CREATING CUSTOMER VALUE
Through Industrialized Intimacy

BY PETER KOLESAR, GARRETT VAN RYZIN AND WAYNE CUTLER

To really serve customers requires a deep understanding of their needs. It also requires customization, personalization and empathy.

IF YOU MANAGE a service company, your business is to do work for your customers — work that they value enough to come back for over and over again. Clearly, doing this work competently is a core requirement for any service business. But today simply meeting your customer's core service requirements qualifies you only to compete — it does not guarantee you will win his business or loyalty. Increasingly, what creates true and, equally importantly, perceived customer value is your ability to personalize service delivery and convey an aura of understanding and excellence to your customers.

Yet too many service enterprises fail to meet these objectives because they are mired in one of two extreme paradigms of service: the skilled servitude model or the service factory model. The former model emphasizes responsiveness, customization and empathy achieved through a phalanx of skilled and experienced service employees — like the butlers of yore. The latter model emphasizes efficiency, consistency and cost-effectiveness delivered through systems, standardization and control — like McDonald's and other fast-food establishments.

These two approaches to service delivery have deep historical roots. Both manufacturing and services have their origins in craft production — the village smith and cooper, the town barber and the household servant. More than a century ago, with the Industrial Revolution, manufacturers took great strides forward in productivity and quality by abandoning the craft production model in favor of mass production, standardization, division of labor and control, while service providers largely continued operating in a craft production mode. In the late 1960's, some service establishments began to move toward industrialization. Theodore Levitt, observing these trends, argued for bringing factory management concepts into the service industries — the "industrialization of services" as he

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called it. But to date, this agenda has had rather limited success.

Why has the service factory model failed to live up to its original promise? To answer this question, we start with a basic concept: service is *doing the work of your customer*. As a result, it requires a high level of contact, communication and coordination with your customers. To deliver truly excellent service, therefore, requires a level of *customer intimacy*. That is, a service provider needs to know individual customers being served in order to deliver service that, in addition to being efficient, is also personal and effective in fulfilling their total service requirements. Ignore these intimacy elements of your service work and you lose much of its potential value.

And this is where the service factory approach falls short; it risks treating customers as anonymous "widgets," rendering the service consistent and efficient but also impersonal and inflexible. Notwithstanding considerable effort and success at instilling a superficial and mechanical cheeriness in its employees, the effect, in many enterprises, is often cold.

But your customers demand the best of both approaches — high-quality, intimate service at low service-factory costs. Can you possibly satisfy them?

Increasingly, the answer today is yes. Service companies that are able to integrate information technology effectively into their delivery processes are creating high-quality personalized service with the scale efficiency of a service factory, and they are gaining a tremendous competitive advan-

tage in the process. The result is a service paradigm that we call *industrialized intimacy*. Industrialized intimacy derives from having systems for capturing and deploying customer knowledge together with carefully engineered delivery processes and new

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organizational designs all focused to provide intimate, high-value customer service at an industrial scale.

A NEW WAVE OF INDUSTRIALIZED SERVICES

Today, customers are experiencing industrialized intimacy more frequently across a wide array of services.

A customer calls L.L. Bean about a favorite jacket he purchased more than 10 years ago and has recently lost. In a matter of minutes, the sales agent identifies the old jacket, locates a replacement model in the current catalogue, suggests a matching size and color and orders the jacket. The replacement jacket arrives three days later.

A retiree obtains his prescriptions from Merck-Medco, a mail-order pharmacy. Medco maintains exten-

sive patient databases to monitor drug use and medical histories of each patient over time. The retiree has his drugs ordered directly by his doctor's office. He is sent automatic reminders to refill his prescriptions, and Medco monitors his therapies for protection against possibly harmful drug interactions. Pharmacists are available at a convenient (24-hour) phone center for questions or advice about medication side effects.

These customers are experiencing quite a different level of service from that offered by most other service providers. When the same L.L. Bean customer cannot locate a favorite dress shirt he bought at a local department store, the salesperson insists the store never even carried it in the first place. The retiree has been visiting his neighborhood pharmacy for 15 years, yet has rarely encountered someone who knows his name and must wait in line at the pharmacy for every prescription refill.

