TUCK SCHOOL OF BUSINESS AT DARTMOUTH
GLASSMEYER/MCNAMEE CENTER FOR DIGITAL STRATEGIES

Service and Support: From Cost Reduction to Revenue Generation

An Overview

Thought Leadership Summit on Digital Strategies
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CISCO SYSTEMS

Service and Support: From Cost Reduction to Revenue Generation*

Thought Leadership Summit on Digital Strategies

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Manufacturers and retailers are increasingly moving into services. This offers new opportunities for growth and profit, but also presents interesting challenges. To explore exactly what is involved in the transition from being product-oriented to being service-oriented, Cisco Systems and the Center for Digital Strategies at Dartmouth's Tuck School of Business recently convened the third in a series of thought leadership summits. This round-table discussion, moderated by the publisher of Forbes, included business leaders and academics from 3M, Cargill, Cisco Systems, Eaton, General Motors, Harvard Business School, Lowe's, the Marshall School of Business at the University of Southern California, the Tuck School, and Whirlpool. Drawing on their understanding of information technology and their expertise in services, the group was able to pool their insights and experiences to produce a roadmap for expanding into services.

Important Ideas Explored in This Article:

- ***Companies that expand from products into services can create genuine synergies and achieve new levels of growth.*** The secret is to find ways of leveraging their customer contact, their brand, their customer data base, their product data base, and their ability to guarantee product and service compatibility. Opportunities for doing these things can usually be found in the service spaces adjacent to their product spaces.
- ***Adding services extends the customer-supplier encounter and makes it more intense.*** This means that companies need to consider the encounter as a kind of drama played out over time, framing the key moments and building the emotional connection, so that customer satisfaction is converted into customer loyalty.
- ***Services are more challenging to offer because, unlike with products, customers can directly affect quality and cost through their actions.*** Therefore companies should seek to mold their customers' behavior in ways that will reduce the costs of supplying them, while simultaneously offering the customers more choices in the areas of least operational impact.
- ***The use of digital technologies to empower customers needs to move beyond cost reduction to service enhancement.*** Merely coaxing customers on-line can have the unintended effect of eroding customer loyalty and profitability.
- ***The most important change when a company moves into services is cultural.*** To transform the company's culture, executives should provide: a) a clear vision of what the service activities are supposed to achieve, b) a common service terminology, c) a mechanism for sharing service stories, d) appropriate measurements and incentives, and e) regular contact between senior management and service customers.
- ***Value chain thinking will become as pervasive in services as it is in products.*** Companies must think carefully about who their partners are, their relative competencies, what the consequences for their value chain partners might be as they expand further into services, who controls customer contact and can guarantee quality, and for whom loyalty and brand value is ultimately generated.

* This synthesis overview was written by Scott Borg, Research Fellow, Center for Digital Strategies.

Approaching Service from the Standpoint of Manufacturers and Retailers

Changing from being a product-oriented company to being a service-oriented company involves a major shift in the company's outlook. Brad Boston of Cisco says that the crucial step for any product-oriented company is to begin thinking about services as a positive means of creating value, not simply a method to make up for ways in which products are incomplete or defective. Once a company has committed itself to this shift in orientation, the big task is to work out the implications of the new service focus and to follow through on them.

A number of companies, such as Eaton Corporation, have had illuminating experiences while making this transition. Eaton found, according to Don Bullock, that simply making service a focus of the company's attention was enough to begin the process of changing service from an activity where losses were minimized into an activity that was making a positive contribution. But the change for Eaton was still not one that happened quickly or easily. Siisi Adu-Gyamfi of Eaton says that even though services started to be managed better at Eaton, they mostly remained a way of supporting product lines until they were given their own profit and loss tallies. It was at that point, Adu-Gyamfi says, that Eaton's expansion of services began to gain some momentum. Bullock adds that guaranteeing service—guaranteeing to provide it, guaranteeing its speed of delivery, guaranteeing its quality—can be the key factor in galvanizing a company into following through on its commitment. This is because it causes service failures to have an immediate effect on departmental budgets.

Once a company has demonstrated a genuine commitment to services, it still needs to work out the full implications of this strategic choice. To follow through on its shift toward services, it is necessary for a product-oriented company to discover exactly what further steps are involved in making the transition. This means asking basic questions about the role of services in a company that wasn't originally organized to provide them. Even if a company is well along the path from being product-oriented to being service-oriented, it is usually valuable to re-think the logic of what the company has already done and where it is going.

