# *Service Management 9th edition Bordoloi Solutions Manual*

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# CHAPTER 2
# SERVICE STRATEGY

## TEACHING NOTE

This chapter sets forth the strategic theme of the book that the operations function is central to the competitive strength of a service firm. The chapter begins with the strategic service vision that relates the service delivery system to the target market segments via an operating strategy and service concept using Southwest Airlines as an example. The application of the three generic competitive strategies — cost leadership, differentiation, and focus — to service firms is explored with examples. Porter's five forces model and SWOT analysis are applied to service firms. Taking a page from manufacturing strategy, we apply the concept of service winners, qualifiers, and service losers to the dimensions of service competition. Sustainability in discussed with the application of Triple Bottom Line to services. The important role that information plays in a firm's competitive strategy is captured in a two-by-two matrix that uses the dimensions of strategic focus (external or internal) and competitive use of information (online or offline). In keeping with the latest innovations, we discuss the impact of Internet of Things (IoT) and data analytics on services. The concept of a virtual value chain that can create competitive advantage in the "marketspace" is illustrated with examples from USAA. Privacy questions and anticompetitive behavior are issues that limit the use of information. The chapter concludes with a discussion of the stages in service firm competitiveness and a "whodunit" Case about two niche-market banks.

## SUPPLEMENTARY MATERIALS

James L. Heskett, W. Earl Sasser, Jr. and Christopher W.L. Hart, *Service Breakthroughs*, Free Press, New York, 1990.

The authors describe how breakthrough managers develop counterintuitive strategic service visions and a service concept that focuses on achieving results for their customers.

Case: The Priceline Group: Booking a Place for the Future (HBS: 316177-PDF-ENG)

The Chairman of the Priceline Group is considering the actions he must take to confront an evolving external environment, new direct competition, disintermediation and substitute offerings. Does his response require an increased coordination of each historically autonomous division or some other approach? (competitive advantage, strategy)

Case: Southwest Airlines (A) (HBS case 575-060)

Southwest Airlines began as a small intrastate Texas airline, operating commuter-length routes between Dallas (Love Field), Houston, and San Antonio. In June 1971, having overcome legal hurdles raised by entrenched Braniff and Texas International, Southwest inaugurated service with a massive promotional campaign and many innovations designed to attract passengers. On February 1, 1973, Southwest must decide how to respond to Braniff's "Half Price Sale."

Case: Monster.com: Success Beyond the Bubble (HBS: 802024-PDF-ENG)

In 2001, Monster.com was an Internet site that, among other things, connected individuals seeking jobs with organizations wanting to hire. Its substitutes included help wanted classified advertising in newspapers. Monster was one of the few Internet companies that had weathered



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the bursting of the dot-com bubble and continued to grow both its revenues and profits at rates above 50% per year in 2001. This case examines why the company was able to prosper and discusses options for future growth. (business growth, economies of scale, IT)

Case: Zipcar: Refining the Business Model (HBS Case: 9-803-096)

The expense of owning or leasing a modest car in urban locations can exceed $500 per month when insurance and parking expenses are included. Using a website for reservations and wireless communication, the concept of car sharing has become a reality with Zipcar and its tag line, "wheels when you want."

Case: British Airways: Using Information Systems to Better Serve the Customer (HBS case 9-395-065)

British Airways developed an information system, Customer Analysis and Retention System (CARESS) to ensure rapid response to customer complaints. The case explores how this system is able to melt the complaint iceberg in order to resolve customer complaints quickly and improve retention as well as to provide data for root-cause-analysis of problems.

Case: Ritz Carlton: Using Information Systems to Better Serve the Customer (HBS Case 9-395-064)

Ritz-Carlton, a Malcolm Baldrige National Quality Award winner, relies on two information systems to promote customer loyalty: COVIA to handle centralized reservations and Encore, a local system that keeps track of guest preferences.

Note: Service in E-Commerce: Findings from Exploratory Research (HBS Module Note N9-800-418).

This note explores the concept of scalability in the context of customer support and logistics. The authors also discuss the E-commerce customer experience cycle that includes navigation, information, customer support, and logistics leading to loyalty when well executed.

## LECTURE OUTLINE

1. The Strategic Service Vision (Table 2.1 and 2.2)

2. Understanding the Competitive Environment of Services

3. Competitive Service Strategies

   Overall cost leadership, Differentiation, Focus

4. Strategic Analysis

   Porter's Five Forces Analysis (Figure 2.1)

   SWOT Analysis: Strengths, Weaknesses, Opportunities, Threats (Table 2.3)

5. Winning Customers in the Marketplace

   Qualifiers, Service winners, Service losers



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6. Sustainability (Figure 2.2)

7. The Competitive Role of Information in Services (Figure 2.3)

   Creation of Barriers to Entry, Revenue Generation, Database Asset, Productivity Enhancement

8. Internet of Things (IoT) (Figure 2.4)

9. Data Analytics in Services (Figure 2.5 and Table 2.4)

10. The Virtual Value Chain (Figure 2.6)

11. Economics of Scalability (Table 2.5 and 2.6)

12. Limits in the Use of Information

    Anticompetitive, Fairness, Invasion of Privacy, Data Security, Reliability

13. Using Information to Categorize Customers

14. Stages in Service Firm Competitiveness (Table 2.7)

    Available for Service, Journeyman, Distinctive Competence, World-Class Service Delivery

## TOPICS FOR DISCUSSION

1. *Give examples of service firms that use the strategy of focus and differentiation and the strategy of focus and overall cost leadership.*

Reed College in Portland, Oregon, is a small private college that is focused primarily on an undergraduate education in liberal arts and sciences. The school differentiates itself from most other higher education institutions in such areas as the selectivity of its admissions requirements, the rigorousness of its courses, and the requirement of a research thesis for an undergraduate degree. Another firm that exemplifies the strategies of focus and differentiation is Amy's Ice Cream in Austin, Texas. Amy's is focused on kneading various condiments into the ice cream, a service that also is provided by a number of other firms. But, the servers at Amy's are accorded extraordinary freedom to interact with customers and it is the nature of this service encounter that differentiates Amy's from other ice creameries.

Southwest Airlines is an example of firms that employ the strategies of focus and overall cost leadership. Southwest concentrates on serving a select geographic region at low cost. The airline achieves low cost by providing "no-frills" service, and it maximizes utilization of its assets by maintaining a quick turnaround practice at airports. United Services Automobile Association (USAA) is another example of an organization that has a well-defined focus, primarily that of providing insurance and financial services for American military officers and their families. The company is able to provide the lowest possible rates in the industry to its customers, in part, by doing business over the phone instead of using field agents.

2. *What ethical issues are associated with micromarketing*?



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The ethical issue associated with micromarketing involves the customer's right to privacy. Scanner data and other personal information that target specific customers might be very beneficial for businesses, but the inappropriate use of the information can allow businesses to mislead or manipulate their customers. From an ethical standpoint, there must be some limits to the nature and amount of information a business can obtain from its customers.

3. *For each of the three generic strategies (i.e., cost leadership, differentiation, and focus), which of the four competitive uses of information is most powerful*?

Productivity enhancement is the most powerful use of information for achieving *cost leadership*, because it allows firms to reduce inventory, reduce waste, and eliminate paperwork, all of which save money. Improved productivity allows companies to make more efficient use of their assets, such as retail shelf space.

Creating barriers to entry is the most powerful use of information for protecting a *differentiation* strategy. When customer loyalty is high, cost cutting by competitors is less effective. Switching costs can also create barriers to entry, for example, when suppliers use a computer order-entry network to establish a direct link to customers.

Database assets are the most powerful use of information for building a *focus* strategy. These assets allow a company to develop profiles of their customers and their buying habits. This information allows the firm to develop new services and to be seen as responsive to its customers' needs. Advertising and distribution economies can be realized.

4. *Give an example of a firm that began as world-class and has remained in that category.*

Federal Express and Disney come to mind.

5. *Could firms in the "world-class service delivery" stage of competitiveness be described as "learning organizations'?*

Learning in organizations means the continuous testing of experience and the transformation of that experience into knowledge that is accessible to the whole organization and relevant to its purpose (see Senge, et.al., *The Fifth Discipline Field Book*, Doubleday, New York, pg. 49). Table 2.6 in the text confirms this definition as illustrated by the world-class service delivery category. Consider the following example comments:

- Learning organizations raise customer expectations, seek challenges, and improve continuously.
- A learning organization is proactive, develops its own capabilities, and generates opportunities
- The learning organization regards the customer as a source of stimulation, ideas, and opportunities.
- The workforce of a learning organization is innovative and creates new procedures.
- Top management of a learning organization looks to front-line management as a source of ideas.

6. *Compare and contrast sustainability efforts in service operations and manufacturing*.



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At the outset, certain environmental wastes such as pollution generated by manufacturing plants are glaring problems in industrialized nations. Therefore, it is easy for most people to relate the physical nature of sustainability efforts to manufacturing. Such efforts include emission control and other measures to protect our air and water from contamination.

Waste reduction through lean management and value recovery apply to service and manufacturing firms alike, however. Regulations by agencies such as EPA, WEEE, and RoHS apply equally to service firms. Beyond those regulations, service firms must build an image of responsible organizations that are committed to sustainability by cultivating a culture that eliminates negative impacts on environmental and social issues. Service firms have a responsibility equal to that of the manufacturing sector in achieving sustainability, especially for long-term viability of the firm.

7. *Conduct a triple bottom line evaluation for a hospital by identifying its social, economic, and environmental attributes that enhance the sustainability movement.*

Social:

- Proper health education for all constituencies.
- Free screening for essential medical issues.
- Appropriate medical outsourcing.
- Linking health and wellness programs for a holistic approach to health care.

Economic:

- Use of lean management for cost savings – e.g., process control, better materials management, better record-keeping, elimination of unnecessary tests.
- Cost-efficient payment structure for medical access and health insurance

Environmental:

- Managing medical wastes – e.g., biodegradable products such as contaminated dressings.
- Responsible medical disposals – e.g., used syringes.

