Why Service Stinks

By: Diane Brady October 23, 2000

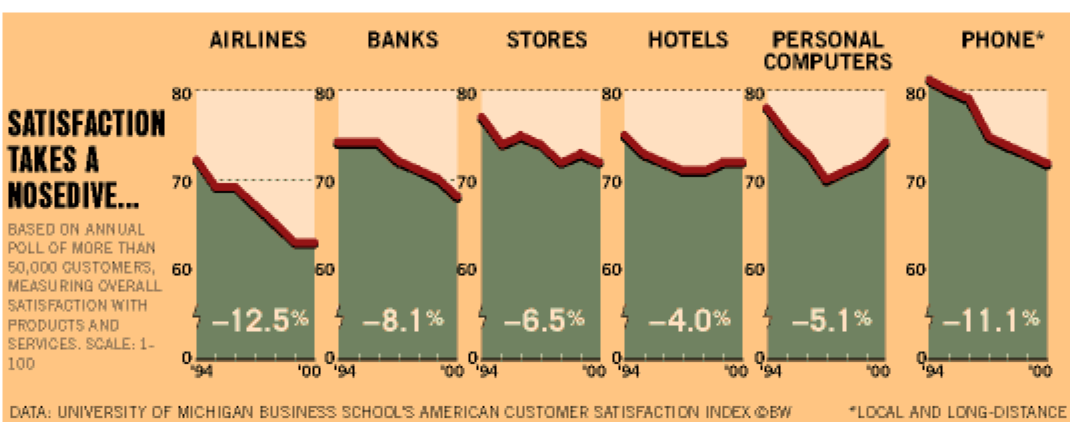
Companies know just how good a customer you are--and unless you're a high roller, they would rather lose you than take the time to fix your problem

When Tom Unger of New Haven started banking at First Union Corp. several years ago, he knew he wasn't top of the heap. But Unger didn't realize just how dispensable he was until mysterious service charges started showing up on his account. He called the bank's toll-free number, only to reach a bored service representative who brushed him off. Then he wrote two letters, neither of which received a response. A First Union spokeswoman, Mary Eshet, says the bank doesn't discuss individual accounts but notes that customer service has been steadily improving. Not for Unger. He left. "They wouldn't even give me the courtesy of listening to my complaint," he says.

And Unger ought to know bad service when he sees it. He works as a customer-service representative at an electric utility where the top 350 business clients are served by six people. The next tier of 700 are handled by six more, and 30,000 others get Unger and one other rep to serve their needs. Meanwhile, the 300,000 residential customers at the lowest end are left with an 800 number. As Unger explains: "We don't ignore anyone, but our biggest customers certainly get more attention than the rest."

As time goes on, that service gap is only growing wider. Studies by groups ranging from the Council of Better Business Bureaus Inc. to the University of Michigan vividly detail what consumers already know: Good service is increasingly rare (charts). From passengers languishing in airport queues to bank clients caught in voice-mail hell, most consumers feel they're getting squeezed by Corporate America's push for profits and productivity. The result is more efficiencies for companies--and more frustration for their less valuable customers. "Time saved for them is not time saved for us," says Claes Fornell, a University of Michigan professor who created the school's consumer satisfaction index, which shows broad declines across an array of industries. Fornell points to slight improvements in areas like autos and computers.

Andrew Chan's experience with Ikea is typical. The Manhattan artist recently hauled a table home from an Ikea store in New Jersey only to discover that all the screws and brackets were missing. When he called to complain, the giant furniture retailer refused to send out the missing items and insisted he come back to pick them up himself, even though he doesn't own a car. Maybe he just reached the wrong guy, says Tom Cox, customer-service manager for Ikea North America, noting that the usual procedure is to mail small items out within a couple of days.



NO ELEPHANT? Life isn't so tough for everyone, though. Roy Sharda, a Chicago Internet executive and road warrior is a "platinum" customer of Starwood Hotels & Resorts Worldwide. When he wanted to propose to his girlfriend, Starwood's Sheraton Agra in India arranged entry to the Taj Mahal after hours so he could pop the question in private. Starwood also threw in a horse-drawn carriage, flowers, a personalized meal, upgrades to the presidential suite, and a cheering reception line led by the general manager. It's no wonder Sharda feels he was "treated like true royalty."

