

**SWP 40/90 COMPETITIVE SERVICE STRATEGY AND  
THE SERVICE OPERATIONS TASK**

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**Abstract**

The implementation of a competitive service strategy requires an understanding of the task the service delivery system must perform. The link between the service strategy and the service delivery system is the service operations task. This paper presents a model for the service operations task which captures the information a operations managers need to review the performance of their service delivery systems.

**Introduction**

The formulation of competitive strategy for services has been dealt with by a series of writers in the recent past (see Sasser et al 1978, Norman 1984, Heskett 1986, and Johnston 1988 as being representative). They all present a model for developing a service concept into a service delivery system which is designed to match the operational capabilities of the service delivery system with the needs of the consumers. However not all have paid a great deal of attention to satisfying internal considerations of resource productivity or other objectives of the service firm.

The formulation of the service strategy from the route of the service concept is only part of the story for in isolation the approach fails to take into account the competitive environment in which service firms operate. A full understanding of the competitive positioning of the service firm allows information to be gathered which can be used to determine the service operations task.

**Understanding the Competitive Environment**

There is of course the recognition that all businesses are influenced by a number of factors in the environment. These are often classified as being political, social, economic, and technological. While this type of model is useful at a macro level it does not focus on the business dynamics. One of the most powerful models for understanding the place of a business at a point in time is the one developed by Porter (1980 and 1985), who proposed a consideration of five forces influencing a business. Namely, the firm's competitors, customers, and suppliers, along with possible new entrants, and substitutes.

Clearly a detailed understanding of the business environment is of vital importance in the formulation of a successful corporate and marketing strategy for a service organisation. It allows an evaluation of the service company in the context of its own environment and it is particularly important for services as it opens debates on

questions relating to " what is the nature of the service?", "who are our competitors", "who is(are) the customer(s) for the service ?", "who are our suppliers?".

The pursuance of the questioning around the five forces model leads into the setting of the service strategy through a recognition of the establishment of a competitive distinctiveness. The Porter classification of the way in which firms achieve distinctiveness rests on differentiation, cost leadership, or focus in one of these two areas. While this may be a useful general model for all firms it is less so for service firms which find cost leadership excluded because the essential factors which sustain this position, ie economies of scale or control over input resources are excluded because of the nature of service delivery

Consequently services strategy is more likely to be based on aspects associated with differentiation of the service offering. The Porter model provides the basis for examining aspects of differentiation but it has been further developed by Mathur (1988) into a more powerful model.

Mathur's approach is one of building a model around differentiation and undifferentiation with respect to the two components of a product-service package; namely, the *merchandise* and the *support* Figure 1. This device leads to four generic strategies around the *merchandise* and *support* dimensions depending on whether they are differentiated or undifferentiated.. The terms given to the four generic strategies of *service*, *system*, *product*, and *commodity* may at first seem confusing but they are reasonably consistent. The *commodity* position allows the firm to compete on price alone (which is not to say that the other positions cannot include price as a differentiating feature).

Mathur develops his model further by subdividing the *support* dimension into *expertise* and *personalisation*, and the *merchandise* into *content* and *image*, Figure 2 & 3. The relevance of the two matrices to a business unit may be considered on the simple model of a continuum between goods and services with the merchandise and the *support* dimensions being at the poles. Most service firms will involve a high level of support but may also contain degrees of *merchandise* in the offering. The terminology for the *support* and *merchandise* split are as follows:

#### *Support*

- \* *Consultant*: Differentiated on Expertise and Personalisation
- \* *Specialist*: Differentiated on Expertise but not on Personalisation
- \* *Agent*: Differentiated on Personalisation but not on Expertise
- \* *Trader*: Undifferentiated on both dimension so can only compete on price.

#### *Merchandise*

- \* *Exclusive*: Differentiated on content and image
- \* *Augmented*: Differentiated on image but not content
- \* *Special*: Differentiated on Content but not image
- \* *Standard*: Undifferentiated on both dimensions

The model concentrates on how customers choose between different offerings and requires a clear understanding of what the customer is choosing between. Answering

this question contains elements of the an expression of a service concept and the use of the Porter five forces model. Service firms are more likely to be competing on differentiation of the support element although the strength of the model is in the its use to look at the place of the supporting goods in the service delivery. Although Mathur uses the term *merchandise* to suggest goods which are sold as part of the package the concept can be extended to physical aspects of the service surroundings. The hospitality industries provide good examples of different merchandise offerings: a five star hotel will be in the *exclusive* position, a high price hotel chain may try to be *augmented*, a hotel which aims the business customers and provides business facilities *special*, and a motel chain with no distinctive attributes bar price *standard*.

