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By Barbara A. Gutek and
Theresa Welsh

Aligning Customer Relationships, Market Strategies and Business Structures

THE BRAVE NEW SERVICE STRATEGY

THE SUMMARY IN BRIEF

At one time, all service transactions were conducted between customers who purchased goods from people they knew — vendors and craftspeople who offered unique, personalized products and services, and who received repeat business as a result of their quality and individualized approach. Over time, industrialization changed that paradigm. Mass production and uniformity of service became the overwhelming standard in many (if not most) service industries.

Yet companies today still claim to have “relationships” with customers; they mistake collecting data about customers with actually knowing them. This misconception actually works against businesses. Customers know they don’t have relationships with fast food vendors, airlines, catalog companies or other organizations — and quite frankly, they know they don’t need to. They require only the service they expect, delivered with reliability at a fair price.

While companies cannot hope to provide specialized, one-on-one service relationships, they can find middle ground through understanding their customers’ needs and creating links between their organizations, the individuals they employ, and the people they serve.

In this summary, Barbara Gutek and Theresa Welsh will help you understand the true nature of your company’s relationship with customers. Specifically, you will learn to differentiate between **relationship** businesses, in which the customer knows the service provider and interacts with the same one again and again, and **encounter** businesses, in which the customer may know the company but receives the service from whomever is available. You’ll learn how many companies are taking services that were once delivered through relationships and are offering them today as encounters. You’ll also learn how the best companies reject what the authors call “pseudo-relationships” in favor of “enhanced encounters.”

Concerned about how your organization approaches its customers? The start of a new engagement strategy is just a page away ...



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THE BRAVE NEW SERVICE STRATEGY

by Barbara A. Gutek and Theresa Welsh

— THE COMPLETE SUMMARY

Service Businesses — Successful But Merely Adequate

Customers are increasingly dissatisfied with service, a circumstance that is exacerbated by the efforts of corporations to cloak the fast and impersonal structure of their service with the designation of a relationship. This dichotomy between service relationships (in which customers see the same person each time and each party expects to continue to do business together) and encounters (in which providers and customers are interchangeable and the customer sees whichever provider is available) must be addressed in order for businesses to turn around their customers' flagging approval.

The ham-handed manner with which some companies address this issue belies a fundamental lack of understanding regarding the difference between encounters and relationships. Northwest Airlines is one of many companies that have tried to build good will by claiming they have a "relationship" with their customers. But airlines, like fast food restaurants, are strictly encounter businesses, built on processes designed to move many people through their system as quickly and efficiently as possible.

After a 1998 strike by the airline's pilots decimated customer good will, Northwest responded by sending letters to its customers promising all manner of extraordinary offers, due to the customers' "special relationship" with the airline. Management may have thought these offers built a "relationship" that would keep customers from bolting to other airlines.

What Northwest did, however, was confuse the connection between its customers and organization with a relationship. People have relationships with people. An organization — regardless of how much service "tailoring" it does using collected customer data — is not a person. Such attempts to marry the two incompatible elements might be termed "pseudo-relationships" — encounters made to look or feel more like a relationship.

A Historical Perspective

Why is this happening? The move from personal service relationships to impersonal service encounters has its roots in the Industrial Revolution, and has followed a number of major societal shifts in the interim.

First, as the agricultural society evolved into an industrial society, customers who once knew the providers

The Service Relationship

The decrease in service relationships is connected to the rise of the corporation as a business form and the proliferation of chain businesses. Chains offer customers something they want — low price and convenience. What they do not get is repeated interaction with the same person; in today's service economy, the organization substitutes for the person. Marketing builds an image for the company and its service to attract customers. For example:

- Have it Your Way at Burger King
- You're in Good Hands with Allstate
- You'll Never Have a Better Neighbor than Wal-Mart
- Did Somebody Say 'McDonald's'?

Their fresh approaches are part of the American success story, but they also provide a discontinuity in the way customers and providers interact — they don't call attention to the actual service provider. The friendly Wal-Mart greeter in the commercial is not the same person the customer will see when they go to Wal-Mart; the smiling kid behind the counter at Burger King won't be behind the counter when they buy lunch at Burger King.

Service relationships were built on repeated interactions with the same providers. Today's "fast food" service workers must be replaceable.

who made the goods by hand now only knew the persons selling the goods in neighborhood stores.

