



CHAPTER 1

Introduction to *Services* Marketing



Overview of Chapter 1



- **Why study services?**
- **Powerful forces that are transforming service Markets**
- **What are services?**
- **Four broad categories of services**
- **Challenges posed by services**
- **Expanded marketing mix for services**
- **Framework for effective services marketing strategies**



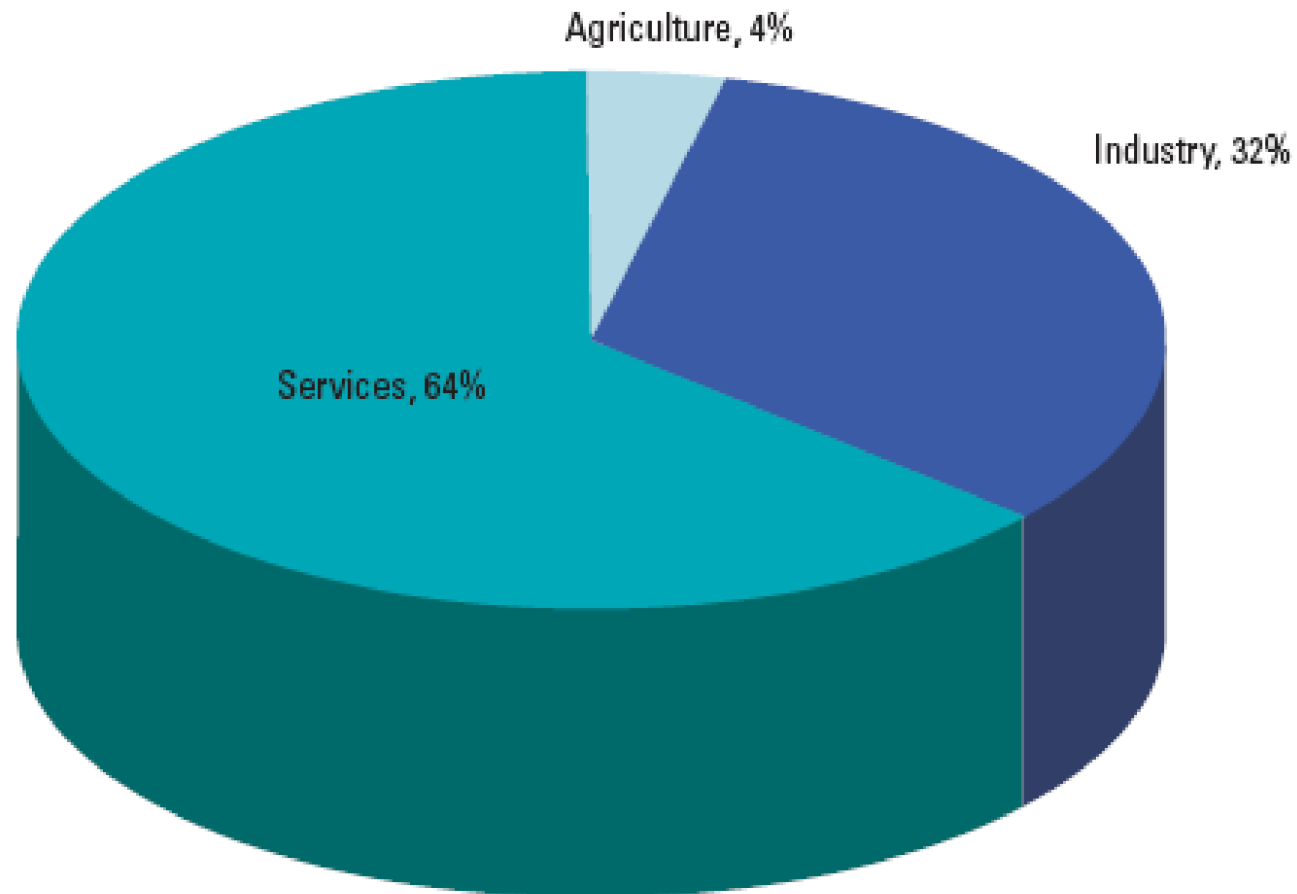
Why Study Services?

Why Study Services?



- **Services Dominate Economy in Most Nations**
- **Most New Jobs are Generated by Services**
 - **Fastest Growth Expected in Knowledge-Based Industries**
 - **Many New Jobs are Well-Paid Positions Requiring Good Educational Qualifications**

