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**Management of Supply Networks for Products and Services:**  
**Concepts, Design, and Delivery**

# Roadmap for Service Excellence

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# Introduction

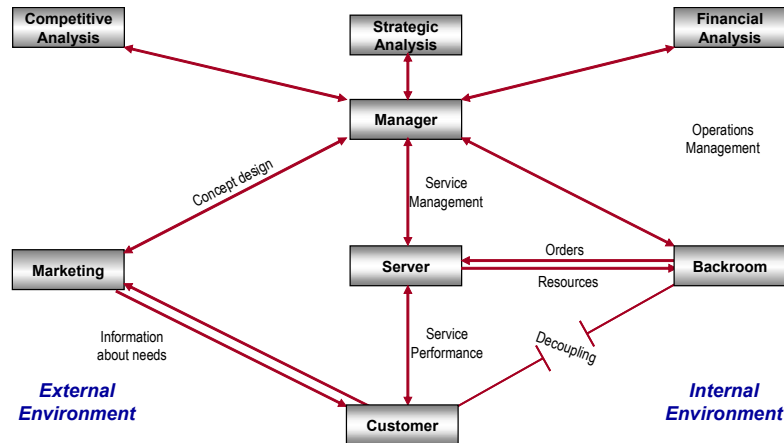
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- Excellence in services is by design, and not often by happenstance
- This document provides
  - A framework to understand, analyze, and design service operations
  - A characterization of excellence in service firms and their operations
  - A guide to firms whose objective is to be on the frontier of excellence in their services to their customers
- People Service Profit is one of the themes for excellence in services
- Excellence can also be explained from first principles (we do this in depth...)



# Excellence in the Service Encounter

- Service firms on the frontier of excellence understand the Service Diamond



- They are able to coordinate effectively the internal environment and the service interface
- They stress and emphasize different modes of management in each environment
- They create new services (innovate) by moving the interface between internal and external environments
- They understand the differences between the environments and the ways of their interaction

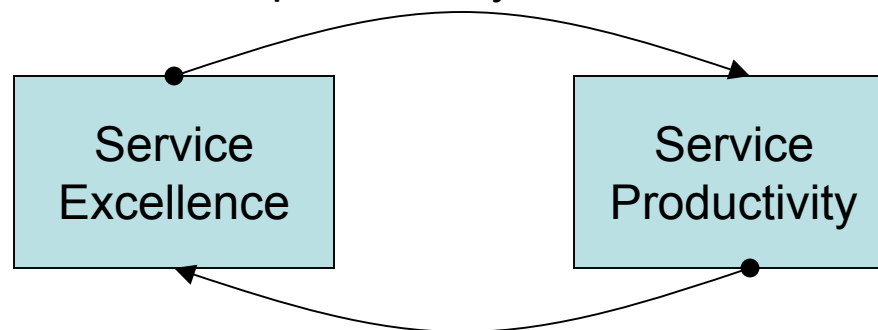


# People-Service-Profit (PSP)

## (Excellence in Defining the Firm Culture)

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- People in the service organization come first
  - Motivated, well-trained people who have incentives to excel, can provide excellent service
- Service excellence
  - Is a direct consequence of attention to people
  - Customer satisfaction and loyalty are the consequence of excellence in a series of encounters between people and the customer
- Profit
  - Is a direct consequence of excellence in service
  - Requires deep understanding of the relationship between service excellence and service productivity



# Excellence in Managing the Fundamentals of the Service Environment

<b>Service Attribute</b>	<b>Attribute Detail</b>	<b>What Best-in-Class Firms Do</b>
•Intangibility	1. Requires a grasp of the psychology of the customer.	•Management of skills
	2. Understanding of the importance of all the Physical Aspects associated with the service.	<ul style="list-style-type: none"> <li>•Superior design of facilities</li> <li>•Attention to appearance</li> <li>•Attention to presentation</li> <li>•Understand importance of packaging</li> </ul>
	3. The Lack of Patents	<ul style="list-style-type: none"> <li>•Exercise creativity to manage short life cycle of products &amp; services.</li> <li>•Continuous innovation, change and flexibility in organization, free expression, incentives to think out of the box, calculated risks.</li> </ul>
	4.The need to Materialize the multiple aspects and dimensions of service being performed for the customer	<ul style="list-style-type: none"> <li>•Use operations and marketing to understand and emphasize the service and value-added being provided to the customer.</li> <li>•Communicate clearly and effectively with the customer the value-add to ensure they understand what they are paying for.</li> </ul>
•Perishability	Eliminates the possibility of using inventory management to match supply and demand.	<ul style="list-style-type: none"> <li>•Develop strategies for matching supply and demand</li> <li>•Revenue management and pricing</li> <li>•Formulate strategies for resource allocation</li> <li>•Resource sharing and cross-training</li> <li>•Focus on recruiting procedures</li> <li>•Cooperation with competitors</li> </ul>

