The Power of Unconditional Service Guarantees

by CHRISTOPHER W.L. HART

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No-quibble guarantees are self-fulfilling – they promise quality and produce it.

The Power of Unconditional Service Guarantees

by CHRISTOPHER W.L. HART

When you buy a car, a camera, or a toaster oven, you receive a warranty, a guarantee that the product will work. How often do you receive a warranty for auto repair, wedding photography, or a catered dinner? Virtually never. Yet it is here, in buying services, that the assurance of a guarantee would presumably count most.

Many business executives believe that, by definition, services simply can't be guaranteed. Services are generally delivered by human beings, who are known to be less predictable than machines, and they are usually produced at the same time they are consumed. It is one thing to guarantee a camera, which can be inspected before a customer sets eyes on it and which can be returned to the factory for repairs. But how can you preinspect a car tune-up or send an unsuccessful legal argument or bad haircut back for repair? Obviously you can't.

> Al Burger *started* with an unconditional guarantee and built his company around it.

But that doesn't mean customer satisfaction can't be guaranteed. Consider the guarantee offered by "Bugs" Burger Bug Killers (BBBK), a Miami-based pest-extermination company that is owned by S.C. Johnson & Son.

Most of BBBK's competitors claim that they will reduce pests to "acceptable levels"; BBBK promises to eliminate them entirely. Its service guarantee to hotel and restaurant clients promises:

- You don't owe one penny until all pests on your premises have been eradicated.
- If you are ever dissatisfied with BBBK's service, you will receive a refund for up to 12 months of the company's services – plus fees for another exterminator of your choice for the next year.
- If a guest spots a pest on your premises, BBBK will pay for the guest's meal or room, send a letter of apology, and pay for a future meal or stay.
- If your facility is closed down due to the presence of roaches or rodents, BBBK will pay any fines, as well as all lost profits, *plus* $5,000.

In short, BBBK says, "If we don't satisfy you 100%, we don't take your money."

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How successful is this guarantee? The company, which operates throughout the United States, charges up to ten times more than its competitors and yet has a disproportionately high market share in its operating areas. Its service quality is so outstanding that the company rarely needs to make good on its guarantee (in 1986 it paid out only $120,000 on sales of $33 million–just enough to prove that its promises aren't empty ones).

A main reason that the "Bugs" Burger guarantee is a strong model for the service industry is that its founder, Al Burger, began with the concept of the unconditional guarantee and worked backward, designing his entire organization to support the no-pests guarantee–in short, he started with a vision of error-free service. In this article, I will explain why the service guarantee can help your organization institutionalize superlative performance.

What a Good Service Guarantee Is

Would you be willing to offer a guarantee of 100% customer satisfaction–to pay your dissatisfied customer to use a competitor's service, for example? Or do you believe that promising error-free service is a crazy idea?

Not only is it not crazy, but *committing* to error-free service can help force a company to *provide* it. It's a little like skiing. You've got to lean over your skis as you go down the hill, as if willing yourself to fall. But if you edge properly, you don't fall or plunge wildly; you gain control while you pick up speed.

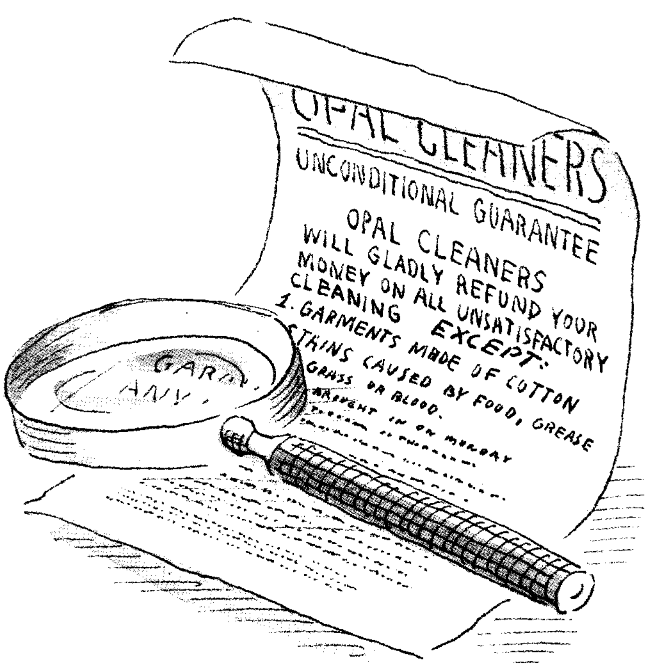
Similarly, a strong service guarantee that puts the customer first doesn't necessarily lead to chaos and failure. If designed and implemented properly, it enables you to get control over your organization–with clear goals and an information network that gives you the data you need to improve performance. BBBK and other service companies show that a service guarantee is not only possible–it's a boon to performance and profits and can be a vehicle to market dominance.

