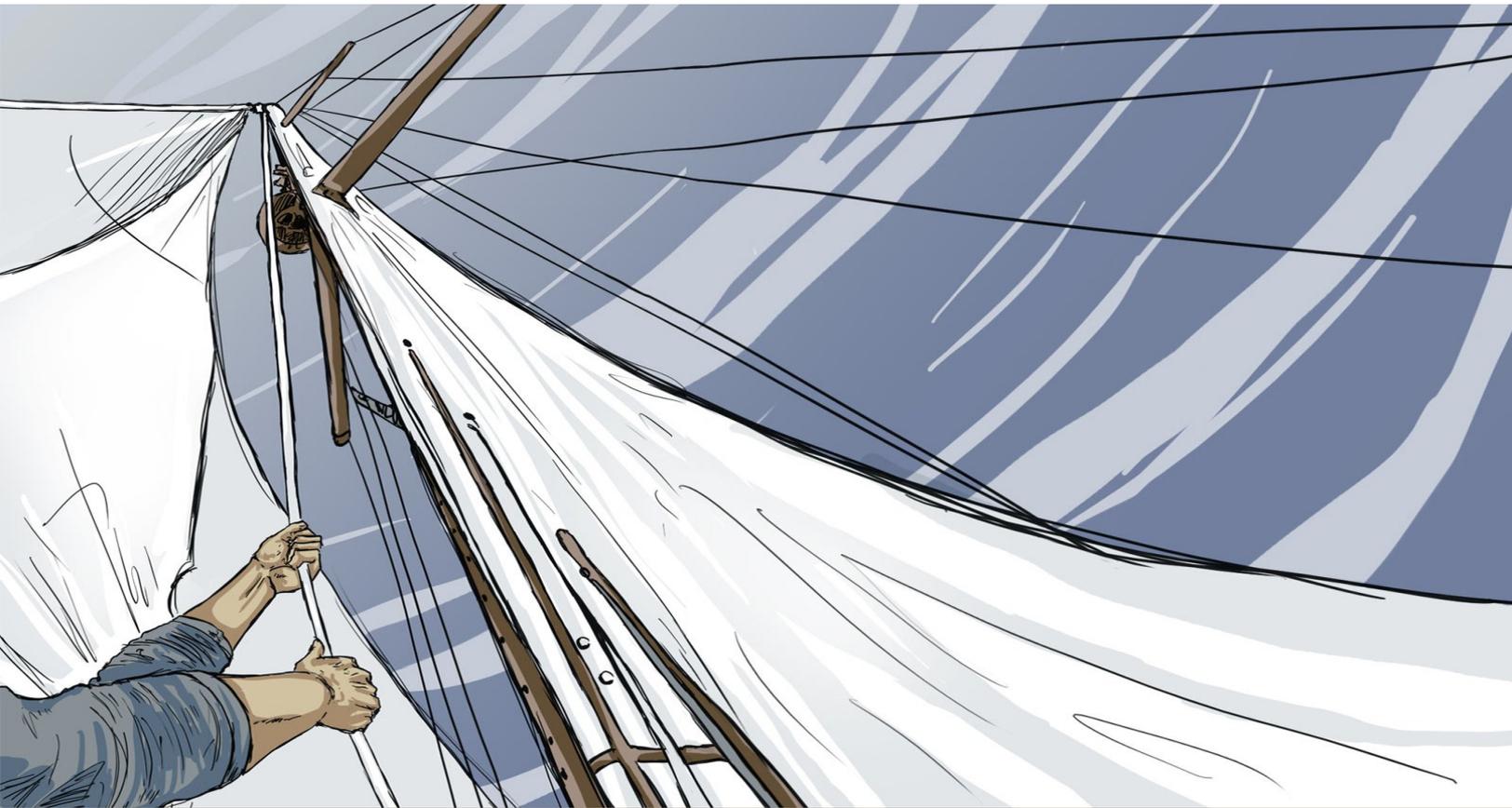


Iskander Business Partner

Customer Care: Too much goodwill?



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IBP View

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In an age where margins are being squeezed hard, telcos are seeking to differentiate themselves through higher quality service and better customer care. Does goodwill achieve this target effectively or is it merely an act of unnecessary charity? Our research shows that too much goodwill is not only redundant, but can also be damaging to the outcome of the customer problem resolution process.

