

Business Model Working Diagram for a Service Oriented Company

Iulia Aleksandrovna Uvarina

National Research University Higher School of Economics,

Submitted: Sep 25, 2013; **Accepted:** Nov 25, 2013; **Published:** Nov 30, 2013

Abstract: This paper offers a business process modeling solution for a service-oriented companies. The study is based on the learning the experience of different authors in service and business-model sphere and creating a typical business-model for a service –oriented company. The main identified challenges are the following: poor quality of the designing the business models of managers of service companies, in spite of the knowing that in the last years Russia is characterized by the widely development of the service sector.

Key words: Business model • Service-oriented companies • Business-model canvas

INTRODUCTION

Doing business in the service sector as opposed to the industry and trade has its own distinct characteristics, which allows us to consider the scope of services as a separate line in the commodity market. Service companies are characterized by certain methods of their formation, planning, development, allowing enterprises to solve their current and future challenges, develop new markets and create new services to meet the growing demands of the market.

Service - a set of intangible activities carried out in order to meet the needs and requirements of customers that do not lead to possession of anything. [2] Therefore, for effective business organization in the service sector, its visualization, to put it simply - a visual representation of how to guide the company and for its employees, investors, partners and customers, it is useful to use a tool such as business modeling.

As noted by many authors, initially the interest to the development of innovative business models has been associated with a boom in information technology companies, but subsequently other industries also began to pay attention to this instrument. Stable relationship between the growth of the company's profits and using in their work innovative business models have been identified by experts IBM. Advanced company pay much attention to innovation in the field of management, while companies with lower returns focus its efforts on developing new products and services and the improvement of production processes [6].

It is worth noting that the top managers of international companies consider innovative business models more efficient method for interacting with customers than new product development and introduction of new services [1].

It is therefore evident that the Russian market business modeling should be one of the important tasks of the management team of enterprises. And in large production companies the need to formalize business processes and enclosing them in a complete business model has already been marked by many. Created specific business models for energy companies, as well as for product companies. But if to deal with service businesses to formalize processes here is difficult. Therefore, there is a need to find the typical business model specifically for service businesses. When developing a business model for such organizations it is necessary to consider the features of the service enterprises and their consequences.

Business-Models: Many books and articles have been published nowadays covering various aspects of creation and using of business models. The terms " business modeling " and " business model " is so often used, that it creates the impression of extreme clarity. However, even the first attempt to review the basics of building, purpose and using of one or another business model reveals a problem area, that sticks even experienced managers. The need for establishment an innovative business model grows with the knowledge of the application of this concept. This is confirmed by the intensity of the

publications on this issue, which grows like an avalanche. Thus, the concept of "business model" is intended, on the one hand, to cope with the difficulties and uncertainties of building the modern company. On the other hand, the creation of the model - always a creative process in which exceptional value gain subjective features that eventually, "as diverse a verbal description of the system and its desire to formalize the results in an abundance of ideas about it" [3].

A personal point of view about definitions and functions of business model (BM) has already been stated. A business model is a "set of which activities a firm performs, how it performs them and when it performs them as it uses its resources to perform activities, given its industry, to create superior customer value (low-cost or differentiated products) and put itself in a position to appropriate value". From an entrepreneurial perspective a business model is "a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture and economics are addressed to create sustainable competitive advantage in defined markets". As a tool that describes the company's earning, the logical business model depicts the value of services and products that a company offers to its customers." [4].

Pointing a business model as a managerial tool Osterwalder define it as a "conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, to generate profitable and sustainable revenue streams" [5].

The idea is that it is necessary to have structured thinking and learn to share your thoughts with other people so that they can understand. Especially it is essential when it comes to such an important matter as the creation of business models and experiments with them. And then, the author proposed his own approach to what questions are necessary to consider when thinking through the business model and how to express it in a clear manner. He suggested nine questions to be answered and the answers written down on paper, as proposed, how to think answering these questions. Plus, he proposed a "graphic" representation of all these ideas on a sheet of paper, where there is a fixed cell - this is called a «business model canvas» or simply canvas or template. Convenience of that is that learning to think and

to "talk" to other people within this methodology, we have not only a structured method to think about the business model, but also to experiment in real time by moving the stickers. In a such way appears common language on which to speak and overall visual image of the result, by which is good and convenient to share with others.

