

ABSTRACT

The debate on global competition has given little attention to service industries. Service industry characteristics such as close local control and high personal service content, made them unsuitable candidates for global strategy. This paper addresses the changing nature of international competition in the service industries. It is argued that a combination of structural, market and technological changes has provided a major shift in the potential for globalisation as a competitive strategy available to, and appropriate for, service industries. It also reviews the sources of competitive advantage specific to large international service firms from economies of scope.

INTRODUCTION

The potential for globalisation as a competitive strategy available to service industries is still poorly recognised. It is a view which attracts criticism and hostility. Evidence remains piecemeal and often anecdotal. For every service company which is reconfiguring its business globally, there remain a dozen which are not. However it is the contention of this paper that the race for pre-eminence in international services trade has already begun. The historical pattern of competition in the manufacturing industries can be seen repeating itself in the service sector. Those companies which have recognised at an early stage the trend to internationalisation of services and have begun to reorganise their businesses accordingly, are likely to be most strongly placed to meet future developments.

A global industry is one in which rivals compete against each other on a worldwide basis. Firms operating in global industries are characterised by high levels of coordination and integration of activities across national markets (Porter, 1986; Prahalad & Doz, 1987; Bartlett & Ghoshal, 1989). It is not a definition commonly thought appropriate to service industries, which have been most often conceived as "fragmented" industries, lacking powerful market leaders (Porter, 1980). This is because service industries were characterised by low entry barriers, diseconomies of scale, close local control, high personal service and "image" content, where service delivery is at the point of sale to the customer (Sasser et al, 1978; Normann, 1984; Daniels, 1985; Albrecht & Zemke, 1985; Heskett, 1986; Hindley, 1987; Carlzon, 1987). However, the nature of international competition in the service industries has shifted as a result of recent structural, market and technological changes. Global manufacturing companies are increasingly being supported by global service companies (Enderwick, 1989). Some of the problems inherent in the management of global service delivery, the key implementation issue faced by global service companies, are being addressed by greater sophistication of management practice and innovative use of technology.

The developing literature on global strategy (Harrigan, 1984; Hamel & Prahalad, 1984, 1985 & 1989; Ohmae, 1985; Kotler et al, 1985; Stopford & Turner, 1985; Doz, 1986; Porter, 1986; Telesis/PSI, 1986; Bartlett & Ghoshal, 1986 & 1987; Ghoshal, 1987; Prahalad & Doz, 1987; Ohmae, 1989; Franko, 1989; Yip, 1989) takes its evidence overwhelmingly from manufacturing industry. It provides a range of views concerning both how to manage global expansion successfully and also the goals and critical features of such global strategies. The literature is both contradictory in its recommendations and largely consists of extending the basic framework for the analysis of competitive advantage developed by Porter (1980, 1985 & 1986) to global competition. This approach is of only a limited use in regard to the service industries since it concentrates mainly on the functional middle ground common to both manufacturing and

services, rather than the service delivery issues of particular importance to service industries.

This paper addresses the changing nature of international competition in the service industries. It is argued that product and market evolution, developments in information technology, economic and cultural homogenisation of markets, and political and economic deregulation have combined to change the competitive environment for service industries. It is now possible for world market leaders to emerge and reshape the potential sources of competitive advantage in their sector.

THE GROWTH OF THE SERVICE SECTOR

The service industries are significant to the developed economies in terms of output, jobs and trade balances. (Riddle, 1986; Tucker & Sandberg, 1988; Enderwick, 1989; Porter, 1990). Increasing internationalisation of services is likely to be encouraged by slow but real progress towards international agreement to reduce service trade barriers in the current Uruguay Round of GATT (Nicolaidis, 1989). Demand growth has recently begun to flatten out as market penetration, industry concentration and rationalisation take their course, both nationally and internationally. This process is already well-advanced in retailing, airlines and financial services, and has progressed some way in professional service firms and advertising and media agencies. Domestic industry restructuring has been followed by expansion into world markets.

Growth in services is built on three factors:

1. increased demand for services by both firms and households
2. the separation of service suppliers
3. the standardisation of service delivery processes.

Demand for new types and configurations of services arises from the changed socio-demographic structure of the advanced economies, such as dual-income families, single-person households, affluent older consumers and financially more sophisticated consumers. (See Segal-Horn (1987) for a more detailed breakdown of these changes in consumer markets). Greater corporate consumption of services arises from more specialisation, sophistication and internationalisation, as in the examples of corporate business travel expenditure management and executive recruitment.

Growth has also come from more specialist service suppliers replacing service provision previously carried out in-house. Rajan (1987) calls this "externalisation"; Porter (1990) calls it "de-integration". Growing capital intensity and rising productivity of specialist service companies (both mostly IT-related) makes internal service provision increasingly inefficient. This is exacerbated by the ability of large service firms to standardise and replicate facilities, methodologies and procedures across

locations. Specialisation and standardisation leading to high quality provision at lower cost to the client company or customer, whether in car exhaust and tyre centres or consultancy packages for executive compensation.

