LECTURE - 3

CLASSIFICATION OF SERVICES AND ANALYZING SERVICE OPERATIONS

Learning objectives

- To classify services so as to draw managerial issues common across similar service industries
1.5 Why Classifying Service?

Classification of services helps in devising guidelines to propose and implement appropriate service strategy as shown in Figure 1.9

**To better understand the needs of customer**
Segment services into clusters that share certain relevant marketing characteristics

**Cross fertilization of concepts and strategies**
Learning from one service industry can be utilized to other service industry

**Provide strategic guidelines**

FIGURE 1.9: SERVICE CLASSIFICATION TO PROVIDE STRATEGIC GUIDELINES

1.5.1 Service classification imperatives

Classifications of goods have proved to be beneficial in the following ways. Similar benefits can be reaped after service classification also.
• Better understanding of needs and behavior of customers by classifying goods in categories convenience and specialty goods, durable and non-durable goods and consumer and industrial goods.
• Such classification helps in product evaluation, purchasing procedures and usage behaviour and directs appropriate manufacturing and marketing strategies.

Some service industries have similar challenges and common problems to address. Most of the services share relevant marketing characteristics which are given below:

• Relationship between customers and service provider
• Patterns of demand
• Supply constraints

**Examples: Similar behavior of different service industries**

- Telecom industry and call center
  • Similar demand patterns
- Doctors, consultants and lawyers
  • Frequent meetings with more personalization
- Airlines and Hotels
  • High infrastructure costs
- Haircutting, boutique and spa
  • More personalized services
- Education, health and other utilities provided by government
  • Maximum reach to each individual of nation
1.6 Service classifications

Services can classified based on

- Nature of service act and the recipient of service
- Customization required by customer and the judgment of customer contact personnel
- The nature of demand for the service relative to supply
- Common problems across service industries in terms of degree of labor intensity and degree of interaction and customization.

Mostly used classification is represented by Service Process matrix

1.6.1 Service classification 1-Service Act and Recipient if service

This classification is based on nature of service act and actual recipient of service as presented in Figure 1.10.

- The service act or performance
  - Service performance may result in tangible action
  - Service performance may result in intangible action

- Actual recipient of service
  - Directly people or more precisely people bodies or mind
  - Services directed at goods and other physical possessions or intangible assets
1.6.2 Insights from classification based on service act and recipient of service

OBSERVATIONS on this classification can be seen in Figure 1.11:

- Physical presence or mental presence of customer in service
  - No physical presence but mental presence through some communication mode
- Physical presence is required

- Duration of customer’s presence in service system
  - Throughout the service
  - Only to initiate or terminate the transaction

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**FIGURE 1.11: INSIGHTS FROM CLASSIFICATION BASED ON SERVICE ACT AND RECIPIENT OF SERVICE**

- Physical presence of customers involves and demands
  - Interaction with service personnel
• Attention given to nature of service facilities: Facility location and facility design

• Characteristics of other customers using the same service

➢ No physical presence of customer

• Customer does not meet service provider face-to-face

• Focus on facilities may not be that important but effectiveness of service needs great attention as you cannot see the customer physically

How we can automate the service in the most convenient form for the customer using information technology avoiding travel by the customer?

1.6.3 Service classification 2: Customization and Discretion given to contact personnel

This classification is based on customization required by customer and the judgment of customer contact personnel as shown in Figure 1.12.

➢ Extent to which service characteristics are customized

• Low: A service leaves less choice to the customer

• High: A service leaves wide choice of options to the customer

➢ Extent to which customer contact personnel exercise judgment in meeting individual customer needs

• Low: Standardized service delivery, little discretion given to personnel in altering the characteristics of the service delivery
• High: Personnel is given wide latitude in delivering the service

FIGURE 1.12: CUSTOMIZATION REQUIRED BY CUSTOMER AND THE JUDGMENT OF CUSTOMER CONTACT PERSONNEL

1.6.4 Insights from classification 2: Customization required by customer and the judgment of customer contact personnel

➢ Standardization and customization

• The strategy to adopt standardization or customization depends on how service organization tradeoff between price and value.
Customization comes in many forms like variety, speed, convenience, self-service etc. The most important point is to make the customer aware that what he or she can expect from a particular service provider. That is the service concept should be clearly defined by the service organization.

