

# **Service Operations Management**

**Block**

**2**

## **STRATEGY FORMULATION**

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## BLOCK 2: STRATEGY FORMULATION

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Operations Management has been undergoing a paradigm shift due to the decreasing spread of manufacturing operations and expanding service operations. Technological developments brought about this drastic change that made manufacturing globally centralized and services locally decentralized. Services also started playing an increasingly important role in national economies with a lion's share of Gross Domestic Product (GDP) contributed by services economy. Thus to ensure sustainable profitability of business organizations, focus should be on developing appropriate strategies fitting into organizational vision, mission and objectives. It is against this backdrop that this block will discuss various related concepts in Service Operations Management.

Block 2, *Strategy Formulation for Service Operations Management*, is covered in three units as briefly described below. Business Strategy covers vision, strategy hierarchy, different approaches and their limitations and the concepts of qualifiers and order winners. Use of Customer Relationship Management (CRM) as a customer retention strategy is discussed, covering the concepts of service encounter, service encounter triad, service recovery and CRM tools. Then, the topic of global service strategy is presented with coverage of generic international strategies, offshoring and onsite operations. Case Study of Arvind Eye Hospital is highlighted.

Unit 4, *Business Strategy*, addresses such aspects as vision for a service system, strategy hierarchy, comparison of different approaches, pitfalls in some approaches and qualifiers and order winners, and a case study on Arvind Eye Hospital.

Unit 5, *Customer Retention Strategies*, explains the concept of service encounter, service encounter triad and the conflicts thereof, concept of service recovery and approaches, followed by CRM tools for customer retention.

Unit 6, *Global Service Strategy*, covers generic international strategies, transnational operations strategy, managing multi-country operations and off-shoring and on-site operations.

## Unit 4

# Business Strategy

### Structure

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- 4.1 Introduction
- 4.2 Objectives
- 4.3 Overall Vision for a Service System
- 4.4 Major Strategic Approaches in Products and Services
- 4.5 Top-down Approaches in Strategy Formulation
- 4.6 Hayes & Wheel Wright's 4-Stage Approach
- 4.7 Strategic Hierarchy - Positioning Service Strategy & Tactical Execution
- 4.8 Industry & Competitor Analysis Vs Core Competence Approach
- 4.9 Qualifiers Vs. Order Winners
- 4.10 Pitfalls of Multi-Site Rationalization Approaches
- 4.11 Industry Roll-ups & Franchising
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- 4.17 Answers to Check Your Progress Questions

*“In the end, a vision without the ability to execute it is probably a hallucination.”*

– Stephen Case, CEO of American Online

### 4.1 Introduction

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For a business to achieve long term success, just having a strategy is of no use. The company needs to have the capacity to execute the plan.

In the previous unit we discussed virtual value chain and profit chain covering new processes, new knowledge, new products, new relationships and putting profit chain to work.

Services are categorized based on the degree of labor intensity, the degree of customization required, and the degree of interaction between the service provider and receiver. We have seen in a previous unit that a school of thought

## **Block 2: Strategy Formulation**

calls them as service factory, service shop, mass service, and professional service depending on labor intensity, interaction, and customization levels. Service managers face different kinds of challenges for each of these classifications. A service factory has low labor intensity, low interactions and low customization. Low labor intensity may mean automation, involving heavy capital expenditure, which naturally increases interest burden. Technological advances may result in the obsolescence of equipment. On the other hand, low customization like in the case of schools and educational institutions may lead to problems of marketing the product and HR-related issues of managing a rigid hierarchy.

A low labor intense, high interactive, and customization service as legal service would face the challenges in scheduling the service delivery and avoiding the peaking and dropping demand. High labor intensity, contact, and high customization service like software support face the challenges of hiring the right talent, retention, methods of development, off-shoring controls, workforce schedules, etc. The service providers have to formulate strategies to successfully manage these challenges.

This unit discusses some of the strategic approaches followed by service businesses for developing a business strategy. The topics covered include overall vision for a service system; major strategic approaches in products and services; top-down approaches in strategy formulation; Hayes & Wheel Wright's 4-stage approach; strategic hierarchy - positioning service strategy & tactical execution; industry & competitor analysis vs core competence approach; qualifiers vs order winners; pitfalls of multi-site rationalization approaches; industry roll-ups & franchising; operational performance objectives for services and a case study on Arvind Eye Hospital.

### **4.2 Objectives**

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By the end of the unit, you will be able to:

- Define an overall vision for a service system
- Identify major strategic approaches in products and services
- Explain strategic hierarchy
- Differentiate between industry & competitor analysis vs core-competence approach
- Explain the pitfalls of multi-site rationalization approaches
- Identify approaches for qualifiers and order winners
- Explain industry roll-ups & franchising
- Define operational performance objectives for services

### 4.3 Overall Vision for a Service System

There is a Chinese proverb — “if you don’t know where you want to go, you will end up exactly where you go”. The import of this proverb is that everyone, individuals and organizations alike, must be clear about their missions and goals as otherwise the life will become a directionless affair. Management experts define a vision for this purpose.

#### **Vision statement:**

A vision is a mental picture of what the organization wants to be in the very long time. Key words here are mental picture, long term and inspirational statement. A vision statement

- Defines the optimal desired future state - the mental picture of what an organization wants to achieve over time,
- Provides guidance and inspiration as to what an organization is focused on achieving in ten or more years,
- Functions as the "north star" - it is what all employees understand their work every day ultimately contributes towards accomplishing over the long term, and
- Is written succinctly in an inspirational manner that makes it easy for all employees to repeat it at any given time.

Vision is a mental picture of what the organization wants to be in the very long time.

Mission statement is about the very purpose of the organizational existence. It deals with, WHY, WHAT and HOW of the organizational operations. It is written for a shorter time horizon, say 1- 3 years.

Operational strategy for a service sector organization has to be drawn in line with the vision and mission of the organization. Then only the efforts of the managers and all employees of the organization will have a purpose and a direction and would be able to bring desired results.

#### **Example: US Army Releases a New Strategy for Modernizing its Medical Services**

US Army unveiled a new vision and strategy for modernizing its medical services for the soldiers. Ensuring that soldiers have access to the cutting-edge medical infrastructure now and in future is at the core of the strategy. The strategy included providing extremely fast emergency medical care on the battlefield, creating healthcare infrastructure at home and abroad and creating a pool of highly skilled healthcare professionals to meet the future challenges. This strategy was aligned with the overall Army Modernization strategy.

Source: [https://www.army.mil/article/258253/afc\\_releases\\_army\\_medical\\_modernization\\_strategy](https://www.army.mil/article/258253/afc_releases_army_medical_modernization_strategy), dated July 7, 2022. Accessed on 12/07/2022

## Block 2: Strategy Formulation

### 4.4 Major Strategic Approaches in Products and Services

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A business strategy builds a structure for companies and facilitates them to attain their organisational goals. It keeps them stay relevant in the market and recognise growth opportunities.

**Strategy:** Strategy is a roadmap outlining where the organization wants to go, what are the goals and milestones, what are the environmental factors (internal and external), what are the resources available, what resources are required to reach the goals and milestones, and how are we going to overcome weaknesses and threats and get our resources.

Major strategic approaches in formulating operational strategy as propounded by Michael Porter are cost advantage strategy, differentiation strategy, and focus strategy.

**Cost Advantage Strategy:** This strategy aims at providing the same level of service at the lowest cost possible. The organization typically aims to increase the “volume of sales” and pitches its price much below the competition. The emphasis in these cases is to reduce costs without loss of quality and service. Cost advantage does not mean poor quality.

Examples of this strategy are the “budget” airlines like Spicejet, Indigo, etc. who offer a very low fare when compared to Air India. These airlines serve the purpose of air travel from one place to another but do not provide services like in-flight hospitality or valet porters. They focus on the volume of business and the fastest turnaround time. Another example could be the Vasan Eye Care chain of hospitals that provide eye-care solutions at affordable charges, without the need for frills like accommodation, cafeteria, etc.

Retail chains like Walmart provide goods at reasonable prices as the distribution costs are lower and they follow supply chain methods like JIT, ERP solutions for procurement and inventory management and RFID systems to help JIT methods.

**Differentiation Strategy:** In this strategy, the organization aims to provide superior benefits than cost strategy at reasonable prices. The benefits may involve product design, better distribution network, better quality of services, lower delays in giving the service, specialized services under one roof, personalized services, etc.

Examples of this strategy may be travel by executive class in airlines that combines air-travel with comfort, valet service, hospitality, executive lounges, etc. An example from healthcare could be the “Super Specialty” facilities, which will have specialists in various fields, in-house diagnostic facilities, better hygiene, etc. and the patient will have to bear a share of additional fixed cost even when we do not use all facilities. A major reason for complaints/dissatisfaction is that the customers do not perceive the differences.

**Focus Strategy:** This strategy combines the cost and differentiation approaches in different proportions depending on the target market and the firms that follow focus strategy do not aim at the market at large.

This can also be viewed as focus on one major service, based on the core competency, though some related services are also available with the service provider. For example, in the case of Arvind Eye Hospital where the major service-product is cataract surgery, or heart care foundations who specialize in heart surgeries and also provide treatments to other ailments like dialysis, kidney care, etc. Here the hospital's expertise and emphasis will revolve around a mission towards eye care or heart care etc. which is their core competency.

Organizations should identify their strengths/weaknesses and choose an appropriate generic strategy from these three main approaches.

**Example: Columbus (a Global IT Services and Consultancy Organization) Divests its SMB Business Unit as Part of "Focus Strategy"**

Columbus's more than 2,000 employees worldwide were experts in designing, implementing, and maintaining business applications to help businesses succeed in the digital age. There are two business units in the company - one serving large customers and the other serving SMB customers. As part of its new Focus23 strategy, the company directly wanted to focus on its larger customers and deploy its core competency to enhance its services and gain repeat business. So, the company spun off the SMB unit and handed it over to Enavate, a Microsoft Cloud services company. The company was very sure that the interests of the SMB customers are taken care very well by the partner so that the company can focus on its large customers.

Source: <https://www.globenewswire.com/en/news-release/2021/11/01/2324713/0/en/Columbus-divests-US-SMB-Business-Unit-as-part-of-focus-strategy.html> Accessed on 12/07/2022

#### **4.5 Top-down Approaches in Strategy Formulation**

Here the strategy of the company would be divided as corporate level, strategic business unit (SBU) level, and operational level strategies.

At the corporate level, the strategy would concern mainly with setting up goals for the entire organization after considering the internal environment like resources, people, skill sets, machinery, productivity, quality, etc. and also the external environmental factors like political, social, economic, technological, legal, and industry factors.

At the SBU level, the strategy would deal with questions like performance goals, dealing with customers, competition, and other market-related factors and about growth, profitability, return on investment (ROI), labor turnover and morale, training, etc.



## Block 2: Strategy Formulation

At the functional level strategies and long term plans, in alignment with SBU strategies and long term goals, are in the nature of operational efficiency parameters like productivity, wastage/ yield, utilization of men, machines & equipment, modernization, cycle time reduction, etc. Operational strategy is largely concerned with the implementation of strategy and ensure achievement of overall objectives and goals.

### **Example: Novartis Announces a New Simplified Structure to Support its Strategy to be a Focussed Medicines Company**

Novartis simplified its organizational structure to drive its next phase of growth, innovation, and productivity. With a view to increase focus, enhance competitiveness and ensure synergies, the company created a new business unit named “innovative medicine” by merging pharmaceuticals and Oncology units. This was a top-down strategic approach with a clear goal of reaching four percent growth in sales and 30% profit in the short term and 40 plus percent profit in the mid and long term.

