



Service Quality and Customer Relationship Management



SYLLABUS

Introduction to Quality

Defining Quality and introducing TQM, Customers and suppliers as dimensions of Quality, Commitment and culture as essential components of TQM, Building blocks of TQM: People, Performance, Systems & Process, Introducing the Quality Gurus – Deming, Juran & Crosby, and their Management Philosophies.

The Malcolm Baldrige Quality Award

Summarise the history of the Malcolm Baldrige National Quality Award and the role it has played in the U. S. Business Community. Describe the Baldrige Award's purpose and the Core Values and concepts that structure the awards criteria. Summarise the Baldrige Awards, Leadership; strategic planning; Customer and Market Focus; Information and Analysis; Human Resource Focus; Process Management; Business Results Criteria and explain how Ritz – Carlton meets them, Explain Ritz – Carlton leadership system.

European Foundation for Quality Management (EFQM)

Introduce EFQM and the European quality award, EFQM excellence model, Efqm's fundamental concepts of excellence, Understand the key terminology.

ISO 9000:2000 Series

The background and evolution of the iso 9000 standards, Understand the structure of the iso 9000:2000 series, Outline the key components of the quality management system prescribed by iso 9001:2000 Enumerate the principal quality management principles contained in the iso 9000 standards, Discuss the main advantages and criticism of iso 9000.

Six Sigma

Define six sigma and outline its objectives, Introducing the dmaic methodology underpinning the six sigma approach, Contrast six sigma with TQM, Illustrate the main benefits of adopting six sigma, List key tools and techniques used in six sigma, Familiarization with key terminology, Revision & review exercises

Customer Relationship Management

Introduce CRM and its importance as a marketing technique, Outline, using examples, key steps and best practices in CRM implementation, Describe the E-CRM concept, Highlight, with the help of case studies, the particular usefulness of CRM to companies in the hospitality sector.

Lifetime Value & Customer Profitability Analysis

Define customer lifetime value and discuss its objectives, Using a hypothetical dataset, outline the key steps involved in conducting LTV analysis, Introduce the concept of customer profitability analysis, Explain how companies can create value from the data generated by, LTV and CPA analysis.

Service Excellence

Introduce the concept of service excellence, Describe the four components of service, Enumerate the key factors in delivering superior service to customers, List the key requirements for empowering frontline employees, Identify the four stages of empowerment, Highlight global best practices in service excellence.

Service Quality

Explain the concept of service quality and discuss the pioneering research by parasuraman, zeithaml & berry into the attributes and dimensions of service quality, Introduce servqual and gap analysis as techniques to measure service quality, Discuss the service-profit chain and its application, Describe, with examples, the concept of service guarantees and identify the qualities of a good service guaranty, Enumerate the objectives of conducting roq analysis and its utility

Suggested Readings:

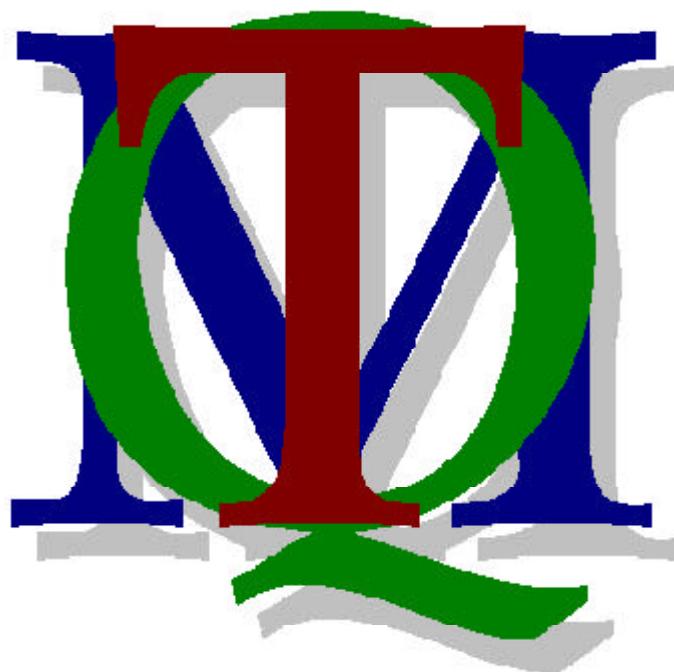
Total Quality Management, S.D. Bagade, Himalaya Publishing House

Total Quality Management, K. Shridhara Bhat, Himalaya Publishing House

Customer Relationship Management, Francis Buttle, Butterworth-Heinemann

Customer Relationship Management, Shainesh G. and Jagdish N. Sheth, Macmillan Publisher

INTRODUCTION To QUALITY



Key Learning Outcomes

After reading this chapter, you should be able to:

- Define the term “Quality”
- Explain TQM as a management philosophy
- Discuss the critical success factors for TQM implementation
- Compare the philosophies and approaches of the three quality “gurus”- Deming, Juran & Crosby



Outlines of Lesson Plan

- Defining Quality and introducing TQM
- Customers and suppliers as dimensions of Quality
- Commitment and culture as essential components of TQM
- Building blocks of TQM: People, Performance, Systems & Process
- Introducing the Quality Gurus – Deming, Juran & Crosby, and their Management Philosophies
- Revision and review exercises

TOTAL QUALITY MANAGEMENT

Introduction

TQM is *the* way of managing for the future, and is far wider in its application than just assuring product or service quality – it is a way of managing people and business processes to ensure complete customer satisfaction at every stage, internally and externally. TQM, combined with effective leadership, results in an organisation doing the right things right, first time.

The core of TQM is the **customer-supplier** interfaces, both externally and internally, and at each interface lie a number of processes. This core must be surrounded by commitment to quality, communication of the quality message, and recognition of the need to change the culture of the organisation to create total quality. These are the foundations of TQM, and they are supported by the key management functions of people, processes and systems in the organisation.

This chapter discusses each of these elements that, together, can make a total quality organisation.



What Is Quality?

A frequently used definition of quality is “*Delighting the customer by fully meeting their needs and expectations*”. These may include performance, appearance, availability, delivery, reliability, maintainability, cost effectiveness and price. It is, therefore, imperative that the organisation knows what these needs and expectations are. In addition, having identified them, the organisation must understand them, and measure its own ability to meet them.

Quality starts with market research – to establish the true requirements for the product or service and the true needs of the customers. However, for an organisation to be really effective, quality must span all functions, all people, all departments and all activities and be a common language for improvement. The cooperation of everyone at every interface is necessary to achieve a total quality organisation, in the same way that the Japanese achieve this with company wide quality control.

Customers and Suppliers

There exists in each department, each office, each home, a series of customers, suppliers and customer-supplier interfaces. These are “the quality chains”, and they can be broken at any point by one person or one piece of equipment not meeting the requirements of the customer, internal or external. The failure usually finds its way to the interface between the organisation and its external customer, or in the worst case, actually to the external customer.

Failure to meet the requirements in any part of a quality chain has a way of multiplying, and failure in one part of the system creates problems elsewhere, leading to yet more failure and problems, and so the situation is exacerbated. The ability to meet customers’ (external and internal) requirements is vital. To achieve quality throughout an organisation, every person in the quality chain must be trained to ask the following questions about every customer-supplier interface:

Customers (internal and external)

Who are my customers?

- What are their true needs and expectations?
- How do, or can, I find out what these are?
- How can I measure my ability to meet their needs and expectations?
- Do I have the capability to meet their needs and expectations?
- (If not, what must I do to improve this capability?)
- Do I continually meet their needs and expectations?
- (If not, what prevents this from happening when the capability exists?)
- How do I monitor changes in their needs and expectations?

Suppliers (internal and external)

- Who are my internal suppliers?**
- What are my true needs and expectations?
- How do I communicate my needs and expectations to my suppliers?
- Do my suppliers have the capability to measure and meet these needs and expectations?
- How do I inform them of changes in my needs and expectations?

As well as being fully aware of customers' needs and expectations, each person must respect the needs and expectations of their suppliers. The ideal situation is an open partnership style relationship, where both parties share and benefit.

Poor Practices

To be able to become a total quality organisation, some of the bad practices must be recognised and corrected. These may include:

- Leaders not giving clear direction
- Not understanding, or ignoring competitive positioning
- Each department working only for itself

- Trying to control people through systems
- Confusing quality with grade
- Accepting that a level of defects or errors is inevitable
- Firefighting, reactive behaviour
- The “*It’s not my problem*” attitude

The Essential Components Of TQM – Commitment & Leadership

TQM is an approach to improving the competitiveness, effectiveness and flexibility of an organisation for the benefit of all stakeholders. It is a way of planning, organising and understanding each activity, and of removing all the wasted effort and energy that is routinely spent in organisations. It ensures the leaders adopt a strategic overview of quality and focus on prevention not detection of problems.

Whilst it must involve everyone, to be successful, it must start at the top with the leaders of the organisation.

All senior managers must demonstrate their seriousness and commitment to quality, and middle managers must, as well as demonstrating their commitment, ensure they communicate the principles, strategies and benefits to the people for whom they have responsibility. Only then will the right attitudes spread throughout the organisation.

A fundamental requirement is a sound quality policy, supported by plans and facilities to implement it. Leaders must take responsibility for preparing, reviewing and monitoring the policy, plus take part in regular improvements of it and ensure it is understood at all levels of the organisation.

Effective leadership starts with the development of a mission statement, followed by a strategy, which is translated into action plans down through the organisation. These, combined with a TQM approach, should result in a quality organisation, with satisfied customers and good business results. The 5 requirements for effective leadership are:

- Developing and publishing corporate beliefs, values and objectives,

often as a mission statement

- Personal involvement and acting as role models for a culture of total quality
- Developing clear and effective strategies and supporting plans for achieving the mission and objectives
- Reviewing and improving the management system
- Communicating, motivating and supporting people and encouraging effective employee participation

The task of implementing TQM can be daunting. The following is a list of points that leaders should consider; they are a distillation of the various beliefs of some of the quality gurus:

The organisation needs a long-term **commitment** to continuous improvement.

- Adopt the philosophy of zero errors/defects to change the **culture** to right first time
- Train people to understand the **customer/supplier** relationships
- Do not buy products or services on price alone – look at the **total cost**
- Recognise that improvement of the **systems** must be managed
- Adopt modern methods of **supervising and training** – eliminate fear
- Eliminate barriers between departments by managing the **process** – improve **communications**
- And **teamwork**
- Eliminate goals without methods, standards based only on numbers, barriers to pride of workmanship and fiction – get **facts** by studying **processes**
- Constantly educate and retrain – develop **experts** in the organisation
- Develop a **systematic** approach to manage the implementation of **TQM**

Culture Change

The failure to address the culture of an organisation is frequently the reason for many management initiatives either having limited success or failing altogether. Understanding the culture of an organisation, and using that knowledge to successfully map the steps needed to accomplish a successful change, is an important part of the quality journey.

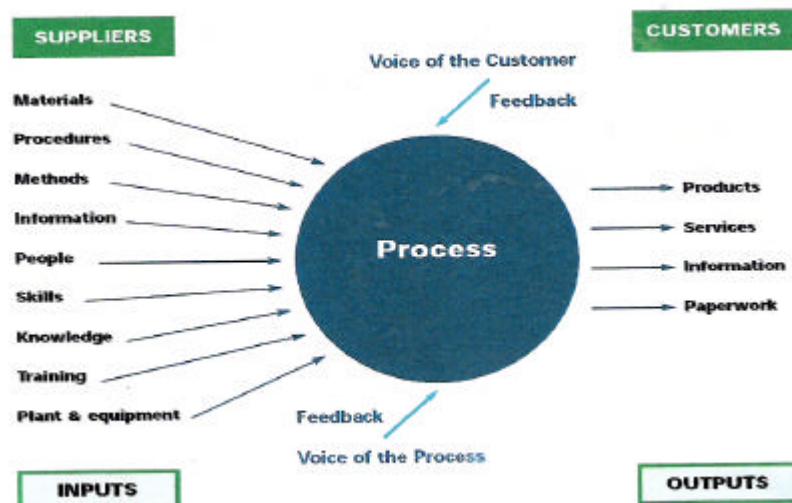
The culture in any organisation is formed by the beliefs, behaviours, norms, dominant values, rules and the “climate”. A culture change, e.g., from one of acceptance of a certain level of errors or defects to one of right first time, every time, needs two key elements:

- Commitment from the leaders
- Involvement of all of the organisation’s people

There is widespread recognition that major change initiatives will not be successful without a culture of good teamwork and cooperation at all levels in an organisation.

The Building Blocks Of TQM: Processes, People, Management Systems And Performance Measurement

Everything we do is a **Process**, which is the transformation of a set of inputs, which can include action, methods and operations, into the desired outputs, which satisfy the customers’ needs and expectations.



In each area or function within an organisation there will be many processes taking place, and each can be analysed by an examination of the inputs and outputs to determine the action necessary to improve quality.

In every organisation there are some very large processes, which are groups of smaller processes, called key or core business processes. These must be carried out well if an organisation is to achieve its mission and objectives.

The only point at which true responsibility for performance and quality can lie is with the **People** who actually do the job or carry out the process, each of which has one or several suppliers and customers.

An efficient and effective way to tackle process or quality improvement is through teamwork. However, people will not engage in improvement activities without commitment and recognition from the organisation's leaders, a climate for improvement and a strategy that is implemented thoughtfully and effectively.

An appropriate documented **Quality Management System** will help an organisation not only achieve the objectives set out in its policy and strategy, but also, and equally importantly, sustain and build upon them. It is imperative that the leaders take responsibility for the adoption and documentation of an appropriate management system in their organisation if they are serious about the quality journey.

Once the strategic direction for the organisation's quality journey has been set, it needs **Performance Measures** to monitor and control the journey, and to ensure the desired level of performance is being achieved and sustained. They can, and should be, established at all levels in the organisation, ideally being cascaded down and most effectively undertaken as team activities.

THE QUALITY GURUS

What Is a Quality Guru?

A guru, by definition, is a good person, a wise person and a teacher. A quality guru should be all of these, plus have a concept and approach to quality within business that has made a major and lasting impact. The gurus mentioned in this section have done, and continue to do, that, in some cases, even after their death.

The Quality Gurus

Deming, the best known of the “early” pioneers, is credited with popularizing quality control in Japan in the early 1950s. Today he is regarded as a national hero in that country and is the father of the world-famous Deming Prize for Quality.

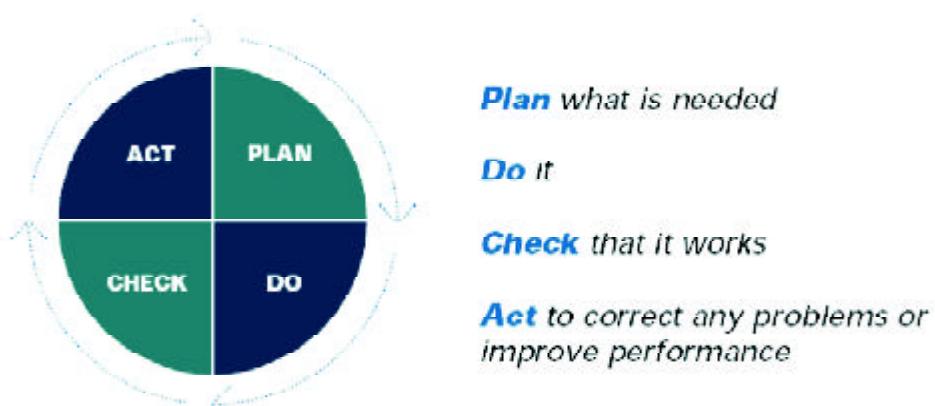


W Edwards Deming placed great importance and responsibility on management, at both the individual and company level, believing management to be responsible for 94% of quality problems. His *fourteen point* plan is a complete philosophy of management, that can be applied to small or large organisations in the public, private or service sectors:

1. Create constancy of purpose towards improvement of product and service
2. Adopt the new philosophy. We can no longer live with commonly accepted levels of delay, mistakes and defective workmanship
3. Cease dependence on mass inspection. Instead, require statistical evidence that quality is built in
4. End the practice of awarding business on the basis of price
5. Find problems. It is management's job to work continually on the system
6. Institute modern methods of training on the job

7. Institute modern methods of supervision of production workers, The responsibility of foremen must be changed from numbers to quality
8. Drive out fear, so that everyone may work effectively for the company
9. Break down barriers between departments
10. Eliminate numerical goals, posters and slogans for the workforce asking for new levels of productivity without providing methods
11. Eliminate work standards that prescribe numerical quotas
12. Remove barriers that stand between the hourly worker and their right to pride of workmanship
13. Institute a vigorous programme of education and retraining
14. Create a structure in top management that will push on the above points every day

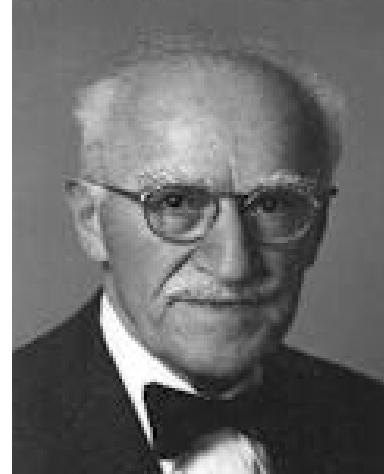
He believed that adoption of, and action on, the fourteen points was a signal that management intended to stay in business. Deming also encouraged a systematic approach to problem solving and promoted the widely known *Plan, Do, Check, Act (PDCA) cycle*. The PDCA cycle is also known as the Deming cycle, although it was developed by a colleague of Deming, Dr Shewhart.



It is a universal improvement methodology, the idea being to constantly improve, and thereby reduce the difference between the requirements of the customers and the performance of the process.

The cycle is about learning and ongoing improvement, learning what works and what does not in systematic way; and the cycle repeats; after one cycle is complete, another is started.

Juran is the founder of the Juran Institute of Wilton, Connecticut. He Promotes a concept Known as Managing Business Process Quality, which is a technique for executing cross-functional quality improvement. Juran's contribution may, over the longer term, may be greater than Deming's because Juran has the broader concept, while Deming's focus of statistical process control is more technically oriented.



Dr Joseph M Juran developed the quality trilogy – quality planning, quality control and quality improvement. Good quality management requires quality actions to be planned out, improved and controlled. The process achieves control at one level of quality performance, then plans are made to improve the performance on a project by project basis, using tools and techniques such as Pareto analysis.

This activity eventually achieves breakthrough to an improved level, which is again controlled, to prevent any deterioration.



Juran believed quality is associated with customer satisfaction and dissatisfaction with the product, and emphasised the necessity for ongoing quality improvement through a succession of small improvement projects carried out throughout the organisation. His *ten steps* to quality improvement are:

1. Build awareness of the need and opportunity for improvement
2. Set goals for improvement
3. Organise to reach the goals
4. Provide training
5. Carry out projects to solve problems
6. Report progress
7. Give recognition
8. Communicate results
9. Keep score of improvements achieved
10. Maintain momentum

He concentrated not just on the end customer, but on other external and internal customers. Each person along the chain, from product designer to final user, is a supplier and a customer. In addition, the person will be a process, carrying out some transformation or activity.

Philip Crosby, author of the popular book *Quality is Free*, may have achieved the greatest commercial success by promoting his views and founding the Quality College in Winter Park, Florida. He argues that poor quality in the average firm costs about 20 percent of revenues most of which could be avoided by adopting good quality practices.



Philip B Crosby is known for the concepts of “Quality is Free” and “Zero Defects”, and his quality improvement process is based on his *four absolutes of quality*:

- ❑ Quality is conformance to requirements
- ❑ The system of quality is prevention
- ❑ The performance standard is zero defect
- ❑ The measurement of quality is the price of non-conformance

His ***fourteen steps*** to quality improvement are:

1. Management is committed to a formalised quality policy
2. Form a management level quality improvement team (QIT) with responsibility for quality improvement process planning and administration
3. Determine where current and potential quality problems lie
4. Evaluate the cost of quality and explain its use as a management tool to measure waste
5. Raise quality awareness and personal concern for quality amongst all employees
6. Take corrective actions, using established formal systems to remove the root causes of problems
7. Establish a zero defects committee and programme
8. Train all employees in quality improvement
9. Hold a Zero Defects Day to broadcast the change and as a management recommitment and employee commitment
10. Encourage individuals and groups to set improvement goals
11. Encourage employees to communicate to management any obstacles they face in attaining their improvement goals
12. Give formal recognition to all participants
13. Establish quality councils for quality management information sharing
14. Do it all over again – form a new quality improvement team

Useful Websites

- <http://www.qualityprogress.com>
- <http://www.freequality.org>
- <http://www.apqc.org>

Selected References

- Total Quality Management, Besterfield, Pearson India (2003)
- Total Quality Mnaagement: Text & Cases, Ross, SL Press (1995)
- The Deming Management Method, Mary Walton, Putnam(1986)
- Juran on Planning for Quality, Joseph Juran, Free Press (1988)

Student Activity

1. Describe the importance that you feel intangibles like “culture” and “leadership” have in the successful implementation of initiatives like TQM.
2. You have read about the differences in the philosophy and concepts propounded by Deming, Juran and Crosby. Can you point out some commonalities in their approaches?
3. Most of the concepts and techniques used in TQM were developed in the 1970’s and 1980’s. Do you feel that they still remain relevant for today’s business world?

THE MALCOLM BALDRIGE QUALITY AWARD

Key Learning Outcomes

After reading this chapter, you should be able to:

- Describe the history and background of the Baldrige award
- Enumerate the criteria for performance excellence used by the Baldrige award
- Illustrate the key values on which the criteria for performance excellence is built
- Identify the reasons for choosing the criteria as an integrated performance management framework

Outlines of Lesson Plan

- Summarise the history of the Malcolm Baldrige National Quality Award and the role it has played in the U. S. Business Community.
- Describe the Baldrige Award's purpose and the Core Values and concepts that structure the awards criteria.
- Summarise the Boldrige Awards
- Leadership; strategic planning; Customer and Market Focus; Information and Analysis; Human Recourse Focus; Process Management; Business Results Criteria and explain how Ritz – Carlton meets them.
- Explain Ritz – Carlton leadership system

More than 30 years ago, noted American quality leader Joseph M. Juran predicted that a focus on quality would help turn Japan into an economic powerhouse. His warning went unheeded by many industrialized nations, including the United States. But his prediction proved true. By the 1980s, many industry and government leaders in the United States saw the handwriting on the wall: “Get quality or lose the race.”

In 1987, jumpstarting a small, slowly growing U.S. quality movement, Congress established the *Malcolm Baldrige National Quality Award* and the *Baldrige National Quality Program* to promote quality awareness, to recognize quality achievements of U.S. companies, and to publicize successful strategies.

Now considered America’s highest honor for business excellence, the Baldrige award is presented annually to U.S. companies by the President of the United States. Awards may be given in each of three categories: manufacturing, service, and small business. The Commerce Department’s *National Institute of Standards and Technology* (NIST) was selected by Congress to design and manage the Baldrige award and program because of its long-standing role in helping U.S. companies compete, its world-renowned expertise in quality control and assurance, and its reputation as an impartial third party.

While the award is the centerpiece, the broader *Baldrige National Quality Program* is helping not only award applicants but many other American businesses and organizations

become more competitive and higher performers. The Malcolm Baldrige National Quality Award is playing a vital role in helping the United States gain the edge in a fiercely competitive global marketplace. Now, other countries, including Japan, are emulating this American program.

The Baldrige program is not the latest management “flavor of the month”; nor is it a fad. Celebrating its 15th year, the Baldrige National Quality Program and the award’s performance excellence criteria are recognized worldwide as a powerful way to help any organization improve

performance across the board. It integrates all the key drivers of organizational performance management within one holistic framework, allowing you to manage your organization as a system instead of a collection of individual parts.

Prominent past winners of the award have included companies like AT&T, Motorola, IBM, FedEx, Ritz-Carlton Hotels, Merrill Lynch, Xerox, Intel etc.

Five Reasons to Choose Baldrige As Your Performance Management Framework

Organizations looking for an approach to performance management and improvement have many to choose from, and determining which approach meets your organization's needs is not easy. What makes Baldrige different? Here are a few aspects that set Baldrige apart:

The Criteria for Performance Excellence provide a framework for improvement without being prescriptive. Organizations are encouraged to develop creative and flexible approaches aligned with organizational needs and to demonstrate cause-effect linkages between these approaches and their results.

The Criteria are inclusive. While other approaches focus on a single aspect, such as leadership, strategic planning, or process management, the Criteria describe an integrated management framework that addresses all the factors that define the organization, its operations, and its results.

The Criteria focus on common requirements, rather than procedures, tools, or techniques. Other improvement efforts (e.g., ISO, Six Sigma, or accreditation) may be integrated into the organization's performance management system and included as part of a response to Criteria requirements.

The Criteria are adaptable. They can be used by large and small businesses, education and health care organizations, government and nonprofit organizations, and organizations with one site or worldwide locations.

The Criteria are at the leading edge of validated management prac-

tices. They are regularly improved to enhance coverage of strategy-driven performance, address the needs of all stakeholders, and accommodate important organizational needs and practices.

What Are the Criteria?

The Criteria for Performance Excellence are the basis for granting Awards and giving feedback to applicants, and they also are a tool for understanding an organization's strengths and opportunities for improvement. They are a set of expectations or requirements that define the critical factors that drive organizational success.

The Criteria are approximately 100 questions grouped into the Organizational Profile and seven Categories. The Organizational Profile is a snapshot of an organization: the key influences on how you operate and the key challenges you face.

You can select the Criteria that best apply to your organization: *Business, Education, or Health Care.*

The Business Criteria Categories are

1. Leadership
2. Strategic Planning
3. Customer and Market Focus
4. Information and Analysis
5. Human Resource Focus
6. Process Management
7. Business Results

Any organization can use the Baldrige Criteria to assess its performance and improve. Regardless of the size or nature of your organization, the Criteria can help you align resources; improve communication, productivity, and effectiveness; and achieve strategic goals.

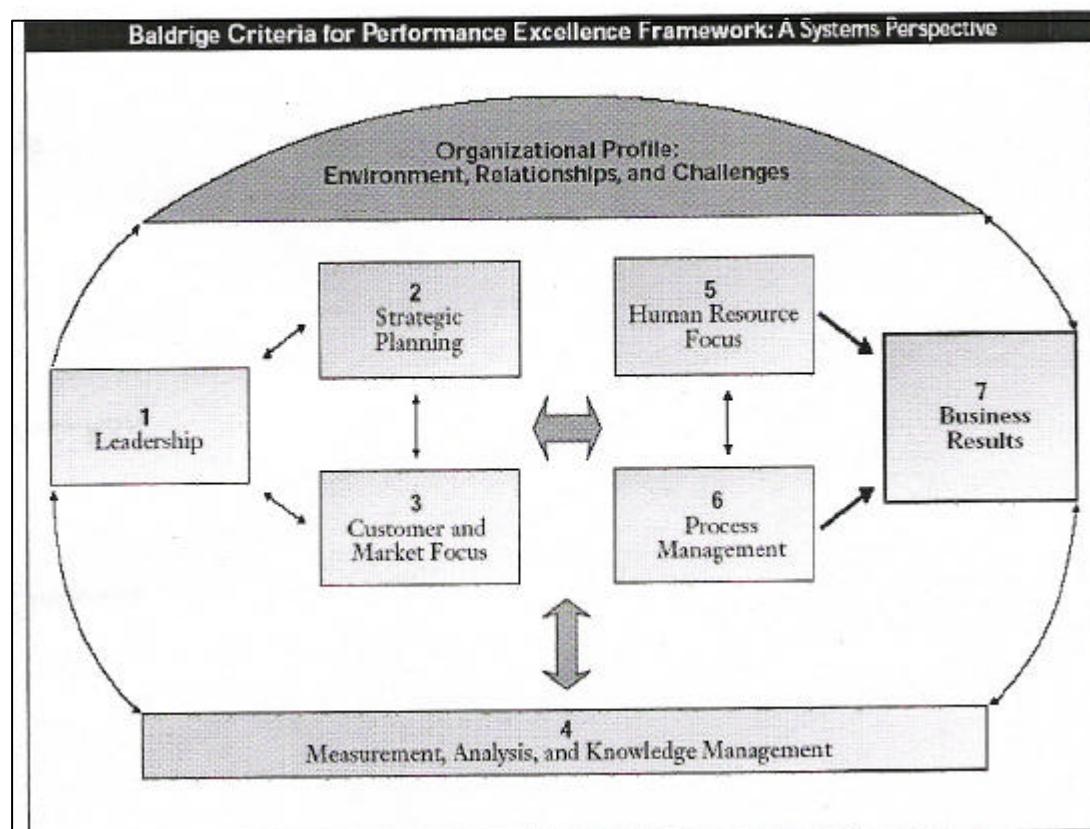
Core Values and Concepts

The Criteria are built upon the following set of interrelated Core Val-

Values and Concepts:

1. visionary leadership
2. customer-driven excellence
3. organizational and personal learning
4. valuing employees and partners
5. agility
6. focus on the future
7. managing for innovation
8. management by fact
9. social responsibility
10. focus on results and creating value
11. systems perspective

These values and concepts are embedded beliefs and behaviors found in high-performing organizations. They are the foundation for integrating key business requirements within a results-oriented framework that creates a basis for action and feedback.



