Five things we learned from talking to 500 million people

SERVICE
MANAGEMENT
GROUP®

A great customer experience matters

A lot. More than ever.

Why?

For one thing, consumers are using social media to express their opinions about brands — which means those opinions are spreading farther and faster than ever before. You can market all you want, but people believe what they (and their friends) experience.

Then there's a ton of competition to deal with, because both business customers and retail consumers have so many choices. From which company they hire for phone service or health insurance, to where they buy groceries, to which department store they patronize, to where they get their next latte.

Speaking of lattes, think about your last coffee purchase. Did you have just one option of where to buy coffee? Probably not. Unless your last coffee purchase was in 1989. If so, you should maybe get out more.

But let's get back to the 21st century. You were probably choosing between Dunkin' Donuts, Starbucks, Caribou, Latte Land, or some giant orange truck that serves lattes out the window. In fact, all those places might have even been on the same block. They all had coffee. So where did you go?
What is it that separates one coffee joint from another?

A superior customer experience.

Five things we learned from talking to 500 million people

Superior. That word is important.

We're not just talking about a "good" experience. And not just a "satisfying" experience. Satisfaction isn't enough. To keep people coming back for more and more lattes, shoes, or whatever, companies have to do more than satisfy. Why? Because satisfied customers aren't loyal customers. That's one of the surprising things we've learned in our work. At Service Management Group, we measure the customer experience at more than 160,000 locations of leading retail, restaurant, and consumer-service companies.[1]

We talk to customers. A whole lot of customers. Some 500 million of them. In 93 countries. In 46 languages. For over 300 brands. Those customers have told us a lot of things over the years. A lot of things that wouldn't make sense to most people because most people don't speak 46 languages.

Whatever language they speak, it turns out that all customers have wants. The best multi-unit businesses—the kind of companies we work with—know how to deliver those things, those "key drivers" of the customer experience. They focus on improving those key drivers, on improving the customer experience, for a good reason. **Because a great customer experience is the hardest thing for competitors to copy.**

[1] *If you want to know how we do this, see page 8.*

It's hard to copy because it's hard to deliver in the first place. To do that, a business—especially a multi-unit business—has to know how its customers feel about the experience they get in each location, store, or restaurant. In fact, every customer interaction with your brand is vitally important. That means continual surveying of customers and continuous gathering of data. Oh, the data. You can't imagine the data that can be compiled on the customer experience.

But data doesn't do anything by itself. Just sits there in a box or on a screen.

It's exciting, though, what the best companies can do with the data. They correlate their customer service metrics—the results of all those surveys—with their financial performance. They discover (A) What customers want from them and (B) What customers are actually getting from them. Then, they create systematic ways for the company and its employees—everyone from executives at the corporate headquarters to managers and employees at each location—to act on that information.

In working with our clients and talking to 500 million of the customers they serve, we have learned some things that apply to multi-unit operators everywhere. Five things, actually.

So let's get started with the first one, which really defies conventional wisdom.

SMG: BY THE NUMBERS

93	**46**	**320**	**100**	**23**	**1**
COUNTRIES	LANGUAGES	BRANDS	MILLION ANNUAL CUSTOMER RESPONSES	YEARS	FOCUS: **LOYALTY.**

THING #1: **A satisfied customer is not a loyal customer**

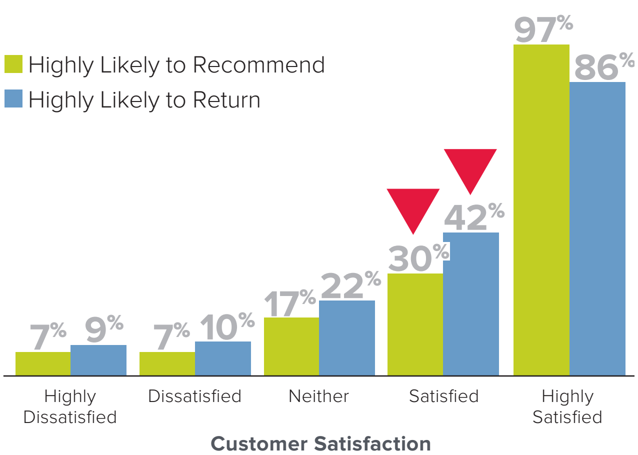
Let's say a customer walks into a store or restaurant or consumer-service company. The customer finds a pleasing environment, knowledgeable and helpful employees, and a good, quality product. The customer walks out of the store or restaurant or consumer-service company and is satisfied with the experience.

