SSME Considerations for the Management of Services

Supporting presentation: mgmt.ppt

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Slide 1: Title

This module includes some considerations for the management of services in strategic management, operations, and marketing activities.

Slide 2: Objectives

The focus of this unit is to introduce you to the notions about what differs in the management of services versus traditional operations or manufacturing management. We assume you have foundational knowledge about techniques of business management; and refer you to various sources to read up on these subjects. We'd like you to think about why these activities are different:

- Creating a services strategy and the unique aspects of services management planning
- The competitive role of information in services
- Services development
- Process analysis
- Diverse marketing challenges in services

Slide 3: Strategic planning process

Note: The discussion about strategic planning that follows was drawn from information from our Pearce and Robinson text. It should be noted that the authors have drawn upon works by Henry Mintzberg and Michael E. Porter.

Strategic planning is a process by which:

- A firm analyzes current conditions,
  and projects which might happen in the future

- From this, it makes decisions about what it should do,
  within the context of its goals

The strategic planning process is much the same for services as it is for products. A services firm would follow the same steps as a manufacturer.

For example, there is usually a department or function called perhaps, marketing intelligence whose members are tasked with reading about the competition and the future as well as talking with customers. They compile the information and make predictions about what might happen, and analyze what is happening. The business takes all this into consideration when it decides what it wants to invest in or divest of.

Think about a fast food company – seeing the Atkins diet trends and putting plans in place to update their menu. They might sell the same things, but with different names to appeal to the public, or they might stop buying buns.

Slide 4: Components of the strategic management model

Using the components of the model from the Pearce and Robinson text becomes, in effect, the process by which strategy is developed. Strategy formulation is a circular process because circumstances constantly change. It needs to be done continually, not at set intervals. The steps are:

1. "SWOT" (look at your strengths, weaknesses, opportunities and threats);
2. Strategy formulation;
3. Strategy implementation;
4. Evaluate results;
5. Reformulate strategy

These are very similar for services and products. The items in **bold** below are mentioned in several texts as being particularly important in a services business, and will be covered in more detail later in this module:

- Mission
    - Look up one or two services businesses on the web and see if you can find a mission statement. Some publish them, some don't. A mission statement is

supposed to tell customers and employees in simple concise terms, just exactly what the business does. It should be so easy to remember that people can use it to help choose their day to day priorities.

- **Internal analysis – the quality and quantity of the firm's resources; strengths and weaknesses; and competencies**
  - If DB2 is the next big thing and your company has no one trained, then you have to decide whether to use sub-contractors or purchase training. The answer will depend on what core competencies support your chosen mission.

- **External environment – forces over which the firm has little to no control.**
  - If you can't control the market, your customers, your competition then you need to develop plans to be able to work within those outside constraints (or opportunities).

- Strategic analysis and choice
  - Your crystal ball must be better than your competition (you hope) in order to set your goals to make you the winner in the marketplace.

- Long-term objectives
    - The goal is to achieve objectives in terms of: profitability, productivity, competitive position, employee development, employee relations, technological leadership, and public responsibility. These goals are common to most businesses.

- **Generic** and grand strategies – the firm's competitive posture (generic); and the firm's plans to achieve long-term goals (grand).
  - There are only 3 generic strategies, and the grand strategies will be associated with one of the three. An example might be Wal-Mart, with a clear generic strategy of low-cost leadership. Their grand strategy (or one of them) most likely was associated with having the fastest supply chain. It does not appear that they have adopted differentiation in services provided to customers.

- Action plans and short-term functional tactics
  - These result from the higher level planning above, and are typically annual plans and budgets.

- **Policies that empower action – allow people to make decisions in sync with strategy without having to check with the boss.**
  - For services, keeping the decision maker at the front lines is usually very important to differentiation in service. Think about calling the help desk for a computer problem, and it needs to be replaced. Is it not much better for you to be informed that the process indicates you'll get a new PC in 3 days, and you don't need three signatures to get it?

- Restructuring, reengineering and refocusing the organization
  - This could occur when your analysis indicates you need to exit a line of business. For example, when IBM sold its personal computer division.

- Strategic control and continuous improvement
  - The idea here is that you can't check up on the profits once a year – one needs to manage and adjust consistently, and there are processes to do so.

Slide 5: Internal analysis

The quality and quantity of the firm's resources; strengths and weaknesses; and competencies

Service Delivery System		Operating Strategy		Service Concept		Target Market Segments
Features: -People -Technology -Processes Capacity constraints How will it: -ensure quality, -help you differentiate, -create entry barriers?	Does the service system tie to the strategy?	**Elements:** -operations -finance -human res. -etc Where will you focus? Measures? Incentives? Compare to competition -costs -etc	Can you provide the service required and still make a profit?	**Results** What do your customers want? How are results perceived? What effect on design, delivery, marketing?	How is the concept positioned relative to customer wants and competitor's offering?	**Dimensions** What do segments have in common? How to segment? What needs do they have? How well are they already being served?

