

Abstract number: 025-0521

Service Complexity and the Perils of Productization

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POMS 23rd Annual Conference

Chicago, Illinois, U.S.A.

April 20 to April 23, 2011

Abstract –

Complexity in Services is an increasing phenomenon, and one that if left unchecked, can result in customer anxiety and employee uncertainty. Increasingly, this complexity is coming in the form of *productization*, or the proliferation of products offered by service organizations. The authors examine the connection between the organization's product portfolio and complexity in service provision.

Main -

Think about the last time you had *really* good service. The meal at a restaurant where the server noticed your son had finished his meal, and brought him another small serving of spaghetti, on the house. The hotel concierge that loaned you his tuxedo for the black tie event you flew into town for, but your suitcase was delayed by the airline. The clothing retailer that arranges for fittings at your office when your schedule is too tight to get to the store. Even the Starbucks barista who comps you your latte when he can tell you are not having a good morning.

You have experienced situations like these examples, and ‘war stories’ abound in management literature such as this Journal, books like *The Disney Way* (McGraw-Hill) and texts such as *Creating Service Breakthroughs* (Free Press). The stories, for the most part, are true, and encompass the elements of good service generally agreed upon by researchers and practitioners – The servers anticipate your needs, they solve problems, they are prompt and efficient, and generally exceed our expectations. Employees are well trained, and are empowered to manage your situation without handing you to someone else. They know you by name and even remember your last visit.

The service elite we think about when we discuss these examples are familiar to you as well. They are represented in the legends we hear about, and just as often appear in the upper echelons of survey rankings and studies on top service. Year-after-year, firms like JD Power and Associatesⁱ and BusinessWeekⁱⁱ examine the companies that impress their customers with top level service and help us understand what makes them great - Hoteliers like Four Seasons and Ritz-Carlton; Retailers such as Nordstrom and Publix; Insurers USAA and Amica. We’ve

compiled a summary of firms appearing in BusinessWeek’s Service Winners rankings in at least 3 of the last 4 years in Table 1.

Table 1: BusinessWeek Service Winners, 2007 - 2010

2007	2008	2009	2010
1 - USAA	1 - USAA	1 - Amazon.com	1 - LL Bean
2 - Four Seasons Hotels	2 - LL Bean	2 - USAA	2 - USAA
3 - Cadillac	4 - Lexus	4 - Lexus	3 - Apple
4 - Nordstrom	6 - Starbucks	5 - Ritz-Carlton	4 - Four Seasons Hotels
7 - Lexus	10 - Ace Hardware	6 - Publix	5 - Publix
9 - Enterprise Rent-a-Car	12 - The Ritz-Carlton	10 - Ace Hardware	6 - Nordstrom
10 - Starbucks	13 - Amica	12 - Four Seasons Hotels	7 - Lexus
11 - The Ritz-Carlton	14 - Enterprise	13 - Nordstrom	8 - Ritz-Carlton
12 - Amica Insurance	15 - Publix	14 - Cadillac	10 - Ace Hardware
13 - Southwest Airlines	16 - Nordstrom	15 - Amica	11 - Amazon.com
18 - Apple	17 - Southwest	16 - Enterprise	13 - Starbucks
19 - Publix Supermarkets	20 - Cadillac	20 - Apple	14 - Amica
22 - JW Marriott Hotels	21 - Apple	23 - True Value	18 - American Express
	23 - Amazon.com	24 - LL Bean	19 - Enterprise
	24 - JW Marriott Hotels	25 - JW Marriott	22 - True Value
	25 - True Value		24 - Southwest Airlines
13 Firms	16 Firms	15 Firms	16 Firms

Adapted from Businessweek.com for firms appearing at least 3 times over four years

We also see product companies on these reviews, firms who have recognized the need for exceptional service to help differentiate their business, and have made service a priority. This initiative is referred to as *Servitization*¹, and firms such as Lexus and Apple make the grade here as well, in the spirit of serving customers well to make the product experience that much better.

¹ Servitization was defined as early as 1988 by Vandermerwe & Rada, “Servitization of Business: Adding Value by Adding Services. For more on the concept of Servitization, see Chase and Garvin, “The Service Factory” (HBR 1989), Wise & Baumgartner, “Go Downstream: The new profit imperative in Manufacturing (HBR 2999), and Olivia & Kallenberg, “Managing the transition from Products to Services”, (IJSIM 2003).

What do these companies have in common, despite operating across a number of industries? Great service, of course, but also a simple and uncomplicated value proposition. Customers have a very clear idea what they get when walking in the door of one of these businesses.

