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STRATEGIC MANAGEMENT IN SERVICE SECTOR

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Abstract: Because manufacturing has been the dominant economic force of the last century, most managers have been educated through experience and/or formal education to think about strategic management in product-oriented terms. Unfortunately, a large part of this experience is irrelevant to the management of many service businesses. The general manager of a service business must develop a healthy skepticism about his and others' approaches to strategy. One of the best ways to change managers' thinking patterns and thus to avoid the trap of force-fitting product-oriented management techniques into a service-oriented business is to change the language system in the company. If managers talk about services instead of products, they also think about services and those characteristics that make services unique.

Keywords: *services*; *strategy*; *industry evolution*, *need*, *challenges*.

Introduction: Strategic management in service sector involves the formulation and implementation of the major goals and initiatives taken by a company's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes

Meaning of Strategy: Strategy is defined as "the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."

Definitions of Strategy:"Strategies are established to set direction, focus effort, define or clarify the organization, and provide consistency or guidance in response to the environment"
"Strategy as plan - a directed course of action to achieve an intended set of goals; similar to the strategic planning concept"

" Strategy as pattern – a consistent pattern of past behavior, with a strategy realized over time rather than planned or intended. Where the realized pattern was different from the intent, he referred to the strategy as emergent"

India's Services Sector growth: India's services sector contributed about 61 per cent to India's Gross Domestic Product, growing strongly at approximately 10 per cent per annum in 2015-16, a report launched on Wednesday at the second Global Exhibition on Services. The report, published by industry body Confederation of Indian Industry (CII) and KPMG says India is currently the second fastest growing services economy in the world. With the 2015-16 financial year witnessing dismal merchandise trade, the government is betting big on services trade. Incidentally, India's share in global services exports was 3.2 per cent in 2014-15, double that of its merchandise exports in global merchandise exports at 1.7 per cent.

WHY THERE IS NEED OF STRATEGIC MANAGEMENT IN SERVICE SECTOR?

The government has called for a renewed focus on the services sector which contributes 53 per cent of the country's Gross Domestic Product, 51 per cent of foreign direct investment and 28 per cent of employment. The government had earlier stated that almost 50 per cent of its current account deficit was met from exports in services.

Today, more than ever, businesses and public sector organizations are under pressure to reduce costs and downsize resources to remain profitable or operate within their budgets. Meanwhile, customers are becoming more sophisticated with increasing expectations, and markets offer customers increased competition and easier ways to switch supplier.

Many service functions become overstretched and undervalued and often become the first target in cost-reduction programmes.In this environment, the service functions of many organisations find themselves overstretched and undervalued and often become the first target in cost-reduction programmes.

SERVICE MANAGEMENT CHALLENGES IN SERVICE INDUSTRY: Through our benchmarking and consulting work we commonly observe three key service management challenges that contribute to better service

- Firstly, many organisations have difficulty expressing the benefits of customer service in financial terms and assessing the true cost of poor service. This presents obstacles when trying to cost-justify investments in service improvement initiatives and when trying to explain in business terms why customer satisfaction is important
- Secondly, organizational hierarchies and departmental structures still create barriers and bottlenecks to customer processes in many organisations. There is often an absence of formalizedcustomer retention strategies, or frameworks for customer-driven value creation. This leads to an imbalanced investment bias towards activities that focus on, more costly, customer acquisition strategies instead of more cost-effective strategies for customer-retention.
- Thirdly, we often see a lack of actionable customer research, and poor use of customer feedback as a systematic source of insight for business improvement and service management. In many cases this contributes to the stress of service management, introduces inconsistencies in service and leads to larger organisations either "flying blind" or developing an overreliance on less robust performance measures.

These factors form key challenges for service management and barriers for success for any organization in today's difficult economic climate. Now, more than ever, private and public sector organisations must empower service management to build a customer-driven enterprise that can remove these barriers, seek out and fix the problems that customers experience and outperform their competition.