*****Elements of the Strategic Service Analysis; Adapted from Fitzsimmons text:
Fitzsimmons, J.A. & Fitzsimmons, M.J. (2006), *Service Management: Operations, Strategy, Information Technology,* NY McGraw-Hill. Table 3.1 p 39
**Original source J.L. Heskett, W.E. Sasser, and L.A. Schlesinger. (1997). *The Service Profit Chain.* New York: The Free Press, p. 9.

The chart above shows a nice example of how the aspects of strategy planning affect different functions of the business. An adjustment in one area affects others.

Slide 6: External environmental factors pertinent to services

<u>External Environment</u> – forces over which the firm has little to no control

The <u>remote environment</u> is outside of our operating situation. We make plans to respond to this.

- Social

What are the beliefs, attitudes, values and opinions held by our potential customers? How are these molded by the culture, demographics, religion, education, and so on? With our customer as co-producer of value and the end service valued as perceived by them we need to understand them very well. In addition, we have to consider what affects customer loyalty.

Many companies have initiatives for social responsibility as well as communications about their practices and actions. An example is IBM's program for recycling to protect the environment. Another is IBM's and other's programs to enhance K-12 education.

- Technological

How can we avoid having our service become obsolete, or avoid a dependency on technology that will become obsolete in short order? How often will we need to redesign our service? How can we be innovative and lead our industry? What are the limits to self-service?

If we have a hair cutting chain today, and tomorrow there is a helmet that comes from the ceiling to give us our style; how can we use our resources to adjust our service to make it so unique or special that people will desire it over the robot?

The industry environment encompasses the nature of our competition. These are elements of the industry environment particularly important to services strategy... (Fitzsimmons)

- Low barriers to entry (typically)
- Many firms unable to take advantage of size in dealing with suppliers or buyers
- Innovations or products make certain services obsolete (substitutes)
- Demand fluctuations

Example: Wal-Mart almost putting K-Mart and Sears out of business.

The operating environment is about what affects us in getting resources or being able to market profitably.

- Human resources

Can we recruit and retain the right skills? Are we focused on strengthening our core competencies? Are there non-core competencies we should outsource? Do we empower out people? Are they motivated and do they believe in our service?
If one's firm core competency is writing software, then we might decide to outsource some non-core business processes like our financial functions or other support like IT.
For an interesting read, see the McKinsey Quarterly (2005, Issue 3) "*The 21st century organization*", by Lowell L. Bryan and Claudia Joyce.

- Information (data) creates a competitive advantage (Fitzsimmons)

Barriers to entry (switching costs, systems used) – examples:

- reservation systems, frequent buyers clubs
- Travelocity, AA.com; Sam's club, grocery club

Revenue generation (point-of-sales) – examples:

- internally – expert systems, sales yield management
- Systems prompts to ask if consumer wants associated products or services
- System selects best balance of airline seats with low prices versus business fares

Database asset (micromarketing) – examples:

- Targeted mail to selected neighborhoods
- Solicitations for mortgage refinancing

Productivity (inventory, knowledge assets) – examples:

- Supply chain and inventory management –
  - Managing wait times, managing employee schedules
- Data for employees to increase their ability to serve clients

- Potential ethical dilemmas in using information
  - Anti-competitive use of data holds client to one vendor – like frequent flyer miles
  - Fairness – think about the variations in the price of airline tickets
  - Privacy – those buyer clubs know exactly how much you buy of what and how often
  - Data security - would you like your groceries compared to your health assessment?
  - Reliability – data is often wrong, collected wrong or interpreted wrong – statistical generalizations represent everyone and no one

- Difficulty creating economies of scale
  - Because of the simultaneous production and consumption of the service; the client typically needs to be with the producer
  - Example: you can't get your hair cut remotely

        - Example: this is a challenge that technology can help with – a person does not need to go to the bank to get cash if there is and ATM nearby (where they serve themselves)

Service firms diagram their processes in order to become more efficient. How many steps are there? How many hand-offs, are there any circular loops? Is feedback captured? How many people are needed?
How does your process balance mass service with custom service? One size does not fit all.
See also topics on Component Business Modeling; Business Process Transformation
Think about the limitations of taking cost out of services; when will you be providing no value?

- Exit barriers

  Some privately held firms operate with little profit, or even a loss. In these cases, a profit-motivated firm would not be able to drive them out of business.

Slide 7: Fitzsimmons discusses elements of generic business strategies.

1. Cost leadership in services
    - Requires consideration of the following
        - Efficient-scale facilities
        - Tight cost controls
        - Investment in high-technology
        - Sacrifices in pricing, initial start-up losses
    - May look for customers who cost less to serve
    - Network strategy
2. Differentiation in services
    - Creating a service that is perceived to be unique; the drive is for customer loyalty over stringent cost controls.
3. Focus in services
    - The intention is to serve a narrow market segment in an exceptional way.

The three generic strategies are low-cost leadership, differentiation, and focus within cost or differentiation. It is said that a firm should have a generic strategy, which in turn drives their long-term strategy. We should be able to identify the underlying generic strategy by looking at a firm's grand strategy.

