

# Essentials of Services Marketing

4th Edition



Jochen Wirtz

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With gratitude and in loving memory of Christopher Lovelock,  
One of the guiding lights of services marketing.

Co-author, mentor, and friend.  
And above all, an inspiration.

**JW**





## About the Author

**Jochen Wirtz** is Vice Dean, MBA Programmes, and Professor of Marketing at the National University of Singapore (NUS). He is also an international fellow of the Service Research Center at Karlstad University, Sweden; an Academic Scholar at the Cornell Institute for Healthy Futures (CIHF) at Cornell University, USA; and a Global Faculty of the Center for Services Leadership (CSL) at Arizona State University, USA.

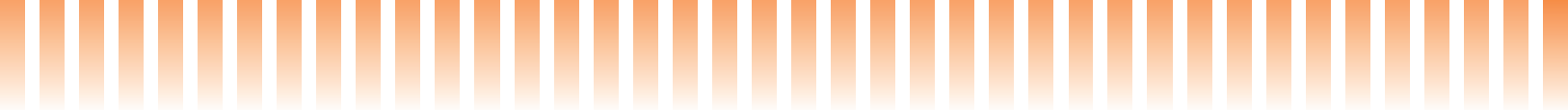
Previously, Professor Wirtz was the founding director of the dual degree UCLA–NUS Executive MBA Program from 2002 to 2014, an Associate Fellow at the Saïd Business School, University of Oxford, from 2008 to 2013, and a founding member of the NUS Teaching Academy (the NUS think-tank on education matters) from 2009 to 2015.

Dr. Wirtz holds a PhD in services marketing from the London Business School and has worked in the field of services for over 25 years. His research focuses on service marketing and has been published in over 300 academic articles, book chapters, and industry reports. He is an author of over 20 books, including *Services Marketing—People, Technology, Strategy* (World Scientific, 9th edition, 2022), and like *Essentials of Services Marketing*, it has become one of the world's leading services-marketing textbooks, translated and adapted for over 26 countries and regions, with combined sales of some 1 million copies. He is also the author of *Intelligent Automation: Learn How to Harness Artificial Intelligence to Boost Business & Make Our World More Human* (2021) and *Winning in Service Markets* (World Scientific, 2017).

In recognition of his excellence in teaching and research, Professor Wirtz has received over 50 awards, including the prestigious Christopher Lovelock Career Contributions to the Services Discipline Award in 2019 (the highest recognition of the American Marketing Association [AMA] service community), the Academy of Marketing Science (AMS) 2012 Outstanding Marketing Teacher Award (the highest recognition of teaching excellence of AMS globally), and the top university-level Outstanding Educator Award at NUS. He was also the winner of the inaugural Outstanding Service Researcher Award 2010 and the Best Practical Implications Award 2009, both by Emerald Group Publications. He serves on the editorial review boards of over 10 academic journals, including the *Journal of Service Management*, *Journal of Service Research*, and *Cornell Hospitality Quarterly*, and is an ad hoc reviewer for the *Journal of the Academy of Marketing Science* and *Journal of Marketing*. Professor Wirtz hosted the American Marketing Association's Frontiers in Services Conference in 2019 and the SERVSIG Conference in 2005.


Professor Wirtz was a banker and took the banking exam at the Chamber of Commerce and Industry in Munich. He has since been an active management consultant, working with international consulting firms, including Accenture,





Arthur D. Little, and KPMG as well as major service firms in the areas of strategy, business development, and customer feedback systems. He has been involved in a number of start-ups, including Dataswift ([www.dataswift.io](http://www.dataswift.io)) and TranscribeMe ([TranscribeMe.com](http://TranscribeMe.com)).

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The following cases are available for free download and class distribution on the Instructor's Resource Website for courses that adopt *Essentials of Services Marketing*, 4th edition.

Case 22	Bouleau & Huntley: Cross-Selling Professional Services
Case 23	Uber: Competing as Market Leader in the United States versus Being a Distant Second in China
Case 24	Jollibee Foods Corporation
Case 25	Hotel Imperial
Case 26	Giordano: Positioning for International Expansion
Case 27	Revenue Management of Gondolas: Maintaining the Balance between Tradition and Revenue
Case 28	Bossard Asia Pacific Can It Make Its CRM Strategy Work?
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## Preface

Services dominate the expanding world economy as never before, and technology continues to evolve in dramatic ways. Established industries and old, illustrious companies are declining and may even disappear as new business models and industries emerge. Competitive activity is fierce. This book has been written in response to the global transformation of our economies to services. Clearly, skills in marketing and managing services have never been more important!

As the field of services marketing has evolved, so too has this book. This new edition has been revised significantly since the third edition to capture the reality of today's world, incorporating recent academic and managerial thinking while illustrating cutting-edge service concepts.

This book is based on *Services Marketing: People, Technology, Strategy*, 9th edition (World Scientific). It has been significantly condensed and sharpened to provide a crisp introduction to key topics in services marketing. In addition, the case selection, visuals, and design have been designed to appeal to undergraduate and polytechnic students.

## WHAT'S NEW IN THIS EDITION?

The fourth edition represents a significant revision. Its contents reflect ongoing developments in the service economy, dramatic developments in technology, and new research findings.

### New Topics, New Research

- ▶ Each of the 15 chapters has been revised. All chapters incorporate **new examples** and the **latest academic research**.
- ▶ New **applications of technology** are integrated throughout the text, ranging from service robots, artificial intelligence (AI), and intelligent automation (IA), to peer-to-peer sharing platforms and digital business models.
- ▶ Chapter 3, "Positioning Services in Competitive Markets," has a new section on **digital services** and **platform business models**.
- ▶ Chapter 4, "Developing Service Products and Brands," has now a tighter focus on **productizing services** (i.e., "bundles of output"), an expanded section on branding of services, and a new section on service design thinking.





- ▶ Chapter 8, “Designing Service Processes,” has new in-depth coverage of **service robots** and **AI-powered self-service technologies (SSTs)**.
- ▶ Chapter 14, “Improving Service Quality and Productivity,” features a heavily revised section on **customer feedback systems** and **collection tools** to reflect the rapid development of automated rating systems, user-generated content on review sites, and third-party (social) media, as well as their analysis using natural language processing, image processing, and other technologies.
- ▶ Chapter 15, “Building a World-Class Service Organization,” features new sections on the strategic pathways toward achieving **cost-effective service excellence (CESE)** and the **wallet allocation rule**.

## FOR WHAT TYPES OF COURSES CAN THIS BOOK BE USED?

This text is equally suitable for courses directed at undergraduate and polytechnic students. *Essentials in Services Marketing* places marketing issues within a broader general management context. The book will appeal to students heading for a career in the service sector, whether at the executive or the management level.

Whatever their job is in the services industry, a person has to understand the close ties that link the functions of marketing, operations, IT, and human resources in service firms. With that perspective in mind, the book has been designed so that instructors can make selective use of chapters and cases to teach courses of different lengths and formats in either services marketing or services management.

## WHAT ARE THE BOOK'S DISTINGUISHING FEATURES?

- ▶ You'll find that this text takes a **strongly managerial perspective** yet is **rooted in solid academic research**, complemented by memorable frameworks. This book's goal is to bridge the all-too-frequent gap between theory and the real world.
- ▶ Each chapter provides a succinct **chapter overview in pictorial form**.
- ▶ Every effort has been made to create a text that is **clear, readable, and focused**.
- ▶ An **easy-to-read text** combines with visuals to make important concepts accessible.
- ▶ A **global perspective** has been cultivated by carefully selecting examples from around the world.

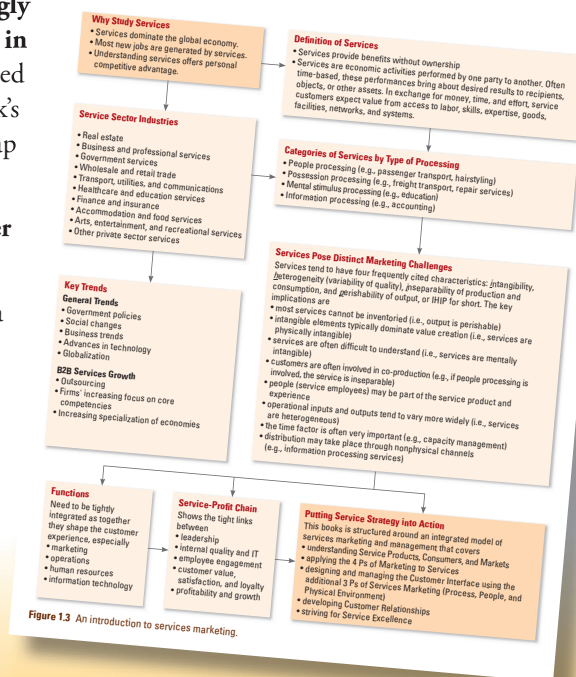


Figure 1.3 An introduction to services marketing.

## OPENING VIGNETTE

### TOO LITTLE, TOO LATE—JETBLUE'S SERVICE RECOVERY<sup>1</sup>

A terrible ice storm in the East Coast of the United States caused hundreds of passengers to be trapped for 11 hours before JetBlue planes at the John F. Kennedy International Airport in New York. These passengers were furious because JetBlue personnel did nothing to get them off the planes. In addition, JetBlue cancelled more than 1,000 flights over six days, leaving even more passengers stranded. The incident cancelled out much that JetBlue had done right to become one of the strongest customer service brands in the United States. The company was going to be ranked number four by *Business Week* in a list of top 25 customer service leaders but was pulled from the rankings due to this service failure. What happened?

There was no service recovery plan. No one—not the pilot, the flight attendants, or the station manager—had the authority to get the passengers off the plane. JetBlue's offer of refunds and travel vouchers did not seem to reduce the anger of the passengers who had been stranded for many hours.

David Needleman, JetBlue's CEO at the time, sent a personal e-mail to all customers in the company's database to explain what caused the problem, apologize profusely, and detail its service recovery efforts. He even appeared on late-night television to apologize, and he admitted that the airline should have had better contingency planning. However, the airline still had a long way to go to repair the damage done.



Figure 13.1 JetBlue's new Customer Bill of Rights and publicity campaigns featuring the Strippers were two of the measures taken to win customers back.

Gradually, JetBlue rebuilt its reputation, starting with its new Customer Bill of Rights. The bill required the airline to provide vouchers or refunds in certain situations when flights were delayed. Needleman also changed JetBlue's information systems to keep track of the location of its crew and trained staff at the headquarters to help out at the airport when needed. All these activities were aimed at helping the company climb its way back up to the heights it fell from. JetBlue always managed to get back on the list of Customer Service Champions published by J.D. Power, a market research firm that measures customer satisfaction, and it has stayed on the list for many consecutive years—proof that JetBlue's customers had truly forgiven its service failure and were supporting its efforts to deliver continued service excellence.



Figure 13.2 JetBlue's reputation for customer service excellence was temporarily grounded when an ice storm caught the airline unprepared.

To ensure a **systematic learning approach**, each chapter has clear **learning objectives**, an **organizing framework** that provides a **quick overview** of the chapter's contents and line of argument, and **chapter summaries in bullet form** that condense the core concepts and messages of each chapter.

**Opening vignettes** and **boxed inserts** within the chapters are designed to capture student interest and provide opportunities for in-class discussions.

The following table links the cases to the chapters in the book.

