

RISE OF THE CHAMELEON

THE NEW SERVICE OPERATIONS CHALLENGE: DELIGHTING CUSTOMERS
AND REDUCING COST IN THE NEW FRONT OFFICE



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THE NEW SERVICE OPERATIONS CHALLENGE DELIGHTING CUSTOMERS AND REDUCING COST IN THE NEW FRONT OFFICE

Service operations has always been a tough business. Traditionally viewed as a back-office cost center to be contained, service operations had an evergreen expectation for annual cost reduction while continuously meeting service levels that delight customers at all times. Nothing has changed, but the pressure is mounting and next level improvement is getting ever tougher.

Service operations is becoming part of the customer experience in a way that it never was before

Today, in an increasingly digital world, service operations departments are being pulled into a “new front office.” In the new front office, consumers are interacting directly with the company’s systems and back office, conducting transactions and servicing for themselves. They’ve learned to expect instant service, immediacy, customization, and round-the-clock access, and they have the tools to broadcast their dissatisfaction if anything goes wrong. In this new front office, service operations becomes part of the customer experience in a way that it never was before. Your job may once have been just to keep the pipes open and flowing smoothly. Today, you need to also delight the customer, create magnetic experiences, enable long-term relationships, and satisfy sky-high customer expectations.

And your old back office job? You still have that one as well, and it’s getting tougher. Eroding margins in many service businesses are driving up cost pressures and the need to accelerate service provision more cheaply

at higher customer expectation levels. “Five percent cheaper and just as good” isn’t good enough anymore. Old and new competitors are aiming for “50 percent cheaper – and a lot better.”

Take all of these dynamics together, and you are left with a daunting challenge. Many of the old world experiences – focusing primarily on internal productivity, feedback and rework loops and culture – no longer work. Service operations managers need a new playbook, one that assures simplification for the customer, high resource utilization in an increasingly automated or self-serviced context, a service rather than operations culture, digital and technology savviness, and a new risk mind-set – in short, a very new way of sustainably approaching the cost and service predicament in service operations.

Mastering the challenge also comes with rewards. Service operations professionals that master the challenge will cease to be simple cost centers. They will create value for the company, a pathway to greater influence, and better compensation. And though the challenges are new to service operations, other industries often provide models of how to meet them. Those boil down to a key set of insights. Learn to live with contradiction. Be a big picture thinker with microscopic focus. Look for high-impact moves without ignoring the accumulation of marginal benefit. Be all about the customer, but also all about internal efficiency.

What kind of person can do all of that? Let’s call her a chameleon, quickly adaptable, impactful, multi-colored, but quite the opposite of simply trying to blend in.

THE SERVICE OPERATIONS PERFORMANCE GAP REQUIREMENTS FOR SUCCESS

Service operations productivity has not really improved and customer satisfaction levels have barely budged over time (see Exhibit 1). In many service operations, processes that should be standardized are still customized and suffer from too many handoffs and extensive re-work. Ever more volume volatility makes planning a challenge. Good data is rare. Automation has resulted in fragmentation and a lack of systems connectivity.

For a sense of how dramatically different the situation is in other industries – and how dramatically different it could be in service operations, consider these examples:

Prediction: In the energy industry, oil rigs are equipped with sensors that measure wind speed, incline, temperature and other metrics in real time, allowing operators to identify and address potential problems before they happen. How good is your service operations data at providing early and proactive warning of problems?

Speed: In the construction industry, architects and contractors shave months off the time it takes to complete a building by designing processes that let construction begin while the design is still being completed. Spanish clothing giant Zara uses a tightly controlled supply chain and on-demand processing to bring new designs to its fickle, fashion-hungry customers in a span of weeks. No longer limited to four seasons a year – Zara can change the merchandise in its stores every two weeks, as many as 40,000 new

designs every year. How rapidly can you identify and react to meet changing needs?¹

Efficiency: NASA's robot guidance systems are fed by vast numbers of satellite images of landscapes that took weeks to process. By working with Amazon Web Services the agency reduced processing time to a few hours – and at a cost of roughly \$200. How flexible is your business's capacity to serve volatile customer needs rapidly without the burden of fixed cost?² Nike's Flyknit shoe replaces the traditional upper – 35 individual pieces sewed together – with a single piece knitted by a computer from synthetic yarns. This not only slashes the costly assembly stage in manufacturing, but also enables service through faster time to market and greater customization. How simple and modular is your service?

Service operations managers must adopt six personalities to rise to the challenge

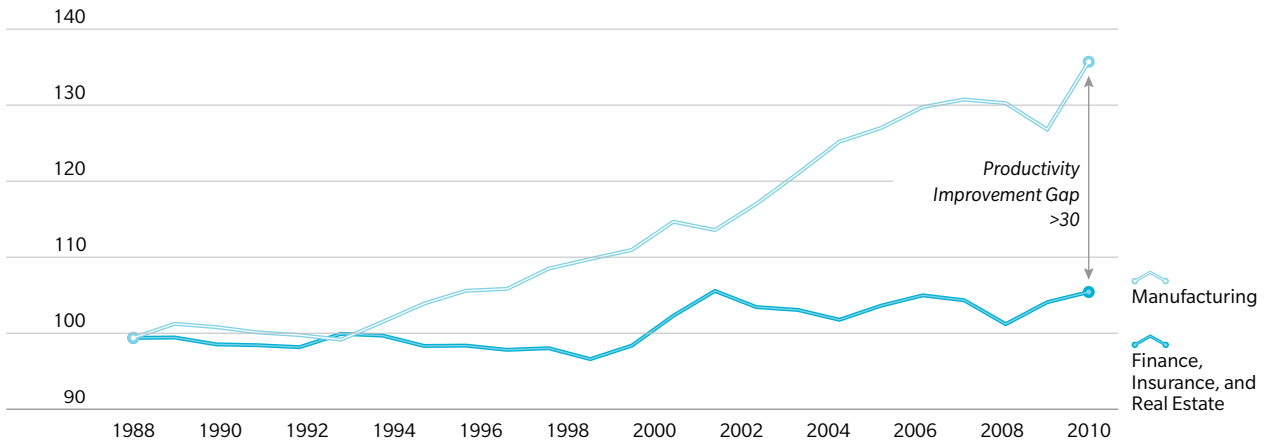


1 Ferdows, K. et al., "Zara's Secret for Fast Fashion", Harvard Business Review, Vol. 82, No. 11, November 2004.

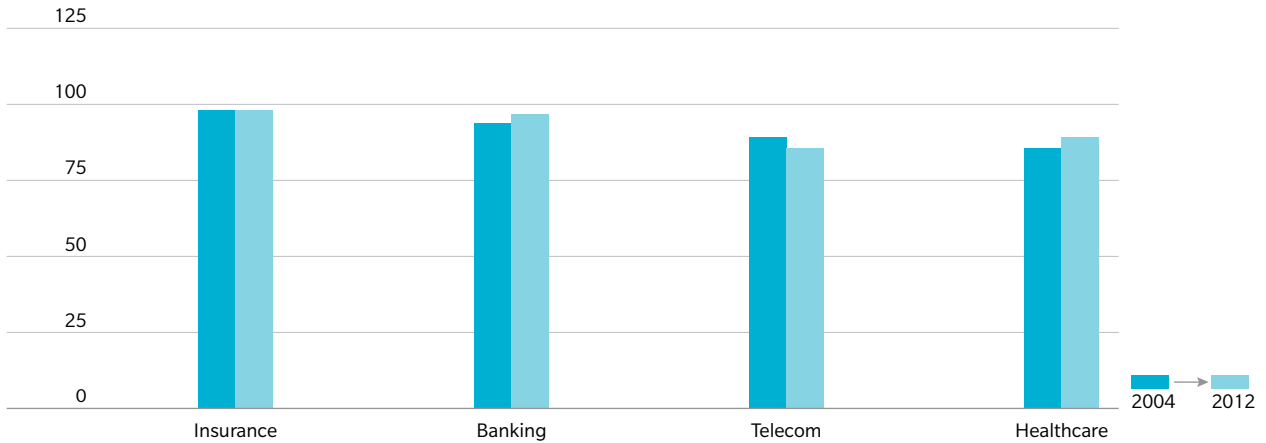
2 AWS Case Study: NASA/JPL's Desert Research and Training Studies, downloaded from Amazon company website <http://aws.amazon.com/solutions/case-studies/nasa-jpl/> on July 27th 2014

