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ASPECTS OF SERVICE COMPANY OPERATION AT EARLY STAGES OF MARKET DEVELOPMENT

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Abstract

The paper explores the aspects of maintenance services of household appliances and changes in the industry after its emergence in the early 1990s and until the second decade of the 21st century. A highlight is the growing role played in the modern economies by services as a major economic sector and a key area of social life. The paper shows that the most acute problem of quality maintenance of household appliances arises in the period of market saturation with products of foreign manufacture. The author observes that the need to establish service centres to provide repair and maintenance services was felt by emerging appliance and electronics chains, and it came across as an additional competitive advantage in the fight for consumers, which fostered the intense development of service centres at the early stage. The paper specifies the typical business features of modern service companies handling household appliances, as well as the aspects of their relations with appliance manufacturers.

Keywords

Growth spots – Performance assessment – Services market – Service company

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Introduction

The problem of maintenance services for household appliances became especially acute after the collapse of the USSR with an inflow of foreign equipment into the market.

Consumers primarily sought to substitute their outdated Soviet refrigerators with the newly-available supply of foreign brands, such as SAMSUNG, LG, SHARP, BOSCH, etc. Automated washing machines became available and were in huge demand¹.

For one of the reasons, such home re-equipment with new appliances was driven by the motivation to get closer to the comfort standards of people in capitalist countries and the persistent belief among the locals that "all foreign goods are better than local varieties". In some cases, this matched reality².

Merchants took advantage of such elevated demand as they actively engaged in imports of household appliances and equipment.

This set the stage for the first retail chains of household appliances to emerge. In the Moscow region, these included Partiya, Mir, M. Video, Beringov Proliv, etc.

As the sales of foreign appliances grew, Soviet repair shops, which had no ties with the sellers, could not serve consumers in the maintenance of foreign equipment for the following reasons: they had no access to technical and service documentation, no spare part supply channels, no authorisation agreements with manufacturers and so on. Moreover, customers were expecting a different, non-Soviet, standard of services on their expensive items of equipment.

Meanwhile, these were quite reasonable tasks for retail chains, as the goods were purchased directly from the manufacturers or via their official representative offices in Russia. According to Russian laws, official sales require statutory warranty services³.

Consequently, installation and operation guidelines and warranty and repair agreements always indicate that the servicing of complex equipment should be handled by the professional staff of a service department. Therefore, the market situation favoured the emergence of the first domestic centres for warranty and after-warranty services of imported household appliances.

The first wave of repair service centres consisted of in-house repair shops established by the above mentioned retail chains and named Partiya-Servis, Mir i Servis, M.Video servis, Beringov Proliv, and others.

¹ V. A. Povtareva, V. G. Zharov, Rol i mesto srednikh servisnykh predpriyatii v sovremennykh rynochnykh usloviyakh. In the collection of papers: Current issues of tourism and services. Proceedings of the All-Russian research and practical conference (2019): 125-133 y M. V Runtova, Evolyutsiya servisa. In the collection of papers: Current issues of tourism and services. Proceedings of the All-Russian research and practical conference (2019): 134-138.

² B. L Kuchin y E. V. Iakusheva, Upravlenie razvitiem ekonomicheskikh sistem: tekhnicheskii progress, ustoichivost (Moscow: Ekonomika, 1990) y T. Veblen, Teoriya prazdnogo klassa (Moscow: Progress, 1984).

³ Decree of the Government of the Russian Federation N 924 Moscow "On approval of the list of technically complex goods". November 10, 2011 Retrieved from: <http://www.rg.ru/2011/11/16/slojtovary-dok.html>

Such in-house service centres of retail companies were meant to bring down the return rates as a result of warranty-period breakdowns and to address prompt repairs of new equipment after mechanical damage in transportation (deformations and cracks of casing, wreckage of glass details, hidden defects, etc.), i.e. the so-called preliminary repairs⁴.

An in-house service centre operated by a retail chain lent additional competitive advantages in contracting supplies with manufacturers.

By the mid-2000s, a majority of household appliance companies had developed into large retail chains, such as M.Video, Eldorado, Beringov Proliv, which drove up sales and, consequently, repairs in service centres, expanding their reach as shown in Figure 1.

