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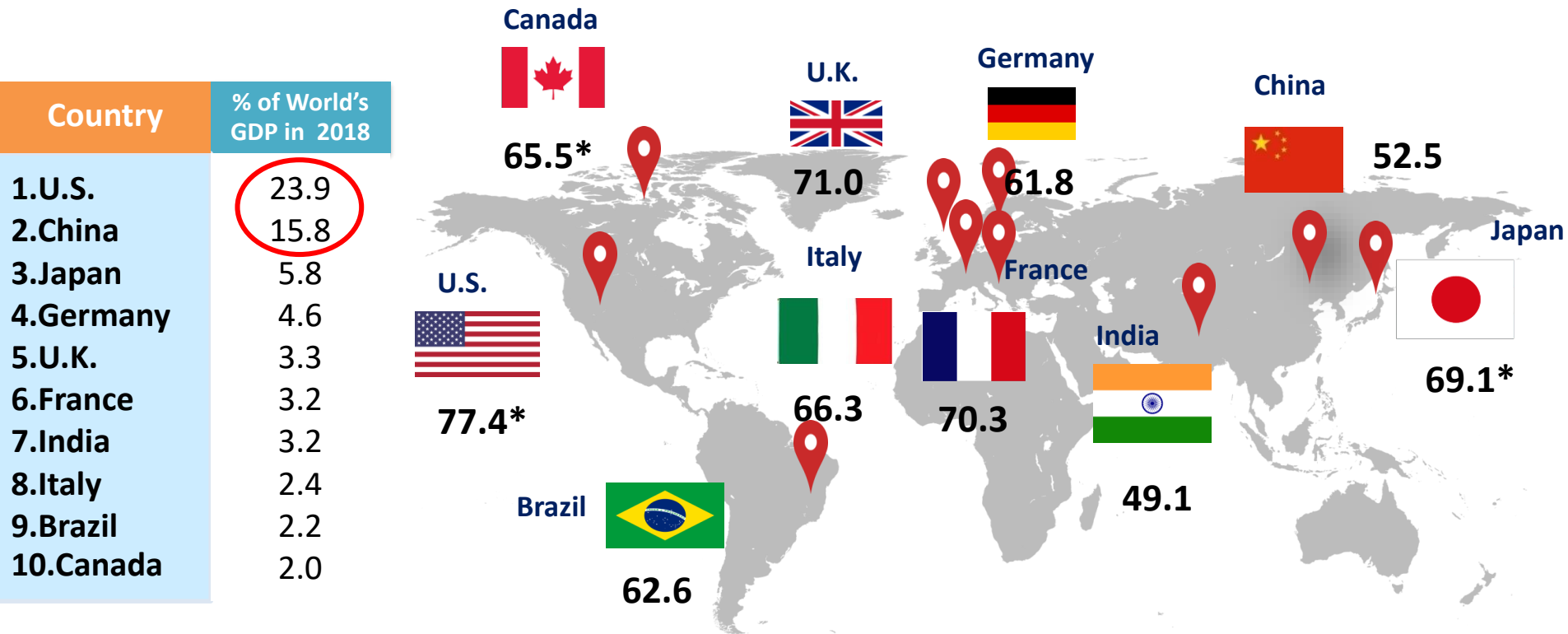
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1. Overview

