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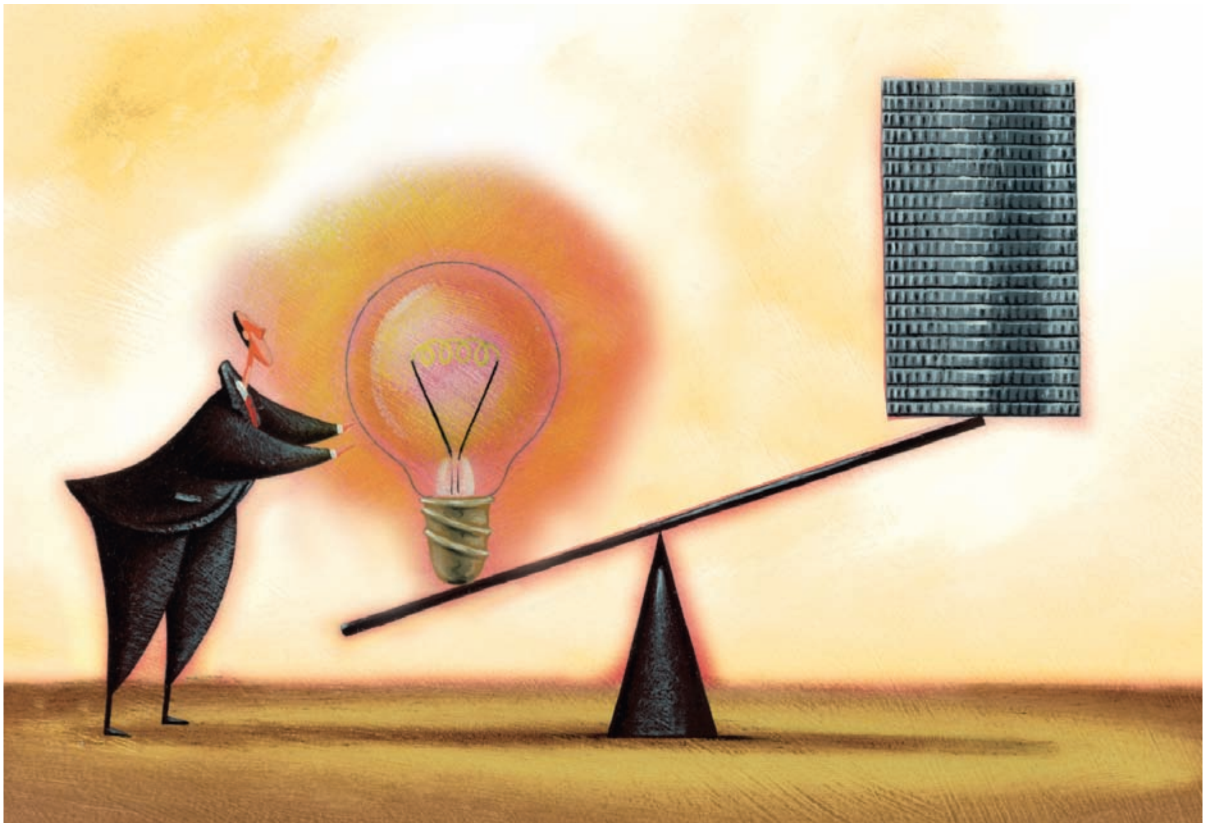

Customer-Focused Self-Service:

Building the Balanced Business Case

RIGHT NOW TECHNOLOGIES

Peppers & Rogers Group
a division of Carlson Marketing Worldwide

Customer-Focused Self-Service

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IN BRIEF

This white paper helps senior decision makers build a balanced self-service business case that drives cost reductions and satisfying customer experiences.

You'll learn:

- What's new in self-service, including innovative technologies and trends
- Why self-service is a key component of managing the customer experience
- Four best practices for building a balanced business case for driving maximum value from your self-service investment

Executive Overview

Whether it's over the Web, email, at a kiosk, or on the telephone, countless customers are engaging in self-service. In the process, they're helping companies to save millions by deflecting service interactions to cheaper channels. At many organizations, the cost-savings alone have made the investment in self-service worthwhile. But going forward, the self-service business case won't be built on cost-savings alone. There is a bigger, more customer-focused picture to consider, where the customer experience also plays a key role.

To show the point, take a read of the self-service story below. Odds are you'll also hear the voice of some of your own customers.

