

## It's About Time

A JOURNAL OF STRATEGY & BUSINESS TRANSFORMATION

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"Time is money." The phrase has become a cliché, but is still as true as ever. In a society of increasing material wealth, time continues to displace money as the limiting constraint for decision making. Time can buy money, but money can't always buy time. Just ask any frazzled parent or overworked middle manager.

Yet just as we try to make more effective use of what time we do have, we – consumers, employees, managers – face ever greater obstacles just to keep up. Simple phone tasks that used to take a minute or two now consume several times that. We use our limited time to navigate lengthy telephone menu systems and wait on extended hold (all the while being told "your call is important to us.") The wait in line, at what used to be called a "fast" food restaurant, just seems to be getting longer and longer. And we find our commutes becoming longer too, as we spend more and more time sitting in traffic.

There's no question that highway capacity is a scarce resource, particularly in many urban areas. A 2001 study by the Texas Transportation Institute estimated the annual cost of traffic congestion in the U.S. at nearly \$80 billion dollars. Yet we as a society seem helpless when it comes to efficiently allocating our highway capacity.

For a number of reasons, highway space is rarely assigned based on what motorists would be willing to pay. Instead, access is barely managed at all. Access to most roads is effectively free until the road reaches capacity; thereafter, usage is effectively rationed to those who are willing to sit in traffic. Unlike a sensibly priced toll, the revenues from which can be used to fund additional construction, maintain existing roads, or even reduce taxes elsewhere, *the time that motorists spend sitting in traffic provides no economic benefit to the system.*

Adam Smith recognized that it's economically inefficient to allocate a useful commodity resource (like gold) for use as coinage. Using a less scarce substitute metal makes the society more efficient because the gold can then be used where it is most economically productive. Likewise, forcing people to pay by consuming time is a non-productive use of a limited resource, and a net drain on the economy. And unlike gold coins, which can at least be used over and over again, the time spent "paying" to drive on an overcrowded freeway can never be reused or reclaimed. That scarce resource is gone forever.

The strategic use of time is a concept that is only partially appreciated. Competitive pricing strategies are widely embraced, but few of those strategies explicitly recognize the role of con-

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sumer time requirements as a component of total price. Business process optimization projects are common, but most optimization is from the firm's point of view, not the customer's. Strategic use of time means more than shortening product development times or enhancing internal processes. It involves a wholesale recognition that time is an important (and scarce) economic resource that pervades every interaction a firm has with its customers, employees, and suppliers.

### A framework for time-based decision-making

One way to make more effective use of time is to always keep two deceptively simple questions in mind. First, does a specific action or initiative save time, or does it consume additional time? This question applies not just to a specific firm or individual, but to everyone involved in buying, selling, using, or delivering any product or service. It also leads directly into the second question: How are the time savings (or costs) to be shared and compensated amongst the participants? Together, these questions provide a basic framework for exploring time-based initiatives.

The first question provides an obvious place to start. Where are the time-wasters in your organization? These time-wasters include many of life's little unnecessary annoyances – the clumsy and confusing web site that makes it hard to accomplish a simple task like selecting and buying a product, those inscrutable product instructions that make it impossible to correctly assemble your patio bench the first time around, or that stupid billing error that takes hours to track down and correct. Time-wasters consume time but yield little or no benefit in return.

A well-designed web site doesn't necessarily cost more than a clumsy, time-wasting site, but offers significantly better value by making customers more efficient. Likewise, well-written product assembly instructions need not cost more than the confusing variety. Many companies have worked diligently to eliminate problems with order, billing, or product quality. Such efforts often start out as a way to reduce a firm's direct customer service costs, but often generate broader operating efficiencies and improved customer satisfaction. By eliminating the time-wasters, firms help themselves and their customers.

The second question, how to share benefits or compensate participants, introduces economics into the process. A company may find that it can generate considerable cost or time efficiencies, but only by imposing moderately higher time costs on customers. One example is product assembly, where shipping unassembled products can save considerable transportation costs. If

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the incremental time cost of customer assembly is less than the total assembly and shipping costs saved, this represents a net economic benefit. One task is to devise an appropriate pricing strategy that shares the net economic benefit, compensating the consumer for incremental time costs in a way that provides superior returns and improved market position for the seller. A broader challenge is to adopt a mindset that incorporates time requirements as an added dimension to pricing and strategic positioning.

