The Service Economy: We're Not There Yet

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Acknowledgments

Authors: Maureen Davis, Greg Schmid, and Leah Spalding

Editors: Charles Grosel and Julie Koyano

Cover Design: Janet Chambers

Graphic Designer: Adrianna Aranda

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Institute for the Future
2744 Sand Hill Road
Menlo Park, California 94025
Telephone: 650-854-6322
Fax: 650-854-7850
www.iftf.org

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PREFACE

In the economic boom after the huge industrial build-up of World War II, the U.S. domestic economy shifted its emphasis from heavy industry to consumer goods, and then, inevitably, from a manufacturing economy to a service economy. Each year since 1950, the service sector has generated more and more of the GDP. Indeed, with the onset of the information revolution, the ability of companies to find extra value by adding a richer set of service components covering everything from R&D to consumer information has enhanced our utilization of services throughout the economy. But the role of the consumer in that service-oriented economy remains paramount. According to national income accounts, personal consumption expenditures make up about 70% of final purchases today.

If we live in such a consumer-driven service economy, then why do important measures suggest that consumers are not happy with the services they receive?

The answer lies in the definition of "service economy," and the wide variety of services offered. In our research, we've found that there are actually two very different service economies—one for business services and one for consumer services. Economic data suggest that it is the business services, such as legal firms, consultants, and so on, with their well-paid, highly educated, highly motivated workers, that are fueling what we call the dynamic high-performing service economy. In constrast, consumer services—the ones we get every day in stores, restaurants, and on the phone—are much less dynamic and often frustratingly inadequate. These services are often conducted by the most poorly paid, least-educated, least-trained workers—in other words, the workers most ill-equipped to meet the high expectations of the sophisticated new consumers.

But giving short shrift to consumer services is short-sighted. If as much as 70% of final purchases come down to the consumer, the kind of consumer dissatisfaction we're uncovering can have a direct impact on the bottom line. Indeed, researchers at the University of Michigan who track consumer satisfaction have correlated consumer satisfaction with revenue and profits. If this is the case, then companies that deal regularly with consumers will have to turn their attention to delivering better service to their customers—or risk losing out to their competitors.

In this theme report, *The Service Economy: We're Not There Yet*, we explore this radical division between business and consumer service companies, and describe the clear signs that consumers are not happy with the services they receive day to day.

But where there's dissatisfaction, there's room for improvement. Indeed, the greater the dissatisfaction, the greater the pressure for transformation. Such pressure points in the past have given rise to some of the most transformative business innovations in history, such as the ubiquitous telephone network and open access to the best university system in the world. We explore these transformations with an eye to determining how they arise and what they have to say about future service innovations.

To forecast where potential service breakthroughs are likely to occur in the future, we set up a rubric for examining the basic underserved needs of an increasingly value-conscious new consumer. Our research indicates that successful new service opportunities will include three broad applications: making basic service delivery easier and more accessible by improving the pay and performance level of those providing the services; helping consumers sort through huge amounts of information to meet their most important and pressing needs; and using information sources to help consumers focus on areas of immediate and intense need and then providing personal services by outstanding professionals focusing on those highly value-added activities.

The common thread in all of these applications is the need to integrate service people—whether highly trained or just eager to help—with the sorting and focusing power of information. The New Economy must become the Information Economy. Yet it must also transform into the Information Economy that allows service workers to find those places where a personal touch can make a difference to consumers. Agents who can help consumers and workers to sort through the oceans of options and opportunities afforded by the vast information technology infrastructure will go a long way toward delivering services where they are most needed, satisfying these hard-to-please consumers.

The report has seven chapters:

- Chapter 1 opens with a definition of services and a broad look at the differences between business and consumer services.
- In Chapter 2, we compare workers in the two service sectors. The people who provide business services have radically different characteristics than those who provide consumer services—they are more educated, better trained, better paid, and, not coincidentally, more motivated.
- In Chapter 3, we explore the nature of consumer dissatisfaction with services today.

- In Chapter 4, we sketch out our rubric for understanding potential service innovations of the future—the pyramid of consumer needs.
- Chapter 5 describes some of the socioeconomic efforts that have transformed consumer services in the past and have thus created a degree of expectation that services—in a variety of formats, when they are done well—can make a difference in the lives of consumers.
- Chapter 6 speculates on where new consumer service innovations are likely to arise in the decade to come.
- Finally, in Chapter 7, we present ten lessons for companies hoping to get a jump on delivering the consumer service innovations of the future.

Chapter 1

The Growing Service Sector

As distinguished from a tangible good or product, a service is any *work* or *activity* of value done for someone else. Economists take it one step further: A service is a work or an activity of *economic* value.

For almost a century, the service sector of the U.S. economy has been growing briskly. And this growth is happening not just in the United States. In every developed country of the world, the service sector is the fastest growing part of the economy. This has become such an accepted truth of the economic landscape that many economists call the current global economy the "service economy." The argument goes something like this: As incomes go up, a greater portion is spent on services. And in the last decade, the revolutionary accessibility of new information and communications technologies and the new services built on such a vast web of exchange have expanded the range of possible services, and the speed at which we are moving toward a true service economy.

But has this really been the case? And what do we mean by "service" economy? Does a service economy actually mean better service for consumers day in and day out?

If it does, then someone is losing out. True, business services are booming. But according to important qualitative indicators, consumers are frustrated with not finding services when they expect them, and realizing those that they do get are often of poor quality. This disconnect between the potential of the service economy as we know it in the business world and the actual service we receive as consumers in daily life is emerging as the central dilemma of the 21st-century marketplace.

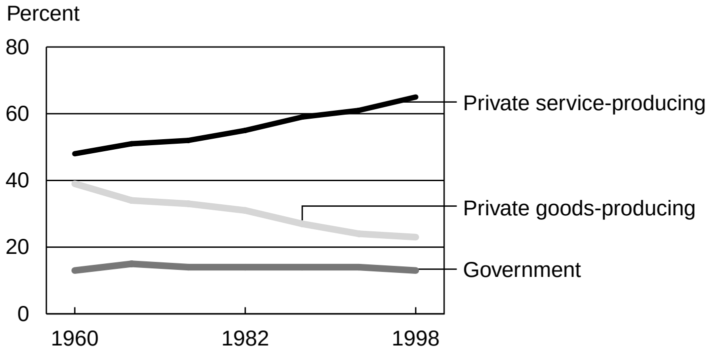
Economic Data Suggest That Services Are King

By almost any measure of economic activity, services are indeed growing fast. For the past 30 years, private service-producing industries have grown from about half of all economic activity in the United States to about two-thirds. If we include the government sector, which is heavily service-oriented, services account for more than three-quarters of all economic activity (see Figure 1–1).

But these measures are very broad and don't reflect the fact that a variety of service-producing industries exist, some of which are growing very fast and some of which are growing more modestly, if at all. Let's disaggregate this general overview in order to identify the most dynamic service sectors.

In the long run, the most dynamic sectors of the economy are two subcategories of the service-producing industries—financial services (finance, insurance, and real estate) and other services (personal and business services). In the last 40 years, the financial services share of GDP has grown by 50%, while the share of other services has grown by 210% (see Table 1–1). In contrast, manufacturing has shrunk by about 40%.

Figure 1–1
Private Service-Producing Industries Are Growing
(Percent of current dollar GDP)



Note: "Service-producing" industries include transportation, utilities, wholesale and retail trade, financial services, and services. "Goods-producing" industries include agriculture, forestry, mining, construction, and manufacturing.

Source: Bureau of Economic Analysis, *Survey of Current Business*, June 2000.

Table 1–1
Other Services and Financial Services Are Growing Most of All
(Percent of current dollar contribution to GDP)

	Manufacturing	*Other Services*	*Finance, Insurance, and Real Estate*	*All Other Sectors*
1959	28	10	13	50
1972	23	12	14	51
1977	23	13	14	51
1982	20	15	15	50
1987	19	17	18	47
1992	17	19	18	46
1998	16	21	19	44

Note: "All other sectors" includes agriculture, mining, transportation, communications, utilities, wholesale trade, retail trade, and government.

Source: Bureau of Economic Analysis, *Survey of Current Business*, June 2000.

But Not All Services Are the Same

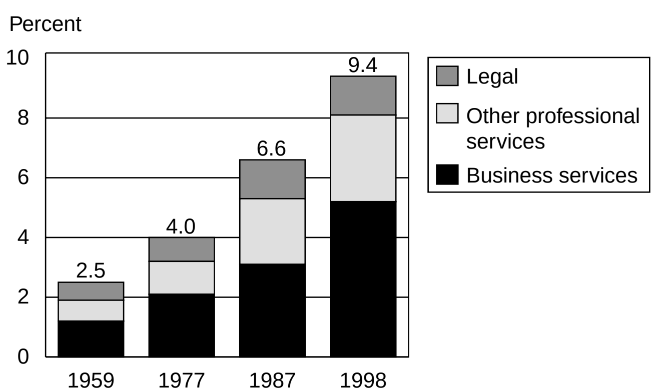
But what services are providing most of the growth? As we dig even more deeply into the numbers, we find two very different types of services in the economy—services provided to businesses and services provided to individual consumers or households.

Business Services: Where the Growth Is

Businesses use a range of services—legal and accounting advice, help with personnel and human relations, training and education, software design, advertising, finance, and consulting support for restructuring. When combined, all the different industries that support businesses form a very dynamic group indeed. These business-oriented services have jumped from 2.5% of GDP in 1959 to almost 10% in recent years (see Figure 1–2).

If we add another service-like activity—say, financial services, which in their borrowing, lending, selling, buying, and brokering of information are clearly services—the growth of business services is even more sig-

Figure 1–2
Business Purchases of Services Are Rising Rapidly
(Percent of current dollar GDP)



Source: Bureau of Economic Analysis, *National Accounts*.

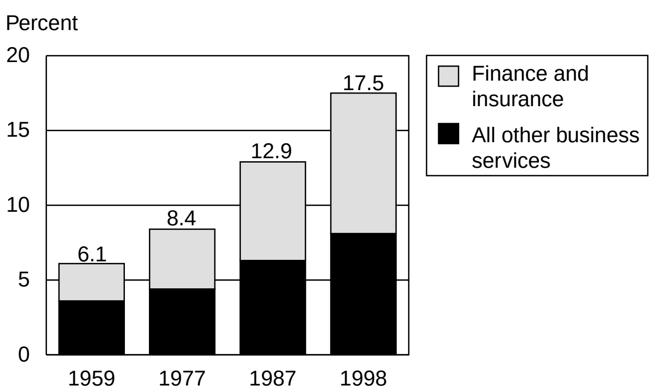
nificant. Indeed, businesses account for about two-thirds of annual borrowing activity—the lion's share of financial activity (about 30% is done by households and about 4% by the government sector). If finance and insurance are added to the business services side of the ledger, the total contribution to GDP of business services has grown from about 6% of GDP 40 years ago to almost 18% today (see Figure 1–3).

Combined, all of the industries that provide services to businesses have grown more than twice as fast as the rest of the economy (see Figure 1–4 on page 6).

Consumer Services: Mostly Flat

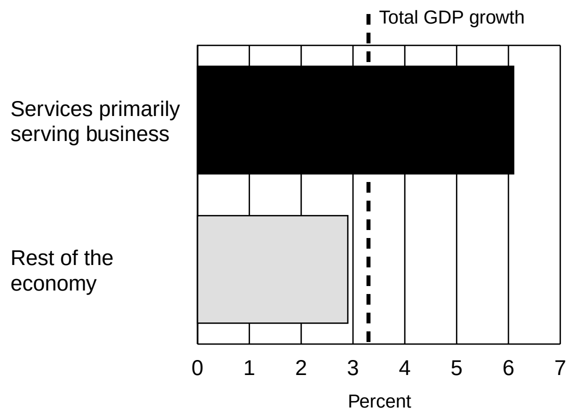
The services provided to individual consumers don't show such a straightforward picture of dynamic growth. There are three main categories of consumer services—personal services sold directly to consumers (e.g., laundries, dry cleaners, photo developing shops, and beauty parlors); retail shopping services (e.g., information about products, shopping assistance, tailored packaging, and transactions processing); and

Figure 1–3
Businesses Are the Key Players in Financial Markets
(Percent of current dollar GDP)



Source: Bureau of Economic Analysis, *National Accounts*.

Figure 1–4
Services Helping Businesses Are the Core of Economic Growth
(Annual average percent growth, 1959–1998, in constant dollars)



Source: Bureau of Economic Analysis, *National Accounts*.

