Service Management – Service Strategy

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Room HS 024, B4 1
Vision Wanted!

- How to place a service in the market? - All begins with an entrepreneur’s idea and an unmet need … (Fitzsimmons & Fitzsimmons, 2011)
- “For any given market space, service strategy defines the portfolio of services to be offered and the customers to be supported.” (Iqbal & Nieves, p. 161, 2007)
- Strategic service vision needs to be formulated when entering a market
- 4 categories of elements of strategic service vision (Chase & Hayes 91)

Service Delivery System
Operating Strategy
Service Concept
Target Market Segments

- Specific questions help to develop categories
- Startup firms should answer questions from right to left
Strategic Service Vision

How well is the service concept positioned in relation to customers’ needs and competitors’ offering?

Example

**Target Market Segments**
- State of Texas residents
- Business traveler who drives because of inadequate service
- Inexpensive family travel on weekends

(Heskett et al., 1997; Fitzsimmons & Fitzsimmons, 2011)

Target Market Segments

What are common characteristics of important market segments?

Which dimensions can be used to segment the market? (demographic, psychographic)

How important are various segments?

Which needs do they have?

How well are these needs being served … in what manner? by whom?
Strategic Service Vision

To what extent is the value of results and process quality for customers leveraged on service provider costs?

Example

Service Concept

- Serves peanuts and soft drinks only
- Use of inner-city or low traffic airports avoids congestion
- Short flights with frequent departures
- Carry-on luggage

(Heskett et al., 1997; Fitzsimmons & Fitzsimmons, 2011)

Service Concept

What are important elements of the service in terms of results for customers?

How are these elements supposed to be perceived by the target market segment? (by the market in general, by employees, by others)

How do customers perceive the service concept?

Which efforts does this suggest in terms of the manner in which the service is ... designed? delivered? marketed?
Strategic Service Vision

Does the service delivery system support the operating strategy?

Example Operating Strategy

- Quick turnaround at gate results in high utilization of aircraft
- No assigned seating rewards punctuality and promotes on-time performance

(Heskett et al., 1997; Fitzsimmons & Fitzsimmons, 2011)

Operating Strategy

What are important elements of the strategy? (operations, financing, marketing, organization, HR, control)

On which strategic elements most effort will be concentrated?

Where will investments be made?

How will quality and cost be controlled? (measures, incentives, rewards)

What results will be expected vs. competition in terms of ... QoS, cost profile, productivity, morale/loyalty of servers?
Example

**Service Delivery System**

- Fun cabin atmosphere to differentiate service
- Use only Boeing 737 aircraft to control maintenance and operating costs
- Hire cabin crew based on attitude

(Heskett et al., 1997; Fitzsimmons & Fitzsimmons, 2011)
Competitive Environment of Services

- Formulating a **strategic service vision** is important - Why?
- Service firms compete in difficult economic environments characterized by …
  1. Relatively low overall **entry barriers**; e.g., service innovations are not patentable and are not capital-intensive in most cases
  2. Reduced opportunities for **economies of scale**
     (new: cloud computing/utility computing)
  3. Erratic **sales fluctuations**; service demand varies as a function of time and day of week
  4. No advantage of size in dealing with buyers or suppliers; caused by **small size** of many service firms

(Fitzsimmons & Fitzsimmons, 2011)
(5) Product substitution - product innovations can be substitutes for services (e.g., home pregnancy test) and vice versa (e.g., washing machine -> launderette); service firms must also watch other potential products innovations

(6) Customer loyalty - created by established firms

(7) Exit barriers – e.g. difficult to drive out non-profit organizations or low-profit firms

• New entrants have to develop service strategies that address important competitive features of their respective industries

(Fitzsimmons & Fitzsimmons, 2011)
3 generic competitive strategies (Porter, 1980)

1. **Overall cost leadership** - Implementing low-cost strategy requires high capital investment in state-of-the-art equipment and aggressive pricing; can revolutionize an industry, e.g., McDonald’s, Walmart

   - Seeking out **low-cost customers** that are willing to buy in quantity, without frills and serve themselves
   - **Standardizing** a customized service; routine professional services at low cost
   - **Reducing personal element** in service delivery; high-risk strategy accepted by customers if increased convenience results
   - **Reducing network costs**
   - Taking service operations offline; “decouple” service transaction from customer, e.g., drop-off/pick-up

(Porter, 1980; Fitzsimmons & Fitzsimmons, 2011)
(2) Differentiation – Creating a service that is perceived as being unique based on brand image, technology, features, customer service, dealer network etc. - primary thrust lies in creating customer loyalty; e.g., American Express, Mercedes-Benz, Apple

- Making intangible services tangible, e.g., by reminding customers of their purchase
- Customizing the standard product; providing a personal touch
- Reducing perceived risk, e.g., provide extra time to explain work to be done to avoid lack of information about the purchase
- Giving attention to personnel training - enhanced service quality
- Controlling quality - delivering consistent level of service quality

(Porter, 1980; Fitzsimmons & Fitzsimmons, 2011)
Focus – servicing a particular market very well by addressing customers’ specific needs, e.g., particular buyer group, service or geographic region; examples are low budget hotels, overnight package delivery etc.

