(RE)CONSIDERING THE RETAIL VALUE PROPOSITION

The SerVAL Model: A framework for analysis, ideas, and action

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SUMMARY

Retailing in the UK, and no doubt elsewhere, is experiencing seismic change. A number of traditional "bricks and mortar" retailers have reported significant financial challenges over the past few years, and some have ceased trading. A significant percentage of retail units are vacant, of which many are not expected to return to retail use. At the same time, over the past 10 years, internet-based retail sales have grown from less than 5% of total retail sales to almost 20%. The two trends are not unconnected.

Much has already been written about this.

The purpose of writing another paper about this is to provide a generic indication of how the SerVAL model can be applied to analyse the potential causes of such changes and potential future changes in a service market. As such, it is part of a series of papers covering a range of service industries.

More specifically to retailing, it explores the argument that changing customer value propositions, enabled by the internet, has driven the seismic changes being seen.

And, assuming the acceptance of such hypotheses, it seeks to illustrate how "bricks and mortar" retailers, and retail landlords, might respond to the challenges and opportunities that arise from this.

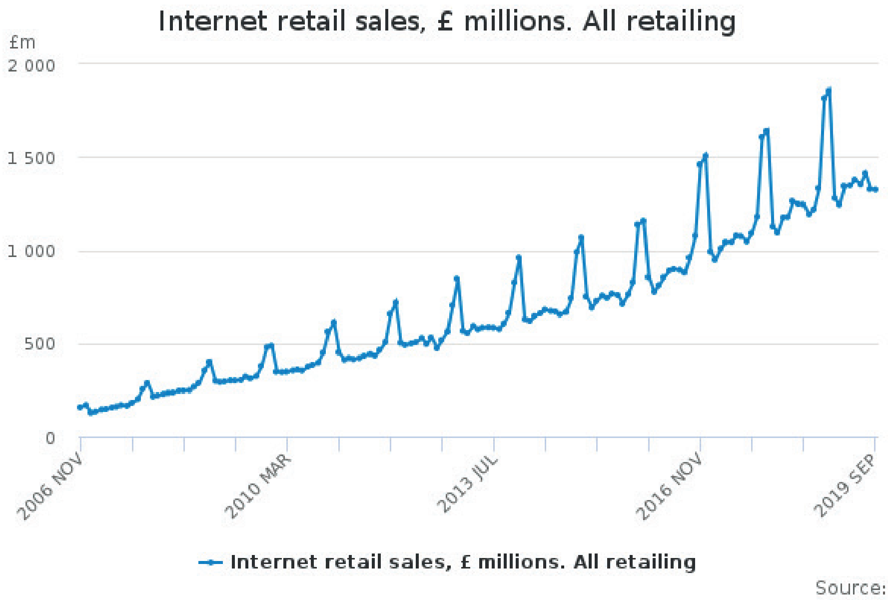
The "right" strategic response appears to lie in creating a retail service experience that is highly valued by customers and which cannot be matched online... What do you think?"

Changing value propositions are driving the seismic change in UK retailing

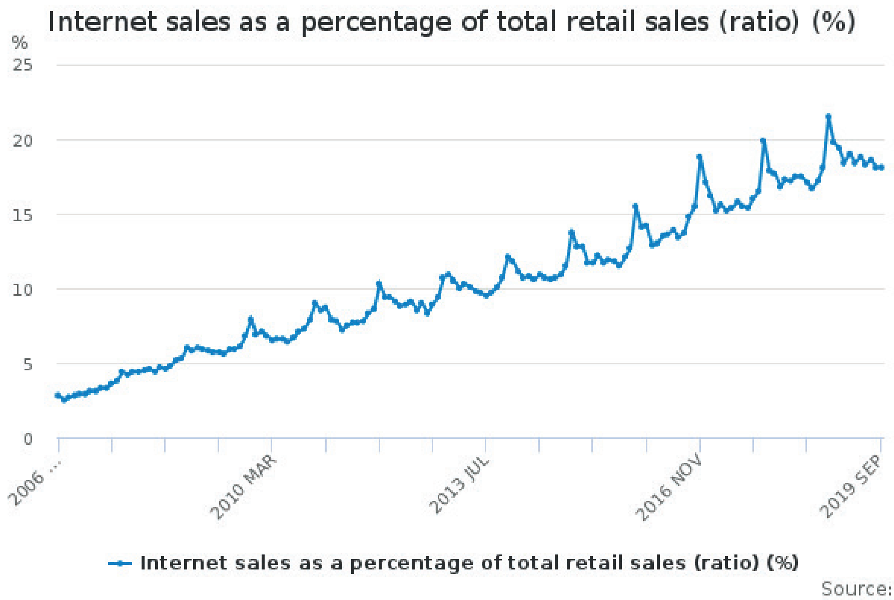
The current Retail Landscape

In June 2019, The Daily Telegraph newspaper reported that 11% of high street and neighbourhood shops in the UK were vacant, and a third of these are not expected to return to retail use. In August 2019, it reported that shopper visits to high streets and shopping centres were down by 2.7% and 3.1% respectively compared to the previous year, with the overall decline being the worst fall for 7 years.

At the same time, according to statistics published by the UK Office for National Statistics, internet retail sales have continued to grow.



And internet sales as a percentage of all retail sales have followed a similar trajectory, growing from less than 5% in 2006 to over 20% in 2019.



In order to understand why this is happening, it can be very insightful to go back to basics and assess why customers might choose one form of retailer over another. In short, to understand and compare and contrast customer value propositions between different forms of retailing.

