

Managing Services 15.778

Case Analysis: British Airways: Using Information Systems to Better Serve the Customer

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1. Background. In 1994, British Airways, a UK-based major international airline-providing passenger and freight services, was developing an aggressive expansion plan, through acquisitions and alliances, aimed to position itself as “the best and most successful company” in the competitive global market. In 1992, BA ranked 7th in passenger miles, 8th in operating revenue, 2nd in operating profit, and 4th in terms of net profit. At the same time many employees within the company felt that it had to revitalize its strategy, launched in 1983, aimed at building a strong customer service culture, which, since then, had been considered to be at the core of BA’s competitive advantage. It was essential to maintain pace with the expansion of BA’s core service, which had expanded beyond providing punctual air transportation. The new core comprised additional services, originally intended to exceed customers’ expectations. In this particular case the failure to provide amenities such as duty free shopping on board spoiled what, until then, had been a “lovely” experience for a profiled customer (Exhibit 1).

2. Problem. Charles Weiser, the Head of Customer Relations (CR), serves as the project manager of the initiative from start to completion. He identified that 1/3 of total customers were dissatisfied, which the large majority never complained (Exhibit 2). Half of those silent customers would defect. CR quantified the cost of defection: he compared the cost of acquisition of a new customer with the cost of retention of an existing one (in a ratio of 5 to 1) and he calculated the lifetime value of its customers. Based on this analysis, CR understood that it was critical to develop a strategy for the retention of customers, starting from understanding why customers, despite being dissatisfied, did not complained. As Weiser’s analysis showed, the explanation for it was the lack of quality in the resolution of complaints. Along two dimensions was service quality failing: waiting time and responsiveness. Customers had to wait 12 weeks to

get an answer to their complaints. The answer used to be a denial of the fault or a justification for it. For the customers, however, to wait more than five days was inadmissible. In addition, BA failed to provide easy access to CR, mainly due to the inexistence of an integrated system with multiple access options. This lack of quality discredited CR's response-service and explains why only 8% of the customers addressed this department for complaints.

3. Objectives Behind CARESS. Led by CR, BA decided to invest £4.5 million in the implementation of a new customer information system under the acronym "CARESS". The immediate **objective pursued** with this project was to increase the quality of the complaints-answering service provided by CR, measured in function of two criteria. Firstly, the reduction of waiting time, that is, faster responses to complaints through the automation of workflow and online access to critical information of the customer stored in other databases within the company. Secondly, the improvement of the "empathy" of the service with a system capable of handling the diverse access means decided by the customers—telephone, fax, email, letter and personal interaction. Those criteria are considered dimensions of service quality (Bitran, Lojo, 1993).

4. Efficacy of CARESS. The system succeeded in recuperating the credibility in the complaints-response service, as the increase in the number of calls to the CareLine and the measurements of customer satisfaction demonstrates. The effectiveness of this system exceeded its initial objective: it provided BA with a powerful tool to establish the precise root of customer dissatisfaction and eventual defection and to launch a prevention strategy. Those root causes were imbedded in all three environments of the Company, but mainly within the Internal

Environment (Exhibit 3). The single most important reason for dissatisfaction was related with seats misallocation and overbooking, the consequence of mismatch of demand and supply.

The system increased job satisfaction, reduced cycle time for getting back to customers, and increased customer satisfaction. It allowed streamlining relations with internal vendors under Service Agreement Contracts. The amount paid for compensation to dissatisfied customers decreased by 8%. In addition, CR quantified the lifetime value of customers and the relative cost of retaining a customer compared to the cost involved in the acquisition of a new customer. The project was a financial success as well.

5. Integration of IS and HR Systems. BA integrated its information-based solution with its human resources strategy. The objective of this strategy was to turn customer services reps and later front-line employees into customer retention and recovery agents. In order to achieve this goal, the reps were trained along two main lines: the new way of answering to customers complaints, fostering the understanding that the aim was to prevent defections and not to defeat customers with arguments and denials; to use their own judgment and not the manual of guidelines to resolve complaints and to grant compensations. With this empowerment, employees were able to deal effectively with the heterogeneous expectations of different customers.