HOW TO OVERCOME THESE CHALLENGES:

With effective planning, guidance and executive commitment, an organization can make the transition from being at the mercy of these challenges to actively managing customer experience and creating value for its customers.To support such transformations CTMA has developed a portfolio of customer experience measurement tools, methodologies and feedback systems. Underpinning these services is a comprehensive framework for customer-driven value creation that provides organisations with a consistent and measurable business improvement strategy.

Many organisations regard customer feedback and complaints as an "inconvenience" and satisfaction research as no more than a form of "marketing intelligence". In doing so they fail to capitalize on the opportunity of using customer feedback as a management tool to improve their products, their services and their business.CTMA has identified six important steps an organization must take in order to fully exploit these opportunities, turn customer feedback into management actions, build an effective force against service management challenges and a defense against customer dissatisfaction.

STRATEGY MANAGEMENT IN SERVICE SECTOR

Many managers of service businesses are aware that the strategic management of service businesses is different from that of manufacturing businesses. This article discusses how pure service businesses are different from product-oriented businesses and why they require different strategic thinking.

A pure service business is one in which the service is the primary entity that is sold.That distinction is important because everyone in every type of business sells some element of service. In pure service businesses any transfer of a physical or concrete product is incidental to the service. Examples of pure service businesses include airlines, banks, computer service bureaus, law firms, plumbing repair companies, motion picture theaters, and management consulting firms.

Top managers should ask themselves six questions about strategic management. The questions are fairly common, but the answers for service businesses are often unique. Each question will be raised here and discussed in depth later.

1. Do we fully understand the specific type of service business we are in? Although service-oriented businesses are different from product-oriented businesses, the nature of the difference depends a great deal on the specific type of service business. I will present a classification scheme to help distinguish between service businesses along some important strategic dimensions.

2. How can we defend our service business from competitors? Every business must consider how it can build and protect a strong competitive position. To do this, the economics of the business must be carefully analyzed. Service businesses often require different competitive strategies from those of product-oriented companies. If an enduring institution is to be created, some attention must be given to the management of economies of scale, proprietary technology, and reputation of the company.

3. How can we obtain more cost-efficient operations?Manufacturing companies can improve operating leverage by, for example, purchasing faster and more reliable machinery. But most service businesses are not able to follow this approach. Other methods must be used.

4. What is the rationale for our pricing strategy? The pricing of services is a nebulous area. Cost-based pricing is often difficult to determine, and there are few formulas for effective value-based pricing. It is important to look at pricing strategy and think about the economic and psychological effects of a change in that price strategy in service business.

5. What process are we using to develop and test new services? Every company depends on an ability to renew its franchise in the marketplace. The service-oriented company must pay particular attention to this area because of the difficulty of developing protectable competitive positions. The process of new-service development and testing must recognize the abstract, perishable nature of services.

6. What acquisitions, if any, would make sense for our company?Once the nature of the current business is understood, the acquisition question can be faced. The acquisition game in the service sector can be dangerous. More than one company has acquired a service business using only criteria that would be used in the acquisition of a product-oriented company. As several of these companies have learned, this type of analysis, although necessary, is insufficient.

STRATEGIES THAT CAN BE ADOPTED BY SERVICE BUSINESS:

Describing Services: In product-oriented businesses, the physical reality of the product provides a simple but powerful base on which to build a business description. The question is far more difficult for service-oriented businesses to answer because services are more abstract than products.One way to deal with the difficulty of describing services has been to talk about them as if they were products. G. Lynn Shostack, a vice president in charge of business planning and analysis at Citibank, has noted:

"Banks often devote significant resources to an activity they call 'new product development.' The phrase is so alluring that groups are regularly set up to create these 'new products.' The realization seldom seems to occur to such banks that they are not in the product *development business at all. In fact, many banks do not seem to have arrived at the insight that*things*are not the basis for their industry. Even marketers in such banks apparently do not understand that they are engaged in perhaps the most difficult and dimly understood realm of business endeavorthe development and marketing of financial services."*[1]

The predominant mental image about "the way things work" in business is a product-based image. This image leads to a product-oriented language, and the language in turn constrains communication in such a way that one cannot develop really innovative approaches to managing the service business.

