Service First

World Class Strategies for Service Providers

By Paul A. Rogers
MD. Spire Consulting Limited.

Flying back from another dispute resolution workshop between my client and one of their major facilities management service providers, I came across a sign above the rental car desk that read "There are no shortcuts on the road to a great experience". As the workshop facilitator that statement rang like an alarm bell. It could have been the wake up call for both my client and their service provider. During that day, as I dissected the remains of their three year relationship I realised that there had been shortcuts taken both in the establishment of the service provision contract and the day to day service delivery operations. As a result, from what had been an initial pleasant and effective engagement, a gradual decay had set in over the past three years. This was despite my client having worked through a procurement process, utilised a proven service provider evaluation technique, engaged in workshops and forums designed to flush out weaknesses. So why was I here barely 36 months later as "the doctor in charge of the ambulance at the bottom of the cliff?"

These dilemmas cut to the heart of much larger questions. Just how do service providers create a compelling service offering and then sustain customer excellence over a service life cycle? Furthermore, once a service provider has sold their service offering, how might they increase their share of the pie and go on to dominate the market place, sometimes even creating their own market space? Conversely, how might the customer sustain and continuously leverage value from their service providers in a collaborative and co-dependant manner, reducing their Total Cost of Ownership (TCO)?

To understand the context of these questions, it's worth reviewing the size of the opportunity for service providers. For decades, the importance of services to the global economy has grown steadily while the importance of goods has declined. In fact, services now dominate, making up about 70% of the aggregate production and employment in the Organisation for Economic Cooperation and Development (OECD) nations and contributing about 75% of the GDP in the United States alone.[1]

With that growth, it makes sense that companies are constantly seeking to provide better services, regardless of whether they are in a "pure" service business or in a manufacturing industry that must increasingly rely on its service operations for continued profitably.

For many organisations desegregation of peripheral "non core" activities such as facilities management (FM), information, communications and technology (ICT) are increasingly outsourced to third party specialist service providers. In Australia alone 97% of the largest companies claim to have outsourced at least one non core or overhead type service function.

With this service growth brings several very real challenges. For the past 30 years, the service industry has been growing but business commentators such as the late Harvard Business Review editor and business school Professor Theodore Levitt observed, "whilst growth has occurred and indeed is accelerating – quality is shrinking". Levitt observed that whilst the purveyors of service, for their part, think that they and their problems are fundamentally different from other businesses and their problems and that their service is people intensive (whilst the remainder or the economy is capital intensive), these distinctions were largely superfluous. Levitt claimed that there are no such things as service industries, rather there are only industries whose service components are greater or less than those of other industries. In fact we are all in service.[2]

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[1] A. Wolfi "The Service Economy in OECD Countries" working paper 2002/3, OECD Directorate for Science, Technology and Industry, February 11 2005; and office of the U.S Trade Representative, "U.S Submits Revised Services Offer to the W.T.O" press release (Washington D.C: Executive Office of the President, May 31,2005)

[2] T. Levitt, "Production – Line Approach to Service". September-October 1972 Harvard Business Review

If that is the case (and in my experience it certainly seems to be) then why do we so often end up on the receiving end of poor service and performance from our service providers? In fact in the provision of outsourced services alone the failure rate in the external provision of ICT services alone is estimated to be 30% (equivalent to AUS $3.68 in 2001)[3].

As someone who has facilitated between the 'service takers' and the providers of service for 20 years and as a fan of "customer excellence" literature, I have observed a positive trend emerging. The trend of service providers partnering with their customers in a deliberate process that invoked a deep customer focus. This focus was a result of both parties developing a rigorous mutual co-dependency, willingness for collaboration, a crystal clear clarity of purpose wrapped up in a culture of urgency. Most importantly, these successful relationships had commenced through a very clear definition of what both parties regarded as "success". At the onset of the relationship indeed in the pre-establishment, when asked how to define "success" both parties volunteered 'success objectives' that were mutually aligned. Common attributes such as increased value, lower total costs, harmonious working relationships, fun and an energised workspace were seen as vital pre-cursers for mutual success.

Being an engineer, it seemed to me that this cycle of success could be somehow codified into a methodology that might be replicated, so providing service providers with a sustainable selling proposition and service takers with a reliable value added solution.

Creating Mutual Co-dependency through Deep Customer Focus

Deep customer focus is about an attitude that lies at the core of a company that knows what it does and what it does well. Service providers that differentiate their service offerings through deep customer focus are constantly thinking about better, quicker, easier ways of doing things that customers need, they ultimately become indispensable – they create compelling reasons for their service and they have positioned themselves to deliver well on it. They do this, often in a crowded market and often when price had traditionally been a key and sometimes the only determinant of purchase.

