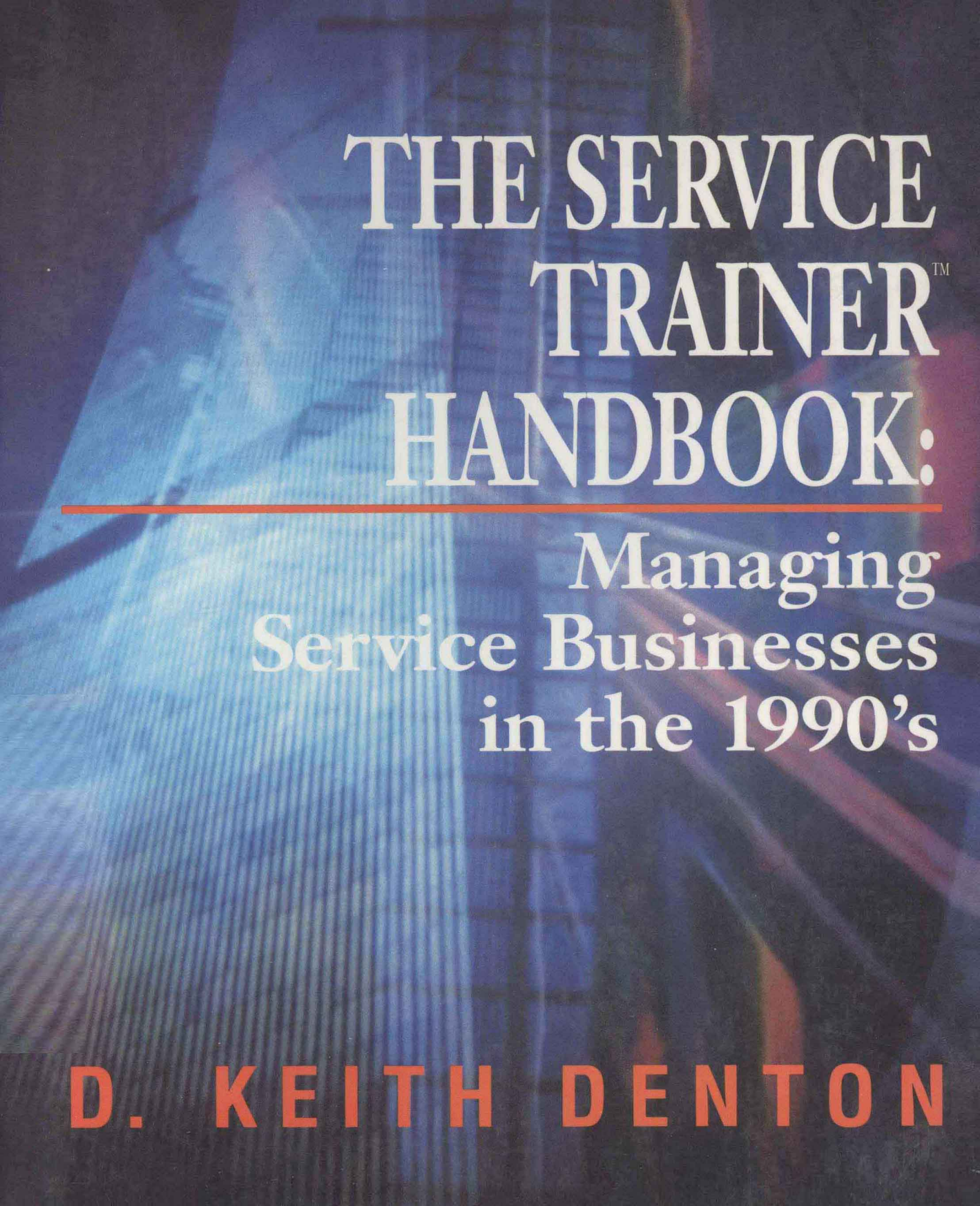
THE SERVICE TRAINER™ HANDBOOK:
Managing Service Businesses in the 1990's
D. KEITH DENTON

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About the Author

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PREFACE

Delivering high quality services is an absolute imperative in today's competitive world. The Service Trainer™ represents a two-fold approach to helping you to understand and improve service: (1) It can be used as a stand alone reader or reference text that provides valuable information on the effective delivery of high quality service; and (2) When used in combination with the game board, it is a highly interactive simulation that provides you with an opportunity to practice what you read.