*Source: <https://www.novartis.com/news/media-releases/novartis-announces-new-organizational-structure-accelerate-growth-strengthen-pipeline-and-increase-productivity>, dated April 4, 2022. Accessed on 12/07/2022*

## **4.6 Hayes & Wheel Wright’s 4-Stage Approach**

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Hayes & Wheel Wright’s 4-stage model is an overall operational capacity approach that revolves around the important role played by the operations in the profitability and sustenance of enterprises and is the most suitable for the emerging service sector companies in IT/ITES and e-business space today. Lowest level operations merely focus on reactive approaches like prevention of errors, quality issues, etc.

At the next level, operations would move towards benchmarking with best practices as an attempt to achieve excellence. Functional level operational strategies will set standards higher than the competition and get closer to excellence.

Further, in this approach, operations play a crucial role in the competitive success of the organization whereby innovation and flexible designs become part of corporate strategies. In that sense, this is a bottom-up approach.

Retailers like Big Bazaar, Reliance Retail, or Pantaloon formulate their business strategy around operational excellence factors like faster delivery, inventory turnover, space utilization, wastage/ loss prevention, store security, etc.

**Example: EasyJet Evaluated Using the 4-stage Hayes & Wheel Wright Approach**

EasyJet, (a low-cost airlines) was a successful, popular low-cost airlines offering frills free low prices to its customers and growing its business. This report studied the EasyJet operational strategies using the 4 stage Hayes & Wheel Wright Approach to arrive at the stage at which the airlines was as far as this model was concerned. The report found that the airline is found to be at stage 4. The reasons being: At this stage operations of EasyJet were moving towards benchmarking with the best in the category. The company was doing better than its competition. This can be established as the airline winning the top two positions in majority of airports it operates in. The airlines adopted innovative approaches to cut costs and enhance customer service and thus achieve operational excellence

Source: <https://ukdiss.com/examples/easyjet-and-ryanair-competition-analysis.php> dated 24th August, 2021. Accessed on 12/07/2022

**Activity 4.1**

You are the promoter of a small and medium scale firm providing services to solar power majors. Your clients asked you to develop service strategy for your operations.

How do you develop a top-down strategy for your operations, addressing the entire organizational hierarchy?

**Answer:**


**Check Your Progress - 1**

1. Which of the following is not an aspect of cost strategy?
  - a. Providing same level of service at the lowest possible level of cost
  - b. Increasing volume of sales to reduce cost
  - c. Achieving lowest cost at any cost
  - d. Reducing costs without loss of quality
  - e. Reduce costs without loss of service

## Block 2: Strategy Formulation

2. Which of the following statements is true for top-down strategic approach followed by all service industries?
  - a. Strategy divided at corporate level, strategic business unit level and operational level
  - b. Strategy is limited to top management
  - c. Strategy extended to all stakeholders
  - d. Strategy focused only on service delivery
  - e. Strategy aimed at strategic business unit level
3. Which of the following is the overall focus of differentiation strategy in service operations?
  - a. Providing superior benefits than cost strategy at reasonable prices
  - b. Providing better product design
  - c. Providing better distribution network
  - d. Providing better quality of services
  - e. Providing faster delivery
4. Which is the main concern of SBU level strategies?
  - a. Economic environment
  - b. Political environment
  - c. Social environment
  - d. Return on Investment (ROI)
  - e. Labour and machine utilization
5. Which is the focus of Level-2 of Hayes & Wheel Wright's approach?
  - a. Error prevention & quality issues
  - b. Bench marking & best practices
  - c. Accidents & hazards
  - d. Excellence & innovation
  - e. Technological environment

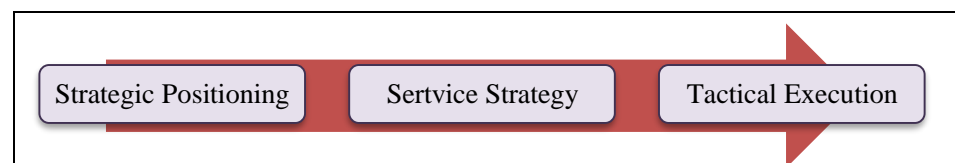
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### 4.7 Strategic Hierarchy - Positioning, Service Strategy & Tactical Execution

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Figure 4.1 given below shows the strategic hierarchy.

**Figure 4.1: Strategic Hierarchy**



Source: ICFAI Research Centre

**Strategic Positioning:** Corporate level objectives like goals/mission, target market and other higher-level goals define the positioning. Target market indicates the customer segments that the company wants to serve and where the company's resources could be deployed for best results. Customers may choose a service organization based on differentiating factors.

**Service Strategy:** Service concept, operating system and service delivery system would be defined in the service strategy. Decisions here would be about the number and size of facilities, locations, capacity, etc. Operating system should be consistent with 'positioning' objectives and should be understandable and practicable.

**Tactical Execution:** This is the lowest level in the hierarchy and concerns about day-to-day operational issues like re-order point, inventory control limits, staffing requirements, maintenance issues, etc.

There are two popular approaches to formulating the strategy for a business:

- a. Porter's generic strategies as described in para 4.4 above.
- b. Core competence approach advocated by C.K. Prahalad & Gary Hamel (1990).

Core Competence approach advocates that organizations should start from "internal competencies" which revolve around strengths and weaknesses and build strategies to face the 'external' opportunities and threats.

Whatever be the approach adopted by an organization, strategic positioning is intended to define the 'target market' and also facilitate goals, missions, goalposts, etc. for an organization.

**Example: Anywaves Wins an Order from Airbus to Firm Up its  
"Strategic Positioning" in "Pure Satellite Player Segment"**

Anywaves (*a France based satellite antenna company*) was a France based start-up for making niche products like antennas for satellites. Within few years of establishment, the start-up developed expertise to design high end antennas for satellites based on a breakthrough technology developed in house. As a strategy, the start-up wanted to position itself a niche player becoming the first choice for space companies. It strengthened its strategic position when it won an order from Airbus for supplying 15 satellites for use by the Lofty Orbital.

Source: <https://www.satellitetoday.com/manufacture/2022/07/12/airbus-subcontracts-anywaves-for-antennas-for-loft-orbital-satellite-order/> Accessed on 12/07/2022

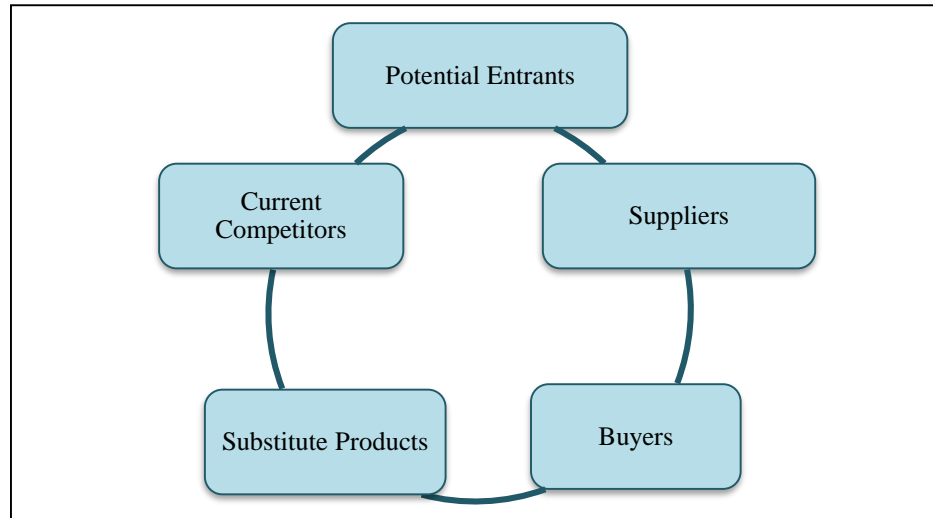
#### **4.8 Industry & Competitor Analysis Vs Core Competence Approach**

Michael Porter's industry and competitor analysis approach is concerned about two questions: What generic strategies are available? How external forces like buyers, suppliers, and other stakeholders affect the operational performance of an organization?

## Block 2: Strategy Formulation

Porter identified 5-forces for consideration while choosing an appropriate generic strategy: Figure 4.2 shows Porter's Strategic Forces.

**Figure 4.2: Porter's Strategic Forces**



Source: ICFAI Research Center

The advice was that the management must look at these 5 external forces before strategic positioning and then look at internal competencies like strengths and weaknesses. The premise here is that an organization can address the weaknesses and equip itself in line with the requirements of the market.

**Core Competence Approach to Strategy:** This approach introduced by C.K.Prahalad and Hamel has diametrically opposite view as a base when compared with Porter's 'Industry Analysis Approach'. In this approach, organizations have to look at their internal competencies and strengths and identify their core competencies first and then look at the external opportunities and threats and work for a strategic-mesh between the internal competencies and external requirements. The following 3 tests are prescribed to identify 'Core Competencies' from the basket of all competencies:

- Does it provide access to potential markets?
- Does it contribute to customers' perceptions of product/service?
- Is it difficult to copy or replicate these competencies so that we avoid potential entrants taking significant market share?

### **Example: Porter's Industry & Competitor Analysis (Porter's Five Forces) of Delta Airlines**

Delta was one of the largest airlines in the world. It continuously faced competition and needs to have strategies in place to face this competition and continue to grow sales and profitability.

*Contd....*

This study analysed the company using the Porter's Five forces analysis and enumerated how the airlines is facing the challenges in each of the dimensions. The major competition to Delta comes from United Airlines and American Airlines apart from JetBlue, Southwest and Spirit. Delta faced the customer bargain challenge by having tie up with credit card companies and offering new destinations based on market research. "Threat of new entrants" was not a challenge because of steep entry level barriers. Bargaining power with suppliers was the best for Delta in view of its size and in fact, suppliers find it advantageous to stay with Delta. "Threat of substitutes" was taken care as the alternatives were travel by road or train which takes a lot of time.

*Source: <https://www.investopedia.com/articles/markets/012816/analyzing-porters-five-forces-delta-airlines-dal.asp>, dated July 21, 2021. Accessed on 12/07/2022*

#### 4.9 Qualifiers Vs Order Winners

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The decisions regarding the service concept, the operating system, and the service delivery system are parts of the service strategy, which is a critical link between the company's strategic position and tactical execution. Deciding the competitive priorities of the company is the most important aspect of service strategy so that the energy is not wasted on low priorities.

**Order Qualifiers:** These are the basic requirements that every company, which wants to enter the market and wish to stay in the market, should have. They may relate to capacity—both production & financial, quality, cost of products/services and a minimum level of service. For example, in health care service, the availability of qualified and knowledgeable doctors is the qualifier as otherwise, patients will not think of going to the hospital. Reliable delivery without tampering with the package is the qualifier for the courier industry.

**Order Winners:** These are the distinctive competencies possessed by a company that enable the company to "go the extra mile" and which result in a differentiating factor that the customer perceives as a reason to give the order to the company. This may relate to any of quality, cost, and speed of delivery or customer service. For example, if a restaurant serves dishes with a choice of side dishes, from a basket of dishes, which the customer can choose from, this becomes an order winner. In addition to qualified doctors and staff, if a hospital also maintains patients' records meticulously, and receives and treats patients with care and concern that is not seen with other hospitals, these aspects become 'order winners'.

**Service Concept:** This is the particular value that a service provider sees as the outcome of the service ---- fast delivery for a courier service, best treatment with minimum failures for a hospital, satisfied & repeat customer base for a restaurant, etc.

## **Block 2: Strategy Formulation**

**Operating Strategy:** This describes the competitive priorities—order winners or qualifiers -- considered important by the internal operations. This defines how each function starting from design to marketing, collection and finance management would facilitate the service concept adopted by the company.

