



Services and Their Role in the National Economy: Notions Transformation

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ABSTRACT

Services are involved in consumer, intermediary and public markets and contain processes of varying complexity, including state transformation of physical objects, people or codified data. So there is quite a wide range of studies that have expressed doubts about the accuracy of the properties traditionally attributed to the service. An open dialogue between members of the scientific community, as well as the dialogue of researchers with entrepreneurs becomes the basis for the development of a new paradigm of service. According to the opinion of many authors the service cannot be regarded as a general category, it is time to consider its characteristics which are justified by the practice and differ from the purely theoretical ideas. At the heart of these changes there is an impact of innovations on services development, which forces companies to change the organizational rules, regulations and interaction process within the company and to move to a new "lifestyle," focusing on consumer preferences.

Keywords: Service, Innovation, Consumer Preferences, Companies, Development

JEL Classifications: A10, M10, D11

1. INTRODUCTION

Tertiarisation as a consequence of national economies development is characterized by the displacement of the primary and secondary sectors and increasing importance of services in the production of the world's gross product. Scientists have already joined in the discussion of the problems of information business and the formation of a quaternary sector of the economy, however, the discussion about the definition of "service" is not complete.

For over 200 years the center of scientific discussion has been contradistinction of product and services, which originated in 1776 due to the famous work "The Wealth of Nations" by Adam Smith.

In modern economic literature you can find three main approaches to the definition of "service:" Sectoral, contrastive and synthetic.

However, detailed analysis of the methods shows that, ultimately, the method of this problem research, which was formed more than

200 years ago, remains the same: The researchers, participating in scientific discussions, always correlate service and product.

Most researchers emphasize that the service is different from the product due to the fact that it is not tangible; it is time-consuming and is consumed at the time of production (Karaomerlioglu and Carlsson, 1999). The traditional list of service and product distinctive properties includes four specific characteristics: Intangibility, heterogeneity, inseparability, and perishability (Kotler, 2003).

However, in practice, the services do not necessarily have these characteristics. In particular, some services are not consumed at the time of production: For example, computer programming, and life insurance. There are services that are available after the sale of a product, such as repair services. However, the majority of researchers agree that services are intangible.

Services include a wide range of activities: Knowledge-intensive, relatively low-tech and low-skilled. Services are involved in

consumer, intermediary and public markets and contain processes of varying complexity, including state transformation of physical objects, people or codified data (Miles, 1996).

So there is quite a wide range of researchers who has expressed doubts about the accuracy of the properties traditionally attributed to the service (Kotlyarov, 2012). Manual on Statistics of International Trade in Services 2010 (United Nations Publication, 2012) simultaneously offers two definitions of services.

The first definition describes the service as a heterogeneous range of intangible products and activities that are difficult to simple definition and explains that it is often difficult to separate services from products with which they may be related to some extent (United Nations, 2009).

In the second case, with reference to the System of National Accounts 2008, services are defined as a result of production activity that changes the state of the units consuming services, or facilitates the exchange of products or financial assets. The definition also clarifies that trade in services cannot be performed separately from their production, and by the end of their production, they should already be provided to consumers (United Nations, 2009).

According to the General Agreement on Trade in Services the second definition includes any service in any sector except services supplied in the exercise of governmental authority. Service supplied in the exercise of governmental authority is any service which is supplied on a noncommercial basis, without competition with one or more service providers. Thus, the discussion over definitions of services remains open, and the existence of different interpretations of services in the documents regulating the international activity, becomes the basis for a review of existing approaches used in this discussion. With the development of this sector and increase of research volume, the boundaries of this category become even more uncertain and the question concerning the definitions of the term “service” is retained. The main question for the researchers is the question of how to describe a service in the context of changes that are taking place in this area in practice. In 2004 renowned experts in marketing services C. Lovelock and E. Gummesson published their work “Whither services marketing? In search of a new paradigm and fresh perspectives” (Lovelock and Gummesson, 2004). The authors proposed to open a new dialogue, able to change existing stereotypes and look at the service from a completely different point of view. Publication is inherently revolutionary, but the main thing is that, having proposed the revision of the existing paradigm, it has opened prospects for researchers. The authors did not provide ready-made solutions, but offered new directions of scientific debate to the scientific community: The rejection of products and services separation; abandonment of service as a single category; search for new characteristic of service that distinguishes it from the product.

2. MAIN PART

An open dialogue of scientific community members, as well as the dialogue of researchers with entrepreneurs engaged in this

area, becomes the basis for the development of a new paradigm of service. According to these authors the service cannot be regarded as a general category, it is time to consider its characteristics which are justified by the practice but differ from the purely theoretical ideas. Our view is based on research of changes in the behavior of producers and consumers taking place in the global economy, as well as the nature of the goods and services market. On that basis, it seems justified to formulate the following theoretical and methodological provisions of the transformation of traditional service understanding.

