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Service transformation that will boost your business

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Focus on your customers to catapult your company to success. However, leaders must drive a culture change to make it happen.

by Neeta Lachmandas-Sakellariou

During its heyday in the 1990s, Borders bookstore stocked an average of 140,000 titles in each of its 500-plus superstores in the US, and another 40 stores in Europe, Asia, and Australia. The associated high costs of real estate and inventory management ate into its profit margins, but Borders believed its wide selection represented the essential value that would keep customers coming back for more. With over US\$3 billion in sales and more than 30,000 employees in 2001, it was hard to dispute the company's business strategy then.

Just 10 years later in 2011, Borders filed for bankruptcy. Its selection of titles had become dwarfed by the ready availability of almost any book on the Internet, on which Amazon had become the dominant bookseller, thanks in part to Borders's decision to outsource its online sales to Jeff Bezos's company. Mark Evans, a strategy and analytics executive working then at Borders, cited a customer survey that the bookstore chain did to understand its plummeting numbers, "Customers didn't notice our larger assortment of books. They didn't care."¹

Borders's misunderstanding of its e-commerce and online strategies has become a case in point of companies failing to recognise and adapt to a changing macro environment. What is perhaps more important is its failure to identify what represented 'value' to the customer. Instead of being wowed by its impressive-before-the-Internet 140,000 titles, customers simply wanted to have the book they desired delivered to them as quickly as possible. Customers were also beginning to buy e-books, which required a different infrastructure from the one that underpinned traditional brick-and-mortar operations. In other words, Amazon understood what value meant to the Internet-era customer, while Borders no longer did.

The success of Amazon, along with digital service providers such as Spotify, Netflix, and various private-hire ride-hailing apps, represents a fundamental shift: value has migrated from mere product or service provision to customer centricity and the service experience. These companies have a service-centric business model that begins with the perspective of the customer and translates into solving whatever problems the customer might have to deliver what is desired.

Organisations must decide how service initiatives can be funded by determining if customers are willing to pay a premium for better service, or if operational savings can fund service excellence initiatives.

In this article, I argue that by putting the customer at the core, organisations can embark on a process of service transformation that would spark organisational and systemic changes, and make them relevant and valuable to their customers. Beyond innovation in technology and service processes, service transformation requires the understanding that ‘service’ is the key component in a complete remake of organisational culture. Above all, it requires a shift in leadership mentality to put service excellence at the heart of everything the company does.

IN SERVICE OF THE CUSTOMER EXPERIENCE

Most people associate the services industry with organisations such as hotels, and food and beverage (F&B) outlets, and perhaps individuals such as personal fitness trainers and hairdressers. Indeed, these entities do not directly create a physical product that customers can hold in their hands in the same way Toyota might be seen as ‘assembling’ a car, or how Nike ‘manufactures’ sneakers for instance, or indeed any high street retailer that sells a variety of physical products.

But how would you classify Apple, a company that makes not only phones and computers but also fashions the services that run on its products? What about Lego, whose ostensible products are its much-loved plastic bricks, but which often ranks among the top few in rankings of companies according to the quality of their customer service?²

The fact is, all companies, whether they are business-to-business (B2B) or business-to-consumer (B2C), provide a service. The trend of servitisation has blurred the line between ‘product’ and ‘service’, and customers care little except for the experience of dealing with the company. For example, people who hail a ride on Uber or Lyft or similar apps hardly care that they are not in a taxi; instead, they prioritise efficiency and convenience. Travellers who choose Airbnb are looking for a different experience from staying in hotels—one where they get to holiday like the locals and experience the authenticity of a city. And, sadly for Borders, book lovers just wanted a convenient experience of getting whatever books they fancied delivered to their doorstep.

But while the customer experience is key to service transformation, it is often not as simple as it may appear on the surface. The service delivery chain is many a time a complex one made up of multiple parties. Online retailers often receive complaints of third-party logistics partners delivering parcels without recipients signing for them or leaving packages outside customers’ gates, risking damage to products. Online content providers could be hit by a server outage or cybersecurity threat, denying users the 24/7 access that they have come to expect. Or in the rising trend of connected retail, refusing an exchange at your physical outlet to a customer who bought an item from your website is a sure way to lose business, possibly forever.

Now imagine a scenario in which all the above problems never existed—no more missing or damaged parcels, service outages reduced to the point of being negligible, and a 100-percent no-questions-asked return/exchange policy. This might involve training and/or incentivising third-party partners to ensure safe delivery, spending on back-up servers and cybersecurity safeguards, and investing in back-end infrastructure and storefront personnel training to ensure a pleasant and connected retail experience respectively. If executed properly, these measures would likely create a positive customer experience and bring more business, not only from the customers in question but also those sharing their experiences on their social network.

