International Management Journals

www.managementjournals.com

International Journal of Applied Operations Managment

Volume 1 Issue 1

Dimensions of Global Operations Strategy In Service Business: A Value-Chain-Based Analysis

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ISSN 1744-8182

Abstract

The nature of global operations strategy in manufacturing industries is well documented since these industries represent the prototypical cases of globalization of operations. Because of the nature of services, companies competing in these industries have less innate potential to compete internationally by deploying the full spectrum of global strategies. However, a few service companies have been very successful in competing internationally. We use the value chain model first to pinpoint the range of strategic options open to service companies, and then to show how the cutting-edge service companies have used value chain concepts to design high performing global operations strategies. We support the insights developed with extensive anecdotal evidence.

Key Words: Service industries, global operations strategy, value chain, configuration, standardization, differentiation, proliferation, integration, coordination, social software, execution, social operating mechanism

Introduction

Partly because of the very nature of services, the phenomena that have entrenched globalization as a core aspect of competition in the manufacturing industries have not operated with the same intensity or scope in the services. For an industry to become truly global in competitive scope, firms must have strategic option of completely concentrating the value chain activities in a home base, what Porter has referred to as a global platform, serving the rest of the world market from that home base and performing only the necessary downstream activities of marketing and sales in each domestic market. For example, the automobile industry is a global one because companies like Rolls Royce, Lamborgini and Ferrari can concentrate virtually all their R&D, Procurement, Human Resource Development and Manufacturing, the classical upstream activities, in their respective home bases or global platforms but serve the international market through the location of sales and after-sales facilities, the classical downstream activities, in the national markets where their products are sold. The same reasoning holds for every other global industry. Services are, on the whole, perishable, intangible, non-inventoriable (simultaneous production and consumption), require the presence of the customer in the service delivery system and, generally, cannot be transported over long distances (Lovelock, 1992; Shostack, 1984; Bitan and Hoech, 1990; Chase, 1981; Heskett, 1986; Schmenner, 1995). Therefore, most service businesses cannot compete internationally using the classical global strategies that concentrate the upstream value-chain activities in the platform, while performing only downstream activities in the local or national markets they serve.

Astute service companies have, however, developed successful operations strategies for competing internationally. We outline the global operations strategies that these businesses use and we explain the competitive rationale for them as these relate to the unique global strategy opportunities that are inherent to service businesses.

The Nature of Global Industries

The classical frameworks for defining global industries and for outlining the key characteristics and determinants of global platforms comes from Porter (1986). According to him, « The pattern of international competition differs markedly from industry to industry. Industries vary along a spectrum from multidomestic to global in their competitive scope». Multi domestic industries possess the following characteristics;

1. Competition in each country or small group of countries exerts very little influence on competition in other countries.
2. The industry is present in many countries but competition occurs on a country-by-country basis.
3. In a multidomestic industry, a multinational firm may enjoy a competitive advantage from the one-time transfer of know-how from its home base to foreign countries. However, the firm modifies and adapts its intangible assets in order to employ them in each country, and the competitive outcome over time is then determined by conditions in each country.
4. The competitive advantage of the firm is largely specific to the country
5. The international industry becomes a collection of essentially domestic industries

According to Porter, “The definition of a global industry employed here is an industry in which a firm’s competitive position in one country is significantly affected by its position in other countries and vice versa. Therefore, the international industry is not merely a collection of domestic industries but a series of linked domestic industries in which the rivals compete against each other on a truly worldwide basis. Industries exhibiting or evolving toward the global pattern today include commercial aircraft, TV sets, semiconductors, copiers, automobiles and watches”.

Global industries have characteristics that are opposite to those of multidomestic ones, and the following are some of these characteristics;

1. Competitive forces exert their influence on a global basis. The intensity of competition in one national market is a projection of rivalry in other markets.
2. The industry exists on a global basis although production is usually concentrated in a large enough number of international production centers that have also become global platforms and/or favorable manufacturing locations for the industry. The existence of a sufficient number of these global platforms is what makes the global industry extremely competitive.
3. Distinct domestic industries as such do not exist. The boundaries of national markets are permeable and countries may be simultaneously high exporters and high importers of the product.
4. The competitive advantage of the firm is determined by the interaction of a complex array of factors whose influences extend well beyond the borders of a nation.
5. The international industry is a set of highly integrated ‘domestic industries’ that have essentially lost their individual domestic characters.

The classical global industries are in manufacturing. However, Porter did point out that service industries were evolving towards greater globalization; “Homogenization of product needs among countries appears to be continuing, though segmentation within countries is as well. As a result, consumer packaged goods are becoming increasingly prone towards globalization, though they have long been characterized by multidomestic competition. There are also signs of globalization in some service industries as the introduction of information technology creates scale economies in support activities and facilitate coordination in primary activities. Global service firms are reaping advantages in hardware and software development as well as procurement."