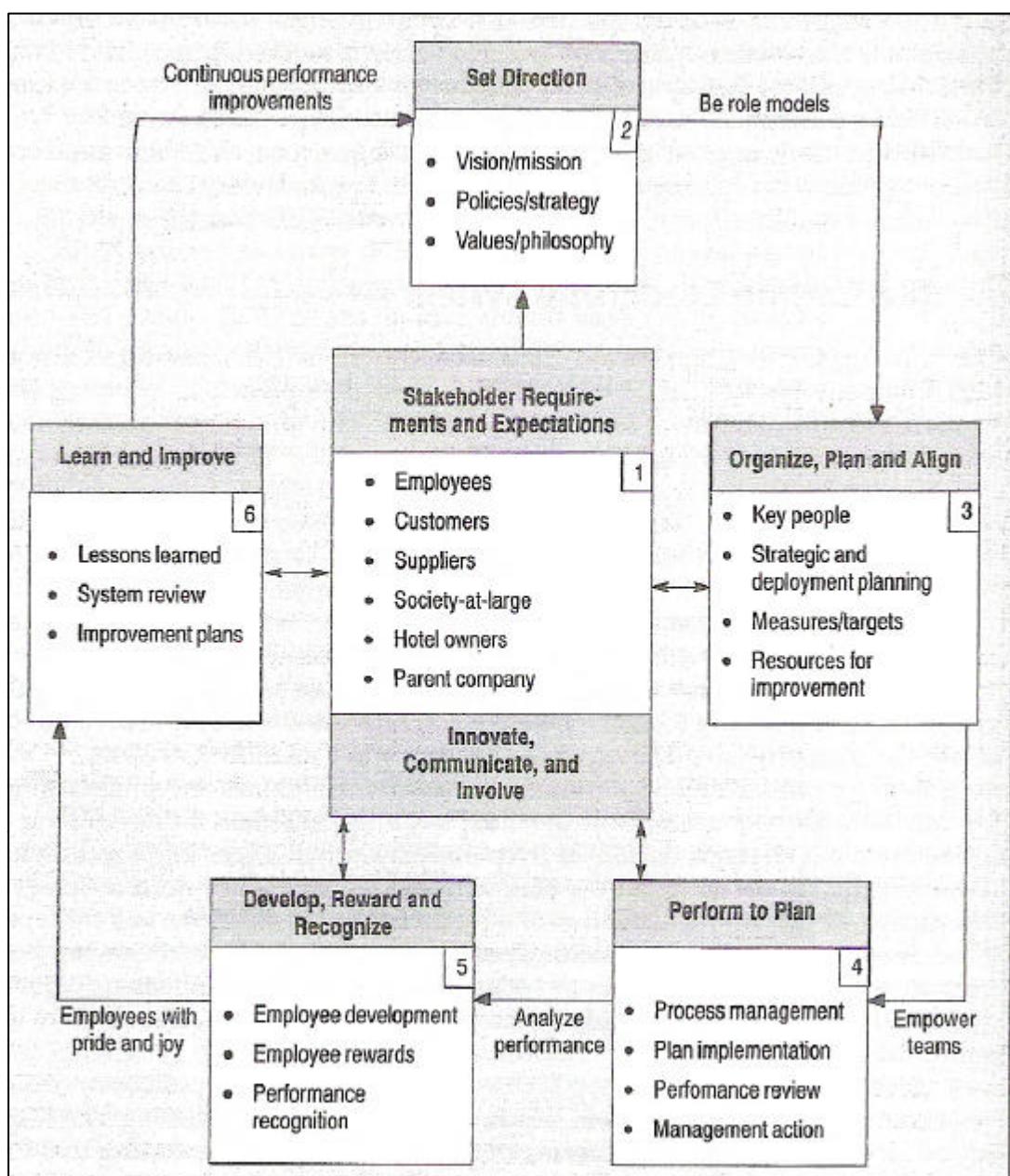
The Ritz-Carlton Leadership System

Since winning the Baldrige Award for a second time in 1999, The Ritz-Carlton Hotel Company has sought to develop a systematic approach to applying the lessons learned from the award throughout every level within the organization on a daily basis. As Patrick Mene, Ritz-Carlton's vice president of quality, puts it, "We developed the leadership system to provide a systematic approach for applying all seven categories of the Baldrige Award and to ultimately help us to build commitment towards our strategic initiatives." The relationships among many of the concepts discussed in this chapter are shown in the diagram.

At the center of the leadership system (step 1) is an across-the-board understanding of the requirements and expectations of the company's stakeholders -those people or groups that have the most to gain or lose as a result of the firm's performance. By listening to all its stakeholders, Ritz-Carlton is able to set a direction for the company (step 2) by creating a vision and a mission statement, prioritizing strategic initiatives, and formulating management values and philosophies that adhere to the expectations of the company's stakeholders. In developing a

plan to carry out strategic initiatives (step 3), Ritz-Carlton aligns employees who are responsible for carrying out the plan with the resources they need to achieve performance targets. Implementation of the plan (step 4) involves the key concepts of designing and managing product and service delivery processes, reviewing performance goals, identifying causes of variances in performance, and taking corrective action. The ability of Ritz-Carlton to achieve high performance levels from its employees results, in part, from employee rewards, recognition programs, and career development programs (step 5) that are all tied directly to performance targets. Finally, the leadership system serves as a model for transforming The Ritz -Carlton Hotel Company into a learning organization (step 6) by ensuring that the knowledge gained from breakthrough improvements and innovations in one department or hotel is constantly shared ,with all other Ritz-Carlton hotels.

According to Mene, Ritz-Carlton has learned two very important lessons over the past ten years of its quality journey. The first is the need to change the behavior of front-line managers who are keys to helping the company achieve its quality -improvement initiatives. One of the most important resources Ritz-Carlton provides its front-line managers is a coach who helps the managers make the transition from training to application. The second lesson learned is the way Ritz -Carlton views customer satisfaction; that is, each time customers visit a Ritz-Carlton hotel they want something new and different compared to what they



experienced during their last visit. Says Mene, “*Our* ability to satisfy customers depends on how well we understand and capture that newness and difference and fulfill it on a daily basis.”

Ritz-Carlton’s leadership system has changed the role of management from one of making sure employees show up for work on time or receive the proper training to one of ensuring that all employees understand that they are responsible for quality improvement and that quality is relevant to the direction of the business.

The Baldrige Award And Ritz Carlton: A Case Study

The Ritz Carlton Hotel Company is one of the most well known and profitable global brands in the hospitality industry. It is also the only company to have won the Baldrige Award twice, in the service category. In the *annexure* to this course pack, you will find a summary of the company’s application for the 1999 Baldrige Award. The document illustrates how the company has successfully embedded the criteria for excellence in its organizational culture and performance management systems and leveraged it to drive employee productivity, customer loyalty, growth and consistently deliver exceptional service quality.

Useful Websites

- <http://www.baldrige.nist.gov>
- <http://www.ritzcarlton.com>
- http://www.nist.gov/public_affairs/bald99/ritz.htm
- <http://www.asq.org>
- <http://www.quality.nist.gov>

Suggested References

- *Criteria for Performance Excellence*, BNQP/NIST (2003)
- *Baldrige Award – celebrating ten years of excellence*, BNQP/NIST (1997)
- *Why apply for the Baldrige Award*, BNQP/NIST (2002)
- *Getting Started*, BNQP/NIST (2002)

Student Activity

1. Describe the Baldrige Award's purpose and the core values and concepts that structure the award criteria.
2. Using the internet, research how many service companies, besides the Ritz Carlton have won the Baldrige Award. What impact do you think the BNQP has had on the competitiveness of U.S companies? Do you observe any link between a company's financial performance and its ability to win awards such as the Baldrige?
3. Explain Ritz-Carlton leadership system.

THE RITZ-CARLTON@ HOTEL COMPANY, L.L.C. at a Glance,

Products and Services: *The Ritz-Carlton Hotel Company, L.L.C. develops and operates luxury hotels for others. The hotels are de-signed and identified to appeal to and suit the re-quirements of its principal customers who consist of (1) Meeting Event Planners and (2) Independent Busi-ness and Leisure Travelers.*

President & COO: *Horst Schulze*

Headquarters: *3414 Peachtree Road, NE.*

Suite 300

Atlanta, Georgia 30326

Operations: *One Central Reservations Office*

Seven International Sales Offices (ISOs)

24 Hotels and Resorts in North America

Two Hotels in Europe

Eight Hotels and Resorts in Asia

Two Hotels in Australia

30 Hotels under Development

Customer Base: *Over 800,000 Customers World-wide*

1999 Revenue: *\$1.5 Billion. A 40% increase over the previous five years.*

Employees: *17,000 World-wide, known as The Ladies and Gentlemen of The Ritz-Carlton*

History: *Established in 1983, the former owner, WB. Johnson Properties, acquired the exclusive North American rights to the Ritz-Carlton trademark, the foremost name in luxury hotels. This status was largely due to the legendary Caesar Ritz who developed and operat-ed two of the worlds best hotels in Paris and London. The hotels achieved such fame in the marketplace that they attained what is often referred to as 'The Ritz Mystique': In 1995, The Ritz-Carlton was jointly ac-quired by Marriott International Inc. to achieve their strategy of entering the luxury hotel segment of the industry; the takeover/merger occurred in 1997.*

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OVERVIEW

A History of Managing for Performance Excellence in the Hotel Industry

Previously, in tiny hotels and inns, the innkeeper directed activities in the organization personally, including “managing for quality”. As hotels grew in size, the volume of activity outgrew the capacity of the innkeeper to manage by personal direction - it became necessary to delegate.

Apprentices were trained in the craft and qualified by examination to become craftsmen. The innkeeper - the master - then delegated much of the managing for quality to the craftsmen, subject to inspection and audit by the master. Many of our standards go back 100 years to this era of Cae-sar Ritz and the legendary Chef August Escoffier.

As we entered the 20th century, the size of a hotel and its organization sharply increased. The resulting large hotels required functional departments. The innkeeper - now a general manager - delegated to each functional department head the responsibility for quality, for performing the function correctly.

With the emergence and growth of technology, hotel products and processes became increasingly complex. To deal with these new complexities the hotel industry adopted the principle of separating planning from doing. Planning of the various departments was delegated to division and department heads (e.g. Food & Beverage managers, Rooms Executives, Purchasing Directors, etc.). This left the job of executing the plans to the first-line supervisors and the workforce. The separation of planning from execution had four major consequences.

1. A factory concept emerged in which people were assigned one task rather than a single craftsman performing the entire sequence of tasks. In this factory approach, if task #11 was causing a problem for task #24, it wasn't identified until it reached the customer, and even then the problem likely continued.

2. A dramatic rise in productivity.
3. The segregation of divisions and departments.
4. A further distancing of upper managers from the job of managing for quality.

The progressive removal of upper management from managing for quality produced negative effects on quality. Typically, performance either fell short of customer need or the cost to meet the need became excessive. In addition, the hotels accumulated huge chronic costs as a result of poor quality.

Most hotels remained profitable despite these quality deficiencies because competitors had similar problems.

Ritz-Carlton Returns to the Fundamentals: Upper Management Participation

Then came 1983 and Horst Schulze. The pace quickened with a lengthy procession of new Ritz-Carlton Hotels under development. Faced with this challenge, Horst Schulze and his team decided to personally take charge of managing for quality because they realized managing for quality could not be delegated!

The upper management participation of Horst Schulze and his team ranged across a broad spectrum, but most significant activities consisted of:

- Defining the traits of all company products which are set out in The Credo. For a full explanation of The Credo, see Figure 1 on page 2.
- Translating The Credo into basic standards to clarify the quality responsibilities for our Ladies and Gentlemen; the most important of which include: (1) anticipating the wishes and needs of the guests (2) resolving their problems and (3) genuinely caring conduct towards guests and each other.

- Personally training the Ladies and Gentlemen of a new Ritz-Carlton on The Credo and Basic Standards, commonly referred to as The Gold Standards, which are shown on page 2 as Figure 1.
- Aggressively instilling a passion for excellence.

Another Major Change, A Comprehensive Structure

By 1989 Horst Schulze realized that a more comprehensive structure was necessary for the Ritz-Carlton to optimize its performance. He selected the Malcolm Baldrige National Quality Award Criteria. Through the use of this assessment tool and the resulting feedback reports, The Ritz-Carlton developed a “Roadmap” to business excellence (see pages 3-4), which has attained significantly higher performance levels. A major ingredient of this approach was involving people in the planning of the work that affects them.

THREE STEPS OF SERVICE

1. A warm and sincere greeting. Use the guest name, if and when possible
2. Anticipation and compliance with guest needs.
3. Fond farewell. Give them a warm good-bye and use their names, if and when possible.

**“We Are
Ladies and
Gentlemen
Serving Ladies and
Gentlemen”**

THE EMPLOYEE PROMISE

At The Ritz-Car/ton, our Ladies and Gentlemen are the most important resource in our service commitment to our guests.

By applying the principles of trust, honesty, respect, integrity and commitment, we nurture and maximize talent to the benefit of each individual and the company.

The Ritz-Carlton fosters a work environment where diversity is valued, quality of life is enhanced, individual aspirations are fulfilled, and The Ritz-Carlton mystique is strengthened.

CREDO

The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest mission.

We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed yet refined ambience.

The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests.

The Ritz-Carlton® Basics

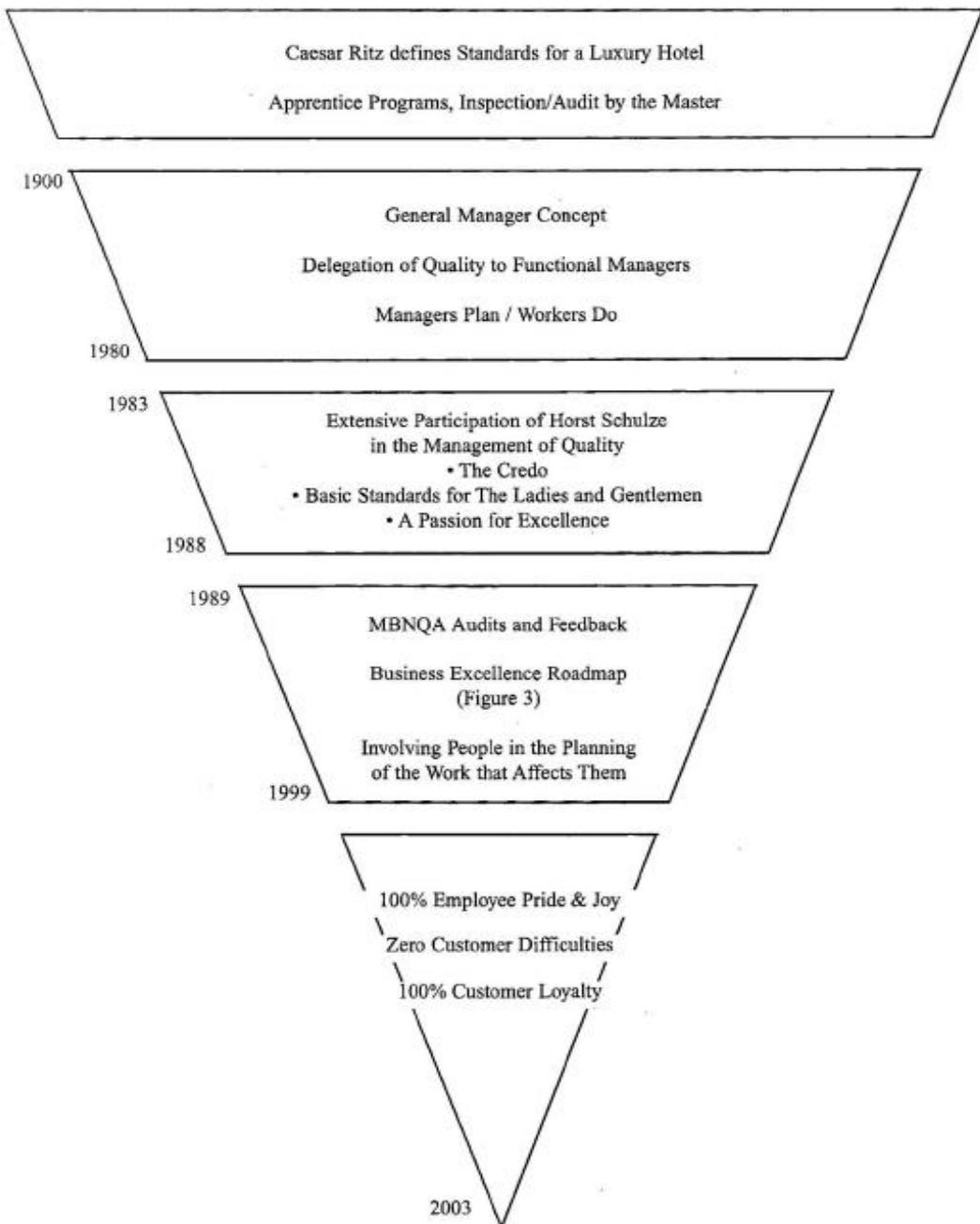
1. The Credo is the principal belief of our Company. It must be known, owned and energized by all.
2. Our Motto is: "We are Ladies and Gentlemen serving Ladies and Gentle-men." As service professionals, we treat our guests and each other with respect and dignity.
3. The Three Steps of Service are the foundation of Ritz-Carlton hospitality. These steps must be used in every interaction to ensure satisfaction, retention and loyalty.
4. The Employee Promise is the basis for our Ritz-Carlton work environment. It will be honored by all employees.
5. All employees will successfully complete annual training certification for their position.
6. Company Objectives are communicated to all employees. It is everyone's

	responsibility to support them.
7.	To create pride and joy in the work-place, all employees have the right <i>to</i> be involved in the planning of the work that affects them.
8.	Each employee will continuously iden-tify defects (M.R. B.I.V.) throughout the Hotel.
9.	It is the responsibility <i>of</i> each employ-ee to create a work environment of teamwork and lateral service so that the needs <i>of</i> our guests and each other are met.
10.	Each employee is empowered. For example, when a guest has a problem or needs something special, you should break away from your regular duties to address and resolve the issue.
11.	Uncompromising levels <i>of</i> cleanli-ness are the responsibility <i>of</i> every employee.
12.	To provide the finest personal service for our guests, each employee is responsible for identifying and record-ing individual guest preferences.
13.	Never lose a guest. Instant guest pacification is the responsibility <i>of</i> each employee. Whoever receives a complaint will own it, resolve it to the guest's satisfaction and record it.
14.	"Smile - We are on stage." Always maintain positive eye contact. Use the proper vocabulary with our guests and each other. (Use words like – "Good Morning," "Certainly," "I'll be happy to" and "My pleasure.")
15.	Be an ambassador of your Hotel in and outside of the workplace. Always speak positively. Commu-nicate any concerns to the appropriate person.
16.	Escort guests rather than pointing out directions to another area <i>of</i> the Hotel.
17.	Use Ritz-Carlton telephone eti-quette. Answer within three rings with a "smile." Use the guest's name when possible. When necessary, ask the caller "May I place you on hold?" Do not screen calls. Eliminate call transfers whenever possible. Adhere to voice mail standards.
18.	Take pride in and care <i>of</i> your per-sonal appearance. Everyone is responsible for conveying a profes-sional image by adhering to Ritz--Carlton clothing and grooming standards.
19.	Think safety first. Each employee is responsible for creating a safe, secure and accident free environment for all guests and each other. Be aware <i>of</i> all fire and safety emergency

- proce-dures and report any security risks immediately.
20. Protecting the assets of a Ritz--Carlton hotel is the responsibility of every employee. Conserve energy, properly maintain our Hotels and protect the environment.
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The Ritz-Carlton Chronology of Performance Excellence

Genesis 1890's



The Ritz-Carlton Business Excellence Roadmap

MBNQA	Approach “Plan”	Deployment “Do”	Results “Check”	Improvement “Act”
			Performance Evaluations	Development / Training Plans Leadership Center Developmental Job Assignments
1. Leadership	A passion for Excellence The Seven Pyramid Decisions Basic Empowerment Process	Senior Leaders “Start-Up” new hotels Distribution of “The Pyramid” Daily Reinforcement of The Gold Standards		
2. Strategic Planning	Fact-based Strategic Objectives Fact-based Key Process Identification	Divide/Subdivide Objectives Select Process Owners Develop Processes Provide Necessary Resources	Actual versus Planned performance compared Quarterly by Upper Managers at the corporate and hotel level Daily Operations review by the workforce	Act on the Differences Evaluate / Improve Planning Process
3. Customer and Market Focus	Market Research that concentrates on the quality of the hotel facility and operation	6P's Concept Operation of the “CLASS” Database Standard Performance Measurement	Daily Hotel Measurement <ul style="list-style-type: none"> • SQI • RevPAR by Market Segment Monthly Measurement <ul style="list-style-type: none"> • Advance Bookings • Customer Satisfaction • RevPAR • P&L 	Evaluate / Improve Annually
4. Information and Analysis	Selecting Performance Measurements for: <ul style="list-style-type: none"> • Upper Managers • Daily Operations Comparative Benchmarking	Individual Process Owners select Performance Measurements for: <ul style="list-style-type: none"> • Upper Managers • Daily Operations Share/Replicate Best Practice Performance, On-Going	Statistically Trained Employees, Consulting Specialists	Continuous Improvement

The Ritz-Carlton Business Excellence Roadmap				
MBNQA	Approach “Plan”	Deployment “Do”	Results “Check”	Improvement “Act”
5. Human Resources Development and Management	<p>Jobs are designed so our people:</p> <ul style="list-style-type: none"> • Know what to do • Know how well they are doing • Can regulate the process or their own personal conduct 	<p>Employee Education, Training and Development</p>	<p>Q.S.P. Day 21/365</p> <p>Training Certification Review</p> <p>Performance Appraisal Evaluations</p> <p>Analysis of Employee Surveys</p>	<p>Site Visits by Senior H.R. Leaders</p> <p>Analysis of Employee Surveys</p>
6. Process Management	<p>Manage Key Production and Support Processes</p>	<p>Incorporate changing Customer requirements</p> <p>The GreenBook</p> <p>Process Owners Modify Processes for each new hotel</p>	<p>P.Q.I. S.Q.I.</p> <p>Process Audits</p>	<p>Major changes that require project management</p> <p>Incremental Day-to-Day Improvements</p>
7. Business Results	<p>Strategic Objectives define long-term targets</p> <p>Tactical Processes set annual targets</p>	<p>Lead People</p> <p>Manage Processes</p> <p>Standard Performance Measures</p>	<p>Actual versus Planned Performance compared quarterly by Senior Leaders at the corporate and hotel level</p>	<p>Continuously and Forever Improve</p>
			<p>Daily Operations Review by the workforce</p>	

Leadership

Our Senior Leaders continue the strong excellence driven leadership that began in 1983 and resulted in us becoming a recipient of the 1992 Malcolm Baldrige National Quality Award. In the years following the award they actually increased their involvement in both the improvement and operation of our structured approach to business excellence. A summary of this business excellence roadmap is shown in Figure 3, page 4.

Approach “Plan”

Our Senior Leaders have a passion for excellence, largely because of: (1) the performance expectations of Horst Schulze (2) our Gold Standards and (3) the Pride and Joy of achieving excellence.

The seven specific decisions made by our Senior Leaders, collectively, to set direction for business excellence are shown below:

1. *10 Year Vision*
2. *5 Year Mission*
3. *3 Year Objectives*
4. *1 Year Tactics*
5. *Strategy*
6. *Methods*
7. *Foundation*

The process for providing our Senior Leaders with the necessary data and analysis to make these key decisions is explained fully in the Strategic Planning section.

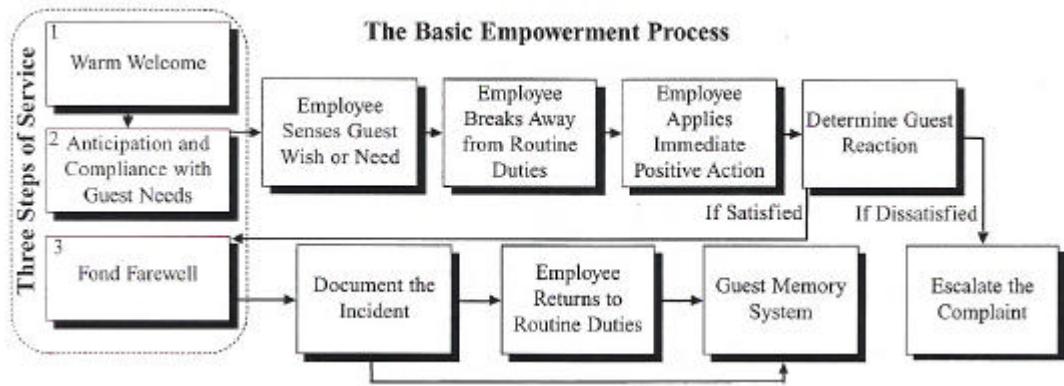
It is worth mentioning that our Senior Leaders personally established our foundation, which is now referred to as The Gold Standards, Figure 1, page 2. These standards consist of: (1) The Credo (2) The Basics

(3) Three Steps of Service (4) Motto and (5) most recently, The Employee Promise. These standards have had a long life with only the Basics changing with business conditions.

Collectively, these standards have an incredible em-powering effect on The Ritz-Carlton Ladies and Gentlemen to think and act independently with innovation for both the benefit of the customer and our organization.

Since The Credo stresses “providing the finest and anticipating the unfulfilled wishes of our guests,” The Ritz-Carlton Ladies and Gentlemen continually learn and innovate.

The Three Steps of Service, combined with our basic empowerment process shown below in Figure 1.2 pro-motes innovative, quick personal service.



Deployment “DO”

The specific actions taken by our Senior Leaders to deploy our leadership approach consist of three major processes:

1. Since 1984, all members of Senior Leadership have per-sonally ensured that each new hotel’s goods and services are characteristic of The Ritz-Carlton on opening day. Since six to seven hotels open each year, our leaders spend at least six to seven weeks working with our Ladies and Gentlemen (using a combination of hands-on behav-iор modeling and reinforcement) during the seven day countdown to opening. This includes

the President and COO who personally demonstrates the guest/employee interface image and facilitates the first vision statement session for each newly formed department. During these formative sessions which all employees must attend, the President and COO personally interacts with every new employee both individually and in a group setting. His in-depth knowledge of hotel operations and enthusiasm for The Gold Standards are an inspiration for all concerned.

2. The results of the seven specific decisions from the annual strategic planning process are arranged in a “Pyramid Concept” and distributed throughout the organization. The 2000 Pyramid is shown in Figure 1.3
3. The Gold Standards are reinforced daily in a variety of forums which include: (1) lectures at new employee orientation (2) developmental training (3) daily line-up meeting (4) administration of both positive and negative reinforcement (5) mission statements displayed (6) distribution of Credo Cards (7) The Credo as first topic of internal meetings and (8) peer pressure.

Results “Check”

Leadership effectiveness is evaluated (1) On key questions of our semi-annual employee satisfaction results (these questions reveal if the respective leader has gained the full support of the Ladies and Gentlemen regarding our Gold Standards). (2) Through audits on public responsibility (i.e. Life Safety Systems, Security Systems, Food Preparation and Alcoholic Beverage Service, Environmental Stewardship).

Improvement “Act”

Gaps in leadership effectiveness are addressed with development/training plans. For widespread deficiencies, the corporate human resource function develops/improves courses, processes or facilities. As a result, we have developed a leadership center at Corporate Headquarters. In addition, we make extensive use of developmental job assignments.

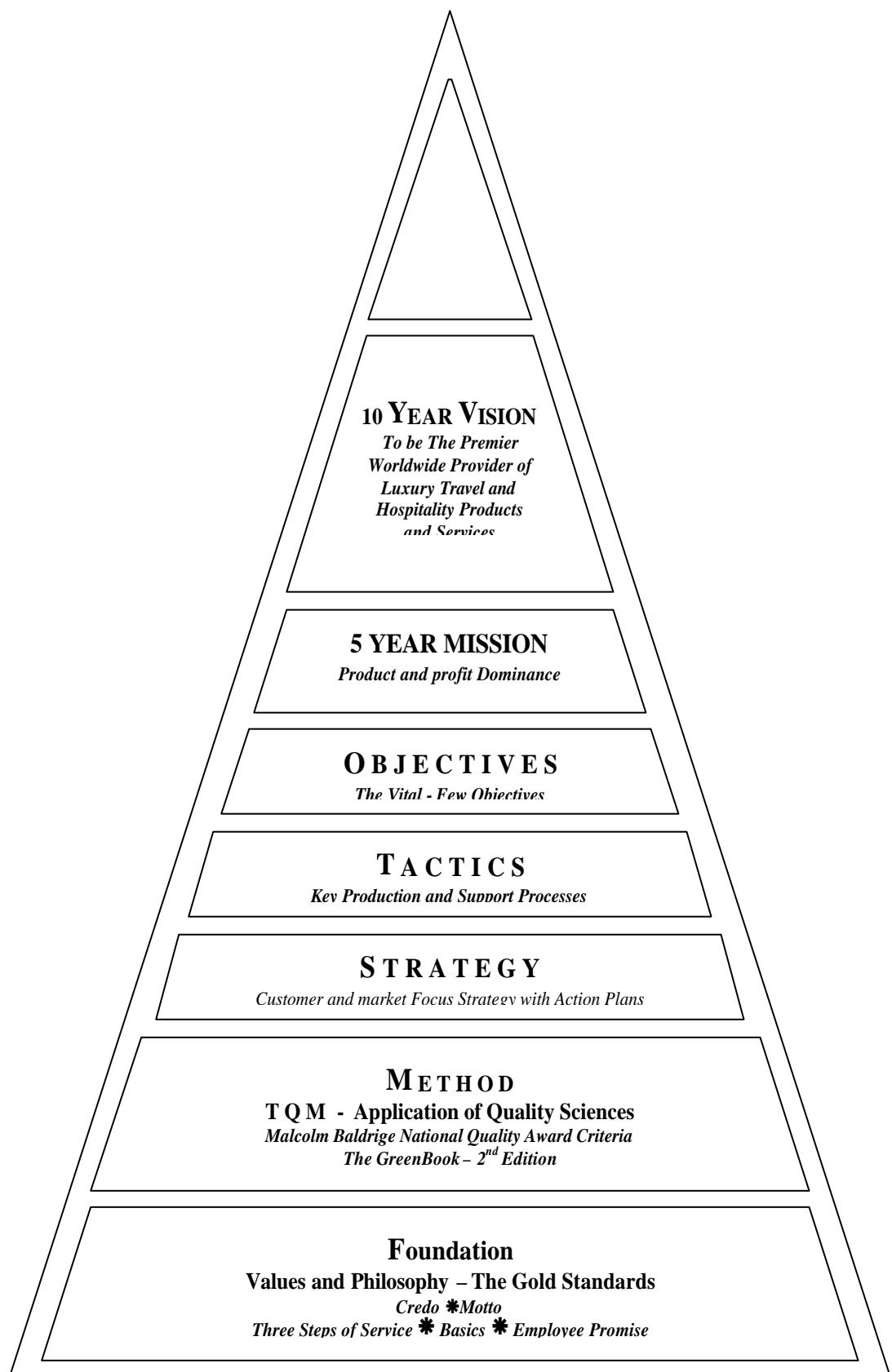


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Strategic Planning

At The Ritz-Carlton, Strategic Development is the process that enables Senior Leaders to make specific decisions that set direction for Business Excellence.

Approach “Plan”

A description of the three major components of our planning process, including the pre-work known as the Macro Environment Analysis, is shown in Figure 2.1.

Macro-Environment Analysis

This extensive analysis is done to understand the current state (and expected future state) of the Macro Environment in which we operate our company. The key result of the analysis is a projection of the future state of The Ritz-Carlton relative to competitors and the expectations of hotel owners in primary performance areas. Subsequently, gaps are identified.

Step 1 March - June

Using the Macro Environment Analysis, Senior Leaders confirm the 10 Year Vision, 5 Year Mission, Strategy, Methods and Foundation or make changes.