As Penrose argues (1959), “no goods can be made without a combination of different services, supplied by company engaged in the production” (Penrose, 1959).

A service is the result of any economic activity of both specialized service and manufacturing companies, which supply consumer with goods used to create services in the form of income, profit or image. All companies, seeking to occupy better position in the market of goods and services, have to constantly accompany their sales with package of services. In the process of forming such packages, the company is guided by the market and customer preferences and constantly improves the package containing a service. Improving this package, companies are using innovative approaches: In fact, they improve that part of the package, which includes service. Service companies trading only in services are also involved in this process and also forced to sell not the service, but a package consisting of different types of services in order to occupy better position in the market. Thus, we should speak not only of the product-service package, but also of service-service package. In this paper we consider product-service package. In economic literature, such a package is called a hybrid product. The process of services provision can be seen as a process of “co-production,” in which both a producer and a consumer are using their resources to get the benefit. With this approach, any economic activity can be represented as the exchange of services.

The impact of innovations on the development of services is forcing companies to change the organizational rules and regulations, as well as processes of interactions within the company and to move to a new “lifestyle,” focusing on consumer preferences (Barcet, 2010). Innovative processes are specifically planned by companies when they are purposefully engaged in teaching personnel to deal with new technology, but they can also occur spontaneously under the influence of customer requirements. Thus, there is an interactive learning process initiated by any of the interested parties (Gallouj and Savona, 2009). Innovative services are more often used by manufacturing companies who are looking to differentiate with the help of new services and complex stratification of product-service package (Chae, 2012).

Hertog (Hertog et al., 2010) believes that the success of the service innovation is achieved by those companies (including industrial enterprises that acquire more and more services), in which one can find the action of at least one of the following factors, providing the ability to differentiate:

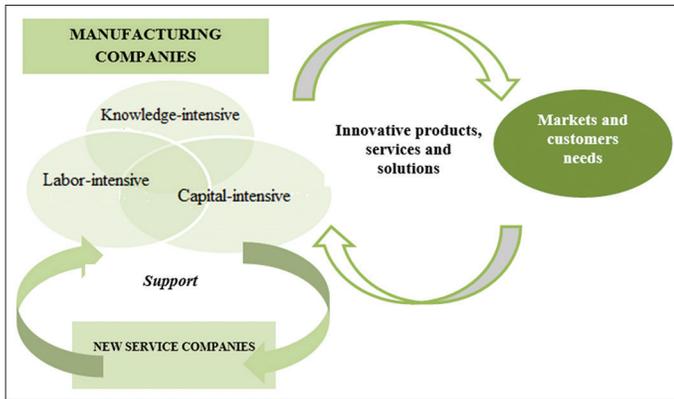
- Monitoring of consumer preferences and analysis of technological capacity for their implementation;

- Formation of the concept of consumer preferences meeting; joining and separation of services components;
- Co-production and coordination; flexible production scale providing; training and adaptation.

Therefore, strategies of companies have been diversified in recent years (Brax, 2005), generating knowledge, and adapting to the needs of customers and markets (Figure 1).

New strategies of companies are caused by the transformation of relations in the industrial sector, as a result of the innovation processes in the economy, as well as the changing preferences of consumers. Services sector has received an additional impetus for the development not only due to the coordination of services in the manufacturing sector, but also due to the formation of new connections between consumers and producers.

Figure 1: New strategies of manufacturing companies



Source: The Report of the High Level Group on Manufacturing. March 2008 (Entemp SEO Strategies, 2008)

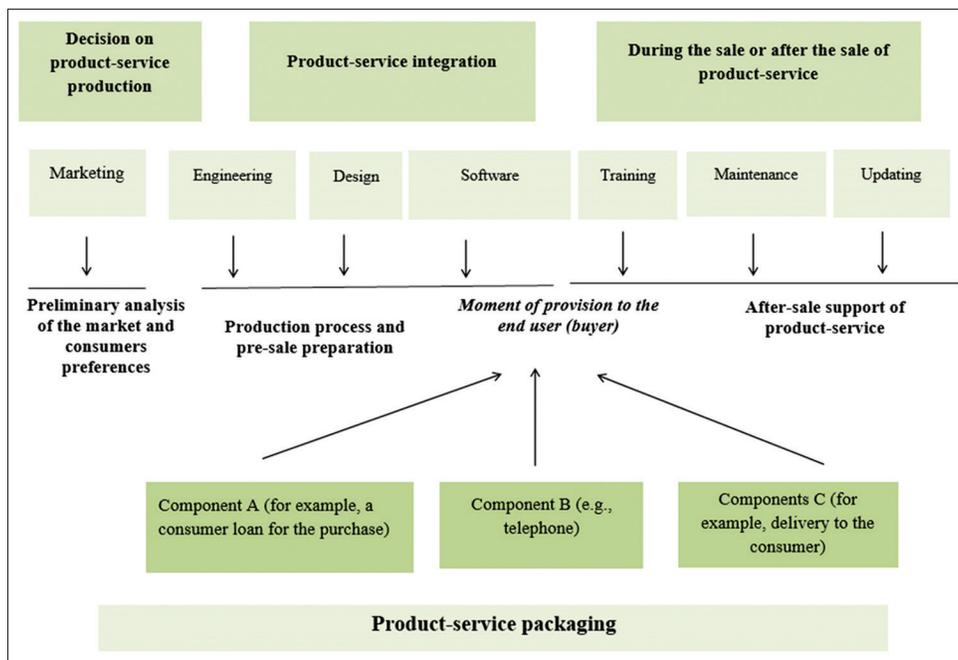
According to practitioners, hybrid products become the basis of competitive advantage and increase the company’s gain because services profitability is higher than products profitability: Services on the average may reach 25% of profitability, whereas products – only 5%. So, creating a hybrid pair, you can earn the bulk of the profit on the service.

