

booz&co.

The Empathy Engine[®]
*Turning Customer
Service Into a
Sustainable Advantage*



Booz & Company is a leading global management consulting firm, helping the world's top businesses, governments, and organizations.

Our founder, Edwin Booz, defined the profession when he established the first management consulting firm in 1914.

Today, with more than 3,300 people in 59 offices around the world, we bring foresight and knowledge, deep functional expertise, and a practical approach to building capabilities and delivering real impact. We work closely with our clients to create and deliver essential advantage.

For our management magazine *strategy+business*, visit www.strategy-business.com.

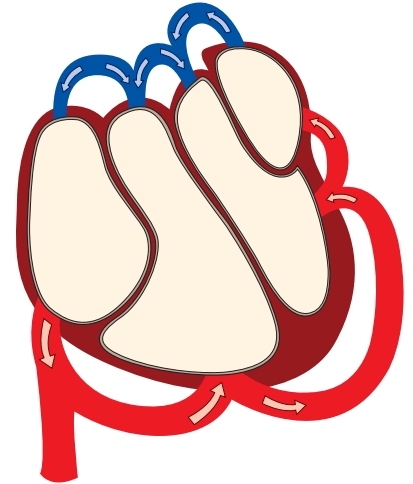
Visit www.booz.com to learn more about Booz & Company.

The Booz & Company Katzenbach Center focuses on the development and application of innovative ideas for organizational culture and change, based on a guiding philosophy of client-based innovation. The Center promotes new thinking on achieving breakthroughs in higher performance, developed through active collaboration with clients and thought leaders around the world.

Contact Information

New York
Traci Entel
Partner
212-697-1900
traci.entel@booz.com

The Empathy Engine[®] Turning Customer Service Into a Sustainable Advantage



When Hurricane Katrina hit, a Healthcare Insurer ensured members would have 24/7 access to representatives who could answer questions and help those affected by the disaster. In this environment, representatives were given significant leeway in terms of time they could spend on the phone with members and were encouraged to go above and beyond typical procedures to help them. Each day, senior leaders from the company spent time in the call center, listening to calls and helping make in-the-moment policy decisions to help members deal with situations faced as a result of the crisis. The Chief Service and Information Officer listened to a call which provided him with a story he re-tells to this day. A woman called in and explained that she needed to find a doctor who could perform surgery on her husband. However, she explained, she was no longer a member in the insurance company's network. She had changed insurance providers, but her current provider had not been able to help her. The representative took time to listen to the woman's needs and found her a surgeon willing to perform the surgery for free. This is now a story that is told throughout the company as a way to remind representatives to "get in their customers' shoes" and solve their problems.

Strategic service is not just about how an individual representative reacts to an individual customer; it's about how the company as a whole reacts to its customers.

Table of Contents

The Customer Service Challenge

Problem Overview and Research Summary	4
What Customers Are Saying About Customer Service	7
The Importance of Customer Service	8
What Customer Service Isn't – Some Common Misconceptions	10
The Importance of Empathy	12
The Empathy Engine Defined	14

The Empathy Engine at Work

Information	16
Values	18
Senior Leaders	20
Management	22
Frontline	24
Customers	26
Conclusion	28
References	29
About the Authors	30

The Customer Service Challenge:

An Overview of the Problem and a Summary of Our Research and Findings

Common sense tells us that customer service is important to a company's success. The majority of corporate executives embrace it, and almost all customers demand it. But achieving a high level of customer service – and sustaining it over the long haul – is a goal that has eluded all but a relatively small number of companies.

Katzenbach Partners LLC recently interviewed executives at 13 companies that are widely viewed as existing or emerging leaders in customer service, in order to better understand their views on how exemplary customer service can be achieved and used to create a sustainable competitive advantage. Our research reflects the experiences of a number of senior executives at top-performing companies in a variety of industries, including financial services, telecommunications, hospitality, airlines, retail, insurance, technology and energy, as well as Katzenbach Partners' collective experience working with large organizations and their frontlines.¹

What Makes Customer Service So Hard? And How Can We Do It Better?

We have discovered that much of the accepted wisdom about customer service is incomplete and can actually undermine the delivery of great service. For example, many companies make the following customer service mistakes:

- Adopting a customer-comes-first ethos at the expense of employees
- Providing scripted responses for customer interactions
- Relegating customer service to cost-center status

Despite the widespread acceptance of these and similar practices across many industries, our evidence shows that these practices do not consistently deliver a sustained, high level of service to customers.

Don't Let Customer Service Stop at the Frontline

Nearly all of the executives we interviewed identified customer service as a strategic source of differentiation and recognized the importance that their companies' frontlines play in achieving it. But unlike many of their industry peers, they also realized that customer service does not – should not – stop at the frontline.

Our research found that while many companies have recognized the need for an empathetic frontline – one that can sense and respond to a customer's issue – only companies that embrace, in their values and practices, an ethos of institutional-wide empathy realize customer service as a sustainable competitive advantage.

¹ In this paper, we use "frontline" to describe the employees who serve customers everyday

The Empathy Engine Alternative

To capture this broader conception of customer service, we introduce the Empathy Engine. In the Empathy Engine, senior leaders, managers and frontline employees work together to collectively stand in their customers' shoes in order to better understand and resolve customer needs.

Specifically, Empathy Engine companies consistently strive to:

- Understand and resolve customers' problems at minimum cost to customers
- Create a company-wide culture of empathy
- Empathize with and give decision-making power to their frontline employees so they can focus on generating excellent customer service
- Sustain a company-wide service ethos through storytelling
- View the frontline as a driver of customer service innovation
- View customer service as a profit-generating activity and important contributor to shareholder value, rather than "just a cost center"

By implementing a company-wide, holistic approach to customer service, many of the companies we spoke with have become renowned for great customer service. They have nurtured long-term customer relationships that set them apart from their competitors, and which will be difficult for their competitors to disrupt. Such relationships have quantifiable long-term benefits for the companies that possess them.

What Customers Are Saying About Customer Service²

Customer service really matters to us.

94% of respondents in a recent Katzenbach Partners survey of American consumers said that customer service is important to them.

We're willing to pay more to get it.

82% of Americans said that they're likely to spend more money at stores where they get better customer service.

Companies aren't improving their customer service. In fact, almost half of us think it's getting worse.

80% of Americans said that over the past few years they have not seen any improvement in customer service, and over half of this group said things are getting worse.

When we have a bad service experience... we don't come back.

62% of Americans reported that if they had a bad service experience with a retailer or service provider, they would not purchase from them again.

² The data cited on this page derives from the results of a national telephone survey conducted by Katzenbach Partners LLC in November 2006. The survey was conducted among a national probability sample of 1,031 adults comprising 518 men and 513 women, 18 years of age and older, living in private households in the continental United States. Only one interview was conducted per household.

