An Analysis of Marketing Strategies of an Integrated Facility Services Company: The Case of ISS, Sweden

Collins Nwakanma Amanze
Sondengam B.K.A

Thesis for the Master’s degree in Business Administration
Spring 2008
Acknowledgements

First and foremost, we would like to thank God for his grace, mercy and gift of life. We would also like to thank our supervisor Anders Hederstierna for his patience suggestions and advice through out the project. Our gratitude also goes to Micael Larsen of ISS for his time during the interview and sending us some of the resource materials that we used.

We would also like to send our gratitude to our lovely wives, Diane Amanze and Sondengam Delphine, our respective families (the Amanze and Sondengham families) for their moral support and our friends and those who made my (Collins Amanze) stay in Sweden a wonderful experience.

February, 2008
Collins Amanze and Sondengam B.K.A
Executive Summary

**TOPIC:** An Analysis of Marketing Strategies of an Integrated Facility Services Company: The Case of ISS, Sweden

**AUTHORS:** Collins Nwakanma Amanze, Sondengam B.K.A

**SUPERVISOR:** Anders Hederstierna

**COURSE:** Master Thesis in Business Administration

**DEPARTMENT:** School of Management, Blekinge Institute of Technology, Sweden

**PROGRAMME:** Masters in Business Administration (MBA)

**PURPOSE:** The purpose of our research is to understand how Integrated Facility service companies (using ISS, Sweden as our focus) develop, plan and implement useful marketing strategies that are result orientated and in line with the triple bottom line which encompasses economic profitability, social awareness and environmental responsibility.

**METHOD:** We used both primary and secondary data sources. The secondary data used were literature review to enable us understand the general concept on marketing strategies and what research has been conducted on our topic. The primary data source was mainly interview with our contact person at ISS. These methods are all geared towards answering our research questions.

**RESEARCH QUESTION:** The research questions are:

1. What strategies are used by ISS?
2. What strategies (if any) are relevant for the possible growth of an integrated facility services company?

3. How can these strategies be used to yield expected results in form of environmental responsibility, profits and company growth?

**FINDINGS:** From the research we conducted as well as the analysis we made, we were able to determine ISS marketing strategy and to also find out that their marketing strategies lead the organization towards their corporate vision of leading facility services globally. We also established the fact that since we studied only one integrated facility company which is ISS, our conclusions can not be generalized as a rule of thumb for every integrated facility service company due to several factors highlighted in the body of our thesis. Also, we stressed the importance of environmental management system for every integrated facility service company. This standard in our opinion, would not only proof that such a company is serious about corporate social responsibility, it would also help lead the organization towards the triple bottom line.

**KEY WORDS:** International Service System (ISS), Integrated Facility Service (IFS), Marketing strategy, strategy, Environmental Management Standard (EMS)
# Table of content

ACKNOWLEDGEMENTS .................................................................................................................. II  
EXECUTIVE SUMMARY .................................................................................................................. III  
TABLE OF CONTENT ....................................................................................................................... V  
FIGURES AND TABLES ..................................................................................................................... VI  

1 INTRODUCTION ........................................................................................................................................ 1  
  1.1 BACKGROUND ......................................................................................................................................... 1  
  1.2 PURPOSE .................................................................................................................................................. 3  
  1.3 SCOPE .................................................................................................................................................... 3  
  1.4 RESEARCH FOCUS .............................................................................................................................. 3  
  1.5 RESEARCH QUESTION .......................................................................................................................... 4  
  1.6 WHY ISS, SWEDEN? ............................................................................................................................. 4  

2 METHOD ...................................................................................................................................................... 6  
  2.1 DATA COLLECTION .................................................................................................................................. 6  
    2.1.1 Primary data ...................................................................................................................................... 6  
    2.1.2 Secondary data ............................................................................................................................... 6  
    2.1.3 Interview .......................................................................................................................................... 7  
  2.2 PROBLEMS AND LIMITATIONS ........................................................................................................... 7  

3 LITERATURE REVIEW .............................................................................................................................. 8  
  3.1 WHAT IS A STRATEGY? ............................................................................................................................ 8  
    3.1.1 The Hierarchies of Strategy.............................................................................................................. 10  
  3.2 MARKETING STRATEGY ....................................................................................................................... 11  
  3.4 WHAT IS STRATEGIC MARKETING PLAN? ........................................................................................... 19  
  3.5 MARKETING STRATEGIES FOR SERVICE FIRMS ............................................................................. 20  
    3.5.1 Managing Differentiation .................................................................................................................. 23  
    3.5.2 Managing Service Quality ................................................................................................................ 26  
    3.5.2.1 Criteria That Reflect Service Quality .......................................................................................... 28  
    3.5.3 Managing Productivity ..................................................................................................................... 32  

4 ISS STRATEGY ............................................................................................................................................ 35  
  4.1 ANALYSIS OF ISS STRATEGIES ......................................................................................................... 42  
  4.2 CORPORATE SOCIAL RESPONSIBILITY ............................................................................................. 46  

5 CONCLUSION AND RECOMMENDATIONS ............................................................................................... 49  
  5.1 CONCLUSION ......................................................................................................................................... 49  

REFERENCES ............................................................................................................................................. 52  
APPENDIX A .................................................................................................................................................. 54  
APPENDIX B .................................................................................................................................................. 57
Figures and tables

FIGURE 1.1 ISS ORGANIZATION ............................................................................................. 2
FIGURE 3.1 STRATEGY AS AN INTEGRAL PART OF BUSINESS SUCCESS................. 9
FIGURE 3.2 THREE GENERIC STRATEGIES..................................................................... 18
FIGURE 4.1 ISS STRATEGY ................................................................................................. 37

TABLE 3.1 RISK OF THE GENERIC STRATEGIES ............................................................ 19
TABLE 4.2 SUMMARY OF ISS CASH FLOW STATEMENT FOR 1 JANUARY – 30 SEPTEMBER. AMOUNTS IN DKK MILLIONS ...................................................... 44
1 Introduction

1.1 Background

Many service companies in the world engage in providing more than one service to its customers. The companies identify gaps, which must be filled in order to meet customers’ needs and they endeavour to fill these gaps by offering a range of services to them. They identify weakness in the market segment that are emerging, neglected or poorly served by competitors after which they select a strategy using the marketing mix as a resource. Any organization that wants to be successful in doing business needs to concentrate its resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage. This is true of service companies. Marketing strategy therefore, is a long-term response to the changing environment and involves fundamental decisions about how to match resources to that changing environment.

The Integrated Facility Services Company is a company that provides more than one service to its customers. These services could range from engineering services, consulting, janitorial, installation and project management, energy supply and management etc. Whatever the range of facility services provided by the company, in order for it to have a good market share, the continuous patronage by its customers and a good profit margin, it is important for it to have an effective marketing strategy.

As mentioned earlier, there are many Integrated Facility Service companies in the world, however, for this study, we are focusing on ISS. Since its establishment in 1901, ISS (International Service System) has become one
of the world’s largest Facility Service providers. It aspires to lead facility services globally. With its head office in Copenhagen, Denmark, it has market presence in 50 countries of the world i.e. in Europe, Asia, South America, Oceania (Australia and New Zealand) and recently in North America (The United States of America). The company has expanded substantially through organic growth and acquisitions. It has more than 410,000 employees and more than 100,000 business-to-business customers [1]. ISS continues to transform itself towards becoming an Integrated Facility Services (IFS) company by offering a wide range of services within the five pillars of: cleaning, office support services, property services, catering and security. Each of these five pillars contains a number of special services. The five types of services are integrated into a facility services offering, where ISS offers a management solution that exploits the synergy potential, and as a result provides the customer with a better solution at a competitive price. [2]

ISS has the following corporate structure:

![ISS Organization Diagram](image)

*Figure 1.1 ISS organization*
FS Funding A/S (previously PurusCo A/S) ultimately owned by EQT and Goldmann Sachs Capital Partners is the owner and single shareholder of ISS A/S. Decisions regarding the ISS Group's strategy and financing are the responsibility of FS Funding A/S and its two subsidiaries ISS A/S and ISS Global A/S. The Board of Directors and the Executive Management of FS Funding A/S, ISS A/S and ISS Global A/S are identical. [1]

1.2 Purpose

The purpose of our research is to understand how Integrated Facility service companies (using ISS, Sweden as our focus) develop, plan and implement useful marketing strategies that are result orientated and in line with the tipple bottom line which encompasses environmental responsibility, social awareness and economic profitability.

