

THE IMPORTANCE OF SERVICES MANAGEMENT IN THE INDUSTRIAL ORGANIZATIONS

Cătălina-Monica ALEXE¹, Cătălin-George ALEXE²

ABSTRACT

In future, the industrial organizations will have to develop services in order to maintain or to improve their position on the market and to settle the competitive advantages.

By using services as a competitive tool, companies may succeed in and set up barriers to entry to potential competitors.

The paper contents: the importance and the role of carrying out services, the development of services, the virtual factory, the essential premises required to perform services.

The traditional boundaries between industrial and service companies tend to blur, as the industrial organizations adopt more and more the service component in their offerings.

KEYWORDS: customer, needs, competitive advantage, service, customer information system, service delivery system.

1. THE IMPORTANCE AND THE ROLE OF CARRYING OUT SERVICES

The need of this work came into being as a result of the growing importance of services to the economy, reflected in the economic development, the employment and GDP.

In 1999, services amounted to an average of 70 per cent of GDP on the developed market economies in Europe, while they represented an average of 50 per cent of GDP in developing countries and in some Eastern European countries, the situation was as follow: 62 per cent of GDP in Bulgaria, 65 per cent of GDP in Poland, 53 per cent of GDP in Romania.

Nowadays, over two-thirds of all employment in developed countries is in the service sector. The United States of America heads the list of the service sector's share in employment, with almost three-quarters of all 1999 employment in the service sector.

Services have become more and more important for manufacturing companies which are offering an integrated package of products and services.

To meet the aspects above mentioned it is interesting to know the results of a survey published in *The Economist*, August 2002 and held among executives in Germany and Belgium indicated that over 90 per cent of all manufacturing companies believe the further

development of services is crucial for maintaining and improving their competitive position.

Two groups of factors were determined and played a decisive part in this sector's increasing importance:

- increasing consumer incomes and sociological changes have led to a greater demand for services;
- increasing professionalism in companies and technological changes have brought about the creation of new services, notably of producer services (investment banking, insurance, engineering, accounting, legal services).

The impact of income changes on buying behaviour is rendered very well by the statistician Ernst Engel in the Law which has his name. When people are poor, they have to allocate all or a large part of their income to the necessities of life (food and shelter). Once the incomes rise, the proportion of total spending on food diminishes and the extra income is spent on clothing, recreation, personal care, travel and luxury items. As a result, people with higher incomes tend to spend relatively more on services and less on goods.

In the last few decades, disposable incomes have risen in most countries, therefore the demand for both social services (health care, education) and personal services (tourism,

recreational services, domestic services) has increased and new consumer services, such as fitness services, have been developed. The relationship of basic and complementary needs to disposable incomes and the

development of the services can be illustrated by referring to the Maslow pyramid of needs (see Figure 1).

