NEW YORK UNIVERSITY
Leonard N. Stern School of Business
MBA Program
SERVICE OPERATIONS AND STRATEGY

B60.3357.10

Fall 2003

Tuesday 6:00 p.m. to 9:00 p.m.

Instructor: Praveen Nayyar
Associate Professor of Management and Operations Management

Office: KMC 8-75
Phone: 998-0286

Electronic Mail Address: pnayyar@stern.nyu.edu

Office Hours: By Appointment.

Secretary: Jeannine Rizzi
998-0282
COURSE MATERIALS


Harvard Business School cases
1. Shouldice Hospital Limited
3. A Taste of Frankenmuth: A Town in Michigan Thinks About Word-of-Mouth Referral
4. ServiceMaster Industries Inc.
5. Massachusetts General Hospital: CABG Surgery (A)
6. Federal Express: The Money Back Guarantee (A)
7. Automobile Dealer Sales and Service: Critical Incidents
8. Northwest Airlines and the Detroit Snowstorm (A)
9. Kumon Educational Institute USA
10. The Warsaw Marriott: New Competition for Warsaw's Marriott Hotel
11. Wit Capital: Evolution of the Online Investment Bank
12. Everdream
14. Monster.com: Success Beyond the Bubble

Materials from other sources
1. Mickey Mouse Marketing
2. More Mickey Mouse Marketing
3. Getting the Bugs Out

An Additional Materials Packet will be distributed in class.

July 15, 2003

2
INTRODUCTION

Services are now a major part of many economies. Services are intangible although a good may be involved in the total product offered to customers.

The objective of this course is to focus attention on some of the unique aspects of services and relate these aspects to service operations and strategy. For example, some of the issues this course covers are:

1. What impact does intangibility have on corporate and business strategy and operations in service businesses?
2. What is the impact of simultaneous production and consumption of services on how service delivery systems are designed and managed?
3. What impact does the customer have on service quality and the productivity of service firms?
4. What unique organizational designs are needed to manage a service business?

In this course, we adopt the perspective of top management who must be concerned with the overall viability of the firm. Thus, we consider both strategy formulation and implementation in services. We will emphasize the close inter-relationships between what a firm wants to do and how it can go about doing it so that its customers are completely satisfied.

This course should enable those who are considering continued affiliation in the service sector to more effectively formulate, evaluate, and implement strategies for a wide range of services in both goods-producing and service businesses. Consistent with the top-management perspective adopted, we will emphasize building and sustaining competitive advantages as an over-riding criterion in our analyses. Hopefully, this will discourage you from proposing service concepts that cannot yield sustainable advantages.

COURSE STANDARDS

At the outset, it is important to understand that the greatest value from graduate education is seldom realized immediately upon graduation. Such value, which is typically realized over a lifetime, comes not from having a "bag of tricks" but from developing analytical and executive skills. Also, the most valuable ability that you can develop, and sharpen, in graduate school is the ability to think, to read, to write, to speak, and to present your arguments logically.

Accordingly, this is not a lecture course and you are responsible for a large portion of your own development. You are required not only to attend classes but also to carefully prepare for each class and contribute actively to class discussion of the assignments for each session. Without your full participation in this learning endeavor, you will not learn.

The emphasis on case analysis makes it crucial that preparation for class is of consistently high quality.

July 15, 2003
EVALUATION

Points earned for each segment of the course will be summed to obtain a total score for the course. Students will be rank-ordered based on this total score to determine their course grade.

Course grades will be determined as follows:

- Letter Writing Campaign 10%
- Class Contribution 40%
- Group Project 50%

Letter Writing Campaign

To do our small bit to counter the phenomenon of declining service quality and customer satisfaction, perhaps establish some life-long habit patterns, and most important, put our analytical skills to work in a practical situation, part of our work this term will involve a Letter Writing Campaign. **As part of the written work for the term, you are to write one letter sometime during the first six weeks of the course.** The letter could either congratulate someone or some organization for a service done well or complain about a service failing to live up to your expectations.