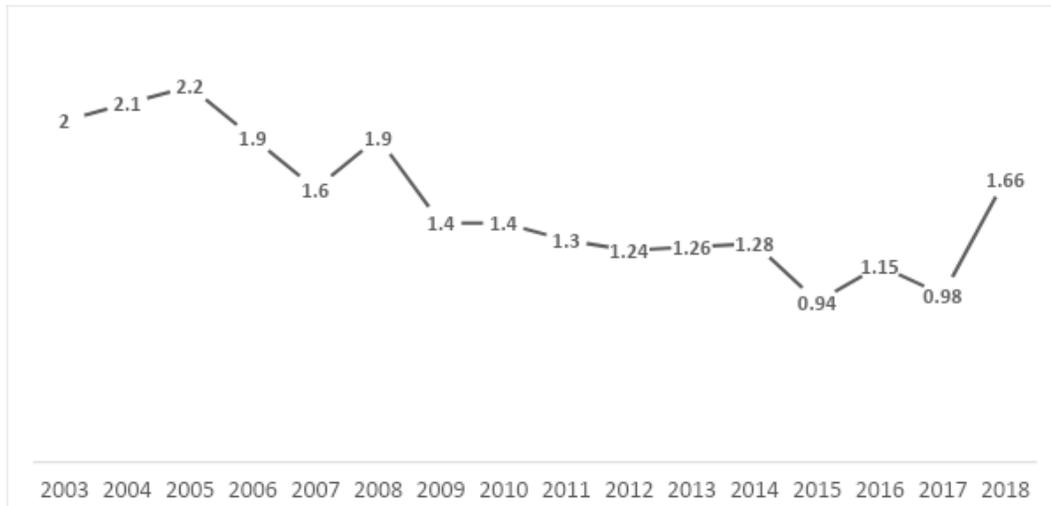


Figure 1
Consumer spending by households on the item “Household appliances”,
% of the total consumer spending

Moreover, from our personal experience over the years, an absolute majority of buyers acquiring modern foreign appliances handled their equipment with great care and were committed to strictly following the installation and operation guidelines and clauses of warranty agreements. Consumers were convinced that each acquired unit of household appliances, which are classified as technically complex goods, required qualified installation and servicing. The number of calls for such installation or repair services was also rising.

Back then, when maintenance of appliances just emerged and was growing, we held several jobs at the service enterprise for household appliances (Beringov Proliv) and gained personal and in-depth experience of the above situation in the services sector.

The steady sales growth in household appliances and, consequently, the increasing maintenance requirements drove the advance of the existing centres and expanded their ranks. A majority of service centres evolved into organisations with complex structures, consisting of the management core, a supplier relations service, customer relations departments, supply and delivery teams, line staff at the repairs shop and other departments⁶.

⁴ V. G. Zharov; N. V. Voronov y S. G. Kuzmishkin, «Servis kak neobkhodimiy element v sozdanii imidzha sovremennoi kompanii» Slavyanskii forum Vol: 2 num 24 (2019):197-202.

Figure 1 shows that, according to Rosstat (the Russian Federal State Statistics Service), household spending on appliances peaked in 2005⁵ and no further growth, but rather a steady decline followed after that.

The decline in spending on this category also extends to lower spending on maintenance, including installations, re-installations, warranty services.

The peak growth in 2008 was due to panic sentiments amid the emergence of the global economic crisis and aspirations to protect personal savings. As we see, the result was higher spending in this category.

This led to the consolidation of retail chains, including Eldorado's acquisition of Beringov (formerly Beringov Proliv) in 2012 and the exit of Media Markt following ruble devaluation in 2014⁶. It also made redundant in-house multi-brand service centres operated by retailers.

Household appliance repairs were taken over by independent service centres and manufacturers' in-house operations (mono-brand services), which eventually led to the disintegration of major multi-brand service centres into smaller repair shops and mono-brand services with monopolistic pricing practices for their services⁷.