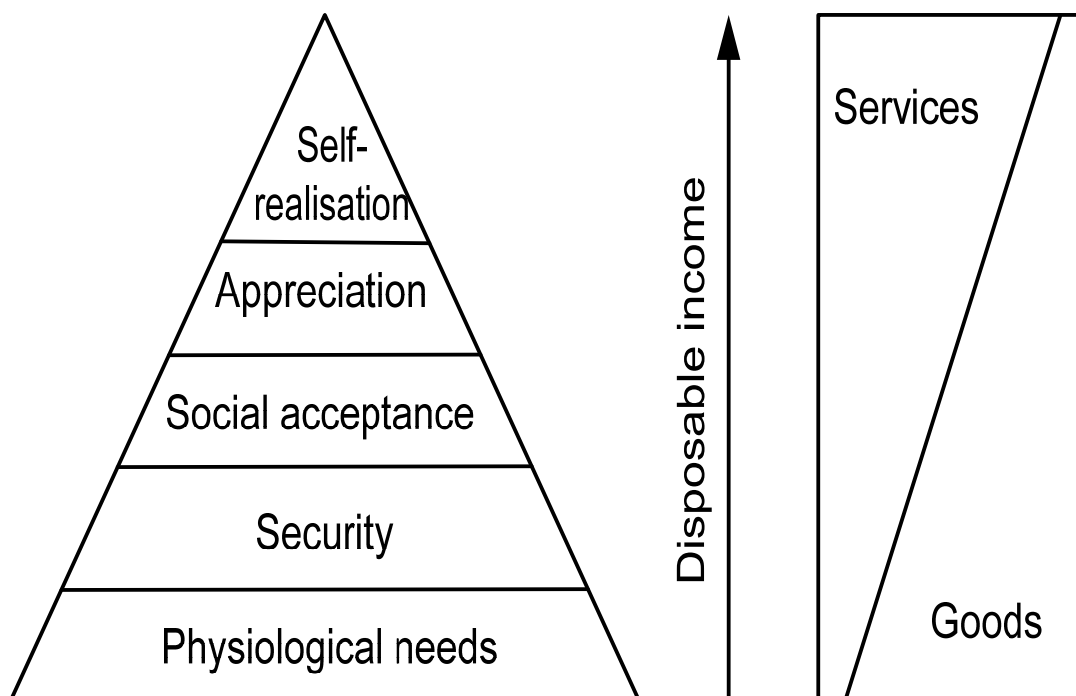


Fig. 1. The relationship of the Maslow pyramid of needs to disposable income and services

Sociological and demographic changes

- a higher percentage of women in the labour force leads to a greater demand for day-care nurseries and maid services. This phenomenon contributed to the increasing output of the service sector and the orientation towards the service provider,
- the increase in life expectancy led to a greying population. This has increased the demand for nursing homes, health care services and specialized travel agencies, which have become professional service industries,
- legal services (legal advisers, income tax consultants etc.) have become necessary due to the increasing complexity of life.

The growing importance of producer services

Producer services are the services used in the production process of both goods and services. There are some examples: law firms for legal counselling, consulting firms for management problems, advertising companies for advertising campaigns, firms which are dealing with maintenance, data processing, transport, research and development, and surveillance. These services do not replace manufacturing, but contribute to the production of value added in manufacturing firms. While many manufacturing firms previously executed these jobs themselves, they have now outsourced them to service companies. Therefore, while these jobs were previously considered a contribution to manufacturing output, these same tasks now provided by service firms are counted as a contribution to service output.

Tehnological development

Development of the information technology has made an significant contribution to the diversification of the services available and towards the creation of new services, that leads to the increasing importance of services. Tehnological development has made possible the creation of whole new service sectors like telecommunications, software development and engineering. This technological-evolution is continuously affecting the way services are delivered – for instance, in shopping, transportation and banking. New technologies have permitted to establish networks or systems which have allowed to provide the service to a little cost.

2. THE DEVELOPMENT OF SERVICES

A classical form of customer service offered by manufacturing companies is after-sales service – the installation, maintenance and repair of goods sold. In flexible factories, the

customer service implies the introduction of breadth to the range of product offerings and the ability to customize the product to meet specific customer needs. These customer services are seen as *services that accompany goods* – for example, acceptable delivery time, correct installation, after-sales repairs etc. In the process of providing services, the offer is defined as a 'bundle' consisting of both goods and services and management must consider the relationship between manufacturing (or goods production) and services activities that make such products possible and effective.

There are three different approaches that ascertain the relationship between goods and services:

- as a mere goods manufacturer and supplier;
- offering additional services;
- embracing the notion of servitization.

The three different approaches follow an evolutionary process, as depicted in Figure 2.