What is therefore the real and rightful role of goodwill? How can telecom companies optimize the goodwill payout process to result in success for all stakeholders; the agent, business and customer? We evaluate industry (best) practice and innovative research in order to present a catalogue of possible measures and argue that the choice of measures is not a one-size-fits-all story, but a firm specific and at best an iterative process. Setting up a functioning feedback process is essential to measuring impact and identifying further improvement potential.

Problem: If in doubt show goodwill

What is goodwill?

The Oxford Dictionary defines goodwill as "friendly, helpful, or cooperative feelings or attitude"

An example of a goodwill gesture could be to donate money to charities. While businesses may well engage in charitable activities, unless they are an NGO (non-governmental organization), their core business is and should not be based on charity. A good Business is founded on providing a quality product or service and making revenue from this. Goodwill in the business context therefore takes on an alternate meaning:

"the established reputation of a business regarded as a quantifiable asset"

Customer Service Centers play a large role in terms of building and maintaining a good reputation. In theory, this can primarily be achieved by treating customers fairly and consistently.

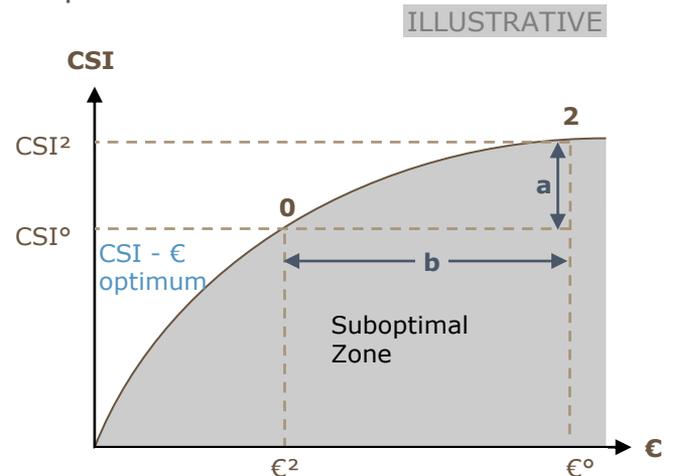
In practice however, there are many examples of Customer Service Centers behaving like a charity. The telecoms industry is not immune to this behavior. The motto "if in doubt, show goodwill" fits well with some mobile companies' traditional focus on customer experience.

Goodwill payments are handed out in the case of a customer mistake, whereby the firm takes responsibility for something that is not their fault e.g. customer did not read tariff info. When an operator is at fault, the payments can

be labeled correction – rightly compensating the customer for an inconvenience e.g. incorrect pricing. With correction, a goodwill component e.g. extra 10%, rounding up to nearest unit, may often be included.

A positive customer experience is often taken to be synonymous with customer satisfaction, increased loyalty and less churn. These connections are all plausible. The weak link is the assumption that higher goodwill leads to increased customer satisfaction. And that the marginal spending on goodwill justifies the marginal change in customer satisfaction.

Declining marginal CSI benefit for every € spent



- Marginal increase in Customer Satisfaction (a) is not proportional to increased spend on goodwill
- More money does not buy much more happiness

In this paper we will consider the customer complaint process and argue that goodwill has an important but restricted role to play. Furthermore we will illustrate that less goodwill is more and provide some measures to optimize goodwill payments. Finally, we will illustrate that feedback is a gift that can be used to sustainably improve the goodwill payout process.

The ABC of customer complaint handling

The truth of the following statement is widely acknowledged

"A customer who has had an issue handled well is more loyal than a customer without an issue."

In order to handle issues well and create loyal customers, it is important to be clear about the goals, roles and limitations of the customer care **ABC**:

Agents

Agents aim for resolution, as fast and pain free as possible. They are often incentivized by call times (average hold time - AHT) and have a limited toolbox at their disposal.

Business

The universal aim of the business is to make revenue for its owners or shareholders. To achieve this, the firm must simultaneously ensure customer satisfaction through service quality and a good reputation.

Customers

Expect to receive fair value for money and good service. Satisfaction will depend on a number of factors including how issues are handled and complaints are resolved.