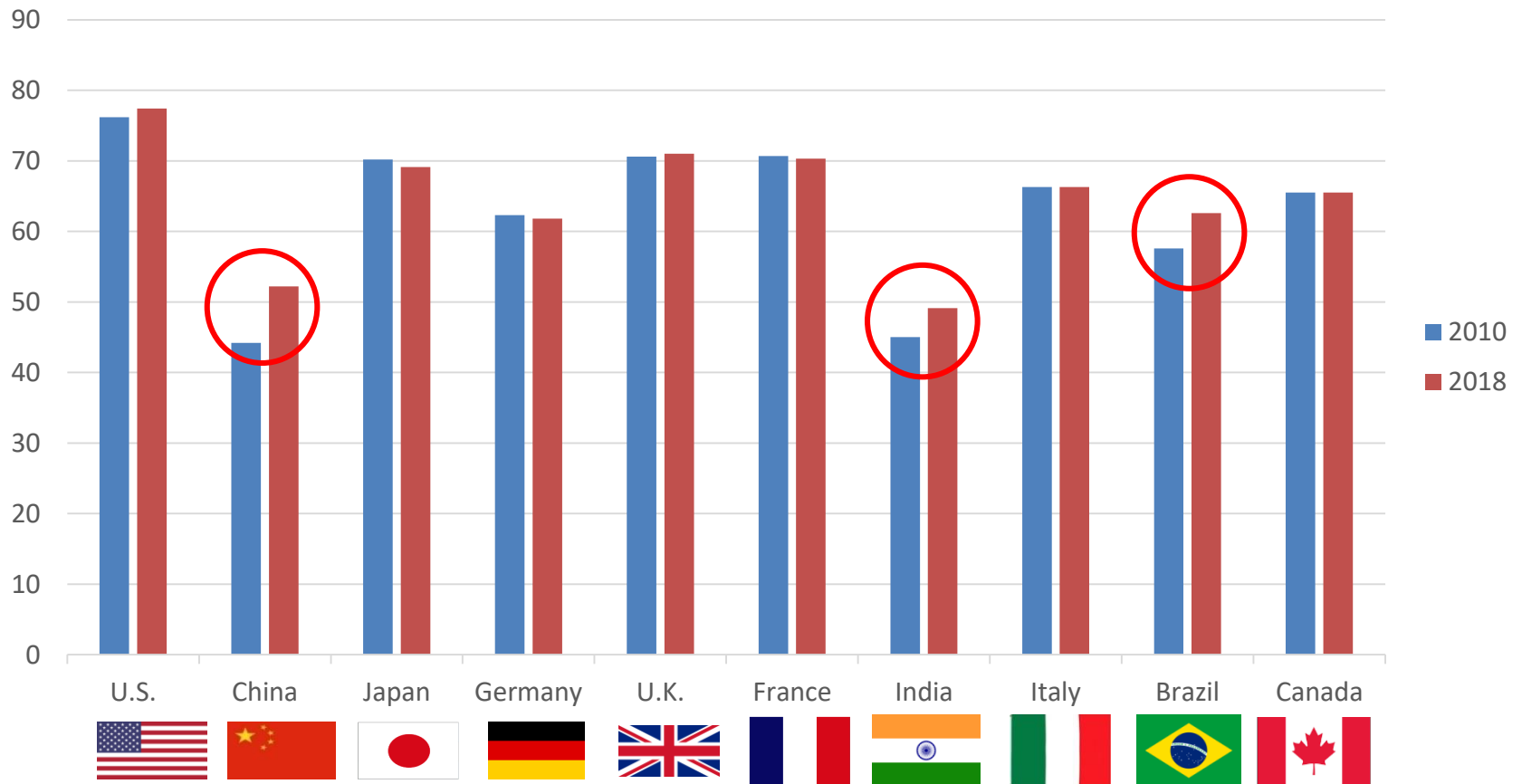
Service Sector Contribution to GDP (%) by 2018



❖ Even though the Chinese economy is ranked as the world's second largest country in 2018, the services sector's share of GDP in China (52.5%) is ***much lower than*** countries like the U.S. (77.4%), U.K. (71.0%), France (70.3%), etc.

1. Overview (Cont.)








Service Sector Contribution to GDP (%) 2018 compared to 2010



Source: World Bank








1.Overview (Cont.)

Sector Employment in Top Seven Nations by 2010

	Nation	% of World Labor	% of Agriculture	% of Industry	% of service
	China	25	37	29	35
	India	15	52	22	27
	U.S.	5	1	20	79
	Indonesia	4	39	19	42
	Brazil	3	13	23	65
	Russia	2	8	28	64
	Japan	2	4	26	70

1. Overview (Cont.)

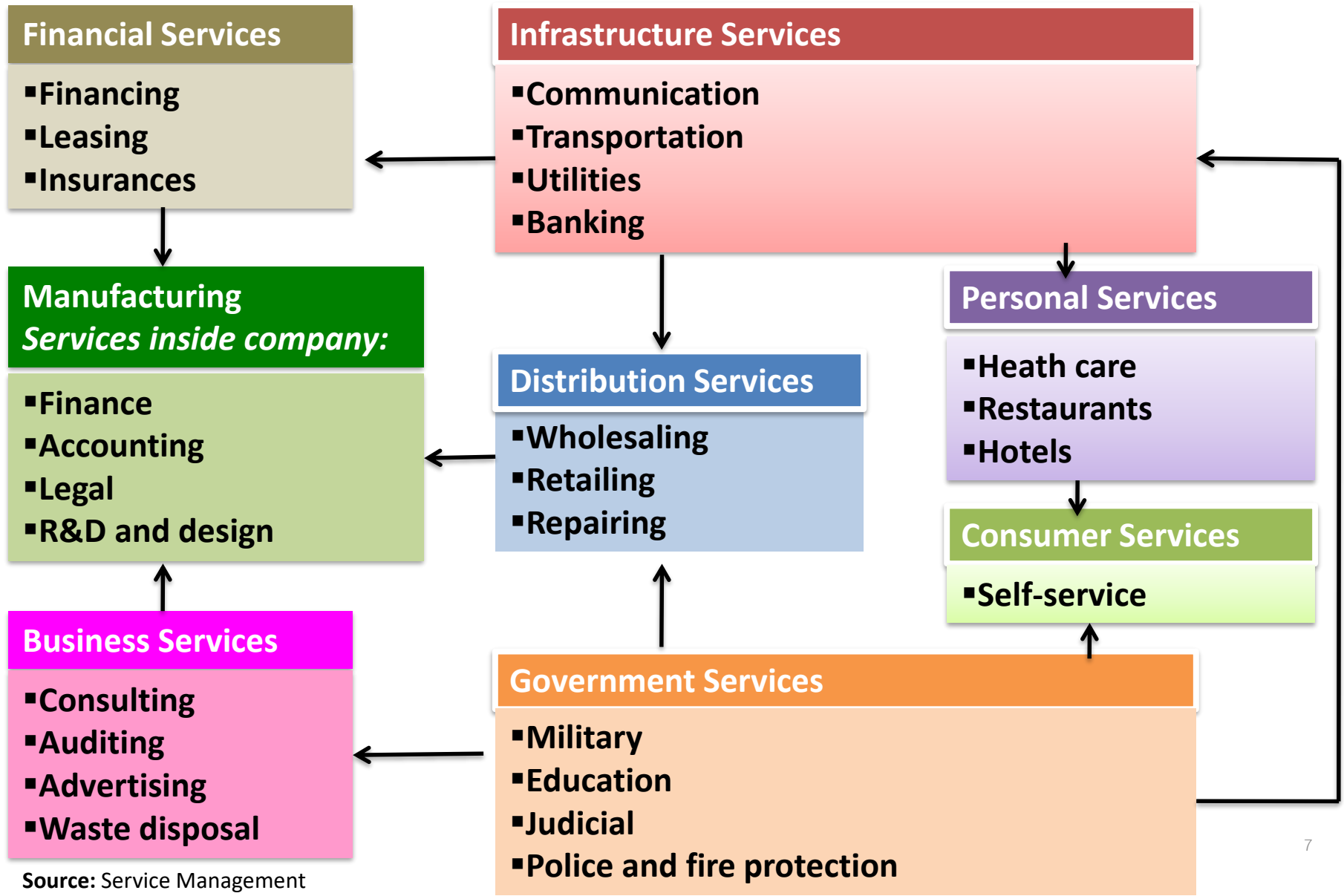
Sector Employment in Top Seven Nations by 2018

