Why Study Services? (1)

- Services dominate economy in most nations
- Understanding services offers you personal competitive advantages
- Importance of service sector in economy is growing rapidly:
  - Services account for more than 60 percent of GDP worldwide
  - Almost all economies have a substantial service sector
  - Most new employment is provided by services
  - Strongest growth area for marketing
Services Dominate the U.S. Economy (Fig 1.1)

Services, 68%

Agriculture, Forestry, Mining, Fishing, 2.3%

Manufacturing and Construction, 17.3%

Government, 12.4% (mostly Services)

Source: Bureau of Economic Analysis, Survey of Current Business, May 2005, Table 1

**INSIGHTS**

- Private sector service industries account for over two-thirds of GDP
- Adding government services, total is almost four-fifths of GDP
Estimated Size of Service Sector in Selected Countries (Fig 1.2—updated 10/06)

- Cayman Islands (95%), Jersey (93%)
- Bahamas (90%), Bermuda (89%)
- Luxembourg (83%)
- Panama (80%), USA (79%)
- Japan (74%), France (73%), U.K. (73%), Canada (71%)
- Mexico (69%), Australia (68%), Germany (68%)
- Poland (66%), South Africa (65%)
- Israel (60%), Russia (58%), S. Korea (56%)
- Argentina (53%), Brazil (51%)
- India (48%)
- China (40%)
- Saudi Arabia (33%)
Value Added by Service Industry Categories to U.S. GDP in 2004

Other (except government) 3.6%
Accommodation and food services 4.0%
Arts, entertainment, and recreation 1.5%
Healthcare and social assistance 10.4%
Educational services 1.3%
Professional and business services 17.3%

Real estate and rental and leasing 18.7%
Finance and insurance 12.6%
Information 7.1%
Transportation and warehousing 4.4%
Retail trade 10.3%
Wholesale trade 8.9%

Source: Bureau of Economic Analysis, Survey of Current Business, May 2005, Table 1
NAICS: A New Way to Classify and Analyze the Service Economy (RI 1.1)

- NAICS—North American Industry Classification System—now used to compile and record economic data by national statistical agencies of the U.S., Canada, Mexico
- New classification system replaces old SIC codes in U.S.
- Captures huge array of new service industries, each with its own NAICS code
- NAPCS—North American Product Classification System—assigns codes to thousands of service products
  - Particularly useful for looking at rented goods services
- U.S. and Canadian data easily accessible on the Web; information includes number of establishments and employment
Some Newer Service Industries Profiled by NAICS Codes But Not SIC

- Casino Hotels
- Continuing Care Retirement Communities
- Diagnostic Imaging Centers
- Diet and Weight Reducing Centers
- Environmental Consulting
- Golf Courses, Country Clubs
- Hazardous Waste Collection
- HMO Medical Centers
- Industrial Design Services
- Investment Banking and Securities Dealing
- Management Consulting Services
- Satellite Telecommunications
- Telemarketing Bureaus
- Temporary Help Services
Why Study Services? (2)

- Most new jobs are generated by services
  - Fastest growth expected in knowledge-based industries
  - Significant training and educational qualifications required, but employees will be more highly compensated
  - Will service jobs lost to lower-cost countries? Yes, some service jobs can be exported
Changing Structure of Employment as Economic Development Evolves

Source: IMF, 1997
Why Study Services? (3)

- Powerful forces are transforming service markets
  - Government policies, social changes, business trends, advances in IT, internationalization

- These forces are reshaping
  - Demand
  - Supply
  - The competitive landscape
  - Customers’ choices, power, and decision making
Transformation of the Service Economy

Social Changes
- Government Policies
  - New markets and product categories
  - Increase in demand for services
  - More intense competition

Business Trends
- Advances in IT
  - Innovation in service products & delivery systems, stimulated by better technology

Globalization
- Customers have more choices and exercise more power

Success hinges on:
- Understanding customers and competitors
- Viable business models
- Creation of value for customers and firm

Innovation in service products & delivery systems, stimulated by better technology
Factors Stimulating Transformation of the Service Economy (1)

- **Government Policies**
  - Changes in regulations
  - Privatization
  - New rules to protect customers, employees, and the environment
  - New agreement on trade in services