1. Cost leadership in services
    1. Requires consideration of the following
        1. Efficient-scale facilities
        2. Tight cost controls
        3. Investment in high-technology
        4. Sacrifices in pricing, initial start-up losses
    2. May look for customers who cost less to serve
        1. Mass-customization
        2. Self-service
    3. Network strategy
        1. Moving services "off-line" (for example, low cost labor in an AP country or drop-off, pick up stations)
2. Differentiation in services
    1. Creating a service that is perceived to be unique; the drive is for customer loyalty over stringent cost controls. Some ways firms go about this are:
        1. Providing a tangible reminder of the intangible service
        2. Making the standard product "special" (customize)

   3. Reducing the perception of risk
   4. Personnel training
   5. Quality controls
3. Focus in services
   1. The intention is to serve a narrow market segment in an exceptional way.

Firms focused on cost alone may lose any competitive edge if the client believes their service to be the same as another; there is no incentive not to switch to the lowest cost provider. An example is what happens with the phone service providers, both mobile (cell) and physical (land line) platforms.

Firms focused on differentiation might be a car dealership like Mercedes who assign loaner cars to people who own high-end Mercedes which are in for service at regular intervals.

Firms focused on service might custom design jeans to fit the buyer (this is also an example of where service and a good are interlinked).

Slide 8: Choosing a business strategy

- Balance a mix of strategies
- Trade-offs between risk and growth
- What to in-source / out-source

- Annual or short term objectives
- Measures

Firms want to develop their competitive advantage via cost leadership, market focus, and differentiation opportunities. There needs to be a balance among the strategies, as over time we have observed that a firm using only one strategy is less successful than firms using a mix. To rationalize the decision companies need to think through many considerations such as the balance between risk and growth, whether or not to purchase some capabilities and how the competition will react.

<u>Implementing Strategy</u>
The long-term strategy and breaks down into logical steps usually called short term or annual objectives. These are supposed to be measurable, help employees understand priorities and must be linked back to the long-term objectives.

Current management pundits are telling us that in services it is no longer a good idea to focus on only one generic strategy. As with the voice service example, a company can drive itself out of business focusing on cost alone. This notion of balance of the strategies is a nuance not stressed in manufacturing management.

Slide 9: Policies, Organization, People

- Create policies that empower action
- Structure may need to be adapted to strategy
- Three driving forces
  - Globalization
  - The internet
  - Speed

<u>Policies and organization</u>

Organization structure should be designed to implement the current strategy rather than strategy designed to fit the existing structure. Structure follows what's needed for your particular business situation. When your strategy evolves, the organization needs to change as well. The sooner you are able to match structure to strategy, the more competitive advantage you will reap.
Three driving forces affecting how businesses organize are:

- Globalization – need to get the right structure to support a balance of local resources, information transfer, leadership and culture. Consider the consequences of outsourcing your help desk or sales to India, for example.
    - How will it affect your employee morale? Your client's perception? Your knowledge base?
- The Internet – gives everyone access to an immense collection of information at any time, from anywhere. This allows communications and coordination never imagined in the old structures. Decision-making no longer can be a headquarters function only. Traditional structures are too heavy and cumbersome for this setting. Your customer may know more than you do about your service.
    - For an interesting article go to McKinsey Quarterly, "*The next revolution in interactions*" (2005, Issue 4) Johnson, Bradford C.; Manyika, James M.; and Yee, Lareina
- Speed – enabled by technology allows levels of collaboration world wide and inter-enterprise heretofore unknown. Traditional hierarchies become terribly inefficient in this environment. The value of time has an incredible impact on customer perceptions.
    - Think about "your call is important to us, please hang on for the next…" How long do you wait nowadays? How long did you have to wait 10 years ago? When do you get to talk to a person versus keying in responses?

Slide 10: Organization and culture

- Today's landscape
    - Continual change
    - Dealing with ambiguity

- Leaders influence organizational culture
    - Culture has a great effect on success

Leadership plays a crucial role in implementing new strategy. Leaders (whether they are managers or not) help people deal with change and its consequences. <u>This is especially important in providing services, as you need your people to be able to adapt to what amounts to continual change.</u>

- First, create comfort with change: Explain the strategy and create a picture of the future that people can understand and relate to; make it simply stated and easy to remember.
- Next, management aligns their structure accordingly. Reorganizing introduces even more change. It takes some time to build the informal structures necessary to accomplish work following the formal announcement.
- Finally, leaders need to influence the organizational culture. Shared beliefs shape how we act. In order to change what we do we need to change what we think. Otherwise we continue to act in the same old ways.

You will be able to find many articles on adaptability and dealing with ambiguity. These are skills required for the workforce now.