The letter should be no longer than two pages single-spaced. It should state the situation and events leading to the kudos or complaint, including a comparison of the service you expected and what you actually experienced, and where appropriate, offer suggestions for improvement. (Evaluation criteria and sample letters are included in this packet). **A copy of your letter should be handed in AT THE TIME THAT YOU SEND IT.** If you receive a response, that too should be submitted, along with any follow-up (i.e., response) you decide to make. **All letters and any responses received must be submitted by 6:00 p.m. on November 4, 2003.**

Selected letters and responses may be read and discussed in class on December 9, 2003. A quantitative and qualitative summary of the results achieved by the class in its Letter Writing Campaign will also be presented on that day.

Class contribution

Effective class contribution involves activities that:
1. Lead to a productive start to the discussion,
2. Affect the discussion positively through the introduction or use of concepts and frameworks
3. Include carefully considered quantitative or qualitative analyses based on data
4. Challenge what appears to be "accepted wisdom"
5. **Do not repeat** what has already been said.
I will maintain a class contribution record for each participant. At the end of each class I
will record my perceptions of the quality of your comments and questions. Please note that
quantity is not an overriding determinant in how your performance will be evaluated. Clearly, if
you are not present in class, your class contribution performance is likely to suffer. **If you have concerns about your ability to contribute in class discussions, please contact me immediately.**

In addition to my record of your class contribution, **you are encouraged to maintain your own daily record. A form is attached.** This record will give you immediate feedback about your class contribution and help you maintain or improve it. Please contact me during the semester if you wish to discuss your class contributions at any time during the course. Please bring your class contribution record to the meeting.

Since I expect you to be fully prepared for each class, I may call upon you to start or manage the discussion or answer a specific question during the class on any day. If for some reason you are not fully prepared on a particular day, please let me know before class so that I do not embarrass you inadvertently. I urge you to attend all classes, even if you are not adequately prepared. Please inform me if you will be unable to attend class.

**Group Project**

There is one **Group Project consisting of two parts** to be completed by each group of 4 or 5 students. Seek to form a balanced group including members with both quantitative and qualitative skills.

First, based on the materials discussed in the course, each group must **develop a succinct framework for Service Management.** The Strategic Service Vision and The Service Profit Chains are frameworks. An example of another framework is included in this packet. A framework includes many variables and it seeks to reflect real complexity. It includes the many questions that its users must consider in order to accomplish their purpose. The framework you develop must be of sufficient generality to be applicable to a wide range of services. It should also recognize any specific conditions that will limit its applicability in particular situations. A key characteristic of the proposed framework must be that you can use it tomorrow. **Please discuss your framework with me and other participants in the course as you are developing it. A diagrammatic representation of your framework must be submitted by 6:00 p.m. on November 18, 2003.**

Second, **using the framework developed,** each group must **develop a proposal for a new service offering.** The proposal must include both strategic and operational considerations at a minimum. In addition, it must reflect a thorough understanding of business management in its entirety. Thus, it must also encompass any and all appropriate disciplines. Key characteristics of the proposal must be that it should address a market need, reflect your understanding of the materials covered in the course, and its implementation could begin tomorrow. **The Proposal must be submitted by 6:00 p.m. on December 16, 2003.**
Note on grading

Since managerial problems seldom have unique solutions, I will primarily look for compelling logic and reasoning in the analysis, practicality of recommended actions, the "value added" of any exhibits or analyses, and clear and concise oral presentation and writing styles. Since "cut and dried" solutions are not always possible, the grading process will be, in part, subjective but hopefully equitable.

OFFICE HOURS

Office hours will be held by appointment.

CONCLUDING COMMENTS

I will be prepared for class; I expect you to be prepared too. Also, I welcome your comments and constructive criticisms during the course on any aspects of your learning experience. I will be willing to discuss these in class and take appropriate actions that will enhance the "value-added" from this course.
CLASS SCHEDULE

Please prepare the assignments listed below for each session. Note that most days have two “sessions” listed below. Please prepare accordingly. The questions below are only a guide for preparing each case. Class discussion will cover many additional issues.

Session 1.1  Introduction to Service Operations and Strategy  Sept 23

In most industries, a few organizations develop truly innovative ways of serving their customers. This is true in both goods and service businesses. Such services are called "breakthrough services". In considering the firms discussed in this course ask 1) what makes it different from its competitors? 2) how successful is it? 3) How, if at all, does it achieve success? 4) How likely is it to be able to sustain its advantage?

