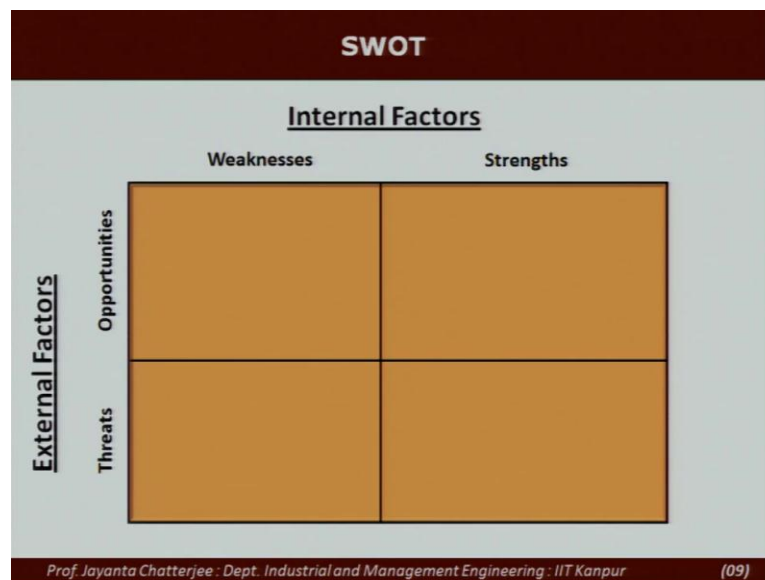


Managing Services
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Lecture - 33
Strategy for Service Businesses

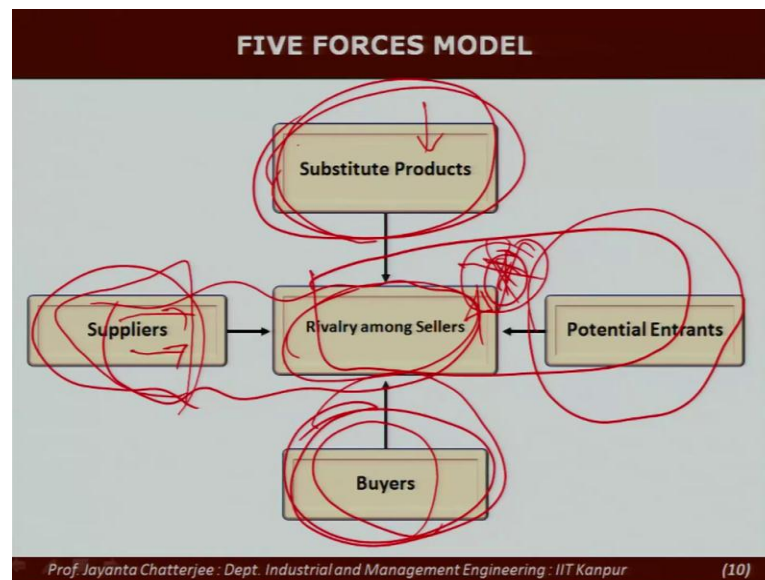
Hello, in the last session we were discussing about SWOT analysis, Strength Weakness Opportunity and Threat analysis based on which we discussed that how one can develop this TOWS matrix, T O W S.

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Where you can actually therefore, look at different kinds of threats, different kinds of opportunities and see which are the corresponding matching with respect to weaknesses and strengths. Today, we are going to discuss a few more theoretical frame work and practical suggestions about doing, developing the strategy alternatives for a services business.

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To start with we will look at this famous five forces model, originally proposed by Michael Porter. So, as you see here there are five interactive forces which are named here, which determine the strategic alternatives facing an organization. So, the first one is rivalry among players within an industry. Now, this as you know in the services industry is always very intense, because in services as we know entry barrier is relatively much lower except in certain services, where there may be a lot of initial investment needed in infrastructure. In such cases, there can be some kind of financial barrier.

But, otherwise as we see in product businesses there are very seldom, very strong technology barriers in services businesses. There are nowadays some information and communication technology intensive services which have some kind of barrier. We have certain knowledge intensive or credence rich services, where we have certain other types of barriers, which we have already discussed in some cases and we will discuss more and more.