The progressive understanding of the direction of a service enterprise follows the stages show in Figure 4 from a knowledge of the environment , to the competitive environment , to competitive strategies at the business unit level of the service firm and the corresponding corporate strategy giving direction. However the models do not go far enough to define the task the service operations has to deliver. The definition of the task is the precursor to designing a service delivery system or in the case of an existing delivery system reviewing its capabilities to perform the service operations task. The step of task definition in services is often implied by those models which aim to match the service delivery capabilities with the market lead creation of expectations on the part of customers for the service.

This last approach does not go far enough to tie down the service operations task and impose the boundaries for the service delivery system. The following model is an attempt to define a comprehensive service operations task as part of setting the service operations strategy.

### **Defining The Service Operations Task**

The development of a service operation strategy for any service organisation aims to provide answers to the questions:

- \* What does the operational delivery have to support, ie what are the goals.
- \* What is the operational focus of the organisation?
- \* What does the operation have to do for customers ie what is the task?
- \* How much is required and when?
- \* What boundaries are there on doing the task?
- \* What is the nature of our organisation?

The operational focus for the service delivery should arise from a the service strategy for the enterprise. The definition of the service operations task involves setting the boundaries for a numbers of parameters which then allows the service operations management to produce a service production and delivery system which can match the customer expectations. These parameters fall into six categories, which are, demand dimensions, customer service dimensions, the nature of the conversion process, culture, business objectives, and constraints, Figure 5.

## 1. Demand Dimensions

There are three dimensions relating to demand which must be understood by the operations management namely, volume of demand, variety of services to be offered, and variation in the nature and volume of demand over time (Armistead et al 1988).

### Volume

The volume of demand influences possibilities of economies of scale, specialisation, increased learning which effect resource productivity and quality of customer service.

### Variety of Services offered

The management of variety is one which presents particular difficulties to service operations management because the nature of services more often than not results in a service package which is comprised of a number of service products albeit with a central core service. Additionally the nature of the service contact results in the customer expectation for each individual of itself increasing the level of variety in the service. Statements as to whether the service package is seen as being customised or standardised (Maister 1983) are of help in working towards an operational understanding of the consequences of variety. The results of high variety are to reduce the opportunity for economies of scale, of specialisation, and, of learning.

### Variation in the Volume and Nature of Demand with Time.

Variation over time in the volume and the nature of the services provided requires a flexible operation. Flexibility - the ability to change the way in which the service production and delivery system is operating - implies some form of systems redundancy. This has implications for coping with an increase in the variety of the services offered because a changing nature of the demand and of resource productivity depending of the level of predictability.

## 2. The 'Customer Catching' and 'Competitive Status' Criteria of the Customer Service Dimensions.

Customer service dimensions for all service operations fall into six features divided into two groups. 'Firm' when the dimensions can be essentially quantified and 'soft' when a more qualified approach is required to describe the dimensions (Armistead 1989). The dimensions which comprise the 'firm' and 'soft' elements are:

### Firm Dimensions

- \* Framework of time includes availability of the service package, responsiveness to the customer, and waiting time.
- \* Fault freeness sets levels for the service package including both physical items and information and advice.
- \* Flexibility encompasses the ability to recover from mistakes and to customise the service or to add additional services.

## Soft Dimensions

- \* Style relates to the way the service organisation treats customers, the attitudes of service staff, accessibility of staff and manager, and the ambience of the service environment.
- \* Steering describes the degree to which customers feel in control of their own destiny in the service.
- \* Safety has to do with trust, security, and confidentiality.

The levels of the customer service dimensions are linked in many cases to price of the service and the perceived value.

All service operations need to take account of some or all of the customer service dimensions in these groupings. However the relative importance of each will vary according to the type of service, the position of the service organisation in its market, and the strategic direction. Service operations management require two sets of information akin to the 'order winning' and 'order qualifying' criteria for manufacturing operations (Hill 1985). These are 'customer catching criteria' and 'competitive status criteria'.

- \* Customer catching criteria are those aspects of customers service and their level of delivery which cause a customer or client to patronise one service organisation rather than another.
- \* Competitive status criteria are those aspects of customers services and their levels which must be present for customers or clients to even consider the service organisation as a provider of the service.

### 3. Culture

The culture of the service organisation is increasingly seen to be important in determining the success of service businesses (Peters and Austin 1985, Kerr et al 1986). This may be reflected in a mission statement and embodied in the service concept. Avis's "We try harder" statement acts as an advertising logo, a mission statement, and forms part of the service concept. The nature of both the concept and the culture directly affect the way in which the operations management task is described and the service production and delivery system designed and operated.

### 4. Business Objectives

Operations management requires knowledge of the business objectives and financial factors to incorporate into the definition of the service operations management task. These influence the choices which are available for the service production and delivery system and set other performance criteria for the running of the service organisation.

## 5. Constraints and Future Changes

Any information which helps the operations management to understand the present constraints and changes which may be necessary in the future. This information allows for an evolving service production and delivery system which can perhaps best survive and remain competitive over a period of time.

