

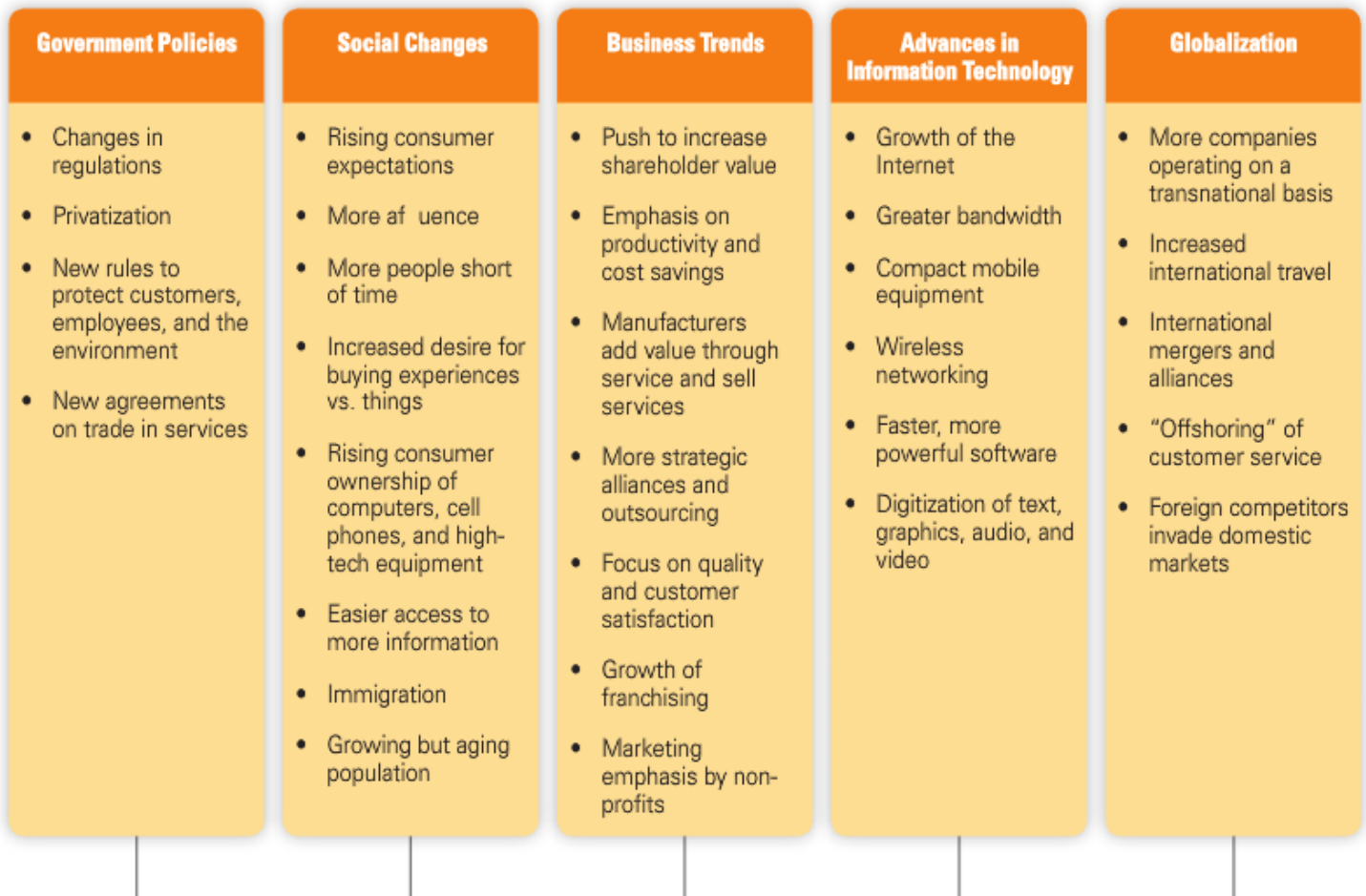
Chapter 1: Introduction to Services Marketing

Most New Jobs Are Generated by Services

- Since the service sector is growing so rapidly in virtually all countries around the world, new job creation comes mainly from services.
- Some of the fastest economic growth is in knowledge-based industries, such as professional and business services, education, and health care (rather than the idea that servicers are only waiters and cashiers)
- Reflecting the ever tighter integration of value creation in the service economy, IBM came up with the term Service Science, Management and Engineering (SSME), often called Service Science for short, which integrates key disciplines required to design, improve, and scale service systems.
- Harvard suggests that Service Science be a field of study in itself since to be effective in today's service-driven economies, future graduates should be "T" shaped
- **T shaped:** have a deep understanding of their own discipline i.e. business (the vertical part of the T), as well as a basic understanding of service-related topics in other disciplines (the horizontal part of the T).

