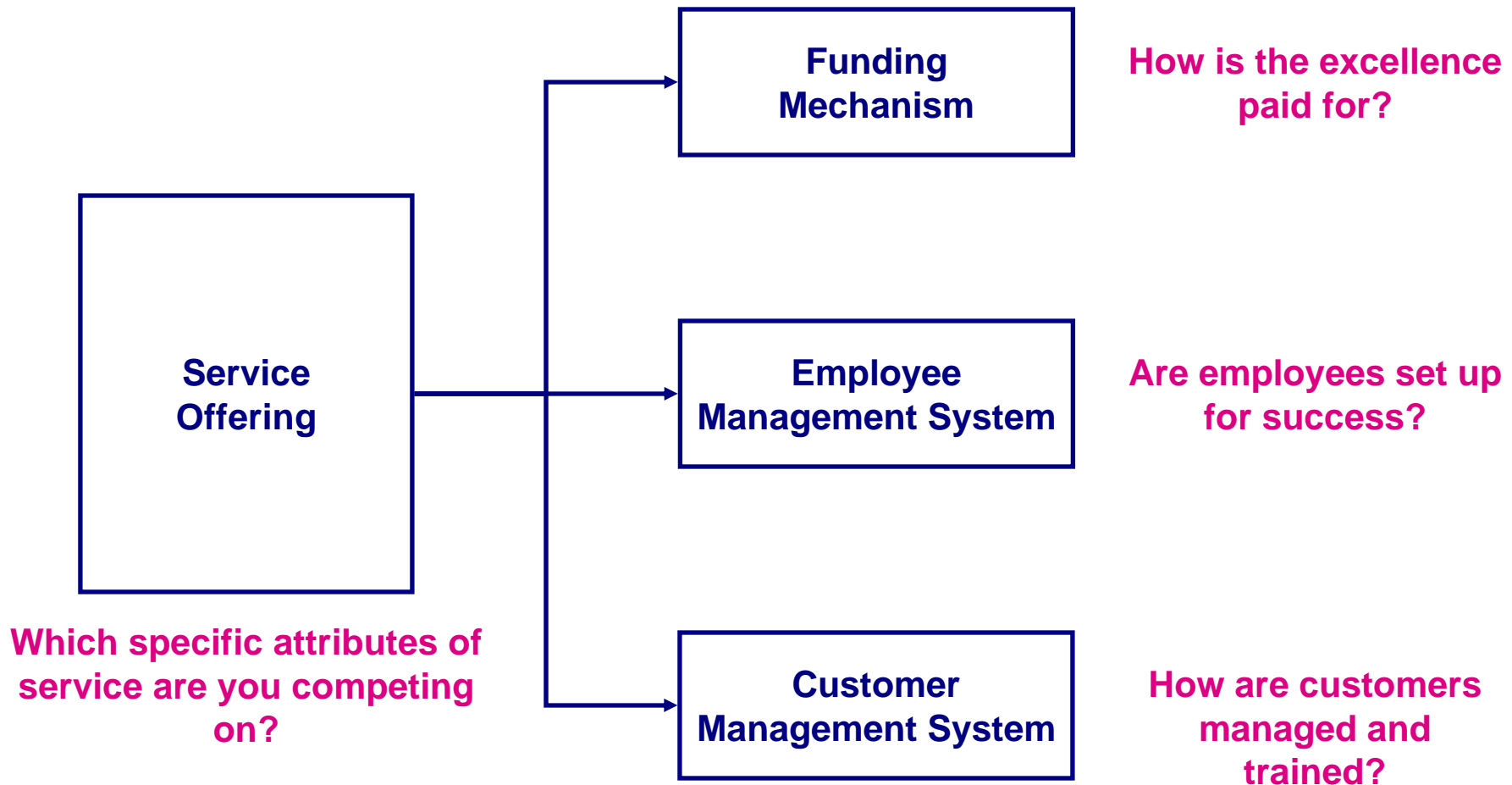

Service Excellence in a Turbulent Economy

May 2009

Principles of Service Excellence

Create value for customers, employees, and shareholders.



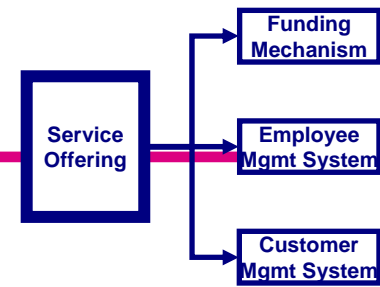
Targeting Specific Attributes

▫ Conventional Wisdom in Retail Banking

- Growth comes from attractive rates or acquiring other banks
- Commerce offers the worst rates, avoids acquisitions, yet became the fastest growing bank in the US...



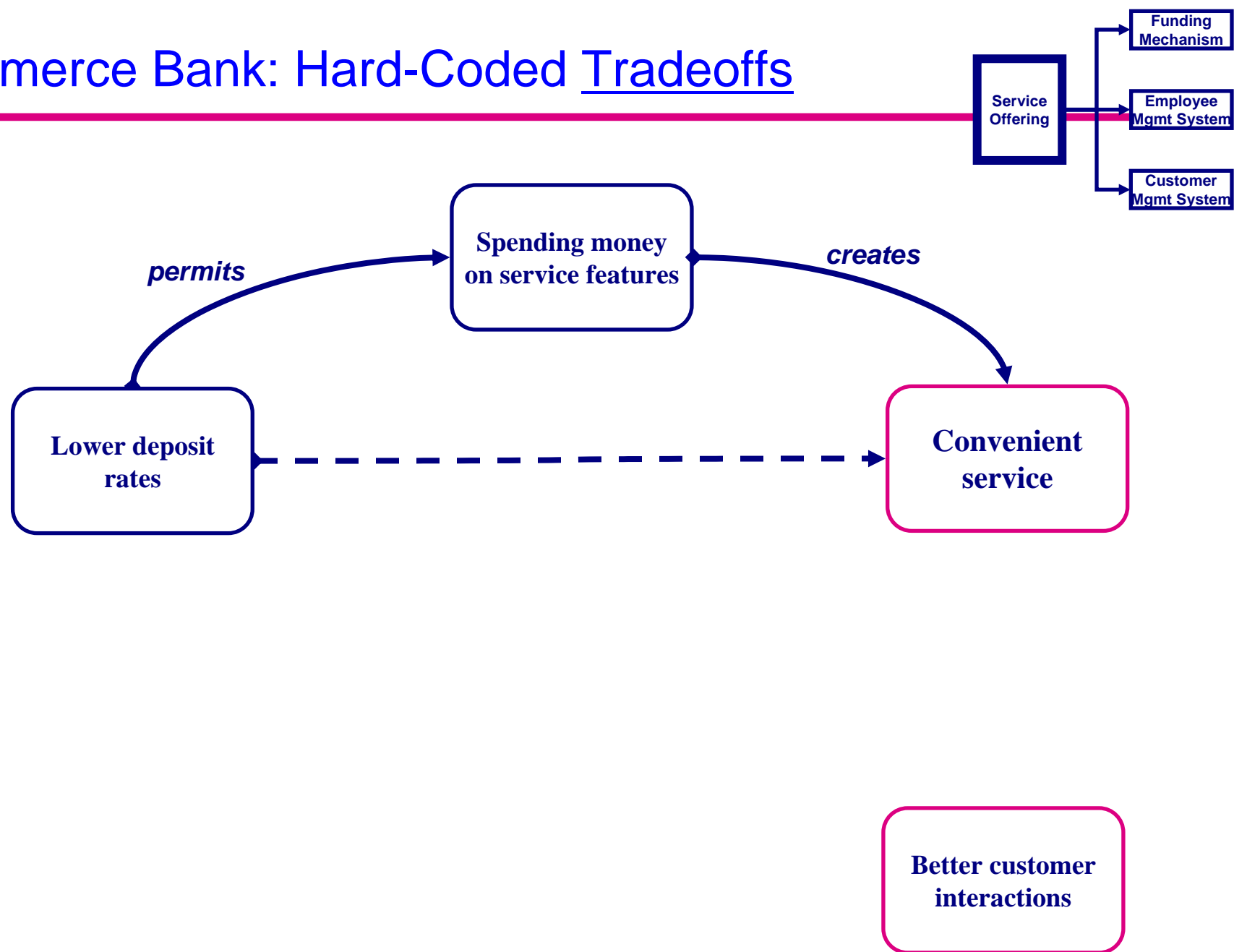
Commerce Bank: Hard-Coded Tradeoffs



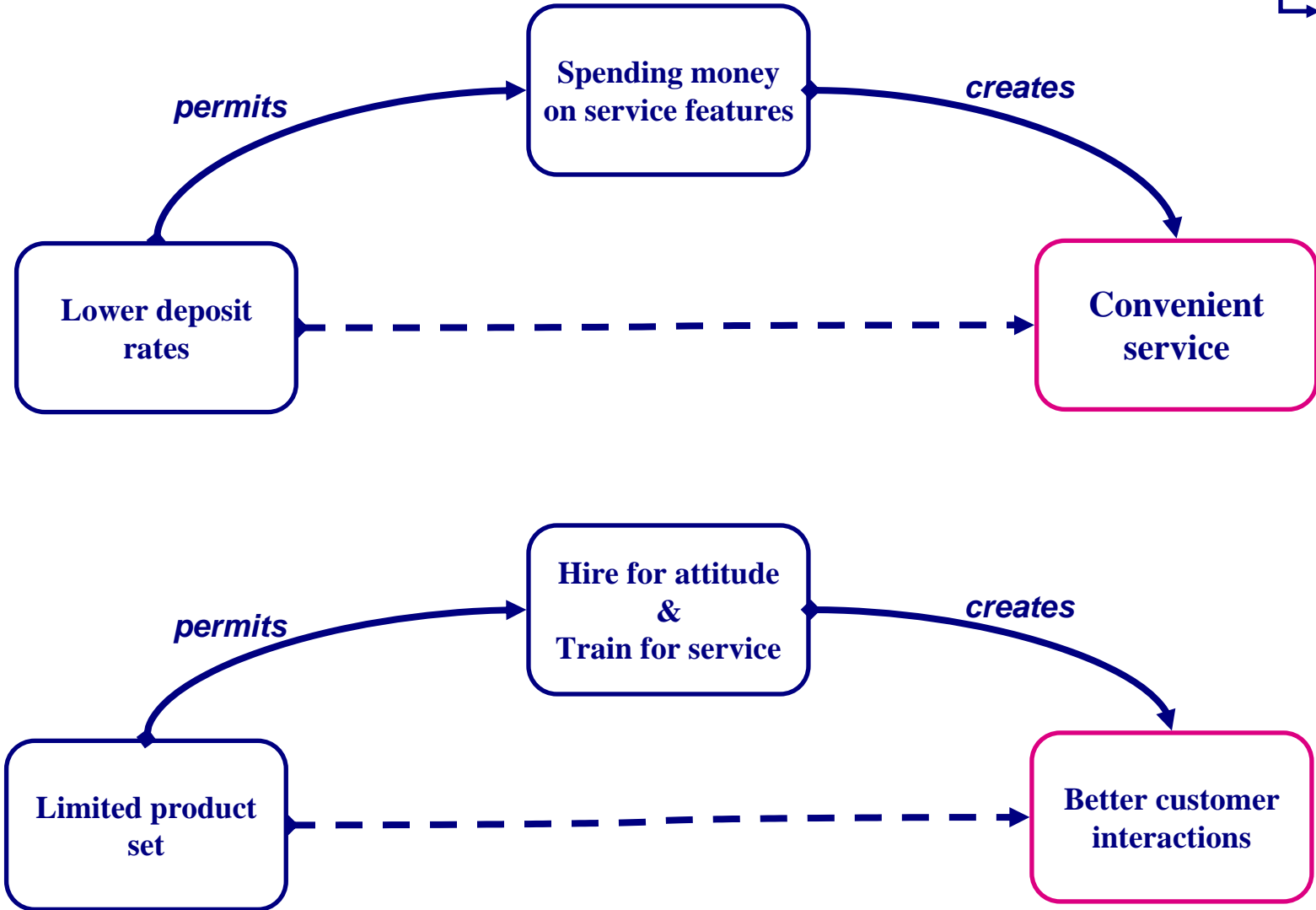
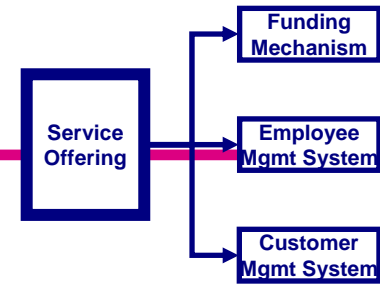
**Convenient
service**

