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The Luxury Touch

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Booz & Company

from **strategy+business** issue 46, Spring 2007

reprint number 07103

The Luxury Touch

Superb service is the indispensable ingredient of successful high-end brands. Follow four principles to deliver customer satisfaction year after year.

by Robert Reppa and Evan Hirsh

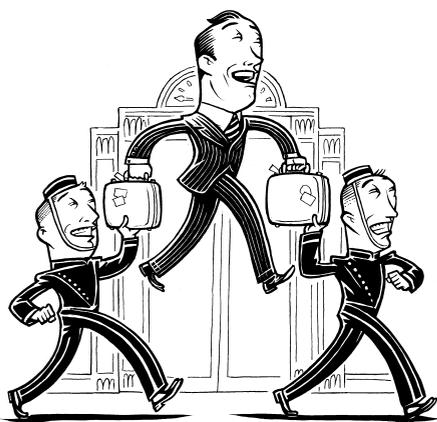
What distinguishes a stay at the Ritz-Carlton from a night at a comfortable, midlevel hotel chain? A room at the Ritz offers superior luxury and creature comforts, of course, but its most important differentiator is an unsurpassed level of service, as reflected in the company's top rankings for guest satisfaction by J.D. Power and Associates and its two Malcolm Baldrige National Quality Awards — U.S. government-sponsored citations for rigorous attention to and delivery of quality.

The same dedication to service famously distinguishes Nordstrom from other high-end department stores. Competitors sell comparable, often identical, goods, but they cannot match Nordstrom's top ranking in consumer surveys, including those conducted in 2006 by American Express and the National Retail Federation. Similarly, the quality of service explains why Lexus, the top-ranked brand in J.D. Power's customer satisfaction surveys, consistently outpaces other

makers of luxury cars. And at the local retail level, top-notch service helps Park Place, an elite car dealer in Houston and Dallas/Fort Worth, regularly take first place in statewide customer satisfaction surveys.

The relationship between quality of service and the luxury touch is often noticed, but its significance is rarely understood. A recent Booz Allen Hamilton study suggests that with luxury brands, the excellence of the underlying product is merely a starting point. Interviews with 40 executives at a broad spectrum of high-performing luxury brand companies confirm that what makes these luxury products truly stand apart is the superb level of service in which they are wrapped. Indeed, the services surrounding each of these brands can be viewed not only as an intrinsic part of the products themselves, but as an important differentiator of the brand.

Companies like Ritz-Carlton, Nordstrom, and Lexus can guarantee service that goes the extra mile because, in effect, they've programmed their organizations to foster customer-centered behavior in employees at all levels. Although there's no single process for achiev-



ing high levels of customer satisfaction, four principles are common to nearly all top-performing luxury brand companies:

1. They create a customer-centered culture that identifies, nurtures, and reinforces service as a primary value.

2. They use a rigorous selection process to populate the organization with superior sales and support staff. The impulse to care about accommodating customers cannot be taught to people who are not predisposed to it.

3. They constantly retrain employees to perpetuate organizational values and to help them attain greater mastery of products and procedures.

4. They systematically measure and reward customer-centric behavior and excellence in sales and service to enforce high standards and reinforce expectations.

stores have declined 1.6 percent. And Lexus sales have grown by 7.8 percent, compared with just 0.9 percent for other luxury auto brands.

Values First

None of the four principles can be omitted or glossed over without jeopardizing the entire effort. When it comes to sales and service excellence, the leading luxury brands do not take shortcuts. “Great customer service is not an initiative,” says Greg Holland, manager of Nordstrom’s Michigan Avenue store in Chicago. “It is not the thing of the day. It is part of our culture.” High-performance luxury brands maintain their commitment to service in good times and bad, emphasizing long-term vision over short-term expediency.

