Chapter 1: New Perspectives on Marketing in the Service Economy

What Are Services?
### Three lists

<table>
<thead>
<tr>
<th>List 1</th>
<th>List 2</th>
<th>List 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue Jeans</td>
<td>Business Suit</td>
<td>Appendix Operation</td>
</tr>
<tr>
<td>Car</td>
<td>Casual Clothing</td>
<td>Car Brake Relining</td>
</tr>
<tr>
<td>Dental Examination</td>
<td>Condo</td>
<td>Dress Shoes</td>
</tr>
<tr>
<td>Meal at Nice Restaurant</td>
<td>Couch</td>
<td>Eyeglasses</td>
</tr>
<tr>
<td>Golf Lessons</td>
<td>Day Care</td>
<td>Furniture</td>
</tr>
<tr>
<td>Haircut</td>
<td>Dishwasher</td>
<td>Greeting Card</td>
</tr>
<tr>
<td>Hotel Room</td>
<td>Dry Cleaning</td>
<td>Health Club Membership</td>
</tr>
<tr>
<td>Houseplant</td>
<td>Fast Food</td>
<td>Legal Representation</td>
</tr>
<tr>
<td>Ice Cream Cone</td>
<td>Flu Shot</td>
<td>Novel</td>
</tr>
<tr>
<td>Jewelry</td>
<td>House Cleaner</td>
<td>Psychotherapy</td>
</tr>
<tr>
<td>Laundry Detergent</td>
<td>Life Insurance</td>
<td>Rental Car</td>
</tr>
<tr>
<td>“Lean Cuisine” Dinner</td>
<td>Plumbing Repairs</td>
<td>Soft Drink</td>
</tr>
<tr>
<td>Running Shoes</td>
<td>Poster Framing</td>
<td>Tailored Clothing</td>
</tr>
<tr>
<td>TV Repair</td>
<td>Socks</td>
<td>Typing Service</td>
</tr>
<tr>
<td>Vacation Package</td>
<td>Tax Consultant</td>
<td>Xeroxing/Copying</td>
</tr>
</tbody>
</table>

### What Are Services? (1)

- **The historical view**
  - Goes back over 200 years to Adam Smith and Jean-Baptiste Say
  - Different from goods because they are **perishable** (Smith 1776)
  - Consumption **cannot be separated** from production, services are **intangible** (Say 1803)
FIGURE 1.2  Tangibility Spectrum


Defining Services by the AMA

1. Products, such as a bank loan or home security, that are intangible or at least substantially so. If totally intangible, they are exchanged directly from producer to user, cannot be transported or stored, and are almost instantly perishable. Service products are often difficult to identify, because they come into existence at the same time they are bought and consumed. They comprise intangible elements that are inseparable; they usually involve customer participation in some important way; they cannot be sold in the sense of ownership transfer; and they have no title. Today, however, most products are partly tangible and partly intangible, and the dominant form is used to classify them as either goods or services (all are products). These common, hybrid forms, whatever they are called, may or may not have the attributes just given for totally intangible services.

2. Services, as a term, is also used to describe activities performed by sellers and others that accompany the sale of a product and aid in its exchange or its utilization (e.g., shoe fitting, financing, an 800 number). Such services are either presale or post-sale and supplement the product, not comprise it. If performed during sale, they are considered to be intangible parts of the product.
Service Can Mean all of These

- Service as a product
- Customer service
- Services as value add for goods
- Service embedded in a tangible product

Examples of Goods Companies that are Expanding into Services
McDonald vs. The Living Room
Service Products versus Customer Service and After-Sales Service

- A firm’s market offerings are divided into core product elements and supplementary service elements.
- Is everyone in service? Need to distinguish between:
  - Marketing of services
  - Marketing goods through added-value service
- Good service increases the value of a core physical good.
- After-sales service is as important as pre-sales service for many physical goods.
- Manufacturing firms are reformulating and enhancing existing added-value services to market them as stand-alone core products.

What Are Services? (1)

- A fresh perspective: Services involve a form of rental, offering benefits without transfer of ownership.
  - Include rental of goods
  - Marketing tasks for services differ from those involved in selling goods and transferring ownership.
What Are Services? (2)

- **Five broad categories within non-ownership framework:**
  1. Rented goods services
  2. Defined space and place rentals
  3. Labor and expertise rentals
  4. Access to shared physical environments
  5. Systems and networks: access and usage

- **Implications of renting versus owning (Service Perspectives 1.1)**
  - Markets exist for renting durable goods rather than selling them
  - Renting portions of larger physical entity (e.g., office space, apartment) can form basis for service
  - Customers more closely engaged with service suppliers
  - Time plays central role in most services
  - Customer choice criteria may differ between rentals and outright purchases
  - Services offer opportunities for resource sharing

Defining Services

- **Services**
  - Are economic activities **offered** by one party to another
  - Most commonly employ time-based performances to bring about **desired results** in:
    - recipients themselves
    - objects or other assets for which purchasers have responsibility