Meet Albert

With an important business trip coming, Albert is about to place a rush order for a set of long sleeve shirts with coordinated wool trousers from the Web site of a retailer he has used on several prior occasions. This time, however, Albert has questions about the products: Should he choose a 100% cotton fabric or a wrinkle-fighting polyester blend? Does the retailer offer a tailoring service? He types "tailoring" into the Web site search engine and receives 542 "matches." Lost in a sea of options, he does a second search under the term "wrinkle-fighting polyester blend." But this time, his search produces zero matches. Albert sends an email request to customer service, but in return receives a polite but uninformative, standardized response. As a last ditch effort he places a call, but soon hangs up because the interactive voice response "menu tree" doesn't have options corresponding to his questions.

The good news is the retailer saved $8 by deflecting Albert's request to automated self-service channels. The bad news is that Albert is frustrated and abandons his shopping cart, which costs the retailer a $271 purchase. At a competitor's Web site, he finds the products and information he needs, and places the order. Happy with the self-service experience and support from the competitor, Albert shifts his clothing purchases–about $1,500 a year–to the competition.

Albert's story is fictional, but it holds an important message: To unlock the maximum returns from your self-service investment, be sure to strike the balance between cost-efficiency (lower cost to serve) *and* customer effectiveness (a satisfying customer experience). This white paper will help executives do just that. It outlines four best practices to build a customer-focused business case for self-service, including how to use new technology to treat different customers differently, how to turn your self-service system into a customer-insight machine, and where self-service and Return on Customer[sm] connect. To bring the themes to life, the white paper tells the story of how Fandango, the largest movie ticketing service in the U.S., used self-service to cut $500,000 in costs in year one while keeping its focus squarely on its customers.

What's New In Self-Service?

Self-service refers to any technology-enabled interaction with a company that is initiated by the customer for the purpose of answering an inquiry, and occurring at the place, time and channel of the customer's choosing. The most common channels for customer self-service are the Internet, chat/IM, email and telephonic interactive voice response (IVR), using a variety of network capable devices (e.g. a laptop or desktop computer, a mobile phone or a landline telephone).

Publishing a list of frequently asked questions (FAQs) on a company Web site does constitute self-service, but the discipline has progressed far beyond these early and rudimentary efforts in which the user scanned a fixed list, hoping to find a question that was related to the problem at hand. It has even progressed beyond the next and still the most commonplace level, in which customers enter key words into a search engine that yields a listing of related documents or in which a user navigates a case-based "decision tree" in an attempt to locate helpful hints.

> A business case for self-service should balance the "inside-out" need of the company to lower costs with the "outside-in" realization that customers have a value that is well in excess of their most recent transaction.

These traditional forms of self-service suffer from several difficulties. For one thing, they make customers do the work, also known as increasing "cognitive load." Placing the burden on customers also creates a less than satisfying experience. Even if the desired information is found by the customer, it is typically retrieved from a knowledge store that is static, likely out-of-date, and possibly inconsistent with content accessible through an alternative channel (i.e., the same question submitted through different channels yields different answers). Finally, the structure of the interaction is "customer independent," meaning that existing knowledge about the customer is not used to customize the dialog.

Technology opens doors to cut costs, lift revenue

Recent improvements in self-service technology have overcome these obstacles. Using sophisticated statistical algorithms, best-in-class self-service is now able to *detect* and *anticipate* customer needs based upon the similarity of the pattern of interactions with the self-service interface (e.g., prior pages viewed on the Web site or previous selections in an IVR). This may be enhanced by using existing customer information (e.g., product purchase history), once the customer is recognized. In this way, analytical sophistication drives a self-service experience that is customized, more relevant, and more satisfying. For example, the sequencing of Web pages may be customized, or the construction of an "also see" or "top ten" listing of related content may be built and displayed on-the-fly. When done properly, this approach is so successful that 80% of users proceed without using a traditional key word search engine even when one is available.[i]

The knowledge base (the underlying content repository used to enrich a self-service interaction) has also seen significant development. In contrast to the traditional approach of using hard-coded rules, today's solutions are self-learning. They learn by discovering patterns of customer inquiries (i.e., people who asked about "X" also needed to know "Y"). They also learn about semantic relationships among concepts (e.g., "approve" and "authorize" are synonyms), which enhances the processing of natural language entered into a Web form or submitted via email. This self-learning ability also enables companies to support multiple languages and handle terminology that is specific to a vertical (e.g., "bonds" and "mortgages" are both "debt instruments" in financial services).