But, today we will look at with the general assumption, we will start that in service businesses rivalry on sellers is very intense. Suppliers in many cases have power, but since many service businesses as inputs take almost commodity items, like if you are in food and beverage then it will be the food and beverage commodity items which will be inputs to your operations or if you are actually a movie distributor and in a movie distribution service, then there will be a number of service suppliers and many of them

will be in alliance with your organization, because that is the nature of that industry.

And therefore, suppliers normally or almost part of your network that we have, this network issue we had already discussed earlier in the some of the earlier sessions, where we create the value together. So, there is an effect of what we call a value constellation based on a certain network. The really very intense threat emanate from this potential entrance, because as we discussed the barrier, entry barrier is low and buyers can easily switch the convenient, inconvenience of switching is rather low in many, many service businesses.

So, if you don't like one hotel it will not be very difficult for you to find an alternative hotel, if you don't like the service at one restaurant, it will not be very difficult to move to another restaurant, if you don't like the ambiance of one particular club in most cases you can find another club where you would like to spend your time. So, the buyers are very strong in service businesses, that is why we continuously focus on customer delight and customer is the key determinant of your business success.

So, this is the most important rivalry among sellers and potential entrants, this is a key force combination in service business. And in many cases, service businesses are also prone to competition from substitutes. So, if one is going out for snacks and if there is a rush at the burger restaurant, one may not be, one will be quite amenable as a customer to move to a pizza restaurant and not actually wait. So, there are some very famous or fine dining restaurants, where people may be prepared to wait. But, there are many categories of services as we discussed like this fast food service, where people will not wait.

So, substitution is also a threat, so I would say this is a very primary thread, this is an opportunity as well as a threat and this is another kind of thread in many service businesses. Now, as a result, because the competitive activity and rivalry is a major issue in service business, so constantly tracking your competitors their offerings, their service innovations become very important in services businesses.

In fact, there is many businesses nowadays have organized business intelligence services, incorporated within the structure or they outsource business intelligence services. And in either case within the business intelligences in a semiconductor industry in business intelligence, one would be very conscious, constantly tracking the various kinds of

technology developments and new adoptions by competitors.

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COMPETITOR ANALYSIS

- An organization's strategy is affected by
 - Current strategies of competitors ✓
 - Actions competitors are likely to take ✓
- Profile of key competitors involves studying
 - Current position in the industry of each competitor
 - Strategic objectives and recent business plans of each competitor
 - Basic competitive approach of each competitor
- Successful strategies take into account
 - Understanding competitor strategies ✓
 - Evaluating their vulnerability to driving forces and competitive pressures
 - Sizing strengths and weaknesses of each competitor
 - Anticipating each competitor's next move

Service Innovation
Incremental innovation
6Ps

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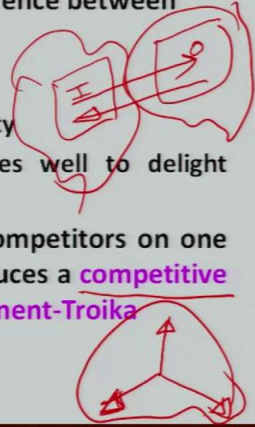
Whereas, in case of many services businesses, the competition analysis is mainly focused on what are the current strategies of the competitors, the new actions that competitors likely to take and always looking at what are the service innovations and even incremental innovations from competitors are very crucial and therefore, you need to constantly track them. So, successful strategies in the services businesses therefore, will constantly track and try to understand the competitors strategies.

These strategies can be understood quite easily in terms of those six P's of service business that we have discussed before. And so it's not only the price, but one has to look at what are the innovations in the offering, what kind of new promotion strategies are being adopted, what are the different kinds of distribution innovations that the competition might be introducing. So, all the different aspects and the mix, the strategy mix will have to also therefore, look at all these different aspects.

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KEY INDUSTRY SUCCESS FACTORS

- Key success factors spell the difference between
 - Competitive success or failure
- A key success factor can be
 - Identifiable Competitive capability
 - Something an organization does well to delight customers
- Being distinctively better than competitors on one or more key success factors produces a **competitive advantage**----**Create a Crisp statement-Troika**



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And after this is done one will have to choose... So, competitive analysis is an input, not necessarily only depending on that input as we discussed that in service businesses or in strategy we need to constantly go inside out and outside in. So, outside means what the competitors are doing, but at the same time you have to constantly look at what are the internal developments, internal problems and opportunities that are evolving and based on that you have to determine that what will be your competitive advantage, what competitive advantage you will target.

