

# Service Operations (SO)

Post Graduate Program 2015-16

## Week 1

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## This week on Service Operations...

- Introductions
- Course overview
- Service definitions, characteristics, classifications
- Service economy
- Southwest airlines case
- Strategic Service vision

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## Introductions

- Introduction
- Work ex, internship
- Motivation to take this course
- One thing that's not on your CV

## Course Objective

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

## Course management

- Course website where details of all readings, PPTs could be accessed anytime.
  - <http://vkteaching.weebly.com/>
- Availability
  - On prior appointment only
- Textbook and Course pack
  - Shall be provided by the PGP office shortly

- Why Service Operations?

Which of the following are service companies and which are product companies?

- MIT/IIM Raipur
- UPS/DTDC
- Southwest/Indigo
- AT&T /Vodafone
- Johns Hopkins/Apollo
- Amazon/Flipkart
- Walmart stores/Big Bazaar
- McDonalds/Goli Vadapav
- Ford/Tata Motors
- Apple/Micromax
- Pepsico/Coca Cola
- Pfizer/Merck

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## Distinctive Characteristics of Service Operations

- Intangibility
- Perishability
- Heterogeneity
- Simultaneity
- *Transferability*
- *Cultural Specificity*

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## Distinctive Characteristics of Service Operations

- Overflowing french fries; Elevator music
- Hum hain na!; Delivering value!
- 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

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## Distinctive Characteristics of Service Operations

- Off-season; weekday discount?
- Usage of inventory to hedge uncertainty not possible
- Usage of excess capacity is the usual practice
- Airline with empty seats; vacant hotel room
- Sometimes too busy/sometimes too idle!
- Services are **Perishable**
  - Necessary to smoothen the demand
    - Schedule preventive maintenance in slack time
    - Special tariffs for slack times

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## Distinctive Characteristics of Service Operations

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

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## Distinctive Characteristics of Service Operations

- What's common between McDonald's, ICICI bank and railway reservation counter?
  - Token system; Snake queues; tellers with computer terminals
- 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!

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## Distinctive Characteristics of Service Operations

- More than 19000 Starbucks in USA
- SBI has 14816 branches in India
- 16000 IOCL petrol pumps
- 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

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## 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)

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## 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

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## Service product continuum



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## Service/Product Bundle

Element	Core <i>Goods</i> Example	Core <i>Service</i> Example
Business	Custom clothier	Business hotel
Core	Business suits	Room for the night
Peripheral Goods	Garment bag	Bath robe
Peripheral Service	Deferred payment plans	In house restaurant
Variant	Coffee lounge	Airport shuttle

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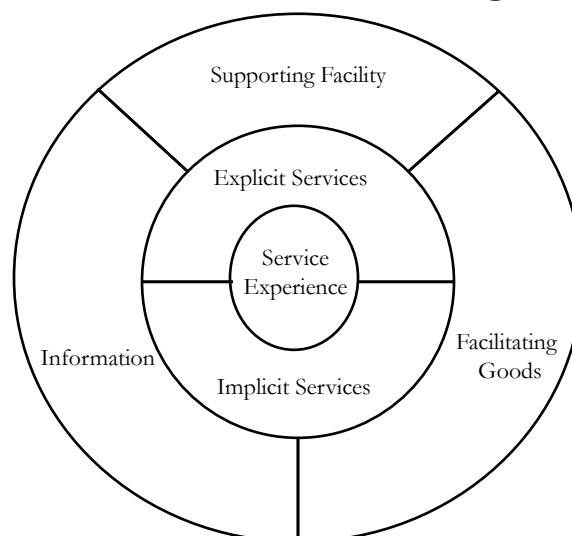
## The Service Package

- **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



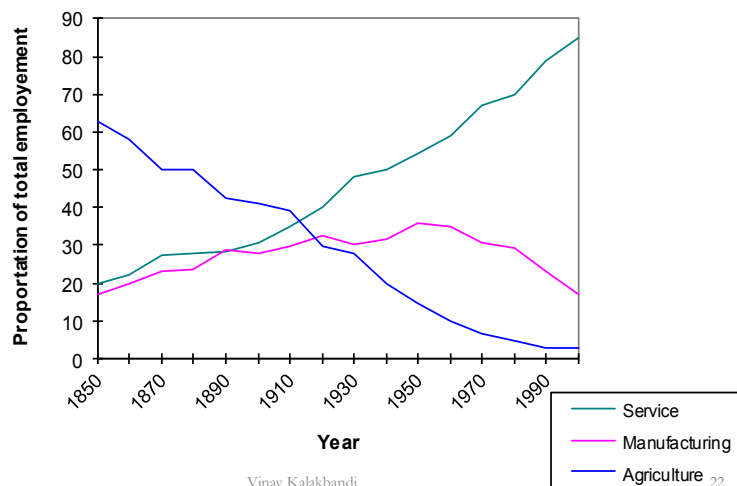
# IMPORTANCE OF SERVICES

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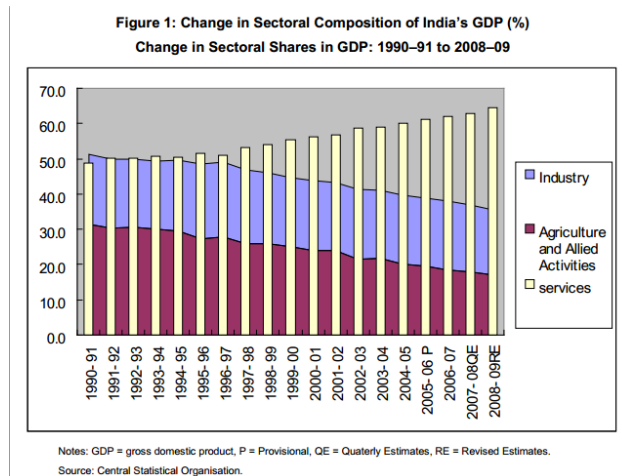
## Trends in U.S. Employment by Sector



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## Importance of services



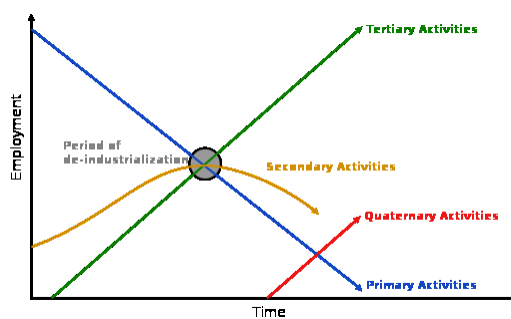
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## Stages of Economic Development

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



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After the next few slides.....

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

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## 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

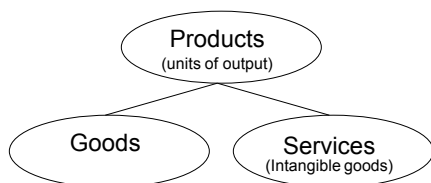
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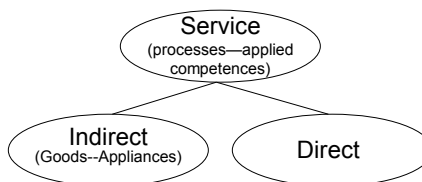
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# Paradigm Inversion

## Goods Logic



## Service Logic



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# 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.

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## 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.

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## 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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# SERVICE CLASSIFICATIONS

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## Classifying by configuration

- B2C services
- B2B services
- Government services
- Not for profit services
- Internal services

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