

Service Operations Management (SOM)  
PGDM 2017-19

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# Session I & II

# Introduction to SOM

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## About me

- ▶ Assistant Professor , OM Area
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## Research Interests

- ▶ Behavioral Operations
- ▶ Supply Chain Management
- ▶ Case Writing

## Academic Background

- ▶ FPM, IIM Bangalore
- ▶ M.Tech, IIT Bombay

## Professional Journey

- ▶ IMT Hyderabad, Since Dec 2015
  - ▶ Taught: RSCM, SOM, OM (Core)
- ▶ IIM Raipur
  - ▶ Taught: TQM, SOM, OM (Core)

## Teaching Philosophy

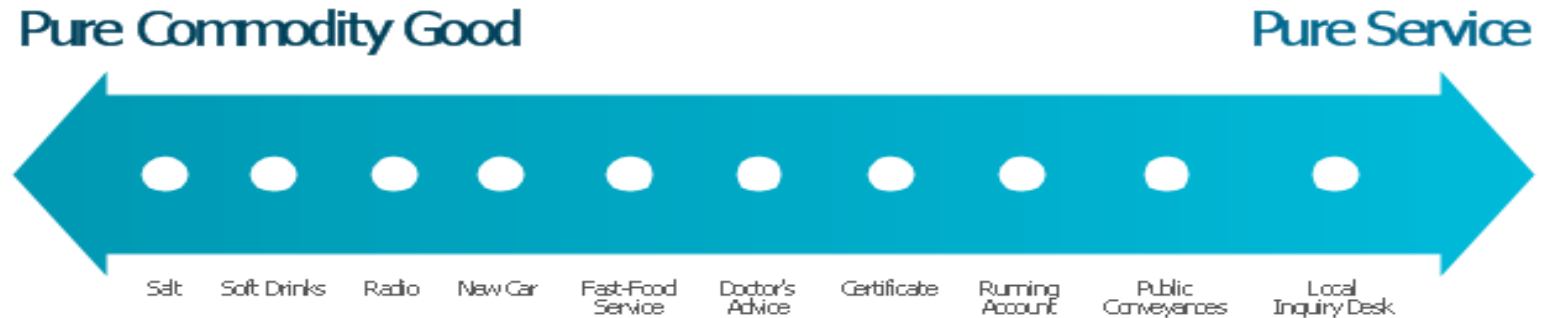
**A course is not a spa, it is a Gym and the faculty is the trainer**

# Our First team activity

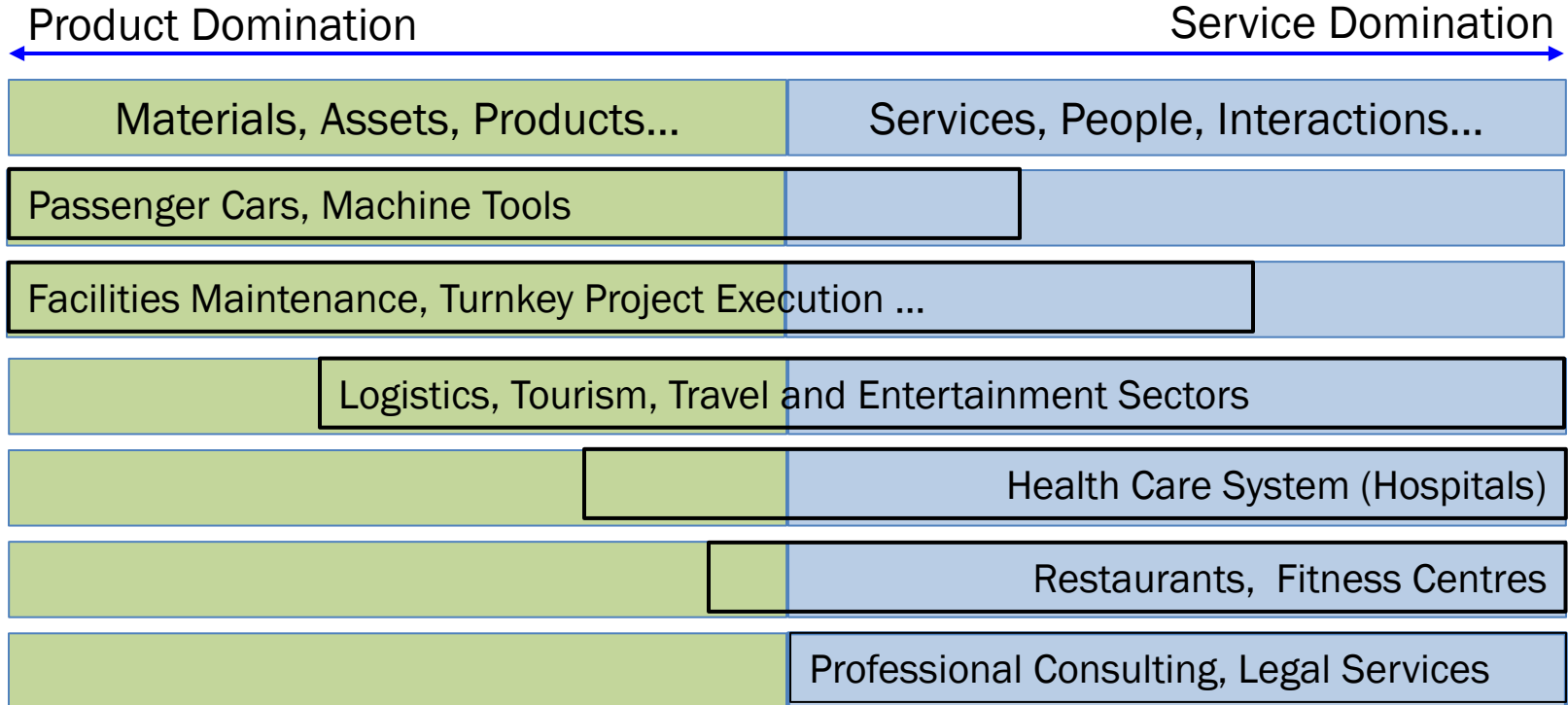
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- Consider the given list of companies
- Which of these are service firms and which of them are product firms?

