

CHAPTER 19

SERVICE PRODUCTIVITY

◇ Useful words and concepts

service productivity

businesses (2)

quest

productivity gains

seek

output

yielding

advanced economies

service sector

devote

designing

automated processes

executives

wealth

outcome

strategic decision variable

business (1)

technology

customer satisfaction

efficiency

optimal productivity level

likely

margins

Co.

Inc.

supermarket chains

upscale

retailer

incentive

labor

grocery

provision

concentrated

few

competitors

wages

automate

self-service

revenue

wage rates

counterpart

Ltd

factory

assembly line

robots

incidences

zoning restrictions

spectrum

high-wage societies

service employees

high-end restaurants

outsourcing

offshore call centers

evidence

offset

labor dollars

balance

enhancing

Instructions For Study

1. Turn to the **definitions** following the text *Service Productivity*. They refer to the specialist terms printed in **bold** type in the list of **Useful words and concepts**. Study them closely and pinpoint them in the text.
2. Use an **English** language dictionary to check the meanings (in context) of the other words in the list.
3. Do the exercises to improve your language skills.

Service Productivity

Many contemporary businesses are on a quest for productivity gains. They seek to maintain quality and quantity of output at ever-decreasing cost, yielding higher profitability. As advanced economies move more into the service sector, that means many managers devote a lot of attention to designing automated processes that reduce the need for people — typically their most expensive resource. Executives think about productivity as something to be maximized. After all, at a macroeconomic level, more productivity always means more profit and ultimately more wealth. But at a micro level, instead of seeing productivity as an outcome to be maximized, it is better for service companies to view productivity as a strategic decision variable that depends on the business and the technology used. A company needs to choose the right level of productivity, neither too high nor too low, to maximize its profitability.

The key to making decisions about productivity is considering two factors: (1) the state of the technology and (2) the relative importance of customer satisfaction. In particular, the importance of customer satisfaction is too often underestimated. When customer satisfaction is more important than efficiency, a service company's optimal productivity level should probably be comparatively lower. Intuitively, this makes sense: Satisfying the customer in a service business is all about anticipating needs, and the greater the number of people available to satisfy those requests, the more satisfied the customer is likely to be.

When should customer satisfaction be given more weight than efficiency? When margins are higher. The Kroger Co. and Whole Foods Market Inc. are both U.S.-based supermarket chains, but Whole Foods, a more upscale food retailer chain based in Austin, Texas, has an incentive to use more labor to serve grocery customers. In other words, the same factors that encourage the provision of better service quality also encourage a lower level of productivity.

When to emphasize service productivity

On the other hand, there are businesses where, in effect, "your call *is not* all that important to us." If the company's industry is highly concentrated (in other words, there are few competitors) and the customers have fewer alternatives, customer service tends to be less of a priority. Customer satisfaction may be less important, because customers will choose from among fewer competitors. In such a condition, a service company might reduce its labor (increase its productivity) and not worry about losing the customer. With less need to compete, productivity should be higher.

Second, if wages are higher, it becomes more expensive to provide good service. In such a case, the company may wish to automate more, pushing its customers to self-service. Customer satisfaction may suffer somewhat, but the loss of revenue might be made up for by the reduction in costs. So if wages are higher, productivity should be higher.

In order to figure out what productivity level to seek, it is better to compare the company strategically to its competitors. For example, does it have higher prices and/or higher margins than its competitors? If so, this suggests the company should have a lower level of productivity than its competitors. Wage rates can also be analyzed in this way. For example, if a U.S. company is competing against a Chinese company, the U.S. company should probably seek to use less labor (be more productive) than its Chinese counterpart. In the late 1990s, at a time when Chinese wage rates were still very low, a factory belonging to Nissan Motor Co Ltd located near Guangzhou had an army of workers making each car. At the same time, at the company's Altima assembly line in Japan, where wages were high, the car was manufactured almost entirely by robots.

One can get a better intuitive sense of how to manage service productivity by considering coincidences of high productivity and low productivity. Imagine a fast food restaurant in Santa Barbara, California. This is a low-price, low-margin industry located in a wealthy town, where wage rates are high. Zoning restrictions may limit the number of such restaurants, resulting in low competition. Under such conditions, the restaurant should minimize its usage of labor and automate as much as possible. This is the perfect high-productivity situation.

At the other end of the service spectrum, consider an expensive French restaurant in Shanghai, China. Prices and margins are high. At the same time, wages are relatively low and there are many competitors. Under these conditions, the restaurant should use as many employees as it takes to satisfy the customer. In fact, that is often what you see: Visitors from high-wage societies are frequently astonished by the number of service employees in high-end restaurants in cities like Shanghai and Beijing, but they shouldn't be. That is the perfect low-productivity situation.

Identifying an optimal level of productivity

As executives at service companies, you should compare your company with your competitors. If your prices and margins are lower, and your employees have higher wages, then a higher productivity strategy is in order. Try to automate more than your competitors. If the opposite is true, focus on providing the best service in your industry, even at the expense of productivity. Where you can get higher customer satisfaction, use labor where other companies use automation. Think carefully before outsourcing services, for example, through offshore call centers, by seeking evidence that the probable decline in customer satisfaction will be offset by increased productivity in labor dollars.

