Customer Service Operations Analysis

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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

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

Customer

Products and Policies that Satisfy Needs and Desires

Effort, Skill, Respect, Positive Attitude

Ford-dealer-consumer
Dell-Service call center-consumer
Citibank-call center-consumer
Hospital-nurse-consumer
McDonalds-server-consumer
Unilever-Walmart-consumer
Some elements of the Encounter

- 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
Some elements of the Encounter (cont.)

- 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”)

Diagram:

- Server’s Respect, Skill, Effort & Attitude
- Customer Satisfaction
- Server Intrinsic Motivation
- Customer’s Reward Thankfulness
Some elements of the Encounter (cont.)

- 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

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

- 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

- **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

- Competitive Analysis
- Strategic Analysis
- Financial Analysis
- Operations Management
- Concept design
- Service Management
- External Environment
- Internal Environment
- Information about needs
- Orders Resources
- Decoupling
- Service Performance
- Manager
- Server
- Backroom
- Customer
- Marketing
- Service Interface Context
External Environment

The Outside Context to which the Business must Respond both Proactively and Reactively

• Historical and Cultural Setting
• Economic Trends
• Social Trends
• Technological Developments
• Competitive Environment

Adapted from: Bitran and Mondschein
Identification of a Service which

1. will Satisfy a Specific Customer Need,
2. in a Target Market,
3. in a Way that Adds Value,
4. for which Customers Will Pay Enough to Produce Profits
Internal Environment

The Organizational Context which Contains and Supports all the Activities within the Business

- History/Life Cycle
- Founder’s/Leaders’ Style and Values
- Corporate Culture
- Organizational Design
- Resource Constraints - Human and Capital
Breakthrough Concepts for Achieving Quality Objectives

Critical Thinking

- Breakthrough Concepts
- Statistical Process Control (6 sigma)
- Just-In-Time
- Design for Manufacturability
- Cycle Time Reduction

Objectives:
- Drive out variability
- Conform to requirements (customer and supplier)
- Zero Defects

Creative Thinking

- Breakthrough Concepts
- Values
- Empowerment
- Extraordinary Guarantee
- Experimental Development

Objectives:
- Do whatever it takes
- Total Satisfaction
- Zero Defections (customer and employees)

Adapted from: D. Hart
High Performance Model: Cycle of Success

- Customer loyalty
- Lower turnover, high service quality
- Employee satisfaction, positive service attitude
- Extensive training
- High customer satisfaction
  
  Employee Cycle
  
  - Continuity in relationship with customer
  - Low customer turnover
  - Higher profit margins
  - Broadened job designs
  - Lower turnover, high service quality
  - Employee satisfaction, positive service attitude
  - Extensive training
  - High customer satisfaction

  Customer Cycle

  - Training, human resource practices, and empowerment of frontline personnel to control quality
  - Repeated emphasis on Customer loyalty and retention
  - Above average wages
  - Intensified selection effort
  - Extensive training
  - High customer satisfaction

Source: Heskett and Schlesinger
Low Performance Model: Cycle of Failure

High customer turnover
Failure to develop customer loyalty
Low profit margins
Narrow design of jobs to accommodate low skill level
Use of technology to control quality
High employee turnover, poor service quality
Employee dissatisfaction, poor service attitude
Development of employee boredom
Inability of employee to respond to customer problems
Customer dissatisfaction
Repeated emphasis on attracting new customers
Minimization of selection effort
Minimization of training
Payment of low wages
Emphasis on rules rather than services
Use of technology to control quality
Lack of continuity in relationship with customer
Employee Cycle
Customer Cycle

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

![Graph showing total time in the queue and cost against congestion]

- Congestion = \( \frac{\text{Arrival Rate}}{\text{Service Rate}} \)
- Total time in queue
- Cost

![Graph showing cost against congestion]

- Total Cost
- Capacity Cost
- Delay Cost
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 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

• 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: *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

Quality = Perception - Expectation

Source: Zeithaml and Bitner
Service Guarantees

- 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

- A 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
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

Service Design and 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