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Services Marketing

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Services Marketing

The late **Christopher Lovelock** was one of the pioneers of services marketing. He consulted and gave seminars and workshops for managers around the world, with a particular focus on strategic planning in services and managing the customer experience. From 2001 to 2008, he had been an adjunct professor at the Yale School of Management, where he taught services marketing in the MBA program. After obtaining a BCom and an MA in economics from the University of Edinburgh, he worked in advertising with the London office of J. Walter Thompson Co. and then in corporate planning with Canadian Industries Ltd. in Montreal. Later, he obtained an MBA from Harvard and a PhD from Stanford, where he was also a postdoctoral fellow. Professor Lovelock's distinguished academic career included 11 years on the faculty of the Harvard Business School and two years as a visiting professor at IMD in Switzerland. He has held faculty appointments at Berkeley, Stanford, and the Sloan School at MIT as well as visiting professorships at INSEAD in France and the University of Queensland in Australia. Author or co-author of over 60 articles, more than 100 teaching cases and 27 books, Professor Lovelock has seen his work translated into 14 languages. He served on the editorial review boards of the *Journal of Service Management*, *Journal of Service Research*, *Service Industries Journal*, *Cornell Hospitality Quarterly*, and *Marketing Management*, and served as an ad hoc reviewer for the *Journal of Marketing*. Widely acknowledged as a thought leader in services, Christopher Lovelock has been honoured with the American Marketing Association's prestigious Award for Career Contributions in the Services Discipline. His article with Evert Gummesson, 'Whither Services Marketing? In Search of a New Paradigm and Fresh Perspectives', won the AMA's Best Services Article Award in 2005. Earlier, he received a best article award from the *Journal of Marketing*. Recognised many times for excellence in case writing, he has twice won top honours in the *BusinessWeek* European Case of the Year award. For further information, see www.lovelock.com.

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To the memory of **Eric Langeard**
A European pioneer in services marketing

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Preface

The publication of *Services Marketing* is very timely. Marketing practice in the service sector continues to evolve rapidly and more and more business schools are offering courses in services marketing. At the same time, a growing number of service industries now find themselves competing in an international environment. With greater academic commitment to the field has come increased student interest in understanding management issues in services. Meanwhile, managers working in the service industries report that manufacturing-based models of business practice are not always useful and relevant to them in their work.

Services marketing first emerged as an academic field during the 1970s. It was distinguished from the start by the contributions and collaboration of both European and North American researchers, as well as by active participation from research-oriented business practitioners. Bilingual seminars on services were held in France as early as 1975 under the sponsorship of the Institut d'Administration des Entreprises (Université d'Aix-Marseille). Other service marketing conferences on both sides of the Atlantic brought together Europeans, including members of the Nordic School (representing Finnish and Scandinavian researchers) and North Americans. In recent years, international conferences in locations such as Dublin, La Londe les Maures and Stockholm have drawn participants from around the world.

As defined by government statistics, services account for a major share of the gross domestic product (GDP) in all member nations of the European Union, as well as being responsible for most new jobs created in recent years. Even in developing economies, the contribution made by services to both the GDP and employment is growing rapidly.

The service sector of the economy can best be characterised by its diversity. Service organisations range in size from huge international corporations in such fields as airlines, banking, insurance, telecommunications, hotel chains and freight transport to a vast array of locally owned and operated small businesses, including restaurants, dry cleaners, hairdressers, opticians, repair services, taxis and numerous business-to-business services. Franchised service outlets in a wide array of fields combine the marketing characteristics of a large chain offering a standardised product with the benefits of local ownership and operation of a specific store or office.

Many services are concerned with the distribution, installation and upkeep of physical objects; they include such diverse operations as retailing and warehousing, computer installation and car repair, office cleaning and landscape maintenance. Increasingly, firms that create a time-sensitive physical output, such as printing and photographic processing, describe themselves as being service businesses. Governments and nonprofit organisations are also in the business of providing services, although the extent of such involvement may vary widely from one country to another, reflecting both traditions and political values. In many countries, universities, hospitals and museums are in public ownership or operate on a not-for-profit basis, but for-profit versions of each type of institution also exist.

Service industries continue to face dramatic changes in their environment, ranging from developments in computerisation and telecommunications (including the Internet) to the emergence of global markets for their output. Perhaps the most significant trend – representing both a threat and an opportunity – is the increasingly competitive nature of service markets. Established ways of doing business are no longer adequate. Around the world, innovative newcomers offering new standards of service are succeeding in markets where established competitors have failed to please today's demanding customers. In particular, customers now expect higher standards of service quality and greater speed. On the other hand, investments in quality must be made with reference to the returns that can be expected in terms of improved revenues and stronger customer loyalty. To a growing degree, forward-looking firms seek to couple improvements in quality with improvements in productivity. In fact, innovative applications of technology are often the best way to achieve such dual gains.

The theme of this Course Text is that service organisations differ in many important respects from manufacturing businesses, requiring a distinctive approach to planning and implementing marketing strategy. By this, we don't mean to imply that services marketing is uniquely different from goods marketing. If that were true, it would undermine the whole notion of marketing as a coherent management function. Rather, we stress the importance of understanding service organisations on their own terms and then tailoring marketing goals and strategies accordingly. Within this group we include the service divisions of manufacturing firms.

Finally, please note that the term 'billion' denotes 1000 million.

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Finally, we would like to pay a special tribute to the late Eric Langeard, who died on 27 November 1998. Energetic, insightful and creative, Eric was truly one of the European pioneers of services marketing. He taught for many years at IAE, Université d'Aix-Marseille III, working closely with his colleague Pierre Eiglier, with whom he developed the concept of the 'servuction' system to represent customer involvement in the visible elements of service operations and delivery. Eric played a very important role in building early but highly durable bridges between European and North American service researchers. In addition to holding visiting appointments overseas, he was actively involved in a collaborative research programme at the Marketing Science Institute in Cambridge, Massachusetts from 1977 to 1981. Eric will be remembered by his numerous friends not only for his research contributions but also for his lively presence at IAE's biennial services seminar, which he co-founded and which drew researchers to France from around the world. We dedicate this text to his memory.

Christopher Lovelock, Sandra Vandermerwe, Barbara Lewis

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PART I

Understanding Services

Module 1 Distinctive Aspects of Service Management

Module 2 Customer Involvement in Service Processes

Module 3 Managing Service Encounters

Distinctive Aspects of Service Management

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Learning Objectives

After reading and reflecting on this module, you should be able to:

- Describe what kinds of organisations provide services.
- Recognise the major changes occurring in the service sector.
- Identify the characteristics that make services different from goods.
- Understand the 8Ps of integrated services management.
- Explain why service businesses need to integrate the marketing, operations and human resource functions.

The Service Revolution

Across Europe – and, indeed, around the world – the service sector of the economy is going through a period of almost revolutionary change in which established ways of doing business continue to be shunted aside. At the beginning of the second decade of the twenty-first century all of us are seeing the way we live and work being transformed by new developments in services. Innovators continually launch new ways to satisfy our existing needs and to meet needs that we did not even know we had. (How many of us, ten years ago, used social networking sites, or, 20 years ago, ever thought we would need electronic mail?) The same is true of services directed at corporate users.

Although many new service ventures fail, a few succeed. Many long-established firms are also failing – or being merged out of existence; but others are making spectacular progress by continually rethinking the way they do business, looking for innovative ways to serve customers better and taking advantage of new developments in technology.

Consider the following examples:

The Conrad International Dublin, a 5-star hotel in Ireland's capital, has won a significant quality-related award nearly every year since it opened in 1989. The hotel was purpose-built as a luxury hotel and has, of course, all the physical trappings that might be expected of Hilton Hotel Corporation's luxury international brand. But great hotels are made (or broken) by the quality of the personal service provided. The Conrad encourages its guests to expect the highest standards of service, and management equips its employees with the skills needed to meet these expectations. A highly structured approach to staff recruitment, training and development is the natural starting point. 'It all starts with getting the right people,' says the general manager. 'You can teach skills, but what really comes across, especially to business people, is attitude.' Pursuing a strategy of continuous improvement, each department has a detailed training plan and each employee's development needs are assessed regularly in consultation with line managers. A 'listening' initiative from the personnel department led to the creation of a formal channel for staff to communicate ideas for service improvement based on their interactions with guests. In short, a strategy of investing in employee development (and listening to employee feedback) results in better service for customers, making them willing to pay a higher price, more likely to return, and more likely to recommend the hotel to other people.

