



Lean Management in the Service Industry

16

Get closer than ever to your customers. So close that you tell them what they need well before they realize it themselves.

Steve Jobs.

16.1 Importance of Service Sector

The term “service sector” refers to an economic sector that, unlike agriculture and industry, produces no goods, but provides a service that satisfies a need. Education, health, finance, government, transportation, and trade are service sectors. The statistics show the gross value-added in Germany in the years from 1991 to 2018 by economic sector. The gross value-added in the service sectors in 2018 was around 2068.18 billion euros (Rudnika 2018).

The service industry is the largest and fastest-growing business sector in Germany. In 2017, about 69 percent of total value-added was generated in the service sectors. In particular, the field of “public service providers, education, health” contributes the most to the gross value-added. Overall, the area reached more than 536 billion euros in 2017. Other important service sectors are “Trade, Hospitality and Transport” with around € 474 billion, “Business Service Providers” with around € 324 billion, and “Land and Housing” with € 317.5 billion. The majority of taxable businesses in the service sector in Germany exist in the areas of “trade, maintenance and repair of motor vehicles” with around 604,400 and the “provision of professional, scientific and technical services”, which includes, inter alia, tax advice and auditing. Services are different from products and have the characteristics as shown in Fig. 16.1:

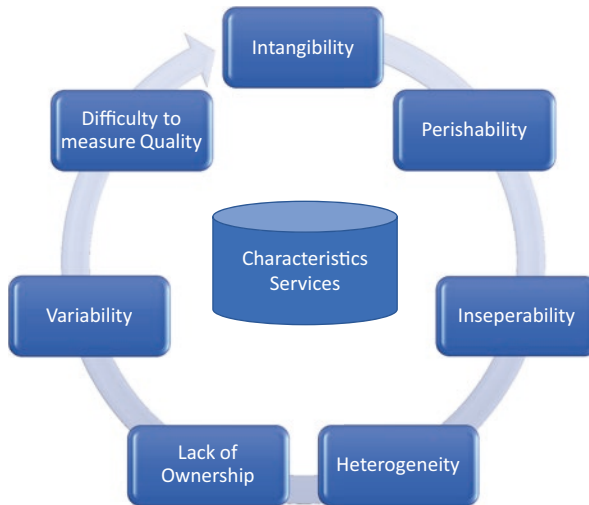


Fig. 16.1 Characteristics of services. (Source: Author's Source)

16.2 Intangibility

Intangibility is an important consideration that complicates the functional responsibility of a marketing manager, especially while influencing and motivating the prospects/customers. The goods of tangible nature can be displayed, the prospects or buyers can have a view, and they can even test and make a trial before making the buying decisions. The selling processes are thus found easier. We are aware of the fact that services are of intangible nature and it is intangibility that complicates the task of decision-makers.

While motivating, they find it difficult to perform and display, and the positive or negative opinions regarding the services come up only after the completion of the using process. The customer can't touch the services; they albeit can't smell them. In a true sense, it is not a physical object. It has mental connotations. According to Carman and Uhl, a buyer of products (goods) has an opportunity to see, touch, hear, smell, or taste them before they buy.

Of course, we don't find the same thing with the services product. It is the professional excellence of decision-makers that counts here that influences the entire process and that helps them substantially. While selling or promoting services, we need to concentrate on benefits and satisfaction which a buyer can derive after buying. We can hardly emphasize the service itself.

As, for example, the banking organizations promote the sale of credit cards by visualizing the conveniences and comforts the holders of the credit cards are likely to get from the same. Services carry with them a combination of intangible perceptions. As, for instance, an airline sells the seat from one destination to another.

Here, it is a matter of consumers' perception of the services and their expectations not smelling or tasting the services. They expect safe, fast, decent services. A

service by nature is an abstract phenomenon. Thus, it is right to mention that due to intangibility, the selling and marketing of services become much more complicated.

16.3 Perishability

Another point complicating the task of a professional is the nature of perishability that we find in the services. The goods if not sold today can be stored, preserved for further selling. Thus, the risk element is here in a different form. But in the context of services, if we fail to sell the services, it is lost only not for today but even for the future. If a labour stops to work, if a seat in the aircraft remains unsold, if a bedroom in a hotel remains unbooked, if a chair in a cinema hall remains vacant, we find the business non-existent, and the opportunities are lost and lost forever. The services can't be stored or preserved. Unutilized or underutilized services are found to be a waste. A building unoccupied, a person unemployed, credit unutilized, and vacant beds in a hospital are economic waste. Of course, this is due mainly to its perishability. This makes it essential that decision-makers or the executives by using their professionalism minimize the possibilities of economic waste. The opportunities come and you need to capitalize on the same by using your excellence.

16.4 Inseparability

This is also a feature that complicates the task of professionals while marketing the services. The inseparability focuses on the fact that the services are not of separable nature. Generally, the services are created and supplied simultaneously. Like the dancers, musicians, dentists, and other professionals create and offer services at the same time. In other words, the services and their providers are the same. Donald Cowell says, "Goods are produced, sold and then consumed whereas the services are sold and then produced and consumed".

