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The Customers' Definition of Customer Service

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My clients know that I am an avid reader and post the better books on my website reading list. This newsletter installment borrows from a recent book encounter that I immediately reread—a rare occurrence. *Originals: How Nonconformists Move the World*, by Adam Grant, includes a quote by Harvard Professor, Bill Sahlman: "Products don't create value. Customers do."

Perhaps no sector within the economy understands Sahlman's point better from a practical perspective than small businesses, which the Small Business Administration credits with 48 percent of the private sector workforce. Coincidentally, the SBA's definition of small business—less than 500 employees—correlates with the unofficial definition of the lower middle market. One of the more attractive attributes of the lower middle market is its relative potential for value-creation.

Customer service is a practical avenue for competitive edge.

Mark Twain once quipped, "It's not the size of the dog in the fight, it's the size of the fight in the dog." Since the lower middle market metaphorically corresponds to the more compact-sized canines, then how might these scrappy mutts successfully tangle with mega mongrels? This article presents an argument that customer service is one of those fighting strategies. However, the definition of customer service may be unique to each customer.

Boston Consulting Group research indicates that stable markets exist when three vendors dominate the market—with the biggest player controlling half. Becoming one of those three eventually means the difference between survival and extinction. However, this phenomenon is not indefinite. Only one of the 30 charter members of the Dow Jones Industrial Average remains in the calculation. John Stuart Mill admonished that "the disease that inflicts bureaucracy, and what they usually die from, is routine." Mill's quote might be better understood by pointing to bureaucracy's proclivity for self-preservation, which foments natural enmity to disruptive innovation. Entitlement, complacency, inertia, change-resistance, and/or irrelevance map to Mill's prophecy.

In 1965, Bruce Tuckman introduced a company lifecycle model depicted on a curve whose stages were forming, storming, norming, performing, and adjourning. (See Figure 1 below.) In the two steps preceding norming, there is, by definition, no norm. Indeed, in the highly fragmented lower middle market, the point of sponsor investment is often the transition from storming to norming. Norming correlates with defragmentation. Leaders should proactively and deliberately keep a finger on the pulse of purchasers to identify and exploit norming decision drivers.

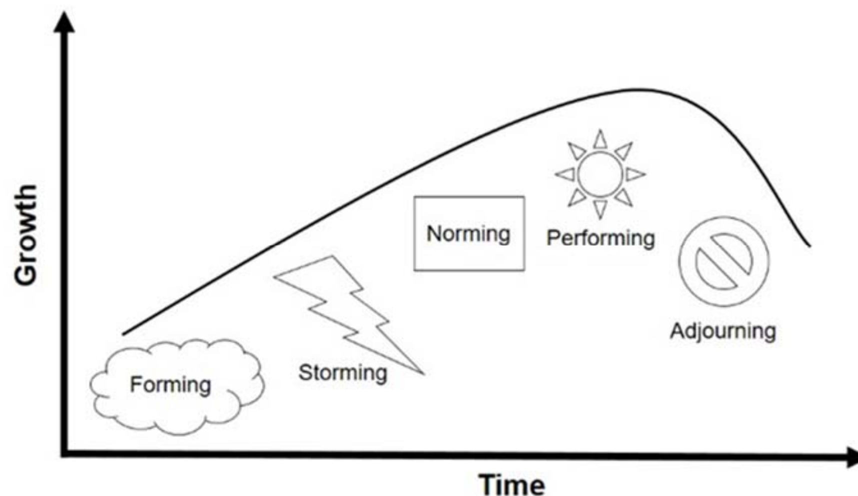

Figure 1

Customer reaction to a company's name is a measure brand equity—or lack thereof. A common trap is the assumption of accuracy by C-levels regarding customer purchasing decision drivers. But we know the old saw about assumptions (hint: what it does to you me). Who is asking customers why they buy, and how are the inquiries made? Especially in fragmented niches, assumptions can be painfully erroneous. Even the process for capturing customer feedback may be suspect. A process that mitigates bias is a good start, and probably means that the sales person is the wrong medium.

Robert Rodin framed customer value expectations in three hyperbolic descriptors: free, perfect, and now. "Expectations" and "customer service" are first cousins. Of course, covariance exists across the three variables. Poor customer service diminishes perceived value. Coincidentally, customer service is the hardest to measure as it may be defined in very personal terms. Supreme Court Justice Potter Stewart wrestled with analogous esoteric explanations in describing the threshold for obscenity in Jacobellis v. Ohio (1964): "I know it when I see it." Indeed, customers may similarly express the presence—or absence—of customer service in such terms: customers know it when they see it.

