

Chapter 1

Understanding Service Management

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A service can be something as simple as preparing and delivering a meal to a table in a restaurant or as complex as managing the components of a data center or the operations of a factory. We're entering an era in which everything is a service.

A *service* is a way of delivering value to a customer by facilitating the expected outcome. That definition sounds simple enough, but it can be rather complicated when you look deeper. Suppose that you're hungry, and you want to get something to eat at a restaurant. You have some decisions to make. How quickly do you want or need a meal? How much time do you have? How much money do you want to spend? Are there types of food that you prefer? We make these types of decisions every minute of the day. So if you're hungry, have 20 minutes and a limited amount of money, and want something familiar to eat, you might go to a fast-food restaurant, and your expectations probably will be met. In fact, you probably didn't notice or even pay attention to any of the inner workings of the fast-food service provider. If the customer can find, order, receive, and be satisfied with the service — without incident — good service management is in place.

But what if something weird happened? You walk into that fast-food restaurant, expecting to get the sandwich you always order quickly, but instead, a hostess greets you and informs you that the wait for a table will be 20 minutes. Lovely music is playing, and every table has a white tablecloth.

Naturally, you're confused. You start thinking about the inner workings of service management in that restaurant. What has gone wrong? Is someone not doing his job? Is some information about customer expectations missing? Is someone changing the expected outcomes without informing customers? You might even start trying to solve the problem by asking probing questions. In your confusion, you walk out of the restaurant and find somewhere else to get a sandwich.

Why are we telling you this crazy story? When you're thinking about *service management* (monitoring and optimizing a service to ensure that it meets the critical outcomes the customer values and stakeholders want to provide), many dimensions and aspects may not be apparent at the outset.

In this chapter, we give you a glimpse into the new world of service management. Clearly, effective service management requires an alignment of the overall business goals and objectives. This type of alignment isn't a one-time task: An iterative cycle is involved, not only on a strategy level, but also within each stage of service management. Creating a valuable customer experience requires a lot of behind-the-scenes work that the customer never sees unless something goes wrong. As we show in the examples in this chapter, you can't ignore one element of the overall service management process without affecting the way that the entire system works.

Knowing That Everything Is a Service

In an increasingly interconnected business world, everything is becoming a service. In fact, the very definition of *service* has changed. In the old days, when we talked about a service, we meant labor provided by the traditional services economy: restaurants, hotels, health care, banks, retail stores, and education. The services sector of the economy is filled with jobs for people who provide services, such as a teacher who educates your children, a nurse who cares for you in the hospital, or a doorman who opens the door for you at a hotel. Jobs in the shrinking industrial sector of the economy include operating machinery or computers as part of the process of producing a product, such as securing an engine in a new automobile or welding components to make a bridge. Many people in the industrial sector continue to provide physical labor as part of the production process, but this process is increasingly augmented and transformed by technology. Now, as a result of the influx of technology, the manufacturing process has been transformed, and we need to talk about the manufactured products as services.

How is this possible? Well, think about manufactured products. At one time, manufacturing a product was straightforward. A manufacturer would decide

the most efficient way to create a product and continue to improve on that process until each new product was created in the least amount of time with the best results. In fact, this was precisely what Henry Ford did when he revolutionized the car industry in the early part of the 20th century. As long as the market and the technology remained the same, tweaking processes to gain efficiencies was remarkably reliable.

But technology has changed dramatically over the past decade, and it has fundamentally changed the way we can build products. Technology can become the essence of both cost reduction and strategic differentiation between winners and losers. As building new, innovative products and bringing them to market in novel ways has become easier, the nature of creating products and managing services is changing.

Looking at How the Digital World Has Turned Everything Upside Down

Most manufacturers have replaced the traditional assembly line with a computer-driven process that focuses as much on capabilities and innovation as on efficiency. But this transformation has gone far beyond the manufacturing plant, extending to the way that products function after they leave the manufacturer. Today, products themselves have evolved to the point at which they are actually based on digital services.

Many types of manufactured products have been transformed into digitally based services. Some examples are medical devices, bridges, air-traffic-control systems, digital cameras, and even toasters. In the old days, all these products were mechanical. A typical toaster, for example, had a mechanical timing mechanism that popped up your toast based on how you tuned the dial. If you wanted very dark toast, you set the dial to dark, which set the toaster's timer for 75.4 seconds or so. You, the consumer, decided how much time was needed to make your toast. From a service management perspective, the service provider (toaster) and the customer (you) collaborated to provide the value that you wanted. The service provider made an asset that you owned (bread) into something that was more valuable to you (toast). Today, a toaster may have sensors that detect that you're toasting a large bagel, for example; therefore, it adjusts the toasting time to that type of bread. The new toaster requires additional understanding on the part of the customer to get the full value from the service relationship.

Take this idea to the next level. X-ray machines have evolved from devices that put images on film into digital imaging machines that transform images

into huge volumes of digital data — and that example is just the tip of the iceberg. Products today are designed with complex sensors, scanners, and wireless systems based on radio-frequency identification (RFID); therefore, a vast array of manufactured goods is actually a complex array of digital services that need to be managed, monitored, optimized, and transformed based on the market, as well as on regulatory and business demands. We are indeed entering a new world in which everything has become a service. For many organizations, the implications of managing in a service-based world are dramatic.

Implementing Service Management

What does “everything is a service” mean for how you implement service management? In brief, you need to do a lot more management of the services representing your business if they’re going to work efficiently.

We start with an example from the real world that everyone is familiar with: the automated teller machine (ATM). If you need to deposit money or get cash quickly, you use an ATM. To the casual observer, this idea may seem simple. (In fact, in the early days of the evolution of the ATM, its innovation was to help solve the process bottleneck caused by too many customers standing in line for too few tellers.) Behind the scenes, however, an ATM involves a complex business process.

