

Value Chains as the Tools for Differentiation of Offer in Services

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Abstract Customers are generally characterized by having different requirements in selection from the product offer. They are interested in the so-called differentiated offers on the market because the differentiation of services is based on providing higher added value to the customers in comparison with competitors. One of the ways of possible solution is the use of value chain which enables company to find the opportunities to differentiate its product portfolio. The value chain can be used for finding the sources of differentiation and suitable placement in a customer value chain, for identifying a way to create the value of competition as well as for ensuring of the most profitable placement in supply and distribution value chains. Contribution focuses on the possibility of using diagnostics of value chains in services and it also presents a draft sequence of the diagnostic phases applied in the evaluation of activities/processes contained in the value chains. An important part of this contribution is connected with the ideas about the completion of traditional value chain with virtual value chain. It presents the proposals to discussion which should currently integrate the virtual world of information into further value chains of service company activities.

Keywords differentiation, value chain, company activities, customer requirements

JEL M31, M00, L89

1. Introduction

Services provided by different service companies in a competitive environment (sector competition) cannot be often mutually different. Then the customers consider an offer as equal and they are not interested in a provider of the service but they follow the price. Differentiated marketing offer, delivery (dispatch) conditions, image of service provider, specific traditional or online communication are the alternatives to the price competition.

2. Solution analysis of objective issue

Kotler (1998) emphasizes that the offer of service provider should be markedly different from the offers of competition. The customers expect the service enriched with its further properties and they look for an innovation of the service. The main problem of service provider that wants to be different is that the innovations in this sector can be quickly copied and imitated. Company can differ from competition mainly by the quality of provided services in all its parameters (e.g.,

quality of human resources; formation of more attractive environment where providing of services takes place; higher standard of perfection in ensuring of processes connected with providing of services in comparison with competition; change of image by means of used symbols and marks which will help to differ the service offer from competition; orientation to customer requirements and so on. [1]

Payne (1996) has a similar attitude towards the objective issue like Kotler. He points out at dependence of marketing service offer towards company abilities to differ from competition by providing a higher added value to their customers. According to Payne the higher added value is expressed as the difference between the overall consumer value and overall consumer price. The overall consumer value includes the value of service, value of product, value of employees and value of image. The overall consumer price is created by self-calculated price but there is also a connection with time consumption, mental effort and amount of energy used by customers in realization of service. The customers carry out their buying decisions in services following the added value where they compare the price, value and quality which are provided to them. We can say that the customers evaluate the price, value and qualitative aspects of a product when buying a desired service. [2]

Lesáková (2008) says that the differentiation cannot be understood on a level of the whole company because the differentiation rises from the specific activities realized by the company and from the influence of these activities on customers. The differentiation grows out of a company value chain and the author understands a potential source of uniqueness in any value-creating activity. She inclines to the opinion that the differentiation can also rise from the factors situated on a way between the service company and customers. A strong source of the service company uniqueness could be distribution channels, after-sales services, information for customers, professionalism of contact employees (first line employees) and other factors. [5]

In 1992 Porter suggested the use of value chain (Figure 1) as one of the tools for achieving the higher added value. He considers the value chain as the tool for identification of the way for differentiation of the product by means of value. The activities of value chain are divided into two groups: basic activities (supply, sale, marketing and sales, services) and supporting activities (infrastructure, management of human resources, technological development and acquisition). The supporting activities are performed throughout all basic activities and they have an integrating function. Basic activities can be further divided. E.g., „marketing and sale“ can be further decomposed into marketing communication, management of sales effort, own sales and so on.

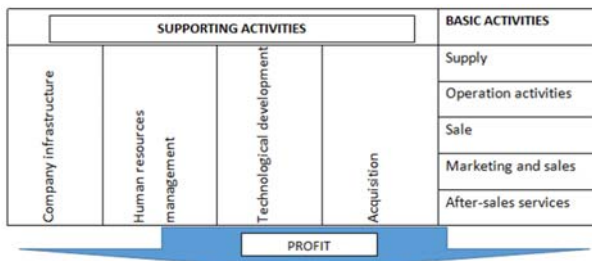


Figure 1. General concept of value chain (Source: PAYNE, A. Marketing služieb. Praha: Grada Publishing, 1996. ISBN 80-7169-276-X, 163 s.)