### **4.10 Pitfalls of Multi-Site Rationalization Approaches**

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Sasser, Olsen & Wycoff adapted the product life cycle concept and felt that multi-site service industries also go through 5 stages in their life cycle: a) Entrepreneurial, b) Multi-site Rationalization, c) Growth, d) Maturity and e) Decline / Regeneration.

The skill sets required for each stage is different. In the entrepreneurial stage, the skills required are charismatic leader, local marketing and public relations, innovation and development of service strategy, and maintaining morale (since employees are typically underpaid with little stability). In the multi-site rationalization phase, the concerns are different and the skills required are selection of dominant paradigm for marketing, operations and HR. In the growth phase, the skills are improved operations and design already set, sell concept to consumer and managerial audiences, and wider scale advertising. Skill sets for maturity phase are maintaining market position and awareness and keeping concept “fresh”, maintaining standards and operating control, and keeping employees motivated. During decline/regeneration stage, the business environment is analyzed to either close operations or redefine and re-launch.

Thus, the operational structures, marketing strategy, and the skill-sets of personnel are different for each stage. Multi-site rationalization requires that the systems, procedures, and practices are standardized and rationalized so that the enterprise as a whole will follow the same practices. These systems, procedures and practices are easy for the competition to copy and hence the organization has to continuously update and upgrade the systems to beat the competition. This requires training personnel in new methods of doing business. This is the main issue at multisite rationalization. Sometimes organizations over-do standardization in the name of ‘control’ and this could affect creativity and enterprise in employees. There is a tendency to become bureaucratic when we move over to the growth stage and this has to be taken care of.

### **4.11 Industry Roll-ups & Franchising**

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Industry roll-ups refer to the acquisition of similar service firms to gain a larger market share and to take advantage of synergy. This could cut down administrative and some portion of selling & procurement costs for the larger company and hence makes it more competitive. The talent pool of the new company is much larger than the previous level and this could facilitate better customer service in healthcare, hospitality, and travel industry in particular.

Franchising is a self-financing growth strategy. Franchisees pay an amount upfront to get the agreement. Then a portion of the sales is paid periodically to the primary franchiser. Mature franchises are bought back by the mother company. A major issue relates to the slack implementation of ethical practices by the franchisee.

**Example: G2 Energy Corp Deploys “Rollup Strategy” to Grow its Business**

G2 Energy Corp. (A Canadian oil and gas producer) was a profitable junior oil and gas producer listed on the CSE exchange. Its primary focus was to acquire and develop overlooked, minimal risk, high return opportunities in the oil and gas sector. G2's strategy was to obtain a portfolio of risk-managed production and development opportunities onshore, U.S.A. In May 2022, G2 acquired the Masten Unit in the Permian Basin, Texas.

Source: <https://www.digitaljournal.com/pr/g2-energy-corp-targets-low-cost-assets-in-texas-roll-up-strategy>, dated July 13, 2022. Accessed on 13/07/2022

#### 4.12 Operational Performance Objectives for Services

**Operational performance indicators** are as follows:

a) **Quality:** Key dimensions of service quality are:

- Reliability: the ability to provide what was promised
- Assurance: the competence and knowledge of the people involved in service
- Delivery that conveys trust
  - Physical facilities
  - Empathy: the degree of caring & individual attention
  - Responsiveness: promptness and willing to serve

The success of service functions is determined by the interaction between the service giver and receiver. Measurement of service quality is difficult, as quality becomes a perception. Some indirect measurements using SQC methods are available but they are time-consuming and call for data collection over a long period.

b) **Productivity:** As the types of services required are varying and many times, they are defined at the time of service delivery, productivity measurement is a difficult task. One can think of passenger-miles for travel services, hospital bed occupancy ratio for hospitals, tone-mile of cargo handling, etc. Productivity is defined in the IT/ITES companies in varying patterns depending upon the type of clients serviced.



## Block 2: Strategy Formulation

- c) **Flexibility:** This refers to the speed with which operations react to changes in demand, design of new products and technology. How ready is a hospital to handle emergencies? How ready is a caterer to handle a sudden and unexpected increase in guests? What is the response time for a software developer to address a new requirement of the customer?
- d) **Speed of service delivery:** What is the time a patient has to wait at a hospital for registration, testing, consultations and treatment areas? Is there a queue system to handle the flow of patients and what is the system followed?

What is the cycle time for a new product development from system study to the software delivery? What is the time taken from order to delivery of goods in an online portal like Flipkart, e-Bay or Amazon? Do they have a standard time commitment to customers?

- e) **Dependability:** This is more to do with early warning systems like prevention of stock-outs, alternate plans in case of stock-outs due to more than expected sale, etc.
- f) **Cost of operation:** This is the most important aspect of operations, as the very survival of the service organization will be affected. This is attained largely by monitoring the aspects described in a) to e) above and the organizations also go through special cost reduction drives periodically to ensure that the cost objectives are met and profitability is maintained.

For instance, retailers announce schemes like “buy one-take one free”. This is intended to clear the unsold inventory and recover the space and money locked up for better usage. Holiday resorts have differential tariff plans for offseason and during the season. This is to utilize the facilities throughout the year, as a dormant facility is likely to cause the problem during the season.

### **Example: Thumbay University Hospital (UAE based Hospital) Deploys Technological Innovations to Bring Flexibility in Healthcare**

Thumbay University Hospital was the largest private academic hospital in the Middle East region, with 350 beds. It was a state-of-the-art family healthcare destination in the region. The hospital management deployed technology in an innovative manner to achieve flexibility in its operations and achieve internal efficiencies while delighting its customers. The hospital set up a huge robotic dispensary to prepare and dispense medicines without errors of any kind. Movement of medicines, test samples and other items across the hospital was automated using Pneumatic Tubes. The staff can spend more time on patient care due to this. The ICU was totally digitized with bed side monitors monitoring up to 8 parameters by the doctors to guide the treatment.

Source: <https://gulfnews.com/lifestyle/health-fitness/thumbay-university-hospital-technological-innovations-bring-flexibility-in-healthcare-1.1656589712584>, dated June 30, 2022. Accessed on 13/07/2022

**Activity 4.2**

Healthcare industry is a fast moving application domain in service operations, contributing significantly to GDP.

You are required to identify the essentials of service operations to develop a patient-centric service operations strategy.


**Check Your Progress - 2**

6. Who recommended Core Competence approach?
  - a. Michael Porter
  - b. C.K.Prahalad & Gary Homel
  - c. Peter Senge
  - d. Metters & King Metters
  - e. Peter Ducker
7. Which of the following is NOT part of the 5-force analysis?
  - a. Suppliers
  - b. Customers
  - c. Potential entrants
  - d. Current competition
  - e. Technology
8. Which of the following is appropriate for serving tasty and hygienic food by a restaurant?
  - a. Compulsory as per law
  - b. Good for restaurant
  - c. The minimum requirement—order qualifier
  - d. Order winner
  - e. Public health regulation
9. Which of the following is NOT a part of the dimensions of service quality?
  - a. Reliability
  - b. Price of service
  - c. Assurance
  - d. Empathy
  - e. Responsiveness

## Block 2: Strategy Formulation

10. Which is a factor with a franchisee that needs monitoring by the parent?
- Price of service
  - Operating procedures
  - Honesty in operations
  - Ethical practices are followed
  - Location of facility
- 

### 4.13 Summary

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- Strategic positioning, service strategy, and tactical execution form the hierarchy of strategic planning.
- Strategic positioning involves identification of target market where the organization should expend resources and effort to get the best results.
- Service strategy involves decisions regarding service concept, operating systems, and service delivery systems. Tactical execution is about how the day-to-day operations are performed and what the metrics of day-to-day performance are.
- Michael Porter's Industry & Competition Analysis and C.K.Prahalad's Core Competence approach are the two popular approaches in strategic planning.
- Multisite rationalization is one of the phases in the life cycle of a service firm and the important point to be considered here is that managements have to avoid over-standardization and bureaucracy.
- Quality, productivity, cost, time / speed of delivery, and service are the key performance indicators for the service industry.

### 4.14 Glossary

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**ERP:** Enterprise Resource Planning: An integrated information system approach.

**JIT:** Refers to Just In Time. An inventory control procedure.

**RFID:** Radio frequency identification --- A system to track the movement of goods through the Supply chain.

**ROI:** Return on Investment. A measure of an investment's profitability. It is a ratio between net income and investment.

**SBU:** Strategic Business Unit --- A part of a large enterprise, which is allowed to operate independently and charged with profitability targets.

**SQC:** Statistical Quality Control: An approach to control the quality of products through control of processes

#### 4.15 Self-Assessment Test

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1. How is the service organizational strategy affected by labor intensity, technology and level of personal contact with customers?
2. Discuss the major strategic approaches suggested in the generic strategies.
3. What are the important decisions to be made while formulating the service strategy? Discuss with respect to the hospitality industry.
4. Distinguish between Industry analysis approach and Core-Competence approach.
5. What are qualifiers and order winners? Discuss with examples from IT and Airline industries.

#### 4.16 Suggested Readings / Reference Material

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1. Chase R. B., Ravi Shankar, Jacobs F. R. (2018), Operations and supply chain management, McGraw Hill, 15<sup>th</sup> edition.
2. Haskett J. L. (1986), Managing in the service economy, Harvard Business School Press.
3. Nitin Joshi, S. Rajagopalan (2019), Service Operations Management: Towards Excellence, Himalaya Publishing House, 1<sup>st</sup> edition.
4. Mathur S. S., S Mathur and Kenyon A. (2017), Creating Value: Successful Business Strategies, Routledge, 2<sup>nd</sup> edition.
5. Robert Johnston, Michael Shulver, Nigel Slack and Graham Clark (2020), Service Operations Management: Improving Service Delivery, Pearson, 5<sup>th</sup> edition.

#### 4.17 Answers to Check Your Progress Questions

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1. **(c) Achieving lowest cost at any cost**  
Achieving lowest cost at any cost is not the focus of cost strategy.
2. **(a) Strategy divided at corporate level, strategic business unit level and operational level**  
Strategy is divided at Corporate, SBU level and Operational levels.
3. **(a) Providing superior benefits than cost strategy at reasonable prices**  
Providing superior benefits than cost strategy at reasonable prices is the overall focus of differentiation strategy in service operations.
4. **(d) Return on Investment (ROI)**  
Return on Investment (ROI) is the main focus of SBU level strategy.

## **Block 2: Strategy Formulation**

### **5. (e) Technological environment**

Level-2 of Hayes approach focuses on benchmarking & best practices.  
a) and c) are operational level and d) & e) are top-level matters.

### **6. (b) C.K.Prahalad & Gary Hamel**

Both of them recommended Core Competence approach.

### **7. (e) Technology**

Technology is not part of the 5-force analysis.

### **8. (c) The minimum requirement—order qualifier**

Tasty and hygienic food is a basic requirement for a restaurant.

### **9. (b) Price of service**

Price of service is not a dimension of service quality.

### **10. (d) Ethical practices are followed**

Ethical practice. Franchisees may not always follow ethical practices unless continuous monitoring by the mother company.