The key to a successful complaint handling process is to recognize the limitations of each group and unite ABC around a common goal. It is critical that the tools used to handle pain e.g. goodwill are used correctly.

Efficient use of goodwill

Much of the confusion and misuse of goodwill stems from a misunderstanding of its role in the customer complaint process. It is a common belief that throwing money at a problem will make it go away. This idea is misguided and at the same time damaging – both to the firm and the customer.

Let us put ourselves in the customer's shoes. When the customer approaches the service provider with a complaint, they are frustrated and angry. They exude a negative energy. The agent should play a critical role in terms of neutralizing this negative energy by consequently following the steps below:

4 steps to successful resolution



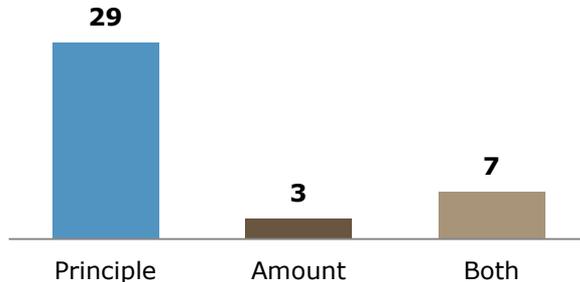
1. LISTEN - Understand the issue and value the customer
2. PLAN - Apologize for the problem and plan a resolution
3. ACT - Communicate action/what will be done
4. COMPENSATE - Provide fair & just compensation for problem

A turning point will occur in the conversation when the agent is no longer removing negative residue, but adding positive value. This step may occur at 3 – by demonstrating clarity and proactivity, the agent builds on the firm's reputation. If the scale has not yet tipped positive by 3, offering just and fair compensation to the customer will do this.

The role of compensation is therefore that of a sweetener. While real understanding and real measures are needed to reinstate customer confidence in the long run goodwill removes the bitterness of the experience in the short run.

As an agent survey demonstrates, to customers goodwill reinstates the meaning of steps 1-3 that they have been taken seriously. It is the principle that is valued here, that of a symbolic payment, not the amount of payment.

What makes a customer satisfied – the principle that he receives payment or the amount?



Thus if a complaint resolution process is running smoothly, the role of goodwill is rightfully restricted to the end of the process and importantly more money is not more.

Consequence: Less is more

In fact handing out smaller sums in goodwill and working on the problem can be more conducive to achieving all ABC goals. Agents are more successful with complaint resolution since the focus is on problem solving rather than burying the problem with money.

Business hands out less money on the EBITDA level and improves their reputation through better service. Last but not least, customers are more satisfied since they are taken seriously and their issues are addressed.

Some real case examples taken from a detailed analysis of complaint cases by an operator can

be used to illustrate the point better.

- Customer paid out EUR 180 for lost phone
→ encourages lack of customer responsibility (moral hazard)
- Customer rewarded on every call
→ encourages customer to "hunt" down free money – bad behavior
- Customer issued EUR 600 for no solution
→ encourages customer to demand money rather than solution
- Money thrown at the customer
→ creates the expectation that money is freely available but solutions not.

In all of these cases handing out less money in goodwill would have led to a better solution for both the genuine customer and the business.

How to get from more to less – A catalogue of measures

An in-depth analysis of industry (best) practice and a series of expert interviews have revealed various roads leading to a more efficient goodwill policy. The length and steepness of the road are analogous to the time requirements, resource intensiveness and dependencies connected with each measure (feasibility).

