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TENTH EDITION

Service Management

Operations, Strategy, Information Technology

Sanjeev Bordoloi • James Fitzsimmons • Mona Fitzsimmons



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Service Management

Operations, Strategy, Information Technology

Tenth Edition

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SERVICE MANAGEMENT

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Basanti and Chandra Dhar Bordoloi

Mandira, Indira, Ranjeeta, Rajeev, and Trideev

Michael, Kate, and Colleen

Gary

Samantha and Jordan

In memory of Melba Jett

About the Authors

Sanjeev K. Bordoloi, Associate Professor of Operations and Supply Chain Management in the Opus College of Business at the University of St. Thomas, Minnesota, received his B.Tech. in electrical engineering from the Indian Institute of Technology, Varanasi; an MBA from Xavier Labour Relations Institute (XLRI); and a Ph.D. from The University of Texas at Austin. His prior full-time teaching experience includes the University of Illinois at Urbana-Champaign, the College of William and Mary, and the University of Alaska Fairbanks. He won the Alfred Page Graduate Teaching Award at the College of William and Mary and was featured in the “List of Teachers Ranked by Students as Excellent” at the University of Illinois at Urbana-Champaign. His research interests include health care operations, process analysis and design, lean management, efficiency measures and theory of constraints. He has worked full-time in the service industry at the executive level, primarily in project management and technology management. He has consulted for several firms, including Sentara Healthcare, TRIA Orthopaedic Center, Archer Daniels Midland, Accenture India, Northwestern University medical unit, Fairbanks Memorial Hospital, Humanics Incorporated, and Intandem Incorporated (event management).

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Mona J. Fitzsimmons, a graduate of the University of Michigan, received her undergraduate degree in journalism with major supporting work in chemistry and psychology. Her graduate work was in geology and she has taught in public and private schools and at the university level. She has done writing and editing for the Encyclopaedia Britannica Education Corporation and for various professional journals and organizations. With James Fitzsimmons she edited *New Service Development: Creating Memorable Experiences* published in 2000 by Sage Publications. Her nonprofessional activities have included volunteer work for the Red Cross aquatics program and in wildlife rehabilitation. She has particular interests in the areas of environmental issues and the responsibilities of patients and physicians in health care.

Preface

Services touch the lives of every person in this country every day: food services, communication services, and emergency services, to name only a few. Our welfare and the welfare of our economy now are based on services. The activities of manufacturing and agriculture always will be necessary, but we can eat only so much food and we can use only so many goods. Services, however, are largely experiential, and we always will have a limitless appetite for them.

Service operations management is established firmly as a field of study that embraces all service industries. The discipline was first recognized as an academic field by the Decision Sciences Institute (DSI) at its 1987 Boston meeting. In 1989 the *International Journal of Service Industry Management* was inaugurated. The First International Research Seminar in Service Management was held in France in 1990.

The *Journal of Service Research* was first published in August 1998 and quickly became the leading journal of the field. At the 2004 Boston meeting of the Production and Operations Management Society (POMS), a College on Service Operations was established. In 2005 the IBM Almaden Research Center launched an initiative to establish a new discipline called Service Science, Management, and Engineering (SSME). The first issue of *Service Research* was published by INFORMS in September 2011.

One way or another, COVID-19 will take the world to a new normal. There is cause for optimism. A global pandemic can be the birthplace of service innovation and progress. Sometimes, it takes a crisis of this scale to help us realize that change is necessary. While front-line healthcare personnel are focused on the daily challenges of the disease, the pandemic has revealed problems with service delivery across the world, from supply chain breakdowns to staff and equipment shortages, and burnout. Managers faced a host of challenges, including the supply and distribution of vital resources, the disproportionate impact the virus has had on disadvantaged communities, the stress it placed on providers trying to balance work and home life, and the politicization of simple protection protocols such as wearing masks. Major business challenges ahead will include issues such as rightsizing after the pandemic, coordinating home workers with onsite workers, forecasting for a continuously uncertain future, and building a responsive and agile supply chain for uninterrupted operations.

The difficulties presented by the pandemic placed the world at an inflection point. Each of us has a role to play in overcoming the impacts of COVID-19. Whether it is to tackle preparedness for the next pandemic, improve the operational aspects of the health care system, or reopening a restaurant, we all need to be working together and seize this moment to build back a better world.

This edition continues to acknowledge and emphasize the essential uniqueness of service management. These are some key features:

- The book is written in an engaging literary style, makes extensive use of examples, and is based on the research and consulting experience of the authors.
- The theme of managing services for competitive advantage is emphasized in each chapter and provides a focus for each management topic.
- The integration of technology, operations, and human behavior is recognized as central to effective service management.
- Emphasis is placed on the need for continuous improvement in quality and productivity in order to compete effectively in a global environment.
- To motivate the reader, a vignette of a well-known company starts each chapter, illustrating the strategic nature of the topic to be covered.
- Each chapter has a preview, a closing summary, key terms and definitions, a service benchmark, topics for discussion, an interactive exercise, solved problems and exercises when appropriate, and one or more cases.
- Available within the Instructor Resources you can view through Connect is access to a facility location Excel spreadsheet, chapter quizzes, and websites.
- The Instructor Resources also contain an instructor's manual, case analyses, exercise solutions, sample syllabi, a yield management game, and lists of supplementary materials.

Key Updates in the Tenth Edition

This edition reflects the thoughtful suggestions from students, colleagues, and reviewers. The revision was accomplished during the COVID-19 pandemic and incorporates the impact of that crisis on the delivery of services. The following are noteworthy changes and additions to this new edition:

- The impact of COVID-19 on the nature of the service sector and its challenges is addressed in **Chapter 1**, The Service Economy.
- A new section dealing with the socio-economic implications of COVID-19 has been added to **Chapter 2**, Service Strategy.
- A new section features the blockchain as a radical innovation with illustrations of its impact on financial services in **Chapter 3**, New Service Development. A new example, Virtual Health: The Frontier in Healthcare Delivery highlights the impact of emerging technology on health care delivery. A new case, Zoom Video Communications, has been added to this chapter.
- In **Chapter 4**, The Service Encounter, we have added a new section on the topic of customer behavior changes following COVID-19.
- The office layout post COVID-19 is treated in a new section of **Chapter 5**, Supporting Facility and Process Flows, with a schematic of proposed changes. A new example featuring Chipotle's adaption to COVID-19 illustrates how its facilities were changed in response to the pandemic.
- A new section has been added on the topic of rethinking lean service after COVID-19 in **Chapter 7**, Process Improvement, to consider the impact of the pandemic on global supply chains.
- In **Chapter 9**, Service Supply Relationships, a new section on the impact of COVID-19 on supply chain design has been added to reflect the supply and demand uncertainties. A new example shows how a bakery uses social media to build its brand.
- A new example, Redwood Coast Medical Services, can be found in **Chapter 11**, Managing Capacity and Demand, that illustrates the strategy of segmenting demand.
- In **Chapter 12**, Managing Waiting Lines, two new examples have been added; accommodating elite flyers and queuing process at Starbucks.
- A new example of Little's Law applied to waiting at TSA airport screening is found in **Chapter 13**, Capacity Planning and Queuing Models.