Welcome to the new consumer apartheid. Those long lines and frustrating telephone trees aren't always the result of companies simply not caring about pleasing the customer anymore. Increasingly, companies have made a deliberate decision to give some people skimpy service because that's all their business is worth. Call it the dark side of the technology boom, where marketers can amass a mountain of data that gives them an almost Orwellian view of each buyer. Consumers have become commodities to pamper, squeeze, or toss away, according to Leonard L. Berry, marketing professor at Texas A&M University. He sees "a decline in the level of respect given to customers and their experiences."

HOW YOU CAN GET STIFFED

FLYING
Canceled flight? No problem. With top status, you're whisked past the queue, handed a ticket for the next flight, and driven to the first-class lounge.

BILLING
Big spenders can expect special discounts, promotional offers, and other goodies when they open their bills. The rest might get higher fees, stripped-down service, and a machine to answer their questions

BANKING
There's nothing like a big bank account to get those complaints answered and service charges waived every time. Get pegged as a money-loser, and your negotiating clout vanishes

LODGING
Another day, another upgrade for frequent guests. Sip champagne before the chef prepares your meal. First-time guest? So sorry. Your room is up three flights and to the left

RETAILING
Welcome to an after-hours preview for key customers where great sales abound and staff await your every need. Out in the aisles, it's back to self-service

More important, technology is creating a radical new business model that alters the whole dynamic of customer service. For the first time, companies can truly measure exactly what such service costs on an individual level and assess the return on each dollar. They can know exactly how much business someone generates, what he is likely to buy, and how much it costs to answer the phone. That allows them to deliver a level of service based on each person's potential to produce a profit--and not a single phone call more.

The result could be a whole new stratification of consumer society. The top tier may enjoy an unprecedented level of personal attention. But those who fall below a certain level of profitability for too long may find themselves bounced from the customer rolls altogether or facing fees that all but usher them out the door. A few years ago, GE Capital decided to charge $25 a year to GE Rewards MasterCard holders who didn't rack up at least that much in annual interest charges. The message was clear: Those who pay their bills in full each month don't boost the bottom line. GE has since sold its credit-card business to First USA. Others are charging extra for things like deliveries and repairs or reducing service staff in stores and call centers.

Instead of providing premium service across the board, companies may offer to move people to the front of the line for a fee. "There has been a fundamental shift in how companies assess customer value and apply their resources," says Cincinnati marketing consultant Richard G. Barlow. He argues that managers increasingly treat top clients with kid gloves and cast the masses "into a labyrinth of low-cost customer service where, if they complain, you just live with it."

Companies have always known that some people don't pay their way. Ravi Dhar, an associate professor at Yale University, cites the old rule that 80% of profits come from 20% of customers. "The rest nag you, call you, and don't add much revenue," he says. But technology changed everything. To start, it has become much easier to track and measure individual transactions across businesses. Second, the Web has also opened up options. People can now serve themselves at their convenience at a negligible cost, but they have to accept little or no human contact in return. Such huge savings in service costs have proven irresistible to marketers, who are doing everything possible to push their customers--especially low-margin ones--toward self-service.

FRONT-LOADING ELITE. That's a far cry from the days when the customer was king. In the data-rich new millennium, sales staff no longer let you return goods without question while rushing to shake your hand. And they don't particularly want to hear from you again unless you're worth the effort. How they define that top tier can vary a lot by industry. Airlines and hotels love those who buy premier offerings again and again. Financial institutions, on the other hand, salivate over day traders and the plastic-addicted who pay heavy interest charges because they cover only the minimum on their monthly credit-card bills.

Almost everyone is doing it. Charles Schwab Corp.'s top-rated Signature clients--who start with at least $100,000 in assets or trade 12 times a year--never wait longer than 15 seconds to get a call answered, while other customers can wait 10 minutes or more. At Sears, Roebuck & Co., big spenders on the company's credit card get to choose a preferred two-hour time slot for repair calls while regular patrons are given a four-hour slot. Maytag Corp. provides premium service to people who buy pricey products such as its front-loading Neptune washing machines, which sell for about $1,000, twice the cost of a top-loading washer. This group gets a dedicated staff of "product experts," an exclusive toll-free number, and speedy service on repairs. When people are paying this much, "they not only want more service; they deserve it," says Dale Reeder, Maytag's general manager of customer service.