**Better customer
interactions**

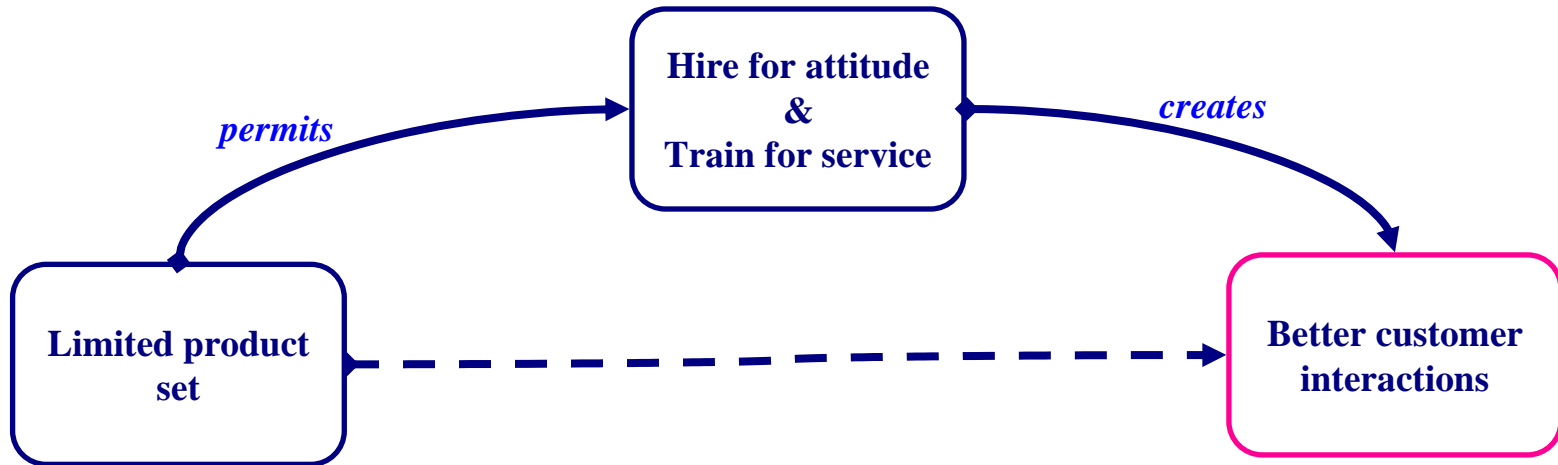
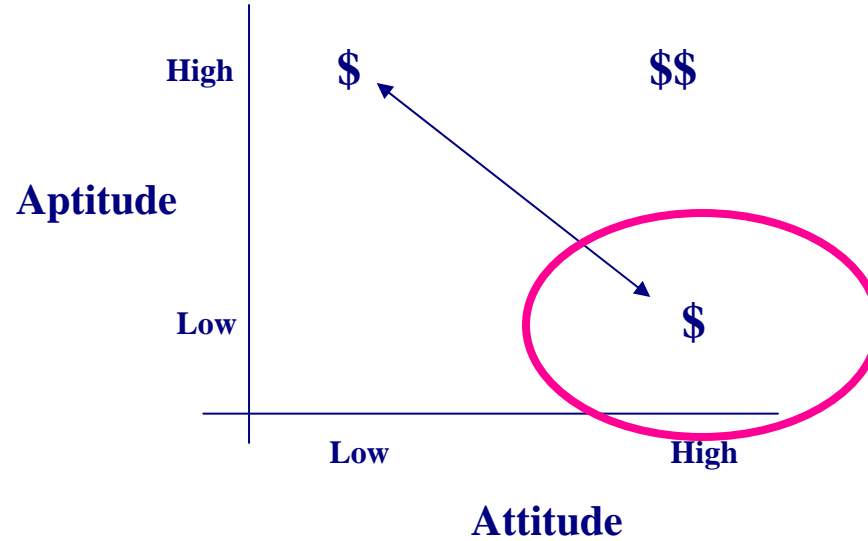
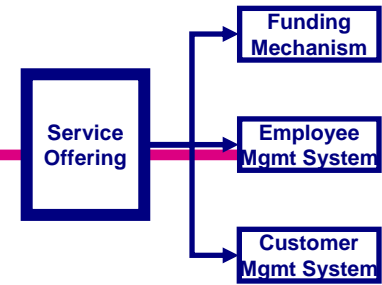
Commerce Bank: Hard-Coded Tradeoffs



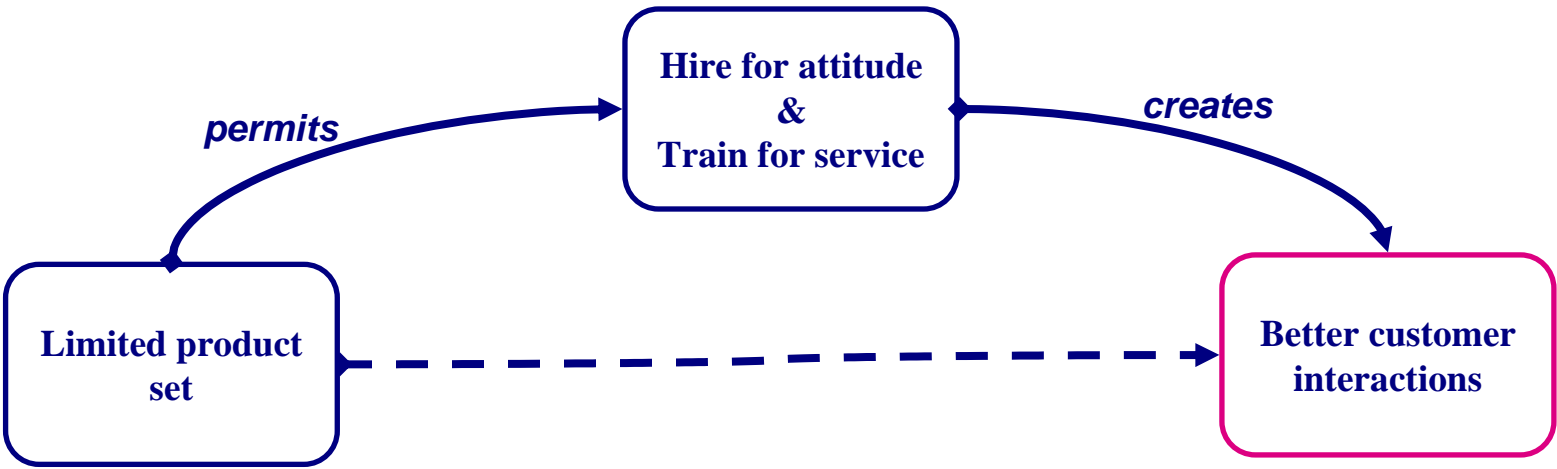
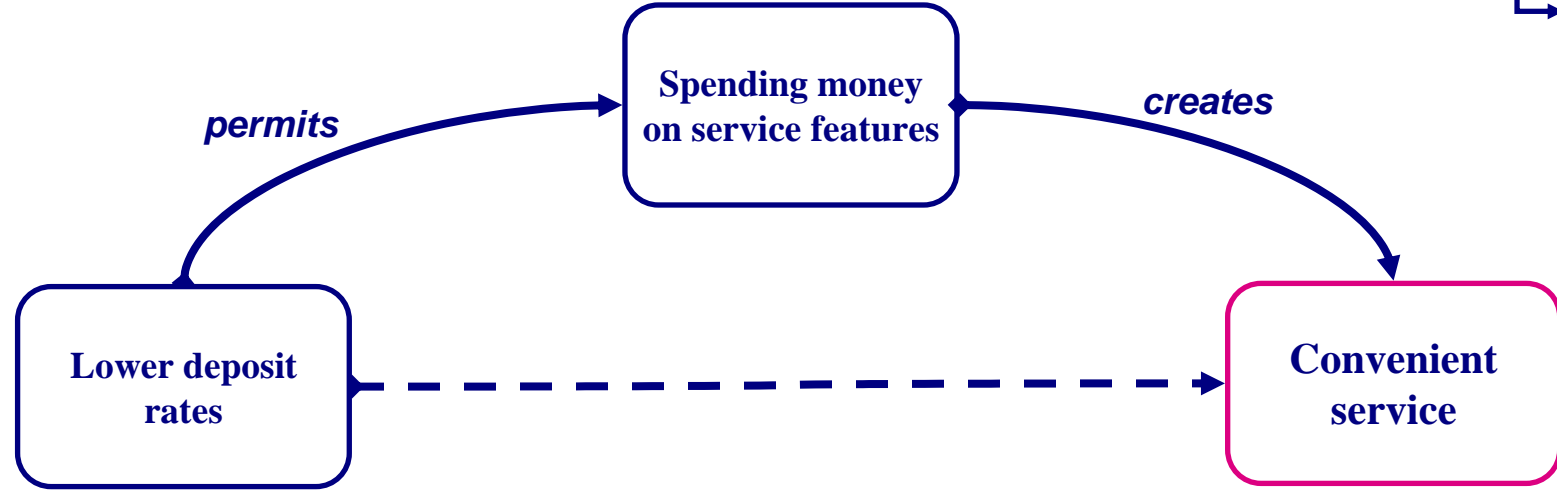
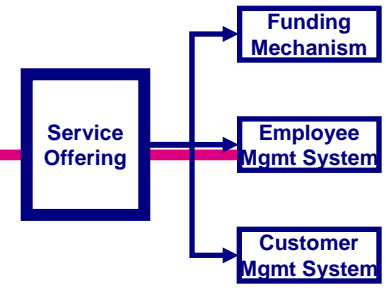
Commerce Bank: Hard-Coded Tradeoffs



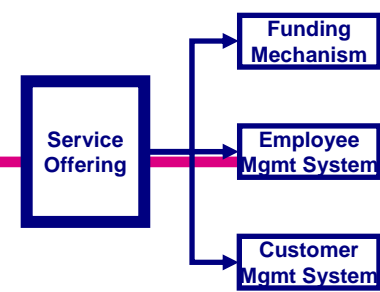
Commerce Bank: Hard-Coded Tradeoffs



Commerce Bank: Hard-Coded Tradeoffs



Commerce Bank Attribute Map



Most important to target market



Least important to target market

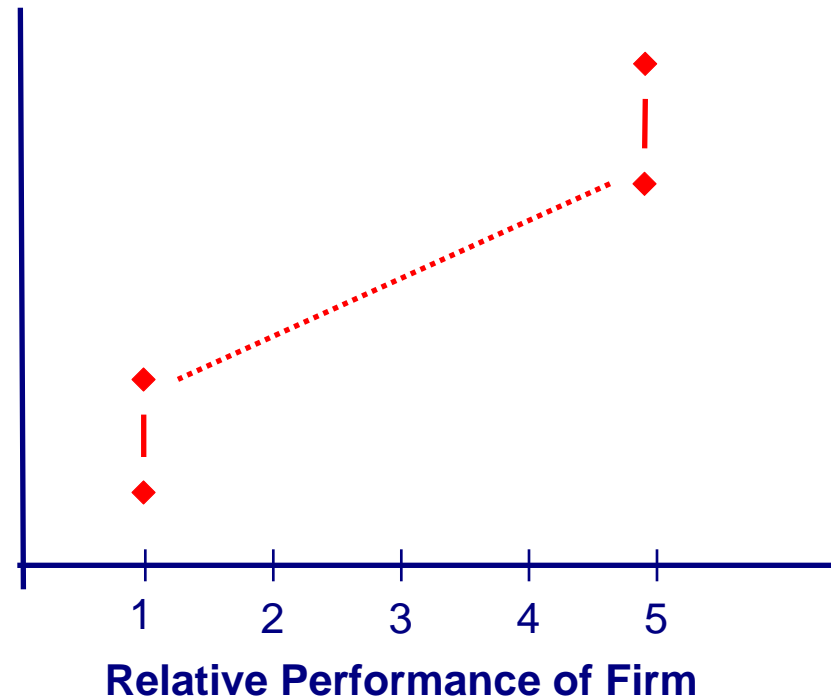
Convenience

Customer interactions

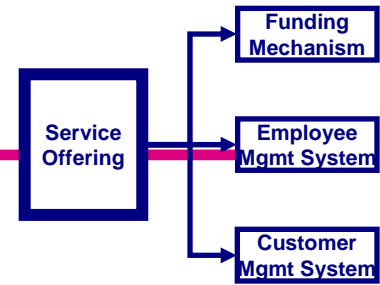
...

Product range

Price



Southwest Attribute Map

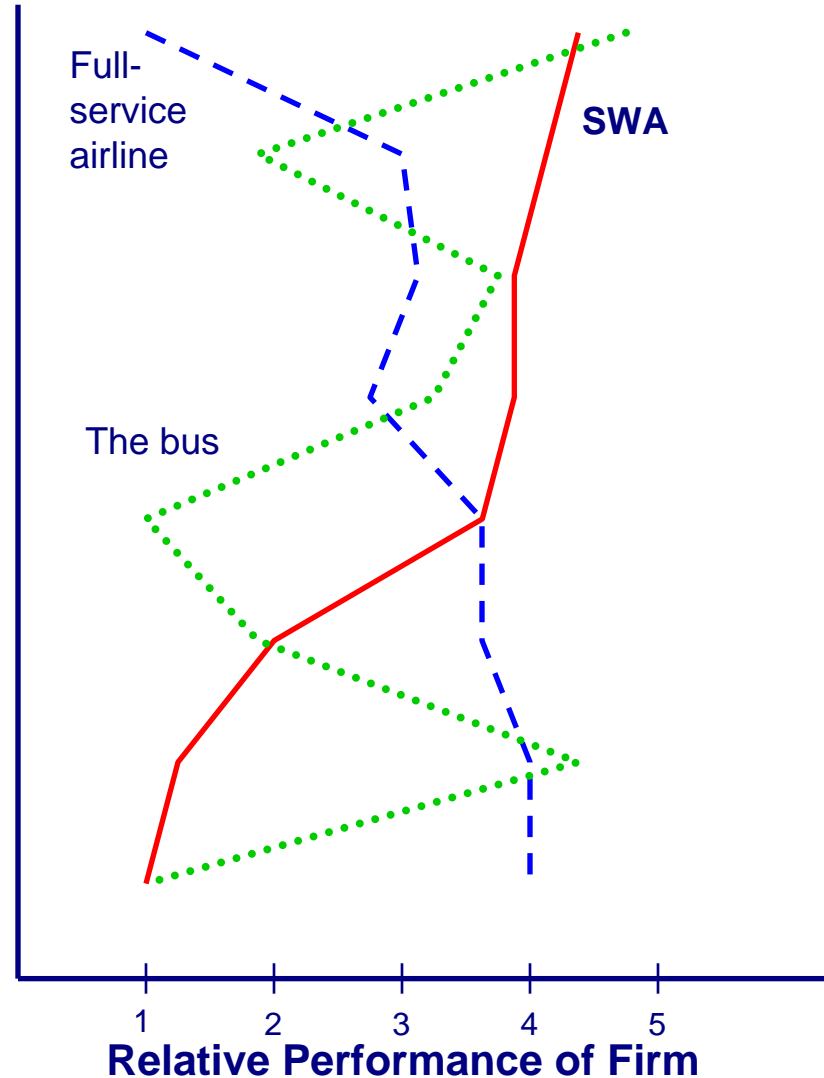


Most important to SWA target market

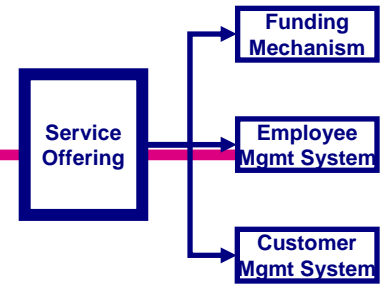


Least important to SWA target market

- Low prices
- Friendly service
- Frequent departures
- On-time arrival
- Fast transport
- Convenient airports
- Extensive network
- On-board amenities



