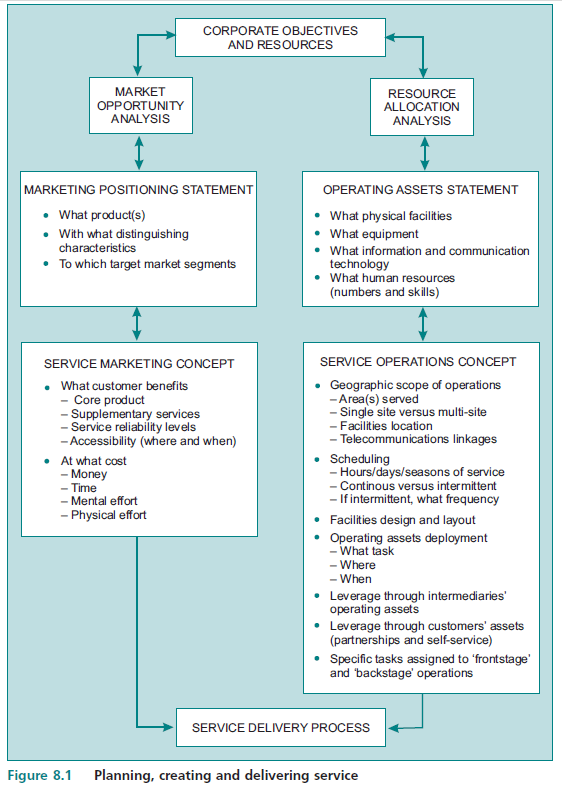
**Service Marketing**

**Part Three**

**Module 8 – Creating Services and Adding Value**

8.1 Services Products as Experiences

8.1.1 Designing Services for Success



* Above figure shows the steps involved in planning, creating and delivering services
* Key Steps:
  + Starts at corporate level with institutional objectives and appraisal of current or obtainable resources
  + From a market and competitive analysis, define marketing opportunities
  + Positioning strategy must then be related to a statement of operating assets needed for execution – can organisation afford to allocate the physical assets necessary
  + Establish a service marketing concept – what customer benefits and costs are involved
  + In parallel, establish a service operations concept – the scope and scheduling of operations etc.
  + Service marketing and operations concepts interact with a set of choices that management must make in configuring the service delivery process

8.1.3 The Technological Revolution in Services

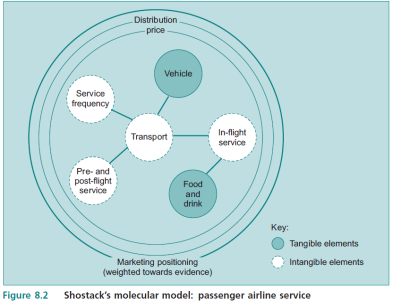
* Technological advances have had a huge impact on the way services are produced and delivered

8.2 Core Products and Supplementary Services

* Increasingly supplementary services offer points of differentiation

8.2.1 The Augmented Product

* Augmented product = supplementary elements that add value to manufactured goods
* By highlighting the tangible elements in a service, marketers can determine whether their services are tangible dominant or intangible dominant
* The more intangible elements exist, the more the need to offer tangible clues about the features and quality of service
* We need to define whether intangible services are needed to facilitate use of the core service or simply add appeal
* Also, whether customers should be charged separately for each service element, or bundled into one price tag



8.3 Classifying supplementary services

* We need to develop flow chart to identify existing supplementary services for a product
* Supplementary services tend to be similar across a range of core services
* We can classify supplementary services as either Facilitating or Enhancing
* **Facilitating:**
  + **Information**
  + **Order Taking**
  + **Billing**
  + **Payment**
* **Enhancing**
  + **Consultation**
  + **Hospitality**
  + **Safekeeping**
  + **Exceptions**
* People Processing services tend to have more supplementary services
* A company’s market positioning strategy helps to determine which supp. Services should be included e.g. Airlines offer different levels of service like business class based on adding supp. Services at each level

8.3.1 Information

* New customers are particularly information hungry – which product suits their needs, opening hours, receipt etc.
* Internet is becoming more important as an information source

8.3.2 Order Taking

* It should be polite, fast and accurate – here technology plays a key role
* Establishing a formal relationship with customer can aid order taking

8.3.3 Billing

* Inaccurate, illegible or incomplete bills offer a opportunity to disappoint customers
* Needs to be timely
* Market research helps to design clear and useful bills

8.3.4 Payment

* Customers expect ease and convenience of payment
* There needs to be control to ensure people pay what is due, but they should not harass honest customers

8.3.5 Consultation

* Consultation (unlike information) requires a dialogue to probe customer requirements and then develop a tailored solution
* It could be a response to the question – What do you suggest?
* Customer records can be an aid in Consultation
* Counselling and solution selling are two examples

8.3.6 Hospitality

* Pleasure at meeting new customers and greeting old ones when they return
* Full expression occurs in face to face interactions

8.3.7 Safekeeping

* People want assistance with their personal items
* Examples include; baggage transport, parking, safekeeping of valuables
* Its caring for a customers possession or those purchase by them e.g. delivery, maintenance

8.3.8 Exceptions

* These fall outside routine of normal service delivery
* Examples:
  + Special requests in advance of service delivery : childrens needs, deviations from standard operating procedures
  + Handling special communications: Complaints
  + Restitution: Refunds, compensation

8.4 Managerial Implications

* Different types of services will have different supp elements:
  + People processing - supp services very important, especially hospitality
  + Possession services – safekeeping important
  + Information services – safekeeping not as important (apart from financial services)

8.4.1 Product Policy Issues

* The decision about which supp. Services to offer is primarily a product policy and positioning issue
* Managers should continuously review their own policies to ensure that pricing of core and supp services is in line with market practice and what customers need
* No frills service providers tend to charge for each supp service
* All elements of supp service should receive care and attention to ensure service looks fresh and appealing

8.5 Planning and Branding Service products

8.5.1 Product Lines and Brands

* Most service organisations offer a line of products rather than just a single one
* Some of these products can be differentiated by brand but operate in same industry e.g. different hotel chains owned by one company
* Supp services can differ widely in each product
* Brand is useful for clarifying and making tangible distinctive service offering in fields such as banking and insurance
* Objective is to transform as series of service elements and processes into a consistent and recognisable branded service experience, offering a definable output at a specified price e.g. a range of branded health plans with different levels of health cover

8.5.2 Using research to design new services

* Market research can inform what features and prices will create the best value for target customers
* Research can tell you what service elements are more important and hence what trade offs you should make in designing and implementing your service

8.5.3 Achieving success in development of new service elements

* Three factors contribute most to success are:
  + Market Synergy –
    - product fits well with existing image of the firm
    - provides advantage over competition
    - received strong support during and after launch
    - firm has good understanding of customers purchase decision behaviour
  + Organisational Features
    - Strong inter-functional cooperation and coordination
    - Development personnel were aware why they were involved and its importance
  + Market research factors
    - Detailed research was conducted early in developmental process with clear idea of type information to be obtained
    - Good definition of product concept developed before undertaking field surveys

**Module 9 – Designing Service delivery systems**

9.1 Alternative Scenarios for Service Delivery

* Customers often expect service providers come to them e.g. Dominoes, rentokill
* Services marketing strategy must address place and time
* For high contact services, physical environment and customer contact staff define the identity of the service firm
* Low contact ones are designed primarily with productivity in mind
* The nature of the service both influences and is shaped by the distribution strategy – you need to select the channel that best meets needs of your target segment
* Some firms offer several delivery channels

9.1.1 Options for service delivery

* Key Question: does the nature of the service of firms positioning strategy require customers to be in direct physical contact with its personnel and facilities?
* Does customer have to visit facilities of service organisation ?
* Should firm maintain just a single outlet or multiple ones at different locations?
* Or should they interact at arms length e.g. telecommunications company

