



British Airways: Using Information Systems to Better Serve the Customer

John Leland's Complaint

John Leland called the CareLine at British Airways to complain about a disappointing end to a recent trip. "My wife and I, and several family members, were flying back from a family reunion holiday on the continent," he explained.

And we all agreed as we got on the plane to Heathrow that it would be a fitting end to buy perfume for the ladies and spirits for the men. But when it came time for duty free to open, I was told that the plane had just come back into service and someone had neglected to stock the duty free. And so there was to be no duty free.

"And that," John Leland insisted, "was embarrassing to me and was surely a disappointing end to what had been a lovely trip."

The CARESS Approach to Customer Complaints

In 1994, British Airways had implemented its Customer Analysis and Retention System (CARESS), a new paperless information system that insured rapid response to customer complaints. The process began with a customer complaint—in the form of an E-mail message, a phone call on the CareLine, or a letter. Complaint letters were immediately scanned and saved as images in the CARESS data bank.

The 12 customer relations representatives working the CareLine would key in a brief description of the complaint and their response to it—simply to have a record of the complaint, but the real value of CareLine was immediate complaint resolution. Corporate customers frequently complained via E-mail messages, and often received replies the same day. But written complaints were responded to in writing. Typically, a customer relations representative would retrieve the complaint on one screen, and review other relevant data on a second screen. For example, to respond to a letter complaint a rep might call up a customer's service history, check flight data, or even ask the computer to post common resolutions to similar complaints.

Norman Klein and Professor W. Earl Sasser prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Copyright © 1994 by the President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to <http://www.hbsp.harvard.edu>. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School.

British Airways: Competing in a Global Market

British Airways' (BA) 1993/1994 Annual Report began, "British Airways is the world's largest international passenger airline, and one of the most profitable." The airline's fleet of 253 aircraft had carried more than 30 million passengers and 600,000 tons of cargo on 291,000 flights. (See **Exhibit 1** for Group results, traffic data, employee counts, productivity data, and international destinations.) Its declared mission was "to be the best and most successful company in the airline industry," and it planned to achieve that end by delivering top-quality customer service and developing strong brands such as Concorde, First Class, Club World/Europe, World/Euro Traveller, and Super Shuttle. It had also forged partnerships with USAir, Qantas, Deutsche BA, and TAT European Airlines.

In the 1990s, every major international airline was scrambling to position itself in a global market that was expected to be increasingly free of restrictions.

On the strength of \$4.2 billion in 1992 revenues, and an operating profit of \$225 million, KLM had forged an alliance with Northwest and discussed the possibility of a single identity. Industry sources also predicted the addition of Austrian, SAS, and Swiss Air to the KLM alliance.

Meanwhile, Lufthansa, known for high costs, posted a loss of \$230 million in 1992, and sought marketing and code sharing agreements with American Airlines.¹ Earlier it had negotiated an alliance with Japan Airlines and made cooperative agreements with Air France, Finnair, and Lauda Air.

Delta, having absorbed Pan Am's European operations, posted 1992 revenues of \$11.6 billion and an operating loss of \$822.1 million. In 1994 it reached agreements with several European carriers, including Virgin Atlantic.

BA, too, was positioning itself for long-term global competition. It had earlier acquired a 49% share in the German regional, Delta Air, and renamed the airline "Deutsche BA." But its first major move came in 1992 when it offered a \$750 million investment in USAir that would have given BA significant control over the U.S. carrier. When the Bush administration moved to block the deal, BA fell back to an investment of \$300 million that included a 19.9% voting interest and a right to code share. It also held an option to invest a further \$450 million (dependent on government approval) in two phases that would result in a 43.7% equity interest.² However, in the Chairman's Statement of its 1993/1994 annual report, Sir Colin Marshall indicated that BA was unwilling to invest further in USAir "until its reconstruction plan is finalized and we are assured of the company's ongoing viability." Nevertheless, BA predicted the alliance would net £70 million in benefits (largely revenue) in the following year.

Shortly after Qantas acquired Australian Airlines, BA acquired 25% of Qantas, then moved to acquire 49.9% of the French carrier TAT European. Finally, in 1993, BA purchased the failing British airline Dan-Air, and brought two small Gatwick-based airlines under its wing. Qantas announced a \$100 million profit for the 1993 calendar year, but BA was actively trying to manage the red ink out of USAir, TAT, and Deutsche BA by cutting 20% of TAT's 1,500 employees, and "encouraging" USAir to cut labor costs and improve productivity. BA's management concerns aside, global positioning meant that 95 million alliance passengers flew to 445 destinations in over 85 countries in 1993/1994—while in 1992/1993 28 million BA passengers flew to 155 destinations in 72 countries.

¹ Code sharing allowed one airline to assign its flight numbers to connecting flights from another airline, creating the appearance of seamless scheduling continuity.

² *Air Transport World*, June 1993, p. 104.