Exhibit 1: PRODUCTIVITY AND CUSTOMER SATISFACTION STAGNATION IN SERVICE OPERATIONS

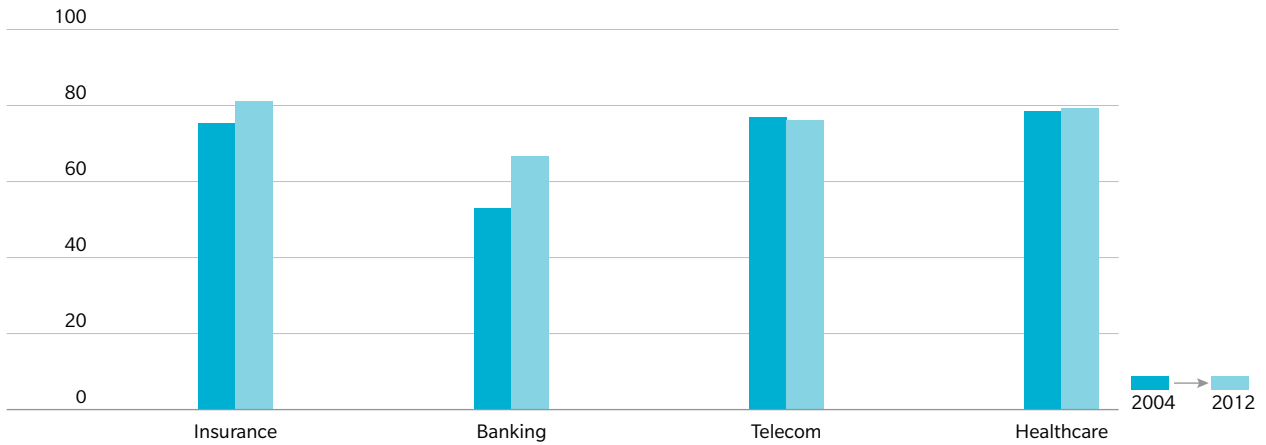
US MULTI-FACTOR PRODUCTIVITY INDEX¹
 SERVICE OPERATIONS PRODUCTIVITY LAGS MANUFACTURING OPERATIONS



CUSTOMER SATISFACTION INDEX²
 NO IMPROVEMENT IN CUSTOMER SATISFACTION



OPERATING EXPENSE TO REVENUE³
 NO IMPROVEMENT IN COST EFFICIENCY. INDUSTRY AVERAGE IN %



Source:

- 1 NIPA Industry Database
- 2 US Bureau of Labor Statistics, Company 10K reports, American Customer Satisfaction Index - Weighted average of operating expense ratios of largest 5 companies in each industry
- 3 US Bureau of Labor Statistics, Company 10K reports, American Customer Satisfaction Index - Weighted average of operating expense ratios of largest 5 companies in each industry

Similar levels of performance and capability to those seen in manufacturing operations and other industries are unfortunately exceptions in service operations. Based on our experience in leading many organizations through a journey of transformation, we believe that service operations managers can embrace the challenge. Service operations can continue to deliver against the evergreen management agenda – meeting ever-increasing customer expectations at lower cost – but it will take an ability to deploy a number of techniques quite different from the past. And it will require chameleon-like adaptability along six personalities from the service operations manager:

SIX PERSONALITIES TO WIN

- 1 **CONTRARIAN – HARNESS THE POWER OF THE OPPOSITE**
Seek counterintuitive ways to reduce customer hassles and simplify by reinvention
- 2 **QUANT MANAGER – CASH IN ON THE DATA DIVIDEND**
Make operational and behavioral data an early warning indicator and leverage information to re-define work
- 3 **DIGITAL INNOVATOR – TRANSFORM THE CUSTOMER EXPERIENCE**
Distinguish through service excellence in a multi-channel, digital enabled world. Enable 5x “word of mouth”
- 4 **AGILITY BUILDER – CREATE FLEXIBILITY AND DYNAMIC SCALABILITY**
Design processes and capacity for speed, agility, and rapid reaction to changing market conditions
- 5 **RELENTLESS STREAMLINER – DO MORE WITH LESS FOR 10X IMPACT**
Identify and seize every opportunity to drive improvement and leverage partners and new workforce models
- 6 **MAESTRO – BE A HIGH PERFORMANCE MOTIVATOR**
Drive and align organization and performance management for a culture of customer service, without a cushion between back and front office

Not all personalities will work in every situation. The right mix will depend on the organization, market and stage of evolution. Finding the right pattern of behaviors at the right time is half the battle. While each personality has the potential to deliver step-change improvement, experience shows that recognizing the interconnectedness and multiplicative power across them helps to continuously and sustainably beat the “more service for less cost” paradox, in a New Front Office context. Surprisingly, in a digital world, solutions often accomplish both: reduce cost and better service at the same time.



1

CONTRARIAN HARNESS THE POWER OF THE OPPOSITE

At times contrarian and minimalist thinking is needed to deliver innovation. In service operations, this translates into switching from supply side to demand-side thinking, simplifying processes, products and services, and who does what to both unlock efficiencies and delight customers at the same time. Less is surprisingly often more.

Progressive Insurance reduces hassles and increases efficiency. It doesn't follow a traditional claims process with multiple forms and long waits for checks. Instead, the adjusters visit, inspect, and authorize payment, generally within two to nine hours. That keeps customers happy. (Poor service is a major reason why policyholders switch auto insurers.) But for Progressive it also means better fraud detection, lower payouts, and a dramatically simplified back-office process.

customers prefer hunting on their own – it's fun and exciting. By allowing customers to do part of the agent's work, Rightmove generates 14 BN page impressions per year and has a market capitalization of over \$3 BN.²

What do these strategies have in common? Exceptional foresight? Enlightened awareness? Plain luck in 20/20 hindsight? Or just the ability to think of the opposite as a means to drive efficiency and customer intimacy through innovation and less-is-more thinking?

Consider this Service Industry situation: in traditional healthcare, doctors and hospitals were paid each time they delivered a service to the patient. In new value-based care, smart operators are paid for keeping the patient well and minimizing costs. They reduce the number of services delivered, minimize the cost of those they do deliver, and focus on results. Such customer-focused minimalist health operators reduce hassles for the customer (see Exhibit 2).

Value-based providers make regular low cost help such as medication, diet, and lifestyle advice available 24/7 through clinics, pharmacists, and smartphones. These services are effective for patients, and can be delivered cheaply and effectively by nurses, educators, and social workers instead of by doctors. IT solutions guarantee that information transfers seamlessly between different caregivers and the patient and eliminate unnecessary tests and treatments. Patients are incentivized to manage their own health. In turn, complex services and future hospitalizations are reduced by preventing chronic diseases from progressing. From the patient perspective, it's the ultimate simplification: your care provider allows you to manage your health rather than having to fix your illness.