Because they are often lumped together, service businesses can be misunderstood. As we shall see later, they differ greatly, and an understanding of their differences can help the thoughtful manager to understand the nature of the strategic opportunities in each.

The traditional image of the service business is that the service is "invariably and undeviatingly personal, as something performed by individuals for other individuals."This perspective is erroneous. Automatic car washes, automated banking services, and computer time-sharing are just three of the many examples of service businesses in which the service is provided by automated equipment. The strategic requirements for these businesses are obviously quite different from those in which individuals perform services for other individuals.

The Exhibit shows one way to separate service businesses into general types, with different strategic management requirements. At the pinnacle of the pyramid is the service that is provided by the business. To place a specific business on the spectrum in the exhibit, it is necessary to answer two questions:

(1) How is the service rendered? (2) What type of equipment or people render the service?

Placement of a specific service business along the spectrum may be difficult, but two general observations may ease the difficulty: (1) as service businesses evolve, they often move along the spectrum from people-based to equipment-based or vice versa, and (2) many companies are in more than one type of service business. Virtually all banks, for example, operate multiple-service businesses. Some of these are equipment-based, as in the transfer and storage of funds. Others are people-based, as in the financing of a home, car, or business, because they require judgment about the financial management of funds.

Building Barriers: In product-oriented companies, capital is the most commonly used barrier to the entry of competition. As a product-oriented company grows, it can take advantage of economies of scale in producing the product, invest in technology that will become proprietary, and offer a differentiated product through product development and marketing. These efforts pay off largely because they are centered on a uniform product that has concrete dimensions and is sold as a package. They are made possible by the fact that the production, distribution, and sale of the product can be uncoupled, often being accomplished by different companies.

Service businesses rarely have this luxury. The service, because it is an abstract, perishable quantity, must be produced and delivered by a single company, often by a single unit of equipment or people. The result is a decentralization of the service production process to the local level and a reduction in the opportunity for developing economies of scale. As a result, location decisions are often very important and multiple locations can serve as a barrier to entry. One example is the car rental business, where a large number of airport locations is very important.

Economies of Scale: Managers of service businesses should not conclude that they have no opportunities for scale economies and the resulting capital barriers to entry. On the contrary, there are many examples of scale economies, especially in equipment-based service businesses. The introduction of wide-bodied jets by the airlines enabled them to fly twice as many passengers with the same number of high-salaried pilots and flight engineers. Although not on the same scale, other reductions in maintenance and ground handling personnel were possible.

A second example of economies of scale is the multiple-unit motion picture theater that can be found in most suburban locations in the United States. These facilities may have four or five theaters, some of which may be fairly small. The refreshment stand and the ticket selling booths are centralized, thus requiring both less floor space and fewer people to operate them. In some cases, there is a single projection room for more than one theater, and the equipment is almost completely automated. Central heating and air conditioning are provided for the entire building. Obviously, the cost to operate this type of facility is much lower than the cost for an equal number of separate theaters.

Advertising clout is the third example of an economy of scale that service businesses can use as a barrier to entry. Once it achieves a size that makes regional and/or national advertising economically feasible, a service business can use advertising as a competitive weapon to build and maintain market share.

With the probable exception of advertising clout, the economies of scale that may provide a barrier to entry exist primarily in equipment-based, and not in people-based, service businesses.

Where economies of scale cannot be developed easily, two other barriers to entry can be used: proprietary technology, and/or service differentiation.