Nation	% of World Labor	% of Agriculture	% of Industry	% of service
 China	23	26	28	46
 India	14	43	25	32
 U.S.	5	1	20	79
 Indonesia	4	30	22	48
 Brazil	3	9	20	71
 Russia	2	6	27	67
 Japan	2	3	24	72

❖ Service sectors become more important in **BRIC** economies (Brazil, Russia, India and China)

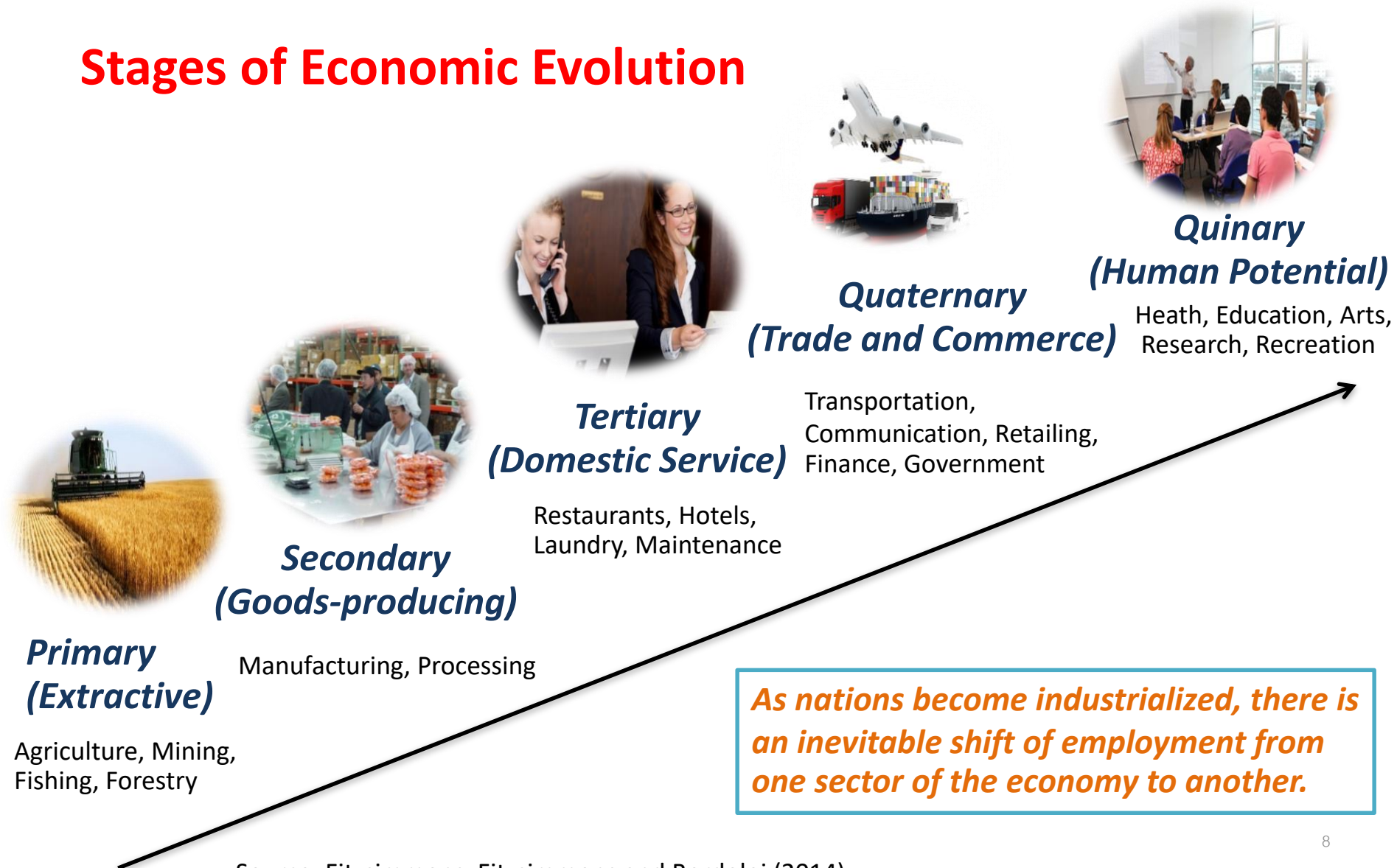
1. Overview (Cont.)