POWERFUL FORCES ARE TRANSFORMING SERVICE MARKETS

- Government policies, social changes, business trends, advances in information technology, and globalization are among the powerful forces transforming today's service markets.



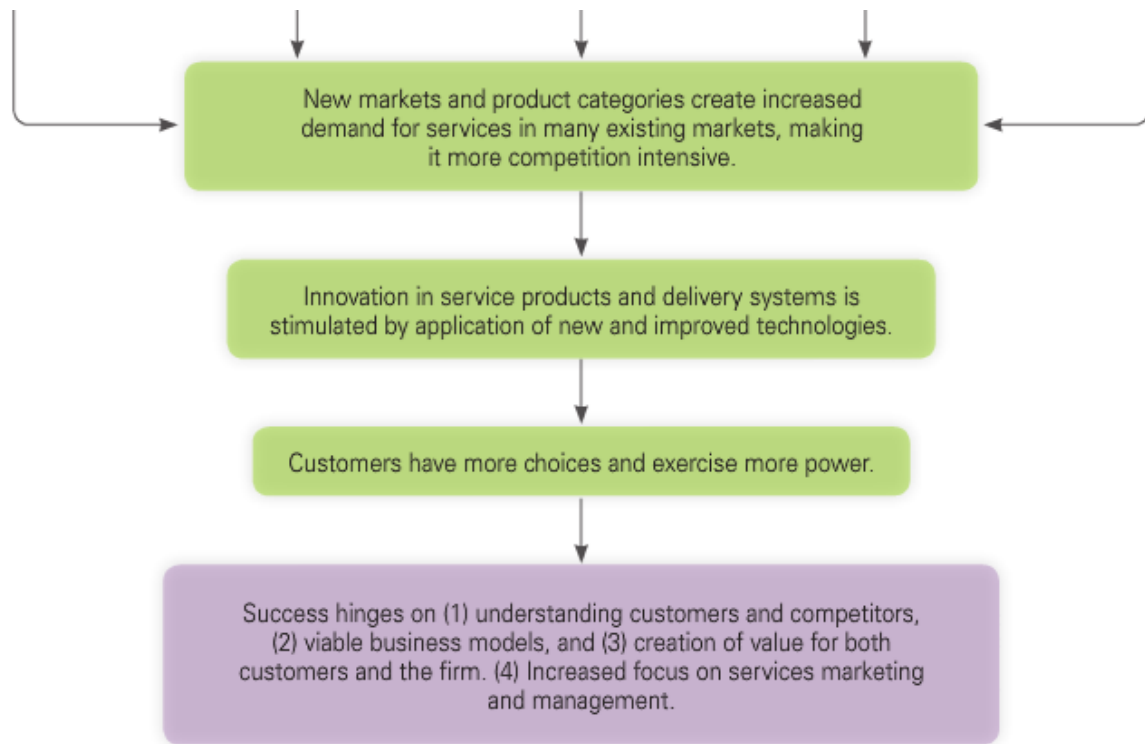


Figure 1.6 Factors stimulating the transformation of the service economy.

Table 1.1 Examples of forces that transform and impact the service economy

Government Policies	Example	Impact on Service Economy
<ul style="list-style-type: none"> Changes in regulations 	<ul style="list-style-type: none"> Ban on smoking in restaurants, and limitation of transfats in food preparation 	<ul style="list-style-type: none"> Improved customer comfort and health in restaurants will encourage people to dine out more often.
<ul style="list-style-type: none"> Privatization 	<ul style="list-style-type: none"> Privatization of infrastructure services like utilities and transportation 	<ul style="list-style-type: none"> Existing suppliers may be retrenched in a more competitive environment, but there will also be job creation and investments by new players entering the market.
<ul style="list-style-type: none"> New regulations to protect customers, employees, and the environment 	<ul style="list-style-type: none"> Increase in taxes to aviation industry for harmful gas emission 	<ul style="list-style-type: none"> Increased costs of air travel may dampen demand. Policy stimulates development of jet engines that are more fuel-efficient and less polluting.
<ul style="list-style-type: none"> New agreements on trade in services 	<ul style="list-style-type: none"> Companies from foreign countries can take over basic services like water, health, transportation and education . 	<ul style="list-style-type: none"> Transfer of expertise across borders may take place. New investments result in improved infrastructure and better quality.

