

## SERVICES AND OPERATIONS

## PUT YOUR CUSTOMER IN THE FRONT ROW

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Stronger competition and more demanding customers require companies to deliver exceptional service and ultimately offer differentiated value propositions in an efficient way. To do so successfully, companies need to innovate and continuously improve their service models, but with a holistic view that ensures coherence between strategy and operations.

SERVICES • INFORMATION TECHNOLOGIES •  
OPERATIONS • VALUE PROPOSITION

Delivering great service is critical for most companies, yet hard to achieve efficiently and takes time to pay off. By service we mean the whole “experience” through which we satisfy customers’ needs and create value for them. This experience includes not only the “product” we offer but also the entire delivery process and experience, in which the customer is an active participant.

Three service delivery factors should be highlighted to illustrate the challenge (the three I’s):

- **Intangibility:** Delivery is made up of a combination of tangible elements (those that are “objective” and “measurable” by the customer) and other more intangible and subjective ones.
- **Interactivity:** The customer participates in a direct and interactive way in the service “production” process.
- **Immediacy:** The “production” and consumption of the service almost always occur simultaneously in time and space.

#### SERVICE DESIGN: DEVELOPING A SOUND SERVICE MODEL

We propose four basic steps for developing a sound service model (See Figure 1). The first step is to define the target customers of the service to be offered. The second is to specify a value proposition for these target customers. The third is then to define how we can leverage value over costs for the

stakeholders by selling our value proposition to our target customers. Finally, the fourth step focuses on the design of the delivery system itself.

It is important to carefully define the customers to whom we wish to deliver our service. Good service design requires proper customer segmentation, given that the more broadly defined our market is the harder it will be for us to provide an excellent service, since customers’ needs and assessments will be very disparate, even contradictory. A key point here is to carry out the segmentation not only on commercial or marketing terms, but also in terms of the service delivery system. It is often also useful to ask whom we do not want as a customer, as this forces a first broad segmentation. Relevant characteristics of the target market segment (size, psycho-demographics, etc) should be taken into account when designing the service model.

The next step is to design the value proposition. When managing various elements that create value for customers, it is important to understand that customers’ assessments will be determined by their expectations and their perception of the service actually received. Only if their perception is better than their expectations will their level of satisfaction be positive. In service management research this relationship is known as the First Law of Services.

SATISFACTION =  
PERCEIVED VALUE - EXPECTATIONS



It should be emphasized that both the perception and the expectations are subjective and depend greatly on the individual, as well as competitor propositions. For example, every visitor usually has a prior expectation of a Disneyland park. Even without having had any direct experience of it, an impression will have been gained from comments made by friends and acquaintances, or information in the press or guide books. The equation shown above also reflects a common danger: in order to attract customers, organizations tend to generate the highest possible expectations, but then

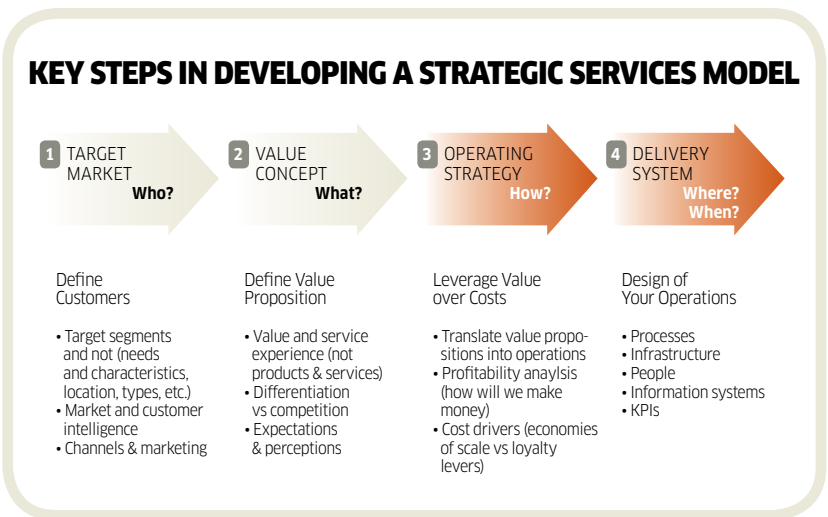


Figure 1. Source adapted from: Heskett, J.L.: "Lessons in the Service Sector", *Harvard Business Review*, 1987.

## WHERE SERVICES ARE INTANGIBLE, CUSTOMERS OFTEN ATTACH MORE IMPORTANCE TO ATTRIBUTES THEY CAN OBSERVE

have to meet or exceed those expectations in actual service delivery (similar to the trailer vs. the movie).

Moreover, even where the service provided is the very same, the perceived value will vary depending on the individual customer, since perceptions are always quite personal. The perception may be based on objective aspects, such as the time spent waiting to be served. Yet it is not the objective value (say, 10 minutes) that really counts but the subjective one (whether the wait seemed long or not). The manager of the service can and should actively manage these subjective factors (perceptions and expectations) and must pay special attention to them when designing and controlling the service interface.

The customer's perceived value – the results, the process and the emotional value – are offset by aspects where the customer believes that he or she “incurred a cost” in order to enjoy the service. First, obviously, there is the price; then any inconvenience and personal costs arising from the service process and third, the customer's uncertainties. Inconveniences are all the things that entail a personal “cost” to the customer in order to access and enjoy the service (not including the price). Examples might include traveling, parking, finding out about the service, waiting and so on. Uncertainties, on the other hand, are the “cost” of the customer not knowing whether what he or she is going to receive is what he or she really wants. This is why money-back guarantees are attractive to some customers; they reduce uncertainty by offering financial insurance. To sum up, consuming a service typically entails important non-monetary costs for the customer which should be taken into account in the service design.

