Creating Breakthroughs in Service Firms

WHAT GREAT SERVICE LEADERS KNOW & DO

James L. Heskett, W. Earl Sasser, Jr., & Leonard A. Schlesinger

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"The ideas of Heskett, Sasser, and Schlesinger have the power to positively transform the strategy and the culture of your company. I have seen this happen repeatedly and in so many different cultural contexts. The world owes much to this trio of authors: their ideas are the seeds of a better socioeconomic world in which business and customers serve each other in enlightened ways."

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"Heskett, Sasser, and Schlesinger, pioneers in service management wisdom since the late '70s, now chart the path to the design and delivery of winning services in the future. Great service leaders will be those who can score a 'service trifecta' in which customers, employees, and investors all win."

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"This book is an important read for all service leaders but a *must*-read for leaders who want to guide their companies through the changing landscape of what great service means. The authors provide practical and pragmatic data-driven advice on how to lead in the rapidly changing service economy."

—Pattye Moore, Chair of the Board, Red Robin Gourmet Burgers

"*What Great Service Leaders Know and Do* captures a fantastic wealth of experience and practical insights on building and sustaining world-class organizations that serve their employees, the customers they serve, and the investors who fund them. Peppered with current examples of well-cooked service wisdom on successes and failures, this is an excellent manual with all the necessary ingredients you need to work with to face the challenge of delivering world-class service in a sustainable and profitable way."

—Ronan O'Farrell, Chief Executive, Timoney Leadership Institute, Ireland

WHAT GREAT SERVICE LEADERS *KNOW* AND *DO*

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To John McArthur,
who enthusiastically supported our work
from its very beginning.

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Introduction

Why is it that customer service is still cited so frequently as being terrible, with evidence from your most recent bad airline experience offered up? It could be because a brighter spotlight on services has led to improved management and, with it, rising customer expectations. Airlines, for example, have never provided such dependable service to so many people. Good airline service, perhaps too fondly remembered 25 years later, is no longer remarkable or even adequate for customers who experience it much more frequently than their counterparts in earlier days. We still complain mightily when an airline service snafu occurs. Regardless of reasons why customers complain about the services they receive, or whether or not overall levels of service have improved, it's clear that there is room for a great deal of improvement in the way services are managed and consumed.

Meanwhile, some firms have become known for providing exemplary service. In every service industry, one or two organizations—breakthrough services—are leading the way. Whether we're talking about Whole Foods Market or Apple in the retailing sector, the Vanguard Group or ING Direct (now Capital One 360) in financial services, Disney in entertainment, the Mayo Clinic or Apollo Hospitals in medical services, Southwest Airlines in transportation, or a select group of other service organizations in their respective industries, they share one thing in common: they have all changed the rules governing how entire global service industries are operated. That's what is so exciting about them. It's what makes it important to understand how they are designed and led.

Over the past 35 years we've observed some of the world's most effective service leaders. Good leaders are good teachers. And they have taught us a lot. In the process, we have tried to get into the heads of these leaders to figure out how what they know influences what they do in creating successful services that have stood the test of time.

Through stories based on our collective experience, as well as an exploration of the underlying theoretical work in the field and its practical application, we present a narrative of remarkable successes, unnecessary failures, and future promise. We write with a definite point of view. The book seeks to provide a road map for the design and delivery of winning services for leaders entrusted with the task in the years to come.

THE RISE OF THE SERVICE SECTOR

The vast majority of the world's workers are employed in providing services to others. Despite the often-heard lament about the loss of manufacturing jobs, the proportion of people working in services continues to increase. It's time for a change in mindset about jobs that drive the developed economies of the world.

Jobs in just one service sector, professional and business services, have replaced manufacturing jobs as the mainstay of the middle class in the world's developed economies. In the United States, there are many more jobs in professional and business services than in manufacturing, they are growing at a faster rate, and they pay substantially more for work that is much less menial. All of this is documented in the appendix.

The simple fact that service jobs make up such a large proportion of available employment at present and in the future places added responsibility on the shoulders of leaders in the service economy. The way service jobs are designed and the way service workers are led will influence the job satisfaction of more than 80 percent of the world's workforce. The quality of their leadership will determine employees' loyalty to their employers and their customers; their productivity; the profits they help create for their employers; and the long-term economic development of cities, states, regions, and countries. It will have a profound effect on life for billions of people around the world.

REALIZING THE SERVICE TRIFECTA

Our objective is to sort out the most important practices that contribute to realizing the service trifecta—that is, positive results for employees, customers, and investors. Beyond the service strategies that fuel win-win-win outcomes, we'll look at the following:

1. Operating practices that produce employee and customer satisfaction, engagement, and "ownership"
2. The profit and growth that result from these practices
3. The effective hiring, nurturing, and retention of talent
4. The achievement of leverage and competitive edge through both/and instead of either/or thinking
5. The design of support systems that make the most effective use of technology, networks, and service facilities
6. The development of a small core of customers as "owners" who provide most or all of a firm's growth and profitability
7. The creation of organizations, policies, and practices that attract and retain talent capable of leading firms through the uncertainties associated with the next transformations in service

THE ORGANIZATION OF THE BOOK

Each of the eight main chapters is organized around what great service leaders have known and done—some for a long time. In addition, we look at some directions that we believe services will take in the future as well as what this will require of the reader as a service leader.