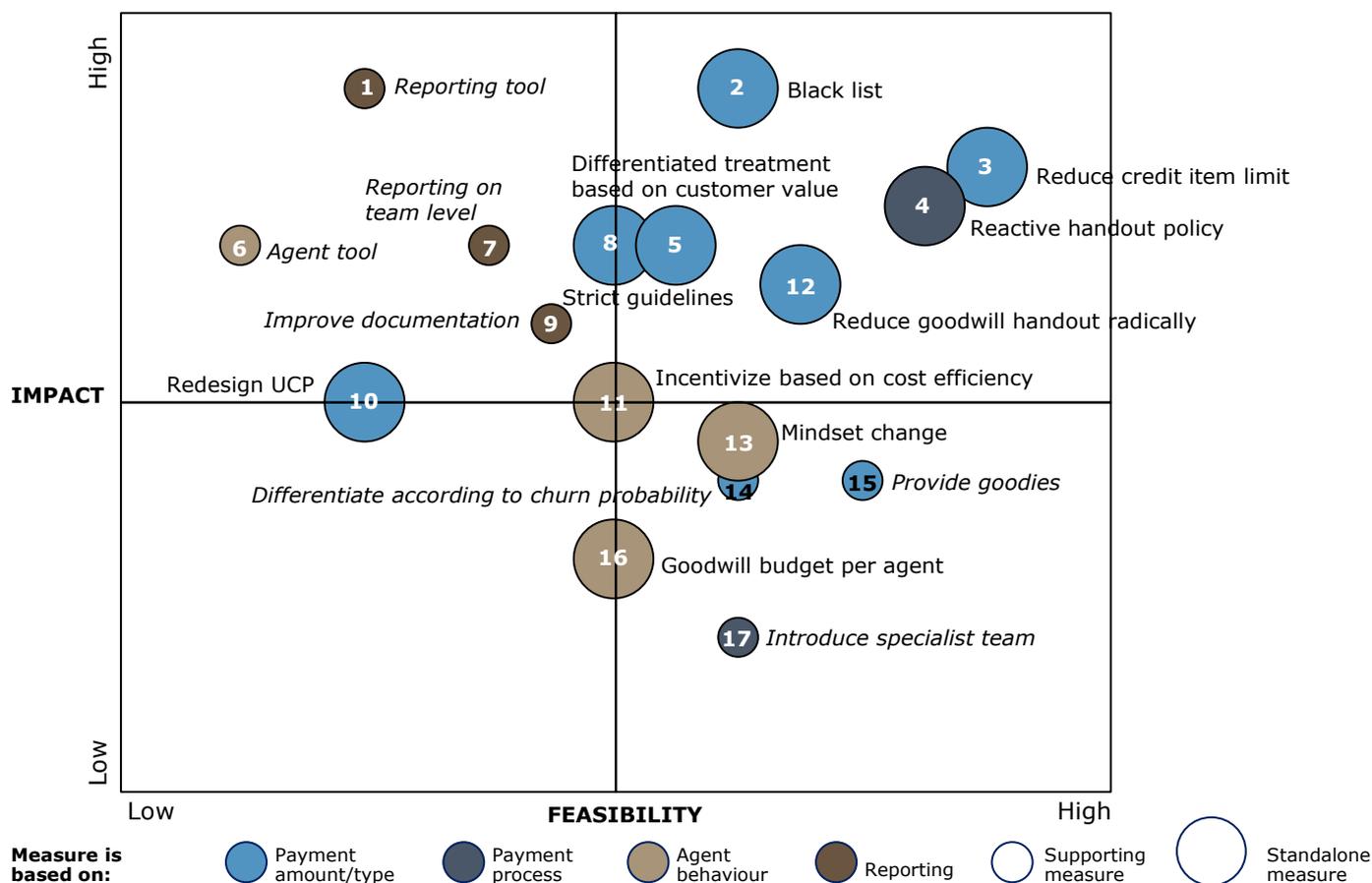
The potential impact in turn depends on the AS-IS situation e.g. reporting systems in place, differentiation between goodwill/correction, agent training etc.

A one-size-fits-all solution is therefore difficult to prescribe – it brings more value to speak of a catalogue of measures and assess suitability based on firm specifics and an evaluation of impact and feasibility. We illustrate items from the catalogue through case examples of implemented measures and innovative ideas from

our research. Included is an illustrative business case to represent the impact of each measure (measures are not mutually independent). Measures have different implementation requirements and timelines.

Feasibility/Impact Matrix

ILLUSTRATIVE



1. Reduce goodwill limit radically –
Decrease limit for goodwill radically. A mobile operator decreased the maximum credit item limit for goodwill to a single EUR digit. In addition agents were incentivized to offer bonuses first, using cash as a last resort.
2. Introduce black list –
Define list of cases when no goodwill payment should be issued (e.g. issue with liquids/damage to hardware). A mobile operator set up a black list for treatment of business customers containing some two dozen items.
3. Introduce restrictive handout policy –
A DSL operator introduced a strict guideline instructing agents how to behave in different cases. The operator also transferred goodwill payout to level 2.