So, normally we prefer that a competitive advantage strategy should have about three points. So, it should be very crisp, it is not one page statement about competitive advantage. Competitive advantage should normally be maximum three to five points and this diagram is often preferred as the three vectors that you will focus on for developing your competitive strategy. So, it could be based on different types of features, it could be based on different types of cost initiatives, it could be based on different types of combinations of these two, let's look at how these are done.

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COMPETITIVE STRATEGY

- The objective of a competitive strategy in Services Business is to generate a **competitive advantage** to enhance **customers delight** and **create customer advocacy**
- A competitive strategy is narrower in scope than a business strategy
- Five competitive strategies are
 - Overall low-cost leadership strategy
 - Best cost provider strategy
 - Broad differentiation strategy
 - Focused low-cost strategy
 - Focused differentiation strategy

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So, this is a statement that the objective of a competitive strategy in services business is to generate a competitive advantage to enhance customer delight and create customer advocacy. So, this we have already discussed that in services businesses we constantly try to go up this pyramid that from transactional instances of service procurement, we want to go to relational paradigm and ultimately we want our customer to become our marketer.

So, customer advocacy, this diagram I have drawn before and it is important that we highlight it again that in service businesses any kind of competitive advantage needs to stay focused on customer delight. So, which means that if it is not going to enhance customer delight, then possibly investment in that aspect of the competitive strength may not be very relevant. So, this is a point that in a business strategy, there may be different aspects with respect to operations, in a business strategy there could be financing issues, different types of financing leveraging, etc.-may be involved.

But, in competitive strategy we are mainly looking at the organization and it interfaces with the market place and the forces imposed by substitutes and by competitors and by new entrance and based on that you are developing what to do at this interface between the organization in the market. So, competitive strategy therefore, is a bit narrower in scope compare to the overall business strategy. According to Porter, there are these interesting combinations or five competitive strategies, these are called the generic

competitive strategies, because they are applicable in most businesses and in most situations, one or the other will be relevant.

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OVERALL LOW-COST LEADERSHIP STRATEGY

- **How to achieve overall low-cost leadership**
 - Scrutinize each cost activity
 - Manage each cost lower year after year
 - Reengineer cost activities to reduce overall costs
 - Cut some cost activities out of the value chain
- **Competitive strengths of a overall low-cost strategy**
 - Organization in a better position to compete offensively on price
 - Low cost is a significant barrier to entry in a price sensitive service business
 - Organization needs insulation from the power of suppliers—longer term supply contacts

Handwritten annotations: 'LCY1 Y2 Y3' with arrows pointing down, 'BPR' with arrows pointing down, and a red circle around the first bullet point of the first section.

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So, let us look at first the overall low cost leadership strategy. In service businesses, in most service businesses this is a primary strategy. Because, as the entry barrier is low and customers are often quite price sensitive therefore, you need to stay focused that is hardly any service today, where low cost is not an important competitive strategy. So, here; obviously, we have to scrutinize each cost activity, manage each cost lower year after year; that means, it is not you cant take a position today then say this is LC, but a Low Cost position, you have to understand that others are constantly trying to lower their cost.

So, you have to have a plan which is year upon year how your costs are going to slight down that could be coming from scale that could be coming from different times of sourcing strategies. So, one will have to look at each individual situation and, but overall you must continuously lower your cost. So, reengineering of your business processes is very important and that is why if you remember in our earlier sessions we led so much emphasis on mapping the business process, creating the service blue print and finding the bottlenecks. Every time we had two major objectives to lower the transaction cost, lower the transaction time and increase customer's convenience, increase customer's you know convenience in terms of decreasing the hazel extra movements.

So, time saving, cost saving at every stage found through the service blue print, finding

the failure points at the touch points or failure possibilities we discussed about that FMDA Failure Mode Defect Analysis, etc earlier. So, all those need to be deployed, so that we are constantly doing this BPR or Business Process Reengineering. So, that we are constantly able to reduce our cost.