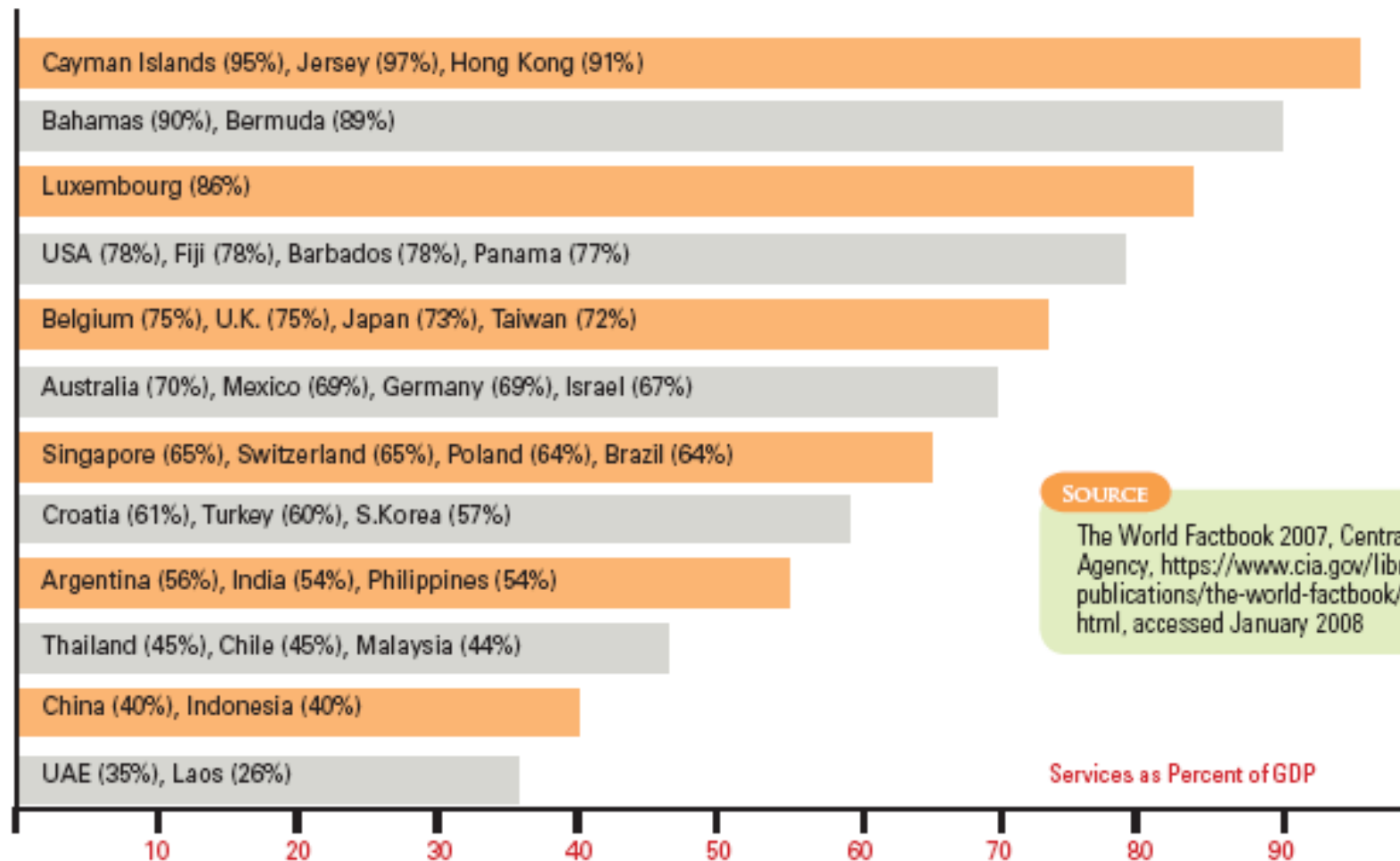
Contribution of Services Industries to Global GDP



SOURCE

The World Factbook 2007, Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>, accessed January 2008.

Estimated Size of Service Sector in Selected Countries



SOURCE

The World Factbook 2007, Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>, accessed January 2008

