IT and other hard and soft technological developments

Slow growth in key countries

Globalization of competition and value chains

Customers have greater choice

Changing workforce

Environmental concerns

Emerging economies with competitive advantages

Liberalization of trade and economic interdependence

Time compression on all functions

Shorter product life cycle Joint cost/quality/delivery

Fast changing expectations

Need for doing business differently

Alliances, global corporation, Suppliers relations

New organization

Managed trade and regional trading blocks
Framework for analyzing Service Operations

A summary of relevant literature compiled by Gabriel R. Bitran
Branding: importance of company reputation

Processes: methods used to process policies and claims

Features: period of policy, flexibility, benefits payable

Accessibility: whether available direct or through insurance brokers

Tangibles: brochures, policy documents

Packaging: other benefits included in package (e.g. advice services)

Quality: level of CSI sought with respect to outcomes and processes

INSURANCE

CORE BENEFIT: “Peace of Mind”

Source: Christian Dussart
External and Internal Environment

- Competitive Analysis
- Strategic Analysis
- Financial Analysis
- Manager
- Server
- Backroom
- Marketing
- Customer
- Operations Management
- Orders
- Resources
- Decoupling
- Information about needs

External Environment

Internal Environment

Service Framework
Some Characteristics of Services

a) ATTRIBUTES OF SERVICE

- **Intangibility** - explicit and implicit intangibles
- **Perishability** - an hour of non-production is an hour lost
- **Heterogeneity** - inherent variability of service
- **Simultaneity** - services are simultaneously produced and consumed

- Based on Consumer Perception
- Value Added Concept
- Main Services Versus Facilitating Services
Dynamic Interactions

MANAGEMENT

Loyalty, Info on Customers’ Feedback and Opportunities for Continuous Improvement

Fair Treatment (Pay, Benefits, Respect), Training, Support of Internal Environment Personnel

SERVER

Complaints, Compliments, Suggestions

Feedback, Tips, Gratitude, Respect

Effort, Skill, Respect, Positive Attitude

CUSTOMER

Products and Policies that Satisfy Needs and Desires
Service Profit Chain

Operating Strategy and Service Delivery System

Product/Service Concept

Employee

Internal Service Quality

Satisfaction
Capability
Productivity
Loyalty

External Service Quality

Value

Customer Satisfaction

Customer Loyalty

Revenue Growth

Profitability

Source: Heskett, Jones, Loveman, Sasser, & Schlesinger
Cycle of Success

Figure from Schlesinger, Leonard A. and James L. Heskett. "Breaking the Cycle of Failure in Services." Sloan Management Review, 32:3 (1991) p.17. This figure was removed due to copyright restrictions.
Cycle of Failure

Figure from Schlesinger, Leonard A. and James L. Heskett. "Breaking the Cycle of Failure in Services." Sloan Management Review, 32:3 (1991) p.17. This figure was removed due to copyright restrictions.
Operations Management

e) Demand and Resource Smoothing

- Controlling demand
  - Pricing strategies
  - Complementary services
  - Reservations system (appointments)
  - Develop non-peak demand
  - Preventive maintenance

- Controlling supply
  - Floating staff, part-time employees
  - Maximize efficiency. Cross training of staff, flexible equipment
  - Modular facility design
  - Work-at-home
  - Share capacity
Management of Queues

The Psychology of Waiting Lines

Propositions

1. Unoccupied time feels longer than occupied time
2. Process waits feel longer than in process waits
3. Anxiety makes waits seem longer
4. Uncertain waits are longer than known, finite waits
5. Unexplained waits are longer than explained waits
6. Unfair waits are longer than equitable waits
7. The more valuable the service, the longer the customer will wait
8. Solo waits feel longer than group waits
Management of Queues

Some characteristics of Queuing Systems

- Number and type of servers
- Waiting time, service time, and system time
- Queue discipline
- Number of people in queue
- System utilization

\[
\text{Congestion} = \frac{\text{Arrival Rate}}{\text{Service Rate}}
\]

\[\Delta W_A \quad \Delta W_B\]

\[\Delta \rho\]

\[\text{Total Cost}\]

\[\text{Capacity Cost}\]

\[\text{Delay Cost}\]
Quality Control: *Perceived Service Quality*

**Expected Service**  
**Perceived Service Quality**  
**Perceived Service**

**Corporate Image**

**Technical Quality**
- Knowledge
- Technical solutions
- Employees’ abilities
- Computerized systems
- Machines

**Functional Quality**
- Attitudes
- Internal Relations
- Customer contacts
- Behavior
- Accessibility
- Service-mindedness
- Appearance

**WHAT?**

**HOW?**
Quality Control: The Service Quality Model

Word-of-mouth Communications

Personal Needs

Past Experience

Expected Service

Perceived Service

Service Delivery (including contacts)

External Communications To Consumers

Translation of Perceptions into Service Quality Specifications

Management Perceptions of Consumer Expectations

GAP 1

GAP 2

GAP 3

GAP 4

GAP 5

Source: Zeithaml and Bitner
Service Guarantees

A summary of relevant literature compiled by Gabriel R. Bitran
Outline of the Lecture

• Characteristics
• Attitudes
• What a guarantee does
• Higher benefits
Characteristics

A good service guarantee is:

- Unconditional
- Meaningful
- Easy to understand and communicate
- Easy and painless to invoke
- Easy and quick to collect
- Credible

Source: D. Hart
Attitudes

- **Negative**
  
  - “How do I minimize warranty costs while maximizing marketing punch?”

- **Positive**
  
  - “The guarantee is the single most reliable way to identify operational areas needing improvement; Guarantees not acted upon are data not collected.”
  
  - Money spent on the guarantees is an investment in customer satisfaction and loyalty.”

*Source: D. Hart*
What a guarantee does

- Service guarantee forces an organization to explicitly define its customers needs
- A service guarantee forces an organization to understand all the elements of its service-delivery process
- A service guarantee forces an organization to determine the root causes of its operational problems
- A service guarantee forces a sense of urgency on an organization
- A service guarantee forces an examination of vendor quality
Higher benefits

The benefit of a service guarantee is higher when

- The price of the service is high
- The customer ego is on the line
- The level of the customer expertise with the service is low
- The negative consequences of service failure are high
- Customer’s image of service quality in the industry is low
- The company depends on a high rate of customer repurchase
THE “COMPLAINANT ICEBERG” AT BA
(1/3 of total customers)

Potential Revenue Lost
(Millions of Pounds)

47
141
423

THE KNOWN WATERLINE

Talk to Customer Relationship Rep

23 %

Talk to Nearest BA Employee

69 %

Don’t talk to Anyone

An opportunity occurs somewhere on the network every 15 seconds

Source: Christian Dussart
Integration

![Integration Diagram]

- CUSTOMER
- STRATEGY
- FINANCE
- OPERATIONS
- MARKETING
- EXTERNAL ENVIRONMENT
- COMPETITION

Service Course
15.768 Management of Services: Concepts, Design, and Delivery
Fall 2010

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