The Competitive Strategy Implications of Multidomestic and Global Industries

According to Porter, "In a multidomestic industry, competing internationally is discretionary. A firm can choose to remain domestic or can expand internationally, if it has some advantage that allows it to overcome the extra costs of entering and competing in foreign markets. The important competitors in multidomestic industries will either be domestic companies or multinationals with stand-alone operations abroad. In a multidomestic industry, then, international strategy collapses to a series of domestic strategies." The implications of this thesis for our present purposes are quite profound. Service industries are generally of the multidomestic type. Consequently, the classical conceptualization leads us to expect that service firms that are competing internationally would not be deploying true global strategies, but a set of domestic strategies deployed by their respective country units. The international firm in these service industries would be managing a portfolio of businesses instead of being true global corporation.

The strategic options available to the firm change rather fundamentally when we consider the case of the global industry. Porter (1986) observes; "In a global industry, managing international activities like a portfolio will undermine the possibility of achieving competitive advantage. In a global industry, a firm must, in some way integrate its activities on a worldwide basis to capture the linkages among countries. This integration will require more than transferring intangible assets, though it will include such transfer. A firm may choose to compete with a country-centered strategy, focusing on specific market segments or countries where it can carve out a niche by responding to whatever local country differences are present. However, it does so at some considerable peril from competitors with global strategies. All the important competitors in the global industries listed above compete worldwide with increasingly coordinated strategies."

The viable strategic options open to a firm depends on the extent of the globalization of its industry. Firms competing in multidomestic industries are constrained to deploy multidomestic strategies that manage a portfolio of businesses, while those competing in global industries, although they can choose to deploy multidomestic strategies, would be at a considerable competitive disadvantage if they do so. The inescapable conclusion is that in a global industry, the firm must deploy some sort of global strategy.

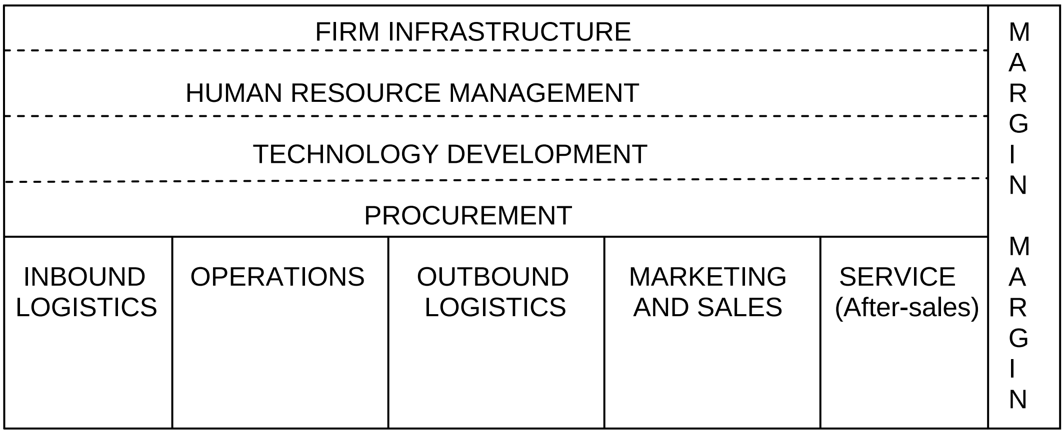
The Value Chain and Global Operations Strategy

A firm can be viewed as performing a set of value activities that create and deliver value to the customer and which generate margins, as in Figure 1. The definition of global operations strategies considers both how the firm configures these activities across its national or geographic units, what is referred to as configuration, and how intensely these units are coordinated from a central location, the firm’s home-base or global platform. Configuration options range from concentrating the performance of all value activities in the firm’s home base to dispersing across many geographic locations. Where a company chooses to concentrate the performance of value chain activities, it serves all geographic regions from its home base and performs in each national market only the downstream activities that are necessary to maintain its market presence. These requisite minimum downstream activities usually involve the operation of sales office and the establishment of an after-sales service operation. Where the company chooses to disperse the performance of the value chain activities, it can, at the outrance, perform all the value chain activities in each country that it competes in, fundamentally treating the global industry as a set of multidomestic industries.

The second dimension of global strategy is coordination or the extent to which the strategic and operations decisions related to like or linked activities in one country are related to those of other countries and vice versa. Coordination means that the actions taken with respect to a value activity in one country are related to the actions taken with respect to that value activity and all other value activities in all other countries. Where there is little or no coordination, the country units are managed as a set of largely autonomous domestic subsidiaries, while high coordination usually means that country units lose much of their strategic and, in some cases, operating autonomy. The firm’s value chain configuration, its relative concentration or dispersion across national, that is, domestic industries, together with the degree of coordination among activities and national units give rise to its global strategy. The range of global strategies is shown in Figure 2.

Activity concentration and the tightness of coordination of domestic units are driven by different managerial considerations. The decision to concentrate the performance of an activity in a particular geographical area is primarily based on the pursuit of economies of scale and the perceived comparative (cost) and differentiation advantage of the location where the activity is concentrated. The tightness of coordination of value chain activities or domestic units, on the other hand, is driven by two factors. The first is the strength of the interrelationships among the activities in the value chain. Coordination is the only mechanism through which management of an enterprise can ensure that the strategically advantageous relationships among activities or organizational units are fully leveraged for competitive impact. Coordination may be pursued through a variety of means such as collaborative decision-making in strategic, interphasal areas, the standardization and sharing of information, the deployment of standardized and centralized control systems and of ‘coordinators’ who serve as linking pins between related departments or units, committee and joint meetings, and, ultimately, the subordination of the units that must be coordinated under a common hierarchical authority. This latter mechanism has been referred to in the management literature as administrative integration, and it makes coordination an intra-organizational rather than an inter-organizational affair, increasing the potential to have high levels of coordination among the relevant units.

