

# Services Marketing

## Topic 1 – Marketing in the Service Economy

- Service sector is the engine of economic growth in developed countries
- Output of services now accounts for 60-80% of the GDP of highly developed countries
- Service sector accounts for 85% of total employment in AUS

**Table 1.1** Examples of diversity of services

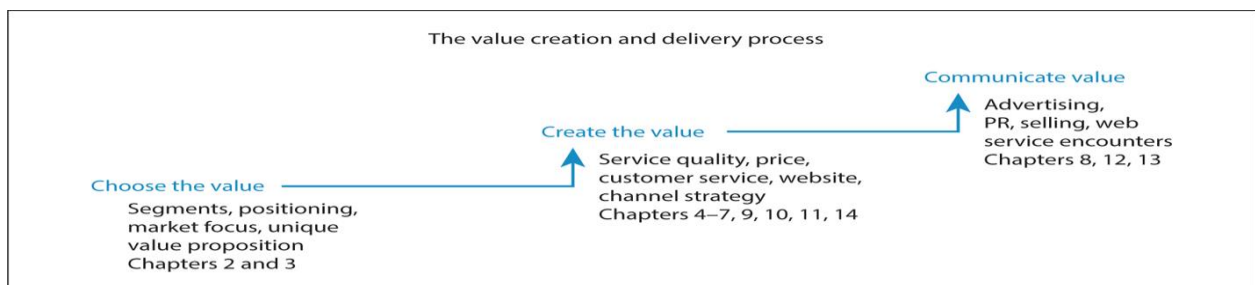
Consumer services	Business services
<ul style="list-style-type: none"> <li>• Airline</li> <li>• Banking and finance</li> <li>• Insurance</li> <li>• Medical</li> <li>• Telecommunications</li> <li>• Hotel</li> <li>• Restaurant</li> <li>• Opera/theatre</li> <li>• Football match</li> <li>• House cleaning</li> <li>• Transportation</li> </ul>	<ul style="list-style-type: none"> <li>• Accountancy</li> <li>• Architecture</li> <li>• Engineering</li> <li>• Legal services</li> <li>• Management consulting</li> <li>• Printing</li> <li>• Insurance</li> <li>• Telecommunications</li> <li>• IT consulting</li> <li>• Logistics consulting</li> <li>• Marketing research</li> </ul>

**Services:** Any act, performance or experience that one party can offer to another

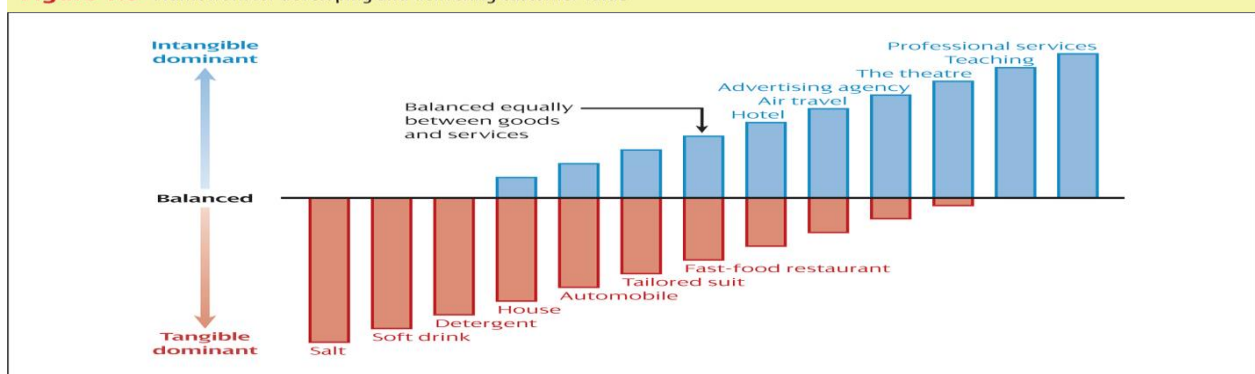
- Essentially intangible and does not result in the ownership of anything
- Processes (economic activities) that provide time, place, form, problem solving or experiential value to the receiver
- Something that may be bought or sold (not touched)

**Value creation:** Customers expect to obtain value from their service purchase in exchange for their money, time and effort

