

## Week 1: Strategy and the Customer Service

### Services

the **act** or **process** of serving food, drinks, etc.  
**assistance** or **advice** given to customers after the sale of goods.  
 the **act** of helping or doing work for another.

### Goods

- a **thing** or **substance** produced by natural process or manufacture.
- a **result**: the *product* of their labours.

Characteristics:

1. *Intangibility* of what is provided
2. *Inseparability* of provider and customer
3. *Heterogeneity* of service providers and customers
4. *Perishability* of service capacity and/or benefits

Differences provide both opportunities to increase revenue and increase risks for both customers and service providers

### 1. Intangibility

⇒ Nonphysical nature of services

- often “experience” related
- no or relatively small inventories
- often strong ethical/professional codes to ensure quality (accounting)
- not always easy to describe/analyse (nursing)

⇒ Pure Service

- no raw materials and no tangible form for the customer (bungee jumping)

⇒ Middle Ground

- some raw materials used (beauty salon)

### 2. Inseparability

Production and consumption occur simultaneously

- Customer may affect the volume and quality of the service provided
- Customers evaluate services differently from products; what and how delivered

Service organisations are able to differentiate more compared to manufacturing ⇒ enabling to charge a higher price (e.g. lecturer seeing people looking confused they can react)

### 3. Heterogeneity

Greater chance of variability in performance of services than in products

- Need continual measurement of productivity and quality that is sensitive to these factors
- Standardisation and quality control are difficult e.g. teaching and nursing

People related

- One worker is not the same as another (e.g. onstage vs backstage)
- Worker can change from one day to the next
- One customer is not the same as another
- Customers can change one day to the next

### 4. Perishability

Services cannot be stored

- Service benefits may expire rapidly (short term benefit e.g. hairdressing)
- Service may be time-constrained (flights)
- May mean greater risk for customer and business

May be repeated often for one customer

- May mean greater risk for business
- Ethics is important

Service feature	Characteristic
1. An aircraft departs for Sydney with a 65% loading	2. Intangibility
2. The concert you went to last night was amazing – but you can't remember what they played in the encore	3. Inseparability
3. The impact of a teacher on student learning outcomes is affected by their students' ability/motivation to learn	4. Heterogeneity
4. A restaurant's head chef is depressed today because one of his cats just died, and he wishes he was at home comforting his other cats	1. Perishability

1. Lose value once plane leaves
2. Nothing you can take away from it
3. To be effective students need to work too
4. Variability, no quality control on feelings

## Service-Dominant Logic (SDL)

Idea that all businesses are in the business of service

### GDL thinking: Value

**Black & Decker:** drill

**Boeing:** engines

**Restaurant:** hamburger

### SDL: Value proposition

• **Drill:** makes holes; DIY empowers us

• **Boeing:** flight hours; safety; reputation

• **Restaurant:** ambience; convenience; comfort

GDL: idea that we produce value

SDL: interested in the benefits it provides

## SDL: 10 Fundamental Premises (FPs)

- 1) Service is the fundamental basis of exchange
- 4) Operant (active) resources are the source of competitive advantage
- 6) The customer always co-creates value
- 7) Enterprise can only offer value propositions
- 8) Service is inherently customer oriented
- 10) Value is context dependent

## Environment and Society

### Meaning of sustainable development (UN)

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:

1. the concept of **'needs'**, in particular the essential needs of the world's poor, to which overriding priority should be given; and
2. the idea of **limitations** imposed by the state of technology and social organization on the environment's ability to meet present and future needs."

Needs: sources of inspiration for revenue opportunities

Limitations: costs

### Win-win Scenarios

Can pursue environmental and social aims without harming and in fact improving business outcomes

### Focus on Value, not Products

"it could be argued that GD logic is the source of some of the underlying concerns about societal; and ethical issues" – Vargo & Lusch

FP1⇒ GDL: the purpose is to make and sell more units of output

SDL: The purpose of exchange is to mutually serve (don't waste/make for the sake of making)

### Use Less, Serve More

GDL: Operand 'passive' resources: require an act to be performed on them to produce value (used up)

- Finite resources: land, material

SDL: Operant 'active' resources: produce effects

- Replicable, non-consumed: skills and knowledge
- From the firm, and from the customer

FP1 ⇒ More production is not always better

FP4: Creatively apply skill and knowledge to serve customers

## Strategic Process

Strategy: a plan of action designed to achieve a specific goal



⇒ systematic plan, strategic goal, short to long-range views, resource planning

Strategic processes need to be informed from the outside in ⇒ aligning right with left

## Customer-Led Strategy

### 1. Identify your primary customer

#### Perspective

- What does the organisation seek to do?
- "culture, mission, and folklore"