Albert Heijn BV is the largest supermarket chain in the Netherlands, with 750 branches, an annual turnover of some €6.5 billion, and a 33 per cent market share. To extend its reach (and offer greater convenience for customers) it worked in partnership with other organisations to create mini-stores. It signed an agreement with Shell to set up Miniwinkels stores in 500 filling stations throughout the country. These mini-shops sell about 1500 different products, including fruit, vegetables and meat. In 1997 it began testing a convenience store in the Academic Hospital in Groningen. Although most patronage comes from hospital staff, some patients shop there too. Other innovations by the chain include home delivery throughout the Netherlands, an online home shopping service and experimental store designs.

British Airways, one of the world's largest and most profitable airlines, was formed in 1972 through the merger of two smaller, government-owned carriers. For many years, it had a reputation for inefficiency and incompetence; in fact, people joked that the initials BA stood for 'bloody awful'. Following major efforts to reduce costs, the airline was privatised, with shares being offered to private investors. Through a series of transformations, every aspect of the airline's operation and the passengers' experience was improved, with particular attention being paid to recruitment and staff training. BA offers a variety of different service categories, including First, Business and Economy. Each class of service is managed as a 'sub-brand', with distinctive, clearly defined features and standards. Further 'sub-branding' has been developed for each service category – for example, within the Business service category, BA offers Club World,

Club Europe and Club London City (a business class only service to New York). The airline's reach has been extended through investments in French, German and Australian airlines and partnerships with Canadian, Hong Kong and US carriers. It also pioneered the use of franchising by licensing several smaller airlines to operate certain European routes in its name, featuring aircraft painted in BA colours and cabin crew trained to offer BA standards of service. In 1997, *Fortune* magazine named British Airways as the world's most admired airline. In 1998, the company launched a new subsidiary airline named GO to compete with the growing number of low-fare airlines in Europe. The airline industry experienced intense pressures from a variety of environmental and market sources in the first decade of the twenty-first century, which led to a drop in passenger numbers, rationalisation and merger among leading airlines. British Airways merged with Spanish carrier Iberia in 2010.

Amazon.com likes to describe itself as 'Earth's Biggest Bookstore', yet it has no physical bookshops. Instead, it's a virtual bookshop doing business on the Web and accessible 24 hours a day to anyone in the world who has a computer capable of connecting to the Internet. The company opened its 'virtual doors' in the United States in July 1995, and grew at an extraordinary rate. In mid-1998, Amazon.com stated that it had made sales to more than three million customers in 160 countries, claiming that it was now the leading online shopping site. In 2009 it had 88 million customers, sales of \$25 billion and a net income of \$9.2 million. In addition to books, the company offers a wide range of music, electronics and other goods. Through its website, customers can search for books by author, title, subject or keyword – or browse for books in 28 subject areas. The software at Amazon.com's user-friendly website simulates a knowledgeable bookshop assistant. By indicating your mood, preferences and other authors or artists you like, you can get recommendations for new books or music that you might enjoy. Customers are invited to send in their own reviews of books, which visitors to the website can then compare to those written by professional reviewers. When a customer places an order through the website, the company arranges for the book, CD or other item to be shipped directly from a warehouse.

1.1 Services in the Modern Economy

As consumers, we use services every day. Turning on a light, watching TV, talking on the telephone, catching a bus, visiting the dentist, posting a letter, getting a haircut, refuelling a car, writing a cheque or sending clothes to the cleaners are all examples of service consumption at the individual level. The institution at which you are studying is itself a complex service organisation. In addition to educational services, the facilities at today's colleges and universities usually comprise libraries and cafeterias, counselling services, a bookshop and careers offices, copy services, telephones and Internet connections, and maybe even a bank. If you are registered at a residential university, additional services are likely to include halls of residence,

health care, indoor and outdoor sports and athletic facilities, a theatre and, perhaps, a post office.

Unfortunately, customers are not always happy with the quality and value of the services they receive. People complain about late deliveries, rude or incompetent personnel, inconvenient service hours, poor performance, needlessly complicated procedures and a host of other problems. They grumble about the difficulty of finding sales assistants to help them in shops, express frustration about mistakes on their credit card bills or bank statements, shake their heads over the complexity of new self-service equipment, mutter about poor value and sigh as they are forced to wait for service or stand in queues almost everywhere they go.

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

Happily, in almost every field of endeavour there are service suppliers who know how to please their customers while also running a productive, profitable operation, staffed by pleasant and competent employees. By studying organisations such as Conrad International, Albert Heijn, British Airways, Amazon.com and the many others featured in this book, we can draw important insights about the most effective ways to manage the different types of services found in today's economy.

1.1.1 What Is a Service?

Services have traditionally been difficult to define. Complicating matters further is the fact that the way in which services are created and delivered to customers is often hard to grasp, since many inputs and outputs are intangible. Most people have little difficulty creating simple definitions of manufacturing (physical inputs are processed or assembled in a factory to create goods) or agriculture (live plants are grown and then harvested for use as food or other purposes), but defining *service* can elude them. Here are two approaches that capture the essence.¹

- A service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not normally result in ownership of any of the factors of production.
- Services are economic activities that create value and provide benefits for customers at specific times and places, as a result of bringing about a desired change in – or on behalf of – the recipient of the service.

More amusingly, services have also been described as 'something which can be bought and sold, but which you cannot drop on your foot'.²

I.1.2 Understanding the Service Sector

Services make up the bulk of today's economy across Europe and in developed economies around the world. Changes in the composition of the economy in some European nations have been dramatic over the past three decades (*see* Table 1.1). These changes reflect a combination of economic growth (in which most of the new value added has come from services) and in some nations a relative or even absolute decline in traditional economic activities such as agriculture, mining and certain types of manufacturing. Some of the changes in manufacturing output can be explained by productivity gains obtained through automation – a substitution of technology for labour – resulting in both fewer workers and lower costs. In other instances, the decline is absolute as certain industries contract.

Not everyone is comfortable with the notion of turning agricultural land into shopping centres and office parks, or of seeing the shrinkage in many European nations of traditionally important industries such as shipbuilding and coal mining. Some people worry about the political implications of being dependent on foreign nations for the supply of strategically important products. However, relaxation of international trade barriers and increasing competition has resulted in significant shifts in economic activity both within Europe and around the world.

Table 1.1 Share of GDP and employment accounted for by services in some European countries

	Value added by services as a percentage of Gross Domestic Product in 2008, 1998, 1980 and 1960 ^a			
	2008	1998	1980	1960
Ireland	62	55	n.a.	52
France	78	73	62	50
Netherlands	73	71	n.a.	45
Denmark	73	72	65	58
Sweden	70	68	62	53
United Kingdom	75	70	55	54
Austria	68	67	56	42
Finland	65	63	51	48
Hungary	66	62	n.a.	n.a.
Italy	71	67	55	47
Czech Republic	60	56	30 ^b	n.a.

Sources: *The Economist Pocket Europe in Figures*, 1997; Eurostat, 2010 (<http://epp.eurostat.ec.europa.eu>).

a) Caution should be used in interpreting these data since they are based on national government statistics whose collection procedures and classification criteria may not be consistent across countries, or even across time within the same country.

b) Data for Czechoslovakia before partition.

As suggested in the footnote to Table 1.1, there are difficulties in measuring economic activity within services, so that comparisons between different European countries should be approached with caution.

Across Europe, services have accounted for most of the growth in new jobs. Unless you are already predestined for a career in a family manufacturing or agricultural business, the probability is high that you will spend most of your working life in companies (or public agencies and nonprofit organisations) that create and deliver services.

As a national economy develops, the relative share of employment between agriculture, industry (including manufacturing and mining) and services changes dramatically. Figure 1.1 shows how the evolution to a service-dominated employment base is likely to take place over time as per capita income rises. In most countries, the service sector of the economy is very diverse, comprising a wide array of different industries that sell to individual consumers, business customers and to numerous government agencies.

It comes as a surprise to most people to learn that the dominance of the service sector is not limited to highly developed nations. For instance, World Bank statistics show that the service sector accounts for more than half the GNP and employs more than half the labour force in many Latin American and Caribbean nations, too.³ In many of these countries, there is a large 'underground economy' which is not captured in official statistics. In Mexico, it has been estimated that as much as 40 per cent of trade and commerce is 'informal'.⁴ Significant service output is created by undocumented work in domestic jobs (e.g. cook, housekeeper, gardener) or small, cash-based enterprises such as restaurants, laundries, boarding houses and taxis.