Table 1–2
Consumer Services Mostly Flat
(Percent of current dollar GDP in financial sector)

	1959	*1977*	*1987*	*1998*
Retail	9.7	9.4	9.3	8.9
Institutional	2.7	4.6	6.0	7.2
Personal	3.1	2.7	3.0	3.1
Shared	1.2	1.2	1.4	1.5
Total	**16.7**	**17.9**	**19.7**	**20.7**

Note: “Institutional” includes health, educational, and social services; “Personal” includes personal service, auto repair, miscellaneous repair, private household work, and movies/amusement; “Shared” includes hotels and membership organizations.

Source: Bureau of Economic Analysis, *National Accounts*.

institutional services provided in controlled settings (e.g., health care, education, and social services). Some services, like hotels, travel, and real estate, are sold to both businesses and consumers. Among the four categories of consumer services, only the institutional form shows significant growth (see Table 1–2).

In general, consumer-oriented services have not been growing much faster than overall GDP. In fact, if we look carefully at the list, the only real dynamic sector of the group has been health care (see Table 1–3).

In some ways, though, health care doesn't really count as a true consumer service, since it is paid for primarily by nonconsumers—the government and businesses. In fact, the share of household income used for health care (approximately 5% of all expenditures) has been fairly steady for the past 40 years. Because the people who receive the services (individual consumers) are not the ones who pay the bills, the health care market is not truly consumer-driven. Rather, it is the institutional payers who determine standards of service. And, in fact, the bulk of health care

Table 1–3
Health Care Is the Only Consumer Service Growing Significantly
(Percent of current dollar GDP)

	1959	*1977*	*1987*	*1998*
Health	2.2	3.7	4.9	5.7
Educational	0.4	0.6	0.7	0.8
Social	0.1	0.3	0.4	0.7
Total	**2.7**	**4.6**	**6.0**	**7.2**

Note: "Health" excludes public spending on health care services.

Source: Bureau of Economic Analysis, *National Accounts*.

services today are provided under fairly strict rules that restrict use, either by fixing reimbursement rates for carefully defined services (as under Medicare, Medicaid, or Veterans Services) or by placing consumers in managed-care environments where financial incentives restrict the services provided. (We will return to this unique service-less service in more detail in Chapter 2.)

Conclusion: The Service Worker–Consumer Gap

What seems to be true in general, then, is that business services and consumer services have moved in dramatically different directions. Business-to-business services have experienced tremendous growth, with the result that everyone working in an information-intensive job in the United States is used to having high-quality and sophisticated services provided by qualified, motivated individuals who are reaping the benefits of this sector's growth.

Consumer services, in contrast, have experienced flat growth. As a result, the workers in this sector are inevitably less experienced and less motivated than those in the business sector, and often work only part time. As information becomes more important to consumers when making purchasing decisions, and as relatively affluent and well-educated consumers become more sophisticated in using this type of information, the gap between the more sophisticated consumers and the poorly trained customer representatives will only grow wider. The only clear exception to this rule is the rapid growth in institutionalized services from health care organizations. As we will see in Chapter 3, however, consumers are becoming less and less happy with the quality of these services as well.

Services oriented toward helping households with their daily activities define the service economy *for the consumers*. Indeed, these types of consumer services are providing much of the consumer information in the "information economy." Yet many consumer service businesses are still placing workers with the least education and the least commitment to the labor market in position to provide these key services. This is the subject of the next chapter.

Chapter 2

Two Worlds of Service Workers

As defined in the previous chapter, services are work or activities that provide economic value to another. In most human transactions, this involves some form of personal exchange. Thus, an examination of the people providing the services—their education, skills, and personal qualities—is likely to reveal something of the nature of the services as well as the value we place on the services as a society.

After evaluating the qualities of different service workers, we have identified a critical and enduring difference between those who provide services to businesses and those who provide services to individual consumers. Quite simply, those who work with businesses are valued; those who work directly with customers are not. The differences are so large that the two sets of workers fall into two very different worlds with little in common.

The Two Worlds of Service

The characteristics of the people who provide services tell us much about the value of the services to society at large. But it is difficult to measure characteristics that might be the most critical for good service providers—like experience and knowledge, friendliness, helpfulness, empathy, and cooperative spirit. We can only consider more pedestrian measures, those with a quantitative component, such as education, training, and salary. But even these measures seem to indicate a systematic bias between the two worlds.

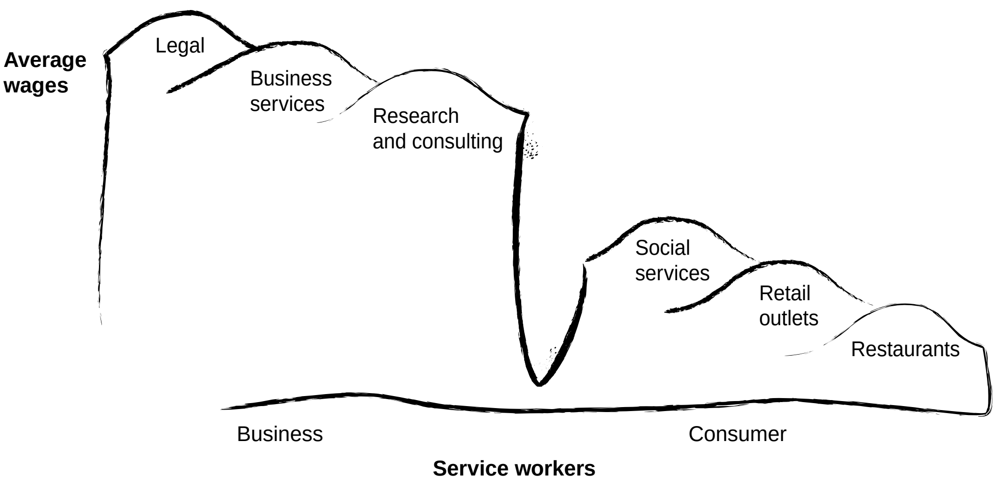
One concrete measure we can all relate to is compensation—what the workers get paid. Since salaries provide a clear demonstration of the value the economy places on an endeavor, they should also give us a good proxy for how important companies hold the activity as well.

Virtually every occupational and salary measure indicates that the more intensive the service interaction with consumers, the less the value placed on that service. In other words, there is a deep and wide chasm between the services delivered to businesses that have a very high economic value and the services delivered to consumers that have a very low one (see Figure 2–1).

This simple graphic is supported by a large body of salary data broken out by industry and occupation. Almost without exception, workers in those industries that provide services primarily to businesses (e.g., legal services, research and consulting, business services, wholesale trade, and freight transport) have much higher average salaries than those in industries that provide services primarily to consumers (e.g., social services, personal services, retail outlets, restaurants, and entertainment) (see Figure 2–2).

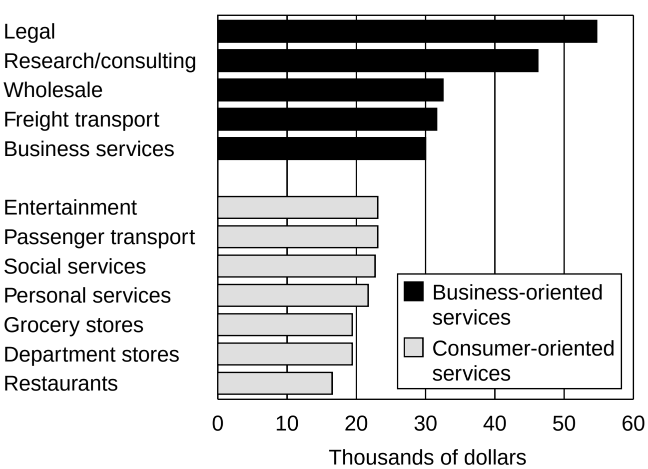
It can be argued that average salary data tell a distorted story, since the composition of the industries is so varied. But looking at subcategories of workers common to both sectors only reinforces the notion that service workers live in two distinct worlds. If, for example, we look at an occupational category that appears in virtually every industry—office/administrative support workers—we find that compensation levels are much higher in every industry that deals directly with businesses and lower in

Figure 2–1
The Chasm Between Business Services Wages and Consumer Services Wages



Source: Institute for the Future

Figure 2–2
Consumer Services Pay Is Much Lower
(Average annual salary in thousands of dollars, by industry)



Source: U.S. Bureau of Labor Statistics, Occupational Employment Statistics.

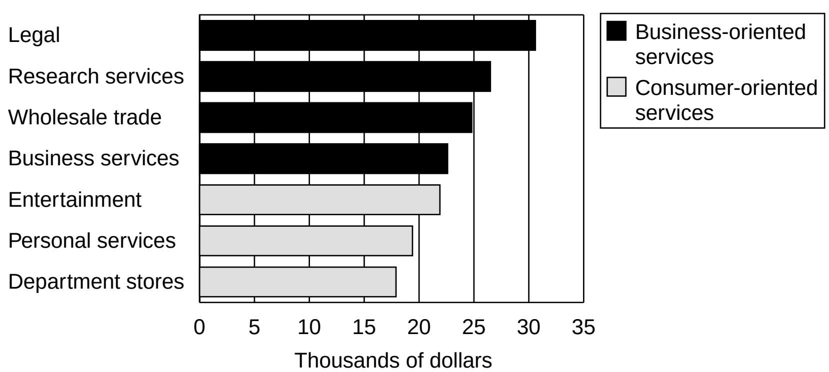
industries that deal directly with consumers (see Figure 2–3). Thus, ambitious and talented people in any occupational/career track have a clear incentive to work for a service industry that deals with businesses.

Even more important, each industry has a cadre of employees who work directly with the customers—they are the people who provide the actual service the customers are paying for. If we look at those people who deal with customers regularly in each of the service worlds, the business–consumer differences are even more pronounced. Lawyers and professionals working directly with business customers receive from two to six times more pay than the clerks, salespeople, and caregivers who work directly with consumers (see Figure 2–4).

The Mixed Industries

A number of industries don't fit exclusively in either of the service categories. They tend to serve both business customers and retail consumers, or they have an institutional setting. Some industries that service both businesses and consumers include banking, insurance, real estate, telecommunications, and utilities. These industries

Figure 2–3
More Money for the Same Work in Business-Oriented Industries
(Average annual salary in thousands of dollars for office/administrative support workers)

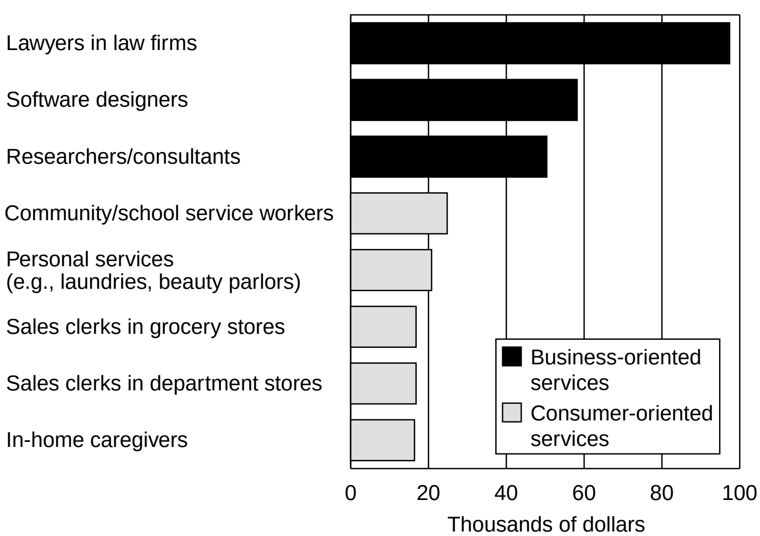


Source: U.S. Bureau of Labor Statistics, Occupational Employment Statistics.

have average salary levels that are much closer to the averages of the business services. The banking and insurance industry is a good example (see Figure 2–5 on page 14).

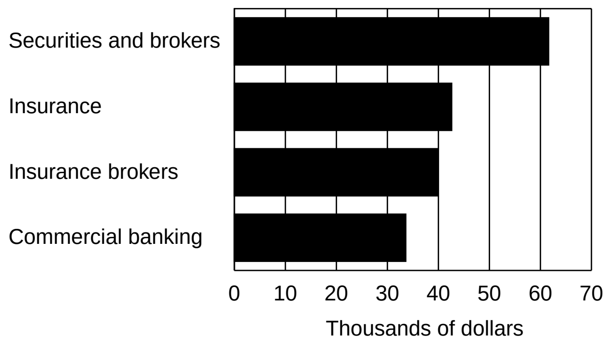
Approximately 60% of the activities of these businesses are with business customers; the remainder of the transactions is with consumers. The salaries for financial service workers who primarily serve consumers show the same pattern of bias: Workers who deal directly with consumers are paid a much lower wage, essentially at the same level as store clerks and restaurant workers (see Figure 2–6 on page 14).