Special thanks and acknowledgment go to the following people for their valuable reviews of the first edition: Mohammad Ala, California State University, Los Angeles; Joanna R. Baker, Virginia Polytechnic Institute and State University; Mark Davis, Bentley College; Maling Ebrahimpour, University of Rhode Island; Michael Gleeson, Indiana University; Ray Haynes, California Polytechnic State University at San Luis Obispo; Art Hill, the University of Minnesota; Sheryl Kimes, Cornell University; and Richard Reid, the University of New Mexico.

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Sanjeev K. Bordoloi

James A. Fitzsimmons

Mona J. Fitzsimmons

Overview of the Book

Part One begins with a discussion of the role of services in an economy. We first look at the historical evolution of societies based on economic activity and conclude with a discussion of the emerging experience economy. Next, we consider the distinctive characteristics of service operations, concluding with an open-systems view of service operations management. The strategic service vision begins the final chapter in this section. The concept of sustainability and triple bottom line in services is introduced. The impact of data analytics and the Internet of Things (IoT) on services is explored. Competitive service strategies are discussed with an emphasis on the role of information as illustrated by the virtual value chain.

Designing the service enterprise to support the competitive strategy is the topic of Part Two. The disruptive impact of blockchain technology and 5G on service design is explored. New services are developed using techniques such as a service blueprint that diagrams the flow of activity occurring onstage above a line of visibility and backstage functions that are not seen by the customer. The notion of a service encounter describes the interaction between service provider and customer in the context of a service organization. The importance of the supporting facility is captured by how the servicescape affects customer and employee behavior. Process analysis is treated in depth by identifying the bottleneck and calculating performance metrics such as throughput time. The challenge of delivering exceptional service quality is addressed by comparing customers' perceptions and expectations. The process improvement chapter describes tools and programs for continuous improvement, and a supplement measures service productivity using data envelopment analysis. The strategic importance of service facility location is explored with analytical models in the conclusion of this part.

Management of service operations is addressed in Part Three. The topic of service supply relationships includes a discussion of professional services. The next chapter is devoted to the topic of service-firm growth and the importance of globalization in services. Strategies to manage capacity and demand follow including the concept of yield management. We address the question of managing waiting lines from a psychological viewpoint. Capacity planning using queuing models with a supplement on computer simulation featuring a Visio plug-in Process Simulator concludes this part.

Part Four is devoted to quantitative models for service management. The first chapter addresses the topic of forecasting service demand using exponential smoothing models. The next chapter explores models for managing service inventory and discusses the uses of RFID. The topic of project management using Microsoft® Project software as the foundation concludes the final part.

Supplemental Features

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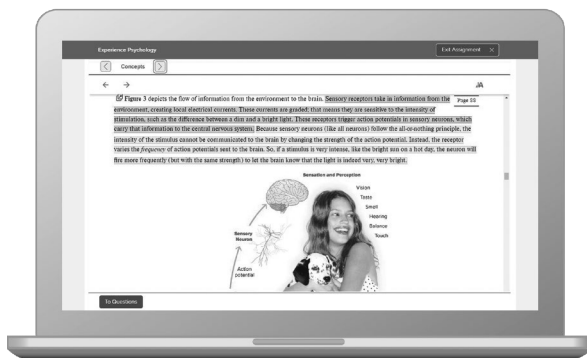
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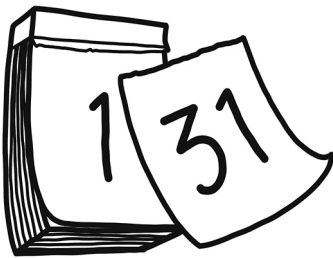
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Brief Contents

PART ONE

Understanding Services 1

- 1 The Service Economy 3
- 2 Service Strategy 27

PART TWO

Designing the Service Enterprise 58

- 3 New Service Development 60
- 4 The Service Encounter 88
- 5 Supporting Facility and Process Flows 111
- 6 Service Quality 141
- 7 Process Improvement 178
- Supplement:** Data Envelopment Analysis (DEA) 201
- 8 Service Facility Location 212

PART THREE

Managing Service Operations 241

- 9 Service Supply Relationships 243
- 10 Globalization of Services 270
- 11 Managing Capacity and Demand 291

- 12 Managing Waiting Lines 328
- 13 Capacity Planning and Queuing Models 350
- Supplement:** Computer Simulation 375

PART FOUR

Quantitative Models for Service Management 396

- 14 Forecasting Demand for Services 398
- 15 Managing Service Inventory 424
- 16 Managing Service Projects 461

APPENDIX

- A Areas of Standard Normal Distribution 498
- B Uniformly Distributed Random Numbers $[0, 1]$ 500
- C Values of L_q for the $M/M/c$ Queuing Model 501
- D Equations for Selected Queuing Models 504