1.3 Scope

We have chosen to concentrate on the choice of marketing strategies that are useful in companies that provide services particularly, integrated facility services. We have further chosen to study ISS, Sweden.

1.4 Research Focus

We recognize that there are many facility service solutions for example engineering services, IT consulting, installation and project management, energy supply and management and lots more. Also, as it is not possible to
cover all service sectors in this research emphasis will be on studying the integrated facility services providers with non-core activities like janitorial service, property service etc.

1.5 Research question

We have identified a number of research questions that would aid us in the analysis of the of ISS marketing strategies. The research questions are:

1. What strategies are used by ISS?
2. What strategies (if any) are relevant for the possible growth of an integrated facility services company?
3. How can these strategies be used to yield expected results in form of environmental responsibility, profits and company growth?

1.6 Why ISS, Sweden?

The aim of this study is to look into the marketing strategy of a company that offers a variety of facility services, to analyze how effective those strategies are vis-à-vis the company’s corporate strategies. However, the choice to focus on ISS is due to the following reasons:

- Company size and Market share: As one of world largest facility Service providers and with presence in five continents, we are interested in knowing what ISS is doing right that yields the positive result in terms of geographic growth.
- Location of the company: Having a local facility service provider (ISS, Sweden) in Sweden naturally attracted us to the company. This afforded us the opportunity to physically meet with and conduct interview with the contact person in the company in Stockholm. This means that we have first hand information instead of only what we could find through other literature or secondary sources.

- Sustainable development concept: we are interested in focusing on an Integrated facility service provider that are progressive minded in terms of embracing and practicing the values of corporate social responsibility in its operations. ISS embraces and practices this value. It sets high social, environmental and ethical standards thereby not only paving way for profitable growth financially but also create value for all its key stakeholders including shareholders, customers, employees, business partners and society in general [2].
2 Method

In this chapter we describe the methods used in our thesis. The chapter will describe the procedure use in getting an answer to our purpose, and the various ways we collected data. Problems and limitations of types of data used during our work will also be discussed in this chapter.

2.1 Data Collection

Data may be described as Primary or Secondary Primary data. Primary data are data collected by the researcher himself while Secondary data are data collected by others to be "re-used" by the researcher [3]. For this research, we have made use of both primary and secondary data to achieve our purpose.

2.1.1 Primary data

Primary data use in this study is survey. Questionnaire is given to our respondent at a meeting at ISS in Stockholm to ask and secure the desired information. This questionnaire further helps us to identify and understand various

2.1.2 Secondary data

Secondary data use in this study is Internet search, information and data were collected from various websites to helps us understand and analyze ISS marketing strategies and therefore answer the research questions. Other
secondary data sources that were utilized are literature review from the company brochure and textbooks.

2.1.3 Interview

Contact was established with personnel of ISS and interview was done to identify the current practice of the company and also ascertain its marketing strategies.

2.2 Problems and Limitations

We encountered some problems in the process of gathering information and data for this study. Particularly the inability of our contact person at ISS to return the questionnaire that was given to him. However, he furnished us with the company report, which contained some of the questions asked in the questionnaire. This delay, lead to the significant prolonging of the study as we had to rely on a large part on information on the company website.
3 Literature review

3.1 What Is a Strategy?

There are different definitions of strategy. However, for the purpose of this study, we must select a definition. According to Tony Proctor, a strategy is a plan that integrates an organization’s major goals, policies, decisions and sequences of action into a cohesive whole. It can be applied at all levels in an organization and pertain to any of the functional areas of management. Thus there may be production, financial, marketing, personnel and corporate strategies, just to name a few. In marketing, there may be pricing, product, promotion, distribution, marketing research, sales, advertising, merchandising, etc. strategies. Strategy is concerned with effectiveness rather than efficiency and is the process of analysing the environment and designing the fit between the organization, its resources and objectives and the environment. [4]

Michael Porter states that strategy is about the means or ways (steps) of attaining goals and not their specification. He also indicates that strategy is one element in a four-part structure. According to Porter, those four part structures are: (a) what are the goals to be attained? (b) How will the resources be deployed? (c) The tactics; i.e. the ways in which resources that have been deployed are actually used or employed and (d) are the resources (means) themselves available and at our disposal? Both strategy and tactics bridge the gap between goals and means. In business, as in the military, strategy bridges the gap between policy and tactics. It is the creation of a unique and valuable position, involving a different set of activities. Meaning strategy is about competitive position, about differentiating
yourself in the eyes of the customer, about adding value through a mix of activities different from those used by competitors. [5]

Subhash C. Jain went further to highlight 5 reasons why an organization needs strategy. He stipulated that any organization needs strategy (a) when resources are finite, (b) when there is uncertainty about competitive strengths and behaviour, (c) when commitment of resources is irreversible, (d) when decisions must be coordinated between far-flung places and over time, and (e) when there is uncertainty about control of the initiative. [6] As have been stated above, it can be seen that strategy is vital to the success of the business. Without it, company’s goals may not be realised as there may be loss of focus on how to achieve those goals. Therefore, it helps to give focus to the often scattered energy of tactics, and bring power to goals and the larger business vision. [7]
3.1.1 The Hierarchies of Strategy

There are three major levels of strategy in most multi product/service organizations: corporate strategy, business strategy and functional strategy.

**Corporate strategy:** Strategy at this level attempts to bring together all the business lines of a company and point them toward an overall goal. It is mainly concerned with defining the set of businesses that should form the company’s overall profile. [6]

**Business strategy:** At the business level, strategy focuses on defining the manner of competition in a given industry or product/market segment. It usually covers a plan for a single product or a group of related products. Today, most strategic action takes place at the business unit level, where sophisticated tools and techniques permit the analysis of a business; the forecasting of such variables as market growth, pricing, and the impact of government regulation; and the establishment of a plan that can sidestep threats in an erratic environment from competitors, economic cycles, and social, political, and consumer changes. [6]

**Functional strategy:** centers on how resources allocated to the various functional areas can be used most efficiently to support the business-level strategy. The primary focus of marketing strategy at this level is to allocate and coordinate marketing resources and activities to achieve the firm’s objective within a specific product market [8]

Each functional area of a business (e.g. marketing) makes its own unique
contribution to strategy formulation at different levels. In many firms, the marketing function represents the greatest degree of contact with the external environment, the environment least controllable by the firm. In such firms, marketing plays a pivotal role in strategy development. In its strategic role, marketing consists of establishing a match between the firm and its environment. It seeks solutions to problems of deciding (a) what business the firm is in and what kinds of business it may enter in the future and (b) how the chosen field(s) of endeavor may be successfully run in a competitive environment by pursuing product, price, promotion, and distribution perspectives to serve target markets. In the context of strategy formulation, marketing has two dimensions: present and future. The present dimension deals with the existing relationships of the firm to its environments. The future dimension encompasses intended future relationships (in the form of a set of objectives) and the action programs necessary to reach those objectives. [6]

### 3.2 Marketing Strategy

According to Philip Kotler et al (1999) marketing strategy is the marketing logic by which the business unit hopes to achieve its marketing objectives. [9] It is an endeavour by a corporation (or any organization) to differentiate itself positively from its competitors, using its relative corporate strengths to better satisfy customer needs in a given environmental setting [6] For an organization, target consumers are at the centre of the marketing strategy. The company identifies the total market it wants to serve and divides it into smaller segments. It then selects the most promising segments and focuses
on serving them. It designs a marketing mix using mechanisms under its control: product, price, place and promotion. It also engages in marketing analysis, planning, implementation and control in order to find the best marketing mix and to take action. The company uses these activities to enable it to watch and adapt to the marketing environment. [9]

Subhash went on to explain that within a given environment, marketing strategy deals essentially with the interplay of three forces known as the strategic three Cs which are: the customer, the competition, and the corporation. He noted that these three strategic Cs are dynamic, living creatures with their own objectives to pursue and together, form the marketing strategy triangle. If what the customer wants does not match the needs of the corporation, the latter’s long-term viability may be at stake. Positive matching of the needs and objectives of customer and corporation is required for a lasting good relationship. But such matching is relative, and if the competition is able to offer a better match, the corporation will be at a disadvantage over time. In other words, the matching of needs between customer and corporation must not only be positive, it must be better or stronger than the match between the customer and the competitor. When the corporation’s approach to the customer is identical to that of the competition, the customer cannot differentiate between them. The result could be a price war that may satisfy the customer’s but not the corporation’s needs.

