

# LeapQ

WELCOME TO

## frogblog

news & observations from the world of brands

### **Southwest Airlines proves what's good for customers is also good for the bottomline**

Part 2 of 3

By Stephen Blanchette

November 14, 2011

DALLAS. **Fred Taylor Jr.** is Senior Manager of Proactive Customer Service Communications at **Southwest Airlines**, a legendary Dallas-based U.S. airline that has recorded an unparalleled 38 years of profitability over its 40-year history. In part 2 of my 3-part interview with him, Fred talks about the benefits of Southwest's proactive care programme and why it pays to say 'I'm sorry'.

**LQ:** Most companies still take a passive approach to customer experience problems – only responding to complaints from customers after they come in. You're doing the opposite and reaching out to customers proactively and preemptively. I imagine your approach would have drawn a lot of scepticism from your finance team at first in terms of the additional costs a proactive approach would require. But after more than 10 years of doing this, are you still facing challenges from your finance team?

**FT:** Of course there's challenge but that's part of our DNA. We know that it's our finance department's job to ring out every penny and so they are going to look for opportunities to question whether a process or initiative is as efficient and as profitable as it can be. They're not doing it to be malicious, they're simply doing their jobs. As a leader, that is the perspective that I have to take. When we get these kinds of questions, I explain to my team that the finance team are trying to better understand what we do and how we do it so that they can help us be as cost-effective as possible. We try not to take it as a threat – even though it does get old after a while.

**LQ:** But wouldn't you think the finance team would stop questioning your methods after a while?

**FT:** The problem is that for the last decade, the cost pressures in our industry haven't just gone up, they've gone up drastically. Ever since 9/11, every year there's been some new challenge that's trumped the previous year's challenge. It just amazes me when I think of the number of hurdles our company has had to overcome in the last decade and we're still trying to find a way to maintain our profitability. The way we do this isn't only by revisiting the way we run our business annually – sometimes we even go through this process monthly. And if not monthly, then definitely every quarter we look to see how we can do things faster, more efficiently and smarter. Not making a profit isn't an option for us. It's that warrior spirit that continues to drive us to be successful by overcoming our own internal challenges as well as those posed by our competitors. And all of that – the people, the warrior spirit and the business strategy and everything that goes along with these elements – that is what makes our culture and what makes us unique.

**LQ:** Is there any challenge that you've received from your finance team where you've had to admit they were right – that you were thinking of the customer first but in the end this particular facet of your initiative was too expensive to continue with?

**FT:** No, there was a challenge about whether the gestures of goodwill we send out were costing us too much money. That was the big question – we had never really tracked these and so we got some very smart people together to crunch the numbers and we ultimately proved that not only are the goodwill vouchers a break-even, we are actually making a profit from the vouchers we're sending out.

We used to have just one 50 dollar denomination for our vouchers but through technology and electronic analysis of the fares that people pay, we figured out a way to graduate the vouchers in relation to the fares people actually paid to fly. By graduating the value of each voucher, we ultimately get to a sweet spot number per flight and by using the sweet spot average, not only do we generate a return on investment on a per-flight basis but on a per-passenger basis as well. With this new approach – despite a down economy when flying is down about 25% overall – we're seeing an ROI of 14-16% on the vouchers we issue. And even though making a profit on the vouchers has never

been our goal, we had to prove to our finance department that we weren't a cost drain on the company.

**LQ:** I'm very curious. How big is your proactive care programme?

**FT:** We send out a lot of vouchers to our customers – We contact over 60,000 customers a year and push anywhere from 8 to 12 million dollars in gestures of goodwill out the door. It's a significant amount of money and our financial department is highly interested in knowing what is going on with it. So we can't blame them for being attentive to what we are doing.

