Part One

Foundations for Services Marketing

This first part of the text provides you with the foundations needed to begin your study of services marketing. The first chapter identifies up-to-date trends, issues, and opportunities in services as a backdrop for the strategies addressed in remaining chapters. The second chapter introduces the gaps model of service quality, the framework that provides the structure for the text. The remaining parts of the book will include information and strategies to address specific gaps, giving you the tools and knowledge to become a services marketing leader.

Chapter One

Introduction to Services

This chapter's objectives are to

1. Explain what services are and identify important trends in services.
2. Explain the need for special services marketing concepts and practices and why the need has developed and is accelerating.
3. Explore the profound impact of technology on service.
4. Outline the basic differences between goods and services and the resulting challenges and opportunities for service businesses.
5. Introduce the expanded marketing mix for services and the philosophy of customer focus, as powerful frameworks and themes that are fundamental to the rest of the text.

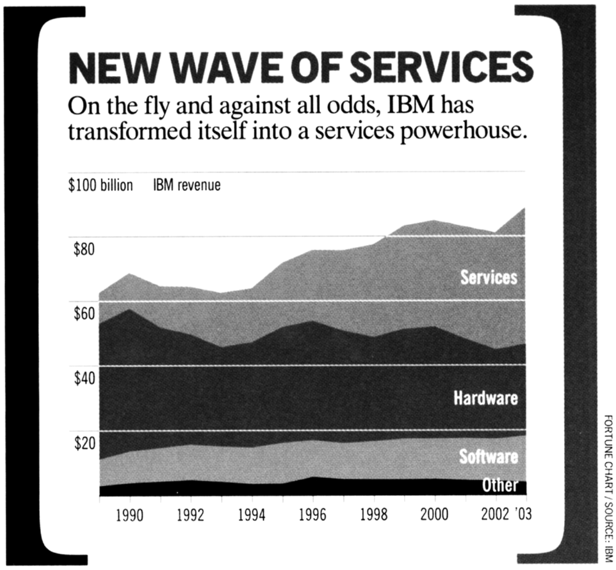
"Services are going to move in this decade to being the front edge of the industry."

This quote from IBM's former CEO, Louis V. Gerstner, illustrates the changes sweeping across industry in the 21st century. Many businesses that were once viewed as manufacturing giants are shifting their focus to services. And, in many ways, IBM has led the pack. Actions of current IBM CEO, Sam Palmisano, have reinforced this focus on service. In his tenure, Mr. Palmisano has led IBM in the expansion of its outsourcing businesses and accentuated its focus on client solutions. He also led IBM in its purchase of PriceWaterhouseCoopers to gain broader strategic services consulting expertise and in its focus in service "products" and solutions.

In a company brochure IBM states that it is the largest *service* business in the world. It is the global leader in information technology (IT) services and consulting with approximately 200,000 services professionals around the world. Through its Global Services division, IBM offers product support services, professional consulting services, and network computing services. Many businesses have outsourced entire service functions to IBM, counting on the company to provide the services better than anyone else. The services side of IBM brings in $48 billion, more than half the company's total revenue. The services strategy has been very successful for IBM to date and promises to be the engine of growth into the future (see the "New Wave of Services" graphic).

No one in IBM would suggest that these positive results have been easily achieved. Switching from a manufacturing to a service and customer focus is indeed a challenge. It requires changes in management mind-set, changes in culture, changes in the ways people work and are rewarded, and new ways of implementing customer solutions. At IBM this change has evolved over decades. It is suggested that Lou Gerstner's legacy at IBM may well be the definitive switch that the company has made from hardware to services and the strategic focus on customers. This switch to service has carried over into IBM's research division as well, where hundreds of researchers currently focus on service science and service innovation.

Many companies (such as Hewlett-Packard, Oracle, and Cisco) have viewed IBM's success and are pushing to make the same transition to services. It is not as easy as it looks. In moving into services, companies discover what service businesses such as hospitality, consulting, health care, financial services, and telecommunications have known for years: services marketing and management are different—not totally unique, but different. Selling and delivering a computer is not the same as selling and delivering a service that solves a customer's problem.[1]



Source: "Inside Sam's $100 Billion Growth Machine." by David Kirkpatrick, Fortune, June 14, 2004, p. 86. FORTUNE © 2004 Time Inc. All Rights Reserved.

As the opening vignette suggests, services are not limited to service industries, services can be very profitable, and services are challenging to manage and market. Services represent a huge and growing percentage of the world economy; yet particularly in the United States, customer perceptions of service are not good.[2] In fact, the University of Michigan's American Customer Satisfaction Index has shown consistently lower scores for services when compared to other products.[3] Given the economic growth in services, their profit and competitive advantage potential, and the overall decline in customer satisfaction with services, it seems that the potential and opportunities for companies who can excel in services marketing, management, and delivery have never been greater.

This text will give you a lens with which to approach the marketing and management of services. What you learn can be applied in a company like IBM with a traditional manufacturing history or in pure service businesses. You will learn tools, strategies, and approaches for developing and delivering profitable services that can provide competitive advantage to firms. At the base of services marketing and management you will find a strong customer focus that extends across all functions of the firm—thus the subtitle of this book, "integrating customer focus across the firm."

WHAT ARE SERVICES?

Put in the most simple terms, *services are deeds, processes, and performances* provided or coproduced by one entity or person for another entity or person. Our opening vignette illustrates what is meant by this definition. The services offered by IBM are not tangible things that can be touched, seen, and felt, but rather are intangible deeds and performances provided and/or coproduced for its customers. To be concrete, IBM offers repair and maintenance service for its equipment, consulting services for IT and e-commerce applications, training services, web design and hosting, and other services. These services may include a final, tangible report, a website, or in the case of training, tangible instructional materials. But for the most part, the entire service is represented to the client through problem analysis activities, meetings with the client, follow-up calls, and reporting—a series of deeds, processes, and performances. Similarly, the core offerings of hospitals, hotels, banks, and utilities are primarily deeds and actions performed for customers, or coproduced with them.

Although we will rely on the simple, broad definition of *services,* you should be aware that over time *services* and the *service sector of the economy* have been defined in subtly different ways. The variety of definitions can often explain the confusion or disagreements people have when discussing services and when describing industries that comprise the service sector of the economy. Compatible with our simple, broad definition is one that defines services to include "all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort, or health) that are essentially intangible concerns of its first purchaser."[4] The breadth of industries making up the service sector of the U.S. economy is illustrated in Figure 1.1.

Services Industries, Services as Products, Customer Service, and Derived Service

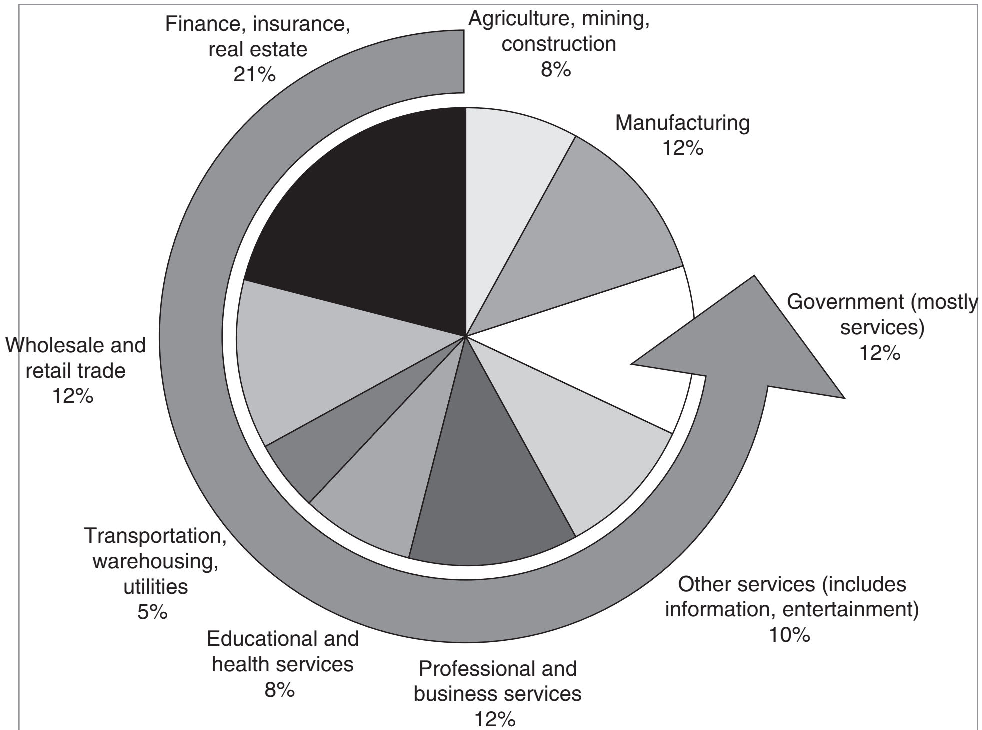
As we begin our discussion of services marketing and management, it is important to draw distinctions between *service industries and companies, services as products, customer service,* and *derived service.* Sometimes when people think of service, they think only of customer service, but service can be divided into four distinct categories. The tools and strategies you will learn in this text can be applied to any of these categories.

Service industries and companies include those industries and companies typically classified within the service sector whose core product is a service. All of the following companies can be considered pure service companies: Marriott International (lodging), American Airlines (transportation), Charles Schwab (financial services), Mayo Clinic (health care). The total services sector comprises a wide range of service industries, as suggested by Figure 1.1. Companies in these industries sell services as their core offering.

