

# Chapter 1: New Perspectives on Marketing in the Service Economy



## What Are Services?

## Three lists



### **List 1**

*Blue Jeans  
Car  
Dental Examination  
Meal at Nice Restaurant  
Golf Lessons  
Haircut  
Hotel Room  
Houseplant  
Ice Cream Cone  
Jewelry  
Laundry Detergent  
"Lean Cuisine" Dinner  
Running Shoes  
TV Repair  
Vacation Package*

### **List 2**

*Business Suit  
Casual Clothing  
Condo  
Couch  
Day Care  
Dishwasher  
Dry Cleaning  
Fast Food  
Flu Shot  
House Cleaner  
Life Insurance  
Plumbing Repairs  
Poster Framing  
Socks  
Tax Consultant*

### **List 3**

*Appendix Operation  
Car Brake Relining  
Dress Shoes  
Eyeglasses  
Furniture  
Greeting Card  
Health Club Membership  
Legal Representation  
Novel  
Psychotherapy  
Rental Car  
Soft Drink  
Tailored Clothing  
Typing Service  
Xeroxing/Copying*

## What Are Services? (1)



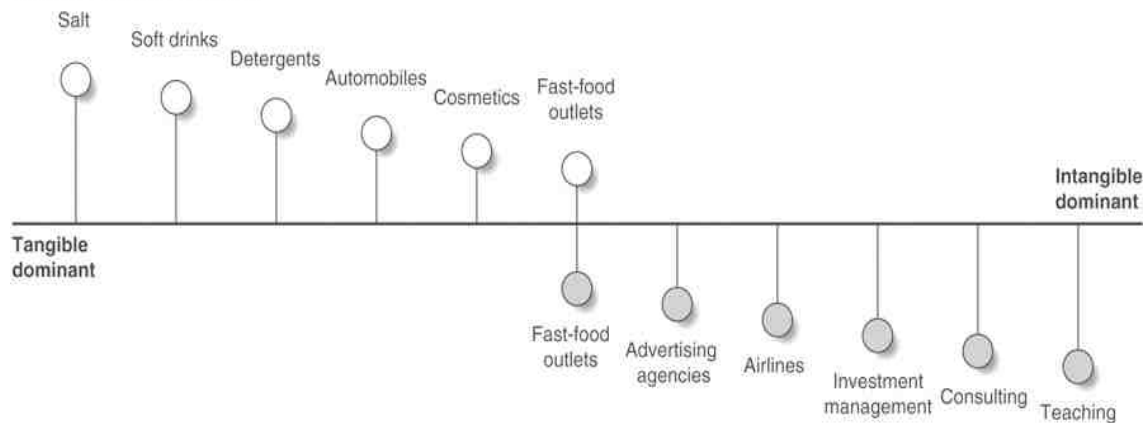
- **The historical view**
  - Goes back over 200 years to Adam Smith and Jean-Baptiste Say
  - Different from goods because they are **perishable** (Smith 1776)
  - Consumption **cannot be separated** from production, services are **intangible** (Say 1803)

# Tangibility Spectrum

SERVICES MARKETING

FIGURE 1.2 Tangibility Spectrum

Source: G. Lynn Shostack, "Breaking Free from Product Marketing," *Journal of Marketing* 41 (April 1977), pp. 73-80. Reprinted with permission of the American Marketing Association.



# Defining Services by the AMA

SERVICES MARKETING

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



UMass Boston College of Management  
Boston's Public Business School

- 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





NIKE.COM myLOCKER teamLOCKER DESIGN SEARCH CART (0)

NIKEiD. MEN'S WOMEN'S COLLECTIONS STUDIOS VIEW ALL

**SPORT** CUSTOMIZE YOUR GAME

**STYLE** CUSTOMIZE YOUR LOOK

GO TEAM COLORS

SELECT ANY COLOR

NEWSLETTER GIFT CARD COUNTRY SELECTOR

Soccer TOTAL90 CUSTOM ID KAH BY YOUNGKAH

NEW ON NIKEiD COLOR UP THE NIKEFREE 5.0 ID RUNNING SHOE

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Kunz - Services Marketing

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# McDonald vs. The Living Room