The world of service management has two sides: the customer experience and the behind-the-scenes services that support the customer. True success in service management means that customers’ expectations are met or exceeded in a predictable way. The behind-the-scenes activity is a complex business process, however. Whereas the service requires active collaboration between you (the customer) and the ATM (the service provider), the customer isn’t required to understand the complexities of service management that occur behind the scenes. The customer must perform activities according to agreed-to rules and terms, and the provider must perform activities according to the same set of rules and terms, but the customer isn’t required to understand the complexities of the entire service management system that makes everything work.

Start with the customer view of the service. You walk up to the machine, insert your bank card, input your personal identification number (PIN), and tell the system what type of transaction you want to make (such as “I need \$20 from my checking account”). An automated system reads your account information and matches it against your PIN; then it checks to make sure

that you have enough cash in your account. Within a few seconds (assuming that your PIN is right and you do have the money), cash appears in the tray. You get a printed receipt verifying that your balance has been debited \$20. Then you go about your business, never really thinking about what happened behind the scenes.

In a competitive business world, banks recognize that it isn't enough to use the familiar ATM only as a cash-transaction machine. The ATM is part of a (fictional) financial corporation that we call ABC Financial, which offers products and services such as insurance, loans, and certificates of deposit (CDs). ABC Financial decides that it could increase revenue if it leverages its relationship with the ATM customer.

From a customer experience perspective, the marketing department adds some new screens to the ATM, displaying messages such as this: "We offer wonderful new CDs at incredible interest rates. Do you want to learn more?"

If the customer indicates that she is interested in the CD, ABC Financial has a series of screens set up that immediately display information or provide options to receive a brochure or set up an appointment with a sales rep.

Such components, both technical and business, transform the ATM from a simple box that allows customers to avoid the teller line to a sophisticated service engine.

Managing Services Effectively

Managing services is not a one-time process. It involves making sure that all the moving parts work together as a system. You need to establish checks and balances for customer goals, financial goals, and marketing goals. Therefore, service management must be understood based on many dimensions, ranging from customer experience metrics and business performance indicators to how individual components operate and interrelate. In Chapter 2, we show you the building blocks that you need to begin your journey toward service management.

Behind-the-scenes management activities

Behind the brightly colored ATM screen, a lot is going on. Here's a sample of the type of service management that happens in the background:

- ✔ Data center management ensures that the banking transactions are handled in a secure, predictable, and reliable manner.
- ✔ The financial institution manages the ATM machines. In addition, the institution may support ATMs owned by other financial institutions. The contact between banks and banking systems has to be managed on both business and operational levels.
- ✔ A service desk is designed to help customers and the branch location deal with problems with the ATM.
- ✔ A business process is designed based on the way the company interacts with customers on marketing, regulatory, and oversight issues.
- ✔ Management ensures that the performance indicators that support business objectives are met by new and existing product offerings.
- ✔ A system collects data generated by the various systems to make sure that the systems are operating in the correct manner, such as ensuring that each ATM has enough cash.
- ✔ A process is in place to handle incidents when they occur.

The company also has to answer a variety of questions such as these:

- ✔ What happens when an ATM fails? Who gets notified, and what happens next?
- ✔ How do we track where problems are happening?
- ✔ Do we know whether the network behind the ATM is the problem?
- ✔ Where do we keep track of the configuration of the parts that make up the ATM and the relationships among the parts, and how do we make changes in one part without interrupting the service?
- ✔ What level of service is required? Is the level of service something that we can dictate, or is it dictated by customer expectations?
- ✔ Can customer expectations be influenced? With a better understanding of customer expectations, could we build the service in such a way that customers prefer our service to other options, and what are those other options?

Because many systems have to interact to ensure that ABC's ATM business is performing well, ABC needs a way to optimize the performance of the business. Some regulations may apply in a particular state or region but not in another, for example. ABC needs to ask itself the following questions:

- ✔ Are we in compliance with both state and national rules?
- ✔ Can we prove that we're in compliance?

In addition, the competitive market is changing. ABC needs to consider its approach to influencing customer behavior — how this year’s approach differs from last year’s, for example, and what factors influence customers’ buying and use behaviors.

Provider/customer collaboration



Service is a complex and dynamic collaboration between provider and customer. Therefore, companies continually need to optimize the interactions of all the components that make up the service to ensure that changing business objectives are met, and they need to improve both the customer interaction and relationship over time.

Clearly, many issues affect the way that the seemingly simple ATM affects a business on a regular basis. If all systems of checks and balances are in place, and all components are managed in an efficient and effective manner, life is good. As in every process and every business, however, small issues can have a major impact — which is where service management comes in.

Suppose that ABC Financial is pleased with its ATM network; the network is well managed and secure, so everyone is happy. One day, an ATM services manager comes up with an idea to improve efficiency and save money: A third party could take over ATM repairs, which could save ABC as much as \$100 million by replacing its in-house repair staff. ABC Financial learns a hard lesson, however. It doesn’t spend the time managing the effectiveness of the service provided by the third party; therefore, repair times are double what they had been. The repair processes may be efficient, but customers are unhappy, and they begin to call the support line in great numbers — and ABC Financial is forced to hire more call-center staff to address service issues.

A critical distinction exists between a management process and the service itself. In the ABC example, the company could establish a task force to try to find out why the level of customer satisfaction has dropped so rapidly, but as managers research the problem, customers begin to move to competing banks.

In the next couple of chapters, we walk through a holistic view of service management and show how all the parts relate to one another. This journey is a fun one, so we hope that you’ll jump onboard.

