Managing Services

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Lecture – 31
Strategy for Service Businesses

Hello, so we are now in week 6 of our interaction on Managing Services contemporary issues. In the last session while concluding week number 5, I had raised a question for you and that was, what will the Mumbai dabbawalas do to remain as relevant 5 years from now as they are today. Now, whenever in a business we ask such questions, like where are we today, how do we stack up against the competition, what is our current market share, how do customers perceive our services today.

Or when we raise such questions like, what should we do to increase our profitability or more importantly what should we do to delight more customers. When we raise such questions, we are in the realm of strategy. During this week, while we look at some important aspects of services management like pricing, we will first review some fundamental considerations with respect to strategy.

We will look at the kind of questions you should ask for today and forever tomorrow in our service businesses and then, we will see how the different elements of business that we have discussed earlier like people in services, like the process in services, like the promotion in service businesses. And we will discuss this week, next week about pricing and other somewhat strategic, somewhat tactical issues in the perspective of what we are going to discuss today and tomorrow about strategy.

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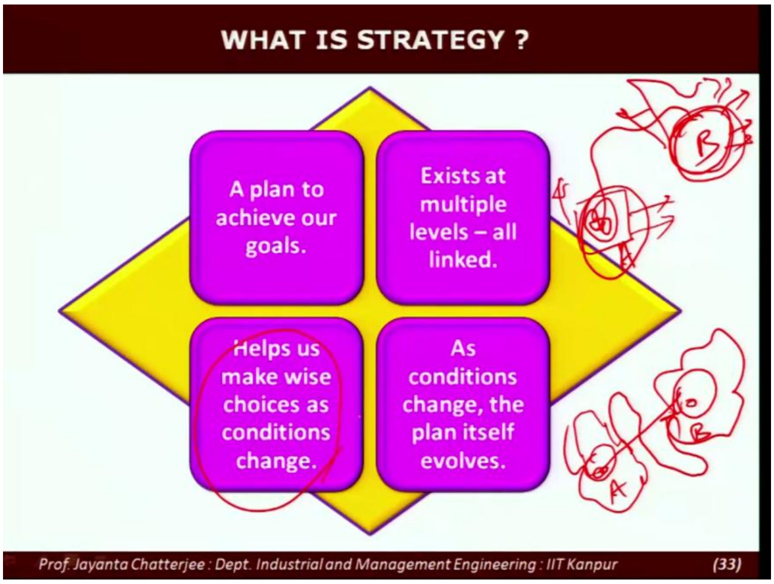

So, strategy, fundamentally it is a plan, the way to achieve our goals. But, very importantly it exists; obviously, at multiple levels, it encompasses the whole organization, all the functional areas of the business, it helps us to make choices, good choices, wise choices as conditions change. And most importantly this is the first understanding that we must have that in strategy it is always about going from point A to point B and this point changes, keeps on shifting.

Because, there are different forces acting on this current position, we will discuss that shortly. And similarly, there are activities, competitive activities, technology changes, economic policy changes, social preference changes and so on, as a result of which this also has possibilities are moving in all kinds of directions. So, the point A is a shifting point, the point B is a shifting point. So, therefore, very important to understand that strategy is not a linear A to B process.

Because, this is a changing position, this is a changing position, so as a result this may be actually a somewhat evolving root, just as when we or climbing a hill, then we know generally where the hill top is, but as we proceed sometimes there may be a landslides, sometimes there maybe some you know pot hole on the road and there may be some, you know obstruction, maybe some cows are crossing the road. So, you will have to manage and this is where the role of management comes, manage the evolving situation and manage the best path available and therefore, it means that as the situation change there will have to be choices made according to the change in conditions.