Role of Services in an Economy



1. Overview (Cont.)

Stages of Economic Evolution



2. Relevant definitions

Services

services are a diverse group of economic activities **not directly associated** with the *manufacture of goods, mining or agriculture*

OECD

Services includes any service in any sector **except** services supplied in the exercise of *governmental authority*

GATS

Services are all economic activities **except** those in *Agriculture, Manufacturing, and Mining & Quarrying Sector.*



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2. Relevant definitions

DEFINITION

Zhou (2016) explains definition of **services (activities)**, **service industry** and **service economy**

1. *Services (Activities)*

- Two kinds of **outcomes of human labor**
 - the materialization type (good)
 - the activated type (services)
- They typically involve the **provision of human value added** in the form of labour, advice, managerial skill, entertainment, training, intermediation and the like (OECD, 2012)
- **Characteristics of services** (explained later): Customer participation, simultaneity, perishability, intangibility, heterogeneity, and nontransferable ownership (Fitzsimmons, Fitzsimmons and Bordoloi, 2014)

2. Relevant definitions

DEFINITION

Zhou (2016) explain definition of **services (activities), service industry and service economy**

2. *Service industry*

- An **industry sector which is engaged in various kinds of service activities and has nothing to do with the self-consumption service or built in services, only the services activities which are external, independent and supplied for the consumption of usage of others can be classified to the service industry**
- Service industry is not the collection of all kinds of service activities

3. *Service economy*

A social economic form based on services activities and dominated by service sectors

3. General Characteristics of Service

Customer Participation

Simultaneity

Intangibility

Distinctive Characteristics of Services

Perishability

Heterogeneity

Non-transferable Ownership

Note: Could be some exceptions for each characteristic in some service industry

Source: Fitzsimmons, Fitzsimmons and Bordoloi (2014)

3. General Characteristics of Service

NOTE:

- For services,
 - ✓ **Inputs** are the **customers** themselves, and
 - ✓ **resources** are the **facilitating goods, employee labor, and capital at the command of the service manager.**
- Thus, to function, the service system must interact with the customers as participants in the service process.
- Because customers typically arrive at their own discretion and with unique demands on the service system, **matching service capacity with demand is a challenge.**
- For **some services**, such as banking, however, **the focus of activity is on processing information instead of people.** In some cases such as electronic fund transfer, the presence of the customer at the bank is unnecessary

3. General Characteristics of Service

Customer Participation

- ❑ **Presence of customer as a participant in service process requires attention to facility design**, e.g. restaurant
- ❑ **Customer can play an active part in the process**, e.g. medical service, education
- ❑ **May take consumer out of process** such as internet banking, online-shopping

Simultaneity

- ❑ Created and consume simultaneously so cannot be stored
- ❑ Unlike manufacturing, **service cannot relies on inventory strategy as a buffer to absorb fluctuations in demand**
- ❑ **Manufacturing problem - inventory control/ Service problem - customer waiting or queuing**
- ❑ Simultaneity characteristic eliminates many opportunities for quality control intervention

3. General Characteristics of Service

Perishability

- ❑ **Cannot be stored so incur opportunity loss of idle capacity** (time-perishable capacity), e.g. empty airlines, unoccupied hospital and hotel room – **full capacity utilization becomes managing challenge**
- ❑ Possible consumer cyclic behavior over short periods of time, e.g. restaurant
- ❑ Seasonal variation in demand can create surges in activity
- ❑ With **time perishable capacity** and **variable demand**, managers faces three basic options: **smooth demand**, **adjust service capacity**, and **allow customer to wait**

3. General Characteristics of Service

Intangibility

- ❑ **Services are ideas and concepts/products are things.** So, service innovation are not patentable
- ❑ **Franchising** allows the parent firm to sell its ideas to local entrepreneur
- ❑ Unlike products that customers may see, feel and test its performance before buying, **in service customer has to rely on reputation of the service firm**
- ❑ In many service areas, the **government has intervened to guarantee acceptable service performances**

3. General Characteristics of Service

Heterogeneity

- Intangibility and customer participation characteristics of service results in **variation of service from customer to customer**.
- Direct customer and employee contact in services** creates the possibility of a more satisfying human work experience.
- In general, employee is the firm's sole contact with customers. So, service **managers must be concerned about employees' attitude as well as their performance**.