At least, that's what the customer would tell you if you asked about it. To make it simple, let's say you just asked, "Were you (A) Satisfied or (B) Dissatisfied?" The customer would say, "A." So if you then asked something like, "Would you visit this business again and would you recommend it to others?" you'd expect the customer to say, "Sure, totally." (Well, maybe you'd expect to hear something else. Depends on the customer.)

Thing is, not all satisfied customers you asked would say, "Sure, totally." Take a look at Figure 1A.

FIGURE 1A

Satisfied customers are not "highly likely" to return or recommend



It shows that less than half of "satisfied" customers would say they're highly likely to return to the business. And less than one-third would say they'd recommend that business to others.

What's that mean?

This is important. And confusing. Because isn't a satisfied customer a happy customer and, therefore, a repeat customer?

In a word: No.

If you survey customers and ask them to rate their experience on, say, a 5-point scale where 5 represents "highly satisfied" and 4 represents "satisfied," it's important to know how wide the gap can be between a 4 and a 5. They're not the same. Not even close. In fact, 4 might mean almost nothing. It might actually be an expression of indifference. In talking to 500 million people, that's what we've learned — customers who say they are satisfied are just as likely to visit a competitor as they are to return.

That means if your customers say they are "satisfied" and not "highly satisfied," you haven't established a competitive advantage. "Satisfied" is a shrug. A "whatever." A "sure" without the "totally."

Our takeaway

A business that wants to make its customer experience an engine that drives financial performance must inspire team members to deliver more than mere satisfaction. **Satisfaction is the wrong target.**

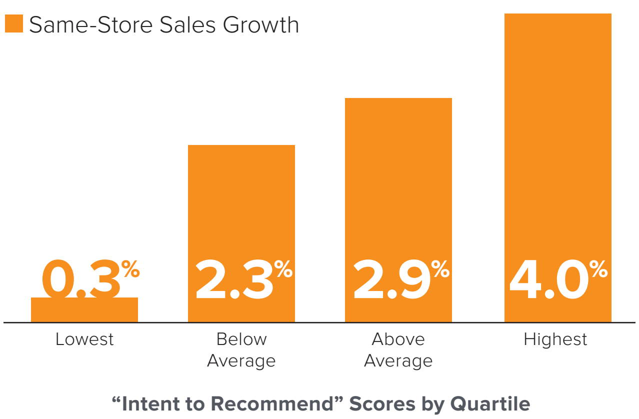
THING #2: **Loyal customers drive sales and profits**

What's the value of making your customers happy, as in *really* happy? They come back. A lot. They bring their friends, too. And when they do, sales and profits increase.

Customers who report being "highly satisfied" are **twice as likely** to return than those saying they were simply "satisfied." They're also **three times as likely** to recommend the business than the "satisfied" customer.

FIGURE 2A

Loyal customers drive top-line growth
Higher "Intent to Recommend" scores correlate with higher same-store sales growth



A retail, restaurant, or consumer-service company that wants to measure customer loyalty can do so by looking at its customer service metrics.

What's that mean?
We've found that businesses with more customers reporting a high "intent to return" or a high "intent to recommend" also have higher same-store sales growth. In other words: Very high customer satisfaction ratings align with higher sales. Bottom line: Loyal customers drive top-line growth.

Why is this true? Because "highly satisfied" customers spend more per transaction than other types of customers.

There's something else. Ask 500 million people whether they're likely to spend more of their income with companies they are "highly likely" to recommend or companies they are simply "satisfied" with and guess what they'll tell you? Right. Customers spend their largest "share of wallet" with companies they are highly likely to recommend.

Our takeaway
Companies that deliver great customer experiences will transform browsers into shoppers, shoppers into regulars, and regulars into devotees. In the process, they can increase sales with only marginal increases in expenses. It's true. Top-line improvements are indicated right there in the data.

