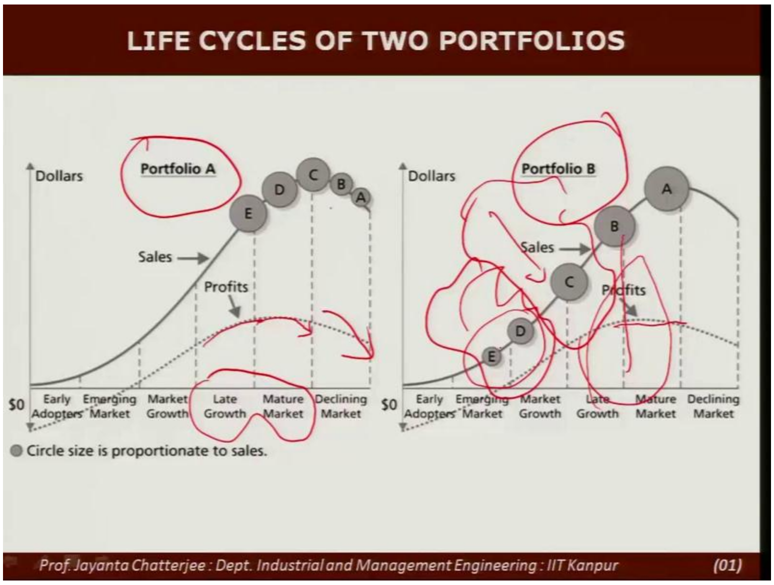
Managing Services
Prof. Jayanta Chatterjee
Department of Industrial Management and Engineering
Indian Institute of Technology, Kanpur

Lecture – 43
Strategy Canvas
Service Portfolio Analysis

Hello, this is Jayanta Chatterjee from IIT, Kanpur and this is our 8th week of sessions on Managing Services Contemporary Issues in the present day world of business. At this stage, I want to get into a deeper discussion, a more extensive discussion on customer relationship management and the philosophy of relationship marketing, which I had started discussion, discussing last week.

Now, before I get on to CRM or this whole philosophy of relationship driven marketing or relationship oriented marketing, it is important to see it in the perspective of the overall strategy of the service business. So, I thought I will start with a discussion on strategy canvas for a services business, highlighting the fact that there will be defensive strategies, offensive strategies. Both types of strategies may have to be executed at the same time and that is why we often see in organizations, that there is this concept of portfolio, portfolio of different products, portfolio of different services, portfolio of product service systems.

(Refer Slide Time: 01:52)



So, whether it is a mobile telephonic company, whether it is a D2H content delivery, entertainment content delivery service, whether it is a hotel or food and beverage service, whether it is a restaurant chain. At any point of time there will be different brands, there will be different offerings coming from the same organization and as you see in this diagram of the left hand side portfolio A, we are using that same diagram, which we have use several times before, the concept of the life cycle of a business, product life cycle, service life cycle or product service system life cycle.

And here you seen portfolio A, you have three business or three brands or three types of service offerings, in the late growth and mature market stage, which means one of them E is at a high profit generations own and the D and C are kind of a approaching decline and A B are already in the decline mode. Obviously, compare to this kind of portfolio, the portfolio on the right hand side the portfolio B is a lot more preferred sort of arrangement, here you see that A is a kind of in the saturation zone, but the B is in a high profit zone, C is approaching that rapidly and there are two businesses, which are a kind of on the other side emerging side.

The reason I am putting this to you is that, you will appreciate soon, that because of this different types of businesses coming from the same house, different types of brands being managed by the same services business, there will be a necessity to understand the different types of competitive positions.

(Refer Slide Time: 04:22)

And we will see that in all combinations, retention today, customer retention and more importantly customer advocacy plays a crucial part in the well being of the business. Just to recap the discussion that we have had before about generic strategies, we know that there is one generic strategies, which relates to differentiation.

And we have also discussed before that when the business is at early stage, the business grows using differentiation as the coarse strategy. When the business goes in to the main stream and it progresses further, this is the stage where it has number of other competitor have already plugged in and at this stage more than differentiation, what is very important is to have the high control on cost to be in the lowest cost position to give you the maximum maneuverability and we have also discussed before, that the lowest cost position comes from operational excellence.

