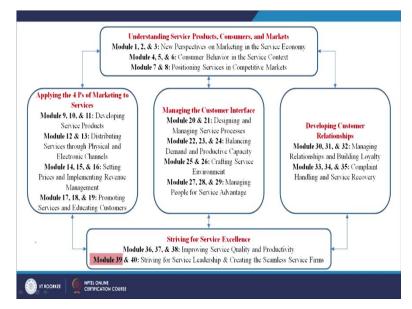
## Services Marketing: Integrated People, Technology, Strategy Professor. Zillur Rahman Department of Management Studies Indian Institute of Technology, Roorkee Lecture: 39 Striving for Service Leadership & Creating the Seamless Service Firms Part I

Welcome to the module 39 of services marketing. Now, we are talking about the last section and the last topic. So that is striving for service leadership and creating the seamless service firm.

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The module 39 and 40, they are dedicated to the last topic of this course in services marketing. So, let us see what we will talk about in module 39.

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So, we will first have an understanding the implications of service profit chain for service management. Then we will try to understand that the marketing operations and human resource management function need to be closely integrated in service businesses and understand how this can be achieved. And know the characteristics of world class service organisation.

So, the first thing is that we will learn the implications of the services profit chain and then we will see how this integration of various functional areas can be achieved.

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Now, we will start with the service profit chain and more specifically we will talk about the important links that are there in this service profit chain. So, when service companies put

employees and customer first, a radical shift occurs in the way they manage and measure success. They relate profitability, customer loyalty and customer satisfaction to the value created by satisfied, loyal and productive employees.

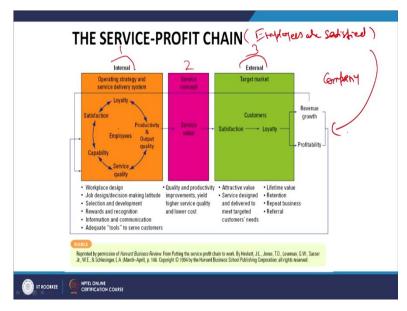
So, we will start with profitability, customer loyalty and customer satisfaction and that is the value created by the satisfied, loyal and the productive employees. Instead, they understand that in the new economics of service, frontline workers and customers need to be the center of management concern. Frontline workers and customers, they are the 2 important entities in services organisation.

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Successful service managers pay attention to the factors that drives profitability and the first such factor is the investment in people that is employees, the frontline. Technology that supports those frontline workers. Revamp recruiting and training practices and compensation linked to performance for employees at every level. The service profit chain shows a series of hypothesized links in the managerial process that can lead to success in a service business and this is the service profit chain.

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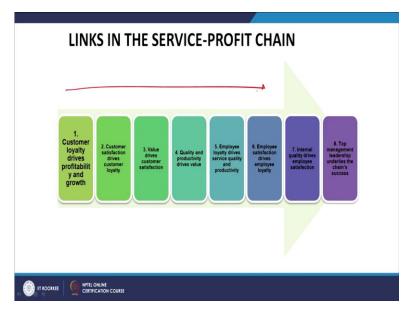
Let us start from the left, so we are looking at some factors which are internal and then we will move towards external. Now internal, so when we are talking of this yellow box, operating strategy and service delivery system. So, now what happens that, we are talking about employees and then what happens is that productivity and output quality leads to service quality and it leads to capability, satisfaction, loyalty and then it keeps on going around.

The second here is the service concept that is the service value. What is the value of this service? And then the third is the external customer and we are talking of their satisfaction and loyalty and then this is the company, how do company benefit by this? By way of revenue growth and profitability. And then this, things keep on going.

So, now we are talking of workplace design, job design, decision making latitude, selection and development, rewards and recognition, information and communication and adequate tools whatever those tools are to serve the customer. Under this pink that is the second block, quality and productivity improvements yield higher service quality at lower cost and the third is we are talking about attracting value, service designed and delivered to meet target customer's needs, lifetime value, retention, repeat business and referrals.