Of course, while some companies gloat about the growing attention to their top tier, most hate to admit that the bottom rungs are getting less. GE Capital would not talk. Sprint Corp. and WorldCom Inc. declined repeated requests to speak about service divisions. Off the record, one company official explains that customers don't like to know they're being treated differently.

'WE'RE SORRY, ALL OF OUR AGENTS ARE BUSY WITH MORE VALUABLE CUSTOMERS'

Companies have become sophisticated about figuring out if you're worth pampering--or whether to just let the phone keep ringing. Here are some of their techniques:

CODING
Some companies grade customers based on how profitable their business is. They give each account a code with instructions to service staff on how to handle each category.

ROUTING
Based on the customer's code, call centers route customers to different queues. Big spenders are whisked to high-level problem solvers. Others may never speak to a live person at all.

TARGETING
Choice customers have fees waived and get other hidden discounts based on the value of their business. Less valuable customers may never even know the promotions exist.

SHARING
Companies sell data about your transaction history to outsiders. You can be slotted before you even walk in the door, since your buying potential has already been measured.

Obviously, taking service away from the low spenders doesn't generate much positive press for companies. Look at AT&T, which recently agreed to remove its minimum usage charges on the 28 million residential customers in its lowest-level basic plan, many of whom don't make enough calls to turn a profit. "To a lot of people, it's not important that a company make money," says AT&T Senior Vice-President Howard E. McNally, who argues that AT&T is still treated by regulators and the public as a carrier of last resort. Now, it's trying to push up profits by giving top callers everything from better rates to free premium cable channels.

SERIAL CALLERS. Is this service divide fair? That depends on your perspective. In an era when labor costs are rising while prices have come under pressure, U.S. companies insist they simply can't afford to spend big bucks giving every customer the hands-on service of yesteryear. Adrian J. Slywotzky, a partner with Mercer Management Consulting Inc., estimates that gross margins in many industries have shrunk an average of 5 to 10 percentage points over the past decade because of competition. "Customers used to be more profitable 10 years ago, and they're becoming more different than similar" in how they want to be served, he says.

The new ability to segment customers into ever finer categories doesn't have to be bad news for consumers. In many cases, the trade-off in service means lower prices. Susanne D. Lyons, chief marketing officer at Charles Schwab, points out that the commission charged on Schwab stock trades has dropped by two-thirds over the past five years. Costs to Schwab, meanwhile, vary from a few cents for Web deals to several dollars per live interaction. And companies note that they're delivering a much wider range of products and services than ever before--as well as more ways to handle transactions. Thanks to the Internet, for example, consumers have far better tools to conveniently serve themselves.

Look at a company like Fidelity Investments, which not only has a mind-boggling menu of fund options but now lets people do research and manipulate their accounts without an intermediary. Ten years ago, the company got 97,000 calls a day, of which half were automated. It now gets about 550,000 Web site visits a day and more than 700,000 daily calls, about three-quarters of which go to automated systems that cost the company less than a buck each, including development and research costs. The rest are handled by human beings, which costs about $13 per call. No wonder Fidelity last year contacted 25,000 high-cost "serial" callers and told them they must use the Web or automated calls for simple account and price information. Each name was flagged and routed to a special representative who would direct callers back to automated services--and tell them how to use it. "If all our customers chose to go through live reps, it would be cost-prohibitive," says a Fidelity spokeswoman.

ENTITLED? Segmenting is one way to manage those costs efficiently. Bass Hotels & Resorts, owners of such brands as Holiday Inn and Inter-Continental Hotels, know so much about individual response rates to its promotions that it no longer bothers sending deals to those who did not bite in the past. The result: 50% slashed off mailing costs but a 20% jump in response rates. "As information becomes more sophisticated, the whole area of customer service is becoming much more complex," says Chief Marketing Officer Ravi Saligram.

