

DISTINCTIVE ASPECTS OF THE SERVICES STRATEGY

Isac Florin Lucian

Universitatea Aurel Vlaicu din Arad, Facultatea de Științe Economice, Bd.Revoluției nr.77 0040-257-283010 e-mail:rectorat@uav.ro

Abstract ; Services have certain peculiarities (immateriality, unstorable, heterogeneity) which distinguish them from the material goods. Due to these peculiarities, the strategies adopted by the service firms have distinctive features, mainly with the aim of creating a competitive advantage.

Key words: strategy, services, competitive advantage.

Strategy implies the way in which the organization actions in order to fulfill its aim. It represents a set of rules which develops the aims which are triggered by this aim.

Etiologically, the word strategy comes from Greek, where **stratos** means army and **agos-I** lead⁵⁰. In Larousse dictionary, the term strategy appears as:

- the art of coordinating the action of military, political and moral forces implied in leading a war or in preparing the defense of a nation. Strategy is the competence of the government and of the high commandment of the military forces;
- the art of coordinating actions and of managing them in order to fulfill an aim; election and political strategy.

The strategy of services provides the conceptual framework which enables the managers to identify the opportunities in order to offer values to their clients⁵¹ and to offer that certain value in profit or in the limits of a budget. The role of operational managers in services is (from this point of view) to help creating and delivering this value through the contribution to the thinking of the strategy and through the developing of the operations, resources, people and processes, all with the aim of assuring the future success of the organization.

For the implementation of the strategy of services, the organization has to appeal to a multitude of abilities, starting with a visionary thinking at the higher levels of leadership, continuing with the interpretation of the policy strategy at the management level and ending with the implication of the service process at the level of the first line of the employees. Researches in the domain of developing strategies reveal that the strategies have a rather evolutionist character than a revolution one⁵². Quinn sustains that in spite of the fact that in formulating the strategy are included refined analyze techniques, the real strategy develops as a combination of inner decisions with outer events which form a shared agreement as regarding the strategy to be followed. Taking into consideration the actual requirements of the economy of services, we appreciate that the contact stuff in the service firms play a decisive part in development of strategy. Most of the time, they have information, in advance, about the clients' preference, about the way in which the clients' tastes change. This stuff have the difficult task to "live" the strategy.

Just like the other business, those in the area of services have to develop strategies in order to prevent the occurrence of "fragmented"⁵³ activities and decisions. In marketing terms, a strategy is often seen through

⁵⁰ Ioan Petrișor-Managementul strategic al organizațiilor. Politica generală a firmei, Ed. Marineasa, Timșoara, 2001, p.46.

⁵¹ R. Normann, R. Ramirez- „From value chain to value constellation: designing interactive strategy”, Harvard Business Review, iulie-august 1993, p.65-77.

⁵² J.B.Quinn- „Strategic Change:logical incrementalism”, Sloan Management Review, vol.1, nr.20, toamna 1978, p.7-21; A.Bailey, G.Johnson-„How strategies develop in organisations”, în D. Faulkner și G.Johnson-The Challenge of Strategic Management, Cranfield Management Series, Kogan Page, London, 1992, p.147-178

⁵³ C.H.Lovelock- Product Plus, McGraw Hill, New York, 1994; P.M.Senge- The Fifth Discipline, Century Business, London, 1993

the politics of the organization used in order to obtain an advantage upon its competitors⁵⁴. Some firms may not want to obtain this advantage, seeing their own part as one of maintaining their own position in the market. Other organizations operate in non competitive situations and want to make sure they are able to adapt to permanently changing conditions. Therefore, *the strategy of services is defined as the totality of plans and politics through which a service organization aims at fulfilling its goals.*

A strategy plan will render profitable different aspect of the organization and will assure there is a mutual support between them and that they are directed by the points indicated by the leading forces of change. There are five critical elements in a strategy: creating the aims of the company, understanding the environment, developing a suitable concept about services, identifying the proper aims for measuring performance, developing a suitable operation⁵⁵.