**LQ:** I imagine not all of the customers who receive a voucher of good will actually redeem it...

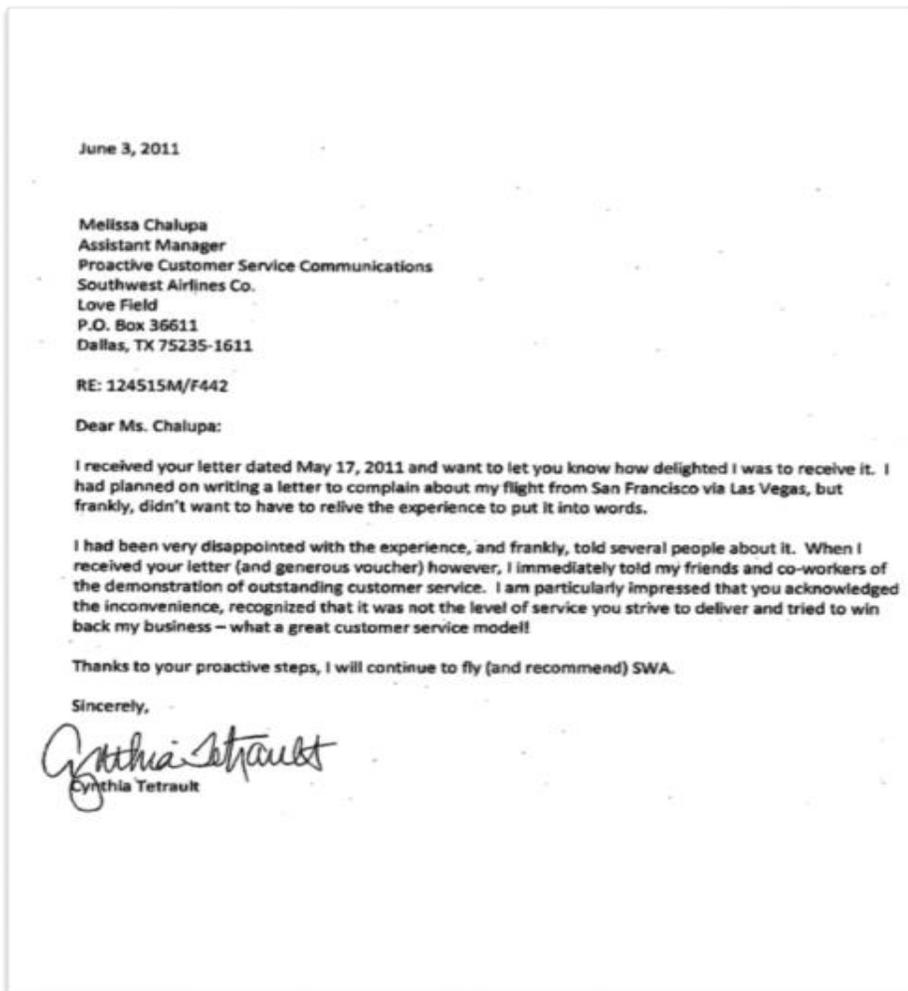
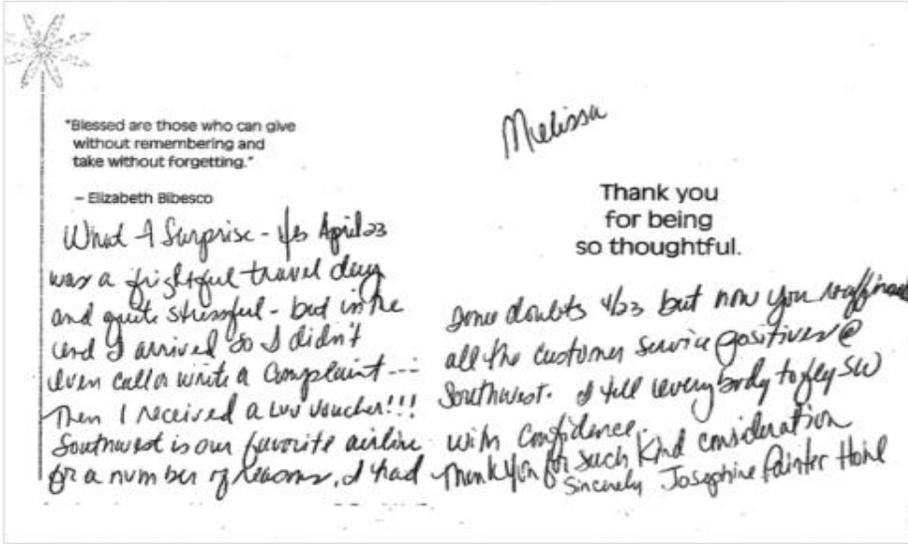
**FT:** True. We've been able to prove that there's "spoilage" on a percentage of the vouchers – some people just aren't going to use them. And that spoilage has got a lot bigger over the last 2-3 years because of the economy.

