Framework for analyzing Service Operations

A summary of relevant literature compiled by Gabriel R. Bitran
**Branding:** importance of company reputation

**Features:** period of policy, flexibility, benefits payable

**Processes:** methods used to process policies and claims

**Tangibles:** brochures, policy documents

**Accessibility:** whether available direct or through insurance brokers

**Packaging:** other benefits included in package (e.g., advice services)

**Quality:** level of CSI sought with respect to outcomes and processes

CORE BENEFIT: “Peace of Mind”
External and Internal Environment

- Competitive Analysis
- Strategic Analysis
- Financial Analysis
- Operations Management

Manager

- Concept design
- Service Management
- Service Performance
- Orders
- Decoupling

Marketing
- Information about needs

Server
- Resources

Customer

Backroom

- Internal Environment
- External Environment

Service Framework
Service Course
Some Characteristics of Services

a) ATTRIBUTES OF SERVICE

- **Intangibility** - explicit and implicit intangibles
- **Perishability** - an hour of non-production is an hour lost
- **Heterogeneity** - inherent variability of service
- **Simultaneity** - services are simultaneously produced and consumed

- Based on Consumer Perception
- Value Added Concept
- Main Services Versus Facilitating Services
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
- Effort, Skill, Respect, Positive Attitude
- Products and Policies that Satisfy Needs and Desires

**CUSTOMER**
- Loyalty, Info on Customers’ Feedback and Opportunities for Continuous Improvement
- Fair Treatment (Pay, Benefits, Respect), Training, Support of Internal Environment Personnel
Service Profit Chain

**Operating Strategy and Service Delivery System**
- Internal Service Quality
- Employee
- Satisfaction (Capability, Loyalty, Productivity)

**Product/Service Concept**
- External Service Quality
- Value
- Customer Satisfaction
- Customer Loyalty
- Revenue Growth
- Profitability

**Source**: Heskett, Jones, Loveman, Sasser, & Schlesinger
Cycle of Success

- Low costumer turnover
- Repeated emphasis on Customer loyalty and retention
- Training, human resource practices, and empowerment of frontline personnel to control quality
- Above average wages
- Extensive training
- Intensified selection effort
- High customer satisfaction
- Employee satisfaction, positive service attitude
- Lower turnover, high service quality
- Continuity in relationship with customer
- Customer loyalty
- Higher profit margins

Employee Cycle

Customer Cycle

Source: Heskett and Schlesinger
Cycle of Failure

High customer turnover → Repeated emphasis on attracting new customers → Low profit margins → Narrow design of jobs to accommodate low skill level → Emphasis on rules rather than services → Payment of low wages → Minimization of selection effort → Employee cycle

Failure to develop customer loyalty → Lack of continuity in relationship with customer → High employee turnover, poor service quality → Use of technology to control quality → Employee dissatisfaction, poor service attitude → Development of employee boredom → Minimization of training → Customer cycle

Employee cycle

Customer cycle

Service Framework

Source: Heskett and Schlesinger
Operations Management

e) Demand and Resource Smoothing

- Controlling demand
  - Pricing strategies
  - Complementary services
  - Reservations system (appointments)
  - Develop non-peak demand
  - Preventive maintenance

- Controlling supply
  - Floating staff, part-time employees
  - Maximize efficiency. Cross training of staff, flexible equipment
  - Modular facility design
  - Work-at-home
  - Share capacity
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 are 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
Management of Queues

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

\[ \text{Congestion} = \frac{\text{Arrival Rate}}{\text{Service Rate}} \]

\[ \Delta W_A \]

\[ \Delta W_B \]

\[ \Delta \rho \]

\[ \Delta \rho \]
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

The Service Quality Model includes the following components:

1. **Word-of-mouth Communications**
2. **Personal Needs**
3. **Past Experience**
4. **Expected Service**
5. **Perceived Service**
6. **Service Delivery (including contacts)**
7. **External Communications To Consumers**
8. **Management Perceptions of Consumer Expectations**
9. **Translation of Perceptions into Service Quality Specifications**

The model highlights the gaps between consumer expectations and service delivery:

- **GAP 1**: Management Perceptions of Consumer Expectations vs. External Communications To Consumers
- **GAP 2**: Translation of Perceptions into Service Quality Specifications vs. Service Delivery (including contacts)
- **GAP 3**: Service Delivery (including contacts) vs. Perceived Service
- **GAP 4**: Expected Service vs. External Communications To Consumers
- **GAP 5**: Word-of-mouth Communications vs. Expected Service

**Source**: Zeithaml and Bitner
Service Guarantees

A summary of relevant literature compiled by Gabriel R. Bitran
Outline of the Lecture

- 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

- 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

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
THE “COMPLAINANT ICEBERG” AT BA
(1/3 of total customers)

Potential Revenue Lost
(Millions of Pounds)

47

141

423

THE KNOWN WATERLINE

8 %

23 %

69 %

Talk to Customer Relationship Rep

Talk to Nearest BA Employee

Don’t talk to Anyone

An opportunity occurs somewhere on the network every 15 seconds
Integration