# Service product continuum



# The Service – Product Continuum



# Team activity

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- Order the firms you have been provided them in a service product continuum
- As a class, merge all your lists.

# Point to ponder...

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What are the key characteristics of services that make them different from goods?

# Consider the following





# Distinctive Characteristics of Service Operations

- Services can deal with psychology of consumers
  - More degrees of freedom to create desirable services
- Appropriability: Patents not easy
- High Customer Loyalty; Exit Barriers
- Services are **Intangible**
  - Need for development of capable infrastructure
  - Materialization of the service necessary
    - Services can be conspicuous by their absence

# Consider the following



# Distinctive Characteristics of Service Operations

- Sometimes too busy/sometimes too idle!
- Usage of inventory to hedge uncertainty not possible
- Usage of excess capacity is the usual practice
- Services are **Perishable**
  - Necessary to smoothen the demand
    - Schedule preventive maintenance in slack time
    - Special tariffs for slack times

# Consider this



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# Distinctive Characteristics of Service Operations

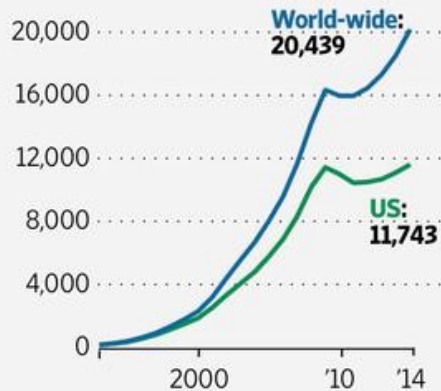
- Diverse services tend to have more in common with each other than diverse goods
- Services are **Transferable**
  - Managers can utilize insights from one service to the other!

# Consider this

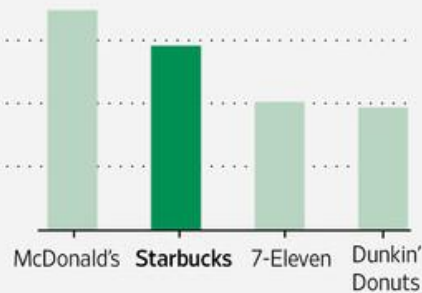
## Starpower

Starbucks locations have proliferated since it went public in 1992.

Number of Starbucks locations over time



Current numbers of U.S. locations for Starbucks and other chains



Note: Latest store numbers for quarter ended in June  
Source: the companies

The Wall Street Journal

## BRANCHING OUT

### Public Sector Banks



	Total number of branches Mar '13	Increase in branch count Mar '08-Mar '13
State Bank of India	14,816	4,630
Punjab National Bank	5,874	1,610
Bank of Baroda	4,336	1,483
Bank of India	4,292	1,409
Union Bank of India	3,511	1,150
Canara Bank	3,728	1,050

### Private Sector Banks

HDFC Bank	3,062	2,301
ICICI Bank	3,100	1,838
Axis Bank	1,947	1,276

Source: Banks

# Distinctive Characteristics of Service Operations

- Services are produced and consumed at the same time
- Error corrections might be difficult
- Need for physical presence of the customer/assets
  - Loss of economies of scale
- Difficulty of testing service prototypes
- Product substitutions
- Services are characterized by **simultaneity**
  - Franchise models; consistency of approach

# Who is this?





# Distinctive Characteristics of Service Operations

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- Human involvement leads to high amount of randomness
- Services are characterized by **Heterogeneity**
  - Maintenance of consistency important

# Some other characteristics

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- Cultural specificity
- Customer participation
- Non-transferable ownership

# Service definitions

- A service is an activity or series of activities of more or less intangible nature that normally, but not necessarily, take place in interactions between customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems
  - Christian Gronroos, Service Management and Marketing, Lexington, Mass: Lexington Books, 1990, p. 27)

# Service definitions

- Most authorities consider the services sector to include all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced and provides added value in forms (such as convenience, amusement, timeliness, comfort, or health) that are essentially intangible concerns of the first purchaser.
  - Quinn et al 1987

# Course Objective

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To enable participants understand, appreciate and successfully incorporate operations management principles and insights into the management of services

# Course management

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- Course website where details of all readings, PPTs could be accessed anytime.
- Textbook and Course outline

# Course Themes

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- Strategic Alignment
- Service Design
- Managing uncertainty
- Healthcare sector
- Social sector

# Rules of Engagement

- Course website: <http://vkteaching.weebly.com/>
- Penalties
  - Seeking clarifications on announcements already made will attract penalty. Important announcements will be made at the beginning of the class. Don't miss them.
  - Put your phones away – penalty if found using. Repeat offenders will get higher penalty.
  - Plagiarism is a crime and will result in highest penalty



# THANK YOU

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# Session III

# Service Classifications

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# Point to Ponder...

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Not all services are created equal!

Different services have different challenges

Different services have different ways to face  
different challenges

# Classifying by configuration

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- B2C services
- B2B services
- Government services
- Not for profit services
- Internal services
- C2C Services!!