**LQ:** And what's the loyalty impact of the proactive care programme?

**FT:** Well, I've seen statistics that say that the average company can expect approximately 25% of customers coming back after having a bad experience. In comparison at Southwest, we are getting 50-75% of our customers coming back. We know that because that is the percentage of vouchers being redeemed by customers within a year of them being sent out.

**LQ:** That's impressive.

**FT:** It is. So we're having that kind of impact on customer loyalty *plus* we're getting all of the outlay back plus 14-16% on top of it.



Typical examples of the letters Southwest Airlines receives everyday from customers in response to its Proactive Care programme.

**LQ:** So how do you decide when to sent out the letters and vouchers – and when not to?

**FT:** We don't reach out for every stubbed toe and scuff or scratch. When people fly, they typically expect that mechanical and weather delays can be nuisances. But when that delay becomes nagging and is compounded and ultimately leads to multiple problems – for example, if you're on a flight and there is a mechanical problem with an engine and we have to divert an airplane and land somewhere other than planned, then we are going to reach out to you. Those are what make bad experiences.

**LQ:** Understood. But is there some sort of numerical formula that you and your team use to decide when to issue vouchers?

**FT:** No, there is no formula and this is what boggles some of the other leaders in our business who might be new to the company or to our process. It comes down to people again. When I'm hiring someone for my team, I want them to be able to think like a customer and put themselves in the customer's shoes. They need to be able to quickly gather the facts, analyse those from the business side and more importantly evaluate them in terms of the experience the customers have had as a result of those facts, then determine what the right words are to say and what the right gesture of goodwill is to give. And so that is very very subjective and it's hard for someone to get if they don't work in our team.

**LQ:** What do you do to help them better understand?

**FT:** What I sometimes do is put our senior leaders through an exercise and give them several scenarios to consider. I ask them to decide, based on the facts, what they should say to the customer and what gesture of goodwill to give. The fascinating thing is, some of the leadership group aligns it right but some are so far off in their decisions and get frustrated because they realise that making the right decision isn't easy and it's certainly not black and white.

It starts to sensitise them to what we do and how we need to have all the right information to make the right decisions about how we're going to handle the situations. Then they say, "Okay, now we get it. We understand the value that

proactive care is bringing to the table. What do you need to get better insight about each individual situation?”

**LQ:** You mentioned you depend on your people to look at the right facts to be able to make the right decisions – but what are the facts you look at?

**FT:** We try to get a 360 view of the entire situation. So we ask for reports from every department that was involved. One of the things I started to do early when we first started to do this was to create pipelines and streams of information that are “always on”, that flow in both directions, and are instantaneous. We created a Graphic User Interface that helps employees from different departments submit reports. And in the case of people in departments who can’t submit reports – flight attendants, for example - their leadership reaches out to them to get the information and then sends it to my team for analysis.

They know that our goal is to reach out to our customers by the next business day. We try to reach out to them as quickly as possible and sometimes we’re able to communicate out to our customers within hours. Depends on the situation.