Most existing service guarantees don't really do the job: they are limited in scope and difficult to use. Lufthansa guarantees that its customers will make their connecting flights *if* there are no delays due to weather or air-traffic control problems. Yet these two factors cause fully 95% of all flight delays. Bank of America will refund up to six months of checking-account fees if a customer is dissatisfied with any aspect of its checking-account service. However, the customer must close the account to collect the modest $5 or $6 per month fee. This guarantee won't win any prizes for fostering repeat business–a primary objective of a good guarantee.

A service guarantee loses power in direct proportion to the number of conditions it contains. How effective is a restaurant's guarantee of prompt service *except* when it's busy? A housing inspector's guarantee to identify all potential problems in a house *except for* those not readily apparent? Squaw Valley in California guarantees "your money back" to any skier who has to wait more than ten minutes in a lift line. But it's not that easy: the skier must first pay $1 and register at the lodge as a beginner, intermediate, or expert; the guarantee is operative only if *all* lifts at the skier's skill level exceed the ten minutes in any half-hour period; and skiers must check with a "ski hostess" at the end of the day to "win" a refund. A Squaw Valley spokesperson said the resort had made just one payout under the guarantee in a year and a half. No wonder!

What is a good service guarantee? It is (1) unconditional, (2) easy to understand and communicate, (3) meaningful, (4) easy (and painless) to invoke, and (5) easy and quick to collect on.

Unconditional. The best service guarantee promises customer satisfaction unconditionally, without exceptions. Like that of L.L. Bean, the Freeport, Maine retail store and mail-order house: "100% satisfaction in every way...." An L.L. Bean customer can return a product at any time and get, at his or her option, a replacement, a refund, or a credit. Reputedly, if a customer returns a pair of L.L. Bean boots after ten years, the company will replace them with new boots and no questions. Talk about customer assurance!



Customers shouldn't need a lawyer to explain the "ifs, ands, and buts" of a guarantee–because ideally there shouldn't be any conditions; a customer is either satisfied or not.

If a company cannot guarantee all elements of its service unconditionally, it should unconditionally guarantee the elements that it can control. Lufthansa cannot promise on-time arrival, for example, but it could guarantee that passengers will be satisfied with its airport waiting areas, its service on the ground and in the air, and its food quality–or simply guarantee overall satisfaction.

Easy to Understand and Communicate. A guarantee should be written in simple, concise language that pinpoints the promise. Customers then know precisely what they can expect and employees know precisely what's expected of them. "Five-minute" lunch service, rather than "prompt" service, creates clear expectations, as does "no pests," rather than "pest control."

Meaningful. A good service guarantee is meaningful in two respects. First, it guarantees those aspects of your service that are important to your customers. It may be speedy delivery. Bennigan's, a restaurant chain, promises 15-minute service (or you get a free meal) at lunch, when many customers are in a hurry to get back to the office, but not at dinner, when fast service is not considered a priority to most patrons.

In other cases, price may be the most important element, especially with relatively undifferentiated commodities like rental cars or commercial air travel. By promising the lowest prices in town, stereo shops assuage customers' fears that if they don't go to every outlet in the area they'll pay more than they ought to.

