Why is customer service so bad? Because it's profitable

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It's a familiar scenario: A service provider fails to live up to your expectations and you feel some restitution may be in order. Yet, when you call customer service to voice a complaint, you're faced with an automated voice menu, put on hold, or told that the agent is not authorized to refund your money.

American consumers spend, on average, 13 hours per year in calling queue. According to a 2010 study by Mike Desmarais in the journal *Cost Management*, a third of complaining customers must make two or more calls to resolve their complaint. And that ignores the portion who simply give up out of exasperation after the first call. In fact, according to a 2017 survey by Customer Care Measurement and Consulting the Carey School of Business at the Arizona State University, over three quarters of complaining consumers were less than satisfied with their experience with the given company's customer service department.

These accounts seem at odds with the pledges by many companies that they are committed to great customer service. Consider United Airlines, among the lowest ranked of major airlines on customer service, which claims to offer a "level of service to our customers that makes [United] a leader in the airline industry". This is in line with surveys over time that indicate that consumers consistently perceive that customer service is generally bad and even possibly becoming worse. Despite promises companies make to treat people well, customers don't seem to be buying it.

There's some evidence that customer queues may be unavoidable at times. Caller complaints tend to arrive randomly, making it impossible to staff agents to handle unpredictable fluctuations in call volume. But our research suggests that some companies may actually find it profitable to create hassles for complaining customers, even if it were operationally costless not to.

Since 2015, we examined the incentives structures within customer service departments at over a dozen companies in finance, technology, and travel services to understand why customers perpetually experience hassles. We found that these companies screen complaining callers by using a hierarchical organizational structure. This structure, we argue, keeps a lid on the amount of redress customers are willing to seek. In other words, by forcing customers to jump through hoops, the organization helps curb its redress payouts.

As part of our research, described in a forthcoming article in the journal *Marketing Science*, we interviewed managers of call centers to understand how their customer service organization is structured, and the way it contains redress payouts. We found that most involve at least two levels of agents.

The Level 1 agents take all incoming calls and hear each customer's complaint first. These agents are typically limited in the amount of redress they are authorized to offer to the caller. For example, one Indian call center that serves the seller of language learning products forbade Level 1 agents from offering any monetary refunds. These agents could only offer replacement items or provide information on the status of an order. Any caller insisting on a refund was told to call the U.S. headquarters during normal business hours, generating additional tasks for any customer seeking more compensation from the call center manager, or Level 2 agent. This design relies on the fact that some consumers are not willing to incur this hassle. When this happens, the company is off the hook for the additional payout.

There may be a hidden layer of discrimination at play here as well. Studies and surveys have shown that some segments of consumers, such as women, African Americans, and Latinos, may experience higher hassle costs when dealing with customer service. We find that if the firm's target market is more likely to experience hassles, then its customers are less likely to escalate claims. As a result, a tiered structure suggests that these consumer groups will receive lower payouts and refunds, on average.

So what about the idea that frustrating customers has consequences on customer retention and long term reputation? For example, some experts advise companies with upset customers to reach out to them directly to win them back. But, some companies have little regard for their reputation, especially those who control a large market share. This is reflected by the fact that the Carey School of Business survey respondents said they're most frustrated with airlines, internet, cable, and telephone service providers. Most of us, for example, remember seeing the video of a bumped passenger being violently removed from a United Airlines flight in the spring of 2017. While the airline incurred a few payouts for the mess it created, it remains highly profitable with no noticeable loss in market share. Unfortunately, this means companies with few competitors may find worthwhile to alienate angry customers in order to save on redress costs.

Of course, there may be other advantages of a hierarchical structure. For one, it can aid in screening out illegitimate refund claims. Forcing the customer to endure the hassle of bringing the laptop to the retailer to prove that it is defective essentially stops a lying customer from acquiring an illegitimate refund. But overall, our research shows that the benefit of curbing redress costs can explain the wide-spread use of hierarchical call centers at many customer service departments. This may help us understand why some of the most hated companies in America are so profitable and why customer service, unfortunately, remains so frustrating.

Provided by University of Southern California

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