NAME INDEX 510

SUBJECT INDEX 513

Table of Contents

PART ONE

UNDERSTANDING SERVICES 1

Chapter 1

The Service Economy 3

Learning Objectives 3

Chapter Preview 4

Service Definitions 4

Facilitating Role of Services in an Economy 4

Economic Evolution 5

Stages of Economic Development 6

Preindustrial Society 7

Industrial Society 7

Postindustrial Society 7

Nature of the Service Sector 8

The Experience Economy 9

Consumer Service Experience 9

Business Service Experience 10

Service-Dominant Logic 12

Distinctive Characteristics of Service Operations 13

Customer Participation 13

Simultaneity 14

Perishability 14

Intangibility 15

Heterogeneity 15

Nontransferrable Ownership 15

The Service Package 16

Grouping Services by Delivery Process 17

Open-Systems View of Service Operations Management 20

Service Benchmark: Sharing-Economy Pioneers Uber and
Airbnb 22

Summary 22

Key Terms and Definitions 22

Topics for Discussion 23

Interactive Exercise 23

CASE 1.1: Village Volvo 23

CASE 1.2: Xpresso Lube 24

Selected Bibliography 25

Endnotes 26

Chapter 2

Service Strategy 27

Learning Objectives 27

Chapter Preview 27

The Strategic Service Vision 28

Understanding the Competitive Environment of Services 28

Competitive Service Strategies 30

Overall Cost Leadership 30

Differentiation 31

Focus 31

Strategic Analysis 32

Porter's Five Forces Analysis 32

SWOT Analysis: Strengths, Weaknesses, Opportunities,

Threats 33

Winning Customers in the Marketplace 33

Competitive Role of Information in Services 34

Creation of Barriers to Entry 35

Revenue Generation 36

Database Asset 37

Productivity Enhancement 37

Using Information to Categorize Customers 38

The Virtual Value Chain 38

First Stage (New Processes) 39

Second Stage (New Knowledge) 39

Third Stage (New Products) 40

Fourth Stage (New Relationships) 40

Data Analytics in Services 40

Internet of Things (IoT) 41

Limits in the Use of Information 43

Invasion of Privacy 43

Data Security 43

Reliability 43

Anticompetitive 43

Fairness 43

Economics of Scalability 43

Sustainability in Services 45

Triple Bottom Line (TBL) 45

Socio-Economic Implications of COVID-19 47

Stages in Service Firm Competitiveness 47

Available for Service 47

Journeyman 47

Distinctive Competence Achieved 48

World-Class Service Delivery 49

Service Benchmark: Outside the Box 49

Summary 49

Key Terms and Definitions 50

Topics for Discussion 50

Interactive Exercise 51

CASE 2.1: United Commercial Bank and El Banco 51

CASE 2.2: The Alamo Drafthouse 54

Selected Bibliography 56

Endnotes 56

PART TWO

DESIGNING THE SERVICE ENTERPRISE 58

Chapter 3

New Service Development 60

Learning Objectives 60

Chapter Preview 61

Sources of Service Sector Growth 61

Information Technology 62

The Internet as a Service Enabler 62

Innovation Drivers 63

Changing Demographics 64

Innovation in Services 64

Challenges of Adopting New Technology in Services 65

Readiness to Embrace New Technology 66

Blockchain—a Radical Innovation 66

New Service Development 68
<i>Service Design Elements</i> 69
Service Blueprinting 70
Strategic Positioning through Process Structure 72
Taxonomy for Service Process Design 73
<i>Degree of Divergence</i> 73
<i>Object of the Service Process</i> 73
<i>Type of Customer Contact</i> 73
Generic Approaches to Service System Design 74
<i>Production-Line Approach</i> 75
<i>Customer as Coproducer</i> 76
<i>Customer Contact Approach</i> 77
<i>Information Empowerment</i> 78
Intellectual Property 80
Service Benchmark: Ten Things Google Has Found to Be True 80
Summary 81
Key Terms and Definitions 81
Topics for Discussion 81
Interactive Exercise 82
CASE 3.1: 100 Yen Sushi House 82
CASE 3.2: Commuter Cleaning—A New Venture Proposal 83
CASE 3.3: Zoom Video Communications 85
Selected Bibliography 86
Endnotes 87

Chapter 4

The Service Encounter 88

Learning Objectives 88
Chapter Preview 88
Technology in the Service Encounter 89
The Emergence of Self-Service 90
The Service Encounter Triad 91
<i>Encounter Dominated by the Service Organization</i> 92
<i>Contact Personnel-Dominated Encounter</i> 92
<i>Customer-Dominated Encounter</i> 92
The Service Organization 93
<i>Culture</i> 93
<i>Empowerment</i> 93
<i>Control Systems</i> 94
<i>Customer Relationship Management</i> 94
Contact Personnel 95
<i>Selection</i> 95
<i>Training</i> 96
<i>Creating an Ethical Climate</i> 97
The Customer 98
<i>Expectations and Attitudes</i> 98
<i>The Role of Scripts in Coproduction</i> 98
<i>Customer Behavior Changes Following COVID-19</i> 99
Creating a Customer Service Orientation 100
Service Profit Chain 101
Service Benchmark: Miss Manners on Complaint Handling 102
Summary 103
Key Terms and Definitions 103
Topics for Discussion 104
Interactive Exercise 104
CASE 4.1: Amy's Ice Cream 104
CASE 4.2: Enterprise Rent-A-Car 105
Selected Bibliography 108
Endnotes 109

Chapter 5

Supporting Facility and Process Flows 111

Learning Objectives 111
Chapter Preview 112
Environmental Psychology and Orientation 112
Servicescapes 112
<i>Behaviors in Servicescapes</i> 113
<i>Environmental Dimensions of Servicescapes</i> 114
Facility Design 115
<i>Nature and Objectives of Service Organizations</i> 116
<i>Land Availability and Space Requirements</i> 116
<i>Flexibility</i> 116
<i>Security</i> 117
<i>Esthetic Factors</i> 117
<i>The Community and Environment</i> 118
Process Analysis 118
<i>Types of Processes</i> 118
<i>Flowcharting</i> 119
<i>Gantt Chart</i> 120
<i>Process Terminology</i> 120
Facility Layout 122
<i>Flow Process Layout and the Work Allocation Problem</i> 122
<i>Job Shop Process Layout and the Relative Location Problem</i> 125
<i>The Office Post COVID-19</i> 126
Service Benchmark: Where, Oh Where Shall We Go? 128
Summary 128
Key Terms and Definitions 128
Topics for Discussion 129
Interactive Exercise 129
Solved Problems 129
Exercises 132
CASE 5.1: Health Maintenance Organization (A) 135
CASE 5.2: Health Maintenance Organization (B) 136
CASE 5.3: Esquire Department Store 136
CASE 5.4: Central Market 138
Selected Bibliography 140
Endnotes 140

Chapter 6

Service Quality 141

Learning Objectives 141
Chapter Preview 141
Defining Service Quality 142
<i>Dimensions of Service Quality</i> 142
<i>Gaps in Service Quality</i> 143
Measuring Service Quality 145
<i>SERVQUAL</i> 145
<i>Walk-Through Audit</i> 145
Quality Service by Design 149
<i>Incorporation of Quality in the Service Package</i> 149
<i>Poka-Yoke (Failsafing)</i> 150
<i>Quality Function Deployment</i> 152
Achieving Service Quality 154
<i>Cost of Quality</i> 154
<i>Statistical Process Control</i> 155
<i>Unconditional Service Guarantee</i> 159
Service Recovery 161
<i>Approaches to Service Recovery</i> 162
<i>Complaint Handling Policy</i> 163
Service Benchmark: Bronson Methodist Hospital 163
Summary 164
Key Terms and Definitions 165

Topics for Discussion 165
 Interactive Exercise 165
 Solved Problems 165
 Exercises 167
 CASE 6.1: Clean Sweep, Inc. 170
 CASE 6.2: The Complaint Letter 172
 CASE 6.3: The Helsinki Museum of Art and Design 174
 Selected Bibliography 176
 Endnotes 177

Chapter 7

Process Improvement 178

Learning Objectives 178
 Chapter Preview 178
 Quality and Productivity Improvement Process 179
Foundations of Continuous Improvement 179
Plan-Do-Check-Act (PDCA) Cycle 179
Problem Solving 180
 Quality Tools for Analysis and Problem Solving 181
Check Sheet 181
Run Chart 181
Histogram 181
Pareto Chart 182
Flowchart 182
Cause-and-Effect Diagram 183
Scatter Diagram 184
Control Chart 184

Benchmarking 185

Improvement Programs 186

Deming's 14-Point Program 186
ISO 9001 187
Six Sigma 187
Lean Service 191
Rethinking Lean Service after COVID-19 193

Service Benchmark: When Something Doesn't
 Work—Sometimes Just Hit It with a Hammer! 194

Summary 194

Key Terms and Definitions 194

Topics for Discussion 195

Interactive Exercise 195

CASE 7.1: Sonora County Sheriff 195

CASE 7.2: Mega Bytes Restaurant 196

Chapter 7 Supplement: Data Envelopment Analysis (DEA) 201

Measuring Service Productivity 201

The DEA Model 201
DEA and Strategic Planning 208

Exercises 209

CASE 7.3: Mid-Atlantic Bus Lines 209

Selected Bibliography 210

Endnotes 211

Chapter 8

Service Facility Location 212

Learning Objectives 212

Chapter Preview 212

Strategic Location Considerations 213

Competitive Clustering 213
Saturation Marketing 213
Marketing Intermediaries 214
Substitution of Communication for Travel 214
Separation of Front from Back Office 214

