FUNDAMENTALS IN "SERVICE MARKETING"

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The present notes are due as basic text for the given course. They are largely based on extracts from the book "Principles of Service Marketing & Management "of C. Lovelock & L Wright. Apart from many data deriving of our own professional experience, additional references were taken from "Service Asia" by G. Tocquer & C. Cudennec, "Le Marketing des Services" of B. Bréchignac-Roubaud, and the course of J-C Larréché (INSEAD) : "Gagner ensemble grâce aux services" We recommend the students to enrich their knowledge by consulting those references.

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Chapter 1: UNDERSTANDING SERVICES

As consumers, we use services every day. Turning on a light, watching TV; talking on the telephone, riding a bus, visiting the dentist, mailing a letter, getting a haircut, refuelling a car, writing a check, or sending clothes to the cleaners are all examples of service consumption at the individual level. The institution at which you are studying is itself a complex service organization. In addition to educational services, today's college facilities usually include libraries and cafeterias, counselling, a bookstore, placement offices, copy services, telecommunications, and even a bank. In addition, campus services are also likely to include dormitories, health care, indoor and outdoor athletic facilities, a theatre, and perhaps a post office.

The service activities are exceptionally varied. One finds them in the public sector with its courthouses, employment and placement agencies, hospitals, police, post offices, schools... Services are also linked to the associative non-profit sector with its museums, churches, charismatic organisms... A large part of the private sector is -indeed also dedicated to services: airlines, banks, data processing, leisure, maintenance... It seems that new services appear every day!

Some enterprises exist that for your own comfort, in return for payment, will balance your domestic budget, will take care of your philodendrons, will wake up you in the morning, will drive you to your office, and will find you a new apartment, a work, a car, a wife... You maybe prefer to rent a cultivator, an exotic animal, or even some escorts or ornament for your cocktail?... If one gets in the professional domain, an event specialist will organize your conventions, a creator- and design service will conceive your products, an accounting company will take your financial & data processing in charge, and others will provide you with secretaries and interim managers.

Customers, however, are not always happy with the quality and value of the services they receive. People complain about late deliveries, rude or incompetent personnel, inconvenient service hours, poor performance, and needlessly complicated procedures. They grumble about the difficulty of finding sales clerks to help them in retail stores, express frustration about mistakes on their credit card bills or bank statements, shake their heads over the complexity of new self-service equipment, mutter about poor value, and sigh as they are forced to wait in line almost everywhere they go.

Suppliers of services often seem to have a very different set of concerns than the consumer. Many suppliers complain about how difficult it is to make a profit, how hard it is to find skilled and motivated employees, or how difficult it has become to please customers. Some firms seem to believe that the surest route to financial success lies in cutting costs and eliminating “unnecessary” frills. A few even give the impression that they could run a much more efficient operation if it were not for all the stupid customers who keep making unreasonable demands and messing things up!

Fortunately, in almost every industry they do have pleasant and competent employees or staff service suppliers who know how to please their customers while also running a productive, profitable operation.
1. WHAT IS A SERVICE?

Because of their diversity, services have traditionally been difficult to define. The way in which services are created and delivered to customers is often hard to grasp since many inputs and outputs are intangible. Most people have little difficulty defining manufacturing or agriculture, but defining service can elude them. Here are two approaches that capture the essence of the word. We propose following definition:

One calls service an act or performance that creates value and provide benefits for customers. Those activities are proposed (gratis or for sale) at specific times and places, as a result of bringing about desired change in - or on behalf of- the recipient. They are essentially intangible and don’t normally give place to any transfer of property. A service can however be associated or not to a physical product.

More humorously, service has also been described as “something that may be bought and sold, but which cannot be dropped on your foot”.

The offer of an enterprise on the market mostly includes an element of service that can be more or less important in the global proposal. One can, in fact, distinguish four situations:

1. **The product as such.** The offer limits itself to a very tangible product as soap, toothpaste or salt, without any attached service.

2. **The product with associated services.** The enterprise proposes a basic product augmented with peripheral services. For example, an automotive constructor sells, in addition to the vehicle, a guarantee, a maintenance service, etc... It becomes evident that the more a product is of technological nature (a car, a computer), the more its sale depends on the quality and availability of the services that are tied to it (presentation, delivery, repair, maintenance, technical support, guarantee...).

3. **The service added with products or other services.** The offer of the enterprise consists of a generic or core service completed by some linked products or additional services. Thus, the offer of airlines are composed of a basis service (transportation) containing several products (food, drinks, newspapers and magazines) and complementary services (luggage care, reception rooms...) In the same way the visit to a doctor or a veterinarian leads to a prescription which completes the diagnosis. More typical is the catering or foodservice where the performance integrates the location, preparation, presentation... of the meals.

4. **The pure service.** This time, the enterprise proposes a service on its own, for example the work of a management consultant, the aid of a lawyer or the help of a psychologist... No product or other service is linked to it.

Taken such diversity, it is difficult to generalize on services unless one introduces other complementary distinctions. One can classify the services according to whether they require the involvement of staff or equipment a psychiatrist hardly needs equipment, contrary to a surgeon-dentist. The services base on staff can be differentiated according to the degree of specialization and know-how while the services based on equipment can be more or less automated.

A second criterion of classification takes in account the customer's presence. Is he or not necessary while performing the service? The open hart surgery requires the patient's presence, but the owner of a vehicle must not be present when servicing or repairing his car. If the customer is present and directly involved, it will be necessary to take into account his needs and often to invest in a specific and appropriate décor or comfortable site (beauty shops, hotels, fitness centers...).
In third place, one can consider the purchase motivation. Is it about a personal or professional need? The cost of attending a conference will be different depending on whether subscription is on account of an enterprise or in charge of an individual to personal title. The offered services can also be different (journeys, entertainment...) Finally, the objectives of a service company (for profit or no) and its statute (private or public) require distinct marketing strategies. One won't indeed make the same promotion for a private clinic as for a public hospital.

2. THE SERVICE SECTOR

Services make up the bulk of today's economy, not only in the United States and Canada where they account for 77% and 67% of the gross domestic product (GDP), respectively, but also in other developed industrial nations throughout the world. Figure 1.1 shows how service industries contribute to the economy of the United States relative to manufacturing, government (itself mostly services), agriculture, mining, and construction.

Figure 1.1: Distribution of GDP by industry in the US (1999)

Historically, the marketing has first developed its actions around tangible products: food, cars, home equipment, etc... Yet, one of the most meaningful tendencies of our time is the tremendous growth of the service activities. The tertiary sector, that uses more then thirteen million people in France, represents today ca 60% of the GDP against about 30% in the years 1950. The service activities don't limit themselves to the tertiary sector only (hotels, banks, telephone, assurances, distribution, etc.) but are also present in an industrial context, (for example health & safety care in enterprises, maintenance and repair, training ...). Such a development enhanced on its turn a bigger interest for the marketing of services and its related problems.

The service sector accounts for most of the new job growth in developed countries. In fact, unless you are already predestined for a career in a family manufacturing or agricultural business, the probability is high that you will spend your working life in companies (or public agencies and non-profit organizations) that create and deliver services.
As a nation's economy develops, the share of employment between agriculture, industry (including manufacturing and mining), and services changes dramatically. Figure 1.2 shows how the evolution to a service-dominated employment base is likely to take place over time as per capita income rises. Service jobs now account for 76 percent of private sector payrolls in the United States, with wages growing at a faster pace than in manufacturing jobs. In most countries, the service sector of the economy is very diverse and includes a wide array of different industries, ranging in size from huge enterprises that operate on a global basis to small entrepreneurial firms that serve a single town.

It comes as a surprise to most people to learn that the dominance of the service sector is not limited to highly developed nations. For instance, World Bank statistics show that in many Latin American and Caribbean nations the service sector accounts for more than half the gross national product (GNP) and employs more than half the labour force. These countries often have a large « underground economy » that is not captured in official statistics. In Mexico, for instance, it has been estimated that as much as 40 percent of trade and commerce is « informal». Significant service output is created by undocumented work in domestic jobs (e.g., cook, housekeeper, gardener) or in small, cash-based enterprises such as restaurants, laundries, rooming houses, and taxis.

Figure 1.2: Changing structure of employment as an economy develops:

The typical service organizations range in size from huge international corporations like airlines, banking, insurance, telecommunications, hotel chains, and freight transportation to a vast array of locally owned and operated small businesses, including restaurants, laundries, taxis, optometrists, and numerous business-to-business (B to B) services. Franchised service outlets -in fields ranging from fast foods to bookkeeping- combine the
marketing characteristics of a large chain that offers a standardized product with local ownership and operation of a specific facility. Some firms that create a time-sensitive physical product, such as printing or photographic processing, are now describing themselves as service businesses because speed, customisation, and convenient locations create much of the value added.

There's a hidden service sector too, within many large corporations, which are classified by government statisticians as being in manufacturing, agricultural, or natural resources industries. So-called **internal services** cover a wide array of activities including recruitment, publications, legal and accounting services, payroll administration, office cleaning, landscape maintenance, freight transport, and many other tasks. Even when such services are not outsourced, managers of the departments that supply them would do well to think in terms of providing good service to their internal customers.

To a growing extent, organizations are choosing to outsource those internal services that can be performed more efficiently by a specialist subcontractor. As these tasks are outsourced, they become part of the competitive marketplace and are therefore categorized as contributing to the service component of the economy. As they see their margins shrinking, the manufacturing enterprises are interested more and more in the services. In some cases, they ask a payment for the services that they used to grant for free. In others cases, they modify their strategy and offer mix. They also create units assigned to sell the services separately.

There exists, actually, six ways for an industrial to get involved in service:

1. **Transform its product in solution.** For example a manufacturer of fertilizers will personalize his offer while adapting it to every customer, even taking sometimes in charge the actual spreading on site.

2. **Externalise internal services.** For example, Xerox sells its internal training programs and created hereto a specific entity: Xerox Learning System.

3. **Take in the activities of service for other enterprises.** Thus, Kimberly-Clark has his own fleet of planes that the company maintains all by herself. They propose their specialized maintenance services to other enterprises that own planes.

4. **Propose additional activities of services to the customers.** For example, Scott, an US agricultural seed provider proposes its customers to maintain their lawns and their gardens.

5. **Offer financial services.** All industrial enterprise can, vis-à-vis her customers, offer the services of credit or leasing done normally by a bank. This is the case for Caterpillar.

6. **Develop the distribution activities.** All manufacturers can decide to diversify downstream. In the United States, Quaker Oats possesses several chains of restaurant.

Governments and non-profit organizations are also in the business of providing public services, although the extent of such involvement may vary widely from one country to another, 'reflecting both tradition and political values. In many countries, colleges, hospitals, and museums are publicly owned or operate on a non-profit basis, but for-profit versions of each type of institution also exist.
3. BASIC DIFFERENCES BETWEEN GOODS AND SERVICES

The dynamic environment of services today places a premium on effective marketing. Although it's still very important to run an efficient operation, it no longer guarantees success. The service product must be tailored to customer needs, priced realistically, distributed through convenient channels, and actively promoted to customers. New market entrants are positioning their services to appeal to specific market segments through their pricing, communication efforts, and service delivery, rather than trying to be all things to all people. But are the marketing skills that have been developed in manufacturing companies directly transferable to service organizations? The answer is often no, because marketing management tasks in the service sector tend to differ from those in the manufacturing sector in several important respects.

Every *product* - a term used to describe the core output of any type of industry - delivers benefits to the customers who purchase and use them. Goods can be described as physical objects or devices and services are actions or performances. Research into services has differentiated them from goods, focusing particularly on four generic differences influencing the development of the marketing actions. Those features are referred to as intangibility, indivisibility (because of simultaneity of production and consumption), heterogeneity (or variability), and perishability of output.

**The Intangibility**

The services are intangible. One cannot see them, touch them, feel them, taste them or hear them before buying them. The lady customer asking for a treatment with a special mask in an institute of beauty cannot know the result in advance neither can the patient addressing the psychiatrist.

To reduce the uncertainty, the purchaser actively looks for the signs proving the service quality. He attaches significance to everything he sees: the room, the staff, the equipment, the information, the logos and the prices.

The seller's mission is therefore to encourage the customer's confidence by "increasing the tangibility of the service". The product manager must, on his side, add a virtual value to his product while putting the emphasis to the concretisation of an abstract offer.

Different approaches permit to concretise a service. Let's suppose that a bank decided to develop a fast and efficient service. She can make use of a series of supports:

1. The site. The outside and inside space of the bank can be rearranged: multiple entries, streamline traffic, specialised wickets or positions, multifunctional welcome and information desk in order to avoid queuing, background music...
2. The staff. Easily identifiable and dressed in a professional manner.
3. The equipment. Modern, it must give the bank the image of an enterprise geared to progress and success.
4. The information. The booklets and documentation must be well displayed and inviting, the content clear and understandable. The whole must express the will of help and the progress image of the bank.
5. The logos and colours. The bank must choose a name, sometimes a symbol for every service, to enable to recognise and differentiate them quickly.
6. The tariffs. They must clearly be explained at every encounter occasion.

**The Indivisibility**

A service is manufactured at the same time as it is consumed. One is not able, as in the cases of the tangible products, to conceive, manufacture and then sell in separate and sequential actions. Performing a service involves assembling and delivering the output of
a combination of physical facilities and mental or physical labour. Often customers are actively involved in helping create the service, either by serving themselves (bank automats, self-service petrol stations...) or by cooperating with service personnel (hair salons, hotels, universities...). On the other hand, an opera with as premium singer Jose Carreras doesn't have the same value anymore if the tenor is sick and has to be replaced at the last moment. As such, the capacity of service production is limited to the artist's availability because he is part of the service...

Several strategies permit to get round this reef. One can widen the audience (as in the case of the group psychotherapy), reduce the length of the service (fast food), develop a distribution network (hairdressing franchises),...

**The variability**

A service is eminently variable according to the circumstances that govern its process. One meal prepared by Baucause himself will be maybe more successful than if he confides it to one of his helpers. Even in the first case, the quality of the meal will vary according to the mood and the chiefs inspiration. When service are consumed as they are produced, final "assembly" must take place under real-time conditions, which may vary from customer to customer and even from one time of the day to another. It is probably the variability of the services that explains the importance of word of mouth communication that is noticed.

The service enterprises improve the control of quality in two manners.
- They invest in a qualified and trained staff in order to harmonize the level and continuity of the service presented. In some cases, they even codify the manner of doing and clearly specify the nature of contacts with the clientele (Mc Donald's).
- They measure the degree of satisfaction through questionnaires or market research techniques. They also can take serious account of complaints and suggestions or investigate and compare with the competition.

**The perishability**

The services cannot be inventoried. It is the reason for which the airline companies introduce some penalties in case of annulment of some tickets: a non-sold ticket is lost forever. The fact that a service is perishable is not a real obstacle if the demand is steady and therefore known in advance. When demand fluctuates, it creates problems of infrastructure and costs. As for the public transportation the trains, busses... are insufficient in peak hours, but material remains unused most of the time! An important task for service marketers is to find ways of smoothing demand levels to match capacity.

Although these characteristics are still in run, they have been criticized for over-simplifying the real-world environment. They however highlight the essence of services. The understanding of the differences between service and goods as presented in the figure 1.3 below helps explain why some companies are more successful than others.

**Figure 1.3: Differences between services and goods**

<table>
<thead>
<tr>
<th>Services</th>
<th>Goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services are immaterial</td>
<td>Goods are concrete</td>
</tr>
<tr>
<td>Services cannot be stores</td>
<td>Goods can be stored</td>
</tr>
<tr>
<td>Ownership is not generally transferred</td>
<td>Ownership is transferred after purchase</td>
</tr>
<tr>
<td>Services cannot be demonstrated before purchase</td>
<td>Goods can be demonstrated before purchase</td>
</tr>
<tr>
<td>Services cannot easily be standardized</td>
<td>Goods can be standardized</td>
</tr>
<tr>
<td>Services are produced &amp; consumed simultaneously</td>
<td>Goods are first produced and then consumed</td>
</tr>
<tr>
<td>Production and consumption are spatially united</td>
<td>Production and consumption are spatially apart</td>
</tr>
<tr>
<td>Customers are involved in the delivery process</td>
<td>Customers don't usually participate in production</td>
</tr>
</tbody>
</table>
The only real difference between the production processes for services and goods is that services require interaction between the customer and the company, through a customer contact person or an automated system. This is illustrated below in figure 1.4 where in the servuction system, the 'interaction' between customer and the service provider are clearly concomitant in opposition to the production process.

More practical insights are provided in Figure 1.5, which lists nine basic differences that can help us to distinguish the tasks associated with service marketing and management from those involved with physical goods.

**Figure 1.4: Comparing production with servuction**

![Diagram comparing production with servuction](image)

**Production of goods**

**Production of services = Servuction**

It’s important to note that in identifying these differences we’re still dealing with generalizations that do not apply equally to all services. In Chapter 2, we classify services into distinct categories, each of which presents somewhat different challenges for marketers and other managers. We also need to draw a distinction between marketing of services and marketing goods through service. In the former, it’s the service itself that is being sold and in the latter, service is added -usually free of charge- to enhance the appeal of a manufactured product. Now, let's examine each of the nine differences in more detail.

**Figure 1.5: Nine characteristics of services**

<table>
<thead>
<tr>
<th>Difference</th>
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<tbody>
<tr>
<td>Customers do not obtain ownership of services</td>
</tr>
<tr>
<td>Service products are intangible performances</td>
</tr>
<tr>
<td>There is greater involvement of customers in the production process</td>
</tr>
<tr>
<td>Other people may form part of the product</td>
</tr>
<tr>
<td>There is greater variability in operational inputs and outputs</td>
</tr>
<tr>
<td>Many services are difficult for customers to evaluate</td>
</tr>
<tr>
<td>There is typically an absence of inventories</td>
</tr>
<tr>
<td>The time factor is relatively more important</td>
</tr>
<tr>
<td>Delivery systems may involve both electronic and physical channels</td>
</tr>
</tbody>
</table>

**Customers Do Not Obtain Ownership**: Perhaps the key distinction between goods and services lies in the fact that customers usually derive value from services without obtaining permanent ownership of any substantial tangible elements. In many instances, service marketers offer customers the opportunity to rent the use of a physical object like a car or hotel room, or to hire the labour and skills of people whose expertise ranges from management consultancy to knowing how to check customers into a hotel. As a purchaser of services yourself, you know that while your main interest is in the final
output, the way in which you are treated during service delivery can also have an important impact on your satisfaction.

**Service Products as Intangible Performances:** Although services often include tangible elements such as sitting in an airline seat, eating a meal, or getting damaged equipment repaired, the service performance itself is basically an intangible. The benefits of owning and using a manufactured product come from its physical characteristics (although brand image may convey benefits, too). In services, the benefits come from the nature of the performance. The notion of service as a performance that cannot be wrapped up and taken away leads to the use of a theatrical metaphor for service management, visualizing service delivery as similar to the staging of a play with service personnel as the actors and customers as the audience.

Some services, such as rentals, include a physical object like a car or a power tool. But marketing a car rental performance is very different from attempting to market the physical object alone. For instance, in car rentals, customers usually reserve a particular category of vehicle, rather than a specific brand and model. Instead of worrying about styling, colors, and equipment, customers focus on price, location and appearance of pickup and delivery facilities, extent of insurance coverage, cleanliness and maintenance of vehicles, provision of free shuttle buses at airports, availability of 24-hour reservations service, hours when rent allocations are staffed, and quality of service provided by customer-contact personnel. By contrast, the core benefit derived from owning a physical good normally comes specifically from its tangible elements, even though it may provide intangible benefits, too. An interesting way to distinguish between goods and services is to place them on a scale from tangible dominant to intangible dominant (figure 1.6)

**Figure 1.6: Goods-Services differentiation based on tangibility-intangibility**

![Diagram showing goods-services differentiation based on tangibility-intangibility](image)

**Customer involvement in the Production Process:** Performing a service involves assembling and delivering the output of a combination of physical facilities and mental or physical labour. Customers are mostly involved in the servuction process, either by self-service systems (automats) or because they are part of the process itself (restaurant, fitness, hospital...).

**People as Part of the Product:** In high-contact services, customers not only come into contact with service personnel, but they may also rub shoulders with other customers
(literally so, if they ride a bus or subway during the rush hour). The difference between service businesses often lies in the quality of employees serving the customers. Similarly, the type of customers who patronize a particular service business helps to define the nature of the service experience. As such, people become part of the product in many services. Managing these service encounters—especially those between customers and service employees—is a challenging task.

**Greater Variability in Operational Inputs and Outputs:** The presence of personnel and other customers in the service system makes it difficult to standardize and control variability in both service inputs and outputs. Manufactured goods can be produced under controlled conditions, designed to optimise both productivity and quality, and then checked for conformance with quality standards long before they reach the customer. (Of course, their subsequent use by customers will vary widely, reflecting customer needs and skills, as well as the nature of the usage occasion.) Because in services, the production & consumption are mostly concomitant, one has often to customize the offer case by case. As a result, mistakes and shortcomings are both more likely and harder to conceal. These factors make it difficult for service organizations to improve productivity, control quality, and offer a consistent product. As a former packaged goods marketer observed some years ago 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% sure that this stuff will work to get your clothes clean. When you buy 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..."

Not all variations in service delivery are necessarily negative. Modern service businesses are recognizing the value of customizing at least some aspects of the service offering to the needs and expectations of individual customers. In some fields, like health care, customisation is essential.

**Harder for Customers to Evaluate:** Most physical goods tend to be relatively high in «search attributes.» These are characteristics that a customer can determine prior to purchasing a product, such as colour, style, shape, price, fit, feel, and smell. Other goods and some services, by contrast, may emphasize, «experience attributes» that can only be discerned after purchase or during consumption (e.g., taste, wear ability, ease of handling, quietness, and personal treatment). Finally, there are «credence attributes»—characteristics that customers find hard to evaluate even after consumption-. Examples include surgery and auto repairs, where the results of the service delivery may not be readily visible.

**No Inventories for Services:** Because a service is a deed or performance, rather than a tangible item that the customer keeps, it is «perishable» and cannot be inventoried. Of course, the necessary facilities, equipment, and labour can be held in readiness to create the service, but these simply represent productive capacity, not the product itself. Having unused capacity in a service business is rather like running water into a sink without a stopper. The flow is wasted unless customers (or possessions requiring service) are present to receive it. When demand exceeds capacity, customers may be sent away disappointed, since no inventory is available for backup.

**Importance of the Time Factor:** Many services are delivered in real time. Customers have to be physically present to receive service from organizations such as airlines, hospitals, haircutters, and restaurants. There are limits as to how long customers are willing to be kept waiting and service must be delivered fast enough so that customers do not waste time receiving service. Even when service takes place in the back office, customers have expectations about how long a particular task should take to complete -
whether it is repairing a machine, completing a research report, cleaning a suit, or preparing a legal document-. Today's customers are increasingly time sensitive and speed is often a key element in good service.

**Different Distribution Channels:** Unlike manufacturers that require physical distribution channels to move goods from factory to customers, many service businesses either use electronic channels (as in broadcasting or electronic funds transfer) or on the other hand, they may combine the service factory, retail outlet, and point of consumption at a single location. In the latter instance, service firms are responsible for managing customer-contact personnel (as in restaurants). They may also have to manage the behaviour of customers in the service factory to ensure smoothly running operations and to avoid situations in which one person’s behaviour irritates other customers who are present at the same time.

### 4. AN INTEGRATED APPROACH TO SERVICE MANAGEMENT

The service marketing is very related to two other important functions: service operations and human resource management. Imagine yourself as the manager of a repair garage. Or think big, if you like, as the CEO of a major airline. In either instance, you need to be;

1. concerned on a day-to-day basis that your customers are satisfied, ...  
2. your operational systems are running smoothly and efficiently, and ...  
3. your employees are not only working productively but are also doing a good job either of serving customers directly or of helping other employees to deliver good service.

Even if you see yourself as a middle manager with specific responsibilities in marketing, operations, or human resources, your success in your job will often involve the understanding of these other functions and periodic meetings with colleagues working in these areas. In short, integration of activities between functions, or networking, is the name of the game. Problems in any one of these three areas may signal and pre-empt difficulties ahead.

#### The Eight Components of Integrated Service Management

When discussing strategies to market manufactured goods, marketers usually address four basic strategic elements: product, price, place (or distribution), and promotion (or communication). Collectively, these four categories are often referred to as the « 4Ps » of the marketing mix. However, the distinctive nature of service performances, especially such aspects as customer involvement in production and the importance of the time factor, requires that other strategic elements be included. To capture the nature of this challenge, we will be using the « 8Ps » of integrated service management, which describe eight decision variables facing managers of service organizations. Our visual metaphor for the 8Ps is the racing « eight, » a lightweight boat or shell powered by eight rowers, made famous by the Oxford and Cambridge boat race that has taken place annually on the River Thames near London for almost 150 years. Today, similar races involving many different teams are a staple of rowing competitions around the world, as well as a featured sport in the Summer Olympics.

Speed comes not only from the rowers' physical strength, but also from their harmony and cohesion as part of a team. To achieve optimal effectiveness, each of the eight rowers must pull on his or her oar in unison with the others, following the direction of the coxswain, who is seated in the stern. A similar synergy and integration between each of the 8Ps is required for success in any competitive service business (Figure 1.7). The cox—who steers the boat, sets the pace motivates the crew, and keeps a close eye on competing boats in the race- is a metaphor for management.
Figure 1.7: Illustrating the 8Ps of service marketing

The 8 rowers in the run or "8Ps of service"

- Product Elements
- Place, Cyberspace, and Time
- Promotion and Education
- Price and Other User Outlays
- Process
- Productivity and Quality
- People
- Physical Evidence

- **Product Elements**: Managers must select the features of both the core product and the bundle of supplementary service elements surrounding it, with reference to the benefits desired by customers and how well competing products perform.

- **Place, Cyberspace, and Time**: Delivering product elements to customers involves decisions on both the place and time of delivery and may involve physical or electronic distribution channels (or both), depending on the nature of the service being provided. Messaging services and the Internet allow information-based services to be delivered in cyberspace for retrieval by telephone or computer wherever and whenever it suits the customer. Firms may deliver service directly to their customers or through intermediary organizations like retail outlets owned by other companies, which receive a fee or percentage of the selling price to perform certain tasks associated with sales, service, and customer-contact. Customer expectations of speed and convenience are becoming important determinants in service delivery strategy.