The Importance of Customer Service

The Customer Loyalty Link

Superior customer service is important first and foremost because it helps generate customer loyalty – a bankable advantage, even in surprisingly small doses. For example, one study showed that reducing customer defections by 5% (i.e., increasing customer loyalty by 5%) enabled businesses to increase the lifetime value of the average customer significantly. A bank branch, an insurance company, and a software designer increased the net present value of profits over the lifetime of the average customer by 85%, 50% and 35%, respectively.³

Studies have shown that the best customer service generates – and has a real, measurable impact on – customers’ emotional satisfaction. It is emotional satisfaction that is especially important: one major retail bank found that its emotionally-satisfied customers had lower attrition and higher spend rates than other, less satisfied customers. (See Figures 1 and 2.)⁴

When customer service delivers emotional satisfaction, the benefits are similar: 87% of customers who had positive, emotionally-charged interactions increased the value of their purchases from the bank, or purchased a new product.⁵

Figure 1: Attrition Rates of Bank Customers

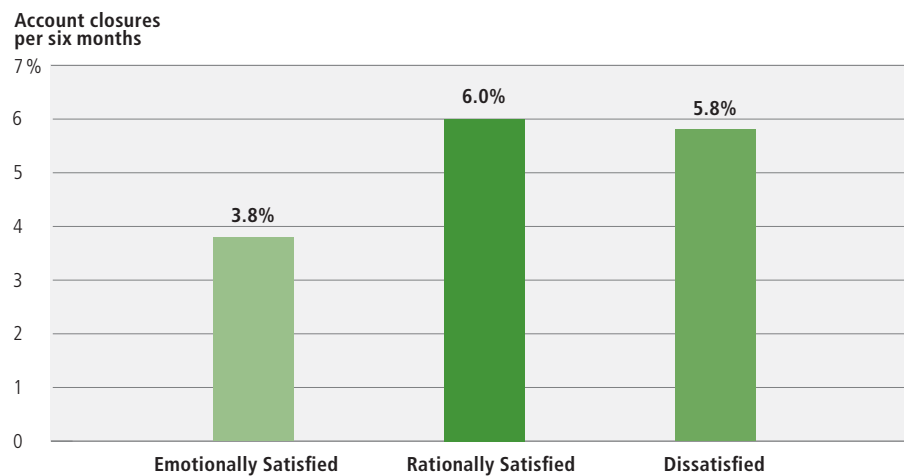


Figure 2: Average Monthly Spending by Credit Card Customers



³ Reichheld and Sasser, 1990. (see “References” for full citation)

⁴ Fleming et al., 2005

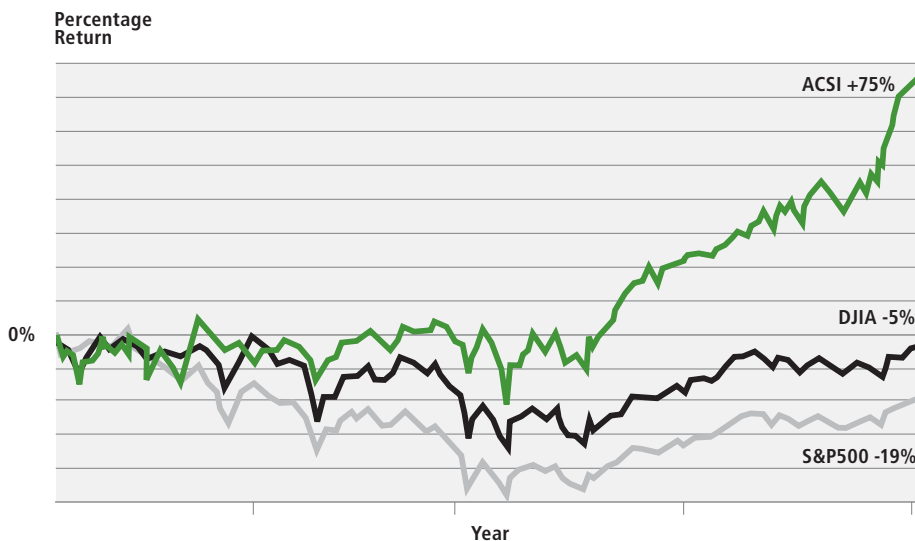
⁵ Beaujean et al., 2006

Sustainable Advantage and Shareholder Value

In service industries, customer relationships are a critical driver of sustainable advantage because they are difficult to imitate or replace. Multiple studies have shown that these relationships can have a measurable impact on firms' economic performance.⁶

In addition, studies have shown that excellent customer service also generates increased returns to shareholders. A portfolio constructed by purchasing shares in companies with high scores in the American Customer Satisfaction Index (ACSI) and short-selling companies with low scores significantly outperformed the Dow Jones Industrial Average (DJIA) from 2000-2004, gaining 75% in value, while the DJIA lost 5%. (See Figure 3.)⁷

Figure 3: Comparative Performance of American Customer Satisfaction Index Portfolio with Major Indices



Strategic Differentiation

According to nearly all of the executives we surveyed, customer service can also be a strategic point of differentiation in an otherwise penetrated marketplace. Faced with increasing competition and faster commoditization of goods and services, executives view customer service as a way to attract, retain, and even win back their customers.

One executive we spoke with recounted how he developed his philosophy and management techniques around customer service: "It was my first job, and I was on a service call in the field, in Foxborough, MA... The customer engaged me in conversation and told me, 'I can buy any computer, but the reason I bought this one is that the service is better than anyone else's.'" For this executive, this conversation in Foxborough became a defining, career-shaping experience. From that point on, he knew that customer service could be a strategic differentiator for companies.

"To grow and differentiate ourselves, we realized we needed to become a customer-centric organization."

– Senior Vice President, Human Resources, Technology Company

"I've always believed that these call centers are strategic points of differentiation."

– Senior Vice President, Interactive Marketing, Hotel and Leisure Company

"We wanted to bring humanity back to air travel. We have reinvented the way service is delivered."

– Director, Brand Management, Airline

"We are in an era of consumer-directed healthcare and if you're going to be a consumer-driven company, you have to act like one... We're not trying to be the best [customer service provider] in our industry; we're trying to be the best in all industries. When people think of that wonderful customer experience, we want them to think of us."

– Senior Vice President, Chief Service and Information Officer, Healthcare Insurer

⁶ Bharadwaj et al., 1993.

⁷ Fornell et al., 2006.

What Customer Service Isn't – Some Common Misconceptions

A great deal of the thought on how to achieve a sustainable strategic advantage through customer service (“strategic service”) has focused on linear cause and effect. Leaders in the field have identified key relationships and variables, and have argued that improvement in these areas can create a domino effect that turns customer service into improved performance.

One set of these cause-and-effect relationships, for example, is called “the service-profit chain,” which details how companies can turn improved customer service into higher profits.⁸ A second involves a pair of important variables that have been identified as contributing to service improvement – “customer engagement” and “employee engagement” – and surveys have been designed to measure them.⁹

We believe, based on our research and experience, that the basic premise behind much of this previous research is correct – there are important cause-and-effect relationships at work in turning customer service into improved performance, and companies can harness these relationships to their advantage. However, we argue that many companies fail to create and sustain strategic service for two fundamental reasons:

- They rely too heavily on the customer service function instead of identifying and leveraging *all* the functions necessary to deliver great customer service
- They fail to build the necessary processes and organizational connections for sustainability – the consistent delivery of excellent customer service over time and across service channels

In addition, there are a number of practices and beliefs about customer service that are widely shared, but which actually work against the goal of providing enhanced service to the customer. Three especially common practices include:

- An over-reliance on scripting frontline responses
- The belief that customers’ emotional loyalty is gained only by creating “wow!” experiences for the customer
- A fundamental misunderstanding, by a company’s executives, of the real nature of the customer experience their company provides

The Problem with Scripting

When companies rely on scripts to control the frontline, they are hoping to achieve consistency, which can improve customer satisfaction and bottom-line performance. However, scripts can have a number of negative effects, which, in the long run, actually undermine customer service, as opposed to enhancing it.

