

Best practices for service organisations

Services represent the single largest opportunity for revenue – and profit – growth for many companies. Yet, says **Hans Brechbühl**, some organisations still view activities such as product support and after-sales services as unavoidable overhead and approach new service opportunities the same way.

Increasingly, consumers want to save time in every facet of their lives. So when they buy a product, they want their local electronic, clothing or other retailer to offer complete solutions that include services ranging from installing products to no-questions-asked return departments with short queues. Consumers are looking for a comprehensive purchasing, use and support experience that is pleasant and meets a need or solves a problem quickly and efficiently. And in many cases, they are willing to pay for such value-added services – they just have to be asked to do so.

For example, some brick-and-mortar supermarkets offer online shopping for a fee. Customers type their food list into a web-based order form and then pursue other activities while the groceries are delivered to their door. Eventually, technology will even allow the ordering to be done by a refrigerator. But companies face the challenge of matching the appropriate service to their customers' needs, accurately determining the value of the service to customers and assessing their willingness to pay. This can be difficult, especially because the service needs of consumers often remain unarticulated, making it hard to identify the services desired, let alone establish how much people are willing to pay for them. Focus groups and careful observation of buying habits can help companies decide which services to implement.

It is easier to identify and quantify the value of needs in business-to-business services because these affect the bottom line and are typically tracked as cost items in a budget. Increasingly, corporations seek to buy full solutions, not just products, as they trim staff and outsource work that is not their core competency. This trend



Nearly empty: message from your fridge

affords an opportunity for pure service start-ups and product-centric companies to offer each other services.

Moving from customer satisfaction to customer loyalty

Services give companies the opportunity to increase margins, offsetting the commoditisation of products and offering a chance to differentiate their product in the marketplace by adding a value-added service to it. Providing or even anticipating desired services also helps move customers along the curve from customer satisfaction to the coveted terrain of customer loyalty.

Studies have shown that loyalty requires an emotional connection. Enjoyable, rewarding service experiences deliver just that. When a consumer purchases a light bulb at a home-improvement store, no services are involved other than the usual checkout process. Customers are satisfied in that they received what they came for but no emotional transaction took place. However, if someone comes into the store looking for a truckload of patio stone and discovers that the establishment offers a three-hour class on how to install a stone patio for \$15, that service represents an ideal opportunity to make an emotional connection with the customer that will translate into increased loyalty.

The in-store class saves the customer time by demonstrating the most efficient way to install patio stone and if the interaction with the employee or instructor is positive, the combination of the time saved and the experience surrounding the service creates increased customer loyalty. Loyalty translates into repeat buyers who recommend the experience to others.

Organising for service success

Once a company decides to offer a service, it must then decide where to launch the service in the organisation. Choosing the right home is critical to successfully offering a service. Product-centric organisations that are accustomed to a cost-reduction approach must carefully answer the following questions in order to successfully launch and grow a revenue-generating service:

- What type of service do we want to offer?
- What is the relationship of the service to my existing products (and services)?
- Are the new services likely to be a revenue opportunity or a cost centre?
- How will the service fit with my current organisational structure and culture?

Determining the nature of the service first allows you to better answer the remaining questions. For

example, do you need a service merely to provide failure recovery – that is, assisting customers that receive a bad product or service? Do you need a product augmentation service – a pull-through strategy that enables you to add associated services to a product? Or do you need an entirely new business, perhaps based on some process expertise your corporation already has?

One approach product-centric companies take is to move beyond services specifically tied to a product to offer services in the space adjacent to an existing product. The farther afield from existing products the proposed service, the more likely that an organisation separate from the product organisation should offer the service. A service that is closely related to a product is harder to separate from it, making it more likely to stay in the same business unit. The same may be true of a service that is fairly tangible and, therefore, in some ways thought of as a product.

Assessing whether the service is a revenue opportunity or a cost centre will also help determine where it should go in the organisation. It's unlikely that individuals who have spent years cutting costs from an after-sales service will successfully shift into a sales mode and turn their service into a profit-growth engine. A revenue opportunity often requires its own organisation.