Service companies shouldn't maximize productivity. Rather, they should find the most profitable level of productivity. By managing service productivity as a strategic decision variable, a company can balance efficiency with customer satisfaction, enhancing the long-term health and profitability of the company.

Excerpt from: Ming-Hui Huang & Roland T. Rust, *Should Your Business Be Less Productive?*

MIT Sloan Management Review, Spring 2014.

◆◆ DEFINITIONS ◆◆◆

- ◆ **service productivity** the measurable efficiency of a business in converting input resources into value for customers
- ◆ **businesses (2)** commercial or industrial organizations that aim at making a profit through their activities; *business enterprises, firms*
- ◆ **productivity gains** increased efficiency achieved by an organization through a more effective use of labour and capital
- ◆ **output** the quantity of goods or services produced over a given time period by a firm or industry
- ◆ **advanced economies** highly-developed economies in which sectors of industry use the most modern and recently developed technology and methods in producing goods or providing services
- ◆ **service sector** companies that provide intangible products and services; *service industry*
- ◆ **automated processes** methods of using machines and computers in the workplace aimed at reducing labor costs; *automation*
- ◆ **executives** individuals in a company in charge of deploying resources and making policy decisions by planning, organizing, staffing, directing, coordinating and budgeting the activities of the firm
- ◆ **wealth** the sum of tangible and intangible assets that make an individual or an organization better off
- ◆ **strategic decision variable** factor that shapes the success of a company's long-term plans
- ◆ **business (1)** type of activity taking place in a profit-oriented organization such as a company or a shop
- ◆ **technology** information or scientific knowledge used in the design, production and utilization of goods and services and in the organization of human activities
- ◆ **customer satisfaction** the fulfillment of customers' requirements or needs
- ◆ **efficiency** achieving the desired results with little waste of resources
- ◆ **optimal productivity level** the level of productivity required, neither too high nor too low, to maximize profitability
- ◆ **margins** net profit from operations divided by net sales and expressed as a percentage; *profit margins*
- ◆ **Co.** abbreviation of the word company, used to designate an entity as a company but carrying no specific legal meaning and referring to no particular legal structure
- ◆ **Inc.** abbreviation standing for Incorporated, placed after the name of a company in the US, to show that it is a separate entity from shareholders who cannot be held liable for any fiscal obligations
- ◆ **supermarket chains** big self-service retail stores, which have branches spread across the country and which sell a large variety of food and household items
- ◆ **upscale** expensive and designed to attract customers with money to spend; *upmarket*
- ◆ **retailer** a business at the end of the distribution chain, which generally buys a product from a wholesaler in order to sell it to the final consumer
- ◆ **labor** the human factor of the production process; *workers*
- ◆ **concentrated** dominated by a few large firms
- ◆ **competitors** firms that are rivals in business; *business rivals*
- ◆ **wages** workers' remuneration for the services of their labor; *pay*
- ◆ **revenue** the total amount of money received by a business in a specified period before any deductions are made for costs, raw materials or taxation; *sales revenue, sales turnover*

- ◆ **wage rates** amount of workers' pay based on units or periods of working time
- ◆ **Ltd** abbreviation standing for limited, placed after the name of a company to show that the company is a limited liability structure with independent corporate identity
- ◆ **factory** the equipment, including the fixtures, machinery, tools and buildings necessary to carry on a manufacturing business
- ◆ **assembly line** a production tool in which a conveyor belt carries the work in progress along a line of machines, robots and/or workers performing a specific task repeatedly until the product is finished
- ◆ **zoning restrictions** limits set by the law specifying the urban areas in which residential, industrial, recreational or commercial activities can take place
- ◆ **high-wage societies** countries or economies in which labor costs are high
- ◆ **service employees** the lower echelons of personnel serving customers in shops and restaurants
- ◆ **outsourcing** contracting or sub-contracting to other firms in order to free up human and financial resources, time and facilities for other activities
- ◆ **offshore call centers** telephone service companies based in other countries from which they handle a large number of calls on behalf of other companies at a much lower cost
- ◆ **labor dollars** labor productivity computed in dollar terms

◆◆ EXERCISES ◆◆◆

◇ EXERCISE 1

Comprehension

Circle the correct statement (a), (b) or (c)

1. Contemporary businesses aim at higher profitability by
 - (a) reducing costs continuously
 - (b) maintaining the quality and quantity of their output
 - (c) automating their working methods
2. From a macroeconomic vantage point,
 - (a) lower productivity levels generate more wealth
 - (b) higher productivity levels generate more wealth
 - (c) constant productivity levels generate more wealth
3. Viewing productivity as a strategic decision variable means
 - (a) maximizing productivity levels to maximize profits
 - (b) minimizing productivity levels to maximize profits
 - (c) optimizing productivity levels to maximize profits
4. Customer satisfaction in a service business requires
 - (a) a greater number of workers
 - (b) a lower number of workers
 - (c) a constant number of workers