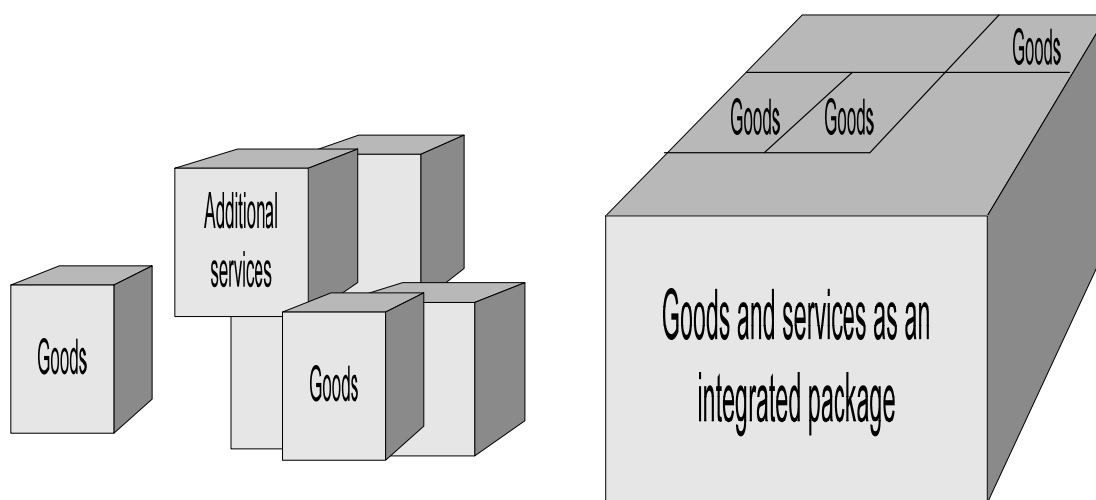


Fig. 2. The evolution of the relationship between goods and services

In the beginning, a company may start with merely offering goods; it may then develop services as an add-on. The intrinsic value of services is then acknowledged in the following step.

The manufacturing companies are becoming increasingly interested in giving their customers good services for two reasons:

- more and more customers want more services and are no longer satisfied with the good alone,
- offering a higher level of service than that of the competitors, the offering becomes more attractive for the customers and it can get a competitive advantage.

Satisfying customer needs

Today's customers simply demand more services. They do not simply want to buy a good - for instance, a car or a computer; they also want a guarantee that it works. They want ease of use, ease of repair, and a 24-hour information desk. Customers still want the same article, but also want the services, so that they can get the most out of their purchase. Ultimately it comes down to satisfying a need; which often implies more than the availability of products.

Redefining an offering as a *package of services and goods* may, therefore, meet customers' expectations. However, there is a danger of misunderstanding this approach as it can be seen that many suppliers add layer upon layer of services to their offerings without even knowing whether customers really want them, whether these services should be added on the standard package or offered as an option.

Customers are also increasingly taking *the life-cycle cost of product* into account. They are not longer looking at the purchase price alone, but also at other costs incurred over the product's lifetime – for example, cost of use (fuel, parts, supplies etc.) and maintenance. For many products, especially durable goods, the purchase price represents only a small fraction of the total life-cycle cost. For example, the purchase price of an average car represents only about a quarter of the total cost, the remainder consists of fuel, maintenance, insurance and taxes.

Providing good service to lower additional costs can become an important aspect of competitive strategy experienced by the firm. For instance, Mercedes-Benz used this in advertising campaigns for their trucks. Customers were reminded that the price of a truck constituted only about 15 per cent of the total average lifetime cost of the truck and they were advised to calculate the additional costs – that is the costs in use – taking into account Mercedes-Benz fuel saving systems, lease or finance terms, and especially the

availability of a broad range of vehicles, high quality production and efficient after-sales service.

Seeking differentiation

Traditionally, competition between industrial organizations has tended to focus on the manufacturing of the goods, now this competition has shifted to another level, namely that of *the product's service component*. Many manufactures only have limited competitive advantage to the features of their goods. As today goods are rather easy to copy, patents, licences often give only limited protection against copying; they are becoming more and more alike from their quality and performance point of view. Manufactures are finding it difficult to differentiate themselves from their competitors on the strength of the goods alone, and thus have to find their source of differentiation elsewhere.

Offering better service than the competition can become an important competitive advantage, as indicated in the findings of a survey of 138 German companies, where managers were asked their opinion on future opportunities for effective long-term differentiation. The result was 76.9 per cent of those surveyed mentioned services in the first place, then the product quality, technology/innovation, price/performance, communication/image. The computer industry provides a well-known illustration of this trend.

Goods have become 'qualifiers', whereas the services offered have become the 'order winner'.

Offering a mixture of goods and service components allows the company to differentiate and hence to create more satisfied and loyal customers.

By using services as a managerial tool to create competitive advantages, industrial organizations can set up barriers to entry to competitors on a market. Offering extended services can keep the competition away by making entry too costly and complex.

Offering packages of services and goods, the competition strategy assumed and experienced by the industrial organization has become less transparent for competitors.

4. THE VIRTUAL FACTORY

It has been found that servitization that is, paying more attention to the service component of the product offering – may eventually lead to the ‘virtual factory’. Generally speaking, a virtual factory is: ‘a factory which attains its target transforming materials and components into value for the customer by using resources outside the manufacturing function proper’.

Customers both possess, and are themselves, important resources and therefore should be included in the network of resource which a virtual factory controls. When the production is increased, the manufacturing organization should *control*, but not necessarily *own*, its various activities.