Overall, in promoting health, hospitals need to use fewer resources (economic), provide support for employee self esteem (social), and become better stewards of their medical resources and products (environmental).

## INTERACTIVE CLASS EXERCISE

*The class divides and debates the proposition "Frequent flyer award programs are or are not anticompetitive."*

The statement "Frequent flyer award programs are anticompetitive" was voiced following airline deregulation. The frequent flyer award is an attempt by airlines to create customer loyalty in a



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commodity market and to avoid price competition. Priceline.com and other Internet ticket sellers have reintroduced price competition making frequent flyer awards less effective.



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## CASE 2.1: UNITED COMMERCIAL BANK AND EL BANCO

1. *Compare and contrast the strategic vision of El Banco and United Commercial Bank.*

| | Service Delivery System | Operating Strategy | Service Concept | Target Market Segments |
|---|---|---|---|---|
| El Banco | Spanish spoken<br><br>Hispanic physical setting | Franchise<br><br>Low cost informal store fronts | Fee based services<br><br>Attract first time bank customers | Latinos |
| United Commercial Bank | Chinese spoken<br><br>Conservative<br><br>Import-export services | Branches in Chinese-American communities<br><br>Offices in China, Taiwan, Hong Kong | Loans to businesses<br><br>High interest CDs<br><br>Low fees | Chinese-Americans |

2. *Identify the service winners, qualifiers, and service losers for El Banco and United Commercial Bank.*

| | Service Winners | Qualifiers | Service Losers |
|---|---|---|---|
| El Banco | Check cashing<br><br>Money transfers | Spanish spoken<br><br>Informal location | Lack of sophisticated services |
| United Commercial Bank | Low fees<br><br>Import-export services | Chinese spoken<br><br>Soundness and safety | Lowering interest rate on CDs |

3. *What are the differentiating features of banks that target ethnic communities*?

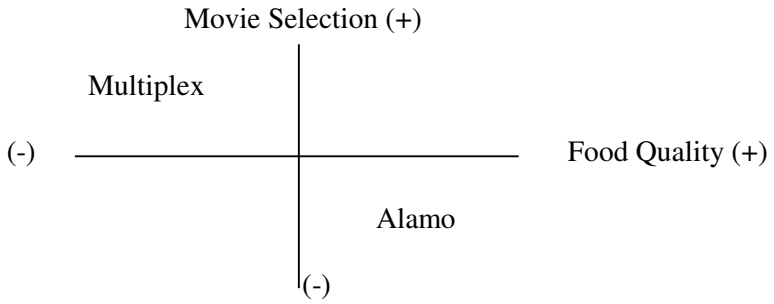
- Products that match unique customer needs (trade finance, check cashing)
- Well articulated cultural focus on target community (language, physical setting)
- Convenient location accessible to community (ethnic population centers, places frequently visited by community members)



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## CASE 2.2: THE ALAMO DRAFTHOUSE

1. *Marketing analysts use market position maps to display visually the customers' perceptions of a firm in relation to its competitors regarding two attributes. Prepare a market position map for Alamo Drafthouse using "food quality" and "movie selection" as axes.*




2. *Use the "Strategic Service Vision" framework to describe Alamo Drafthouse in terms of target market segments, service concept, operating strategy, and service delivery system.*

| **Target Market** | **Service Concept** | **Operating Strategy** | **Service Delivery** |
|---|---|---|---|
| · 18-30 year old, male, alcohol consumers, cult film appeal<br><br>· 25-40 year olds with sophisticated taste in films | · Meal and 2nd run or cult films<br><br>· Single screen theater with every other row replaced with narrow tables | · Low cost old theater<br><br>· Inexpensive 2nd run movies<br><br>· Food made to order with less waste | · Unobtrusive wait people<br><br>· Acceptable sound and projection equipment<br><br>· Excess capacity mid-day |

3. *Identify the service qualifiers, winners, and service losers for Alamo Drafthouse. Are the Alamo purchase decision criteria appropriate for the multiplex movie theater market? What do you conclude?*

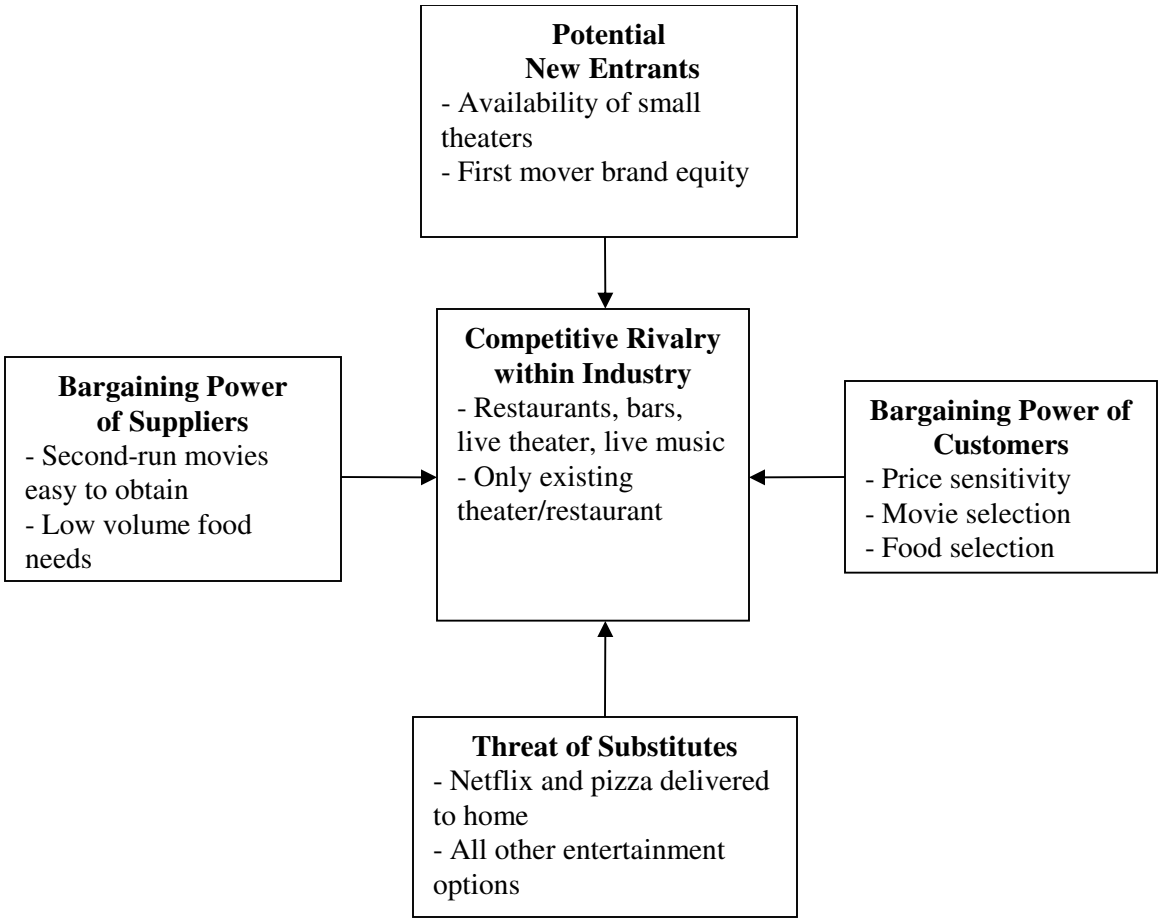
Qualifiers include good sound system, reasonable prices for the meals, availability of beer and wine, and menu selection. A service winner is the unique "date" experience including the special events and film showing. Service losers include movie projection and sound that do not meeting minimal standards. For the multiplex movie theater market the qualifier is the desired movie showing, a winner would be convenient location and available time of showing, and the loser would be a long waiting line at the box office. The difference in the criteria would lead us to conclude that Alamo does not compete in the multiplex movie market.

4. *Use Porter's Five Forces Model to assess the strategic position of Alamo Drafthouse in the "entertainment industry."*



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**Porter's Five Forces Assessment of Alamo Drafthouse**




5. *Conduct a SWOT analysis to identify internal strengths and weaknesses as well as threats and opportunities in the external environment.*

| **Strengths** | **Weaknesses** |
|---|---|
| • Small theater with kitchen is unique.<br>• People in your market see dinning and movie combination as your strength. | • Projection and sound quality could be improved.<br>• Attracting mid-week audience. |
| **Opportunities** | **Threats** |
| • Expand by purchasing small movie theaters.<br>• Business meeting could be a market niche. | • Cash-flow problem.<br>• Concept copied by competitor. |



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## CHAPTER QUIZ QUESTIONS

True/False

1. A characteristic of the overall cost leadership strategy is the incurring of start-up losses to build market share. (T)
2. On-line networks between suppliers and their customers create a barrier to entry. (T)
3. When pursuing a differentiation strategy, a service firm should work to ensure that the service being offered is standardized. (F)
4. Service winners are the competitive dimensions used by customers to decide among qualified service providers. (T)
5. Quality is considered to be a structural element of the strategic service concept. (F)
6. Service industries have low entry barriers because economy-of-scale opportunities are limited. (F)
7. The use of micromarketing has the potential to create customer concerns about invasion of privacy. (T)
8. Implementing a low-cost strategy can sometimes revolutionize an industry. (T)
9. A cost-leadership strategy often involves customizing a standard service. (F)
10. The competitive dimension of dependability is a likely candidate for becoming a service loser. (T)
11. Selling information and developing new services are examples of the role that information technology plays in generating revenue. (F)
12. Information technology can be used to promote customer loyalty. (T)
13. The IRS has identified frequent-user programs as anti-competitive. (F)
14. American Airlines' early development of the SABRE reservation system became the foundation for its yield management innovation. (T)
15. Information databases are an asset, because they represent a source of revenue. (T)
16. Information is a substitute for inventory. (T)
17. Focus is a competitive strategy that creates a service perceived as being unique. (F)
18. Service encounter, quality, information, and capacity planning are all managerial elements of a strategic service concept. (F)
19. Ordering from L.L. Bean by telephone is an example of a service firm maximizing opportunities for economies of scale. (T)
20. A firm facing serious competition for the first time is in the journeyman stage of a service firm's competitiveness. (T)