The company takes over a growing number of services ensuring success in the market at all stages of the product creation, including the stage of making a decision on production. The product enters the market as a package consisting of the goods and a variety of services at different stages of its production.

The changed conditions have formed four kinds of bonds between the product and services (Figure 2), and the manufacture of goods can be presented in the form of product-services packaging;

- Bonds formation begins long before the organization of commodity production, when the company decides whether to produce it. At this stage, the company investigates the market, studies consumer preferences with respect to a particular product and makes decisions on sales promotion, price policy, organization and management of product movement to the user, and after-sales service.
- The manufacturing process is accompanied by increased product-services integration when some specific service components are added and this has a noticeable effect on the characteristics of the product itself. These service components the following types of additional services: Engineering, design and software. However, this list can be greatly extended, depending on the findings made at the stage of decision-making on the product manufacturing.
- The process of product-services packaging is usually carried out at places of sale and is accompanied by a whole range of services associated with its selling. For example, at the points

Figure 2: Four types of bonds between the product and services



Source: Compiled by the author based on Selling Solutions: Emerging Patterns of Product-Service Linkage in the Australian Economy (2002)

of sale the consumer gets financial services, providing a buyer with credit resources, as well as delivery services, technical assistance on complex technical goods connecting, etc. Adding a number of services to the product allows the company to benefit, which is manifested in the ability to differentiate its offer, depending on the wishes of the consumer. In some cases, this policy provides additional sources of revenue.

- d. At the last stage there is already a clear dominance of the services over the product because additional services act as a guarantor of successful functioning of the purchased product, supporting it with additional range of work and services.

In today's world, companies are facing unprecedented pressure from the market. Only those organizations that conduct business in the most efficient way and achieve lower operational costs while maintaining high quality of products and services manage to survive and be a success under these conditions. Business-process is the hallmark of outsourcing in comparison with a variety of other forms of service provision and customer care. Outsourcing is based on the transfer of the functions related to maintenance of company activity to the third-party company on the basis of the contract. This third-party company is experienced in areas which are vital to the customer but are not the subject of customer's professional activity.

Experts in this area argue that in order to ensure successful functioning of the company it is necessary to decide which functions should be better transferred to other companies. With the advent of hybrid products, companies are forced to make the right choice: Some service functions should be transferred, and some, on the contrary, should be added to the range of services delivered by the company. Thus, there is a need to structure activities within the company to form at least two packages of works and services.

The first package should contain a set of works and services, which increases the company's specialization in the market, and the second provides normal functioning of the company itself and creates comfortable environment for employees and business units. In fact, there is a classification of services, which reflects the company's attitude to strategic behavior on the market to increase its competitiveness. However, economic content of the reason which underlies this classification becomes unclear. It is also not clear whether the company can outsource some other services which it provided earlier, ensuring its competitiveness. There may be a single answer – yes, it can. At a later date the company can be interested in outsourcing of services, which had previously provided its competitive advantage due to their exclusive nature.

Thus, the company will produce “new” services on its own as long as the market size is too small to support the emergence of specialized suppliers. With the expansion of the market, these functions can be transferred to specialized companies. This will occur when the production of “new” services will be cost-effective

for independent specialized companies. This further confirms that the division of labor increases the productivity of companies in the market.

3. CONCLUSION

It results in opportunity to talk about the ability of the service to become an independent direction of service sector as a result of progressive interaction of services and products.

The service, which has appeared in an integrated product-service package for the first time, then develops and acquires high-quality characteristics that can respond to changing consumer preferences within this package. Later it separates from the product and is able to act independently on the market as a business unit. Thus, the service support of the products not only results in hybrid products, but also is the basis for the development of new service companies. This is a good explanation of “explosive” nature of the increase in the number of service companies in the world.

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