CONSEQUENCES OF A SHIFT IN THE POWER BALANCE FOR THE MARKET OF SERVICES

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Abstract. *This article starts with some observations on changes in the power balance between clients and suppliers in the service industry. The main forces between these changes are more information in the hands of clients (by use of internet and personal experiences) and less information received by suppliers (by less contact with potential clients because of cost reduction). These changes can be translated into the replacement of a demand oriented market by a demand driven market. For suppliers of services to individuals in such a market two aspects are highly relevant. First the client will formulate his wishes in a kind of "Terms of Reference" and the supplier has to search for interesting requests. This instead of the client searching on internet or somewhere else for the best standard offer.*

In the second place the client will formulate his wishes often in a way that a single enterprise cannot deliver what is wanted. In order to survive chains of enterprises have to be formed. I mentioned a few of the vulnerable points of chains, points which need to have attention in the contract between the links of the chain.

Key words*: demand-driven market, client power, business to business services, chains of enterprises, contracts between links.*

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1. Introduction

Let me start with a personal experience. I received a request from the Dutch Railways to participate in a survey on the quality of my latest journey by train. Being rather dissatisfied about the trip I made the day before, I decided to complete the form. Step by step the evaluation form guided me through a railway journey. After completing the form I read my answers over. Big surprise: they gave the impression that I was satisfied. This because no questions were asked about those elements of the service I was dissatisfied about. Willing to believe that the researchers did not avoid on purpose those points, I can only come to the conclusion that Dutch Railways and I have completely different opinions about what the relevant elements of a journey are. They asked my opinion about the behavior of their personal, whether the train was in time and whether I could sit. Of course these aspects are important for me. But in my opinion there is much more during a journey. For example that the coffee booth on the platform of the railway station was closed, that the moving staircases at the transfer point did not work, that I had to wait in the rain for my connecting bus service , that at the end the bus did not show up at all.

Experience taught me how the railways would react on my complaints: we are not the one who is responsible for these services. As said before my conclusion is that we disagree about which service I want to buy (a comfortable journey from my house to my mothers place) and which service Dutch Railways want me to assess (rail transport from one station to another).

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This article is about this type of disagreement and its consequences for the service industry in a market where the client becomes more and more powerful.

The reasoning in this article is as follows:

a) In the service industry a shift in power from suppliers towards clients is ongoing. This results in changing a demand **oriented** market into a demand **driven** market. That means for example that the definition of a service as used by the supplier becomes less and less relevant and that the definition of the service used by the client becomes more and more leading. It also means that more transactions will be based on tendering by the supplier instead of a search on internet by the client.

b) Service suppliers can fulfill the expectations of the client in a demand driven market only by positioning themselves as a link in a chain of enterprises which cooperate to produce the complete service.

2. Changes in the power balance

2.1. The increasing power of clients

In his classical book on power shift Toffler predicts that the power in society shifts from capital to knowledge (see Toffler (1990)). Today we can see the correctness of this prediction. A wide spread use of internet by clients results in more information about every market. From my home I can compare a range of hotels offered by tens of travel agents. I can see pictures of the hotels, an overview of their facilities, their location in a city, opinions of other guests, special offers and so on. Or I select a cultural activity from a whole list of possibilities. I can consult websites which give comparisons of the prices and conditions of different providers of mobile phone services. And so on.

But not only internet gives access to more information. Traveling as most people do nowadays rather often results in more personal experiences. How good or bad functions public transport in other countries in practice? How are restaurants caring for their guests in other cultures? With some bad luck I can even compare health care in different countries from personal experience.

The position of the client becomes not only stronger by more knowledge. Also the more comprehensive legal protection of consumers and the obligation of suppliers to add more information in a standard format about their offers have their influence on the power balance. This process is stimulated by directives of the European Union for the protection of consumers.

Finally there is the greater capacity of consumers to handle information. The growing middle class in several countries is well-educated, read several languages, has money to spend on more complex services and has possibilities and time to compare different possibilities.

All these developments make clients more powerful in their relation with suppliers. A power they will use for forcing their definition of the service.

