ICT Enabled Distribution of Services: Service Positioning Strategies, Front Office Information and Multi-channeling

de Vries, E.J.

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Chapter Two
Service Strategy: Processes, Resources and Networks

This chapter addresses the question of how to understand service strategy. An overview of the current body of knowledge on service strategy is provided. The literature review bears on literature of different research disciplines: information systems/information management, service management and marketing, strategy, organizational theory and innovation theory. The following questions are addressed.

- What differentiates services from tangible goods and how can we define services?
- Which kind of service innovations could be distinguished?
- How is strategy in services understood?

Based on the concept of service process positioning, three service strategy types are distinguished: mass orientation, scope orientation and partnership orientation. I argue that service processes should be seen as configurations of resources, that the resources based view on strategy is paramount in service strategy and that resources are enhanced through service innovations. As service providers continually try to capitalize on customer relationships, the bundling of services of different service providers has become the prevailing logic in the service industry. Therefore service process positioning should be understood in the context of network positioning.

The chapter unfolds as follows. In the first section services are distinguished from physical goods and services are defined. In the next section four types of service innovation are introduced. In the third section three views on service strategy are presented: service process positioning, resource based view and network positioning. These three views are discussed in detail in the next sections.

What Constitutes Services?

There has been considerable debate going on about what constitutes a service and about what differentiates services from physical goods in the literature on service management, service marketing and service innovation. Intangibility (Levitt, 1981; Shostack, 1987; Grönroos, 1990; Normann, 1991; de Jong & Van Bemmel, 1992) and production/consumption simultaneity (Shostack, 1987; Grönroos, 1990; Normann, 1991, Berry & Parasuraman, 1991; de Jong & Van Bemmel, 1992) are the most commonly known and accepted characteristics of services. Both have
consequences for service delivery system design and service management. The consequences of intangibility are the following.

- Services usually can only be sensorial perceived during consumption but not before being sold. Therefore service quality is hard to establish for customers and service quality is highly perceptional (Berry & Parasuraman, 1991; Boomsma et al., 1995; Heene, 1995; Grönroos, 1998).
- Services cannot be stocked (Normann, 1991).
- Services have a non-transferable ownership, are hard to resell, (Normann, 1991).

The production/consumption simultaneity characteristic has the following consequences.

- The client participates to some extent in the service delivery process (Grönroos, 1990; Normann, 1991); generally some degree of customer-service employee contact is involved (Solomon et al., 1985; Normann, 1991).
- Service quality has a process and outcome dimension, it is affected by processes as well as by process outcomes (Berry & Parasuraman, 1991; Grönroos, 1998).
- Risk management. Customers experience uncertainty due to their lack of knowledge about coproduction procedures, the variety of interaction with the service provider, the intangibility of the service product and the invisibility of parts of the service delivery process. The difference in valuation of the same service by different customers is explained by the amount of self confidence (knowledge, expertise and experience) that customers bring to the service encounter (Heskett et al., 1990).
- The service cannot be exported, but the service delivery system can (Normann, 1991).
- Perishability, the problem that capacity (for instance hotel rooms) is just available for a certain period of time and get lost forever after this period (Fitzsimmons & Fitzsimmons, 1997). Linked to the perishability problem is the capacity-constraint problem (Desiraju & Shugan, 1999). In fact perishability is a result of solving constraints of capacity by investing in more capacity. The perishability and capacity–constraint problem are at the heart of the service industry. Customers buy performance in the first place, not a product.

Grönroos (1998) is quite specific when it comes to the difference between services and physical goods in the title of one of his papers: “Marketing services: the case of the missing product”. The consequence of the absence of tangible products in services is that the consumption of a service is a matter of outcome and process consumption. The consumption of the service process is seen as a critical part of the service experience. In order to create good perceived service quality, the firm must
manage its service processes and all the resources put to production in these processes.

Many physical products are sold including services and services are sold (and made tangible) in combination with physical products (Grönroos, 1998). A product can be seen as an idea, a service, a good or any combination of these three (Dibb et al., 1994). Kotler (1994) categorizes products into four classes: tangible goods, tangible goods with supporting services, services with added goods and pure services. Kotler’s classes can be positioned along a continuum from pure goods to pure services as proposed by Shostack (1987) and Berry & Parasuraman (1991) (see figure 2.1). Positioning services and products along such a spectrum has become well accepted.

Gallouj and Weinstein (1997) provide us with a more integrative perspective. Following Lancaster (1966) they define all products as a set of service characteristics with products on the product-end of Shostack’s spectrum being physical and tangible in nature and having a high degree of exteriority relative to the people who produce and consume it. Thus, making these products stockable. On the pure service end of the spectrum, they recognize services as being intangible and having a lower degree of exteriority (and therefore cannot be stocked).

They follow Hill (1977) in their definition of a service as “a set of processing operations carried out by a service provider on behalf of a client, in a medium held by the client, and intended to bring about a change in this medium”. In this thesis I will follow this definition. The medium mentioned in the definition might be the client himself or his possessions, as shown in the service classification scheme of Lovelock (1983) in table 2.1.

More formally Gallouj & Weinstein (1997) generalize products and services in a diagram constituting of four abstract vectors (see figure 2.2). Vector CC represents the competencies of the client and his coproduction abilities. Vector PC represents the competencies of the service provider being explored in the service delivery process. Vector PT represents the technical characteristics of the service, be it tangible technical characteristics (like ICT or logistical technologies) or intangible technical characteristics (like methods, mathematical instruments, models, etc.).
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<table>
<thead>
<tr>
<th>Tangible actions</th>
<th>People</th>
<th>Possessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services directed at people’s bodies (people processing):</td>
<td>Services directed at physical possessions (possession processing):</td>
<td></td>
</tr>
<tr>
<td>• Health care</td>
<td>• Freight transportation</td>
<td></td>
</tr>
<tr>
<td>• Public transportation</td>
<td>• Retail distribution</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Intangible actions</th>
<th>People</th>
<th>Possessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services directed at people’s minds (mental stimulus processing):</td>
<td>Services directed at intangible assets (information processing):</td>
<td></td>
</tr>
<tr>
<td>• Advertising</td>
<td>• Banking</td>
<td></td>
</tr>
<tr>
<td>• Education</td>
<td>• Insurance</td>
<td></td>
</tr>
</tbody>
</table>

Table 2.1: Service classification scheme (Lovelock, 1983)

The final service outcome is represented by vector O in figure 2.2 and is the result of the coproduction capabilities of the customer (vector CC), the technology of the provider (vector PT) and the competencies of the provider (vector PC). The arrows in the diagram show the interactions between the vectors.

Gallouj & Weinstein’s diagram encompasses all service characteristics mentioned and is conceptually attractive for additional reasons. It explicitly draws attention to the coproduction abilities of the customer as being a determinant of the service outcome and it draws attention on two interfacing possibilities between the customer and the provider: by the provider’s technology and by direct contact between people with certain competencies. It further draws attention on the interfacing between the technology of the service provider (vector PT) and its employees (vector PC) and on possible innovations in the service delivery system. For instance, the competencies of the provider can be codified and represented in the technology and can be made available by this technology to the customer, which in itself might ask for training on the customer side (like is often the case with front-office technology, self service systems and electronic commerce applications).