LEVITT'S VISION OF INDUSTRIALIZED SERVICE

In articulating the concept of industrialization of services, Mr. Levitt argued that the primary factor holding back service industries from achieving the same advances in productivity and quality seen in manufacturing was lack of "technocratic thinking" on the part of management. Only by substituting technology and systems for sheer human effort, Mr. Levitt reasoned, could service managers achieve the levels of quality and productivity found in manufacturing. As he saw it, "Discretion is the enemy of order, standardization

Source: U.S. Bureau of Labor Statistics

EXHIBIT I
LABOR PRODUCTIVITY STATISTICS

Source: Banking Journal Survey
of Customer Attitudes;
Booz-Allen & Hamilton analysis

EXHIBIT II
CUSTOMER SURVEY RESULTS

and quality."[1] And managers are often blinded by thinking of service as "servitude" and seeking solutions in the "performer of the task" rather than in the task (and system) itself.

As evidence for the type of gains obtainable by such an "industrialized service" approach, Mr. Levitt offered the example of McDonald's: "If machinery is to be viewed as a piece of equipment with the capability of producing a predictably standardized customer-satisfying output while minimizing the operating discretion of its attendant, that is what a McDonald's retail outlet is. It is a machine that produces, with the help of totally unskilled machine tenders, a highly polished product. Through painstaking attention to total design and facilities planning, everything is built integrally into the machine itself, into the technology of the system. The only choice available to the attendant is to operate it exactly as the designers intended."[2]
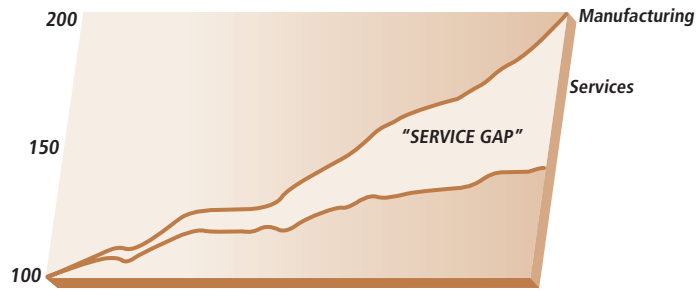
Few today dispute the essential logic behind Mr. Levitt's vision. Substitution of process for people, simplification, elimination of non-value-added work, automation — all are fundamental design principles for bringing manufacturing-like advances in productivity and quality to the service sector.

But how much of the promise of this vision has truly been realized? It would appear very little. Since 1970, service industries have continued to lag the manufacturing sector in productivity (Exhibit I) and quality (Exhibit II). Many explanations have been offered for these trends. They range from the inherent difficulty of measuring service outputs to the "cost disease" thesis of the economist William Baumol,[3] who argues that service delivery is constrained by the capacity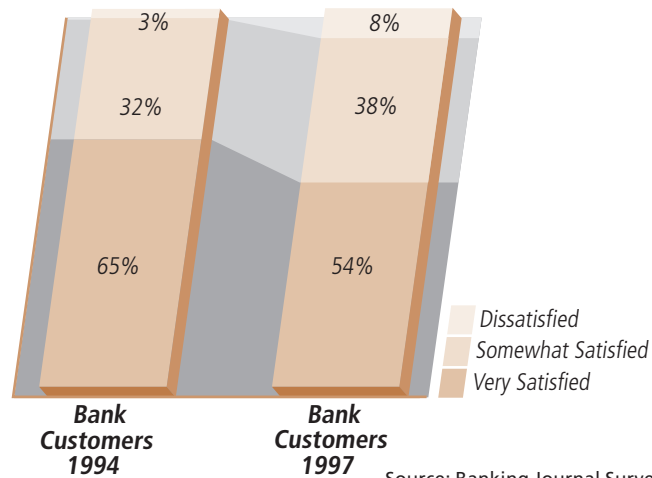 of individual human servers — a musician in a quartet for example. According to Dr. Baumol, four musicians are needed to produce one concert (that is, one unit of output), and there is little that technology can do to improve this fundamental ratio of labor to output.