Future prospects Although most major carriers had lost money in the previous four years, many were expected to break into the black in 1994. (See **Exhibit 2** for financial performance of U.S. major carriers.) The U.S. market was expected to grow at a rate of 3.6% a year in revenue passenger miles (RPMs) through the year 2005, while international RPMs improved at 6.3% a year, and Asian markets posted even higher numbers.

Although every international alliance believed it had to have a U.S. presence, the U.S. market promised more revenue and RPMs in 1994, but meager profits, given these factors:

1. Point-to-point carriers such as Southwest Airlines were proving increasingly popular. And to some degree, major airlines were having to compete with their lower fares.
2. Fare wars continued for the major hub carriers.
3. Labor costs represented 35% of cost of operations for the major domestic airlines. The Air Transportation Association calculated that between 1987 and 1992, labor cost per airline employee increased at a compound annual rate of 4.3%. With airline employees making twice as much as the average American, Northwest, TWA, and United moved to cut costs by offering employees equity stakes, while Delta announced plans to cut 12,000 to 15,000 jobs by 1995.
4. The need to service debt assumed in previous years.

Meanwhile, all international carriers viewed the Asian-Pacific as a promising market, and all were trying to sort out arrangements to use their various frequent flyer programs to encourage flights with alliance partners.

British Airways: A Brief History

By 1994, British Airways was known as a carrier that cared about the customer. But that had not always been true. In 1979, British European Airways and the British Overseas Airways Corporation combined to become British Airways. The two government-owned airlines brought to BA combined histories of organizational inefficiency and the belief that customer service meant taking off and landing on time. But this indifference to the customer began to change in 1983, with the appointment of Colin Marshall as chief executive. Marshall, who had climbed the corporate ladder at Hertz in the United States and later ran Avis' operations in Europe, made building a customer service culture his primary focus. BA executives credited the impact of his leadership, and employees praised the "Putting People First" training programs he set in motion as having a profound influence on how front-line people viewed the customer.

In early 1987—riding the crest of a revitalized service culture, major additions to its fleet, new uniforms designed by Roland Klein, and the increasing goodwill of customers—BA announced the sale of shares to the public, and quickly saw the offer 11 times oversubscribed.

Although BA was profitable and expanding its international network in the late 1980s and early 1990s, many employees sensed that BA had not found a way to build on the success of the early "Putting People First" programs. As one executive put it:

You can't go on selling the same old socks. In terms of messages and themes and something to focus the company around, it's a bit difficult to repackage in

another way, and put all the sort of support mechanisms around it that we did in the 1980s, and do it all again in a way that captures the imagination in the 1990s.³

New initiatives in the 1990s The early “Putting People First” programs had stressed the fundamental values of serving the customer, and had generated a sea change in the BA culture. But what was the next step? Research seemed to point in the direction of customer recovery. BA discovered that as many as a third of BA passengers were in some way dissatisfied with their BA flight, but that 69% of those passengers never registered a complaint.⁴ Another 23% spoke to someone who worked for BA about their experience, and 8% contacted customer relations. (See **Exhibit 3**.)

This meant that at the turn of the decade BA knew nothing about what the unhappy but silent 69% were thinking, and that they knew very little about what had been said and done when customers complained to flight attendants and other front-line staff. However, BA had collected data on the kinds of complaints that came to customer relations, and customer relations was the focus of the customer retention effort.

The problem was—according to Charles Weiser, head of customer relations—that at that time it often took customer relations as much as 12 weeks to answer a complaint letter. “And what we found,” he explained, “was that if it took longer than five days for us to get back to a customer who had contacted us, their satisfaction and possible intent to repurchase British Airways plummeted anywhere from 30% to 45%. It was quite a significant number.”

The Power of CARESS

Weiser’s concern for the urgency of cutting response time in answering complaints led to BA’s £4.5 million investment in CARESS. IBM worked with a vendor, Space Computer Systems, to design and implement the system. The hardware consisted of an IBM AS400 E80 running 60 personal computer workstations, most of which were located in the Heathrow customer relations office. Each workstation consisted of two screens, with the image of the complaint letter on the larger monitor, and retrieval options appearing on the other. The software was custom programmed in the Synon development language, while the initial scanning of each letter was done with ImagePlus software. The CARESS system allowed storage of complaint letters in image form, and included a powerful data base to record all customer correspondence. It further provided word processing capability to write return letters, and also provided menu selections to access 30 other categories of information on BA’s mainframe systems.

The CARESS data base was a powerful source of information. With a customer letter on one screen, reps could call up a customer’s frequent flier status, including a complete record of recent flights and existing reservations. They could pull information from other key data systems, such as BABS, the acronym for the reservations system, or PANDORA, the system containing operations information and unusual incident reports.

Before CARESS, it was common for complaint letters to become misplaced, especially if they addressed multiple issues, such as lost baggage and then missing or damaged clothing once the baggage was found. The filing system was archaic, and if one customer relations person pulled a file to work on the baggage problem, the person assigned to work on compensation might arrive to find the file drawer empty. Weiser explained, “Before CARESS, complaints were resolved with a 13-step process that was designed to encourage thorough investigation. Our aim was to either deny

³ The above quote and background information appeared in the HBS case, “Changing the Culture at British Airways,” no. 491-009, by Professor John Kotter.