Consumers themselves have cast a vote against high-quality service by increasingly choosing price, choice, and convenience over all else. Not that convenience always takes the sting out of rotten service--witness priceline.com Inc., the ultimate self-service site that lets customers name their own price for plane tickets, hotels, and other goods. Many consumers didn't fully understand the trade-offs, such as being forced to stop over on flights, take whatever brand was handed to them, and forgo the right to any refund. And when things went wrong, critics say, no one was around to help. The result: a slew of complaints that has prompted at least one state investigation. Priceline.com responds that it's revamping the Web site and intensifying efforts to improve customer service. While many consumers refuse to pay more for service, they're clearly dismayed when service is taken away. "People have higher expectations now than two or three years ago because we have all this information at our fingertips," says Jupiter Communications Inc. analyst David Daniels.

Indeed, marketers point to what they call a growing culture of entitlement, where consumers are much more demanding about getting what they want. One reason is the explosion of choices, with everything from hundreds of cable channels to new players emerging from deregulated industries like airlines and telecom companies. Meanwhile, years of rewards programs such as frequent-flier miles have contributed to the new mind-set. Those who know their worth expect special privileges that reflect it. Says Bonnie S. Reitz, senior vice-president for marketing, sales, and distribution at Continental Airlines Inc.: "We've got a hugely educated, informed, and more experienced consumer out there now."

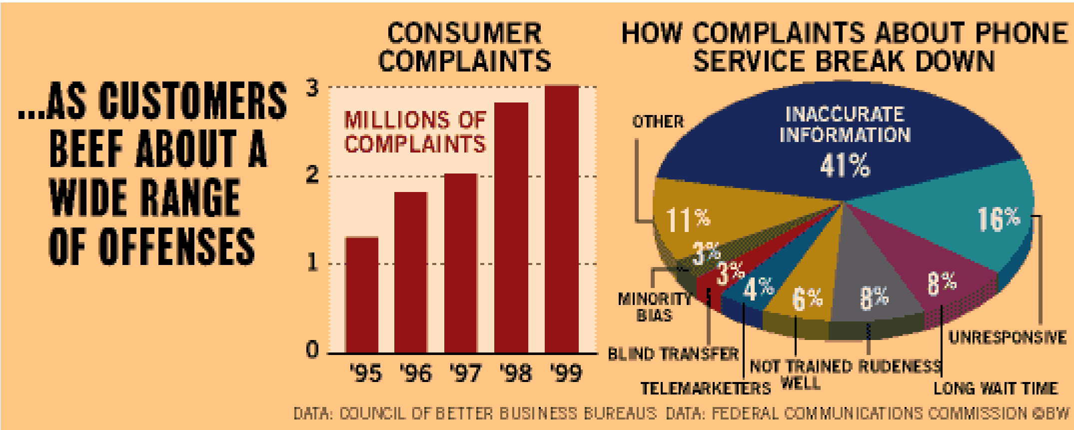
For top-dollar clients, all this technology allows corporations to feign an almost small-town intimacy. Marketers can know your name, your spending habits, and even details of your personal life. Centura Banks Inc. of Raleigh, N.C., now rates its 2 million customers on a profitability scale from 1 to 5. The real moneymakers get calls from service reps several times a year for what Controller Terry Earley calls "a friendly chat" and even an annual call from the CEO to wish them happy holidays. No wonder attrition in this group is down by 50% since 1996, while the percentage of unprofitable customers has slipped to 21% from 27%.

Even for the lower tier, companies insist that this intense focus on data is leading to service that's better than ever. To start with, it's more customized. And while executives admit to pushing self-help instead of staff, they contend that such service is often preferable. After all, many banking customers prefer using automated teller machines to standing in line at their local branch. American Airlines Inc., the pioneer of customer segmentation with its two-decade-old loyalty program, says it's not ignoring those in the cheap seats, pointing to the airline's recent move to add more legroom in economy class. Says Elizabeth S. Crandall, managing director of personalized marketing: "We're just putting more of our energies into rewarding our best customers."

MARKED MAN. This segmentation of sales, marketing, and service, based on a wealth of personal information, raises some troubling questions about privacy. It threatens to become an intensely personal form of "redlining"--the controversial practice of identifying and avoiding unprofitable neighborhoods or types of people. Unlike traditional loyalty programs, the new tiers are not only highly individualized but they are often invisible. You don't know when you're being directed to a different telephone queue or sales promotion. You don't hear about the benefits you're missing. You don't realize your power to negotiate with everyone from gate agents to bank employees is predetermined by the code that pops up next to your name on a computer screen.