Finally, companies must understand their own organisation and culture and make rational judgements about the degree of independence required to run a successful service business. Many ventures fail because they lack this insight. Some experts even advocate that it is foolish to run a service business from an existing product organisation, at least for the first few years.

Creating a service culture

Regardless of where you house your service, to create a culture in which it can thrive you must consider these points:

- Providing a vision for the service; a common objective established by the group but articulated by the leader
- Establishing a common service terminology
- Creating a mechanism for sharing stories (newsletters, “town hall” meetings and so on)
- Embedding incentive metrics that reward service initiatives and encourage learning
- Insisting on daily customer contact from appropriate senior executives.

A common mistake product-centric organisations make is to rush into the technical details of providing the service without first reflecting on the softer dimensions of establishing a service environment for the organisation.

Service interactions are different

Unlike interactions associated with the sale of a product, customers can directly affect the quality and cost of a service through their actions. Customers cannot affect the time it takes to manufacture a product but they can easily affect the length of a service interaction. If a customer, for example, purchases a computer with a service contract and calls the support technician several times in the first few weeks, the profit margin will erode rapidly. In addition, besides affecting cost, a customer's words or actions could affect the perceived or actual quality of the service. However, cost and quality are not affected when a customer simply buys a product off the shelf.

As a caveat, product-centric companies looking to add services should keep in mind that seeking more touch points with customers is not always the most desirable or cost-effective approach in the services arena for the reason just noted. Traditional service-centric companies, such as financial institutions, are now seeking to limit the number of touch points with their customers while product-centric companies, which have less end-user contact, are seeking to increase touch points.

Ensuring a positive experience

Corporate leaders and employees can take the following steps to affect customer perceptions of their interactions:

- Offer the customer choices in which the cost of the choice is low to you and the outcome is relatively irrelevant to you (for example, a choice of mobile-phone plans with different features but equal in total cost)
- Employ normative control mechanisms rather than instrumental (carrot and stick) ones
- Frame the positive snapshot; find a way to bring attention to the most enjoyed, desired or valued parts of the service interaction, framing them in the mind of the customer
- In a service recovery situation, respond in a way that corresponds to the failure (for example, if the customer has a product failure, replace the product; if they have a bad interaction with an employee, apologise don't just offer a free product)
- Ensure each experience finishes strongly; a strong ending can greatly affect the overall perception.

Service is largely about experiences: how they are perceived and how they are remembered. Your service organisation must understand and act on this fact.

Thinking about the future

Corporations should consider partnering with their value chain to offer services in the same way they partner with their value chain to manufacture a product and bring it to market. Information technology allows a diverse mix of companies to combine their competencies to deliver services in a timely, cost-effective manner. Web services, in particular, will make this ever more viable. A product-centric company's understanding of value chains makes this approach especially relevant and attractive.

With careful planning, companies can create services that complement their current products and broaden and build their expertise. In today's economy, value-added services are one of the most viable opportunities for growing revenues and profits, expanding your client base, and creating loyal customers.

This article is based on conclusions from a recent "Thought Leadership Summit on Digital Strategies", an executive roundtable series for Fortune 500 CIOs and functional vice-presidents focused on the business issues they jointly face and the enabling role of information technology. The summit was co-founded by the Center for Digital Strategies at Dartmouth's Tuck School of Business and Cisco Systems.

This recent roundtable, which examined how companies, especially product-centric organisations, can rethink current service offerings and approach new service opportunities as revenue generators, included senior executives from 3M, Cargill, Cisco, Eaton Corporation, General Motors, Lowe's and Whirlpool. They were joined by the author and senior professors, including Richard B Chase from the Marshall School of Business at the University of Southern California, Frances X Frei of the Harvard Business School, and Eric Johnson from the Tuck School of Business.

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Resources

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Hans Brechbühl
is executive director of the Center for Digital Strategies, Tuck School of Business at Dartmouth.