**LQ:** I would imagine that people working on that delayed plane observing customer reactions are also going to be an important determinant of what actions your department decides to take. I wonder whether you’ve found certain patterns – times of day or days of the week – where you find that when something goes wrong, customers are more likely to react more negatively and require larger gestures of goodwill to be satisfied?

**FT:** We’ve haven’t found patterns related to the time of day or day of the week but what we have found the behaviour of customers changes around a full moon. It’s a proven fact that medical emergencies happen more frequently and more babies are born during this time. We don’t know how to explain but we see a definite impact around full moons too. Also, certain destinations also have a tendency to change people’s behaviour so we observe a lot of really interesting behaviour going in and out of Las Vegas, for example. And it just happens to be the destination we have the most flights in and out of so there’s a lot of opportunity there.

**LQ:** I'm sure that with your number of years doing this, you've become very proficient at finding the right words to use to proactively communicate with passengers. Have you been asked to do any training for the employees who are working on the flights. I would imagine that if the pilots and flight attendants' way of handling difficult situation reduces the need for you and your team to get involved...

**FT:** That's exactly right. One of the questions we ask of employees is "How did you handle the situation and what was the customers' reaction?" If we see that the employees did a really good job in handling the situation, we won't necessarily need to take action with the customers but we will write to commend the crew or ground crew for taking the opportunity and doing a good job on the front end. We always take the opportunity to copy in their leaders to commemorate what a good job the employees did.

And our employees have always been told never to speculate on a situation. It's better to say "I don't know" and "Let me see if I can find someone to help you" than to react based on an *impression* of what occurred that might turn out to be inaccurate. That will aggravate someone pretty fast because when things go wrong at the airport or on an airplane the media – when they hear about it – always look for the 'juicy story' so it's planted the impression in people's mind that there's intent to lie and cover up. Even though an employee's speculation may have been in good faith and that they were only trying to provide a reasonable answer, people will draw the conclusion that you tried to lie.

Admitting you don't know is just a part of being open, honest and humble to the customers. But our employees should never leave the customer hanging but try to find someone else who can help.

**LQ:** Fred, so far we've talked about the elements that make up the Southwest Airlines culture and some of the specifics around your proactive care programme. It's clear that your company has a great thing going on and that you've created a lot of 'wows' for your customers over the years. But it seems to me that when you consistently create those wow experiences, with time your customers would simply come to expect the wows and then they're no longer the wows they used to be. Do you find that you have to continually find new ways to raise the bar to make the wows even bigger?

**FT:** Well we've wondered about that too. We've received so much media attention from our proactive communication approach but we never ourselves set a formal expectation with customers. So I think the fact that we don't do that means that we continue to be able to exceed the customers' expectations. If there ever comes a point where what we do becomes expected, then we'll have to change what we're doing. I'm surprised that we continue to get letters from our customers that thank us saying "I can't believe you do this. It wasn't necessary but wow, thanks for doing it." After 40 years, there's not one day that goes by when we don't get letters like that.

I remember Colleen Barrett, our president emeritus, telling a group of pilots "Many of the customers that you encounter have made Southwest part of their life. They fly with us like we're their taxicab from city to city and when they're deplaning and you're standing outside the cockpit door and they walk up to you and tell you what they liked or didn't like about the flight, you need to take that to heart and know that this person is speaking to you like you are one of their family members. And don't just blow it off because you're the captain of a flight. Take it to heart and think about it from the customer's point of view because it means that much to them."

That really resonated in my mind and I thought, she's right. Our customers embrace us and we've said we're fighting for them to give them the freedom to fly. And that's been our mission throughout our history.

*In **Part 3** of this 3-part interview, to published soon, Fred Taylor will talk about the Southwest Airlines brand and how it's brought to life through the company's people. Be sure not to miss Part 3, [subscribe to Frog Blog now](#).*