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The Right Kind of Buzz

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Six Sigma Forum Magazine
February 2011

A lean Six Sigma (LSS) effort focused on an enhanced customer experience yields 10X to 20X more impact than one concentrating on improving organizational efficiency. To realize this payoff, LSS practitioners must modify their methodology to: (1) recognize a broader set of the causes of customer dissatisfaction; (2) reorient LSS project selection criteria to emphasize the revenue payoff of improved quality and service; and, (3) expand the set of corrective actions considered in solutions.

The Right Kind of Buzz

FOCUSING LEAN SIX SIGMA ON IMPROVING CUSTOMER EXPERIENCE AND WORD OF MOUTH WILL ENHANCE TOP-LINE REVENUES

By John Goodman, TARP Worldwide

The majority of lean Six Sigma (LSS) efforts are aimed at improving organizational efficiency. But revenue and word-of-mouth implications of an enhanced customer experience are often 10 to 20 times greater than the cost of improvement. Therefore, LSS practitioners often don't focus on the projects with the greatest potential payoff.

There are three areas in which LSS practitioners should modify their approaches, which can be illustrated with examples from a major insurance company and other organizations:

- Understanding an expanded set of causes of customer dissatisfaction, including marketing and sales.
- Redefining the project selection criteria for projects to stress the revenue payoff of improved quality and service.
- Expanding the range of fixes the LSS process should consider in developing improvements.

Causes of customer dissatisfaction

Managers usually assume the primary sources of customer dissatisfaction are products with defects due to failure to adhere to specifications or manufacturing employee errors. While up to half of dissatisfaction may result from such causes, a large minority—and in some cases a majority—of dissatisfaction occurs when the product is delivered exactly according to specifications.

These causes occur outside the manufacturing or service production process and are due to customer errors, poor product design or misleading marketing and sales. Therefore, you can deliver the product exactly as intended, and the customer still says, "I'm unhappy."

Further, these nondefect issues often cause more dissatisfaction and damage to loyalty than a more standard defect because the customers may feel they have been misled. Unfulfilled expectations, especially when the customers feel misled, often create two to four times more damage to loyalty as a simple frontline mistake or product that has broken.

Customer error: Customers seldom read directions and make assumptions (some reasonable and others unreasonable) about how a product should operate. As a result, they often misuse the product, which causes unsatisfactory outcomes.

For example, a liquid bleach company routinely receives suggestions to improve the bleach's taste because consumers use it straight from the bottle to whiten their teeth—obviously, not a recommended use. One consumer electronics manufacturer has a card in the top of a box that says "When all else fails, try reading the directions." In dozens of speeches, I've asked audience members how many have read their automobile manuals or insurance policies.

Always, less than 5% of the audience members have read them. Exclusions in the fine print in an insurance policy create unpleasant surprises in exactly the same way a complex TV remote or computer software package leads to frustration and dissatisfaction.

Product design: Products not designed intuitively lead to frustration and error. Overengineering and complexity lead to failure to use correctly, or failure to use much of the product's functionality. For example, most consumers only use a few of the 30-plus buttons on their TV remote controls and become frustrated if they accidently push the wrong button and don't know how to recover. Likewise, over-engineered or poorly designed service processes lead to broken promises and unmet expectations.

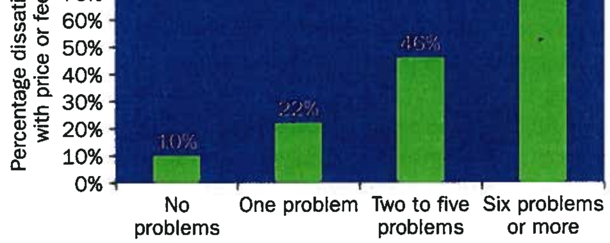
Misleading marketing and sales: Dissatisfaction from this source does the most damage because customers feel they have been intentionally misled. Customers are willing to forgive manufacturing or operational mistakes, but they are not willing to forgive being lied to. When sales or marketing fail to clearly communicate product limitations, they are, in fact, creating dissatisfaction of the worst kind.

An example is a warranty portrayed as "bumper to bumper" or "lifetime" that turns out to have significant exclusions or limitations. Any contract, warranty or financial service account with fine print, nonintuitive definitions and footnotes is open to creating this type of dissatisfaction. For example, most tire warranties cover road hazards but not nails or cuts to the side of the tire that could happen from a rock or pothole. Consumers expect these to be covered by the road-hazard definition, and they are seldom left satisfied in these situations.

Quality assurance and customer experience managers must start addressing these types of issues if they are to fully address the causes of a poor customer experience. Quality assurance cannot delegate these causes to other parts of the company because those involved with sales, marketing and communications have little incentive—and in many cases a disincentive—to address them.

If quality assurance and customer experience focus only on the traditional quality issues, this leads to scenarios in which many problems are not corrected or in which organizations allocate excessive resources to an internal fix when a less expensive external fix—such as resetting customer expectations—is the best option. This is addressed in the solutions section.