- **Process**: Creating and delivering product elements to customers requires the design and implementation of effective processes. A process describes the method and sequence in which service operating systems work. Badly designed processes are likely to annoy customers because of slow, bureaucratic, and ineffective service delivery. Similarly, poor processes make it difficult for front-line staff to do their jobs well, result in low productivity, and increase the likelihood of service failures.

- **Productivity and Quality**: These elements, often treated separately, should be seen as two sides of the same coin. No service firm can afford to address either element in isolation. Improved productivity is essential to keep costs under control but managers must beware of making inappropriate cuts in service levels that are resented by customers (and perhaps by employees, too). Service quality, as defined by customers, is essential for product differentiation and for building customer loyalty. However, investing in quality improvement without understanding the trade-off between incremental costs and incremental revenues may place the profitability of the firm at risk.

- **People**: Many services depend on direct, personal interaction between customers and a firm's employees (like getting a haircut or eating at a restaurant). The nature of these interactions strongly influences the customer's perceptions of service quality. Customers often judge the quality of the service they receive largely on their assessment of the people providing the service. Successful service firms devote significant effort to recruiting, training, and
motivating their personnel, especially—but not exclusively—those who are in direct contact with customers.

- **Promotion and Education**: No marketing program can really succeed without an effective communication program. This component plays three vital roles: providing needed information and advice, persuading target customers of the merits of a specific product, and encouraging them to take action at specific times. In service marketing, much communication is educational in nature, especially for new customers. Companies may need to teach these customers about the benefits of the service, where and when to obtain it, and how to participate effectively in service processes. Communications can be delivered by individuals, such as salespeople and trainers, or through such media as TV, radio, newspapers, magazines, billboards, brochures, videos, CD-ROM, and web sites.

- **Physical Evidence**: The appearance of buildings, landscaping, vehicles, interior furnishing, equipment, staff members, signs, printed materials, and other visible cues all provide tangible evidence of a firm’s service style and quality. Service firms need to manage physical evidence carefully because it can have a profound impact on customers’ impressions. In services with few tangible elements, such as insurance, advertising is often employed to create meaningful symbols. For instance, an umbrella may symbolize protection, and a fortress, security.

- **Price and Other User Outlays**: This component addresses management of the outlays incurred by customers in obtaining benefits from the service product. Responsibilities are not limited to the traditional pricing tasks of establishing the selling price to customers, which typically include setting trade margins and establishing credit terms. Service managers also recognize and, where practical, seek to minimize other costs and burdens that customers may bear in purchasing and using a service, including additional financial expenditures, time, mental and physical effort, and negative sensory experiences.

**Linking Service Marketing, Operations, and Human Resources**

As shown by the component elements of the 8Ps model, marketing cannot operate in isolation from other functional areas in a successful service organization. Operations specialists, who usually have responsibility for productivity improvements and quality control, manage the processes required to create and deliver the service product. Similarly, employees are recruited and trained by human resource managers. Even those who have customer-contact responsibilities often report to operations managers. The question can be raised of how marketers should relate to and involve their colleagues from other functional areas—especially operations and human resources—in planning and implementing marketing strategies. Firms whose managers succeed in developing integrated strategies will have a better chance of surviving and prospering. Those that fail to grasp these implications, by contrast, are likely to be outmaneuvered by competitors that are more adept at responding to the dramatic changes affecting the service economy.

While going into details for each of the 8Ps, one should always keep in mind the importance of integrating the particular component under discussion with each of the others when formulating an overall strategy.
5. A STRUCTURE FOR MAKING SERVICE MANAGEMENT DECISIONS

As mentioned previously the 8Ps of integrated service strategy are tools that service managers can use to develop effective strategies for marketing and managing many different types of services. The service decision framework reproduced in Figure 1.8 outlines some of the key questions managers need to ask. It also integrates which of the 8Ps is particularly relevant in each instance. The challenge is to learn to ask the right questions and to learn to use the resulting answers to develop a viable strategy, employing different elements of the 8Ps as appropriate.

Figure 1.8: The service management framework

- **WHAT BUSINESS ARE WE IN?**
  - What Service Processes Can Be Used in Our Operation? (PROCESS)
  - Who Are Our Customers and How Should We Relate to Them?
  - What Should be the Core and Supplementary Elements of Our Service Product? (PRODUCT ELEMENTS)
  - What Price Should We Charge? (PRICE AND OTHER USER OUTLAYS)
  - How to Communicate? (PROMOTION & EDUCATION, PHYSICAL EVIDENCE)
  - Options for Delivery? (PLACE, CYBERSPACE & TIME, PHYSICAL EVIDENCE)
  - How Can We Balance PRODUCTIVITY AND QUALITY?

- **WHAT Price SHOULD WE CHARGE?**
  - How Should We Match Demand and Productive Capacity?
  - What Are Appropriate Roles for People and Technology? (PEOPLE)

- **WHAT SHOULD BE THE CORE AND SUPPLEMENTARY ELEMENTS OF OUR SERVICE PRODUCT?**
  - How Can Our Firm Achieve Service Leadership?

The framework begins with a question that lies at the heart of marketing and business strategy in general: What business are we in? Determining the nature of the business goes beyond just specifying the industry with which a specific service is usually associated. Astute managers recognize that competition may come from outside the specific industry they are working for as well as within it. Hence they ask: “With what other goods and services do we compete?” The answers may show that there are several different ways for customers to satisfy their needs. The need for forward thinking in decision-making requires that managers also ask themselves, “What forces for change do we face?” But perhaps the most valuable insights come from determining what solutions a service offers to customers. Only when service marketers understand what problems customers are trying to solve through use of their products can we truly say that they know what business they are in.

Central to strategy formulation in services is the question: **What service processes can be used in our operation?** The Processes used to create and deliver services help define the role of customers in service delivery, the nature of customers’ service experiences, the availability of alternative delivery methods, and the application of information technology.

The third question asks: **Who are our customers and how should we relate to them?** It addresses such issues as which types of customers to target, the nature of consumer decision making, and relationship marketing strategies. The aim is to demonstrate how consumer behaviour concepts apply in a service setting.
The next component of the framework is: **What should be the core and supplementary elements of our service product?** The response to this question requires managers to define the core Product, which is a function of the nature of the business. They must also identify the supplementary service elements that enhance this core product. It’s important to know what differentiates a company’s service offering from that of the competition and what adds value for customers.

Another critical issue is: **What price should we charge for our service?** The answer depends on the perceived value of the service, the price of competing alternatives, and the customer's willingness and/or ability to pay. To put Pricing in perspective, we also need to know what additional outlays customers incur in using our service, ranging from out-of-pocket expenses to investments of time and effort. Pricing decisions should reflect the costs to be recovered by the firm and its need to make a profit.

The next element in the framework revolves around the question: **How should we communicate what our service has to offer?** Managers need to determine how target customers view the firm, its brand names, its services, and if -indeed- they are even aware of them. This embraces the many tools available to service marketers for Promotional and educational purposes.

**What are the options for delivering our service?** The Place is a topic for vigorous debate in the age of the internet. Physical channels can deliver services to a specific place, but require time to do so. Electronic channels, by contrast, allow information-based services to be delivered in cyberspace instantaneously, giving customers access to these services where and when it suits them. The choice of channel may change the nature of the service experience. Marketers also have opportunities to use third-party intermediaries to perform certain tasks in any given delivery channel.

Operational priorities don't always coincide with marketing ones, raising the question: **How can we balance productivity and quality?** The challenge for many service businesses is to operate as efficiently as possible without spoiling the appeal of the service for customers. The goal should be to achieve synergies between Productivity and quality strategies so that value can be created for both customers and the firm. Marketers need to share information across other functional are as about what customers expect. Hence, service standards should reflect both productivity and quality goals.

One distinctive aspect of service management is the perishability of the product. There are no inventories of completed services to buffer Productive capacity from sharp swings in demand. The question therefore arises: **How should we match demand and productive capacity?** This is the place to discuss demand management strategies including: using price and promotion to increase or reduce demand at specific times, or varying the level of capacity.

Subsequently, one should have a look at ways of inventorying demand by managing waiting lines and using reservations systems.

A significant issue for all service strategists is People: **What are appropriate roles for people and technology?** To answer this question, managers need to know how important it is for customers to receive high-contact service with a human touch. When employees constitute a key aspect of the service experience, a well-trained and motivated workforce can offer a major competitive advantage. In many businesses, a variety of technologies -notably information technology- are available to help the firm automate service delivery, replacing employees with self-service by customers.

The final question in our framework is: **How can our firm achieve service leadership?** To be recognized as a leader in its field, a firm must offer services that are known for superior value and quality. It must have marketing strategies that beat the competition, yet still be viewed as a trustworthy organization that does business in ethical ways. The
company should be seen also as a leader in operations, respected for its superior operational processes and innovative use of technology. Finally, the firm should be recognized as an outstanding place to work, enhancing its human resource management practices and creating loyal, productive, and customer-oriented employees.

6. CONCLUSION

Why study services? Modern economies are driven by service businesses, both large, and small. Services are responsible for the creation of a substantial majority of new jobs, both skilled and unskilled, around the world. The service sector includes a tremendous variety of different industries, including many activities provided by public and non-profit organizations. It accounts for over half the economy in most developing countries and for over 70 percent in many highly developed economies.

As we've shown in this chapter, services differ from manufacturing organizations in many important respects and require a distinctive approach to marketing and other management functions. As a result, managers who want their enterprises to succeed cannot continue to rely solely on tools and concepts developed in the manufacturing sector. There are thus specific challenges and opportunities in service businesses. It's our hope that you'll use the material from this text to enhance your future experiences not only as a service employee or manager, but also as a customer of many different types of service businesses!

Study Questions and Exercises

1. Business schools have traditionally placed more emphasis on manufacturing industries than on service industries in their courses. Why do you think this is so? Does it matter? 2. Why is time so important in services?
2. What are the implications of increased competition in service industries that have been deregulated?
3. Give examples of how computer and telecommunications technologies have changed services that you use in your professional or personal life.
4. Choose a service company you are familiar with and show how each of the eight elements (8Ps) of integrated service management applies to the company.
5. Why do marketing, operations, and human resources have to be more closely linked in services than in manufacturing? Give examples.
6. Explain the main differences between production of good and production of service also named "servuction".
Chapter 2: THE SERVICE PROCESS

The service sector is amazingly varied, and large ranges of possibilities are directed at individual consumers (transport, meals, haircut...). There are however also many business services directed at corporate purchasers. It's surprising how many managers in service businesses consider their industries to be unique-or at least distinctively different. Certainly, there are distinctions to be drawn, but it would be a mistake to assume that any one service is unique!

In Chapter 1, we looked at some of the ways in which services might differ from goods. We now will focus on developing useful ways of grouping services into categories that share managerially relevant characteristics, especially as they relate to marketing strategy. In particular, we will examine the nature of the processes—a key element among the 8Ps—by which services are created and delivered. Important insights can be gained by looking for similarities between « different » service industries.

1. THE VALUE OF CLASSIFICATION SCHEMES

Classification schemes are the primary means used to organize items into different classes or groups for the purpose of systematic investigation and theory development. They are as useful in management research as in pure science. Marketing practitioners have long recognized the value of developing distinctive strategies for different types of goods.

- One of the most famous classification schemes divides goods into convenience, shopping, and specialty categories, according to how frequently consumers buy them and how much effort they are prepared to put into comparing alternatives and locating the right product to match their needs. This scheme helps managers obtain a better understanding of consumer expectations and behaviour and provides, insights into the management of retail distribution systems.

This same classification can also be applied to retail service institutions, from financial service providers to hair salons.

- Another major classification is between durable and non-durable goods. Durability is closely associated with purchase frequency, which has important implications for the development of both distribution and communications strategies.

Although service performances are intangible, the durability of benefits is relevant to repurchase frequency. For example, you probably purchase a haircut less often than you buy a soft drink.

- Yet another classification is consumer goods (those purchased for personal or household use) versus industrial goods (those purchased by companies and other organizations). This classification relates not only to the types of goods purchased—although there is some overlap—but also to methods for evaluating...
competing alternatives, purchasing procedures, size of purchase orders, and actual usage.

Once again, this classification is transferable to services. For example, you may be the only one involved in a decision about whether to purchase America Online (AOL) or another Internet provider for your own computer, but a corporate decision about what online services to select for employees may involve managers and technical specialists from several departments. B to B services, as the name suggests, include a large group of services targeted at corporate customers and may range from executive recruiting to security or from payroll management to maintenance.

Although these goods-based classification schemes are helpful, they don't go far enough in highlighting the key strategic issues. We need to classify services into marketing-relevant groups, looking for points of similarity among different service industries. A pertinent classification will enable us to focus on marketing strategies that are relevant to specific service situations.

2. THE THREE LEVELS OF A SERVICE PRODUCT:

Goods are essentially different from services according to tangibility. However, the marketing of goods or services presents numerous similarities and all goods include a part of service and vice versa.

A product must necessarily present "functionalities" that must answer the needs expressed by the potential consumer.

- One doesn't sell drills, one sells holes
- One doesn't sell CDs one sells music
- One doesn't sell journeys, one sells vacations or rest
- One doesn't sell insurances, one sells security

The three levels of conception of a product (good or service)

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>(generic, basic, functional). It is the essential advantage and desired value, the answer to the need.</td>
</tr>
<tr>
<td>Intrinsic</td>
<td>(visible, perceptible). It is the product wanted and presented in terms of shape, delay, design, comfort, and economy.</td>
</tr>
<tr>
<td>Global</td>
<td>(enlarged, widened). It is the global offer including the supplementary services as help, advice, guarantee, complementary benefits...</td>
</tr>
</tbody>
</table>

The product is defined by its prime functionality and its ability to provide the basic benefit or advantage searched for: leisure, food, security, economy, performance, etc. It is the basic product. The product appears to the customer with its tangible attributes: shape, brand, design, packaging etc: it is the physical product. The global product integrates the peripheral services as credit, guarantee, maintenance contract, training in use, delivery at home...

The service is characterized, in the same way, by three levels. The core service covers the function answering for the consumer's demand. For example for McDonald's, it corresponds to the desire of having a fast and simple meal in an ad hoc place. The standard service presents the selected food (Big Mac, Mac Fish, etc.) but includes the activity of staff in contact (waiting time, efficiency, kindness, etc.) and the quality of the physical environment (decor, ambiance, cleanliness). The global service adds complementary benefits; for McDonald's, it is the guarantee of freshness (one throws away the products if they are not sold within the three minutes), the animation for birthday-parties, the games and gifts for the children, etc.
Generally speaking, the service products consist of a «bundle» that includes a variety of service elements and even some physical goods. It's important to distinguish between the core product that the customer buys and the set of supplementary services that often accompany that product. For instance, the core product of the lodging industry is a bed for the night, whether that bed is located in a youth hostel dorm or in a luxury room at a five-star hotel. Youth hostels don't offer many additional services beyond reservations, basic meals, and simple washing facilities. By contrast, as shown in Figure 2.1, the global service offered by a luxury hotel is enlarging its already comfortable standard service by proposing additional possibilities aiming to enhance its guests' visits. Some of these services will be offered free and others will carry a charge, but they are all secondary to the core service of overnight sleeping accommodation that defines the lodging industry.

When we speak of services we are referring to the core service that the customer is buying—such as taking an airline flight, attending a concert, hiring an accounting firm to prepare an audit of a company's accounts, or purchasing an insurance policy. A cluster of supplementary services that are intended to add value to the core also accompanies most services. Examples include meals and luggage service on an airline flight, refreshments at a concert, professional advice from an experienced auditor, or a helpful booklet from an insurance company with suggestions on how to protect your home.

**Figure 2.1: Core, Standard & Global Service for a Luxury Hotel**

<table>
<thead>
<tr>
<th>Cashier</th>
<th>Cocktail bar</th>
<th>Valet parking</th>
<th>Business centre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Room service</td>
<td>Reservation</td>
<td>Breakfast</td>
<td>Baggage service</td>
</tr>
<tr>
<td>Television room</td>
<td></td>
<td></td>
<td>Snooker room</td>
</tr>
<tr>
<td>Wake-up call</td>
<td>Washing and sanitary facilities</td>
<td></td>
<td>Special restaurant</td>
</tr>
<tr>
<td>Swimming pool</td>
<td>Sport / fitness</td>
<td>Sauna</td>
<td>Internet link</td>
</tr>
</tbody>
</table>
3. HOW MIGHT SERVICES BE CLASSIFIED?

The traditional way of grouping services is by industry. Service managers may say, for example, "We're in the transportation business" (or hospitality, banking, telecommunications, or repair and maintenance). These groupings help us define the core products offered by the firm and understand both customer needs and competition. However, they may not capture the true nature of each business because service delivery can differ widely even within a single category.

Various proposals have been made for classifying services. Among the meaningful ways in which services can be grouped or classified are those listed in Table 2.1.

Table 2.1: Selected Ways of Classifying Services;

| • degree of tangibility or intangibility of service processes |
| • direct recipient of the service process |
| • place and time of service delivery |
| • customisation versus standardization |
| • nature of the relationship with customers |
| • extent to which demand and supply are in balance |
| • extent to which facilities, equipment, and people are part of the service experience |

Degree of Tangibility or Intangibility of Service Processes: Does the service do something physical and tangible (like food services or dry cleaning), or do its processes involve a greater amount of intangibility (like teaching or telephoning)? Different levels of intangibility in service processes shape the nature of the service delivery system and also affect the role of employees and the experience of customers.

Direct Recipient of the Service Process: Some services, like haircutting or public transportation, are directed at customers themselves. Customers also seek services (like dry cleaning) to restore or improve objects that belong to them, but they remain uninvolved in the process of service delivery and do not consume the benefits until later. The nature of the service encounter between service suppliers and their customers varies widely according to the extent to which customers themselves are integrally involved in the service process.

Place and Time of Service Delivery: When designing delivery systems, service marketers must ask themselves whether customers need to visit the service organization at its own sites or whether service should come to the customer. Or perhaps the interaction can occur through physical channels like mail or electronic channels. These managerial decisions involve consideration of the nature of the service itself, where customers are located (both home and workplace may be relevant), their preferences relating to time of purchase and use, the relative costs of different alternatives, and -in some instances- seasonal factors.

Customisation versus Standardization: Services can be classified according to the degree of customisation or standardization involved in service delivery. An important marketing decision is whether all customers should receive the same service or whether service features (and the underlying processes) should be adapted to meet individual requirements. The bus service is standardized, with a fixed route and schedule (unlike a taxi), but passengers can choose when to ride and where to get on and off. A haircut is customized (although more persons may the same style).

Nature of the Relationship with Customers: Some services involve a formal relationship, in which each customer is known to the organization and all transactions are individually recorded and attributed (like a visit to the doctor). But in other services,
unidentified customers can come and consume and then disappear from the
organization's sight (for instance, the meal in a McDonalds). Some services lend
themselves naturally to a « membership » relationship, in which customers must apply to
join the « club » and their subsequent performance is monitored over time (as in
insurance or college enrolment). Other services, like buses, hair salons, dry cleaners,
and airlines, need to undertake proactive efforts to create an ongoing relationship.
Sometimes companies create special club memberships or frequent user programs to
reward loyal customers. For instance, a carwash offers a fidelity card allowing a free
wash after ten visits. Similarly, Internet sites can be designed to record visits from a
specific user address.

**Extent to which Demand and Supply Are in Balance:** Some service industries face
steady demand for their services, whereas others encounter significant fluctuations.
When the demand for service fluctuates widely over time, capacity must be adjusted to
accommodate the level of demand or marketing strategies must be implemented to
predict, manage, and smooth demand levels to bring them into balance with capacity.

**Extent to which Facilities, Equipment, and People Are Part of the Service
Experience:** Customers' service experiences are shaped, in part, by the extent to which
they are exposed to tangible elements in the service delivery system. The every morning
bus ride to workplace is very tangible. In contrast, the physical evidence of insurance is a
signed police and contacts may be limited to occasional letters.

The service classification strategies we've just discussed can help managers address
the following questions: What does our service operation actually do? What sorts of
processes are involved in creating the core product that we offer to customers? And
speaking of customers, where do they fit into our operation? The answers will differ,
depending on the nature of the underlying service process required to create and deliver
a particular service. So now we turn to the most fundamental of the 8Ps of integrated
service management - the processes by which service products are created and
delivered -

4. SERVICE AS A PROCESS

Marketers don't usually need to know the specifics of how physical goods are
manufactured (that responsibility belongs to the people who run the factory). However,
the situation is different in services. Because their customers are often involved in
service production and may have preferences for certain methods of service delivery,
marketers do need to understand the nature of the processes through which services
are created and delivered. Furthermore, they should be involved in any decisions to
change the nature of a given process if that change will affect customers.

A process is a particular method of operation or a series of actions, typically involving
multiple steps that often need to take place in a defined sequence. Service processes
range from relatively simple procedures involving only a few steps -such as filling a car's
tank with fuel- to highly complex activities like transporting passengers on an
international flight.

The characteristics of the processes that might be used in a particular service operation
necessarily reflect the nature of the business. Within certain constraints, the choice of
processes may also be shaped by customer expectations and preferences. Looking at
the processes currently used is only part of the story, since alternative processes may be
available for exploration. As indicated in the second box of our service decision
framework, it's important for marketers to understand: (1) whether the service is directed
at customers themselves or at their possessions, (2) whether service entails delivery of
What Service Processes Can Be Used in Our Operation?

- Is our service directed at customers in person or at their possessions/assets?
- Does the process involve delivery of tangible or intangible actions?
- What is the sequence in which different process elements are organized?
- What role does information play?

The answers to be gained from such analysis can help managers to identify the benefits offered by the service, consider options for improving productivity and quality, clarify how customer involvement relates to design of service facilities, evaluate alternative channels for service delivery, and determine if there will be problems in balancing demand for the service against our organization's productive capacity. Finally, understanding these service processes helps managers to evaluate the strategic roles that might be played by people and technology.

Categorizing Service Processes

A process involves transforming input into output. But what is each service organization actually processing and how does it perform this task? Two broad categories are processed in services: people and objects. In many cases, ranging from passenger transportation to education, customers themselves are the principal input to the service process. In other instances, the key input is an object like a malfunctioning computer or a piece of financial data. In some services, as in a restaurant, the process is physical and something tangible takes place. But in information-based services, the process can be almost entirely intangible.

Table 2.2: Understanding the nature of the Service Act

<table>
<thead>
<tr>
<th>What Is the Nature of the Service Act?</th>
<th>People</th>
<th>Possessions</th>
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<tbody>
<tr>
<td><strong>Tangible Actions</strong></td>
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<tr>
<td>-People Processing -</td>
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<tr>
<td>Services directed at people's bodies</td>
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<tr>
<td>Passenger transportation</td>
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<td>Health care</td>
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<tr>
<td>Lodging</td>
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<td>Beauty salons</td>
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<td>Physical therapy</td>
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<tr>
<td>Fitness centers</td>
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<td>Restaurants-bars</td>
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<td>Haircutting</td>
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<td>Funeral services</td>
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<tr>
<td><strong>Intangible Actions</strong></td>
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<tr>
<td>-Mental Stimulus Processing-</td>
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<tr>
<td>Services directed at people's minds</td>
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<tr>
<td>Advertising/PR</td>
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<td>Arts and entertainment</td>
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<td>Broadcasting/cable</td>
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<td>Management consulting</td>
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<td>Education</td>
<td></td>
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<td>Information services</td>
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<td>Music concerts</td>
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<td>Psychotherapy</td>
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<td>Religion</td>
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<td>Voice telephone</td>
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<tr>
<td>-Possession Processing -</td>
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<tr>
<td>Services directed at physical possessions</td>
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<td>Freight transportation</td>
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<td>Repair and maintenance</td>
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<td>Warehousing/storage</td>
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<td>Janitorial services</td>
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<td>Retail distribution</td>
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<tr>
<td>Laundry and dry cleaning</td>
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<tr>
<td>Refuelling</td>
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<tr>
<td>Landscaping/lawn care</td>
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<tr>
<td>Disposal/recycling</td>
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<tr>
<td><strong>Information Processing-</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services directed at intangible assets</td>
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<tr>
<td>Accounting</td>
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<tr>
<td>Banking</td>
<td></td>
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<tr>
<td>Data processing</td>
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<td>Data transmission</td>
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<td>Insurance</td>
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<td>Legal services</td>
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<td>Programming</td>
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<td>Securities investment</td>
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<td>Software consulting</td>
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</table>
By looking at services from a purely operational perspective, we see that they can be categorized into four broad groups. Table 2.2 shows a four-way classification scheme based on tangible actions either to people's bodies or to customers' physical possessions and intangible actions to people's minds or to their intangible assets. Each of these four categories involves fundamentally different forms of processes, with vital implications for marketing, operations, and human resource managers. We refer to the categories as people processing, possession processing, mental stimulus processing, and information processing. Although the industries within each category may appear at first sight to be very different, analysis will show that they do, in fact, share important process-related characteristics. As a result, managers in one industry may be able to obtain useful insights by studying another one and then creating valuable innovations for their own organization.

1. **People processing** involves tangible actions to people's bodies. Examples of people-processing services include passenger transportation, haircutting, and dental work. Customers need to be physically present throughout service delivery to receive its desired benefits.

2. **Possession processing** includes tangible actions to goods and other physical possessions belonging to the customer. Examples of possession processing include car repair, lawn mowing, and cleaning services. In these instances, the object requiring processing must be present, but the customer need not be.

3. **Mental stimulus processing** refers to intangible actions directed at people's minds. Services in this category include entertainment, spectator sports, theatre performances, and education. In such instances, customers must be present mentally but can be located either in a specific service facility or in a remote location connected by broadcast signals or telecommunication linkages.

4. **Information processing** describes intangible actions directed at customers assets. Examples of information-processing services include insurance, banking, and consulting. In this category, little direct involvement with the customer may be needed once the request for service has been initiated.

Let's examine why these four different types of processes often have distinctive implications for marketing, operations, and human resource strategies.

**People Processing**

Since a long time, people have sought out services directed at themselves (e.g., being transported, fed, lodged, restored to health, or made more beautiful). To receive these types of services, customers must physically enter the service system. Because they are an integral part of the process, they cannot obtain the benefits they desire by dealing at arm's length with service suppliers. They must enter the service factory, which is a physical location where people or machines (or both) create and deliver service benefits to customers. Sometimes, of course, service providers are willing to come to customers, bringing the necessary tools of their trade to create the desired benefits in the customers' choice of locations. If customers want the benefits that a people-processing service has to offer, they must be prepared to cooperate actively with the service operation.

