



# REVIEW CriticalEYE™

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# When operational excellence meets customer intimacy

By Phil Anderson, Geoff Healey & Malcolm Locke

“Our customers like our superior service but say our offer is no longer competitive on price”.

Sound familiar? Many service organisations that have won business by providing a customised service are now finding that their existing and prospective clients are no longer willing to pay a premium for this customer intimacy (although they still want the same service).

General Electric (GE) is one company that has found a way to remain competitive on price *and* provide excellent service. In fact, it has discovered that achieving operational excellence in processes that support the customer automatically leads to ‘customer intimacy’. This ‘intimacy’ or knowing one’s customer means you can refine your processes according to customer demand and thereby sustain operational excellence.

Customer intimacy and operational excellence are just two of three *value disciplines* that can provide strategic focus for organisations (see **Box 1.** for more detail on all three value disciplines).

Whilst customer intimacy (CI) is about striving to exceed customer expectations, operational excellence (OE) is about delivering an acceptable service at the lowest total cost. For many companies, it is about the ‘zone of tolerance’ of customer expectations. (see **Figure 1.**) Organisations focusing on CI function more on the right-hand side where satisfying customer needs is a minimum and exceeding those needs is the company’s aspiration.

OE organisations operate on the left-hand side of the continuum working hard to ensure customers do not become dissatisfied. This should help to dismiss the common misconception that operationally excellent organisations are not concerned with customer satisfaction. Indeed, the opposite is true. More than 70% of those organisations who completed our questionnaire and who regard themselves as Operationally Excellent stated that customer satisfaction was one of their top three Key Performance Indicators (KPI’s).

Of the 100 service organisations that completed our questionnaire, over 80% said they were either pursuing a strategy of OE, CI, or a combination of the two. The focus on CI and OE has also been confirmed by our findings from a number of workshops and visits to leading service organisations. Focusing on one or other of these two value disciplines *can* play a significant role in the success of service organisations. They can also be mutually supportive, in that some elements of one approach can support those of another. This is particularly the case within GE.

At GE, there are some widely recognised and published reasons for its success, none more so than its zealous application of Six Sigma. This approach is inherently one of OE, which, as mentioned earlier, leads to an ability to provide more intimate customer service.

Our research has found that OE is becoming increasingly important in many service companies. What they focus on depends on the organisation. Marriott would suggest its success is best related to the way they work with their staff. Opodo would claim its success derives from its closeness to the marketplace and its ability to respond to changing conditions.

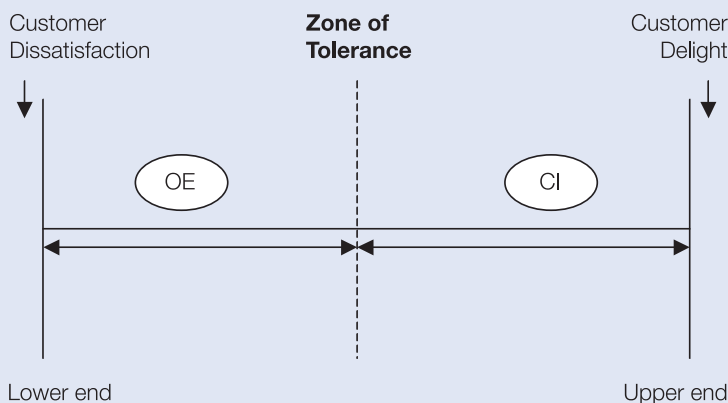


Fig 1. The ‘Zone of Tolerance’ represents the range of service delivery that the customer finds satisfactory



## BOX 1: THE THEORY OF VALUE DISCIPLINES

The concept of value disciplines is based on the observation that companies have taken leadership positions in their sectors and have done so by delivering superior customer value based on one of three areas:

**Operational Excellence** – achieved by product and services provision at the lowest cost and with the least inconvenience by focusing on cost management and operational effectiveness (e.g. Opodo, Zara, Dell and Wal-Mart).

