Chapter 1: New Perspectives On Marketing in the Service Economy
Overview of Chapter 1

- Why Study Services?
- What are Services?
- Marketing Challenges Posed by Services
- Extended Marketing Mix Required for Services
- Integration of Marketing with Other Management Functions
- Developing Effective Service Marketing Strategies
Why Study Services?
Why Study Services?

- Services dominate most economies and are growing rapidly:
  - Services account for more than 60% of GDP worldwide
  - Almost all economies have a substantial service sector
  - Most new employment is provided by services
  - Strongest growth area for marketing

- Understanding services offers you a personal competitive advantage
Services Dominate the Global Economy

Contribution of Service Industries to GDP Globally

Manufacturing 32%
Services 64%
Agriculture 4%

Source: The World Factbook 2008, Central Intelligence Agency
Estimated Size of Service Sector in Selected Countries

- Jersey (97%), Cayman Islands (95%), Hong Kong (92%)
- Bahamas (90%), Bermuda (89%), Luxembourg (86%)
- USA (79%), Fiji (78%), Barbados (78%), France (77%), U.K. (76%)
- Japan (72%), Taiwan (71%), Australia (71%), Italy (71%)
- Canada (70%), Germany (69%), Israel (67%)
- South Africa (65%), Brazil (66%), Poland (66%)
- Turkey (63%), Mexico (62%)
- Argentina (57%), Russia (55%)
- Malaysia (46%), Chile (45%)
- Indonesia (41%), China (40%)
- Saudi Arabia (35%)

Source: The World Factbook 2008, Central Intelligence Agency
Value Added by Service Industry Categories to U.S. GDP

- Business Services: 12%
- Transport, Utilities & Communications: 9%
- Wholesale & Retail Trade: 12%

NAICS: New Way to Classify & Analyze the Service Economy

- **NAICS—North American Industry Classification System**
  - Classifies industries in the economic statistics of USA, Canada & Mexico
  - Replaces old SIC codes in USA
  - 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
NAICS Codes of Newer Service Industries Not Profiled By 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?

- 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 be lost to lower-cost countries? Yes, some service jobs can be exported
Changing Structure of Employment as Economies Develop

Source: IMF, 1997
Why Study Services?

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

- Forces that reshape:
  - Demand
  - Supply
  - The competitive landscape
  - Customers’ choices, power, and decision making
Transformation of the Service Economy

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

- **Business Trends**

- **Advances In IT**

- **Government Policies**

- **Globalization**

**Innovation in service products & delivery systems, stimulated by better technology**

**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

**Increased focus on services marketing and management**
Factors Stimulating Transformation of the Service Economy

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

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

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

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

- 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

Government Policies
Factors Stimulating Transformation of the Service Economy

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

- Growth of 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

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

Government Policies

Social Changes

Business Trends

Advances In IT

Globalization
What are Services?
What Are Services?

● The historical view

   ➔ Smith (1776): Services are different from goods because they are perishable

   ➔ Say (1803): As services are immaterial, consumption cannot be separated from production

● A fresh perspective: Benefits without Ownership

   ➔ Rental of goods:

      (a) Payment made for using or accessing something – usually for a defined period of time – instead of buying it outright and

      (b) Allows participation in network systems that individuals and organizations could not afford
What Are Services?

Five broad categories within non-ownership framework of which two or more may be combined:

- Rented goods services
- Defined space and place rentals
- Labor and expertise rentals
- Access to shared physical environments
- Access to and usage of systems and networks
Definition of Services

- **Services**
  - are economic activities offered by one party to another
  - most commonly employ time-based performances to bring about desired results

- 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;
  - normally do not take ownership of any of the physical elements involved.
Value Creation is Dominated by Intangible Elements

Physical Elements

Low

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

Intangible Elements

High

Source; Adapted from Lynn Shostack
A firm’s market offerings are divided into core product elements and supplementary service elements.

Need to distinguish between:
- Marketing of services – when service is the core product
- Marketing through service – when good service increases the value of a core physical good

Manufacturing firms are reformulating and enhancing existing added-value services to market them as stand-alone core products.
Differences exist amongst services depending on what is being processed

Classification of services into

- People processing
- Possession processing
- Mental stimulus processing
- Information processing
## 4 Categories of Services

<table>
<thead>
<tr>
<th>Nature of the Service Act</th>
<th>People</th>
<th>Possessions</th>
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| Tangible Actions          | People-processing (services directed at people's bodies):  
  - Barbers  
  - Health care | Possession-processing (services directed at physical possessions):  
  - Refueling  
  - Disposal / recycling |
| Intangible Actions        | Mental stimulus processing (services directed at people's mind):  
  - Education  
  - Advertising / PR | Information processing (services directed at intangible assets):  
  - Accounting  
  - Banking         |
People Processing

- Customers must:
  - physically enter the service factory
  - cooperate actively with the service operation