It's important for managers to think about process and output in terms of what happens to the customer because it helps them to identify what benefits are being created. Reflecting on the service process itself helps to identify some of the non-financial costs—such as time, mental and physical effort, and even fear and pain—that customers incur in obtaining these benefits.
Possession Processing

Often, customers ask a service organization to provide treatment for some physical possession. Many such activities are quasi-manufacturing operations and do not always involve simultaneous production and consumption. Examples include cleaning, maintaining, storing, improving, or repairing physical objects -both live and inanimate- that belong to the customer in order to extend their usefulness. Additional possession-processing services include transport and storage of goods, wholesale and retail distribution, installation or removal and disposal of equipment. In short, the entire value-adding chain of activities that may take place during the lifetime of the object in question. Customers are less physically involved with this type of service than with people-processing services. In most possession-processing services, the customer's involvement is usually limited to dropping off the item that needs treatment, requesting the service, explaining the problem, and later returning to pick up the item and pay the bill. If the object to be processed is something that is difficult or impossible to move, like landscaping, installed software, heavy equipment, or part of a building, the service factory must come to the customer, with service personnel bringing the tools and materials necessary to complete the job on-site.

Mental Stimulus Processing

Services that interact with people's minds include education, news and information, professional advice, psychotherapy, entertainment, and certain religious activities. Anything touching people's minds has the power to shape attitudes and influence behaviour. So, when customers are in a position of dependency or if they can be manipulated, strong ethical standards, rules and control are required. Receiving these services requires an investment of time on the customer's part. However, recipients don't necessarily have to be physically present in a service factory, but need to be mentally in communication with the information being presented. Services like entertainment and education are often created in one place and transmitted by television, radio, or the Internet to individual customers in distant locations. However, they can also be delivered to groups of customers at the originating location in a facility such as a theatre or lecture hall. We need to recognize that watching a live concert on television in one's home is not the same experience as watching it in a concert hall in the company of hundreds or even thousands of other people. Because the core content of all services in this category is information based (whether music, voice, or visual images), it can easily be converted to digital bits or analogue signals; recorded for posterity; and transformed into a manufactured product, such as a compact disc, videotape, or audiocassette, which may then be packaged and marketed much like any other physical good. These services can thus be « inventoried » because they can be consumed at a later date than when they were produced.

Information Processing

Information processing, one of the buzzwords of our age, has been revolutionized by computers. But not all information is processed by machines. Professionals in a wide variety of fields also use their brains to perform information processing and packaging. Information is the most intangible form of service output, but it may be transformed into more enduring, tangible forms as letters, reports, books, tapes, or CDs. Among the services that are highly dependent on the effective collection and processing of information are financial services and professional services like accounting, law, marketing research, management consulting, and medical diagnosis.
The extent of customer involvement in both information and mental stimulus processing is often determined more by tradition and a personal desire to meet the supplier face to face than by the needs of the operational process. Strictly speaking, personal contact is quite unnecessary in industries like banking or insurance. Habit and tradition often lie at the root of existing service delivery systems and service usage patterns. Professionals and their clients may say they prefer to meet face to face because they feel that in this way they learn more about each other’s needs, capabilities, and personalities. However, experience shows that successful personal relationships, built on trust, can be created and maintained purely through telephone or e-mail contact.

Managing People as Part of the Service Product

The more involved customers become in the service delivery process, the more visible service personnel and other customers become (this is the people element of the 8Ps). In many people-processing services, customers meet lots of employees and often interact with them for extended periods of time. They are also more likely to run into other customers. After all, many service facilities achieve their operating economies by serving large numbers of customers simultaneously. When other people become a part of the service experience, they can enhance it or detract from it. Direct involvement in service production means that customers evaluate the quality of employees’ appearance and social skills, as well as their technical skills—concerns that are important for human resource managers and front-line supervisors. Service businesses of this type tend to be harder to manage because of the human element.

5. CONCLUSION

We’ve seen in this chapter that although not all services are the same, many do have important characteristics in common. Rather than focusing on broad distinctions between goods and services, it’s more useful to identify different categories of services and to study the marketing, operations, and human resource challenges that they raise.

The four-way classification scheme in this chapter focuses on different types of service processes. Some services require direct physical contact with customers (haircutting and passenger transport); others centre on contact with people’s minds (education and entertainment). Some involve processing of physical objects (cleaning and car repair); others process information (accounting and insurance). As you can now appreciate, the processes that underlie the creation and delivery of any service have a major impact on marketing and human resources. Process design (or redesign) is not just a task for the operations department. Both managers and employees must understand underlying processes (particularly those in which customers are actively involved) in order to run a service business that is both efficient and user-friendly. In a growing number of situations, advances in information technology are reshaping those processes.

Study Questions and Exercises.

1. Make a list of all the services that you have used during the past week and categorize them by type of process.
2. List the different types of service factories that you visit in the course of a typical month and how many times you visit each one.
3. Review each of the different ways in which services can be classified. How would you explain the usefulness of these systems to the manager of a health and fitness centre?
4. Identify the strategies used by your portable phone company or favourite restaurant to manage demand.
5. What do you see as the major ethical issues for those responsible for creating and delivering mental-stimulus-processing services?
6. How have other customers affected your service experiences either positively or negatively?

Chapter 3: THE SERVICE CUSTOMER

Different forms of banking operations involve customers in different ways. Compared to Web- or telephone-based service delivery, visiting a branch requires more personal and more time-consuming contacts. Customers can only visit a branch during certain hours and may have to travel some distance to get there. They are exposed to the exterior and interior of the building, may spend time waiting in a line with other customers, and deal face-to-face with an employee (who, in many banks, will be behind a security grill or glass screen). All be it that many people enjoy the social 'high contact' interaction of visiting a bank branch, especially if they don't trust machines and know the staff members who serve them, the proportion of customers who prefer the 'low contact' remote electronic banking can be expected to grow as younger, more technology-oriented customers enter the market.

1. CONTACT WITH THE SERVICE ORGANIZATION

An important theme in this chapter is that "high-contact" encounters between customers and service organizations differ sharply from "low-contact" ones. High-contact levels reflect customer preferences for person-to-person service with customer-contact personnel. In many instances, though, they result from a management decision to continue relying on traditional approaches, instead of reengineering existing service processes to create innovative, or lower-contact approaches.

Many service problems revolve around unsatisfactory incidents between customers and service personnel. In an effort to simplify service delivery, improve productivity, and reduce some of the threats to service quality, a number of firms are using technology to minimize or even eliminate contact between customers and employees. Thus, face-to-face encounters are giving way to telephone and e-mail encounters. Meantime, personal service is being replaced by self-service, often through computers, kiosks, or easy-to-use machines. Web sites are beginning to replace voice telephone contacts for some types of service transactions.

By gaining a better understanding of where customers fit in different types of service operation and their preferences for high, or low levels of contact with personnel and facilities, we gather the elements to answer the broader question: Who are our customers and how should we relate to them?

Service encounters and differing levels of customer contact

A service encounter is a period of time during which customers interact directly with a service. In some instances, the entire service experience can be reduced to a single
encounter, involving ordering, payment, and execution of service delivery on the spot. In other cases, the customer's experience includes a sequence of encounters. This can mean an extended process that may be spread out over a period of time, involve a variety of employees, and even take place in different locations (think about flying on a passenger airline). Although some researchers use the term "encounter simply to describe personal interactions between customers and employees, realistically we also need to think about encounters involving interactions between customers and self-service equipment.

As the level of customer contact with the service operation increases, there are likely to be more and longer service encounters. So in Figure 3.1, we've grouped services into three levels of customer contact, representing the extent of interaction with service personal, physical service elements, or both.

**High-contact services**: Those are the services that involve significant interaction among customers, service personnel, and equipment or facilities.

**Medium-contact services**: Services that involve only a limited amount of contact between customers and the elements of service organisation.

**Low-contact services**: They concern services that require minimal or no direct contact between customers and the service organisation.

**Figure 3.1: Levels of customer contacts**
2. MANAGING SERVICE ENCOUNTERS

Many services (especially those classified as high contact) involve numerous encounters between customers and service employees, either in person or remotely by phone or e-mail. Service encounters may also take place between customers and physical facilities or equipment. In low-contact services, customers are having more and more encounters with automated machines that are designed to replace human personnel.

The "moment of truth" is a point in service delivery where customers interact with the service employees or self-service equipment and the outcome may affect perceptions of service quality. The goal of a well-designed service is to manage this encounter in such a way that the recipient feels delighted and pleased.

Service quality has two dimensions. The first dimension, technical quality, relates to the product service or benefit offered to customers. These can be the interest rate on a home loan, the length and security of the loan, etc. The second dimension, relational quality, describes the nature of the interaction between customers and the firm. Take for example the relationship between a customer and the loan officer.

In order to build a durable relation, the emphasis should be put on facts that enhance customer satisfaction and one should prevent and avoid all factors in the encounter that could destroy what is already, or has the potential to become, a mutual valued, long-term relationship. In many cases the relational quality is more important because the service offers are often similar between competitors. Most service providers understand the importance of these interactions and know that the moment of truth is a chance to prove to customers that their firm is the best choice. The service interaction can even be regarded as a dynamic force for creating customer loyalty.

Such facts, that are especially satisfying or dissatisfying for one of both parties in the encounter, are called "critical incidents". The critical incident technique (CIT) is a methodology for collecting and categorizing such incidents in service encounters. Conducting such an analysis offers an opportunity to determine what incidents during service delivery are likely to be particularly significant in determining whether or not customers are satisfied. The types of encounters classified as critical incidents differ depending on whether the service is high or low contact in nature.

Figure 3.2: The Simplified Service Profit Chain

The Service Profit Chain illustrates the need for a service firm to focus on both employee and customer satisfaction. One can use a simplified version of the original service profit chain to express the management philosophy of caring first for employees so that they
may delight their customers by delivering service quality (See Figure 3.2). We don't use the term "employee satisfaction" but we employ the notion of "productive and committed employees." The difference between these two terms is critical and testifies to a new attitude among the most successful service companies. An organization needs employees who are more committed than merely satisfied to create service value!

3. SERVICE AS A SYSTEM

The types of relationships a service business has with its customers (and the kinds of misbehaviours that will be encountered during service delivery) depend to a great extent on the level of contact customers have with the firm. Whether a service is high, medium, or low contact becomes a major factor in defining the total service system, which includes:

The **service operations system**; that part of the system where inputs are processed and the elements of the service product are created

The **service delivery system**; the part of the global system where final "assembly" of the elements takes place and the product is delivered to the customer. It includes the visible elements of the service operation.

The **service marketing system**; this embraces any form and points of contact with customers, including advertising, billing, and market research. It includes the contacts made at the point of delivery (see Figure 3.3);

**Figure 3.3: The service business as a system**

![Service Business as a System Diagram](image)

Parts of this system are visible (or otherwise apparent) to customers; other parts are hidden in what is sometimes referred to as the technical core, and the customer may not know of their existence. One uses here the terms "front stage" and "backstage" in referring to the visible and invisible parts of the operation. Others talk about are "front stage" and "backstage," using the analogy of theatre to dramatize the notion that service is a performance. This analogy is interesting and is sometimes referred to as "dramaturgy". The extent to which theatrical elements exist depends largely on the nature of the service process:

**Service Operations System**

Like a play in a theatre, the visible components of service operations can be divided into those relating to the actors (or service personnel) and those relating to the stage set (or physical facilities, equipment, and other tangibles) What goes on backstage is of little interest to customers. Like any audience, they evaluate the production on those
elements they actually experience during service delivery and on the perceived service outcome. Naturally, if the backstage personnel and systems (e.g., billing, ordering, account keeping) fail to perform their support tasks properly in ways that affect the quality of front stage activities, customers will notice. For instance, in a restaurant clients will be disappointed if they order fish from the menu but are told it is unavailable or find that their food is overcooked. Other examples of backstage failures include receiving an incorrect hotel bill due to a keying error, or being delayed on a flight because the aircraft has been taken out of service for engine repairs.

**Service delivery system**

Service delivery is concerned with where, when and how the service product is delivered to the customer. This system embraces not only the visible elements of the service operating system (buildings, equipment, and personnel) but may also involve exposure to other customers, as it is the case in public transport or in queuing in a bank agency. In present terms, the enlarging of the 'self-service" process gives a extra dimension to the service delivery which has to be customer friendly and easily to practice if one wants to shift over the customers from a 'high touch' encounter to a 'high tech' one (electronic banking, e-commerce ... ).

**Service Marketing System**

In addition to the service delivery system described above, other elements also contribute to the customer's overall view of a service business. These include communication efforts by the advertising and sales departments, telephone calls and letters from service personnel, billings from the accounting department, random exposures to service personnel and facilities, news stories and editorials in the mass media, word-of-mouth comments from current or former customers, and even participation in market research studies.

**Figure 3.4: The service marketing system in 'high contact' encounters**

Collectively, the components just cited -plus those in the service delivery system- add up to what is called the service marketing system. This represents all the different ways the customer may encounter or learn about the organization in question. Because services
are experiential, each of these elements offers clues about the nature and quality of the service product. Inconsistency between different elements may weaken the organization's credibility in the customers' eyes. Figure 3.4 describes such a marketing system.

4. CUSTOMER FOCUS

Although it is easy to define customer focus it can be very difficult to make it real and meaningful to a company. In customer-focused companies, all the resources and operating systems are led by customer needs and expectations. "The customer comes first" is an old adage that is often only paid lip service in many companies. Research with top-service organizations (DHL, Hongkong Telecom, Singapore Airlines...) proves one very clear point: they all focus on providing value to well-defined customer groups. These companies produce high-quality service from the customer's perspective, rather than what the management thinks. They put themselves in the shoes of the customer and design delivery systems that meet customer needs and expectations. They embrace the concept of dedication to the customer. ‘Total customer satisfaction’ is the overall guiding principle in the company environment. Satisfying customers means improving product and service quality, anticipating customer needs, building effective alliances and in some cases, partnerships with customers and maintaining competitive pricing in order to create service value. Customer focus can be illustrated by a hexagon as in Figure 3.5:

**Figure 3.5: The Dimensions of Customer Focus**

Customer Focus as a Strategy

If the customer focus is such a great strategy, why hasn't every organization embraced it? The reason is that it isn't a quick-fix strategy, it requires a lot of dedication and commitment from the leadership and the aligning of resources to make it a reality. A customer-focused strategy takes time and dedication to build. It means paying a lot of attention to details in making the organization open and receptive to customer input, and integrating the data into the company's systems.
Customer focus is a strategic option that the top management of the company consciously decides to take. The strategy is in fact about aligning the company's resources around the customer. When company resources are not aligned, departments in the back-office that are not usually customer driven, like the Finance and Administration, or Information Technology Departments, tend to forget to integrate the customer in their decisions. It is precisely for the above reasons that there is a shift from 'Total Quality Management' to 'Customer-Focused Quality' or `Change Management' in the name of the customer in today's management jargon.

**Definition of Customer**

Definition means both the selection and the understanding of the customers the company wants to focus on. When a company has a laser-beam focus on its customers it knows the needs and expectations that should be treated in priority, i.e., the salient service attributes which influence the buying behaviour of customers. Basically, organizations serve three types of customers. They are:

- **End customers**: People who buy the products and services of the company.
- **Intermediate customers**: People who are in between the end customer and the company that produces the products and services. They are the dealers or distributors.
- **Internal customers**: People within the same organization who are involved in work processes in the delivery of services or products to the final customer.

The classification of customers in each separate group helps to recognize the importance of each group's contribution in the service delivery chain and in creating service value.

In a hospital, three types of customers can be clearly identified. They are: patients and their families (the end customer), doctors (the intermediate customer) and employees (the internal customers).

**Capturing the Voice of the Customer**

Customer needs and expectations drive product and service development, process and systems improvements and changes within the organizations. The leading service companies listen to their customers in very creative and sometimes aggressive and proactive ways. Unlike many companies who collect and are overwhelmed by loads of information, they are selective about the data they collect and value the information, using it to improve their products and service delivery to customers.

The leading companies tend to use technology based direct feedback to record customer opinions and quickly transmit it to the people who can use this data to make a difference in the way the company responds to the customer. The advantage of using technology-based feedback is that the information is given in real time, is more accurate and more relevant in staying ahead of the competitive race.

**Leadership and Organizational Contact with Customers**

Leading service companies have a critical role to play in conveying the importance and absolute necessity of being in touch with customers. They have to model their behaviour by actually interacting with customers on a regular basis. Traditionally, the role of collecting information about customers is delegated to the marketing and sales departments through market research. The information is then stored and seldom shared with other departments. In the leading service companies, the role of keeping in touch with customers is extended to all departments and customer contact is encouraged.
In fact, all frontline people, whether they interact face-to-face or by telephone, have a wealth of information about customers that is seldom equalled by management. Since the service delivery process involves many functions, it is obvious that customer knowledge should be shared across the company and not buried in the marketing department.

Defining Service Standards

By listening to the customer, companies understand their needs and expectations and can then integrate this knowledge in the definition of service standards. In developing those standards, a company must first identify the customers' needs and expectations, and decide whether they are relevant to the corporate strategy. The company should then examine the market environment and benchmark practices worldwide, both in and out of their particular industry, in order to anticipate customers' expectation. Service standards are the service specifications or the level of service that the company promises to deliver. The standards should be:

- relevant to customers and represent the key attributes that affect customer satisfaction
- measurable, which means they can be quantified and observed achievable, in that the service provider is capable of delivering it
- controllable, in that the employees have control over the service delivery process
- focused on the key 'care-abouts' of customers
- limited in number so that service providers can remember what is required of them

When service standards exist and are defined with a customer's perspective in mind, the organization as a whole can focus on achieving these standards. A focus on few but key attributes will provide a maximum impact on the service value as perceived by customers.

Service Recovery

As much as one can plan to prevent service failures, there is always the inevitable loophole or chance that service will break down. Customer-focused companies pride themselves on developing processes, which help them recover from the break down and help to restore the customer's confidence in the company. The better the service providers are trained, and the more tools and decision-making powers they are given in the service recovery process, the more likely they would be able to address the dissatisfaction of the customer.

Customers in general don't complain for many reasons. Often they feel nothing will change since the employees are not trained to handle complaints and would not be able to help. Sometimes it is not easy to find the right person to complain to and customers might feel uncomfortable with confrontations or be afraid of offending the person they complain to. As a result they rather 'zap' to competitors.

Companies that want to be truly customer focused—must provide ample opportunities for customers to complain, including hotlines and open channels seeking the opinions on their services and products. The customer service staff is trained in service recovery protocol and are provided with internal support in helping customers.

Table 3.1: Tangible elements & communication in the service marketing system

1. Service personnel.
   - Contacts with customers may be face-to-face, by telecommunication (tel., fax, telex, electronic mail), or by mail and express delivery services. These personnel may include: Sales representatives
- Customer service staff Accounting/billing staff
- Operations staff who do not normally provide direct service to customers (engineers...)
- Designated intermediaries perceived as directly representing the service firm

2. Service facilities and equipment.
- Building exteriors, parking areas, landscaping
- Building interiors and furnishings
- Vehicles
- Self-service equipment operated by customers
- Other equipment

3. Non-personal communications
- Form letters
- Brochures/catalogues/instruction manuals/Web sites
- Advertising
- Signage
- News stories/editorials in the mass media

4. Other people
- Fellow customers encountered during service delivery
- Word-of-mouth comments from friends, acquaintances, or even strangers

5. PHYSICAL EVIDENCE

Many service performances are hard to evaluate. As a result, customers often look for tangible clues about the nature of the service. Physical evidence provides clues about service quality, and in some cases it will strongly influence how customers (especially inexperienced ones) evaluate the service.

Thus managers need to think carefully about the nature of the physical evidence provided to customers by the service marketing system. Of course, the number of elements that are visible will vary depending on whether service delivery involves high or low customer contact. In low-contact services, additional physical evidence may be communicated through advertising, using video clips on TV or printed illustrations in newspapers, magazines, or brochures. Table 3.1 gives a résumé of the tangible items linked to services.

The customer as co-producer

In some service environments, customers play a relatively passive role, waiting to be served. So long as they can state their needs clearly and pay promptly when billed, they play a minimal role in the process of service delivery (think about leaving clothes at a laundry). But sometimes customers are expected to actively participate in the production process—one of the distinctive. Customer participation refers to the actions and resources supplied by customers during service production and/or delivery; it includes customers’ mental, physical, and emotional inputs. Table 3.2 illustrates the different levels of participation required of customers across an array of service businesses.

Although service providers attempt to design the ideal level of customer participation into the service delivery system, in reality it is customers’ actions that determine the actual amount of participation.

Under-participation causes customers to experience a decrease in service benefits (dieter losing less weight). If customers over-participate, they may cause the firm to spend more resources customizing a service than was originally intended (a request for customisation of a hamburger at a fast-food restaurant). Service businesses must teach
their customers what roles to play to optimise participation levels during service production and consumption. The more work that customers are expected to do, the greater their need for information about how to perform for best results. The necessary education can be provided in many different ways. Brochures and posted instructions are widely used approaches. Automated machines often contain detailed operating instructions and diagrams. In many businesses, customers look to employees for advice and assistance and are frustrated if they can't obtain it.

Table 3.2: Levels of customer participation

<table>
<thead>
<tr>
<th>Low (Customer Presence Required During Service Delivery)</th>
<th>Moderate (Customer Inputs Required for Service Creation)</th>
<th>High (Customer Co-produces the Service Product)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products are standardized</td>
<td>Client inputs customize a standard service</td>
<td>Active client participation guides the</td>
</tr>
<tr>
<td>Service is provided regardless of any individual purchase</td>
<td>Provision of service requires customer Purchase</td>
<td>customized service</td>
</tr>
<tr>
<td>Payment may be the only required customer input</td>
<td>Customer inputs (information, materials) are necessary for an adequate outcome, but the service firm provides the service</td>
<td>Service cannot be created apart from the customer's purchase and active participation</td>
</tr>
<tr>
<td>Examples:</td>
<td>Hair cut</td>
<td>Customer inputs are mandatory and co-produce the outcome</td>
</tr>
<tr>
<td>Bus travel</td>
<td>Annual physical exam</td>
<td>Marriage counselling</td>
</tr>
<tr>
<td>Motel stay</td>
<td>Full-service restaurant</td>
<td>Personal training</td>
</tr>
<tr>
<td>Movie theatre</td>
<td></td>
<td>Weight-reduction program</td>
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</tbody>
</table>

6. CONCLUSION

Service encounters cover a spectrum from high contact to low contact. Their position on this spectrum is often determined by the nature of the operational processes used in service creation and delivery. With the growing trend to deliver information-based services through electronic channels, many service encounters are shifting to a lower-contact mode, with important implications for the nature of the customer experience. In all types of services, understanding and managing service encounters between customers and service personnel are central to creating satisfied customers who are willing to enter into long-term relationships with the service provider. Critical incidents occur when some aspect of the service encounter is particularly satisfactory or unsatisfactory.

Service businesses can be divided into three overlapping systems. The operations system consists of the personnel, facilities, and equipment required to run the service operation and create the service product. Only part of this system, called "front stage," is visible to the customer. The delivery system incorporates the visible operations elements and the customers, who sometimes take an active role in helping to create the service product as opposed to being passively waited on. In high-contact services, customers are exposed to many more tangible clues and experiences than they are in medium-contact and low-contact situations. Finally, the marketing system includes not only the delivery system, which is essentially composed of the product and distribution elements of the traditional marketing mix, but also additional components such as billing and payment systems, exposure to advertising and sales people, and word-of-mouth comments from other people.

In some instances, customers act as service co-producers, whose performance will affect the productivity and quality of output. Under these circumstances, service managers must be sure to educate and train customers so that they have the skills needed to perform well during all types of service encounters.
Study Questions and Exercises

1. What actions could a senior bank executive take to encourage more customers to bank by phone, mail, Internet, or through bank-automats rather than visiting a branch?

2. What are the backstage elements of (a) an insurance company, (b) a car repair facility, (c) a hotel, (d) an airline, (e) a university, (f) a funeral home, (g) a consulting firm, and (h) a television station? Under what circumstances would it be appropriate to allow customers to see some of these backstage elements and how would you do it?

3. What roles are played by front stage service personnel in low-contact organizations? Are these roles more or less important to customer satisfaction than in high-contact services?

4. What is the difference between a moment of truth, a service encounter, and a critical incident?

5. Describe a critical incident that you have experienced with a self-service during service delivery. If your incident was dissatisfying, what could the service provider have done to improve the situation?
Chapter 4: THE SERVICE OFFERING

In this chapter, we address the question, what should be the core and supplementary elements of our service product? The core addresses the customer's need for a basic benefit, such as transportation to a desired location, resolution of a specific health problem, or repair of malfunctioning equipment. Supplementary services facilitate and enhance use of the core service; they range from information, advice, and documentation to problem solving and acts of hospitality.

As an industry matures and competition increases, there's a risk that prospective customers may view competing core products as commodities that are indistinguishable from each other. For instance, many airlines fly the same types of aircraft, all credit cards perform the same basic function, and it's hard to distinguish one hotel bed from another within a given class of service. In these cases, the customer's natural tendency is to choose the option with the cheapest price. Hence, the search for competitive advantage in a mature industry often focuses on differentiating the product through better supplementary services.

1. THE AUGMENTED PRODUCT

Marketers use the term augmented product to describe the combination of a core product with a bundle of value-adding supplementary elements. Theorists have developed several frameworks to describe augmented products. The so-called "molecular model" (Figure 4.1) can be applied to either goods or services. The model uses a chemical analogy to help marketers visualize and manage the 'total market entity'. At the centre is the core benefit that addresses the basic customer need, with links to a series of other service characteristics. Surrounding the molecules is a series of bands representing price, distribution, and market positioning (communication messages). As in chemical formulations, a change in one element may completely alter the nature of the entity.

The molecular model helps identify the tangible and intangible elements involved in service delivery. By highlighting tangible elements, marketers can determine whether their services are tangible-dominant or intangible-dominant. In an airline, for example, the intangible elements include transportation itself, service frequency, and pre-flight, in-flight, and post-flight service. But the aircraft itself and the food and drinks that are served to passengers are all tangible. The more intangible elements exist, the more necessary it is to provide tangible clues about the features and quality of the service.
Identifying and classifying supplementary services

The more we examine different types of core services, the more we find that most of them have many supplementary services in common. Although core products may differ widely, certain supplementary elements—like information, billing, and reservations or order taking—keep recurring. There are dozens of different supplementary services, but almost all of them can be classified into one of the following eight clusters. We have listed them as either facilitating supplementary services, which aid in the use of the core product or are required for service delivery, or enhancing supplementary services, which add extra value for customers.