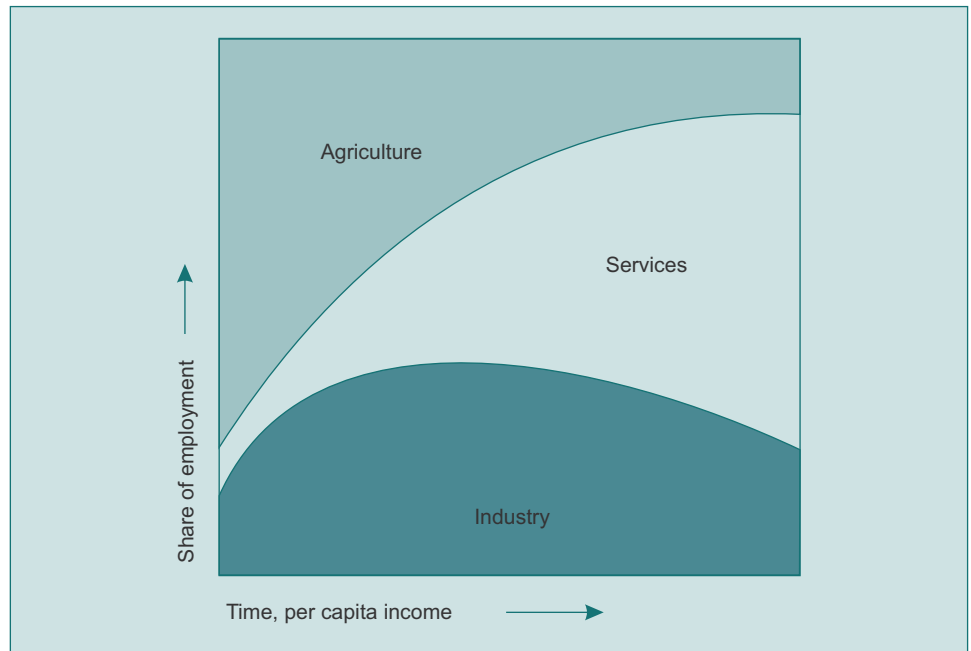


Figure 1.1 Evolution of a service-dominated employment base

Studies suggest that parallel situations prevail to varying degrees in many European countries. Technology and specialised skills enable many people to earn their living (or to supplement it) through service-based self-employment from their homes; the resulting income is relatively easy to conceal. *The Economist* reports that the underground (or shadow) economy is believed to range from about 14 per cent in Germany to over 25 per cent of GDP in Italy (which even adjusts its official statistics upwards to take account of missing output).⁵ In Russia, it is thought that the underground economy may be as large as the official one.

Service organisations range in size from huge international corporations like airlines, banking, insurance, telecommunications, hotel chains and freight transportation to a vast array of locally owned and operated small businesses, including restaurants, laundries, taxis, opticians and numerous business-to-business services. Franchised service outlets – in fields ranging from fast foods to bookkeeping – combine the marketing characteristics of a large chain that offers a standardised product with local ownership and operation of a specific facility. Some firms that create a time-sensitive physical product, such as printing or photographic processing, are now describing themselves as service businesses, because much of the value added is created by speed, customisation and convenient locations. Regis McKenna has written, ‘Companies best equipped for the twenty-first century will consider investment in real time systems as essential to maintaining their competitive edge and keeping their customers.’⁶

There’s a hidden service sector, too, within many large corporations, classified by government statisticians as being in manufacturing, agricultural or natural resources industries. So-called *internal services* cover a wide array of activities, potentially

including recruitment, publications, legal and accounting services, payroll administration, office cleaning, landscape maintenance, freight transport and many other tasks. To a growing extent, organisations are choosing to outsource those internal services that can be performed more efficiently by a specialist subcontractor. Internal services are also being spun out as separate service operations offered in the wider marketplace. For instance, Ciba-Geigy, the Swiss-based pharmaceutical company, did this successfully with both their advertising department and their information unit.⁷

As such tasks are outsourced, they become part of the competitive marketplace and are therefore more likely to be categorised as contributing to the services component of the economy. Even when such services are not outsourced, however, managers of the departments that supply them would do well to think in terms of providing good service to their internal customers.

Governments and nonprofit organisations are also in the business of providing services, although the extent of such involvement may vary widely from one country to another, reflecting both tradition and political values. In many countries, colleges, hospitals and museums are in public ownership or operate on a not-for-profit basis, but for-profit versions of each type of institution also exist.

Service customers are not limited to individual consumers and households. Organisations of all types buy services, too. An important group of services consists of what are known as advanced producer services, whose principal function is to provide intermediate inputs into the production processes of client firms. They include advertising and market research; architectural and property-related services; banking, legal, computer and financial services; insurance; consultancy; and secretarial services. It used to be thought that most such services were consumed by manufacturing firms, but research in Leeds and Sheffield showed that the service sector (including government agencies) was more important as a source of clients for suppliers of advanced producer services.⁸ In other words, the growth of the service sector is itself a stimulus for additional business-to-business services.

1.2 The Evolving Environment of Services

Around the world, innovative newcomers offering new standards of service have succeeded in markets where established competitors have failed to please today's demanding customers. Many barriers to competition are being swept away, allowing the entry of eager newcomers, ranging from tiny start-up operations like garden maintenance or baby-sitting services to well-financed multinational firms importing service concepts previously developed and tested in other countries. Established businesses often find it hard to maintain customer loyalty in the face of competition from innovative firms offering new product features, improved performance, price-cutting, clever promotions and the introduction of more convenient, technology-driven delivery systems.

Depending on the industry and the country in which the service firm does business, the underlying causes of such changes may include any of the twelve forces listed in Table 1.2. Like the factors underlying any revolution, some of the origins of

today's service sector revolution go back a number of years, whereas others reflect a chain of relatively recent events that continues to unfold.

Table 1.2 Forces for change in service management

- Changing patterns of government regulation.
- Privatisation of some public and nonprofit services.
- Technological innovations.
- Growth of service chain and franchise networks.
- Internationalisation and globalisation.
- Pressures to improve productivity.
- The service quality movement.
- Expansion of leasing and rental businesses.
- Manufacturers as service providers.
- Need for public and nonprofit organisations to find new income.
- Hiring and promotion of innovative managers.

Let's look at each of these dynamics in more detail.

1.2.1 Changing Patterns of Government Ownership and Regulation

Traditionally, many service industries were highly regulated. Government agencies set price levels, placed geographic constraints on distribution strategies and, in some instances, even defined the product attributes. Since the late 1970s, there has been a trend in the USA and Europe towards partial or complete deregulation in a number of major service industries. Further relaxation of regulations on trade in services between members of the European Union has already started to reshape the economic landscape of Europe. Meanwhile, in Latin America, democratisation and new political initiatives are creating economies that are much less regulated than in the past. Reduced government regulation has already eliminated or minimised many constraints on competitive activity in such industries as airfreight, airlines, railways, road transport, banking, securities, insurance and telecommunications. Barriers to entry by new firms have been dropped in many instances, geographic restrictions on service delivery have been reduced, there is more freedom to compete on price and existing firms have been able to expand into new markets or new lines of business.

But reduced regulation is not an unmixed blessing. Fears have been expressed that if successful firms become too large – through a combination of internal growth and acquisitions – there may eventually be a decline in the level of competition. Conversely, lifting restrictions on pricing may benefit customers in the short run as competition cuts prices, but may leave insufficient profits for needed future investments. For instance, fierce price competition among American domestic airlines led to huge financial losses within the industry, bankrupting several airlines. This made it difficult for unprofitable carriers to invest in new aircraft and raised worrying questions about service quality and safety. Profitable foreign airlines, such as British Airways and Singapore Airlines, gained market share by offering better service than American carriers on international routes. Of course, not all regulatory

changes represent a relaxation of government rules. In many countries, steps continue to be taken to strengthen consumer protection laws, to safeguard employees, to improve health and safety, and to protect the environment.

