

(Re) Consider

Your

Service Value Proposition

in the light of

COVID 19

The SerVAL model:
a framework for
analysis, insight
and action



**ANDREW
MANNING**

“Anyone with an interest in running a service business will benefit a LOT from reading the book”,

Professor Ananth Raman, Harvard Business School

Andrew Manning is the author of **‘(Re)Consider your Service Value Proposition’**, a practical handbook that is designed to support the leaders and managers of service businesses in the creation of more value for customers, employees and shareholders.

www.servalproposition.com



Andrew has spent over 25 years as a leader in the service sector, working for both large corporates, private companies, OMBs, not for profits, Partnerships and SMEs. During this period, he has served as Chair, CEO, COO and Divisional Managing Director at a number of market-leading service companies, and an advisor to many others. He is also a visiting lecturer at several business schools.

Andrew is an alumnus of Harvard Business School, having completed its Advanced Management Program in 2012. He has an MBA, passed with Distinction, from Bristol Business School.

He currently has a portfolio career, mixing interim executive, non-executive and advisory roles. More details can be found at www.knowprogress.co.uk

Andrew can be contacted at:

andrew.manning@knowprogress.co.uk or on 07765 896781.

THE ECONOMIC IMPACT OF COVID 19

It is widely accepted that the global impact of COVID 19 has had a significant negative economic effect, and that this can be expected to continue for some time to come. Some businesses will thrive, some will fail, some will stutter then get going again, others will stutter then fail. New ones will emerge. That is what happens across economic cycles- no matter what they are driven by.

The speed and magnitude of change will reflect the degree and duration of economic shock, and mitigating factors put in place by various Governments, regional and multi-national bodies. The current shock level is high, and, if a second wave of COVID 19 occurs, is expected to be protracted.

It is also highly likely that COVID 19 will lead to new products and new services to emerge in response to demand- for example testing and monitoring products and services.

This paper is not about either of the above.

THE IMPACT OF COVID 19 ON THE CORE ESSENCE OF SERVICES

The impact of lockdowns and social distancing on economies, and the economic contraction associated with such, has sharply, starkly, and rapidly highlighted basic business fundamentals: service organisations are not sustainable without customer demand for their value proposition- which the service provider in turn is able to meet in a financially attractive and sustainable manner.

This paper discusses how organisations may want or need to alter their existing services to reflect changes in customer demand, new regulation, or competitors' responses to COVID 19.

It uses the SerVAL framework to do so and includes several examples. My objective, as ever, is to provoke and facilitate *thinking about service*.

THE GENERIC CUSTOMER SERVICE VALUE PROPOSITION

All service organisations provide their customers with a service value proposition (a "SerVAL Proposition"), which represents a trade-off between the Service Benefit & Service Experience they deliver to the customer, and the Total Cost to Customer (which is more than just the price the customer pays) to receive this Benefit and Experience.

A simple example of a Service Benefit arising from a haircutting service might be "feeling more fashionable" or "meeting the requirements of your job".

A simple example of the associated Service Experience is the appearance of the hairdressing salon- whether it is clean or dirty, hot or cold, whether tea or coffee is provided and the hairdresser friendly or not.

The Total Cost to the Customer of the hair cutting service will include the direct price of the haircut, the cost of travel to get to and from the hairdresser, the opportunity cost of the time spent travelling and the time taken to receive the haircut, and the "hassle" involved with booking the haircut, travelling, parking etc.

This paper considers the potential impact of COVID 19 on the **requirements of the customer**. A following paper will consider the impact of this on the economics for the service provider.

A good place to start when assessing the impact on customer requirements is to consider the following questions, in a structured manner:

- *What did customers want in the past?*
- *What do customers want now?*
- *What are customers likely to want in the future?*
- *Why do they want it?*
- *When do they want it?*
- *How much are they willing and able to pay for it?*

It should be noted that customer wants are not the same as customer needs. Many of the things that people want they do not actually need!