Figure 2–4
Direct Contact with Business Customers Brings Premium Pay
(Average annual salary in thousands of dollars for workers who deal directly with business customers)



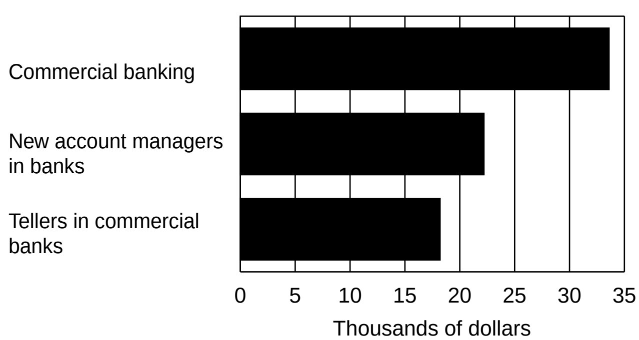
Source: U.S. Bureau of Labor Statistics, Occupational Employment Statistics.

Figure 2–5
Financial Service Workers' Pay Similar to That of Business Service Workers
(Average annual salary in thousands of dollars, by industry)



Source: U.S. Bureau of Labor Statistics, Occupational Employment Statistics.

Figure 2–6
But Frontline Financial Service Workers Get Much Lower Pay
(Average annual salary in thousands of dollars for workers who deal directly with retail consumers)



Source: U.S. Bureau of Labor Statistics, Occupational Employment Statistics.

Institutional Service Providers

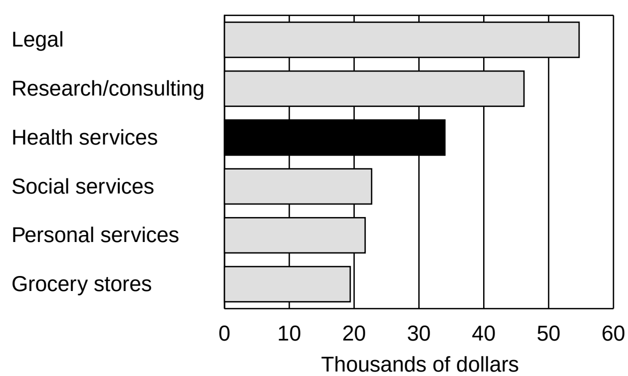
Some consumer services are provided in a different way—by large institutions that are either not for profit or heavily influenced by government policies. Health care, private education, and community care programs are three good examples.

These types of organizations provide services directly to consumers, but the consumers rarely foot the whole bill, or even close to it. Many such organizations are heavily subsidized by the government or business sector, or are heavily regulated by government rules that define and protect consumers. As a result, though they provide services directly to consumers, these organizations act more like business-to-business providers and draw workers that are different from those of the more typical consumer services. The most interesting of these hybrid industries is health care.

Health Care—A Unique Industry

At least one industry that provides its services exclusively to the general public has a relatively high level of average pay—health care. Although lower than salaries in the legal profession and research and consulting, average health care salaries are well above those in social services, personal services, and retail (see Figure 2–7).

Figure 2–7
Health Care Industry Is an Important Anomaly
(Average annual salary in thousands of dollars, by industry)



Source: U.S. Bureau of Labor Statistics, Occupational Employment Statistics.

But health care is a unique industry. While consumers receive all the services of the system, they pay out of pocket for only about 17% of total costs. The government pays 45% and insurance—primarily provided by employers—pays 33%. (The remainder comes from nonprofits and revenues generated by nonpatient activities.)

The peculiar payment patterns of the health care industry mean that the government and private business have decision-making influence over how the system operates—which has a direct effect on the services consumers receive and their satisfaction with the system overall.

In this way, health services are an interesting anomaly in the world of consumer services. A cadre of well-paid professionals provides services directly to consumers, but the real customers of health care are the businesses and government that pay the bills. These payers are concerned about rapidly rising health care costs. The total amount spent on health care has risen from 9% of total GDP in 1980 to about 14% today. To contain the rapid increase in costs, the payers have been pushing a transformation of the health care system that emphasizes efficient delivery and cost control. About 70% of consumers are currently enrolled in health maintenance organizations or preferred provider organizations that mandate enrollment in plans that create substantial financial incentives to limit patient use of the system.

This means that the businesses and government have had to find means of allocating the scarce (and highly paid) resources. They have responded by using a variety of rationing tactics that limit or restrict use; for example, limited access to specialists, gatekeepers, eligibility rules that limit use of certain types of services, and rules of access guided by strict testing.

Meanwhile, consumers—those who actually use the health care services—see the limitations on access and choice, the long waits, and the perfunctory visits as clearly affecting the quality of service. Thus, we have a service industry with high-priced professionals providing the service, but consumers aren't happy with the service they receive.

While the health care industry is unique in many respects, there is a larger lesson for businesses. The current state of the health care industry—with rapidly rising costs and consumer discontent—has left it vulnerable to predators. For example, pharmaceutical companies have taken advantage of consumers' growing sophistication and dissatisfaction and have, in the last few years, been very successful at selling their products directly to consumers, instead of exclusively through doctors and hospitals. Pharmaceutical companies have been focusing more of their marketing efforts directly at consumers.

In turn, consumers, armed with a load of information about prescription medicines (information provided by the manufacturers), are demanding specific medications by brand name. Consumer actions don't stop with prescription medications. The increasing popularity of nutritional supplements and alternative medicine provides another example of sophisticated consumers seeking services outside the traditional health care arena. Basically, sophisticated consumers are using information (gathered from an increasing number of sources) to get satisfaction out of any otherwise unsatisfactory situation.

The lesson for all businesses that provide or want to provide services to consumers is to be on the lookout for other companies hoping to capitalize on the dissatisfaction of consumers due to poor customer sevice. To take it one step further, businesses can proactively look for ways to solve consumer problems, which in turn will improve consumer satisfaction.

The Characteristics of Consumer Service Jobs

Our analysis has identified two different worlds of service workers: those who serve businesses and those who serve consumers. That business service workers are paid so much more tells us that, as a society, we value their work more. That we don't pay consumer service workers much at all (that is, we don't put much economic value on their jobs) goes a long way toward explaining the poor customer service consumers experience in general.

In the end, the economy has developed an entire class of service jobs, consumer service jobs, that by their very nature make it difficult to provide good service. Low pay is the most obvious characteristic of these jobs, but several other characteristics make delivering good customer service very difficult. Consumer service jobs generally don't require a lot of education; they are not seen as part of a career path; they lack on-the-job training on how to deliver good customer service; and they are often part time and without benefits. These factors work together to create another common characteristic of consumer service jobs—high turnover—and a vicious circle of poor customer service (see Figure 2–9).

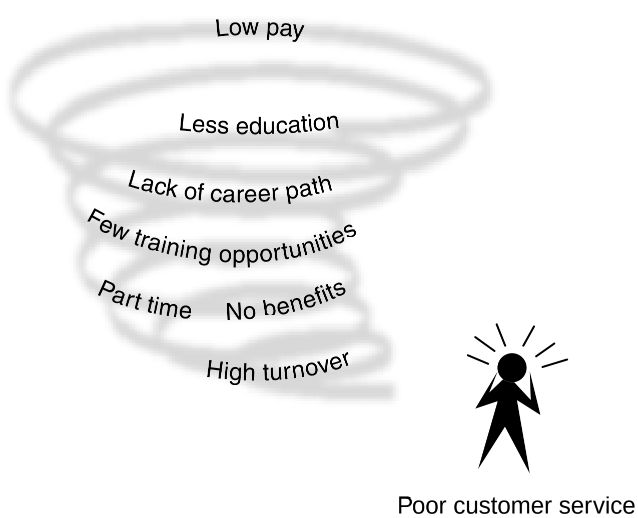
Low Pay

Low pay is one of the most important explanations for poor customer service. Lower-wage jobs—in retail, hospitality, and food service, for example—attract people with less education, few skills, and little experience. As a consequence, these workers—the very workers who are charged with helping consumers most directly—are often the least equipped to provide good customer service.

Less Education

Better customer service often requires the frontline worker to deal with a variety of requests and complaints from customers. Coming up with a satisfactory answer involves quickly evaluating the situation and flexibly applying a set of possible solutions or creating new ones on the fly. Well-educated workers are better able to perform under such conditions. But since lower-wage service jobs generally don't require extensive education, customer service continues to suffer.

Figure 2–9
Spiraling Downward: The Vicious Circle of Poor Customer Service



Source: Institute for the Future

Lack of a Career Path

Consumer service jobs generally are not seen as a career, or are even, with a few exceptions, positioned by companies as a stepping-stone to a career in their industry (say, moving from store clerk to store manager to higher organizational levels). As such, workers who are attracted to these jobs have little incentive to stay for any length of time. Years of experience on a job can substitute for more formal education, especially when it comes to dealing with customers, but most consumer service workers don't remain in a job long enough to develop such skills on their own.

Few Training Opportunities

Most employers do provide some on-the-job training to their frontline workers, but unfortunately for consumers, most of it is focused on the mechanics of the job—running a cash register, making a bed in a hotel room, or recording a bank deposit. Little if any training is provided on how to give good customer service.

Although the lack of good customer service could be addressed by just this type of on-the-job training, most companies don't want to invest the time and money in training their frontline service people beyond the basics of the job. After all, most won't stay long enough to make full use of such training. In this way, weak customer service becomes a self-fulfilling prophecy.

Part Time, No Benefits

Consumer service jobs are often part time. Companies create part-time positions, especially at the lower end of the wage scale (that is, many consumer service positions), to help lower costs. Most part-time workers don't receive any of the attractive benefits of full-time employees, such as health insurance or retirement plans. Not having to pay for such benefits saves companies a lot of money. But without the possibility of receiving these types of benefits, better-educated or trained workers don't even consider taking jobs in the consumer service sector, since they are likely to be able to find jobs (perhaps in the business service sector) that do offer such benefits.

High Turnover

Characteristics like low wages, few opportunities for learning new skills or advancing in the company, and no full-time salary or benefits all work to bring about one last characteristic of consumer service jobs: a very high turnover rate. High turnover means that consumers receive little if any continuity of service at the front line. For many consumers, it feels as if nearly everyone they meet behind a counter in a store or a bank or a hotel is in training.

Conclusion: Customer Service Is Difficult to Deliver in Consumer Service Industries

Compensation data for service workers provide clear evidence that the service industries that deal with consumers pay their workers considerably less than industries that provide services to businesses. In those few consumer service industries where average salaries are high, like health care and education, there are substantial restrictions on access and choice that decrease the satisfaction of the end user.

With little economic value placed on helping consumers, and a host of other fundamental characteristics working against the ability to provide good customer service, there is little wonder that consumers are not satisfied with today's so-called service economy. The next chapter describes in greater detail consumers' frustration.

Chapter 3

Consumers Are Frustrated with Service

Although more money is being spent on services in the U.S. economy as a whole, consumer services, at least, seem to satisfy people less. The best tracking measure—the University of Michigan's survey of consumer satisfaction—shows that people are frustrated with the services they receive across a broad range of industries. Reasons for declining satisfaction include consumers' rising expectations for good service and the growing number of choices for every decision they face, large and small.

The Index

The University of Michigan's American Customer Satisfaction Index (ACSI) has been tracking perceptions of customer satisfaction across 34 industries and almost 200 U.S. companies since 1994. Quarterly surveys of up to 50,000 customers per year track customer expectations about goods and services, including their quality and value, as well as customer attitudes like loyalty, in order to derive an index of overall customer satisfaction.

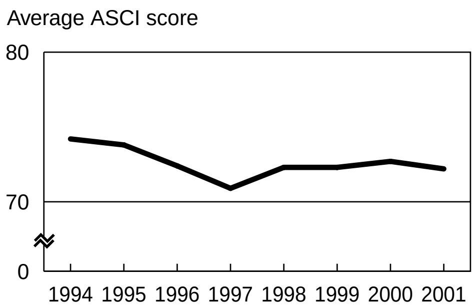
The index gives us a good idea of how consumers feel about the so-called service economy. It showed a fairly substantial decline between 1994 and 1997, and then a modest recovery between 1998 and 2000 (see Figure 3–1). The index remains well beneath its 1994 level, however.