Slide 11: Organizational culture

- **How we do things around here**
- **Common values**
- **Global challenges**
- **Balance control and empowerment**
- **Rewards and reinforcement**

Shared beliefs (values) influence how we act. Culture is this common set of values. (Note that you can have your own values separately from the work environment – that would be another culture set.) We want to cultivate a culture that gets things done efficiently and to the benefit of the business. At some companies that might mean "we're proud to give you good service" and at another perhaps "we are creative and entrepreneurial". Leaders consciously create ways to foster the culture that will support the objectives. Here are some ways:

- Communicate to nurture key themes that support competitive advantage
- Tell stories that reinforce the basic beliefs (story telling is the oldest form of education)
- Create programs to institutionalize key values
- Adopt a common theme and customize it for their situation

Managing culture in a global environment is especially challenging. Cultural diversity affects how people view each other and interact therefore one set of beliefs may not travel to another part of the world. You need to determine how to balance control and empowerment, grant power at the right levels, ensure information is shared to the right levels, and administer rewards and recognition to reinforce desired behaviors and share knowledge and experience for performance enhancement.

IBM held a "Values Jam" to derive common themes about "who we are and what we do and how we act" by asking some open ended business related questions. The input received was collated to become our company's values, which shape our choices about what we do:

- Dedication to every client's success.
- Innovation that matters – for our company and for the world.
- Trust and personal responsibility in all relationships.

There's a fairly good chance we as a company can embrace these values because they are a compilation of our collective thoughts and beliefs.

Slide 12: Adaptive management

One approach to organizational management

- *"Sense and respond"*
- *Adaptive managerial framework*

Sense and Respond is the name given to an adaptive managerial framework developed at the IBM Advanced Business Institute. It is an internally consistent and scalable recasting of strategy, structure, and governance for environments of unpredictable change. In such environments leaders can no longer rely on planning, process designs, hierarchies of authority, and command and control. Instead of operational excellence in executing plans and processes, the core competences of an enterprise are: to know earlier the meaning of what is happening now, to dynamically dispatch modular capabilities to respond, and to express the strategy of the enterprise as a systems design of roles and outcomes. Each role in the design is accountable for producing outcomes for other roles.

The design specifies the interactions between the roles, not their activities. Sense and Respond is a foundational business model framework for on-demand, customer-back e-business; thus, Sense and Respond is distinguished as a managerial framework from sense and respond, the *desirable behavioral trait. Sense and Respond, the managerial prescription, produces sense and respond behavior systematically and at scale.* (IBM Systems Journal 2003)

See also http://senseandrespond.com/index.html (retrieved 10 May 2006)

Slide 13: Another view

- **Tangible culture**
- **Business practices**
  - **Made explicit may influence culture**

Culture is a complex network of interdependent tangible and intangible elements that influence, drive and often determine employees' actions. Often business leaders shorten all of this to the definition of "how we do things around here." Business Practices are the rarely-documented "how" that drives the "what" people do. They are patterns of behavior and action that exist among members of the same organization. They are powerful because they make organizations distinct, even if they use the same processes, policies, measures, and technologies that other organizations use. (Schein) Culture is always important in a business setting, and within a services environment, it becomes inextricably linked with the primary business delivery itself through the employees and partners interacting with clients and customers.

Business leaders often take action to directly impact the culture they seek – such as define values they want to share, principles they want to prioritize, and behaviors they want to motivate. There is an emerging view that there is another area that can be even more valuable in defining expectations – that being the definition of business practices. Business practices are collective organizational habits – the things that people know are expected of them in that organization. For instance, are processes to be strictly adhered to, or is there latitude to do things differently at times? Are policies without exception, or can judgment be applied to some? Should the first step in problem-solving be alternative generation with colleagues or notification of the manager that the problem exists? Business practices are rarely documented and must be learned by new members of the organization – often by a mentor showing them "the ropes" and by watching others be successful and unsuccessful.

Business practices exist for every area of business (e.g., processes, policies, measures, decision-making, reporting). They make companies unique even if they use the same processes, policies, and the like that other companies use. They are a representation of culture that is visible to customers and clients – especially in a services environment since they are demonstrated through people who are delivering the service, often in front of or side-by-side with the customer or client. Aligning business practices for the environment a services provider wants to create first starts with defining expectations, and then aligning the enablers to direct people toward those expectations. Enablers include leadership style, organization structure, roles and responsibilities, compensation and incentives, rewards and recognition, communications, and human resources policies – just to name a few.

Two culture considerations that are increasing in frequency and impact in today's environment are the impacts of extended enterprise connections and global business. When multiple companies come together, or when people from different companies must work together, there is a risk of "culture clash" – which is the result of what IBM calls "right vs. right" business practices: multiple "right" options for achieving the same objective that happen to conflict with each other. Right vs. right is dangerous if left to resolve on its own because it often doesn't resolve, and even when it does, it has caused delays, eroded relationships and lingering issues in the meantime. [Sara J. Moulton-Reger]

Slide 14: Controls and making progress

Managerial activities are needed to control long term strategic plans, put operational controls in place, monitor performance, and evaluate deviations from the plan. Systematic procedures allow us to validate the assumptions we made when we created our strategy and quickly recognize changes and make adjustments. (See Pearce and Robinson for additional materials on this topic)

Some of these are:

- Premise Control (monitor the environment)
  This is your marketing intelligence department. Watching the competition and what is going on in the world.
- Special Alert Control (exception management)
  This is an operational control – when something goes wrong, the right people get notified.
- Strategic Surveillance (dashboard)
  This is choosing the top five or so measures you pay attention to on a regular basis, tracking trends, making sure no surprises come up.
- Implementation Control (portfolio management)
  This is pure project management methodology, managing the set of projects as results are achieved and making choices about which set of projects to implement. Project management is a separate course altogether.