Figure 2.2: Services as a system of characteristics and competencies (Gallouj & Weinstein, 1997)
Service Innovation

Reasoning about service innovation was the major reason for Gallouj & Weinstein to draw the diagram of figure 2.2. They break with the classical distinctions between product and process innovation and radical and incremental innovation that is central in innovation theory but is problematic in reasoning about service innovations.

The distinction between product and process innovation is problematic when it comes to reasoning about service innovation because many services are merely an act or a process than a product. This means that the concept of product innovation has little meaning in service innovation. Therefore, the prevailing logic of innovation in the tangible goods industry in which the product is developed or innovated first to be followed by the necessary process innovations, doesn’t apply to the service industry. In the service industry the innovation logic starts with process innovations. This logic is known as the ‘reverse product cycle’ (Barras, 1990), reverse in the sense that product innovations are an outcome of process innovations. Gallouj & Weinstein’s representation facilitate our thinking about this ‘reverse product cycle’ and focuses our attention on technological and non-technological innovations in the process and the opportunities for customer competence innovations. For instance, codification of competencies in the process (a transference from vector PC to vector PT) might in the end lead to services, which can be packaged as tangible products.

The distinction between radical and incremental innovation is even more problematic when it comes to services because changes in the service outcome might be a result of evolution, revolution, disappearance, appearance, association and disassociation mechanisms in both customer competencies and the providers competencies and technology (Gallouj & Weinstein, 1997; Sundbo, 1997). These changes might be intentional or emergent. The diagram in figure 2.2 draws attention to these mechanisms. Gallouj & Weinstein differentiate between radical, incremental, ad hoc and recombinative (architectural) innovations (see table 2.2). This differentiation is based on their representation of the service concept in figure 2.2.

From the basic characteristics of services, the definition of services as ‘processing operations...on behalf of the client’ and the basic types of service innovation it follows that processes are central to services. In the next paragraph, I argue that service strategy should be seen as positioning service delivery processes on the market.

Service Strategy

Service strategy is widely recognized as being a matter of:

- Positioning the service delivery process on the market (service positioning) (Shostack, 1985; Shaw, 1990; Berry & Parasuraman, 1991; Normann, 1991).
<table>
<thead>
<tr>
<th>Innovation type</th>
<th>Characteristics</th>
</tr>
</thead>
</table>
| Radical innovation   | • The entire system of vectors CC, PC and PT is changed to provide a new service outcome (vector 0).  
                            • Competence destroying and reconfiguration.                                                                                          |
| Incremental innovation| • Improving certain characteristics of vectors CC, PC and PT, without changing the system  
                            • Competence enhancing.  
                            • A result of learning effects.                                                                                                        |
| Ad hoc innovation     | • Interactive (social) construction of a solution to a particular problem posed by a given client.  
                            • The outcome vector can be seen as an original solution.  
                            • Mainly produced at the client/provider interface.  
                            • A posteriori recognition, dissemination and codification of new built competences (PC) distinguishes ad hoc innovation from the ad hoc nature of many service delivery systems  
                            • Contributes to cumulative learning and the organizational memory (competence enhancing).                                            |
| Recombinative or architectural innovation | • Systematic reutilization of components of the system (out of vector CC, PC and PT) without changing the core design concept behind components but with changing the architecture (the way in which components are integrated and interlinked) of the system.  
                            • Two basic forms: creation of a new outcome by combining the characteristics of a service or by splitting a service into two or more new ones.  
                            • Architectural competence destruction and reconfiguration and component competence preservation (Henderson & Clark, 1990).  
                            • Since architectural knowledge tends to become embedded in the structure and information processing procedures of established organizations, its destruction and rebuildance is difficult for these organizations (Henderson & Clark, 1990). Architectural knowledge tends to become embedded in the organizations infrastructure.  
                            • E-commerce, in being the introduction of a new medium (PT) to interact with customers without changing the underlying competences and technical components of the provider, serves as a contemporary example of recombinative innovation. |
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Strategy in Services: Service Process Positioning

As in services the process is the product, positioning of services on the market is a question of positioning service delivery processes (Shostack, 1987; Berry & Parasuraman, 1991; Normann, 1991). The engineering of processes (eventually through the types of service innovation, mentioned in table 2.2) serves strategic service positioning purposes (Shostack, 1987). In the literature several service classification schemes have been proposed to gain strategic insight (Lovelock, 1983; Schmenner, 1986; Shostack, 1987; Shaw, 1990; Wemmerlov, 1990; de Jong & van Bemmel, 1992; de Jong et al., 1992; Silvestro et al., 1992; Tinnilä & Vepsäläinen, 1995). In all these schemata the nature of the service process is seen as an important factor for strategic service positioning.

The Nature of the Service Process: Standardized and Customized Services

Traditionally the nature of the service process is described in terms of standardized services and customized services (Levitt, 1976; Lovelock, 1984; Shostack, 1987; Sundbo, 1994). Standardized service processes are seen as non-varying sequential processes suited for mass production. Customized processes are seen as processes with high degrees of freedom for adaption and tailoring to the needs of individual customers. In defining services, the choice has always been seen in terms of mass production of inexpensive, commodity-like services on the one hand, and on the other hand, premium-priced, individually tailored, highly differentiated offerings (Pine, Victor & Boynton, 1993; Hart, 1995).

The Nature of the Service Process: Mass Customization

During the last decade many authors paid attention to a service strategy which combines the mass production capabilities of standardized services with the customization capabilities of customized services, which became known as mass customization (Pine, Victor & Boynton, 1993; Hart, 1995). Mass customization is the ability to serve a wide range of customers and meet changing product demands through service or product variety (Boynton, Victor & Pine, 1993) against low costs, which are achieved primarily through economies of scope - the application of a single process to produce a greater variety of products or services more cheaply and quickly (Pine, Victor & Boynton, 1993). Mass customization provides companies the ability to produce customized, affordable, high-quality goods and services, but with the shorter cycle times and lower costs historically associated with mass production and standardization (Hart, 1995). In mass customization, services are customized within a predetermined range of variety. Services are assembled out of standardized modules (Pine, Victor & Boynton, 1993; Boynton, Victor & Pine, 1993) that can be combined for the individual customer at the moment of truth (Sundbo, 1994). As services become customized, customers face serious problems to identify the service they desire; therefore ICT enabled configuration tools are
necessary at the customer interface (Pine et al. 1995). Customization of the service during delivery can be used as a source of differentiation and competitive advantage and increases customer satisfaction (Rafiq & Ahmed, 1998). Mass customization requires a dynamic network of autonomous operating units executing a specific process or task (Pine, Victor & Boynton, 1993), a modularized organization (Wigand et al., 1997).

In the period between 1990 and 1993, Sundbo (1994) carried out several studies on service innovation in 19 firms in the financial industry and clearly saw a trend towards modularization. He mentioned application of ICT to be one of the factors contributing to this trend. Service innovation based on modularization could be seen as innovation of the recombinative type.

Hart (1995) clearly sees mass customization as a process based service strategy. “From the underlying conception of the product or service through the design and manufacturing stage, all aspects of a true mass-customizing company’s operations must be undergirded by a mass-customization strategy.... Mass customization requires a deep self-knowledge regarding core capabilities, an awareness of all area’s of the corporate value chain that are relevant to pursuing a mass-customization goal...Mass customization should be customized to an organization’s particular needs, customer base, production capabilities, competitive situation and available technology”.