Step 2 March - June

Using the Macro Environment Analysis, strategic mandates are identified along with gaps in performance.

Step 3 March - June

The strategic mandates and the gaps identified in the Macro Environment Analysis are used to create the Vital-Few Objectives for the next three years. The Objectives are de-signed to address the projected gaps identified in the Macro Environment Analysis and to main-tain or enlarge The Ritz-Carlton advantage over competitors where these advantages exist. Vital-Few Objectives are separated into multiple cate-gories for *two* purposes: (1) respond to the Strategic Mandates and (2) represent all who are affected by The Ritz-Carlton.

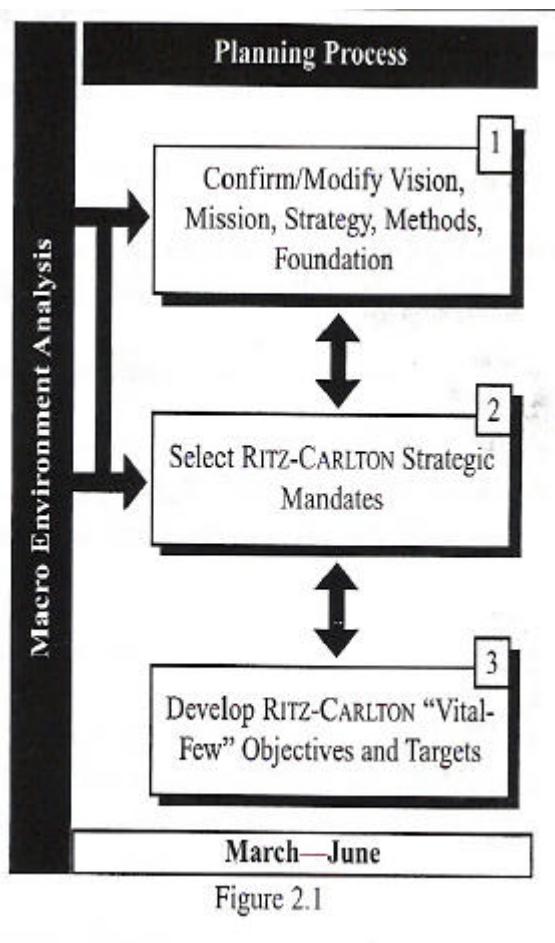
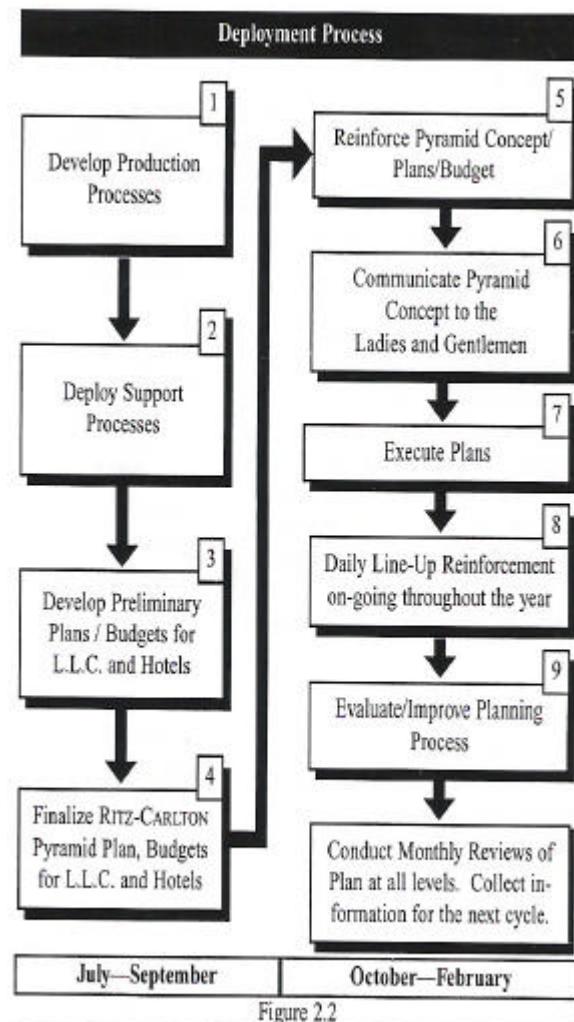


Figure 2.1



Deployment “DO”

The specific actions by Senior Leaders to deploy the Vital-Few Objectives are shown in Figure 2.2.

Step 1 July - September

Key Production processes are identified by three criteria: (1) work that ranks very important to customers (2) work that is rising in importance to customers and (3) work that is poor in comparison to competitors. These processes must then be developed and deployed. This is done by process owners at the corporate level. For a discussion of these processes and how they are developed see Section 6, Process Management.

Step 2 July - September

Support processes are deployed to the support functions of the organization. These processes indirectly affect our products and enable us to reach our Vital-Few Objectives. These processes are also developed/deployed by corporate process owners at the corporate office.

Steps 3 - 4 July - September

To bring out into the open the resources required to reach our Vital-Few Objectives, we involve the Ladies and Gentlemen of The Ritz-Carlton. First, we communicate the measures and targets of our Vital-Few Objectives to lower levels of the organization. The lower levels then identify the deeds, that if done, will collectively meet the objectives. The lower levels also “submit the bill” to perform these deeds. Activities that have been agreed upon are then tied into our financial planning and budget process.

Focus	Indicators	What's Reviewed	Process Owner
Employee Pride & Joy	<ul style="list-style-type: none">• Key Survey Questions• Turnover	Actual versus Plan / Trends	<ul style="list-style-type: none">• Human Resources Director
Customer Loyalty	<ul style="list-style-type: none">• Overall Customer Satisfaction• Customer Difficulties	Actual versus Plan / Foremost Competitor, Trends	<ul style="list-style-type: none">• Operations Director• Quality Director
Revpar / P&L	<ul style="list-style-type: none">• Advance Bookings• Market / Business Performance	Actual versus Plan / Industry Trends	<ul style="list-style-type: none">• Marketing Director• Finance Director
Key Processes	<ul style="list-style-type: none">• Key Production and Support Processes	Actual versus Plan / Trends	<ul style="list-style-type: none">• Functional Leaders

Figure 2.3

Steps 5 - 7 October - February

Step 5 occurs during our semi-annual General Managers meeting which sets in motion steps 6 and 7.

Step 8 On-Going Throughout the Year

Everyday, in every work area, on every shift, a brief line-up meeting is held. During these formative sessions, the Pyramid Concept is deployed, The Gold Standards are rein-forced and good ideas are shared.

Step 9 Annually

Each year the Vice-President of Quality is responsible for evaluating and improving the Strategic Planning Process. Benchmarking other Baldrige recipients is used extensively for continuous improvement.

Results “Checks”

Monthly performance reviews of the Strategic Plan are conducted by the upper managers at the corporate and hotel level. The framework of a typical review is shown in Figure 2.3, which focuses on the pre-established performance indicators of the Vital-Few Objectives as well as key processes. This information allows us to easily make improvements and benchmarking comparisons, which are discussed in Category 4.

The quarterly performance reviews are translated into opportunities for improvement and innovation. These decisions are determined by process owners with assistance from the special organization of Directors of Quality. Widespread understanding and involvement of findings and actions are deployed to lower levels through: (1) the traditional hierarchy (2) process owners and teams and (3) Commitment to Quality newsletters.

Another form of improvement is the evaluation of the Strategic Planning Process. The Vice President of Quality is responsible for developing, benchmarking and improving this process.

Customer and Market Focus

At The Ritz-Carlton, customer and market focus concentrates on the information needed for hotel development and operation explained in Section 6, Process Management.

Approach “Plan”

The many needs and sources of this information (i.e. market research) are summarized in Figure 3.1.

A particularly noteworthy tool that we use is CLASS (an automated “memory system” that links returning guests to their preferences). The practice of remembering regular guests creates lasting relationships, which is a major competitive advantage for us. The types of information stored in the CLASS database are given in Figure 3.2.

In addition, we utilize other information technology: (1) DFS (2) Product Quality Indicators (PQI) and (3) Service Quality Indicators (SQI), explained in the next Section, Information and Analysis.

Needs and Sources of Market Research at The Ritz-Carlton

Needs for Market / Customer Information	Brought to our Attention	Readily Available but Requires Analysis	Must be created by a Special Study
Determination of Market Segments			<ul style="list-style-type: none"> • Alliances with Travel Partners (Airlines, Credit Card Companies, Convention Bureaus, etc.)
Identifying Potential Customers		<ul style="list-style-type: none"> • Sales and Marketing function ranks potential and current customers by volume, geography and profit 	<ul style="list-style-type: none"> • Same as above
Relative Priorities of Customers	<ul style="list-style-type: none"> • "Automated Memory System" that links returning guests to their performance 	<ul style="list-style-type: none"> • Analysis of "CLASS" database 	<ul style="list-style-type: none"> • Focus Groups • Customer Satisfaction results
Demand Forecast		<ul style="list-style-type: none"> • Use of Information Technology • DFS 	
Individual Dissatisfaction of Customers	<ul style="list-style-type: none"> • Complaints, Claims, Client Alerts, Feedback from the Salesforce, Summarized in the SQI/PQI 		
Widespread Customer Dissatisfaction		<ul style="list-style-type: none"> • Pareto analysis of the SQI and PQI 	<ul style="list-style-type: none"> • Interview with customers
Competitive Quality Status	<ul style="list-style-type: none"> • Criteria, Rating and Awards from Travel Industry publications 	<ul style="list-style-type: none"> • Rating from Customers, Star Report, Salesforce reports 	<ul style="list-style-type: none"> • World-Class customer and employee satisfaction data
Opportunities for Improving RevPAR through Quality	<ul style="list-style-type: none"> • Pareto analysis to identify major causes of customer dissatisfaction 	<ul style="list-style-type: none"> • Summary of above 	<ul style="list-style-type: none"> • Special psychological studies to understand: <ol style="list-style-type: none"> 1. What Customers mean, not what they say 2. How to appeal to the customer in the language they most understand

Deployment “DO”

The specific actions taken by our Sales and Marketing Leaders to deploy our Market Research conclusions consist of four major processes: (1) The 6 P's Concept (2) Operation of the CLASS database (3) Complaint Resolution Process and (4) Standard Performance Measurements.

The Six P's Concept

After we gain a full understanding of our market segments, customers and their relative priorities, we develop and distribute, internally, a 6P Concept. The concept consists of: (1) Problem or need of the Customer (2) Product (what is it) (3) Promises (what it can do for the customer) (4) Personal Advantage (what can the customer do because of it) (5) Positioning (the benefit of it versus the competition) and (6) Price/Value (what customers must give up in time or money to get it). These concepts lay the groundwork for process design.

The 6P's concept typically creates a vision of well-being, which results from the purchase of Ritz-Carlton products - genuine care, comfort and prestige. By disseminating this information into the marketplace, we reinforce an aura of competence.

Operation of the CLASS Database

A major challenge faced by The Ritz-Carlton is to re-member each of its 800,000 plus customers. In response, a special organization exists in each of our hotels called Guest Recognition. This special function uses the CLASS database to remember returning guests and generate essential preference and schedule information to all concerned. In this way, the Ladies and Gentlemen of The Ritz-Carlton and our suppliers understand what is “new or different” about each individual customer or event.

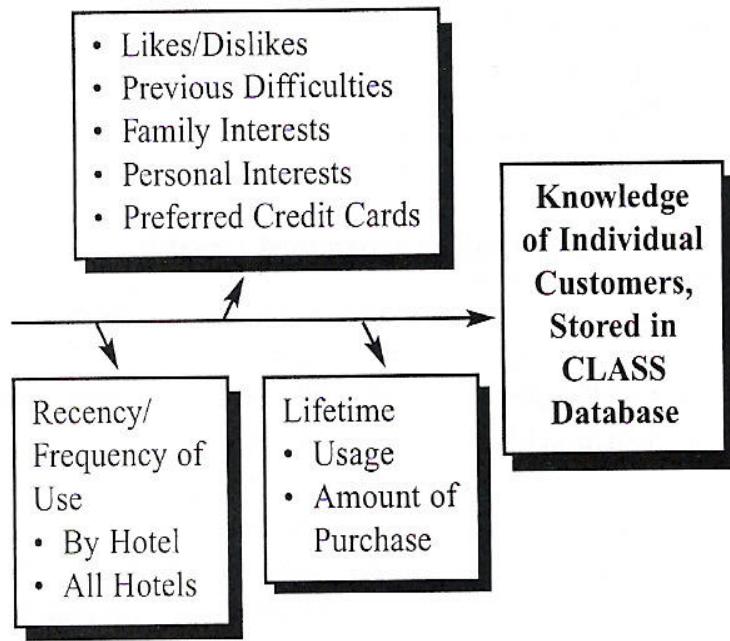


Figure 3.2

Standard Measurements

The major components of our Sales and Marketing Performance Management System are shown in Figure 3.3. Since these measures both precede and lag the operation they are both forward-looking and reaction based.

Subject	Precede / Lag Operations
Advance Bookings	Precedes up to several years
Service Quality Indicator (SQI) measures The Gold Standards	Lags by One Day
Revenue Per Available Room (RevPAR)	Lags by One Day
Customer Satisfaction Determination	Lags by 45 Days
The P & L Statement	Lags by 40 Days

Figure 3.3

Results “Check”

The effectiveness of our Customer and Market Focus is evaluated through reviews of our standard performance measures daily, monthly and annually.

Daily reviews at hotels consist of SQI and RevPAR by market segment and performance.

Monthly reviews at all levels consist of Advance Books, Customer Satisfaction, RevPAR by Market Segment and the P&L Statement.

Annual reviews at the corporate level are contained in our Strategic Planning Pre-Work, Macro Environment Analysis.

Improvement “Act”

The daily and monthly reviews identify performance gaps to be corrected. The extensive analysis of the Macro Environment Analysis drives confirmation or changes in marketing strategy, objectives and plans.

Information and Analysis

Approach “Plan”

Two basic types of measurements are used at The Ritz-Carlton: (1) organizational measurements for upper managers at both the corporate and hotel levels and (2) operational (i.e. process) measurements for planning, assessing and improving daily operations. A further distinction in our measurement is whether it provides information before, during or after operations (Figure 4.1-4.3).

Before Operations Measures		
Subject	Unit of Measure	Use
Macro-Environment Analysis	Summaries of Performance, Money, Ratios, Indexes	Annual Input of Senior Leaders to reset organizational and operational measures
New Hotel Development	Defect Points (i.e. PQI)	Measures for Senior Leaders to plan, assess and improve each new hotel development
Daily Variable Demand	Production/Hours worked ratio	Plan daily operations and pricing

Figure 4.1

During Operations Measures		
Subject	Unit of Measure	Use
The Gold Standards	Taste, Sight, Smell, Sound, Touch	Operational measures for the individual Employee to Plan, Assess and Improve their Work

Figure 4.2

After Operations Measures		
Subject	Unit of Measure	Use
Vital-Few Objectives	Organizational Performance Indicators, Money, 1-5 Scale, Percentages	Improve Organizational Performance
Key Production and Support Processes	Weighted Defect Points (SQI)	Improve Daily Operations
	Production/Hours worked ratio	
	Revenue per Available Room	Improve Pricing Policies

Figure 4.3

The PQI are our Product Quality Indicators, which consist of the 10 most serious defects that can occur in the development phase of a new Ritz-Carlton Hotel, listed in Figure 4.4.

PQI Defects
1. Sub-Standard Management Contract
2. Missing / Wrong Concepts
3. Late Feasibility Study
4. Wrong / Late Schematic Design
5. Detailed Design Changes
6. High-Risk Facility Suppliers
7. Late Construction Days
8. Missing / Inadequate Key Production and Support Processes
9. Inadequate Pre-Sales Results
10. Inadequate Caring Mindset of Employees

Figure 4.4

Since our customer requirements extend beyond the functional to the sensory (which are difficult to measure), we rely on The Gold Standards to measure quality during operations. Most of these measures are used by line level employees. We can do this effectively since the workforce is selected, trained, certified, reinforced and rewarded through our Gold Standards. This qualifies them to design the appropriate sensory measurements that allow them to assess their work and take appropriate actions.

The SQI are our Service Quality Indicators, which consist of the 10 most serious defects that can occur during the regular operation of a Ritz-Carlton hotel. The seriousness of each defect is weighted by a point value listed in Figure 4.5.

SQI Defects	Points
1. Missing Guest Preferences	10
2. Unresolved Difficulties	50
3. Inadequate Guestroom Housekeeping	1
4. Abandoned Reservation Calls	5
5. Guestroom Changes	5
6. Inoperable Guestroom Equipment	5
7. Unready Guestroom	10
8. Inappropriate Hotel Appearance	5
9. Meeting Event Difficulties	5
10. Inadequate Food/Beverage	1
11. Missing/Damaged Guest Property / Accidents	50
12. Invoice Adjustment	3

Figure 4.5

The total number of occurrences is multiplied by the weight, totaled and divided by the number of working days applicable to obtain an average daily point value. The average daily point value is disseminated to the workforce daily.

Comparative Benchmarking

There are three types of comparative data at The Ritz-Carlton: (1) comparisons to industry and our foremost competitor (2) benchmarks outside our industry and (3) benchmarks inside our company. Since we began formal benchmarking in the 1980's, we have found this highly useful as it has pushed us over the years to even higher target levels of performance and roadmaps to get there. Figure 4.6 details the sources of this data and the types of information that are analyzed.

Deployment “DO”

The specific actions taken by Senior Leaders to de-ploy the information and analysis approach is based on the concept of individual process owners.

Individual Process Owners

Our Senior Leaders and Hotel Guidance Teams have the high level organizational performance data they need be-cause we assign individual owners to each metric associated with the Vital-Few Objectives. In addition, our Vice President of Quality keeps our performance measurements current with business needs.

Our Ladies and Gentlemen have the operational per-formance data they need daily because we assign individual process owners to each metric associated with key produc-tion and support processes.

Since these process owners are heavily involved in designing the architecture of the data and information that they review, rarely do they see a fact or figure presented in a way they don't understand.

Results “Check”

Since we place such a strong emphasis on fact-based decision making,

reliability of the data is critical. We rely on our highly trained Ladies and Gentlemen (including statistically trained at all levels) to insure data and information reliability. At the corporate level, we assign individual process owners to assure data can withstand scrutiny and provide background information. We also retain third-party specialists to provide independent reviews of information analysis and processes.

Improvement “Act”

Whenever our process owners and consulting specialists indicate a change of plan is needed, the plans are rewritten, rebudgeted and reapproved. Our Ladies and Gentlemen, on a daily basis, identify and implement improvements in performance measurement as expected in our culture and facilitated through the training and performance management programs outlined in Category 5.

Sources of Comparative Data

Internal		External	
Source	Information	Source	Information
RCHC Information, Analysis System	Each Hotel's measurements in the areas of employee satisfaction, customer satisfaction, RevPAR and operational performance are compared	RCHC Information, Analysis System	Ritz-Carlton Marketing and Finance functions compare us against our competitors in the area of market and business performance
Process Champions	Operations, Human Resources, Marketing and Finance leaders drive best practices and processes both up and down the organization	Baldridge Award Winners	Annually, the VP of Quality studies comparative data and best practices
Regional VP Meeting	These periodic meetings focus on review of performance to plan	Kaznova Consultants	World-class benchmarks
New Hotel Start-Up	When Ritz-Carlton managers are assigned as trainers in a new hotel, they learn and share best practices	Travel Industry Criteria and Publications	Travel Publications, AAA, Mobil Criteria to identify industry trends and performance
Best Practice Sharing	Any “new idea” implemented is shared company-wide via E-mail. Results and Improvements are communicated in the daily Commitment to Quality newsletter	Mayflower Group	The VP of Human Resources compares us to America's most-admired companies(i.e. Fortune 500 and Baldridge winners) in the area of Employee Satisfaction

Figure 4.6

HUMAN RESOURCE FOCUS

Our human resource approach is summarized in Figure 5.1, which is the well-established model that underpins and aligns our various human resource philosophies and programs.

Approach “Plan”

Our Senior Leaders decided to increase both the meaning and satisfaction our people derive from their work. This approach consists of three basic components: (1) our Ladies and Gentlemen know what they are supposed to do (2) they know how well they are doing and (3) they have the authority to make changes in the process under their authority or their own personal conduct.

Know What They are Supposed To Do

At Ritz-Carlton our Ladies and Gentlemen know what they are supposed to: (1) learn and use The Gold Standards (2) master the procedures of their job (i.e. Training Certification) and (3) generate ideas to improve products, services and processes.

Know How Well They Are Doing

We keep our Ladies and Gentlemen informed on how well they are doing in many forms. They receive coaching from managers and peers on individual tasks throughout the day.

Daily, they receive information from the SQI report. Finally, they receive semi-annual performance appraisals on their general performance.

The Authority to Make Changes

The ability of our Ladies and Gentlemen to regulate how work gets done is assured through Basic Standards set out in The Credo Card, “People have the right to be involved in the planning of the work that affects them”.

Deployment “DO”

The specific actions taken to deploy our approach range across a broad spectrum, but most significant activities consist of: (1) The Quality Selection process and (2) Employee Education, Training and Development.

Our President and COO started as a waiter’s apprentice in Europe, and many of our executives started as front line personnel in Ritz-Carlton Hotels and were promoted as they rotated jobs. Therefore, training receives the highest attention in our company.

Our education and training is designed to keep individuals up to date with business needs. The Corporate Director of Training and Development and the Hotel Directors of Training and Development have the responsibility to make sure that training stays current with business needs. To do this, they work with Human Resource and Quality Executives who input organization and job performance training requirements or revise existing ones. The flow of this process is shown in Figure 5.2. Key developmental training needs are addressed through a *cote* of courses that all employees receive.

All employees (regardless of their level in the company) receive the same mandatory two day orientation process, which includes classroom type training on The Gold Standards and The GreenBook.

Human Resource Approach

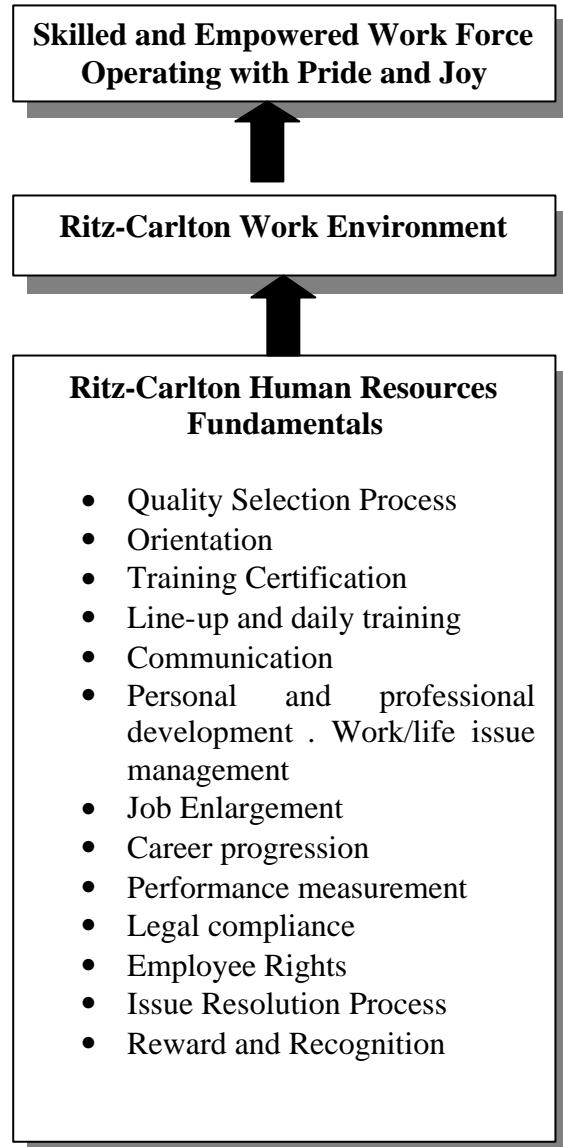


Figure 5.1

As shown in Figure 5.2, we use input from employees and their supervisors in determining educational needs primarily via a review and analysis of our performance appraisals documents. The Hotel Director of Training and Development and the Quality Trainers also receive and consider direct feedback from Ritz-Carlton personnel. When training is designed, it is piloted and approved in a fashion similar to the new product and service development process described in Category 3. Participants in the pilot provide direct, candid feedback to the designers and instructors.

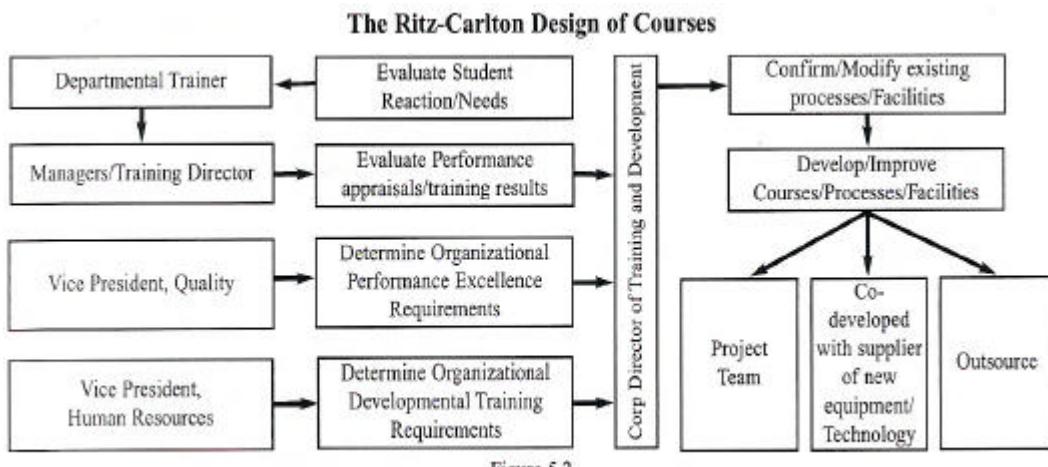


Figure 5.2

Although job induction training is classroom delivered by the Director of Training and Development and the General Manager, most training delivery is on-the-job. This consists of: (1) daily line-up (2) self-study documents (3) developmental assignments and (4) training certification. Most training is evaluated through examinations, while other methods include audits, performance reviews and appraisals.

Approximately 80% of the training received by The Ritz-Carlton Ladies and Gentlemen is from in-house sources which allows us to have direct control over the method of training delivery and evaluation.

To gain real-life developmental experiences, we make extensive use of developmental assignments in which people choose to expand their knowledge and experience through requesting new assignments within and across hotels and functions. Since most of our executives came up the ranks this way, this is a widely accepted and expected process for people who would like to be promoted.

Results “Check”

Results of the selection, training and development of our Ladies and Gentlemen are checked at key stages of progression: (1) Quality Selection Process Measurement (2) Day 21/365 (3) Training Certification Review (4) Performance Appraisal Review Evaluation and (5) analysis of employee surveys.

Quality Selection Process - QSP

We measure the desirable, spontaneous behavior (i.e. Talent+) of potential employees at all levels and categories through our QSP. Certified interviewers measure the responses to a structured interview. These measurements are then arranged in a performance graph of the necessary “themes” of each job. The graph also contains comparative data, which consists of industry and Ritz-Carlton norms.

Day 21

21 days after orientation, each orientation class re-unites for a day of evaluation and debriefing. A similar session occurs on or near day 365.

Training Certification

Much like the Craft Concept, employees are subject to examination/audit at the end of their initial training period. Likewise, they must demonstrate mastery of the procedures of their job.

Evaluation of Performance Appraisals

Annual Performance Appraisal information is evaluated to identify weaknesses in our approach to training and development.

Analysis of Employee Surveys

We determine employee well-being, satisfaction and motivation from formal surveys designed, analyzed and compared to world-class companies, via a consulting specialist. Our results are compared to outside world-class service companies and The Mayflower Group. Impartiality of survey analysis and recommendations is assured by independent and objective design analysis and presentations.

Improve “Act”

Improvement activities in Human Resources rely extensively on internal audits, site visits by Senior Human Resources Leaders and analysis of employee survey data.

PROCESS MANAGEMENT

We are a process-focused organization with many standard procedures. Our Senior Leaders realize that processes must be thoroughly planned so we can give our Ladies and Gentlemen the means to ‘meet standards, create a market and thereby generate our company’s income efficiently.

Approach “Plan”

Through our market research, which concentrates on the quality of hotel development and operations, we have identified key production processes. In addition, we have conducted formal discussions between: (1) support and operations employees and (2) internal and external customers to identify administrative and support processes which impact our hotel products and our company’s mission.

Deployment “DO”

The specific actions taken to deploy our annual process management approach flow from our strategic planning process to every job level and category in our company.

Incorporate Changing Customer/ Market Requirements

During the annual strategic planning process, we incorporate changing customer/market requirements into production and support processes. This assists in prioritizing our processes.

Assigning Process Owners

Each production and support process is assigned an “executive owner” at the corporate office and a “working owner” at the hotel level. These owners are responsible for the development/improvement of these processes. They have authority in defining the measurements and determining the resources needed to manage these processes. They involve all concerned in determining what must be done differently to reach our objectives.

The GreenBook

We use the logic, processes and tools of managing for quality, set out in our GreenBook, a handbook for our Ladies and Gentlemen. The Nine-Step Quality Improvement Process is featured in this handbook to guide the design, control and improvement of all processes. This process is emphasized during new employee education, training and development and is ingrained in our process-oriented culture.

Develop/Deploy Processes for New Hotels

The design of key production and support processes is modified for each new hotel based on: (1) market research (2) facility design and (3) operating conditions. These process changes address quality, learnings from past hotels, cost control and general effectiveness and efficiency. These processes are transferred to our ladies and Gentlemen during our pre-opening countdown process.

Results “Check”

Although we must control many sensory characteristics of the products we produce, we try to “put it in numbers” in our system of process measurements.

Improvement “Act”

Standing cross-functional teams at all levels use “After Operations Measures” and customer survey inputs to improve key processes. These improvements can come in two ways: (1) major changes that require funding, resources and project management and/or (2) incremental day-to-day improvements. While both types follow the Nine-Step Q.I.P., meeting event by meeting event improvement involves job shape theories found in the GreenBook.

Improvements are institutionalized in two main ways: (1) the traditional hierarchy and (2) executive process owners.

In either case, we use our process to overcome cultural

resistance to change. This process consists of four factors: (1) stressing the importance of the change (2) expressing confidence the change can be made (3) providing a reason why people should make the change as a group and (4) allowing time for people to find an accommodation to the change.