2.2. Decreasing power of suppliers

At the same moment we see that the knowledge of suppliers about their market becomes more and more fragmented. Cutting costs goes hand in hand with less direct contact with clients. Call centers, sets of FAQ, presentation on the web and so on come between the client and the supplier. Dealing with call-centers can drive the client with a non standard problem mad and at the same moment the supplier gets less and less direct information about the demand. Perhaps there is a lot of data on successful transactions, but the information on missed transactions is rarer. Did a potential client not find at the website where he/she was looking for? Did a competitor have a better offer? Could we have convinced the client by a more tailor-made offer?

Enterprises try to collect information by surveys, evaluation forms, satisfaction questionnaires, and so on. However the weak point of these approaches is that they are based on the definition of what the service is by the supplier, not by the client (see my example in the beginning of this article). And as said before, the last is the definition which becomes more and more relevant in the market. Suppliers often try to continue to work in the tradition of a demand oriented approach. They expect that the client will search for them, for example on internet. The suppliers offer standardized products, relying on marketing studies. This way of working is based on the idea that there are sufficient large groups of clients with the same desires.

Of course there are sites which pretend that they can find or create tailor-made solutions. But they also have in mind a kind of standard client and do not include all the variables relevant for a specific client. In my experience these sites come with interesting suggestions but never with the most appropriate offer in relation to my own list of criteria. The only exception I know about is the valet-service offered by some very expensive credit cards companies.

3. Towards a demand driven market

In the beginning of this chapter I described the power shift from suppliers to clients. The prediction is that this shift will result in a more demand driven market for services. Such a situation requires a revision of techniques as advertising standard offers, web-sites, call-centers, assessment forms and so on. If one wish to satisfy a potential client more and more nonstandard activities have to be included in an offer. When I want to book a hotel in Bucharest I think about something more complex then just walking into the lobby asking for a room and paying afterwards with cash-money. Now-a-days I might find out on internet that the best rates are offered by an American travel agency. But besides a room I want to reserve a table in a restaurant for my guests, transport from and to the airport, tickets for the opera, an interpreter and so on. All my orders will be guaranteed by my credit card .This agency must have a contract with the hotel which allows them to offer the rates and with all kind of other local agencies. In the hotel I pay my bill with the same or another credit card. Both, the travel-agency and the hotel must co-operate with the credit-card company. The hotel offers me perks in the frequent flyer program of an airline and have to co-operate with the airline for the registration of my points. And let us not forget, the hotel has to prepare my room and to charge the rates as I printed on my reservation form.

For me, as a client the whole set of activities constitutes the service (“my stay in the hotel”) I want to buy. This regardless of the fact that different companies are involved in the production. The companies depend on each other for getting a satisfied client. If the hotel does not offer the room the travel-agency booked, both of them have a dissatisfied client. If the perks do not arrive at the balance of my frequent flyer program, hotel and airline might expect complains.

Two characteristics of a demand driven market are:

1. Offers must be based on the specification of individual clients. Clients which are less and less satisfied with set-arrangements. They want to include all their personal preferences and do not to want to pay for facilities which they will not use. A holidaymaker formulates his assessment of the service on the total experiences during the stay, including the quality of transport, accommodation, cultural programs, excursions, and so on.

In the world of B2B services (Business to Business services) this process is already ongoing for a long period. Service industries in this market are more and more depending on tendering in competition for an assignment. The definition of the required service is given in the Terms of Reference prepared by the client using his own definition of what is wanted. Tenders are published and suppliers have to search for them and react on them.. The client is not searching on web sites for the best supplier, the supplier searches for individual clients. .

I foresee a development in the same direction for the provision of services for private persons. Not the client searching for the best offer, but the supplier searching for the “Terms of Reference” of potential clients.

2. To create satisfaction a provider has to care about the quality of all activities whether he is direct or not direct responsible for the production. In this situation I talk about managing the quality of a service delivered by a chain of providers. Each enterprise which offers a part of the service is called a link.

For service industries working for private persons (and perhaps also for suppliers of services to SME’s) a demand driven market is a new development. They have to readjust themselves to a new situation in the market, but still keeping in mind the general character of a service.

4. Some characteristics of the service industry

In this chapter I will summarize some characteristics of the service industry.