3. THE ESSENTIAL PREMISES REQUIRED TO PERFORM SERVICES

Starting to increase customer focus and thereby enhance customer service, a company has to know more about customers and their needs, and be able to act on that information (for instance, key contacts, type of purchase, frequency of purchase, maintenance required etc.), which can be obtained by *planning and implementing a customer information system*.

In the traditional view of services, customer service strategies had little impact on the production system. Customer service was viewed merely as a supportive and buffering sub-system to the production system, and the customer as a disruptive factor, therefore direct customer contact was avoided because it reduced efficiency. To all appearances everything was done to insulate the production process from its surroundings.

However, when shifting from the production of goods to the production of goods and services as an integrated package (see Figure 2), the interaction between the customer and the production system increases. Today’s production managers are confronted with two serious challenges - *adapting to the dual role of the client as both customer and co-producer and managing this increased participation*.

Transition from being a manufacturing company to being a goods and services

In a number of cases, pure manufacturing is becoming less important to competition. As a consequence, more and more manufacturing firms subcontract the manufacturing component and concentrate on the various service activities downstream and upstream of the actual manufacturing activity. This may eventually lead to the virtual factory becoming a reality.

If the service component of the offering represents the core of the company’s competitive advantage, then *traditional manufacturing companies may subcontract the tangible part and concentrate themselves entirely on the service component*.

production company makes the customer more visible, not only in front-line activities but in the whole design-manufacturing support chain. It is needed of an open system with direct and accessible linkages between the industrial organization and its internal and external customers. The four walls of a factory no longer limit the domain of manufacturing, the interface between manufacturing and marketing and sales should be re-evaluated, since keeping the two functions separate will seriously hamper the fulfilment of customer needs. There is a need for *tighter and more direct coupling of customer needs with the organization’s capabilities*.

As a result of servitization, more and more workers will have direct customer contact, which will require changes in employees’ skills as well as their behaviour. Much more attention will need to be given to the interpersonal skills of customer-contact human resources. *Industrial organization personnel*, in addition to possessing technical knowledge, *must know and use the communication techniques and be sensitive to customer needs*. The personnel should have a *service orientation* – that is, a *helpful, thoughtful, considerate, co-operative attitude*. The simultaneous production and consumption of most services means that customer-contact employees will often need to make instantaneous decisions in the absence of their supervisor. As a result, the

personnel empowerment should be increased to enable them to make decisions and to act

CONCLUSION

In future, the traditional boundaries between manufacturing and service companies tend to blur, as manufacturing firms adopt more and more service components in their offerings. This trend towards servitization presents itself as a three-stage process: from offering merely goods, to adding services, and finally offering bundles of both tangible and intangible components.

Developing services, the industrial organization creates defensible competitive advantages usually derive from outstanding knowledge of customer needs, and linking these needs to human skills, logistical capabilities, knowledge bases and other assets and activities at various points on the value chain. This involves adding services to the offerings made to customers.

REFERENCES

- [1] ALBRECHT, K., BRADFORD, L. J., *The Services Advantage: How to Identify and Fulfill Customer Needs*, Dow Jones – Irwin, 1990
- [2] BRUHN, M., *Orientarea spre clienți – Temelia afacerii de succes*, Editura Economică, 2001
- [3] KOTLER, Ph., *Managementul marketingului*, Teora, 1997
- [4] VAN LOOY, B., GEMMEL, P., VAN DIERDONCK, R., *Services Management - An Integrated Approach*, Prentice Hall, 2003

in the customer's interest on the spot.

Finally, some of the premises required to perform services have been identified:

- designing and implementing a customer information systems,
- adapting to the dual role of the client as both customer and co-producer,
- a tighter and more direct coupling of customer needs with the organization's capabilities,
- developing the right competencies and skills of the human resources according to service orientation.

Services management is, therefore, not only relevant to managers of service companies, but also to managers of manufacturing companies. The trend towards increasing the service component of the offering will certainly continue in future. Manufacturing managers who fail to recognize this trend will take a big risk in the coming years.

AUTHORS

¹ Cătălina-Monica ALEXE, Professor's assistant Ph.D., University Politehnica of Bucharest, Romania

² Cătălin-George ALEXE, Professor's assistant Ph.D., University Politehnica of Bucharest, Romania