According to Glazer (1991) the traditional choice of competitive positioning needed to be reevaluated because of increased information intensiveness of competitive environments. The choice has always been between broad market share leadership (typically through high volume / low cost production) and a narrow market follower status (through ‘differentiation’ and ‘focus’ on a target market segment or niche). Glazer views this choice as a trade-off between knowledge about products and production on the one hand and knowledge about markets and customers on the other. This strategic trade-off may be obsolete because ICT-enabled production and marketing methods enable firms to retain the benefits of scale and production experience without sacrificing the ability to customize offerings for specific target groups. ICT provides service companies with a network structure of modular service production processes composed of components and integrated by information technologies like work flow management systems and groupware (Boynton et al. 1993; Wijffels, 1996; Wigand et al., 1997). Furthermore, marketing efficiency improves as a result of databases moving into the direction of corporate memories of customer relationships, making servicing niches, which where too small to be served profitably in the past, a viable option (Blattberg & Deighton, 1991; Pine et al., 1995). “Anything that can be digitized can be customized...such product may be ideally suited for one-to-one marketing as well” (Pine et al., 1995).

Although Glazer doesn’t use the term mass customization (which became fashionable in the literature from 1993), his ideas seem to be the same. In mass customization strategies the focus of the firm is on gaining product and market knowledge at the same time. Glazer points out that strategy is a matter of choice between three basic forms.
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- Cost/volume leadership, emphasizing the need for product and production knowledge.
- Mass customization, in Glazer’s terms ‘flexible manufacturing and marketing’, emphasizing simultaneous development of product and market knowledge.
- Differentiation, emphasizing the need for knowledge of a niche or target market.

The recognition of three basic service positioning strategies can be placed in a longer tradition of thinking about service strategy.

Shaw (1990) differentiates between product services, hybrid product/service services and pure services (see figure 2.3). He differentiates on the basis of different market needs and the importance of value adding activities in the value chain to satisfy these needs. In product services the focus is on providing generic solutions to routine customer requirements by standardized delivery processes, often built on sources from suppliers (for instance ICT or logistical equipment). At the other extreme of the spectrum pure services are provided. These services are unique solutions to complex problems. In the value chain of pure services emphasis is placed on the interactive part of the value chain and on the coproduction abilities of the customer. The middle of the spectrum represents experienced based solutions to more routine problems. According to Shaw, business units often have trouble in focusing on more than one position in the spectrum, so a clear strategic focus is required. This is not to say that companies couldn’t service different market segments, but the best way to do so is by different business units.

![Figure 2.3: Value adding focus in three service types (Shaw, 1990)](image_url)
Schmenner (1986) sees a combination of customer interaction and customization of the service as a determinant of the service and combines this determinant with a second one, the degree of labor intensity of the service, resulting in the service process matrix of figure 2.4. According to Schmenner, service companies are moving towards the diagonal. Service management of mass services continuously tries to minimize labor intensity by replacing labor for (information) technology or to move towards more customization to reach higher revenues. On the other side of the diagonal service shops often face the challenge to maximize on equipment utilization (fixed costs), resulting in a trend to standardize customized services.

De Jong et al. (1992) differentiate between infrastructural services, value added services, pre-specified services and ad hoc services (see figure 2.5). Infrastructural services are standard technology intensive services produced along standard production processes. The customer has no influence on the specifications of the service. To provide customers with more variety without losing economies of scale, service providers focus on producing customer focused, segmented services along standardized processes. These are the value added services. The value added comes from packaging services or from providing options for customization. Ad hoc services are highly customized services produced along ad hoc processes. The specification of these services is done by the customer. Pre-specified services are services, which are highly flexible (like ad hoc services) but produced along a more standardized process. These services are more flexible than value added services while the production process is less standardized. De Jong et al. put their model forward before mass customization became a regular term but value added services and pre-specified services could be viewed as specific forms of mass customization differing in the range of options and components for customization. De Jong et al. recognized a trend towards the middle in which standard services tend to move into the direction of value added services and ad hoc services become pre-specified. The movement towards the middle in 2.5 is consistent with the trend towards the diagonal in Schmenner’s model (see figure 2.4). The recognized trend can be viewed as a precursor of mass customization.
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Figure 2.5: Typology of services, based on the nature of the service process (de Jong et al., 1992)

The trend ‘towards the middle’ is explained by Sundbo (1994) as a trend toward modularization. He sees the modularization or mass customization as being a resultant of market segmentation and product differentiation in combination with the remaining ability of economies of scale in a modularized production system. The tendency towards modularization is explained as being a resultant of conceptualization and standardization of parts of the former ad hoc service process (a transference from vector PC to vector PT in figure 2.2). This is seen as a trend towards professionalization because many customized services are provided by highly educated professionals. In Sundbo’s study technology is seen as a factor that catalyzes this development.

The trend away from mass services to mass customized services is recognized in the literature on e-commerce as well. Mass services are expected to become commodities. For commodity markets price competition is expected because of lower buyer search cost in electronic market places (Bakos, 1998; Smith, 2000). For those sellers who like to stay out of price competition, customizations and innovation are expected to be fruitful strategies. By using personalization and customization technologies sellers will be able to differentiate offerings and to discriminate on price (using different prices for different customers for the same service). Price discrimination and product differentiation make it difficult for buyers and their search engines to compare offerings. The inquiry of product information becomes more costly (Bakos, 1998). Lynch and Ariely (1998) found that consumer tend to focus on price when no other information is available on differentiated offerings. However, providing better product information softens price competition and increases product-customer fit (Alba et al., 1997; Lynch & Ariely, 1998)
Three Generic Service Positioning Strategies: Mass, Scope and Partnership Orientation

In this chapter I follow Glazer and Shaw in differentiating three generic service position strategies. I label the three strategy types as mass orientation, scope orientation and partnership orientation to emphasize the nature of the market reach in the strategies, instead of internal focused labels like cost/volume leadership, standardization strategies or mass customization. I extend the notion of differentiation strategies focused on niche markets (partnership oriented strategies) with ideas from Treacy and Wiersem (1995). As mass customizers provide customized services against low costs, providing the same level of customization to target markets won’t provide niche players with a competitive advantage over mass customizers. Their high knowledge of their own narrow market and their internal capabilities to provide customization will drive them naturally towards high levels of customized solutions. These levels of customization go beyond assembling services out of a predetermined range of components. New components and service concepts will be conceptualized and designed. It is likely that niche players will seek to leverage on ad hoc innovations. Treacy and Wiersem call this strategy ‘customer intimacy’. They characterize it by providing the best (total) solution to customers and by building close partnerships with customers.

The three generic service positioning strategies are not only recognizable in the literature, but are characterized by several authors as well. They concentrate on the following relations (these are summarized in table 2.3 and discussed in the next sections).