Proprietary Technology: In equipment-based service businesses, proprietary technology is perhaps most commonly used as a barrier to entry. In the computer services industry the set of "canned" programs that a time-sharing company offers is crucial to the sales effort for the company's services. So-called raw computer time is a commodity product supplied by many vendors. The purchaser of time-sharing services is interested in knowing what other services the company has which are technologically advanced over the competition. The software provided by the time-sharing company must be technologically advanced in both what it will do and how efficient it is.Less commonly, proprietary technologies have been developed by people-based service businesses, particularly those that provide professional services. The Boston Consulting Group has developed several proprietary technologies around its experience curve concept, including market segmentation and strategic portfolio analyses.

Service Differentiation: Product differentiation, or as I have called it, service differentiation, is another barrier to entry. In product-oriented companies, the product is developed and marketed in such a way that it attains a brand name identification in the market place. In the more successful efforts, the product's brand becomes an almost generic name for the class of products: Coke, and Xerox, for example. Very few services have developed a brand name identification. Instead, a service business develops a reputation for the type and quality of service it produces. The more abstract and complex the service is, the greater the need and potential for developing a reputation that will serve as a barrier to entry.

Building barriers to entry in service businesses is generally more difficult, or at least must be done in less traditional ways, than in product-oriented businesses. Managers must think less about brand identification and more about the reputation of the company. They must look for areas in which the advantages of economies of scale are available. Finally, they must seek ways to develop and protect proprietary technology.

Cutting Costs: A common misconception about service businesses is that it is almost impossible to obtain operating leverage and thus to improve profit margins. Operating leverage exists in a business when, through a change in operations, the relative cost per unit of the product or service decreases.Substitution of capital for labor is the classic method of obtaining operating leverage in both product- and service-oriented businesses. Capital is used to purchase machinery which can produce a product or service at a faster rate with more consistent quality. Many service businesses have followed this path of development. Twenty years ago, virtually all car washes used unskilled labor; today, most are automated.

When the tasks cannot be automated because human judgment must be exercised, cheap labor can often be substituted for expensive labor as a means of obtaining operating leverage. This is often the case in people-based service businesses, and law firms are expert in the practice. A large percentage of the tasks are routine and require little legal expertise. For example, routine and time-consuming research and the preparation of briefs can, in many cases, be done by recent graduates of law school or by paralegal assistants, whose time is less expensive, while partners in the firm work on client relationships, develop legal strategies, and so on.

Other service businesses use the same basic technique in different ways. Consulting firms use teams of consultants who perform different tasks, depending on their skills. Many insurance companies break the sales task into its component parts of initial contact, presentation, and closing the deal, and have different people perform each function. In each case, the service is further broken down, and the aspects that can be performed by less expensive labor are identified. The expensive labor is then free to do those crucial tasks that bring profits to the company.

Value Engineering: The process of value engineering has become popular in many manufacturing companies in the last decade to determine what changes in design and/or manufacturing process can be made to reduce the cost of manufacturing a product without reducing its utility.A similar process can be used for services. Once again, the service provided must be broken into its component parts. This time, however, the purpose is not to determine how the service is rendered, but rather what service is provided. The goals are to determine what parts of the service are essential, what parts can be eliminated, and what minor additions could greatly enhance the service.

Value engineering is somewhat more difficult for a service than for a product, since the physical nature of a product allows a checking of its continued appearance and function. For a service, it is often difficult to know which attribute is most important to the customer's purchase decision.

In sum, it is probably more difficult to obtain operating leverage in service businesses, particularly those that are people-based. The opportunities for finding operating leverage are there, but they require different ways of thinking about operations.

Competing on Price: Virtually all product-oriented companies have ways of determining their product's cost per unit at various volumes. Part of their strategic game is to become the low-cost producer and use this position as a competitive weapon.Other pricing strategies are of course available, such as the premium-price strategy for a premium-quality product.

In service-oriented businesses it is often difficult to determine what a unit of a given service is, much less its cost. In general, it is easier to determine costs in equipment-based service businesses than in people-based businesses. To be converted to an equipment-based service in the first place, the service usually has some routine character that can be analyzed. People-based service businesses, however, are much more complex. Until the theorists and practitioners who work with human resource accounting can refine the art sufficiently, it will be difficult to determine the cost of people-based services accurately on anything but an aggregate basis.