<table>
<thead>
<tr>
<th>Facilitating Services</th>
<th>Enhancing Services</th>
</tr>
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<tbody>
<tr>
<td>• Information</td>
<td>• Consultation</td>
</tr>
<tr>
<td>• Order taking</td>
<td>• Hospitality</td>
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<tr>
<td>• Billing</td>
<td>• Safekeeping</td>
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<tr>
<td>• Payment</td>
<td>• Exceptions</td>
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</tbody>
</table>

In Figure 4.2, these eight clusters are displayed as petals surrounding the centre of a flower—which we call the Flower of Service. We've shown them clockwise in the sequence in which they are often likely to be encountered by customers (although this sequence may vary.)
In a well-run service organization, the petals and core are fresh and attractive. But a badly designed or poorly executed service is like a flower with missing, wilted, or discoloured petals. Even if the core is perfect, the overall flower is unattractive. Think about your own experiences as a customer. When you were dissatisfied with a particular-purchase, was it the core that was at fault or was there a problem with one or more of the supplementary service petals? As we'll see, the nature of the product helps to determine which supplementary services must be offered and which might be added to enhance the value of the core service.

Information

To obtain full value from any service experience, customers need relevant information. New customers and prospects are especially information hungry. Customer needs may include directions to the physical location where the product is sold; service hours, prices, and usage instructions. Further information, sometimes required by law, could include conditions of sale and use, warnings, reminders, and notification of changes. Finally, customers may want documentation of what has already taken place, such as confirmation of reservations, receipts and tickets, and monthly summaries of account-activity.

Companies should make sure the information they provide is both timely and accurate. Traditional ways of providing information to customers include using front-line employees, printed notices, brochures, and instruction books. Other, more recent media, include videotapes or software-driven tutorials, touch-screen video displays, menu-driven recorded telephone messages, and use of Web sites. Companies use the Internet for a wide range of useful applications including the provision of information about train and airline schedules, hotel availability and reservations, the location of specific retail outlets such as restaurants or stores, and service descriptions with prices. Many business logistics companies, as DHL, offer shippers the opportunity to track the movements of their packages, each of which has been assigned a unique identification number.
Order taking

Once customers are ready to buy, companies must have effective supplementary service processes in place to handle applications, orders, and reservations. The process of order taking should be polite, fast, and accurate so that customers do not waste time and endure unnecessary mental or physical effort. Banks, insurance companies, and utilities require prospective customers to go through a screening or application process designed to gather relevant information and avoid those who do not meet basic enrolment criteria (like a bad credit record or serious health problems). Reservations (including appointments and check-in) represent a special type of ordering that entitles customers to a defined unit of service at a specific time and location, for example; an airline seat, a restaurant table, a hotel room, time with a qualified professional, or admission to a facility such as a theatre or sports arena. Tickets less systems, based upon telephone or online reservations, provide enormous savings for airlines. There is no travel agent commission since customers book directly, and the administrative effort is drastically reduced. A paper ticket at an airline may be handled 15 times while an electronic ticket requires just one step. But some customers are not comfortable with the paperless process.

Billing

Billing is common to almost all services (unless the service is provided free of charge). Inaccurate, illegible, or incomplete bills risk disappointing customers! Billing procedures range from verbal statements to handwritten notices, invoices and elaborate monthly statements.

Customers usually expect bills to be clear and informative, and itemized in ways that make it clear how the total was computed. Unexplained or confusing charges do not create a favourable impression of the supplier. Nor does fuzzy printing or illegible handwriting.

Busy customers hate to be kept waiting for a bill. Some service providers offer express checkout options, taking customers' credit card details in advance and documenting charges later by mail, (hotels...) For some car rental companies an agent meets customers as they return their cars, checks the odometer and fuel gauge readings, and then prints a bill on the spot using a portable wireless terminal. Accuracy is essential with all of these billing methods. Since customers use the express checkouts to save time, they certainly don't want to waste time later seeking corrections and refunds.

Payment

In most cases, a bill requires the customer to take action on payment. Bank statements are an exception, since they detail charges that have already been deducted from the customer's account. Increasingly, customers expect ease and convenience of payment, including credit, wherever they make their purchases.

A variety of options exist to facilitate customer bill paying. Self-service payment systems, for instance, require customers to insert coins, banknotes, or cards in machines. But equipment breakdowns may destroy the whole purpose of such a system making essential good maintenance and speedy trouble-shooting. Much payment takes place through hand-to-hand transfers of cash, but credit and debit cards as well as "proton" cards are growing in importance as more and more establish Tents accept them. Other alternatives include tokens, vouchers, coupons, or prepaid tickets. Firms benefit from prompt payment, since it reduces the amount of accounts receivable.

To ensure that people actually pay what they owe, some services employ control systems, such as ticket collection before entering a movie theatre or boarding a train.
However, inspectors and security officers must be trained to combine politeness with firmness in performing their jobs, so that honest customers do not feel harassed.

**Consultation**

Consultation is an enhancing supplementary service that may even be provides before order taking. It involves a dialog to identify customer requirements and develop a personalized solution. At its simplest, consultation consists of immediate advice from a knowledgeable service person in response to the request: "What do you suggest?" (For example, you might ask the person who cuts your hair for advice on different hairstyles and products.) Effective consultation requires an understanding of each customer's current situation before suggesting a suitable course of action. Good customer records can be a great help in this respect, particularly if relevant data can be retrieved easily from a remote terminal.

Counselling represents a more subtle approach to consultation. It involves helping customers better understand their situations so that they can come up with their "own" solutions and action programs. This approach can be a particularly valuable supplement to services such as health treatment.

Finally, there are more formalized efforts to provide management and technical consulting for corporate customers, such as the "solution selling" associated with marketing expensive industrial equipment and services. The sales engineer researches the business customer's situation and then offers objective advice about what particular package of equipment and systems will yield the best results. Some consulting services are offered free of charge in the hope of making a sale. In other instances the service is "unbundled" and customers are expected to pay for it.

**Hospitality**

Hospitality-related services should ideally reflect pleasure at meeting new customers and greeting old ones when they return. Well-managed businesses try to ensure that their employees treat customers as guests. Courtesy and consideration for customers' needs apply to both face-to-face encounters and telephone interactions. In some cases, it starts with an offer of transport to and from the service site, as with courtesy shuttle buses.

Recruiting employees who are naturally warm, welcoming, and considerate for customer-contact jobs also helps to create a hospitable atmosphere. The quality of a firm's hospitality services can increase or decrease satisfaction with the core product. This is especially true for people-processing services where customers cannot easily leave the service facility. Some air transportation companies (like Singapore Airlines) differentiate themselves from their competitors with better meals and more attentive cabin crew.

**Safekeeping**

While visiting a service site, customers often want assistance with their personal possessions. In fact, unless certain safekeeping services are provided (like safe and convenient parking for their cars), some customers may not come at all. The list of potential on-site safekeeping services is long. It includes: provision of coatrooms, luggage transport & handling, safekeeping of valuables; and even child and pet care. Additional safekeeping services are directed at physical products that customers buy or rent. They include packaging, pick-up and delivery, assembly, installation, cleaning, and inspection. Sometimes there's a charge for these services.
Exceptions

Exceptions involve supplementary services that fall outside the routine of normal service delivery. Astute businesses anticipate exceptions and develop contingency plans and guidelines in advance. That way, employees will not appear helpless and surprised when customers ask for special assistance. Well-defined procedures make it easier for employees to respond promptly and effectively.

There are several different types of exceptions:

1. **Special requests.** There are many circumstances when a customer may request service that requires a departure from normal operating procedures. Advance requests often relate to personal needs, including childcare, dietary requirements, medical needs, religious observances, and personal disabilities. Such special requests are common in the travel industries.

2. **Problem solving.** Situations arise when normal service delivery (or product performance) fails to run smoothly as a result of accidents, delays, equipment failures, or customers experiencing difficulty in using the product.

3. **Handling of complaints/suggestions/compliments.** This activity requires well-defined procedures. It should be easy for customers to express dissatisfaction, offer suggestions for improvement, or pass on compliments, and service providers should be able to make an appropriate response quickly.

4. **Restitution.** Many customers expect to be compensated for serious performance failures. Compensation may take the form of repairs under warranty, legal settlements, refunds, an offer of free service, or other forms of payment-in-kind.

A flexible approach to exceptions is generally a good idea because it reflects responsiveness to customer needs. On the other hand, too many exceptions may compromise safety, negatively impact other customers, and overburden employees. Managers need to keep an eye on the level of exception requests. Large numbers of exceptions may indicate a need to re-examine standard service procedures.

Managerial implications of the Flower of Service

The eight categories of supplementary services that form the Flower of Service provide many options for enhancing the core service product. Most supplementary services do (or should) represent responses to customer needs. As noted earlier, some are facilitating services (information, reservations) that enable customers to use the core product more effectively. Others are « extras » that enhance the core service product (hospitality, exceptions...). The service provider imposes some elements -notably billing and payment-. But even if not actively desired by the customer, they form part of the overall service experience. Any badly handled element may negatively affect customers' perceptions of service quality. The « information » and « consultation » petals emphasize the need for a good communication with service customers.

A key insight from the Flower of Service concept is that different types of core products often share use of similar supplementary elements. As a result, customers may make comparisons across unrelated industries. For instance, « If my stockbroker can give clear documentation of my account activity, why can't the department store where I'm shopping? » Or « If my favourite airline can take reservations accurately, why can 't the French restaurant up the street? » Questions like these suggest that managers should be studying businesses outside their own industries in a search for « best-in-class » performers on specific supplementary services.

Not every core product will be surrounded by a large number of supplementary services from all eight petals. People-processing services tend to be the most demanding in terms of supplementary elements like hospitality, since they involve close (and often
extended) interactions with customers. When customers do not visit the service factory, the need for hospitality may be limited to simple courtesies in letters and telecommunications. Possession-processing services sometimes place heavy demands on safekeeping elements, but there may be no need for this particular petal in information-processing services where customers and suppliers deal entirely at arm’s length. However, financial services that are provided electronically are an exception to this. Companies must ensure that their customers’ intangible financial assets are carefully safeguarded in transactions that occur via phone or the web.

2. THE SERVICE ATTACHED TO INDUSTRIAL PRODUCTS

Customer needs and expectations often vary by segment. Managers in the B to B do not quite understand which services should be offered to customers as a standard package accompanying the core, and which should be offered as options for an extra charge. There are no simple rules but the people in charge should continually review their firms’ product offerings to make sure they are in line with both market practice and customer needs.

The services attached to the products

We mostly granted our attention up to here to the traditional services. We however may not forget the industrial sectors in which the products may be or not accompanied by services. In the data processing, for example, the activity of service generates today more turnover than the sale of hardware. The possibilities for differentiation and competitive advantage are numerous.

A firm that provides high-quality services in addition to its products can hope to prevail over the competition. Each enterprise must anyway think on the quality of her before- & after sale services.

The before sale service

Let’s suppose that a manufacturer of equipment goods decides to measure the level of performance of his products and attached services. The starting point consists in analysing the services expected by the clientele. A survey showed that the purchasers of industrial equipment considered their needs ranked as follows:

1. Delivery delays
2. Fast answer to a price demand
3. Technical support
4. Pre- & After-sales service
5. Discounts & credit terms
6. Commercial aid and advice
7. Ease of contact
8. Guarantees
9. Range of products
10. Product-concept
11. Possibilities of test

Such a ranking order suggests that the seller must at least equal the offer of the competition on the three or four most important criteria. Each manufacturer has thus to present an attractive ‘service mix’ which will include;

- Prompt answer to inquiries (product, price, delays…).
- Support and installation services.
- Training for machine users.
Every competitor can present services that give him a competitive advantage. The specific demand can even lead to new product concepts that facilitate the service delivery (automatic warning or diagnose systems...).

The after-sales service

Manufacturer must of course determine the nature and the amplitude of their after-sales services (ASS). There are four possibilities:

1. They are themselves in charge of ASS.
2. They have some agreements with their dealers and distributors to organise the ASS.
3. They confide ASS to a specialised third party.
4. The customer himself cares for the ASS (maintenance & repair)

The manufacturers often start choosing the first solution. It allows remaining in close contact with the market and generates substantial profit as exclusive supplier of spare parts. In the sector of the heavy hauler equipment, one estimates that the purchasing cost only represents a third of the total life of the vehicle.

Many manufacturers however transfer the maintenance and repair activities to the distributors. These are closer to the customers and can offer a faster an accurate service.

Figure 4.3: The service product grid

Third parties, having identified a gap, can offer their specialised services in care and maintenance. In the automotive accessory domain, specific franchising chains operate in replacement of the exhaust pipes, tires, shock absorbers (Midas, Speedy...). They base their offer on speed of intervention with more attractive prices. Some big customers still tend to run repair & maintenance all by themselves.

Following main tendencies can be seen;
1. The producers try to construct more and more reliable material with insertion of electronic control systems.
2. The customers prefer to see separate offers for ASS when they purchase equipment.
3. The companies prefer more and more to concentrate their service needs and confine it to third parties.
4. The 'linked service contracts' are less frequent because customers like to keep free choice.
5. The importance of service increases as manufacturing enterprises try to develop and offer related service, which add profit to the sales of their main line products.

We regard as "service to enterprises" those offerings made to companies that don't want or cannot assure the service in intern. Some services presented are new in nature but others are common practice. The figure 4.3 illustrates the tendency towards outsourcing of services. The outsourcing of secondary and supporting functions is growing as the companies centre more and more on their core activities. In the same time, the enterprise has to manage and plan the presence and work of the service providers who almost always have a series of similar customers in their customers' portfolio. This needs a great deal of confidence and a guarantee of confidentiality in the contacts.

3. SERVICE DESIGN

Service design is a complex task that requires an understanding of how the core and supplementary services are combines to create a product offering that meets the needs and target customers.

All be it that the services are largely intangible, it is always possible to map service processes by defining the steps required to provide the core and supplementary product elements. Those flowcharts or blueprints visualise the sequence of activities that specifies front-stage and backstage elements and the linkages between them. They permit also to highlight the potential 'weak points' where there is a significant risk of problems that can damage service quality.

Figure 4.4: Flowchart for meal delivery scenarios

Figure 4.4 illustrates simple flowcharts of four alternative ways to deliver meal service. Each phase can on its turn be analysed in detail to pinpoint the activities and impacts of front and back stage on the good process of the entire service trip. This procedure can even suggest ideas for product improvements or add, change or delete specific elements. In particular, it enables us to define the different components of the augmented service, to examine the sequence in which they are delivered, and to identify
potential fail points. We also gain insights into what is happening to the customer at each stage. Supporting each front-stage action are backstage activities involving people, supporting equipment and facilities, and information (often stored in a databank). A poorly organised backstage can lead to failures that are experiences by customers.

4. CONCLUSION

In mature industries, the core service can become a commodity. The search for competitive-advantage often centers on improvements to the supplementary services that surround this core. We have grouped supplementary services into eight categories, circling the core like the petals of a flower. They are categorized as either facilitators or enhancers. Facilitating supplementary services aid in the use of the core product or are required for service delivery, while enhancing supplementary services add extra value for customers.

Designing the overall service experience is a complex task that requires an understanding of how the core and supplementary services should be combined. Blueprinting is a structured procedure for analysing existing services and planning new ones.

Study Questions and Exercises

1. Define what is meant by the core product and supplementary services. Can they be applied to goods as well as services? Explain your answer.
2. What service failures have you encountered recently? Did they involve the core product or supplementary service elements? Identify possible causes and suggest how such failures might be prevented in the future.
3. Explain the distinction between enhancing and facilitating supplementary services. Give several examples of each for services that you have used recently.
4. Prepare blueprints for the following services: a. Repair of a damaged bicycle b. Applying to college or graduate school c. Renting a car
5. Describe the different types of information that service blueprints can provide.
Chapter 5: PAYING FOR SERVICE

Have you ever noticed what a wide variety of terms service organizations use to describe the prices they set? Universities talk about tuition, professional firms collect fees, and banks charge interest on loans or add service charges. Some bridges and highways impose tolls, transport operators collect fares, clubs charge subscriptions, utilities set tariffs, insurance companies establish premiums, and hotels establish room rates. These diverse terms are a signal that service industries have historically taken different approaches to pricing.

Answering the question, "What price should we charge for our service?" is a task that can't be left solely to financial managers. The challenges of service pricing require active participation from marketers who understand customer needs and behaviour and from operations managers who recognize the importance of matching demand to available capacity. The discussion that follows in this chapter assumes a basic understanding of the economic costs -fixed, semi variable, and variable- incurred by companies, as well as the concepts of contribution and break-even analysis.

1. WHAT MAKES SERVICE PRICING DIFFERENT?

Let's consider how some of the differences between goods and services marketing may affect pricing strategy.

No Ownership of Services; It's usually harder for managers to calculate the financial costs involved in creating an intangible performance for a customer than it is to identify the labour, materials, machine time, storage, and shipping costs associated with producing a physical good. Yet without a good understanding of costs, how can managers hope to price at levels sufficient to achieve a desired profit margin?

Higher Ratio of Fixed Costs to Variable Costs; Because of the staff and infrastructure needed to create performances, many service organizations have a much higher ratio of fixed costs to variable costs than is found in manufacturing firms. Service businesses with high fixed costs include those with an expensive physical facility (e.g., a hotel, a hospital, a university, or a theatre), or a fleet of vehicles (e.g., an airline, a bus company, or a trucking company), or a network dependent on company-owned infrastructure (e.g., a telecommunications company, an Internet provider, a railroad, or a gas pipeline). While the fixed costs may be high for such businesses, the marginal costs for serving one extra customer may be minimal.

Variability of Both Inputs and Outputs; "What should be the basis for service pricing?" Seemingly similar; units of service may not cost the same to produce, nor may they be of equal value to all customers. The potential for variability in service performances (especially those that involve interactions with employees and customers) means that customers may pay the same price for a service but receive different levels of quality and value. Alternatively, they may be charged radically different prices for the same basic service offering, as often happens in the hotel industry.
Services Are Hard to Evaluate: The intangibility of service performances and the invisibility of the backstage facilities and labour make it harder for customers to what they are getting for their money than when they purchase a physical good. Don't forget that, in addition to visible and invisible costs, the firm has finally to add a margin to the bill in order to make a profit for the owner. However customers are making up their opinion of price solely on base of visible service attributes.

Importance of the Time Factor: Time often drives value. In many instances, customers are willing to pay more for a service delivered at a preferred-time than for a service offered at a less convenient time. They may also choose to pay more for faster.

Availability of Both Electronic and Physical Distribution Channels: The use of different channels to deliver the same service can affect costs and perceived value. Electronic banking transactions are much cheaper for a bank than face-to-face contact in a branch. While some people like the convenience of impersonal but efficient electronic transactions, others prefer to deal with a real bank teller. Thus, a service delivered through a particular channel may have value for one person but not for another.

Identifying User Outlays

From a customer's standpoint, the monetary price charged by a supplier is not the only cost or outlay associated with purchase and delivery of a service.

Price and Other Financial Expenses Customers often spend additional amounts over and above the purchase price. Necessary incidental expenses may include travel to the service site, parking, and purchase of other facilitating goods -or services ranging from meals to babysitting. We call the total of all these expenses (including the price of the service itself) the financial outlays associated with purchasing and consuming a service.

Non-financial Outlays Customers may occur a variety of non-financial outlays, representing the time, effort, and discomfort associated with searching for, purchasing, and using a service. The total costs of purchasing and using a service also include those associated with search activities. We can group non-financial outlays into four distinct categories

- **Time expenditures** are inherent in the service delivery process. Time may also be wasted simply waiting for service. There’s an opportunity cost involved because customers could spend that time in other ways.
- **Physical effort** including fatigue, discomfort, may be incurred during visits to the service factory or while using a company’s self-service equipment.
- **Psychological burdens** like mental effort, feelings of inadequacy, or fear may accompany the tasks of evaluating service alternatives, making a selection, and using the chosen service.
- **Sensory burdens** relate to unpleasant sensations affecting any of the five senses. They may include putting up with noise, unpleasant smells, drafts, excessive heat or cold, uncomfortable seating or lighting.

The total costs of purchasing and using a service also include those associated with search activities.

Understanding Net Value

When customers evaluate a service, they consider the benefits it offers relative to the financial and non-financial outlays they will incur in purchasing and using it. Although there are several ways to describe value, we have chosen to define value as "what I get for what I give." Net value is defined as the sum of all the perceived benefits (gross value) minus the sum of all the perceived outlays for the customer. Perceptions of net value may vary widely between customers, and even for the same customer depending on the situation. How customers feel about the net value of a
service may be sharply different post-use and pre-use, reflecting the experiential qualities of many services. When customers use a service and find that it has cost more and delivered fewer benefits than expected, they are unlikely to repurchase it and may complain about "poor value." When customers evaluate competing services, they are basically comparing the relative net values.

**Increasing Net Value by Reducing Non-financial Outlays:** Customers are willing to pay higher prices to reduce their non-financial outlays. Marketers can increase the net value of a service by adding benefits to the core product, enhancing supplementary services, or reducing the financial costs and other outlays associated with purchase and use of the product. People who fly first class versus economy class are paying for more spacious seating, better food, and more personalized attention from flight attendants in return for a more expensive fare.

In many cases, service firms can improve value by minimizing unwanted non-financial outlays for customers. Reducing such outlays may even cause firms to increase the monetary price for their services while still offering what customers perceive as "good value". Strategies for reducing non-financial outlays include:

- Reducing the time involved in service purchase, delivery, and consumption
- Minimizing unwanted psychological burdens during all stages of service consumption
- Eliminating unwanted physical effort, especially during the search and delivery processes
- Decreasing unpleasant sensory burdens by creating more attractive environments.

### 2. FOUNDATION OF PRICING STRATEGY

The foundations underlying pricing strategy can be described as a tripod, with costs to the provider, competition, and value to the customer as the three legs (see Figure 5.1). The costs that a firm needs to recover usually impose a minimum or floor price for a specific service offering. The perceived value of the offering to customers sets a maximum, or ceiling. The price charged by competitors for similar services typically determines where, within the floor-to-ceiling range, the price should actually be set. Let's look at each leg of the pricing tripod in more detail.

**Figure 5.1: The pricing tripod**

![Pricing Strategy](image)
Cost-Based Pricing

Cost-based pricing involves setting prices relative to financial costs. Companies seeking to make a profit must set a price sufficient to recover the full costs -variable, semi-variable, and fixed- of producing and marketing a service. A sufficient margin must also be added to provide the desired level of profit at the predicted sales volume. Going for "skimming" or "penetration" prices, firms need to analyse their cost structure and identify the sales volume needed to break even at this particular high or low prices.

Regulatory Pressures: Not all service firms are free to charge whatever price they choose. Most local utilities -like telephone, water, cable TV, electricity, and gas- have been regulated historically by government agencies that control all changes in prices and terms of service. Industry regulators or politicians, responding to complaints about excessively high prices, sometimes put pressure on these types of businesses to clarify and account for service costs.

Activity-Based Costing; It's a mistake to look at costs from just an accounting perspective. Progressive managers view them as an integral part of their company's efforts to create value for customers. Unfortunately for the accountants, costs have nothing to do with value, which is market driven. Customers aren't interested in what it costs the firm to produce a service; instead, they focus on the relationship between price and value. Activity-based costing (ABC) provides a structured way of thinking about activities and the resources that they consume.

"ABC analysis enables managers to slice into the business in many different ways; by product or group of similar products, by individual customer or client group, or by distribution channel". Thus ABC analysis can pinpoint differences in the costs of serving individual customers, while traditional cost analysis tends to result in loading the same overhead costs on all customers.

Competition-Based Pricing

If customers see little or no difference between the services offered in the marketplace, they may just choose the cheapest alternative. Under conditions of competition-based pricing, the firm with the lowest cost per unit of service enjoys an enviable marketing advantage. It has the option of either competing on price at levels that higher-cost competitors cannot afford to match, or charging the going market rate and earning larger profits than competing firms.

Price leadership; In some industries, one firm may act as the price leader, with others taking their cue from this company. During boom times in competitive industries such as airlines, gas stations, hotels, and rental cars, firms are often willing to go along with the leader since prices tend to be set at a level that allows good profits. However, during an economic downturn, these industries quickly find themselves with surplus productive capacity. To attract more customers, one firm (often not the original leader) may cut prices. Since pricing is the easiest and fastest marketing variable to change, a price war may result overnight.

Price Bids and Negotiations; Industrial buyers sometimes request bids from competing service suppliers. The more tightly specified the buyer's requirements, the less opportunity, out of prices, there is to differentiate one bidder's offer from another. In alternative to bidding is negotiation. The firm may request proposals from several suppliers and then negotiate with a short list of those firms that seem the most qualified and have offered the most relevant or innovative approaches.
Value-Based Pricing

Service pricing strategies are often unsuccessful because they lack any clear association between price and value. Three strategies are available for capturing and communicating the value of a service: uncertainty reduction, relationship enhancement, and cost leadership.

**Pricing Strategies to Reduce Uncertainty:** If customers are unsure about how much value they will receive from a particular service, they may remain with a known supplier or not purchase at all. **Benefit-driven pricing** helps reduce uncertainty by focusing on that aspect of the service that directly benefits customers (requiring marketers to research what aspects of the service the customers do and do not value). This strategy requires firms to communicate service benefits clearly so that customers can see the relationship between value and costs.

**Relationship Enhancement:** Offering discounts when customers purchase two or more services together may be a viable relationship-building strategy. The greater the number of different services a customer purchases from a single supplier, the closer the relationship is likely to be and the lower the prices.

**Cost Leadership:** This strategy is based on achieving the lowest costs in an industry. One challenge, when pricing low, is to convince customers that they are also getting good quality and value! A second challenge is to ensure that economic costs are kept continuously low enough to enable the firm to make a profit.

3. PRICING AND DEMAND

In most services, there's an inverse relationship between price levels and demand levels. Demand tends to fall as price rises. This phenomenon has implications for revenue planning and also for filling capacity in businesses that experience wide swings in demand over time.