One of the greatest dangers of scripting is that it can lead to an institutionalized inability of the frontline to think on its feet. Moreover, an over-reliance on scripting is costly: as customers’ relationships with a product, service, or company change, and as products and services themselves change, scripts become outmoded, requiring expensive reworking.

These problems have led executives at companies that have achieved sustainable strategic service to move away from scripting and rely more heavily on guidelines to help the frontline solve problems more effectively, in the belief that a more nimble frontline and a more organic customer experience are keys to real customer relationships.

⁸ Heskett et al., 1994

⁹ Fleming et al., 2005

The “Wow!” Experience

Exceeding expectations certainly delights customers, but a customer service strategy that relies on constantly exceeding expectations is likely to fail a test of sustainability. A “delight strategy” will face continuously rising costs as more is needed to exceed customers’ ever-rising expectations. After all, when you exceed expectations, you tend to set new ones.

The executives we spoke with at companies that have achieved sustainable strategic service believe that instead of trying to generate individual “wow!” experiences for thousands of customers, the better approach is to consistently meet their customers’ high expectations. In the long run, this builds trust and reaffirms, rather than inflates, their expectations, thus forming the basis for long-term customer relationships that translate into a sustainable strategic advantage for the company.

Escalation

A final example of how companies may overlook sustainability is the way some of them react to escalations. Because escalations can require management’s time and energy to resolve, they can play a disproportionately large role in shaping managers’ and senior leaders’ opinions about frontline performance and the customer experience. These negative impressions can be demoralizing both to management and the frontline.

Executives we interviewed reported important benefits from making an effort to understand the reality of the frontline – looking beyond escalations to understand how the frontline often delivers a satisfying customer experience. When leaders recognize and appreciate the work the frontline does to satisfy customers, and when the frontline itself recognizes and takes pride in its own accomplishments, a company can better sustain a push to achieve customer service excellence.

The Importance of Empathy

What is the right formula for customer service success?

To answer this question, we introduce the concept of the Empathy Engine, which shifts the focus from linear chains of cause and effect and emphasizes the behaviors and dynamics that occur throughout an institution to sustain strategic service. The Empathy Engine is a way to think about and organize a company so that it can, as an institution, put empathy into action.

The Importance of Thinking and Acting Holistically

Strategic service is not only a question of how an individual representative reacts to an individual customer, but also how the company as a whole understands and reacts to its customers. When a company demonstrates that it can consistently sense and solve its customers' most difficult problems – when it exhibits consistent empathy – **it creates unique, sustainable customer relationships that are difficult for its competitors to replicate.**

Empathy on the Frontline

Delivering sustainable strategic service starts with an empathetic frontline – one that consists of service representatives who can sense customers' problems and needs by putting themselves in their customers' shoes. In customer service interactions, this means feeling and anticipating a customer's distress, excitement, frustration, or desires.

For example, when a customer service representative in a cell phone store puts herself in the shoes of her customer and understands what problems a cell phone could solve, she can select a product that feels right – and is right – for her customer.

Similarly, when a call center representative for a hotel chain puts himself in the shoes of his customer, who is at the airport, has arrived late, and doesn't know how to find his way to the hotel, he can sense his customer's stress and take the initiative to find and book a local car service for this customer.

The challenge for frontline representatives, however, is that being in the customer's shoes can be an exhausting mental task that must be repeated every few minutes, eight hours a day. Some companies try to reduce this stress by simplifying the job with scripts and controls to help representatives respond to customers consistently and, in some cases, to reduce costs. But as we saw earlier, this strategy is ultimately counter-productive and costly. Even though careful scripting may achieve some consistency of response, it will not achieve consistency of outcome.

While scripting and other controls may reduce upfront hiring and training costs, they are also likely to increase the costs of handling dissatisfied customers who are not able to get their problems solved.

The alternative is to deploy a frontline that is consistently empathetic with its customers' needs: while the approach to every interaction is different – based on the personality of the representative and customer, knowledge about the customer and the type of problem – the results are consistently meaningful to the customer.

Empathy Behind the Lines

Truly sustainable strategic service does not start and end with the frontline. Our research shows that achieving truly sustainable strategic service also requires an institution that is, as a whole, aligned with its frontline and customers so that the frontline can put empathy into action. Failure to do so will result in more customers hearing such familiar refrains from a customer service representative as: “I know this stinks, but it’s the way I have to do it,” or, “I wish I could do something, but I just can’t.”

It is by putting empathy into action that great customer service organizations distinguish themselves from lackluster ones: **It is the empathetic institutional response of an organization to its customers’ needs that often allows the frontline to act and consistently solve customers’ problems.**

For example, a Food and Beverage Company we spoke with allows its frontline servers to give service recovery coupons to customers who have had to wait in line for an especially long time during periods of peak business. These service recovery coupons were originally in a locked safe in a back room, so that retrieving them only increased customer waiting time, exacerbating the problem. In response to frontline feedback, the company put a new system in place that makes the coupons more accessible, avoiding the long delay. The company recognized its customers’ frustration and reacted as an institution to take the steps necessary to avoid it.

Putting empathy into action means having a frontline that lives in the customer’s shoes and can improvise in the moment to solve customers problems (such as the server who offers you a gift certificate for your time in line); **it also means having an institution that can empathize with customers and employees and invest in changes to avoid a problem occurring again** (such as the company who made gift certificates printable from the register).

“I recall one of the company’s founder’s mantra: ‘Customers don’t care how much you know, until they know how much you care.’”

– Vice President, Customer Service,
Software Provider

The Empathy Engine Defined

As we noted earlier, **the Empathy Engine is a set of processes and behaviors to put empathy into action.** The Empathy Engine senses its customers' problems (empathy) and consistently acts on them (engine).

Just as the human heart circulates blood throughout the body, the Empathy Engine must keep information and values flowing throughout a company.

- The flow of **Information** includes, most critically, the key insights learned by the frontline during their interactions with customers. It is this flow of information that allows an institution to sense its customers' problems
- The flow of **Values** is, in essence, the organizational commitment to empathy and customer service that is established by senior leadership and modeled throughout the organization. It is the flow of values that compels an institution to solve its customers' problems

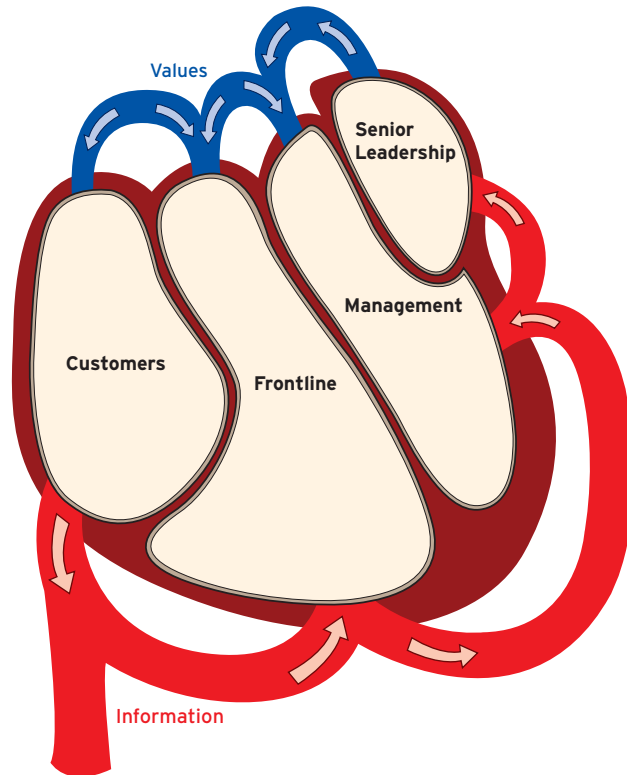
The Empathy Engine also consists of four chambers: senior leaders, managers, the frontline, and customers. Each plays an important role in establishing the potential for strong, empathetic customer relationships:

- **Senior Leaders**, through their values and decisions, rally the company around customer service and the importance of living in the customers' shoes
- **Managers** make caring for their employees their priority, so their employees can focus on taking care of their customers
- The **Frontline** maintains the delicate balance between the customers' demand for a "just for me" experience, and the need to deliver efficient customer service in a cost-effective manner
- **Customers** provide constant feedback to the company on how well it is doing

When the Empathy Engine circulates information and values throughout a company, senior leaders, managers and the frontline are able to harness empathy to understand their customers and each other, creating and sustaining a cohesive organization devoted to developing valuable relationships with customers.

In the remaining sections, we use examples from our research to examine in greater detail the roles that each of the four chambers of the Empathy Engine, and the flows of information and values that it sustains, play in generating strategic service and sustainable long-term advantage.

The Empathy Engine



Information: A constant flow of information is generated as customers interact with a company. Harnessing that flow of information and using it to bring the company ever closer to its customers is what the Empathy Engine must do consistently to succeed.

Values: A company can have complete information about what its customers want, but unless it actually places value on meeting those demands, it can never develop genuine, valuable customer relationships. The Empathy Engine establishes, lives, and shares a set of customer-focused values that shape its long-term strategy, day-to-day decisions, and frontline improvisation.

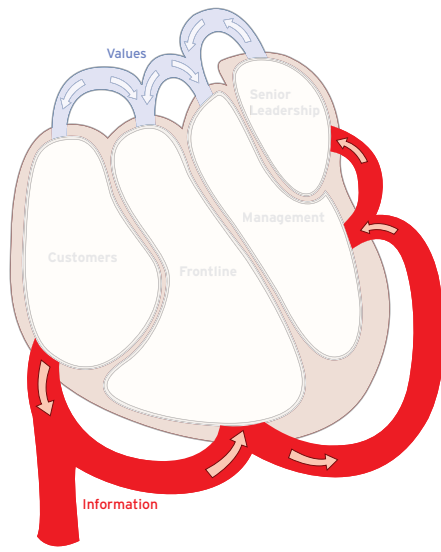
Senior Leadership: Senior leaders recognize the bottom-line impact that customer care can have, and rally the company – through values and decisions – around living in their customers’ shoes.

Management: The manager’s role is to care for his or her employees, so that employees can in turn focus on taking care of their customers. To accomplish this, managers need the freedom to make decisions about their staff and how service is delivered.

Frontline: The frontline must be able to navigate the delicate balance between two forces – customers’ demands for a “just for me” experience and delivering efficient customer service in accordance with standards.

Customers: A healthy Empathy Engine creates the right experience for customers at each point of contact – and gains knowledge through each interaction.

The Empathy Engine at Work



Information

A constant flow of information is generated as customers interact with a company. Harnessing that flow of information and using it to bring the company ever closer to its customers is what the Empathy Engine must do consistently to succeed.

Use Customer Care as a Mechanism for Understanding the Reality of the Customer Experience

When cases of costly escalations are the only information about customer service moving up the organization, senior leaders can quickly lose touch with the day-to-day reality of the business. A fish-lens view of the world can quickly arise – one in which failures are magnified and successes blurred at the margins, thus obscuring real customer trends and dynamics.

Compounding the problem, many leaders review aggregate metrics that are not useful in understanding the dynamics at the level where customer interactions really happen – in individual stores and call centers. Just as an individual supermarket would not use aggregate purchasing information for its region to make inventory decisions, knowing customer satisfaction only for a three-state region tells a leader nothing about the behaviors that make some stores stand out, and some fall behind. An Empathy Engine seeks to collect and disseminate information that provides a realistic view of customer care to executives, at a level of aggregation that allows for effective interventions.

Most call center managers can listen to customer interactions real time. But not many vice presidents bother with that level of detail. A Vice President at a Credit Card Issuer had software installed on his office PC so he can listen to live interactions whenever he gets a spare moment. In addition, when he visits a call center, he spends 60-70% of his time speaking with reps in small focus groups to understand key customer issues. Thanks to these efforts, he has a visceral understanding of the daily goings on in the call centers – which helps to guide his decisions.

A Food and Beverage Company created a program to deliver customer metrics at the store level in order to provide this information to store managers so that they could make a difference with their customers and employees. This level of detail has also enabled the company to think strategically about how similar stores should operate, identify high-performing locations and track the impact of innovations by local managers. By the virtue of finer information, the company has become more nimble and thinks more locally, where its relationships with customers are actually created. The Director of Customer Care and Performance Measures explained, “We want to give partners [employees] a customer satisfaction number that they can engage with, one that they can sit down and talk about.”

A Healthcare Insurer saved money and improved customer satisfaction by mining data to understand the nature of customers’ issues and then proactively solving them. By mining the data, the company realized that many members who signed up via the web would follow up with a call to find out if the application was received and when they would get their membership card. Understanding this, the company implemented a sophisticated outbound voice technology that called customers to let them know when their application was received and when they would get the card. During this call, members were also asked if this service was useful, and a resounding 90% said yes. Furthermore, 33% of customers said they would have called the company had they not received the call – an estimated savings of \$2mm.

A Healthcare Insurer saved money and improved customer satisfaction by mining data to understand the nature of customers’ issues and then proactively solving them.

Leverage Customer Care as a Source of Innovation

Customer service centers can provide the most authentic voice of the customer in the organization. Call centers and service outlets are where customers and products “meet,” so employees in these environments see what customers do and do not like, and what they do and do not understand. Hence, when something is broken, call centers and service outlets will see the problems recurring, and will often have ideas about how to fix them.

Furthermore, the frontline will see trends (or can be trained to recognize them), so that dots get connected and repetitive calls about certain product features or about specific service policies translate into new products and services.

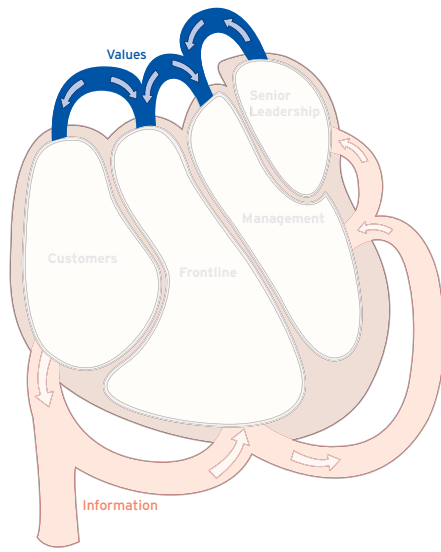
A Credit Card Issuer asked its call center reps, “What are some of the policies and procedures that are barriers to you providing extraordinary customer care?” Once they had identified recurring problems, they “approached the general managers of marketing to figure out how [they] could fix” them. Barrier after barrier fell, and as they did, the reps were updated on how their input was shaping the company.