Business-Models for a Service-Oriented Companies: In developed societies more than 60% of the work force is dedicated to the delivery of services [9]. "The main provision of functioning of service companies is that the consumption of services is more consumption of the process, not the result, in which the user consider the production process as a component of consumer services, not only consume its result, as in the case of material goods. During the consumption of material goods customers use the product, that is the result of consuming production process. Consuming the service clients, conversely perceive their production process or in part, or (more often) in general, as well as themselves take part in this process. Consumption of services gives a result which is the result of a process of customer service. Thus, consumption of the process is the most important service in the service provision." [7].

Different authors in the majority of their business models have focused on the most important components of the services - the process itself, as well as offering to customers, but about getting feedback from customers (and in-depth study of them) and most importantly-the proper organization of employees they have not take into account, in spite of the process of "client-staff"-it is the "service". This conclusion arises when considering the basic characteristics of service businesses that different scientist define their own way, such as:

Kerin: "Services have four unique elements: intangibility, inconsistency, not capable to be separated and lack of stocks"

Kotler: "Services have four major characteristics that have a general effect on the development of marketing programs: intangibility, not capable to be separated, variability and not able to be save"

Pride and Ferrell: "Services have six basic characteristics: intangibility, not devide the processes of production and consumption, not able to be save, inhomogeneity, customer- oriented approach and the contact with the consumer"

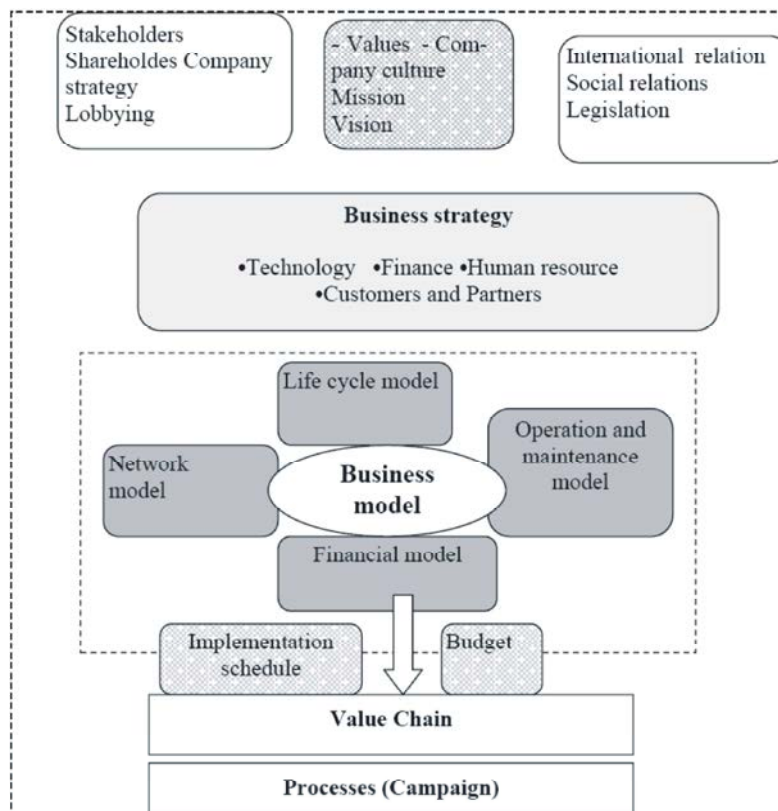


Fig. 1: Business-models for a service-oriented companies

Solomon and Stuart: "No matter what the affect services have... they all have four common characteristics: intangibility, not able to be save, not capable to be separated and variability"[8]

As you can see, all the authors identify virtually the same properties of servicesthat affect the features of building a business in this area.