The SerVAL model is a tool developed specifically to enable a detailed assessment of any service value proposition for any service and any service organisation. More about this model can be found at http://www.servalproposition.com

This framework for analysis can be of use to retailers, retail landlords, investors, municipal authorities and consultants, as well as educators and students.

This paper is designed to be a learning aid to support the application of the SerVAL model.

It should be noted that the example below is not designed to reflect any specific retail market or retailer, but just provide guidance on how to apply the model, and to provide the writer's generic assessment of the challenges facing traditional "bricks and mortar" retailers compared to online retailers.

Application of the model by different parties might lead to different assessments of any particular service value proposition. The model is designed to provide insight to its user, not specific answers.

The customer service value proposition

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

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 a service experience is the appearance of the hairdressing salon – whether it is clean or dirty, whether it is hot or cold, whether coffee or tea is provided, and whether the hairdresser is friendly or not.

The Total Cost to the Customer of the haircutting service will include, amongst other things, the direct price of the haircut, the cost of travel to get to the hairdresser, the opportunity cost of the time spent travelling to and from the hairdressers and the time taken to receive the haircut, as well as the "hassle" involved with booking the haircut, travelling, parking, etc.

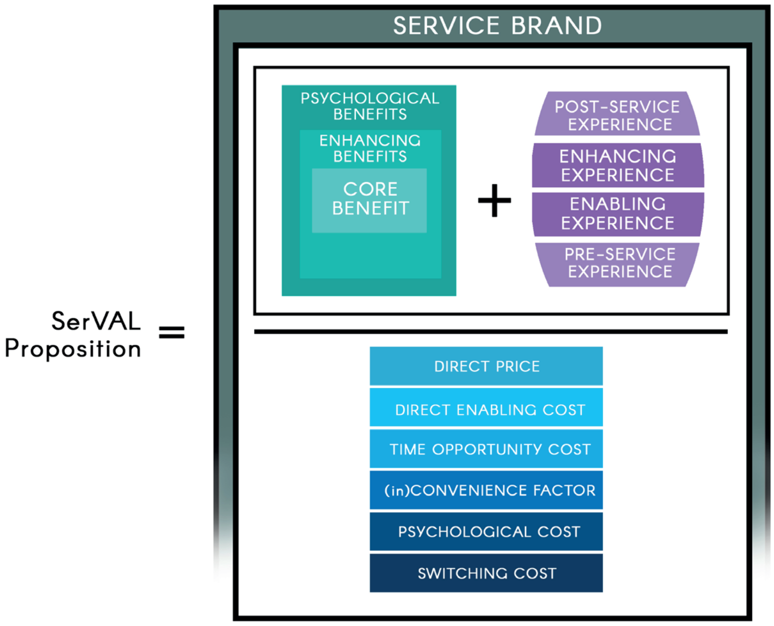
Service organisations aren't sustainable without customer demand for their value proposition, which they are able to meet in a financially attractive manner. Therefore, when considering any service, the starting point needs to be the requirements of the customer. What did they want in the past? What do they want now? What are they 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 don't 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 be multiple customers of a single service event.

The SerVAL model considers a service in terms of the three core elements of the service value proposition, namely:

- The Benefit wanted by and delivered to the customer;
- The Customer Experience wanted and delivered; and
- The Total Cost the Customer will need to incur to obtain the Benefit and Experience.

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



The service benefit of traditional retailing

Firstly, and fundamentally, for all services it is necessary to consider the underlying reason why a customer demands that service – namely the benefit they expect to receive from the service. This can involve several layers and combinations of benefit.

It might be considered that the core benefit a customer seeks from a retailer is the ability to acquire a good or a service (e.g. a travel agent).

A retailer, or merchant, is an entity that sells goods, such as clothing, groceries, or cars, directly to consumers through various distribution channels with the goal of earning a profit.

The items they sell are purchased from a manufacturer or wholesaler and sold to the end user at a price that is marked up. That's usually the source of the retailer's profit.

In general, retailers don't manufacture the goods they sell. There are some exceptions to that rule, of course, but the retailer is usually just the final link in a supply chain that gets a product to a customer. The difference between retailers and wholesalers is that while retailers sell directly to consumers, wholesalers sell their goods to other businesses (i.e. retailers).

Source: https://www.thebalancesmb.com/what-is-a-retailer-2890386

A benefit enhancement that is associated with traditional "bricks and mortar" retail outlets (but not, it is worth noting, for historic "catalogue" based retailers) is for the customer to see the good and try it before purchase.

Another enhancement to that core benefit is for the retailer to offer the customer a choice of the particular type of good or service, as well as the ability to compare prices between these choices.

A further enhancing benefit might be the ability to return the good if it breaks, and/or to provide a warranty to recompense the customer in such an eventuality.

If the core reason that a customer uses a retail service is to acquire a television, then an enhancement to that benefit might be the degree of choice of televisions offered by the retailer in terms of size, picture clarity, and other functions, as well as the colour and shape of the TV set. It may also include offering extended warranties for the goods – that is a warranty above and beyond that offered by the manufacturer of the TV.

Another enhancing benefit offered by many retailers to their customers is the ability to acquire a wide range of types of goods at the retail outlet; for example, a supermarket or a department store becoming a "one-stop shop" (sic). The actual benefit being provided is that it saves their customers the time, travel costs and inconvenience of having to go to another retailer to purchase such goods.