- In exchange for their money, **time**, and **effort**, service customers expect to obtain value from
  - Access to goods, labor, facilities, environments, professional skills, networks, and systems
  - But they **do not** normally **take ownership** of any of the physical elements involved
Four Categories Of Services (Fig 2.1)

<table>
<thead>
<tr>
<th>Nature of the Service Act</th>
<th>People processing (services directed at people’s bodies):</th>
<th>Possessions processing (services directed at physical possessions):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible Actions</td>
<td>People</td>
<td>Possessions</td>
</tr>
<tr>
<td>People</td>
<td><img src="image" alt="Barbers" /> <img src="image" alt="Health care" /></td>
<td><img src="image" alt="Refueling" /> <img src="image" alt="Disposal/recycling" /></td>
</tr>
<tr>
<td>Intangible Actions</td>
<td>Mental stimulus processing (services directed at people’s minds):</td>
<td>Information processing (services directed at intangible assets):</td>
</tr>
<tr>
<td></td>
<td><img src="image" alt="Education" /> <img src="image" alt="Advertising/PR" /></td>
<td><img src="image" alt="Accounting" /> <img src="image" alt="Banking" /></td>
</tr>
</tbody>
</table>

Services Pose Distinctive Marketing Challenges

- Marketing management tasks in the service sector differ from those in the manufacturing sector

- The eight common differences are:
  1. Most service products cannot be inventoried
  2. Intangible elements usually dominate value creation
  3. Services are often difficult to visualize and understand
  4. Customers may be involved in co-production
  5. People may be part of the service experience
  6. Operational inputs and outputs tend to vary more widely
  7. The time factor often assumes great importance
  8. Distribution may take place through nonphysical channels

- What are marketing implications?
What are the consequences of these characteristics (for the four Ps)?

- **Characteristic: Intangibility**
- **Example companies: Barber, Car wash**
- **Implications for marketing? For the four P?**
  

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What are the consequences of these characteristics (for the four Ps)?

- **Characteristic: Customer is highly integrated into the production**
- **Example companies: Architect, Medical procedure**
- **Implications for marketing? For the four P?**
  
  Responsibility on the customer, Pricing the different contribution, distribution plays a role
What are the consequences of these characteristics (for the four Ps)?

- Characteristic: very perishable
  - Example companies: restaurant experience, air flight, massage,
  - Implications for marketing? For the four P?
    - Timing is important, small room for errors, Promotion needs to fit the timing, Promotion & supply needs to fit.

What are the consequences of these characteristics (for the four Ps)?

- Characteristic: the product can vary in quality
  - Example companies: Financial Agent, Advertising Consulting, Telephone Service, Law Enforcement,
  - Implications for marketing? For the four P?
  - Satisfaction, Standardization, Warranty, Price,
What are the consequences of these characteristics (for the four Ps)?

- **Characteristic:** the product needs to be consumed immediately after/during the production

- **Example companies:** Hibachi restaurant, Spa, Gym, Haircut

- **Implications for marketing? For the four P?**

  Adjust the service for customer, Still can be promoted & instructed, little room error,

### Comparing Goods and Services


<table>
<thead>
<tr>
<th>Goods</th>
<th>Services</th>
<th>Resulting Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible</td>
<td>Intangible</td>
<td>Services cannot be inventoried. Services cannot be easily patented. Services cannot be readily displayed or communicated. Pricing is difficult.</td>
</tr>
<tr>
<td>Standardized</td>
<td>Heterogeneous</td>
<td>Service delivery and customer satisfaction depend on employee and customer actions. Service quality depends on many uncontrollable factors. There is no sure knowledge that the service delivered matches what was planned and promoted.</td>
</tr>
<tr>
<td>Production separate from consumption</td>
<td>Simultaneous production and consumption</td>
<td>Customers participate in and affect the transaction. Customers affect each other. Employees affect the service outcome. Decentralization may be essential. Mass production is difficult.</td>
</tr>
<tr>
<td>Nonperishable</td>
<td>Perishable</td>
<td>It is difficult to synchronize supply and demand with services. Services cannot be returned or resold.</td>
</tr>
</tbody>
</table>
### Differences, Implications, and Marketing-Related Tasks (1) (Table 1.1)

<table>
<thead>
<tr>
<th>Difference</th>
<th>Implications</th>
<th>Marketing-Related Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most service products cannot be inventoried</td>
<td>Customers may be turned away</td>
<td>Use pricing, promotion, and reservations to smooth demand; work with ops to manage capacity</td>
</tr>
<tr>
<td>Intangible elements usually dominate value creation</td>
<td>Harder to evaluate service and distinguish from competitors</td>
<td>Emphasize physical clues, employ metaphors and vivid images in advertising</td>
</tr>
<tr>
<td>Services are often difficult to visualize and understand</td>
<td>Greater risk and uncertainty perceived</td>
<td>Educate customers on making good choices; offer guarantees</td>
</tr>
<tr>
<td>Customers may be involved in co-production</td>
<td>Interaction between customer and provider; but poor task execution could affect satisfaction</td>
<td>Develop user-friendly equipment, facilities, and systems; train customers, provide good support</td>
</tr>
</tbody>
</table>