In the next stage, society moved from the industrial era to the post-industrial era and customers saw the rise of chain businesses. Service began a changeover from customers knowing the service person to getting service from strangers.

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Service Businesses — Successful but Merely Adequate

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Today, society is moving from a post-industrial economy to the Information Age; service is moving further away from face-to-face transactions to more of the tailored pseudo-relationships described above. ■

Encounters and Relationships — Service's Changing Structure

The many organizations seeking a “relationship” with their customers really provide encounters, but they are trying to make them look, taste and feel like relationships. There are a number of considerations that flow from the differences between the two, among them:

● **Relationship providers can only have as many customers as they can service and, in busy times, they must work harder.** As a result, sometimes their customers have to wait, do without the service, or go elsewhere. Encounter providers can simply add more interchangeable workers to match their staffing needs.

A self-employed accountant, restaurateur or local grocer can only accept as much business as he or she can handle at any given point in time. H&R Block, on the other hand, can employ tax preparers only during tax season, adding more people to their staffs as April 15 approaches. Fast food restaurants can add more workers to their schedules during the lunch rush; grocery stores can add more checkout clerks during rush times.

● **Relationship providers are generally more satisfied with their work and earn more money than encounter providers.**

Encounter business processes typically break work down into individual tasks, enabling interchangeable providers to be trained quickly for each job. Insurance companies, for example, hire different employees as policy providers and claims providers. By limiting the content of the job, these companies can employ people who earn less money than full-service agents, who handle both categories of services. The customer benefits from the savings as a result, but the provider must accept a job with less content and more repetition, one that offers little opportunity to develop new skills or contribute new ideas to their effort.

● **Encounter businesses require a lot of money to get started and must have good management to succeed.**

In encounter businesses, managers play four roles in the delivery of service:

- ✓ They design the service delivery system.
- ✓ They implement the delivery system.
- ✓ They enforce the delivery system.

✓ They alter the delivery system.

For the most part, managers' day-to-day time is spent a) making sure the service is delivered according to the company design and b) looking for ways to improve the process for greater efficiency and profit. They must also select people to perform the all-important work of interacting with customers.

● **Encounter businesses must have well-designed processes for providing service and customer feedback.**

In encounter businesses, work is structured by the organization so the customer can depend on the service and experience being uniform — the customer, in other words, will know what to expect. The consumer experience at McDonald's, for example, should be about the same in Chicago as it is in Atlanta. In fact, Ray Kroc, who built the chain into the worldwide success it is today, felt the worst thing a McDonald's franchise could do was deviate in any way from his formula for success.

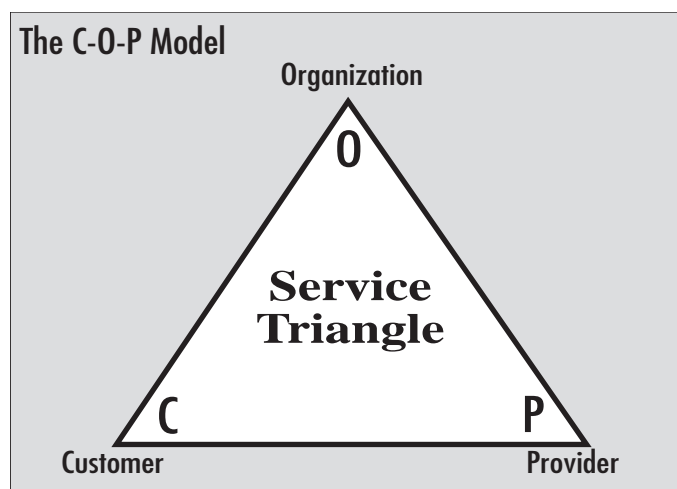
Feedback is important, too. Most encounter businesses use short surveys for customers to air their evaluations of the service they received. Dots, a low-cost women's clothing chain, keeps a stack of such surveys on the counter, next to the cash register. Entitled “Did We Deliver?” the survey goes back to company headquarters, not to the store where the customer got the card. ■

Managing Links Between Customers, Organizations and Providers

There are three basic elements of a service business:

1. **Organizations (O)** — the owners and managers who run the business, encompassing the brand image of the service products.

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Managing Links Between Customers, Organizations and Providers

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2. Providers (P) — the customer contact workers who deal with customers and actually provide the service (can also be a machine or automated process).