4.1. The client is co-producer

In the service industry we are dealing with the situation that the client is co-producer .He has to play the role of the patient, the role of the student, the role of the passenger. That means:

1. The client has full view on most parts of the production of the service
2. The supplier cannot store products or make them in advance
3. If a service was not well performed, it cannot just be replaced as if nothing happened.
4. The moment of truth (the situation that something goes wrong and the supplier has to show his best qualities to satisfy the client) is very important for the assessment .

For a traditional supplier of services this is already a challenge. However if the production is delivered by a chain of providers it is even more difficult. The client experiences and recognizes all misunderstandings between the different suppliers and does not accept the argument that someone else is responsible for mistakes. All links in the chain have to organize their work in a way that the risk of mistakes is small and that every link is willing to act at a moment of truth.

4.2. To see the service from the point of view of the client

Perhaps the most difficult problem for managers is to abandon thinking from the point of view of producing a service and to look from the point of view of the client, his co-producer. Hotels distribute often an evaluation-form. Mostly these forms start with questions about the reservation, the reception, followed by questions about the room, the meals and ending with paying the bill. In other words: the stages of the production process and only the activities within the hotel. But the point of view of the client is the expected service a nice holiday not just renting a hotel room. The opinion of the client is influenced by the combination of all aspects of the sojourn, including transport, cultural activities, entertainment and so on. From that point of view the main questions of the evaluation form should be: how did you experience the period you were with us? How did you experience the co-operation between the different suppliers? What was the contribution of the hotel to the total experience?

4.3. Quality assessment of services

A research study of Rubya Maduro [2006] demonstrates that clients base their opinion about the quality of a service on three types of arguments. The first argument is whether the result was as expected or required. This is a necessary condition for satisfying a client. But if the result is as ordered, nobody will be surprised or enthusiastic. However if the result is not as ordered the client is dissatisfied. If I buy a bus ticket the bus has to bring me to the place where I want to go. If I need reparation of my telephone, I expect to be able to make calls after the technician did his work. If a need an operation in a hospital I expect to leave the hospital in a better condition.

The second set of arguments concerns the way an enterprise or a chain of enterprises organizes its work. Because the service is produced in presence of the client he got information about the efficiency of the production and also about the behavior of the performers. A restaurant can have a very good kitchen, if the waiters are impolite or not interested the clients are not satisfied afterwards.

The third argument deals with the WOW factor which refers to situations where clients are positively surprised by the supplier. For example the restaurant which offers an additional dish free of charge "because the chief himself likes this so much". Or the driver stops between two bus stops because that is more convenient for the passenger.

Analyzing around 700 stories of clients about good and bad experiences with services Ruby Maduro found the following elements most often mentioned:

1.	Functionality of the result	82
2.	Expertise of the producers	58
3.	Efficiency during the work processes	140
4.	Empathy of the performer	77
5.	Courtesy of the performer	220
6.	Being positively surprised	30

A challenge for each chain is to develop a system for quality control covering the activities of the whole group of producers.

4.4. Conditions for the chains

After arguing in chapter 2 that the service industry cannot avoid to work as chains of producers, I summarized in this chapter some characteristics of producing services. These are conditions under which the chain must work. The chain has to recognize the client as co-producer, has to understand the definition of the service by the client and has to keep in mind which aspects a client uses in evaluating the quality of the service.

5. The structure of a demand driven market

5.1. The position of the client

Let me repeat shortly what I said before about the position of the client in a demand driven market. The client will spend less and less time on searching for the best offer. Instead he will formulate his terms of references and wait for bids by suppliers. Suppliers have to be active to find the requests which are interesting for them. The relevance of websites of enterprises will diminish as instrument for obtaining orders.

5.2. Everything in one hand

A strategy might be to produce as much as possible the service (in accordance with the clients- definition!) by one company or organization. This is what I call the fun-fair approach. Strong point of this approach is that quality control, information-processing and on-charging costs can be performed by the techniques of a traditional hierarchy. However there are difficulties. First the different aspects might need different skills and knowledge, different levels of investment, differences in the optimal scale of production and so on.