<table>
<thead>
<tr>
<th>Service positioning strategy</th>
<th>Mass orientation</th>
<th>Scope orientation</th>
<th>Partnership orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of the service process</td>
<td>Standardized / Infrastructural</td>
<td>Modular / component based</td>
<td>Ad hoc structured and interconnected with customer processes</td>
</tr>
<tr>
<td>Service type</td>
<td>Product (standardized)</td>
<td>Service/product (mass customized)</td>
<td>Pure service (customized)</td>
</tr>
<tr>
<td>Value adding focus</td>
<td>Process and source</td>
<td>Process, interactive and client</td>
<td>Client and interactive</td>
</tr>
<tr>
<td>Interaction governance</td>
<td>Selling</td>
<td>Sparring</td>
<td>Jobbing</td>
</tr>
<tr>
<td>Management approach</td>
<td>Production-line perspective</td>
<td>Empowerment perspective</td>
<td>Empowerment perspective</td>
</tr>
<tr>
<td>Marketing approach</td>
<td>Transaction marketing</td>
<td>Relationship marketing</td>
<td>Relationship marketing</td>
</tr>
<tr>
<td>Economies</td>
<td>Economies of scale</td>
<td>Economies of scope</td>
<td>Economies of relationships</td>
</tr>
</tbody>
</table>

Table 2.3: Characteristics of three generic service strategies
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- The relation of the nature of the service process, the type of service and its value adding focus (Shaw, 1990);
- The relation between the nature of the service process and customer contact governance (de Jong & van Bemmel, 1992)
- The relationship between the nature of the service process and the management approach (Bowen & Lawler, 1995; Bowen & Youngdahl, 1998).
- The relation between the nature of the service process and the marketing approach (Grönroos, 1990; Berry & Parasuraman, 1991)
- Economies of the service strategy types (de Jong & van Bemmel, 1992).

The Nature of the Service Process, the Type of Service and its Value Adding Focus

The relation between the nature of the service process, the type of service and the value adding focus of the service process has already been described (see figure 2.3). The differentiation of service processes into standardized processes, modular processes and ad hoc processes is further supported by the process management literature. Picot and Rohrbach (1996) for instance, differentiate between standardized processes processing standard cases, regular processes processing special cases and ad hoc processes processing exceptional cases. The nature of processes in partnership oriented strategies is characterized as being ad hoc as a consequence of high levels of customization and as highly connected with customer processes. To be able to provide customized solutions the service provider needs to have high knowledge about the customer’s processes. The customized solution provided in the past often became and continue to be part of the customer’s processes (Treacy & Wiersema, 1995).

The Nature of the Service Process and Interaction Governance

Interaction governance or the customer contact strategy can take three basic forms: selling, sparring or jobbing (de Jong & van Bemmel, 1992). In selling the customer faces a ‘take it or leave it’ situation. The customer is unable to influence the specifications of the service. The service provider standardizes its service, is in total control over the interaction and the customer has to subject to its procedures. Higher degrees of customization require more intensive customer contact (Schmenner, 1986), resulting in higher degrees of customer control over the service delivery process (Bitran and Hoech, 1990). In a sparring relation interaction governance is shared. Customers can influence the specification of the service to the extent to which the service company is willing to provide, as is the case in mass customization. The server’s role is one of configuring available, standardized components to meet individual customer needs (McLaughlin, 1996). Control over the service delivery process is negotiated. In jobbing relations the service provider works by order of the customer. The customer highly influences the specification of the service and controls the service delivery process (Shaw, 1990).
The Nature of the Service Process and the Management Approach

For different service process types different management approaches are supposed, varying on the degree of empowerment of service employees (Mills, 1985; Berry and Parasuraman, 1991; Bowen and Lawler, 1995). Empowerment is based on the insight that decisions should be made in the organization at the most appropriate level to avoid time and resource consuming channels of decision making (Galbraith, 1973; Quinn & Paquette, 1990; Wigand et al. 1997).

For business strategies of low cost and high volume, a transaction view on customer contact, routine and simple processes and standardized services, behavior can be controlled by mechanistic means such as rules, regulations or “script based” approaches (Smith and Houston, 1983). This management approach is characterized as the production-line approach and related to mass oriented strategies (Levitt, 1976; Pine, Victor & Boynton, 1993; Bowen & Lawler, 1995; Fitzsimmons & Fitzsimmons, 1997; Bowen & Youngdahl, 1998).

For business strategies of differentiation, customization, personalization, a relationship approach to customer contact, non-routine, complex processes and highly divergent services, a management approach of empowerment is seen as more successful (Mills, 1985; Pine et al., 1993; Bowen and Lawler, 1995; Treacy & Wiersema, 1995). For complex services, customers expect a high level of expertise from contact employees. High levels of empowerment give customers greater confidence in the ability of the contact employee (and the organization) to deliver the service (Berry et al, 1991). Silvestro et al. (1992) explicitly relate higher degrees of customization to higher levels of employee discretion and product versus process focus. With higher degrees of customization more emphasis is placed on the process of serving customers because the product (outcome of the process) is harder to define and highly influenced by customer coproduction. Empowerment, in the form of self-directed teams or case workers, is seen as one of the organizational enablers to mass customization (Hart, 1995). Case workers are individual employees who have the responsibility for all tasks associated with a particular customer transaction (Hammer & Champy, 1993; Hart, 1995).

The Nature of the Service Process and the Marketing Approach

Grönroos (1990) introduces a continuum of marketing approaches with at one extreme transaction marketing and at the other extreme relationship marketing. A firm could use different types of strategies for different types of products or market segments.

Transaction marketing seems to be the most appropriate marketing approach for standardized services. In transaction marketing the relationship is limited to the product itself and the image of the seller (Grönroos, 1990). In transaction based strategies relationships can be build by ‘loyalty marketing’, in which relations are based on repeat sales (Grönroos, 1990; Schijns, 1994). Loyalty programs are especially useful in markets with relative little service differentiation. Bonding in loyalty programs is restricted to financial bonding (in which repeat sales lead to discounts) (Molenaar, 1997). But a series of transactions does not necessarily constitute a relationship.
Parasuraman, Berry and Zeithaml (1991) mention certain essentials for relationship-based service marketing. They relate relationship building to customization, proactivity and accessibility of the service.

- Service providers should have the means to efficiently customizing the service to customers’ specific requirements and must be willing to do so.
- Communications should be company-initiated as well as customer-initiated (proactivity).
- The service needs to be accessible, customers need to know whom to contact.

Grönroos (1990) provides an example in which he connects relationship building to customization. “If say, a financial service is fairly complicated, or if an industrial seller provides its customer with a complex solution, including, for example, design, equipment, installation and maintenance, the buyer and seller grow together due to the technological ties and flows of information that have been established over time. Such a situation demands in itself a relationship type of strategic approach…”

Berry & Parasuraman (1991) suppose relationship marketing to be practiced at three levels. At these three levels they relate the type of bonds with the customer to the degree of service customization and the primary marketing mix element (see table 2.4). Social bonding refers to positive interpersonal relationships between buyer and seller. Personal relations lead to social bonds at both levels two and three and services are customized at both these levels. The main difference between level two and three is the degree of mutual dependency by structural bonds. Structural bonding happens when two parties make investments that cannot be retrieved when the relationship ends, thus investing in specific assets (Ciborra, 1993; Wigand et al., 1997). Structural bonds are created by providing services that are valuable to clients and not readily available from other sources. These services are intended to help clients to be more effective and efficient and are based on customized service delivery, not on the relation-building behavior of individual personnel. Structural bonding is essential in customer intimacy strategies (Treacy & Wiersema, 1995). Customization raises opportunities for social and structural bonding as personal contact often is required during the specification process and both parties invest time (and regularly other resources as well) to arrive at satisfying specifications (Molenaar, 1997).

