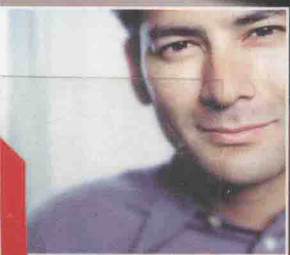
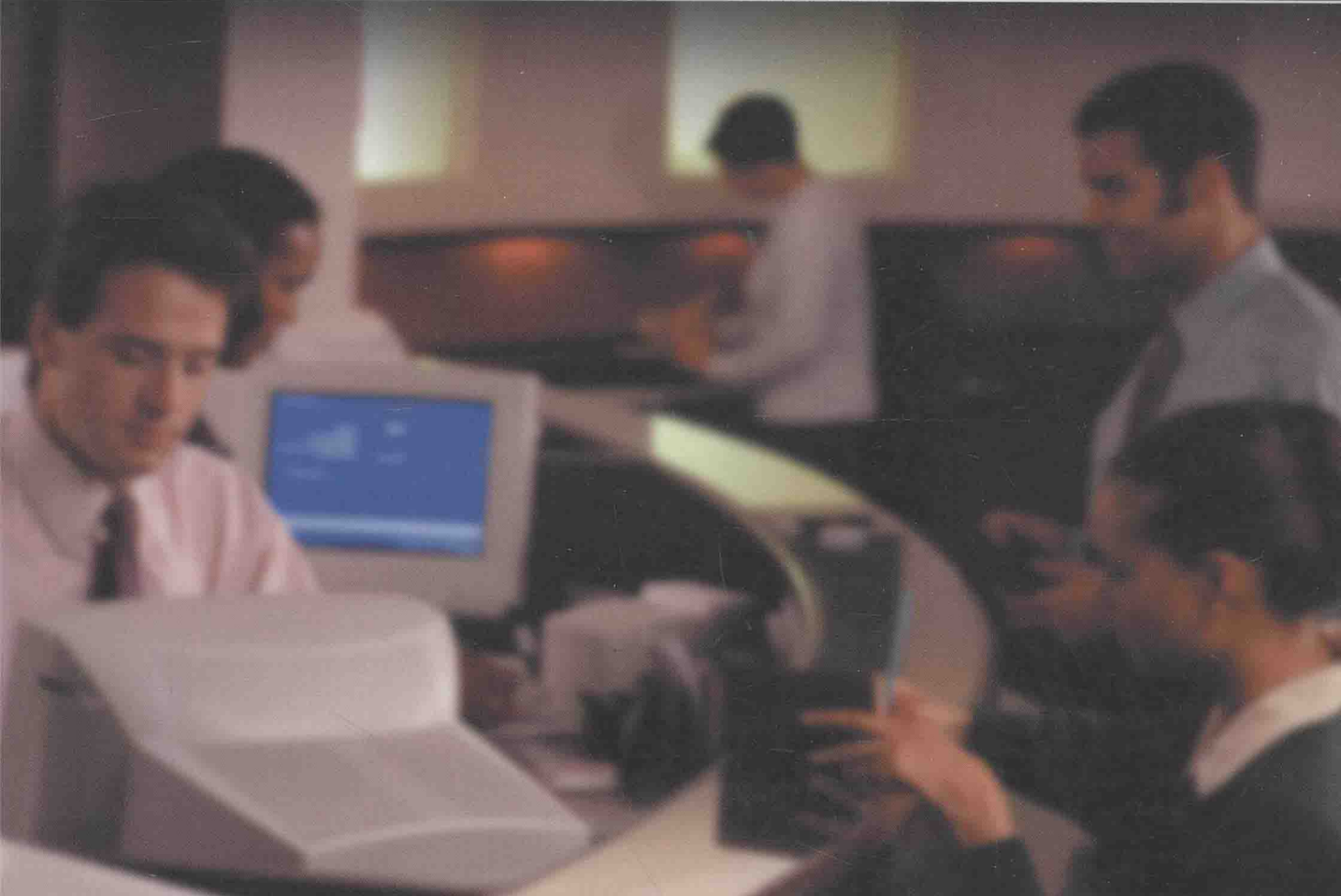


# SERVING INTERNAL AND EXTERNAL CUSTOMERS



ANNE SWARTZLANDER

# SERVING INTERNAL AND EXTERNAL CUSTOMERS

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# PREFACE

This textbook is intended for an undergraduate customer service course. The textbook explains customer service and its importance in the context of organizations and explains methods of individual behavior and interpersonal communication to improve customer service skills. Exceptional customer service leads to customer loyalty and retention and, ultimately, to organization success. Customer service can be found in every business and organization. Everyone in an organization provides service to external or internal customers during their work day. Customer service happens whenever, wherever, and however customers interact with the organization.