Services as products represent a wide range of intangible product offerings that customers value and pay for in the marketplace. Service products are sold by service

FIGURE 1.1
Contributions of Service Industries to U.S. Gross Domestic Product, 2006

Source: *Survey of Current Business,* May 2007, p. 19, Table 2.



companies and by nonservice companies such as manufacturers and technology companies. For example, IBM and Hewlett-Packard offer information technology consulting services to the marketplace, competing with firms such as EDS and Accenture, which are traditional pure services firms. Other industry examples include department stores, like Macy's that sell services such as gift wrapping and shipping, and pet stores like PetSmart that sell pet grooming and training services.

Customer service is also a critical aspect of what we mean by "service." Customer service is the service provided in support of a company's core products. Companies typically do not charge for customer service. Customer service can occur on-site (as when a retail employee helps a customer find a desired item or answers a question), or it can occur over the phone or via the Internet (e.g., Dell computer provides real-time chat sessions to help customers diagnose hardware problems). Many companies operate customer service call centers, often staffed around the clock. Quality customer service is essential to building customer relationships. It should not, however, be confused with the services provided for sale by the company.

Derived service is yet another way to look at what service means. In an award-winning in the *Journal of Marketing,* Steve Vargo and Bob Lusch argue for a new dominant logic for marketing that suggests that all products and physical goods are valued for the services they provide.[5] Drawing on the work of respected economists, marketers, and philosophers, the two authors suggest that the value derived from physical goods is really the service provided by the good, not the good itself. For example, they suggest that a pharmaceutical provides medical services, a razor provides barbering services, and computers provide information and data manipulation services. Although this view is somewhat abstract, it suggests an even broader, more inclusive, view of the meaning of *service.*

Tangibility Spectrum

The broad definition of services implies that intangibility is a key determinant of whether an offering is a service. Although this is true, it is also true that very few products are purely intangible or totally tangible. Instead, services tend to be *more intangible* than manufactured products, and manufactured products tend to be *more tangible* than services. For example, the fast-food industry, while classified as a service, also has many tangible components such as the food, the packaging, and so on. Automobiles, while classified within the manufacturing sector, also supply many intangibles, such as transportation and navigation services. The tangibility spectrum shown in Figure 1.2 captures this idea. Throughout this text, when we refer to services we will be assuming the broad definition of services and acknowledging that there are very few "pure services" or "pure goods." The issues and approaches we discuss are directed toward those offerings that lie on the right side, the intangible side, of the spectrum shown in Figure 1.2.

Trends in the Service Sector

Although you often hear and read that many modern economies are dominated by services, the United States and other countries did not become service economies overnight. As early as 1929, 55 percent of the working population was employed in the service sector in the United States, and approximately 54 percent of the gross national product was generated by services in 1948. The data in Figures 1.3 and 1.4 show that the trend toward services has continued, until in 2006 services represented 80 percent of the gross domestic product (GDP) and 82 percent of employment. Note also that these data do not include services provided by manufacturing companies. The number of employees and value of the services they produce would be classified as manufacturing sector data.

WHY SERVICES MARKETING?

Why is it important to learn about services marketing, service quality, and service management? What are the differences in services versus manufactured-goods marketing that have led to the demand for books and courses on services? Many forces have led to the growth of services marketing, and many industries, companies, and individuals have defined the scope of the concepts, frameworks, and strategies that define the field. The field of services marketing and management has evolved as a result of these combined forces.

FIGURE 1.2 **Tangibility Spectrum**

Source: G. Lynn Shostack, "Breaking Free from Product Marketing," *Journal of Marketing* 41 (April 1977), pp. 73–80. Reprinted with permission of the American Marketing Association.

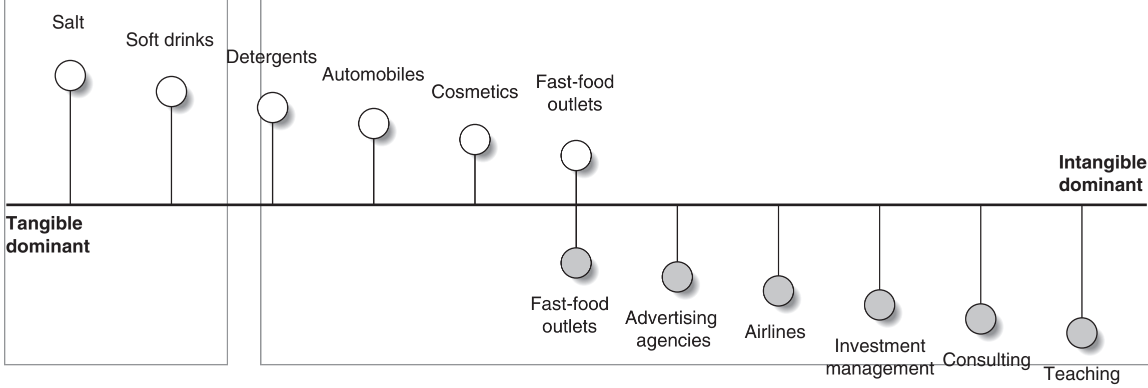
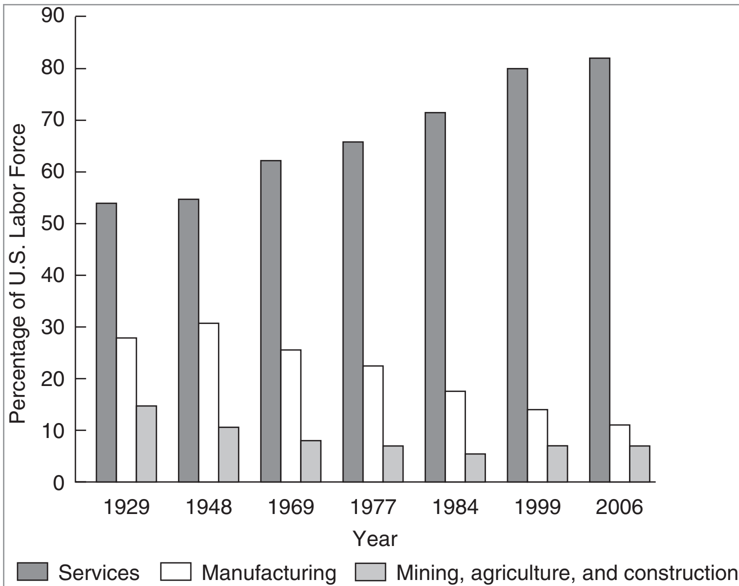


FIGURE 1.3
Percentage of U.S. Labor Force by Industry

Sources: U.S. Department of Labor, Bureau of Labor Statistics, *Industry at a Glance,* May 4, 2007, *Survey of Current Business,* February 2001, Table B.8, July 1988, Table 6.6B, and July 1992, Table 6.4C; E. Ginzberg and G. J. Vojta, "The Service Sector of the U.S. Economy," *Scientific American* 244, no. 3 (1981), pp. 31–39.



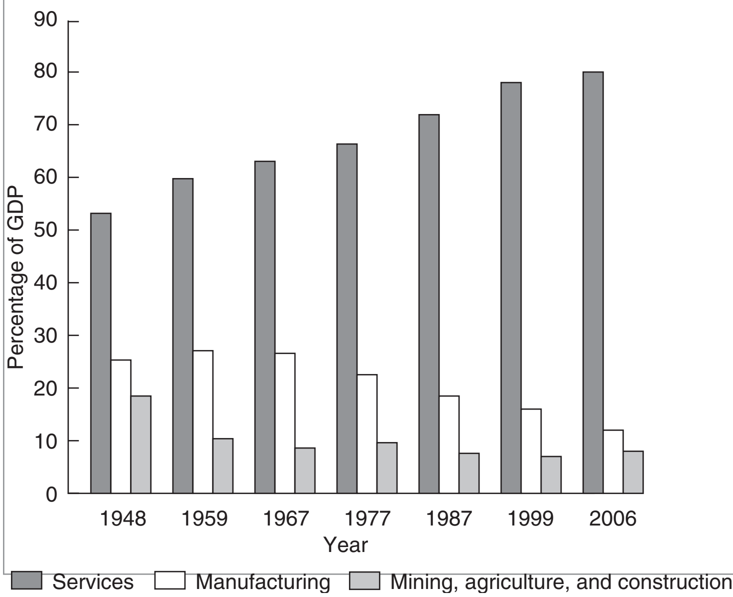
Service-Based Economies

First, services marketing concepts and strategies have developed in response to the tremendous growth of service industries, resulting in their increased importance to the U.S. and world economies. As was noted, in 2006 the service sector represented more than 80 percent of total employment and gross domestic product of the United States. Almost all the absolute growth in numbers of jobs and the fastest growth rates in job formation are in service industries, particularly health care and IT professional services.

Another indicator of the economic importance of services is that trade in services is growing worldwide. In fact, while the U.S. balance of trade in goods remains in the red, in the fourth quarter of 2006 alone there was a $19 billion trade *surplus* in

FIGURE 1.4
Percentage of U.S. Gross Domestic Product by Industry

Sources: *Survey of Current Business,* May 2007, p. 19, Table 2; *Survey of Current Business,* February 2001, Table B.3, and August 1996, Table 11; E. Ginzberg and G. J. Vojta, "The Service Sector of the U.S. Economy," *Scientific American* 244, no. 3 (1981), pp. 31–39.



services.[6] World-class providers of services such as American Express, McDonald's, and Marriott Hotels, together with many small service companies, are exporting information, knowledge, creativity, and technology that the world badly needs.