So, the life cycle diagram has a high correlation with this three types of generic strategies. In the early stage, this differentiation position is generated by feature driven technical and process based differentiation in services. In the next stage, cross position comes operational excellence must highlight as you know right from the early discussions in service the front side, which is the front stage the market stage, market facing activities and the back, which we often called back stage, front stage.

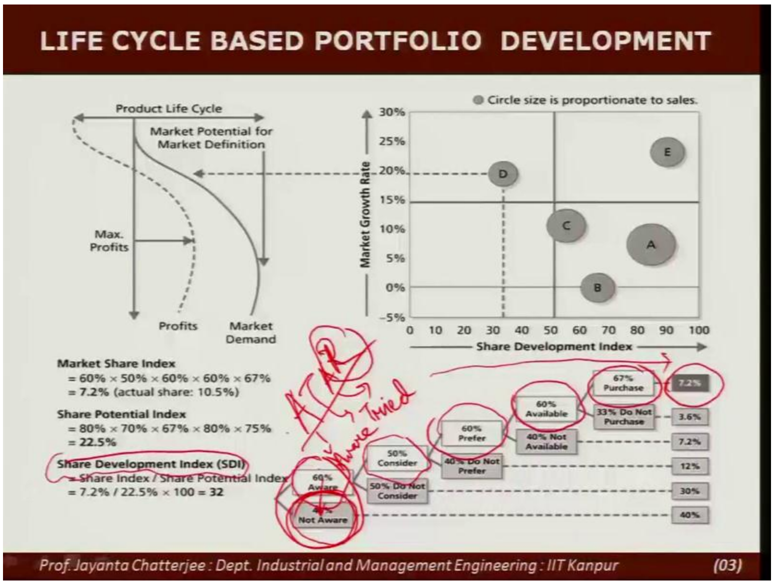
So, this is the operations, this is a kitchen of a restaurant and this is the front side of the restaurant, where services are being offered, customer is in contact with service providers. But, we have discussed the just as in a restaurant the quality of the service coming in from the kitchen and quality of the service in presenting that to the customer are so intricately linked, that in service we see operations are marketing as a seamless connection, as a flow from one to the other without having silos, without having barriers.

In that sense in service businesses we often need to manage the differentiation position and the cost position; that means operational excellence as well as distinctive features in a combined manner. We must have both offerings, we must have both capabilities to excel in the service business. And as a result, service business naturally lends itself to a focus strategy, which means, that we offer distinctive features and attractive cost based opportunities to the customer and that is only possible if you are actually having a segment focus.

And that is why in a, say for example, if we take this organization, which has three different types of restaurants across India and perhaps, now in other countries they have a chain of Chinese restaurants called Mainland China. They have a chain of novel, Bengali cuisine restaurant called Oh Calcutta, they have catering services for backwards and so on, they may have some home delivery services for small parties.

Now, these are different types of activities and they might be already expanding into other types of activities, they may be already a negotiation to acquire different other types of offerings, maybe tomorrow they will open a chain of bakeries, may be they will open a chain of ice cream parlours. So, therefore, it will be, they will be in a situation, which we just that they will have these A, B, C, D, E, different types of brands, different types of service offerings under the same banner. And when they are managing it, in each case they will have to very clearly define their segments and their offerings which match that segments, likes and dislikes.

(Refer Slide Time: 10:04)



As a result, what happens is that different businesses, if you see here if we see that share development, market share development index and this is the market growth rate, then the different businesses will be at different points. Now, it is good to understand this share development index, this is an important concept, it comes from the famous author model. This A stands for aware; that means, what percentage of your target customer base, they aware of your brand aware of your offerings, how many of have actually already tried, how many what percentage of the tried people, who have gone through your trial test, marketing have ready access to your service.

And therefore, the repeat purchase, which is, what we are looking at which is another manifestation or rather the number manifestation of a loyalty comes as a multiplicative chain of this A T A R. For example, you can see here we have given, that if you have a service offering and 60 percent people are aware of that particular service brand that you are offering and 40 percent are not aware.