Figure 1. **Problems raise sensitivity to price**



Rethinking project selection criteria

When certain issues are considered for LSS projects, the focus tends to be on the amount of rework, waste and lost time incurred that can be prevented. Dissatisfaction is considered but only in a general manner not often quantified or monetized. The fact that the customer has encountered a problem must be monetized because it often has a much larger impact on the bottom line than the wasted internal resources.

There are three ways a better customer experience affects the top line:[1]

1. Loyalty: Avoiding customer problems increases loyalty by about 20%, and resolving an existing problem raises loyalty from 30 to 50% as opposed to leaving customer problems unresolved. A good rule of thumb is if the customer encounters a problem with the product or service, there is a 20% chance the customer will not buy it the next time he or she is in the marketplace. Therefore, for every five customers who encounter problems, the revenue equal to one loyal customer is at risk. If you use a conservative value for the customer, you can make a credible business case using revenue.

2. Word of mouth: A negative experience causes two to four times as much word of mouth (or word of mouse on the internet) as a positive experience. Every interaction, whether it's sales, information seeking or service, has the potential of generating word of mouth. If even 20% of interactions are unsatisfactory, the net word of mouth can be negative. For most organizations, at least 25% and often as much as 75% of new customers are obtained via word of mouth. If your net word of mouth is negative, your marketing and sales dollars are much less effective.

Creating remarkable delight—proactive education

A NEGATIVE EXPERIENCE CAUSES TWO TO FOUR TIMES AS MUCH WORD OF MOUTH (OR WORD OF MOUSE ON THE INTERNET) AS A POSITIVE EXPERIENCE.

on avoiding problems—creates word of mouth via delight and 30% higher loyalty. The customer's reaction is, "You cared enough to take the time to educate me and warn me how to avoid the problem."

3. Margin: CFOs are always pressing product managers to increase margins. But there is a limited number of ways to increase price and decrease costs. TARP Worldwide, a consultancy firm focused on customer satisfaction and loyalty, has seen organizations such as Neiman Marcus, John Deere, Starbucks and Harley Davidson show that you can charge a premium of 10 to 40% for superior quality and service.

In many studies, TARP has asked survey respondents the following question: "How satisfied are you with the prices and fees charged by [insert company name]?" TARP then analyzed dissatisfaction with price compared to customers' recent problem experiences. There is a strong—and certainly not surprising—relationship between problem experience and sensitivity to price.

For example, among banking customers, only 10% of customers were dissatisfied with fees and charges if they had not had a recent service problem, as shown in Figure 1. Of those who had one recent service problem, more than twice as many (22%) were sensitive to current prices. If the problems were frequent, the percentage doubled again. When customers have bad service, they say, "Given what I'm paying, this should not have happened!" If they get great service, they will say, "You're expensive, but you're worth it."

In short: Superior service and quality is one of the easiest ways to justify higher prices and margins.

Also, these customer problems end up not only hurting loyalty, but also producing excessive support costs. When the customer gets into trouble, it is often much more costly to diagnose the issues, leading to more calls to support centers and higher costs related to staffing those centers. For most contact centers, as many as 30% of calls could theoretically be prevented, which reduces cost.

What is the solution?

There are three solutions to the quality problems noted earlier that quality professionals usually do not consider or believe are beyond their responsibility.

Product redesign to allow for customer behavior. Identify the alternative approaches the customer will take to the product and modify it to be forgiving. One auto insurance company recognized that wear-and-tear charges on leased cars was a huge dissatisfier, and it built $1,500 of wear and tear charges into the original lease. The lease was a little more expensive over four years, but the unpleasant surprise was almost completely eliminated.

Many years ago, TARP identified for Avis Europe that the single biggest customer point of pain was standing in line at the airport returning the rental car while his or her departing flight was leaving. This led to the creation of the handheld computer now used for car returns by all major rental companies.

Transparent, honest simple marketing and sales. At one Mercedes dealership TARP works with, it posts a sign in the customer waiting area that reads: "Our labor rate is only $90 per hour, and this is what you get for it: One million in parts, 20 certified technicians and the latest diagnostic equipment." They also have a sign that says "We give loaner vehicles in S, B and C situations, but not in D, E and F situations."

The major insurer has simplified its policies and made issues such as rates and premium payments clear. It acknowledges that accidents can raise rates, but it also advertises a rate that allows for accident forgiveness.

Proactive education and service to prevent problems or mitigate customer errors. This strategy leads to fewer problems and calls, and higher self-service adoption and user satisfaction. Proactive education and service is best implemented using these two key concepts:

1. **The "psychic pizza" concept.** Anticipating and delivering education and service to your customers just in time or, better yet, before they even know they need it. Just like the pizza delivery man approaching your door and saying "This is the pizza you were about to order."
2. **The "sip of water" concept.** You know the saying "You can lead a horse to water, but you can't make him drink." But if you can get the horse to just

take a sip, he is much more likely to continue to drink. Guiding a customer the first time through a self-service exercise will greatly increase the likelihood the customer will continue to use the self-service option.

Redefining the problem and solution

The following example shows what appears at first to be a broken process but ultimately has turned into an opportunity to enhance customer satisfaction and the top line.