Figure 1: The Value Chain

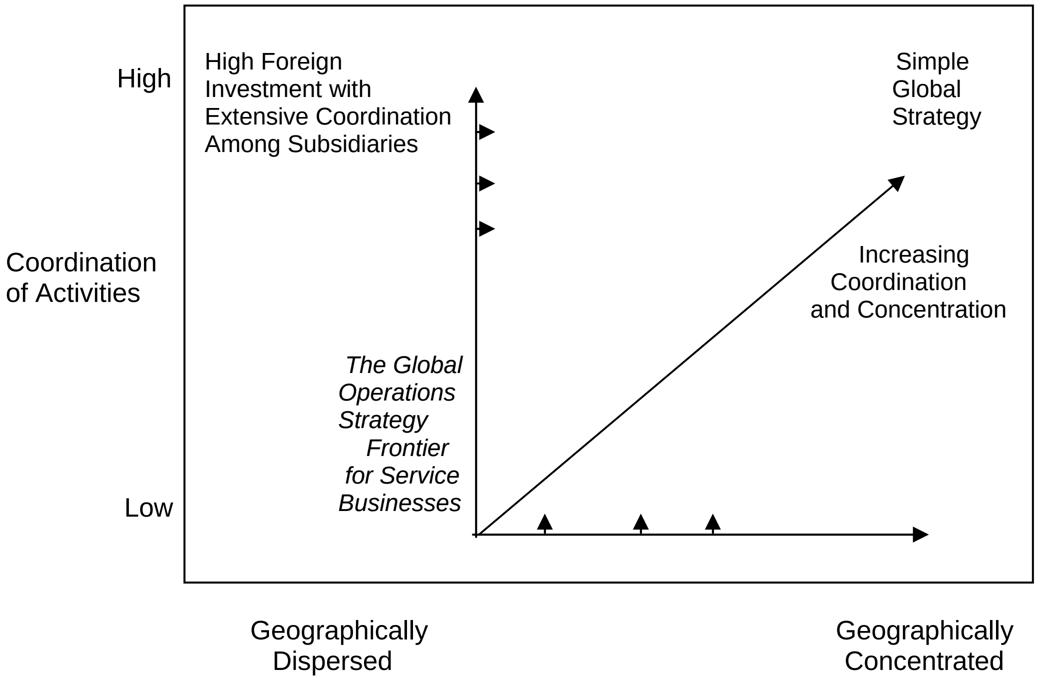


Clearly, where the effective performance of a value activity or set of value activities substantially influences the effectiveness of other activities, the related activities and the units performing them must be coordinated, if the strategic relationships between them are to be leveraged in any meaningful way. Thus, in a service business whose service delivery system is characterized by high levels of customer contact, there is a very strong strategic interrelationship between traditional marketing activities undertaken in the marketing function and the internal marketing activities performed through service execution in the service delivery system. For example, promotional programs designed by the marketing function to shape customer expectations of the service can be completely nullified by discourteous and otherwise poor service delivered in the service delivery system. Therefore, the only way to leverage the strategic relationship between these two functions and deliver consistently high levels of service is to have tight coordination of the traditional marketing function, where classical marketing is managed, and operations, where internal marketing programs are deployed. Such coordination is bound to be a critical success factor for a high contact service delivery system and that is why high contact companies like McDonald’s, Hilton Hotels and Club Med, to name but a few, deploy a variety of strategies to assure tight coordination of these highly interdependent functions.

The second factor driving the tightness of coordination is the degree to which the company’s competitive strategy requires the creation and delivery of a standard or highly similar service offering in all domestic markets. Where the company competes internationally using the same service offering in all domestic markets, it must manage all domestic units with a high level of service delivery discipline. Otherwise, local deviations from the core service will adulterate the company’s market image and the service perception that it is trying to create in its customers through the factual impact of the service delivery system. In order to achieve a very high level of service creation and delivery discipline, it is not enough that the company standardize the service and delivery system design, but it must also assure that all units are performing to that standard. Coordination through a centralized information system, standardized and centralized corporate wide control system, and standardized human resource training and development policies are essential to the achievement of such service delivery discipline. In other words, standardization promotes both concentration of activities and their coordination across service creation and delivery units, whether these units are involved in the performance of primary or support value chain activities.

The purest form of global strategy, the simple global strategy of Figure 2, involves both high concentration and tight coordination of activities. Concentration is done to achieve high economies of scale or to exploit the comparative advantage or the cost or differentiation advantage of a particular location, although concentration also promotes coordination. It is far easier to coordinate activities that are located in close proximity than those that are geographically dispersed. So, when a company competes internationally, it increases the complexity of the coordination problems and issues it must deal with and can only be successful in the global market if it can find ways to assure tight coordination of performance of value chain activities and the relevant organizational units. A firm is deploying a global strategy if it seeks to gain a competitive advantage by competing internationally either through the concentration or dispersion of value activities across its national units, or through coordination of these units or through both concentration/dispersion and coordination.

