

# **Value Chain for Services**

**A new dimension of “Porter’s Value Chain”**  
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By



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## **Biography of the Author**

### **Elisante Gabriel**

Elisante Gabriel is currently a faculty member Mzumbe University under the faculty of Commerce. Previously, at the time of publishing this article, he has been working with The Institute of Finance Management (IFM), under the Directorate of Graduate School. At IFM, Elisante was The Head of the department of Executive Development, Research & Consultancy. He also lectures to Masters programmes in International Business. He teaches the following subjects to Masters Programmes; Marketing, International Marketing, Competitive strategies, Strategic Management, Consumer Behaviour and Organizational Behaviour. Before joining the PhD programme at Salford University (in 2000), Elisante was working with Pricewaterhousecoopers (Tanzania) as a senior Business Analyst. He also taught a subject called *Purchasing and Supplies* at the University of Salford in the department of Accounting, Economics and Management Sciences, in 2001. To date Elisante has a working experience of more than twelve years in various organizations ranging from manufacturing to service sector. He is looking forward to developing and managing changes in a competitive business environment around the world. His research area of interest is focused on creating and communicating the value for achieving a sustainable competitive advantage. He believes that co-creation of meaning and value is among the best tools in creating, sustaining and satisfying existing and prospective customers.

Elisante completed his Masters of Science degree (International Business) at the University of Salford in 1999. Prior to his Masters degree, Elisante studied other various programmes including: *Business Administration, Marketing, Accountancy, Materials Management and Mechanical Engineering (specialisation – Manufacturing)*. He is a member of the following professional institutions: *Chartered Institute of Marketing* (London – UK), *National Board of Accountants and Auditors* (Tanzania), *National Board for Materials Management* (Tanzania) and *Institution of Engineers Tanzania*.

## **Abstract**

For many decades marketers have been considering service as a separate concept from 'product'. With the inception and growth of the service sector around the globe, there is a significant growth of marketing of services. In deed, now we have to perceive service as a product with different characteristics from the physical product. The physical products are tangible while the services are intangible. For this peculiar difference, the value chains of these two categories of products (tangible and intangible) ought to be different though might have a relationship. Professor Michael Porter has developed a value chain with five primary activities and four supporting activities. The said value chain is very applicable to the manufacturing sector but, as it is, the model cannot be used directly in the service sector. The author of this article contacted Professor Porter, who is the founder of "Porters' Value chain" model, about the said shortcomings of the model. On his (Porter) reply by email dated 17<sup>th</sup> July 2003 (see Exhibit 2), he admitted that they did not consider the service sector in depth when developing the said value chain. When the author conducted a research on Higher Education sector, he sent same challenge to Prof. Philip Kotler, in order to get his comments about the Porter's Value chain. Kotler responded to that challenge and appreciated the need of new development, insisting that there ought to be different value chains depending on the target market (see Exhibit 1). This article will make a development of what ought to be a new dimension of the value chain, which will cater for the service sector. Porter's value chain will be used as a reference to build another value chain for services. A discussion on the value management, co-creation and delivery of value will form part of this article. A case of Higher Education sector of Tanzania will be used as a reference case in building a concrete situation for a general value chain for services. Characteristics of services will also be discussed. A new model of value chain and a discussion on the need of total quality management to achieve a competitive advantage in service competition will form the last part of the article. The author is highly motivated to write this article to support his belief in marketing. He (author) believes that:

*"Customers are not and will never be buying products but values".*

## **Introduction to Value Management**

There are various definitions of value by different gurus. I wish to give a definition of value as follows:

*The customer's perception about whole bundle of benefits, being tangible or intangible, which satisfy the needs of the customer timely, effectively and efficiently.*

It must be borne in mind that the satisfaction ought to be from the customer's point of view. Value is always and will continue to be subjective, since what satisfies customer X, might dissatisfy customer B. Not all Customers are Equal. Perhaps the most important rule of marketing is the Rule of Focus. No matter what size your company is, any attempt to serve too many diverse needs is not sustainable. Therefore, the Rule of Focus forces you to identify and serve the customers whom you can do your best and give value-for-money. The term 'niche' is over-used in marketing circles for a very good reason. And works. Not every customer (or potential customer) will think your offer is the best. In most cases, they will seek out a completely different customer experience altogether. However, there is tremendous value to understand why they think this way. For starters, develop a profile of your most and least profitable customers. What is different about each group? Do any least profitable customers have the opportunity to become most profitable customers? If so, what would you have to do? Is there a better investment you could make in your best customers? It is a trade-off, but take the time to review your alternatives. You need close links with your customers so that you can deliver the right value for them. Therefore, value needs to be co-created (marketers and customers together). Though value is considered as a bundle of benefits, customers have to incur some costs to obtain the value (Kotler 200). These costs can be in the form of money, efforts, time, opportunity cost, etc. Therefore, for the customer to be satisfied or dissatisfied depends on the net value between the total customer value and total customer cost. This net value is called Customer delivered value.

$$\text{Customer Delivered Value (CDV)} = \text{CV} - \text{CC}$$

Where; **CV** = Customer Value, and **CC** = Customer Costs

## Service Management

A service is a complicated phenomenon, which cannot be easily described by few words. The word is used in many meanings, ranging from personal service to a service as a product. Researches have revealed that, in defining service there is a need to consider some basic characteristics of service. Four basic characteristics can be identified for most services. These are:

- ◆ Services are more or less intangible
- ◆ Services are *activities* or *services of activities* rather than things
- ◆ Services are at least to some extent *produced and consumed simultaneously*
- ◆ The customer *participates in the production process* at least to some extent.