SERVICES MARKETING



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## 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)

SERVICES MARKETING

	Who or What Is the Direct Recipient of the Service?	
Nature of the Service Act	People	Possessions
Tangible Actions	<p><b>People processing</b> (services directed at people's bodies):</p> <ul style="list-style-type: none"> <li>Barbers</li> <li>Health care</li> </ul>	<p><b>Possession processing</b> (services directed at physical possessions):</p> <ul style="list-style-type: none"> <li>Refueling</li> <li>Disposal/recycling</li> </ul>
Intangible Actions	<p><b>Mental stimulus processing</b> (services directed at people's minds):</p> <ul style="list-style-type: none"> <li>Education</li> <li>Advertising/PR</li> </ul>	<p><b>Information processing</b> (services directed at intangible assets):</p> <ul style="list-style-type: none"> <li>Accounting</li> <li>Banking</li> </ul>

## Services Pose Distinctive Marketing Challenges

SERVICES MARKETING

- Marketing management tasks in the service sector differ from those in the manufacturing sector
- The eight common differences are:
  - Most service products cannot be inventoried
  - Intangible elements usually dominate value creation
  - Services are often difficult to visualize and understand
  - Customers may be involved in co-production
  - People may be part of the service experience
  - Operational inputs and outputs tend to vary more widely
  - The time factor often assumes great importance
  - 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?**

**Can not see? Evaluating quality? Subjective.**

## 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



source: A. Parasuraman, V. A. Zeithaml, and L. L. Berry, "A Conceptual Model of Service Quality and Its Implications for Future Research." *Journal of Marketing* 49 (Fall 1985) pp. 41–50. Reprinted by permission of the American Marketing Association.

Goods	Services	Resulting Implications
Tangible	Intangible	Services cannot be inventoried. Services cannot be easily patented. Services cannot be readily displayed or communicated. Pricing is difficult.
Standardized	Heterogeneous	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.
Production separate from consumption	Simultaneous production and consumption	Customers participate in and affect the transaction. Customers affect each other. Employees affect the service outcome. Decentralization may be essential. Mass production is difficult.
Nonperishable	Perishable	It is difficult to synchronize supply and demand with services. Services cannot be returned or resold.

## Differences, Implications, and Marketing-Related Tasks (1) (Table 1.1)



Difference	Implications	Marketing-Related Tasks
<ul style="list-style-type: none"> <li>■ Most service products cannot be inventoried</li> <li>■ Intangible elements usually dominate value creation</li> <li>■ Services are often difficult to visualize and understand</li> <li>■ Customers may be involved in co-production</li> </ul>	<ul style="list-style-type: none"> <li>■ Customers may be turned away</li> <li>■ Harder to evaluate service and distinguish from competitors</li> <li>■ Greater risk and uncertainty perceived</li> <li>■ Interaction between customer and provider; but poor task execution could affect satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>■ Use pricing, promotion, and reservations to smooth demand; work with ops to manage capacity</li> <li>■ Emphasize physical clues, employ metaphors and vivid images in advertising</li> <li>■ Educate customers on making good choices; offer guarantees</li> <li>■ Develop user-friendly equipment, facilities, and systems; train customers, provide good support</li> </ul>

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



Difference	Implications	Marketing-Related Tasks
<ul style="list-style-type: none"> <li>■ People may be part of service experience</li> <li>■ Operational inputs and outputs tend to vary more widely</li> <li>■ Time factor often assumes great importance</li> <li>■ Distribution may take place through nonphysical channels</li> </ul>	<ul style="list-style-type: none"> <li>■ Behavior of service personnel and customers can affect satisfaction</li> <li>■ Hard to maintain quality, consistency, reliability</li> <li>■ Difficult to shield customers from failures</li> <li>■ Time is money; customers want service at convenient times</li> <li>■ Electronic channels or voice telecommunications</li> </ul>	<ul style="list-style-type: none"> <li>■ Recruit, train employees to reinforce service concept</li> <li>■ Shape customer behavior</li> <li>■ Redesign for simplicity and failure proofing</li> <li>■ Institute good service recovery procedures</li> <li>■ Find ways to compete on speed of delivery; offer extended hours</li> <li>■ Create user-friendly, secure websites and free access by telephone</li> </ul>