Social Changes	Example	Impact on Service Economy
<ul style="list-style-type: none"> • Rising consumer expectations 	<ul style="list-style-type: none"> • Higher expectations of service quality and convenience 	<ul style="list-style-type: none"> • Service staff are trained to deliver good service. Extended hours offer more part-time job opportunities.
<ul style="list-style-type: none"> • Greater affluence 	<ul style="list-style-type: none"> • Higher spending on tourism 	<ul style="list-style-type: none"> • A wider variety of offerings is created. Development of new services in new locations boosts local economies.
<ul style="list-style-type: none"> • Personal outsourcing 	<ul style="list-style-type: none"> • Home cleaning services, baby and childcare services 	<ul style="list-style-type: none"> • New service providers include both local firms and national/regional chains.
<ul style="list-style-type: none"> • Increased desire for buying experiences vs. things 	<ul style="list-style-type: none"> • Higher spending on luxury services like spa treatments 	<ul style="list-style-type: none"> • New players emerge; existing health clubs and resort hotels add spas to their offerings.
<ul style="list-style-type: none"> • Rising consumer ownership of computers, cell phones, and high-tech equipment 	<ul style="list-style-type: none"> • Higher demand for laptops and smart phones 	<ul style="list-style-type: none"> • There is a greater need for designers, engineers, and marketers for these types of equipment.
<ul style="list-style-type: none"> • Easier access to more information 	<ul style="list-style-type: none"> • Internet and podcasting 	<ul style="list-style-type: none"> • These allow firms to build closer, more focused relationships with customers and create new opportunities to reach them on the move in real time.
<ul style="list-style-type: none"> • Migration 	<ul style="list-style-type: none"> • Many Indian nationals who have migrated to the USA now move back to their home country 	<ul style="list-style-type: none"> • This transfers talent to their home country but may create a vacuum in the employment market of developed economies.
<ul style="list-style-type: none"> • Growing but aging population 	<ul style="list-style-type: none"> • Matured European countries and China 	<ul style="list-style-type: none"> • More services catering to the needs of elderly are required, including health care and construction of retirement communities.

Business Trends	Example	Impact on Service Economy
<ul style="list-style-type: none"> • Push to increase shareholder value 	<ul style="list-style-type: none"> • Shareholders pressure company boards to deliver higher returns 	<ul style="list-style-type: none"> • Companies search for new revenue sources such as additional fees and higher prices. They may adopt revenue management strategies, plus cuts in customer service, to reduce costs
<ul style="list-style-type: none"> • Emphasis on productivity and cost savings 	<ul style="list-style-type: none"> • Move toward self-service technologies 	<ul style="list-style-type: none"> • Companies rethink their service delivery system, and invest in new technologies that replace employees.
<ul style="list-style-type: none"> • Manufacturers add value through service and sell services 	<ul style="list-style-type: none"> • German elevator manufacturers now move into maintenance service 	<ul style="list-style-type: none"> • Manufacturers now compete against repair service companies.
<ul style="list-style-type: none"> • More strategic alliances 	<ul style="list-style-type: none"> • Airlines form alliances such as Star Alliance and Oneworld 	<ul style="list-style-type: none"> • Routes are rationalized to avoid duplications. Schedules and ticketing are coordinated. Marketing is leveraged and operating efficiency improved.
<ul style="list-style-type: none"> • Focus on quality and customer satisfaction 	<ul style="list-style-type: none"> • Hotels and motels at all levels define standards more tightly and seek to meet them consistently 	<ul style="list-style-type: none"> • Training programs are developed to equip service staff with necessary skills. There is investment in modernization of existing facilities and construction of new ones offering better amenities.
<ul style="list-style-type: none"> • Growth of franchising 	<ul style="list-style-type: none"> • Fast-food chains expand around the world 	<ul style="list-style-type: none"> • These chains face the challenge of maintaining consistent service standards worldwide while adapting to local food preferences and cultures.
<ul style="list-style-type: none"> • Marketing emphasis by nonprofits 	<ul style="list-style-type: none"> • Museums seek to expand audiences and generate more frequent repeat visits 	<ul style="list-style-type: none"> • They may carry out fund-raising for improved facilities, or add new revenue-generating services such as restaurants and facilities rental.