Impact of the Internet on Service Location 215

Site Considerations 215

Geographic Information Systems 216

Facility Location Modeling Considerations 218

Geographic Representation 218

Number of Facilities 219

Optimization Criteria 220

Facility Location Techniques 221

Cross-Median Approach for a Single Facility 222

Huff Model for a Retail Outlet 224

Location Set Covering for Multiple Facilities 227

Regression Analysis in Location Decisions 228

Service Benchmark: Here a Bun, There a Bun, Everywhere a
 Bun-Bun 230

Summary 230

Key Terms and Definitions 230

Topics for Discussion 231

Interactive Exercise 231

Solved Problems 231

Exercises 234

CASE 8.1: Health Maintenance Organization (C) 235

CASE 8.2: Athol Furniture, Inc. 236

Selected Bibliography 240

Endnotes 240

PART THREE

MANAGING SERVICE OPERATIONS 241

Chapter 9

Service Supply Relationships 243

Learning Objectives 243

Chapter Preview 243

Supply Chain Management 244

Network Model 244

Managing Uncertainty 244

Omnichannel Supply Chain 245

Impact of COVID-19 on Supply Chain Design 245

Service Supply Relationships 247

Customer-Supplier Duality 247

Service Supply Relationships Are Hubs, Not Chains 248

Managing Service Relationships 249

Bidirectional Optimization 250

Productive Capacity 250

Perishability 251

Social Media in Services 251

Social Media as a Competitive Strategy 252

Social Media and Customer Convenience 252

Social Media for Organizing and Co-Creation of Value 253

Professional Service Firms 253

Attributes of Professional Services 253

Service Consulting 254

Operational Characteristics 255

Outsourcing Services 256

Benefits and Risks of Outsourcing Services 257

Classification of Business Services 259

Managerial Considerations with Service Outsourcing 259

Service Benchmark: Citizens Come First in Lynchburg 261

Summary 262

Key Terms and Definitions 262

Topics for Discussion 262

Interactive Exercise 263

CASE 9.1: Boomer Consulting, Inc. 263

CASE 9.2: Evolution of B2C E-Commerce in Japan 265
 Selected Bibliography 268
 Endnotes 268

Chapter 10

Globalization of Services 270

Learning Objectives 270
 Chapter Preview 270
 Domestic Growth and Expansion Strategies 271
 Focused Service 271
 Focused Network 271
 Clustered Service 272
 Diversified Network 272

Franchising 273

The Nature of Franchising 273
Benefits to the Franchisee 273
Issues for the Franchiser 274

Globalization of Services 275

The Nature of a Borderless World 275
Generic International Strategies 277

Global Service Strategies 278

Multicountry Expansion 278
Importing Customers 279
Following Your Customers 280
Service Offshoring 280
Beating the Clock 280

Planning Transnational Operations 281

Service Benchmark: Small World and Other Myths 283

Summary 283

Key Terms and Definitions 283

Topics for Discussion 284

Interactive Exercise 284

CASE 10.1: Goodwill Industries of Central Texas 284

CASE 10.2: FedEx: Tiger International Acquisition 286

Selected Bibliography 289

Endnotes 289

Chapter 11

Managing Capacity and Demand 291

Learning Objectives 291

Chapter Preview 291

Generic Strategies of Level Capacity or Chase Demand 292

Strategies for Managing Demand 292

Customer-Induced Variability 292
Segmenting Demand 292
Offering Price Incentives 295
Promoting Off-Peak Demand 296
Developing Complementary Services 296
Reservation Systems and Overbooking 296

Strategies for Managing Capacity 298

Defining Service Capacity 298
Daily Workshift Scheduling 299
Weekly Workshift Scheduling with Days-Off Constraint 301
Increasing Customer Participation 302
Creating Adjustable Capacity 303
Sharing Capacity 303
Cross-Training Employees 303
Using Part-Time Employees 303

Yield Management 305

Yield Management Applications 309

Service Benchmark: Pay Up Front and Take Your
 Chances 310

Summary 310

Key Terms and Definitions 311

Topics for Discussion 311

Interactive Exercise 311

Solved Problems 311

Exercises 314

CASE 11.1: River City National Bank 316

CASE 11.2: Gateway International Airport 319

CASE 11.3: The Yield Management Analyst 321

CASE 11.4: Sequoia Airlines 324

Selected Bibliography 326

Endnotes 326

Chapter 12

Managing Waiting Lines 328

Learning Objectives 328

Chapter Preview 328

The Economics of Waiting 329

Queuing Systems 329

Strategies for Managing Customer Waiting 330

The Psychology of Waiting 331
That Old Empty Feeling 331
A Foot in the Door 331
The Light at the End of the Tunnel 332
Excuse Me, but I Was Next 332

Essential Features of Queuing Systems 333

Calling Population 334

Arrival Process 334

Queue Configuration 338

Queue Discipline 340

Service Process 342

Service Benchmark: The Magic of Disney Makes Queues
 Disappear 343

Summary 344

Key Terms and Definitions 344

Topics for Discussion 344

Interactive Exercise 344

Solved Problem 345

Exercises 345

CASE 12.1: Thrifty Car Rental 345

CASE 12.2: Eye'll Be Seeing You 347

CASE 12.3: Field Study 348

Selected Bibliography 348

Endnotes 349

Chapter 13

Capacity Planning and Queuing Models 350

Learning Objectives 350

Chapter Preview 351

Capacity Planning 351

Strategic Role of Capacity Decisions 352

Analytical Queuing Models 353

Relationships Among System Characteristics 354

Standard M/M/1 Model 355

Standard M/M/c Model 357

M/G/1 Model 360

General Self-Service M/G/∞ Model 360

Finite-Queue M/M/1 Model 361

Finite-Queue M/M/c Model 362

Capacity Planning Criteria 362

Average Customer Waiting Time 362

Probability of Excessive Waiting 363

Minimizing the Sum of Customer Waiting Costs and Service Costs 364
Probability of Sales Lost Because of Inadequate Waiting Area 366

Service Benchmark: Don't Guesstimate, Simulate! 366
 Summary 367
 Key Terms and Definitions 367
 Topics for Discussion 367
 Interactive Exercise 368
 Solved Problems 368
 Exercises 370
 CASE 13.1: Houston Port Authority 372
 CASE 13.2: Freedom Express 373
 CASE 13.3: Renaissance Clinic (A) 373
Chapter 13 Supplement: Computer Simulation 375
 Systems Simulation 375
 Simulation Methodology 375
 Monte Carlo Simulation 376
 Generating Random Variables 376
 Discrete-Event Simulation 380
 Process Simulator by ProModel 382
 Automobile Driver's License Office Revisited 383
 Solved Problems 385
 Exercises 388
 CASE 13.4: Drivers License Renewal 393
 CASE 13.5: Renaissance Clinic (B) 393
 Selected Bibliography 394
 Endnotes 395

PART FOUR

Quantitative Models for Service Management 396

Chapter 14

Forecasting Demand for Services 398

Learning Objectives 398
 Chapter Preview 398
 The Choice of Forecasting Method 399
 Subjective Models 399
 Delphi Method 399
 Cross-Impact Analysis 401
 Historical Analogy 401
 Causal Models 401
 Regression Models 401
 Econometric Models 402
 Time Series Models 402
 N-Period Moving Average 402
 Simple Exponential Smoothing 403
 Forecast Error 406
 Relationship Between α and N 406
 Exponential Smoothing with Trend Adjustment 407
 Exponential Smoothing with Seasonal Adjustment 409
 Exponential Smoothing with Trend and Seasonal Adjustments 411
 Summary of Exponential Smoothing 413
 Service Benchmark: Googling the Future 414
 Summary 414
 Key Terms and Definitions 414
 Topics for Discussion 415
 Interactive Exercise 415
 Solved Problems 415
 Exercises 418
 CASE 14.1: Oak Hollow Medical Evaluation Center 419