An ACSI score can indicate more than just the way consumers feel about the economy. Consumer satisfaction is a good benchmark for evaluating the health of the businesses themselves. Since consumer spending makes up almost 70% of final purchases today, consumer dissatisfaction can indicate a threat to corporate earnings. In fact, changes in the ACSI generally predict quarterly changes in S&P 500 earnings (see Figure 3–2).

ACSI scores are not only correlated with overall earnings, but are also associated with financial performance in individual companies. In 1999, companies with the top 50% of ACSI scores generated over $42 billion in shareholder wealth, while companies with the bottom 50% created only about $23 billion (see Figure 3–3 on page 26).

Measuring consumer satisfaction, then, is more than just a nice thing to do for the customers. The measurements are critical indicators of the economic health of everything from individual companies to entire sectors of the economy.

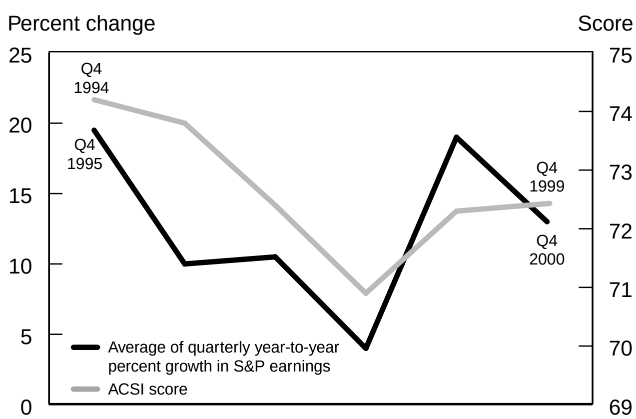
Figure 3–1
American Customer Satisfaction Is Slow to Recover
(Average annual ACSI score)



Note: Index scores can range from 0 to 100. The 2001 score is for the second quarter only.

Source: University of Michigan, American Consumer Satisfaction Index.

Figure 3–2
Earnings Usually Follow ACSI Scores
(ACSI and annual percent growth in S&P 500 earnings)



Note: Quarterly fluctuations were removed by averaging to annual changes.

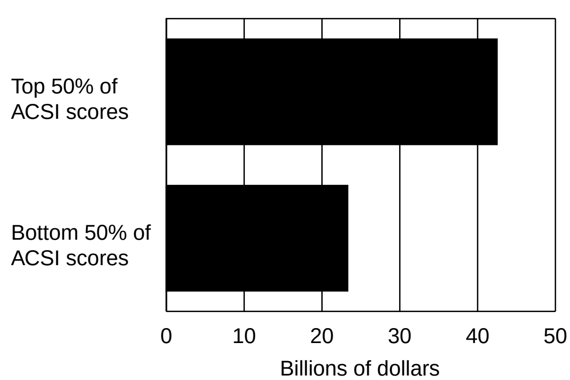
Source: Claes Forell, University of Michigan; American Consumer Satisfaction Index.

Customer Satisfaction Varies by Company and Industry

Although overall customer satisfaction has been sluggish for the past seven years, satisfaction with individual companies has been much more volatile. Table 3–1 shows the top ACSI scores in 1994 and 2000. Only 12 of the leading companies in 1994 were still among the top companies in 2000. Individual companies may move down in the ranks because of large drops in their ACSI scores, as did the Dole Food Company, or because they were shouldered out by customer-friendly companies that were added to the survey after 1994, such as Amazon.com and Kenmore. There is reason to believe these rankings will continue to change—almost half of the companies that currently have the highest ratings of customer satisfaction are showing ongoing declines in their ACSI scores.

Even more interesting is the dominance of manufacturing companies on the list. Almost all of the companies that top the lists are manufacturers of well-known branded products: food-processing companies like

Figure 3–3
Customer Satisfaction Reflects Shareholder Value
(Market value-added in 1999, by company ACSI score)



Note: ACSI and market value-added data for 1999, based on 73 U.S. companies.

Source: Claes Forell, "The Science of Satisfaction," *Harvard Business Review*, March 2001.

Table 3–1
Manufacturers Dominate; Services Are Mostly Absent
(Companies with top 20 ACSI scores, 1994 and 2000)

1994		*2000*	
Dole Food Company	90	**H.J. Heinz Company**	90
H.J. Heinz Company	89	**DaimlerChrysler**	87
Clorox Company	88	**Maytag**	87
Nestlé	88	Cadbury-Schweppes	86
Pillsbury	88	**Coca-Cola**	86
Mars	87	GM-Buick	86
Nabisco	87	GM-Cadillac	86
Whirlpool	87	Quaker	86
Dial Corporation	86	**Whirlpool**	86
Hershey	86	**Clorox Company**	85
PepsiCo	86	**Dial Corporation**	85
Sara Lee	86	Ford-Lincoln-Mercury	85
Toyota	86	**Hershey**	85
AT&T	85	Kenmore	85
Coca-Cola	85	**PepsiCo**	85
Daimler-Benz	85	Ralston Purina	85
Federal Express	85	Unilever	85
Honda	85	Amazon.com	84
Maytag	85	BMW of North America	84
Procter & Gamble	85	**Nestlé**	84
		Pillsbury	84
		Procter & Gamble	84

Note: Companies with the highest ACSI scores for both 1994 and 2000 are in bold text; service companies are highlighted.

Source: University of Michigan, American Consumer Satisfaction Index.

H.J. Heinz and Hershey Foods, personal care companies like Dial and Procter & Gamble, household appliance–makers like Whirlpool and Maytag, and automobile manufacturers like Honda and Toyota. Conversely, only two of the top 1994 companies were service companies, namely Federal Express and AT&T; but by 2000 both of them had dropped off the list. In 2000, e-commerce companies were measured for the first time, and Amazon.com achieved a place among the top ACSI companies; only time will tell if it can stay there.

Breaking out the scores by industry confirms that consumers seem more satisfied with manufacturers of durables and nondurables (see Table 3–2). In fact, the industries that have seen the biggest declines are those that are closest to the consumer—airlines, hotels, banks, and telecommunications—all service industries that involve direct and continuous contact with the end user.

Although each industry is experiencing individual forces that contribute to its declining scores, there are also important drivers that span industries. One of the most important is the essential difference between products and services—it is simply more difficult to produce consistently good service offerings than consistently good product offerings. Product characteristics can be clearly conveyed—consumers know exactly what they are buying and what the experience of using it should be. As the design, durability, and value of products continue to be refined, consumers can almost take for granted that the products themselves will be of acceptable and consistent quality. Both manufacturers and retailers strive to maintain that level of quality.

Service providers, in contrast, are more vulnerable because the manner of service delivery may be open to interpretation. Customers may have a different idea of what constitutes good person-to-person contact—how much of a “personal touch” do they want from sales agents? How quickly can they reasonably expect their problems to be resolved by customer service agents? These questions are difficult to clarify up front, and a lack of standards can quickly come back to haunt service providers. The ability to provide a consistent service level when so much depends on the subjectivity of one-to-one personal interaction is difficult.

Table 3–2
Decreasing Customer Satisfaction Is Most Prominent in Service Industries
(ACSI score, by industry, 2000)

	ACSI Score	*Percent Change 1994–2000*
Service Industries		
Airlines	61	-15.3
Hospitals	68	-8.1
Life insurance	75	-7.4
Telecommunications	70	-6.7*
Hotels	71	-5.3
Banks	70	-5.4
Retail	73	-3.7
Branded Product Industries		
Food processing	81	-3.6
Consumer electronics	83	0.0
Household appliances	85	0.0
Personal care products	84	0.0
Automobiles	80	1.3

*2000 ACSI scores for the telecommunications industry are compared to 1997 ACSI scores (the earliest available).

Source: University of Michigan, American Consumer Satisfaction Index.

Drivers of Low Satisfaction with Service Providers

With all the improvements in the consumer marketplace, such as a greater number of shopping locations, a wider range of product choices, the new online shopping venues, the lack of significant price increases for most products, and the relative prosperity of consumers, why hasn't consumer satisfaction risen faster in recent years? We have identified five major factors at work across a range of consumer service industries:

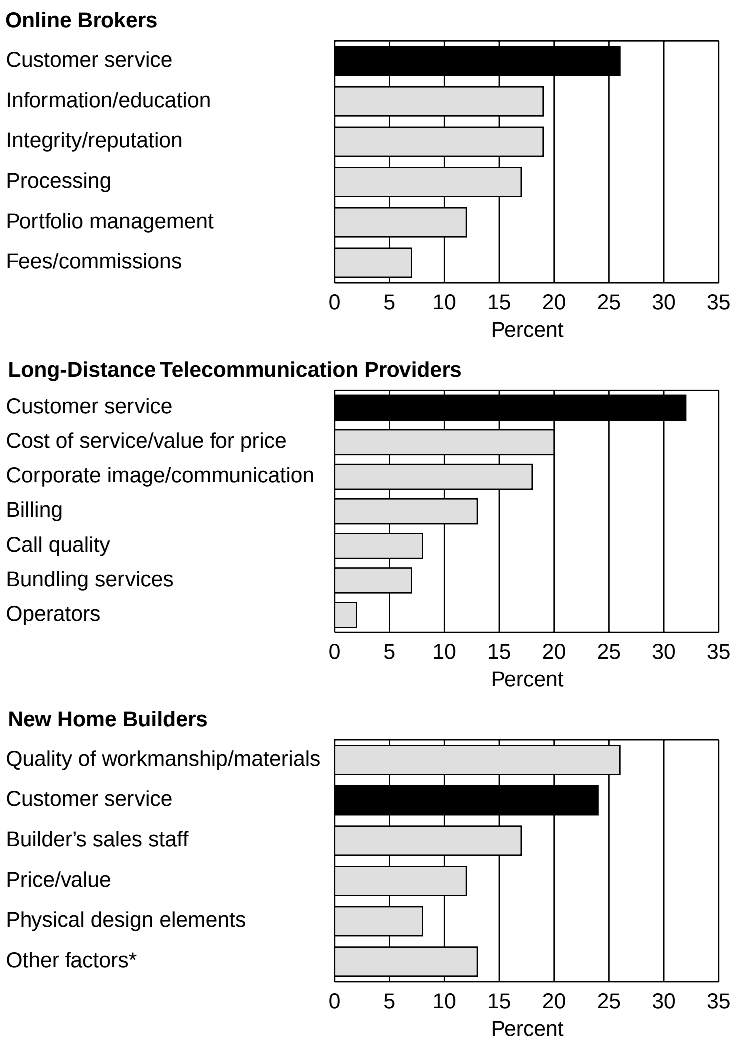
- Vital customer service is lacking
- Customer service leaders create high expectations
- Technology solutions aren't working
- Good customer service agents are hard to find
- Consumers complain more

Customer Service Is Lacking

Customer satisfaction can be influenced by any number of factors, including product or service quality, price, and customer service. But as product quality has become increasingly standardized and prices have been kept increasingly competitive, customer service has become the key differentiator and the most important element in determining overall satisfaction. J.D. Power and Associates has found in its recent surveys that customer service is a major driver of overall satisfaction across multiple service industries. For example, its 2001 survey of online trading investors found that customer service was the most important of the six drivers defining investor satisfaction; similar results have been found in other industries (see Figure 3–4).

Nancy Salk, director of investment services at J.D. Power and Associates, observes, "Despite the advertisements focusing on low-trade costs, customer service continues to have the most significant impact on an online trader's overall satisfaction. It is no surprise the two firms at the top of the ranking [Fidelity and Schwab] are noted for their commitment to customer service and support." As businesses compete on lower and lower margins and consumers find it increasingly easier to switch providers, customer service becomes even more important as a core offering.

Figure 3–4
Customer Service Is an Important Determinant of Satisfaction
(Customer satisfaction index weights)



*"Other factors" include the builder's design center, recreational facilities, and location.

Source: J.D. Power and Associates, 2001 Semiannual Online Trading Investor Satisfaction Study; 2000 Residential Local Telephone Customer Satisfaction Study.

The relative weight of customer service in determining satisfaction may also help explain the high ratings accorded many product manufacturers—they have the advantage of providing products without directly dealing with consumers. Product manufacturers spend millions of dollars to promote consumer awareness and loyalty to their brands, but without a namesake bricks-and-mortar store connecting them directly with consumers, they are not generally held responsible for customer service. What stands for service for manufacturers is simply getting their products where the consumers can buy them. Complaints about products are most likely to go back to the place of purchase, not the manufacturer. It is the retailers that must provide the frontline customer service with the end user. Indeed, consumers rarely have to deal directly with the manufacturer. Consumers are therefore likely to separate the service they receive from retailers from the service they receive from the manufacturer.

