

Feature Report

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By Rick Spitler and Alan Mattei

A basic tenet of long-tail distribution is that consumers are increasingly self-directed and want an ever-improving set of navigation tools to locate goods and services. They find what they truly value and they are satisfied, loyal and highly profitable.

In turn, many information technology initiatives center on how to enable this phenomenon ever more extensively, helping more customers to find resonant “sweet-spot” product and service offerings.

Along with expanding overall sales opportunities, customer self-directedness and online distribution have permitted companies to sharply reduce the proportion of interactions requiring the attention of expensive live representatives. Instead of picking up the phone or going into the store, customers increasingly use electronic channels to acquire product information and complete transactions.

Concurrent with the online stampede, however, is an upswing in the intensity of remaining live interactions between businesses and consumers. For many types of high-value services, customers continue to insist that at least some of their transactions be facilitated by live representatives, either in person or over the phone.

These highly relationship-intensive interactions may not be frequent. But they often are most significant to customers. And they often arise from arise from a retail company’s most important clientele. High

relationship intensity is a hallmark of the banking, insurance, investments and travel industries, for example. In these and other industries, staff interaction is an essential aspect of the customer’s perception of distinctive value.

The interactive ability of many companies has come under assault. In retail banking, for example, major institutions report up to 30% annual turnover in branch sales staff, and many executives blame increasingly complex suites of customer-focused offerings. Service after the sale is a particular challenge, as illustrated by an analysis of U.S call centers by Novantas LLC, indicating that annual inbound customer contacts pertaining to problem resolution leaped from fewer than 20 billion in 2000 to more than 50 billion in 2006.

We believe this type of explosive rise in the demand for consultative expertise reflects a sea change in the retail industries, driven by the fact that: 1) Informed consumers increasingly demand that products and services exactly fit their preferences; 2) Companies have become more proficient at product customization and efficient short-run production; and 3) Internet dis-

tribution has increased the availability and shortened the shelf life of many products and services. The upshot is that service personnel not only must handle a large and complex range of offerings, but also exhibit much greater skill in matching offerings with customer needs and solving problems.

Clearly, companies should focus on improving the functional capacity of front line staff. But the IT group can't sit back and wait for marketing, distribution and human resources executives to blueprint the optimal customer experiences and the staff behaviors needed to deliver them. Empirical analysis is needed to get at the nub of successful customer interaction, and the IT group can play a major role in improving dialogue management and staff proficiency.

Dialogue management. To demystify effective customer interaction, companies that have achieved the highest levels of responsiveness are using systematic test-and-learn techniques to determine what works best in different settings and for different types of interactions. In turn, their reps are better able to recognize the cues that indicate how to address the needs of individual customers directly and effectively, plus they can avail themselves of statistically validated conversational techniques.

Proficiency improvement. Retail financial service companies have made great advances in their ability to target and acquire high-value customers. Not so with the employees counted upon to deliver the customer experience. Variations in sales performance certainly are influenced by the varying personal characteristics of sales staff — including demographics, aptitude and intelligence, attitudes and motivation, and social behaviors. The correlations are non-intuitive, however, and require scientific study.

The goal of these initiatives is not to fight complexity, but rather to manage it for competitive advantage. As companies increasingly use narrowcast production and resonance marketing to reach prime customer segments in a more customized way, it is ever more likely that points of contact with the customer will be expected to deliver a multiplicity of value propositions. Doing so is the path to revenue growth, competitive advantage and profitable utilization of expensive delivery channels. In this context, complexity reflects the multifaceted responsiveness that helps the company to win.

CRUSHED BY COMPLEXITY

One example of how the demand for service and the

complexity of service offerings collide comes from the Chicago-based Bank Administration Institute, an industry trade group, whose research division found one large East Coast bank with more than 125 branch product offerings, representing nine lines of business, supported by more than 350 marketing initiatives annually. This kind of pressure increases the likelihood of botched responses, dissatisfying both customers and personnel, and it also accelerates customer churn and staff turnover. Sales opportunities are missed, customer relationships are severed, and companies are placed on a hugely expensive treadmill of hiring and training.