L.L. Bean will replace its boots–even after ten years' use.

Second, a good guarantee is meaningful financially; it calls for a significant payout when the promise is not kept. What should it be–a full refund? An offer of free service the next time? A trip to Monte Carlo? The answer depends on factors like the cost of the service, the seriousness of the failure, and customers' perception of what's fair. A money-back payout should be large enough to give customers an incentive to invoke the guarantee if dissatisfied. The adage "Let the punishment fit the crime" is an appropriate guide. At one point, Domino's Pizza (which is based in Ann Arbor, Michigan but operates worldwide) promised "delivery within 30 minutes or the pizza is free." Management found that customers considered this too generous; they felt uncomfortable accepting a free pizza for a mere 5- or 15-minute delay and didn't always take advantage of the guarantee. Consequently, Domino's adjusted its guarantee to "delivery within 30 minutes or $3 off," and customers appear to consider this commitment reasonable.

Easy to Invoke. A customer who is already dissatisfied should not have to jump through hoops to invoke a guarantee; the dissatisfaction is only exacerbated when the customer has to talk to three different people, fill out five forms, go to a different location, make two telephone calls, send in written proof of purchase with a full description of the events, wait for a written reply, go somewhere else to see someone to verify all the preceding facts, and so on.

Traveler's Advantage–a division of CUC International–has, in principle, a great idea: to guarantee the lowest price on the accommodations it books. But to invoke the guarantee, customers must prove the lower competing price by booking with another agency. That's unpleasant work. Cititravel, a subsidiary of Citicorp, has a better approach. A customer who knows of a lower price can call a toll-free number and speak with an agent, as I did recently. The agent told me that if I didn't have proof of the lower fare, she'd check competing airfares on her computer screen. If the lower fare was there, I'd get that price. If not, she would call the competing airline. If the price was confirmed, she said, "We'll refund your money so fast, you won't believe it–because we want you to be our customer." That's the right attitude if you're offering a guarantee.

Similarly, customers should not be made to feel guilty about invoking the guarantee–no questioning, no raised eyebrows, or "Why me, Lord?" looks. A company should encourage unhappy customers to invoke its guarantee, not put up roadblocks to keep them from speaking up.

Easy to Collect. Customers shouldn't have to work hard to collect a payout, either. The procedure should be easy and, equally important, quick–on the spot, if possible. Dissatisfaction with a Manpower temporary worker, for instance, results in an immediate credit to your bill.

What you should *not* do in your guarantee: don't promise something your customers already expect; don't shroud a guarantee in so many conditions that it loses its point; and don't offer a guarantee so mild

1. See British Airways study cited in Karl Albrecht and Ron Zemke, *Service America!* (Homewood, Ill.: Dow Jones-Irwin, 1985), pp. 33-34.

that it is never invoked. A guarantee that is essentially risk free to the company will be of little or no value to your customers – and may be a joke to your employees.

Why a Service Guarantee Works

A guarantee is a powerful tool – both for marketing service quality and for achieving it – for five reasons.

First, it pushes the entire company to focus on customers' definition of good service – not on executives' assumptions. Second, it sets clear performance standards, which boost employee performance and morale. Third, it generates reliable data (through payouts) when performance is poor. Fourth, it forces an organization to examine its entire service-delivery system for possible failure points. Last, it builds customer loyalty, sales, and market share.

A guarantee forces you to focus on customers. Knowing what customers want is the sine qua non in offering a service guarantee. A company has to identify its target customers' expectations about the elements of the service and the importance they attach to each. Lacking this knowledge of customer needs, a company that wants to guarantee its service may very well guarantee the wrong things.