Then; obviously, to go from this 60 percent and acquire part of the 40 percent is a good priority, now of the 60 percent who were aware, 50 percent this is just some hypothetical numbers, but pretty good numbers, this is what happens. So, 50 percent of this 60 percent may consider going to your restaurant, going to your hotel, taking that particular foreign travel, global roaming package from your mobile service, etcetera.

So, 50 percent will consider of this 60 percent and 50 percent; obviously, they cannot consider, because they have different other options. Of the 50 percent who consider, maybe 60 percent after trial find your services pretty good, so they prefer. Of the 60 percent who prefer and suppose 60 percent of them have ready access, ready availability of your services, then we can see two thoughts of them will purchase.

Now, you see if you multiply these factors; that is what this diagram shows, we land up with only 7.2 percent, so of the total addressable market, at this point of time you have only 7.2 percent market share. Obviously, if you want to therefore, have a better revenue position by looking at these diagram; that means, that more we penetrate into the existing market potential, better we will get in terms of financial return and which means, that in each stage it is important for us to have return the customers we already have and leverage that customer base through advocacy, through referrals to penetrate.

So, you see if that games starts right here in the very first only 60 percent people are aware, 40 percent not aware. So, 60 percent people are aware, suppose you are a mobile service provider company and you have just now introduced a particular scheme under which, that if people continue to use your number during foreign travel, the same number that they normally use in India, you will offer them a special package rate instead of the normal quite high global roaming voice and data usage rate.

And this you will do because people, because of that high usage rate high charges for mobile and data voice usage they have been using other in a local Sims local service providers are different other types of value added service provider. So, the main stream service providers like Vodafone or Airtel or Aircel or if they want to Idea, they want to capture this part of their business, which is normally taken away by people like ((Refer Time: 14:47)) and others, then they create this special package.

Now, if the create this special package and only 60 percent of their current customer base, who are prone to international travel or aware then; obviously, they are first marketing task first management task is to make more people from their customer base aware about aware of this new offering.

(Refer Slide Time: 15:22)

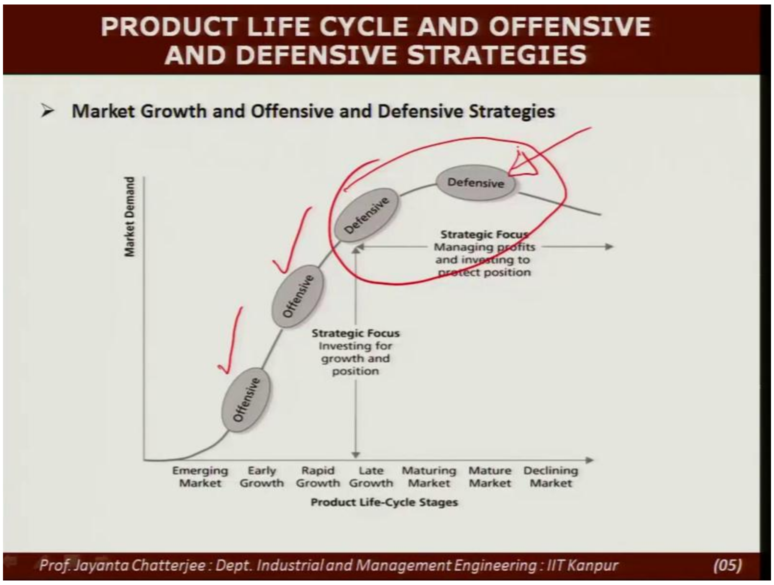
So, first notice the importance of cultivating you existing customer base for any new service that your offering besides that if you are in some businesses you are actually a new entrant. Suppose you are a very well established restaurant chain offering western food and now, you want to get in to Chinese you want to open specialized chine's restaurants.

Then, you are maintaining a defensive strategy in the continental restaurant chain, where you are already a leader, but in the chine's restaurant chain you are actually, now in an offensive more, because you are trying to acquire market share. So, acquisition of market share and retaining your current market share, which means retaining your current customer share may have to go hand in hand instantly, what we mean by often is it portfolio strategy is more investment to grow improve position new market entry.

So, the example that I said suppose there is a big food and beverage company a service company and they are now, they are quite famous as a pizza, they may have famous pizza chain and now, they want to open A Chinese restaurant chain. And that will mean that they have to invest to grow they have to improve that position for this new market entry.

