



Service excellence

Learning guide

Service excellence

Introduction

This learning guide is one of a series produced by the Learning Resource Centre (LRC) at Ashridge. Each guide sets out to give you a quick summary of the main theories on a particular topic backed up by a practical commentary based on Ashridge's long experience of consulting and teaching management issues. We hope that it whets your appetite for more information. The guide points you in the direction of other sources such as key books, articles and videos.

Where to start

If you have less than an hour then read the overview section and have a look at the exercises in the development activities section.

If you have longer, take a look at either or both of the videos below:

A Passion for Customers – Melrose Video (57min)

Management guru Tom Peters presents an entertaining and instructive video examining the reasons for success of five organisations from a diverse range of industry and service.

Service Excellence – Melrose Video (2 tapes each approx. 45min)

Ron Zemke, co-author of 'Service America', examines the characteristics of the customer focused organisation and demonstrates the concepts of 'Moments of Truth' and the 'Service Triangle'

There is a 'customer service' file in the information files sector of the LRC containing useful articles on the subject. Some interesting further reading is detailed in the resources section.

Resources

Videos

Despite being quite old, the following two videos are classic and the concepts introduced are still highly relevant.

A Passion for Customers, (1987), Melrose, 57mins

Management guru Tom Peters presents an entertaining and instructive video examining the reasons for success of five organisations from a diverse range of industry and service.

Service Excellence, (1986) Melrose, 2 tapes each approx. 45mins

Ron Zemke, co-author of 'Service America' examines the characteristics of the customer focused organisation and demonstrates the concepts of 'Moments of Truth' and the 'Service Triangle'.

Other more recent videos which may be of interest are as follows:

Spend a Day in the Life of Your Customers (1996) Harvard Business School

This programme is based on the Harvard Business Review article of the same title by Gouillart and Studivant. In the article the authors state " a senior executive's instinctive capacity to empathise with and gain insights from customers is the single most important skill he or she can use to direct technologies, product and service offerings, communications programmes, indeed all elements of a company's strategic posture". This video aims to convince managers that developing a deep personal understanding and empathy with customer needs is important.

Secret Service: Making Customer Service Work (1994) BBC for Business

'Secret Service' has been designed for managers at all levels who are concerned about the importance of customer service. Hidden cameras in five companies

see how the staff really treat their customers. The videos identify the areas on which managers need to concentrate to achieve the most efficient and effective customer service. The package will: help managers appreciate the importance of their role in providing customer service; give line managers the skills to make high quality customer service work; outline a course for developing procedures, people and resources; give examples of good and bad service.

Journal articles

Antonacopoulou, Elena and Kandampully, Jay (2000) *Alchemy: the transformation to service excellence*, The Learning Organisation, Vol. 7, No. 1 p13-22.

Edvardsson, Bo (1998) *Service quality improvement*, Managing Service Quality, Vol. 8 No.2, p142-149.

Johnston, Robert (1987) *A framework for developing a quality strategy in a customer processing operation*, International Journal of Quality and Reliability Management, Vol.4, No.4, p35-44.

Parasuraman, A. Zeithaml, V. and Berry, L.L. (1991) *Understanding customer expectations of service*, Sloan Management Review, Spring.

Parasuraman, A. Zeithaml, V. and Berry, L.L. (1985) *A conceptual model of service quality and its implications for future research*, Journal of Marketing, Vol. 49, p41-50.

Books

Books marked with ** are available for sale from the bookshop in the Learning Resource Centre at Ashridge.

Email: celia.tucker@ashridge.org.uk or Tel: +44(0)1442 841159

Albrecht, Karl and Zemke, Ron (1995 reprint edition), *Service America: Doing Business in the New Economy*, Warner Books

Ashridge shelf reference: **KW (ALB)**

This book shows how service management can turn a company in any kind of service field into a customer-driven and service oriented business. The authors explore techniques used by organisations that have successfully made the service transition and present a workable approach for instilling service excellence into every niche of an organisation.

Anderson, Kristin & Zemke, Ron, (1997 revised edition) *Delivering Knock Your Socks Off Service*, Amacom

Ashridge shelf reference: **JUT (AND)**

This book sets a baseline definition of exceptional customer service in a practical, useful and fun to read format. It is a great desk reference for anyone interfacing with customers and anyone supporting those who interface with customers.