9.1.1.1 customer visit the service site

* Convenience of location and operational schedules important when customer has to be present

9.1.1.2 Provider comes to customer

* Trend is away from this due to expense
* Niche exists with those customers willing to pay extra

9.1.1.3 Arms Length

* Much of service delivery process can remain hidden

9.2 The Physical Evidence of Servicescape

* Servicescape is the style and appearance of the physical environment where customers and service provider interact
* Examples include: uniforms, lighting and ambient music, interior design
* Appeals to all five senses

9.2.1 Role of Physical Environments

* Physical evidence and accompanying atmosphere impact buyer behaviour in three ways
  + **Attention** creating medium that attract target segment and differentiates
  + **Message** creating medium that uses symbolic cues to communicate with intended audience about nature and quality of service
  + **Effect** creating medium – plays on senses to create an appetite for goods/services/experiences

9.2.2 eCommerce begins to reshape the retail landscape

* People lured in to eStores through four different factors
  + Convenience
  + Ease of research
  + Better prices
  + Broad selection
* Some retailers went online completely, others have on and off line presence

9.3 Place and Time decisions

* Place and time decisions should be based on
  + customer needs and expectations
  + competitive activity
  + the nature of the service operation
* Different distribution strategies may be more suitable for supplementary service elements than for core elements e.g. attending a sports event, you may expect booking to be available online

9.3.1 Where should the service be delivered

* Location is restricted by:
  + Environmental factors – e.g. airport, ski resorts
  + Economies of scale e.g. hospitals
  + Transportation routes e.g. malls near motorways

9.3.2 When should service be delivered

* 24x7 becoming the norm

9.3.3 Factors that encourage extended opening hours

* Economic pressure from consumers
* Changes in legislation
* Economic incentives to improve asset utilisation
* Availability of employees to work unsociable hours
* Automated self service facilities

9.3.4 Responding to customer need for convenience

* People expect supp services to be available when needed –e.g. customers service 24x7

9.3.5 Moving to a 24x7 service

* Mandatory for multi-national organisations

9.4 The Process of Service Delivery

9.4.1 Planning and configuring service delivery

* What should be the sequencing of various steps in the service delivery process? Where and when should these steps take place
* Should service elements be bundled or unbundled for delivery purposes
* What should be the nature of the contact with the customer? provider goes to customer, arms length or customer to provider?
* The nature of service process at each step - e.g. self service?
* Whats the serving protocol? Priority to certain types of customer?
* What imagery and atmosphere should the service delivery environment strive to create

9.4.2 How Technology is revolutionising service delivery

* Customers are now able to serve themselves much more than previously
* Five important innovations:
  + Smart phones allow customers interact with service firms computer
  + Broadband lines => large amount of data
  + Automated kioks e.g. ATMs
  + Fully functional web sites
  + Smart cards with chips containing customer information

9.4.2.1 The marketplace

* Physical environment necessary for people processing services

9.4.2.2 The marketspace

* Replace physical objects with information about those objects e.g. information based services - Argos
* The transaction occurs through different media – web site or telephone
* You can build up increased knowledge of customer

9.5 Role of Intermediaries

* Sometimes delegation of supplementary services is cost effective e.g. use of retailers by FMCG companies
* Sometimes the core service is delegated e.g. franchise operations

9.5.1 The problem of maintaining consistency

* Vital to ensure intermediary adopts exactly the same priorities and procedures, but vital to quality control

**Module 10 - Pricing Services**

10.1 Paying for Service

* Many different terms used for service prices – tuition, fares, commission

10.1.1 What makes service pricing different

* Intangible performances are harder to price than goods as its hard to calculate the financial costs involved
* Variability of inputs and outputs means that units of service may not cost the same to produce nor of equal value to customer
* Difficult to define a unit of service
* Types of costs
  + Fixed (overheads) – those costs that would still be incurred if no services were sold e.g. rent
  + Variable – economic costs associated with serving an additional customer. Usually very low e.g. price of a seat in a theatre
  + Semi variable - expenses that rise or fall in stepwise fashion as the volume of business increases/decreases e.g. extra flight to meet demand
  + Contribution – difference between variable cost and money received from buyer – it goes to covers fixed and semi variable costs before creating profits
  + Determining and allocating economic costs – difficult to assign fixed costs in a multi service facility. Can allocate by:
    - % of floor space
    - % of employee hours that service account for
    - % of total customer contact hours
  + Break even analysis - at what sales volume will service become profitable, got by dividing the total fixed and semi variable costs by the contribution obtained on each unit of service. The required sales volume needs to be related to
    - Price sensitivity
    - Market size
    - Maximum capacity
* Services have a much higher ratio of fixed costs to variable => temptation to price very low
* Intangibility of service performances and the invisibility of the necessary backstage facilities and labour make it hard of customers to see what they are paying for
* The time factor has a big bearing on price – giving priority of one customer over another has a value and therefore a price

10.1.2 Ethical Concerns

* Services (especially credence) often invite performance or pricing abuses
* Pricing schedules are often quite complicated
* Best policy is be open and transparent

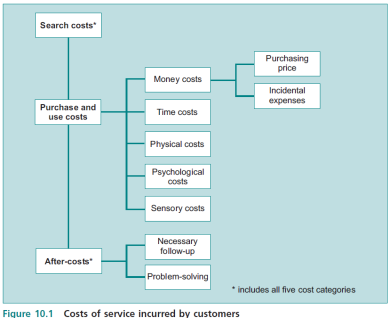
10.1.3 Understanding the costs of service incurred by customers

10.1.3.1 Purchase price plus other financial costs of service

* Incidental costs include travel to service site, parking, meals , babysitting
* These are the financial costs of service

10.1.3.2 Non financial costs of service for customers

* Time, effort and discomfort associated with search, purchase and use
* Mental and physical effort when customer involved in service production
* Services high on experience and credence attributes involve anxiety
* Four categories of non financial costs:
  + Time costs of service
  + Physical costs (e.g. fatigue, discomfort)
  + Psychological costs of service – mental effort
  + Sensory costs – heat, cold etc.



10.1.4 Understanding value

* Customers weigh the perceived benefits to be obtained from the service against the perceived costs they will incur
* People are prepared to pay a higher price to reduce the non financial cost of service
* Four broad expressions of value
  + Low price
  + Value is whatever I want in a product
  + Value is the quality I get for the price that I pay
  + Value is what I get for what I give [best one!]
* Net value is the sum of all the perceived benefits minus the sum of all the perceived costs of service
* Consumer surplus is the difference between what consumers pay and the amount they would have actually be willing to pay the obtain the desired benefit offered by a specific product
* Customers evaluate competing services by comparing relative net values

10.1.5 Increasing net value by reducing non financial cost of service

* You can increase net value by
  + adding benefits to core product
  + enhancing supplementary services
  + reduce the financial costs associated with purchase and use of product
  + minimise unwanted non financial costs of service for customers by
    - reducing time costs of service involved in purchase, delivery and consumption
    - minimising unwanted psychological costs of service at each stage
    - eliminating unwanted physical cost of service that customers may incur notably during search and delivery processes
    - decreasing unpleasant sensory cost of service by creating more attractive environments
* Net value perception may differ between pre use and post use – good managers need to provide full disclosure of all costs of service & ensure no misspelling occurs

10.2 Foundations of pricing strategy

* Pricing strategy based on
  + Costs (defines minimum price)
  + Competition
  + Value to customer (defines maximum price)