## 6. The Conversion Process

The conversion process refers to the basic categorisation of the nature of the service which is embodied in the service operations management task. There are three main transformation processes involved in the creation of service products (developed from Kileya and Armistead 1984)

- \* Transferring operations are concerned with Transferring people (bus travel), information (telecoms), or material (mail).
- \* Improving operations are concerned with improving the condition of people (medical services), of materials (repair and manufacturing operations), and of information (data processing)
- \* Caretaking operations are concerned with looking after materials (warehousing), information (data base management), and people (crowd control).

The service package for a particular service requires a combination of these basic elements for its definition and the result sets the elements of the service operations task which the service production and delivery system must achieve.

## The Service Production and Delivery System

The evolution of the service delivery system to deliver a specific service package for a service concept results in a system which can be characterised in a detailed description in terms of six key dimensions, Figure 6.

- \* The organisation
- \* The process
- \* The people
- \* The facilities
- \* The information systems
- \* The planning and control systems
  
- \* The Organisation

Organisation relates here to both the elements of business control being centralised or decentralised and to the specific division of service production and delivery systems into a front office and back room component. The front office being characterised by an involvement with customers and the back room excluding direct contact.

\* The Process

The process description details the flow of the service production and delivery identifying at each stage what is being done, the level of contact (high to low) with customers and the capacity requirement at each stage over time. The type of process which is used for front office parts needs to emphasise the customer processing skills while the back room activities need to perform an effective support activity and to provide an opportunity to emphasise resource productivity.

\* The People

The people element describes the skills and cultural assimilation required of the service people at each stage in the service production and delivery process, the numbers required over time, and the level of skill or familiarity which the customers have with the process in those stages where customers are involved.

\* The Facilities

The facilities will be dictated by the nature of the service itself as to whether the facilities need to be located near to customers or whether economies of scale can be gained from either single site or a restricted number of sites. There may be opportunity for separation of the back room activities to gain economies of scale as in central warehouses in retail distribution while still retaining the closeness to customers of the front office parts - here represented by the stores.

\* Planning and Control Systems

Planning and control systems for service operations management include those which deal with the planning and control of work flows and the provision of capacity resource to meet the standards of performance. Activities include the scheduling of service people, booking and reservation systems to control the flow of customers, scheduling and controlling the flow of materials, and the systems to measure and compare performance against standards.

\* Information Systems

The importance of information systems in the support of the delivery of customer service and the attainment of improved resource productivity warrants a separate description away from the process description. The information systems also provide the integration of the operations area into the rest of the organisation.

### Case Example

The Chicago Pizza Pie Factory (Voss et al 1985) is a restaurant which was established in central London in the late 1979s by an American, Bob Paton, to sell pizzas in an atmosphere which created the ambience of Chicago. The Restaurant was one of the first theme restaurants which are now common but was at the time a novelty with few direct competitors in London. The customers were in the main young people, although the restaurant established a regular lunchtime trade of business people. The restaurant could be judged to be successful when assessed by high profitability resulting from the ability to charge higher margins while maintaining low costs, turnover per unit of the area, turnover per table, and by customer satisfaction. The



reasons for the success lay in the development of a service operations strategy which matched the demands of the business while supporting the service concept.

The competitive strategy for the business was by way of positioning its *merchandise* by differentiating its *image* through *augmentation* and positioning its *support* through *personalisation* according to the Mathur generic strategies as an *agent*.

A summary of the service operations management task is shown in Figure 7. The main features are as follows:

The demand dimensions show the volume of demand being linked to the emerging theme restaurant market which was growing and so more than sufficient at times to match available capacity, variety of services were restricted by a focussed menu of food and drinks, and variation in demand was fairly predictable for lunch time and evening trade through the week from Monday to Saturday.

The customer service considerations showed that the customer catching criteria were associated with the style and flexibility dimensions with the other dimensions being competitive status criteria. Also price was not a prime factor for the customers. The style dimensions focussed on the novelty aspects and the ambience and attitudes of the service staff reinforced by the physical presence of the owner.

The culture of the establishment was American and was driven by the charismatic personality of the owner.

The financial objectives were to achieve higher margins than were normal for restaurants of that type in London at that time, while keeping costs low.

The service production and delivery system (Figure 8) which was evolved was essentially a standardised product based process which managed the customers in a way which enabled the operation to chase demand and to maintain high asset utilisation by managing queues to stop people from leaving, encouraging people to share tables, and prompting people to leave once they had finished eating.

The organisation was of course simple, but very centralised with control firmly with the owner. The front office to back room ratio was high which maximises the asset use and also capitalised on the service contact strengths of the service staff.