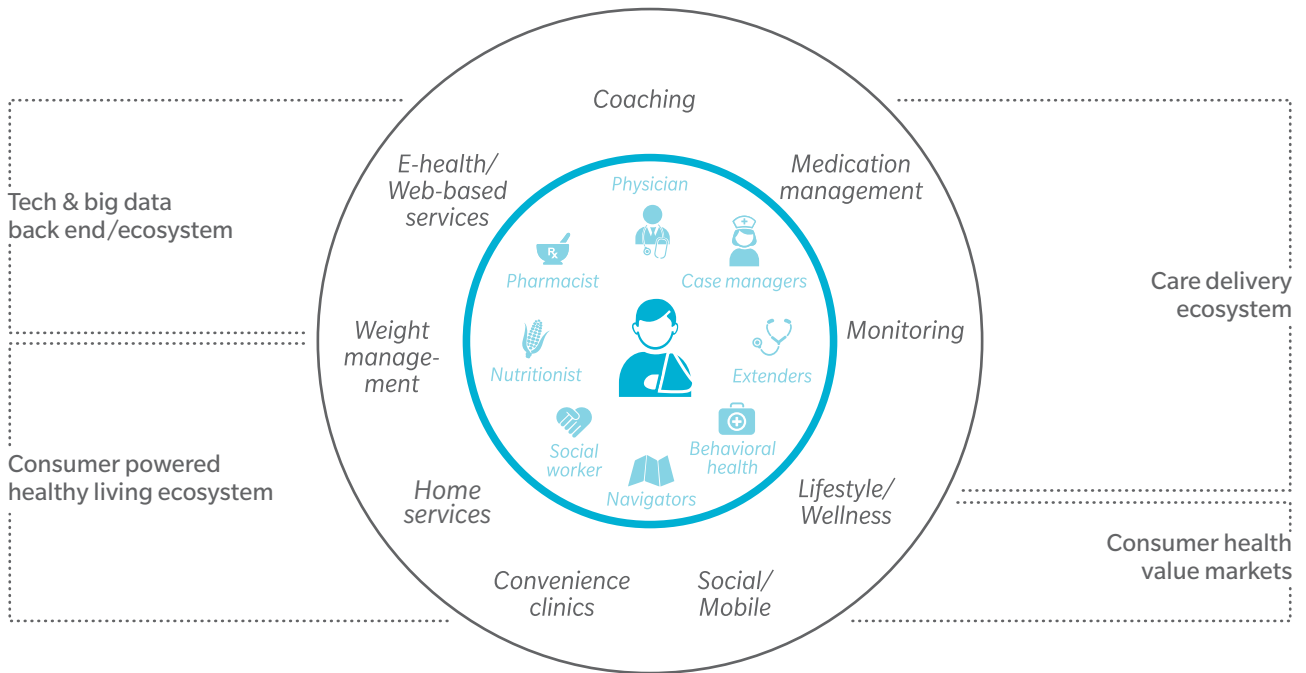
Switching from supply side to demand side thinking is needed to drive innovation

California-based In-N-Out Burger limits choice but improves the promise. It reversed the conventional wisdom that customers want ever more options and customization. Its extremely limited menu – just burgers and fries – keeps operations simple, focuses on freshness, and allows tight quality control in the supply chain. The result: extremely loyal customers and the largest estimated profit margin (20%) in the industry.¹

Rightmove eliminated service and put tools in the customers' hands to revolutionize UK real estate. Instead of agents matching customers and properties, a simple-to-use mobile-enabled portal aggregates information together with valuation models, third party information and direct booking of viewings. It turns out that

- 1 Gottfredson, M. et al. "Innovation Versus Complexity: What Is Too Much of a Good Thing?", Harvard Business Review, Vol. 83, No. 11, November 2005
- 2 London Stock Exchange Data, downloaded from <http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary/company-summary-chart.html?fourWayKey=GB00B2987V85GGBXSTMM> on July 27th 2014

Exhibit 2: DEMAND-SIDE THINKING IN PATIENT-CENTERED POPULATION HEALTH



Key Attributes

- Specialized population ecosystems
- Next generation of care models
- Next generation of information and decision tools
- New health services marketplace
- Unlocking new profit levers
- New leadership playbook

Key questions for the service operations manager

- Do you perform a customer experience designed by others, or do you take ownership of the customer experience?
- Have you absolutely minimized the hard work the customer needs to do, but let them do the fun stuff?
- Do you recognize the customer’s history?
- Do you only ask for what you don’t have?
- Have you created hassle maps and are you tackling them relentlessly?
- Do you actively harness the power of the opposite?

2

QUANT MANAGER CASH IN ON THE DATA DIVIDEND

For service operations, the information age is arriving fast. Every customer interaction, process step, and multi-channel communication can be tracked, stored, analyzed, and used to drive improvement. Yet often they are not. Operations professionals who realize the potential not only identify, diagnose, and fix customer problems before they emerge, but also make better business decisions, for example pinpointing unprofitable delivery chain segments.

Falcon Fraud Manager uses transaction data from bank payment operations along with predictive analytics to detect payment fraud in real time – often before a transaction can be completed. One bank customer saw a 90% reduction in credit card fraud, 85% reduction in online fraud, and upwards of 70% reduction in debit card fraud.¹ A bonus: far fewer occasions for consumers to worry or complain.

Otis's Remote Elevator Monitoring uses electronic sensors and real-time diagnostic software to continuously monitor elevators, detecting problems before passengers would even notice them. With that information, service can be scheduled at a convenient time, the repair technician arrives with a diagnosis and the needed parts, and riders experience no interruption of service.

That same approach is doubly useful in healthcare. Doctors at CareMore, a regional healthcare provider for Medicare Advantage patients, wanted to keep its patients from being hospitalized for congestive heart failure. Their solution was to create a new data stream for at risk patients: a wireless bathroom scale that reported directly to the patient's electronic health record. When a sudden rise was detected, the CareMore team reached out proactively. The result: fewer episodes of CHF, fewer hospitalizations, sharply lower costs, and happier, healthier patients.

Today, top performers are creating major impact with the data they have already but have not exploited. Consider this Service Industry situation: Telecoms have traditionally built one-size-fits-all networks. But with the increasing importance of data and increased competition, smart companies fine tune their network design and performance, and the offer they make to customers, sometimes even to the level of discrete devices.

Playing catch-up requires significant work on data aggregation, definition of metrics, and creation of an analytical data mart (see Exhibit 3). However, the resulting correlation of regional-level marketing, sales, and network performance metrics enable purposeful targeting of investments and spend to maintain or regain regional competitiveness.

¹ FICO Marketing Document "Success story: Fraud - For top Mexican bank, enterprise approach to fraud delivers dramatic results across channels," downloaded from FICO company website http://www.fico.com/en/wp-content/secure_upload//Bancomer_Success_2487CS.pdf on July 27th 2014