Figure 2: Types of International Strategy and the Global Operations Strategy Frontier of Service Businesses



Source: Adapted from Porter, 1986.

Global Operations Strategy Options for Service Businesses

Figure 2 gives us the conceptual base that we need to outline the innate global strategy options available to service firms and to understand how astute service managers have been able to position their companies to be effective global competitors in their markets. Because services cannot be inventoried and usually cannot be exported, the service delivery system usually must be local in scope. The global strategies that require high geographic concentration of at least the core service delivery process or operations and those value chain activities such as inbound and outbound logistics that are strongly related to operations, are not available to most service firms, unless management deploys actions that have the consequence of increasing the level of concentration. We can deduce from Porter's framework that firms reap the greatest competitive advantage from both high levels of concentration and tight coordination among domestic units. The coordination problem for many service firms is complex indeed, and this further restricts the ability of service firms to deploy pure global strategies.

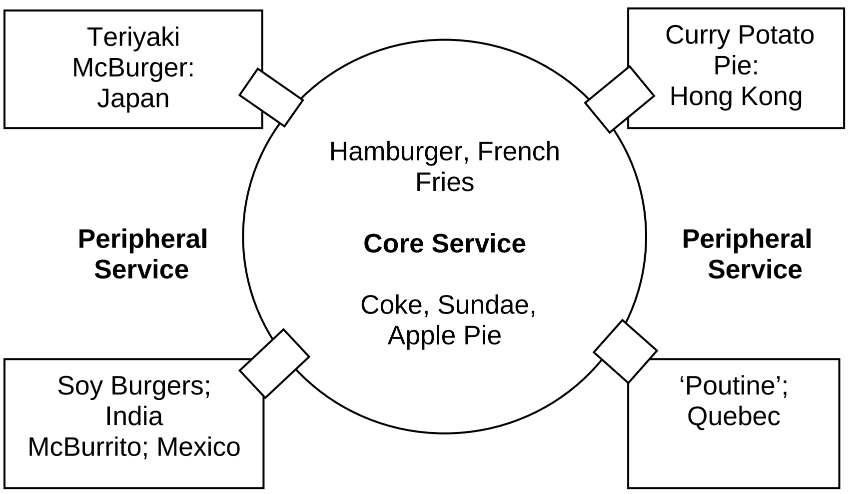
The complexity of the coordination problem derives from three phenomena. First, most service corporations that compete internationally must manage a very large number of operating units in a large number of domestic (national) markets. For example, McDonald's has over 30,000 restaurants in at least 34 countries, while FEDEX has thousands of service centers in over 200 countries, and the list goes on to include every service company with significant global operations. We refer to this as proliferation of the service delivery process and it is driven by four factors: 1. Very high outbound logistics costs or sheer incapacity to create the service in one centralized location, or any location for that matter, and move it to a different location where it is delivered and consumed, that is spatial in-transportability, and any service that is afflicted by it will experience proliferation of the service delivery process when the company globalizes; 2. Service tastes are highly influenced by local social/cultural nuances and idiosyncracies which force a company to adapt the service offering, and sometimes even the service delivery process, to local tastes and behavior patterns in order to effectively compete in the global marketplace; 3. All service offerings have an element of psychological service which increases the level of subjectivity in the specification of customer requirements, the evaluation of the quality of the service on the part of the customer and overall satisfaction with the company's service. Moreover, these psychological service dimensions of the service offering exacerbate the impact of local social/cultural influences on the specification of the service package, the design of the service delivery process and the creation and delivery of the service to the customer.

The second phenomenon that increases the complexity of coordination for service businesses is service value activity splintering. When compared with manufacturing industries, the primary value activities of service businesses are often splintered in that their performance is not the primary responsibility of any one function but of a few functions. For example, marketing activities in service businesses have a classical, external marketing component which is in the ambit of responsibility of the global marketing function. However, this primary value activity also has a rather very critical internal marketing one for which the global platform of the corporation has primary responsibility and another critical local internal marketing component for which the domestic (local) organization has primary responsibility, the latter being essentially lodged in the service delivery operation, under the purview of operations. As a second example of splintering, take the example of airline companies where the primary Operations value activities can be divided into reservations operations, typically under the direction of Marketing and Sales, and flight and ground operations under the direction of the Operations function. Splintering imposes more severe coordination requirements, since it introduces more distinct activity sets in the value chain that are often the responsibility of different organizational units.

Because service tastes, wants, demand and consumption patterns are more susceptible to local social -cultural influences, companies that want to compete internationally must make peripheral adaptations to the core service to cater to local social and cultural idiosyncrasies. Some cases of adaptation of the service to local tastes by adding peripheral elements to a central core are shown in Figure 3. It must be emphasized, however, that these adaptations to local social-cultural influences usually leave the core service intact, since the existence of a hard service core facilitates increased coordination, a key factor in the ability of a service firm to compete internationally.