Companies that achieve high levels of customer satisfaction display a zeal for superior service from

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When these four principles are at work, the result is a highly integrated business model that combines a superior product line with outstanding sales and service quality, driving strong growth and profitability in the process. Over the past five years, for example, Ritz-Carlton sales have grown at a rate of 12.7 percent per annum, compared with a rate of 1.8 percent for the rest of the luxury hotel industry. Nordstrom’s U.S. sales have grown at a rate of 8.3 percent, while sales for other nondiscount department

the very top of the organization chart. This dedication constitutes the foundation of customer-centricity. Without the values and culture that leaders inspire, none of the other principles can be effective for long. Customer-centric values and culture inform the hiring process and animate the systems of training and rewards. Instilling values of this sort may be the ultimate test of leadership. Leaders of customer-centric companies clearly articulate what kind of organizational culture they want and consistently sell employees

on its key principles, leaving no doubt about the significance that members of senior management attach to customer-centricity. More important than communications, however, is the leaders' willingness to take action when the primacy of high-quality service is challenged.

No hotelier takes this principle more seriously than Ritz-Carlton, whose standards were set more than a century ago by founders Caesar Ritz and August Escoffier. Ritz employees are constantly schooled in company lore and company values, spelled out in a credo that the company calls its "Gold Standards," printed on a card that employees carry at all times. The credo begins with the statement, "We are ladies and gentlemen serving ladies and gentlemen," and continues with principles such as these:

- I am always responsive to the expressed and unexpressed wishes and needs of our guests.
- I continuously seek opportunities to innovate and improve the Ritz-Carlton experience.
- I immediately resolve guest problems.
- I have the opportunity to continuously learn and grow.
- I am involved in the planning of the work that affects me.
- I am proud of my professional appearance, language, and behavior.

Ritz's values are not reserved for printed cards. They are the basis for all employee training and rewards programs, and they are discussed in daily "lineups" — 15-minute sessions at the start of each employee shift during which managers reinforce company values and review service techniques.

Nordstrom has been a global pioneer in giving sales staff both the

training and the autonomy to deliver high-quality service. Stories of extraordinary Nordstrom service have become a staple of management literature. Here is one of many: In Portland, Ore., a man walked into Nordstrom asking for an Armani tuxedo to wear to his daughter's wedding. The sales representative took his measurements but said she'd need time to work on his request. She called later to say that the tuxedo would be ready the next day. As it turned out, Nordstrom did not carry Armani tuxedos at the time. The sales representative had found the tux through a distributor in New York, then had it rushed to Portland and altered to fit the customer in time for the wedding.

by the sales and support staff in serving customers, and that everyone else at the company, including the board of directors, is there to support them, the retail chain must then follow through. It does so through a variety of means, which range from recognition for employee services to a commission system that allows successful Nordstrom sales associates to earn significantly more than their peers at competing stores.

Rigorous Selection

Successful luxury brands give the same attention and care to selecting employees that they put into nurturing them. Ritz-Carlton uses a process that may set the standard for

Potential Ritz-Carlton hires are tested both for cultural fit and for traits associated with an innate "passion to serve."

To achieve that level of service, it is not enough to merely invest sales personnel with an unusual degree of authority. It must be backed up with extraordinary levels of support, recognition, and opportunity. Nordstrom's hiring materials, given to anyone applying for a position, say, "The opportunities are endless. This is a place to love what you do." That slogan, in turn, is reinforced by the organization chart, which puts customers on the top and the firm's sales and support staff directly beneath them. At the very bottom of the company's inverted organizational pyramid sits the board of directors. Having stated that the most important decisions at Nordstrom are those made

methodical rigor. It evaluates each applicant using scientific, behavior-based assessment tools developed by the human resources consulting firm Talent+, tools derived from statistical analysis of top performers' behavioral characteristics in each job category. Potential hires are tested both for cultural fit and for traits associated with customer service excellence, including what Ritz calls an innate "passion to serve." Says John Timmerman, vice president for quality and program management: "The smile has to come naturally."

As part of the interview process, candidates spend time with established Ritz employees performing their daily routines, a practice that gives job candidates a realistic view

of Ritz's performance standards and encourages those with misgivings to drop out. Company research has shown that its "mis-hired" employees — those who leave within a year or two because they are uncomfortable with the work environment — are expensive. On average, a mis-hired hourly worker costs the company two and a half times that worker's annual salary; a mis-hired sales employee costs eight to 10 times his or her annual salary. Ritz's staff turnover is one-seventh the industry average; this level of stability contributes to high profitability.