In chapter 1 we examine the evolution and underlying structure of service breakthroughs and the unique leadership beliefs and behaviors they require. Breakthrough service leadership is different from other types of leadership. It's important to understand the ways as context for the remainder of the book.

In chapters 2 and 3 we appraise the durability of the ideas we have long championed—ways of structuring a strategic service vision based on customer and employee value equations (chapter 2) and the design of specific elements of strategy around a service profit chain (chapter 3). These chapters explore the reasons why service strategies succeed and fail.

Chapters 4 through 7 discuss ways in which great service leaders achieve results through improvements in the quality of experiences for employees and customers along with a reduction of costs and an increase in value for both. Think of them as sources of competitive edge or leverage, ways of achieving superior value for employees, customers, and investors alike, the goal of well-designed and well-managed services. This is not necessarily about doing more with less. It's about that, but it's also about doing a lot more with a few more resources.

Chapter 4 discusses the most important challenge facing service managers, that of creating great places to work, places that deliver what we call "internal quality" and are fueled by effective cultures. These are workplaces in which workers are engaged and enthusiastic about what they do. The effort begins with hiring for attitude and training for skills, but it involves much more. We visit places in which work is organized around clusters of customers, often performed by teams, and controlled in large measure by frontline workers themselves, reinforced by such devices as service guarantees. Their work is measured according to predetermined desired behaviors, and it is rewarded and recognized in ways that ensure universal value for employees, customers, and investors. These are workplaces that provide a window into a future of service work and workers in which jobs are viewed positively; job satisfaction, trust, and engagement are high; and instances of worker ownership behaviors are frequent.

Chapter 5 is about achieving competitive edge through wins for employees, customers, and investors alike—the service trifecta. It's done by managing queues, customers, and the service "bookends"; "doing it right the second time" by means of effective service recovery; capitalizing on service co-creation by customers; and utilizing "both/and thinking" instead of settling for trade-offs. It leads naturally in chapter 6 to ways of enabling frontline service providers to be heroes and heroines in the eyes of their customers through effective support from technology, networks, and facility design.

We shift our focus from employees to customers in chapter 7 in the quest to achieve much more than just customer satisfaction. Instead, we settle for no less than developing a core of customers as "owners" invested in the success of the service. Typically, these customer owners account for more than 100% of profits. This is done by establishing a consciousness of a customer owner's lifetime value, putting in place processes for listening for and responding to customer needs, guaranteeing results, and putting the organization's best customers to work in building the business.

In chapter 8, we explore the most important challenges that service leaders will face in the future as well as possible ways of dealing with them. Increasingly, service leaders will be co-creating new services with customers who adopt an ownership mentality, partnering and sharing resources with customers and even competitors, crowdsourcing talent, designing services compatible with mobile technologies for an ever more mobile-driven society, delivering seamless service on a global basis, and contending with international competition in services previously thought to be immune to foreign competitors. These trends portend a world of more and more fleeting competitive advantage in which nonfinancial criteria, deep indicators of performance, take on greater significance for service providers, customers, and investors.

This final chapter explores the qualities of leadership that will assume greater importance in an uncertain and rapidly changing competitive world—a world that will require organizations to be adept at learning and fast reacting for the future while attending to current performance.

WHAT GREAT SERVICE LEADERS KNOW AND DO

From anecdotes, cautionary tales, and decades of research and observation, we have distilled here what great service leaders know and do. The summary in the sidebar provides the highlights of a rich story.

In reading this book, you will see that a growing number of practitioners and researchers have come a long way toward understanding ways of dealing with the challenges facing managers in the service sector today. There are many more examples of best practice on which to draw than when we first began examining the design and management of services nearly four decades ago. And there is more talent available to put them to work. It is an appropriate time to take stock, organize our thinking, and assess the basis for the further development of management practices in the service sector over the coming decades.

Chapter	What Great Service Leaders Know	What Great Service Leaders Do
1	Leading a breakthrough service is different.	They take steps to ensure repeated memorable service encounters.
2	Customers buy results and experiences, not services or products.	They focus on the few things that produce results and experiences for the right customers.
3	The best service operating strategies don't require trade-offs.	They foster both/and thinking in designing winning operating strategies.
4	Service starts with the frontline employee.	They hire for attitude, train for skills.
5	Effective operating strategies have to serve employees, customers, and investors.	They ensure the achievement of the leverage and edge that produce win-win-win results—the service trifecta.
6	The best uses of technology and other support systems create frontline service heroes and heroines.	They use support systems to elevate important service jobs and eliminate the worst ones.
7	Satisfying customers is not enough.	They take steps to develop a core of customers who are owners.
8	Their current beliefs about the future of services are wrong.	They build agile service organizations that learn, innovate, and adapt.

It is also clear that a lot of work remains to be done. A look at the data in the appendix regarding productivity and job satisfaction around the world leads us to conclude that service leaders are not doing well in living up to the magnitude of the task they face. The rate of increases in productivity lags manufacturing. Job satisfaction has rarely been lower.