A service is normally perceived in a subjective manner. When customers describe a service, expressions such as experiences, trust, feelings, and security are used. It is due to these characteristics, always becomes difficult for the customer to evaluate a service.

There are so many definitions of service but let us consider one definition, which is more communication oriented.

*“ A service is an activity or series of more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and the service employee and/or physical resources or goods and/or systems of the service provider which are provided as solutions to customer problems.”*

Gronroos (1990, p.27)

The above definition states that, for the service to be provided there must be an interaction with an objective of providing a solution to the problem of the customer/client.

From the “philosophy” for service management point of view, service is defined as;

*“.....the sum total of all value delivered to the customer, whether tangible or intangible”*

The second definition addresses the concept of “*value*” which needs to be communicated to the customers. This value needs to be managed in order to achieve the intended customer delivered value (CDV). Service management is a *total organizational approach* that makes quality of service, *as perceived by the customer*, the number one driving force for the operation of the business. Therefore the marketing functions need to be managed in such a way that the expectations of customers are met timely. Therefore, there is a need of having a specific value chain for service, which will integrate all activities/attributes, which are necessary for the qualitative delivery system of service.

Generally, the characteristics of services are addressed as; *Inseparability, Intangibility, Perishability, and Heterogeneity*. In this way they are not very much marketing oriented. Gabbott and Hogg (1997) attempted to analyse the characteristics of services from the marketing point of view. To do this, they set a basic question; *what are the marketing characteristics of services?*. Thirteen answers are given to this question as follows:

### ***Marketing Characteristics of Services***

1. Unlike a physical product, where monetary values are stated in terms of a price, services are more likely to be expressed as *rates, fees, charges, admissions, tuition, contributions, Commissions, Interest, and the like*.
2. In many types of service transactions, *the buyer is a client rather than a customer of the seller*, the client, when buying a service, figuratively or literally places himself ‘in the hands’ of the seller of the service. Consider, for example, the relationship between the student and the college, the patient and the hospital or physician, the passenger and the carrier. The buyer is not free to use the service as he wishes, as would be the case in the purchase of a good; he must abide by certain prescripts laid down by the seller in order for the service to make any contribution.
3. The various marketing systems in the services’ category have taken on *highly differentiated characteristics*. Although contrasts do exist in those marketing systems that have evolved for different types of physical goods, they are primarily

differences of degree. In case of services, marketing of recreation bears little resemblance to the marketing of medical service.

4. Services are consumed as they are produced. To this regard, *they cannot be inventoried* and in most cases channels of distribution are shorter compared to physical goods.
5. The question may be raised as to *the economic nature* of certain products in the services category, for example, payments to charitable and religious bodies and non-profit educational institutions. Are the church at the corner, the college at the hill, and the United Fund Agency in town economic entities on the supply side? Certainly they compete for the consumer's money.
6. Services are more formal and professionally managed. Not all of them are professionally managed but in general most of them.
7. It is very difficult to standardize services. This is because mass-production is a problem in services. Though service producers can be standardized, the taste of the service differ from one customer to another.
8. There is a great variation in price-making practices within the service category.
9. Because of the *intangibility* nature, it is rather difficult to apply the economic concepts of supply and demand. Moreover, values of some services are difficult to fix or to measure.
10. Most fringe benefits take the form of services. If a service is created by an outside specialist, such as a life Insurance Company, the employer is an agent (in marketing sense) between the seller-creator of the service and the buyer-consumer.
11. There appears to be limited concentration in the services sector of the economy. There are few service chains; carriers and utilities are regulated.
12. Until recently, service industries failed to differentiate between the production and marketing of services. Performance was equivalent to marketing the service.
13. The core aspect of symbolism in service is derived from performance rather than from possession.

All the above characteristics indicate the way services management is more complicated than the case for the physical goods. There is a need to understand the customer with his/her specific needs before serving him/her. In service management,

interactive communication should not be *a choice* but *a must*. This will make the customers to feel active participants of service creation and delivery system

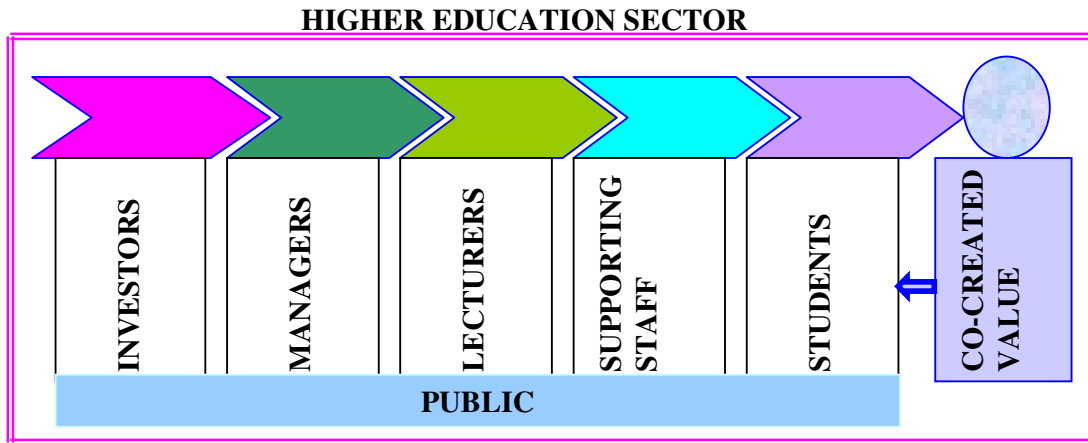
### **Value Co-creation System (VCS)**

As stipulated in characteristics of services (especially number four above), services are produced and consumed simultaneously. Therefore, there is a need for the value to be created both by the service provider and service user. This will be in compatible with the given definition of value that, it is a perception from the customer's point of view. Once there is no co-creation of value, there is a great chance of mismatch in the delivery system. This in any case will lead to dissatisfaction of customers, since they will be passive in the system. We can say 'co-creation' ought to be a joint job of every one involved in the service delivery system. The service system will therefore consist of value co-creation and value co-delivery system.