Dr. Baumol's argument is worrisome: Maybe the thesis advocated by Mr. Levitt is just plain wrong. Perhaps

[1] Theodore Levitt, "Production-Line Approach to Services," Harvard Business Review, September-October 1972, pp. 41-52.

[2] Ibid.

[3] William Baumol, "Private Affluence, Public Squalor," C.V. Starr Center for Applied Economics Working Paper RR92-15 (1992), New York University, New York.

at some fundamental level services are simply not amenable to industrialization, with perhaps the limited exceptions of some highly standardized, very product-intensive, mundane services such as fast food. Could it be that the vast majority of service businesses are indeed more akin to Dr. Baumol's quartet than to Mr. Levitt's McDonald's? And that they will consistently elude attempts at industrialization?

We think not. The problem in making the industrialization-of-services concept stick derives from the very nature of service itself. Service involves doing the customer's work, and this in turn requires greater customer intimacy — which in turn requires a high level of communication, understanding, customization, personalization, convenience and empathy. Worse yet, these intimacy requirements are hardly static. With the faster pace of modern life, the deregulation of many service industries and the advent of globalization, both customer expectations and external competition are growing, increasing the pressure to deliver services that offer ever-increasing levels of quality and value.

PRODUCT TOOLS

Consider the world as viewed from the eyes of a manufacturer. Compared with a service establishment, the manufacturer's relationship with customers is simple. Manufactured goods represent a clean "division of labor." The manufacturer transforms tangible inputs into a tangible product. It then sells the resulting product to customers. Simple enough, indeed.

The reason the manufacturer-consumer relationship can be kept relatively simple is that producing a product is only an intermediate step in the ultimate journey of customer satisfaction. A product is only a tool — a tool that is used by consumers to do particular work they need done. Laundry soap is a tool used to keep clothes clean, but the customer does the work of cleaning; a car is a tool used for transportation, but the customer does the work of operating it.

The fact that manufacturers are producing tools that in turn are used by customers frees their businesses from a multitude of complexities. For one thing, they can separate themselves in terms of information, space and time

from the work of their customers. Tools can be produced in large centralized facilities that achieve economies of scale. They are then shipped to customer sites. Tools can be produced in advance and stockpiled for later use by customers. Manufacturers can also focus their efforts on delivering a small number of tangible tool features and leave it to customers to decide which subset of features they ultimately want to use and when they want to use them. They can then organize their operations to deliver these features at the lowest possible cost. The tangibility of the product characteristics also enables managers to measure product performance objectively and to control quality and productivity rigorously.

... AND SERVICE WORK

Service providers, in contrast, have a considerably more complex relationship with their customers. They actually do the work of the customer, rather than merely providing a tool to assist the customer in doing his or her own work. To relieve customers of the trouble of buying soap and cleaning their own shirts, cleaners will do the

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Illustrations by Seth

work of cleaning the shirt directly. For travelers reluctant to drive their cars to the airport, taxis will do the work of transporting instead.

This twist in the supplier-buyer relationship is subtle but significant. Consumers need their work done at varied times and locations and often in idiosyncratic ways. They must communicate their complex needs to the service provider and then provide information, feedback and often assistance to the provider during servicing. They have specific — even arbitrary — differences in the features and styles of service they value, and they develop lasting impressions of the work that is often done in their presence or on their person or premises. In short, a service provider must become intimately involved with the customer in doing his or her work. These factors make organizing an efficient delivery system problematic. Yet it is precisely the server's ability to understand the individual needs of the customer and to respond quickly, flexibly, knowledgeably and competently to those needs that creates real service value in the first place.

However, Mr. Levitt's point is valid; view services only as servitude and you doom yourself to a Middle-Ages existence of low-productivity, erratic-quality "craft" service delivery. However, there is an equally perilous "Type II" error: treat a service business like a widget factory and you can constrain customer intimacy to the point where the service's value is utterly destroyed in all but the most mundane services. In this sense, the pure industrialization-of-service approach is self-limiting, because it frequently results in reducing the scope of the service itself, rendering it cold, depersonalized and inflexible.