Simply put, management has within its control the authority, and we think the responsibility, to improve service quality and productivity while increasing job satisfaction, employee engagement, and the bottom line for shareholders. It can be achieved through both/and thinking that rejects the popular notion of tradeoffs and leads to win-win-win results for employees, customers, and investors. This book is about ways it has been and will be achieved.

Reliance on stories about great service leaders involves a risk that we willingly assume. Our stories involve leaders whose organizations may not stand the test of time in spite of their efforts and ideas. For example, as we wrote the book, one of the leaders we profile, Gary Loveman, announced that he was stepping down as CEO of Caesar's chain of casinos. After putting together a service strategy based on pathbreaking ideas and practices, he saw a subsidiary of his firm driven into bankruptcy by the financial engineering of a private equity firm that purchased Caesar's for a high price and proceeded to load it with so much debt that its odds of success were greatly reduced, despite strong operating performance vis à vis competitors. An observer of Loveman stated "one of the drivers of his decision was he spent a lot more time on the balance sheet than he wanted to."[1] In cases like this, which undoubtedly will be repeated in the future, outcomes do not dull our admiration for the practices implemented in the organization.

We know what has produced success in service endeavors in the past. We have observed and documented strong service principles and even developed some service management concepts ourselves that have endured in practice over time. However, it is quite obvious to us that what it took to produce a winning hand in managing in the service economies of the 1970s and 1980s is in many ways different than it is today. While many of the same questions prevail, management's responses must be sensitive to future challenges facing service industries. With the help of the thinking—and doing—of outstanding practitioners, our goal here is to provide insights into what it takes to succeed now and in the future.

In every service industry, one or two organizations—breakthrough services—are leading the way. They are providing the blueprint for service excellence in the future. If they are to be emulated, we need first to understand what is so different about leading a breakthrough service organization.

CHAPTER 1

Leading a Breakthrough Service Is Different

What great service leaders *know:*
leading a breakthrough service is different.

What great service leaders *do:*
they take steps to ensure repeated memorable service encounters.

Robert Nardelli left General Electric to become CEO of Home Depot in 2001. Expectations were high for Home Depot, the home improvement retailer whose growth had slowed when Nardelli took over. After all, he had already led several GE manufacturing operations to great success.

At Home Depot Nardelli found that the stores were staffed with knowledgeable, full-time employees, sometimes more than were absolutely necessary. He led a move to hire more part-timers, many with less expertise in home improvement, in order to size the retail workforce to customer traffic patterns. The move backfired. Customers noticed immediately that their favorite employees on the floor were no longer there. Soon after, Nardelli was no longer there.

Nardelli found that leading a service organization is different from leading a manufacturing organization. In manufacturing, if the factory labor force is too large, there is a simple solution: downsize. Consumers are rarely aware a change has occurred. But at Home Depot, consumers did notice. Heading up a service organization proved to be very different from his previous job. In fact, there are many subtle differences in leading a breakthrough service organization which, if not understood, can pose real challenges for a manager with other kinds of experience.

WHAT IS A BREAKTHROUGH SERVICE?

Standards for judging a service are highly subjective. When we first explored service breakthroughs and the organizations that achieved them, we described them as

> those one or two firms in every service industry that stand out from the pack. . . . Firms that seem to have broken through some sort of figurative "sound barrier," that have passed through the turbulence that precedes the barrier into the relatively quiet, smooth zone beyond which a management action produces exaggerated results, results that often exceed reasonable expectations. Firms that alter the basis of competition in their industries.[1]

Based on our experiences in recent years, we can improve on that vague, albeit inspiring, definition. It requires an understanding of the way in which value is created for customers, the employees who serve them, and investors.

Value Is Central to the Idea

When we talk with consumers, business customers, and even recipients of social services about value, four topics come up, time after time, in conversations: (1) results obtained from a package of products and services, (2) the quality of the experience in obtaining them,

(3) the costs of acquiring them (other than price), and (4) price itself. Together, they make up a "customer value equation" (figure 1-1).[2]

Figure 1-1 Customer Value Equation

$$\text{Value for Customer} = \frac{\text{Results (or Solutions)} + \text{Quality of Customer Experience (or Process)}}{\text{Price} + \text{Access Costs}}$$

Other things being equal, as results and quality of experience increase, value for the customer goes up. As price or costs of accessing the service increase, value goes down.

Recent research has explored the relative importance to customers of results (the *what* of service) versus experience (the *how* of service) in the customer value equation. It leads to the conclusion that when the service is performed in a customer's immediate purview or is being recalled shortly after the service encounter, experience is a more important influence on customers' perceptions of value. Otherwise, customer perceptions of value are more likely to be influenced by the results they realized.[3]

The customer value equation reflects the extensive research on the topic of service quality carried out by Leonard Berry, A. Parasuraman, and Valerie Zeithaml in the past three decades. One of their early studies, based on interviews with 16 focus groups, concluded, for example, that customer expectations and the degree to which those expectations are exceeded or met on each of the dimensions of the equation determine customers' overall appraisal of service quality and value.[4]

The employee value equation is based on research and employee interviews and can be stated in a similar manner (figure 1-2).[5]

Organizations that deliver value provide employees with a reason to come to work (the nature of an organization's activities—its "business"—and its mission). They offer opportunities for personal

Figure 1-2 Employee Value Equation

$$\text{Value for Employee} = \frac{\text{Business/Mission + Capability to Deliver Results + Quality of Workplace}}{1 \div \text{Total Income + Access Costs}}$$

development, frequent feedback, and ultimately greater latitude to solve problems for valued customers, all factors that contribute to the employee's capability to deliver results. The quality of the workplace is determined by such things as the "fairness" of one's manager (whether the manager hires, recognizes, and fires the right people in a timely way), the quality of the work performed by one's peers in the workplace, and the degree to which good work gets recognized. High pay as well as easy access to, and continuity of, the job contribute to value. That's why pay is portrayed in the denominator of the fraction as 1 ÷ Total Income; when calculated this way, higher pay contributes to value for the employee.