Let's focus for a minute on an example of mediocre service, yet a situation we typically take for granted. Go into your local bank and ask the Customer Service Representative (CSR: the *Teller* in old bank-speak) about the features and benefits of a particular credit card or bank account. In most cases, they won't be able to answer your question directly, but will refer you to a Personal Banker or Customer Service Specialist of some sort. You will probably have to book an appointment and come back at a later date, and often the Specialist, when you meet, will refer to the bank website for information or support.

Why can't the CSR answer our questions? The challenge we are facing is one of complexity, and the impact of that complexity on customer service. The proliferation of products in many service-based organizations is preventing them from being able to really stay true to who they are, and that is a service company.

Problem number 1ⁱⁱⁱ- Banks today simply have too many products and services for front-line staff to be aware of and understand, let alone *master* to the point of properly explaining the various options to a customer.

Problem number 2 - Bank Tellers are a blend of part-time and full-time employees, and turnover ranges between 20 and 50%^{iv}. Think about that – in the row of 5 Customer Service

Reps at your local bank, at least a couple have likely just emerged from training in the last several months.

And **Problem number 3** – through the Internet, referrals, and discussions with friends, family and peers, customers likely know more than the banks do about their products and services. Put all this together and no wonder banks struggle for solid customer service ratings. The deck is stacked against them by their own design!

We call this product bias in a service organization *productization*. While several definitions exist for productization, they generally refer to the act of bringing an idea or concept to a marketable product^v. We offer an alternative definition, built off the trend towards servitization in product companies.

Productization is the proliferation of products offered by service-based organizations.

In a restaurant, this may be an ever-expanding menu - for customers, the menu takes longer and longer to get through, and leads to more anxiety in making a dinner selection; for staff, productization makes it more difficult to remember the features of each plate, including dietary issues, wine pairings, and even which menu items the kitchen does well. In your local bank branch, we are talking about the dozens of different credit cards, bank accounts, lending and investment products.

We did some quick research on the Canadian ‘Big Bank’ websites (see Table 2), and followed with a scan of the largest US Banks (see Table 3). Based on what we could glean from the

Internet², Royal Bank, for example has 19 different credit cards. Scotiabank has 9. Gold / Platinum, Value, No-Fee, Low Interest, Dividend (cash back), Student, etc., before we even think about some of the affinity cards that are out there, like the card offered in conjunction with your Alma Mater. Bank accounts? BMO wins this one by a field goal, 14-11.

Table 2: Bank Credit Cards and Accounts, Canadian Banks

Bank	Number of Credit Cards ³	Number of Accounts
Bank of Montreal (BMO)	11	14
Canadian Imperial Bank of Commerce	16	10
Royal Bank	19	10
ScotiaBank	9	11
Toronto Dominion Bank	15	11

Table 3: Credit Cards at Major US Banks

Bank	Number of Credit Cards
Bank of America	27
CitiBank	26
Wells Fargo	7
US Bancorp	29

The US Banks we looked at were even more extreme. Credit to Wells Fargo in this example, with a simple summary of their 7 cards that most Customer Service Representatives and

² No easy task either. You can't really type "How many credit cards does BMO offer?" into their search engine. It's a matter of sorting through the menus on the website and trying to make sure we haven't counted the cards more than once. Any error in this area is the responsibility of the authors.

³ Number of cards does not include affinity or corporate cards.

customers alike would be able to understand relatively quickly. But 29 cards at US Bancorp – really?

Some might suggest that the problem is related to a lack of training for front-line staff. Possibly, but it runs deeper. Training is related to turn over, and higher turnover can result from working in stressful, challenging environments with no support or solution in site for employees. CVS Pharmacy went through a significant initiative in 2002 to simplify their prescription filling and make the process very robust and predictable for customers. That initiative led to significant improvements in customer service scores, less waiting and, consequently, a better overall environment. Internally, CVS also witnessed less staff turnover^{vi}. Happier customers and an improved process made CVS a better place to work.

If complexity is the issue, where does it come from? For starters, take a look around your house. Like the rest of us, you're probably a pack rat. We never throw anything away. It happens in companies too, and these legacy products or services are very difficult to wind down. We are deathly afraid of alienating the 3 percent of our customers who still use them. What if they are upset and go to the competition? Gasp! Worse yet, some of the obscure content on our menu is there due to a lack of robustness in our innovation process. We liked an idea, rushed it through, and now the 1.0 version is enjoying marginal adoption. Most 1.0 ideas don't really work, but we launch them anyway.

As well, our information technology systems are equipped with such mammoth storage potential that we keep every piece of data we've even thought of over the last 15 years. And it's cheap. What if someone offered to turn your two-car garage into an eight-car garage for almost no

money? How much stuff could you store then? It starts to sound like a George Carlin nightmare.