3. General Characteristics of Service

Nontransferable ownership

- Unlike goods, **services do not involve transfer of ownership**
- Customer may **gain access** or **rental of resources**
- Customer do not purchase an asset but, instead, have **use of the asset for a specific time** such as use of human labor (e.g. dentist), technology (e.g. cellular network), or physical asset (e.g. theme park)
- Customer often **share the service provider's asset** concurrently with other customers

4. Classification of service provider (by users)

- Service provided for producers (business services): **B2B**
- Service provided for final consumers: **B2C**

4. Classification of service provider (by users)

Degree of interaction and customization

		Low	High
Degree of labor intensity	Low	<p><i>Service factory:</i></p> <ul style="list-style-type: none">•Airlines•Trucking•Hotels•Resorts and recreation	<p><i>Service shop:</i></p> <ul style="list-style-type: none">•Hospitals•Auto repair•Other repair services
	High	<p><i>Mass factory:</i></p> <ul style="list-style-type: none">•Retailing•Wholesaling•Schools•Retail aspects of commercial banking	<p><i>Professional Service:</i></p> <ul style="list-style-type: none">•Physicians•Lawyers•Accountants•Architects

4. Classification of service provider (by users)

Scope of the Service Sector

NESDB Concept	GATS Concept
1. Wholesale and retail trade	1. Business services
2. Transportation and storage	2. Communication services
3. Accommodation and food service activities	3. Construction and related engineering services
4. Information and Communication	4. Distribution services
5. Financial and insurance activities	5. Educational services
6. Real estate activities	6. Environmental services
7. Professional, scientific and technical activities	7. Financial services
8. Administrative and support service activities	8. Health-related and social services
9. Public Administration and defense	9. Tourism and travel-related services
10. Education	10. Recreational, cultural, and sporting services
11. Human health and social work activities	11. Transport services
12. Arts, entertainment and recreation	12. Other services not included elsewhere
13. Other service activities	
14. Activities of households as employers	

4. Classification of service provider (by users)

Scope of the Service Sector

OECD
1. Wholesale and retail trade
2. Transportation and warehousing
3. Information
4. Finance and insurance
5. Real estate, rental and leasing
6. Professional, scientific and technical
7. Administrative and support, and waste management
8. Education
9. Health care and social assistance
10. Arts, entertainment and recreation
11. Accommodation and food services
12. Public administration

5. Measurement of service economy

Scope of the Service Sector

Categories	Indexes	Formulas
Economic servitization	Service input ratio	Service input/total input
	The quotient of service consumption structure	Service consumption value/total value of consumption
	The level of per capita service consumption	The total value of service consumption/the total population
	The sensitivity quotient of the sectors in service industry	(See the above formula)
	The influence quotient of the sectors in service industry	(See the above formula)
	The proportion of service trade in the total volume of trade	The volume of service trade/the total volume of trade

Source: Zhou (2016), p. 48

5. Measurement of service economy

Scope of the Service Sector

Categories	Indexes	Formulas
The development of service industry	The proportion of service industry	The added value of service industry/GDP, the employment/the total employment
	The proportion of labor reward in service industry	The labor reward in service industry/social labor reward
	The per capita added value of service industry	The added value of service industry/the employment in service industry
	The comparative productivity of the sectors in service industry	The productivity of service industry/the social productivity
	The ratio of R&D in service industry	The R&D in service industry/the total social R&D
	The product proportion of knowledge-intensive service industry	The product of knowledge-intensive service industry/the product of service industry

