa-

tions calling for empowered actions, based on the nature of the problem and the customer’s value to the firm.

Service recovery guidelines and standards. Guidelines help employees respond quickly and autonomously. Our research notes customer satisfaction plummets when recovery takes too long or is “handed off” through multiple people.

The Ritz-Carlton Hotel Co. LLC concentrates on a core value set called “the gold standards,” which include “the 20 basics” that provide clear directions for employees’ recovery actions.

“The gold standards ... are a blueprint for our success,” says Horst Schulze, president and chief operating officer of Ritz-Carlton Hotel Co. “Every employee has the business plan of the Ritz-Carlton in his or her pocket, constantly reinforcing that guest satisfaction is our highest mission.”

These standards helped the company become the only service company, and just one of two firms overall, to win the Malcolm Baldrige National Quality Award twice (1992 and 1999).

Many firms extend standards into service guarantees. FedEx Corp.’s guaranteed delivery times are clear to employees and customers, as is the “no charge” result on those rare occasions a package doesn’t arrive on time.

Easy access and effective responses.

Leading firms offer multiple channels for customer complaints and service recovery response. The swell of 24-by-7 call centers is one channel. Customers of General Electric Co. (GE) can contact its “answer

center” any day, any time for fast problem resolution; in fact, three million GE customers do so every year. When appropriate, GE follows up with an apology letter and “goodwill” certificate for something such as a free home repair.

Companies also are boosting accessibility to customers through 800 numbers, e-mail, pagers, cell phones, and the Internet.

These efforts increase the likelihood customers will complain. SMM Center research confirms only 5% to 10% of dissatisfied customers complain about a service failure. Why do world-class firms want more customers to complain?

A complaint offers the best opportunity for retaining that customer. Our studies show customers who’ve experienced a strong recovery can sometimes become more loyal than those who haven’t experienced any service failures.

Encouraging complaints—and recovering well—helps stave off negative word-of-mouth. Studies indicate dissatisfied customers tell 10 to 20 people. The exploding Internet means this kind of damaging communication will soar.

Customer and product databases. Vital customer and product information, service failure incidents, and employees’ actions can be documented in databases to ease recovery efforts.

PCS Health Systems Inc., a provider of online pharmaceutical transaction services, “has quite a challenge since our service reps’ decision making is limited based on stringent requirements we’re under from government agencies and health care providers,” says Kirby Bessant, vice president of service operations at PCS Health Systems. “But we’ve still found that extensive customer knowledge in our databases allows these reps to solve problems immediately.”

USAA, a highly respected insurance and financial services firm that ranks 207th in revenues among the Fortune 500, scans every complaint letter into its database to be instantly available to all service reps.

Innovative firms are even linking databases with Web sites to enrich recovery. Cisco Systems Inc. provides 70% of its customer support, including recovery, through the Internet.

Failures and Companywide Recovery

Front-runners don’t apply these best practices in silos. They create systems for identifying service failures, sharing data, analyzing causes, developing and implementing solutions companywide, and determining investment priorities in service improvements.

A systematic, continuous-loop approach sustains the benefits of a firm’s recovery efforts. These enterprises learn from prior failures and change procedures to avoid repeating them.

Service Recovery = Profits

Service recovery isn’t good just for customers; it’s profitable for firms. Harrah’s Entertainment Inc. has woven recovery practices throughout its “five-pronged approach to customer loyalty,” as shared by Harrah’s chief operating officer Gary Loveman at the SMM Center’s annual “Compete through Service” symposium. Database tracking identifies customers who haven’t visited Harrah’s within a certain timeframe. The customer is called to find out why, and he or she is asked back. A “personal invitation” is mailed as a follow-up, including a coupon redeemable on the next visit.

Harrah’s “five-pronged approach” helped drive bottom-line results: 6.5% increase in same store sales growth in just two quarters, 57% increase in revenues, 59% operating income increase, and a unanimous “buy” recommendation from 24 market analysts.

GE has found average customers buy 15 major appliances in their lifetime. Service recovery efforts toward building loyalty certainly translate into significant “lifetime customer dollar value” for GE.

Likewise, “loyal customers to an auto dealer are worth \$150,000 to \$200,000 over the lifetime of their purchases,” says Steven Wood, chair of the HSM Group and an SMM Center affiliated faculty.

Hampton Inn Hotels, according to an article by B. Ettorre in *Management Review*, reaped \$11 million additional revenues from its service guarantee implementation and scored the industry’s highest customer retention rate.

Any company can affect profits through recovery. Indeed, studies ana-

lyzing the return on investment of complaint handling units in numerous industries indicate service recovery investments yield returns of 30% to 150%.

No wonder best-in-class firms view recovery as a main link in their service-profit chains.

Technology

Technology’s role in improving service recovery is becoming pervasive, with firms using technology in several ways:

- Encouraging complaints to develop firmwide fixes and to gather information: Scandinavian Airlines System (SAS) set up ATM-like video stations just outside arrival gates for passengers to easily share top-of-mind feedback.
- Involving customers in service efforts: FedEx supplies selected customers with hardware and software to track their own shipments.
- Anticipating and preemptively making fixes: Caterpillar Inc. monitors customers’ equipment by remote, sending an electronic “warning” signal to its service technicians, and indicating the parts and tools needed to make the repair.
- Capturing and acting on recovery data: AT&T Corp.’s call center employees input customer data in real time. The data is downloaded to marketing and operations, which adjust services to suit customer segments and revamp processes to fix service failures.

The case is clear: Service recovery cannot be ad hoc. I encourage you to evaluate your firm’s recovery efforts and find ways to adapt these best-in-class practices. ■

About the Author

Stephen W. Brown, PhD, holds the Edward M. Carson Chair in Services Marketing and is professor of marketing and director of the Center for Services Marketing & Management (SMM) Center, Arizona State University. He can be reached at stephen.brown@asu.edu.