Why Should a Manufacturing or Retail Company Expand Service Offerings?

There are six main reasons for manufacturers and retailers to get more involved in providing services:

1) Services offer a new dimension of competition for manufacturers and retailers. Now that most companies have learned how to deliver high quality products in a cost-efficient way, focusing exclusively on quality and price is no longer a good strategy. Rich Karlgaard of Forbes notes that this offers some protection against inexpensive Chinese exports, as these increase in quality and move into new product areas.

2) Services allow manufacturers and retailers to create more value for each individual customer through *greater customization*. This also allows the offering to make use of

detailed customer data, so that competitors, who know those customers less well, will not be able to quickly offer comparable value.

3) A product manufacturer or a retailer can often offer *new services without any close rivals*. These are services that usually couldn't be offered by another type of provider for a price the customer would be willing to pay. By moving into these service areas, manufacturers and retailers gain an opportunity to create *new* offerings that wouldn't exist otherwise. These new offerings will often allow a company to operate, at least for a time, with no direct competitors. Rob Heithoff of Cargill points out that Cargill has an important opportunity of this kind, because of the detailed way it tracks its supply chain. Instead of just vouching for the quality of its food products, Cargill is in a position to offer a detailed history of each bit of food it sells, as an additional service to its customers. GM's OnStar is a better established example of a new service that other types of providers were not in a position to offer for a low enough price.

4) Services can provide a manufacturer or a retailer with a new *opportunity to expand*, when the manufacturer or retailer is in a market that is saturated and has moved into a phase of slow growth. Hence, services represent the single largest growth opportunity for many firms. This is one of the main reasons GM, for example, is interested in services. The total market for cars in the developed world is no longer expanding.

5) Services often attain *higher profit margins* than manufacturing or retailing. One of the main reasons for this is that changing service providers is usually more difficult than changing product providers. Service providers often need and develop a more detailed knowledge of each customer. Hence, the competition between them is not as direct and commodity-like as the competition between most product providers. Because services offer higher margins, they often represent the largest opportunity for many firms to increase profits, even when they don't appear to offer the largest growth opportunity. Eric Johnson of Tuck reports that several of the big PC manufacturers and retailers are now making more profits from setting up and installing PC's than from producing or selling the PC itself.

6) Some existing services could be provided by the manufacturer or retailer at a *lower opportunity cost* than the current service providers would be able to achieve. This means that the manufacturer or retailer is the logical one to offer those services, and that they could profitably move into those areas. When these lower costs are added to the higher margins already enjoyed by many kinds of service providers, the opportunities for manufacturers and retailers can be very great indeed. The classic case was GE discovering it could make more money servicing airplane engines than manufacturing them. This led GE to expand aggressively into airplane engine maintenance. But GE couldn't abandon airplane engine manufacturing, because it was GE's role as product manufacturer that made it so good at providing product service.

What Are the Challenges for Manufacturers and Retailers in Services?

There are at least three important issues that a manufacturer or retailer should consider when getting involved in services:

1) The company culture might be poorly suited to providing services. A company can be very customer oriented and still not be service oriented. Many engineering-based companies are like this. They can take a deep understanding of customer needs and apply it to designing and producing a better product. But they will be very bad at any activity that requires extensive interaction with the customer.

2) The company might be dependent on value chain partners that are service providers and that would be badly hurt if the company were to intrude into their service market. This is the biggest factor preventing manufacturing companies as diverse as GM, Cisco, and Whirlpool from expanding directly and aggressively into all the services they could. Each of them is dependent on distributors or retailers who are service providers.

3) The services that would be obvious candidates for that company's expansion might be labor intensive and offer few opportunities for economies of scale. Frances Frei of the Harvard Business School points out that while product companies are trying to increase their customer contact, service companies are trying to reduce it.

Fortunately, the choice of whether or not to become a service provider is not either/or. There are many ways to become more deeply involved in providing services without becoming a service provider. Even if a company doesn't want to get involved in providing services on its own, it might still want to get involved in providing services through its value chain partners. The question, however, is how best to do this. Wim Elfrink of Cisco says that the big problem at Cisco has been how to expand into services without competing with partners and disturbing the whole Cisco-partners eco-system.

