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AN ANALYSIS OF TRENDS AFFECTING OPERATIONS STRATEGIC DECISIONS IN SERVICE INDUSTRIES

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ABSTRACT

Services lie at the hub of economic activity in any country. The strategic management or strategic decisions i.e., the total process of selecting and implementing a corporate strategy of service businesses is different from that of manufacturing businesses. This paper discusses how pure service businesses are different from product-oriented businesses and why they require different strategic thinking. Also what are the trends that affect the decision making in service industry. A pure service business is one in which the service is the primary entity that is sold. Services are not peripheral activities, but are an integral part of society. Except for basic subsistence living, services are an absolute necessity for a functional economy and enhancement of the quality of life. While an industrial society defines the standard of living by the quantity of goods, a service society sees the standard of living through quality of life as measured by health, education, and recreation.This research proves that service operations strategy has a significant positive and direct effect on service delivery performance. The fact that is especially relevant is that flexibility plays a more intense moderating role for efficiency performance measures than for customer satisfaction performance measures.

KEYWORDS: Services, Strategic Management, Trends, Economy, Operations strategy.

INTRODUCTION

Services lie at the hub of any economic activity. The term service has several meanings, For example, a service firm is defined as one that derives more than 50 percent of its sales from providing services. A service package is a bundle of explicit and implicit benefits performed with a supporting facility and using facilitated goods. When you eat at a fast food restaurant (supporting facility), you may purchase a burger (facilitating good) that someone else cooked for you (service). The service concept is the perception and expectations of the service itself in the minds of the customers, employers, shareholders, and lenders. The service system is the equipment, layout, and procedures used to provide the service and maintain quality and delivery standards.

A service operation is an open transformation process of converting inputs (consumers) to desired outputs (satisfied consumers) through the appropriate application of resources (family, material, labour, information, and the consumer as well). More simply, services are economic activities that produce time, place, form, or psychological utility. A meal in a fast food restaurant saves time. A meal with a date in an elegant restaurant with superior service provides a psychological boost. Wal-Mart attracts millions of customers because they can find department store merchandise, groceries, gasoline, auto service, dry cleaning, movie rental, hair styling, eyeglasses and optical services, and nursery items all in one place.

An economy consists of sectors producing goods and services. The goods-producing sector consists of manufacturing, construction, and extractive industries such as agriculture, mining, forestry, and fishing. Different types of services include business services such as consulting, banking and financial services; trade services such as retailing, maintenance and repair; social/personal services such as restaurants and healthcare; public services such as government and education; and infrastructure services such as transportation and communication.

While the variety of services is endless, there are a number of characteristics that most services share. Services are generally performed with an open-systems perspective, that is, the system is not closed or isolated from the consumer as it is in manufacturing.

The consumer is said to be within the service's "factory." There is a high degree of customer contact throughout the service process, with the customer frequently participating in the process itself. Customer participation within the process means that there is simultaneous

production and consumption; thus, the service cannot be stored for later use, possibly as a buffer to absorb fluctuations in demand.

Although services can have tangible (high goods content) and intangible (low goods content) attributes, services are generally regarded as intangible that is, you can't see, feel, or test a service's performance before purchasing it. Hence, reputation is extremely important. Since services are intangible, it makes sense that they can't be patented. The intangibility of services sometimes makes it difficult for the service firm to identify their product. Is the product at a restaurant the food itself, the service, or the atmosphere? Another problem, due to intangibility, is the difficulty in measuring output. Service output tends to be variable and nonstandard, making quality control and productivity measurement a problem. In fact, quality control is usually limited to process control. Even this is difficult since a high degree of personal judgment by the individual performing the service makes homogeneous input a near impossibility. Measures of effectiveness and efficiency are also subjective.

Services are time perishable. An empty seat on an airline means that that seat on that flight will never be available again. The same holds true for an empty hotel room. The empty room will never again be available on that particular night. The usefulness of service capacity is time-dependent—another reason that services cannot be inventoried and held for a later date. This means that services cannot be transferred or resold but must be sold directly to the customer. It also means that services cannot be mass produced.

Labor intensity is another characteristic of services. In fact, labour is usually the most important determinant of service organization effectiveness.

Site selection for services is usually dictated by the location of consumers. Preferably, services will utilize decentralized facilities within close proximity to customers.