The people concerned were the owner who was central and part of the service concept and the service package. The service staff were recruited to maintain the ambience and friendliness of the service concept and were rewarded by tips from the customers (there was less satisfaction from the back room kitchen staff who complained of low wages but did not interfere with the delivery of the food). The customers reinforced the concept of friendliness and atmosphere by sharing tables, treating queueing as a positive part of the service experience.

The facilities were a single site which while not being well placed for passing trade was adequate once the restaurant had built up a repeat trade and was known through word of mouth and free press publicity.

The planning and control systems were simple and devoted towards staff scheduling to chase demand, control of material usage to minimise costs through a limited range of food offered, and a control of quality through the standards of the owner and his example and supervision. Information systems did not use any technology and were kept simple in keeping with the size of the business.

The operational focus of the Chicago Pizza Pie Factory in this stage of development was such that the service operations strategy which was evolved matched the

customer catching criteria while maintaining the competitive status criteria of the customer service dimensions and meeting the business objectives. The implementation and operational control of quality and resource productivity depended on the drive of the owner.

## **Discussion**

A simple system such as the CPPF, illustrates the importance of attention to all parts of the strategy development and the design of the service production and delivery system. The service competitive strategy, the service operations task and the service delivery system should be complementary. The interactions between the different elements can be seen from the case example, Figure 9.

The power of the model for the service operations task is that it includes more than the competitive strategy elements and so the competitive strategy can be checked against the constraints of the task. Subsequently the service delivery system can either be structured to correspond to the task or in the case of an existing delivery system checked against the task.

The main interactions are:

A: Between the competitive position and the service operations task

- \* Competitive position against customer service dimensions
- \* Competitive position against the conversion process
- \* Competitive position for support against the culture

B: Between the service operations task and the service delivery system

- \* Culture and people
- \* Customer service dimensions against the organisation
- \* Customer service dimensions against quality management systems
- \* Demand against capacity management systems
- \* Business objectives against all planning and control systems.
- \* Constraints against planning and control systems.
- \* Conversion process against the delivery process and the facilities

These interactions are by no means the only ones and the models can be use as the basis for understanding of the service operations task and for an assessment of the strengths, weaknesses, opportunities and threats for the service delivery system.

It is easy to find examples where the competitive strategy does not lead to the operation of a service production and delivery system which meets the necessary customer service dimensions. Often failure can result after a period of time when

there are changes in the external environment resulting in changes in the customer catching criteria or the demand dimensions and when the service operations task is not altered to take account of the external changes because either the significance of the changes are not appreciated or the time to respond is long. The delay may be due to the need to drastically alter the production and delivery system requiring financial investment and the retraining of existing staff and/or the recruitment of new staff.

Indeed the next move of the CPPF shows some of the pitfalls. The opening of a restaurant in Bath was not a success. The customers were different so the same customer catching criteria did not apply. The staff recruited did not present the same American style and the owner was not intimately involved and so the restaurant no longer had this presence as part of the concept in the same central way as in London. Subsequently the concept has been adapted to open a chain of restaurants in other UK and European cities which now operate in a market which has many theme restaurants and consequently again the factors from the strategy filter have changed.