Sometimes the capabilities that would make a manufacturer or retailer good at providing services can actually be applied just as well through its value chain partners. John Pohl of 3M says that in some of 3M's markets, the strategy is to build up its relationships with customers and to collect as much information as it can about how to best serve those customers. 3M then works with its distributors so they are the ones who make the actual sale and don't lose commissions as a result of 3M's service activities. The result is a considerable gain, both for 3M and for its larger value chain.

How Should a Company Choose What Services to Offer?

The task is to choose services that will benefit the customers enough, so that they are willing to pay an adequate amount for them. This essentially means making sure that the services create more value than they cost, so that they can become a source of profits. The key question in choosing these service offerings is "what new value can be created by offering the service together with the product or as part of the same retail experience, rather than as a separate item, from a separate provider?"

There are five main ways in which companies that have been already offering products can create additional value by adding services:

1) Offering *single-stop shopping* at the retailer or at the manufacturer's website can save the customer time and trouble. An interesting current example is a chain of pet products stores that are now offering pet grooming, veterinary services, and, if their television ads are to be believed, pet psychological advice—all at the same single-stop pet centers.

2) Associating the *trusted brand* of the manufacturer or retailer with service offerings can reduce the customer's risk, when it comes to hiring those services. This is how Whirlpool is creating value by using its website and 800 numbers to recommend service providers to the customers that contact it directly. To do this successfully, Whirlpool needs to constantly monitor the quality of the services that are being delivered by the firms it is recommending. But the expense of doing this is relatively small, compared with the value being provided to Whirlpool customers in the form of reduced service risks.

3) Using the same *customer data base* for both products and services can allow the quick matching of customers to likely products. Mark Hillman says that GM can now use an automobile's vin number to generate a separate web page for each customer. These web pages can draw the customers' attention to accessories and other products that fit their customer profiles, as well as helping the customer to keep track of recommended service dates. GM can also send out individual e-mails that inform customers when their web pages have been significantly updated.

4) Using the same *product data base* for both products and services can make it possible to provide better services at a lower opportunity cost. Who knows more about a manufactured product, how it is likely to breakdown, and how best to repair it than the designers and manufacturer of that product? This manufacturer expertise is what allows companies as different as GM and GE to create value by getting involved in service, even though their strategy for exploiting this expertise might be very different. Meanwhile, who is in a better position to collect information on the problems that arise when various products are used together than the retailer that sells and installs those products? This retailer expertise is what allows the computer dealers to create value by getting involved in computer services, even though they are entering a field that might seem to be already oversupplied. The product data bases available to those businesses can be a powerful tool when it comes to providing customer services at a lower cost.

5) Having the same company provide both the product and associated services can result in greater *complementarities* between those products and services. One of the most important complementarities is guaranteeing a high level of compatibility between all the things that need to work smoothly together to keep complex systems functioning.

Sometimes a company can move into services in a manner that creates value in two or more of these five ways. This is often the case when a company provides services in the spaces adjacent to its product offerings. David Drew of 3M says that this is the foundation of his company's service strategy. They began by looking at the customer problems and processes that used 3M products. Then they used the expertise they had developed surrounding their own products to provide insights into the broader situations in which customers were using those products. A good example, John Pohl says, is the effort 3M made to map its customers' packaging supply chain process. The lessons it learned from this led 3M to develop information technologies for planning, coordinating, and tracking its customers' package. By the time 3M was implementing the resulting packaging management service, it was leveraging its assets in each of the five ways described above.

The amount of service that should be provided with a product can vary enormously from customer to customer. Alan Shaw of Whirlpool says that if you think of Whirlpool's retailers as customers, the amount of service being provided to these customers can be extremely different from one customer to the next. Some retailers pick up Whirlpool appliances at the Whirlpool factories and then have little further to do with Whirlpool, apart from sending in payments. Other retailers have Whirlpool employees on the floor of their stores, doing some of the actual selling for them.

If a company *can't* create enough value with a service so that customers are willing to pay for it, at least indirectly, it is possible that the company shouldn't be providing that service at all. Eric Johnson of Tuck points out that "the optimum mix of product and service is not necessarily *more* service; it might be *no* service."