# Nature of the service act

	Who or what is the direct recipient of the service?	
What is the nature of the service act?	People	Things
<b>Tangible Actions</b>	Services directed at people's bodies -restaurants, haircutting, beauty salons	Services directed at goods and other physical possessions -freight transport, laundry/dry cleaning
<b>Intangible Actions</b>	Services directed at people's mind -education, theatres	Services direct at intangible assets -banking, legal services

# Managerial implications

- Does the customer need to be physically present?
  - 1) Throughout the service delivery?
  - 2) Only to initiate / terminate the service transaction?
  - 3) Not at all
  - Customer satisfaction will be influenced by interactions they have with personnel, nature of facilities, characteristic of other customers, questions of location and schedule convenience
- **Managers of service organizations may be able to identify opportunities for alternative, more convenient forms of service delivery- MOOCs!**

# Nature of Demand and Supply

	Extent of demand fluctuations over time	
Extent to which supply is constrained	Wide	Narrow
<b>Peak demand can usually be met without a major delay</b>	<p>Could use increases in demand outside of peak periods Ex) electricity, telephone, natural gas</p>	<p>Must decide whether to seek cont. growth in demand &amp; capacity or maintain status quo Ex) banking, insurance, legal services</p>
<b>Peak demand regularly exceeds capacity</b>	<p>Must try to smooth demand to match capacity- must both stimulate and discourage demand Ex) theatres, hotels/motels, restaurants</p>	<p>A growing organization that may need temporary demarketing until capacity can be reach to meet current needs Ex) services similar to those in above field but with insufficient capacity</p>

# Managerial implications

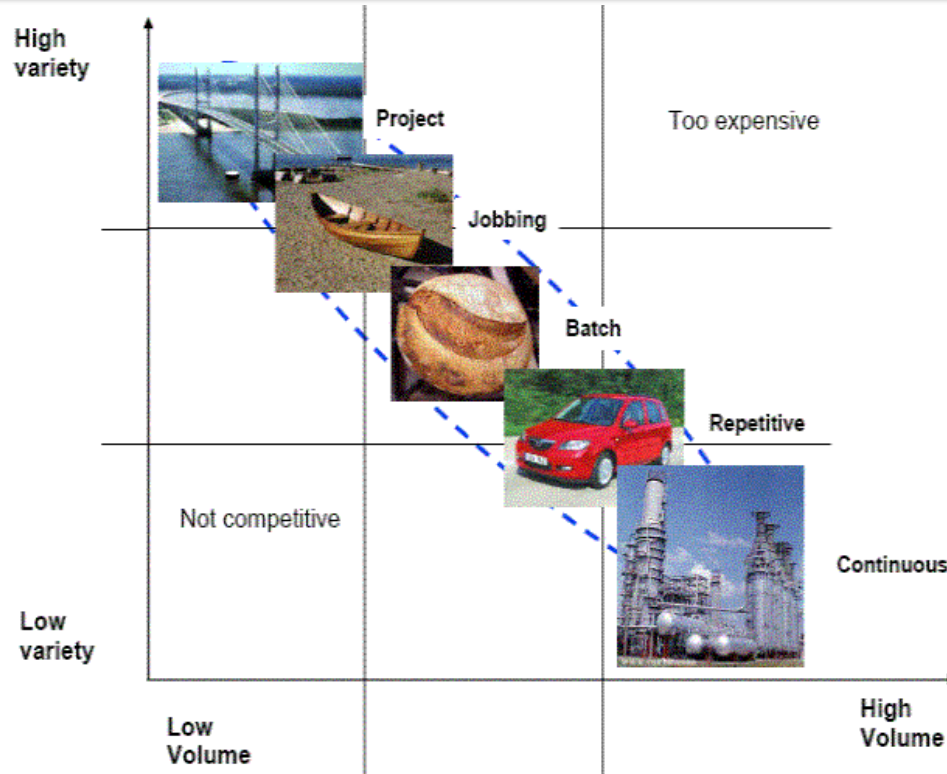
- Managing demand in services because fluctuations can be sharp and there is no buffer of inventory between supply and demand
- What is the typical cycle period for these demand fluctuations?
  - Predictable- demand varies by hour of the day, day of week/month, season of year
  - Random- no apparent pattern to demand fluctuations
- What are the underlying causes of these demand fluctuations?
  - Customer habits or preferences- could marketing change these?
  - Actions by third parties- employers set working hrs. hence marketing efforts might be directed at those employers
  - Nonforcestable events- weather conditions, health symptoms



# Managerial implications

- Smooth out ups and downs of demand:
  - Decrease demand:
    - Encourage customers to change their plans voluntarily- Offer discounts or added product value during times of low demand
    - Ration demand through reservations or a queuing system
  - Increase demand:
    - New business development efforts should be targeted at prospective customers with a counter cyclical demand pattern. Ex) accounting firm has lots of business at the end of the year may find new business for the bulk of the year when it has relatively no business

# How many of you remember this?



# Service Process classification

		Degree of interaction and customization	
Degree of labour intensity	Low	High	
Low	<b>Service Factory</b> Airlines Trucking Hotels Resorts & recreation	<b>Service Shop</b> Hospitals Auto repair	
High	<b>Mass Service</b> Retailing Wholesaling Schools Retail banking	<b>Professional service</b> Doctors Lawyers Accountants Architects	

# Managerial implications

- Low labor intensity
  - Capital decisions
  - Technological advances
  - Managing demand to avoid peaks and to promote off peaks
  - Scheduling service delivery
- High labor intensity
  - Hiring, training, developing methods and controls
  - Employee welfare
  - Scheduling the workforce
  - Controlling of far-flung geographic locations
  - Managing growth

