



ENTREPRENEUR'S CORNER

Volume Six, Issue One
January/February 2000

Lock in Loyalty By Making Service Part of Your Value Proposition

by Jack Roseman

There was a time when BMW, Mercedes, Rolls Royce, and Cadillac – maybe Lincoln – filled the luxury car needs of the world. And if somebody had told you he or she was going after that market, you would have said that person was nuts. It was locked up.

Of course, since then, Lexus has entered the market and is doing just fine. How did that happen? How did those household brands lose market share to these newcomers?

Let me tell you two stories and I think you will be able to figure it out.

I drive a Lexus. Now, I'm driving along one day in my Lexus and I hit a bird. Splatters all over my windshield. It's a mess. So I come home and my wife sees this mess on the windshield and before I know what's happening she's out in the driveway cleaning it off – with steel wool.

Well, she got it off, and now I don't have a bird mess

on my windshield, but I've got scratches.

The next day I was going to bring the car in for routine service. So I bring it into the local Lexus dealer and I explained how the windshield got scratched and asked if maybe they knew some way to get the scratches out. They said they'd see what they could do.

So they loaned me a Lexus to drive and I came back the next morning to pick up my car.

The first thing I looked for were the scratches and they were completely gone. I couldn't believe it.

So I called over to the service manager and I said, "Jeff, that's amazing. How did you get those scratches out?"

"We put a new windshield in," he said.

"What's that going to cost?" I asked.

And he said, "Jack, forget about it. No charge."

Now before the Lexus, I had driven a BMW 733i. I

loved that car and I took extremely good care of it.

One day the clutch gave out. So I took it into the dealer and returned three or four days later and they said they had put a new clutch in but the car still wouldn't go.

"You've got to give us another few days," they said. So a few days later I went back and the car still wasn't ready. I went back a third time and they had some guy from the BMW factory in Germany looking at it and he couldn't find out what was wrong. So they had it for close to a month. Finally, they put another clutch in and this time it worked.

So I asked what the bill was and the guy says it's \$1,000.

I said, "To replace a clutch is \$1,000?"

And the guy said, "Well, it's usually \$300. But we had a problem with your car and therefore it's \$1,000. It cost us more than \$1,000, Jack, but we'll settle for \$1,000."

I said, “My problem was a clutch that didn’t work. And clutches cost \$300. You’re the one who couldn’t get the problem solved and that’s your problem. Why should I have to pay for your problem?”

He said, “Jack, it’s \$1,000.”

I said, “I think you’re being unfair.” But in the end, I paid it. I also never bought another car from that dealer. In fact, I never bought another BMW. He got his \$1,000, but what did it cost him?

I have a lot of stories like these. Circuit City gave me free delivery because they didn’t make a delivery on the day they had specified and inconvenienced me. Home Depot recently paid to have a set of doors reinstalled in a new house I’m building because they had incorrectly positioned the doorknobs which resulted in the doors being installed incorrectly. They even told my wife to add some cost to the bill for aggravation. I immediately bought stock in both companies.

So what’s my point?

If you’re going to operate a business – especially one that deals with consumers – factor in the cost of keeping them happy. You may have to charge a little more along the way to make up for that level of service. If you do, keep in mind that people do not buy on price alone. They buy value. If you think you’re getting good value you’ll be a loyal customer. And now more than ever before, a high level of service is an

important part of that value proposition.

Jack Roseman is the Director of The Roseman Institute. He was the founder of two successful computer firms and was president of a third, On-Line Systems. Jack formerly was the associate director of the Donald H. Jones Center for Entrepreneurship at Carnegie Mellon University’s Graduate School of Industrial Administration (GSIA). This column was written with Steven N. Czetli, former Executive Editor of T.E.Q.