CASES		PRIMARY CHAPTERS
1	Sullivan Ford Auto World	1
2	Susan Munro, Service Consumer	2
3	Dr. Beckett's Dental Office	1, 2
4	Uber's Unintended Burdens	3, 11
5	Kiwi Experience	4, 5, 7
6	The Accra Beach Hotel: Block Booking of Capacity during a Peak Period	6
7	Revenue Management at The View	6, 8, 9
8	Aussie Pooch Mobile	7, 8
9	Service Robots in the Frontline: How Will Aarion Bank's Customers Respond?	8, 11
10	Digital Luxury Services: Tradition versus Innovation in Luxury Fashion	10
11	National Library Board, Singapore: Delivering Cost-Effective Service Excellence through Innovation and People	8, 11, 14
12	Red Lobster	11
13	Banyan Tree: Branding the Intangible	3, 4, 7, 11
14	Singapore Airlines: Managing Human Resources for Cost-Effective Service Excellence	11, 15
15	Menton Bank	11
16	Dr. Mahalee Goes to London: Global Client Management	12
17	Platform versus Pipeline Business Models: Are Airbnb and Marriott Right to Move into Each Other's Turf?	3, 12, 15

SECONDARY CHAPTERS	CONTINENT	COUNTRY	INDUSTRY
2	Americas	United States	Automobile Servicing
	Americas	United States	Range of B2C Services
	Americas	United States	Medical
4, 5, 7, 12	Americas/Global	United States	Transportation
3, 11	Oceania	New Zealand	Tourism
9	Americas	Barbados	Resort
	Australia	Australia	Food & Beverage
5	Australia	Australia	Pet Grooming
11, 14, 15	Global		Banking
2, 8, 11	Global		Luxury Retail
15	Asia	Singapore	Library
	Americas	United States	Food & Beverage
5	Asia/Global		Resort
3, 4, 8	Global		Airline
	Americas	United States	Banking
8	Europe	United Kingdom	Private Banking
	Americas/Global	United States	Hotels

CASES		PRIMARY CHAPTERS
18	The Royal Dining Membership Program Dilemma	12
19	The Broadstripe Service Guarantee	13
20	What Drives Share of Streaming for Streaming Video Services? The Launch of HBO Max	15
21	LUX*: Staging a Service Revolution in a Resort Chain	11, 12, 14, 15
<b>Cases Available on the Instructor's Resource Website (IRW)</b>		
22	Bouleau & Huntley: Cross-Selling Professional Services	2, 3
23	Uber: Competing as Market Leader in the United States versus Being a Distant Second in China	3
24	Jollibee Foods Corporation	3, 4, 5
25	Hotel Imperial	3, 4
26	Giordano: Positioning for International Expansion	3, 5
27	Revenue Management of Gondolas: Maintaining the Balance between Tradition and Revenue	6
28	Bossard Asia Pacific: Can It Make Its CRM Strategy Work?	12
29	Customer Asset Management at DHL in Asia	12

SECONDARY CHAPTERS	CONTINENT	COUNTRY	INDUSTRY
6	Asia	Hong Kong	Food and Beverage
	Americas	United States	Cable Service
	Americas	United States	Streaming Service
2, 3	Asia/Global	Mauritius	Resort
3	Asia/Americas	Philippines/United States	Management Consulting/ Auditing
4, 5, 7, 12	Asia/Americas	China/United States	Transportation
11	Asia	Philippines	Fast Food
	Europe	Eastern Europe	Hotel/Hospitality
	Asia/Global		Clothing Retailing
	Europe	Italy	Tourism
	Asia	Singapore	Industrial Supplies
	Asia		Logistics

# What Aids Are Available for Instructors?

We have developed pedagogical aids to help instructors develop and teach courses built around this book and to create stimulating learning experiences for students both in and out of the classroom.

## Teaching Aids within the Text

- ▶ An opening vignette, which highlights key issues discussed in the chapter
- ▶ Learning objectives and milestone markers for these when a section provides material that meet these learning objectives
- ▶ Boxed inserts throughout the chapters, which often lend themselves well to in-class discussion
- ▶ Interesting graphics, photographs, and reproductions of advertisements, which enhance student learning, and provide opportunities for discussion
- ▶ Keywords, which help to reinforce important terms and concepts
- ▶ Chapter summaries, which meet each chapter's learning objectives
- ▶ Review Questions and Application Exercises located at the end of each chapter

**CHAPTER SUMMARY**

**LO 1** ▶ What? How? Where? When? Responses to these four questions form the foundation of any service distribution strategy.

**LO 2** ▶ What is distributed? The Flow Model of Distribution can be mapped onto the Power of Service concept and includes the following flow of service distribution:

- Information and promotion flows (includes the information and potentially the consultation period)
- Negotiation flow (includes the order taking and potentially the holding and payment period as well)
- Product flow (includes the core product and the remaining parts of the Power of Service)

A service distribution strategy encompasses all three flows.

**LO 3** ▶ How can services be distributed? Services can be distributed through three main modes:

- Customers visit the service site (e.g., for people-processing services such as an ATM scan).
- Service providers go to their customers (e.g., for free printing or private banking services for high-net-worth individuals).
- Service transactions are conducted remotely (e.g., for storage or for buying travel insurance online).

Some core services require a physical location (e.g., dental processing services), and the severity restricts their distribution. However, information-based services and many supplementary services can be distributed and delivered remotely.

**LO 4** ▶ Developments in telecommunications, online technology, service apps, and transportation technology have spawned innovations in remote service delivery.

- All information-based core products and supplementary services (i.e., information, consultation, order taking, billing, and payment) and many possession-based services can be delivered remotely.

- Key drivers of the growth of service delivery via online are (1) convenience, (2) ease of search, (3) a broader selection, (4) potential for lower prices, and (5) 24/7 service with prompt delivery.

**LO 5** ▶ Customer preferences drive channel choice:

- Customers who are technologically savvy often prefer remote channels due to the greater convenience they offer. Such customers usually have confidence in and knowledge about the service and/or the channel.
- However, consumers rely more on personal channels when the perceived risk is high and channels when there are social motives behind the transaction.

**LO 6** ▶ Customers are likely to use different service channels with the same service (e.g., bank customers use the entire gamut of channels ranging from mobile banking apps and websites to ATMs and bank branches). Thus, channel integration is essential for delivering convenient and seamless service experiences.

**LO 7** ▶ Where should service be delivered? This is an important decision for services that require physical locations.

- First, strategic location considerations are included in the site location is an integral part of the overall service strategy. The location strategy must be consistent with the firm's marketing strategy and the needs and expectations of its target customers.
- Second, tactical location considerations are used to choose between specific sites. They include population size and characteristics, traffic, convenience of access, competitors in the area, nature of nearby businesses, availability of labor and sites, and rental costs, conditions, and regulations. Geographic information systems (GIS) are frequently used to help firms make specific location decisions.

**KNOW YOUR SERVICES MARKETING**

**Review Questions**

- What is meant by "distributing services"? How can an experience or something intangible be distributed?
- Why is it important to consider the distribution of and partly?
- What are the different options for service delivery? What factors do service firms need to take into account when using each of these options?
- What are the key factors driving the place and time decisions of service distribution?
- What risks and opportunities does a retail service firm face when it adds electronic channels of delivery (a) parallel to existing physical stores or (b) replacing the physical stores with a combined Internet and call center channel?
- Why should service marketers be concerned with new developments in mobile communications?
- What marketing and management challenges are raised by the use of intermediaries in a service setting?
- Why is franchising a popular way to expand distribution of a service concept? What are some disadvantages of franchising, and how can they be mitigated?
- What are the key drivers for the increasing globalization of services?
- What factors do service companies need to understand in order to choose a distribution strategy for going international that best allows it to control its intellectual property and security of value creation?

**WORK YOUR SERVICES MARKETING**

- An entrepreneur is thinking of setting up a new service business. You can choose any specific business. What advice would you offer regarding the distribution strategy for this business? Address the What? How? Where? When? of service distribution.
- Think of three services you buy or use either mostly or exclusively via the Internet or a mobile app. What is the value proposition of this channel over alternative channels (e.g., phone, mail, or branch network)?
- What advice would you give to (a) a weight reduction clinic, (b) a pest control company, and (c) a university offering undergraduate courses about going international?
- Which strategy for entering a new international market should the following businesses consider and why? (a) an architectural design firm, (b) an online discount broker, and (c) an advertising-funded travel app.

## Pedagogical Materials Available from the Publisher

**Case Bank:** A large set of additional cases that can be used in courses that adopt this textbook. Available in both Word and PDF versions as a resource for instructors. A table shown in the textbook will suggest which cases to pair with which chapters.

**Instructor's Manual:** A repository of detailed course design and teaching hints, including sample course outlines; chapter-by-chapter teaching suggestions, plus discussion of learning objectives and sample responses to study questions and exercises; suggested student exercises and comprehensive projects (designed for either individual or team work); detailed case teaching notes, including teaching objectives, suggested study questions, in-depth analysis of each question, and helpful hints on teaching strategy designed to aid student learning, create stimulating class discussions, and help instructors create end-of-class wrap-ups and “takeaways.”

**Test Bank:** Multiple choice, true/false, short-answer, and essay questions, with difficulty level provided for each question. Contents are classified into general and application. This is available in TestGen format, a test-generating program that allows instructors to add, edit, or delete questions from the test item file; analyze test results; and organize a database of exams and student results.

**PowerPoint Slides:** The slides are linked to each chapter and featuring both “word” slides and graphics. All slides have been designed to be clear, comprehensible, and easily readable.

**Image Bank:** A collection of images in the textbook.

**EBook:** Electronic version of the text that includes useful features such as highlighting and search. It can be viewed on a variety of browsers and devices.



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Over the years, many colleagues in both the academic and business worlds have provided me with valued insights into the marketing and management of services through their publications, in conference and seminar discussions, and in stimulating individual conversations. In addition, I have benefited enormously from in-class and after-class discussions with my students and executive program participants.

