

# **The Role of Customer Service in Small Business Strategic Planning**

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## **Abstract**

With the changing environment of retail sales, where giant discount chain stores are gobbling up market share, the chance of survival for the small business may hinge on its ability to provide outstanding customer service. However, the decision to provide outstanding service is a strategic management choice and should be interwoven into all facets of the business operation.

A model is introduced that depicts a customer's expectations of the retailer's customer service system. Expectations of the service encounter are depicted within a floating range. A small business must first attempt to provide the basic customer service needs prior to implementing a complex scheme. However, the service components designed to exceed customer expectations will be those more likely to result in loyal customers.

## **A Story of Bad Customer Service**

A customer is in the process of remodeling his home and is in need of supplies to finish staining his hardwood floors. He is a novice home-repairman and goes to his local hardware store in hopes of getting the needed supplies and some instruction on how to use them. He enters the store and notices a young girl sitting at the cash register. She is wearing blue jeans and a sweatshirt. She is reading a book and never looks up to acknowledge the customer.

The customer wanders around the store for about five minutes looking down the unmarked aisles but cannot locate any floor stain products. He then notices several men seated around a desk. The men are dressed in blue jeans and assorted work shirts. They are telling stories about a recent deer hunt. The customer approaches this group of men and is unsure if they even work for the hardware store. The customer stands at the desk for several minutes while the stories continue. Finally, and with an air of annoyance at having their story interrupted, one of the men looks up and asks if he can help with something. The customer tells him what he is looking for and the store clerk says, "Yeah, they're over there" and points with his hand toward a back corner. The story of the deer hunt resumes.

The customer goes to the back corner of the business and looks around until he finally finds the floor stain products. There are three different brands, several varieties of

colors, and each product seems to have various qualities that set it apart from the competing brands. After reading the labels to gain as much information as possible, the customer returns to the desk to obtain some assistance. Again the deer story must be interrupted and again the employees seem annoyed at being troubled by a customer. The customer states that he found the products, states the type of project he is working on, and asks which of the brands would best be suited for his particular task. The clerk replies, "Aw, they're pretty much all the same."

Now in frustration, the customer returns back to the stain products and selects one. He then searches throughout the store looking for a paint brush to apply the stain. Finally, the customer has the materials he needs. The customer had planned to look at some other materials that would be needed for future jobs but is now so frustrated that he simply wishes to leave the premises.

When the customer approaches the cashier, she looks up at him, puts her book down, and takes the products from him without so much as saying a single word. She then puts the items in the bag and tells the customer the amount of the total purchase. After the products are paid for, the cashier places the receipt in the bag, hands the sack to the customer, and as she is reaching down for her book says very unconvincingly, "thank you."

The aftermath of this situation of poor customer service is rather astounding in terms of a lost customer, bad word of mouth, and, most important, lost sales revenue. The customer in this case purchased less than \$10 worth of supplies for the floor staining project. However, other projects soon totaled well over \$2,000. All of these subsequent supplies were purchased at another hardware store because the customer vowed to never go back to the original store. Additionally, he warned his friends about going to the business by sharing his story with them. He then recommended the second hardware store and lauded the friendly customer service he had received at this business.

Scenes such as this one occur daily in countless small retailers throughout the nation. Small retailers are continually searching for a way to compete against the retail giants. Outstanding customer service is one way in which they can compete. It is important to note, however, that not all small retailers should strive to deliver excellent customer service. The decision to provide such service should be a methodical one that is based on industry analysis and hard facts. The purpose of this paper is to examine the roles of strategic management and customer satisfaction in the small retail firm. The integration of these two very important business concepts can be the key to the survival of many small businesses.

## **What Small Retailers Do Wrong: Attacking the Strength**

When a giant retailer such as Wal-Mart or Target enters a local market, many of the existing retailers experience a loss of market share and sales due to the cost competitiveness

of the giant retailer. Sensing that its customers are price sensitive, the local retailer then tries to compete as a low cost provider. Not only is this a poor strategy to engage in, it could ultimately become a fatal mistake.