As a consequence, the quality of household services began to deteriorate quickly with prices unreasonably elevated. Many service providers argued they needed higher rates to survive in the services market, however, that pushed consumers to seek alternative options for servicing their appliances⁸. One of such frequent options was the Internet as a source of maintenance guidelines and spare parts as well. In absence of a methodology to assess the performance of service companies and amid the development of new areas of business and new management methods by the leadership, anti-customer-oriented policies became prevalent at service centres, eventually resulting in the discontinuation of their operation. The existence and development of service companies in the current competitive environment are impossible without constant monitoring of the market and current conditions⁹.

⁵ The Russian Federal State Statistics Service. Household spending on appliances. Retrieved from: [https://www.gks.ru/storage/mediabank/doh07_11\(1\).xlsx](https://www.gks.ru/storage/mediabank/doh07_11(1).xlsx)

⁶ N. Ischenko. Why the owner of Media Markt withdraws the brand from Russia. Vedomosti. June 20, 2018. Retrieved from: <https://www.vedomosti.ru/business/articles/2018/06/21/773388-media-markt-uvodit>

⁷ A. D. Kulishova y V. G. Zharov, Chestnost v servise kak instrument dlya polucheniya loyality klientov. In the collection of papers: Current issues of tourism and services. Proceedings of the All-Russian research and practical conference (2019): 88-95.

⁸ N. M. Komarov; N. V. Ivanova; V. M. Safronov; V. G. Zharov; N. V. Duntsova y K. N. Komarov, «Analiz kompetentsii kognitivnykh spetsialistov, obespechivayushchikh rost chelovecheskogo kapitala servisnykh kompanii». Naukovedenie Internet journal Vol: 1 num (14) (2013); L. V. Sumzina; A. V. Maksimov y V. G. Zharov, «O neobkhodimosti primeneniya metodologii otsenki effektivnosti deyatelnosti servisnykh kompanii», Promyshlennyy servis Vol: 4 num 69 (2018): 33-36 y A. D. Kulishova y V. G. Zharov, Chestnost v servise kak instrument dlya polucheniya loyality klientov. In the collection of papers: Current issues of tourism and services. Proceedings of the All-Russian research and practical conference (2019): 88-95

⁹ E.V. Bokareva; A. A. Silaeva; A. P. Sokolova; M.A. Atamanova y S. A. Zudenkova, «The world oil market and its influence on Russian economy». Smart Innovation, Systems and Technologies num 138 (2020): 568-578 y E. V. Pavlova; A. A. Silayeva; O. N. Borisova, I. G. Doronkina y A. P. Sokolova, «Analysis of the world and Russian E-commerce market: Development trends and challenges».

Methods

The authors offer an in-depth analysis of applying Pearl's logistical curves for performance assessment of high-tech company operations. The operation of modern service companies is a high-tech process, with complex modern computer systems engaged in diagnostics and repairs, special software used for reporting and the service provision sequence itself being a complex of interactions between customers, service company and equipment manufacturer.

Thus, the approach discussed in our view, can be used for service company performance assessments.

Service company performance, in our view, depends on the following factors:

1. Acceptable service levels should be determined for each market segment. The marketing department should get assistance in market research, consumer and product research.
2. Collection and systematisation of information on operational characteristics of the equipment (environment, duration, staff competence levels, etc.) and the incoming complaints and proposals.
3. Collection and systematisation of input on competitors' service operations and novel features they offer to their customers.
4. Reasonable pricing for services. Services should be an incentive to buy the company's goods and a tool to build trust with consumers rather than an additional source of profit.
5. Service standards should be adopted at the enterprise.
6. Prompt delivery of spare parts, operation of a chain of warehouses and close contacts with spare part producers.
7. Contributing to improvements and modernisation of the consumption items based on the analysis of the above input.
8. Development of a stable clientele in line with the principle, "You buy our product and use it, we do the rest".

Results

As we mentioned above, a modern service centre is an organisation with a complex structure and numerous staff, including support positions and immediate performers.

Let us consider some of the aspects of service centre operations. To be allowed to engage in repairs of household appliances of a brand within the warranty period, a service centre needs to sign an authorisation agreement to complete warranty services of the respective household equipment.