THING #3: **Inconsistent performance can kill a brand**

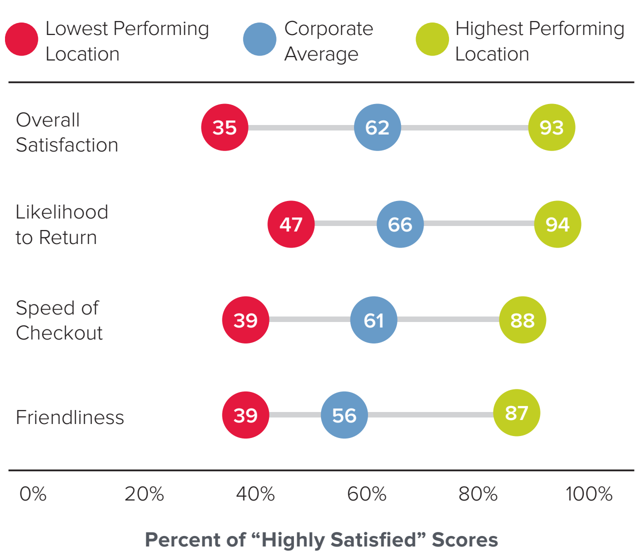
No one said great service was easy. Bad things happen to even the best companies. In a restaurant, food may be spilled on a customer's new suit. In a retail store, a defective blender may be sold to newlyweds about to host their first "margarita madness" party. In any personal interaction with a customer, an employee in a bad mood can blow it.

For multi-unit companies, sometimes a lot of these bad things happen repeatedly in the same location. But company averages disguise huge variations in the customer experience. If a company is only tracking aggregate customer service performance, it'll never know where the worst performers are, much less how to fix specific problems.

Take a look at Figure 3A.

FIGURE 3A

Service quality varies significantly by location



In the sample company shown, the corporate average of customer satisfaction is just mediocre. But the lowest performing locations—shown in red—are quite low, while the best performers—shown in green—are quite high. The best performing location's score is at least two times better than the lowest. If the company in this chart didn't break its customer data down to the individual unit level, it would have a skewed perception about customer satisfaction.

What's that mean?

"Skewed" actually isn't a strong enough word. "Damaging" is more like it. Think of it this way: Both positive and negative word of mouth are going to spread. Trouble is, the bad news travels faster and farther.

If a company is doing a reasonably good job with overall customer satisfaction, but still has several locations that are doing a particularly bad job with customers, those locations could eventually threaten the better performers.

We'll go ahead and invoke the cliché: One bad apple can spoil the whole bunch.

Our takeaway

Customer loyalty is won or lost at individual locations, so that's where to focus on earning it. To get better system-wide, companies need to look at their best-performing units—the ones that are significantly higher than the system average. What are they doing differently to make their customers love them? Then adopt those best practices as Standard Operating Procedures for the company.

Where there are trouble spots, senior leaders can have more than a generic "get well" meeting with those unit managers. They can coach them on the specific service issues that need attention, then track progress by measuring improvement.

To do that, multi-unit companies need to continuously gather customer service data at each individual unit.

THING #4: **Opportunities to win loyalty are cleverly disguised as problems**

You can learn a lot from a happy customer. But you might learn just as much from an unhappy one. Here's what we've learned from talking to 500 million people, some of whom (like those we charted for a sample company in Figure 4A) were not so happy.

A full 65% of customers who report problems are less than highly satisfied with the way their problems are resolved. That is a huge missed opportunity. Of those customers who are highly satisfied with their problem resolution, 84% express a high likelihood to return to the business where the problem occurred.

What's that mean?
Look at Figure 4B and you'll see what that means. **On the right, you see a rating for customers who did not experience a problem. Only 71% of those trouble-free customers said they were highly likely to return to the business again.**

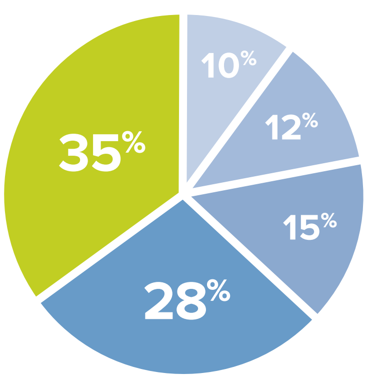
Now, look at the bubble to the left of that 71%. It shows what we just mentioned about the customers who are highly satisfied with problem resolution. You can do the math: 84% is a lot better than 71%. That means customers who have had a problem but are highly satisfied with how that problem was handled are actually more likely to return to a business than customers who had no problem at all. Interesting, right?