Many other fascinating improvements have transformed traditional self-service. The best systems are able to automatically recognize emotion within text and intelligently leverage that information. For example, if profanity is detected in an email from a most valuable customer, the system immediately alerts a service agent trained in relationship recovery tactics. Some systems even proactively notify a customer if an answer to a previously asked question has changed, which reduces the incidence of follow-up inquiries (cost-effective) and gives the customer up-to-date information (customer effective).

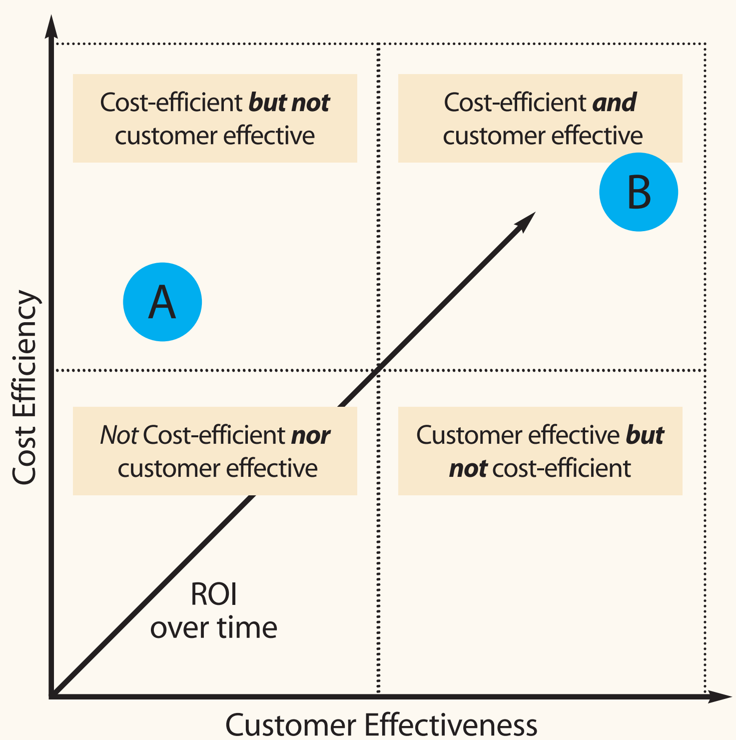
Widespread business forces

Technology isn't the only thing that's new. At the customer level, more individuals are taking control of their customer service interactions. By 2010, says Gartner, self-service will account for 58% of interactions.[ii] At the product level, commoditization is taking hold. Looking for new avenues of competitive advantage, companies are enhancing pre and post-sale services to improve the customer experience.

More importantly, customers will reward the company able to provide a better service experience. A recent study shows that 99% of U.S. adults said that, if they had a positive customer service experience with a company, they would be likely to recommend that company to a friend or colleague. Eighty-five percent said that if they consistently received excellent customer service from a company, they would be most likely to greatly/somewhat increase their business with that company.[iii] It all adds up to the need for a self-service business case that balances the two goals of cost-efficiency (from reduced call volume, lower cost per service inquiry, sustained service quality with fewer resources, etc.) *and* customer effectiveness (satisfying customer experience).

MAKING SELF-SERVICE ADD UP

Lowering costs is a solid reason to invest in self-service. But companies that strike the balance between the goals of cost-efficiency and customer-effectiveness will gain the highest returns over time. For example, by keeping its focus on using self-service to cut costs, Company A below will see significant benefits in the form of short-term cost reductions. However, by also using self-service to become more customer-effective, Company B will see higher returns over time because it is using self-service to enhance its overall customer experience.



Building The Balanced Business Case

Traditionally the self-service business case has focused on lowering costs-and for good reason. For every email that self-service prevents, about $3 is saved. For every telephone call, $5 is saved (and as much as $30).[iv] When these figures are multiplied by the frequency of service interactions, the potential savings quickly add up.

However, focusing on lowering cost savings alone represents only half of the benefits equation, and can undercut the real benefit potential that self-service offers. In some cases, an over-focus on cost savings can lead to a less than optimal customer experience that drives defection, just as we saw with Albert. As a result, any short-term wins in cost-savings could get eclipsed by losses in revenue and customer value long term.

