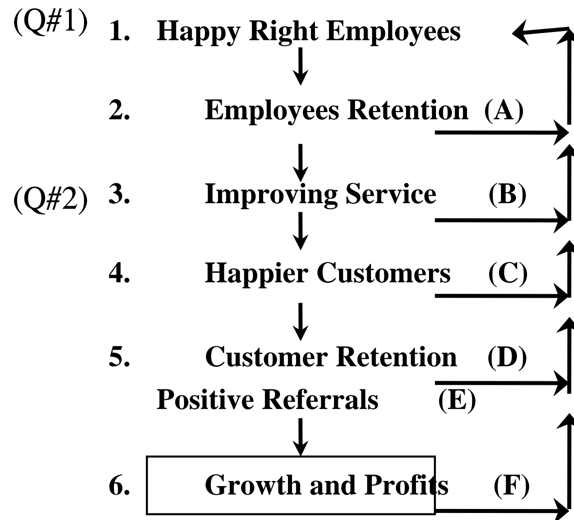
## SUCCEED WITH THE SERVICE ECONOMICS CHAIN

Traditional business thinking has always been that bigger was better. If a firm could just grow volume, then profits would follow due to economies of scale which would spread fixed costs and create barriers to entry for the competition. This assumption's effectiveness started deteriorating, however, in the US in the mid '70s when global supply of goods and services started to grow past a slowing, post-consumer demand. Big producers of standard goods and services aren't making today the customized, niche solutions that customers can now demand and get. For manufacturers, a global quality epidemic has made most brands of goods equally excellent, so service value-added has become the differentiator.

A set of assumptions which is working, though, is summarized by the service economics chain of events below:




What the diagram above is meant to convey is the following:

1. If we have **the right type of employees** in the right jobs, and if they are happy with the work environment that has consciously been created then....

2. They will **stay with the job and the firm** physically and psychologically longer than similar employees might be staying with the competition.

3. With longevity, **service improves** as employees keep learning more about the details and personalized aspects of the business and the customers' specific needs. Service mistakes decrease if for no other reason than trial-and-error at the customers' expense.

4. If service keeps improving, then **customers should become happier** at some point.

5. **Happier customers** in turn should **stay longer** with us; they should be inclined to **buy more** or all they can from us; and they may **tell their friends** to try us.

Article 3.7 continued

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6. Our firm should then **grow faster than the industry** average at a greater profitability rate for a number of reasons:

   a. As employees stay longer, personnel turnover costs should drop to increase profits.

   b. If we execute customer requests perfectly the first time, then we can reduce the overhead costs of- inspection, mistake curing, customer pacification and psychological maintenance for those who must bear the wrath of irate customers and salespeople.

   c. If customers are so pleased that they stay with us, then we won't have the additional marketing costs of finding replacement customers.

   d. If our service becomes distinctive in the customers' minds, then research studies suggest that we might eventually charge an average of 5 to 10% more than our mediocre competitions' value-added margin assuming that we can learn to sell better total value for a higher price.

   e. If customers buy more of their total potential from us, then our transactional, selling and service economies might improve.

   f. If customers give us positive word-of-mouth advertising, this will either reduce our cost of marketing as a percent of sales compared to the competition; or, we will grow faster than the competition for the same marketing expense investment.

   g. Finally there are the **virtuous cycle benefits within the feedback loops A through F in the diagram.** If employees stay longer, then team chemistry could continue to improve(A). If service is measurably improving, then all employees can take pride in what they are doing and won't be demotivated by irate customers that are rare(B). If customers are happy(C) and express it to employees, then each group gets positive reinforcement from the other. The longer we keep and the deeper we penetrate customers, the more the chemistry between our people and theirs can grow(D). And, when a new customer admits that they are switching to us because a competitor is poor and that they have heard from some of our customers that we are best(E), then employees should be proud to be on a winning team that will afford job security and greater chances for growth too(F).

The service economics chain suggests that unlike the old market-share days in which volume was the engine for the profit train, these days volume is the caboose. It comes as a by-product of retaining and penetrating existing accounts in a mature market place at a greater rate than the competition.

The service chain does raise two big questions noted in the diagram by “Q#1 and 2”.

Q#1 - how do we attract, pick, keep and motivate the best, right employees?; and,

Q#2 - is there some deliberate process for “improving service” more quickly than evolving it?

Detailed answers to these questions are out of the scope of this article, but a few observations might be helpful:

1. Attracting and keeping quality people will be the number one challenge for all firms for the foreseeable future. If 80% of corporate America is or will be looking for the 20% of the workforce who have the most conscientious, self-managing work-ethic, then it will be an enormous seller's market for these “achievers”. These people can expect and firms will have to provide: high wages upfront; enlightened servant leadership; a mission and values that motivate; a focused strategy and systems that produce profitable growth to feed future personnel expectations; and more. Without these people a firm can not have outstanding, “empowered” front-line service or unconditionally-guaranteed, on-time, error free service .

2. Achieving distinctive service must start with better niche marketing analysis. Too many firms sell too many heterogeneous customers with standard service for volume's sake. Instead of getting a little business from lots of customers, firms must get the dominant share of business from fewer, targeted customers. Standard service for “the market” will: underservice some who will switch to a competitor with better targeted offerings; and, over-service other customer sub-groups at a cost that will not be rewarded.

3. Because so many manufacturers have achieved remarkable quality of goods in the past ten years, perfect quality goods have become expected by customers. This is not the case within most service industries. If a firm can achieve and sell simple, unconditional service reliability such as Federal Express has done, then they will still excel. Perhaps within a few years, perfect service will be necessary just to stay even with the competition.

**CONCLUSIONS**

Firms must break monolithic customer portfolios into sub-groups of homogenous niche buyers and then define, achieve, sell and get rewarded for distinctive, niche-designed service on top of niche products. The results will be sales and profit growth rates superior to industry averages for reasons that are explained by the service economics chain. Pushing volume to “the market” in a standard service way isn't working in a world where the customer has too many supply choices and will quickly switch to whomever can provide the best, most tailored value.

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