- **Social Changes**
- **Business Trends**
- **Advances in IT**
- **Globalization**
Factors Stimulating Transformation of the Service Economy (2)

- Social Changes
  - Government Policies
  - Business Trends
  - Advances in IT
  - Globalization

- Rising consumer expectations
- More affluence
- More people short of time
- Increased desire for buying experiences versus things
- Rising consumer ownership of high tech equipment
- Easier access to information
- Immigration
- Growing but aging population
Factors Stimulating Transformation of the Service Economy (3)

- **Government Policies**
  - Push to increase shareholder value
  - Emphasis on productivity and cost savings
  - Manufacturers add value through service and sell services
  - More strategic alliances and outsourcing
  - Focus on quality and customer satisfaction
  - Growth of franchising
  - Marketing emphasis by nonprofits

- **Social Changes**
- **Business Trends**
- **Advances in IT**
- **Globalization**
Factors Stimulating Transformation of the Service Economy (4)

- Government Policies
- Social Changes
- Business Trends
- Advances in IT
- Globalization

- Growth of the Internet
- Greater bandwidth
- Compact mobile equipment
- Wireless networking
- Faster, more powerful software
- Digitization of text, graphics, audio, video
Factors Stimulating Transformation of the Service Economy (5)

- **Government Policies**
  - More companies operating on transnational basis
  - Increased international travel
  - International mergers and alliances
  - “Offshoring” of customer service
  - Foreign competitors invade domestic markets

- **Business Trends**

- **Advances in IT**

- **Globalization**
  - More companies operating on transnational basis
  - Increased international travel
  - International mergers and alliances
  - “Offshoring” of customer service
  - Foreign competitors invade domestic markets
What Are Services? (1)

- **The historical view**
  - Goes back over 200 years to Adam Smith and Jean-Baptiste Say
  - Different from goods because they are perishable (Smith 1776)
  - Consumption cannot be separated from production, services are intangible (Say 1803)

- **A fresh perspective:** Services involve a form of rental, offering benefits without transfer of ownership
  - Include rental of goods
  - Marketing tasks for services differ from those involved in selling goods and transferring ownership
What Are Services? (2)

- **Five broad categories within non-ownership framework:**
  1. Rented goods services
  2. Defined space and place rentals
  3. Labor and expertise rentals
  4. Access to shared physical environments
  5. Systems and networks: access and usage

- **Implications of renting versus owning (Service Perspectives 1.1)**
  - Markets exist for renting durable goods rather than selling them
  - Renting portions of larger physical entity (e.g., office space, apartment) can form basis for service
  - Customers more closely engaged with service suppliers
  - Time plays central role in most services
  - Customer choice criteria may differ between rentals and outright purchases
  - Services offer opportunities for resource sharing
Defining Services

- **Services**
  - Are economic activities offered by one party to another
  - Most commonly employ time-based performances to bring about desired results in:
    - recipients themselves
    - objects or other assets for which purchasers have responsibility

- In exchange for their money, time, and effort, service customers expect to obtain value from
  - Access to goods, labor, facilities, environments, professional skills, networks, and systems
  - But they do not normally take ownership of any of the physical elements involved
Service Products versus Customer Service and After-Sales Service

- A firm’s market offerings are divided into core product elements and supplementary service elements

- Is everyone in service? Need to distinguish between:
  - Marketing of services
  - Marketing goods through added-value service

- Good service increases the value of a core physical good

- After-sales service is as important as pre-sales service for many physical goods

- Manufacturing firms are reformulating and enhancing existing added-value services to market them as stand-alone core products
Services Pose Distinctive Marketing Challenges

- Marketing management tasks in the service sector differ from those in the manufacturing sector

- The eight common differences are:
  1. Most service products cannot be inventoried
  2. Intangible elements usually dominate value creation
  3. Services are often difficult to visualize and understand
  4. Customers may be involved in co-production
  5. People may be part of the service experience
  6. Operational inputs and outputs tend to vary more widely
  7. The time factor often assumes great importance
  8. Distribution may take place through nonphysical channels

- What are marketing implications?
### Differences, Implications, and Marketing-Related Tasks (1) (Table 1.1)