- Value comes from variety of value-creating elements rather than transfer of ownership
- Firms must create & deliver services that are perceived to provide value
- Choose the value – create the value – communicate the value
- Service-dominant logic (S-D logic): customers of services are co-creators of value



**Figure 1.3** Framework for developing and delivering customer value



**Figure 1.4** Relative value added by physical versus intangible elements

## Differences between G&S

**Intangibility** – Difficult for consumers to evaluate quality because they cannot touch, taste or smell, or even see and hear, a service. Intangibility introduces an element of perceived risk

**Inseparability** – The service provider and the consumer co-produce the service

**Variability** – Difficult to maintain a uniform standard of service quality

**Perishability** – Services are performances or experiences, which means that they cannot be stored after production to be used later to satisfy consumer demand

**Ownership** – Service personnel and their performance cannot be owned by consumer

**Table 1.3** Managerial implications of the differences between services and goods

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

**Forces have transformed the service economy:** The hollowing out effect

- Deregulation and privatisation, e.g. banking, airline and telecommunications industries
- Social changes, e.g. aging, population, dual income families
- Professional services and franchises

**Differences between services:** Degree of tangibility/intangibility of service processes

- Who or what is the direct recipient of service processes?
- Place of service delivery
- Customisation versus standardisation

- Relationships with customers
- Discrete versus continuous services
- High contact versus low contact

**Table 1.4** Understanding the nature of the service product

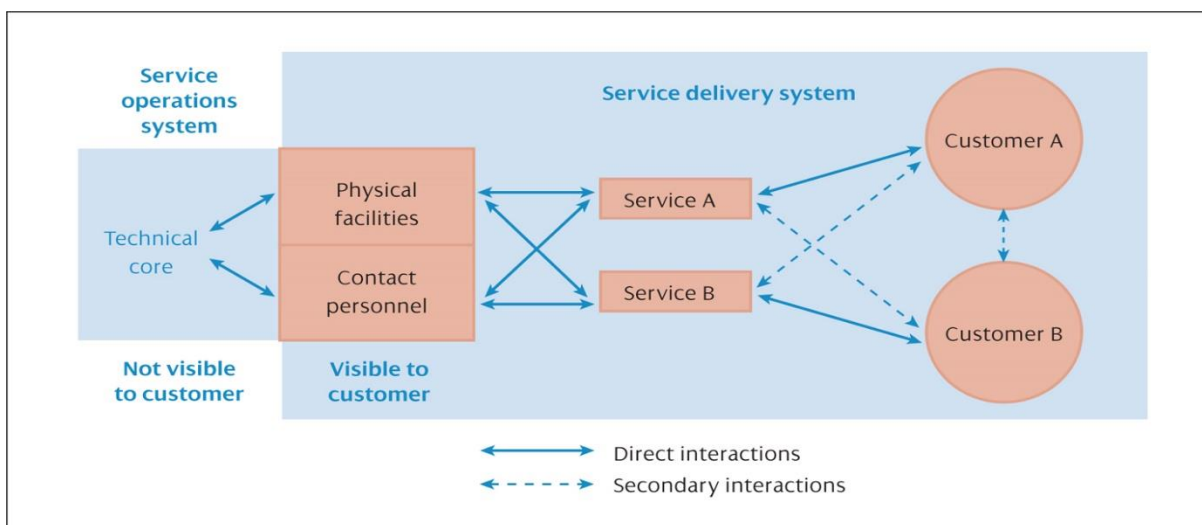
What is the nature of the service act?	Who or what is the direct recipient of the service?	
	People	Possessions
<i>Tangible actions</i>	<i>Services directed at people's bodies</i> Healthcare Beauty salons Physiotherapy Fitness centres Hairdressing	<i>Services directed at physical possessions</i> Freight transportation Repair and maintenance Warehousing and storage Laundry and dry cleaning Landscaping and lawn-mowing
<i>Intangible actions</i>	<i>Services directed at people's minds</i> Advertising and public relations Arts and entertainment Management consulting Education Concerts Religion	<i>Services directed at intangible assets</i> Accounting Banking and insurance Data processing Engineering Legal services Investment planning

### Service as a system

**Service operations system** – Can be divided into those involving the actors (or service personnel) and those involving the stage set (or physical facilities, equipment and other tangibles)