It is inseparability that makes the task of marketing services a bit difficult. The goods are produced at one point and then distributed by others at other points. In the services, we find the selling processes making ways for the generation of services. The professionals while marketing the services thus bear the responsibility of removing or minimizing the gap between the services-promised and services-offered.

Goods are produced, sold, and then consumed but the services are sold, produced, and then used. The inseparability thus makes it essential that the service providers are acting and behaving professionally so that the marketing processes are not to pave the avenues for a degeneration in the quality.

16.5 Heterogeneity

Another feature is heterogeneity which makes it difficult to establish standard. The quality of services can't be standardized. The prices charged may be too high or too low. In the case of entertainment and sports, we find the same thing. The same type of services can't be sold to all the customers even if they pay the same price.

The consumers rate the services in a different way. Of course, it is due to the difference in the perception of individuals at the levels of providers and users. The heterogeneity factor makes it difficult to market efficiently. The professionals by using their excellence bear the responsibility of minimizing the problem.

16.6 Lack of Ownership

It is also ownership that makes it significant to market the services in a bit different way. The goods sold are transferred from one place to another, the ownership is also transferred, and this provides to the buyers an opportunity to resell. In the case of services, we don't find the same thing. The users have just an access to the service. As, for example, a consumer can use personal care services or Medicare services or can use a hotel room or swimming pool; however the ownership rests with the providers. An expert opines, "A service is any activity or benefit that one party can offer to another that it is essentially intangible and does not result in the ownership of anything". Here, it is clear that ownership is not affected in the process of selling the services. The issue of ownership has also been clarified by another expert. He says, "Services are those separately identifiable, essentially intangible activities which provide want satisfaction and that are not necessarily tied to use sales of a product or another services. To produce a service may or may not require the use of tangible goods. However, when such use is required, there is no transfer of permanent ownership to these tangible goods". The same theme of not transferring the ownership has also been supported by Batesan. Here, the focus is on the point that transfer of ownership simplifies the task of a marketer since he/she can use it as a motivational tool. In case of services, the professionals experience difficulties because we don't find any scope for the transfer of ownership. The professionals thus need to be more careful while selling or marketing the services.

16.7 Variability

Physical goods are produced with a high degree of standardization. They are factory produced or assembled in large numbers with enormous consistency. It is rare to find two cakes of soap like Pears or two pieces of car like Alto different from one another. However, this kind of similarity is near impossible in services. For instance, two visits to a doctor or two lectures of a professor are never exactly same. Two

separate stays at a particular hotel are unlikely to be an exact replica of one another. Variability is inherent in services because of their peculiar characteristics including intangibility and inseparability.

There are several reasons that make standardization of services difficult. First, intangibility prevents setting up of precisely defined standards for service product, their conformance, and control. The advances in quality like zero defect has been possible due to their tangible character.

Physical goods have tangible dimensions that permit setting up of quality standards, deviations measurement, and their minimization. Second, service variability is caused by human involvement and customer-provider interactions. Services are produced and consumed in real time.

Unlike goods, services cannot be produced and then quality checked. The lack of separation between production and consumption prevents post-production quality control. A major difference between product marketing and service marketing is that one cannot control the quality of service results, whereas the quality control engineer on a production line can control the quality of his product at any time.

When you buy a box of Tide, you can be sure that it will work to get your clothes clean. When you buy a Holiday Inn room, you are sure to some lesser percentage that it will work to give a good night's sleep without any hassle, or people banging on walls and all the bad things that can happen to you in a hotel'. Each service episode tends to be unique in its own right. The interaction between customer and provider cannot be programmed and controlled cent per cent. In spite of a highly regimented service delivery process, each customer brings unique psycho-social aspect to a service encounter. For instance, service encounters are affected by moods and personality combinations between provider and customer. For instance, service provider's mood and emotional state despite high training is difficult to control like a machine. Similarly, one customer is unlikely to have similar mental state in two service episodes. Service inconsistency manifests in different forms. For instance, quality variation can be experienced across different service outlets, for example, two branches of Cafe Coffee Day (CCD) may provide different service experience (Helmold and Terry 2016). Variations in service can also be found across time too. For instance, the service quality between lunch and dinner services of a restaurant may differ.

16.8 Difficulty to Measure Quality of Services

The quality of service requires another tool for measurement. We can't measure it in terms of service level. It is very difficult to rate or quantify the total purchase. As, for example, we can quantify the food served in a hotel, but the way a waiter or a carrier serves it or overall environment or behaviour of other staff can't be ignored while rating the total process (Helmold and Samara 2019). Hence, we can determine the level of satisfaction at which the users are found satisfied. A firm sells atmosphere, conveniences, consistent quality, status, anxiety, moral, etc.

16.9 Lean Management Principles in Service Sector

Companies in the service sector are constantly under pressure to deliver excellent customer service, faster response times, and valuable support for their customers. Lean can help to optimize all service delivery processes by targeting wastes and either removing them completely or move to a more effective state as part of a journey of continuous improvement.