Wal-Mart Attribute Map

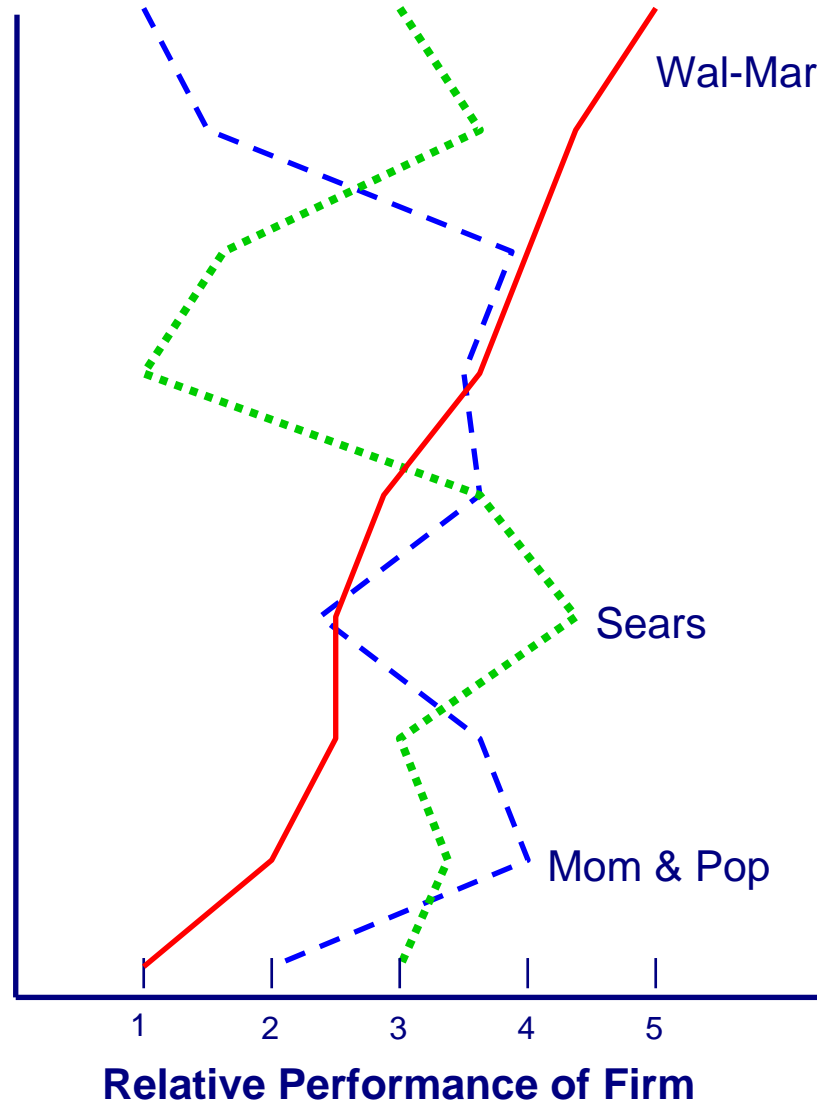


Most important to Wal-Mart target market

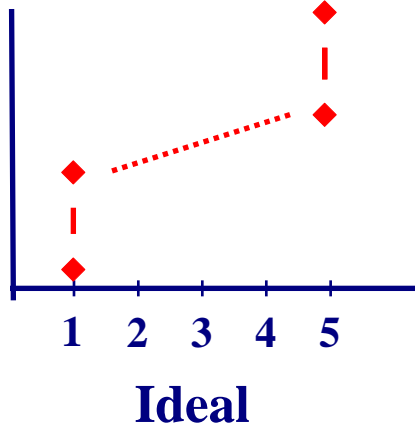
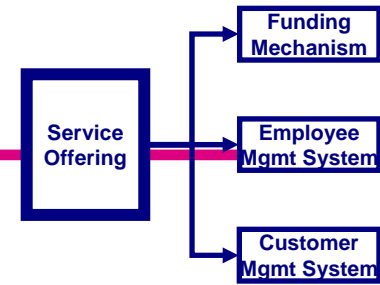


Least important to Wal-Mart target market

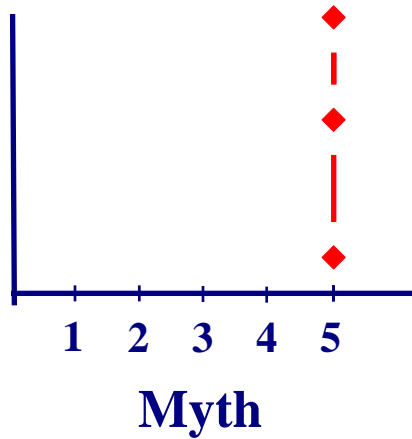
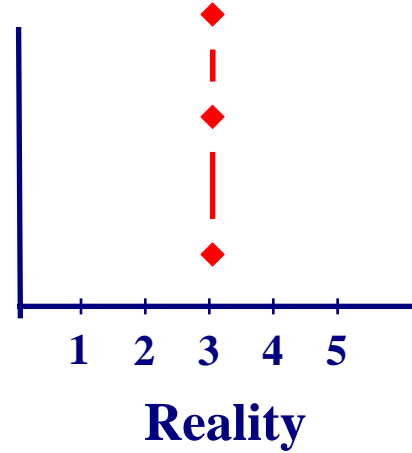
- Low prices
- Selection across categories
- Rural convenience
- Reliable prices
- Merchandise quality
- Suburban convenience
- Selection within categories
- Sales help
- Ambiance



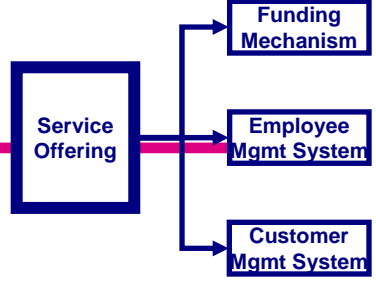
SERVICE "PHYSICS"



versus



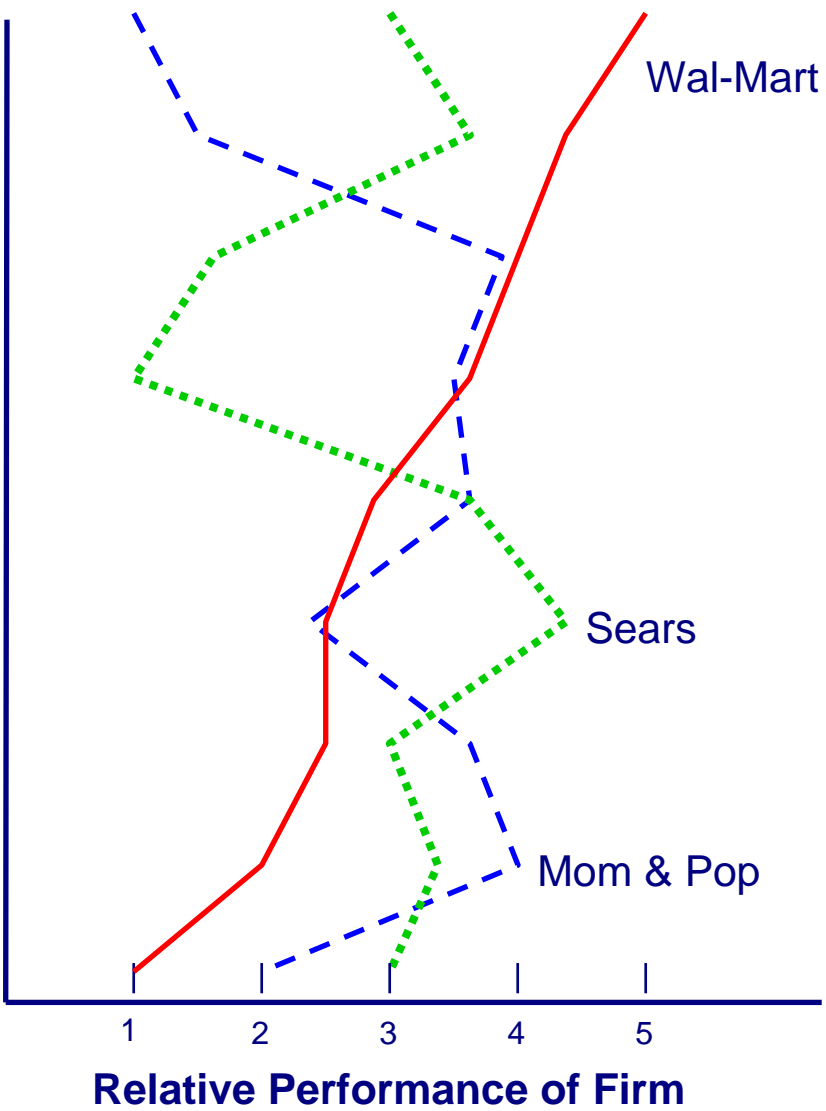
Improvement: (a) Shift Resources



Most important to Wal-Mart target market

Least important to Wal-Mart target market

- Low prices
- Selection across categories
- Rural convenience
- Reliable prices
- Merchandise quality
- Suburban convenience
- Selection within categories
- Sales help
- Ambiance

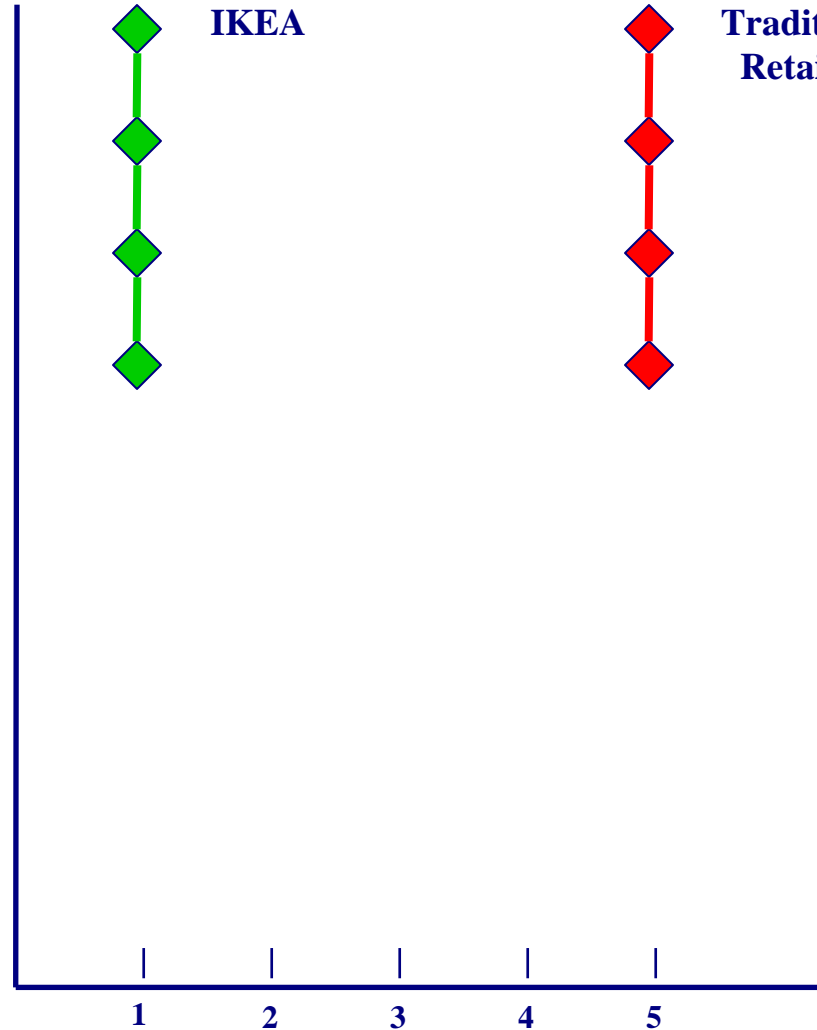


Improvement: (b) Influence Preferences

Most important to furniture buyers

Least important to furniture buyers

Durability
Assembly
Sales assistance
Location
...