<table>
<thead>
<tr>
<th>Difference</th>
<th>Implications</th>
<th>Marketing-Related Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most service products cannot be inventoried</td>
<td>Customers may be turned away</td>
<td>Use pricing, promotion, and reservations to smooth demand; work with ops to manage capacity</td>
</tr>
<tr>
<td>Intangible elements usually dominate value creation</td>
<td>Harder to evaluate service and distinguish from competitors</td>
<td>Emphasize physical clues, employ metaphors and vivid images in advertising</td>
</tr>
<tr>
<td>Services are often difficult to visualize and understand</td>
<td>Greater risk and uncertainty perceived</td>
<td>Educate customers on making good choices; offer guarantees</td>
</tr>
<tr>
<td>Customers may be involved in co-production</td>
<td>Interaction between customer and provider; but poor task execution could affect satisfaction</td>
<td>Develop user-friendly equipment, facilities, and systems; train customers, provide good support</td>
</tr>
</tbody>
</table>

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Chapter 1 - 21
### Differences, Implications, and Marketing-Related Tasks (2) (Table 1.1)

<table>
<thead>
<tr>
<th>Difference</th>
<th>Implications</th>
<th>Marketing-Related Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td>People may be part of service experience</td>
<td>Behavior of service personnel and customers can affect satisfaction</td>
<td>Recruit, train employees to reinforce service concept</td>
</tr>
<tr>
<td>Operational inputs and outputs tend to vary more widely</td>
<td>Hard to maintain quality, consistency, reliability</td>
<td>Shape customer behavior</td>
</tr>
<tr>
<td>Time factor often assumes great importance</td>
<td>Difficult to shield customers from failures</td>
<td>Redesign for simplicity and failure proofing</td>
</tr>
<tr>
<td>Distribution may take place through nonphysical channels</td>
<td>Time is money; customers want service at convenient times</td>
<td>Institute good service recovery procedures</td>
</tr>
<tr>
<td></td>
<td>Electronic channels or voice telecommunications</td>
<td>Find ways to compete on speed of delivery; offer extended hours</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Create user-friendly, secure websites and free access by telephone</td>
</tr>
</tbody>
</table>
Value Added by Physical, Intangible Elements Helps Distinguish Goods and Services (Fig 1.6)

Physical Elements

Low

Intangible Elements

High

Salt
Detergents
CD Player
Wine
Golf Clubs
New Car
Tailored clothing
Fast-Food Restaurant
Plumbing Repair
Health Club
Airline Flight
Landscape Maintenance
Consulting
Life Insurance
Internet Banking

Source: Adapted from Lynn Shostack
Websites can deliver info-based services like Progressive’s car insurance but …

...REI’s camping gear must be delivered through physical channels to customers after they have used the website to make choices, order, and pay
Services Require An Expanded Marketing Mix

- Marketing can be viewed as:
  - A strategic and competitive thrust pursued by top management
  - A set of functional activities performed by line managers
  - A customer-driven orientation for the entire organization

- Marketing is the only function to bring operating revenues into a business; all other functions are cost centers

- The “8Ps” of services marketing are needed to create viable strategies for meeting customer needs profitably in a competitive marketplace
The 8Ps of Services Marketing

- Product Elements *(Chapter 3)*
- Place and Time *(Chapter 4)*
- Price and Other User Outlays *(Chapter 5)*
- Promotion and Education *(Chapter 6)*
- Process *(Chapter 8)*
- Physical Environment *(Chapter 10)*
- People *(Chapter 11)*
- Productivity and Quality *(Chapter 14)*

*Fig 1.9 Working in Unison: The 8Ps of Services Marketing*
The 8Ps of Services Marketing: (1) Product Elements

- Embrace all aspects of service performance that create value

- Core product responds to customer’s primary need

- Array of supplementary service elements
  - Help customer use core product effectively
  - Add value through useful enhancements

- Planning marketing mix begins with creating a service concept that:
  - Will offer value to target customers
  - Satisfy their needs better than competing alternatives
The 8Ps of Services Marketing: (2) Place and Time

- Delivery decisions: Where, When, How
- Geographic locations served
- Service schedules
- Physical channels
- Electronic channels
- Customer control and convenience
- Channel partners/intermediaries
The 8Ps of Services Marketing: (3) Price and Other User Outlays

