



Sloan School of Management  
Massachusetts Institute of Technology

# Customer Service Supply Chains

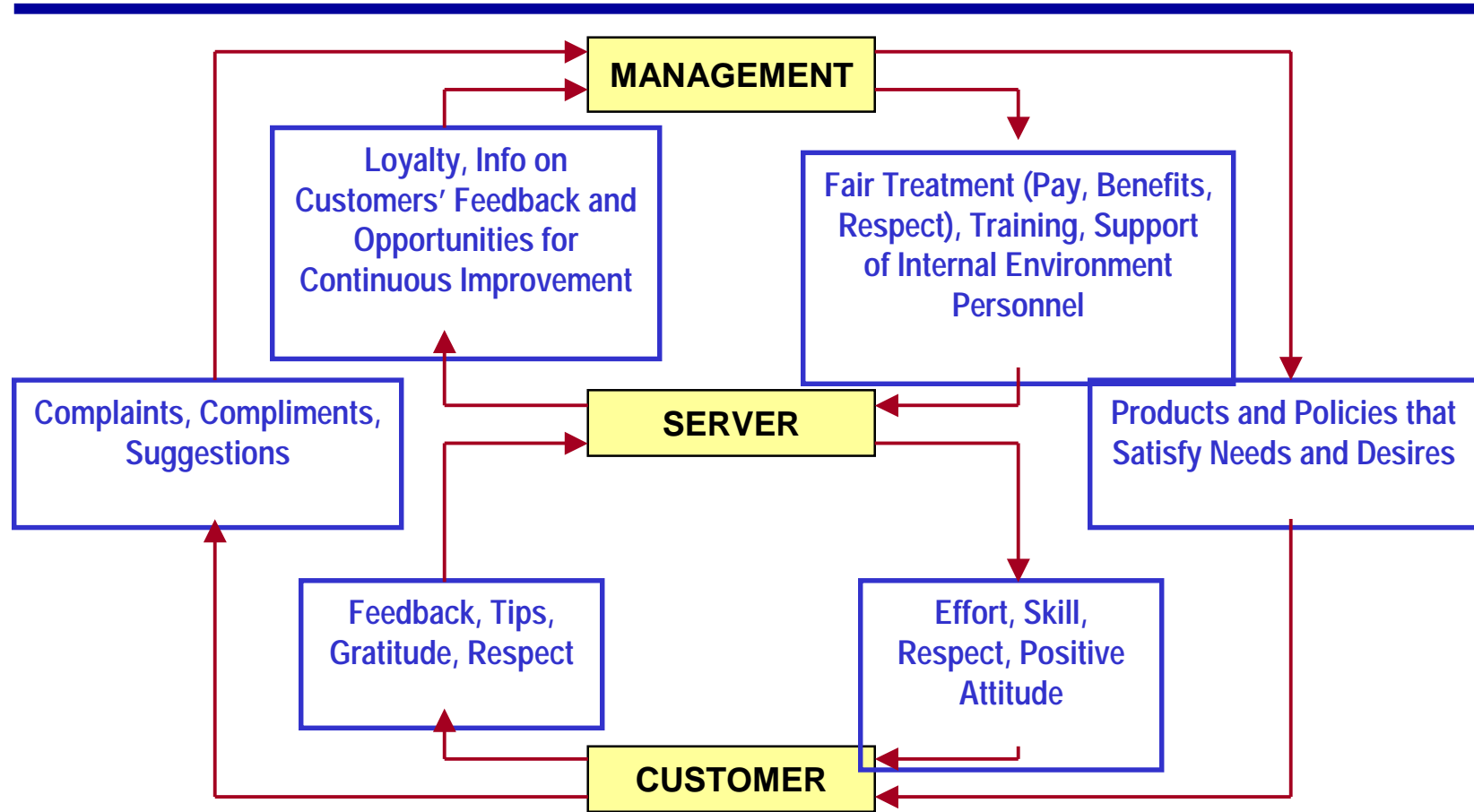
Prof. Charles Fine

*Adapted from material compiled by Prof. Gabriel R. Bitran*

# Some Characteristics of Services

- **Intangibility** - explicit and implicit intangibles
  - “We manufacture perfume; we sell hope.”
- **Perishability** - an hour of non-production is an hour lost
  - Airplane w/o spare part costs > \$10K/hr
- **Heterogeneity** - inherent variability of service
  - Each doctor's bedside care is unique
- **Simultaneity** - services are simultaneously produced and consumed
  - A poor attitude by the server cannot be recalled