### ***A case of Higher Education Sector in Tanzania***

In 2003, the author carried a research of the service delivery system of the Higher Education sector of Tanzania. Specific model of VCS and another one for Value Chain were developed (Gabriel 2005). These models were proposed to Professor Philip Kotler for his comments. Professor Kotler in his reply, he appreciated the concept to be appropriate giving a suggestion to change the names of 'technicians' to lecturers and 'seekers' to students. He further suggested that it is important to manage the VCS in such a way that there is a value chain intended for every contributor in order to have an effective value chain for the target market (see Exhibit 1). By having six contributors, you can have six different value chains depending on the target group. The backward arrow shows the co-created value directed to the intended contributing group, in this case students.

**Figure 1.1 Value Co-creation System (VCS)**



**SOURCE: Gabriel, E. (2005a)**

The stakeholders (contributors) have to link their efforts together aiming at a common objective, which ought to be maximization of satisfaction through co-created value delivery approach. Investors have to inject capital to make the infrastructures and other subsystems and supporting activities available. Managers play a significant role in recruiting lectures and supporting staff. Lecturers engage to the moment of truth in the service delivery process. The supporting staff perform various activities to make sure that the system is operating. Students need to provide a good cooperation in the learning process. The public includes the employers who will take the graduates.

# EXHIBIT 1

## Reply by Professor Philip Kotler (Thursday 17<sup>th</sup> July 2003)

The screenshot shows a Hotmail email interface. At the top, there are banners for "artists to get discovered?" and "MSN Music". Below these are navigation buttons for "Home", "Inbox", "Compose", and "Contacts", along with "Options" and "Help". The email header shows the sender as "Pkotler@aol.com" and the recipient as "elisantegabriel@hotmail.com". The subject is "Re: VALUE CHAIN REVIEW" and the date is "Thu, 17 Jul 2003 13:47:10 EDT". The body of the email contains the following text:

Content-Type: multipart/alternative; boundary="part1\_bb.337df33e.2c483b1e\_boundary"

Content-Type: text/html; charset="US-ASCII"  
Content-Transfer-Encoding: quoted-printable

Elisante:

You undertook to apply the Porter value chain to higher education. The adaptation is fairly good. Actually there are different value chains depending upon who you want to deliver value to. There is a value chain for delivering value to hiring companies (this would include recruiting them, giving them interviewing facilities at the school, etc.). There is a value chain for delivering value to students. There is another value chain for delivering value to instructors that will help in their recruitment and morale. Etc.

I would change the name from technicians to teachers and the name from seekers to students. Otherwise the jargon won't appeal to actual schools that are interested in implementing your concept.

I won't be able to communicate further. Good luck.

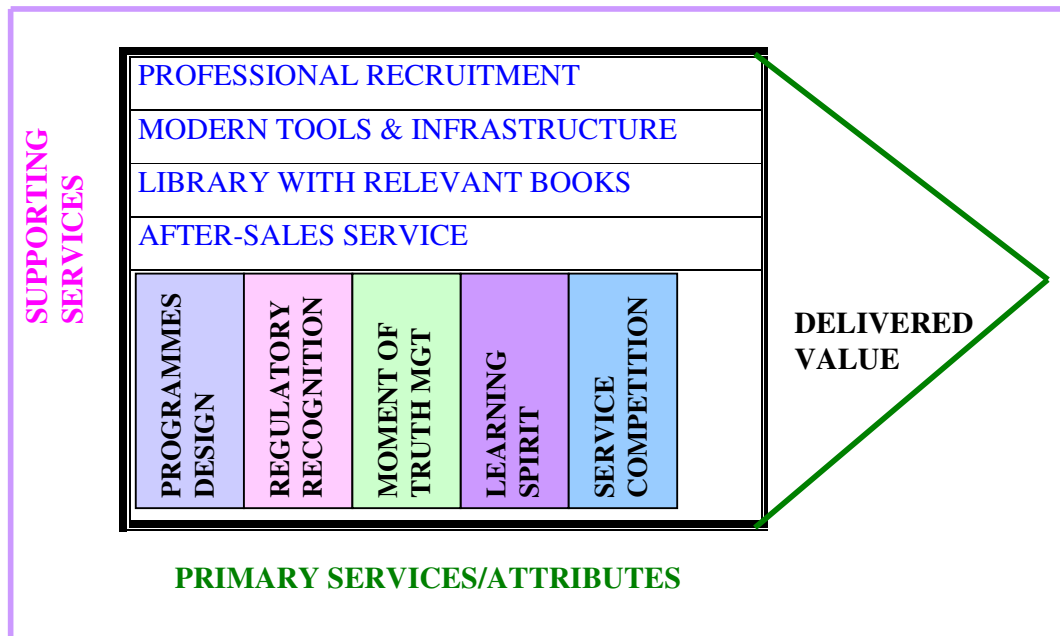
Professor Kotler

<http://by2fd.bay2.hotmail.msn.com/cgi-bin/getmsg?curmbox=F000000001&a=b44423e...> 27/07/03