Example business case & implementation

ILLUSTRATIVE

Measure	Impact (p.a.)	Implementation
Reduce goodwill limit (20% disputed value, max €25)	€ 3.0 – 4.4 m 30 - 44%	<ul style="list-style-type: none"> • Prerequisite: differentiation between goodwill & correction in place • Introduce rule in knowledge database & train agents
Customer differentiation (based on current Tarif)	€ 1.5 - 2.5 m 15 - 25%	<ul style="list-style-type: none"> • Develop payment matrix • Match to customer value • Introduce in knowledge database
Introduce black list (lenient to strict)	€ 2.0 – 5.3 m 20 - 53%	<ul style="list-style-type: none"> • Collect black list items • Develop documentation • Hold agent workshop
Reactive handout policy (Assumption: 40-60 % of customers demand credit item)	€ 2 - 1.8 m 12 - 18%	<ul style="list-style-type: none"> • Prerequisite: differentiation between goodwill & correction in place • Introduce rule & train agents

**Based on random sample analysis (n=100), Assuming original goodwill p.a. of EUR 10 m
 Note: Measures are not independent, cannot sum impact of multiple measures*

Innovative ideas

- Introduce reactive handout policy – Agents only offer goodwill when this is demanded by customer (evidence shows that only 1 in 3 customers demands payment during the first complaint call)
- Customer differentiation à la retention – Differentiate goodwill value according to customer value (CLV) – more valuable customers receive more goodwill
- Agent incentivization structure – Incentivize agents based on cost efficiency/performance
- Intelligent approach to compensation – Provide alternative forms of compensation to money – e.g. goodies such as bonuses, free apps...
- Agent decision making tool – Develop tool to aid agent decision making e.g. define goodwill value, show customer characteristics

Efficient use of goodwill

What can we learn from the measures that have been implemented? More importantly: did any feared side effects materialize?

1. Reduce goodwill limit radically – Agents welcomed flexibility in terms of offering different forms of compensation (goodies), business benefited through lower costs, customer loyalty was not affected
2. Introduce black list – Agents praised increased transparency and consistency in terms of customer treatment, business introduced specialist team to deal with difficult cases, customer complaints did not increase – newly introduced hotline felt no increase in calls
3. Introduce restrictive handout policy – Agents profited from clear guidelines, business saved significant money, but also incurred follow-up costs due to removal of first level support, customer satisfaction remained constant

What all these real-life experiences have in common is that in significant savings were made (up to 75% with the introduction of a bundle of measures) with no negative repercussions for customer experience.