Berry and Parasuraman (1991) relate a one-to-one marketing approach to what they call efficient customization. In a one-to-one marketing approach customers are treated as a market segments of one. Berry & Parasuraman don’t use the term mass customization although what they term efficient customization appears similar. From table 2.4 it is clear that they differentiate between different levels of customization. Blattberg & Deighton (1991), Glazer (1991) and Pine et al. (1995) also relate relationship marketing and one-to-one marketing to mass customization. They state that the interactivity of database marketing not only makes it possible to build relationships with customers on a large scale but also enables a shift in production strategy from generic products and services to tailoring products and
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services for particular customers. Each customer receives an individualized offering. Peelen (1999) relates the concept of the relationship oriented organization to knowledge building on individual requirements of customers, customization and communication with customers on an individual level.

Stone & Woodcock (1995) find relationship marketing particularly important for the selling of high involvement services, for which the customer perceives a high risk of making the wrong choice. High involvement services are contrasted with low involvement, commodity services. These are routinely purchased for functional reasons. Simple needs met by commodity products and services do not need deep relationships. As customization and mass customization involves many choices and higher degrees of risk, it can be assumed that these are high involvement services, requiring relationship marketing.

Over the past decade, the relationship marketing approach has been publicized and promoted. This marketing approach sees market phenomena as relationship-based. Relationships should replace transactions as the meaningful focus for many organizations (Colgate & Stewart, 1998; Grönroos, 1997). Relationship marketing has been defined in various ways by many marketing scholars (Berry and Parasuraman, 1991). The following definitions give some insight as to the nature of the challenge.

- Morgan and Hunt (1994) describe relationship marketing as “all those market activities directed toward establishing, developing, and maintaining successful relational exchanges”.
- Relationship marketing is to identify and establish, maintain and enhance and when necessary also to terminate relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met, and that this is done by a mutual exchange and fulfilment of promises (Grönroos, 1997).
- A more managerial perspective is offered by Christy et al. (1996) who define a marketing relationship as “a managed context within which formal transactions between a consumer and a supplier to that customer are supplemented by voluntary and reciprocated actions by both parties, the effect of which is that the probability of future transactions between the two parties is increased”.

<table>
<thead>
<tr>
<th>Level of relationship marketing</th>
<th>Type of bond</th>
<th>Marketing orientation</th>
<th>Degree of service customization</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>Financial</td>
<td>Customer</td>
<td>Low</td>
</tr>
<tr>
<td>Two</td>
<td>Financial and social</td>
<td>Social client</td>
<td>Medium</td>
</tr>
<tr>
<td>Three</td>
<td>Financial, social and structural</td>
<td>Client</td>
<td>Medium to high</td>
</tr>
</tbody>
</table>

Table 2.4: Three levels of relationship marketing (Berry & Parasuraman, 1991)
In relationship marketing the promise and exchange concept are equally important. Establishing a relationship involves making promises, maintaining a relationship based on fulfilment of promises (through exchanges) and enhancing or developing the relationship by a new set of promises, with the fulfilment of earlier promises as a prerequisite (Grönroos, 1990). Relationship marketing should be seen as a continuous process of promising and fulfilment of promises along all the phases of the service delivery process. In relationship marketing interactions between partners are perceived in the context of previous and future interactions and the partners may become interdependent over time (Holmlund & Tornroos, 1997).

The importance of relationship with customers in the service industry is widely recognized. Several authors indicate a relation between customer retention and profits (Reichheld & Sasser, 1990; Berry & Parasuraman, 1991; Stone & Woodcock, 1995; Lovelock & Wright, 1999). According to Reichheld & Sasser (1990), for example, an increase of retention rate of five percentage points results in an increase in profits varying from 25% to 125%. Several factors are working to the advantage of service providers.

- Customers who remain with their service provider over a long period of time are more likely to buy additional services (Reichheld & Sasser, 1990; Heskett et al., 1990; Stone & Woodcock, 1995).
- Repeat customers act as the service provider’s ambassador by spreading favorable word-of-mouth communication (Heskett et al., 1990; Reichheld & Sasser, 1990; Stone & Woodcock, 1995; Peelen, 1999).
- Service providers enjoy profits from a price premium (Reichheld & Sasser, 1990; Stone & Woodcock, 1995; Peelen, 1999).
- Because services are intangible and hard to communicate, customers perceive risk in dealing with service providers and they need to get knowledgeable of coproduction procedures. Repeat customers have established service level expectations and know what is expected during coproduction, resulting in reduced operating costs and transaction costs (Heskett et al., 1990; Reichheld & Sasser, 1990; Stone & Woodcock, 1995; Grönroos, 1997).
- Continuing exchanges require lower marketing costs per customer (Grönroos, 1990).
- An installed base of customers forms a competitive entry barrier (Heskett et al., 1990; Pine et al., 1995; Shapiro & Varian, 1999).

**Economies**

De Jong and van Bemmel (1992) differentiate between economies of scale and economies of scope. Economies of scale result form standardization of services and service delivery processes. Economies of scope are associated with the delivery of a high variety of services through standardized processes. I complement these economies with the idea of economies of relationships, based on Treacy & Wiersema (1995). Although they don’t use the term economies of relationships, economies in their ‘customer intimacy’ strategy are very much based on close
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partnerships with customers. Long lasting partnerships result in extremely high levels of knowledge about the customer's processes, employees and organizational culture. This knowledge, structural bonds in their relationship and the trust of the customer provides the service company with a special kind of economies: recognizing the needs of the customer at first, even sometimes before the customer recognized its own needs. This early recognition enables them to design service concepts together with their customers, often resulting in short pay back periods of new service designs and a price premium. As being ad hoc innovations, recognition, dissemination and codification of these new service experiences might lead to reproduction at lower cost. As every kind of economies, economies of relationships have its drawbacks as well. Full exploitation of new service concepts needs a broad market (as in scope strategies). But serving a broad market contrasts with building close partnerships with customers.

In economies of scale the economies primarily result from process knowledge and mass production (Glazer, 1991; de Jong & van Bemmel, 1992). Economies of scope are primarily based on a combination of process knowledge and market knowledge resulting in service and market differentiation (Glazer, 1991; de Jong & van Bemmel, 1992). Relationship economies are primarily based on customer knowledge and two special kinds of process knowledge, knowledge about the customer's processes and knowledge about how to specify highly customized solutions (Treacy & Wiersema, 1995).

Strategy in Services: Resource Based View

The idea of service positioning through positioning service delivery processes is congruent with the resource-based perspective on strategy in which constellations of resources are put to production in processes to deliver services. Some authors explicitly state that the resource-based view on strategy formulation is paramount in service marketing and management (de Jong & van Bemmel, 1992), while others practice a more implicit resource-based reasoning (Normann & Ramirez, 1993; Hart, 1995). The purpose of this paragraph is to position the three service strategies in the wider context of resource based strategic thinking to contribute to our understanding of service strategy. The purpose is not to discuss strategy formulation at length or to discuss the many different schools of thinking about strategy formulation. Mintzberg & Lampel (1999) differentiate ten schools of strategic thinking: the design, planning, positioning, entrepreneurial, cognitive, learning, power, cultural, environmental and configuration school. According to Mintzberg & Lampel, these schools represent different parts of the same process. They see some of the more recent approaches to strategy formulation cutting across the ten schools. The resource based view and the dynamic capabilities approach of Prahalad & Hamel (1990) being two of them. Both approaches are seen as similar (Hunt & Morgan, 1995; Fahy & Smithee, 1999; Mintzberg & Lampel, 1999). Both approaches can be seen as hybrids between the design, learning and cultural schools, but differ in orientation. The core capabilities approach being more prescriptive and the resource based view being more descriptive and research focused. The three generic service
positioning strategies presented in this chapter are descriptive in nature and research focused.