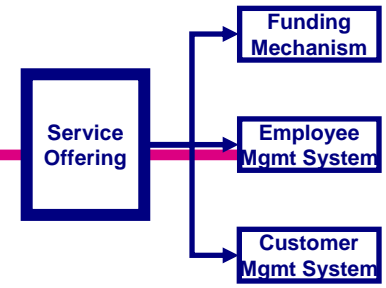


Relative Performance of Firm



Traditional Retailers

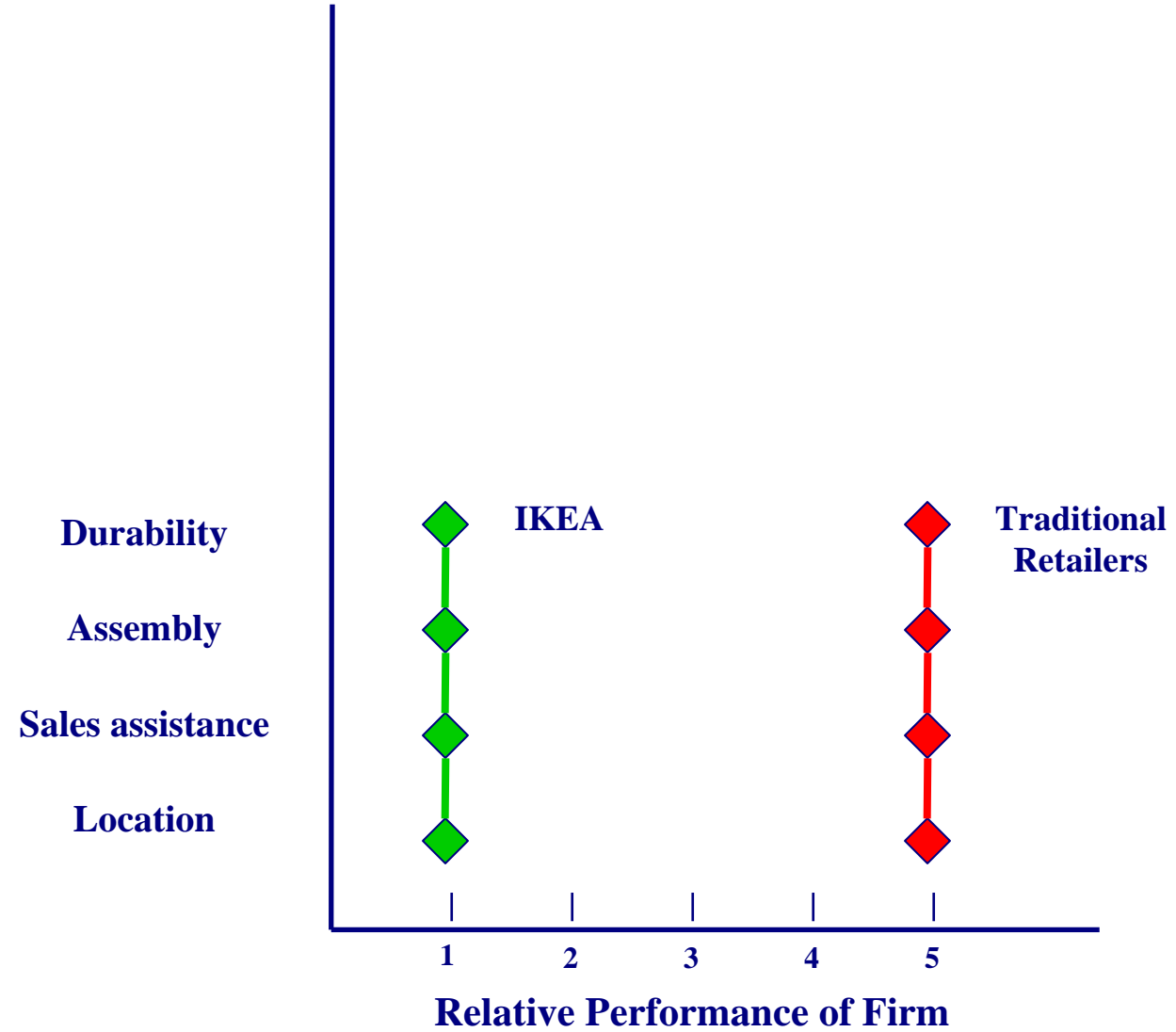
Improvement: (b) Influence Preferences



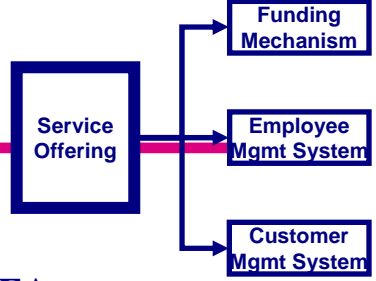
*Most important to
IKEA target
market*



*Least important to
IKEA target
market*



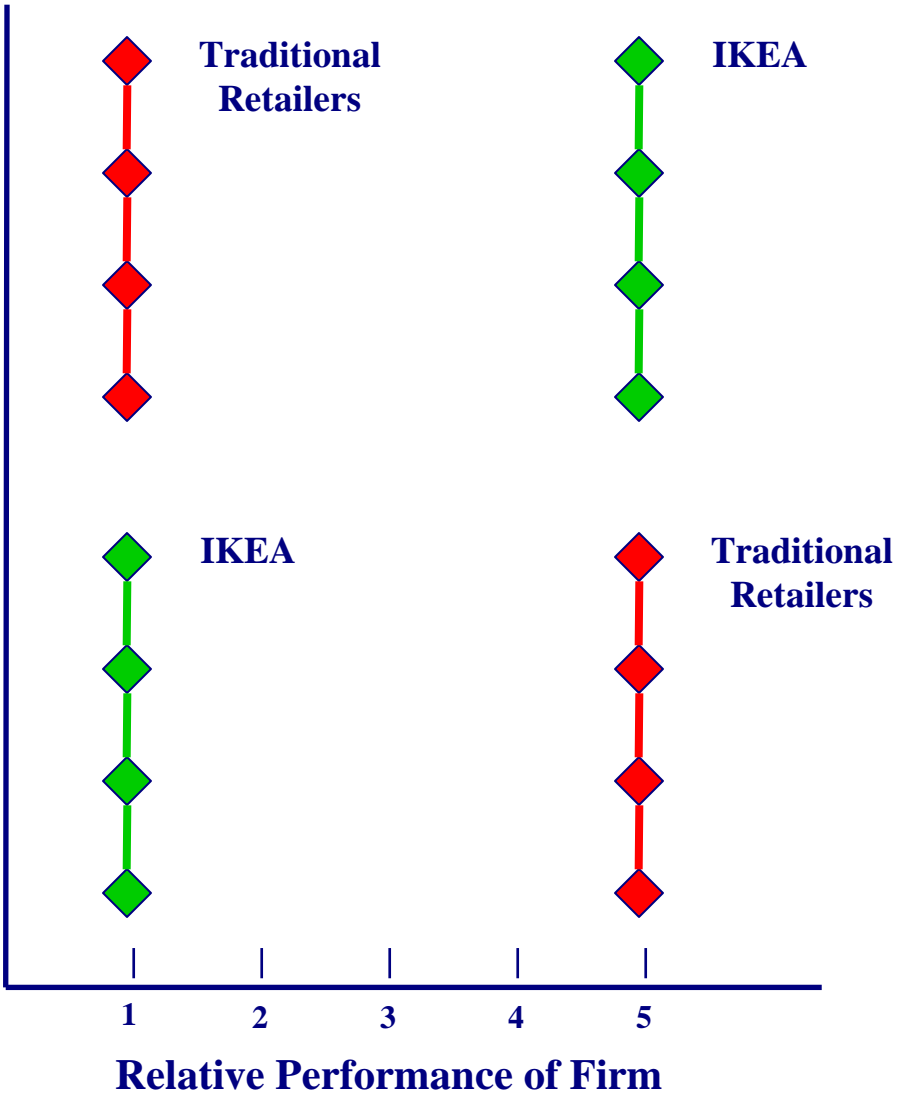
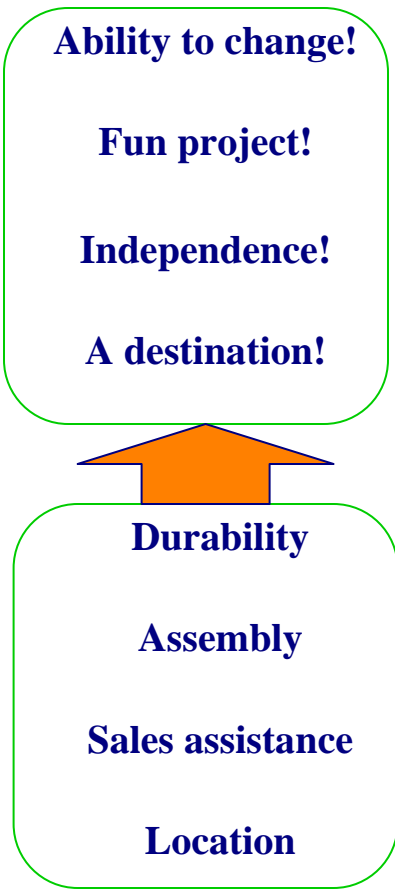
IKEA Attribute Map



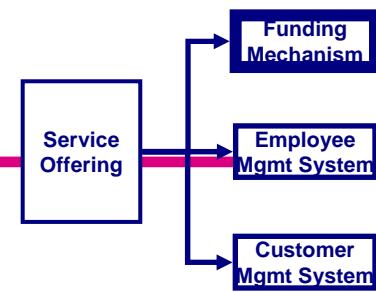
Most important to IKEA target market

↓

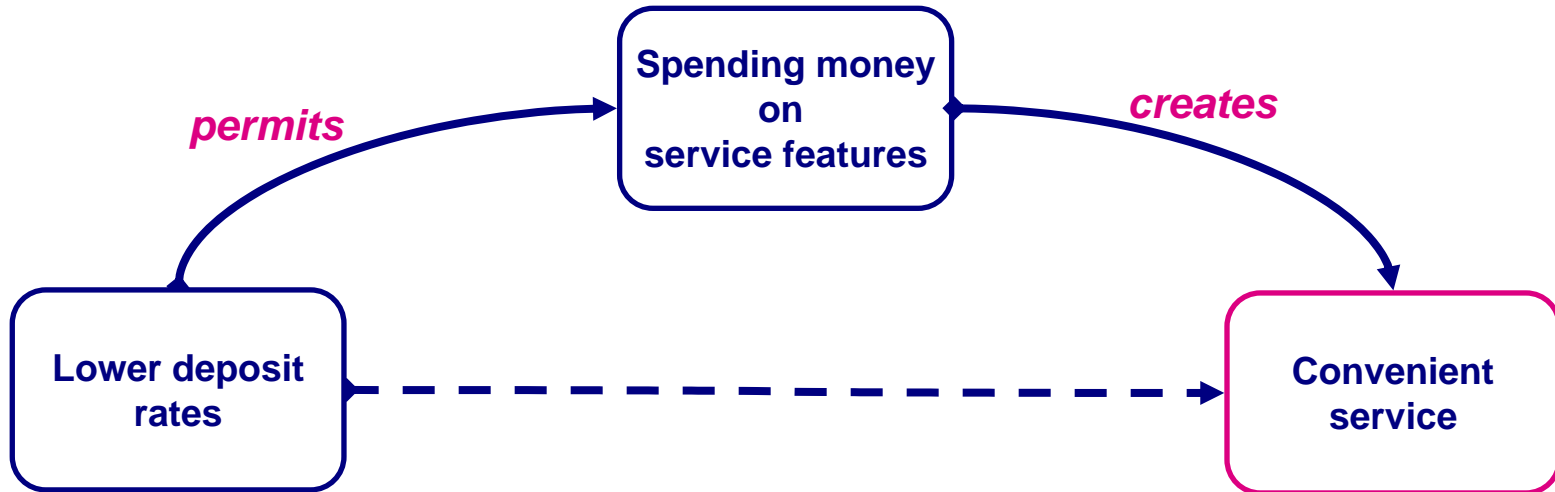
Least important to IKEA target market



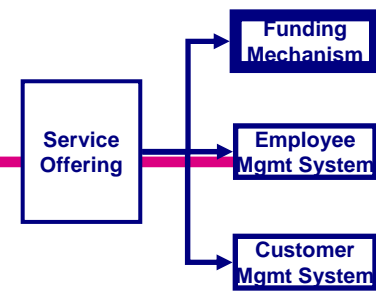
Identify Funding Mechanism



- Customer pays, *in a palatable way*



Progressive Insurance



↳ Insurance Economics

- Firms lose money on insurance - make money investing pre-paid premiums
- Customers are extremely price sensitive

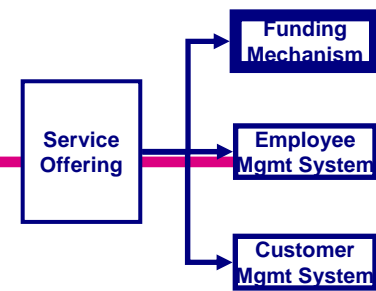
↳ Progressive Insurance

- Progressive *spends more* on service features, yet the company *makes more* on insurance.



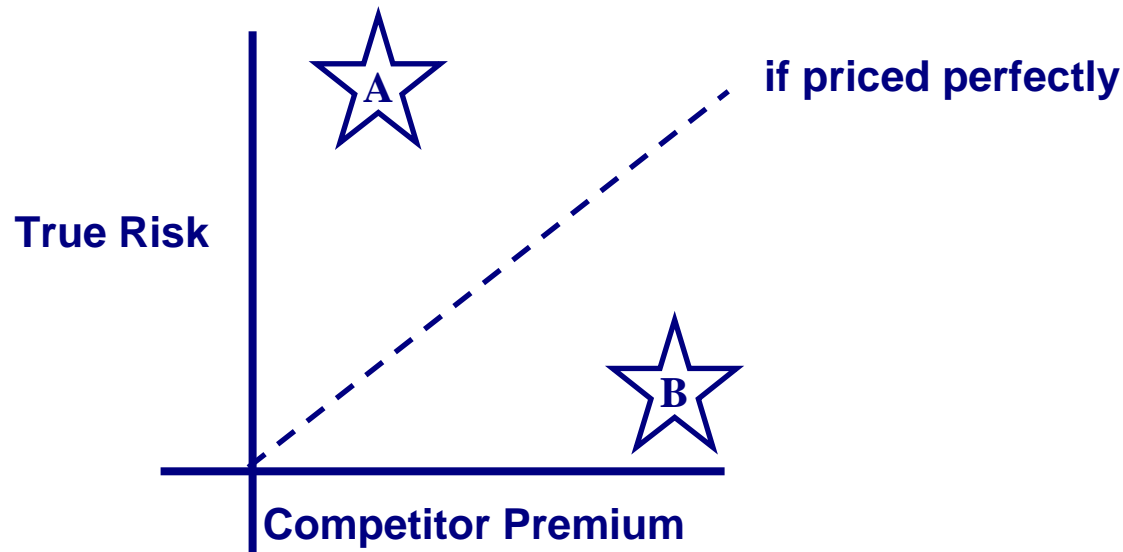
Framing : operational savings framed as value-added service

Progressive: Targeted Investments



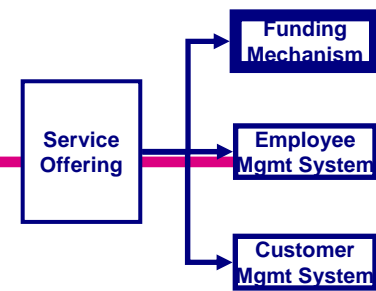
u Comparison Quote

- When consumers call Progressive, the company provides its quote AND competitor quotes.
- Progressive is the lowest quote only half the time – when it is not lowest, customers go elsewhere.



Leveraging Operations: value-added service layered on operational expertise

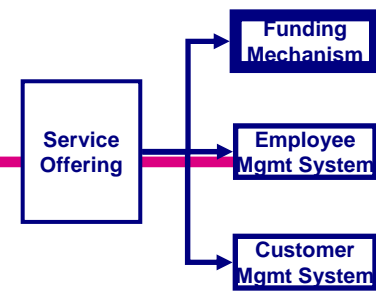
How Does Progressive Stay Ahead?



- Two elderly drivers have a moving violation
 - Driver A: Failure to Yield
 - Driver B: Speeding
- Progressive and Competition, on average, treat the moving violation the same...