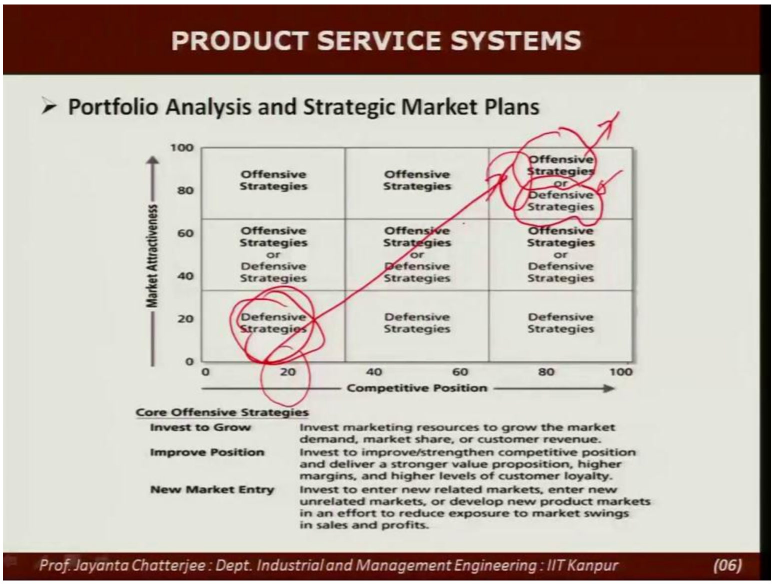
On the other hand in the pizza chain they may have to hold they have defensive position, because they may already have a 40 percent market share, which they have to product plus some times. If that particular business is in the decline mode like for example, as we saw in this diagram suppose this is the business, which is in the decline mode of these are the business is in the decline mode.

(Refer Slide Time: 17:23)



Then, these you may have to, what we call harvest; that means you try to maximize your income from there and try to slowly get out of that business as long as keeps continuing to give you positive return you be in that business. So, at a time, what we can see here that this is the zone offensive strategy this is the zone, where offensive and defensive often may come together this is the stage, where actually defensive strategy is more prevalent. And if you have different businesses or difference stages, then you may have to manage this different business types of strategies together.

(Refer Slide Time: 18:01)



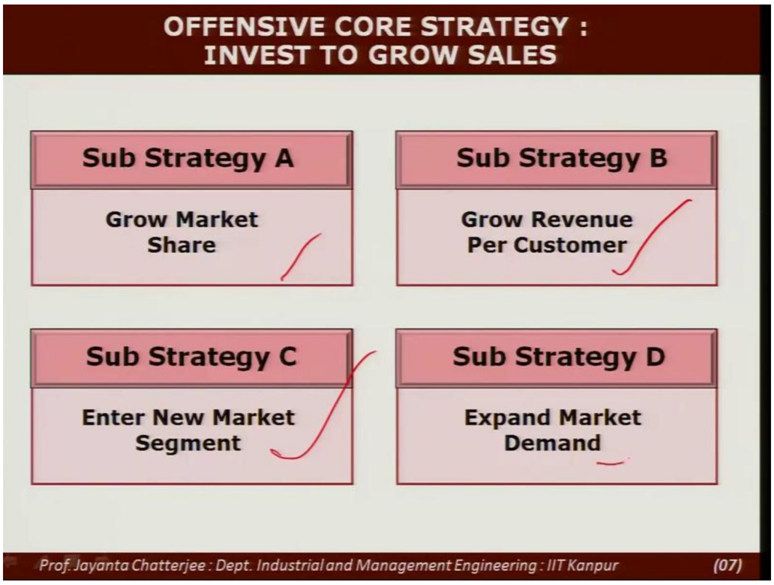
This is a nice matrix, where we have on one side on the y access we have market attractiveness and on the x access we have competitive position. So; obviously, if you are competitive position is like this is on a scale of 100, so which means here you are very strong competitively and, so if you are competitively very strong and that market is very attractive and your competitively very strong.