- **Corporation aims:** they provide the necessary aims and the goals of the strategy. If we consider strategy as a set of plans or politics designed to fulfill certain aims, there must be a declaration of these aims too. These aims offer, partially, the necessary motivation of change, and they establish the dimension and the speed of change as well. Such a declaration is an important step in making the change public, and the employees will know what the expectations of the firm will be in what regards themselves.
- **The environment:** each service organization operates in a certain context and that context has to be understood in order to assess not only the opportunities which can be exploited, but also the probable answers of the other organizations and the clients' reactions to change.
- **The concept of service:** it identifies the chosen nature of the business – the imagined service that the organization wants to create. The concept of service helps the organization to focus upon *the value* it can offer to the client.
- **Performance aims:** they offer the means through which a strategy is changed into an operational language, establishing the priorities for these operations. Together with the concept of service, they specify the tasks for the implied operations.
- **The operations:** the operations (the people, the structures, the systems of measuring performance, the supplying chains) – have to be developed in order to implement the strategy.

Strategy is an iterative process. The key components, the aims, the context, the concept of service, the performance criteria, the operations have to be ordered for the delivery of the services and the fulfilling of the strategic objectives. This requires a constant checking of all the elements that participate in the fulfilling of the aims. More than that, the organizations have to answer the two major forces which govern their way of functioning: the inner and outer contexts. Therefore, strategies require a continuous assessing even when some corrections are needed to be done.

Strategies can be intentioned, formal and planned; in turn, they can be developed from an intentioned strategy which was not fulfilled or can be generated by a formal planning process⁵⁶. The planning of an intentioned strategy is heading towards a “top down” approach starting with the declaration of the aims of the firm or with assessing of the context and the market opportunities. The emerging strategies tend to be “bottom-up”, starting with an idea about a certain service concept or about new operational capabilities. Both approaches can be used in the service organization⁵⁷.

The Competitive Services and Advantages

Many organizations, both in the field of production, and in the sphere of services, admit they can obtain sustainable and significant profit, through the improvement of services they provide. Services, as well as their performance, can become true competitive “weapons”.

⁵⁴ Robert Johnston, Graham Clark-Service Operation Management: Improve Service Delivery, 2nd edition, Prentice Hall,2005,p.424.

⁵⁵ J.L.Heskett- Managing in the Service Economy, Harvard Business School Press, Boston, 1986; R.Johnston- Developing competitive strategies in service industries, in P.Jones(ed.)-Management in Service Industries, Pitman, London,1989.

⁵⁶ H.Mintzberg- The Strategy Process,Prentice Hall, London,1998

⁵⁷ R.A.Burgelman, A.S. Grove-„Strategic dissonance”, California Management Review, iarna 1996,p.8-28.

For the manufacturing organizations or for those product oriented, services can be important means of differentiating, especially in the case when they operate in the markets where there is a slight difference of the product or where the development of the product is slow, difficult and expensive. The nature of available services and the way in which the services are performed, can offer the ways towards competitive success.

The companies service oriented admit they often need to perform high levels service for their clients. The ever growing competition, the decreasing amount of sales and the increasing amount of importance the clients give to services represent a pressure for the service organizations and they imply an rethinking and improving of the level of offered services. The effect of quality service is very important for the increasing loyalty of the clients and the gaining of new clients and of the financial position of the organization, as well. In the organizations that compete through costs, services have a key part in assuring deliveries on time and low operational costs.

Certain service organizations compete with the results of the delivery activity, others with experience, others are able to compete with both dimensions. There is a great number of positions which the service organization can adopt when they compare themselves with the competition. This analysis can be applied for the non profit organizations or for those in the public domain, as well, because they are engaged in a certain competition form for the resources. The five positions that have been identified are:

- **failure** : the results of the organization are under the specifications of the industry and the service to the client is of an unsatisfactory quality. The traditional services which failed in capturing the tendencies of the market are in this position.
- **self-content**: in these organizations the result of the services is excellent, but the way in which the clients are dealt with is unsatisfactory. Sometimes the professional services enter this category, being considered by the clients as being full of arrogance. Medical services enter the same category.
- **maintaining the client for a short time**: the loyalty of the customer can be developed by good services. If the total result of the service goes under the established standard , the users will tolerate this situation only for a short period of time. If the experience with the service is excellent , the emotional costs of changing the users' preference are high so, they might even give up that service.
- **average**: is the position of many “business to consumer” have. In many of these traditional domains in the sphere of services there is often a number of competitors that lead their business in the same way. A good example is the domain of financial users in Britain, with many players, but few possibilities to differentiate their offer.
- **“of world class”**: are the organizations universally recognized as being the best in what they do.