## Unit 5

# Customer Retention Strategies

### Structure

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- 5.1 Introduction
- 5.2 Objectives
- 5.3 Concept of Service Encounter
- 5.4 Conflicting Factors in Service Encounter
- 5.5 Service Encounter Triad
- 5.6 Concept of Service Recovery
- 5.7 Service Recovery Approaches
- 5.8 Loyalty Programs
- 5.9 CRM for Customer Retention
- 5.10 CRM Software
- 5.11 Summary
- 5.12 Glossary
- 5.13 Self-Assessment Test
- 5.14 Suggested Readings / Reference Material
- 5.15 Answers to Check Your Progress Questions

*“We see our customers as invited guests to a party, and we are the hosts. It's our job every day to make every important aspect of the customer experience a little bit better.”*

- Jeff Bezos

### 5.1 Introduction

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Improving retention isn't a problem you can ever cross off as “solved.” It's a continuous process — and it must be the guiding star for everything you do as a marketer.

In the previous unit, we discussed some of the strategic approaches followed by service businesses in developing a business strategy. The topics covered include overall vision for a service system, major strategic approaches in products and services, top-down approaches in strategy formulation, Hayes & Wheel Wright's 4-Stage approach, strategic hierarchy - positioning service strategy & tactical execution, industry & competitor analysis vs core competence approach, qualifiers vs order winners, pitfalls of multi-site rationalization approaches,

## **Block 2: Strategy Formulation**

industry roll-ups & franchising, operational performance objectives for services and Arvind Eye Hospital case study

In these days of cut-throat competition, organizations have to find new ways to retain customer loyalty. Liberalization and globalization have made available a wide choice of products and services to the customers. This is more pronounced in the case of service organizations where the competition is very stiff. Newer airlines are occupying the air-space and they naturally offer better services at lower prices at least to start with. More supermarkets are giving the traditional kirana shops a run for their money and there is heavy competition among these supermarkets. Multispecialty corporate hospitals define standards for healthcare services for all hospitals—old & new. Organizations are busy researching customers' expectations and introducing loyalty programs and other Customer Relationship Management (CRM) strategies to retain their customers, market share, and profitability.

In this unit, we will understand some of these approaches for customer retention. We will also study the service encounter, its role in maintaining customer relations, and how organizations try to recover the loyalty of customers who leave due to problems in service experiences.

### **5.2 Objectives**

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After going through the unit, you will be able to

- Explain the concept of service encounter and the triad
- Identify the conflicting factors affecting encounter quality
- Define service recovery and approaches in recovery
- Examine the approaches to maintaining and improving customer loyalty
- Explain CRM and relevant software

### **5.3 Concept of Service Encounter**

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When customers buy products and services, they have a wide choice available to choose the supplier, especially in today's web-enabled world with a global market place that can be accessed by a click of a button. Customers don't look for the 'required' level of quality and would like to buy 'desired or delight' level of service at the same cost. They want to maximize their purchasing experience and are not satisfied with just the product or service that may fulfill their immediate need. On the other hand, the service providers would like to cut costs and increase productivity. Each contact with the customer is a moment of truth and success of a service organization may depend on effective handling of the customer contact which is called an encounter. Typically an encounter is an occasion where a customer comes in direct contact with any person in the service system. The following situations can be a few examples of service encounters.

**Restaurant:** A customer may place an order for a menu in a hotel with the person who collects orders, interacts with the waiter regarding service, and interacts with the cashier for payment of bills. Each of such interaction is a service encounter.

**Flight booking:** When we call airlines to book tickets or to enquire about flight details, it is a service encounter.

**Hospital:** A patient is taken to a hospital for emergency attention. The escort goes to the reception, requests for immediate attention. The receptionist tells the process of registration, payment and then appointment with a specialist. The attendant in the hospital takes the patient to the doctor concerned. If the doctor suggests hospitalization, the process is told by a concerned representative of the hospital and the patient is admitted after completing the formalities.

In this case, the number of encounters is many until the patient is admitted and then they continue with doctors, nurses and support staff.

**Bank:** suppose a client goes for a housing loan. The person is guided to a relationship manager, who appraises all the formalities and then the customer is advised to come back with all the necessary inputs to be given to the bank for processing the application. In this case, the encounters are minimum as the client has to interact only with the relationship manager.

Thus service encounters vary with service provider.

**Example: Hyatt Hotels Uses Signature Scents in its Properties to Enhance Customer Brand Experience at “Service Encounters”**

Hyatt Hotels was using scent branding at various service encounters of its properties. A signature scent by name “Seamless” was used by the hotel. The scent was made from blueberries, vanilla and musk. The idea was to emphasize the association of the hotel with a pleasing aroma which was supposed to trigger a brand association in the customer brain.

Source: <https://www.businessnewsdaily.com/3469-smells-shoppers-spend-more.html> dated June 29, 2022. Accessed on 13/07/2022

#### 5.4 Conflicting Factors in Service Encounter

Whenever there is an interaction between the members of the triad (represented by the service provider, the contact person and the customer), conflicts are bound to arise, more so in the context of expectations and gaps; delivery and other associated issues like payments, etc. However, most of the conflicts will find satisfactory solutions through discussions and reconciliation. The situations of conflicts are as follows:

- a. *Encounter dominated by the organization:* This happens when organizations limit the discretion of the contact person by offering standardized service and strict operating procedures to be followed by the contact person and the customers have to choose from the standard menu. This is done to maintain



## Block 2: Strategy Formulation

control over the productivity of resources and control costs. These are like medical testing labs that offer annual medical check-ups, which are menu-driven. The labs cannot depend only on this service, as customers' requirements may be different and hence have to offer a basket of services. Thus in this case, customer has little choice and has to reconcile to the conflict situation of offerings falling short of expectations. 'Take what the organization offers or go to another service provider'. This is one type of conflict situation, which usually influences the decision making by the customer.

For instance, during Covid-19 pandemic period, many people encountered hardships with many hospitals in getting admissions, support of hospital staff. There are many complaints pertaining to the exorbitant charges.

- b. *Encounter dominated by contact personnel:* This can happen when contact personnel consider themselves as experts. As expertise is perceived by the contact person only, conflicts can happen. Direct interaction between the customer and the contact person may lead to arguments and discussion on the gaps between what is promised and what is delivered. This level of encounter is most crucial as it decides customer loyalty, repeated purchases and the business prospects of the service provider.

For instance, dominance is a general behaviour of relationship managers as they are well informed about the procedure to be followed by the customer. It all depends on the purpose of the encounter. The response differs when a person goes to a bank for opening an account or for availing a loan.

- c. *Encounter dominated by customer:* The customers may choose between standardization and customization of service and expect a quality level higher than what is offered. Customers may not always behave as per company expectations e.g. unruly, argumentative, excessively complaining, cheating, thieving or simply rule-breaking, unreasonable expectations, etc. This results in conflicts. This stage of encounter calls for customer relationship management of higher levels to win over the customer and retain loyalty.

For instance, in this case, the encounter pertains to the quality of the ambience, food quality and the attitude of the service staff. The customer dominates the scene and becomes intolerant with any delays and unsatisfactory food quality.

- d. *Contact Persons:* Contact people also face problems in rendering service due to unexpected breakdowns and lack of supplementary plans. This is more an encounter within the service organization and should be addressed by provision of adequate resources.

For instance, a hospital may have excellent equipment, well-qualified doctors and good ambience, but if the customer leaves with a bitter feeling of not

being treated properly by an employee of the hospital, then all the efforts to provide excellent service remains unfulfilled.

Word of mouth publicity of one bad experience can ruin the fortunes of an otherwise good service organization. The organization has to strike a balance amongst the factors stated from a) to d) so that customers' buying experience quality does not suffer, thereby avoiding unwanted reason for service recovery efforts, and to ensure that the organizational goals are also achieved.

#### Example: Chaos at Edinburg Airport

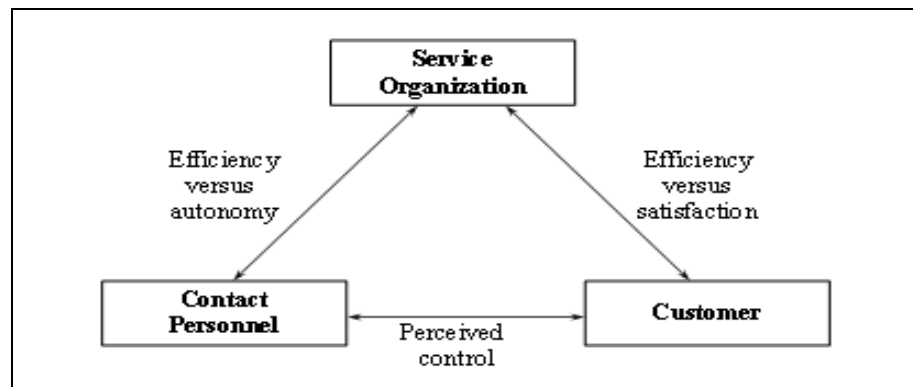
Staff shortages and challenges in recruitment of various airlines led to delays in passengers getting their luggage at the baggage claim areas of Edinburg Airport. The delays were up to three hours. This resulted in frustrated and angry customers. The airport worked closely with various airlines to alleviate this problem and ensured the delays were reduced. The passengers faced difficulty in getting response from airline staff. Passengers with kids and elderly were subjected to severe hardship.

Source: <https://www.edinburghnews.scotsman.com/news/transport/chaos-at-edinburgh-airport-as-passengers-wait-hours-to-collect-bags-after-flights-3766049>, dated 14<sup>th</sup> July, 2022. Accessed on 13/07/2022

### 5.5 Service Encounter Triad

Figure 5.1 depicts a service encounter triad.

Figure. 5.1: Service Encounter Triad



Source: James A. Fitzsimmons, Mona J. Fitzsimmons and Sanjeev Bordoloi. *Service Management*. 8th Edition 18 June 2018. McGraw Hill Education

As can be seen from the above diagram, the service organization, contact personnel and the customer form the three corners of the service encounter triangle. Each has a priority:

- The organization has a priority of profitability and efficiency of service

## Block 2: Strategy Formulation

- The contact personnel would like to have some autonomy in dealing with customers
- The customer's single priority is his/ her satisfaction as perceived by him/ her.

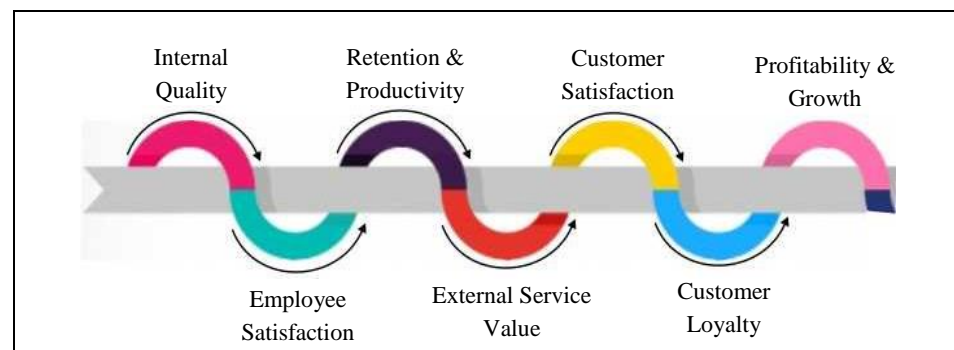
It is necessary that there is a mesh between these priorities for a successful business with customer loyalty. This is not easy to achieve and the organization has to work for it. Organizations issue service guidelines to contact personnel which in turn could reduce customization of service and result in customer dissatisfaction. Contact personnel tries to control the behavior of customers to make their job easy and the customers try to gain control of the encounter so that they can draw maximum benefit. Hence the organizations have to research customer behavior patterns and also expectations and work out the process of encounter for different alternative behaviors without affecting their overall objectives of customer loyalty.

### Some Approaches to improve Quality of Encounters:

Many service organizations have redefined their mission as an effective service that meets the overarching goal rather than simply as efficient service, which depends purely on standards of performance like the number of customers to service per unit time. But, efficient service may not satisfy the purpose. Towards this, many steps are taken to improve the quality of encounters by the service providers.