The third of the three value equations (figure 1-3)—the investor's value equation—is widely known as simply return on investment.

Figure 1-3 Investor Value Equation

$$\text{Value for Investor} = \frac{\text{Revenue (Customer Price x Units) – Expenses}}{\text{Amount of Investment in Service}}$$

These three equations are interrelated. Revenue for the investor, other things being equal, means higher prices and lower value for the customer. Similarly, lower expenses for the investor, other things equal, means lower value for employees if the expense reductions come out of their compensation. But these zero-sum trade-offs need not be the case if a new policy or practice creates a way of delivering better results at lower costs while producing margins sufficient to create extraordinary value for customers, employees, and investors alike. That's largely what this book is about.

Breakthrough Service Redefined: The Service Trifecta

We've observed hundreds of service organizations in action, and we've seen what works and what doesn't work. We're convinced that breakthrough services are those that provide

1. extraordinary results and a high-quality experience for customers and employees alike
2. high value (not necessarily low costs) to customers
3. relatively high returns (for the industry) to employees and investors

Think of it as the trifecta of outstanding service design and delivery.

Breakthrough services share one other characteristic. They have all changed the rules governing how entire global service industries are operated. That's what is so exciting about them. It's what makes it important to understand how they are designed and led.

WHAT GREAT SERVICE LEADERS UNDERSTAND: THE "RIGHT SERVICE ENCOUNTER"

Many leadership practices have proved effective in any kind of organization. Still, great service leadership is distinguished both by the magnitude of its challenges and the priorities involved in addressing them.

Jobs in services involve personal relationships and require interpersonal skills to a greater degree than jobs in some other sectors. Unlike most manufacturing jobs, many service positions bring service workers into constant contact with customers in the service encounter.[6] In many service occupations, the service is both produced and "consumed" at the time it is delivered. As a result, the service provider is able to see the customer's reactions and take satisfaction from them. In the customer's eyes, the provider of a personal service has skills and a personality that are at least as important as the company and its brand. The provider is an important factor in the purchase decision. Although the encounter may be less personal in services such as retail and transportation, the service provider still has a strong influence on customer loyalty. For example, in an industry with minimal service differentiation, Customers often cite Southwest Airlines' Employees (*Customers* and *Employees* are always capitalized in the airline's communications) as one of the primary reasons they fly the airline whenever schedules and itineraries permit.

Service encounters often require face-to-face customer contact, customization of a service, and the co-creation of services by employees and their customers.

The Need for Face-to-Face Contact with Customers

Services that entail face-to-face contact with customers—hospitality, entertainment, professional services, education, personal services, and health care, for example—often require employees to be deployed over large geographic areas in order to provide customers with easy access. Organizations thus might have multisite operations with relatively complex organizational forms. Managers may need to ensure effective communication through a multilayered organization, particularly when change is being implemented. They may have to deal with real estate to house widely dispersed service personnel as well.

Degree of Customization Required

Some services are best performed with little customization. At Shouldice Hospital in Toronto, for example, surgeons fix hernias by a time-honored method that provides quality (measured in terms of operations that rarely have to be repaired) much higher than the average for North American hospitals. They are hired primarily for their enthusiasm for work in an environment that provides regular hours and good work/life balance—but one in which they have very little latitude in what they do. Surgeons who easily experience boredom have no place in Shouldice's operating rooms.

In the same industry, the Cleveland Clinic looks for surgeons with an interest in research and the ability to use good judgment in treating patients with widely varying medical histories and needs. Innovation is a natural part of the job description for many of the organization's professionals. This requires that the service provider use judgment in customizing the treatment of individual patients.

Both of these organizations benefit because they carefully hire their employees and give them good training, excellent support systems, and, where it is appropriate, more (Cleveland Clinic) or less (Shouldice Hospital) latitude to use judgment in the face-to-face relationship. These practices ensure both great results and a high-quality experience for the patient, meeting our standard for breakthrough service.

Co-creation of the Result

Customers at Shouldice Hospital participate to an unusual degree in co-creating the service.[7] They diagnose themselves and, if necessary, diet to make the weight limit that Shouldice doctors impose to qualify patients for surgery. Patients prepare themselves for surgery by shaving themselves, take charge of their own recovery by walking from the operating table, and counsel other patients who have not yet been under the knife. All of this helps Shouldice keep its costs to a minimum while offering jobs with more interaction with patients and fewer menial responsibilities. While it increases patient enthusiasm for the process and its results, it also requires that management hire and train people who can work with patients in ways often foreign to other hospitals.

