Success in services means more than just pleasing the customer.

How Does Service Drive the Service Company?

Michael R. Quinlan
Chairman and CEO
McDonald's Corporation
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In “The Service-Driven Service Company” (September-October 1991), Leonard A. Schlesinger and James L. Heskett correctly assert that there is no longer room in the marketplace for service companies that apply a production-line, industrial-based approach to business at the cost of customer satisfaction.

At Hamburger University, the focus is on giving employees the authority to do “whatever it takes” to serve customers.

It is because I concur so strongly with this underlying premise that I was shocked not to find McDonald’s identified as an example of a forward-looking company that is setting ambitious benchmarks for tomorrow’s service industry. Instead of writing about the McDonald’s of the 1990s, the authors chose to examine the McDonald’s of 10 and 20 years ago. Speed of service, clean surroundings, and dependable quality are critical components of McDonald’s formula, but they have never been either the starting point or the goal of our business. At McDonald’s, customer satisfaction is, and has always been, what’s made us the industry leader and what continues to drive the increases in our market share.

As company founder Ray Kroc said, “The customer is number one. After all, that’s the name of the game.” Nice words? Yes, but words backed by action is where it counts – on the front line where the customer is served. There are precious few companies in the world that direct a greater portion of their resources at that critical point of contact than McDonald’s does.

Much of the continuing, extensive consumer research we do pertains to customer satisfaction, enabling us to monitor customer feedback and integrate that data into actionable information for our franchises and restaurant managers, where it can be immediately applied to improving service.

At our Hamburger University training facilities, today’s curriculum emphasizes pushing authority as far down the organization as possible – listening to and empowering crew employees to do “whatever it takes” to deliver the best possible experience to our customers and to solve problems on the spot.

Building on training systems that have been state-of-the-art for years, McDonald’s most recent and ambitious initiative is a series of face-to-face orientations on “customer care” that ultimately will touch every employee in every one of our more than 12,000 restaurants. We have a field-service support team in place to work this emphasis on customer care into our day-to-day operations. This program will lead to local restaurants conducting their own consumer-focus groups, employee rap sessions, complaint tracking systems, and other frontline, service-enhancing actions.

But our efforts don’t stop with training. In order to truly deliver on the promise of customer satisfaction, store managers must be free to interact with customers, and that is where the company’s advances in technology to support frontline efforts of employees come into play. Many years ago, McDonald’s was the first quick-service company to put computers into the hands of local managers to reduce the time they had to spend away from the counter doing inventory control, labor scheduling, preparing restaurant profit and loss statements, and the like.

The company was the first to introduce the concept of outsourcing food preparation work that did not have to be done in the restaurant itself and the first to introduce such innovations as direct-draw shake machines and double-sided “clamshell” grills that cook both sides of a hamburger simultaneously. These innovations improved speed of service and the quality of our finished products and enabled the staff to spend more time on face-to-face customer service.

Technology at McDonald’s is also making it possible for our restaurants to offer more food choices from
kitchens that have never been simpler to operate. Our goal has long been to deliver a meal within 60 seconds of the order being placed, and even with our new menu options, that average has not slipped.

In commenting on McDonald's and our competition, the authors miss some important points: that objective and independent financial institutions - such as First Boston, Merrill Lynch, Kidder Peabody, Goldman Sachs, and Solomon Brothers - have concluded that McDonald's remains an excellent long-term investment; that over the past five years, we have boosted expansion by 20%, while return on assets and return on equity have averaged about 18% and 21%; and that our cash flow from operations, net income, and net income per share have grown at double-digit compounded annual rates for the past ten years.

Finally, the authors note that, "as yet, no single company has put all the pieces of this new service model together." Once again, I can only agree. We do not have all the answers - neither do others in our industry nor the authors themselves. However, we are confident that we know where to look for both the questions and the solutions of tomorrow, whether these be in continuing to pay in excess of the minimum wage, continuing our five-year record of increasing turnover, or implementing compensation systems linked to specific customer-satisfaction criteria.