Businesses that are constantly surveying their customers have an easier time fixing those problems, too. Surveys can ask customers if they wish to be contacted about their problem—making it simple for store managers to follow up and handle problems right away. We call this "closing the loop" with unhappy customers.

Our takeaway
Knowing whether you've got customer service issues at various locations in a multi-unit business is important. But knowing how you're dealing with those issues is crucial. Handle problems well, close the loop with customers, and you can turn unhappy customers into loyal customers.

FIGURE 4A

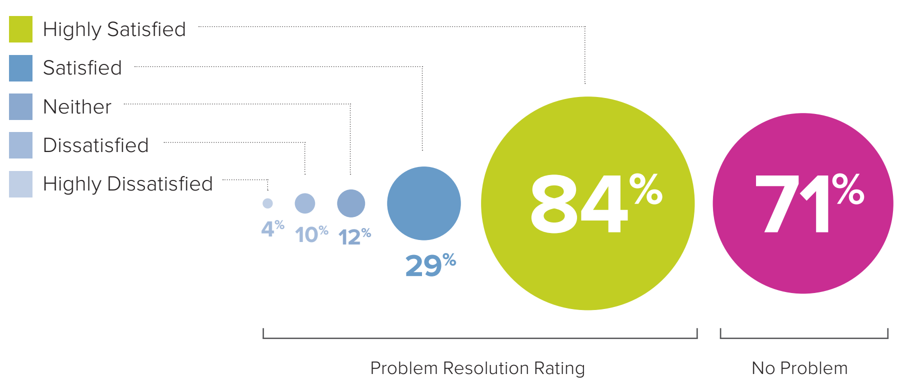
Most customers are not highly satisfied with problem resolution
Only 35% of customers were highly satisfied with service recovery when they experienced a problem



Satisfaction with Problem Resolution

FIGURE 4B

Customers with problems can become very loyal
Customers who are highly satisfied with problem resolution are more likely to return than those with no reported problem



Percent Highly Likely to Return

THING #5: **Brand loyalty begins at home**

It's a no-brainer. Loyal employees help create loyal customers. Obvious? Maybe. But would you have guessed how important loyalty among employees is to customer satisfaction? **Figure 5A shows that impact for one sample company. It shows that as employee turnover increases at individual business units, customer satisfaction levels decrease. Substantially.**

What's that mean?
Brand loyalty begins at home. If you can't sell it on the inside, you can't sell it on the outside.

Loyal employees do more than create loyal customers inside the walls of a retailer, restaurant, or consumer-service company. They also recruit them outside of the workplace. A loyal employee is a brand believer. A brand marketer. A brand advocate.

See, some of those 500 million people we've been talking to are "internal customers"—employees. We asked employees how satisfied they are with their workplace.

We learned that a highly dissatisfied employee isn't going to recommend his or her restaurant, store, or company to anyone else. But a highly satisfied employee will tell people that his or her business is a great one to patronize.

Our takeaway
To find out how they're really doing, smart businesses measure not only satisfaction among customers, but also satisfaction among employees.

Of course, measurement doesn't create employee loyalty. That's what leadership is for—to unite a group of previously disconnected people in a common cause and support them relentlessly in the noble mission of creating a superior customer experience.

