

POINT OF VIEW

# CREATING TOMORROW'S SERVICE OPERATIONS



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*THE ONLINE UPSTARTS ARE AHEAD OF YOU. YOUR CUSTOMERS HAVE LEARNED TO EXPECT MUCH MORE THAN YOU DELIVER. TO CATCH UP, YOU NEED TO MAKE THESE SIX BASIC MOVES.*

Until recently, the head of operations in a service business probably slept well. His counterparts at manufacturing firms might be undergoing the demands of Six Sigma and all the other movements that promised to turn any manufacturer into a Toyota. But little of that innovation—and motivation—made its way to the service side.

Starting in about 2000, though, things changed. The bar started rising on what consumers (and management) expected from service operations. Around 2007, with the arrival of smart mobile devices, the pace accelerated until today, where operations leaders face the same pressures and demands their manufacturing colleagues faced several decades ago.

Why now? There are three key reasons:

**Customers have learned to demand more.**

Now that consumers have experienced the service offered by the likes of Amazon, Uber, and Apple, they have sharply raised their standards. They now want their experience in their doctor's office to match the way they are treated in a high-end retail store. They expect Yellow Cab to offer the same easy payment as Uber. They want companies to be available 24-7 on the platform of their choice, to remember them and their preferences, and to offer a single point of entry for everything the company has to offer. They want the world, through whatever channel they choose, and they want it now. Speed and convenience are becoming paramount; and business practices that seemed immutable just a few years ago—even something as basic as needing to bring a check to the bank to deposit it—are being challenged and overturned.

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**The technology is available to truly transform service operations.** Operations isn't about technology. It's really about processes, coordination, and a deep understanding of customer needs and how to fulfill them. But for most businesses, and certainly all large businesses, the kind of service customers now demand—always-on, consistent across platforms, highly customizable—simply would not have been possible until a decade or so ago. With current levels of technology, however, a whole new level of efficiency, consistency, customer convenience, and data capture becomes possible. Organizations can finally deliver consistently across locations and geographies, customizing their offerings for multiple demographics. And of course, once a new level of service to internal and external customers becomes possible, it quickly becomes obligatory.

**Service has become far more important to businesses.** In most economies, 60 to 70 percent of the GDP is driven by services. Even in China services account for more than half of the total GDP. That alone would make service a greater concern for companies. But in addition, over the past few years, the axis of competitive differentiation and customer retention has shifted. Whereas once companies lived by the axiom “Acquire through product and retain through service,” today leading companies have turned the notion around. The watchword is now “Acquire through service and retain through service.”

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Exhibit 1: What do our customers *already* expect?

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| <b>1</b> “KNOW ME” <ul style="list-style-type: none"><li>• Verify who I am</li><li>• Remember me</li><li>• Don’t ask for the same thing twice</li></ul>        | <b>4</b> “MAKE IT SEAMLESS” <ul style="list-style-type: none"><li>• I want one experience</li><li>• Stay consistent</li></ul>                      |
| <b>2</b> “LET ME CONFIGURE” <ul style="list-style-type: none"><li>• Change the experience to meet my needs and preferences</li><li>• Give me choices</li></ul> | <b>5</b> “KEEP ME CONNECTED” <ul style="list-style-type: none"><li>• Make sure I know what is going on</li><li>• Let me connect with you</li></ul> |
| <b>3</b> “ANTICIPATE MY NEEDS” <ul style="list-style-type: none"><li>• Make suggestions</li><li>• Help me to achieve my goal(s)</li></ul>                      | <b>6</b> “SIMPLIFY” <ul style="list-style-type: none"><li>• Be available</li><li>• Make it easy</li><li>• Make it quick</li></ul>                  |
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What this means is that service—including service operations—has become much more a matter of strategy. Service capabilities are no longer a matter of satisfying inelastic customer demand at minimum cost. Instead, they are becoming an increasingly important part of core corporate activities, a way of engaging and understanding an increasingly fickle market in an increasingly competitive marketplace. Companies need to learn to think not just of the quality of the service they provide, but the quality of the customer experience that surrounds it.

The back office of tomorrow will be radically different from today’s model, and service operations leaders can look forward to a few years of running as fast as they can just to stand still, because the price of falling behind could be disastrous. The future holds profound implications on the labor force both in size and skills, as digital, robotics and Artificial Intelligence (AI) become main-stream within operations across industries. Still, today offers unique opportunities to companies ready to rise to the occasion. What customers want is evolving rapidly, and though powerful tech tools have been created, they mostly have not yet been woven into the kind of productized solutions that will eventually help level the playing field. In the meantime, companies can achieve real advantage, not necessarily by perfecting their service offerings overnight, but by maintaining a consistent lead over their competitors.

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COMPANIES LIVED BY THE AXIOM “ACQUIRE THROUGH PRODUCT AND RETAIN THROUGH SERVICE”. TODAY THE WATCHWORD HAS BECOME “ACQUIRE THROUGH SERVICE AND RETAIN THROUGH SERVICE”.

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In our work with clients, we have found six “moves” to be the most effective way to move an organization in the right direction.