# Dynamic Interactions among Service Delivery Partners



Citibank-call center-consumer

Ford-dealer-consumer

McDonalds-server-consumer

Hospital-nurse-consumer

Unilever-Walmart-consumer

Dell-Service call center-consumer

# Some elements of the Encounter

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- The concept of the Script
  - How well can you anticipate customer needs?
- Two factors that contribute to the inherent difficulty of managing high contact services:
  - Heterogeneity of human behavior (performance)
  - Variability of the service demanded
- Due to the variability of the service demanded, training alone is not sufficient. At some point there is the need for an underlying value system to guide the proper behavior.
  - Guidelines for reaction to the unanticipated

# Server Motivation

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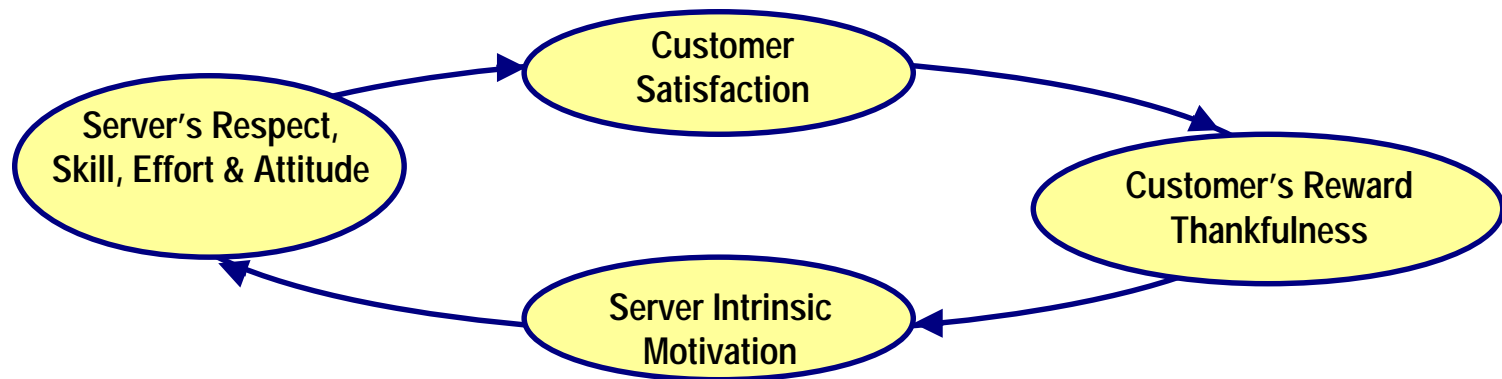
**If you want to build a ship, don't drum up people together to collect wood or assign them tasks and work, but rather teach them to long for the endless immensity of the sea.**

**-- Antoine de Saint Exupery**

## Some elements of the Encounter *(cont.)*

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- Customer satisfaction is highly dependent on the attitude of the server



- Server's perceived status can be directly related to customers (**customers want to wait in line even if others are shorter**)
- Servers derive status from the status of their customers (**"Ladies & Gentlemen serving Ladies & Gentlemen"**)

## Some elements of the Encounter *(cont.)*

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- The **intangibility** of services makes it difficult to concept test
- The **simultaneity** of production and consumption limit test marketing because the entire production, including backroom, may have to be created
- The **variability** of service delivery also affects the ability to test market since customer reactions will vary and controlled simulation will be difficult to achieve

# Phases of the Service Encounter

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**What are the phases for each encounter?**

- **Access -- call, visit, website**
- **Check-in -- welcome, first impression**
- **Diagnose -- need identification**
- **Service -- satisfaction provision**
- **Check-out -- conclusion, last impression**
- **Post check-out -- satisfaction confirmation, feedback for future improvement**



# Concepts of power and control

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- Supply Chain level & Service Encounter Level
- Real and apparent control
- Customers not only influence servers but also attempt to control them