Advances in Information Technology	Example	Impact on Service Economy
<ul style="list-style-type: none"> • Growth of the Internet 	<ul style="list-style-type: none"> • Information at the fingertips of the customers, making them more knowledgeable and informed 	<ul style="list-style-type: none"> • New services are created to gather various sources of information and repackage them to provide value to customers.
<ul style="list-style-type: none"> • Greater bandwidth 	<ul style="list-style-type: none"> • Allows for delivery of sophisticated and interactive educational content 	<ul style="list-style-type: none"> • Service delivery processes need to be redesigned.
<ul style="list-style-type: none"> • Compact mobile equipment 	<ul style="list-style-type: none"> • Smart phones that integrate many high-tech functions 	<ul style="list-style-type: none"> • Advanced marketing and maintenance services are needed.
<ul style="list-style-type: none"> • Wireless networking 	<ul style="list-style-type: none"> • Public libraries, cafes, and hotels provide this service (free or at a price) to attract customers 	<ul style="list-style-type: none"> • More brick-and-mortar service firms are expected to provide similar benefits in order to stay competitive.
<ul style="list-style-type: none"> • Faster, more powerful software 	<ul style="list-style-type: none"> • Customized software development by software consulting firms like Infosys 	<ul style="list-style-type: none"> • There will be an increase in training software engineers to develop packaged services instead of piecemeal services.
<ul style="list-style-type: none"> • Digitization of text, graphics, audio, and video 	<ul style="list-style-type: none"> • Online download services 	<ul style="list-style-type: none"> • Service providers need to invest in maintaining a secure and credible website and guarantee virus-free files for download.

Globalization	Example	Impact on Service Economy
<ul style="list-style-type: none"> • More companies operating on transnational basis 	<ul style="list-style-type: none"> • MNCs such as banks and the “Big Four” accounting firms have numerous operations around the world 	<ul style="list-style-type: none"> • Companies increase the scope of services that can be provided. Staff in local markets are trained to upgrade their skills, capabilities, and service standards.
<ul style="list-style-type: none"> • Increased international travel 	<ul style="list-style-type: none"> • More services offered to more places; new travel options for business and pleasure 	<ul style="list-style-type: none"> • More services are provided by airlines, ferries and cruise ships, coach tours and international trains, leading to greater competition.
<ul style="list-style-type: none"> • International mergers and alliances 	<ul style="list-style-type: none"> • Merger between international airlines (e.g., KLM and Air France), banks, insurance companies, etc. 	<ul style="list-style-type: none"> • There is greater market leverage and operational efficiency, but consolidation may lead to job losses.
<ul style="list-style-type: none"> • “Offshoring” of customer service (Figure 1.7) 	<ul style="list-style-type: none"> • Call center operations relocated to India, Philippines, etc. 	<ul style="list-style-type: none"> • Investment in technology and infrastructure stimulates local economies, raises living standards, and attracts related industries.
<ul style="list-style-type: none"> • Foreign competitors invade domestic markets 	<ul style="list-style-type: none"> • International banks such as HSBC and ING do business in the USA 	<ul style="list-style-type: none"> • Build branch network by purchasing one or more regional banks; invest heavily in new and improved branches and in electronic delivery channels.

WHAT ARE SERVICES?