There is a growing market for services and increasing dominance of services in economies worldwide (see the accompanying table). This growth is apparent in established economics as well as emerging economies such as China, where the central government has placed a priority on service sector growth. The growth of the service sector has drawn increasing attention to the challenges of service sector industries worldwide.

Country	Percent of GDP Attributed to Services
Hong Kong	91
United States	79
France	77
Netherlands	74
United Kingdom	73
Japan	73
Sweden	71
Germany	70
Australia	70
Canada	69
New Zealand	69
Spain	68
Finland	67
Singapore	66
India	61
Brazil	54
Thailand	45
China	40

Source: *The World Factbook 2007,* published by the Central Intelligence Agency, www.odci.gov/cia/publications/factbook, country profiles.

Service as a Business Imperative in Manufacturing and Information Technology

Early in the development of the field of services marketing and management, most of the impetus came from service industries such as banking, transportation, and health care. As these traditional service industries evolve and become more competitive, the need for effective services management and marketing strategies continues. Now, however, manufacturing and technology industries such as automobiles, computers, and software are also recognizing the need to provide quality service and revenue-producing services in order to compete worldwide.

From General Electric and IBM to Cardinal Health, Hewlett-Packard, and Siemens, companies are recognizing the opportunity to grow and profit through services.[7] Why? Because the quick pace of developing technologies and increasing competition make it difficult to gain strategic competitive advantage through physical products alone. Plus, customers are more demanding. Not only do they expect excellent, high-quality goods and technology, they also expect high levels of customer service and total service solutions along with them.

At GE the services strategy began in the mid-1990s under then-CEO Jack Welch when he launched what has been termed the "third revolution." A major thrust of the third revolution was to push GE's growth strategies even deeper into services such as after-market and infrastructure services, financial services, broadcasting, management consulting, health care, and utilities. In 2000, GE generated approximately 75 percent of its revenues from services.[8] The move into services has continued with GE's CEO, Jeffrey Immelt. Under Immelt's initiatives, GE offers a broad range of expertise and services to its customers in an effort to make them more productive and competitive. For GE, the theory behind this broad push is "the more successful our customers are, the more successful we will be."[9]

As manufacturers such as GE and IT companies such as IBM (see the opening vignette and Figure 1.5) transition to become services organizations, the need for special concepts and approaches for managing and marketing services is increasingly apparent.[10]

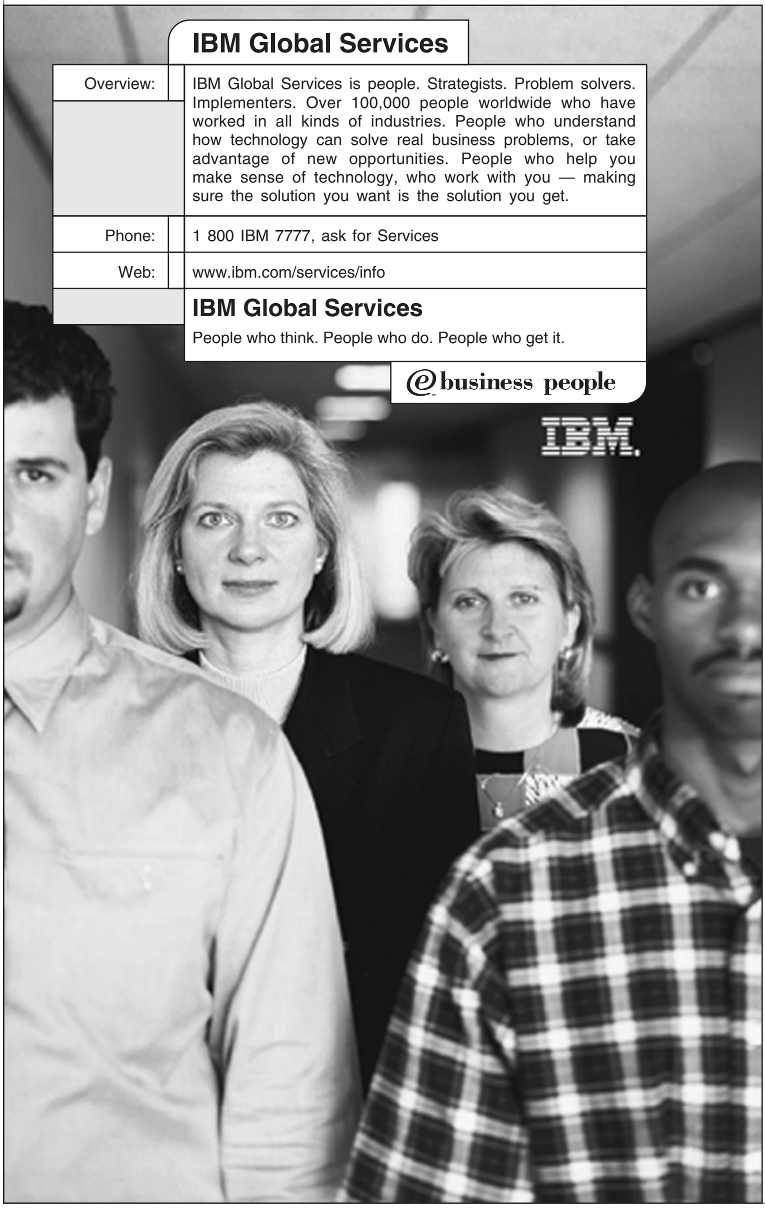


FIGURE 1.5
Services are driving IBM's growth in the 21st century.

Source: Reprinted with permission of IBM Global Services. (IBM)

Deregulated Industries and Professional Service Needs

Specific demand for services marketing concepts has come from deregulated industries and professional services as both these groups have gone through rapid changes in the ways they do business. In the past several decades many very large service industries, including airlines, banking, telecommunications, and trucking, have been deregulated by the U.S. government. Similar deregulatory moves have taken place in many other countries as well. As a result, marketing decisions that used to be tightly controlled by the government are now partially, and in some cases totally, within the control of individual firms.[11] For example, until 1978 all airline fares, routes, and commissions paid to travel agents were determined and monitored by the government. Since that time airlines have been free to set their own pricing structures and determine which routes they will fly. Needless to say, deregulation created turmoil in the airline industry, accelerating the need for more sophisticated, customer-based, and competition-sensitive marketing.

Providers of professional services (such as physicians, lawyers, accountants, engineers, and architects) have also demanded new concepts and approaches for their businesses as these industries have become increasingly competitive and as professional standards have been modified to allow advertising. Whereas traditionally the professions avoided even using the word *marketing,* they are now seeking better ways to understand and segment their customers, to ensure the delivery of quality services, and to strengthen their positions amid a growing number of competitors.

Services Marketing Is Different

As the forces described above coincided and evolved, businesspeople realized that marketing and managing services presented issues and challenges not faced in manufacturing and packaged goods companies. These differences and challenges were captured in a series of interviews by management consultant Gary Knisely in 1979 (see Exhibit 1.1).[12] For example, when a firm's core offering is a deed performed by an employee (such as engineering consulting), how can the firm ensure consistent product quality to the marketplace? As service businesses began to turn to marketing and decided to hire marketing people, they naturally recruited from the best marketers in the world—Procter & Gamble, General Foods, Kodak. People who moved from marketing in packaged goods industries to marketing in health care, banking, and other service industries found that their skills and experiences were not directly transferable. They faced issues and dilemmas in marketing services that their experiences in packaged goods and manufacturing had not prepared them for. These people realized the need for new concepts and approaches for marketing and managing service businesses.

Service marketers responded to these forces and began to work across disciplines and with academics and business practitioners from around the world to develop and document marketing practices for services. As the field evolved, it expanded to address the concerns and needs of *any* business in which service is an integral part of the offering. Frameworks, concepts, and strategies developed to address the fact that "services marketing is different." As the field continues to evolve in the 21st century, new trends will shape the field and accelerate the need for services marketing concepts and tools.

Service Equals Profits

In the final decader of the 20th century, many firms jumped on the service bandwagon, investing in service initiatives and promoting service quality as ways to differentiate themselves and create competitive advantage. Many of these investments were based

Exhibit 1.1 Is the Marketing of Services Different? A Historical Perspective

In 1979 Gary Knisely, a principal of the consulting firm Johnson Smith & Knisely, asked the title question to practicing services marketers. Specifically, Knisely interviewed several high-ranking marketing executives who had all gone to work in consumer services after extensive experience in the consumer packaged goods industry (known for its marketing prowess).

These executives found differences, all right. Their discoveries came from attempts to apply (with mixed success, it turned out) consumer goods marketing practices directly to services. James L. Schorr of Holiday Inns Inc., formerly with Procter & Gamble, found that he could not overlay a consumer goods firm's marketing system onto a service firm. He, and the other executives interviewed, expressed certain recurring themes. First, more variables exist in the marketing mix for services than for consumer goods. Schorr claimed that in a service business, marketing and operations are more closely linked than in a manufacturing business; thus the service production process is part of the marketing process. Second, customer interface is a major difference between goods marketing and services marketing. Executives from packaged goods companies never had to think in terms of a direct dialogue with their customers. For Schorr, the marketing of hotel rooms boiled down to a "people-on-people" sale. Robert L. Catlin, in relating his experience in the airline industry, stated, "Your people are as much of your product in the consumer's mind as any other attribute of the service." People buy products because they believe they work. But with services, people deal with people they like and they tend to buy services because they believe they will like them. This thought process makes the customer—employee interface a critical component of marketing.