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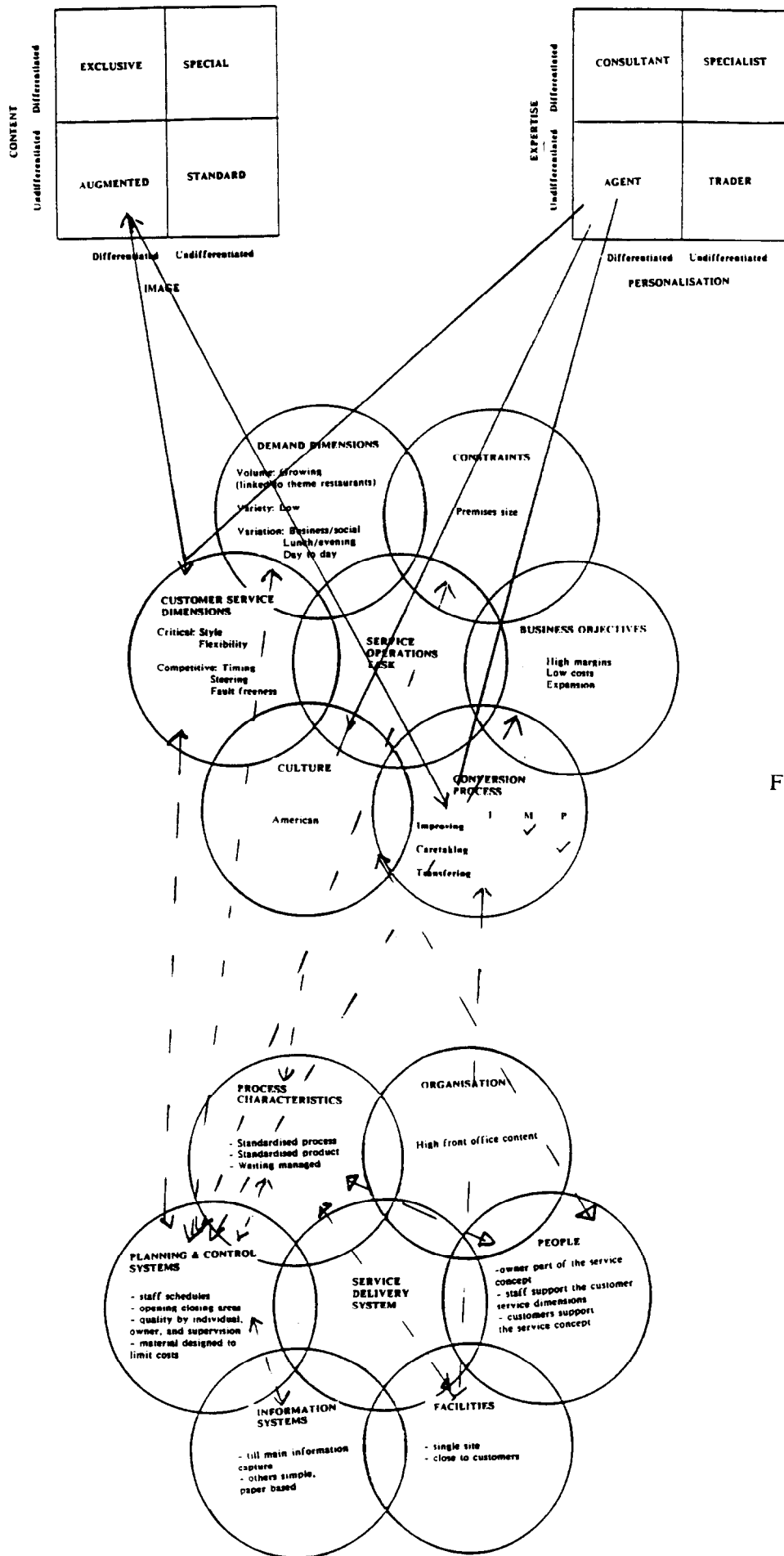


