

## Why is service costing more? (From 2001)

In July last year, "In Business" (radio 4) broadcast a programme with the title "Why is service costing more?" I would have liked to say this article was inspired by the programme but I found little of the content inspiring – it was merely 'more of the same' promoted by those who could see no further than their own interests. Rather, I felt compelled to write, because the programme exemplified an out-of-date debate and when it did glimpse a better way of tackling the service issue, this was dismissed rather than explored – a natural consequence of starting from the wrong point of view.

The programme featured the usual players: a customer service consultant, a strategy consultant, a futurist thinker, a representative from an institute for customer service and people who work in service organisations. No one questioned why customer service should warrant an institute; implicit was the assumption that customer service is an industry. Perhaps if this were questioned we would find that the concept of an institute for a function leads us in the wrong direction. An institute would, inevitably, respond to needs as perceived by its members and those members frame their problems from the wrong point of view – I shall return to this issue when discussing call centres.

But to start at the start: The presenting problem is that as companies spend more and more on service, the less customers are satisfied. There is a gap between expectation and delivery. The advent of call centre 'factories' and the frustrations of 'dial-tone' customer service are not, it seems, delivering the solutions.

What do companies spend money on? Call centre fabric – buildings and technology – and training their people. Call centres are not delivering against expectations. In many cases I know, the planned number of call centres or personnel in call centres has been exceeded. Managers are obliged to create greater capacity because the level of call demand always exceeds expectations and they know not why. Why do managers spend money on training people to give good service? Because they believe it's the people who make the difference. They are wrong.

The representative of the institute for customer service argued that if people have the authority and responsibility, then customers would get good service. If not the customer will be dissatisfied. Hence, the argument goes: we need to train people. Top management, he asserted, need to invest in training to develop employee attitude. He said the investment is significant in terms of cost and time and one should expect it to take three to four years to turn a company into a good service organisation. He asks managers to believe that 'change takes time'. Managers should, on the other hand, question the value of this investment. Why should it take so long to do something so simple? Are we doing the wrong thing?

The customer service consultant supported the training argument. No doubt he earns great sums training people in customer service attitudes and behaviours. When the result is less than expected, he encourages his clients to do the same

again. In truth, the problem is the system – no amount of training in customer service will alter the fact that the quality of service delivered to customers is due to the system – how the work is designed and managed. And that is the responsibility of management.

The strategy consultant advised managers to be careful about recruitment. It is vital, he argued, to find people who can take responsibility to solve customer problems. Such advice leads managers down the path of paying handsomely for selection tests. As the famous Dr Deming observed: anyone who has the slightest knowledge of the theory of variation would give up selection tests. What did he mean? Quite simply, the performance of people is governed much more by their system than by their individual attributes.

The strategy consultant suggested companies should choose their service segment and then design the service they aim to provide. In comparing British Airways and Easyjet, he argued that the two aim for 'different market segments'. This amazes me. As a customer of both, I cannot understand this; surely they have both gone for the same market – people who want to get somewhere. The service matters whichever airline I fly with, and that centres around the convenience and cost of flying with them; whether we fly and arrive on time; how people treat me in general and how the organisation behaves when something has gone wrong. And I have to say I have experience of both organisations when things have gone wrong.

Like the representative from the institute, the futurologist believed that change takes time and that service must be developed through investment. He rightly observed that overuse of the term 'customer' causes confusion. People who travel on railways are passengers, people who go to hospital are patients. Treating either group as customers leads managers away from their organisation's purpose.

When the programme turned to a local authority, an amazing thing occurred. The local authority had hit upon this remarkable idea: they would answer customers' questions at the point of transaction. If someone called up with a question, it would get answered or it would get sorted and the person who took the issue from the customer would call the customer back. Wow!

So how did the commentators respond to this? By suggesting this is dangerous! After all, ran the argument; this may raise customers' expectations. They missed the point. The point is very simple – the costs of service are all associated with getting it wrong. The high costs being experienced by call centres are to do with the fact that they handle a high number of calls that I would call 'failure demand' – calls caused by not doing something or not doing something right for the customer. This is the reason for organisations building more call centres or hiring more call centre staff – the real costs are caused by a failure to understand the nature of the work. Alarming, many companies that have out-sourced call centre work pay for their suppliers to handle 'failure demand'. To use a Japanese term, their suppliers are eating their 'muda' (waste), and they are paying for the privilege.

The real costs associated with interactive 'computer' service are the customers who drop out because they cannot find the thing they want and the customers who mis-route themselves ('silly people'), because they don't articulate their problem the way the company does.

My bet is that the local authority could teach these consultants a thing or two. The cost of service reduces only as you get it right. You cut out the major cost – waste. Simple, but beyond the grasp of most managers. For managers treat their service organisations as factories and they believe that 'the people are the problem'. From this point of view it appears to make sense to invest in 'people programmes' to 'get people to do more'. This is misguided. It is the way work is designed and managed that is the problem and that is the responsibility of management. Service costs are rising because of the way managers think and work. When managers change the way they think about the design and management of work, change is fast. Service improves and costs fall.

Service is costing more because managers design service organisations by 'prescription' – those in the hierarchy decide what the service agents should do for customers, establishing procedures, scripts and the like. The management prescription is enshrined in organisation practice with measures – managers measure the production of their service agents. The better way to design and manage service is to work outside-in rather than top-down. It is to design against demand. This idea was first developed in world class manufacturing and accounts for the incredible success of the Toyota Production System. In service organisations, where nothing is made, substantial improvements in performance can be rapid. It only requires managers to be prepared to change the way they think. Perhaps we shouldn't hold our breath.

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