The executives also commented on how the marketing mix variables common to both goods and services have vastly different implications for marketing strategy in the two contexts. In the distribution and selling of services, the firm cannot rely on well-stocked shelves past which the consumer can push a cart and make selections. Consumers' exposure to the full range of need-fulfilling service products may be limited by the salesperson's "mental inventory" of services and how he or she prioritizes them. You could say that the service product manager is competing for the "mental shelf space" of the firm's sales personnel. For Rodney Woods, group marketing officer at United States Trust Co., pricing was the most critical factor in the marketing of services versus products. For Woods, determining the costs associated with service production and delivery proved very difficult, much more of a challenge than he had faced in his earlier career working with such large packaged goods companies as Pillsbury, Procter & Gamble, and Bristol-Myers. Also, the benefits of using price as a promotional weapon were not as apparent. Promotional price cuts tended to erode hard-fought positioning and image.

While scholars debated early on the issue of whether marketing management differs for goods versus services, for top managers with experience in both areas the differences were pronounced in 1979. They still are today. The differences that these early service marketers noted were the impetus for many of the ideas, concepts, and strategies practiced today.

Source: This discussion is based on interviews conducted by Gary Knisely that appeared in *Advertising Age* on January 15, 1979; February 19, 1979; March 19, 1979; and May 14, 1979.

on faith and intuition by managers who believed in serving customers well and who believed in their hearts that quality service made good business sense. Indeed, a dedication to quality service has been the foundation for success for many firms, across industries. In his book *Discovering the Soul of Service,* Leonard Berry describes in detail 14 such companies.[13] The companies featured in his book had been in business an average of 31 years when the book was written. These companies had been profitable in all but 5 of their combined 407 years of existence. Dr. Berry discovered through his research that these successful businesses share devotion to nine common service themes, among them values-driven leadership, commitment to investments in employee success, and trust-based relationships with customers and other partners at the foundation of the organization.

Since the mid-1990s firms have demanded hard evidence of the bottom-line effectiveness of service strategies. And researchers are building a convincing case that service strategies, implemented appropriately, can be very profitable. Work sponsored by the Marketing Science Institute suggests that corporate strategies focused on customer satisfaction, revenue generation, and service quality may actually be more profitable than strategies focused on cost cutting or strategies that attempt to do both simultaneously.[14] Research out of the Harvard Business School builds a case for the "service–profit chain," linking internal service and employee satisfaction to customer value and ultimately to profits.[15] And considerable research shows linkages from customer satisfaction (often driven by service outcomes) to profits.[16] From the University of Michigan American Customer Satisfaction Index (ACSI) comes data suggesting that customer satisfaction is directly linked to shareholder value. Firms in the top 25 percent of the ACSI rankings show significantly higher shareholder value than do firms in the bottom 25 percent. Research based on ACSI data also shows that the top 20 percent of ACSI firms significantly outperform the Standard & Poor's (S&P) 500, NASDAQ, and DowJones Industrial Average.[17]

An important key to these successes is that the right strategies are chosen and that these strategies are implemented appropriately and well. Much of what you learn from this text will guide you in making such correct choices and in providing superior implementation. Throughout the text we will point out the profit implications and tradeoffs to be made with service strategies. See this chapter's Strategy Insight for four ways that firms successfully and profitably compete through service. In Chapter 18 we will come back to this issue by providing integrated coverage of the financial and profit impact of service.

But "Service Stinks"

Despite the importance of service and the bottom-line profit potential for service, consumers perceive that overall the quality of service is declining.[18] We see *BusinessWeek* magazine blatantly condemning service in its cover story "Why Service Stinks."[19] And although there are exceptions in every industry, American Customer Satisfaction Index scores for service industries are generally lower than the average for all industries. Particularly low are ACSI scores in the transportation, communications, and utilities sectors. For example, whereas the national ACSI average across all industries has risen to 75.2, cable and satellite television and most airlines receive ratings in the low to mid 60s.[20]

This condemnation of service is troubling when, at some level, service has never been better. For example, think of just one industry—health care. The ability to prevent and treat diseases has never been greater, resulting in an ever-increasing life expectancy in the United States and in most industrialized countries. Or take the communications industries—communicating quickly, effectively, and cheaply with people all over the world has never been easier. Access to vast quantities of information, entertainment, and music is unbelievable compared to what people had just 10 years ago. So clearly, in some ways and in many industries, services are better than ever.

Despite these obvious improvements, there is hard evidence that consumers perceive a lower quality of service overall and are less satisfied. There are many theories as to why this decline in customer satisfaction with services has occurred, but it is difficult to point precisely to the reason. Plausible theories include these:

- With more companies offering tiered service based on the calculated profitability of different market segments, many customers are in fact getting less service than they have in the past.
- Increasing use by companies of self-service and technology-based service is perceived as less service because no human interaction or human personalization is provided.

Strategy Insight Competing Strategically through Service

Firms can compete profitably through services in a variety of different ways. Through our work with companies across industries and through benchmarking other companies, we see four strategic themes emerge as the primary ways that firms can compete through service. Although firms tend to emphasize one or two of these strategic choices at a given time, it may be possible to do more.

EXEMPLARY OUT-OF-THE-BOX CUSTOMER SERVICE

There are some organizations whose competitive advantage is their reputation for out-of-the-box customer service. Southwest Airlines, Mayo Clinic, Gallery Furniture (a hugely successful furniture store in Texas), and Zanes Cycles (a small bicycle shop in Connecticut) are just a few examples. These organizations focus on going out of their way for customers and providing customer service in unique ways. Special services that these companies provide include

- at Southwest Airlines, a distinctive sense of humor among employees as well as in-flight games and jokes
- at Mayo Clinic, a grand piano in the lobby and doctors who sit physically close to patients, look them in the eye, and truly believe that "the best interest of the patient is the only interest to be considered"
- at Gallery Furniture, free food and day care for children
- at Zanes Cycles, a "flat tire club"

INNOVATIVE, CUTTING-EDGE SERVICES

Other organizations compete through providing innovative and cutting-edge services—being the first and/or best in their industry or being on the forefront of new inventions, technology, or science. Examples here include Amazon.com, the first company to introduce really effective and innovative online retailing. Mayo Clinic falls into this category as well. It is on the leading edge of medicine in the United States and typically only sees patients who have hard-to-diagnose or complex problems. The clinic's research-based, team-oriented, consultative model of medicine keeps it on the forefront.

Being innovative does not necessarily mean that the organization invents something totally new; perhaps its services approach is simply new to that industry. Yellow Transportation (part of YRC Worldwide), an old-line trucking company, reinvented itself as a transportation company by successfully introducing guarantees, express services, and time-definite delivery into this somewhat stodgy industry.

VALUE-ADDED, REVENUE-PRODUCING SERVICES

A major trend in manufacturing, information technology, and other nonservice industries in recent years is the introduction of value-added, revenue-producing services. Firms in these industries have recognized that they cannot compete on the sales and margins produced by their manufactured products alone. Many firms, such as IBM, Hewlett-Packard, Siemens, and General Electric, have integrated services into their mix of offerings. In some cases, as with IBM (see the opening vignette in this chapter), services have actually taken over as the growth engine for the company.

This focus on revenue-producing services also extends to retailers. For example, PetSmart, the largest pet retailer in the United States, has introduced a host of new services in recent years as a way to compete effectively in this relatively low-margin industry. The company targets "pet parents" in its advertising, and its special services include pet training, grooming, and overnight care.

A SERVICE CULTURE THAT DIFFERENTIATES

Finally, a firm can compete by nurturing a service culture that attracts the very best workers in the industry. In attracting the best workers, the company has an advantage over the competition in terms of providing the very best services and thus becoming both the "employer of choice" and the "provider of choice" in its industry. This approach is used, for example, by Southwest Airlines, Mayo Clinic, Disney, and Marriott Hotels. At Marriott, the underlying company philosophy is "take care of your employees and they will take care of your guests." This philosophy permeates all the Marriott brands, from Fairfield Inns to the Ritz Carlton, giving Marriott a worldwide competitive advantage in its industry.

Source: Center for Services Leadership, W. P. Carey School of Business, Arizona State University (www.wpcarey.asu.edu/csl). See also M. J. Bitnek and Stephen W. Brown, "The Service Imperative," *Business Horizons,* 50th Anniversary Issue, January–February 2008.

- Technology-based services (automated voice systems, Internet-based services, technology kiosks) are hard to implement, with many failures and with poorly designed systems in place.
- Customer expectations are higher because of the excellent service they receive from some companies. Thus, they expect the same from all and are frequently disappointed.
- Organizations have cut costs to the extent that they are too lean and too understaffed to provide quality service.
- The competitive job market results in less-skilled people working in front-line service jobs; talented workers soon get promoted or leave for better opportunities.
- Many companies give lip service to customer focus and service quality, but they fail to provide the training, compensation, and support of employees needed to actually deliver quality service.

These theories as to the causes of declining customer satisfaction can be debated. But for managers, students, and teachers of services marketing and management, the message is clear: there is plenty of work to be done. In this text we will provide many examples of best practices—companies that understand how to get it right and are succeeding with service. We will also delineate many tools, concepts, and strategies that can help to reverse the "service stinks" mind-set.