Fig 8

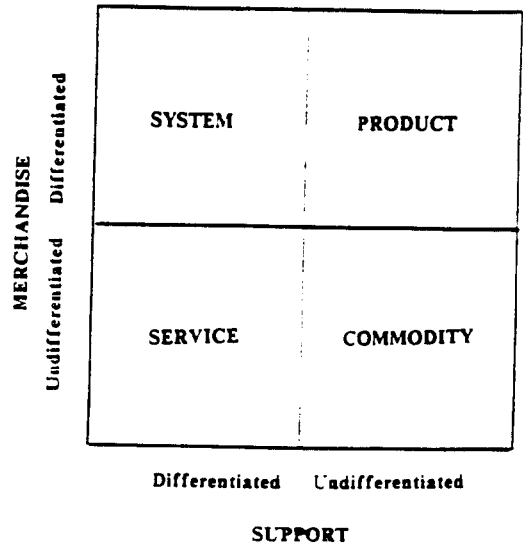


Fig 1

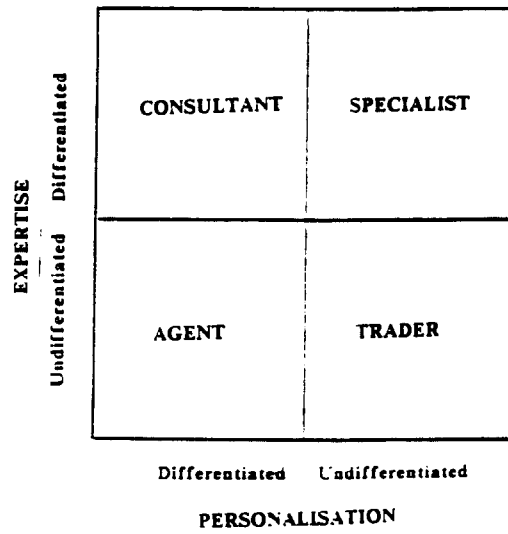


Fig 2