Successfully industrializing services, therefore, requires not throwing out the baby of customer intimacy with the bath water of delivery waste and inefficiency. In order to avoid this, service operations designs must be based on alternate, non-manufacturing-centric design principles — principles that recognize that the operations design must be firmly rooted in the intimacy requirements of the customer.

INDUSTRIALIZED INTIMACY: SEVEN KEY DESIGN PRINCIPLES

All right then, how does a firm "do" industrialized intimacy? We have identified seven design principles that are the building blocks of this new style of mass service. Implementing them holds the promise of lower cost, significantly higher value and expanded growth opportunities. But there are two additional and fundamental prerequisites required to really pull it off. First, management must have a clear vision of the industrialized intimacy concept itself and how it ties to the company's overall business strategy. Second, management must leverage the new technologies available for implementing each of the following seven key design principles. It is this combination of vision and technology that is required to deploy an industrialized intimacy strategy effectively.

Principle 1: Know your customer. Having detailed knowledge of the particular customer being served enhances the value and efficiency of service work.

In the past, providers depended on the front-line employee's personal knowledge of customers. But this strategy resulted in erratic and costly delivery and ultimately deprived an enterprise of the opportunity to build a long-term, enduring relationship. Today, using information technologies, customer knowledge can be engineered into service-delivery processes themselves so that intimate customer knowledge can be harnessed to:

➤ Customize the service — tailor service to the precise needs of each individual customer

➤ Foresee customer needs — initiate service based on a tracking of customer history and profiles

➤ Increase perceived value — personalize delivery, project an image of empathy and competence

➤ Improve service recovery — know immediately when service errors occur and respond with customized recovery efforts

➤ Eliminate work — simplify processes; reduce transaction effort because of the communication of data, instructions and need; eliminate repetition of work based on status or history

Consider hotel service, for example. A typical reservation dialogue goes something like this:

"Thank you for calling ABC Hotels. What are your travel plans? Thank you. Yes, we do have rooms available on those dates. Would you like to make a reservation? Excellent. First I need some information, please. Your name? … Address? … Phone?… Company? Would you like a standard or deluxe room? … King or two double beds? … Smoking or nonsmoking? … Do you

want a 6:00 P.M. hold? We have a breakfast package that includes ... would you be interested in taking it? How will you be paying for this? ...What is your credit card number? Expiration date? ..."

However, Ritz-Carlton has challenged this norm. With its COVIA/Encore information system, Ritz-Carlton is able to give each customer an electronic identity.[4] It then records detailed information about a customer's preferences and service history in a companywide database, which is available to front-line employees throughout their service contact with a customer. As a result, at Ritz-Carlton the dialogue of a reservation encounter is very different:

"Thank you for calling Ritz-Carlton. Do you have a Ritz-Carlton membership number? Thank you. Yes, it's good to hear from you again, Ms. Johnson. How can we help you today? When and where will you be traveling? Do you want your usual room profile: nonsmoking, deluxe room with king-size bed, breakfast package and 6:00 P.M. hold? Very good. We'll make sure that you have extra towels as usual as well. Will that be charged to your corporate or personal charge card?"

There is no rocket science here. Yet the entire tone of the encounter is improved, the delivery process is fast and the exchange is more personalized. Moreover, a significant amount of work is eliminated for both the provider and the customer. The result is enhanced customer value and reduced servicing time and costs.

Ritz-Carlton uses COVIA/Encore to support a range of value-enhancing, knowledge-based interactions with its customers. For example, based on knowing that Ms. Johnson has not been to this particular property before and that in the past she has had charges for tennis lessons, the dialogue could continue as follows:

"I see this is your first stay at our Atlanta property, Ms. Johnson. That property has a tennis club with beautiful clay courts. If you like, I can arrange court time and lessons for you."

Now, this is certainly much better than having her arrive and realize: "Oh #@&$#*&! Why didn't I bring my racket?" Not only is the customer's experience diminished by such oversights, but the hotel misses out on extra revenues — a lose-lose situation. And such intelligent servicing extends to a guest's entire stay at Ritz-Carlton: maids get a list of who is staying in each room on each night and what their individual preferences are, front-desk personnel know who is checking in and out each day, and so forth.