An IT company, for example, is very different from a manufacturing company; however it still has many wasteful processes that could be removed or reduced. Lean tools and techniques can improve the customer experience by reducing unnecessary activities such as the number of call transfers and unnecessary IT processes while also providing solutions to cut down on errors, maximize employee empowerment, and become more cost-effective.

Financial firms are a prime example of a service sector that cannot afford to be wasteful, due to strong competition, the impact of the recent financial crisis, and vulnerability to economic downturns. Yet, it is claimed that at least 40 percent of costs in the financial sector are spent on wasteful activities that have no added value to the customer. Although they cannot control the fluctuating economy, financial companies can however invest in refining and redefining their own operations to ensure more effective and customer-focused operation.

Lean thinking can provide businesses such as banks, insurance, and investment companies with more productive and cost-effective solutions, therefore reducing risk during an economic dip. Lean would also help to improve employee satisfaction, increase customer value, and ensure the supporting activities are focused on delivering value.

Marketing companies have so many different processes to their business that without effective coordination in place, mistakes can easily occur. Every task needs to include a thorough process of planning, writing, designing, and proofing to generate a high enough standard of quality for their clients. These ongoing processes are not only extremely time-consuming, but with different tasks being assigned to different departments, project efficiency could also be compromised.

Lean implementation can help marketing companies to streamline their processes by removing tasks that are unnecessary and implementing a much more efficient approach. In doing so, lean also provides a direct improvement on work quality and therefore provides added value for the customer. This allows lean marketing companies to have that added edge over their competitors.

16.10 Case Study: McDonald's Lean Kitchen Area

Lean is defined as a process optimization methodology that focuses on improving the effectiveness and efficiency of a business process by eliminating activities that do not add value to the customers of the organization.

Lean can help service organizations to achieve significant performance improvement. The improvement can be in many dimensions including quality, productivity, cost-efficiencies, and profitability and customer satisfaction.

Service organizations are struggling with customer demands for better quality service and managerial demands for cost reduction. McDonalds is undertaking regular approaches in order to improve the service levels. These workshops are aiming to improve Lean Services and thus to reduce cost. The Lean Services are conducted by lean experts with employees. Based on this concept of permanently Lean Services McDonalds could permanently improve the performance of its employees and operations.

Since the early days of lean, it has been well proven that organizations of any size generally operate with around 90 percent of process-oriented “waste” leaving a mere 10 percent of value-added activity delivering services to their customers.

Lean was developed and implemented by the Toyota Manufacturer between 1945 and 1970. Lean was introduced as an alternative approach to mass production techniques. Lean led to raise productivity and quality levels by allowing flexibility of “skilled” production with the volume efficiencies of “mass” manufacturing.

The McDonald brothers, in 1948, closed their restaurant San Bernardino, California, for 3 months, reopening it in December as a walk-up hamburger stand that sold hamburgers, potato chips, and orange juice, and created the “fast-food” concept. This is probably the first lean service implementation in food sector.

16.10.1 Self-Development of Lean Kitchen Area

The McDonald's company has specialists who design the kitchen area themselves, integrating their acquired knowledge into a lean assembly line-style layout that maximized efficiency and output.

16.10.2 Automated Orders from Customers

McDonald's produces food under highly automated and controlled conditions. What is important to understand about this remarkably successful organization is not only that it has created a highly sophisticated piece of technology but also that it has done this by applying a manufacturing style of thinking to a people-intensive service situation. If machinery is to be viewed as a piece of equipment with the capability of producing a predictably standardized, customer-satisfying output while minimizing the operating discretion of its attendant, that is what a McDonald's retail outlet is. It is a machine that produces, with the help of totally unskilled machine tenders, a highly polished service.

16.10.3 Warming Bins

In the “Made for You” production system, there are no more warming trays. Each sandwich is prepared when the order is received from the customer. Yes, McDonald’s sandwiches are more lean. This “Made for You” production system targets under 90 seconds from order to delivery and that includes 11 seconds of waiting for the superfast toaster!

In now, the McDonald’s invest in front desk automation. Customers place their order at touch screens and then receive a number with a “digital locator”, which then notifies staff to where the customer is sitting. Once the order is ready to serve, a McDonald’s employee delivers the food to the customer’s table.

16.10.4 Lean Processes and Standardized Material

The company uses a and standardized and simplified menu and food preparation using assembly flow principles. This allows the company to produce hamburgers on demand and on customer orders. The order-on-demand system is a pull system, in which every requested item is produced individually for each customer. The limited menu helps the company to achieve economies of scale in the upstream business, too. As a result the process and procurement cost are very low (Fig. 16.2).



Fig. 16.2 McDonald’s lean operations. (Source: Author’s Source)

References

- Helmold, M., & Samara, W. (2019). *Progress in performance management. Industry insights and case studies on principles, application tools, and practice*. Heidelberg: Springer.
- Helmold, M., & Terry, B. (2016). *Global sourcing and supply management excellence in China. Procurement guide for supply experts*. Singapore: Springer.
- Rudnika, J. (2018). Statistik der Dienstleistungsbranche. Statista. Retrieved 1.12.2019. <https://de.statista.com/statistik/daten/studie/255682/umfrage/bruttowertschoepfung-nach-wirtschaftsbereichen/>.