**Customer Intimacy** – achieved by the cultivation of lasting relationships with customers and striving to satisfy their unique needs (e.g. bespoke holiday agent Powder Byrne, Airborne Express, BUPA, and the Four Seasons hotel chain).

**Product Leadership** – achieved by the offer of the best products by focusing on innovation (e.g. Intel and Nike).

According to this theory, to be successful, a company must focus relentlessly on one of the value disciplines in order to be the best in that area, whilst being at least industry average in the other two disciplines.

## FIVE WAYS FOR OPERATIONAL EXCELLENCE TO MEET CUSTOMER INTIMACY

In the course of our research, we identified thirty-five characteristics of operationally excellent service organisations (OESOs). All thirty-five play a role in contributing to the OE of an organisation. These thirty-five can be clustered into five core areas (see **Figure 2**). If your organisation's approach is exclusively on OE, then it should focus on all five. You might feel, however, that you strive to combine CI and OE, in which case you may find that this is a step too far. The following descriptions of each cluster are centred on how OESOs operate within them. The five clusters are:

### Strategic message

The fundamental strategic framework for OESOs requires lowering cost and increasing quality. The two are not mutually exclusive. Increasing quality can drive down cost by reducing error frequency and creating less waste, a scenario exemplified by Toyota. OESOs also find that this lower cost cycle generates lower prices that, in turn, attract customers and thereby increase sales productivity. Amazon, easyJet and parts of UBS adopt this policy to great effect.

In most OESOs researched, strategic management is carried out in a top-down manner. However, in GE, Toyota and Southwest Airlines, management is a combination of top-down and bottom-up. The management team sets strategy and reviews it frequently. Strategic messages are carefully crafted and communicated to all members of the organisation for input. From this, job responsibilities and objectives are clearly defined.

OESOs use simple strategic messages to communicate to their staff the importance of lower costs and higher quality. One investment bank we contacted, for example, tells their staff to take the bus and not the tube. Many use the popular mantra of 'think of it as your money – would you still spend it?'. Externally the message is one of value for money (lowest total cost). Internally, the message is one of cost control, quality and customer satisfaction.

Constructing the most appropriate strategic message is one step towards OE. Delivering on it means concentrating on four specific areas: process, performance management, quality mindset and people/organisational culture. Let us start with process.

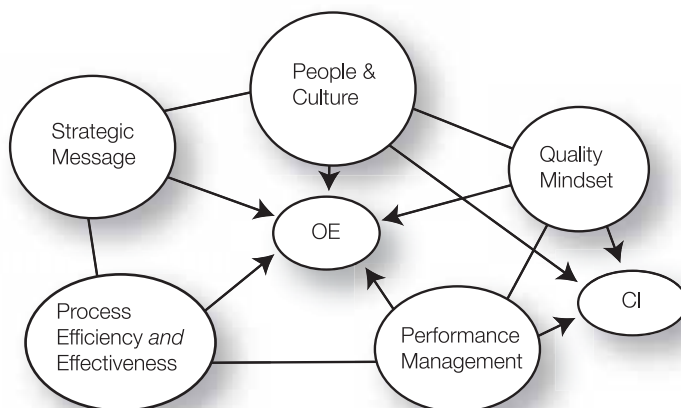


Fig 2. The five clusters of OE characteristics that can fully support the OE approach and be used to enhance CI



## GENERAL ELECTRIC...HAS DISCOVERED THAT ACHIEVING OPERATIONAL EXCELLENCE IN PROCESSES THAT SUPPORT THE CUSTOMER AUTOMATICALLY LEADS TO 'CUSTOMER INTIMACY'

### Process efficiency and effectiveness

One way to deliver on your strategic message is to consider the core processes in your business. OESOs focus on continually improving service delivery processes by finding ways to reduce costs and increase efficiency, whilst offering a better service through enhanced effectiveness.