### Differences, Implications, and Marketing-Related Tasks (2) (Table 1.1)

<table>
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<tr>
<th>Difference</th>
<th>Implications</th>
<th>Marketing-Related Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td>People may be part of service experience</td>
<td>Behavior of service personnel and customers can affect satisfaction</td>
<td>Recruit, train employees to reinforce service concept</td>
</tr>
<tr>
<td>Operational inputs and outputs tend to vary more widely</td>
<td>Hard to maintain quality, consistency, reliability</td>
<td>Shape customer behavior</td>
</tr>
<tr>
<td>Time factor often assumes great importance</td>
<td>Difficult to shield customers from failures</td>
<td>Redesign for simplicity and failure proofing</td>
</tr>
<tr>
<td>Distribution may take place through nonphysical channels</td>
<td>Time is money; customers want service at convenient times</td>
<td>Institute good service recovery procedures</td>
</tr>
<tr>
<td></td>
<td>Electronic channels or voice telecommunications</td>
<td>Find ways to compete on speed of delivery; offer extended hours</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Create user-friendly, secure websites and free access by telephone</td>
</tr>
</tbody>
</table>
Expanded Marketing Mix for Services

The 8Ps of Services Marketing

- Product Elements (*Chapter 3*)
- Place and Time (*Chapter 4*)
- Price and Other User Outlays (*Chapter 5*)
- Promotion and Education (*Chapter 6*)
- Process (*Chapter 8*)
- Physical Environment (*Chapter 10*)
- People (*Chapter 11*)
- Productivity and Quality (*Chapter 14*)

*Fig 1.9 Working in Unison: The 8Ps of Services Marketing*
Three management functions play central and interrelated roles in meeting needs of service customers

Marketing Must Be Integrated with Other Management Functions (Fig 1.10)

Four Categories Of Services (Fig 2.1)

<table>
<thead>
<tr>
<th>Nature of the Service Act</th>
<th>Who or What Is the Direct Recipient of the Service?</th>
<th>Posessions</th>
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A Framework For Developing Effective Service Marketing Strategies: Overview

**Understanding Customer Needs, Decision Making, and Behavior in Service Encounters**
*Chapter 2*

**Building the Service Model**
*Part II: Chapters 3-7*

**Managing the Customer Interface**
*Part III: Chapters 8-11*

**Implementing Profitable Service Strategies**
*Part IV: Chapters 12-15*

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**Term project**

**The Project:** Prepare a service concept for a real company or purpose in the Boston Area.

**The Scope:** The purpose of this assignment is to give you an opportunity to develop a complete service concept for a real business. An integrated service concept implies multiple steps to be carried out over time and it may also imply numerous creative executions, some of which may be dependent on prior steps. The students should use the service book as a guide for the project. Below is a guideline list students can follow:

- **ca. 1 page:** Executive summary (incl. mission)
- **ca. 3 pages:** Market summary, situation assessment and analysis (incl. SWOT)
- **ca. 12 pages:** Service Concept & Marketing Strategy (incl. "Prototypes"). This part should include and applied some of the concepts and techniques learned in the class. E.g. Flower of Service, Blueprint & service scripts, Role descriptions, Pricing plan, Distribution plan, Communication plan, Servicescape planning, Website integration, Garantie or Reward program?
- **ca. 2 pages:** Future recommendation with priorities, budget plan, and timeline
Approach to support your client

1. **Situation Analysis**
   - Interview with the Management
   - Analysis of the Industry
   - SWOT
   - Major Service Management Problems?

2. **Problem definition**
   - Priorities of Problems
   - Be aware of the resources
   - Finding the right tools to deliver an answer for the problem
   - Don’t oversee easy fixes of (smaller) problems
   - **Prepare the application of the tools and execute**
   - **Based on this deliver recommendations**

Typical Management Problems (1)

- **What should we offer?**
  - Service Flower, Outsourcing Decision, Full Services & No Frills, Blue-Print, Customer Integration

- **What are the customer needs?**
  - Market research (Ethnography), Mystery Shopping, Risks, Search Attributes

- **Do we offer good quality? Is the customer satisfied?**
  - Gap Model, ServQual, Hard & Soft Measures, Productivity Measures, Service standards
Typical Management Problems (2)

- How can we improve our service? Why do we fail sometimes?
  - Fishbone-Diagram, Blue-Printing, Pareto-Diagram, Critical incident technique, Employee Empowerment

- How can we retain the customer? How can we ensure the customer comes back?
  - Service Recovery, Reward & Loyalty Programs, Script, Risk, Convenience

- Does the customer get our message right? What does he receive?
  - Communication Metaphors, Corporate Identity, Scripts & Roles, Servicescape