THE SPREAD OF GLOBAL COMPETITION IN THE SERVICE INDUSTRIES

The factors underlying the changing pattern of international competition are familiar and well-documented (Levitt, 1983; Ohmae, 1985; Porter, 1986; Winram, 1987; Douglas & Wind, 1987). Global oligopolies are developing in which successful firms are able to achieve economies of scope (see Table 3 below) in international information systems and product policy throughout Ohmae's (1985) "triad". Managing multidomestic markets independently becomes more difficult as more firms find ways of gaining advantage from working globally and forcing others to do the same, or risk being relegated to small niches which may themselves become indefensible.

It now makes more sense to minimise the gap between the launch of new products and services in international markets, since lead times for securing markets become shorter and shorter. For example, the 1989 UK launch by American Express of its "Optima" credit card followed shortly on its test launch in the US market. "As global competition grows, so does the need for rapid worldwide rollouts of new products" (Quelch & Hoff, 1986).

Globalisation as a concept has been developed with a focus on manufacturing. Most of the current literature on global strategies is based on evidence from the manufacturing sector, favourites being automobiles, motorcycles, construction and agricultural machinery, watches, textiles and consumer electronics (Altshuler, 1984; Hamel & Prahalad, 1985; Kotler, Fahey & Jatusripitak, 1985; Doz, 1986; Cvar, 1986). The best documented global market development for a service industry is that for financial services. Attention has been given to deregulation and the effect of the 24-hour financial market-place on international banking and financial services (Arthur Andersen, 1985; Channon, 1986; Hamilton, 1986; Sobel, 1987; Walter, 1988). Yet little real analysis has occurred of the routes to creating global strategic capability or the common denominators in such capability which are emerging more generally for service industries.

Service industries are those whose output is not a physical good or product and where added-value is derived from such factors as concept, image, quality of service delivery, reliability, convenience, flexibility. This underpins an essential difference in the significance of globalisation in services as opposed to manufacturing. For manufacturing industries the sources of global advantage come mainly from: comparative advantage e.g. in factor costs; economies of scale in production, marketing, distribution, logistics and purchasing; mobility of production; or any combination

thereof (Porter, 1980). This means that manufacturing is concerned with the most effective ways of moving the product to the market. In service industries, globalisation means that a mobile customer base (often literally mobile e.g. the tourist, the shopper, the business traveller) experiences an identical product wherever they go, at each access point or transaction. Service delivery is about controlling the quality of the offering at the point of sale to the customer. In service industries the customer can move to the product. It is for this reason that American Express labels its core charge card (and travellers cheque & travel shop) business: "Travel Related Services" (TRS). The TRS market is the international traveller for whom the TRS core concept - the "global servicing concept" - has been developed. As Illustration 1 shows, the aim is to provide a standard quality service to the targetted customer, wherever that service is taken up (American Express, 1983/85/86/88/89).

ILLUSTRATION. 1

American Express

Rationale behind globalisation

- * deregulation: the opening up of international markets to international competition
 - * interactive IT systems networks providing 24-hour global trading (collapse of geographical, time-zone, regulatory and market boundaries)
 - * creation of financial conglomerates through merger and acquisition
 - * technology-generated new products
 - * international presence crucial to future growth
 - * internationalisation of institutional investment portfolios
 - * scale of investment (e.g. in systems and key staff) and capital base required to compete effectively favours large players
 - * global coverage required to remain competitive and retain clients and staff
 - * industry concentration across existing boundaries
-

The strategy

- * world leader in integrated financial and travel-related services
-

Putting the strategy into operation

- * focus on customer needs
 - * strong, quality brand names
 - * multiple distribution channels
 - * a family of companies (cross-selling)
 - * interrelatedness
 - * careful selection of clear, profitable, target markets ("only the most prestigious but also the most valuable" (Amex 1986 annual report))
 - * enter market segments with market share leadership potential
 - * uniform level of customer service at outlets
 - * uniform quality at outlets
 - * global marketing must be backed up by global service delivery and service levels
 - * ability to introduce products quickly
 - * sophisticated global marketing and global systems network
-

This approach is a common one in the service industries. It is highly visible in the airline industry whose travel offices, lounges and staff uniforms are identical worldwide. This is not only to communicate more clearly with the market, but, as British Airways stresses (see Illustration 2), to overcome power and culture blockages internally amongst worldwide staff and offices, which have a crucial role in worldwide consistency of service delivery. Similarly the international hotel chains (Hilton, Sheraton, Inter-continental) undertake to make the traveller's experience of Tokyo, London, Milan and Sydney, entirely similar.