# Managerial Implications

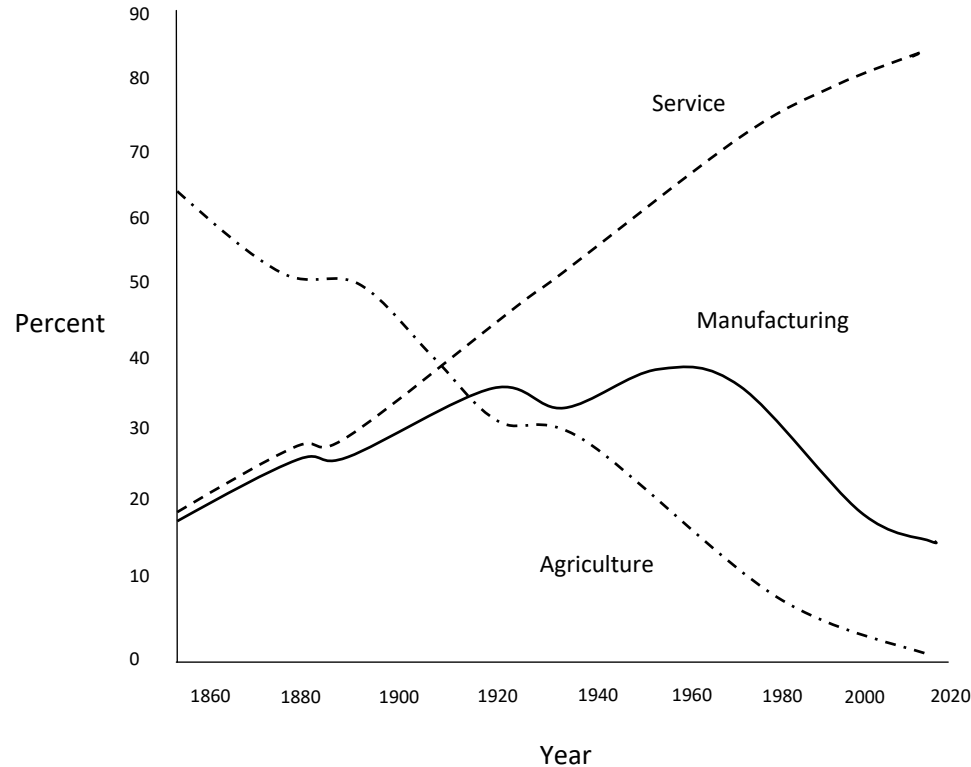
- Low interaction and customization
  - faces a stiff marketing challenge
  - Making the service warm
  - Attention to physical surroundings
  - Managing fairly rigid hierarchy with need for standard operations procedures
- Higher degree of interaction and customization
  - Fighting costs increases
  - Maintaining quality
  - Responding to consumer intervention
  - Managing advancement of people delivering service
  - Managing flat hierarchy with loose subordinate – superior relationship
  - Gaining employee loyalty

# IMPORTANCE OF THE SERVICE SECTOR

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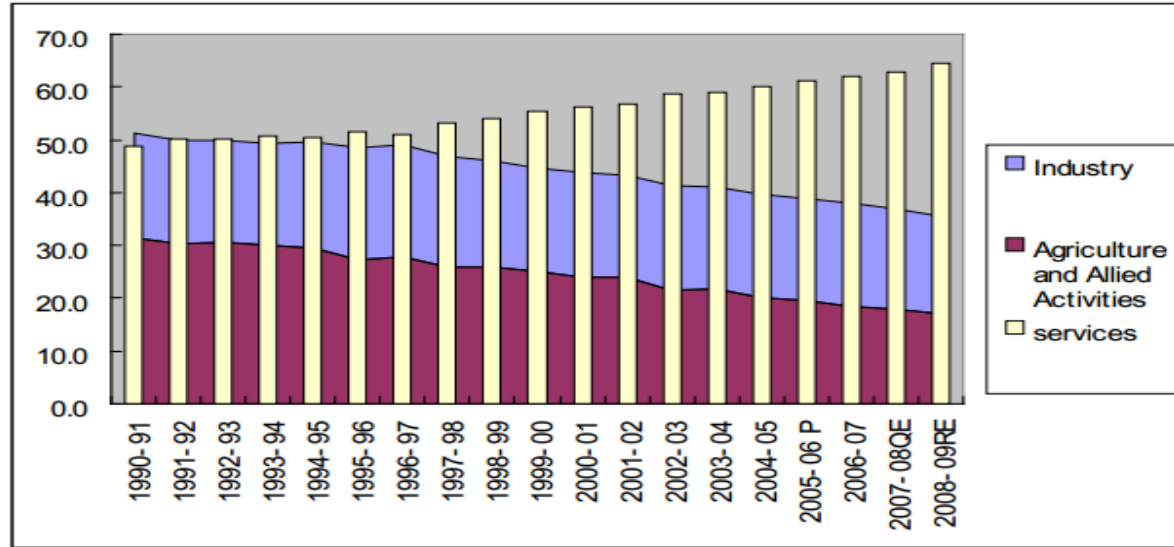
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# Trends in U.S. Employment by Sector



# Importance of services

Figure 1: Change in Sectoral Composition of India's GDP (%)  
Change in Sectoral Shares in GDP: 1990-91 to 2008-09



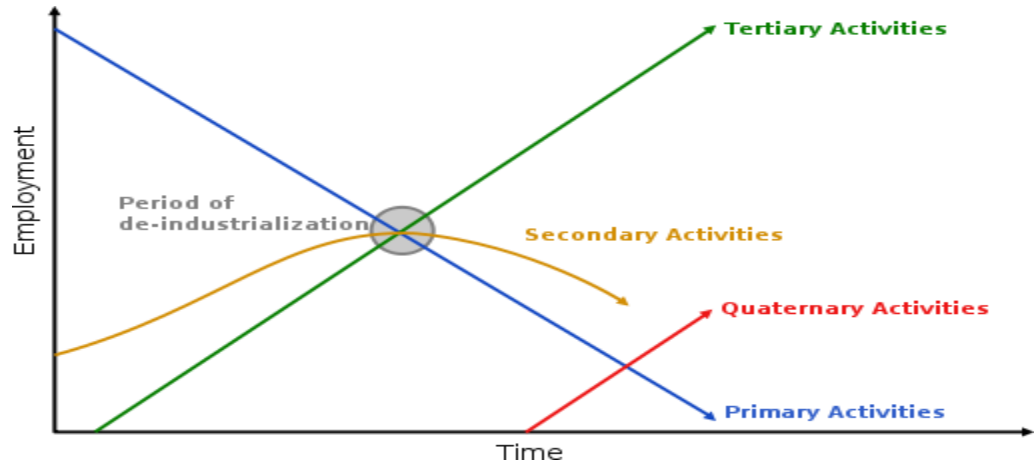
Notes: GDP = gross domestic product, P = Provisional, QE = Quaterly Estimates, RE = Revised Estimates.