So, this is the service profit chain and it links the internal environment to the external environment, the employees and the companies to the target markets. So, the basic idea here is that if employees are satisfied, then they can that can lead to revenue growth and profitability because that will lead to satisfied customers with better increased loyalty.

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So, these are the links in the service profit chain. The first is the customer loyalty drives profitability and growth fine loyal customers will obviously keep on coming back and buying more, now that that is because of the second is customer satisfaction drives customer loyalty. So, because this loyalty is obviously dependent on the customer satisfaction and why would customers be satisfied?

Because the value that they are getting is better than that of the competitors and this value drives customer satisfaction and what does this value depends on? The quality and productivity. And what does this value is dependent on? The quality and productivity. So, if they are getting better quality, obviously the customers will be getting value and they will be more satisfied and loyal.

Now, how this quality and productivity should happen at the same time to drive the value that customers will get. Employee loyalty drive service quality and productivity. Why are employees loyal? Why are employees loyal? Because employees, they are satisfied and why are employees satisfied? Because of the internal quality and the internal quality drives employee satisfaction and how this internal quality comes into picture because top management leadership underlines this chain success.

So, and it moves from left to right. So, now what happens is that the top management they ensure that the internal quality is delivered. Internal quality makes your employee satisfied and satisfied employees lead to are loyal and they gives more service quality and productivity and that gives quality and productivity will raise the value, the customer gets more value and

that makes him satisfied. Satisfied customers are loyal and loyal customers gives more profitability and growth. So, these are the various links in this profit chain.

FIRM VALUE CREATED BY CUSTOMER SATISFACTION The graph demonstrates a strong relationship between customer satisfaction -1.00 -0.50 0.50 1.00 1.50 2.00 2.50 - and shareholder value in most service industries. Life Int Airlines Banks Telecom Loca Service S Parcel Delivery om-LD Property In: Food Pror rican Customer Satisfaction Index at Ten Years. ACSI, 2005: 42 (service 

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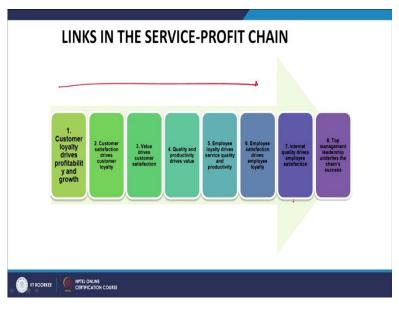
Now, let us look at the firm value created by customer satisfaction. So, now here we have this department store and at the bottom we have these food processing. So, this graph demonstrate a strong relationship between customer satisfaction. So, on this axis we have the customer satisfaction and share holder value in most of the industries. So, this is how industry level estimates of association between American customer satisfaction index and share holder value and that is the Toben's cube.

Now, you see that it goes from department store and then it comes down to superstores and life insurance and airlines and then at the bottom is the food processing and we are talking of firm value created by customer satisfaction.



An important distinction between service leaders and firms in other category how they approach the value creation because whole of this values creation, it will depend upon the service leaders. Service leaders create value through customer satisfaction and its antecedents, whereas other firms often aim to boost shareholder value through tactical measures to increase sales, short term cost cutting, unlocking asset value through selected sell off and taking advantage of financial market dynamics.

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Now, how should we go about integrating marketing operations and human resources? The themes and relationships underline the service profit chain illustrate compelling the mutual

dependence between marketing, operations and human resource in meeting the needs of service customers.

So, now you see that here, this internal quality it is for everyone in the organisation to deliver to each other, the quality that is demanded.

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INTEGRATING MARKETING, OPERATIONS, AND
HUMAN RESOURCES
<ul> <li>When employees have skills and training needed to succeed in their jobs, and recognize the importance of creating and maintaining customer satisfaction, both marketing and operations activities are easy to manage.</li> </ul>
<ul> <li>Also service organizations cannot afford to have HR specialists who do not understand customers and their needs.</li> </ul>
• Thus, each of the three functions should have requirements and goals that relate to customers and contribute to the mission of the firm.