Some of the most successful services are those that are focused on a single purpose or method or both. Such a focus may be achieved by targeting a particular type of customer or offering a clearly defined service extraordinarily well. Focus allows a service provider to concentrate on a highly valued set of customers as well as those things that are absolutely critical to achieving unmatched advantage in serving them.

Read:  Text Chapters 1 & 2.
Examine:  Examples of Strategic Service Visions (Additional Materials Packet)
Prepare:  Shouldice Hospital Limited
1. Assess the performance of the Shouldice Hospital Limited.
2. Explain the performance of the Shouldice Hospital using the strategic service vision framework.
3. As Dr. Shouldice, what should you do about the issues facing the Shouldice Hospital Limited?

Session 2.1  Service Profit Chain  Sept 30

Read:  Text Chapter 3
Articles on Airlines (Additional Materials Packet)
Consider:  Southwest Airlines
1. Apply the Strategic Service Vision Framework
   • What is Southwest Airlines' target segment?
   • What is its service concept in terms of results produced for customers?
   • What is the firm's operating strategy?
   • What are important features of the service delivery system?
2. Apply the Service-Profit Chain Framework
3. What actions should other airlines take to compete with Southwest Airlines?
4. What does the future hold for Southwest Airlines? Where does it go from here? (Continued)
Session 2.2 Sept 30

Prepare: McKinsey & Co.: Managing Knowledge and Building Capabilities

1. Apply the Strategic Service Vision Framework (both external and internal)
2. Apply the Service-Profit Chain Framework
3. How was this obscure firm of “accounting and engineering advisors” able to grow into the world’s most prestigious consulting firm fifty years later? What was the unique source of competitive advantage developed by James McKinsey and Marvin Bower?
4. What actions would you as CEOs of Booz Allen & Hamilton and The Boston Consulting Group take to compete with McKinsey & Co.?
5. What does the future hold for McKinsey & Co.? Where does it go from here?

Session 3.1 Oct 7

Building Customer Loyalty

Some service firms have recognized that current customers are valuable. They cost less to serve and are generally more profitable than acquiring new customers. However, most firms do not measure the value of satisfied customers. Ascertaining the value of satisfied customers requires asking what a targeted customer is worth over a relationship life cycle. Once the value of satisfied customers has been determined, firms can answer the following questions: Who are the most profitable customers? What do they value? What information do they use to evaluate competing services? Has the firm differentiated its service in ways important to valuable customers? How can the firm develop better customers? How is customer satisfaction being measured and managed?

Read: Text Chapter 4
The Deadly Game of Losing Customers (Additional Materials Packet)

Consider: The many services you buy

1. What does “good service” mean to you?
2. How valuable are you as a customer?
3. Estimate the lifetime value of a customer for Shouldice Hospital, Southwest Airlines, and McKinsey & Co.

Consider the following data for a real estate mortgage company (REMC):

1. Average mortgage amount is $70,000.
2. Average time a new mortgage is in effect is 12 years.
3. Average principal amount of mortgages outstanding is $35,000.
4. Average annual servicing fees charged by REMC is $3.80 per $1000 of mortgage outstanding.
5. Average annual mortgage servicing costs incurred by REMC are $77.
6. Number of mortgages serviced by REMC is 160,000.
7. Average number of new mortgages serviced by REMC each year is 15,000.
8. REMC’s net income from mortgage servicing last year was $8 million. (Continued)
What is the value of:
1. A mortgage customer?
2. Increasing average mortgage size by 10%?
3. Increasing average time mortgages are in effect by 1 year?
4. Increasing REMC’s retention for new mortgages from 90% to 95%?
5. Decreasing REMC’s mortgage loss rate from 2% to 1% per year of all mortgages outstanding?