Whether you are just starting out in your career or have years of experience, you will recognize better or alternative ways to say and do things that will provide exceptional customer service. You may have heard that customer service is common sense. You may have heard that customer service is plain, ordinary good manners. It is both. It is also learning and practicing specialized customer service skills so they become as natural as breathing. On an individual level, better customer service skills lead to less stressful, more productive, and more satisfying work lives.

The textbook is based on a model of customer service in which customers are the focus and the strategy, systems and people of organizations and businesses interact to provide what internal and external customers need and expect. The first part of the book sets the stage for learning the customer service skills in the rest of the text. Chapter 1 explains an encompassing view of customer service and the importance of exceptional customer service in the twenty-first century business environment. Chapter 2 discusses the design and implementation of customer-oriented strategy and systems. Customer expectations and the value and creation of customer loyalty are covered in Chapter 3. Chapter 4 explains the concept that employee satisfaction equals customer satisfaction and outlines the factors that contribute to employee satisfaction. In Chapter 5, the textbook looks at individual attitudes and styles as they apply to performance and teamwork. Chapters 6 through 10 provide guidelines and recommendations to improve listening effectiveness, nonverbal and verbal communication skills, and telephone and electronic communication skills. Chapter 11 presents information on solving problems, enhancing creativity, making decisions, and resolving conflicts, all of which are essential in a customer service provider's job. Chapter 12 covers techniques for providing service to specific categories of challenging customers, including angry, wrong, demanding, dishonest, and abusive customers. It also addresses diversity and the special needs of multicultural customers and customers with disabilities. In Chapter 13, we illustrate how to resolve customer problems and keep customers when our best efforts fail.

The chapters include Experience Discussion and Skill Development exercises so students can share their wide-ranging experience, broaden their perspective, and supplement



their skills. Each chapter has a project, exercise, or case at the end to practice the recommendations and discover different and better ways to solve customer problems.

One of the goals in writing this textbook was to provide evidence that exceptional customer service does make a difference to the bottom line and that the prescribed behavior accomplishes its intention. Consequently, each chapter contains information on research studies and expert knowledge with accompanying source citations.

While writing this text, I found a list of “what students should learn in college.” These are primarily “soft” skills that usually are not taught in college. However, they are all directly related to providing exceptional customer service. This list is as follows:

listening	working as a team
effective communication	making effective decisions
understanding people	how to capture opportunity to change
value-first method of dealing with others	taking responsibility and ownership of a job

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## SUPPLEMENTS

For course support materials, please visit [www.prenhall.com/business\\_studies](http://www.prenhall.com/business_studies).

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## ACKNOWLEDGMENTS

The catalyst for writing this textbook was teaching customer service during the past ten years. I have learned much from my students—in-class, out-of-class, and from the web course. They have contributed thought-provoking questions and creative solutions for customer service problems and dilemmas.

Many thanks go out to the experts that provided valuable content suggestions, including Dr. Phil Dover, Babson College, Babson Park; Randy Porter, Heald College; Dr. David Andreas, Kansas State University; John O'Brien, Wenatchec Valley College; and Joseph D. Chapman, Ball State University.

I am indebted to all my one-time frontline employees, bosses, and colleagues who demonstrated what exceptional customer service is and what it is not. I was inspired to teach customer service and write this book when I was a retail store manager, supervising ten frontline employees who excelled at their customer service jobs even though they often struggled to satisfy the sometimes rude and downright impossible customers.

Not to be forgotten is the exceptional customer service of the entire library staff at Pellissippi State. They were all incredibly helpful and professional. Thanks as well to the six anonymous reviewers who provided useful comments and suggestions. Not the least, I want to thank Larry for his unwavering support and wry humor during the writing of this book. I am also grateful to Joey for her faithful assistance.

Last of all, I am grateful to all the exceptional service providers I have encountered over the years. You have taught me the most. Thanks for the stories.

I welcome questions and comments to [aswartzlander@pstcc.edu](mailto:aswartzlander@pstcc.edu).

*Dr. Anne Swartzlander*

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# CUSTOMER SERVICE

## OBJECTIVES

1. Define customer service.
2. Describe customers' perceptions of services in the United States.
3. Explain why customer service is important in today's business environment.
4. Explain the relationship of customer service to marketing, operations, and human resources.
5. Outline the customer service model.