This general value chain can be used even for the service companies. However for the service companies it is recommended to use a specific value chain for individual service sectors. [2]

The differentiation issue is actual on a long-term basis. This fact is proved by the Porter's works who confirms that the service company competitive advantages are created mainly by the value. In contrast to the competitors, the company can create this value for their customers and the value exceeds the expenses of the company for formation of this value. Thus the differentiation is markedly based on the attributes of difference, uniqueness and inimitableness of provided services. Uniqueness of provided service moves the company (differentiator) to a leading position among the competition. In this case the price should reflect the value of difference attributes of provided service for which the customers are willing to provide an exact specified counter-value (pay the price). Differentiator in relation to the competition creates a challenging and innovative competi-

tive environment. Its consequence causes enhancement, variety and diversity of the market in a given segment. [3]

3. Aim of Contribution

The aim of the contribution is to present one of the possible approaches to the differentiation of marketing offer in services. This approach is based on the use of value chains as the tools of strategic marketing in services. Through diagnostic methods of value chain it is possible to identify the service company activities. These activities lead to the differentiation of offer in comparison with competition and they also lead to increase in value/benefit of service provided to the customers. The contribution refers to the possibility of applying diagnostics of objective activities. This has eventuated into the identification of such activities that support the value for customers. It includes the ability to learn, existence of mutual synergy of activities, use of effective procedures for formation of key competences, expressive demonstrations of creativity, production of inventions and subsequently innovations in service company.

4. Material and methodology of contribution

The results presented in this contribution were reached:

- on the basis of substantial excerption of theoretical approaches to given issue;
- by analysis of current state in the area of differentiation of offer in service sector;
- by formation of the value chain as the tool for structural analysis with aim to identify activities/processes leading to the differentiation and increase in value for customer and
- by synthetic methods for processing of draft sequence of diagnostic phases applied in evaluation of activities/processes contained in value chains.

5. Results of solution

The current state analysis realized on the base of secondary sources in accordance with the opinions of significant professionals has referred to the particularity of direct and indirect company activities. From this reason it also has referred to the particularity of value chain whereby the value chain diagnostics is at the same time the diagnosing process of all company activities. The ICT sector was chosen for an introduction of frame example of solved issue formation.

5.1. ICT Sector (sale and operation of computing technique)

A company from this sector can produce and directly sell the computing technique, provide a professional consulting in subjective area and provide a trading platform for internet users. Realized activities, their structure and mutual

connection are influenced by basic company functions. In company the production factors are transformed into the goods and services whereby the combination, coordination and assurance of different activities must be ensured. Several activities must create the value so that the result of one activity will provide higher value in comparison with the value of all used production factors. This value is then realized by means of fulfilled turnover on a downstream market. The way in which all the factors are involved in a profit of a whole company is possible to identify and subsequently diagnose by means of the frame scheme in the picture 2. [4]

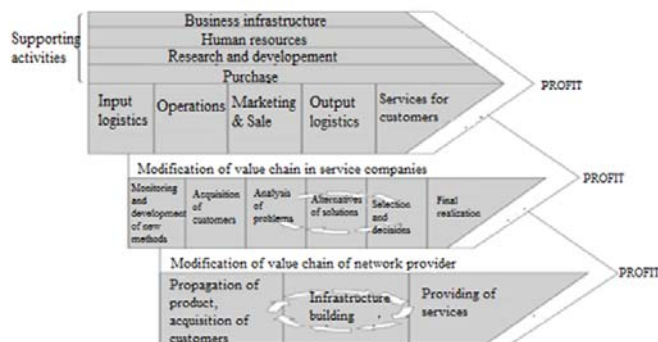


Figure 2. Modification of value chain in conditions of service companies (Source: TOMEK, G. - VÁVROVÁ, V. *Střety marketingu. Uplatnění principu marketingu ve firemní praxi.* Praha: C. H. Beck, 2004. 20 s.) [5]

Figure 2 refers to (in contrast to Figure. 1) different structure of value chain. This chain is created and its process is diagnosed in service company conditions of selected sector. From this diagnosed chain it is obvious that an intention of the company is to diagnose the problems of customers and their therapy (solution) within the company possibilities. A choice and a combination of sources for prevention or removal must be adapted to individual problems. These activities are accompanied with a high degree of uncertainty, integration and individuality. The formation of state diagnosis in comparison with competition and adoption of arrangements based on effectively selected therapy are not based on organizational and functional approach to division of company activities, responsibilities and time frames. Important activities that need to be improved and innovated are activities that are significantly connected with the possibilities to reduce costs and those that show a high potential of differentiation from the customer point of view. It means that diagnosing leads to: identification of places and reasons of costs (through the right therapy it is subsequently possible to define the approaches for their reduction) and •identification of value activities which lead to increase in customer benefit.