Whatever customers need, the company with deep customer focus excels at offering the outcomes each customer seeks. Through constant innovation, harnessing the mutual clarity of purpose, customer feedback, tight business processes and the use of knowledge, the service provider becomes indispensable.

[3] M. Abernethy "Par for the source", The Bulletin (Australian Business Weekly) May 8 2001. Pg 42

And as the relationship intensifies, sustainable gains for both parties result. No product or service on its own can accomplish that. The service provider's activities become so interwoven with its customer's activities that clients end up spending more money with the company on a greater variety of offerings often over much longer periods. Thus customers reward the service provider, giving it many opportunities for profitable growth.

Achieving Deep Customer Focus – A Guide for Service Providers

In my experience, regardless of their specific areas of expertise, every service provider is set up to deliver across five key domains. To greater or lesser extents, they possess five core competencies in **delivery, transformation, clarity of purpose, efficacy, and relationships.**

1. **Delivery Competency** – encompasses how well a service provider can respond to the client's requirement for day to day operational and tactical services. It reflects the service provider's scope and complexity of services. What levels of cost, quality, robustness and flexibility is the service provider able to meet? Few companies will be eager to outsource their business processes unless they are confident that their minimum required levels of service can be met during the life of the contract.

2. Increasingly, clients expect that the services they outsource will improve over time and provide them with some combination of cost, quality and functionality improvements. **Transformation competency** represents how well a service provider can deliver on these formal or informal expectations. Service providers use several potential levers for achieving radical change and improvement in a timely manner, and competing service providers can vary greatly in this domain.

3. Focus by definition demands clarity, in particular, clarity of purpose. **Clarity of purpose**, in a service provider relationship can only be formed through alignment and deep understanding of each other, roles and responsibilities. For the service provider, this often means engaging in a formal partnering process with their clients, facilitated by a skilled independent session leader determine the key business processes. The process activities and tasks are then assigned to owners and supporting roles and responsibilities are agreed. Partnering becomes the style in which parties engage in mutually beneficial activities.

4. **Efficacy** is the service provider's ability to best leverage productivity. Productivity is generated by many means, but service providers who achieve deep customer focus are always proficient in tuning, balancing and optimising their financial capital, people, processes and technology to determine the most effective blend of capacity and capability.

5. Most outsourcing dealings are made up of "fee for service" contracts, which separate the price the client pays from the costs the service provider incurs in providing the services. This seemingly straightforward arrangement can lead to serious conflicts, especially when the contracts extend for many years, when service providers take control, once the contract is signed and seek to exploit the relationship or lower the service for short term profit gain. For this reason, savvy clients attempt to gauge the service provider's **relationship competency** – the extent to which the service provider is willing and able to cultivate a "win-win" relationship that will align and leverage client and service provider goals and incentives over time.

Informed service providers need to establish from the onset, client's core requirements, there-by best aligning their competencies with a target buyer, understanding that almost all service needs stem from a client who needs to improve an existing function, increase the function's capacity or free up management time. Clarity of purpose is dramatically enhanced when service providers determine which of (or a mix of) these three key client needs are most important and how the service provider can best optimise their response utilising their core five core competencies. Figure 1 below shows this relationship. The service provider needs to assess what the current levels of service are, is the present service in need of radical change? Is the company looking to phase out an internal source that is performing satisfactorily in order to free up more management time to address core activities? Does the company want a service provider that can be replaced easily if its performance is unsatisfactory? Would it like to have a longer, mature partner whose business success over time will be closely tied to its own.