**Service delivery system** – Concerned with where, when and how the service product is delivered to the customer

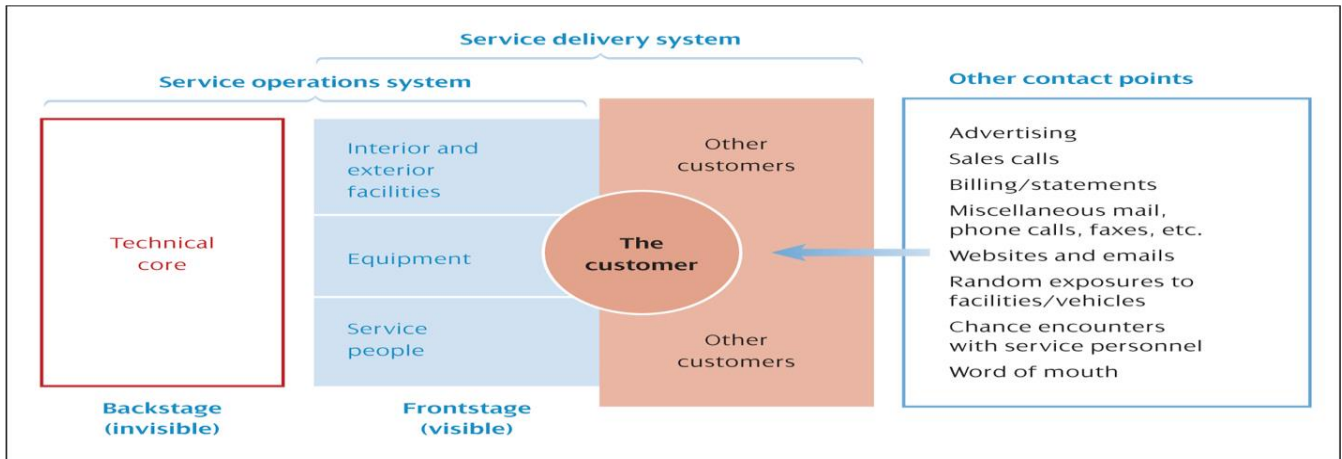
**Service marketing system** – All the different ways in which the customer may encounter or learn about the service organisation



**Figure 1.6** The service business as a system

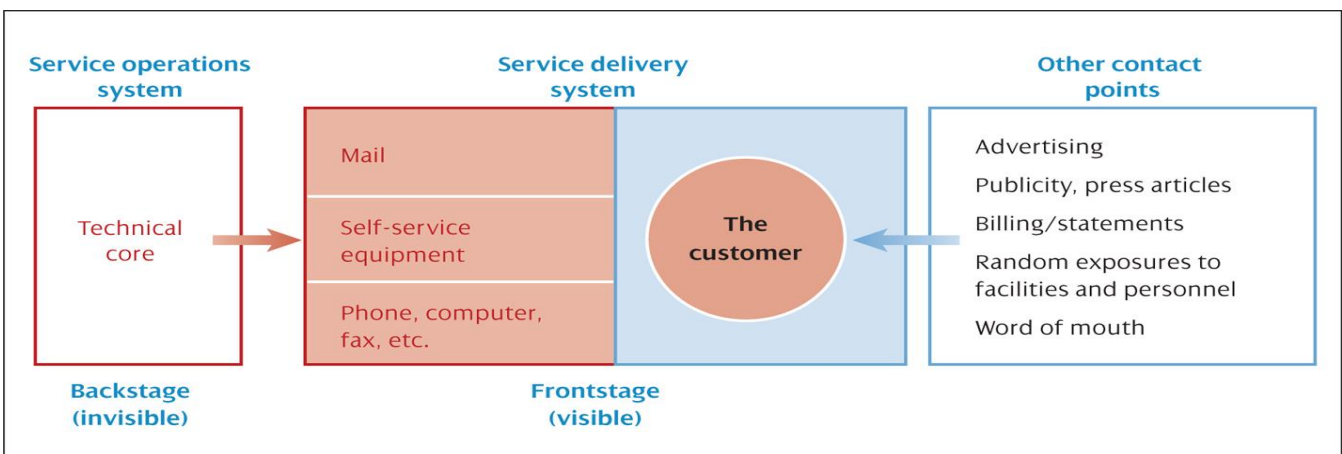
Source: Adapted from Eric Langeard, John E. G. Bateson, Christopher H. Lovelock and Pierre Eiglier (1981), *Services Marketing: New Insights from Customers and Managers*, Marketing Science Institute, Report 81-104, Cambridge, MA.