⁴ The third of customers identified as “dissatisfied” composed a spectrum—from those just wishing to comment on minor areas for improvement (or areas for new product development which B.A. had not yet considered) to larger, more complex concerns.

wrongdoing, or find an excuse to explain away an incident.” And if a customer pressed for compensation, BA had been more inclined to adjudicate than compensate.

The power of CARESS might have made investigation faster and more efficient, but Weiser insisted that CARESS not be used to investigate customer claims. “BA research had shown that 98% to 99% of customers were sincerely convinced of the validity of their complaints,” Weiser observed, “and we had nothing to gain by squabbling with them. Our aim was to win back the almost £400 million in potentially lost revenue these customers represented.” Given the new approach, customer relations executives were subsequently trained:

1. To apologize, and then go on to own and champion the customer’s cause.
2. To resolve each complaint as quickly as possible.
3. To assure customers that the problem was being fixed.
4. To do it by phone if possible. (Customer satisfaction with CareLine was 95% in 1994.)
5. To encourage customers to tell them what they wanted.

“Customers have told us that to retain their business we just need to do a very few simple things,” Weiser emphasized.

First, we want to apologize and express our concern. Then we want them to know that we intend to do something about their complaint, and do it quickly. We’ve trained our people to be empathetic and to negotiate a ‘win/win’ outcome for BA and the customer. And this important process begins with trusting the customer and knowing we want him or her to fly with us again.

(See **Exhibit 4** for an illustration of how complaint resolution worked using CARESS.)

Weiser explained that BA was now focused on the fact that it cost the airline five times more to attract a new customer than to retain an existing one. BA also began to calculate the lifetime value of its customers.

People systems complementing CARESS While CARESS made prompt and appropriate responses to customer complaints possible, the value of the technology was enhanced by a number of people systems. When Weiser and his colleagues tested the results of their improved response to complaints, they discovered unexpectedly positive results. They had known that BA had traditionally seen 13% of its satisfied customers defect. Research also revealed that 50% of dissatisfied customers who did not complain would defect. But with CARESS, BA discovered that it retained 87% of its dissatisfied customers who complained. In other words, with timely and appropriate response to customer complaints, BA saw only 13% of its complaining customers defect—the same percentage that applied to satisfied customers.

Armed with this information, Weiser decided to concentrate on “melting the complainant iceberg” (see **Exhibit 3**) and was especially determined to get the 69% of dissatisfied customers who currently remained silent to speak up. BA projected that for every 1% of additional complaints to customer relations it could inspire, it would win back from £200,000 to £400,000 in revenue from potential defectors.

BA attacked the iceberg by first creating several kinds of listening posts. Customers were invited to fly with customer relations managers to experience BA service together. Global Free-Post Comment Cards were introduced, along with “informal group chats with customers all over the

world.” On new 767s and 777s that were on order, customers would be able to use keypads at their seats to register complaints.

Just as customer relations reps using CARESS were encouraged to own any problem customers shared with them, they were also told to throw out the old two-inch-thick manual of guidelines that prescribed when to award compensation and how much, and were trained to use their own best judgement to resolve complaints and retain the customer’s goodwill and business. BA also took empowerment and customer service a step further by establishing what was called the “special services” group within customer relations.

Special services rep Jill Rutherford described her job as “looking after captains of industry, VIPs, diplomats, and other influential people” and recalled an incident that saw a premier card holder begin his day by having a BA New York to Birmingham flight canceled. BA quickly found him a flight to Heathrow, but upon arriving, he was told that he and other passengers would be taken to Birmingham by coach. He protested that this would not get him to his meetings in time, and asked for a personal car to take him straight to his destination. His request was refused by one rep, and then refused again by her supervisor. “So he got in touch with special services,” Rutherford explained, “and we immediately made the decision that he would have a car to take him straight away to his meetings.”

Early measures of success When CARESS had been at work for a year, BA asked an outside firm to learn what customers were actually thinking and doing after customer relations had responded to them. The findings were extremely positive. Not only were letters winning back customers, but the CareLine phone reps were netting satisfaction numbers as high as 95%, even as calls increased 150%. Staff productivity tripled in the first two years of operation for CARESS, and by calculating the resulting rise in repeat business, BA concluded that CARESS paid for itself in its first year of operation.

BA also discovered that as customer satisfaction indicators were rising, staff were actually awarding 8% less in monetary compensation. (Later results suggested that the faster the response time, the lower the monetary rewards that were required to satisfy customers.)

Job satisfaction measures for customer relations staff climbed from the low teens (before CARESS) to 69%, and BA research also revealed that for every pound spent on customer retention efforts, the airline was netting two pounds in revenue. There was even a bit of added satisfaction for Charles Weiser when IBM announced that CARESS had won its annual Crystal Award for the innovative use of technology in the customer service category.