Now, competitive strengths that come up from the lower cost is that you have a much better handle on pricing. So, you can push out new entrants by taking some aggressive pricing stands. Now, you cannot taken aggressive pricing stands, unless you have a very good handle on your cost; otherwise, will land up into lot of loss which you may not be able to recover later. And so low cost is really a very significant barrier to entry in many price sensitive service businesses.

So, if you do not have minute attention to cost then for example, if you are in the supermarket, hyper market business, where people or very conscious about, because you are dealing in commodities and people will shift if you are not able to offer attractive pricing. So, that is why you will see the most of the bazaars, most of the super markets they continuously harp on the attractive pricing package offers which they are able to extend. So, also you are if you have a better cost control then you have a stronger position and therefore, you are able to negotiate longer supply contacts. So, these are good competitive advantage that come out of the low cost position.

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OVERALL LOW-COST LEADERSHIP STRATEGY

Carrier	3Q 2014 (Rupees)	Carrier	3Q 2014 (Rupees)
X	15.65	O - Z	11.92
Y	14.64	P	11.82
Z	14.21	A	10.06
M	12.74		9.74
N	12.69		9.66

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So, for example, this is a example taken from airline carriers. So, there can be X, Y, Z,

M, N, O, P number of these are actual data, only the names we have camouflaged for legal reasons. But, would which it means is that suppose you are tracking some a key cost element which is operational cost per airmail seat, airmail per day now there... So, this cost per seat airmail, if this is the lowest cost then you have to be very clear that if you or not able to go beyond this points say and they this is your position then you should be clear that this is a major competitive challenge for you and they we have to have alternatives, where you will able to attract customers in spite of this difference.

In most cases, it is very difficult to manage a very large gap here. If you are lowest price a lowest cost competitors is 9.66 then maybe you can be here, but if you are here then you are out and that is a very important point in many service businesses like for example, this low cost, no frills airlines business. If you are in that business and you see that you are unable to reduce your cost below this point, then it is better for you to see that may be then you are no longer a player in the low cost airlines industry.

You then may need to become a full service airlines, where your competition will be a different set of people and may be then you will be playing in this club and they are actually therefore, you will become the lowest cost competitor and that will be an advantage. So, which field you are competing in is very important that will be often determined by what kind of cost structure you are able to achieve.

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WHEN DOES AN OVERALL LOW-COST STRATEGY WORK THE BEST

- When price competition is a dominant competitive force—Naveen Market
- The product is a "commodity"
- There are few ways to differentiate the product
- Most customers have similar needs/requirements
- Customers incur low switching costs changing sellers
- Customers have significant bargaining power

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Now, when is overall low cost strategy best for example, in every city like in Kanpur we

have Naveen market, like in every city there will be a market place, where most of the retailers of regular merchandise products. So, whether it are grocery products or various kinds of fashion products, apparels, shoes all these will be available in a central market place. So, it may be new marketing Calcutta or Balogun market in Calcutta it can be Lajpat Nagar market or different other local markets like Bogal in Delhi or Sarojini market it will be the Crawford palace or something in Mumbai or it could be the Bandra hill road in Mumbai.

So, everywhere there will be a market place, where people will go for general merchandise apparel, shoes daily where stuff and often also for groceries. In such markets, there is a very little distinction almost everybody uses a same source, the suppliers are the same. So, price becomes very important, because one is dealing in commodity and in such a case low cost strategy is absolutely imperative, because you cannot very much differentiate and low cost strategies not a very good strategy.

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WHEN DOESN'T A OVERALL LOW-COST STRATEGY WORK

- When technological breakthroughs create cost advantage negating a low-cost provider's efficiency advantage
- Competitors find it relatively easy and inexpensive to imitate the leader's low cost methods
- Low-cost leader focuses so much on cost reduction that the organization fails to respond to
 - customer requirements for service delight
 - Service renewal
 - Reduced customer sensitivity to price

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If there are technological breakthroughs, that create a completely different cost structure. So, then just by doing the same thing that you have been doing earlier and reducing cost may not be the right strategy, because the competition has actually change the total cost structure. So, it happens very often in say, but technology intensive services, where a new technology the whole cost structure and mobile telephony etcetera, we have often seen this is happening. So, if competitors find it relatively easier in expensive to imitate

the leaders low cost method, then also this is not a very good strategy.