Here's the key: by viewing each service encounter as customer specific — a request from Ms. Johnson rather than a generic call to a call center — Ritz-Carlton has fundamentally changed its definition of service delivery. By combining technology with a credo to fulfill even the "unexpressed wishes and needs of our guests,"[5] the company delivers enhanced value and eliminates wasted effort.

Principle 2: Strive for once-and-done servicing. At its simplest, once-and-done servicing means eliminating (or at least minimizing) the number of handoffs required to complete a transaction (for example, making a reservation, changing an address, getting approval for an increased credit line). Ideally, this means completing the transaction or "service event" in real time while interacting with the customer, as the Ritz-Carlton representative did in the example above. Of course, this is not always possible or cost-effective. In cases where it is not, the representative should take ownership for insuring the transaction is completed and get back to the customer in a timely fashion.

Saks Fifth Avenue's product-locator service provides a good example of once-and-done service. If a customer requests a product that is out of stock in a given store — a sweater in a particular size, for example — a sales clerk using a terminal can track the merchandise down in other Saks stores throughout the country. If the customer wants to purchase the product, it is boxed and shipped out by U.P.S. the next day at a nominal charge to the customer.

For the customer, the product locator service addresses his or her need in one service encounter by eliminating the hassle of tracking down the same sweater at another store. This builds unprecedented reliability into Saks' service-delivery process and

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[4] "The Ritz-Carlton: Using Information Systems to Better Serve the Customers," Harvard Business School Case 9-395-064.

[5] Ritz-Carlton Credo, ©1986, The Ritz-Carlton Hotel Company.

promotes loyalty on the part of the customer. In effect, Saks takes ownership of the work of getting the right product for its customers and in the process provides them with a greater incentive to shop at Saks first.

Principle 3: Promote value-enhancing self-servicing. Product "tools" have one clear advantage over service work. They offer greater access and better control over the work being done. A tool is always available and can be directed by the user to perform multiple tasks. A washing machine, quite unlike the local cleaners, is available 24 hours a day and will accept a load of grimy car-wash rags on a Sunday afternoon. A car, unlike a taxi service, will transport someone out of town at a moment's notice and will wait for hours in a parking lot. Self-labor using tools buys convenience, flexibility and control, and this often provides more than enough value to offset the personal effort required of the customer.

There is a trade-off, then, between the work done *by* the customer and the work done *for* the customer in any service. This has always been the case in services. But there is a new twist today: Using information technology, a provider can engineer customer knowledge into self-service tools, greatly expanding their capabilities and hence the possibilities for leveraging self-service options.

The most alluring possibilities for self-servicing today lie with the Internet. For example, travel service providers like American Express have Web sites that allow customers to browse vacation packages, airline schedules and prices; make reservations, and then purchase tickets by entering a credit card number. These sites permit customers to save a travel profile containing their preferred airline, frequent flier information, preferred booking class, home location and so on. Financial-service companies are installing sites that let customers directly view and update their account data and execute routine transactions on-line (Fidelity's Web Xpress, for example). Realtors, such as Coldwell Banker, have sites that automatically notify home buyers via E-mail when properties matching their criteria are listed.

Such configurable Web sites allow transaction details or even the entire look and feel of the servicing tool to adapt to the needs and tastes of each customer. Similarly, adaptive Web sites have been created by major retailers (amazon.com), news and information services (MSNBC) and financial service providers (HomeShark). Fedex's InterNetShip software is another example of a highly successful self-service tool.

Beyond the Internet, other technologies are providing new possibilities for self-servicing. Gas pumps are now equipped with credit card readers; hotels have streamlined check-in and check-out using disposable magnetic programmable door keys and private cable TV networks; Amtrak and major airlines like Delta now provide self-service ticketing kiosks that reduce customer waiting times and eliminate direct labor in ticketing.