## DEFINITION OF CUSTOMER SERVICE

Exceptional customer service is consistently meeting and exceeding customers' needs and expectations. Customer service is a philosophy, not a job or a department. When we think of customer service, many of us picture a customer service desk or a telephone representative. Many organizations have viewed customer service as after-sales service, customer support, and complaint handling. Dourado from eCustomerServiceWorld.com argues that many companies have traditionally misdefined customer service, using a departmental approach. He defines customer service as "the customer's complete experience of doing business."<sup>1</sup> *Customer service* is the behaviors and attitudes of a company and its personnel toward customers during all interactions and communication with them.

### Experience Discussion 1.1

1. Give examples of situations that you have experienced as a customer that illustrate the following types of customer service:
  - a. Customer service that was completely unacceptable
  - b. Customer service that was below your expectations

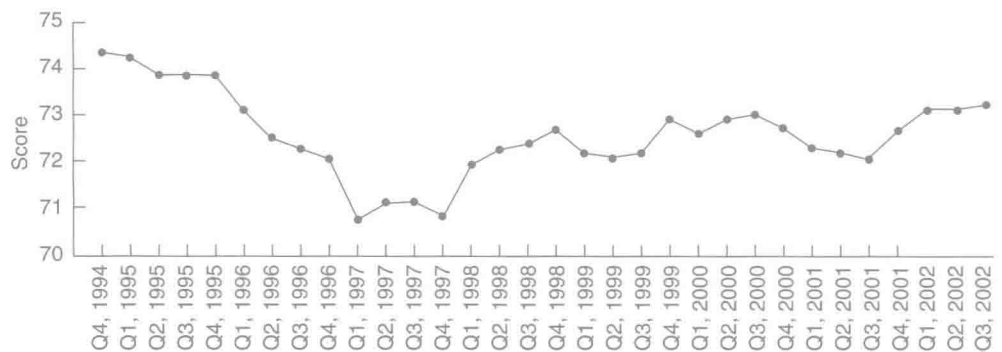
- c. Customer service that met your expectations
- d. Customer service that exceeded your expectations
2. What products and industries do you associate with customer service?
3. Where do you find customer service?
4. Who provides customer service?
5. Do you think customer service has improved, stayed the same, or gotten worse in the past 10 years?

Since customer service is a customer's complete experience of doing business, then all companies and organizations provide some type of customer service—from service companies, to manufacturers, to retailers, to nonprofits, to government agencies. Customer service is found at every point of contact between customers and employees. In order for frontline personnel to meet customer needs and expectations, they need support from the rest of the company employees—from their coworkers and supervisors, other departments, and company executives. All employees then become customer service providers for either external or internal customers. In addition, customer service is found wherever and however customers intersect with providers. The interaction may be in person, on the telephone, by mail, via the Internet, or through machines and equipment, such as an ATM.

## CUSTOMERS' PERCEPTIONS OF THE QUALITY OF SERVICES

Customer satisfaction in the United States leaves much to be desired. The *American Customer Satisfaction Index* (ACSI) measures satisfaction with the quality of goods and services as experienced by customers. Based on a scale of zero to 100, it is lower now than in 1994 when it was developed. In 1994, the national index was 74.2. In the third quarter of 2002 it was 73.1 (see Figure 1.1). It is lower for services than it is for goods. Americans believe that some services have improved, namely parcel delivery and ex-

**FIGURE 1.1** American Customer Satisfaction Index National Scores, 1994–2002



Source: ACSI, National Quarterly Scores, available from [http://www.theacsi.org/national\\_scores.htm](http://www.theacsi.org/national_scores.htm), accessed April 8, 2003.