But all that requires commitment to customer experience and financial investment. I once heard a conference speaker say, “Think of service as a profit tool rather than a loss leader,” which speaks to the unfortunate misperception that service is a drain on the bottom line, rather than a key driver for growing the business. Leaders who are committed to service excellence must think of service as a profit tool. However, it would be unsustainable to invest in improving the customer experience with no regard to the bottom line. Organisations must therefore decide how service initiatives can be funded by determining if customers are willing to pay a premium for better service, or if operational savings can fund service excellence initiatives.

Many small and medium enterprises (SMEs) also operate based on the business owners’ intuition and make decisions based on blind faith in their own assumptions. While intuition about what matters to customers is fine, it should be supplemented with a hypothesis that will test its assumptions using evidence.

DESIGNING THE SYSTEM FOR COLLABORATION

The importance of leaders who understand, and are committed to, service excellence cannot be overstated. ‘Service’ is often perceived as customer service or restricted to customer-facing functions within an organisation. Some of that thinking stems from Industrial Age constructs of ‘departments’ and ‘silos’ that still make up many organisations: Department A does one part in the production line and passes the product to Department B, which does further work before passing it to Department C to distribute it, and so on.

Industrial Age thinking also comes with command-and-control leadership, which is at odds with the increasingly complex world that is beyond the purported wisdom of any single individual. If one single person gets to decide how customer experience is delivered, there would be a lack of diversity in inputs when trying to forecast how a product or service might be received.

This way of organisational structuring makes collaboration difficult. Incentives are individualised whereby rewards are based on meeting individual departmental key performance indicators (KPIs). To embed a mindset of service

excellence into the entire organisation, leaders must figure out how to enable people to collaborate while bearing in mind one another’s responsibilities, all with the common goal of offering service excellence instead of meeting any individualised KPI.

Business leaders could learn from the Singapore Civil Service, which is designed to facilitate staff movement among the various ministries that are in charge of distinct functions. This personnel policy of rotation or secondment helps build an appreciation of what other ministries do and the problems they face.

One might point to the public sector’s lack of profit imperative which facilitates the policy of secondment, but that would be missing the point. Teams in the civil service consist of humans just like those in the private sector. It is the architecting of the system and leadership commitment that make this happen.

TRIPLE E TRANSFORMATION

To help leaders navigate the process of service transformation in their organisations, I propose adopting the Triple E Transformation Framework (refer to Figure 1) which entails three phases: Explore, Engage, and Expand.

This model serves as a guide to help businesses as they think through the process of service transformation. It attempts to spark basic thought starters and interjection points before big investments in capital are made. It is not meant to be prescriptive or linear.

THE TRIPLE E TRANSFORMATION FRAMEWORK

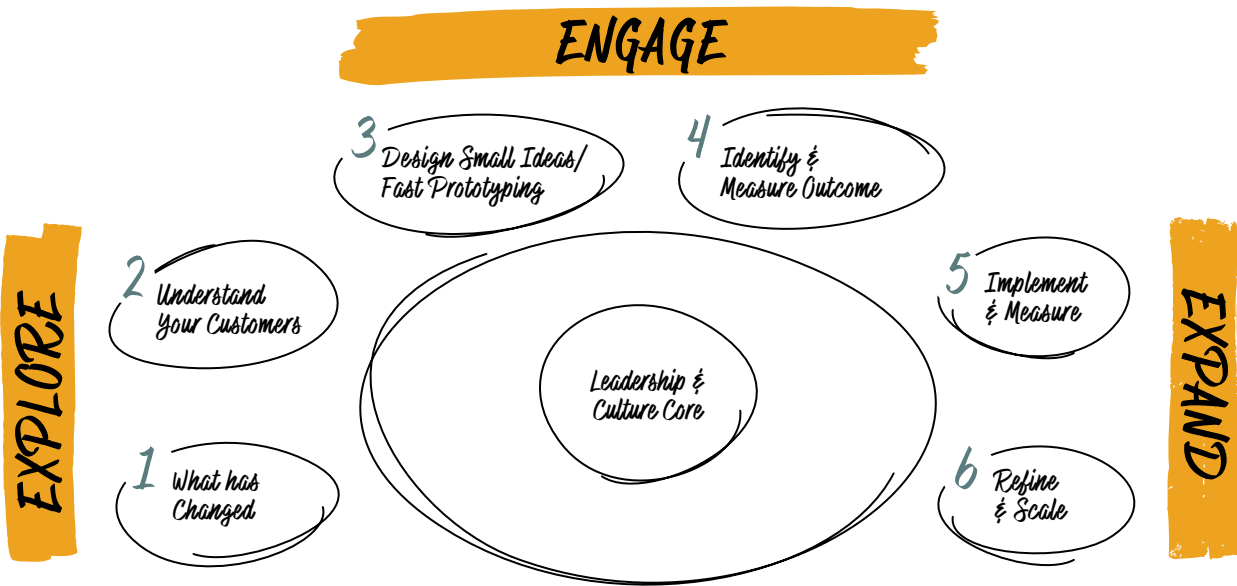
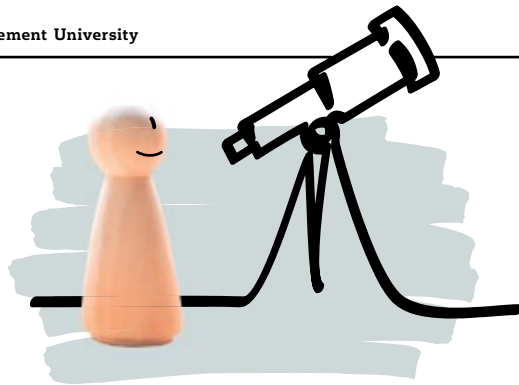