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21. World-class service operations strive to replace workers with enhanced automation. (F)

22. Firms classified as "available for service" view quality improvement efforts with disdain. (T)

23. For a firm achieving "journeyman" competitive status, the back-office function is considered an activity that plays an important role in service delivery. (F)

24. In a world-class service firm, the front-line management controls the process. (F)

25. The job design premise in a world-class service organization is division of labor. (F)

26. Porter's five forces analysis is used at the industry level to determine competitive intensity. (T)

27. SWOT analysis is objective with easily agreed upon results. (F)

28. Scalability is a measure of how unit variable cost relates to transaction volume. (T)

29. Infinite scalability can occur only when the variable cost is zero. (T)

30. Healthcare is an example of a service that exhibits high scalability. (F)

31. A highly scalable firm such as Kelly Blue Book (kkb.com) requires a call center. (F)

32. Scalability is enhanced with self-service. (T)

33. Customers seldom take note of firms that are leaders in the sustainability movement. (F)

34. Recycling paper and reducing energy usage often is the first step towards sustainability. (T)

35. Data analytics and Big Data are associated terms. (T)

36. Widsom is the last layer of the five layer data analytic model. (F)

37. The idea of IoT is to create "swarm intelligence". (T)

38. Adopting IoT raises privacy concerns. (T)

Multiple Choice

1. The qualifier for an airline offering short commuter flights is:

    a. quality of the meals.

    b. safety record.*

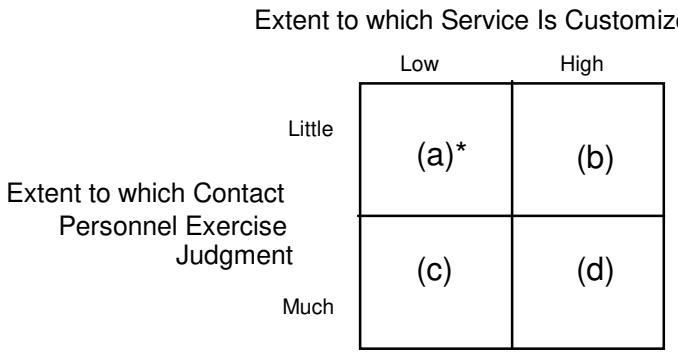
    c. politeness of the crew.

    d. on-time performance.

2. Place the McDonald's fast food chain within the following matrix:



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3. A difficult economic environment exists for service industries for all but one of the following reasons.

   a. Relatively high overall entry barriers*

   b. Product substitution

   c. Minimal opportunities for economies of scale

   d. Exit barriers.

4. A personal training facility that is located in the exclusive Beverly Hills area with only one other competitor could adopt a service strategy that emphasizes _____.

   a. overall cost leadership

   b. differentiation*

   c. focus

   d. personalization

5. Of the nine dimensions of service competition, three are regarded as most likely to become service losers. Which of the following is <u>not</u> one of those three vulnerable dimensions?

   a. Speed

   b. Price*

   c. Dependability

   d. Personalization

6. Which of the following is <u>not</u> identified as a strategy common to many successful service providers?

   a. Close coordination between the marketing and operations

   b. The exploitation of information to generate new business

   c. A project-oriented organizational structure*

   d. Redirection of the strategic service vision inward to focus on employees



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7. Which of the following usually is not a good idea with respect to an overall cost leadership strategy?

   a. Offer as many different services as possible to spread overhead costs.*

   b. Concentrate on routine/standardized services.

   c. Replace labor with capital where possible.

   d. Perform some service activities off-line at a centralized site.

8. The nature of the service act depends on to whom or to what the service is directed and the degree of "tangibility" of the service provided. An example of a tangible service directed to the possessions of a customer would be:

   a. a stay in a hotel.

   b. an investment advising session.

   c. a fortune telling session.

   d. a full-service car wash.*

9. Which one of the following is not a key characteristic that leads to a difficult competitive environment for service industries?

   a. Low barriers to entry

   b. Lack of sustainable competitive advantage

   c. Lack of government regulation and oversight*

   d. Low switching costs for customers

10. In which of the following cases does the use of information raise ethical issues?

   a. Yield management

   b. Selling information

   c. Micromarketing

   d. All of the above*

11. American Airlines' SABRE reservation system fills the following strategic role of information:

   a. Revenue generation

   b. Productivity enhancement

   c. Creation of barriers to entry*

   d. Data base asset

12. Services can create barriers to entry by _____



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a. using economies of scale.

b. creating switching costs.

c. using databases and information technology.

d. all of the above.*

13. Which of the following is an example of the competitive use of information in generating revenue?

a. Reservation systems

b. Data envelopment analysis

c. Micromarketing*

d. Expert systems

14. Which of the following is not a role of information technology?

a. Creating a barrier to entry for competitors

b. Generating revenues

c. Displacing workers*

d. Managing multisite operations

15. Using the dimensions of strategic focus and competitive use of information can identify four strategic roles of information. Which of the following is not a strategic role of information?

a. Create barriers to entry.

b. Generate revenue.

c. Create a data base asset.

d. Provide global communications.*

16. Real-time information technologies that have a focus on internal operations can play a competitive role in increasing revenue opportunities. Which one of the following uses of information does not play a role in generating revenue?

a. Yield management

b. Point of sale

c. Expert systems*

d. Sale of information

17. Bar coding and checkout scanner technology have created a wealth of consumer buying information that can be used to target customers with precision. This process is an example of:

a. service development.



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b. micromarketing.*

c. data envelopment analysis.

d. point of sale.

18. _____ is not a component of big data.

a. Value*

b. Volume

c. Velocity

d. Variety

19. Which one the following is not a subordinate areas of data analytics?

a. Descriptive analytics

b. Diagnostic analytics

c. Predictive analytics

d. Disruptive analytics*

20. Which one the following is not a subordinate areas of data analytics?

a. Descriptive analytics

b. Diagnostic analytics

c. Predictive analytics

d. Disruptive analytics*

21. The Internet of Things (IoT) trajectory begins with _____.

a. surveillance

b. RFID tags*

c. monitoring

d. location

22. Internet of Things (IoT) involves a convergence of multiple technologies but not _____.

a. GPS positioning*

b. wireless communications

c. commodity sensors



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d. machine learning

23. Kraft targeted its cream cheese flavors to match the tastes of a store's customers using off-line analysis of POS (point-of-sale) data. This is an example of:

a. yield management

b. expert systems

c. data envelopment analysis

d. micromarketing*

24. Service firms use information technology to create barriers to entry, generate revenue, enhance productivity, and serve as data base assets. Which cell below is productivity enhancement?

**Competitive Use of Information**

| Strategic Focus | On-line | Off-line |
|---|---|---|
| External | (a) | (b) |
| Internal | (c) | (d)* |

20. Which of the following service quality descriptions would be considered "World Class?"

a. It raises the customer's expectations and improves continuously.*

b. It exceeds the customer's expectations and is consistent on many dimensions.

c. It is less important than cost and is highly variable.

d. It contributes to service and plays an important role in total service.

21. Not satisfied with just meeting customer expectations, this category of service firms expands upon the expectations to levels that competitors find difficult to meet.

a. Available-for-service

b. Journeyman

c. Distinctive competence achieved

d. World class service delivery*

22. The innovation of moving from a "country" store where the proprietor fills the shopper's list with items from behind the counter to a self-service supermarket where the shopper fills a cart with items represents a move between which of the following pairs of competitive stages?

a. From available-for-service to journeyman



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b. From available-for-service to distinctive competence achieved*

c. From journeyman to distinctive competence achieved

d. From distinctive competence achieved to world class service delivery

23. Which of the following stages of a firm's competitiveness describes customers who seek out a firm based upon its sustained reputation for meeting customer expectations?

a. Available-for-service

b. Journeyman

c. Distinctive competence achieved*

d. World class service delivery

24. Which one of the following does SWOT analysis not have as its aim?

a. Reveal competitive advantages

b. Determine the competitive intensity*

c. Analyze prospects

d. Development of contingency plans

25. Porter's five forces analysis does not include which one of the following considerations.

e. Pricing power*

f. Potential new entrants

g. Threat of substitutes

h. Bargaining power of suppliers

26. Which one of the following is not a dimension of scalability?

a. Information vs. goods content

b. Degree of self-service*

c. Cost of after-sales service

d. Shipping and handling costs

27. Which of the following is not considered a criterion for evaluating the triple bottom line?

a. social progress

b. economic growth

c. environmental stewardship

d. market share*

28. Service innovation is driven by which factor listed below?



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a. New product technology

b. Customer needs

c. Observant contact employee

d. All of the above*



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# Chapter 2
# Service Strategy





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# Learning Objectives

- Formulate a strategic service vision.
- Describe how a service competes using the three generic service strategies.
- Perform a SWOT and Five Forces Analysis
- Explain service qualifiers, service winners, and service losers.
- Discuss the competitive role of information in services and its limits.
- Explain the concept of the virtual value chain and its role in service innovation.
- Discuss service firm sustainability & triple bottom-line impact
- Explain what features of a service firm lead to economics of scalability.
- Categorize a service firm according to its stage of competitiveness.