3. Customers (C) — everyone who purchases the service offered by the organization and dispensed by the providers.

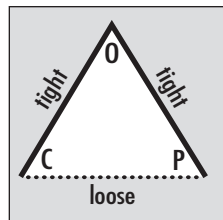
In encounters and relationships, there exist links (either loose or tight) between all three. In encounters, for example, there will always be a loose link between customers and providers (C-P); organizations compensate for this by providing the customer with convenience, reliability and low cost. A tight C-O link, on the other hand, means an organization has built customer loyalty.

Let's take a look at how these elements and links affect encounters and relationships.

Encounters

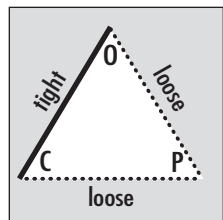
Tight C-O, Tight O-P, Loose C-P.

The customer knows and trusts the organization, which also keeps the loyalty of its employees. The organization must provide well-designed processes for interacting with the customer. A good example of this type of service encounter would be the interaction between a customer and a hotel clerk at a high-priced hotel chain.



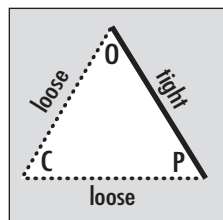
Tight C-O, Loose O-P, Loose C-P.

The organization offers good value to the customer and enjoys repeat business, but has a high rate of employee turnover. The organization must keep customer loyalty through competitive pricing and procedures that can be quickly taught to new employees. A good example of this model is a fast food restaurant.



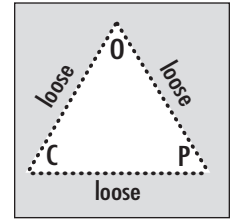
Loose C-O, Tight O-P, Loose C-P.

The company has done a good job of hiring and training employees, but has failed to build a strong image with customers. A good example of this would be a company that sells long-distance phone services, where customer are confused about many similar offers, but the providers believe their own firm has the best offer.



Loose C-O, Loose O-P, Loose C-P.

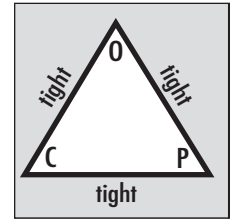
This business does little to gain repeat customers and has high employee turnover. Its service is quick and low-cost, most likely to transient customers — an airport news stand is a good example.



Relationships

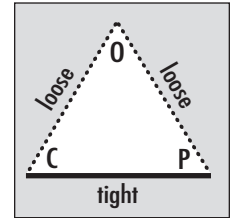
Tight C-O, Tight O-P, Tight C-P.

This unique type of high prestige relationship business has fulfilled, well-paid providers and a stable of blue chip customers who seek out their services. An example might be a high-priced law firm or consultancy.



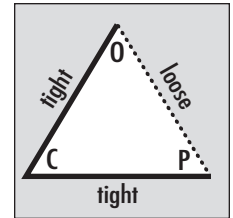
Loose C-O, Loose O-P, Tight C-P.

In this type of business, the organization serves only as a means of bringing together customers and providers. It's a good situation for providers, but not for the organization, which risks losing both customers and providers.



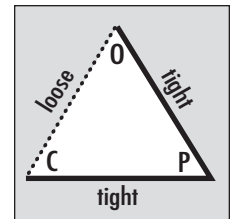
Tight C-O, Loose O-P, Tight C-P.

The customer has a tradition with the organization and deals with the same provider each time. The provider, however, may be a person whose skills were primarily learned on the job, or he may work in a partnership in which he is not a partner. If such a provider leaves for a better opportunity, the customer must decide whether to stay with the company or with the provider.



Loose C-O, Tight O-P, Tight C-P.

In this model, the provider is a "star" with unique skills whose clients don't care which organization he works for. One example may be a top partner in a professional firm where the provider is strongly identified with the organization. ■



Build Tight Customer-Organization Links

With the elements and connections in mind, how can you strengthen the Customer-Organization (C-O) links in *encounter* businesses? Here are some ideas:

Peer-to-peer help groups. Service businesses can be

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Building Tight Customer-Organization Links

(continued from page 4)

the conduit through which customers can talk with one another, replacing strong C-P links by linking customers with customers (a good example would be a company-sponsored chat room or online tech support bulletin board). While such linkages may pose a threat to managers, they reduce frustration level of customers who can't get the help they need right away. They also lessen the workload of help desk or other customer contact personnel.

