# The Rising Financial Impact of Customer Service

The role of customer service is one that is valued and well understood by many organizations. However, making the leap from correlating customer service activities with overall performance results to investing in strategies that deliver top-notch results is increasingly becoming a key differentiator. Top performing businesses have long understood the financial ramifications of a satisfied and engaged customer and continue to act on developing a profitable model to engage, interact, and win with their key customers.

This document will highlight the financial link between better customer service and increased company profitability. It will also highlight several best practices that help organizations convert their service businesses from a cost center into a profit center.

A Balancing Act

Customer-centricity has been and continues to be a theme for success. Indeed, Aberdeen's March 2013 *Next-Generation Customer Experience Management* research found that along with increasing annual company revenue, improving customer satisfaction is a top goal driving customer experience management (CEM) efforts of many businesses. However, there are numerous obstacles that have an impact on organizations' ability to accomplish these goals. Figure 1 below demonstrates these challenges reported by companies participating within Aberdeen's January 2013 *State of Service Management: Outlook for 2013* study.

Figure 1: Top Factors Affecting Customer Service
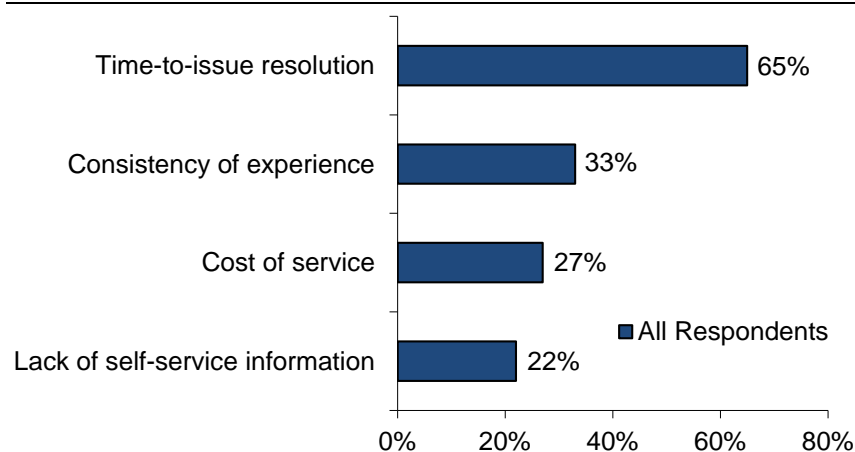
Reasons for customer complaints, Percentage of respondents, n=162

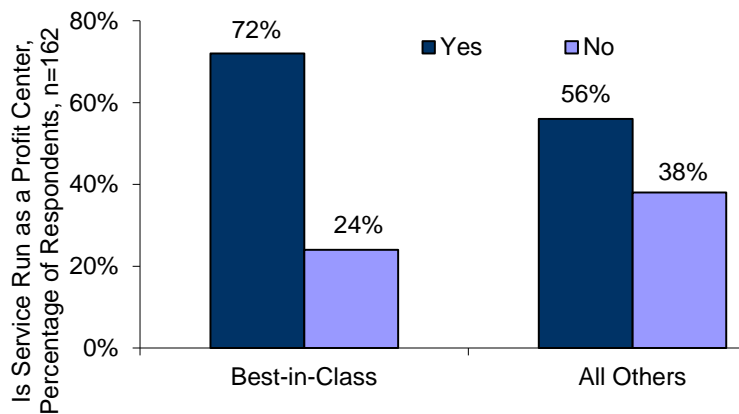Source: Aberdeen Group, October 2012

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While customers usually want their service issue to be resolved in a timely manner, with growing use of multiple channels used to engage customers, it's also critical to ensure consistency of customer interactions across numerous touch-points. Indeed, as depicted in the above figure, research validates that these are the top two factors that influence the impact of customer service efforts within most businesses. In order to successfully manage these factors, it's important for businesses to adopt a data-driven approach that delivers personalized customer care, whether it's in the contact center or through self-service channels.

One of the essential ingredients in establishing and maintaining a next-generation customer service organization is changing the organizational mindset regarding customer service efforts. Businesses should continuously pursue operational excellence as a balancing factor to their efforts to meet evolving customer needs. In other words, they should regularly seek ways to improve their customer service operations to reduce costs while utilizing cross-sell and up-sell programs to generate additional revenue. Figure 2 below demonstrates that Best-in-Class customer service organizations (see sidebar for definition) are 29% more likely (72% versus 56%) than their peers to utilize customer service as a strategic tool to generate profit.