In practice, there are often a number of purely remedial services that a company has to provide to support its products. These are things like repairs and returns. The customer assumes that the purchase price of the product gives them access to these kinds of services, and if no one else is providing them commercially, the producer is obligated to do so. Sometimes there are associated services that could be used to create value and increase profits. But often the remedial service is not something that could be readily developed into anything more. When this is the case, Brad Boston of Cisco says, it is very important that the company recognize this fact. They need to face up to the fact that this is a service "that can only make things less bad" and not try to make anything more of it. The right approach for handling such services, Boston say, is simply to keep the costs and damage as low as possible.

How Should a Company Go About Charging for the Services It Offers?

People often speak of transforming their service operations from cost centers to revenue generators. This is usually taken to imply that service operations should be budgeted separately, collecting payments directly for the services they provide, so the service operation itself can show a profit. Much of the time, however, this is *not* the best policy. You certainly want your service operation to be creating value. In other words, you want to be sure it is creating more value for your customers than it is costing you to run it. You also want to be sure you are collecting the value somewhere in your business that your service operation is generating. But you don't necessarily want to be collecting that value by billing your customers directly from your service operation. Hence, you don't necessarily want to be turning your service operation into a "profit center." You might, in fact, be able to collect much more of the value your service operation is generating by charging for it in some other way.

The important thing in deciding how to charge for services is to make sure that all the ways a company can collect for services are being taken into account. Richard Chase of the Marshall School of Business at USC says that companies often know in principle that the recovery of the value created by services doesn't have to come from direct payment. But they don't do the accounting, he says, in a way that adequately recognizes the other ways the value can be collected. As a consequence, the resulting profits aren't credited to the service operation, and the service operation is never used in an optimal way.

There are several options when it comes to charging for services:

1) A company can offer the services for free to anyone who visits its premises or goes to its website. Sometimes the problem with this is that the customers may use the company's services, letting it help them choose their optimum product package, for example, and then go off and make their purchase elsewhere. But a company won't have to worry about this if its offerings are close enough in price to the alternatives or if its products are fairly unique. John Pohl of 3M says that his company offers a number of services for free that help customers to find solutions to their problems. 3M will go through an entire customer process, for example, to see where the customer might save money by using 3M products. Pohl reports that when customers use these 3M services, they end up buying a far greater number of different 3M products than they would otherwise. There is little problem with customer defections, and the services easily pay for themselves by increasing sales.

2) A company can give the services away to anyone who buys its product. This is essentially what loyalty programs are doing when they offer special perks to regular customers. In business-to-business contexts, the service can be something much more substantial, such as valuable consulting advice or shared information that can be used to reduce supply costs. One disadvantage of this approach is that relatively small customers can consume a disproportionately large amount of services.

3) A company can bundle the services with the product it's selling, making it clear that the customer is buying both together. One advantage this approach has over offering the services for free to regular customers is that the services can be dolled out bit by bit, along with the product. That way each customer will be receiving services that are more proportionate to what they are paying. Another advantage of this approach is that is helps make customers more aware of the value of the services they are receiving.

The key point, when services are bundled with the product, is to make sure that the customers are fully aware of the value they are receiving. When it comes to business customers, the best approach in these situations is often to sit down with the customers and to explain exactly how the services being offered will save them money or help them to make more money. Rob Heithoff says that this is the approach Cargill takes with its retail distributors. Often simply talking through the logic of the deal will be enough to demonstrate that the bundling of services and product is the best option for both parties.

4) A company can sell its services at a reduced rate to anyone who buys its product. This is what many companies think they are doing or are trying to do when they sell customers service contracts. The problem is that these sales are seldom handled in a way that makes the value the customer is receiving sufficiently transparent. Companies should be able to show customers clear and honest numbers that demonstrate the service contracts they are offering are a good buy, while still delivering the service at a low enough cost to collect a profit. If handled properly, service contracts could be a steady, large volume opportunity for product manufacturers and retailers who could provide services at a lower opportunity cost to profit form this capability.

5) A company can charge separately for the services. This is what companies are doing when they run separate service departments. Often the divorce between sales and services is so complete that the service department is completely indifferent as to whether it is servicing the company's own products or somebody else's.

6) A company can give its product away to anyone who buys its services. This is what cell phone services often do with their cell phones, and what photo processing services sometimes do with their cameras. When the service itself becomes the thing that's providing the bulk of the profits, even large or expensive items can be supplied on a give-away basis.