Source: Zhou (2016), p. 48

5. Measurement of service economy

Scope of the Service Sector

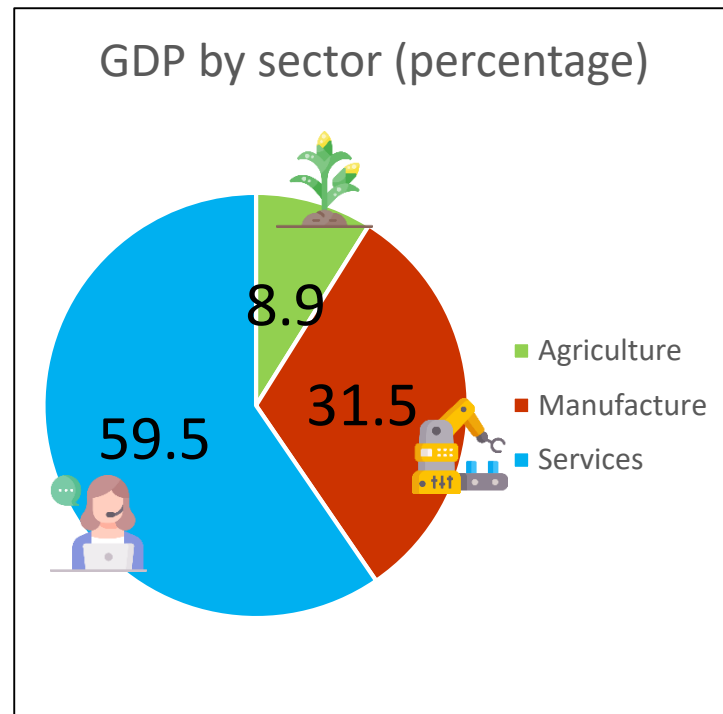
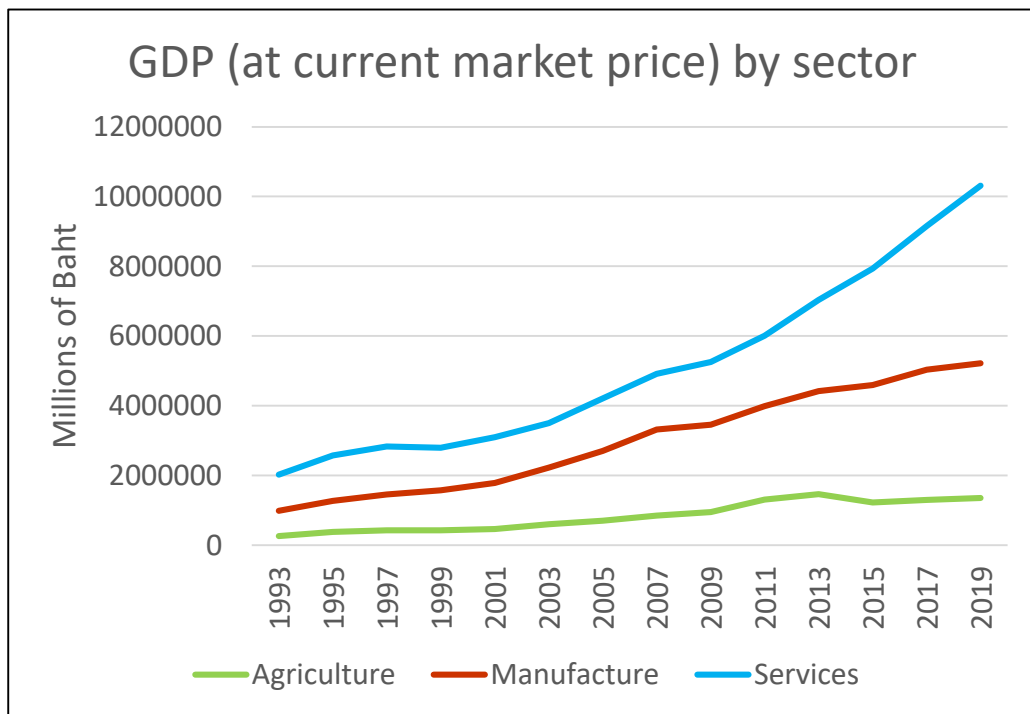
Categories	Indexes	Formulas
The servitization of enterprises	The service proportion on the product value chain	The income in services/the total income, the profits in services/the total profits
	The ration of non-productive employment in production enterprises	The non-productive employmen/the total employment in enterprises
	The proportion of outsourcing services in enterprises	The expenditure on outstanding services/the total expenditure of services
	The added value ratio of service enterprises	The added value/the total product