The service profit chain explains some aspects of a service set that create value to the customer and also the organization and give some areas to attend to improve the quality of service encounter. Figure 5.2 depicts the service profit chain.

**Figure 5.2: Service Profit Chain**



Source: ICFAI Research Center

- Internal quality addresses the internal factors and actors in the supply chain processes. Quality of work life for the employee, which is an important aspect of internal quality of processes the employees are engaged in, can be improved by efforts in the design of workplace, job design, employee selection with psychometrics, training, rewards, etc. This results not merely

in improved employee satisfaction, but enables more intense commitment and a sense of belonging to the organization, all of which enhance employee retention in a normal way. Such a happy state of organizational climate is a catalyst for employee productivity.

- External service value depends on the service concept and the acceptance and ownership of the same by the contact persons. Lot of effort is required to ensure that the employees own up the organizational goals and work.
- Customer satisfaction and loyalty can be improved only by ‘going the extra mile’ in ensuring customer delight rather than mere sales. Loyalty programs like frequent flyer programs, reward points, CRM efforts like birthday/ anniversary wishes are intended to retain the customer.
- Profitability and growth of a service organization ultimately depends upon how the encounters with the customers are strategized, meticulously planned and habitually enacted. Some of the initiatives mentioned above are bound to facilitate the process.

As the quality of encounter involves the behavior of the customers also, the service organizations take a number of steps given below to control major customer aberrations:

- a. Dress code is introduced and enforced to regulate manners in certain hotels.
- b. Airlines insist on ID cards at the time of check-in and in-flight attendants are given special training to handle troublemakers. In extreme cases, passengers are off-loaded.
- c. Security checks at airports to weed out insecure baggage in the cabin.
- d. Loss prevention and security staff in malls and supermarkets are trained to spot habitual offenders.
- e. Visitor hours are regulated in major hospitals that do not allow home food for the patients during their stay at the hospital.
- f. Banks have introduced a queue system for different services and allocated staff on a multi-skill basis.

**Example: Federal Bank Uses “Effective Use of Data” Principles to Delight its Customers**

Federal bank believed that this was the age of customized services for the customers who expect the trust and security of a bank and experience like that of Uber/Swiggy. To delight its customers, it was taking the help of technology. It had an “Effective Use of Data” principle where the data must be analysed to get customer insights and develop services to cater to different segments of loyal customers. One of such initiatives to delight customers was offering pre-approved virtual credit cards to customers selected based on customer data in their database.

*Contd....*

## Block 2: Strategy Formulation

The communication was sent via SMS/email containing the link. The customer had to just click 3 times and a virtual card was sent to his Mobile Banking App. He can start using the card immediately for his online transactions.

Source: <https://www.cxotoday.com/interviews/federal-bank-leverages-oracle-cx-to-deliver-a-seamless-customer-experience/>, dated June 14, 2022. Accessed on 13/07/2022

### Activity 5.1

All of us as customers frequently buy products and services. Barring a few exceptions, we have a wide choice available to choose the supplier, especially in today's web-enabled world with a global market place that can be accessed by a click on a button. We don't look for the 'required' level of quality and would like to buy 'desired or delight' level of service at the same cost. We want to maximize their purchasing experience and are not satisfied with just the product or service that may fulfill their immediate need.

As a customer, you have gone along with your family to a departmental store to buy an air-conditioner.

You are required to:

- Identify the service product you are looking for
- Identify the type of encounters you come across in the store
- Identify the conflicts you are likely to face in the process
- Identify the conflicts you are likely to face in the process

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### Check Your Progress -1

1. Which of the following factors will not greatly influence the internal quality of work life?
  - a. Organizational climate
  - b. Rewards
  - c. Design of work place
  - d. Training and development
  - e. Customer loyalty

2. Who is not involved in an encounter in a self-service Quick Service Restaurant (QSR)?
    - a. Owner of the QSR chain
    - b. The watchman at the gate
    - c. The cash counter in-charge
    - d. The person preparing food
    - e. The person cleaning services
  3. When is a service profit chain not useful?
    - a. To know which activities are profitable
    - b. To know which services are profitable
    - c. To identify areas for improvement for quality of service
    - d. To identify wastes in service delivery
    - e. To decide closing down operations
  4. Which of the following is represented in the Service Encounter Triad?
    - a. The conflict between efficiency & satisfaction
    - b. The conflict between efficiency & autonomy
    - c. Different objectives of organizations & customers
    - d. Different objectives of organization & employees
    - e. Effect of different objectives of players in an encounter
  5. When are the encounters dominated by an organization?
    - a. They don't want to serve for customer satisfaction
    - b. They design services by non standardized menu
    - c. They do not design services to customized service
    - d. Standard operating procedures guide personnel
    - e. Manuals are not in place
- 

## **5.6 Concept of Service Recovery**

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“Service recovery is the action a service provider takes in response to service failure. By including also customer satisfaction into the definition, service recovery is a thought-out, planned process of returning aggrieved/dissatisfied customers to a state of satisfaction with a company/service. Service recovery differs from complaint management in its focus on service failures and the company's immediate reaction to it. Complaint management is based on customer complaints, which, in turn, may be triggered by service failures. However, since most dissatisfied customers are reluctant to complain, service recovery attempts to solve problems at the service encounter before customers complain or before they leave the service encounter dissatisfied. Both complaint management and service recovery are considered as customer retention strategies.”

## Block 2: Strategy Formulation

The above definition draws a fine distinction between customer complaint and service recovery. The keywords are ‘thought out, planned process’, service failures and the company’s immediate action to a failure. It is said that a customer is likely to feel high about a company after a service recovery than his regard to the company when a fault-free service is given. This change of perception is due to a feeling of delight after experiencing the recovery as the customer feels that he/she has received ‘personalized’ service and due to increased assurance and confidence. This situation is called the “Service recovery paradox” and may be caused by minimized customer dissatisfaction by recovery, the perceived value of service, customer trust increase, and the normal switching behavior of customers.

There are three categories of service recovery strategies: customer recovery, process recovery, and employee recovery. The focus of the three strategies will be satisfied/ delighted customers, improving the processes and development to cope with failures and recovery process.

### **Example: Cape Airlines Improves Passenger “Service Recovery” by Working with a Data Analytics Partner**

Cape Air was a Massachusetts based regional airline. It took the services of a data analytics vendor to analyse flight and customer data to get insights into customer dissatisfaction issues and operations. The company wanted to realize new opportunities for revenues and also actions needed for “service recovery” which must have affected customers moving to some other airlines. The planned actions also anticipated service failures and prevented them to retain customers. This resulted in improved customer satisfaction and customer service recovery. With faster access to history and PNR data of customers, the company could improve “service recovery” very much.

*Source: <https://simpleflying.com/cape-air-cut-costs-data-analytics/> dated July 12, 2022. Accessed on 13/07/2022*

## **5.7 Service Recovery Approaches**

Micah Solomon, a customer service trainer, speaker and bestselling author, has prescribed seven rules for compensating the customer for successful service recovery. They are given in his article Forbes ‘Little Black Book Billionaire Secrets’ – Sept 2013.

The rules for compensating customer for successful service recovery are:

- i) Customers understand that things can go wrong, but do not accept excuses like ‘boss’s’ instructions or ‘our policy’.
- ii) Does not panic --- try to resolve the crisis. The service recovery paradox will start working if the customer senses your serious concern.
- iii) Don’t assume a customer’s need—ask the customer and make an honest attempt to come close to the request.

## Unit 5: Customer Retention Strategies

- iv) Do not discipline the staff in front of the customer in your anxiety to close the matter.
- v) By correcting a mistake, we are not doing something special to a customer. This is the first step and if you want to do something special, ask the customer.
- vi) Do not worry about fairness when satisfying a customer need at the recovery phase.
- vii) Consider ‘the life-time value’ of the customer. Customer is both a buyer and an opinion builder and we need good opinions to spread.

Service providers must understand these rules and find innovative ways to retain customers. Hart, Heskett and Sasser (1990) recommend the following approach for service recovery:

- i) Measure the costs: service failures cost for both the customer and the organization.
- ii) Break the silence and listen closely for complaints. Many customers do not complain. Either they think that nothing will come out of it or they don't know where to complain.
- iii) Anticipate needs for recovery and train employees for each possible situation.
- iv) Act fast and correct the situation.
- v) Train employees in communication, interpersonal conflicts, and empathy. Simulated situations and role-playing are useful training methods.
- vi) Empower the front line for quick action to correct failures.
- vii) Close the loop of complaint handling.

### **Example: Ritz Carlton Empowers its Front Office Staff to Spend up to \$2000 Per Incident**

Ritz Carlton (the luxury hotel brand) set highest standards for customer service. The hotel empowered its front office staff to spend up to \$2,000 per incident to resolve any customer issues. There was no need for manager approval. The staff can give this for any number of customers. This way the “service recovery” was instantaneous. It was also observed that this facility was rarely exercised. The amount of business the customer gives the hotel in a lifetime was many times this onetime expense. The front desk staff can give free stays, upgrades, and gifts. Employees were happy that the company trusted them. They provided excellent service to the customers who were eternally loyal to the hotel brand.

Source: <https://customerthink.com/an-empowerment-lesson-from-the-ritz-carlton/> dated January 15, 2021 Accessed on 13/07/2022



## Block 2: Strategy Formulation

### 5.8 Loyalty Programs

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These manifest in many ways: loyalty cards, reward points and redemption, frequent flier programs and many more. These programs ensure that the customer comes to you only in the first place like booking a cab from 'Fast track' only or flying by only Jet Airways. Customer's involvement with the chosen vendor is so strong to beat the competitive pressure. Apart from repeat business, a major advantage is the possibility of collecting valuable information that is required to review the design of service products. A good loyalty program should have the following:

- i) Visibility
- ii) Simplicity
- iii) Value
- iv) Trust

A properly designed loyalty program can provide information to differentiate customer segments, thereby making it possible to offer different combinations of products and services to different segments.

**Example: Moosejaw, a Clothing Company, Uses Reward Categories to Differentiate Itself Among the Crowded Clothing Brands**

Moosejaw was a popular clothing brand which had online and shop channels to serve the customers. The company came up with a Loyalty Program with features catering to distinct categories of customers to reward them in various ways. This scheme enabled the retailer to differentiate itself among the competing brands. In the basic category, the rewards were one of the most generous in the industry where a ten percent cash back was given on regular purchase. A 2.5% cash back was available on discounted items. The cash back was in the form of "Moosejaw Reward Dollars". High Altitude program was for top spenders.

Source: <https://www.customer.com/blog/retail-marketing/best-in-class-loyalty-program-features/> dated September 13, 2021. Accessed on 13/07/2022

### 5.9 CRM for Customer Retention

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Customer Retention Management is a tool for customer service and a strategy aimed at creating customers for life. It is said that CRM tries to gain a share of customer's mind and use it to create innovative service techniques to increase market share. A good program requires a good understanding of factors that increase the customer's perceived value in a multi-channel environment. CRM also serves as a process for collecting information about customer's choices and aligning and redesigning organizational service strategy. By effective use of

CRM, a service provider can offer tailored service range, consistent service experience, and enhanced perceived value and project a 1:1 relationship to all customers.

The information collected by the CRM system is useful to segment the customers as Lower value segments, growable segments, and most-valued segments. The lower value segment will have a large number of irregular/one-off customers and the organization may aim for giving them the 'required level' which is the minimum expected level of service. The next level in customer service is the 'desired' level and this level is targeted for the growable segment of customers. This segment has the largest potential to move to the most valued segment who receives a level of service moderating from the 'desired' level to 'delight' level. This segmentation helps to ensure that organizational efforts are not wasted and are focused to increase customer value per customer for growable and most-valuable segments.