ILLUSTRATION. 2

British Airways

Rationale behind globalisation

- * deregulation: unique regulatory structure under attack
 - * advances in IT systems and communication networks
 - * need for consistent global competitive position
 - * scale of investment (e.g. in planes, landing slots, IT) required to compete favours large players
 - * global route structure required to remain competitive
 - * industry concentration: international "megacarriers"
-

The strategy

- * a global distributor: linking routes, distribution systems, channels and outlets to provide a worldwide service distribution network
-

Putting the strategy into operation

- * product upgrading
 - * global advertising
 - * consistent corporate identity
 - * service training focus on customer needs
 - * continuous visible commitment to customer service
 - * control of routes and transit or access hubs
 - * forward vertical integration via CRS in retail outlets
-

In some very real ways, services do travel and can be recreated globally more easily than products, since what is being recreated is the concept and the quality of its delivery. One aspect from which service industries benefit is what van Mesdag (1987) calls "the age symptom", of usage and acculturation. Some products are associated with long-established national usage patterns, which makes them less amenable to international adaptation. However, offerings related to newer, and therefore less firmly established, usage patterns, have more global potential. It can be argued that for this reason services generally need fewer adaptations for global markets than do manufactured products, particularly since fewer predetermined assumptions exist with regard to advertising, consultancy, credit card facilities or automated teller machines.

There is no single force pushing for globalisation. Instead, the following combination has changed the service industry environment:

- cultural homogenisation
- the removal of industry barriers via deregulation
- the development of information technology
- service industry concentration.

Cultural homogenisation and the emergence of global markets

There has been a lengthy and vigorous debate surrounding the validity of the argument that an increasing similarity exists between certain groups of consumers within global markets. The debate centres around the question of the desirability of standardisation of products or services for broadly defined international market segments. The belief in consumer homogeneity is controversial, since it coexists with the view that fragmentation rather than homogenisation may more appropriately describe international consumer trends. Much discussion has taken place over the opportunities for, and barriers to, such standardisation (Kotler, 1985; Quelch & Hoff, 1986; Douglas & Wind, 1987; Link, 1988; Jain, 1989). It was triggered by Levitt (1983) and predicated on the convergence of markets, as a result of economic and cultural interdependencies across countries and markets. He argued that the new communications technologies are a key influence in the growing homogenisation of markets, reducing social, economic and cultural differences, including old-established differences in national tastes or preferences. This process has meant that companies need to examine any growing similarities between consumer preferences.

Market segmentation based on lifestyle has been around for a long time (Sheth, 1983). However the argument for global markets does not mean the end of market segments. It means instead that they expand to worldwide proportions. The retail chain Benetton has built its whole strategy on precisely these assumptions as shown in Illustration 3. Certainly there is some adaptation of such things as colour choice for different domestic markets, but such adaptation occurs around the standardised core of Benetton's "one united product".

Globalisation offers the advantage of economies of scale for a segmented marketing strategy. Ohmae (1985) speaks of the "Californianisation" of the young within the Triad, forming a massive lifestyle-related segment. Socio-demographic change, higher incomes, smaller households, concern for health and environment, preference for greater choice and control, are developments which have been taking place at varying rates across the world and are viewed by many writers (Thorelli & Becker, 1980; Levitt, 1983; Jain, 1989; Ohmae, 1989) as a driving force behind the emergence of cross market segments, providing opportunities for more international strategies. Nelson (1989) has indicated that there is an observable trend

towards the concept of "open citizenship". Individuals who share this attitude exhibit a positive identification with their own country, yet at the same time consume, and are influenced by, world-wide products and trends such as films, the arts, ethnic foods and popular music. Not only do such influences operate in OECD countries, but Jain (1989) believes that the same patterns of consumption characterise pockets of consumers within LDC's and NIC's, such as in India.

ILLUSTRATION. 3

Benetton

Rationale behind globalisation

- * European domestic markets are relatively small and a successful concept can reach saturation coverage fairly quickly.
 - * the development of "lifestyle retailing" based on clear segmentation of the target market is the perfect platform for global marketing
 - * the success of "lifestyle" retailing is indicative of similar international market segments
 - * there is in some real sense a proprietary technology - not in a technical sense, but in the interrelationship with the other elements of the strategy which gives a sustainable competitive edge as it is not easily imitated
 - * international systems provide the channel for fast response to shifts in consumer demand and risk-free low inventory.
-

The strategy

- * putting fashion on an industrial level
 - * to develop one product line of sufficient breadth to accommodate the needs of particular markets and stores: "one united product"
 - * "I am speaking of a new business reality which is extra-European in scope" (Luciano Benetton, 1982)
-

Putting the strategy into operation

- * the concept: vertical integration: from design through manufacturing and distribution to retailing
 - * the offering: "paletted" good design and colours of universal appeal
 - * innovative merchandising: making space and inventory more productive
 - * control over store design and location to further control other elements in the service concept
 - * inventory is replaced by information systems links to factories
 - * inventory risk elimination: produce to firm customer orders
 - * financial risk elimination: agency "franchising" for capital investment in stores while retaining strategic control
 - * logistics network: rapid access to information on demand
 - * innovatory manufacture to allow "customised" batch production in response to demand
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Some of the most vehement rebuttal of the standardisation approach occurs with regard to international marketing activities. This is largely because of the critical role performed by the marketing function in the

close tracking of consumer preferences which must, by definition, be carried out as close to the markets as possible. However, this function can now be performed as well or better by IT, for example retailers' electronic point-of-sale (EPOS) data-capture technology. In fact considerable standardisation of international marketing has occurred for some time (Sorensen & Weichmann, 1975; Takeuchi & Porter, 1986; Jain, 1989).