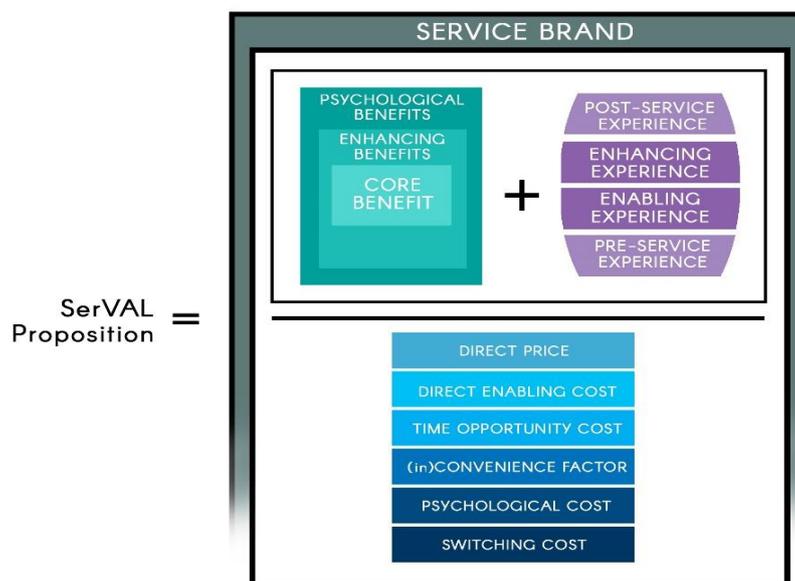
It should also be noted that identifying the customer of a service is not always as straightforward as you might think, and there may also be multiple customers of a single service event. It is therefore necessary to carefully consider “who is the customer?”

A tool developed specifically to enable service organisations to consider their service value proposition to their customers is the SerVAL blueprint set out below.

This blueprint considers a service in terms of the three core elements of the service value proposition, namely:

- The **Service Benefit** wanted by and delivered to the customer.
- The **Customer Experience** wanted and received; and
- The **Total Cost for the Customer** to obtain the Benefit and Experience.

Each one of the three core elements above contain, in turn, a number of components, which can be considered thus:



Each element of the SerVAL Blueprint is explained in more detail within the book (Re) Consider Your Service Value Proposition and at www.servalproposition.com.

Using examples, this paper is aimed at assisting service organisations to apply the same thought process to their own service.

WHAT IS THE IMPACT OF COVID 19 ON THE SERVICE BENEFIT YOU DELIVER?

The core reason that a customer requires a service is the Service Benefit received. So, what has been the impact of COVID 19 on the Service Benefit offered by your service organisation?

It is important to consider whether

- the core or enhancing benefits can be delivered at all?
- the level of Service Benefit received by the customer has changed? or
- the Benefits can be delivered, but need to be delivered in a significantly different manner?

If the latter is the case, then it is also important to assess how this might impact

- the Service Experience
- the Total Cost to Customer

The revised Service Benefits also need to be assessed in terms of

- How do these compare to competitors' offerings?
- How do these compare to alternative means for the customer to obtain the Benefit?

And from the organisation's perspective,

- How might this impact the margin earned per service delivered; and
- Will a sufficient quantity of the service now be sold to make its delivery sustainable?

Let us consider some examples of services that have changed during COVID 19. These are all services which I have used or delivered during the past few months.

(Re) Consider retailing. More people have obtained the core retail benefit (access to goods) remotely via the internet during lockdown, as there has been limited alternatives. Even for purchasing foodstuffs, where typically food shops and supermarkets have remained open, those people who are at higher risk, or perceive themselves to be at higher risk, from the virus, have chosen to shop online. This may have accelerated an already significant trend- as covered in the paper "(Re) Consider the Retail Value Proposition".