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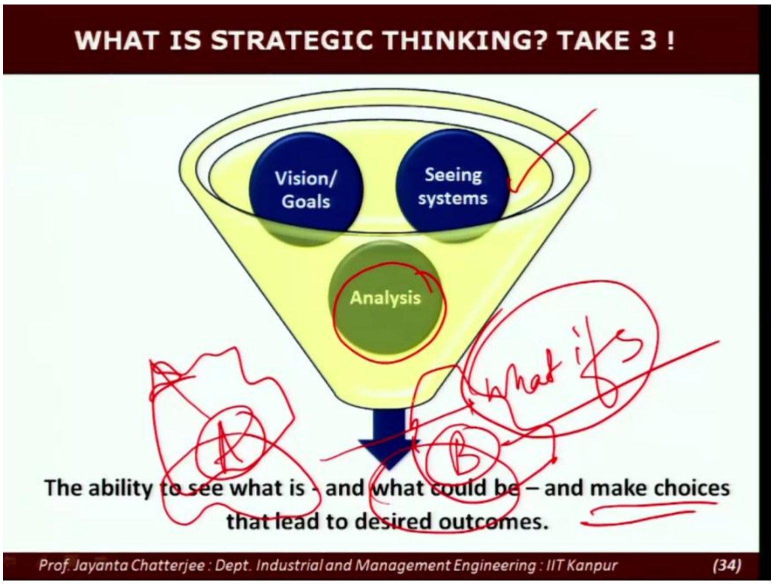

So, strategic thinking which is a very important aspect, I think right from the beginning of this interaction sessions, we have been talking about systems thinking, seeing the whole pictures, seeing the big picture as well as the micro picture. And strategy therefore, is seeing from a systems perspective, the ability to see what is and what could be by analyzing what if's and men make choices. So, that analyzing part is here, analyzing is done in response to what if's; that means anticipated changes in the situation and thereby we go from what is, this is the point A to what could be, this is the point B and as we discussed this is a fuzzy position, this is also a fuzzy position.

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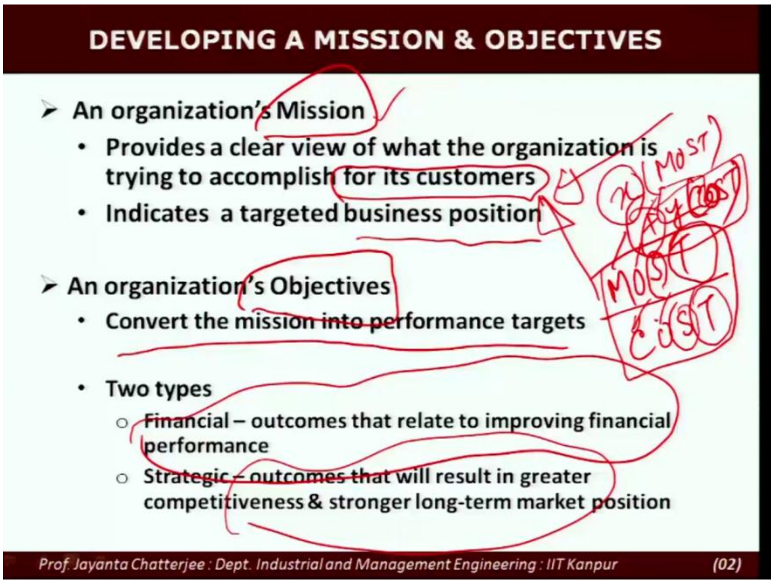

Now, let us look at some known or traditional or items that you will find in any text book that strategy starts with some kind of a vision, where you want to be which is a sort of usually stated at a high level of abduction. So, it is a synthesized view for at a top level of many different objectives. But, then to work with it, to realize that vision, we usually set a mission, an organizations clear view of what it is trying to accomplish for it is customers.

Now, this is the new type of thinking, earlier as you will see the considerations where mainly financial and then strategic; that means outcomes that will result in greater competitiveness and long-term market position. But, today we start with what the organization can do further for it is customers, this is kind of a starting point and ending point today of any such higher level manager real consideration.

So, this targeted business position is what we were discussing as this point B that what could be our best position given our current position, given the kind of resources that we have, given the kind of competencies we have. So, you can see therefore, it is kind of an outside in and inside out interactive process, outside in means we look at outside situation and inside out means, we look at our internal competencies, etcetera.

So, sometimes in strategy literature these are portrayed as two different approaches, one which we call a position view of strategy; that means, where we are and where we want to be and another is resource view of strategy; that means, think in terms of what our capabilities are.

So, somebody some people have developed these acronyms like MOST that is you have a mission as you see here. And then therefore, out of that mission you have objectives. So, this is objective, that is how to convert the mission into performance targets and then out of that comes strategy and tactics. Now, there is an alternative formulation which is COST that is what are your capabilities and match those capabilities to your opportunities and from there you devolve your strategy and your tactics, evolve your strategy and tactics.