SERVICE AND TECHNOLOGY

The preceding sections examined the roots of services marketing and the reasons why the field exists. Another major trend—technology, specifically information technology—is currently shaping the field and profoundly influencing the practice of services marketing. In this section we explore trends in technology (positive *and* negative) to set the stage for topics that will be discussed throughout this text. In each chapter you will find a Technology Spotlight box that highlights the influence of technology on issues related to the particular chapter. We will also raise technology and service issues as appropriate throughout the general discussion in the text. Together with globalization, the influence of technology is the most profound trend affecting services marketing today.

Potential for New Service Offerings

Looking to the recent past, it is apparent how technology has been the basic force behind service innovations now taken for granted. Automated voice mail, interactive voice response systems, fax machines, automated teller machines (ATMs), and other common services were possible only because of new technologies. Just think how dramatically different your world would be without these basic technology services.

More recently, people have seen the explosion of the Internet, resulting in a host of new services. Internet-based companies like Amazon and eBay offer services previously unheard of. And established companies find that the Internet provides a way to offer new services as well.[21] For example, *The Wall Street Journal* offers an interactive edition that allows customers to organize the newspaper's content to suit their individual preferences and needs.

Many new technology services are on the horizon. For example, some researchers project that the "connected car" will allow people to access all kinds of existing and new services while on the road. Already many cars are equipped with map and routing software that direct drivers to specific locations. In-car systems also provide recommendations for shopping by informing drivers when they are within a certain number of miles of their preferred retailer. On a road trip, the system may provide weather forecasts and warnings, and when it is time to stop for the night, the car's system could book a room at a nearby hotel, recommend a restaurant, and make dinner reservations. Advances in information technology are also making it possible for whole suites of services, including phone, Internet, video, photography and e-mail, to be available through one device such as Apple's iPhone.[22]

New Ways to Deliver Service

In addition to providing opportunities for new service offerings, technology is providing vehicles for delivering existing services in more accessible, convenient, productive ways. Technology facilitates basic customer service functions (bill paying, questions, checking account records, tracking orders), transactions (both retail and business-to-business), and learning or information seeking. Our Technology Spotlight traces how, through history, evolving technologies have changed one aspect of service, namely, customer service, forever. Companies have moved from face-to-face service to telephone-based service to widespread use of interactive voice response systems to Internet-based customer service and now to wireless service. Interestingly, many companies are coming full circle and now offer human contact as the ultimate form of customer service!

Technology also facilitates transactions by offering a direct vehicle for making purchases and conducting business. In the financial services field, Charles Schwab transformed itself from a traditional broker to an online financial services company that currently conducts more than 70 percent of its customer transactions online. Internet banking is also growing worldwide with the Dutch bank, ING Direct, leading the way with 51 percent of all Internet deposits in the United States. Without a single physical branch, ING regularly attracts deposits away from its much larger competitors.[23] Technology giant Cisco Systems offers virtually all its customer service and ordering functions to its business customers via technology. Almost all of its transactions and follow-up with customers are completed online.

Finally, technology, specifically the Internet, provides an easy way for customers to learn, do research, and collaborate with each other. Access to information has never been easier. For example, more than 20,000 websites currently offer health-related information. Many provide answers to specific disease, drug, and treatment questions. In a study of online health care information usage, the Pew organization found that among Americans with Internet access, 80 percent had looked for health or medical information on the Web.[24]

Enabling Both Customers and Employees

Technology enables both customers and employees to be more effective in getting and providing service.[25] Through self-service technologies, customers can serve themselves more effectively. Via online banking, customers can access their accounts, check balances, apply for loans, shift money among accounts, and take care of just about any banking need they might have—all without the assistance of the bank's employees. Wells Fargo, the first bank to offer online services in the United States, finds that its online customers are its most satisfied customers. These online banking services are just one example of the types of self-service technologies that are proliferating across industries.

Technology Spotlight The Changing Face of Customer Service

Excellent customer service—the daily, ongoing support of a company's offerings—is critical in creating brand identity and ultimate success. It includes answering questions, taking orders, dealing with billing issues, handling complaints, scheduling appointments, and similar activities. These essential functions can make or break an organization's relationships with its customers. The quality of customer care can significantly impact brand identity for service, manufacturing, and consumer products companies. Because of its importance in creating impressions and sustaining customer relationships, customer service has sometimes been called the "front door" of the organization or its "face."

So how has the "face" of customer service changed with the influx of technology? Long ago all customer service was provided face-to-face through direct personal interaction between employees and customers. To get service you had to visit stores or service providers in person. The telephone changed this, allowing customers to call companies and speak directly with employees, typically Monday–Friday, 8 a.m.–5 p.m. Customer service became less personal, but without a doubt more efficient, through use of the telephone. With the evolution of computer technology, customer service representatives (CSRs) became even more efficient. Through computer information systems and customer data files, CSRs are able to call up customer records at their workstations to answer questions on the spot.

Over time, because communication and computer technologies allowed it, large organizations began to centralize their customer service functions, consolidating into a few large call centers that could be located anywhere in the country or the world. For example, a large percentage of IBM's customer service calls in North America are handled out of its sales and service center in Toronto, Canada, and calls can be handled 24 hours per day. But still, in these types of call centers, customer service is for the most part an interpersonal event with customers talking directly, one-on-one with an employee.

The advent and rapid proliferation of the efficient, but much maligned, automated voice response systems have changed personal customer service in many organizations into menu-driven, automated exchanges. In almost every industry and any business context, consumers encounter these types of systems, and many are quite frustrating—for example, when a system has a long, confusing set of menu options or when no menu option seems to fit the purpose of the call. Similarly, consumers become angered

For employees, technology can provide tremendous support in making them more effective and efficient in delivering service. Customer relationship management and sales support software are broad categories of technology that can aid frontline employees in providing better service. By having immediate access to information about their product and service offerings as well as about particular customers, employees are better able to serve them. This type of information allows employees to customize services to fit the customer's needs. They can also be much more efficient and timely than in the old days when most customer and product information was in paper files or in the heads of sales and customer service representatives.

Extending the Global Reach of Services

Technology infusion results in the potential for reaching out to customers around the globe in ways not possible before. The Internet itself knows no boundaries, and therefore information, customer service, and transactions can move across countries and across continents, reaching any customer who has access to the Web. Technology also allows employees of international companies to stay in touch easily—to share information, to ask questions, to serve on virtual teams together. All this technology facilitates the global reach as well as the effectiveness of service businesses. Our Global Feature focuses on the migration of service jobs and the ability to produce services almost anywhere.

when they cannot get out of the automated system easily, or when there is no option to speak to a live person.

Some companies have overcome these obstacles, however, and have well-designed automated telephone systems that work well for customers. Charles Schwab provides a notable example. Schwab completes more than 75 percent of its 82 million annual calls through speech and touch-tone automated response systems. Its automated voice response system has been designed to give quick answers with a minimum of navigation beyond the first menu. This efficiency is accomplished through a form of natural-language speech recognition technology that allows customers to easily interact through the telephone in ways that are much like talking to a real person.

Beyond automated telecom systems, explosion of the Internet is also dramatically changing customer service for many companies. Service can now be provided on the Internet via e-mails, website robots, FAQs, and online chats. In these cases there is no direct human interaction, and customers actually perform their own service.

With the relentless proliferation of technology solutions, firms are finding that expectations for customer service have changed. Customers are demanding choices in how they get customer service, whether it be via phone, automated voice system, fax, e-mail, or Internet self-service. Although customers often enjoy technology-based service and even demand it in many cases, they dislike it when it does not work reliably (a common problem), when it does not seem to have any advantages over the interpersonal service alternatives, and when there are no systems in place to recover from failures. Interestingly, when things do not work as they are supposed to on an Internet site or through an automated response system, customers are quick to look for more traditional interpersonal (in person or via telephone) options, coming full circle to where they started. Somewhat ironically, the leading *Internet* bank in Europe and the United States, ING Direct, prides itself on staffing its toll-free customer service phone lines with real *people,* not automated menu systems!

Sources: J. A. Nickell, "To Voice Mail Hell and Back," *Business 2.0,* July 10, 2001, pp. 49–53; M. L. Meuter, A. L. Ostrom, R. I. Roundtree, and M. J. Bitner, "Self-Service Technologies: Understanding Customer Satisfaction with Technology-Based Service Encounters," *Journal of Marketing* 64 (July 2000), pp. 50–64; S. Ali, "If you want to Scream, Press . . . ," *The Wall Street Journal,* October 30, 2006, p. R4; B. Kiviat, "How a man on a Mission (and a Harley) Reinvented Banking," *Time,* June 25, 2007, pp. 45–46.

The Internet *Is* a Service

An interesting way to look at the influence of technology is to realize that the Internet is just "one big service." All businesses and organizations that operate on the Internet are essentially providing services—whether they are giving information, performing basic customer service functions, or facilitating transactions. Thus all the tools, concepts, and strategies you learn in studying services marketing and management have direct application in an Internet or e-business world. Although technology and the Internet are profoundly changing how people do business and what offerings are possible, it is clear that customers still want basic service. They want what they have always wanted: dependable outcomes, easy access, responsive systems, flexibility, apologies, and compensation when things go wrong. But now they expect these same outcomes from technology-based businesses and from e-commerce solutions.[26] With hindsight it is obvious that many dot-com start-ups suffered and even failed because of lack of basic customer knowledge and failure of implementation, logistics, and service follow-up.[27]

The Paradoxes and Dark Side of Technology and Service

Although there is clearly great potential for technology to support and enhance services, there are potential negative outcomes as well. David Mick and Susan Fournier, well-regarded consumer researchers, have pointed out the many paradoxes

Global Feature The Migration of Service Jobs

With the ever-growing sophistication of information technology, the global reach of organizations is increasing at a spectacular rate. Activities that used to require close proximity and personal contact can now often be accomplished via the Internet, video, and telecommunication technologies. This advancement means that the jobs that produce and support these activities can be done almost anywhere in the world. The result has been referred to as a "migration of service jobs" out of countries such as the United States and the United Kingdom to countries such as India, Pakistan, the Philippines, Eastern European countries, and, more recently, Columbia and Brazil.