### ***Value Chain for HE Sector***

Professor Michael Porter of Harvard University, who is the founder of the “Porter’s Value Chain”, was contacted about this model of Higher Education sector. He acknowledged that, Porter’s value chain did not have a considerable direct application said sector. This is because at the time when they have been developing the model (Porter, 1985), they did not consider the sector broadly (see Exhibit 2). Taking the Higher Education as a representation of the service sector, it is clear that some of the components of Porter’s chain (eg. Inbound and Outbound logistics) cannot be directly applied to the service industry. Therefore, the value chain model for the HE education sector has been developed as shown in Figure 1.2. This is the model sent to Porter for his comments. The comments are as given in exhibit 2. The new model has also five primary attributes and four supporting attributes (Gabriel, 2005).

**Figure 1.2 The Value Chain (for HE sector)**



**SOURCE: Gabriel, E (2005a)**

Communicational interactions will make customers aware of the correlation between costs involved and expected value value. Customers (students in the case above) will then feel part of the value chain. Their spirit of learning should be always motivated throughout the learning process especially by managing well the moment of truth. Their contribution to the value chain needs to be appreciated by other contributors.

## EXHIBIT 2

### Reply of Email by Prof. Michael Porter (Thursday, 17<sup>th</sup> July 2003)

Mr. Gabriel,

I am a research associate working for Prof. Porter, who asked me to address your email.

Thank you for sending along the information on higher education value chains. We don't have extensive experience constructing value chains for this sector, so we can't comment on the specific details. As a general observation, when formulating value chains you should try to identify discrete, operational activities (or categories thereof). I'm not quite sure what activities are encompassed by "learning spirit," though this may just be because I'm unfamiliar with your terminology.

Regards,

Andrew Funderburk

X-Autogenerated: Redirect  
Sender: <**mporter@hbs.edu**> (**Michael Porter**)  
To: lwymmer@hbs.edu  
Date: Thu, 17 Jul 2003 10:11:10 -0400  
X-Original-Return-Path: <elisantegabriel@hotmail.com>  
X-Originating-IP: [146.87.95.52]  
X-Originating-Email: [elisantegabriel@hotmail.com]  
From: "Elisante Gabriel" <elisantegabriel@hotmail.com>  
X-Original-To: **mporter@hbs.edu**  
Subject: RE: KINDLY COMMENT ON THE REVIEW OF YOUR VALUE CHAIN  
X-Original-Date: Thu, 17 Jul 2003 14:11:05 +0000  
X-Original-Message-ID: <BAY2-F156DpCnJ711HZ000155a5@hotmail.com>  
X-OriginalArrivalTime: 17 Jul 2003 14:11:08.0572 (UTC)  
FILETIME=[44C9ADC0:01C34C6D]

Dear Prof. Michael Porter,

I wrote to you last year informing you that I am writing on service competition. I have focused my study on the Higher Education sector. I have made a review of the components of the 'Porter's Value Chain' Please give your views on my critical review. I have attached the document.

**Kind Regards**

**Elisante Gabriel**

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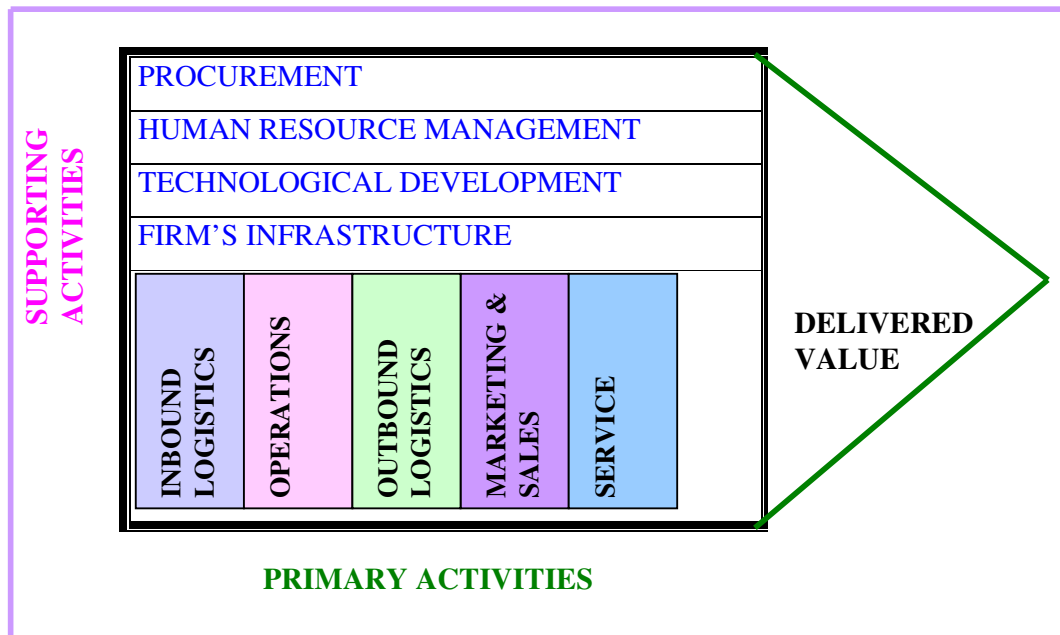
### Developing a Value Chain Model for Services

Having the above discussion on the characteristics of services as well as co-creation and core-delivery of value in the service industry the concept of value chain can now be discussed. A better ground to develop this concept is by looking on the components and characteristics of the Porter's value chain. The new model will be built on the critical review of the Porter's value chain. It is therefore a new dimension, which goes beyond the consideration provided by Porter. As Porter suggested in his reply to my email, there is a clear need to have a new dimension of the value chain for services.