Furthermore, based on the interplay of the strategic three Cs, formation of marketing strategy requires the following three decisions:
1. *Where to compete,* that is, it requires a definition of the market (for example, competing across an entire market or in one or more segments).

2. *How to compete,* that is, it requires a means for competing (for example, introducing a new product to meet a customer’s need or establishing a new position for an existing product).

3. *When to compete,* that is, it requires timing of market entry (for example, being first in the market or waiting until primary demand is established).

Thus, marketing strategy is the creation of a unique and valuable position, involving a different set of activities. Thus, development of marketing strategy requires choosing activities that are different from rivals. [6]

### 3.3 Types of marketing strategies

**Michael Porters Generic Strategies**

According to Porter (1985), there are two basic types of competitive advantage a firm can possess: low cost or differentiation. The significance of any strength or weakness a firm possesses is ultimately a function of its impact on relative cost or differentiation. Cost advantage and the differentiation in turn are derived from industry structure. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them lead to three generic strategies for achieving above-average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus
and differentiation focus. [10]

**Cost Leadership:** A company pursuing cost leadership strategy aims to become the low cost producer in its industry. The company has a broad scope; it can serve many industry segments and may even operate in related industries. The sources of cost advantage vary and depend on what the industry structure is. They may be the pursuit of economies of scale, propriety technology, preferential access to raw materials etc. For example, in the facility service industry, a company providing the service of security guard could achieve cost advantage by maintaining low overhead, an abundant source of low cost of labour and provide efficient training procedures due to high turn over. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry provided it can command price at or near the industry average. If a firm which is a cost leader offers equivalent or lower prices than its rivals then its low cost position will yield high returns. However, despite being a cost leader and relies on cost leadership for its competitive advantage a firm cannot ignore the bases of differentiation because if its product is not perceived as comparable or acceptable by buyers, a cost leader will be forced to lower prices well below its competitors’ in order for it to gain sales. This may nullify the benefits of its favourable cost position. Also, the cost leader must achieve parity or proximity in the bases of differentiation relative to its competitors. Parity in the bases of differentiation allows a cost leader to translate its cost advantage directly into higher profits than competitors. Proximity in differentiation implies that the price discount necessary to achieve an acceptable market share does not offset a cost leader’s advantage which enables the cost leader to earn above average
returns. The strategic logic of cost leadership usually requires that a firm be the cost leader and not one of several firms trying to be in that position. Many firms have made serious errors by failing to recognize this. When there is more than one aspiring cost leader, rivalry among them is usually fierce because every point of market share is viewed as crucial. Unless one firm can gain cost leader and “persuade” others to abandon their strategies, the consequences for profitability (and long run industry structure) can be disastrous. Thus cost leadership is a strategy particularly dependent on preemption, unless major technical change allows a firm to radically change its cost position. [10]

**Differentiation:** The second generic strategy according to Porter (1998) is differentiation. In a differentiation strategy, a firm strives to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more an attribute that many buyers in an industry perceive as important and uniquely position itself to meet that need. It is rewarded for its uniqueness with a premium price. The means for differentiation is peculiar to each industry. Differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors. A firm that can achieve and sustain differentiation will be an above average performer in its industry if its premium price exceeds the cost it incurred to be unique. A differentiator therefore must always seek ways of differentiating that lead to a price premium greater than the cost of differentiating. A differentiator can not ignore its cost position because its price premium will be nullified by a markedly inferior position. A differentiator thus aims at cost parity or proximity relative to its competitors, by reducing cost in all areas that do
not affect differentiation.

The logic of the differentiation strategy requires that a firm choose attributes in which to differentiate itself that are different from its rivals. A firm must truly be unique in something or be perceived as unique if it is to expect a premium price. In contrast to cost leadership however, there can be more than one successful differentiation strategy in an industry if there are a number of attributes that are valued by customers. [10]

**Focus:** The third generic strategy is focus. This strategy is quite different from the others because a firm chooses a narrow competitive segment in the industry and fits its strategy to serving them to the exclusion of others. By optimizing its strategy for the target segment, the focuser seeks to achieve a competitive advantage in its target segments even though it does not possess an overall competitive advantage. The focus strategy has two variants; the cost focus and differentiation focus. In cost focus a firm endeavours to achieve cost advantage in its target segment while in differentiation focus, it seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser’s target segment and other segments in the industry. The target segment must either have buyers with unusual need or the production and delivery system that best serve the target market must be different from that of other industry segment. Cost focus exploits differences in cost behaviour in some segment, while differentiation focus exploits the special needs of buyers in certain segments. Such differences imply that the segments are poorly served by broadly targeted competitors who serve them at the same time as they serve others. The focuser can thus achieve competitive advantage by dedicating
itself to the segment exclusively. Breadth of target is clearly a matter of degree, but the essence of focus is the exploitation of a narrow target differences from the balance of the industry. Narrow focus in and of itself is not sufficient for above average performance. [10]

A focuser takes advantage of suboptimization in either direction by broadly targeted competitors. Competitors may be underperforming in meeting the needs of a particular segment, which brings the opportunity for differentiation focus. Also, broadly targeted competitors may be over performing in meeting the needs of a segment which means that they are bearing higher than necessary cost in serving it. An opportunity for cost focus may be present in just meeting the needs of such a segment and no more. However, before the focus strategy can succeed, a focuser’s target segment must be different from the competitors and be structurally attractive. This difference and attractiveness enables the focuser to become an above-average performer in its industry. The importance of segment structural attractiveness cannot be over emphasized because some segments in an industry are much less profitable than others. Nevertheless, there is often room for several sustainable focus strategies in an industry, as long as focusers choose different target segments. Most industries have a variety of segments, and each one that involves a different buyer need or different optimal production or delivery system is a candidate for a focus strategy. [10]

**Stuck in the middle:** A firm that carries out each generic strategy but does not achieve any of them can be said to be “Stuck in the middle”. It has no competitive advantage. This strategic position is usually a recipe for below
average performance. A firm that is stuck in the middle will compete at a
disadvantage because the cost leader, differentiators, or focuser will be
better positioned to compete in any segment. If a firm that it stuck in the
middle is lucky enough to discover a profitable product or buyer,
competitors with a sustainable competitive advantage will quickly eliminate
the spoil. In most industries, quite a few competitors are stuck in the
middle. A firm that is stuck in the middle will earn attractive profits only if
the structure of its industry is highly favourable, or if the firm is fortunate
enough to have competitors that are also stuck in the middle. Usually,
however, such a firm will be much less profitable than rivals achieving one
of the generic strategies. Industry maturity tends to widen the performance
differences between firms with a generic strategy and those that are stuck in
the middle because it exposes ill-conceived strategies that have been carried
along by rapid growth. [10]

<table>
<thead>
<tr>
<th>Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower cost</td>
</tr>
<tr>
<td>1. Cost Leadership</td>
</tr>
<tr>
<td>3. A Cost focus</td>
</tr>
</tbody>
</table>

*Figure 3.2 Three Generic Strategies*
Table 3.1 Risk of the generic strategies [9]