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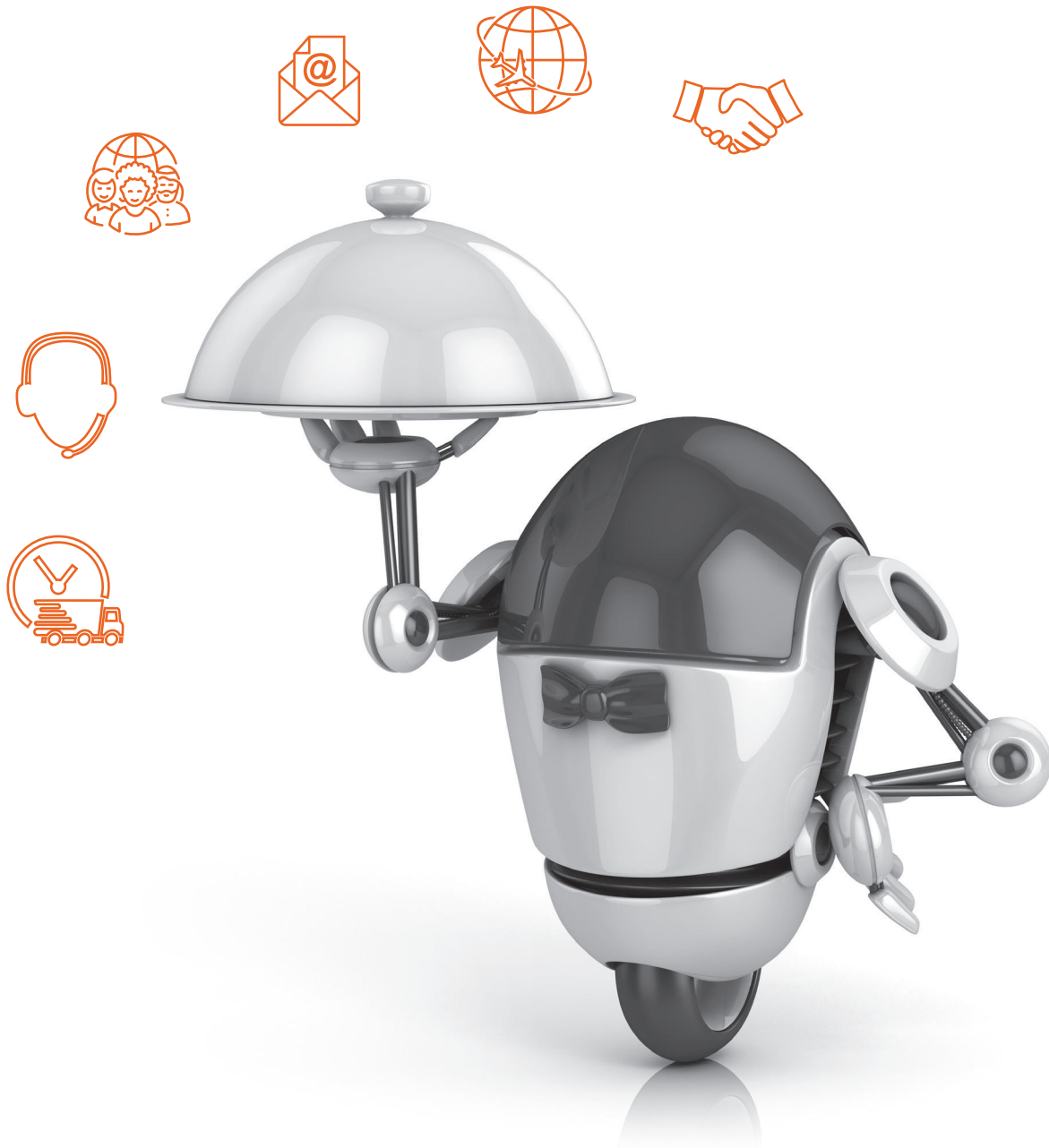
Finally, if you have interesting research, examples, stories, cases, videos, or any other materials that would look good in the next edition of this book, or any feedback, please do contact me via [www.JochenWirtz.com](http://www.JochenWirtz.com). I'd love to hear from you!

**JOCHEN WIRTZ**



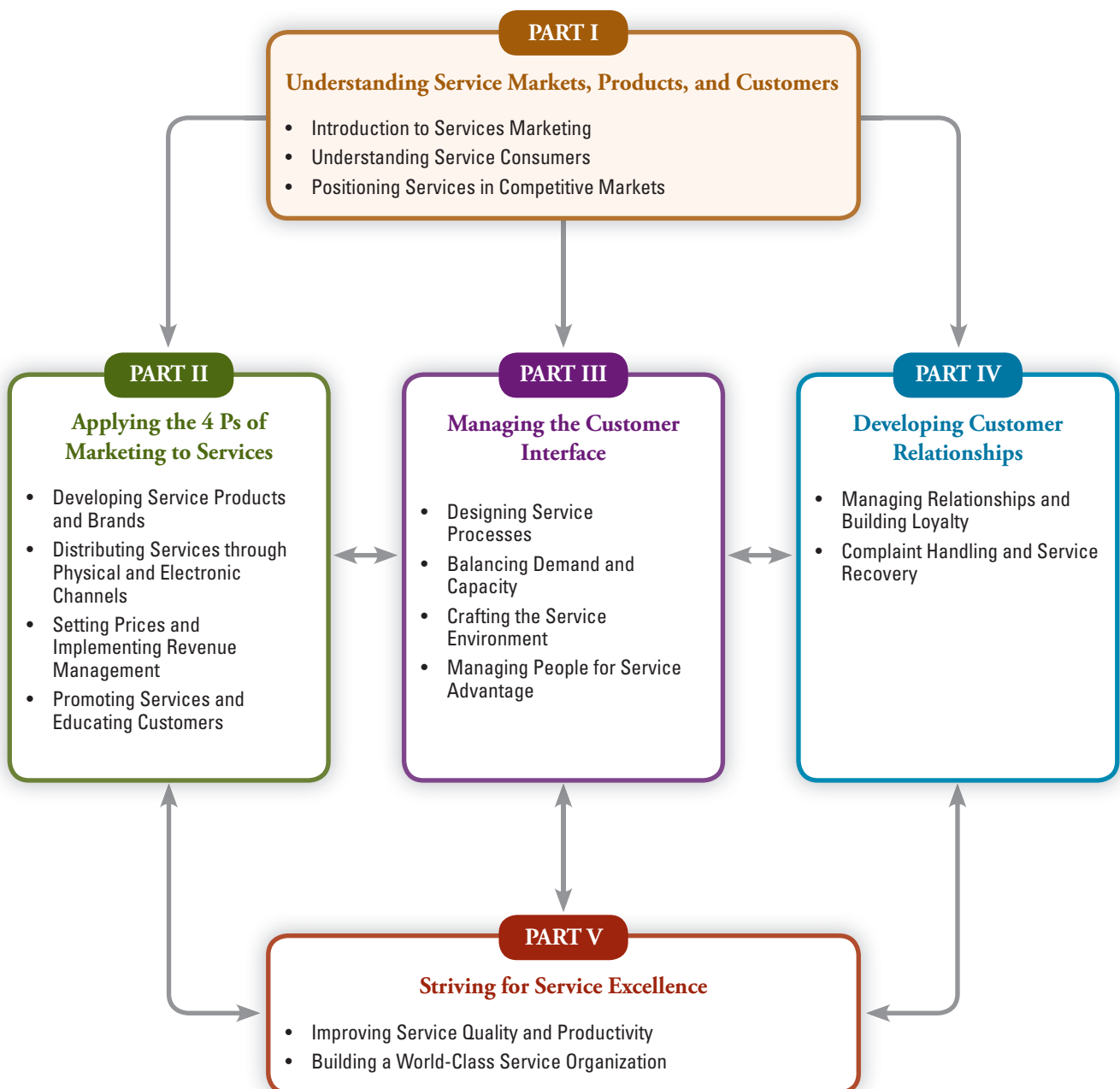
# Essentials of Services Marketing

4th Edition





# THE *ESM* FRAMEWORK



# Understanding Service Markets, Products, and Customers



**Part I** lays the building blocks for studying services and learning how one can become an effective service marketer. It consists of the following three chapters:

## Chapter 1 Introduction to Services Marketing

Chapter 1 highlights the importance of services in our economies. We also define the nature of services and how they create value for customers without transfer of ownership. The chapter highlights some distinctive challenges involved in marketing services and introduces the 7 Ps of services marketing.

The framework shown on the facing page will accompany us throughout as it forms the basis for each of the four parts in this book. It describes in a systematic manner of what is involved in developing marketing strategies for different types of services. The framework is introduced and explained in Chapter 1.

## Chapter 2 Understanding Service Consumers

Chapter 2 provides a foundation for understanding consumer needs and behavior related to services. The chapter is organized around the three-stage model of service consumption that explores how customers search for and evaluate alternative services, make purchase decisions, experience and respond to service encounters, evaluate service performance, and finally, develop loyalty.

## Chapter 3 Positioning Services in Competitive Markets

Chapter 3 discusses how to develop a customer-driven services marketing strategy and how a value proposition should be positioned in a way that creates competitive advantage for the firm. This chapter first links the customer, competitor, and company (commonly referred to as 3 Cs) to a firm's positioning strategy. The core of the chapter is then organized around the three key elements of positioning—segmentation, targeting, and positioning (commonly referred to as "STP")—and shows how firms can segment a service market, position their value proposition, and finally focus on attracting their target segment.

# introduction to SERVICES MARKETING

## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ▶ **LO 1** Understand how services contribute to a country's economy.
- ▶ **LO 2** Know the principal industries of the service sector.
- ▶ **LO 3** Identify the powerful forces that are transforming service markets.
- ▶ **LO 4** Understand how B2B services improve the productivity of individual firms and drive economic development.
- ▶ **LO 5** Define services using the non-ownership framework.
- ▶ **LO 6** Identify the four broad "processing" categories of services.
- ▶ **LO 7** Be familiar with the characteristics of services and the distinctive marketing challenges they pose.
- ▶ **LO 8** Understand the components of the traditional marketing mix applied to services.
- ▶ **LO 9** Describe the components of the extended marketing mix for managing the customer interface.
- ▶ **LO 10** Appreciate that marketing, operations, human resource management, and IT functions need to be closely integrated in service businesses.
- ▶ **LO 11** Understand the implications of the service-profit chain for service management.
- ▶ **LO 12** Know the five-part framework for developing effective services marketing strategies.



**Figure 1.1** Tertiary education may be one of the biggest service purchases in life.



## OPENING VIGNETTE

### INTRODUCTION TO THE WORLD OF SERVICES MARKETING

Like every reader of this book, you're an experienced service consumer. You use an array of services every day, although some—like talking on the phone, using a credit card, riding a bus, streaming music, or withdrawing money from an ATM—may be so routine that you hardly notice them unless something goes wrong. Other service purchases may involve more thought and be more memorable—for instance, booking a cruise vacation, getting financial advice, or having a medical examination.

Enrolling in college may be one of the biggest service purchases you will ever make. The typical university is a complex service organization that offers not only educational services but also libraries, student accommodation, healthcare, athletic facilities, museums, security, counseling, and career services.

Your use of these services is an example of service consumption at the individual or business-to-consumer (B2C) level. Organizations also use many business-to-business (B2B) services, which usually involve purchases on a much larger scale than those made by individuals or households.

Unfortunately, consumers aren't always happy with the quality and value of the services they receive. Both individual and corporate consumers complain about broken promises, poor value for money, incompetent personnel, inconvenient service hours, bureaucratic procedures, wasted time, complicated websites, or a lack of understanding of their needs.

Suppliers of services, who often face stiff competition, appear to have a very different set of concerns. Many complain about how difficult it is to find skilled and motivated employees, to keep costs down and make a profit, or to satisfy customers who, they sometimes grumble, have become unreasonably demanding. Fortunately, there are service

companies that know how to please their customers while also running productive and profitable operations.

