Chapter I

Introduction to Services

Introduction

Over the past few decades, organizations have witnessed dramatic changes in their environment. The globalisation of the economy with the emergence of Asia’s new economic powerhouses, the rise of the knowledge economy, the rapid growth and sometimes equally rapid decline of disruptive technologies and business models are some examples of the modern economic environment, within which organizations must survive. At the same time, requirements from shareholders have become increasingly pressing. Stock markets demand high returns on investments, while strong competition narrows the profit margins. On the other hand, consumers continue to evolve in a process that began in the 1980s, to become more health and image conscious, eclectic in their purchasing choices, and not conforming to one-size-fits-all solutions, preferring individuality and customization, even of commodity products.
Suddenly, companies from every sector are offering services or total solutions and customer care rather than simply products. The reason for that is that most, if not all, mainstream consumer products have become commodities. Where competition is no longer possible in other ways apart from cost, it is impossible to improve profit margins. One way to achieve that is by selling services associated with the main offered product (Vandermerwe & Rada, 1988).

For example, many car manufacturers today sell services together with vehicles (mainly conventional services such as car servicing, but also, more profitably for them, financial services). Evidence suggests that combined servicing and financing can be a lot more profitable to the car manufacturer than the selling of the car itself. It is not uncommon these days for the product to be sold as an add-on to the service, rather than the other way around. Telecom operators sell telephones and other communications devices at a nominal cost, or even give them free to buyers of their telephone services. The same applies to, for example, media broadcasters, who supply the electronic equipment free or at a below cost to subscribers.

For organizations such as banks, services have always been a more integral and fundamental part of their business. The financial organizations core business is the management (borrowing, lending, and investing) of financial assets. One source for borrowing money is individual investors (i.e., people holding savings and investment accounts with the banks). As in many other industries, banks find it difficult to compete on a cost basis alone, therefore they need to adopt a service differentiation strategy in order to differentiate from the competition and to attract investors. Such services typically include investment advice, but they can also be totally independent from the mainstream banking to include, for example, travel-related services.

Finally, there is the case of so-called pure service organizations. A solicitor’s firm or management consultancy, for example, does not sell physical products, such as cars (or even virtual ones) like investment accounts; it offers professional services. In this case, the service is the product.

It can be argued that service is an integral part of today’s organizations value chains, them being manufacturing, financial or professional services sectors. Even if the core product of the organization is not services, the latter can become an integral part of the product package and, if appropriately delivered, yield competitive advantage.

Despite the central role of service in contemporary organizations, existing strategic frameworks emphasize instead the concept of process as the core part of their business value chain. In this context, derived value is perceived as the end result of a chain of value adding business processes, which, in turn, can be viewed as transformations of materials to products delivered to customers (i.e., inbound logistics, production, outbound logistics). The concept of activity has become central to business management and has inspired a number of popular activity-based management tools and techniques, such as activity based costing and management (Cooper & Kaplan, 1992). However, activity-oriented thinking is not suitable for service-centered organizations.
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