The pricing of services is thus often based on value rather than on cost. Value is generally determined by the customer and to some extent by competition. Customers tend to get a general feel for what they will have to pay for a particular service, but the source of this feeling is often unclear, because comparison shopping is often difficult. Customers will pay whatever they think the service is worth; thus pricing in many service businesses is based on whatever the market will bear.Prices can be set too low in equipment-based service businesses as well.

Probably less is known about the use of price as a strategic weapon in service businesses than about any of the other strategic variables. One fact, however, is clear. The general manager of a service business must use marketing methods that will enhance the perceived value of the service.

Developing New Services: Virtually all product-oriented companies have some form of research and development effort that is responsible for designing and testing new products and/or modifications to current products. The R&D task in service-oriented companies is different because it is complicated by the lack of a physical product. A service, especially in people-based businesses, can be a little bit different each time it is rendered.The entire process of creating such services deals with concepts rather than physical objects. The testing process varies depending on whether the service is equipment-based or people-based, but in either case it is difficult to do test marketing or other types of market research on the new service. Customers must be enticed into experiencing the service, and this often requires major marketing efforts. Thus the cost of introducing a successful new service may be quite high because it is difficult to predict what service concepts will be understandable and attractive to the customer.

The difficulty of test marketing can, however, be turned into an advantage. Service concepts, especially in people-based service businesses, are malleable and can be changed even after they have been introduced in the marketplace, and the cost of such a change is often quite low.

Any business must develop new services if it is to survive. This task is quite different from new-product development. It is highly abstract, and the services that are developed require difficult and expensive testing in the marketplace. Thus there is little real innovation and a great deal of

imitation of services. For example, airlines and banks are well known for their imitative practices.

Growing Through Acquisition: What is bought when a service business is acquired? There are several answers to this question, depending on the type of service business that is under consideration.Many managers, particularly those with product-oriented experience, feel most comfortable when acquiring an equipment-based service business. Then the acquisition includes physical assets that can be quite valuable if bought for less than comparable new assets, if there is a limited supply of the assets, or if the business is in strategic locations (for example, a car rental business, or a string of self-service laundries). Unless one of these conditions exists, it is often less expensive to buy new assets than to buy those of an existing service business.

In people-based service businesses, the acquisition is more risky because people and their skills are the major purchase item. Regardless of the employment contracts and benefits that may be offered, there is always the risk that people will leave and take their skills with them. When physical assets are purchased, they are owned when the papers are signed. Decisions about their use and disposition can be made by the acquiring company. The same is not true of people; they may decide to depart at any time after the purchase is completed.

Whenever acquisition of a people-based service business is being contemplated, it is important to ask: “What is the business worth without the key people?” There are some instances where the “franchise” in a market is worth the price of the business. In other instances, the services provided have some proprietary characteristic that is valuable even without the people in the company. Often, however, the answer to the question is that all one is buying are people. When this is the case, it is usually less expensive simply to hire away the best of these people.

Growth through acquisition in service businesses is a risky proposition, but the risk varies. It is generally riskier as one moves down the spectrum toward people-based businesses, and within people-based businesses the risk increases when the service is provided by professionals or highly skilled persons. Any company that wants to acquire service businesses must make sure that it can attract and keep skilled service-oriented managers to run them.

Conclusion : The findings are that the majority of medium-sized service enterprises do not have a proper strategic management for use . For those who do use strategic management Polices, that businesses have to face so many challenges for their existence in the market. But all these challenges can be overcome if some strategies are followed by service business. The benefits of these service strategies are to the brand image of the Organization and the services provided, closely followed by increased profits. Key strategic activities in the past have been adding new customers, whereas in the future the key strategic activities will be to understand customer needs

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