

# Services Marketing

## Topic 1 – Marketing in the Service Economy

- Service sector is the engine of economic growth in developed countries
- Output of services now accounts for 60-80% of the GDP of highly developed countries
- Service sector accounts for 85% of total employment in AUS

**Table 1.1** Examples of diversity of services

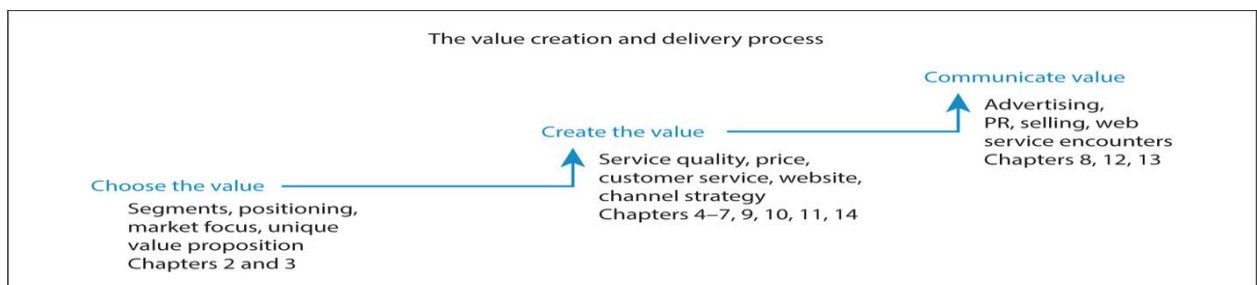
Consumer services	Business services
<ul style="list-style-type: none"> <li>• Airline</li> <li>• Banking and finance</li> <li>• Insurance</li> <li>• Medical</li> <li>• Telecommunications</li> <li>• Hotel</li> <li>• Restaurant</li> <li>• Opera/theatre</li> <li>• Football match</li> <li>• House cleaning</li> <li>• Transportation</li> </ul>	<ul style="list-style-type: none"> <li>• Accountancy</li> <li>• Architecture</li> <li>• Engineering</li> <li>• Legal services</li> <li>• Management consulting</li> <li>• Printing</li> <li>• Insurance</li> <li>• Telecommunications</li> <li>• IT consulting</li> <li>• Logistics consulting</li> <li>• Marketing research</li> </ul>

**Services:** Any act, performance or experience that one party can offer to another

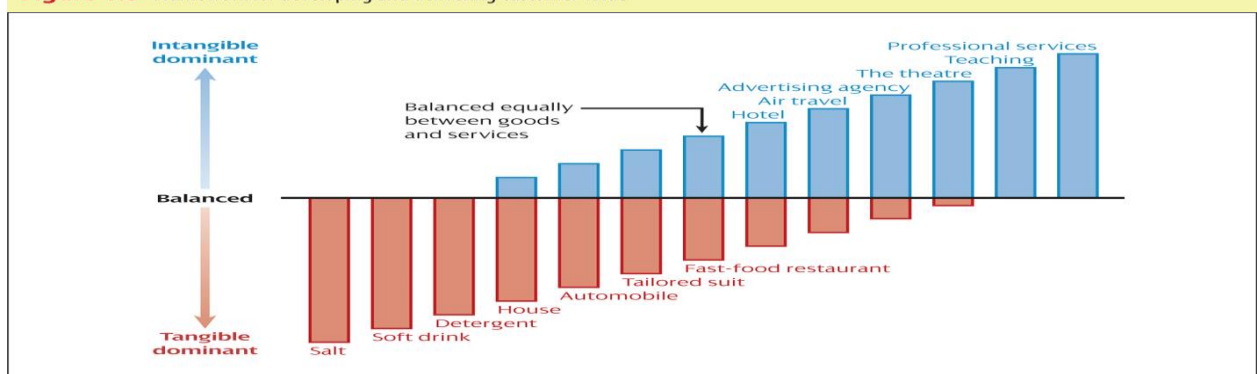
- Essentially intangible and does not result in the ownership of anything
- Processes (economic activities) that provide time, place, form, problem solving or experiential value to the receiver
- Something that may be bought or sold (not touched)

**Value creation:** Customers expect to obtain value from their service purchase in exchange for their money, time and effort