Also, global marketing does not necessarily mean providing the same product in all countries, but offering local adaptations around a standardised core. Just as Benetton balances standardisation with some local adaptation, so Pizza Hut protects the core elements of its brand by copyrighting its individual product brand names (such as Perfect Pizza). It also ensures standardisation across markets by operating a strict specification of product ingredients. However, the Pizza Hut concept is adapted to suit local needs in differing ways. Some elements of the menu (such as desserts) will vary, as will store design, and even the way in which products are served to the customer. "The big issue today is not whether to go global but how to tailor the global marketing concept to fit each business" (Quelch & Hoff, 1986). As Stopford & Turner (1985) conclude: "even if the case for global brands is somewhat oversold, there is an obvious case that consumer-oriented companies can internationalise general marketing strategies".

Many service industries are competing in mature markets where competition is fierce and demand is at replacement level only, or rising only in a few segments such as higher value-added food products and fresh produce in grocery retailing; media purchasing, corporate identity work and public relations in the advertising industry. Even financial services is heavily oversupplied. Redefining target markets as global markets provides a way out of mature markets once industry restructuring via mergers and acquisitions have been taken as far as they can.

Global marketing is a strategy that is consumer-oriented and as such reflects the close-to-the-customer bias of the service industries. In contrast to manufacturing industry, in service industries globalisation is not about yielding high production economies, but about high efficiency in using scarce new ideas.

Deregulation and protectionism: political and economic pressures

Despite the social, cultural and technological changes behind the development of global market segments, there are additional economic and political pressures on governments to create barriers to this increasing trans-national flow of goods. Protectionist policies such as quotas or tariff barriers create constraints on global competition. Such government protection is most likely to occur in industries that are "salient" - that is, that affect government policies or objectives e.g. defense, regional development, employment. However they may also occur as a response to

severe imbalance in volume of international trade between nations (as between Japan and the USA, and Japan and the EC in the 1980's). The very need for artificial trade barriers is evidence of the strength of international demand by consumers for international goods and services.

Deregulation is a deliberate attempt to improve the efficiency of markets by opening them up to increased competition. It has been most visible in the world financial markets, where the removal by governments of fixed commissions and ceilings on foreign ownership has shifted competition from service to price and triggered mass exits from the industry through either mergers or business failure. The same process occurred earlier in the 1970's in the USA when President Carter deregulated the airlines in order to encourage competition. The short-term effect was to encourage many new entrants. The longer-term effect was a massive shakeout in the industry; leaving a few internationally competitive "supercarriers" and higher entry barriers.

The two policies exist in relation to each other. Fierce international competition and the changed economic structures of many industries, lead to the devastation of many firms or indeed entire sectors in their home markets (Hamel & Prahalad, 1985), leading to political pressure for protection. Under this continuing cycle of events, global companies have to operate as what Ohmae (1985 & 89) calls "true insiders", honorary citizens perceived as direct investors in each "home" market in which they operate.

The service industries are relatively new to the influences of deregulation and protection (the unique regulatory structure of the international airline industry being the exception). They have been less generally visible and their effect on jobs and the balance of trade less well publicly understood. By and large they have also been growth industries, where jobs were being created rather than lost and where no dependent, historically long-established constituency of communities existed. There has consequently been little political capital in the shakeout of any significant group of service workers, as in the financial services sector in the late 1980's. In addition, jobs that have been lost in the services in any great numbers (e.g. in banking, retailing, medical support services) have been largely (though not always e.g. bank middle management, security analysts) low-level, female and often part-time (Rajan, 1987).

The effect of information technology

The speed and scope of technological innovation has affected service industries at least as much as manufacturing. Information technology (IT) has been a driving force for international expansion in services. IT increases a company's ability to coordinate its activities nationally and internationally. It can provide powerful opportunities to boost service performance. IT has also increased capital requirements, thus raising entry barriers. Efficiency and the ability to compete in services sectors

now requires high levels of capital investment in systems that produce reliable, rapid and low-unit-cost results (Levitt, 1986). In the USA retail sector for example, Lusch (1987) states that any new entrant "would need state-of-the-art retail technology, including a high-impact merchandising information system". Without electronic support systems it is now impossible to compete effectively in many markets, such as multiple retailing, travel and financial services.