1.2.2 Privatisation

The term 'privatisation' was coined in Great Britain to describe the policy of transforming government organisations into investor-owned companies. Led by Britain, privatisation of public corporations has been moving rapidly ahead in a number of countries across Europe, as well as in Canada, Australia, New Zealand and, more recently, in some Asian and Latin American states. The transformation of such service operations as national airlines, telecommunication services and utilities such as gas, electricity and water into private enterprise services has led to restructuring, cost-cutting and a more market-focused posture. When privatisation is combined with a relaxing of regulatory barriers to allow entry of new competitors, as in the British telecommunications or water industries, the marketing implications can be dramatic. The privatisation of utilities has led to a trend towards international ownership, which many authorities see as irreversible.⁹

Privatisation can also apply to regional or local government departments. At the local level, for instance, services such as refuse collection and cleaning have been shifted from the public sector to private firms. Not everyone is convinced, however, that such changes are beneficial to all sectors of the population. When services are provided by public agencies, there are often cross-subsidies, designed to achieve broader social goals. With privatisation, there are fears that the search for efficiency and profits will lead to cuts in service and price increases. The result may be to deny less affluent segments the services they need at prices they can afford. Hence the argument for continued regulation of prices and terms of service in key industries such as healthcare, telecommunications, water, electricity and passenger rail transportation.

1.2.3 Technological Innovations

New technologies are radically altering the ways in which many service organisations do business with their customers – as well as what goes on behind the scenes. Perhaps the most powerful force for change today comes from the integration of computers and telecommunications. Companies operating information-based services, such as financial service firms, are seeing the nature and scope of their businesses totally transformed by the advent of national (or even global) electronic delivery systems, including the Internet and its best-known component, the World Wide Web. For instance, Amazon.com delivers the same product to customers as a traditional bookshop, but in a very different context. Although booklovers may complain that it cannot offer the chance to browse the shelves of a friendly bookshop and leaf through a book, Amazon.com offers far more choice and convenience, global access and often lower prices. The launch of Amazon's Kindle e-reader, followed by Apple's iPad, enabled the download of books, starting a transformation in the way people consume literature. Although people had been downloading music for years, the success of Apple's iPod and iTunes store made

this means of consuming music commonplace, with a far-reaching effect on the music industry.

Technological change affects many other types of services, too, from airfreight to hotels to retail stores. Express courier firms such as TNT, DHL, FedEx and UPS, for instance, recognised that the ability to provide real-time information about customers' packages had become as important to success as the physical movement of those packages. Technology does more than enable the creation of new or improved services. It may also facilitate re-engineering of such activities as delivery of information, order-taking and payment, enhance a firm's ability to maintain more consistent service standards, permit the creation of centralised customer service departments, allow replacement of personnel by machines for repetitive tasks and lead to greater involvement of customers in operations through self-service and the Internet.

1.2.4 Growth of Service Chains and Franchise Networks

More and more services are being delivered through national or even global chains. Respected brand names such as Burger King, Body Shop, Crédit Suisse, Hertz, Ibis, Lufthansa and Mandarin Oriental Hotels have spread far from their original roots. In some instances, such chains are entirely company-owned; in others, the creator of the original concept has entered into partnerships with outside investors. *Franchising* involves the licensing of independent entrepreneurs to produce and sell a branded service according to tightly specified procedures. It is an increasingly popular way to finance the expansion of multi-site service chains that deliver a consistent service concept. Large franchise chains are replacing (or absorbing) a wide array of small, independent service businesses in fields as diverse as bookkeeping, car hire, dry-cleaning, hairdressing, photocopying, plumbing, fast-food restaurants and estate agency services. Among the requirements for success are the creation of mass media advertising campaigns to promote brand names nationwide (and even worldwide), standardisation of service operations, formalised training programmes, a never-ending search for new products, continued emphasis on improving efficiency and dual marketing programmes directed at customers and franchisees, respectively.

1.2.5 Internationalisation and Globalisation

The internationalisation of service companies is readily apparent to any tourist or business executive travelling abroad. Airlines and airfreight companies that were formerly just domestic in scope today have extensive foreign route networks. Numerous financial service firms, advertising agencies, hotel chains, fast-food restaurants, car hire agencies and accounting firms now operate on several continents. This strategy may reflect a desire to serve existing customers better, to penetrate new markets, or both. The net effect is to increase competition and encourage the transfer of innovation in both products and processes from country to country. Many well-known service companies in Europe are foreign-owned; examples include Citicorp, McDonald's, Andersen Consulting, TNT, Harrods and Four Seasons Hotels. In turn, Americans are often surprised to learn that Burger King and Holiday Inn are both owned by British companies. A walk round many of

the world's major cities quickly reveals numerous famous service names that originated in other parts of the globe. Franchising allows a service concept developed in one country to be delivered around the world through distribution systems owned by local investors.

Internationalisation of service businesses is being facilitated by free trade agreements – such as those between Canada, Mexico and the United States (NAFTA), between the South American countries comprising Mercosur or Pacto Andino, and, of course, between the 27 current member states of the European Union. However, there are fears that barriers will be erected to impede trade in services between free trade blocs and other nations, as well as between the blocs themselves. Developing a strategy for competing effectively across numerous different countries is becoming a major marketing priority for many service firms.

1.2.6 Pressures to Improve Productivity

With increasing competition, often price-based, has come greater pressure to improve productivity. Demands by investors for better returns on their investments have also fuelled the search for new ways to increase profits by reducing the costs of service delivery. Historically, the service sector has lagged behind the manufacturing sector in productivity improvement, although there are encouraging signs that some services are beginning to catch up, especially when allowance is made for simultaneous improvements in quality. Using technology to replace labour (or to permit customer self-service) is one cost-cutting route that has been followed in many industries. Re-engineering of processes often results in speeding up operations by cutting out unnecessary steps. However, managers need to be aware of the risk that cost-cutting measures driven by finance and operations personnel without regard for customer needs may lead to a perceived deterioration in quality and convenience.

1.2.7 The Service Quality Movement

The 1980s were marked by growing customer discontent with the quality of both goods and services. Many of the problems with manufactured products concerned poor service at the retail point-of-purchase and with difficulties in solving problems, obtaining refunds or getting repairs made after the sale. Service industries such as banks, hotels, car hire firms, restaurants and telephone companies were as much criticised for human failings on the part of their employees as for failures on the technical aspects of service.

With the growing realisation that improving quality was good for business and necessary for effective competition, a radical change in thinking took place. Traditional notions of quality (based on conformance to standards defined by operations managers) were replaced by the new imperative of letting quality be customer-driven, which had enormous implications for the importance of service marketing and the role of customer research in both the service and manufacturing sectors.¹⁰ Numerous firms have invested in research to determine what their customers want on every dimension of service, in quality improvement programmes designed to

deliver what customers want, and in regular measurement of how satisfied their customers are with the quality of service received.¹¹

1.2.8 Expansion of Leasing and Rental Businesses

Leasing and rental businesses represent a marriage between service and manufacturing businesses. Increasingly, both corporate and individual customers find that they can enjoy the use of a physical product without actually owning it. Long-term leases may involve use of the product alone – such as a lorry – or provision of a host of related services at the same time. In road transport, for instance, full-service leasing provides almost everything, including painting, washing, maintenance, tyres, fuel, licence fees, road service, substitute vehicles and even drivers. In the UK, as the home improvement and the do-it-yourself markets have grown, many entrepreneurs have gone into business to rent electrical and mechanical equipment ranging from carpet cleaners and hedge trimmers to power tools, wallpaper strippers and cement mixers.

Personnel, too, can be hired for short periods rather than employed full-time, as evidenced by the growth of firms supplying temporary workers, from secretaries to security guards (whom Americans sometimes refer to jokingly as ‘rent-a-cops’). Europe is following practices that have long prevailed in Canada and the United States, with more students becoming part-time workers.

1.2.9 Manufacturers as Service Providers

Service profit centres within manufacturing firms are transforming many well-known companies in fields such as computers, motor vehicles and electrical and mechanical equipment. Supplementary services once designed to help sell equipment – including consultation, credit, transportation and delivery, installation, training and maintenance – are now offered as profit-seeking services in their own right, even to customers who have chosen to purchase competing equipment.

Several large manufacturers (including General Electric, Ford and Mercedes) have become important players in the global financial services industry as a result of developing credit financing and leasing divisions. Similarly, numerous manufacturing firms now seek to base much of their competitive appeal on the capabilities of their worldwide consultation, maintenance, repair and problem-solving services. In fact, service profit centres often contribute a substantial proportion of the revenues earned by such well-known ‘manufacturers’ as IBM, Hewlett-Packard and Rank Xerox.

1.2.10 Pressures on Public and Nonprofit Organisations to Find New Income Sources

The financial pressures confronting public and nonprofit organisations are forcing them not only to cut costs and develop more efficient operations, but also to pay more attention to customer needs and competitive activities. In their search for new sources of income, many ‘nonbusiness’ organisations are developing a stronger marketing orientation, which often involves rethinking their product lines, adding

profit-seeking services such as shops, retail catalogues, restaurants and consultancy, becoming more selective about the market segments they target and adopting more realistic pricing policies.¹²

As the costs of staging soccer matches has risen (not least because of the sharp rise in players' salaries), many football clubs across Europe have become highly marketing-oriented. A growing number engage in significant merchandising activities, with shops selling goods from replica football strips to babywear. New or renovated stadia now feature restaurants and special spectator boxes that can be sold or rented to companies.