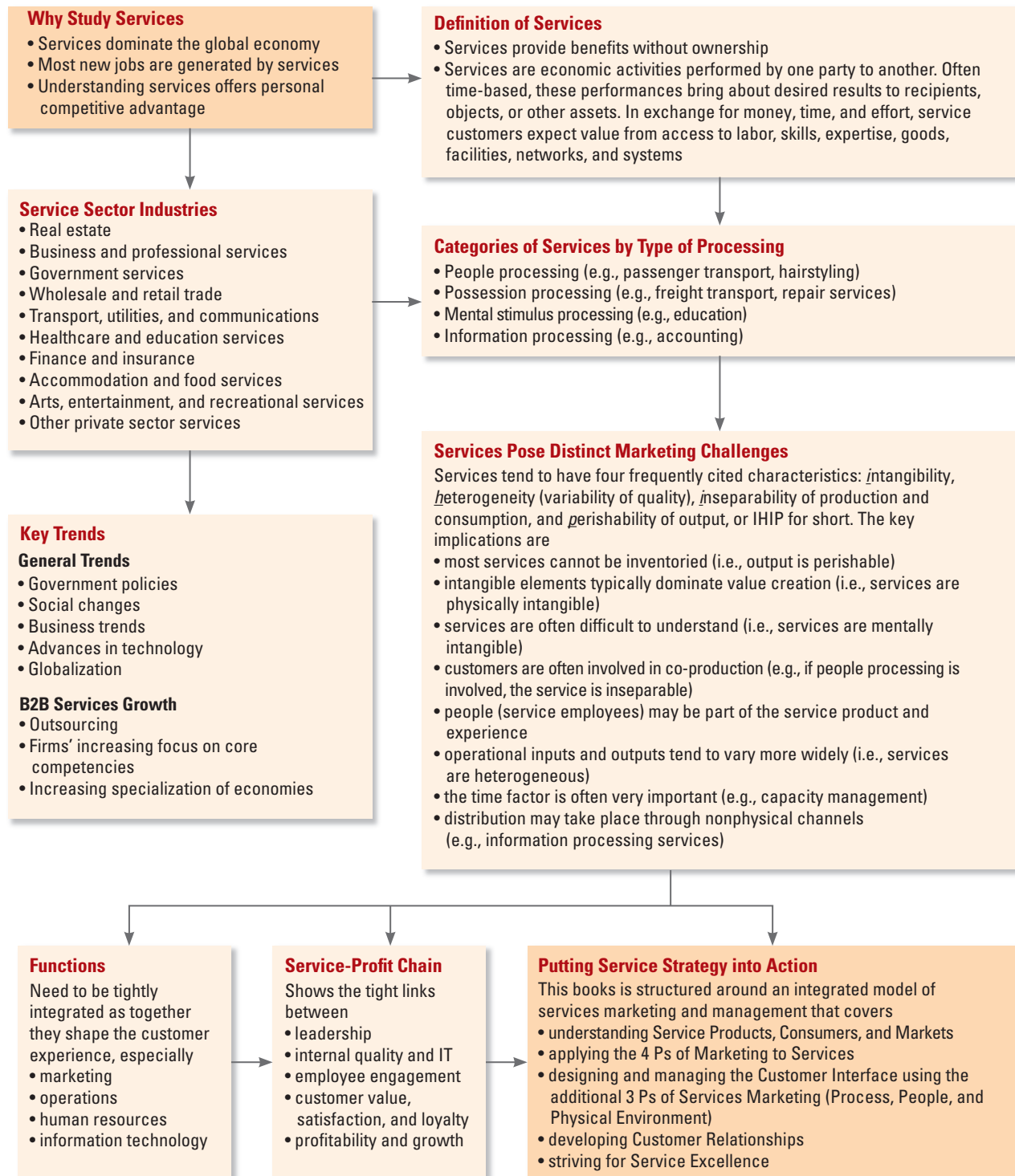
You probably have a few favorite firms whose services you like purchasing. Have you ever stopped to think about the way they succeed in delivering services that meet and sometimes even exceed your expectations? This book will show you how service businesses can be managed to satisfy customers and generate profits at the same time. In addition to studying key concepts, organizing frameworks, and tools of services marketing, you will also be introduced to many examples from firms across the United States and around the world. From the experiences of these firms, you can draw important lessons on how to succeed in increasingly competitive service markets.



Pavel L. Photo and Video/Shutterstock

**Figure 1.2** Happy vacationer on a cruise vacation.





**Figure 1.3** An introduction to services marketing.

## WHY STUDY SERVICES?

**C**onsider this paradox: we live in a service-driven economy, yet most business schools continue to teach marketing from a manufacturing perspective. If you have already taken a course in marketing, you have probably learned about marketing manufactured products rather than services. Fortunately, a growing and enthusiastic group of scholars, consultants, and educators, including the author of this book, has chosen to focus on services marketing. This book aims to provide you with the knowledge and skills that are necessary and relevant in tomorrow's business environment.

Figure 1.3 provides an overview of Chapter 1. In this chapter, we describe today's ever-changing service economy, define the nature of services, and highlight some challenges involved in marketing services. We conclude the chapter with a framework for developing and implementing service marketing strategies. This framework also establishes the structure for this book.

### Services Dominate the Global Economy

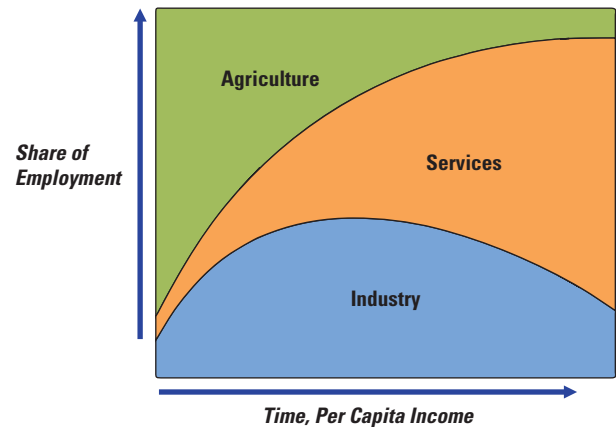
The size of the service sector is increasing in almost all countries around the world. As an economy develops, the relative share of employment between agriculture, industry, and services changes dramatically. Even in emerging economies, the service output represents at least half of the gross domestic product (GDP). Figure 1.4 shows how an economy becomes increasingly service-dominated over time as the per capita income rises. In Figure 1.5, we see that the service sector already accounts for almost two-thirds of the value of the global GDP.

Figure 1.6 shows the relative size of the service sector in various large and small economies. Services account for 65% to 80% of the GDP in most developed nations. One exception is South Korea, a manufacturing-oriented country, whose service sector contributes only 58% to the GDP. Jersey, the Bahamas, and Bermuda—all small islands with a similar economic mix—are home to the world's most service-dominated economies. Luxembourg (87%) has the most service-dominated economy in the European Union. Panama's strong showing (82%) reflects not only the operation of the Panama Canal but also related services such as container ports, flagship registry, and a free port zone, in addition to financial services, insurance, and tourism (Figure 1.7).

On the opposite end of the scale is China (52%), a fast-growing economy with a booming manufacturing sector. However, China's economic growth is now leading to an increase in demand for business and consumer services.

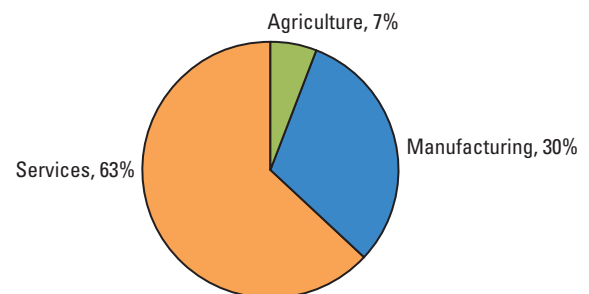
## LO 1

Understand how services contribute to a country's economy.



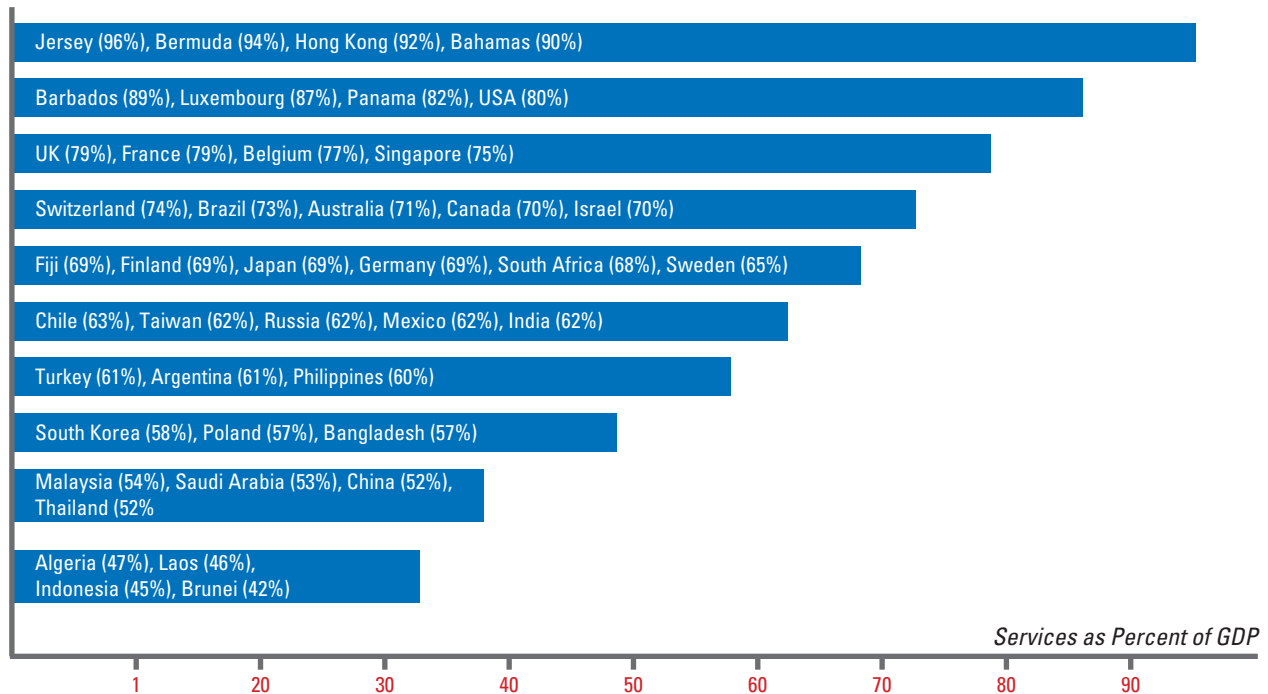
**Figure 1.4** Changing structure of employment as an economy develops.

Source: International Monetary Fund, 1997.



**Figure 1.5** Contribution of services industries to GDP globally.

Source: Central Intelligence Agency, *The World Factbook 2020*, [www.cia.gov](http://www.cia.gov) (accessed January 9, 2022).



**Figure 1.6** Estimated size of service sector in selected countries as a percentage of GDP.

Source: Central Intelligence Agency, *The World Factbook 2020*, [www.cia.gov](http://www.cia.gov) (accessed January 9, 2022).

RIEGER Bertrand/hemis.fr/Hemis/Alamy Stock Photo



**Figure 1.7** The Panama Canal forms the backbone of Panama's service economy.

## Most New Jobs Are Generated by Services

Due to the rapid growth of the service sector in virtually all countries around the world, new job creation comes mainly from services. Service jobs do not just refer to relatively low-paid front-line jobs. In fact, some of the fastest economic growth is in knowledge-based industries such as professional and business services, education, and healthcare. These well-paid jobs require good educational qualifications and offer attractive careers.

## Understanding Services Offers Personal Competitive Advantage

This book is in response to the global transformation of our economies toward services. It discusses the distinctive characteristics of services and the ways in which they affect both customer behavior and marketing strategy. There is a high probability that you will spend most of your working life in service organizations. The knowledge gained from studying this book may create a competitive advantage for your own career, perhaps even encourage you to think about starting your own service business!