So, you have to retain your market share, which means that there you have to have a defensive strategy and you may have to also create an offensive strategy, because you have to see some time offense is the best defense, so you have to be in a mode of growth here. On the other hand, if you are here that your competitive position is rather week and your market attractiveness is also weak this is a market, which is better to get out of, but may be you cannot get out of it.

Because, it is one segment in a multi tier offering that you are have and therefore, you need to, but here you will do a defense strategy, which means you will not try to grow your market share, but you will try to product the customer base that you have. So, see continuously I am referring to that customer base the customers were already with you under any situation, whether it is here or whether it is here are across the trajectory you will have to retain them. Without retention and acquisition strategy are more and more new customers while not taking excellent care of the existing customer is a very full hardy very on wise strategy in today's service business.

And why in today service business, because we have already discuss service businesses are the entry barrier is low service businesses are very open to global competition service businesses therefore, always almost always in a hyper competitive zone. And; that is why they are continuously under pressure and because of that they need to retain their customers.

(Refer Slide Time: 20:37)

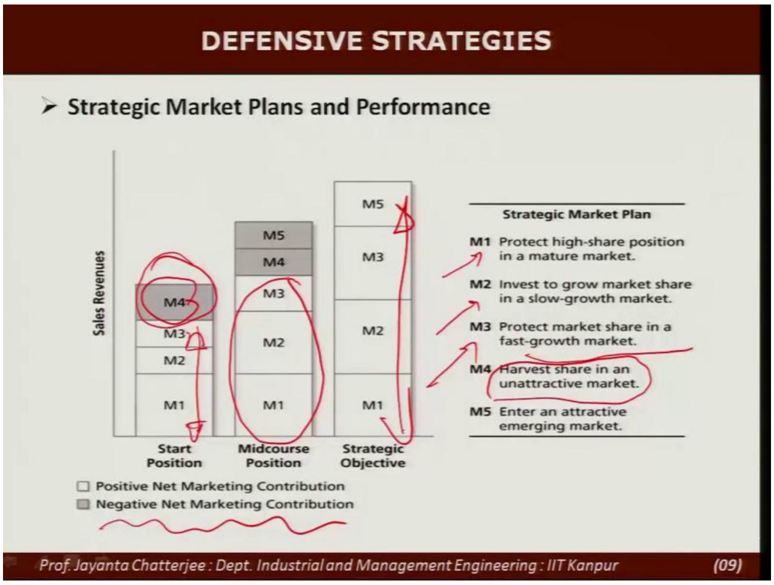


So, offensive strategy will mean this different things grow market share as we were discussing grow revenue per customer enter new market segment expand the market demand all of these.

(Refer Slide Time: 20:49)

And new markets are new source of growth and improving competitive position another way of offensive strategy is achieve price premium. But, again highlighting that customer retention is again a key even in this case when you trying to go into new market, because it is only when you have good retention strategy only when you are completely protecting your current customer base you will have net marketing contribution this will become clear.

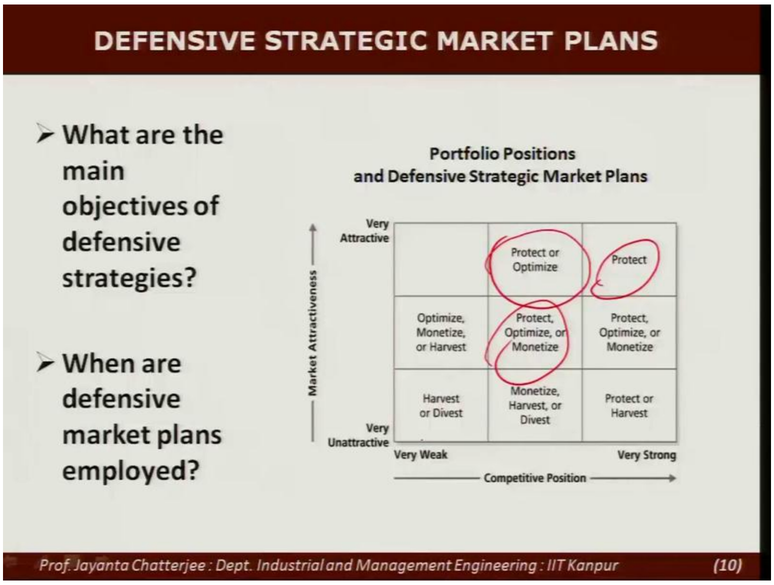
(Refer Slide Time: 21:28)



From this next diagram, that if you see at any movement of time you may have M1, M2, M3 this is where you are trying to protect your high share position in a mature market M2 is invest to grow market share in a slow growth market M3 is protect market share in a fast growth market M4 is harvesting share in a unattractive market, so this as a negative net marketing contribution and which means that these which are very dependent on retention relationship marketing base strategy are very important, so that this impact is negated.