(Re) Consider a haircutting service. During lockdown people may have become accustomed and like longer hair- thus requiring fewer haircuts in the future. Or, if they prefer very short hair, they may have bought some hair clippers and cut their own. They have thus reduced their requirement for the benefit or sought a different means of obtaining it.

(Re) Consider medical services. There is some evidence in the UK that people have avoided consulting their doctor for a range of symptoms as they don't want to risk exposing themselves to the risk of catching COVID 19 travelling to and from, or within, the doctor's surgery. There is also evidence of people not turning up to appointments in hospitals to avoid a similar risk, and of outpatients preferring a community setting to receive their diagnosis and treatment rather than going into a hospital. Many doctors have introduced telephone and video-based consultations to replace face to face consultations to manage this risk. The Service Benefit has arguably stayed the same in the latter case, but the Service Experience, and the Total Cost to Customer has changed significantly.

(Re) Consider professional services. How many people have missed travelling to their lawyers' expensive offices? How many people have missed the banter and repartee from interacting face to face with their accountants? In many cases the core benefits from the service have still been available via telephone and video conference interaction and electronic exchange of documents.

(Re) Consider the Benefits of a sports massage service. Let us agree (whether or not this is true- but for the example!) that the core benefit of a sport massage is to loosen up tight muscles to enable the sports person to participate in their sport in the near future without fear of injury. The enhancing benefit might be that it enables the sportsperson to recover faster. The psychological benefit might be that they have never been injured or never lost following a massage from the particular masseur whom they normally use.

Social distancing and lockdown are likely to mean that the sportsperson hasn't been able to receive a massage for a few weeks (and let's assume that they are a runner or cyclist so have carried on with their sport during this period).

During this lockdown period they have bought some foam rollers, and possibly a massage chair, and taken more hot baths and self-administered liniment. They have participated in some online stretching classes.

They have found an alternative way to gain what they may perceive, rightly or wrongly, as many of the Service Benefits.

And they have done this from home, when it suits them.

When the sports massage service re-opens, the enabling Service Experience may have to change, in order to provide a newly required enhancing and psychological Service Benefit. The patient wants the enhancing benefit of not catching a virus during the appointment at the masseur's clinic, and the psychological benefit that they will not. The enabling Service Experience may involve the masseur, and potentially the client, to wear PPE (personal protective equipment). That may detract considerably from the Service Experience.

(Re) Consider restaurant services. The same core service benefit- someone else cooking a meal for you- can be obtained via a takeaway/delivery service.

And the list goes on.....

Some core themes in the few examples above are

- Customers have forgone or delayed receiving the Service Benefit of some services.
- Customers have found alternative means to obtain the Service Benefit during COVID lockdown.
- An enhancing Service Benefit that is likely to be required by customers for the foreseeable future is a desire not to catch COVID 19 (or any other significant virus) when receiving the core Service Benefit, and the psychological assurance that a particular service provider, or method, will prevent them from doing so.
- The Customer has obtained the Service Benefit, but the Service Experience and/or Total Cost to Customer has changed considerably- largely due to much reduced face to face social interaction between service provider and customer.

There is another long list of services that have carried on as before (although often with their employees working from home) which, in the past, required similar levels and frequencies of interpersonal interaction, but have moved to a different service delivery model over the past few years and, consequently, provide different SerVAL Propositions involving much less face to face interaction. For example, retail banking, insurance services, utility services and others which have moved “online” over the past 20 years.

The impact of COVID 19 on these types of models is more likely to be felt in the Service Experience and in the Total Cost to Customer- as covered below- or not at all.