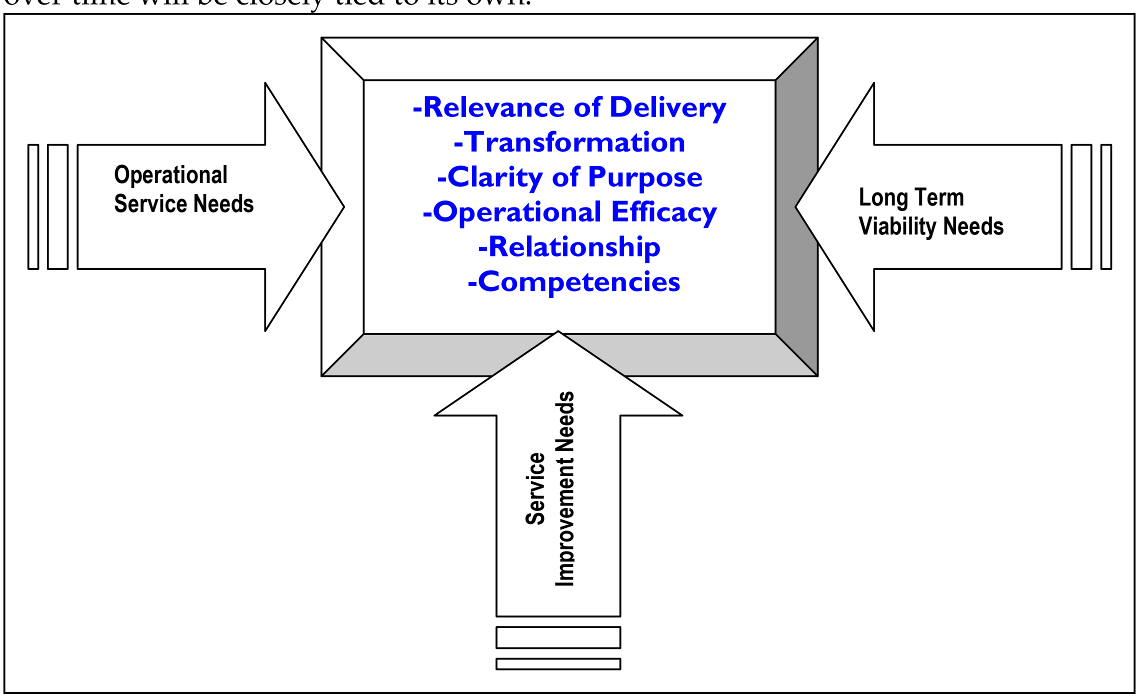

Figure 1: Client Needs and Service provider Competency (adapted from Feeny et al[4])

[4] Feeny et al., "Taking the Measure of Outsourcing Providers". M.I.T Sloan Management Review. Spring 2005.

Customer's evaluation of a service provider involves understanding the provider's infrastructure, values and methodology expertise. Understanding the five core service provider competencies generating deep customer focus allows service providers to build capacity and capability into their service offerings and business development programmes, to the customer's ultimate advantage.

Getting Your Service Value Proposition Right

Service takers face a significant challenge in evaluating and choosing their service providers. A service provider's offering may have many technical, economic, service or social benefits delivering value to customers, - but so do competitors offerings. Thus, the essential question is "How do these value elements compare with those of the next best alternative?" One way is to sort value elements into three types:

1. **Points of Parity:** are elements with essentially the same performance or functionality the same of those as the next best alternative?
2. **Points of Difference:** are elements that make the service providers offering either superior or inferior to those of the next best alternative?
3. **Points of Contention:** are elements which the service provider and its customers disagree how their performance or functionality compare with those of the next best alternative. This occurs when the service provider regards a value element as a point of difference in its favour, when the customer regards that element as a point of parity with the next best alternative: or adversely, the service provider regards a value element as a point of parity, while the customer regards it as a point of difference in favour of the next best alternative.

Service providers often use the term "value proposition" in several different ways. Most manager's simply list all the benefits they believe that their offering might deliver to target customers. The more benefits they can think of the better. Some managers do recognise that the customer has an alternative, but they often make the mistake of assuming favourable points of difference will also be valuable to the customer. Best practice service providers – those striving for deep customer focus – base their value proposition on the few elements that matter most to target customer. They demonstrate the value of their superior performances and communicate it in such a way that conveys a sophisticated understanding of the customer's business priorities.

Best practice service providers apply meaningful framework around the "deep customer focus" approach. This framework identifies that the customer managers who need to make procurement decisions, have major, ever increasing levels of responsibility and often pressed for time. They want to do business with service providers that fully grasp critical issues in their business and deliver a customer focussed value proposition that has clarity of purpose and is achievable.

Service providers can provide such a customer value proposition by working on their offerings to make sure they are superior on the few elements that matter most to target customers. They need to demonstrate and document the value of their superior performance and communicate it in a way that conveys a sophisticated understanding of the customer's business priorities.

Capturing and framing focus value propositions are very effective but they're not easy to craft. Service providers must undertake customer value research to gain the insights to construct them. The most effective customer value proposition is held together with there core defining traits:

1. **Substantiated Customer Value**

2. **Advanced demonstration of customer value**

3. **Document Customer Value**

Substantiated Customer Value goes beyond the typical statement "we can save your money!" to a clearly documented and demonstrated pitch. Using value work equations enable a service provider to show points of difference and points of contention relative to the next best alternative, so that customer's managers can easily grasp them and find them persuasive. A value word equation expressed in words and simple mathematical operations (for example, by (+) and (-)) so providing a means of how to assess the differences in functionality or performance between a service provider's offering and the next best alternative. Further, it leads to how to convert those differences into dollars.