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## Exhibit 2: SIX KEY MOVES – HOW WINNERS IN SERVICE OPERATIONS DIFFERENTIATE

- 1** **Harness the power of the opposite** – Seek ways to reduce hassles, reinvent ways of doing work and simplify across the enterprise
  - 2** **Cash-in the data dividend** – Make operational data an early warning indicator for the enterprise, and leverage information in ways that re-define work
  - 3** **Transform customer experience to strengthen brand** – Distinguish yourself through service excellence in a multi-channel, digital enabled world. Enable 5X “word of mouth”
  - 4** **Build flexibility to beat uncertainty** – Design processes for speed, agility and rapid reaction to changing market conditions
  - 5** **Do more with less – strive for 10x** – Achieve highest levels of service and work efficiency using the most effective set of resources across customer facing and central functions. Do more with less
  - 6** **Turn processors into high performance servicers** – It’s all about the workforce – hire, train, develop and retain
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### 1. HARNESS THE POWER OF THE OPPOSITE.

The greatest potential obstacle in transforming service operations is inertial thinking: believing that old ways will work in the new world. Today, operations will often be called on to dynamite old ways of doing things and replace them with new ways that shave tens of dollars out of the equation while delighting customers. In those circumstances, the incremental improvement mindset can be a hindrance. Think of the airlines when they were introducing self-service kiosks for check-in. If they had focused excessively on keeping check-in lines short, they would have slowed customer adoption of the new technology, ultimately doing them a disservice. Instead, the airlines adjusted their staffing. They put fewer staff on the task of checking travelers in—and shifted the rest to teaching customers how to use the new kiosks successfully. Customers faced an undesirable wait—then immediately were offered an alternative that was better in almost every way. They stepped out of line and in most cases have never stepped back.

## 2. CASH IN ON THE DATA DIVIDEND.

Traditionally, companies have focused on front-office data, especially data about customers and what they buy. Back-office data has never seemed all that relevant to company strategy. That has changed, and now companies are learning that every interaction with customers is a chance to learn more about them and deepen the relationship. An example: Insurance companies have learned to treat a request for a change in beneficiary not just as a transaction to be carried out as efficiently as possible, but as a signal that the customer is undergoing a significant life change—a death, a birth, a marriage—that offers the insurer potential opportunities. In another case we assisted a client use “big data” and AI techniques to access a range of data sources to better understand a customer’s risk profile in order to make a more informed underwriting decision.

## 3. TRANSFORM CUSTOMER EXPERIENCE TO STRENGTHEN BRAND.

Processes are traditionally assessed in terms of throughput and costs. Today, however, it is crucial also to understand what kind of customer experience they create—and how customers feel about it. This is an area where the digital upstarts have a substantial lead on traditional businesses. Think of Amazon: It knows and recognizes you on your phone, your computer, your tablet. It remembers what you have bought and makes recommendations based on what people like you have bought. It functions like a half dozen different businesses—bookstore, grocery, video rental, music download site, publisher—and allows customers to move seamlessly between them. Most important, it is teaching *your* customers what to demand from you.

## 4. BUILD FLEXIBILITY TO BEAT UNCERTAINTY.

It has never been easier to outsource technology needs, call centers, and other building blocks of service. But outsourcing alone does not make a business nimble. The mortgage industry provides a good example of what needs to happen to create true agility.

Over a period of years, mortgage providers broke their processes into component parts—verification of employment, verification of income, appraisal management, closing, etc., that could easily be outsourced. Then they took the extra step of paying to lock in capacity for peak periods in the industry’s typical boom-and-bust cycle. There are costs associated with this approach, but they are outweighed by the ability to face a volatile marketplace with confidence.

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IT’S CRUCIAL TO RECOGNIZE THAT WHEN YOU ARE MILES BEHIND, YOUR GOAL CAN’T BE TO CATCH UP BY INCHES. WHERE ARE THE OPPORTUNITIES TO USE SERVICE TO TRANSFORM YOUR BUSINESS?

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## 5. DO MORE WITH LESS TO STRIVE FOR 10X.

The bad news for traditional businesses is that they are miles behind the electronic upstarts in service operations. The good news is that the upstarts have provided a roadmap to the future and have pioneered some important tools that will be used in the future by businesses of all sorts. What is crucial, however, is to recognize that when you are miles behind, your goal can't be to catch up by inches. Where are the opportunities to use service to transform the business—much the way that Amazon used operational excellence to create a whole new *kind* of retail experience? Where are the places where spending less can make your products and services more desirable, more addictive, for customers? Where can we leverage emerging disciplines of robotics and AI to reduce dependence on labor and pivot from human to machine decision making?

## 6. TURN PROCESSORS INTO HIGH PERFORMANCE SERVICERS.

In the electronic age, there is no more back office. Customers have an astonishing amount of visibility into your organization—and they act on it. In part, the answer is to truly understand all the different ways you send messages about yourself across the entire life cycle of customer experience and to start being much more proactive about presenting your company's values and attitudes clearly and consistently. In the long run, you will need the right people. Service operations will almost certainly shrink as technology replaces many basic functions. The sheer number of people reduction and skillset requirements in context of robotics and AI will require companies to re-think and re-draw their human capital strategies from the ground up. But the people who remain will be more important to the business's core strategy and will need to operate at a much higher level. Virtually every business will need an infusion of training and multilevel leadership to inculcate new values, build new procedures, and launch a process of innovation. Do your current employees seem good enough for the job they are doing? Imagine what you could accomplish by bringing them to the next level.

The race to differentiate by service is accelerating as products are increasingly being commoditized. Leaps in digital are laying bare the "good" and the "bad" in service operations. As customer expectations continue to increase, there is little choice but to strive to do better and excel. The six moves provide a proven frame on how to create excellence in service operations. The question for you is not "if" but "when." The time is *now!*

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