**Price Elasticity**

The concept of elasticity describes how sensitive demand is to changes in price. When **price elasticity** is at "unity," sales of a service rise (or fall) by the same percentage that prices fall (or rise). When a small price change has a big impact on sales, demand for that product is said to be **price elastic**. But when a change in price has little effect demand-is-described as **price inelastic**.

Demand can often be segmented according to customers' sensitivity to price or service features. For example, few theatres, concert halls, and stadiums have a single, fixed admission price for performances. Instead, prices vary according to (1) seat locations, (2) performance times, (3) projected staging costs, and (4) the anticipated appeal of the performance. In establishing prices for different blocks of seats and deciding how many seats to offer within each price block (known as scaling the house), theatre managers need to estimate the demand within each price category. A poor pricing decision may result in many empty seats in some price categories and immediate sell-outs (and disappointed customers) in other categories.

**Yield Management**

Service organizations often use the percentage of capacity sold as a measure of operational efficiency. By themselves, however, these percentage figures tell us little about the relative profitability of the customer base. High utilization rates may be obtained at the expense of heavy discounting, or even outright give-aways.
Yield management pricing strategies are based on maximizing the revenue yield that can be derived from available capacity at any given time. Effective yield management models can significantly improve a company’s profitability. Airlines, hotels, and car rental firms, in particular, have become adept at varying their prices in response to the price sensitivity of different market segments at different times of the day, week, or season. The challenge is to capture sufficient customers to fill the organization’s perishable capacity without selling at lower prices to those customers who would have been willing to pay more.

Advances in software and computing power have made it possible for managers to use sophisticated mathematical models to address complicated yield management issues. In the case of an airline, for example, these models integrate massive historical databases on past passenger travel with real-time information on current bookings. The output helps analysts predict how many passengers would want to travel between two cities at a particular fare on a flight leaving at a specified time and date. Airlines use yield management analysis to allocate seats at different fares (known as price buckets) for a specific flight with the objective of improving its yield.

The use of price buckets illustrates the concept of price customisation—that is, charging different customers different prices for what is, in effect, the same product. The basic idea is simple: have people pay prices based on the value they put on the product. Successful yield management strategies require an understanding of the shape of the demand curve and an ability to relate the size and price levels of the different "buckets" to different value segments (see Figure 5.2).

**Figure 5.2: Revenue optimisation by yield management**

Fencing Mechanisms: Firms need to be able to separate or "fence off" different value segments so that customers for whom the service offers high value are unable to purchase it cheaply. Rate fences can be either physical or non-physical and involve setting qualifications that must be met in order to receive a certain level of discount from the full price. Physical fences include observable characteristics of the customer (like
FUNDAMENTALS IN "SERVICE MARKETING"

child versus adult) and service characteristics such as class of travel, type of hotel room, or inclusion of certain amenities with a higher price (free breakfast at a hotel, free golf cart at a golf course). Non-physical fences include penalties for cancelling or changing an inexpensive reservation, requirements for advance purchase, group membership or affiliation, and time of use (e.g., happy hours in bars before 8:00 p.m., travellers must stay over a Saturday night to obtain a cheap airline booking).

Customer-Led Pricing: Auctions and Bids

One method of pricing that has attracted a lot of attention with the advent of the Internet is inviting customers to bid the 'price that they are prepared to pay. The Internet provides a good medium for auctions because of its ability to aggregate buyers from all around the world. In the same line, the Web also offers many opportunities for consumers to bid on prices for goods and services.

Rather than approaching individual financial institutions for a mortgage or other loan, borrowers can enter their requirements and personal situations at a Web site that solicits bids for the required loans. And online market makers let buyers decide how much they are willing to offer for many other types of services.

4. PUTTING PRICING STRATEGIES INTO PRACTICE

Although the main decision in pricing is usually seen as how much to charge, there are other important decisions to be made.

How Much to Charge?

Realistic decisions on pricing are critical for financial health. The pricing tripod model provides a useful departure point. The task begins with determining the relevant costs, which set the relevant "floor" price. The second step is to establish a "ceiling" price for specific market segments. This involves assessing market sensitivity to different prices, which reflects both the overall value of the service to prospective customers and their ability to pay. Competitive prices provide a third input.

The wider the gap between the floor and ceiling prices, the more room there is for maneuvering. If a ceiling price is below the floor price, the manager has several choices. One alternative is to recognize that the service is non-competitive, in which case it should be discontinued. The other is to modify it in ways that differentiate it from the competition and add value for prospective customers. This makes it competitive at a higher price.

Finally a specific figure must be set for the price that customers will be asked to pay. Should price be fixed in round numbers or should one try the 'odd prices' to create a psychological pull effect?

An ethical issue concerns the practice of promoting a price that excludes tax, service charges, and other extras. This approach is illegal in many countries and misleading.

What Should Be the Basis for Pricing?

To set a price, managers must define the unit of service consumption. Should it be based on completing a specific service task, such as repairing a piece of equipment, cleaning a jacket, or cutting a customer's hair? Should it be based on admission to a service performance, such as a conference, film, concert, or sports event? Should it be time based, as in using an hour of a lawyer's time, occupying a hotel room for a night, or renting a car for a week? Should it be tied to value, as when an insurance company scales its premiums to reflect the amount of coverage provided or a realtor takes a percentage commission on the selling price of a house?
Some service prices are tied to consumption of physical resources like food, water, or natural gas. Rather than charging customers an hourly rate for occupying a table and chairs, restaurants put a sizeable mark-up on the food and drink items consumed.

**Price Bundling:** Many services unite a core product with various supplementary services, such as a cruise ship where the tariff includes meals and bar service. Should such service packages be priced as a whole (referred to as a "bundle") or should each element be priced separately? If people prefer to avoid making many small payments, price bundling may be preferable -and it's certainly simpler to administer. However, if practice customers dislike being charged for product elements they don't use, itemized pricing price may be better. Bundled prices offer guaranteed revenue from each customer, while giving users a clear idea in advance of how much the bill will be. By contrast, unbundled pricing provides customers with flexibility.

**Discounting:** To attract the attention of prospective buyers or to boost sales during a period of low demand, firms may discount their prices, often publicizing this price cut with coupons or an advertising campaign. Marketers of subscription services, such as cable television, Internet service, cellular telephone service, or credit cards, often employ strategy of offering the service at a discount -or even free of charge- for an introductory or a promotion period. Selective price discounting targeted at specific market segments can help to fill capacity that would otherwise go unused.

**Who Should Collect Payment?**

Sometimes firms choose to delegate provision of supplementary services like billing to an intermediary. Although the original supplier pays a commission, using a third party may still be cheaper and more efficient than performing those tasks itself. Commonly used intermediaries include travel agents who make hotel and transportation bookings; ticket agents who sell seats for theatres, concert halls, and sports stadiums; and retailers who sell services ranging from prepaid phone cards to home and equipment repair.

**Where Should Payment Be Made?**

Payment for many services is collected at the service facility just before or immediately following service delivery. When consumers purchase a service well in advance of using it, there are obvious benefits to using intermediaries that are more conveniently located, or allowing payment by mail (Airports, theatres, and stadiums, for instance, are often, situated some distance from where potential customers live or work.) A growing number of service providers now accept credit cards for telephone bookings and sales over the Internet.

**When Should Payment Be Made?**

Two basic options are to ask customers to pay in advance (e.g., an admission charge, airline ticket, or postage stamps), or to bill them on completion of service delivery (e.g., restaurant bills and repair charges). Occasionally a service provider may ask for an initial payment in advance of service delivery, with the balance being due later (e.g., management consulting). This approach is also quite common with expensive repair and maintenance jobs, especially when the firm -often a small business with limited working capital- must buy materials up front.

**How Should Payment Be Made?**

Service businesses must decide on the types of payments they will accept. Although cash is a simple payment method, it raises security problems and is not always convenient for customers (especially for large purchases). Checks are convenient for customers, but sellers need to develop controls to discourage invalid payment.
Credit cards are convenient and have the advantage of being accepted worldwide, regardless of currency. Businesses that refuse to accept such cards increasingly find themselves at a competitive disadvantage. Prepayment cards simplify the process of paying for services like road and bridge tolls or telephone calls. Smart cards (as Proton card) store value in a microchip embedded within the card. To accept payment in this form, however, service firms must first install card readers. This sophisticated payment option requires partnerships between banks, retailers, and telephone companies. Working together, these partners can provide a smart card that serves as an "electronic wallet". Other payment procedures include directing the bill to a third party for payment and using vouchers as supplements to (or instead of) cash. Insurance companies often designate approved garages to inspect and repair customers' vehicles when they are involved in accidents. To make life easier for the customer, the garage bills the insurance company directly or the work performed. This saves the customer the effort of paying personally.

Communicating Prices to the Target Markets

The final task is to decide how the organization’s pricing policies can best be communicated to its target markets. People need to know the price for some product offerings well in advance of purchase. They may also need to know how, where, and when that service is payable. This information must be presented in ways that are intelligible and unambiguous, so that customers will not feel misled. Customers expect salespeople and service representatives to be able to give prompt, accurate responses to queries about pricing, payment, and credit. Finally, when the price is presented in the form of an itemized bill, marketers should ensure that it is both accurate and intelligible.

5. CONCLUSION

Customers pay more to use a service than just the purchase price specified by the supplier. Additional outlays may include related financial costs (such as travel to the service site), time expenditures, psychological and sensory burdens, and physical effort. Customers are often willing to pay a higher price when the non-financial outlays are minimized, since the value of a service reflects the benefits that it delivers to the customer minus all the associated costs. Pricing strategy must address the central issue of what price to charge for a given unit of service at a particular point in time, no matter how that unit may be defined. It's essential that the monetary price charged should reflect knowledge of the service provider's fixed and variable costs, competitor's pricing policies, and the value of the service to the customer.

Study Questions and Exercises

1. Is pricing strategy more difficult to implement in some service industries than in others? If so why? Be specific and give examples.
2. Of the various non-financial outlays incurred by customers, which are likely to be the most significant in situations involving: (a) traditional retail banking; (b) home banking; (c) going to the movies; (d) taking a taxi in an unfamiliar city; (e) surgery?
3. Why is cost-based pricing (as it relates to financial costs) particularly problematic in service industries?
4. In what ways does competition-based pricing work in favour of many service providers? In what circumstances does it not?

5. Explain the concept of yield management in a service setting. How might it be applied to (a) a professional firm (e.g., consulting); (b) a restaurant; (c) a golf course?

6. Identify three aspects of pricing strategy that might raise ethical considerations. In each instance, how should such abuses be prevented?

7. From a customer perspective, what defines value in the following services: (a) a nightclub; (b) a hairdressing salon; (c) a legal firm specializing in business and tax law?

8. Review recent bills that you have received from service businesses. Evaluate each one against the following criteria: (a) general appearance and clarity of presentation; (b) easily understood terms of payment; (c) avoidance of confusing terms and definitions; (d) appropriate level of detail; (e) unanticipated (“hidden”) charges; (f) accuracy; (g) ease of access to customer service in case of problems or disputes.
Chapter 6: PROMOTING AND COMMUNICATING SERVICE VALUE

Marketing communications, in one form or another, are essential to a company's success. Enterprise Rent-a-Car could not have built its business without personal selling and advertising. Without effective communications, few prospects would ever have learned of enterprise's existence, what it had to offer them, and how to use its services. In the absence of follow-up sales calls, a user-friendly Web site, and good signage, customers might be more easily lured away by competitors and competitive offerings, and there would be no proactive management and control of the firm's identity. So managers need to debate the question: How should we communicate what our service has to offer?

Much confusion surrounds the scope of marketing communication. Some people still define it narrowly as the use of paid media advertising, public relations, and professional salespeople. But this view doesn't recognize the many other ways that a firm can communicate with its customers. The location and atmosphere of a service delivery facility, corporate design features like the consistent use of colours and graphic elements, the appearance-and-behaviour of employees, Web site design... All of these factors contribute to an impression in the customer's mind.

When a company is organized to create service value, it must communicate this to its customers and prospects in order to reinforce and make that value succeed. A service is more difficult to communicate because it is invisible. Communication plays a crucial role in creating and maintaining a service reputation. It is the art of making the service value more visible and reinforcing the company's core values.

Listening: A Prerequisite for Effective Communication

The first obstacle in communicating effectively is the inability of a company to listen to its customers. The roots of a good service reputation are the core values built overtime by a company. These core values are translated into activities and tasks that create a customer-focused philosophy within the organization.

Listening to customers is a prerequisite of effective communication. When a firm does not have a customer-focused philosophy, communication is often the result of efforts to build the company's image or employees' attempt to please their managers. In fact:

- You must know what your customers want.
- You must be able to communicate to them that you have what they want.
- You must be able to deliver on that promise or they are not coming back.
- You need to deliver what they want

It becomes a circle. You communicate what you are, you provide the service, you ask the customers if it is what they wanted, and then you go back and you refine your product. You communicate that message, you deliver that service, you measure, and you change.
1. INTERNAL COMMUNICATIONS

Marketing communications principles should be used to communicate with service employees as well as external customers. Internal communications from senior managers to their employees play a vital role in maintaining and nurturing a corporate culture founded on specific service values. Well-planned internal marketing efforts are especially necessary in large service businesses that operate in widely dispersed sites, sometimes around the world. Even when employees are working far from the head office in the home country, they still need to be kept informed of new policies, changes in service features, and new quality initiatives. Communications may also be needed to nurture team spirit and support common corporate goals. Consider the challenge of maintaining a unified sense of purpose at the overseas offices of companies such as Citibank, Air Canada, Marriott, or McDonalds, where people from different cultures who speak different languages must work together to create consistent levels of service. Effective internal communications can help ensure efficient and satisfactory service delivery, achieve productive and harmonious working relationships, and build employee trust, respect, and loyalty. Commonly used media include internal newsletters and magazines, videotapes, private corporate television networks like those owned by FedEx and Merrill Lynch, Intranets (private networks of Web sites and e-mail that are inaccessible to the general public), face-to-face briefings, and promotional campaigns using displays, prizes, and recognition programs.

2. EXTERNAL COMMUNICATION AS A REINFORCEMENT SYSTEM

External communication plays two major goals: reinforcing the firm's core values and making the service value more visible. It is essential that employees see consistency in the company's external communication and its internal communication in order to help reinforce the company's shared values in them. When disseminating sensitive information, the company must decide who (whether the customers or the employees) will receive the message first.

Managing Customers' Expectations and Leveraging Service Value

The objective of external communication is to communicate the service value to customers. Service value is the difference between the benefits offered to customers and the customers' sacrifices to acquire the service.

Figure 6.1: How Marketing Communications Influence Service Quality and Service Value
Most of the marketing activities tend to increase the perception of benefits to customers. Some service companies tend to use advertising to make the customer believe that the firm delivers exceptional value.

**Figure 6.2: The Hierarchy of Customer Expectations**

![Hierarchy of Customer Expectations Diagram]

**Figure 6.3: Creating Service Value that Customers Can See**

When a company's marketing department over promises, the customer's expectations increase and when the company is unable to deliver, the customer develops a negative perception of the service value. Figure 6.1 illustrates how the marketing communication activities influence the customer's perception of both service quality and service value.
Leading service companies use communication as a way of managing the customer's expectation and maximizing the service value perceived by customers. Every communication activity reinforces the perceived service value so that the communication strategy is actually a long-term reinforcement process.

Being customer focused, these companies know that customers are becoming more demanding and that their competitors are also improving their service quality. They understand that today, "good is not good enough" and that they must delight their customers to enhance their service reputation. Figure 6.2 illustrates the hierarchy of customer's expectations in relation to the benefits offered by the service provider.

Leveraging the service value through external communication should be the main objective for any marketing department. The key issue is how to manage customers' expectations. Customers now do not want to just hear promises, they want to see what a firm actually delivers.

To develop a strong service reputation, a firm must have both good communication and a strong internal customer-focused culture. The service culture is reinforced by an effective external communication as illustrated in Figure 6.3. External communication is more effective because it finds its roots in the company core values. A service company has a strong image because it has a strong identity.

Creating a Strong Brand Image

A brand is an external indication that a product or service has received an organization's imprint. The brand name communicates directly to customers information about the products or service characteristics. It also conveys information about the service quality and service value delivered by the company. A brand name also represents the company's employees, its service offerings and the customers as well. When a brand name is built around the above characteristics, the customer is likely to have positive feelings and emotions about the brand. A strong brand name is about the customer experience matching that of the service promise and the positive image that the company has built.

A brand name is useful to customers because it helps them make a choice with some criteria. A brand name associated with a strong image is a timesaving reference for customers because reduces the need to search for information on different companies before making a decision. A brand name effectively reduces the perceived risk for a customer in making the wrong decision.

A strong image has many advantages to a company:
- It supports brand loyalty
- It increases the brand differentiation relative to competitors
- It increases the perceived service value
- It facilitates frontline people's work. It reduces the importance of failure
- It improves the employees' attitude; they are proud to work for the company
- It facilitates the selection of good employees by increasing the number of candidates
- It attracts potential investors

Leading service companies have been able to create a strong image and for some a worldwide reputation by building a strong culture. They are able to understand their brand identity; their internal and external communication expresses the brand's essence.

Brand Image and Brand Identity

Service companies that do not have a clear idea of their identity tend to imitate their competitors! That mean they cannot differentiate their brands. They try to reach and serve all segments because they are not sure who their customers are. They are always
adopting the latest management fad, tossing their employees from one management guru to another or they blame their advertising agency for their communication problems. Managers often confuse the concept of brand identity with that of brand image. The differences between the two concepts are essential and listed in the table below. Identity comes from the sender's side and is a result of a project initiated by the top management who should initiate, agree and communicate the core values of the firm, which are the source ingredients of brand identity. Image is on the receiver's, or customer's side and it is the result of the customer's interpretation of the signals sent by a firm. Identity is, therefore, antecedent to image. Identity is unique.

<table>
<thead>
<tr>
<th>Identity</th>
<th>Image</th>
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<tbody>
<tr>
<td>Sender side</td>
<td>Receiver side</td>
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<tr>
<td>Permanent</td>
<td>Changing</td>
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<tr>
<td>Project</td>
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<td>Antecedent</td>
<td>Posterior</td>
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<td>Unique</td>
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<td>Roots</td>
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</table>

Identity comes from the sender's side and is a result of a project initiated by the top management who should initiate, agree and communicate the core values of the firm, which are the source ingredients of brand identity. Image is on the receiver's, or customer's side and it is the result of the customer's interpretation of the signals sent by a firm. Identity is, therefore, antecedent to image. Identity is unique. A company can't change its image and look through an advertising campaign or a new corporate identity program. However, when the new look does not match the company's identity, i.e., the product or service experience, the customers become very cynical about the change. Therefore, thinking about its identity or about the brand values is the first step in the external communication process.

Searching for Harmony

It is crucial for a firm to have a strong image, particularly in the services industry where it is difficult to achieve brand differentiation. The process of developing a strong brand is not complicated in itself. An effective communication process within a company is like managing an orchestra. Harmony is required between the director of the orchestra and its musicians to produce great music and a successful performance. Harmony is achieved when the company core values are the source of each business activity. This enables the company to build and protect its brand territory. However the brand values, or attributes of a brand, are not necessarily similar to the company's values. The brand values should at least reflect the core values of the company. The outcomes are intentional, differentiated and valuable to the customer in both tangible and intangible ways.

Questions that assess whether marketing and communication activities support brand value:

- Does the new advertising campaign suit the brand value?
- Does the sales promotion destroy the brand identity?
- Does the new service fit the brand territory?
- Does the behaviour of the frontline people align with the brand value?
• Can the brand sponsor a certain sporting event?
• What kind of salespeople do we need to recruit in respect to company values?

When the company core values are used as a filter in making business decisions, there is a greater chance that the company acquires self-discipline and acts according to the values. There is consistency between the way service is delivered and the way that service is communicated to customers. The service culture is reinforced and the company's image gains more credibility (Figure 6.5).

Figure 6.5: Core Values as the Company's Heartbeat

![Core Values Diagram]

3. MAKING THE SERVICE VALUE MORE VISIBLE

Although service is invisible, in some specific situations it is possible for a firm to show customers its service value. The customer is the only judge of the firm's service value. What the customer sees and feels is the most important element. Managing the customer's perception during the moment of truth is a key issue. Service interaction is always the moment of truth. It is critical that service value be visible when the customer actually experiences the service during the service interaction. It is the best way for a firm to make its service value more visible. During that time, the service performance must meet, or ideally exceed a customer's expectations. If the firm is unable to deliver service quality, it is not likely to change that customer's perception through external communication activities.

A customer's perception is more affected by his experiences than by what he may see or hear. When the service is not delivered according to customer's expectations (and it is very difficult to achieve perfect performance in services), it is not too late to create a positive impression. The ability to maintain a high standard of service quality during service interaction is definitively a sustainable competitive advantage. It is something that competitors cannot copy immediately.

Service quality has two dimensions. The first one, technical quality, is related to the service benefits offered to customers. These benefits must meet or exceed customer's expectations. It can be said that technical quality is the hard element of a service. The second dimension, relational quality, is the soft element and characterizes the nature of the relationship between the company and the customer during the service delivery. Relational quality is largely influenced by service style, which is particularly important because it is the service part that is most visible to customers. It is critical for a service company to define its service style and to ensure that its frontline people understand the
kind of service the company wants to deliver. When the service style is well defined, it can be delivered consistently with positive impact on customers.

**Gaining media support**

Leading service companies "deliver great service and are able to gain media support. Educating journalists about the way an industry operates enhances, mutual understanding. Good relationships with the media are fundamental for the company's visibility and reputation. Service companies are using a proactive approach in their relationships with media. The relationship is based on the company's willingness to cooperate with an open attitude and with integrity. Delivering core messages consistently to different targets is a good way to make the service more visible. These messages help customers shape the firm's image and they reinforce customer's perception after he experienced the service.

**Servicing the community**

The leading companies are more visible than their competitors for many reasons. First, they deliver better service than their competitors and are more successful. Second, they obtain media support by being proactive in their relationships, and finally, they increase their visibility by being involved in community activities. They are very focused on serving their customers but with broad perspectives. They are very proactive with their environment. (Sponsoring sports, education, welfare, arts, culture...)

**Educating customers**

Educating customers about how to use the service increases the customer perception about service value. Customers need to be educated, especially when the business environment changes and traditional structures and practices become obsolete. Companies like DHL need to educate their customers about their new services and try to collaborate with them, as partners, while using the service.

**Advertising tangible clues**

Advertising is the most traditional way to communicate service value to external customers. Many companies tend to invest lots of money in advertising without paying too much attention on whether the customer actually experiences the brand value promised in the advertising: When advertising emphasizes the service benefits that are important to customers, the service value increases and becomes more tangible to customers. Companies who achieve consistent positive customer experiences, which are reinforced in advertising, really maximize their investment.

**4. SETTING COMMUNICATION OBJECTIVES AND CHOOSE THE MEANS TO ACT**

When planning a campaign, marketers need to formulate specific communications objectives and select the most appropriate messages and tools to achieve them (see Figure 6.6 for a list of common educational and promotional objectives for service businesses).

Planning a marketing communications campaign should reflect a good understanding of the service product and the ability of prospective buyers to evaluate its characteristics in advance of purchase. It's also essential to understand target market segments and their exposure to different media, as well as consumer awareness' of the product and attitudes toward it.

Decisions include determining the content, structure, and style of the message to be communicated, its manner of presentation, and the media most suited to reach the intended audience. Additional considerations include: the budget available for execution,
time frames (as defined by such factors as seasonality, market opportunities, and anticipated competitive activities); and methods of measuring and evaluating performance

Figure 6.6: Promotional & Educational objectives

- Create memorable images of specific companies and their brands
- Build awareness of and interest in an unfamiliar service or brand
- Build preference by communicating the strengths and benefits of a specific brand
- Compare a service with competitors' offerings and counter competitive claims
- Launching a new or modified service product (new positioning)
- Stimulate demand in low-demand periods and discourage demand during peak periods
- Encourage trial by offering promotional incentives
- Reduce uncertainty and perceived risk by providing useful information and advice
- Provide reassurance (e.g., by promoting service guarantees)
- Teach customers how to use a service to their own best advantage
- Recognize and reward valued customers and employees

The Marketing Communication Mix

Most service marketers have access to numerous forms of communication, referred to collectively as the marketing communications mix. Different communication elements have distinctive capabilities relative to the types of messages that they can convey and the market segments most likely to be exposed to them. As shown in Figure 6.7, the mix includes personal contact, advertising, publicity and public relations, sales promotion, instructional materials, and corporate design.

Figure 6.7: The Marketing Communication Mix for services

How should service marketers approach the task of selecting communication elements to convey the desired messages efficiently and effectively to the target audience? In well-planned campaigns, several different communication elements may be use in ways that mutually reinforce each other. Effective sequencing of communications important, since one element often paves the way for others. For example, advertising encourage
prospects to visit a Web site, request further information by mail, or shop in a specific store where they will be exposed to retail displays and can interact directly with a salesperson.

Communication experts draw a broad division between personal communications, involving personalized messages that move in both directions between two parties, and impersonal communications, in which messages move in only one direction and are generally targeted at a large group of customers and prospects rather than at a single individual. However, technology has created a grey area between the two. It's now very easy for a firm to combine word-processing technology with information from a database to create an impression of personalization. Think about the direct mail and e-mail messages that you have received, containing a personal salutation and perhaps some reference to your specific situation or past use of a particular product.

5. CONCLUSION

The marketing communication strategy for services requires a somewhat different emphasis from that used to market goods. The communication is both internal (to own staff) and external (to the customers and prospects).

The whole philosophy that drives the communication is based on the exteriorization of the core values and the customer focus in delivering the service. A great deal lays in building up a strong brand image.

The communication tasks facing service marketers include emphasizing tangible clues for services that are difficult to evaluate, clarifying the nature and sequence of the service performance, highlighting the performance of customer contact personnel, and educating the customer about how to effectively participate in service delivery.

Many different communication elements are available to help companies create a distinctive position in the market and reach prospective customers. The options in the marketing communication mix include personal communications like personal selling and customer service, as well as impersonal communications like advertising, sales promotions, public relations, corporate design, and the physical evidence offered by the appearance of the service delivery site. Instructional materials, from brochures to-Web sites, often play a, important role in educating customers on how to make good choices and obtain' the best use from the services they have purchased. Developments in technology, especially the Internet, are changing the face of marketing communications.