Nordstrom does not require new sales hires to have previous retail experience, but the company works hard to hire salespeople who are both service-minded and entrepreneurial, people who are likely to enjoy working in an environment with limited structure and guidance. The service mentality, says one Nordstrom executive, is difficult to fake. He sometimes takes prospective sales staff to lunch and deliberately knocks his napkin off the table to see if their impulse is to help.

Like Ritz-Carlton and Nordstrom, Lexus promises extraordinary customer satisfaction. To deliver it, the automaker needs outstanding personnel who share the company's values and possess the disposition and the talent to deliver on them. But many of the extraordinary individuals who make this brand so successful don't work for the automaker, which seldom interacts directly with the buying public. Instead, they work for franchised local dealerships. Thus, from the moment Toyota launched the marque in 1989, Lexus has set extremely high standards for its dealer selection process. It gave initial priority to existing Toyota dealerships, but

even they were subjected to a demanding application process that required extensive customer satisfaction surveys and related data.

The application process included several face-to-face interviews between the company and each prospective dealer. In the end, only 80 existing Toyota dealers were chosen from a field of 1,500 applicants. "The process was unbelievable," recalls one of the winners, "and the absolute prerequisite was high customer satisfaction." Having turned down 95 percent of the Toyota dealers who wanted a Lexus franchise, the company then turned to top dealers of competing luxury brands, subjecting them to the same exhaustive process.

And the pressure doesn't end when the dealership is selected. The *Lexus Covenant*, to which all Lexus dealers must agree, reflects a groundbreaking business model. It promises that Lexus will produce the finest cars ever built. In turn, Lexus dealers must promise to constitute the industry's best dealer network, reflecting the company's intent to make its relationship with dealers a strong partnership. Evidently, this covenant is working. In a survey of dealer attitudes published by the National Automobile Dealers Association in mid-2006, Lexus dealers were by far the most satisfied of any dealership group.

Lexus dealers go to remarkable lengths to please their customers. Lexus execs tell the story of one South Atlanta dealership, which serves a vast portion of Georgia, whose service and parts personnel fly their own planes to reach distant customers whose cars need maintenance. "This is beyond service!" exclaimed one customer after watching the Lexus team fix her car

in her own driveway. In Chicago, Lexus salesman James Hebinck spotted a Lexus coupe stuck in a snowbank. Not only did Hebinck pull over and dig out the car, he invited the owner to buy a pair of snow tires at a generous discount. The customer followed up on the offer and later referred two friends to the dealership.

The mutual commitment to customer service between automaker and dealer was first tested three months after the first Lexus models were unveiled in the United States. The company decided to recall its flagship LS400 model based on two unrelated customer complaints. Lexus was adamant that all of the recalled vehicles be fixed within a period of three weeks, an unprecedented deadline. Dealers picked up cars at customers' homes, paid for rental replacements, and then returned the cars, freshly washed and vacuumed, with full tanks of gas. As one dealer recalls, "Lexus came to us and said, 'We are in this together... Do whatever it takes to make the customer happy, and we can discuss it later.'"

Training and Heroics

The continuous training required of high-performing luxury brand employees includes training in new products and sales procedures as well as constant reinforcement of the company values and heritage. The average Ritz-Carlton employee receives 232 hours of training per year, almost four times the average of their counterparts at peer hospitality companies. At Park Place, the Dallas/Fort Worth car dealership, the average employee receives 186 hours of training per year. This training, the equivalent of four and a half weeks, includes

weekly seminars and roundtable discussions. Even experienced employees are trained in listening and sales techniques, in cross-cultural dynamics, and, of course, in new product information.

The fourth essential principle in ensuring high customer satisfaction is measuring and rewarding

for key priorities, including customer and employee loyalty, financial success, and continuous improvement initiatives. By setting salaries at the top of industry norms and using visible, nonfinancial recognition of employee contributions, it keeps enthusiasm high and staff turnover low. The company

ment, charged with recruiting and training outstanding personnel and motivating them with superior compensation packages.