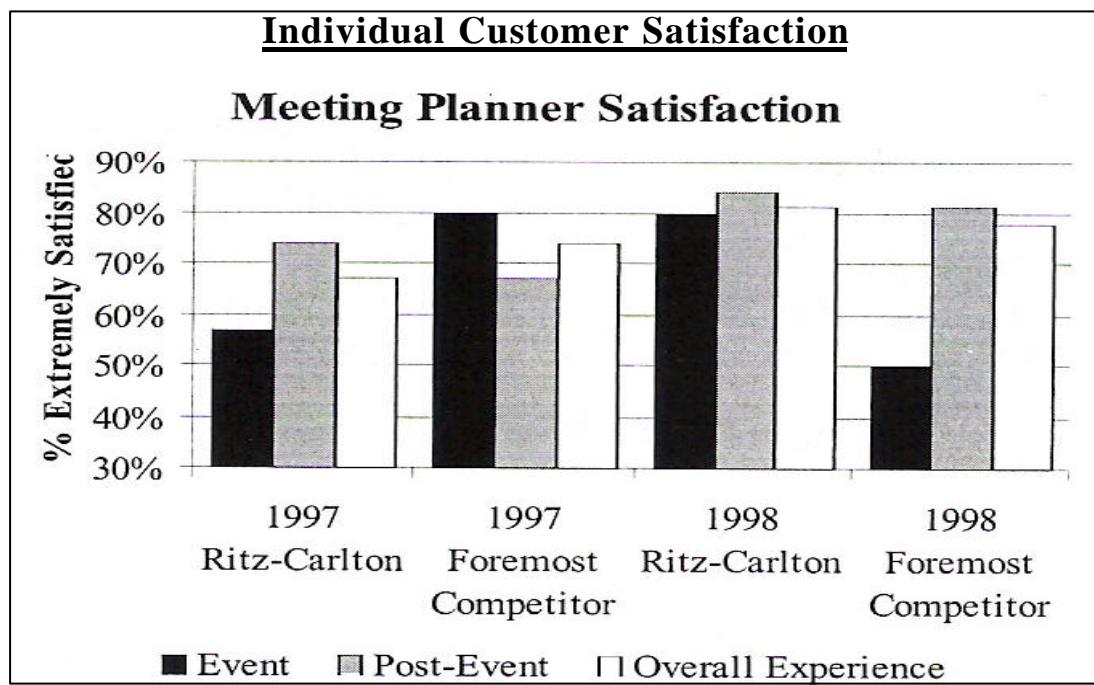
BUSINESS RESULTS

7.1 Customer Focused Results

The following results, items reviewed in Category 1, emanate from our strategy and customer focus Categories 2 and 3. They are included in our measurement and analysis Category 4, and executed through our human resource and processes management Categories 5 and 6. All of our Customer and Employee Satisfaction data comparisons are: (1) statistically significantly different from the competition at the 95% confidence level (2) administered and produced by well-known objective and independent outside third-party research sources and (3) analyzed against world-class/world-best and Baldrige-winning companies by our performance excellence supplier/partner and benchmark source.

Our Meeting Planner satisfaction is measured both internally and externally. Externally, we use 1. D. Power and Associates to measure our customer satisfaction versus our foremost competitor. Figure 7.1 a shows our level and trend superiority. These percentages represent extreme satisfaction. This Meeting Planner Study was not conducted in 1999; hence, there is no new data available.

Our Individual Guest satisfaction is also measured both internally and externally. Externally, we use Nationwide Surveys to measure our customer satisfaction versus our foremost competitor for frequent business and frequent leisure travelers. Figure 7.1 b shows our level superiority in 1999.



Source: J.D. Power and Associates

Figure 7.1a

Frequent Leisure Traveler 1999 Key Comparisons

	Top 2 Boxes RCHC	Top 2 Boxes Foremost Competitor	Top Box RCHC	Top Box Foremost Competitor
Overall Satisfaction	91%	80%	70%	52%
Cleanliness of Room & Facilities	90%	77%	64%	48%
Adequate Security	83%	64%	57%	38%
Value for the Money	42%	32%	19%	10%
Staff Knowledgeable & Helpful	67%	54%	41%	28%

Frequent Business Traveler 1999 Key Comparisons

	Top 2 Boxes RCHC	Top 2 Boxes Foremost Competitor	Top Box RCHC	Top Box Foremost Competitor
Overall Satisfaction	91%	84%	68%	57%
Quality of Facilities from Location to Location	85%	68%	62%	39%
Quality of Services	88%	67%	61%	37%
Has Alert & Helpful Staff/Responsive to my Needs	83%	62%	52%	34%
Provides Excellent Business Class Floors	70%	49%	43%	23%
Has Very Clean & Well Maintained Facilities	96%	93%	74%	60%
Provides Full Range of Business Services	77%	58%	48%	26%

Source: Nationwide Surveys

Figure 7.1b

In the most comprehensive, objective and valid study to date, the Cornell School of Hotel Administration and McGill University undertook a survey of 13,400 managers in the lodging industry to identify “Best Practices” in the lodging industry. The study named The Ritz-Carlton as the overall Best Practice Champion.

7.3 Human Resource Results

Our measures of financial performance fall into a number of different categories. EBITDA (Earnings Before Income Taxes, Depreciation and Amortization) and pre-tax ROI (Return on Investment) are shown in Figure 7.2a.

Pre-Tax Return on Investment Summary								
	Actual					Projected		
	1995 ⁽¹⁾	1996	1997	1998	1999	2000	2001	2002
Total Fees (\$M)	\$21,036	\$36,786	\$39,930	\$46,831	\$58,478	\$72,847	\$85,350	\$97,763
Sales Proceeds (\$M) ⁽²⁾								\$870,946
EBITDA (\$M)	\$11,951	\$20,882	\$21,284	\$29,668	\$39,103	\$53,195	\$63,937	\$945,767
Pre-Tax Return on Investment	5.3%	9.3%	9.5%	9.8%	12.9%	17.6%	21.2%	313.7%
Pre-Tax IRR =	24.4%							

⁽¹⁾Reflects actual results from April – December, 1995 ⁽²⁾Assumes a sale at year 8 at a 12X multiple

Source: RCHC Internal Data

Figure 7.2a

In Figure 7.2b we show administrative costs as a percentage of our total fees, profit and revenue.

Administrative Costs Summary								
	Actual					Projections		
	1995	1996	1997*	1998	1999	2000	2001	2002
Total Fees (\$M)	\$21,036	\$36,786	\$39,930	\$46,831	\$58,478	\$72,847	\$85,350	\$97,763
Administrative Costs (\$M)	\$9,084	\$15,903	\$18,646	\$17,163	\$19,375	\$19,651	\$21,413	\$22,943
Administrative Costs as a % of Total fees (Less=Good)	43.2%	43.2%	46.7%	36.4%	33.1%	27.0%	25.1%	23.5%

* Four hotels by individual owner that were out of compliance with RCHC standards were negotiated to another hotel management company and the costs associated with that transaction increased our administrative costs in 1997. otherwise, our administrative cost trends are excellent (down).

Source: RCHC Internal Data

Figure 7.2b

Figure 7.2c shows the percentage profit for The Ritz-Carlton versus our main competitor and all other luxury hotels from 1996-1998.

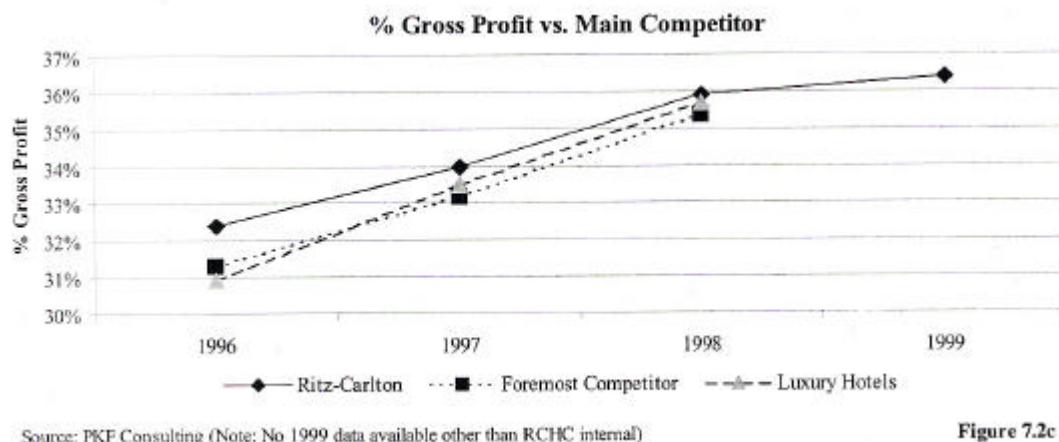


Figure 7.2c

7.3 Human Resource Results

Our employee well-being and satisfaction is also measured through our Employee Satisfaction Survey. Figure 7.3a shows key drivers of overall employee morale and their respective responses for 1998 (Excellent, Very Good, Good).

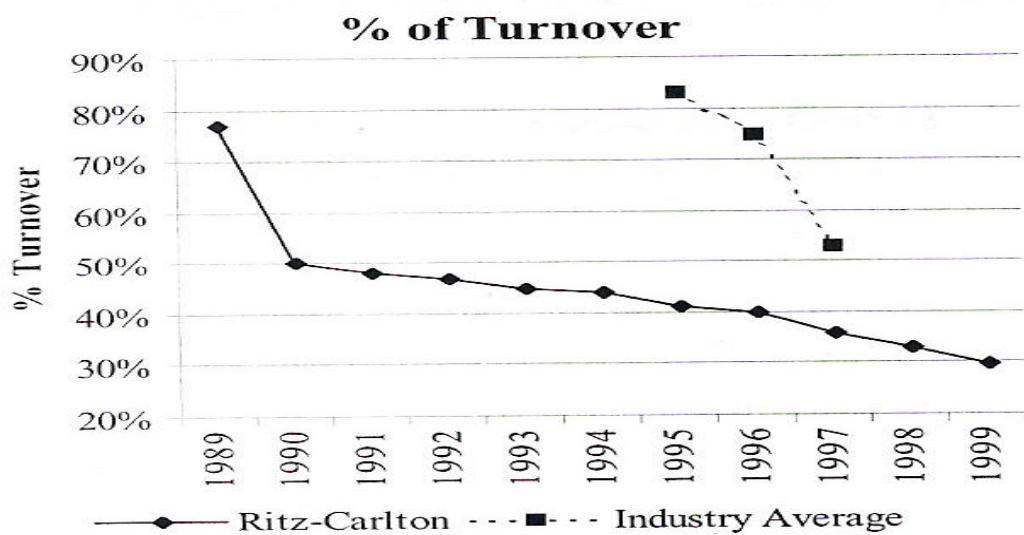
1998 Employee Satisfaction Data (% Positive)

Issue	Ritz-Carlton 1998	Service Company Norms
Decision Making Authority	83%	55%
Teamwork	83%	70%
Department Coordination of Efforts	80%	40%
Communication Index	87%	57%
Empowerment	85%	67%
Understand Department Goals	86%	86%
Management		
Constructive Feedback	73%	45%
Verbal Recognition for Job Well Done	69%	41%
Monetary Recognition for Job Well Done	50%	28%

Source: J.D. Power / Kaznova Consultants

Figure 7.3a

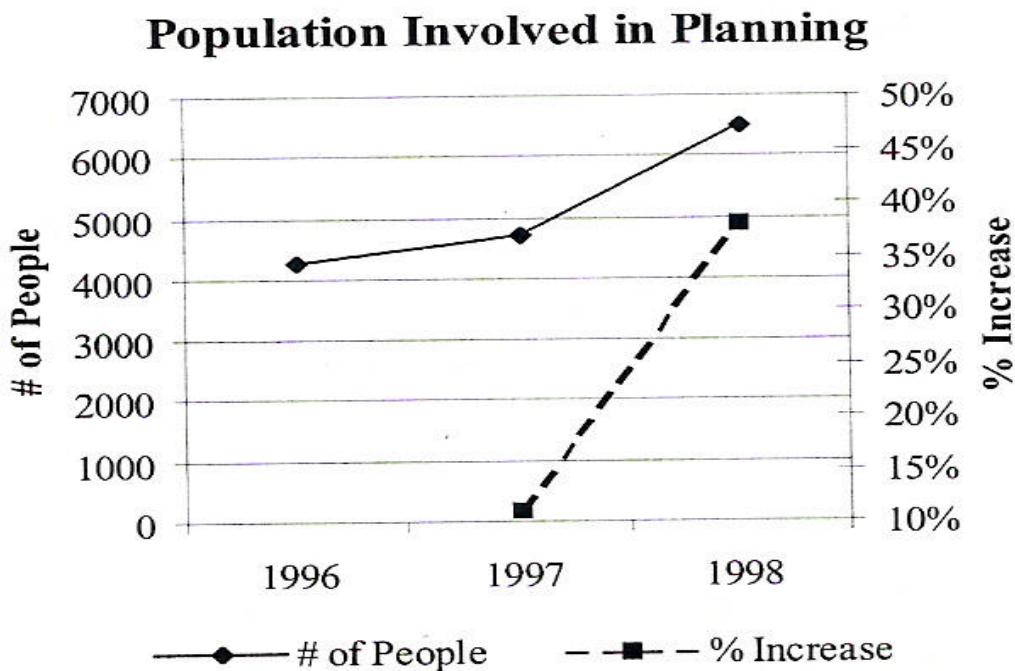
Figure 7.3b shows our ever-decreasing turnover rate from a high of 77% in 1989. Positive trends are a result of increasingly improved selection and training processes as well as drivers of employee satisfaction.



Source: RCHC / Kaznova Consultants

Figure 7.3b

Our goal of Pride and Joy in the workplace and full participation of as many employees as possible is enhanced through employee involvement in planning. We know of no benchmarks in this area as most companies only track executives and do not include employees in the planning of their work (Figure 7.3c).



Source: Kaznova Consultants

Figure 7.3c

7.4 Supplier and Partner Results

We ensure that performance requirements of our suppliers are met through a robust Supplier Compliance and Quality Survey Form that measures key aspects of supplier quality.

Purchasing personnel at each hotel fill out the survey every six months and rate the issues (i.e. fit for use, accuracy, on-time, defect-free, cycle time, service, etc.)

Our goals are to: (1) Increase the number and percentage of our hotels who certify our Key Suppliers (through our robust process) semi-annually and (2) Increase the number and percentage of key suppliers who achieve an 80% or better overall rating on all attributes of our supplier certification survey (percentage meets quality requirements “to a great extent”).

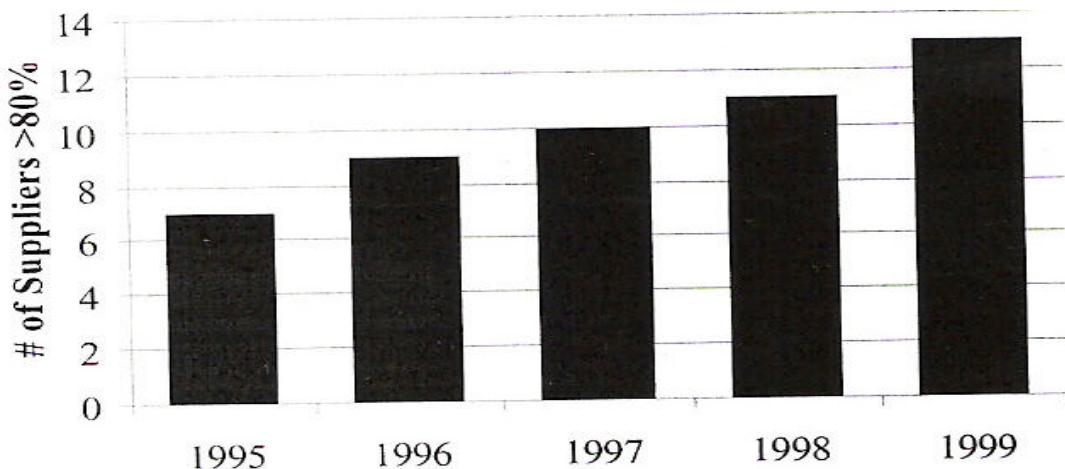
Figures 7.4a and 7.4b show our positive movement towards these goals over in the last three years. We cannot find other hotels, let alone other service companies, whose measures are as robust or similar to ours, and hence have no competitive comparison data.

% of Hotels Certifying Key Suppliers					
Supplier	1995	1996	1997	1998	1999
A	43%	52%	52%	95%	100%
B			12%	82%	100%
C	8%	21%	47%	95%	87%
D	34%	51%	56%	95%	96%
E	13%	39%	43%	100%	100%
F	39%	47%	52%	95%	100%
G	39%	52%	56%	100%	100%
H	21%	43%	47%	95%	83%
I	43%	52%	56%	100%	100%
J	43%	52%	56%	100%	96%
K	43%	52%	56%	95%	87%
L	43%	52%	56%	95%	100%
M	43%	47%	56%	100%	96%
TOTAL	34%	47%	50%	96%	96%

Source: RCHC data

Figure 7.4a

Number of Key Suppliers Achieving 80% or Better on Supplier Certification

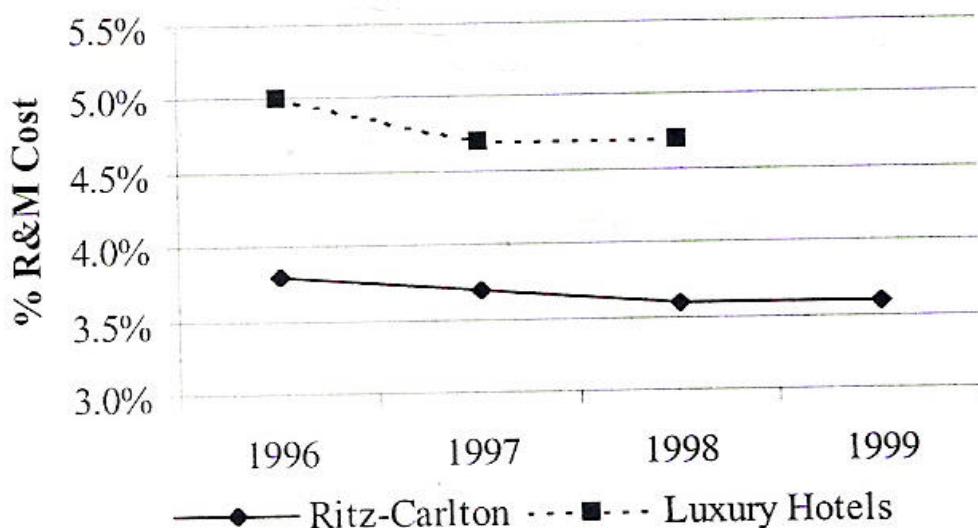


Source : RCHC Data

Figure 7.4b

7.5 Organizational Effectiveness Results

% Repair and Maintenance Cost to Total Revenue vs. Luxury Segment



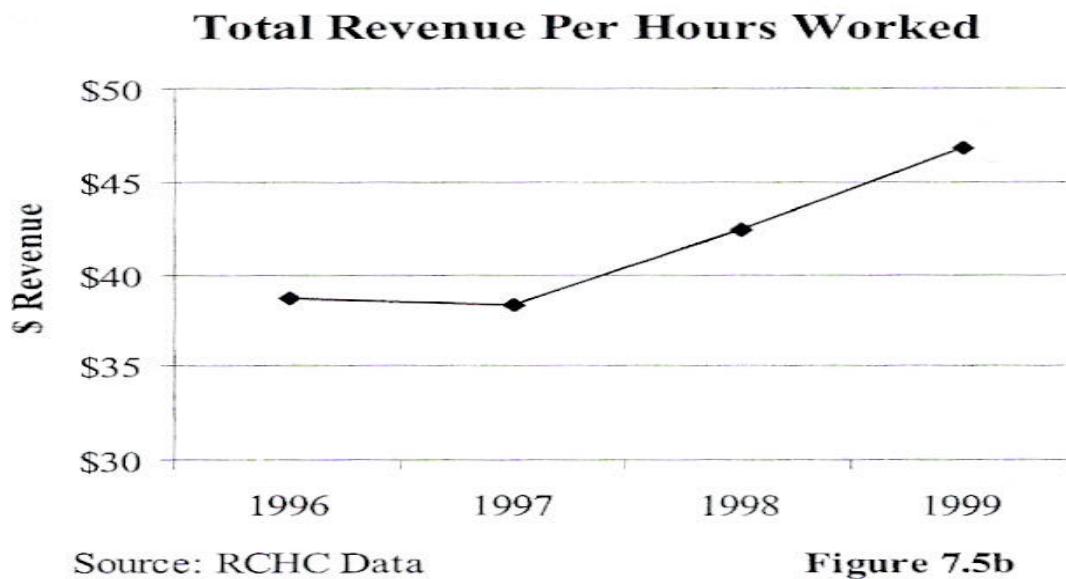
Source: PKF Consulting

(Note: No 1999 data available)

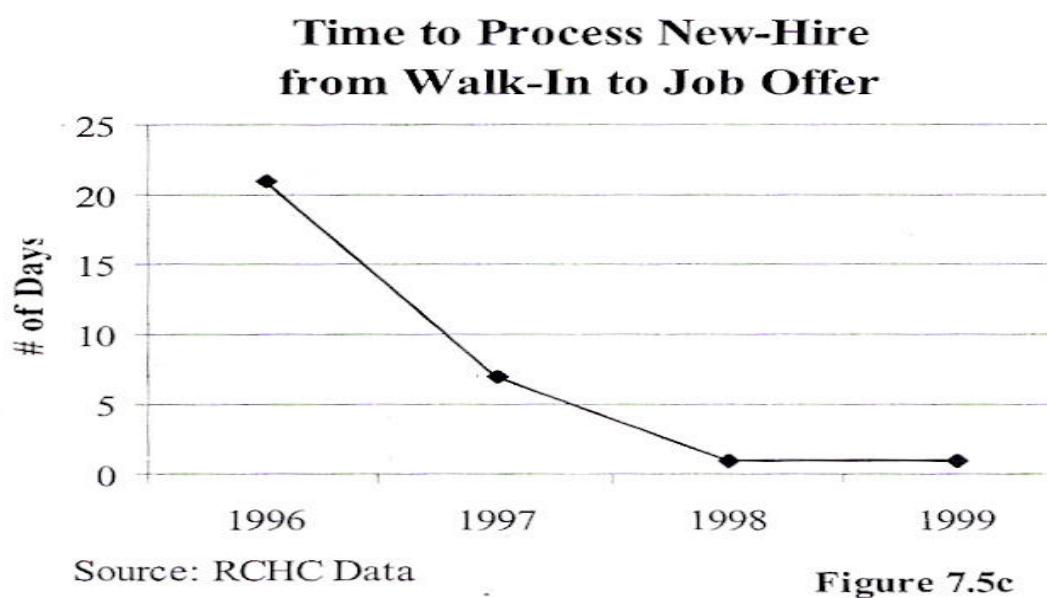
Figure 7.5a

Figure 7.5a shows our trend and level superiority in operating maintenance. Our C.A.R.E. program of systematic preventive maintenance (four times a year) has kept our property and equipment at world-class levels at reduced costs. This is in alignment with our goal of pursuing a defect-free environment.

Figure 7.5b shows our trend improvement in revenue per hours worked.



With unemployment at a low, and significant competition for skilled hires, we embarked on a major project to improve the cycle time from when a potential new-hire walks in the door and a job offer is tendered. Using our scientific quality approaches, Figure 7.5c shows our 21X improvement in that reduction. **We know of no other company in any industry as of May 1999 that does the hiring process (especially with our selectivity and scientific selection tool) that is quicker.** Hence, we have no competitive comparisons.



EUROPEAN FOUNDATION FOR QUALITY MANAGEMENT (EFQM)

Key Learning Outcomes

After reading this chapter, you should be able to:

- *Describe the mission and background of the EFQM*
- Illustrate EFQM's Model of Excellence
- List EFQM's eight Fundamental Concepts of Excellence
- *Define key terms associated with EFQM's Model of Excellence*

Outlines of Lesson Plan

- Introduce EFQM and the European quality award
- The EFQM excellence model
- Efqm's fundamental concepts of excellence
- Understand the key terminology
- Revision and review exercises

EFQM was founded in 1988 by the Presidents of 14 major European companies (Bosch, BT, Bull, Ciba-Geigy, Dassault, Electrolux, Fiat, KLM, Nestlé, Olivetti, Philips, Renault, Sulzer, Volkswagen) with the endorsement of the European Commission. The impetus for this powerful management network — which now has more than 800 members in more than 38 countries— was the need to develop a European framework for quality improvement along the lines of the Malcolm Baldrige Model in the USA and the Deming Prize in Japan. Both these awards had demonstrably improved service and manufacturing quality in the organisations that used them.

Based in Brussels, with members and valued National Partner Organisations (NPOs) in every important European region, EFQM helps European businesses make better products and deliver improved services through the effective use of leading edge management practices.

The EFQM has a key role to play in enhancing the effectiveness and efficiency of European organisations by reinforcing the importance of quality in all aspects of their activities and stimulating and assisting the development of quality improvement as a basis for their achievement of organisational excellence.

The European Model for Business Excellence - now called the *EFQM Excellence Model* - was introduced in 1991 as the framework for organisational self assessment and as the basis for judging entrants to the *European Quality Award*, which was awarded for the first time in 1992. Past winners of this prestigious award have includec companies such as

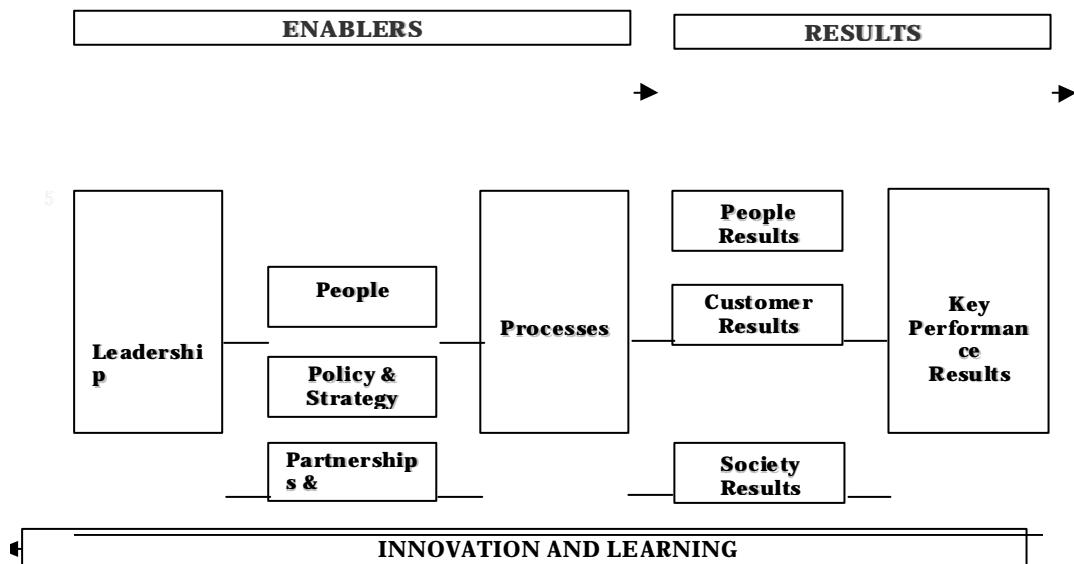
IBM, ICL, British Telecom, Rank Xerox, DHL, Volvo, Nokia e.t.c. In 1996 the Award was extended to include a separate category for organisations in the Public Sector. In 1997 the Award was further extended to include operational units - significant parts of companies that are not eligible to enter as a business. Examples could be: factories, assembly plants, sales and marketing functions, research departments. Also launched in 1997 was The European Quality Award for Small and Medium sized Enterprises (SMEs) which is for companies of fewer than 250 persons.

EFQM's Mission

- To stimulate and assist organisations throughout Europe to participate in improvement activities leading ultimately to excellence in customer satisfaction, employee satisfaction, impact on society and business results; and
- To support the managers of European organisations in accelerating the process of making Total Quality Management a decisive factor for achieving global competitive advantage.

In the following pages, we describe the *EFQM Excellence Model* in detail and also discuss EFQM's eight *Fundamental Concepts of Excellence*.

The EFQM Excellence Model



The EFQM Excellence Model, a non-prescriptive framework based on nine criteria, can be used to assess an organization's progress towards excellence*. The Model recognizes there are many approaches to achieving sustainable excellence in all aspects of performance. It is based on the premise that:

*Excellent results with respect to Performance, Customers, People and Society are achieved through Leadership driving Policy and Strategy, that is delivered through People, Partnerships and Resources and Processes.

The arrows emphasise the dynamic nature of the Model. They show innovation and learning help to improve enablers which in turn lead to improved results.

Definitions of the nine criteria and the criterion parts are given in Appendix

For convenience, we use the terms "Enablers" and "Results" to designate two categories of criteria. Enabler criteria are concerned with how the organisation undertakes key activities; Results criteria are concerned with what results are being achieved.

At the heart of the Model lies the RADAR logic. The elements of RADAR are Results, Approach, Deployment, Assessment and Review. The elements of Approach, Deployment, Assessment and Review are used when assessing "Enabler" criteria and the Results element is used when assessing "Results" criteria.

Within this non-prescriptive framework, certain Fundamental Concepts underpin the Model. Behaviours, activities or initiatives based on these concepts are often referred to as Total Quality Management.

The concepts are not listed in any particular order and the list is not meant to be exhaustive. They will change as excellent organisations develop and improve.

The Fundamental Concepts of Excellence Results Orientation

The Concept

Excellence is achieving results that delight all the organisation's stakeholders.

How the Concept is put into practice

In the fast changing environment that is today's world, Excellent organisations are agile, flexible and responsive as stakeholder needs and expectations change, often frequently and quickly. Excellent organisations measure and anticipate the needs and expectations of their stakeholders, monitor their experiences and perceptions, and monitor and review the performance of other organisations. Information is gathered from both current and future stakeholders. This information is used in order to set, implement and review their policies, strategies, objectives, targets, measures and plans, for the short, medium and longer term. The information gathered also helps the organisation to develop and achieve a balanced set of stakeholder results.

Customer Focus

The Concept

Excellence is creating sustainable customer value.

How the Concept is put into practice

Excellent organisations know and intimately understand their customers. They understand that customers are the final arbiters of product and service quality. They also understand that customer loyalty, retention and market share gain is maximised through a clear focus on the needs and expectations of both existing and potential customers. They are responsive to those customers' present needs and expectations. Where appropriate they segment their customers to improve the effectiveness of their

response. They monitor competitor activity and understand their competitive advantage. They effectively anticipate what customers' future needs and expectations will be and act now in order to meet and where possible exceed them. They monitor and review the experiences and perceptions of their customers and where things go wrong they respond quickly and effectively. They build and maintain excellent relationships with all their customers.