Through its focus on Six Sigma, GE has streamlined this approach. Customers are at the centre of thinking and define the level of quality delivered - an example of CI. Applying Six Sigma methodologies, and gauging service level within a range of customer tolerances, GE refines the service process to ensure that delivery is within these tolerance levels. The current cycle time and defect rate is also measured, and by analysing the process, defects can be reduced to meet what, for the customer, is 'Critical to Quality' (CTQ).

Those investment banking organisations approached in the course of the research, exhibit characteristics that suggest their industry takes a slightly different course on process. They seek to 'productionise' their products as soon as possible in order to maintain a healthy income / expense ratio. At

the early stages of a product life cycle, the margins are very high, and the back office support processes are likely to be labour-intensive and costly. As competition increases and the product matures, banks must find ways of automating their internal processes ('productionising'), before outsourcing the support to much lower cost providers (see **Figure 3**).

Another element of process improvement is continuous benchmarking. At one Marriott hotel, senior managers benchmark two or three competitor outlets each week by holding meetings at competitor hotels. Opodo benchmarks against competitors and relevant 'best in class' service providers every month. It monitors the trends and, importantly, acts on the results. Such rapid action, of course, needs robust performance management systems.

### Performance management

Measurement is pursued 'fanatically' in OESOs. The commandment is simple: 'you can't improve or control what you don't measure'. At Dixon's, UK's largest electronics retailer, sales figures are sent by text in both the morning and afternoon, every day. Hotel managers across the Marriott group in the UK can review their KPI's against those of sister hotels in real time. The customer service directors in the call centre operations of Opodo and BUPA Insurance state that it is essential that performance measures are posted for all to see, so that the customer service agents can understand the centre's impact on their customers and can take ownership of the response.

At GE, customers do not judge supplier performance on averages. One example would be in the context of making loans to business. The average length of time to approve a new loan could have been 50 minutes, based on one year of data. However, the customer will rightly remember the transactions where it took significantly longer to approve the loan. Customers will feel the variance in each transaction, whether it is the time taken for the loan to be granted, a delivery made or a product developed. The variation between the shortest time to the longest time for the execution of a given

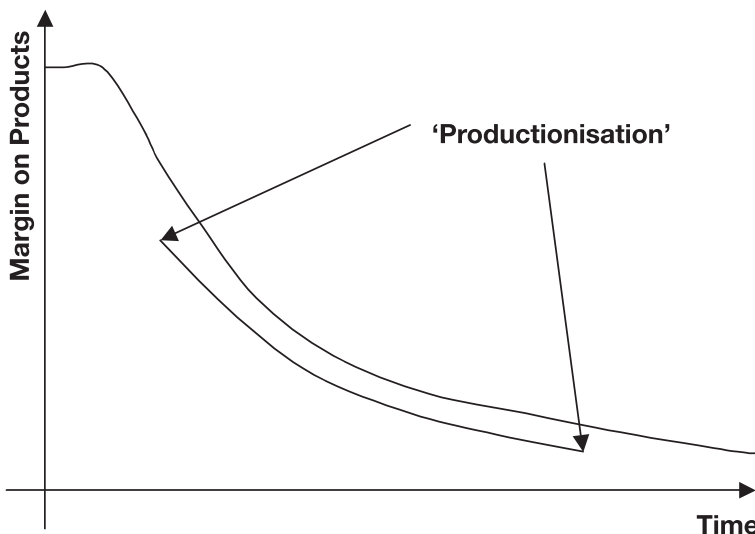


Fig 3. 'Productionisation' of back office processes to support new products in investment banking



activity is defined as the 'span'. Six Sigma focuses on improving performance first by reducing process variation, and then on improving the process capability, in order to reduce the span.

How does GE ensure it is making improvements? It provides the customer with the means of measuring them. After defining what is CTQ for the customer, GE provides a customer dashboard. Here, customers are able to measure GE's performance against agreed objectives.