Source: Zhou (2016), p. 48

6. Service Sector in Thailand

GDP Contribution by sector

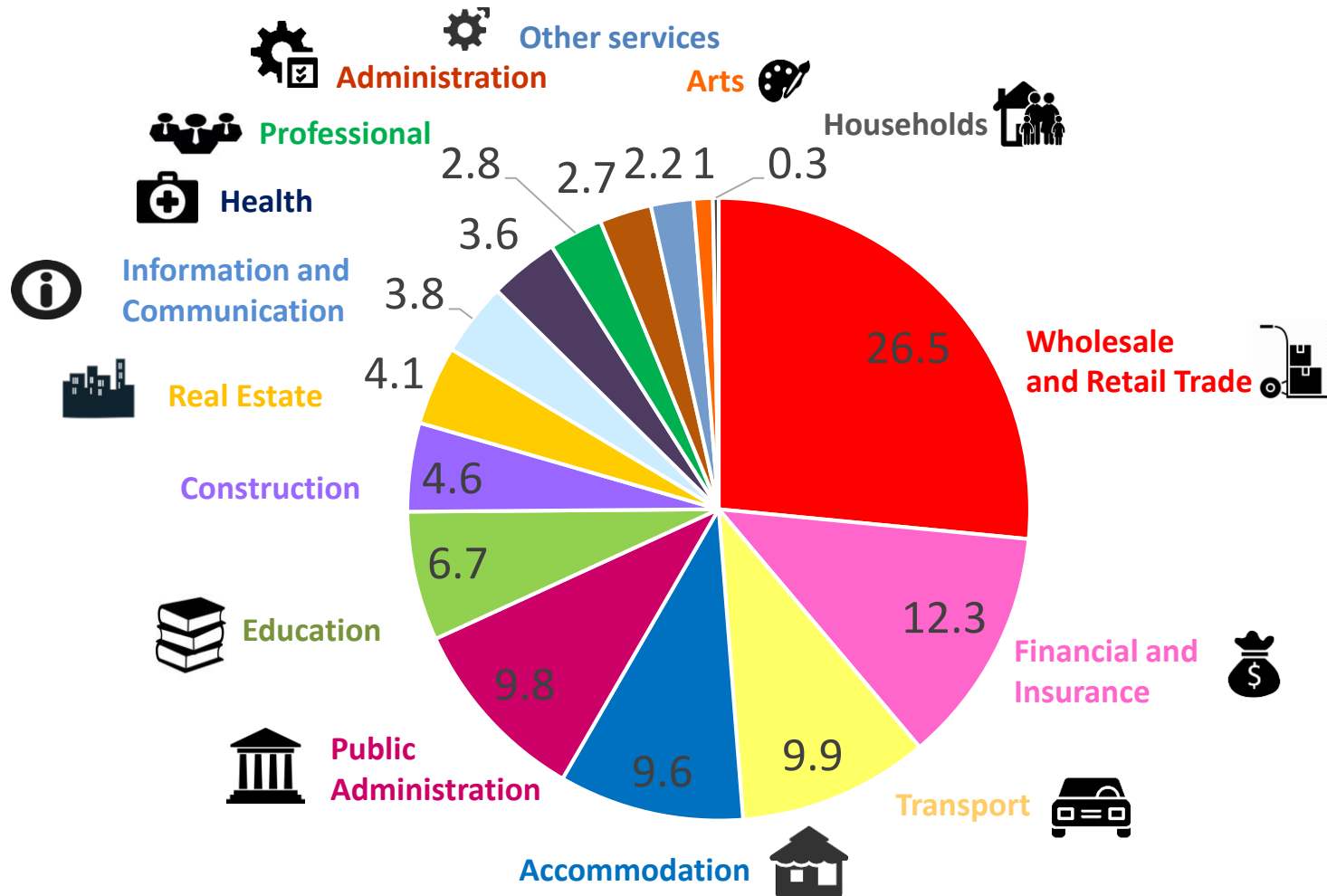
2018



❖ The service sector has contributed the largest percentage to the country's GDP since 1990.

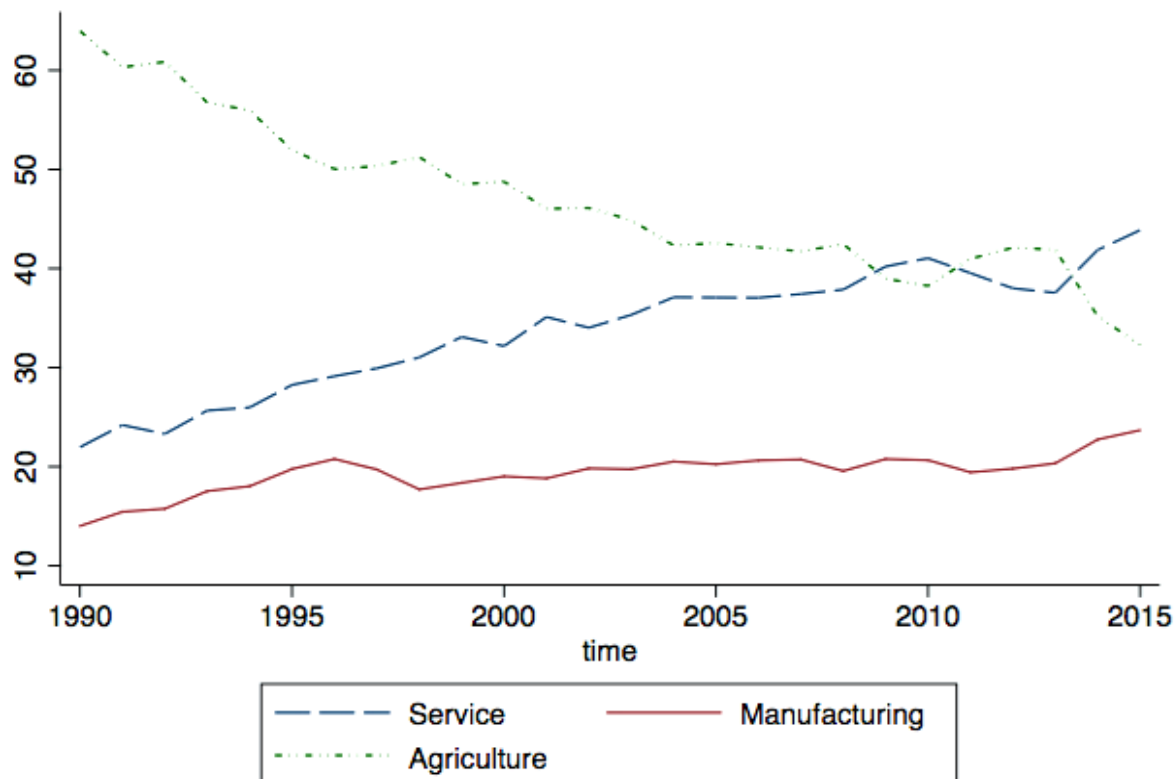
6. Service Sector in Thailand (Cont.)