The provision of enhancing benefits can also apply to retail services which don't involve the provision of goods. A haircut can also include a hair wash, hair colouring, provision of extensions etc.

It should be noted that these service benefit enhancements may not be valued equally, or at all, by different customers: they can, and do, provide different benefits to different people. For example, despite being grey-haired, I see no benefit in hair colouring and, having a relatively luxurious head of hair, no benefit in hair extensions. My father, who is not grey, but bald, sees no benefit in hair extensions either. My wife does see a benefit in hair colouring.

The varying benefits sought by different customers enable market segmentation, and retailers to be able to focus on market niches.

The examples also illustrate that some of the enhancing benefits can be psychological rather than physical.

The service experience for traditional retailing

A deeper assessment of the Service Experience from traditional retailing also shows that this too contains a number of elements.

Firstly, there will be the experience associated with the most basic level of activities which enable the delivery of the service: for retailers this is as simple as an area to display their goods – be that a rug on the ground (often used by vendors at seaside resorts), a market stall, a car boot, or a simple retail outlet.

This display area can be "enhanced" by lighting, heating, pictures, decoration, window and interior displays, music, and the presence of, and interaction with, shop assistants.

The facilities offered to enhance the customer's service experience might include parking, and the availability of other services within the outlet (e.g. a coffee shop, ATMs).

Very importantly, further consideration demonstrates that the retail customer will also get a pre and post-service experience.

Part of this pre and post-service experience may be delivered by the retailer; for example, a phone call by the customer before travelling to the outlet to check its opening hours, obtain directions or to confirm whether it has a particular good or size of good in stock.

However, there are significant elements of the pre and post-service experience outside of the service provider's control. For example, the experience of finding and paying for parking prior to shopping, the ambience of the surrounding streets, and the experience of travelling to and from the outlet.

The pre and post-service experience can also significantly impact the Total Cost to Customer, as shown below.

The total cost to customer for traditional retailing

The price element of the retail service value equation is obvious. It is the cost of the good or service to be purchased. However, that is only one element of the Total Cost to a retail customer.

When going shopping, a customer will traditionally also incur the costs of travelling to and from the retail outlet. This may be the costs associated with driving, such as fuel and wear and tear on the vehicle. A potential customer may also often have to pay to park. Alternatively, they may travel by public transport, which normally also involves paying a fare.

Customers will also incur the opportunity cost of the travel and shopping itself: that is, what they could have been doing with their time instead of going shopping. This might include watching the television, meeting friends, going to the gym, or going to work. The longer the journey time and the time it takes to shop, and the more alternative and attractive the ways that customers have to spend their time, the higher the opportunity cost of going shopping will be.

Going shopping (as with anything) will also often involve a convenience or inconvenience ("hassle") factor for customers. This can include having to organise themselves, and their companions, to go shopping. It will be influenced by the time that retail outlets are open for shopping, relative to the other activities they have planned or are committed to (such as work, childcare, or school). The ease with which they can travel, park etc is another contributory factor. The hassle factor may also be affected by who they go shopping with; my grandmother, for example, loved both shopping and me, but couldn't stand shopping for shoes with me as I was (and still am!) a "difficult" customer!

There can also be psychological costs to the customer associated with retailing. For example, when it comes to high-cost goods or high-cost bundles of goods (e.g. the "monthly food shop"), customers may worry about whether they are paying a reasonable price, or whether they could get a better deal elsewhere. They may also worry when purchasing more complex or technical goods, such as cars or computers, as it can be hard for non-experts to understand whether they are actually getting what they need and want. They may also worry about how durable or reliable the good in question is.

For some purchases, there may also be switching costs. An example could be changing cars or furniture if the customer's existing car or furniture has some associated finance outstanding, which must be paid off.

There may also be psychological switching costs, such as deciding not to make purchases at the local neighbourhood store, where the customer has a strong personal relationship with the retailer, and going to another retailer in the nearest city.

The examples above demonstrate, in simple terms, that it is important to consider the Total Cost to the Customer when considering the overall retail service value proposition, and indeed any service value proposition, rather than just consider the price.

Brand

A further component of the SerVAL proposition is the service provider's brand. In basic marketing terms, this contributes to the "AIDA" factor to the service – namely the customer's awareness, interest, desire and action to procure, or not, the good or service from the specific retailer. It also contributes to the psychological benefit delivered to the customer. A simple, well used, but powerful example of this is the assurance that the customer gets from the "you don't get fired for buying IBM" concept. A well-known example of a UK retailer's brand assurance is the John Lewis Partnership's price promise of "never knowingly undersold".

It might be argued that the importance of the retailer's brand is of relative importance to the other retailers' brands, as well as the brand of the good itself. For example, is the customer who purchases electrical goods more concerned with the brand of the manufacturer of the appliance or the brand of the retailer selling it? Arguably, the stronger the manufacturer's brand is, the less important the retailer's brand – except, perhaps, when it relates to price.

Applying the SerVal model illustrates the changes impacting retailing

Application of the SerVAL model provides some strong indications of why retailing is changing so dramatically in the UK, and elsewhere, as well as potential responses to this.

Are service benefits different between traditional and online retailing?

As mentioned earlier, it could be argued that the basic benefit a retailer provides to its customers is as simple as providing them with access to a particular good or type of goods. A retailer is a distribution channel for the growers of food, and manufacturers of goods, or providers of services. Fundamentally, there is no difference between the core benefit that is provided by a bricks and mortar retailer and an internet-based retailer.