Consider the following data for Club Med:
1. Average revenues per GM (Gentil Membre or customer) are $1000.
2. Returning vacationers tell an average of ten others about their experiences - pro or con.
3. 65% of first time GMs decide to go primarily on recommendations from friends and acquaintances.
4. Current satisfaction rates are 80%.
5. First time GMs account for 60% of all GMs.
6. 30% of satisfied GMs become repeat customers.
7. Repeat GMs took an average of four additional Club Med vacations.
8. Contribution margin at Club Med is 60%.
9. Last year there were 200,000 first-time GMs.
10. Last year Club Med's net income was $18 million on revenues of $337 million.

What is the value of:
1. Increasing satisfaction rates for new GMs from 80% to 90%?
2. Increasing the proportion of satisfied new GMs becoming repeat visitors from 30% to 35%?
3. Increasing the average number of repeat visits from four to five?
4. All three of the above changes together?

---

Session 3.2  Oct 7

Prepare: A Taste of Frankenmuth: A Town in Michigan Thinks About Word-of-Mouth Referral
1. Calculate the value of word-of-mouth referrals for one of the businesses in Frankenmuth. What formula did you use? How is the value of word-of-mouth referral related to the lifetime value of an incremental customer?
2. How should Annette Rummel spend the Frankenmuth 2000 budget?
3. How would you respond to the questions posed by the business owners of Frankenmuth listed in the last exhibit of the case?
Read: Text Chapter 5
Prepare: Harrah’s Entertainment, Inc.: Customer Satisfaction Assurance Program (Additional Materials Packet)
1. Evaluate Harrah’s efforts for improving customer satisfaction and loyalty.
2. Compute the value of a 1% shift of non-A to A customers.
3. How does Harrah’s business model differ from its competitors?
4. How should Bruns respond to Loveman’s email?
5. What can other service businesses learn from Harrah’s?

Session 5.1 Building Employee Loyalty & Satisfaction Oct 21

Service providers and customers often interact directly. Such interactions influence customers' perceptions of service quality. Thus, front-line service workers can be a source of differentiation and competitive advantage. Most successful service firms try to attract the best employees who, in turn, are given discretion to satisfy customers. A lack of good managers and employees often constrains growth. Human resource issues can be examined using the employee life cycle of recruitment, selection, development, and reward. The type of service being offered and the role of people in its service delivery system will affect the way a firm deals with its human resource issues at each stage of the employee life cycle.

Given a service concept, what is the required mix of interpersonal and technical skills? Which activities, if any, should be organized into "front office" and "back office" functions? How should marketing and operations be coordinated? How can outstanding service performers be kept organizationally close to customers?

Read: Text Chapters 6 & 7
Articles on HR Issues (Additional Materials Packet)
Articles on Euro Disney (Additional Materials Packet)
Prepare: Mickey Mouse Marketing & More Mickey Mouse Marketing
1. With what other service organizations would you compare the Walt Disney Company and its Walt Disney World operation?
2. How does Disney create its "magic?"
3. On December 1987, the company announced its intention to open retail stores. What are the key human resources issues to consider as the Walt Disney Company prepares an action plan to open a chain of Disney stores?
   - More shopping malls will sprout mouse ears if all goes according to plan. That's because Walt Disney Company plans a large-scale expansion into retailing. Starting next spring, the company plans to open roughly one store a month selling nothing but Disney paraphernalia. The company says that by this time next year it plans to have about 10 stores in all, and hopes to step up the pace of new openings to two a month in October 1989.
   - More recently, since early 2000 the company has been shutting down several unprofitable stores and scaling back its retailing operations. (Continued)
4. The Walt Disney Company has been diversifying on many fronts recently. One project was the successful opening of Tokyo Disneyland, located 35 miles east of central Tokyo. In the year ending March 31, 1990, about 14 million people visited the park, about one million more than the original Disneyland in Anaheim, California during the same period of time. Buoyed by the success of this project, the company opened Disneyland, Paris. Recently, it has announced plans to open another park in Hong Kong. (and, this month another one in Shanghai) What will determine the success of this new park?

5. What do you think of the transferability of the Disney approach to managing human resources to other industries? For example, banks? Is it more transferable to some businesses than others? Why?