Keeping our eyes on the customer is our single focus for the 1990s. In the 70s, we focused on serving the customer; in the 80s, we emphasized satisfying the customer; and now, in the 90s, our goal is to exceed customer expectations - building sales and profits, widening the gap in differentiating McDonald's from the competition, and setting new benchmarks for the entire service industry.

Ron Zemke
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Bully for Schlesinger and Heskett! An organization's reputation for quality customer service is indeed built one customer and one contact at a time. Most frequently, that contact is a face-to-face, living, breathing, human contact. And as the authors imply, have an aggressive concern that the work systems, policies, and procedures of the organization empower rather than impede frontline success with customers. Implicit in the spectrum of senior management responsibilities that the authors specify is one other that has weighed heavily in our service quality work: management vision.

Time and again we have seen service quality improvement efforts flounder because senior management failed to communicate clearly its vision of quality service. Training, systems design, policy, procedure, and even supervisory behavior must reflect a clear, consistent view of what the organization is trying to achieve for the customer. Without this laser sharp focus, frontline people are left to guess for themselves what a quality outcome looks like. Many will guess correctly. Frontline employees are, after all - as Schlesinger and Heskett rightly point out - thinking, consuming adults themselves. But some will not guess correctly. The resulting inconsistency of action creates no advantage for the organization. Only senior management can create, articulate, and communicate the sort of vision that leads to the sort of real-time, frontline performance that is critical to success in today's service-conscious marketplace.

Jim Snider
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Partners in Education
Author
Future Shop (to be published in January 1992)
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In their ambitious article, Schlesinger and Heskett present a fascinating description and explanation of a changing service world. But they fail to define this world adequately and to recognize that its constituent parts are driven by fundamentally different economic forces. The lessons learned from Taco Bell are not must, as Schlesinger and Heskett imply, have an aggressive concern that the work systems, policies, and procedures of the organization empower rather than impede frontline success with customers. Implicit in the spectrum of senior management responsibilities that the authors specify is one other that has weighed heavily in our service quality work: management vision.

Time and again we have seen service quality improvement efforts flounder because senior management failed to communicate clearly its vision of quality service. Training, systems design, policy, procedure, and even supervisory behavior must reflect a clear, consistent view of what the organization is trying to achieve for the customer. Without this laser sharp focus, frontline people are left to guess for themselves what a quality outcome looks like. Many will guess correctly. Frontline employees are, after all - as Schlesinger and Heskett rightly point out - thinking, consuming adults themselves. But some will not guess correctly. The resulting inconsistency of action creates no advantage for the organization. Only senior management can create, articulate, and communicate the sort of vision that leads to the sort of real-time, frontline performance that is critical to as readily applicable to Sears as the authors imply.

In particular, the authors fail to make the important distinction between what I call "transaction services" and "information services." An information service is the type of service a salesperson at Sears provides. The salesperson gives advice about a product and then expects the customer to purchase it. A transaction service is the type of service that an order taker at Taco Bell provides. As an intrinsic part of the product ultimately sold, the order taker quickly and attentively waits on the customer.

This may at first seem like a small distinction, but in fact, there is a critical economic difference. With an information service, the customer has a strong incentive to take advantage of the service without paying for it. Such cheating is not possible with a transaction service, since the purchase is an intrinsic part of the service. As a result, improved customer satisfaction for a transaction service will translate directly into increased sales. But this is not so with an information service.

This fact is not lost on the retail industry. In the last few years, for example, many service-oriented retailers have opposed bills proposed in Congress to tighten restrictions on
Leonard A. Schlesinger and James L. Heskett Respond:

Our article, "The Service-Driven Service Company," attracted comments from executives representing a formidable list of service companies. They have much to be proud of in terms of the collective accomplishments of their organizations. And yet their comments remind us again of the difficulty of seeing whole a service-driven strategy for the 1990s. Like the blind men attempting to identify an elephant by feeling the animal in different places, these comments, as well as the research and experiences that the commentators cite, focus on selected pieces of a much larger puzzle.