A key enhancing benefit is if the retailer provides the customer with a choice of identical or similar goods from different manufacturers, and a choice of different variants of the good from the same or different manufacturers.

It might be argued that an internet-based retailer can provide a greater choice of goods to its customers than a traditional retailer as it doesn't need to have retail floorspace to contain a multitude of choices. Nor does it ever prevent people from making a choice in store by being "out of stock". (Although internet retailers can clearly be out of stock in terms of their ability to deliver the good).

Another enhanced benefit that relates to customer choice arises from the range of goods being offered by the retailer. For example, not just selling meat but also vegetables. Not just selling food but also clothes. The actual benefit to the customer from being a "one-stop shop" (sic) is that it saves the customer the time it takes to visit other retailers. It can be very easy, and much cheaper, for an online retailer to be a one-stop shop with an even wider range of goods on offer than a traditional outlet-based retailer as they have no physical space constraints or costs. Amazon is a good example of this.

Another customer benefit that is also related to customer choice is the customer's ability to compare prices between goods. The internet allows rapid and easy price comparisons (far easier and quicker than walking between retailers). Specialised price comparison websites make this even easier.

As mentioned earlier, the psychological benefit that is provided to a customer by a particular retailer may relate to the quality of the goods sold, their "fashionability" (desirability), their price, or the ability to return them. It is arguable that there is no difference between a traditional retailer and an internet retailer in terms of offering such benefits.

Furthermore, the development of consumer rights legislation in many countries means the assurance that the retailer's brand gives to customers, in relation to their ability to return goods etc, is no longer as beneficial as it was before. This benefit has also been eroded by the strength of the manufacturers' brands. Finally, the emergence of strong "online" brands, such as Amazon, means there might only be a marginal difference between the strength of traditional and online brands.

Arguably, the principal difference between online and traditional outlet based retailing is that the latter also provides the customer with the chance to "sense" and try the good. That is to see it, feel it, smell it, taste it, hear it – as is appropriate and relevant – prior to purchase, in order to gain assurance about what they are buying.

Clearly, one of the challenges with internet sales is that customers are not able to try out the purchase before buying it. In the "virtual" world the good is seen in two dimensions (or virtual three dimensions), and can be heard (if relevant), but it cannot be instantly touched, tasted, smelt, or tried.

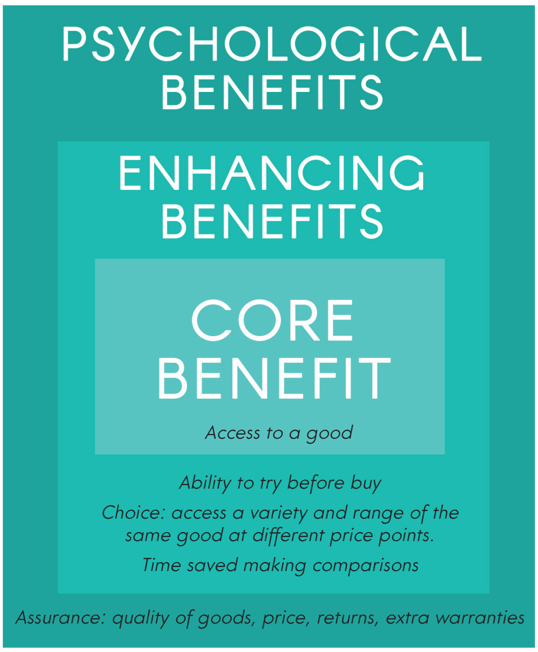
- However, this disadvantage can be overcome fully or in part, by a range of factors, including:
- Customer familiarity with the good for repeat purchases.
- The brand strength of the good.
- The standard sizing for goods.
- Independent online evaluations of the good by consumer bodies, such as Which?, or by customer feedback.
- The general policy of internet retailers of allowing goods to be returned following delivery if the customer doesn't like them, they don't fit, etc.

In the latter case, the ability of the customer to sense and try the good is just delayed by the shipping time for the good, and a choice of delivery periods is often offered by the retailer.

Furthermore, the customer can go and try the good in a "bricks and mortar" retailer's outlet and then buy it online from someone else. The latter can even happen in the competing retailer's own premises by a customer using a smartphone.

In short, online retailers can, therefore, offer the same or better customer benefits as "bricks and mortar" retailers, albeit sometimes the ability to try the good can be delayed for a short period.

In summary, therefore, the benefits offered by both traditional and internet retailers to their customers might be considered as follows:



There are some significant differences, however. Firstly, some forms of retailing don't lend themselves to online sales, namely services (rather than goods) that require direct interaction between the customer and vendor. A good example is hairdressing. It is not (yet?) possible to receive an online haircut. It might be argued, however, that such services are not really retail services, as the "retailer" is not acting as a distribution channel or "middle man". These are personal services that happen to be delivered in what are often retail locations.

A significant difference in the potential customer benefits between the two forms of genuine retailing, however, is the location from where the good can be accessed by a customer, where the choice can be made by the customer, and at what time it can be made.

In traditional retailing, access to the good to "try and buy" is location-specific, namely the retail outlet. And purchases can only be made when the outlet is open. Purchasing from an internet retailer can be done anywhere, and at any time there is a connection to the internet.

However, this variation in potential benefit is not loaded entirely to the advantage of internet retailers.

Another customer benefit from visiting retail outlets, or a cluster of retail outlets at a shopping mall, town centre or high street is social interaction; namely, the customer can mingle with and talk to other customers and shop assistants. This is closely intertwined with the service experience.