Carlzon, Jan (reprint edition 1989), *Moments of Truth*, Harper Collins

Ashridge shelf reference: **JZD (CAR)**

This book can be considered a prime example of how to explain a business strategy on very few pages and in an entertaining way. The central element of Carlzon's line of reasoning is the "moment of truth", which comprises the notion that a service company's overall performance is the sum of countless interactions between customers and employees, the so-called moments of truth that either help to retain a customer or send him to the competition.

Fitzsimmons, James A; Fitzsimmons, Mona J (2003), *Service Management*, McGraw-Hill, 4th edition.

Ashridge shelf reference: **JT (FIT) ****

This text is written in an engaging literary style, makes use of examples and is based on the research and consulting expertise and experience of the authors. Emphasis is placed on the need for continuous improvement in quality and productivity in order to compete effectively in a global environment.

Heskett, James et al. (1997), *The Service Profit Chain; How Leading Companies Link Profit and Growth to Loyalty Satisfaction and Value*, Simon & Schuster
Ashridge shelf reference: JUT (HES)

In this book, world renowned Harvard Business School service firm experts reveal that leading companies stay on top by managing the "Service Profit Chain". They show how managers of leading organisations employ a quantifiable set of relationships that directly links profit and growth to not only customer loyalty and satisfaction, but to employee loyalty and customer loyalty, and productivity.

Reichheld, Frederick F (1996), *The Loyalty Effect; The Hidden Force Behind Growth, Profits, and Lasting Value*, Harvard Business School Press
Ashridge shelf reference: JUT (REI) **

In this book the author demonstrates the power of loyalty based management as a highly profitable alternative to the economics of perpetual churn. He lays out the principles that connect value creation, loyalty, growth and profits and shows how great companies like Toyota/Lexus have used these principles to build unassailable franchises of loyal customers, employees and owners.

Useful websites

TARP: www.tarp.com

Over the past thirty years TARP, a specialist and innovator in the measurement of customer satisfaction and loyalty, has acquired substantial experience and developed sophisticated economic models to provide blue chip organisations with comprehensive insight into their customer performance.

Overview

Introduction

As global competition in virtually all markets intensifies and customer requirements and expectations increase, it is no longer enough that our products and services are priced correctly and are of satisfactory quality. In order to attract and retain profitable customers our organisations must ensure that we are able to provide them with a full range of value adding services, specifically targeted to their needs and expectations and resulting in solutions to their concerns and problems. Both manufacturing and service organisations are utilising value adding services as a source of differentiation and competitive advantage. Increasingly the success of our own organisations relies on providing service excellence.

Service excellence

Service excellence means different things to different customers as different customers will have different requirements and different perceptions of what they consider good service to be. A customer deems that they have received excellent service when their perception of the service they have received is higher than their expectations.

There are five principal considerations used by customers to judge whether an organisation is providing excellent service:

- **Reliability** – the ability to perform the promised service dependably and accurately
- **Assurance** – the knowledge and courtesy of employees and their ability to convey trust and confidence.
- **Tangibles** – the appearance of physical facilities, equipment, personnel and communication materials.
- **Empathy** – the provision of caring, individualised attention to each customer.
- **Responsiveness** – the willingness to help customers and provide prompt service.

Many organisations who examine the question of service quality do so after the event. Frequently this is too late because the customers' perception is that they have not received good service and they may not return.

Service excellence is more than an adjunct to increase operational efficiency. It involves all the actions and reactions that customers perceive that they have purchased. It is part of the marketing mix but is almost invariably provided by operational staff and systems. The ability to recover when things go wrong in the service delivery is a critical management issue. Managing service delivery requires a holistic approach. The management of customer and staff operations is an essential element in ensuring a balanced operation (figure 1). The service delivery system requires appropriate design and continual management.