10.2.1 Cost based pricing

* Here price is set relative to financial costs
* To make a profit, need to cover full costs (fixed, semi variable and variable) and add sufficient margin
* Loss leaders are sometimes used as promotional vehicles to attract customers and then sell them other more profitable services
* Regulated industries have clearer pricing strategies based on published costs e.g. long distance rates

10.2.2 Competition based pricing

* Firms with services that are relatively undifferentiated from competing offering need to keep eye on competitor pricing

10.2.3 Value based pricing

* Need to research how customer perceive the value of your services
* Price is sometimes used as a means to communicate the quality and value of a service when customer find it hard to evaluate its capabilities in advance

10.2.4 Establishing monetary pricing objectives

* Any decision on pricing strategy must be based on a clear understanding of a company’s pricing objectives
* Three categories of pricing objectives:
  + Revenue oriented
    - Maximise surplus of income over expenditure (within certain limits)
    - Sometimes one service will cross subsidise others
  + Operations oriented objectives
    - Capacity constrained organisations seek to match demand to supply to ensure optimal use of productive capacity e.g. hotels
  + Patronage oriented objectives
    - Some firms wish to maximise appeal among specific types of customers e.g. promotional offers to OAPs

10.2.5 Price Elasticity

* At elasticity of 1, then demand falls or raises by the same % as price falls or rises
* Important to understand elasticity, especially if you are offering different price levels e.g. theatre doesn’t want empty seats at certain price level and an under supply at another

10.2.6 Yield Management

* Maximising revenue yield from available capacity at any given time
* Challenge is to capture sufficient customers to fill the organisations perishable capacity without creating consumer surplus for customers who would have been willing to pay more
* Computer models can be used to forecast demand and aid in yield management
* Need to ensure booking rules aren’t too complicated

10.3 Value Strategies for Service Pricing

* Need to relate the price paid to value received

10.3.1 Pricing Strategies to Reduce Uncertainty

* Three options
  + Service guarantee
  + Benefit driven pricing – pricing that aspect of the service that directly benefits customers e.g. pricing by online usage rather than time. Need to understand what parts of the service customers think of as valuable.
  + Flat rate pricing – removes risk from customer, especially in industries where prices and speed are unpredictable

10.3.2 Relationship pricing

* Discounting is not a good way of winning long term customers – research shows they are more likely to switch away because of an offer elsewhere
* Discounting for large purchase can be profitable – or discounts for buying more than one service together
* The greater the number of service purchased the closer the relationship

10.3.3 Low Cost Leadership

* Appeals to those on tight budget & leads to buying in larger volumes
* Challenges
  + Convincing customers that they should not equate price with quality
  + Ensure economic costs are kept low to enable a decent profit

10.4 Putting service pricing strategy into practice

* How much to charge:
  + **Task one** – should you just cover variable costs, or fixed and semi variable plus profit margin too? What are these costs?
  + **Task two** – assess market sensitivities: whats the most customers will pay? Sales volumes at different price levels
  + **Task three** – Competitive prices – is there a price leader
  + The wider the gap between floor and ceiling the more flexibility you have
  + If price is below floor, two choices
    - Discontinue
    - Alter the service to enable a higher price to be charged
    - If it’s a public service, seek third party funding (e.g. govt subsides)
  + **Develop a price** - should it be rounded ? e.g. €4 or €3.99?
* What should be the basis for pricing ?
  + Define unit of service consumption?
  + Should it be tied to consumption of physical resources e.g. food
  + Tied to distance or weight
  + Should it be flat rate?
  + Charged individually or as a bundle?
* Who should collect payment
  + Organisation or a third party
* Where should payment be made
  + Remote booking
* When should payments be made
  + Pay in advanced or bill them after – or a combination of the two
  + Less bad debts with former , but latter may be more convenient to customer
* How should payments be made
  + Cash, credit and debit cards
  + Simplicity and speed are key to customers overall perception of service quality
* Communicating prices to Target market
  + Decided whether or not to have pricing info on advertising
  + Training of staff and good signage important.

**Module 11 – Communicating to Customers: Education and Promotion**

11.1 The role of Marketing Communication

* Tasks performed by marketing communication:
  + Inform and Educate
  + Persuade
  + Remind
  + Maintain contact

11.1.1 Ethical issues in communication

* Sometimes unrealistic service promises result from poor communications
* Privacy issues arise with direct marketing

11.1.2 Internal Communications

* Internal comms critical in maintaining and nurturing a corporate culture founded on specific service values – especially in large multi national firms
* Goals include:
  + Ensuring efficient and satisfactory service delivery
  + Achieving productive and harmonious working relationships
  + Building employee trust, respect and loyalty

11.2 Services vs. goods: Implications for Comms strategy

* Intangible nature of service performances
  + Service is a performance rather than an object and so advertising should not only target customers but employees – motivating them to deliver high quality service
  + Firms should use their own employees in their ads
  + Use tangible cues - e.g. symbols and trademarks
  + Create metaphors e.g. insurance company uses ‘you’re in good hands’
* Customer involvement in production
  + Customers may need information and hence comms need to educate
  + Using promotions in comms may help change customer behaviour e.g. self service price discounts
* Supply and demand management
  + Ads help shape demand to match capacity through promotions; especially for firms with low variable costs
* Reduced role for intermediaries
  + Service firms more likely to sell directly to customers
  + Where there are intermediaries the following are important:
    - internal comms
    - personal selling
    - motivational promotion
    - effective public relations
* Importance of contact personnel
  + Need to promote incentives to their customer contact staff

11.3 Setting Communication Objectives

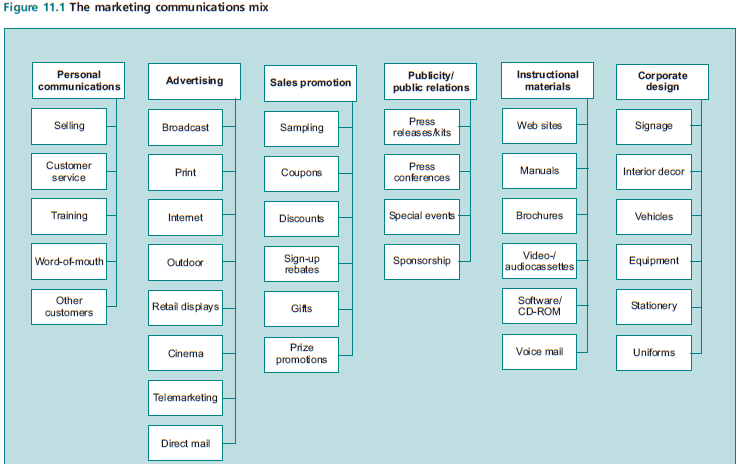
* Examples of specific objectives:
  + Create tangible images of company and its brand
  + Differentiate from competitors
  + Reposition a service
  + Educate customers on how to use service for their own best advantage
  + Create awareness of a new offering amongst existing customers
  + Attract the attention of prospective customers in a particular segment
  + Stimulate enquiries and pre bookings
  + Drive increase in repeat patronage of X% in 6 months

11.3.1 Key planning considerations

* Planning must take into account:
  + The nature of the service product
  + The extent to which it is characterised by search, experience or credence qualities
  + The nature and behaviour of target market and audience
  + Content, structure and style of message
  + Its manner of presentation
  + Media most suited
  + Budget
* Five W’s :
  + Who is our target market
  + What do we need to communicate and achieve
  + How should we communicate this
  + Where should we communicate this
  + When do the comms need to take place

11.4 Marketing Communications mix

* Personal communications = where a service firm representation interacts with customer on an individual basis
* Impersonal communications – where service firm sends message to an audience