CASE 14.2: Gnomial Functions, Inc. 421
 Selected Bibliography 423
 Endnotes 423

Chapter 15

Managing Service Inventory 424

Learning Objectives 424
 Chapter Preview 425
 Inventory Theory 426
 Role of Inventory in Services 426
 Characteristics of Inventory Systems 427
 Relevant Costs of an Inventory System 428
 Order Quantity Models 428
 Economic Order Quantity 428
 Inventory Model with Quantity Discounts 432
 Inventory Model with Planned Shortages 435
 Inventory Management Under Uncertainty 437
 Inventory Control Systems 439
 Continuous Review System 439
 Periodic Review System 440
 The ABCs of Inventory Control 441
 Radio Frequency Identification 443
 Single-Period Model for Perishable Goods 444
 Expected Value Analysis 444
 Marginal Analysis 445
 Retail Discounting Model 446
 Service Benchmark: Your Bag Is Tagged 448
 Summary 448
 Key Terms and Definitions 448
 Topics for Discussion 449
 Interactive Exercise 449
 Solved Problems 449
 Exercises 451
 CASE 15.1: A.D. Small Consulting 456
 CASE 15.2: Last Resort Restaurant 457
 CASE 15.3: Elysian Cycles 458
 Selected Bibliography 459
 Endnotes 460

Chapter 16

Managing Service Projects 461

Learning Objectives 461
 Chapter Preview 461
 The Nature of Project Management 462
 Characteristics of Projects 462
 Project Management Process 462
 Selecting the Project Manager 463
 Building the Project Team 463
 Principles of Effective Project Management 464
 Techniques for Project Management 464
 Gantt Project Charts 464
 A Critique of Gantt Charts 466
 Constructing a Project Network 466
 Critical Path Method 468
 Microsoft Project Analysis 471
 Resource Constraints 471
 Activity Crashing 472
 Incorporating Uncertainty in Activity Times 477
 Estimating Activity Duration Distributions 477
 Project Completion Time Distribution 478
 A Critique of the Project Completion Time Analysis 480
 Problems with Implementing Critical Path Analysis 481

Monitoring Projects 481	Selected Bibliography 497
<i>Earned Value Chart</i> 482	Endnote 497
<i>Project Termination</i> 483	
<i>Project History Report</i> 483	
Service Benchmark: The House That Warren Built 484	Appendix A: Areas of Standard Normal Distribution 498
Summary 484	Appendix B: Uniformly Distributed Random
Key Terms and Definitions 484	Numbers $[0, 1]$ 500
Topics for Discussion 485	Appendix C: Values of L_q for the $M/M/c$ Queuing Model 501
Interactive Exercise 485	Appendix D: Equations for Selected Queuing Models 504
Solved Problems 485	Name Index 510
Exercises 487	Subject Index 513
CASE 16.1: Info-Systems, Inc. 494	
CASE 16.2: Whittier County Hospital 495	

Part 1

Understanding Services

We begin our study of service management in **Chapter 1**, The Service Economy, with an appreciation of the central role that services play in the economies of nations and in world commerce. No economy can function without the infrastructure that services provide in the form of transportation and communications and without government services such as education and health care. As an economy develops, however, services become even more important and soon the vast majority of the population is employed in service activities.

However, services have distinctive features that present unique challenges for management. Perhaps the most important characteristic of service operations is the presence of the customer in the service delivery system. Focusing on the customer and serving customers' needs are the basis for a service-dominant logic that is an alternative to the traditional goods-centered paradigm.

An effective competitive strategy is particularly important for service firms because they compete in an environment that has relatively low barriers to entry. We begin **Chapter 2**, Service Strategy, with a discussion of the strategic service vision, a framework in the form of questions about the purpose and place of a service firm in its market. The well-known generic competitive strategies—overall cost leadership, differentiation, and focus—are applied to services. Porter's five forces and SWOT analysis are applied to service firms. The topics of sustainability and economics of scalability are discussed in the context of growing a service firm. The competitive role of information in services is highlighted throughout with Data Analytics and Internet of Things featured.

Chapter 1

The Service Economy

Learning Objectives

After completing this chapter, you should be able to:

1. Describe the central role of services in an economy.
2. Identify and differentiate the five stages of economic activity.
3. Describe the features of preindustrial, industrial, and postindustrial societies.
4. Describe the features of the experience economy contrasting the consumer (B2C) with the business (B2B) service experience.
5. Explain the essential features of the service-dominant logic.
6. Identify and critique the six distinctive characteristics of a service operation, and explain the implications for managers.
7. Describe a service using the five dimensions of the service package.
8. Use the service process matrix to classify a service.

We are witnessing the greatest labor migration since the industrial revolution. This migration from agriculture and manufacturing to services is both invisible and largely global in scope. The migration is driven by global communications, business and technology growth, urbanization, and low-cost labor. Service industries are leaders in every industrialized nation, they create new jobs that dominate national economies, and they have the potential to enhance the quality of life of everyone. Many of these jobs are for high-skilled knowledge workers in professional and business services, health care, and education. As shown in **Table 1.1**, the extent of this movement to services is not only significant in the industrialized nations (European Union, the United States, and Japan) but also represents a proportion of the labor force larger than that employed in industrial production for the developing BRIC economies (Brazil, Russia, India, and China).

TABLE 1.1 Sector Employment in Top 10 Nations by 2019 Labor Force Size

Nation	% of World Labor	% Agri	% Industry	% Services
China	22.3	27.7	28.8	43.5
India	14.3	47.0	22.0	31.0
European Union	6.4	5.0	21.9	73.1
United States	4.8	0.7	20.3	79.1
Indonesia	3.9	32.0	21.0	47.0
Brazil	3.1	9.4	32.1	58.5
Pakistan	2.2	42.3	22.6	35.1
Russia	2.1	9.4	27.6	62.5
Bangladesh	2.0	42.7	20.5	36.8
Japan	1.9	2.9	26.2	70.9

Sources: <https://www.cia.gov/the-world-factbook/field/labor-force-by-occupation.html>; <https://www.data.worldbank.org/indicator/SL.TLF.TOTL.IN>.

Chapter Preview

In a discussion of economic development, we learn that modern industrialized economies are dominated by employment in the service sector industries. This represents a natural evolution of economies from preindustrial to industrial and finally to postindustrial societies. The nature of the service economy is explored in terms of employment opportunities and the transition to experienced-based relationships for both consumers and businesses.

The distinctive characteristics of service operations suggest that the service environment is sufficiently unique to question the direct application of traditional manufacturing-based management techniques. In particular, the service manager operates in a system in which the customer is present and a co-creator of value. The concept of a service package to describe a service from an operations point of view is the foundation for an open-systems view of service management challenges. We begin with a selection of service definitions.

Service Definitions

Many definitions of service are available but all contain a common theme of intangibility and simultaneous consumption. The following represent a sample of service definitions:

Services are deeds, processes, and performances. (Source: Valarie A. Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler, *Services Marketing*, 7th ed., New York: McGraw-Hill, 2017, p. 4.)

Services are economic activities offered by one party to another, most commonly employing time-based performances to bring about desired results in recipients themselves or in objects or other assets for which purchasers have responsibility. In exchange for their money, time, and effort, service customers expect to obtain value from access to goods, labor, professional skills, facilities, networks, and systems; but they do not normally take ownership of any of the physical elements involved.

Source: Jochen Wirtz and Christopher Lovelock, *Services Marketing: People, Technology, Strategy*, 8th ed., Upper Saddle River, NJ: Prentice-Hall, 2007, p. 6.