When an Airline removed a beloved snack from its flights, it encouraged its frontline and customers to “save the snack” with poetry and creative feedback. This response to customers’ desires gave the frontline another outlet, beyond the typical surveys, to tell the company how to best satisfy customers.

A Call Center Outsourcer alongside its client – a Wireless Provider – implemented a pilot called Enhanced Care focused on resolving all customer issues on the first call and identifying the issues they believe each customer is likely to encounter in three months time. The pilot was so successful that the Wireless Provider took this information to senior management, and the findings have helped the company take a fresh look at how it thinks about customer care.

“What are some of the policies and procedures that are barriers to you providing extraordinary customer care?”

The Empathy Engine at Work



Values

A company can have complete information about what its customers want, but unless it actually places value on meeting those demands, it can never develop genuine, valuable customer relationships. The Empathy Engine values its relationships with customers. It establishes, lives, and shares these values that shape its long-term strategy, day-to-day decisions, and frontline improvisation.

Harness the Power of Storytelling

Storytelling is a compelling way to reinforce behaviors by illustrating values in action and motivating people across the company with the examples of customer care heroes.

In some businesses, like in a coffee shop or luxury hotel, the frontline staff can witness customer satisfaction and take pride in customers' happiness – everyday pictures worth thousands of words. However, in call centers and the back office, you need the thousands of words of shared stories to demonstrate how the work the staff is doing contributes to customer satisfaction and the company's bottom line – and storytelling becomes increasingly important. Storytelling builds intuition around the Empathy Engine by demonstrating how it is lived out in customer interactions, providing role models, guiding staff, informing management, and creating a sense of community.

A Food and Beverage Company instituted a “conversations and connections” program to allow employees to share stories everyday about interactions with customers to find ways to deliver a more consistent customer experience. In addition to initiating and promoting change, these stories are then passed up the organization as a way to share values anecdotes.

A Senior Vice President of Customer Care at a Wireless Company has become a living legend within the company for her meteoric rise to the top from her start as a successful call center representative. Employees throughout the organization attribute her success to her drive and her philosophy of focusing on customer satisfaction. Now, when she visits call centers, she is mobbed for signature requests.

One important role for senior leaders at a High-End Hotel Chain is to collect stories themselves as they visit hotels. For example, one family said they return year after year to a particular hotel because of the relationship their young daughter developed with the pool staff. These stories add color and context to morning meetings and decision-making. Furthermore, as the Executive Vice President of Marketing explained, “Business language has zero emotional currency; people are wired to respond emotionally to stories.” Understanding how guests feel about their services requires telling stories, not just sharing statistics.

A Call Center Outsourcer uses a program it calls “Service From the Heart” as a way of identifying, collecting and sharing stories about the importance of providing empathetic service. Colleagues can nominate each other, and the best stories are shared each month via newsletters, closed-circuit TV, and team meetings.

“Business language has zero emotional currency; people are wired to respond emotionally to stories.”

Create and Support Community

Shared values strengthen community, whether at a university (where intellectual freedom and honesty are shared values), in a factory crew (where speed and safety are shared values), or in a professional services firm (where client impact and employee development are shared values).

Companies and their customers share important values too, like efficiency, solving the customers' problems and providing economic value to the customers. Creating a strong community between companies and their customers can highlight these shared values and provide the foundation and context for meaningful customer relationships.

The Vice President of Care at an Energy Provider sees his company's core values as a critical part of his job. He understands that creating a strong community with the company's customers is a critical component of living out the company's values. Representatives from the care division sponsor and lead public events on weekends and holidays about how customers can save electricity. "These types of events where we help create value for our customers are inspiring for our people and help to build customer relationships." These events bring company representatives and customers together to reinforce shared values of efficiency and building economic value in a way that builds customers' trust that the company has their best interests in mind. This trust allows existing relationships to deepen and lays the groundwork for new ones.

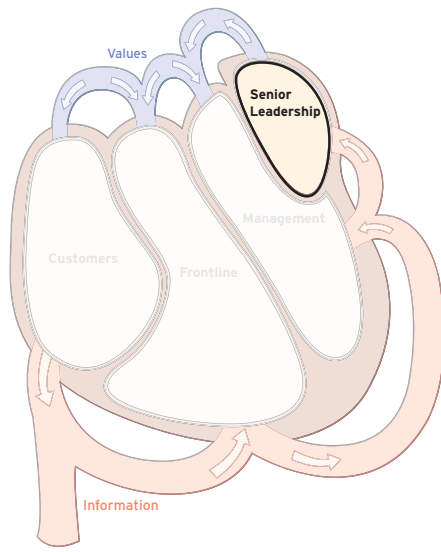
"These types of events where we help create value for our customers are inspiring for our people and help to build customer relationships."

A Food and Beverage Company sponsored regular free ice cream socials, establishing itself as a social center for the town. The frontline staff believed deeply in the benefit of these socials since they gave the community a center of gravity and reinforced the role the company served as a social center in the life of the town.

Well-known retailers like Barnes & Noble and the supermarket chain Wegmans provide a range of free and fee-based services that strengthen the company-customer community. Barnes & Noble is famous for hosting readings and book signings that allow well-known authors to connect with the readership. Wegmans hosts cooking classes and special events, like a hands-on "Halloween Party" for parents and children, that bring customers with similar interests together in a friendly environment, nurturing relationships among customers, and building a stronger shared community.

A Technology Company launched an innovation program that utilized community-building events as a way to generate new product ideas and build ties to customers and employees. The company invited programmers from within and outside the organization to come together on a given day to generate and then code new product applications. This not only created a host of innovative ideas, but also allowed the company to connect with existing and potential customers in a new and creative way. Furthermore the company believes that this "live" social networking, as well as online social media, is a compelling value offering for its customers.

The Empathy Engine at Work



Senior Leaders

Senior leaders recognize the bottom-line impact that customer care can have, and rally – through their values and decisions – the company around living in their customers’ shoes.

Customer Care Not a Cost Center

Historically, many senior leaders have thought of customer care as a cost center and made the top-down changes necessary to realize efficiencies. While flawed as a long-term approach, this sustained focus on reducing costs should enable senior leaders to now shift and think of customer care as a way to drive profits.

Viewing customer care as a profit center means thinking about every customer interaction as a way to deliver value to the bottom line. As the following examples show, the work of the frontline of your organization – the everyday interactions between your staff and your customers – can boost revenue and profits.

An Energy Provider developed a new product – more complicated to sell, but highly profitable for the company and more valuable to its customers. As an experiment, the company began using its inbound call centers to sell the product, which required longer call times and additional training for reps. At first anxious about the added cost, the company soon saw its investment justified as inbound call centers evolved into the single largest sales channel for the company’s most strategically important product. Based on this effort, customer care is increasingly recognized as a strategic partner.

