BusinessWeek

EXTREME CUSTOMER SERVICE February 19, 2009, 5:00PM EST

Customer Service in a Shrinking Economy

How companies are struggling to maintain customer service amid sinking sales and declining employee morale

By Jena McGregor, Aili McConnon and David Kiley

Hertz (HTZ) couldn't ask for a better customer than Richard M. Garber. The Cleveland-based business development manager typically rents cars from the chain 20 to 40 times a year when traveling on business for materials manufacturer FLEXcon. But now Garber is rethinking that loyalty. In the past month he has returned Hertz cars to the Boston and Minneapolis airports only to find nobody waiting with a handheld check-in device. In Minneapolis, Garber had to drag his bags to the counter to return his car; in Boston, he finally tracked down an employee who came out and explained that some colleagues had just been laid off. "When you're rushing for an airplane, every minute counts," says Garber. "The less convenient they are, the more likely I am to try someone else."

As the economy plunges deeper into recession, many companies are confronting the same brutal choices Hertz faced when it announced layoffs of some 4,000 people on Jan. 16. While businesses may feel forced to trim costs, cutting too deeply can drive away customers. Hertz spokesman Richard Broome says the company has reduced "instant return" hours at some smaller airports but is making adjustments to restore that service in locations where it "might have gone too far." Says Broome: "You try to create the right balance."

Across the business world, managers are trying to pull off the same perilous high-wire act. Just as companies are dealing with plummeting sales and sinking employee morale, skittish customers want more attention, better quality, and greater value for their money. Those same customers are also acutely aware that their patronage is of growing importance to companies as others decrease their spending. BMW Vice-President Alan Harris argues that in the current environment, consumers expect "that anyone who is in the market with money to spend is going to get treated like a king."

KEEP THE FRONT LINES STRONG

The reality, of course, is that the opposite is often true. From retailers such as Talbots (TLB), which have stiffened their rules on returns, to airlines that now charge for checked bags, companies are stretching budgets in ways that can make things tougher for customers.

But the best performers are actually doing more to safeguard service in this recession. Bruce D. Temkin, principal analyst for customer experience at Forrester Research (FORR), says about half of the 90 large companies he recently surveyed are trying to avoid cuts to their customer service budgets. "There's some real resilience in spending," says Temkin.

That's especially true for many of the winners of our third annual ranking of Customer Service Champs. Top performers are treating their best customers better than ever, even if that means doing less to wow new ones. While cutting back-office expenses, they're trying to preserve front-line jobs and investing in cheap technology to improve service.

If anything, the tough economy has made starker the difference between companies that put customers first and those that sacrifice loyalty for short-term gain. In this year's ranking, based on data from J.D. Power & Associates, which, like *BusinessWeek*, is owned by The McGraw-Hill Companies (MHP), more than half of the top 25 brands showed improved customer service scores over last year. Among the bottom 25 of the more than 200 brands surveyed, scores mostly fell.

Smart players have learned from previous downturns. Companies used to go after customer reps with the same blunt ax used elsewhere. Now managers are starting to understand the long-term damage created by such moves, from eroded market share to diminished brand value. The International Customer Management Institute, a call center consultant, has done studies that show eliminating just four reps in a call center of about three dozen agents can increase the number of customers put on hold for four minutes from zero to 80.

A better strategy is to get more out of the people you have. USAA, the insurance and financial services giant that caters to military families and ranks at No. 2 on our list, started cross-training its call center reps in 2007. Some 60% of the agents who answer investment queries can now respond to insurance-related calls. Not only did such training curb call transfers between agents, which drive up the cost of running a call center, but it also improved productivity. Even with Hurricane Ike and the stock market's financial crisis prompting a flood of calls to USAA's contact centers last year, the cross-training meant the company didn't have to expand its call center staff. Existing reps are more empowered to deal with customers, even if they may also have to do more work. No. 25 JW Marriott (MAR) is training administrative assistants to step in as banquet servers when needed. And in November, brokerage Charles Schwab (SCHW), No. 21 on our ranking, launched a "Flex Force" team of employees such as finance specialists and marketing managers at its San Francisco headquarters to handle calls on days of, say, rapid market fluctuations.

For those that slash costs, the challenge is keeping customers from noticing. Putting call center reps under one roof, for example, can eventually save as much as 35%, says Scott Casson, director of technology services at consultant Customer Operations Performance Center. On Feb. 12, USAA announced it will combine its six call centers into four; companies such as No. 11 KeyBank (KEY) and Ace Hardware, No. 10, have also consolidated operations in the past year. Ace plowed the savings from that move into longer evening and weekend hours for customer calls. "During tough times there are plenty of other pressures customers face," says Ace Vice-President John Venhuizen. "We don't want a customer service issue to be what makes them blow their cork."