A service system is a value-coproduction configuration of people, technology, other internal and external service systems, and shared information (such as language, processes, metrics, prices, policies, and laws).

Source: Jim Spohrer, Paul Maglio, John Bailey, and Daniel Gruhl, *Computer*, January 2007, p. 72.

Facilitating Role of Services in an Economy

As shown in **Figure 1.1**, services are central to the economic activity in any society. Infrastructure services, such as transportation and communications, are the essential foundation of an economy. Both infrastructure and distribution services function as economic intermediaries and as the channel of distribution to the final consumer. Infrastructure and distribution services are a prerequisite for an economy to become industrialized; therefore, no advanced society can be without these services.

In an industrialized economy, specialized firms can supply business services to manufacturing firms more cheaply and efficiently than manufacturing firms can supply these services for themselves. Thus, we find advertising, consulting, and other business services being provided for the manufacturing sector by service firms.

Except for basic subsistence living, where individual households are self-sufficient, service activities are absolutely necessary for the economy to function and to enhance the quality of life. Consider, for example, the importance of a banking industry to transfer funds and a transportation industry to move food products to areas that cannot produce them. Moreover, a wide variety of personal services, such as restaurants, lodging, and child care, have been created to move former household functions into the economy. In fact, the consumer performing self-service activities is a service contributor often using technology (e.g., airline boarding kiosk) to eliminate non-value-adding tasks or affording personalization and control (e.g., online brokerage).

Government services play a critical role in providing a stable environment for investment and economic growth. Services such as public education, health care, well-maintained roads, safe drinking water, clean air, and public safety are necessary for any nation's economy to survive and people to prosper.

Increasingly, the profitability of manufacturers depends on exploiting value-added services. For example, automobile manufacturers have discovered that financing and/or leasing automobiles can achieve significant profits. Otis Elevator long ago found that revenues from after-sales maintenance contracts far exceed the profits from elevator equipment sales. This revenue enhancement strategy by manufacturers of deliberately coupling a service with their product is referred to as *servitization*. Almost every product today has a service component.

Thus, it is imperative to recognize that services are not peripheral activities but rather integral parts of society. They are central to a functioning and healthy economy and lie at the heart of that economy. Finally, the service sector not only facilitates but also makes possible the goods-producing activities of the manufacturing sectors. Services are the crucial ingredient for today's global economy.

Economic Evolution

In the early 1900s, only 3 of every 10 workers in the United States were employed in the services sector. The remaining workers were active in agriculture and industry. By 1950, employment in services accounted for 50 percent of the workforce. Today, services employ about 8 out of every 10 workers. Since WWII, we have witnessed a major evolution in sector employment from being predominantly manufacturing and agriculture to being predominantly services. This change in employment opportunities has made a significant impact on culture, demographics, and education.

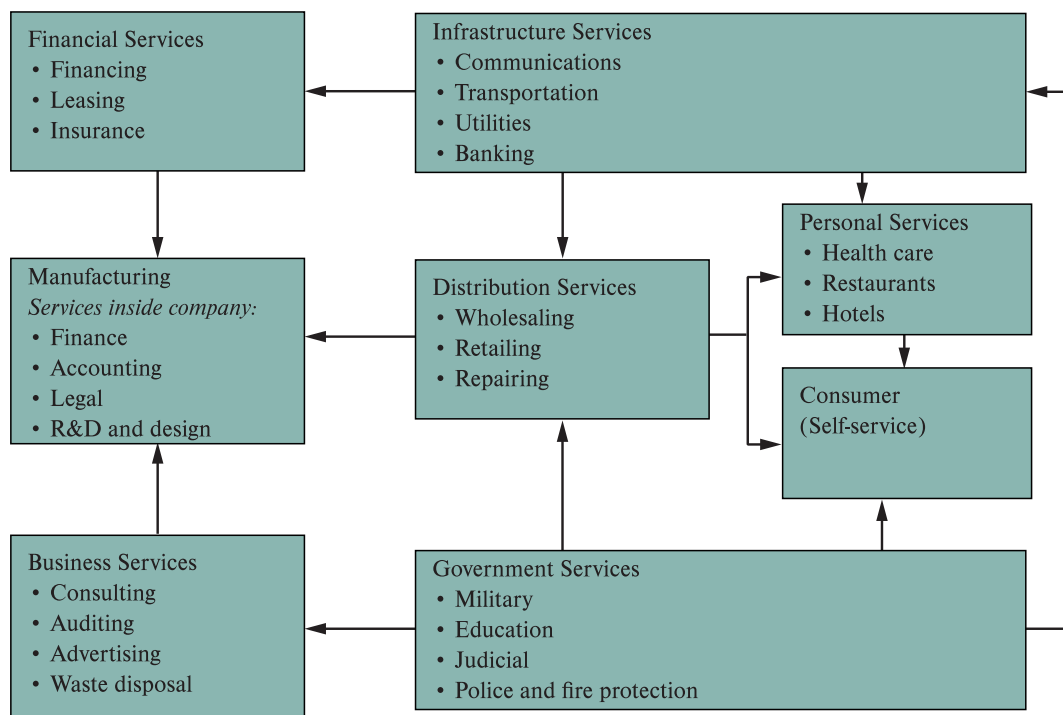
Economists studying economic growth are not surprised by these events. Colin Clark argues that as nations become industrialized, there is an inevitable shift of employment from one sector of the economy to another.¹ As productivity (output/labor-hour) increases in one sector, the labor force moves into another. This observation, known as the *Clark-Fisher hypothesis*, leads to a classification of economies by noting the activity of the majority of the workforce.

Figure 1.2 describes a hierarchy of economic activity. Many economists, including Clark, limited their analyses to only three stages, of which the tertiary stage was simply services. We have subdivided the service stage to create a total of five stages.

Today, an overwhelming number of countries still are in the primary stage of development. These economies are based on extracting natural resources from the land. Their productivity is low and income is subject to fluctuations based on the prices of commodities such as sugar and copper. In much of Africa and parts of Asia, more than 70 percent of the labor force is engaged in extractive activities.

Figure 1.3 shows the rapid increase in service employment in the United States and illustrates the almost mirror image decline in agriculture employment. This sector employment trajectory is repeated for all of the nations represented in **Table 1.1**. We can observe that migration to services is a predictable evolution in the workforce of all nations, and successful industrial economies

FIGURE 1.1 Role of Services in an Economy



Source: Bruce R. Guile and James Brian Quinn, eds., *Technology in Services: Policies for Growth, Trade, and Employment*, Washington, D.C.: National Academy Press, 1988, p. 214.

are built on a strong service sector. Furthermore, competition in services is global. Consider the growth of Indian call centers and British financial services. Trade in services remains a challenge, however, because many countries erect barriers to protect domestic firms. India and Mexico, for example, prohibit the sale of insurance by foreign companies.

Stages of Economic Development

Describing where our society has been, its current condition, and its most likely future is the task of social historians. Daniel Bell, a professor of sociology at Harvard University, has written extensively on this topic, and the material that follows is based on his work.² To place the concept of a postindustrial society in perspective, we must compare its features with those of preindustrial and industrial societies.