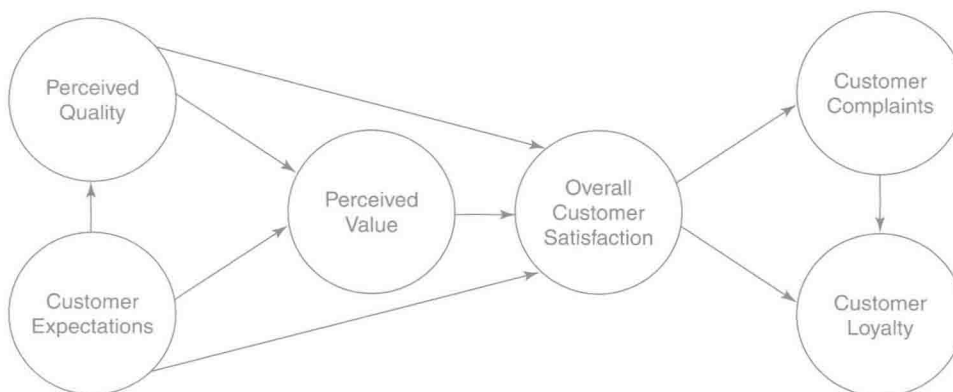
press mail, but satisfaction with airlines, hospitals, telephone service, banks, department stores, and fast-food chains has decreased. Ratings seem to be lower for companies that have more contact with customers, such as airlines and hotels. Customers tend to rate niche companies—companies that focus on smaller specific target markets—higher than companies with large market shares, perhaps because niche companies are more in touch with their customers' needs. Researchers have found a positive and significant relationship between a company's individual ACSI score and its financial performance, including profit, return on investment, and stock performance. Fornell believes that poor service distorts our picture of the economy. If service quality decreases, the price of a service does not buy the same service that it used to.

The American Customer Satisfaction Index was created in 1994 by Claes Fornell at the University of Michigan Business School. It is cosponsored by the American Society for Quality and the international consulting firm CFI Group.

The ACSI survey gathers information on 190 companies representing 35 industries in 7 major economic sectors plus federal and local government agencies. The ACSI represents 30 percent of U.S. gross domestic product in sales to American household consumers. It measures approximately 5000 branded products and services that are representative of all goods and services. Some of the service companies are Nordstrom, Sears, Wal-Mart, McDonald's, Kroger, Exxon, Marriott, Wells Fargo, State Farm Insurance, Delta Air Lines, UPS, Walt Disney, Knight Ridder, and Sprint.

The index is a weighted average from an econometric model of consumers' responses to 17 questions rated on a scale of 1 to 10. The questions address and link customer expectations, perceived quality, perceived value, overall satisfaction, complaints, and customer loyalty (see Figure 1.2). The index is based on random-digit-dialing telephone samples, with more than 70,000 consumers interviewed annually. The randomly selected respondents are recent purchasers of a specific brand or model of the goods and services. At the 90 percent confidence level, the margin of error is a plus or minus 0.2 percentage point for the national index, a 1.0 percentage point for manufacturing industries, and 1.7 percentage points for service industries.<sup>2</sup>

**FIGURE 1.2** The American Customer Satisfaction Index (ACSI) Model



Source: Claes Fornell, Michael D. Johnson, Eugene W. Anderson, Jaesung Cha, and Barbara Everitt Bryant, "The American Customer Satisfaction Index: Nature, Purpose, and Findings," *Journal of Marketing* 60, no. 4 (October 1996): 8.

Other research shows that customers believe that customer service is better at some companies but still sporadic. Leonard Berry, author of *Discovering the Soul of Service*, says, “I give service in America a C minus.” Americans carry experiences with one company to others, assuming that if Federal Express can provide exceptional service, supermarkets ought to be able to as well. Customers know that great service is possible.<sup>3</sup>

---

## IMPORTANCE OF CUSTOMER SERVICE

Customer service is important in today’s business and marketing environment due to sociocultural, demographic, technological, and economic factors, which are outlined below.

### Sociocultural and Demographic Factors

In general, Americans are smarter customers than they used to be. Their consumer sophistication has increased due to more education and experience. They have higher expectations than they used to for customer service and product quality. Their expectations have become demands. The Internet has led to less company and brand loyalty due to changing buying habits and methods, including more choices, more convenience, more information, and more access to data than before for comparison shopping. Customers are becoming more likely to express their dissatisfaction and seek resolution for problems. They want complaints resolved quickly. They believe there is too much stereotyping based on gender, age, ethnicity, and appearance.

Several societal conditions have contributed to a focus on the quality of life. Americans detect a general decline in civility and want a more humane quality of life. Concern for moral values is at an all-time high. Both stress in everyday life and job stress have increased. Consumers are searching for simplification, control, and balance in their lives. They seek mental, physical, and spiritual well-being. Customers face too many choices, too much conflicting information, and too little time. Shopping is no longer an enjoyable activity. They are less patient about being put on hold. Service and convenience are high priorities. This all translates to a need for courteous, helpful, respectful, and knowledgeable customer service providers.