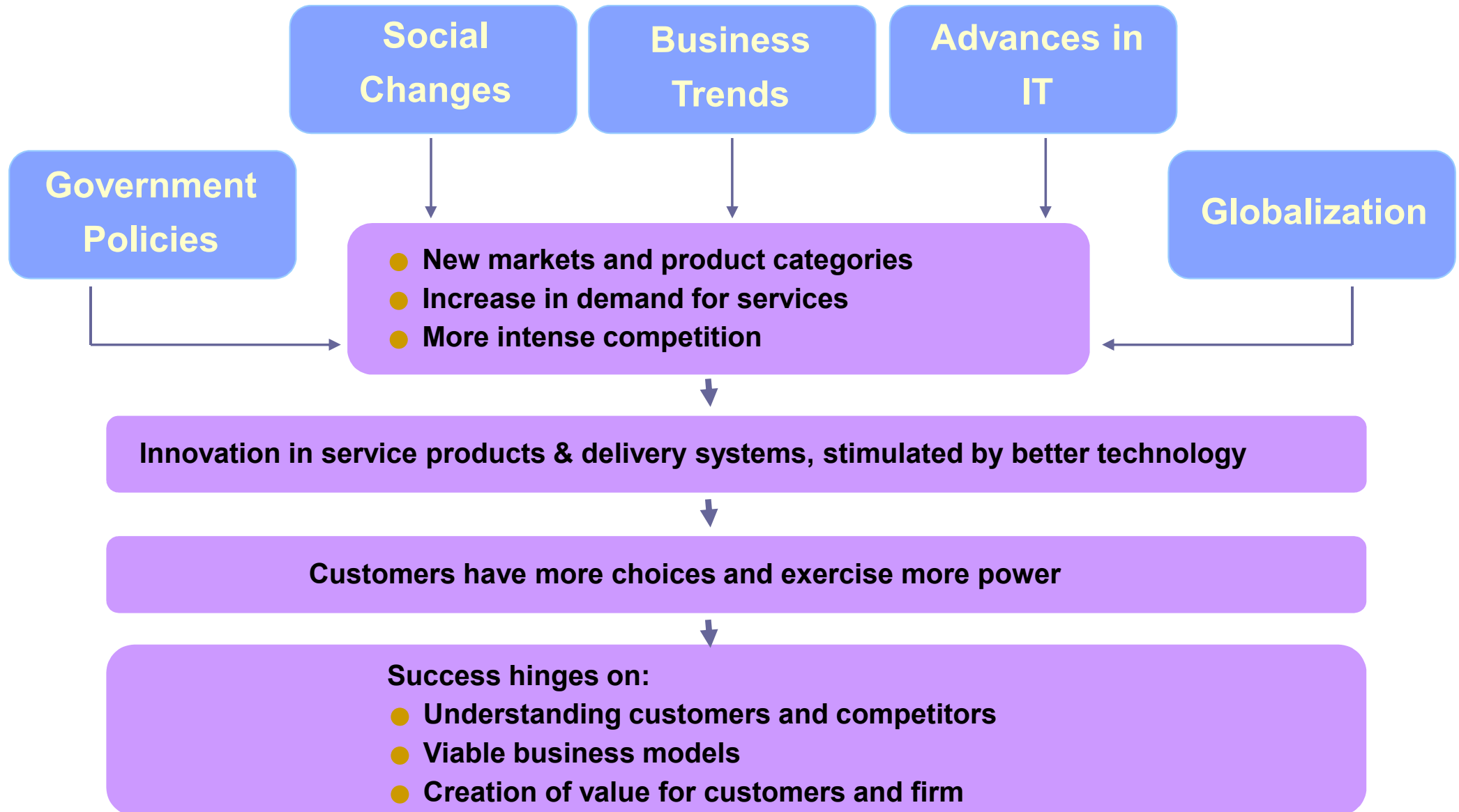
Services as Percent of GDP



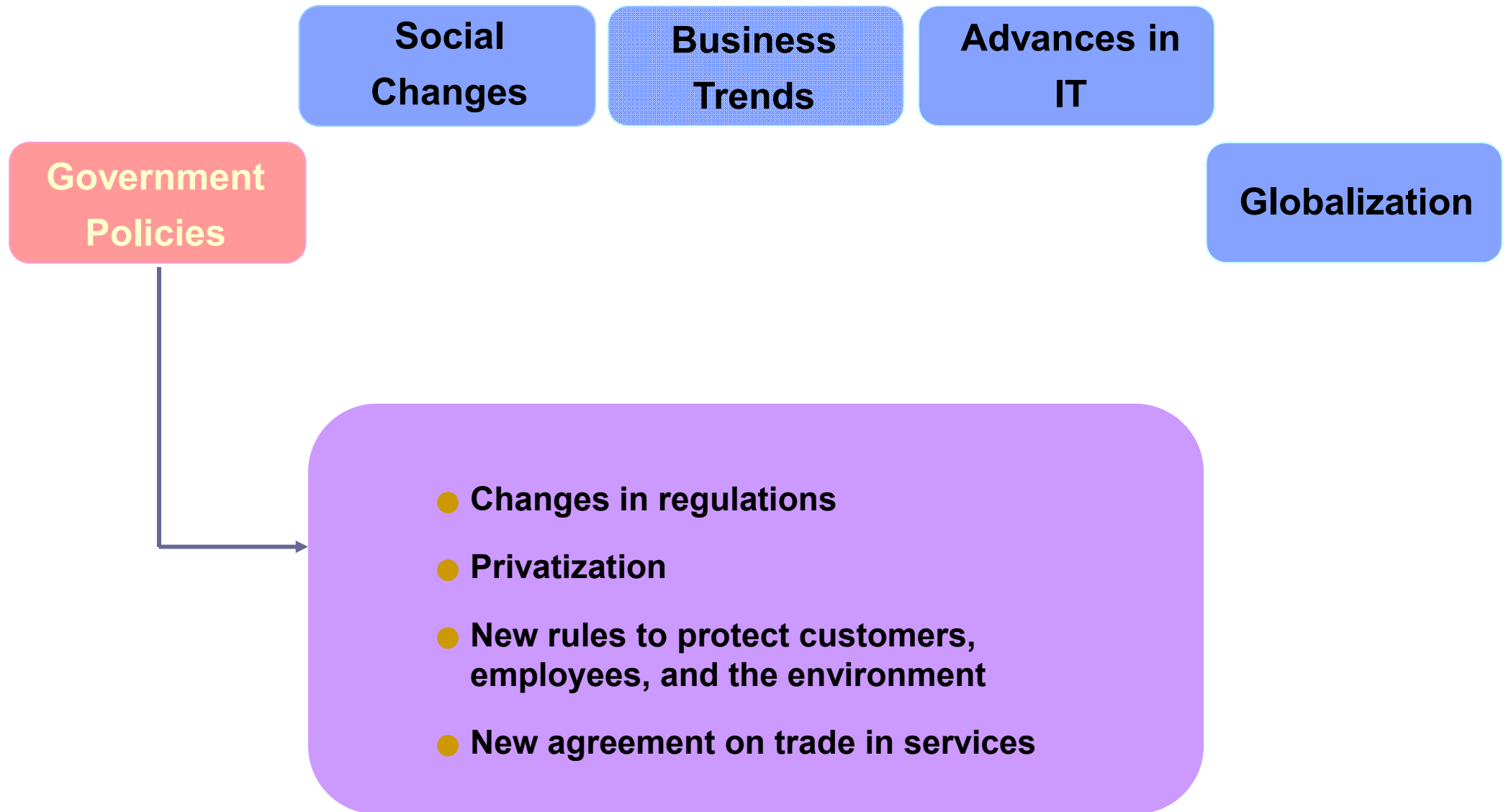
***Powerful Forces Are
Transforming Service
Markets***