WHAT GREAT SERVICE LEADERS DO

Organizations achieve excellent service on a consistent basis by recognizing and taking steps to address the determinants of repeated memorable service encounters, something for which there is no equivalent in manufacturing or other activities. The most important of these is employee loyalty, especially in an age when such loyalty is on the decline.

Manage for Employee Loyalty

The importance of the service encounter to the success of many service enterprises places a premium on the continuity of relationships between customers and the employees serving them. This continuity requires employee loyalty. Whereas high rates of labor turnover inflate costs and cut into profits, longer tenure reduces recruitment and training costs, preserves productivity gains, and creates a more positive experience for customers—making employee loyalty one of the most important deep indicators of future performance in a service organization.

Great service leaders understand that retention rates rise along with opportunities to advance. Leaders of a number of large service organizations realize the positive effects of frontline continuity on customer satisfaction and loyalty, and they are making significant efforts to expand frontline advancement opportunities for the best employees to keep them closer to the customer for longer periods.

Whole Foods Market, for example, has designed everything, from the rigor of the selection process, to the amount of latitude for self-management on the job, to methods of compensation to encourage frontline employees to stay. Teams at the global, regional, store, and store department levels manage the company. A store often has eight teams that are responsible for anything from produce to checkout. After a 30-day initial probation period, new employees must earn a two-thirds positive vote by members of their team—an endorsement by team members who regard their vote as one that directly affects the quality of their paycheck and work life. As team members, they set labor cost/sales or cost of goods/sales ratios for their store department, they are entrusted with decisions about how to achieve those ratios (including what food items to buy locally), and they are paid bonuses based on how well they do as a team. This often involves coming up with new ideas for increasing sales as one way of mitigating increases in labor costs.

At the same time, employees benefit from what CEO John Mackey describes as a "bias toward overdisclosure" of information on which teams base their decisions.[8] Every team member knows how other teams in the store are doing. Every member knows how the store is doing compared to other stores. Every member can know what other team members are paid. Employees have an opportunity to vote every three years on various items in the company's benefits package, from pay for community service to provisions in their health insurance. As employees reach the three-year mark on the job, they are given stock options to encourage them to stay with the company. All of these factors contribute to Whole Foods' turnover rate of less than 10 percent of full-time employees after the probationary period, a fraction of rates across the grocery retailing industry as a whole.[9] It's no surprise then that Whole Foods regularly is rated one of the best places to work by its employees, is known for its good service by its customers, and has in recent years had the highest profit per square foot of any major food retailer.

Reduce Customers' Perceived Risk: Make Service Visible and Tangible

Customers often fear what they can't see or feel. Making the invisible visible and the intangible tangible to reduce customers' perceived risks is a challenge faced by many service managers.[10] It's the reason car repair facilities wash and vacuum the vehicle after maintenance is completed. A clean vehicle exterior and interior signals that the car is now in great condition. Termite control service is provided around the foundations outside the home often with no one present in the home. The service technician leaves a personalized note on the door and later sends a report outlining the evidence to the homeowner. The service technician continues the personalized approach by addressing by hand the envelope containing the report to the homeowner. Similarly, lawn chemical services leave signs on the lawn after applications have been made to let the homeowner know that chemicals have been applied and to let neighbors and passers-by see a miniature billboard.

Reduce Perceived Risk through References and Referrals

Customers for personal services, in particular medical services, have until recently had little information on which to base their personal medical decisions. They perceive a high level of risk because of a lack of visibility of the work performed and the difficulty of measuring the quality of the results achieved. They therefore often use price as a surrogate for quality, resulting in a lack of price sensitivity on the part of customers for some services—as well as the high margins often generated by such services.

Today, when confronted with high perceived risks in purchasing a service, customers often seek reassurance through recommendations from people they trust. Internet-based networking and commercial websites have thrown open the doorway to more information than was available in the past. Not only are reviewers active on sites such as Amazon.com, Yelp.com, and AngiesList.com, but mechanisms are now being introduced that measure the reliability of such reviews. As a result, more people are trusting recommendations, for everything from cleaning services to medical services, than ever before. To anticipate the impact of social networking and other media through which accurate, and inaccurate, information is quickly and easily exchanged, service leaders in the future will supply more information to customers to provide greater transparency.

Manage the Customer Experience and Emotional Content

The fact that service organizations are often responsible for delivering a customer experience places nuanced demands on service leaders to define, measure, and manage the components of that experience, however intangible or invisible those components might sometimes be.[11] Customers should come away engaged with the brand that represents the experience, and loyal to it, as well as to the person who creates it.