Marketers and demographers use birth year to identify segments of the population. In 1999, the 55-plus demographic group, the Mature Generation, controlled 70 percent of the total U.S. wealth and represented 50 percent of all discretionary income. As an example of this group’s numbers in the market, the group transacts more than 5 million auto loans each year and represents 40 million credit card users. Consumers who are relatively affluent and have discretionary income want innovative, stress-free entertainment, travel, and leisure time experiences. They are willing to pay for high-quality household and personal services to have more leisure time. They expect exceptional customer service.

The Baby Boomers, the largest generation in American history, born between 1946 and 1964, are in the process of turning 50 plus. The Leading Boomers are moving into a new life stage. Their budgets are stretched as they send their children to college, save for retirement, and take care of aging parents. Family and home are their primary interests. Conspicuous consumption and status seeking are no longer the top goals. They are more interested in quality and reliability. Boomers are not a

homogeneous group. The Trailing Boomers, born in the early 1960s, are in their 40s and in some ways are more similar to Generation X.<sup>4</sup>

Generation X consumers, born between 1965 and 1985, make up 16 percent of the population. They grew up as latchkey kids in a difficult time with the highest divorce rates, AIDS, corporate downsizing, and ecological threats. They are independent, savvy, and realistic. They are more knowledgeable about household products than Boomers were at their age because they participated in household chores at a younger age. Products and services that keep them in touch and in control, such as cell phones, pagers, answering machines, e-mail, and fax, are considered necessities for this group. Xers dislike advertising that is hype, insincere, and hypocritical. Products must be perceived as useful, fulfilling a genuine need. They are more diverse and accepting of ethnic and sexual diversity.

When Boomer families began to have children, the birthrate climbed again through 1994, creating an “Echo-Boom,” or Generation Y. This generation, now 9 to 25 years old, makes up 26 percent of the population, and has substantial buying power and influence. The members of Generation Y have grown up in a time of great economic optimism. They are the most educated and the most sophisticated and informed consumers in the history of the United States. They know how to get information and make informed buying decisions. They insist on being treated with respect. Customer service is expected. They will not buy if they are patronized. They trust their friends’ opinions, and so word of mouth is a significant source of consumer information. They take technology for granted and stay connected through the Internet and cell phones. Their standard of convenience is “effortless,” such as “grab-and-go” food. Teamwork and getting along with others, particularly members of different racial and ethnic groups, are considered important skills for success.<sup>5</sup>

## Technological Factors

Product complexity and proliferation, for example, the escalating cell, local, and long distance telephone choices, have made products and services even more difficult to choose, so buyers need more information, which salespeople often do not volunteer or know. The technological complexity of products has increased beyond the ability of consumers and even some service people to maintain and repair them easily and correctly.

Automated telecommunications, retail scanners, and other technology have allowed companies to be more productive with fewer employees. Savings could be passed on to customers who were willing to settle for less personal service and faster shopping. However, in some cases, technology has been misapplied. It was supposed to provide better customer service—and it has—but technology has also created more customer difficulties, such as when customers end up in an automated telephone loop or cannot reach a live person. The solution is now part of the problem. It’s been reported that employees, who are being monitored by computer to measure productivity and performance, may hurry callers or even fake a disconnection so their average call duration will not be too long.<sup>6</sup>

In addition, technology has diminished the human touch. Due to the proliferation of technology in every aspect of their lives, customers want more interpersonal contact. Many customers use an ATM for bank transactions, but when they go to a bank teller, they expect the recognition, friendliness, and respect that they don’t get from a machine. When checking out of a retail store, customers want acknowledgment and appreciation for their business. Scott Gross, who wrote *Outrageous! Unforgettable*

*Service . . . Guilt-Free Selling*, says that as companies replace people with technology, the remaining employees with one-on-one time with customers will have an even greater impact on customers' impressions and evaluations.<sup>7</sup>

## Economic Factors

An economic shift has led to an increase in service jobs and a decline in manufacturing and agriculture jobs in the United States. The growth of service industries and the globalization of the economy and increasing competition have resulted in greater scrutiny of services. Other economic reasons suggested for the decrease in service satisfaction include cost cutting, deregulation, and labor issues.

The high inflation in the 1970s and early 1980s forced companies to keep prices down by cutting costs. They slashed employee hours, wages, and training. Consumers were willing to give up service for lower prices. Customer service received lip service, but management did not really believe that better customer service would increase sales. In the 1980s and 1990s, the strategy of downsizing, reengineering, and retrenchment of many companies also led to cost reduction to maintain profits. Satisfaction with goods was higher because manufacturers can replace workers with machines, while service companies cannot. Dissatisfaction increases when there are fewer employees to serve more customers.