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# Table 2.1: Elements of the Strategic Service Vision

| Service Delivery System | Operating Strategy | Service Concept | Target Market Segment |
|---|---|---|---|
| • What are the important delivery system features (i.e., people, technology, etc.)?<br>• What is the system capacity?<br>• How does the system differentiate itself from competitors (i.e., quality, price, convenience)?<br>• Are barriers to entry created? | • What are important business features (i.e., operations, finance, marketing, organization)<br>• Where are effort and investments focused?<br>• How will quality and cost be controlled?<br>• What results will be expected versus competition? | • How are the results stated in terms of the customer?<br>• How is the system supposed to be perceived by the target markets (i.e., customers and employees)?<br>• How do customers perceive the service concept?<br>• What efforts are required in terms of the manner the service is designed, delivered, and marketed? | • What are common characteristics of the target market?<br>• How can the target market be segmented (i.e., demographic)?<br>• How important are various segments and their needs?<br>• How well are these needs being served (i.e., in what manner and by whom)? |



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# Table 2.2: Southwest Airlines Strategic Service Vision

| Service Delivery System | Operating Strategy | Service Concept | Target Market Segment |
|---|---|---|---|
| • Fun cabin atmosphere to differentiate service<br>• Use only Boeing 737 aircraft to control maintenance and operating costs<br>• Hire cabin crew based on attitude | • Quick turnaround at gate results in high utilization of aircraft<br>• No assigned seating rewards punctuality and promotes on-time performance | • Short flights with frequent departures<br>• Serves peanuts and soft drinks only<br>• Use of inner-city or low traffic airports avoids congestion<br>• Carry-on luggage | • State of Texas residents<br>• Business traveler who drives because of inadequate airline service<br>• Inexpensive family travel on weekends |

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# Understanding the Competitive Environment of Services

- Relatively low overall entry barriers
- Minimal opportunities for economies of scale
- Erratic Sales Fluctuations
- No advantage of size in dealing with buyers or suppliers
- Product substitution
- Customer loyalty
- Exit barriers



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# Competitive Service Strategies

Overall Cost Leadership

- Seeking out low-cost customers (e.g., USAA)
- Standardizing a custom service (e.g., H&R Block)
- Reducing the personal element in service delivery (e.g., ATMs)
- Reducing network costs (e.g., hub-and-spoke at FedEx)
- Taking service operations offline (e.g., shoe-repair drop-off)



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# Competitive Service Strategies

Differentiation

- Making the intangible tangible (e.g., hotel toiletries)
- Customizing the standard product (e.g., hair salon personal stylist)
- Reducing perceived risk (e.g., Village Volvo)
- Giving attention to personnel training (e.g., McDonald's Hamburger University)
- Controlling quality (e.g., Magic Pan)



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# Competitive Service Strategies

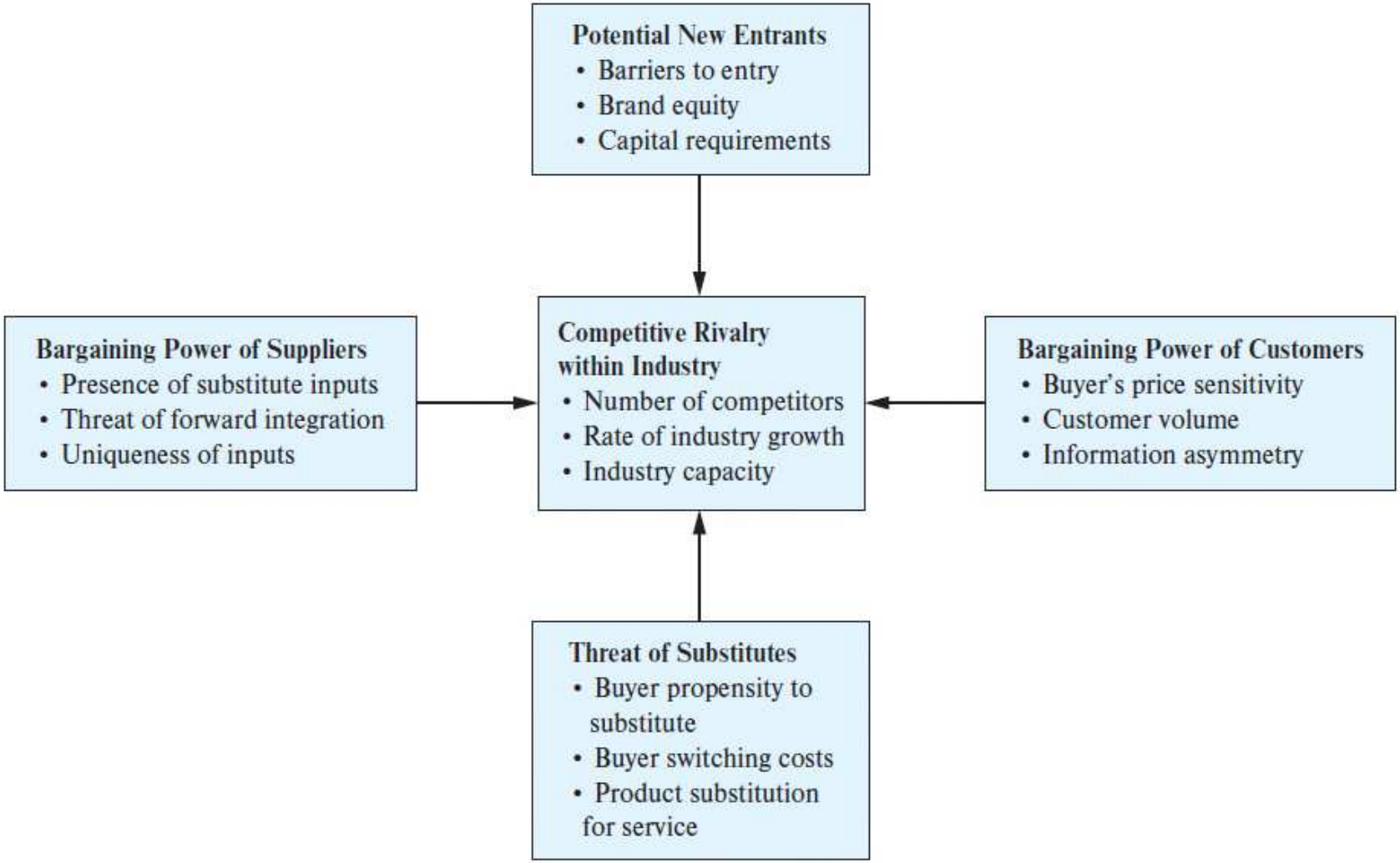
Focus

- Buyer group: (e.g. USAA insurance and military community)
- Service offered: (e.g. Federal Express and people who need guaranteed overnight package delivery)
- Geographic region: (e.g. neighborhood restaurant)



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# Figure 2.1: Porter's Five Forces Model






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# Table 2.3: SWOT Analysis

**Strengths**

- What are your company's advantages?
- What do you do better than anyone else?
- What unique resources do you have?
- What do people in your market see as your strengths?

**Weaknesses**

- What could you improve?
- What should you avoid?
- What factors lose sales?
- What are people in your market likely to see as a weakness?

**Opportunities**

- What are your competitors' vulnerabilities?
- What are the current market trends?
- Does technology offer new service options?
- Are there niches in the market your organization can fill?

**Threats**

- What obstacles do you face?
- What are your competitors doing?
- Is changing technology threatening your position?
- Do you have cash-flow problems?



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# Winning Customers in the Marketplace

- Availability (24 hour ATM)
- Convenience (Site location)
- Dependability (On-time performance)
- Personalization (Know customer's name)
- Price (Quality surrogate)
- Quality (Perceptions important)
- Reputation (Word-of-mouth)
- Safety (Customer well-being)
- Speed (major criterion or trade-off for personal/reduced rate)



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# Winning Customers in the Marketplace

- *Qualifiers*: Criteria used by a customer to create a subset of service firms meeting minimum performance requirements, e.g., cleanliness for a fast food restaurant or safe aircraft for an airline.
- *Service Winners*: Criteria used by a customer to make the final purchase decision among competitors that have been previously qualified, e.g., price.
- *Service Losers*: Criteria representing failure to deliver a service at or above the expected level, resulting in a dissatisfied customer who is lost forever, e.g., failure to repair auto (dependability), rude treatment (personalization), or late delivery of package (speed).


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# Sustainability in Services

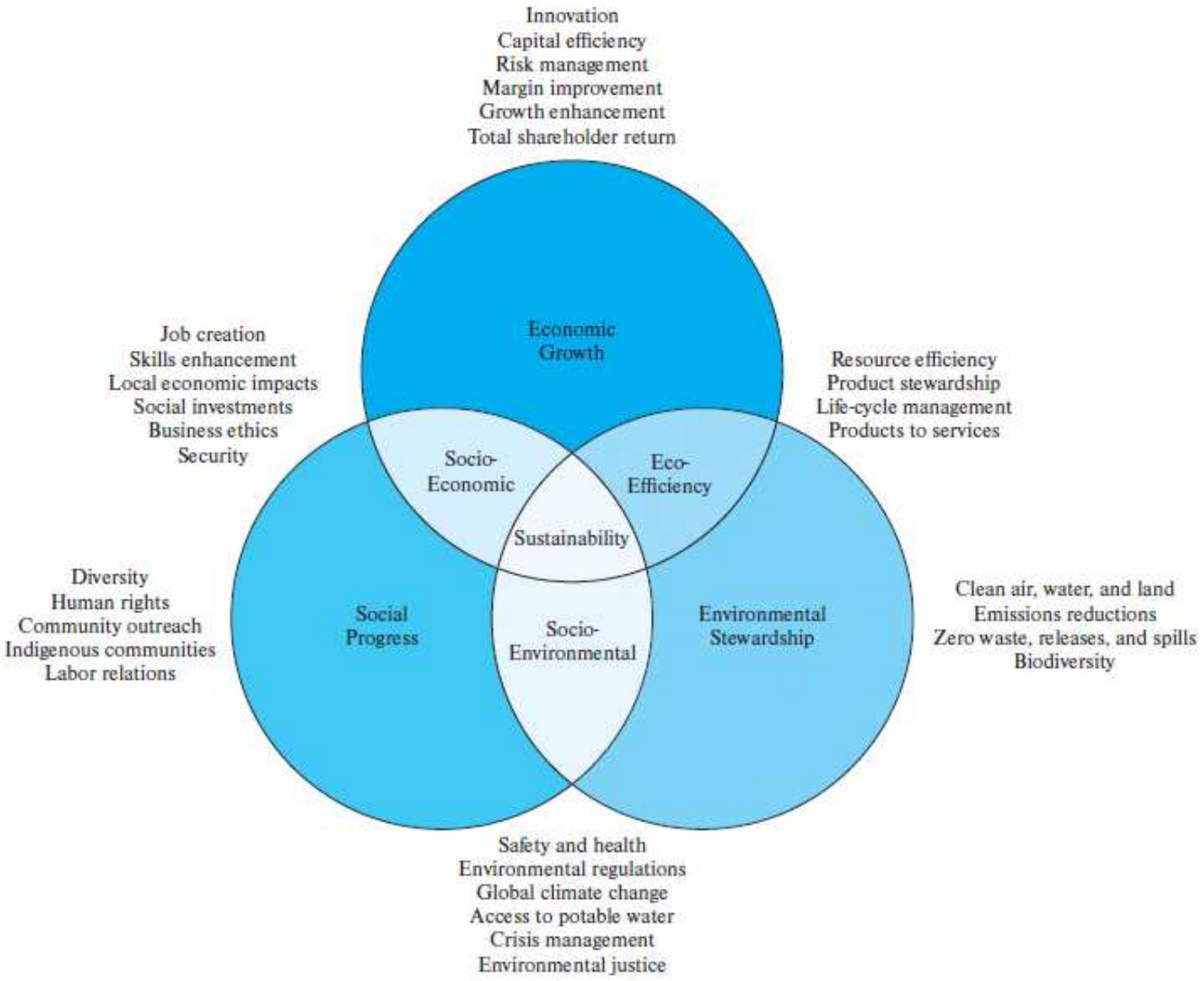
Forces that Motivate Firms to Consider Sustainability as a Strategy:

- Regulations/legislation
  - Environmental Protection Agency (EPA)
  - Waste Electrical and Electronic Equipment (WEEE)
  - Restriction of Hazardous Substances (RoHS)
  - International Standards Organization (ISO 14000 and ISO 26000)
- Perception/Image Building
- Economic
  - Cost savings from waste reduction



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# Figure 2.2: The Triple Bottom Line in Relation to Sustainability






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# Figure 2.3: Strategic Roles of Information in Services

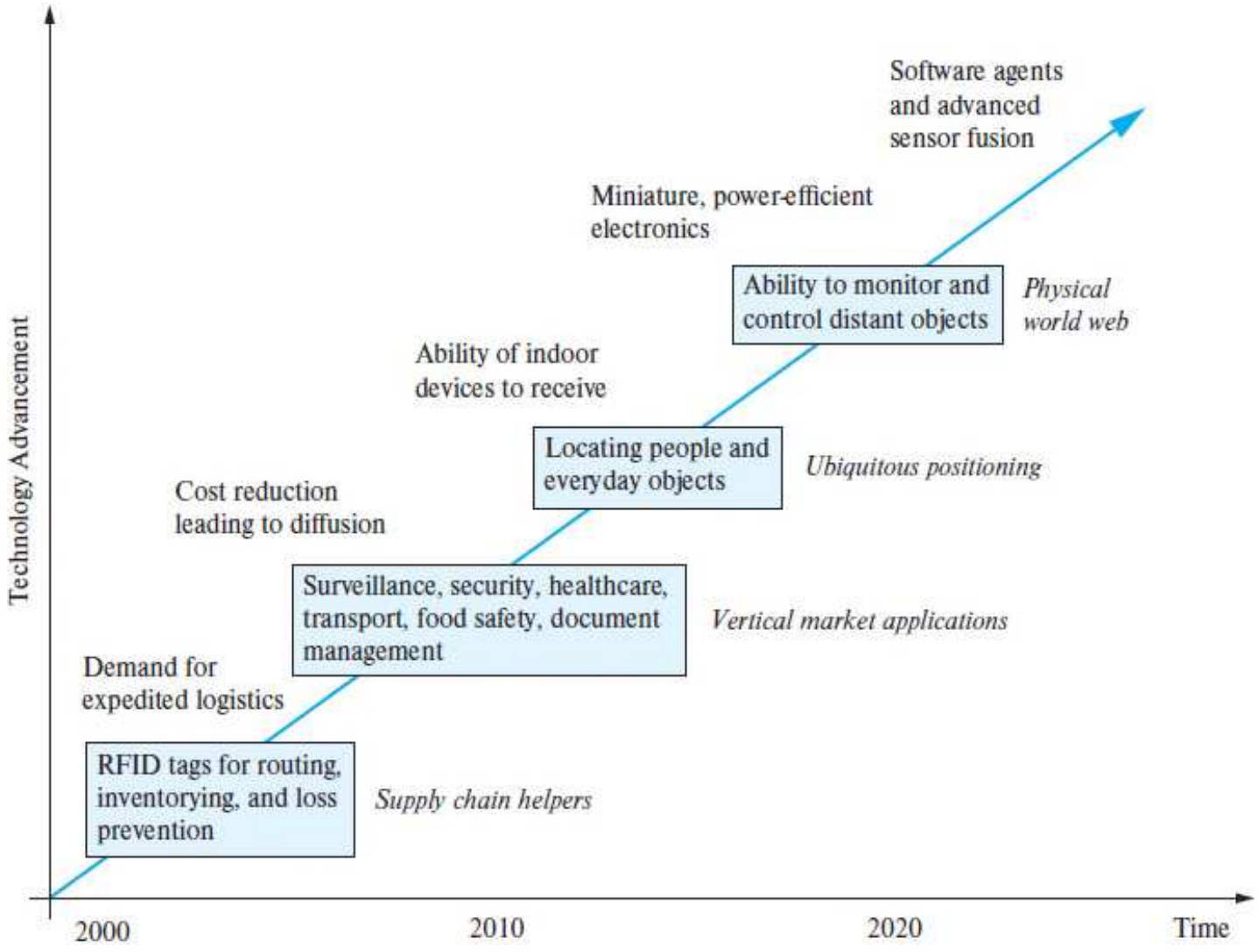
**Competitive use of information**

| | Online (Real Time) | Offline (Analysis) |
|---|---|---|
| External (Customer) | *Creation of barriers to entry:*<br>Reservation system<br>Frequent user club<br>Switching costs | *Database asset:*<br>Selling information<br>Development of services<br>Micromarketing |
| Internal (Operations) | *Revenue generation:*<br>Yield management<br>Point of sales<br>Expert systems | *Productivity enhancement:*<br>Inventory status<br>Data envelopment analysis (DEA) |



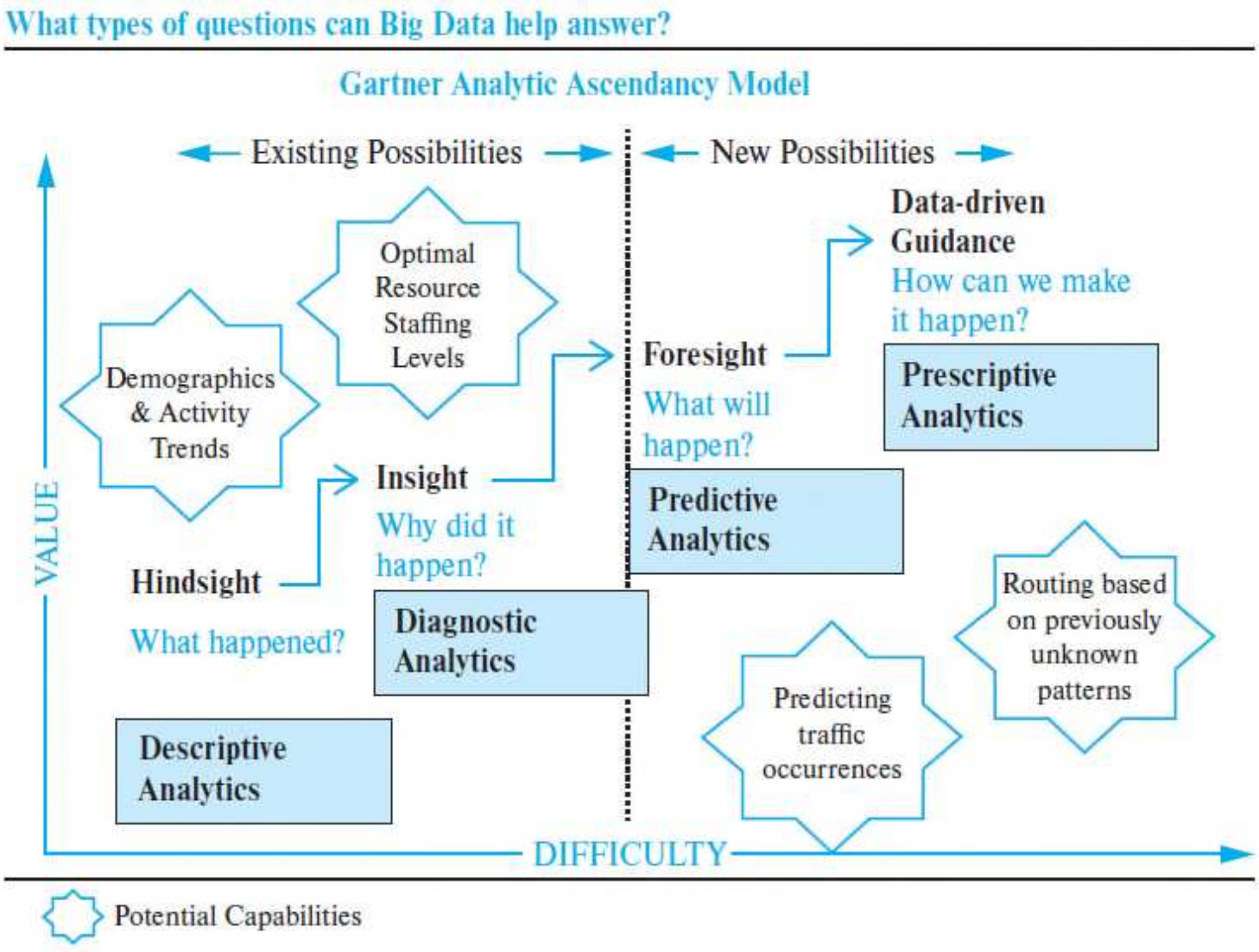
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# Figure 2.4: Internet of Things Trajectory