Finally, due to the fact that the core elements of the service offering are fundamentally intangible or impalpable, they often cannot be specified with a high level of precision, and there are usually no physical measures of either the nature of the service or of performance of the service delivery system, which gives rise to nonevidentiality and the quality control problems it creates. The various elements of a service concept are often fungible and performance evaluation has a very strong subjective component. Consequently, in the absence of mechanisms to impose a corporate wide service discipline, deviation of the actual service from the intended service is easy and will most likely occur. In that case, local tastes, wants and consumption idiosyncrasies are constantly tugging at the core of the service offering to influence the company to redesign it to fit local wants, even if this would compromise the integrity of the core service. The service company that wants to compete internationally must build the organizational capability to maintain service design and delivery discipline in the face of such parochial pressures from the local market. These service companies that are competing internationally must execute the service in a wide array of domestic markets, across a broad spectrum of cultures, and still maintain the strategic and service operations execution discipline that will maintain the integrity of the service concepts and of the company's competitive position. This is one of the biggest management challenges for firms competing internationally in a service industry, and the companies that succeed as global competitors have built the organizational and strategic capability to effectively deal with it. Standardization of the service offering and service delivery system buttressed by a tightly woven *Social Software of Execution* and its key component, the *Social Operating Mechanism* (Bossidy and Charan, 2002), are quintessential to the creation of the requisite organizational and strategic capability to maintain integrity of the service across national/domestic cultures, while simultaneously using the peripheral elements to make the service offering respond to the idiosyncratic needs driven by local cultures.

Figure 3: The Service Core and Adaptations to Local Social-Cultural Influences: The Case of McDonald's



These arguments mean that service firms have innately fewer global operations strategy options, a narrower range of attractive global operations strategies, and less potential to reap competitive advantage from globalization of operations than their manufacturing counterparts. We can envisage a frontier of innate global operations strategies for service businesses as shown in Figure 2, and it shows that the global strategy space innately available to service businesses is much more restricted than that available to manufacturing firms, the latter potentially occupying the entire global strategy space. For service businesses to become effective global competitors, they must broaden the range of strategic options open to them by increasing their global operations strategy space. This can be achieved by designing and implementing actions that make it possible to have higher levels of concentration of the location of value chain activities, coupled with coordinating mechanisms or service design and delivery strategies that make it economical to achieve tight coordination of both domestic units and the execution of value chain activities.

As shown in Figure 2, the actions that increase concentration and coordination push the global strategy frontier of service businesses upward and to the right, thus increasing their global strategy space. Top managers in a few leading-edge service businesses have been able to design and deploy effective global operations strategies that make their companies true global competitors. They do so by deploying service design and delivery strategies that either allow them to increase the level of concentration of value chain activities or create the potential to achieve tight coordination of domestic organizations and service delivery units or both. These levels of concentration and coordination must be achievable over and above what would normally be realizable given the nature of the service in question.

The barriers to concentration are substantially physical. For example, because of the concept of in-transportability introduced earlier, there is absolutely no way to deliver a freshly prepared hamburger from Los Angeles to Tokyo, using current technology. The concentration enhancing actions that increase the capability of a service firm to compete internationally will focus on reducing the physical barriers to delivering the output of the relevant activity set from where it is concentrated (produced) to where it is used. However, the barriers to coordination are also economic, since one can theoretically coordinate any set of activities performed in one location with any other set of activities performed in a different location, and this could be done by a variety of mechanisms, as pointed out previously. In the case of coordination enhancing actions, what is at stake is the tightness of the coordination achieved and its cost. So, the actions that create the potential to achieve high levels of coordination will focus on dramatically reducing the cost of coordinating value activities and domestic units over a wide geographical area.

Pushing the Global Service Operations Strategy Frontier

We use the value chain in Figure 4 to outline the specific actions that many service firms have implemented that help them compete effectively internationally. These actions and the systems that support them are tough to configure and deploy because they require the simultaneous achievement of standardization, differentiation, service system proliferation, activity concentration and integration through coordination. Although it is a tall order for management of a modern service business, it is a strategic necessity to compete globally in a service industry, and the highly successful service companies that we have already referred to have all succeeded in achieving it. Figure 4 further bolsters the usefulness of the value chain concept as a tool of operations strategy analysis and design. The value chain analysis shows that despite the inherent disadvantages of services compared to manufacturing when it comes to competing internationally, the level of concentration of performance of value activities and their coordination across national organizations and domestic markets can be increased significantly from a base level. This increase in concentration and coordination has the effect of pushing the global service strategy frontier closer toward the simple global strategy option available to manufacturing corporations. This can be achieved with clear global operations strategy intent by using the value chain, a strategic management framework, to map out the actions that must be implemented in order to enhance concentration and coordination mechanisms that are specific to each value activity.

In one form or another, the actions outlined in Figure 4 involve the application of the fundamental concepts of management: Standardization, Concentration to achieve economies of scale, Differentiation and Integration through Coordination. We recall that differentiation is the process of recognizing that different organizational units or activities have different requirements, constraints, logic or processes and must usually be separated from other dissimilar activities or departments, so as to maximize both their own internal efficiencies and their potential impact on the organization as a whole. Differentiation involves the recognition and management of differences or uniqueness. Therefore, our framework does not advocate the creation of differences but rather argues that the usual classification of value activities may result in dissimilar sub-activities being bundled together and managed as one, indivisible whole. Where this results in the entire activity set being dispersed throughout the domestic organizations, concentration potential is lost.