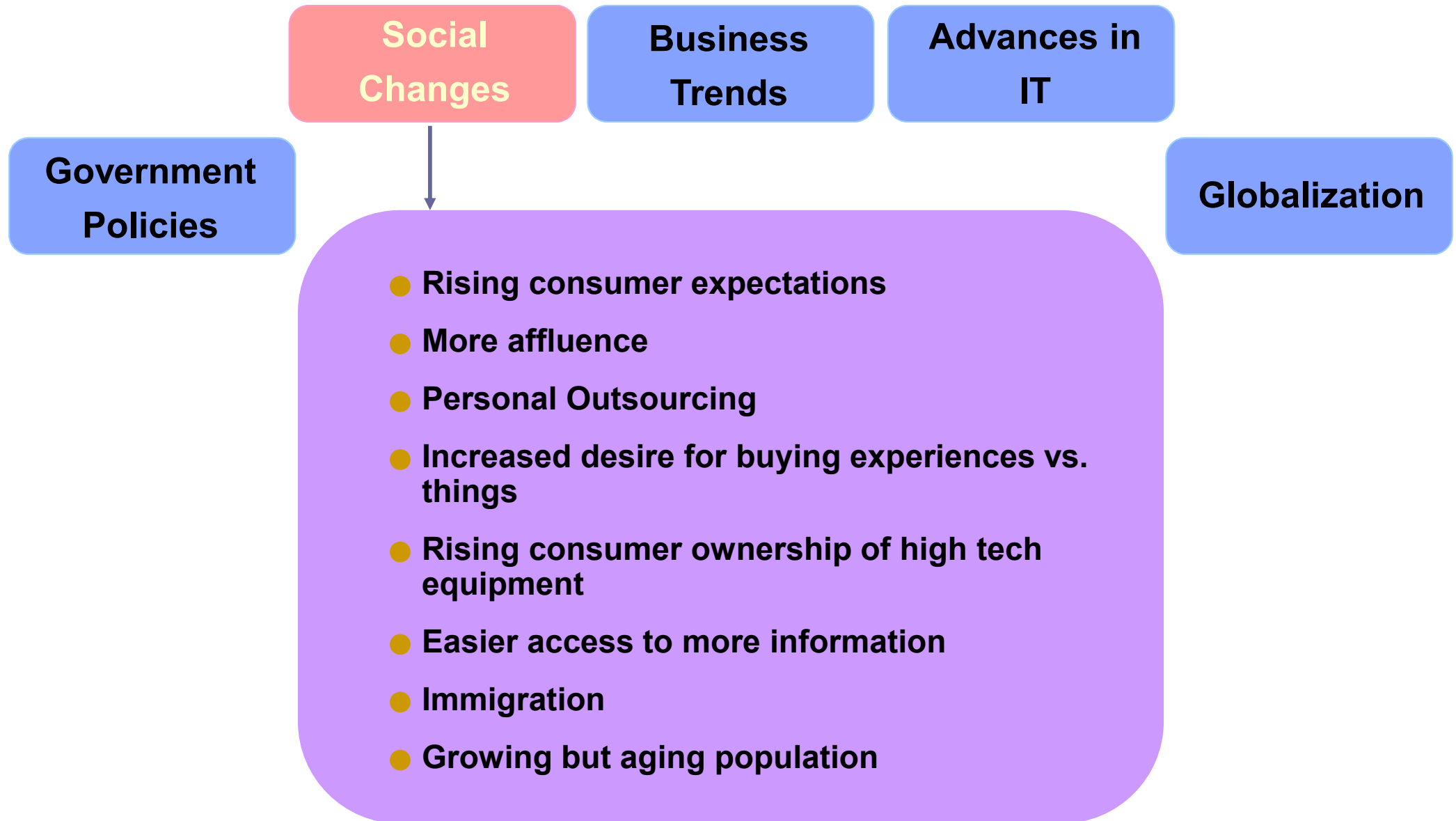
Forces Transforming the Service Economy



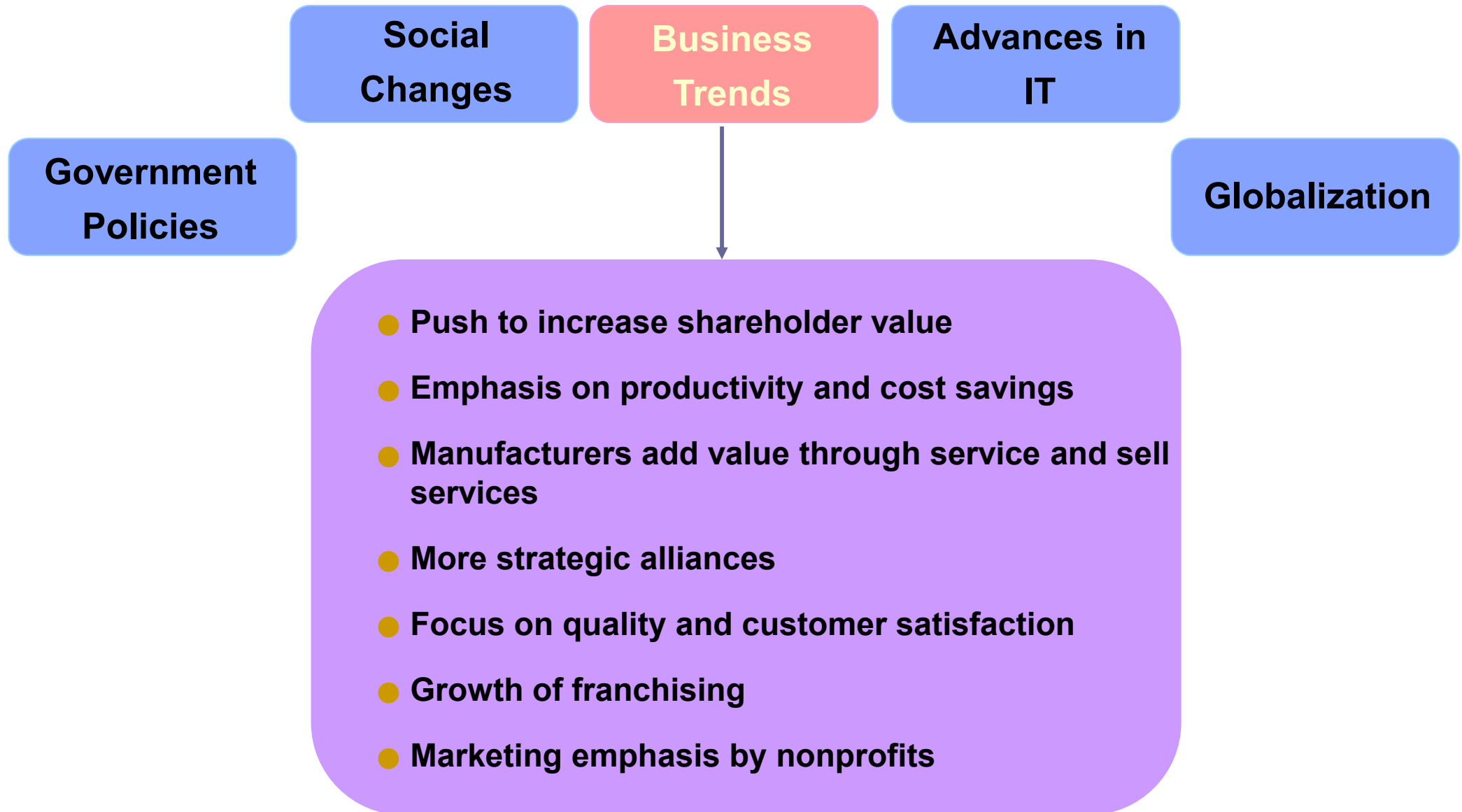