# Excellence in Managing the Fundamentals of the Service Environment

<b>Service Attribute</b>	<b>Attribute Detail</b>	<b>What Best-in-Class Firms Do</b>
<ul style="list-style-type: none"> <li>• <b>Heterogeneity</b></li> </ul>	<p>Leads to lack of Consistency in the customer service.</p>	<ul style="list-style-type: none"> <li>• Training and re-training</li> <li>• Recruiting (best-in-class service firms are exceptional in this aspect)</li> <li>• Focus on retention of trained employees</li> <li>• Demonstrate genuine concern for welfare of Employees</li> <li>• Understand trade-offs between automation and human involvement in processes</li> <li>• Understand the need to tailor the sophistication of service strategy to customer expectations and market realities (McDonalds vs. Ritz Carlton)</li> <li>• Establish and adhere to processes and standards</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Simultaneity</b></li> </ul>	<p>1. Services are produced and consumed simultaneously.</p>	<ul style="list-style-type: none"> <li>• Demonstrate ingenuity in quality control</li> <li>• Manage effectively multiple sites of operation (deal with geographical dispersion and decentralization)</li> <li>• Realize the opportunity to share best practices</li> <li>• Demonstrate flexibility in the organization and develop functional processes that bring together expertise in sales, operations, marketing, quality, etc.</li> </ul>
	<p>2. It is difficult to separate marketing, customer service, and operations in a service organization.</p>	<ul style="list-style-type: none"> <li>• Seamless organization and responsive upper management.</li> </ul>

## Excellence in Designing & Managing Service Guarantees

<b>Service Attribute</b>	<b>Attribute Detail</b>	<b>What Best-in-Class Firms Do</b>
<p><b>•Potential Benefit to Service Provider</b></p>	<p>1. Service Guarantees can benefit the service provider at least as much as they do the customer.</p>	<ul style="list-style-type: none"> <li>•Design of service guarantees for a “win-win” outcome.</li> <li>•Understand and sell the service guarantee to the service organization as a value-added proposition</li> <li>•Define processes around the service guarantee that minimize risk to the service organization, and that enables continuous learning</li> <li>•Possess ability to rapidly re-engineer processes and standards based on learning and evaluation from implementation of a service guarantee</li> <li>•They use the service guarantee to simplify objectives for service delivery, and unite the organization around these goals.</li> <li>•Are able to streamline processes towards customer satisfaction</li> </ul>
	<p>2. Service guarantees can represent calculated risks.</p>	<ul style="list-style-type: none"> <li>•Are willing to pay the penalty in order to identify fundamental problems in processes of service design and delivery</li> <li>•Create a culture of mutual support in the service organization in order to identify process issues in a safe manner.</li> <li>•Identify the risk in the guarantee as an opportunity for motivating the organization</li> </ul>

## Excellence in Designing & Managing Service Guarantees

<b>Service Attribute</b>	<b>Attribute Detail</b>	<b>What Best-in-Class Firms Do</b>
<p><b>•Potential Benefit to Service Provider</b></p>	<p>3. Present an opportunity to differentiate the service and to retain the customer for future and repeat interactions.</p>	<ul style="list-style-type: none"> <li>•Understand the economics of customer retention and loyalty – customer acquisition is more complex and expensive than customer retention.</li> <li>•Understand the value of word-of-mouth advertising</li> <li>•Do not set narrow ROI performance measures for every transaction with the customer (understand the dynamic of interactions with the customer)</li> </ul>
<p><b>•Potential Benefit to Customer Organization</b></p>	<p>Value of guarantees to customer organization is high when</p> <ul style="list-style-type: none"> <li>- price of service is high</li> <li>- customer ego is on the line</li> <li>- expertise of customer is minimal</li> <li>- consequences of failure are high</li> <li>- perceptions of quality are low</li> </ul>	<ul style="list-style-type: none"> <li>•Communicate to the customer, and materialize the service or value resulting from the guarantee to the customer</li> <li>•Understand the risks in the customer operating environment and demonstrate this understanding</li> <li>•Market the value from the guarantee as a component of the service provided to the customer</li> <li>•Understand the performance measures and paradigm of the customer organization and role in and value of the service to customers' success.</li> </ul>