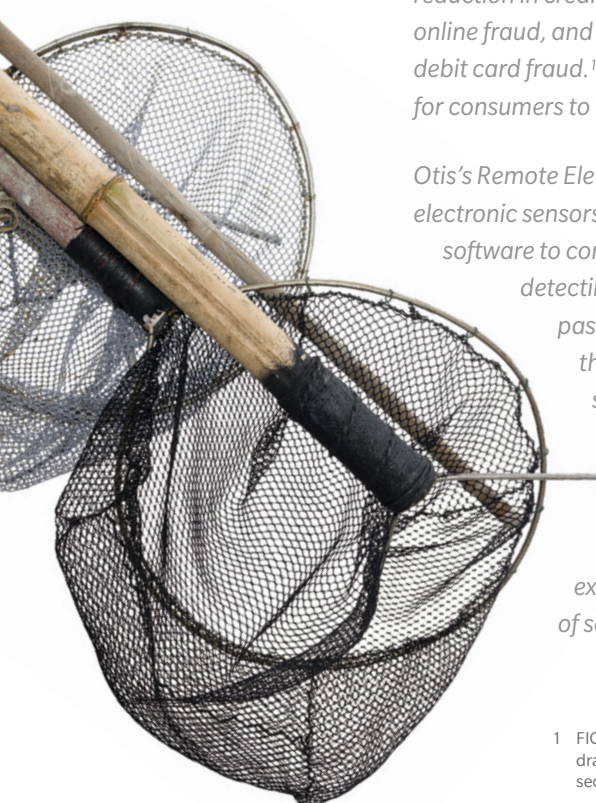
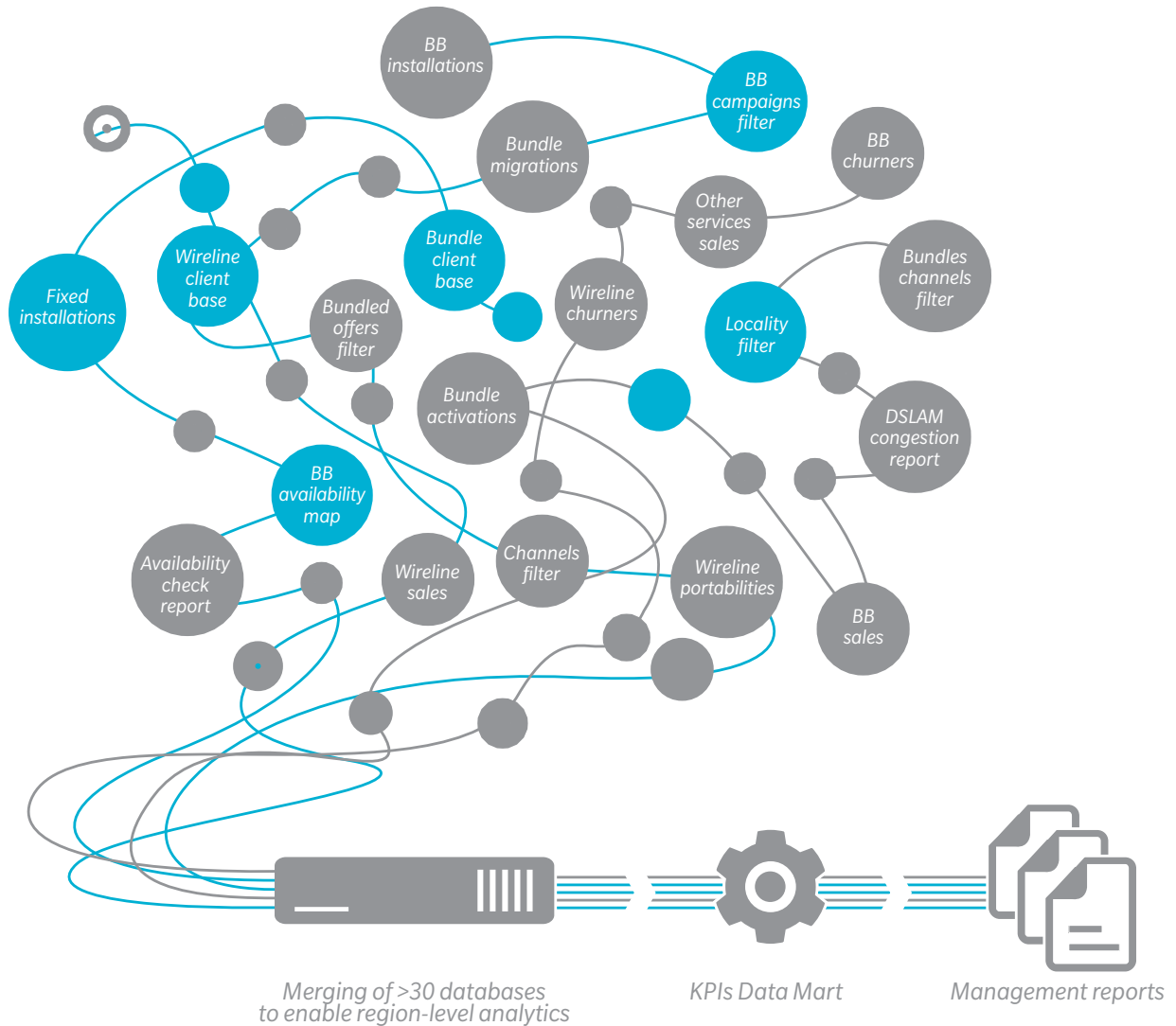


Exhibit 3: BIG INFORMATION AS OPPOSED TO BIG DATA



Key questions for the service operations manager

- Can you measure the performance skews among your staff?
- Do you get real-time service satisfaction feedback from your customers?
- Do you have manufacturing-like quality measurement along the service production line?
- Are your managers trained to work with and react to production data and quality control, including for early warning?
- Do you use data to align customer value and the cost of service for competitive advantage?
- Are you actively exploring cognitive and behavioral analytics to optimize your Service Operations?
- Do you actively cash in on the data dividend?

3

DIGITAL INNOVATOR TRANSFORM THE CUSTOMER EXPERIENCE

A digital strategy is no longer optional – it's a requirement. Customers demand speed, customization, personalization, and instant support through multiple channels. But real digital innovators don't just create great websites or a social media: they use technology to create new, seamless customer experiences across online and in person. Get it right and you'll nurture customer relationships, multiply brand equity and reach new customers. Get it wrong and prepare to be vilified by everything from social media to old fashioned "word of mouth" as there are few places left to hide in the digital world.

Audi's new Progressive Retail Experience seamlessly integrates technology into the sales process. Salespeople with tablets provide a wealth of product information – and detailed comparisons with competitors – all customized to individual needs. Touch-screens on the dealership floor lead customers through self-guided tours of the car's features, while display stations let customers sample and feel the car's frame and interior. The result: a more efficient, targeted sales process, enhanced consumer trust, and 70% more sales at its Audi City London concept.¹

Why would a virtual bank want bricks-and-mortar branches? Capital One 360's cafes redefine retail banking operations. Planning tables provide financial advice on home buying, retirement, and more. Coffee, refreshments, and free Wi-Fi provide a pleasant experience as customers interact with the sales staff. Work benches allow customers to cruise the bank's products and request a live video chat with a specialist.

Apple, the gold standard in customer experience, gives customers a seamless experience.

An Apple store staffer, backed by a smart technology infrastructure, can demonstrate products, solve problems, schedule service, conduct a transaction, or redeem a warranty, all without leaving the customer. An integrated technology solution empowers an appealing, personalized human experience that attracts traffic (18,000 visits per store, per week²) and further cements customer loyalty.

Consider this Service Industry situation:

Consumers with assets of between a quarter-million and a million dollars are unattractive to financial advisors and often go inadequately advised. Recently, a North American life insurance company implemented a multichannel, technology-driven platform for its retirement business to serve these mid-market customers.

Here, technology created an opportunity where there was none before: automation and guided self-service made the approach economically feasible, and personalization made it attractive. The successful platform balanced the following dimensions:

- Scalability – expansion to a large customer base almost instantaneously
- Economic efficiency – keeping costs low, so that low-asset customers can be serviced at a much lower price-point
- Intuitive experience – distilling complex financial and retirement considerations into an easy-to-understand plan
- Personalized advice – creating a distinctive journey for each customer based on his/her unique financial circumstances

Beyond the profits expected from such a scalable and efficient distribution platform, the benefits included a closer relationship between the insurer and end customer – something hard to achieve with conventional marketing.

