How Lean Services Lead to Lower Costs and Happier Customers

Toyota's lean production system revolutionized the manufacturing industry by introducing strategies that slashed wasteful practices. The lean system has helped manufacturers around the world deliver higher-quality products in a much more efficient, effective manner.

While lean has become the norm in the manufacturing space, it has been more challenging to bring lean strategies into the services sector. Service providers rightly wonder: 'How can human interactions be standardized so that waste can be cut back without alienating customers?' In the past, many firms resisted lean philosophies, arguing that they have no place in the services sector. But now, the landscape is changing. Service providers are finding ways to use lean processes which have led to significant cost savings and higher rates of customer satisfaction.

Devesh Raj, a partner and managing director at The Boston Consulting Group (BCG), has worked with a variety of service providers, including banks, airlines, hospitals and call centers, to implement lean strategies. In a recent interview with Knowledge@Wharton, Raj shared his insights about how lean processes are changing services for the better and steps executives can take to introduce lean practices in their service organizations.

An edited version of the conversation appears below.

Knowledge@Wharton: Let's talk about lean practices in services. Ever since the 1950s when Toyota started implementing lean manufacturing, lean has become a ubiquitous word in manufacturing, but that has not been the case for services. Why is that?

Devesh Raj: Let's first define "lean," see how it applies to services and why people should care. As you said, lean has had a long history in the manufacturing space. In the last decade or two it's become much more common to see it applied to services.

Lean is about taking the customer's perspective on a process and taking out waste from a process. It's more difficult to execute lean practices in the services sector compared to manufacturing because you are not dealing with a physical, tangible product. In the manufacturing context, the product is typically a widget. You're making the same thing a million times over. In the services context, each transaction is slightly different because you're dealing with people and they're not identical. You have to account for

that complexity when looking at the process and thinking about how to improve it.

Also in manufacturing, the process of making a product is usually not visible to the customer. So you could, for example, have a process that has a high defect rate but as long as you have a step at the end that takes out the defects you can get a terrific product to the customer at a great price. That's a perfectly acceptable trade-off. In services, however, usually the customer sees everything. For example, if you are standing in line at a Starbucks and there's a high error rate or major delay in the process, you experience it immediately. You cannot cover it up.

Furthermore, from a practitioner's perspective, when you're looking at a process and trying to improve it, it's much easier to do this in manufacturing because waste is very visible. You can walk into a manufacturing plant and see if waste exists. You'll see inventory piled up. You'll see defects and rejects. You'll see bottlenecks. But if you look at service processes, typically they are now electronic processes and you may see rows

and rows of cubicles with people working away at the process, but you won't see any physical waste. In this scenario, you have to map out the process carefully, understand the facts, and lay out the value stream to try to figure out where the waste is. As you can see from my examples, applying lean practices to services is a little more subtle compared to manufacturing.

Knowledge@Wharton: Why should companies care about lean services?

Raj: We are currently facing a challenging macroeconomic environment where it has been difficult to grow. This will likely continue for the foreseeable future. Competition is intense and consumers' attitudes and perceptions are changing. Consumers have been conditioned by the evolution of technology and the era of social mobile to expect high levels of service. Companies have to adapt and respond to those expectations.

When we look at service processes in companies – both customer facing ones and back office ones – we actually don't find them to be very responsive to the needs of customers. They tend to be slow, error-prone and lead to customer dissatisfaction. Think about your own experience interacting with your bank or with your telecom provider. You'll find plenty of areas where processes could be a lot more responsive. Lean is a set of techniques that looks at processes from a customer's perspective and tries to help take out everything that the customer does not feel is adding value. This can be a powerful lever for companies to significantly improve on cost, efficiency and effectiveness, which will ultimately result in a better customer experience.

Knowledge@Wharton: If a company is able to use lean practices to identify waste and fix service problems, what kind of impact does that have on the bottom line?

Raj: Lean efforts can be transformational. Costs generally drop by 25% to 33%. For example, we often work with telecom clients and we've helped these companies consolidate the steps they take to install new services in homes. What used to

take roughly eight steps now takes a single step. Our clients end up with significant costs savings in the range of 30% to 40%, plus they cut the cycle time by more than half. That's an example of taking out costs using a lean lens.

But it's important to note that lean is not just about minimizing costs. It's actually about improving the quality of the customer interaction. So in that particular example, reducing the time to install a new service is a huge benefit for the customer too. Lean can help improve value for the customer.

Knowledge@Wharton: Let's go back to something you mentioned earlier about how it's difficult to standardize services. What are some of the challenges involved in standardizing operations in services?

Raj: As I mentioned earlier, in the services context you're not producing widgets, you're producing a very human customer experience. But people tend to group transactions into categories, which can be problematic because you can never make them fully identical. The challenge with service standardization is that you can take it to the nth degree in manufacturing, but you can only take it so far in services.

When implementing lean processes, standardization is one lever that tends to be used but there are a host of other levers as well, from reducing unnecessary steps, to eliminating rework and so forth – those are all integral parts of lean standardization.

Knowledge@Wharton: Could you give any examples of companies that have done an outstanding job in implementing lean services?