Share of Service Industries in Total Sector Valued-Added(2018)



6. Service Sector in Thailand (Cont.)

Labor Employment by sector from 1990 to 2015

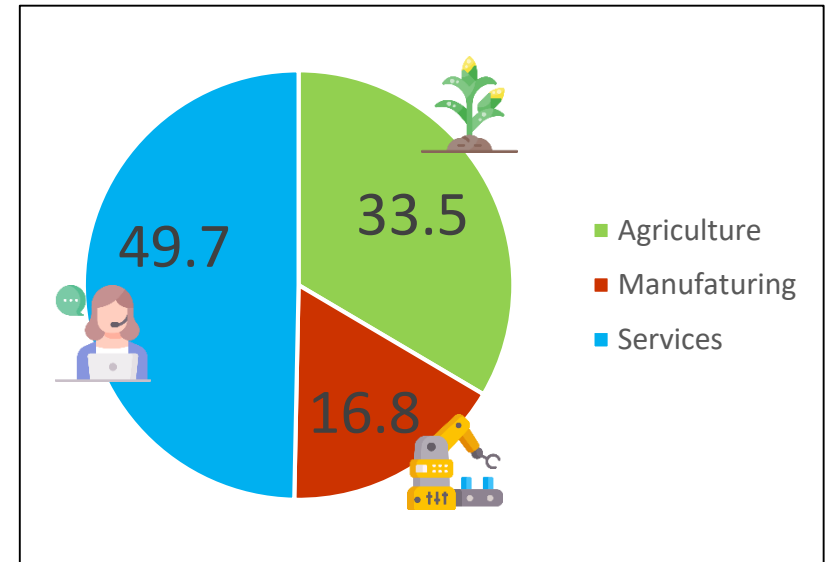
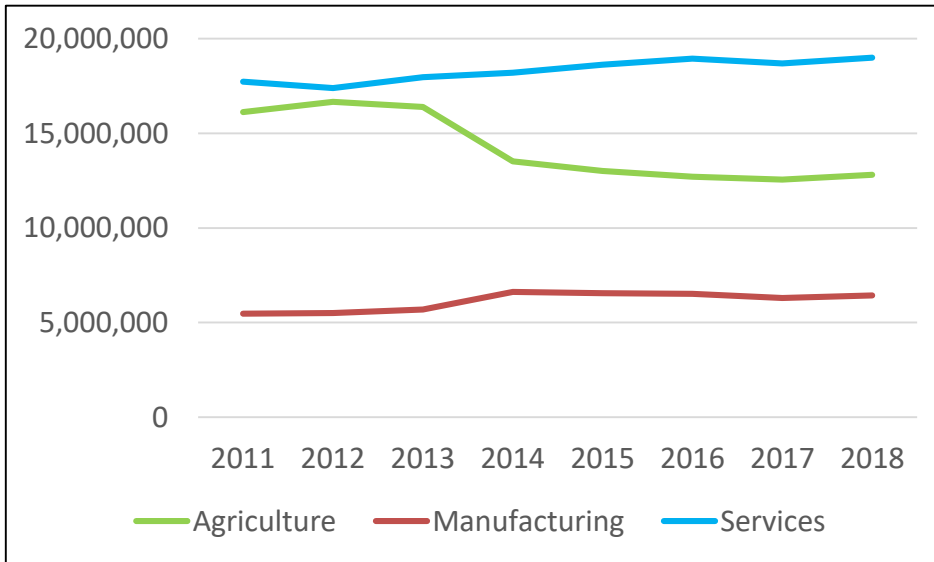


Source: National Economic and Social Development Board

6. Service Sector in Thailand (Cont.)

Labor Employment by sector

2018



❖ The **service** sector employs as many as 49.7% of the work force and produces 59.5% of GDP.

❖ In comparison, the **manufacturing** sector employs only 16.8 % of the work force and produces as much as 31.5% of GDP.

Reference

Fitzsimmons, J. A., Fitzsimmons M. J. and Bordoloi, S., *Service Management Operations, Strategy, Information Technology*, 8th Edition, McGraw-Hill, 2014

Jansson, J. O., *The Economics of Service Microfoundations, Development and Policy*, 2nd Edition, Edward Elgar, 2013

Zhou, Z., *The Development of Service Economy: A General Trend of the Changing Economy in China*: Truth & Wisdom Press and Springer Science+Business Media Singapore, 2016



Discussion

- Choose one service industry for your group
- Explain whether the chosen service industry fit in with all “**six general characteristics of service**”? Also describe at least possible problems that might occur in the business based on those characteristics.
- Do you think the chosen service industry has high or low **level of interaction/customization** and high or low? Explain **level of labor intensity**