British Airways conducted a market study and found that its passengers judge its customer services on four dimensions:[1]

1. Care and concern (employees' friendliness, courtesy, and warmth).

2. Initiative (employees' ability and willingness to jockey the system on the customer's behalf).

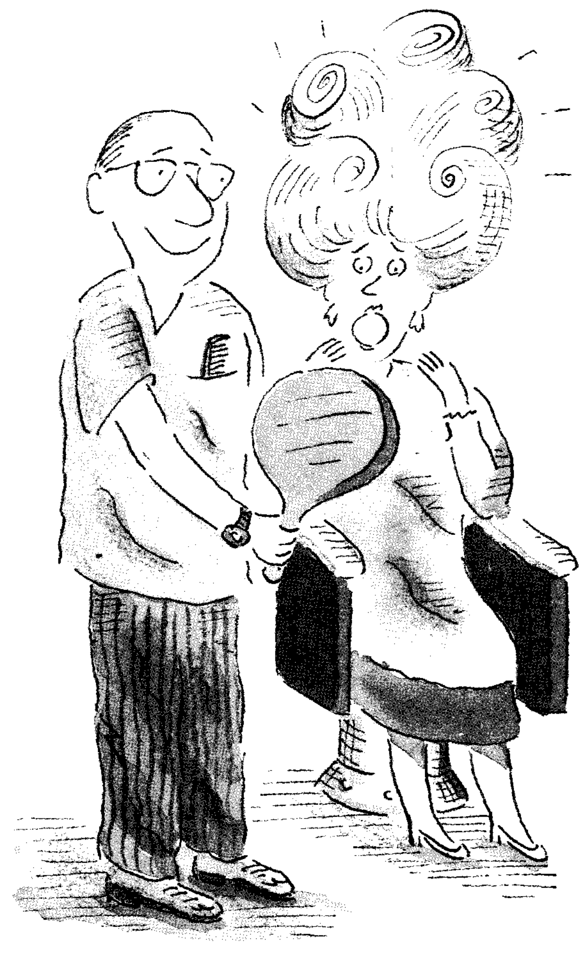
3. Problem solving (figuring out solutions to customer problems, whether unusual or routine – like multiflight airline tickets).

4. Recovery (going the extra yard, when things go wrong, to handle a particular problem – which includes the simple but often overlooked step of delivering an apology).

British Airways managers confessed that they hadn't even thought about the second and fourth categories. Worse, they realized that if *they* hadn't understood these important dimensions of customer service, how much thought could their employees be giving to them?

A guarantee sets clear standards. A specific, unambiguous service guarantee sets standards for your organization. It tells employees what the company stands for. BBBK stands for pest elimination, not pest control; Federal Express stands for "absolutely, positively by 10:30 A.M.," not "sometime tomorrow, probably." And it forces the company to define each employee's role and responsibilities in delivering the service. Salespeople, for example, know precisely what their companies can deliver and can represent that accurately – the opposite of the common situation in which salespeople promise the moon and customers get only dirt.

This clarity and sense of identity have the added advantage of creating employee team spirit and pride. Mitchell Fromstein, president and CEO of Manpower, says, "At one point, we wondered what the marketing impact would be if we dropped our guarantee. We figured that our accounts were well aware of the guarantee and that it might not have much marketing power anymore. Our employees' reaction was fierce – and it had a lot less to do with marketing than with the pride they take in their work. They said, 'The guarantee is proof that we're a great company. We're willing to tell our customers that if they don't like our service for any reason, it's our fault, not



A service guarantee is valued when a customer's ego is on the line.

theirs, and we'll make it right.' I realized then that the guarantee is far more than a simple piece of paper that puts customers at ease. It really sets the tone, externally and, perhaps more important, internally, for our commitment to our customers and workers."

A payout that creates financial pain when errors occur is also a powerful statement, to employees and customers alike, that management demands customer satisfaction. A significant payout ensures that both middle and upper management will take the service guarantee seriously; it provides a strong incentive to take every step necessary to deliver. A manager who must bear the full cost of mistakes has ample incentive to figure out how to prevent them from happening.

A guarantee generates feedback. A guarantee creates the goal; it defines what you must do to satisfy your customers. Next, you need to know when you go wrong. A guarantee forces you to create a system for discovering errors–which the Japanese call "golden nuggets" because they're opportunities to learn.