<table>
<thead>
<tr>
<th>RISKS OF COST LEADERSHIP</th>
<th>RISKS OF DIFFERENTIATION</th>
<th>RISKS OF FOCUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost leadership is not sustained</td>
<td>Cost leadership is not sustained</td>
<td>The focus strategy is imitated</td>
</tr>
<tr>
<td>• competitors imitate</td>
<td>• Competitors imitate</td>
<td>The target segment becomes structurally unattractive</td>
</tr>
<tr>
<td>• technology changes</td>
<td>• bases for differentiation become less important to buyers</td>
<td>• structure erodes</td>
</tr>
<tr>
<td>• other bases for cost Leadership erode</td>
<td>Cost proximity is lost</td>
<td>• demand disappears</td>
</tr>
<tr>
<td>Proximity in differentiation is lost</td>
<td>Differentiation focuser achieve even greater differentiation in segments</td>
<td>Broadly targeted competitors overwhelm the segment</td>
</tr>
<tr>
<td>Cost focuser achieve even lower cost in segment</td>
<td>New focuser sub-segment the industry</td>
<td>• the segment’s differences from other segments narrows</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• the advantages of a broad line increase</td>
</tr>
</tbody>
</table>

3.4 What is strategic Marketing Plan?

The strategic marketing planning process is a series of logical steps that have to be worked through in order to arrive at a marketing plan. It is a little more than a structured way of identifying a range of options for the company, of making them explicit in writing, of formulating marketing objectives which are consistent with the company’s overall objectives and of scheduling and costing out the specific activities most likely to bring about the achievement of the objectives. [11] David Parmerlee (2000) states that a strategic marketing plan (SMP) is an attempt to analyze a company’s
current situation; identify the needs, problems, and opportunities facing the company (from the marketing perspective); define the marketing goals and objectives; and then develop marketing strategies to meet those goals. It is for a period that extends beyond the next fiscal year and usually covers three to five years. Although the strategic marketing plan covers all levels of marketing management, it primarily deals with the strategic corporate and business unit levels and establishes how the business of marketing will be conducted in a specific marketing situation. It does this by defining operational policies, practices, and procedures. The strategic marketing Plan is also highly financially oriented in regard to a company’s products/services and marketing efforts. [12]

3.5 **Marketing Strategies for Service Firms**

Until recently, service firms lagged behind manufacturing firms in their use of marketing. Service businesses are more difficult to manage when using only traditional marketing approaches. In a product business, mass-produced products are fairly standardized and sit on shelves waiting for customers. But in a service business, the customer and frontline service employee interact to create the service. Thus service providers must work to interact effectively with customers to create superior value during service encounters. Effective interaction, in turn, depends on the skills of frontline service staff, and on the service production and support processes backing these employees. [9]

Thus successful service companies focus their attention on both their
employees and customers. They understand the *service-profit chain*, which links service firms' profits with employee and customer satisfaction. This chain consists of five links:

1. *Healthy service-profits and growth* - superior service firm performance, which results from...

2. *Satisfied and loyal* customers - satisfied customers who remain loyal, repeat purchase and refer other customers, which results from...

3. *Greater service value* - more effective and efficient customer value creation and service delivery, which results from...

4. *Satisfied and productive service employees* - more satisfied, loyal and hard-working employees, which results from...

5. *Internal service quality* - superior employee selection and training, a quality work environment and strong support for those dealing with customers. [9]

Thus reaching service profits and growth goals begins with taking care of those who take care of customers. All of this suggests that service marketing requires more than just traditional external marketing using the four Ps. Service marketing also requires both internal marketing and interactive marketing.
Internal marketing means that the service firm must invest heavily in employee quality and performance. It must effectively train and motivate its customer-contact employees and all the supporting service people to work as a team to provide customer satisfaction. For the firm to deliver consistently high service quality, everyone must practice a customer orientation. It is not enough to have a marketing department doing traditional marketing while the rest of the company goes its own way. Marketers must also encourage everyone else in the organization to practice marketing. In fact, internal marketing must precede external marketing. It makes little sense to advertise excellent service before the company's staff is ready, willing and able to provide it. Interactive marketing means that perceived service quality depends heavily on the quality of the buyer-seller interaction. In product marketing, product quality often depends little on how the product is obtained. But in services marketing, especially in high-contact and professional services, service quality depends on both the service deliverer and the quality of the delivery. Effective service deliverer-customer interaction is important for achieving a satisfactory service transaction. The customer judges service quality not just on technical quality (e.g. the success of the surgery, the tastiness of the food served in the restaurant), but also on its functioned quality (e.g. whether the doctor showed concern and inspired confidence, whether the waiter was friendly and polite).

Also, each interaction is a 'moment of truth' for the provider, where not just the service encounter, but also the organization, will be decisively judged by the customer. Thus, professionals cannot assume that they will satisfy the client simply by providing good technical service. They have to master
interactive marketing skills or functions as well. Effective buyer-seller interaction may help to secure a satisfied customer.

However, to retain customers over the long term, many service providers have to develop wide relationship marketing skills for managing customer relationships.

Today, as competition and costs increase, and as productivity and quality decrease, more marketing sophistication is needed. Service companies face three major marketing tasks: they want to increase their competitive differentiation, service quality and productivity. [9]

### 3.5.1 Managing Differentiation

In these days of intense price competition, service marketers often complain about the difficulty of differentiating their services from those of competitors. Service differentiation poses particular problems. First, service intangibility and inseparability mean that consumers rarely compare alternative service offerings in advance of purchase in the way that potential buyers of products do.

Differences in the attractiveness or value of competing services are not readily obvious to the potential buyer. Service providers often use pricing to differentiate their offering. However, pricing strategies (e.g. price cuts) are quickly emulated practice by competitors. Furthermore, intense price competition erodes margins and does not create a sustainable differential advantage over the long term. The solution to price competition is to
develop a differentiated offer, delivery and image. The offer can include innovative features that set one company's offer apart from its competitors' offers. For example, airlines such as Virgin Atlantic have introduced such innovations as in-flight movies; advance seating, air-to-ground telephone service and frequent-flyer awareness programmes to differentiate their offers. British Airways even offers international business and first-class travellers a sleeping compartment, hot showers and cooked-to-order breakfasts. Unfortunately, this exposes a second problem - service innovations cannot be patented and are easily copied. Still, the service company that innovates regularly will usually gain a succession of temporary advantages and an innovative reputation that may help it keep customers who want to go with the best. Third, the variability of services suggests that standardization and quality are difficult to control. Consistency in quality is generally hard to obtain, but firms that persistently cultivate a customer orientation and execute sound internal marketing schemes will increase their ability to differentiate their brand by offering superior-quality service delivery. The service company can differentiate its service delivery in three ways: through people, physical environment and process. These are often referred to as the additional three Ps in service marketing. The company can distinguish itself by having more able and reliable customer-contact people than its competitors have. The enthusiasm and smart appearance of front-line customer-contact staff also helps. More importantly, as mentioned earlier, the service business that emphasizes an internal marketing approach, combined with customer-focused staff training and education, can succeed in improving employee quality and performance that will sustain superiority in service delivery. Ultimately, it is the support and participation of front-line staff and all the people
involved in the operational processes that is vital to the success of service production and delivery, and, therefore, the customer relationship and the organization's success.