Source: Central Statistical Organisation.



# Stages of Economic Development

- Three sector theory/ Structural change theory
  - Clark-Fisher hypothesis
  - Primary
  - Secondary
  - Tertiary
- Criticisms
- Rationalizations



After the next few slides.....

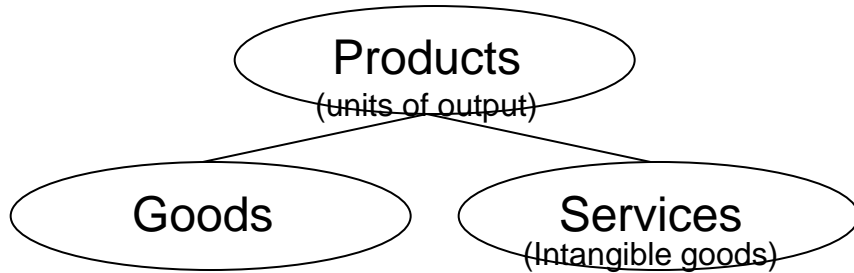
**YOU WILL NEVER LOOK AT  
SERVICES THE SAME WAY AGAIN!!!**

# Service Dominant Logic

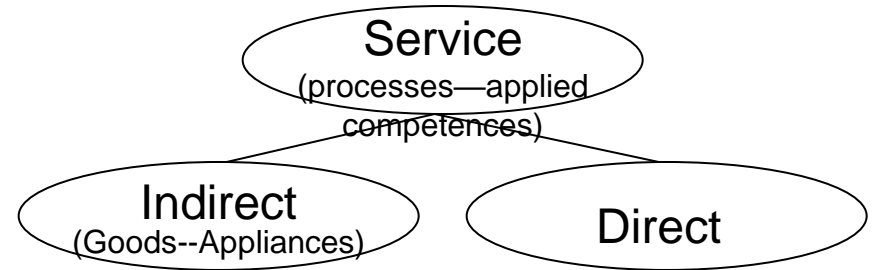
- Service is the fundamental basis of value creation
- Service is defined as use of one's competencies for the benefit of another through exchange
- Facilitating goods may be involved in the exchange
  - But value-in-use (value as realized and determined by the customer) is the important feature

# Paradigm Inversion

## Goods Logic



## Service Logic



# Service Dominant logic

Foundational premise	Explanation and comment
<b>Service is the fundamental basis of exchange.</b>	The application of operant resources (knowledge and skills), “service,” as defined in S-D logic, is the basis for all exchange. Service is exchanged for service.
Indirect exchange masks the fundamental basis of exchange.	Because service is provided through complex combinations of goods, money, and institutions, the service basis of exchange is not always apparent.
<b>Goods are a distribution mechanism for service provision.</b>	Goods (both durable and non-durable) derive their value through use – the service they provide.
Operant resources are the fundamental source of competitive advantage.	The comparative ability to cause desired change drives competition.

# Service Dominant Logic

<b>All economies are service economies.</b>	Service (singular) is only now becoming more apparent with increased specialization and outsourcing.
<b>The customer is always a co-creator of value.</b>	Implies value creation is interactional.
The enterprise cannot deliver value, but only offer value propositions.	Enterprises can offer their applied resources for value creation and collaboratively (interactively) create value following acceptance of value propositions, but can not create and/or deliver value independently.

# Service Dominant Logic

A service-centered view is inherently customer oriented and relational	Because service is defined in terms of customer-determined benefit and co-created it is inherently customer oriented and relational.
All social and economic actors are resource integrators.	Implies the context of value creation is networks of networks (resource integrators).
<b>Value is always uniquely and phenomenologically determined by the beneficiary</b>	Value is idiosyncratic, experiential, contextual, and meaning laden.