1.2.11 Hiring and Promotion of Innovative Managers

Traditionally, many service industries were very inbred. Managers tended to spend their entire careers working within a single industry, even within a single organisation. Each industry was seen as unique and outsiders were suspect. Relatively few managers possessed graduate degrees in business, such as an MBA, although they might have held an industry-specific diploma in a field such as hotel management or healthcare administration. In recent years, however, competition and enlightened self-interest have led companies to recruit better qualified managers who are willing to question traditional ways of doing business and able to bring new ideas from previous work experience in another industry. In retail banking, for instance, senior managers in fields such as marketing are sometimes recruited from fast-moving consumer goods companies. And within many firms, intensive training programmes are now exposing employees at all levels to new tools and concepts.

None of the industries in the service sector find themselves untouched by some of the factors described above. In many industries, notably transportation and financial services, several elements are converging – like a gale, a new moon and heavy rains – to produce a flood tide that will wreck organisations whose management seeks to maintain the status quo. Other managers with more foresight recognise, like Shakespeare's Brutus, that a tide taken at the flood can lead to fortune. But where does this tide lead and what does it imply for the role of marketing in the service sector? We've described some of the challenges facing service managers, but these changes also bring opportunities.

1.3 Marketing Services versus Physical Goods

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

sector tend to differ from those in the manufacturing sector in several important respects.

1.3.1 Basic Differences Between Goods and Services

Every *product* – a term that we use in this book to describe the core output of any type of industry – delivers benefits to the customers who purchase and use them. *Goods* can be described as physical objects or devices, while *services* are actions or performances.¹³ Early research into services sought to differentiate them from goods, focusing particularly on four generic differences, referred to as intangibility, heterogeneity (or variability), perishability of output and simultaneity of production and consumption.¹⁴ Although these characteristics are still cited, researchers such as Grönroos qualify these descriptions and admit that they do not apply in all circumstances.¹⁵ More practical insights are provided in Table 1.3, which lists nine basic differences that can help us to distinguish the tasks associated with marketing and managing services from those involved with physical goods.

It's important to note that in identifying these differences we're still dealing with generalisations that do not apply equally to all services. (In Module 2, we classify services into distinct categories, each of which presents somewhat different challenges for marketers and other managers.) Let's examine each characteristic in more detail.

Table 1.3 Basic differences between goods and services

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

1.3.1.1 Customers Do Not Obtain Ownership of Services

Perhaps the key distinction between goods and services lies in the fact that customers usually derive value from services without obtaining permanent ownership of any tangible elements. In many instances, service marketers offer customers the opportunity to rent the use of a physical object like a car or hotel room, or to hire for a short period of time the labour and expertise of people whose skills range from brain surgery to knowing how to check customers into a hotel. As a purchaser of services yourself, you know that while your main interest is in the final output,

the way in which you are treated during service delivery can also have an important impact on your satisfaction.

1.3.1.2 Service Products as Intangible Performances

Although services often include tangible elements – such as sitting in an airline seat, eating a meal or getting damaged equipment repaired – the service performance itself is basically an intangible. The benefits of owning and using a manufactured product come from its physical characteristics (although brand image may convey benefits, too). In services, the benefits come from the nature of the performance. The notion of service as a performance that cannot be touched or wrapped up and taken away leads to the use of a theatrical metaphor for service management, visualising service delivery as like the staging of a play, with service personnel as the actors and customers as the audience. (We'll discuss the managerial implications of this metaphor in Module 10.)

Rental services include a physical object like a car or a power tool. But marketing a car hire performance is very different from attempting to market the sale (or long-term lease) of the physical object on its own. For instance, when hiring a car for a short period which might range from just one day to a couple of weeks, customers usually reserve a particular category of vehicle, rather than a specific brand and model. Instead of worrying about colours and upholstery, customers focus on such elements as price, the location and appearance of pickup and delivery facilities, extent of insurance coverage, cleanliness and maintenance of vehicles, provision of free shuttle buses at airports, availability of 24-hour reservations service; hours when rental offices are staffed, and quality of service provided by customer-contact personnel. By contrast, the core benefit derived from owning a physical good normally comes specifically from its tangible elements, even though it may also provide intangible benefits, too. An interesting way to distinguish between goods and services is to place them on a scale from tangible dominant to intangible dominant (illustrated in Figure 1.2).¹⁶

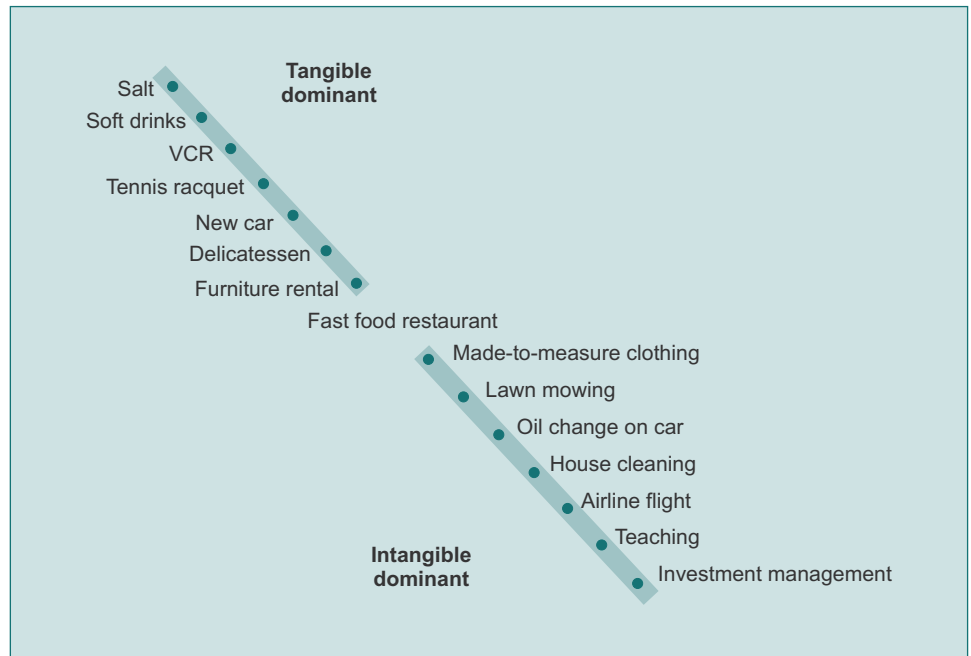


Figure I.2 Dominance of tangible versus intangible elements

I.3.1.3 Customer Involvement in the Production Process

Performing a service involves assembling and delivering the output of a mix of physical facilities and mental or physical labour. Often customers are actively involved in helping to create the service product – either by serving themselves (as in using a launderette or withdrawing money from an automated cash machine (ATM)) or by cooperating with service personnel in settings such as hairdressers, hotels, colleges or hospitals. Under such circumstances, service firms have much to gain from trying to educate their customers so as to make them more competent.¹⁷ As we shall see in Module 2, services can be categorised according to the extent of contact that the customer has with the service organisation. Changing the nature of the production process often affects the role that customers are asked to play in that process.

I.3.1.4 People as Part of the Product

In high-contact services, customers not only come into contact with service personnel, but they may also rub shoulders with other customers (literally so, if they travel by bus or train during the rush hour). The difference between service businesses often lies in the quality of employees serving customers. It can be a challenging task to manage service encounters between customers and service personnel in ways that will create a satisfactory experience. Similarly, the type of customers who patronise a particular service business helps to define the nature of the service experience. If you go to a soccer match, the behaviour of the fans can be a big bonus and add to the excitement of the game if they are enthusiastic but well-behaved. But if some of them become rowdy and abusive, it can detract from the

enjoyment of other spectators at the stadium. For good or ill, other customers become part of the product in many services.

1.3.1.5 Greater Variability in Operational Inputs and Outputs

The presence of personnel and other customers in the operational system makes it difficult to standardise and control *variability* in both service inputs and outputs. Manufactured goods can be produced under controlled conditions, designed to optimise both productivity and quality, and then checked for conformance with quality standards long before they reach the customer. (Of course, their subsequent use by customers will vary widely, reflecting customer needs and skills, as well as the nature of the usage occasion.) But when services are consumed as they are produced, final ‘assembly’ must take place under real-time conditions, which may vary from customer to customer and even from one time of the day to another. As a result, mistakes and shortcomings are both more likely and harder to conceal. These factors make it difficult for service organisations to improve productivity, control quality and offer a consistent product.