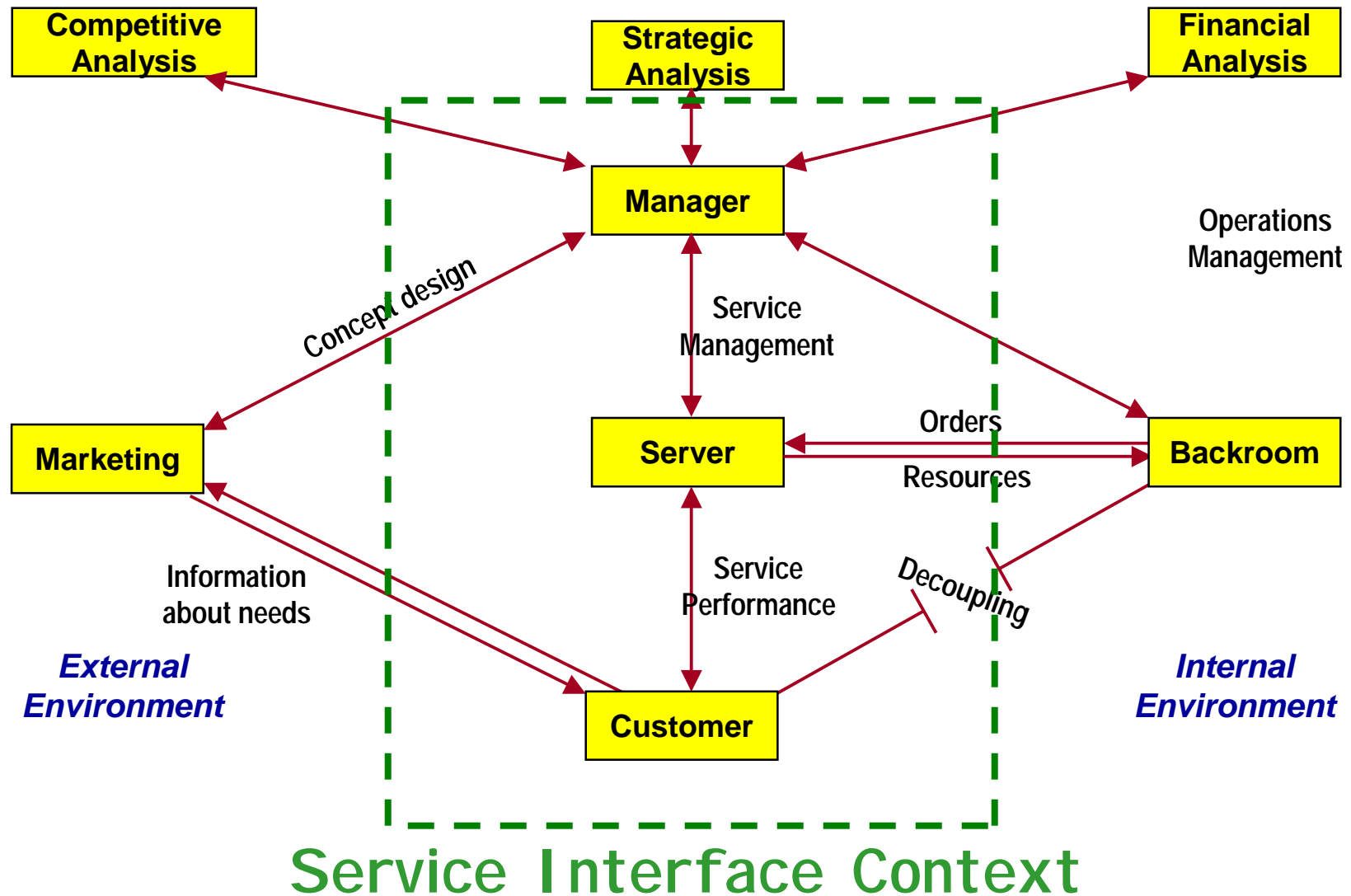
# Strategies servers use to assert control