The firm can develop a superior physical environment in which the service product is delivered. Hotels and restaurants, for example, will pay a great deal of attention to interior decor and ambience to project a superior service to target customers. Some retailers, such as The Body Shop and Harrods, have effectively managed the physical environment, giving very distinctive identities to their outlets. Or it can design a superior delivery process. For example, a bank might offer its customers home banking as a better way to use banking services than by having to drive, park and wait in line. Direct Line, the; British insurance company, pioneered telephone selling of motor insurance, and succeeded in overtaking traditional providers in the industry. Finally, service intangibility and variability mean that a consistent service brand image is not easily built. Brand image also takes time to develop and cannot be copied by competitors. Service companies that work on distinguishing their service by creating unique and powerful images, through symbols or branding will gain a lasting advantage over competitors with lack-lustre images. For example, The Kitz, Sheraton, Hard Rock Cafe, British Airways, Citibank, Swissair and Benetton all enjoy superior brand positioning which has taken years of effort to develop. Organizations such as Lloyd's Bank (which adopted the black horse as its symbol of strength), McDonald's (personified by its Ronald McDonald clown) and the International Red Cross have all differentiated their images through symbols. [9]
3.5.2 Managing Service Quality

One of the principal ways in which a service firm can differentiate itself is by delivering consistently higher quality than its competitors. Like manufacturers before them, many service industries have now joined the total quality management revolution. Recent years have seen the rapid adoption of service quality standards and awards such as the BS5750/ISO9000 international standard, the Malcolm Raldridge National Quality Award in the USA, the European Foundation for Quality Management Award and similar schemes in other countries. In Scandinavian countries, and particularly Sweden, service quality management has become a topic of national concern, with the government taking a lead role through initiatives such as the Swedish Customer Satisfaction Barometer. Many service companies are finding that outstanding quality can give them a potent competitive advantage that leads to superior sales and profit performance. True, offering greater service quality results in higher costs. However, investments usually pay off because greater customer satisfaction leads to increased customer retention and sales. [9]

The key is to exceed the customer's service quality expectations. As the chief executive at American Express puts it, 'Promise only what you can deliver and deliver more than you promise! These expectations are based on past encounters and experiences, word of mouth and the firm's advertising. If perceived service of a given firm exceeds expected service, customers are apt to use the service provider again. Customer retention is, perhaps, the best measure of quality and reflects the firm's ability to hang
on to its customers by consistently delivering value to them. Thus, where the manufacturer's quality target might be 'zero defects', the service provider's goal is “zero customer defections”. [9]

To meet quality targets, the service provider needs to identify the expectations of target customers concerning service quality. Unfortunately, quality in service industries is harder to define, judge or quantify than product quality. It is hard to quantify service quality because intangibility means that there are seldom physical dimensions, like performance, functional features or maintenance cost, which can be used as benchmarks and measured. It is harder to get agreement on the quality of a haircut than on that of a hair dryer, for instance. The inseparability of production and consumption means that service quality must be defined on the basis of both the process in which the service is delivered and the actual outcome experienced by the customer. Again, it is difficult to quantify standards or reference points against which service delivery process and performance outcomes are measured. [9]

To measure service quality, in practice, the provider has to determine how customers of the service perceive quality. Studies suggest that customer assessments of service quality are the result of a comparison of what they expect with what they experience. Any mismatch between the two is a “quality gap”. The service quality manager's goal is therefore to narrow the quality gap, taking into account that what is being measured is perceived quality, which is always a judgment by the customer. Hence, what the customer thinks is quality is whatever the customer says it is. To improve quality, service marketers have to identify: the key determinants of service
quality (that is, the key criteria customers use to judge quality); what target customers' expectations are; and how customers rate the firm's service in relation to these criteria against what they expected. [9]

3.5.2.1 Criteria That Reflect Service Quality

An important study highlights ten key determinants of perceived service quality. Access (is the service easy to get access to and delivered on time?); credibility (is the company credible and trustworthy?); knowledge (does the service provider really understand customers' needs?); reliability (how dependable and consistent is the service?); security (is the service low-risk and free from danger?); competence (are staff knowledgeable and in possession of the skills required to deliver good service?); communication (how well has the company explained its service?); courtesy (are staff polite, considerate and sensitive to customers?); responsiveness (are staff willing and quick to deliver the service?); and tangibles (does the appearance of staff, the physical environment and other tangible representations of the service reflect high quality?). The first five are concerned with the quality of the outcome of service provided, while the last five are related to the quality of the delivery process. By focusing on the dimensions that are important to customers, the service firm can ensure that customers' expectations are fully met. [9]

To a large extent, aspects such as good understanding of customers' needs and the ability to provide consistent and dependable service are achieved through internal marketing and continual investment in employee quality
and performance. The reputation and credibility of the service provider and customers' perceived risk are interrelated. If the consumer trusts the service provider, he or she expects that the service is free from danger or perceives little risk in using the service. Credibility can be improved through effective communication of service quality through advertising and/or satisfied customers. Access can be improved by having multisite locations (e.g. Pizza Lint, McDonald's, Benetton), and waiting times can be reduced through synchronizing supply and demand and/or tackling staff productivity problems. [9]

During the past decade, many service companies have invested heavily to develop streamlined and efficient service delivery systems. They want to ensure that customers will receive consistently high-quality service in every service encounter. Unlike product manufacturers, which can adjust their machinery and inputs until everything is perfect, service quality will always vary, depending on the interactions between employees and customers. Problems will inevitably occur.

Mistakes are a critical part of every service. Hard as they try, even the best service companies can't prevent the occasional late delivery, burned steak, or grumpy employee. The fact is, in services, often performed in the customer's presence, errors are inevitable. While companies cannot always prevent service problems, they can learn to recover from them when they occur. Good service recovery can turn angry customers into loyal ones. In fact, it can win customer purchasing and loyalty and create more good will than if things had gone well in the first place.
The first step is to empower front-line service employees - that is, to give them the authority, responsibility and incentives to recognize, care about and tend to customer needs, even going beyond their normal jobs to solve customer problems. Such empowered employees can act quickly and effectively to keep service problems from resulting in lost customers. Studies in well-managed service companies show that they share a number of common virtues regarding service quality. These are summarized below:

1. Top service companies are “customer obsessed”: They have a distinctive strategy for satisfying customer needs that wins enduring customer loyalty. At British Telecom, liaison panels are set up which demonstrate management commitment to listen to customers and ensure that the ethos of customer care is embedded in the whole company.

2. They have a history of top management commitment to quality: Management at companies such as Marks & Spencer, American Express, Swissair and McDonald's look not only at financial performance, but also at service performance. They develop a quality culture that encourages and rewards good service delivery,

3. The best service providers set high service quality standards: Swissair, for example, aims to have 96 per cent or more of its passengers rate its service as good or superior; otherwise, it takes action. The standards must be set appropriately high. A 98 per cent accuracy standard may sound good, but using this standard, 64,000 Federal Express packages would be lost each day, 10 words would be misspelled on each page, 400,000 prescriptions would be
misfilled daily, and drinking water would be unsafe eight days a year. Top service companies do not settle merely for “good” service, they aim for 100 per cent defect-free service.

4. Top service firms watch service performance closely - both their own and that of competitors. They communicate their concerns about service quality to employees and provide performance feedback. They use methods such as comparison shopping, customer surveys, suggestion schemes and customer complaint programmes. Customer complaints are an opportunity for companies to remedy poor service, and, when they are dealt with promptly and effectively, customer care in service-recovery situations can be a source of unrivalled competitive advantage.

5. Well-managed service companies satisfy employees as well as customers. They believe that good employee relations will result in good customer relations. Management clearly defines and communicates service level targets so that, first, its employees know what service goals they must achieve, and secondly, its customers know what to expect to receive from their interaction with the service provider. [9]

Management must also create an environment of employee support, reward good service and monitor employee job satisfaction. For example, the Danish-based international cleaning services giant ISS (International Service System) stresses good working relations and utilization of human resources. Staffs are encouraged to join trade unions. Total quality management is firmly upheld, staff are trained so that they can do their jobs
well and derive satisfaction from them - happy satisfied customers yield happy employees. It has also gone to the extreme of moving into palatial new headquarters in a wooded country estate in northern Copenhagen - an absence of air-conditioning or dust-hugging carpets, together with soothing colours, reflect management's belief that scientific cleaning can help reduce staff illness. [9]

3.5.3 Managing Productivity

Rising costs put service firms under great pressure to increase service productivity. The problem is particularly acute where the service is labour intensive. Productivity can be improved in several ways:

1. The service providers can train current employees better, or they can hire new ones, who will work harder or more skillfully for the same pay,

2. The service providers can increase the quantity of their service by giving up some quality (e.g. doctors having to handle more patients by giving less time to each).

3. The provider can “industrialize the service” by adding equipment and standardizing production, as in McDonald's production-line approach to fast food retailing. Commercial dishwashing, jumbo jets and multiple-unit cinemas all represent the use of technological advances to increase service output.
4. Service providers can also increase productivity by designing more effective services. How-to-quit-smoking clinics and exercise recommendations may reduce the need for expensive medical services later on.