Figure 1 The service delivery system



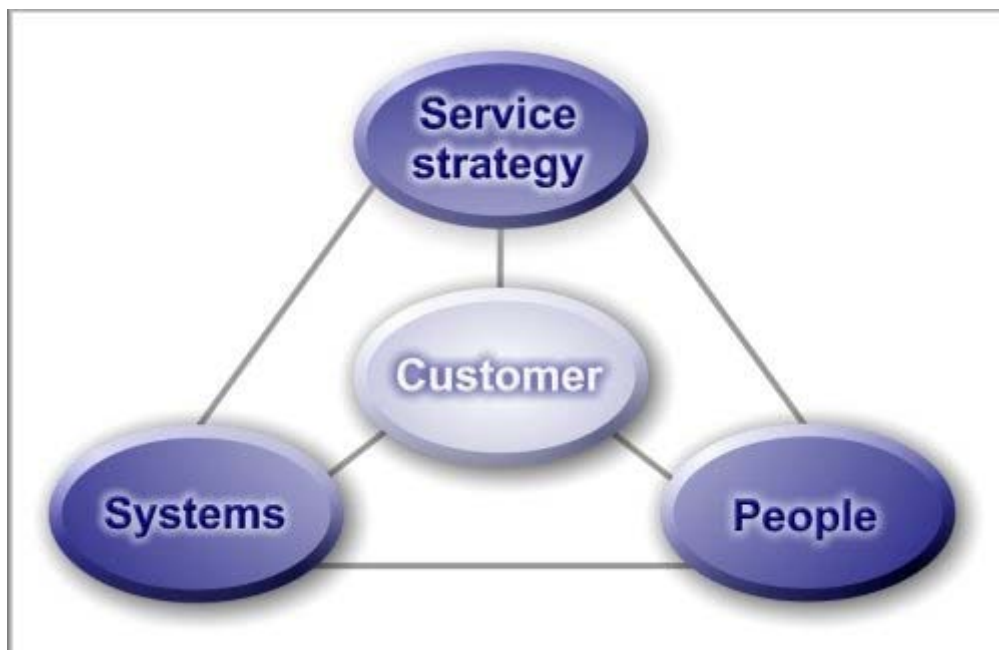
Source: Johnston, Robert (1987) *A framework for developing a quality strategy in a customer processing operation*, International Journal of Quality and Reliability Management, Vol.4, No.4, p35-44.

The service triangle

The service triangle (figure 2) is a simple model for an organisation that aspires to provide service excellence. It was proposed by Albrecht & Zemke in their book

Service America, a critical examination of the service ethos in the US in the early 1980's. They identified a number of characteristics that could be identified in all the organisations recognised as providers of excellent customer service. In all these organisations, the customer was central to everything they did.

Figure 2 The service triangle



Source: Albrecht, Karl and Zemke, Ron (1995 reprint edition), *Service America: Doing Business in the New Economy*, Warner Books

The foundation of a successful service operation is a well defined service strategy that directs the attention of the people in the organisation to the real priorities of its customers. The strategy should be a non-trivial statement of intent, must make a noticeable difference and must be deliverable. The service strategy should be uppermost in the mind of all the staff in the organisation and all the activities in the organisation should be directed to fulfilling the strategy.

The systems by which the products and services of the company are delivered to the customer must be designed for the convenience of the customers but at the same time should be easy to use for the employees. They should be self-correcting and invisible to the customer.

The people who are in direct contact with the customer are the most visible part of the model. They must be responsive, attentive and willing to help the customer in any way. They should be empowered to work on the behalf of the customers and the function of all those who are not in direct contact with the customers should be to support them.

Moments of truth

Jan Carlzon, the president of SAS, first articulated the concept of 'Moments of Truth', in his book of the same name. SAS used the moment of truths concept, together with a particular targeting of the business traveller market, as the basis of their business strategy in the early 1980's at the time of the oil crisis. In the first year of utilising the strategy the company was able to increase earnings by \$80m at a time when the combined losses of other airlines was in excess of \$2bn. In the first three years of the strategy SAS was able to increase the number of full fare passengers by 23% and discount passengers by 7% in a stagnant market.

A moment of truth is any particular point of time where the customer interacts with the products, systems, people or procedures of an organisation, and makes a judgement about the quality of the organisation itself or the products and services it provides.

Each moment of truth provides an opportunity to delight the customer and reinforce his or her perception of the organisation as one that they like to do business with. Conversely, each one provides a potential point of dissatisfaction with the product or service received with the ultimate result that the customer might be lost.