For example, in 2000 the Wellington City Council (New Zealand) was faced with the replacement of an aging, soon to be redundant software system that processed street parking infringement notices. A tender was released to the marketplace calling for a "solution to the problem". With the exception of one service provider the response was a traditional 'like for like' I.T system replacement. The successful provider offered an end to end solution, combining an in-house system with an offering to employ the relevant Council staff, train them and make them part of a service delivery team that in turn provide a packaged service solution back to the Council. That service provided an outcome consisting of processed infringement tickets, a fine collection service with a guaranteed base collection amount. This solved the wider hassle of system ownership, operation and maintenance and a poor history of collecting the outstanding revenues owed to the city.

In their winning proposal, the service provider calculated the TCO incorporating both the labour costs and ICT costs. This allowed the service taker to cost their comparable TCO and calculate the cost saving, as well as wrap the performance management and measures into a performance based contract. Monetary payback for this solution was nine months and an annual ongoing saving in excess of NZD150k

Prospective customers must be convinced of the added value they can expect from using the service providers offerings instead of the next best alternative. Best practice service providers; **demonstrate customer value in advance** by using value case histories to demonstrate this. Value case histories document the added value that reference customers have actually received from their use of the service provider's market offering.

When necessary, best practice service providers go to extraordinary lengths to demonstrate the value of their offerings relating to the next best alternatives.

For example, in the manufacturing industry, control system specialists Honeywell and Johnson Control Systems are very good a comparing their individual service offerings against competitors. By utilising their control systems, they compare detailed manufacturing process cost savings, from reduced energy costs, improved equipment effectiveness, better plant reliability and availability. In addition to better plant efficiency they demonstrate production benefits through greater production throughput, quality and yield.

These demonstrated value studies collect the following metrics of the current state:

- *Materials = x$*
- *Labour = x$*
- *Equipment Operating Consumption = kWh*
- *Equipment Operating Cost = $*
- *Current throughput = x*
- *Current quality defects Six Sigma Rating = x∑*
- *Overall Equipment Effectiveness = %*
- *Yield = x*

Total Cost of Production/Unit = xx.

The service provider then calculates their total cost of production/unit based on the installation of their control system to demonstrate the savings difference and enhanced unit quality and yield.

Demonstrating superior value is necessary, but this is no longer enough for a firm to be considered a best practice company. Service providers must also document the cost savings and incremental profits (from additional revenue generated) as well as the additional (non financial) value added from their offerings. Thus, through a strong co-dependency service providers work with their customers to define how cost savings or incremental profits, or added value and enhanced service levels will be tracked and then after a suitable period of time, work with customer managers to document the results. They use value documenters to further refine their customer value models. Creating value case histories enable customer managers to get credit for the cost savings and incremental profits, produced and because customer managers know that the service provider is willing to return later to document the value received, enhance the creditability of the offerings value.

Summary

Service providers who make the effort to articulate and quantify the real benefits of their service offering prior to commencement, and then engage in deep customer focus through clear alignment of their core competencies with their customer's most pressing needs, are well rewarded with higher margins and longer, more profitable relationships.

With remarkable consistency, service providers whose customers rate them highly credit the benefits they get from their deep customer focus as a key source of their motivation to do their best. The closer business relationship helps both parties implement more effective practices through being co-dependant and reliant upon each other.

At every step of the service provider engagement process, from soliciting expressions of interest through the procurement tender phases, customers are seeking alignment of demonstrated capability and experience, and examples of tangible realistic benefits from prospective service providers. Successful service providers intuitively understand the demands of their customers and anticipate in advance, opportunities for continuously adding value to their customers bottom line. They will sacrifice short term gain for long term value benefits based on such a strong relationship that nothing short of catastrophic failure will see it terminated. That is because the linkages between the service provider and their customer, forged even before the commercial contract was formed are so tightly bound that they withstand the usual market variables, staff changes, and other pitfalls and, continuously deliver enhanced value through collaborative service delivery processes that drive TCO down, and value up.

There are no shortcuts in achieving success. The effort required to maintain deep customer focus is substantial, significant and often exhaustive, demanding clarity of purpose and a culture of urgency, but the rewards for both parties are always greater.

References

1. A. Wolfi, "The Service Economy in OECD Countries" working paper 2002/3, OECD Directorate for Science, Technology and Industry, February 11 2005; and office of the U.S Trade Representative, "U.S Submits Revised Services Offer to the W.T.O" press release (Washington D.C: Executive Office of the President, May 31,2005)
2. T. Levitt, "Production – Line Approach to Service". September-October 1972 Harvard Business Review
3. M. Abernethy, "Par for the source", The Bulletin (Australian Business Weekly) May 8 2001. Pg 42
4. Feeny et al., "Taking the Measure of Outsourcing Providers". M.I.T Sloan Management Review. Spring 2005.