5. Providers can also give customers incentives to substitute company labour with their own labour. For example, business firms that sort their own mail before delivering it to the post office pay lower postal rates. Self-service restaurants are another case in point. Pay-and-display facilities in car parks alleviate the need to employ attendants (as well as reducing waiting time).

6. Service providers that have to deal with fluctuating demand can increase productivity by increasing flexibility and reshaping demand. Supplier flexibility - the ability to improve supply capacity - is increased by using part-time workers and shared facilities, and by rescheduling peak-time facilities and work. Demand movements are reshaped by differential pricing, reservation systems and stimulating non-peak usage.

However, companies must avoid pushing productivity so hard that doing so reduces perceived quality. Some productivity steps help standardize quality, increasing customer satisfaction. But other productivity steps lead to too much standardization and can rob consumers of a customized service. Attempts to industrialize a service or to cut costs can make a service company more efficient in the short run, but reduce its longer-run ability to innovate, maintain service quality and flexibility, or respond to consumer
needs and desires. In some cases, service providers accept reduced productivity in order to create more service differentiation or quality. [9]
4 ISS Strategy

ISS is a large corporation with a clear and bold vision “Lead Facility Services Globally”. Analysis of this vision reflects a will and goal by the company to acquire more market share than it already has through continuous growth and expansion as stated in its web site. It seeks to fulfil its aspiration of being a world leader in IFS through its core values, which is an integral part of the vision’s core aimed at describing what the organization represents today and what its member would like it to represent in the future. [13] It means that core values of an organization are more about what the organization is rather than what it does. In theory, core values should be unique to an organization but may nonetheless be constituent of several elements that are shared with other organizations. They are the organization’s essential and enduring tenets, not to be compromised gain or short-term expediency.

Following a study of the company website and other literature from them, we found the core values of ISS as: [14]

- Honesty-we respect,
- Entrepreneurship-we act
- Responsibility-we care
- Quality-we deliver

A firm’s marketing strategy depends on its size and position in the market. A firm with the largest market share is known as the market leader. With this knowledge, it can be adduced that ISS is one of the market leaders in its offerings even though the firm has a strategic goal to increase its market share
and lead facility services globally. Currently, it is a major force in the facility services industry. In 2005, ISS announced the new strategy, Route 101. Route 101 is a destination plan that describes ISS in terms of service offerings, organization, geography, etc. The destination described in Route 101 is a Facility Services company with revenue of DKK 101 billion. ISS plans to put its vision into operation through its Strategy Plan introduced in spring 2007 called “ISS Strategy Plan 2007-2009”. The Strategy Plan further details the initiatives needed to fulfil the vision through: [15]

- Facility services
- Single service excellence
- Operational efficiency
- Growth
- Geography
- Organization
- Branding
- Systems and methodologies
- Acquisitions

In a more detailed illustration, below are all ISS strategies and the various tactics by which it hopes to carry out these strategies.
The ISS Strategy

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Tactic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational Efficiency</td>
<td>- Cash flow</td>
</tr>
<tr>
<td></td>
<td>- Operating margin</td>
</tr>
<tr>
<td></td>
<td>- Profitable growth</td>
</tr>
<tr>
<td></td>
<td>- Reduce financial leverage on a multiple basis</td>
</tr>
<tr>
<td>Increase IFS Capabilities</td>
<td>- Transforming into a facility service company</td>
</tr>
<tr>
<td></td>
<td>- Added security as a new pillar</td>
</tr>
<tr>
<td></td>
<td>- Focus on Single Service Excellence</td>
</tr>
<tr>
<td></td>
<td>- Strengthen customer relationships and realize benefits</td>
</tr>
<tr>
<td>Continue disciplined acquisition process</td>
<td>- Broaden the scope of service offerings</td>
</tr>
<tr>
<td></td>
<td>- Increase operational density and expand geographically</td>
</tr>
<tr>
<td></td>
<td>- Continued focus on high growth countries</td>
</tr>
<tr>
<td></td>
<td>- Focus on bolt on acquisitions, may pursue larger acquisitions</td>
</tr>
<tr>
<td></td>
<td>- Leverage the experience of local management teams</td>
</tr>
</tbody>
</table>

Figure 4.1 ISS strategy

1. **Increase IFS Capabilities**: ISS aims to carry out this strategy through the following tactics:

   - Facility Services: ISS continues to transform itself into a facility services company. It offers a wide range of services within the five pillars of the IFS House, which are: cleaning, office support, property services, catering and security. These services could be offered to the customer as a single service, multi service or
Integrated Facility Services ("IFS"). It provides management of Facility Services through acquisition of service companies in Germany, Switzerland and the United Kingdom. There is an implementation team with the primary focus of accelerating the IFS implementation in selected countries. The team, which consists of four experienced specialists, has a mission of providing operational support in winning, bidding, transitioning and operating the first IFS contract within a country. [15]

- Single service excellence: To achieve its vision of being a world leader in facility services, ISS recognizes the need for a continuous focus on delivering single service excellence in every of its service area. It aims to focus heavily on developing single service excellence and spreading it throughout the organization. [15]

- Branding: As a part of the transformation to a global Facility Services company, ISS will invest further in strengthening the ISS brand across the world. [15]

2. **Operational efficiency:** ISS seeks to maintain and enhance its operational efficiency by continuing to focus on three well-established operational objectives for its local managers:

- Cash flow: ISS first plans to maintain a relatively high rate of conversion by operating in manner that optimizes working capital. Through this approach, ISS expects to continue to generate a positive free cash flow.
• Operating margin: ISS second objective is to maintain or improve its operating margin, which increased from 5.7% in 2005 to 5.8% in 2006. It will seek to generate operational efficiencies by increasing its local market positions and operational densities, as well as through the implementation of company-wide best practices.

• Profitable organic growth/reduce the financial leverage on a multiple basis: ISS third objective under its operational efficiency strategy is to continue to leverage its international market position and service offering in order to increase its local market positions and drive organic growth. In order to achieve this, the company established a Sales Excellence Center in 2006 to create sales systems and to promote benchmarking and the sharing of best practices between countries. ISS continues to work with a wide range of initiatives to: (i) attract new customers; (ii) increase customer retention rates, including through the establishment of dedicated key account teams; and (iii) cross-sell related services, such as pest control and washroom services, to existing customers. Additionally, ISS has established a market presence and operating platforms in selected high-growth economies, particularly in Latin America and Asia. [15]

• Systems and methodologies: ISS will invest further in systems and methodologies. A “Corporate Solution”, i.e. a standardized IT-business solution, has been further developed and implemented in a number of countries. Shared initiatives in a number of areas such as
planning tools, facility service management systems, etc. have been developed and will be implemented going forward. [15]

3 Continue disciplined acquisition process

- Growth: ISS experiences organic growth and acquisition growth. It achieved organic growth of 3.0% in 2005 and 5.5% in 2006. Its acquisition growth recorded were 11% in 2005 and 15% in 2006 respectively. Among some initiatives that will underpin its organic growth include investment in the growth economies of the world through an enhanced sales force and training to new customer retention initiatives. It aims to continue acquisition to facilitate its strategy of increasing local scale and broadening of its local service offerings. ISS has acquired and integrated 500 businesses since the beginning of 2000. Among these acquisitions, 90% (450) are relatively small businesses with annual revenues of less then DKK 100 million (U.S $ 19 million). Even though, ISS expects to continue to focus primarily on smaller acquisitions, it doesn’t rule out the possibility of acquiring larger acquisitions in the future. [15]

- Geography: ISS intends to increasingly focus on the BRIC-countries (Brazil, Russia, India and China) as well as other growth markets, particularly located in Eastern Europe, Latin America and Asia. In 2006, ISS established country operations in Mexico and the Philippines and in January 2007, ISS set up operations in Taiwan. Furthermore, the presence in Turkey was significantly expanded in
2006 through an acquisition. ISS is currently analysing the US market in preparation for a possible US entry. [15]

- **Organization:** As a foundation for the strategy plan, ISS is transforming its organisation to allow it to focus on accelerating the service development. Head office resources focusing specifically on China and India have been appointed. Organisational resources have also been added for Eastern Europe, Russia, Australia and Latin America in order to support the development of these geographies. Training and education is key to the strategy plan. ISS will invest even more in these areas in order to continue to accelerate its transformation towards Integrated Facility Services. [15]