### High Contact service



**Figure 1.7** The service marketing system for a high-contact service

### Low Contact Service

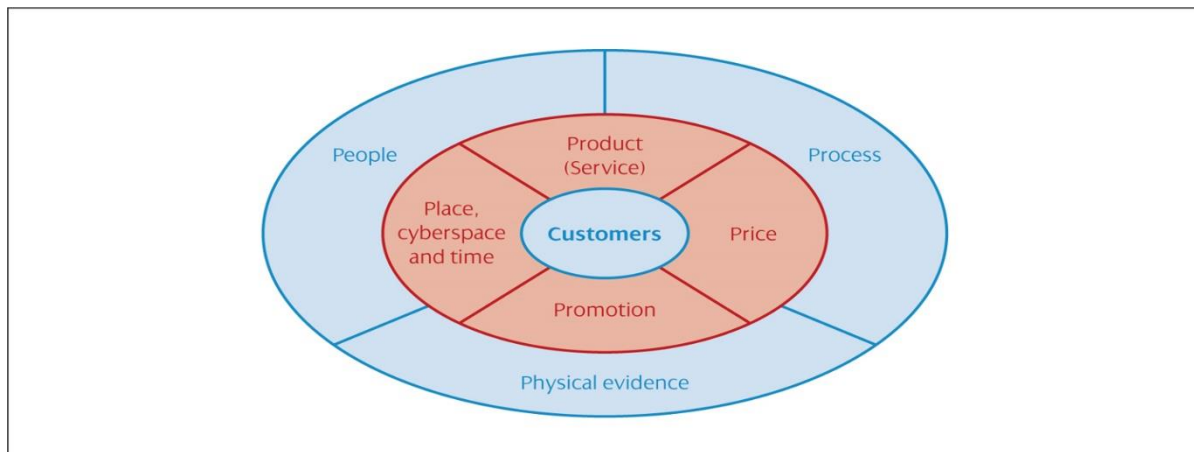


**Figure 1.8** The service marketing system for a low-contact service

**Table 1.5** Managing the evidence: tangible elements and communication components in the service marketing system

1	<b>Service personnel.</b> Contacts with customers may be face to face, by telecommunications (telephone, computer, electronic mail), Facebook, or by mail and express delivery services. These personnel may include: <ul style="list-style-type: none"> <li>• Sales representatives</li> <li>• Customer service staff</li> <li>• Accounting/billing staff</li> <li>• Operations staff who do not normally provide direct service to customers (e.g. engineers, cleaners)</li> <li>• Designated intermediaries who customers perceive as directly representing the service firm</li> </ul>
2	<b>Service facilities and equipment</b> <ul style="list-style-type: none"> <li>• Building exteriors, parking areas, landscaping</li> <li>• Building interiors and furnishings</li> <li>• Vehicles</li> <li>• Self-service equipment operated by customers</li> <li>• Other equipment</li> </ul>
3	<b>Non-personal communications</b> <ul style="list-style-type: none"> <li>• Form letters/proposals/tender documents</li> <li>• Brochures/catalogues/instruction manuals</li> <li>• Advertising</li> <li>• Signage</li> <li>• News articles in the mass media</li> <li>• Websites, social media</li> </ul>
4	<b>Other people</b> <ul style="list-style-type: none"> <li>• Fellow customers encountered during service delivery</li> <li>• Word-of-mouth comments from friends, acquaintances, or even strangers</li> </ul>

### Expanded Marketing Mix for services



**Figure 1.9** An expanded marketing mix for services

Source: Adapted from R. T. Rust, A. J. Zahorik and T. L. Keiningham (1996), *Services Marketing*, Pearson Education, p. 11.

