

Service Operations Management (SOM)

Service Strategy

Vinay Kumar Kalakbandi

OM Area

IMT Hyderabad

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

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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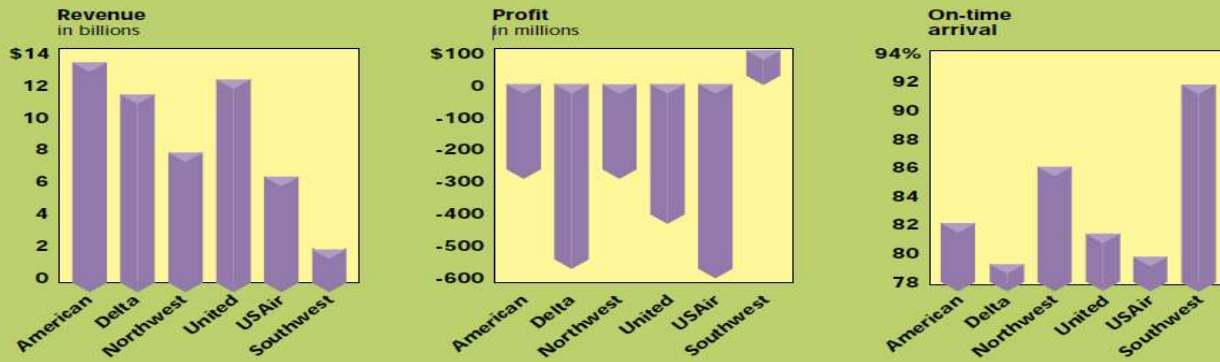
Southwest Airlines: Service Strategy

Monday, November 5, 2023



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How Southwest Compares with Its Competitors