Slide 15: Measurements

- **Hard to do**
  - **Too much data, poor collection decisions, erroneous data**
- **"You get what you measure"**
  - **What leaders inspect is what people work on**
- **Customers don't know what they think is good, they just know when it's bad**

Performance measurement is a hot topic in all types of organizations today, but few organizations do it well. Despite data-packed information systems, it is truly astounding how many decision-makers ignore or use very little of that data, and end up making decisions solely on intuition. Most companies are at a loss concerning how to deal with all the data they have. For example, one supermarket chain was collecting 340 million different data points per week, but was only using 2% of it. Interestingly, this is not primarily a technical problem, since organizations invest heavily in measurement-related technology. It is a problem about not knowing what to do or how to do it.

It is also about alignment. Probably the biggest single problem in any organization is the poor alignment of the measurement system. Still worse, most organizations don't have a single measurement system, but many functional measurement systems that work at cross-purposes. "You get what you measure" is the fundamental principle of performance measurement. If the right things are measured, the right things will happen. But what are the right things? Most of what organizations measure is routine—the hundreds or thousands of measures that permeate every nook and cranny of organizations—and most of these measures do nothing more than perpetuate the status quo. In order to improve, organizations need to focus on a *critical few* measures that will make a real difference to the organization's competitive advantage. Do you know what those vital few measures are in your organization?

Increasingly companies are adopting newer measures such as *Customer Experience* (it isn't just about the product anymore), *Customer Profitability* (too much customer-centricity can actually kill an organization if it is focused on the approximately 80% of customers who are actually unprofitable!), *Customer Lifetime Value*, as opposed to traditional measures, such as *Customer Satisfaction*, which, although still important, have deceived many companies into thinking that they were competitive while driving some of them into bankruptcy (mainly because it has been conclusively found that as many as 90% of departing customers said that they were "satisfied" immediately prior to their attrition!). In addition, many companies are finding that up to 80% of their market value is tied up in intangibles (such as innovation, relationships, and intellectual capital) that organizations are at a loss for how to measure.

Of course services organizations face additional measurement challenges. Manufacturing companies produce products that are rather stable and easy to measure. In contrast, the dynamic services environment poses unique challenges. For example, where product quality can be assessed fairly objectively, service quality is done much more subjectively, using a service quality assessment tool, for instance.

Measuring intangibles and services are two of the big challenges of the 21st century management. If we don't measure them better then we won't be able to manage them effectively or create the kind of value that is possible. [Dean Spitzer]

Slide 16: New service design considerations

<u>New service development</u>
In services, developing a new service is often a result of customer participation and feedback, with much more customer input than simply 'giving requirements'. At times, service innovations are technology driven, at others the need for innovation drives technology.
The typical cycle involves setting objectives, generating ideas, analyzing them, then selection and development. Testing services is different from prototyping. You can tell whether or not a prototype works, but if you don't understand your customers well, what may work for one sample set may not meet the needs of another.

Facilities design notes:
Examples: land, space, flexibility, security, aesthetics, the community; etc; Servicescapes (Bitner) -- Depending on who performs the service, and whether it is elaborate or not, different types of conditions need to be met. Ms. Bitner describes a framework of how physical surroundings affect customers and employees. She discusses how these conditions affect perceptions and responses which in turn affect behaviors.

Information
I/T is pretty much a fundamental ingredient in daily life. Employees can access information to facilitate their interactions with customers. Customer's access to information allows them to make choices, keep informed, and educate themselves about what they require.

Slide 17: Analyzing process, blueprinting

There are several methods in use today to help service providers look at their processes with a view towards improving them for customer satisfaction or profitability.

One is generically called process analysis:

- Like a construction plan, this method helps the service designer see what will work, what aspects of the service need to be changed or otherwise specified to work well. It maps

out all the steps in a service, and help identify bottlenecks, inefficiencies or potential problem areas.
- Maps the service process, showing customer points of contact and the evidence of the contact from the customer point of view, all on one plane.

An analysis like this might also be known as service blueprinting; component business modeling, business process modeling. Each method has its own nuances of technique.

This slide (17) depicts service blueprint components adapted from Zeithaml, et al, page 268, figure 9.6

Each method can be slightly different, with an underlying common goal: to understand your processes in enough detail to be able to measure, adjust, improve or otherwise adapt to fulfilling client desires.

Slide 18: Component Business Modeling

CBM – Component Business Modeling
- Groupings of people, technology and resources
- Delivering some value
- May operate independently

- Enterprise view of collection of components

Created in response to 90’s corporate restructurings and the changing nature of markets into specialized sub-industries representing specific points in the value chain.

CBM breaks the organization into separate 'components'. This helps managers to “disentangle" the organization allowing them to make better decisions.

Each component is a grouping of the people, technology, and resources delivering specific business value and potentially able to operate independently. Components have well-defined interfaces, allowing them to interact smoothly with each other and to be 'snapped' in and out at will, like building blocks.