Of course, social interaction can be obtained by people doing internet shopping together, which is something my teenage daughter and friends do.

Another locational benefit that is available from traditional retailing, but not obviously from online retailing, was mentioned by one of my neighbours. It is the physical health benefits of being in the fresh air and the exercise (both walking and carrying) that are associated with a visit to the shops.

However, it can be counter-argued that the time saved by online shopping can be used to undertake exercise or socialising activities, if the customer so chooses.

It might thus be argued that internet retailing provides the same or more Customer Benefits than conventional retailing. The main differences being the time it takes for the customer to receive delivery of the goods and the possible loss of both social interaction and the wider retail experience.

Are there significant changes to the customer experience?

As discussed above, the Customer Experience can be broken down into four component parts, namely the enabling experience, the enhancing experience, and the pre and post-service experience.

In retailing, the service enabling experience fundamentally involves the way in which customers experience the goods in order to make a selection. In short, to see, touch, smell, hear, and try the goods. It also involves the process of comparing the goods to alternatives and comparing prices between different retailers for the same good and between different goods.

Internet-based retailing does not offer this benefit in the same way, as it is an online and less tangible experience in which the senses are used less to select the goods.

The rest of the service enabling experience is also delivered in a different manner; namely, the goods are delivered, normally with free returns if the customer doesn't like the good or its doesn't fit etc, so the customer can obtain the experience of acquiring and trying the good at home (also without the pre and post-service experience and the direct enabling costs that are associated with travel, although there may be delivery charges).

A further complication to this analysis of the enabling experience (and enhancing experience below) is that customers can use the retailer's outlet as a "showroom" and go and experience the good, and then, having identified what they want, go online and identify the lowest price source of such. Thus, the bricks and mortar retailer can provide one element of the enabling experience whilst the online retailer provides the remainder of the Customer Experience and also gains the sale.

The next aspect of the customer experience element of the SerVAL Proposition to consider is the "enhancing experience".

The service enhancing experience arguably starts with the retail premises. The retail enabling experience can be obtained from a rug on the ground, a table in the yard or a car boot. Everything above and beyond that is arguably a component of a potentially enhancing experience.

The service enhancing experience, therefore, involves the exterior and interior design and ambience of the outlet. Some retailers invest considerably in this area, while others, such as low-price supermarkets, adopt a very simplistic, no-frills layout.

Another significant element of the enhanced service experience in retail has typically involved shop assistants providing advice to the customer, pointing out alternatives, searching for different sizes, taking and processing orders etc. As noted earlier, this part of the experience can also provide the benefit of social interaction.

However, for customers to value this element of the service experience, it must prove to be a useful, informative, friendly, empathetic, responsive and consistent experience. In my experience, that is not always the case.

Downward pressure on margins can make it much harder for retailers to afford real estate-based experience enhancements, and downward pressures on rents, due to there being fewer retailers who are making lower profits, makes it harder for retail landlords to justify investment. A "Catch-22" investment situation can arise.

Furthermore, margin pressures can also reduce the ability of traditional retailers to train staff to deliver experience enhancing services and/or provide enough staff to deliver such services, which can also reduce their ability to reward staff well enough to recruit and retain the appropriate quality and number in the first place.

The customer-enhancing experience that internet retailing provides can be quite different from the one provided by outlet-based retailing.

Firstly, the customer can decide where they wish to obtain the service benefits. They can thus choose a large element of the service experience. They can be in their own living room or sitting on a beach, or wherever they wish, listening to their own choice of music. They can be surrounded by their friends or family or totally on their own. In short, large elements of the service enabling experience can be bespoke to each customer, based on the customer's own choices.

Secondly, information about products can be available instantly, not just when a shop assistant is available, or be dependent on that assistant's knowledge or ability to articulate that knowledge. This information can be delivered and received in a consistent manner via the internet. It can also include different levels of product detail depending on what and how much the customer needs. Very specific product expertise can also be made available to all customers. It can also be made available in different languages and dialects.

So, whilst the Service Benefits offered by traditional and online retailing might be quite similar, the enabling and enhancing experiences can be quite different between the two forms of retailing.

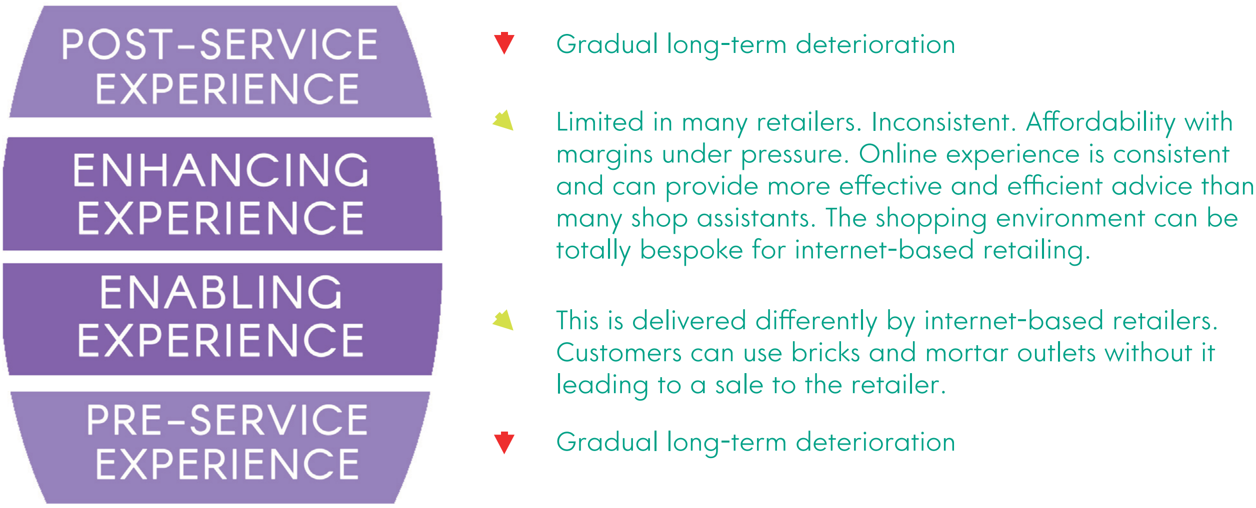
In-depth consideration also needs to be given to the significant differences in the pre and post-service experience between the two forms of retailing.