Taking into consideration these characteristics, Simona Kleinhempel and Stefan Nitchi developed a template business model for service-oriented companies (Figure 1). The business model consists of four elements: the *network model*, the *operation and maintenance model*, the *financial model* and the *life cycle model*. In Figure 1 these are depicted as a dash line rectangle. All four elements have to be in balance and the balanced model is used in the creation of measurement criteria. The network model is represented vertically and it describes the whole physical network and all of its components as a WAN.

The operation and maintenance model and the network model have to be adjusted in order to match each other. The life cycle and financial models are represented horizontally.

The financial model is created based on the company's yearly budget, estimated income (contracts, sponsored fees, taxes, ranting income, aso) and cost structure within a certain life cycle [4].

This model reflects the most common elements of a business model for the service companies. It is necessary to review the activities of service companies in details in order to find and follow the relationships between the individual elements.

To do this, we have chosen some of the business models described above and open up them in more details, in accordance with the needs of service companies.

From 9 elements described by Osterwalder, talking about service companies? It is important to pay special attention to the following units: Consumer, Customer relations, Services offer, Partners and Resources. Additionally we must enter the unit Staff. After all, the service is the process of relations between the employees of the company with customers, so the item can not be the components of any unit, it must be distinguished in a separate part of the business model. Of course, we can not remove from business model the Finance, especially

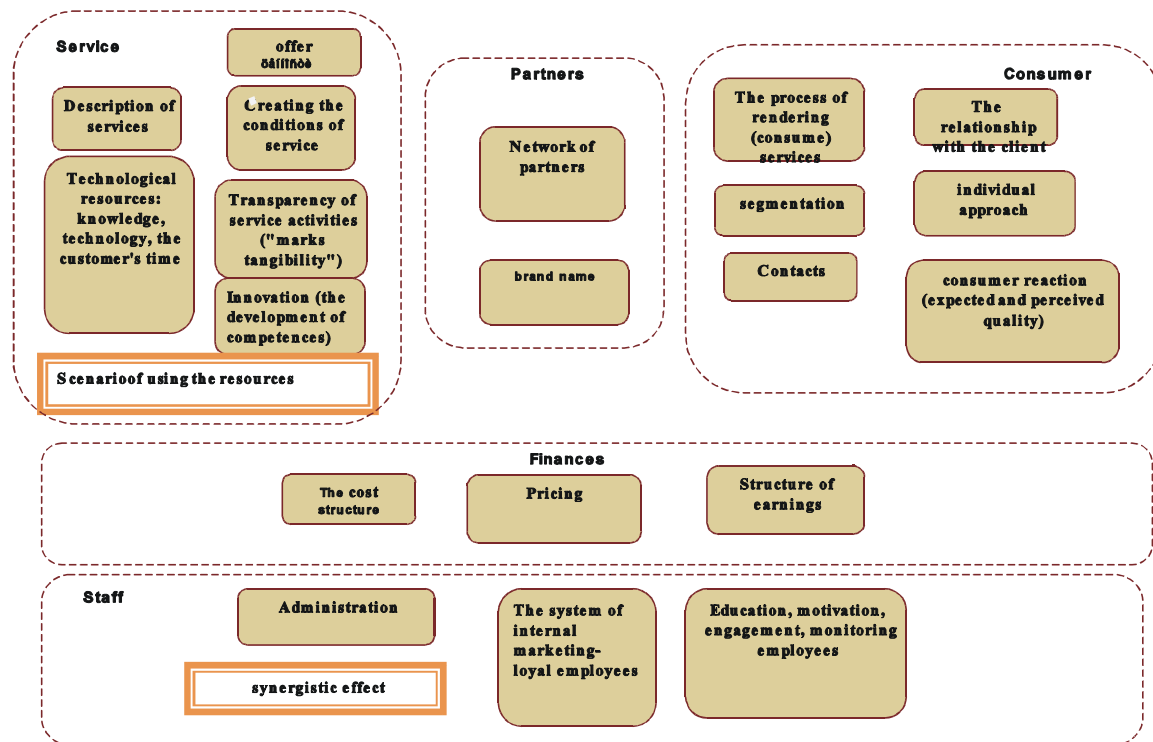


Fig. 2: The working diagram of a typical business model for a service oriented company

in the service industry we should pay special attention to such component as Pricing. All elements must be considered in the relationship, so to represent the business model we have combined some of them getting 5 blocks of service business (Figure 2):