Consider a recent experience in strategic planning. The client is a disruptive innovator. What does this mean? Clayton Christensen explains it in terms of introducing a product to the market that customers did not know they needed. Think smartphone. My client's leaders were confident that their product was superior. Indeed, their product outperformed all contenders by a longshot. In Rodin-speak, they dominated the "perfect" criterion. However, the customers were a bit hesitant to completely align themselves with my client as their primary vendor. This perplexed the leadership team.

The debate among the leadership team was intriguing to observe. After listening to many assertions about product quality, I asked the leadership team to define quality. Each definition was deferential to the vendor, a/k/a, my client. The word "customer" was never uttered. After some time, the ghost of GE used my body as a medium of communication and offered that "quality is whatever the customer says it is." (I learned this in Six Sigma training.) As Scooby Doo would say, "Ruh roh!" As it turned out, groupthink displaced the customers' seat at the table.

Customers become flight risks when their expectations are not met.

An epiphany in the C-level discussion followed. The reluctant customers of my vendor client are Lean Manufacturing posterchildren with very complex value chains. What does "free, perfect, and now" mean to such customers? The underlying issue is value, i.e., the perception of unit of utility received per unit of price paid. To be clear, this is not a price issue. Even so, untrained sales people are chronically drawn into price capitulation that adulterates the product toward commoditization.

Value is perceived when a customer is educated on costs avoided by a superior product. For example, a drill bit deep in an oil or gas well is quite cheap compared to the expense of extricating a bit failure after it is several thousand feet deep in the well. The value focus should be on reducing the customers' cost—not the price of the product. You CAN reduce a customers' cost WITHOUT reducing your price. As it turned out for my strategic planning client, the customers did not haggle over prices. In Rodin-speak, "free" was not an issue. This was a missed clue. The client's product price compared favorably to competing products, but it *differentiated* in reducing the customers' effective cost. Rodin's "free" criterion was met. One down, two to go.

What does "perfect" mean? Stop! Don't make up an answer. Ask the customer. As alluded above, "perfect" is a quality statement. A product that performs corroborates value. Product life is *one* such measure. Other measures are possible. Under normal operating conditions, how long does the product last? In precision engineered parts, for example, there are typically standards expressed in measurable tolerances. Anything out of those specifications is a defect. Customers often express quality performance in terms like DPMO (defects per million output). Violate the limits and the vendor may get a second chance, mostly because cash and opportunity cost associated with switching

vendors compel them to do so with gritted teeth. Chronically violate the specification limits and kiss the relationship goodbye. For my client, quality at modest volume levels were not a concern. The real concern was that the customers were questioning consistency of quality if they chose my client as their sole source vendor. In short, the customers questioned my vendor client's robust scalability. Snag! Only partial credit for Rodin's "perfect" was acknowledged. This needed to be proved.

What does "now" mean in Rodin-speak? Truly Lean enterprises set up their production lines for some version of just-in time inventory. There are practical reasons why. If their suppliers can deliver raw materials precisely when needed, then there is nominal need for raw materials inventory. This liberates a considerable amount of cash, as well as floor space which may be used for production. The Japanese do this as well as anyone in the world. Auto factories are very close to their suppliers to both minimize transportation costs and hedge bets on just-in-time.

The measurement typically used for just-in-time—on-time delivery—tends to suffer a blind spot. Most vendors measure on-time deliveries according to FOB their shipping docks. This patently overlooks the variation between vendor shipping and customer loading docks. The retort I receive when pointing this out is that common carrier delivery is beyond their control. This is probably only partially true, but nonetheless is not a customer-centric perspective. Thus, Lean customers may be wary and, unless they have a vendor who resolves to eliminate such variation, must have inventory cushions which defeat the Lean principles. In reality, they only put up with this until they get a better solution for "now" without degradation risk on "free" and "perfect." What is the impact of days early versus days late variation? Answer: lack of storage space versus shut down. Think that a large, public company wants to explain these anomalies in their quarterly analyst call? Think again. Not only did my client have vulnerability here, but the same robust scalability issue from quality reared its head again. From the customers' perspective, only partial credit was acknowledged for Rodin's "now." This, too, needed to be proved.

You CAN reduce your customers' cost WITHOUT reducing your price.

Let's pause to check the vendor scorecard: 2.0 out of a possible 3.0. The client needed to be in the 2.9 zone. This meant no price issues and above the 95% confidence internal on quality and timeliness.

Understanding the customer perspective has profound implications. Indeed, the vendor's business model should be designed to meet the customers' expectations. Consistently meeting those expectations establishes brand equity. Consistently performing better than the competition is differentiable. No amount of slick advertising, websites, or sales bloviation can overcome performance deficiencies. Reliability is the essences of customer service.

Take-away: Customers define customer service by value, quality, and timeliness.

