Applying the Flow Model of Distribution to Services

*Distribution embraces three interrelated elements:*

- **Information and promotion flow**
  - To get customer interested in buying the service

- **Negotiation flow**
  - To sell the right to use a service

- **Product flow**
  - To develop a network of local sites
Distinguishing between Distribution of Supplementary and Core Services

Distribution relates to both core services and supplementary services

- Core services for people processing and possession processing services require physical locations
- Core services for mental stimulus processing and information processing can be distributed electronically
- Supplementary services can be tangible or intangible in nature; latter can be distributed widely and cost-effectively via nonphysical channels
  - Telephone
  - Internet
Information and Physical Processes of Augmented Service Product (Fig 4.1)

**Information processes**
- Information
- Consultation
- Order-taking
- Hospitality
- Safekeeping
- Exceptions
- Billing
- Payment

**Physical processes**

Core
Using Websites for Service Delivery

Information
Read brochure/FAQ; get schedules/directions; check prices

Payment
Pay by bank card
Direct debit

Consultation
Conduct e-mail dialog
Use expert systems

Billing
Receive bill
Make auction bid
Check account status

Order-taking
Make/confirm reservations
Submit applications
Order goods, check status

Exceptions
Make special requests
Resolve problems

Hospitality
Record preferences

Safekeeping
Track package movements
Check repair status

Core: Use Web to deliver information-based core services
Distribution Options for Serving Customers

- Customers visit service site
  - Convenience of service factory locations and operational schedules important when customer has to be physically present

- Service providers go to customers
  - Unavoidable when object of service is immovable
  - More expensive and time-consuming for service provider

- Service transaction is conducted remotely
  - Achieved with help of logistics and telecommunications
### Six Options for Service Delivery

#### (Table 4.1)

<table>
<thead>
<tr>
<th>Type of Interaction between Customer and Service Organization</th>
<th>Availability of Service Outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer goes to service organization</td>
<td>Single Site</td>
</tr>
<tr>
<td>Service organization comes to customer</td>
<td>Multiple Sites</td>
</tr>
<tr>
<td>Customer and service organization transact remotely (mail or electronic communications)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer goes to service organization</th>
<th>Theater</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service organization comes to customer</td>
<td>Barbershop</td>
</tr>
<tr>
<td>Customer and service organization transact remotely (mail or electronic communications)</td>
<td>Bus service</td>
</tr>
<tr>
<td></td>
<td>Fast-food chain</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer goes to service organization</th>
<th>House painting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service organization comes to customer</td>
<td>Mobile car wash</td>
</tr>
<tr>
<td>Customer and service organization transact remotely (mail or electronic communications)</td>
<td>Mail delivery</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer goes to service organization</th>
<th>Credit card company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service organization comes to customer</td>
<td>Local TV station</td>
</tr>
<tr>
<td>Customer and service organization transact remotely (mail or electronic communications)</td>
<td>Broadcast network</td>
</tr>
<tr>
<td></td>
<td>Telephone company</td>
</tr>
</tbody>
</table>
Channel Preferences Vary among Customers

- For complex and high-perceived risk services, people tend to rely on personal channels.

- Individuals with greater confidence and knowledge about a service/channel tend to use impersonal and self-service channels.

- Customers with social motives tend to use personal channels.

- Convenience is a key driver of channel choice.
Places of Service Delivery

- Cost, productivity, and access to labor are key determinants to locating a service facility

- Locational constraints
  - Operational requirements
    - Airports
  - Geographic factors
    - Ski resorts
  - Need for economies of scale
    - Hospitals
Places of Service Delivery

- **Ministores**
  - Creating many small service factories to maximize geographic coverage
    - Automated kiosks
  - Separating front and back stages of operation
    - Taco Bell

- **Locating in multipurpose facilities**
  - Proximity to where customers live or work
    - Service stations
    - Service Perspectives 4.2
Time of Service Delivery

Traditionally, schedules were restricted

- Service availability limited to daytime, 40 to 50 hours a week
- Sunday historically considered as a rest day in Christian tradition, Saturday in Jewish tradition, and Friday in Muslim tradition