Both Dinah Nemeroff and Michael Quinlan emphasize the importance of putting customers first and designing a strategy to satisfy them. Ms. Nemeroff takes us to task for putting frontline service workers first and designing the service strategy around them. The importance of customer satisfaction is implied in what we said; perhaps we didn't state it strongly enough. But the growing body of data we have collected thus far suggests that customer satisfaction is rooted in employee satisfaction and retention more than in anything else, including clever technology (especially clever technology, since competitors can so easily replicate it). To go one step further, if the technology restricts employee latitude and perhaps even customer choice, as is the case in some of the businesses we have observed, it can actually create a constraint on strategic alternatives and long-term performance.

Ironically, after acknowledging the importance of employees in McDonald's service equation, Mr. Quinlan returns to an extended description of new technologies being employed by the company, technologies designed to restrict rather than expand employee latitude. This is, in fact, what we would expect of the CEO of a company that has followed so successfully the industrial model for designing and implementing the service encounter and delivery system.

Contrast these comments with James Perkins's reminder of Federal Express's corporate philosophy: people, service, profit. These priorities are roughly in the same order as the priorities our article outlines.

Steven Reinemund maintains that our cycle of failure argument presents too simple a view of the need for new service models. Price-value comparisons, says Reinemund, are the primary reasons customers vote with their feet in purchasing services. What is the source of favorable price-value relationships? Employees and organizations that provide high-quality service and low costs, providing the leverage that allows for the latitude to deliver extraordinary price-value relationships.

Jim Snider claims that our arguments are not universally valid, that for what he calls "information services," it does no good to emphasize more satisfying customer relationships. The customer, he says, will use an information-providing, high-cost outlet to make an informed buying decision but will actually buy from a low-service, low-price competitor. The implication here is that the information-providing organization has to be high cost. We disagree, even though the irony is that his example company, Sears, has achieved neither a high-information nor a low-cost position. Sears exposed itself to the customer-behavior problem that Mr. Snider describes when it began featuring more nationally branded than private-label merchandise. A service-driven strategy backed up by Sears's highly valued private-label merchandise would, we believe, have provided the basis for bolstering its store-floor selling and service capability.

Once having abandoned both initiatives, what would Mr. Snider have Sears do—try to compete by emulating competing discounters? He is probably right that a return to a service-driven human resource strategy will be of little help now, only if it is coordinated with other carefully designed moves involving branding, logistics, and other initiatives could Sears hope to return to its former standing. No one medicine can cure this patient.

We could continue to respond to comments concerning portions of our article, but to do so would obscure our central arguments. They were that: [1] any effective service strategy comprises a number of care-

retail price maintenance. One of their major arguments is that without retail price maintenance, consumers will shop their stores for product information and then buy at a mail-order house or local discounter. Only with retail price maintenance can retailers be assured that they will see a return on their investment in information service. Similarly, department stores and other high-service retailers frequently justify their use of derivative and private label merchandise on the grounds that this is the only way they can continue to provide high-quality service.

In their attack on the quality of sales help at department stores such as Sears, Schlesinger and Heskett fail to account for the astonishing growth of wholesale clubs, which provide no sales help at all. These warehouse clubs are selling the same type of appliances, consumer electronics, and office supplies that Sears has thrived on for many years. Many consumers are more than happy to shop Sears and other service-oriented retailers for their information and then buy from low-price warehouse clubs. No
“Customer Satisfaction Is Rooted in Employee Satisfaction”

fully integrated, internally consistent elements; (2) the model that industrializes a service has worked well in the past for organizations like McDonald’s, but [3] another model—one that emphasizes the human factor in association with technology that improves service to customers and increases employee satisfaction—is a promising alternative to industrialization.

Putting this in perspective produces what we would call a “service profit chain.” Its goal is not customer satisfaction, as Dinah Nemeroff maintains, but profit. And that profit is most closely linked to customer retention: customer retention is a primary determinant of what we call “quality of market share”; and as a determinant of profitability, quality of market share will gain as much attention in the 1990s as market share did in previous decades.

Customer retention results from customer satisfaction, which, as Steve Reinemund suggests, is determined largely by the value the customer perceives. Perceived value results from a comparison of service/product quality with price and other costs of acquiring the service/product package. Value, service quality, and costs are driven in turn by employee retention, employee satisfaction, and the quality of the internal service support that employees use to help customers—found to be an even more important determinant of employee satisfaction than compensation levels are.