In deciding among these alternative ways of charging for services, it is important to consider exactly where value is being created. Mark Hillman of GM points out that the ratio of service to product often determines how you will charge and for what. In general, you want to charge fairly directly for the thing you are doing that creates the most value. Don Bullock of Eaton says that the degree that a product is a stand-alone item or a part of a larger product system is equally important. Somewhat paradoxically, if a product or service is part of a larger product system, there is less need to bundle it with other products and more opportunity to offer portions of the product system for no charge at all. The customer in such cases is buying the product system, not the individual components. If one component is supplied free of charge, it is easy to recapture the value of that component in the prices paid for other components.

How Should a Company Adapt Its Organization to Offer Services?

Deciding what parts of its organizational structure a product-oriented company should use in offering a service is a decision that can be broken down into four steps:

1) The company needs to determine, first of all, exactly what capabilities are necessary to provide the service. An important, yet frequently overlooked part of the capabilities for providing a service is the cultural attitude required. Another important capability is the set of skills necessary for managing efficient—and emotionally satisfying—customer interactions.

2) Once the company has a realistic idea of the capabilities needed for providing a service, the next step is to determine where in the company those capabilities either already exist or can be created. This requires evaluating the companies existing operations and culture with a ruthless objectivity, paying careful attention to the differences between what the various operational units are doing now and what they would be doing if they were devoting a significant portion of their resources to services.

3) After the company has found the best matches it can between the capabilities needed for services and the capabilities it could apply, the company needs to make sure the operational units involved would be adequately motivated to make a success of the service venture. Guaranteeing certain levels of service can be a useful motivating tool here, even if the guarantee isn't being made to outside customers, but only to other operations inside the company.

4) Finally, the company needs to consider what would be the best way to deploy its service capabilities and manage its customer interactions, using current digital technology. Rita Heise of Cargill says that in her experience it is necessary to determine first how a service is going to be administered and located organizationally. Then the particular information technology necessary for implementing the service will follow.

How Does Adding Services Change the Relationship with Customers?

When companies are genuinely product-oriented, they need to be constantly compensating for this by looking for ways to increase their contacts with customers. But once a company has become genuinely service-oriented, its needs change. Most service companies do not feel they are suffering from a shortage of customer contact; they feel they are in danger of being overwhelmed by too much customer contact. When companies are heavily involved in services, it is all too easy for interactions with customers to eat up employee time, while producing little in the way of returns.

This means a company moving into services needs to design its touch points even more carefully than a company that is primarily concerned with selling products. Many of the most important decisions involve how wide a range of choices to offer customers in each area. Usually the best places to offer customers more choices are areas that are relatively important to the customer, but not very important to the company. This usually means offering the most choices in the areas that have lowest operational impact, where these choices can be provided at low costs. Sometimes offering a customer more choices can actually reduce the cost of supplying that customer. John Mitchell of Lowe's says that special orders, for example, can actually be cheaper to fill than ordinary orders, because they require no inventory.

It's important to look at services in terms of the contribution they make to the total customer experience. This means realizing that creating a positive overall experience for the customer is itself a service. It also means apportioning interactions between different channels with an eye to how this affects the overall customer relationship. Coaxing customers on-line, for example, can reduce costs, but might also have unintended consequences, such as erosions in customer loyalty and profitability.

How Can a Company Exploit the Full Possibilities of the Extended Customer Encounter Typical of Services?

Services extend the customer-supplier encounter and make it more intense. This development often comes as a surprise to retailers who think they have close interactions with customers all the time. But strolling through a store and purchasing some things from it is not usually as long and intense a relationship as a service encounter. It's when a customer is receiving some kind of service from a store like Lowe's that the encounter becomes longer and more important.

Extending the customer-supplier encounter makes it a greater opportunity, but also a greater hazard. As Rich Karlgaard of Forbes puts it, "every customer contact point is also a point of risk."

An extended customer-supplier encounter is more likely to involve the customer's emotions. In a service encounter, the customer is typically entrusting to the service provider something that they already own and with which they identify. It might be a physical possession, such as a car or an appliance, or it might be something less directly physical, such as the decorating scheme for a room. Meanwhile, in a service encounter, the customer is often less able to see and judge whatever is being provided. These things make the customer feel vulnerable and increase the importance of trust.