Now, today I would say that actually these are not to either or approaches, but rather both approaches will be relevant, but the importance of the two... So, it is now I would say that it is x into MOST plus y into COST. So, this x and y values may change therefore, the importance of MOST maybe more in a certain type of industry, in a certain type of situation, for a certain type of organization or in some other cases this may have a higher level of importance.

So, if this x into MOST plus y it is just like a kind of a symbolic presentation to highlight, that the relative importance of both approaches are important to analyze. So, that analysis will lead to how we should formulate the mix of MOST and COST.

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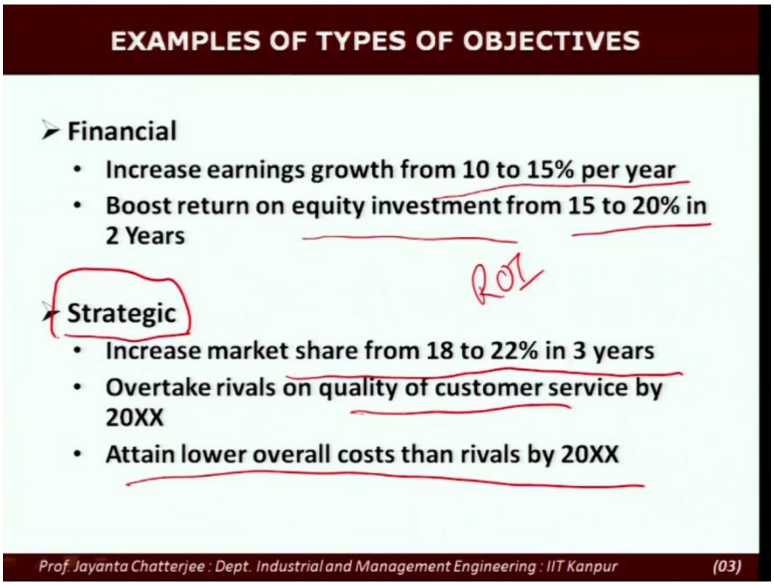

Normally or popularly, objectives are define like this, that increase earnings growth from 10 to 15 percent per year or boost return on equity investment in short often called ROI, from 15 to 20 percent in 2 years or something like that. Out of which we can then derive something like increase market share from 18 to 22 percent in 3 years or over take our rivals on quality of customer service by 2018, 15, 17 whatever.

Attain lower overall cost than rivals by again 2000, so there is a temporal aspect time aspect by which time, what you would like to achieve. So, when we come to this kind of strategic statements, what did this slide highlights is that usually we would like to have clear crisp numbers and time dimensioned specified. So, that we know that by this time you want to achieve this, this, this.

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Now; obviously, this is a little higher level goal, we have to translate that into specific actions and that is when you know your strategy leads to a tactical plan, an annual plan, a 2 years plan or a 3 years plan and so on. At one time people used to do 5 years planning, these days that can only be a sort of general goal setting, but really 5 years is now too long for spelling out everything in details.

So, normally these days we will do 1 to 2 years detailed plan which we will review every quarter, but we may have a kind of a Lakshya some aim, where we want to be in 5 years from now. But, instead of starting with this usual conventional way of stating strategy, which normally means sitting it in terms of financial numbers and a certain market share, etcetera oriented numbers. I think in today's world it is better to start with how to satisfy customers and I would say not satisfy, how to delight our current customers and future customers.

I would say that strategy we should start at this point, if we think in this way which means that these set, the financial set of the strategic set must interact with this set. So, the qualitative set and the quantitative set, the customer delight aspects and the financial numbers must be balanced, there is a concept of balanced scorecard, where we tried to balance therefore, this kind of market objectives or external objectives with internal human resource oriented situation analysis and objectives and that balance that interaction is very important.

So, financial goals, number oriented goals must be interactive with competence goals people and service business particularly the service employee happiness goals which will combine to lead to customer delight goals. So, customer delight should be the real strategic objective in a services business of course, we need future customers, but as we have discussed in many earlier sessions that in services business more important should be given to our current customers.

What more can we do for them? This is the strategy of wallet share or customer mind share rather than market share. So, we should first look at that what more can we do for our existing customers to make them our advocate to make them part of our marketing strategy and this is the topic we have discussed again and again, this co opting the customer and co creating with the customer our strategy this we have discussed number of times and it is importance in services business of today.

And that can lead to our strategy for future customers, because the customer is now part of our marketing team. So, first is focus on current customers, which will lead to future customers and how we will delight them. And this kind of growth for future customers, expanding the organizational capability can come from organic growth; that means from within by evolving our own competencies by increasing the infrastructure within the business of course, it can also come by what is known as inorganic growth by acquisition.