SOME KEY QUESTIONS TO (RE) CONSIDER ABOUT YOUR SERVICE BENEFIT

- **Do customers still value the core Service Benefit that you provide?**
- **Can they still access this core Service Benefit in the traditional manner?**
- **Have they found alternative means of accessing the core Service Benefit?**
- **If so, how can you persuade them to switch back to your service?**
- **Do they value your existing Service enhancing Benefits more or less as a consequence of COVID 19?**
- **Are there additional or alternative Service enhancing Benefits which you could provide which would be attractive to customers?**
- **What COVID 19 related psychological benefits (or risks) are included in your Service Benefits, or could be included?**
- **Will different customer’s and customer group’s assessment of the Service Benefit increase the demand for personal bespoke services and/or create market niches?**

(RE) CONSIDER YOUR SERVICE EXPERIENCE

It is probable that the element of the service that is most likely to change due to COVID 19 for many Services is the Service Experience.

Significant temporary or permanent change might be expected where services have traditionally involved;

- **Direct, in person, interaction between service provider's employees and customers** (most services other than on-line services)
- **Direct, in person, interaction between customers** (e.g. in a restaurant, in queues)
- **Direct, in person, interaction between customers and other individuals** (eg, in public buildings such as Museums, in retail malls)
- **Travel by the customer to obtain the service** (e.g. on public transport, on aircraft, in car parks)
- **Dependency of one service on another** for the customer to gain the Service Benefit (eg some online retailer's dependency on third party parcel delivery services to deliver goods to customers).

This can impact the **Service Enabling Experience** (the basic activities required to deliver the service), the **Service Enhancement Experience**, as well as the **pre and post Service Experiences**. The importance of the latter two elements should not be overlooked. A huge reduction in demand is currently being experienced by many town centre-based service organisations as potential customers decline to use public transport.

(Re) Consider Your Service Enabling Experience

It may be the case that the Service Enabling experience for many, if not all, in person face to face interactions between customers and a service provider's employees are going to have to be at "arms-length" and involving some degree of PPE for both employee and customer for some time to come.

Such interactions are also increasingly involving screens between customers and employees.

A key question for service organisations to therefore consider is how does this impact the Service Experience? If it makes the experience much less personal, does that make alternative service delivery models, such as online, relatively more attractive to customers?

Might we see, in retail banking services, for example, a reversion away from open plan branches? Equally it might lead to a closure of even more branches and a move to even more on-line banking? Might we see an even greater reduction in ATMs to avoid the risk of spreading the virus?

Another potential consequence of "protective barriers", in addition to changing the Service Experience, is the impact on building and maintaining customer relationships. If these become much more transactional, impersonal and less frequent, does that then reduce customer loyalty and hence the value to the organisation of each customer?



Service deliverers and customers may literally become “faceless”!

(Re) Consider Your Service Enhancing Experience

A lot of services involve activities or experiences aimed at enhancing the customer’s service experience. A number of examples, with questions associated with COVID, are set out below.

- Will customers at car dealerships want to share cappuccino machines with other customers?
- Will customers want to share magazines and other reading materials in hairdressers, dental surgeries, etc?
- Will customers want their children to share toys with other children at such venues?
- Will people want to sit in waiting rooms with other customers? Will they want seats wiped down with disinfectant after each previous user?
- Will people want to sit in restaurants with intimate décor and tables close together (even if they are allowed to)?
- Will people want to sit in cafes with screens across and between tables?
- Will business customers want to attend seminars laid on by their lawyers or accountants, particularly if they can’t network whilst there?
- Will business customers want to sit in small meeting rooms with their advisors? Or with lots of people in large meeting rooms?

Will this mean that the enhancing benefits that you offer are no longer valued or are more highly valued? Should you invest more or less money in such?

(Re) Consider Your Pre and Post Service Experience

Typically, a customer’s pre and post Service Experience will involve customers having to travel to and from the location from where they receive the service.

A reluctance to travel, or a ban on travel, or restrictions on the number of people who can travel, may reduce the demand for your services considerably. This has been the case for many town-centre based services as a consequence of people choosing or being required to work from home, or not wishing to “brave” public transport to go shopping.