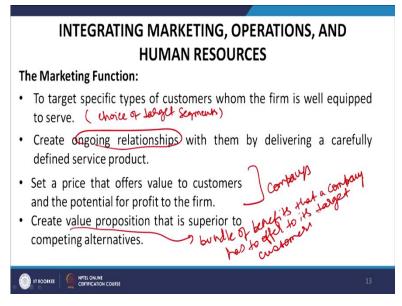
So, when customers are actively involved in production and the service output is consumed as it is produced, the service marketing function is entwined with and dependant on the procedures, the personnel and the facilities managed by the operation. So, all these things they are inter related, a link brake down anywhere and it will affect whole of this chain.

When employees have skills and training needed to succeed in their jobs, and recognise the importance of creating and maintaining customer satisfaction, both marketing and operations activities are easy to manage. Also service organisations cannot afford to have HR specialist who do not understand customers and their need.

So, if we give everything to this HR specialist, obviously they will be knowing about employees requirement but not the customer requirement and we have seen that how important the customers are in a service organisation. Thus each of the 3 functions should have requirements and goals that relate to customers and contribute to the mission of the firm.

So, all these 3 functions, HR, marketing and IT should have requirements and goals that relate to customers and contribute to the mission, they are related to the customer, so all of them, they should have customer here and at the top is the customer. All their objectives and requirements and goals should be related to the customer.

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Now, how do we integrate marketing operations and human resources? So, we will start with the marketing function. To target specific type of consumers whom the firm is well equipped to serve. The first is the choice of target segments. So, that is more important in services as compared to products. Then creating ongoing relationships with them by delivering a carefully defined service product. So now you see that we are talking about creating ongoing relationships and not about selling and marketing of products and services.

But then how this ongoing relationship is to be built? By carefully defining service products. Then set a price that offers value to the customers and potential for profits to the firm. Till now we were talking about the customer, now we are bringing in the company. Create value preposition that is superior to the competing alternatives and as you may recall this value proposition is the bundle of benefit that a company has to offer.

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The operations function to create and deliver the specified service product to target customers. Now here we have developed the service product, now it is the job of operations to create and deliver that specified service product to the target customers. Select operational techniques that allow the firm to consistently meet customer driven quality schedule, cost and productivity goals.

So, now in the second here we are talking about offering value to the customer, but it is for the operations firm to choose those operational technique that allow the firm to meet those quality standards, the schedules, the constant productivity goals. Choose operational methods that match skills of the employee and intermediaries or can be trained to develop. So, then they have to choose those operational methods that will match the skills of the employee intermediaries or the employees and intermediaries need to be developed and trained accordingly. (Refer Slide Time: 13:31)



The human resource function to recruit train and motivate frontline employees service delivery, team leaders and managers who can work well together. So, now their job is to recruit, train and motivate the frontline employees, the service delivery team leader and managers so that all of them can work together and balance the twin goals of customer satisfaction and operational efficiency.

Create a working environment where employees enhance and keep on enhancing their own skills, they value the working environment in which they work, appreciate the opportunities that are presented and take pride in service they helped to create and deliver. So, this is what a working environment should be like that should enable the employees to keep on learning new skills, they should be able to value the working environment, appreciate rather than be dissatisfied with the opportunities that are presented to them and they take pride in the service they help to create and deliver.

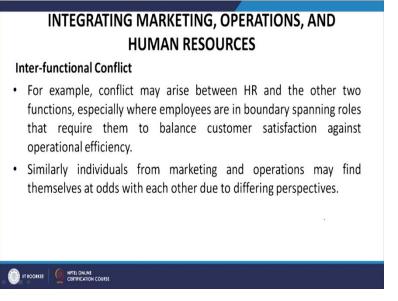
So, they take the ownership of the service they create and deliver. When they take this ownership, then the service delivery will be entirely different.

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Now, let us look at the inter-functional conflicts. So, what can be the conflicts that can happen between marketing, HR and operations. Although there is a long tradition of functional specialisation in businesses, narrow perspective get in the way of effective service management. As service firms plays more emphasis on developing a strong market orientation and serving customer well, there is increase potential for conflict among the 3 functions. So now, because of such kind of integration, the chances of conflict also increases.

