

THE EMPOWERED CUSTOMER CUSTOMER SERVICE IN THE AGE OF SOCIAL NETWORKING

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In their book *Empowered*, Josh Bernoff and Ted Schadler, both of Forrester Research, relate the following story. Musician Dave Taylor was flying on United Airlines, and, during a stopover in Chicago, he and other passengers observed the baggage handlers “throwing guitars.” Dave’s guitar sustained \$1,200 in damage. United refused to pay for the repair. Dave, not content to be a victim, wrote a song and made a video about the event, which he then posted on YouTube. The night it was posted, 25,000 people saw the video, and the story was picked up by the LA Times and CNN. To date, over 7 million people have seen Dave’s video.

We appear to be entering the age of the “Empowered Customer.” The empowered customer may still have a single voice, but that voice now has instant access to and de facto ownership of a virtual multimedia empire.

To put things into perspective, a short decade ago TARP, a Washington-based research firm, regularly produced findings about what happened after a good or bad service experience. Although the specific numbers varied, TARP reported that after a poor experience, some customers would be likely to tell a dozen or more friends and acquaintances. Conversely, after a good service experience, some customers would be likely to tell only a fraction of that number (e.g., 4 or 5). Even these relatively modest findings present a sound argument for improving the general service experience, while underscoring the need to be especially attentive to the customer experience during problem recovery.

Flash forward several years to 2011, and TARP’s earlier findings seem benign, even quaint. Today, the customer receiving poor service can tell scores,

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OCTOBER 4 AND 5 • SEAPORT HOTEL AND WORLD TRADE CENTER ON BOSTON’S HISTORIC WATERFRONT ■

• R E M I N D E R •

April 18 is the deadline for making 2010 tax year **IRA Contributions** for residents of all states. ■

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hundreds, thousands, or – as Dave Taylor skillfully demonstrated – millions. Although customers who have a good experience have the same access, the numbers sharing it on-line will most certainly be lower.

TARP's findings, even if only fractionally carried forward, present huge implications for any business. To get a sense of the scale we are now working with, reviewing some of the data on social networking provides some startling results. As of July 2010, Facebook claimed a staggering 500 million users. LinkedIn, the professionals' network, has over 60 million users, more than half of whom are international. Twitter has 105 million registered users and a reported 50 million tweets per day. In addition to the raw membership numbers, utilization of networking sites is also growing. The Nielson organization reports that the world spends over 110 billion minutes on social networks and blogs – 22% of all on-line time. Growth of on-line time in general and in social networks and blogs isn't just increasing, it's accelerating. Nielson findings show the year-over-year increase from 2009 to 2010 almost doubling, from 3 plus hours in 2009 to almost 6 hours in 2010.

The empowered customer is not only able to complain or compliment on a mass scale, but also has control over how goods and services are accessed. Historically, the service or goods provider could dictate most of the "touch points" of the customer experience. Not any more. Customers can now access information about products and services when and how they want. Just as important, the empowered customer is no longer forced to hear or read only what the service or goods provider says and publishes about itself. Customers can now hear what other happy and unhappy customers have to say.

Hearing critical information about goods or services is not new. We've always had the Ralph Naders, Michael Moores, and Nelly Blys – people who have exposed social, political, or consumer ills. However, the World

Wide Web has "democratized" our individual and collective ability both to find out about goods and services and to express our opinions.

It can easily be argued that all customers benefit from the empowered customer. After all, shouldn't customers have complete access to information about goods and services and an unlimited forum for expressing their opinions? Perhaps – but there are at least two problems of which customers and, in particular, providers should be aware.

The first is a problem with accuracy. Some of the information that is put on the Web via blogs or reviews, etc., is biased, incomplete, or factually incorrect. This is why most university professors won't allow Wikipedia as a primary research source or citation. Essentially, if anyone can easily put anything in a blog or a Twitter account, then they will. As blog publisher Nick Denton put it, "I think it's implicit in the way that a Web site is produced that our standards of accuracy are lower. Besides, immediacy is more important than accuracy, and humor is more important than accuracy."

A second, less-understood problem is the emerging phenomenon of extreme or even "hyper" emotionalism, a by-product of the hyperreality that the Web engenders. On almost all product or service Web sites, and certainly within the general blogosphere, people can post their unfiltered product or service reviews, their opinions – informed or uninformed – or they can simply go on a rant. And the anonymity with which this can be done seems to be, at least in part, an enabler for hyperemotionalism. As David Pogue noted in a recent issue of *Scientific American*, "When you're online, you're anonymous, so you don't experience the same impulse control you would if you were face to face." In addition to anonymity, the ability to instantly post a reaction on the Web removes the buffer of time. As one researcher put it, social network outlets and blogs allow someone to act "in the heat of the moment."