Such self-servicing technologies are transforming service providers from work doers into self-servicing facility providers, who must increasingly concern themselves with the features, quality and performance of their highly sophisticated self-servicing products. Thereby, they acquire some of the desirable characteristics of manufacturers. As product "manufacturers" they gain significant new operating leverage. They can concentrate improvement efforts on the tangible features and functionality of their self-servicing facilities — much as manufacturers of "hard" product tools can.

They are able to specify, measure and rigorously control the quality of these features and reduce the need to be directly involved in every single step of the customer's servicing.

Self-servicing also helps to free providers from the constraints of face-to-face servicing channels. Web sites are open 24 hours a day, seven days a week. There is no waiting on hold for a representative (though you might wait for a line connection). Direct labor is minimal and capacity, for all practical purposes, is unlimited. As a result, self-servicing distribution channels can offer opportunities to achieve unparalleled levels of convenience and flexibility for customers at minimal cost.

Principle 4: Provide one-stop shopping. Customers' needs often span the capabilities of several service providers. For example, consider a customer who wants to buy a home. Traditionally, this has involved securing a range of services from lawyers, bankers, real estate brokers and inspectors. Value is created, for both the customer and the service provider, if a provider can coordinate and simplify the total "service processes." The needs of the customer can then be met through a single provider, even if the provider is merely acting as an integrator of other branded services.

British Airways provides a good example. In addition to the normal services provided by an airline, British Airways provides Travel Clinics for full medical and immunization advice. In addition, passengers can secure hotel and car rental arrangements. On the day of departure, British Airways pas-

sengers can take advantage of British Airways Express Car Parking service. When a traveler drives to Heathrow Airport, a British Airways agent will take his car and park it; when the passenger returns, his car will be waiting. From pretravel planning to the travel itself, British Airways has identified other services that its customers require.

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The key to expanding the scope of your company's service offering in this way is, again, customer knowledge. Once a service provider develops the capability to capture and deploy the customer knowledge required to enhance their core offering, they often find themselves in a good position to do the work of integrating and coordinating with upstream and downstream partners as well. For example, the information British Airways records and monitors on a customer's itinerary for core air transportation service provides the basic building block for integrating other travel services.

Principle 5: Let customers design the product. Another key inti-

macy-enhancing design principle is to offer customers only the services they want — a menu of service features that they can choose from to meet their individual needs. At the same time, a provider must simultaneously price these features to insure acceptable margins. To date, few companies have been able to achieve this.

Curiously, it is often a lack of information management capabilities rather than a lack of process flexibility that prevents service providers from customizing delivery. Companies with adequate customer knowledge capabilities can break these information barriers down and open up new possibilities for customizing delivery. For example, Ritz-Carlton can tailor delivery of such amenities as a morning newspaper, room service preferences and mini-bar contents.

But variety and customization impose costs. Indeed, the varying demands and usage patterns engendered by such a flexible design can place tremendous burdens on a service delivery system that has significant fixed assets or otherwise inflexible resources. Offering flexibility usually translates into a sharp rise in the cost of delivery because of the tremendous increase in variability and the underutilization of assets. Constrained by information complexity, service providers in the past simply resigned themselves to living with such vagaries of customer usage — absorbing the resulting costs and asset-wasting consequences. But with careful customer tracking, massive databases and sophisticated fore-

casting and optimization technology, service providers today can use yield management techniques to provide an accurate measure of the true cost, including both direct operating cost and opportunity costs, of servicing each customer.

For example, credit card providers today structure their fees, interest rates and ancillary benefits to match the spending patterns and needs of individual users. A major Australian consumer bank invites customers to select the terms of their consumer loans and home mortgages and immediately responds with customized interest rates and fees. Mutual fund teleservicing representatives can be authorized to waive penalties and fees occasionally for critical high-volume customers. Ultimately, the key is to focus on the service elements that are important to the customer and then have the capabilities to price them appropriately and organize fulfillment effectively.