As traffic has become progressively heavier and journeys take progressively more time, and parking is harder to find, the pre and post-service experience that is related to traditional retailing may have deteriorated over time. Often the alternative means of travel – public transport – has also become less frequent, more crowded, less reliable, and more rundown.

This deterioration in the pre and post-service experience for traditional retailing may have been compounded by municipal authorities and local landlords being less able to invest in the high street environment due to budgetary pressures. This can mean that the immediate environment surrounding retail outlets becomes less appealing over time and thus causes additional deterioration in the pre and post-service experience.

In short, the experience of going shopping to traditional outlets (the pre and post-service experience), as opposed to the shopping experience itself, may have become less attractive over time.

These changes to the Service Experience might be represented as follows:



Have there been significant changes to the total cost to customer?

The Total Cost to Customer component of the generic retail service value equation may also have changed significantly over the past 20 years or so in the UK.

Increased competition (greater choice from a customer perspective) has emerged with the entry of new low-cost "conventional" retailers (for example, Aldi and Lidl in food retailing), and the emergence of "new model" retailers that use the internet as their channel to market rather than "bricks and mortar" outlets. Such internet models often have lower, and more flexible, cost bases than traditional retailing; particularly, it is claimed, when different taxation elements are considered. This has enabled lower prices to be offered by some retailers without reducing their net margins.

Greater competition and greater customer price sensitivity has, therefore, meant that the Direct Price element of the value equation may have fallen, in real terms, thus providing, all other things being equal, the customer with the same core benefit and experience for a lower price, and hence greater value.

Unless the traditional retailer can reduce the costs of its business model, then the economic impact can be a reduction in margins, and thus a transfer of the balance of value to the customer from the retailer.

The consequence has been that many "bricks and mortar" retailers are thus seeking to reduce their cost base by exiting some of their least profitable outlets or, in some cases, ceasing trading altogether.

Whilst the Direct Price to the customer may have fallen in real terms, the direct enabling costs incurred by customers for traditional retailing may have increased. Typically, these are the costs of travel and parking. A huge growth in vehicle numbers on the roads and hence the demand for parking underpin this. This is also exacerbated if there is low investment in public transport and an increase in the costs to the customers of public transport. These are not direct enabling costs incurred by internet retail customers.

Consumer's disposable incomes have grown slowly in real terms for a number of years. This can mean the Direct Price and Direct Enabling Cost elements of the SerVAL equation have arguably become more significant to customers.

Potentially even more importantly, the Total Cost to Customer associated with traditional retailing has also increased in terms of the customers' Time Opportunity Cost.

It is arguable that consumers generally have busier working lives or perceive that they do (the average working hours in the UK, according to the Office for National Statistics, have remained pretty constant since 1992), and have busier, more complex family lives. Greater traffic volumes may have increased travel to work times, thus reducing customers' spare time. This means they have (or perceive they have) less time to go shopping.

Customers also have a greater choice of activities to spend their time on. Even the choice of TV programmes has increased exponentially and the dedicated football fan, for example, can probably watch a match every day if they so choose!

For example, it is possible for a customer to sit on their sofa, watching their favourite TV show (at a time of their choosing), whilst completing their weekly grocery shop online. It enables them to buy a new TV upon which to watch that program without leaving their house, having compared models, brands and prices across a range of retailers and having read "product review" websites. They could also buy the sofa they are sitting on in the same way, and indeed identify the house they want to buy in the same manner.

It appears, therefore, that consumers might perceive they have become more "time poor" and "opportunity rich". The time opportunity cost of visiting a traditional retail outlet for the customer might now be perceived as being much higher than it was, say, 20 years ago.

The growth in vehicle numbers and underinvestment in public transport has also increased the inconvenience factor ("the hassle") associated with conventional retailing; public transport is less frequent, more expensive, and more crowded. For the driver, roads are more crowded, journeys take longer and are more fraught, and parking is harder to find, more expensive, and as a result of shortages, can be further from the retail outlet.

The potential impact on traditional retailing of a combination of enabling costs and time opportunity cost is illustrated by research undertaken by INRIX in 2017, which suggested that 40% of drivers avoided driving to the shops to avoid the difficulty of finding parking.

The psychological and switching cost elements of the SerVAL equation have also changed.

The move away from local "mom and pop" shops to large corporate chains has reduced the strength of personal relationships between customer and shopkeeper. That has two potential consequences.

Firstly, it means the psychological switching costs associated with impacting personal relationships have already diminished, perhaps to the point of being non-existent.

Secondly, it would suggest that customer relationships with a retailer now tend to be more with the brand rather than with individual shop owners or employees. However, as brands become both more transient (new brands emerging and older brands disappearing is not uncommon) and a greater range of brands emerges, arguably loyalty becomes both more promiscuous, diluted, and more transient, and potentially more focused on more specialised customer segments.