An extended customer-supplier encounter needs to be viewed as a kind of drama, played out over time. Richard Chase of the Marshall School of Business at USC says that it is possible to trace the trajectory of the customer-supplier encounter and to say the sort of things that need to be happening as the encounter proceeds. It's important to let the encounter begin slowly, so that there is 'tune-in time,' and to begin by being as reassuring as possible. Customers need to be given clues about the nature of the interaction and the way it will be conducted. Frances Frei of the Harvard Business School adds that it is important to give people a sense of being in control, even though their control may be confined within fairly narrow boundaries.

As the customer encounter continues, Chase says, there needs to be a positive trend to it. If there are certain parts of the encounter that are going to be particularly satisfying, an effort should be made to frame and highlight these. Comparing the customer encounter to a roller coaster ride, Chase advises businesses "to think about where you're weightless in your service encounters—and put a frame around that." If an error needs to be corrected, Chase says, the correction needs to be appropriate in kind as well as in magnitude. A financial misstep needs a financial correction, an emotional misstep needs an emotional correction. It's especially important to end on a strong, positive note. Chase says that the emotion the customers feel at the end of the encounter will be the one they will walk away with and one they are most likely to remember. Shrewd retailers take this effect very seriously. John Mitchell says that managers at Lowe's are taught to ask themselves, "When a customer visits our store, what are we going to be remembered for?"

An extended customer-supplier encounter provides an opportunity to mold the customer's behavior. Frances Frei argues that there are large financial gains to be had from influencing the way customers behave in your interactions with them. "The customers," she says, "can't affect the cost of somebody producing a product, but they *can* affect the cost of somebody doing a service." A good example of this, Richard Chase says, is when McDonald's opened their first fast food restaurant in London: they needed to teach customers to clear their own tables, making that a part of the customer-supplier interaction.

There are two main ways, Frances Frei says, in which customer behavior can be molded:

1) The company can take a normative approach, asking the customers to help. This tends to be effective if the customers feel they can trust the company to share with them the new value that they are helping to create by their cooperative behavior.

2) The company can take an instrumental approach, offering the customers direct rewards and penalties. This is a cruder way of influencing customer behavior, but it still can be effective, and it is the only recourse for companies that customers *don't* trust to share the extra value created.

Whatever tactic they choose, Frei says, companies should think about influencing customer behavior, much as they have long thought about influencing employee behavior.

What Steps Are Necessary to Make the Cultural Transition to Being a Service Provider?

Once a company decides to provide services, it will still need to figure how to make the cultural transition to this new way of creating value. Usually, when a product-oriented company moves into services, the changes in information technology and in physical processes are relatively easy to make, but the cultural changes are more difficult. Don Bullock of Eaton points out that adding tangible services, such as repair operations, to tangible products, such as machinery, is usually less of a stretch for a company culture than adding intangible services, such as those that require interaction with customers. But any movement into services by a product-oriented company still requires major cultural adjustments.

There are five key steps that a company can take to make the cultural transition that is necessary to establishing a service culture:

1) Provide a clear vision for the service activities and what they are intended to achieve. Ron Ricci of Cisco says that unless this vision is established firmly from the top, there will be little hope of bringing other things into line with it. Without a clearly articulated vision, explicitly backed by the senior management, employees who are trying to institute good service practices will have great difficulty getting others to cooperate with them. Dave Butler of Whirlpool says that when Whirlpool was getting involved in services, the big shift was from product-orientation to brand-orientation. Once Whirlpool employees were thinking in terms of brand, thinking in terms of service followed naturally.

2) Establish a common service terminology. Hans Brechbühl of Tuck points out that this common terminology is generally necessary to implement the service vision. Teaching employees terminology for describing important dimensions of the service encounter is a good way to create categories in their minds that will help them to think about the encounters. A common terminology will also give employees an efficient way of communicating information about service encounters, especially when an employee sees a way to make the encounters better. This same terminology will be especially valuable when it comes to coordinating the handling of service encounters that involve more than one department.

3) Create a mechanism for sharing stories about successful service encounters. Ron Ricci says story-telling is the key device for spreading and reinforcing a new company culture. No abstract principle, he points out, will ever be as memorable as an anecdote. In addition, if a concept is communicated through an anecdote, the anecdote itself will usually help employees to see how the concept might be put into practice. David Drew of 3M suggests using electronic town meeting technology as one mechanism for sharing stories.