Another cause of declining service quality is the effect of deregulation on several service industries, such as telecommunications and airlines. Deregulation led to major industry shake-ups, sometimes causing breakdowns in service quality. Deregulation increased competition, which led to reducing costs and streamlining services.

The post-Baby Boom shortage of young workers created a scarcity of candidates for minimum-wage service jobs. The labor shortage forced companies to hire less qualified workers, again decreasing service. In addition, young entry-level workers view minimum-wage service jobs as beneath them and as dead-end jobs with no chance for advancement. Standardizing services to cut costs has made jobs boring and has led to lack of employee motivation as well. Employee turnover in these entry-level frontline jobs was and continues to be high. When turnover is high, customer service experience and training decrease. The low unemployment rate in the late 1990s also lowered the quality of customer service due to the skill levels of the available labor for frontline jobs. Customer service levels eroded.

Improvement in services has also been slowed down by the lack of emphasis on services marketing strategy in some companies and by the relative difficulty of measuring service quality. Fornell believes that there has been a considerable amount of talk about increasing investment to improve service quality but not much actual effort.<sup>8</sup> In the 1980s, the marketing concept, which emphasizes a customer focus, notwithstanding, many companies tended to be inwardly focused rather than outwardly focused on customers. In 1987, Kenneth Bernhardt of Georgia State University maintained that corporate executives had insulated themselves from their customers. Companies had insufficient awareness of the rising expectations of customers. They seemed to be unaware of how much customers are influenced by past experiences, helpful salespeople, and responsive after-sales service. Bernhardt claimed that all executives could see was the short-term, quarterly sales numbers and the bottom line. Management believed that better service cost too much. They treated customer service as a cost rather than as an investment. They failed to define customer satisfaction in terms that link it to financial results.<sup>9</sup>



One service example, detailed in *Time* magazine in 1987, was a customer who took a foul-smelling piece of fish back to the supermarket and received a refund only after answering brusque questions and filling out forms. No one apologized or seemed to care that the dinner had been spoiled.<sup>10</sup> Ironically, a variation of the fish story occurred in the author's household a month ago. The fish was not spoiled, but the fish that was supposedly cod was not cod. The supermarket employee just handed over the refund without a word. Another example from the 1980s was a customer who had to take an entire day off from work because the delivery people refused to predict what time they would arrive. Delivery prediction is not much better these days.

However, considerable evidence suggested that it costs much more to get new customers than to keep current ones. There was clearly recognition on the part of many companies throughout the 1990s that customer service needed to be improved. Marketers began reallocating their marketing budget toward retention of customers rather than acquisition. Mass media advertising costs increased, and so marketers began to focus on keeping current customers rather than acquiring customers. Top-level management realized they must support and appreciate the customer service function. Many corporate executives had not recognized that in service businesses the most important employee is the one who actually delivers the service. Service jobs were considered unimportant. If training was done at all, it concentrated on technical skills rather than people skills. Executives began developing new and innovative employee selection, training, and motivation systems. They realized the value in empowering frontline service employees and resolving complaints quickly.

In the past decade, service companies have recognized a need for better customer service as a competitive edge. Services have been added to tangible products to differentiate them from competitive products. The public or government sector also recognized the need for better customer service. Since consumers vote and pay taxes, they believe they have a right to expect more of government agencies. Citizens need information and have urgent questions and legitimate complaints.

## Twenty-First-Century Customers

Futurists predict that customers will become even smarter, more informed, more skeptical, more demanding, and more powerful in the twenty-first century. Access to information in real time on the Internet means customers will be able to compare any product. At a click, they can defect to another company. At a click, they can tell thousands of other customers about a good or a bad experience. To learn what their goals will be in the future, we will need to go beyond traditional customer research and tap into customer values and unexpressed needs. Oliver, author of *The Shape of Things to Come*, believes we must empower and integrate customers into our processes. We need to make them partners, the source of product innovation. In addition, customer service personnel are in a unique position to contribute to knowledge about customers.<sup>11</sup>

One overriding concern will be time. Service businesses must save customers time and make customers' lives easier, more convenient, less stressful, and less complicated. Customers will value information and purchase options wherever and whenever they want them. Amazon.com is moving in this direction with its access to product information, ease of purchasing, and prompt delivery. Customers want assistance managing and simplifying their lives. As the world becomes more complex, customers will value services such as direct home delivery of necessities and customized communication to track family and household activities.<sup>12</sup>