Forces Transforming the Service Economy (1)



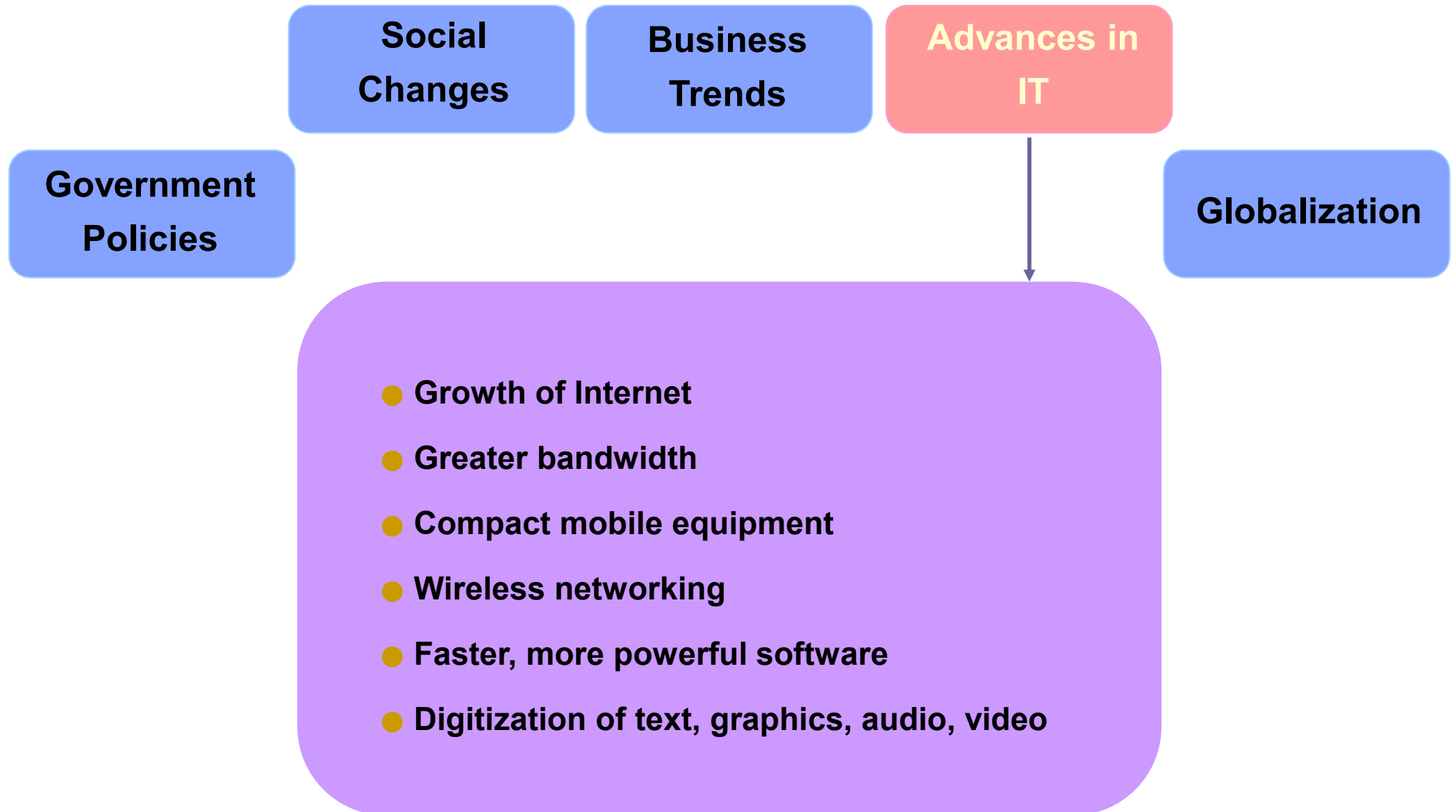
Forces Transforming the Service Economy (2)