As technology changes, so do the possibilities for service delivery and consumer expectations with regard to that service, as in seat reservation systems now appearing in UK cinemas or the more extensive service offered to a multinational client by a global bank such as Citibank, as compared to that a single-country operator could offer. "The combination of cost-reduction and increasing capability of IT results in a broader range of applications" (FAST, 1986) so that IT systems can be the basis of service add-ons which differentiate the company and its offerings, as well as locking in the customer to further purchases. It can help develop switching costs that tie in suppliers and customers and shut out competitors, blocking their access to the market. Airline reservation systems or EPOS systems linking retailer and manufacturer are obvious examples of what FAST (1986) refers to as the "exclusionary effect". IT not only changes cost structures and service offerings, but markets also become more "transparent" (Rada, 1987) as access to information and data-bases grows.

Technological change can change the economics of an industry. BA is already an international megacARRIER and it is looking for continuous improvement in its utilisation of high-technology reservation and distribution systems and building up and repositioning its travel agencies (Four Seasons). These moves are aimed at better exploiting the global service distribution network which it gradually realised that it possessed. BA has joined with United Airways, KLM and Swissair in the "Galileo" project: a worldwide reservation and distribution system (rival to the SAS consortium's "Amadeus" system). Such systems when in place in travel agents or airline outlets (offices, airports) ensure the airline owning the system a profit, even if the customer buys a ticket on another airline, since a booking/usage fee is charged for each transaction.

Large-scale network effects are very important in service industries, more so than in manufacturing, since additional links increase attractiveness to the consumer. For example, how many places can I use my credit card? or more specifically, airline charge cards which can also be used to purchase any travel-related service including insurance.

Figure 1 illustrates the relationship between information systems and the changes that have occurred in competitive strategy in service businesses.

Fig. 1 Systems Technology - changing the nature of the offering.

American Express	RESPONSE TIMES NEW PRODUCTS DISTRIBUTION CHANNELS ADD-ON SERVICES
Benetton	RESPONSIVE MERCHANDISING INVENTORY ELIMINATION CUSTOMISED PRODUCTION CREDIT MANAGEMENT
British Airways	YIELD MANAGEMENT EXCLUSION EFFECT VERTICAL INTEGRATION
Saatchi & Saatchi	MARKET INFORMATION CAMPAIGN MANAGEMENT COMMUNICATIONS MEDIA

Service industry restructuring: from fragmentation to concentration

Service industries have traditionally been defined as "fragmented" industries (Porter, 1980). By this is meant an environment in which many firms compete, but which lack clear market leaders with significant market share. It is this absence of market leaders with power to shape the industry which Porter stresses as being the most important competitive feature of fragmented industries. Financial, health, leisure and recreation services, retailing, distribution and "creative" businesses were considered to conform to the fragmentation stereotype. The reason for this is that these industries possessed many of the characteristics by which fragmented industries are defined including:

- numerous small firms providing services on a localised basis
- high personal service content
- high labour content
- hard to routinise
- the service must be delivered at the point of sale to the customer
(at the customer's location or the customer must come to the service)
- low entry barriers
- low economies of scale
- close local control

While most or all of these characteristics applied to service industries in the past, and some such as personal service still do to a very large extent consolidation and vertical integration (e.g. banks/ estate agencies; airlines/ travel agencies) have occurred as a result of fundamental changes in many of the key factors listed above.

Service industries have been undergoing a prolonged process of concentration and rationalisation for the last 20-30 years, although the pace has certainly hotted up over the last 5-10 years, as witness the emergence of very large firms in insurance, banking, distribution, communication, consultancy and business services, fast food, leisure companies, and retailing. Even very traditional professional services such as law, accountancy and surveying already contain international firms of great size (e.g. Clifford Chance, Arthur Andersen, Jones Lang Wootton respectively). They market a global brand of quality and service delivery. Consultancy firms such as McKinsey have been doing so for some time. Merger and acquisition have been commonplace, and even increasing (the accountancy "Big 8" having become the "Big 6" during 1989-90) across all these groups but they have not noticeably experienced difficulty in recreating the image and the service delivery package. Service concepts can and do "travel".

Table 1 Indicative Triad Coverage - Speciality Retailers

RETAILER	TRADING BLOC PRESENCE		
	<u>North America</u>	<u>Europe</u>	<u>Asia Pacific</u>
Dunhill (UK)	*	*	*
Gucci (Italy)	*	*	*
Joseph (UK)	*	*	*
Louis Vuitton (France)	*	*	*
Mappin & Webb (UK)	*	*	*
Ralph Lauren (USA)	*	*	*
Wedgwood (Ireland)	*	*	*

Source: Author's compilation from Company Reports; Treadgold, 1988; Debenham, Tewson & Chinnock, 1989.

To illustrate this view, some data from the retail sector may be helpful since it was for many years the received wisdom that retail concepts were highly market-specific and did not travel. Tables 1 and 2 give some indication of the current range of global coverage in international retailing.