A study was conducted to see how retailers in five Midwestern communities adjusted their strategies when a Wal-Mart opened within 20 miles of their location (McGee 1996). This study determined that the stores in competition with Wal-Mart were small in both earning power and number of employees. More than 95 percent of the stores had fewer than 15 full-time employees and 65 percent of the respondents had sales of less than \$500,000.

Surprisingly, half of the respondents felt that Wal-Mart had a neutral impact on their business. However, half of the respondents had experienced a decline in sales during the time that Wal-Mart began competing with their business. It may be possible to infer from this data that small business owners do not engage in enough financial and industry analysis. If the businesses were to engage in this analysis, they would realize that Wal-Mart is impacting their business and taking sales away from them.

The study then broke up the participants according to their perception of impact from Wal-Mart. It was determined that those businesses who felt that Wal-Mart was indeed impacting them negatively were much more aggressive in altering their business strategy. For those businesses who aggressively changed their tactics, the choice was one of competing with lower prices and increased promotional activities. The strategy categories with the highest scores were "holding sales," "sales promotions," and "carrying lower priced items." This action was done in an attempt to offset the variety of merchandise and low prices that Wal-Mart offered.

This research indicates that many small retailers are out of sync with the commonly held beliefs that a small business should define its market, create a competitive niche, alter its product mix, and diversify into new areas of business in order to compete with a retail chain store. Retailers may also overlook the importance of customer service in attracting and maintaining a profitable customer base. The use of the service component as a differentiating factor can enable the small retailer to successfully compete against larger chains. In the following sections, an overview of the role of strategic management in the small retail establishment will be presented. Then several important components of customer service as a differentiating strategy will be discussed.

## **Strategic Management**

Strategic management is generally defined as management's efforts to determine the organization's mission, goals, and objectives within the context of the influences of the external and internal environments. Strategic management then focuses on strategy formulation, implementation, and control (Wright, Kroll and Parnell 1996). The essence of

strategic management is the obtaining of a better understanding of the environment in which a company does business. Some aspects of this environment are almost completely out of the control of management yet they may still impact the firm in a positive or negative manner. Other areas of the environment may be strongly influenced by the efforts of management and these areas should be manipulated in a fashion that puts the business in the most attractive position. It is important to remember that strategic management is a complex iterative process in which no element can be viewed in isolation because the various elements are intertwined.

A very important aspect of strategic management is the concept of Business Unit Level Strategy (Porter 1980). Porter developed a continuum with two business unit strategies at each end. He stated that a company could be a Low Cost - Industry Wide producer or a Differentiated - Industry Wide producer. Additionally, he stated that these two extremes existed for Niche producers as well. Small retailers, by their very nature, are niche competitors. They simply lack the capital, organizational strength, personnel, and economies of scale to be an industry wide competitor.

## **Why Small Retailers Need Strategic Management**

Utilizing strategic management can aid a small business owner in two very important ways: formalizing the planning process and providing better information from which to make decisions. Fredrickson (1984) stated that it is possible to have a highly formal planning system that is not associated with comprehensiveness in the decision process. However, Lyles et al. (1993) countered this by stating "the relationship between the formal planning system and the firm's decision process is particularly important to small businesses, where there may be little separation between the strategic thinking /decision making of the entrepreneur and the formal planning system" (p. 40). In a survey of the Inc. 500 CEO's, 72 percent believed that planning led to a better decision making process and, ultimately, better decisions.

Lyles et al. proposed three hypotheses regarding the use of strategic management in small businesses and then conducted a study of 188 firms in the U.S. The results showed that as small business owners utilized a more formal planning process, an increase was noted in the thoroughness of their decision process, the amount and type of strategic options, and the growth rate of sales. Those companies who engaged in formal planning possessed a growth rate in sales of 1.77 while those firms who did not engage in planning showed a growth rate in sales of 0.75. Clearly this shows the advantages of formalized planning.