Cooperation with the manufacturer allows the service centre to buy spare parts at special prices and provides access to up-to-date databases, technical documentation and methods to detect and fix defects in the serviced equipment. Moreover, the repair and managerial staff get access to product trainings and workshops.

However, manufacturer engagement in warranty repairs imposes strict requirements on the service centre in terms of diagnostics and completion deadlines, filling out order forms for spare part requirements and completing reports on the work performed.

An analysis of warranty repair agreements and prices including transportation allowances in cases of on-site service calls shows that the amounts paid by household appliance manufacturers are not sufficient to support normal operation and development of service centres. The amount of compensation on complete warranty repairs paid by the manufacturer is linked to the applicable fuel prices, tax rates and fees in the respective period. Meanwhile, transport allowances should be calculated depending on the region, service centre location and road conditions (congestion, distances, urban or rural road network, etc.)¹⁰.

Apart from the performance of warranty repairs, most service centres also provide post-warranty services payable in cash or by wireless payments. However, the share of such repairs declines year after year and the profits of service centres decline as a result. There are both objective and subjective reasons for lower rates of paid repairs.

The objective factors include the development of the cult of consumption (eased credit for appliance purchases, prestige effects), higher costs of repairs in relation to product prices, access to available information and spare parts for independent repairs, etc.

The subjective reasons include the imperfect structure and organisation of service operations, inefficient human relations methods, customer poaching by repair staff (theft of calls), absence of efficient staff motivation, inferior service quality, company image and so on.

This means that quality, efficient and profitable operations of a service centre require competent management, skilled talent, adequate vehicle fleet to serve on-site calls, an efficient logistics system and other departments¹¹.

Modern economies see a growing role of services as a major economic sector and a key area of social life.

¹⁰ V. A. Povtareva y V. G. Zharov, Rol i mesto srednikh servisnykh predpriyatii v sovremennykh rynochnykh usloviyakh. In the collection of papers: Current issues of tourism and services. Proceedings of the All-Russian research and practical conference (2019): 125-133; ¹⁰ L. V. Shubtsova, V. E. Komov, S. A. Zudenkova, A. P. Sokolova, E. A. Gozalova, T. V. Ukhina y I. G. Doronkina, «Project management of organizations», International Journal on Emerging Technologies Vol: 10 num 3 (2019): 332-336 y S. V. Shaitura; K. V. Ordov; I. G. Lesnichaya; Y. D. Romanova y S. S. Khachaturova, «Services and mechanisms of competitive intelligence on the Internet», Espacios Vol: 39 num 45 (2018).

¹¹ S. V. Shaytura; M. D. Knyazeva; V. M. Feoktistova; T. A. Vintova; V. A. Titov y Y. P. Kozhaev, «Philosophy of information fields», International Journal of Civil Engineering and Technology Vol: 9 num 13 (2018): 127-136.

It stretches across a considerable domain of social relations associated with the development, production and provision of a variety of services. Such activities are concerned with the arrangement of the service process and its optimisation for customer convenience. Market development and free competition have driven stronger quality and market orientation¹².

Now, the quality of services is a key criterion of consumer appeal and customer choice. Meanwhile, an acceptable value for money ratio makes the basis for a steady flow of business on the demand side and thus guarantees income and stable market positions for the company.

Maintaining market positions vitally depends on maintaining and enhancing a customer base. Lack of service can lead to adverse consequences detrimental to brand identity. Service culture refers to a system of benchmark labour standards, high values and ethical conduct principles depending on the national traditions and current service requirements and reflecting customer support quality. Service quality shows the direct influence on the affinity to and needs for repeat purchases from the manufacturer or further service calls with the same service provider¹³. Service operations analysis emphasises the conditions creating user engagement and the nuances of service culture. Service quality improvement is a key priority in many industries, as it provides positive effects for both economic and emotional customer loyalty and thus creates a higher activity profile with consequent higher monetary circulation levels and cash inflow in the national economy¹⁴.