The psychological switching costs may, therefore, have reduced in retailing. And the emergence of strong online brands, plus the use of online channels by established retailers has removed the potential worry of buying goods online from unknown online retailers. And, of course, there is still the strength of the brand of the product being purchased.

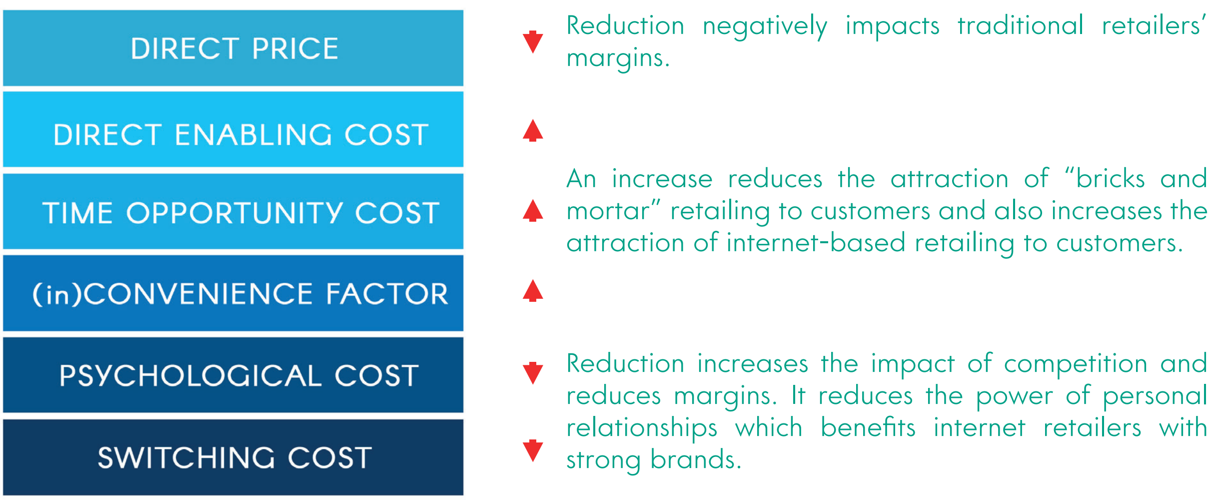
Furthermore, brand loyalty schemes have proliferated, so the financial benefits of remaining loyal have also reduced. Often these schemes have been absorbed into "everyday low prices" in any case.

An argument can also be made that the actual switching costs for customers have also reduced. Market entry, and the evolution of new concepts by major supermarkets, such as "convenience stores", and the emergence of retail parks etc, means that the customers' switching costs have been reduced by the consequent greater choice and greater density of retailers.

This reduction in customers' switching costs, many of which are psychological/relationship-based, has also reduced the Total Cost to Customer whilst also increasing the competition between retailers.

These reductions are to the benefit of the customer and the disadvantage of the retailer.

The impact on the Total Cost to Customer of the rise of internet retailing, the establishment of strong internet retail brands and, perhaps, the reduction of the relative importance of brands in the retail SerVAL equation might be generically considered thus.



Brand

The Brand “wrapper” for retailing has also changed. Firstly, long-established retail brands have disappeared (for example, Woolworths, BHS in the UK). In fashion retailing, it wouldn’t be unexpected for “fashion brands” to rise and fall with fashion. New “bricks and mortar” brands have emerged or entered the market, and become very powerful very quickly.

Furthermore, and very importantly, established internet-based brands have emerged, the most obvious and significant retail brand probably being Amazon.

The evolution of markets has also meant that the goods themselves are typically strongly branded so the retailer’s brand is less important in providing assurance that a good is of appropriate quality or fashionable etc. And when different retailers sell the same good from the same manufacturers, as is the principal model (other than for cars!), then the retailer’s brand can be even less important, unless the retailer is adding value to the good being sold and/or to the customer.

So there has been a relative decline in the competitive advantage of the brand wrapper for long-established traditional retailers versus both entrants as traditional retailers and internet retailers.

Summary of the impact on the retail SerVal proposition

The simple generic SerVAL analysis set out above provides some generic guidance on the factors which may be causing the undoubted seismic changes in retailing as a result of the internet. It also illustrates that there appears to be a number of factors at work, which are interrelated.

The internet has enabled the emergence of a different Service Value Proposition in retailing that is proving increasingly attractive to many customers for some, if not all, of their retailing needs.

It can be seen how the generic online shopping value proposition can compete with a generic bricks and mortar retailing value proposition, and vice versa, and how new customer value requirements, such as the release of more spare time, can be realised.

It also illustrates how the model might be applied in detail to specific retail offerings.

This generic analysis suggests that a strategic response is required from traditional retailing.

This generic analysis also suggests there may be a very limited opportunity to compete in a value-creating manner that is based around the service benefit, other than adding additional benefits to the customer, which may be niche benefits for niche customer groups.

Greater opportunities appear to exist by considering the Service Experience and the Total Cost to Customer.

This might include retailers offering valuable service enhancing experiences that can only be delivered through direct face-to-face human interaction and working with their landlords and local authorities to enhance the pre and post-service experience of customers.

It might also include reducing the opportunity cost of going shopping to customers. This may mean offering a range of other activities that can be done immediately before shopping, during it or afterwards.