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# Session V

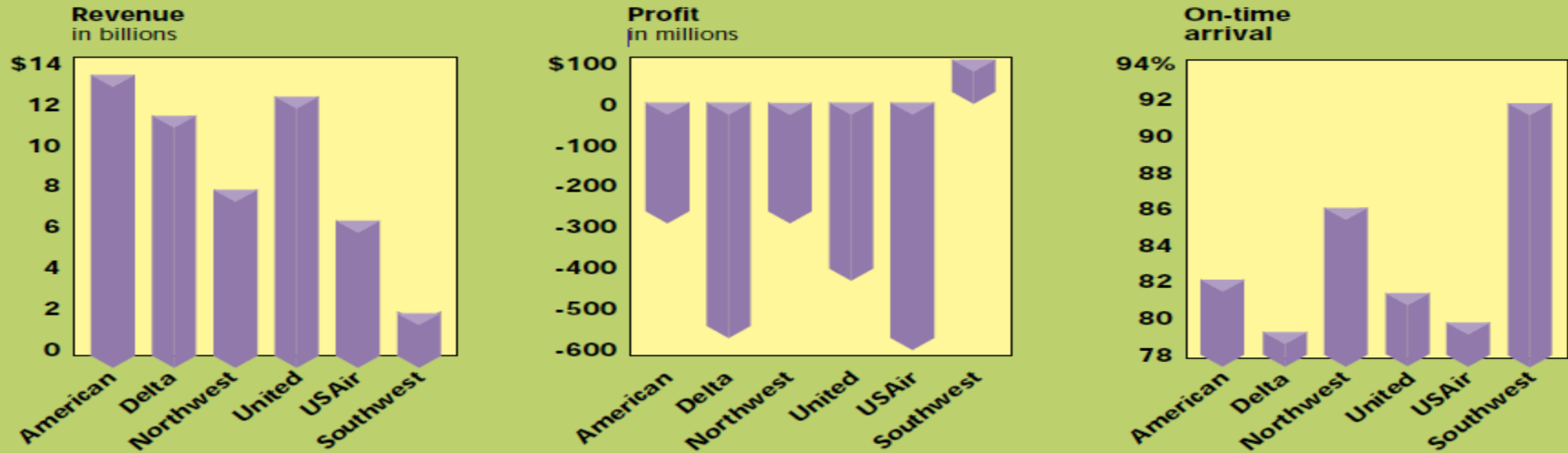
## Service Strategy

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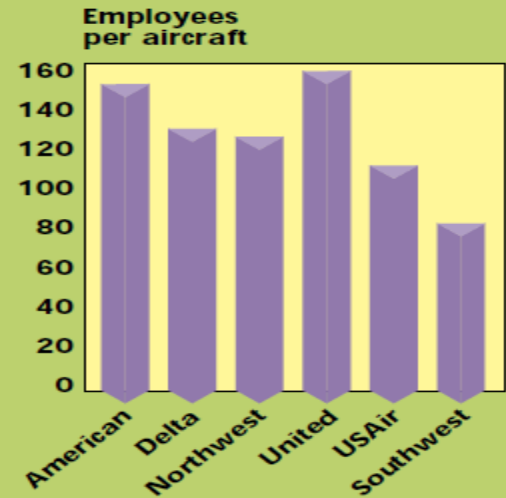
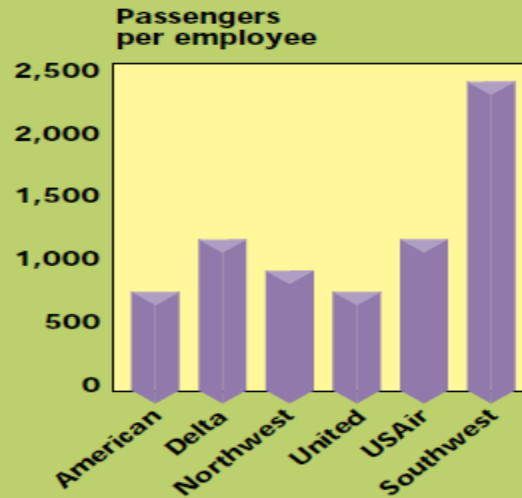
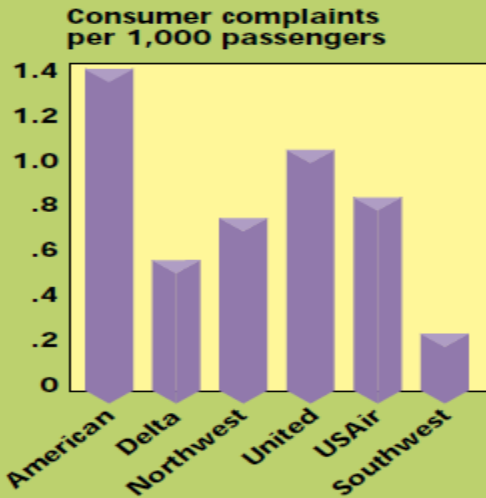
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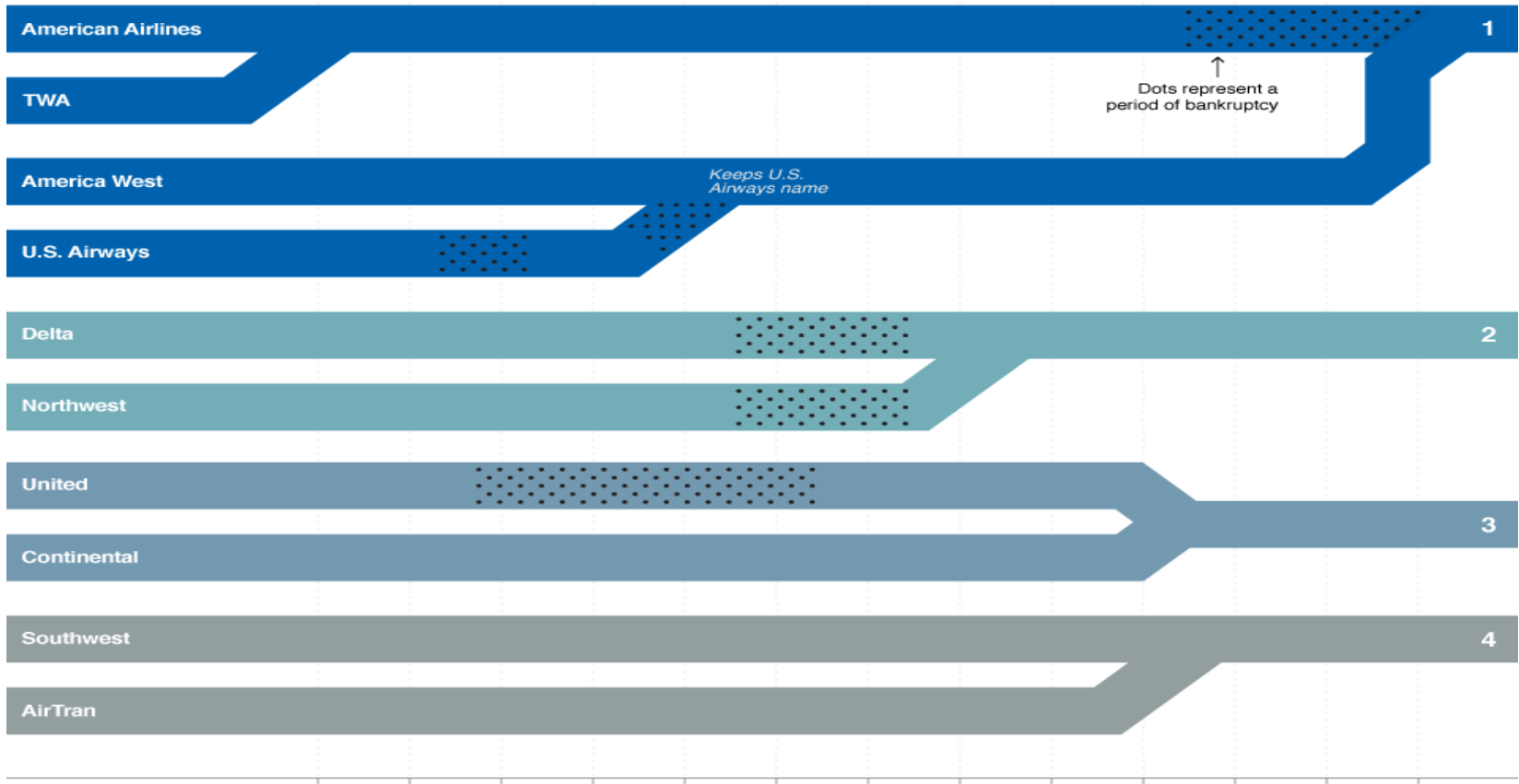
## How Southwest Compares with Its Competitors