Our data suggest as well that employee satisfaction is especially high in service organizations that not only deliver high value to customers but do it through frontline service workers who are carefully selected, well-trained, given latitude to solve customer problems, compensated at least in part on their performance, and even given responsibility for ensuring that their positions are staffed. It is this model that allows managers to act as coaches rather than supervisors and increases spans of management control to 20, sometimes even 40, employees to 1 manager. At the same time, it reinforces the satisfaction of employees who like to be members of winning teams.

Our article proposes one highly effective model for achieving outstanding, high-value service. Increasingly, we believe it will prove to be successful against strategies that employ more and more job-narrowing technology, restrictive controls, and programmed behavior that reduce the human element in service delivery beyond a point acceptable to many consumers. Though this service model will not appeal to all customer segments, especially those seeking little or no human interaction in the service transaction, it will have enduring qualities of being differentiable and hard to emulate. What’s more, it will offer the potential of high value to both customers and the people who serve them, the heart of a service-driven service company.

The Service Profit Chain

- Internal Service Quality
  - Employee Satisfaction
    - Employee Retention
      - External Service Quality
        - Customer Satisfaction
          - Customer Retention
            - Profit

wonder a Sears salesperson recently remarked to me that Sears had no choice but to lower its sales commissions, once among the highest in the industry. Customers may be more satisfied with the service, but that does Sears no good if it doesn’t get the order.

We are led to this paradoxical and disturbing conclusion: with transaction services, increased competition leads to better service. But with information services, exactly the opposite happens: the more competitive the marketplace, the worse the service. This, indeed, is exactly what has happened in the consumer electronics industry. As superstores, warehouse clubs, and mail-order companies have sprouted up all over the country, competition has increased and information service declined. It is Sears’s misfortune that its industry obeys such a dynamic. Under these circumstances, suggesting—as Schlesinger and Heskett do—that Sears and other similar retailers increase their emphasis on sales help is like suggesting to a drowning victim that he gulp down more water.
Dinah Nemeroff  
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Citibank, N.A.  
New York, New York

Indeed, companies must be service driven. Foremost, they must be customer satisfaction driven. Schlesinger and Heskett assert “the new [service] model puts frontline workers first and designs the business system around them.” The optimal model, however, puts customers first and designs a business around their satisfaction.

While Schlesinger and Heskett point out several significant cost issues, I disagree that “the economics of customer loyalty are only now beginning to be worked out.” The bottom-line impacts of customer satisfaction are knowable and, in many cases, well-known — in terms of both expense reduction and revenue growth. Increased satisfaction demonstrably leads to higher customer revenue.

Citibank analysis shows that highly satisfied branch banking customers increase their business nearly 50% more than less satisfied customers. Similarly, highly satisfied corporate customers of Citi’s foreign exchange business are three times as likely to select us as one of their primary dealers. These kinds of quantifications are as critical as a business’s income statement in establishing true returns on investment.

The client-feedback process used to obtain these satisfaction benchmarks can also yield business design diagnostics. Not only the customer-contact staff, discussed by the authors, but also customers themselves can provide a wealth of information on how to invest for satisfaction.

Customers can pinpoint satisfying (and dissatisfying) staff behaviors: for instance, we’ve learned that a service rep who must consult a supervisor to make certain decisions, a routine typically endorsed by management, is seen by some customers as less than fully competent. Customer-calibrated thresholds can be used to de-
and in the case of McDonald's and Sears, I believe consumers have voted for better price-value alternatives.

Robert Ayling
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I work in an industry whose main unit of production is an aircraft seat traveling 500 mph at 33,000 feet. This seat does not differ greatly from that of our competitors. Our customer is forced to sit in this seat for up to 13 hours, and the demand for the seat is a derived demand based on the customer's desire to be in a different location at a certain time.

Given this unpromising start, the level of service given to our customers by our frontline staff is the major factor in determining how we can attract new customers and retain existing ones, and, as a consequence, how profitable a share of the available market we can secure.