However, not all variations in service delivery are necessarily negative and modern service businesses are coming to recognise the value of customising at least some aspects of the service offering to the needs and expectations of individual customers. In fields such as healthcare, it’s essential.¹⁸

1.3.1.6 Harder for Customers to Evaluate

Most physical goods tend to be relatively high in ‘search properties’; these are characteristics of the product that a customer can determine prior to purchasing it, such as colour, style, shape, price, fit, feel, hardness or smell. Other goods and some services, by contrast, may emphasise ‘experience properties’ which can be discerned only after purchase or during consumption; as with taste, wearability, ease of handling, quietness and personal treatment. Finally, there are ‘credence properties’ – characteristics that customers find hard to evaluate even after consumption. Examples include surgery, professional services such as accountancy, and technical repairs that are not readily apparent.¹⁹

1.3.1.7 No Stocks for Service Performances

Because a service is a deed or performance, rather than a tangible item that the customer keeps, it is ‘perishable’ and cannot be stocked for sale later. Of course, the necessary facilities, equipment and labour can be held in readiness to create the service, but these simply represent productive capacity, not the product itself. Thus an ATM at a bank has the potential to deliver service 24 hours a day, but it cannot create the desired performance of delivering a specified amount of cash from a designated account or accepting a deposit or making a transfer until a customer instructs it to do so. Similarly, the accident and emergency department at a hospital can be staffed with talented medical personnel and equipment, but it can’t provide medical care unless patients arrive who need treatment.

Having unused capacity in a service business is rather like running water into a sink without a plug. The flow is wasted unless customers (or possessions requiring

service) are present to receive it. On the other hand, when demand exceeds capacity, customers may be kept waiting (unless they leave, feeling disappointed, in search of another provider). An important task for service marketers, therefore, is to find ways of smoothing demand levels to match capacity.

1.3.1.8 Importance of the Time Factor

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

1.3.1.9 Different Distribution Channels

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

1.4 An Integrated Approach to Service Management

This book is not just about services marketing. Throughout the modules, you’ll also find continuing reference to two other important functions: service operations and human resource management. Imagine you are the manager of a small travel agency; or think big, say you are the chief executive of a major airline. In both instances, you need to be concerned on a day-to-day basis that your customers are satisfied, that your operational systems are running smoothly and efficiently, and that your employees are not only working productively but are also doing a good job either of serving customers directly or of helping other employees to deliver good service. Even if you see yourself as a middle manager, with specific responsibilities in either marketing, operations or human resources, your success in the job will often involve understanding these other functions and periodic meetings with colleagues working in these areas. In short, integration of activities between functions is the name of the game. If there are problems in any one of these three areas, it may signal financial problems ahead.

The notion of cross-functional collaboration is developed by Christian Grönroos in his article ‘From scientific management to service management’.²⁰ Grönroos and other Nordic researchers have long argued that marketing in a service economy

cannot be divorced from other functions and needs to be incorporated in an overall, customer-focused management perspective.

1.4.1 The Eight Components of Integrated Service Management

When discussing strategies to market manufactured goods, marketers usually address four basic strategic elements: product, price, place (or distribution) and promotion (or communication). Collectively, these four categories are often referred to as the '4Ps' of the marketing mix.²¹ However, the distinctive nature of service performances, especially such aspects as customer involvement in production and the importance of the time factor, requires that other strategic elements be included. To capture the nature of this challenge, we will be using the '8Ps' model of *integrated service management*, which highlights eight decision variables facing managers of service organisations (see Table 1.4).²²

Table 1.4 The eight components of integrated service management

- Product elements.
- Place and time.
- Process.
- Productivity and quality.
- People.
- Promotion and education.
- Physical evidence.
- Price and other costs of service.

1.4.1.1 Product Elements

Managers must select the features of both the core product (either a good or service) and the bundle of supplementary service elements surrounding it, with reference to the benefits desired by customers and how well competing products perform.

In short, we need to be attentive to all aspects of the service performance that have the potential to create value for customers.

1.4.1.2 Place and Time

Delivering product elements to customers involves decisions on the place and time of delivery, as well as the methods and channels employed. Delivery may involve physical or electronic distribution channels (or both), depending on the nature of the service being provided. Firms may deliver service directly to customers or through intermediary organisations, such as retail outlets owned by other companies, which receive a fee or percentage of the selling price to perform certain tasks associated with sales, service and customer-contact. Speed and convenience of place and time for the customer are becoming important determinants in service delivery strategy.

1.4.1.3 Process

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

1.4.1.4 Productivity and Quality

These elements, often treated separately, should be seen as two sides of the same coin. No service firm can afford to address either element in isolation. Productivity relates to how inputs are transformed into outputs that are valued by customers, while quality refers to the degree to which a service satisfies customers by meeting their needs, wants and expectations. Improving productivity is essential to keep costs under control, but managers must beware of making inappropriate cuts in service levels that are resented by customers (and perhaps by employees, too). Service quality, as defined by customers, is essential for product differentiation and for building customer loyalty. However, investing in quality improvement without understanding the trade-off between incremental costs and incremental revenues may place the profitability of the firm at risk.

1.4.1.5 People

Many services depend on direct, personal interaction between customers and a firm's employees (like getting a haircut or eating at a restaurant.) The nature of these interactions strongly influences the customer's perceptions of service quality.²³ Customers will often judge the quality of the service they receive largely on their assessment of the people providing the service. Successful service firms devote significant effort to recruiting, training and motivating their personnel, especially – but not exclusively – those who are in direct contact with customers.

1.4.1.6 Promotion and Education

No marketing programme can succeed without effective communications. This component plays three vital roles: providing needed information and advice, persuading target customers of the merits of a specific product, and encouraging them to take action at specific times. In services marketing, much communication is educational in nature, especially for new customers. Companies may need to teach these customers about the benefits of the service, where and when to obtain it, and provide instructions on how to participate in service processes. Communications can be delivered by individuals, such as salespeople and trainers, or through such media as TV, radio, newspapers, magazines, posters, brochures and websites. Promotional activities may serve to marshal arguments in favour of selecting a particular brand or use incentives to catch customers' attention and motivate them to act.

I.4.1.7 Physical Evidence

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

I.4.1.8 Price and Other Costs of Service

This component addresses management of the *costs* incurred by customers in obtaining benefits from the service product. Responsibilities are not limited to the traditional pricing tasks of establishing the selling price to customers, setting trade margins and establishing credit terms. Service managers also recognise and, where practical, seek to minimise other costs that customers may bear in purchasing and using a service, including time, mental and physical effort, and unpleasant sensory experiences such as noises and smells.

I.4.2 Linking Services Marketing, Operations and Human Resources

As shown by the component elements of the 8Ps model, marketing cannot operate in isolation from other functional areas in a successful service organisation. Three management functions play central and interrelated roles in meeting customer needs: marketing, operations and human resources. Figure 1.3 illustrates this interdependency. In future modules, we will be raising the question of how marketers should relate to and involve their colleagues from other functional areas in planning and implementing marketing strategies.

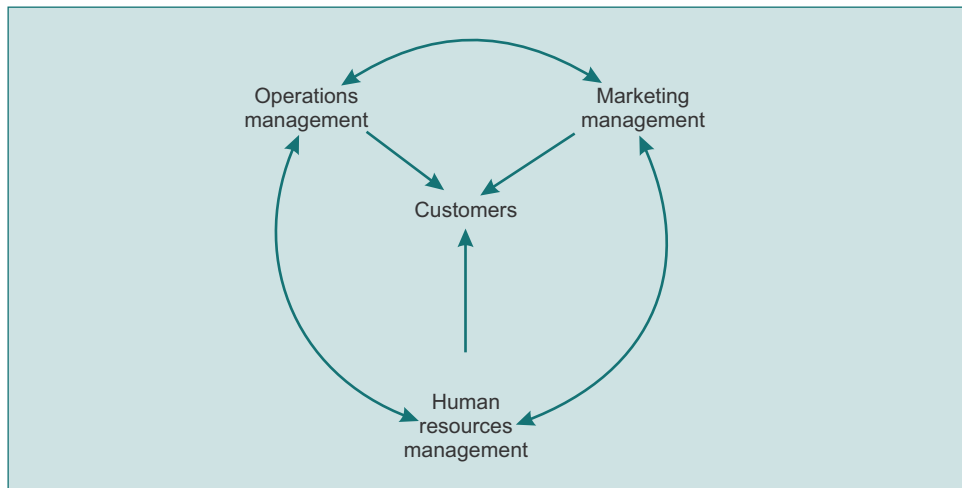


Figure 1.3 Interdependence of marketing, operations and human resources

Service firms must understand the implications of the eight components of integrated service management, as described above, in order to develop effective strategies. Firms whose managers succeed in developing integrated strategies will have a better chance of surviving and prospering. Those that fail to grasp these implications, by contrast, are likely to be outmanoeuvred by competitors who are more adept at responding to the dramatic changes affecting the service economy.