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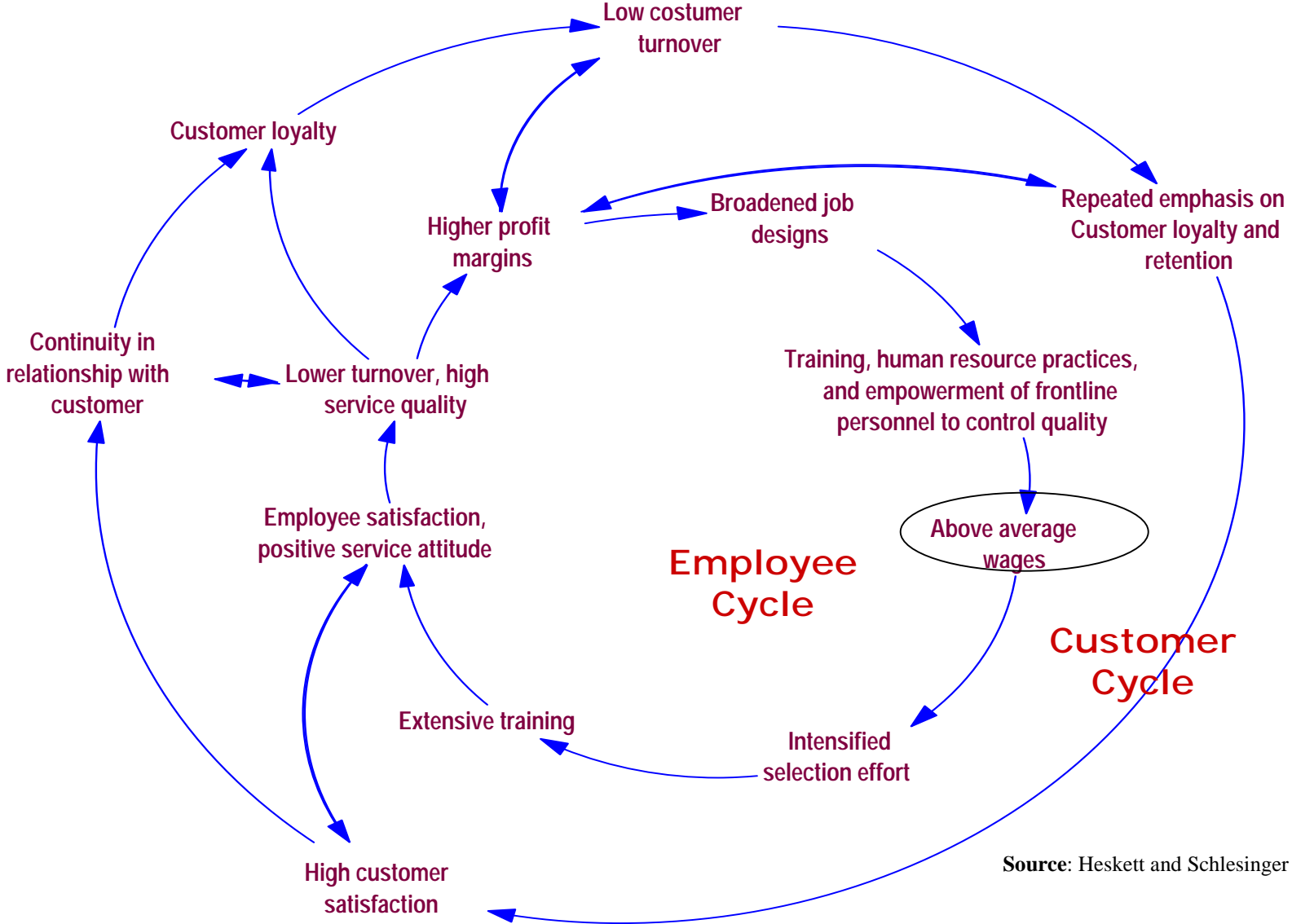
- Ignoring the customer (waiter, AOL)
- Rejecting the customer (bank)
- Replying to a customer's attempt to control (airline attendant)
- Reacting (other than verbally) to a customer's attempt to control
- Engaging the customer so that he/she does not try to seek control (Microsoft source code not provided)

The formulation of communities of servers  
(unions, buying groups)