- Combination of differentiation and/or overall cost leadership in a particular market rather than entire market

(3) (Porter, 1980; Davidow & Uttal, 1989; Fitzsimmons & Fitzsimmons, 2011)
Strategic Analysis

- “Yes or No!” – “Should we enter an industry with a new service offering?”
- 2 popular planning tools

<table>
<thead>
<tr>
<th>SWOT Analyse</th>
<th>Intern Analysis</th>
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<tbody>
<tr>
<td><strong>Stärken (Strengths)</strong></td>
<td><strong>Schwächen (Weaknesses)</strong></td>
</tr>
<tr>
<td><strong>Chancen (Opportunities)</strong></td>
<td>Verfolgen von neuen Chancen, die gut zu den Stärken des Unternehmens passen.</td>
</tr>
<tr>
<td><strong>Gefahren (Threats)</strong></td>
<td>Stärken nutzen, um Bedrohungen abzuwenden.</td>
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- Porter’s five forces analysis of target industry structure (Porter, 1985)
- SWOT analysis to assess the organization’s strengths, weaknesses, opportunities, and threats in a market

(Fitzsimmons & Fitzsimmons, 2011)
**Competitive Role of Information**

- IT helps to define competitive firm strategies
- Strategic roles of information in services (Fitzsimmons, 1993; Heskett 1986; Bott, 1985):

<table>
<thead>
<tr>
<th>External (customer)</th>
<th>Online (real time)</th>
<th>Offline (analysis)</th>
</tr>
</thead>
</table>
| **Creation of barriers to entry** | - reservation systems  
- frequent user club  
- switching costs | **Database asset**  
- selling information  
- development of services  
- micromarketing |
| **Revenue generation** | - yield management  
- point of sales  
- expert systems | **Productivity enhancement**  
- inventory status  
- data envelopment analysis (DEA) |

| Internal (operations) | | |
|-----------------------| | |
| **Collecting and analyzing information of (multisite) service operations** | | |
Look at the 3 generic strategies, i.e. cost leadership, differentiation and focus.

Which of the four competitive uses of information is most powerful for each of the 3 strategies?

Discuss it with your neighbor!
Heads up!

- Limits in use of information - questions of fairness, invasion of privacy and anticompetitiveness

- Anticompetitive
  - Frequent flyer programs - How to consider free-trip awards? Removal of price competition?

- Fairness
  - Is yield management fair? Easiest way to start a riot when asking passengers on a flight how much their tickets cost.

- Invasion on privacy
  - Record of every private purchase? Big databases with personal data?

- Data security
  - Transmission of these personal data to other firms?

- Reliability of data
  - Are the data correct, e.g., considered by a credit-report agency?

(Brady, 2000; Fitzsimmons & Fitzsimmons, 2011)
Virtual Value Chain

Physical Market

Establishment of presence in electronic market based on competitive position in physical market

Electronic Market

Virtual world of information

Collecting information to improve service delivery process and creation of customer value

- Traditional, physical value chain consists of sequence of stages beginning with manufacturing and ending with sales to customer
- Virtual value chain (Rayport & Sviokla, 1995) was traditionally treated as value-adding elements; not as source of value - but this is no longer the case in service companies

(Rayport & Sviokla, 1995; Fitzsimmons & Fitzsimmons, 2011)
Virtual Value Chain

- Value-adding process of virtual value chain must gather raw information that is processed and finally distributed
- Value-adding steps are virtual; performed through and with information
- Creation of value at any stage involves sequence of 5 activities: gathering, organizing, selecting, synthesizing, distributing information

(Rayport & Sviokla, 1995; Fitzsimmons & Fitzsimmons, 2011)
Virtual Value Chain

• First Stage – New Processes
  • Considering physical operations more effectively with information, e.g., paperless operations

• Second Stage – New Knowledge
  • Virtual alternatives substitute for physical activities, e.g., installing information systems to automate business while capturing information about customers

• Third Stage – New Products
  • Analysis of customer information to discover new product needs and methods to deliver value, e.g., customization of standard products

• Fourth Stage – New Relationships
  • Exploration of opportunities for customer collaboration in the co-creation of value, e.g., web-based user-generated content concerning products

(Rayport & Sviokla, 1995; Fitzsimmons & Fitzsimmons, 2011)
Stages in Service Firm Competitiveness

- Framework provides way to **measure and evaluate** a firm’s progress in developing the service delivery system.
- Services need not start at stage 1 (*Detailed discussion in exercise*).

**Available for Service**
- Operations need to be performed at minimum cost.
- Firms are either relatively young or those that serve a niche market.

**Journeyman**
- Keeping pace with competitors.
- All operate essentially the same way.

**Distinctive Competence**
- Clear vision of what creates value for customers.
- Consistent choices with respect to service quality.
- Operations is typical advocate of TQM.
- Challenge for operations: assure that the operations strategy remains supportive.
- Open to new service initiatives.

**World-Class Service Delivery**
- Operations become pro-active, forcing higher performance standards on the whole company, identifying new business opportunities, helping redefine the firm’s competitive strategy.
- Create needs, establish expectations, and continually expand those expectations.
- Customer = consultants.
- IT = potential means for develop competitive advantage.

"Don't screw up"
Literature

Books:

Papers:
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