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Implications for Investment Company Service Providers

What's a company to do? First of all, the empowered customer can't be ignored. United Airlines essentially ignored Dave Taylor and, as a result, suffered a severe reputational "hit." It is not hard to imagine that some of the 7 million people who saw Dave's video changed their flight plans or influenced others to do so. It is equally easy to infer that the loss to United in real dollars and reputational cost far exceeded the \$1,200 cost of repairing Taylor's guitar.

In the investment industry, there are three primary drivers of the customer experience:

- Investment performance
- Investment servicing across the entire lifecycle of the customer
- Media and third-party information and opinions, including the blogosphere

The social media aspects of each driver need to be affirmatively addressed. There are some basic steps that all Investment Management and Investment servicing firms can take:

1. *Get out there.* The World Wide Web and all that it enables are not going away but are growing. There are some "must dos." Have a presence beyond a Web site alone. Create a blog, get on Facebook. Participate in the dialogue. Nate Elliot of Forrester Research found that while 79% of financial firms have some social media presence, only a few are using it well. He goes on to say that one self-imposed impediment to aggressive use of social media is concern about compliance--though it is interesting to note that there isn't a lot of regulation for such a new outlet.
2. *Respond quickly.* Historically, financial service firms had the time to ensure that public announcements went through an exhaustive editing process. If

investment performance went up or down, or if there was an unfavorable news article, the firm would spend days, even weeks, preparing a response. In today's world, days and weeks are equivalent to months and years. Statements such as "no comment" or "Company X was contacted and refused to comment" are often viewed as an admission of guilt.

3. *Invest in human resources.* To accomplish these two steps, financial firms need staff devoted to monitoring the Web and responding to what is being said about the firm, and they have to be equipped with the tools needed to do so, such as Google Alerts, IceRocket, and Social Mention. Each tool offers certain features and benefits, but no tool operates without a thoughtful and well-informed user.
4. *Invest in aggressive problem recovery.* Very often, it is not a service or product problem that inspires a negative emotional response, but rather how the problem is handled. If Dave Taylor had quickly resolved his claim for \$1,200, it is unlikely that 7 million people would have heard his story. Effective problem recovery should be fast and delivered in a courteous and professional manner. An empowered customer with a problem needs an empowered service provider. Because financial services are so highly regulated and complex, an empowered employee is often viewed as too risky. However, each firm has to measure the risk of a complaint going viral versus empowering employees to act quickly and responsively to problems. Financial service firms certainly cannot sidestep necessary regulation or compliance rules, but they can train and empower staff to not make a problem worse by handling it badly.

The empowered customer is here to stay – and getting stronger as we speak. Successful companies need to share that empowerment by staying in sync with their customers and the brave, new world in which they live. ■

THE QUALITY FORUM

NEWS CLIPS

408(b)(2) FEE DISCLOSURE RULES

On February 11, the Employee Benefits Security Administration (EBSA) of the Department of Labor (DOL) announced that the applicability date of the new fee disclosure rules under Section 408(b)(2) of ERISA would be extended. The new

effective date of January 1, 2012, is nearly a six months' extension from the original date of July 16, 2011. During this six months' extension, industry experts anticipate that the DOL will be issuing updated final regulations. ■

ROLLOVER PORTABILITY IN 2011

Due to regulatory changes regarding inplan Roth conversions, we are providing an update to the Rollover Portability Chart.

FROM	TO	QUALIFIED PLAN	403(b)	GOV 457	SEP IRA	TRAD. IRA	SIMPLE IRA	ROTH IRA	ROTH 401(k)	ROTH 403(b)	ROTH 457(b)	HEALTH SAVINGS ACCOUNT
QUALIFIED PLAN		Yes	Yes	Yes	Yes	Yes	No	Yes	Yes ¹	No	No	No
403(b)		Yes	Yes	Yes	Yes	Yes	No	Yes	No	Yes ²	No	No
GOVERNMENTAL 457		Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	Yes ³	No
SEP IRA		Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	No	No
TRADITIONAL IRA		Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	No	Yes ⁵
SIMPLE IRA ⁴		Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No
ROTH IRA		No	No	No	No	No	No	Yes	No	No	No	Yes ⁵
ROTH 401(k)		No	No	No	No	No	No	Yes	Yes	Yes	Yes	No
ROTH 403(b)		No	No	No	No	No	No	Yes	Yes	Yes	Yes	No
ROTH 457(b)		No	No	No	No	No	No	Yes	Yes	Yes	Yes	No
HEALTH SAVINGS ACCOUNT		No	No	No	No	No	No	No	No	No	No	Yes