**Product** – products in service are intangible. Customising offering as per customer requirements and the actual customer encounter therefore assumes particular significance

**Pricing** – Labour and overhead costs must be taking into consideration, restaurant not only charges for cost of good but also ambience and experience

**Place** – Can't be stored or transported, location of service product is important. Fine dine restaurant better located in busy, upscale market as opposed to outskirts of city

**Promotion** – Promotion becomes crucial in differentiating service offering in mind of consumer

**People** – Direct, personal interaction between customers and the firm's personnel or employees for the service to be manufactured and delivered

**Physical evidence (tangible cues)** – servicescape – such as physical layout of the service facility, ambience, furnishings, background music and seating comfort (interior design of restaurant)

**Process of service production** – required to manufacture and deliver the service. The actual procedures, mechanisms, and flow of activities through which the service is delivered

- Service script and greeting phrases used by staff members (e.g. mcdonalds orders)

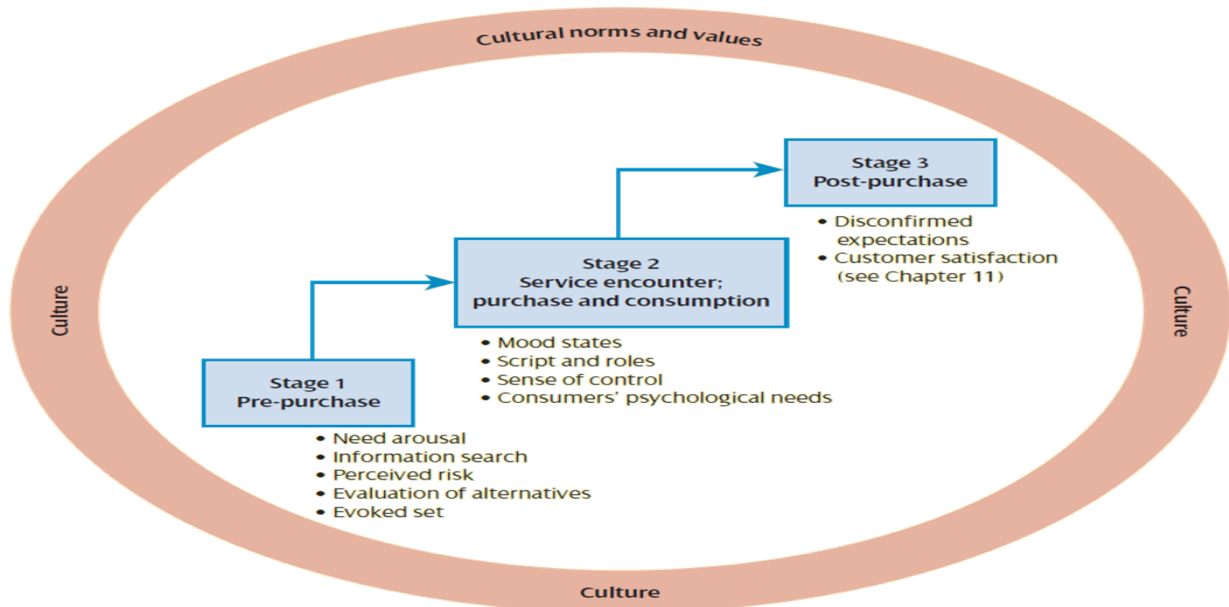
#### Service management trinity

- **Marketing function:** segmentation, targeting, positioning, loyalty programs, etc.
- **Operations function:** creation and delivery of the service product
- **HR function:** recruitment, training, developing work systems, rewarding, empowering



## Topic 2 – Customer Behaviour, Culture and Service Encounters; Positioning Services in Competitive Markets

### Three stage model of service consumption



**Influence of culture:** Culture is sum of learned beliefs, values and customs that create behavioural norms for a given society

- Consumer behaviour is strongly influenced by culture e.g Asian different from western

**Collectivism, individualism:** In individualist societies (Western) people supposed to look after themselves and their direct families

- Collectivist (Asian) belong to in group that take care of them in exchange for loyalty; they subordinate their own needs to those of the group. They rely more on word of mouth than media

**Uncertainty avoidance:** Low uncertainty avoidance – calculated risk is necessary in order to seize opportunity

- High uncertainty avoidance – risk is regarded as threatening and to be avoided. Brand image conscious and less impulse shopping

**Power distance:** extent to which less powerful members of a society expect and accept that power is distributed unequally

- Low power distance: power relatively equally distributed (western countries)
- High power distance: hierarchy is strong and power is centralised at top (Asia). Age, power, nobility and wealth command respect. Less likely to form relationships with service workers

**Masculinity** – personal achievement and assertiveness favoured

**Femininity** - caring for others and nurturing roles and attitudes are favoured