Many companies and experts have embraced process refinement and product rationalization as the keys to managing complexity at the point of sale. To lower the pressure on sales staff, in other words, let's streamline information retrieval and transaction fulfillment, and constrict the universe of products and services. Redoubled pressure is placed on the information technology group to "increase the transparency" of information and transactions. The marketing and financial teams are asked to hammer out sales priorities, meanwhile, so that more staff effort is devoted to prime opportunities.

Taken to extremes, such measures often are counterproductive from the customer point of view. Instead of matching offerings to customers' preferences, the emphasis shifts to fitting customers to the best remaining offerings. This goes against resonance marketing, which is the art of distinctively and precisely fulfilling customer requirements to win premium returns and achieve competitive differentiation. As companies compete to streamline their offerings around prime opportunities in the central "fat spots," the risk increases that all retail competitors in a given type of market will wind up offering identical products to the same sets of customers. The inevitable outcome is commodity price competition and lost profit opportunities that otherwise come from exact fits, or "sweet spots," in the long tail of customer preferences.

Customer relationship management, one of the darling retail concepts over the last 10 years or so, attempted to address this problem by using segment and behavioral analysis to identify, in real time, a select group of probable attractive offers that reps could then present to varying types of customers in the course of immediate conversations. CRM was largely silent on the question of how to improve conversational techniques and the overall quality of customer interaction,

however, and the tools that it sought to provide often were unused or misused. Strengths and weaknesses in customer interaction remained largely unexplained.

A better approach — and one in which IT can play a pivotal role — is to increase the effectiveness and functional capacity of the sales staff in their dialogues with customers, both over the counter and over the phone. Seldom are constraining assumptions made about the possibilities for electronic transactions, but when it comes to live interactions between representatives and customers, it is almost universally considered that reps “can only do so much.”

At a time when extraordinary attention is paid to customer acquisition, retention and relationship expansion, front line sales representatives often are handled as look-alike production components. Quotas are set for retail staffing levels, and then recruiting, training and scheduling routines mechanically kick in to keep the desks full. This must change. Staffing is not a rote exercise and people aren't interchangeable parts.

THE CONTINUED IMPORTANCE OF THE LIVE REPRESENTATIVE

In many cases, the proliferation of online transactions has blinded executives to the ongoing importance of live interaction. In financial services, for example, pressure has been building to cut back call center capacity in the face of rising customer usage of automated teller machines, interactive voice response systems (IVRs) and the Internet. The management emphasis often is on customer interaction as a *cost*, rather than an *opportunity*, with an assumption that customers increasingly view online delivery as a true substitute for staff-assisted transactions.

This is wrong on both counts.

First, people don't cleanly abandon established transaction systems when new ones arise; they often use old and new ones concurrently — indefinitely or even permanently. The ATM, for example, was heralded decades ago as tool to reduce the branch transaction workload, but banks found out instead that customers had simply layered a new set of electronic transactions on top of their live interactions in person and over the phone.

More recently, Novantas analysis of electronically-enabled U.S. retail transactions between 2000 and 2006 showed a four-fold leap in the use of e-mail, IVRs and web sites, to 36 billion customer contacts per year. By no means, however, did people stop talking to live representatives over the phone as they dramatically

increased their usage of pure electronic channels. Instead, U.S. call center volume continued to climb, rising by 19% to nearly 54 billion customer contacts per year.

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Second, the importance of live support when it is needed is greater than ever before. Instead of transaction fulfillment, customers increasingly to live representatives for guidance and responsiveness as they consider important and/or complex purchases and seek resolution of service- and product-related issues. In financial services call centers, including those of banks and credit card companies, for example, the proportion of customer contacts devoted to information requests fell by more than half, to less than 20%, between 2000 and 2006, according to the Novantas study. Meanwhile, the contact proportion devoted to account service and problem-solving roughly doubled, to more than 55% of total volume.

The removal of basic servicing to pure online delivery primarily leaves complex customer requests in the hands of live representatives. When pertaining to sales, these requests are higher in value and better lend themselves to cross-sell and up-sell than the previous transaction mix. When pertaining to service and problem resolution, these requests are higher in risk and carry much higher potential for customer dissatisfaction and defection. As result, the manner in which each call is handled has a much greater impact on customer lifetime relationship value.