FIGURE 5A

Higher employee turnover reduces customer satisfaction

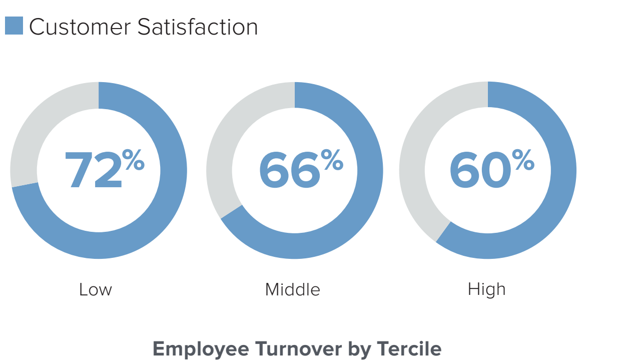
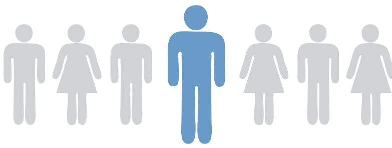


FIGURE 5B

Loyal employees recommend their company as a great place to be a customer

How we do what we do

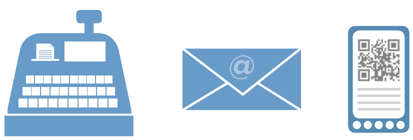


1. We do it one at a time.

So, how do we talk to 500 million people, anyway? One by one, store by store, experience by experience. Every opinion is valid, every customer is valuable.

2. We catch them when it counts.

A customer's time in any business location is defined by moments of truth and opportunities for superior service. We randomly sample customers by inviting them to participate in a survey and give them something in exchange for that participation. That something is different, depending on the type of business. But it ensures we get enough responses to compile a representative sample.

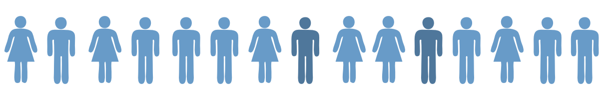


3. We're so inviting.

Our survey invitations are usually generated electronically at the point of sale. For instance, a survey invitation will print along with every, say, tenth receipt. Or, if a company collects customer email addresses, we might send customers an email with a survey invitation. There are a lot of ways we collect feedback. Some businesses invite customers to text their feedback or access a survey through a QR (quick response) code. Customers who receive our invitations usually reply within 48 hours of their visit.

4. We ask the right questions.

No matter how they access it, customers find an easy-to-use survey. It consists of closed-ended and open-ended questions. Closed-ended questions typically use a scale from "highly dissatisfied" to "highly satisfied," while open-ended questions ask things like, "Tell us what you liked most about your experience at this location."



5. We do it over and over. And over.

Take that process and multiply it by 100 million (per year). Add in world-class analysis and unmatched industry expertise. That's how information becomes insights. And answers become action.

6. We use insights to drive positive change.

Now what do we do with all those customer responses? We report them in real time, on a web-based performance dashboard. That way, managers can always see exactly where they should take action to improve the customer experience.

Beyond visibility to insight

We analyze the data collected and develop actionable recommendations for each SMG client — down to the unit level. That means we do a lot of math. We analyze thousands of customer responses in order to provide insights that impact the customer experience.

Based on customer feedback — and a lot of number crunching — we prescribe areas for focus to improve the customer experience at each specific location.

We also help clients listen to the voice of the customer — their verbatim, unfiltered comments — at every business unit. Those customer comments make the numbers come alive. In turn, our text analytics transform those comments into data our clients can act on.

To demonstrate the business value of great service, we calculate the correlation between customer survey scores and changes in same-store sales growth.

When you talk to 500 million people, like we do, it is an eye-popping experience to compare customer scores from one brand to another. Our benchmark database lets our clients see how they stack up, according to industry standards.

At SMG, our singular focus is helping companies drive performance. We turn customer feedback and advanced analytics into information that drives growth. Very practical. Very smart. Very SMG.

We offer a range of research services that address all points in the customer journey.

If you have questions about how we can do what we do for you, call us at 816.448.4500, visit www.smg.com, or scan the QR code to learn more.

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SERVICE MANAGEMENT GROUP®

US - Kansas City
1737 McGee Street
Kansas City, MO 64108
1.816.448.4500
www.smg.com

US - Boston
65 Franklin St., 2nd Floor
Boston, MA 02110
1.617.501.3544
www.locately.com

EMEA
Abbey View
38-40 The Maltings
St. Albans, Hertfordshire
AL1 3HL
+44 (0)20 3463 0700
www.smg.com/uk

Asia-Pacific
Oak Minami Azabu Building, 2F
3-19-23 Minami-Azabu, Minato-ku
Tokyo, Japan 106-0047
+81 03 4580 2700
www.smg.com/jp