Going forward, the self-service business case will strike a balance between the two goals of cost-efficiency (from reduced call volume, lower average cost per service inquiry, etc.) and customer effectiveness (a satisfying customer experience). Below are four steps you can use to strike the balance and gain the maximum return on your self-service investment.

> Constructing a balanced business case for self-service requires finding the optimal mix between maximizing current period profits and building long-term enterprise value.

① Consider All of the Economics

Constructing a balanced business case for self-service requires finding the optimal mix between maximizing current-period profits and building long-term enterprise value. The former is both important and well understood, and is primarily achieved through the reduction of expense required to support customer inquiries. The latter, however, is often undervalued in the formulation of the business case.

Every interaction either creates or destroys customer equity, the net present value of the future cash flows expected from the company's current and future customers. When a customer has a positive service experience, her future likelihood of making a purchase is increased, customer equity is incremented, and value for the business is created. It's not just theory. One major research investigation, for example, documented an average sales increase of 11% arising from good service.[v] By contrast, a negative service experience correspondingly destroys value.

The ROC factor

When considering all of the economics of self-service, remember that customers create value in two ways in the context of self-service: they consume support services today, and they change the likelihood of making future purchases. If self-service is done well—implementing the process improvements and deploying the most recent advancements in the technology described earlier—then a business has the opportunity to *both* reduce the immediate cost-to-serve *and* to enhance customer equity: self-service becomes cost-effective as well as customer-effective. The rate at which this occurs is captured by the Return on Customer[vi] (ROC) metric, which is equal to the sum of the profit from the customer plus the change in the customer equity, divided by the starting value of the customer.

A traditional business case for self-service might only compute return on investment (ROI), equal to the sum of the profit from an investment plus the change in the value of the investment, divided by the starting value of the investment. In doing so, it would neglect to account for the associated change in the customer equity resulting from the self-service experience, potentially leading to suboptimal managerial decisions in which more value is destroyed than created through self-service. ROC, in contrast, captures the total value created by customers and thereby allows senior management to build a more balanced business case by considering all of the economics.

② Treat Different Customers Differently

Even when all of the economics are considered, there is another dimension that impacts the financial assessment of self-service–namely, that customers are different. They differ in terms of their estimated Lifetime Value (LTV), and they also differ by having individual needs. When companies neglect these differences, they end up providing the same level of service to all customers, i.e., even if it's high quality service, your best customers do not get special treatment. This blocks the ability to focus on the high-value and high-growth customers

that determine the financial health of the company. In a self-service setting, for example, this means that key customers do not receive special recognition at each interaction, do not receive the option to receive assisted service, etc.

To enhance the ROC of a self-service business case, companies must ask, "Which of our customers merit special attention from our self-service and which do not?" Stated differently, it's an optimization problem: How do you align resources and support service options according to the value of different customers? Deploying self-service intelligently allows a company to enhance Return on Customer by recognizing high-value and high-growth customers, and give them a superior service experience.

The experience may be quicker response times for top customers, access to a richer set of information, or faster escalation to assisted service. For less valuable customers, the self-service experience may end in an email inquiry with a promise of 24-hour response. Treating different customers differently in this way helps companies to find new ways to strike the balance between cost-efficiency and customer effectiveness. For example, by using automated self-service to deflect redundant service inquiries and responses away from live agents (lower cost), companies can focus resources on solving the problems of high-value and high-growth customers (better experience).

③ Let Technology Do the Work

A business case for self-service recognizes and accounts for the obvious benefits arising from the use of Web, email and IVR technologies, all of which are considerably less expensive than their full-service human equivalents. Lower costs by deflecting inquiries to cheaper channels and reducing staff levels are the most often cited benefits of rolling out a self-service technology (e.g., it cost significantly less for an email interaction than an assisted service call with an agent). But when companies let technology do the work, there's a host of ancillary benefits that don't always jump out while making the business case.

These benefits are on the cost-reduction *and* customer-effective sides. For example, in a global economy, customers expect excellent service and support at all times. One sure way to frustrate customers is to tell them to call back during standard business hours to get answers. Using self-service technology to provide relevant answers during off hours not only keeps customers from calling back (lower costs); it makes for a better customer experience.