As stated earlier, the goal of engaging in a strategic management process is to force management into a formalized planning routine and to provide higher quality information with which to make decisions. The process of planning, not just the plan, is important. The formal planning process emphasizes improving the quality of the strategic decision making

process. Lyles et al. further add "the elements of goal formulation, developing distinctive competencies, determining authority relationships, deploying resources, and monitoring implementation receive more effective attention when small businesses engage in formal planning" (p. 42).

## **Customer Service**

Customer service is one of the key elements that a small retailer has to offer its customers. In the changing world of retail sales, where giant retail stores and franchises are becoming the norm, small business owners are finding it more difficult to make sales, maintain market share, and, ultimately, stay in business.

This does not mean that small businesses are destined for extinction. On the contrary, small businesses can be flexible and creative to offset the changes that a giant retailer may bring to their market. One area, in particular, in which a small retailer should be able to excel is the area of customer service.

Customer satisfaction or customer service, as defined by Kotler (1994), is "the level of a person's felt state resulting from comparing a product's perceived performance (or outcome) in relation to the person's expectations" (p. 40). Basically this means that a customer's perception, which may or may not be what actually occurred, of the entire shopping experience is compared to the customer's idea of what should have occurred. If the actual experience is less than the expected experience then the customer leaves with a sense of having received poor customer service.

The customer's expectations for customer service are formed from past buying experiences, statements made by friends and associates, and the information and promises made by the company and the competition. The challenge is to create an atmosphere in the organization such that every employee aims to delight the customer by exceeding the expectations of the service encounter (Kotler 1994).

## **Making the Commitment to Quality - A Strategic Decision**

The difficult problem with customer service is that it is a constantly changing situation. In manufacturing, a standard of quality can be established for the measurement of a fitting or a part and this standard will remain constant. However, the standard for customer service is in a constant state of flux.

A small retailer should begin by engaging in strategic planning. By employing the activities shown in a strategic management model, the owner can scan the macro-environment and industry environment in search of opportunities and threats. Then the business owner should examine his own organization to determine strengths and

weaknesses. Once this is done, the owner should determine in which direction he wants to take his business. Most small retailers, by their very nature, are niche players. Because of this, most small businesses will fall into the differentiated business unit strategy. It is simply the only way that a small business can compete with a retail giant such as Wal-Mart. It is a poor strategy, probably a fatal one, to try to compete with a retail giant on price alone.

Once the small business owner has decided to compete with a Niche - Differentiated Business Unit Strategy, the owner must formulate a strategy to accomplish this goal. Probably the key ingredient to any differentiation strategy is customer service. The business owner must make a commitment to provide outstanding customer service and utilize all resources within the company to meet this objective.

The next thing that management must do is formulate in their minds what outstanding customer service is. They must create a customer service vision of how the ideal customer shopping experience would be executed. This vision must be compared to the existing customer service system to reveal weaknesses and any organizational constraints.

The commitment to customer service must permeate all areas of the organization. It must not simply receive lip service and be an empty slogan. It must begin with top management's actions more than their words. It must be seen in the interview and hiring process. It must be in the training and job description for each employee. It must be seen in the commitment that management makes in other areas such as the type of equipment that is purchased and the mix of full-time and part-time employees. Most important, it must be seen in performance appraisals and it must be rewarded when it is done well.

## **The Basics and Beyond**

When a person begins the process of remodeling a house, it is important to set priorities and take the project in sequential order. There are certain tasks that must be performed first that lay the groundwork for subsequent improvements. A first-time remodeler may want to begin by painting the house or adding landscaping in order to improve the aesthetic appeal of the home. However, the most important repairs that must be made are usually structural. A fresh coat of paint will do no good if the foundation is cracking or the roof is leaking. Only when the house is given a firm foundation to stand on and a sound roof to protect it does it make sense to invest in other repairs. Otherwise, the weaknesses left uncorrected will eat away and ultimately destroy any improvements made elsewhere.

Customer service follows the same guidelines in a retailing environment. Before a company invests in developing a complex customer service system, they need to insure they are capable of performing the basics of customer service. The basics are those items that most consumers feel are expected from the retailers with whom they do business. An

elaborate scheme implemented without first mastering the basics is destined for failure. Like the house mentioned above, the customer service program needs a firm foundation upon which to stand.