In 1999, the last year for which data are available, consumers generated more than 17,000 complaints to the Better Business Bureau about franchised automobile dealers alone—but complaints about automobile manufacturers were only 6% of that number. Six of the top 15 business categories that received complaints were different types of retailers; most of the rest were service providers, such as banks and moving companies. Clearly, being close to the consumer carries heavy responsibilities and a degree of risk. But for companies and businesses whose success lies in their relationships with customers, it is well worth the investment to get it right.

Customer Service Leaders Create High Expectations

Some companies do customer service very well, making great service part of their brand experience. These consumer service superstars raise the bar for everyone else. For example, Amazon.com puts forth that customer service is its core business. The company doesn't consider customer service to be merely the complaint department—it is the company's "research lab," dedicated to determining how to best meet its customers' needs. The company tracks complaints and creates new features designed to eliminate the most frequently reported problems. Bill Price, vice president of global customer service for Amazon.com, explains, "What's missing almost everywhere else is, even if you have the empathy and the passion and you address the customer's problem, you haven't really given good customer service in total. You haven't done that until you have eliminated the problem that caused her to call in the first place."

Amazon.com is not the only company staking its reputation on customer service—Albert Heijn, Nordstrom, and Draeger's are continually rethinking store layout, technology support, product selection, and so on, to provide a better customer experience. Charles Schwab and eBay are utilizing the full capabilities of the Internet to provide new services in new ways. Once consumers receive great service from one of these companies or experience services delivered in new ways, they become less impressed with the service they receive in traditional manners.

Technology Solutions Aren't Working

Many of the new technologies meant to enhance customer service and to substitute for on-site personnel in shops are not working well. Phone systems, to name a common example, are too complex and impersonal for many consumers, and their use often leads to long delays. Responses to Internet queries, to name another, are still too slow—or nonexistent—at most consumer sites. A recent study by Jupiter Media Metrix found that a majority of consumers expect companies to respond to their e-mailed inquiries within six hours, but only 38% of companies are meeting this expectation; indeed, almost one-quarter are not responding at all. The problem seems to be getting worse; the percentage of companies that do not respond to inquiries at all has risen from 19% to 24% within the past year. Even automatic response systems are not helping; Jupiter found that most consumers believe companies do not respond within the time that even their own acknowledgment program stipulates. Clearly, new technology solutions are not keeping pace with customers' expectations for improvement.

Technology has also made actual person-to-person customer service much more demanding. When technology solutions do work, they raise the expectations for what live agents should deliver. In an April 2001 *Fast Company* article, journalist Charles Fishman gave a clear example: "I can plunge through the details of my online bank statement more thoroughly in 50 seconds than any automated voicemail system could permit in 50 minutes, or than even the most patient phone operator would tolerate. This means that when we talk to someone in person, either things are really screwed up, or we are really angry and want to share that anger with a person. Or both." To provide the best customer service, companies must learn to merge technology with face-to-face encounters more effectively.

Good Customer Service Agents Are Hard to Find

What the New Economy has done to customer service is exactly the opposite of what everyone predicted. Instead of eliminating the need for personal service, new technology has made it more important than ever. Consider just one example: Five years ago, discount broker Charles Schwab had 1,450 customer service representatives in call centers, and 85% of their time was spent providing real-time quotes and basic company information and executing trades. By the end of this past year, however, 81% of those activities were automated, which suggests that Schwab could have reduced its customer service department accordingly.

In fact, the number of Schwab representatives has *tripled* to 4,800. But they're not doing what they used to do. Customers have demanded vast new vistas of service from them—including answering questions on online message boards and having the ability to follow up on online automated account alerts. As a result, there will be a continuing need for customer service representatives who can clearly, accurately, and politely communicate by means of new media, such as online chat rooms. But as we discussed in the last chapter, it is extremely difficult to find and keep high-quality customer service representatives who can provide the level of service customers have come to expect in every medium.

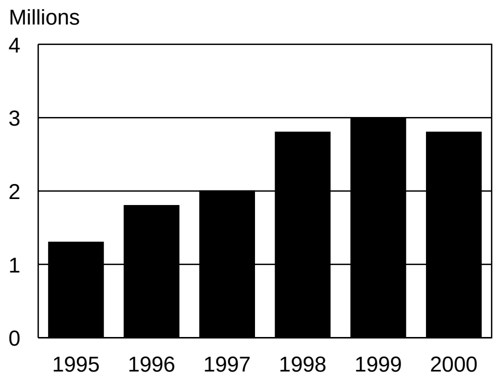
Consumers Complain More

Consumers expect good service, and they are aggressive in complaining when something goes wrong. They also make sure their complaints are heard, as evidenced by the fact that companies' service bureaus are busier than ever these days. The number of complaints received by the Better Business Bureau in the United States nearly tripled between 1995 and 2000 (see Figure 3–5). Consumers are coming to expect better and better service, and when they don't get it, they let someone know about it.

CONCLUSION: CONSUMER DISSATISFACTION WON'T GO AWAY

These five factors—the increasing lack of good customer service, the pressure from customer service leaders, the gap between customers' expectations and technology, the rising need for good customer service representatives, and the growing assertiveness of disgruntled consumers—show no sign of decreasing in the next decade. In fact, as more and more companies try to meet the needs of the consumer more effectively by offering more services, the scale of these problems will only grow. Under these conditions, how can companies discover what consumers really want? In the next chapter, we present a spectrum of consumer needs that will enable businesses to identify opportunities for service innovation in the next ten years.

Figure 3–5
Consumer Complaints Are on the Rise
(Number of complaints received by the Better Business Bureau, in millions)



Source: Better Business Bureau

Chapter 4

The Pyramid of Consumer Service Needs

If consumers are as dissatisfied as they seem to be, given surveys like the University of Michigan's ACSI, where does that leave the myriad companies that provide services directly to the consumer? The good news is that it puts them in a fairly promising position, because it gives them lots of room for improvement. As we will discuss in more detail in the next two chapters, the unmet needs of today give rise to the innovations of tomorrow, even in the service sector.

The bad news is, it's going to take a lot of work to get there. The needs of consumers are difficult to decipher because they are so often based on subjective, situational measures rather than on the rock-solid numbers we're used to. And what measures we do come up with sometimes seem contradictory: consumers want value *and* they want luxury; they want more information *and* they want less information; they want good support technologies *and* they want to talk to people face to face. No wonder consumer service is in its present state of uncertainty.

What do consumers really want, then? The answer is, all of these, of course—and more—at different times. And that's the key. Businesses must be open to discovering just what it is consumers want at any given time in the shopping process. The first step is to set up structures to do so.

Building a Pyramid of Service Needs

One helpful way of looking at consumers' service needs is to arrange them by priority from the most basic to the most complex. We have identified the key points up and down such a pyramid of consumer needs, although we recognize that there are gradations in between (see Figure 4–1). We focus especially on the more sophisticated consumers—the relatively affluent, well-educated, and technology-savvy ones—who are putting increasing demands on the service sector.

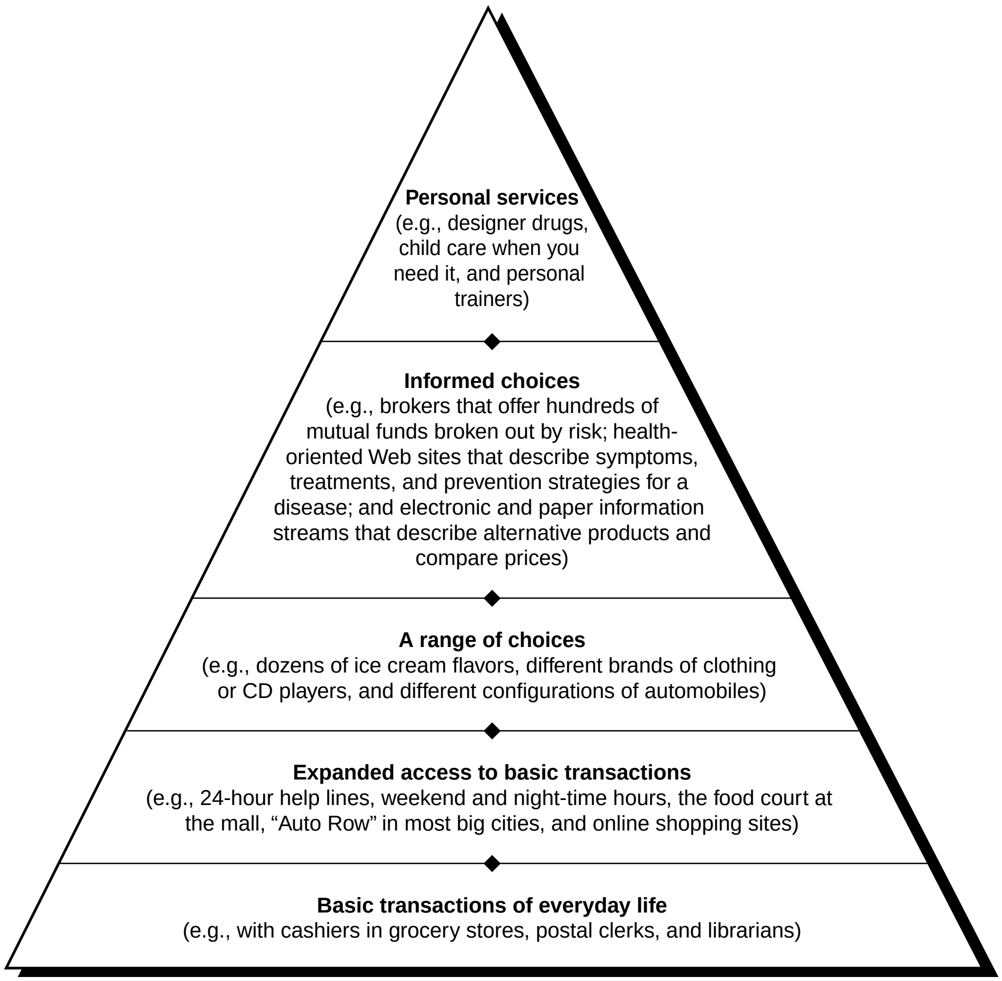
Basic Transactions of Everyday Life

This is customer service at its most basic level, in the places where consumers need it most—a store, an agency, a bank, or a utility service. This type of service is almost transparent—until something goes wrong. It includes sales clerks in stores, phone numbers to call for information, and bills or receipts received in the mail. These services are provided in a range of ways, from grudgingly to openly and amicably. Consumers need these basic services in order to complete the transactions of daily life. Without them, they would be lost.

Expanded Access to Basic Transactions

In today's 24/7 world, consumers have access to products and services in many convenient locations and formats all hours of the day, and they have come to expect this as a matter of course. Long gone are the days when stores weren't open on Sundays or in the evenings. Services are now provided when and where consumers need them: ATMs are accessible 24 hours a day; online shopping can be done around the clock; banks have branches in grocery stores; and credit card bills can be checked at 3 o'clock in the morning.

Figure 4–1
The Consumer Service Needs Pyramid



Source: Institute for the Future

Indeed, the range of service offerings available to the average consumer is huge, ranging from gardening to investment analysis. These types of services have always been available to the wealthy; the difference now is that more members of what has traditionally been called the middle class are using these types of services as well. Over the last century, the number and extent of services available to the mass market has exploded as consumer needs for services have increased across social and economic classes.

A Range of Choices

Consumers don't just want a service to be available; they want a range of choices for each service. Although consumers can't take advantage of all the options, they love to have the choices nonetheless. This gives them a sense of empowerment, of being in charge of their own destiny. Our surveys show that more consumers are flocking to stores that have wider selections. Consumers, especially the more sophisticated ones, also like to gather information from a variety of sources when making important purchases. They recognize that businesses that offer more choices are providing a key service by doing so.

Informed Choices

As the range of choices has increased, however, so has the pressure of processing the flood of information necessary to make the right decisions. From this pressure, the need for informed choice was born.

Businesses can address this need in one of two ways. First, they can help to limit the number of choices offered to their customers. That sounds contradictory at first, but when a company offers only the choices that are most attractive to its customer, perhaps based on information the customer shares with the business, they can help the customer make informed decisions. For example, a department or specialty store that provides a range of products that are preselected to appeal to its customer base is providing a type of informed choice. In effect, the store is telling its customers, "These are the best products to choose from in your price and quality range."