11.4.1 Personal Communications

* Personal Selling:
  + Very expensive
  + Communication is in both directions
  + Moving towards relationship building rather than quick sale
* Customer Service
  + Involves creating and delivering the service in customers presence,
  + Other services
    - providing information
    - taking reservations
    - processing payment
    - solving problems
    - educating customer
    - selling (cross selling)
* Training of customers (usually post purchase)
* Word of mouth – can be very influential

11.4.2 Advertising

* TV, Radio and Print, billboards
* Direct marketing – highly targeted micro segments
* Online
* Retail point of sales material
* For services, advertising plays a key role in providing factual information to customers and educating them – this is due to lack of search attributes for many services

11.4.3 Publicity and PR

* Role is to stimulate positive interest in an organisation and its products and services
* Tools used:
  + Press releases
  + Press conference and kits
  + Contacts with journalists
  + Community and charity involvement

11.4.4 Sales promotions

* Sales promotions are a communication attached to an incentive
* Usually linked to a time period, price or customer group
* Forms include: samples, coupons , competitions with prizes, rebates, short term discounts
* Advantages:
  + Good weapon for small competitor to challenge large company, as costs vary with volume
  + Reduce risk of first time purchase and so encourage trial
  + Different segments can be charged different amounts
  + Can add excitement to mundane repetitive purchases and appeal to price conscious consumers
  + Useful for smoothing out demand and supply fluctuations

11.4.5 Instructional materials

* Traditionally: instruction manual
* Now: interactive audio/visual displays and websites, Freephone numbers

11.4.6 Corporate Design

* Unified and distinctive visual appearance for all tangible elements that contribute to corporate image
* Used across all stationary and marketing vehicles
* Many companies use symbols

11.4.6.1 Servicescape design

* Servicescape is the design of any physical location where customers come to place orders and obtain service delivery
* Four dimensions:
  + Physical facility
  + Location
  + Ambient conditions
  + Interpersonal conditions

11.4.7 Integrated Communications for Service Marketing

* Marketing comms tools in a service setting are important because they create powerful images and a sense of credibility, confidence and reassurance
* Several different communication elements should be used to mutually reinforce one another

11.5 Impact of new technologies on marketing comms

* Web advertising growing rapidly
* Adverstisers are using their web sites for a variety of comms tasks
  + Promoting consumer awareness and interest
  + Providing information and consulatation
  + Stimulating product trial and sales
  + Facilitating personal communication with customers

11.5.1 Designing an internet comms strategy

* Who?
  + Must consider your target markets and whether they are on the web
  + Can bring internet to customers through use of kiosks
* What?
  + Website should contain information that target market will find useful and interesting
  + It should stimulate purchase and encourage repeat purchase
  + Must consider web content from the point of view of international customers
* When?
  + Visitors to a site expect it to be updated frequently
* Where?
  + Need to promote your website
    - Use simple URL
    - Perhaps direct mail
    - SEO
* Why
  + Provide valuable information that is not available elsewhere
    - Maps, schedules, special online offers

**Module 12: Enhancing Value by Improving Quality and Productivity**

12.1 Integrating Productivity and Quality strategies

* Improving customers satisfaction by creating better services processes and outcomes
* Traditionally quality and productivity were seen as issues for operations manager – now marketers have an important role, working closely with HR and operations
* Quality improvement must continuously deliver & enhance benefits desired by customers
* Productivity improvement must seek to reduce the associated costs

12.2 Role for Marketing

12.1 Marketing and Quality

* Poor quality puts a firm at a competitive disadvantage
* Key issue is whether or not customer notice differences in quality between competing suppliers
* Perceived quality advantage leads to higher profits

12.2.2 Marketing and Productivity

* Improving productivity is important to marketers because:
  + It keeps costs down => higher profits or lower prices
  + Higher margins means more money to invest in
    - Advertising and promotion
    - Sales effort
    - Improved customer service
    - Supplementary service extras
    - Reward distributors and intermediaries

12.3 Definition and Measurement

12.3.1 Defining and measuring quality

* There are five perspectives to quality
  + Transcendent view: people will know quality when they see it
  + Product based approach: quality is a precise and measurable variable. Differences in quality can be linked to differences in some product variable – this view is totally objective and doesn’t take into account tastes and preferences
  + User based definitions: quality is in the eye of the beholder, different customers have different quality needs
  + Manufactured based approach: supply based – conformity to internally developed specifications driven by productivity and cost containment goals
  + Value based definition: define quality in terms of value and price. Quality is a trade off between performance and price & so quality is defined as ‘affordable excellence’
* Relying on one definition may lead to blind spots

12.3.1.1 Manufacturing based components of Quality

* Eight components of quality
  + Performance
  + Features
  + Reliability
  + Conformance
  + Durability
  + Serviceability
  + Aesthetics
  + Perceived Quality – association with a brand

12.3.1.2 Service based components of Quality

* A distinction needs to be made between
  + Process of service delivery (functional quality)
  + Actual output of the service (technical quality)
* Five criteria used by consumers to evaluate service quality
  + Tangibles (appearance of physical elements)
  + Reliability (dependable, actual performance)
  + Responsiveness (prompt and helpful)
  + Assurance (competence, credibility)
  + Empathy (easy access, good communications)
* Only Reliability has a direct parallel in manufacturing quality

12.3.1.3 Measuring Satisfaction

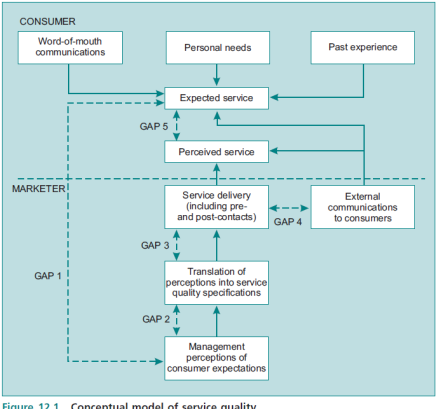
* Systems like SERVQUAL measure satisfaction through customers evaluating a firms service quality by comparing their perceptions of its service with their expectations
* Limitations:
  + customers expectations may be so low that their perceptions score highly
  + assumes services have a lot of search or experience attributes
  + measuring services with high credence attributes may require peer review of both process and outcomes
* Other options
  + Walk through audit – take customer through each step of service encounter

12.3.2 Defining and Measuring Productivity

* Productivity improvements require an increase in the ratio of outputs to inputs
* To improve productivity:
  + Cutting resources required to create a given volume of output
  + Increasing output from given level of inputs
* Input could be:
  + Labour
  + Materials
  + Energy
  + Capital
* Difficult to measure productivity in people processing services e.g. hospitals
* Easier in possession processing services e.g. restaurants
* Problem with measuring service productivity is that often it ignore variability in quality or value of service e.g. number of haircuts per hour
* Focus in classical measurement techniques has been on outputs rather than outcomes, efficiency rather than effectiveness
* Measures of productivity should focus on the customer as the denominator:
  + Profitability by customer
  + Capital employed per customer
* What management really need are insights to how better results may be achieved

12.4 Identifying and Correcting Service Quality Shortfalls

* Manager must balance customer expectations and perceptions and close any gaps between the two
* Four shortfalls in service org that may lead to a gap between expectations and perceptions:
  + Not knowing what customers expect
  + Specifying service quality standards that do not reflect what management believes to be customers expectations
  + Service performance that does not match specifications
  + Not living up to the levels of service performance that are promoted by marketing communications
* Improving quality means identifying the specific causes of each gap and developing strategies to deal with them



* Gap methodology applies to all industries

12.4.1 Identifying Failure points

* Flowcharts can be used to understand activities and processes (both frontstage and backstage) involved in delivering a service
* Flowcharts are helpful:
  + Clarifying elements of the service (Is anything missing)
  + Showing the sequence (is this the mist appealing for customer)
  + Identifying how failures at one point may ripple effect later in process
  + Time lines can be attached to help set standards for speed of service