## WHAT ARE THE PRINCIPAL INDUSTRIES OF THE SERVICE SECTOR?



### LO 2

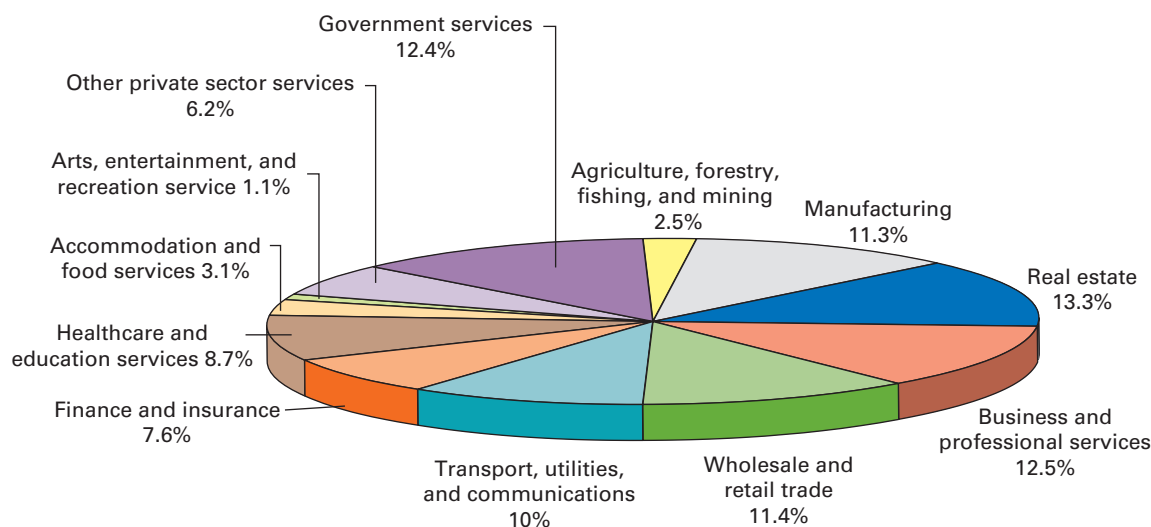
Know the principal industries of the service sector.

**W**hat industries make up the service sector, and which are the biggest? The latter may not be the ones you would imagine at first, because this diverse sector includes many services targeted at business customers. Some of these are not very visible unless you happen to work in that industry.

### Contribution to Gross Domestic Product

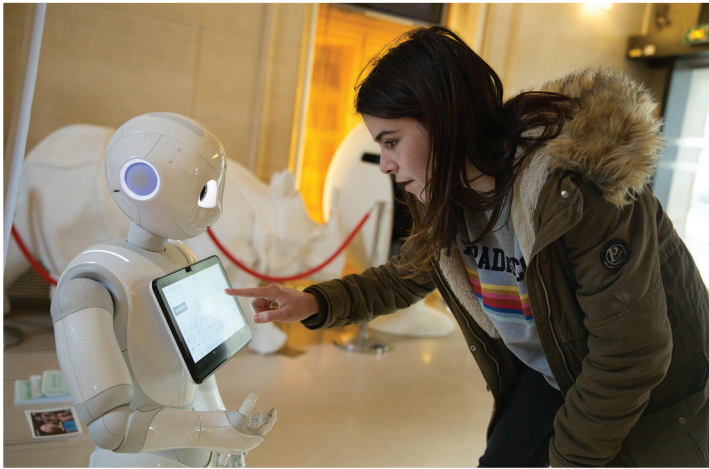
Look at Figure 1.8 to see how much value each of the major service industry groups contributes to the U.S. GDP. Would you have guessed that real estate, rental, and leasing constitute the largest for-profit service industry sector in the United States, accounting for 13.3% (almost one-eighth) of the GDP in 2018? Over 90% of this figure comes from such activities as renting residential or commercial property; providing realty services to facilitate purchases, sales, and rentals; and appraising property to determine its condition and value. The remaining 10% involves the renting or leasing of a wide variety of other manufactured products, ranging from heavy construction equipment (with or without operators) to office furniture, tents, and party supplies. A fast-growing cluster are professional and business services, which contribute 12.5% to the GDP. Another large cluster of services provides for the distribution of physical products. Wholesale and retail trade accounts for about 11.8% of the GDP.

Other substantial industry sectors or subsectors are transportation, utilities, and communications (10%); healthcare and education (8.7%); and finance and insurance (7.6%). Accommodation and food services constitute 3.1% of the GDP. The arts, entertainment, and recreation subsector—which includes such high-profile consumer services as spectator sports, fitness centers, skiing facilities, museums and zoos, performing arts, casinos, golf courses, marinas, and theme parks—collectively represents a mere 1.1% of the GDP. Nevertheless, in an economy worth over \$20.6 trillion, this last group of services was still valued at an impressive \$227 billion in 2019.



**Figure 1.8** Value added by service industry categories to U.S. GDP.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, GDP by Industry Accounts for 2018, [www.bea.gov](http://www.bea.gov) (accessed January 9, 2022).



**Figure 1.9** Robotics is one of the many fields in technology transforming today's service markets.

### LO 3

Identify the powerful forces that are transforming service markets.

### LO 4

Understand how B2B services improve the productivity of individual firms and drive economic development.

## POWERFUL FORCES ARE TRANSFORMING SERVICE MARKETS

**W**hat are the factors causing this rapid growth of the service sector? Government policies, social changes, business trends, globalization, advances in information technology and communications, and globalization are powerful forces that are transforming today's service markets (Figure 1.10). Collectively, these forces reshape demand, supply, and even the way customers buy and use services.

Especially exciting is the digital and technological revolution that is in progress. We may be at an inflection point with regard to productivity

gains and service industrialization similar to the industrial revolution in manufacturing that started in the 18th century. Technologies are rapidly becoming smarter, smaller, and cheaper, especially those related to robotics; artificial intelligence (AI); analytics; big data; the Internet of Things (IoT); mobile; geo tagging; biometrics; text-, speech-, and image-processing; and virtual reality.

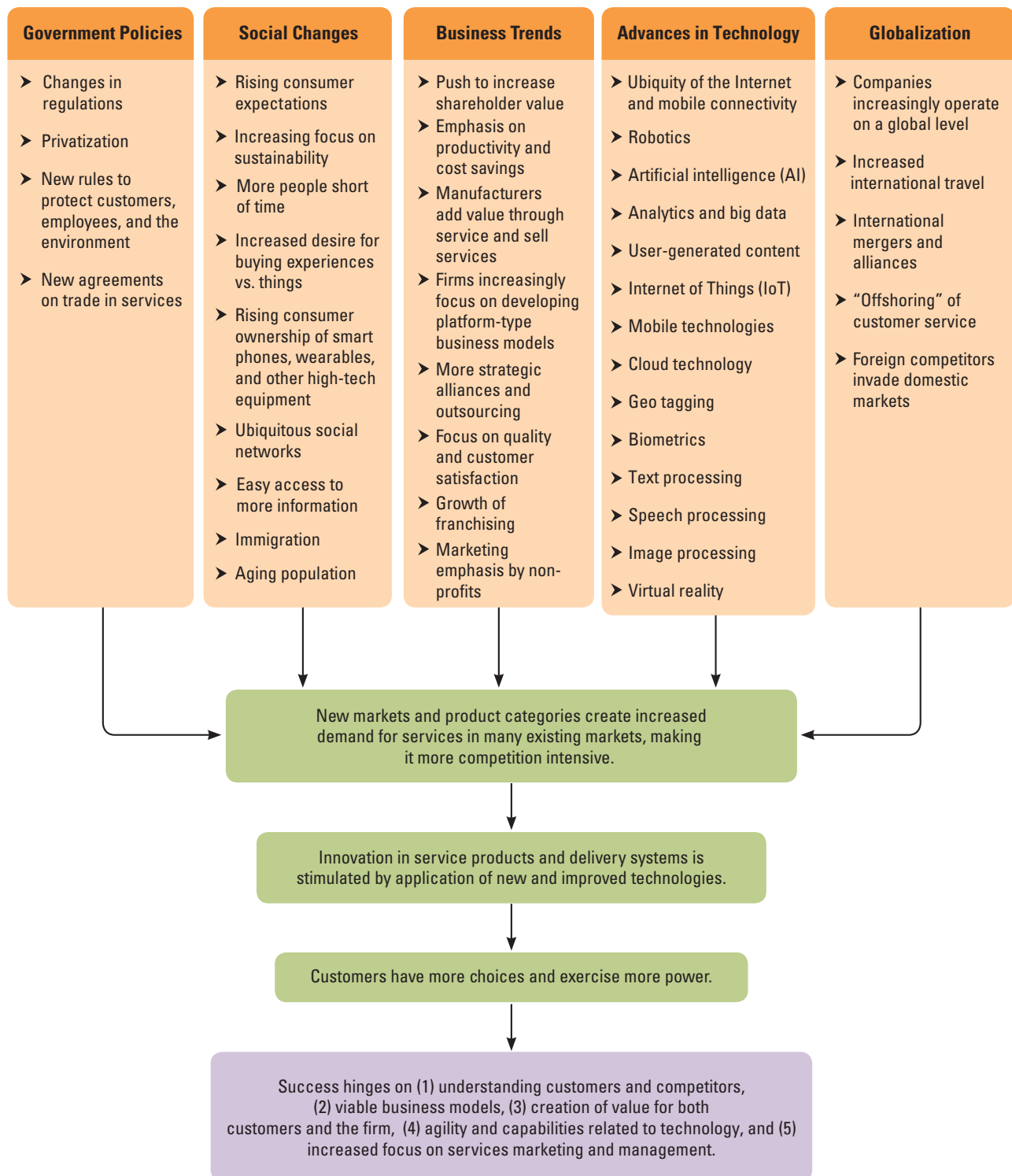
These technologies will lead to a wide range of innovations that are likely to dramatically improve the customer experience, service quality, and productivity all at the same time. Robot- and AI-delivered service is likely to show unprecedented economies of scale and scope as the bulk of the costs incurred are development-based. Physical robots cost a fraction of human headcount, and virtual robots can be deployed at negligible incremental costs. For example, a holograph-based humanoid robot providing service at an information counter will require only low-cost components (e.g., a projector, speaker, camera, and microphone), and fully virtual robots (e.g., voice-based chat bots) already have nearly zero incremental costs.