- Value comes from variety of value-creating elements rather than transfer of ownership
- Firms must create & deliver services that are perceived to provide value
- Choose the value – create the value – communicate the value
- Service-dominant logic (S-D logic): customers of services are co-creators of value



**Figure 1.3** Framework for developing and delivering customer value



**Figure 1.4** Relative value added by physical versus intangible elements

## Differences between G&S

**Intangibility** – Difficult for consumers to evaluate quality because they cannot touch, taste or smell, or even see and hear, a service. Intangibility introduces an element of perceived risk

**Inseparability** – The service provider and the consumer co-produce the service

**Variability** – Difficult to maintain a uniform standard of service quality

**Perishability** – Services are performances or experiences, which means that they cannot be stored after production to be used later to satisfy consumer demand

**Ownership** – Service personnel and their performance cannot be owned by consumer

**Table 1.3** Managerial implications of the differences between services and goods

Difference	Implications	Marketing-related topics
Most service products cannot be inventoried	<ul style="list-style-type: none"> <li>Customers may be turned away or have to wait</li> </ul>	<ul style="list-style-type: none"> <li>Smooth demand through promotions, dynamic pricing and reservations</li> <li>Work with operations to adjust capacity</li> </ul>
Intangible elements usually dominate value creation	<ul style="list-style-type: none"> <li>Customers cannot taste, smell or touch these elements and may not be able to see or hear them</li> <li>Harder to evaluate service and distinguish from competitors</li> </ul>	<ul style="list-style-type: none"> <li>Make services tangible through emphasis on physical clues</li> <li>Employ concrete metaphors and vivid images in advertising, branding</li> </ul>
Services are often difficult to visualise and understand	<ul style="list-style-type: none"> <li>Customers perceive greater risk and uncertainty</li> </ul>	<ul style="list-style-type: none"> <li>Educate customers to make good choices, explain what to look for, document performance, offer guarantees</li> </ul>
Customers may be involved in co-production	<ul style="list-style-type: none"> <li>Customers interact with provider's equipment, facilities and systems</li> <li>Poor task execution by customers may hurt productivity, spoil service experience, curtail benefits</li> </ul>	<ul style="list-style-type: none"> <li>Develop user-friendly equipment, facilities and systems</li> <li>Train customers to perform effectively; provide customer support</li> </ul>
People may be part of the service experience	<ul style="list-style-type: none"> <li>Appearance, attitude and behaviour of service personnel and other customers can shape the experience and affect satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Recruit, train and reward employees to reinforce the planned service concept</li> <li>Target the right customers at the right times, shape their behaviour</li> </ul>
Operational inputs and outputs tend to vary more widely	<ul style="list-style-type: none"> <li>Harder to maintain consistency, reliability and service quality or to lower costs through higher productivity</li> <li>Difficult to shield customers from results of service failures</li> </ul>	<ul style="list-style-type: none"> <li>Set quality standards based on customer expectations; redesign product elements for simplicity and failure-proofing</li> <li>Institute good service recovery procedures</li> <li>Automate customer-provider interactions; perform work while customers are absent</li> </ul>
The time factor often assumes great importance	<ul style="list-style-type: none"> <li>Customers see time as a scarce resource to be spent wisely; dislike wasting time waiting, want service at times that are convenient</li> </ul>	<ul style="list-style-type: none"> <li>Find ways to compete on speed of delivery, minimise burden of waiting, offer extended service hours</li> </ul>
Distribution may take place through non-physical channels	<ul style="list-style-type: none"> <li>Information-based services can be delivered through electronic channels such as the Internet or voice telecommunications, but core products involving physical activities or products cannot</li> </ul>	<ul style="list-style-type: none"> <li>Seek to create user-friendly, secure websites and free access by telephone</li> <li>Ensure that all information-based service elements can be downloaded from site</li> </ul>

**Forces have transformed the service economy:** The hollowing out effect

- Deregulation and privatisation, e.g. banking, airline and telecommunications industries
- Social changes, e.g. aging, population, dual income families
- Professional services and franchises

**Differences between services:** Degree of tangibility/intangibility of service processes

- Who or what is the direct recipient of service processes?
- Place of service delivery
- Customisation versus standardisation