The concept promulgated here argues for dividing the value activities into unique sub-categories and concentrating those amenable to concentration in one geographical area, while dispersing to the domestic organizations those sub-activities that must be managed locally. For example, outbound logistics is not a homogenous, undifferentiated bundle of activities but a package that is divisible into one sub-activity set, strategic logistics, that can be concentrated as per Figure 4, and another sub-activity set, operational logistics, that must be dispersed to the domestic units. Interestingly, the literature identifies high differentiation or heterogeneity as one of the distinctive characteristics of service businesses. Therefore, the rationale of our framework has support in the literature and in practice, in that it simply proposes exploiting the innate nature of services but in a way that gives service companies more leverage to compete internationally. Despite uniqueness, all differentiated units, departments, functions or activities must be made function as one unit, in the pursuit of corporate strategy and mission. Integration refers to the process and mechanisms of bringing all “differentiated” units or activities together under the discipline of one corporate strategy (Lawrence and Lorsch, 1967, Peters and Waterman, 1982; Bossidy and Charan, 2002). All the value chain actions outlined in Figure 4 involve either differentiation or integration through concentration, standardization and coordination. While the literature on service businesses has focussed heavily on standardization as a means of increasing operations strategy effectiveness, the value chain analysis presented here argues that, at least for corporations that want to compete internationally, the exploitation of value activity differentiation may prove to be as powerful a mechanism for leveraging service strategy.

Figure 4: The Value Chain and the Global Operations Strategy of Service Businesses

<table>
<tr><td colspan="5">FIRM INRASTRUCTURE
Standardize information 2. Standardize information system 3. Automate information generation and analysis 4. Concentrate Information system development, strategic information generation and analysis in home base 5. Disperse operational information generation, analysis and reporting to local service units or domestic organizations</td><td rowspan="5">M
A
R
G
I
N

M
A
R
G
I
N

M
A
R
G
I
N

M
A
R
G
I
N</td></tr>
<tr><td colspan="5">HUMAN RESOURCE MANAGEMENT
1. Standardize human resource policies/practices/training 2. Standardize selection practices 3. Concentrate development of Human Resource policies and procedures 4. Disperse recruitment 5. Differentiate between operational and Managerial training 6. Concentrate management training in home base 7. Disperse operational personnel management to domestic/local units</td></tr>
<tr><td colspan="5">TECHNOLOGY DEVELOPMENT
1. Standardize Design of SDS 2. Differentiate between Core Service and Peripheral Service 3. Concentrate Technology development of Core Service in home base 4. Disperse design of peripheral service and its requisite process technology development to relevant domestic organizations</td></tr>
<tr><td colspan="5">PROCUREMENT
1. Differentiate between strategic procurement (example, Outsourcing, Off-shoring) and buying 2. Concentrate strategic Procurement in home base 3. Disperse operational buying to domestic organization</td></tr>
<tr><td>INBOUND LOGISTICS

1. Differentiate between strategic logistics and operational logistics
2. Concentrate strategic logistics in home base
3. Disperse operational logistics in domestic units</td><td>OPERATIONS

1. Differentiate between strategic and operational dimensions of operations
2. Concentrate strategic operations (process technology choice, site design, strategic operations systems choice -TQM, for example- development of operating practices and procedures) in home base
3. Disperse day-to- day operations (operational dimensions) to domestic units 4. Design Service Delivery System (SDS) first to deliver core service
5. Make requisite adjustments to SDS to execute peripheral service, where applicable.</td><td>OUTBOUND LOGISTICS

1. Differentiate between strategic and operational logistics
2. Concentrate strategic logistics in home base
3. Disperse operational logistics to domestic units</td><td>MARKETING & SALES

1. Differentiate between Strategic, Operational-Internal, and Operational-External Marketing
2. Concentrate Strategic Marketing in home base
3. Disperse Operational Internal Marketing to local service units
4. Disperse Operational External Marketing to domestic organization
5. Disperse market analysis/research of peripheral service to relevant domestic units</td><td>AFTER SALES

Entirely end-of -chain activity: Disperse to local service delivery units</td></tr>
</table>

As globalization deepens and broadens and as domestic markets become more crowded because of intense local competition, service corporations must increase the geographic scope of their operations and compete internationally through the deployment of global operations strategies. The early pioneers in global service operations strategy development are already reaping huge benefits. Walmart's

operations outside the US are currently generating higher profit margins than its domestic operations, while McDonald's now derives more than fifty percent of its profit from its foreign units. FEDEX could not be the huge global corporation that it is today with over 105,000 employees in more than 200 countries if it did not globalize its operations. In fact, because of the very nature of its service, FEDEX could not grow to be a significant corporation and offer a full range of courier delivery services to its customers, if it did not start to compete internationally. And under the pressure of competition in its domestic US market, Walgreen's, the largest US based drugstore chain is increasing its international reach by entering the Puerto Rican market. Eventually, Walgreen's must follow the lead of Walmart, one of its major competitors, by
entering both of the other NAFTA markets, Canada and Mexico.