BUSTING THE MYTHS OF CUSTOMER INTERACTION

As with many activities that occur at the customer service platform, a principal challenge is bridging the gap between activities and results. For example, it's empirically evident that a large percentage of cross-sell opportunities occur in the early stages of new customer rela-

tionships. Emphasis on this crucial period is warranted, therefore, but which approaches and activities actually make the most difference with customers? Such uncertainties increase the complexity faced by front line employees and reduce their effectiveness in reaching even the most promising new customers.

Typically within retail outlets and call centers, managers and reps have only a rough idea of what constitutes an effective conversation for the major types of sales and problem resolution scenarios. Staff can't sit around all day playing back recorded conversations, and even if they could the verbal sound tracks don't provide a basis for methodical evaluation. So instead of measured progress, retail providers wind up with layers of lore and mythology about the best way to interact with customers.

Here are three specific examples of how common management assumptions about customer interaction run afoul of reality, all drawn from Novantas client research on call centers. These myths center on optimal conversational length, how best to identify the purpose of outbound calls, and the merits of broadcast-style campaigns.

Talk time. The traditional wisdom in call centers is that if you can just prolong the phone conversation with the customer, you'll stand a higher chance of making the sale. Our analysis of the data shows just the opposite. The best agents post below-average talk times, for both successful and unsuccessful calls. Good sales people are able to recognize dead-end conversations. With the help of IT, the retail organization can systematically observe the best reps, and then codify the probing techniques and customer cues that quickly clarify the potential of each customer conversation, so that time is not wasted beating the customer over the head with unwanted sales offers.

Instead of wallowing in myths, progressive companies are bringing scientific analysis to customer interaction.

Specifically, IT can help companies to track and analyze conversational strategies, customer responses and ultimate sales-and-service outcomes, and identify

the most productive approaches that can be used by reps system-wide. One key enabling technology is a screen-based dialogue management tool that allows the rep to easily and quickly record initiatives and outcomes by clicking on various radio buttons in the course of conversations with customers. A central database then can be used to compile information from thousands of sessions, permitting comprehensive analysis of what works best.

Call introduction. Another traditional wisdom in the call center holds that when the rep is making outbound sales calls and wishes to get a customer's attention (or, more importantly, get past the gatekeeper), it helps to emphasize personal familiarity and remain initially vague about the specific purpose of the call. By minimizing initial hang-ups, it is thought, the rep has a better chance of getting through to the decision-maker. Novantas research, however, shows that not only is this approach ineffective in getting past gatekeepers, it also wastes time by prolonging the amount of conversation needed to present specific offers and determine if the customer is interested.

The best conversational openings pique the customer's interest, and they mention both the company brand name and the offer at the onset. Research shows that vague openings, by contrast, are ineffective at increasing ultimate sales. Angering the customer by deceiving a family member to get past a gatekeeper is neither good for the brand nor good for specific sales objectives.

Scripted conversations. A third myth is that the phone channel is like the mail channel, with the implication that heavily scripted conversations will work in much the same way as a broadcast mailing. But absent mechanisms to capture the details of customer-stated preferences, and an ability to incorporate this real-time feedback into an ultimate product selection (like any good sales person would), the value of a two-way conversation is lost. In one campaign to win back a certain category of departing customers, for example, we found three major causes for defection, each requiring a substantially different type of treatment and form of conversational interaction. Once the treatments and conversational tools were in place, the overall productivity of the retention program tripled.

Instead of wallowing in myths, progressive companies are bringing scientific analysis to customer interaction with a new generation of "sales playbooks" based on ongoing test-and-learn activities. The process starts with the formulation of multiple hypotheses about dia-

logic approaches that will best resonate with customers. Varying techniques are then rolled out in pilot tests, facilitated by desktop technology that provides prompts and also captures reps' "click-screen" inputs on conversational initiatives and customer responses.

Results from thousands of interactions are then collectively analyzed to find the most powerful correlations between actions and outcomes, providing the basis for further refinements that again can be tested. This cycle enhances the ability of the retail company to discover and institutionalize the very best dialogic approaches. Equipped with salient customer information and insights gleaned from thousands of prior conversations, reps can address customer needs more directly and effectively.