# External and Internal Environment

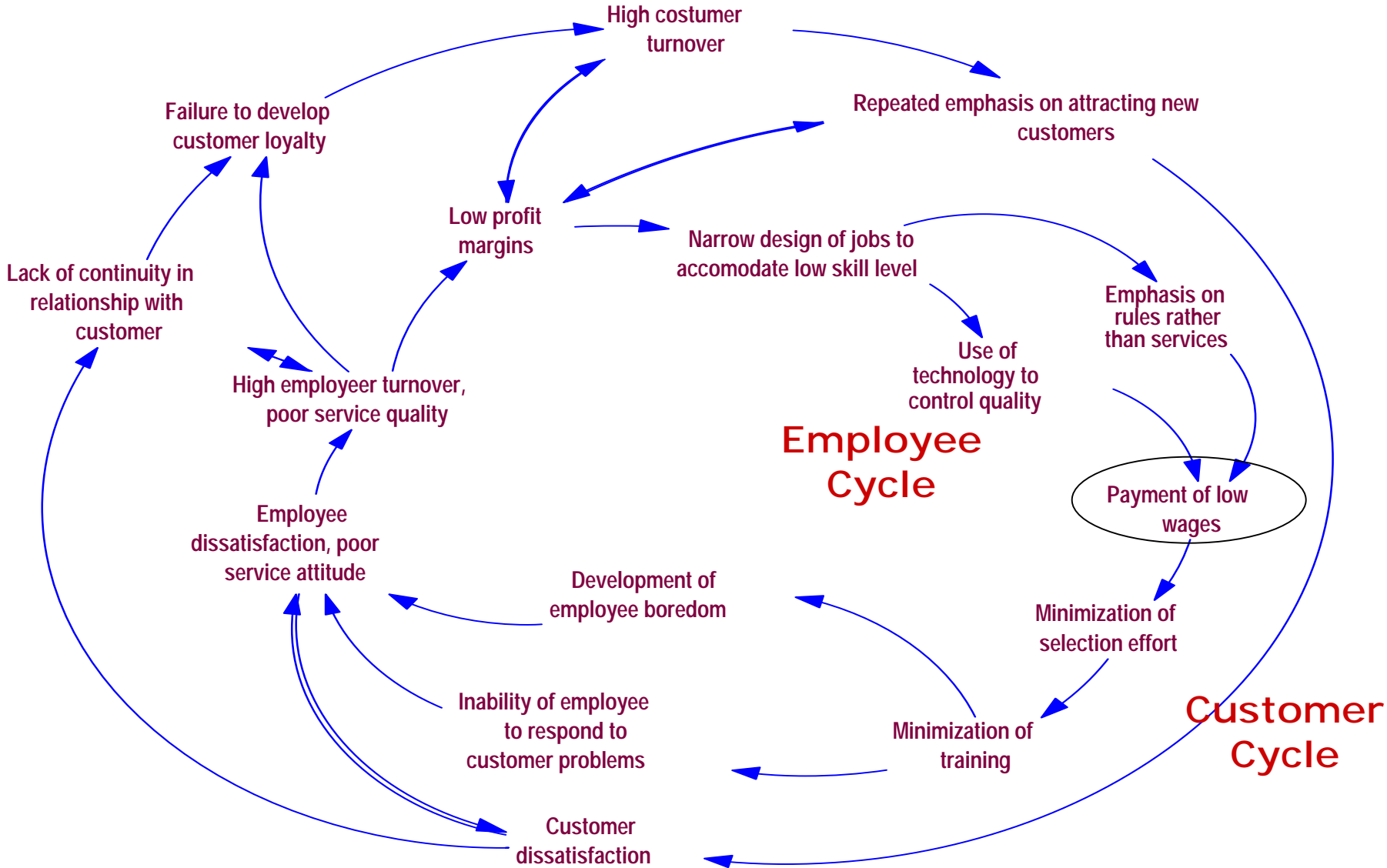


# High Performance Model: Cycle of Success



Source: Heskett and Schlesinger

# Low Performance Model: Cycle of Failure

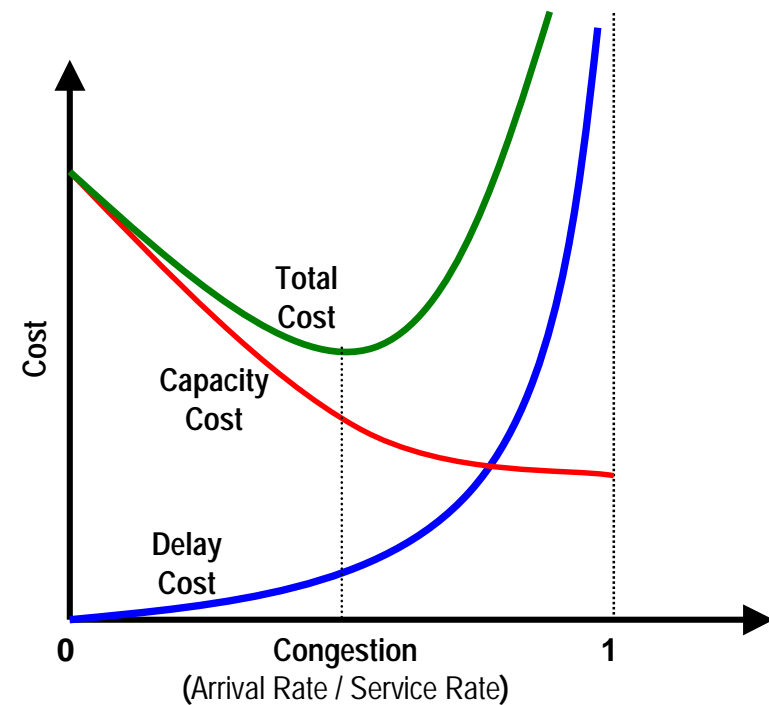
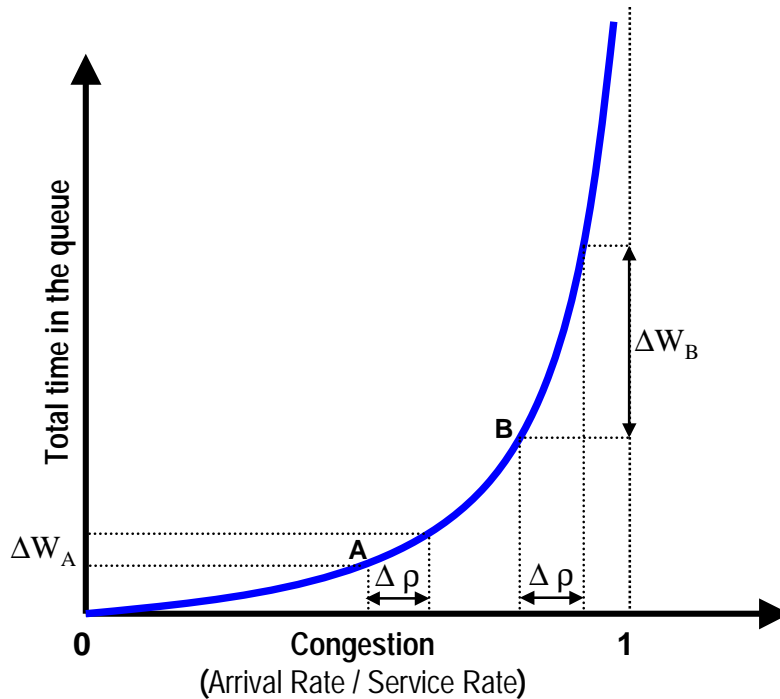


Source: Heskett and Schlesinger

# Management of Queues

## The Physics of Waiting Lines

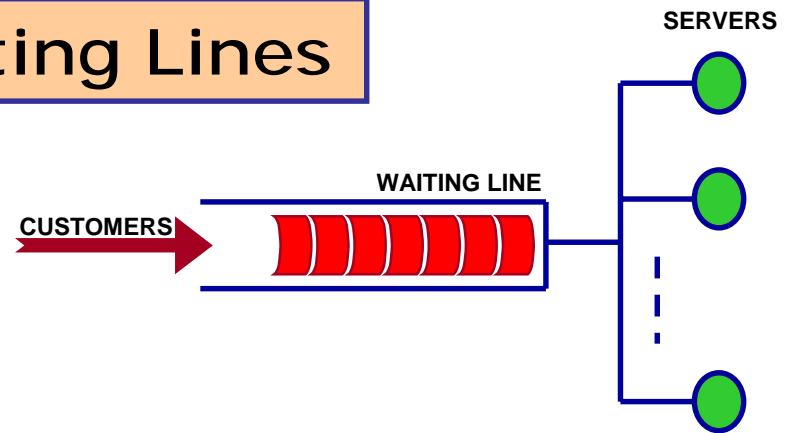
- Number and type of servers
- Waiting time, service time, and system time
- Queue discipline
- Number of people in queue
- System utilization



# Management of Queues

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## 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 seem longer than known, finite waits
5. Unexplained waits are longer than explained
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