Arguably the greatest ailment afflicting service companies is a lack of decent systems for generating and acting on customer data. Dissatisfied service customers have little incentive to complain on their own, far less so than unhappy product owners do. Many elements of a service are intangible, so consumers who receive poor service are often left with no evidence to support their complaints. (The customer believes the waiter was rude; perhaps the waiter will deny it.) Second, without the equivalent of a product warranty, customers don't know their rights. (Is 15 minutes too long to wait for a restaurant meal? 30 minutes?) Third, there is often no one to complain to–at least no one who looks capable of

Without a guarantee, customers won't complain. Or come back.

solving the problem. Often, complaining directly to the person who is rendering poor service will only make things worse.

Customer comment cards have traditionally been the most common method of gathering customer feedback on a company's operations, but they, too, are inadequate for collecting valid, reliable error data. In the first place, they are an impersonal form of communication and are usually short (to maximize the response rate). Why bother, people think, to cram the details of a bad experience onto a printed survey form with a handful of "excellent–good–fair" check-off boxes? Few aggrieved customers believe that completing a comment card will resolve their problems. Therefore, only a few customers–usually the most satisfied and dissatisfied–provide feedback through such forms, and fewer still provide meaningful feedback. As a broad gauge of customer sentiment, cards and surveys are useful, but for specific information about customer problems and operational weaknesses, they simply don't fill the bill.

Service companies thus have a hard time collecting error data. Less information on mistakes means fewer opportunities to improve, ultimately resulting in more service errors and more customer dissatisfaction–a cycle that management is often unaware of. A guarantee attacks this malady by giving consumers an incentive and a vehicle for bringing their grievances to management's attention.

Manpower uses its guarantee to glean error data in addition to allaying customer worries about using an unknown quantity (the temporary worker). Every customer who employs a Manpower temporary worker is called the first day of a one-day assignment or the second day of a longer assignment to check on the worker's performance. A dissatisfied customer doesn't pay–period. (Manpower pays the worker, however; it assumes complete responsibility for the quality of its service.) The company uses its error data to improve both its work force and its proprietary skills-testing software and skills data base–major elements in its ability to match worker skills to customer requirements. The information Manpower obtains before and after hiring enables it to offer its guarantee with confidence.

A guarantee forces you to understand why you fail. In developing a guarantee, managers must ask questions like these: What failure points exist in the system? If failure points can be identified, can their origins be traced–and overcome? A company that wants to promise timely service delivery, for example, must first understand its operation's capability and the factors limiting that capability. Many service executives, lacking understanding of such basic issues as system throughput time, capacity, and process flow, tend to blame workers, customers, or anything *but* the service-delivery process.

Even if workers *are* a problem, managers can do several things to "fix" the organization so that it can support a guarantee–such as design better recruiting, hiring, and training processes. The pest-control industry has historically suffered from unmotivated personnel and high turnover. Al Burger overcame the status quo by offering higher than average pay (attracting a higher caliber of job candidate), using a vigorous screening program (making those hired feel like members of a select group), training all workers for six months, and keeping them motivated by giving them a great deal of autonomy and lots of recognition.

Some managers may be unwilling to pay for an internal service-delivery capability that is above the industry average. Fine. They will never have better than average organizations, either, and they will therefore never be able to develop the kind of competitive advantage that flows from a good service guarantee.

A guarantee uncovers errors – and opportunities to learn.

A guarantee builds marketing muscle. Perhaps the most obvious reason for offering a strong service guarantee is its ability to boost marketing: it encourages consumers to buy a service by reducing the risk of the purchase decision, and it generates more sales to existing customers by enhancing loyalty. In the last ten years, Manpower's revenues have mushroomed from $400 million to $4 billion. That's marketing impact.

