Customer Service: It's Not What You Think!

By Will Phillips

Customer service may offer NO significant value in most clubs. This view is based on growing evidence from *other industries* that customer service is not what you think.

Over the last eighteen years as the leader of eight club owner Roundtables, I have had the opportunity to see how club owners think. Their outlook is largely tactical---not strategic. Their focus is on profit and revenue this month or this quarter or this year. We design our club, equip it, hire staff and then layer on customer service with smiles, handling complaints and front desk charm-this is tactical customer service. Strategic customer service begins at a different point, and its absence in clubs may leave many dollars on the table and open the door for serious competitors to enter and eat your lunch, breakfast and dinner.

TACTICAL vs. STRATEGIC CUSTOMER SERVICE

At its core, customer service means knowing and serving the customers' needs. Many industries begin here, but then, when faced with competition or in giving reign to their owner's business creativity, add extensions to their core product which may actually reduce customer service.

Early on, Ford made cars in one color – black. When competitors added color, so did Ford. Instead of one product-a black Model A, there were dozens of colors. Eventually General Motors, in its attempt to serve everyone, offered close to 10,000 variations in car frames, models, colors, radios, power windows, two tone colors, engines and accessories. All this added higher costs in an attempt to serve the customer and better compete. It also meant the product became unfocused.

Meanwhile Toyota developed a range of closer to 150 variations keeping their focus on the core customer need of RELIABLE TRANSPORTATION. Toyota has never lost sight of this core need. Like a bull fighter who distracts the charging bull off target, all U.S. car makers lost sight of the core customer need – reliable transportation. And now Toyota's market value exceeds all U.S. car makers. All the variety and extras which Detroit experts said were to please and attract customers—have not really worked very well.

Likewise with the clubs. The core need for significant segments of the market is not the sort of service many clubs practice – multiple offerings, smiles, towels and names remembered, but exercise. The newer, very low cost clubs which quickly sell 5,000 memberships points out what many customers really wanted-a clean, well lighted place to exercise. Delivering that and just that serves a significant customer need. Adding on 'service' staff adds little real value for those customers. Of course, such clubs will not serve the whole market just as Toyota Camry's are not right for everyone. But for the right segment they become Toyota loyalists for life.

Worse than defocusing from the core needs of a market segment is adopting methods which infuriate customers by binding them with contracts, bleeding them with little charges and confusing them with fine print. Why do this when we are committed to customer service? Because it pays. A number of industries have adopted standard methods to extract maximum value from customers and these standard methods create customers that hate them and defect at rates of 30 to 50% a year. The research[1] has identified key industries that pursue these counter customer service strategies (CCSS). They include banks, car rental and cell phone companies, and health clubs.

1 Companies and the Customers Who Hate Them by McGovern and Moon June 2007 Harvard Business Review Reprint R0706D. The quoted pieces are from this article.

THE TRAP MOST CLUBS HAVE FALLEN INTO

Why have these industries fallen into a trap where their standard practices create huge customer turnover? It is profitable and the executives are not strategic. Here is why.

#1- Tactical is always easier. Just respond to the pressures of the day. Follow the crowd, little thinking required. Low creativity works. Adopt False Best Practices (FBP) from within your industry by copying what others in the industry do. When the phrase "best practices" was coined, it really meant 'BEST' not 'BETTER'. By definition no industry included BEST in everything from accounting to training to sales, etc. To get BEST practices you mostly have to go outside your industry. Thus when XEROX wanted to improve the customer service of its parts replacement division it selected the company with the highest customer service ratings for parts. It was not in the copier industry where everyone's service was poor. They selected L.L. Bean and sent a team to observe what they did. On returning they could dramatically upgrade their service. In the club world too much focus on what other clubs do creates STANDARD PRACTICE, not BEST PRACTICE.

#2- A primary attribute of strategy is that you focus. Most strategic planning rarely causes clubs to focus. How often have you seen a so called strategic plan which lists all the plans and actions and projects and market segments that will be abandoned to achieve focus? Strategic implementation is based on focus. And it rarely occurs because it requires you to make tough choices and to let go. The experience of many club entrepreneurs is that they are in control; run a good business and can do anything they set their minds to. This is the challenge of the successful person with pockets full of gold that falls overboard and starts sinking - does he focus on money or living? For a business version of this story see the S Curve article at www.REX-online.org. Also, look up Michael Porter's article in the Harvard Business Review What Is Strategy?