Using the CBM, an enterprise can be viewed as a collection of components coming together to create business value.

The CBM is an end-to-end way of looking at the business through the business layer, the application layer and the IT infrastructure. The combination of the views of all the layers is the foundation for enterprise recommendations. IBM links CBM with service-oriented architectures (SOA), to address the underlying IT infrastructure as well.

After building the component map, one can identify improvement opportunities by choosing and applying evaluation criteria such as cost, revenue potential of a given market opportunity, strategic fit, alignment between business and applications, or others. This is done by asking diagnostic questions for all relevant components. Applying these criteria produces a ‘map,' which shows where opportunities exist.

More information on CBM can be found at http://www.ibm.com (search on CBM)

Slide 19: Strategic positioning through process structure

- From Fitzsimmons (pp 84-86)

- Process enables positioning
  - Complexity ← → divergence
- Service process object
    - Goods
    - Activity exchange
- Degree of customer contact

A firm develops its processes to enable its strategic positioning. Modifications to process can increase or decrease complexity and make the service more or less divergent, resulting in either high margin, lower volume services or low margin, higher volume services. For example, think of the ritzy health spa services which is classified as “high divergence” (very much customized service) as compared to the fictitious haircut factory “cutz-r-us” which would be thought of as “low divergence” (a standardized service or the production line approach)). In B2B, think of a legal service as compared to a check processing or printing service. There is a continuum between low and high divergence for all sorts of service offerings.

The structure is also affected by the “service process object” – does the service involve a good (example: dry cleaning); or does it involve the exchange of an activity between people (example: counseling). In these examples the “object” is either the dry cleaning or the counseling.
Another structural consideration is the type of customer contact involved.

- Customer is physically present
- Contact is indirect, through an electronic or other medium
- No contact required

Slide 20: Service system design

- Continuum of customer activity as co-producer
  - From ‘production line’
  - To self service

Production line – most like manufacturing models also known as “fast food”

- Employees have limited discretion; labor is divided into sub-parts; there are standardized methods and outputs. The notion of customer as co-producer is very loosely pertinent in this category. In “have it your way” you make the choices but not the sandwich.

With the customer as co-producer there are ranges from total self service to being served.

Are there limits to self service?
Firms save money by shifting work expended to the customer; customer benefits from lower prices. At what point is the savings exceeded by the cost of time and energy expended by the customer?

Service design is also affected by degrees of customer contact required. A service firm might have both high and low contact operations. High and low operations require that one consider service design in terms of location, facilities, process, planning, skills, quality, time, wage and so on. In IT services this is illustrated by the data center being far away from the customer location and the relationship executive and staff being co-located.

Slide 21: Managing capacity and demand

- Strategies to manage demand
  - Segmenting customers
  - Price incentives

- Other promotions
- Complementary services

- Strategies to manage capacity
  - Shared capacity
  - Cross-training
  - Part-time
  - Shifts
  - Increasing customer participation

Strategies for managing demand are used to shift demand to map to your ability to deliver. Some of these are: segmenting the customer base (grouping (weekday, weekend, random, planned?)); offering price incentives, promoting off-peak demand, and by offering complementary services (gas and groceries for example).

Strategies for managing capacity are used to accommodate varying demand. Some of these are: sharing capacity (let others use your stuff for a fee), cross-training (employees do other things), part time employees and shift scheduling as well as increasing customer participation (think fast food and being your own busboy).

Slide 22: Service supply chain

- Systems view
- Attempting to generate efficiencies
- What's different in the services supply chain?
  - Customers as suppliers result in relationships rather than a chain of activities.
  - Typically production and consumption occur at the same time.
  - Service capacity is "inventory".
  - The customer may supply shoddy inputs

A supply chain is considered to be a total systems view, and supply chain management is oriented to drive benefits in efficiencies (cost, speed, JIT, etc). The use of IT to manage partners, suppliers, manufacturing, transportation, shipping, receiving, billing, retailing, payments, and coordination of all elements for moving product to end users is an example of this concept.

What's different in the services supply chain?

- Customers as suppliers result in relationships rather than a chain of activities.
- Typically production and consumption occur at the same time.
- Service capacity is "inventory".
- The customer may supply shoddy inputs.

Simultaneous optimization is about balancing what is best for both the customer and the provider. Productive capacity improvements are implemented in these ways: transfer (make knowledge / skill available to the customer), replacement (substitute technology for humans) and embellishment (enabling self service).

Often outsourcing is used to enhance the services supply chain. There are many reasons to consider outsourcing to become more efficient. Some of these may be: to allow you to focus on your core competencies; it might be cheaper; it could reduce capital investments and leverage economies of scale. Conversely some drawbacks need to be considered and addressed on the flip side. They include your loss of direct control; encountering employee fears; security and privacy issues; you might become dependent on one supplier; it could add expense for coordination and if you had any competency in the area, it will be gone.

Some examples of outsourcing are: facility support, equipment support, employee support and development, routine business support and other professional services.