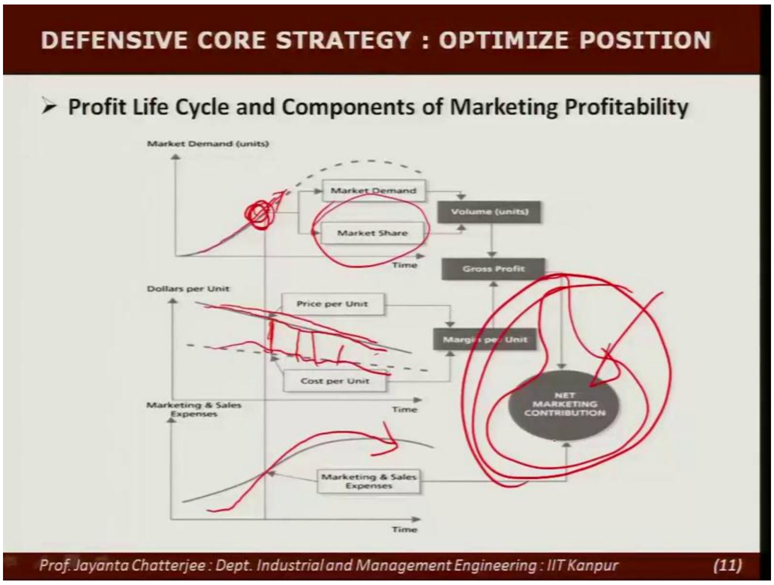
So, strategic objective is of course, all across we have positive net market contribution, but in reality that is the there will be some negative net marketing contribution and therefore, those market segments, where you have existing customer base retention of that existing customer bases crucial.

(Refer Slide Time: 22:39)



In the defensive marketing stage; obviously, where you are trying to protect or optimize your position again it is absolutely important to have a keen focus on retention.

(Refer Slide Time: 22:54)



So, this light tells us that this is a very interesting slight as you can see here all three diagrams are input on; that means, market demand per unit dollars or rupees or Euros per unit and marketing and sales expenses. So, at this stage of the product of the service business life cycle your it is in high great growth stage and you are; obviously, you have a the market demand is increasing, so you have to go at that phase at boxer, so your market share objective will have to be there.

But, this is stage where price per unit is going down, because of this competitive pressure many people coming in this is the normal feature. So, just look at the mobile service business or DTH televisions service business and so on, you will realize, but as more and more competitors coming the demand is growing market is growing, but price per unit actually keeps calling, so you need to therefore, your cost per unit also must fall, so that you maintain this difference.

And to maintain that difference to maintain that margin of the net market contribution as we take about you need to have operational excellence to manage this down was slow of the cost curve. So, that you are able to easily count of the price down term and the marketing and the sales expenses are also actually then take to rise as you grow.

So, this net market contribution, which is a key element for the financial health again is very, very dependent on good solid production of your existing market base. And as you will see that we saw some discussions in the last week's discussion, that the more you retain the customer not only you gain by the base profit here after here from that customer without any new acquisition task.

But, you also get several other benefits by way of referral by way of word of mouth they become your champion and therefore, attaining the status of getting your customer to market for you, refer your services to other people will be the key to managing a strategic situation. Where there will be number of businesses at different stages of growth. Some will be observing money and some will be releasing surplus and to manage overall and create a positive net marketing contribution. You must have good focus on defend strategy retention strategy while you are perusing the offensive strategy of getting new customers getting into new markets expanding the current operation.

And even they are as well will see in the next lecture we will like to focus on our existing customers, our existing relations to leverage a low cost entry with other low cost entry into a new activities.

Thank you.