6. Leveraging CARESS. The manufacturing sector possesses various tools to measure quality. CARESS is one of the few examples of this in the service sector. BA should leverage the system by disseminating the information in the database to other departments in the company besides CR. As already stated, the Internal Environment should use this information for prevention of customer dissatisfaction and for measurement and investigation of service operations. The

External Environment should use this information for the development of new products and services. Organization redesign is never an easy undertaking. Employees who are used to have a certain position and power will see their roles change. This has to be considered when BA makes new recruitments.

7. Recommendations

7.1 Zero Defections. One overall goal should be *Zero Defections*. BA should strive to keep its front position leading the Quality revolution within the service industry and to stick to the *GAP-analysis* where perception always is a little greater than expectations.

The cost of defections and the value of lifetime customers should be regarded in BA's accounting system. A loyal customer provides free advertising and is usually not so sensitive to price. They can often be charged more for their products and services.

7.2 Dissemination. The organization has to function as one well-interconnected system (Exhibit 4) but so far efforts and training were focused mainly on CR—the Interface. The Internal and External Environments should actively use the information available in CARESS in order to enhance their performance. In this regard, we recommend that BA undertakes a strategy aimed to match supply and demand, considering alternatives such as having rented airplanes available for high seasons. The information in the database can be used to predict flyers habits. The External Environment should use the information contained in CARESS for the creation of new services and the development of tailored marketing strategies.

7.3 Fostering a Corporate Culture of Excellent Service. All employees at every level and function should be educated and prepared to identify and immediately address dissatisfied

customers. Programs should be developed aimed to empower employees to deal with heterogonous needs by providing personalized solutions. This demands the establishment of internal control systems in order to prevent unnecessary costs. In this regard we recommend that BA should be careful not to fall in the “Satisfaction Trap” (Reichheld, 1996)—that is blindly catering to all customer whims without regard to economical and competitive effectiveness.

7.4 Senior Management Continuous Support and Sponsorship. Senior Management needs to listen to customers’ complaints regularly and must devote time and resources to the advancement of these kinds of processes. In this regard we identify as a risk that BA’s aggressive expansion plan could distract management from this effort.

7.5 Competitive Advantage in the U.S. Market. With the unique sophistication of CARESS, not easily imitated, BA could gain competitive advantage in the US market, where competition is less differentiated and based largely on price.

7.6 Leverage Service Culture with Partners. BA’s current globalisation strategy is based on alliances with other international airlines. We recommend that BA uses CARESS and promotes the application of its human resources strategy in order to create a common customer culture throughout the alliance, without loosing the control and know how of the system. Cooperation with vendors should be further exploited, as well as cooperating with hotels at airports and other links in the chain that are important for the customer when travelling with BA and its alliance partners.

Exhibits

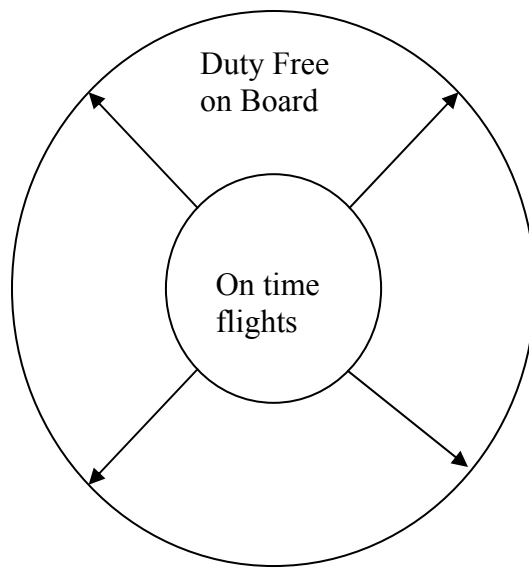


Exhibit 1. The Redefined Core (adapted from Britan, Lojo, 1993)