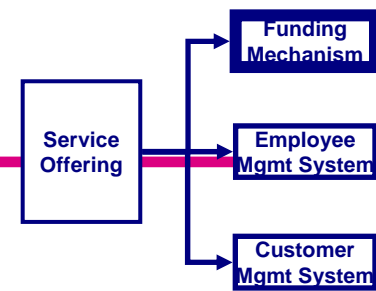
	Competition	Progressive
Failure to Yield	+2	+3
Speeding	+2	+1

Identify Funding Mechanism



- ∪ **Customer pays, *in a palatable way***
- ∪ **Operations as value-added service**
 - ***Framing Operations***: operational savings framed as value-added service
 - ***Leveraging Operations***: value-added service layered on operational expertise

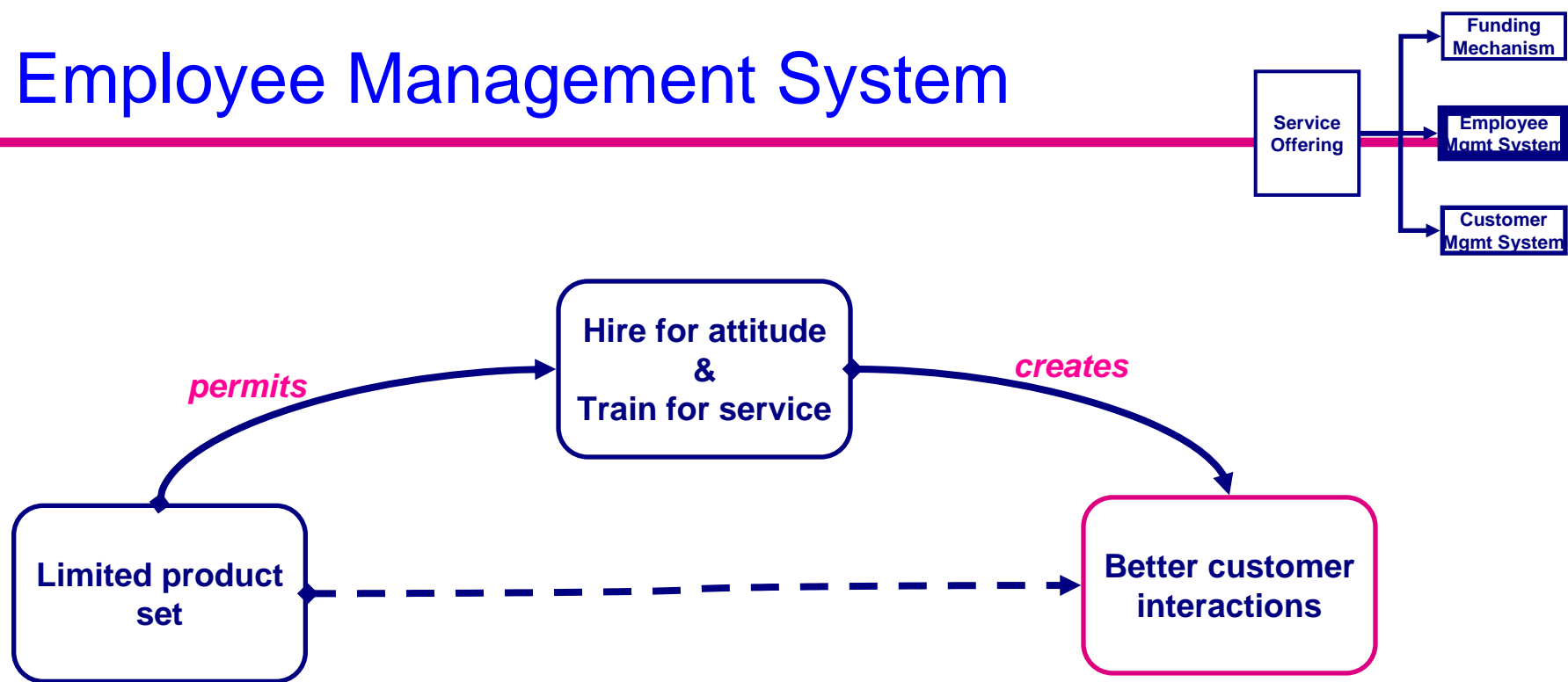
Identify Funding Mechanism



- ∪ **Customer pays, *in a palatable way***
- ∪ **Operations as value-added service**
 - ***Framing Operations***: operational savings framed as value-added service
- ∪ **Customer performs the work**

Proper test: Self service is preferred to a *readily available* full service alternative

3. Employee Management System



Design a system where typical employees have a reasonable chance of success

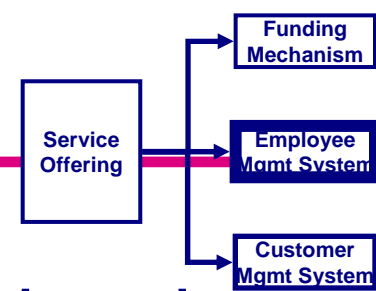
System = selection, training, job design, performance management

Diagnostic Questions:

Q: What makes employees reasonably able to achieve excellence?

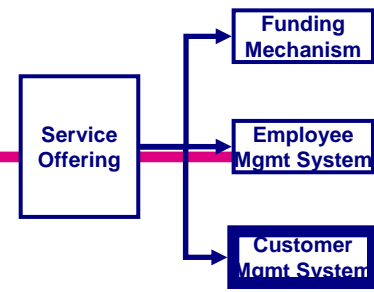
Q: What makes employees reasonably motivated to achieve excellence?

Large International Bank



- **A senior manager complained that no matter how the incentives or training were changed, the customer experience in the branch would not improve.**
- **We suggested that the manager spend time working as a front-line employee in the branch.**
- **She reported back after her first day of work...**
 - ***“From the time the doors opened, customers were yelling at me.”***
 - ***“By the end of the day, I was yelling back.”***

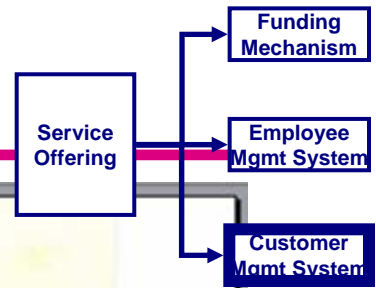
4. Customer Management System



∪ Which behaviors do you want?

∪ Which techniques are you using to influence behavior?

Which Behaviors?



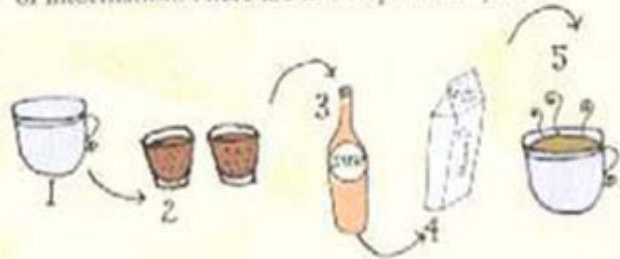
How to Order

If you're nervous about ordering, don't be.

There's no "right" way to order at Starbucks. Just tell us what you want and we'll get it to you.

But if we call your drink back in a way that's different from what you told us, we're not correcting you. We're just translating your order into "barista-speak" – a standard way our baristas call out orders. This language gives the baristas the info they need in the order they need it, so they can make your drink as quickly and efficiently as possible.

"Barista-speak" is easy to learn. It's all about the order of information. There are five steps to the process.



1. Cup.

The first thing a barista needs to know is what cup to grab for your drink. If you don't specify, we'll put it in our out-to-go cup. But you can also ask for a *for-here, iced* or *personal* cup.

2. Shots and size.

Do you want decaf or extra espresso? Here's something to know: *Tall* (12 fl oz) drinks usually come with one shot; *Grande* (16 fl oz) drinks have two. *Venti*® drinks have two (for 20 fl oz hot drinks) or three (for 24 fl oz cold drinks). So if you add a shot to a Tall, you're getting a *Double Tall*.

3. Syrup.

This is the most popular way to customize. We have many different flavors to sweeten or spice up a drink.

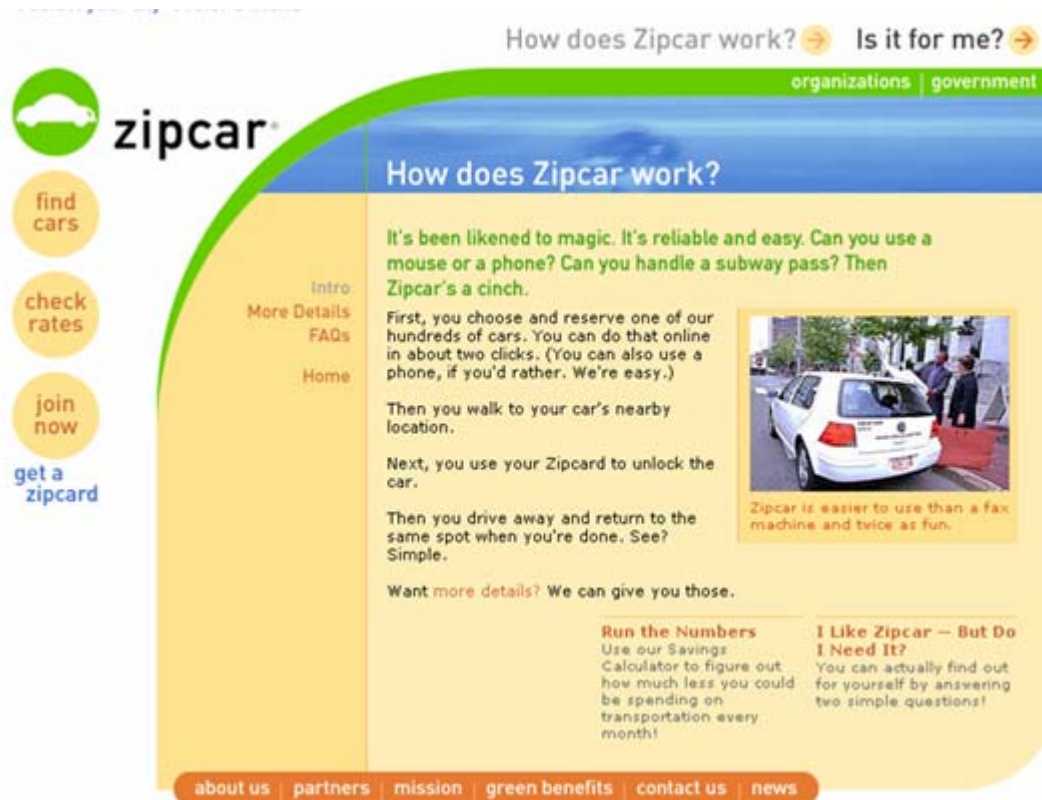
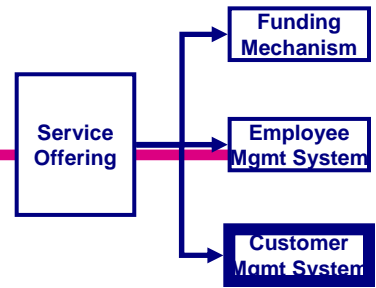
4. Milk and other modifiers.

This is when you tell us what milk you want. And if you want something else, like "extra hot" or "extra foamy."

5. The drink itself.

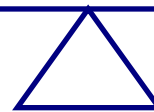
Don't forget the most important part! Are you having a latte, a mocha – or something entirely different?

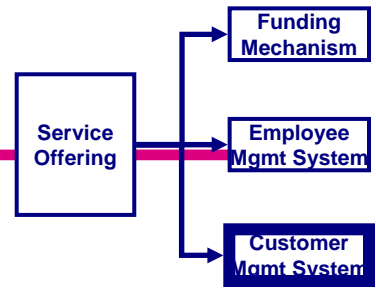
Which Techniques?



**Normative
Controls**

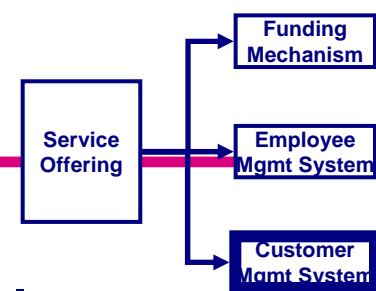
**Instrumental
Controls**





The Mind of the Customer

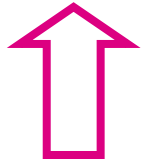
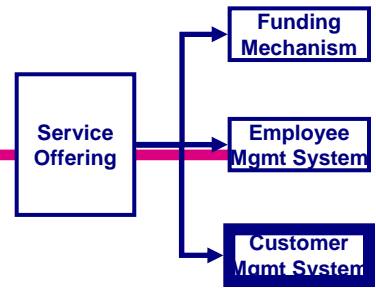
Customer Perception



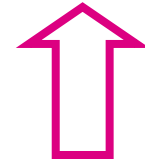
• **Customers do not attribute service performance evenly across employees and firm**

- **Positive experiences → Employees 😊**
- **Negative experiences → Firm 😞**

Lessons From Behavioral Science: 1 of 3

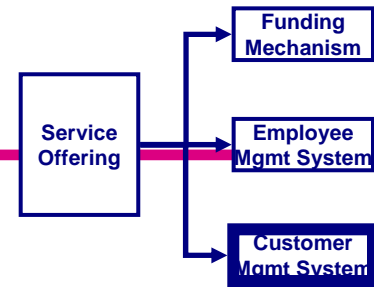


**Beginning of
service encounter**



**End of
service encounter**

Lessons From Behavioral Science: 2 of 3



Win \$10

or

Win \$5

Win \$5

Make winning last...

Get losing over with...