Some firms, whether intentionally or accidentally, find themselves "stealing time," which is when a company shifts a significant time burden onto customers (or others) in order to create only modest incremental benefits for itself. Examples of such "time crime" (thanks to Contributing Editor Elaine Baran for coining the term) range from email "spam," which is easy to send and time-consuming to clean out, to inappropriately long customer queues (whether at airline ticket counters, customer service call centers, or retail check-outs). One critical aspect of "stealing time" is shifting the burden onto unwilling participants, often those who are unable to take their business elsewhere. The perpetrator may be a customer service organization which intentionally understaffs as way of discouraging inquiries or service requests, or an airline that routinely tolerates check-in queues stretching out the door. Although the consumers may already be locked in to this particular purchase, the firm runs the risk of converting these customers into "victims" and generating a strategic opening for competitors willing to offer a better deal for the customers' time.

Basic mathematical models derived from queuing theory provide insights into the tradeoffs between customer service levels and the cost of providing such services. For example, the length of a queue is often highly sensitive to small changes in the number of customer service personnel. Using plausible estimates observed during a recent business trip, a typical airline ticket counter with six customer service reps would be roughly 98% efficient at keeping the staff busy, but could easily have fifty people in line and an average wait approaching a half hour. Increasing the number of service reps from six to seven cuts the line down to almost nothing, with an average expected waiting time of less than two minutes. Whether through policy decisions or poor management, our sample airline implicitly values the time of one additional service rep as being equivalent to roughly forty-five passengers. If a service representative's time is worth, say, \$15 per hour, the implication is that the airline values the traveler's time at less than thirty-five cents per hour. Creating equivalent estimates for a call center is more difficult; waiting on hold doesn't provide visibility into the number of service reps, arrival rates, or the number of people in the queue. Nevertheless, one basic principle still holds -- when a company forces customers to spend

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significantly more time waiting than being served, it is likely that a modest increase in capacity would result in dramatically better service. The implication is that customer time has little value for such companies.

Of course, it may not be as simple as adding a few customer service reps. The system must have sufficient capacity to accommodate the incremental volume, the benefits must be apparent to current and potential customers, and enough customers must be willing to pay for improved services so that the firm can justify the investment in terms of better margins or additional volume. Still, any firm with the opportunity to make a significant reduction in total product cost would be seriously evaluating its options. Why should the approach be any different when that cost is measured in minutes, rather than dollars?

By recognizing the economic value of time and expanding their perspective beyond internal boundaries, firms increase their capacity for generating value, and add another dimension for differentiating themselves against their competitors.

### Ten Ways To Make The Economics of Time Work For You

(1) Pay attention to time. Be as efficient at controlling time costs as you try to be at controlling cash costs. Seek out and eliminate unnecessary inefficiencies wherever possible. While this objective certainly sounds obvious, many firms find that nothing gets done unless it is made a priority. Consider the fast food industry. Despite the label, fast food is often anything but fast. When the industry started paying attention, it realized that faster service directly increases revenues. One 1999 study showed that sales at a typical Burger King restaurant grow \$15,000 a year for every second it shaves off drive-through time. Once the fast food industry recognized the importance of service times, they were able to find numerous ways (including training, incentives, process changes, and technology) of speeding up customer service. These opportunities were all available previously, but nothing was done until service time became an explicit priority.

(2) Focus on the big picture. Many companies have undertaken re-engineering projects or similar efforts in order to save their own time. Fewer have recognized the opportunity to save time for their customers. Every minute you save for the customer is equivalent to reducing the customer's cost of buying your product or service. A technique may make *you* more efficient, but if it causes the customer to wait then you've effectively increased the total cost of your product. And don't forget employees, suppliers, and other business partners. Wasting their

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time can be just as damaging as wasting customer time.