#3- Most club owners prefer the current crop of customer service models and training which do not focus on understanding and serving the customers' needs, but rather on how to be nicer to the customer. Human resource oriented people gravitate to writing books and giving presentations and training about how to love and respect your customers. These are peppered with moving stories about good and bad customer service that we all identify with. The stories stir our emotions and we want our business to produce such anecdotes. The worst implementation of this philosophy occurs on the phone and in medium priced restaurants. "My name is Jody and I will be your server; if you need anything, just let me know."

-I really don't need to know your name.

-It is obvious you are our server; why else are you standing there with an order book?

-When I really have a need - more water - I can never find you.

Or the phone call with the recorded message "Our customers are valued partners...Followed by ten minutes of neglect while you hold or worse pay roaming minutes on your cell phone. See Laura Penny's book: ***"Your Call Is Important to Us -The Truth About Bullshit".***

The Customer Service Myth is that customer service is a required part of good management. Of course, it is, but not the kind of smiley, apologetic, we'll fix the problem service that too many clubs practice. Nor is real strategic customer service a matter of towels.

#4- Customer service of the tactical type usually installed by businesses turns out to be extremely difficult to install. Three days of training gets everyone on board…for a few months and then the services invariably declines. Only rarely does a business embed this type of service and make it a permanent part

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of the club. It requires right hiring, right training, right culture and right rewards. It also requires retaining your front line staff year after year. When the staff changes every few months or years, it impacts service. For more on this, see Len Schlesinger's series of HBR articles from a decade ago.

The tendency to supply tactical customer service means many industries slip into practices that fail to serve their customers needs which means they leave them at rates of 30 – 50 % a year and end up focusing their business on expensive advertising and sales efforts.

One of the most influential propositions in marketing is that customer satisfaction begets loyalty and loyalty begets profits. Why, then, do so many companies infuriate their customers by binding them with contracts, bleeding them with fees, confounding them with fine print, and otherwise penalizing them for their business? Because, unfortunately, it pays. Companies have found that confused and ill-informed customers, who often end up making poor purchasing decisions, can be highly profitable indeed.

The majority of firms that profit from their customers' confusion have unwittingly fallen into a trap. Without ever making a deliberate decision to do so, they have, over a period of years, taken greater advantage of their customers.

Here are a few examples. Over half the income to U.S. cell phone companies comes from customers pay-

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ing for and not using all their minutes or using too many minutes. It's a game to see if you can use exactly 300 minutes per month. A game the customer always loses. See WWW.hateverizon.org.

No one gives up their cell phone because of this aggravation, but they do defect at close to 25% a year even with severe financial penalties. The cell companies in turn must engage in on going, expensive and aggressive sales tactics and promotions where each new customer costs $ 300 to $ 400. When Virgin Mobile offered no penalties for leaving, they benefited with two thirds of their users referring the service to friends and family.

Banks may tally up checks against your account at the end of the day in order of size as this is more likely to produce multiple overdrafts. Banks usually charge for ATM usage. Then along came ING Direct with surcharge-free access to a network of ATMs and other customer focused services. ING Direct is now the fourth largest thrift bank in the United States and growing rapidly with strong customer referrals.

Health clubs have made it hard for customers with long-term agreements, fine print contracts and complex cancellation procedures. A recent investigation in New York City concluded that "41 % of clubs in the city didn't explain their fees in writing, 81% didn't give potential members a contract to read at home and 96 % did not inform customers of all the ways they could legally cancel a contract." Not surprisingly, many of these firms have faced the same customer wrath that has plagued cell phone and banking industries.

The authors go on to point out that 'LifeTime Fitness has become one of the largest fitness chains in the country by eschewing contracts altogether. Membership to LifeTime Fitness comes with a 30-day money back guarantee and can be canceled at any time with no penalty. The company's attrition rate is 10 % below the industry average.' Similarly, Geoff Dyer, founder Lifestyle Family Fitness based in St. Petersburg, attributes their fast growth in membership and locations in significant part to their similar Comfort Guarantee that does not require a long-term contract.

As a club you should be on the lookout for signs of these harmful practices in your business. To start, executives should ask themselves the following four questions:

• Do you earn significant profit from customers who are not using your services? Like unused cell phone minutes?

• Do we have rules that we produce profits when customers break them? Rules that we find customers do not understand?

• Do we depend on contracts to prevent customers from defecting?

Great CEOs recognize and size opportunities: they also identify and eliminate vulnerabilities. Stepping outside the box in your thinking can lead to strategic breakthroughs in delivering customer value.

And are you hungry to fight the Y? Well, I suspect that many YMCAs, with a lower profit drive than clubs, may in fact have a greater focus on serving the customers' real needs through clearer contracts and rules that are more customer oriented. I may be wrong but I have never seen a six o'clock news report on how a YMCA has mistreated a member or the attorney general of a state investigate the contracts a Y uses.

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