Slide 23: Value chain

- Process view
  - Activities in order
    1. Portfolio
    2. Design
    3. Demand generation
    4. Selling
    5. Production
    6. Delivery
    7. Invoicing
    8. Post sales support

Value Chain analysis
A value chain analysis considers the succession of activities (process view) that change our inputs into outputs that our customers want to buy. The typical framework consists of primary and support activities. Often, a service firm will consider outsourcing sets of activities to achieve cost reductions. A service company that reinvented itself using value chain analysis is Federal Express. Take a look at http://www.fedex.com/us/about/

The value chain is defined as a set of processes that are performed to provide value to the enterprise and its customers. It is supported by its value proposition, sources of competitive advantage, business rules and policies, applications and data.
Examples of some of the processes in a value chain are: portfolio analysis, service design, demand generation, selling, production, delivery, invoicing and post-sales support. Each step is intended to provide measurable value to the customer.

Virtual value chain – “marketspace” – 3 stages
1. Visibility: viewing physical operations more effectively with ‘information’
2. Mirroring capability: substitute physical activities with virtual alternatives
3. New customer relationships: evolve offering to meet consumer needs; example: event oriented service

Slide 24: Marketing

Strategy, branding, communications, pricing, profit

The experience has as much impact as the deliverable

Review “what are services?” and the nuances involved

- Customers don’t get a tangible product (usually)
- Services can’t be inventoried
- Value creation is also intangible
- The customer has skin in the game (co-producer)
- Other people, other firms contribute to the end results (often)
- Inputs/outputs are highly variable
- Customers have a hard time evaluating services (The experience has as much impact as the deliverable)
-

Value equation (Heskett, Sasser, Schlesinger) The value experienced by a customer is a function of the results they perceive plus their experience of the process involved, divided by the price they paid plus the cost to them for obtaining the service (convenience).

- Time is very important (non-financial costs to the customer for example)
- Distribution channels

Keep in mind three points of view in services marketing activities:

- Top management – for strategic execution and competitive advantage
- Line management - functional activities: such as pricing, communications, etc
- Organization – the firm's orientation – "customer care is our first priority"

Each viewpoint needs to be considered when making marketing decisions.

Categorizing services is a first step in setting a marketing plan. What are we processing? Is it people (healthcare), their possessions (dry cleaning), mental stimulus (entertainment) or information?

"Positioning" is about differentiating your firm from the competition. It links market and competitive analysis to internal analysis.

- See Lovelock's book (p 66) Table 3-1
- "Principal Uses of Positioning Analysis as a Diagnostic Tool"

Neglecting to select a target position can put your firm into problem areas – against stronger foes, where there's no demand, where consumers don't know what you are providing or no one has heard of you.

Slide 25: Positioning and branding

- Positioning
  - Analyze
    - Market – to segment
    - Internal – to target
    - Competitors – to differentiate

- Branding
  - Be memorable
  - Recognizable
  - "Mind-share"

<u>Strategy (positioning)</u>

As in the chapter on strategic management, the marketing organization needs to perform like strategic activities. These need to fit with the firms overall strategic plans, and a marketing plan is the result.

- Market analysis – analyze segments
- Internal analysis – choose target segments
- Competitor analysis – differentiate

A firm can change competitive positions through advertising or being innovative in order to be unique from your competitors.

<u>Branding</u>
Branding is used as a way to make your firm memorable. One form may have multiple brands. If we think of them as separate "products" we could use a services menu of options at different

price points and characteristics positioned to capture a specific customer segment. An example might be a hotel chain, with different hotel names that have varying amenities and price points.

Brands stand for a way of doing business. They are recognizable and have a particular meaning to customers. Sub-brands should imply the characteristics of the umbrella. Building a brand is about capturing customer "mind share". Firms may want to be known for being 'different', or be famous for something, or connect with you emotionally. Think about some familiar brands and the images they invoke. IBM, McDonald's, Accenture, Toys-R-Us, H&R Block.

Slide 26: Communications

- Inform, persuade, create credibility

- The 5 questions
    1. Who is the target audience?
    2. What do we want to tell and achieve?
    3. How should we tell them?
    4. Where does the communication go?
    5. When and how often?

Marketing communications create credibility and are used to inform and persuade. Of course, there are many different venues and opportunities to communicate. You'd choose them depending on who you are trying to reach or convince. Internal communications to employees equally as important to influence the culture you want to perpetuate.
The 5 questions

1. Who is the target audience?
2. What do we want to tell and achieve?
3. How should we tell them?
4. Where does the communication go?
5. When and how often?

We are bombarded by many such messages each day. Buy a car! Buy a better car!! We recycle!! We wouldn't know what we wanted if we didn't have the media to tell us --- or would we?

Slide 27: Pricing – cost based? Value based?

<u>Setting prices; value based pricing</u>
Pricing strategy depends on profit objectives and other considerations such as your need to achieve certain margins or cover costs. Other pricing options may be chosen on order to build demand, achieve full capacity, build your customer base or market share.