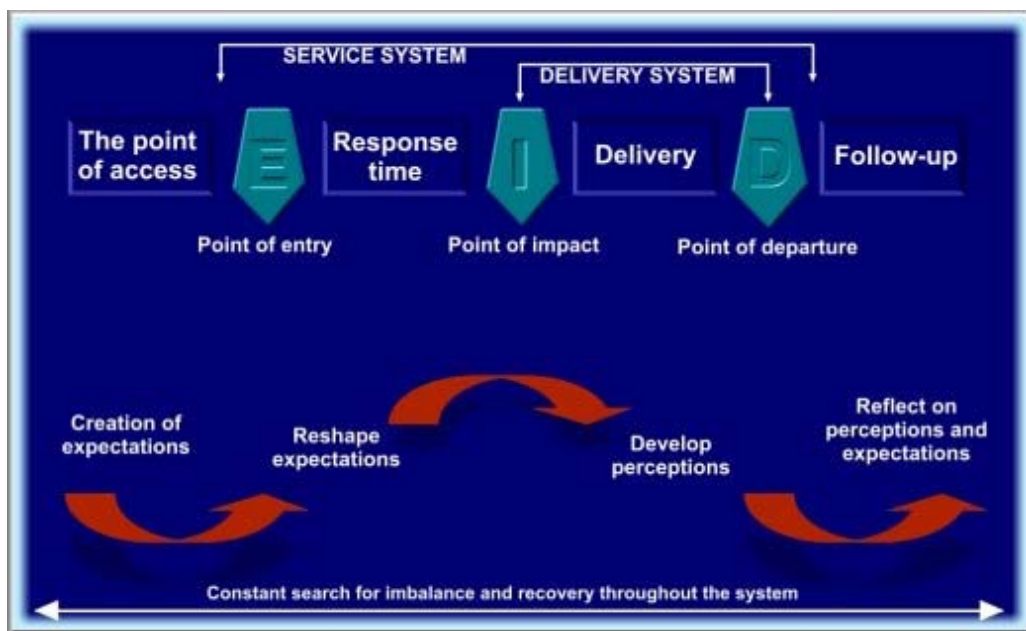
The moment of truth concept requires a particular organisational structure whereby the front line employees, the ones that interact with the customer, are empowered to take whatever steps are necessary to ensure customer satisfaction in line with the overall goals and strategy of the organisation. The role of management in such a system is to support and facilitate the front staff in performing this role. Carlzon describes this structure as a flattening of the traditional pyramid of the organisation. He says "*Any business organisation seeking*

to establish a customer orientation and create a good impression during its 'moments of truth' must flatten the pyramid – that is, eliminate the hierarchical ties of responsibility in order to respond quickly and directly to customers' needs. The customer-oriented company is organised for change."

The customer (or order) processing model

The customer processing model was developed by R. Johnston to show the stages involved in processing a customer through a service operation and identifies the points during the process where the expectations and perceptions of the customer can be influenced (figure 3).

Figure 3 The customer processing model



Source: Johnston, Robert (1987) *A framework for developing a quality strategy in a customer processing operation*, International Journal of Quality and Reliability Management, Vol.4, No.4, p35-44.

The factors which influence the provisions and perceptions of service quality at each stage of the process can be summarised as follows:

Point of access - the act of choosing between competing service providers:

- Understanding of the customer processing operation
- Ability to balance customer and staff expectations
- Identifiable range of achievable expectations
- Identified market segment

Point of entry – the customer’s first interaction with the service (in person or by phone, fax, email etc.)

- Ease of entry
- Signposting
- Customer training

Response time – the time the customer is waiting for a response.

- Waiting time
- Conditions during waiting period

Point of impact – initial acknowledgement of and response to the customer in the service system

- Staff knowledge of services, customers and customer requirements
- Staff social skills

Delivery – provision of the service and associated products to the customer

- Staff ability to recognise requirements, negotiate treatment and personalise service
- Staff social skills

Point of departure – customer physically leaves service system

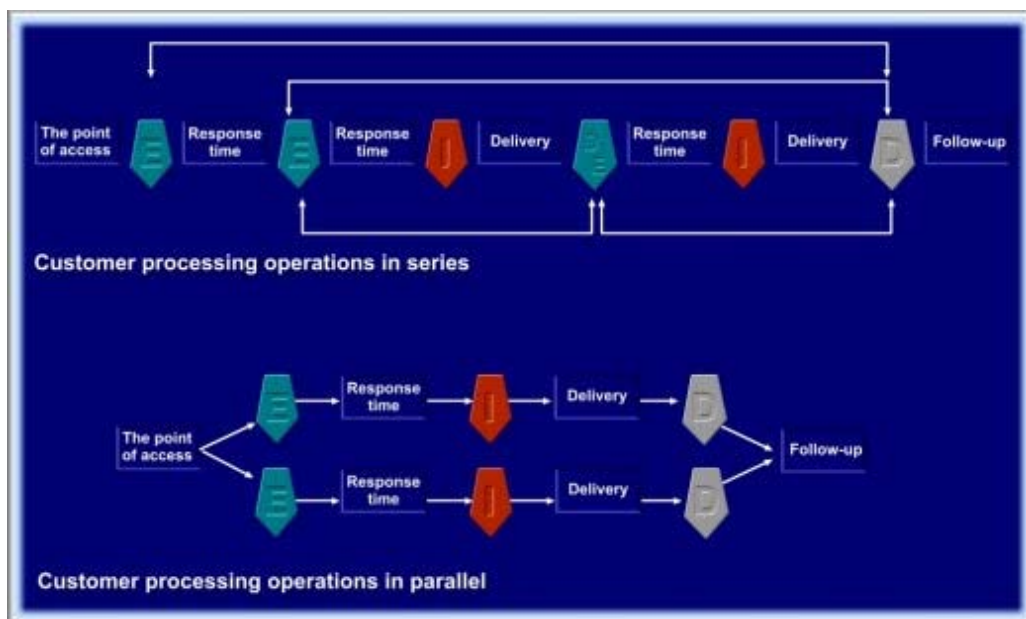
- Staff ability to assess mismatches, customer concerns, show recognition of the customer view, negotiate appropriate recovery and appease if necessary.