A second problem with this approach is that if we follow or have to follow the demand of the client it becomes impossible to predict all aspects that must be covered. You can run a nice restaurant in your hotel, but what to do if a client insists in having a certain bouquet of flowers on the table?

Another factor is the policy of the EU. Interesting examples can be found as result of the directives to separate infrastructures and transport. In my house I want to have drinking-water at my disposal. This can be only produced by cooperation between the management of the infrastructure and the people who purify water .By European regulation this must not be the same company.

Conclusion is that the model in which one organization claims the whole production of the service is not fitting in a demand driven market.

5.3. Coordination by the client or his representatives

Complete the opposite is when a client buys all elements of the service himself and takes care of the assemblage. An example is giving a budget to citizens for buying welfare and health-care services where ever they want. The question is whether the client has the expertise to buy the right elements and to put them together to the required service. In practice we see that assembly-enterprises offer to take over these responsibilities. . On base of the specifications of the client they buy the parts. Often they take over the responsibility for the quality of the work. This is the approach some of the most expensive credit card companies offer in the valet service for their best clients.

The assembling enterprise does not produce itself a part of the service as a leading party in a consortium might do .But it forces other companies to form a chain on behalf of their client.

One step further then assembling is the approach that the third party is also active during the delivering of the service, for example case-management in a hospital. A good function case-management does not only build the chain, but also control that the partners are acting as a chain.

6. Forming chains

Forced by consumers or their representatives the suppliers of services have to form chains with other types of organizations in the expectation that together they can supply what is defined in the terms of reference of clients The partners have contracts with each other. If needed later other types of organizations can join. Chains have certain vulnerable points which I will describe in the rest of this chapter.

6.1. Dealing with costs and profits within a chain

As different independent organizations contribute to the service there is always the question how to share costs and profits. Often managers have no idea about the cost calculation of other links. This makes it also difficult to realize cost reduction if an investment is needed in one link of the chain and savings will occur in another link. As the client has a view on the production of the service, he or she can be unpleasantly surprised by an inefficient procedure which results in additional costs.

As said one of the most important aspects of service production is the handling of the moments of truth. But if one link solves the problems created by another link, there is the question how to deal with additional costs afterwards.

6.2. Information processing on the progress of the service

If different enterprises are working for the same client, they have to inform each other about what they have delivered, what went good and what went wrong. Especially information about risks and problems is often not given to the partners in the chain. This gives tension with the fact that the most important aspect of quality assessment is how the service supplier reacts on the moments of truth. How will the hotel react if the travel agent made a mistake in the reservation? The reaction can be “sorry, we are not to blame “. That might be true, but for sure the client is not the answer which satisfies him..

6.3. Information on the internal functioning of links

In order to be able to deliver together a service the links should have certain information about the internal organization of the other links. This requires an openness which is not always tradition among enterprises. It deals not only with the internal structures, procedures and systems but also with temporary problems. For example if because of availability of personal, temporary financial problems and so on a link cannot deliver the normal quality.

6.4. The quality standards of each link

Not every organization is aiming at the same level of quality. A two stars hotel how good it is on itself is not a five stars hotel. The links must come to a decision about the minimum standard for each activity and how this minimum is guaranteed.

6.5. Contracts between the links

The different vulnerable points must be regulated in the contract between the links. Part of the contract is that participants require from each other quality assurance. This can have the form of demanding the relevant quality certificates. Also about dividing costs and information processing must be regulated in the contract. Part of the game is that partners which create too often dissatisfaction can be replaced by one of its competitors. In this way the service can be supplied with at least a minimum guarantee.

A housing corporation can offer its tenants a whole set of additional services which goes from completing tax forms to hanging wallpaper and from chiropody to repairing electric equipment. They can offer this because of standing contracts with suppliers who have a quality certificate for their own profession.

7. Summary

I started this article with some observations on changes in the power balance between clients and suppliers in the service industry. The main forces between these changes are more information in the hands of clients (by use of internet and personal experiences) and less information received by suppliers (by less contact with potential clients because of cost reduction).

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In the second place the client will formulate his wishes often in a way that a single enterprise cannot deliver what is wanted. In order to survive chains of enterprises have to be formed. I mentioned a few of the vulnerable points of chains, points which need to have attention in the contract between the links of the chain.

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