12.4.2. Building a Service Quality Information System

* Orgs that are good at service typically are good at listening to both their customers and their customer contact employees
* Important to establish ongoing listening systems using multiple methods among different customer groups
* Possible techniques:
  + Analysis of customer complaints
  + Post transaction surveys
  + Ongoing surveys of account holders
  + Focus groups
  + Employee surveys
  + Mystery shopping
  + Total market surveys
  + Capture of service operating data

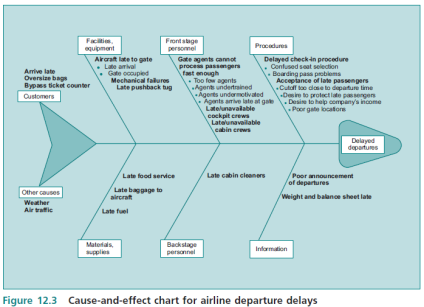
12.4.3 A caution on quality improvements programmes

* Quality must be financially accountable – there should be return on quality approach

12.5 Problem Solving and Service Recovery

12.5.1 Solving Problems and preventing their recurrence

* When a problem occurs that is caused by controllable internal forces, there is no excuse for allowing it to reoccur
* Quality tools for monitoring service quality and determining root cause of specific problems that upset customers:
  + Flowcharting
  + Control charts – display performance over time e.g. on time departure
  + Fishbone chart – brainstorm all possible reasons for a specific problem and then categorise the resulting factors into:
    - Equipment
    - People – frontstage and backstage
    - Material
    - Information
    - Procedures
    - Other



* Pareto analysis
  + 80% of service failures typically caused by 20% of all possible factors

12.6 A new quality Goal: Zero Defections

* Quality failures weaken a customers loyalty to companies and brands
* Zero defections = keeping every customer a company can profitably serve
* Declining usage is usually a sign that customer is about to defect
* Loyalty goes beyond frequent flier clubs, it requires big investment

12.6.1 How backstage change may impact customers

* Marketing implications of backstage changes depend on whether or not they are noticed by customers
* Marketers must keep aware of backstage changes, in case they have a ripple effect front stage

12.6.2 Frontstage efforts to improve productivity

* In high contact services, large productivity changes in front stage require market research to understand how customers will respond
* MarComms can help prepare customers

12.6.3 A caution on cost reduction strategies

* Cutbacks in front stage staff or materials to improve productivity usually effects

service levels

12.7 Customer Driven approaches to improving productivity

12.7.1 Changing the timing of customer demand

* Marketers do this by promotional or marcomms methods
* Sometimes you need to attract new market segments with different needs and schedules

12.7.2 Involve customers more in production

* Self service has benefits for both parties
* Internet now a big part in this e.g. self service portals
* Self service may be a basis for segmentation – non self service pay a premium

12.7.3 Ask customers to use third parties

* Purchase decision:
  + Information
  + Reservation
  + Payment
  + Consumption
* When consumption takes place far from customers home (e.g. sports event) it makes sense to delegate delivery of supplementary service elements to intermediary organisations e.g. ticketmaster

12.7.4 Sensitivity to customer reluctance to change

* Six steps
  1. Develop customer trust
  2. Understand customers habits and expectations – verify the flowchart
  3. Pre Test new procedures and equipment
  4. Publicise the Benefits
  5. Teach customer to use innovations and promote trial
  6. Monitor performance and continue to seek improvements

**Module 13 – Balancing demand and capacity**

13.1 The Ups and Downs of demand

* Strategies for balancing demand and capacity require close cooperation between marketing, operations and human resource managers

13.1 Responding to shifts in demand

* Most service cannot store their finished output

13.1.2 From excess demand to excess capacity

* Fixed capacity service may face:
  + Excess demand – some customers denied service
  + Demand exceeds optimum capacity – poor service experience
  + Demand and supply are well balanced
  + Excess Capacity – low productivity, may send bad signals
* Two basic solutions to the problem of fluctuating demand
  + Adjust level of capacity to meet variations in demand
  + Manage the level of demand using marketing strategies to smooth out peaks and troughs

13.2 Measuring and Managing capacity

* Productive capacity can take one of the following forms:
  + Physical facilities designed to contain customers
  + Physical facilities designed to store or process goods – e.g. supermarket
  + Physical equipment designed to process people, possessions or information e.g. telephones, toll gates, CAT scanner
  + Labour
  + Infrastructure e.g. electricity supply

13.2.1 Measuring Capacity

* Examples
  + Number of hours facilties/labour/equipment are productively employed in revenue operation
  + % available space utilised (e.g. bandwidth)

13.2.2 Stretching and Shrinking the level of Capacity

* Some capacity is elastic in its ability to absorb extra demand e.g. train sears
* Service personnel may be able to work at high levels of efficiency for short periods of time
* May be able to stretch capacity at busy times e.g. extra tables in restaurant or longer opening hours

13.2.3 Chasing Demand

* Chasing demand = tailoring capacity to match variations in demand by
  + Schedule downtime during period of low demand
  + Use part time employees
  + Rent or share extra facilities and equipment
  + Cross train employees

13.2.4 Creating Flexible Capacity

* Sometimes it’s the mix of capacity available that’s the problem e.g. too few economy but plenty of business seats
* Can design in flexibility e.g. adjoining rooms in a hotel

13.3 Understanding the patterns and Determinants of Demand

13.3.1 Questions about Demand

* Do demand levels follow a predictable cycle? By season, by day?
* What are the underlying causes of theses cyclical variations? School hours? Holidays?
* Do demand levels seem to change randomly? If so, why? Weather? Health?
* Can demand for a particular service over time be disaggregated by market segment?

13.3.2 Multiple Influences on Demand

* Multiple periodic cycles may operate simultaneously e.g. public transport demand varies by hour and by day
* Often these multiple cycles can be collapsed down to a few and each one can then have a distinct marketing treatment to optimise the use of available capacity

13.3.3 Analysing demand

* Keeping good records of each transaction helps when analysing demand patterns
* Can also record special factors e.g. weather that may have influenced demand
* Unless you understand why customers from a specific market segment choose to use the service , then smoothing strategies unlikely to work e.g. trying to persuade business people stay weekends in a hotel

13.4 Strategies for managing demand

* Processing times for people are usually more variable than for objects, reflecting:
  + Varying levels of perpardness – e.g. I’ve lost my credit card
  + Argumentative vs. cooperative

13.4.1 Disaggregating Demand by Market Segment

* Generally marketing efforts cannot smooth out random fluctuations in demand
* However sometimes detailed market analysis can reveal a predicatble demand cycle for one segment is concealed within a broader seemingly random pattern e.g. older customers buy paper every morning at same time
* Total demand breakdown requires good record be kept

13.4.2 Managing Demand under different conditions

* Five basic approaches to managing demand
  + Take no action & leave demand to find its own level
  + Reduce demand in peak periods
  + Increase demand where there is excess capacity
  + Storing demand until capacity becomes available e.g. through a reservation system
  + Create formalised queuing systems

13.4.3 Using Marketing Strategies to shape demand patterns:

* Price and other costs of Service
  + Other costs include waiting times
  + Must know price elasticity by segment through
    - Research
    - Trial and error
    - Comparing with other similar situations
* Changing product elements
  + Examples
    - Ski resorts change to mountain bike resorts during summer
    - Tax consultants do general accountancy throughout the year
* Modifying the place and time of delivery
  + Three approaches
    - No change – some location & times independent of demand
    - Varying times when service is available e.g. matinees at weekend
    - Offering service at new location - free delivery at low demand times
* Promotion and Education
  + Signage, promotion e.g. mail early for Xmas
* Storing Demand through Queueing and reservations
  + Asking customers to queue or reserve in advance