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For example, conflict may arise between HR and the other 2 functions especially where employees are in boundary spanning roles that require them to balance customer satisfaction against operational efficiency. So, again this problem of customer satisfaction and productivity, it comes in that has to be manged by the frontline employees. Similarly, individuals from marketing and operations may find themselves at odds with each other due to different perspective.

So, now marketing wants them, as we have seen here, the marketing wants them to offer value to the customer and therefore they will develop a value proposition accordingly while the operations function they have to select operation techniques and operation methods so that the promise made by marketing function is delivered and for that they may have to train the employees and the intermediaries.

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Now, let us look at some operational and marketing perspective on operational issues. So, the first is operational issue is productivity improvement and here the typical operation goal is to reduce unit cost of production and the common marketing concern are strategies may cause decline in the service quality because of the cost of production going down.

The second issue is facilities location and the operational goal so far as facilities location is concerned is to reduce cost, provide convenient access for the suppliers and the employees while the marketing concern is customer may find location unattractive and inaccessible, so it may be good for employees but not for the customers. The third operational issue is standardisation. The operational goal here is to keep cost low and quality consistent.

Simplify operations task and recruit low cost employees while marketing concern is consumer may seek variety, prefer customisation to match segmented needs. The fourth issue is facilities layout and design. Control costs, improve efficiency by ensuring proximity of operation related task, enhance safety and security are the operations goal, while the marketing concerns can be customers may be confused, shunted around unnecessarily, find facility unattractive and inconvenient.

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The fifth operational issue can be job design, operation goal is to minimise error, waste and fraud, make efficient use of technology, simplify task for standardisation. The common marketing concern can be operationally oriented employees with narrow roles may be unresponsive to customer needs. Now the problem here is that if the employees, they are too much focused, so they may be unresponsive to the customer need because customer comes in for a solution.

While if the employees they are too much focused, they will be just looking at their part of the job and not whether the customer needs have been satisfied or not. The sixth operational issue is learning curves. The typical operation goal here is apply experience to reduce time and cost per unit of output while the marketing concern is fastest service is not necessarily better service. Cost saving may not be passed on as lower prices.

The seventh operational issue is management of capacity. The typical operation goal is keep cost down by avoiding wasteful underutilisation of resources. While some common marketing concern are service maybe unavailable when needed, quality maybe compromised during high demand periods.

The eighth operational issue is quality control. Ensure that service execution confirms to predefine standard can be operation goal while the marketing concern is operational definitions of quality may not reflect customer needs and preferences.

S No.	OPERATIONAL ISSUES	TYPICAL OPERATION GOAL	COMMON MARKETING CONCERN
5	Job design	Minimize error, waste, and fraud; make efficient use of technology; simplify tasks for standardization	Operationally oriented employees with narrow roles may be unresponsive to customer needs
6	Learning curves	Apply experience to reduce time and costs per unit of output	Faster service is not necessarily better service; cost saving may not be passed on as lower prices
7	Management of capacity	Keep costs down by avoiding wasteful under-utilization of resources	Service may be unavailable when needed; quality may be compromised during high-demands periods.
8	Quality control	Ensure that service execution conforms to predefined standards	Operational definitions of quality may not reflect customer needs, preferences

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Now, how to go about reducing these inter-functional conflicts? One of the challenges that senior manager face is to avoid creating "functional silos" where each function exist in isolation from the other, jealously guarding its independence. So, these functions, they should not act as islands and they should be seamlessly integrated with each other. So service management should ensure that each of these 3 functional imperative is compatible with others and that all are mutually reinforcing.

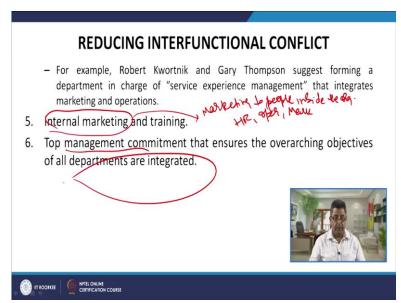
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Ways to reduce inter-functional conflicts and break down the cultural barriers between department and that includes the 1<sup>st</sup> is inter functional transfers of individual who will develop a more holistic perspective and be able to view issues form different perspective of the various department. So, now this person is transferred to various departments. So, now he has the capability of the looking at this issue from the viewpoint of the marketing departments, operation department and the HR department.