The pre and post service experience often also involves pre and post service communication- be that online, email, “snail mail”, or telephone-based interactions. This might include the need to send out instructions related to COVID 19 for customers in advance of appointments or following up with “track and trace” systems. How are the Pre and Post service elements of the Service Experience required by your customers likely to change?

SOME KEY QUESTIONS TO (RE) CONSIDER ABOUT YOUR SERVICE EXPERIENCE

- Are customers going to value more “sterile”, low interaction experiences more than the alternatives?
- Are “protective barriers” such as PPE, screens etc. going to make the Service Experience better, worse, or neutral, from a customer’s perspective, compared to other service delivery models for your service, and the approach adopted by your competitors?
- How much harder will it be for your organisation to build interpersonal relationships and create or retain customer loyalty based on interpersonal relationships if everyone is wearing a mask and interacting behind barriers and/or interacting less on a personal face to face basis?
- Do you need to invest more in building your brand to develop customer relationships and client loyalty as a consequence of less frequent, and less personal, interaction with customers?
- What kind of service experience enhancing activities do you provide that may now need to be done differently, or are no longer perceived as service enhancing, or are now perceived as a risk by customers?
- Will the pre and post service experience element of the SerVAL proposition become less attractive to customers if they believe this will increase their risk of catching COVID19?
- Will the pre and post service experience element of the SerVAL proposition become less attractive (and more expensive) to customers if they have to wear PPE to undertake it?
- Will the pre and post service experience element of the service become less attractive because customers will be interacting with other people wearing PPE? Does this make other people appear more threatening?
- Will the pre and post service experience element of the service become less attractive because of the impact of social distancing?
- Will the impact on the various elements of the Service Experience further accelerate the move towards online services?
- Will the impact on the various elements of the Service Experience increase the demand for home or local delivery of the service?
- Will different customer’s and customer group’s assessment of the Service Experience increase the demand for personal bespoke services and/or create market niches?

(RE) CONSIDER YOUR TOTAL COST TO CUSTOMER.

The Total Cost to your Customer of your service is not just the direct price they pay for it. It also includes service enabling costs, time opportunity costs, (in) convenience factors, psychological costs, and switching costs.

(Re) consider the impact on prices

Looking forward, it may be the case that those service organisations that can deliver what is perceived as “virus free” Service Benefits and Service Experiences will be able to charge a premium direct price.

It may also be where supply is restricted due to COVID 19 related restrictions- for example the number of seats available in restaurants, that, if demand remains high, market forces will lead to an increase in prices.

On the flip side, however, if your customers have tried other means of obtaining the service benefit, they will have a much more ready direct price comparison, which may lead to a downward pressure on prices.

And those customers who have chosen, and continue to choose, to avoid buying the service, or are prevented from buying the service, as a result of COVID 19 restrictions, may lead to a collapse in demand relative to supply and lead prices, in the short to medium term, to tumble until supply readjusts. Holidays may be a good example of such.

(Re) consider the impact on enabling costs for customers

The impact of COVID 19 may well also mean that the enabling cost to the customer has changed. For example, do they now have to purchase PPE to obtain the service? Do they now need to pay delivery charges?

(Re) consider the impact on the Time Opportunity Cost for Customers

My expectation is that the Time Opportunity Cost element of many Service Value Propositions is also likely to require a rethink. For those services where, during lockdowns and social distancing, customers have managed to obtain the same, similar, or even higher Service Benefits through different distribution channels, such as online, then customers may have identified

- Means to reduce lost/downtime such as travel and thus reduce the Time Opportunity Cost
- Ability to obtain the Service Benefit and Experience when and where it suits them- and thus reduce the Time Opportunity Cost
- Means to access the Service Benefit and Experience simultaneously with other activities and thus reduce the Time Opportunity Cost

Furthermore, where some activities, such as travel etc, will take longer in the future, due to the need to don PPE, or fewer spaces available on public transport etc, then the Time Opportunity Cost may increase.