Not all metrics are process based at GE or elsewhere. **Figure 4.** shows the top four measures of those organisations that have taken part in this research. Finding 'profitability' at the top is no surprise. Indeed, it is the primary goal for all for-profit organisations. In second place is customer satisfaction, which supports the earlier comments. Process efficiency is in third place, which is in line with the fact that about half of the organisations we surveyed consider themselves to be pursuing an OE strategy. Not far behind is 'Employee Loyalty and Morale', which supports the fact that half of the companies we looked at were pursuing CI.

Linking performance measures with simple strategic messages can also be very powerful. On the production line at one UK car

manufacturing plant, all employees know that 'one minute lost production costs £10,000'. At a UK-based car insurance company, the employees know that '1% leakage costs £2.5 million'.

Performance measures and continuous process improvement can certainly help to deliver the intended strategic message. However, ensuring hearts and minds are focused in the right direction will make the biggest difference.

The final two clusters centre on the need for a company to have the right quality mindset and organisational culture.

### Quality mindset

Quality mindset and management processes are at the centre of OESO success. Quality management supports the process improvements outlined in our second cluster above, and ensures performance targets for service delivery are achieved. There are numerous approaches. Many have been proven in manufacturing and are catching on in services.

'Lean thinking' is one of the most relevant approaches for all types of services, but is rarely practised by the companies researched. It is simple to understand, inexpensive to implement and can deliver stunning results. The US life insurer, Jefferson Pilot, reduced application turnaround time by 40%, increased sales by 60% and reduced labour costs by 25% as a result of applying lean thinking to the processing of new insurance quotes and applications.

A quality mindset is critical to the success of OE. In the IT department of Reuters, when a data problem occurs in one country, the company will proactively check to ensure that the same issue will not appear in other countries in which they operate as well. This avoids costly and wasteful downtime.

All Marriott hotels undergo a gruelling 3-day brand audit twice a year, conducted by a mystery guest who only reveals their identity after the first two days. With no prior warning of the visit, staff members are trained to treat all customers with the same degree of care.

### People and organisational culture

By their definition, customer-intimate organisations will undoubtedly develop their staff to be responsive, flexible and empowered in respect of effective delivery on customer expectation. Operationally excellent

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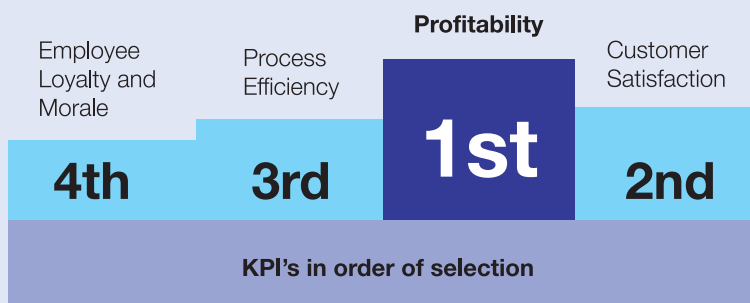


Fig 4. The top four key performance indicators (KPIs) used by operationally excellent service companies in our survey of about 100 firms



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organisations are however different.

In recruitment, OESOs largely prefer to recruit 'doers' over 'thinkers'. Employees have limited empowerment and are required to follow procedures developed to ensure optimum process performance. For example,

at easyJet, staff in their call centres are incentivised to cross-sell and close deals as quickly and efficiently as possible so they can move on to the next revenue-generating call. This is in stark contrast to a Disney call centre, where operators are encouraged to build the