Other benefits are tied to the everyday workflow of customer service agents. Technology is now conducting conversations formerly done by agents themselves. In the online

The ROC of Self-Service

Two Possible Self-Service Configurations	Value of Customer	Investment Required per Customer	Total Value Created per Customer	ROI	ROC
A. Cost-Effective Self-Service	$30	$10	$20	100%	33%
B. Customer-Effective Self-Service	$30	$20	$35	75%	50%

How much more could a company garner from its self-service investment if stronger customer-effectiveness also was built in? Assuming a company has 400,000 customers, in the example above it would see an additional $2 million. Here's how: The total net value created by focusing on cost-efficiency alone in Case A is $4 million (i.e., 400,000 ([$20 - $10]). It's a significant sum, but it is well below the bigger benefit of $6 million in Case B, which takes into account the greater returns that come from improving customer-effectiveness (i.e., 400,000 ([$35 - $20]).

world, "chat bots" respond to real-time text interactions with customers. In the telephonic world, automated speech is playing the same role by using natural language capabilities. In both cases, customers are often unaware that they are conversing with a self-service agent rather than a human.

When redundant inquiries and responses are deflected, agents can spend their freed-up hours updating the knowledge base that contains all the information and insight needed to provide a better customer experience. Lower turnover and absenteeism also result when companies use self-service technology. When agents don't have to constantly field the same questions, they become more engaged and less likely to leave. This cuts down on hiring and training costs and keeps your best agents in front of customers.

> According to a 2005 survey of Forrester's 200-plus member Customer Experience Peer Research Panel, 65% of respondents from companies with $200 million+ in revenue said Web-based self-service was critical or very important to their 2006 customerexperience spending plans.

Don't forget about scalability

Another benefit of self-service technology that goes overlooked is that it is more scalable than in the past. Scalability allows a company to achieve a greater degree of consistency of customer support than had otherwise been possible. In the traditional world of call centers, for example, staffing for the "average" period meant that personnel hours were wasted during slow times and that customer service level standards were unable to be met during peaks. But with self-service technology, the need to staff for the "high water mark" is eliminated because the technology can flex according to the volumes of service inquiries regardless of when or how they come in.

④ Turn Self-Service into a Customer Insight Machine

When drawing up your business case, account for a self-service system's ability to be a customer insight machine. Think of it as a funnel where customers give you clues about what they need. The information gathered in the system can be gathered up, analyzed, and used to get much smarter about how to meet your customers' needs and win more of their business. This is the area where the ability to be customer effective can gain real momentum.

For example, today's systems use sophisticated natural language capabilities to group related concepts from inbound queries, regardless of the specific words or phrases used by the customer. A comparison to FAQs allows the identification of gaps in responses in the system. There may be information about a product or service that is important to the customers but the knowledge base is lacking and so are the responses being served up by the system. By using the natural language abilities to track, analyze and assess what customers are asking for, you can refine the knowledge base and the responses that the self-service system sends out.

Products, too?

Product development is another area where customer insight from a self-service system comes into play. Whether it's through questions, complaints or click histories, customers are telling you how to improve existing products and devise new ones. Information of this type is especially valuable since it's based on actual interactions around the product (as opposed to traditional surveys). The insight may be clues on how to bundle products more effectively or how to revamp the brochures that go into product packaging in order to answer the most frequent support questions before a customer decides to call service.

Improving outbound marketing is a more obvious but still underleveraged area in which customer insight from self-service can be used. Leading companies use the clues from a customer's self-service inquiries to make highly relevant and perfectly timed offers. For example, a customer's question about a product's warranty might trigger a targeted message about a trade-in/trade-up promotion. Used in this way, self-service allows a company to drive enhanced levels of customer satisfaction as well as engage in event-driven marketing that otherwise would have been prohibitively difficult.

Self-Service Is Just the Ticket for Fandango

The new Internet boom is in full swing, and media types are all abuzz trying to figure out "what's new" and "what's different" from the first dot-com go around. How about this: A laser focus on keeping costs down despite the business growing tenfold? Here's another one: Driving improvements to the customer experience in order to deliver value to customers even while the coffers are filling up.

It sounds almost too good to be true, but it's exactly what Fandango is up to. Fandango is one the Internet's top movie ticketing and information sites, allowing consumers to click their way past long lines and right into thousands of cinemas and theaters across the U.S. Thanks to an innovative business model, Fandango has undergone astounding growth over the past few years. But CIO Rick Butler spotted a problem.