13.5 Managing customer behaviour though queueing systems

13.5.1 Nature of Queues

* Any queue is symptom of unresolved capacity management problems
* Reduce customers waiting time through
  + More service personnel
  + Rethinking the design of queueing system
  + Redesigning processes to shorten time of each transaction
  + Managing customers behaviour and their perception of the wait
  + Installing a reservations system

13.5.2 Elements of a queuing system

* Six elements before customer receives service

1. Customer population from which demands for service originate
   * Ops managers need to know who their customers are – their needs and expectations
2. Arrival process – times and volumes of customer requests for service
   * Average arrival rate vs distribution during the given time period
   * Anticpate peak times
3. Baulking - decision not to join queue
4. Queue configuration - design in terms of number, location and configuration of queues
   * Single queue, single step
   * Single queue, sequential stages – e.g. one queue in cafe
   * Parallel queues to multiple servers – eg. Several parallel queues in McDs
   * Designated queues – eg. Express lines
   * Single queue, multiple servers
   * Take a number
5. Reneging – customer leaves rather than wait any longer
6. Customer selection policies – formal or ad hoc as to who to serve next
   * Usually first come , first server

13.5.3 Matching Queueing systems to market segments

* Designing queue strategies based on different priorities for different customers
* Different queing areas based on
  + Urgency of the job
  + Duration of service transaction
  + Payment of premium price
  + Importance of customer

13.6 Minimising the perceived length of wait

* People often think they are wating longer than they actually are

13.6.1 The Psychology of Waiting Time

* Unoccupied time feels longer than occupied time
* Pre and post process waits feel longer than in process waits e.g. waiting to buy a ticket to a fun park rather than waiting for roller coasters
* Anxiety makes waits seem longer
* Uncertain waits are longer than known ones
* Unexplained waits longer than explained waits
* Unfair waits are longer than equitable waits
* The more valuable the service, the longer people will wait
* Solo waits feel longer than group waits
* Physically uncomfortable waits feel longer than comfortable waits
* Unfamiliar waits seem longer than familiar ones

13.7 Reservations

13.7.1 Designing a reservations system

* Commonly used by people processing services
* Allow for:
  + Controlled demand
  + Capture data to prepare financial projections
  + Pre sell a service, inform customers and educate them
  + Deflect demand
    - from first choice time to later times
    - upgrade and cross sell
    - first choice location to a different one
* Problems arise when customer fail to arrive or service firms overbook – to overcome these:
  + Deposit required
  + Cancelling non paid bookings after a certain time
  + Provide compensation for those over booked

13.7.2 Linking reservations to Yield Management Strategies

* Firms often use % of capacity sold as a measure of operational efficiency – e.g. load factor in transport services
* By themselves % of capacity doesn’t mean greater profit, as they may be dependant on discounted prices
* Understanding and measuring Yield forces explicit recognition of the opportunity cost of accepting business from one segment when another might yield a higher rate
* Good market information is the key to making appropriate decisions
* Need to segment the market by profitability and relationship management and then create projection for future dates of the mix of customers that can be expected based on prior experience
* Reservations personnel then can decide to stop accepting reservations from certain segments

13.7.3 Marketings role in Yield Management

* Accurate market analysis data maximises yield
* Constraint on maximising Yield is maintaining good customer relations – especially those that provide repeat business or use capacity at low demand times
* Perceived price gouging is a danger

13.7.4 Information needs

* Historical data on demand over time
* Forecasts of level of demand for each major segment
* Segment by segment data
* Sound cast data – distinguish between fixed and variable costs and profitability of incremental unit sales to different segments and prices
* Identification of meaningful variations in the levels of composition of demand by site
* Customer attitudes towards queueing
* Customer opinions on quality as its linked to capacity utilisation
* Collect data for this through accounting, reservations, surveys

**Module 14 – Managing customer contact personnel**

14.1 Human Resources: An asset worth investing in

14.1.1 High Contact Service Encounters

* In many high contact services, the employee is the service
* Employees has several roles - and this boundary spanning may lead to role conflict among employees
* Several special characteristics may be important in recruiting and training high contact employees:
  + Inter personal skills
  + Personal appearance
  + Grooming
  + Knowledge of the product and operation
  + Selling capabilities
  + Skills in co-production
  + Ability to monitor non verbal clues

14.1.2 Emotional Labour

* Emotional labour is the act of expressing socially appropriate emotions during service transactions
* Employees comply with display rules – norms imposed by society; these differ by culture, occupation and organisation
* Employees in some situations need to act
* Investement in HR recruitment and training is most worthwhile for service situations where exchange between employees and customers take place in the context of long term relationships – less important for short term ones

14.2 Job Design and Recruitment

* Goal of job design is to study
  + the requirements of the operation
  + the nature of customer desires
  + the needs and capabilities of employees
  + characteristics of operational equipment
* Some jobs are a three cornered fight – with needs of customer, the server and the service firm at odds

14.2.1 Empowerment of employees

* Under the right conditions, this may lead to better service
* However, this must be coupled with
  + greater investment in selection and training
  + higher labour costs
  + slower service
  + less consistency in service delivery

14.2.1.1 Control vs. Involvement

* Control is based on hierarchal management and power structure
* Empowerment is based on involvement model
* Four key features are at the top of the org with control, at bottom with involvement:
  + Information about org performance
  + Rewards based on org performance
  + Knowledge that enables employees to understand and contribute to org performance
  + Power to make decisions the influence work procedures and org direction

14.2.1.2 Levels of employee involvement

* Empowerment can take place at several levels
  + Suggestion involvement - employees make suggestions, but managers make decisions
  + Job involvement - opening up of job content – widening it to accompany more roles, increase reliance on teamwork
  + High involvement – information shared, profit sharing
* Factors favouring a strategy of employee empowerment
  + Business strategy based on competitive differentiation & personalised service
  + Extended relationships with customers
  + Involves technologies that are complex and non –routine
  + Business environment is unpredictable
  + Existing managers comfortable with it
  + Employees have strong need to grow and have good interpersonal and group process skills

14.2.2 Recruiting the right people for the job

* Some service jobs require prior qualifications
* Different positions are best filled with people with different skills
* Recuriting criteria should reflect the human dimensions of the job as well as technical

14.2.3 Who must be hired vs. what can be taught

* Certain attributes cannot be taught: warmth, energy, charm
* Recruitment process starts with those chosen to do the recruiting – some companies have customer and marketing people interview candidates

14.2.4 Challenges and opportunities in recruiting workers for technology based jobs

* Technology allows front stage and back stage jobs to be located around the world
* Expert systems can help novices, which contains
  + Knowledge base about a particular subject
  + Inference engine that mimics a human experts reasoning
  + User interface that gathers information

14.3 Service Jobs as Relationships

* Net value of a job to an employee is the extent to which net benefits exceeds its associated costs
* Costs include:
  + Special clothes
  + Commuting and child care
  + Physical and mental effort

14.3.1 Employee retention and customer retention

* Link between employees attitudes and perceptions of service quality among customers of the same organisation
* Loyal customers know their job and their customers
* Many companies restrict their economic potential through human resource strategies that guarantee high staff turnover

14.3.2 Cycles of Failure, Mediocrity and Success

14.3.2 Cycle of Failure

* This is when productivity is persued to the nth degree – simplifying work routines, hiring cheap workers
* Employee cycle of failure =
  + narrow job design
  + emphasis on rules rather than service
  + use of technology to control quality
  + Output = low service quality and high staff turnover
  + Low profit margins leads to repeat of the cycle
* Customer cycle of failure
  + Attract new customers that become dissatisfied with employee performance and lack of continuity
  + Their churn requires constant search for new customers
* Failure to measure true costs of these cycles
  + Cost of constantly recruiting , hiring and training
  + Lower productivity of new workers
  + Costs of constantly attracting new customers
  + Disruption to service levels while waiting to fill job
  + Loss of knowledge that departing person had
* Two revenue variables often ignored
  + Future revenue streams that might have continued but now are gone due to churn
  + Potential lost income due to bad word of mouth