I therefore agree with much of Schlesinger and Heskett's article. It consolidates and then builds on the approach that many service-oriented companies adopted in the 1980s: putting people first, both customers and employees. The article also underlines the fact that, when the inevitable economic downturns are with us, frontline employees are crucial to a company's survival.

Further, I believe the authors successfully identify the battleground on which many of the leading service companies will either survive or perish in what has become an increasingly competitive environment. But I want to add two caveats:

1. Beware of underestimating the value of middle managers. To succeed in the approach the authors advocate would require substantial changes in the culture of many organizations. Those changes are best achieved through a process of management development: identify desirable management practices; gain

commitment, manage performance, achievements, and behaviors; and introduce performance-related pay.

2. Beware of sacrificing technological support systems. With the advent of the technological age, I believe we are having some difficulty in understanding the complex relationship between worker and machine. Perhaps the pendulum swung too far in favor of technology in recent years, causing an excessive compensatory swing in the opposite direction. Finding the right balance is not easy, but the rewards of matching a skilled work force with an appropriate level of technology are substantial.

If one embraces much of the thinking outlined in "The Service-Driven Service Company" and acts on it, what happens when one's main competitors have done the same? The main challenge then moves from winning new customers to retaining existing ones. The role of frontline staff remains of paramount importance in this newly focused objective.

The retention of customers can be briefly defined as: service delivery = zero defects; and service recovery = zero defections. Our statistics tell us that customers who experience bad service complain, on average, to 11 people, while those who experience good service tell only 6 people. Further, it is said that it is 5 times more expensive to attract a new customer than it is to retain one. In light of these figures, Schlesinger and Heskett's article becomes even more relevant.

Karmjit Singh
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Schlesinger and Heskett's article is a timely reminder that even the most successful companies are vulnerable to the "cycle of failure" if they lose sight of key customer service objectives and the means to achieving them. What's more, their service model is validated by the recent experience of the airline industry.

The progressive deregulation of civil aviation in the 1980s has done much to erase the widespread apathy many airlines previously showed toward implementing effective human resource management and putting their customers first. By progressively leveling the playing field of a once heavily protected and inefficient industry, deregulation has exposed the weakness of carriers who have clung to a "production line" or "industrial" approach to human resource management.

Equally, deregulation has highlighted the success of carriers with service-driven cultures. Those with a history of striving for higher levels of customer service, like Singapore Airlines, have been able to reap the rewards of a more open and competitive environment.

We agree with the authors that the only way to guarantee that customers are satisfied is by making sure that those who serve them are satisfied with their jobs and have a positive attitude. You cannot instruct staff to be courteous and customer responsive; it has to come from staff members themselves. This means devolving responsibility and decision-making authority to the front line.

This was best illustrated by SIA's Outstanding Service on the Ground (OSG), a three-year development program for ground service staff completed last year. The theme of the final year was "Dare to Break the Rules: Being a Service Entrepreneur."

SIA's commitment to satisfying and motivating its staff lies at the heart of its corporate philosophy. Investment in human resource development is one area of the airline's operations that has remained sacrosanct, despite the vagaries of cyclical financial conditions. It is simply too important.

The emphasis is not solely vocational. SIA's human resource development program aims to upgrade not only job-specific skills but also individual capabilities in all areas of life. As a result, the airline has a creditable staff turnover rate of around 5.6%. Quite sensibly, unless a company succeeds in fulfilling the expectations of its own staff, it will have difficulty satisfying its customers.
DEBATE

James A. Perkins
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Leonard Schlesinger and James Heskett have captured the crucial success factor for service companies—keeping employees satisfied. In identifying the four necessary components of the new service model, the authors claim that “as yet, no single company has put all the pieces of this new service model together.” With due respect to the authors, Federal Express has successfully incorporated all four elements of the new model.

1. “Value investments in people as much as investments in machines, and sometimes more.” Federal Express, from its inception, has put its people first. Not only is it right to do so, but it is also simply good business. Our corporate philosophy is succinctly stated: People, Service, Profit (P-S-P). We believe that if we put employees first, they in turn will deliver the impeccable service demanded by our customers, who will reward us with the profitability necessary to secure our future.