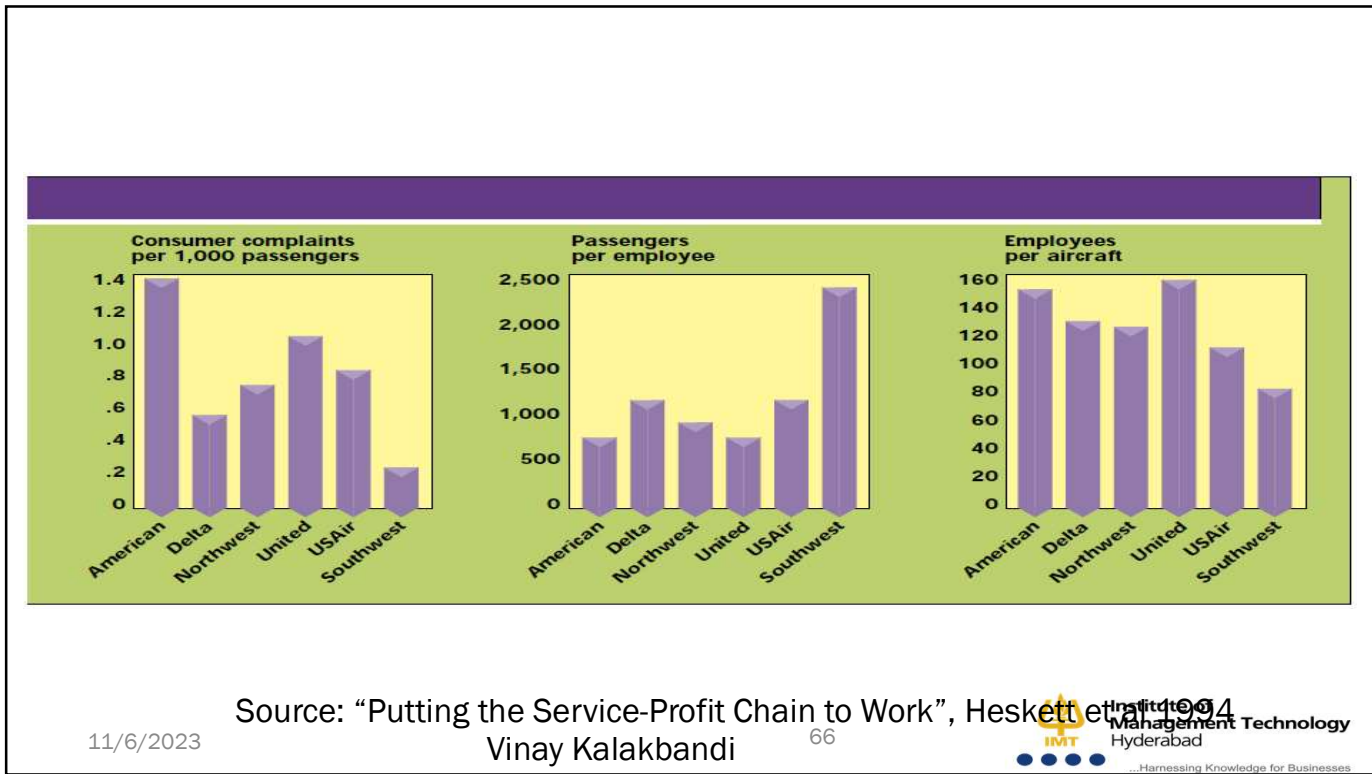
Source: "Putting the Service-Profit Chain to Work", Heskett et al., 1994
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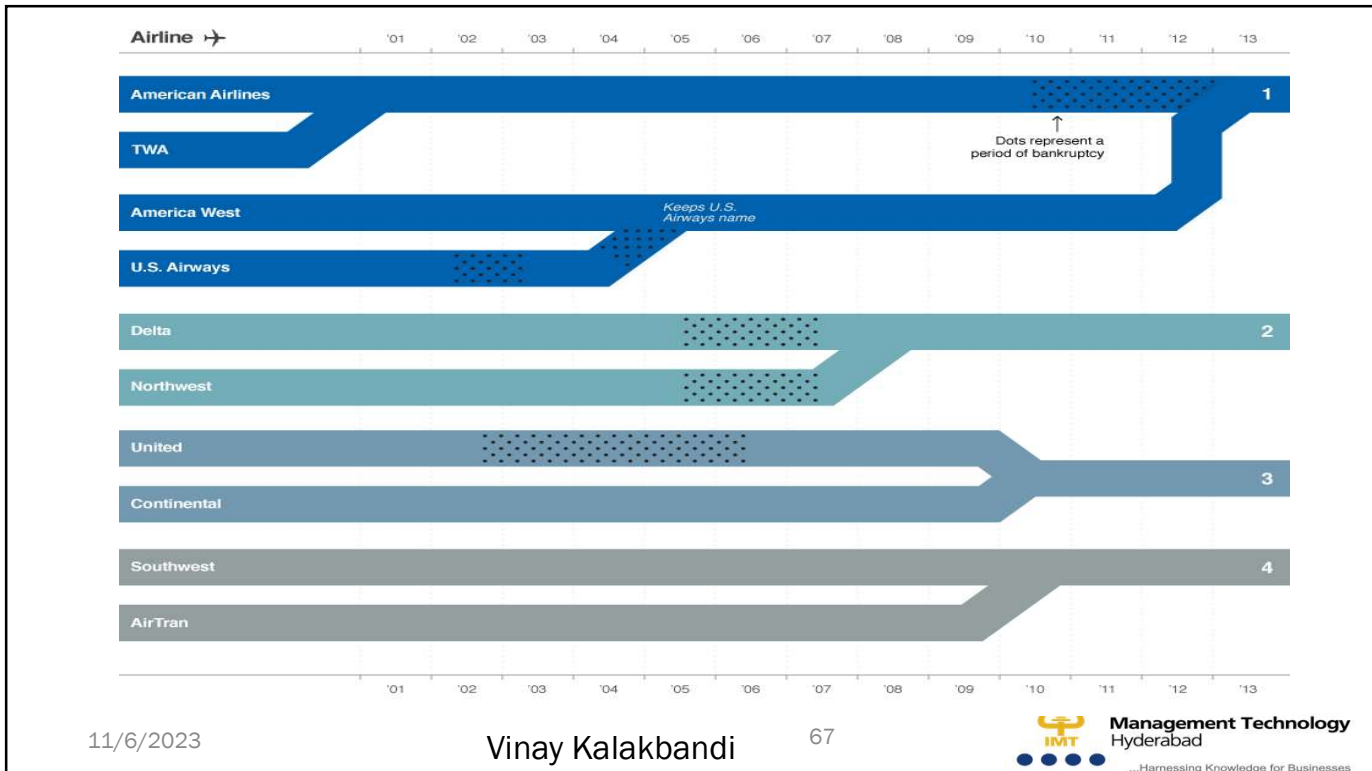