On-site instruction. Home Depot offers on-site classes to educate customers in such do-it-yourself areas as plumbing, floor tiles and other areas in which customers could use some extra instruction. The company can offer this service because its work force includes many full-time skilled employees who earn above-average salaries. Thus, Home Depot forms tight C-O and O-P links, building an image for itself as a dependable place to a) buy products and b) get the help needed to use those products.

Building strong brands. Organizations can build trusting relationships with customers through the use of logos and celebrity spokespersons. For example, it's easier to feel you have a relationship with Mickey Mouse than with the Disney organization, or with Ronald McDonald rather than McDonald's. Companies can build an image of trustworthiness through friendly characters that represent the service philosophy of the organization.

What You Achieve

When you use strategies that build a tight C-O link in encounter businesses:

- you make the encounter more effective by giving the customer a set of expectations that are reliably fulfilled;
- you can gather and use information about the customer to deliver the products and services they seek in a faster and more convenient way; and
- you don't promise what you can't deliver — you are not building a "relationship" with customers. ■

How Encounter Businesses Are Replacing Relationships

The success of the McDonald's chain serves as an example of service provided through a corporation. Over time, entrepreneurs found they could make big profits by establishing national chains of businesses that delivered services as encounters. The intervention of organization

How Is an HMO like McDonald's?

In a recent study of young California doctors, one third of respondents said they would not go into medicine again if they had to do it all over. These doctors, who expected to serve their customers in relationships, have been forced to work in encounters. Indeed, the HMO method of working fits most of the characteristics of an encounter:

- Providers are considered functionally equivalent.
- Service is standardized based on the rules of an organization.
- All customers get the same amount of the provider's time.
- Feedback is handled between the customer and the organization, not the customer and provider.
- The provider is paid by the organization and gets the same pay, regardless of how many customers they see.
- The organization has a way to measure efficiency, namely counting the number of patients seen and tracking referrals.

in the customer-provider interaction has brought about a fundamental change in the way service is provided.

Indeed, encounter service is characterized by five essential components:

1. High volume of customers served
2. Standardization of procedures and services to customers, devised by managers
3. Efficiency of delivery
4. Limited, defined set of tasks performed by the provider, usually for low pay
5. Potentially high profits for owners

Turning Relationships into Encounters

Encounter businesses thrive where relationship businesses cannot meet the needs of many customers for fast, affordable service. In other words, these businesses take services that were once delivered through relationships and offer them as encounters. There are many examples of this, among them the following:

- Lenscrafters and other chain eyewear business have taken business from independent optometrists who presumably gave more personal service.
- Stockbrokers, who offer personalized financial advice in addition to their service of buying and selling stocks, are, in great numbers, being replaced

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How Encounter Businesses Are Replacing Relationships

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by Internet online trading services, which provide investors with the ability to research stocks themselves and make quick transactions without calling a stockbroker.

- Personal massage therapists — who often charge more for their custom massages — are being replaced by chains like the Massage Bar, which delivers a fast, relaxing massage and is located in convenient locations such as airports.
- Locally owned and operated dry cleaners are facing marketplace challenges from chains like Zoots — dry cleaners that minimize personal contact, but let customers drop off and pick up clothes any time and check a Web site to see if their dry cleaning is ready.

The Medical Care Example

The massive changes in the delivery of health care are striking because they have reversed the typical models for service, turning what had always been a relationship into an encounter. Medical service used to be performed by doctors (providers) on patients (customers) in private practice; insurance companies (the organization) paid bills for individual customers, but did not limit member's choices quite as much as they do now. Thus, the model for the relationship was Loose C-O, Loose O-P, Tight C-P.

These days, doctors have little access to customers except through organizations; indeed, if most patients take part in managed care insurance, they must get their doctor through the organization. Although many managed care organizations tell members they can choose their own doctor, the link between customer and provider is still loose, for the following reasons:

- Customers might change jobs and have to change health plans, which means getting a new doctor.
- The doctor they select might leave the HMO and be unable to take customers with them, since those customers are bound to the HMO.
- The customer's employer can switch health plans, which likely means getting a different doctor.
- People are aware that the doctor they see is limited by the HMO in what treatments he can provide and in using his judgment about referrals for specialty services. These are controlled by the HMO.