The text portion of Service Trainer™ is a compact, but comprehensive look at what it takes to deliver quality service. It contains strategic and operational initiatives that can be used to improve quality as well as a wide range of how-to techniques. These techniques show how to assess, investigate, and resolve quality problems and how to get employees actively involved in the quality movement. Finally, the book contains real-life incidents that give you an opportunity to test your, and others', ability to deliver quality services.

The information in these pages can be and has been used as a stand alone resource for understanding and improving services. However, as indicated above, the book is only one part of the Service Trainer™. The Service Trainer™ simulation involves using this book, a board game, playing pieces and playing cards. Together, the book and other material help you focus both your knowledge and ability to deliver quality service.

The interactive portion asks that you read and understand the material in these pages, then play the simulation. In the actual simulation, you (usually along with team members) roll a die, draw cards, move around the board and collect "Gold Service" cards by applying what you have learned. It is an enjoyable way of enhancing both your knowledge of services and ability to deliver them.

This book and simulation also contains another unique aspect. In these pages, you will find real-life incidents, or what Jan Carlzon, President of Scandinavian Airlines System, calls "moments of truth." These incidents

place you in the middle of a service situation and ask you to use your knowledge and judgment to choose the best way of handling the situation.

This process of making real-life decisions and assessing your ability to deliver services is the best approach to learning, and helps fine tune your service abilities.

At the back of this book is a playing board that can be used to play the simulation. Playing cards, rules and other materials are provided in the Instructor's Manual.

This book, along with the rest of the simulation, can be used as a corporate service training tool. It has been used in universities to teach both the concept and application of quality service. It can also be used by individuals to enhance their own service ability and judgment.

ACKNOWLEDGEMENTS

This book and simulation was a team effort. Dozens of practitioners, students and colleagues contributed helpful ideas, especially those of Charles Boyd. It would also not have been possible without the help and support of friends and family. A special thanks is also due to Frank Burrows, P/OM Editor at McGraw-Hill and to Lynn Grable whose word processing talents and perfectionist attitude were invaluable.

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STRATEGIC AND MANAGERIAL ISSUES

Today customers, and in particular service, are on everybody's mind. A Gallup poll of top executives asked them what was the most critical challenge facing them. Some said government regulations, labor relations and even productivity; but the unquestionable winner was service and product quality.

Probably, the best reason for concern for service is the fact that it makes good business sense to improve it. Studies in various fields, including retailing and banking, show the value of investing in improving services. One indication of its value was noted by a consulting firm that examined complainers and found that the average return on investment was well over one hundred and fifty percent. Put another way, if a business invests $100,000 in effectively handling complaints and inquiries, it could reap a "profit" of over $50,000 above this cost.

COST OF POOR QUALITY

Good service pays; it pays in customer loyalty. Ford figures it costs five times as much to attract a new customer as it does to retain an old one. IBM's Rochester, Minnesota facility won a Baldridge Award in 1990. It makes the AS/400 midrange computer. IBM estimates that if it can improve satisfaction one percent for its AS/400 customers worldwide, it will gain more than $200 million over five years.

Clearly customers want good service and at least some executives recognize that customers want it. Those who have lost market share because of poor quality understand the value of good service. General Electric (G.E.) is one of those who recognize the cost of poor quality. G.E.'s Answer Center is considered one of the best 800-number networks. The company values their center so much that one must have a college degree and sales experience to work at the center. Their Answer Center costs G.E. more than $10 million a year to operate, but the company figures the payback from incremental sales is more than twice that amount.

Consultants say that G.E. could add $40 to the price of their refrigerator because customers know they can call the Center with a problem.[1] Such a payback for good service is fairly typical. It simply makes good business sense to provide customers with good service. Despite this, few managers and businesses really understand service or how to deliver it.