Figure 1 illustrates the concept of customer dissatisfaction and satisfaction by integrating them with Herzberg's dual structure theory of motivation. In the model, Herzberg's hygiene factors can be equated with the basics of customer service. Herzberg suggested that employees use certain factors to judge whether they are dissatisfied. If these factors are considered inadequate by the employee, they could lead to dissatisfaction with the job. However, when these factors are considered adequate, they do not necessarily result in satisfaction. This state is better described as no dissatisfaction. On the other hand, motivation factors, when present in a job, can result in satisfaction with that job. If they are not present, they do not necessarily result in dissatisfaction, but a state called no satisfaction (Moorhead and Griffin 1995).

This model helps to explain customer motivation. The hygiene factors can be referred to as "the basics." If these practices are not present in a small retailer's customer service program, customers may very well be dissatisfied and defect to another retailer (Level 1). The example at the beginning of the paper illustrates several deficiencies in the basics. However, the presence of these is not enough to satisfy the customer or to create a loyal customer (Level 2). Some suggested basic practices to be included in a customer service program are described in Table 1.

Between Levels 2 and 3 in the model is an area of neither satisfaction nor dissatisfaction. At this point, a customer is very vulnerable to competitors who might be operating in Level 3 or 4. When a customer is simply getting exactly what he expects (in other words, only the basics are being covered), there is little motivation to remain loyal to a retailer when a competing firm is performing beyond his expectations. Unlike the employees studied by Herzberg, customers can be very transient and have little to lose by patronizing another retail establishment. Therefore, it is extremely important for a small retailer who is positioning itself as a high service provider to not only perform the basics, but also to perform beyond (Levels 3 and 4). The more service components provided and the more unique and memorable the service components are, the more likely the retailer is to retain customers. Level 3 is an area of relatively low satisfaction, while Level 4 is the area of delightment. Only those customers in Level 4 possess a strong sense of loyalty to the retailer.

Beyonds, or motivators, may vary by type of retailer. However, in general, service that is beyond the customers' expectations and pleasantly surprises them can be motivators for the customer to remain loyal to a retailer. Service heroism refers to employees going out of their way to make the customers' life easier. Employees are given the freedom to solve customers'

**Table 1**  
**Basics of Customer Service for Small Retailers**

1. **Easy to locate.** Large print in phone book. Ad in yellow pages with a map. Employees trained to give precise directions over the phone or offer to fax a map. An external sign that clearly indicates where the business is located.
2. **Posted hours of operation.**
3. **Acknowledge the customer when they enter the business.**
4. **Don't let the customer leave the store until you have exhausted every opportunity available.** "No" is not a solution.
5. **Thank the customer for their business.**
6. **Make sure employees are identifiable via a shirt, cap, apron, or name-tag.**
7. **Make the customer's time in your store as enjoyable as possible.**
8. **Follow up after the sale to make sure the customer is satisfied.**
9. **Develop a relationship and keep a customer profile.** Learn their needs, likes, and remember special dates such as birthdays and anniversaries.
10. **Smile!**
11. **Don't talk about a customer after they leave, especially if other customers are in the store.** Don't gossip!
12. **Customer service should be a part of the company culture.**  
Customer service should play a major role in the interview process and the new employee's training process.

problem, even if it means suggesting the customer visit a competitor (Leland and Bailey 1995). Frequency marketing is another very common practice that helps to cultivate customer loyalty. In this type of program, customers are rewarded with free or discounted products or services when a certain threshold of purchases is reached (buy five lunches, get one free). Another beyond would be to provide a personal touch by getting to know the customer by name and understanding their needs. The most effective way of accomplishing this would be to maintain customer profiles through a database. Another suggested beyond is the designing of a service recovery system, the purpose of which is to retain customers when they have problems. This system might include such things as customer tokens (airline vouchers when a flight is canceled) or easy return policies. This is not a comprehensive list of beyonds. Motivators which can enhance customer loyalty are limited only by the level of creativity and innovativeness of the retailer.