Figure 2: Best-in-Class = Profit-Centric View of Service

Source: Aberdeen Group, December 2012

Over the previous eight to 10 years, Aberdeen's Customer Experience and Service Management research has traced the increasing focus on service as an independent, profit-centric business unit. While 58% of the aggregate survey respondents within Aberdeen's January 2013 State of Service Management research treated service as a profit center, it is slightly lower than a similar state of the market survey conducted by Aberdeen at the end of 2011, where 68% of organizations signaled their management of service as a profit center. This drop reveals that the transition to a profit-centric service model continues to face internal resistance, especially in the light of challenging economic conditions. That said, those organizations that refuse to transition will eventually realize that a profit-centric service organization

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Best-in-Class Criteria

The following key performance indicators (KPIs) were used to determine the Best-in-Class within the January 2013 *State of Service Management* study:

√ Customer Satisfaction – 90% (69% for All Others)

√ Customer Retention – 90% (68% for All Others)

√ Service Margins – 40% (22% for All Others)

√ 12-Month Change in Service Revenue – +12% (2% for All Others)

Best-in-Class, top 20% of aggregate performance scorers

Industry Average, middle 50% of aggregate performance scorers

Laggards, bottom 30% of aggregate performance scorers

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is a key pillar of business sustainability — a notion that is further expanded on in the next section.

Customer (Service) is the King

Satisfied customers are good for the business as seen by the results in the sidebar. While most businesses have a theoretic understanding of the impact of customer satisfaction and their overall performance, those that establish a cost and benefit, in other words return on investment (ROI), framework are better positioned to understand the correlations between customer service and their business outcomes. Results from the State of Service Management study help us develop a financial framework.

- **It is cheaper to service and retain a customer versus acquiring a net-new customer**. Fifty-one percent (51%) of respondents indicate that the cost of service and customer retention is lower than the cost of customer acquisition, with only 15% stating the opposite. While new customer acquisition and customer growth are vital elements of continuous business growth, these goals need to be balanced with delighting existing buyers in order to constantly improve the value of the company brand and deliver positive voice of the customer (VoC) for potential buyers.

- **Profit margins on customer service programs are higher than those on product selling**. As seen in Figure 3, 45% of organizations indicate that the margins on their customer service activities are higher than those generated through product sales. On average, organizations claim that the margins on their service efforts are 10.7% greater than those on products owing to higher revenue streams at lower costs (as seen in the preceding bullet point). While the specific margins will vary by business and industry, this validates that the resources allocated to customer service ultimately have a strong impact on overall company profitability.

Figure 3: Customer Service: A Profitable Venture
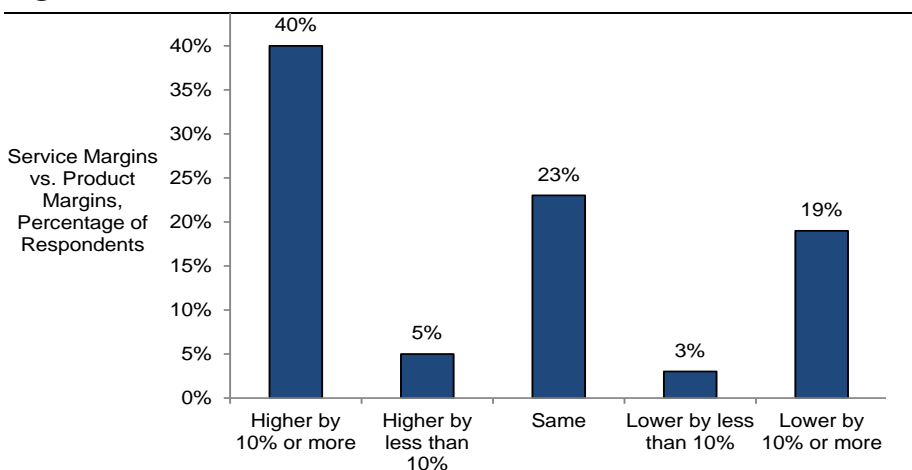
Source: Aberdeen Group, December 2012

- **Retained customers make up a significant component of revenue streams**. While service revenue accounts for 26% of total company revenue, as seen from respondents to Aberdeen's State of Service Management research, existing customers make up a significant component of overall company revenue. Therefore, service-driven growth is also essential for those businesses that do not charge for their service offerings (contracts, services, et cetera). Organizations report that retained customers from the end of 2011 made up more than 80% of their total revenues in 2012. This is primarily linked to their spend on existing or newly introduced products and services.

- **Referrals are a big source of revenue**. In addition to continued spending on products and services, satisfied customers are also much more likely to make referrals to their networks (e.g., friends, family, and colleagues). Such word-of-mouth activities allow companies to successfully grow their customer base through earned marketing activities that are fostered through customer service excellence. On average, Aberdeen's _research_ reveals that 33% of customers make referrals. For those organizations where less than 50% of customers identify themselves as satisfied, the referral percentage drops to 21%; whereas for those organizations with a customer satisfaction level of above 90%, the referral percentage jumps to 40%.