The cost of poor service is often not fully appreciated nor understood by many managers. Studies have shown that while the cost of poor quality may exceed 20 percent of manufacturing production cost, it may even be higher in services - as high as 40 percent of the operating costs of some service firms.

So what are some of the problems associated with poor quality? These include such things as lost customers, liability (for defective products and services), lawsuits, scrap, rework, repairs and even administration of warranties. All of these problems can be classified as **failure costs.** These are costs that are due to internal or external failure because a company produced defective products and services. Idle equipment and cost of handling complaints and delays are other typical failure costs. Writers Ross Johnson and William Winchell note that **failure** costs along with **appraisal** costs (e.g., inspection, testing, maintenance, etc.) and **prevention** costs (e.g., education, training, working with suppliers) are all involved in assessing the cost of quality. It is true that some costs will also be required to maintain quality (prevention costs), but it is far less expensive to prevent quality problems than to try to correct them. However, even the best companies face quality challenges. As George Fisher, President and CEO of Motorola, Inc., said, "It is amazing to realize that high quality companies still waste about 10 percent of sales in the production and distribution process due to less than perfect quality. The potential for financial improvement, as well as improved customer service is enormous."[2] Certainly having the ability to charge premium prices because of the quality of the service offered is something at least some companies like Byerly's, Nordstrom, and Nieman-Marcus understand.

DEFINING SERVICE

Almost 70 percent of all employment in the United States is in the service sector and it is getting bigger. At least 85 percent of all new jobs are in the service area. Who are these service providers? Secretaries, sales people and even executives are service providers. In fact, almost half of those in manufacturing perform service functions. It is service's sheer size and complexity that provide the greatest challenge.

To many, service means waiting on someone, but it is much more than that. In retailing it also means having enough inventory so customers see the organization as reasonably reliable and dependable. Merchandise also has to be effectively presented and the necessary information has to be available if customers are to perceive they have received quality service.

A well-known researcher in the service area, a Professor Parasuraman, noted that quality service is when one meets or exceeds the customers' expectations. He said usually when customers talk about quality service they want it to be reliable and for the business to deliver what was promised. As the old adage goes, "only promise what you can deliver and deliver what was promised." Surprisingly, Parasuraman also said customers generally expect employees themselves to be clean as well as accurate and empathic. Obviously though, the definition of service depends on one's customers' expectations.

RISING EXPECTATIONS

According to the Yakelovich Clancy Sulman poll taken in the spring of 1990, Americans rank quality's components in this order: reliability, durability, easy maintenance, ease of use, a known or trusted brand, and finally, a low price.[3] The conclusion is that people will spend more to get more. In the same article, Fortune noted evidence of this attitude was seen in a 1988 Gallup survey that found shoppers would pay 72 percent above the $500.00 base price for a sofa that was a better piece of furniture.

Only three years earlier, customers would pay only 40 percent more for the same furniture. A similar shift in attitudes was noted for other products.[4]

Customer expectations seem to be rising. For many, being able to deliver 95 percent quality service was exceptional; 99 percent was thought to be unrealistic. Today, there are world-class organizations like Motorola which have gone well past this high standard through a program called Six Sigma. Six Sigma is a statistical term that essentially means Motorola wants to achieve a quality level of incurring only 3.4 defects per million opportunities. This means their goal is 99.90997 percent perfect product or service. Sound unreasonable? Well, they are already achieving it in many of their products and services. They see it as a competitive necessity.

After all, 99 percent good service is not always that good. If the mail service operated on that percentage, there would be 20,000 lost articles of mail per hour. Physicians would perform 5,000 incorrect surgical operations per week. Likewise, there would be unsafe drinking water almost 15 minutes each day or 200,000 incorrect drug prescriptions per year. There would be no electricity for almost seven hours each month, and two short or long landings at most airports each day.