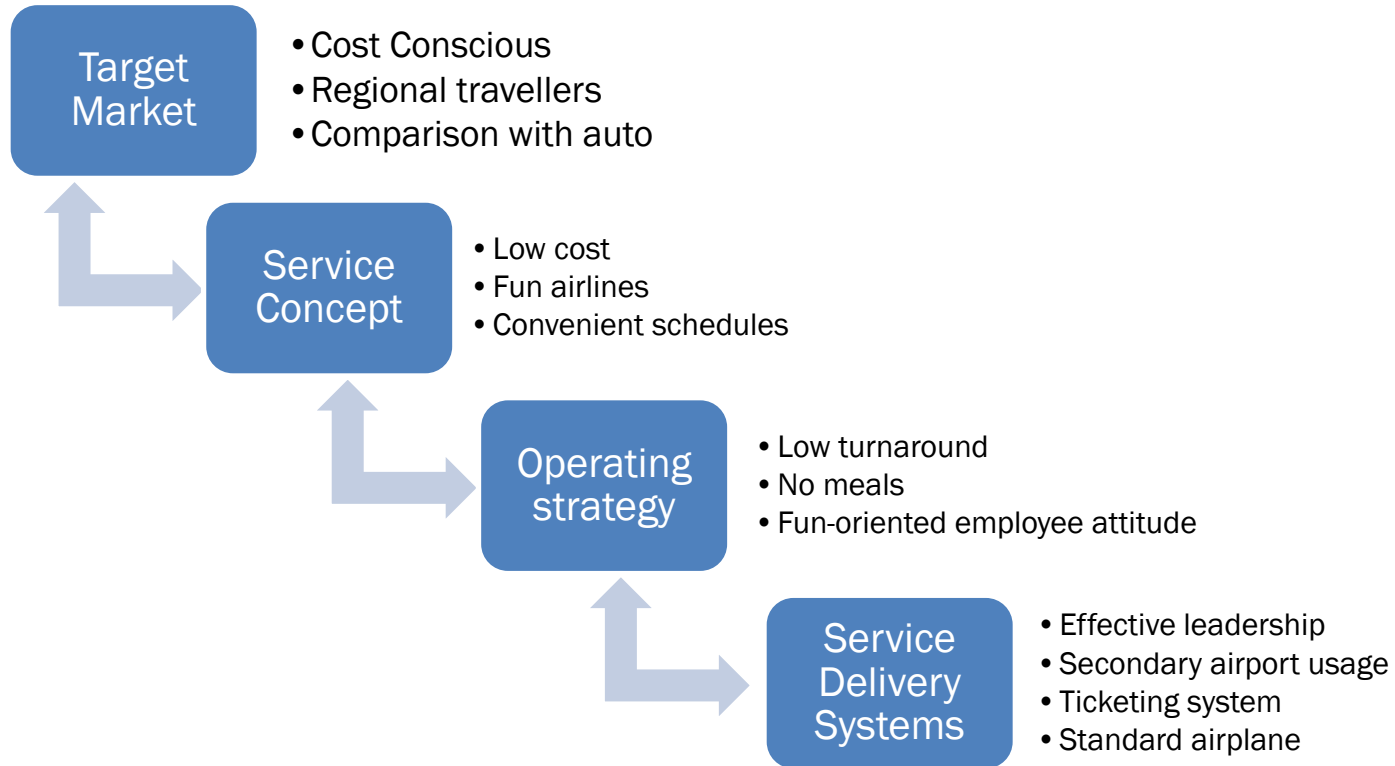
Source: "Putting the Service-Profit Chain to Work", Heskett et al 1994



Source: “Putting the Service-Profit Chain to Work”, Heskett et al 1994



# Strategic service vision



# Service Strategic Vision

- Target market segments
  - What are common characteristics of important market segments?
  - What dimensions can be used to segment the market, demographic, psychographic?
  - What needs does each have?
- Service concept
  - What are important elements of the service to be provided, stated in terms of results produced for customers?
  - How are these elements supposed to be perceived by the target market segment, by the market in general, by employees, by others?
  - How do customers perceive the service concept?

# Service Strategic Vision

- Operating strategy
  - How the company should be structured in order to meet the service concept?
  - Where would be the most investment of money and effort?
  - How will quality and cost be controlled? Measures? Rewards? Incentives?
- Service Delivery system
  - Dealing with People
  - Choice of technology, equipment, layout, procedures
  - Capacity planning

# This is what we came up with in class.

Target Market	Service Concept	Operations Strategy	Service Delivery System
People using other transport Short haul passengers Loyalty with brand Price sensitive customers Business people with urgent need Fun loving and non-grumpy	Short haul flights Single class Low prices On time performance High customer satisfaction More frequent flights No meals	No codesharing High fleet utilization Low cost Low turnaround time Low landing fees Low in-air wait time	Employee bonding Boeing 737 only Secondary airport No Sabre/Apollo Peanuts only Own ticketing system Reusable boarding passes High staff retention

# Today's discussion points

- How has Southwest's original strategy been altered in recent years? How have these changes affected Southwest's key success factors?
- *Quantitatively, estimate the importance of fast turnaround of aircraft to Southwest Airlines?*
- Would you recommend that Southwest Airlines acquire the gates and slots available at LaGuardia Airport? Why?