An LSS team at a major insurer recently was asked to address an aspect of the annuity product area that caused employee frustration and inefficiency. The issue the team was asked to help address was the fact that when the person holding an annuity dies, the beneficiary (for example, the spouse) must complete forms to receive the remaining investment money as a lump-sum benefit. The beneficiaries were required to fill out and return the forms. This apparent delay resulted in multiple contacts from the insurer and additional paperwork, as well as employee frustration in trying to close cases.

When the LSS team started talking to customers via interviews and surveys, it discovered the company had made an incorrect assumption in building the process. The company assumed the beneficiary wanted the annuity paid out as a death benefit. In fact, the beneficiary wanted to continue the annuity payments as income and didn't fill out the forms because he or she didn't want the payout. Further, the beneficiary was often confused by the forms, especially in the fragile emotional state after the annuitant's death.

When the team understood the customer's understanding of the current process, desires and mental state, the process could be reengineered to allow for these needs. Customers were given simplified forms that provided education and options. Proactive communication to ensure understanding was initiated. The impact was significantly enhanced satisfaction, loyalty and compliance, and the need for multiple contacts was reduced dramatically.

Further, the major insurer received a significant topline payoff: Assets in the annuity were not redeemed and lost to the investment pool, but instead could remain under management for up to five additional years. In the investment industry, the gold standard is to retain the assets instead of paying them out, and this process improvement achieved that, as well as productivity and satisfaction improvement.

In another example, New Jersey Natural Gas Co. (NJNG) was able to transform the routinely frustrating experience of waiting at home for a utility repair technician into a low-cost delightful experience using TARP's psychic pizza concept—just-in-time information delivery.

Usually, customers would call for service and receive an appointment in a wide range of hours—for example, between 8 a.m. and noon Thursday. At 3:30 p.m. Wednesday, the customer would call and ask, "Is the technician really coming tomorrow?" At 8:15 a.m. Thursday, the customer would call again and ask, "When is the technician coming?" Then at 10 a.m., the customer would call yet again and ask, "Is the technician really coming before noon?"

NJNG now collects an e-mail or phone text address at the creation of the appointment. At 2:30 p.m. the day before an appointment, NJNG sends a message confirming the appointment. The customer also will get a call after 8 a.m. Thursday to say the technician will be coming. After the technician has planned his route for the four morning service appointments, he will call the customer and say, "You are third on my list. I should be there between 10:30 a.m. and 11 a.m., so you have 8 a.m. to 10:30 a.m. to do other things." The customer is delighted, and three calls from the customer have been avoided.

The following are some other short examples of these concepts in action that have produced measurable impact and success.

- Aimed at novices, AOL has a welcoming home page that contains frequently asked questions driven by the last week's call volume. Further, AOL has an avatar named Regina who guides customers to other parts of the website.
- A consumer electronics company uses proactive, preventive education by highlighting prevalent problems to avoid on the quick-start page, resulting in a 30% reduction of calls on those issues.
- Several catalog companies take preventive measures online by offering to chat when a customer has a 30 to 60-second dwelling period on a particular page and may be stuck. As many as 50% of customers accept, and 15% end up buying.
- When customers call HP or KeyCorp with a question, a representative cheerfully answers the question and then offers to show the customer the self-service channel. Representatives are given two minutes of talk time to educate the customer, and they get a significant number of customers

CUSTOMERS ARE WILLING TO FORGIVE MANUFACTURING OR OPERATIONAL MISTAKES, BUT THEY ARE NOT WILLING TO FORGIVE BEING LIED TO.

comfortable with self-service, thus avoiding the next 20 calls from that customer.

- A health insurer welcomed customers with a telephone call and package that warned that certain services were not always covered. Satisfaction went up by double digits, and denied claims went down.

Actions you should take

- Identify preventable problems and quantify their loyalty and word-of-mouth impact. Then, proactively educate on how to avoid them via all channels, including the website homepage. It's not a marketing turn-off; it makes customers more confident.
- Give phone representatives extra time to educate and introduce self-service to customers, ensuring first-time success.
- Feature all communication channels prominently in all literature and on every page of the website.
- Proactively educate on problem avoidance and self-service use via multiple channels, such as welcome packages and welcome calls. While marketing and sales cringe at mentioning problems, the customer is delighted and can be made more confident by such cautions.
- Feature support channels prominently in literature and on the website. Feature diagnostic guidance to encourage calls and questions before customers get into trouble.
- Identify precursors to issues and develop strategies to intervene with a message or chat before the customer encounters trouble.
- Don't declare victory just because you are No. 1 in your industry compared to benchmarks.[2] Having worked with high-satisfaction companies such as United Services Automobile Association, Honda, Chick-Fil-A and several major insurers, TARP finds that the law of diminishing returns doesn't apply. Even when you are at 90% satisfaction, eliminating or handling problems allows you to get even better. Each percentage point of improvement is worth tens of millions of dollars. We consistently find that investment in proactive education gives at least a 200% return on investment.

Focusing quality improvement on the top line has greater impact, and the payoff can be effectively quantified to the satisfaction of the CFO and the chief marketing officer. σ

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