Study Questions and Exercises

1. Give three examples of service companies and discuss the impact of their Brand Name
2. Which elements of the marketing communications mix would you use for each of the following scenarios? Explain your answers.
   - A newly established hair salon in a suburban shopping centre
   - An established restaurant facing declining patronage because of new competitors
   - A large, single-office accounting firm in a major city that serves B to B clients
3. What roles do personal selling, advertising, and public relations play in (a) attracting new customers to a service business and (b) retaining existing customers?
4. Find examples of service promotional efforts in your local area and evaluate their strengths and weaknesses as effective communication tools.
5. Provide several current examples of public relations efforts made by service companies.
Chapter 7: THE PLACE
ALTERNATIVE DELIVERY CHANNELS

Customers are demanding more convenience, and they expect services to be delivered where and when they want them. This chapter explores a key question in service management: What are the options for delivering our service? In many cases, customers are no longer obliged to visit service factories as the concept of going to a physical place for service delivery gives way to delivery in cyberspace for information-based services. In addition to moving from factory- to electronic-based delivery, progressive firms are coming up with different formats for face-to-face delivery in new locations.

1. PHYSICAL VERSUS ELECTRONIC DELIVERY

As service managers consider the options for delivering their services, two key questions are:
- What physical and electronic channels can we use?
- Is it feasible to switch from high-contact to low-contact delivery?

While goods require physical distribution, those services that are information based can be delivered through either electronic or physical channels. Many of the supplementary services surrounding both intangible and tangible core products can now be delivered electronically. Even service businesses that involve physical core products -like retailing and repair- are shifting delivery of many supplementary services to the Web, closing some of their physical branches, and moving to low-contact strategies for interacting with customers. As you can see in Figure 7.1, five of the eight petals of the augmented service product are information-based processes that can be delivered either physically or electronically. Consultation, order taking, billing, payment, and information can all be transmitted in the digital code of computers.

The growth of electronic channels is creating a fundamental change in the nature of marketing. Customers are moving from face-to-face contacts with suppliers in fixed locations that only operate during fixed hours to remote contacts in cyberspace, "anywhere, anytime."

More and more services now fall into the category of arm’s length relationships rather than face-to-face interactions. Progressively the traditional marketplace interaction between physical seller and physical buyer has been eliminated. In fact, everything about this new type of transaction-what we call a marketspace transaction-is different from what happens in the marketplace.

The companies doing business in the marketplace need a physical environment in which customers can get together with suppliers to inspect merchandise or conduct service-related business. We can’t get rid of the marketplace for people-processing services, because these services require customers to enter the physical environment of
a service factory. In some instances, customers don't want to get rid of the marketplace because it is the physical and social environment that attracts them.

**Figure 7.1: The flower of service and the distribution pattern**

The companies doing business in the *marketspace* may be able to replace contact with physical objects with information about those objects (as in a paper or electronic catalogue). For information-based services the context in which the transaction occurs is also different, with on-screen (or on-telephone) contact replacing physical contact. A desire to save time has been one of the driving forces behind these trends, reflecting customer preferences for faster and more convenient service. A second factor has been interest on the part of some customers in obtaining easily accessible information about the goods and services that they buy. Ironically, electronic contacts may bring customers "closer" to manufacturers and service suppliers. Conducting dialog with customers about their needs and preferences (information that can be stored in databases for future reference) can lead to delivery of better and more customized service—which may create greater value and therefore command higher prices. This is, in fact, the basis idea of CRM (Customer Relation Marketing).

**Designing the Service Delivery Process**

The nature of the service both influences and is shaped by distribution strategy. In high-contact services, the design of the physical environment and the way in which customer-contact personnel perform their tasks help create a distinctive identity for a service firm, shape the nature of customers’ experiences, and enhance both productivity and quality. However, low-contact services are often designed specifically with improved productivity in mind. More and more frequently, customers deliver these services themselves through self-service technologies rather than interacting directly with service employees. The design of service delivery systems should start with the core product and then be expanded to include the delivery of each of the supplementary services. Managers
FUNDAMENTALS IN "SERVICE MARKETING"

responsible for, developing service delivery strategy with need to address the following marketing and operations issues:

- What should be the nature of contact between the service provider and its customers? Should customers come to the provider or the other way around? Or should the two parties deal at arm’s length, using mail and telecommunications (ranging from telephone to the Web)?
- What should be the sequencing of the various steps in the service delivery process? Both operational and customer preferences need to be taken into account in making this decision.
- Where (location) and when (scheduling) should these steps take place? The choice today is not only between different physical locations but also between physical space and cyberspace.
- What should be the nature of customer involvement at each step? If customers are required to be present, should they be served in batches or individually? Alternatively, should they serve themselves?
- What imagery and atmosphere should the service delivery environment try to create? For a high-contact service, this concerns decisions on: facility design and layout; staff uniforms, appearance & attitudes, the type of furnishings & equipment installed; and the use of music, lighting, and decor.
- Should a service firm take responsibility for the entire delivery process or delegate some steps to intermediaries? Intermediaries can handle some supplementary services, like information and reservations, very efficiently and cost-effectively.
- What should be the serving protocol? Should the firm operate a reservations system or work on a first-come, first-served basis, using queuing when necessary? Or should a priority system be established for certain types of customers (like many firms do for their larger industrial accounts or airlines do for their gold card frequent flyers)?

Options for Service Delivery

Delivering a service to customers involves answering the questions “where?” “when?” and “how?” Service marketing strategy must address place and time, paying at least as much attention to speed, scheduling, and the potential for electronic access in cyberspace issues as to the more traditional notion of physical location. The nature of the delivery system has a powerful impact on the customer's experience with the service product.

Service delivery strategy is shaped by several factors, including the nature of the business, the service processes employed, the types of customers targeted, and productivity and quality concerns. A key question is whether the nature of the service or the firm's positioning strategy requires customers to be in direct physical contact with its personnel, equipment, and facilities. If so, do customers need to visit the service organization's facilities or should personnel and equipment be sent to the customer's site? Alternatively, can transactions between provider and customer be completed at arm's length through either telecommunications or modern physical channels of distribution? A second issue concerns the firm's strategy in terms of distribution sites. Should it maintain just a single outlet or serve customers through multiple outlets at different locations? The possible options, combining both type of contact and number of sites, can be seen in Figure 7.2.
Figure 7.2: Methods of service delivery

<table>
<thead>
<tr>
<th>Nature of Interaction between Customer and Service Organization</th>
<th>Availability of Service Outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single site</td>
</tr>
<tr>
<td>Customer goes to service organization</td>
<td>Theatre</td>
</tr>
<tr>
<td></td>
<td>Barbershop</td>
</tr>
<tr>
<td>Service organization comes to customer</td>
<td>House painting</td>
</tr>
<tr>
<td></td>
<td>Mobile car wash</td>
</tr>
<tr>
<td>Customer and service organization transact at arm's length (mail or electronic communications)</td>
<td>Credit card company</td>
</tr>
<tr>
<td></td>
<td>Local TV station</td>
</tr>
</tbody>
</table>

Should we offer customers a choice? Just because a service can be delivered through low-contact channels doesn't necessarily mean it should be. Astute marketers recognize that preferences may vary from one customer to another and even from one situation to another for the same customer. Many companies offer their customers a choice of delivery channels. Depending on the nature of the service, options may include serving a customer at a firm’s own retail sites, delegating service delivery to an intermediary or franchisee, coming to the customer's house or place of business, and (in certain types of services) serving the customer at a distance through physical or electronic channels.

Customers Visit the Service Site

The convenience of service factory locations and operational schedules becomes an important marketing issue when customers are required to be physically present throughout service delivery, or even just to initiate and complete the transaction.

Providers Come to the Customer

For some types of services, the supplier visits the customer. This is, of course, essential when the target of the service is some immovable physical object like a building that needs cleaning, a large machine that needs repair or a garden that needs landscaping. Since it's more expensive and time consuming for service personnel and their equipment to travel to the customer than vice versa, the trend has been away from this approach where possible.

Arm's Length Transactions

Dealing with a service organization through arm's length transactions may mean that a customer never sees the service facilities or meets service personnel. As a result, service encounters tend to be fewer in number and involve telephone, mail, fax, Web sites, or e-mail. The outcome of using the service remains very important to the customer, but much of the service delivery process is hidden. Credit cards and insurance are examples of services that can be requested and delivered by mail or telecommunications. Small equipment repair can often be handled by shipping the item to a maintenance facility.

Any information-based product can be delivered through telecommunication channels, almost instantaneously, to any point in the globe where a suitable reception terminal exists. As a result, physical logistics services, such as FedEx, UPS, and national postal services, now find themselves competing with telecommunications services.
2. PHYSICAL EVIDENCE AND THE SERVICESCAPE

When customers visit a service facility, they expect it to be user friendly, easy to find, simple to use, and staffed by helpful personnel. Operations specialists tend to focus on the functional aspects of facility design, with an emphasis on productive use of resources and safe, efficient delivery of services. But marketers also care about the impression that service facilities and personnel make on customers and how they contribute to the overall service experience. In many instances, it's the nature of that experience that differentiates one service provider from its competitors.

Marketers must address the question: **What physical evidence should our facilities present?** When you go to a service factory and interact directly with employees, you're exposed to more compelling evidence than when service is delivered at your home (or work locations) or through electronic channels.

**Physical evidence**

One of the 8Ps of integrated service management, the physical evidence refers, first, to the tangible elements encountered by customers in the service delivery environment and, second, to the tangible metaphors used in symbols, slogans, or advertising messages. For example, the clean streets, colourful signage, and costumed employees of theme parks like Disneyland and Legoland contribute to the sense of fun and excitement that visitors encounter on arrival and throughout the service experience. Alternatively, consider the office of a successful professional business—an investment bank or a law firm—where wood-panelled walls, leather-bound books, and antique furnishings are used to create an elegant and impressive atmosphere. Marketers use strategically managed physical evidence in three ways:

1. As an attention-creating medium, differentiating their company's services from those of competitors and attracting customers from target segments
2. As a message-creating medium, using symbolic cues to communicate with the intended audience about the distinctive nature and quality of the service experience
3. As an effect-creating medium, employing colours, textures, sounds, scents, and spatial design to create or heighten an appetite for certain goods, services, or experiences

The interior of a classic restaurant and that of a Quick or McDonalds are quite different. Imagine that you have just entered one of these dining rooms and examine the physical evidence each picture provides. How is each establishment positioning itself within the restaurant industry? What sort of meal experience can you expect? Which clues do you use in making your judgments?

**Servicescape Design**

The term *servicescape* describes the style and appearance of the physical surroundings where customers and service providers interact. Since servicescapes can create powerful positive or negative impressions, it is important to manage them effectively (especially in high-contact environments). Consider these examples:

- Airlines employ corporate design consultants to help them differentiate the appearance of their aircraft and employees from those of competitors. Although the flight attendants from many airlines look interchangeable in their black or navy blue outfits, some have distinctive uniforms that identify them as employees of uniquely positioned carriers. And most airlines have specific colour
combinations and logos that appear consistently in the interior décor of the plane, the napkins, the snack food packaging, etc.

- Restaurants often seem to pay more attention to design than to the food they offer. Furnishings, pictures, real or fake antiques, carpeting, lighting, and choice of live or background music all seek to reinforce a desired look and style that may or may not be related to the cuisine. Some restaurants follow themes in both décor and food service (Italian-, Chinese-, Greek- restaurants)

- Many expensive hotels have become architectural statements. Some occupy classic buildings, lovingly restored at huge expense to a far higher level of luxury than ever known in the past, and using antique furnishings to reinforce their "old world" style. Modern hotels sometimes feature dramatic atriums in which wall-mounted elevators splash down in fountains. Resort hotels invest enormous sums to plant and maintain exotic gardens on their grounds.

As in a theatre, servicescape elements like scenery, lighting, music and other sounds, special effects, and the appearance of the actors (employees) and audience members (customers) all serve to create an atmosphere in which the service performance takes place. In certain types of businesses, servicescapes are enhanced by judicious use of sounds, smells, and the textures of physical surfaces. Where food and drink are served, of course, taste is also highly relevant.

For first-time customers in particular, the servicescape plays an important role in helping frame expectations about both the style and quality of service to be provided. Because it's hard to evaluate many service performances in advance (or even after service delivery), customers seek pre-purchase dues about service quality. Hence, first impressions are important. But as customers move beyond the initial contact point, continued exposure and experiences combine to create a more detailed impression.

Many servicescapes are purely functional. Firms that seek to convey the impression of cut-price service do so by locating in inexpensive neighbourhoods, occupying buildings with a simple appearance, minimizing wasteful use of space, and dressing their employees in practical, inexpensive uniforms. However, servicescapes don't always shape customer perceptions and behaviour in ways intended by their creators, because customers often make creative use of physical spaces and objects to suit their own purposes. For instance, business people (or college students) may appropriate a restaurant table for use as a temporary desk, with papers spread around and even a laptop computer and mobile phone competing for space with food and beverages. Smart designers keep an eye open for such trends, which often underlie creation of a new service concept like the cyber café.

3. PLACE, CYBERSPACE, AND TIME DECISIONS

How should service managers make decisions in response to the question: When and where should our service be available? The answer is likely to reflect customer needs and expectations, competitive activity, and the nature of the service operation. Some distribution strategies may be more appropriate for supplementary service elements than for the core product itself.

Location Issues in Service Delivery

Although customer convenience is important, operational requirements set tight constraints for some services. Airports, for instance, are often inconveniently located relative to travellers' homes, offices, or destinations. Because of, noise and environmental factors, finding suitable sites for new airports is a very difficult task. As a result, airport sites are often far from the city centers to which many passengers wish to
travel, and the only way to make them less inconvenient is to install high speed rail links. A different type of location constraint is imposed by other geographic factors like terrain and climate. Obviously, ski resorts are limited to mountain environments while ocean beach resorts must be on the coast. The need for economies of scale may also restrict choice of locations. Major hospitals consolidate many different health-care services—even a medical school—at a single, very large facility.

The underlying theme of modern service delivery is one of offering customers more choices in terms of where service is delivered. Some people want face-to-face contact, others like telephone contact with a human being, and still others prefer the greater anonymity and control offered by more impersonal options like self-service equipment and the Internet. Many customers also want the ability to switch between delivery alternatives depending on the specific situation at hand.

**Delivering Services in Cyberspace**

Technological developments during the last 20 years have had a remarkable impact on the methods by which services are produced and delivered. Advances in telecommunications and computer technology in particular continue to result in service delivery innovations. For example, personal computers and the Internet are changing the way people shop for both goods and services. In addition to placing catalogue orders by mail or telephone, many people now also shop in cyberspace. The Internet’s 24-hour service is particularly appealing to customers whose busy lives leave them short of time. Customers are attracted to virtual stores by four factors in the following order of importance:

- convenience,
- ease of research (obtaining information and searching for desired items or services),
- better prices,
- broad selection.

Web sites have become an important competitive tool for service marketers. While some firms only view them as an alternative to paper brochures, others use them in more creative ways ranging from order-taking channels to electronic delivery systems. Delivery through the Internet is an option for any information-based product. Information-based services now delivered through commercial Web sites include software, news, research reports, music, and other forms of entertainment. Firms can also deliver information-based services to their customers as e-mail attachments.

Other store-based retailers are responding to this competitive challenge by trying to make the shopping experience more interesting and enjoyable for customers. Malls have become larger, more colourful, and more elaborate. Within the mall, individual stores try to create their own atmosphere, but tenancy agreements often specify certain design criteria to ensure that each store fits comfortably into the overall servicescape. The presence of “food courts” and other gathering places encourages social interaction among shoppers.

**Service Schedules**

In the past, most retail and professional services in industrialized countries followed a traditional and rather restricted schedule that limited service availability to 40 to 50 hours a week. This routine reflected social norms (and even legal requirements or union agreements) as to what were appropriate hours for people to work and for enterprises to sell things: The situation caused a lot of inconvenience for working people who either had to shop during their lunch break (if the stores themselves didn’t close for lunch) or
on Saturdays (if management chose to remain open). Among commercial services, only those devoted to entertainment and relaxation, like movie theatres, bars, restaurants, and sporting facilities, geared their schedules toward weekends and evening hours when their customers had leisure time. Even so, they often faced restrictions on hours of operation, especially on Sundays.

Today, things are changing fast in terms of business operating hours. For some highly responsive service operations, the standard has become 24/7 service -24 hours a day, 7 days a week- around the world. Some services like telecommunications and international airlines are 24-hour operations, every day of the year. Other examples include services that respond to emergencies, such as fire, police, and ambulance, or repairs to vital equipment. Hospitals and first-class hotels provide 24-hour care or room service. Ships and long-distance trains keep going through the night, too.

At least five factors are driving the move toward extended operating hours and seven-day operations.

- **Economic pressure from consumers.** The growing number of two-income families and single wage earners who live alone need time outside normal working hours to shop and use other services.
- **Changes in legislation.** A second factor has been the decline in support for the traditional view that a specific day (Sunday predominantly) should be legislated as a day of rest for everyone. There has been a gradual erosion of legislation related to this issue in recent years, although it's still firmly in place in some countries and locations.
- **Economic incentives to improve asset utilization.** The incremental cost of extending hours is often relatively small (especially when part-timers can be hired without paying them overtime or benefits). If extending hours reduces crowding and increases revenues, then it's economically attractive. There are also costs involved in shutting down and reopening a facility like a supermarket. Climate control and some lighting must be left running all night, and security personnel must be paid to keep an eye on the place.
- **Availability of employees to work during "unsocial" hours.** Changing lifestyles and desire for part-time employment have combined to create a growing labour pool of people who are willing to work evenings and nights. Some of these workers are students looking for part-time work.
- **Automated self-service facilities.** Self-service equipment has become increasingly reliable and user friendly. Many machines now accept card-based payments in addition to coins and banknotes. Installing unattended machines may be economically feasible in places that couldn't support a staffed facility.

4. THE ROLE OF INTERMEDIARIES

Cost-conscious operations managers should consider: What options exist for using third party intermediaries? Delegating specialized delivery tasks is often a cost-effective strategy, especially for supplementary service elements. It may also be an effective marketing strategy, enabling a firm to reach more customers, and offer them more supplementary services that the firm could economically do on its own.

**Delegating Specific Service Elements**

Travel agents and theatre ticket agents handle customer interactions like giving out information, taking reservations, accepting payment, and ticketing. Brokers sell and service insurance policies. Distributors representing manufacturers take responsibility not only for sales but also for such supplementary services as information, advice, order
taking, delivery, installation, billing and payment, and some problem solving; in some cases, they may also handle repairs and upgrades. The original service provider must act as the guardian of the overall process, ensuring that each element offered by intermediaries fits the overall service concept to create a consistent and seamless branded service experience.

Franchising

Even delivery of the core service product can be outsourced to an intermediary. This is the essence of franchising, a common strategy for expanding delivery of a proven service concept to multiple sites, without the level of investment capital required for rapid expansion of company-owned and managed sites. Franchisers recruit entrepreneurs who are willing to invest their own time and equity to manage a business based on a previously developed service concept. In return, the franchiser provides training in operations and marketing, sells necessary supplies, and provides promotional support at a national or regional level to augment local marketing activities (which are paid for by the franchisee but must adhere to copy and media guidelines prescribed by the franchiser).

A disadvantage of franchising is that it entails some loss of control over the delivery system and how customers experience the actual service. Franchisers usually attempt to exercise control over all aspects of the service performance through a contract that specifies adherence to tightly defined service standards, procedures, scripts, and physical presentation. There is ongoing monitoring of productivity and quality standards relating not only to output specifications, but also to the appearance of the physical facilities, employee performance, and hours of operation. As franchisees gain experience, they sometimes start to resent the various fees they pay the franchiser and believe that they can operate the business better without the constraints imposed by the agreement. The resulting disputes often lead to legal fights between the two parties.

Licensing and Distribution Agreements

An alternative to franchising is licensing another supplier to act on the behalf of the original supplier for delivering the core product. Trucking companies regularly use independent agents instead of locating company-owned branches in each of the different cities they serve. Many choose to contract with independent "owner-operators" who drive their own trucks, rather than buying trucks and employing full-time drivers.

Financial services also engage in service distribution agreements. Banks seeking to move into investment services will often act as the distributor for mutual fund products. Many banks also sell insurance products underwritten by an insurance company. They collect a commission on the sale but are not normally involved in handling claims.

5. CONCLUSION

Responses to the questions "Where? When? and How?" provide the foundation of service delivery strategy. The customer's overall service experience is a function of both service performance and delivery characteristics. "Where?" relates, of course, to the places where customers can obtain service delivery. We presented a categorization scheme for thinking about alternative place-related strategies, including remote delivery from virtual locations.

"When?" involves decisions about the scheduling of service delivery. Customer demands for greater convenience are now leading many firms to extend their hours and days of service. "How?" addresses channels and procedures for delivering the core and
supplementary service elements to customers. Advances in technology continue to have a major impact on the alternatives available and on the economics of those alternatives.

**Study Questions and Exercises**

1. Identify a service whose delivery strategy fits each of the categories in figure 7.2. What are the implications for management in each case?

2. Describe the servicescapes of two different service businesses. To what extent are their roles strategic in design (differentiating one firm from its competitors) versus functional (adding value for customers and employees)? Give specific examples to support your answers.

3. Identify three situations in which you use a self-service delivery option. In each case, explain your motivation for using this approach to delivery rather than having service personnel do it for you.

4. Using the same three self-service situations you chose for the previous question, comment on the user-friendliness of the equipment, the mental and physical effort required, the time involved, and any negative sensory experiences. Are there any perceived risks for customers who use these self-service options? What recommendations for improvements would you offer to management?

5. What marketing and management challenges might result from the use of intermediaries in a service setting?
Chapter 8:
PRODUCTIVITY, QUALITY & VARIABLE DEMAND

As you may have noticed, productivity and quality are treated jointly of the 8Ps of integrated service management. This reflects our belief that they are often two sides of the same coin. In fact, a focus on productivity and quality as perceived by customers is critical to a firm's long-term financial success.

In this chapter, we address a particularly challenging question from our service decision framework, How can we balance productivity and quality? This leads us to examine such issues as determining how to reduce operating costs without spoiling the appeal of a service; identifying what customers expect in return for their money, time, and effort; specifying appropriate measures of service quality and productivity; and clarifying what quality improvements are needed to meet or exceed customer expectations.

Creating Value for Customers

What is the fundamental role of marketing? Many theorists argue that it is to create customer value. The search for value often begins with market research, seeking to identify the benefits sought by customers or prospects for a given product category and the costs that they are willing to incur to obtain these benefits. Perceived value is highly personal and may vary widely from one customer to another. In fact, variations in desired benefits often form the basis for segmentation.

Productivity and quality were historically seen as issues for operations managers. Thus, companies focused internally on making process "improvements" that were not necessarily linked to customers' service priorities. However, continuing efforts to understand and improve quality led back to the customer and to the recognition that quality should be customer defined.

Marketing and quality

Marketing's interest in service quality is obvious when you think about it: Poor quality places a firm at a competitive disadvantage. If customers perceive quality as unsatisfactory, they may be quick to take their business elsewhere. From a marketing standpoint, a key issue is whether or not customers notice differences in quality between competing suppliers.

Service quality issues are not confined to traditional service industries. It has become increasingly difficult for industrial companies to establish a competitive advantage by offering higher quality products. Many manufacturing firms are working to improve the quality of the supplementary services that support their products -like consultation, financing, shipping and delivery, installation, training of operators, repair and maintenance, trouble-shooting, and billing- in order to keep or gain profitable positions within their industries.
Marketing and Productivity

Why is improving productivity important to marketers? One reason is that it helps keep costs down. Lower costs mean either higher profits or the ability to hold down prices. The company with the lowest costs in an industry has the option to position itself as the low-price leader, which is usually a significant advantage among price-sensitive market segments. Firms with lower costs than their competitors also generate higher margins, giving them the option of spending more on marketing and customer service activities. They may also be able to offer higher margins to attract and reward the best distributors and intermediaries. These companies are also better able to invest in new service technologies. A second reason that make productivity improvements important to marketers is that they are often associated with faster operating procedures. To the extent that customers value speed of service, it becomes a competitive advantage.

Efforts to improve productivity often affect customers. It's the marketer's responsibility to ensure that negative impacts are avoided or minimized and that new procedures are carefully presented to customers. When the impact is a positive one, the improvements can be promoted as a new advantage. Finally, as we'll see, there are opportunities for marketers themselves to help improve productivity by involving customers actively in service production and delivery.

1. UNDERSTANDING SERVICE QUALITY

After making a purchase, customers compare the service they expected to get with what they actually receive. They decide how satisfied they are with service delivery and outcomes, and they also make judgments about quality. Although service quality and customer satisfaction are related concepts, they are not exactly the same thing. Many researchers believe that customers' perceptions about quality are based on long-term, cognitive evaluations of a firm's service delivery, whereas customer satisfaction is a short-term emotional reaction to a specific service experience.

Following a service encounter, customers may evaluate their levels of satisfaction or dissatisfaction and may use this information to update their perceptions of service quality. They must, of course, experience a service before they can be satisfied or dissatisfied with the outcome. But beliefs about quality don't necessarily reflect personal experience. People often make quality judgments about services they have never consumed, basing these evaluations on comments by acquaintances or on advertising messages. Figure 8.1 shows the relationship between expectations, custom-s' satisfaction, and service quality.

Managing a business to optimise customer satisfaction is a strategic imperative at many firms, since the cost of mediocre service quality may be as high as 40 percent of revenues in some service industries. Most companies realize that by improving performance on service attributes, customer satisfaction should increase. This should, in turn, lead to greater customer retention and improved profitability. For example, the relative similarity of the products offered by different banks has led to an increased emphasis on service quality in the highly competitive retail-banking sector. The relationship between service quality and profitability is typically not easy to track for a variety of reasons. Service quality benefits accumulate over time rather than being experienced in the short term. This makes them difficult to measure using, traditional market research techniques. Another complicating factor is that many variables contribute to corporate profits (including pricing, distribution, advertising, and competition); it's hard to isolate the effects these individual factors have on the bottom line. And finally, just spending money on service quality initiatives doesn't necessarily
lead to increased profits. Service companies must identify the right quality initiatives and execute them effectively.