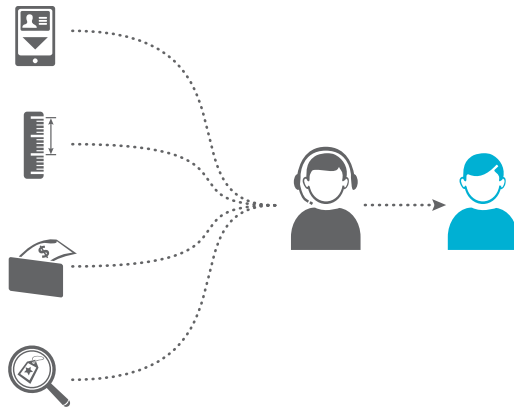
1 Presentation by Dr. Norbert Brändli, Head of IT Customer Sales Processes of AUDI AG, at automotiveIT International Congress, London, 2013 downloaded from http://congress.automotiveit.com/wp-content/uploads/2013/11/03_Audi_Dr-Braendli.pdf on July 27th 2014

2 Apple Inc Q4 2013 Earnings Call Transcript, downloaded from <http://seekingalpha.com/article/1780172-apples-ceo-discusses-f4q-2013-results-earnings-call-transcript?part=single> on July 27th 2014



Exhibit 4: THE POWER OF MULTI-CHANNEL

TODAY ADVISOR-LED INTERACTIONS



Customer experience

- Online experience provides education and simple planning services and drives traffic to advisors for sales execution
- Advisors available via phone and web, and in-person consultations



Scalability

- Potentially challenging to scale up economically – driven by advisor availability



Cost

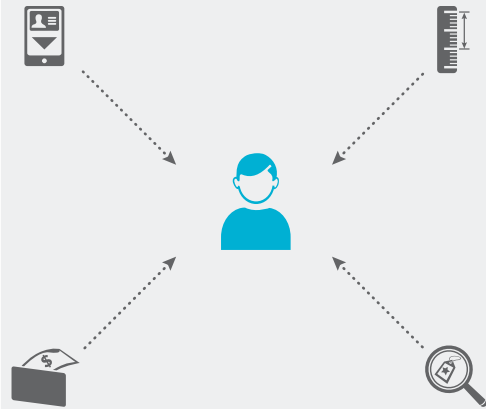
- High advisory cost for consumers
- High customer acquisition cost for insurers



Brand visibility

- Third party agents own customer relationship
- Insurers are dis-intermediated and seen as commodity product providers

GOAL MULTI-CHANNEL DIRECT



- Do-it-yourself online experience serves as a direct channel, with possibility of self-checkout for simple products
- Guidance, education and advice are delivered through web-based tools
- Phone, web, and in-person advisor interactions are available but de-emphasized

- Easily scalable and capable of serving a wide array of clients

- Low advisory cost for consumers
- Low customer acquisition cost for insurers

- Insurers gain visibility and a closer relationship with their customers
- Lower costs enable insurers to reduce product costs, give back to a community and strengthen customer-centric reputation

Key questions for the service operations manager

- Do your people understand the potential of digital technology for operations and service excellence?
- Do you own your key tools, the online and mobile platform?
- Can you guarantee seamlessness when customers cross channels?
- Are you constantly identifying trends and innovating in real time to ensure you stay ahead of the field?
- Are you tuned to innovate on mobile devices?
- Do you connect service quality and social media for maximum service quality recognition?
- Do you actively transform customer experience to strengthen brand?

4

AGILITY BUILDER CREATE FLEXIBILITY AND DYNAMIC SCALABILITY

The nature of demand has shifted. Consumers expect around-the-clock access, same-day delivery and seamless customer service at night and on weekends. At the same time, demand is volatile and customer need and market conditions can change in weeks.

Service organizations need to build flexible operations platforms and processes that ensure cycle times are fast, predictable and agile. However, in many service operations, the cost structures are fixed and reaction takes months at best.

To achieve more flexibility, operations professionals need to revisit the basics: standardized processes, separation of simple from complex and custom tasks, modularization, and componentization of work to run as an assembly line, with a separate track for exceptions and outliers. It also requires an extended enterprise of service providers coupled with innovative labor models.

Until recently, companies with unexpected demand for legal services had one option: hire an outside firm. Axiom offers an alternative, giving companies the choice to bring in temporary help, either hiring Axiom for a project, or permanently outsourcing a function. Axiom for its part uses flexible work models to control costs – but also as an enticement for talented lawyers in search of a change from the partnership model. The result for Axiom customers is flexibility and agility where there was previously none.

The website Yelp needs to process large amounts of data quickly, but the workflow is erratic.

Rather than scaling up in-house capacity to accommodate peaks, it uses Amazon Web Services (AWS) to scale up and down in rapid fashion at low cost. Using AWS, Yelp is able to process 3 terabytes of data on a daily basis.¹

State Farm meets demand in times of catastrophes such as floods and tornados by deploying its fleet of “mobile catastrophe facilities” vehicles as working space for independent adjusters that it hires on the spot. Within 48 hours it can have a temporary office anywhere in the United States.²

Consider these Service Industry situations:

A global insurer had a high touch, complex service model. More than 10 systems supported the lengthy quote-to-policy process, which took more than 20 hours. A complete process reengineering was needed. Steps that added no value were eliminated, brokers were educated and incentivized to improve the quality of data entry, exceptions were moved into their own workflow, and the process was broken into simple building blocks that could be reconfigured as required. The new process was 90% faster and significantly easier for employees, enabling them to deploy flexibly across the process to respond to changing demand.

Another North American financial institution recently implemented a dynamic capacity model for its real-estate business. A set of scalability levers allowed better handling of volatility without service level impact (see Exhibit 5):

- Contractual arrangements with third-party labor sources for option capacity
- Predictive modeling combining operational management information with indicators of future volume changes
- Cross-skilled resources for quick deployment across processes

1 AWS Case Study: Yelp, downloaded from Amazon company website <http://aws.amazon.com/solutions/case-studies/yelp/> on July 27th 2014

2 State Farm Catastrophe Vehicles resource, downloaded from State Farm Company website <https://www.statefarm.com/claims/resources/home-and-property/catastrophe-vehicles> on July 27th 2014

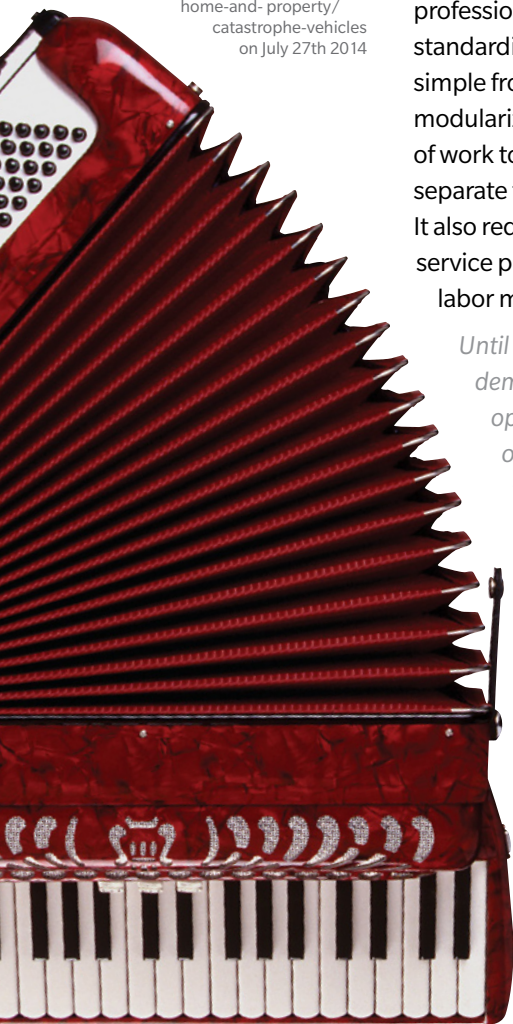
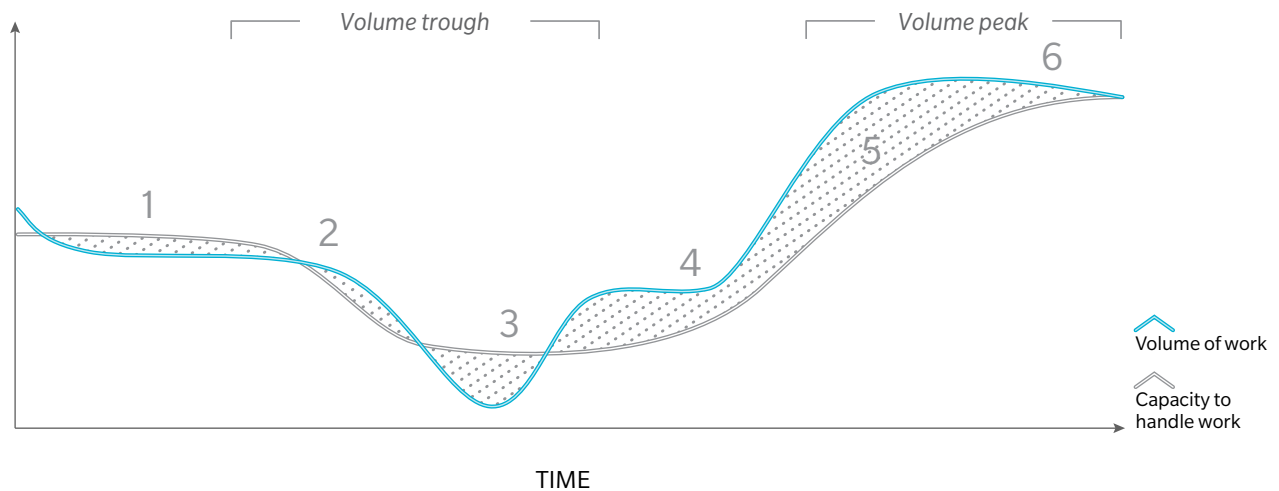