While some may believe that providing 99 percent good service is beyond the ability of most organizations and people, many nevertheless are under pressure to upgrade their service efforts. In the United States, customers expect better service today than they have in the past, and it is not that Americans are particularly picky. In Germany, people complain if their newspaper is torn when delivered. We just complain (sometimes) if it does not show up, but we are learning to expect more. We will have to expect more of ourselves if we expect to be world class. A working definition many companies are using is "do it right the first time." Their goal is no mistakes, no backtracking, no repairs, and no complaints. Increasingly, this is the direction world-class service organizations are taking.

ROAD BLOCKS TO IMPROVED SERVICES

With all the rising customer expectations and increasing competition, why isn't quality improving any faster than it is? Studies by the Institute of Industrial Engineers show that there are many reasons for the lack of quality improvement. Having management that does not understand how to improve quality, insufficient training, inadequate productivity and quality measurement systems were commonly mentioned road blocks. Also among the top reasons for poor quality was having management that was more interested in short-term financial gains rather than long-term investment in quality improvement programs.

The concept of service as it relates to market share is one worth reviewing. If services are to be significantly improved, management must adopt a long-term perspective. The usual argument made against taking the long-term perspective is that the stockholders and investors are only interested in the next quarter's dividends.

Not so, according to studies in this area. Research shows that investors are placing "considerable value on profits that will not be earned for another five, ten or twenty years."[5] Outstanding companies, like Coca-Cola, are taking investment opportunities because they are spending heavily to protect market share in the United States and to expand opportunities overseas. The result is that in 1987 Japan contributed more to the company's operating capital than did the United States. Coke's bright future, notes the article in Fortune, is a more powerful force in driving the stock up than its excellent near-term profits. Furthermore, on the stock of the twenty largest publicly traded companies, it was found that all of those companies get well over half their value from prospects that are more than five years in the future. Michael D. Eisner, CEO of Walt Disney, says, "I think in terms of decades."[6] Long-term market share management works, and delivery of high quality service is certainly one way to insure long-term prosperity.

Throughput

Another long-term managerial perspective that relates to service is the concept of cycle or throughput time. Throughput is the time it takes from the moment the customer places their order until they receive it. The more management focuses on this total approach, the greater the likelihood that one will be able to deliver quality service. It is analogous to saying "make it right the first time." If there are no errors, no mistakes, no repairs, and no defects, then speed will be maximized.

The push for speed is everywhere in services. Citibank introduces as many as three new financial services a week. The Limited rushes fashions off the design board into its 3,200 stores in less than sixty days. IBM development time for mainframes dropped from three years to eighteen months. Honda and Toyota take a car from concept to market in three years versus five for General Motors.[7] AT&T used to take two years to design a new phone; now it only takes one year, and Motorola used to turn out electronic pagers in three weeks; now it only takes two hours.[8]

How do they get this speed? One way is through **simplified and standardized design.** Domino's Pizza only serves pizza and Coke and minimizes sit-down service. It is no wonder they frequently make the offer, "Thirty minutes or it's free." Federal Express only has five levels of management from top to bottom. IBM succeeded by reducing the number of cabinets that contain their computers. Motorola totally redid their product and process design by simplifying and standardizing it.

Of course, **better technology** sometimes helps to gain speed. One form of technology called Expert Systems is computer programs that help managers and technicians make decisions. They can be customized to help a decision maker arrive at the best solution in a rapid and thorough manner. They are growing in popularity. DuPont has made extensive use of Expert Systems and expects to have 2,000 of them operational. They also expect a 10 percent increase from these systems.[9] Bar coding, computer-aided design and expert systems are only a few of the technological innovations that have improved the speed of services. Motorola's automated factory in

Florida was a big factor in reducing their throughput time. Union Pacific was also able to significantly increase their customer satisfaction by using technology to make it easier for customers to communicate. They also found that they could increase the speed, as Federal Express did, by eliminating levels of management and pushing responsibility down through the organization.

Bureaucracy

What many services are discovering, as Union Pacific and Federal Express did, is speed and customer satisfaction cannot come easily unless the organization is somewhat decentralized. Allowing individual front-line service providers to make decisions quickly rather than forcing it down from "corporate" headquarters can be a potent tool in decreasing throughput. We already know that giving responsibility for quality to front-line employees reduces the need for inspectors. Speed comes directly from giving front-line individuals autonomy, responsibility and flexibility.[10] Decision-making has to be pushed down to the lowest operational level. Red tape, bureaucracy and middle managers are enemies of speed.