**Figure 8.1: Relationship between expected and perceived service**

<table>
<thead>
<tr>
<th>Perceived service superiority</th>
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</thead>
<tbody>
<tr>
<td>Desired service</td>
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<tr>
<td>Adequate service</td>
</tr>
<tr>
<td>Predicted service</td>
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</tbody>
</table>

**Services Quality Measures**

**Perceived service adequacy**

**Satisfaction**

**Dimensions of Service Quality**

Research has identified five broad dimensions of service quality:

- **Reliability**: Is the company dependable in providing service as promised, over time?
- **Tangibles**: What do the service provider's physical facilities, Web site, equipment, personnel, and communication materials look like?
- **Responsiveness**: Are the firm's employees helpful and able to provide prompt service?
- **Assurance**: Are service employees knowledgeable, polite, competent, and trustworthy?
- **Empathy**: Does the service firm provide caring personalized attention?

Of these five dimensions, reliability has consistently proven to be the most important factor in customers' judgments of service quality. Reliability improvements lie at the heart of service quality enhancement efforts because unreliable service implies broken promises on the attributes that customers care about. If the core service is not performed reliably, customers may assume that the company is incompetent and may switch to another service provider. For a perspective on the dimensions of service quality in online environments.

It isn't easy for many types of service businesses to maintain high levels of reliability day-in and day-out. When customers enter a service factory and are involved in service production, they experience mistakes directly—often before a firm has an opportunity to correct them. In labour intensive services, employees add a large degree of variability to the service production process. It's difficult for service providers to control such variations, since each employee is somewhat different from the others in personality, skills, and attitudes. Moreover, the same employee can provide radically different service from one customer to the next—or the same customer over time—depending on situational factors like customer behaviour, task complexity, and the employee's physical and mental state.
Although mistakes occur in every organization, many companies strive to minimize errors and provide continuity in order to provide greater service reliability for their customers. Reliability is an outcome measure because customers judge it after the service experience: Either the service was delivered as promised or it wasn't. The other four dimensions of quality - tangibles (physical evidence), responsiveness, assurance, and empathy - are process dimensions because customers can evaluate them during service delivery. These dimensions provide companies with the opportunity to delight customers by exceeding their expectations during interactions with employees and the service environment. As shown in Figure 8.1, exceeding customers' desired levels of expectations leads to positive perceptions of service quality.

**Quality Gaps**

A service performance that surprises and delights customers by falling above their desired service levels will be seen as superior in quality. If service delivery falls within their zone of tolerance, they will feel that it's adequate. But if perceived quality falls below the adequate service level expected by customers, a discrepancy - or quality gap - has occurred between the service provider's performance and customer expectations.

Why do quality failures occur? Gaps can occur at seven different points in the design, production, and delivery of services, as shown in Figure 8.2. The service gap is the most critical; because it involves the customer's overall assessment of the service, comparing what was expected against perceptions of what was received. The ultimate goal in improving service quality is to narrow this gap as much as possible. To do so, service providers may have to reduce or close the six other gaps. The seven potential gaps in service quality are:

1. **The knowledge gap** - the difference between what service providers believe customers expect and customers' actual needs and expectations
2. **The standards gap** - the difference between management's perceptions of customer expectations and the quality standards established for service delivery
3. **The delivery gap** - the difference between specified delivery standards and the service provider's actual performance.
4. **The internal communications gap** - the difference between what the company's advertising and sales personnel think are the product's features, performance, and service quality level and what the company is actually able to deliver
5. **The perceptions gap** - the difference between what is actually delivered and what customers perceive they have received (because they are unable to accurately evaluate service quality)
6. **The interpretation gap** - the difference between what a service provider's communication efforts actually promise and what a customer thinks was promised by these communications
7. **The service gap** - the difference between what customers expect to receive and their perceptions of the service that is actually delivered

The presence of any one of these seven quality gaps can lead to a disappointing outcome that damages relationships with customers. Avoiding service gaps in every service encounter will help a firm improve its reputation for quality service. Although careful planning and monitoring will help reduce the likelihood that one of these gaps will occur, when customers indicate that service outcomes are disappointing, it's important to identify and eliminate the gap(s) that lead to this result.
2. CUSTOMER SATISFACTION

Customers experience various levels of satisfaction or dissatisfaction after each service experience according to the extent to which their expectations were met or exceeded. Because satisfaction is an emotional state, their post-purchase reactions can involve anger, dissatisfaction, irritation, neutrality, pleasure, or delight.

Satisfaction, Delight, and Loyalty

Obviously, angry or dissatisfied customers are troublesome because they may switch to another company and spread negative word of mouth. But is it sufficient just to satisfy a customer? After all, a firm might reason that products and services are rarely perfect and people are hard to please.

Companies that take this approach may be asking for trouble because there is a lot of evidence that merely satisfying customers is not enough. Marginally satisfied or neutral customers can be lured away by competitors. A delighted customer, however, is more likely to remain loyal in spite of attractive competitive offerings. Customer satisfaction plays an especially critical role in highly competitive industries, where there is a tremendous difference between the loyalty of merely satisfied and completely satisfied - or delighted- customers (see Figure 8.3).

To improve its customer satisfaction levels, a company must first find out how satisfied or dissatisfied its current customers actually are. One common way of measuring satisfaction is to ask customers first to identify what factors are important in satisfying them and then to evaluate the performance of a service provider and its competitors on these factors. Many firms use a five-point scale to measure customer satisfaction, with the following format:
1 = very dissatisfied  
2 = somewhat dissatisfied  
3 = neutral  
4 = somewhat satisfied  
5 = very satisfied 

Figure 8.3: Effect of competitive environment on customers’ loyalty and satisfaction

Non-competitive Zone  
- Regulated monopoly or few substitutes  
- Dominant brand equity  
- High cost of switching  
- Powerful loyalty program  
- Proprietary technology  

Highly Competitive Zone  
- Commoditization or low differentiation  
- Consumer indifference  
- Many substitutes  
- Low cost of switching  

High

Local telephone

Airlines

Public transport

PCs

Automobiles

Low

terrorists

mercenaries

Satisfaction

Loyalty  
(Retention)

The results of these satisfaction surveys can be used to estimate the number of loyal customers a firm has, as well as how many are at risk of defecting. As shown in Figure 8.4, research indicates that customers with satisfaction ratings of 0 to 3 are very likely to
defect, whereas customers who rated themselves somewhat satisfied (4) can be lured away by a competing service. Only customers with a satisfaction rating of 5 are absolutely loyal. At the extremes of the scale are two customer groups with particular significance to service providers: "terrorists" and "apostles". Terrorists are every company's nightmare. They don't just defect, they make sure that everyone else shares their anger and frustration, too. Often these customers had a bad experience that was never corrected by the company; as a result, they are dedicated to spreading as much negative word of mouth as possible. In contrast, the apostle is the kind of customer of whom every service provider dreams; they are so satisfied with their service experiences that they want to share their enthusiasm with others. They are extremely loyal, and their obvious delight helps attract other customers. Creating apostles and eliminating terrorists should be a key goal for every service provider.

Benefits of Customer Satisfaction Management

Although every successful marketer wants to provide a service that satisfies customers, this isn't the only goal. Companies can't lose sight of other basic business goals such as, achieving a competitive advantage or making a profit.

As Figure 8.5 shows, customer satisfaction provides many benefits for a firm, and higher levels of customer satisfaction lead to greater customer loyalty. In the long run, it is more profitable to keep good customers than to constantly attract and develop new customers to replace the ones who leave. Highly satisfied customers spread positive word of mouth and in effect become a walking, talking advertisement for a firm, which lowers the cost of attracting new customers. This is particularly important for professional service providers (like dentists, lawyers, engineers, or accountants), because reputation and word of mouth are key information sources for new clients. High levels of customer satisfaction are an insurance policy against something going wrong. Long term customers tend to be more forgiving in these situations, because previous positive ones will offset an occasional bad experience, and satisfied customers are less susceptible to competitors' offerings. It's no wonder that many companies place so much emphasis on customer satisfaction, given its positive relationship to customer retention, market share, and profits.
Building a Quality Information System

Organizations that are known for providing excellent service quality are good at listening to both their customers and their front-line employees. To do this effectively, companies need to create an ongoing service research process that provides managers with useful, timely data. Information, from service quality surveys including how a firm compares with its competitors, can help managers understand the effects of changes in service quality and on the firm’s market share.

Ongoing research should be conducted through a portfolio of research techniques that make up a firm’s service quality information system. Possible approaches include:

- Post-transaction surveys
- Total market surveys
- Mystery shopping
- New, declining, and former customer surveys
- Focus groups
- Employee field reporting

3. THE PRODUCTIVITY AND THE FLUCTUATING DEMAND

Fluctuating demand for service, like that experienced by the retailers, movies, theatres, motels, restaurants, ferries ... is a problem for a huge cross-section of businesses serving both individual and corporate customers. These demand fluctuations—which may be as long as a season of the year or as short as an hourly cycle—cut down the efficient use of productive assets.

Unlike manufacturing, service operations create a perishable inventory that cannot be stockpiled for sale at a later date. That's a problem for any capacity-constrained service that faces wide swings in demand. The problem is most commonly found among services that process people or physical possessions, like transportation, lodging, food service, repair and maintenance, and entertainment.

The question is: How should we match demand and productive capacity? The task starts with defining the nature of the firm's productive capacity, which may vary significantly from one industry to another. Managers also need to document how demand levels vary, what factors explain those variations, and under what circumstances demand exceeds available capacity. Armed with this understanding, they should then be in a position to develop strategies for matching demand and capacity.

From excess demand to excess capacity.

At any given moment, a fixed-capacity service may face one of four conditions (see Figure 8.6):

- **Excess demand** - the level of demand exceeds maximum available capacity, with the result that some customers are denied service and business is lost.
- **Demand exceeds optimum capacity** - no one is actually turned away, but conditions are crowded and customers are likely to perceive a decline in service quality.
- **Demand and supply are well balanced at the level of optimum capacity** - staff and facilities are busy without being overtaxed, and customers receive good service without delays. Excess capacity - demand is below optimum capacity and productive resources are under-utilized, resulting in low productivity. In some instances, this poses a risk that customers may find the experience disappointing or have doubts about the viability of the service.
You'll notice that we've drawn a distinction between maximum capacity and optimum capacity. When demand exceeds the maximum available capacity, some potential customers may be turned away and their business could be lost forever. When the demand level is between optimum and maximum capacity, all customers can be served but there's a risk that they may receive inferior service and thus become dissatisfied. Sometimes optimum and maximum capacities are one and the same. At a live theatre or sports performance, a full house is very desirable since it stimulates the players and creates a sense of excitement and audience participation. The net result is a more satisfying experience for all. But with most other services, you probably feel that you get better service if the facility is not operating at full capacity. The quality of restaurant service, for instance, often deteriorates when every table is occupied.

There are two basic solutions to the problem of fluctuating demand. One is to adjust the level of capacity to meet variations in demand. This approach, which involves cooperation between operations and human resource management, requires an understanding of what constitutes productive capacity and how it may be increased or decreased on an incremental basis. The second approach is to manage the level of demand, using marketing strategies to smooth out the peaks and fill in the valleys to generate a more consistent flow of requests for service. Astute firms employ a mix of both strategies, which requires close collaboration between operations and marketing.

Measuring and managing capacity

Many service organizations are capacity constrained. There's an upper limit to their capacity to serve additional customers at a particular point in time. They may also be constrained in terms of being unable to reduce their productive capacity during periods of low demand.

Stretching and Shrinking the level of capacity

Measures of capacity utilization include the number of hours (or percentage of total available time) that facilities, labour, and equipment are productively employed in
revenue operation, and the percentage of available space (e.g., seats, cubic freight capacity, telecommunications bandwidth) that is actually utilized in revenue operations. Some capacity is elastic in its ability to absorb extra demand. A subway car, for instance, may offer 40 seats and allow standing room for another 60 passengers with adequate handrail and floor space for all. Yet at rush hours, when there have been delays on the line, perhaps 200 standees can be accommodated under sardine-like conditions. Service personnel may be able to work at high levels of efficiency during these short periods of time, but they would tire quickly and begin providing inferior service if required to work that fast all day long.

Even where capacity appears fixed, as when it's based on the number of seats, there may still be opportunities to accept extra business at busy times. Some airlines, for example, increase the capacity of their aircraft by slightly reducing legroom throughout the cabin and cramming in another couple of rows. A restaurant may add extra tables and chairs. Upper limits to such practices are often set by safety standards or by the capacity of supporting services, such as the kitchen.

Another strategy for stretching capacity within a given time frame is to utilize the facilities for longer periods. Examples of this include restaurants that are open for early dinners and late meals. Alternatively, the average amount of time that customers (or their possessions) spend in the process may be reduced, as when the bill is presented promptly to a group of diners relaxing at the table after a meal.

Chasing Demand

Another set of options involves tailoring the overall level of capacity to match variations in demand. This strategy is known as chase demand. There are several actions that managers can take to adjust capacity as needed:

- Schedule downtime during periods of low demand.
- Use part-time or "extra" employees.
- Rent or share extra facilities and equipment.
- Cross-train employees (multifunctional).

Create flexible capacity

Sometimes the problem is not in the overall capacity but in the mix that's available to serve the needs of different market segments. For example, on a given flight, an airline may have too few seats in economy even though there are empty places in the business-class cabin. A hotel may find itself short of suites when there are standard rooms still available. One solution to this problem is to design physical facilities to be flexible. Some hotels build rooms with connecting doors. With the door between two rooms locked, the hotel can sell two bedrooms. With the door unlocked and one of the bedrooms converted into a sitting room, the hotel can now offer a suite.

Strategies for managing demand

Many services, such as health care or repair and maintenance, involve multiple actions delivered sequentially. What this means is that a service organization's capacity to satisfy demand is constrained by one or more elements of its productive capacity; its physical facilities, equipment, personnel, or the number and sequence of services provided. Consequently, financial success in capacity-constrained businesses is, in large measure, a function of management's ability to use productive capacity as efficiently and as profitably as possible.
Managing demand under different conditions

There are five basic approaches to managing demand. The first, which has the virtue of simplicity but little else, involves taking no action and leaving demand to find its own levels. Eventually customers learn from experience or word-of-mouth when they can expect to stand in line to use the service and when it will be available without delay. The problem is that they may also learn about a competitor who is more responsive. More strategic approaches attempt to influence the level of demand at any given time by taking active steps to reduce demand in peak periods and increase demand when there is excess capacity. Two additional strategies involve inventorying demand until capacity becomes available. A firm can accomplish this either by introducing a reservations system that promises customers access to capacity at specified times, or by creating formalized queuing systems (or by a combination of the two).

Figure 8.7 links these five approaches to the two problem situations of excess demand and excess capacity and provides a brief strategic commentary on each. Many service businesses face both situations at different points in their demand cycles and should consider using one or more of the strategies described above.

**Figure 8.7: Alternative demand management versus capacity situations**

<table>
<thead>
<tr>
<th>Approach Used to Manage Demand</th>
<th>Insufficient Capacity (Excess Demand)</th>
<th>Excess Capacity (Insufficient Demand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take no action</td>
<td>Unorganized queuing results (may irritate customers and discourage future use)</td>
<td>Capacity is wasted (customers may have a disappointing experience for services like theatre)</td>
</tr>
<tr>
<td>Reduce demand</td>
<td>Higher prices will increase profits; communication can encourage usage in other time slots (can this effort be focused on less profitable and desirable segments?)</td>
<td>Take no action (but see above)</td>
</tr>
<tr>
<td>Increase demand</td>
<td>Take no action, unless opportunities exist to stimulate (and give priority to) more profitable segments</td>
<td>Lower prices selectively (try to avoid cannibalizing existing business ensure all relevant costs are covered); use communications and variation in products and distribution (but recognize extra costs, if any, and make sure appropriate trade-offs are made between profitability and usage levels)</td>
</tr>
<tr>
<td>Inventory demand by reservation system</td>
<td>Consider priority system for most desirable segments; make other customers shift to outside peak period or to future peak</td>
<td>Clarify that space is available and that no reservations are needed</td>
</tr>
<tr>
<td>Inventory demand by formalized queuing</td>
<td>Consider override for most desirable segments; try to keep waiting customers occupied and comfortable; try to predict wait period accurately</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
Using marketing strategies to shape demand patterns

Price is often the first variable companies use to bring demand and supply into balance, but changes in product, distribution strategy, and communication efforts can also play an important role.

One of the most direct ways of reducing excess demand at peak periods is to charge customers more money to use the service during those times. Increases in non-financial outlays may have a similar effect. Customers who learn that they are likely to spend more time and physical effort during peak periods may dislike waiting in crowded and unpleasant conditions and try later. Similarly, the lure of cheaper prices and an expectation of no waiting may encourage at least some people to change the timing of their consumption behaviour.

There can be variations in the product offering even during the course of a 24-hour period. Some restaurants provide a good example of this, marking the passage of the hours by changing menus and levels of service, variations in lighting and decor, opening and closing the bar, and the presence or absence of entertainment.

Some firms attempt to modify demand for a service by changing the time and place of delivery. Theatres and cinema complexes often offer matinees on weekends when people have more leisure time. During the summer, cafes and restaurants may stay open later because of daylight savings time and the general inclination of people to enjoy the longer, warmer evenings outdoors. Retail shops may extend their hours in the pre-Christmas season or during school holiday periods. An alternative approach is to operate mobile units that take the service to the customers rather than requiring them to visit fixed-site service locations (mobile libraries, mobile car wash and windshield repair services, home-delivered meals and catering services, ...)

Promotion and education communication efforts alone may be able to help smooth demand even if the other variables of the marketing mix remain unchanged. Signage, advertising, publicity, and sales messages can be used to educate customers about the timing of peak periods and encourage them to use the service at off-peak times when there will be fewer delays.

4. CONCLUSION

Service providers can't afford to consider productivity separately from quality. If the two issues are totally divorced, operations managers may launch productivity efforts that will degrade the service received by customers, and marketing managers may introduce service quality programs that complicate operations, raise costs, and hurt profits. Successful firms base their efforts to improve quality on an understanding of customers' expectations relative to different quality dimensions and analysis of service quality gaps that can lead to dissatisfaction. When things go wrong, they seek the underlying causes and try to prevent a recurrence. Their efforts to innovate often centre on new approaches that will enhance productivity and quality simultaneously.

Firms that succeed in providing high-quality service are good at listening to both their customers and their employees, especially those in direct contact with customers. They build information systems that use a variety of research techniques to measure customer satisfaction and the quality of service delivered. However, measuring productivity can be difficult because of the intangible nature of service performances. Unfortunately, many traditional measures of service outputs ignore variations in the quality of service delivered and its perceived value to customers.

Since many capacity-constrained service organizations have heavy fixed costs, even modest improvements in capacity utilization can have a significant effect on the bottom
line. We have explored how managers can transform fixed costs into variable costs through such strategies as using rented facilities or part-time labour. Creating a more flexible approach to productive capacity allows a firm to adopt a "chase demand" strategy, thereby improving productivity. Marketing strategies involving the use of price and other user outlays, product elements, and promotion and education are often useful in managing the level of demand for a service at a particular place and time.

**Study Questions and Exercises**

1. Define customer expectations and describe where they come from.
2. Discuss the three different levels of expectations. How are they related to a customer's zone of tolerance?
3. Explain the difference between service quality and customer satisfaction.
4. Identify the seven gaps that can occur in service quality. What do you think service marketers can do to prevent or narrow each of these gaps?
5. What are the five dimensions customers use in evaluating service quality?
6. Why is productivity a more difficult issue for services than for many manufactured goods? Explain the relationship between productivity and quality.
7. What is the difference between maximum capacity and optimal capacity? Provide examples of (a) a situation where the two might be the same, and (b) a situation where they might be different.
8. What does the term "chasing demand" mean? Describe the actions that firms can take in pursuing a chase demand strategy.
9. Provide examples of service providers that encourage business during what would otherwise be periods of low demand by
   - changing their pricing
   - changing product elements,
   - modifying the place and time of service delivery,
   - using promotional and educational tools.
Chapter 9: INTEGRATING MARKETING, OPERATION AND HUMAN RESOURCES

Customer focus requires that all employees in the company become committed to and involved in serving customers. The best marketing idea and service production factory cannot be successful if one miss the contribution and effective impact of the persons in contact directly or indirectly with the customers.

In this chapter we will try to give an answer to the question; What are appropriate roles for people. It focuses on a vital element of the 8Ps: People. The human factor in services involves two groups of players: employees and customers. Here we emphasize the task of managing employees, since we've already discussed the need to manage customer behaviour in previous chapters. Both marketing and operations managers need to be aware of how employee attitudes, appearances, and performance affect the firm's success.

1. HUMAN RESOURCE ISSUES IN HIGH-CONTACT. ENVIRONMENTS

We introduced earlier the notion of integrated service management, which suggests that marketing, operations, and human resource management should be seen as interdependent functions. Interactions between these three areas are most pronounced in the case of high-contact services, thus creating special challenges in job design, recruitment, and training.

In high-contact services, customers encounter service employees during service delivery. This contact creates a fundamental distinction between the jobs of front-stage service workers and those who work in the back offices of service firms or in manufacturing plants. The backstage employees in a service organization support the efforts of their front-stage colleagues (called "internal customers"), who are serving end-customers directly. In high-contact service encounters, we tend to remember the role played by front-stage personnel better than any other aspect of the operation. In many respects, these employees are the service.

Customer-contact personnel must attend to both operational and marketing goals, since they are a part of both the delivery system and the product. On the one hand, they help "manufacture" the service output. At the same time, they may also be responsible for marketing and sell it.

In the eyes of their customers, service personnel may also be seen as an integral part of the service experience. Thus front-stage employees often perform a triple role as operations specialist, marketer, and part of the service product itself. They occupy boundary spanning positions, operating at the organization’s boundary and providing a link between the external environment and internal operations. This multiplicity of roles may be difficult for employees, especially when they feel as physically and psychologically close to customers as they do to managers and other employees.
2. EMPOWERMENT OF EMPLOYEES

Under the right conditions, providing employees with greater self-decision (and training them to use their judgment) may enable them to provide superior service without referring to rulebooks or higher authority. From a humanistic standpoint, the notion of encouraging employees to exercise initiative and discretion is an appealing one. Empowerment allows employees to find solutions to service problems and make appropriate decisions about customizing service delivery. It depends for its success on what is sometimes called enablement giving workers the tools and resources they need to take on these responsibilities.

Is empowerment always appropriate?

Advocates claim that the empowerment approach is more likely to yield motivated employees and satisfied customers than the "directive line" alternative, in which management designs a relatively standardized system and expects workers to execute tasks within narrow guidelines. But is the choice between these two approaches really so obvious? The truth is that different situations may require different solutions. The payoffs from greater empowerment must be weighed against increased costs for selection and training, higher labour costs, slower service as customer-contact personnel devote more time to individual customers, and less consistency in service delivery. It's also important to avoid being seduced into too great a focus on recovery at the expense of service delivery reliability.

3. CYCLES OF FAILURE, MEDIOCRITY, AND SUCCESS

All too often, bad working environments translate into dreadful service, with employees treating customers the way their managers treat them. Businesses with high employee turnover are frequently stuck in what has been termed the "Cycle of Failure." Others, which offer job security but little scope for personal initiative, may suffer from an equally undesirable "Cycle of Mediocrity." However, there is potential to overcome both vicious circles and install virtuous cycles in service employment, with the latter being termed the "Cycle of Success."

The Cycle of Failure

In many service industries the search for productivity is occurring with a vengeance. One solution takes the form of simplifying work routines and hiring workers as cheaply as possible to perform repetitive work tasks that require little or no training. The cycle of failure captures the implications of such a strategy, with its two concentric but interactive cycles: one involving failures with employees; the second, with customers (Figure 9.1). The employee cycle of failure begins with narrowly designed jobs to accommodate low skill levels, emphasis on rules rather than service, and use of technology to control quality. A strategy of low wages is accompanied by minimal effort on selection or training. Consequences include bored employees who lack the ability to respond to customer problems, become dissatisfied, and develop a poor service attitude. Outcomes for the firm are low service quality and high employee turnover. Because of weak profit margins, the cycle repeats itself with hiring of more low-paid employees to work in this unrewarding atmosphere. Managers have offered a veritable litany of excuses and justifications for perpetuating this cycle:

- "You just can’t get good people these days:"
- "People just don’t want to work today."
- "To get good people would cost too much and you can’t pass on these cost increases to customers."
"It's not worth training our front-line people when they leave you so quickly."

"High turnover is simply an inevitable part of our business. You've got to learn to live with it."

Figure 9.1: The cycle of failure

The customer cycle of failure begins with repeated emphasis on attracting new customers who become dissatisfied with employee performance and the lack of continuity implicit in continually changing faces. Customers fail to develop any loyalty to the supplier and turn over as rapidly as the staff, thus requiring an ongoing search for new customers to maintain sales volume. This group of discontented customers is especially troublesome in light of what we now know about the greater profitability of a loyal customer base. And the concept of an enormous pool of nomadic service employees moving from one low-paying employer to the next, experiencing a stream of personal failures, must surely be deeply disturbing for companies with a social conscience.

The Cycle of Mediocrity

Another vicious employment cycle is the "Cycle of Mediocrity" (Figure 9.2). It's most often found in large, bureaucratic organizations - typified by state monopolies, industrial cartels, or regulated oligopolies - where there is little incentive to improve performance.
and where power of entrenched unions may discourage management from adopting
more innovative labour practices.
In these environments, service delivery standards tend to be prescribed by rigid
rulebooks that are oriented toward standardized service, operational efficiencies,
and prevention of both employee fraud and favouritism toward specific customers.
Employees may expect to spend their entire working lives with the organization. Job
responsibilities tend to be narrowly and unimaginatively defined, tightly categorized by
grade and scope of responsibilities, and further rigidified by union work rules. Salary
increases and promotions are based on longevity, with successful performance in a job
being measured by absence of mistakes, rather than by high productivity or outstanding
customer service. What little training occurs is focused on teaching the rules and the
technical aspects of the job, not on improving human interactions with customers and co-
workers. Since there are minimal allowances for flexibility or employee initiative, jobs
tend to be boring and repetitive. However, in contrast to cycle of failure jobs, most
positions provide adequate pay and reasonable benefits combined with high security,
thus making employees reluctant to leave. This lack of mobility is compounded by the
absence of marketable skills that would be valued by other companies.
Customers find such organizations frustrating to deal with. Faced with bureaucratic
hassles, lack of service flexibility, and unwillingness of employees to make an effort to
serve them better (often accompanied by the statement “That's not my job”), they may
become resentful. What happens when there is nowhere else for customers to go (either
because the service provider holds a monopoly, or because all other available players
are perceived as being as bad or worse)? We shouldn't be surprised if dissatisfied
customers display hostility toward service employees who, feeling trapped in their jobs
and powerless to improve the situation, protect themselves through such mechanisms as
withdrawal into indifference, playing overtly by the rulebook, or countering rudeness with
rudeness.