HIGH-PERFORMANCE HIRING

All too often, front-line performance improvement is held hostage by the subjective, inconsistent, paper-based processes found at most human resources departments. The magnitude of performance dispersion among retail sales representatives underscores the case for a more analytical approach to employee acquisition. During the first week on the job in the call center following training, for example, it is not unusual for top-tier reps to exhibit more than twice the proficiency of the overall incoming group. Top performers also demonstrate the greatest subsequent improvement, even from their already-high levels. Entrants with average initial performance levels tend to improve only modestly, by contrast, and the weakest new hires often never materially improve.

Combined, these factors contribute to a situation where 20% of the sales reps typically generate more than 50% of the revenues. Enormous energy is wasted on misplaced recruiting and training of retail personnel, some of whom distantly lag the pack on day one and consistently fall further behind thereafter. With better recruiting and screening practices, these employees would never have been hired — nor put through expensive training — in the first place.

Variations in employee retention also are profound, and they increasingly are seen as a major factor in competitiveness. Among major retail banking companies, for example, it is not unusual to see branch employee turnover ranging from 20% to 30% annually, and call center turnover ranges between 40% and 50% annually, based on Novantas industry research and client feedback. This type of employee churn robs retail companies

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of productive resources and customer relationship continuity, and puts them on a hugely expensive treadmill of hiring and training.

Clearly, it is time to apply the principles of marketing science to the selection and management of the workforce. While retail industries have made great advances in their ability to target, acquire, and retain high-value customers, such dedication and proficiency is not yet evident with employees. There is an urgent need to refine recruiting, screening and compensation frameworks, and improve the functional capacity and tenure of front line staff.

It has become exceedingly clear that the retail industries, as a whole, cannot yet ascertain whether investments to improve front line proficiency are really paying off. We recommend that they apply the same degree of analytic rigor to front line human resource decisions as they do in other critical areas within their companies. In an era when intangible assets are crucial to the execution of relationship-based strategies, management needs to understand how investments in "people" connect with the company's economic model. Only then will executives be able to make smart, informed decisions about the investments in front line employees that yield the greatest business results.

Though it seems obvious and mundane to say that data collection is fundamental to the improvement of hiring practices, today's hiring practices are not only unsystematic but also lacking in usable documentation. The typical human resources department is a repository of paper forms, loaded with open-ended questions and subjective remarks, all locked away in file cabinets. No databases in sight.

In the new world of high-performance hiring, companies will systematically compile employee demo-

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graphic, attitudinal and proficiency-related data in electronic formats. This information will then be paired with individual performance results to derive statistically informed observations about the targeting and recruiting practices that work best, and the degrees to which factors such as compensation, screening and training can be varied to optimize performance and tenure. With all of the feedback loops and analytical components in place, the stage is set for continuous improvement.

MULTIFACETED RESPONSIVENESS

To an extent, complexity is a reflection of the multifaceted responsiveness that helps the company to win. In many cases it's more beneficial to improve the execution of a complex value proposition than to simplify it. The more a company relies upon resonance marketing, assuring an exact fit between customers' preferences and the company's sweet-spot offerings, the better the company's margins become. Importantly, though, the

more a company relies upon resonance marketing, the more critical service execution becomes. This is especially true of the execution of highly significant "exception interactions," for example, which often are a determining factor in the customer's perception of the value of his or her entire relationship with the firm.

In this light, gaining disproportionate share of top-performers within the overall labor pool can rightly be viewed as essential to gaining commanding market share and margins. There are abundant opportunities to use qualitative and quantitative analyses to refine the identification of the best job candidates, and ascertain the best combination of factors that foster proficiency, tenure and engagement.

Empirically-based information tools are essential in facilitating, focusing and refining front line sales efforts. Often the question boils down to how to make the best use of very limited time — to prospect for customers; engage them in an effective dialogue, and present the optimal solution. Causal analysis — the methodical study of the dialogic techniques that most strongly influence outcomes — is critical in building system-wide expertise that reps of all skill levels can use.

By elevating dialogue management and staff proficiency, the IT group can vastly improve live customer interaction.

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