- Low judgment of customer contact personnel
  - Have relatively little discretion in altering the characteristics of services. It is important to see whether the service employee follows the standard procedures to provide consistent service

- High judgment of customer contact personnel
  - Knowledge, training and expertise or specialization in the service domain become very important here to acquire skills required for satisfactory service delivery. Specialization may be required to such an extent that some services like surgical operations are so critical that customers (patients) will place their lives in surgeon’s hands.

### 1.6.5 Service classification 3- Constrained supply and demand fluctuations

This classification is based on nature of demand for the service relative to supply as shown in Figure 1.13.

- Extent to which supply is constrained
  - Peak demand can usually be met without a major delay
  - Peak demand regularly exceeds capacity
- Extent of fluctuations over time
  - Wide
  - Narrow

Figure 1.13: CLASSIFICATION BASED ON NATURE OF DEMAND FOR THE SERVICE RELATIVE TO SUPPLY

1.6.6 Insights from classification 3: Constrained supply and demand fluctuations

- Due to perishable nature of services we cannot store services as inventory. Opportunity loss due to excess demand results in losing customer to the
competitor. In contrast excess supply or capacity results in idle time or waste resources.

- The need of extra capacity can be managed by hiring part time employees or renting extra facilities to manage excess demand.
- Understand the nature of demand fluctuation (predictable or random) and reason for this fluctuation. This understanding will help in devising strategies to smoothen the demand.

1.6.7 Service Classification 4-The Service-Process matrix

Service Process matrix proposed by Roger Schmenner, 1986 is based on degree of labor intensity and degree of interaction and customization as shown in figure 1.14

- Degree of labour intensity
  - Ratio of labor cost to capital cost

- Degree of Interaction and customization
  - Ability of customer to affect personally the nature of the service being delivered
The classification as per service process matrix is shown in Figure 1.15 is based on following:

Degree of labor intensity
- Low
- High

Degree of interaction/customization
- Marketing Variable: Ability of the customer to affect personally the nature of service
  - Little Interaction: Standardized service
  - High Interaction: Customized service
Degree of Interaction and Customization

- Low
- High

<table>
<thead>
<tr>
<th>Degree of Interaction and Customization</th>
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<tbody>
<tr>
<td>Low</td>
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<tr>
<td>Low Degree of Labor Intensity</td>
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<tr>
<td>Service Factory</td>
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<tr>
<td>Airlines, hotels</td>
</tr>
<tr>
<td>Service Shop</td>
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<tr>
<td>Hospitals, repair services</td>
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<tr>
<td>High</td>
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<tr>
<td>High Degree of Labor Intensity</td>
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<tr>
<td>Mass Service</td>
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<td>Retailing, Schools</td>
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<tr>
<td>Professional Service</td>
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<td>Lawyers, accountants</td>
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Degree of Labor Intensity: 
Ratio of labor cost to capital cost

FIGURE 1.15: CLASSIFICATION BASED ON DEGREE OF LABOR INTENSITY AND DEGREE OF INTERACTION AND CUSTOMIZATION

1.6.8 Insights from Classification 4: Service Process Matrix

In the service process matrix, service sectors pertaining to each quadrant faces managerial challenges as shown in Figure 1.16.

- Low interaction/low customization: Service Factory
  - Marketing; Attention to physical surroundings
- High interaction/high customization: Professional Service
• Cost control; Quality; Advancement of employees; Flat hierarchy; Employee loyalty

➢ Low labor intensity:

• Capital decisions; Technology advances; Peak/Off-peak management; Scheduling service delivery poses challenges for service organizations belongs to Service factory and service shop.

➢ High labor intensity:

• Hiring and training; Development of methods and Workforce scheduling poses challenges in mass services and professional services
1.7 Why Service Operations?

- The word ‘Operations’ is defined as the transformation process in which inputs in the form of people, raw material, technology and money are transformed using some process to an output as goods, service or product.

- When we talk about operations in context of services, we see many service organizations are labour intensive that is the people or humans contribute the most as input factor in the transformation process. The output also involves human beings.
➢ Involvement of customer in the production and consumption of service makes the service operations very dynamic.

➢ The absence of set standard practices and performance measures due to human dynamics make the service operations a challenging task. Contrary to services it is easier to evaluate the performance of goods in terms of visible features, strength, and quality.

➢ The other dimension which brings more challenges in the services is the involvement of people from different functional areas of an organization. The transformation process in services depends on the efforts of all functions like Human resources (training), marketing (managing demand), operations (optimal utilization of resources), finance (budget constraints), Information Technology (automate the manual processes).