**The Resource Based View in General**

The resource-based view contends that sustainable competitive advantage results from the possession of key resources, resources that have characteristics like value to customers, barriers to duplication and appropriability. Unique assets and resources of organizations are seen as important factors explaining firm heterogeneity and imperfect competition (Fahy & Smithee, 1999). The source of uniqueness is not seen as the uniqueness of the resources itself but as the uniqueness of the services these resources render. Services yielded by resources are a function of how resources are put to production in the organization (Morgan & Hunt, 1994).

In the literature there has been considerable debate about what constitutes key resources, core competencies or core capabilities. Fahy & Smithee (1999) reviewed the literature and came to the conclusion that key resources need to be of value to customers, must lead to barriers to duplication and appropriability. Resources are of value to customers if they improve the ability of the company to meet customer needs. Which resources provide the most value to customers is still an open question (Fahy & Smithee, 1999). Barriers to duplication stem from intransparency. A competitor might not be able to identify the relationship between resources; the way resources are put to work in business processes and the success of the company (Barney, 1999). Tacitness, complexity and specificity are seen to contribute to intransparency. Tacit resources are skill bases, are experience based, are based on tacit knowledge (Reed & DeFillipi, 1990). Complexity results from the interconnectedness of resources (Hunt & Morgan, 1995), social relationships within the firm (Barney, 1999) and co-specialized assets (assets that must be used in connection with other assets). Asset specificity is the idea that resources reduce in value when these are not employed for the original purpose (Wigand et al., 1997). According to transaction cost economics (Williamson, 1975) non-specific assets are not very much related to specific purposes or transactions and can be bought on the market. Specific assets are specific to transactions and are assumed to be incorporated under the administrative hierarchy of the firm. Limits in appropriability stem from possibilities to legally prevent property rights on resources by patents, trademarks, brands, etc. (Day, 1994). Hunt & Morgan (1995) provide us with a categorization of resources (see table 2.5).

<table>
<thead>
<tr>
<th>Category</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Cash reserves, access to financial markets</td>
</tr>
<tr>
<td>Physical</td>
<td>Plant, equipment</td>
</tr>
<tr>
<td>Legal</td>
<td>Trademarks, licenses</td>
</tr>
<tr>
<td>Human</td>
<td>Skills and knowledge of individuals</td>
</tr>
<tr>
<td>Organizational</td>
<td>Processes, controls, culture, policies</td>
</tr>
<tr>
<td>Informational</td>
<td>Knowledge resulting from competitor intelligence, marketing databases</td>
</tr>
<tr>
<td>Relational</td>
<td>Relationships with customers and suppliers</td>
</tr>
</tbody>
</table>

Table 2.5: Categorization of resources (Hunt & Morgan, 1995)
Resources are developed over time through breakthrough innovations and incremental innovations in processes and products and by continuously responding to market needs (Hunt & Morgan, 1995). Heterogeneity in supply and demand is a virtuous cycle as firms respond to changing demands by experimenting with new service concepts and customers learn from their suppliers (Dickson, 1996). Firms are a product of their responses to changing markets, competitor behavior and changes in technological and human resources. Building critical resources is path dependent and requires learning processes and sometimes involves accidental rather than rational events (Hunt & Morgan, 1996; Barney, 1999). What was previously labeled as a resource can become a ‘contra’-resource (Hunt & Morgan, 1995). Internal resource configurations facilitate or limit the company’s abilities on the market. The company’s resources of today can be viewed as strategic options on the future (Williamson, 1999).

Developing the firm’s resources and matching these with the success factors of the industry to create value to customers is seen as a major strategic task for management (Fahy & Smithee, 1999). The resource based view focuses attention on the ability of the firm to deliver on its desired positioning strategy. Different resource configurations suggest targeting different markets (Hunt & Morgan, 1995). The resources needed for a mass oriented positioning strategy for instance are supposed to differ from those needed for other positioning strategies (Treacy & Wiersema, 1995; Hunt & Morgan, 1995).

### Resource Based View on Service Strategy

The resource-based view on strategy formulation is paramount in service marketing and management (de Jong & van Bemmel, 1992). The competencies of the service provider are fundamental in strategy formulation. This is mainly seen as a consequence of the intangibility and inseparability of production and consumption of services. These two basic characteristics of services lead to a process view on service organization. Not the product/market combination but the matching of resources / competencies on product/market combinations through service processes is the basis for strategy formulation.

Routines, processes, skills, customer and process knowledge, a culture of customer orientation, customer coproduction abilities, relationship networks and the information technological infrastructure are seen as the assets service companies drive on (Shaw, 1990; Webster, 1992; de Jong & van Bemmel, 1992; Normann & Ramirez, 1993; Schneider & Bowen, 1995; Peelen, 1999). Market positioning for service companies is not only a choice for potential customers but also a choice for potential and capable coproducers and comarketers (Schneider & Bowen, 1995). Customers are an important resource to service companies for their coproduction and their efforts in service marketing. During coproduction they provide expertise and working time to the company and they provide new customers with signals about what kind of service provider they are going to deal with. Customers’ effort in service marketing consists of telling other customers about their service experience (Berry & Parasuraman, 1991).

These service competencies can be viewed as infrastructural and knowledge based, enabling and limiting strategic choices (de Jong & van Bemmel, 1992;
Chapter Two: Service Strategy

Webster, 1992). Service processes can be seen as configurations of resources aimed to produce services, which are of value to customers (Grönroos, 1998). Configuration of competencies like relationship networks, a culture of customer orientation, customer knowledge and a customer coproduction workforce are intransparent, have tacit elements and are interconnected and thereby quite complex. Such configurations are hard to duplicate.

Hart (1995) for instance, implicitly takes a resource-based view on service positioning through mass customization by stating the following. “Mass customization requires a deep self-knowledge regarding core capabilities, an awareness of all area’s of the corporate value chain that are relevant to pursuing a mass-customization goal...Mass customization should be customized to an organization’s particular needs, customer base, production capabilities, competitive situation and available technology”. Quinn, Doorley & Paquette (1990) argue that the activities or service power that undergird product positions are more important to strategy that the actual product positions itself. They implicitly take a resource-based view as well by seeing the management of customer contacts, together with building knowledge bases, skill sets and managing crucial service activities as core strategic activities. According to them, these assets are difficult to change and to imitate and can only be adapted on an evolutionary basis.