(Re) consider the (in)convenience factor for Customers

It may now be the case that the social distancing measures put in place to minimise the spread of COVID 19, or other viruses, makes procuring your service that much more inconvenient.

For example, the need to wear some form of PPE to travel to and during the service. How many people have left home to go shopping and realised they have forgotten their mask and had to go back to get it?

Will the lower capacity of public transport (although, from my recent experience that seems to be offset by the reduced demand), mean that people think the expected or actual hassle of waiting for the next bus/train/tram/tube train, too great?

Other inconveniences can include the ability of customers to bring family members, such as small children, with them whilst they obtain the service.

Other examples include having to book specific time slots to visit premises.

(Re) consider the psychological cost for Customers

The actual or perceived risk of catching COVID 19 may mean that there may now be a significant psychological cost associated with your service- in particular the perceived risk of venturing out of homes, onto public transport, into areas where social distancing is not maintained, or where the risk of catching the virus is perceived to be higher.

A good example of the psychological cost associated even with critical services is the significant reduction of patients attending Accident & Emergency facilities in hospitals and visiting their General Practice Doctor during the first wave of COVID 19 in the UK.

(Re) consider the switching cost for Customers

For some services customers tend not to regularly, and sometimes ever, change service provider or mode of service delivery because the actual, perceived, or psychological costs of switching are high.

However, COVID 19 may have encouraged or forced people to change service provider or the media by which they procure the service (eg moved to a retailer's online service). Is there a cost for them now to switch back to your service?

The challenge for service organisations moving forward is that

- The psychological and physical costs of switching have already been incurred so is no longer a barrier to switching
- Customers have already switched to an alternative service provider/method, so the switching costs now work in reverse, and/or
- There can be a big psychological cost to switch back or restart the service because the risk is perceived as high

SOME KEY QUESTIONS TO (RE) CONSIDER ABOUT THE TOTAL COST OF YOUR SERVICE TO YOUR CUSTOMERS

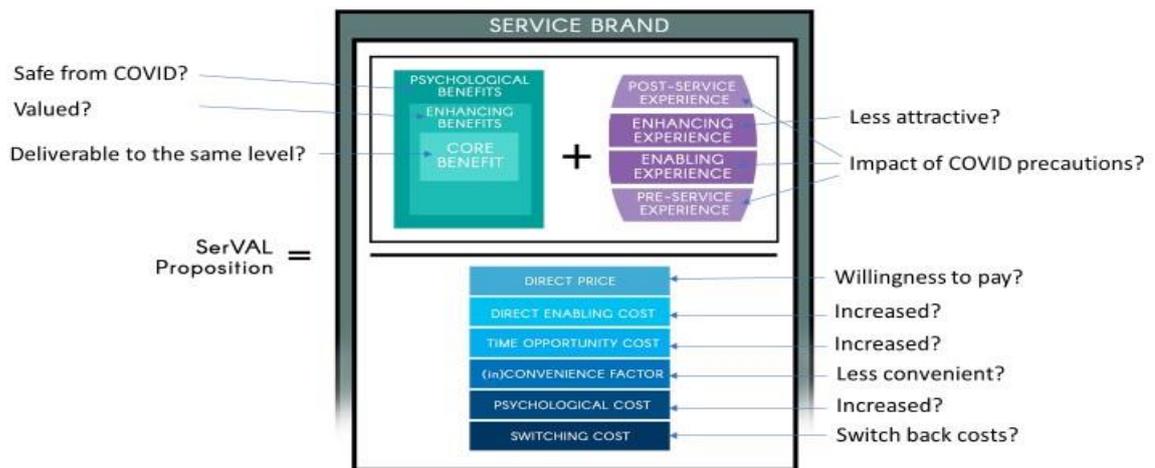
- **If your Service Benefit and Service experience has changed, will customers be willing to pay the same, or a higher or lower direct price for it?**
- **Will the economic impact of COVID 19 mean that they are able to pay the same amount for it?**
- **Have enabling costs changed for all or some of your customers?**
- **What has happened to the Time Opportunity Cost of your service?**
- **How does this compare to the alternative service solution that your customers have been using?**
- **What are the post COVID 19 switching costs for your customers?**
- **Do these switching costs work to your advantage or disadvantage?**
- **How have the precautions and restrictions introduced because of COVID 19 changed the convenience of your service value proposition for your customers compared to alternative means of service delivery?**
- **Might these factors make your Service Value Proposition more or less attractive to all or some of your customers, and create or lose niche opportunities?**