#### *The Theory of Porter's Value Chain*

The idea of the value chain is based on the process view of organisations, the idea of seeing a manufacturing organisation as a system, made up of subsystems each with inputs, transformation processes and outputs. Inputs, transformation processes, and outputs involve the acquisition and consumption of resources - money, labour, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits. These activities can be classified generally as either primary or support activities.

**Figure 1.3 Generic Porter's Value Chain**



SOURCE: Porter, M.E (1985)

According to Porter (1985):

*Primary Activities are:*

**Inbound Logistics** - involve relationships with suppliers and include all the activities required to receive, store, and disseminate inputs.

**Operations** - are all the activities required to transform inputs into outputs (products and services).

**Outbound Logistics** - include all the activities required to collect, store, and distribute the output.

**Marketing and Sales** - activities inform buyers about products and services, induce buyers to purchase them, and facilitate their purchase.

**Service** - includes all the activities required to keep the product or service working effectively for the buyer after it is sold and delivered.

*Secondary Activities are:*

**Procurement** - is the acquisition of inputs, or resources, for the firm.

**Human Resource management** - consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel.

**Technological Development** - pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs.

**Infrastructure** - serves the company's needs and ties its various parts together, it consists of functions or departments such as accounting, legal, finance, planning, public affairs, government relations, quality assurance and general management.

### ***A Critical Review of Generic Porter's Value Chain***

For a long time now this model have been used as a generic one. Porter considered this model to be leading to a position of achieving generic strategies for competition since (according to Porter) this value chain could offer a competitive advantage. As clearly pointed out from the introductory part of this article, the business world has now changed and has become more sophisticated. In the service industry we do not have the real operation of inbound or outbound logistics. The operations in the manufacturing sector are far different to those in the service industry. In the manufacturing industry, the operations can take place in isolation of the customer. In

the service industry, production and usage of the service occur simultaneously. The infrastructure required in the service industry might also be different from that of the service industry. The supporting activities might be similar in most cases, yet the way of managing the supporting activities might be different hence the need consider the element of additional 3Ps in the expanded marketing mix for the service industry (Gabriel, 2005b, Forthcoming).

*Critique by Stabell and Fjeldstad (1998)*

Porter's main contribution is his analysis of how a company gains competitive advantage – by becoming the lowest-cost competitor or by differentiating its products or services. According to Porter, "Competitive advantage cannot be understood by looking at a firm as a whole. Advantage stems from the many discrete activities a firm performs – designing, producing, marketing, delivering and supporting products. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation." Countless managers have applied the Porter Value Chain to their businesses to analyse how they create value and to formulate new competitive strategies. Many on IS department has also used the chain to guide its priorities and plans. Yet a significant number of businesses, including banks, hospitals, insurance companies and telecommunications companies, have found it difficult to apply the value-chain model with any rigour to their industry sectors. Recently, Oystein Fjeldstad and Charles Stabell of the Norwegian School of Management have conducted research into the limitations of the Porter's value-chain model to service industries. In their view, the value chain does not sufficiently capture the value-creation logic of these industries. Drawing on seminal work in organisational theory done by James D Thompson in the 1960s, Fjeldstad and Stabell suggest that more than one model is needed to understand the workings of the different types of business.

**Value Chain for Services (VACSE)**

It is therefore apparent that, the generic Porters value chain is just one of the stepping-stones to design other value chains. Due the nature of the services, we need to have a different version of the value chain. I have to be clear that, the generic value chain is useful but not in all cases. It has its limitations as pointed in the discussion made in this article.

The value chain for services will have five primary attributes and four supporting attributes. The term attribute is used deliberately since other components of the value chain for services might not be activities but attributes. The shape of the VACSE will be the same as that of Porter but the most important thing is the components of the new model. Therefore, the difference is not in shape but components and application.