The model for such a relationship would be Tight C-O, Tight O-P, Loose C-P, because both the patient and doctor are bound to the HMO by contract and the HMO, as the organization, ultimately determines the behavior of both. ■

Encounters with Machines

Automating the service process is a logical outcome of the encounter format. Technology provides the means to do both mechanical functions that simulate human labor and more behind-the-scenes intellectual work that identifies likely customers and provides them with custom information or a custom product. There are some advantages to both provider companies and customers in automated service. Among them:

- ✓ It guarantees uniform service
- ✓ It provides constant services without shift changes or breaks
- ✓ It brings service to more people at lower cost
- ✓ It can create new service products through use of technology

Automated service also addresses boring jobs and worker shortages. Consider how the following uses of automation replace low-level, low-paying jobs:

- **Vending machines.** These “robot stores” have been serving up food and drink for decades, and have become more reliable over time, thanks to computer technology.

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Call Centers: Improvement Through Technology

Do tech support call centers provide good service? *The Wall Street Journal* asked fifteen “mystery shoppers” to place support calls to tech support lines at six major software firms. In one-fourth of the calls made, the support people either gave the wrong answer or said the problem could not be solved, even though the questions were taken from Frequently Asked Question (FAQ) lists on those company Web sites.

Although a company makes no money from a support call, answering customers' questions keeps those customers happy and more likely to purchase upgrades in the future. Companies can improve their call center service by:

- Examining how well the call center is performing and making adjustments.
- Moving support to the Web using FAQs or other tech-savvy means of providing a knowledge base and letting customers know they must use it.
- Sponsoring Web chat rooms or bulletin boards so users can help each other.
- Offering service in relationships, rather than encounters, by assigning each user a support staff member to call when help is needed.

Encounters with Machines

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Some machines can even communicate with a remote location over a network, relaying information to its distributor so that out-of-stock items are refilled quickly. For example, during the 1996 Olympic games FedEx used a new kind of drop box that continually monitored the status of its contents, letting the company know when it needed to be visited.

● **Smart cards.** Prepaid phone cards have been convenience store staples for several years, but companies are taking the automated purchase technology a step further. Some supermarkets have introduced automated check-out shopping, where customers paying with credit cards can scan all items themselves, slide their card through a machine, and leave the store without ever interacting with a clerk. According to critic Jeremy Rifkin, “The bottom line here is that the cheapest worker in the world will not be as cheap as the technology coming online to replace them.”

● **Kiosks.** Freestanding computer information systems are replacing receptionists in many buildings. Users touch a menu on a computer screen to get the information they want, from directions within the building to announcing their arrival to the person with whom they have an appointment. Stores use kiosks for everything from bridal registry help to telling customers what food goes with the wine they want to purchase, offering value-added service that functions entirely on its own. Levi-Strauss even uses in-store kiosks to allow customers to custom design jeans

with the precise Levi’s models, leg openings, colors, sizes, zippers or buttons they want.

Ambivalent Feelings

Organizations must, however, be aware of the ambivalent feelings many customers will have for automated services. They like dealing with people (in most cases) and hate dealing with inflexible, unfriendly machines — unless those machines provide some convenience or added value. The Internet and the services it provides to the public are changing the way many businesses operate, as well as the way many customers view those businesses. Internet services are, at their core, encounter services with the potential to offer lots of information and choices to the public. For example, the online music retailer CDNow offers customers the ability to make their own, custom-programmed CDs from a growing list of artists and songs. Such mass customization takes what was originally a relationship process (custom-made goods) and turns it into an encounter process, through automation. ■

Enhancing the Encounters

Encounter businesses that deliver what customers want — fast, convenient, low-cost service in a familiar and uniform process — are providing what may be termed “enhanced encounters.” This usually takes the form of a chain business, but it can apply to any service that concentrates on the strengths of encounters and doesn’t mistake serving customers in an encounter format with having a relationship.

Enhanced encounters are characterized by a loose C-P link and a tight C-O link, much as pseudo-relationships are (both use the same service models). The difference between the two, however, is in the way the enhanced encounter business tries to build the tight C-O link. This effort can take one of two courses.