Discussion

The paper explores the problems of maintenance services of household appliances and changes in the industry after its emergence in the early 1990s and until the second decade of the 21st century. Change is inevitable for the industry and it follows the dynamics of consumer preferences, information society development and responses to the developments in public finance on the national and global scale.

A considerable role in the evolutionary changes in household services is played by the power of things over people as described by Veblen¹⁵, which rises with the advances of consumer society.

¹² A. D. Kulishova y V. G. Zharov, Chestnost v servise kak instrument dlya polucheniya loyalmnosti klientov. In the collection of papers: Current issues of tourism and services. Proceedings of the All-Russian research and practical conference (2019): 88-95 y S. V. Shaytura; A. M. Minitaeva; K. V. Ordov y V. V. Shaparenko, «Virtual enterprises in a spatial economy», International Journal of Recent Technology and Engineering Vol: 7 num 6 (2019): 719-724.

¹³ A. D. Kulishova y V. G. Zharov, "Chestnost v servise kak instrument dlya polucheniya loyalmnosti klientov", In the collection of papers: Current issues of tourism and services. Proceedings of the All-Russian research and practical conference (2019): 88-95 y A. V. Demenev; R. N. Lopatko y V. G. Zharov, Operation of Buildings and Structures Based on BIM Standards in the Digital Economy (Vladivostok: 2019 International Multi-Conference on Industrial Engineering and Modern Technologies (FarEastCon), 2019).

¹⁴ V. G. Zharov; N. V. Voronov y S. G. Kuzmishkin, «Servis kak neobkhodimyi element v sozdanii imidzha sovremennoi kompanii», Slavyanskii forum Vol: 2 num 24 (2019): 197-202 y S. V. Shaitura; K. V. Ordov; I. G. Lesnichaya; Y. D. Romanova y S. S. Khachaturova, «Services and mechanisms of competitive intelligence on the Internet», Espacios Vol: 39 num 45 (2018).

¹⁵ T. Veblen, Teoriya prazdnogo klassa (Moscow: Progress, 1984).

Veblen³⁶ draws an example that people's preferences in clothes change, and these changes occur at considerably higher rates with rising wealth levels, eventually transforming into a race for the latest novelties³⁶.

A similar picture is observed in the household appliances market and maintenance services. Until 2005 (Figure 1), the household appliances category had shown steady growth. However, it was interrupted by the emergence of the global economic crisis and, after a prolonged decline until 2017, growth was restored in 2018, which was due to the stabilising financial positions of people and the need for re-equipment after the period of peak consumption in 2005 and 2008.

As can be seen from Figure 1, a resumed period of growth in the appliances and household services market followed after 10 years of steady declines. To maintain market gains, as mentioned above, major chains flocked to buy their competitors, while others left the market as they were unable to sustain competition.

Thus, the service enterprise we are involved with at the management level restrained from price increases from 2008 until 2018, sticking to the levels of 2007 to survive in the market.

Between 2008 and 2018, there was a steady decline in the number of repair calls for household appliances, which is visible in the curve in Figure 1 indicating a crisis in the industry.

The situation described above leads to stricter pricing policies, lower profits and increased pressure to find solutions, measures and actions to survive in such complicated conditions¹⁶.

The authors of use the example of Cirque du Soleil to illustrate that productive solutions for crisis industries consist in finding new unpopulated market niches or creating new markets to match their purposes, which they call "blue oceans".

The authors of explain that industries are constantly evolving, as illustrated in this paper. However, where household services are concerned, any talk of "blue oceans" in servicing household appliances should start with assessments of the growth potential and market capacity for service companies. That is where we come across the issue of training for the managerial service staff to be able to discover such "blue oceans". The authors of point at the need to change strategies and problem-solving techniques in the modern society of globalisation and digitalisation.