Principle 6: Engineer competency into service delivery. In the past, the primary means for insuring competency was through the skills and experience of front-line employees augmented by close management control and supervision. Companies focused on hiring educated staff for customer-facing positions, and then put them through rigorous training programs. But because of increasing product complexity, providers have found that this approach is becoming both ineffective and too costly. Moreover, it simply does not work in service industries where employee turnover is high. Service competence *must* be institution-

alized. In response, service providers have been defining service representatives' roles narrowly to deliver more specialized product knowledge and competency, but this often leads to a fragmented, complex and confusing service experience for customers.

Advances in technology are providing new means to achieve service competency. Extensive customer databases eliminate much of the rationale that lies behind narrowly defining service representatives' roles while at the same time reducing the need for extensive employee training. Armed with desktop information tools that provide not only a complete profile and history of the customer being serviced but also intelligence to support them through a broader array of encounters and products, service representatives can provide both competency and continuity in the service experience. The strategy, in short, is to build competency into the delivery *systems* and to rely less on the competency of front-line personnel.

For example, USAA, the insurance company, employs leading-edge technology in its call centers to provide both competency and personalization. USAA's representatives have at their finger tips a plethora of information, ranging from general information on products, services and policies, to specific information such as the location of the approved car repair shop nearest the customer's home, to personalized information such as when and why the customer last called. Using this information, the representative is able not only to respond

to all of the customer's inquiries but also to truly personalize the service experience.

Taken by itself, the advances in competency-enhancing technologies suggest that the customer-service work force of the future will be lower-skilled with less need for training. However, in many cases this conclusion is flawed. Why? A deeper analysis indicates that, when the increasing use of self-servicing tools (such as automated voice response) is taken into account, routine, often mundane, transactions are the primary candidates for migration to self-servicing channels. As a result, the remaining transactions are more complex and less routine, requiring a high degree of judgment and skill. The point, simply, is that you must carefully think through investments in competency-enhancing technologies and the resulting implications for employee skill levels. It is important to understand, several chess moves out, the overall impact on the flow of transactions.

Principle 7: Build long-term customer relationships. To a significant extent, the previous six principles are means to achieve the strategic goal expressed by Principle 7. This then is a focusing principle.

It is well known that retaining customers is vital in services. Repeat customers do not impose acquisition costs; they know your service system and are therefore cheaper to serve; and they are often willing to pay a premium for a familiar, reliable service. Indeed, as Frederick F. Reicheld and W. Earl Sasser state, "Companies can boost profits by almost 100 percent by

retaining just 5 percent more of their customers."[6]

An industrialized intimacy strategy reinforces this logic by creating an intimate, value-building relationship between you and your customer. What is remarkable, however, is that these relationships are not based on some fawning, obsessively sticky attentiveness on the part of front-line service personnel who personally know and love their customers. Indeed, most customers do not want feigned friendship from their providers. What they demand, simply, is competent, convenient, no-hassle delivery of only those services they value — all at a reasonable price.

Industrialization of the type we are proposing meets these needs through a very different type of relationship. The service, in effect, weaves itself into the very fibers of customers' work routines and lifestyles, becoming a familiar and inseparable part of the way they do their work. Consider, for example, the way that FedEx's software and service combination has become an indispensable procedure by which many small offices manage their package shipments. Customers learn the ins and outs of using the provider's self-servicing tool, and the tool configures itself to the preferences of the individual user. The provider's extensive database on the customer grows with each encounter, allowing for better alignment of service delivery to the specific needs of the customer. Yield management systems then kick in to provide repeat users with the best pricing, terms and availability.

In effect, the more the customer uses the service, the better the service gets. It is in this very practical sense that the service becomes intimate. Repeat customers are rewarded, and the increasing value being delivered cements a long-term relationship.

What is quite remarkable is the somewhat illusory nature of this relationship. To the customer, the provider appears consistently responsive. Service representatives handle transactions and inquiries as if they have been dealing with the customer for years. Expert systems suggest probing questions and generate insightful answers. Pricing and availability are tailored to individual usage. But — truth be told — no single person in the service organization has anything approaching a full understanding of any given customer. Rather, customer knowledge is embedded in the provider's various databases and in the configuration files of self-servicing tools, creating the illusion that someone is caring for each customer. A lot of people in the organization do care, of course. But it is not care at a personal level — it is customer care at a systematic, industrialized level.