- Managers should think about process and output from the customer’s perspective
  - to identify benefits created and non-financial costs: Time, mental and physical effort
Possession Processing

- Involvement is limited
- Less physical involvement
- Production and consumption are separable
Mental Stimulus Processing

- Ethical standards required:
  - Customers might be manipulated

- Physical presence of recipients not required

- Core content of services is information-based
  - Can be ‘inventoried’
Information Processing

- Most intangible form of service
- May be transformed:
  - Into enduring forms of service output
- Line between information processing and mental stimulus processing may be unclear
Marketing Challenges Posed by Services
Services Pose Distinctive Marketing Challenges

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

- Eight common differences between services and goods but they do not apply equally to all services

What are marketing implications of these differences?
Differences, Implications, and Marketing-Related Tasks

**Difference**
- Most service products cannot be inventoried
- Intangible elements usually dominate value creation
- Services are often difficult to visualize & understand
- Customers may be involved in co-production

**Implications**
- Customers may be turned away
- Harder to evaluate service & distinguish from competitors
- Greater risk & uncertainty perceived
- Interaction between customer & provider; poor task execution could affect satisfaction

**Marketing-Related Tasks**
- Use pricing, promotion, reservations to smooth demand; work with ops to manage capacity
- Emphasize physical clues, employ metaphors and vivid images in advertising
- Educate customers on making good choices; offer guarantees
- Develop user-friendly equipment, facilities & systems; train customers, provide good support
Differences, Implications, and Marketing-Related Tasks

**Differences**

- People may be part of service experience
- Operational inputs and outputs tend to vary more widely
- Time factor often assumes great importance
- Distribution may take place through nonphysical channels

**Implications**

- Behavior of service personnel & customers can affect satisfaction
- Hard to maintain quality, consistency, reliability
- Difficult to shield customers from failures
- Time is money; customers want service at convenient times
- Electronic channels or voice communications

**Marketing-Related Tasks**

- Recruit, train employees to reinforce service concept
- Shape customer behavior
- Redesign for simplicity and failure proofing
- Institute good service recovery procedures
- Find ways to compete on speed of delivery; offer extended hours
- Create user-friendly, secure websites and free access by telephone
Extended Marketing Mix for Services
Services Require An Extended 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 **only function** to bring operating revenues into a business; all other functions are cost centers

- The “7 Ps” of services marketing are needed to create viable strategies for meeting customer needs profitably
The 7Ps of Services Marketing

- Traditional Marketing Mix Applied to Services
  - Product (*Chapter 4*)
  - Place and Time (*Chapter 5*)
  - Price (*Chapter 6*)
  - Promotion and Education (*Chapter 7*)

- Extended Marketing Mix for Services
  - Process (*Chapter 8 & 9*)
  - Physical Environment (*Chapter 10*)
  - People (*Chapter 11*)
Integration of Marketing with Other Management Functions
Three management functions play central and interrelated roles in meeting needs of service customers.
Developing Effective Service Marketing Strategies
Overview of Framework

Understanding Service Products, Consumers and Markets
Part I: Chapters 1-3

Applying the 4 P’s of Marketing to Services
Part II: Chapters 4-7

The Extended Services Marketing Mix for Managing the Customer Interface
Part III: Chapters 8-11

Implementing Profitable Service Strategies
Part IV: Chapters 12-15
Framework - Part I

Understanding Service Products, Consumers, and Markets

Chapter 1  New Perspectives on Marketing in the Service Economy
Chapter 2  Consumer Behavior in a Services Context
Chapter 3  Positioning Services in Competitive Markets
Framework - Part II

Applying the 4 P’s of Marketing to Services

Chapter 4  Developing Service Products: Core and Supplementary Elements
Chapter 5  Distributing Services through Physical and Electronic Channels
Chapter 6  Setting Prices and Implementing Revenue Management
Chapter 7  Promoting Services and Educating Customers
Framework - Part III

The Extended Services Marketing Mix for Managing the Customer Interface

Chapter 8  Designing and Managing Service Processes
Chapter 9  Balancing Demand and Productive Capacity
Chapter 10 Crafting the Service Environment
Chapter 11 Managing People for Service Advantage
Framework - Part IV

Implementing Profitable Service Strategies

Chapter 12  Managing Relationships and Building Loyalty
Chapter 13  Complaint Handling and Service Recovery
Chapter 14  Improving Service Quality and Productivity
Chapter 15  Striving for Service Leadership
Summary

Services dominate the economy in many nations. The majority of jobs are created in the service sector.

Why Study Services?

Services are a form of rental (not ownership). They are performances that bring about a desired result.

What are Services?

Services are often intangible, difficult to visualize and understand, and customers may be involved in co-production.

Unique Characteristics

Extended Marketing Mix

Product, Place & Time, Price, Promotion & Education, Process, Physical Environment, People

CHAPTER 1