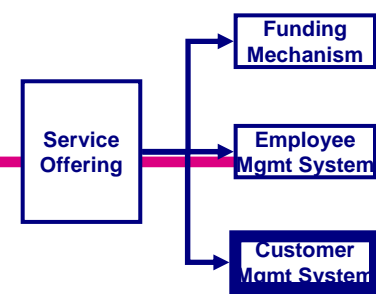
Lose \$10

or

Lose \$5

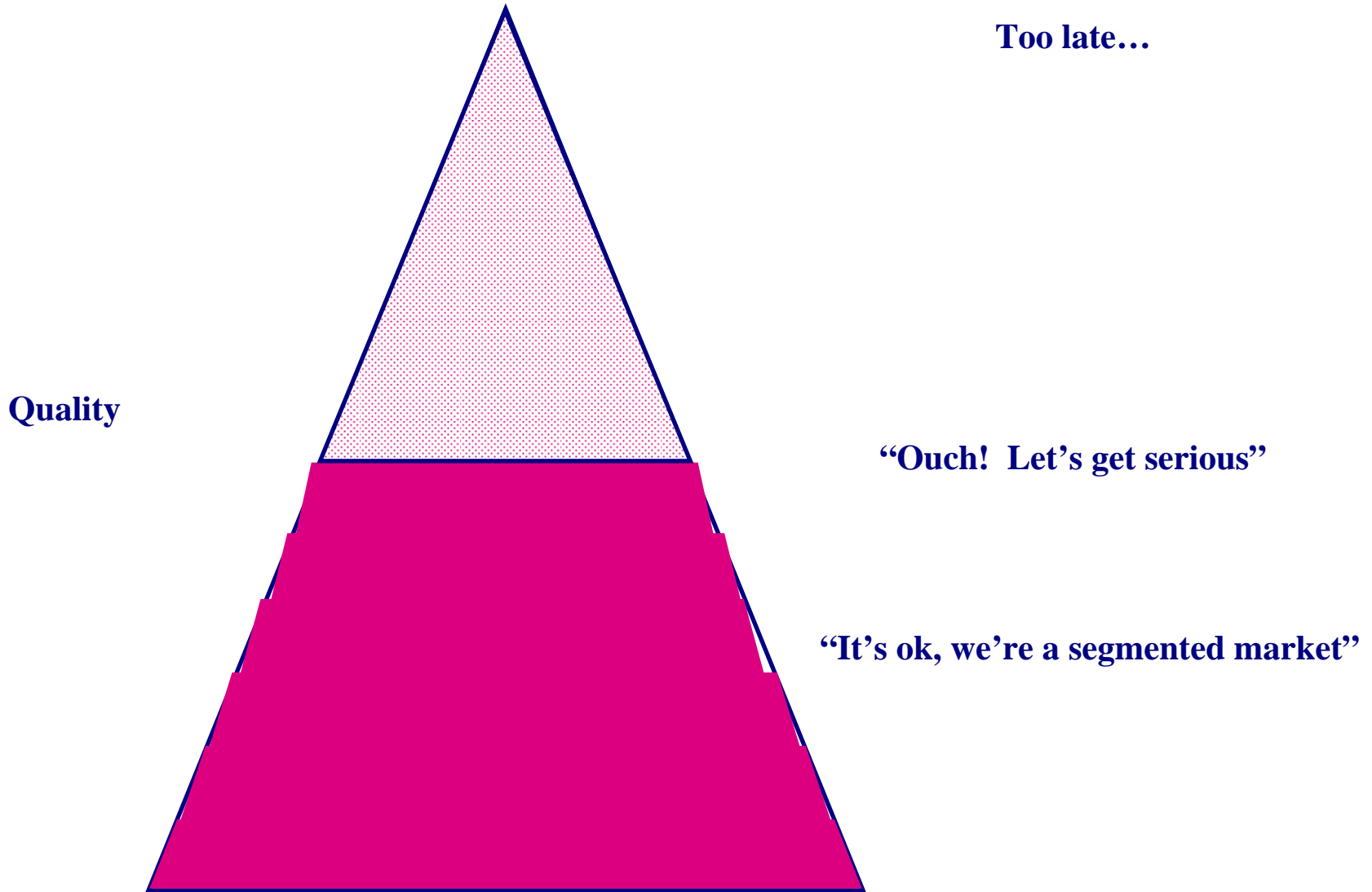
Lose \$5

Lessons From Behavioral Science: 3 of 3

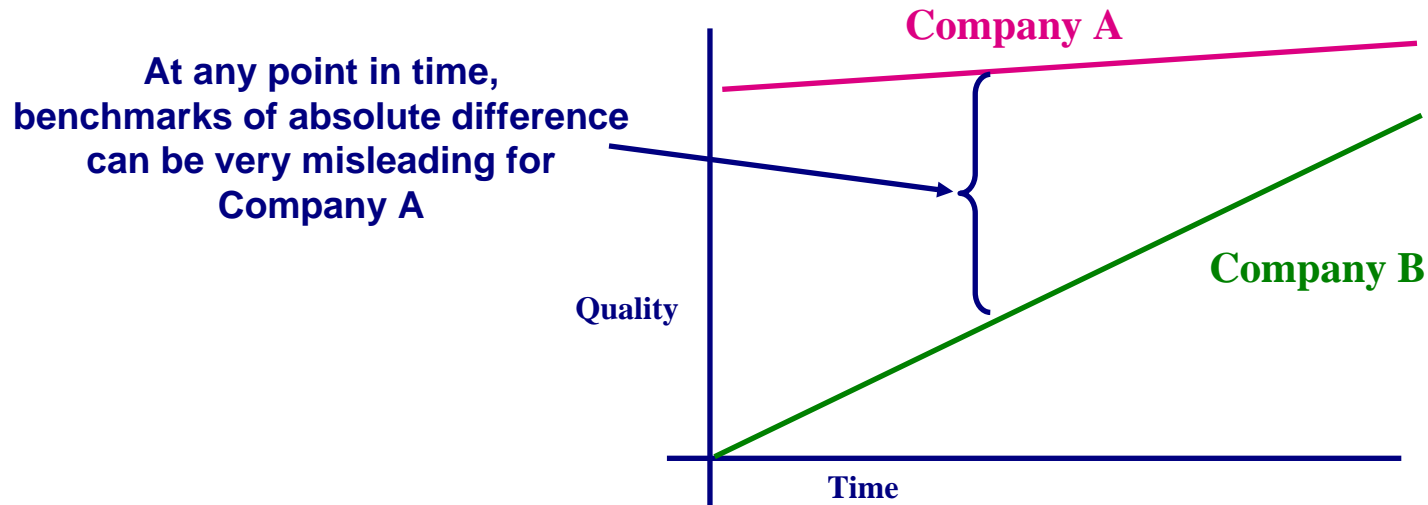


Study found that blood donors perceived significantly less discomfort when they were allowed to select the arm from which blood would be drawn.

Steinway Pianos



Focus on Rate of Improvement



Yamaha and Steinway pianos

Toyota and GM autos

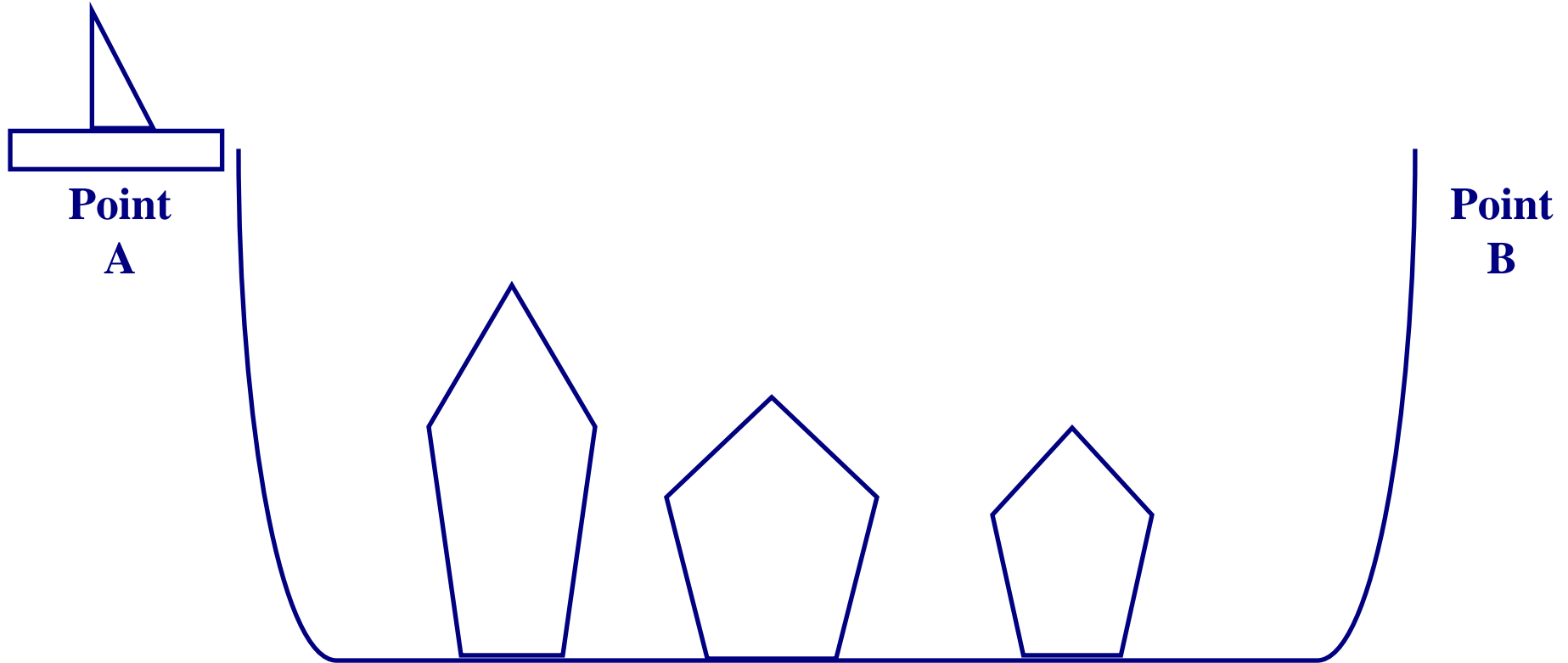
Honda/Suzuki and Triumph motorcycles

Swiss and Hamitar watches

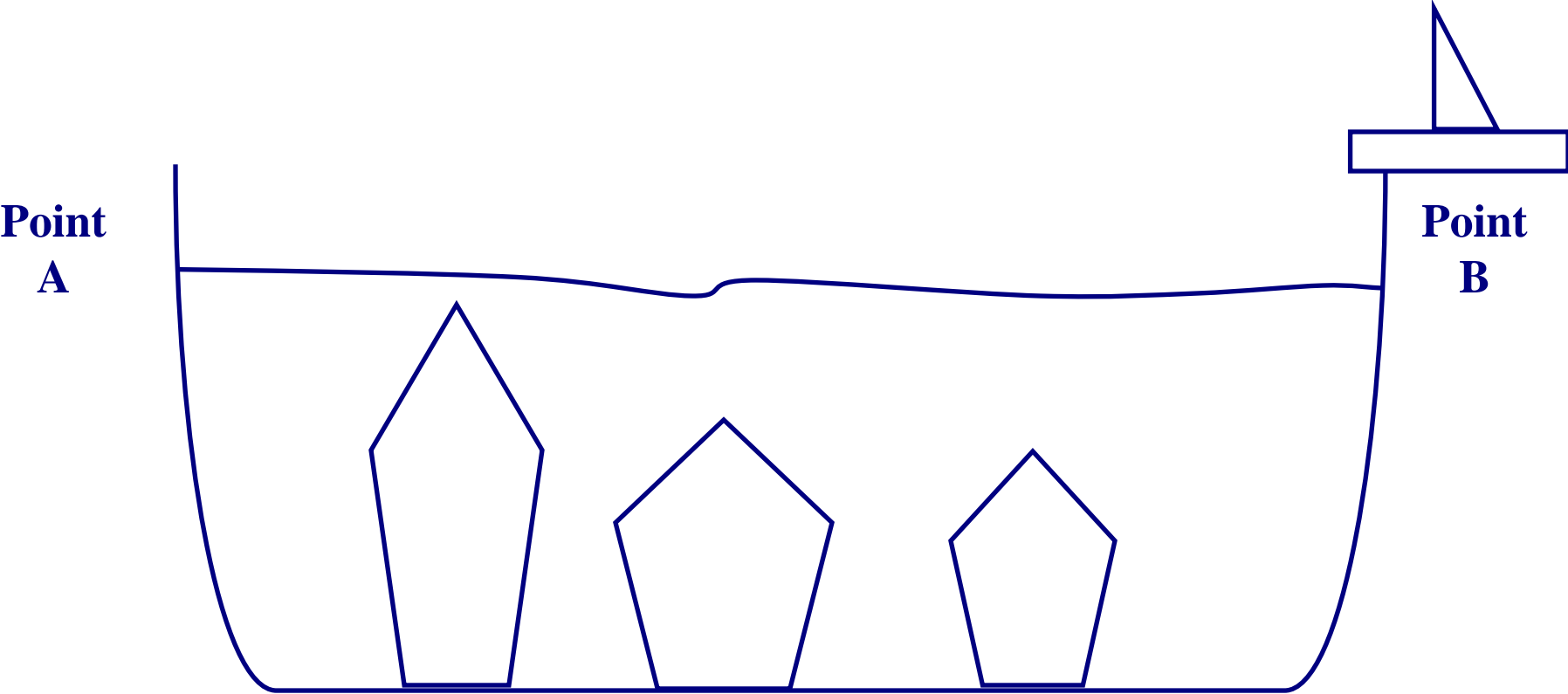
Korean and Japanese shipbuilders

How does Company B improve faster? A story might help...

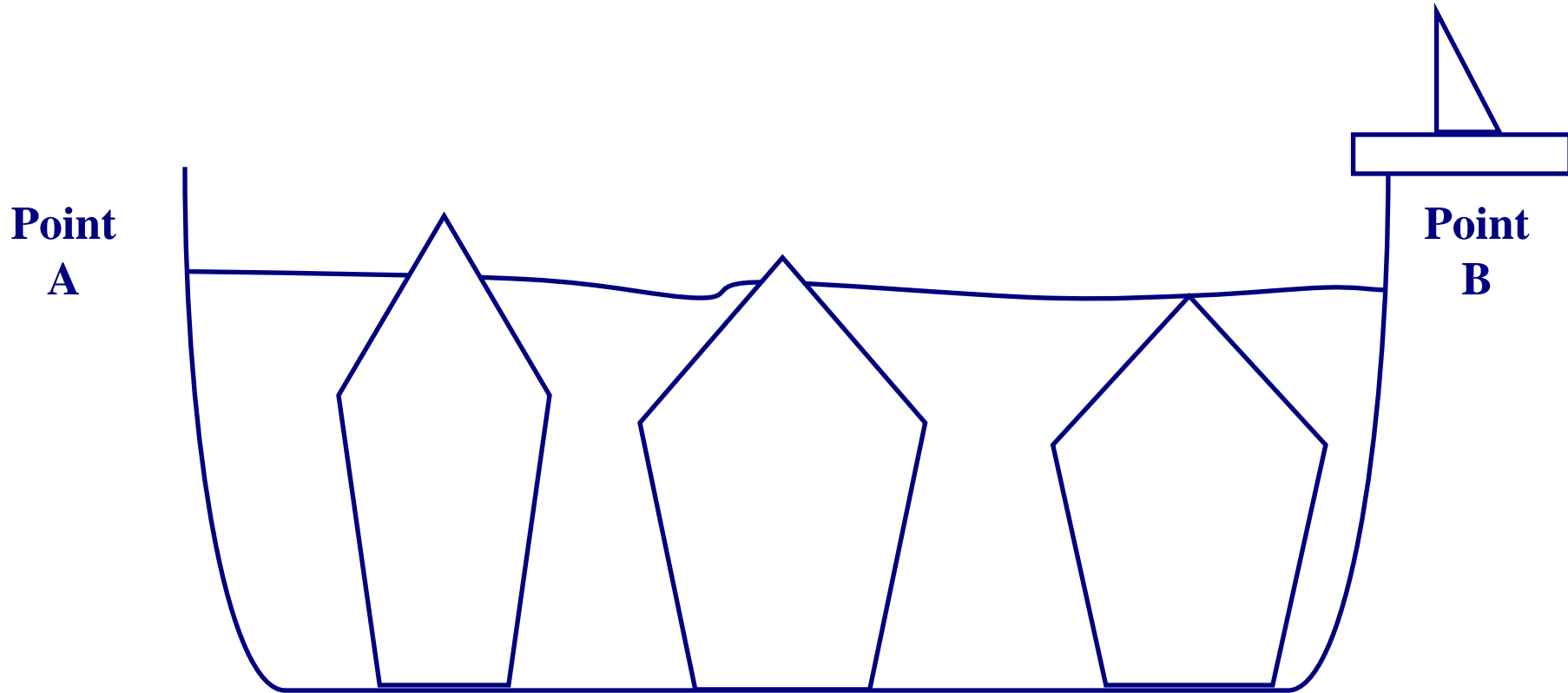
Rock and Pond (A)