The moment a service corporation decides to venture outside its home base market, what is commonly referred to as its global platform, then it must search for ways to overcome the innate disadvantages that service firms have when it comes to competing globally. The actions that overcome these innate disadvantages, as we have seen, hinge on differentiation and integration through concentration and coordination. The case of FEDEX makes the point rather forcefully. When FEDEX entered the rapid courier (overnight delivery) market in 1972, pick-up and delivery operations were all organized on the basis of multiple hubs, at least for the continental US market. Because the existing entrenched package delivery companies were competing on cost, FEDEX could only successfully enter the market by positioning itself on differentiation. (Porter, 1985). At the time, the market was poorly served in that the reliability of twenty-four hour delivery was very low. This offered a golden opportunity for the company to differentiate itself on the rapidity and reliability of its overnight delivery service. FEDEX designed and implemented the single-hub concept in which all packages to be delivered within the continental United States, no matter where they originated, were taken to Memphis, the location of the company's highly automated, single-hub package sorting operation. What is instructive for our purposes is that the single-hub concept represented a decision to concentrated key OPERATIONS VALUE-CHAIN sub-activities- package sorting and reloading for eventual delivery, aircraft maintenance and operations scheduling- in one geographical location. Having concentrated these critical operations value chain sub-activities, the company proceeded to leverage these concentrated activities for global competitive advantage through the intensive use of automation to reap economies of scale, of capacity and of technology.

A service company like FEDEX, however, must have local service delivery units to undertake local pick-up and delivery, and this requires strong coordination of these local units with each other and with the concentrated central hub. But, the decision to concentrate some critical operations value activities at Memphis provides for a centralized unit that greatly facilitates and enhances the effectiveness of such coordination. The pressure to globalize meant that the company had to broaden and deepen its international reach in order to be able to compete globally, and this required the creation of more regional hubs to service the market on a truly global scale. But, the existence of the Memphis facility both minimizes the number of these requisite regional hubs to serve the entire global market -FEDEX's global reach is so broad and deep that we can safely say that the company serves the entire global market- and facilitates coordination of these regional hubs with each other and with the central facility at Memphis. The regional hubs are but attempts to reap the strategic benefits of concentration on a regional basis.

A similar line of reasoning can be used to understand why companies like McDonald’s that compete in high contact, mass consumer service businesses must pick competitively critical activities for geographic concentration, and why they must design their services and service delivery systems in ways that enhance coordination. In the case of MacDonald's, some of the critical activities that were selected for concentration are Research and Development, Management Training, and Promotional/Advertising Campaign Development. The case of FEDEX has also shown us that if concentration is done carefully, at least for service firms, the factors that enhance concentration also promote coordination, and this can substantially mitigate the innate disadvantages that service companies possess for competing internationally.

More importantly, a service firm can move its potential to compete internationally by deliberately picking for geographic concentration, particularly in its home-base or global platform, value chain activities that, when concentrated, increase the firm’s capability to achieve tight coordination of regional/local units that deliver the service or perform other value chain activities. In every firm that competes successfully internationally, there is a deliberate and strategic choice to concentrate the performance of as many activities as possible in the company's global platform. Although the type and number of activities that can and must be concentrated varies from one industry to another and from one company to another, it appears that no service company can compete internationally if management cannot find ways to concentrate in its home base or global platform a critical mass of value activities with high potential for strategic leverage. For, if a company cannot concentrate enough value activities in its home base, it will have a difficult time achieving cost superiority relative to local service providers and will be unable to leverage cost advantage to achieve differentiation parity with already differentiated local companies that base their differentiation on their ability to cater to local tastes. The greater the number of value activities that a company can concentrate, the higher the cost advantage from concentration and the greater the potential for the company to sacrifice some of that cost advantage, as necessary, to differentiate the service offering by dovetailing it to local tastes, at the periphery, while keeping the service core intact.

Moreover, the tight coordination of both geographically concentrated activities and locally dispersed service delivery units is a competitive necessity. In fact, for service firms that compete internationally, their relative strategic positions and competitive advantages substantially reflect their relative success at concentrating critical value chain activities and at designing their services and service delivery systems and operations to enhance coordination. Thus, deliberate analysis of the service value chain to uncover hidden potential to concentrate activities, and the constant evaluation of the service offering and service delivery system for the explicit purpose of designing and redesigning them to enhance coordination, are strategically critical activities in global service industries.

The above observations have deep ramifications for the attitudes that service companies should adopt vis-à-vis E-Commerce and ERP systems. E-Commerce gives some service companies the potential to serve customers on a global scale but from a single geographic location. For example, prior to the advent of E-Commerce, a company that competed in the book retailing market internationally had to have service delivery units in every local (micro) market. However, with the advent of E-Commerce, book retailing companies can now concentrate their service delivery operations in one or a few geographic areas and serve the international market from that home base using an appropriate e-commerce model, à la Amazon.com. In these cases, the diseconomies of outbound logistics are substantially mitigated by outsourcing that value chain activity to companies that are specialized providers of that service and have developed substantial core competency in that area that enable them to drive costs down. By focusing on the strategically crucial aspects of the service delivery system, concentrating it in one or two geographic locations, and outsourcing outbound logistics, Amazon.com can deploy an efficient global strategy in an industry sector where it was hitherto impossible to do so without deploying service delivery units (bookstores) in every local market.