The second way companies can offer informed choice is to provide more information about the products or services. A good example takes place in the financial services industry, when the potential benefits and risks of given investments are clearly spelled out for consumers before they make a choice. Third-party information providers like *Consumer Reports* or WebMD also serve this need by providing information that helps consumers sort through the range of choices in an efficient, unbiased way.

Personal Services

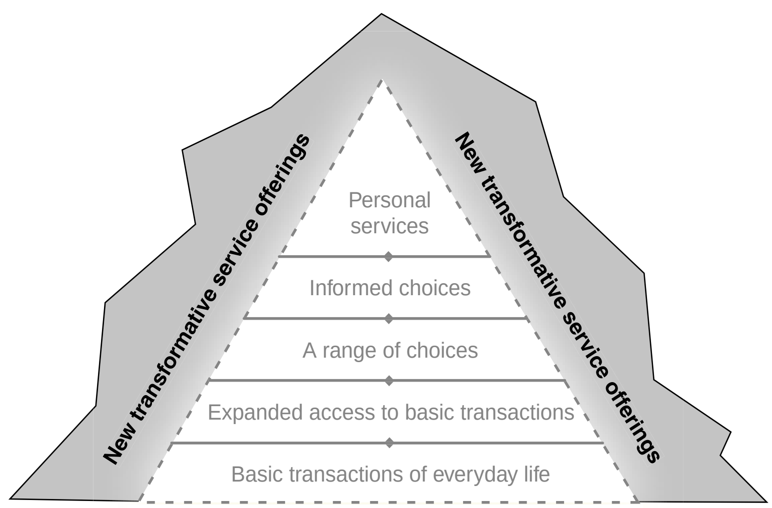
At times, consumers need personal attention from service providers. Personal services tend to be expensive, so they don't serve everyday needs. However, consumers sometimes need help navigating the important but complicated decisions of life (e.g., financial matters, health issues, and special occasions). The expense of hiring professionals to perform these personal services is well worth it if the quality of such services pulls the consumer through a situation he might not otherwise have negotiated quite so well. By focusing on a very narrow need (e.g., wedding planning or divorce proceedings), professionals can provide personal services to consumers at what, in the end, are reasonable prices.

Expanded Services Lead to Transformations

But we need to go beyond the pyramid to discover the truly transforming changes that have the potential to change the way consumer services are delivered. At each level of the pyramid, there is the potential for completely new services or services delivered in entirely new ways. For consumers, such services can add a new element to life—ponder the changes of consumers' lives that followed the introduction of electrical service. As we move toward the true service economy, companies should look to the continual possibility of building on the pyramid of consumer needs for ideas about innovative, new service offerings (see Figure 4–2).

In the next chapter, we will look at service changes in the past that were transformative because they changed consumers' lives. Then, we will turn to the potential transformations of the future—transformations up and down the pyramid, and especially at the higher levels, that will create profitable niches for companies that deal with consumers.

Figure 4–2
Opportunities in New Transformative Service Offerings



Source: Institute for the Future

Chapter 5

Consumer Needs Drive Service Transformations

As we saw in Chapter 4, consumers demonstrate a range of service needs, from the most basic to the more complex. But not all of these needs have always been considered important enough to meet. As the mass consumer market expanded, however, and the needs of consumers became more important to the success of the economy, the pressure to meet them grew. In response, businesses developed service innovations to address the most pressing needs up and down the pyramid of consumer service needs. Throughout the 20th century, service innovations like these transformed the economy.

Past Transformations

Growing market expectations and rising consumer frustrations are important harbingers of potential service breakthroughs. In the past, consumers demonstrated needs that could only be served by new ways of doing things. In each case, innovative services were developed, and a large number of consumers were able to take advantage of them. Such services helped to transform the mass market, and people's lives as well. Table 5–1 outlines some examples of important transformations over the last century; the text that follows discusses them in more detail.

Access to Education

Since the middle of the 19th century, American children have had access to a basic education—and society has transformed the notion of basic education from a few years of elementary school to access to college. While most industrializing nations have been able to offer some education to their citizens, there has always been a degree of winnowing out at each level. What made the American educational experience increasingly different from, say, the European experience was that it was designed to offer education to everyone in the country who wanted it—at first through elementary school and high school, but in recent decades through college as well. The system that resulted transformed the citizenry—as workers, voters, consumers, and partners—and help to build the foundation of one of the most successful economies in history.

Universal access to college was the crowning achievement of the U.S. educational experience. Access to college in the United States began with the emergence of the land grant colleges provided for by the Morrill Act of 1862. The Morrill Act used land grants to the states to pay for subsidized college education. It produced a college or university in every state. The high-quality midwestern and western schools were the first and established the principle of an education citizenry. All of the land grant colleges were open to state residents at low or no cost.

Although the universities were established in the middle of the 19th century, the baby boom generation, born after World War II, was the first to take advantage of the system en masse. The surge in college atten-

Table 5–1
Service Innovations That Changed American Life

Time Frame	*Service Offering*	*Impact*
19th–20th century	Access to education	Put universal education (elementary, high school, and college) within reach of everyone in the United States.
Late 19th century	Telephone network	Made remote live communication a part of daily life.
1960s	Fast-food restaurants	Made it less expensive, quicker, and easier to eat a family dinner at a fast-food site than at home.
1970s	Discount stores	Created a single place where shoppers could find a wide selection of goods at low prices.
1970s	Mutual funds	Provided investors easy and inexpensive access to the advantages of a broad investment portfolio that was explicit about its risk.
1990s	Online brokerage services	Gave small investors direct control of their investment portfolios.
1990s	Professional child care	Made it possible for women with preschool children to remain in the workplace.

Source: Institute for the Future

dance begun by the baby boomers in the 1960s eventually made a college education a requirement in the information-intensive workplace and inspired the rise of increasingly sophisticated consumers, starting in that decade. College attendance levels jumped from 25% of all young people to around 50%—giving the United States the highest educational attainment levels in the world. The land grant colleges provided a transformative service to America's youth and set the United States on the path toward today's information and service economy.

Telephone Network

The spread of telephone service in the early 1900s was another example of a transformative service. There were two important stages. The network began with the penetration of the business sector in the 1890s, but came into its own in the early 1900s, as it broke through to a mass household market. Each additional household added to the network made the system more valuable to everyone. This was a virtuous circle in which the price remained constant (or actually fell as economies of scale were realized in production and infrastructure development) but the value of the product went up. This was the first wave of the information revolution, transforming the communication system of an entire nation.

The second important stage was the end of the cross-subsidy of local service by long-distance providers in the 1970s. This drove down long-distance prices for good. It made many telephone users less restrained in using long-distance services, which enabled them to feel closer together, allowed greater mobility for families that could stay in touch over greater distances, and almost eliminated first-class personal letters—a classic case of a transformative service.

Fast-Food Restaurants

McDonald's led the fast-food service revolution by focusing on family convenience. The price for an attractive meal was less expensive, service was quick, the facilities were clean and neat, and service was simple and straightforward (so that low-wage workers could do a good and efficient job). This was transformative because it allowed families to get meals less expensively than at home and eliminated the hassles of buying and preparing food, and the inevitable clean up. Fast food allowed families more leisure time, and it also enabled women to move into the workforce (as did other socioeconomic factors like women's rights, birth control, and the education boom of the 1960s). McDonald's was followed by a slew of imitators, of course—Burger King, Pizza Hut, Taco Bell, and KFC—that expanded the options for fast food.

Discount Stores

Wal-Mart started a service revolution in the 1970s. Its format—large stores with lots of products on the shelves all the time, quick service, long hours of operation so people could shop when it was convenient for them, convenient locations for anyone with a car, and everyday low prices on the best-known branded products—transformed the retail landscape. The company made it easy for consumers looking for value to find it in one place. In this way, Wal-Mart set the standard for the industry, inspiring the development and expansion of a host of general and specialty discount stores, including Home Depot, Toys 'R' Us, and Target.

Mutual Funds

The investment market was transformed by the development of a new service in the 1970s—the mutual fund. A whole new industry emerged that gathered a mix of stock shares together in a single package, which allowed even the smallest investor to have a risk-balanced portfolio. Magellan was the trailblazer, but soon hundreds of mutual funds followed. Making them even more attractive, the government quickly imposed a set of regulations that required public notifications of holdings before a sale could take place. This made it possible for consumers to assess the risk of the portfolio before they bought it. This service gave the middle class access to a managed portfolio.

Online Brokerage Services

While mutual funds transformed investment services in the 1970s, in recent years a second service revolution has occurred in the investment market. In the late 1990s, Charles Schwab, Fidelity Investments, E*Trade, and other investment companies added online brokerage services to their offerings. Online services brought low costs and simple transactions to the small investor. These services not only allow transactions but also provide vast quantities of information, tracking, and selection options—which had been highly desirable to investors but hard to obtain. These services also give small investors a convenient means of managing individual shares—a very desirable feature for sophisticated new consumers.

Professional Child Care

Today in the United States, two-thirds of all families with children under 18 have both the mother and father employed. This fact was made possible by another transformative service development—the rise of professional child care outside the home. The share of families with children under 6 with both parents in the workforce is now 61%, up from 56% in 1994. This huge number of families could not be in the labor market without the child-care arrangements they have come to know and trust.

While the parents themselves and other relatives provide about 40% of child care during the time one or the other spouse is working, almost 60% of child care is provided equally by individual providers in their own home or by an organized day-care or preschool facility. More than two-thirds of the children under 6 of parents with some college education are in nonrelative care.

All of this means that middle-class families now make up the majority of people with young children who remain in the labor market. The widespread availability of quality child care that can provide flexible and consistent service is essential to retaining the cadres of knowledge-based workers on which today's labor market is built.

Conclusion: Future Needs, Future Services

These service offerings of the past transformed people's lives and contributed to the development of the fledgling service economy, and raised expectations about the level of services offered. Although we may not yet live in a true service economy, some attributes of these changes have become embedded in our notion of services in general, raising the bar of expectations for services in the future. Each of these examples suggests how the services developed to meet today's needs can be just as valuable and transformative. We discuss these possibilities in the next chapter.

Chapter 6

Opportunities to Provide Service

The examples presented in the previous chapter demonstrate how innovative services designed to meet unfulfilled consumer needs have promoted transformative changes. The potential for building new service options that would deal with some of today's hassles or limitations is high. Rising household incomes, high expectations, a willingness to experiment, and innovative technologies all provide a basis for future transformations. Such new services could transform people's lives. In addition, they are likely to bring profit to companies. Wal-Mart, for example, the driver of the retail transformations of the 1970s, is now the second largest company in the world.

Today, most service companies are doing a pretty good job of providing services at the base of the consumer service needs pyramid—that is, consumers can get the most basic customer service just about anywhere they want and at any time they want (e.g., cashiers to tally and bag purchases, tellers to process bank deposits, and customer service representatives to process orders or complaints at call centers 24 hours a day). Consumers also have access to many products and services at a wide range of times in the 24/7 economy, and they have a large number of choices in the marketplace.

What consumers don't get enough of these days are services to help them manage their households, distilled information that helps them save time and make good decisions, and personal services that don't cost an arm and a leg. As a result, there is plenty of room for new transformative services up and down the pyramid.

As we saw in Chapter 3, even with the expanding role of services, consumers in general are not pleased with the level of customer service they receive. Therefore, there is a great potential for companies to attract new customers and to retain their current ones by improving their customer service as well as developing new services.

Opportunities: Beyond Basic Customer Service

Businesses will find that providing a better experience for customers is not an easy task. Upgrading customer service will involve expanding the number of people in service positions, improving service-based technologies, paying more money to attract better-educated service workers, or, most likely, some combination of the three. These solutions can be very expensive.

Even though each of these efforts can make a difference, the real key to improving customer service is improving the quality of the workers providing the service, and this may be the toughest challenge of all. Attracting well-educated workers into the traditionally low-wage service sector will be nearly impossible without a total rethinking of job descriptions, pay, and advancement opportunities.

Consumers want to be treated intelligently and with respect. Sometimes they are willing to settle for less-than-stellar customer service if, say, they get a really good price. But companies that can take advantage of the latest technology to arm well-educated service workers with information to help them serve their customers better will be more successful than those that don't.

More Opportunities: Underserved Needs

Companies have many opportunities to address other consumer needs in addition to improving customer service. As demonstrated by the service innovations of the past, future changes in service will be designed to meet currently underserved consumer needs.