1. Eligible Rollover Distributions in a non-Roth deferral account to a designated Roth account in the same 401(k) plan.
2. Eligible Rollover Distributions in a non-Roth deferral account to a designated Roth account in the same 403(b) plan.
3. Eligible Rollover Distributions in a non-Roth deferral account to a designated Roth account in the same 457(b) plan.
4. Code Sec. 408(d)(3)(G) states only after the individual has participated in the SIMPLE plan for two years.
5. Code Sec. 408(a)(9)(C)(II) limits this election to once during the lifetime of an individual. ■

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Education Savings Plan Comparison Chart

Year 2011 Rules	529 Plan	Coverdell Education Savings Account	UGMA/UTMA
Federal Income Tax	Non-deductible contributions; withdrawn earnings excluded from income to extent of qualified higher-education expenses	Same as 529 plan except earnings withdrawn for qualified K-12 expenses also excluded	Earnings and gain taxed to dependent child (under age 19, or under age 24 if full-time student); first \$950 is tax-exempt; next \$950 taxed at child's rate; excess over \$1,900 taxed at parents' rate.
Federal Estate Tax Treatment	Value removed from donor's gross estate; partial inclusion for death during a 5-year election period	Value removed from donor's gross estate	Value removed from donor's gross estate unless donor remains as custodian
Maximum Investment	Established by the program; many in excess of \$250,000 per beneficiary over lifetime of program. Individual taxpayer annual contribution limit is \$13,000 per beneficiary (\$26,000 for married couple filing joint return). Individual taxpayer accelerated gift limit is \$65,000 per beneficiary (\$130,000 for married couple filing joint return)."	\$2,000 per beneficiary per year combined from all sources	No limit
Qualified Expenses	Tuition, fees, books, supplies, equipment as required by eligible educational institution. Room and board for minimum half-time students.	Same as 529 plan plus additional categories of K-12 expenses	No restrictions
Able to Change Beneficiary	Yes, to another member of the beneficiary's family	Yes, to another member of the beneficiary's family	No; represents an irrevocable gift to the child
Time/Age Restrictions	None unless imposed by the program	Contributions before beneficiary reaches age 18; use of account by age 30	Custodianship terminates when minor reaches age established under state law (generally 18 or 21)
Income Restrictions	None	Ability to contribute phases out between \$95,000 & \$110,000 for single filers, head of household, married filing separately; phases out between \$190,000 and \$220,000 for married filing jointly.	None
Financial Aid	Counted as asset of parent or other account owner; not counted as a student asset	Counted as asset of parent or other account owner; not counted as a student asset	Counted as a student asset
Investments	Menu of investment strategies as developed by the program	Broad range of securities and certain other investments	As permitted under state laws
Use for Nonqualifying Expenses	Withdrawn earnings subject to federal tax and 10% penalty	Withdrawn earnings subject to federal tax and 10% penalty	Funds must be used for benefit of the minor

THE QUALITY FORUM

COMPLIANCE CALENDAR

March 15 - May 31, 2011

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|-----------------|---|-----------------|---|
| March 15 | Date by which ADP/ACP corrective distributions of excess contributions and earnings are due to participants. | April 1 | Required Beginning Date for individuals who turned 70½ in 2010. |
| March 15 | Date by which Employer Profit Sharing and Match Contributions are due for plans with 12/31 fiscal year-ends in order to take deductions. | April 18 | Date by which excess contributions need to be removed from IRAs in order to avoid the 6% excise tax (unless taxpayer on extension to October 17). |
| March 15 | Date by which Forms 1042S and 1042 are due to the IRS to report retirement plan distributions made to nonresident aliens and income tax withheld from distributions made to nonresident aliens. | April 18 | Date by which contributions must be made to Traditional IRAs in order to be deductible for 2010 (extension to file Form 1040 does not apply). |
| March 31 | Date by which electronic filings of 2010 1099-Rs are due to the IRS. | April 18 | Date by which 402(g) distributions of excess deferral amounts due to plan participants must be made. ■ |



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