First, the company can build a pseudo-relationship by trying to duplicate qualities of a relationship that cannot actually occur in encounters — for example, trying to create the familiarity of a relationship by having employees smile at customers or call them by their first name. This duplication is artificial; the strategy centers on having people *act* as if they had a real relationship.

This is not an effective way to get and keep customers. While there is certainly nothing wrong with providers who smile and are friendly to customers, these actions work only when they are part of the provider’s normal way of behaving. For businesses, hanging your whole strategy on the hope that your providers are friendly or forcing them to act friendly will not alone bring customers back.

Should You Automate?

Consider the following questions as you ponder whether to automate your business or service:

- To what extent can you automate your business? If you are in a service area that is changing from a relationship model to encounters, you should look at ways to automate.
- Should you use a Web site for information only, or can you make sales over the Internet? Don’t try to sell over the Web until you have an online infrastructure and processes that accommodate all the functions you provide in the “brick-and-mortar” world.
- Are you a relationship provider who can make use of an informational Web site and/or e-mail to keep in touch with customers? Any relationship business that must compete with automated encounter services should look for ways to service customers more efficiently, too.

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Enhancing the Encounters

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A better alternative is to build an enhanced encounter by working on the inherent strengths of encounters, such as convenient hours, low cost, etc., and making these advantages known to customers. The business can then deliver service in a unique environment and/or process known to be effective with its target customers, thus building brand loyalty.

Enhanced encounters can take one of two forms:

- The customer is familiar with the organization through previous interactions, advertising or the reputation of the business, or
- The organization keeps data on what its customers purchased and uses the data to make the service experience faster and more convenient and to offer reward programs to frequent customers. ■

The Five Qualities

Enhanced encounters place an emphasis on five essential qualities:

1. Trust. While trust develops naturally in relationships, encounter organizations must build trust based on repeated positive experiences with the customer.

2. Convenience. Enhanced encounter services should be open the maximum number of hours, with processes that minimize any wait time.

3. Customized, not “Personalized.” Encounter services are not personal. Relationship providers can take any type of customer and provide the specialized service that meet customer needs. Encounter businesses can’t and shouldn’t try. For example, Burger King will “hold the pickles, hold the lettuce,” but it will not cook a burger rare or serve it on a whole wheat bun, regardless of the personal desires of a customer.

4. Uniform but Unique. Successful encounter businesses establish a theme, often one with universal

Encounters versus Relationships: A Customer’s Perspective

When companies say they have a relationship with their customers, what they often mean is that they have loyal customers who provide them with repeat business, or who recommend their service to others. This situation may be exactly what a business wants, but it is not what a customer thinks of as a relationship. Customers are pleased because they get the service they expect, not because they think they have a relationship.

Tips on Turning Encounters Into Enhanced Encounters

To provide enhanced encounters, first learn about your customers by retaining basic information about them that helps you serve them more efficiently. Track what they buy and use that data in a responsible way to encourage sales and reward frequent customers.

Also, build your company’s image and make information about what you offer available to all customers. Finally, provide a high-quality service experience that is reliably the same with each customer visit.

appeal. Hard Rock Cafés’ implementation of the Hollywood theme is unlike any other restaurant chain.

5. Quality. The encounter structure doesn’t have to mean inferior quality. Chain businesses sometimes succeed because they offer something better than independent businesses. Starbucks sells patrons coffee — something they can purchase at any number of restaurants and snack bars. But Starbucks offers superb quality coffee, in many variations, in a pleasant setting — things other, lower-scale competitors cannot offer. ■

Interactions Within, Between And Outside Companies

Service interactions can happen between individuals, between an individual and a company, between a service unit inside a company and the rest of the company, and between two companies.

If you maintain service units inside a company:

- Be aware of whether you are providing service in relationships or encounters.
- If you are providing services in encounters, could you switch to relationships? Should you?
- Should you outsource the service? Will encounter services (which comprise the majority of outsourced services) meet your company’s needs?

If you provide company-to-company service:

- Is your arrangement with another company a vendor-customer arrangement or a partnering arrangement? Unlike vendoring contracts, which are pseudo-relationships, partnering arrangements build bonds at all levels of each organization.
- Does your arrangement encourage relationships between workers at the two companies? Do those relationships further the goals of the company?
- If you have a vendor agreement, do you have a method of overseeing that agreement, to make sure it continues meeting your needs? ■