Leadership and Constancy of Purpose

The Concept

Excellence is visionary and inspirational leadership, coupled with constancy of purpose.

How the Concept is put into practice

Excellent organisations have leaders who set and communicate a clear direction for their organisation. In doing so they unite and motivate other leaders to inspire their people. They establish values, ethics, culture and a governance structure for the organisation that provides a unique identity and attractiveness to stakeholders. Leaders at all levels within these organizations constantly drive and inspire others towards excellence and in so doing display both role model behaviour and performance. They lead by example, recognising their stakeholders and working with them on joint improvement activity. During times of turbulence they display a constancy of purpose and steadiness that inspires the confidence and commitment of their stakeholders. At the same time they demonstrate the capability to adapt and realign the direction of their organisation in the light of a fast moving and constantly changing external environment, and in so doing carry their people with them.

Management by Processes and Facts

The Concept

Excellence is managing the organisation through a set of interdependent and interrelated systems, processes and facts.

How the Concept is put into practice

Excellent organisations have an effective management system based upon, and designed to deliver, the needs and expectations of all stakeholders. The systematic implementation of the policies, strategies, objectives and plans of the organisation are enabled and assured through a clear and integrated set of processes. These processes are effectively deployed, managed and improved on a day-to-day basis. Decisions are based on factually reliable information relating to current and projected performance, process and systems capability, stakeholder needs, expectations and experiences, and the performance of other organisations, including, where appropriate, that of competitors. Risks are identified based on sound performance measures and effectively managed. The organisation is governed in a highly professional manner, meeting and exceeding all corporate external requirements. Appropriate prevention measures are identified and implemented inspiring and maintaining high levels of confidence with stakeholders.

People Development and Involvement

The Concept

Excellence is maximising the contribution of employees through their development and involvement.

How the Concept is put into practice

Excellent organisations identify and understand the competencies needed, both now and in the future, in order to implement the organisation's policies, strategies, objectives and plans. They recruit and

develop their people to match these competencies and actively and positively support them throughout. Personal development is promoted and supported allowing people to realise and unlock their full potential. They prepare people to meet and adapt to the changes required of them both in terms of operational changes and personal capabilities.

They recognise the increasing importance of the intellectual capital of their people and use their knowledge for the benefit of the organisation. They seek to care, reward and recognise their people in a way that builds their commitment and encourages their loyalty to the organisation. They maximize the potential and the active involvement of their people through shared values and a culture of trust, openness and empowerment. They utilise that involvement to generate and implement ideas for improvement.

Continuous Learning, Innovation and Improvement

The Concept

Excellence is challenging the status quo and effecting change by utilising learning to create innovation and improvement opportunities.

How the Concept is put into practice

Excellent organisations continuously learn, both from their own activities and performance and from that of others. They rigorously benchmark, both internally and externally. They capture and share the knowledge of their people in order to maximise learning across and within the organisation. There is an openness to accept and use ideas from all stakeholders. People are encouraged to look beyond today and today's capabilities. They are careful to guard their intellectual property and to exploit it for commercial gain, where appropriate. Their people constantly challenge the status quo and seek opportunities for continuous innovation and improvement that add value.

Partnership Development

The Concept

Excellence is developing and maintaining value adding partnerships.

How the Concept is put into practice

Excellent organisations recognise that in the constantly changing and increasingly demanding world of today success may depend on the partnerships they develop. They seek out, and develop, partnerships with other organisations. These partnerships enable them to deliver enhanced value to their stakeholders through optimising core competencies. These partnerships may be with customers, society, suppliers or even competitors and are based on clearly identified mutual benefit. Partners' work together to achieve shared goals, supporting one another with expertise, resources and knowledge and build a sustainable relationship based on mutual trust, respect and openness.

Corporate Social Responsibility

The Concept

Excellence is exceeding the minimum regulatory framework in which the organization operates and to strive to understand and respond to the expectations of their stakeholders in society.

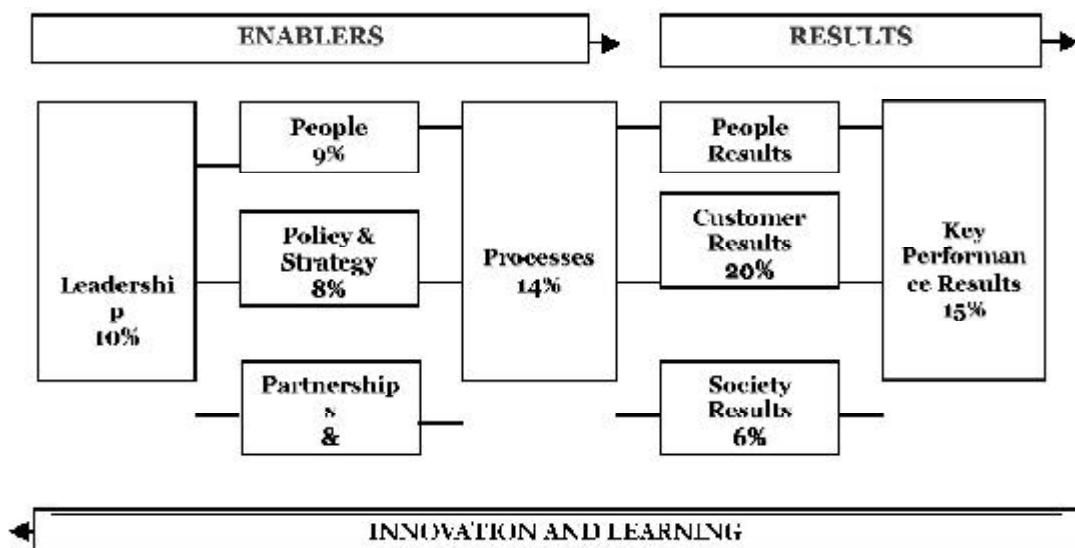
How the Concept is put into practice

Excellent organisations adopt a highly ethical approach by being transparent and accountable to their stakeholders for their performance as a responsible organisation. They give consideration to, and actively promote, social responsibility and ecological sustainability both now and for the future. The organisation's Corporate Social Responsibility is expressed in the values and integrated within the organisation. Through open and inclusive stakeholder engagement, they meet and exceed the expectations and regulations of the local and, where appropriate, the global commu-

nity. As well as managing risk, they seek out and promote opportunities to work on mutually beneficial projects with society inspiring and maintaining high levels of confidence with stakeholders. They are aware of the organisation's impact on both the current and future community taking care to minimise any adverse impact.

APPENDIX-I

The EFQM Excellence Model



The percentages shown are those used for assessing applications for The European Quality Award.

Organisations practising Self-Assessment may use the percentages shown but they may also, of course, select percentages more appropriate to the particular features of their own organisation. Furthermore, some organisations prefer not to “score” their internal Self-Assessment but to concentrate on the “strengths” and “improvements” that are highlighted.

Definitions of the criteria and criterion parts in the EFQM Model are given below.

Model Criteria

1. LEADERSHIP

Excellent Leaders develop and facilitate the achievement of the mission and vision. They develop organisational values and systems required for sustainable success and implement these via their actions and behaviours. During periods of change they retain a constancy of purpose. Where required, such leaders are able to change the direction of the organization and inspire others to follow.

- a. Leaders develop the mission, vision, values and ethics and are role models of a culture of Excellence
- b. Leaders are personally involved in ensuring the organisation's management system is developed, implemented and continuously improved
- c. Leaders interact with customers, partners and representatives of society
- d. Leaders reinforce a culture of Excellence with the organisation's people
- e. Leaders identify and champion organisational change

2. POLICY AND STRATEGY

Excellent Organisations implement their mission and vision by developing a stakeholder focused strategy that takes account of the market and sector in which it operates. Policies, plans, objectives, and processes are developed and deployed to deliver the strategy.

- a. Policy and Strategy are based on the present and future needs and expectations of stakeholders
- b. Policy and Strategy are based on information from performance measurement, research, learning and external related activities
- c. Policy and Strategy are developed, reviewed and updated
- d. Policy and Strategy are communicated and deployed through a framework of key processes

3. PEOPLE

Excellent organisations manage, develop and release the full potential of their people at an individual, team-based and organisational level. They promote fairness and equality and involve and empower their people. They care for, communicate, reward and recognise, in a way that motivates staff and builds commitment to using their skills and knowledge for the benefit of the organisation.

- a. People resources are planned, managed and improved
- b. People's knowledge and competencies are identified, developed and sustained
- c. People are involved and empowered
- d. People and the organisation have a dialogue
- e. People are rewarded, recognised and cared for

4. PARTNERSHIPS AND RESOURCES

Excellent organisations plan and manage external partnerships, suppliers and internal resources in order to support policy and strategy and the effective operation of processes. During planning and whilst managing partnerships and resources they balance the current and future needs of the organisation, the community and the environment

- a. External partnerships are managed
- b. Finances are managed
- c. Buildings, equipment and materials are managed
- d. Technology is managed
- e. Information and knowledge are managed

5. PROCESSES

Excellent organisations design, manage and improve processes in order to fully satisfy, and generate increasing value for, customers and other stakeholders.

- a. Processes are systematically designed and managed

- b. Processes are improved, as needed, using innovation in order to fully satisfy and generate increasing value for customers and other stakeholders
- c. Products and Services are designed and developed based on customer needs and expectations
- d. Products and Services are produced, delivered and serviced
- e. Customer relationships are managed and enhanced

6. CUSTOMER RESULTS

Excellent organisations comprehensively measure and achieve outstanding results with respect to their customers.

- a. Perception Measures
- b. Performance Indicators

7. PEOPLE RESULTS

Excellent organisations comprehensively measure and achieve outstanding results with respect to their people.

- a. Perception Measures
- b. Performance Indicators

8. SOCIETY RESULTS

Excellent organisations comprehensively measure and achieve outstanding results with respect to society.

- a. Perception Measures
- b. Performance Indicators

9. KEY PERFORMANCE RESULTS

Excellent organisations comprehensively measure and achieve outstanding results with respect to the key elements of their policy and strategy.

- a. Key Performance Outcomes
- b. Key Performance Indicators

Glossary of Key Terms

The following is a list of key terms associated with the EFQM Model of Excellence:

Benchmark	A measured, “best-in-class” achievement; a reference or measurement standard for comparison; this performance level is recognised as the standard of excellence for a specific business process.
Benchmarking	A systematic and continuous measurement process; a process of continuously comparing and measuring an organisation’s business processes against business leaders anywhere in the world to gain information that will help the organisation take action to improve its performance.
Core competencies:	A well performed internal activity that is central to an organisation’s competitiveness, profitability or efficiency.
Corporate Governance	Defining and implementing a system of rules, processes procedures and relationships to manage the organisation and fulfil its legal, financial and ethical obligations.
Corporate Social Responsibility	Policies and practices to measure and manage the environmental performance and social impact of the organisation, its reputation in these areas, and two-way communication with society and stakeholders.
Creativity	The generation of ideas for new or improved working practices and/or products and services.
Critical success factors	The prior conditions that must be fulfilled in order that an intended strategic goal can be achieved.

Culture	The total range of behaviours, ethics and values which are transmitted, practised and reinforced by members of the organisation.
Empowerment	The vesting of employees with necessary skills, knowledge, information and authorities in such a way as to enable them to take all actions necessary to produce the specified outputs in the most effective and efficient way. A periodic setting of clear targets gives the necessary guidance within the framework of the overall objectives of the organisation.
End to end processes	A value stream that crosses functions and organisations in order to create or deliver a product or service.
Equal opportunities	The practice of ensuring that all employees and users of services receive fair and equal treatment.
Ethics	The universal morals which the organisation adopts and abides by.
Excellence	Outstanding practice in managing the organisation and achieving results based on a set of Fundamental Concepts which will include: results orientation, customer focus, leadership and constancy of purpose, management by processes and facts, involvement of people, continuous improvement and innovation, mutually beneficial partnerships, corporate social responsibility.
External Customers	The external customers of the organisation. These may also include other customers in the chain of distribution.
Finances	The short term funds required for the day to day operation of the business, and the capital funding from various sources required for the longer term financing of the organisation.

Fundamental Concepts of Excellence	The set of principles and ideals upon which the EFQM Excellence Model framework is based.
Good/best practice	An error free, proven and documented working practice that exceeds the norms of known, current operational performance within a specific business environment
Governance	The framework of authority and control within an organisation.
Innovation	The practical translation of ideas into new products, services, processes, systems and social interactions.
Intellectual capital	The value of an organisation that is not captured in its traditional financial accounts. It represents the intangible assets of an organisation and is the difference between market and book value. Commonly defined components are human capital, structural capital and customer capital.
Key Performance Results	Those results, not covered by Customer, People and Society that it is imperative for the organisation to achieve.
Knowledge Results	Knowledge is part of the hierarchy made up of data, information and knowledge. Data are raw-facts. Information is data with context and perspective. Knowledge is information with guidance for action.
Lagging Indicators	Lagging Indicators show the final outcome of an action, usually well after it has been completed. Profitability is a lagging indicator of sales and expenses Perception measures are also referred to as lagging (trailing/following) indicators. A perception result relates to direct feedback from

a stakeholder e.g. when employees respond via an internal attitude survey.

Leaders

The people who coordinate and balance the interests of all who have a stake in the organisation, including: the executive team, all other managers and those in team leadership positions or with a subject leadership role.

Leading Indicators

Leading indicators, sometimes referred to as driving indicators, are usually measured more frequently than lagging indicators. They are the result of a measurement process that is driven by the organisation itself and it is entirely within their span of control e.g. measuring process cycle times. Leading Indicators are those that predict, with a degree of confidence, a future outcome. Employee satisfaction, although a lagging indicator, for the morale of staff, is usually recognised as a leading indicator of customer satisfaction.

Learning

The acquiring and understanding of information which may lead to improvement or change. Examples of organisational learning activities include benchmarking, internally and externally led assessments and/or audits, and best practice studies. Examples of individual learning include training and professional qualifications.

Management System

The framework of processes and procedures used to ensure that the organisation can fulfil all tasks required to achieve its objectives.

Mission

A statement that describes the purpose or “raison d’être” of an organisation. It describes why the

business or function exists.

Organisational agility	The ability of an organisation to react positively to required changes in speed, focus, goals, actions, and timescales that effect its ability to deliver.
Partnerships	A working relationship between two or more parties creating added value for the customer. Partners can include suppliers, distributors, joint ventures, and alliances. Note: Suppliers may not always be recognised as formal partners.
People	All of the individuals employed by the organisation including full time, part time, temporary and contract employees.
Perception	The opinion of an individual or group of people.
Performance	A measure of attainment achieved by an individual, team, organisation or process.
Process	A sequence of activities which adds value by producing required outputs from a variety of inputs.
Process indicators	Leading indicators relative to the performance of the process.
RADAR	Results, Approach, Deployment, Assessment and Review
Stakeholders	All those who have an interest in an organisation, its activities and its achievements. These may include customers, partners, employees, shareholders, owners, government, and regulators.
Society	All those who are, or believe they are, affected by the organisation, other than its people, customers and partners.
Supply chain	The integrated structure of activities that procure, produce and deliver products and services

to customers. The chain can be said to start with the suppliers of your suppliers and ends with the customers of your customer.

Sustainable excellence Excellent results with respect to Performance, Customers, People and Society are achieved through Leadership driving Policy and Strategy that is delivered through People, Partnerships and Resources, and Processes.

Values The understandings and expectations that describe how the organisations people behave and upon which all business relationships are based (e.g. trust, support and truth).

Vision A statement that describes how the organisation wishes to be in the future.

Useful Websites

- <http://www.efqm.org>
- <Http://www.Bsi-Global.Com>

Selected References

- Introducing Excellence, EFQM (2002)
- Assessing Excellence, EFQM (2002)
- European Quality Award – Applicant's Booklet, EFQM (2003)

Student Activity

Describe the significant similarities and differences that you observe in the criterion for the Baldrige and European Quality Awards. What impact do you think that such initiatives for recognizing excellence have on raising quality consciousness and the global competitiveness of a country's corporate sector?

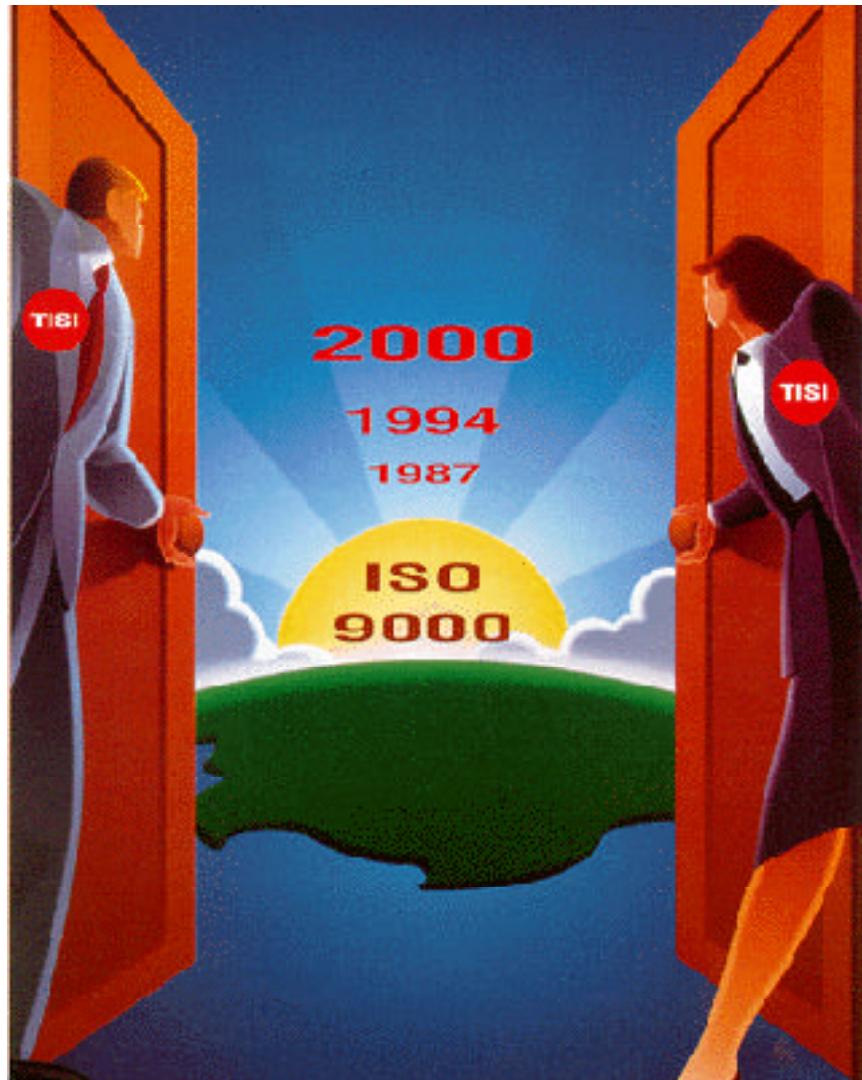
ISO 9000: 2000 SERIES



Key Learning Outcomes

After reading this chapter, you should be able to:

- *Name the three standards that comprise the ISO 9000:2000 series*
- *Illustrate the salient features of the Quality Management System contained in ISO 9001:2000*
- *List the eight quality management principles recommended by ISO 9000*
- *Discuss the benefits an organization can enjoy by adopting ISO 9000*



Outlines of Lesson Plan

- The background and evolution of the iso 9000 standards
- Understand the structure of the iso 9000:2000 series
- Outline the key components of the quality management system prescribed by iso 9001:2000
- Enumerate the principal quality management principles contained in the iso 9000 standards
- Discuss the main advantages and criticism of iso 9000
- Revision & review exercises

The International Organisation for Standardization (ISO) was founded in 1946 and is based in Geneva, Switzerland. It has more than 90 member countries. The ISO through one of its technical committees developed a series of international standards for quality systems – ISO 9000. They were first published in 1987 and have been revised twice, once in 1994 and most recently in late 2000.

The ISO 9000 series of standards is generic in scope. By design, the series can be tailored to fit any organisation's needs, whether large or small, manufacturing or service. These standards have been adopted by 3,50,000 organisations in more than 60 countries.

The new ISO 9000 series consists of three standards:

- ISO 9000:2000: Quality Management Systems – Fundamentals and Vocabulary
- ISO 9001:2000: Quality Management Systems – Requirements

This is the new, unified standard against which an organisation can be certificated. It replaces 1994's ISO 9001, 9002 and 9003 and is based on a 'plan, do, check, act' model

- ISO 9004:2000: Quality Management Systems – Guidelines for Performance Improvement

ISO 9001:2000 is the core and auditable standard and is described in a little detail below:

ISO 9001:2000

ISO 9001 is a standard designed to specify requirements for a quality management system where an organization:

- aims to enhance customer satisfaction through the effective application of the system, including processes for continual business improvement, and
- needs to demonstrate its ability to provide products and services that constantly meet customer and applicable regulatory requirements.

Process Model

Any activity or operation which receives inputs and converts them to outputs can be considered as a process. Essentially all production and/or service activities and operations are processes.

For organisations to function, they have to define and manage numerous interlinked processes. Often the output from one process will directly form the input into the next process. The systematic identification and management of the various processes employed within an organisation, and particularly the interactions between such processes, may be referred to as the ‘process approach’ to management.

This International Standard encourages the adoption of the process approach for the management of the organisation and its processes, and as a means of readily identifying and managing opportunities for improvement.

To adopt this “process approach” ISO 9001 includes a Plan-Do- Check-Act (PDCA) methodology that can be applied to all processes and can briefly be described as follows:

Plan: establish the objectives and processes necessary to deliver results in accordance with customer requirements and the organization’s policies.

Do: implement the processes.

Check: monitor and measure processes and products against policies, objectives and requirements for the product and report the results.

Act: take actions to continually improve process performance.

The continual improvement model in the standard, looks like this:



4 Key Clauses Of ISO 9001:2000

Management Responsibility : Top management has an ongoing commitment to the quality management system. They are responsible for identifying all of the relevant business requirements, communicating organizational policy and providing resources to ensure implementation, maintenance and continual improvement of the quality management system.

Resource Management : The day-to-day management of quality and effectiveness relies on using the appropriate resources for each task. These include competent staff with relevant (and demonstrable) training, the correct tools and supporting services.

Product Realization : This is the design (where applicable) and production of the products and services you provide. In addition to production planning and scheduling resources, product realization includes determining and measurably meeting customer requirements.

Measurement, Analysis and Improvement : This is a key requirement for a successful business. It involves those measurements being made to help improve your organization and demonstrate product conformity. Statistical techniques should be used where appropriate.

Quality Management Principles

ISO 9000:2000 sets out eight quality management principles to facilitate the achievement of quality objectives within an organisation. These are:

Customer focus: understanding and meeting customer needs, whilst striving to exceed customer expectations

Leadership: creating an environment in which people become fully involved in achieving objectives

Involvement of people: enabling people at all levels of an organisation to use their abilities for the maximum benefit of the organisation

Process approach: the management of related resources and activities as a process, i.e. matched to the business structure of the organisation

System approach to management: managing a system of interrelated processes to contribute to the effectiveness management and efficiency of the organisation

Continual improvement: this should be a permanent objective of the organisation

Factual approach to decision making: to using logical or intuitive analysis of data and information for effective decision decision-making

Mutually beneficial supplier relationships: using mutually beneficial relationships between the organisation and its suppliers to create value. These principles have been identified as being able to facilitate the achievement of quality objectives and assist with the aim of implementing a management system that will continually improve performance by addressing the needs of all interested parties.

Benefits Of Adopting ISO 9000

The following are some of the benefits that accrue to an organisation that successfully implements ISO 9000 quality management framework:

1. Improved consistency of service/product performance and therefore higher customer satisfaction levels.
2. Improved customer perception of the organization's image, culture and performance.
3. Improved productivity and efficiency, which lead to cost reductions.
4. Improved communications, morale and job satisfaction – staff understand what is expected of them and each other.
5. Competitive advantage and increased marketing and sales

opportunities.

However, ISO 9000 also attracts its fair share of criticism, particularly due to the fact that obtaining and maintaining ISO 9000 certification is a lengthy and costly effort. Critics say that the complex process and sheer volume of documentation involved can be daunting, especially for small and medium-sized enterprises. Some companies adopting the framework also claim that they find it difficult to sustain the initial enthusiasm for the process within their staff. But the increasingly wide availability of accredited training providers and the comparatively flexible and streamlined structure of the revised standards has somewhat alleviated these perceived drawbacks.

Checklist For Conducting A Gap Analysis Of A Quality Management System:

‘Gap analysis’ refers to the detailed analysis of the present quality management system in an organization to determine whether it meets the requirements of ISO 9001:2000. *What are the gaps from the specified requirements?* Following is an abbreviated checklist to give you an idea about what is involved.

- Does the company have framed a quality policy with the accompanying objectives?
- Does the company have a documented procedure for controlling the documents, issuing the documents, controlling the obsolete documents from unintended use?
- Have the company identified the quality records per the requirements of the standard? Have they defined the storage, identification, and retention requirements?
- Does the company have a purchasing policy with the approval procedures for its suppliers?
- Does the company identify, monitor, measure and analyze different processes?
- Does the company have laid down quality objectives at all levels

and at all functions?

- Does the company measure the dissatisfaction or satisfaction levels of the customer?
- Are the measuring devices that affect product quality calibrated?
- Are the data from operations, quality analyzed for continual improvement?
- Does the company have a procedure for assessing the training needs and measuring the effectiveness of training?
- Are there any corrective and preventive actions program laid down?
- Does the company have framed an effective procedure to identify and control the non-conforming product to prevent its unintended use or delivery?
- Does the company take care of the customer's properties provided for use or incorporation into the product?
- Does the company identify the product by suitable means during product realization? In case of traceability requirement, does the organization control and record the unique identification of the product?
- How does the company determine the competency necessary to perform work affecting product quality? How does the company organize training and evaluate the effectiveness of training?
- How does the company determine, provide and maintain the infrastructure needed to achieve conformity to product requirements?
- How does the company determine and manage the work environment needed to achieve conformity to product?
- How does the organization determine, review the customer's requirements, even though they were not specified?
- How does the organization pass these requirements to other functions for product realization?
- q Does the top management conduct the review of the quality management system to check its continuing suitability, adequacy and

effectiveness?

A Few Key Terms

ISO 9000 – a generic name given to the standards developed to provide a framework around which a quality management system can effectively be planned and documented.

Quality Management System (QMS) – a well documented system that ensures consistency and improvement of working practices, including the products and services produced.

Assessment – a verification of the effectiveness of the management system operated by an organization through examination of materials, processes, finished product, methods of test, records, systems, services and other activities established by an organization within its quality system.

Process – any activity or set of activities that uses resources to transform inputs into outputs can be considered a process.

Plan – Do – Check – Act – the model forms the basis for much of the strategy embodied in ISO 9000. A fairly common sense process of planning, doing, checking and then acting to continually improve the quality system.

Continual Improvement – a recurring activity to increase the ability to fulfill requirements.

Gap Analysis - a process an organization goes through to determine the difference between what the process or quality management system is like now and what it should be when it conforms to the requirements of ISO 9001:2000

Useful Websites

- International Organization for Standardization:<http://www.iso.ch>
- American Society for Quality: <http://www.asq.org>
- British Standards Institution: <http://www.bsi-global.com>

Selected References

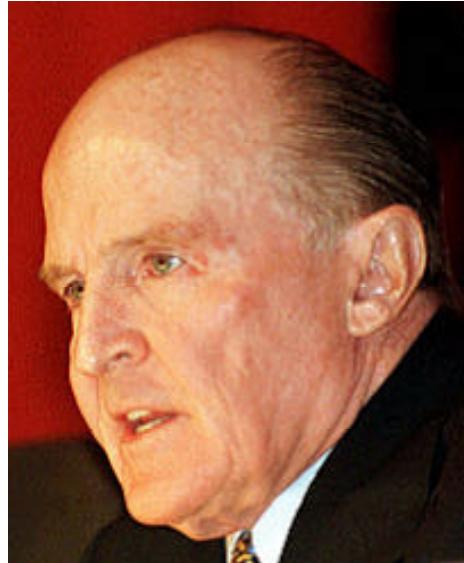
- *ISO 9000:2000 Explained*, Jack West, ASQ Press (2001)
- *ISO 9001: A Practical Manual*, Kevin Grimes, ASQ Press (2002)
- *ISO 9000 quality Systems Handbook*, David Hoyle, Butterworths-Heinemann (2002)

Student Activity

Your friend Nikhil has just joined his family business. They own a medium-sized manufacturing facility near Pune that produces components for a computer peripherals company in Singapore. Nikhil is not satisfied with the company just having an “informal” quality policy and would instead like to seek ISO 9000 certification. What would your advise to Nikhil be? Will the considerable investment his company have to make in terms of time and money for a ISO 9000 certification be worthwhile?

SIX SIGMA

“GE’s success with Six Sigma has exceeded our most optimistic predictions. Across the Company, GE associates embrace Six Sigma’s customer-focused, data-driven philosophy and apply it to everything we do. We are building on these successes by sharing best practices across all of our businesses, putting the full power of GE behind our quest for better, faster customer solutions.”



Jack Welch, former CEO of General Electric, a pioneer of Six Sigma

Key Learning Outcomes

After reading this chapter, you should be able to:

- Explain the Six Sigma approach to quality management
- Compare Six Sigma with other quality initiatives like TQM
- Describe the benefits of adopting Six Sigma
- List the key tools and techniques employed in a Six Sigma initiative

Outlines of Lesson Plan

- Define six sigma and outline its objectives
- Introducing the dmaic methodology underpinning the six sigma approach
- Contrast six sigma with TQM
- Illustrate the main benefits of adopting six sigma
- List key tools and techniques used in six sigma
- Familiarization with key terminology
- Revision & review exercises

Defining Six Sigma

SIIX SIGMA is a comprehensive and flexible system for achieving, sustaining and maximizing business success. It is uniquely driven by close understanding of customer needs, disciplined use of facts, data, and statistical analysis, and diligent attention to managing, improving, and reinventing business processes.

The Basics

Six Sigma was developed in the 1980s by Motorola Corporation. By using Six Sigma, Motorola became the first company to win the Malcolm Balbridge National Quality award in 1988. It is now used by thousands of companies, both manufacturing and service, around the world. Major companies like GE, Honeywell, JP Morgan, IBM and American Express credit Six Sigma for their consistent high-performance.