- **Acquisitions:** ISS considers acquisitions an integral part of the business model. Acquisitions are the Group’s primary means of investing in the business, to develop and refine the business concept and to continuously improve its competitive strength in an unconsolidated industry structure. The acquisition process is aimed at creating value for shareholders. The acquisition process is anchored with local management teams enabling them to take advantage of and leverage the local presence. The local management team screens the market for potential targets and builds a pipeline of qualified opportunities. The management teams stay involved throughout the acquisition process from the very beginning of target identification to the final step of the integration in order to make sure that responsibility and focus on the execution is maintained.
ISS mergers and acquisitions department manages the acquisition process, primarily with respect to valuation of the acquisition and negotiation of the material acquisition agreements, to the extent that its centralized resources add value. This centralized department is responsible for quality assurance with respect to all acquisitions and is a driving force with respect to centralized pipeline management in the country organizations. The centralized pipeline management ensures that each subsidiary continues to explore acquisition opportunities, which would contribute to the achievement of ISS’s objectives. ISS’s mergers and acquisitions department is more heavily involved in all larger acquisitions, and the Executive Group Management of ISS A/S approves all acquisitions. In addition, the approval of the Board of Directors is required for large or strategic acquisitions. The most important element of Group involvement is in the assessment of country readiness for acquisitions as well as strategic screening and valuation of acquisitions. On a discounted cash flow basis a total value of the target is estimated by assigning value to six independent components. [15]

4.1 Analysis of ISS Strategies

Having underlined ISS strategies, it is imperative to ascertain if they lead the organization towards the right direction. Finding this out, would help towards answering our research question 2 which states “What strategies (if any) are relevant for the possible growth of an IFS company?” We have to state here that the result of our analysis based on ISS is not a rule of thumb
and may not automatically work for all companies offering integrated facilities all over the globe. Several factors like geographical location, economy, political policies, labour legislations, organization vision, goals etc could tend to make a strategy or a combination of strategies work better for an organization than for a similar one with a different goal, vision etc.

However, these strategies tend to give hindsight of what works for ISS. Using the company financial report for the periods of 2005, 2006 and 2007 as guide (See Appendix), it can be seen that the company has been making financial gains for the three consecutive years.

i. Facility services: Using ISS as an example, both customers and integrated facility companies could benefit from offering multi facility services. This enables the customer to focus on its core operations by outsourcing all or most of the service functions at the customers’ premises to an integrated facility service provider. The customer receives a full potential of single or multi service outsourcing and benefits from the IFS company’s on-site management solution. Also, on the part of the IFS company like ISS the company makes more income from providing all or most of the services for the customers instead of it being outsourced to several companies. This leads to more revenue into the company which is a step towards the right direction.

ii. Single service excellence: Even though ISS provides multi services to its customers, it focuses also on single service excellence in its operating areas. Through this, the company forms a niche or segment for itself. In like manner, integrated service companies can develop a competitive advantage
by being experts in the service solutions they provide. By focusing on their core services, they can become efficient in delivering those services and create an image of excellence among their customers.

iii. Operational efficiency: ISS has maintained a profitable and stable financial growth for 2 consecutive years. From its consolidated interim cash flow statement (see Appendix A for full report), the following information can be extracted.

Table 4.2. Summary of ISS cash flow statement for 1 January – 30 September. Amounts in DKK millions [16]

<table>
<thead>
<tr>
<th></th>
<th>YTD 2007</th>
<th>YTD 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating cash flow</td>
<td>DKK +1442 M</td>
<td>DKK +956M</td>
</tr>
<tr>
<td>Investment cash flow</td>
<td>DKK – 3128 M</td>
<td>DKK – 3765 M</td>
</tr>
<tr>
<td>Financial cash flow</td>
<td>DKK + 866 M</td>
<td>DKK + 2617 M</td>
</tr>
<tr>
<td>Total cash flow</td>
<td>DKK – 820 M</td>
<td>DKK – 192 M</td>
</tr>
</tbody>
</table>

From the above condensed cash flow data, ISS, earned more cash by its core activities and services (operating cash flow) and ended with positive cash flow at the end of the 2 fiscal years. This is a good sign for the company as it can be said to have maintained profitable financial growth. However, it also spent a total of DKK 6893 Million for both 2006 and 2007 in its long term investments. Though the company records a total negative cash flow at the end of these fiscal years, (DKK-192M, for 2006) and (DKK-820M as at September, 2007 ), it has a potential to generate profit in the future due to these acquisitions. It has an operating margin of 5.8% in 2006 after paying for a variable cost of running its services like wages,
supplies etc. This means that it made 0.057 and 0.058 for every dollar of sales for the year 2005 and 2006 respectively. Though, it recorded a slight increase in its operating margin the higher the better for the company.

In all, ISS can derive the following competitive advantage from its operational efficiency: lower IFS operating cost, fewer unforeseen complications, enhanced service levels, consistent reliable reporting etc.

Growth: we analyse ISS growth strategy vis a vis its vision of becoming a world leader in IFS. From its annual report, it can be seen that the company reported an acquisition growth of 10% (from a total of 63 acquisitions as at September 2007) compared to organic growth of 6% for the YTD 2007 (as of September 2007). This indicates that the company has a big focus on acquisition growth which works for its path toward geographic expansion which would be difficult if it only focused on organic growth. For example, on the path to geographic expansion as an organic growth firm: suitable real estate needs to be located and purchased, a building may need to be constructed or modified to conform to plans for use, new machinery bought or built, employees trained, logistics plans implemented, and advertising developed to attract a new customer base. All of this takes considerable commitment and time before the expansion can generate cash flows at its full potential. In contrast, the acquiring firm can purchase an existing set of similar assets already in operation in the form of another firm and have immediate access to its cash flows. While the acquisition process itself will take some negotiation time and some additional time to integrate the target firm into existing operations, conventional wisdom is that acquisitions are generally quicker to implement but usually more expensive. [17] This is evident in the ISS cash flow statement on the amount it spends on
acquisitions. However, having highlighted the benefit of its acquisitions, care must be taken to maintain standard and retain value which could reduce due to acquisitions. ISS successful execution of both organic growth and growth by acquisition as complementary strategies aligns everyone and everything in the company around the company’s corporate goals, and so achieving these goals, faster, better, and cheaper.

4.2 Corporate Social Responsibility

In this present day, a company that wants to gain a good market share in its services and have competitive advantage among its competitors needs to be corporately responsible. There has been a growing awareness among customers and other stakeholders and increase demand from them for companies to be environmentally and socially responsible in their operations. This has resulted to different standards of measuring success from the one time of only economic and financial means to a now triple bottom approach i.e. economic, social and environmental. To move towards the right direction, an IFS company has to keep up to date with recent trends in management and environmental standards.

ISS as an IFS company embraces the concept of corporate social responsibility by fulfilling its responsibilities and creating value for all key stakeholders, including shareholders, customers, employees, business partners and society in general [14]. The company has a respect for its staff. Management creates an environment of employee support, reward good service and monitor employee job satisfaction. It stresses good working relations and utilization of human resources. Staffs are encouraged to join
trade unions. Total quality management is firmly upheld, staff are trained so that they can do their jobs well and derive satisfaction from them - happy satisfied customers yield happy employees and vice versa. From the literature review, we also find that ISS has also gone to the extreme of moving into palatial new headquarters in a wooded country estate in northern Copenhagen - an absence of air-conditioning or dust-hugging carpets, together with soothing colours, reflect management's belief that scientific cleaning can help reduce staff illness. [9] These efforts by the company to provide good and conducive working environments for its employees show that it practices one of its core values of responsiblity-caring making a corporate social responsible organization.