Similar to the shift that started in the industrial revolution, from craftsmen to mass production, an accelerated shift in the service sector toward modular, self-service technology (SST), robotics, and AI-based business models is likely to occur. As in manufacturing, the craftsman-equivalent will continue to offer a viable business model, but at a high price point. The mass market for many services is likely to shift to more cost-effective service models.<sup>1</sup> Together, these technologies will transform virtually all service sectors.<sup>2</sup>

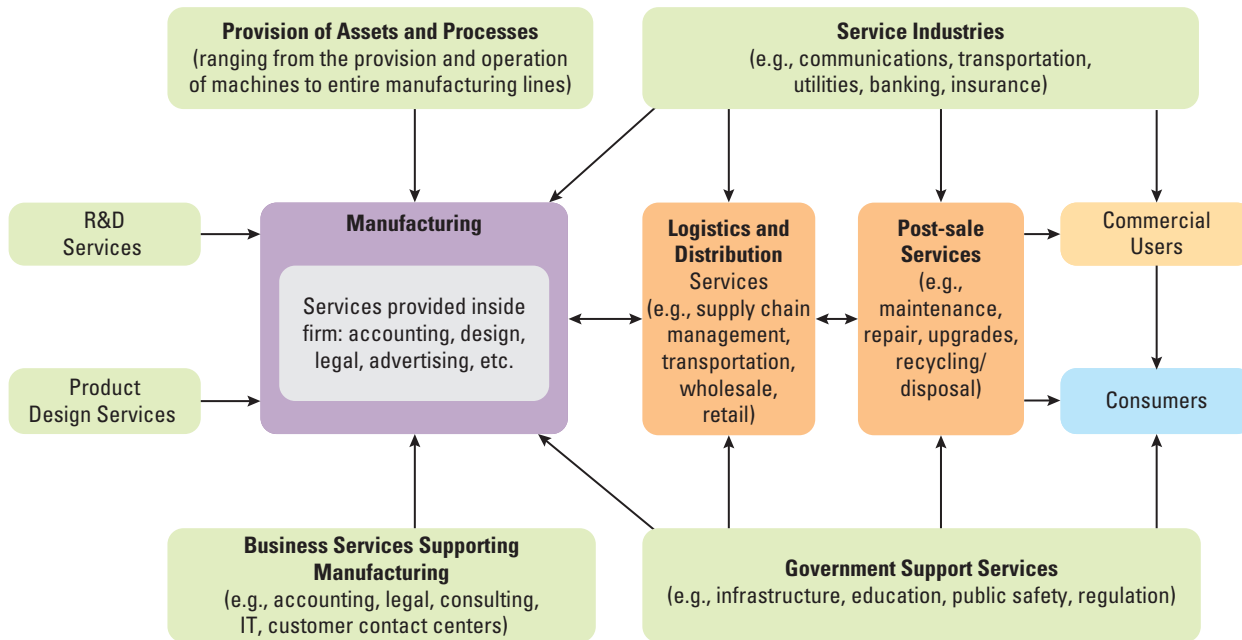
## B2B SERVICES AS A CORE ENGINE OF ECONOMIC DEVELOPMENT<sup>3</sup>

**A** key driver of successful economies is their ecosystem of advanced, competitive, and innovative business services. You may ask, "Why would business services improve the productivity of a manufacturing firm and an economy as a whole?" How good do you think a manufacturing firm is in buying food ingredients; cooking, designing, and running kitchen processes; supervising chefs; and controlling quality and costs in a canteen? The general answer is that the firm would probably not be capable of producing fantastic food, as canteen operations are low-volume and of little importance to the overall business.

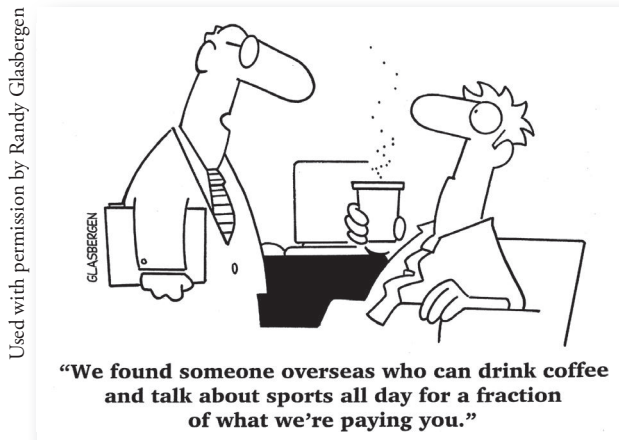




**Figure 1.10** Factors stimulating the transformation of the service economy.



**Figure 1.11** Outsourcing is an important driver of the growth of the service sector.



**Figure 1.12** Many services today can be outsourced to lower-cost destinations.

Many manufacturing firms have recognized this problem and outsourced their canteen operations, usually via a tendering process with a renewal period of every few years. The winning bidder is likely to be a firm that specializes in running canteens and kitchens across many sites or branches. It focuses on providing food and other services of high quality within a cost-efficient structure. It also makes sense for the firm to invest in process improvements and R&D as the benefits can be reaped across multiple sites. What used to be a neglected support activity within a manufacturing firm thus becomes the core competency of an independent service provider. The same logic applies to almost all non-core activities, assets, goods, and services. Figure 1.11 shows how companies can source services more cost-effectively from third-party providers. This development leads to increasing specialization of our economies, with significant improvements in overall productivity and living standards (see Figure 1.12).

## LO 5

Define services using the non-ownership framework.

## WHAT ARE SERVICES?

Thus far, our discussion of services has focused on different types of service industries and their development. Now it's time to ask the question, what exactly is a *service*?

### Benefits without Ownership

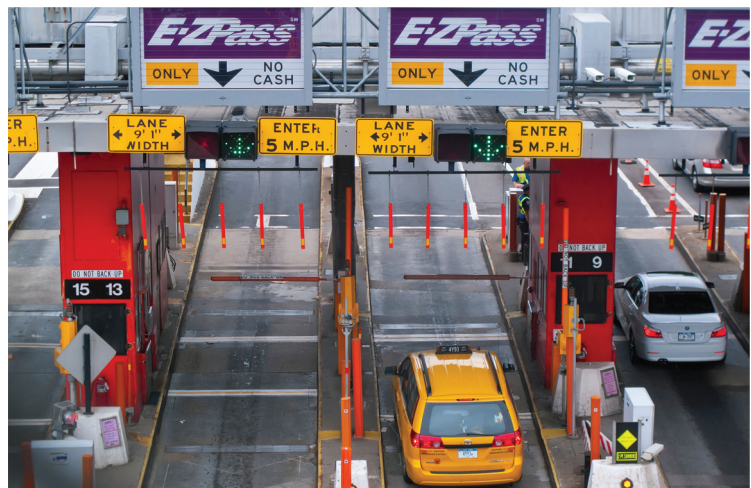
Services cover a huge variety of complex activities, making them difficult to define. The word *service* was originally associated with the work that servants did for their masters. In time, the term came to be defined more broadly as "the action of serving,

helping, or benefiting; conduct tending to the welfare or advantage of another.”<sup>4</sup> Early marketing definitions described services as “acts, deeds, performances, or efforts” and argued that they had different characteristics from goods, which were defined as “articles, devices, materials, objects, or things.”<sup>5</sup> However, we believe that services need to be defined in their own right rather than in relation to goods. A short and snappy definition, like the oft-repeated “something which can be bought and sold but which cannot be dropped on your foot”<sup>6</sup> is amusing and memorable, but it may not be particularly helpful as a guide to marketing strategy. Our definition of services will focus on the lack of transfer of ownership when buying a service.

Consider this: you didn’t acquire ownership of the hotel room in which you stayed last weekend, you didn’t have ownership over the physical therapist who worked on your injured knee, and you didn’t receive ownership of the concert you just attended. If you didn’t receive a transfer of ownership the last time you purchased a service, then what did you buy?

What customers value and are willing to pay for are desired experiences and solutions. Services deliver these through a form of *rental* or *access* through which customers can obtain the desired benefits. We can identify the following five broad categories<sup>7</sup> within the non-ownership framework that focus on access to and use of the following:

1. **Labor, skills, and expertise rentals.** Here, other people are hired to perform work that customers either cannot or choose not to do themselves. Examples include the following:
  - o car repair
  - o medical check-up
  - o management consulting
2. **Rented goods.** These services allow customers to obtain the exclusive temporary right to use a physical object that they prefer not to own. Examples include the following:
  - o boats
  - o fancy-dress costumes
  - o construction and excavation equipment
3. **Defined space and facility rentals.** This is when customers obtain the use of a certain portion of a larger facility such as a building, vehicle, or area. They usually share this facility with other customers. Examples of this kind of rental include the following:
  - o a seat in an aircraft
  - o a suite in an office building
  - o a storage container in a warehouse
4. **Access to shared facilities.** Customers rent the right to share the use of a facility. Such facilities may be a combination of indoors, outdoors, and virtual spaces. Examples include the following:
  - o theme parks
  - o golf clubs
  - o toll roads (Figure 1.13)



**Figure 1.13** Customers rent the right to use toll roads.



5. **Access to 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 the needs of customers. Examples include the following:
- o telecommunications
  - o utilities and banking
  - o social online networks and games (e.g., *League of Legends*)

The difference between ownership and non-ownership has a major impact on marketing strategy. For example, the criteria for a customer's choice of service differ when something is being rented instead of owned. Customers who wish to rent a car for a vacation in Hawaii will probably focus on the ease of making reservations, the rental location and hours, the performance of service personnel, and the maintenance of the vehicles. However, if the customers are looking to own a car, then they are more likely to consider factors such as price, brand image, ease of maintenance, running costs, design, color, and upholstery.

## Defining Services

We offer the following comprehensive definition of services based on the non-ownership perspective: We define services as *economic activities* between two parties, implying an exchange of value between the seller and the buyer in the marketplace. We describe services as *performances* that are most commonly *time-based*. We emphasize that purchasers buy services for *desired results*. In fact, many firms explicitly market their services as “solutions” to the needs of potential customers. Lastly, our definition emphasizes that customers *expect to obtain value* from their service purchases *in exchange for their money, time, and effort*. This value comes from *access to a variety of value-creating elements rather than transfer of ownership*.

## DEFINITION OF SERVICES

Services are economic activities performed by one party to another. Often time-based, these performances 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.<sup>8</sup>

## Service Products versus Customer Service and After-Sales Service

With the growth of the service economy and the emphasis on adding value-enhancing services to manufactured goods, the line between services and manufacturing becomes increasingly blurred. Many manufacturing firms—from car makers Toyota and aerospace engine producers GE and Rolls-Royce to high-tech equipment manufacturers Samsung and Siemens—are moving aggressively into service businesses. Instead of simply bundling supplementary services with their physical

products, quite a few firms are now enhancing certain service elements and marketing them as standalone services (see the example of Samsung in Figure 1.14).<sup>9</sup>

The principles discussed in services marketing are equally applicable to manufacturing firms that increase the service component of their offerings. As Theodore Levitt observed long ago, “There are no such things as service industries. There are only industries whose service components are greater or less than those of other industries. Everybody is in service.”<sup>10</sup> More recently, *service-dominant (S-D) logic* suggests that all products are valued for the service they provide, and the value derived from a physical good is not the good itself but the service it provides during consumption (which is termed “*value-in-use*”).<sup>11</sup>



**Figure 1.14**, Manufacturing giant Samsung offers advanced medical services at the Samsung Medical Center.

## FOUR BROAD CATEGORIES OF SERVICES—A PROCESS PERSPECTIVE

**D**id you notice that the definition of services emphasizes not only value creation through rental and access but also the desired results that can be brought about for recipients of the service? There are major differences among services depending on what is being processed. Services can “process” people, physical objects, and data, and 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 non-physical assets. This gives rise to the classification of services into four broad categories: *people processing*, *possession processing*, *mental stimulus processing*, and *information processing* (Figure 1.15).<sup>12</sup> Let’s examine why these four different types of processes often have distinctive implications for marketing, operations, and human resource management.



### LO 6

Identify the four broad “processing” categories of services.