Block 1: Service: Resources + Value for the customer

The most important difference from the commodity area is - that there is not the product itself. In terms of the process of consumption there is no previously produced components of the product features. Beforehand can only be produced preparations of service process, that is, there can be partially prepared services[10]. In many situations, in the service sector, such as veterinary clinics, as an integral part of the service process there are elements of physical products with a certain set of characteristics. These elements are sometimes prepared in part (to be further elaborated by individual order, as it happens, for example, with medicines supplies and expendable materials in veterinary clinics). However, these material goods, not being included in the service process, do not matter by themselves. They represent only one of the resources to be included in a current service process. A set of different types of resources is valuable to customers when they are applied during the service process in which the consumer takes part. Even if service

companies are trying to create products using available resources, they offer only a more or less standard plan for using of these resources during the simultaneous production and consumption of services. Service companies have only a set of resources and, in the best case scenario - a well-planned manner of their application, when a customer appears. Assessment of quality by client does not depend on pre- produced feature set, but on the successfully focused on customer satisfaction management of resources. From the point of view of the consumer, in the consumption process, their problems are solved with the help of a set of resources that are required for a positive assessment of users the quality and value of service. In addition, the company should be able to acquire and / or develop the necessary resources and to organize the process of maintenance and manage it in order to create value for each client. Thus, to ensure the interoperability of different types of resources and the organization of the service process such block of business-model of the company as a service process and necessary for its resources is required.

In order to be a successful company and more over the company number one on the market, it is necessary to be the first in innovations. And when competitors begin to copy (and the services market, unfortunately, has such

feature - low threshold for entry into the business), the management of the service company must already have new ideas.

Block 2: Partners

It is very important in the service industry to choose the right partners and cooperate with them both at the stage of attracting customers and in the process of organizing the maintenance life cycle. For the service sector (and in particular for human and veterinary medicine, as it affects health of relatives and pets) recommendations are mostly important because the service is not possible to touch (the property of intangibility and not able to be save). Cooperation is necessary to carry out with all the adjacent areas, the service should be provided fully and with high quality, so by this way the brand name of the company is created.

Block 3 Consumer (relations with customers):

An important component of this model is - customer focus - the image of a variety of business communications-units in the company and with the outside world. Customer focus – it is such employees, business - processes, products and services that evoke positive emotions (sometimes even fanaticism) of existing customers, which leads to their re-purchase and obtaining the new customers through recommendations from existing customers. Thus, customer focus is projected on the business processes of the company and is reflected in the client's perception of the service.

So, from the point of view of customers in the consumption process, their problems are solved with the help of a set of resources that are required for a positive assessment of users of the quality and value of service. In addition, the company should be able to acquire and / or develop the necessary resources and to organize the process of maintenance and managed so as to create value for each client. Thus, to ensure the interoperability of different types of resources and the organization of the service process is needed management system, that is based on business processes that are reflected in the business model.

Block 4: Staff: In service area people (employees of companies that provide services) –is a key element of management strategy of the firm. Indeed, if the in the promotion of the goods accepted that the main element– it is package (it has an impact on the human decision to purchase a particular product), then service sector - it is

the "selling " of specific persons, who are the performers of these services. The entire staff - from senior management to line staff - should be involved in the management of quality. The staff is regarded as the main resource of the company, which should create the conditions for the maximum use of its creative potential. With the full involvement of employees is achieved a synergistic effect when combined result of collective work is much greater than the sum of the results of individual performers.

