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Management of Supply Networks for Products and Services: Concepts, Design, and Delivery

Key Takeaways Document – Part III

Customer Satisfaction & Loyalty, Creating & Sustaining Excellence¹

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- Agenda and intended purpose of these notes
 - These present the key takeaways and messages from each session / lecture.
 - Internalize the key learning from each lecture.
 - Understand the link between class readings and the core messages from each lecture.
 - These notes are not intended as a substitute for the class readings or lecture slides.
 - They also provide a look back at the ground we have covered so far in the class.

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² Based on assigned readings and lectures.

Customer Satisfaction & Loyalty

(Summarizing from Jones and Sasser, 1995)³

- Complete customer satisfaction is the key to securing customer loyalty, and generating superior long-term financial performance. The Ritz Carlton case discussion is an example of this phenomenon.
- To understand customer loyalty, we have to understand the market and competitive environment in which customers make their choices. This leads to two kinds of loyalty—one of the false or short-term nature seen in markets with limited choice, and the loyalty that has a long-term nature linked with complete satisfaction with the product or service.
- However, even in markets with limited customer choice, the key to long-term loyalty is still complete customer satisfaction.
- Different satisfaction levels may reflect different issues with the service or product, and therefore require different actions.
- There is a need to understand the link between customer loyalty and customer satisfaction for the market in which the firm operates. The following diagram provides an example of how firms can make explicit for the markets the relationship between loyalty and customer satisfaction levels.
- Finally it is important to realize that in highly competitive market segments, the difference between completely satisfied and merely satisfied customers could imply a sharp drop in customer loyalty, and therefore a significant influence on the bottom-line. See the illustration in the reading titled “How the competitive Environment Affects the Satisfaction-Loyalty Relationship”, for an example of how such relationships can be made explicit.⁴

³ Thomas O. Jones and W. Earl Sasser, Jr. (1995), “Why Satisfied Customers Defect,” Harvard Business Review, November-December, Reprint # 95606; pp. 89-99.

⁴ Jones and Sasser, 1995.

Creating and Sustaining Excellence (Issues of Service Failures)

(Based on Tax and Brown, 1998)⁵

- Recall from the intangibility, heterogeneity, and simultaneity attributes of services that we have to account for possible inconsistencies and failures in the delivery of a service.
- Firms therefore need to understand that managing complaints from customers is a core process in service operations in supply chains. Further its significance to revenue and profitability is often high, so we need to formulate a process by which we address complaints and service failures.
- Recall from the discussion on the British Airways case, the importance of a process to capture complaints and address failures in a timely fashion.
- There is no substitute for high quality service or a high quality product, however often the quality in services and even in products is a relative measure (please recall the Gap model of service quality). Moreover quality in products and services is a function of learning over time from failures in the field.
- Therefore, firms need a conceptual framework that can be implemented as a continuous process for capturing customer complaints, and resolving and addressing failures.
- Tax and Brown have proposed a four-stage approach to service recovery:
 - **Stage 1—Identifying Service Failures:** Often it is a small fraction of customers who choose to complain. This complicates the identification of potential and real failures, and hinders organizational learning.
 - **Stage 2—Resolving Customer Problems:** Customers perceive the fairness of the problem resolution along dimensions of resolution outcomes (successful or otherwise), the resolution process (timeliness, rules etc.), and the quality of the interaction (interpersonal treatment during the complaint process).
 - **Stage 3—Communicating and Classifying Service Failures:** Firms often fail to organize and categorize complaints if they are inattentive to the customer, avoid individual responsibility⁶, incomplete resolution, and lack of an information management system for feedback from the resolution process.
 - **Stage 4—Integrating Data and Improving Overall Service:** Complaints represent an invaluable source of customer, and therefore market information. Firms will need an information / knowledge management process that makes this information available to the functions / people that are involved in the design and in the delivery of the service.

⁵ Stephen S. Tax, Stephen W. Brown (1998), “Recovering and Learning from Service Failure”, MIT Sloan Management Review, Fall Vol. 40, Issue 1; pp. 75-88.

⁶ To understand this using contrast, recall the Ritz example where employees who receive the complaint “own” the complaint.

Broader Issues from the Discussion of British Airways / Ritz Carlton Case⁷

- The role of information technology as an enabler in service operations is clear from these cases. However, we can further connect the two cases to the conceptual frameworks we have discussed in class.
- Information management processes and technologies in general can be used for various objectives including:
 - **Segmentation** of customers for strategic, tactical and operational purposes
 - **Capture and archive customer preferences** so as to reduce gaps between management understanding of customer needs and customer expectations (Gap 1)
 - As a means of **communicating and empowering front-line employees** on the interface with knowledge, both of the service role, as well as of the customer.
 - As a means for front-line interface employees to **provide feedback to management** on the opportunities for continuous improvement.
- With competency in managing well-designed information systems, firms can expand the role of such systems for:
 - **Targeted marketing**: Offer products and services tailored for customer segments.
 - **Improved service design**: Implementing processes for the continuous improvement of the service and facility design⁸, training procedures, and internal and external benchmarking.
 - **Product / Service Differentiation.**
 - Revenue Management.

⁷ Please note that this is not an analysis or discussion of the individual cases per se, but rather some of the observations that serve the purpose of this document.

⁸ Recall the Au Bon Pain example.