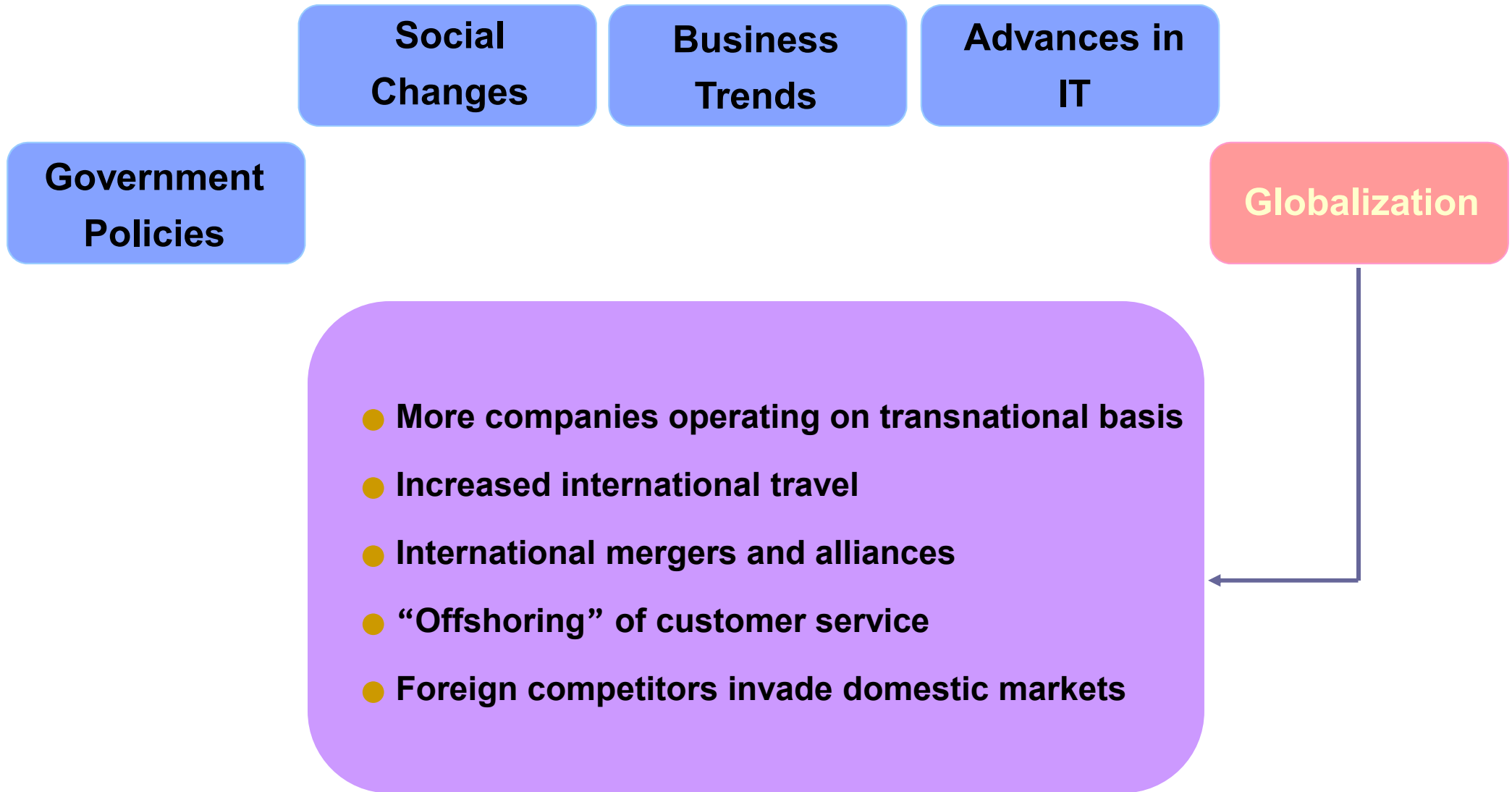
Forces Transforming the Service Economy (3)



Forces Transforming the Service Economy (4)



Forces Transforming the Service Economy (5)





What Are Services?