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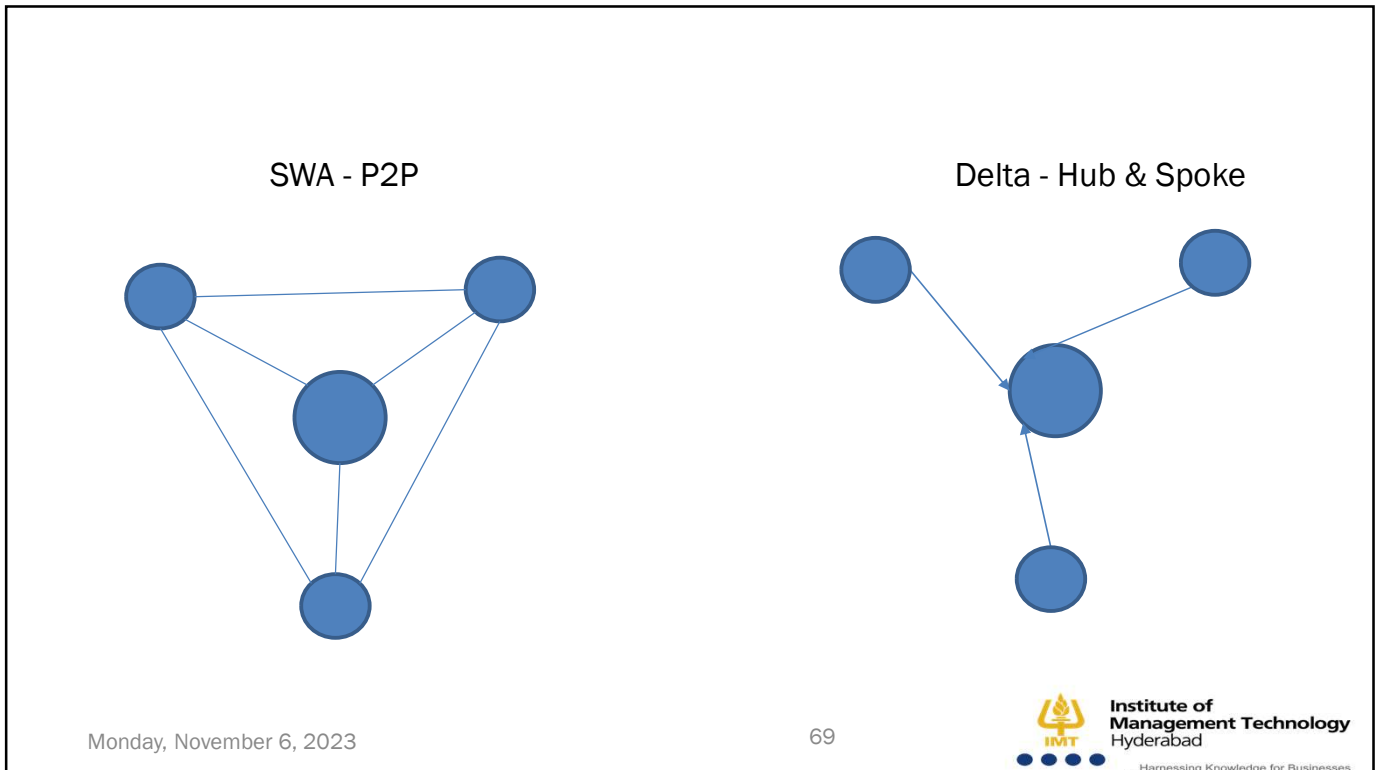
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Questions