“Sigma” is a statistical term that measures how far a given process deviates from perfection. The central idea behind Six Sigma is that if you can measure how many “defects” you have in a process, you can systematically figure out how to eliminate them and get as close to “zero defects” as possible. Six Sigma is a highly disciplined methodology that uses rigorous data gathering and statistical analysis to identify “defects” in a process or product, reduce variability, and thus strive for perfection.

Explaining The Process

Six Sigma is about much more than just numbers or calculating “failure rates”. It is not just a quality initiative either but a management system that involves organization wide adoption of sophisticated tools and techniques that facilitate customer-focused, data-driven decisions that ultimately yield a reduction in product defects, process alignment, increased profits and employee morale, and high-quality products - a win-win situation for everyone involved.

The Six Sigma approach aims to achieve the following three targets:

- Increased customer satisfaction
- Compressing the cycle time
- Reducing defects and eliminating waste resulting in substantial cost-savings

The Six Sigma methodology involves the following steps:

- Map core processes
- Identify key customers
- Align processes to critical customer requirements
- Install measurement and analysis systems to continuously improve processes

At the heart of Six Sigma is a systematic method for business improvement called DMAIC. The DMAIC model includes five phases:

- Define opportunities
- Measure performance
- Analyze opportunity
- Improve performance
- Control performance

Contrasting Six Sigma And TQM

The table below summarizes the key differences between Six Sigma and Total Quality Management (TQM):

Six Sigma	Total quality management
Executive ownership	Self-directed work teams
Business strategy execution system	Quality initiative
Truly cross functional	Largely within a single function
Focused training with verifiable return on investment	No mass training in statistics and quality
Business results oriented	Return on investment
	Quality oriented

Basically, the following characteristics differentiate Six Sigma from quality initiatives of the past like TQM and continuous improvement:

1. Six Sigma is customer focused.
2. Six Sigma generates major quantifiable returns on investment. For example GE estimates that adoption of Six Sigma has yielded 2 billion dollars in cost-savings in the last three years.
3. Six Sigma changes how management operates. It injects in the organization new ways of thinking, planning and executing to achieve the desired results. In many ways, Six Sigma helps to operationalize the notion of “working smarter, not harder”.

Six Sigma Toolkit

Given below is a list of key tools and techniques that are employed in implementing and executing Six Sigma projects. They have been grouped in five broad categories.

Tools For Generating Ideas And Organizing Information

- ❑ Brainstorming
- ❑ Affinity diagramming
- ❑ Multivoting
- ❑ Structure Tree
- ❑ High-level Process Map
- ❑ Flowchart
- ❑ Cause-And-Effect Diagrams
- ❑ Tools For Data-Gathering

Sampling

- Operational Definitions
- Voice of the Customer methods such as
 - a) market research
 - b) requirement analysis
 - c) data warehouses
 - d) data mining
- Checksheets and Spreadsheets
- Measurement Systems Analysis

Tools For Process And Data Analysis

- Process-Flow Analysis
- Value and Non-Value Added Analysis
- Charts and Graphs
 - a) Pareto Chart
 - b) Histogram
 - c) Trend Chart
 - d) Scatter Diagram

Tools For Statistical Analysis

- Tests of statistical significance such as
 - a) Chi-square
 - b) T -tests
 - c) Analysis of variance (ANOVA)
- Correlation and Regression
- Design of Experiments (DOE)

Tools For Implementation And Process Management

- Project Management techniques like

- a) Gantt charts
 - b) PERT
 - c) CPM
- Failure Mode and Effects Analysis
 - Stakeholder Analysis
 - Control Charts
 - Force Field Diagram
 - Process Documentation
 - Balanced Scorecards and Process Dashboards

Glossary

Listed below are some key terms associated with Six Sigma with their concise definitions:

DFSS – (Design for Six Sigma) is a systematic methodology utilizing tools, training and measurements to enable companies to design products and processes that meet customer expectations and can be produced at Six Sigma quality levels.

DMAIC – (Define, Measure, Analyze, Improve and Control) is a process for continued improvement. It is systematic, scientific and fact based. This closed-loop process eliminates unproductive steps, often focuses on new measurements, and applies technology for improvement.

DPMO (Defects per million opportunities) – Calculation used in Six Sigma quality initiatives indicating the amount of defects in a process per million opportunities.

Six Sigma – A vision of quality which equates with only 3.4 defects per million opportunities for each product or service transaction. Strives for perfection.

Control Chart – Monitors variance in a process over time and alerts the business to unexpected variance which may cause defects.

Defect Measurement – Accounting for the number or frequency of defects that cause lapses in product or service quality.

Pareto Diagram – Focuses on efforts or the problems that have the greatest potential for improvement by showing relative frequency and/or size in a descending bar graph. Based on the proven Pareto principle: 20% of the sources cause 80% of any problems.

Process Mapping – Illustrated description of how things get done, which enables participants to visualize an entire process and identify areas of strength and weaknesses. It helps reduce cycle time and defects while recognizing the value of individual contributions.

Black Belt – Leaders of team responsible for measuring, analyzing, improving and controlling key processes that influence customer satisfaction and/or productivity growth. Black Belts are full-time positions.

Control – The state of stability, normal variation and predictability. Process of regulating and guiding operations and processes using quantitative data.

CTQ: Critical to Quality – Element of a process or practice which has a direct impact on its perceived quality.

Defects – Sources of customer irritation. Defects are costly to both customers and to manufacturers or service providers. Eliminating defects provides cost benefits.

Variance – A change in a process or business practice that may alter its expected outcome.

Useful Websites

- <http://www.6sixsigma.com>
- <http://www.sixsigmaforum.com>
- <http://www.isixsigma.com>
- <http://www.mu.motorola.com>
- <http://www.ge.com>

Selected References

- *What is Six Sigma* , Pete S. Pande, Tata McGraw-Hill (2002)
- *Six Sigma Way*, Pete. S. Pande, Tata McGraw-Hill (2003)
- *Six Sigma, Richard Schroder, Free Press (2000)*
- *The Six Sigma Fieldbook*, Pete S. Pande, Mc-Graw-Hill (2002)
- *Power of Six Sigma* , Subir Chowdhry, Pearson India (2002)

Student Activity

The General Electric Corporation (GE) has been one of the most high-profile and enthusiastic proponents of Six Sigma. Visit the company's website (<http://www.ge.com>) and read the extensive information it offers on the company's quality philosophy and policies. Download the company's annual reports and read the CEO and division heads describe in their own words their experience with Six Sigma and the enormous benefits it has yielded them.

Six Sigma has obviously worked well for companies like GE and Motorola. But do you think it will be just as useful for a small or mid-sized company?

CUSTOMER RELATIONSHIP MANAGEMENT



Key Learning Outcomes

After reading this chapter, you should be able to:

- Define Customer Relationship Management
- Explain the importance of CRM
- Describe the key steps involved in implementing CRM
- List examples of successful CRM implementation, particularly in the Hospitality Industry



Outlines of Lesson Plan

- Introduce CRM and its importance as a marketing technique
- Outline, using examples, key steps and best practices in CRM implementation
- Describe the E-CRM concept
- Highlight, with the help of case studies, the particular usefulness of CRM to companies in the hospitality sector
- Revision and review exercises

CRM is a new way of looking at your business. CRM is the business strategy, process, culture and technology to enable organizations to optimize revenue and increase shareholder value by understanding and meeting customers' needs.

The Concept Of Customer Relationship Management (CRM)

Marketers have long urged their corporate colleagues to “get to the customer” and then to tailor the firm’s offerings as closely as possible to the customer individual tastes and behaviors. The problem has always been how to accomplish this economically for more than just a few large, important customers. As a result “relationship marketing” has largely been practiced only in key account situations. The basic strategic idea of CRM

is thus not new; it is to create a highly personalized, learning relationship with each customer that results in greater customer satisfaction and corporate profit — and to achieve this by moving ownership of the customer to the firm level rather than at the level of the department, channel or salesperson. What is new is the information technology now available to identify, track and interact economically and effectively with innumerable customers on an individualized basis.

Think about your favorite small business with a proprietor who you really like. Chances are that business knows a lot about you, and it's mostly in the owner's head — your likes, dislikes, buying patterns, personal tidbits ("How's the golf game?"), etc. If you're a long-term profitable customer, that's mentally filed away too, with nary a computer in sight. In a word, it's personal. And very effective CRM.

Unfortunately, as the Internet geeks like to say, that approach doesn't "scale." With larger businesses (even just a few people) there is no collective memory unless it's stored somewhere, and stored information must be shared with the right people at the right time. Enter computers, CRM software, and the Internet.

Don Peppers and Martha Rogers have referred to this intimate relationship between a company and a customer as "one-to-one marketing".

One-to-one marketing occurs when you and your customer interact directly, the customer tells you something about how he or she wants to be served, and then you change your behavior with respect to this individual customer based on that interaction.

Some refer to this phenomenon as "customer intimacy," others as "relationship marketing." Whatever it is called, at its core is a customer centric approach by the firm. Peppers and Rogers, in their many books on the topic, use the term "one-to-one" and "CRM" interchangeably. They note "when we do use the CRM acronym, or any other term describing this revolution, we aren't referring to a suite of frontend technology applications, but to the set of strategies and processes that make up this incredible revolution in the way businesses complete."

Why Is CRM Important?

As competition increases, marketers are realizing the importance of building and maintaining long-term customer relationships to sustain and grow their business. In many instances, customers are being valued not just by each individual transaction, but by their lifetime value to the firm. This means firms are focusing not just on share of market, but also on share of customer. Studies have shown that a consumer retained for life is more cost-effective, requires less service, provides more business and contributes to new customer acquisition by offering positive referrals. For the average business, repeat customers account for 70 per cent of total revenues. Thus, customer retention is an investment in the company's future. Numerous studies indicate that customer relationship mismanagement can be very detrimental to a business. One recent study shows the following.

- It costs six times more to sell to a new customer than to sell to an existing one.
- A dissatisfied customer will tell eight to ten people about a bad experience
- A company can boost its profits by 85 per cent when it increases its annual customer retention by only five per cent.
- The odds of selling a product to a new customer are 15 per cent, whereas the odds of selling a product to an existing customer are 50 per cent.

Customers who are treated well throughout the whole buying and after-sales process are more likely to become loyal customers and to tell others about their good experience. For example, the use of technology may allow customers to know at the time of ordering if their item is in stock, when it will be shipped, the shipping charges and when they should receive their order. Similarly, if customers have questions about a product or their account, they prefer to gather all this information, efficiently, from one corporate point of contact, not several.

The American Management Association (AMA), a business education and management development group, has increased efficiency at its updated contact center so that the average caller wait times are less than 10 seconds. As a result, the AMA now makes 30 per cent more in revenues on each call center representative's customer satisfaction ratings can be expected during the first three years of CRM implementation. Exhibit 1 provides more examples of company success stories using CRM

Implementing CRM: An Overview

Initiating a CRM system is a major undertaking. Experience has shown that for a CRM program to be successful, it must have the support and commitment of top management; they must view a CRM automation system as a strategy to understand customers and to create and sustain long-term, profitable customer relationships rather than simply a technological tool or tactical program.

Top management commitment can be secured by demonstrating that automation supports the business strategy (i.e., automation delivers the information required to make the key decisions which enable business strategy to be realized), that automation measurably impacts and improves results (e.g., improved win rates, improved margins, higher sales revenues, and higher customer satisfaction ratings), and that automation significantly reduces costs (e.g., lower general sales costs) and thereby pays for itself over a specified time period.

For companies focused on products or services, this means realigning around the customer—which can be a radical change in a company's culture. All employees, but especially those in marketing, sales, service and any other customer contact functions, have to think in a customer-oriented way. For example, in some call centers, employees have been measured and rewarded on how fast they resolved a customer's problem. This reflected management thinking that shorter phone calls lowered costs. A CRM approach would concentrate efforts on customer satisfaction per call, not just call handling efficiency. For example, Marge Connolly, se-

nior vice president of credit card operations and Information Technology (IT) for Capital One, a financial services company, has said that Call Center representatives at her company are now evaluated more on soft skills and less on hard metrics such as speed of phone calls:

Since our philosophy is to use every contact to build a customer franchise, we want to handle calls quickly, but not as a way to drive down costs. The criteria have changed from a strict adherence to a set of rules for what should happen during a phone interaction to one that is more subjective.

Since most companies cannot afford to automate all CRM functions at once, they are advised to begin by examining carefully all their business processes and determining which need to be automated first and what technical features are required. The best way to do this is to ask the people who will actually be using the technology (e.g., sales representatives customer support staff) what they need to do their job better. While an IT group or outside service provider can offer technical information such as what IT infrastructure they think best, those who will be using the CRM system must also be involved. Successful CRM depends on coordinated actions by all departments within a company rather than being driven by a single department.

CRM involves identifying individual customers, gathering information about them (including their transaction history), analyzing and communicating this information to those in the firm who can best use it and then actually using the information to increase customer value.

An early step is to consider how to identify and track individual customers, not transactions or accounts. This means aggregating customer information across all points of customer contact, including multiple channels if they exist, in order to have a holistic view of each customer's total relationships with the firm. Anything less is a product-centric or channel-centric approach.

The success of a CRM system depends upon complete, clean, consistent, current and accurate data from all customer touch-points across the

company. The company must apply strict rules of incoming customer information. Data are collected from numerous sources (e.g., point-of-sale transactions, Web site usage and third-party databases). The data can be transaction-based data, customer-profile data or behavioral data.

CRM data are typically entered into databases, aggregated in data warehouses and then “mined” using specialized software to transform data into meaningful information. Data mining is intended to detect patterns and make predictions of future customer behavior. A Triversity, promoting its Allegiance CRM system advertising supplement put it this way: “To be effective, a CRM initiative must combine analysis with action; substituting action for analysis won’t work” However, many firms have struggled with the challenge of integrating data across organizational silos and of data ownership.

A CRM system is not independent of the people who operate it. They must be trained properly. This includes demonstrating how to gather information correctly (with minimum intrusion on the customer), how to access and use CRM information and so on. It has been estimated that over the life of a sales and marketing automation system, training ends up costing an average 1.5 times the cost of the sales and marketing automation system hardware/software.

As part of their training, CRM users need to be shown the importance of CRM to their specific jobs and to the company, especially since CRM crosses organizational departmental lines. Many CRM implementations have failed because the sales team wasn’t completely sold on the system’s benefits, and thus they failed to input the kind of demographic data that was essential to the program’s success. A salesman with Crane Engineering, a Wisconsin-based industrial equipment distributor cause his company’s server to crash when he fell 190,000 transactions behind in using his company’s CRM software. The salesman neglected to update address changes, read messages and input customer appointments for several days.

eCRM – What's Different?

eCRM stands for electronic customer relationship management. Many traditional bricks-and-mortar businesses are creating electronic commerce operations; therefore, traditional CRM has expanded to include doing business on the Internet. Increased competition brought about by the Internet is forcing companies to look for ways to reduce the cost of sales and increase customer loyalty. At the “moment of truth,” when a company interacts with a customer, the company must use every advantage it has in obtaining that sale. If there is a memory of a previous relationship with that customer, if there is information about that customer’s preferences, etc., then the seller should marshall this information appropriately. In addition to sales functions, e-business must also integrate customer service processes, applications and data with back-end enterprise resource planning (ERP) and legacy systems.

Even the smallest Web site can collect visitor/customer data, such as where individuals linked from and the time spent on a site. Some sites require visitor registration information. Visitors are offered incentives, such as free subscriptions to online magazines, if they give information such as name, e-mail address, age, profession and hobbies. This data must be sorted, organized and analysed for trends, demographics and cross-selling opportunities.

eCRM has its roots in the mass e-mail marketing campaigns of the 1990s. The Internet has made it relatively inexpensive to conduct marketing campaigns via e-mail and to deliver customized information to customers and prospects. As companies learn and understand the technology, they are shifting away from mass e-mail campaigns to personalized e-mail campaigns based on customer profiles. Dictaphone Corporation in Connecticut combines e-mail and the Web to create personalized interactive multimedia sessions. They start by sending out a personalized e-mail to customers and prospects that contains a hypertext link to a brief multimedia presentation. The presentation can be personalized, based on the recipient’s profile. For example, if the company is promoting a seminar,

recipients can be given information about the time and location in their specific city, rather than an entire list of national dates. Customers find this a way to keep informed and at the same time the company is able to track customers and prospects. If a recipient forwards the e-mail to someone else, Dictaphone can see that someone else has launched a multimedia session. Results have been very positive----typically direct mail campaigns net an average response of two per cent or less, but Dictaphone achieves response rates of 20 per cent and higher.

However, eCRM is not just about e-mail campaigns; it has become much more complicated.

In simplest terms, eCRM provides companies with a means to conduct interactive, personalized and relevant communications with customers across both electronic and traditional channels. It utilizes a complete view of the customer to make decisions about messaging, offers, and channel delivery. It synchronizes communications across otherwise disjointed customer-facing systems. It adheres to permission-based practices, respecting individuals' preferences for how and whether they wish to communicate with you. And it focuses on understanding how the economics of customer relationships impact the business. Advocates of eCRM recognize that a comprehensive understanding of customer activities, personalization, relevance, permission, timeliness, and metrics are all a means to an end—optimizing value between you and your most important asset —your customers.

Whenever the consumer has a choice of channels—such as e-mail, Web and telephone—marketing, sales and service can no longer be treated separately. For example, a customer may wish to place an order by phone, but use the company's Web page to check on the status of the order, and then once the customer receives the order and has a problem with it, a complaint may be sent by regular mail. The company must be able to retrieve the customer's shopping background from the multiple sources used. Not only does the customer want to be able to interact with the company through multiple channels, it is desirable to be able to move seamlessly from one

to another. These multiple channel interactions pose considerable technical challenges if the company is to maintain a single comprehensive and real-time view of each customer. CRM integration is intended to enable business to better understand their customers, and thereby better serve them with each subsequent interaction.

Conclusion

Companies that have differentiated customers, that offer differentiated value propositions to those customers, that have customers with potentially high lifetime value, that collect data on individual customers and transactions and that are in direct contact with customers are the best candidates for CRM programs. However, experts warn that not all customers want a deep relationship with a company so CRM initiatives should be selectively applied on a permission marketing basis.

Fully integrated CRM is an ongoing challenge. The ideal situation is to provide all relevant information in real time as a single picture of a customer's history. As channels, media and technologies continue to evolve, so will customer expectations. Management will find that the standards of customer knowledge, service and care will continually rise and thus CRM systems must evolve accordingly.

Exhibit 1 : Examples Of CRM Implementation

Buy.com

In 1999, Buy.com came to the conclusion that its business model based on selling products under cost and generating revenue through advertising sales wasn't working. Customers didn't like to deal with Buy.com (service and support were lacking), but continued to purchase its products because of their low prices. The company decided to raise their prices and concentrate on customer service, hoping that customers would remain loyal even though prices were increasing. Every aspect of the customer experience was carefully examined and a program was designed to build customer loyalty. This included the addition of technology, building a call

center and providing more information on the Web site.

As a result, the number of contacts per order that the customer made with the company decreased significantly, representing a huge savings for the company and at the same time their service ratings increased significantly.

Both Forrester Research and Gomez.com ranked the e-tailer number one for the quality of its support and *PC-WORLD* magazine listed the company as the top Internet retailer for 2000. While improving service, Buy.com also managed to raise prices, thus increasing its margins and helping it become the second largest multi-category Internet retailer in the industry.

Tom Silvell, vice president of customer support at Buy.com explains the company's new-found success as follows:

We built our program and technologies around what customers wanted and needed instead of letting our programs and technologies drive their behavior. This tactic helped transition us from a price-sensitive shop to one focused on the customer experience, one offering value to clients and one providing quality merchandise at reasonable prices.

World Wrestling Federation

In the fall of 2001, the World Wrestling Federation Entertainment Inc. (WWFE) launched its CRM program for its electronic storefront and catalog, WWFShopZone.com.

The system allows WWFE to do things such as automate e-mail campaign management and analyse customer data to detect its fans' buying habits by geography, wrestling event or item, allowing them to target certain customers. The new system allows the company to send out e-mails with the latest stories and product offerings. The software from Escalate Inc., allows WWFE's suppliers to see inventory levels online.

The Web site has experienced 30 to 40 per cent more transactions per day than it had in the months prior to implementing the new CRM software and can now handle three times more traffic than before.

3M Corporation

3M Corporation (3M) manufactures and sells 50,000 products in 200 countries. Given that the company serves a wide variety of markets from consumer to commercial, and from industrial to healthcare, managing industry trading partner relationships is a huge challenge.

3M defines a trading partner as any entity with whom it conducts business. That can encompass customers, end-users, suppliers, distributors, financial institutions and government departments. Because 3M is so highly diversified and operates in so many parts of the world, it has multiple sources of trading partner data with plenty to redundancy and inconsistency in the data. For example, a certain company name could be entered slightly differently into the database by each department doing business with that company.

A few years ago 3M decided that it needed to clean and standardize its data. Guidelines regarding data ownership and maintenance were established and a plan begun to move customer data from legacy systems to a UNIX-based, Sybase corporate repository. They chose Trillium Software System which is a general purpose cleansing software product that allows organizations to cleanse all types of legacy and operational data. The project was difficult due to the fact that they could not afford to bring legacy systems down while developing the project. A 3M employee said it was like trying to change a flat tire on a vehicle cruising along at 60 m.p.h. The first version went live in November 1996 and they continue to use Trillium's online cleansing functions for all new data entries.

Exhibit 2

CRM PROGRAM COMPONENTS

Component	Examples
Sales	<ul style="list-style-type: none"><input type="checkbox"/> contact management profiles and history<input type="checkbox"/> account management including activities, order entry, proposal generation

Sales Management	<input type="checkbox"/> pipeline analysis (forecasting, sales cycle analysis, territory alignment and assignment) <input type="checkbox"/> roll-up and drill-down reporting
Telemarketing/telesales	<input type="checkbox"/> call list assembly <input type="checkbox"/> auto dialing <input type="checkbox"/> scripting <input type="checkbox"/> order taking
Time management	<input type="checkbox"/> single user and group calendar/scheduling <input type="checkbox"/> e-mail
Time management	<input type="checkbox"/> incident assignment/escalation/tracking/reporting <input type="checkbox"/> problem management/resolution <input type="checkbox"/> order management/promising <input type="checkbox"/> warranty/contract management
Customer service and support	<input type="checkbox"/> incident assignment/escalation/tracking/reporting <input type="checkbox"/> problem management/resolution <input type="checkbox"/> order management/promising <input type="checkbox"/> warranty/contract management
Marketing	<input type="checkbox"/> campaign management <input type="checkbox"/> opportunity management <input type="checkbox"/> Web-based encyclopedia <input type="checkbox"/> market segmentation <input type="checkbox"/> lead generations/enhancement/tracking
Executive information	<input type="checkbox"/> extensive and easy-to-use reporting
ERP integration	<input type="checkbox"/> legacy systems <input type="checkbox"/> the Web third party external information

Data synchronization	<input type="checkbox"/> mobile synchronization with multiple field devices
	<input type="checkbox"/> enterprise synchronization with multiple databases/application servers
E-commerce	<input type="checkbox"/> manage procurement through EDI link and Web server (includes business-to-business and business-to-consumer applications)
Field service support	<input type="checkbox"/> work orders-dispatching- real the information transfer to field personnel via mobile technologies

Exhibit 3

CRM Measures

Operational Measures

Sales

Conversion rate

Revenue per conversion

Number of cross-sales

Cross-sales attempts

Number of up-sales

Cost per conversion

Recency

Marketing

Number of leads

Cost per lead

Leads per campaign dollar

Service

Cost per service contact
Number of customer complaints
Number of highly satisfied customers

Customer Measures

Per cent of customers highly satisfied
Per cent of customers highly likely to recommend the organization to others
Customer retention rate
Customer defection rate
Number of customer acquisitions
Per cent of customer acquisition from customer referrals
Per cent of customer win-backs
Number of customers

Financial Measures

Customer lifetime value
Customer profitability
Share-of-wallet/customer

Employee Measures

Per cent of employees highly satisfied
Per cent of employees highly likely to stay
Per cent of employee retention
Per cent of employees willing to recommend company as place to work
Employee productivity

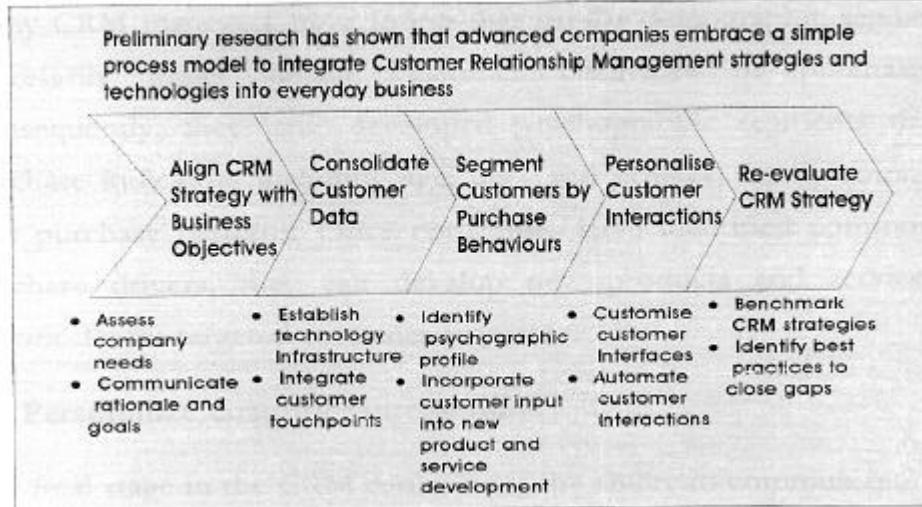
Web Measures

Click-thru rate
Time spent at Web site
Shopping cart abandonment rate

Repeat visits

APPENDIX 1 :The CRM Excellence Model

A CRM excellence model has been developed by benchmarking research carried out by Best Practices, LLC's Global Benchmarking study (<http://www.best-in-class.com/>). This can be used as a simple tool for evaluating a company's progress in establishing a world-class CRM strategy.



I. Align CRM with corporate strategy corporate strategy

Successful CRM Strategies begin by assessing corporate needs and designing CRM systems around specific business goals. Once these strategies have been established, companies establish organizational buy-in by communicating a clear rationale for the CRM INITIATIVE.

II. Consolidate customer data

Successful CRM strategies require companies to have a comprehensive record of customer interactions and customer preferences for existing and future products. Today's CRM pioneers have replaced legacy customer databases with new technology that collects customer information over his or her lifetime. This new technology supports enterprise-wide customer databases that integrate data gathered from multiple customer touchpoints. Today's CRM tools incorporate call centers, e-mail, FAQs, fax, and artificial intelligence agents into a single "service center" to in-

stantaneously funnel sales and service leads to the appropriate resources.

III. Segment customers

Many CRM managers have found that similar demographic segments do not necessarily imply similar customer behaviors or purchasing habits. Consequently, they have developed psychographic segments that consider purchase indicators including age, likes and dislikes, family composition and past purchase patterns. Once companies have identified common customer purchase drivers, they can develop new products and services designed specifically for targeted customer segments.

IV. Personalize customer interactions

The final stage in the CRM evolution is the ability to communicate one-to-one with customers. Customized customer interfaces engender the trust and loyalty needed to develop long-term relationships. Cutting-edge CRM tools also empower customers by automating customer interfaces so that they can search the company's product and services offerings at their leisure.

V. Re-evaluate and recalibrate CRM strategy

Even the best CRM managers are constantly improving their CRM systems by learning from others.

APPENDIX 2

This article written by *Neil Holm* is from fall 2003 issue of **Hospitality upgrade magazine**

Understanding the Power of CRM

Often referred to as a type of technology, customer relationship management (CRM) is first and foremost a business philosophy – a way to consistently treat your guests right. Technology is the enabler that helps get useful information into the hands of your management and staff so that they can more powerfully foster guest satisfaction and loyalty. The

big payoff is increased revenue, increased profits and more targeted marketing efforts.

CRM solutions typically evolve from simple manual processes, to standalone software and eventually to fully integrated systems spanning all channels and guest touch-points. The ability to analyze historical data in countless ways, including gives strategic decision makers the factual knowledge they need to guide the organization toward its goals, and gives front line staff the customer knowledge they need to treat their guests like gold.

CRM technology has become an important force in many industries, hospitality included, that can help give hotels the edge over competitors while maximizing profitability, revenue and customer satisfaction. Some organizations may be more technically advanced than others but the CRM journey is a continuous one. As more data is gathered over time, new insights are illuminated and acted upon.

CRM Tools

Hotels generally gather information through their PMS, uploading and retrieving information regularly from a CRM database. Some hotels can handle their CRM requirements directly from the PMS alone especially when upgraded with increasingly powerful modules that have query capabilities.

But the more robust and powerful practice is to implement horizontal CRM systems designed specifically for the purpose of gathering data from multiple sources, scrubbing the information to enhance data integrity and analyzing data in a myriad of ways. The CRM must be fully integrated with existing CRS, PMS, Web site and other IT infrastructure and architecture.

Benefits and Pitfalls

When CRM is mastered, corporate benefits abound. Revenue and occupancy get a boost from cross-selling and up-selling to existing loyal customers, attracting new customers and providing services through multi-

channels making it easier for guests to purchase services. Differentiation occurs when you create customer loyalty by responding to customer needs and preferences in ways that enhance their lifetime value to you as an organization. Enhanced decision making helps top level management steer the company closer to its guest-centered vision.

However, because CRM spans the entire organization it is only as good as its weakest link and is susceptible to failure mainly due to lack of buy-in, planning, training and overall leadership. To help CRM succeed in your organization, you need to remember these four basic tips:

1. Share the vision and train with rigor to ensure data integrity

CRM is an enterprise-wide commitment encompassing all elements of the organization. Key leaders need to unfailingly convey the overall corporate vision of how they expect CRM to help achieve goals. CRM should ultimately give staff more decision-making power, helping them to anticipate customer needs more quickly and accurately.

Feeding accurate information to the CRM ultimately rides on the shoulders of hotel management and staff. If data entry is inconsistent or inaccurate, the value of the CRM plummets. Proper training is the key to successful implementation of CRM. Standardized input is essential and ongoing monitoring and training is important to ensure that data entry standards remain high.

2. Plan on all levels to foster buy-in and get perspective

Get feedback from all parts of the organization on how they interact with guests now and how they could see themselves delivering better service in the future. Map out all guest touch-points and re-evaluate key processes in light of improving the guest experience. Your plan should be aligned with your overall business and marketing strategies and outline how your property will build customer loyalty.

Prepare a complete business case including solid ROI estimates when deciding on the tools you will use to collect your data. Review your IT

skill level and how your technology outlook is aligned with overall corporate goals. Ensure that you've amply budgeted for training and change management to ensure that technology and processes are adopted successfully.

