

## **SSME—Let's Not Forget About Customers and Revenue**

**Roland T. Rust**

University of Maryland  
Robert H. Smith School of Business  
rrust@rhsmith.umd.edu  
301-405-4300

### **ABSTRACT / SUMMARY**

**The SSME movement, as currently defined, seems to be primarily focused on engineering/systems/operations approaches to service. This viewpoint is too limited, in that there is more to service than efficiency and productivity. In particular the customer side of service seems to be largely neglected. For SSME to achieve its potential, the topic of how to attract and grow revenue from customers needs to be a central element.**

### **INTRODUCTION**

At the SSME meetings to date, almost all of the participants from academia have come from one particular point of view—that of engineering, systems science, and operations. This is strange, given that by far the largest and best-established academic literature in service has emerged from service marketing. While the engineering/systems/operations viewpoint is a valuable one, and is an integral part of what SSME should be, its present dominance in the discussion threatens to make SSME much narrower than it ought to be.

### **WHAT ABOUT THE CUSTOMER?**

It is axiomatic in business that profit is equal to revenue minus cost. The cost side is addressed well by the engineering/systems/operations approach, but the revenue side is not. The revenue side of service is addressed primarily by the marketing point of view, supported by such fields as human resources, economics, psychology, sociology, and information technology. Work in the revenue side of service can involve quantitative models (Rust and Chung

2006) or behavioral (e.g., Finn 2005). The perspective, in either case, is firmly rooted in the social sciences. Thus, it is essential that the social science viewpoint, as typified by marketing, be included as a key part of SSME.

### **TRADEOFFS**

Too much emphasis on the productivity and efficiency side of service can be counter-productive. Unlike the manufacturing environment, the service environment involves important tradeoffs between productivity and customer satisfaction. While the quality movement of such gurus as Deming and Juran saw efficiency and productivity as the road to customer satisfaction and revenues, their theories were developed in a manufacturing context. More recent research shows that their ideas do not hold as confidently in the service context.

Specifically, uncritical attention to productivity and efficiency in service can result in a downward spiral of customer satisfaction and revenues (Oliva and Sterman 2001). Research also shows that firms should focus on either high productivity or high customer satisfaction, but not both simultaneously (Anderson, Fornell and Rust 1997), and that firms that try to emphasize both cost reduction and revenue expansion simultaneously (or cost reduction alone) may be less profitable than those that place more emphasis on revenue expansion (Rust, Moorman and Dickson 2002). Collectively, the research tends to indicate that focus on revenue expansion is a key element of service profitability.

## **UNDERSTANDING CUSTOMERS**

While the engineering viewpoint toward service tends to look internally toward the systems and procedures by which service is supplied, the marketing/social science viewpoint tends to look externally toward customers. Understanding customers is critical for any service business, because customers and their decisions are the source of all revenue. Research to understand customers is generally based on the social sciences. We need to understand how individuals (psychology), groups (sociology) and cultures (anthropology) choose to buy and to form relationships with the firm (marketing). We also need to understand how groups within the company work with each other to provide service teams that serve customers effectively (human resources), and how such teams can be effectively managed (management).

## **CUSTOMERS OVER TIME**

One of the most important characteristics of service is that it often involves relationships with customers that unfold over time. In other words, the dynamics of the customer relationship dictate how the firm should look at revenues and profits. This means that current snapshots such as market share, revenues, and profits, are less important than long-term measures such as the discounted cash flows of future profits and customer equity share. Customer lifetime value is the most important customer measure. Aggregating this across all of the firm's current and future customers yields the firm's customer equity (Rust, Zeithaml and Lemon 2000), which has been shown to be a reasonable proxy for the value of the firm (Rust, Zeithaml and Lemon 2000; Gupta, Lehmann and Stuart 2004).

## **MAKING SERVICE REVENUE IMPROVEMENT FINANCIALLY ACCOUNTABLE**

The customer equity perspective makes managerial actions designed to increase service revenues financially accountable. By relating the increase in customer equity to the investment

required to produce that increase, a return on investment (ROI) can be obtained (Rust, Lemon and Zeithaml 2004). Being able to do this is essential, because it creates a way to evaluate the financial impact of service improvements. Thus, while the financial impact of cost cutting efforts is often very easily evaluated, the financial impact of revenue expansion efforts requires more effort and more sophisticated models. Nevertheless this is an essential task for any company that seeks to build its service profitability.

## **GRANT FUNDING**

A serious continuing problem with the service research agenda is that the largest funding source, the National Science Foundation, shares the very narrow view of the scope of fundable service research as being engineering/systems/operations. If this narrow viewpoint persists, it will greatly hinder the advancement of the field. Reasons for not funding revenue/marketing-related service research include that such work is "not science," but that objection is patently ridiculous. Social sciences are sciences, too. What's more, much of what is currently funded is really technology and not science. That is legitimate (technology is valuable, too) but there are also social technologies (e.g., models for providing better service to customers) as well as engineering-based models (e.g., how to build more efficient service systems).

## **CONCLUSIONS**

In summary, SSME should expand its horizons. Currently the people and topics involved are too narrowly defined. In particular the revenue expansion wing (the customer side) of service research is almost completely overlooked. This points to the need to expand SSME's inclusion of service marketing and the social science point of view in general. This is also important in terms of providing grant support. The most interesting developments in service research will occur when different ways of thinking collide, and currently that is not happening enough.

## REFERENCES

Anderson, Eugene W., Claes Fornell, and Roland T. Rust (1997), "Customer Satisfaction, Productivity, and Profitability: Differences Between Goods and Services," *Marketing Science*, 16 (2), 129-145.

Finn, Adam (2005), "Reassessing the Foundations of Customer Delight," *Journal of Service Research*, 8 (2), 103-116.

Gupta, Sunil, Donald R. Lehmann and J. A. Stuart (2004), "Valuing Customers," *Journal of Marketing Research*, 41 (1), 7-18.

Oliva, Rogelio and John Sterman (2001), "Cutting Corners and Working Overtime: Quality Erosion in the Service Industry," *Management Science*, 47 (7), 894-914.

Rust, Roland T. and Tuck Siong Chung (2006), "Marketing Models of Service and Relationships," *Marketing Science*, forthcoming.

Rust, Roland T., Katherine N. Lemon, and Valarie A. Zeithaml (2004), "Return on Marketing: Using Customer Equity to Focus Marketing Strategy," *Journal of Marketing*, 68 (1), 109-127.

Rust, Roland T., Christine Moorman, and Peter R. Dickson (2002), "Getting Return on Quality: Revenue Expansion, Cost Reduction, or Both?" *Journal of Marketing*, 66 (October), 7-24.

Rust, Roland T., Valarie A. Zeithaml and Katherine N. Lemon (2000), *Driving Customer Equity*, New York: Free Press.