FIGURE 1

Source: Neeta Lachmandas-Sakellariou, “Stay Relevant to Stay Profitable”, World Scientific Publishing, 2023.



Explore

This phase is about assessing where your business is, and how the business environment and your customers have changed. Many business owners or decision-makers often jump into projects without making this assessment, which is akin to embarking on a journey without identifying the starting point. When you can better identify how your customers and their desires have changed, you will be better able to design products or services that meet their needs.

Atelier Carrie K. is a good example of how a thoughtful service transformation process can power a successful SME business to greater heights. Launched in 2009, Carrie K. has grown into a global brand offering silver costume jewellery with a playful touch. The Singapore-founded company’s products can be found in several cities around the world, and is carried by stores like Bloomingdale’s and worn by celebrities such as Mila Kunis and Angelababy.³

Carolyn Kan, founder of Carrie K., did a deep dive in 2019 to understand how she could improve the brand’s service experience. She realised that sales from her costume jewellery business had hit a ceiling and felt that she needed to re-think their strategy for the next phase of growth. During the review process, Carolyn and her team asked themselves a fundamental question: How could they move the business of selling jewellery from being ‘wants-based’ to ‘needs-based’? Where in the journey of her customers was there a need for jewellery?

Following in-depth discussions with her clients, at a time when the pandemic forced people to think about the meaning of life, relationships, and family, Carolyn discovered that there was a hunger for jewellery that could tell a meaningful story for both the giver and the wearer. This was especially salient during important occasions such as weddings and graduation ceremonies.

Carolyn also realised that her customers, many of whom are Asians, are proud of their heritage and see it as an important anchor in their lives. However, Asian jewellery designs are often traditional and old-fashioned, and are thus bereft of modern appeal. Therefore the challenge for Carrie K. was to create a line of jewellery that is timeless at heart yet has the versatility to change with evolving times and trends.

The result was a line of jewellery that could be deconstructed. Such jewellery could be added on to look substantial for an important event like a Chinese wedding tea ceremony. It could also be deconstructed and simplified for daily wear.

Engage

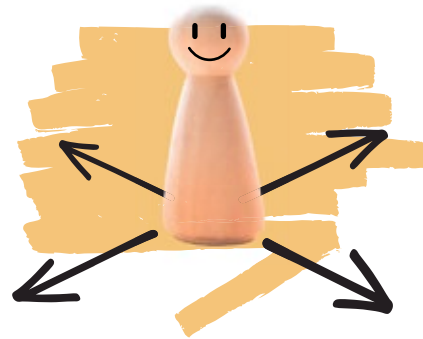
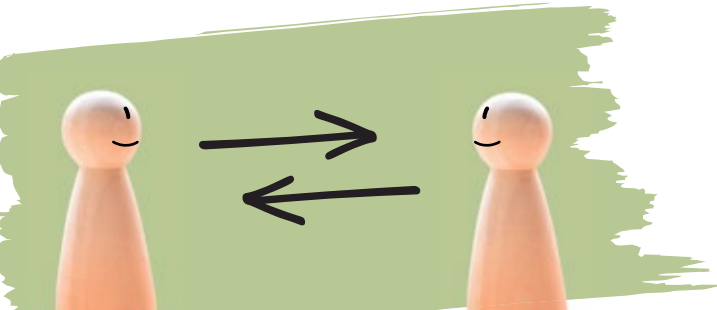
The Engage phase is about trialling ideas generated from the Explore phase to see what works. Organisations could put together a team or build a minimum viable prototype (MVP) to test out an idea or hypothesis. By putting in place a system of measurable outcomes or initial success parameters, ideas can be iterated and assessed for success.