Session 5.2 Oct 21

Read: Article on ServiceMaster (Additional Materials Packet)
Prepare: ServiceMaster Industries Inc.
1. What mix of human and technical skills are needed to succeed in this business?
2. Can or should activities be organized into "front office" and back office" functions?
3. What is needed to coordinate marketing and operations activities?
4. How can jobs be designed so that outstanding service performers can remain close to customers (especially as outstanding employees move up the ladder)?
5. How and to what extent should employees be "empowered"?
6. What is "breakthrough" about the ServiceMaster's business?
7. How has ServiceMaster achieved the results described in the case?
8. What must the firm do to meet its growth plans?
9. Will reorganization facilitate growth? Why or why not?
10. Should the firm use acquisitions to meet its objectives?

Session 6.1 & 6.2 Developing Processes & Service Delivery Systems Oct 28

Processes and service delivery systems determine what the customer receives both in terms of results achieved as well as during the service process. Achieving high levels of customer satisfaction and loyalty via high service quality requires a complete reevaluation of processes and service delivery systems including facilities, technology, information systems, people, and incentives and controls.

Service quality improvement initiatives require understanding how work is done given an operating strategy. Our study of Massachusetts General Hospital, BBBK, and Federal Express introduces generally applicable concepts of process improvement design and implementation.

Some say that attaining total customer satisfaction is impossible. This is akin to arguing that zero defects in manufacturing are impossible. However, total customer satisfaction is synonymous with effective competition in services. Leading manufacturers and service providers alike are identifying total customer satisfaction not just as a goal, but as an imperative. In this section we examine several approaches to achieving total customer satisfaction.

Read: Text Chapters 8 (skim only) & 9
Prepare: Massachusetts General Hospital: CABG Surgery (A)
1. What are the primary challenges in improving operating processes in a health care environment such as that of Massachusetts General Hospital?
2. What kind of payoff would you expect from process improvements? Who would be the beneficiary of process improvements?
3. What implementation approach should Bohmer and Torchiana select? Be specific as to where you would start, what resources you would bring to bear, what performance you would expect, and what timeline you would hope to follow.
4. How should MGH balance the tension between process standardization and process customization? What are the hazards of each?
5. How should quality be defined for an MBA program? What measures should be used? What processes and operations infrastructure should be used? What are the strengths and weaknesses of the system employed by the Stern School? What would you recommend?

Session 7.1 Nov 4

SUBMIT LETTERS

Read: Text Chapter 10
Prepare: Getting the Bugs Out
1. Assess the strengths and weaknesses of BBBK's strategy.
2. How does this company make money?
3. What role does the service guarantee play in the company?
4. What affect does the service guarantee have on the company's operations?
5. How applicable might this concept be to other businesses? For example, a movie theater, healthcare, higher education?

Prepare: Examples of Guarantees (Additional Materials Packet)
1. What are the elements of a good service guarantee?
2. What impact does a service guarantee have on a firm?
3. Evaluate the Lufthansa guarantee. Would you recommend any changes? Why or why not?
4. Evaluate the other guarantees in the attached notes.

Session 7.2 Nov 4

Read: FedEx Facts (Additional Materials Packet)
Prepare: Federal Express: The Money Back Guarantee (A)
1. Based on your understanding of the process that may be employed by Federal Express, construct a process flow diagram beginning with a customer's need for appropriate packaging material and ending with the receipt of a package by the addressee.
2. Consider the questions at the end of the case.
3. What can Federal Express do to improve its quality and customer satisfaction?
Session 8.1  Service Recovery  Nov 11

Prepare:  Automobile Dealer Sales and Service: Critical Incidents
1. What can a firm learn from the critical incidents and your responses to them?
2. What improved service concepts might the critical incidents suggest?
3. Develop a few alternative service concepts to address the issues raised in the critical incidents.
4. Design a complete service business around these new service concepts incorporating the ideas discussed in this course. Remember to include both strategic and operational considerations.

Session 8.2  Service Recovery  Nov 11

Prepare:  Northwest Airlines and the Detroit Snowstorm (A)
1. What is Northwest Airlines’ strategy?
2. What would be the impact on Shareholder Value as a result of Northwest Airlines' customer service actions?
3. Which processes at Northwest Airlines were involved in creating and reacting to what happened in Detroit?
4. What should Northwest Airlines do?