In other words, we can say that a big advantage of value chain diagnosing with aiming at customer satisfaction and support of company competitiveness is increase in the costs knowledge of company employees at all management levels and initiation of sensitivity to customer needs on the part of all company employees. [6,7]

6. Proposal of sequence of diagnostic phases applied in evaluation of activities/processes contained in value chains

Within the frame of the application of diagnostic approach to the differentiation of offer services it is important to diagnose all primary and supporting activities that are realized within the value chain. Therefore it is necessary to multistep decompose these activities/processes into partial processes of the first up to nth degree and subsequently to fulfil the sequentiality of individual diagnostic phases which should be:

- selection of the behaviour characteristics of selected object of diagnostics (process, partial process contained in the value chain);
- selection of a diagnostic method and formation of improvement model or more precisely an achievement of exceptionality (in comparison with competition) for expressing the basic characteristics of behaviour of diagnosed object (e.g., benchmarking);
- formulation of tested criteria;
- description of development and state of diagnosed object (process, partial process contained in the value chain);
- realization of diagnostic test (identification of different expressions compared to competition); application of comparison of diagnosed object with testing criterion of diagnostics (process, partial process contained in the value chain);
- diagnostic analysis (realized through some diagnostic method, e.g., through so called home quality);
- diagnostic synthesis (formulation of so called diagnosis with determination of urgency of changes, priorities and so on);
- complex evaluation of diagnostic findings and proposal of therapeutic interventions into the process/partial process contained in the value chain for achievement of uniqueness and differentiation from competition connected with increase in benefit/value for customer.

It is supposed that the result of diagnostic process, among other things, will be the evaluation in comparison with competition:

- learning abilities of diagnosed service company (learning organization),
- degree of mutual synergy of activities/processes and sub processes in value chain,
- system and level of formation of key competences,
- rate of creativity and innovative ability of company, including intensity of slowing and supporting forces in innovative processes in service company.

Exactly these aspects of objective issue have the qualifier „value-creating“ and they are related to the company as a whole.

5. Discussion

The stimulation for discussion on objective issue can currently be the area of complement of existing approaches to the formation of value chains. It deals with the so called virtual value chains because the service companies compete in two worlds: in physical world – visible, „touchable“ and in virtual world of information. This virtual world provides an opportunity to penetrate into the world of e-commerce as a new centre of value formation. New informational market place is considerably different from the physical market. In buying electronic services with the use of market place in form of virtual way there are services in form of digital information which are provided through information channels. E.g., banking services sector is characterized by the fact that banks provide services to customers in their branches but also through electronic online services; in the sector of transport and transfer services e.g., airlines sell airplane tickets "in place" and also in virtual space; fast food services receive orders directly in the restaurants and more often online – via the touch screen computers.

Service companies therefore need to create the value in physical world but also in virtual world. It is necessary to bear in mind the fact that the processes for the value formation are not equal in both worlds. Understanding of differences and harmony between the processes with added value of physical world and informational world will help to see more clearly the strategic problems of service companies at the present time. A proper understanding of the two interacting processes which create the added value for the customer brings new conceptual and tactical tasks.

In the past academicians, consultants and managers already dealt with the process of value formation in physical world (contribution deals with it in introductory sections). Through the analysis and diagnostics of value chain managers were able to innovate their internal and external processes leading to improvement of efficiency and effectiveness. Formation of the virtual value chain through which a company integrates the information that are necessary for ensuring of processes in value chain provides managers with a possibility to "see" these information flows in value chain from the beginning to the end.

The impulse for discussion can be the fact whether the model of value chain works with information as supporting elements of processes creating the value chain for customers or whether this information is the source of the value itself. In the services sector we can find a lot of examples when managers often use information about inventory, production, and logistics. They also use them to monitor and control these processes but rarely use this information for creating new value for customer. As a positive example we can mention e.g., some companies doing business in postal sector. These companies allow customers to track the shipments through internet over a period of entire relocation process and this has created new added value for the customer. It has also initiated the effect of increasing customer loyalty in the highly competitive market.

The aim of our further research in the area of services differentiation is to examine how to engage the sequence of five activities (obtaining, organizing, selection, synthesis and dissemination of information) into the formation of added value for the customer in any phase of virtual value chain.

6. Conclusion

If the value chain is substantially considered as the tool of strategic marketing which identify how the activity/process can be the source of services differentiation in service company and contribute to achievement of competitive advantage then the diagnostics of this value chain can play an important role. The current perception of preventive or subsequent diagnostics has led to defining of „healthy“ and „sick“, states and processes that threaten successful existence of diagnosed subject. Diagnostic approach that is applied in service companies in processes of value formation for customer is moving to environment of competitive comparison. Compared to ordinary, in practice used procedures our suggested procedure for realization of individual diagnostic phases will „examine“ the whole value chain and through the diagnostic tools (e.g., benchmarking) the individual processes and sub processes will be evaluated in comparison with competition. Subsequent therapy will aim to obtain competitiveness, uniqueness and innovation in providing value for the customer. It will also aim to attract new customers and strengthening of the loyalty of existing customers.

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