The second is stablishing integrating project teams, for example, for new service development or customer service process design or redesign. The third is having interfunctional service delivery teams and the fourth is appointing individuals whose job is to integrate specific objectives, activities and the processes between departments.

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For example, these 2 suggest forming a department in charge of service experience management that integrates marketing and operations. So, that is the biggest problem is services: operations goes towards the east and marketing goes towards the west, so they have suggested that there should be a department that is called as service experience management and that will integrate the marketing and operations.

The fifth is internal marketing and training. Internal marketing is marketing to people inside. For example, the HR people, the operations people and obviously the marketing people. Top management commitment that ensures the overarching objective of all departments, they are integrated and this is to be done by top management that there are various objectives of the various departments, they are integrated.



Now, how to go about creating a world class service organisation? From losers to leaders, there are 4 level of service performance. The first is service leadership is not based on outstanding performance within a single dimension. So, we are not talking of a leadership from a single dimension rather, it reflects excellence across multiple dimensions. In any organisation with 3 functional areas, marketing, operations and human resource, service performance are categorised into 4 levels, one is loser, nonentity, professional and the leader.

At each level, there is a brief description of a typical organisation across 12 dimensions. Under the marketing functions, we look at the role of marketing, competitive appeal, customer profile and service quality. So, in marketing function we are looking at these 3 things. So, this is only in marketing, then as we move on, we will talk about the various things that will be considered in HR and in operations. (Refer Slide Time: 23:51)



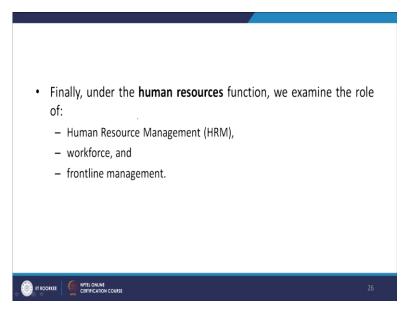
So, just excelling on one dimension will not make a service firm as a leader, but there are 12 dimensions on which it has to deliver in order to become a leader.

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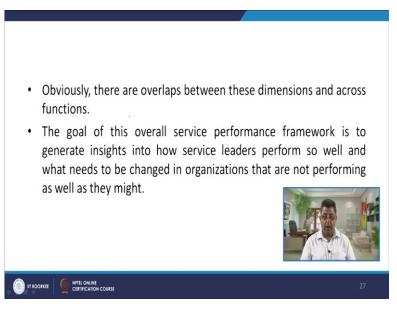
Under the operations function, we consider the role of operations, service delivery that is the front stage, the various backstage processes, the productivity and introduction of new technologies.

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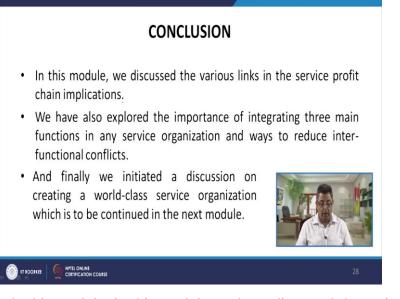
And finally under the human resource function, we examine the role of: Human Resource Management, workforce and frontline management. So, now you see these are 5, and 3 8 and 4 12. So, these are the 12 dimensions on which a service firm has to perform in order to become a service leader.

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Obviously, there are overlaps between these dimensions and also across functions. The goal of this overall service performance framework is to generate insights into how service leaders perform so well and what needs to be changed in organisations that are not performing as well as they might. So, now this gives framework for companies to understand where they are performing better and where the performance can be still better.

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In order to conclude this module, in this module we have discussed the various links in the service profit chain and their implications. We have also explored the importance of integrating 3 main functions in any organisations and ways to reduce inter-function conflict and finally we initiated a discussion on creating a world class service organisation and we will continue to talk about that in the next module that is the last module.

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Again, these are the 3 books form which the material for this module was used. Thank you.