Keeping most of your customers and getting positive word of mouth, though desirable in any business, are particularly important for service companies. The net present value of sales forgone from lost customers – in other words, the cost of customer dissatisfaction – is enormous. In this respect, it's fair to say that many service companies' biggest competitors are themselves. They frequently spend huge amounts of money to attract new customers without ever figuring out how to provide the consistent service they promise to their existing customers. If customers aren't satisfied, the marketing money has been poured down the drain and may even engender further ill will. (See the insert, "Maximizing Marketing Impact.")

A guarantee will only work, of course, if you start with commitment to the customer. If your aim is to minimize the guarantee's impact on your organization but to maximize its marketing punch, you won't succeed. In the long run, you will nullify the guarantee's potential impact on customers, and your marketing dollars will go down the drain.

Phil Bressler, owner of 18 Domino's Pizza franchises in the Baltimore, Maryland area, demonstrates the right commitment to customers. He got upset the time his company recorded its highest monthly earnings ever because, he correctly figured, the profits had come from money that should have been paid out on the Domino's guarantee of "delivery within 30 minutes or $3 off." Bressler's unit managers, who have bottom-line responsibility, had pumped up their short-term profits by failing to honor the guarantee consistently. Bressler is convinced that money spent on guarantees is an investment in customer satisfaction and loyalty. He also recognizes that the guarantee is the best way to identify weak operations, and that guarantees not acted on are data not collected.

Compare Bressler's attitude with that of an owner of several nationally franchised motels. *His* guarantee promises that the company will do "everything possible" to remedy a customer's problem; if the problem cannot be resolved, the customer stays for free. He brags that he's paid, on average, refunds for only two room guarantees per motel per year – a minuscule percentage of room sales. "If my managers are doing their jobs, I don't have to pay out for the guarantee," he says. "If I do have to pay out, my managers are not doing their jobs, and I get rid of them."

Clearly, more than two guests of *any* hotel are likely to be dissatisfied over the course of a year. By seeking to limit payouts rather than hear complaints, this owner is undoubtedly blowing countless opportunities to create loyal customers out of disgruntled ones. He is also losing rich information about which of his motels need improvement and why, information that can most easily be obtained from customer complaints. You have to wonder why he offers a guarantee at all, since he completely misses the point.

Why You May Need a Guarantee Even If You Don't Think So

Of course, guarantees may not be effective or practicable for all service firms. Four Seasons Hotels, for example, could probably not get much marketing or operational mileage from a guarantee. With its strong internal vision of absolute customer satisfaction, the company has developed an outstanding service-delivery system and a reputation to match. Thus it already has an implicit guarantee. To advertise the obvious would produce little gain and might actually be perceived as incongruent with the company's prestigious image.

A crucial element in Four Seasons's service strategy is instilling in all employees a mission of absolute customer satisfaction and empowering them to do whatever is necessary if customer problems do occur. For example, Four Seasons's Washington hotel was once asked by the State Department to make room for a foreign dignitary. Already booked to capacity, Four Seasons had to tell four other customers

Maximizing Marketing Impact

The odds of gaining powerful marketing impact from a service guarantee are in your favor when one or more of the following conditions exist:

The price of the service is high. A bad shoe shine? No big deal. A botched $1,000 car repair is a different story; a guarantee is more effective here.

The customer's ego is on the line. Who wants to be seen after getting a bad haircut?

The customer's expertise with the service is low. When in doubt about a service, a customer will choose one that's covered by a guarantee over those that are not.

The negative consequences of service failure are high. As consumers' expected aggravation, expense, and time lost due to service failure increase, a guarantee gains power. Your computer went down? A computer-repair service with guaranteed response and repair times would be the most logical company to call.

The industry has a bad image for service quality – like pest-control services, security guards, or home repair. A guard company that guarantees to have its posts filled by qualified people would automatically rank high on a list of prospective vendors.

The company depends on frequent customer repurchases. Can it exist on a never-ending stream of new triers (like small service businesses in large markets), or does it have to deal with a finite market? If the market is finite, how close is market saturation? The smaller the size of the potential market of new triers, the more attention management should pay to increasing the loyalty and repurchase rate of existing customers – objectives that a good service guarantee will serve.