The Federal Express approach is to satisfy employees’ basic needs through job security, clarity, rewards, and justice. Our management practices reflect our P-S-P philosophy by enacting progressive employee relations programs such as Survey Feedback Action, Open Door Policy, and the Guaranteed Fair Treatment Procedure.

Our commitment to “people first” is further demonstrated by our excellent health benefits, employee assistance programs, and employee safety and wellness programs.

Our corporate climate encourages open communications and feedback throughout our work force. Federal Express has designed a number of formal methods for employees to communicate directly to upper management through the corporate newspaper, UPDATE, the corporatewide television station, FXTV, and departmental quality action teams.

2. “Use technology to support the efforts of men and women on the front line, not just to monitor or replace them.” State-of-the-art technology at Federal Express includes PRISM, our paperless personnel records information system, and interactive video, which combines computer technology and audiovisual capabilities so that employees can train themselves with little or no supervision. Couriers use handheld computers to relay all package information to a centralized computer, enabling fast retrieval of information on all shipments.

3. “Make recruitment and training as crucial for sales clerks and housekeepers as for managers and executives.” Federal Express is committed to promoting from within; outside applicants are hired only when qualified employees cannot be found in the existing employee ranks. We have centralized field-recruitment centers and conduct panel or multiple interviews to maximize the likelihood of hiring the best candidate. We are completely committed to affirmative action and equal employment opportunity principles. Special recruitment efforts are continuous. Federal Express employs the blind, hearing impaired, and other people with disabilities. All new employees receive an orientation that includes an introduction to both the P-S-P and the quality philosophies of the company. The importance of specific job training skills are emphasized in all groups of hourly employees. For example, hub package handlers receive 40 hours of training, new couriers 160 hours, and new customer service agents 200 hours. Job-skills training, quality improvement training, and management training are ongoing and vital to employee job success and employee retention. Our overall corporate turnover rate is .6%—down from .8% last year.

4. “Link compensation to performance for employees at entry level, not just for those at the top.” All pay groups are eligible for special compensation programs. As an example, Federal Express’s pay-for-performance program rewards domestic customer-contact hourly employees for experience and knowledge of the job. Known as Propay, this lump-sum bonus is available to 50,000-plus customer-contact and package-handling employees once they reach the maximum rate.

How do we know that these four elements lead to employee satisfaction? In our most recent annual survey of all U.S. employees, 85% said they are proud to work for Federal Express. How does that relate to market share? The latest market figures give Federal Express 42.5% of the total air cargo market. The final test of any company’s success resides with its customers. We ask our customers continuously how well we are meeting their needs. Our most recent customer survey, conducted by an independent agency, reported that 95% of our customers are completely satisfied with our service.

We have no argument with the Schlesinger and Heskett new service model, or with their belief that employee satisfaction is the critical success factor. In fact, we would argue that Federal Express has spent its entire 18 years of existence proving that the authors’ model is absolutely, positively correct.

Joseph E. Antonini
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Kmart Corporation
Troy, Michigan

Kmart is in the midst of a renewal. Like Schlesinger and Heskett’s model company, Kmart has recognized the need to update its customer service. We have done this through improvements in technology, training, and management.

Technology. Our technology renewal has always kept the customer in mind. We have installed scanning cash registers and instantaneous credit-card approval to speed up transaction time at our checkouts. We will soon have an electronic check-approval system in place. This same scanning equipment allows us to
track peak customer-traffic times so we have more operators on duty to serve our customers. Scanning information provides us with customer buying trends so that we can supply the goods they want. Technology has changed our stockrooms to processing centers. New merchandise is electronically scanned and verified, ready to be placed on the sales floor. This not only saves time in the back, but also improves our in-stock position, another customer demand. As new technologies save our associates time, we are better able to control salary expenses by eliminating unproductive tasks and putting the associates where they are needed, helping customers.

Training. We have developed a comprehensive training program for all of our associates called Path to Excellence. Training creates not only service-oriented associates (all our training materials stress the benefits of outstanding customer service) but also more efficient associates, who can therefore spend more time helping customers. To ensure that we are hiring customer-oriented associates, we have instituted a preemployment screening process. We test new hires to identify those who show an aptitude for customer-service job skills, a program that has already won numerous awards.