Raj: Certainly. Let me start with a finance process, which is representative of a lot of back-office processes such as finance, HR and IT. Accounts payable is a common process in a lot of companies where you pay invoices to vendors. Usually a large group of people process these invoices to ensure payments are on time and accurate. One of the issues we typically find with these processes and other transaction processes

is the issue of variability. It's a classic lean waste issue since there is unevenness in the process. We often test it in the following way: We create a dummy invoice and send it to ten different operators. We repeat this three different times and look at the level of variability in this process. We are very frequently stunned by the results. We often see a 6-7x difference in the productivity of the best performer compared to the weakest performer. This happens because people haven't been trained consistently and are following different practices. Furthermore, there's generally no expectation for how long a transaction should take. Nobody's measuring it. They often measure performance at an aggregate level across the group, but individual performance on a transaction is often not measured, tracked and managed. Taking out variability can be a really significant opportunity.

Another example is customer support calls to retail banks. This process has cyclicality in work volume because calls to retail banks will often go up in volume and come down. Often these peaks are predictable. So in the retail bank that we worked with, for example, the middle of the week is when the calls peak. If you don't handle that peak time with extra capacity, you can lengthen the average wait time of the call, the customers will get frustrated and they can drop off. That's not a good outcome. Companies will generally handle this with additional staffing around peak times, but those people are not doing much the rest of the days. A simple idea that you would see in lean is the idea of cross-training across different groups to smooth out the utilization. So for example, you could take the mortgage desk, cross train them on handling support calls and bring them into service whenever the call volumes peak. Then they can go back to their work on the other days. This is a simple example that we've seen work in the banking space and in most customer-service operations.

These examples of cross-training and tackling uneven processes grew up in the manufacturing world, but can be very powerful in a services context.

Knowledge@Wharton: Let's say a company wants to implement lean services. When they try to implement a lean program, what are some of the most common obstacles? How can these obstacles be overcome?

Raj: There are three fairly straightforward obstacles. The first is finding the lean opportunity. Actually ferreting out where the waste is happening in the services area takes a little bit of work.

The second common issue is getting buy-in from people in your organization. Ultimately, service processes are about people and it's about getting people to think and work differently. There are ways to overcome this hurdle: involve people in the process and give them ownership over the changes.

The third challenge is sustaining the changes. Even after lean efforts have been designed and implemented, we often see that it's hard to sustain the improvements. If you don't monitor, track and encourage people to continue the change and sustain it, there can be a reversion back to old practices. These are the common challenges.

Knowledge@Wharton: In a recent report you identified several success factors that companies need to pay attention to if they want to implement a lean program. Could you take us through a few of those?

Raj: Sure. One of the common success factors for a strong lean program is getting a really good understanding of how people spend their time. Within most service operations, most people don't track their time very well. They may track their time at a macro level, but they generally don't track specifics such as activity or transactions. You need this information to roll-out lean effectively and to figure out what's value-added work and what's not.

Another success factor: clearly measuring and monitoring success. Companies should clearly define measures or metrics to monitor the success of lean and make this very transparent. Whether it's a cost metric or a quality metric

around customer satisfaction, ongoing transparent tracking is extremely important.

A third success factor relates to ensuring that the management and employees in the company understand that lean is an ongoing process, not a one-time project. It involves a mindset shift. Lean starts with the philosophy that processes can always be improved. Everything can be improved. Going in with that mindset and instilling that mindset in the organization is another really important success factor.

Knowledge@Wharton: The last point you mentioned seems very critical, but it also seems like it's one of the most challenging. How can companies develop a lean culture?

Raj: You're absolutely right. This is one of the most challenging things for an organization because it involves changing what people do and how they work. It helps if executives really own the transformation and embody the behaviors that the transformation requires. Executives must embody this change and make this clearly visible to the people around them.

Also, pay close attention to the human aspect of this change. Getting people involved in the lean process and getting them to feel a sense of ownership is critical. Lean is about grass roots problem-solving. It's about getting the people who are closest to the process to think about what the improvements should be and then owning them and implementing them and seeing the results.

A third common success factor involves communication, communication, communication. It's really important to communicate clearly right

from the start of the effort with clear objectives, a clear platform and a rationale for the lean transformation. Keep communicating throughout the process as you try out different things. Communicating to the organization about what's going on, what improvements are coming out and celebrating successes will allow people to feel good about the change and make them feel involved in the effort.

Knowledge@Wharton: Let's imagine we have the CEOs and chief operating officers of some really large services companies sitting next to us right now. If they wanted to get started on lean initiatives within their firms, what advice would you give to them about getting started?

Raj: Start with a very clear idea about what you're trying to do and why you're trying to do it. Clear objectives and a rationale are important. Once you've done that, then you can launch a lean effort.

It can be beneficial to pilot a lean initiative in just a few business units at the beginning. Take a process, look at it through a lean lens, try to identify the sources of waste, pilot some improvements and see what results you get. This kind of approach helps you contextualize lean within your business and build some fact base and a level of confidence that it can work within your company.

After completing this pilot, you can launch a broader initiative and roll it out across the rest of the processes or business units in waves. Design a clear roll-out program or implementation program and ensure you communicate your vision to bring the rest of the company along.

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