Consumers are growing increasingly frustrated about the services (or lack of) in several emerging areas. These frustrations stem from the quality of service, the availability of service, the cost of service, or all three. In broad terms, these underserved needs, if met, have the potential to save consumers time and effort—that is, to improve the quality of their lives. We have identified three areas of underserved consumer needs, areas that will surely grow as consumers increasingly look for such services to improve their lives (see Table 6–1 on page 52).

The Pains of Running and Maintaining a Household

Time is important to most people, and running and maintaining a household takes huge amounts of time. Service companies have many opportunities to help households save some of that time—by keeping the house clean, shopping for groceries, and gardening, for example. In addition to these basic chores, further opportunities lie in recurring but less frequent household needs like pet care when the family is traveling; appliance repair; home maintenance service that calls for such things as cleaning the gutters, chimney sweeping, or pruning trees and bushes; and transportation assistance when the family car is in need of repair.

Today, providers do offer these types of services to households, but the services are often in short supply or are too costly for the average household. The real opportunities are in providing these services to a greater number of households at more affordable prices. Consumers have shown that they are willing to pay for services that give them more time. For example, housekeepers are no longer just for the fabulously wealthy—

more and more middle-class, dual-income households are taking advantage of the time-saving benefits of hiring a housekeeper.

Consumers' needs for more time can also be addressed by simple changes in how and when services are provided. Take information and communications services (e.g., telephone, cable, and Internet connections) maintenance and service calls, for example. Most of the time, these services are scheduled during a service window of several hours on a normal business day. More often than not, the occupants are employed and are forced to take at least half a day off to sit and wait for the service person to arrive and perform the service—a painful and sometimes impossible or financially unattractive proposition for the consumer. There is great potential for service providers to perform repair and maintenance during off-hours, and to schedule service during shorter time windows—very early in the morning, evenings, or weekends. Far fewer customers would

Table 6–1
Underserved Needs in 2001

Underserved Need	*Need Help With …*
The pains of running and maintaining a household	Shopping Pet care Cleaning service Service installation and maintenance calls Transportation assistance
Professional services for households	Investment Legal Accounting Child/elder care
Monitoring and organizing the vast flow of information	Medical testing Product information and comparisons Relationship building Lifelong learning

Source: Institute for the Future

be inconvenienced, and this type of service would fetch a premium price (at least until it becomes the standard). This may seem an obvious and simple example, but expanded service times address one of the needs low on the pyramid—expanded access to basic transactions. Consumers increasingly expect to be able to access services at the times they can best accommodate them.

There is also room for new or expanded services to households. Household services have traditionally been provided by individual specialty providers (e.g., plumbers, chimney sweeps, and repair persons) hired by the homeowner whenever they are needed. But there is also an opportunity for companies to step up and provide a range of services to consumers, by playing the role of trusted agent—that is, anticipating, selecting, ordering, and monitoring a range of special-needs household services.

In the *2001 Ten-Year Forecast*, we described the role a trusted agent could play in helping people manage their increasingly complicated lives. (See "The Future of Agents: From Task Management to Life Management" for more information.) A trusted agent could provide a range of services to the household. The agent could recommend and secure the services of local professionals to help the household with time-consuming but necessary tasks (e.g., repair service for the washing machine, someone to prune the tree that has become entangled in the power lines, or a painter to trim the house). This type of agent/manager could also help the household by, for example, enlisting a screened and trusted person to be at the home during service calls, to watch the pets, to pick up the family car from the mechanic, or perhaps even to do the grocery shopping or to shop for gifts for special occasions.

Professional Services for Households

Consumers today have access to more information than ever before. Access isn't all consumers want, however. Now that consumers have been empowered by information, they are looking for professionals who can help them sort through, analyze, and otherwise make sense of their newfound information—in other words, turn it into real knowledge they can use.

The most prominent examples of such professionals are doctors, lawyers, accountants, and investment advisors, but the list could be extended to include psychologists, interior decorators, fashion gurus, and wedding and event planners. These are all traditional services. But what is likely to change in the next ten years is the nature of the relationship. It used to be that such relationships were relatively one-sided, with the bulk of the expertise (and thus power) on the side of the professionals. As consumers gain more knowledge on their own, however, more of the power moves back toward the consumer. Then the relationship becomes more of a partnership—which, if successful, leads to unique solutions to consumer problems. The consumers are looking for a dialogue that allows them to provide knowledge about a specific situation to which the professional can respond with individualized solutions.

In the future, a successful service organization would spend more time on the analysis of individual data. Health organizations, for example, would spend much more time performing tests and analyzing the resulting data to come up with a patient profile for preventive care. (See the text box, "Health Care 2011: Tests and Prevention," for this scenario.) Investment advisors would spend more time on the strategies of individual investment portfolios. "Life coaches," a new role gaining prominence in the media, would advise consumers on everything from career paths to how to talk with their teenage children.

Monitoring and Organizing the Vast Flow of Information

We often think of personal services as someone doing something for someone else: a shoemaker fixing a shoe; a maid cleaning a house; or a doctor resetting a bone. But the rapid growth in the business service sector has identified a key lesson in the new world of services—*information exchange is found more and more often at the center of service relationships*. The real value of the business service providers, and why they get paid more, is that they bring new information and insights to bear on critical corporate decisions, knowledge the customers would otherwise not have access to.

This important lesson from the business service sector will have to be learned in the world of consumer service as well. Increasingly, consumer services will consist of providing households with the information they

HEALTH CARE 2011: TESTS AND PREVENTION

Health care delivery in 2011 is a real service challenge. How does a successful medical services company deal with information-intensive consumers who believe that more information and knowledge about their own health status is a good thing?

A successful health care company learns to work with the tendencies of their best consumers. One of the new aspects to the way health care is provided in 2011 is its emphasis on testing, especially testing in response to consumer requests, rather than a doctor's prescription.

More Testing

In 2011, health care services have to deal with a growing number of consumers—probably well over half—who are intensive users of information. These consumers want to know more about their health status. As a result, testing becomes increasingly important.

The health services group emphasizes open testing—there are few restrictions on access to basic tests, and consumers participate in developing relevant testing protocols for their own cases. Routine tests are more frequent and are actually less routine, in that there are more variations from person to person. Consumers have more input on what tests should be run or, put another way, what information will be relevant to their personal health decisions. Much of this testing takes the form of genetic testing.

Since many tests are expensive, especially the genetic tests, this type of health organization structures itself on the foundation of an efficient testing environment, in which standard tests can be done cheaply and build on each other. The consumer profiles that emerge from the early tests are used to work with the individual to add knowledge to an evolving picture of that person's health and well-being.

Once a standard profile emerges, individual consumers are tracked by well-defined testing patterns or protocols. When consumers come in with a request for a test outside the protocol, they discuss with their caregivers the value of such tests and how much the resulting co-payment might be. The size of the co-payment is determined by the risk profile of the test—the smaller the risk, the higher the co-payment. But the caregivers encourage each test if the consumers feel it will provide important information.

By helping consumers gather information about their health status, such companies are providing a valuable new service to consumers.

need to do a better job of making the commercial (and even personal) decisions at hand. A successful service company built on the analysis and communication of knowledge will be able to lay out the options available for each commercial decision, respond with supporting information directly relevant to the issues at hand, act as a credible, trustworthy source of this type of information, and assist in carrying out the decision once it is made.

For example, telecom companies and utility companies could utilize new tracking technologies (i.e., tracking technologies that analyze usage patterns of individual households/users) to make quarterly or annual suggestions to customers about service plans or changes in usage that make the most sense for them. It is possible for companies to provide this type of information to consumers today. The real improvement in the service, though, will come when companies actively provide such information to consumers, rather than share it only when a customer requests it. Busy and sophisticated consumers would rather not spend their valuable time analyzing their utility usage or communications habits. Smart companies should look for ways to provide information that not only helps them make informed purchasing decisions but also saves them time and effort. Services like these often create loyal customers.

This lesson is not just for traditional consumer service companies; it is also relevant to other types of companies that are just steps away from the consumer. Other companies can provide service to consumers by building information links for them. For example, branded product manufacturers could become major sponsors of Web sites and newsletters that help consumers sort through increasing amounts of often complicated and conflicting information about food and nutrition. By being an independent third-party sponsor, a product manufacturer could build brand awareness and also be seen by consumers as providing an important service in their lives.

Providing information to consumers can be a difficult endeavor, but least two important strategies can help businesses: integrating technology with people, and making sure that at least some of their workers are not only armed with the latest technology, but can also respond intelligently to customer needs and queries (i.e., the workers are well educated and possibly even peers to the customers they are helping). The retail sector presents perhaps the best opportunity for companies to implement these strategies to provide information services to consumers. Whether in a store, on the phone with a catalog call center, or online at an e-commerce site, customers want information and people who can help them sort through that information. (See the text box "Information Exchange in the Retail Store, 2011 on page 59.")

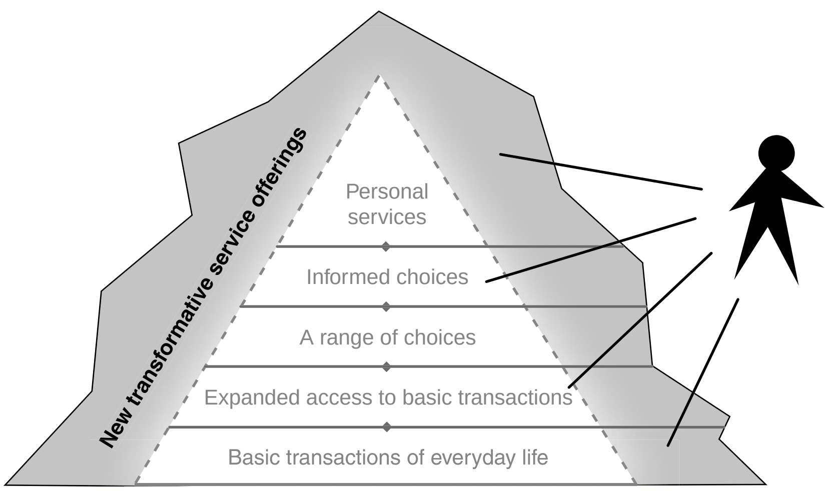
Value: The Overriding Need

We have described the pyramid of consumer service needs, but there is one more need that businesses must address when it comes to providing service—the consumer's need for value. From the consumer's perspective, value is the *overriding* need. Today, consumers have many choices in the services arena, and sophisticated consumers have become very savvy when it comes to choosing when they will pay for service and when they are willing to trade off service for price. Smart service companies in the future won't just provide more and more services—they will provide what really is the ultimate service—value.

In the future, consumers will seek out services that can help with a variety of life's tasks and needs. The most important point for businesses to remember is that consumers will look to all levels of the pyramid—and beyond, to new transformative services—and will make a value decision based on the level of service they are seeking for the given transaction (see Figure 6–1 on page 58).

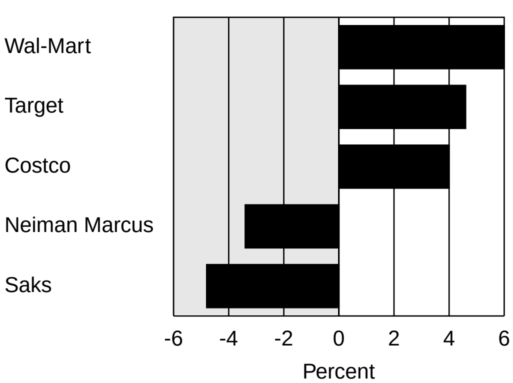
During a booming economy when more consumers have more disposable income, sophisticated consumers are more likely to spend a premium on services—flying first class, signing up at the best gyms, hiring personal coaches, and so on. But leaner economic times mean that consumers, including the most sophisticated ones, look for value much more often. Indeed, the most recent data on retail sales show that sales for retailers that focus on customer service, like Neiman Marcus and Saks, are down, while discount retailers, like Wal-Mart, Costco, and Target, are doing very well (see Figure 6–2 on page 58). The airline industry is a good case in point.

Figure 6–1
Consumers Seek Value Up and Down and Outside the Pyramid



Source: Institute for the Future

Figure 6–2
Consumers Choose Discounts over Service
(Percent change in sales in comparable stores, July 2000–July 2001)



Source: *Wall Street Journal*

Information Exchange in the Retail Store, 2011

As information becomes a more important part of the shopping experience in 2011, stores have learned how to share more information on the shop floor. Take grocery stores, for example. The science of nutrigenomics—the study of the relationship between what we eat and how our genes function—is rapidly making it clear that nutrition is crucial for good health. Thus, the more consumers learn about themselves and their family members, the more appropriate the food decisions they can make for their household.