The four service innovation types put forward by Gallouj & Weinstein (1997) can be seen as contributing to resource enhancement. In distinguishing these types of innovation, Gallouj & Weinstein implicitly take a resource-based view on service innovation, recognizing that most types of innovations enhance competencies and that only radical innovations destroy competencies. They further recognize that the interaction between the service provider and the customer often is the starting point for service innovations, often resulting in emergent innovations. Sundbo (1997) emphasizes the strategic nature of service innovation and views service innovation as a market-driven process of incremental and sometimes radical innovations coming from all parts of the organization and ideally formulated within the strategy of the organization to prevent uncontrollability. This logic of service innovation implicates that many service innovations stem from customer contacts in which front office employees specify specific solutions to customer problems, which might or might not be repeated. Replication of these ad hoc service innovations is seen as a process in which reproducible objects are specified and standardized. Sundbo conducted a multiple case study in which he studied the service innovation process of 21 cases. He recognized the service innovation logic in these cases as being a clear resourced based one, in which the market situation was interpreted through the strategy of the firm and internal resources were analyzed and defined as a part of the strategy process. In all these cases top management of the firm had the task of ensuring that innovations be kept within the framework of the strategy.

Heene (1995) emphasizes the contribution of the resource-based view to our thinking about diversification. According to the resource based view, diversification should be seen as the generation of new services based on existing resources and capabilities, which is congruent with Gallouj and Weinstein’s ad hoc and recombinative/ architectural innovations. The process of growth necessitates specialization, specialization creates unique productive opportunities
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(diversification) and specialization necessitates growth to fully utilize (unused) resources (Mahoney & Pandian, 1992). This way specialization induces diversification and empirical studies indicate performance advantages for related diversification over unrelated diversification (Mahoney & Pandian, 1992). Ad hoc and recombinative innovations provide opportunities to develop new specialized competencies or to recombine specialized competencies through which related diversified service offerings could be provided to the market.

Strategy in Services: Network Positioning

According to Normann (1991) most of the literature on service management and strategy has been based on the assumption that value is created by one actor (the producer) and then sold to another actor (the consumer/user), as could be illustrated by Porter’s value chain theory. This assumption might leave us astray since it misses the complexity of interrelationships between providers and customers. Transactions more and more are becoming episodes in long-term relationships (Gummesson, 1987).

A natural consequence of the focus on long term relationships and customer contact strategies is to broaden the offering to capitalize on these relationships (Heene, 1995). Service providers constantly bundle, un-bundle and re-bundle their service package in a market-driven way to satisfy their customers. They bundle services provided by networks of service providers and remain the sole or main contact point for their customers to retain their customers and because customers want to see ‘one face’ (Vandermerwe, 1994). This logic of bundling services, capitalization on existing relationships and providing one face to the customer has become the prevailing business logic in our networked information society (Shapiro & Varian, 1999). Therefore, in this paragraph I’ll mix insights from the more traditional literature on service management and network organization with the more recent insights on virtual organizing from the information management literature.

Gummesson (1996) explicitly relates relationship marketing in services to the network organization, in his terms ‘the imaginary organization’. The imaginary organization is “a system where crucial resources, processes and actors exist and are managed also outside of the legal boundaries, the official accounting reports, and the organizational descriptions”. It is characterized by the following.

- Being larger and more resourceful because customers are managed as a coproduction workforce and suppliers and partners are seen as crucial resource contributors.
- Being resource and process based.
- Enabled by ICT to create totally new organizational solutions, although ICT is not a condition per se.

Implicitly Gummesson takes a resource-based view when he envisions ‘the imaginary organization’. Networks of organizations are explained in the resource-based view by the need to combine critical resources of different organizations to
respond to new market needs. As the accumulation of resources is seen as time consuming and path dependent, organizations might become in a market position in which their set of accumulated resources fall short and accumulation of new resources is too time consuming or too expensive. In such a situation networking is the only possibility. Quélin (1995) differentiates between three kinds of network alliances.

1. Alliances between companies with complementary resources which are already available and in which the alliance focuses on existing markets.
2. Alliances of companies with already available complementary resources, which combine their resources to enter new markets.
3. Alliances between companies, which focus on the development of new resources.

In network theory (Axelsson, 1995; Wilson, 1999) the dynamics of networks are explained and an implicit resource based view on the configuration of networks over time is taken. Three variables which create network dynamics are distinguished: the actors in the network (companies and individuals), the activities performed by the actors in the network and the resources put to production in the network and governed by the actors. The relationships in the network are seen as an outcome of actions in the past and thus are path dependent.

Several network typologies have been proposed to understand the structure of networks and to differentiate between networks. Snow & Miles (1992) differentiate internal networks, stable networks and dynamic networks. Internal networks are generally governed by one company. In stable networks assets are owned by several companies but are dedicated to a particular business. Often different suppliers nestle around one large core supplier. In dynamic networks a lead firm assembles assets from different companies dynamically. The lead firm often relies on a core skill, such as design, coordination or brokerage. The dynamic and quick packaging of resources provides the network maximum responsiveness to the market.

Jägers et al. (1998) distinguish between three types of network organization: the planet-satellite (which resembles the stable network of Snow and Miles), the strategic alliance and the virtual organization. The last two are seen as network organizations which operate under higher levels of uncertainty and which become more dependent on each other. They see virtual organizations as an organizational form with inter-company cooperation, with complementary competencies, which pools resources, is geographical dispersed, have changing participants, strive for participant equality and rely on electronic communication (Jägers et al., 1998; Steenbakkers et al., 1998). These ideas on virtual organization resemble Gummesson’s idea of the imaginary organization (1996).

Mowshowitz (1997) sees virtual organizing more as a process than as a type of organization and states that the principles of virtually organizing can be established in all forms of organization, social as well as technological. Virtual organizing is seen as being a matter of degree (Kraut et al., 1998). Virtual organizing is viewed as a perspective to improve business networking and thus is seen as an element of business networking (Franke & Hickmann, 1999; Klüber et al. 1999). The basic
principle behind virtually organizing is the dynamic matching of requests for services with available services (ICT or human experts) via a multifunctional access point (Mowshowitz, 1997). Both the requests and services change over time. To accommodate the dynamic character of virtual organizing, the assignment of services to requests must be dynamic, which is referred to as switching and is seen as the basic difference between traditional ways of organizing and the virtual approach. The limitation of the virtual approach lies in the effectiveness and efficiency of the interfaces of the nodes, which together provide the services to satisfy the request. Switching from one service provider to another is only justified if the benefits outweigh the cost of switching (Mowshowitz, 1999). Each transaction between nodes presupposes agreement between the parties involved. This agreement stems from shared protocols, shared culture, trust, relationships, etc. The feasibility of virtually organizing increases through the availability of information and ICT commodities, organizational standards and a clear financial infrastructure to support transactions and switching.

Franke and Hickmann (1999) elaborate on the dynamics at the supply side of dynamic matching. They define a virtual corporation as being a flexible, fluid and contemporary collaboration between organizations to add value (to satisfy certain requests). Virtual corporations are thought to be derived from a virtual web of organizations, being an institutional organizational framework where member companies make their resources available to be combined with those of other members. This idea resembles the traditional concepts of the organization set, action set and implementation set of an organization from the organizational theory literature (Alexander, 1995). The organization set of an organization is seen as the array of organizations that make up the relevant environment. The action set of organization X is seen as a subset of the organization set of X and are the organizations interacting with X in pursuit of a common goal (resembling the virtual web). The implementation set is seen as the subset of the action set and are the organizations involved in a certain transaction, project or program with X (resembling the virtual company). This resemblance gives further rise to the idea that virtual organizing is merely a matter of degree of dynamic matching in network organizations than a new form of organizing and gives rise to the assumption that the management paradigm of virtually organizing can be applied to every network (Franke & Hickmann, 1999).