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BROAD DIFFERENTIATION STRATEGIES

- **Striving to build customer loyalty by differentiating an organization's services**
- **Finding ways to differentiate to create value for customers that are not easily copied**
 - Not spending more to differentiate than the price premium that can be charged
 - **Build brand loyalty**

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Now, the other side of the strategy is this broad differentiation strategy, where you want to develop the customer loyalty based on some key features in your service. So, this is how actually we try to develop certain features that attractors certain type of customers, year segmentation becomes very important, because you cannot be everything to everybody with this differentiation strategy. So, you have to create a certain set of differentiators and match a particular segment of customers and that is how you can build long term relationships.

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BROAD DIFFERENTIATION STRATEGIES

- Where to look for differentiation opportunities
 - Supply chain
 - Service Innovation
 - Operations
 - Marketing, sales and service activities
- Strengths of a Differentiation Strategy
 - Brand loyalty acts as an entry barrier
 - Service organization can develop better supplier and channel relations

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The slide contains handwritten red annotations. A large bracket on the right side groups the four items under 'Where to look for differentiation opportunities'. A horizontal line is drawn under the 'Marketing, sales and service activities' item. A vertical line is drawn to the right of the 'Strengths of a Differentiation Strategy' section.

So, differentiation opportunities can be derived out of supply chain, out of certain kinds of service innovation, your operational excellence and marketing sales types of activities. So, if you analyze the way for example, the multiplexes the entertainment multiplexers are today competing you will see their most often trying to create differentials. So, whether it is an amusement park, whether it is a large complex having movie halls and theatres, etcetera they are try to create certain kinds of features which create a long term relationship.

So, there are certain sets of services, where cost and this is true for most services, but there are certain other technology intensive services, where differentiation can play an important part. So, cost is the primary driver for competitive advantage in services, differentiations can also be done and as a result there are of course, certain types of services, where we can combine the two and create combinations which are often called best cost.

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BEST-COST PROVIDER STRATEGY

- Striving to give customers more value for the money by combining an emphasis on low cost with an emphasis on upscale differentiation
 - Combines low-cost and differentiation
 - Japan-Korea-Taiwan
- Keys to success
 - Match close competitors on key service attributes and beat them on cost
 - Expertise at incorporating upscale product attributes at a lower cost than competitors

Handwritten annotations: A red circle highlights the first bullet point. A red arrow points from the circle to the letters 'LC' written below it.

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Which means, a person is giving high quality as well as low cost, because the Japanese or the Koreans they found long time back that investing in high quality improves your yield ultimately brings down your cost. So, it is possible to offer that unsalable combination of low cost high quality and this is now coming into services field and if you observe the competitive steps taken by in the intensive competitive field of say mobile phone services or mobile data services, you will see whether it is the reliance geo, whether it is Airtel, whether it is Vodafone their all trying to come up with this best cost providers strategy.

Where, you can combine low cost and differentiation, this is a key requirement today in many service areas. So, you need to be adapt at continuously lowering your cost and continuously offering. So, cost must be continuously lowered and you must continuously innovate, sometimes most of the time incremental, but sometimes you may have to radically change and this is the trajectory that we see now in service businesses more and more. So, this combination of low cost and differentiation is almost becoming the norm in service businesses. So, this low cost provide a strategy is very important.

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ADVANTAGES OF BEST-COST PROVIDER STRATEGY

- Most successful best-cost providers have skills to simultaneously manage costs down and product quality up
- Best-cost provider can often beat an overall low-cost strategy and a broad differentiation strategy where
 - Customer diversity makes service differentiation the norm
 - The coming battle for 4G mobile voice and data

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And as I was mentioning this coming battle for 4G mobile voice and data in India will show you as it is evolving right now and different service providers like Reliance and Airtel and Vodafone or coming, you will see that almost every strategy of all these major players will be derived out of this best cost that is low cost high quality approach.