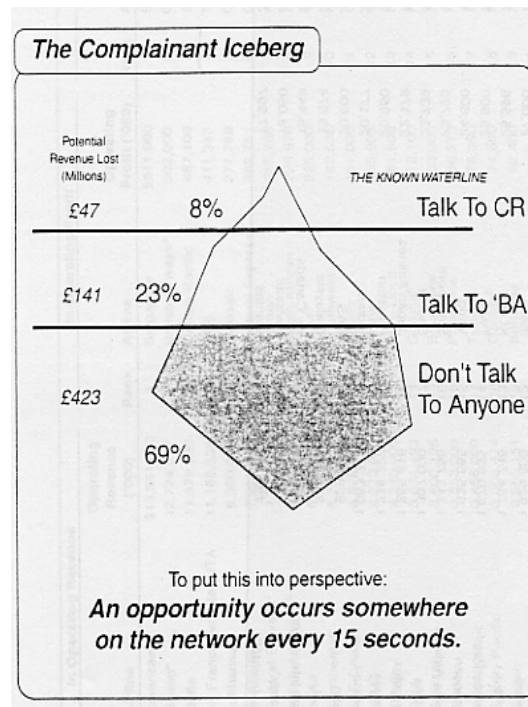


Exhibit 2
(Klein, Sasser, 1994)

The way our customers see it and what that means financially	TOTAL	ALL	REVENUE LOST
	% Problem Experience by Most Serious Problem	And % of These Who Will Not Repurchase	
SEATING ALLOCATION/ OVERBOOKING Seat allocation	11.5%	37.5%	£8,187,750
OPERATIONAL DISRUPTIONS Delays	7.0	23.9	£3,172,105
BAGGAGE Baggage mishandled	4.0	29.8	£2,260,101
CATERING Food quality	3.4	33.0	£2,127,377
OPERATIONAL DISRUPTIONS Cancellations/Consolidation	4.2	24.4	£1,943,080
SEATING ALLOCATION/ OVERBOOKING Downgrading/Denied boarding	4.4	22.4	£1,888,755
CABIN ENVIRONMENT Smoking	3.1	31.0	£1,822,112
SALES EXPERIENCE Ticketing/Booking	3.7	24.4	£1,711,761
OPERATIONAL DISRUPTIONS Disruption services	3.7	23.7	£1,662,653
CATERING Food policy/Menu composition	2.7	28.9	£1,479,494
TOTAL/AVERAGE	48.0%	29.0%	£26,224,187

Exhibit 3. Root analysis ((Klein, Sasser, 1994)

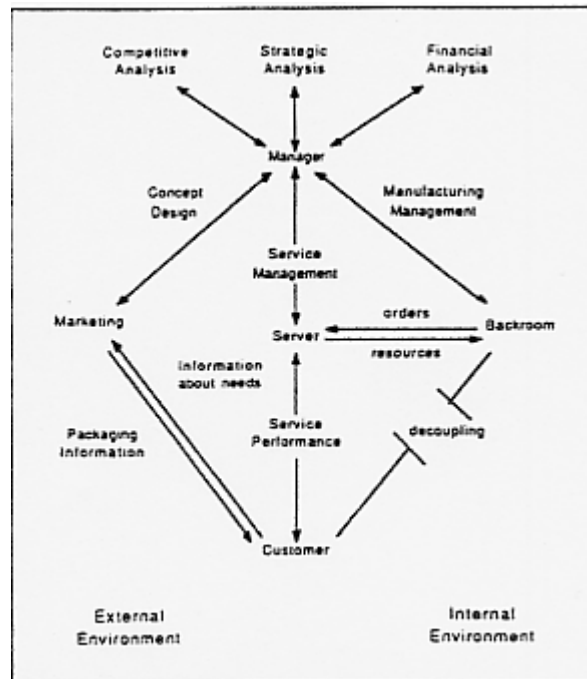


Exhibit 4 (Britan, Lojo, 1993)