I follow Mowshowitz’ line of thinking. In this chapter, I concentrate on the functional elements of service organization and distribution not on the governance issues. Mowshowitz (1999) refers to a management paradigm, not to ownership schemes.

The coordination of resources provided by different suppliers and packaged in several service processes is key to network performance. One coordination role is the establishment of the network. This is sometimes referred to as the architect role (Snow & Miles, 1992) or the broker role (Klüber et al., 1999). Another role is the operational management of the network, referred to as the lead operator role (Snow & Miles, 1992), the leader company (Gummesson, 1996) or the coordination provider role (Klüber et al., 1999). As network development is an ongoing concern, the network also needs enhancement activities to be performed, referred to as the
Caretaker role (Snow & Miles, 1992) or the coordination knowledge provider role (Klüber et al., 1999). Klüber et al. (1999) distinguish a standardization role as well. This role is not recognized by Snow and Miles, probably because their focus wasn’t much on technological issues, merely on network organizational forms than on virtually organizing. The operational management role and the network development role are recognized by Mowshowitz (1999) as well. He views both roles as part of what he refers to as metamanagement. Metamanagement is the management of virtual organized tasks and is responsible for analyzing requests for services, identifying services, switching and tracking of service providers, maintaining the procedure for allocating services to requests and adjusting the criteria for satisfying allocation.

Klüber et al. (1999) use the above-mentioned roles to propose a business ‘ecosystem’ in which complementary partners facilitate virtual organizing by an infrastructure in which they provide electronic services to each other. The framework they arrive at is depicted in Table 2.6.

The four roles are characterized as follows.

- **Standard setting.** By this role standards are set by agreement, by regulation or ‘de facto’.
- **Provider.** The provider actually performs and delivers a function.
- **Broker.** The broker provides information about providers, standards, contracts and relationships.
- **Knowledge provider.** The knowledge provider delivers knowledge to set up and maintain services in a business network. Consultants can perform this role, for instance.

The layers of services are characterized as follows.

- **Knowledge services:** knowledge provision for new services, which are delivered by the complete network.
- **Coordination services:** coordination mechanisms to coordinate the virtual network.
- **Process services:** offering a business process (sales, finance, HRM) or parts of business processes.
- **Information services:** offering general services, like market research.
- **Transaction services:** automated back-office transaction processing.
- **Data services:** providing data, which is of value to the network (for instance social security numbers or addresses).
- **Communication:** content free communication.
- **ICT infrastructural services:** hardware, databases servers or application components like browsers.
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<table>
<thead>
<tr>
<th>Role</th>
<th>Standard setter</th>
<th>Provider</th>
<th>Broker</th>
<th>Knowledge Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge</td>
<td></td>
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<tr>
<td>Coordination</td>
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<tr>
<td>Process</td>
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<td></td>
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<tr>
<td>Information</td>
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<tr>
<td>Transaction</td>
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<tr>
<td>Data</td>
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<tr>
<td>Communication</td>
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<tr>
<td>ICT</td>
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</tbody>
</table>

Table 2.6: The network ‘ecosystem’ (Klüber et al, 1999)

Business networks can be thought of as having three different layers: a production network layer, a resource network layer and a social network layer (Holmlund & Tornroos, 1997). In the production network layer firms perform production activities. This layer is delimited by a value chain or network (the implementation set) and is related to products and services and is the primary focus of this chapter. The resource network layer provides resources that are necessary for the production network layer and consists of all actors providing resources (the action set of the network). These actors are the producing actors in the production network layer, but also consultancy firms, banks, temporary agencies, etc. and is sometimes hard to delimit. The social network layer refers to the interconnected human actors. This layer usually is the focus of studies on the social-psychological issues of business networks and relationship marketing and is beyond the scope of this chapter.

Combining of the framework of Klüber et al (1999) and the idea of three business network layers by Holmlund and Tornroos (1997) provides the insight that the production network layer consists of coordination and process providers. All the other roles in Klübers network are part of the resource network layer and provide (infrastructural) resources to the production network layer.

As virtually organizing is seen as an element of business networking and can be applied in all organizational networks (social and technological), I assume that the services mentioned in Klüber et al.’s framework not necessarily be totally electronic and can be viewed as general services which constitute a business network. This assumption is supported by the similarities between the roles distinguished by Klüber et al. (1999) for virtual organizing and the roles distinguished by Snow and Miles (1992) for network organizing in general. Empirical findings relax the idea that electronic communication (which is inevitably part of overall process coordination and in-process coordination) is key to virtually organizing (Steenbakkers et al., 1998; Kraut et al., 1998). Personal relationships and electronic communication are used complementary rather than substitutable (Gummesson, 1996; Kraut et al., 1998). Klüber et al. themselves mention in their paper several examples of e-services in which human activity plays a crucial role (like consultancy and training services in the knowledge layer).

Mowshowitz, (1997) and Vandermerwe (1994) recognize the need for a multifunctional access point in business networks. The need for some sort of
account management system or one contact point for customers, which has the capacity and ability to draw together the various pieces of the network. Through such a medium resources can be sourced, mobilized, coordinated and funneled to provide customers with added value. Account management systems, for example, provide the vehicle for coordination. The empowerment by information systems and the ability to access resources in the network is seen as essential to such a system.

Conclusions

In this chapter I reviewed the literature to come to an understanding on service strategy. Service strategy is seen as a matter of service process positioning because services are different from products and are seen as activities performed for the customer in service delivery processes. Therefore market positioning can’t be based on products and has to be based on service delivery processes. Three generic service positioning strategies are recognized which I label as mass orientation, scope orientation and partnership orientation. The characteristics of these strategies are summarized in table 2.3.

In the service industry the resource based view on strategy formulation is paramount. Resources are built over time and service delivery processes could be seen as configurations of resources, which produce an outcome to the customer. As customers coproduce in services, the customer base of the service provider could be seen as one of its critical resources, contributing to the importance of relationship marketing in the service industry. Service innovation is understood as a process of incremental and sometimes radical innovations contributing to the strategic activity of resource enhancement, destruction and reconfiguration. Interaction between the service provider and the customer often is the starting point for service innovations, another reason for assuming that the customer base is a critical resource for service companies.

To capitalize on their customer base, service providers continually bundle services and pool resources of their own and other service providers. Therefore strategy becomes a continuous reconfiguration of roles and relationships in service networks, which in itself is path dependent. Not only the network of existing relationships with coproducing customers can be seen as a critical resource to service providers, but the network in total (including partners in business) is a critical resource. The network ‘ecosystem’ depicted in table 2.6 helps in understanding the different roles service providers play in a network and the different services, which make up the network. The production layer or implementation set mainly consists of coordination and process providers. Leaving all other roles and services in table 2.6 as providers of (infrastructural) resources to establish and maintain the network. Crucial to capitalize on the customer base is to focus on customer contact strategies and to provide multifunctional access points in the network which pull together the resources and service delivery processes to provide the customer with added value. The logic of bundling services, capitalization on existing relationships and providing one face to the customer has become the prevailing business logic in our networked information society.