### TARGET MARKETS AND OPERATIONAL STRATEGY

- Once we have defined the target market for our service and have specified the elements of the value proposition, in the next step the operational strategy focuses on how

we make money selling our value proposition to our target customers, i.e. how we leverage value over costs. This question is obviously closely related to how we plan to compete against other value propositions in the market, since the value generated by an organization will always be in some way influenced by the alternatives available to customers. In the case of a restaurant, for example, we can compete by having an excellent location, or a great cook, but we can also opt for lower prices or healthier food. In general, however, in economic terms all the options can be summed up in two main lines of action:

- Increase the value generated for customers (their perception and willingness to pay), through personalized service, higher quality, better opening hours, more employees to serve customers, etc. To achieve this we can raise certain value attributes above the standards set by competitors, or even add new elements to the value proposition that are not offered by other competitors.
- Reduce the costs of providing the service, by making operations more efficient, reducing the supply of services, reducing capacity, etc. Yet these cost savings must always outweigh the decrease in perceived value for customers. This can be achieved by reducing attributes of the traditional offering that the target audience does not value sufficiently to justify the associated costs, or even eliminate certain elements that do not fit with the proposition for the target audience or that are not valued highly enough to justify their costs.

### DESIGNING THE DELIVERY SYSTEM

- Next, in the fourth step, we have to design the delivery system. Any service proposal must be backed by the necessary operating system, in which there are three key elements: the service *processes*, the non-human *resources* (equipment, infrastructure, etc.) and the operational contribution of *employees*. As a guide, we recommend that the

design of the services is centered on what we call the “customer corridor:” the service delivery process as the chain of activities and events through which a customer passes. The reason for this is that every process has a (external or internal) customer, and it is the customer who decides what is required and what adds value.

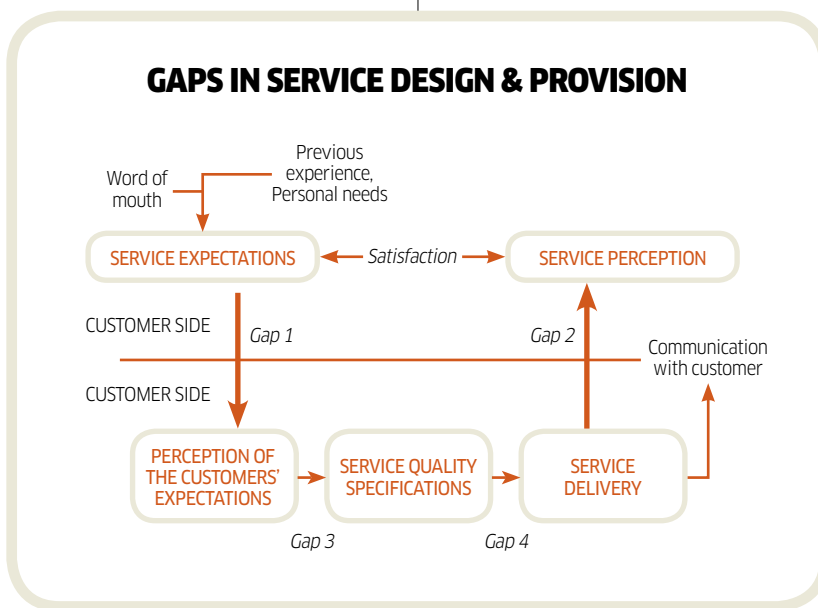
In the customer corridor there will be moments of direct interaction between the customer and the company’s service system (often employees) which are called Moments of Truth. This term highlights the fact that everything the employees have prepared and all the resources the company has deployed must “work” correctly at precisely that moment as best as that is when the level of customer satisfaction is determined. In each moment of truth there are always several factors to be considered which make managing such moments a challenge: 1. personal interactions; 2. waiting times; and, as already mentioned, 3. customer expectations and perceptions.

**TYPICAL ROOT CAUSES OF PROBLEMS IN SERVICE DESIGN AND PROVISION**

- The difference between customers’ expectations and perceptions, in practice, is the result of a whole sequence of potentially inappropriate actions through the service design and provision. Gaps are created that lead to service quality problems (Figure 2).

Customer expectations are perhaps where most of the mistakes of service models are rooted (Gap 1). Many organizations are unaware of what their customers really expect of the service they provide, or mistakenly assume that customers prefer or value certain attributes above others.

These errors have to be overcome by listening to customers’ needs and suggestions and intelligently managing expectations and adjusting them to what the institution can realistically deliver.



Organizations must also manage the final perception (Gap 2). Where the services offered are intangible, customers often cannot fully assess the quality of the service they have received and tend to attach more importance to the attributes they have been able to observe and understand. In a hospital, for example, it is easier for the average patient to judge how crowded it was than the quality of doctors. There may be gaps as well in the physical service provision because the service has not been designed with customers’ needs in mind (Gap 3).

Even when the process has been well designed, the level of service may vary and a customer may not receive the service as intended or as expected (Gap 4). In services, as production and consumption are simultaneous, customers receive any variation in the level of service directly and the company has no opportunity to anticipate this. In conclusion, a good quality control system in services should be preventive rather than reactive.

The good news is that a good recovery after a negative incident can sometimes result in a very high degree of customer satisfaction (and loyalty). As customers, we understand that companies make mistakes. The important thing is whether we feel they are trying hard enough to fix them.

Figure 2. Source adapted from: Pavasuraman, A.; Zeithame, V.A. and Berry, L.B.: "A conceptual Model of Service Quality and its Implications for Future Research", *Journal of Marketing*, 1985.

**MORE INFORMATION:**  
Moscoso P. G. & Lago A.: *Developing a Breakthrough Service Model for Profitable Growth*, IESE, 2011