**Example: A Canadian Global Fast-Food Brand - Tim Hortons, Leverages CRM to Offer Personalized Offers to Retain Customers**

Tim Hortons was a Canadian multinational fast food company. It leveraged CRM software to prepare personalized offers to its customers to build Customer Loyalty. Its loyalty initiatives based on CRM insights resulted the online sales becoming one third of the total sales. The company grasped better individual customer participation in the loyalty program and his purchasing patterns. The personalization was beyond the mobile app experience and extended to the experience at the restaurants.

*Source: <https://www.pymnts.com/news/loyalty-and-rewards-news/2022/tim-hortons-loyalty-programs-open-customer-channel-beyond-the-restaurant/> dated February 16, 2022. Accessed on 13/07/2022*

### 5.10 CRM (Customer Relationship Management) Software

CRM is predominantly technology-driven and tools of data mining and data warehousing are used to gain insight into customer expectations.

CRM software is a category of enterprise that covers a broad set of applications and software designed to help businesses manage customer data and customer interaction, access business information, automate sales, marketing, and customer support. Hence, CRM software products primarily help us manage the data and other information collected about different customers over a period. Besides cosmetic and visible applications like sending greeting messages or promotional information or 'SMS' like the balance alerts and transaction alerts of banks, CRM software has facility to do advanced statistical analysis and provide valuable insights about the data. The market has a large number of software developers specializing in CRM and the top few who are active in India are given below: Zoho, Oracle, Kreate, Sugar, spotCRM, Sales cloud, Zeta, Microsoft Dynamics.

## Block 2: Strategy Formulation

### Activity 5.2

Failures are bound to happen in service operations due to many reasons. But the service provider has a responsibility to ensure that appropriate corrective action is taken to redress the grievance of the customers to protect brand image and ensure that organizational performance is not affected.

After you purchased the air-conditioner, it was delivered to your house. The service engineer has to come to install the AC but did not turn up as promised.

As an aggrieved customer, what is your feelings about the service encountered you had and the recovery process you have faced.

Identify all the ways in which service recovery is handled by the service provider.

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### Check Your Progress - 2

6. Which of the following is concerned with service recovery?
  - a. Defective product for service
  - b. Stolen product
  - c. Dues from customers for service given
  - d. Lost/ defective service by customer
  - e. Recovering confidence of aggrieved customer
7. Which statement represents a successful service recovery process?
  - a. Customer is more likely to go away from the service provider
  - b. Customer is likely to stay with enhanced trust
  - c. Customer will complain more than before
  - d. Competition will poach successfully
  - e. Customer rating will go down
8. What is the meaning of successful service recovery as per service recovery paradox?
  - a. Customers migration will be more
  - b. Customer's trust will be very low
  - c. Customer's trust and confidence will improve
  - d. Customer will look for alternatives
  - e. Cost of recovery will be an additional burden

9. Which of the following is NOT a service recovery approach?
    - a. Measure the cost of recovery vs damage by a dissatisfied customer
    - b. Break the silence and listen closely for complaints
    - c. Look at the cost of the product after complaint redressed
    - d. Train employees in handling complaints
    - e. Empower the front line
  10. Find the odd one out: A good loyalty program should have the following characteristics:
    - a. Simplicity
    - b. Multiplicity
    - c. Visibility
    - d. Value
    - e. Trustworthy
- 

### **5.11 Summary**

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- Service industry occupies an important place in the economy and contributes significantly to GDP.
- The services sector is a fast-growing sector and the players in every service field like Retail, Hospitality, Healthcare, Airlines, etc. face stiff competition.
- Organizations have to maintain service without a significant increase that may be caused by customization and hence try to operate with Standard Operating Procedures (SOPs) for the front line so that efficiency is maintained.
- The customers, on the other hand, have wider options in a competitive market place and look for better value for money.
- These two extremes would cause service failures. Every contact with a customer is a service encounter and the quality of the encounter is affected by different objectives of the organization, customer, and front line personnel.
- Service failure may occur. Service recovery is a process to win back the confidence, loyalty and trust of the customer at times of service failure.
- A well-intended service recovery with tact, concern and seriousness would not only win customer trust but would improve customer relationship with the organization.
- Loyalty programs are introduced to reward loyal customers and also to collect valuable information about customer buying behavior and expectations.
- These data are useful to formulate service strategies. CRM facilitates customer service in an organized manner. CRM software available in the market enables analysis and reporting on customer expectation changes over a period.

## Block 2: Strategy Formulation

### 5.12 Glossary

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**CRM:** Customer Relationship Management (CRM) refers to the principles, practices and guidelines that an organization follows when interacting with its customers.

**Service Encounter Triad:** This constitutes the service organization, the customer and the contact persons.

**Service Encounter:** Every contact with a customer is a service encounter and the quality of the encounter is affected by different objectives of the organization, customer, and the front line personnel. Any direct contact between customer and service organization representative

**Service Recovery:** Service recovery is the action a service provider takes in response to service failure.

### 5.13 Self-Assessment Test

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1. Explain the conflicting factors influencing the quality of service encounter. How do you interpret the Service encounter triad?
2. Discuss the concept of service recovery and different approaches to service recovery.
3. Discuss the loyalty programs of an Airline industry. Is there a link between the loyalty programs of Airlines and hospitality industries?
4. How does CRM help in understanding the customer and retaining a customer base?
5. What are the characteristics of a good loyalty program? Discuss with examples.

### 5.14 Suggested Readings / Reference Material

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1. Chase R. B., Ravi Shankar, Jacobs F. R. (2018), Operations and supply chain management, McGraw Hill, 15<sup>th</sup> edition.
2. Haskett J. L. (1986), Managing in the service economy, Harvard Business School Press.
3. Nitin Joshi, S. Rajagopalan (2019), Service Operations Management: Towards Excellence, Himalaya Publishing House, 1<sup>st</sup> edition.
4. Mathur S. S., S Mathur and Kenyon A. (2017), Creating Value: Successful Business Strategies, Routledge, 2<sup>nd</sup> edition.
5. Robert Johnston, Michael Shulver, Nigel Slack and Graham Clark (2020), Service Operations Management: Improving Service Delivery, Pearson, 5<sup>th</sup> edition.

### 5.15 Answers to Check Your Progress Questions

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**1. (e) Customer loyalty**

Customer loyalty will not greatly influence internal quality of work life.

**2. (a) Owner of the QSR chain**

The owner of the Quick Service Restaurant chain is not involved in service encounter in an outlet.

**3. (e) To decide closing down operations**

Service profit chain is not useful when the organization decides to close operations.

**4. (e) Effect of different objectives of players in an encounter**

Service encounter triad is a representation of different objectives of the organization, employee and customer, who are the players in an encounter.

**5. (d) Manuals are not in place**

Encounters are dominated by the organization when the services are standardized and standard operating procedures guide responses from employees.

**6. (e) Recovering confidence of aggrieved customer**

Service recovery is concerned with recovering aggrieved customers to satisfaction.

**7. (b) Customer is likely to stay with enhanced trust**

After a successful service recovery process, the customer is more likely to stay with the service provider.

**8. (c) Customer's trust and confidence will improve**

Service recovery paradox states that a successful recovery effort may result in customers feeling closer to the service vendor due to enhanced trust.

**9. (b) Break the silence and listen closely for complaints**

When we are attempting a service recovery, we do not look at cost factors. We want the customer to stay happy so that damages due to dissatisfaction can be avoided.

**10. (b) Multiplicity**

Multiplicity is not a characteristic of a good loyalty program.

## Unit 6

# Global Service Strategy

### Structure

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- 6.1 Introduction
- 6.2 Objectives
- 6.3 Generic International Strategies
- 6.4 Transnational Operations Strategy
- 6.5 Managing Multi-Domestic Strategy
- 6.6 Off-shoring and On-site Operations
- 6.7 Global Strategy
- 6.8 Strategy in Healthcare
- 6.9 Expansion Strategies
- 6.10 Summary
- 6.11 Glossary
- 6.12 Self-Assessment Test
- 6.13 Suggested Readings / Reference Material
- 6.14 Answers to Check Your Progress Questions

*“Globalization has changed us into a company that searches the world, not just to sell or to source, but to find intellectual capital - the world's best talents and greatest ideas.”*

- Jack Welch

### 6.1 Introduction

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Looking for global human talent and Innovative ideas from across the world are equally important compared just global sourcing and global sales.

In the previous unit, we discussed customer retention strategies. The concepts covered included concept of customer encounter, conflicting factors in service encounter, service encounter triad, concept of service recovery, service recovery approaches, loyalty programs, CRM tools for customer retention and loyalty and CRM software.

Globalization has shrunk the world into one unified entity popularly called, a ‘Global Village’. Firms need to attain global competitiveness even to survive locally. To attain and maintain competitive advantage, enterprises started conducting business across borders seamlessly. The advances in information

technology and communication, made conducting service operations across nations a simplified but a tough task. Technology advancement and change in attitude and perceptions of customers have enabled companies to venture into international markets. This change has also helped the companies to achieve their business objectives of global standards of quality, reduced cost, higher productivity, wider reach, global competitiveness etc. To cater to different markets, companies have to tailor/ reframe their strategies for multi-country operations, off-shore operations, outsourcing, etc. Reengineering operational processes also calls for addressing the changes in regional preferences, religion, culture, regulatory and legal framework, etc. In view of demographic dividend, competitive labour costs and English speaking abilities, countries like India are preferred for outsourcing many types of services. Thus global service operations strategies necessitated both for exporting products and services and also for attracting multinational companies to invest in India and join hands with Indian companies.

In this unit, we will explore different strategies for global service operations. The concepts to be covered include generic international strategies, transnational operations strategy, managing multi-country operations, off-shoring and on-site operations, global strategy, strategy in healthcare and expansion strategies.

## **6.2 Objectives**

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By the end of the unit, you will be able to:

- Discuss Generic International Strategies
- Identify the factors affecting global service operations
- Explain Porter's Generic Competitive Strategy
- Examine different strategies applied in the global service sector
- Explore the global service strategies as applied to healthcare

## **6.3 Generic International Strategies**

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Generic international strategies call for understanding various issues involved. Important among them are:

- Globalization and the impact of globalization on service industry
- Reasons for the companies to aspire for global operations
- Features of globalization
- Need for globalization
- Generic International Strategies
- Factors influencing globalization of services
- Porter's generic competitive strategies.



## **Block 2: Strategy Formulation**

### **6.3.1 Globalization and its Impact on Service Industry**

Some of the reasons for companies to go for globalization are:

- Reduce costs, by expanding operations to a country where the labor talent rates/ taxes, etc. are lower
- Achieve economies of scale
- Get an insight into various markets, improve operational efficiency, provide better services
- Attain and maintain global standards of quality and competitiveness

Some features of globalization of services are:

- With the advances in technology giving way to higher computing power, faster telecommunication networks, lower cost of hardware resulted in establishing linkages between countries and helping in providing services such as software development, online sales, knowledge processing, business processing, etc. to name a few.
- With the economic reforms and liberalization in India, there has been a growth in the service industry and a significant impact on the growth of services due to globalization can be seen from the analysis by Dehejia and Panagariya (2010).
- Globalization has enabled businesses to separate some of the business functions and their execution at a different location with cost reduction, improved efficiency, etc.
- Standardization of services (Citibank with its anytime, anywhere banking and its tagline of “city never sleeps”), infusion of foreign companies’ practices have helped in creating new types of products and services while improving the service quality.
- Using the power of technology, English-speaking ability, and the time zone differences have been harnessed to provide 24/7 (follow the sun model) seamless service by many companies which has revolutionized the way businesses are carried out.
- With many companies expanding their service online, the service markets have grown phenomenally giving any time anywhere access.
- Kenichi Ohmae while talking about the current borderless world states that customers are more concerned and aware of the products/services and its quality more than the origin of that service. He also says that if companies have to compete in this global economy, their strategies should balance the 5Cs of Customer, Competitor, Company, Currency, and Country.
- Globalization has opened up the world market and companies are using various strategies to capture the markets and gain competitive advantage.