Figure 9.2: The cycle of mediocrity
The end result is a vicious cycle of mediocrity in which unhappy customers continually complain to employees (and also to other customers) about poor service and bad attitudes, generating increased defensiveness and lack of caring on the part of the staff. Under such circumstances, there is little incentive for customers to cooperate with the organization to achieve better service.

The Cycle of Success

Some firms reject the assumptions underlying the cycles of failure and mediocrity. Instead, they take a long-term view of financial performance and invest in their people to create a "cycle of success" (Figure 9.3). As with failure or mediocrity, success applies to both employees and customers. Broadened job designs are accompanied by training and empowerment practices that allow front-stage personnel to control quality. With more focused recruitment, more intensive training, and better wages, employees are likely to be happier in their work and to provide higher quality, customer-pleasing service. Regular customers also appreciate the continuity in service relationships resulting from lower turnover and are more likely to remain loyal. Profit margins tend to be higher, and the organization is free to focus its marketing efforts on reinforcing customer loyalty through customer retention strategies, which are usually much less costly to implement than strategies for attracting new customers.

Figure 9.3: Cycle of success
The deregulation of many service industries and the privatization of government corporations have often been instrumental in extracting organizations from the cycle of mediocrity. For example, in formerly monopolistic regional telephone companies have been forced to adopt a more competitive stance. In many countries, public corporations have undergone radical culture changes in the wake of privatisation and exposure to a more competitive environment. Unfortunately, however, pressures to increase shareholder value have sometimes led top management to focus on short term profits, achieved through cost cutting and efficiency without regard to service quality or employee welfare. The risk is that such strategies will eventually take the firm in the direction of the cycle of failure rather than the cycle of success.

The level and engagement of a service firm's people is a major factor in its market performance. It's probably harder to duplicate high-performance human assets than any other corporate resource. The best firms invest heavily in recruitment and training of their employees. However, human resources managers recognize that certain human personality traits cannot be trained -they have to be hired. To the extent that employees understand and support the goals of an organization, have the skills needed to succeed in performing their jobs, work well together in teams, recognize the importance of ensuring customer satisfaction, and have the authority and self-confidence to use their own initiative in problem solving, the marketing and operational functions should actually be easier to manage.

4. THE SEARCH FOR SYNERGY IN SERVICE MANAGEMENT

A firm must offer services that are known for superior value and quality to be recognized as a leader in its field. It must have marketing strategies that beat the competition, yet still be viewed as a trustworthy organization that does business in ethical ways. The company should also be seen as a leader in operations, respected for its superior operational processes and innovative use of technology. Finally, it should be recognized as an outstanding place to work, leading its industry in human resource management practices and creating loyal, productive, and customer-oriented employees. Attaining service leadership requires involves careful coordination between marketing (which includes customer service), operations (which includes management of technology), and human resources.

Integrating Marketing, Operations, and Human Resources

Using the concept of what they call the service profit chain, one may lay out a series of hypothesized links in achieving success in service businesses. Figure 9.4 expands on a diagram presented earlier.

The themes and relationships underlying the service profit chain illustrate the mutual dependency that exists between marketing, operations, and human resources. Although managers within each function may have specific responsibilities, effective coordination is the name of the game. They all must participate in strategic planning, and the execution of specific tasks must be well coordinated.

Responsibility for the tasks assigned to each function may be present entirely within one firm or distributed between the originating service organization and its subcontractors, who must work in close partnership if the desired results are to be achieved. Other functions, such as accounting or finance, present less need for close integration because they're less involved in the ongoing processes of service creation and delivery. The service profit chain highlights the behaviours required of service leaders in order to manage their organizations effectively.

1. Customer loyalty drives profitability and growth
2. Customer satisfaction drives customer loyalty
3. Value drives customer satisfaction
4. Employee productivity drives value
5. Employee loyalty drives productivity
6. Employee satisfaction drives loyalty
7. Internal quality drives employee satisfaction
8. Top management leadership underlies the chain's success

Figure 9.4: The service profit chain

The level and engagement of a service firm's people is a major factor in its market performance. It's probably harder to duplicate high-performance human assets than any other corporate resource. The best firms invest heavily in recruitment and training of their employees. However, human resources managers recognize that certain human personality traits cannot be trained - they have to be hired. To the extent that employees understand and support the goals of an organization, have the skills needed to succeed in performing their jobs, work well together in teams, recognize the importance of ensuring customer satisfaction, and have the authority and self-confidence to use their own initiative in problem solving, the marketing and operational functions should actually be easier to manage.

5. CONCLUSION

No organization can hope to achieve and maintain market leadership without managers who articulate and communicate a vision and are backed by individuals with the necessary skills to make it happen. Service leadership in an industry requires high performance across a number of dimensions that fall within the scope of the marketing, operations, and human relations functions.

Within any given service organization, marketing has to coexist with operations - traditionally the dominant function - whose concerns are cost and efficiency centered rather than customer centered. Marketing must also coexist with human resource management, which usually recruits and trains service personnel, including those who have direct contact with the customers. An ongoing challenge is to balance the concerns
of each function, not only at the head office but also in the field. Ultimately, a company's ability to effectively integrate marketing, operations, and human resource management will determine whether it is classified as a service loser or a service leader.

**Study questions and exercises**

1. Identify the nature of the tasks that are traditionally assigned to (a) marketing, (b) operations, and (c) human resource management.
2. Give with your own words in a short ten lines, the most relevant points demonstrating the importance of Human Relations Management in a successful service company.
3. What is in essence the difference between empowerment and enablement?
4. Explain how the service profit chain identifies the factors favouring a strategy of employee empowerment and what the various links are.
In this course we have put forward the basic factors, which rule the Service Marketing. The service industry covers a wide variety of sectors (Banking, Fast Food, Hotels, Health Care, Telecommunication, Transportation, Retailing, Public utilities, Publishing, Maintenance...). The companies are confronted by different marketing environment. Some of them operate in a very competitive environment, others in a monopolistic environment which is in the process of being deregulated. However the players are likely to be successful today, they need to share the same "obsession"; customer focus. The way to success for the service companies is linked to the intensity and efficiency of the 'moment of truth' where employees and customers are put together in the transaction. It's at that real moment of delivery that satisfaction, retention and engagement of both parts are build up. The better this moment is managed, the more the 'wheels' are turning on and the more solid the relation and confidence grows up.

Each enterprise in which the "wheels of success" (animated and driven, on the one side by the customers and, on the other side by the employees) turn to full output is on its way of service leadership.

However, the rhythm or speed of these two wheels can be accelerated if they are pushed by a global integration of internal strategy (based on human resources, information technologies and logistics) and the external strategies build on the marketing concept.

These two wheels, nourished and guided by the integrated service strategy, are due to generate profit. It is the concrete and pragmatic aspect of the wheels of success. This process enables an unbeatable dynamic that will also satisfy the shareholders, who are less present in the daily working of the enterprise, but whose role is nevertheless essential for long-term future. For them, service leadership means higher profits and better share values, which are translated in more willingness to invest and to give full support to the management in charge.
An enterprise characterized by the synergic drive of the wheels of success is well armed to face the pressure and rivalry of international competition. Even though we could not approach in detail all aspects of service strategic management, we concentrated ourselves on the essentials and sustain following winning principles:

- Don't look for job- or position protection, but build up high-class service process!
- Don't abuse the customers, but recognise and coddle them!
- Don't run from one transaction to the other, but install a long-term and solid relation with your customers.
- Don't neglect the value of a customer, but regard his value on a longer time period and let him know you care!
- Don't run your service without setting a defined course, but correct it by measuring continuously the degree of the satisfaction and the rate of retention!
- Don't under-appreciate the role of front-line employees, but treat them as stars!
- Don't consider service as servitude, but be proud to serve!
- Don't rule the employees, but train and coach them!
- Don't consider customers and employees as a source of problems, but listen to their remarks and proposals. Consider them as partners!

Within a leader service company, any activity is created, implemented with the customer in mind. This means that a lot of resources are allocated to caring for employees and creating processes and the right environment to deliver seamless service to customers. One must go beyond the traditional meaning of service quality and always try to give more than what customers expect and at the same time, keep operating costs down.

Successful service providers mobilize the organizational resources and influence the collective behaviour to positively impact customer's experience. Company core values are designed and consistently communicated through the organization allowing the company to align its resources with its strategic objectives. Additionally, this provides the motivation for people inside the organization to share valuable knowledge instead of jealously guarding information in a specific department. For most service leaders, shared knowledge is more critical than individual knowledge.

While driving their businesses, people and processes by their core values, the best companies have been successful in creating a strong identity that leads to a strong brand name even outside the region. Their customers' experiences consistently match the service promise, which leads to establish a meaningful brand value. Measurement is key in helping track service performance and continuously improve when needed. When a failure is detected they admit it and work to prevent it.

How can a service leader stay ahead? Customer needs are changing rapidly and innovating services that meet new customer expectations is a key issue. For some, the way forward is to grow by building relationship through partnerships and strategic alliances. They realized that sometimes they may need to step outside company boundaries to use external resources and competencies to provide more value in the future for their customers.

The economical trends have a drastic impact on customers' life style and how they spend their money. Delivering more value to customers is even more critical today. Service leaders which have invested heavily in their own brand of service value will pull through these difficult times more easily and relatively unscathed. Their deep understanding of their customers makes it possible for them to be flexible in adapting their service offering which is meaningful to customers and most probably at lower-prices.
QUESTIONS CONCERNING CHAPTER 1: UNDERSTANDING SERVICES

TRUE-FALSE

1. Services make up the bulk of today's economy, not only in the United States and Canada, but also in other developed industrial nations throughout the world.
   a. True
   b. False

2. The service sector is defined as all service businesses in the economy including government and non-profit organizations.
   a. True
   b. False

3. According to the text, something that is experienced and cannot be touched or preserved is referred to as being tangible.
   a. True
   b. False

4. The service production process emphasizes the close link between service provider and customers and is called "servuction".
   a. True
   b. False

5. Productivity refers to how efficiently service inputs are transformed into outputs that add value for customers.
   a. True
   b. False

MULTIPLE CHOICE

1. Services are defined by marketers as __________________
   a. what servants are hired to provide
   b. acts or performances that provide benefits for customers
   c. activities that take place in churches, mosques, synagogues
   d. what all businesses try to offer their customers

2. The service sector is defined as __________________
   a. all service businesses in the economy including government and non-profit organizations
   b. all consumer services
   c. a group targeted by marketers to receive service
   d. the employees responsible for marketing planning in a service company

3. All of the following describe basic differences between goods and services EXCEPT:
   a. Employees and customers are often present in the service production process.
   b. Services are generally easy for customers to evaluate.
   c. It is difficult to standardize and control inputs and outputs in service production.
   d. Most services are perishable and can’t be inventoried.

4. In the marketing mix for service businesses, "place and time" refer to ____________
   a. advertising when and where a service performance will take place
   b. the location of potential customers for a service at a specific point in time
   c. planning routes/schedules for transportation vehicles
   d. decisions about when, where and how to deliver service to customers

5. Visual or other tangible clues that provide evidence of service quality refer to which of the following components of integrated service management?
   a. productivity
   b. quality
   c. physical evidence
ESSAY QUESTION

In a short essay, give the main features which, in your mind, are differentiating service products from physical goods.

QUESTIONS CONCERNING CHAPTER 2:
UNDERSTANDING SERVICE PROCESSES TRUE-FALSE

1. According to the definitions, the core product of the lodging industry can be best described as room service
   a. True
   b. False

2. Intangibility refers to a characteristic of services that makes it impossible to hold on to or touch them
   a. True
   b. False

3. Mental stimulus processing includes activities like a session with a psychiatrist, watching an educational program on TV, and getting a haircut
   a. True
   b. False

4. Information processing, one of the buzzwords of our age, has been revolutionized by computers
   a. True
   b. False

5. Information-based services include all services in which the core value comes from the transmission of information or data
   a. True
   b. False

MULTIPLE CHOICE

1. __________ is closely associated with purchase frequency, which has implications for the development of both distribution and communications strategies.
   a. Durability
   b. Intangibility
   c. Variability
   d. Flexibility

2. When firms offer a customized service, they ____________
   a. tailor the service to meet each customer's specific needs
   b. invite customers to come to the service facility
   c. require customers to serve themselves
   d. provide the same service to each customer

3. People processing services ____________
   a. are intangible services sold to individual customers rather than to corporations
   b. are tangible services sold to businesses rather than to individual consumers
   c. do not require customers to be physically present during service delivery
   d. are services that involve tangible actions to people's bodies

4. Which of the following is NOT an example of a possession processing service?
   a. data processing
   b. freight transportation
   c. repair and maintenance
5. Which of the following are examples of mental stimulus processing services?
   a. Accounting, legal services and data transmission
   b. Music concerts, entertainment and securities investment
   c. Banking, computer programming and education
   d. Advertising, religion and education

ESSAY QUESTION
In a short essay, discuss the importance of differentiating between core products and supplementary services. Include a specific example to support your answer.

QUESTIONS CONCERNING CHAPTER 3: THE SERVICE CUSTOMER

TRUE-FALSE
1. High-contact services are services delivered at high altitude (like air transportation or sky diving)
   a. True
   b. False
2. Low contact services are services that involve limited direct contact between customers and service providers.
   a. True
   b. False
3. Critical incidents are service encounters where the outcome is especially satisfying or dissatisfying to both customers and employees.
   a. True
   b. False
4. A service delivery system is where final assembly of the service product elements takes place.
   a. True
   b. False
5. Customers are called co-producers when they are actively involved in service production in cooperation with service personnel.
   a. True
   b. False

MULTIPLE CHOICE
1. Customer contact personnel are those employees who
   a. communicate with customers face-to-face rather than by phone, fax or email
   b. interact directly with customers in person or through mail and telecommunications
   c. train employees to deal with customers effectively
   d. work only in high-contact people-processing organizations
2. A service encounter
   a. is a period of time when service employees work on customer-related issues
   b. is a situation involving face-to-face interactions between customers and employees
   c. is a period of time during which customers interact directly with a service
   d. is what occurs when something goes wrong with a service delivery
3. A moment of truth

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a. is a time when customers urgently need an honest response from a service provider
b. occurs when a service company decides to discontinue its relationship with a customer
c. is a point in service delivery when the outcomes of a customers interactions with a service provider may affect perceptions of quality
d. is a true claim made in service advertising

4. Service businesses can be divided into the following subsystems:
   a. Physical support, contact personnel and service delivery systems
   b. Backstage, front stage and service marketing systems
   c. Technical core, physical support and front stage systems
   d. Service operations, service delivery and service marketing systems

5. Which of the following is NOT an example of a consumer service that requires a high level of customer participation?
   a. marriage counselling
   b. full-service restaurant
   c. personal training
   d. weight-reduction program

ESSAY QUESTION

In a short essay, list and discuss the three elements of the total service system.

QUESTIONS CONCERNING CHAPTER 4: THE SERVICE OFFERING

TRUE - FALSE

1. The augmented product is defined as the core product plus all additional elements that add value for the customer
   a. True
   b. False

2. Information is defined as a group of supplementary services that facilitates purchase and use by telling customers about service features and performance.
   a. True
   b. False

3. Safekeeping is an enhancing supplementary service that involves a dialog to identify customer requirements and develop a personalized solution
   a. True
   b. False

4. Special requests is the type of exceptions that describes customer expectation to be compensated for serious performance failures
   a. True
   b. False

5. The services attached to industrial products are generally classified into two categories; the pre- and after- sales services.
   a. True
   b. False

MULTIPLE CHOICE

1. Which of the following is NOT a supplementary service offered in "coffee houses"?
   a. A comfortable and attractive atmosphere
   b. Efficient and accurate ordering procedures
   c. Friendly, well-trained staff
d. Coffee mugs and fresh-roasted coffee beans

2. The Flower of Service is ______________________
   a. a simple reminder that the servicescape plays an important role in customers’ impressions of service quality
   b. a visual model for describing the supplementary service elements that add value to the core product
   c. a tangible symbol of service quality
   d. a special plant used in the landscaping of service facilities for high-contact services

3. Which of the following is NOT considered an information element?
   a. documentation
   b. professional appointments
   c. confirmation of reservations
   d. receipts and tickets

4. Which of the following is NOT considered an example of a hospitality element?
   a. greeting
   b. food and beverages
   c. transport
   d. advice

5. All of the following are considered examples of exceptions elements EXCEPT:
   a. warranties and guarantees against product malfunction.
   b. resolving difficulties that arise from using the product.
   c. assisting customers who have suffered an accident.
   d. directions to service site.

ESSAY QUESTION
In a short essay, describe the Flower of Service and list the eight clusters into which almost all supplementary services can be classified. Which clusters are considered facilitating services and which are considered enhancing services?

QUESTIONS CONCERNING CHAPTER 5: PAYING FOR SERVICES

TRUE - FALSE
1. The costs associated with adding an extra student to a college class are called elastic costs
   a. True
   b. False

2. Contribution is the difference between the variable cost of selling an extra unit of service and the money received for that service
   a. True
   b. False

3. According to the text, customers may incur a variety of non-financial outlays representing the time, effort, and discomfort associated with searching for, purchasing, and using a service.
   a. True
   b. False

4. Undesired mental or emotional states experienced by customers as a result of the service delivery process are called psychological burdens.
   a. True
   b. False
5. Yield management pricing strategies are based on maximizing the revenue yield that can be derived from available capacity at any given time.
   a. True
   b. False

MULTIPLE CHOICE

1. The sales volume at which a service becomes profitable is called the _____________
   a. gross margin
   b. net margin
   c. break-even point
   d. net profit

2. All monetary expenditures incurred by customers in purchasing and consuming a service are called ____________
   a. non-financial outlays
   b. virtual outlays
   c. financial outlays
   d. intangible outlays

3. ______________ may include putting up with noise, unpleasant smells, drafts, excessive heat or cold, uncomfortable seating or lighting, visually unappealing environments, and even unpleasant tastes.
   a. Time expenditures
   b. Physical effort
   c. Psychological burdens
   d. Sensory burdens

4. An approach to costing based on identifying the activities being performed and then determining the resources that each consumes is called ________________
   a. cost-based pricing
   b. activity-based costing
   c. competition-based pricing
   d. value-based pricing

5. Which of the following describes techniques for separating customers so that segments for whom the service offers high value are unable to take advantage of lower prices offers?
   a. rate fences
   b. price buckets
   c. auctions
   d. critical incidents

ESSAY QUESTION

In a short essay, list and discuss the three types of costing that represent the foundations of pricing-strategy.

QUESTIONS CONCERNING CHAPTER 6:
PROMOTING & COMMUNICATING SERVICE VALUE

TRUE-FALSE

1. Personal communications are direct communications between marketers and one or more customers that allow two-way dialog
   a. True
   b. False
2. Word of mouth involves positive or negative comments about a service made by one person to another.
   a. True
   b. False

3. Listening to the customers is a prerequisite for a good and effective communication.
   a. True
   b. False

4. Creating a strong brand image is a must for any service company that intend to have a strong and continuous impact on customers’ minds
   a. True
   b. False

5. The design of any physical location where customers come to place orders and obtain service delivery is called corporate design.
   a. True
   b. False

MULTIPLE CHOICE

1. Internal communications are _____________________
   a. communications from management to employees in a service organization
   b. communications within a private electronic network
   c. communications conducted using email and the Internet
   d. communications with a corporate Web site which customers access with a password

2. All of the following are examples of common educational and promotional objectives in service settings EXCEPT:
   a. create memorable images of specific companies and their brands
   b. avoid comparing a service with competitors offerings and do not counter competitive claims
   c. reposition a service relative to competing offerings
   d. encourage trial by offering promotional incentives.

3. Which of the following definitions best describes the marketing communication mix?
   a. The full set of communication channels available to marketers
   b. The allocation of advertising dollars among different media
   c. Customer involvement with two-way communications
   d. Failure to communicate with customers effectively during arm's length transactions

4. All of following features are aiming to make the service value more visible to customers, EXCEPT:
   a. Gaining media support
   b. Servicing the community
   c. Creating a ‘house paper’ for the employees
   d. Educating customers
   e. Advertising tangible clues

5. ________________ is the consistent application of distinctive colours, symbols and lettering to give a firm an easily recognizable identity
   a. Corporate design
   b. Trade-marking
   c. Branding
   d. Advertising
ESSAY QUESTION
In a short essay, discuss the differences between Identity and Image, and define the importance of each of those concepts.

QUESTIONS CONCERNING CHAPTER 7:
THE PLACE; ALTERNATIVE DELIVERY CHANNELS

TRUE- FALSE
1. More and more services now fall into the category of face-to-face interactions rather than arm's length relationships.
   a. True
   b. False
2. Companies doing business in cyberspace need a physical environment in which customers can get together with suppliers to inspect merchandise or conduct service-related business.
   a. True
   b. False
3. Dealing with a service organization through face-to-face interaction may mean that a customer never sees the service facilities or meets service personnel.
   a. True
   b. False
4. Factors encouraging extended operating hours include a growing labour pool of employees who are willing to work evenings and nights.
   a. True
   b. False
5. A disadvantage of franchising is that it entails some loss of control over the delivery system and how customers experience the actual service
   a. True
   b. False

MULTIPLE CHOICE
1. Customers are moving from face-to-face contacts with suppliers in fixed locations that only operate during fixed hours to remote contacts in ________________
   a. the marketplace
   b. the marketspace
   c. the cyberplace
   d. the cyberspace
2. Marketplace is defined as ________________
   a. a physical location where suppliers and customers meet to do business
   b. the location of the food court in a large mall
   c. an old-fashioned term describing the town square where farmers came to sell their produce
   d. retail space available for lease or sale
3. ________________ is the means by which a service firm delivers one or more product elements to its customers.
   a. A delivery channel
   b. A distribution strategy
   c. Marketplace design
   d. Retailing technology
FUNDAMENTALS IN "SERVICE MARKETING"

4. Interaction between customers and service suppliers in which mail or telecommunications minimize the need to meet face-to-face are called ____________
   a. face-to-face interaction.
   b. arm's length transaction.
   c. high contact interaction.
   d. personal communication.

5. ________________ is a common strategy used for expanding delivery of a proven service concept to multiple sites, without the level of investment capital required for rapid expansion of company-owned and managed sites.
   a. A strategic alliance
   b. Licensing
   c. Exporting
   d. Franchising

ESSAY QUESTION
In a short essay, discuss at least three of the five factors that are driving the move toward extended operating hours and seven-day operations.

QUESTIONS CONCERNING CHAPTER 8: PRODUCTIVITY, QUALITY & VARIABLE DEMAND

TRUE-FALSE
1. Responsiveness is the willingness of service employees to help customers and provide prompt service.
   a. True
   b. False

2. The dimension of quality that has consistently proven to be the most important factor in customers' judgments of service quality is reliability.
   a. True
   b. False

3. Customers with a high degree of satisfaction and high loyalty are considered as "mercenaries"
   a. True
   b. False

4. Optimum capacity is the point beyond which a firm's efforts to serve additional customers will lead to a perceived decline in service quality.
   a. True
   b. False

5. Tailoring the overall level of capacity to match variations in demand is a strategy known as chasing demand.
   a. True
   b. False

MULTIPLE CHOICE
1. ____________ is the willingness of service employees to help customers and provide prompt service.
   a. responsiveness
   b. assurance
   c. empathy
   d. reliability

2. A service quality information system ________________
a. provides a snapshot of service quality at a specific point of time  
b. is a computerized database system for storing customer data  
c. generates systematically and timely useful data about customers  
d. monitors satisfaction and service quality

3. Demand for a service at a given time that exceeds the firm's ability to meet customer needs is called ________________
   a. excess demand.  
   b. excess capacity.  
   c. maximum capacity.  
   d. optimum capacity

4. The situation in which staff and facilities are busy without being overtaxed, and customers receive good service without delays is when ________________
   a. excess demand is present .  
   b. demand exceeds optimum capacity.  
   c. demand and supply are well balanced at the level of optimum capacity.  
   d. excess capacity is present

5. Which of the following is known as being the first variable companies use to bring demand and supply into balance?
   a. price .  
   b. product .  
   c. promotion.  
   d. people

ESSAY QUESTION
In a short essay, discuss the two basic solutions to the problem of fluctuating demand

QUESTIONS CONCERNING CHAPTER 9: INTEGRATING MARKETING, OPERATION AND H.R.

TRUE-FALSE
1. Internal customers are employees who receive services from other employees
   a. True  
   b. False

2. Front-line people have jobs that manage the boundary between the external environment, where customers are encountered, and the internal operations of the organization
   a. True  
   b. False

3. Giving workers the tools and resources they need to take on responsibilities is called empowerment.
   a. True  
   b. False

4. The service profit chain is a series of links between profit, revenue growth, customer loyalty, value delivered, and the internal delivery system based on productivity and satisfaction of the employees.
   a. True  
   b. False

5. In the Cycle of Success, salary increases and promotions are based on longevity, with successful performance in a job being measured by absence of mistakes, rather than by high productivity or outstanding customer service.
   a. True
MULTIPLE CHOICE
1. ______________ is the coordination of tasks related to job design, employee recruitment, selection, training, and motivation
   a. Strategic management
   b. Marketing management
   c. Human resources management
   d. Operations management

2. ______________ means authorizing employees to solve service delivery problems and respond to customer concerns without asking for management approval
   a. Empowerment
   b. Enablement
   c. Involvement
   d. Control

3. According to the text, businesses with high employee turnover are frequently stuck in what has been termed the ______________
   a. "Cycle of Failure"
   b. "Cycle of Mediocrity"
   c. "Cycle of Profits"
   d. "Cycle of Success"

4. The "cycle of mediocrity" is most likely to be found in ______________
   a. large bureaucratic organizations
   b. industries that emphasize service productivity
   c. companies with high employee turnover
   d. organizations with a high proportion of unionized employees

5. Which of the following is CANNOT be regarded as a link in the service profit chain?
   a. customer loyalty drives profitability and growth
   b. customer satisfaction drives customer loyalty
   c. cost control drives customer satisfaction
   d. employee productivity drives service value

ESSAY QUESTION
In a short essay, discuss the characteristics of the cycle of mediocrity. Include specific examples to support your answer.