One of the best ways to reduce bureaucracy to improve speed is to reduce the needs for approvals from above. Hans Van der Velde, Managing Director of Adca Bank, a subsidiary of Germany's Rabobank, notes that in the past someone at a branch sent loan papers to someone at the headquarters who was looking at them and changing them. Then his boss was looking and changing. All these layers were useless. The bank got rid of five layers and gave officers at all branches more authority. Before it took 24 hours to approve loans--now it takes 12 hours.[11]

Restructuring an organization to eliminate the bureaucracy and excessive use of approvals can only occur when the CEO supports it. However, the CEO's support is not enough to guarantee success. Everyone must get involved in the process of building speed. Take the case of G.E. This massive organization consists of 13 separate businesses including service organizations like medical systems, engineering, major appliances, financial institutions, and even NBC television. They are a diverse business,

employing 300,000 people and normally rank first or second in their respective markets. Their chairman, John F. Welch, is a true believer in the necessity of reducing the bureaucracy. When he took over the job of CEO, he began eliminating layers, reducing bloated employment, and streamlined the organization.[12]

Early on he realized he would need help if he had any hope of reducing the bureaucracy in this 113-year-old organization. He believed that for a large organization to be effective, it must be simple. To be simple, people must have self confidence and intellectual self assurance. He felt insecurity breeds complexity and creates an extensive approval and double check process. To reduce the bureaucracy, he had to change the definition of the corporate headquarters to an entity that would assist rather than oversee. His efforts included eliminating multiple approvals, unnecessary paperwork, red tape, reports, routines, rituals and other unnecessary tasks.[13]

The key to his success was getting others involved in this process, a term G.E. calls "Work Out." The objective is simple: remove the unnecessary effort and work out of the work place. To aid this process, Welch and management organized "town meetings" with large cross sections of their business. It is estimated that 20,000 to 25,000 engineers, customer service people, as well as other hourly and salaried people attended these meetings each year. Participants in the work out sessions come from all organizational levels and are chosen for their expertise and interest in a particular work out subject. After each meeting, follow up meetings occur where results are reported.

A typical example of this approach was a work out meeting for a G.E. Medical Supplies business. In their work out session, an X-ray Unit in Milwaukee identified 55 items that could be eliminated or simplified. In one case, the group determined that the head of the computing lab should be able to spend petty cash and sign approvals without permission of the supervisor.

Adca Bank and G.E. are not the only businesses improving services through decentralization. Nordstrom, a high service and highly successful retail chain of stores, has only 70 percent of their merchandise similar from one store to another; 30 percent is unique from one store to the next. Each salesperson at a store has their own client list and a commission on all of his/her sales. These sales people also personally handle their customers' returns and complaints.

System Considerations

A final roadblock to speed involves how work is organized. People and equipment will simply burn out if all we do is expect them to work faster and faster. It is the system you design to deliver services that is most important to doing it right the first time. Design, production and marketing personnel need to get together to assess why they are not getting speed. It may mean developing new technology, new training or even involve the relationship with suppliers. Today, for instance, companies are reducing the number of suppliers, thereby allowing closer relationships; bringing them in during the initial design; offering them long-term contracts; and de-emphasizing the lowest bid, all in order to improve quality.

Market share, quality service and speed are all interrelated. Speed increases market share because customers want their order immediately. This cannot happen unless the service is properly managed.

MANAGERIAL GUIDELINES

There are several guidelines or principles involved in delivering quality service.[14] First among these is the need for managerial vision. Any leader must have vision or else they are simply a manager. Managerial vision involves more than simply having an idea for the way things should be; it also entails having the ability to get others to accept one's unique perspective for the way a business should be run.

An example of an organization operating with and without vision is Domino's Pizza. In 1960 at age 23, Thomas S. Monaghan, founder of