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# Figure 2.5: Big Data





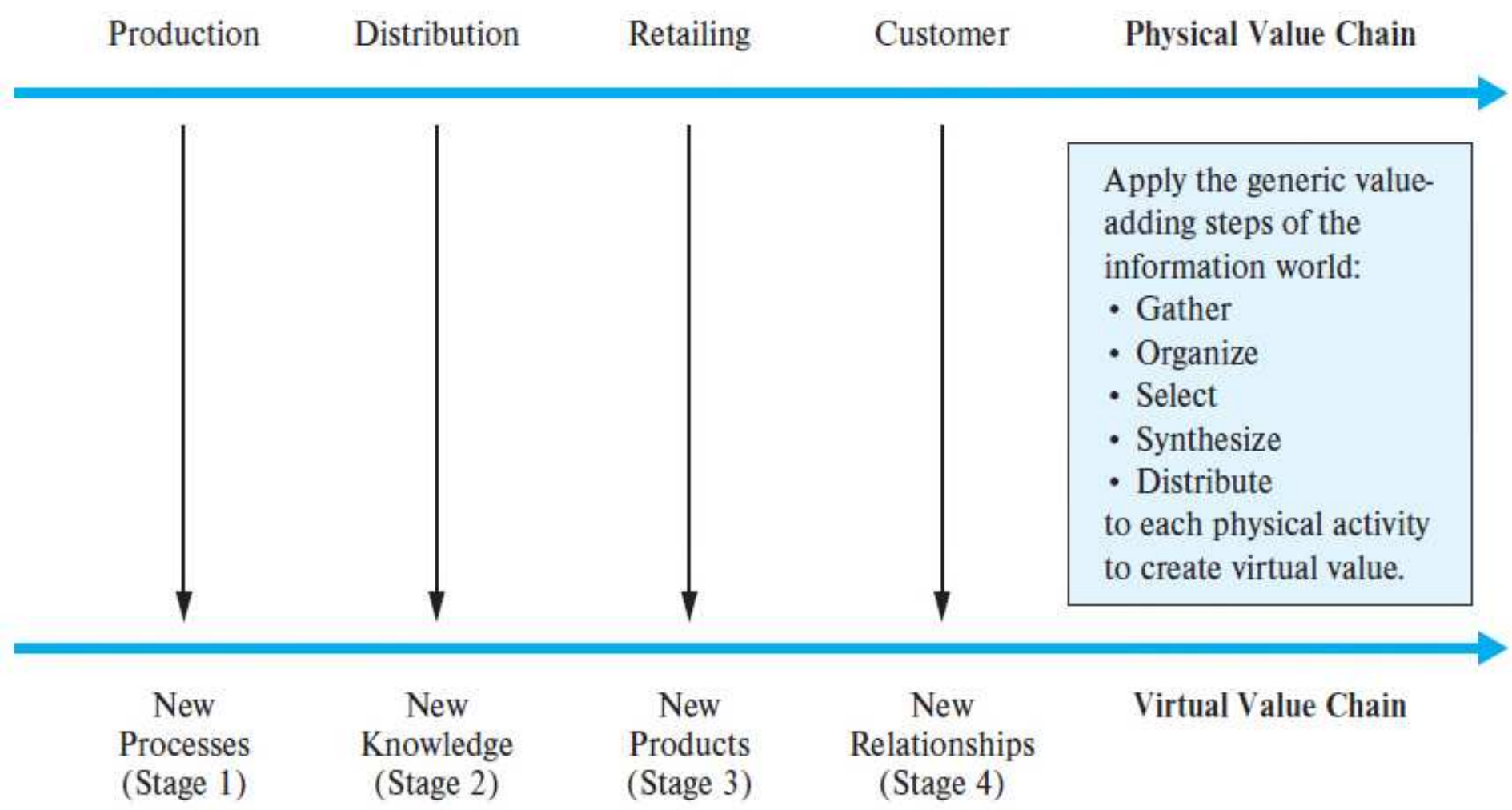

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# The Virtual Value Chain

- Market*place* vs Market*space*
- Creating New Markets Using Information (Gather, Organize, Select, Synthesize, and Distribute)
- Four Stage Evolution
  - 1st Stage (New Processes): See physical operations more effectively with information (USAA "paperless operation").
  - 2nd Stage (New Knowledge): Virtual alternatives substitute for physical activities (USAA "automate underwriting").
  - 3rd Stage (New Products): Member information is analyzed to discover new product needs and methods to deliver value (USAA "event-oriented service").
  - 4th Stage (New Relationships): Opportunities for customer collaboration in co-creation of value are explored (USAA "financial planning service").


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# Figure 2.6: Exploiting the Virtual Value Chain






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# Table 2.5: Scalability and E-Commerce

| Dimensions | High ← Scalability → | | | Low |
|---|---|---|---|---|
| E-commerce continuum | Selling Information (e-service) | Selling value-added service | Selling services with goods | Selling goods (e-commerce) |
| Information vs. goods content | Information dominates | Information with some service | Goods with support services | Goods dominate |
| Degree of customer content | Self-service | Call center backup | Online ordering | Call center order processing |
| Standardization vs. customization | Mass distribution | Some personalization | Limited customization | Fill individual orders |
| Shipping and handling costs | Digital asset | Mailing | Shipping | Shipping, order fulfillment, and warehousing |
| After-sales service | None | Answer questions | Meal credit | Returns possible |
| Example service | Used car prices | Online leisure travel agent | Meal ingredients and recipe | Online retailer |
| Example firm | Kbb.com | InfoHub.com | BlueApron.com | Amazon.com |



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# Limits in the Use of Information

- Anticompetitive (e.g. barrier to entry)
- Fairness (e.g. yield management)
- Invasion of Privacy (e.g. micro-marketing)
- Data Security (e.g. medical records)
- Reliability (e.g. credit-report)



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# Using Information to Categorize Customers

- Coding grades customers based on how profitable their business is.
- Routing is used by call centers to place customers in different queues based on customer's code.
- Targeting allows choice customers to have fees waived and get other hidden discounts based on the value of their business.
- Sharing corporate data about your transaction history with other firms is a source of revenue.



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# Table 2.7: Stages in Service Firm Competitiveness – Part 1

| | 1. Available for Service | 2. Journeyman | 3. Distinctive Competence Achieved | 4. World-Class Service Delivery |
|---|---|---|---|---|
| Reputation | Customers patronize service firms for reasons other than performance. | Customers neither seek out nor avoid the firm. | Customers seek out the firm on the basis of its sustained reputation for meeting customer expectations. | The company's name is synonymous with service excellence. Its service doesn't just satisfy customers; it *delights* them and thereby expands customer expectations to levels its competitors are unable to fulfill. |
| Operations | Operations is reactive, at best. | Operations functions in a mediocre, uninspired fashion. | Operations continually excels, reinforced by personnel management and systems that support an intense customer focus. | Operations is a quick learner and fast innovator; it masters every step of the service delivery process and provides capabilities that are superior to competitors. |
| Service quality | Is subsidiary to cost, highly variable. | Meets some customer expectations; consistent on one or two key dimensions. | Exceeds customer expectations; consistent on multiple dimensions. | Raises customer expectations and seeks challenges; improves continuously. |



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# Table 2.7: Stages in Service Firm Competitiveness – Part 2

| | 1. Available for Service | 2. Journeyman | 3. Distinctive Competence Achieved | 4. World-Class Service Delivery |
|---|---|---|---|---|
| Back office | Counting room. | Contributes to service, plays an important role in the total service, is given attention, but still is a separate role. | Is equally valued with front office; plays integral role. | Is proactive, develops its own capabilities, and generates opportunities. |
| Customer | Unspecified, to be satisfied at minimum cost. | A market segment whose basic needs are understood. | A collection of individuals whose variation in needs is understood. | A source of stimulation, ideas, and opportunities. |
| Introduction of new technology | When necessary for survival under duress. | When justified by cost savings. | When promises to enhance service. | Source of first-mover advantages, creating ability to do things your competitors can't do. |
| Workforce | Negative constraint. | Efficient resource; disciplined; follows procedures. | Permitted to select among alternative procedures. | Innovative; creates procedures. |
| First-line management | Controls workers. | Controls the process. | Listens to customers; coaches and facilitates workers. | Is listened to by top management as a source of new ideas. Mentors workers to enhance their career growth. |

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# Discussion Topics

- Give examples of service firms that use both the strategy of focus and differentiation and the strategy of focus and overall cost leadership.
- What ethical issues are associated with micro-marketing?
- For each of the three generic strategies (i.e., cost leadership, differentiation, and focus) which of the four competitive uses of information is most powerful?
- Give an example of a firm that begin as world-class and has remained in that category.
- Could firms in the "world-class service delivery" stage of competitiveness be described as "learning organizations"?



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# Discussion Topics

- Compare and contrast the sustainability efforts in service operations and manufacturing.
- Conduct a triple bottom line evaluation for a hospital by identifying its social, economic, and environmental attributes that enhance the sustainability movement.



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# *Interactive Class Exercise*

The class divides and debates the proposition "Frequent flyer award programs are anticompetitive."