The company's business is affected deeply by word of mouth (both positive and negative). Consultants, stockbrokers, restaurants, and resorts are all good examples of services where there are strong incentives to minimize the extent of customer dissatisfaction – and hence, negative word of mouth.

with reservations that they could not be accommodated. However, the hotel immediately found rooms for them at another first-class hotel, while assuring them they would remain registered at the Four Seasons (so that any messages they received would be taken and sent to the other hotel). When rooms became available, the customers were driven back to the Four Seasons by limousine. Four Seasons also paid for their rooms at the other hotel. It was the equivalent of a full money-back guarantee, and more.

Does this mean that every company that performs at the level of a Four Seasons need not offer a service guarantee? Could Federal Express, for example, drop its "absolutely, positively" assurance with little or no effect? Probably not. Its guarantee is such a part of its image that dropping the guarantee would hurt it.

In general, organizations that meet the following tests probably have little to gain by offering a service guarantee: the company is perceived by the market to be the quality leader in its industry; every employee is inculcated with the "absolute customer satisfaction" philosophy; employees are empowered to take whatever corrective action is necessary to handle complaints; errors are few; and a stated guarantee would be at odds with the company's image.

It is probably unnecessary to point out that few service companies meet these tests.

External Variables. Service guarantees may also be impractical where customer satisfaction is influenced strongly by external forces the service provider can't control. While everybody thinks their businesses are in this fix, most are wrong.

How many variables are truly beyond management's control? Not the work force. Not equipment

> An airline can't guarantee on-time flights – but it *can* promise courtesy.

problems. Not vendor quality. And even businesses subject to "acts of God" (like weather) can control a great deal of their service quality.

BBBK is an example of how one company turned the situation around by analyzing the elements of the service-delivery process. By asking, "What obstacles stand in the way of our guaranteeing pest elimination?" Al Burger discovered that clients' poor cleaning and storage practices were one such obstacle. So the company requires customers to maintain sanitary practices and in some cases even make physical changes to their property (like putting in walls). By changing the process, the company could guarantee the outcome.

There may well be uncontrollable factors that create problems. As I noted earlier, such things as flight controllers, airport capacity, and weather limit the extent to which even the finest airline can consistently deliver on-time service. But how employees respond to such externally imposed problems strongly influences customer satisfaction, as British Airways executives learned from their market survey. When things go wrong, will employees go the extra yard to handle the problem? Why couldn't an airline that has refined its problem-handling skills to a science ensure absolute customer satisfaction–uncontrollable variables be damned? How many customers would invoke a guarantee if they understood that the reasons for a problem were completely out of the airline's control–if they were treated with warmth, compassion, and a sense of humor, and if the airline's staff communicated with them honestly?

Cheating. Fear of customer cheating is another big hurdle for most service managers considering offering guarantees. When asked why Lufthansa's guarantee required customers to present written proof of purchase, a manager at the airline's U.S. headquarters told me, "If we didn't ask for written proof, our customers would cheat us blind."

A guarantee can generate breakthrough service and change an industry.

But experience teaches a different lesson. Sure, there will be cheats–the handful of customers who take advantage of a guarantee to get something for nothing. What they cost the company amounts to very little compared to the benefits derived from a strong guarantee. Says Michael Leven, a hotel industry executive, "Too often management spends its time worrying about the 1% of people who might cheat the company instead of the 99% who don't."

Phil Bressler of Domino's argues that customers cheat only when *they* feel cheated: "If we charge $8 for a pizza, our customers expect $8 worth of product and service. If we started giving them $7.50 worth of product and service, then they'd start looking for ways to get back that extra 50 cents. Companies create the incentive to cheat, in almost all cases, by cutting costs and not providing value."