It may also lead to new retailing business models which integrate internet and traditional shopping, such as retail outlets being “showrooms” for goods rather than “retail outlets”. This may be a step further than traditional retailers also having an internet shopping arm.

This hypothesis might imply that the future for bricks and mortar retailing may be “super shopping, personal service, leisure and experience centres” where a wide range of activities, as well as retailing, are carried out. A whole range of experiences can be gained, the pre and post-service experience is better controlled, parking is easy and free and public transport plentiful, attractive and safe. It might also suggest the rise of more specialist niche retailers offering tailored benefits, and tailored experiences to their customers.

It is recognised that some, if not all, of these points are not new and will be familiar to many, but the model puts them together in a structured manner. It is also not supposed to represent the opportunities or challenges facing any particular retailer, retail market, or retail landlord.

The generic case study has been used to illustrate the application of the model, not necessarily to provide additional insight concerning the retail market as a whole.

Conclusion – applying the SerVal model

The SerVAL model has been designed to be applied to any and all service types. Its aim is to provide additional or alternative insight to service providers, investors in service organisations, customers of service organisations, and other stakeholders, such as politicians and civil servants.

It is part of a wider framework which considers how best to deliver such value propositions in a financially sustainable manner and thereby create more value for customers, employees, and owners of service organisations.

So what are you going to do?

If this simple analysis has got you thinking and reflects the challenges and opportunities faced by your organisation, your markets or the companies in which you have invested, then it would be great to hear from you. Please give me a call if you would like assistance in:

- Analysing service markets;
- Analysing the Service Value Proposition of specific companies;
- Clarifying, reviewing and developing an outsourced Service Value Proposition, and/or
- Reviewing and improving or re-engineering your Service Delivery Mix and Model.

Or buy the book.

BUY THE BOOK

(Re) Considering Your Service Value Proposition: How to create more value for the customers, employees and owners of service organisations

The book is designed as a practical workbook for Executives and Advisors involved with service organisations. These include organisations who deliver services commercially, those providing public services, and those that are "in-house" service departments.

Its objective is to:

- Assist the creation of additional customer value and organisational value; and
- Form the basis of competitive strategy for service organisations

It is structured to enable individual analysis and/or to form the basis of workshops and training within organisations.

It is based around some core models and theories, largely developed by the author and supported by simple practical examples, and it poses a series of key questions for consideration. Its essence is about identifying questions – not answers – to assist organisational improvement, and not to propose universal vanilla solutions.

It considers the question, what is a service? And proposes a core model as a definition – the Service Value Proposition, or "SerVAL Proposition".

It highlights how the changing ingredients that can be used with services, along with the associated new service delivery models that involve the increased use of ICT and the internet, are changing services in the greatest way since the invention of electricity, the telephone, the internal combustion engine, manned flight, TV and radio. It reveals the many pitfalls that can accompany this and explores the underlying reasons why they can be game-changers.

It analyses who are the customers of a service – and that there is rarely a single one – and proposes a "customer stakeholder map". It considers how customers evaluate a service, and how organisations fail to deliver what customers want.

It explains the importance of the service organisations employees to successful service delivery, and proposes an expanded version of the "Service Profit Chain" model developed at Harvard Business School.

It illustrates how organisations create and receive value back from their customers, and how a balance needs to be both obtained and retained between the value that is delivered to the customer and the value received from the customer in order for organisations to be sustainable.

It summarises all this in a holistic model for service success.

There are questionnaires provided at the end of each chapter to allow organisations to apply the thinking and concepts therein to their own situation.

WHY IS IT DIFFERENT?

This book is different. It is not an industry or a circumstance-specific book. It is not a "how I did it book". It is not an academic book of theory.

It has been written by someone who has the very unusual cross-industry experience of directly leading service organisations through change, and has also studied and theorised about service.

It develops and explains a practical, applicable model of service improvement, from a customer's and employee's perspective, as well as a shareholder's or owner's.

It doesn't pretend to provide answers. It is designed to provoke thinking and share lessons, and thus to assist each service organisation to reach its own answers.

www.servicevalueproposition.com

It can be purchased from Amazon, or directly from the author.

(Re) Considering Your Service Value Proposition

The SerVAL model provides an integrated framework for achieving service success.

It is based upon a core definition of a service as a value proposition to customers- a service value proposition or "SerVAL proposition".

It considers the fundamentals driving demand for service and the price customers are willing and able to pay. It also highlights that price isn't the only element of the "Total Cost to Customer".

It explores how the different ingredients that go into delivering a service (eg, people, real estate, process), and the service model chosen to deliver the service, fundamentally shape the SerVAL proposition to customers, and the cost to deliver such a proposition. These are also material to the employee experience- which in turn impacts the performance and behaviour of employees, which are also critical factors for service success!

The model examines exactly who is the customer (and that typically, even for business to consumer services, there is rarely one customer), and how they assess the performance of their service provider and the SerVAL proposition received. It highlights how the characteristics inherent in services can influence this- and what service organisations can do to mitigate this.

Furthermore, it shows why service success is not based on being "customer focused" but on being "customer value focused"- and how this latter concept involves a fair and sustainable exchange of value between the service organisation and its customers. Without such a service organisation will not survive.

The SerVAL model does not provide the answers- it is based on a framework and a detailed set of questions to support service organisations find the best answers for their success.

Anyone with an interest in running a service business will benefit a LOT from reading "(Re) Considering your Service Value Proposition". Andrew has created a "playbook" for a service organization.

Professor Ananth Raman of Harvard Business School