As can be seen from the model (Fig.2), in the basis of the chain are employees who provide service and value. Moreover, on the effectiveness of the actions of the staff affect their satisfaction, loyalty and quality of service they receive. Then the value of the service affects the satisfaction and loyalty of the end consumers and , in the end, these parameters provide the company increase revenues and profits. Thus, this business model is also clearly demonstrates the importance of internal marketing in the management of the company, since it is internal marketing allows to create employee loyalty and satisfaction, which are the basis for the commercial success of the service company.

Block: 5 Finance: The financial unit is important here, as in all other areas of business. It is difficult to deal with pricing in the service sector, as it is necessary to explain the customers the cost (value) of services properly, but there are many intangible parts in this process. In the veterinary business such problem appears very often, so there are some ways to deal with it.

RESULTS

So, in this article we create the working diagram of a business model of service company, that performs its basic functions: describes the value offered by the organization to different users, displays a set of conditions and resources to provide services and partners that are required for the creation, visualization ("marks tangibility"), marketing and delivering this value by properly-built teamwork of the staff. The most important is that this model takes into account two main factors for the service organization that affect the steady stream of revenue:

- *The scheme of work of employees*, its role and value in the delivery of services. In services, it is the people (employees of companies that provide services) - a key element of management strategy of the firm.

As can be seen from the model, based on the diagram are employees who provide service and value. Moreover, the effectiveness of the actions of the impact of their satisfaction, loyalty, quality of service they receive. Then the value of the service affects the satisfaction and loyalty of final consumers and , in the end, these parameters provide the company increase revenues and profits. Thus, this business model is also clearly demonstrates the importance of internal marketing in the management of the company, since it is internal marketing allows to create loyalty and employee satisfaction, which are the basis for the commercial success of the company services.

- *Maintaining relationships with clients (feedback).* An important component of this model is - customer focus - the image of a variety of business communications - units within the company and with the outside world. Customer focus - these are employees, business - processes, products and services that evoke positive emotions (sometimes even fanaticism) for existing customers, which leads to their re-purchase and acquisition of new customers through recommendations from existing customers. So, customer focus is projected on the all business processes of the company and is reflected in the client's perception of the service.

CONCLUSION

The future of service companies is clear. Customers are more demanding and are likely to be more discerning and better informed. Managers in service sphere should consider the business environment more than just raise the standards of service quality, it is necessary to recognize the difference between price and perceived value. Understanding and value of design, marketing and modeling is becoming increasingly important. And this working diagram of a typical business model for a service oriented company it is a good instrument for the development company to gain a competitive advantage on the market.

REFERENCES

1. Soolyatte, A.Y., 2010. Business model-the key to business development based on innovation. *Management innovation*, 01(09): 6-15.
2. Burmenko, T.D., 2010. Scope of services: economics, management and marketing. Textbook, pp: 219.
3. Akatov, N.B., 2012. Business models and their application in the management of an innovative self-development, Perm National Research Polytechnic University, Perm, pp: 196.
4. Simona Kleinhempel and Stefan Nitchi, 2010. Business Process Management in Service-oriented companies, *Informatica Economica*, 14(3): 189-198.
5. Osterwalder, A. and Y. Pigneur, 2010. Business Model Generation: A Handbook for Visionaries, Game Changers and Challengers. John Wiley and Sons, New York, NY.
6. Angeles Montoro-Sanchez, 2009. Competitive dynamics and business models in service business: a promising research subject, Springer-Verlag, pp: 311-318.
7. Christian Gronroos, 2009. Marketing services: the case of a missing product, *Management daydgest*, 5(05): 18-34.
8. Christopher Lovelock and Gammesson Evert, 2009. Marketing service-what next? In search of a new paradigm and fresh trends, *Marketing and Market Research*, 02(62): 158-172.
9. Alexandra Florea, Anca Andreescu, Vlad Diaconitad and Adina Uta, 2011. Approaches Regarding Business Logic Modeling in Service Oriented Architecture, *Informatica Ecomomica*, 15(3): 88-98.
10. David, J. Teece, 2010. Business Models, *Business Strategy and Innovation, LRP.*, 43: 172-194.