Exhibit 5: PEAKS AND TROUGHS – DYNAMIC OPERATIONS CAPACITY MANAGEMENT

VOLUME



1 Volume forecasts predict a downturn in demand

- Begin reducing volume of work to outsourcers
- Reduce contract labor

2 Volume downturn projected to continue

- Minimize 3rd party to contractual limit
- Further reduce contract labor
- Eliminate overtime
- Redeploy FTEs to projects or cross skilled functions
- Do not hire to backfill attrition

3 Volume forecasts predict potential upswing in near future

- Maintain capacity levels in anticipation of volume increase
- Notify outsourcers of potentially exercising option capacity

4 After a temporary halt, indicators again point to a prolonged volume surge

- Begin accepting new employment applications
- Re-engage contract labor sources

5 Volume surge continues but points to signs of settling to a new normal

- Exercise option capacity with outsourcers
- Deploy new hires
- Allow overtime
- Ramp up contract labor

6 Volume forecasts settle on a new normal

- Obtain steady state mix of in-house to outsourced labor
- Hire to backfill attrition

Key questions for the service operations manager

- Can you easily scale your operation up and down without utilization impact?
- Have you configured for standard versus specialized activities?
- Are your processes modular?
- Can you proactively isolate exceptions before they clog up your workflow?
- Can you serve customers with differentiated service level?
- Can you change the way you provide service within weeks?
- Can you adapt to new products within a quarter?
- Can you deploy tweaks any day you want?
- Do you actively build flexibility, engineer dynamic scalability and beat uncertainty?

5

RELENTLESS STREAMLINER DO MORE WITH LESS FOR 10X IMPACT

At too many companies, operations management is about squeezing the last drop from the lemon, sometimes with lean and Six Sigma, sometimes just by shrinking headcount and lopping a few more percent off the budget each year. Real operations excellence is much more complex – and more ambitious. Winners in service operations understand the value of process engineering, and especially of piling up small improvements in dozens of different areas to create big impacts. But they are also thinking about bold strokes, new operating models end-to-end, and how best to achieve the highest levels of service and work efficiency, using the most effective set of resources across customer-facing and central functions. Their favorite way to look at service delivery is front-to-back and end-to-end, and the only budget they respect is zero-based. In the large and in the small they are constantly seeking game changers that will redefine their companies in an increasingly crowded space.

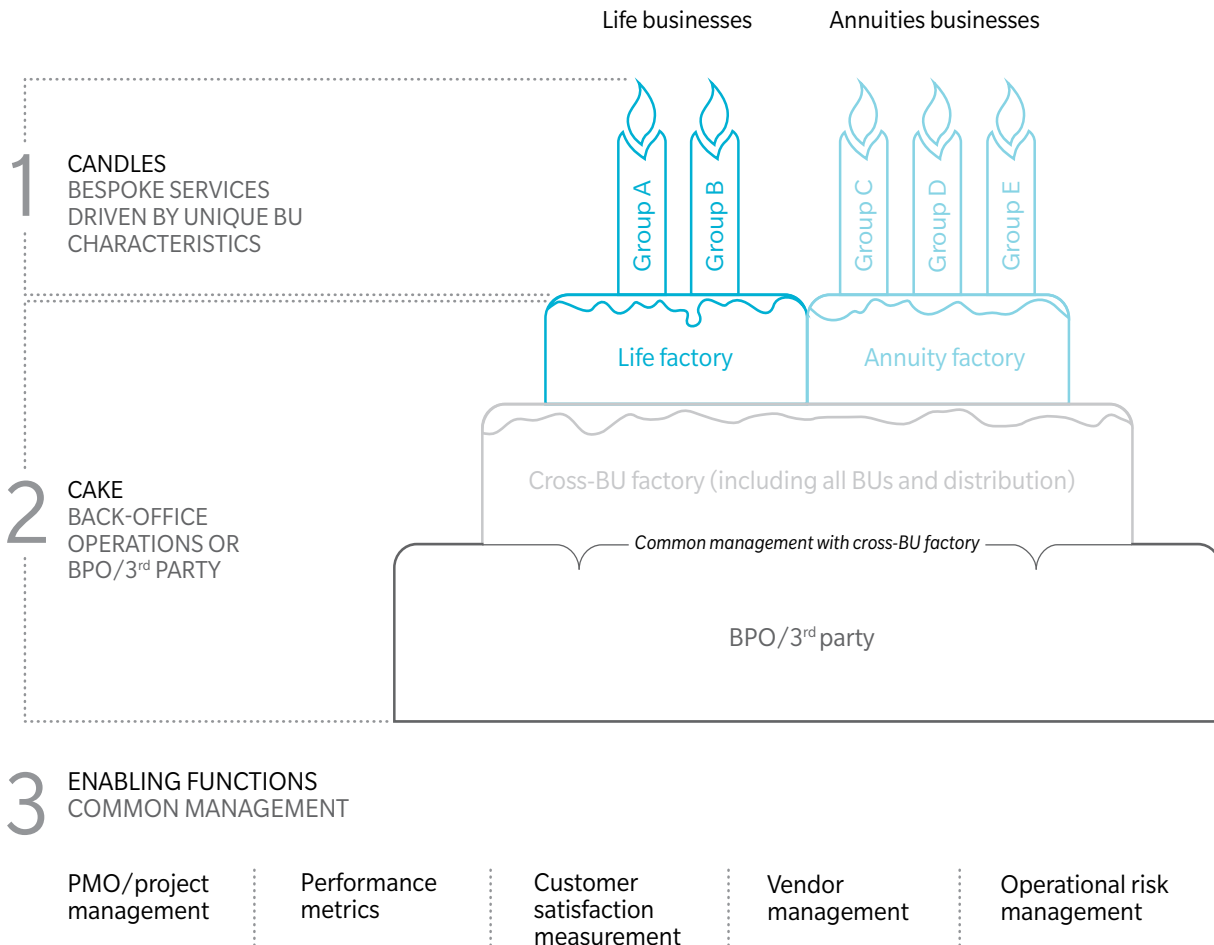
Walmart understands how much the outside world affects its internal processes. It exerts tight control over its entire supply chain to deliver superior distribution management at low cost. Unlike most supply chains, with multiple parties between the manufacturer and the retailer, Walmart's supply chain delivers directly from the manufacturer to the store's distribution center, bypassing a third-party distributor, reducing costs, and speeding up store stocking.

Southwest redefined the airline industry, delivering low-cost travel with predictable and reliable service. That's a bold stroke, but Southwest followed through on the idea down to the microscopic level, using tactics like unassigned seating and having pilots help clean aircraft to get quicker turnaround at the gate, leading to lower airport fees and more flights per day. From the choice of aircraft, to schedules, to customer service, all the pieces fit together as a unified, purposeful whole.

British Cycling and later Team Sky transformed the world of performance cycling through the "aggregation of marginal gains" philosophy. Coach Dave Brailsford explained it to the BBC: "The whole principle came from the idea that if you broke down everything you could think of that goes into riding a bike, and then improved it by 1 percent, you will get a significant increase when you put them all together."