After years of squeezing its call centers for efficiency, an Online Brokerage realized it needed to start thinking harder about how to create sustainable client relationships. Without strong relationships, the brokerage realized it had no hope of growing its share of the clients’ wallets and it soon found that when client relationships developed, attrition dropped. As one executive put it, “We don’t want to lose gains on productivity, but we also don’t want to give incentives to associates to get off the call before an issue is resolved. We do everything we can to solve [clients’] problems before they hang up.” Instead of a cost center, customer care had become a satisfaction center.

While other companies settle for interactive voice response systems and outsourced call center representatives, a Hotel and Leisure Company has refused both of those tactics. Instead, call centers are “strategic points of differentiation.” “I’ve been through periods of enormous pressure,” a Senior Vice President said, but “these touch points are not commodities.”

Customer Care Depends on Cooperation

Generally, companies think of customer service as the responsibility of one or more silos (e.g., retail, call center). However, many other functions can improve or hinder the work of the customer care operation and the experience of the customer. The key is to find (and remove) the barriers to flows of information and resources and identify new connections among departments to better support customers.

This does not necessarily require moving lines and boxes on an organizational chart, but only finding the most efficient processes to get customer information to the people who need it – whether in customer service, marketing, or regulatory.

“We do everything we can to solve [clients’] problems before they hang up.”

“These touch points are not commodities.”

With the call centers at risk of making promises that its hotels could not deliver, a Hotel and Leisure Company created a director-level liaison role to connect hotels with the company's customer care operation. These liaisons spend the majority of their time in the hotels and must have very strong communications skills to get results without the benefit of direct reports. And although these liaisons report to the call centers, "the hotels feel like the liaisons report to them." In the end, the liaisons have become a critical connection among the leadership, the call centers and the hotels. The Senior Vice President of Interactive Marketing, who is responsible for Call Centers and the Web, explained, "The brand experience begins with our call centers, since ours is the first point of contact...Promises [made in the call centers] have to be fulfilled, or you've done nothing but damage." To back up this philosophy, the mantra in the Call Centers is, "We begin the journey; we create experiences."

**"We begin the journey;
we create experiences."**

A Large Telecommunications Company knows that its customers want personal, human experiences when they call the company's call centers. Believing that delivering personal experiences where they matter most to customers will be critical to defending their market share from a gang of upstarts, the company created an interdisciplinary team to tackle the problem. The team began by mapping the customer experience across all departments. A Vice President leading the redesign effort explained, "Rather than looking for a technology silver bullet, we are trying to identify the value moments for our customers and make sure there is human interaction in these moments." The work produced some counter-intuitive findings. For instance, the team learned that more time spent with a customer in the call center could reduce the costly work of technicians down the line and create more satisfied customers. Based on this finding, it is considering drastically rethinking "talk-time" standards in the call centers.

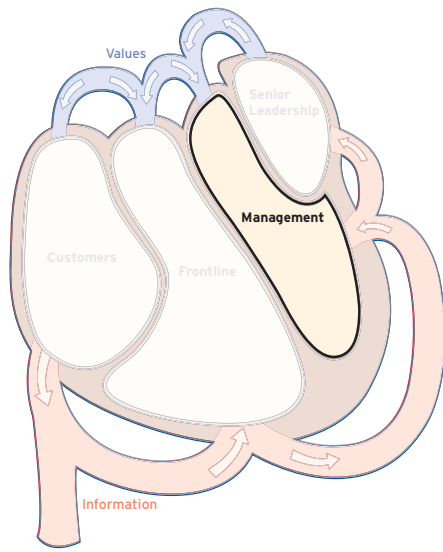
Senior leaders at a Credit Card Issuer work hard to "shift leaders through positions so that they have a broad view of the business." The former head of the customer service function now leads the company's marketing arm. Thanks to his experiences in customer service, he has a passion for making sure that his people are close to customers and are making decisions in line with customer needs.

A Bank set a new strategic vision: providing holistic wealth management services for its clients. However, the financial advisors' success to date was based on entrepreneurial and independent behaviors – and therefore the gap to reach this strategy was significant. Senior management realized that to create a new customer experience, it needed to gain deliberate and structured cooperation among the senior leaders, and pursued that path to gain the behavior change necessary at all levels. The Vice President of Business Support for Marketing explained, "In our new model, advisors need to feel comfortable pulling in experts from different groups to provide broader wealth management services. We [senior leaders] want to add value to the advisors so that they can add value to their clients."

A Healthcare Insurer is engaged in a broad-scale effort to transform the customer experience and become one of the best customer service providers in the marketplace, regardless of industry. As a part of this effort, all departments, whether or not they are customer-facing, are participating in training sessions focused on new customer service values (e.g., reliability) and new filters to use when making decisions in the course of a day (e.g., "put your head in the head of the customer"). Call centers, claims processing groups, and sales teams alike are all participating in these sessions. As the Chief Service and Information Officer explained to frontline employees, "You are part of the value-chain, and in order to achieve perfect service, people need to rely upon you to do their jobs."

**"You are part of the value-
chain, and in order to
achieve perfect service,
people need to rely upon
you to do their jobs."**

The Empathy Engine at Work



Management

The manager's role is to care for his or her employees so that these employees can focus on taking care of their customers. To accomplish this, managers need the freedom to make decisions about their staff and how service is delivered.

The Employee Comes First

Most organizations operate according to the rule that the "customer comes first." However, this thinking overlooks the important role managers play in creating a motivated frontline that wants to solve customers' problems.

Frontline employees need to focus first on creating lasting customer relationships, while managers need to focus first on supporting their employees. Managers who focus on building pride in their frontline, who are not afraid to make tradeoffs on their employees' behalf, and who consistently model caring behavior create the right environment for their employees to put the customer first. In addition, putting the employee first can often be accomplished by connecting day-to-day work with a company's strategic goals.

At a Food and Beverage Company, managers consider the impact to their staff first when making trade-off decisions among employees, customers, and the business. On the eve of a recent mass-transit strike that affected employees' ability to get to and from work, the company closed stores early to allow employees to get home. While the decision may have disappointed customers and had a short-term negative impact on revenues, it was crucial for employees' peace-of-mind. By taking this action, employees felt valued, which increased their commitment to their job and their customers.

At a High-End Hotel Chain, managers are expected to model the service behavior they want from employees in all of their staff interactions. Employees operate according to the Golden Rule, "do unto others as you would have them do unto you." This principle is intended to guide managers in their discussions with staff in the same way that it guides employees in their conversations with guests. When a problem occurs, the managers focus on understanding what happened to cause the situation as opposed to assessing blame. This approach encourages employees to explore the root causes of a problem and to focus on what could be done differently in the future. This also gives employees an example of how to solve a guest's problem – by understanding the cause of the issue and focusing on a resolution versus blaming the guest and expounding all of the reasons the problem occurred.

The Vice President of Customer Service at a Software Provider says "the best way for your people to build good relationships with your customers, is for your managers to build good relationships with your people." He went on to say, "you need to be able to demonstrate how their work fits into the company's mission and values."

A Low-Cost Airline helped connect employees' day-to-day responsibilities with the mission and strategy of the company by developing and communicating an explicit internal brand tied to the organization's external brand. This helped employees internalize the company's brand promise to customers and served as a great source of motivation.