	Who or What Is the Direct Recipient of the Service?	
	People	Possessions
<b>Nature of the Service Act</b>		
<b>Tangible Actions</b>	<b>People Processing</b> (services directed at people’s bodies) <ul style="list-style-type: none"> <li>• Hairstylist</li> <li>• Passenger transportation</li> <li>• Healthcare</li> </ul>	<b>Possession Processing</b> (services directed at physical possessions) <ul style="list-style-type: none"> <li>• Freight transportation</li> <li>• Laundry and dry cleaning</li> <li>• Repair and maintenance</li> </ul>
<b>Intangible Actions</b>	<b>Mental Stimulus Processing</b> (services directed at people’s minds) <ul style="list-style-type: none"> <li>• Education</li> <li>• Advertising PR</li> <li>• Psychotherapy</li> </ul>	<b>Information Processing</b> (services directed at intangible assets) <ul style="list-style-type: none"> <li>• Accounting</li> <li>• Banking</li> <li>• Legal services</li> </ul>

**Figure 1.15** Four broad categories of services.



**Figure 1.16** A customer getting pampered to look more beautiful.

## People Processing

From ancient times, people have sought out services directed at themselves, including transportation, food, lodging, health restoration, and beautification (Figure 1.16). To receive these services, customers must enter the *service factory*, a physical location where people or machines (or both) create and deliver service benefits to customers. Sometimes, service providers are willing to bring the necessary tools of their trade to the customers' preferred location. Implications of people-processing services include the following:

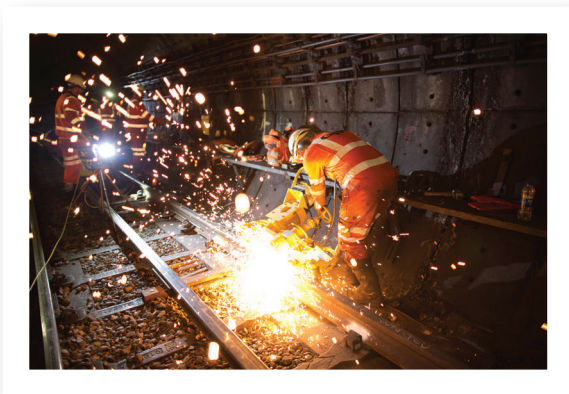
- ▶ Service production and consumption are simultaneous, which means that the customers must be physically present in the service factory.
- ▶ The active cooperation of the customer is required. For example, for a manicure service, you would have to cooperate with the manicurist by specifying what you want, sitting still, and presenting each finger for treatment when requested.
- ▶ Customers' non-financial costs such as (travel) time and mental and physical effort need to be taken into account and ideally minimized.
- ▶ There is a need for managers to think carefully about the location of the service operation, the design of service processes and the service environment, and demand and capacity management.

## Possession Processing

Customers often ask a service organization to provide tangible treatment for some physical possession, such as a house that has been invaded by insects, a malfunctioning elevator, the broken screen of a smartphone, a parcel that needs to be sent to another city, or a sick pet (Figure 1.17).

The implications of such services include the following:

- ▶ Production and consumption are not necessarily simultaneous. This allows the service firm greater flexibility in designing such services for cost-efficiency.
- ▶ Customers tend to be less involved in these services. Their involvement may be limited to dropping off or collecting the item. In such instances, production and consumption can be described as *separable*. However, in some cases, customers may prefer to be present during service delivery. For example, they may wish to supervise the cutting of the hedge or comfort the family dog while it receives an injection at the veterinary clinic.



**Figure 1.17** Repairing the rail track in the London Underground is a possession-processing service.

## Mental Stimulus Processing

Mental-stimulus-processing services include education, news and information, professional advice, and some religious activities. Customers are required to invest some time and mental effort to obtain the full benefit of such services. However, they don't neces-

sarily have to be physically present in a service factory. For instance, passengers can sleep through a flight and still arrive at their desired destination. However, if you fall asleep during an online lecture, you won't be any wiser at the end than at the beginning!



As the core content of the services in this category is information-based, it can be digitized and made available via downloads. For instance, a classical music concert can be attended live, viewed or heard live, pre-recorded on TV, or sold as digital recordings (Figure 1.18). Some key implications that arise from these kinds of services include the following:

- ▶ Customers do not have to be physically present in the service factory. They only access the information remotely when they need it.
- ▶ Services in this category can be “inventoried” for consumption at a later date than their production. For example, the same performance can be consumed repeatedly.

## Information Processing

Information can be processed by information and communications technology (often referred to as ICT), or by professionals. Information is the most intangible form of service output. However, it can be transformed into more permanent and tangible forms such as letters, reports, books, or files in any type of format. Some services that are highly dependent on the effective collection and processing of information are financial and professional services such as accounting (Figure 1.19), law, marketing research, management consulting, and medical diagnosis.

**Figure 1.18** Orchestral concerts provide mental stimulation and pleasure.



© chrisstockphoto/Alamy Stock Photo



**Figure 1.19** A young couple getting financial advice on buying a new home.

### LO 7

Be familiar with the characteristics of services and the distinctive marketing challenges they pose.

### LO 8

Understand the components of the traditional marketing mix applied to services.

It is sometimes difficult to tell the difference between information and mental stimulus processing services. For example, if a stockbroker analyzes a client's brokerage transactions, it seems like information processing. Yet when the results of the analysis are used to make a recommendation about the most suitable type of investment strategy, it seems like mental stimulus processing. Therefore, for simplicity, we will periodically combine our coverage of mental-stimulus and information-processing services under the umbrella term of *information-based services*.

## SERVICES POSE DISTINCT MARKETING CHALLENGES

Can the marketing concepts and practices developed in manufacturing companies be transferred to service organizations where no transfer of ownership takes place? The answer is often “no.” Services tend to have different features from goods, including the frequently cited four characteristics of *intangibility*, *heterogeneity* (variability of quality), *inseparability* of production and consumption, and *perishability* of output,<sup>13</sup> or IHIP for short. Table 1.1 explains these characteristics and other common differences between services and goods. Together, these differences cause the marketing of services to differ from that of manufactured goods in several important respects.

It is important to recognize that these differences, while useful generalizations, *do not apply equally to all services*. Intangibility, for example, ranges from tangible-dominant to intangible-dominant (see Figure 1.20 for a scale that presents a variety of examples).<sup>14</sup> Major differences also exist between the four categories of services we discussed in the previous section. For example, customers tend to be part of the service experience only if they have direct contact with service employees. This is usually the case for people-processing services, but not for many information-processing service transactions, such as online banking.

## THE 7 Ps OF SERVICES MARKETING

When developing strategies to market manufactured goods, marketers usually address four basic elements: *product*, *place* (or distribution), *price*, and *promotion* (or communication). They are widely referred to as the “4 Ps” of the marketing mix. As is evident from Table 1.1, the nature of services poses distinct marketing challenges. Hence, the 4 Ps of goods marketing are not adequate to deal with the issues arising from marketing services and have to be adapted. We will therefore revisit the traditional 4 Ps of the marketing mix in this book to focus on service-specific issues.

Furthermore, the traditional marketing mix fails to cover the customer interface. We therefore need to extend the marketing mix by adding three Ps associated with service delivery—*process*, *physical environment*, and *people*.<sup>15</sup> Collectively, these seven elements are referred to as the “7 Ps” of services marketing. Now, let's look briefly at each of the 7 Ps.



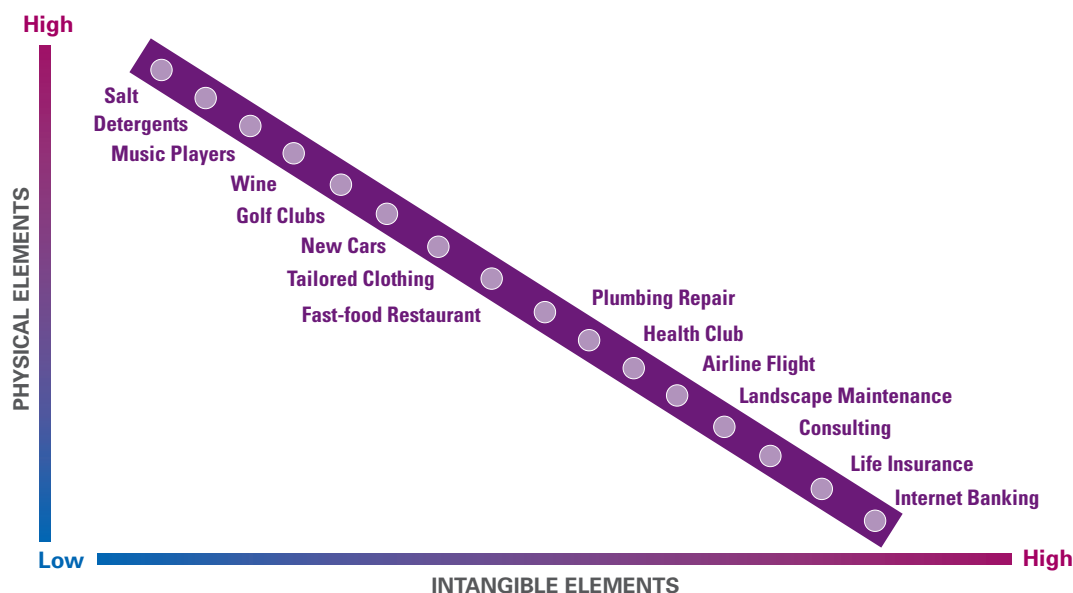
**Table 1.1** Managerial implications of eight common features of services.

Difference	Implications	Marketing-Related Topics
Most service products cannot be inventoried (i.e., output is perishable).	<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 (i.e., service is physically intangible).	<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>It is 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 and branding.</li> </ul>
Services are often difficult to visualize and understand (i.e., service is mentally intangible).	<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, and offer guarantees.</li> <li>Create confidence in the firm's experience, expertise, and credentials.</li> </ul>
Customers may be involved in co-production (i.e., if people processing is involved, the service is inseparable).	<ul style="list-style-type: none"> <li>Customers interact with providers' equipment, facilities, and systems.</li> <li>Poor task execution by customers may hurt productivity, spoil the service experience, and 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>The appearance, attitude, and behavior 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 behavior.</li> </ul>
Operational inputs and outputs tend to vary more widely (i.e., services are heterogeneous).	<ul style="list-style-type: none"> <li>It is harder to maintain consistency, reliability, and service quality or to lower costs through higher productivity.</li> <li>It is difficult to shield customers from the 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, and want service at times that are convenient.</li> </ul>	<ul style="list-style-type: none"> <li>Find ways to compete on speed of delivery, minimize burden of waiting, and offer extended service hours.</li> </ul>
Distribution may take place through nonphysical 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, apps, and free access by telephone.</li> <li>Ensure that all information-based service elements can be downloaded from the website and/or app.</li> </ul>

## The Traditional Marketing Mix Applied to Services

### Product Elements

Service products lie at the heart of a firm's marketing strategy. If a product is poorly designed, it won't create meaningful value for customers, even if the rest of the 7 Ps are well executed. Thus, the first step is to create a service product that will offer value to target customers and satisfy their needs better than competing alternatives. Service



**Figure 1.20** Relative value added by physical versus intangible elements in goods and services.

Source: Based on Lynn Shostack, "Breaking Free from Product Marketing," in *Journal of Marketing* 41 (April 1977): 73–80.

products usually consist of a core product that meets the customers' primary need and a variety of other elements that help customers use the core product more effectively. Supplementary service elements include providing information, consultation, order taking, hospitality, and handling exceptions.