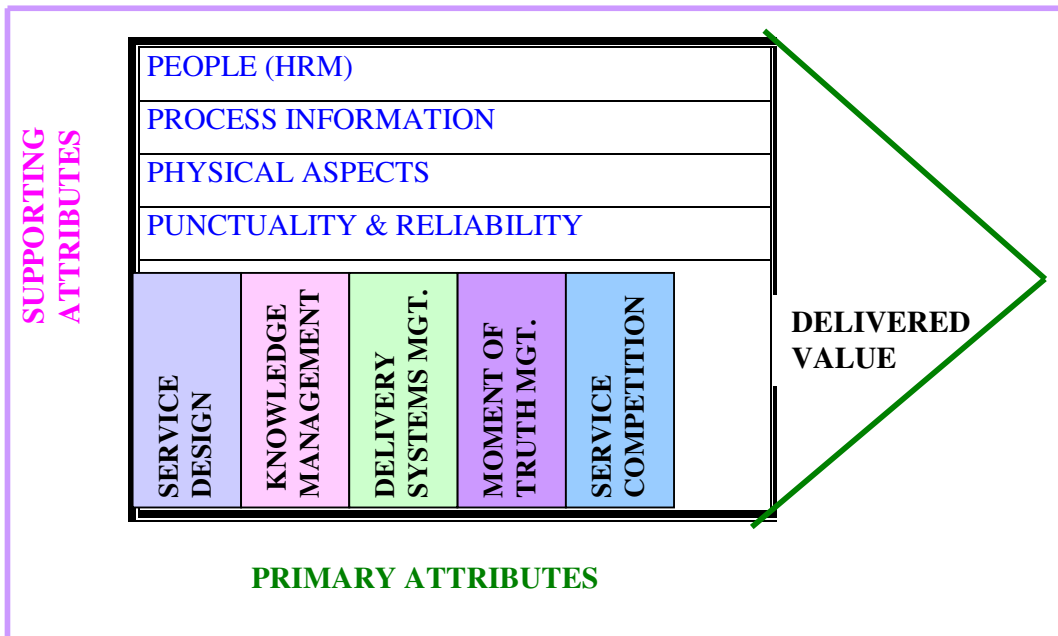
*Primary Attributes of VACSE:*

- (i) Service Design
- (ii) Knowledge Management
- (iii) Delivery Systems Management
- (iv) Moment of Truth Management
- (v) Service Competition Management

*Supporting Attributes are:*

- (i) People
- (ii) Process Information
- (iii) Physical Aspects
- (iv) Punctuality and Reliability

**Figure 1.4 Value Chain for Services (VACSE)**



The attributes shown in Figure 1.4 need to be highly coordinated so for them to operate as a system (synergy). This will assure customer satisfaction and reliable feedback at any point in time. A brief discussion on each of the attribute given is as follows;

*Primary Attributes:*

- **Service Design**

The service provider needs to be very sure of the value customers are buying. This is a crucial activity in the value chain. There is no doubt that once there is poor design there will be customer dissatisfaction. Designing a service is more complicated than designing a physical product. In the physical product, it is easy to use formulae, measurements etc. In the service product, there is a need to understand the nature of the target market and how sensitive are customers to the quality compared to price. The design work ought to be customer oriented. I therefore suggest that there is a need for a good market research to precede the designing work. The product life cycle for services changes very fast. This required designers to be sensitive and adaptive to changes in the market place.

Example:

In one of the Higher Learning Institutions of Tanzania, the programme of MBA has been re-designed to accommodate the global dynamics of the business. This drew the attention of the customers.

In any cases, the designers need to be as innovative as possible. They should not only be finding more customers for the existing products but also more products for the existing and prospective customers. In the designing activity, the question of pricing arises. Pricing is crucial as once it is not done properly, it can either harm the investors or the customers. Therefore, there is a need to make sure that a proper balance is obtained. There should be a clear pricing strategy with justification. Unlike the manufacturing sector, in the service industry there is no direct raw material. Ideas, information, places, events, personalities, brand equity, etc, are the main aspects to be taken into account when designing the product-service. Service is about perception, so the design should be geared at convincing the customer that he can be fully satisfied.

- **Knowledge Management**

Knowledge management has two sides, just like a coin. One side of the coin is about service providers knowing the intricate needs of the customer. The other side of the coin is about the customer being knowledgeable of the type of the service he needs and how he needs it to be delivered.

In most cases marketers are committing mistakes of taking for granted that they know their customers. Customer knowledge is beyond the facial – knowledge. It is not enough to identify customers just by knowing their faces and names. In fact knowing a customer is ‘knowing his needs and psychological dynamics of his decision making process’. In some literature this is called ‘Buyers Black Box’ (Kotler, 2000). This is more complicated in the service industry, since customers are not touching or seeing the real product. Therefore, there is a need to have a good communicational interaction for co-creating of meaning (Gabriel, 2005). Service providers need to be good students of studying customers. It should be remembered that, *customers are different and their differences are different*. Customer knowledge will remain to be one of the Key Success Factors, which will give service providers a Sustainable Competitive Advantage (SCA). Service providers who will be coping with the complexities of customers will always stay ahead of their rivals. The knowledge of the customers about the nature and details of the product-service they need makes the delivery system more easy and successful. Just as suggested in the attribute of service design, even in the knowledge management, market research will always be paramount and there should be a good feedback mechanism in order to rectify the weaknesses promptly.

- **Delivery Systems Management**

In the manufacturing industry, the delivery system is simple, clear and straightforward. It can be pre-planned and used as a blue print. This is now, and will never be the case in service industry. Recalling some characteristics of service; *perishability* and *inseparability*, it is evident that, customers cannot keep services in stock for future use, neither can they be separate from the service provider.

### Example:

For the American Airline passenger to travel, he needs to be in the aircraft when the plane is moving. Once the plane is gone, that very service in that moment is just gone.

Using the above example of the airline passenger, the delivery systems of the service become very important. The nature of the aircraft, the convenience of departure time, the take-off and landing nature, etc. Though customers will be paying for the core product 'movement', they will also associate the total value with the delivery system. Other airlines, including American Airline, British Airways, KLM, etc have introduced the fully automated booking, ticketing and checking in system for a certain segment of customers. The more convenient the delivery system, the better the perceived value by customers.

- **Moment of Truth Management**

This is the real time whereby the service provider encounters the customer. This is the real time whereby the service is delivered to the customer (remember the characteristic of inseparability). Since there is no longer pure service and pure physical goods, but a combination, even in the manufacturing sector there is a service part of the offer. Nothing is neutral about a moment of truth. It leaves a positive or negative impression on the customer's mind. Moments of truth can build or destroy trust and confidence in the minds of prospective and existing customers. Moments of truth can and often do dictate buying decisions. Moments of truth become word-of-mouth advertising.

### Illustration

Stacy was part of a home builder's customer focus group and is a real-life example of the kind of thinking a prospect can go through. Stacy had visited many sites after hours looking for clues that would help her determine the builder with whom she would invest her limited time, life savings and ultimate trust to help build her dream. Based on several key positive moments of truth, she purchased from the builder with the clean work site and carefully drilled electrical holes. Sounds like a happy ending, right? Wait -- there's more.