SERVICES AND MANUFACTURING

Theodore Levitt, in his classic article, "Production-Line Approach to Service," describes how service managers can design their operations to achieve the economics of production. The design and conversion processes of services are sometimes called the "technical core." By insulating the technical core such that the customer has essentially no personal contact with the service providers, the business can operate more efficiently. The technical core can be insulated by restricting the offerings (fast food restaurants have very limited menus); customizing at delivery (as computers are); structuring the service in such a way that the customer has to go where the service is offered (like banks); trying to incorporate self-service so that customers can shop at their own pace; and separating services that lend themselves to

automation (ATMs and vending machines). By insulating the technical core one can essentially apply to services what has been learned in manufacturing, namely standardization and mass delivery. Levitt uses the example of McDonald's to provide a picture of a service that utilizes manufacturing techniques to the point that the end product results in what he terms the "technocratic hamburger." McDonald's makes use of a limited menu, division of labor, a standardized product (food preparers at McDonald's have little or no discretion when it comes to making the product), task grouping to allow specialized skills, and an assembly-line approach, all applied to the technical core that is insulated (away from the ordering and seating area) from the consumer.

OBJECTIVE

The present study was undertaken with the following objectives.

1) How are services different from products.
2) How service managers can design their operations to achieve the economics of production.
3) Trends affecting operations strategic decisions in service industry.

RESEARCH METHODOLOGY

The information presented in the entire paper is abstracted from a variety of authoritative data sources, namely, scientific and practitioner literature, and survey-based reports. The present study uses secondary data.

SERVICE OPERATIONS STRATEGY

As in the case of manufacturing, service operations require a strategic approach. Metters, King-Metters, Pullman and Walton describe the strategic planning process as "a hierarchy consisting of strategic positioning, service strategy, and tactical execution".

STRATEGIC POSITIONING.

Strategic positioning involves first defining the firm's target market. In other words, what is the set of customers the firm seek to serve. Next, the firm must determine its core competence or what will distinguish it from other service firms, i.e., cost leadership, differentiation, or focus. At this point, the firm then must make decisions regarding its mission and high-level goals and objectives.

SERVICE STRATEGY.

At the service strategy level, the service firm must define its service concept, operating system and service delivery system. The service strategy links the firm's strategic position with tactical execution. The firm begins by determining its competitive priorities, and its order winners and order qualifiers. Competitive priorities are the characteristics of the firm or things that it does better than other service firms (e.g., low cost, quality, service, or flexibility). The firm's competitive priority(s) must be both an order qualifier and an order winner. The order qualifier is a characteristic that the service must possess in order to compete in the market. If the firm lacks this then the consumer will not even consider purchasing the firm's service. The order winner is the characteristic that will cause the consumer to purchase the firm's service over its competitors. The service concept then is the set of competitive priorities that the target market values.

The operating strategy describes how the firm's different functions (marketing, finance, and operations) will support the service concept. If the firm's order winning competitive priority is quality, what will operations do to ensure quality of the service and how will marketing promote this characteristic?

The service delivery system defines the components of the system necessary to execute the service concept. Examples of the needed variables are capacity requirements, quality management systems, and management policies. Each of these should support the firm's competitive priorities so that the firm is clearly distinct from its competitors.

TACTICAL EXECUTION.

Finally, the firm approaches tactical execution issues. Tactical execution involves the day-to-day activities required to function and support the service strategy. Included are capacity management, facility location, inventory management, facility layout, supplier selection, operations scheduling, staffing, and productivity improvement.

Decisions that are made in the above strategic planning process are heavily influenced by their position on Marc McCluskey's service maturity model. This model divides service maturity into four stages:

Stage 1: Baseline service—the focus is mainly on responding to requests in a timely manner.

Stage 2: Operational efficiency—the focus is on cost reduction

Stage 3: Customer support excellence—the focus is on efficiency

Stage 4: The focus is on changing the concept of service and growing market opportunity

TRENDS AFFECTING OPERATIONS STRATEGIC DECISIONS

1) Globalization- The business landscape is rapidly becoming more global. Largely due to improvements in communications, globalization is dramatically impacting the way business is managed and transacted, even on the most local levels. No area of a business is more affected by the trend to a global business environment than the supply chain. Manufacturing, distribution, sourcing of materials, invoicing, returns and services thereafter have all been significantly impacted by the increased integration of a global customer and supplier base, and many companies find that existing processes and technology are not flexible enough for this new business environment.