Competing services often differentiate themselves by managing what is termed “emotional content.” Patients at Mayo Clinic, for example, receive much more than just expert medical diagnosis and care. They quickly become aware that they are the center of attention for a team of medical practitioners that has organized its work around them. Scheduling of tests and appointments, for example, is designed to minimize a patient’s time at the hospital. In addition to good results, the Mayo Clinic is also known for delivering outstanding experiences to sometimes reluctant clients whose time is valuable and who have traveled long distances to visit its premises under trying conditions.[12]

Some services have a higher level of emotional content than others. This is particularly true of personal services such as haircutting or cosmetic surgery—services whose results are “public.” High emotional content also applies to such things as hospitality for special family events, the purchase of products such as lingerie, and even the daily coffee ritual. Here, managers have to subscribe to the idea that the quality of the service experience is as important as the results they deliver. But they have to do more than that. They also have to ensure that the organization hires people who can deliver such experiences, and see to it that it celebrates their ability to do so. They then must create a setting that conveys the nature of the intended experience, as well as provide employees with the support systems necessary to deliver a flawless customer experience. All of this requires that they pay attention to detail, as well as have a concern for the alignment of people, policies, practices, and technologies around a desired experience.

Take the Apple store, for example. The company puts young, tech-savvy people with great attitudes and customer-facing skills in a clean, bright, functional, exciting retail setting—one that reflects the design mentality of the technology they are being asked to sell. All of these employees are equipped with Apple-made handheld devices, enabling them to sell and serve customers more effectively—from checking inventory to scheduling service appointments. The result is sales productivity, more than $6,000 per square foot of selling space per year—a figure formerly unheard of for retail chains. By comparison, that is nearly 10 times the sales productivity of Walmart, a company that has been considered a leader in retail productivity.

Still, service leadership can't simply be put on autopilot. If Apple store productivity were to reach the point where it adversely affected the customer experience (say, as the result of large crowds or long lines keeping customers away), Apple's management would have to consider ways of restoring the experience. That is a complex task unrivaled in the world of manufacturing management.

Manage the Customer

Colleen Barrett, president emerita of Southwest Airlines, has told us, "Once people fly our airline two or three times, they keep coming back." Why? Because during the first and second flights, Southwest Airlines, an airline that has transformed the global airline industry, trains its customers. Customers are acquainted with Southwest's website through which its seats are reserved and sold. Next they go through a somewhat unusual boarding procedure that requires them to board in the specific order of their priority for access to seats that are not assigned. Once on board, they either respond positively or negatively to the over-the-top good humor displayed by many of Southwest's Employees, who are hired in part for their personalities.

Those who fly the airline only once often complain about its cattle-car boarding process and lighthearted Employees. They reject the Customer training process. Others, who respond positively and become knowledgeable and able to take advantage of the way things are done, become loyal Customers.

Dublin-based Ryanair, a low-cost airline that many regard, incorrectly, as a Southwest Airlines knockoff serving Europe, shares the challenge of training its customers. Ryanair's strategy is to provide as little service as possible for its basic (comparatively low) fare, charging extra for anything above and beyond basic air transportation between European cities. Ryanair's veteran, economy-minded passengers travel light with few or no bags, carry their own food, and are prepared to sit in seats with little legroom. Anything other than that incurs costs in addition to their fare. It's something that passengers unfamiliar with the airline's service have to either reject or get used to.

Ryanair's business model has been emulated by Spirit Airlines, a rapidly growing, profitable 2007 entrant to the low-cost, low-fare US airline competition. The loyal Spirit customer apparently values low fares above everything else, including reliable service. Spirit's on-time arrival record is regularly among the worst in the industry. It leads the industry in charging extra for everything from ticketing to carry-on bags and even seat selection. Recently, it was reported that fees composed 41 percent of the airline's revenue, by far the highest in the industry.[13] At Spirit, veteran customers know what to expect and act accordingly. The novice customer has an education awaiting him. Even CEO Ben Baldanza acknowledges the importance for first-time passengers of learning the routine. As he puts it, “You can’t sleepwalk through the process.”[14]

These are perhaps extreme examples of the ways that service organizations address the important task of managing customers (and their expectations). Leaders in breakthrough services understand that training is important, because customers often team with service providers. They build a competitive edge—co-creating great service (depending on how that is defined by the individual) at low cost—that customers enjoy. In many cases, they need to take special care in hiring and preparing employees to train, manage, and work with customers to co-create results.

Manage Service Quality: “Do It Right the Second Time”

The management of quality in manufacturing emphasizes “do it right the first time” or DRIFT—especially critical if the product in question is an airplane part and the manufacturer is Boeing. It has become a mantra of many manufacturing managers, mainly because it is much less expensive for manufacturing to get things right the first time.

Whereas for such services as medical care, getting things right the first time is important, but for the vast number of less critical services, perfection often goes unnoticed. “Doing it right the second time” often produces more enthusiastic customer satisfaction if the *service recovery* process is particularly effective and memorable.[15] Think, for example, of the last time your restaurant server made a mistake in your order and picked up the bill for dessert. This helps explain why service recovery occupies a higher priority than “doing it right the first time” in the tool kit of most managers in the service sector. Effective service recovery often results in greater delight for employees as well as customers than a service perfectly performed the first time. It casts the service provider as a hero. In combination, the outcomes represent a service breakthrough.

Manage the Entry-Level Workforce

The most effective service recovery occurs nearest the customer, by the frontline service provider. It often involves giving an entry-level employee wide-ranging latitude to correct problems, in a sense entrusting the business to someone who may be a teenager in her first job. Unless they are preceded by careful hiring, expert training, and the design of helpful support systems, recoveries can be risky.