Consider this Service Industry situation: A global insurance company recently redefined its operating model, to unlock billions in latent value. Breaking the redundancy of functions and work across business units, it defined the appropriate de-coupling points for the businesses. Processes were tiered around those that are unique to the business and those that can be cross business factories. Beyond efficiency gains, the new model provided clarity to the front- and back-office, drove focus on the "critical few" metrics by level, and opened career paths for employees (see Exhibit 6).

Exhibit 6: AS COMMON AS POSSIBLE, CUSTOM WHERE IT COUNTS – CANDLES AND CAKE FRAMEWORK



Key questions for the service operations manager

- Is everyone in your operation questioning cost relentlessly and all the time?
- Are your processes effectively managed front-to-back and end-to-end?
- Can you reduce capacity at a moment's notice?
- Have you mastered hybrid role models to manage utilization?
- Are you using service partners more than ever before?
- Do you have full visibility along the extended value chain?
- Is your workforce model largely remote?
- Have you put work back into the front office to help manage utilization there?
- Do you actively do more with less to strive for 10x impact?

6

MAESTRO BE A HIGH PERFORMANCE MOTIVATOR

Aligning the organization and bringing along your people will be critical in achieving next level cost and customer satisfaction performance. Competing on service in an increasingly digital, new front office world requires substantive organizational and cultural change. Organizing by product and channel won't work when customers want to transcend channels seamlessly and be recognized for their whole relationship at all times.

Technology will play a critical role in innovating service, but many of the traditional processing and service staff don't know how to imagine a technology-enabled future. Physical traffic is going down, creating utilization issues and requiring hybrid roles, work migration back to the front office and better part-time models. Quality alone isn't

sufficient to measure performance and staff needs clear metrics to deliver the desired service performance, consistently.

In addition, more and more people want to work from home, requiring remote workforce models to be established. And finally, ops and tech risk is going up exponentially in a digital

environment, requiring a new risk management culture. A tall order of change.

How does the maestro orchestrate people, technology and process to surprise and delight customers and create higher efficiency? Consider these examples from some hypercompetitive industries:

Airlines and hospitality companies have pushed their staff forward into customer management and recovery roles. Hotel staff are empowered to resolve complaints on the spot. Pilots greet passengers, building a sense of connection. Airline crews operate in-flight duty-free shops.

The package delivery giants have made huge investments in upgrading trucks, uniforms and above all retraining staff in an effort to get customers to look beyond the package they have just received and see a true service experience.

In retail, the Apple store has cross-trained and equipped its staff to perform multiple roles – advisors, sales, tech support and checkout.

But the number one item on their training curriculum: emotional connection.

In banking we have worked with numerous service organizations to introduce sales force like performance management in the back-office, virtually eliminating performance skews and stepping up productivity by more than 20 percent. We've also helped banks to create "virtual" centralization through workflow technology so that branch and non-branch

staff can all work on both customer and non-customer facing activity.

As customer service leaders have successfully implemented these first waves of change, they've also started to develop and embed continuous improvement. For example, one service operations leader we have worked with has begun to take her executive team on technology study tours to immerse them in technology and enable them to envision a technology-driven future.

A large financial institution that we worked with underwent a multi-year transformation to move from a product-oriented retail and business banking operations organization to a customer centric approach. The bank identified those activities that could be horizontalized across products to create process utilities with high levels of predictability, repeatability and consistency across product groups, as well as the ability to manage resources within a unified pool. Processes were simplified and automated, if not virtualized, through end to end workflow tools. Roles were redefined and

the workforce retrained to support anytime/ anywhere/anything staffing (i.e. anyone can work on anything).

Lastly, performance management and incentives were introduced to eliminate performance variability, skew the balance towards customer outcomes (speed, ease, satisfaction, etc.) and drive productivity. The staff were then finally positioned and empowered to move out of their "process silos" and into a total customer service mindset. Key customer moments of truth were then assessed, and customer delight plays inculcated with all staff (both legacy front office and back). The institution observed a 15-20% productivity improvement within 3-4 months of going live and is now on the journey to drive technology-led continuous improvement with the key objective of eliminating customer hassles and driving delight.



Key questions for the service operations manager

- Does your organization model allow you to seamlessly integrate customer service across channels?
- Do your role designs ensure high utilization?
- Are you delivering hybrid roles with closer bonds to both product and technology?
- Have you aligned performance management to new front office expectations and established clear performance metrics?
- Have previously centralized activities been appropriately pushed back to front-office outlets to manage utilization there?
- Does your workforce model enable seamless integration of a widely dispersed workforce?
- Can you measure cultures and behaviors as well as performance?
- Are you actively turning processors into front-office servicers?

CHAMELEON CASE STUDY COMBINING PERSONALITIES TO CONTINUOUSLY IMPROVE COST AND CUSTOMER DELIGHT

While each is individually quite powerful, the six personalities unleash their real impact when aligned with the current cost and customer satisfaction situation, the root causes of gaps, and a company's existing set of capabilities. The right mix will change as the situation changes and will need to evolve over time to continuously improve on the evergreen cost versus customer satisfaction paradigm.

Consider the situation of a leading and successful consumer financial institution: Already well-established in its market, profitable and with good customer reputation, it decided to own the advisor proposition but at a low cost, creating a defensible and flexible position at the sweet spot of customer delight. A strategy that explicitly set high ambitions on customer satisfaction and the ability to provide high touch service at low cost. An examination of the context revealed which of the six personalities and behaviors were to be prioritized (Exhibit 7).

In turn, a playbook was established, sequencing activities and ensuring the highest impact on the cost versus customer satisfaction paradigm. The results were dramatic. Customer satisfaction, although already high, increased by 15%, mainly due to transparency and digital tools. Costs came down 25% as the breaking down of organizational silos and end-to-end management opened up new efficiencies.

85% of low value transactions migrated online. More partnering and hybrid role design created flexibility, and the organizational and cultural measures created a sustainable foundation for the next iteration on the evergreen customer satisfaction versus cost journey.

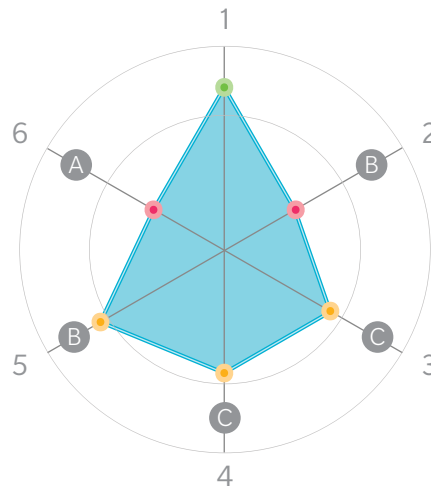


Exhibit 7: EXAMPLE SERVICE OPERATIONS PERSONALITIES DIAGNOSTIC

CONTEXT

- Already strong, simple and effective customer processes
- Weak operations data but anecdotes of highly variable performance
- Weak self-service and limited mobile capabilities, inconsistent processes across all channels
- Acceptable current cost position but lack of flexibility vs. expected customer channel migration
- Already strong, simple and effective customer processes
- Strong Lean Six Sigma legacy cost focus but breakthrough thinking needed over time
- Organization not supportive of objectives – siloed organizational model, little measurement, weak service culture

DIAGNOSTIC



PLAYBOOK

A. First Moves

- Introduction of hybrid roles and alignment of organization to customer, removal of silos
- Training to drive cultural shift from processor to servicer

B. Second Moves

- Develop operations tracking data to support performance management and reinforce cultural change
- Create new self-service and mobile capabilities and build consistent cross-channel processes and digital performance data

C. Third Moves

- Build flexibility in cost structure to support economics under multi-channel growth
- Gain efficiency from step change in outsourcing, silo breaking and building utilities with competitors

1 HARNESS THE POWER OF THE OPPOSITE

Capability need exceeded – For the moment “check”

Substantive customer research revealed that the advice process itself was already well received. It leveraged existing information well, tapped publically available information to augment what existed, and kept new information requests to a minimum. Automated tools supported the development of customer-specific scenarios – and feedback loops on the spot. Transition into fulfillment was seamless.