Session 9.1  Managing Growth  Nov 18

Service firms face limitations in simply increasing volume in existing locations due to the need for interpersonal interaction between service provider and service consumer. After decades of a largely domestic focus, service firms have now turned their attention to international markets for further growth opportunities. Such growth poses challenges for firms due to differences across service industries and across nations in culture, language, and labor market institutions.

SUBMIT FRAMEWORK

Prepare:  Kumon Educational Institute USA
1. Evaluate Kumon USA’s performance to date.
2. How can the Kumon system succeed in the USA? Is the strategic service vision transferable? Is its service profit chain transferable?
3. What can be done to accelerate Kumon’s success, if any, in the USA?
4. How would you compete with Kumon USA?
Session 9.2  Managing Growth  

Prepare:  The Warsaw Marriott: New Competition for Warsaw's Marriott Hotel  
1. How should the Warsaw Marriott respond to increased competition? What levers are available to Stan Bruns and how should they be used?  
2. What, if anything, is the basis of a sustainable competitive advantage for the hotel? How can these factors be best protected and leveraged?  
3. Are there unexploited market segments or service concepts available to Stan Bruns? Which of these should he pursue and why?  
4. What lessons can be drawn from the case regarding the establishment of long term competitive advantage through the international expansion of service businesses?

Session 10.1  Creating Breakthrough Services  

Prepare:  Wit Capital: Evolution of the Online Investment Bank  
1. Conduct strategic service vision and service profit chain analyses of Wit Capital.  
2. Use your general knowledge to construct strategic service vision and service profit chain analyses of any other investment bank.  
3. Compare and contrast Wit Capital and the other investment bank.  
4. What strategic service, operations and technology issues do “on-line” and “old-line” investment banks face? How would you address those issues?  
5. Evaluate the long-term prospects for Wit Capital and the other investment bank.  
6. How does Wit Capital compare with Amazon.com, eBay and Calyx and Corolla (a flowers distribution firm. See its web site at www.calyxandcorolla.com)?

Session 10.2  

Prepare:  Everdream  
1. Evaluate Everdream’s strategies, tactics and value proposition.  
2. What are the key success factors for Everdream? Are they typical of the key success factors for most Silicon Valley startups?  
3. Should Everdream offer a guarantee? If so, what should be guaranteed? Can Everdream afford to offer a guarantee?  
4. What role does the “bizcenter” play for Everdream?  
5. What does the future hold for Everdream? Where does it go from here?  
6. What would you recommend to Everdream’s management?
Session 11.1

Read: Articles on General Motors (Additional Materials Packet)
Prepare: Auto Collection: Ford’s Better Idea for Selling Cars and Trucks
1. Evaluate the Auto Collection idea.
2. Construct a sample income statement for an Auto Collection.
3. What are the benefits and disadvantages of creating an Auto Collection for:
   a. The Auto Collection itself
   b. Ford and FIECo
   c. Auto Collection customers
4. Evaluate the way FIECo creates and integrates Auto Collections.
5. Is the Auto Collection approach superior to GM’s initiatives?
6. How should other automobile manufacturers and retailers respond?

Session 11.2

Prepare: Monster.com: Success Beyond the Bubble
1. Evaluate the Monster.com idea.
2. What accounts for Monster.com’s results?
3. What should its competitors do?
4. What lies ahead for Monster.com? How should it prepare for the future?

Session 12.1 De-brief Letter Writing Campaign & Service Transformation

I will ask some of you to summarize your experience with the letter writing campaign and we will discuss the responses received from firms.

Session 12.2 Service Transformation

We will discuss a few “Live” service cases.

Read: Text Chapters 11 & 12
Skim Read: Text Chapters 13 & 14

KEY DEADLINES FOR THIS COURSE

<table>
<thead>
<tr>
<th>EVERY SESSION</th>
<th>CLASS CONTRIBUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 4, 2003</td>
<td>SUBMIT LETTERS FOR LETTER WRITING CAMPAIGN</td>
</tr>
<tr>
<td>November 18, 2003</td>
<td>SUBMIT SERVICE MANAGEMENT FRAMEWORK</td>
</tr>
<tr>
<td>December 16, 2003</td>
<td>SUBMIT GROUP PROJECT</td>
</tr>
</tbody>
</table>