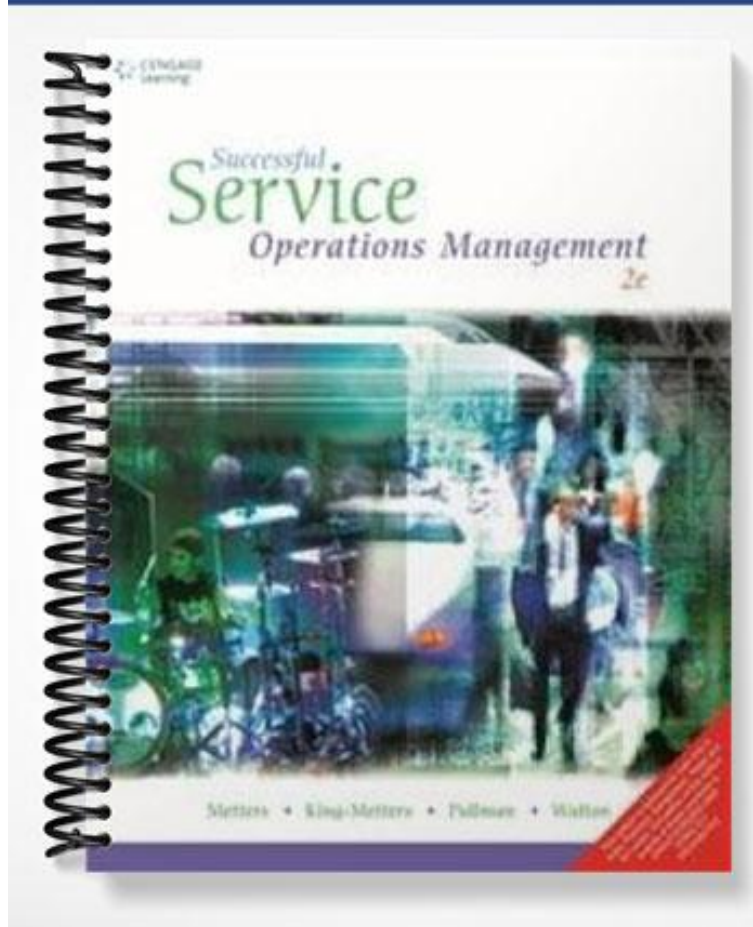


SOLUTIONS MANUAL



CHAPTER 2

Formulating Strategy

REVIEW QUESTIONS

1. What are the components of the strategic service vision?

Identifying the target market, forming a service concept and operating strategy, and creating a service delivery system (pages 16–17).

2. For a service company like Delta Air Lines (or any other you choose) conduct a strategic analysis using both the five forces and core competence approach. How are the results different?

The answer will depend on the company chosen. In general, the “five forces” approach will review the external market, whereas the “core competence” approach will review internal strengths. These two approaches can come to widely different conclusions.

3. How does the service concept differ from the operating strategy?

The *service concept* is outwardly directed. It concerns what the customer wants. The *operating strategy* is inwardly directed. It concerns the instructions that are given to various functional areas. For example, a customer may care about convenience. To provide the *service concept* of convenience, an airline may use an *operating strategy* of frequent flights and more non-stop flights.

4. How might the structure of a service firm change as it grows?

As a firm moves through the stages of entrepreneurial, multi-site rationalization, growth, maturity, and either decline or regeneration (Figure 2.1), different procedures, personnel types, etc., are required, as detailed on pages 22–23.

5. Imagine you run a very successful local landscaping company. You have grown as much as you can given capital limitations (i.e., you can't afford another truck). What growth strategies are available to you? Which do you prefer? Why?

Self-financing franchising strategies can be used. There are different choices of franchising arrangements. Referring to pages 24–26, passive ownership and master franchise agreements are associated with less successful franchise systems. A fee structure that is relatively lower in up-front fees and heavier on continuing fees is associated with a more successful system.

TEACHING TIPS

The most important lesson to be learned from this chapter is the hierarchy of strategic planning (Figure 2.1). Strategic alignment is critical to the success of a service operation, and while this is easy to say it is very difficult to do correctly. Many students will have studied five forces and core competence in other classes, so the focus of instruction should be on linking these high-level strategic ideas with the tactical decisions that must be made in order for service operations to be successful.

We recommend either **Shouldice Hospital** or **Southwest Airlines 1993 (A)** (both HBS cases) as an accompanying case for the notion of the “strategic service vision.” The **Shouldice** case is quite old (1981), but still relevant. The University of Western Ontario sells an updated version of the Shouldice Hospital case, but it is from a marketing perspective. Also, Irwin-McGraw/Hill provides a 15 minute video on Shouldice (from 1990) that is useful to show in class. The **Shouldice** case may be best used for this textbook when presenting Chapter 6, Managing Service Experiences.

Franchising (pages 24–28) can be a stand-alone topic. We have used the **Dunkin’ Donuts** and **Icedelights** franchising cases in conjunction with this material.