- Services are hard to define
- Early marketing definitions of services described services as “acts, deeds, performances, or efforts” and contrasted them against goods by arguing that they had different characteristics from goods — defined as “articles, devices, materials, objects, or things.”
- Today, the definition of a service is more focused on the lack of transfer of ownership when buying a service.
- Services involve a form of rental where customers can obtain benefits. Customers value and are willing to pay for desired experiences and solutions.
- **Rent:** a general term describing payment for using something or accessing skills/expertise, facilities, or networks (usually for a defined time period) instead of buying it outright.
- 5 broad categories within the non-ownership framework:
 1. **Labor, skills and expertise rentals:** Other people are hired to perform work that customers cannot or choose not to do themselves. I.e. Car repair, Medical checkup etc.
 2. **Rented goods services:** allow customers to obtain the exclusive temporary right to use a physical object that they prefer not to own. I.e. Boats, Construction equipment etc.
 3. **Defined space and facility rentals:** This is when customers obtain the use of a certain portion of a larger facility like a building, vehicle, or area. They usually share this facility with other customers. I.e. plane seat, locker in a storage building etc.
 4. **Access to shared facilities:** Customers rent the right to share the use of the facility. The facilities may be a combination of indoors, outdoors, and virtual. I.e. Theme parks, WOW site, Toll roads etc.
 5. **Access and use of networks and systems:** Customers rent the right to participate in a specified network. Service providers offer a variety of terms for access and use, depending on customer needs. I.e. Telecommunications, Banking etc.
- The difference between ownership and non-ownership affects the nature of marketing tasks and strategies because people are looking for different things when renting vs. buying. I.e. renting a car (focus on rental location and hours) but with buying a car (focus on price, quality, safety, efficiency)
- **Services:** economic activities offered by one party to another. Often, these activities bring about desired results to recipients, objects, or other assets.

- In exchange for money, time, and effort, service customers expect value from access to labor, skills, expertise, goods, facilities, networks, and systems. However, they do not normally take ownership of the physical elements involved.

FOUR BROAD CATEGORIES OF SERVICES— A PROCESS PERSPECTIVE

- There are major differences among services depending on what is being processed. In services, people, physical objects, data, and information can be processed. The nature of the processing can be tangible or intangible.
- Tangible actions are performed on people’s bodies or to their physical possessions.
- Intangible actions are performed on people’s minds or to their intangible assets.

4 Categories of Services

	Who or What Is the Direct Recipient of the Service?	
	People	Possessions
Nature of the Service Act		
Tangible Actions	People processing (services directed at people’s bodies): <ul style="list-style-type: none"> • Hairstylist • Passenger Transportation • Health Care 	Possession processing (services directed at physical possessions): <ul style="list-style-type: none"> • Freight Transportation • Laundry and Dry Cleaning • Repair and Maintenance
Intangible Actions	Mental stimulus processing (services directed at people’s mind): <ul style="list-style-type: none"> • Education • Advertising PR • Psychotherapy 	Information processing (services directed at intangible assets): <ul style="list-style-type: none"> • Accounting • Banking • Legal Services

People Processing

- Services that are directed at people themselves i.e. being transported, fed and made more beautiful
- Implications of people processing services:
 - Production and consumption are simultaneous
 - Active cooperation from the customer is needed
 - Financial and nonfinancial costs (time, mental and physical effort etc.)

Possession Processing

- Customers ask for service for their physical goods (i.e. an infested house in need of an exterminator)
- Implications of possession processing services:
 - Production and consumption are NOT simultaneous
 - Customers tend to be less involved and require less active cooperation

Mental Stimulus Processing

- Touch peoples’ minds and have the ability to shape attitudes and influence behaviour
- Education, news, professional advice and even some religious activities
- The core content of this service is information based
- Implications of Mental Stimulus processing services:
 - Customers do not have to be physically present (can access info remotely)
 - Services can be inventoried for consumption at a later time

Information Processing

- Information is the most intangible source of service output
- Info can be transformed into more permanent and tangible forms like letters, reports, books, CDs etc.

- It's sometimes hard to differentiate between information processing and mental stimulus processing services.
- Mental stimulus processing services and information-processing services are sometimes combined and simply called **information-based services**.

SERVICES POSE DISTINCT MARKETING CHALLENGES

- Different features that services have from goods: (IHIP)
 - Intangibility
 - Heterogeneity (variability)
 - Inseparability of production and consumption
 - Perishability of output