This globalization of services is in many ways inevitable, but it comes with considerable controversy. One clear concern is that some of the highest-paying service jobs are being "lost" to lower-wage countries, and this concern is very real for the individuals whose jobs are lost. However, the numbers are not as large as perhaps imagined. Forrester Research in Cambridge, Massachusetts, estimates that by the year 2015, 3.3 million high-tech and service jobs will move overseas from the United States. Others estimate the member to be much higher. On the other side of this concern are arguments that offshore jobs will spur innovation, job creation in other areas, and increases in productivity that will benefit the consumer and keep companies competitive in the global marketplace. In fact, the Bureau of Labor Statistics estimates that between 2000 and 2010, 22 million new U.S. jobs (mostly in business services, health care, social services, transportation, and communications) will be created. Although the specific outcomes of service job migration are not totally known, it is safe to say that the globalization of services will continue, resulting in further shrinking of the boundaries among people and countries.

Service job migration involves not just call centers and IT help lines, but also services that span industries and levels of skills. Software development, IT consulting, chip design, financial analysis, industrial engineering, analytics, and drug research are just a few examples of services performed in India for global firms. Even medical diagnoses and reading of medical records can be done remotely via video, Internet, and scanning technologies.

Why is service job migration happening now? The root of the acceleration is the rapid development and accessibility of sophisticated information technologies. Services are information intensive, and information can now be shared readily without direct personal contact. For example, at the John F. Welch Technology Center in Bangalore, close to 3,000 Indian researchers and engineers engage in research for General Electric's divisions. Projects span such diverse areas as developing materials for use in DVDs, boosting productivity of GE plants, and tweaking the designs of turbine engine blades. The design work can be done in India (perhaps even teaming with engineers elsewhere), and the results can be sent instantaneously wherever they are needed. Other examples: more than 20,000 U.S. tax returns annually are prepared and filed by certified public accountants (CPAs) working in India; Indian financial analysts digest the latest disclosures of U.S. companies and file reports the next day; and other workers in India sort through mounds of consumer data provided by non-Indian company clients to determine behavior patterns and develop ideas for marketing. In each of these cases, *where* the work is done is not important or meaningful to the client as long as it is done well and on time.

Source: Indranil Mukerjee/Getty Images

A major reason that this movement of jobs is possible is that countries outside the developed world are now producing highly skilled, well-educated workforces, particularly in China and India. These workers typically work for far less compensation than their U.S. or U.K. counterparts, allowing global companies to reduce labor costs on the one hand and increase overall productivity on the other. The quality of the work can be very high as well. However, as the growth in offshoring continues and competition for talent increases, firms are zeroing in as cultural and language gaps that can limit quality with some firms, bringing services—particularly call centers—back to their home bare.

Sources: U. Karmarkar, "Will You Survive the Services Revolution?" *Harvard Business Review,* June 2004, pp. 100–107; M. Kripalani and P. Engardio, "The Rise of India," *BusinessWeek,* December 8, 2003; S. A. Teicher, "A Not So Simple Path," *Christian Science Monitor,* February 23, 2004; M. N. Baily and D. Farrell, "Exploding the Myths of Offshoring," *The McKinsey Quarterly,* online at www.mckinseyquarterly.com, July 2004; S. Ali, "If you want to Scream, Press . . . ," *The Wall Street Journal,* October 30, 2006, R4; A. Vashistha and A. Vashistha, *The Offshore Nation* (NewYork: Mc-Graw Hill, 2006); S. Lohr, "At IBM, a Smarter Way to Outsource," *The New York Times,* July 5, 2007.

of technology products and services for consumers, as shown in Table 1.1.[28] This section highlights some of the general concerns.

Customer concerns about privacy and confidentiality raise major issues for firms as they seek to learn about and interact directly with customers through the Internet. These types of concerns are what have stymied and precluded many efforts to advance technology applications in the health care industry, for example. Nor are all customers equally interested in using technology as a means of interacting with companies. Research exploring "customer technology readiness" suggests that some customers are simply not interested or ready to use technology.[29] Employees can also be reluctant to accept and integrate technology into their work lives—especially when they perceive, rightly or wrongly, that the technology will substitute for human labor and perhaps eliminate their jobs.

With technology infusion comes a loss of human contact, which many people believe is detrimental purely from a quality of life and human relationships perspective. Parents may lament that their children spend hours in front of computer screens, interacting with games, seeking information, and relating to their friends only through instant messaging and MySpace sites without any face-to-face human contact. And workers in organizations become more and more reliant on communicating through technology—even communicating via e-mail or online chat sessions with the person in the next office!

Finally, the payback in technology investments is often uncertain. It may take a long time for an investment to result in productivity or customer satisfaction gains. Sometimes it never happens. For example, McKinsey & Company reports that a firm projected a $40 million savings from moving its billing and service calls to the Web. Instead it suffered a $16 million loss as a result of lower usage by customers than projected, unanticipated follow-up calls and e-mails to the call center from those who had used the Web application initially, and loss of revenue from lack of cross-selling opportunities.[30]

TABLE 1.1 Eight Central Paradoxes of Technological Products

Source: D. G. Mick and S. Fournier, "Paradoxes of Technology: Consumer Cognizance, Emotions, and Coping Strategies," *Journal of Consumer Research* 25 (September 1998), pp. 123–47. Copyright © 1998 University of Chicago Press. Reprinted by permission.

Paradox	Description
Control/chaos	Technology can facilitate regulation or order, and technology can lead to upheaval or disorder.
Freedom/enslavement	Technology can facilitate independence or fewer restrictions, and technology can lead to dependence or more restrictions.
New/obsolete	New technologies provide the user with the most recently developed benefits of scientific knowledge, and new technologies are already or soon to be outmoded as they reach the marketplace.
Competence/incompetence	Technology can facilitate feelings of intelligence or efficacy, and technology can lead to feelings of ignorance or ineptitude.
Efficiency/inefficiency	Technology can facilitate less effort or time spent in certain activities, and technology can lead to more effort or time in certain activities.
Fulfills/creates needs	Technology can facilitate the fulfillment of needs or desires, and technology can lead to the development or awareness of needs or desires previously unrealized.
Assimilation/isolation	Technology can facilitate human togetherness, and technology can lead to human separation.
Engaging/disengaging	Technology can facilitate involvement, flow, or activity, and technology can lead to disconnection, disruption, or passivity.

CHARACTERISTICS OF SERVICES COMPARED TO GOODS

There is general agreement that differences between goods and services exist and that the distinctive characteristics discussed in this section result in challenges (as well as advantages) for managers of services.[31] It is also important to realize that each of these characteristics could be arranged on a continuum similar to the tangibility spectrum show in Figure 1.1. That is, services tend to be more heterogeneous, more intangible, more difficult to evaluate than goods, but the differences between goods and services are not black and white by any means.[32]

Table 1.2 summarizes the differences between goods and services and the implications of these characteristics. Many of the strategies, tools, and frameworks in this text were developed to address these characteristics, which, until the 1980s, had been largely ignored by marketers. Recently it has been suggested that these distinctive characteristics should not be viewed as unique to services but that they are also relevant to goods, that "all products are services," and that "economic exchange is fundamentally about service provision."[33] Although this view is rather abstract, it does suggest that all types of organizations may be able to gain valuable insights from services marketing frameworks, tools, and strategies..

Intangibility

The most basic distinguishing characteristic of services is intangibility. Because services are performances or actions rather than objects, they cannot be seen, felt, tasted, or touched in the same manner that you can sense tangible goods. For example, health care services are actions (such as surgery, diagnosis, examination, and treatment) performed by providers and directed toward patients and their families. These services cannot actually be seen or touched by the patient, although the patient may be able to see and touch certain tangible components of the service (like the equipment or hospital room). In fact, many services such as health care are difficult for the consumer to

TABLE 1.2 Comparing Goods and Services

Source: A. Parasuraman, V. A. Zeithaml, and L. L. Berry, "A Conceptual Model of Service Quality and It's Implications for Future Research." *Journal of Marketing* 49 (Fall 1985) pp. 41–50. Reprinted by permission of the American Marketing Association.

Goods	Services	Resulting Implications
Tangible	Intangible	Services cannot be inventoried. Services cannot be easily patented. Services cannot be readily displayed or communicated. Pricing is difficult.
Standardized	Heterogeneous	Service delivery and customer satisfaction depend on employee and customer actions. Service quality depends on many uncontrollable factors. There is no sure knowledge that the service delivered matches what was planned and promoted.
Production separate from consumption	Simultaneous production and consumption	Customers participate in and affect the transaction. Customers affect each other. Employees affect the service outcome. Decentralization may be essential. Mass production is difficult.
Nonperishable	Perishable	It is difficult to synchronize supply and demand with services. Services cannot be returned or resold.

grasp even mentally. Even after a diagnosis or surgery has been completed the patient may not fully comprehend the service performed, although tangible evidence of the service (e.g., incision, bandaging, pain) may be quite apparent.