## **Understanding Customer Expectations**

The norm is the minimum acceptable level of service for an individual customer. This will represent a floating range of expectations that may vary by individual and may

even vary for a single customer during different service encounters with the same retailer. It may also vary by geographic region, type of retailer (for example, convenience store vs. hotel), and competitive intensity in the industry. The floating level of expectations is determined by the customer and can move to any level above the floor of the model. This floor represents the minimum expectations that all customers have for any type of retailer and may include aspects as basic as set business hours and adequate lighting. This level is hypothetical since any business operating below this standard would not remain in business. Figure 2 demonstrates the floating of the model to the minimum expectation level.

As the expectation level moves up, it pulls up with it the four levels representing degrees of customer service so that the entire model floats around this level. Therefore, as the customer begins to expect more, the retailer must provide more basics to prevent dissatisfaction and a higher level of service to provide satisfaction. As the retailer provides more service in an attempt to satisfy the customer, the customer may raise his level of expectations in response. Customers rarely communicate their changing expectations of service performance with retailers, so it is the responsibility of the retailer to identify customer expectation levels.

An example of the effect of different expectation levels on service strategy would be to compare convenience stores with car dealerships. A customer entering a convenience store may have very low expectations of the service he hopes to receive in the store. In this case, the model would float very close to the floor. If the customer went in to purchase a newspaper and found that the store had expanded its limited offering of newspapers/magazines, the customer may think the retailer has moved up into Level 3. They may leave the store thinking “that’s nice.” If the customer purchases his newspaper everyday at the same convenience store and is waited on by the same clerk, the retailer may move into Level 4 if the clerk were to call the customer by name. The customer may think “Wow!” However, the same customer doing business with a service department at a car dealership may actually expect to be known by name. His higher expectations, due to the high-involvement nature of the product, moves the model upward. If the customer had been promised his car on Wednesday but the car was finished Tuesday, the customer would think “that’s nice.” But, if the car is ready a day early and the dealership has washed and vacuumed it for him, then the customer may be delighted (Level 4). At that point, he is likely to become a loyal customer of that dealership.

It is important to note that there may be no wasted utility in attempting to exceed customer expectations. Theoretically, the customer may “bank” good encounters with a retailer so that even if basics are not met on some encounters, the retailer may have sufficient deposits in the customer service account to offset some negative encounters. As long as a retailer maintains a positive net service balance in the customer’s mind, then a customer will most likely continue to patronize the retailer. If the balance becomes negative, that customer will most likely begin to evaluate whether competing retailers can better serve their needs. The monitoring of the level of service expectations of a small retailer’s customer group is essential in designing the customer service program. Customer

surveys and mystery shopper programs are two ways this can be accomplished. An understanding of the role of expectations in the service system can aid the retailer in designing their Niche-Differentiation strategy much more effectively.

## **Conclusion**

If a small businesses wishes to compete against a retail giant such as Wal-Mart, they will need to utilize the Niche-Differentiation business unit strategy. One of the key ingredients in a Niche-Differentiation business unit strategy is customer service.

Customer service must be viewed from the customer's perspective and not from the perception of the company. In the end, the customer is the final judge of quality. To determine what the customer perceives as quality and what they expect from the company, a learning relationship must be established. The needs of the customer will probably change over time and may even change with every visit to the business. It is imperative that the small retailer be attuned to these changing needs and be able to meet them.

Once a commitment to provide outstanding service is made, the focus on customer service should begin with the owner or president of the company and spread down through the organization. Customer service should become part of the company culture and be reflected in all areas of the business process. Internal customers should be treated with the same courtesy and respect as external customers because the internal operations ultimately flow out to the end consumer. Additionally, the emphasis on customer service should be reflected in the hiring, training, and promoting activities of the company.