Fig 5a. Dell share price vs. rivals 2002 - 04

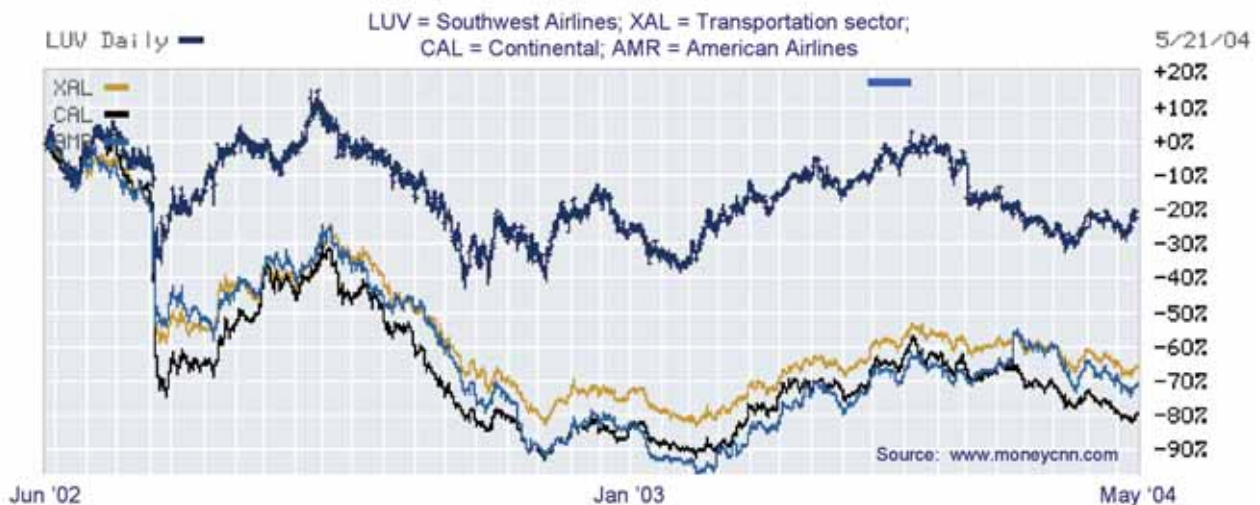


Fig 5b. Southwest Airlines share price vs. rivals 2002 - 04



## ONE WAY TO DELIVER ON YOUR STRATEGIC MESSAGE IS TO CONSIDER THE CORE PROCESSES IN YOUR BUSINESS

right relationship with the customer, who might be about to book a holiday of a lifetime.

At GE, the tendency is to employ a mixture of doers and thinkers. 'Doing' comes from the continuous application of Six Sigma methodologies in all processes and in every product or service designed. Every GE staff member undergoes Six Sigma training. If quality is akin to OE then it is OE that is the business driver. CI follows.

The five clusters discussed above cover the majority of the 35 characteristics of OE identified in the course of the research. It is believed that adopting some or all of these ideas represents a viable strategy for service and manufacturing organisations alike. There are others, however, who think differently.

### IS OE SUSTAINABLE?

The seemingly narrower business approach of OE leads some to question whether the strategy is economically sustainable.

One writer in particular, Michael Porter, has argued that OE is not sustainable, because it can be imitated. Following the strategy would make any competitive advantage short-lived, because it is ultimately limited by fact of replication. This theory appears true for relatively simple service operations such as courier delivery (as opposed to courier complete supply chain solutions), and car rental operations. However, over the past decade, companies such as Dell and Southwest Airlines have sustained significant competitive advantage through a strategy centred on OE (see **Figures 5a. & 5b.**)

### WHAT WILL YOU DO NOW?

We believe introducing elements of OE makes sense for service organisations struggling to respond to the spiralling demands of consumers and business customers. Shareholder pressure for cost effectiveness and profitability lend additional support to this approach. There is strong evidence that companies that achieve OE are building market share, growing revenues and delivering impressive profits.

Many service businesses from all sectors are considering OE. Not all companies, however, can go as far as GE has through its commitment to the Six Sigma approach. Such

a strategy requires relentless focus across the company on the best practice areas highlighted in this article. Therefore the reader is advised to consider the one or two clusters that make most sense for their business. If some of these suggestions are followed, the result could provide the profitability shareholders demand, whilst continuing to offer excellent service to the customer. Then, OE will meet CI.



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