Today

- For flexible, responsive service operations:
  - 24/7 service—24 hours a day, 7 days a week, around the world (Service Perspectives 4.3)
- Some organizations still avoid 7-day operations, for example:
  - Atlanta-based Chick-fil-A
    “Being closed on Sunday is part of our value proposition”
Delivering Services in Cyberspace

- Developments in telecommunications and computer technology
  - Swissôtel Hotels & Resorts
    - Its revamped website more than doubled online revenues within 7 months of launch
    - “Best Rate Guarantee” was a key driver of its success
  - Banking and service transactions by voice telephone
Service Delivery Innovations Facilitated by Technology

- **Technological Innovations**
  - Development of “smart” mobile telephones and PDAs as well as Wi-Fi high-speed Internet technology that links users to Internet from almost anywhere
  - Voice-recognition technology
  - Websites
  - Smart cards
    - Store detailed information about customer
    - Act as electronic purse containing digital money

- **Increase accessibility of services**
- **Deliver right information or interaction at right time**
- **Create and maintain up-to-date real-time information**
e-Commerce: Move to Cyberspace (1)

- Internet facilitates 5 categories of “flow”
  - Information
  - Negotiation
  - Service
  - Transactions
  - Promotion

- Electronic channels offer complement/alternative to traditional physical channels

- Convenience (24-hour availability, save time, effort)

- Ease of obtaining information online and searching for desired items

- Better prices than in many bricks-and-mortar stores

- Broad selection
Recent Developments link Websites, customer management (CRM) systems, and mobile telephony

Integrating mobile devices into the service delivery infrastructure can be used as means to:

- Access services
- Alert customers to opportunities/problems
- Update information in real time

See “Online versus Bricks-and-Mortar” (SP 4.4)
Splitting Responsibilities For Supplementary Service Elements (Fig 4.3)

As created by originating firm

As enhanced by distributor

As experienced by customer

Core product + Supplementary services = Total experience and benefits

Challenges for original supplier

- Act as guardian of overall process
- Ensure that each element offered by intermediaries fits overall service concept
Franchising (1)

- Popular way to expand delivery of effective service concept

- Franchising is a fast growth strategy, when
  - Resources are limited
  - Long-term commitment of store managers is crucial
  - Local knowledge is important
  - Fast growth is necessary to preempt competition

- Study shows significant attrition rate among franchisors in the early years of a new franchise system
  - One-third of all systems fail within first 4 years
  - Three-fourths of all franchisors cease to exist after 12 years
Disadvantages of franchising

- Some loss of control over delivery system and, thereby, over how customers experience actual service
- Effective quality control is important yet difficult
- Conflict between franchisees may arise especially as they gain experience

Alternative: license another supplier to act on the original supplier’s behalf to deliver core product, for example:

- Trucking companies
- Banks selling insurance products
Dunkin’ Brands Distributes Its Branded Service Concepts through Franchisees (Fig 4.4)

Dunkin’ brands: Dunkin’ Donuts (coffee and backed goods), Baskin Robbins (ice cream), Togo’s (sandwiches)
The Challenge of Distribution In Large Domestic Markets

- Marketing services (i.e., physical logistics) face challenges due to:
  - Distances involved (geographic areas)
  - Existence of multiple time zones
  - Multiculturalism (especially, immigrants and indigenous people)
  - Differences in laws and tax rates

- Large U.S. companies counter this by:
  - Targeting specific market segments
  - Seeking out narrow market niches

- Serving multiple segments across a huge geographic area is biggest marketing challenge
Giant U.S. Law Firm Now Operates in Five Countries on Three Continents (Fig 4.5)

1,000 lawyers. 13 cities. Five countries. One focus. You.

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The insight you need when it matters most.

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Courtesy of WilmerHale
People processing services require direct contact with customers

- Export service concept
  - Acting alone or in partnership with local suppliers
  - For example, e.g., chain restaurants, hotels, car rental firms

- Import customers
  - Inviting customers from overseas to firm’s home country
  - For example, hospitals catering to “medical tourism”

- Transport customers to new locations
  - Passenger transportation (air, sea, rail, road)
How Service Processes Affect International Market Entry (2)

- Possession processing involves services to customer’s physical possessions
  - For example, repair and maintenance, freight transport

- Information-based services include mental processing services and information processing services
  - Export the service to a local service factory
    - Hollywood film shown around the world
  - Import customers
  - Export the information via telecommunications and transform it locally
    - Data can be downloaded via CDs or DVDs
Barriers to International Trade in Services