Stacy is getting settled into her new home. One day she is relaxing in her comfortable, well-appointed living room when she suddenly notices that the brick around the fireplace is decidedly crooked. She calls the builder's service department and, after a visual examination, the service manager agrees that the brick has to be torn down and rebuilt ... another moment of truth, but of the negative variety.

A couple of days later, Stacy is standing in front of her home talking with neighbours when she notices that the brick over her garage also is crooked. The service manager again agrees that the brick is evidence of poor workmanship and unacceptable. "Don't your people use a plumb line?" Stacy asks.

"Sure we do," the service manager replies. "Look, we'll tear it down and make it right."

The next day, Stacy is watching contractors re-brick the face of the garage and notices they are not using a plumb line. A few days later, she is looking out her kitchen window watching contractors build the house behind hers and notices that they, too, are not using a plumb line ... yet another moment of truth. Stacy says, "When you spend this much money on a home, the brick should be even, and the builder should be straight with you."

Regardless of whether customer perceptions are in reality correct or completely inaccurate, customers carry these moments of truth in their head. They tend to personalize them. Moments of truth are like a report card in the customer's mind. They can make or break a sale. Service providers need to manage moments of truth very carefully in order to protect the brand equity as well as cultivating the new customers from the prospects. Customers do trust word-of-mouth (WOM) from other customers than the mere advertisement given by the service providers. The WOM is very much a function of the moment of truth. The real experience of the service is felt during this moment just as illustrated by the case above. Therefore, moment of truth leaves 'footsteps' in the minds of the customers. Service providers need to make sure that the 'good' footsteps are left in the minds of customers. Customers always remember these moments for a very long period of time and possibly for the rest of their life, especially if it is a great dissatisfaction.

- **Service Competition Management**

There should be competition in order to make all service providers alert of the fact that customers have available choices to them. This will stimulate service providers to be innovative and never complacent. This will make service providers time-sensitive hence managing the service quality (Gabriel 2005a).

*Supporting Attributes:*

- **People (Human Resource Management)**

Referring to the characteristics of services discussed above, services are not tangible and need to be produced and used simultaneously. The value of people in the service delivery system becomes extremely important in the co-creation of value (Gabriel, 2005a). Customers attach the value of the service to the characteristics of the service provider. Considering a passenger transport industry for instance (*Daladala for the case of Dar Es Salaam, Tanzania*) the behaviour of the driver forms part and parcel of the perceived service quality by the passengers. This implies a tremendous need for the service providers to understand their contribution to the service quality. If there is a mismatch of the expected value by the customers to what the customers are offered, there will be a perception gap. The intention of service providers should be to deliver the service in such a way that there would be even no gap to manage. The Communicational Interaction Model (CIM) as propounded by Gabriel (2005a) can be one of the solution to avoid differing appreciations.

- **Physical Aspects (Customer service)**

This is also known as customer service. It is placed at the centre of the Expanded Marketing Mix - EMM (Gabriel 2005b, forthcoming). This also means the physical appearance of the tangible part of the service offered. For the hotel industry for instance, think of La Quinta Motel in Spain, the tidiness of the reception desk, the room and other facilities, form part of the physical aspect of the service. The nature of the service delivery including the lead-time is also part of the customer service. Gronroos (2000) extended the concept of customer service to 'service cape', which means the physical evidence of the service. An international travel agent for instance, needs to have some computers and good furniture in the office, which in turn gives customers the confidence to buy tickets. In contrary, if an agent claims to be doing an

international business, but without any computer on the desk, it creates doubts about the reliability of the service. The after-sales service also is important in delivering value, since it will influence the word-of-mouth of the existing customers.

- **Process Information**

The service providers need to be well knowledgeable of the way the service is generated and delivered to the customers. In this case the aspect of communication, communication objectives and strategies forms part of process information. Process information is about the nature of the value creation and delivery systems. Since customers cannot see service they will build confidence on the information given to them by service providers about the whole process about the service. Some customers are argumentative, so they will need details about the process of the service. Once the service provider is not confident about the information he is giving about the service, customers can object the offer. The power of IT needs to be integrated in the process information as it can speed up the availability of the information. Easy accessibility of the process information, forms part of the total quality of the service.

- **Punctuality & Reliability**

In the service industry, Punctuality is very important. This is to say timing is a function of service quality in the service industry. The aspect of time has a significant bearing in the value attached to the service by customers. Apart from being punctual, reliability is also necessary. Reliability implies the level of consistence and the assurance that the service delivery system will deliver what has been promised to the customers.

Example:

In the coach passenger service, for instance Scandinavia Express Service (SES) in Tanzania, the service needs to be punctual and also reliable. If a coach is scheduled to leave at 9.00 AM, it should leave exactly at that time. Leaving earlier or late than the scheduled time will distort the value perceived by customers. It needs also to be reliable. If passengers are travelling from Dar Es Salaam to Arusha, they need confidence that the coach will arrive to Arusha not only on time but also safely. This combination is very important as a supporting activity to the value chain of services. When one of them is not adequate it affects the value of another. Using the same