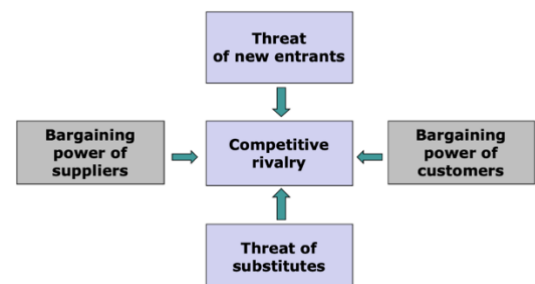
#### Capabilities

- What is the organisation set-up to do?
- Key resources and processes in the firm

#### Profit Potential

- Which customer type have the greatest profit potential?
- Can be direct (buys service) or indirect (uses service)

### Porter's Five Competitive Forces: Industry Analysis



### 2. What does your primary customer value?

FP3, F6

Define in terms of:

Functions: e.g. networking, referrals, chat feature

Attributes: e.g. connected, opportunity, interaction

⇒ this lets you evaluate your offerings and whether you have the resources to provide the service demanded

## Blue Ocean Strategy

Looking at the existing market and changing the business to create a new market

- Strategic move rather than tactical execution
- Value innovation
- Reduce cost while increasing value

Red Ocean	Blue Ocean
Compete in existing markets	Create a new market where there is no competition
Focus on beating the competition	Make the competition irrelevant
Exploit existing customer demand	Create and capture new customer demand
Make a value/cost trade-off (strategic positioning)	Increase value AND reduce cost
Choose between cost leadership and differentiation	Combine both differentiation and low cost

## Creating a Blue Ocean Strategy

### 1. Four Actions Framework

- Adjust service attributes to both reduce cost and provide higher value

### 2. Alternative Pathways Framework

- Brainstorm strategic combinations that create blue ocean by reconstructing market boundaries

### 3. Strategy Canvas

- Visualise the way current business competes and how you create Blue Oceans

## Four Actions Framework

### Reducing Costs

1. Reduce: factors to be reduced well below the industry standard (not price)
2. Eliminate: factors that the industry takes for granted

### Creating Value

3. Create: add new features that the industry has never offered
4. Raise: factors to be increased well above the industry standard (not price)

## Alternative Pathways Framework

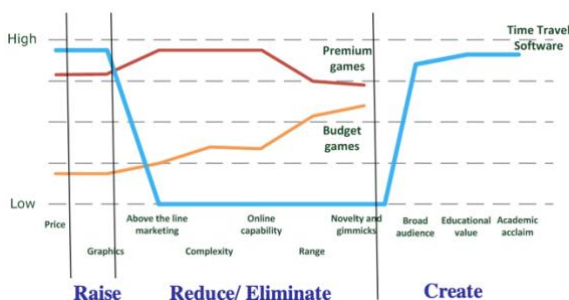
Helps businesses to brainstorm new ideas

Tactic	Description	Example
Alternative industries	Combining alternative industry offerings to create a new market	Nintendo (brain training and computer games)
Strategic groups	Identifying new market segments that have not previously been targeted	Nintendo (retirees, female gamers)
Redefine the buyers	Identifying a new distribution chain	Dell (direct computer sales to customer)
Complementary offerings	Combining product offerings that customers use together	Apple Watch (time piece, smart phone, etc)
Functional vs. emotional	Rethink functional-emotional orientation	Body shop (soap to clean; soap to save animals)
Trends over time	Creating new markets reflecting global trends	Fitbit (health focus)

## Strategy Canvas

Visual of what your business plans to do and how it competes

x axis: attributes, y axis: investment level



## Blue Ocean Weaknesses

⇒ Blue ocean can turn red quickly if no barriers to entry (e.g. patents, high quality)

- second-mover advantage allows for correction to problems and more successful implementation

⇒ Your blue ocean may be someone else's red

- consider substitutes and related marketplaces

⇒ Customers may not want to swim in your blue ocean

- cannot simply mix and match any ideas

## **Week 2: Revenue Management and Pricing**

Revenue Management: selling the right product to the right customer at the right price

Where is Revenue Management Valuable?

RM principals apply in all settings

### 1. Varying demand compared to supply

- Fluctuating demand, fixed capacity  
⇒ difficult to predict how much to supply
- High fixed costs, low marginal costs  
⇒ want to get the most use out of fixed capacity  
⇒ focus on revenue rather than costs

### 2. Customer Segmentation

- Ability to segment markets  
⇒ facilitates product customisation (\$)

### 3. Time Sensitivity

- Perishable products  
⇒ punishes poor pricing decisions
- Products sold in advance  
⇒ must acknowledge timing  
⇒ encourages dynamic pricing

## Pricing

Price signals: quality, status, fads, availability

Approaches:

Perspective

Outside In (SDL):

- What the market accepts
- Products are bundles of attributes
- Maximum willingness to pay

Inside Out (GDL)

- Resources used to produce
- Products are bundles of resources
- Minimum price to charge

Time Frame

Short Run (<1 Year)

Opportunistic: demand spikes/slumps

Some costs irrelevant: fixed costs, low incremental costs