(RE) CONSIDER YOUR SERVICE VALUE PROPOSITION

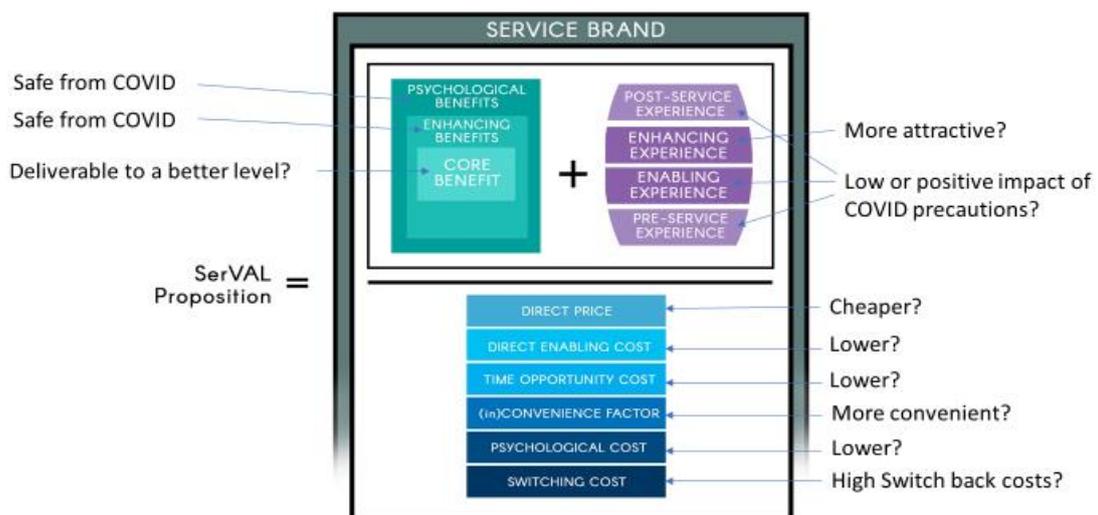
The impact of COVID 19 means that all service organisations need to (re) consider their Service Value Propositions. This can be done in a reactive, evolutionary manner- and that is how most organisations will do it in the short-term, responding to evolving guidance, regulation and law and customer behaviour.

However, longer term evaluation of whether and how services need to be redesigned to remain attractive to customers relative to competitive alternatives, can be undertaken proactively- using tools such as the SerVAL blueprint.

IMPACT OF COVID 19 ON YOUR SERVICE VALUE PROPOSITION?



IMPACT OF COVID 19 ON ALTERNATIVE SERVICE VALUE PROPOSITION?