> Fandango used self-service technology to cut email volume by 50% while streamlining the online customer experience to drive higher conversion rates.

The meteoric growth was sending call center costs through the roof, cutting into already tight margins. Staying true to the company's online roots, Butler started looking for ways to provide answers to customers over the Web rather than on the telephone. At the time, Fandango had the typical page of static FAQs. It also used an offshore call center as a way to offset the costs generated by spiraling phone volume. Butler wanted to transition the call center to a domestic outsourcer, but knew the costs would be prohibitive with such high volume. It became clear that reducing call volume was a key priority.

Step one: Cut costs

After assessing multiple options, Butler decided that a self-service tool from RightNow Technologies was just the ticket. Implementation took a total of one week. Fandango started by inputting 40 question-and-answer pairs into its new online knowledge base. Within 30 days of deployment, call volume dropped 76%. More importantly, it stayed down even as Web site volume and revenue continued to grow. The improvements have enabled Fandango to reap a savings of over $500,000 in the first year of its self-service initiative.

Step two: Enhance the customer experience

Lower cost from reduced call volume wasn't Fandango's only priority—nor is it the only benefit that the company is now seeing from its self-service deployment. Enhancing the customer experience also received top billing. Fandango is constantly scouring feedback from customers coming through the system to improve how customers navigate and use the Web site. Insight also is being pumped back into the knowledge base and service treatments in order to increase customer satisfaction and provide a platform for future growth. Fandango even tracks customers' keyword searches to ensure that appropriate answers are available. "We have much greater visibility into the day-to-day issues on our customers' minds," explains Butler." By acting on this information, we have continuously improved the customer experience and can pinpoint new business opportunities."

Butler's plan is working. A paltry 1% of customers who use the knowledge base have to use the site's Webform to submit a question for personal attention by a Fandango agent. Even when they do submit, the knowledge base helps rookie agents answer customers' questions as effectively as veteran staff. Conversion rates and agent productivity have gone up, while email volume has dropped by more than 50%. With over a half-million dollars saved and a greatly enhanced customer experience, Fandango is proving to be a model of how companies can do the "Internet boom round two" just right.

Conclusion: It Can Be Done

Self-service is well beyond being a trend. It's become an unstoppable force permeating the entire business landscape. As consumers, we've all experienced it. As business professionals, we've all considered how it may be best designed and deployed in order to realize the promised payback. Those benefits—the crux of the business case—have traditionally focused upon the expense of customer support and the potential opportunity to reduce it by $10 or more per incident.[vii] Yet, building a balanced business case for self-service encompasses much more than transactional considerations. When done right, it begins with a customer experience perspective and seeks to maximize the entire stream of relationship-based value that customers provide, such as increased share-of-wallet, enhanced longevity and improved advocacy.

Advancements in self-service technology enable companies to deliver a customer experience that is cost efficient and customer effective; that delivers short-term cost reductions and creates long-term enterprise value; that improves overall service quality and allows for special treatment to be conferred upon the most important customers. As you embark on your self-service business case—or are looking to enhance the value of an existing self-service investment—strike the balance between cost efficiency and customer effectiveness and you'll do more than save money. You'll win your customers' busines for a lifetime.

RightNow Technologies

RightNow (RNOW) is leading the industry beyond CRM to high-impact Customer Experience Management solutions. Over 1,500 companies around the world turn to RightNow to drive a superior customer experience across the frontlines of their business. As a win on service strategy becomes a business imperative, experience management solutions are increasingly recognized as a core driver of business success.

For more information visit: www.rightnow.com

Peppers & Rogers Group

Peppers & Rogers Group is a management consulting firm, recognized as the world's leading authority on customer-based business strategy. Founded in 1993 by Don Peppers and Martha Rogers Ph.D., the firm is dedicated to helping companies grow the value of their business by growing the value of their customer base. Our goal is to develop and execute strategies that create immediate return on investment and long-term customer value. Peppers & Rogers Group maintains a significant voice in the marketplace with its 1to1 Media properties. Led by *1to1 Magazine*, these print, electronic and custom publications reach more than 250,000 decision-makers. Peppers & Rogers Group is a division of Carlson Marketing Worldwide, and is headquartered in Norwalk, Conn.

More information is available at: www.1to1.com

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