Follow-up – reflection by the customer on the quality of the service they have received

- Assessment of imbalance
- Measurement of the quality of service
- Take appropriate action.

Most service systems are complex operations and may involve a combination of customer processing operations in series and parallel (figure 4).

Figure 4 The customer processing operations in series and parallel

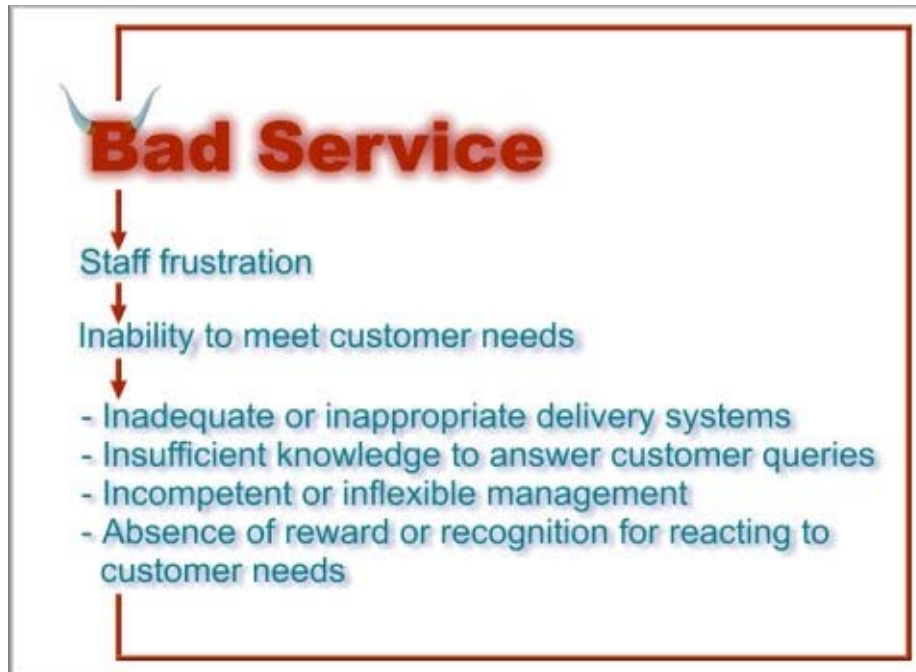


Source: Johnston, Robert (1987) *A framework for developing a quality strategy in a customer processing operation*, International Journal of Quality and Reliability Management, Vol.4, No.4, p35-44.

Result of poor service

The result of poor service is a vicious circle that leads to deterioration in service performance (figure 5).