2 CASH IN ON THE DATA DIVIDEND

Capability need not met – A major area for change

Operations data revealed itself as a major issue. Fulfillment tracking was impossible. Cost management happened year-on-year via “headcount flat” or “plus 5%” approaches. Individual processor productivity varied widely when exposed against key performance metrics. Customers could track progress online. There was little information that would indicate to operations managers that problems might occur.

3 TRANSFORM THE CUSTOMER EXPERIENCE

Capability need met – A focus area for innovation

While advisors were well equipped to provide advice through traditional phone and branch channels, online self-service capabilities were incomplete and a mobile offering did not exist. Furthermore, the fundamental ability to manage consistent processes across channels was barely available, not even between physical and phone-based advisory channels. There was also no way to track the performance of the advice in digital channels.

4 CREATE FLEXIBILITY AND DYNAMIC SCALABILITY

Capability need met – But something to address over time

While the cost position was acceptable, high fixed costs would create a problem once customers began migration to online and mobile channels. In order to sustain best-in-class economics, it was clear that a more flexible cost structure was needed. One that could create high utilization of staff.

5 DO MORE WITH LESS FOR 10x IMPACT

Capability need met – But something to address over time

Lean Six Sigma teams had been operating for a long time, continuously scrutinizing processes and improving bit-by-bit. The next wave of process efficiency required breakthrough thinking, more outsourcing of what was previously considered core, breaking down organizational silos to exploit new synergies, optimizing processes from demand to supply end-to-end and building utilities with competitors where possible.

6 BE A HIGH PERFORMANCE MOTIVATOR

Capability need not met – A major focus area to ensure other moves would gain full traction

Finally, the organization and culture needed significant change to effectively support the strategy. Performance management did not focus well enough on quality of advice-driven fulfillment and cost. Channels and products were too often organized in silos. Role design could not guarantee the level of utilization required. The old separation between “front office” and “back office” was no longer sustainable. The overall culture was still too much “processor” rather than “service”.

MAKING IT HAPPEN IN YOUR SERVICE OPERATION

Six bold personalities – simple to understand, but hard to execute. Hard, but not impossible – and extremely rewarding. All six personalities, or whatever subset applies to your business, have the potential to meet your cost and efficiency needs while renewing focus on customer satisfaction. They lay the foundation for continuously reducing cost and at least sustaining customer satisfaction as expectations rise. They provide a tool kit that can be deployed on this evergreen journey.

As a starting point, service operations managers should examine themselves and their organizations for readiness against these six personalities. This will determine the particular playbook for the moment.

Personality

1 CONTRARIAN – HARNESS THE POWER OF THE OPPOSITE

2 QUANT MANAGER – CASH IN ON THE DATA DIVIDEND

3 DIGITAL INNOVATOR – TRANSFORM THE CUSTOMER EXPERIENCE

Key assessment questions

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> • Do you perform a customer experience designed by others, or do you take ownership of the customer experience? • Have you absolutely minimized the work the customer needs to do? • Do you recognize the customer’s history? • Do you only ask for what you don’t have? • Have you created hassle maps and are you tackling them relentlessly? • Do you actively harness the power of the opposite? | <ul style="list-style-type: none"> • Can you measure the performance skews among your staff? • Do you get real-time service satisfaction feedback from your customers? • Do you have manufacturing-like quality measurement along the service production line? • Are your managers trained to work with and react to production data and quality control, including for early warning? • Do you use data to align customer value and the cost of service for competitive advantage? • Are you actively exploring cognitive and behavioral analytics to optimize your service operations? • Do you actively cash in on the data dividend? | <ul style="list-style-type: none"> • Do your people understand the potential of digital technology for operations and service excellence? • Do you own your key tools, the online and mobile platform? • Can you guarantee seamlessness when customers cross channels? • Are you constantly identifying trends and innovating in real time to ensure you stay ahead of the field? • Are you tuned to innovate on mobile devices? • Do you connect service quality and social media for maximum service quality recognition? • Do you actively transform customer experience to strengthen brand? |
|---|---|---|

Comparator

- | | | |
|---|---|--|
| <p>Are you ...</p> <ul style="list-style-type: none"> • In-N-Out Burger or Nespresso-like in simplicity? • Apple-like in surprise and delight? • Rightmove-like in outsourcing to customers, AirBnB-like in convenience? • Progressive Insurance-like in reducing hassles | <p>Are you ...</p> <ul style="list-style-type: none"> • Toyota-like in production control? • Falcon Fraud Manager-like in preventive analytics? • Remote Elevator Monitoring-like in real-time feedback and visibility? • CareMore-like in connecting customer insight to operational delivery? | <p>Are you ...</p> <ul style="list-style-type: none"> • Audi-like in interaction innovation? • Capital One 360-like in acknowledging shifts in customer attitudes? • Apple-like in turning customer experience processes into a competitive weapon? |
|---|---|--|

In a market driven by customer-centricity, changing demographics, product commoditization and an increasingly porous buffer between the customer and operations, leaders must chart a new course to continuously improve cost and meet customer expectations. In our experience, the six key personalities will help winners differentiate themselves and establish service operations as the unequivocal new front office. The time for change is now. An honest self-assessment is needed for you to come to terms with what you need to do and which new capabilities are required. The big challenge is not only having the will, fortitude and staying power to get it done, but also developing the skill of the chameleon to deploy multiple personalities and approaches to deliver the whole benefit. For those who can, the prize is immense.

4 **AGILITY BUILDER –
CREATE FLEXIBILITY
AND DYNAMIC SCALABILITY**

- Can you easily scale your operation up and down without utilization impact?
- Have you configured your operation in standard versus specialized activities?
- Are your processes modular?
- Can you isolate exceptions before they clog up your workflow?
- Can you serve customers with differentiated service levels?
- Can you change the way you provide service within weeks?
- Can you adapt to new products within a quarter?
- Can you deploy tweaks any day you want?
- Are your response times fully aligned to customer expectations, and customer profitability?
- Do you actively build flexibility, engineer dynamic scalability and beat uncertainty?

Are you ...

- State Farm-like in your ability to deploy pop-up capacity?
- Axiom-like in your flexibility to deploy and achieve cost variabilization?
- Yelp-like in your ability to integrate third party standardized services into your processes?

5 **RELENTLESS STREAMLINER –
DO MORE WITH LESS
FOR 10X IMPACT**

- Is everyone in your operation questioning cost relentlessly and all the time?
- Are your processes effectively managed front-to-back and end-to-end?
- Can you reduce capacity at a moment's notice?
- Have you mastered hybrid role models to manage utilization?
- Are you using service partners more than ever before?
- Do you have full visibility along the extended value chain?
- Is your workforce model largely remote?
- Have you put work back into the front office to help manage utilization there?
- Do you actively do more with less to strive for 10x impact?

Are you ...

- Walmart-like in controlling the end-to-end value chain?
- Southwest-like in tailoring the operating model to elements customers really care about?
- Team Sky like in a truly all-encompassing approach to improvement through marginal gains?

6 **MAESTRO –
BE A HIGH
PERFORMANCE MOTIVATOR**

- Does your organization model allow you to seamlessly integrate customer service across channels?
- Do your role designs ensure high utilization?
- Are you developing hybrid roles with closer bonds to both product and technology?
- Have you aligned performance management to the new front office expectations and established clear performance metrics?
- Have previously centralized activities been appropriately pushed back to front-office outlets to manage utilization there?
- Does your workforce model enable seamless integration of a widely dispersed workforce?
- Do you have service level agreements in place?
- Can you measure cultures and behaviors as well as performance?

Are you ...

- Apple-like in enabling hybrid people?
- Like a hospitality firm in empowering the back office to delight customers?
- Like a leading FI enabling any time/place/one staffing?

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