Table 2 Indicative Triad Coverage - International Retailers

RETAILER	TRADING BLOC PRESENCE		
	<u>North America</u>	<u>Europe</u>	<u>Asia Pacific</u>
Bally (W. Germany)	*	*	*
Benetton (Italy)	*	*	*
Body Shop (UK)	*	*	*
C&A (Netherlands)	*	*	*
Carrefour (France)	*	*	
Delhaize (Belgium)	*	*	
IKEA (Sweden)	*	*	*
Laura Ashley (UK)	*	*	*
Marks & Spencer (UK)	*	*	*
Toys R Us (USA)	*	*	*
Tengelmann (W. Germany)	*	*	
Tandy Corp (USA)	*	*	
McDonalds (USA)	*	*	*
Mitsukoshi (Japan)	*	*	*
Takashimaya (Japan)	*	*	*

Source: Author's compilation from Company Reports; Treadgold, 1988; Debenham, Tewson & Chinnock, 1989.

Despite such well-publicised early failures as Marks & Spencer's poor entry into the Canadian and French markets, the international spread of retailing is now proceeding rapidly. Retail concepts can be exported, although competition becomes even fiercer when international firms enter well-defended domestic markets. Often it transforms the style of competition in that domestic market, as when Toys R Us entered the UK children's market and triggered a major competitive response resulting in the launch by Boots of their "Childrens World" concept.

A final point to be made in refuting the "fragmented" stereotype of the service industries, concerns the positive benefits that can be derived by service companies operating internationally. Many of these positive benefits were important triggers for Saatchi & Saatchi's globalisation strategy shown in Illustration 4.

ILLUSTRATION. 4

Saatchi & Saatchi

Rationale behind globalisation

- * positioning for world market leadership in sector
 - * to match global expansion of multinational clients
 - * improved client service
 - * similarity of needs despite cultural differences
 - * increase in advertising handled by international agencies
 - * use of a single agency seen as commitment to global marketing and more centralised control
 - * greater consistency and control over campaigns
 - * availability of global media (international newspapers & journals, satellite broadcasting)
 - * global coverage required to remain competitive and retain clients and staff
 - * lower costs & operational efficiencies
-

The strategy

- * global business services for global corporations
 - * positioning the agency as a brand
-

Putting the strategy into operation

- * high creative emphasis
 - * high staff motivation ("excellence")
 - * tight central financial and strategic control
 - * attention to margins
 - * ruthless exploitation of economies of scale (e.g. media-buying)
 - * creative autonomy for acquisitions with central financial control
 - * cross-selling of complementary services
 - * investment of cash from core business in further "related" acquisition (public relations, corporate identity, market research, direct marketing, sales promotion, management consultancy, legal services)
-

The company may be able to serve its clients better; indeed it may be the customer who internationalises first, with the service company following to keep important clients. By expanding internationally, the image of the company may be enhanced, not only in the eyes of its customers but also in the eyes of its staff and potential staff it might wish to attract, a factor of exceptional importance in professional service firms and "creative" businesses where the staff are the service. This is an important element in the service industry's "quality wheel" (Heskett, 1986), with high level employee motivation contributing to high level customer satisfaction. Efforts to reproduce the success formula in other international markets can sometimes reveal the basic character of the service concept more clearly, thus contributing to a streamlining of the service management system in the home market also.

Saatchi & Saatchi has experienced severe financial and business difficulties between 1988-90. For this reason it provides a useful vehicle for debating the appropriateness of global strategy for service industries. A marketing services conglomerate with two core global advertising networks, is clearly a good example of a "creative/people" business where size may militate against client service and creativity. The issue then becomes whether Saatchi & Saatchi's difficulties derive from a misguided strategy for that business or from a gradual loss of management edge after twenty very successful years. For example a loosening in the tight central financial control, attention to margins and operational efficiencies which originally characterised the company, combined with an increasingly remote leadership and an increasingly extravagant and unrelated approach to acquisitions.

It is interesting to note that alongside the problems of Saatchi & Saatchi, there has been a significant increase in global advertising handled by international agencies. From 1976-87 the proportion of world advertising handled by international agencies grew from under 13% to 22% (Sheppards & Chase, 1987). Perhaps more important still is that the 13% in 1976 was handled by 12 agencies, whereas the 22% was shared by 7 agencies, showing far greater concentration. Despite the problems of combining size and creativity, client management and financial management, while at the same time absorbing major diverse acquisitions, mega-groups such as WPP, Omnicom or Interpublic are still growing and acquiring.

The current structure of the service industries no longer fits the pattern of "fragmented" industries. They have in fact become significantly concentrated and capital-intensive with increased barriers to entry.

Global competition in the service industries

The major issues driving the spread of global competition in the service industries may be summarised as:

- global market segments have emerged for global products and services
- political and economic policies (such as deregulation) intensify international competition, for both aggressive and defensive reasons.
- the service industries are information-intensive and therefore well-positioned for operating in all major markets.
- the service industries have become significantly concentrated and capital-intensive with increased barriers to entry
- very large firms have emerged in the service industries operating across both national and traditional industry boundaries.