PLEASING REPEAT BUYERS

Hoteliers also are trying to trim in ways customers are unlikely to detect. They're increasingly combining purchasing power to get better deals across properties that are within the same chain but may have different owners. Some hotels in the Four Seasons (FSH) chain, No. 12, are joining up to buy goods and services such as coffee, valet parking agreements, and overnight cleaning contracts that each hotel once bought on its own. JW Marriott hotels are teaming up to buy landscaping services that would be costlier if contracted for separately. The Ritz-Carlton, No. 5, is doing laundry at night to save electricity and replacing fresh flowers at posh properties with potted plants. With occupancy rates falling, notes Ritz COO Simon F. Cooper, "you have to get better because you're forced to."

As the game changes from acquiring new customers to keeping old ones, companies are shifting more resources to their steady patrons. They're the ones who pay the bills. And while first-time guests may not miss the absence of fresh flowers, repeat customers probably will. "It's the little things that often got you in the crook of those loyal customers' arms," says Jeanne Bliss, a former Lands' End (SHLD) service chief who now coaches customer service execs. That has led to a renewed emphasis on "tiering"—routing elite-level customers to better agents, nicer surroundings, or faster service.

Consider No. 7, Zappos.com, the online shoe retailer whose devoted fans rave about its free shipping on both orders and returns. The retailer had typically upgraded both first-time and repeat customers to overnight shipping even though it wasn't advertising that perk. But starting in 2009, Zappos will no longer offer overnight upgrades to first-time visitors. Instead, CEO Tony Hsieh is moving those dollars into a new VIP service for Zappos' most loyal shoppers. Launched in December, the site, which for now can only be accessed by loyal customers who receive an invitation, promises overnight shipping and plans to offer earlier access to sales and new merchandise than the plain-vanilla site. (Repeat customers who aren't yet asked to join the VIP service will continue getting the overnight upgrade for now.) "We decided we wanted to invest more in repeat customers," says Hsieh. "We're shifting some of the costs that would have gone into new customers."

Some are also getting tougher on suppliers who serve their most frequent customers. No. 24 L.L. Bean dropped Bank of America (BAC) as its vendor of store-branded credit cards in July 2008. The outdoor outfitter says the bank wasn't measuring up in terms of its vaunted customer support. Complaints about long hold times and call transfers between the bank's customer service agents were "endless," says Terry Sutton, L.L. Bean's vice-president for customer satisfaction. (Bank of America says it doesn't comment on specific relationships but is "focused on providing competitive products and exceptional customer service.") L.L. Bean switched to Barclays (BCS), which meant customers had to reapply. The risk that some might not take the time was high. "From a service standpoint, it was loaded with land mines," says Sutton. But she felt the move was worth it, especially since Barclays gave them a say on agents' scripts and set up its call center in the retailer's home state of Maine. Over 60% of cardholders have already switched.

Some companies are experimenting more with cheap technology, such as responding to customers via Twitter after they broadcast their complaints to the world. Other tech upgrades for customers can deliver unexpected cost savings. When No. 22 BMW rolled out Wi-Fi service at its dealerships last year, the move was intended to give customers a cheap way to pass the time while their cars were serviced. The cost was next to nothing since BMW just expanded the broadband dealers already used to run their businesses. But now that customers can use their waiting time productively, fewer are opting for free loaner cars, which are pricey for dealers to maintain. BMW's Alan Harris says Wi-Fi, along with software that helps dealers better estimate loaner needs, has helped BMW cut its monthly loaner expenses by 10% to 15%.

When companies come up with simple, low-cost ways to trim costs while improving life for customers, they're likely to win in good times and bad. "I have a saying: 'Fix the customer before you fix the car,' " says Harris. "If you focus on fixing the customer's problem first, the rest is easy."

BUSINESS EXCHANGE: READ, SAVE, AND ADD CONTENT ON BW'S NEW WEB 2.0 TOPIC NETWORK

Cheap Tech to Create Sticky Sites

In "The Economic Necessity of Customer Service: Five Recession-Busting Strategies to Cut Service Costs and Increase Sales," Forrester Research (FORR) analyst Natalie Petouhoff suggests "proactive chat" software that engages online shoppers to prevent them from leaving the site. She also likes Web communities where customers can help each other solve problems and "co-browsing" tools that let call center agents navigate the site alongside the customer.

To download Petouhoff's report, go to http://bx.businessweek.com/customer-service/reference/ (The download is free but requires registration.)

Return to the Extreme Customer Service Table of Contents

McGregor is BusinessWeek's management editor. McConnon is a staff editor for BusinessWeek in New York. Kiley is a senior correspondent in BusinessWeek's Detroit bureau.