The BA customer relations staff spoke of a number of positive outcomes that they associated with CARESS. They were feeling better about treating the customer better, but also appreciated the benefits of new training that focused on the human skills needed to respond to customers. This was especially important for reps who were working the phones and often answered calls from people who were extremely angry. Their four-week training program began with values and objectives, then moved into the subtle arts of negotiation, influence, decision making, and diffusing anger.

Early measures of success also allowed BA to add a powerful new feature to the system. As consumer affairs manager Richard Hill explained,

Now, when reps move into the word processing package to write a letter, they will restate the complaint problem and immediately be presented with some optional resolutions and even phrasing. And, of course, all of these options have been tested and have proven successful with other customers in the past.

Recovering John Leland

Customer relations rep Karen Lincoln immediately agreed with John Leland, saying that she, too, would have been disappointed to find that duty free was not going to be available. She apologized on behalf of BA, and went on to try to learn what more Mr. Leland might expect for compensation. When he seemed reluctant to make a recommendation, she said,

Mr. Leland, on behalf of British Airways, I would like to offer to each of the ladies in your party a perfume of her choice from our catalog, and to each of the gentlemen, a bottle of spirits. If you can give me names and addresses, I can mail each of you a letter explaining our gift offer, and send along our duty free catalog.

Mr. Leland expressed his appreciation and was obviously pleased.

Beyond CARESS

Partnering with vendors Assembling the CARESS data base had one unexpected consequence that BA had not anticipated. The database suddenly made it easy to identify the quantity and quality of the failings of BA internal vendors, and an immediate consequence was that vendors were suddenly hearing rather specific complaints in language that seemed threatening.

But, if the first impulse had been to beat on vendors with the newfound data, BA quickly moved beyond blame management to create Service Partner Agreements that enabled BA, its internal and external vendors, and even some of its external suppliers to work together in a continuous improvement process to better serve the customer.

Front-line recovery While pushing to uncover more of the “complainant iceberg,” BA also moved to be more responsive to customers who complained not to customers relations but directly to a front-line service provider. Sarah Aitken explained that BA first set the stage for front-line recovery by launching a one-day “Winners” program that was part celebration, part information sharing, and part training. After hearing about the economics of saving existing customers, and learning what the lifetime value of a customer might be, front-line staff role played their responses to recovery opportunities. Then they were trained in the simple procedure for sending an appropriate gift.

“All they have to do is fill in a form and then make the phone call to the appropriate provider—the florist, or sweet shop, or whatever,” Aitken explained.

We need only the basic information—the customer’s name and address, and when he or she will return. And the wording for the message that would be included.

We did research on the kinds of gifts we might send, and settled on a range of 12 gifts. The gift is important, but what is more important is the ability of our people to select and send the gift with a message. And it is that personal message from one caring person to the inconvenienced customer that is at the heart of it. To be able to personalize the experience makes all the difference.

Aitken also pointed out that as demanding as it might be for the organization to train all front-line people, there was, after all, little choice. The most timely responses to customer complaints could only come from the front lines.

Prevention To prevent unhappy customers was obviously the ideal state for BA. Everyone was aware that many facets of the flying business were beyond the control of any airline. But the CARESS database allowed BA to perform root-cause-analysis and target the areas that generated the most complaints and the highest rates of defection. (See **Exhibit 5** for an example.)

BA management perceived its attention to partnering, front-line recovery, and prevention as a solid foundation, but it was considering what more could be done.

Exhibit 1 Highlights

	1993-94	1992-93
Group Results		
Turnover (£m)	6,303	5,566
Operating profit (£m)	496	310
Profit before taxation (£m)	301	185
Profit after taxation (£m)	286	178
Capital and reserve (£m)	1,827	1,214
Earnings per share ^a :		
Basic (%)	31.3	23.1
Fully diluted (%)	28.7	21.4
Dividends per share ^a (%)	11.10	10.16
Traffic		
Revenue tonne kilometers (m)	11,336	10,313
Available tonne kilometers (m)	16,913	15,424
Passengers carried ('000)	30,595	28,100
Cargo carried (tonnes, '000)	607	532
Overall load factor (scheduled services, (%))	66.5	66.2
Employees and Productivity		
Average number of employees	49,628	48,960
Revenue tonne kilometers per employee ('000)	228.4	210.6
Available tonne kilometers per employee ('000)	340.8	315.0

^aEarnings per share and dividends per share for the year ended 31 March 1993 have been adjusted to take into account the bonus element of the rights issue announced in May 1993.

