

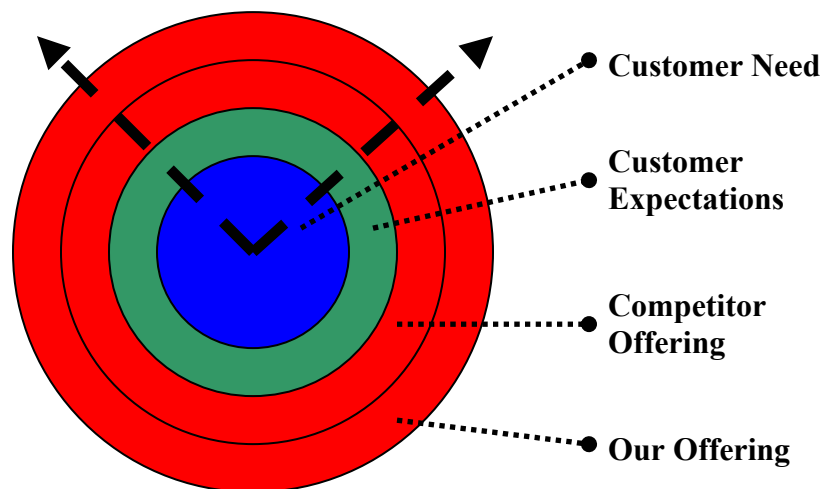
### Lecture 3: Service Vision and Characteristics

#### Class Outline

Understanding and diagnosing a service function  
Strategy / Segmentation  
Delta / Porter  
Differentiation  
Main Product x Facilitating Product  
Framework  
Intangibility  
Perishability  
Heterogeneity  
Simultaneity

- Starting today, we'll discuss the basic principles of service. In the beginning, it may be hard for you to make connections to different fields and applications within the value network; so we will provide these references and connections when possible.
- People have learned to manufacture efficiently, but even today many firms overlook services because they're more subtle or because they think designing and managing services are easier problems to tackle. Our view is that Services are indeed a big deal for firms today. Recall that a defining and strategic challenge for *individual firms or players* in supply chains and value networks today is not only in the manufacturing and coordination component—it often lies squarely in the services component. Recall further that within its own sphere of influence a firm can distinguish itself primarily through a service-oriented approach, where the goal is to satisfy its customers in the network, and to gain an edge over its competitors by delivering this added value through services in an efficient and profitable fashion.
- Since they involve interactions between human beings, services are not trivial or easy. It's also important to bring what you learn in the classroom into your everyday life, to not only be a leader from 9 to 5 but in every aspect of your life. It is much harder to learn or indeed create things we cannot see – such as services – because we've been conditioned to learn through our senses. For example, we usually only notice aspects of a service, if they *don't* appear or are not part of the expected service. Also for that matter, how can we get customers to notice things that we do for them?
- On the other hand, all of us are in some form of professional service; it is just a matter of degree to a matter of definition. For another example, when we buy a TV, are we simply buying a tangible good? Yes, it may be tangible, but it also consumes electricity (a service) and it presents advertisements and shows (also services).
- It is an accepted fact that many jobs in developed countries are being transformed or recast into a service role. Today, services represent nearly  $\frac{3}{4}$  of the economy and this figure is only growing: being a product design engineer today is a different job than it used to be 20 years ago. It is more service-oriented today; working with suppliers and customers is a matter of daily routine, and there is constant interaction and information exchange at many levels that is required to complete a design task.
- With this elaborate background we have presented so far, we turn now to the fundamental problem of characterizing, understanding and diagnosing a service function.

- The first thing I do to understand a firm's operations is to walk through their manufacturing plant. If I can figure out their flow of goods, usually it means the company is in good shape. It is a problem, though, if I walk through and the aisles are blocked; I can't figure out the movement of parts, etc. You can't do that for a service company, though, so what can you do? This question is the motivation for today's roadmap:
- **Strategy / Segmentation** – Strategy and market segmentation together form a loop in which one each component tries to rectify the other. For an average firm, segmenting its market is an extremely challenging process; still we can begin to think about some of the intuitive ways one can do it and the limitations thereof. For example, size, willingness to pay, geographic area, customer need, demographics, etc., are fine if you're selling refrigerators or cars, but not useful if customers have frequent interactions with the service. For another example: turnover in the early days of internet access providers was very high. So, segmentation – which customers to attract to the company – was very difficult. The most important criterion, it turned out, was the value people would derive from the service (the Internet). Segmentation can also be understood as a form of classification. In services, demographic data are not sufficient when dealing with services that are consumed with high frequency. In these cases data from transactions can play a major role in identifying segments.
- **Delta Model/ Porter's Model** – Delta Model and Porter's Five Forces could be a basis a strategic analysis of a service function or business.
- **Differentiation** – How would you sell a can of Coke? How could you differentiate yourself if we're all selling Coke? Price, location, bundling, etc. – we're only limited by our creativity. There are no mature businesses, only mature ways of doing business. Never accept the notion that you're selling a commodity because it is seldom true. Example: a mining company that sells the same item as its competitors, but has a more effective supply chain to deliver the goods and with greater responsiveness to customers' needs. Differentiation that can be easily copied has less value. But, it is extremely difficult to copy a service since it is often embedded in the company's culture. For example, Benihana restaurants were a success, and of course, other restaurants tried to copy their style since it seemed easy to do. But the second wave of restaurants was not as successful because of the fact that they could not replicate the culture.
- **Main Product x Facilitating Product** – Example: having your home dishwasher fixed. The customer wants more than a technician who can repair the dishwasher (see the diagram below).



Customer needs their dishwasher fixed (innermost circle), but they expect more: repair to be done in a timely way, have a clean work area afterwards, pleasant and competent repair technician. So, the company starts to offer that. If their competitor offers more, in time the company responds by offering more. Over time customers' needs also expand or the needs are expressed differently. This expansion one of the reasons it is difficult to sustain success or levels of performance in a service organization: it makes it difficult to retain profit margins without raising prices too much. The only way to success over time is to combine customer satisfaction and better productivity: the two go together hand-in-hand (see diagram below). Productivity needs to be at least as high as customer satisfaction. "Productivity" involves more than we typically think of: it includes reengineering the way we do business to stay in the game.