Resulting Marketing Implications Intangibility presents several marketing challenges. Services cannot be inventoried, and therefore fluctuations in demand are often difficult to manage. For example, there is tremendous demand for resort accommodations in Phoenix in February, but little demand in July. Yet resort owners have the same number of rooms to sell year-round. Services cannot be easily patented, and new service concepts can therefore easily be copied by competitors. Services cannot be readily displayed or easily communicated to customers, so quality may be difficult for consumers to assess. Decisions about what to include in advertising and other promotional materials are challenging, as is pricing. The actual costs of a "unit of service" are hard to determine, and the price–quality relationship is complex.

Heterogeneity

Because services are performances, frequently produced by humans, no two services will be precisely alike. The employees delivering the service frequently are the service in the customer's eyes, and people may differ in their performance from day to day or even hour to hour. Heterogeneity also results because no two customers are precisely alike; each will have unique demands or experience the service in a unique way. Thus the heterogeneity connected with services is largely the result of human interaction (between and among employees and customers) and all of the vagaries that accompany it. For example, a tax accountant may provide a different service experience to two different customers on the same day depending on their individual needs and personalities and on whether the accountant is interviewing them when he or she is fresh in the morning or tired at the end of a long day of meetings.

Resulting Marketing Implications Because services are heterogeneous across time, organizations, and people, ensuring consistent service quality is challenging. Quality actually depends on many factors that cannot be fully controlled by the service supplier, such as the ability of the consumer to articulate his or her needs, the ability and willingness of personnel to satisfy those needs, the presence (or absence) of other customers, and the level of demand for the service. Because of these complicating factors, the service manager cannot always know for sure that the service is being delivered in a manner consistent with what was originally planned and promoted. Sometimes services may be provided by a third party, further increasing the potential heterogeneity of the offering.

Simultaneous Production and Consumption

Whereas most goods are produced first, then sold and consumed, most services are sold first and then produced and consumed simultaneously. For example, an automobile can be manufactured in Detroit, shipped to San Francisco, sold two months later, and consumed over a period of years. But restaurant services cannot be provided until they have been sold, and the dining experience is essentially produced and consumed at the same time. Frequently this situation also means that customers are present while the service is being produced and thus view and may even take part in the production process as coproducers or cocreators of the service. Simultaneity also means that customers will frequently interact with each other during the service production process and thus may affect each others' experiences. For example, strangers seated next to each other in an airplane may well affect the nature of the service experience for each other. That passengers understand this fact is clearly apparent in the way business travelers will often go to great lengths to be sure they are not seated next to families with small children.

FIGURE 1.6
Students in a university class co-create the service experience with each other and the professor

Another outcome of simultaneous production and consumption is that service producers find themselves playing a role as part of the product itself and as an essential ingredient in the service experience for the consumer. Figure 1.6 illustrates a common and complex example of simultaneous cocreation of a service—a university classroom.

Resulting Marketing Implications Because services often are produced and consumed at the same time, mass production is difficult. The quality of service and customer satisfaction will be highly dependent on what happens in "real time," including actions of employees and the interactions between employees and customers. Clearly the real-time nature of services also results in advantages in terms of opportunities to customize offerings for individual consumers. Simultaneous production and consumption also means that it is not usually possible to gain significant economies of scale through centralization. Often, operations need to be relatively decentralized so that the service can be delivered directly to the consumer in convenient locations, although the growth of technology-delivered services is changing this requirement for many services. Also because of simultaneous production and consumption, the customer is involved in and observes the production process and thus may affect (positively or negatively) the outcome of the service transaction.

Perishability

Perishability refers to the fact that services cannot be saved, stored, resold, or returned. A seat on an airplane or in a restaurant, an hour of a lawyer's time, or telephone line capacity not used or purchased cannot be reclaimed and used or resold at a later time. Perishability is in contrast to goods that can be stored in inventory or resold another day, or even returned if the consumer is unhappy. Would it not be nice if a bad haircut could be returned or resold to another consumer? Perishability makes this action an unlikely possibility for most services.

Resulting Marketing Implications A primary issue that marketers face in relation to service perishability is the inability to inventory. Demand forecasting and creative planning for capacity utilization are therefore important and challenging decision areas. The fact that services cannot typically be returned or resold also implies a need for strong recovery strategies when things do go wrong. For example, although a bad haircut cannot be returned, the hairdresser can and should have strategies for recovering the customer's goodwill if and when such a problem occurs.

Challenges and Questions for Service Marketers

Because of the basic characteristics of services, marketers of services face some very real and distinctive challenges. Answers to questions such as the ones listed here still elude managers of services:

How can service quality be defined and improved when the product is intangible and nonstandardized?

How can new services be designed and tested effectively when the service is essentially an intangible process?

How can the firm be certain it is communicating a consistent and relevant image when so many elements of the marketing mix communicate to customers and some of these elements are the service providers themselves?

How does the firm accommodate fluctuating demand when capacity is fixed and the service itself is perishable?

How can the firm best motivate and select service employees who, because the service is delivered in real time, become a critical part of the product itself?

How should prices be set when it is difficult to determine actual costs of production and price may be inextricably intertwined with perceptions of quality?

How should the firm be organized so that good strategic and tactical decisions are made when a decision in any of the functional areas of marketing, operations, and human resources may have significant impact on the other two areas?

How can the balance between standardization and personalization be determined to maximize both the efficiency of the organization and the satisfaction of its customers?

How can the organization protect new service concepts from competitors when service processes cannot be readily patented?

How does the firm communicate quality and value to consumers when the offering is intangible and cannot be readily tried or displayed?

How can the organization ensure the delivery of consistent quality service when both the organization's employees and the customers themselves can affect the service outcome?

SERVICES MARKETING MIX

The preceding questions are some of the many raised by managers and marketers of services that will be addressed throughout the text through a variety of tools and strategies. Sometimes these tools are adaptations of traditional marketing tools, as with the services marketing mix presented here. Other times they are new, as in the case of service blueprinting presented in Chapter 9.

Traditional Marketing Mix

One of the most basic concepts in marketing is the *marketing mix,* defined as the elements an organization controls that can be used to satisfy or communicate with customers. The traditional marketing mix is composed of the four Ps: *product, price, place* (distribution), and *promotion.* These elements appear as core decision variables in any marketing text or marketing plan. The notion of a mix implies that all the variables are interrelated and depend on each other to some extent. Further, the marketing mix philosophy implies an optimal mix of the four factors for a given market segment at a given point in time.

Key strategy decision areas for each of the four Ps are captured in the top four groups in Table 1.3. Careful management of product, place, promotion, and price will clearly also be essential to the successful marketing of services. However, the strategies for the four Ps require some modifications when applied to services. For example, traditionally promotion is thought of as involving decisions related to sales, advertising, sales promotions, and publicity. In services these factors are also important, but because services are produced and consumed simultaneously, service delivery people (such as clerks, ticket takers, nurses, and phone personnel) are involved in realtime promotion of the service even if their jobs are typically defined in terms of the operational function they perform.

Expanded Mix for Services

Because services are usually produced and consumed simultaneously, customers are often present in the firm's factory, interact directly with the firm's personnel, and are actually part of the service production process. Also, because services are intangible, customers will often be looking for any tangible cue to help them understand the nature of the service experience. For example, in the hotel industry the design and decor of the hotel as well as the appearance and attitudes of its employees will influence customer perceptions and experiences.

Acknowledgment of the importance of these additional variables has led services marketers to adopt the concept of an expanded marketing mix for services shown in the three remaining groups in Table 1.3.[34] In addition to the traditional four Ps, the services marketing mix includes *people, physical evidence,* and *process.*

People All human actors who play a part in service delivery and thus influence the buyer's perceptions: namely, the firm's personnel, the customer, and other customers in the service environment.

All the human actors participating in the delivery of a service provide cues to the customer regarding the nature of the service itself. Their attitudes and behaviors, how

TABLE 1.3
Expanded Marketing Mix for Services

Product	Place	Promotion	Price

Physical good features
Quality level
Accessories
Packaging
Warranties
Product lines
Branding
	Channel type
	Exposure
	Intermediaries
	Outlet locations
	Transportation
	Storage
	Managing channels
		Promotion blend
		Salespeople
		  Selection
		  Training
		  Incentives
		Advertising
		  Media types
		  Types of ads
		Sales promotion
		Publicity
		Internet/Web strategy
			Flexibility
			Price level
			Terms
			Differentiation
			Discounts
			Allowances

People	**Physical Evidence**	**Process**	

Employees
  Recruiting
  Training
  Motivation
  Rewards
  Teamwork
Customers
  Education
  Training
	Facility design
	Equipment
	Signage
	Employee dress
	Other tangibles
	  Reports
	  Business cards
	  Statements
	  Guarantees
		Flow of activities
		  Standardized
		  Customized
		Number of steps
		  Simple
		  Complex
		Customer involvement	

these people are dressed, and their personal appearance, all influence the customer's perceptions of the service. In fact, for some services, such as consulting, counseling, teaching, and other professional relationship-based services, the provider *is* the service. In other cases the contact person may play what appears to be a relatively small part in service delivery—for instance, a telephone installer, an airline baggage handler, or an equipment delivery dispatcher. Yet research suggests that even these providers may be the focal point of service encounters that can prove critical for the organization.