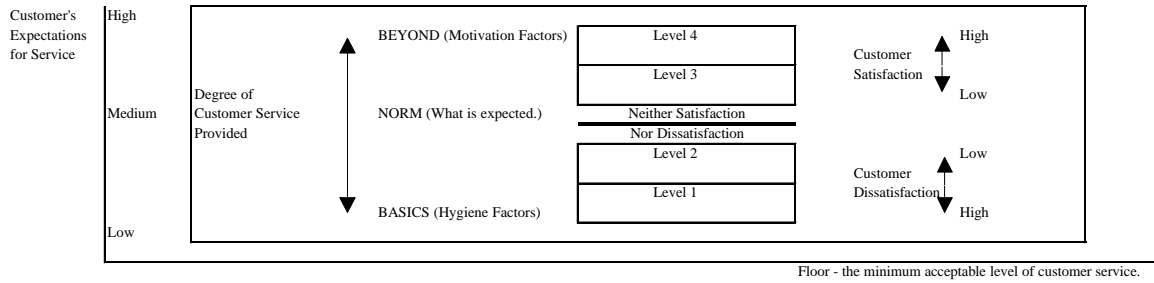
Customer service is difficult to define, difficult to measure, and difficult to evaluate. However, it is imperative that the company use a mixture of methods to perform this task. No one method can be identified as ideal. Management, the employees, and the customers must realize that customer service will always be in a constant state of flux and therefore the aforementioned parties must work together to achieve a sustainable level.

In the book Raving Fans (Blanchard and Bowles 1993), the authors tell how a company can change a one-time shopper into a raving fan who is loyal to the business and who functions as a marketer for the company by singing its praises to others. To accomplish this the business must employ three strategies. First, they must decide what they want to be. This involves identifying their target customer and formulating the type of service they wish to provide. Next, they must discover what the customer wants. This information is then compared to the company's idea and adjustments are made accordingly. Finally, the company must deliver the vision plus one percent. By taking a small incremental approach, they will ensure that their goals are attainable and that the company is involved in a program of continuous improvement.

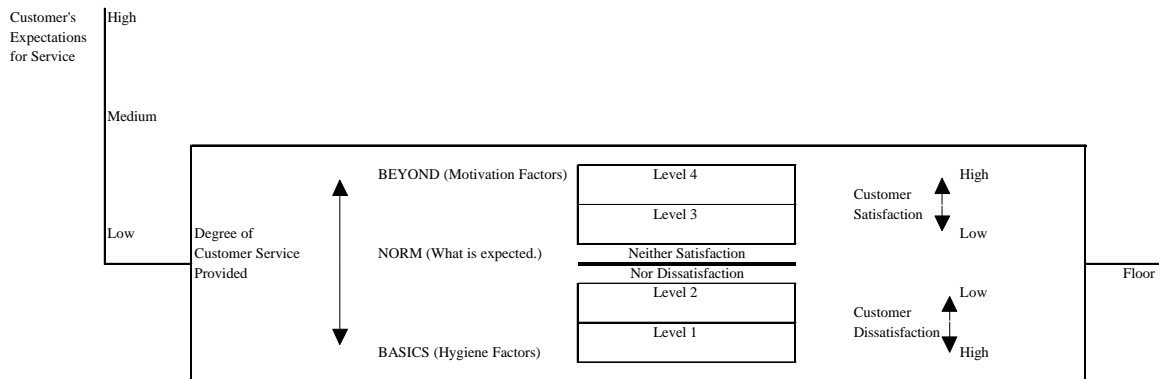
Small retailers must determine the service expectations of their customers. They must also understand that customers expect certain basics to be provided in the service system. If these expectations are not met, dissatisfaction and defection may occur. It is also imperative for the retailer to understand it is what is done beyond expectations that results in loyal customers.

Benjamin Franklin once said that the writer who tries to mimic the perfection of an engraved printing plate will always fail, but his handwriting will be the better for the endeavor (Brown and Angee 1975). So, too, is the predicament of customer service. It may be impossible for a business to provide perfect customer service to every customer on every occasion, but the company will certainly be the better for the endeavor.

**Figure 1**  
**The Basics and Beyond**  
**Customer Service Model**



**Figure 2**  
**The Basics and Beyond**  
**Customer Service Model**



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