FIGURE 1.2 Stages of Economic Activity

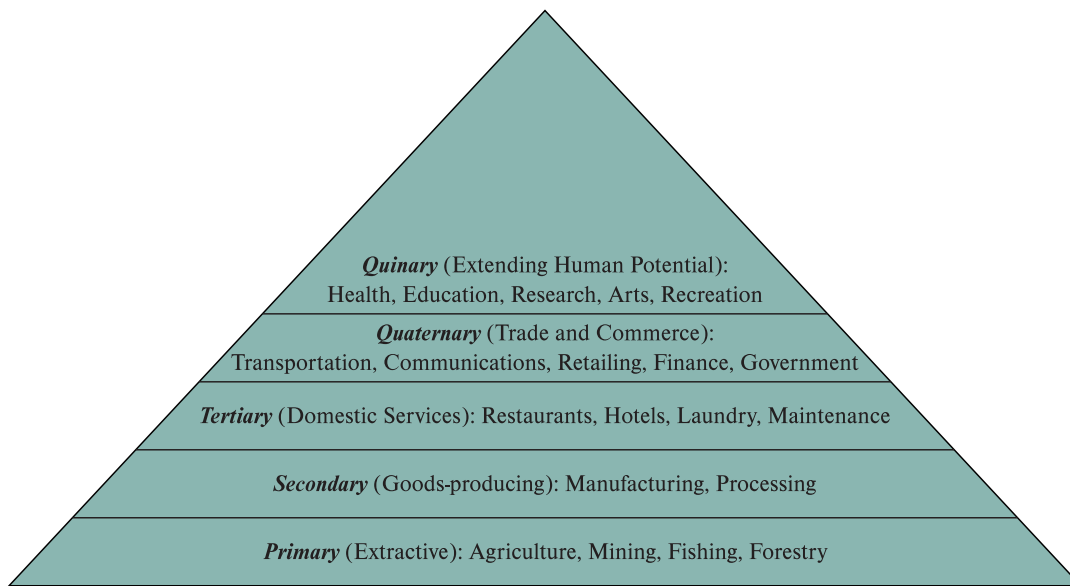
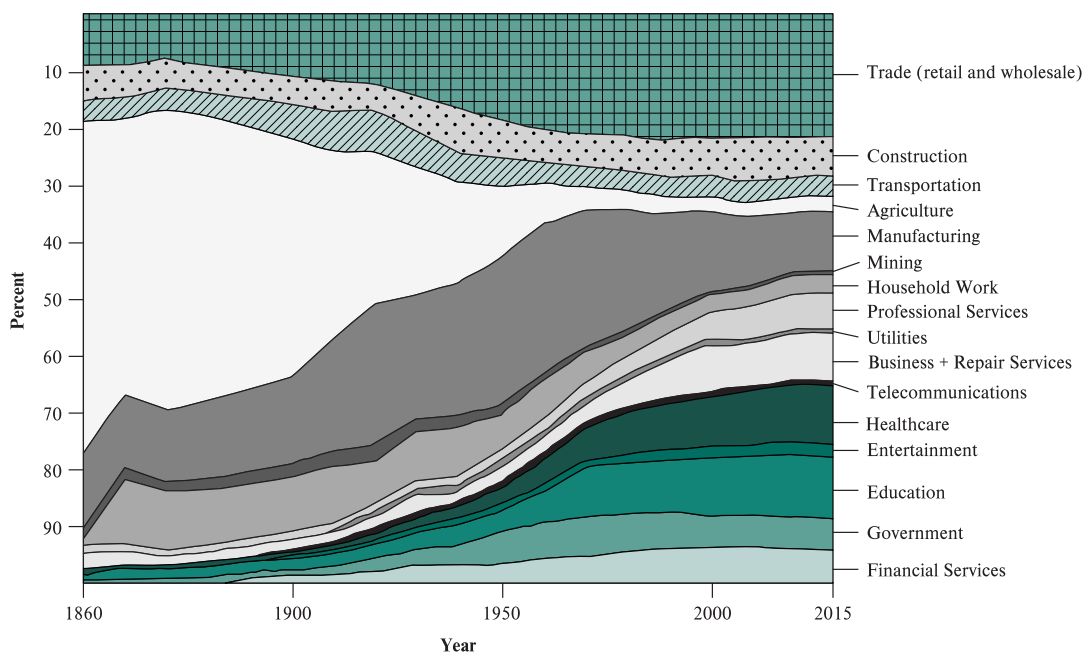


FIGURE 1.3 Trends in U.S. Employment by Sector, 1850–2015



Source: <https://www.visualcapitalist.com/visualizing-150-years-of-u-s-employment-history/>.

Preindustrial Society

The condition of most of the world's population today is one of subsistence, or a *preindustrial society*. Life is characterized as a game against nature. Working with muscle power and tradition, the labor force is engaged in agriculture, mining, and fishing. Life is conditioned by the elements, such as the weather, the quality of the soil, and the availability of water. The rhythm of life is shaped by nature, and the pace of work varies with the seasons. Productivity is low and bears little evidence of technology. Social life revolves around the extended household, and this combination of low productivity and large population results in high rates of underemployment (workers not fully utilized). Many seek positions in services, but of the personal or household variety. Preindustrial societies are agrarian and structured around tradition, routine, and authority.

Industrial Society

The predominant activity in an *industrial society* is the production of goods. Energy and machines multiply the output per labor-hour and structure the nature of work. Division of labor is the operational “law” that creates routine tasks and the notion of the semiskilled worker. Work is accomplished in the artificial environment of the factory, and people tend the machines. Life becomes a game that is played against a fabricated nature—a world of cities, factories, and tenements. The rhythm of life is machine-paced and dominated by rigid working hours and time clocks. Of course, the unrelenting pressure of industrial life is ameliorated by the countervailing force of labor unions.

An industrial society is a world of schedules and acute awareness of the value of time. The standard of living becomes measured by the quantity of goods, but note that the complexity of coordinating the production and distribution of goods results in the creation of large bureaucratic and hierarchic organizations. These organizations are designed with certain roles for their members, and their operation tends to be impersonal, with persons treated as interchangeable. The individual is the unit of social life in a society that is considered to be the sum total of all the individual decisions being made in the marketplace.

Postindustrial Society

While an industrial society defines the standard of living by the quantity of goods, the *postindustrial society* is concerned with the quality of life, as measured by services such as health, education, and recreation. The central figure is the professional person because rather than energy or physical strength, information is the key resource. Life now is a game played among persons. Social life becomes more difficult because political claims and social rights multiply. Society becomes aware that the independent actions of individuals and organizations can combine to create havoc for everyone, as evidenced by environmental pollution and traffic congestion. The community rather than the individual becomes the social unit.

Bell suggests that the transformation from an industrial to a postindustrial society occurs in many ways. First, there is a natural development of services, such as transportation and utilities, to support industrial development. As laborsaving devices are introduced into the production process, more workers engage in nonmanufacturing activities, such as maintenance and repair. Second, growth of the population and mass consumption of goods increase wholesale and retail trade, along with banking, real estate, and insurance. Third, as income increases, the proportion spent on the necessities of food and home decreases, and the remainder creates a demand for durables and then for services.

Ernst Engel, a Prussian statistician of the 19th century, observed that as family incomes increase, the percentage spent on food and durables drops while consumption of services that reflect a desire for a more enriched life increases correspondingly. This phenomenon is analogous to the Maslow hierarchy of needs, which says that once the basic requirements of food and shelter are satisfied, people seek physical goods and, finally, personal development. However, a necessary condition for the “good life” is health and education. In our attempts to eliminate disease and increase the span of life, health services become a critical feature of modern society.