5. The comparison between Kroger Co. and Whole Foods Market Inc. shows that customer satisfaction can be achieved by
 - (a) maintaining high labor productivity
 - (b) reducing labor costs
 - (c) increasing service staff
6. In a concentrated market, however, a service business
 - (a) can easily automate to satisfy customer needs
 - (b) requires a greater number of workers to satisfy customer needs
 - (c) customers can choose from many other service businesses to satisfy their needs
7. In a situation of market concentration,
 - (a) higher profit margins lead to a higher optimal productivity level
 - (b) higher wage rates lead to a higher optimal productivity level
 - (c) higher prices lead to a higher optimal productivity level
8. A perfect high productivity situation is one in which
 - (a) competition, prices and margins are low but wage rates are high
 - (b) competition, prices, margins and wage rates are high
 - (c) competition, prices, margins are high but wage rates are low
9. A perfect low productivity situation is one in which
 - (a) competition, prices, margins and wage rates are high
 - (b) competition, prices, margins and wage rates are low
 - (c) competition, prices and margins are high but wage rates are low
10. To choose the most profitable level of productivity, it is advised to consider competitor practices before
 - (a) automating or outsourcing
 - (b) outsourcing or offshoring
 - (c) increasing labor dollars

◇ EXERCISE 2

Vocabulary

(A) Use the list of definitions above **to select the appropriate term** to fit each sentence

1. In service businesses, are not always easy to make without sacrificing perceptions of quality.
2. Information and communications technologies have made it possible for companies to develop close relationships with customers without a large increase in
3. In the tertiary sector, unlike on the assembly line, increased may not always lead to increased profitability.
4. Advances in online technology have enabled online travel services to increase their productivity with no damage to
5. In a service business, productivity must be treated as a
6. Higher discourage investment in the service sector.
7. The search engine industry in America is highly concentrated given that three major, namely Google, Yahoo and Microsoft share the market.
8. Today, the accounts for about 80% of the US economy.
9. Robots have replaced servers and kitchen staff in a lot of restaurant chains in Japan, due to the growing reliance on
10. In a financial downturn, the natural impulse of is to cut costs drastically.

(B) Replace the words or expressions in *italics* with equivalent ones from the text

1. *Satisfying the customer* is a must for a service company to remain competitive.
2. The *search* for higher margins requires a radical rethink of company policy.
3. Service businesses should focus their strategy on finding the *most profitable level of productivity*.
4. Well-to-do tourists enjoy dining at *high-end* restaurants in the select districts of Paris.
5. To boost customer satisfaction a company has *every reason* to take on more service employees.
6. *Salaries* tend to be higher in advanced economies than in emerging ones.
7. Toyota opened a *manufacturing plant* in the North of France in 1999.
8. Humans are not the only workers to be found on a *production line* nowadays.
9. Companies can reduce costs by *contracting or subcontracting* non-core activities such as recruitment or cleaning to specialized service companies.
10. In some service companies, diminishing customer loyalty may be *made up for* by greater cost efficiency.

◇ EXERCISE 3

Grammar

Comparisons

Complete the sentences below with the expressions of comparison in the list

compared to / faster / faster than / fewer than / lower than / higher (2x)
/ higher than / less than / more than (2x) / smarter than / unlike

1. Between 2007 and 2009, Alaska Airlines experienced an 18% improvement in labor productivity, a percentage that was significantly the industry average at the time, after it had deployed a new check-in system at Anchorage International Airport.
2. Workers are generally productive robots on automobile assembly lines.
3. Online tracking in the express delivery business has resulted in increased labor productivity at FedEx Corp, where in 2003 it cost \$2.40 for a customer service representative to track a package for a customer who called on the phone just four cents to track a package online.
4. As a result of automating the delivering and serving of sushi plates by conveyor belts, Kura, a restaurant chain in Japan, needed servers and kitchen staff before to serve a 196-seat restaurant.
5. Jetstar Airways Ltd, the Qantas budget airline in Asia-Pacific, has adopted a production-oriented high efficiency strategy, which enabled it to attain turnaround times and scheduling competitors.
6. Singapore Airlines Ltd is highly efficient in non-customer facing operations but as it lavishes attention on its customers, the company maintains prices and a profit margin with productivity its Asian competitor China Eastern Airlines Corp. Ltd.
7. Managers erroneously think that they will make money by increasing short- term productivity by building long-term projects.
8. The temptation to increase productivity by reducing labor is huge for managers of large companies, for whom economies of scale seem to make automation attractive it is for managers of small service businesses.

9. Following the tragedy of September 11, 2001, almost all major US airlines instituted massive layoffs to cut costs except Southwest Airlines, which, with high customer satisfaction scores, thrived throughout the ensuing decade, some of its competitors.
10. According to the Ford Marketing Institute, grocery shoppers are satisfied when dealing with a human being with self-serve checkouts in supermarkets.

◇ EXERCISE 4

Assignment

Case study

Choose a service business and **identify** a *task* it has automated. **Discuss** the advantages and/or drawbacks related to the introduction of the automated process for both the company and its customers. **Assess** the impact of automation on the company's workforce and on its service productivity.

Report back to the class in a 15-minute oral presentation.