As Schlesinger and Heskett note, turnover in the retail industry is high. Kmart has prided itself on having a large group of dedicated long-term associates. This year alone we will have more than 500 associates celebrate their 20th anniversary with the company. Kmart is further reducing turnover with several new programs. For example, we now have annual pay-for-performance reviews for associates. We have increased our recruiting of nontraditional employees; most areas of the country now employ people with disabilities and seniors as associates. We provide inner-city youth with job training, career counseling, and a position in a local store. Our future strength lies in our associates; they are who we count on to serve customers.

Management. Our management team is both responsible for this renewal and very much a part of it. We are a big company, and as such tend to have problems communicating. Through a satellite system, however, we are able to communicate weekly with field managers, who can call in with questions and comments. This link allows us to clear up any misunderstandings and lets managers share their success stories with the rest of the chain. With a more thorough understanding of their priorities, store managers can better focus on those priorities and have more time to be where they are needed, on the sales floor exceeding customer expectations.

And for the first time in Kmart’s history, we have developed an organizational chart for the stores. New guidelines for all stores and clear reporting lines give associates more authority to make decisions that affect customer service. In the past, for example, associates did not have the authority to approve checks and instead had to call a supervisor to do it. This policy was not customer driven, so we changed it. Associates now approve checks themselves, without supervisor approval.

Walter F. Loeb
President
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New York, New York

I agree with Leonard Schlesinger and James Heskett that quality has deteriorated in many service organizations. My experience in the retail industry confirms this.

There is a tremendous and accelerating personnel turnover rate within this industry. Department stores and specialty retailers have had payroll turnover of more than 150% per year. Today young people have many employment choices, and there are good reasons why some are quickly disenchanted with retail establishments. The hours are inconvenient. Working on Friday nights, Saturdays, or Sundays does not exactly have social rewards. After all, a spouse or friend is not likely to have the same sched-

Too many service companies fail to create excitement and a feeling of belonging for employees.

ule, yet customers want to shop at these times.

The hours are long. Most retailers still require a 40-hour week instead of the standard 35 hours in most other industries.

The pay is low and unattractive relative to other industries. To some retail managements, profit margins dictate a low salary structure.

There are few stores that recognize a job well done. The new employee is likely to report to an entrenched staff that established its work habits in the dark ages (based on the industrial models Schlesinger and Heskett discuss).

Customers can be abusive even in the most friendly, nonhostile retail atmosphere.

Performance pressure can be counterproductive, causing many employees to leave.

On the other hand, there are a great many opportunities for growth and advancement. The retail industry accepts women and men on an equal footing and is generally color-blind. There are many opportunities in the buying, store management, and technical support areas, and these opportunities can lead to growth. This creates excitement.

Very few companies have real acceptance from young people today. Stores like the Gap, the Limited, Crate & Barrel, Merry-Go-Round, and a few others are unique in having more applicants than they can handle. A new employee can quickly rise from salesperson to department head, department manager, night manager, day manager, assistant store manager, and so on, with small pay increases and performance recogni-
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rather than asked, encouraging passivity. What’s more, employees do not care about company growth. At Crate & Barrel, on the other hand, management shares plans, successes, and failures with their associates. The company acts quickly on suggestions and ensures that most employees give their best. There are celebrations of all kinds; it is fun to belong to this organization.

Overall management objectives such as offering growth, value, and service have to be understood and assimilated by the entire organization. Quality of the merchandise inspires pride in the company, value in the promotion reflects honesty in dealing with the customer, and service means that the total company understands the importance of being here today and building for tomorrow.

ERRATUM

Because of an editing error, the table, “Pay for Supervision or Pay for Service?” in Leonard A. Schlesinger and James L. Heskett’s article “The Service-Driven Service Company” [September-October 1991], incorrectly figures the hypothetical total pay for 84 area managers as $53,760,000 instead of $5,376,000. As a result, the incremental savings in the “Today” column and the total savings in the “Tomorrow” column are inflated by $48,384,000. The correct figures for the savings are, respectively, $44,830,000 and $81,880,000.