This information is complex, and it comes in two forms—information about the genetic predispositions of the people in question and information about the presence (or lack) of nutrients like antioxidants and flavonoids in different foods. Not all consumers are interested in this type of science-driven grocery shopping, but in 2011 an increasing number of consumers is looking for such information for an increasing portion of their food purchases.

Thus, grocery stores, for one, are learning how to integrate convenient information sources into the grocery shopping experience. Stores are more aware of the importance of labeling and placing descriptions on products, and they provide resources for consumers to check on the facts they need, which include access to government and health organizations' lists and databases. To help consumers sort through this information, stores have computer kiosks placed strategically, nutritionists to answer important questions and to guide people to the best resources, places where consumers can try new products, and chefs to put on demonstrations of healthful cooking.

In 2011, nearly all types of retailers find information centers useful as well. Such arrangements provide a place to find reliable and objective product information, a service center to deal with issues about appropriate product use, kiosks where consumers can check Web sites, and places consumers can chat with customer representatives or each other.

All of these changes have big implications for the use and design of store space in 2011. More square feet are devoted to service and fewer to products. Indeed, the redesigned store provides extra space for consumers who want a library-like setting for information and experimentation. As a result, in 2011, it is harder to distinguish between service and product providers.

Discount Airlines: Value with Few Service Frills

There is clear evidence that sophisticated, well-heeled consumers often choose value over service. Our surveys show that almost all upper-income shoppers in the United States have stated that they shop regularly in discount stores in addition to their favorite upscale stores. Their growing use of discount airlines provides another example of this phenomenon.

Discount airlines, such as Ryanair, Go, and JetBlue, are rapidly expanding in Europe and the United States. Such airlines make a calculated trade-off between service and value. They have figured out ways to lower the costs of operation by cutting back on key service items. They fly point to point with few connecting flights (flights are concentrated on main routes where people want to go); they use less expensive secondary airports that are close enough to city centers (Midway in Chicago, San Jose in the Bay Area, Stansted in London); they turn planes around immediately on the prime routes; they don't have reserved or assigned seats (so tickets are more commodity-like and can be sold easily on the Internet at constant prices, boarding is quicker, and advertising campaigns can be built around price); they don't serve meals; and they have few other in-flight services (so that expensive on-board staff is minimized and clean up is quicker and easier).

Discount airlines started by attracting young people and middle-class families that didn't usually travel. But they are finding that an increasing portion of their travelers are actually frequent fliers and upper-income earners who find that the savings allow them to travel more often to favorite places for shorter visits. When discount airlines started regular service between London and the south of France, for example, prices on vacation homes in the region of the French airport rose. Short weekend trips to Las Vegas from many cities in the western United States are common, regular activities for groups of friends.

As a result, discount airlines are now taking about 25% of all traffic in the United States, and their counterparts in Europe are rapidly approaching that figure. The portion of upscale travelers is rising rapidly in both places.

The key here is that while consumers enjoy good customer service, creature comforts, and special attention (who wouldn't?), even the most sophisticated are willing to forgo such luxuries for a quality product at a reasonable price. This being the case, especially in industries that are relatively expensive, companies must find the right balance between the type of service their customers want and how much they are willing to pay for it. At times, the best service a company can provide is less service—if it means good value.

Conclusion: The True Service Economy

The coming decade offers great opportunities for businesses to move into new service areas with innovative solutions. This short list of underserved consumer needs sketches out a vision of the true service economy. In the next chapter, we will present the lessons for companies looking to leverage their place in the service economy, either by becoming a service provider or by enhancing their current service offerings.

Chapter 7

Creating the Service Economy: Lessons for Businesses

To move closer to the true service economy, businesses must learn how to meet the needs of today's frustrated consumers. The best way to do so is simply to give them more options for good service—that is, service that actually helps them in a way that makes them feel good about the process and doesn't cost too much of a premium.

To accomplish this task, some companies will want to improve their services incrementally, leveraging what they already have; others will want to perform a complete makeover. Our research has resulted in a set of basic lessons to help companies move toward the service economy of the future. In the process, they are also likely to find a profitable niche in this expanding sector.

Lessons for Businesses

To position themselves to succeed in the rapidly evolving consumer services market, companies should keep in mind the following ten lessons and act upon them as quickly as possible:

1. Make Existing Customer Service Jobs Attractive

In our increasingly consumer-driven society, companies that deal with consumers are making major efforts to improve customer service. Although no company has yet completely upgraded its service proposition, many companies have grown profitable by emphasizing at least one or two aspects of service (e.g., providing longer hours, offering more products or service options, moving people through the checkout lines more quickly, responding to issues faster, and rectifying errors with grace).

The key to almost all of these service propositions is the people who perform them. Many of these jobs are not high-paying or high value-added positions. But the people who hold them are the means by which the company forges a relationship with the customer; and it is in these relationships that many of the consumers' basic notions of service are formed.

One way to upgrade these relationships is to improve service jobs on a marginal basis. Make sure salaries are slightly more than competitive; emphasize activities that reward customer interactions; encourage creative, motivated people who want to extend their hours and move toward full-time jobs; and offer opportunities for learning and advancement. These types of more motivated, more creative workers will mean better service all around.

2. Bridge the Growing Services Gap

Consumers are noticing the increasing gap between the sophisticated services offered in the business world and the weaker services offered to consumers in the marketplace. There is no way that consumer service companies can replace low-wage workers with high-wage workers on a large scale to eliminate this disconnect. But there are several ways to bridge the gap:

- Businesses should seed their stores, phone lines, call centers, and Web sites with outstanding workers who have experience, training, and knowledge of the options available to customers. Give these workers the information and the power to solve problems. Pay them accordingly.
- Companies should create pods of brilliance. They should identify a store or a branch for experimenting with superior service, and then use it as an R&D site. Department stores can put the buyers (the people who bought the goods in the first place, and thus know them best) on the floor to help customers navigate through choices or explore options. Grocery stores can place nutritionists, chefs, or household time managers in central locations to provide shoppers with new types of information.

3. Realize Information Is the Heart of Future Services

As we mentioned in Chapter 6, there are two ways of looking at services. First, services can come in the form of a person (or a business) performing a task for another person—cleaning a house, watching a child, or detailing a car. Second, they can come in the form of information that helps another person perform the task herself.

All the trends in the current economy—new information technologies, consumers who are thirsting for a broad range of choices, and consumer skepticism about trusting others—point to the information exchange as having the greatest potential for growth and transformation. While traditional services will continue to be part of the service landscape (e.g., repair services, gardening, and dry cleaning), more consumer service offerings in the next ten years will be based on providing and analyzing information.

As a result, interactive information will increasingly be the key to a whole range of consumer services, just as it is for the fastest growing business services. Consumer service companies must become masters of those types of information use that will be the keys to helping consumers—gathering personal information following the precepts of permission-based marketing; understanding and interpreting the stream of information generated by traditional consumer interactions in the digital age; and interacting with consumers as they progress from general questions about availability to more detailed questions about product or service features. The management of this type of exchange at ever more sophisticated levels will be what many consumers find to be of the greatest value—and companies, the greatest revenue.

4. Integrate Technology and People

In this the age of information, technologies (e.g., voicemail, databases, data mining, customer relationship management software, and e-mail) have all become crucial for providing more and better customer service. Technology has attained some wonderful achievements in gathering and processing information, in being able to reach consumers in a variety of places and formats, and in opening a range of choices. But there remain huge frustrations that consumers cite again and again: impersonalization, delays in interactive responses, and difficulties in following up on given queries, to name a few.

Some premier technology-based services seem to work well, but they are expensive and succeed only in narrow applications or where investments are high. For example, checking out of a grocery store is efficient, but it does not provide interactive information about products. Online ticket purchasing is accessible, but making itinerary changes can sometimes be daunting. Automated phone systems can be efficient when the queries fit the menu, but when they don't, it often seems fruitless to continue.

The lesson here is that companies should use technologies for very focused and targeted needs. And whenever possible, they should integrate them with people who can interact with customers to respond to their needs directly, reassure them, and improvise personalized solutions as needed.

5. Promote Transactions at the Point of Interaction

Information must be timely to be effective; that is, information is most valuable when it is delivered at the time and place it is directly relevant to the decision at hand. A test of the information's value is its ability to influence the receiver to take the interaction to the next step—the transaction. More options for information exchange must become part of just about every transaction—and whenever possible, information providers must be in a position to close the transaction on the spot.

6. Transform Services to Mimic Products

Consumers are generally more satisfied with the customer service from the best-known product manufacturers than that of service providers. This is largely a result of intrinsic qualities that manufacturers are able to pass along in their products—the ability to maintain consistency, the capacity to apply continual development and improvement processes on the production lines, and even the special aura that marketing imbues. It also involves not a little luck of the draw—product manufacturers don't have to deal directly with the public as much as service providers do, and so have less opportunity to fail them.

Although it may be difficult to do, service providers should strive to mimic some of the qualities of product manufacturers. One good way to do so is by performing continuous improvement analysis on service delivery. Another is to create a consistent process for delivering service that can be compared to a standard. Service companies can also use marketing efforts to manage consumers' expectations about service and to emphasize the gradual shift in the company's value proposition, stressing factors such as information exchange, interactions, and selection.

7. Look to the Pyramid of Consumer Needs for Opportunities

Companies should look for underserved needs on the pyramid of consumer needs for opportunities to improve or expand their service offerings. One way to do so is to match elements of their business with each level of the pyramid. What is their basic transaction? What would expanded access to such a transaction look like? How can they give their customers more choices—and more informed choices? How can they offer personalization?

Let's say a person runs a video/DVD retail service. Her "basic transaction" is providing movies in the form of videotapes or DVDs to her customers. She might offer "expanded access to the basic transaction" by staying open later on the weekend and building a Web site on which customers could search for and reserve movies. The Web site might also come in handy in offering customers a "range of choices" and "informed choices." For example, she might give them access to a database of all movies in the metro area—even at shops other than her own—along with reviews of the movies. To take it to the next step and offer "personal service," she could work with customers by means of paper and online questionnaires, and by tracking their actual buying patterns, to come up with a movie preference profile. Using this profile, she could make recommendations on those nights that nothing looks good to them. By following these steps, she would provide her customers with great service up and down the pyramid.

This kind of breakout can be done for just about any product or service business. The trick will be making it cost-effective. See lessons 8 and 9 for more on that challenge.

8. Build the Value Proposition

Consumers are not simply—or at least not always—looking for (often-expensive) services to go along with all of the products they buy. Nor are they looking for service providers to continuously add new and more complicated services to what they already offer. The bottom line is that consumers are looking for value in all of their exchanges, for services as well as products. Companies must find the right balance between the services offered, how much they cost the customer and the company itself, and the value they provide.

Part of the value proposition taught in the workplace in the past decade is that information is readily available and low in cost. Sophisticated consumers know that they can buy a personal service—hire someone to do something for them—at a high price. But they also know that if they have good, useful information, they can perform some of the tasks themselves and go to an outside provider only for those personal services for which a professional will do a better job.

For most of these sophisticated consumers, information is a way of helping them make the right choices within their unique set of needs quickly and effectively. Consumers will constantly search for value—good products, good information, good service, and reasonable prices. Information exchange will be how most consumers wend their way toward that value proposition. Service organizations of the future must learn how to connect information exchange with service as a critical component of the consumer's value proposition.

9. Pick Service Offerings Carefully

Providing services is a very complicated task. Myriad issues, from finding the right personnel to setting appropriate pricing, have to be considered. Many factors go into the consumer's value equation, as discussed in lesson 8. Given the complexity of most service offerings in the information economy, it is important for companies to offer only those services that they can best provide *and* that their customers most want. A single company can't do everything for everyone.

10. Offer Unique, Value-Added Services

Why do workers serving businesses get more respect (and, not insignificantly, more money) than workers serving consumers? The answer is, because business service workers are perceived as offering an expertise only they can provide, whereas consumer service workers are seen as largely interchangeable. So, to the extent possible, consumer service workers ought to work on providing a unique service, or at least a typical service in a unique way.

Conclusion: Move Toward the True Service Economy

The U.S. and other economies have found success and profits in the service economy that has developed over the last several decades. However, much of the success has been in the provision of business services. When it comes to consumers getting a high level of service in their daily lives, we're not there yet. But there are clear signals that change is possible and that it will be rewarded. Over the next decade, by focusing on the steps outlined in the lessons above, with special attention on upgrading service staff, understanding that information will be the key to providing service, and developing targeted professional services, businesses will move toward the true service economy; a world with more satisfied consumers and one of increased profits.