More than half of all people hired by Walt Disney World are working for the first time in an organization of any kind. The company must select new employees in large part for their positive attitudes toward others, provide training that lets them know what to expect on the job—whether they are "on stage" or "backstage"—as well as the importance of punctuality, dependability, and appearance. It sets explicit rules, for example regarding facial hair as well as acceptable hairstyles. It allows no one to be seen "onstage" in a partial costume. It prescribes behavior, depending on the job. The result is a world-renowned experience for visitors to Disney's theme parks—one that is consistently memorable, and one that is largely delivered by a group of young people barely out of high school.[16]

Disney's challenge is not unusual. The vast majority of youth in developed economies enter the workforce through the service sector. This places a special burden on the shoulders of service management to serve society well by providing those workers with a favorable first impression.

Disseminate Best Practices in Multisite Businesses

While multisite management is not peculiar to services, no manufacturing organization compares with a large fast-food chain or banking company in the number of operating locations that have to be managed. Multisite management in services can require the supervision of literally hundreds of unit managers, leading to an organization where middle managers communicate important messages to customer-facing employees. This perhaps explains why many large retailers feel that they are fortunate if 90 percent of the stores receive and act properly on instructions regarding merchandising, store layout, and shelf appearance. As if that weren't complex enough, consider the rollout of a change in strategy. Whether at Bank of America or Westpac, one of Australia's leading banks, such an effort involves so many people that it requires that ideas cascade from one level in the organization to the next until the process reaches the front line.

Despite the challenges, a large number of locations also affords several opportunities. Breakthrough service organizations take advantage of multisite operations by measuring outcomes and circulating comparative data. Multisite management also offers opportunities for friendly competition among sites, experimentation at low risk at the unit level, and the sharing of best practices.

Government is encouraging best practice in entire industries. For example, all medical networks attain different success rates for various medical procedures. In the United States, Medicare costs per patient for roughly the same quality of outcomes can vary by nearly 100 percent in the same state.[17] Recognizing this, the 2010 Patient Protection and Affordable Care Act in the United States provides for the establishment of a Center for Medicare and Medicaid Innovation "to test innovative payment and service delivery models to reduce program expenditures."[18] The assumption here is that hospitals of a given type will be sufficiently similar to make it possible for administrators and practitioners to engage in the exchange of best practices.

Manage Unseen Workers and Work

Whereas most manufacturing is carried out by large groups of workers in facilities that offer managers at all levels proximity to, and visibility of, those being supervised, many service managers do not have the advantage of such proximity and visibility. Some must manage services that are carried out in scattered locations—even remote parts of the world—by one or two workers who can't be supervised economically. Thus, breakthrough service leaders have the unique challenge of managing unseen workers and work.

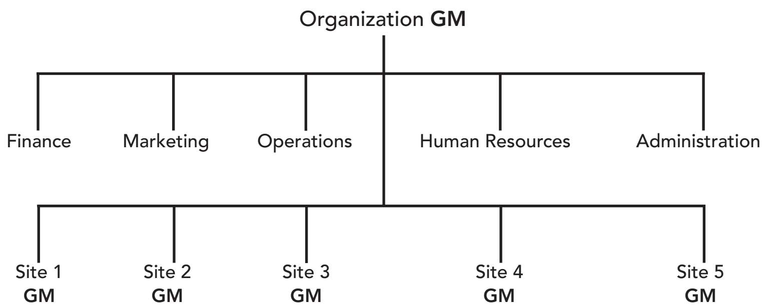
Consider, for example, the engineers of Schlumberger, the world's leading purveyor of support services to petroleum producers. Schlumberger provides wireline engineering services critical for detecting and accessing the world's oil reserves. Engineers operating in ones and twos in remote areas are responsible for rigs outfitted with expensive equipment entrusted to their care. The company cannot provide day-to-day supervision of what they do. Rather, it has to rely on hiring not only the right engineers in terms of skill set but also those with the kind of attitude under often lonely working conditions that will engender the trust of their superiors.

ISS, the Copenhagen-based provider of cleaning, catering, and other facility-based services around the world, has an army of low-paid cleaning people delivering hard-to-measure quality (what is clean?) at odd hours of the night, working either alone or in small teams. While the risks are not as great as those facing Schlumberger and its customers, the demands on management for careful hiring and training are much the same.

Manage General Managers

Unlike manufacturing organizations, which follow conventional ways of organizing by function, service organizations, particularly those operating in multiple sites, require the coordinated management of operations, marketing, and human resources at the level of the operating unit, typically the lowest level of management. As a result, much of service sector management takes place at the confluence of several functions (figure 1-4). Management scholars suggest that one of the criteria for identifying general management

Figure 1-4 The Locus of General Management (GM) in Many Multisite Service Organizations



is responsibility for several functions in an organization. If this is the case, many service organizations, out of necessity, have to nurture general managers in large numbers in close proximity to customers. General managers managing general managers are the rule, not the exception, in services.

Measure and Manage for Results

Managers of breakthrough services also home in on different measures of performance than those in manufacturing enterprises. Whereas manufacturing management concentrates on productivity, product quality (as measured by the producer), cost per unit, safety, and on-time delivery, service management rightly focuses on employee engagement and loyalty, service quality (as perceived by customers), and customer loyalty. These are often components of a balanced scorecard for service measurement.