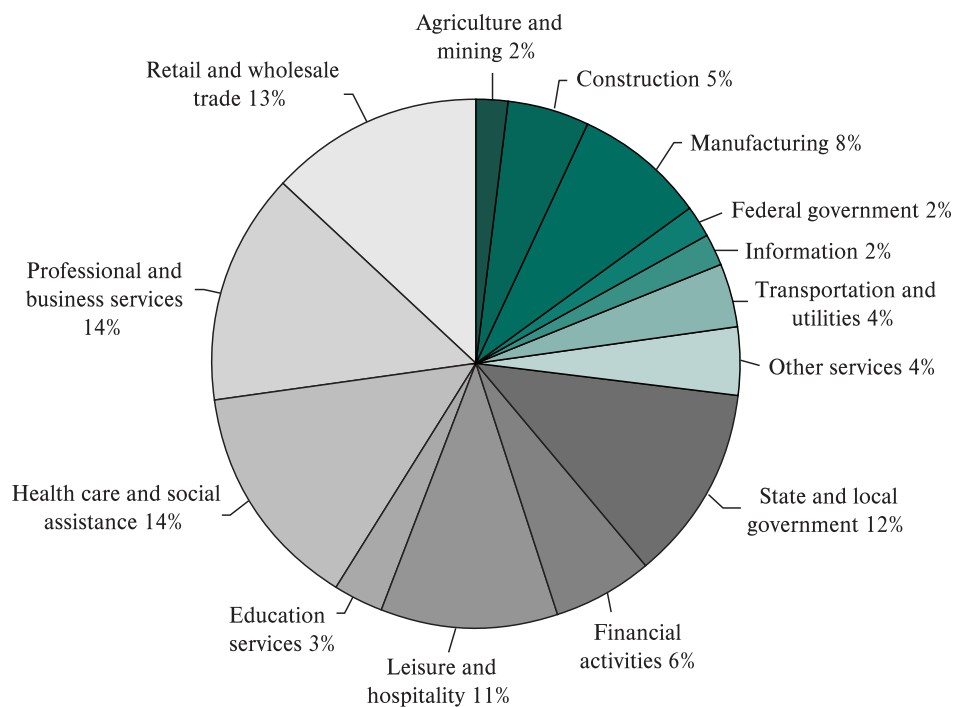
Higher education becomes the condition for entry into a postindustrial society, which requires professional and technical skills of its population. Also, claims for more services and social justice lead to a growth in government. Concerns for environmental protection require government intervention and illustrate the interdependent and even global character of postindustrial problems. **Table 1.2** summarizes the features that characterize the preindustrial, industrial, and postindustrial stages of economic development.

TABLE 1.2 Comparison of Societies

Features							
Society	Game	Predominant Activity	Use of Human Labor	Unit of Social Life	Standard of Living Measure	Structure	Technology
Preindustrial	Against nature	Agriculture Mining	Raw muscle power	Extended household	Subsistence	Routine Traditional Authoritative	Simple hand tools
Industrial	Against fabricated nature	Goods-production	Machine-tending	Individual	Quantity of goods	Bureaucratic Hierarchical	Machines
Postindustrial	Among persons	Services	Artistic Creative Intellectual	Community	Quality of life in terms of health, education, recreation	Interdependent Global	Information

Nature of the Service Sector

For many people, *service* is synonymous with *servitude* and brings to mind workers flipping hamburgers and waiting on tables. However, the service sector that has grown significantly over the past century cannot be described accurately as composed only of low-wage or low-skill jobs in hotels and fast-food restaurants. Instead, as **Figure 1.4** shows, approximately 31 percent of the total employment in 2019 occurred in high-skill service categories such as professional and business services, health care and social assistance, and educational services.

FIGURE 1.4 Distribution of U.S. Employment by Industry, 2019

Source: <http://www.bls.gov/emp/tables/employment-by-major-industry-sector.htm>.

Changes in the pattern of employment will have implications on where and how people live, on educational requirements, and, consequently, on the kinds of organizations that will be important to that society. Industrialization created the need for the semi-skilled worker who could be trained in a few days to perform the routine machine-tending tasks. The subsequent growth in the service sector has caused a shift to white-collar occupations. In the United States, the year 1956 was a turning point. For the first time in the history of industrial society, the number of white-collar workers exceeded the number of blue-collar workers, and the gap has been widening since then. The most interesting growth has been in the managerial and professional-technical fields, which are jobs that require a college education.

Today, service industries are the source of economic leadership. During the past 30 years, more than 44 million new jobs have been created in the service sector to absorb the influx of women into the workforce and to provide an alternative to the lack of job opportunities in manufacturing. The service industries now account for approximately 70 percent of the national income in the United States. Given that there is a limit to how many cars a consumer can use and how much one can eat and drink, this should not be surprising. The appetite for services, however, especially innovative ones, is insatiable. Among the services presently in demand are those that reflect an aging population, such as geriatric health care, and others that reflect a two-income family, such as daycare.

During past recessions in the United States (the exception being the 2008 financial crisis), employment by service industries fell much less than the loss of jobs in manufacturing. This suggests that consumers are willing to postpone the purchase of products but will not sacrifice essential services like education, telephone, banking, health care, and public services such as fire and police protection.

Several reasons can explain the recession-resistant nature of services. First, by their nature, services cannot be inventoried, as is the case for products. Because consumption and production occur simultaneously for services, the demand for them is more stable than that for manufactured goods. When the economy falters, many services continue to survive. Hospitals keep busy as usual, and while commissions may drop in real estate and insurance, employees often need not be laid off.

Second, during a recession, both consumers and business firms defer capital expenditures and instead fix up and make do with existing equipment. Thus, service jobs in maintenance and repair are created.

The 2020 global pandemic is different from the 2008 crisis as well as most others historically. The COVID-19 experience challenges the recovery assumptions learned from past recessions. The restrictions on social-distancing and large indoor gatherings (e.g., closing indoor dining) create a service-dominated recession. The past growth of service sector employment at the expense of manufacturing has, under COVID-19 restrictions, made labor-market recovery slower. This factor is partly owing to manufacturing ability to continue production and build inventories in anticipation of future demand recovery.

COVID-19, the first global pandemic in more than 100 years, spread across the world at an unprecedented speed. Populations in more than 120 countries have been subjected to lockdowns to control the virus and prevent health systems from being overwhelmed. This situation triggered an economic crisis with dire societal consequences that affected the lives and livelihoods of most of the global population. The crisis has exposed fundamental shortcomings in pandemic preparedness, socio-economic safety nets, and global cooperation. Governments, health care institutions, and businesses have struggled to address compounding repercussions in the form of workforce challenges, disruptions in essential supplies, and social instability.

The Experience Economy

The nature of the service economy has moved past the transactional nature of services to one of experience-based relationships. Consider how Starbucks and Disney World have defined their respective services as an experience. **Table 1.3** describes the features of different economies in the historical evolution from agrarian to experience. To appreciate the subtle differences, pay particular attention to the words used to describe each economy. Note that the *experience economy* is further divided into consumer services and business services.

Consumer Service Experience

Business-to-customer (B2C) experiences create added value by engaging and connecting with the customer in a personal and memorable way. As businesses explicitly charge for the memorable encounters they stage, we transition from a service economy to the new experience economy. **Figure 1.5** displays four types of consumer experiences characterized by the level of customer participation and level of interaction with the environment. Entertainment (e.g., watching a movie) is the least involved level of experience and escapist (e.g., scuba diving) requires the most commitment from the customer.