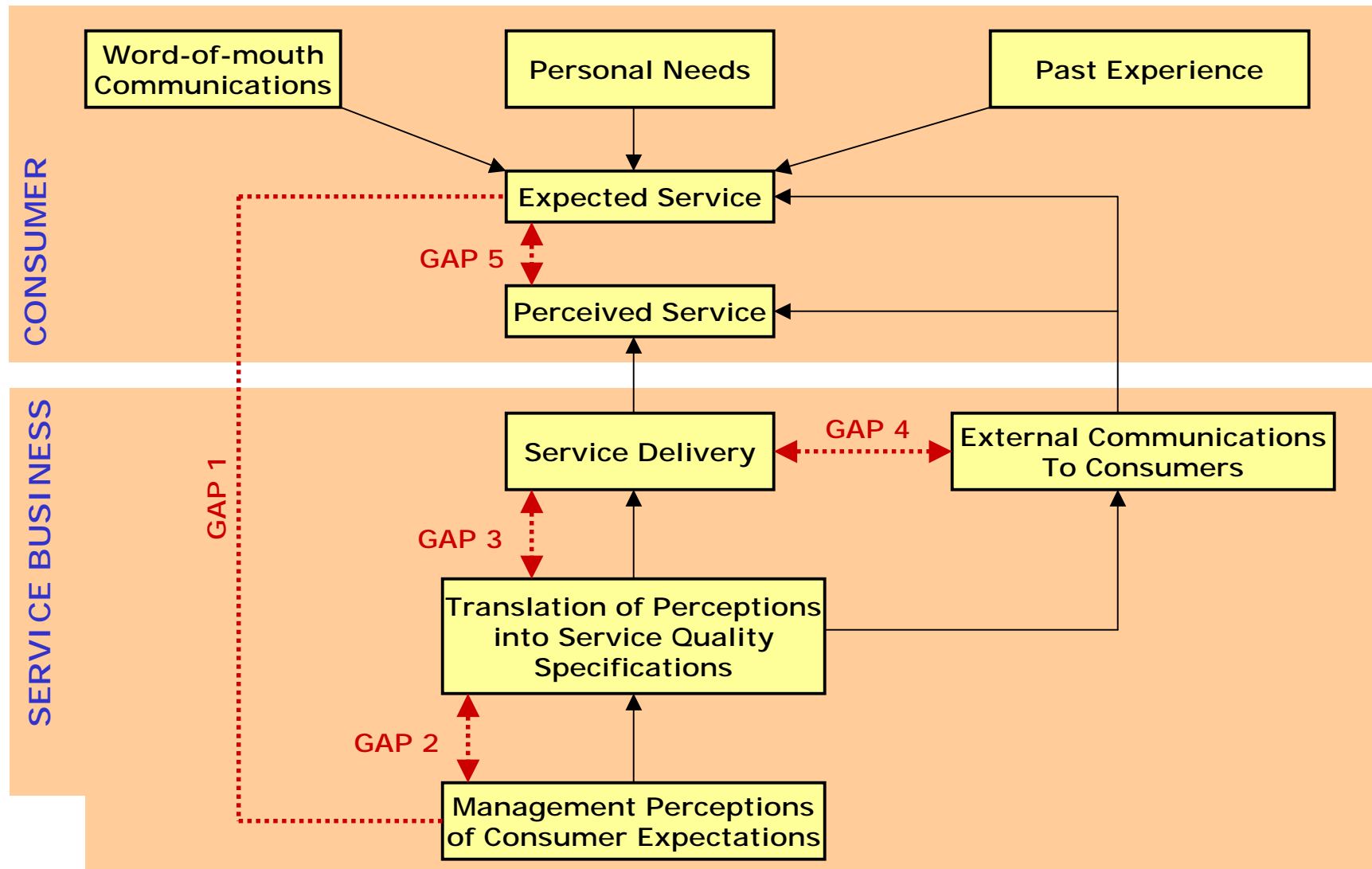
# Quality Control

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- Simultaneity
  - Eliminates ability of filter for quality
  - Almost impossible to inspect even explicit characteristics of products prior to delivery
  - Integration of functions of marketing and production hinders translation of consumer perceptions into more quantifiable production terms
- Instill quality by specification, standardization, training, and motivation (keep in mind the “heterogeneity” property of some services)



# Quality Control: *The Service Quality Model*



Quality=Perception-Expectation

# Service Guarantees

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

# Characteristics

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## A good service guarantee is:

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

# Attitudes

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- **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.”

# What a guarantee does

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- 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

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**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

# Conclusions

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Service Partnership Design & Management is a critical competence for the firm

- Concept Design & Customer Needs
- Delivery system design
- HRM: Design, Selection, Training, Motivation
- Consistency and Quality Control
- Financial and Operational Control
- Continuous Improvement
- Breakthrough Innovations