4) Choose the right measurements and incentives, so that the desired service initiatives are genuinely rewarded. The pitfalls here are, unfortunately, considerable. John Mitchell of Lowe’s says that many measurements of service levels are simply too easy to manipulate, tempting even the best intentioned employees into “gaming the system.” Eric Johnson reports that a great portion of the survey numbers that purport to measure the success of services don’t actually measure anything of the kind. Ron Ricci says that product-oriented companies are especially likely to put too much trust in these survey numbers, because they make the intangibles of service seem more measurable and definite.

Customer satisfaction surveys are the most common device for judging the value of services, but they are rarely a good way to measure the success of a service operation–or, indeed, of anything else. Rita Heise of Cargill points out that these surveys are usually written from the company's standpoint, rather than the customer's. This is hard to avoid, because people in the company want to make sure the survey tells them "the things they most need to know." But it's a short step from this to having the survey tell them the things they most want to hear. Few people in a position to influence the content of these surveys are genuinely eager to have them expose weaknesses in the company's operations. The result, Heise says, are surveys that are narrow and self-fulfilling. Eric Johnson says he has seen customer satisfaction surveys that ultimately ended up measuring no more than whether the company could find its own inventory.

Fortunately, there are better alternatives. Alan Shaw of Whirlpool says his company hires an outside research firm to do forty-five minute, in-depth interviews that are designed to get as complete an account of the customer experience as possible. Richard Chase says that the Harrods Casino has "mystery shoppers" who pose as regular customers and provide detailed accounts of their experiences with different operational units and even with different individual employees.

5) Insist on regular contact between senior management and ordinary customers using the services. Hans Brechbühl concludes that there is ultimately no substitute for getting top executives to see for themselves how services appear from the customer's side of things. Wim Elfrink of Cisco says he feels it is worth his time to make three calls to customers everyday, even if there is no new business resulting from those calls. Sometimes a good way to put senior management in touch with customers is to have the senior managers *be* the customers. Richard Chase says having senior executives phone their own office, shop for their own products, and get service from their own service departments can be a revelation to them, even if the encounters go reasonably well.

How Should a Company Manage Its Relationships When It's Cooperating with *Other* Companies to Provide Services?

In today's highly networked world, most manufacturers and retailers who decide to get involved in services face the problem of how to coordinate service offerings with other value chain partners. Companies need to consider carefully, which service components they want to outsource (or middleman) and which they want to provide from within.

When companies are outsourcing services, either temporarily, while making the transition to providing them, or as a long-term policy, they have to be careful how they manage the resulting customer relationships. There are two principles for managing customer relationships in these circumstances that are especially important:

1) Try to control the contact with the customer enough, so that loyalty to the relationship is loyalty to you. Frances Frei says that this means making sure that *your* company is the one the customers initially contact when they need service, regardless of who is actually providing the service. This is the kind of relationship that Alan Shaw says Whirlpool manages to maintain with a large portion of its customers through its website. People needing service for a Whirlpool appliance will have Whirlpool direct them to a local provider, even though Whirlpool's administrative center might be thousands of miles away, while their local service provider is only blocks away.

2) Make sure that if you are a brand the customer associates with the transaction, you can control the level of quality delivered. Francis Frei says that in practice this means companies need to track service as well as they track products. In other words, they need to follow each service order, make sure that the personnel and physical parts are coming together on schedule, verify that the service is promptly completed, and confirm that the service was of sufficient quality.

If a company is separated from the ultimate customers by one or more intermediaries, the challenge is to claim a share of the credit when the customers get what they want, while avoiding the blame when the intermediaries do something that prevents this from happening. Rob Heithoff of Cargill says that this is a particularly vexing problem in the food industry. If the customer receives a Cargill product that is extremely high in quality, it will be mostly because of all the measures Cargill took to achieve that quality. Hence, Cargill is very eager to be associated with the end result. But there are any number of things the intermediaries can do that would damage that quality greatly. Hence, Cargill wants to be able to distance itself from the mishaps that aren't its fault. When more services are provided along with a product, the problem becomes more complex, but it doesn't go away. As long and there are intermediaries and partners cooperating to deliver a product or service, there will be problems with claiming credit and apportioning blame.

The best outcomes for all partners in a value chain depend on each partner realizing that their collective success—and their ability to defeat rival value chains—depends on their ability to work together, coordinating their activities to create as much value for their customers as they can, and allocating that value appropriately.

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