Many organizations will discover that they can position their wide variety of services in different points. Some of them will be of the “world class”, others will fail. The most important fact is to make a clear cut distinction among them because they demand different strategies.

In order to understand how services can be used to create a competitive advantage it is necessary to understand what the consumer considers as being important . In this way we can speak of a “**perceived user value, PUV**”⁵⁸. This represents the criteria that the client appreciates as important and will have in mind when assessing an organization and its services. PUV For a chain of supermarkets may include the range of goods, the stock availability, the store location.

1.2. The understanding of the competitive context of services

Generally speaking, the service firms compete in a difficult economic context. There are several reasons for this difficulty:

- **Rather low entrance barriers**: the innovations in the sphere of services are not licensed , and more often , services are not intensive in the capital. Under these circumstances , innovations

⁵⁸ C.Bowman- Strategy in Practice, Prentice Hall, Harlow, 1998.

are easily copied by the competitors. Nevertheless, there are other types of entrance barriers, as for example, the location of a resort hotel on the most attractive beach on an island(e.g. the location of Club Med on the Moorea island in The French Polynesia).

- ***The smallest opportunities for the scale economies:*** We have to remember that ,because of the simultaneity production- consumption in the sphere of services, either the client has to go to the place of their performance or the performer of services has to go to the client's place. The necessity of these shifting delimitate the market area, determining low deliveries. The services firms ,working in the franchisee can make some savings by dividing the publicity and the acquisition costs; in other cases electronic communication can replaces the physical shifting.
- ***Irregular fluctuations of sales:*** the service demand varies according to the moment of the day (sometimes seasonal), with issues at random.
- ***No advantage from the point of view of dimension in the relations with the buyers or suppliers:*** the reduced dimension of many service firms creates a disadvantage in the negotiations with the important suppliers and purchasers.
- ***The substitution of products:*** the innovations in products can substitute services (e.g. the pregnancy test which can be done even at home). The service firms do not have to passively watch what the competitive firms do, on the contrary, they have to anticipate the possible innovation of products which ay render services out of fashion.
- ***Clients' loyalty:*** stable firms that use personalized services create a loyal base of clients which becomes an entrance barrier for the new services.
- ***Output barriers:*** small service firms can go on operating in spite of their low profits. For example, a private firm can establish as main aim, hiring the members of the family in spite of maximizing the profit. Other service firms, such as the antiquity shops or the scuba diving shops have a romantic attraction or a hobby interest which offer the owners enough satisfaction for their work to compensate the low financial results.

If we analyze any other private domain in the sphere of services, we notice that there are firms which have surmounted these competitive difficulties and have prospered. For example, McDonald's has won a dominant position in the fast food industry by overcoming most of the preceding difficulties. The new comers on the market have to develop a strategy of services that should appeal to the important competitive features of that industry. There are three generic strategies which have proved to be of success in offering competitive advantage.

Competitive Service Strategies

The well known American strategy specialist Michael Porter⁵⁹ states that there are three generic competitive strategies: general cost leadership, differentiation and concentration.

General cost leadership

A similar strategy needs efficient scale facilities, firm costs, control from the upper levels, and often, innovative technologies. Having a low cost position provides a certain protection against competition because most of the efficient competitors will be the first to suffer the pressure of competition. The implementation of the low cost strategy needs major capital investments in equipment, an aggressive policy of prices and initial losses determined by building the market share. A leadership strategy based upon costs may sometimes change an industry, fact proved by the success of firms like McDonald's, Wal-Mart or Federal Express. More than that, service firms may obtain low costs using a variety of methods:

- ***Looking for low cost clients:*** it costs less to serve certain clients than others, and the first will be privileged in the politics of the service providers. For example, United Services Automobile Association (USAA) occupies a dominant position among the car insurers because they have as clients only military staff and their families. This group implies low

⁵⁹ Michael E. Porter- „Generic Competitive Strategies”, în Competitive Strategies, New York, Free Press,1980.

costs because its members are characterized by nomadic behavior, are willing to do business on the phone, email or online and are used in operating like this.