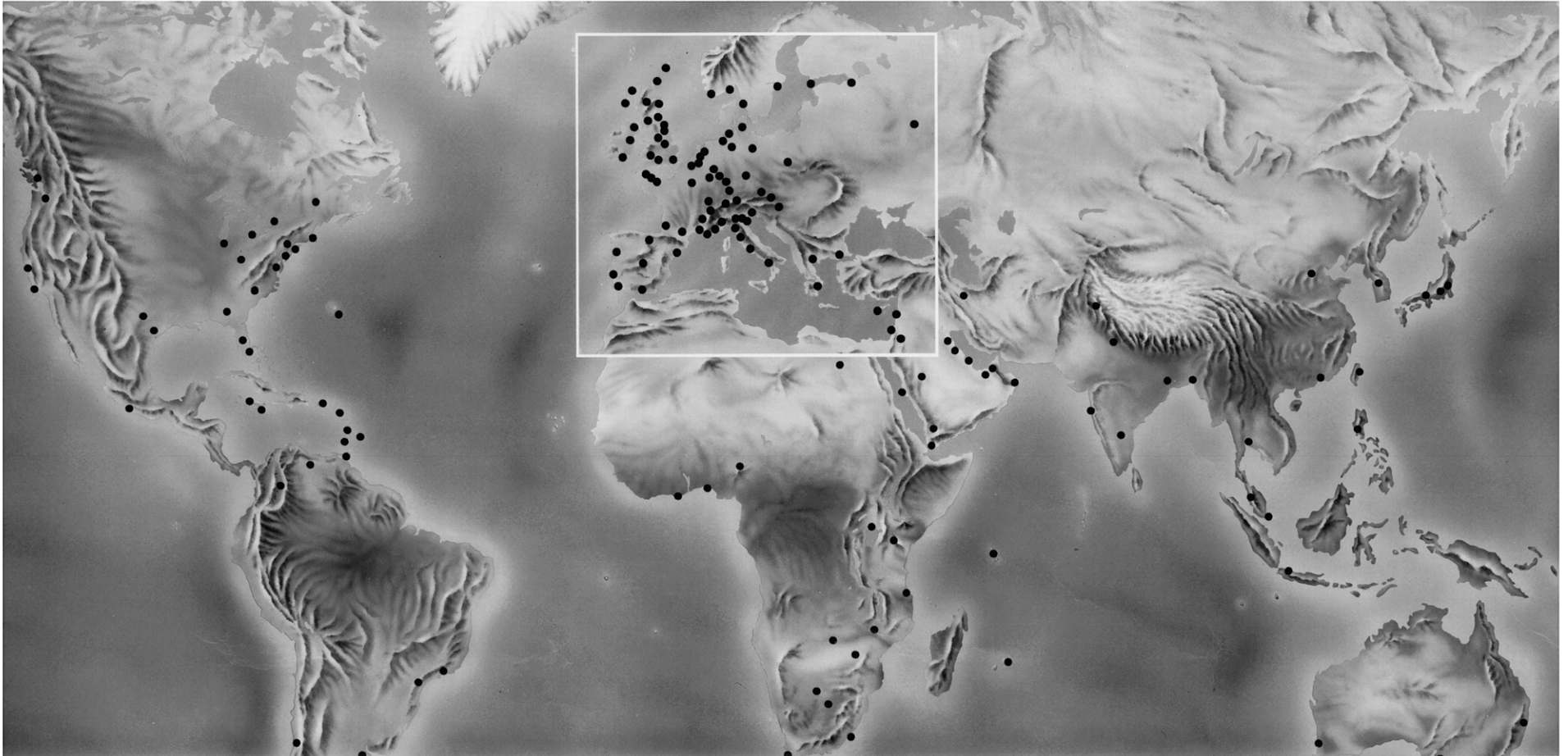


Exhibit 2 The World's Top 25 Airlines in 1992

In RPKs (revenue passenger kilometers)			In Operating Revenue			In Operating Profit			In Net Profit		
Rank	Airline	No. of RPKs ('000,000)	Rank	Airline	Operating Revenue ('000)	Rank	Airline	Operating Profit ('000)	Rank	Airline	Net Profit ('000)
1	American	156,707	1	American	\$13,581,000	1	Singapore	\$611,000	1	Singapore	\$513,000
2	United	149,137	2	United*	12,724,577	2	British Airways ^{a,b}	502,000	2	Cathay Pacific	388,032
3	Delta	129,517	3	Delta	11,579,200	3	Cathay Pacific	467,109	4	British Airways ^{a,b}	370,500
4	Aeroflot	117,400	4	Air France/Air Inter/UTA	11,188,639	4	SAS	411,347	4	Thai International ^b	166,300
5	Northwest*	93,686	5	Lufthansa	9,300,000	5	Swissair	271,788	5	China	146,613
6	Continental*	70,035	6	Northwest	7,963,785	6	Federal Express*	269,751	6	Qantas ^b	99,500
7	British Airways	69,730	7	Federal Express*	7,712,065	7	Korean	259,286	7	Air India ^b	93,000
8	USA	56,741	8	British Airways ^{a,b}	6,390,000	8	South African	226,976	8	Southwest	91,021
9	Air France/Air Inter/UTA	55,504	9	USAir	6,235,622	9	KLM ^b	225,000	9	Tunis	68,950
10	Japan Airlines	55,090	10	Continental*	5,209,639	10	Southwest	182,636	10	KLM ^b	67,500
11	Lufthansa	48,100	11	SAS Group	4,879,433	11	Alitalia	161,000	11	Garuda ^b	62,400
11	TWA*	49,927	12	KLM ^b	4,273,000	12	China	155,655	12	Britannia	47,700
13	All Nippon	38,289	13	Alitalia	4,240,000	13	Aero Lloyd	151,609	13	Philippine	44,528
14	Singapore	37,105	14	TWA	3,634,493	14	Garuda ^b	112,100	14	Pakistan	40,000
15	KLM	32,297	15	Swissair	3,600,126	15	Braathens	103,000	15	Atlantic Southeast	37,067
16	Qantas	30,820	16	Iberia	3,553,000	16	Philippine	86,273	16	Hawaiian	28,960
17	Cathay Pacific	27,527	17	Singapore	3,468,000	17	Tunis	75,390	17	EgyptAir ^b	27,900
18	Alitalia	27,397	18	Cathay Pacific	3,006,474	18	Qantas ^b	74,600	18	Air Mauritius	25,383
19	Iberia	23,836	19	Korean	2,965,151	19	Britannia	62,400	19	Aviaco	21,000
20	Air Canada	23,155	20	Qantas ^b	2,924,000	20	Atlantic Southeast	60,813	20	Malev	20,000
21	Southwest	22,183	21	Air Canada	2,801,000	21	Aviaco	51,000	21	Air 2000	15,700
22	Korean	21,794	22	Saudia	2,337,500	22	Royal Jordanian	48,363	22	Airtours	14,574
23	Canadian	21,438	23	Canadian	2,302,000	23	Pakistan	40,900	23	Mesa ^b	14,200
24	Thai International	20,498	24	Thai International ^b	2,100,000	24	Air 2000	30,900	24	Swissair	13,728
25	America West	18,958	25	Southwest	1,685,178	25	Ethiopian ^b	29,761	25	Comair ^{a,b}	11,457