Purchasing CRM systems can be a big ticket item. If you don't have the skills in-house to objectively evaluate the multitude of options available, hire a consultant to take on the process for you. Often an outside objective third-party who is not tied to a specific technology can quickly shortlist the key vendors that match your needs and help you develop the solution that works best. Experts can question vendors in areas where your basic systems know-how may be limited, saving you time and money in the long run.

Don't bite off more than you can chew. Work back from your vision and define achievable steps for implementing your new system. Work on basic elements first, and when achieved successfully, move onto the next state.

3. Optimally use data to enhance ROI

The two most important ways to use your CRM data are to enhance the guest experience and to leverage marketing strategies. Enhancing the guest experience with CRM technology helps you know what guests want before they even walk through the front door. Know which are your most important customers and treat them like gold. Your staff should have the knowledge to offer the right service at the right time to the right guests.

To leverage marketing strategies, CRM provides powerful customer segmentation, marketing, advertising and media analysis. Truly knowing who your customers are can help you pinpoint communications more accurately improving your marketing ROI. You may find that some guests are more inclined to respond to discounts, while others prefer extras like room upgrades or dinner packages. By effectively targeting the right offers to the right guests, your revenue increases. Guests are less annoyed because you are marketing offers they are interested in and in the way

they want be communicated with.

4. Constantly measure and fine-tune your strategies

I can't overstate the importance of tracking results consistently and actually using the information to facilitate better business decisions. Keep a thorough contact history for each customer by tracking when, how and what their response was for each communication. For example, you can gauge the success of campaigns by tracking separate 800 numbers to decide which customers responded to which offers and why. Measurements provide constant feedback to help modify the CRM strategy and monitor the customer experience.

Whether you use advanced CRM technology or not, focusing your attention on your guests in ways they appreciate can only help improve your revenue and ultimately the bottom line.

APPENDIX 3 CRM In The Hospitality Industry: A Case Study

To illustrate marketing as a systematic process of customer asset building, consider the example of Hilton Hotels . The introduction of a frequent guest program about a decade ago has allowed Hilton to manage its network of hotels as a demand chain cultivating the loyalty, and hence the asset value, of a relatively small proportion of the 18 million guests who stay in its hotels each year.

The business class hotel industry is intensely competitive. Four major brands (Marriott, Starwood, Hyatt, and Hilton) share about half of the global market, whereas the other half is largely in the hands of independent owner/operators. Hotels break even when occupancy exceeds about 68%, so that at higher occupancies, most of the revenue becomes gross margin. Because entry barriers are low, if occupancy rises much above 68%, new construction tends to take place, so that the market operates at close to break-even occupancy. The major brands, commanding a larger pool of committed customers than the independent properties, can operate at above break-even occupancy if they manage the pool efficiently. Given this in-

dustry structure, programs to cultivate relationships with high-value customers are central to marketing management. The head of Hilton Hotels Corporation's guest rewards program calls them "the industry's most important marketing tool."

Despite the fact that each member belongs to an average of 3.5 hotel loyalty programs, management is optimistic that they can be used to cultivate loyalty. Membership constitutes permission for the chain brand to build a customer profile for each member, to assess the potential value of each member, and to measure marketing's efforts to realize the potential value.

One way in which the hotel group can realize the potential value of these high-potential customers is to protect them in the event of a service failure. Diskin explains,

In a sense, the loyalty program is a safe haven for the guest. If there is a problem and it is not taken care of at the property level, the guest can contact our customer service team. It's a mechanism to make sure we hear about those problems. We also do outbound after-visit calling, and we call HHonors members because they're the best database, and the most critical guests we have. They have the most experience; and the highest expectations. We do feedback groups with members in addition to focus groups and quantitative research. We invite members in the hotel down for dinner, and we say we want to talk about a subject. I get calls from people that are lifelong loyalists, not because of any changes we've made, but because once we invited them and asked them their opinion. People care about organizations that care about them.

More generally, however, the loyalty programs allow a hotel group to identify a small group of customers whose cultivation will have disproportionately large consequences for the customer asset base. Of the 18 million guests who stay with the chain annually, 12 million are "group" guests who do not choose their own hotels and whose rates are set by negotiation with convention and conference organizers or tour organizers. These rates are discounted, and they contribute less to profitability

than the rates charged to loyal customers. Loyal customers also enable chains to economize on customer acquisition spending. Hotels like Hilton spend about \$750 a year per room on advertising and promotion to acquire guests for properties, a cost that is significantly less for members. Loyalty programs also economize on retention costs because many of the incentives for increased patronage such as room upgrades are awarded only if they would otherwise have been unused. In summary, although only 9% of all the guests who stay in a Hilton hotel in a year belong to its frequent guest program and only 3% earn elite silver, gold, and diamond status, these groups contribute disproportionately to chain profitability, as Table 1 suggests.

TABLE 1
Types of Hotel Guests and Segmentation Definitions

	Nonmembers	Guests with Points	Guests with Points ^a
Business travelers	✓	✓	✓
Business elites (frequent)	✓	✓	✓
Business elites (occasional)	✓	✓	✓
Business frequent	✓	✓	✓
Business occasional	✓	✓	✓
Personal travelers	✓	✓	✓
Personal elites (frequent)	✓	✓	✓
Personal elites (occasional)	✓	✓	✓
Personal frequent	✓	✓	✓
Personal occasional	✓	✓	✓

^a Persons who have stayed at least once during the previous year and have earned points in the past year.

The introduction of frequent guest programs has altered the basis of competition in the hospitality industry. Brand positioning matters less than the cultivation of commitment from a core group of frequent travelers. By customizing its service offering to meet the expressed preferences of these consumers, an incumbent hotel chain can defend its customer asset base against less-informed competitors. A customer has few reasons to risk anonymity by staying with a new chain except when the chain cannot offer a property at the traveler's destination.

Consequently, the shift to customer-based competition has been associated with sharply increased concentration in the business hotel segment in recent years, including Starwood's acquisition of the Sheraton and Westin brands and Hilton's acquisition of Promus.

Although the hotel industry has a decade of experience with customer-centric marketing, there is little evidence yet of migration beyond a zone that treats customer asset value growth as the criterion by which to judge management effectiveness. Customer profitability focus to one that treats customer asset value growth as the criterion by which to judge management effectiveness.

Useful Websites

- www.crmguru.com
Useful site containing articles, panel of experts, reviews of software, weekly bulletins and newsletters, discussion bulletin board.
- www.best-in-class.com/crm/
A leading edge project capturing cutting edge practices in CRM.
- www.crmproject.com
Many articles, and search facility to explore aspects of CRM.
- www.crmcommunity.com
Wealth of information on CRM.
- www.crm-forum.com
Independent resource center for CRM. Articles, discussion, directory.
- www.sellmorenow.com
- Richard Bohn's CRM site. Useful independent review of software.
www.customermarketing.com
Help for small businesses looking to implement CRM.

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Student Activity

Lifestyle, Shopper's Stop and Ebony are three of the most well known and largest retail chains in the country. Try and visit one store each of these chains and find out about the various promotion and loyalty schemes they offer to attract and retain key customers. Analyze how these companies use technology and advertising to compliment their CRM initiatives.

LIFETIME VALUE (LTV) AND CUSTOMER PROFITABILITY ANALYSIS



Key Learning Outcomes

After reading this chapter, you should be able to:

- Define ‘Customer Lifetime Value’
- Conduct Lifetime Value Analysis for a given dataset and interpret the results
- Explain the concept of ‘customer profitability analysis’
- Discuss the utility of LTV and CPA in a company’s overall marketing strategy

Outlines of Lesson Plan

- Define customer lifetime value and discuss its objectives
- Using a hypothetical dataset, outline the key steps involved in conducting LTV analysis
- Introduce the concept of customer profitability analysis
- Explain how companies can create value from the data generated by
- LTV and CPA analysis
- Revision and review exercises

A marketer has three primary business objectives:

to acquire new customers

to retain current customers

to increase the value (profitability) of customers

CRM can help you achieve these goals but the marketing programs it supports will only succeed if you have a deep understanding of the current profitability of your customers and can forecast their future potential value with some confidence – combined of course with the necessary insights into their purchasing behaviour and motivations that will help you build the relationships that will turn customers into long-term, loyal and profitable generators of value.

One of the most important analytical tools a marketer can use in assessing and tracking customer relationship profitability is ***lifetime value (LTV) analysis***. LTV not only underpins CRM marketing programs but will also help guide your overall marketing investment decisions:

- How much money should you budget to meet your objectives?
- How much can you afford to spend to acquire a new customer?
- How much you can afford to spend to retain a customer?
- Which customer segments are likely to deliver the most profitable long-term customers?
- Which marketing programs are likely to generate the maximum ROI?

LTV is a financial indicator defined as ‘the net present value (NPV) of the expected profit contributions from a customer over the lifetime of the customer’s relationship with the company’. LTV helps you measure, forecast and track future revenues and profit based on transactions and interactions over time.

Note that the amount of NPV the customer generates is dependent on the nature of that relationship and the impact of your marketing activities and programs. The relationship a customer has with you is based on their lifecycle, which changes over time with their behavior. A customer can therefore generate any number of different LTVs, each of which is just a snapshot of that customer at a particular point in their lifecycle.

Calculating LTV

To calculate LTV, you need three inputs:

Revenue – current revenue and an estimate of likely future revenues of a group of customers across a period of time or their lifecycle (e.g. derived from regression analysis from historical data, experience or other econometric modeling)

Duration of the relationship – an indication of how long the customer will remain with a supplier (e.g. derived from retention modeling, lifecycle/stage analyses etc)

Costs – the expenses incurred in generating and fulfilling a sale (including cost of goods, cost of acquisition and retention (loyalty programs etc), advertising (etc) plus other fixed and variable costs)

Of the three inputs, accurate costs can often be the most difficult to acquire because of the difficulties in determining how to charge or attribute corporate administrative and overhead expenses to individual customers or segments.

The process is as follows:

- Starting with your existing customer base, estimate the annual percentage retention rate to establish how many customers will stay loyal over a period of (say) 3 to 5 years

- Estimate and sum the average yearly sales and then deduct the costs to arrive at a gross profit per year
- Apply a suitable discount rate to calculate the NPV profit per year
- Accumulate the NPV profit over the chosen period and divide by the number of **original** customers to arrive at the LTV (NPV) per customer
- See the table below for an example, taken from sample data on Safeway supermarket shoppers:

	Year 1	Year 2	Year 3
Customers	5,000	3,500	2,590
Retention rate	70%	74.0%	80.0%
Shopping trips/week	0.64	0.69	0.78
Average basket price	\$33	\$45	\$55
Revenue per annum (50 wks)	\$5,280,000	\$5,433,750	\$5,555,550
Cost of goods %	83.0%	80.0%	79.0%
Cost of goods	\$4,382,400	\$4,347,000	\$4,388,885
Direct labor costs	\$580,000	\$597,713	\$611,111
Loyalty card programme (\$16 Yr 1, \$8 Yr 2 & 3)	\$80,000	\$28,000	\$20,720
Total costs	\$5,148,800	\$5,081,388	\$5,131,826
Gross profit	\$131,200	\$352,363	\$423,724
Discount rate	1.00	1.20	1.44
NPV profit	\$131,200	\$293,635	\$294,253
Cum. NPV profit	\$131,200	\$424,835	\$719,088
Life value	\$26.24	\$84.97	\$143.82

Notes

- Lifetime value of these customers in the third year was calculated at \$143.
- Retention rates increased over time with increasing loyalty of the original customer base
- Visits per week and basket contents increased with loyalty

After conducting this analysis, Safeway looked closely at spending patterns using the loyalty card data. As a result, they decided to adopt a new strategy involving customer specific marketing, such as:

- Special pricing
- Large basket rewards
- Slow day shopping rewards
- And they reduced their advertising

The impact on LTV of these actions is seen below:

	Year 1	Year 2	Year 3
Customers	5,000	3,500	2,590
Retention rate	75%	79.0%	85.0%
Shopping trips/week	0.68	0.73	0.82
Average basket price	\$38	\$50	\$61
Revenue per annum (50 wks)	\$6,120,000 \$	6,843,750	\$7,409,213
Cost of goods %	83.0%	80.0%	79.0%
Cost of goods	\$5,079,600	\$5,475,000	\$5,583,278
Direct labour costs	\$673,200	\$752,813	\$815,013
Loyalty card programme (\$16 Yr 1, \$8 Yr 2 & 3)	\$80,000	\$30,000	\$23,700
Customer specific marketing	\$61,200	\$66,438	\$74,092

Advertising @ 1% of revenue	\$61,200	\$68,438	\$74,092
Total costs	\$5,955,200	\$6,394,688	\$6840,176
Gross profit	\$164,800	\$449,063	\$569,037
Discount rate	1.00	1.20	1.44
NPV profit	\$164,800	\$374,219	\$395,165
Cum. NPV profit	\$164.800	\$539,019	\$934,183
Lifetime value	\$32.96	\$107.80	\$186.84

Notes

- Lifetime value rose from \$143 to \$186
- Retention rate increased from 70% to 75%
- Visits per week and basket contents rose

What are the implications for Safeway if they shift their marketing budget from advertising to customer specific programs?

Assuming that they have 200,000 shoppers using the loyalty programme, the potential profit gain is \$8m in the third year.

	Year 1	Year 2	Year 3
New LTV	\$32.96	\$107.80	\$186.84
Previous LTV	\$26.24	\$84.97	\$143.82
Gain in LTV	\$6.72	\$22.83	\$43.02
With 200,000 customers	\$1,344,000	\$4,566,000	\$8,604,000

Customer Profitability Analysis

In highly competitive markets, it is crucial for management to know the profitability of not only the organisation as a whole and its respective divisions, product groups or products but also *the profitability of its individual customers, markets and channels of distribution*. Only when armed with this information can management make effective decisions which optimize the utilization of the organisation's resources.

Business managers need to be able to analyze each component of the profit equation (revenue, costs, business volumes) in terms of the respective customers and customer groups in order to know the profit contributors and loss-makers, and then determine actions to convert those loss-makers into profit contributors. The identification of unprofitable or under-performing trading relationships with customers is therefore one of the major challenges facing business. ‘Profitless prosperity’, i.e., making a sale without a corresponding profit, is a state which must be avoided at all cost (or revenue).

Customer profitability analysis (CPA) as a management tool, records and reports the company’s profit contributions by each customer or group of customers. Put simply, a customer’s profit contribution is the difference between the revenue earned from a customer and all the costs that can be associated with that customer.

While customer revenues and related gross trading margins (i.e. sales *less* cost of goods sold *less* distribution costs by product) are generally well understood and comprehended by managers, the calculation and determination of customer specific costs, and hence profits by specific customer, may not be.

To provide more effective and meaningful information, we must look beyond the traditional product costs which generate gross trading margins by customer, to include all other customer related costs. We therefore need to provide a better understanding of how the business’s resources are used or demanded in different ways by different customers and the resulting demands for services and the returns for the organisation from each.

Examples of resources or effort which could be specifically negotiated with and hence attributed to customers include:

- volume discounts and commissions
- marketing and sales support
- packaging and documentation

- inventory and distribution support
- inventory holding requirements
- special freight or delivery arrangements
- technical or administrative support
- special credit or payment terms
- account receivable (days)
- order entry and
- customer service and field service.

CPA attempts to answer management's questions or at least provides management with information to ask the right questions. Such key questions include:

- Do particular customers or market segments meet our profitability criteria? Have they ever? Can they ever? If so, how and when?
- Which customers generate the greatest profit contributions and how best can we protect them?
- What are the maximum discount/service packages we can afford in the next round of negotiations with our individual customers, while still meeting our profit objectives?
- What type of customers should we focus our new business effort on for maximum profitability?
- Do we really make money from our large customers? Do we really make money from our small customers?

Customer profitability analysis fills a crucial gap in the range of analytical and management accounting tools available to management. Several benefits can be achieved from gaining a better understanding of the underlying sources of customer profitability and then for using that information to manage customers for profit.

These benefits include helping management to:

- set the strategic direction of the organisation to focus better on customers or customer groups

- ❑ optimize the allocation of scarce resources between customers to generate optimum profits
- ❑ focus on and identify the scope for cost control and cost reduction, especially across different customers
- ❑ make total customer account investment and pricing decisions and help in negotiating these with customers
- ❑ monitor and control the ongoing profitability and health of the business

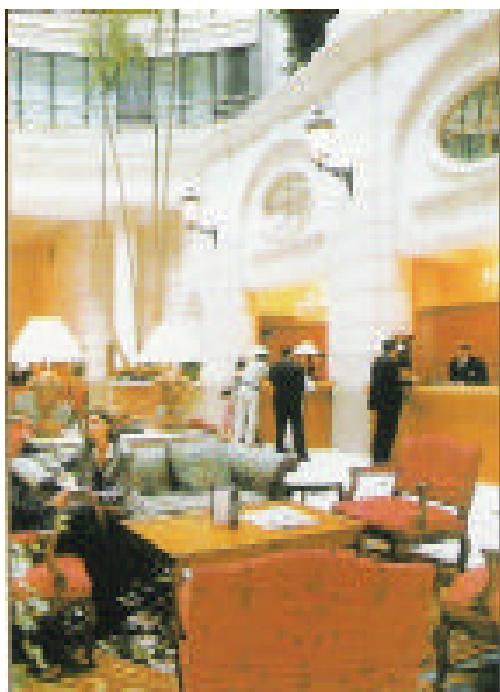
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Student Activity

LTV and CPA are powerful strategic tools. Using the case study of Hilton Hotels from the previous chapter as well as other relevant examples, describe how they are particularly relevant to the marketing strategies of service companies.

SERVICE EXCELLENCE



Key Learning Outcomes

After reading this chapter, you should be able to:

- Explain the term “service excellence”
- List the four components of a service
- Discuss the importance and role of customer focus and employee empowerment in the quest for service excellence
- Identify key international best practices in service excellence

Outlines of Lesson Plan

- Introduce the concept of service excellence
- Describe the four components of service
- Enumerate the key factors in delivering superior service to customers
- List the key requirements for empowering frontline employees
- Identify the four stages of empowerment
- Highlight global best practices in service excellence
- Revision and review exercises

What Is Service Excellence?

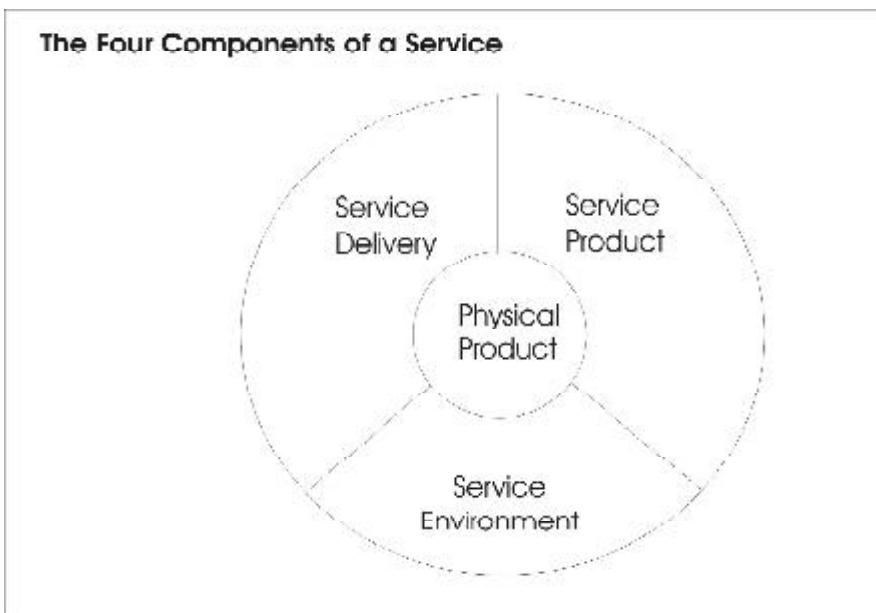
SERVICE EXCELLENCE is a widely used term, but what does it really mean? One definition offered by noted author Steve Albrecht in his book *Service, Service, Service*:

Quality service is what our company must provide, through careful management of our strategies, systems, and people to meet and often exceed the needs and expectations of our current and new external and internal customers. By creating a share, offer more value than our competitors, and establish a workplace environment that is profitable, healthy, and beneficial to everyone who works with it and for it.

This definition illustrates not only what it means to provide excellent service, but also emphasizes how service excellence is composed of internal as well as external considerations. Finally, Albrecht highlights the importance of providing great service as a competitive tool.

The Four Components Of A Service

It will be instructive to break the broad and intangible phrase “service excellence” down to its smaller components. Each of the four components of service in following figure must be carefully designed and individually managed in order to provide service excellence. If only one of these criteria is not at the highest standard, the customer will not have been extended excellent service.



Physical product

This represents whatever tangible good or merchandise a company transfers to the customer at the point of sale. The very first step in service excellence is ensuring that from the very start the customer is being sold the right product to fit his or her needs and wants.

Service product

This notion moves us closer to our goal of service excellence. The service product refers to that part of the “purchase experience” aside from the physical transfer of goods, and includes crucial interactions with the company’s personnel. All aspects of the firm’s interaction with customers must be planned to help determine the nature of the overall service experience. The service product is the core performance purchased by the customer, the flow of events and service designed to provide a positive and experience for the customer.

Service environment

This refers to the kind of “stage” the company sets, on which the customer will experience and hopefully enjoy the company’s service. In other words, it is the backdrop that surrounds and complements the service. The service environment can also influence how customers respond to “criti-

cal incidents”—that is, service events that may result in the customer becoming dissatisfied or delighted. The service environment can also be used by the firm to signal the intended market segment or to position the organization. A restaurant might use its service environment to position itself as upscale by decorating in a tasteful and elegant manner. The finest quality china, crystal, linens, and art would signal a more elegant clientele. Levers at a company’s discretion for creating a specific service environment include the ambient conditions (ambience), the spatial layout, and signs and symbols.

Service delivery

This refers to what actually happens when customers buy a “product.” The service product defines how the service works in theory, but the service delivery is how the service works in actual practice. If an objective is to provide the customer with fast service, allowing long queues to appear will defeat the purpose and compromise your service mission.

Customer Focus

In this chapter, we will assert that there are two overarching components of service excellence: *customer focus* and *employee empowerment*. The first step of a firm’s service strategy should be to attempt to satisfy all of a customer’s conscious as well as unconscious needs, wants, and desires. This should then be combined with empowering properly trained employees to use their resources, instincts, and judgement to fulfill the service mission of providing the customer with excellent service!

Moments Of Truth

Critical to providing service excellence and customer delight is carefully managing all “moments of truth.” Jan Carizon, former SAS CEO, defined a moment of truth as “any episode where a customer comes into contact with any aspect of your company, no matter how distant, and by this contact, has an opportunity to form an opinion about your company.”

Rationally one understands that one single Air India representative does not represent the airline as a whole; still, a horrible check-in experience could turn a customer away for life! A customer's experience with the service you provide will be defined by brief interactions with service personnel and the firm's systems. The first step is to understand what your company's moments of truth are--to realize that something as simple as walking into your company reception area and observing the ambience is a moment of truth!

For many services, employees remain the primary ingredient of success in moments of truth. A Gallup survey of consumers found that the most common definition of quality for services was employee contact skills such as courtesy, attitude, and helpfulness.

Factors In Personal Service

In order to provide excellent service, companies should aim to provide customers with the highest perceived customer value. Below are some of the components Steve Albrecht identifies as useful in providing customers with superior value and superior service.

- *The personal touch:* It's the small things that make the difference here. Small gestures to make customers feel they are being catered to and receiving personalized attention are very important. This includes gestures such as warm greetings and signs of recognition for repeat customers, as well as computer systems which allow you to answer a caller by name and have all previous purchases and credit cards used on file, thereby enhancing service speed and efficiency.
- *Key employees who know them:* Employees must be informed of and empowered to perform the company's service mission. One of the reason people come to be called regular customers is because they return. How your employees treat them is what makes them come back, tell their friends, and continue to work with you for years.

Better product knowledge: Reducing employee turnover to a minimum greatly enhances the quality of service provided. Naturally,

longer-term employees provide continuity and offer greater product and service expertise than new hires.

- *More responsiveness to the often intangible critical factors that are important to the customer's report card:* It's always easy for some things that are important to the customer to get missed or dismissed. This includes such immeasurable service help as
 - a) recommending other products or services to the customer based upon an identification of his or her wants and needs;
 - b) adding a personal note, gift, insight, suggestion, or thought to an order;
 - c) helping customers find what they want and staying around to answer questions;
 - d) returning phone calls and letter promptly;
 - e) solving small problems before they become big;
 - f) otherwise acting more like the customer's advocate or change agent and less like an employee who just wants to punch the clock, get the customer off his or her hands, and go home.
- *More responsiveness to tangibles like product quality, shipping deadlines, delivery dates, price concerns, etc.:* Many of these more objective issues, things that can be measured, analyzed, recorded, and followed through, can also slip through the cracks. Sometimes it may be as simple as asking the customer, "Is there anything else you need? Are there any questions about your product order or request for service that I can answer? Do you need to speak to anyone else?"

All of these factors add up to a greater potential for superior and longer-lasting relationships. By attending to these areas, the customer gets more of an overall feeling of closeness with the people he or she is doing business with. This just makes for better, longer, and more fulfilling relationships.

Employee Empowerment

As mentioned earlier, the second major element, complementing and enabling a customer-focused strategy (the first element), is employee empowerment.

When you teach people how and why service is the one intangible item that keeps paying customers coming back for more, they will respond with renewed effort. This is especially true the sooner they realize that the performance and health of the company is tied to satisfied, returning customers.

Given the importance of the contact person's interaction in moments of truth, it is essential that the firm market the concepts of its services internally to its own employees before it can successfully market them to external customers.

Instilling employees with the drive, motivation, and resources to meet and, more importantly, exceed customer needs, requires attention to the following:

Training

Employees need to be given technical know-how to do their jobs, but they also need to be steeped in the customer-based culture of the firm.

Continuous Interaction With Management

It is management's job to extend formal training through continual support, assistance, motivation, involvement in decision-making, setting of examples, and rewarding of good performance.

Internal Mass Communication

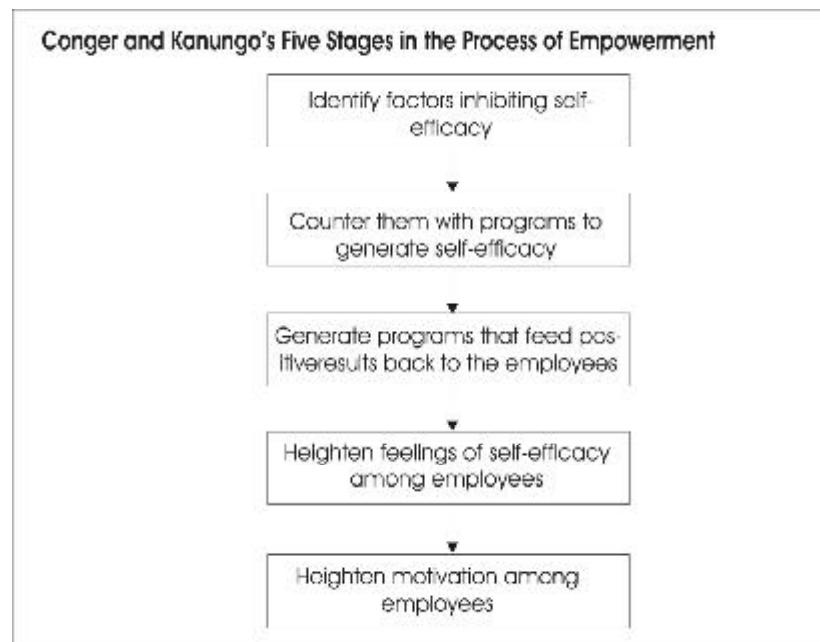
Internal communication is one way to reach large numbers of employees with information that supports the service environment, shares new ways to satisfying customers, and so on.

Marketing Research

Just as it would be foolish to attempt to market to end customers without researching their needs, desires, and perceptions, it is just as ineffective to fail to research one's employees, in order to keep of employee attitudes and their willingness and ability to perform certain roles.

Stages Of Employee Empowerment

Noted empowerment theorists Conger and Kanungo propose that the process of empowerment must go through five stages, shown below. In the first and second stages, managers must identify and then tackle the factors that lead to feelings of powerlessness among employees. Remedies may include participative decision-making opportunities and training programs to build up skills. In the third stage, feedback programs should be developed to inform employees of their self-efficacy. The most effective feedback programs should be developed to inform employees of their self-efficacy. The most effective feedback programs allow employees to discover their own abilities. Ideally, the final two steps in the process are the achievement of strengthened feelings of self-sufficiency among employees, followed by heightened levels of effort and persistence in accomplishing tasks.



Global Best Practices In Service Excellence

“Service excellence” is an intangible and expansive concept. It undoubtedly means many different things to many different people. Listed below are a few examples of organizations, across a wide array of industries, which are widely known and celebrated for the cultures of service they have built up, and for the unique levels of service they provide. These world-renowned companies have achieved resounding financial success as a direct result of their service excellence strategies.

1. Nordstrom's

Nordstrom's, known for its exceptional customer service, is a nationally renowned chain of department stores originating in Seattle in the early 1900s. Resembling other retail chains such as Saks Fifth Avenue and Bloomingdales, Nordstrom's was recently ranked among the top 10 worldwide role models of service excellence in a study called “Service in America,” undertaken jointly by several leading universities.

Central to the Nordstrom's philosophy is a strong belief in an *individualized* approach to customer service. Certainly, salespeople at Nordstrom's provide highly customized, personalized sales service. All sales associates keep detailed notes on their customers' sizes and preferences and are quick to let their customers know, by letter or by telephone, when something that may be of interest arrives in the store.

The employees are given great freedom to help the company maintain its well-earned reputation as a truly customer-focused retailer. For example, despite the fact that Nordstrom's does not sell tires, an elderly woman not satisfied with a set of tires she had recently acquired came in demanding a refund. Store employees decided to extend her a refund, even though it was impossible that she purchased them there, to ensure that she would return to Nordstrom's. An elderly woman not satisfied with a set of tires she had recently acquired came in demanding a refund. Store employees decided to extend her a refund, even though it was impossible that she purchased them there, to ensure that she would

return to Nordstrom's in the future.

2. Shouldice Hospital Limited

Shouldice Hospital was founded by Dr. Earl Shouldice and built on his revolutionary surgical technique for repairing hernias using only a local anesthetic. The remission rate for hernias performed at Shouldice is less than one tenth that of the average North American hospital. Below are a few examples of how the hospital attempts to cater to its patients' every need and provide them with truly excellent service within a hospital environment.