Slide by Prof. Pierrie Dussage, HEC Paris

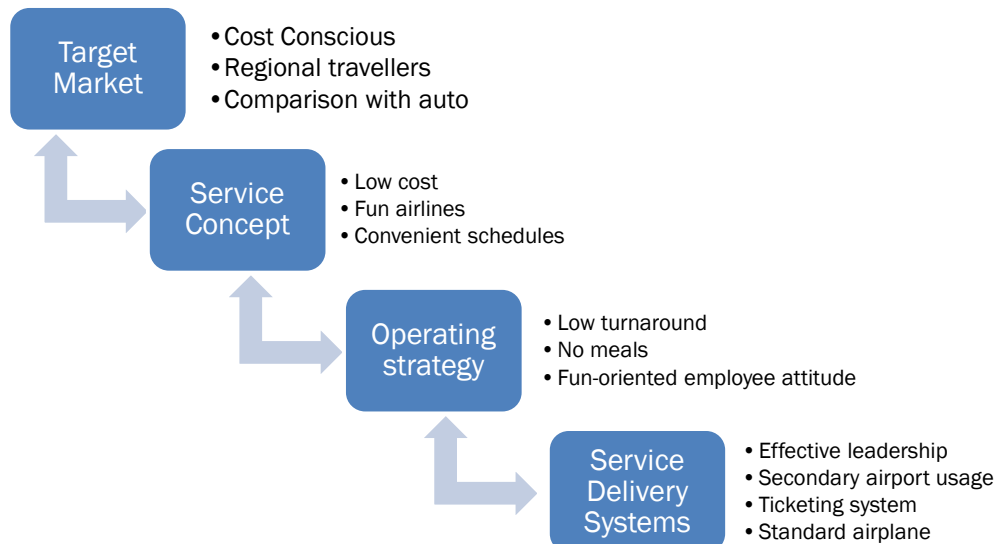
1. Why has SWA been so successful for so long?
2. Why has no other competitor successfully imitated their strategy?
3. How do you think they should continue growing in the future?

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Strategic service vision



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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?

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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

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SSV for SWA

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

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Elevator Pitch based on SSV

Acme Health & Wellness Center, an established hub for holistic healthcare in a vibrant urban setting, caters to a diverse array of clients. Their clientele includes young professionals seeking stress alleviation, individuals looking to embrace healthier aging, and people committed to their overall well-being. Acme's philosophy centers on promoting 'Total Wellness for a Balanced Life,' underpinning a range of services that encompass fitness classes, expert nutritional guidance, immersive stress management programs, and an array of alternative therapies such as yoga and meditation. To accommodate their diverse clientele, Acme has meticulously tailored its approach, offering flexible appointment scheduling, personalized wellness plans, and an accomplished team of certified professionals from various health disciplines. The center's inviting ambiance, modern wellness facility, intuitive mobile app for easy bookings and wellness tracking, and customer-centric policies, including transparent pricing and a robust feedback system, collectively contribute to a holistic wellness experience that empowers clients to lead healthier and more fulfilling lives."

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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?

09/11/2014

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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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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 <i>delights</i> 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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Stages in Service Firm Competitiveness – Part 2

Back office	1. Available for Service Counting room.	2. Journeyman Contributes to service, plays an important role in the total service, is given attention, but still is a separate role.	3. Distinctive Competence Achieved Is equally valued with front office; plays integral role.	4. World-Class Service Delivery 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.