(3) Use queuing theory and agent-based modeling to measure and manage the trade-offs between cost and customer service times. Queuing theory provides a set of proven models for analysis of customer service processes. Agent-based modeling, not as simple to use but potentially offering even richer insights, draws upon complexity theory to describe emergent patterns in customer service systems.

(4) Make queuing time more productive. If you can't (or won't) change your system to reduce customer waiting time, help your customers make more efficient use of that time. Consider the example of Disney theme parks. Waiting in line is one pervasive downside of the theme park experience. (Any park with sufficient capacity to eliminate lines would likely be prohibitively expensive to operate.) Disney's strategy has been to make queuing time more enjoyable, by offering entertainments, games, and other diversions to waiting guests. It's hard to imagine a park that customers would visit just to stand in line, but a park that makes lines more enjoyable can generate significantly higher revenues by accommodating larger crowds of happy customers.

(5) Define metrics to monitor how you and your competitors use customer time. Most companies today rigorously measure the cost of providing products and services, and continuously monitor their costs against competitor costs. The time it takes a customer to use your service is another type of cost, and is just as important to monitor. Just as a more expensive product creates openings for competition, a company that extracts a higher time cost for its products also makes itself vulnerable to competition. Boeing's new Sonic Cruiser jet is designed to save more time for travelers. Not only does the plane's faster speed make for shorter flight times, but the plane is tailored for point-to-point itineraries (rather than funneling huge number of passengers through congested central hubs), thereby shortening total travel times even further.

(6) Offer alternatives to segment the market. While it's economically inefficient to use queues solely to regulate demand, they can be a useful tool to segment the market. IBM pioneered the time-based segmentation concept by artificially slowing down computer chips so that it could maintain high prices for customers able to pay for top performance. They were then able to capture additional revenue (while protecting their big-ticket accounts) by providing the slower machines to customers who would have otherwise gone elsewhere. Priceline follows an analogous segmentation strategy -- liquidating excess capacity at low prices to customers who assign relatively low values to their time, thereby protecting the higher-margin

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time-sensitive customer base. Some amusement parks have started using time-based market segmentation in the opposite direction, holding prices relatively steady for the majority of their price-sensitive customers, but capturing incremental revenues by providing special services to VIP customers willing to pay extra to bypass queues.

(7) Use technology to speed up customer service, but be wary of potential downsides for customers. Many forms of technology offer the potential to improve customer service, response time, and overall efficiency. Just remember that if these involve a significant customer learning curve, if they don't work as promised, or if they slow down your customers, then your great leap forward will be perceived as a big step backward. Automated telephone menus and voice mail are generally thought to represent progress, but how many customers yearn for a simple human voice? ("Good morning. Acme Corporation. How may I direct your call?")

(8) Provide information. Most consumers would avoid buying a product with no posted price, yet many companies expect customers to make a time commitment with little or no information of the time involved. Providing information (how long a wait to expect, how long it takes to assemble the product) allows consumers to make economic decisions regarding their time. Some decisions may well result in lost sales but many will result in a more economic use of available resources, such as consumers calling back when they have more time or when demand for service is lower.

(9) Provide accurate information. Customers don't know whether you've quoted them the wrong "time price" until they've paid it, so low-balling the wait may allow you to salvage some sales. Doing so also undermines your credibility for all future interactions.

(10) Know when to speed up, and when not to. The overall theme of this article is that queues are bad and saving time is good, yet speed isn't always appropriate. Nobel-Prize-winning economist Gary Becker has suggested that fine restaurants will sometimes want to encourage queues. An orderly reservation process that efficiently deposits arriving diners right to their tables may be efficient from an economic perspective, but a long line at the front door and a crowd waiting at the bar convey to the world that this establishment is a hot destination and an experience worth waiting for. On a more mundane level, fast service may not always be worth the cost of providing it. Assign appropriate costs to customer waiting time, factor in your own costs, and optimize appropriately.

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### Conclusion

Time is indeed a scarce commodity. Customer time requirements are just as much a part of product cost as the price quoted on the price tag. Many companies act as though they aren't concerned with consuming customer time, which opens a new dimension of competition for firm's which are attuned to the issue. Enhance your value proposition by providing customers more time-efficient ways to do business with you. It's about time.