Push Decision-Making Closer to Your Customers

Managers are often hamstrung by corporate rules that dictate what can and can not be done with customers. Managers need to have the power to make decisions based on the real-time information they get from the frontline. By pushing decision-making closer to customers, companies can more nimbly respond to customers and can more effectively create a compelling customer service experience, based on local customer needs.

At a National Retailer, the pain of the “price check” for unmarked items has been eliminated by giving frontline employees the freedom to ask customers to name a price. When an item does not have a price tag, the checkout person asks the customer, “Do you remember the price of this item?” The employee is then empowered to “do the right thing” and accept the named price. Instead of stopping the check-out process for the customer, inconveniencing that customer and all others in line, the employee makes a decision on the spot and saves the customer and the company time and energy.

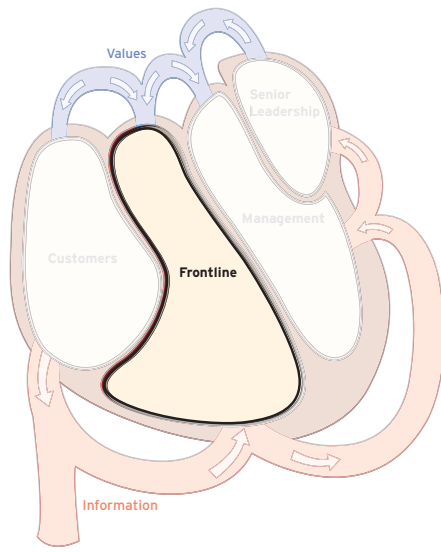
At a Food and Beverage Company, store managers are given leeway to make decisions about customer service to build a distinct store experience. Unlike product design, merchandising and marketing, this is the one area in which managers are given “space to play.” Director of Customer Care and Performance Measures explained, “Customer care is where stores get to play and be creative.” This allows managers to effectively respond to the local culture and preferences of customers and to develop events and initiatives that build relationships with the community. In one instance, a store manager decided to allow a local teen band to play in the store on certain nights of the week, which delighted the teenagers and drew a strong base of friends and family in the rural, community setting. A Regional Vice President for Retail explained, “By creating a ‘My Store’ atmosphere, we are helping our company grow big while staying small.”

A Large Telecommunications Company shifted control and decision-making to frontline managers by moving away from a functional organization to a regional organization. This change allowed managers and frontline staff to respond to customers’ requests more effectively, improving overall customer satisfaction and helping to eliminate undue process requirements imposed by a more siloed organization. As a Vice President responsible for process redesign explained, “The lower you can push decision-making, the closer to the customer it is, the more nimbly the company can react and respond to customers.”

The employee is then empowered to “do the right thing.”

“The lower you can push decision-making, the closer to the customer it is, the more nimbly the company can react and respond to customers.”

The Empathy Engine at Work



“We used to focus on how many times a rep would say a customer’s name; now we are focused on what the customers are looking for and how reps can help them fulfill their needs.”

“We want people to deliver on very specific standards, but also to be themselves.”

Frontline

The frontline must be able to navigate the delicate balance between two forces – customers’ demands for a “just for me” experience and delivering efficient customer service in accordance with standards.

Throw Away the Scripts

A company can not possibly script for every customer interaction; hence, an employee accustomed to strict scripting is an employee whose problem-solving skills have been limited.

Companies should, as far as possible, replace scripts with guidelines and values, which provide frontline employees with a decision-making framework.¹⁰ To drive good judgment without scripts, a company must tap into and reinforce employees’ pride in delivering great service. This pride provides the motivation to drive good judgment.

A Large Telecommunications Company improved customer satisfaction with its call centers by reinforcing employees’ pride in satisfying customers. By collecting and teaching the behaviors of top-performing representatives, providing consistent, positive customer feedback, and sharing live stories from the frontline, the company improved customer satisfaction scores and revenues. Instead of scripts and sales targets, the company focused on teaching a set of behaviors and consistently building pride in satisfying the customer. A Vice President familiar with the program explained, “The answers were there and obvious to everyone at the frontline; we just needed to ask them the right questions.”

A Credit Card Issuer recently moved away from scripting in its call centers. The scripts had caused representatives to focus on the wrong things, such as how many times they said a customer’s name instead of whether they solved the customer’s problem. Instead of scripts, representatives are now provided with guidelines for calls and are coached on a regular basis to encourage a focus on understanding and satisfying the customer’s needs. A Vice President in the Service Delivery Network explained, “We used to focus on how many times a rep would say a customer’s name; now we are focused on what the customers are looking for and how reps can help them fulfill their needs.”

A High-End Hotel Chain uses service standards instead of scripts to describe the desired guest interactions. The check-in service standard specifies that employees should smile, provide a sense of recognition for the guest, use his or her name in a natural manner and welcome back returning guests – and complete the process in four minutes, including queuing time. Quite different from a script, these guidelines allow frontline staff to deliver a consistent outcome, while at the same time being genuine. As the Executive Vice President of Marketing explains, “We want people to deliver on very specific standards, but also to be themselves.”

¹⁰ In some instances, such as in highly regulated industries like financial services and health care, some scripting may be necessary to meet government disclosure requirements. Our point in the main text is that such scripts should be used only when required.

Create the “Just for Me” That Matters

Every customer wants his or her personal needs to be addressed – and companies that can deliver a unique “just for me” experience build customer loyalty. But “just for me” does not necessarily mean knowing the customers’ names or their orders in advance. And “just for me” service does not have to add the expense typically associated with personalized products.

In the Empathy Engine, “just for me” means understanding the customers’ needs and solving problems effectively. This requires active listening and problem solving at the frontline.

An Online Brokerage recognized that they were serving a range of customer types, and that these customers had different needs. Some were long-term investors, while others wanted to actively trade. The company decided to segment customers by these behaviors, in addition to traditional methods, such as spend or profit. The segmentation enabled customer service reps to more quickly understand the likely needs of any particular customer, and they were able to build their problem-solving skills more deliberately.

A Food and Beverage Company instills customer services values of “connect, discover, and respond” to help deliver consistent and individual customer experiences. Connect is about engaging the customer when she walks in; Discover is about getting a sense of the customer’s particular need; and Respond is about meeting the customer’s need while really conveying that the customer is valued. Regional Vice President for Retail explained that by using “connect, discover, and respond,” “we break through the sense of billions and billions served with the sense that someone recognizes me, someone knows me; I’m not just one of thousands on Fifth Avenue. I’m a person.”

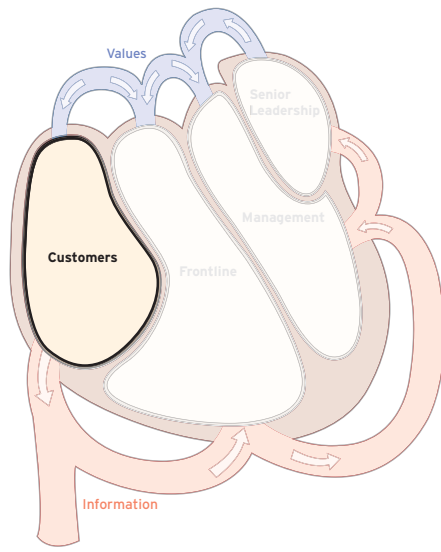
A High-End Hotel Chain that believes personal service matters builds this notion into the hiring process. Each person who receives a job offer – including housekeeping staff – has four interviews, each in part focused on determining the desire and ability to deliver an exceptional guest experience.