Figure 5 Poor service

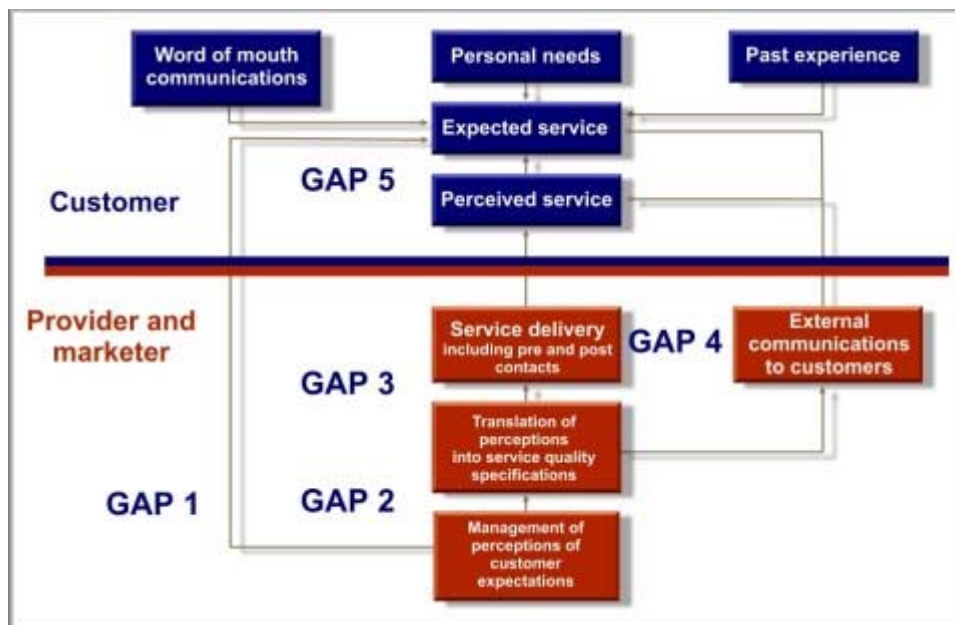


Source: Ashridge, based upon Johnston, R.

The service quality model

The service quality model (figure 6) was originally developed in the USA by Parasuraman *et al* working in a number of leading financial institutions including Citicorp and Amex. It identifies a number of potential gaps in the provision of services that organisations need to minimise and if possible eliminate in order to ensure that service excellence is achieved.

Figure 6 The service quality model



Source: Parasuraman, A. Zeithaml, V. and Berry, L.L. (1985) *A conceptual model of service quality and its implications for future research*, Journal of Marketing, Vol. 49, p41-50.

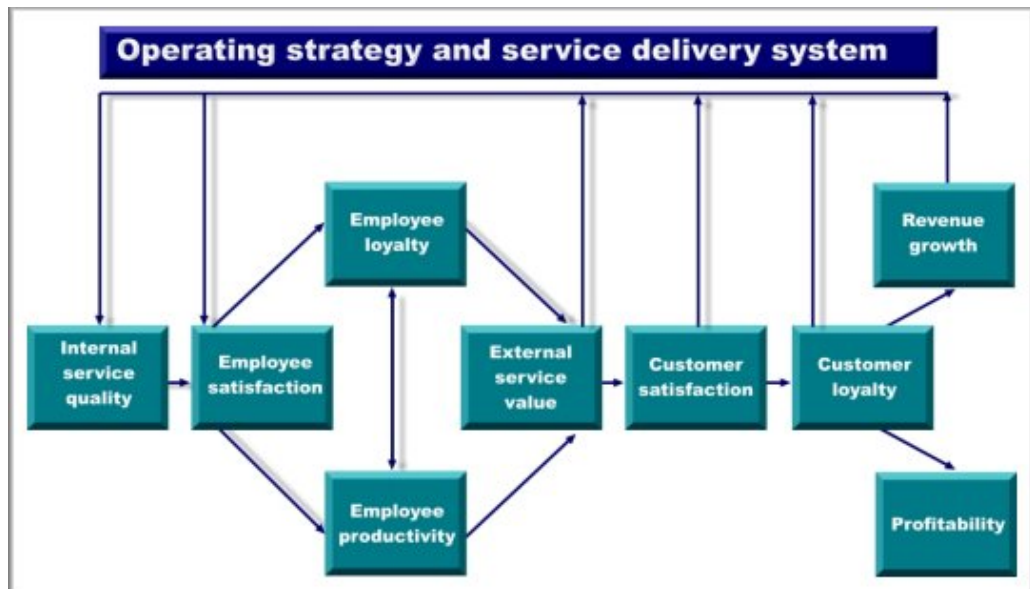
- Gap 1 is the gap between what the management of the service provider perceive the expectations of the customer to be and the actual expectations of the customer.
- Gap 2 is the gap between the management's perception of the customer's expectations and how those perceptions are translated into service quality specifications
- Gap 3 is the gap between the service quality specifications and the actual service delivered.
- Gap 4 is the gap between the service promised in external communications to the customers and the actual service provided
- Gap 5 is the gap between the service that the customer perceives they have received and that which they expect.

The service-profit chain

The service-profit chain (figure 7) establishes relationships between profitability, customer loyalty and the satisfaction, loyalty and productivity of employees. The propositions that provide the links in the chain are:

- Profit and growth are stimulated principally by customer loyalty
- Loyalty is a direct result of customer satisfaction
- Satisfaction is largely influenced by the value of services provided to the customers.
- Value is created by satisfied, loyal and productive employees
- Employee satisfaction, in turn, results primarily from high quality support services and policies that enable employees to deliver results to customers.