You can expect to see the 8Ps framework used throughout this book. Although any given module is likely to emphasise just one (or a few) of the eight components, you should always keep in mind the importance of integrating the component(s) under discussion with each of the others when formulating an overall strategy.

1.4.3 Creating Value in a Context of Values

Managers need to be concerned about giving good value to customers and treating them fairly in decisions involving all elements of the 8Ps. Value can be defined as the worth of a specific action or object relative to an individual's (or organisation's) needs at a particular point in time.

Firms create value by offering the types of services that customers need, accurately presenting their capabilities, and delivering them in a pleasing and convenient fashion at a fair price. In return, firms receive value from their customers, primarily in the form of the money paid by the latter to purchase and use the services in question. Such transfers of value illustrate one of the most fundamental concepts in marketing, that of *exchange*, which takes place when one party obtains value from another in return for something else of value. These exchanges aren't limited to buying and selling. An exchange of value also takes place when employees go to work for an organisation. The employer gets the benefit of the worker's efforts; in turn, the employee receives wages, benefits and possibly such valued experiences as training, on-the-job experience and working with friendly colleagues.

As a customer yourself, you regularly make decisions about whether or not to invest time, money and effort to obtain a service that promises the specific benefits you seek. Perhaps the service in question solves an immediate need, such as getting a haircut, eating a pizza, repairing your bike or car, or spending a couple of hours at a cinema or another entertainment facility. Alternatively, as with getting an education, you may be prepared to take a long-term perspective before the payoff is realised. But if, after the fact, you find you've had to pay more than you expected or received fewer benefits than anticipated, you're likely to feel cheated. At a minimum, you'll be muttering darkly about 'poor value' (more likely, your discontent will be loudly and colourfully expressed!). If you feel you were badly treated during service delivery, although the service itself provided the desired benefits, you may conclude that this treatment diminished the value received. Alternatively, perhaps you, or people you know, have worked for a company that treated its employees poorly, even to the extent of not computing wages fairly or failing to deliver promised job-related benefits. That's not the best way for management to build employees' commitment to the firm or dedication to serving customers, is it? In fact, customers are quick to pick up on bad vibes from unhappy service workers.

No firm that seeks long-term relationships with either customers or employees can afford to mistreat them or to provide poor value on an ongoing basis. At a minimum, it's bad business; at worst, it's unethical. Sooner or later, shortchanging or mistreating customers and employees is likely to rebound to the firm's disadvantage. Unfortunately, not all firms, employees or even customers have the other parties' best interests at heart. The potential for abusive behaviour is perhaps higher in services than in manufacturing, reflecting the difficulty of evaluating many services in advance (and even after the fact), the need to involve customers in service production and delivery in many instances, and the face-to-face encounters that customers often have with service personnel and other customers.²⁴

Hence companies need a set of morally and legally defensible values to guide their actions and to shape their dealings with both employees and customers. A useful way of thinking about 'values' is as underlying beliefs about how life should be lived, how people should be treated (and behave) and how business should be conducted. To the extent possible, managers would be wise to use their firm's values as a reference point when recruiting and motivating employees. They should also clarify the firm's values and expectations in dealing with prospective customers, as well as making an effort to attract and retain customers who share and appreciate those same values.

Businesses and business schools are devoting more attention today to discussions of what constitutes ethical behaviour. However, there's nothing new in the notion of ethical conduct of business affairs, nor in the recognition of the merit of good values. More than 40 years ago, Siegmund Warburg of the investment banking house of S.G. Warburg (now SBC Warburg) remarked that the reputation of a firm for 'integrity, generosity, and thorough service is its most important asset, more important than any financial item. However, the reputation of a firm is like a very delicate living organism which can easily be damaged and which has to be taken care of incessantly, being mainly a matter of human behaviour and human standards.'²⁵

What's new today is the greater scrutiny given to a firm's business ethics and the presence of tougher legislation designed to protect both customers and employees from abusive treatment. In this book, we will periodically raise ethical issues as they relate to different aspects of service management. Don't be surprised to find occasional questions relating to ethical practice, as well as some examples and case studies. We'll also look at the responsibility of customers to behave in considerate ways towards suppliers and other customers. In particular, in Module 6 we discuss how managers should deal with customers who behave in unethical or abusive ways.

Learning Summary

Why study services? Because modern economies are driven by service businesses, both large and small. Services are responsible for the creation of a substantial majority of new jobs, both skilled and unskilled, around the world. The service sector includes a tremendous variety of different industries, including many activities provided by public and nonprofit organisations. It accounts for over half the

economy in most developing countries and for around 70 per cent in many highly developed economies.

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

Review Questions

Content Questions

- 1.1 Services are economic activities that create value and provide benefits for customers at specific times and places, as a result of bringing about a desired change in, or on behalf of, the recipient of the service. Explain how this definition of service applies to a household cleaning organisation.
- 1.2 In their courses, business schools have traditionally placed more emphasis on manufacturing industries than on service industries. Why do you think that is? Does it matter?
- 1.3 A hotel chain primarily targets international business and travel customers. It has been badly affected by the downturn in international travel. You produce a report which starts, 'The main problem is time.' Summarise the rest of the report.
- 1.4 The UK telephone industry was deregulated in the 1980s. What changes in marketing strategy would you have suggested for British Telecom as it moved into this new era of competition?
- 1.5 Is the risk of unethical business practices greater or smaller in service businesses than in manufacturing companies? Explain your answer.
- 1.6 Why do marketing, operations, and human resources have to be more closely linked in services than in manufacturing? Give examples.
- 1.7 During the past ten years, computer technology has changed the service provided by travel agencies and medical help. Give some examples.
- 1.8 Take the 8Ps of integrated service management and give a brief explanation of how each one applies to the airline industry.

- 1.9 Visit the website of the US Bureau of Economic Analysis (www.bea.gov), Statistics Canada (www.statcan.gc.ca) or a similar site for your own country. Obtain data on the latest trends in services as a percentage of gross domestic product and as a percentage of employment accounted for by services. Take these two statistics then break them down by type of industry and by service exports and imports.

Multiple-Choice Questions

- 1.10 Which of the following options explains the strong growth of value added by services as a percentage of GDP?
- A. Increased population.
 - B. Membership of the EU.
 - C. Strong economic growth rate.
 - D. Investment in public sector organisations.
- 1.11 As a national economy develops, why is there a change in the relative share of employment between agriculture, industry and services?
- A. The growing industrial base requires more business-to-business service support.
 - B. As agriculture declines in relative importance, more land is used for tourism.
 - C. Economic development leads to population growth.
 - D. Per capita income rises over time.
- 1.12 Why is the service sector dominant in many poorly developed countries?
- A. International investment.
 - B. Lack of industrialisation.
 - C. Government investment.
 - D. Large underground economy.
- 1.13 Which of the following statements is a definition of service?
- A. A management process in which service provision is made available.
 - B. An act or performance offered by one party to another.
 - C. Where physical goods are processed and assembled.
 - D. Normally results in ownership of any of the factors of production.
- 1.14 Explain to the manager of a computer software producer why elements of the company form part of a hidden service sector.
- A. The organisation performs a service for retail companies in producing goods for them to sell.
 - B. The organisation provides value for its workers in providing them with a salary and benefits.
 - C. In producing the software, the company has a wide array of activities which could be outsourced.
 - D. In producing the software, there are a range of activities which can be classed as internal services.