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FOCUS STRATEGIES

- Focus strategy based on low-cost
 - Concentrate on a narrow customer segment beating the competition on lower cost
- Focus strategy based on differentiation
 - Offering niche customers a service customized to their needs
- Keys to success
 - Choose a niche where customers have a distinctive preference, unique needs or special requirements
 - Develop a unique ability to serve the needs of a niche target market
 - Young Urban Professional----Creche, Staycation, fashion

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Now, there is another generic strategy which we call the focus strategy. The focus can be of two types, one can be that focus strategy based on low cost, where you actually look at in narrow customer segment and in that segment you beat the competition with the lower

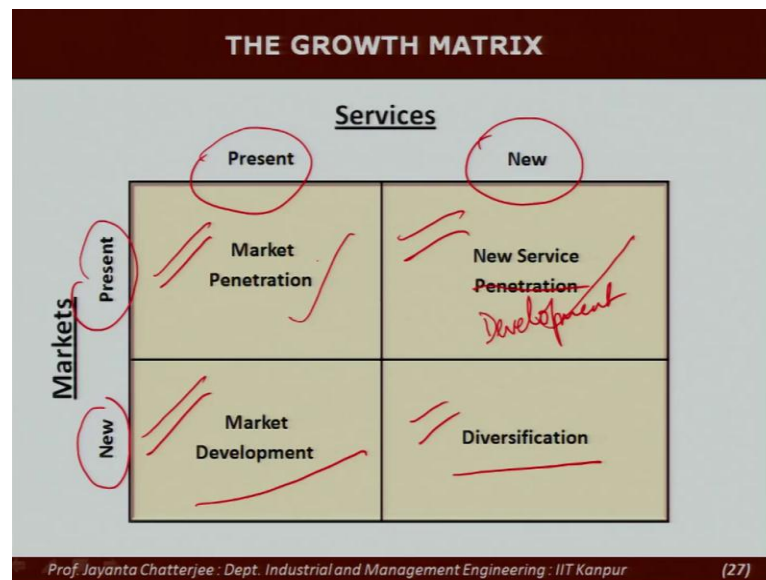
cost. Because, you are actually matching the exact requirement of the customer segment and therefore, you know what frills can be deleted and you come up with the product which is optimally suitable for that customer segment.

So, as you see therefore, segmentation is very closely link with focus. The focus strategy can also be based on differentiation, you can find a segment of customer, who like a certain types of features of certain level of... So, therefore, you will find a focus strategy often being deployed by airlines for their business class passengers. And so you have to choose a niche, where customers have a distinctive preference, unique needs or special requirements and based on that you will be able to develop services.

An interesting explanation that you can do is this young urban professionals they are actually and emerging big group of consumers and for them different types of very high quality crash or staycations; that means, you this young professionals you do not have much of time they cannot take a long vocation, because they are building, they are carrier, they are working a 14 hours a day and they are not prepared to take leave or their organization is reluctant to give them long leave.

So, they may take a week end often stay in a hotel in the city and hotels love them, because normally hotels run lean during the weekends and they create a particular service package, which is often called a staycation that as suppose to vocation. That means, you stay at your own place and you have a vocation like relaxing environment in a five star hotel enjoying a special package also in fashion whether in retailing or etailing we are seeing this focused strategy coming up.

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So, based on this we can talk about this famous the hands of matrix which have already introduce to you earlier that if we take current market, present market, new market and presence services being offered and new services that are possible for offering you can develop this four alternative a strategy combinations, market penetration, new service penetration and new service development rather, I think you should write here new service development and diversification and market development.

So, I would request you to as an assignment to populate this matrix and give me examples that how different types of services that you are competitive services, you see emerging in this segment, in this quadrant, in this quadrant and in this quadrant. You look around, look at the various TV promotions, print promotions, look at the coding around you in your city and most interestingly you should look at the business papers, the business dailies and or listen to the business channels on TV and you will find number of examples and you can then present this two by two matrix populated with examples, services, service businesses who are using this as their strategy can canvas.

So, with this background, now we will get into some of the other more the remaining discussions on pricing, very important point that we still have an discussed as well as some other more advanced processes for creating the competitive value proposition. So, next two sessions will be on pricing.

Thank you.