A Call Center Outsourcer believes that putting yourself in your customers’ shoes is absolutely fundamental. However, it realizes that this is hard to do. For example, while the call center reps are relatively young, the members of their client – a healthcare insurer – are elderly. Therefore, the outsourcer conducted a sensitivity training to simulate what it would be like for the members to open a medicine bottle or read a prescription label. “It’s all about building empathy,” one executive there said.

“We break through the sense of billions and billions served with the sense that someone recognizes me, someone knows me.”

“It’s all about building empathy.”

The Empathy Engine at Work



“We are open to trying to figure out new ways to tier. We believe that there is great value in upgrading a new hotel guest to give him a taste of the Gold Room.”

Customers

A healthy Empathy Engine creates the right experience for customers at each point of contact, and it gains knowledge through each interaction.

Create Transparent Tiers

Customer tiers have traditionally been used to ensure that the “best customers” get the best service. And, more recently, some companies have used tiering to ensure that they do not overspend on other customer groups. However, companies often overlook two additional levers that can drive customer experience and profitability:

- Consideration of the customer’s total wallet – not just what he or she spends with you
- The creation of opportunities to opt-up – by providing more transparency around tiers and a sensible fee system

Too often, customers are assigned to tiers before their real value to a company is fully understood, leaving money and margin on the table.

A Credit Card Issuer that was an early innovator in tiering continues to leverage this information asset to experiment. It allows customers to buy the tier (service level) they want. They are also taking into account customers’ total wallets when designing tiering options.

A Hotel and Leisure Company has committed to providing an upgrade upon check-in to its most valued customers. Recently it experimented with offering an in-the-moment upgrade to first-time customers. It believes that there is a significant loyalty opportunity if you can create a “platinum-level” experience for a first-time customer. As the Senior Vice President of Interactive Marketing explained, “We are open to trying to figure out new ways to tier. We believe that there is great value in upgrading a new hotel guest to give him a taste of the Gold Room.”

A Large Telecommunications Company decided to create service offerings that customers can purchase – to address customers’ demands for service and cost pressures within the industry. In doing so, the company had to establish a customer service baseline and then make this transparent to customers. Simply by communicating and delivering on the baseline, the company got positive feedback from customers who understood what to expect.

A Legacy Airline created an opportunity for any coach passengers to “opt up” to a preferred coach seat – one with more leg room – for a small sensible fee. Historically, only Elite members were offered an upgrade (at no charge). This decision to make benefits more attainable creates another revenue stream for the company, while giving all customers a choice and opportunity for a better experience.

“Wow!” Is About Consistency and Making the Most of Recovery Moments

Setting high customer expectations and consistently meeting them is more important than exceeding expectations in any given customer interaction. Consistently meeting your customers’ expectations – especially in an industry where this is rare – will earn you a loyal “wow!” from your customers.

Of course, even among the best, mistakes happen. When they do, you have the perfect opportunity to delight your customers. Recovery situations are the appropriate time to strive to exceed and delight. Companies can not design these moments. The experiences that inspire customers to tell stories happen organically when a company makes an unhappy customer truly happy.

A High-End Hotel Chain emphasizes to frontline employees that getting the basics right is one of the most important elements of service. For example, in their hotels, there are likely to be 5,000 guest-staff interactions in a day – or about 20 for any given guest. These are never all going to be “wow!” experiences in and of themselves. However, if each staff member gets the basics right in every situation, a good experience is assured. Executive Vice President of Marketing explains, “People begin with the assumption that the extraordinary is the most important. Yet what is really important is how often you get it right on the basics, given all of the variables in play.”

An Airline takes consistency to the next level. It is very focused on the brand experience that a customer receives, and ensures that whether a customer is online, on the phone, listening to a radio ad, at check in, or on the plane, he or she will receive the same messaging and same service values.

A Food and Beverage Company encourages its people to always provide a new beverage if a customer is dissatisfied. They recognize that the minimal cost of the beverage and the rework is significantly outweighed by turning a bad customer experience into a “wow!” experience.

“Yet what is really important is how often you get it right on the basics.”

Conclusion

As the preceding examples make clear, companies that push customer service beyond the frontline are able to realize, in a sustainable way, the highest levels of long-term benefits from their customer service activities. These companies embrace, in their values and practices, a company-wide ethos of empathy with the customer, enabling the entire organization to respond cohesively and meaningfully to its customers' needs.

Too many companies still fall prey to customer service problems arising from common misconceptions about how good customer service is achieved. They depend on scripted responses at their call centers, rely on a customer-comes-first ethos, and relegate customer service to a cost-center status.

By contrast, companies that employ the Empathy Engine approach represent a shift away from a linear, hierarchical concept of customer service to a more holistic approach that involves senior leadership, management, the frontline, and customers. This approach sustains interactions with a constant flow of information and shared values. These companies realize distinctive and sustainable competitive advantages based on customer relationships that can not be easily replicated by their competitors. The result: increased market share, shareholder value and profitability.

References

- Beaujean, M., J. Davidson, and S. Madge. 2006. The moment of truth in customer service. *McKinsey Quarterly*, Number 1, 2005, 62-73.
- Bharadwaj, S., Varadarajan, R, and J. Fahy. 1993. Sustainable competitive advantage in service industries: A conceptual model and research propositions. *Journal of Marketing*, 57: 83-99.
- Fleming, J., C. Coffman, and J. Harter. 2005. Manage your human sigma. *Harvard Business Review*, July-August 2006.
- Fornell, C., S. Mithas., F. Morgeson., and M.S. Krishnan. 2006. Customer satisfaction and stock prices: High returns, low risk. *Journal of Marketing*, 70: 3-14.
- Heskett, J., T. Jones, G. Loveman, W. Sasser, L. Schlesinger. 1994. Putting the service-profit chain to work. *Harvard Business Review*, March-April, 1994, 164-170.
- Reichheld, F. and Sasser, W. 1990. Zero defects: quality comes to services. *Harvard Business Review*, Sept-Oct, 1990, 105-111.

The most recent list of our office addresses and telephone numbers can be found on our website, www.booz.com

**Worldwide
Offices**

Asia

Beijing
Delhi
Hong Kong
Mumbai
Seoul
Shanghai
Taipei
Tokyo

**Australia,
New Zealand &
Southeast Asia**

Adelaide
Auckland
Bangkok
Brisbane
Canberra
Jakarta
Kuala Lumpur
Melbourne
Sydney

Europe

Amsterdam
Berlin
Copenhagen

Dublin
Düsseldorf
Frankfurt
Helsinki
London
Madrid
Milan
Moscow
Munich
Oslo
Paris
Rome
Stockholm
Stuttgart
Vienna
Warsaw
Zurich

Middle East

Abu Dhabi
Beirut
Cairo
Dubai
Riyadh

North America

Atlanta
Chicago
Cleveland
Dallas
Detroit
Florham Park
Houston
Los Angeles
McLean

Mexico City
New York City
Parsippany
San Francisco

South America

Buenos Aires
Rio de Janeiro
Santiago
São Paulo

About the Author

Traci Entel is a Booz & Company partner in New York. She specializes in helping clients across many industries drive sustainable advantage based on how frontline employees engage with customers.

The author wishes to thank Sarah Grayson and Nathan Huttner for their substantial contributions to this perspective.