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# Case 2.1: UNITED COMMERCIAL BANK and EL BANCO

Banks for Targeted Ethnic Communities



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# United Commercial Bank

- Largest commercial bank in the United States focused on Chinese-American community
  - $6.32 billion in assets
  - $1.4 billion in capital
- 46 branches in California
  - "Representative offices" in Taiwan and China, and one branch in Hong Kong
- Founded in 1974 as a thrift operation with focus on time deposits
- Grown to become the largest bank serving the Asian community, with branches mainly in San Francisco and Los Angeles



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# Chinese-American Depositors: High Demand for Time Deposits

United Commercial Bank has an unusually high proportion of savings accounts and time deposits

- UCB's reliance on savings and CDs places it above the 95% percentile among banks overall
- Chinese-Americans tend to use banks to save, instead of brokerage firms or other investments

| UCBH: Deposit Analysis (As of Dec 31, 2004) | United Commercial | | All Banks* |
|---|---|---|---|
| | Amount | Percent | Percent |
| Total deposits | 5,222,672 | 100.0% | 100.0% |
| Transaction accounts | 133,083 | 2.5% | 14.6% |
| Money market accounts | 1,288,595 | 24.7% | 34.3% |
| Savings accounts | 946,165 | 18.1% | 15.2% |
| Total MMA and savings | 2,234,760 | 42.8% | 49.5% |
| Time deposits under $100k | 916,077 | 17.5% | 16.8% |
| Time deposits over $100k | 1,610,270 | 30.8% | 17.4% |
| Total time deposits | 2,526,347 | 48.4% | 34.2% |
| Deposits in foreign offices | 328,572 | 6.3% | 1.7% |

** All commercial banks with assets between $1B and $10B.*



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# Product Focus: Trade Finance

UCB offers sophisticated trade finance account management tools

- Many United Commercial customers operate import-export businesses related to China
- UCB's trade finance offering facilitates letters of credit and management of trading operations



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# Asian-American Banks: Superior Valuation

Publicly-traded banks focused on the Asian-American communities enjoy premium stock market valuations

- Lending to the Chinese and Korean communities has resulted in lower loan losses and fewer charge-offs
- Asian-American banks are far more efficient and more profitable than community banks as a whole

**Commercial Banks Focused on Asian-Americans**
**April 30, 2005**

| Company Name | Ethnicity | Ticker | Market Cap | Assets | NCO's / Avg. loans | ROE | Price / TBV | Efficiency ratio |
|---|---|---|---|---|---|---|---|---|
| UCBH | Chinese | UCBH | 1,424.6 | 6,488,772 | 0.01% | 17.8% | 448.0% | 42.9% |
| Cathay General Bancorp | Chinese | CATY | 1,572.1 | 6,165,829 | 0.24% | 13.9% | 358.0% | 32.9% |
| East West Bancorp | Chinese | EWBC | 1,683.8 | 6,371,028 | 0.06% | 18.1% | 349.0% | 39.7% |
| Hanmi Financial Corp | Korean | HAFC | 712.8 | 3,104,188 | 0.11% | 11.9% | 398.0% | 47.8% |
| Nara Bancorp | Korean | NARA | 311.3 | 1,506,527 | 0.16% | 20.4% | 306.0% | 57.4% |
| Wilshire Bancorp | Korean | WIBC | 380.8 | 1,377,297 | -0.02% | 26.3% | 405.0% | 42.2% |
| | **AVERAGES** | | | | 0.09% | 18.05% | 377.33% | 43.81% |
| | **Community banks** | | | | 0.14% | 13.15% | 252.00% | 58.58% |



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# El Banco: Banking for Latinos in Atlanta

- Hispanic retail banking concept based in Atlanta, Georgia
  - "Franchised" bank offering designed by individuals from check-cashing business
  - Originally part of smaller local bank in Atlanta; now a subsidiary of Suntrust
- Products include deposit accounts, fee-based check cashing, mortgages, and international funds transfers (i.e. to Mexico)
- 6 branches in Atlanta
  - Rapid growth from first branch in January 2002:
    - Jan. 2002 Deal signed by El Banco and Flag Bank
    - Jun. 2002 1 Branch
    - Dec. 2002 2 Branches, 1st Branch cash flow positive
    - Jun. 2003 2nd Branch cash flow positive, NCB buys El Banco
    - Dec. 2003 4 Branches, 50 employees, SunTrust buys NCB
    - Jun. 2004 6 Branches, 125 employees
- Atlanta is 6.5% Hispanic (268,851 according to 2000 census)


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# El Banco: Products Closely Matched to Customers

- Revenue model is based primarily on service fees
  - Check cashing alone is 1/3 of revenues
  - Fee income is over half of total bank income
    - Fee income as a percentage of total revenue for community banks overall averages 24.8%
    - El Banco's fee income ratio is greater than 99% of banks
- El Banco also conducts mortgage lending for the Latino community
  - Interest rates range from 8.0-9.5%, versus 4.86% on average for Georgia
  - High rates partly explained by fact that many of El Banco customers are undocumented



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# El Banco Branches: Smaller, Informal, Retail

Branch strategy focuses on convenience and informality

- No motor banking (no commercial customers)
- Small branches located in strip centers already frequented by Latinos
- Branches are informal (i.e. you don't feel foolish wearing work clothes)



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# El Banco: Marketing Mimicry

El Banco has sought to associate itself with Western Union

- Western Union is one of the most recognized names in financial services for Latinos
- Many Hispanics send money to relatives with Western Union

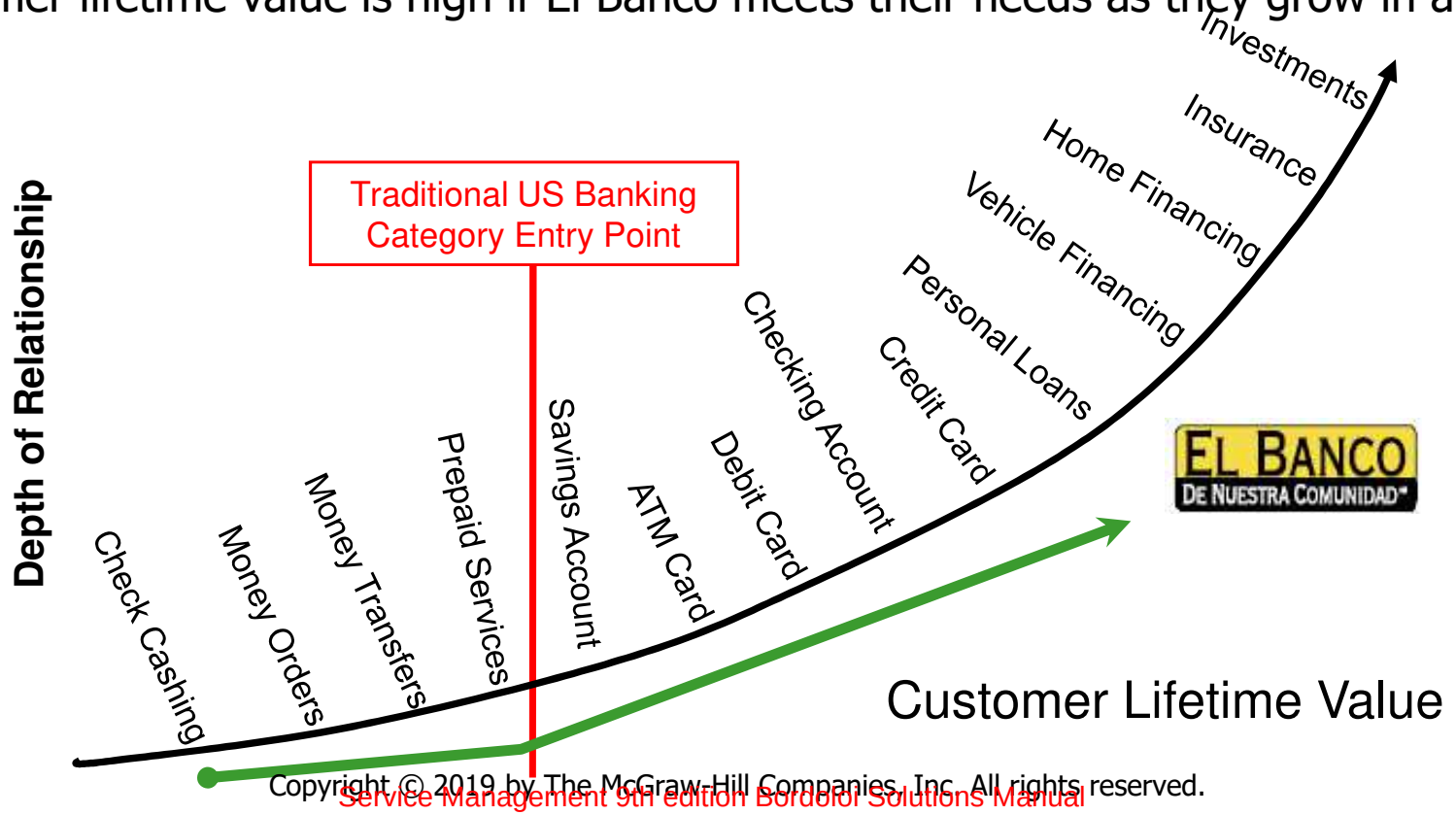


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# El Banco Strategy: Acquire Customers Early

El Banco tries to acquire customers earlier than normal banks

- Customers use retail financial services (i.e. check cashing) provided by non-banks.
  - Change point exists as customers grow in affluence (open bank, brokerage accounts)
  - Acquiring customers early and offering many services, El Banco avoids change points
- Customer lifetime value is high if El Banco meets their needs as they grow in affluence.






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# QUESTIONS

1. Compare and contrast the strategic service vision of El Banco and United Commercial Bank.
2. Identify the service winners, qualifiers, and service losers for El Banco and United Commercial Bank.
3. What are the differentiating features of banks that target ethnic communities?



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# United Commercial Bank and El Banco

| Strategic Service Vision Element | El Banco | United Commercial Bank |
|---|---|---|
| Service Delivery System | | |
| Operating Strategy | | |
| Service Concept | | |
| Target Market Segments | | |



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# United Commercial Bank and El Banco

| | El Banco | United Commercial Bank |
|---|---|---|
| Qualifier | | |
| Service Winner | | |
| Service Loser | | |

What are the differentiating features of banks that target ethnic communities?