Carolyn thus followed up on the Explore phase and created a few pieces to test her ideas and engage with clients. The objective was to understand what types of traditional gemstones were most popular and meaningful, the kind of emotions the jewellery needed to evoke, and which modern-traditional blends made the most sense.

The response was positive and encouraging, and Carolyn was getting referrals from customers whose friends were getting married or approaching important milestones in their lives. This gave the team at Carrie K. the confidence that they were on the right track in redefining the service and customer experience.

Another important component of this change was also understanding the journey of a potential customer. Carolyn and her team started to understand that prospective customers often had a more enduring relationship with them before making a purchase. In fact, she found that some customers had been engaging with the brand for over a year before they actually made a purchase. Hence the process of building trust and understanding between the Carrie K. team and these customers was as important as the actual sale.

As a result of this, Carrie K. started offering ancillary services such as workshops on gemstones and jewellery fashion trends. The team was also trained to give advice on selecting jewellery, instead of simply pushing customers to close a purchase. The focus has thus shifted to educating and providing advice.



Expand

The final phase is launching a new product or service. By this stage, there should be some degree of confidence based on the Explore and Engage phases that the product or service has the capability of meeting a set of needs and can be scaled up. During this phase, what consumers see might not be the final product but the ‘beta test’ trial options. Companies will gather feedback first and see which version was better received before scaling up for the final release.

The new Carrie K. line was subsequently re-launched. All stocks of the previous Carrie K. jewellery were recalled globally. The focus was now on creating modern heirloom fine jewellery with a twist by giving traditional gemstones and materials, such as jade and pearl, modern meaningful designs. Investment in Computer-Aided Design (CAD) and three-dimensional (3D) prototyping facilities enabled Carrie K. to produce more innovative and versatile pieces which could be used in various ways. The resulting deconstructed designs give the wearer the ability to add and take away different elements in each piece of jewellery, allowing creativity in putting them together.

In the process, Carolyn and her team put in a series of measurements to quantify and track the progress that they were making. These included metrics for customer satisfaction, personal engagement with clients, as well as marketing channels and engagement effectiveness.

LEADERSHIP AND CULTURE LIE AT THE CORE

Why are some service transformations successful while others are fraught with obstacles and problems? Sitting at the core of an organisation’s ability to change is the leadership team’s effectiveness in fostering a culture where change is not seen as something to be feared and resisted. This is often harder than imagined. Most of us are hardwired to see our roles through certain lenses and perform our tasks in a certain way. It is therefore imperative that the leadership team build a culture where employees feel safe and even empowered to transform their work.

Carolyn understood quickly that successful service transformation required a culture change in the organisation. That started with Carolyn changing her management style and

creating a safe environment where there was open sharing without judgement, and a more consultative environment in which management was, in her words, “much more vulnerable”. To enable the change to take root, new opportunities to reinforce and share the culture were created. This included an onboarding programme for new staff, the creation of team coaching workshops, and the provision of managers with training to give and receive constructive feedback.

On the whole, the transformation has been successful for the company. Whilst the change is still fresh and the business had to contend with the COVID-19 pandemic which severely impacted the retail business, revenue has gone up. Most importantly, the transformation has given Carolyn and her team a fresh understanding of the purpose and meaning of their work.

CONCLUSION

The last 20 years have brought about enormous changes in the way we consume products, much of it driven by changing technology and evolving customer habits. Business leaders often complain that customers are excessively demanding, but the truth is customers just want to be treated like they are valued. Not enough businesses make customers feel that they appreciate their business. By focusing on the customer experience, co-creating the service experience with them, and adopting the customer’s perspective, businesses can set in motion a change in culture. That has the potential to transform an organisation into one that not only rides on the wave of Internet-wrought changes and business model innovations, but also continues to be relevant to its customers.

And when in doubt about taking the customer’s perspective, remember this quote from Harvard Business School’s Professor Emeritus Theodore Levitt, “People don’t buy a quarter-inch drill. They want a quarter-inch hole!”¹

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