

**15.778, Summer 2004
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Session 5: Characteristics of Services, Service Guarantees

Class Outline:

Intangibility
Perishability
Heterogeneity
Simultaneity
Encounter
Service Guarantees
Customer Satisfaction
Loyalty

This course, especially in beginning is abstract and difficult to conceptualize, like studying probability for the first time. The required readings are to build a background. There are also recommended readings so students don't get a limited view of the course.

Intangibility – (review from previous class)

- Understanding of psychology
- Importance of physical materials
- It is very hard to get a patent in a service industry
- It is very difficult to be a leader and sustain leadership in a service industry
- Companies need to materialize the service

Perishability

Services are perishable, you cannot inventory them. (Unlike manufacturing, where you can inventory products during times of low demand.) So, dealing with the matching of supply and demand in services is very hard.

Heterogeneity

Services are delivered by people, who are not always consistent. This creates a variability in the quality of service. How do we companies deal with that? They've spent large amounts of money on training, but that may be the wrong thing to do. You need to be very selective in who you hire – they need to have the basic underlying strengths to do the job. You can train them from there. Too often, training is done after the fact: In one case, 22% of customer service representatives quit their jobs after training, which can take months.

Simultaneity

Services are being produced and consumed at the same time. You buy not just the service but also a piece of how the service is created and delivered. Services companies cannot compartmentalize functions – sales, customer service, etc. – like you can in manufacturing. Yes, they still probably need a marketing department, but all employees who deal with customers need to be well informed.

Qualities of good service company: understanding of psychology + importance of physical goods + materialized intangibles + flexible information technology + being cross-functional.

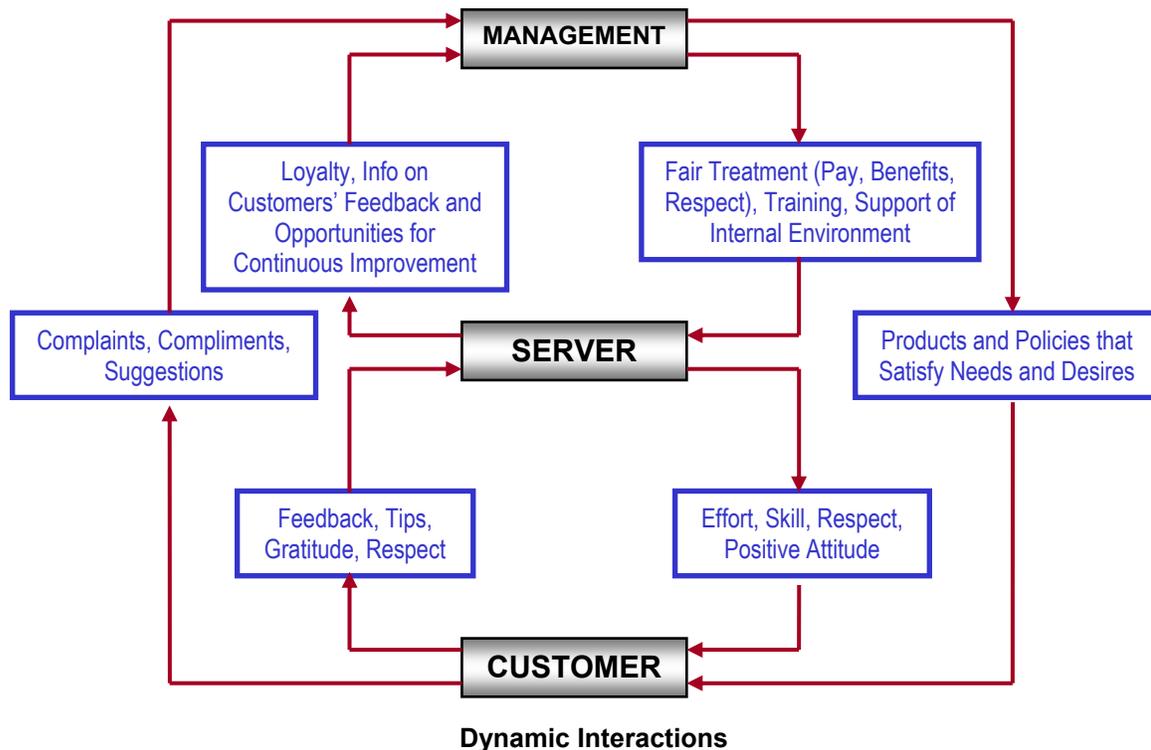
Encounter

Service Guarantees

In the assignments, some students said construction firms can't give service guarantees, but I don't buy it. It doesn't have to be one guarantee at end; we can have a series of steps for client feedback.

A construction company competes not only against its competitors, but also against other types of services. If the pizza delivery place can tell you where the pizza you ordered is, why can't a construction supplier? We have the opportunity to generate new business and do better than others.

Service guarantees evolve naturally: they can often be explained on the basis of first principles.



In the figure above, there are several loops involved: management/server, management/customers, and server/customer. Often we look at server/customer and judge service by that interaction, but there are other loops. (Also are loops not included in this diagram, such as between coworkers in a company.) If the management/server loop is not working, don't look for performance in other loops. This is connected to the PSP ("People Service Profit") idea we talked about earlier.

All of these interactions are two-way streets: there is give and take in all of them. Also, you must realize they are interactions between two human beings, who must treat each other with respect. It's not enough that a customer is paying for the service, it also helps to give the server a good feeling for doing good. Notice how respect is an element that shows up in different places in the diagram. Respect is the ability to let others be who they are; also means tolerance, understanding. Money is less relevant than we think in terms of motivating people to perform to their potential.

This all comes back to hiring the right people throughout the organization.

Phases of Each Encounter

- **Accessible:** Or else people think it's hard to do business with you
- **Check-in:** Company should establish the beginning of the relationship in some symbolic way. This is the motivation behind having a greeter as you enter and leave Wal-Mart.
- **Diagnose:** Companies should learn to listen to customer
- **Service**
- **Check-out**
- **Post check-out:** It is very important to follow-up because it brings customers back

How Do We Get to Customer Guarantees?

- We need to understand the relationship between two organizations. When you start, the customer has the power because they can decide to do business with the other firm or not. As the transaction progresses, power shifts to the supplier. This is worrisome to the customer, especially if they're doing business with an unproven business. Customer will test (maybe subconsciously) the supplier to see if they still have the power.
- This can create a lot of friction. What can business do to eliminate that? They can offer reassurance through a service guarantee, which eliminates uncertainty from the relationship. Our job as suppliers is to continually reassure customer that they're in power throughout relationship. This will make the supplier look at customers with different eyes.

Some big companies don't need service guarantees – it's implicit. Smaller or unproven companies may need explicit guarantees. This model can also be applied to a business-to-business setting because someone's job in the customer organization is on the line if supplier doesn't deliver as per the contract.

What We'll Do Tomorrow: service guarantee review, customer satisfaction, and loyalty.