When the curtain is pulled back on such sophisticated tiering, it can reveal some uses of customer information that are downright disturbing. Steve Reed, a West Coast sales executive, was shocked when a United Airlines Inc. ticketing agent told him: "Wow, somebody doesn't like you." Not only did she have access to his Premier Executive account information but there was a nasty note about an argument he had had with a gate agent in San Francisco several months earlier. In retrospect, he feels that explained why staff seemed less accommodating following the incident. Now, Reed refuses to give more than his name for fear "of being coded and marked for repercussions." United spokesman Joe Hopkins says such notes give agents a more complete picture of passengers. "It's not always negative information," says Hopkins, adding that the practice is common throughout the industry.

Those who don't make the top tier have no idea how good things can be for the free-spending few. American Express Co. has a new Centurion concierge service that promises to get members almost anything from anywhere in the world. The program, with an annual fee of $1,000, is open by invitation only. "We're seeing a lot of people who value service more than price," says Alfred F. Kelly Jr., AmEx group president for consumer and small-business services. Dean Burri, a Rock Hill (S.C.) insurance executive, found out how the other half lives when he joined their ranks. Once he became a platinum customer of Starwood Hotels, it seemed there was nothing the hotel operator wouldn't do for him. When the Four Points Hotel in Lubbock, Tex., was completely booked for Texas Tech freshman orientation in August, it bumped a lower-status guest to get Burri a last-minute room. Starwood says that's part of the platinum policy, noting that ejected customers are put elsewhere and compensated for inconvenience.



With the right status, says Burri, "you get completely different treatment."

The distinctions in customer status are getting sliced ever finer. Continental Airlines Inc. has started rolling out a Customer Information System where every one of its 43,000 gate, reservation, and service agents will immediately know the history and value of each customer. A so-called intelligent engine not only mines data on status but also suggests remedies and perks, from automatic coupons for service delays to priority for upgrades, giving the carrier more consistency in staff behavior and service delivery. The technology will even allow Continental staff to note details about the preferences of top customers so the airline can offer them extra services. As Vice-President Reitz puts it: "We even know if they put their eyeshades on and go to sleep." Such tiering pays off. Thanks to its heavy emphasis on top-tier clients, about 47% of Continental's customers now pay higher-cost, unrestricted fares, up from 38% in 1995.

Elsewhere, the selectivity is more subtle. At All First Bank in Baltimore, only those slotted as top customers get the option to click on a Web icon that directs them to a live service agent for a phone conversation. The rest never see it. First Union, meanwhile, codes its credit-card customers with tiny colored squares that flash when service reps call up an account on their computer screens. Green means the person is a profitable customer and should be granted waivers or otherwise given white-glove treatment. Reds are the money losers who have almost no negotiating power, and yellow is a more discretionary category in between. "The information helps our people make decisions on fees and rates," explains First Union spokeswoman Mary Eshet.

Banks are especially motivated to take such steps because they have one of the widest gaps in profitability. Market Line Associates, an Atlanta financial consultancy, estimates that the top 20% of customers at a typical commercial bank generate up to six times as much revenue as they cost, while the bottom fifth cost three to four times more than they make for the company. Gartner Group Inc. recently found that, among banks with deposits of more than $4 billion, 68% are segmenting customers into profitability tranches while many more have plans to do so.

Tiering, however, poses some drawbacks for marketers. For one thing, most programs fail to measure the potential value of a customer. Most companies can still measure only past transactions--and some find it tough to combine information from different business units. The problem, of course, is that what someone spends today is not always a good predictor of what they'll spend tomorrow. Life situations and spending habits can change. In some cases, low activity may be a direct result of the consumer's dissatisfaction with current offerings. "We have to be careful not to make judgments based on a person's interaction with us," cautions Steven P. Young, vice-president for worldwide customer care at Compaq Computer Corp.'s consumer-products group. "It may not reflect their intentions or future behavior."

PAY NOT TO WAIT? Already, innovative players are striving to use their treasure trove of information to move customers up the value chain instead of letting them walk out the door. Capital One Financial Corp. of Falls Church, Va., is an acknowledged master of tiering, offering more than 6,000 credit cards and up to 20,000 permutations of other products, from phone cards to insurance. That range lets the company match clients with someone who has appropriate expertise. "We look at every single customer contact as an opportunity to make an unprofitable customer profitable or make a profitable customer more profitable," says Marge Connelly, senior vice-president for domestic card operations.