Exhibit 2 (continued)

In Passengers			In FTKS (freight ton kilometers)			In Employees			In Fleet Size		
Rank	Airline	No. of Passengers ('000)	Rank	Airline	No. of FTKs ('000)	Rank	Airline	No. of Employees ('000)	Rank	Airline	No. of Aircraft
1	American	86,007	1	Federal Express	6,151,771	1	American	102,400	1	American	672
2	Delta	83,117	2	Lufthansa	4,400,000	2	Federal Express	84,162	2	Delta	551
3	United	66,696	3	Air France/Air Inter/UTA	3,972,000	3	United	82,889	3	United	536
4	Aeroflot	62,627	4	Japan Airlines	3,229,382	4	Delta	74,907	4	Federal Express	405
5	USAir	54,655	5	UPS*	3,133,386	5	Air France/Air Inter/UTA	63,370	5	USAir	445
6	Northwest*	43,052	6	Korean	2,828,000	6	British Airways	49,000	6	Aeroflot	437
7	Continental*	38,791	7	Northwest*	2,705,275	7	USAir	47,000	7	Northwest	359
8	All Nippon	34,992	8	British Airways	2,653,000	8	Northwest	45,455	8	Continental	319
9	Air France/Air Inter/UTA	32,708	9	KLM	2,407,000	9	Lufthansa	44,000	9	British Airways	229
10	Lufthansa	27,900	10	Aeroflot	2,350,000	10	Continental	38,300	10	Air France/Air Inter/UTA	220
11	Southwest	27,839	11	Singapore	2,306,204	11	Alitalia	28,906	11	Lufthansa	219
11	British Airways	25,373	12	United	1,929,800	12	Iberia	27,000	12	TWA	172
13	Japan Airlines	24,005	13	Delta	1,764,746	13	KLM	25,596	13	Alitalia	157
14	Iberia	23,172	14	Cathay Pacific	1,670,835	14	TWA	25,500	14	UPS	153
15	TWA*	22,438	15	American	1,635,565	15	Varig	24,600	15	Southwest	142
16	Alitalia	19,689	16	China Airlines	1,343,756	16	Singapore	23,793	16	Flagship	137
17	Korean	15,249	17	Alitalia	1,307,000	17	Saudia	23,739	17	All Nippon	125
18	America West	15,173	18	Cargolux	1,265,416	18	Japan Airlines	22,179	18	Iberia	122
19	SAS	14,514	19	Qantas	1,218,228	19	Pakistan	20,950	19	SAS	106
20	Saudia	11,575	20	Swissair	1,063,372	20	Indian	20,177	20	Air Canada	103
21	Malaysia	10,976	21	Varig	929,594	21	SAS	20,000	20	Japan Airlines	103
22	Air Canada	9,900	22	El Al	928,150	22	Malaysia	19,874	22	Varig	99
23	KLM	9,183	23	Thai International	926,347	23	Air Canada	19,448	23	Qantas	90
24	Thai International	8,952	24	Emery*	825,199	24	Swissair	18,050	23	Continental Express	90
25	Singapore	8,512	25	Continental*	798,188	25	Qantas	17,997	23	KLM	

Source: Direct airline reports

*DOT data;

^aPartial year^bFiscal year

Exhibit 3 The Complainant Iceberg

Traditionally, success in complaint handling has been measured by the lack of complaints, i.e., a rise in complaints is negative. **Customer Relations** and **Operational Research** have developed a model, the **Customer Retention Index**, which demonstrates that a single per '000 measure of complaints should not be taken on its own as a means of success. The illustration below demonstrates that reported complaints are only "the tip of the iceberg."