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# Session IX

# Service Design

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# 3Ts of a Service Provider

- How the following are managed determines the success of the Service Design

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3Ts of  
Service  
Design

Tasks

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Treatment

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Tangibles

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# 3Ts of a Service Provider

- **Tasks: Comprise of Processes**
  - The steps/actions required to accomplish the service
  - Divergence v/s complexity
- **Tangibles:**
  - Consists of elements that can be experienced through five senses
  - Used for mistake proofing, checklist etc
- **Treatment: Softer side of service**
  - Empathy, attitude, smiles etc: Hiring the right people

# Service design elements

- Structural
  - Delivery system, Facility design, Location
    - Servicescapes
  - Capacity planning
    - Queuing models
- Managerial
  - Service quality management
  - Managing supply and demand
    - Yield management, demand steering
  - Managing the service encounter
    - Degree and nature of interaction between customer and server
  - Information: and how you use it!

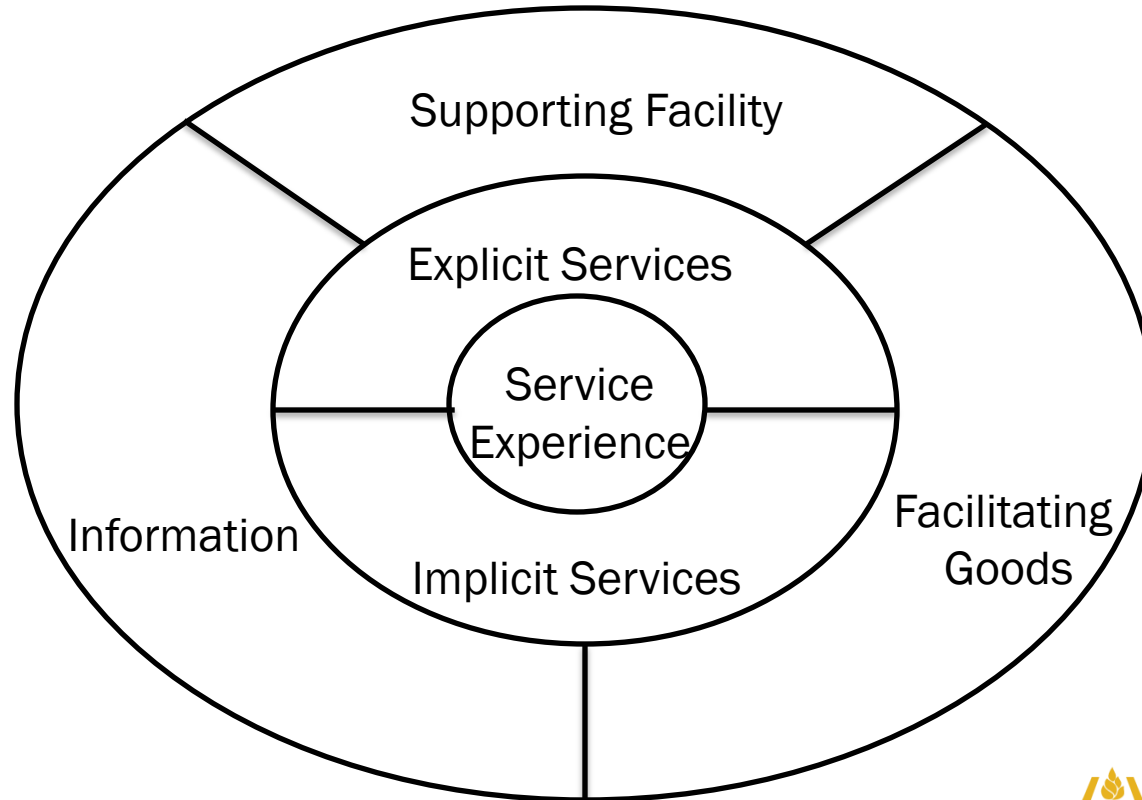
# The Service Package

- **Supporting Facility:** The physical resources that must be in place before a service can be sold. Examples are golf course, ski lift, hospital, airplane.
- **Facilitating Goods:** The material consumed by the buyer or items provided by the consumer. Examples are food items, legal documents, golf clubs, medical history.
- **Information:** Operations data or information that is provided by the customer to enable efficient and customized service. Examples are patient medical records, seats available on a flight, customer preferences, location of customer to dispatch a taxi.

# The Service Package (cont.)

- **Explicit Services:** Benefits readily observable by the senses. The essential or intrinsic features. Examples are quality of meal, attitude of the waiter, on-time departure.
- **Implicit Services:** Psychological benefits or extrinsic features which the consumer may sense only vaguely. Examples are privacy of loan office, security of a well lighted parking lot.
- **Peripheral/Ancillary services and their service packages!**

# The Service Package



# Behavioral Aspects of Service Design

- Start well and let the customer experience improvement during the steps of the service delivery
- Pain has a long memory – administer it early, and not often
- Finish with a pleasurable experience



# Behavioral Aspects of Service Design

- Time lengthens in moments of waiting or stress and contracts during moments of pleasure.
- Employees can feel pain too, Reward and rotate personnel at stressful points in the service design.
- People like control over what happens to them. The freedom to exercise a choice, however minor, provides a sense of control and increases both provider and customer satisfaction

# Hotel Monaco Chicago

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# THANK YOU

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