Figure 7 The service-profit chain



Source: Heskett, James et al. (1997) *The Service Profit Chain; How Leading Companies Link Profit and Growth to Loyalty Satisfaction and Value*, Simon & Schuster

The model can be used to create and develop a customer service strategy. The following considerations should be taken:

Internal service quality

- Workplace design, job design, employee selection and development, employee recognition and rewards, tools and systems for serving customers, empowerment, etc.
- Who are the customers?
- Is technology and technical support adequate to provide the service?

Employee satisfaction

- Selection criteria linked to what the customer believes to be important
- Employee recognition and reward based on customer satisfaction

Employee loyalty

- What is the right level of employee retention?
- How does the organisation gain commitment with contracted out services and supplier partnerships?

Employee productivity

- How is it measured? It is crucial that quality is included as well as output
- Include changes in quality of service produced per unit of input

External service value

- Consider how we measure service value (eg results achieved for the customer)
- Do we measure gaps in service delivery, customer expectations and their perceptions of the organisation?
- How is information shared with those responsible for designing the service?

Customer satisfaction

- The service should be designed and delivered to meet targeted customers' needs

Customer loyalty

- Consider how we define customer loyalty. Retention, repeat business, referrals, etc.
- Do measures of customer profitability include referrals?
- What proportion of business development and investment is spent on retaining our existing customers?
- If we lose a customer do we find out why?
- Is customer satisfaction information gathered objectively, consistently and regularly?

Service standards

The best service providers set high standards for service quality. Service standards can be defined as the internal benchmarks by which the quality of service provided to the customer are measured and monitored.

Service standards will be specific to the type of service offered, for example:

A customer service centre may set a service standard to answer 99% of all calls within 20 seconds. An insurance provider may set a standard to respond to all correspondence within 48 hours and to investigate and settle 95% of all claims within 28 days.

Service standards are often for internal use only and may not always be disclosed to customers. The following criteria should be considered in setting and using service standards:

- They should be specific and measurable
- They should be related to the results of research showing qualifying and order-winning criteria appropriate to the market sector
- They should be limited to no more than 12 standards
- Feedback to staff on performance against standards should be rapid and relevant
- Feedback should be communicated attractively (eg league table)
- Comparison should be made with better competitors
- Measurement should be made frequently and supported with qualitative research.

Many organisations link their service standards with customer guarantees, for example, the John Lewis Partnership – ‘Never knowingly undersold’, and Federal Express – ‘Absolutely, positively delivery overnight’.

- Customer guarantees:
- Force the organisation to focus on the customers
- Set clear standards of service
- Guarantee feedback from the customers
- Force the organisation to understand why it fails
- Build marketing muscle

Customer complaints and recovery

The way that an organisation deals with dissatisfied customers can have a dramatic effect on customer satisfaction and loyalty. Consider the following data generated by TARP, the Technical Assistance Research Programs Inc.

The average business never hears from 96% of its unhappy customers. For each complaint received, the average company, in fact has twenty six customers with problems, six of which are serious problems.

Nine out of ten of these non-complainers will take future business to a competitor. Complainers are more likely than non-complainers to do business again with the company that upset them, even if the problem isn't resolved satisfactorily. Of those customers who register a complaint, between 54% and 70% will do business again with the organisation if the complaint is resolved. That figure increases to a staggering 82% if the customer feels the complaint was resolved quickly.

Dissatisfied customers typically tell between seven to nine other people when they have an unsatisfactory experience with an organisation. Negative information has twice the impact of positive information on purchasing decisions. Customers who have complained to an organisation and have had their complaint resolved to their satisfaction will tell an average of five people

about the treatment they received. Word of mouth is one of the most important factors influencing a customer's purchasing decision.

By taking prompt and effective remedial action, businesses can turn discontented customers into loyal customers. Based on the proposition that profits are ultimately linked to an organisation's ability to satisfy its customers, effective complaint handling (recovery) improves profitability by instilling loyalty in customers.

Recovery with the goal of customer retention must therefore be a priority. The following techniques are frequently employed:

- Identifying lost customers and finding out why they have defected.
- Improving communication channels to make complaining easier. Give customers an incentive to comment on the service. Have toll free phone numbers and free postal addresses for complaints.
- Have a set procedure for dealing with and resolving complaints.
- Record and monitor all complaints. Examine records regularly to identify trends and take steps to implement failsafe solutions to commonly occurring problems.
- A customer guarantee with a no quibble returns policy and compensation, even if it just a token sum (eg a voucher for a free meal) for service failure.
- Careful and regular monitoring of key customers.
- Giving employees responsibility and authority for resolving customer problems on the spot.
- Responding to the customer with an explanation of why the problem occurred and steps that have been taken to prevent it from reoccurring.