## Excellence in Service Quality (Bridging Gaps in Service Operations)

<b>Service Attribute</b>	<b>Attribute Detail</b>	<b>What Best-in-Class Firms Do</b>
<p>•<b>Gap 1</b></p>	<p>Difference in management perceptions of customer expectations and the expected service</p> <ul style="list-style-type: none"> <li>-Lack of marketing research orientation</li> <li>-Inadequate upward communication</li> <li>-Too many hierarchies in management</li> </ul>	<ul style="list-style-type: none"> <li>•Have an institutional focus on understanding customer needs through marketing research.</li> <li>•Ability to extract and amalgamate information from disparate sources (including internal sources) to build a clear and coherent picture of customer needs.</li> <li>•Have clear and well-established channels of communication from the customer to the service organization</li> <li>•Have clear and established channels within the organization to feed information from service encounters to the upper echelons of management</li> <li>•Have an environment where proximity (by role and task design) to the customer is valued rather than frowned upon as a lower-order task</li> <li>•Establish incentives for employees to identify customer preferences</li> <li>•Understand the dynamic and shifting nature of customer needs, and design appropriate processes.</li> <li>•Invest in IT infrastructure to capture customer preferences</li> </ul>

# Excellence in Service Quality (Bridging Gaps in Service Operations)

<b>Service Attribute</b>	<b>Attribute Detail</b>	<b>What Best-in-Class Firms Do</b>
<p>•<b>Gap 2</b></p>	<p>Difference in management perceptions of customer expectations and the service quality specifications</p> <ul style="list-style-type: none"> <li>-Lack of commitment to service quality</li> <li>-Perception of infeasibility on the part of managers</li> <li>-Lack of creativity and optimism in thinking about customer needs</li> <li>-Inadequate task standardization</li> <li>-Absence of goal setting</li> </ul>	<ul style="list-style-type: none"> <li>•Goals and objectives are clear and strong to overcome notions of infeasibility.</li> <li>•Deep understanding of the limits of the organization (positive and negative)</li> <li>•Ability to convert ambitious goals that appear infeasible to a series of step-by-step transitions or a trajectory of continuous improvement</li> <li>•Break down crucial tasks involving many changes to smaller tasks that appear manageable to service organization</li> <li>•Demonstrate willingness to bring in help to coach the system through the change process</li> <li>•Design modular tasks and roles so that change is not a cascading or disruptive event</li> <li>•Create incentives for service providers to participate in the design process</li> </ul>

# Excellence in Service Quality (Bridging Gaps in Service Operations)

<b>Service Attribute</b>	<b>Attribute Detail</b>	<b>What Best-in-Class Firms Do</b>
<p>•Gap 3</p>	<p>Difference between service specifications and actual service delivery</p> <ul style="list-style-type: none"> <li>-Highly interactive, labor intensive, and services in multiple locations are vulnerable to this gap</li> <li>-Influenced by role ambiguity / conflict, poor job-fit, inappropriate supervisory mechanisms, lack of teamwork.</li> <li>-Direct consequence of heterogeneity</li> </ul>	<ul style="list-style-type: none"> <li>•Design tasks to be modular, and are simplified to the extent possible</li> <li>•Put in a series of processes to train people for ever-changing tasks</li> <li>•Introduce change and new processes in one site, perfect the change process, and then ship it to other sites.</li> <li>•Establish incentives or rewards for bottleneck or mission-critical tasks</li> <li>•Establish clear standards for the performance of tasks (and not necessarily the performance of individuals)</li> <li>•Provide mentorship to new employees to perfect difficult tasks and job roles</li> <li>•Foster teamwork through incentives for team accomplishments</li> <li>•Design defect free service into the service processes—in other words, design self-reporting capabilities</li> <li>•Create hierarchies around problem solving capabilities (Toyota) and not around supervisory / performance roles.</li> </ul>

# Excellence in Service Quality (Bridging Gaps in Service Operations)

<b>Service Attribute</b>	<b>Attribute Detail</b>	<b>What Best-in-Class Firms Do</b>
<p>•Gap 4</p>	<p>Difference between the service being performed, and the communication to the customers explaining the service.</p> <ul style="list-style-type: none"> <li>-Inadequate communications between units of the service organization</li> <li>-Can also result from propensity to over-promise.</li> <li>-Direct consequence of simultaneity in service operations / encounter.</li> </ul>	<ul style="list-style-type: none"> <li>•Possess ability to integrate the information from various functional units like sales, marketing, advertising, and service delivery, to present a common view of the service being provided to the customer</li> <li>•Use IT to establish a common database to ascertain status of product or service launch</li> <li>•Put in place processes that enable different units interacting with the customer to record, communicate, and discuss their experiences with the customer</li> <li>•Assign clear authority to a few individuals or a functional unit to negotiate price, quality, and guarantees with the customer in order to avoid confusion over what is being offered; however the details of the contract are made available to all.</li> <li>•Further empower individuals in different units to compensate customer for poor service, if necessary</li> <li>•Understand the quality-productivity relationship.</li> </ul>