In the future, therefore, the service divide may become much more transparent. The trade-off between price and service could be explicit, and customers will be able to choose where they want to fall on that continuum. In essence, customer service will become just another product for sale. Walker Digital, the research lab run by priceline.com founder Jay S. Walker, has patented a "value-based queuing" of phone calls that allows companies to prioritize calls according to what each person will pay. As Walker Digital CEO Vikas Kapoor argues, customers can say: "I don't want to wait in line--I'll pay to reduce my wait time."

For consumers, though, the reality is that service as we've known it has changed forever. As Roger S. Siboni, chief executive of customer-service software provider E.piphany Inc., points out, not all customers are the same. "Some you want to absolutely retain and throw rose petals at their feet," Siboni says. "Others will never be profitable." Armed with detailed data on who's who, companies are learning that it makes financial sense to serve people based on what they're worth. The rest can serve themselves or simply go away.

How to Improve Your Profile

Even if you're not a big spender, there are ways to improve your standing with companies in order to command better service. The key is to recognize that your spending habits, payment history, and any information you volunteer can be used for or against you. What's more, if you do think you're being pegged at a low tier, there are ways to get the recognition you feel you deserve.

The first step in fighting segmentation is to be stingy with the information you give out--especially if it's unlikely to help your status. Don't fill out surveys, sweepstakes forms, or applications if you're not comfortable with how the information might be used. Be wary when a company asks if it can alert you to other products and services. A yes may permit them to sell data that you don't want distributed.

PIGEONHOLING. The Consumers Union points out that it's unnecessary to fill out surveys with warranty cards. Just send in a proof of purchase with your name and address. "Protecting your privacy is a significant tool to prevent yourself from being pigeonholed as undesirable," says Gene Kimmelman, Washington co-director for the CU. It's equally important to recognize what kind of information companies are looking for. If you don't live in an upmarket Zip Code, consider using your work address for correspondence. Be optimistic when estimating your income or spending: The better the numbers look, the better you'll be treated.

Still, it's tough to keep personal information to yourself, especially when companies are compiling data on the business they do with you. A critical concern for all consumers is their actual payment record. Donna Fluss, a vice-president at the technology consultants Gartner Group Inc., advises pulling your credit history at least once a year to check if there are any liens or mistakes. "You may discover that you're listed as having missed a payment that you thought you made on time," she says. The three main reporting bureaus--Experian, Trans Union, and Equifax--charge a small fee for a copy of your credit history. If, however you have recently been denied credit, employment, or insurance, such a report is free from all three companies. The largest bureau is Equifax, which has data on 190 million Americans, but all three may have slightly different records based on who reports to them.

Making the Grade

How to get better service

CONSOLIDATE YOUR ACTIVITIES
Few things elevate status and trim costs like spending big in one place. Be on the lookout for packages or programs that reward loyal behavior.

PROTECT YOUR PRIVACY
Avoid surveys and be frugal with releasing credit-card or Social Security information. The less companies know, the less they can slot you.

JUMP THE PHONE QUEUE
If you want to reach a live human, don't admit to having a touch-tone phone at the prompt. Or listen for options that are less likely to be handled automatically.

FIGHT BACK
If you feel badly treated, complain. Make sure management knows just how much business you represent and that you're willing to take it elsewhere.

Multiple credit cards can be a mistake, especially if they're the no-frills variety that are frequently offered to less desirable candidates. Not only can they drain the credit you might need for other activities, but they're also unlikely to propel you into a higher category. Using a spouse's card or account is also to be avoided, because it robs you of a chance to build your own credit history. If a mistake is made on your account, fight it.

Pros disagree on tactics for bypassing the service maze. One customer representative argues that when calling a service center it's better to punch in no account number if you're a low-value customer. The reason? Without proper identification, he says, a live person has to get on the line. "Pretend you're calling from a rotary phone," he advises. But another tactic may be to punch zero or choose an option that's likely to get immediate attention.

In the end, resistance may be futile, and the best strategy for beating the system may be to join it. Shop around for the best company, and try to consolidate your business there. These days, the best way to ensure good service is to make yourself look like a high-value, free-spending customer.