- 1.15 You own a market research agency. Explain to your manager why targeting service businesses rather than manufacturing businesses is likely to benefit organisations like yours in the long term.
- A. Manufacturing businesses are investing less in market research or are more likely to keep it in house.
 - B. Advanced producer services such as market research are more likely to be used by service businesses.
 - C. The growth of the service sector stimulates additional advanced producer services.
 - D. The service environment is evolving more rapidly than the manufacturing environment.
- 1.16 The underground, or shadow, economy accounts for up to a quarter of GDP in European countries? Why is the growth of services linked to the growth of the underground economy?
- A. Service sector organisations include their own internal services which artificially affect levels of service production.
 - B. Many people conceal income made through service-based self-employment.
 - C. There has been a growth in the range of internal services provided by traditional goods-producing organisations.
 - D. There is a hidden service sector within many large corporations.
- 1.17 Which of the following services would be categorised as internal services?
- A. Legal and accounting services.
 - B. Specialist medical services.
 - C. Liaison between functional specialisms.
 - D. Covering for absentee staff.
- 1.18 Traditionally, many service industries were highly regulated. Which factor tended to be regulated by government?
- A. Employment levels.
 - B. Price levels.
 - C. Output levels.
 - D. Supply levels.
- 1.19 In Europe how has regulation of the service industry changed since the 1970s?
- A. Regulation of service industries has generally increased.
 - B. The amount of regulation has been maintained.
 - C. There was a trend to partial or complete deregulation in major service industries.
 - D. There has been an increase in regulation in EU member states.
- 1.20 Choose the best definition of privatisation.
- A. Conversion of a public limited company into a private limited company.
 - B. Transforming government organisations into investor-owned companies.
 - C. Transferring ownership of a public limited company to a majority stakeholder.
 - D. Matching service levels of government organisations to those in the private sector.

- 1.21 Variability, what does it mean in the context of service operations?
- A. The variation of interaction between customers and service staff.
 - B. The production of service products under conditions designed to optimise productivity or quality.
 - C. The diversity of service experience that occurs when services are consumed as they are produced.
 - D. The variation in customers that defines a particular service experience.
- 1.22 Services are often described as intangible. What does this mean?
- A. The service benefits come from its physical characteristics.
 - B. Every time a person experiences the service, it changes in some distinct manner.
 - C. The person performing the service is often not visible to the customer.
 - D. The service benefits come from the nature of its performance.
- 1.23 As the manager of a restaurant, why do you need to understand and integrate marketing activities with other functional areas?
- A. To understand the tangible elements of restaurant service.
 - B. To add value to the process of marketing the restaurant.
 - C. To achieve synergy between diverse activities such as cooking and waiting.
 - D. To achieve total customer focus in providing a dining experience.
- 1.24 Why do people say there are no stocks for service performance?
- A. Because service has to be delivered quickly.
 - B. Because service performance cannot be stockpiled for sale at a later time.
 - C. Because when demand exceeds capacity, customers may be kept waiting.
 - D. Because service factory, retail outlet and point of consumption occur at a single location.
- 1.25 Growth of franchise networks is changing service management. What is franchising?
- A. Growth of company-owned internal services.
 - B. Development of in-store concessions.
 - C. Training staff in service management skills.
 - D. Licensing independent entrepreneurs.
- 1.26 A business consultant has recommended something for re-engineering service processes to increase customer uptake of services at your hotel. What might they have recommended?
- A. Service franchises.
 - B. Privatisation.
 - C. Technological innovation.
 - D. Internationalisation.

- 1.27 What is the service quality movement?
- A. A move towards standardisation of service quality.
 - B. Globalisation of service quality standards.
 - C. A re-engineering process designed to improve service quality.
 - D. A new move to let quality be customer-driven.
- 1.28 Expansion of leasing and rental business is a force for change in service management? Why?
- A. It allows many service organisations to set up business.
 - B. It allows service organisations to lease fleets of cars for managers.
 - C. It allows a creative marriage between service and manufacturing businesses.
 - D. It allows service businesses to sell and lease back their properties.
- 1.29 You work for a producer of mechanical equipment. To increase profitability, the CEO has asked you to investigate setting up several service profit centres. What is a service profit centre? Choose the definition you would use to explain the idea to your assistant.
- A. A profit-seeking service within a manufacturing company.
 - B. A service conducted by homeworkers.
 - C. The franchise of a successful business format.
 - D. A department of a manufacturing organisation.
- 1.30 You work for a producer of mechanical equipment. To increase profitability, the CEO has asked you to investigate setting up several service profit centres. Which of the following organisational activities is a potential service profit centre for a manufacturing company?
- A. Installation of mechanical equipment.
 - B. Production of mechanical equipment.
 - C. Assembly of mechanical equipment.
 - D. Packing of mechanical equipment.
- 1.31 Many organisations have invested heavily in researching what their customers want on every dimension of service, customer-focused quality improvements, and regular measurement of customer satisfaction. Which of the forces of change in service management does this type of activity represent?
- A. Pressures for public and non-profit organisations to find new income sources.
 - B. Internationalisation and globalisation.
 - C. Manufacturers as service providers.
 - D. Service quality movement.
- 1.32 One of these is a characteristic of services. Which one?
- A. Malleability.
 - B. Perishability.
 - C. Flexibility.
 - D. Tangibility.

- I.33 What is the key distinction between goods and services?
- A. Intangibility.
 - B. Lack of ownership.
 - C. Perishability.
 - D. Absence of inventory.
- I.34 Service benefits come from the nature of the service performance. Which idea is this describing?
- A. The intangible elements of service provision.
 - B. The tangible elements of a service.
 - C. The continuum from tangible-dominant to intangible-dominant elements of a service.
 - D. The flexible nature of services.
- I.35 Tangible products can offer consumers intangible benefits. Which of the following is an intangible element of car hire?
- A. Colour.
 - B. Upholstery.
 - C. Central locking.
 - D. Price.
- I.36 One way to distinguish between goods and services is to place them on a scale from tangible dominant to intangible dominant. Which of the following services is intangible dominant?
- A. Teaching.
 - B. Furniture rental.
 - C. Delicatessen.
 - D. Restaurant.
- I.37 Often customers are actively involved in helping to create the service. How could this involvement be used by a retail organisation?
- A. Ask customers to help out in the store.
 - B. Expect customers to help themselves from merchandise displays.
 - C. Do a telephone survey of customers.
 - D. Ask staff to pack bags for customers.
- I.38 The type of customer that patronise a particular service business helps to define the quality of the service experience. This reflects one of the basic differences between goods and services. Which difference?
- A. Services are intangible performances whereas goods are tangible products.
 - B. Customers have greater involvement in service performance than in goods production.
 - C. Many services are difficult for customers to evaluate.
 - D. Other people may form part of the product.

- 1.39 A service is a perishable deed or performance. How can a leisure centre overcome the problem of service perishability?
- A. Maximise service opportunities by targeting different customer groups.
 - B. Develop 24 hour a day capacity.
 - C. Make sure there are equipment and labour in readiness.
 - D. Ensure that staff are well trained.
- 1.40 What is the main reason for the interdependence of marketing, human resources and operations in service management?
- A. They must act together to communicate service quality levels.
 - B. Marketing feeds back customer requirements to the other two functions.
 - C. Customers interact with all three functions.
 - D. All three functions require successful interaction so they can improve customer satisfaction.

Case Study 1.1: Amazon.com

Amazon.com likes to describe itself as Earth's Biggest Bookstore, yet it has no physical bookshops. Instead it's a virtual bookshop doing business on the Web and accessible 24 hours a day to anyone in the world who has a computer capable of connecting to the Internet. It opened its 'virtual doors' in the US in July 1995 and grew at an extraordinary rate. By mid 1998 it had made sales to more than 3 million customers in 160 countries, claiming it was by then the leading online shopping site. In addition to books, the company offered 125 000 music titles, ten times the number offered by the average music store. Ten years later Amazon.com had 88 million customers, sales of \$25 billion and a net income of \$9.2 million. In addition to books, the company offers a wide range of music, electronics and other goods and it operates retail websites for other major retailers. In 2007 Amazon launched a cheap electronic reading device, the Kindle, on which owners can buy and download electronic books.

Through its website, Amazon customers could search for books by author, title, subject or keyword or browse for books in 28 subject areas. The software at its user-friendly website simulates a knowledgeable bookshop assistant. By indicating your mood, your preferences and other authors or artists you like, you can get recommendations for new books or music that you might enjoy. Customers are invited to send in their own reviews of books or music, which visitors to the website can then compare with reviews by professional reviewers. When a customer places an order through the website, the company arranges for physical items such as books, CDs or other products to be shipped directly from a warehouse. Customers selecting MP3 music or e-books can download the material onto the relevant e-product.

- 1 Explain how technological innovation and internationalisation, two of the twelve forces for change in service management, contributed to the competitive advantage of Amazon.com.

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