Learning Objectives

- Describe how a service competes using the three generic service strategies
- Discuss the positioning map
- Formulate a strategic service vision
- Describe how a service has addressed each element in the strategic service concept
- Discuss the competitive environment of services
- Discuss the competitive role of information
- Discuss the limits in the use of information
- Categorize a service firm based on its stage in service firm competitiveness

What Is Strategy?

Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an iterative process that begins with a recognition of where you are and what you have now…. The differences between you and your competitors are the basis of your advantage.

—Bruce D. Henderson (1989)
How to Form A Strategy?

- Positioning in the market place
  - What business should we be in? Where should we put our efforts?
- Internal focus
  - What are our unique capabilities?
- Match
  - Is there a good fit between business and capabilities?

Market Positioning
Positioning (Perceptual) Map

- Visual tool that portrays the relative positions of competing firms as they are perceived by consumers with respect to two or more attributes
  - Identify attributes important to customers
  - Measure how the firm and its competitors are performing on each attribute
  - Plot the results on a chart, using the horizontal axis for measures of one attribute and the vertical axis for a 2nd
- Common attributes
  - (1) Convenience; (2) Level of personal service; (3) Price; (4) Quality; (5) Reliability; (6) Speed; (7) Industry-specific features that offer unique benefits

Positioning Map Example

Palace, a successful 4-star hotel in a large city, used positioning map to develop a better understanding of potential threats to their established market position. It was an elegant old hotel located on the edge of the city’s booming financial district. Its competitors include 8 4-start establishments and the 5-star rated Grand Hotel. It had been very profitable in recent years with an above-average occupancy rate. However, the general manager and his staff saw problems on the horizon as permission had recently been granted for four large new hotels in the city, and the Grand Hotel had just started a major renovation and expansion project.

Teamed with a consultant, Palace’s management identified four attributes and their measures: 1. room price; 2. level of physical luxury (relative ranking using benchmark of Grand-the most luxurious, and Airport Plaza-the least luxurious); 3. level of personal service (rooms per employee ratio); and 4. location (distance from the stock exchange).
Positioning Map
Service Level Versus Price Level

High
Service

Moderate
Service

Expensive

Less Expensive

PALACE

Shangri-La

Atlantic

Sheraton

Italia

Alexander IV

Airport Plaza

Castle

Grand

Regency

Current
Situation

Positioning Map
Location Versus Physical Luxury

Financial District

Inner Suburbs

High Luxury

Moderate Luxury

PALACE

Shangri-La

Atlantic

Sheraton

Italia

Alexander IV

Airport Plaza

Castle

Grand

Regency

Current Situation

Shopping District & Convention Center

Positioning Map
Service Level Versus Price Level

High
Service

Moderate
Service

Expensive

Less Expensive

Mandarin

New Grand

Heritage

Continental

Marriott

Action?

No action?
Positioning Map
Location Versus Physical Luxury

Future Situation

High Luxury

Mandarin
Continental
PALACE
Shangri-La
Atlantic
Sheraton
Italia
Regency

Financial District

Inner Suburbs

Shopping District & Convention Center

No action?

Generic Competitive Strategies

Target Strategic Advantage
Low cost Uniqueness

Entire Market
Overall cost leadership Differentiation

Market Segment
Focus

Competitive Service Strategies
Overall Cost Leadership

- Seeking out Low-cost Customers
- Standardizing Custom Service
- Reducing the Personal Element in Service Delivery (promote self-service)
- Reducing Network Costs (hub and spoke)
- Taking Service Operations Off-line
Competitive Service Strategies

Differentiation

- Making the Intangible Tangible (memorable)
- Customizing the Standard Product
- Reducing Perceived Risk
- Giving Attention to Personnel Training
- Controlling Quality

Note: Differentiation in service means being unique in brand image, technology use, features, or reputation for customer service.

Competitive Service Strategies

Focus

- Buyer Group
- Service Offered
- Geographic Region

Strategic Analysis

Porter’s Five Forces Model

- Potential New Entrants
  - Barriers to entry
  - Brand equity
  - Capital requirements

- Competitive Rivalry within Industry
  - Number of competitors
  - Rate of industry growth
  - Industry capacity

- Bargaining Power of Suppliers
  - Presence of substitute inputs
  - Threat of forward integration
  - Uniqueness of inputs

- Bargaining Power of Customers
  - Buyer’s price sensitivity
  - Customer volume
  - Information asymmetry

- Threat of Substitutes
  - Buyer propensity to substitute
  - Buyer switching costs
  - Product substitution for service
Strategic Analysis

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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Strategic Service Vision

- Ideally, a service delivery system should support the operating strategy, which should support the service concept, which supports the target market.

1. **Target Market**
2. **Service Concept**
3. **Operating Strategy**
4. **Service Delivery System**

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Strategic Service Vision

**Target Market Segments**

- What are common characteristics of important market segments?
- What dimensions can be used to segment the market, demographic, psychographic?
- How important are various segments?
- What needs does each have?
- How well are these needs being served, in what manner, by whom?
Strategic Service Vision

Service Concepts

• 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?
• What efforts does this suggest in terms of the manner in which the service is designed, delivered, marketed?

Operating Strategy

• What are important elements of the strategy: operations, financing, marketing, organization, human resources, control?
• On which will the most effort be concentrated?
• Where will investments be made?
• How will quality and cost be controlled: measures, incentives, rewards?
• What results will be expected versus competition in terms of, quality of service, cost profile, productivity, morale/loyalty of servers?

Service Delivery System

• What are important features of the service delivery system including: role of people, technology, equipment, layout, procedures?
• What capacity does it provide, normally, at peak levels?
• To what extent does it help insure quality standards, differentiate the service from competition, provide barriers to entry by competitors?
Strategic Service Vision Example: Southwest Airlines

- **Target Market Segment**
  - Cost-conscious regional travelers

- **Service Concept**
  - Safe, no-frills low-cost air travel
  - Convenient schedules
  - Make flying fun

- **Operating Strategy**
  - Keeping operating costs down
  - Making employees the first priority

- **Service Delivery System**
  - Single type of aircraft—Boeing 737
  - Efficient system for booking tickets, boarding passengers, maintaining airplanes

Competitive Environment of Services

- Relatively Low Overall Entry Barriers
- Economies of Scale Limited
- High Transportation Costs
- Erratic Sales Fluctuations
- No Power Dealing with Buyers or Suppliers
- Product Substitutions for Service
- High Customer Loyalty
- Exit Barriers

Winning Customers’ Order in the Marketplace

- **Service Qualifier**: Criteria of service firms meeting minimum performance requirements.
- **Service Winner**: The competitive dimension used to make the final choice among competitors.
- **Service Loser**: Failure to deliver at or above the expected level for a competitive dimension.
Customer Criteria For Selecting a Service Provider

- 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 (Avoid excessive waiting)

Strategic Roles of Information in Services

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Discussion

- 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?
Reading
Competing on Customer Service

- What is BA’s overall strategy?
- Why does Mr. Marshall think it is a flawed strategy to be competing on cost and price in US airlines?
  - Do you agree or disagree?
- Why “even in a mass-market business, you don’t want to attract and retain everyone” (p.105)?
- Why is competing on delivering consistent experience extremely difficult for a service business?