



Stanford eCorner

Value of Customer Service

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As a seasoned Silicon Valley CEO, Greg states that one of the most important aspects of business is customer service. While this is often the most neglected, and the first to be cut when money is sparse, Greg suggests that saving money on providing great customer service is not a smart move.



Transcript

So my mother had a conversation with me when I went off to college. And it was one of those moments where I knew I was going to get the wisdom that probably had been passed through generation after generation after generation of people. Even though I was the first person from my family to ever go to college, I somehow assume that this conversation had taken place for generations. But it had not, apparently, because my mother told me one thing. She said, "Whatever you do, don't try to save money on toilet paper and peanut butter." That was it. That was the advice. Well, the only thing I can actually add to that, after 30 years of experience in business, is customer service. So, don't try to save money on any of those three things because it's going to cost you in a long run. Couple of examples, I was in a company called MyFamily.com. MyFamily.com was, and still is, the leader in the genealogy business.

Subscription-based business, allows you to subscribe for a \$100 a year to do research on your genealogy. It turns out it's a huge business. It's the second largest hobby in the United States and people are going to pay a lot of money to be able to trace their roots. But when I was there, one of the things that I noticed was that every year when our subscriptions would come up, we actually pick up the phone in customer service and we would call the customer and say, "Hey, your subscription is about to run out. Would you like to renew?" And I was astonished. I went to our head of customer service and said "Why are you doing that? Every other subscription business in the world just lets it automatically renew and then we try our damn best to try and keep them from knowing that it's coming up for renewal. We try to hide it." And they said, "No, no, no. We think it's a good business practice because the more you inform the consumer, the better they are, the happier they are. Maybe we can't solve some problems. Maybe they didn't have a good experience.

We can make it a better experience." I thought that was a hopelessly naive view of the world. And so I said to them, "Okay. I'll tell you what? We are going to do a study. One-half of our group will not get that phone call. The other half of the group will get that phone call and we'll see at the end of the day who gets the highest renewals." I was a slam dunk. I would have bet my honor and sacred portion on it. Well, it turns out after a month of study, they came back and the renewal rates on the people who got the phone calls were 50% higher than those who got no phone call at all. Proving, if you treat the consumer like a customer as opposed to as a captive, you're more likely to get more business from them. And today, you see over and over again, businesses, they commit the same mistake over and over again. Jumba, in our business, is a subscription based service who's gotten through a lot of trouble by actually tricking consumers, allegedly, into subscribing and then trying to hide for as long as they can whether or not they're subscribed.

The fact of the matter is their business had some severe problems and now has gone through a lot of transition. I think they're doing much better job now. But the fact of the matter is any business that treats consumers as captives will someday suffer the consequences. Another example comes from my days at Sonic Blue. When I took over the company, the first conversation I had with the CFO was that the company was about to go bankrupt. Which I think promptly thanked him for telling me that after I accepted the job. I said, "Gosh, is there anything we can do?" and he said, "Well, we could cut cost dramatically and after cutting cost, maybe there's a chance we can save the business." I said, "That's a great idea. Let's do that." So we ended up laying off probably 25% of our workforce including half of my executive staff. We did it very quickly, we did it very well. But we are searching for other places to save money.

One of those places, as you can imagine, was customer service. We were running ReplayTV, Rio music players and a DVD business that was then the pride, the number 7 DVD business in the world's DVD players. So we had a lot of phone calls coming in from customers. So we sat down with the customer service first and said, "OK, what can we do to reduce cost?" How about offshore? Everybody's moving offshore. Let's move offshore." "Great idea, let's move offshore. Give me a plan, in two weeks, how are we going to go offshore." Came up with the plan, agreed with the plan, set things offshore. We worked really hard. We executed really well. We turned on the service. The flood of phone calls came in to India where we had set this service up and we had grossly miscalculated the number of people that we needed versus the number of phone calls.

The result was that the Indian workers who we had hired realized within two or three days that their tasks was hopeless, they became totally stressed out just like Americans and they left. Who knew? I just had never seen anything like this before and all of a sudden, we had 45 people in our India office walked off the job. The phone calls when your customer service people walked off the job, then start coming to the CEO. And you talk about stressed out, you should have seen my assistant at the time, was beside herself, because there were people who are calling to threaten her. There were people calling to threaten me, which she thought was a much better idea. And it was just one of the worst moments of my business career proving that the adage that you can't cut cost in customer service. Later in the week in which this happened, I was relating the story to my wife and I was telling her how we have done this. I added the one part, I haven't added in the story, which was that we implemented this program on November 20th, right before the busy holiday season. And she said to me, "So, let me get this straight. You changed your customer service which was working just fine in Oregon.

You turned it over a bunch of people hadn't been trained very well. There weren't enough of them and you did it right before Christmas." She said, "So, who is the idiot who made that decision?" That was me. But I learned my lesson and I now have expensive peanut butter, toilet paper and customer service.