<u>Cost based pricing</u>
It is very difficult to understand all costs of service in order to determine your break-even point. Think of consulting for example. How much is the knowledge asset produced worth? The amount of time it took to create it? Then what about using it again is it then free? Also, what about the value of the customer involvement?
Some other costs to consider are "soft" or non-monetary and they accrue to both the supplier and the customer: time (to wait, to process, etc), physical (such as discomfort), psychological (such as mental effort, perception of risk), and sensory (such as unpleasant sensations).

Value based pricing
Customer perception of value compared to perception of cost to him/her is a paradox. It is subjective, and the customer does not really care about your costs to do business. There are trade-offs between costs and service levels; the customer decides what's worth it. If they are in a bad mood, they may not agree with your determination of value.

The notion of gross value is meant to reduce uncertainty by using benefit driven pricing or flat-rate pricing. In relationship pricing one may attract customers by low prices, but keep in mind that people who are attracted to low cost alone are easily swayed to the competition. (For more information, see Zeithaml, Bitner and Gremler text.)

Slide 28: The "P's"

Now 7 P's

- The 4 Ps from marketing
  - Product
  - Place
  - Promotion
  - Price

- The 3 Ps in services
  - People
    - Relationships and loyalty
      - Keep the 'right' customers
      - Existing customers increase profit added without additional cost.
  - Physical evidence
  - Process

Relationships and loyalty
We want to keep the 'right' customers because it's cheaper to keep them than find new ones. Existing customers increase profit added without additional cost. Loyal customers make referrals to others, reducing the firm's need to spend on getting new customers.

It costs a firm much more to acquire a new customer than to keep an existing one. In terms of profitability, it benefits the firm to analyze the balance between investing to keep clients satisfied and the cost of getting more clients.

The four Ps plus three (from Lovelock)

- Product, place, promotion, price are the traditional 4 Ps in marketing of goods
- People, physical evidence, process are the 3 Ps for services

So, there are really 7 Ps for services. Let's look at "people" for a minute. There's a debate starting to take place about the notion of "delivery factory". This is about making the delivery of a service (say, IT outsourcing) so mass-customized and so modular that a client can change requirements "on demand" and no human intervention is needed. Can we really take the people out of services? For more thoughts on this read about changing skills requirements and the notion of the "journeyman or craftsman" as the knowledgeable person that the low-end hands off to when the routine scripted response cannot solve a problem. You'll find information on this in much of our reference set.

Slide 29: What's different in marketing of services?

- Marketing mix more variable
- Closely linked marketing and operations
- Customer interface
- Inventory management
- Determining costs

Marketing is different in service primarily because of the co-production required on the part of the client. One must include considerations about

Managing client perceptions
Educating the client
Understanding what clients perceive as value
Managing expectations
Managing what you promise to what you deliver

Think about the last time you got your taxes done. What did you expect in terms of the completion time and output? Did the firm show you what you would get and tell you when they would return it? Were you surprised and happy when they exceeded their agreement, or were you unhappily complaining to your friends that the return was late and you were audited? What receipts and records did you turn in?

Another model worth considering is from Lovelock's book: The action / profit linkage model (APL) pp 474-485

- This model can be used to describe the links between
- Corporate strategy
- Company actions
- Service delivered
- Customer perceptions, actions, attitudes, behaviors

to

- Economic impact – revenue – profit

If you review this section of the text, you'll notice that the authors are suggesting a way to link intangibles to business results. We will not discuss this in depth in this introductory module. This is a good example of the direction toward scientific study we all need to follow in order to continue to innovate in services.

Some questions to consider

- **These might prove suitable topics for an essay or a discussion.**

1. How do customers choose a service firm? Write an essay describing what you should consider that *customers* think about when choosing a service.
   Thoughts should include descriptions of some of these aspects:
   - Availability, convenience, dependability, personalization, price, quality, reputation, safety, speed
   - Service winners: price, convenience, reputation
   - Service losers: dependability, personalization, speed
2. What ethical issues arise with data collection and storage?
   Consider: anticompetitive systems, fairness, privacy, security, and reliability
3. Discuss pros and cons of the "delivery factory" for IT services.
4. Prepare a short paper discussing capacity and demand strategies for IT outsourcing services.

5. Why do services marketing require an approach that is different from product marketing?

Activities 1

1. Choose a service company and write a description of how it does its strategic planning. Use your own firm as an example, or review FedEx, UPS, or one of the competitors of these firms.
2. Find the latest information about Intellectual Property ownership with regard to services and prepare a synopsis of the latest trends.
3. “The value of time perceived by the customer is directly associated with their perception of the value you provide.” Have a class discussion about this statement. Give examples of how waiting time might be perceived differently depending on the service desired.
4. Make a case to outsource one of your firm’s in-house functions.

Slide 30: Activities 2

5. Using the graphic on the slide, conduct a discussion about the possibilities or limitations of business process outsourcing from two viewpoints – that of the firm and that of the customer.

Summary

Having completed this unit, you should be able to discuss:

- **Creating a services strategy and the unique aspects of services management planning**
- **The competitive role of information in services**
- **Services development**
- **Process analysis**
- **Diverse marketing challenges in services**

Readings

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