To summarize all of the above attributes, organizations that were able to attain a customer satisfaction level above 90% saw significant advantages in customer retention, loyalty, and overall revenue growth compared to those with satisfaction level of less than 50% (Table 1). Once again, while businesses have long known that customer-centricity is vital, they are now better able to understand the financial ramifications of their customer service strategies.

Table 1: Satisfied and Committed Customers Lead to Revenue Growth

Metrics	Average Results	
	Customer Satisfaction > 90%	Customer Satisfaction < 50%
Customer retention	89%	48%
Customer loyalty score	77	32
Revenue growth (previous 12 months)	3.7%	-1.7%
Service revenue growth (previous 12 months)	6.1%	-2.9%

Source: Aberdeen Group, December 2012

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The Path to Best-in-Class

The Best-in-Class are focused on continuously strengthening key strategic pillars that enable them to be responsive to customers' service needs, adopt a data-driven approach in their CEM efforts, and understand customers' future preferences for the consumption of and access to information. Table 2 highlights the steps that leading organizations are focused on to continue to strengthen their customer service results.

Table 2: Continued Improvement and Empowerment

Strategic Initiatives Being Prioritized	Percentage of Respondents	
	Best-in-Class	All Others
Empower agents with better information	61%	50%
Increase collaboration between service, sales, and marketing	57%	41%
Improve performance management within service organization	46%	45%
Provide service across more channels	43%	40%
Invest in technology	43%	37%

Note: Top Four Requested Source: Aberdeen Group, October 2012

It (Table 2) also provides a map of actions that need to be taken by those organizations that are striving to achieve Best-in-Class performance.

Executive Ownership of Service. Best-in-Class organizations consistently highlight their focus on having executive ownership for service across all channels and all disciplines (customer care / contact center, field service, parts). This enables accountability for service performance, more proactive planning for future service needs, and promotes collaboration between service and the rest of the enterprise. Data shows that 64% of the Best-in-Class have a service executive in place with profit and loss responsibility and oversight when compared to 56% of all other organizations.

CSO – CIO Alignment. In Table 2, 57% of leading organizations indicated that they were investing in better collaboration between service, sales, and marketing to drive improved customer engagement. The push for this collaboration needs to start at the C-suite and CSOs can take significant steps in working with their sales and marketing counterparts to adopt a true 360-degree view of the customer. To support improved collaboration as well as other customer-centric initiatives, such as the opening up of new support channels or an organization-wide knowledgebase for contact center agents or better self-service and mobile tools, CSOs and CIOs need to work together to ensure the deployment of the appropriate IT infrastructure.

Customers with a Voice. In Table 2, organizations indicate their desire to provide service via more channels and to be effective in delivering a

multi-channel framework to customers. This brings channel selection, addition, and integration challenges into focus. In order to understand or prioritize channels for service engagement, or to truly evaluate the performance of the service organization, it is vital to listen to customers. This can be accomplished via:

Customer Feedback or Voice of the Customer Programs — Forty-six percent (46%) of Best-in-Class service organizations have a VoC program in place when compared to 40% of all other organizations. This not only entails the proactive capture of customer feedback data (43% of the Best-in-Class versus 35% of All Others), but the integration of this data across multiple channels (25% of the Best-in-Class versus 22% of All Others) as well as the rest of the enterprise (46% of the Best-in-Class versus 38% of All Others).

Proactively Monitor Customer Sentiment — It is also vital to capture unsolicited customer feedback and customer sentiment proactively in order to unearth factors that have an impact on customer satisfaction, discover product and service advocates, or determine customer feedback that might negatively affect the company's brand image. Forty-three percent (43%) of the Best-in-Class have a proactive customer sentiment monitoring program in place which is primarily tied to discussions occurring in the social space.

Customer Analytics — While most analyses conducted focus on broader customer trends, or on the operational performance of specific service channels with regards to handle time and closure rate, organizations would benefit from developing a deeper understanding of customer preferences. For instance, only 29% of the Best-in-Class dig deeper into understanding the channel preferences of their customers, while a mere 13% look into the channel preferences by type of interaction. More so, only 21% look to understand their customers' awareness of self-service channels and self-service information. By digging into customer preferences, organizations can prioritize the type of information available across channels, hone in on key attributes that are vital to the customer experience per channel, and even set up training or coaching programs to educate customers on the vast network of self-service options available to resolve basic service issues.