Where the potential for false claims is high, a no-questions-asked guarantee may appear to be foolhardy. When Domino's first offered its "delivery within 30 minutes or the pizza is free" guarantee, some college students telephoned orders from hard-to-find locations. The result was free pizza for the students and lost revenue for Domino's. In this environment, the guarantee was problematic because some students perceived it as a game against Domino's. But Bressler takes the view that the revenue thus lost was an investment in the future. "They'll be Domino's customers for life, those kids," he says.

High Costs. Managers are likely to worry about the costs of a service-guarantee program, but for the wrong reasons. Quality "guru" Philip Crosby coined the phrase "quality is free" (in his 1979 book, *Quality Is Free*) to indicate *not* that quality-improvement efforts cost nothing but that the benefits of quality improvement–fewer errors, higher productivity, more repeat business–outweigh the costs over the long term.

Clearly, a company whose operations are slipshod (or out of control) should not consider offering an unconditional guarantee; the outcome would be either bankruptcy from staggering payouts or an employee revolt stemming from demands to meet standards that are beyond the organization's capability. If your company is like most, however, it's not in that shape; you will probably only need to buttress operations somewhat. To be sure, an investment of financial and human resources to shore up weak points in the delivery system will likely cause a quick, sharp rise in expenditures.

How sharp an increase depends on several factors: your company's weaknesses (how far does it have to go to become good?), the nature of the industry, and the strength of your competition, for example. A small restaurant might simply spend more on employee recruiting and training, and perhaps on sponsoring quality circles; a large utility company might need to restructure its entire organization to overcome years of bad habits if it is to deliver on a guarantee.

Even though a guarantee carries costs, bear in mind that, as Crosby asserts, a badly performed service also incurs costs–failure costs, which come in many forms, including lost business from disgruntled consumers. In a guarantee program, you shift from spending to mop up failures to spending on preventing failures. And many of those costs are incurred in most organizations anyway (like outlays for staff time spent in planning meetings). It's just that they're spent more productively.

Breakthrough Service

One great potential of a service guarantee is its ability to change an industry's rules of the game by changing the service-delivery process as competitors conceive it.

BBBK and Federal Express both redefined the meaning of service in their industries, performing at levels that other companies have so far been unable to match. (According to the owner of a competing pest-control company, BBBK "is number one. There is no number two.") By offering breakthrough service, these companies altered the basis of competition in their businesses and put their competitors at a severe disadvantage.

What are the possibilities for replicating their success in other service businesses? Skeptics might claim that BBBK's and Federal Express's success is not widely applicable because they target price-insensitive customers willing to pay for superior service – in short, that these companies are pursuing differentiation strategies.

It is true that BBBK's complex preparation, cleaning, and checkup procedures are much more time consuming than those of typical pest-control operators, that the company spends more on pesticides than competitors do, and that its employees are well compensated. And many restaurants and hotels are willing to pay BBBK's higher prices because to them it's ultimately cheaper: the cost of "errors" (guests' spotting roaches or ants) is higher than the cost of error prevention.

But, because of the "quality is free" dictum, breakthrough service does not mean you must become the high-cost producer. Manpower's procedures are not radically more expensive than its competitors'; they're simply better. The company's skills-testing methods and customer-needs diagnoses surely cost less in the long run than a sloppy system. A company that inadequately screens and trains temporary-worker recruits, establishes no detailed customer specifications, and fails to check worker performance loses customers.

Manpower spends heavily on ways to reduce errors further, seeing this spending as an investment that will (a) protect its market position; (b) reduce time-consuming service errors; and (c) reinforce the company's values to employees. Here is the "absolute customer satisfaction" philosophy at work, and whatever cost increase Manpower incurs it makes up in sales volume.

Organizations that figure out how to offer – and deliver – guaranteed, breakthrough service will have tapped into a powerful source of competitive advantage. Doing so is no mean feat, of course, which is precisely why the opportunity to build a competitive advantage exists. Though the task is difficult, it is clearly not impossible, and the service guarantee can play a fundamental role in the process.

Author's note: I thank Dan Maher for assistance in researching and writing this article.

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"Actually, I don't want to make a deposit or a withdrawal I just wanted to make sure everything was, you know, fine."