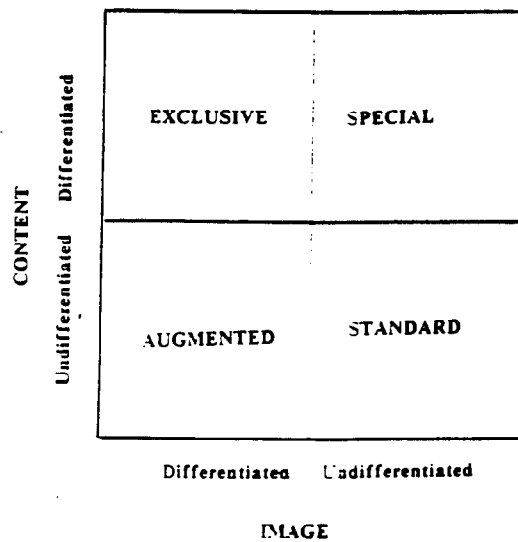


Fig 3

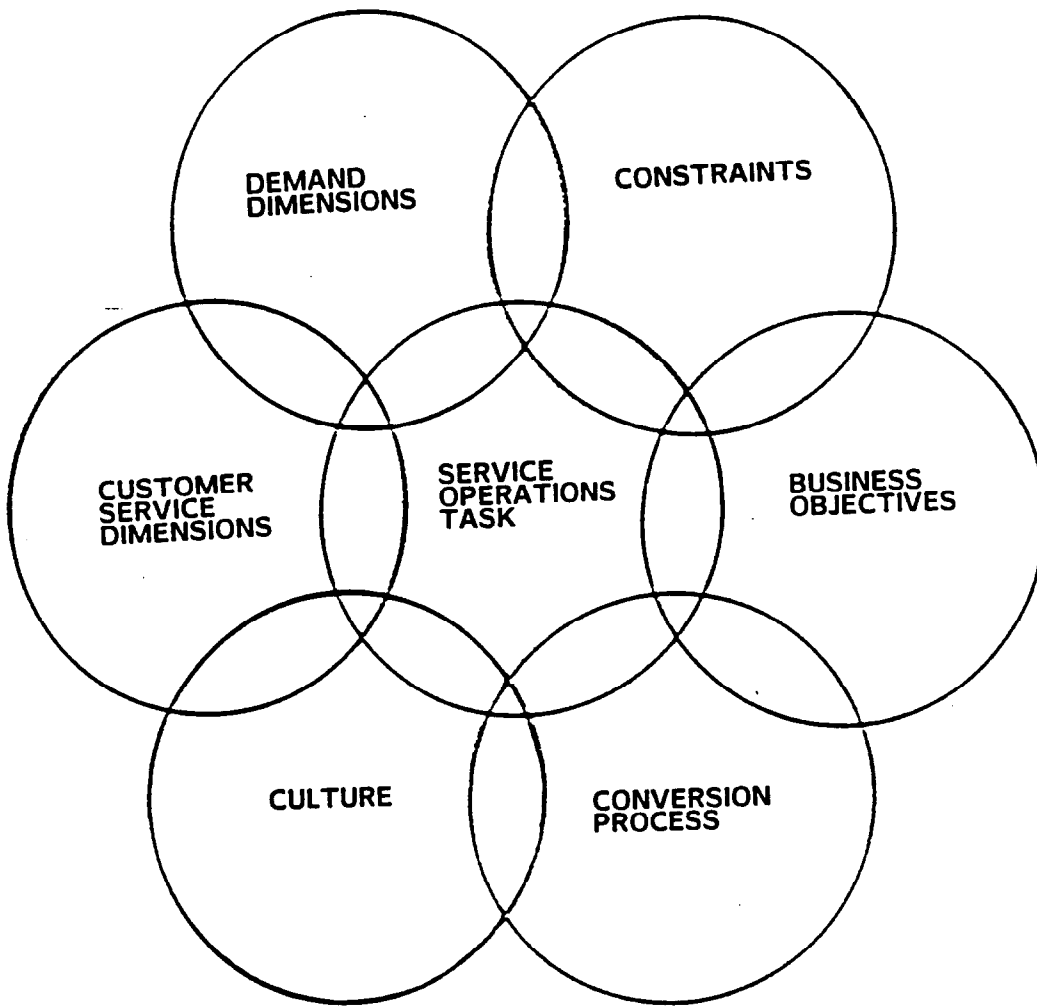


Fig 4

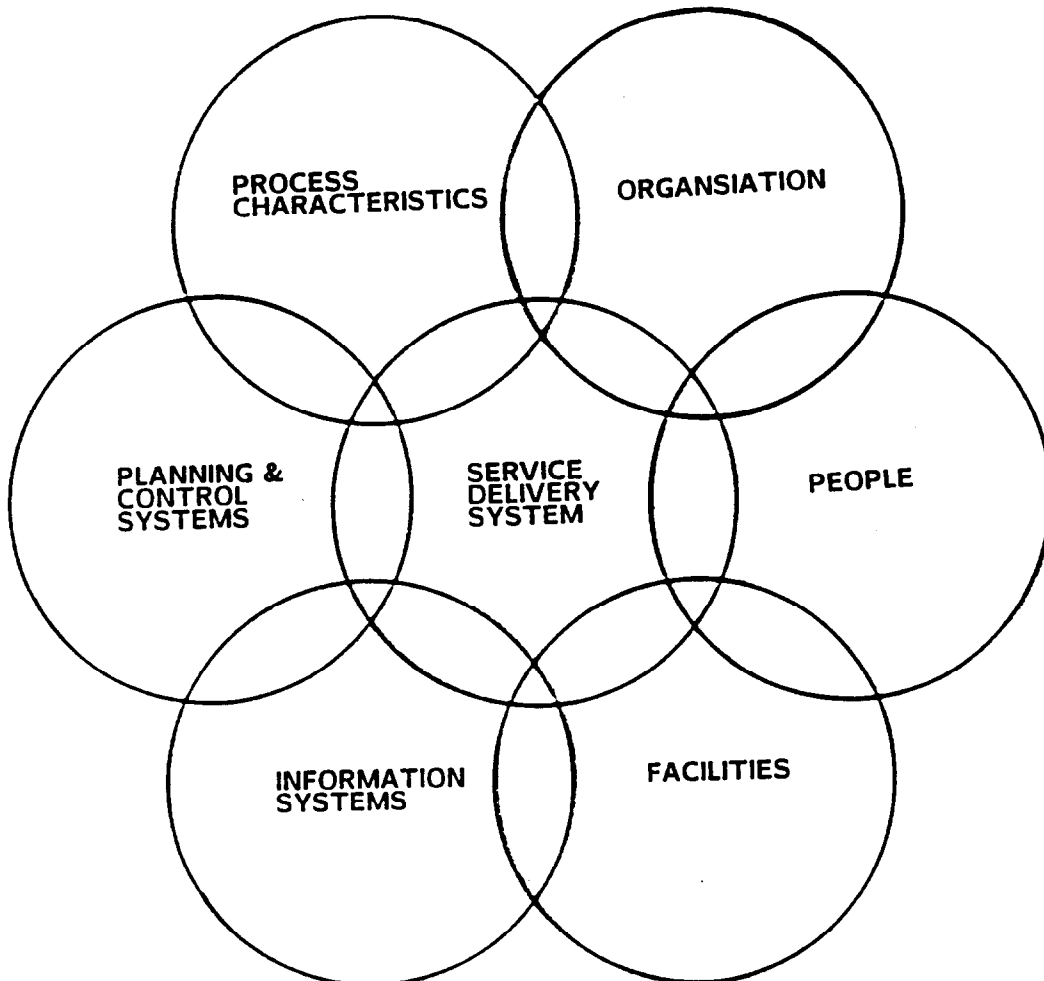