What are Services? (1)



- **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**

What are Services? (3)



- **Implications of Renting Versus Owning (Service Insights 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**



Four Broad Categories of Services

Four Broad Categories of Services



- **Based on differences in nature of service act (tangible/intangible) and who or what is direct recipient of service (people/possessions), there are four categories of services:**
 - **People processing**
 - **Possession processing**
 - **Mental stimulus processing**
 - **Information processing**



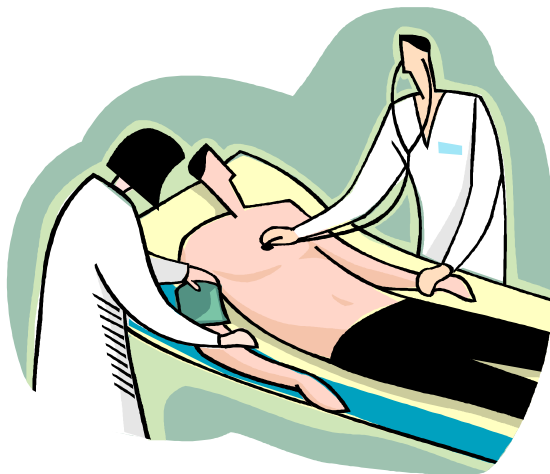
Four Categories Of Services (Fig 1.10)

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



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- **People Processing**

- **Customers must:**

- **physically enter the service factory**

- **co-operate actively with the service operation**

- **Managers should think about process and output from customer's perspective**

- **to identify benefits created and non-financial costs:**

- **Time, mental, physical effort**

Possession Processing



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- **Possession Processing**
- **Customers are less physically involved compared to people processing services**
- **Involvement is limited**
- **Production and consumption are separable**



Mental Stimulus Processing

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- **Mental Stimulus Processing**
 - **Ethical standards required when customers who depend on such services can potentially be manipulated by suppliers**
 - **Physical presence of recipients not required**
 - **Core content of services is information-based**
- **Can be 'inventoried'**

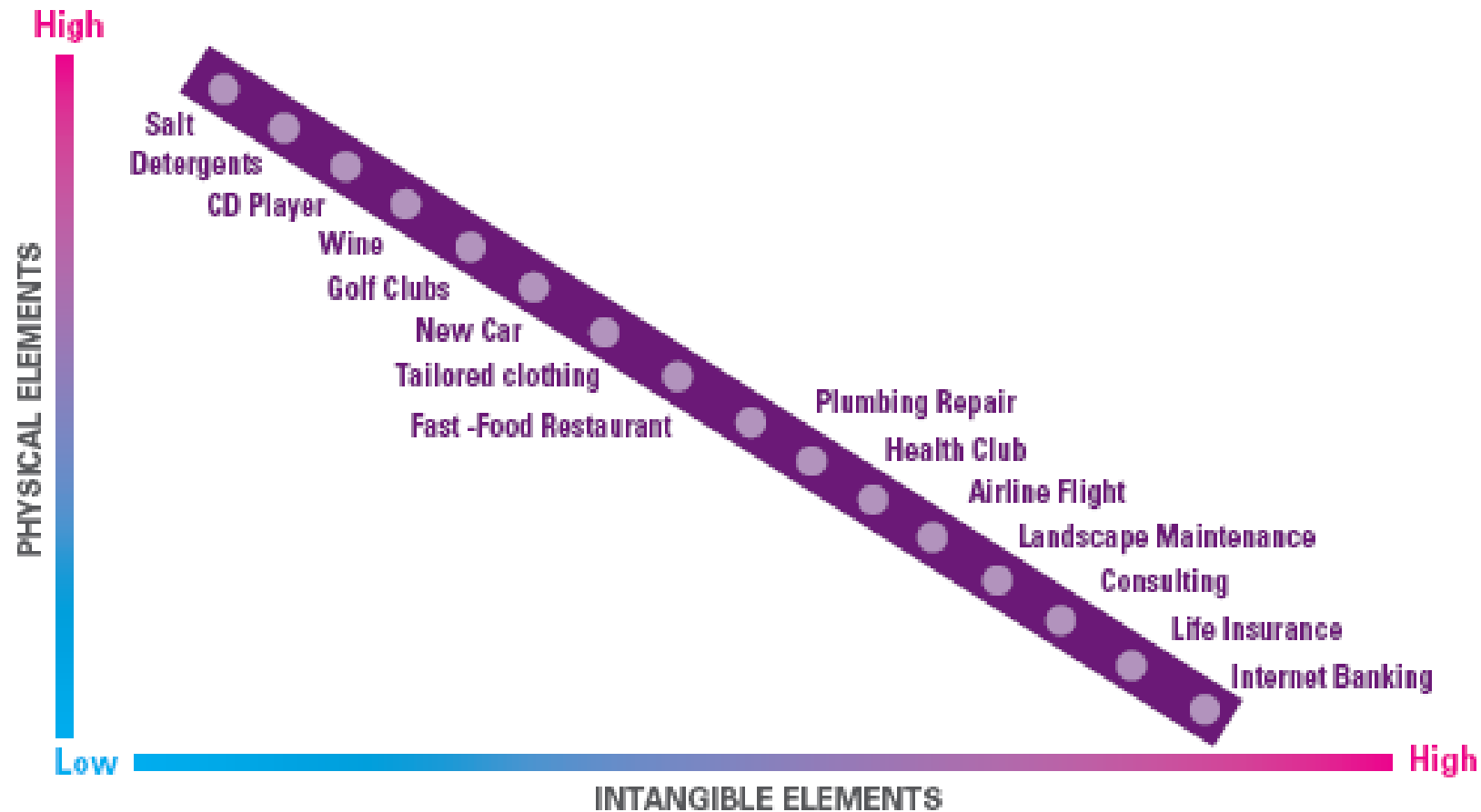
Information Processing



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- **Information Processing**
- **Information is the most intangible form of service output,**
- **But may be transformed into enduring forms of service output**
- **Line between information processing and mental stimulus processing may be blurred.**

Value Added by Physical, Intangible Elements Helps Distinguish Goods and Services (Fig 1.16)



SOURCE

Adapted from Lynn Shostack.