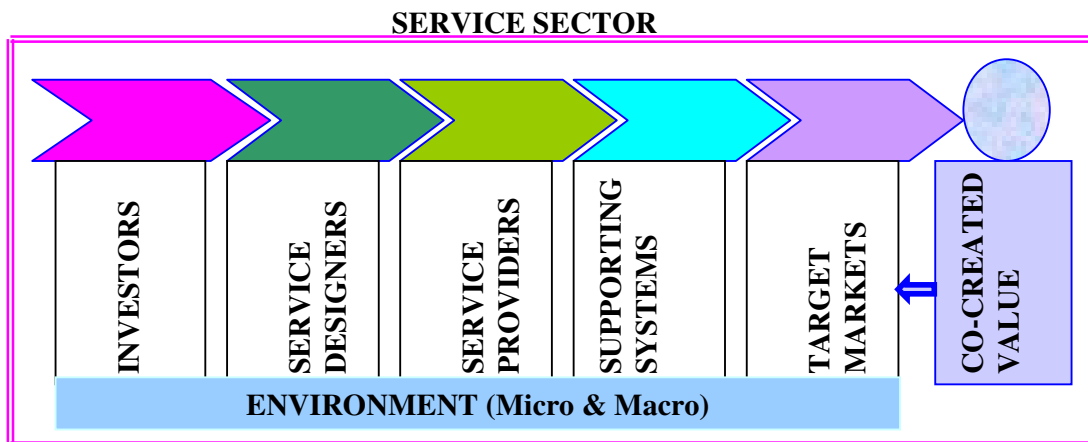
example of SES, few months ago, the business faced a serious frequency of accidents due to the problem of bursting of tyres. This claimed life of some passengers. It was narrated by SES that, this was due to poor manufacturing of the tyres. During that period, customers shifted to other operators since they started doubting the aspect of 'reliability'.

The above model of value chain for service is mainly for the delivery. However, it needs to be supported by the value co-creation system. Figure 1.1 gave the components of the value co-creation system for the Higher Education sector of Tanzania. This model can be developed to obtain a universal model for value co-creation model.

### Value Co-creation Model for Services (VCMS)

This model will indicate the necessary components which need to be integrated in the service industry when need to co-create value. When value is co-created it implies that both service providers and users are involved. It will have the following components: *Investors, Product designers, Service Providers, Supporting Systems, Target Markets and Environment*.

**Figure 1.5 Value Co-creation Model for Services**



- **Investors**

Any business needs a certain level of investment to obtain the working capital. The service industry will need some shareholders who are interested in injecting money to the business. They need to be part of the value creation, not only injecting money and be out of the system.

- **Product Designers**

These are the technical people like engineers, who have the innovative mind. They need to think very fast and make product services, which will meet the needs of the customers. A good design work will enable the service firm to charge even the premium prices. The same example of passenger transport by SES, can illustrate this. SES is charging up to three times the normal prices in some routes. Yet, it is sometime full booked before the ordinary classes. This is just because of a good design work of the service.

- **Service Providers**

This is the most important group since they are the ones to be in the moment of truth with the customers. Using the same example of SES, this group comprise of the drivers and other crews who are in the service encounter. Sometimes, I like to call them 'service technicians'.

- **Supporting Systems**

These are the enabling systems to make the service delivery as smooth as possible. This can include the IT system, radio system, Institutional supports (utilities), infrastructure, etc. They are not directly connected to the service but have a direct impact on value co-creation. Take an example of the problem of the road from Dar Es Salaam, Tanzania, to Mtwara. In December 2004, more than 10 buses were stranded for more than one week due to the nature of the road. Much as the buses and other components could be very good, ultimately there was a great dissatisfaction to the customers. Others had to board lorries to travel back to Dar Es Salaam.

- **Target Markets**

There is now way a firm can serve the whole globe. There is a need to know the target markets and involve them in the value creation system. This will make customer to feel part of the system. The best way to do this is to maintain a continuous relationship with customers via data base system. Feedback should be considered promptly. Any changes occurring in connection to the promise made about the service needs to be communicated to the customers before they start complaining. There is a difference when customers are informed of the anticipated problem, than just leaving the situation for them to discover. When passengers are informed that there will be a delay of ten minutes on departure time, it makes them relaxed psychologically, than leaving them to discover on their own that there is a delay on departure.

- **Environment**

Any business cannot operate in isolation. There is micro (internal) and macro (external) environment. The internal environment includes the facet within the industry. These are: *Vendors, Customers* and *Competitors*. The macro environment normally has been referred by many authors as *Political, Economical, Social* and *Technological* (PEST). However, I find PEST to be naïve in addressing the macro environment. I have therefore expanded PEST to eight components which I find them addressing the macro environment in full scale. These are:

*Social, Legal, Ethical, Economical, Political, Technological, International, and Natural* (SLEEPTIN). The new development of the macro environment accommodates PEST with other new components. Considering the last element of SLEEPTIN, natural force, it can be evidenced by the impact of natural disasters occurring around the world. In December 2004, tidal and earthquake killed more than 100,000 people in twenty countries ( see <http://news.bbc.co.uk/1/hi/world/asia-pacific/4132725.stm> ). This affected and will keep on affecting the tourism business in those affected countries.

## **Conclusion**

It is therefore clear that the Porter's value chain cannot do the whole thing in the value system of the service sector. However, it has built a good foundation to this new dimension. Value co-creation and co-delivery will always lead to mutual satisfaction.

This means both service providers (marketers) and service users (customers) will be satisfied. The unique characteristics of service made necessary to propound a new dimension of value chain. These characteristics include *intangibility*, *inseparability*, *heterogeneity*, *perishability*. The Value Co-creation Model for Services (VCMS), supports the Value Chain for Services (VACSE). Therefore, there should be a precise co-creation of value to make it appreciated by the service users.

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