In many service situations, customers themselves can also influence service delivery, thus affecting service quality and their own satisfaction. For example, a client of a consulting company can influence the quality of service received by providing needed and timely information and by implementing recommendations provided by the consultant. Similarly, health care patients greatly affect the quality of service they receive when they either comply or do not comply with health regimens prescribed by the provider.

Customers not only influence their own service outcomes, but they can influence other customers as well. In a theater, at a ballgame, or in a classroom, customers can influence the quality of service received by others—either enhancing or detracting from other customers' experiences.

Physical evidence The environment in which the service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service.

The physical evidence of service includes all the tangible representations of the service such as brochures, letterhead, business cards, report formats, signage, and equipment. In some cases it includes the physical facility where the service is offered—the "servicescape"—for example, the retail bank branch facility. In other cases, such as telecommunication services, the physical facility may be irrelevant. In this case other tangibles such as billing statements and appearance of the repair truck may be important indicators of quality. Especially when consumers have little on which to judge the actual quality of service they will rely on these cues, just as they rely on the cues provided by the people and the service process. Physical evidence cues provide excellent opportunities for the firm to send consistent and strong messages regarding the organization's purpose, the intended market segments, and the nature of the service.

Process The actual procedures, mechanisms, and flow of activities by which the service is delivered—the service delivery and operating systems.

The actual delivery steps that the customer experiences, or the operational flow of the service, also give customers evidence on which to judge the service. Some services are very complex, requiring the customer to follow a complicated and extensive series of actions to complete the process. Highly bureaucratized services frequently follow this pattern, and the logic of the steps involved often escapes the customer. Another distinguishing characteristic of the process that can provide evidence to the customer is whether the service follows a production-line/standardized approach or whether the process is an empowered/customized one. None of these characteristics of the service is inherently better or worse than another. Rather, the point is that these process characteristics are another form of evidence used by the consumer to judge service. For example, two successful airline companies, Southwest and Singapore Airlines, follow extremely different process models. Southwest is a no-frills (no food, no assigned seats), low-priced airline that offers frequent, relatively short domestic flights. All the evidence it provides is consistent with its vision and market position, as illustrated in Exhibit 1.2. Singapore Airlines, on the other hand, focuses on the business traveler

Exhibit 1.2 Southwest Airlines: Aligning People, Processes, and Physical Evidence

Southwest Airlines occupies a solid position in the minds of U.S. air travelers as a reliable, convenient, fun, low-fare, no-frills airline. Translated, this position means high value—a position reinforced by all elements of Southwest's services marketing mix. It has maintained this position consistently for more than 30 years while making money every year; no other U.S. airline comes close to this record.

Success has come for a number of reasons. One is the airline's low cost structure. It flies only one type of plane (Boeing 737s), which lowers costs because of the fuel efficiency of the aircraft itself combined with the ability to standardize maintenance and operational procedures. The airline also keeps its costs down by not serving meals, having no preassigned seats, and keeping employee turnover very low. Southwest Airlines' Herb Kelleher (president of Southwest from its inception until 2001, and subsequently serving as chairman) is famous for his belief that employees come first, not customers. The Dallas-based carrier has managed to be the low-cost provider and a preferred employer while enjoying high levels of customer satisfaction and strong customer loyalty. Southwest Airlines has the best customer service record in the airline industry and has won the industry's "Triple Crown" for best baggage handling, best on-time performance, and best customer complaint statistics many times.

Observing Southwest Airlines' success, it is clear that all of its marketing mix is aligned around its highly successful market position. The three traditional services marketing mix elements all strongly reinforce the value image of the airline:

- **People** Southwest uses its people and its customers very effectively to communicate its position. Employees are unionized, yet they are trained to have fun, allowed to define what "fun" means, and given authority to do what it takes to make flights lighthearted and enjoyable. People are hired at Southwest for their attitudes; technical skills can be and are trained. And they are the most productive workforce in the U.S. airline industry. Customers also are included in the atmosphere of fun, and many get into the act by joking with the crew and each other and by flooding the airline with letters expressing their satisfaction.
- **Process** The service delivery process at Southwest also reinforces its position. There are no assigned seats on the aircraft, so passengers line up and are "herded" by assigned groups and numbers onto the plane, where they jockey for seats. With very few exceptions, the airline does not transfer baggage to connecting flights on other airlines. Food is not served in flight. In all, the process is very efficient, standardized, and low-cost, allowing for quick turnaround and low fares. Customers are very much part of the service process, taking on their roles willingly.

- **Physical evidence** All the tangibles associated with Southwest further reinforce the market position. Employees dress casually, wearing shorts in the summer to reinforce the "fun" and further emphasize the airline's commitment to its employees' comfort. No in-flight meal service confirms the low-price image through the absence of tangibles—no food. Because many people joke about airline food, its absence for many is not viewed as a value detractor. Southwest's simple, easy-to-use website is yet another form of consistent, tangible evidence that supports the airline's strong positioning and reinforces its image.

The consistent positioning using the services marketing mix reinforces the unique image in the customer's mind, giving Southwest Airlines its high-value position.

Source: K. Freiberg and J. Freiberg, *Nuts! Southwest Airlines' Crazy Recipe for Business and Personal Success* (Austin, TX: Bard Press, Inc., 1996); and K. Labich, "Is Herb Kelleher America's Best CEO?" *Fortune,* May 2, 1994; H. Kelleher and K. Brooker, "The Chairman of the Board Looks Back," *Fortune,* May 28, 2001, pp. 62–76; J. H. G. Hell, *The Southwest Airlines Way* (New York: McGraw-Hill, 2003).

and is concerned with meeting individual traveler needs. Thus, its process is highly customized to the individual, and employees are empowered to provide nonstandard service when needed. Both airlines have been very successful.

The three new marketing mix elements (people, physical evidence, and process) are included in the marketing mix as separate elements because they are within the control of the firm *and* because any or all of them may influence the customer's initial decision to purchase a service as well as the customer's level of satisfaction and repurchase decisions. The traditional elements as well as the new marketing mix elements will be explored in depth in future chapters.

STAYING FOCUSED ON THE CUSTOMER

A critical theme running throughout the text is *customer focus.* In fact, the subtitle of the book is "integrating customer focus across the firm." From the firm's point of view, all strategies are developed with an eye on the customer, and all implementations are carried out with an understanding of their impact on the customer. From a practical perspective, decisions regarding new services and communication plans will integrate the customer's point of view; operations and human resource decisions will be considered in terms of their impact on customers. All the tools, strategies, and frameworks included in this text have customers at their foundation. The services marketing mix just described is clearly an important tool that addresses the uniqueness of services, keeping the customer at the center.

In this text, we also view customers as assets to be valued, developed, and retained. The strategies and tools we offer thus focus on customer relationship building and loyalty as opposed to a more transactional focus in which customers are viewed as one-time revenue producers. This text looks at customer relationship management not as a software program but as an entire architecture or business philosophy. Every chapter in the text can be considered a component needed to build a complete customer relationship management approach.

Summary

This chapter has set the stage for further learning about services marketing by presenting information on changes in the world economy and business practice that have driven the focus on service: the fact that services dominate the modern economies of the world; the focus on service as a competitive business imperative; specific needs of the deregulated and professional service industries; the role of new service concepts growing from technological advances; and the realization that the characteristics of services result in unique challenges and opportunities. The chapter presented a broad definition of services as deeds, processes, and performances, and it drew distinctions among pure services, value-added services, customer service, and derived service.

Building on this fundamental understanding of the service economy, the chapter presents the key characteristics of services that underlie the need for distinct strategies and concepts for managing service businesses. These basic characteristics are that services are intangible, heterogeneous, produced and consumed simultaneously, and perishable. Because of these characteristics, service managers face a number of challenges in marketing, including the complex problem of how to deliver quality services consistently.

The chapter ended by describing two themes that provide the foundation for future chapters: the expanded marketing mix for services; and customer focus as a unifying theme. The remainder of the text focuses on exploring the unique opportunities and challenges faced by organizations that sell and deliver services and on developing solutions that will help you become an effective services champion and manager.

Discussion Questions

1. What distinguishes service offerings from customer service? Provide specific examples.
2. How is technology changing the nature of customer service and service offerings?
3. What are the basic characteristics of services compared with goods? What are the implications of these characteristics for IBM Global Service or for Southwest Airlines?
4. One of the underlying frameworks for the text is the services marketing mix. Discuss why each of the three new mix elements (process, people, and physical evidence) is included. How might each of these communicate with or help to satisfy an organization's customers?
5. Think of a service job you have had or currently have. How effective, in your opinion, was or is the organization in managing the elements of the services marketing mix?
6. Again, think of a service job you have had or currently have. How did or does the organization handle relevant challenges listed in Table 1.2?
7. How can quality service be used in a manufacturing context for competitive advantage? Think of your answer to this question in the context of automobiles or computers or some other manufactured product you have actually purchased.

Exercises

1. Roughly calculate your budget for an average month. What percentage of your budget goes for services versus goods? Do the services you purchase have value? In what sense? If you had to cut back on your expenses, what would you cut out?
2. Visit two local retail service providers that you believe are positioned very differently (such as Kmart and Nordstrom, or Burger King and a fine restaurant). From your own observations, compare their strategies on the elements of the services marketing mix.
3. Try a service you have never tried before on the Internet. Analyze the benefits of this service. Was enough information provided to make the service easy to use? How would you compare this service to other methods of obtaining the same benefits?

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