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.**



Challenges Posed by Services

Services Pose Distinctive Marketing Challenges



- 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



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



Difference

- Most service products cannot be inventoried
- Intangible elements usually dominate value creation
- Services are often difficult to visualize & understand
- Customers may be involved in co-Production

Implications

- Customers may be turned away
- Harder to evaluate service & distinguish from competitors
- Greater risk & uncertainty perceived
- Interaction between customer & provider; but poor task execution could affect satisfaction

Marketing-Related Tasks

- Use pricing, promotion, reservations to smooth demand; work with ops to manage capacity
- Emphasize physical clues, employ metaphors and vivid images in advertising
- Educate customers on making good choices; offer guarantees
- Develop user-friendly equipment, facilities & systems; train customers, provide good support

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



Difference

- People may be part of service experience
- Operational inputs and outputs tend to vary more widely
- Time factor often assumes great importance
- Distribution may take place through nonphysical channels

Implications

- Behavior of service personnel & customers can affect satisfaction
- Hard to maintain quality, consistency, reliability
- Difficult to shield customers from failures
- Time is money; customers want service at convenient times
- Electronic channels or voice telecommunications

Marketing-Related Tasks

- Recruit, train employees to reinforce service concept
- Shape customer behavior
- Redesign for simplicity and failure proofing
- Institute good service recovery procedures
- Find ways to compete on speed of delivery; offer extended hours
- Create user-friendly, secure websites and free access by telephone



Expanded Marketing Mix for Services

Services Require An Expanded Marketing Mix



- **Marketing can be viewed as:**
 - **A strategic and competitive thrust pursued by top management**
 - **A set of functional activities performed by line managers**
 - **A customer-driven orientation for the entire organization**
- **Marketing is only function to bring operating revenues into a business; all other functions are cost centers.**
- **The “7 Ps” of services marketing are needed to create viable strategies for meeting customer needs profitably in a competitive marketplace**

The 7 Ps of Services Marketing



- Product elements (*Chapter 4*)
 - Place and time (*Chapter 5*)
 - Price and other user outlays (*Chapter 6*)
 - Promotion and education (*Chapter 7*)
 - Process (*Chapter 8*)
 - Physical environment (*Chapter 10*)
 - People (*Chapter 11*)
-
- I don't care if you learn this.

Traditional 4 Ps Applied to Services (1)



● Product elements

- Service products are at the heart of services marketing strategy
- Marketing mix begins with creating service concept that offers value
- Service product consists of core and supplementary elements
 - Core products meet primary needs
 - Supplementary elements are value-added enhancements

Traditional 4 Ps Applied to Services (2)



● Place and time

- Service distribution can take place through physical and non-physical channels
- Some firms can use electronic channels to deliver all (or at least some) of their service elements
- Information-based services can be delivered almost instantaneously electronically
- Delivery Decisions: *Where, When, How*
- Time is of great importance as customers are physically present
- Convenience of place and time become important determinants of effective service delivery

Traditional 4 Ps Applied to Services (3)



● Price and other user outlays

- **Marketers must recognize that customer costs involve more than price paid to seller**
- **Identify and minimize non-monetary costs incurred by users:**
 - **Additional monetary costs associated with service usage (e.g., travel to service location, parking, phone, babysitting, etc.)**
 - **Time expenditures, especially waiting**
 - **Unwanted mental and physical effort**
 - **Negative sensory experiences**
- **Revenue management is an important part of pricing**

Traditional 4 Ps Applied to Services (4)



● Promotion and Education

→ Plays three vital roles:

- Provide information and advice
- Persuades the target customers of merit of service product or brand
- Encourages customer to take action at specific time

→ Customers may be involved in co-production so:

- Teach customer how to move effectively through the service process
- Shape customers' roles and manage their behavior

Extended Mix for Managing the Customer Interface (1)



● Process

- *How* firm does things may be as important as *what* it does
- Customers often actively involved in processes, especially when acting as co-producers of service
- Operational inputs and outputs vary more widely
 - Quality and content varies among employees, between employees
 - Variations can be with different customers
 - Variations from time of the day
- Variability can be reduced by:
 - Standardized procedures
 - Implementing rigorous management of service quality
 - Training employees more carefully
 - Automating tasks
 - Train employees in service recovery procedures
- Manage process design and “flow of customers”

Extended Mix for Managing the Customer Interface (2)



- **Physical environment**

- **Design servicescape and provide tangible evidence of service performances**

- **Create and maintain physical appearances**

- **Buildings/landscaping**
 - **Interior design/furnishings**
 - **Vehicles/equipment**
 - **Staff grooming/clothing**
 - **Sounds and smells**
 - **Other tangibles**

- **Manage physical cues carefully— can have profound impact on customer impressions**

Extended Mix for Managing the Customer Interface (3)



● People

- Interactions between customers and contact personnel strongly influence customer perceptions of service quality
- Well-managed firms devote special care to selecting, training and motivating service employees
- Other customers can also affect one's satisfaction with a service