14.3.2.2 Cycles of Mediocrity

* Most likely found in large bureaucratic orgs where there is little incentive to improve performance
* Service standards are:
  + set by rigid rule books
  + standardised service
  + operational efficiencies
  + prevention of employee fraud
  + facourtism towards specific customers
* Unlike cycle of failure jobs, these jobs are adequate pay and good benefits, making employees reluctant to leave
* Customers are frustrated but have nowhere else to go – as competitors are often considered as just as bad
* Customers take out frustration on employees , who deflect it through adherence to rules or by rudeness
* Cycle : unhappy customers continue to complain to sullen employees

14.3.2.3 Cycle of Success

* Some firms take long term view of financial performance and invest in their people for a cycle of success
* Employees:
  + Broaden job description
  + Training and empowerment
  + Better wages
* Regular customers also appreciate the continuity in service relationships and remain loyal
* Profit margins are higher and org focus marketing effort on attracting new customers rather than keeping existing ones

14.3.3 Role of Unions

* Presence of unions is not a barrier to high performance and innovation, unless there is a history of mistrust
* Consulatation and negotiation is essential if employees are to accept new ideas

14.4 Human Resources in a Multi Cultural context

* Pressure on service orgs to serve a more diverse range of customers and to recruit a more diverse workforce (different languages and cultures)
* Need to define with performance standards are central and which should be treated more flexibly e.g. Sikhs wearing uniforms

**Module 15 Organsing for Service Leadership**

15.1 Service Leadership

* Service leader visualise quality of service as their foundation for competing

15.1.1 Integrating Marketing with other management functions

* Themes to success in a service business
  + Service as a time bound performance comprising core product and supp services
  + Understanding and managing operational processes
  + Roles that customers play in participating in service processes
  + Competitive advantage in providing what customers perceive as superior value
  + Managing contact between employees and customers
  + Increasing role of technology
  + Challenges with operating in international markets

15.1.2 Changing relationships between marketing, operations and human resources

* Compartmentalising management functions is not appropriate way to organise a service firm
* Links to achieving success in a service business:
  + Customer loyalty drives profitability and growth
  + Customer satisfaction drives loyalty
  + Value drives satisfaction
  + Employee productivity drives value
  + Employee loyalty drives productivity
  + Employee satisfaction drives loyalty
  + Internal quality drives employee satisfaction
  + Top management leadership underlies the chains success
* Marketing, HR and Ops are linked

15.1.3 The Marketing function

* Marketing needs to
  + Evaluate and select segements to serve
  + Research needs and preferences within each segment
  + Monitor competitive offerings, identifying their principal characteristics
  + Design the core product
  + Select and establish service levels
  + Set prices
  + Tailor location and scheduling of service
  + Develop comms strategies
  + Develop performance standards
  + Create programmes for rewarding customer loyalty
* Marketing is closely dependant on operations function

15.1.4 The Operations function

* Operating function still dominates line management in most service businesses
* Growing recognition of contribution marketing can make:
  + Understanding customer motivation and habits
  + Identifying opportunities for new product development and new market
  + Communicating with customers
  + Building customer loyalty

15.1.5 Human Resources function

* Hyman Resource Management (HRM) involves all managerial decision and actions that affect the nature of the relationship between the org and its employees
* Four broad policy areas:
  + Human resource flow – recruitment, training, carer development
  + Work systems – arranging people, information etc to create or support services
  + Reward systems
  + Employee influence – inputs regarding business goals, empowerment

15.2 Interfunctional Conflict

* Increasing potential conflict between the three functions, especially marketing and operations

15.2.1 Revenue vs. Cost Orientation

* Ops managers tend to focus on cost efficiencies, whereas marketers look for opportunities to increase sales and build customer loyalty
* Marketers must understand limitations of existing operations to avoid introducing innovation that wont work

15.2.2 Different Time Horizons

* Marketing may want to introduce innovation quickly, whereas ops may need a longer time frame to develop a new technology or refine exsting procedures
* Similarly HR may need time to retrain and get buyin from employees

15.2.3 Perceived Fit of New products with existing operations

* A new product may be incompatible with existing production facilities, expertise and employee skills
* Could be a short term vs. a long term incompatibility

15.2.4 The Three Imperatives

15.2.4.1 The Marketing Imperative

* Firm will target specific types of customers whom it is well equipped to serve
* Create ongoing relationships by delivering a carefully defined product package of all actions and reactions that they desire to purchase

15.2.4.2 The Operations imperative

* Create and deliver specified service package to target customers
* Ops techniques must consistently meet customer driven cost, schedule and quality goals
* Reduce costs through productity

15.2.4.3 The HR imperative

* Recruit train and motivate all employees
* Build employee loyalty

15.2.5 Reducing intra organisational tension

* Transfers and cross training
* Creating cross functional taskforces
  + For a specific project, usually on a short term basis

15.2.5.3 New Tasks and New People

* Org change often requires
  + New relationships be developed
  + Jobs redefined
  + Priorities restructure
  + Existing patterns of thought and behaviour modified
* Do this by either
  + Taking existing players and redirecting them
  + Replacing these people with new ones

15.2.5.4 Process Management teams

* These are more permanent teams that are organised around a specific process e.g. brand management teams

15.2.5.5 Instituting gain sharing programmes

* Allow employees to share in improved profits – ESOPS

15.2.6 Marketing Activities at different levels in the organisation

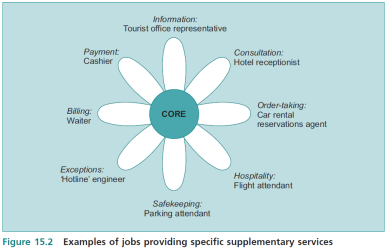
* Large service businesses are usually divided into regions and sometimes subdivided into territories
* What marketing tasks should be undertaken at what levels?
* Depends on autonomy
  + Is product standardised or do unit managers customise
* HR often centralised , but sometimes needs to be localised so its responsive to local conditions
* You can segment market geographically and then serve them from closet operating unit e.g. target niche and then just expand geographically to serve that niche
* Geographic segmentation not suitable for information services

15.3 Ensuring that service encounters are customer oriented

15.3.1 Improving customer service in response to competitive pressures

* Differentiating core product but supp service elements is becoming more key
* Need to formalise standards on all predicted service encounters
* To do this managers need to
  + Conduct research into customers needs and satisfaction levels concerning each service encounter
  + Identify key sources of customer satisfaction (or dissatisfaction) and relate them to current service elements
  + Setting service level standards for different tasks
  + Designing jobs and technological systems to meet these standards
  + Periodically revising standards and delivery systems in the light of changing customer preferences, technological innovation and competitive activities
  + HR has a role as well – training in HR skills for customer contact personnel

15.3.2 Creating the petals of the flower of service

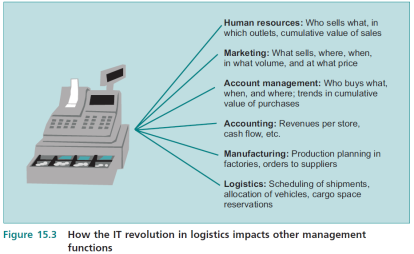


* Management challenge is to coordinate every aspect of customer service in a broader function that is integrated with marketing and operating strategies
* Taking a customer perspective is paramount

15.4 How technology changes orgs and control systems

15.4.1 Technology’s role in integrating management functions

* First direct provides banking service with retail presence – hence management layers can be flattened



15.4.2 How Technology is leveraging customer service

* More continuous connection with customer is required, rather than periodic surveys e.g. Net Promoter Score
* Happens through freephone numbers, online service, email etc.