The right supply chain design is critical to managing the changes brought about by rapid globalization. A well thought-out supply chain network design can optimize the supply chain network and the flow of materials through the network. In doing so, network design captures the costs of the supply chain with a "total landed cost" perspective and applies advanced mathematical technology to determine optimal answers to both strategic and tactical questions.

The following are strategic questions answered by a well thought-out network design:

- Where should services be located?
- How many facilities should I have, and what capabilities should they have?
- What products and services should they handle?
- Whose distribution orbit should they source?
- How can I achieve operations synergies through integrating acquisitions?

2) Increased Competition and Price Pressures- Historically, price, product features and brand recognition were enough to differentiate many products in the marketplace. With the continued commoditization of many products, companies need better ways to distinguish themselves. Companies are looking to their supply chains in two ways to help offset this trend. First, they are looking at ways to reduce cost and are creating a more efficient value chain to remain cost competitive. Second, companies are looking at ways they can provide value-added services to meet the demands of more sophisticated customers.

Cost improvements can be found with:

- sales and operations planning

- transportation/distribution management
- improved product lifecycle management
- improved strategic sourcing and procurement

Companies should not only look to their supply chain to drive cost improvement, but should increase capabilities as a means for staying competitive. Streamlining processes with better design, better collaboration across networks and new services will help your company stay competitive and strengthen relationships with your customers.

3) Outsourcing- As many companies step back and examine their core competencies some realize that outsourcing parts or all of its services can be advantageous. With marketplace improvements around (1) information mediums and systems (2) cost and quality of global manufacturing and distribution and (3) product design capabilities companies are gaining additional synergies by outsourcing all or parts of their services.

There can be significant economic benefits from outsourcing all or part of your services, but without the right systems, processes or organizational management structure the risk to success can increase to frightening levels. In an outsource-heavy environment, companies need to put more controls and systems in place to compensate for the fact that the service capabilities no longer reside onsite. In an outsourced service the need for information, controls and excellence from the information worker becomes a high priority.

The optimally outsourced service, either in its entirety or just a component, relies heavily

- superior supply chain network design
- inclusion of that outsource partner in the information chain
- establishment of control mechanisms to proactively monitor the various components of the service
- information systems to connect and coordinate as seamlessly as possible

A failure to excel at any one of these components can result in breakdowns affecting the entire service offered.

AUTOMATION IN SERVICES

A recent phenomenon in services is the application of automation. Often services lag manufacturing and agriculture in productivity. One way to improve productivity in services is

to remove the customer from the process as much as possible by whatever means possible. One way is the use of automation. Many of these applications are things we see every day but give little consideration; most were introduced in fairly recent times.

Financial services have seen the proliferation of ATMs and the use of electronic funds transfer. Education makes use of PCs, audio-visual equipment, calculators, translation computers and electronic library cataloguing. Restaurants and supermarkets make wholesale use of optical scanning. If you have been to an airport you have probably stood on a moving sidewalk. Hotels utilize electronic reservation systems, electronic locks, electronic wake-up calls, and message services. Other fields such as government, communication, healthcare, and the leisure industry have all benefited from the automation of services. As technology advances, we are likely to see more and more services being automated as service productivity increases.

CONCLUSION

Services are integral part of any economy. This research provides several contributions to the field of service operations management for academicians and practitioners. New research opportunities broaden in order to improve and adapt this concept to different environmental conditions. Future operationalisations of the service operations strategy will require additional perspectives under a contingency analysis. In addition, heterogeneity of the service industries involves further attention according to competitive priorities. In this context, practitioners have a starting point to understand how functional decisions affect the different dimensions that configure the operations strategy in services.

The study proves that service operations strategy has a significant positive and direct effect on financial performance. Not only existence of strong links between the service operations strategy and financial performance, but also the magnitude of the impact of every operations strategy dimension on every single performance dimension. Nonetheless, the generalization of these findings to other service industries cannot be guaranteed without cautiousness even though the robust statistical results for this relationship suggest that the findings are quite reliable

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