From our study, we believe that ISS is moving towards the right direction through employee motivation. However, despite these efforts, we think that to move towards environmental responsibility, as an IFS company and still make profits and also achieve the organization vision of becoming the world leader in IFS; ISS need to do more than just for the employees and other stakeholders. It needs an Environmental Management Standard like ISO 14001: 2004

It can be argued that since ISS does not manufacture products, it does not need to focus on environmental management system. We can state here that ISO 14001 standard is not only for manufacturing organizations but for every organizations. The following highlights the reasons we believe that and ISO 14001 EMS is appropriate for ISS as well as any other IFS company.

- It is the most important environmental standard in the world
- It is not organization specific i.e. it applies to all organization whether a manufacturing or service company.
- It is supported by environmentalist and encouraged by governments

Since ISS uses various solutions in its operations e.g. cleaning, wash room, pest control services etc which employees and customers are exposed to, it (and other IFS companies) needs the standard in the following areas:
  - Implement, maintain and improve an environmental management system
  - Assure itself of its conformance with its own stated environmental policy (those policy commitment must be made)
  - Demonstrate conformance
  - Ensure conformance with environmental laws and regulations
  - Seek certification of its environmental management system by an external third party organization [18]

We believe that integrating this environmental management system (EMS) as part of the larger organizational management system, ISS would establish an effective environmental policy and to be able to manage the environmental aspects of its activities, and services.
5 Conclusion and Recommendations

This is the concluding chapter of our thesis which will bring our purpose of writing this thesis into context. This chapter also aims at providing recommendations to our case study, ISS, Sweden.

Therefore, as we will be making recommendations to our case study, we will also be doing the same for similar organizations generally. These general recommendations will be based on the research we have made on our case study.

5.1 Conclusion

ISS is a multi national company with a bold vision of becoming a world leader in integrated facility services. In its effort to achieving this vision, it has made progress in acquiring a large market share in the facility service industry. This growth has been as a result of the company’s marketing strategies which has brought it expansion and financial stability. We recognize that looking at only one company in our study could not make a strong case for generalized suggestions for other IFS companies to borrow the same marketing strategies as ISS as a way of making progress and moving towards the right direction. As we have stated before, the right marketing strategies for a company would be base on a number of factors such as size of the company, economic, political, social etc and most importantly on what the company vision is. However, our findings indicate
that ISS’s marketing strategies has brought about growth and expansion of the organization and is helping to propel it towards its vision.

5.2 Further Recommendation

- In its strategy to continue discipline acquisition process, we recommend that ISS should look into the potential and profitability of operating in some regions that it has not already established its presence like some countries in Africa. Arguments about economic, social and political instability might be sited as to the reason for not having any acquisition in Africa, however, this reasons do not hold ground as there are many countries in Africa, with economic, social and political stability. Examples are South Africa, Namibia, Senegal, Madagascar etc. By doing this, it can then truly stride towards its vision of being a world leader in integrated facility service.

- We have to note here that though we recognize that ISS could have some form of environmental policy, however, since we did not come across such information in the data we utilized for this study, we therefore recommendation that efforts should be made towards obtaining the ISO 14001 Environmental Management Standard (EMS) certification which specifies the actual requirements for an environmental management system. It should apply to those environmental aspects which the organization has control and over which it can be expected to have influence. This recommendation applies to all IFS company.
- ISS should research and develop new cleaning solutions that are free from pollutants, harmless to their employees and improve their overall environmental performance.
References

Company Materials:

1. ISS Organization. Available at: http://www.issworld.com/about_iss/organisation/Pages/organisation.aspx


3. RMS: Sources and uses of secondary data. Available at: http://oassis.gcal.ac.uk/rms/irm/sd.html

14. ISS: Our service. Available at: http://www.issworld.com/our_services/Pages/why_choose_iss.aspx


Other References:


# Appendix A

*ISS A/S Revenue by service*

## 2004

<table>
<thead>
<tr>
<th>Service</th>
<th>%</th>
<th>Revenue (DKK bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFS</td>
<td>3%</td>
<td>1.212</td>
</tr>
<tr>
<td>Office support</td>
<td>2%</td>
<td>0.808</td>
</tr>
<tr>
<td>Catering</td>
<td>5%</td>
<td>2.020</td>
</tr>
<tr>
<td>Property</td>
<td>23%</td>
<td>9.292</td>
</tr>
<tr>
<td>Cleaning</td>
<td>67%</td>
<td>27.068</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td><strong>40.4</strong></td>
</tr>
</tbody>
</table>

![pie chart showing revenue distribution by service]
## 2005

<table>
<thead>
<tr>
<th>Service</th>
<th>%</th>
<th>Revenue (DKK bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFS</td>
<td>6</td>
<td>2.784</td>
</tr>
<tr>
<td>Office support</td>
<td>4</td>
<td>1.856</td>
</tr>
<tr>
<td>Catering</td>
<td>6</td>
<td>2.784</td>
</tr>
<tr>
<td>Property</td>
<td>23</td>
<td>10.672</td>
</tr>
<tr>
<td>Cleaning</td>
<td>61</td>
<td>28.304</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>46.4</td>
</tr>
</tbody>
</table>
### 2006

<table>
<thead>
<tr>
<th>Service</th>
<th>%</th>
<th>Revenue (DKK bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFS</td>
<td>7</td>
<td>3.906</td>
</tr>
<tr>
<td>Office Support</td>
<td>8</td>
<td>4.464</td>
</tr>
<tr>
<td>Catering</td>
<td>6</td>
<td>3.348</td>
</tr>
<tr>
<td>Property</td>
<td>22</td>
<td>12.276</td>
</tr>
<tr>
<td>Cleaning</td>
<td>57</td>
<td>31.806</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td><strong>55.8</strong></td>
</tr>
</tbody>
</table>

![Pie chart showing revenue distribution](image)
Appendix B

Condensed consolidated interim cash flow statement
These condensed consolidated interim financial statements are unaudited.
1 January – 30 September. Amounts in DKK millions

<table>
<thead>
<tr>
<th>Note</th>
<th>Q32007</th>
<th>Q32006</th>
<th>YTD2007</th>
<th>YTD2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Operating profit before other items</td>
<td>1,104</td>
<td>938</td>
<td>2,796</td>
<td>2,334</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>220</td>
<td>188</td>
<td>624</td>
<td>540</td>
</tr>
<tr>
<td>Changes in working capital</td>
<td>(510)</td>
<td>(155)</td>
<td>(1,324)</td>
<td>(1,368)</td>
</tr>
<tr>
<td>Changes in provisions</td>
<td>(59)</td>
<td>(7)</td>
<td>(142)</td>
<td>(32)</td>
</tr>
<tr>
<td>Income taxes paid, net</td>
<td>(129)</td>
<td>(120)</td>
<td>(321)</td>
<td>(288)</td>
</tr>
<tr>
<td>Payments related to other income and expenses, net</td>
<td>(44)</td>
<td>(57)</td>
<td>(141)</td>
<td>(166)</td>
</tr>
<tr>
<td>Payments related to integration costs</td>
<td>(10)</td>
<td>(25)</td>
<td>(50)</td>
<td>(64)</td>
</tr>
</tbody>
</table>

**Cash flow from operating activities**
572 762 1,442 956

5 Acquisition of businesses
5 Divestment of businesses

5 Acquisition of businesses
(292) (867) (2,608) (3,270)
5 Divestment of businesses
(2) 8 14 67

Investments in intangible assets and property,
Plant and equipment, net
(213) (203) (541) (547)
Investments in financial assets, net
(2) (24) 7 (15)

**Cash flow from investing activities**
(509) (1,086) (3,128) (3,765)

Net proceeds from financing
799 450 2,622 4,284
Interest paid, net 1
(861) (628) (1,745) (1,660)
Minority interests
(2) (2) (11) (7)

**Cash flow from financing activities**
(64) (180) 866 2,617

**Total cash flow**
(1) (504) (820) (192)

Cash and cash equivalents at beginning
1,403 2,109 2,216 1,804
Total cash flow
(1) (504) (820) (192)
Foreign exchange adjustments
(11) (3) (5) (10)

**Cash and cash equivalents at 30 September**
1,391 1,602 1,391 1,602

1 Compared to 2006, Interest paid, net has been reclassified from cash flow from operating activities to cash flow from financing activities. Comparative figures have been restated accordingly. [16]