**Module 16 – Developing Strategies for Transnational Operations**

16.1 Moving from Domestic to Transnational Marketing

16.1.1 What is Transnational Strategy?

* This is the integration of strategy formulation and implementation across all countries in which company does business (globalisation)
* It differs from *multi domestic* approach, where there is independent development and implementation of strategy by management units within each country
* Globalisation potential depends on industry characteristics:
  + Market forces
  + Cost factors
  + Technology
  + Govt. policies
  + Competitive factors

16.1.2 Insights for Europe from Studying service strategies in the United States

* Faced with large, diverse domestic marketplace most large American service companies simplify their marketing and management tasks by targeting specific segments by
  + Geographical basis
  + Demographics/lifestyle
* Smaller firms usually seek out narrow market niches & leverage the web
* Backstage operations sometimes moved to low cost areas

16.1.3 Euro Consumer Clusters within the pan European market

* American marketers often divide the US into broad geographic cluseters – Mid West, Southwest, North West etc. to reflect climatic and other regional distinctions in lifestyle and purchasing patterns
* Likely that new Euro clusters will also emerge

16.2 Forces for Internationalisation of Service Businesses

* Market Drivers have following elements
  + Common customer needs
  + Pan global customers who demand consistent service
  + Pan global channels in the form of supply chains or electronic networks
  + Transferable marketing
  + Lead countries
* Competition Drivers have following elements
  + High level of imports and exports in a particular industry
  + Competitors from different countries
  + Inter dependence of countries
  + Transnational policies of competitors
* Technology Drivers have following elements
  + Broadband internet access
  + Digitisation of information
  + Offshoring backstage and supp services
* Cost Drivers have following elements (less applicable in people based services)
  + Global economies of scale
  + Steep experience curve effects
  + Sourcing efficiencies
  + Fabourable logistics
  + Difference in country costs (inc. exchange rates)
  + Need to recoup high development costs
  + Decline in comms and transport costs
* Govt Drivers have following elements (very applicable to people and possession processing services)
  + Favourable trade policies
  + Compatible technical standards
  + Common marketing regulations
  + Govt owned competitors and customers
  + Host govt policies

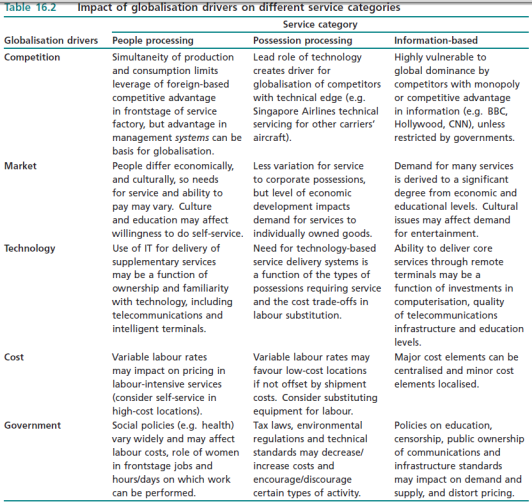
16.2.1 Modes of Internationalisation

* Few firms are in a position to move swiftly from domestic to international presence
* Three modes of internationalisation
  + Capturing service performance in a storage medium e.g. DVD
    - Exportable
  + Reliance on third parties – agents, brokers etc.
    - May just handle a few supp services e.g. reservations or deliver whole package
  + Full control via direct investment or buyout of existing business
    - Buyout is faster but retraining may be required to align with overall business practices

16.2.2. How the nature of service processes affects opportunities for globalisation

* People Processing services
  + Customer directly involved in delivery of services targeted at the customers physical person
  + Customer may have to physically come to service factory or service comes to them
  + In both cases firm needs to maintain a local presence and service needs to be consistent
* Possession processing services
  + Targeted at physical objects belonging to the customer
  + Local presence still required when supplier must come to service objects in fixed location
  + Smaller objects can be serviced from more remote centres, but transportation costs, duties etc. may constrain this
* Information based services
  + Targeted at customers minds or at their intangible assets
  + Local presence may be limited to a broadband pipe and a PC

16.2.3 Overall Assessment of Drivers



* Govt drivers are often specific to particular industries e.g. air, telco’s
* Drivers for nationwide service businesses or franchise chains are often the same ones that drive a business internationally
* Regional vs. national regulations may govern growth of service businesses

16.3 Transnational Strategy for Supplementary services

* Management must decide which, if any, supp services should be consistent across all markets and which need to be tailored to meet local needs, expectations and competitive environment
* Types of Supplementary services:
  + Information
    - Must be localised
  + Consultation and Advice
    - Customers needs may vary widely
  + Order taking
    - Potential for global order systems
  + Hospitality
    - Acceptable waiting times may vary widely
    - Degree of personal service may vary widely
  + Safekeeping – expectations vary
  + Exceptions – problems encountered may vary widely
  + Billing – currency differences
  + Payment – credit card acceptance

16.3.9 Why information based supp service lend themselves to transnationalisation

* They have low customer contact

16.4 Elements of Global Transnational Strategy

* Five transnational strategy levers determine whether international strategy is primarily mutli local (recreated independently in each location) or transnational
  + Global Market participation – assess attractiveness of countries based not just on standalone potential, but how a local market can contribute to broader globalisation benefits
  + Delivering global products – firm offers standardised core product that requires little local customisation
  + Global location of value adding supp services – supp services are based in one or limited countries for worldwide delivery
  + Global marketing – consistent marketing approach worldwide, although not all elements of marketing mix need to be identical
  + Global competitive moves – how much competition is integrated across countries so that a competitive move in one country will be replicated in all other countries that competitor is in

16.4.1 Services and Transnational market participation

* Easy services to spread internationally are simple service concepts that are easily replicated or franchised e.g. banks, telcos
* More difficult for firms relying on trust and repuration of their personnel e.g. lawyers
  + Can recruit host country nationals
  + Can use advertising and PR
  + Mergers and acquisitions
* Some countries have strategic importance beyond their standalone attractiveness e.g manufacturing in Japan
  + Gives economies of scale
  + Home market of major customer or competitor
  + Centre of industry innovation
* Examples
  + Banks must be in London and Franfurt
  + Manufacturing business would benefit from being in Japan

16.4.2 Delivering global goods and services

* Standardising services much easier than physical goods

16.4.3 Location of value adding service activities

* Not being able to transfer home based sources of advantage is a source of failure e.g. EuroDisney

16.4.4 Transnational Marketing of Services

* Services in general make more use of international branding then manufacturing companies
* Brands provide reassurance and recognition rather than positioning
* Brand advertising often contains same images worldwide with different voiceover
* Many service business can charge their international customers the same e.g. charge cards

16.4.5 Transnational competitive moves

* Service based businesses need to make integrated international competitive moves
  + Simpler for firms with strong core formula
  + More difficult in franchising situations

16.5 Pan European strategies in business logistics

* Four big trends have repercussions for service firms
  + European integration
  + Privitisation and deregulation of former government monopolies
  + More international competition
  + More demanding business customers
* These trends have effected lofistics firms most of all

16.5.1 Differentiation and positioning

* Express delivery customers (e.g. DHL) have challenges:
  + How to differentiate and position themselves while develeoping and entrenching long term partnerships with their clients

16.5.2 Search for value added services

* Multinationals see logistics not as a cost, but a way of differentiating
* Heavy dependency on IT and IT related services – e.g. tracking
* Often seen as part of business process outsourcing