THE RELATIVE IMPORTANCE OF INDUSTRIALIZED INTIMACY PRINCIPLES

The preceding section detailed the seven design principles that are critical to create competitively advantaged service strategies. However, like most principles, they provide guidance and thus should not be viewed as a strict set of mandatory design criteria. On the contrary, the key is for an organization to pick and choose carefully — to know which design principles are merely "qualifiers" and which are true "differentiators."

For example, while Merck-Medco has a solid understanding of its customers and process (Principles 1 and 6 are qualifiers), it first gained market

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[6] Frederick F. Reicheld and W. Earl Sasser, "Zero Defections: Quality Comes to Services," *Harvard Business Review*, September-October 1990.

leadership through scale economies of purchasing and low-cost dispensing operations, a classical service factory strategy. Now, however, it is moving to solidify its dominant position by providing once-and-done service (Principle 2) to its many varied customer groups. Consequently, Merck-Medco is using the once-and-done design criterion as a differentiator.

On the other hand, Federal Express has gained market leadership by focusing on designing its core operations to use self-service as much as possible (Principle 3). Of course, it is quite good at several of the other design principles such as knowing the customers (Principle 1), completing transactions in a once-and-done fashion (Principle 2) and providing flexible features and pricing (Principle 5).

Not only is it important to determine, over all, which design criteria are qualifiers versus differentiators, but this must be mapped against each of the target customer segments. For example, while providing self-service vehicles is normally more cost effective, some customer groups prefer to have human interactions. Not providing this capability or making it extremely difficult for the customer to access an actual human agent may result in attrition of very profitable customers.

Finally, companies need to evaluate the cost-for-value tradeoffs for each design criterion. Companies can spend an inordinate amount of money perfecting operations that may provide little incremental improvement on the cost effectiveness of their business. In fact, in extreme cases excessive infrastructure investments can actually make a company less competitive because prices have to be increased to offset higher operating costs.

A good example in today's marketplace is the amount of money being invested in technology for teleservicing (for example, graphic user interfaces, customer database management systems). While many of these investments are justified, it appears that companies are going to extremes to implement a "universal representative" — someone who can handle all questions about all products for all customer segments. On the surface, this appears consistent with Principle 2, once and done. However, frequently the last 5 percent of queries are so rare that it does not pay to develop the capability to handle them on the spot. The better alternative is to insure that all of the details are recorded and the teleservicing representative who took the call takes ownership for getting back to the person in a reasonable amount of time.

THE PERILS AND PROMISE OF THE NEW SERVICE FRONTIER

While there is indeed great promise in the industrialized intimacy vision, there are risks. Put customer knowledge and intimacy at the core of your operations design and you run a risk of compromising your customer's privacy or otherwise abusing your relationship. For example, it is vital that service encounters with your customers not be viewed as merely brazen cross-selling opportunities. Rather, they should be viewed as chances to better align service delivery to the unique needs of the individual customer. To do otherwise risks jeopardizing a profitable long-run relationship for the benefit of short-term gain. Many providers are similarly tempted to sell their carefully collected customer information to direct marketing firms.

Needless to say, customers today are quickly becoming aware of these potential "information hazards." As a result, a company that wants to build long-term, profitable relationships with customers will need to safeguard its customers' personal information. An explicit policy that your company will respect the privacy of your customers above all else is an important step toward reducing your customer's fears of possible abuse. For example, Home-Shark, an Internet mortgage broker, and AT&T Universal Card both have widely publicized privacy policies.

A service company's integrity in safeguarding its customers' personal information is fast becoming an important competitive factor for service providers today, much as a manufacturing company's integrity on worker health, product safety and environmental impact is now a cornerstone of modern corporate behavior.

Clearly, the industrialized intimacy challenge is a tall order for any company. But increasingly the capabilities we have described will be prerequisites for continued participation in the world service economy. More fundamentally, we believe that a decade from now those companies that have successfully implemented the industrialized intimacy vision will be profoundly changing their industries and our world for the better. **SB**

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