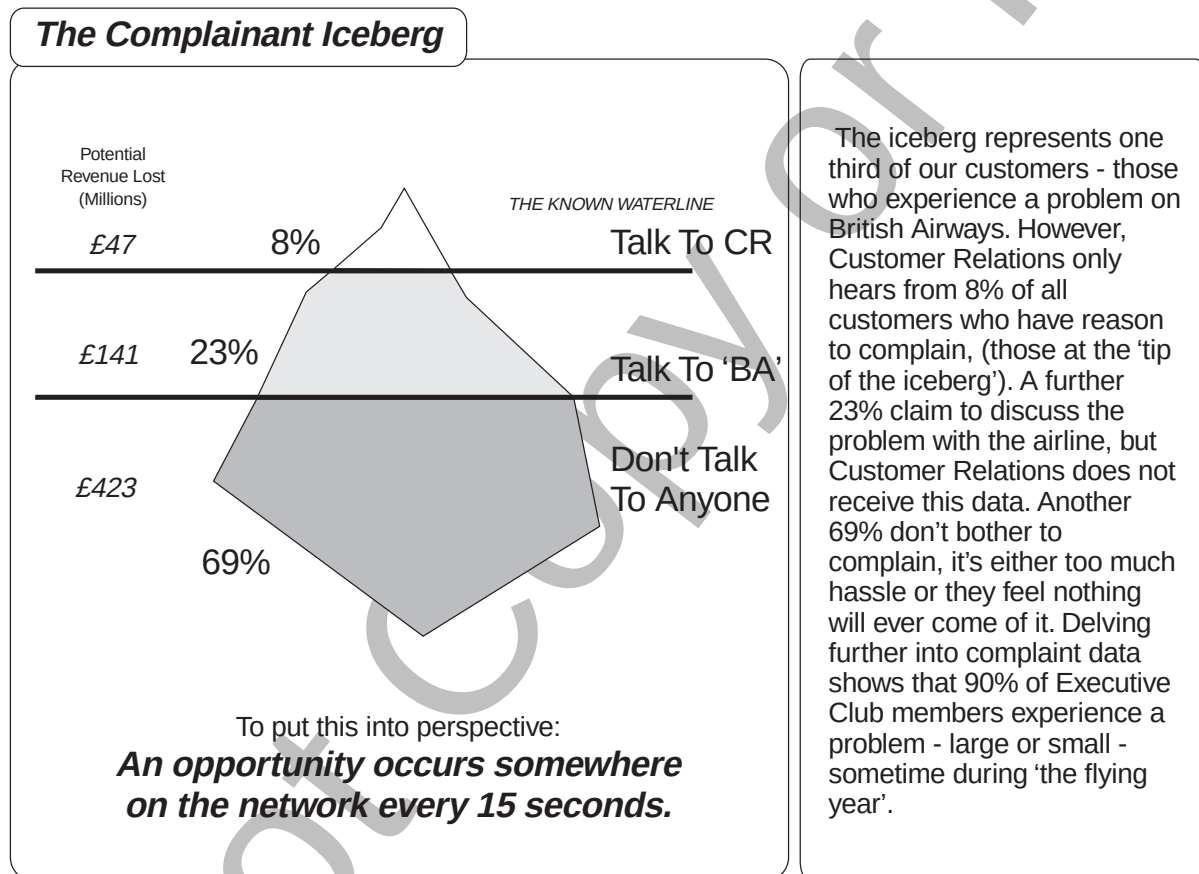


Exhibit 4 Customer Analysis Retention System

Customer Analysis Retention System

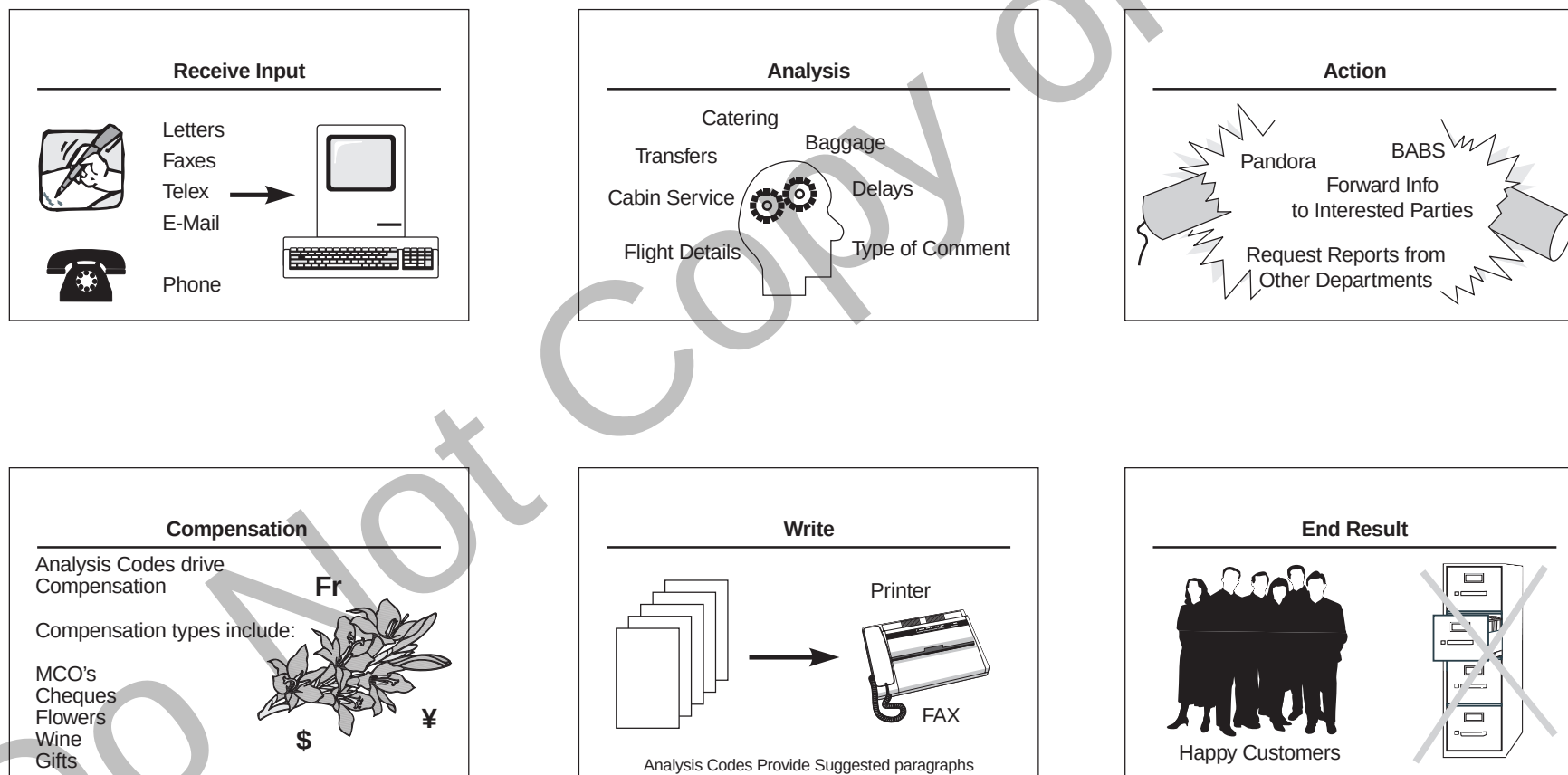


Exhibit 5

<i>The way our customers see it and what that means financially</i>	TOTAL	ALL	REVENUE LOST
	% Problem Experience by Most Serious Problem	And % of These Who Will Not Repurchase	
SEATING ALLOCATION/ OVERBOOKING Seat allocation	11.5%	37.5%	£8,187,750
OPERATIONAL DISRUPTIONS Delays	7.0	23.9	£3,172,105
BAGGAGE Baggage mishandled	4.0	29.8	£2,260,101
CATERING Food quality	3.4	33.0	£2,127,377
OPERATIONAL DISRUPTIONS Cancellations/Consolidation	4.2	24.4	£1,943,080
SEATING ALLOCATION/ OVERBOOKING Downgrading/Denied boarding	4.4	22.4	£1,868,755
CABIN ENVIRONMENT Smoking	3.1	31.0	£1,822,112
SALES EXPERIENCE Ticketing/Booking	3.7	24.4	£1,711,761
OPERATIONAL DISRUPTIONS Disruption services	3.7	23.7	£1,662,653
CATERING Food policy/Menu composition	2.7	28.9	£1,479,494
TOTAL/AVERAGE	48.0%	29.0%	£26,224,187

Firstly, the data comes only from the “tip of the iceberg.” We can estimate the rest of the “iceberg” through yearly research benchmarks.

Secondly, the data relies on some overall assumptions such as an average purchase value from finance, flight frequency from the Executive Club and CR retention as handled in London.

Thirdly, the information above represents a snapshot of one quarter (October-December 1993). It is available monthly, though at present it is only useful to look for potential trends or movements rather than for reportable values.

The information that the table provides does allow for cost against revenue tradeoffs to be considered when deciding which problems to tackle.

For example, seat allocation is the top service failure for our customers—11.5% of them, in fact. Of these, over one-third will defect, the highest defection level of all the service areas. What this means, in terms of potential lost revenue, is £8.17 million. *These are the customers we know about, the “tip of the iceberg.” This potential revenue loss can be put against any of the costs that solving the problem generates.*

Looking at the monthly data allows us to track any movement of a service issue in terms of complaints and defection rate. Again, it’s worth looking at seat allocation. It rose steadily throughout the quarter, peaking at 16.6% of customers who experience a problem, making it number one. (The quarterly figure is an average over the period.) Next month, we will look at the benefits of after-service Customer Retention and how this can complement solving the problems above.