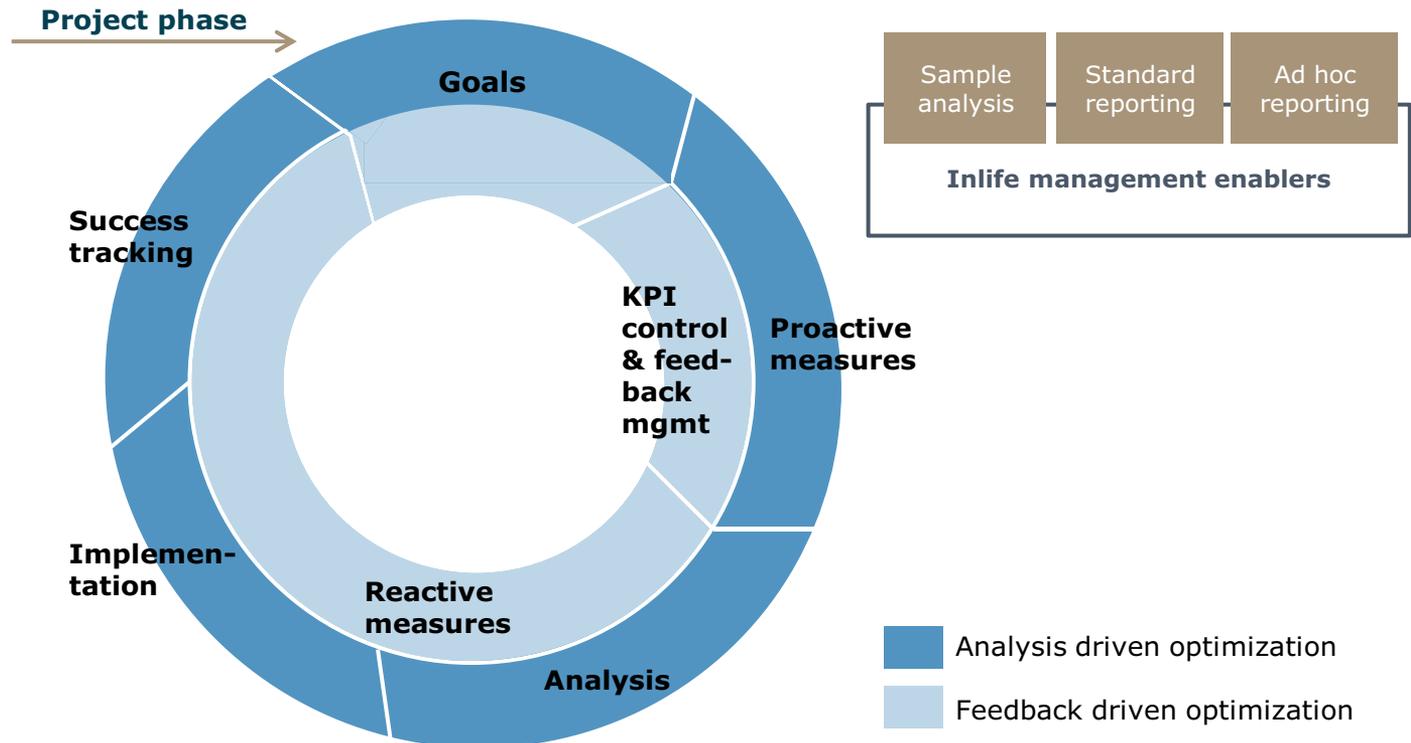
Another shared characteristic however, is that none of these firms got it right the first time – optimizing the credit note process is an iterative exercise that can best be achieved by

trial and error and close monitoring of impact (especially if adequate reporting systems are not yet in place). Setting up a practice internally to monitor and review progress can identify new and better opportunities for optimization. It can create a good test-bed for

trying out the innovative ideas presented above with low risk (e.g. pilot groups, simulations).

With such potential, it would be a mistake to not use feedback wisely.

Continual optimization through KPI and analysis driven feedback loops



The authors



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Nora has worked previously for CSMG Global in London and has completed internships with Deloitte LLP in the UK and Roland Berger in Hungary.



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Max Lüling is a consultant at Iskander Business Partner. Throughout his 10 years of consulting experience in the mobile sector he has managed and led projects in the diverse areas of marketing, business customers, sales, finance, customer service and technologies.

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Max has a Masters in Business & Sales and has added the PMP and Scrum Master certifications to his name.

Iskander Business Partner is an international management consultancy with a strong focus on the development and implementation of growth projects for the High-Tech industries. We pride ourselves on being highly competent professionals who think as entrepreneurs.

Company and philosophy

We develop concepts with a focus on results and implementation hand-in-hand with our customers in a reliable, pragmatic and application-oriented way. We believe in partnership, mutual trust and goal orientated management consulting with a focus on successful implementation – our concepts for product-, marketing-, sales- and CRM-Strategies ensure a path of sustainable success.

Since the foundation of the company by Armin Iskander in 2005, our success has been growing on solid foundations. Our expansion is based on attracting entrepreneurial employees who play an active part in shaping our firm strategy and supporting our clients. Passion for our job, a readiness to assume personal responsibility and close customer contact are the sails that carry us to success. Flat hierarchies and a down-to-earth attitude ensure that we never lose sight of the horizon. Instead of providing theoretical concepts, we offer the implementation of concrete solutions. We are partners of the enterprises we consult - being experienced, well-trained experts and consultants, we are able to navigate through shallow waters and to negotiate these to the benefit of our customers. Our strong crew is safely heading for success. In our team, every single member counts, our co-operation ensures successful bearing towards our destination. Our result: satisfied customers and highly motivated employees.

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