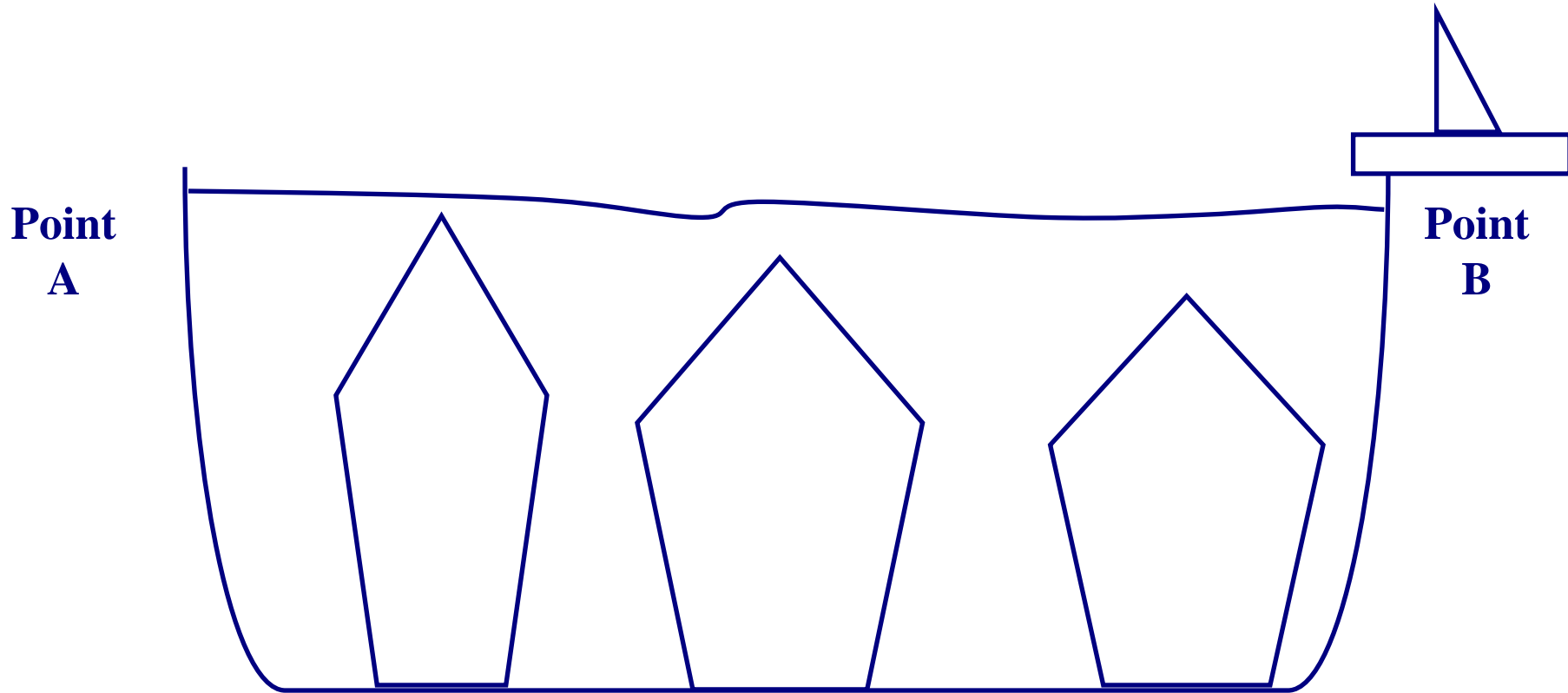
Rock and Pond (A)



Rock and Pond (A)

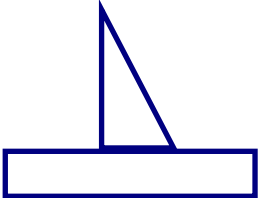


Rock and Pond (A)

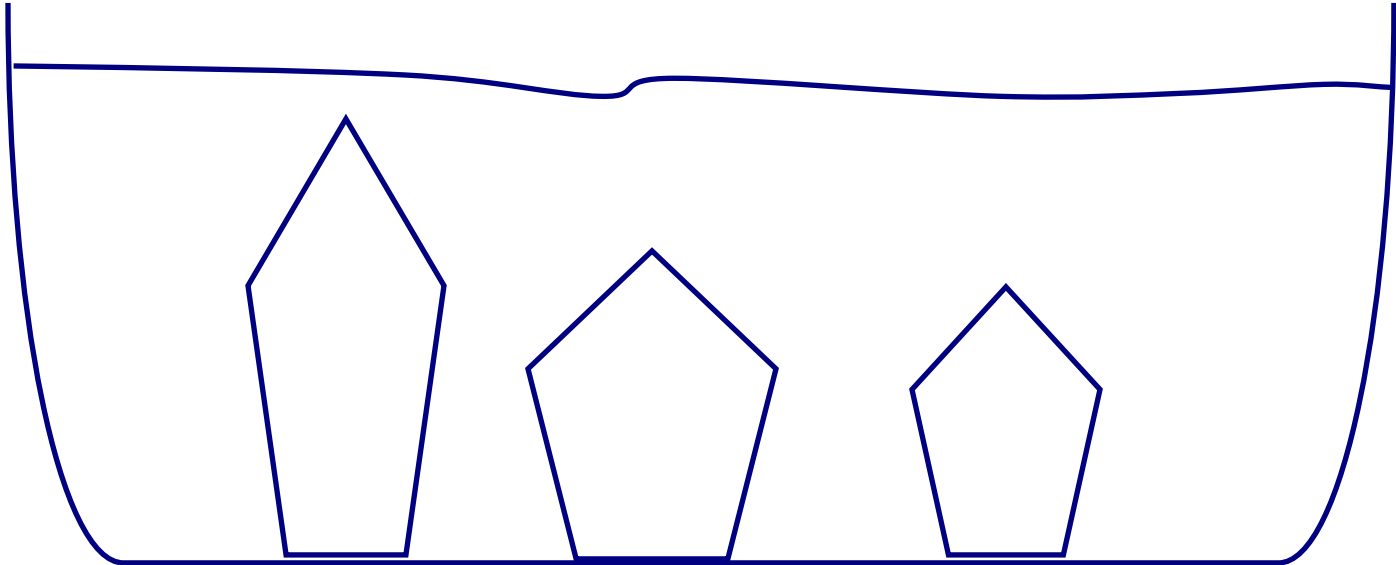


Continue to add water, and crossings will be possible. Or...

Rock and Pond (B)

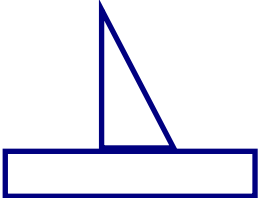


**Point
A**

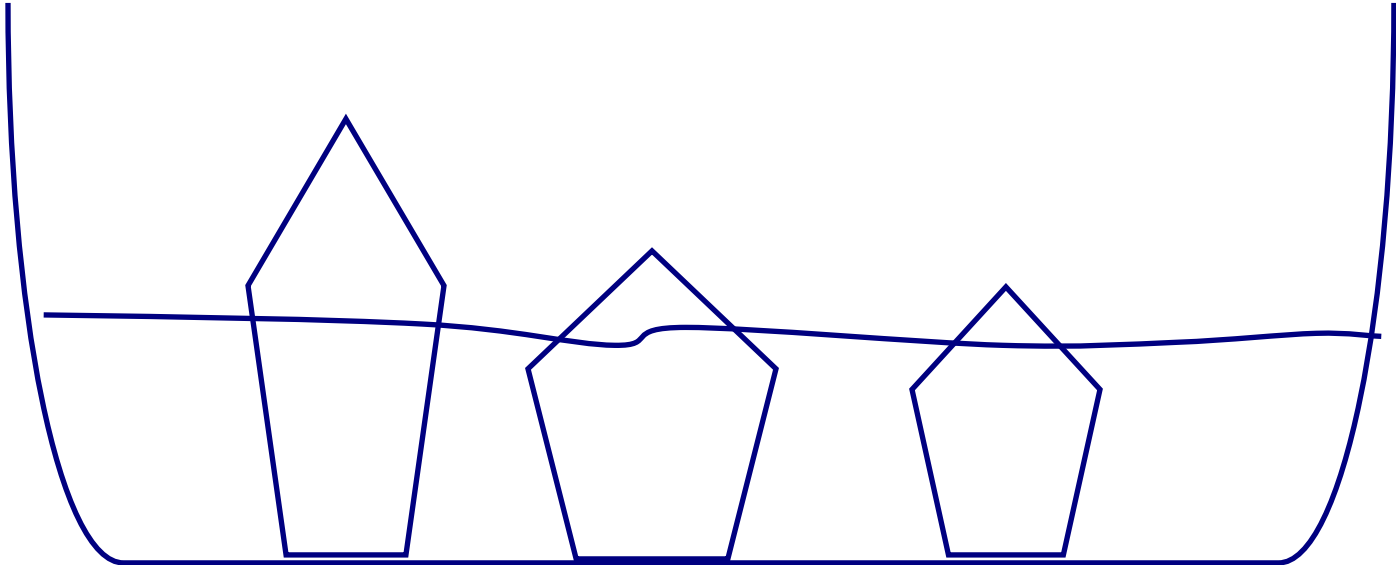


**Point
B**

Rock and Pond (B)

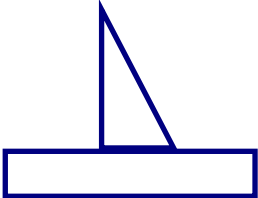


**Point
A**

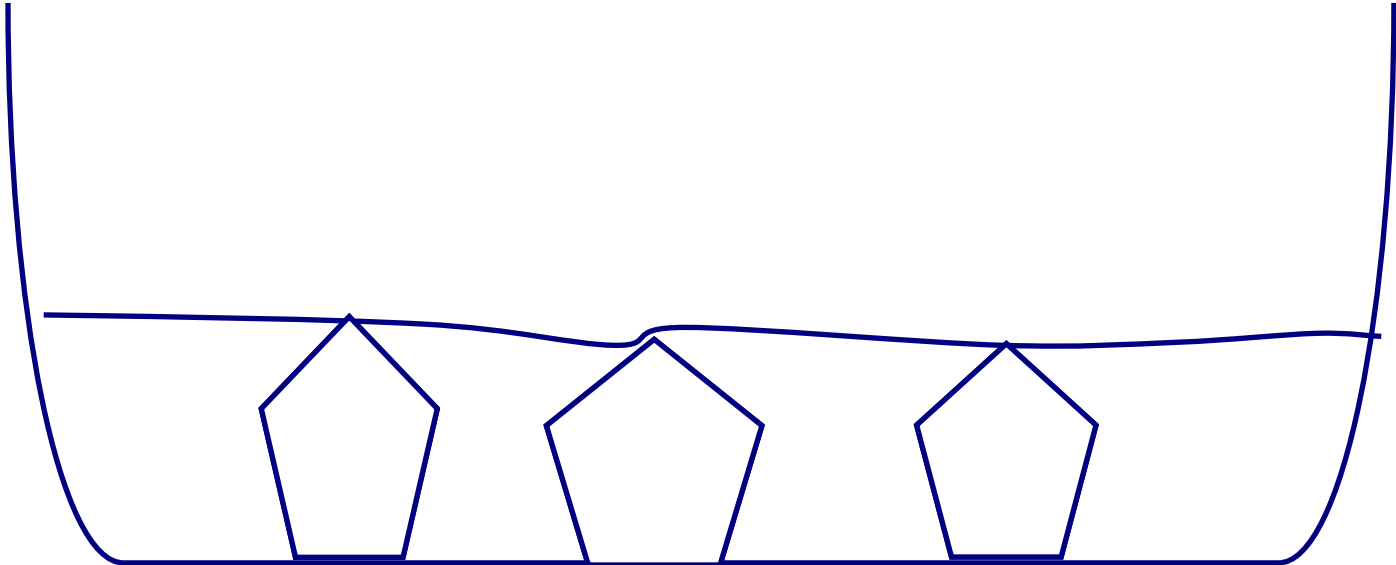


**Point
B**

Rock and Pond (B)