Agent Empowerment — **Training.** Sixty-one percent (61%) of the Best-in-Class, versus 47% of All Others, regularly train their service agents on issue diagnosis, escalation, and resolution procedures. Training can be extremely vital in improving first-contact resolution rates, thereby affecting the cost of service and improving customer satisfaction. In fact, those organizations that focus on frequent training see advantages across several key metrics listed below versus those that don't:

- First-contact resolution on voice — 65% versus 58%
- First-contact resolution on email — 55% versus 47%
- First-contact resolution on chat — 38% versus 27%

It is also worth noting that Best-in-Class organizations prefer to deploy cross-channel agents as opposed to dedicated agents. While this is the norm for most organizations, the Best-in-Class are more likely to train their

agents on issue resolution practice and technology usage across all available channels (50% versus 33% for All Others).

Agent Empowerment — Giving the Right Tools. Training can improve agent knowledge around service issues and help deliver a superior customer experience. However, it has to be augmented with the provision of vital information at the point-of-service. Some of the focus areas for the Best-in-Class to empower their agents are:

- Visibility into complete customer interaction history (71% versus 54% for All Others)

- Performance dashboards (57% versus 42% for All Others)

- Access to resolution knowledgebase (57% versus 41% for All Others)

- Remote access tools (61% versus 39% for All Others)

- Additional account management recommendations (32% versus 21% for All Others)

- In-call or in-session collaboration with other customer support agents (39% versus 20% for All Others)

- In-call or in-session collaboration with customers via co-browsing or screen sharing (36% versus 19% for All Others)

- Real-time personalized or contextual guidance (25% versus 20% for All Others)

Most of these tools are aimed at providing a better resolution experience, while some enable the agent on call to offer up suggestions that might prevent a future issue and further enhance the customer experience. For instance, the additional account recommendation capability can ensure that customer accounts are kept updated from an information, products, and services perspective, thereby improving the customer experience and reducing the cost associated with the occurrence of another customer interaction.

Collaboration. There are significant advantages when service works collaboratively with sales, marketing, product development, human resources, and other counterparts. Collaboration with sales can drive a more complete picture of the customer, which enables a better customer experience. Collaboration with design and product development can lead to a better understanding of service procedures while also improving product quality. Therefore, it isn't surprising to see that service organizations are keen on collaborating with other organizational groups to improve performance.

For it to be successful, however, collaboration can't just be tied to ad-hoc data sharing. For true collaboration to occur across the organization there needs to be:

- Systematic sharing of information between business groups

- Co-development of processes
- Integration of IT systems

Summary

The transition to a profit and solution-centric service business isn't easy. In challenging economic and competitive climates, such as the one we face now, it is easy to view service as a cost center and to cut back on the tools and infrastructure necessary to support service business growth (Figure 4).

Figure 4: Challenges to Service Domination
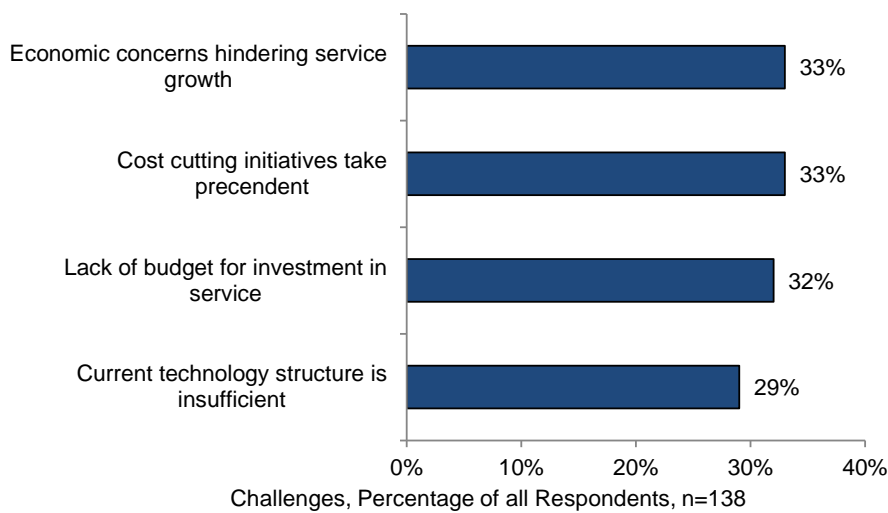
Source: Aberdeen Group, December 2012

However, a cost-centric view of service is shortsighted, ignores the role that customers play in ensuring business success, and is not a blueprint for survival or success in any economic environment. Organizations need to develop an 'everyone serves' culture in their business and rely on the strategic pillars embraced by the Best-in-Class to drive better service and overall business results.

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Related Research	
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