- **Service standardization:** routine professional services at a low cost are expected (e.g. the preparation of the personal tax)
- **Diminishing the elements connected with the staff involved in the service delivery:** it's a high risk strategy, that may be accepted by the consumer only if his comfort is increased.
- **Diminishing the network costs:** the service firms that need network in order unite the suppliers and the consumers. Electricity utilities that have important fix costs on the transmission lines provide the best example.
- **Cutting out the operations in services:** many services, such as passenger transportation or the barber shops are by their nature online because they can be performed only in the presence of the client. In services in which the client doesn't need to be present, the service transaction can be cut out. For example, American Airlines has one of the 800 centers of booking tickets located in the Caribbean. So, we can say that the cut services function on the rules of a factory, economy being made by strengthening, low cost locations and the absence of the client in the system.

Differentiation

The essence of the differentiation strategy is based on the creation of a service seen as being unique. It can appear in different forms: brand image, technology, features, services for the client, the network of dealers. A differentiation strategy does not ignore costs, its main aim being to create the clients loyalty. Differentiation with the aim of improving the service is obtained at a cost that the target consumer is willing to pay. Some approaches of differentiation are:

- **Making the intangible tangible:** by their nature, services are intangible and do not leave the consumer any memory about the purchase. Admitting the need of reminding the clients of their holiday, many hotels offer complementary toilet articles with the name of the hotel written on them.
- **A certain personalization offered to the standard services:** service firms provide certain personalized impulses which can generate a low cost relation between the firm and its clients. For example, an employee of a hotel that is capable of addressing the client by name can get a favorable impression that might determine the client to come back to the same hotel. Beauty parlors have added many personalized features (personal stylist, atmosphere music, relaxing environment) in order to distinguish themselves from the classic ones.
- **Diminishing the perceived risk:** the lack of information regarding the purchase of the service, generates a feeling of taking risks for many clients. The lack of knowledge or trust in services will determine the search for certain suppliers that will have the necessary time to explain the work in that domain.
- **Increased attention to the qualification of the staff:** the investments in developing and instructing the staff that determines an increase of the quality services represent a competitive advantage, hard to be imitated. The leading firms in their industry are recognized to be, among their competitors for the quality of their training programs. In certain cases, these firms have initiated training centers that have college statute (McDonald's Hamburger University of Oak Brook, Illinois, close to Chicago).
- **Quality control:** providing a consistent level of quality in services in many locations and using a harmless working system is an important challenge. The firms have dealt with this problem in different ways including the training of the staff, explicit procedures, technology, direct supervision, the colleagues' pressure.

Concentration

The concentration strategy is built round the idea of serving very well a certain target market by approaching to consumers' specific needs. The market share may be a certain group of customers (e.g. USAA and the military community), a service or a geographic region. The concentration strategy is based

on the premises that the firm can supply a narrow market share more efficiently and more proficiently than any other firms that try to supply a much larger market. Therefore, that firm obtains competitive advantage on its share of market by satisfying the specific needs of the consumer and by applying lower costs due to the specialization.

Bibliography

1. C.Bowman- Strategy in Practice, Prentice Hall, Harlow, 1998.
2. Philippe Callot- Marketing des services, Vuibert, Paris,2007.
3. I.Cetină, R.Brandabur, M.Constantinescu- Marketingul serviciilor. Teorie și aplicații, Ed.Uranus, București,2006.
4. J.A.Fitzsimmons, M.J.Fitzsimmons- Service Management: Operations, Strategy, Information Technology, TATA McGraw- Hill,2005.
5. Robert Johnston, Graham Clark- Service Operation Management: Improve Service Delivery, 2nd edition, Prentice Hall,2005.
6. Ioan Petrișor-Managementul strategic al organizațiilor. Politica generală a firmei, Ed. Marineasa,Timșoara,2001.
7. Michael E. Porter- Generic Competitive Strategies, in Competitive Strategies, New York, Free Press,1980.