In Texas, stories about Park Place's service excellence abound. Six years ago, a customer was unable to make it to the hospital and pulled into a Park Place dealership as his wife was giving birth to a daughter in the backseat. Park Place called for an ambulance but kept the car to give it a thorough cleaning. A year later, the dealership threw a birthday party for the little girl in its showroom. More recently, the customer of a competing dealer pulled off the road in Grapevine, Tex., with a disabled vehicle. The hapless driver had already phoned his dealer for help when a Park Place technician driving by stopped and fixed the car at no cost to the owner. Not surprisingly, the dealership has received numerous quality awards, including a Malcolm Baldrige award in 2005.

A Park Place-like attitude toward service does not have to date from a company's first days. Companies not originally built around a customer satisfaction framework can change, building the structure and culture necessary for the kind of premium service that accompanies a successful luxury brand. The change should use the four principles to reenergize employees, establish new levels of customer loyalty, and drive superior growth and long-term profitability. Companies that set out to make tangible shifts in each of these domains find they reinforce one another in a virtuous circle that allows the company to change with increasing momentum.

The road is not an easy one, of course, and the details of implementing and overseeing these prin-

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performance. The top-performing brands all have elaborate procedures to measure both customer and employee satisfaction, and they reward high-performing staff with extra recognition and superior compensation. Nordstrom, for example, recognizes customer service "heroes" with ad hoc cash awards, extra merchandise discounts, and favorable work-shift assignments. Individual employees and departments are also singled out for praise during morning intercom broadcasts before the doors open.

At the same time, Nordstrom closely monitors sales performance and encourages healthy competition. Sales associates' performance records are posted for others to inspect, and all sales employees have ready access to sales figures from all departments and all stores within the chain.

Rather than measure customer satisfaction, Ritz-Carlton uses a proprietary metric it calls "customer emotion," which reflects the concept of emotional intelligence. It also uses elaborate benchmarking procedures to ensure accountability

is also piloting a program with the Gallup Organization that closely monitors each location's customer relations.

A Virtuous Circle

Ritz-Carlton, Nordstrom, and Lexus are all large organizations that have spent years honing their approach to creating the luxury touch through exceptional service. But their level of achievement is possible for smaller companies as well. An extraordinary level of customer satisfaction has marked Park Place dealerships since their inception in 1987. Park Place founder Ken Schnitzer, a former commercial real estate developer, wanted to change the paradigm for car dealerships, a retail category that consistently ranks low in customer satisfaction. He began by making a careful study of luxury-brand hospitality leaders, including Ritz-Carlton, copying many of their procedures for ensuring high customer satisfaction levels. For example, Park Place became the first auto dealership to establish a formal human resources depart-

principles will vary from one company to the next. Employees who have been successful in an environment where other goals were paramount may be slow to embrace customer satisfaction initiatives. When company leaders begin emphasizing new, customer-centric values, some employees will react skeptically and need to be won over; others may resist and need to be let go, even at the cost of losing high producers.

In the end, however, the journey toward achieving high levels of customer satisfaction is clearly worth making, even with internal resistance. The necessary perseverance and focus may take time to pay off. But when employees recognize that they are valued and share in the rewards, they can commit themselves wholeheartedly to the company's mission. That, in turn, will demonstrate to outsiders that the company not only has set strong values but also lives by them, and that these values make possible a growing reputation for premium products and service. Companies that deliver at high standards enjoy strong customer loyalty. And that customer loyalty, in turn, drives superior growth and profitability while reinforcing and perpetuating the underlying culture. You will know you have set that virtuous circle in motion when you recognize one day that customers are coming to buy your product at a premium price, expecting superior service and getting it. Before they walk in the door, they probably won't know precisely what superior service means; but they'll know it when they see it. +

strategy+business magazine
is published by Booz & Company Inc.
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Originally published as “The Luxury Touch” by
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