CHANGING THE APPROACH TO THE CUSTOMER

Service industries have some important characteristics which distinguish them from manufacturing industries. Amongst the most widely recognised are those of "intangibility" of the service offering and the simultaneous production and consumption of the service (Sasser et al, 1978). The nature of a service offering therefore may be best understood as an "experience" or "outcome". The successful management of a service business thus becomes the management of the quality of the experience for the customer or client. It is this quality of customer experience, often known as "the moment of truth", by which service quality is measured (Normann, 1984; Carlzon, 1987). This would be equally true of a firm of accountants as for a restaurant. Thus for service industries, control of the offering at the transaction point with the customer or client is critical. When the service network is extended globally, the management of outcomes for the customer faces obvious quality control problems in accurately reproducing the service concept in different cultural political and economic environments and ensuring consistency in the quality of the offering at all transaction points.

Most large service firms have met these requirements for consistency through standardisation of their offering. This has in turn meant that service businesses have grown in particular sorts of ways. Carman & Langeard (1980) argue that profitable growth strategies for service firms are based on "multisite development" which exploits the "duplication of a well-conceived system". Duplication is carried out by means of standardisation. Standardisation requires clarity in the core service concept.

In strategic terms, core concepts can either be about playing the same game better than your competitors, or about changing the rules to directly challenge the conventional wisdom about product and market. A challenging core concept should focus on identifying the objective function of the offering for the customer, rather than on existing approaches to satisfying customer needs. Given the structural, market and technological changes in service industries described above, there exists an opportunity for challenging the conventional wisdom in many service sectors.

Figure 2 illustrates the change in approach made by Benetton in clothing, American Express in financial services, British Airways in travel and Saatchi & Saatchi in advertising.

Fig.2 The Core Concept - changing the approach to the customer.

	<u>Global Core Concept</u>	<u>Industry Standard</u>
American Express	Integrated travel related services	Individual product offerings
Benetton	One "united" product	Fashion ranges
British Airways	Global distributor	World's best airline
Saatchi & Saatchi	International business services	Media-based advertising

In view of the preceding discussion of Saatchi & Saatchi, some further examination of their core concept may be helpful. Carman & Langeard (1980) suggest that although a service business may compete by adding and subtracting peripherals to the core service, an attempt to offer more than one core service puts excessive strain on the service delivery infrastructure. This may go some way towards explaining both the continued success of other large advertising groups such as WPP and, by contrast, one possible source of the difficulties of Saatchi & Saatchi. The chairman of WPP, Martin Sorrell, describes his company as a "marketing services" group, rather than the wider term used by Saatchi & Saatchi of "business services". The distinction is one which would have classified management consultancy and financial services as outside the definition of the scope of the business, and as requiring separate and different infrastructures from marketing services.

SOURCES OF ADVANTAGE IN INTERNATIONAL SERVICE INDUSTRIES

Sources of competitive advantage within service industries are changing. Perhaps the most helpful way of exploring the potential sources of advantage from increased concentration in the service industries is outlined in Table 3 using the concept of core competencies.

Table 3 Scope economies available to service industries in global product and market diversification

SOURCES OF SCOPE ECONOMIES		
	Product diversification	Market diversification
Shared physical assets	Flexibility to produce multiple service offerings	Global brand name
Shared external relations	Using common distribution channels for multiple services	Servicing multinational customers world-wide
Shared learning	Sharing software development or expert teams	Pooling knowledge developed in different markets

Source: Author's adaption of Ghoshal, 1987.

The concept of economies of scope is used to explain economies arising from integration: i.e. the simultaneous supply of inputs common to a number of outputs. In other words, economies arise from the range or "the scope of the business activities engaged in by the modern business enterprise" (Teece, 1980). Resources acquired or developed for one purpose may be utilised for additional purposes at no extra cost. Ghoshal (1987) argues that a diversified firm should be able to benefit from sharing costs across products and markets by joint use of different kinds of assets.

The pursuit of economies of scope is described by Ghoshal (1987) as "a search for internal consistencies within the firm and across its different activities". This reinforces the necessity for clarity in the core concept and avoidance of a multiplicity of unrelated core service offerings. The costs of forcing "internal consistency" onto businesses which are not naturally related can be too high in terms of e.g. inflexibility, customer and staff dissatisfaction, or managerial resource.

Table 3 suggests some sources of economies of scope available to international service businesses. Many of these are IT-related. This should not be altogether surprising since IT has played such a major role in transforming service industries from fragmentation to concentration.

Shared physical assets as a source of economies of scope for services should include IT and brand names. IT can simultaneously achieve a high degree of segmentation of activities and lower costs as hardware and software development are allocated over a broader base of applications, or as entirely new services utilise established networks for little additional cost (FAST, 1986; de Quillac, 1986; Rada, 1987).

For Benetton IT is the lifeline by which inventory has been replaced by information for merchandising, supply and distribution. For successful retail chains IT is central to fast response times, cost reduction, inventory control, distribution and supply networks, monitoring of sales and consumer demand, improved customer service and tighter margin management.