Difference	Implications	Marketing-related Topics
Most service products cannot be inventoried (i.e., output is perishable)	<ul style="list-style-type: none"> • Customers may be turned away or have to wait 	<ul style="list-style-type: none"> • Smooth demand through promotions, dynamic pricing, and reservations • Work with operations to adjust capacity
Intangible elements usually dominate value creation (i.e., service is physically intangible)	<ul style="list-style-type: none"> • Customers cannot taste, smell, or touch these elements and may not be able to see or hear them • Harder to evaluate service and distinguish from competitors 	<ul style="list-style-type: none"> • Make services tangible through emphasis on physical clues • Employ concrete metaphors and vivid images in advertising, branding
Services are often difficult to visualize and understand (i.e., service is mentally intangible)	<ul style="list-style-type: none"> • Customers perceive greater risk and uncertainty 	<ul style="list-style-type: none"> • Educate customers to make good choices, explain what to look for, document performance, offer guarantees
Customers may be involved in co-production (i.e., if people processing is involved, the service is inseparable)	<ul style="list-style-type: none"> • Customers interact with providers' equipment, facilities, and systems • Poor task execution by customers may hurt productivity, spoil service experience, and curtail benefits 	<ul style="list-style-type: none"> • Develop user-friendly equipment, facilities, and systems • Train customers to perform effectively; provide customer support
People may be part of the service experience	<ul style="list-style-type: none"> • Appearance, attitude and behavior of service personnel and other customers can shape the experience and affect satisfaction 	<ul style="list-style-type: none"> • Recruit, train, and reward employees to reinforce the planned service concept • Target the right customers at the right times; shape their behavior
Operational inputs and outputs tend to vary more widely (i.e., services are heterogeneous)	<ul style="list-style-type: none"> • Harder to maintain consistency, reliability, and service quality or to lower costs through higher productivity • Difficult to shield customers from results of service failures 	<ul style="list-style-type: none"> • Set quality standards based on customer expectations; redesign product elements for simplicity and failure-proofing • Institute good service recovery procedures • Automate customer-provider interactions; perform work while customers are absent
The time factor often assumes great importance	<ul style="list-style-type: none"> • Customers see time as a scarce resource to be spent wisely, dislike wasting time waiting, want service at times that are convenient 	<ul style="list-style-type: none"> • Find ways to compete on speed of delivery, minimize burden of waiting, offer extended service hours
Distribution may take place through nonphysical channels	<ul style="list-style-type: none"> • Information-based services can be delivered through electronic channels such as the Internet or voice telecommunications, but core products involving physical activities or products cannot 	<ul style="list-style-type: none"> • Seek to create user-friendly, secure websites and free access by telephone • Ensure that all information-based service elements can be downloaded from site

THE 7 Ps OF SERVICES MARKETING

1. Product
2. Price
3. Place
4. Promotion
5. Process
6. Physical environment
7. People

- We need to differentiate between delivering information-based core products (those that respond to customers' primary requirements) and providing supplementary services that facilitate the purchase and use of physical goods.
- Since services involve actions or performances, they are temporary and perishable. Therefore, they usually cannot be stocked as inventory for future use.
- Effective communications plays three vital roles in SM:
 - providing needed information and advice
 - persuading target customers to buy the brand or service product
 - encouraging them to take action at specific times
- Most communication is educational in nature, especially for new customers (teach customers about the benefits of the service, where and when to obtain it, and how to participate in service processes etc.)
 - Service communication must create confidence in the firm's experience, credentials, and expertise of its employees.
- Services are Often Difficult to Visualize and Understand as Intangible Elements usually Dominate Value Creation
- Intangibility can have of both mental and physical dimensions:
- **Mental intangibility:** it is not easily visualized and understood
- **Physical intangibility:** cannot be touched or experienced by the five senses. (harder for customers to evaluate important service features before purchase, or evaluate the quality of the performance itself)

Process

- Creating and delivering product elements require the design and implementation of effective processes. If service processes are badly designed, it could lead to slow and ineffective service delivery for staff.

Physical Environment

- The appearance of buildings, landscaping, vehicles, interior furnishings, equipment, staff members' uniforms, signs, printed materials, and other visible cues provide tangible evidence of a firm's service quality.
- The servicescape also facilitates service delivery and guides customers through the service process.

People

- Many services will always need direct interaction amongst people
- Service firms need to work closely with their human resources (HR) departments and devote special care in selecting, training, and motivating their service employees plus the employees also need good interpersonal skills and positive attitudes.

A FRAMEWORK FOR DEVELOPING EFFECTIVE SERVICES MARKETING STRATEGIES

Decisions made in one area must be consistent with those taken in another, so that each strategic element will mutually reinforce the other elements to provide good service.