The Amazon.com service delivery system also shows the power of standardization, concentration and differentiation in enhancing the global strategy potential of service businesses. The company has completely standardized the core part of service creation and delivery system, the hardware, software and system operations that permit customers to shop online. We say this because the ultimate level of standardization is to have a single process or product/service. It is that level of standardization that allows very high levels of concentration of the service delivery process and, concomitantly, the realization of massive economies of scale that reach broad and deep into the corporation, in general, and the service creation and delivery process, in particular. Moreover, as we have argued, it is that same high level of standardization and concentration that enhances coordination of the value chain activities, and this base level of coordination is augmented by the outsourcing of the outbound logistics value chain activity. What this all boils down to is that the whole service apparatus is designed, configured and deployed to build, create and exploit strategic and operating synergy and symbiosis, and this substantially compensates for the innate disadvantages that service business possess.

The same logic applies to service delivery units that provide support service to internal customers, that is, other organizational sub-units. Among these support service units are purchasing, inbound logistics, service unit design, to name a few. The concentration of these support units is greatly enhanced by ERP systems. In addition, and as we have argued previously, these systems, technologies or business models that promote concentration also enhance coordination. For example, a company like Amazon.com that serves the international market from a few geographic locations in North America, Europe and Asia greatly reduces the number of local service delivery units that it must deploy -from a multitude to only two or three- and by virtue of this fact, significantly reduces the complexity of the coordination problem. This concentration decision, coupled with the fact that the company has carved out the outbound logistics part of the value chain and outsourced its performance, means that the company can be an effective, true global competitor in a market where it was hitherto not possible to compete internationally. ERP systems that allow companies to plan and control the local service delivery units of an enterprise from a central location significantly increase a company’s capability to achieve tight, seamless coordination of its international operations. These ERP systems allow concentration of planning and control and, as a significant by-product, enhance coordination.

Conclusion

We have argued that because of the generic characteristics of services, service companies have less innate potential than manufacturing to compete internationally by deploying the full spectrum of global strategies. However, we have shown that service companies can greatly enhance their capability to compete internationally by using the value chain model to analyze their service systems to uncover activities that can be concentrated and subject to tighter coordination, and how such concentration and coordination could be effectively achieved. Moreover, we have shown that actions that increase the level of concentration of value activities also greatly enhance coordination, thus allowing a company to further leverage both concentration and coordination actions. We have also presented anecdotal evidence that supports the position that the highly successful international competitors in the service industries have found ways to increase both concentration and coordination, the Internet and ERP systems being the newest ways to do so. As service companies increase concentration and coordination, they come very close to mimicking the full range of global operations strategies deployed by manufacturing companies and the impact on their market positions and strategic effectiveness improve dramatically. Therefore, actions to enhance concentration and coordination are bone fide international operations strategy initiatives for a service company.

The pure global strategy potential is innate to manufacturing industries and, at the outset, management can decide to craft and implement a global strategy or exercise its other strategic options for competing internationally. However, in general, few service industries start with a pure global strategy potential, and it takes management vision and actions to first deliberately create that potential as a strategic move, and then to leverage it for competitive advantage. The critical insight is that global strategy potential which exists naturally for all manufacturing industries must be created by management in the case of all or nearly all service industries. And a key idea advanced and evaluated here is that the creation of such potential to compete globally requires active management involvement in the reconfiguration of the value activities to increase both concentration and coordination.

It is to be expected that the successful creation of a competitive potential where it does not exist naturally, as is required of most service businesses that want to compete internationally, is much more difficult than simply positioning a company to exploit an innate potential, as exists in manufacturing. Consequently, the competitive and differentiation advantage to be derived from the creation of the potential to compete internationally must be enormous indeed, and represents the stuff of which true competitive excellence is made. So, then, service companies that succeed in crafting and deploying global strategies will, by implication, come to be dominant in both the domestic and international segments of their industries. Of course, when one service company finds ways to reconfigure their value activities to create potential to compete globally, their competitors must find ways to create their own potential to do likewise, since failure to do so would make it almost impossible for the latter to successfully compete against their global counterparts.

Some interesting avenues for future research emerge out of the analysis and synthesis presented here. First is the need to examine a broad sample of service firms that have successfully globalized their strategies to evaluate the extent to which value chain configuration/reconfiguration played a central role in that strategic process. Second, it should prove instructive to compare within particular industries the value chain configuration of service companies that have successfully globalized their strategies with those companies that are not as yet deploying global strategies. Such comparison will show what role value chain configuration/reconfiguration is the critical factor that demarcates successful global service companies from their multidomestic and even local counterparts. Third, future research should seek to establish whether some service industries are more susceptible than others to value chain reconfiguration that creates global strategy potential and what are the distinctive characteristics of these service industries that give rise to such susceptibility. Finally, the identification, analysis and evaluation of the mechanisms deployed by global service firms to enhance coordination is a research imperative.

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