**Strategy options:**

Based on the need for standardization and the need to customize for local preferences, three strategies are possible:

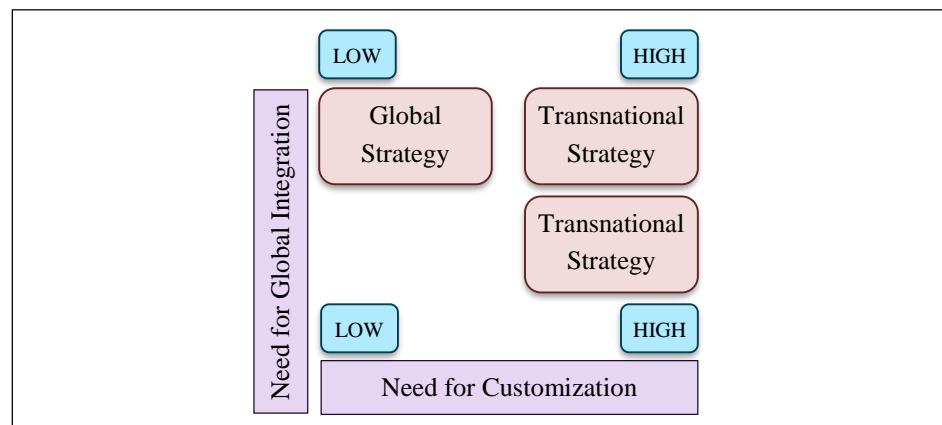
- Global strategy
- Transnational strategy
- Multi-domestic strategy

The figure (6.1) below indicates that

- Global strategy is used when there is a need for high global integration/standardization and low/no customization.
- Transnational strategy is used when the need for global integration/standardization is high and customization is also high.
- Multi-domestic (multi-country) strategy is used when the need for customization is also high while the global integration is low.

Following Figure 6.1 depicts these three strategies and their applicability.

**Figure 6.1: Generic International Strategies**



Source: ICAFI Research Centre

### 6.3.2 Service Globalization Factors

Though services are characterized by intangibility, perishability, heterogeneity and inseparability, standardization of service delivery ensures that customers can experience the same level of satisfaction across the global markets. Some of the factors affecting global markets include:

- Socio-cultural
- Political
- Regulatory and Legal
- Economic
- Environmental

## **Block 2: Strategy Formulation**

The cultural preferences, taboos, do's and don'ts need to be considered while delivering service across different countries.

- McDonald's has tailored its burgers to include McAloo Tikki™ for Indian tastes. Even within the countries, its outlets across the country offer local tastes as per regional tastes.
- Starbucks, joining hands with Tata group localises procurement of coffee seeds and offers homely taste to coffee lovers in India.
- Online stores look at the sizes (clothes, shoes, etc.), tastes, and preferences of customers of that location when designing the search parameters.
- Changes in technology like advancement in communication have helped to provide many services independent of location.
- Competition in the market is driving the companies to venture out into other countries with customized services (insurance products for joint families in India), legal rules enabling the fusion of best practices from multinational companies when joint ventures are formed.

Insurance Regulatory & Development Authority (IRDA) in India stipulates that any foreign company should have an Indian partner that benefits the local company by having standard proven policies in place while the foreign company gets to know the local preferences and ways of working in the country making it a win-win.

Drivers that enable globalization are:

- Cost advantage (lower operating cost/resource cost in the country)
- Customers (how far the services are standard across like software development or need tailoring like health insurance based on the local laws)
- Locate operations closure to the places of consumption. For example, many automobile giants have started their manufacturing and service operations in India, in view of the attractive Indian market.
- Government policies, trade regulations, Foreign Direct Investment (FDI) rules, etc.

### **6.3.3 Porter's Generic Competitive Strategy**

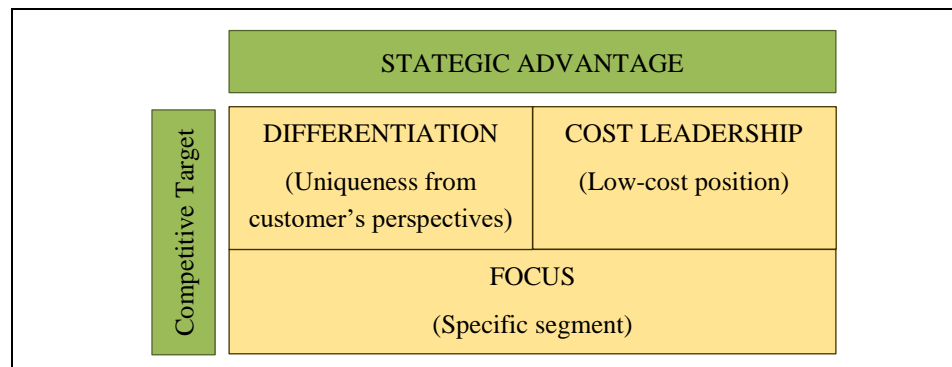
Companies first analyze the international opportunities in terms of

- Expanding their market share
- Increasing the Return on Investment (ROI)
- Gaining economies of scale
- Getting insight into markets along with harnessing location advantage.

When the companies analyze opportunities in other countries, they try to see if they can extend the product life cycle, gain from currency difference, tariff rates or to establish themselves as a global provider with a location advantage.

Michael Porter proposed a generic competitive strategy wherein the companies can adopt either a Cost leadership, Differentiation or Focus to gain competitive advantage. The model below is known as the generic strategy model proposed by Porter, which describes the interface between the cost leadership, product/service differentiation and the market/segment focus strategies. Companies can focus on either low cost or differentiation to compete against their rivals in an industry. If a company chooses to focus, then it targets a specific segment and chooses to apply either low cost or differentiation focused on that segment. For example, in the rural banking segment, ICICI Bank uses differentiation to provide micro-credit through micro financing institutions, micro insurance, farmer financing, etc. Following Figure 6.2 explains Porter's Generic Competitive Strategy.

**Figure 6.2: Porter's Generic Competitive Strategy**



Source: ICFAI Research Center

#### 6.4. Transnational Operations Strategy

Companies' business operations are directed from the centralized home office with the interdependence of Strategic Business Units (SBU) across countries in global strategy while there is more responsiveness and customization to local market needs in a transnational strategy. This aims at achieving the efficiency of global operations along with tailoring for local requirements, which is at times conflicting and can be achieved only when there is organizational learning. The philosophy is to have as much standardization as possible to have uniform quality, efficiency while customizing where required for the local preferences. The drivers for this strategy are common taste preferences of customers, need for a certain level of quality, keeping pace with competition and advancement in technology. As mentioned earlier, McDonald customizes its menu for Indian tastes. IT services companies are adopting this approach in delivering services across the globe. In a transnational strategy, the company has its value chain in the country where it gets the location advantage.

For instance, hospitals are standardizing their services to meet the world-class needs of global travelers thus promoting medical tourism while customizing the packages to the needs of the local population. Expertise gained by the

## Block 2: Strategy Formulation

organization or research outcomes is utilized through the service delivery in all countries of operations.

### **Example: Samsung follows Transnational Strategy by Operating in 74 Countries while Adapting each Product to Local Markets**

Samsung, the South Korean electronic giant operates in seventy-four nations. It follows transnational strategy. It adopts global strategies for R&D achieving efficiency of operations while adjusting to local preferences. Some examples of such customization include Oven designed for yogurt fermentation in Bulgaria, kimchi refrigerator for South Korea, and embossing 福, (the character for luck) on the back of PC monitors in China

Source: <https://www.smartling.com/resources/101/what-is-a-transnational-strategy-5-examples/> 2022. Accessed on 15/07/2022

### **Activity 6.1**

There are some generic strategies available for different situations of globalization, from which the aspiring firm can choose.

You are a start-up in the design and development of certain modules for solar power plants. You intend to export your modules and offer services to original equipment Manufacturers in various countries.

- Identify the available strategies for your globalization plans.
- Analyse the strategies and choose a strategy suitable for your operations and justify your selection
- Examine whether Porter's global competitive strategy is useful to you.

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### **Check Your Progress - 1**

1. Which of the following is not a major reason for organizations to go global?
  - a. Cost reduction
  - b. Ease of doing business
  - c. Global competitiveness
  - d. Economies of scale
  - e. Failure in domestic market

2. Which of the following is not a major reason for preferring India as a destination for service operations?
  - a. Demography
  - b. English speaking abilities
  - c. Time-frame difference with developed countries
  - d. IT skills
  - e. Employment opportunities
3. When do the organizations prefer transnational strategy for service operations?
  - a. When there is a need for high global integration
  - b. When there is a need for high standardization
  - c. When there is low customization
  - d. When customization is high and global integration is low
  - e. When there is need for global integration, high standardization and high customization
4. Which of the following factors will not affect globalization of services?
  - a. Socio-economic
  - b. Political and legal
  - c. Environmental
  - d. Economic
  - e. Technological
5. Which of the following is not a part of Porter's global competitive strategy?
  - a. Cost leadership
  - b. Product differentiation
  - c. Quality certification
  - d. Service differentiation
  - e. Focus on specific segment

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### **6.5. Managing Multi-domestic (Multi-country) Strategy**

When the company looks at each country as a separate market with decentralized operations, with customization for local need, it follows a multi-domestic strategy. Where the customer preferences vary by country, the political and legal framework defines different ways of operating or where the social norms are varied and affect the industry, a multi-domestic strategy works better. In most

## **Block 2: Strategy Formulation**

middle eastern countries, the office timings need to accommodate for the prayers done by the locals five times a day and reduced timings of work during Ramadan, etc. Some of those countries also mandate that you need to necessarily partner with a local to conduct your business.

Multi-domestic strategy lowers the political risk and currency exchange rate risk. By having a more localized approach, people of the country relate better and the company faces less resistance for acceptance. However, on the flip side, there is a duplication of effort in the management of operations leading to lower economies in operation. Most retail banking companies go with a multi-domestic strategy.

McDonald's started its globalization initiatives a few years back. After its failure to succeed in Russia, the company realized the importance of addressing the cultural aspects of different countries and the varied tastes of different regions in the same country.

After the company started its operations in India, it has designed menus as per local tastes and is operating profitably in the country.

### **6.6. Off-shoring and On-site Operations**

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We have seen in the earlier topics in this unit that companies adopt different strategies like global, transnational, and multi-domestic to gain competitive advantage. There are different modes of entry into international markets. Some of them are exporting, licensing, franchising, strategic alliances, joint venture and wholly owned subsidiary. Joint ventures, outsourcing are ways of off shoring.

When a company gets its work done by a company outside of their country, it is called off shoring. In short, it is outsourcing some of the business activities to another country. The strategic reasons for entering international markets which were discussed above is one of the factors for choosing to outsource to another country.

The IT service industry is a standing example of this model working and enabling Indian companies to make inroads into other countries for application development, business process outsourcing, etc.

Clinical trials and medical imaging are other fields where India is becoming the most coveted country for the off shoring needs of others.