- Patients receive confirmation cards and personal telephone calls before the date of their surgery.
- Patients with similar jobs, backgrounds, or interests are assigned to the same room to the extent possible.
- In the afternoon of the day of their arrival, patients are invited to attend a nurse's orientation session where their surgery and requirement are explained to them.
- An attempt is made to schedule operations for "roommates" at approximately the same time.
- Shouldice nurses spend an unusually large proportion of their time in counseling activities.
- Parents accompanying children to the hospital stay for free--when a child is accompanied by a parent, the parent is happier and so is the child.
- Hospital administrator Alan O'Dell makes it a habit to stay at the hospital at least once a week to eat dinner and chat with the patients, getting a feel for how things are going and what can be improved upon.

"By the way they act, you'd think our patients own this place. And while they're here, in a way they do," says Alan O'Dell, hospital administrator.

3. Scandinavian Airlines Services

Scandinavian Airlines Services (SAS) is now famous for its former CEO,

Jan Carizon, who promulgated a concept called “service management” and coined the phrase “moments of truth.” Carizon created an airline that was truly customer-driven. As a result, within one year earnings had risen by almost \$80 million. Only two years after Carizon became CEO of an airline for the business person and *Air Transport World* chose SAS as its airline of the year, primarily for its level of service.

Carizon preaches that customer service and relations come first, second, and third. He expects his employees to take responsibility for meeting customers’ needs using their best judgement. Carizon scrapped all of the passenger service manuals, because “you,” he said to the front-line staff, “are the ones who can decide what is good passenger service.”

4. AT & T Universal Card Services

AT&T launched the Universal Card in 1990 and within six months was one of the top credit card issuers in the United States. Almost universally, people agree that this was result of providing unprecedented service to its customers. In fact, a plaque on the wall at company headquarters reads: “Customers are the center of our universe.”

At AT&T Universal Card Services (UCS), winner of the prestigious Malcolm Baldridge National Quality Award, “customer delight” is the first of seven core company values. Additionally, the company’s vision of “delighting” customers rests on having “delighted” telephone associates. The company realizes these are the people customers interact with every day in thousands of moments of truth every minute.

AT & T UCS has installed several mechanisms with which to ensure customers are receiving excellent service. First, the company designed a Customer Satisfier Survey to gather market research data on “customer satisfiers.” These are the products, services, and treatment (including price and customer service) that cardholders care most about AT&T then designed and implemented products and processes to fulfill these “satisfiers.” Second, a Contactor Survey takes place regularly, wherein an internal team each month polls more than 3,000 randomly selected cus-

tomers who had contacted the company, querying them about the quality of their contact. Analysis is then conducted on how to continuously improve customer satisfaction with every phone call.

5. Federal Express

“I can honestly say that I have never had a disappointing service experience with them, ever. Not over the phone, not at the counter of their mail drop centers, and not with a driver picking up or delivering my packages. The people are always courteous and helpful, and even though I’m sure their job is demanding and filled with time pressures, they always figure out a way to add value to my service experience,” remarks Steve Albrecht, a regular Federal Express customer.

This customer related the following tale: “Our office had called the folks at FedEx to schedule a package pickup one Friday afternoon. FedEx promised to send a courier by the end of the day. By quitting time, no courier had arrived, and we became concerned. Sure enough, we missed the deadline, so we called to ask what had happened. The FedEx supervisor came on the line and told us, ‘Don’t worry. We’ll take care of this. Your package will be there on Monday as planned.’ Early Saturday morning we were working in our offices when a route supervisor from Federal Express showed up, in street clothes and clearly on his day off. He picked up our package, profusely apologized for the delay, and promised to drive it down to the San Diego airport himself so that it would get out on the next eastbound plane. He did, and it did. Monday morning came, and right at 10:30 am, the package hit our client’s desk in New York. Is this service above and beyond the call of duty? Absolutely!”

To CEO Fred Smith, empowerment means that employees don’t just work for Federal Express—they *are* Federal Express. Illustrating this point, he asserts, “Daily, they go above and beyond to serve our customers. They are the ones who trek through all kinds of weather; they deliver every package, each one critical; they persist in solving every customer’s problems; they ferret out the root cause of every problem to prevent it from ever happening again. Their talent, ingenuity, and commitment drive our qual-

ity standards closer to our goal of 100 percent customer satisfaction.”

6. Ritz-Carlton

The Ritz-Carlton is a world-renowned hotel chain known for its exquisite hotels as well as for the impeccable levels of service provided consistently to customers. Processes, systems, structures, information technologies, and people all work in concert to support a strategy of providing customized, personal, high-level services to guests to the company’s hotels.

In a world where hotel employees’ primary motivation to act, if at all, is a gratuity, Ritz-Carlton employees are trained to make the customer feel special and valued. The Ritz-Carlton employee manual specifies that if a guest passes within 20 feet of employees, they must acknowledge them. If they pass within 6 feet they must greet them. Additionally, every employee at Ritz-Carlton Hotels is empowered to spend up to \$2,000 to satisfy a customer and receives at least 100 hours of training.

An example of the hotel’s customized approach is a woman who stayed at a Ritz-Carlton in Boston and asked that she have her bed turned down at 9:00 pm and that she not receive a chocolate on her pillow. That information was stored on the hotel’s guest preferences database. When this woman checked into another of the chain’s hotels, these preferences appeared on the computer screen and her requests were all catered to before she had to ask.

7. Walt Disney World

Disney World has often been held up as the epitome of customer service and empowerment. Empowerment is like a religion there. Employees are thoroughly trained and then told they have the authority to do whatever is necessary to deal with problems on the spot in order to make their customers happy.

The “service-through-people” theme at the Disney parks starts with a special language. There is no such thing as a worker at Disney. Employees out front are “cast members” and the personnel department is “casting.”

Whenever some one works with the public, he or she is “on stage.” Red Pope, a longtime Disney observer and writer, noted this phenomenon when two of his children, aged 16 and 18, were hired by Disney World to take tickets. For this seemingly mundane job, four eight-hour days of instruction were required before they were allowed to go “on stage.” They learned about Guests--not lower-case “c” customers, but upper-case “G” Guests.

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Student Activity

You have read in the text about the “*Moments of Truth*” and its critical importance in the quest for service excellence and customer delight. From your own experience as a customer, describe an encounter where you received excellent service that exceeded your expectations. The example can be of an airline, hotel, restaurant or even a retail store. Did that pleasant experience lead you to patronize the company more often and did you recommend it to your friends and family? Similarly, think back to a disappointing service encounter. How did that experience affect your perception of the company and manifest itself in your future purchasing behavior?

SERVICE QUALITY

Key Learning Outcomes

After reading this chapter, you should be able to:

- Define service quality and identify its key attributes and dimensions
- Contrast service and product quality
- Describe SERVQUAL and Gap Analysis as techniques to measure and manage service quality
- Illustrate the service-profit chain
- Identify the reasons for the growing use of service guarantees
- Outline the steps involved in ROQ analysis and enumerate its usefulness

Outlines of Lesson Plan

- Explain the concept of service quality and discuss the pioneering research by parasuraman, zeithaml & berry into the attributes and dimensions of service quality
- Introduce servqual and gap analysis as techniques to measure service quality
- Discuss the service-profit chain and its application
- Describe, with examples, the concept of service guarantees and identify the qualities of a good service guaranty
- Enumerate the objectives of conducting roq analysis and its utility

Defining Service Quality

Quality is the lifeblood for service-based companies which brings increased patronage, competitive advantage and long-term profitability. Service Quality can be broadly defined as a measure of how well the service level delivered matches customers expectations. Delivering quality service means conforming to or exceeding customer expectations on a consistent basis.

Service quality can be broken into two dimensions:

1. Technical Quality
2. Functional Quality

Both dimensions are important to customers. Technical quality refers to the relatively quantifiable aspects of the service, i.e. what is being done. Functional quality refers to how the technical quality is being delivered to customers.

Service quality is different from customer satisfaction. Quality is generally conceptualized as an attitude, the customer's comprehensive evaluation of a service offering. It is built up from a series of evaluated experiences and hence is less dynamic than customer satisfaction. Customer satisfaction is the outcome of the evaluation a consumer makes of any

specific transaction.

Service And Product Quality

The key differences between service and product quality are listed below:

Tangible vs. intangible. Products are “well defined” and observable by their existence at the time of customer evaluation and the formation of perceptions and expectations. Products allow better opportunities for evaluation and comparison prior to decisions. Products often offer the opportunity to see, touch, feel, smell, taste, compare, and measure. To a great extent, services do not provide these opportunities.

Definable, observable vs. perception dependent. Products allow “seeing is believing”. Products often allow direct observation and comparison that influence the perceptions of needs-product match and other factors that influence perceived value. Services require “imagining is believing”. Services require the consumer to first perceive the services - and then precipitate the perceived value.

Time dependent or time expiring event. For some services, time dependency exists and this inhibits or precludes flexibility. In other instances, the service represents an expiring event. For example, air travel is a service. Traveling on a particular flight on a particular airline is an expiring event. It is not possible for the customer to relive the time and select and receive an alternate service. Since the customer cannot relive the moment or circumstance, an unpleasant experience on a flight because of the indifference of the cabin attendant is a historical event - but not history. Residual effects of the unpleasant service experience exist, a point addressed below.

Returnable vs. non-returnable. A customer often can return or exchange defective products or a product that ex post does not match ex ante perceptions of needs-match. In many services, although the provider may offer a full refund, the service is not returnable. Services (or elements of service associated with the sale of a product) are intangible. Second, nor-

mally the customer cannot return the service and relive the event. The service provider may refund the money or attempt to assuage a dissatisfied customer in some other manner.

Needs-match uncertainty. Product attributes are usually observable, even sometimes testable, but service attributes are more uncertain. This difference causes the variance of match between perceived needs and service to be greater than the variance of perceived need-product match. This greater ex ante uncertainty increases the risk of divergence

between ex ante and ex post perceptions of service. Greater variance in perceptions of service match adversely influences perceived value of service quality.

Inter-product personal vs. interpersonal. For products, many factors of influence stem from a customer's evaluation of the product relative to identifiable needs. In contrast, perceptions and expectations services often are the result of interaction with people rather than with the service itself. Therefore, human factors can have a great influence on ex post perceptions of a service and service quality. Services are more likely than products to provide opportunities for human interaction that affect how the product/service meets needs.

Impersonal vs. personal. Customers frequently view services as more personal in nature than products. This "personalization" can exist even for services that are not personal in nature.

Dimensions And Attributes Of Service Quality

In a landmark study, Parasuraman, Zeithaml and Berry, after intensive focus group research, offered the following ten dimensions used by customers to evaluate service quality:

1. **Credibility:** trustworthiness, believability, honesty of the service provider
2. **Security:** freedom from danger, risk or doubt
3. **Access:** approachability and ease of contact
4. **Communication:** listening to customers and keeping them informed

in the language they understand

5. **Understanding the customer:** making the effort know the customers and their needs
6. **Tangibles:** appearance of physical facilities, equipment, personnel, and communication materials
7. **Reliability:** ability to perform the promised service dependably and accurately
8. **Responsiveness:** willingness to help customers and provide prompt service
9. **Competence:** possession of the skills and knowledge required to perform the service
10. **Courtesy:** politeness, respect, consideration, and friendliness of contact personnel

After subsequent research, PZB refined their original ten dimensions and instead collapsed them into the following five attributes of service quality:

1. **Tangibles:** the appearance of physical facilities, equipment, personnel and communication materials
2. **Reliability:** the ability to perform the promised service dependably and accurately
3. **Responsiveness:** the willingness to help customers and to provide prompt service
4. **Assurance:** the knowledge and courtesy of employees and their ability to convey trust and confidence
5. **Empathy:** the provision of caring, individualized attention to customers

PZB identified four key factors that might influence a customer's expectations:

1. Word of mouth communication
2. Personal needs and preferences
3. Past experiences

4. External communications

The Gap Model And Servqual

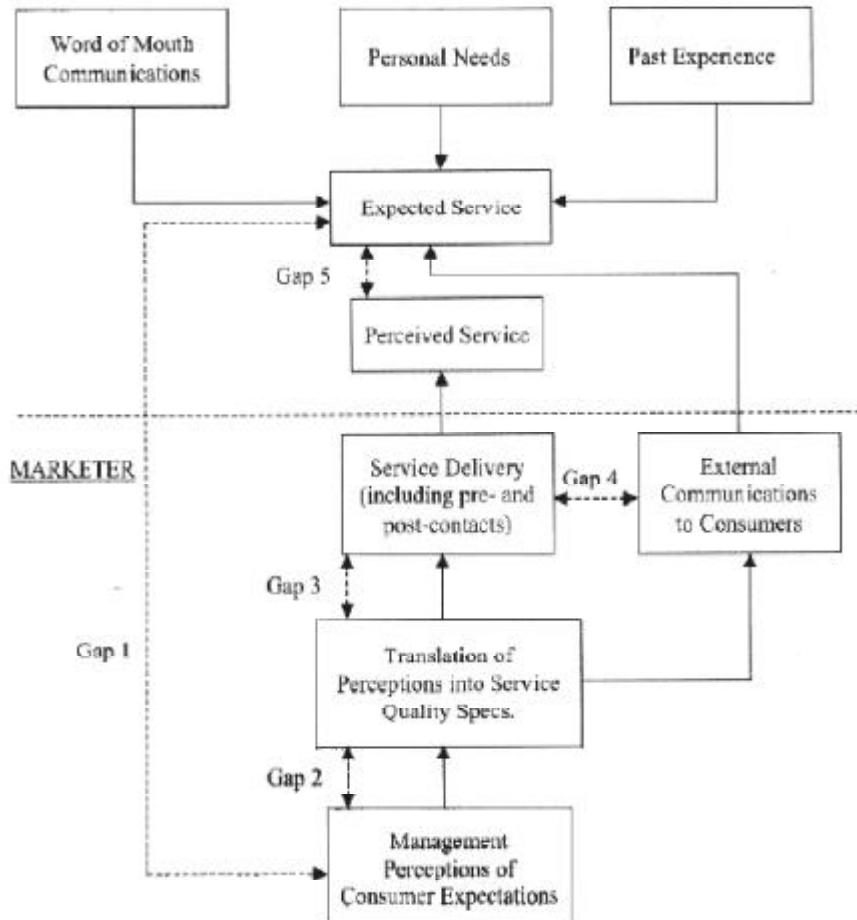
The other important aspect of PZB's pioneering work was to identify the major causes of the perceived service quality 'gap', i.e., the gap between consumer expectations and perceptions. They identified four potential causes for this gap:

- Not knowing what customers expect
- Specifying service quality standards that do not reflect what management believes to be customers' expectations
- Failing to ensure that service performance matches specifications
- Not living up to levels of service that are promised or implied by marketing communications

Building on their research, PZB developed a survey research instrument called SERVQUAL to measure customer satisfaction with different aspects of service quality. SERVQUAL is seen as a generic measurement tool that can be applied across a broad spectrum of service industries. In its basic form, the scale contains 21 perception items and a series of expectation items, reflecting the five attributes of service quality just described. Respondents complete a series of scales that measure their expectations of companies in a particular industry on a wide array of specific service characteristics; subsequently, they are asked to record their perceptions of a specific company whose services they have used on the same characteristics. When perceived performance ratings are lower than expectations, this is a sign of poor quality; the reverse indicates good quality. Although SERVQUAL has been widely used by service companies, doubts have been expressed by recent research with regard to both its conceptual foundation and methodological limitations.

Conceptual model of service quality

CONSUMER



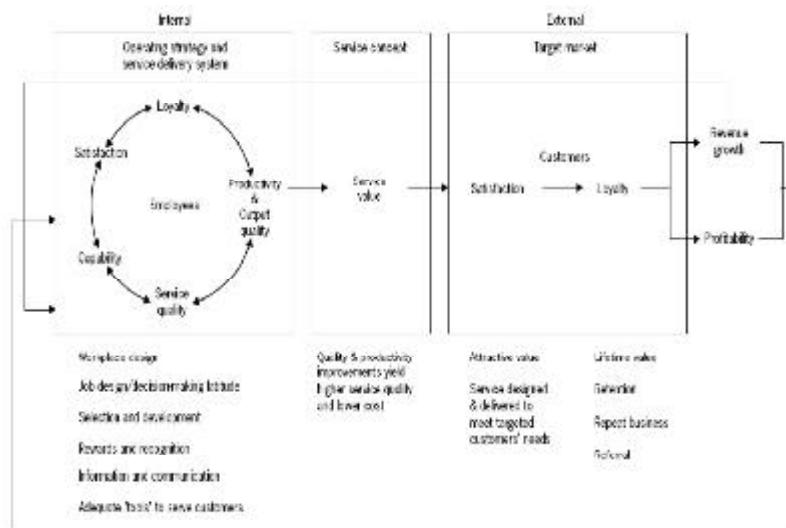
Service-Profit Chain

The link between employee satisfaction, loyalty and productivity and customer loyalty and company growth and profitability is conceptualized by the “Service-Profit Chain”. It was developed by Professors Heskett, Sasser and Schlesinger in the mid-1990’s after a path breaking research study into practices of successful American service companies like Southwest Airlines, USAA, Banc One etc. The chain has seven components and shows how internal service quality and employee satisfaction, retention and productivity are linked to organisational growth and profitability.

Within the chain, Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satis-

faction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal and productive employees. Employee satisfaction, in turn results primarily from high-quality support services and policies that enable employees to deliver results to customers.

Service Profit Chain



The service-profit chain is a simple yet powerful technique that puts hard numbers on soft issues. It helps managers understand the complex inter-relationships between employees, customers and profitability and thus make better operational investment decisions

Service Guarantees

A small but growing number of companies offer customers an unconditional guarantee of satisfaction, promising that if service delivery fails to meet predefined standards, the customer is entitled to one or more forms of compensation - such as an easy-to-claim replacement, refund or credit. Consultant and service expert C.L Hart argues that these service guarantees are powerful tools for both promoting and achieving service quality for the following reasons:

1. Guarantees force firms to focus on what their customers want and expect in each element of the service.
2. Guarantees set clear standards, telling customers and employees alike what the company stands for. Payouts to compensate custom-

ers for poor service cause managers to take guarantees seriously because they highlight the financial costs of quality failures.

3. Guarantees require the development of systems for generating meaningful customer feedback and acting on it.
4. Guarantees force organizations to identify, understand and learn from service failures.
5. Guarantees help to build long-term customer loyalty.

Hart has also identified the following as qualities of an ideal service guarantee:

- Easy to understand and communicate
- Focused on customer needs
- Meaningful with real penalties or payouts
- Easy to invoke
- Unconditional

Service Guarantees At Radisson Hotels Worldwide

Radisson Hotels Worldwide recently pilot tested a service guarantee in twenty-eight of its hotels. The pilot hotels implemented the guarantee with a complete training program but with no advertising. The guarantee read simply:

Our goal at Radisson is 100% guest satisfaction. If you are not satisfied with something, please let us know, we'll make it right or you won't pay.

The response in the pilot hotels was amazing. In just three months, many of Radisson's service quality performance metrics in these hotels improved significantly. Customer satisfaction, measured by Radisson's own metrics and by a market research firm, showed increased "willingness to return" and "percent advocates." Radisson also found that the guarantee decreased employee turnover, increased utilization, and increased profitability for the pilot hotels.

Return On Quality

Return on Quality is the financial payoff expected from an investment in a service quality program. *ROQ is a revolutionary approach that is based on the following principles:*

- Quality is an investment
- Quality efforts must be financially accountable
- It is possible to spend too much on quality
- Not all quality expenditures are equally valid

ROQ Analysis Consists Of Five Steps

Step 1: Preliminary Information Gathering. The first stage involves collecting customer survey data, information about the market and competitors, and whatever other internal information is available, and plugging information holes, wherever necessary, with managerial judgments.

Step 2: Identification of possible opportunities. In this stage, the management identifies the best opportunity for profitable quality improvement. Using the inputs from stage 1, financial implications of the opportunity are estimated.

Step 3: Limited Testing of improvements. A limited-scale test of the proposed quality improvement program is conducted, often within a single business unit or division. The test helps generate hard data on the costs associated with the program as well as its impact on customer satisfaction and market share.

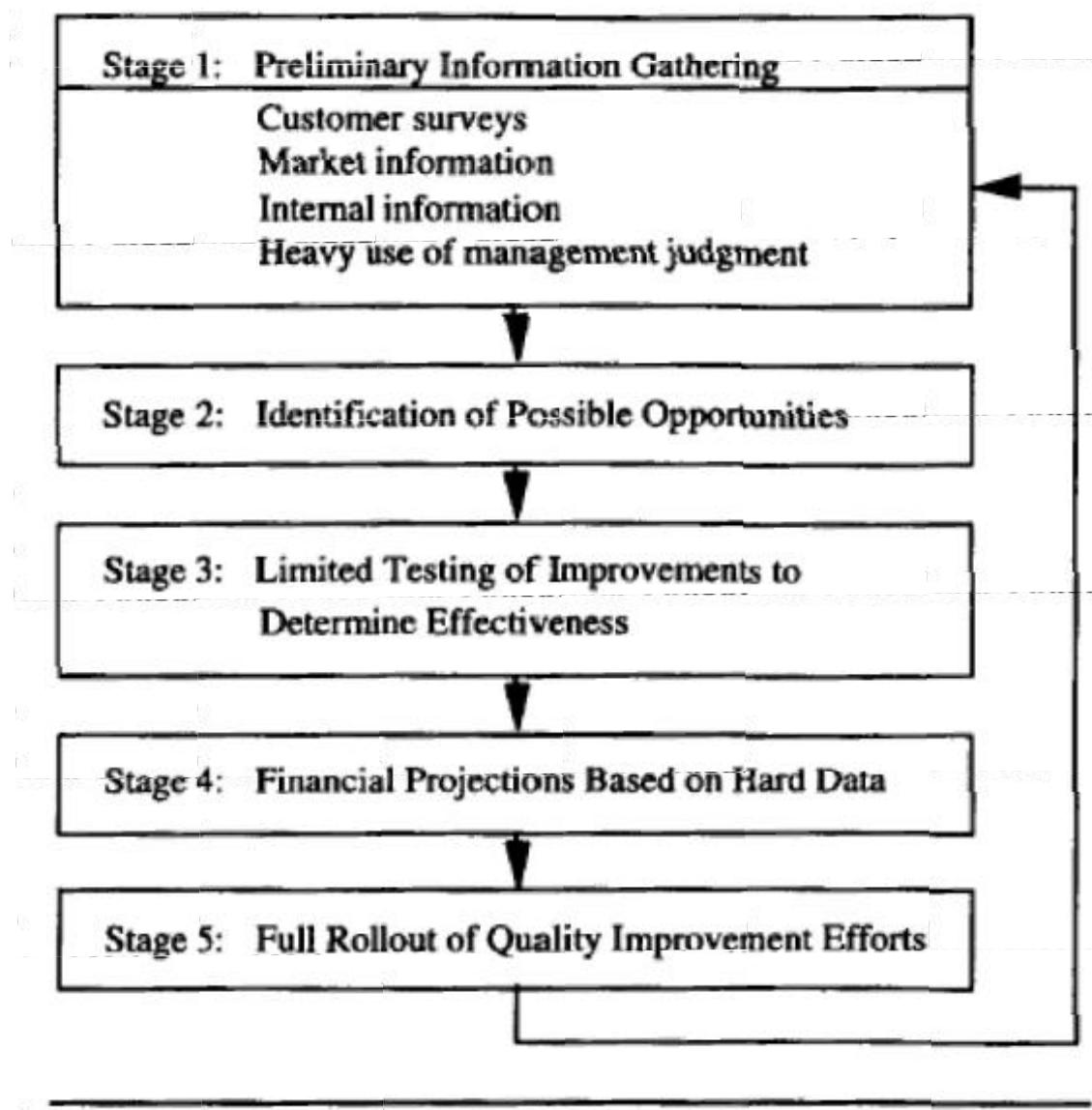
Step 4: Financial Projections based on hard data. Using cost and effectiveness data from stage 3 as input, more accurate projections of the ultimate financial implications such as NPV, optimal expenditure level, market share trajectory etc are made to judge the feasibility of the proposed program.

Step 5: Full Roll-out of the quality improvement effort.

The management must continuously monitor the program and its results, reevaluating business processes in the light of new customer survey

data and identifying other potential opportunities . ROQ is used by several top companies such as FedEx and AT&T to quantify and maximize their return on investments in quality and productivity improvement programs.

The ROQ Quality Improvement Process



Suggested References

- *Delivering Quality Service*, Parasuraman & Berry, Free Press (1990)
- *Service Quality in Practice*, John Murphy, Macmillan (1993)
- *Service Quality Handbook*, Stephen Brown, Sage (2000)
- *Quality: Sustaining Customer Service*, Taylor, Century Business (1995)
- *Raving Fans*, Ken Blanchard, HarperCollins (1993)

Student Activity

1. How do you personally evaluate the quality of a service? What role do perceptions play in your evaluation? Answer these questions in the context of a recent service purchase?
2. You have read about the ‘gaps’ in the evaluation of service quality. Identify the causes of each. Can you suggest some strategies service firms can adopt to reduce these gaps?
3. SERVQUAL You should be able to use and understand Instructions to developing SERVQUAL input/output.
 - a) Pick a service you have recently used and answer the SERVQUAL questions. Be sure to follow the instructions of the instrument. When you are finished, you will come out with a service quality score for each of the five dimensions as well as the overall score for service quality. Use the SERVQUAL instrument as enclosed
 - b) Read instruction and then list the questions one at a time with a scale from 1 to 7 for them to place the answer. Using “Strongly Disagree” beside the 1 and “Strongly Agree” beside the 7.
 - c) The questions marked with (-) at the end should be reverse coded. That is, record a 1=7, 2=6, 3=5, 5=3, 6=2, 7=1. The other questions are scored 1 to 7 as indicated by the student.
 - d) Add the scores for each of the following variables:
 - Tangibles: Questions 1 to 4
 - Reliability: Questions 5 to 9

- Responsiveness: Questions 10 to 13
- Assurance: Questions 14 to 17
- Empathy: Questions 18 to 21

d) Subtract the scores in the first half of the questionnaire from the scores for the second half. For example, subtract the scores for tangibles in the first half from the scores of tangibles in the second half. The first set of questions deal with expectations, the second set of questions deals with the service they received.

e) When you have completed the questions, the following screen needs to come up to show their results. The overall service quality score was (this should be the total score of all five variables). The service quality evaluation for each of the components of service quality are:

- Tangibles (score for this variable)
- Reliability (score for this variable)
- Responsiveness (score for this variable)
- Assurance (score for this variable)
- Empathy (score for this variable)

The SERVQUAL Instrument

Directions : This survey deals with your opinions of services. Please show the extent to which you think firms offering services should possess the features described by each statement. Do this by placing one of the seven numbers next to each statement. If you strongly agree that these firms should possess a feature, write the number 7. If you strongly disagree that these firms should possess a feature, write 1. If your feelings are not strong, choose one of the numbers in the middle. There are no right or wrong answers-all we are interested in is a number that best shows your expectations about firms offering services.

Strongly Disagree

2 3 4 5 6 7

Strongly Agree

- E1.** They should have up-to-date equipment.
- E2.** Their physical facilities should be visually appealing. - E3. Their employees should be well dressed and appear neat.
- E4.** The appearance of the physical facilities of these firms should be in keeping with the type of services provided.
- E5.** When these firms promise to do something by a certain time, they should do so.
- E6.** When customers have problems, these firms should be sympathetic and reassuring.
- E7.** These firms should be dependable.
- E8.** They should provide their services at the time they promise to do so.
- E9.** They should keep their records accurately.
- E10.** They shouldn't be expected to tell customers exactly when services will be performed.(-)^b
- E11.** It is not realistic for customers to expect prompt service from employees of these firms.
- E12.** Their employees don't always have to be willing to help customers.(-)
- E13.** It is okay if they are too busy to respond to customer requests promptly.(-)
- E14.** Customers should be able to trust employees of these firms.
- E15.** Customers should be able to feel safe in their transaction with these firms' employees.
- E16.** Their employees should be polite.
- E17.** Their employees should get adequate support from these firms to do their jobs well.
- E18.** These firms should not be expected to give customers individual attention.(-)
- E19.** Employees of these firms cannot be expected to give customers personal attention. (-)

E20. It is unrealistic to expect employees to know what the needs of their customers are. (-)

E21. They shouldn't be expected to have operating hours convenient to all their customers. (-)

Directions: The following set of statements relate to your feelings about XYZ. For each statement, please show the extent to which you believe XYZ has the feature described by the statement. Once again, writing a 7 means that you strongly agree that XYZ has that feature, and writing a 1 means that you strongly disagree. You may choose any of the numbers in the middle that show how strong your feelings are. There are no right or wrong answers-all we are interested in is a number that best shows your perceptions about XYZ.

P1. XYZ has up-to-date equipment.

P2. XYZ's physical facilities are visually appealing.

P3. XYZ's employees are well dressed and appear neat.

P4. The appearance of the physical facilities of XYZ is in keeping with the type of services provided.

P5. When XYZ promises to do something by a certain time, it does so.

P6. When you have problems, XYZ is sympathetic and reassuring

P7. XYZ is dependable.

P8. XYZ provides its services at the time it promises do so.

P9. XYZ keeps its records accurately.

P10. XYZ does not tell customers exactly when services will be performed.(-)

P11. You do not receive prompt service from XYZ's employees.(-)

P12. Employees of XYZ are not always willing to help customers. (-)

P13. Employees of XYZ are too busy to respond to customer requests promptly. (-)

P14. You can trust employees of XYZ. -

P15. You feel safe in your transactions with XYZ's employees.

P16. Employees of XYZ are polite.

P17. Employees get adequate support from XYZ to do their jobs well.

P18. XYZ does not give you individual attention.(-)

P19. Employees of XYZ do not give you personal attention.(-)

P20. Employees of XYZ do not know what your needs are. ()

P21. XYZ does not have operating hours convenient to all their customers.(-)

a. *In the original questionnaire, a seven-point scale ranging from “Strongly Agree”(7) to “Strongly Disagree”(1), with no verbal labels for the intermediate scale points (i.e., 2 through 6), accompanied each statement. Also, the statements were in random order in the questionnaire.*

b. *Statements followed by (-) are to be reverse coded.*

Source: A. Parasuraman, Valarie A. Zeithaml, and Leonard L. Beery, “SERCQUAL: A Multiple-Item scale for Measuring Consumer Perceptions of Service Quality.” *Journal of Retailing* 64 (Spring 1988):12-40.

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