The ten commandments of customer service

The ten commandments of customer service was developed by Carl Sewall, a leading distributor of luxury cars in the USA. It embodies many of the concepts of service excellence:

- 1 Bring 'em back alive**
Ask customers what they want and give it to them again and again
- 2 Systems, not smiles**
Saying please and thank you doesn't ensure you'll do the job right first time every time. Only systems guarantee that
- 3 Underpromise, overdeliver**
Customers expect you to keep your word, exceed it
- 4 When the customer asks, the answer is always yes**
Period
- 5 Fire your complaints and customer relations department**
Everyone who deals with clients must have responsibility and authority for handling complaints
- 6 No complaints? Something's wrong**
Encourage your customers to tell you what you're doing wrong
- 7 Measure everything**
Baseball teams do it. Football teams do it. Basketball teams do it. So should you
- 8 Salaries are unfair**
Pay people like partners
- 9 Your mother was right**
Show people respect. Be polite. It works
- 10 Japanese them**
Learn how the best really do it; make their systems your own. Then improve them.

Warning: These ten rules aren't worth a damn...unless you make a profit. You have to have money to stay in business and provide good service.

Service excellence in action

The Ritz-Carlton Hotel Company manages 36 luxury hotels globally. The company employs about 17,000 people and in 1998 its sales exceeded \$1 billion. Ritz-Carlton was a winner of the Baldrige Award for quality in 1999, the second time it has received this accolade.

In a recent 'Frequent Traveller Survey' Ritz-Carlton received the highest rating in the category 'complete satisfaction' achieving a rating of 70% compared to its closest competitor who scored 56%

Total fees, earnings before interest and taxation, and return on investment figures have almost doubled since 1995 with ROI increasing from 5.3% in 1995 to 9.8% in 1998.

Training is key to the company's customer-focused culture and to employee retention. First year managers and employees receive between 250 and 310 hours of training. Training is aligned with Ritz-Carlton's strategic plan and organisational objectives.

The company's rapid growth has led to a need for more leaders in the organisation. The company has recently established a leadership centre to provide employees with skills in business development, leadership, coaching and mentoring. many of the classes are taught by the senior leadership team who use the opportunity to reinforce the company's customer-focused culture.

The organisation has reduced the hiring process from 20 days in 1996 to as little as 1 day in 1999 giving Ritz-Carlton competitive advantage and helping to attract employees. Behaviours and characteristics of successful employees have been identified and used to develop survey questions to help interviewers determine the potential of each candidate.

Employee turnover has decreased from 79% in 1989 to 30% in 1998. The industry average is 52%

The organisation's leaders are active and visible in sharing Ritz-Carlton's vision with employees. Since 1984 leaders have personally ensured that each new hotel's goods and services are characteristic of the company's image before opening day. Company president Horst Schulze provides further reinforcement by interacting with each new employee at a new hotel to ensure thorough understanding of the '*Gold Standard*', which defines the Ritz-Carlton culture.

The group has developed an innovative customer database to record guests' preferences and customise services geared to meet these services. The database, which has nearly 1 million customer files, is available to all sites worldwide to support the goal of anticipating guest needs and increasing customer loyalty and retention.

Employees at all levels in the organisation are authorised to spend up to \$2000 to immediately correct a problem or handle a complaint. Guest incident action forms are reviewed on a monthly basis for each hotel to ensure that effective actions have been discussed and steps taken to eliminate the cause of the problem.

Key processes, (eg anticipating guest needs, housekeeping and reservations), are directly linked to key performance measures, (eg customer survey ratings, cost as a percentage of sales) – and these are derived in turn from the most important Ritz-Carlton objectives (eg improving guest satisfaction, retaining employees and expanding distribution in key markets. Key processes are managed and improved through the use of process owners and quality improvement teams.

Development activities

Think of a recent example of poor service you have received.

What went wrong and why?

Consider the customer /order processing model in the overview section and see if you can fit your example to the model.

- In which section of the model were your expectations or perceptions of the service you received shaped?
- If the service provider had followed the concepts in the model would it have prevented your dissatisfaction with the service?

Consider the service quality model in the overview section and again try to fit your example to the model.

- Can you identify which gap was responsible for your perception of poor service?

This learning guide was written by Rob Morgan, an Ashridge associate.