Innovation gone astray. Are we a product or a service organization? Does productization make our organization more product-focused than service? If that is our intent, so be it. A certain amount of product focus by a service company is certainly reasonable. Westin Hotels did it with their Heavenly Beds and Baths, enhancing the guest experience in their suites to great success. Very soon, however, competitors such as Starwood and Marriott began offering improved beds and baths as well. Competing on products in a service environment is expensive and difficult to sustain.

Too many product offerings lead to complexity and significant service issues in customer facing environments.

- Training issues for employees who need to understand and be able to ‘talk’ the products
- Bad decision risk and anxiety for customers who need to choose among the myriad of product offerings, often having to lock into a long-term ‘service’ agreement
- Dilution of resources in Marketing, IT, Finance and Operations as we manage these products
- Dilution of our Vision and Brand – What do we really want to be *known* for - Great service, or a variety of products?

So, we’re too complex. How do we fix it, and then how do we prevent it from happening again?

The answer gets down to understanding what our customers really want. This is the first step, and it really is the toughest. What does our customer value, and what can we get rid of? If front-line employees in a bank don't understand all the credit cards we offer, maybe we have too many? Perhaps the customers don't really need that many?

The Rules of Productization

We suggest the following guidelines when considering productization in a service environment:

1. 'Product' Satisfaction in a Service needs to be subordinate to good service.
2. The Product's capability and reputation should complement the service delivery and customer perception of the service.

Staying with our bank example and credit cards, let's say we have a card that really is different and offers measurable benefit to our clients. Customers from other banks begin switching to our bank for that card, or do they? The two problems with that premise are, one, that customers using our cards don't necessarily need to bank with us, and two, it would be dead simple for the other banks to launch a competing card.

Turn it around, and assume our bank is the benchmark for service in the financial industry. Our customers talk about the time we take with them to personalize an encounter, or the efficiency with which a mortgage application was approved. They enjoy the layout and appeal of our branch designs, including our extended operating hours. Our websites are clear to understand and easy to use, including on-line banking and applications. We are engaged in our community, sponsoring minor hockey teams and fundraising for United Way. Parents bring their children to bank with us, and we are honoured to serve dozens of three or even four-generation families.

In this environment, the products we offer support our service. Our low interest card is great for the family starting out, and evolves into a rewards or prestige card as the family matures. Junior is leaving for college? The student card is perfect for him. Mom is a C-Level executive with significant travel responsibilities; she needs a card with perks and a large credit limit. But, what if it was all the same card?

How many products should a service firm compete on? What is the right number? The authors suggest the appropriate number may be far fewer than most of us would think.

How many cards should a bank offer?^{vii} Let's get really radical here and start with one. Just one. Call it a Smart Card, and it works for everyone. Your credit limit is based on your history and ability to pay. The colour of the card (standard, gold and platinum) is based on your credit limit. Your annual fee and interest rate are based on the colour of your card. Any cash back, rewards, etc. are based on your spending pattern. It's all the same card – what happens with it depends on you individually, not the perceived needs of your segment as imagined by the bank. It is targeted at you and you only. How much better would the Customer Service Representatives know the product? How much could we save on training, market research, brochures and leaflets? How much simpler could our website be? Again, the banks gasp. How will we differentiate ourselves? How about on good old-fashioned service! Offer fewer products, but know them inside-out. Treat customers with dignity, respect, recognition, speed and efficiency – the last two are virtually impossible in a world of 9 credit cards and 11 accounts. When we simplify, we reduce complexity. Employees are consequently more knowledgeable. Staff and Customer anxiety drops as people understand the system better. The bank will have

less dilution of resources and will be better able to mobilize employees around its core goal: offering good service.

Rooted in all of this discussion is the concept of Lean, and Lean is about Value, or what the customer really wants. It may sound like we are picking on the banks, but we aren't really. This is an exercise for all of us. How much anxiety and confusion are we creating for our customers with the myriad of products and services we offer? Think about the menu-board at Starbucks. Even something as simple as renting a movie at Blockbuster or buying a coffee-like beverage involves bad decision risk. What if I don't like this movie? I've wasted two hours and \$6. This non-fat caramel-flavoured Grande Latte was \$5 and, you know what, I don't really enjoy it (bring back the fat!). When customers look at our organizations, the bad decision risk is a hundred or a thousand times higher. In a bank, what does a customer really value? Most of us would say friendly, efficient service, knowledgeable staff and competitive products. Note 'competitive'; not *voluminous*, *prolific*, or *expansive*.

A Bain study^{viii} recently indicated that most top-level executives believe their businesses are too complex. The result of this complexity is increased costs and hampered growth as "employees struggle to make sense of their service portfolio." Each 'product' their organization offers requires training, support, space, marketing, and *work*, and increases the complexity for front-line staff. Their customers feel the same way. Behave like the firms in the BusinessWeek and J.D. Power rankings. Give us fewer choices, but really deliver on service and quality.

It's easier that way.

References -

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