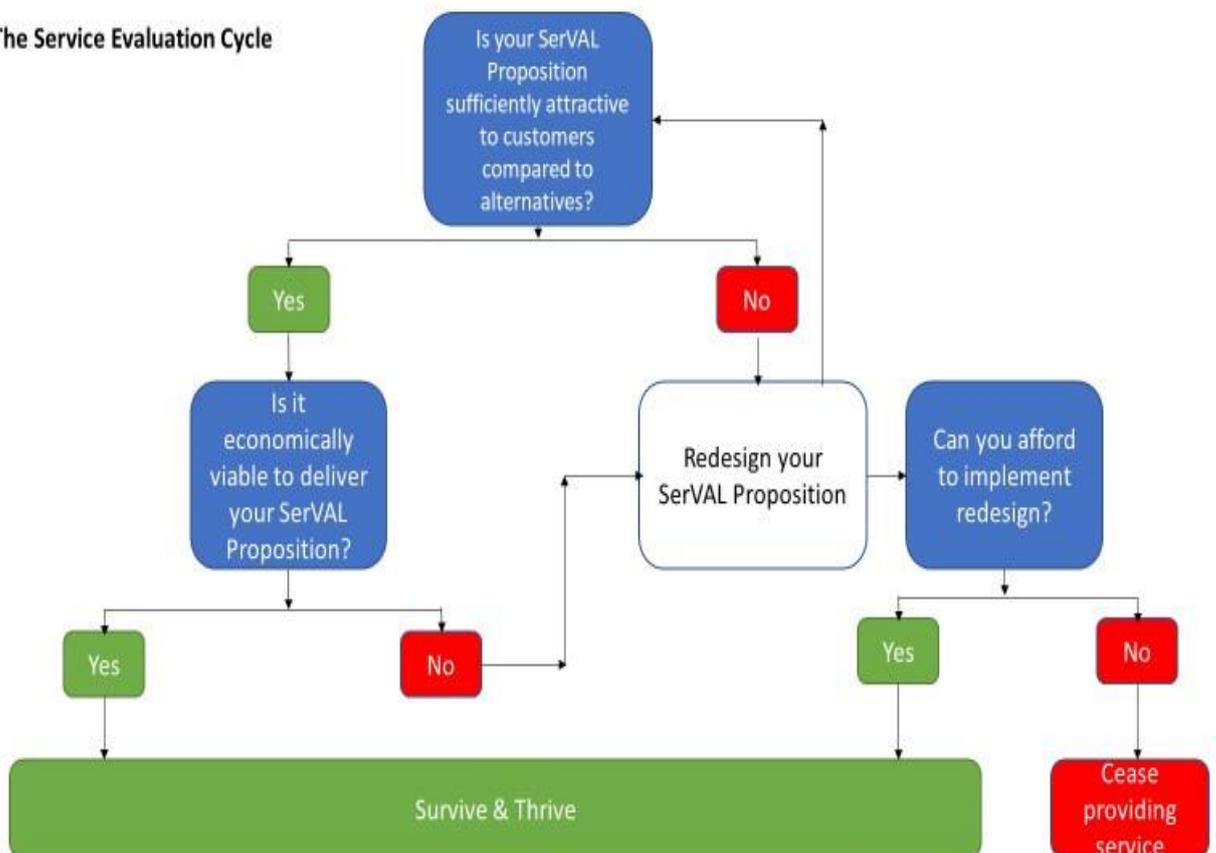


SOME KEY QUESTIONS TO (RE) CONSIDER ABOUT YOUR SERVICE VALUE PROPOSITION

- Is your Service Value Proposition now more or less attractive to your customers than alternatives?
- What are you going to do about it?
- Can you sell enough of your service at sufficient margin to ensure that your business model is still viable?
- Will a redesign of your business model lead to a transformation of your Service Value Proposition?
- Is this new Service Value Proposition more or less attractive to your customers than alternatives?

When (Re) Considering your Service Value Proposition you will need to follow an iterative Service Evaluation Cycle, such as set out below to ensure you can design, implement and deliver a sustainable Service Value Proposition.

The Service Evaluation Cycle



I trust that this paper, which has considered the first box in the Service Evaluation Cycle set out above, has provided a useful, easy to apply framework for you and your service organisation to gain and/or structure, and enhance your insight into the challenges facing your service as a result of COVID 19.

The next paper in the series will consider the COVID 19 related factors impacting the economic viability of Service Value Propositions.

If I can be of assistance to you and your organisation in this process, please contact me at andrew.manning@knowprogress.co.uk