## 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*)



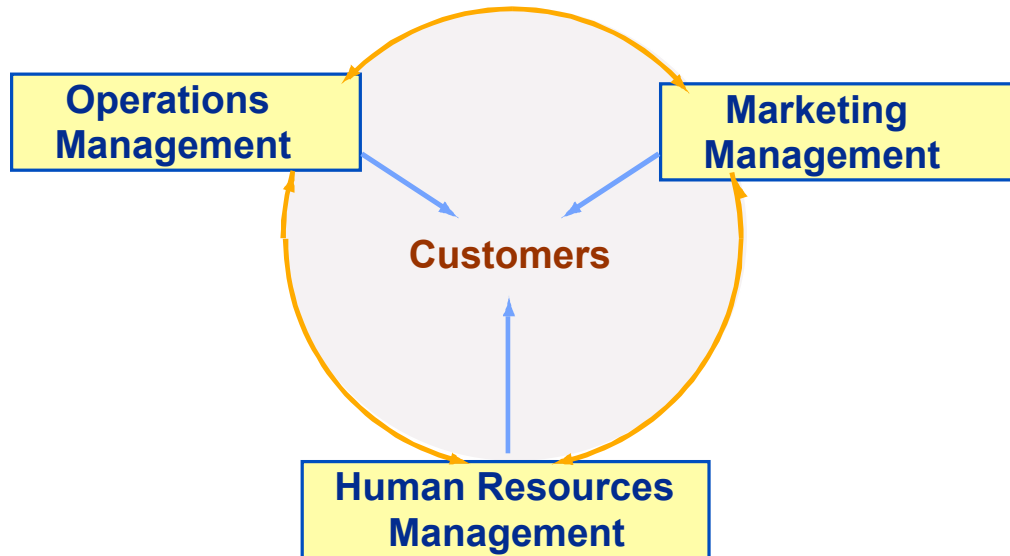
**Fig 1.9 Working in Unison: The 8Ps of Services Marketing**



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



**Three management functions play central and interrelated roles in meeting needs of service customers**

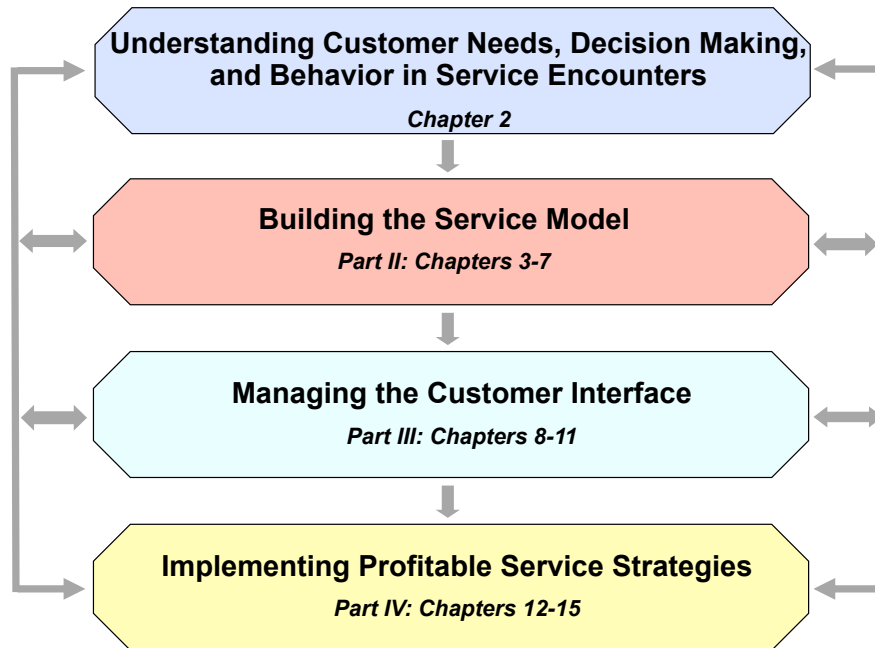


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# A Framework For Developing Effective Service Marketing Strategies: Overview



## 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 Flow, 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