IT has created opportunities for economies of scope by breaking down many of the traditional boundaries in the service industries, for example between hotels, theatres and car hire companies or between travellers cheques and insurance services or holiday bookings. American Express has developed differentiated travel services for corporate customers through the use of IT. Services include arranging travel and monitoring of individual expenses. Computers search for the lowest airplane fares, track travel expenses for each cardholder and issue monthly statements. Both British Airways and American Express use IT to set standards of service levels and then monitor them worldwide.

Brand names are a powerful shared asset, which service companies have underutilised. Global companies can capitalise on their brand franchise by rapidly expanding across product categories. The American Express "blue box" logo gives brand acceptability to financial planning programmes, travel agencies, travel management services, banking and credit facilities, all derived from the global brand dominance of its charge card and travel cheques. The new Amex Optima credit card is positioned to take market share from the existing market leaders e.g. Visa and Mastercard by charging significantly lower interest rates, thereby combining a cost advantage with premium branding.

Ghoshal (1987) defines shared external relations as relations with suppliers, distributors, customers, governments or other institutions. Distribution channels in service industries are used increasingly intensively. Outlets, whether travel shops or banks, are multipurpose. Airports offer retail and financial services as well as travel. Retail stores and sites offer financial and leisure provision as well as merchandise. Many multinational companies (e.g. Fiat, Philips, Shell, BA) have consolidated their worldwide advertising into one agency for greater consistency and ease of transfer of ideas and information among country offices and headquarters. Single agencies with global networks provide more centralised control over external relations with customers, suppliers,

government agencies, etc. British Airways' "Supercare" advertising campaign made imaginative use of the theme of staff initiative. Taken together with the revamped corporate logo, uniforms and design, clear signals about service standards were being given to customers, suppliers and staff worldwide.

Shared learning has become extremely important as service industries have become more concentrated and more competitive. Pooled knowledge can cover such diverse assets as software development, staff expertise or scarce ideas for new offerings. BA has developed software to monitor passenger profiles per flight, per route, and across fare ranges to manage load factors (passengers per aircraft) for maximum yield. Monitoring of sales gives flexibility in seat transfer between fare classes, just as systems for fuelling, servicing, scheduling, crew usage, route design and so on, increase resource capacity utilisation. All the systems which bring productivity gains also enable improvements to be made in services available to customers, either in quality or range or both, across BA's entire route network. A completely different example of shared learning is provided by the creation of flexible professional teams in professional service firms, able to draw on functional expertise combined with a variety of special skills and project experience. This development is in the early stages in the major accounting and consulting firms, despite the conservative effect of partnership structures on flexibility. It is largely driven by greater sophistication of client needs and the emergent scarcity of professional resource.

Transfer of the service offering

In their analysis of growth strategies for service firms, Carman & Langeard (1980) conclude that, for a service firm, international market expansion represented high risk. The characteristic of simultaneous production and consumption means that services have to be reproduced directly for the customer and on-site quality control is expected whether for a fast food outlet or an advertising agency. Learning has to take place at the same time as service delivery. The ability to maintain the quality level of a new service in an international market expansion is therefore high risk. They also argue that geographic market expansion is more appropriate for service businesses than market expansion based on socio-demographic segments. This is because services have to be conceptualised for a specific market segment, and cannot be marketed to new consumer segments without disrupting the original service interaction and service delivery. While accepting their assessment of risk and the basis for it, it remains possible to argue that globalisation of market segments represents an opportunity for continued geographic market expansion of the existing core service to the existing consumer segment across national boundaries.

CONCLUSION: THE SERVICE INDUSTRIES & GLOBAL STRATEGIC INTENT

The service industries are going through a period of rapid evolution which is changing the nature of competition in service businesses. This paper has considered changes in the structure and environment of the service industries, which create potential for globalisation strategies and global configuration to be adopted more widely by service companies. Some service companies have already leveraged existing strengths to establish identifiable worldwide market presence. It is argued here that this trend will be accelerated by the combined impact on the service industries of global market segmentation, reductions in structural barriers to international trade through deregulation, growing concentration of service industries and the far-reaching effect of IT on every aspect of service businesses.

Economies of scale and scope are now available in service businesses. New types of competition in services have emerged which require high resource levels. Opportunities for building world market share in services threaten to erode the position of currently strong domestic competitors. Historically, the service industries have been strong in the Western economies. They are significant in terms of output, wealth and jobs. Many of them still offer considerable growth potential. However, increasingly, as earlier in manufacturing, service companies are facing fierce competition from international new entrants in their domestic markets.

Significant changes have already occurred. In banking, large Japanese firms have acquired dominance. The same process appears to be beginning in hotels and leisure. Structural change in an industry necessitates strategic change by the firms in that industry. Where existing brand strengths, distribution networks and skill base are not utilised as a platform for building world market share when such opportunity exists, lost market opportunities abroad and a gradual erosion of the domestic base, can result.

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