### Place and Time

Service distribution may take place through physical or electronic channels (or both), depending on the nature of the service (see Table 1.1). For example, today's banks offer customers a wide range of distribution channels, including visiting a bank branch, using an ATM network, doing business by telephone, online banking on a desktop, and using apps on a smartphone. In particular, many information-based services can be delivered almost instantaneously to any location in the world that has Internet access. Firms may also deliver their services directly to end-users, or through intermediary organizations that receive a fee or commission to perform certain tasks associated with sales, service, and customer contact. Companies need to decide where and when they can deliver service elements to customers and the methods and channels they can use.

### Price and Other User Outlays

Payment is very important in allowing a value exchange to take place. The pricing strategy of firms directly affects the income generated. Pricing strategy is often highly dynamic and uses revenue management tools to adjust price levels over time according to factors such as the customer segment, time and place of delivery, level of demand, and available capacity.

For customers, price is a key part of the costs they must incur to obtain desired benefits. To calculate whether a particular service is “worth it,” they may also go beyond money and assess how much time and effort are involved. Service marketers must not only set prices that target customers are willing and able to pay, but they must also understand—and seek to minimize, where possible—the other costs that customers incur in using the service. These may include additional monetary costs, time spent, unwanted mental and physical effort, and exposure to negative sensory experiences.

### Promotion and Education

Few marketing programs can succeed without effective communication. It plays three vital roles: (1) providing the necessary information and advice; (2) persuading target customers to buy the service product; and (3) encouraging them to take action at specific times. In services marketing, most communication is educational in nature, especially for new customers. Suppliers need to teach their customers about the benefits of the service, where and when to obtain it, and how to participate in service processes to get the best results.

Services are often difficult to visualize and understand because intangible elements tend to dominate value creation. Therefore, an important role of a service firm’s communications is to create confidence in the firm’s experience and credentials as well as in the expertise of its employees. To do this, service firms can use physical images and metaphors to promote service benefits and demonstrate their competencies (Figure 1.23).

## The Extended Services Marketing Mix for Managing the Customer Interface

### Process

Smart managers know that where services are concerned, *how* a firm does things is as important as *what* it does. Therefore, it is necessary to design and implement effective processes for the creation and delivery of services. Badly designed service processes lead to slow and ineffective service delivery, wasted time, and a disappointing experience for customers. The following three sections show how service processes differ from manufacturing processes.

**Operational Inputs and Outputs Can Vary Widely.** Operational inputs and outputs tend to vary more widely for services. This makes customer service process management a challenge (see Table 1.1). When a service is delivered face-to-face and consumed as it is produced, final “assembly” must take place in real time. However, operations are



Stephen Coburn/Shutterstock

**Figure 1.21** Time is of the essence—service providers must be swift and smart in their customer interactions.



### LO 9

Describe the components of the extended marketing mix for managing the customer interface.



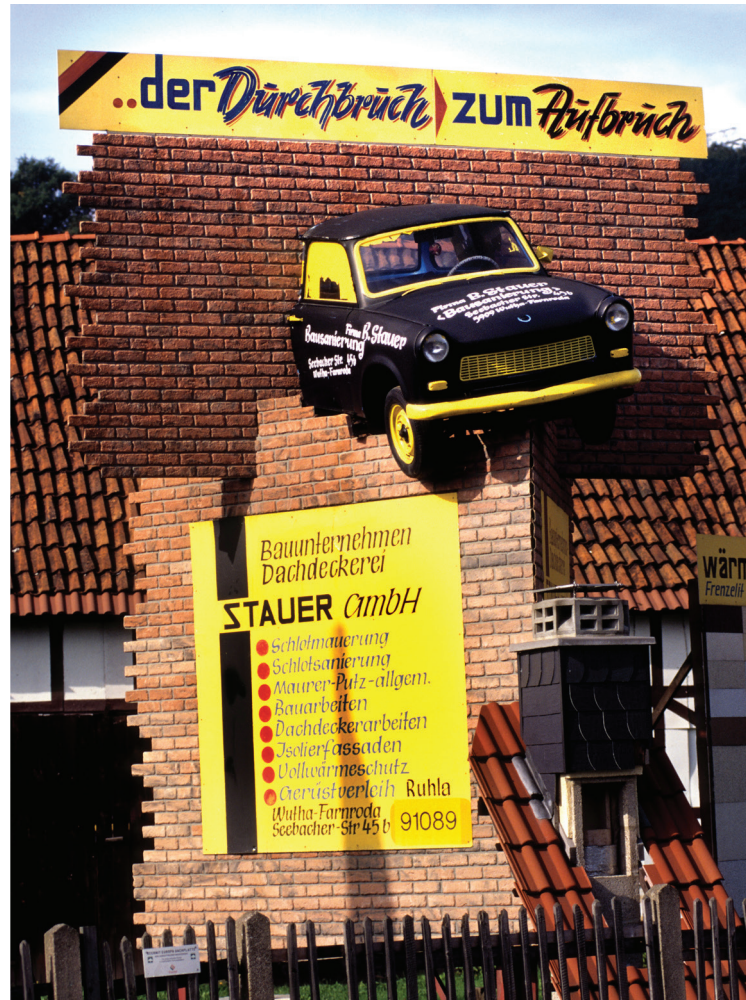


**Figure 1.22** Money is not the only consideration when measuring the cost of a service.

often distributed across thousands of sites or branches. In such cases, it is difficult for service organizations to ensure reliable delivery, control quality, and improve productivity. As a former packaged goods marketer once observed after moving to a new position at Holiday Inn:

We can't control the quality of our product as well as a Procter and Gamble control engineer on a production line can ...When you buy a box of Tide, you can reasonably be 99 and 44/100% sure that it will work to get your clothes clean. When you reserve a Holiday Inn room, you're sure at some lesser percentage that it will work to give you a good night's sleep without any hassle, or people banging on the walls and all the bad things that can happen in a hotel.<sup>16</sup>

Nevertheless, the best service firms have made significant progress in reducing variability by carefully designing customer service processes, adopting standardized procedures and equipment, implementing rigorous management of service quality,



**Figure 1.23** Services and offerings can be communicated through physical images and metaphors.

training employees more carefully, and automating tasks previously performed by humans.

**Customers Are Often Involved in Co-production.** Some services require customers to participate actively in co-producing the service product (see Table 1.1). For example, you're expected to help the investment banker understand what your needs are, the kind of risks you are willing to take, and the expected returns. This will enable the banker to advise you on what to invest in. Increasingly, your involvement takes the form of self-service, often using self-service technologies (SSTs) facilitated by smart machines, telecommunications, and the Internet. Thus, well-designed customer service processes are needed to facilitate service delivery.

**Demand and Capacity Need to Be Balanced.** Manufacturing can ensure a smooth process flow by having an inventory of materials and parts ready for use. For services, the same would mean having customers wait in the service process! Therefore, effective service process management involves the balancing of demand and capacity, the design of waiting systems, and the management of the impact of waiting on the customer's psychology.

### Physical Environment

If your job is in a service business that requires customers to enter the service factory, you'll also have to spend time thinking about the design of the "servicescape."<sup>17</sup> 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. Service firms need to manage servicescapes carefully, since they can have a profound impact on customer satisfaction and service productivity.

### People

Despite advances in technology, many services will always need direct interaction between customers and service employees (see Table 1.1). You must have noticed many times how the difference between one service supplier and another lies in the attitude and skills of their employees. Service firms need to work closely with their human resources (HR) departments and devote special care to the selection, training, and motivation of their service employees (see Figure 1.25). In addition to possessing the necessary technical skills, these individuals also need good interpersonal skills and a positive attitude.

## MARKETING MUST BE INTEGRATED WITH OTHER MANAGEMENT FUNCTIONS

**A**s you think about the 7 Ps, it should quickly become clear that marketers working in a service business cannot expect to operate successfully in isolation from managers in other functions. Marketing, operations, human resources (HR), and



**Figure 1.24** Co-producing the service: working out at the gym under the direction of a personal trainer.

### LO 10

Appreciate that marketing, operations, human resource, and IT management functions need to be closely integrated in service businesses.



**Figure 1.25** Hospitality is shown through employees wearing smart outfits and a ready smile.

information technology (IT) are four management functions that play central and interrelated roles in meeting the needs of service customers: Figure 1.26 illustrates this interdependency.

The operations function is primarily responsible for managing service delivery through equipment, facilities, systems, and many tasks performed by customer-contact employees. In most service organizations, operations managers are actively involved in the design of products and processes and the implementation of programs for improving productivity and quality.

HR is often seen as a staff function, responsible for job definition, recruitment, training, reward systems, and the quality of work life. However, in a well-managed service business, HR managers view these activities from a strategic perspective. They understand that the quality and commitment of the front line are crucial for gaining competitive advantage. Service organizations cannot afford to have HR specialists who do not understand customers. Marketing and operations activities are more likely to be successful when employees have the necessary skills and training to create and maintain customer satisfaction.

IT is a key function, as many service processes are information-heavy. At almost every customer touch-point, real-time information is needed, from customer data to prices and available capacity. Operations, HR, and marketing are critically dependent on IT to manage their functions and create value for the organization's customers. For these reasons, we don't limit our coverage exclusively to marketing in this book. In many of the chapters, you'll also find us referring to service operations, human resource management, and IT.



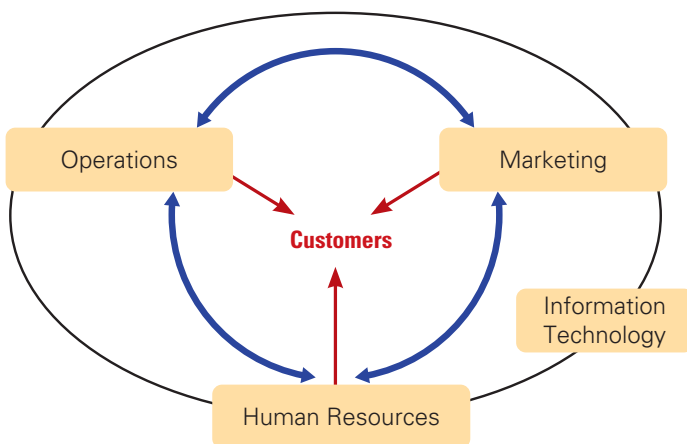
## LO 11

Understand the implications of the Service–Profit Chain for service management.

## THE SERVICE–PROFIT CHAIN

**T**he Service–Profit Chain is a conceptual framework that shows how marketing, operations, HR, and IT are integrated in high-performance service organizations. It holds that when service companies put employees and customers first, there is a major change in the way they manage and measure success. Firms adopting the service-profit chain relate profitability, customer loyalty, and customer satisfaction to the value created by productive employees and supported by customer- and employee-centric operations and technology:

Top-level executives of outstanding service organizations spend little time setting profit goals or focusing on market share.... Instead, they understand that in the new economics of service, frontline workers and customers need to be the center of management concern. Successful service managers pay attention to the factors that drive profitability, [namely] investment in people, technology that supports frontline workers, revamped recruiting and training practices, and compensation linked to performance for employees at every level.



**Figure 1.26** Marketing, operations, human resources, and IT must collaborate to serve the customer.