Fig 5

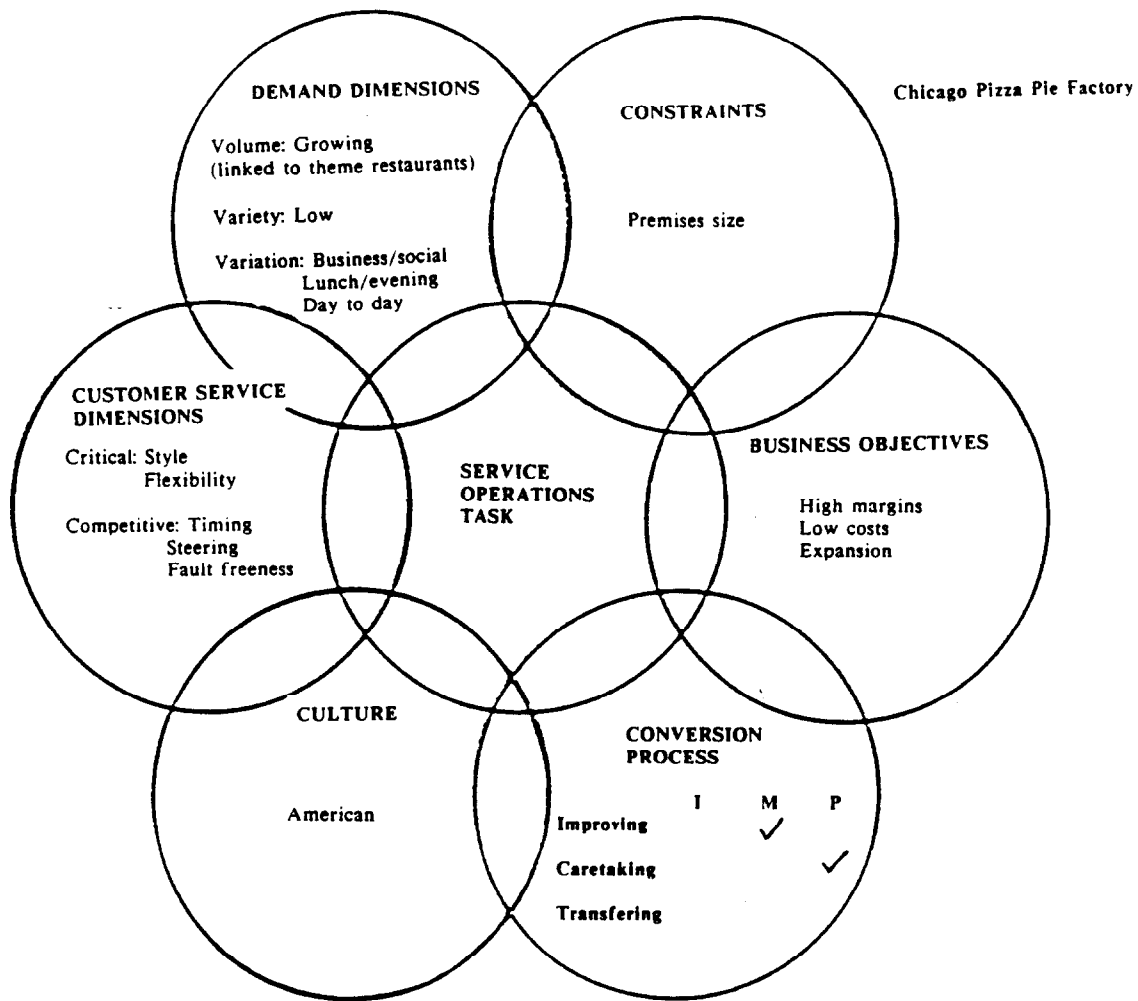


Fig 6

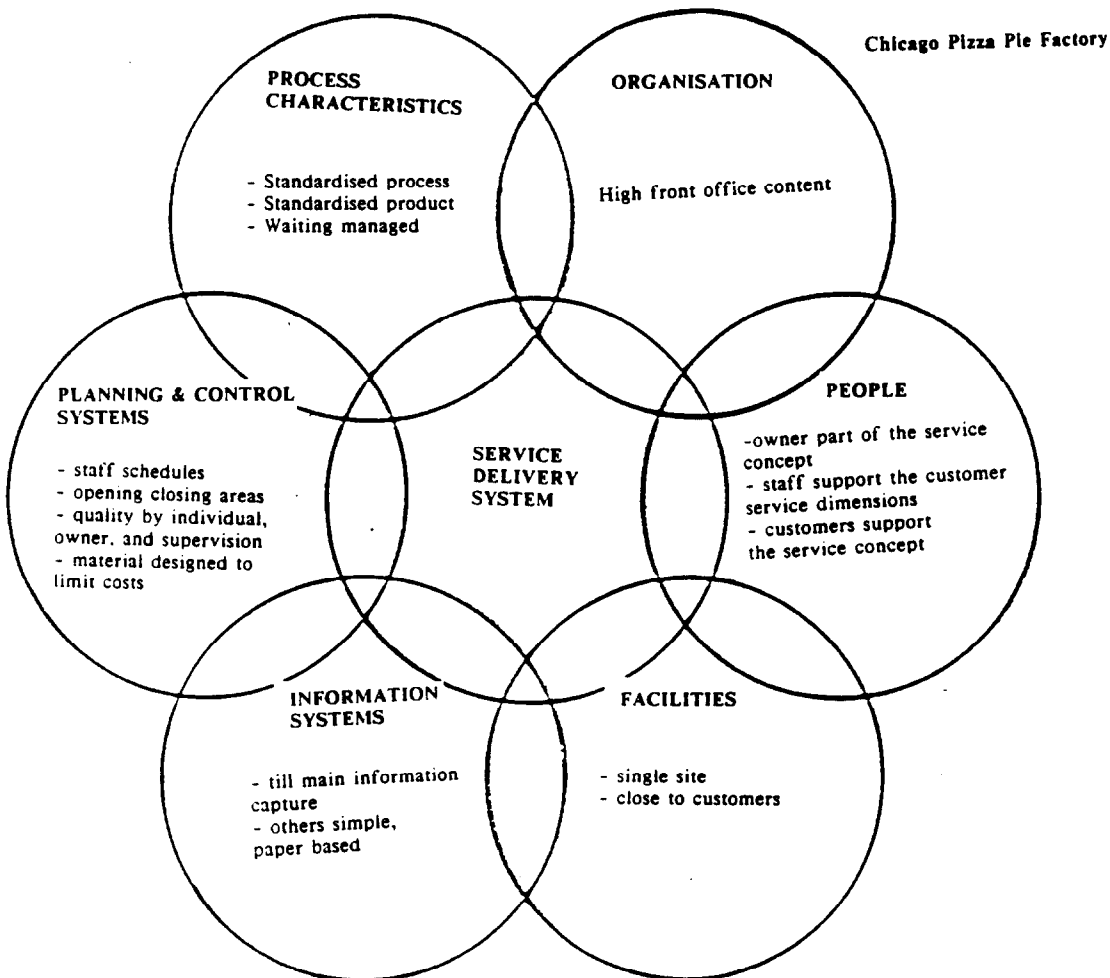


Fig 7