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# Summary

- United Commercial
  - Highly profitable and growing bank for entrepreneurial Chinese-American community
  - Asian-American banks show the opportunity for other ethnic banks
- El Banco
  - Fast growing retail bank designed specifically for Latino community
  - Orientation towards customers "on the border" between banking and non-bank financial services
- Ethnic banking
  - Well-articulated cultural focus on target communities (language, look-and-feel)
  - Products that match unique customer needs (trade finance, check cashing)
  - Favorable financial metrics (profitability, growth, asset quality)
- If the community has a distinct identity and distinct product needs, then banks have an opportunity to capitalize on those distinctions


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# Current Status

- El Banco de Nuestra Comunidad

  Survives as an entity under the umbrella of Community and Southern Bank, Georgia.

- United Commercial Bank

  Was merged with East West Bank of Pasadena, California, in 2009 after two officers were indicted for financial misdeeds by the FDIC and accused of violations by the SEC.



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# Case 2.2: The Alamo Drafthouse

**Questions**

1. Marketing analysts use market position maps to display visually the customers' perceptions of a firm in relation to its competitors regarding two attributes. Prepare a market position map for Alamo Drafthouse using "food quality" and "movie selection" as axes.

2. Use the "Strategic Service Vision" framework to describe Alamo Drafthouse in terms of target market segments, service concept, operating strategy, and service delivery system.

3. Identify the service qualifiers, winners, and service losers for Alamo Drafthouse. Are the Alamo purchase decision criteria appropriate for the multiplex movie theater market? What do you conclude?

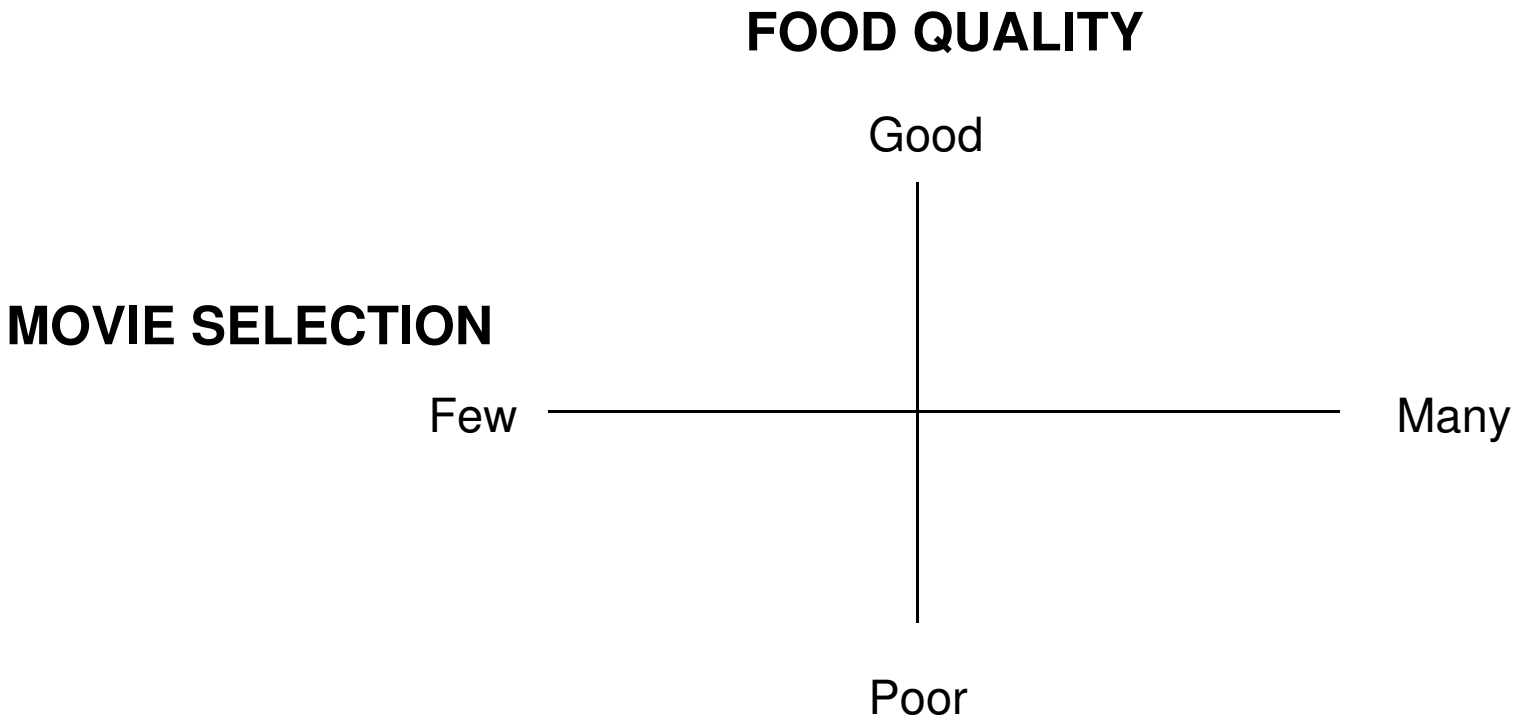
4. Use Porter's Five Forces Model to assess the strategic position of Alamo Drafthouse in the "entertainment industry."

5. Conduct a SWOT analysis to identify internal strengths and weaknesses as well as threats and opportunities in the external environment.



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# The Alamo Drafthouse Positioning






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# Alamo Drafthouse Strategic Service Vision

- Target market segments
- Service concept
- Operating strategy
- Service delivery system



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# Alamo Drafthouse Winning Customers

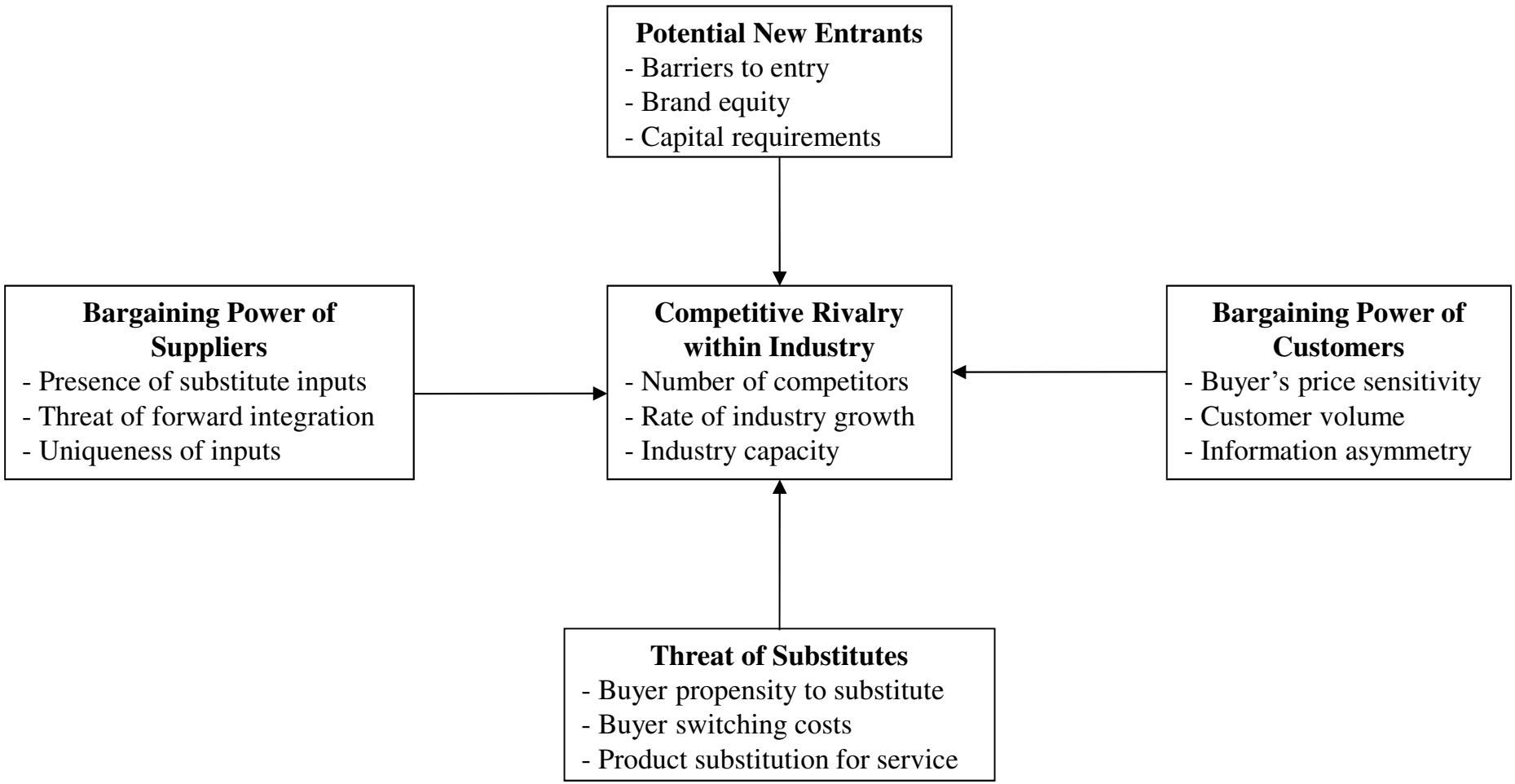
- Qualifiers
- Service winners
- Service losers

Make recommendations for Tim and Carrie that would increase profitability.



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# Porter's Five Forces Model for Alamo Drafthouse






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# Alamo Drafthouse SWOT Analysis

| | |
|---|---|
| **Strengths**<br>• What are your company's advantages?<br>• What do you do better than anyone else?<br>• What unique resources do you have?<br>• What do people in your market see as your strengths? | **Weaknesses**<br>• What could you improve?<br>• What should you avoid?<br>• What factors lose sales?<br>• What are people in your market likely to see as a weakness? |
| **Opportunities**<br>• What are your competitors' vulnerabilities?<br>• What are the current market trends?<br>• Does technology offer new service options?<br>• Are there niches in the market your organization can fill? | **Threats**<br>• What obstacles do you face?<br>• What are your competitors doing?<br>• Is changing technology threatening your position?<br>• Do you have cash-flow problems? |



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