FIT THE STRATEGY TO THE SERVICE TYPE (OR DON'T)

Generalizations about services are inevitably oversimplifications. Differences among services are perhaps as great as those differentiating services from manufacturing activities. The sector is so diverse that it defies concise description. How, for example, can we compare the work of a hair stylist (highly personal, performed face-to-face, difficult for the customer to assess in advance, reliant on a high degree of trust and a certain amount of input from the customer) with a television network (simultaneous broadcast to viewers with many alternatives)? Rather than compare services one to one, we might think of them as falling along a spectrum with several important dimensions.

Scholars who have studied this challenge have come up with several generic types of service, each with different kinds of service encounters and needs. David Maister, Christopher Lovelock, and Roger Schmenner have provided what have proved to be the most useful ideas for "mapping" the service sector for our purposes.[19] They base their service typology on the degree of service customization, the amount of customer contact required, and labor intensity—the importance of labor costs in creating the service. Combining their ideas allows us to regard all services as *factory* (think low customization, low customer contact, and low labor intensity, as in fast food), *mass* (low customization and customer contact but high labor intensity, as in package delivery services), *technological* (high levels of customer contact and customization with low labor intensity, as in online banking), and *professional* (high customization, customer contact, and labor intensity, as in legal services). A "map" of these basic types of services prepared by Maister and Lovelock is shown in figure 1-5.

As shown in figure 1-5, each service type has its own particular goals and human resource challenges when it comes to recruiting, selecting, training, assigning, and rewarding people.

Figure 1-5 Important Human Resource Management Challenges in Various Service Enterprises

Degree of Customer Contact		Degree of Service Customization: Low		Degree of Service Customization: High	
		The Mass Service		**The Professional Service**	
	High	Recruiting and Selection:	Broad-based effort, with criteria primarily based on human skills and attitude	Recruiting and Selection:	Highly selective, based on technical and human skills
	High	Training:	On-the-job, with little or no follow-up	Training:	Professional schooling and on-the-job training, with periodic updates
	High	Assigning:	To specific unattended tasks	Assigning:	Given great care to facilitate personal development
	High	Rewarding:	Modest, based on time on the job	Rewarding:	High, on basis of value of output to client
	High	Goals:	Minimize job complexity and training time required for frequent replacements	Goals:	Build expertise through minimum turnover
		The Factory Service		**The Technological Service**	
	Low	Recruiting and Selection:	On the basis of criteria such as basic knowledge, health, and attitude	Recruiting and Selection:	Selective, with criteria primarily based on technological skills
	Low	Training:	On-the-job, with limited follow-up	Training:	Prior to selection, with technologically oriented update seminars
	Low	Assigning:	To cover unattended production tasks	Assigning:	To specific unattended tasks
	Low	Rewarding:	Varied, often based on time on the job	Rewarding:	Varied, based on technological skills
	Low	Goals:	Minimum training costs and minimum turnover only of key people	Goals:	Minimum turnover to provide technological expertise and continuity

Source: Adapted from a framework first presented in David H. Maister and Christopher H. Lovelock, "Managing Facilitator Services," *Sloan Management Review,* Summer 1982, p. 22, as shown in James L. Heskett, W. Earl Sasser Jr., and Christopher W. L. Hart, *Service Breakthroughs: Changing the Rules of the Game* (New York: The Free Press, 1990), at p. 214.

Color outside the Lines

We've just delineated distinct types of services, which require different organization, staffing, training, rewards, uses of technology, and cost profiles, among other things. Conventional wisdom suggests that strategies that fit within these boundaries are the most successful. However, the opposite argument can be made, that there are real opportunities for service strategies that cross conventional boundaries on these maps. For example, organizations like LegalZoom.com have distinguished themselves from the competition by transforming a professional service into a technological service that makes low-cost legal documents and services for standard problems available online. L.L. Bean succeeded in catalog retailing by crossing the boundary from a factory service to what some would argue is a professional service with its service-center employees capable of providing advice about appropriate sporting goods to customers who shop by telephone or online. Using a kindergarten analogy, these are strategies crafted by leaders who "color outside the lines." Instead, they look for ways to bend the conventional boundaries of their service enterprises.

Address Different Management Challenges

One study of the management challenges faced in various types of companies in the service sector concluded that managers in service enterprises share certain challenges, such as maintaining quality (the number one concern), hiring, and training.[20] But the study also found some wide differences in the challenges faced by managers among various kinds of service businesses.

For example, for mass services that had high need for customization and contact with customers but low labor input, technology advances represented the most important management challenge. This would be typical, for example, for many Internet-based retailing enterprises. In contrast, for professional services (with high need for customization, customer contact, and labor input), "making service warm" was an especially important challenge.

LET'S GET DOWN TO BASICS

Over nearly four decades, we have contributed to an effort to understand how breakthrough services are created and led. We have observed hundreds of service practitioners at work and attempted to make sense of what we've observed. This effort has produced ideas that have, in the past, gained widespread application. However, changes in such things as the composition of the workforce, new technologies, and customers' expectations and behaviors can affect the applicability of these ideas. In chapter 2 we examine the effects of these changes and address ways in which great service leaders shape service strategies that deliver results.

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