Sorely seeking service

These days it seems that an airline reservation means only an intention to travel given the extended delays the industry has been facing. The benefit, however, is the opportunity to catch up on one’s reading.

Case in point: Two recent books explore the role of service in American industry. In "The Customer Century," Anders Grontvedt traces how service has changed. He points out: that during the last century, production led the activity. Businesses would focus on producing — then selling — goods. Today, he notes, customer satisfaction drives production.

In "The Brave New Service Strategy," Barbara Gutek and Theresa Walsh outline what they perceive to be a major shift in the nature of business transactions. Many years ago, business was conducted by people who knew each other. Industrialization changed this. Over time, fewer and fewer personal relationships existed between manufacturers and customers. The authors differentiate between relationships (where buyers and sellers know each other) and encounters (where the company, but not the provider, may be familiar to the buyer).

This distinction informs any discussion of service in the transportation industry. The airline industry provides a perfect case study.

The low point for the industry was probably Jan. 2, 1999. Poor execution (and, even worse, intra-company communication) left hundreds of Northwest passengers stranded on airplanes for hours — literally within feet of the Detroit terminal. Just when it seemed that the federal government might re-regulate certain aspects of the business, the airlines promised to do better.

Since then, things seem only to have deteriorated. Complaints are up over 100% (and that doesn’t include those made in July and August.) A recent report by the Transportation Department’s inspector general, Kenneth Mead, said that in spite of improvements, airlines still fail to satisfy their pledge. Ed Perkins, consumer advocate for the American Society of Travel Agents, maintained that the Mead report essentially labeled airline promises “just vaporware.”

William F. Buckley Jr. has articulated the paradox involving service and airlines: “The accepted axiom is that you remember the good parts of life. In air travel it’s the other way around. It is the thorns that nestle in the memory.” A 1999 Mercer Management Consulting study seemed to follow that line of thinking when it analyzed airline “bumping” practices arising from overbooking of flights.

Denied boarding is one of the worst fates to befall a traveler. It seems improbable that customer disservice could be an effective tool for enhancing customer loyalty. But bumping can be voluntary or involuntary, and seeking out volunteers on an oversold flight can avoid the involuntary service denial that can cause long-term customer animosity — all the while generating increased loyalty from another flyer. But to achieve maximum benefit from such a program, integrated management is necessary and not all airlines are able to perform at this level.

One of the questions surrounding poor service is the true cost. In his book, "From Worst to First," Gordon Bethune, chairman and CEO of Continental Airlines, outlined his simultaneous quest to improve profitability and service. Continental was the result of five regional airlines combined by Frank Lorenzo to obtain the scope and scale needed to compete after airline deregulation. Seats were viewed as a commodity — with the cheapest seat winning the customer. Instead of raising fares, therefore, the airline began a massive cost-cutting effort. (The mindset was that a $6 billion airline losing $300 million could become profitable if they cut $350 million in cost.)

Bethune changed the focus, observing, “You can make a pizza so cheap nobody wants to eat it.” He believed satisfied employees meant satisfied customers. He calculated that late and canceled flights cost Continental $6 million a month and declared that if Continental ranked among the top three airlines for on-time performance in any month, he would split half that $6 million ($65 per person) with all non-executive employees. The next month Continental was fourth in on-time performances, and soon it was first.

There are other examples of asset-based network operating companies struggling with customer service. A recent Wharton study estimated that one-third of all households changed long-distance carriers because of poor service. Almost half of the customers that changed Internet service providers did so because of poor service. In fact, the study found that a one-point charge in customer satisfaction on a 1-to-100 scale translated to a $250 million change in stock market value.

In any business, service and profitability are closely linked. While the range of substitutable products can vary by mode and market, we are all ultimately dependent on customers.

Ted Prince is a principal with Transgistics LLC in Richmond and a former chief operating officer for "K" Line America Inc. He can be reached at ted.prince@transgistics.com.