¹⁶ V. G. Zharov; N. V. Voronov y S. G. Kuzmishkin, "Servis kak neobkhodimyi element v sozdanii imidzha sovremennoi kompanii", Slavyanskii forum Vol: 2 num 24 (2019): 197-202; A. D. Kulishova y V. G. Zharov, Chestnost v servise kak instrument dlya polucheniya loyalti klientov. In the collection of papers: Current issues of tourism and services. Proceedings of the All-Russian research and practical conference (2019): 88-95; S. V. Shaytura; Y. P. Kozhayev; K. V. Ordov; A. V. Antonenkova y N. A. Zhenova, «Performance evaluation of the electronic commerce systems», Espacios Vol: 38 num 62 (2017); R. Zitkiene y U. Dude, "The impact of outsourcing implementation on service companies", Entrepreneurship and Sustainability Issues Vol: 6 num 1 (2018): 342-355 y D. Benešová y M. Hušek, "Factors for efficient use of information and communication technologies influencing sustainable position of service enterprises in Slovakia", Entrepreneurship and Sustainability Issues Vol: 6 num 3 (2019): 1082-1094.

Modern high-tech companies can only survive with regular renewals of the equipment, technologies and products employed, and the pace of such modernisation is rising steadily. This means that company management has to secure optimised planning and implementation of the timelines in launching and completing the required technological rearrangement and corresponding changes in company management¹⁷.

Such optimisation and rearrangement projects at high-tech companies should consider their strategic market positions and outlook, which involves the development of organisational and economic mechanisms of company operation matching the current market situation.

Conclusion

The existence and development of service companies in the current competitive environment are impossible without constant monitoring of the market and current conditions.

The lack of a methodology to assess service company performance based on the specifics of the household services sector and the development of new business dimensions and management methods resulted in major service centre liquidations¹⁸.

Highly skilled staff, primarily performers with long tenures, left for smaller services shops and are conducting repairs of ageing household appliances. This situation results in a loss of skills, as there is no further input from appliance manufacturers to build expertise on the latest models and production technologies.

In our view, operational modeling for performance appraisals of service businesses could have helped to avoid such disintegration of large services centres.

Such performance assessment would have provided company leadership with all necessary information to inform the decision-making on the adoption of efficiency enhancement measures. The lack of timely and appropriate response at the management level in many service companies caused stagnation, competitive losses and, eventually, discontinuation of operations in many cases.

The problem-setting in process modeling of a high-tech service operation is rather complicated due to the following circumstances: many indicators are not easily expressed as sign models; the internal and external developmental factors and their relations cannot be usually formalised or can only be expressed by large-scale systems. In such a case, even

¹⁷ N. M. Komarov; N. V. Ivanova; V. M. Safronov; V. G. Zharov; N. V. Duntsova y K. N. Komarov, «Analiz kompetentsii kognitivnykh spetsialistov, obespechivayushchikh rost chelovecheskogo kapitala servisnykh kompanii» Naukovedenie Internet journal Vol: 1 num 14 (2013); L. V. Sumzina; A. V. Maksimov y V. G. Zharov, «O neobkhodimosti primeneniya metodologii otsenki effektivnosti deyatelnosti servisnykh kompanii», Promyshlenniy servis Vol: 4 num 69 (2018): 33-36; V. A. Povtareva y V. G. Zharov, Rol i mesto srednikh servisnykh predpriyatii v sovremennykh rynochnykh. In the collection of papers: Current issues of tourism and services. Proceedings of the All-Russian research and practical conference (2019):125-133 y V. A. Suchilin; L. V. Sumzina y A. V. Maksimov, «Method for Refrigerators Efficiency Increasing», IOP Conference Series: Materials Science and Engineering num 262 (2017): 1-6.

¹⁸ M. V. Runtova, Evolyutsiya servisa. In the collection of papers: Current issues of tourism and services. Proceedings of the All-Russian research and practical conference (2019): 134-138.

minor errors in input data cause major changes in the output. In mathematics, such problems are considered unstable, and their inverse problems are ill-posed problems¹⁹.

To solve them, there needs to be a priori input on the research object (primarily of general nature). Such information can be derived from the identification of the general developmental and operational patterns of the research object in the surrounding environment factoring in its changing nature.

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¹⁹ A. I. Mokhov; N. M. Komarov y S. G. Novozhonov, «Primenenie teorii S obraznykh dlya optimizatsii upravleniya vysokotekhnologichnymi kompaniyami» *Naukovedenie Internet journal* Vol: 4 num 13 (2012).

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