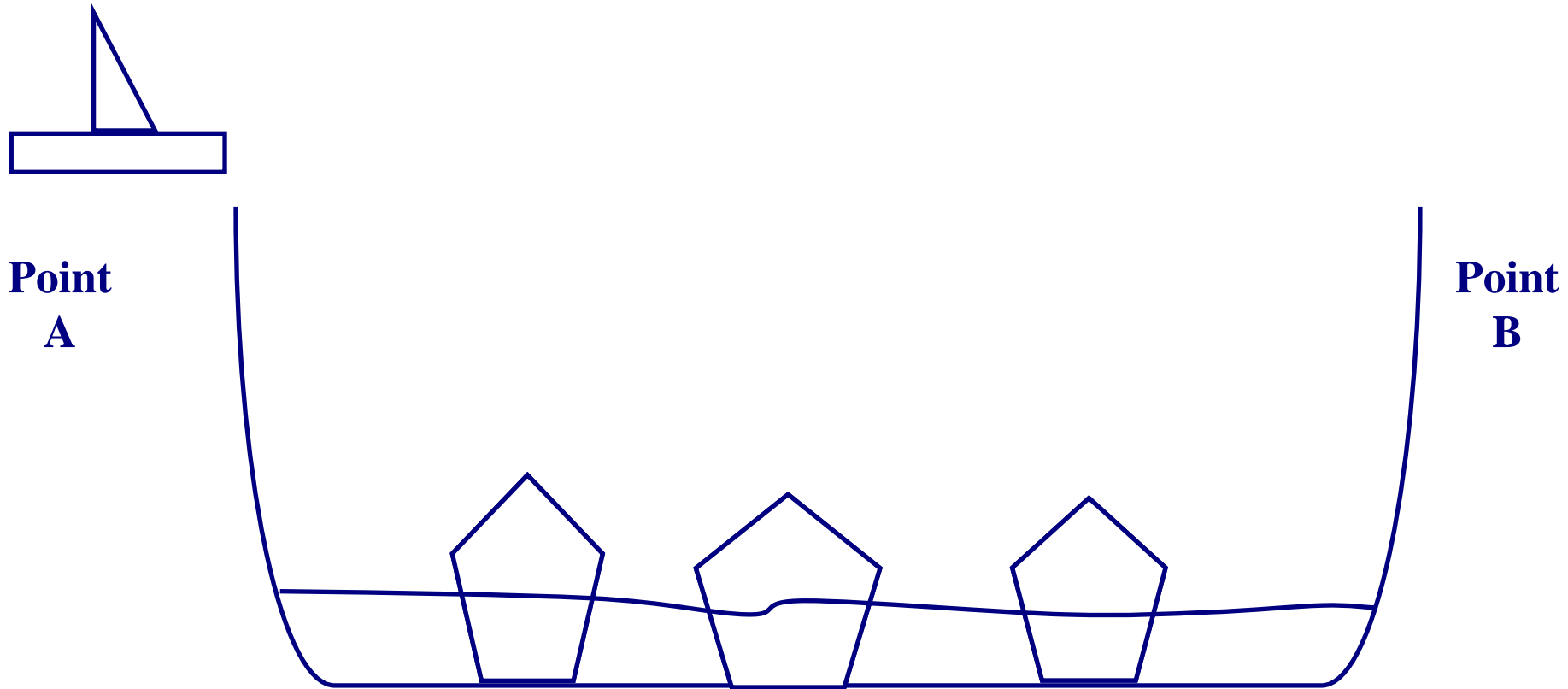


**Point
A**

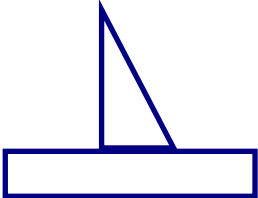


**Point
B**

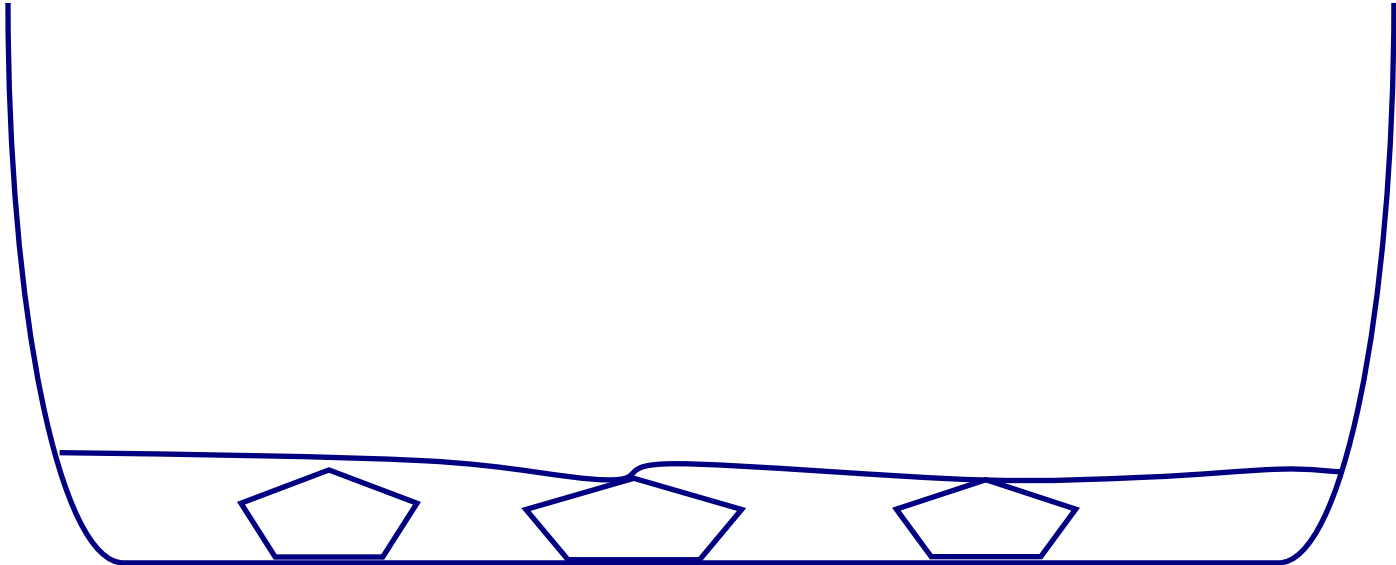
Rock and Pond (B)



Rock and Pond (B)

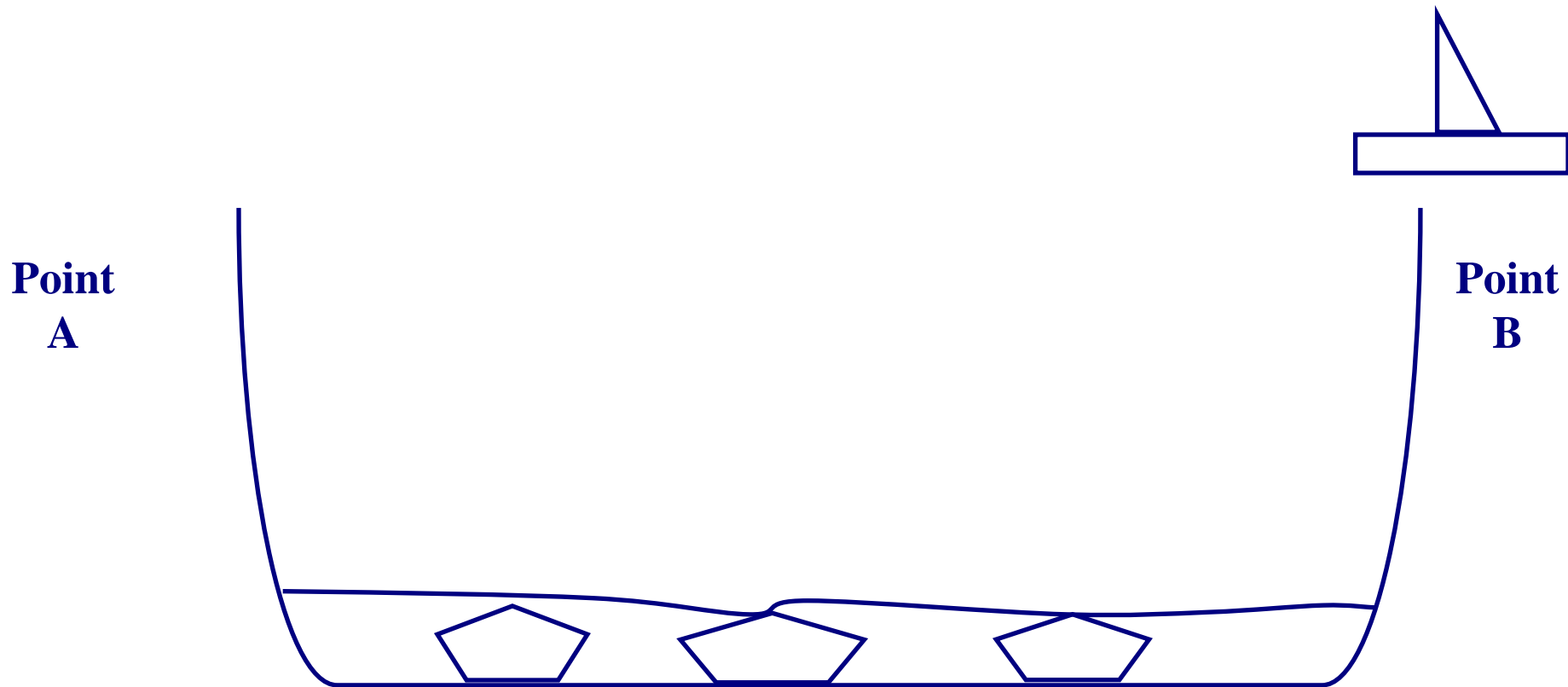


**Point
A**



**Point
B**

Rock and Pond (B)



Remove as much water as possible and then cross.

Root Cause Analysis

- **We're having quality problems. Why are we having quality problems?**
 - **Because people are not performing well. Why?**
 - **Because they're not being trained. Why?**
 - **Because we're hiring them too fast to keep up with the training. Why?**
 - **Because we didn't forecast demand well.**

Lessons from Steinway and Yamaha

- ∪ **Focus on rate of improvement**
- ∪ **Relentless pursuit of surfacing problems**
- ∪ **Incredible humility in addressing problems**

Contact Information

↳ **Want a copy of the slides?**

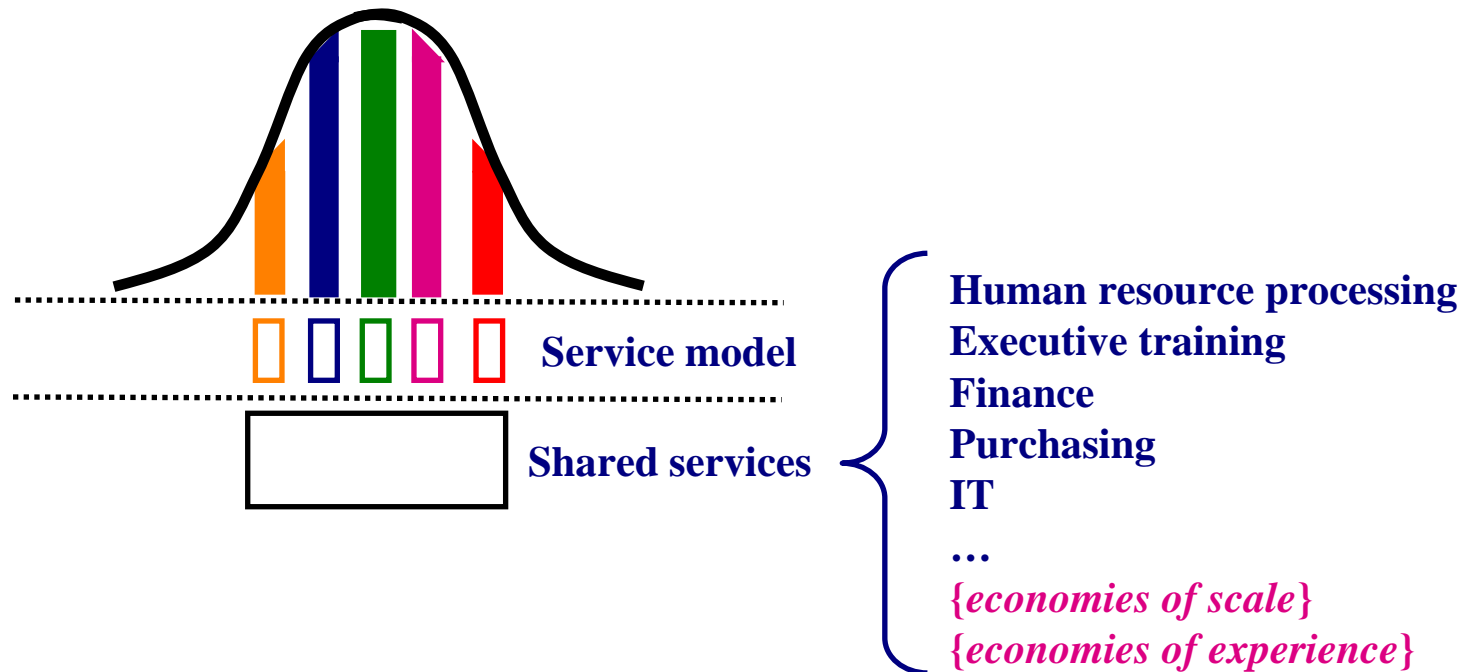
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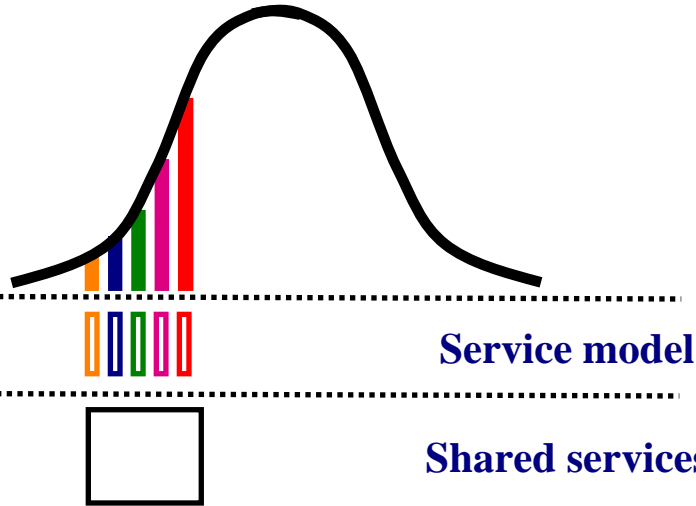
Successful Incumbent Response

Multi-Focused Firm

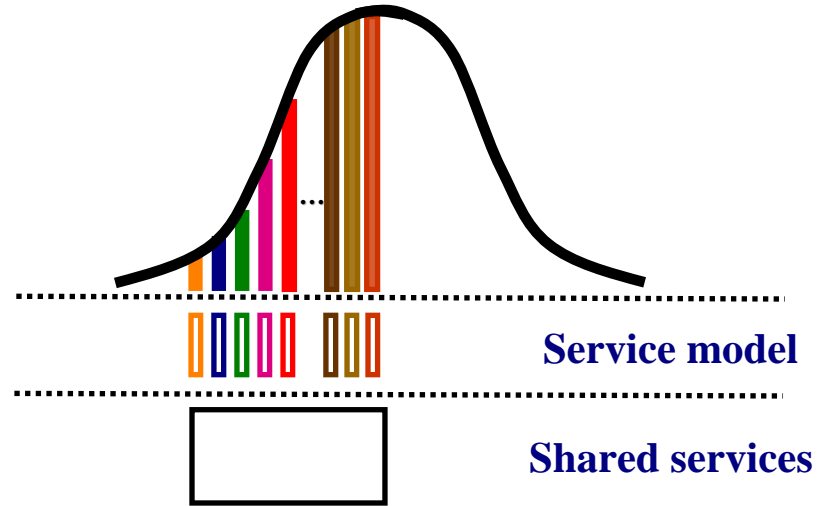


Multi-Focused Examples

Yum! Brands



Omnicom



General Electric