But, again in services business one can argue and this is quite relevant in many businesses, but could be different in some businesses that primary emphasis should be on internal growth, organic growth. But, in responding to the changing condition sometimes acquisition may be important, because if the market is growing at a rate faster than your ability to grow internally. Then, even if you are growing satisfactorily you maybe sliding down in terms of the market position. In that case it may be important to create a acquired company or merge with the related company or sometimes create joint ventures and so on these details we will discuss in later sessions this various alternatives of forming alliances and networks and so on.

But, while we want to find the best ways to capitalize your new opportunities, as I mentioned our primary aim should be how to delight our current customers more and more. So, that we can acquire a stronger and stronger position in the services business, this is very important, because in services business barrier to entry is low, another competitor can easily take your position, unlike in product business there are fewer legal weapons that you have to protect your current market position.

So, the best way to do that is to be excellent to remain excellent to improve continuously on your ability to delight your current customers. So, that they are with you, they are creating the new management processes, structures and they are telling you how to get new customers. So, the customer shares the driving seat with you for growth, so the strategic position for the customer has been written about profusely in the contacts of the size service business.

So, there are titles like customers in the boardroom, so which means today customers are not just simple inputs coming from on you know certain times when you are having a campaign, you are having the customer inputs at the strategic level, at the policy making level, at the board level your co opting the customer in a good service business today.

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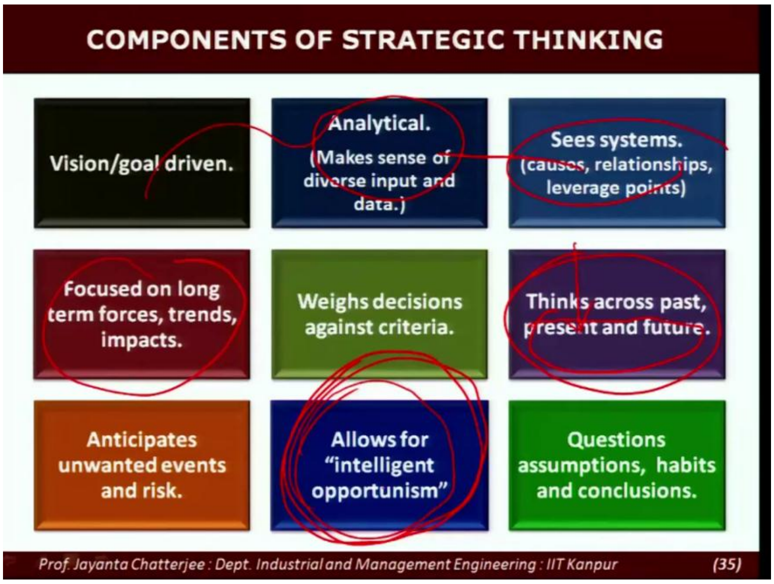

So, we will conclude with this slide which shows the components of strategic thinking, the vision, the analysis with the systems perspective there may be a focus on the long term, but we have to think in terms of the past and the present. So, the present and the future, but the present is very important earlier we often used to think strategic thinking is about future thinking, but no I would say today emphasis in a service business will be start with your present, start with your current customer, start with your present position and see that how you can make that position unassailable.

So, you may have an offensive aggressive market strategy, but in no way you can actually neglect and I would say you must get higher priority to your current position and I would not call it defensive position, I would rather call it quality retention position, consolidation position which is very important for your strategic thinking. And this is something that is very important in today's business, businesses in service businesses entry barrier being low there are many competitors any good area there are many competitors.

Today there are rising examples of E-services like as we were discussing in the context of the dabbawalas you know organizations like food panda or zomato or and so on so many of them are coming up. And so therefore, almost every service business is somewhat fragmented or there are constant competitive pressure to fragment slight taking slices away from the current market structure from your current market position, so people are chipping, chipping. So, they are always niece players attacking sometimes your collaborators are attacking, sometimes your suppliers maybe attacking your current position.

So, developing strategic thinking for intelligent opportunism is a very important approach to strategic thinking. Let us discuss a few more issues about strategy in the contacts of the service business, in the next session and then we will again come back to this whole issue about strategic or intelligent opportunism, because this is also a very good paradigm for pricing in the service context which we will discuss this week.

Thank you.