- Marketers must recognize that customer outlays involve more than price paid to seller

- Traditional pricing tasks:
  - Selling price, discounts, premiums
  - Margins for intermediaries (if any)
  - Credit terms

- Identify and minimize other costs incurred by users:
  - Additional monetary costs associated with service usage (e.g., travel to service location, parking, phone, babysitting, etc.)
  - Time expenditures, especially waiting
  - Unwanted mental and physical effort
  - Negative sensory experiences
The 8Ps of Services Marketing:
(4) Promotion and Education

- Informing, educating, persuading, reminding customers

- Marketing communication tools
  - Media elements (print, broadcast, outdoor, retail, the Internet, etc.)
  - Personal selling, customer service
  - Sales promotion
  - Publicity/PR

- Imagery and recognition
  - Branding
  - Corporate design

- Content
  - Information, advice
  - Persuasive messages
  - Customer education/training
The 8Ps of Services Marketing: (5) Process

- *How* firm does things may be as important as *what* it does.

- Customers often actively involved in processes, especially when acting as co-producers of service.

- Process involves choices of method and sequence in service creation and delivery:
  - Design of activity flows
  - Number and sequence of actions for customers
  - Nature of customer involvement
  - Role of contact personnel
  - Role of technology, degree of automation

- Badly designed processes waste time, create poor experiences, and disappoint customers.
The 8Ps of Services Marketing: (6) Physical Environment

- Design servicescape and provide tangible evidence of service performances

- Create and maintain physical appearances
  - Buildings/landscaping
  - Interior design/furnishings
  - Vehicles/equipment
  - Staff grooming/clothing
  - Sounds and smells
  - Other tangibles

- Manage physical cues carefully—can have profound impact on customer impressions
The 8Ps of Services Marketing: (7) People

- Interactions between customers and contact personnel strongly influence customer perceptions of service quality

- The right customer-contact employees performing tasks well
  - Job design
  - Recruiting
  - Training
  - Motivation

- The right customers for firm’s mission
  - Contribute positively to experience of other customers
  - Possess—or can be trained to have—needed skills (co-production)
  - Can shape customer roles and manage customer behavior
The 8Ps of Services Marketing: (8) Productivity and Quality

- Productivity and quality must work hand in hand
- Improving productivity key to reducing costs
- Improving and maintaining quality essential for building customer satisfaction and loyalty
- Ideally, strategies should be sought to improve both productivity and quality simultaneously—technology often the key
  - Technology-based innovations have potential to create high payoffs
  - But, must be user friendly and deliver valued customer benefits
Three management functions play central and interrelated roles in meeting needs of service customers
A Framework For Developing Effective Service Marketing Strategies: Overview

Understanding Customer Needs, Decision Making, and Behavior in Service Encounters

Chapter 2

Building the Service Model

Part II: Chapters 3-7

Managing the Customer Interface

Part III: Chapters 8-11

Implementing Profitable Service Strategies

Part IV: Chapters 12-15
I: Understanding Customer Needs, Decision Making, and Behavior in Service Encounters

(Chapter 2)

Differences among Services Affect Customer Behavior

Three-Stage Model of Service Consumption

- **Prepurchase Stage:** Search, evaluation of alternatives, decision
- **Service Encounter Stage:** Role in high-contact vs. low-contact delivery
- **Post-Encounter Stage:** Evaluation against expectations, future intentions
Framework for Developing Effective Service Marketing Strategies: Part II

Building The Service Model

Part II: Chapters 3-7

The Value Proposition

Develop service concept: core & supplementary elements

Select physical & electronic channels for service delivery

Value Exchange

Set prices with reference to costs, competition & value

The Business Model

Educate customers & promote the value proposition

Position the value proposition against competing alternatives
III: Managing the Customer Interface

(Chapters 8-11)

- Design and manage service processes
- Balance demand against productivity capacity
- Plan the service environment
- Manage service employees for competitive advantage
Framework for Developing Effective Service Marketing Strategies: Part IV

IV: Implementing Profitable Service Strategies

(Chapters 12-15)

Create customer relationship and build loyalty

Plan for service recovery and create customer feedback systems

Continuously improve service quality and productivity

Organize for change management and service leadership