- Passage of free-trade legislation is important facilitator of transnational operations
  - Notable developments: NAFTA, Latin American economic blocs, EU

- Despite efforts of WTO and GATT, operating in international markets still difficult
  - Restrictions on international airline operating rights
  - Administrative delays
  - Limited availability of work permits
  - Heavy taxation
  - Legal restrictions
  - Lack of broadly agreed accounting standards
  - Cultural issues
Factors Favoring Adoption of Transnational Strategies

- Transnational strategy involves integration of strategy formulation and its implementation across all countries in which company elects to do business.

- Market drivers
  - Common customer needs across countries
  - Corporate customers seek to standardize and simplify suppliers used in different countries—ad agencies, logistics suppliers, Big 4 accounting firms.
Factors Favoring Adoption of Transnational Strategies

- **Competition drivers**
  - Competitors from overseas; interdependence of countries
  - Firms may be obliged to follow competitors into new markets to protect own positions elsewhere

- **Technology drivers**
  - Advances in information technology—miniaturization/mobility of equipment, digitization of voice

- **Cost drivers**
  - Economies of scale
  - Lower operating costs

- **Government drivers**
  - Favorable trade policies, compatible technical standards, common marketing regulations
Modes of Internationalization

- **Export information-based services**
  - Transmit via electronic channels
  - Store in physical media, ship as merchandise

- **Use third parties to market/deliver service concept**
  - Licensing agents
  - Brokers
  - Franchising
  - Alliance partners
  - Minority joint ventures

- **Control service enterprise abroad**
  - Direct investment in new business
  - Buyout of existing business
### Impact of Globalization Drivers on Various Service Categories (1) (Table 4.2)

<table>
<thead>
<tr>
<th>Globalization drivers</th>
<th>People processing</th>
<th>Possession processing</th>
<th>Information based</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Competition</strong></td>
<td>Simultaneity of production and consumption limits leverage of foreign competitive advantage, but management systems can be globalized</td>
<td>Technology drives globalization of competitors with technical edge</td>
<td>Highly vulnerable to global dominance by competitors with monopoly or competitive advantage in information</td>
</tr>
<tr>
<td><strong>Market</strong></td>
<td>People differ economically and culturally, so needs for service and ability to pay may vary</td>
<td>Level of economic development impacts demand for services to individually owned goods</td>
<td>Demand for many services is derived to a significant degree from economic and educational levels</td>
</tr>
</tbody>
</table>
## Impact of Globalization Drivers on Various Service Categories (2) (Table 4.2)

<table>
<thead>
<tr>
<th>Globalization Drivers</th>
<th>People processing</th>
<th>Possession processing</th>
<th>Information based</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technology</strong></td>
<td>Use of IT for delivery of supplementary services may be a function of ownership and familiarity with technology</td>
<td>Need for technology-based service delivery systems depends on possessions requiring service and the cost trade-offs in labor substitution</td>
<td>Ability to deliver core services through remote terminals may be a function of investment in computerization, etc.</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td>Variable labor rates may impact on pricing in labor-sensitive services</td>
<td>Variable labor rates may favor low-cost locations</td>
<td>Major cost elements can be centralized and minor cost elements localized</td>
</tr>
<tr>
<td><strong>Government</strong></td>
<td>Social policies (e.g., health) vary widely and may affect labor cost, etc.</td>
<td>Policies may decrease/increase cost and encourage/discourage certain activities</td>
<td>Policies may impact demand and supply and distort pricing</td>
</tr>
</tbody>
</table>
Summary of Chapter 4: Distributing Services (1)

- Distribution relates to both core and supplementary services and embraces three interrelated elements:
  - Information and promotion flow, negotiation flow, product flow
- Channel preferences vary among customers, options include:
  - Customers visit the service site
  - Service providers go to their customers
  - Service transaction is conducted remotely
- Place and time decisions include where services should be delivered in bricks-and-mortar context, when it should be delivered
- Delivery in cyberspace is facilitated by technology and e-commerce allows 24-hour delivery, saving time and effort
- Intermediaries play roles in distributing services
  - Franchising brings both advantages and disadvantages to the firm