Before going for off shoring, companies need to analyze their current processes in terms of the process complexity, maturity, etc. and the scale of operations to understand if it is worthwhile. A combination of onsite and offshore model reduces the overall risk in the project since the onsite resource is closer to the customer and can be either a local of that country with knowledge of offshore country/ company practices or a person from off shoring country with exposure

to client practices/ country norms. However, if the number of onsite resources increases, there is a cost disadvantage. The companies need to analyze the trade-off and arrive at the right mix. Service level agreements also help in reducing the overall risk when off shoring. Effective communication management is the key to the success of this model.

**Example: Concentrix (the Largest BPO in Philippines) Sacrifices Tax Breaks to Allow its Employees to Work from Home**

Concentrix is the largest BPO company in Philippines employing over one lakh associates providing various services on offshore basis for many companies across the globe. Due to covid, the associates have been working from home for the last two years. The customers are happy. The associates are happy. The productivity and revenues are not affected. Now the Government withdrew tax breaks for those companies who do not come back to work from office. The Government is interested in overall economic recovery. But after Covid also the company feels work from home is good for associates esp. in view of spiralling fuel costs and time lost in commuting. The company sacrificed tax concessions while pleading with the Government to relook its policy.

Source: <https://asia.nikkei.com/Business/Business-trends/Philippines-largest-call-center-gives-up-tax-perks-for-remote-work> dated June 10, 2022. Accessed on 15/07/2022

## 6.7. Global Strategy

A strategy is the action plan that helps organizations make their mission statement a reality. Therefore, the operations strategy of a service industry helps in achieving the mission of the organization. Different organizations use different competitive operations strategy such as “Flexibility”, “Low Cost”, “Quality”, etc. to gain competitive advantage.

When applying a global strategy, the company views the entire world as one unified market. Hence, the company has standardized services across nations and focuses on economies of scale with operating decisions being defined by the parent office in a global strategy. A common strategy is implemented across all markets and is not very responsive to local opportunities. The strategy involves the interdependence of the Strategic Business Units across the different countries. Companies like Citibank and Singapore Airlines use this approach.

With the implementation of the national healthcare system and Electronic Medical Record system in the USA, the load on the healthcare sector has increased manifold with a multitude of legal ramifications. Companies providing healthcare services and information management systems in healthcare need to be aware of these changes and their operations strategy should align with the quality and legal requirements of that country.



## Block 2: Strategy Formulation

### **Example: Nike follows Global Strategy for Globalization by Adapting Standardized Products Across the Globe**

Nike, the global footwear company operates in around 170 countries globally in North America, Western Europe, Central & Eastern Europe, China, Japan, and Emerging Markets. The company sells because of brand value and the sports icons associated with the brand. Nike follows Global Strategy whereby it does not believe in adapting to local preferences. It is able to generate huge revenues just by selling standardized products across countries. By choosing global ambassadors, Nike also does not do any adaptation for its marketing campaign.

Source: <https://globalmarketingprofessor.com/nike-global-branding-strategy/> dated February 26, 2021. Accessed on 15/07/2022

## **6.8 Strategy in Healthcare**

The healthcare industry because of its high infrastructure costs is plagued with increasing costs and unpredictable quality. Companies are now reorienting to be more patient-centric and provide value addition and standardization in service. Fortis Healthcare Limited has differentiated itself from other providers by redesigning its hospitals to be more patient-focused. Healthcare companies are striving to provide value-added services at the lowest cost possible.

Medical tourism involves using a global level quality by hospitals going in for quality accreditations while customizing the marketing to the desired segment.

World Health Organization (WHO) has formulated an international strategy that is focused on integrated services and people centricism. WHO also specifies that the services should be tailored to the preferences of the local people while meeting their needs without compromising on quality. It also states that there is no one model that satisfies the needs of all countries but they have to be customized to the requirements of the country.

### **Example: Apollo Hospitals Commences Healthcare Services in Chattogram (Bangladesh) as Part its Globalization Strategy**

Apollo Hospitals is known for its business from “medical tourism”. As part of its globalization strategy the hospital chain has started a new 375 bed hospital in Chattogram (Bangladesh) to cater to patients from that country who can not even come to India for treatment. It manages the hospital owned by a local businessman.

Source: <https://www.tbsnews.net/bangladesh/health/apollo-hospitals-open-chattogram-444110> dated 21st June, 2022. Accessed on 15/07/2022

## 6.9 Expansion Strategies

Service companies can go for expansion of their services by either going for a multisite and multiservice strategy. The combinations available are:

**Single Service- Single Site:** A physician having own practice/clinic at one location.

**Single Service- Multi-location:** Apollo pharmacy/Medplus pharmacies providing 24/7 pharmacy services in multiple locations.

**Single location- multiple services:** A Government hospital providing multiple services like cardiology, General Medicine, Neurology, Pathology, Radiology, etc. within the hospital.

**Multi-location-Multiple Services:** Chain of hospitals like Care, Apollo, Yashoda operating from different locations and providing a bouquet of services.

Companies can also go for multi-country expansion either through a franchising option or a replication of a proven model. Another way is the multi-service single location such as medical tourism where customers are imported where customers travel physically or virtually engage in communication. Providing consulting services where the provider travels to the customer location or off shoring where the company gives some of the business work to be done outside the country. Yet another way is the “Follow the sun” model or telemarketing/medicine where people work across multiple time zones increasing the reach and volume of business.

**Example: Vet-AI (A Vet Application Company) follows “Follow the Sun” Strategy to Allow 15 Non-UK Vets to Work During Night-Time**

Vet-ai is a UK based veterinary services company which encourages vet surgeons to work from home so that they could avoid stress related to work and commuting. The company used the expansion strategy “follow the Sun”. It entered into an agreement with 15 surgeons in different time zones outside UK. These people provide customer service when the UK doctors are resting in the night

*Source: <https://www.personneltoday.com/hr/global-employees-professional-employer-organisations-peo-uk/> dated 5<sup>th</sup> May, 2021. Accessed on 15/07/2022*

### Activity 6.2

Service operations opened new windows of opportunities for Indian firms. The areas include Information Technology, E-commerce, Financial services like banking and insurance, education, healthcare, hospitality and tourism, media and entertainment etc.

- You are required to identify a sector of your choice and analyse globalization opportunities in the sector.

## Block 2: Strategy Formulation

- |   |
|---|
| <ul style="list-style-type: none"><li>• Examine the available strategies and select a strategy for its effective globalization.</li><li>• Justify your selection.</li></ul> |
|   |
|   |
|   |
|   |
|   |

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### **Check Your Progress - 2**

6. Which generic strategy focuses on the uniqueness of service being delivered, R&D efforts and customizing for customer needs?
  - a. Cost leadership
  - b. Differentiation
  - c. Focus
  - d. Global
  - e. Off shoring
7. Which service delivery strategy focuses on standardization and quality service?
  - a. Transnational
  - b. Multi-domestic
  - c. International
  - d. Global
  - e. Off shoring
8. Which service delivery strategy focuses on customization for local needs but still maintains certain standardization in service delivery across the different countries?
  - a. Transnational
  - b. Multi-domestic
  - c. International
  - d. Global
  - e. Off shoring

9. A company wants to get the advantage of low-cost skilled resources available in another country and gets part of its business activities done in that country. What is that called?
    - a. Transnational
    - b. Multi-domestic
    - c. International
    - d. Global
    - e. Off shoring
  10. The increase in trade of goods and services across different countries with an increase in similarity of the rules, norms, and values is called?
    - a. Strategy
    - b. Localization
    - c. Globalization
    - d. Internationalization
    - e. Off-shoring
- 

### **6.10 Summary**

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- A strategy is a methodical plan of action that organizations use to achieve their goals.
- With the advent of globalization, the entire world has become one market and companies are using various strategies to gain competitive advantage.
- Generic strategies available for globalization of service operations are global strategy, transnational strategy and multi-country strategy.
- Michael Porter has proposed cost leadership, differentiation and focuses as three generic strategies for gaining competitive advantage.
- To foray into other countries' markets, companies use either global/transnational or multi-domestic strategies. These are based on the level of standardization/ integration versus the localization requirement of a country.
- To expand their business, companies use outsourcing, strategic alliance, joint venture or other options like franchising, licensing.
- Off shoring is one way to get location advantage and lower costs, which is being adopted by many service companies.
- By having a mix of onsite and offshore operations, risk can be minimized by companies.
- Healthcare sector in India offered global services in view of its cost-effective operations. It is operating the strategy of health tourism.

## Block 2: Strategy Formulation

### 6.11 Glossary

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**Global strategy:** A strategy based on firms' centralization and control by the corporate office, with the primary emphasis on controlling costs, and used in industries where the pressure for local adaptation is low and the pressure for lowering costs is high

**Globalization:** is the increase in trade of goods and services as well as the exchange of money, ideas, and information with a growing similarity of laws, rules, norms, values, and ideas across countries

**IRDA:** Insurance Regulatory & Development Authority

**Multi-country strategy:** When the company looks at each country as a separate market with decentralized operations, with customization for local need, it follows a multi-domestic strategy

**ROI:** Return on Investment

**Strategy:** A plan of action to achieve organizational goals

**Transnational strategy:** A strategy based on firms optimizing the trade-offs associated with efficiency, local adaptation, and learning, used in industries where the pressures for both local adaptation and lowering costs are high

### 6.12 Self-Assessment Test

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1. Discuss the concepts of globalization and strategy with respect to service industries.
2. What are the key aspects of global strategy?
3. What are the advantages and disadvantages of multi-domestic strategy?
4. What is off shoring and why is it important for companies?

### 6.13 Suggested Readings / Reference Material

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1. Chase R. B., Ravi Shankar, Jacobs F. R. (2018), Operations and supply chain management, McGraw Hill, 15<sup>th</sup> edition.
2. Haskett J. L. (1986), Managing in the service economy, Harvard Business School Press.
3. Nitin Joshi, S. Rajagopalan (2019), Service Operations Management: Towards Excellence, Himalaya Publishing House, 1<sup>st</sup> edition.
4. Mathur S. S., S Mathur and Kenyon A. (2017), Creating Value: Successful Business Strategies, Routledge, 2<sup>nd</sup> edition.
5. Robert Johnston, Michael Shulver, Nigel Slack and Graham Clark (2020), Service Operations Management: Improving Service Delivery, Pearson, 5<sup>th</sup> edition.

## 6.14 Answers to Check Your Progress Questions

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**1. (e) Failure in domestic market**

Failure in domestic market is not a major reason for organizations to go global. Important reasons are cost reduction, economies of scale, competitiveness etc.

**2. (e) Employment opportunities**

Employment opportunities is not a major reason for preferring India for service operations.

**3. (e) Need for global integration, high customization and high standardization**

Transnational strategy is preferred when there is a need for global integration, high customization and high standardization.

**4. (e) Technological**

Technological factors will not affect globalization of services.

**5. (c) Quality certification**

Porter's global competitive strategy does not address quality certification.

**6. (b) Differentiation**

Generic strategies comprise differentiation, low-cost leadership and focus. A company using differentiation strategy tries to create a specialty for its service, spends on R&D so that it can innovate and deliver services tailored to the needs of the customers.

**7. (d) Global**

The global strategy uses standardization to get economies of scale and the services have uniform quality and attributes across the multiple countries where it is delivered.

**8. (a) Transnational**

In Transnational strategy, companies try to customize where possible to suit the local preference while maintaining certain standard way in delivering the service.

**9. (e) Off shoring**

Off shoring is one way by which companies try to make use of the location advantage.

**10. (c) Globalization**

Globalization is the increase in trade of goods and services as well as the exchange of money, ideas, and information with a growing similarity of laws, rules, norms, values, and ideas across countries.

# Services Operations Management

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