Another element of customer service addresses exceptions. Let's assume for the moment that a vendor generally performs as expected. However, there are Murphy's Law episodes: anything that can go wrong will go wrong—at the worst possible times. There is a corollary to Murphy's Law called O'Toole's Law: Murphy was an optimist. What then? Mistakes are expected. Excuses are insulting. Customers are forgiving IF someone owns the problem and fixes it—now! (Note: The customer service "now" is actually the defensive response to "free" and "perfect.")

How accessible are vendors to customers when problems arise? War stories abound. Consider virtual businesses whose web sites do not adequately cover defect scenarios—and post no phone numbers to speak with a human. Even if a phone number is posted, the "death by hold" queue exacerbates the problem. The mind exaggerates time when frustrated. Finally, untrained, rude, and or impertinent customer service reps are a menace to society.

One of my particularly favorite ignorant customer service quotes is, "It (the product) isn't supposed to do that." Really? Duh! I called you because your product/service did exactly what you assert it is not supposed to do. Another winner is, "You are the only person ever to report that issue." Seriously? Are you logging calls by type of issue to make that claim with certainty? Assume that I am a skeptic. Show me!

Customers expect accountability and action when inevitable problems occur.

A recent airline cancellation example takes the cake. Several delays preceded the cancellation. All I wanted was the truth so that I could objectively weigh my options. I have a favorite question for gate agents in these scenarios: "What would you tell your mother?" This time, my "floor show" attracted an audience of the curious amid the throngs of the frustrated. Just as the agent was fumbling with an answer that included being patient and assuring me the flight would not cancel, the electronic board behind the agent posted "cancelled." The gathered crowd roared with laughter. So much for credibility!

I waited in line to get rebooked. There were four stations at the agent counter. Two were staffed. The line was Thanksgiving length. Periodically, seemingly indifferent agents would walk by. Many in line attempted to ask them if there were another flight option that evening. The answer from those agents was, "Just be patient and the ticket agent will answer your questions." The cynical customers instinctively knew that the answer was "no"—and that the walk-by agents knew it was "no." However, all customers knew they had to suffer in silence or risk being "visited" by security.

When I finally arrived at the one of the two counter agents, the cancellation was blamed on weather. Just for kicks, I opened the weather app on my smartphone and showed them a crystal clear present and future forecast for the city in which the plane was allegedly grounded.

The rebook for the next morning also got cancelled near midnight—after I left the airport and found a hotel for the night. I only knew about the cancellation because my smartphone inbound chime woke me up. After being in phone queue hell for an hour, the second flight cancellation was blamed on air traffic control congestion issues. I couldn't resist asking the "customer service" representative how they became clairvoyant to know what would happen seven hours into the future. The rep admitted, "I'm just reading what they put on my screen."

Ponder this: the airline fomented sophistry for which they expected employee complicity. Should we then be surprised to learn that this airline made national news by smartphone video documentation of poor passenger interaction? The real corporate culture is what employees do—not what the company advertises.

Daniel Pink wrote in *To Sell is Human: The Surprising Truth about Motivating Others* that 40 percent of bandwidth for non-sales employees is in support of sales. Do your employees "get it?" I am a proponent of secret shoppers. Company leaders, try approaching your business with a secret shopper approach. Invent a customer service issue. To avoid your voice being detected, offer a college student a C-note and your URL to resolve your scenario. The student will appreciate the cash and you may learn something more valuable than your marketing budget. How long did it take the secret shopper to get to a human? Get to a solution? Did they encounter anything that made your skin crawl? Addressing these "routine" scenarios may mean your brand's reputation.

The real corporate culture is what employees do—not what the company advertises.

Customers actually expect occasional hiccups with products/services. Unfortunately, what customers are trained not to expect from many of their vendors is accountability, i.e., prompt, excuse-free resolution to their issue. All employees have a stake in customer service.

Take-away: The best customer service function is the one whose business model's reliability renders moot the need for customer service.

In summary, two things effectively brand your company: (i) reliably delivering customer expectations—by their criteria—and (ii) expeditiously resolving inevitable issues. When customers do not think value is substantiated, they may bolt for more reliable options. They may also share their frustrating experiences with a few people (just as I did in this article). Since it is harder to hide mediocrity or indifference in a smaller company, this is a natural differentiation opportunity for the terrier to outmaneuver the Mastiff. Maniacal focus on this is axiomatic to value-creation. Who benefits? Customers, employees, investors, and the economy. Perhaps a bad customer service experience catalyzed Mark Twain's quip. Go figure. Thanks, Mark. Nice mustache.

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Middle Market Methods™ offers a value-creation toolbox of cultural, growth, and productivity solutions to portfolio companies of private equity firms. The premise is that best practice adoption correlates with a smoother ride during the investment hold period, resulting in higher exit multiples. Additionally, deal team time is liberated from operational surprises to invest in new transactions.