

Lecture 1 Introduction to Service and the Sharing Economy

Why study service?

- Consumers evaluate services differently than goods and service marketers must effectively manage the experiential aspects of the service product;
- Services can be effectively used as a differential advantage for tangible-dominant products;
- The growth of the global service economy in terms of contributions to Gross Domestic Products (GDP) has increased dramatically;
- The growth of the global service workforce has also increased accordingly;
- The emergence of technologically based e-services have transformed many service industries;
- Knowledge is needed in the area of developing sustainable services marketing business practices.
- Australia's services sector accounts for around **75 per cent** of real gross value added (GVA).
- Around **80 per cent of Australians** are employed in the services sector

Service defined

- Goods = Object, Device, Thing
- **Services = Act, Deed Performance or Effort**
 - Services are intangible...because they are **performances** (which are experienced) rather than **objects** (which are held)"
- **"Product"**, refers to both goods and services
- There is **no clear distinction** between goods and services because
 - A pure good would imply that the benefits received by the consumer contained no elements supplied by service
 - A pure service would contain no tangible elements.
- The distinction between goods and services is further obscured by firms that conduct business on both sides of the fence.
 - For example, **General Motors**, the "goods" manufacturing giant, generates a significant percent of its revenue from its financial and insurance businesses.

Services (and relationship) Marketing Defined

- Services Marketing is the study and practice of delivering (building relationships with customers over time through) **valued deeds, processes and performances**

IHIP Paradigm

- Unique to service. Present some challenge when managing service
- **Intangibility**
 - Service cannot be **seen, touched or tasted**, thus consumers are **asked to buy promises**.
 - Service are about **performance** rather than objects.
 - The Good-Service Continuum –all products can be placed on a scale somewhere

between being a pure service (no tangible output) and a pure good (no intangible service added to the good). In practice, most products fall between the two extremes by being a combination of good and service.

- The tangible aspects of an intangible dominant product and the intangible aspects of a tangible dominant product are an important source of product differentiation and new revenue streams

Possible challenges	Possible solutions
Lack of service inventories ➔ Service cannot be stored => consumers waiting	To tangibilize the service ➔ Tangible clues: e.g. environment
Service lack patent protection	Utilize personal source of info – WOM communication ➔ Because consumers of services lack any objective means of evaluating services, they often rely on the subjective evaluations relayed by friends, family, and a variety of other opinion leaders. ➔ Hence, in purchasing services, personal sources of information become more important to consumers than non-personal sources such as the mass media (e.g., television, radio)
Service are difficult to display / communicate	Strong organizational image ➔ Recognized organizational image, lower the level of perceived risk
Difficult to price	Activity based costing ➔ Focuses on the resources consumed in developing the final product

- **Heterogeneity**

- Refers to the potential for service performance to vary from one service transaction to the next.
- Heterogeneity is the result of different people providing the same service in a slightly different way because no two people are identical.
⇒ This lack of consistency cannot be eliminated as it frequently can be with goods.

Possible challenges	Possible solutions
Service standardization and quality control are difficult to achieve	To provide customized services ➔ Price higher, speed of service delivery may be slower, customers may not willing to face the uncertainty associated with customized service

	Develop a service delivery system that standardizes the offering
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- ***Inseparability***

- Whereas goods are first produced, then sold, and then consumed, **services are sold first and then produced and consumed simultaneously.**
- Customers are often part of the service delivery. Other customers directly affect service perception. The service cannot be detached from the customer. The customer forms some of the service outcome.
 - ⇒ **Interaction with the service worker affects the service provision** and the customer's satisfaction

Possible challenges	Possible solutions
<p>The service provider is physically connected to the service</p> <p>➔ Service provider becomes a tangible clue</p> <p>➔ Employee satisfaction and customer satisfaction are directly related</p>	<p>Strategic selection and training of public contact personnel</p> <p>➔ Selection of service personnel with superior communication and interpersonal skills is a must.</p> <p>➔ Training personnel once they are on the job is also necessary</p>

- **Three levels of contact**
 - ⇒ Low: an absence of or limited physical contact between service personnel and customer. Often takes place remotely.
 - ⇒ Medium: some contact between the customer and service personnel, usually at the initiation or conclusion of the service encounter
 - ⇒ High: active engagement between the customer and service personnel for the duration of the service delivery.
- **Customers are part of the service**, and other customers directly affect service perception and experience.
 - (1) a requirement that the customer be physically present to receive the service, such as in dental services, a haircut, or surgery;
 - (2) a need for the customer to be present only to start and stop the service, such as in dry cleaning and auto repair; and
 - (3) a need for the customer to be only mentally present, such as in participation in college courses that are transmitted via the Internet.
 - ⇒ Each scenario reflects a different level of customer contact, and as a result each service delivery system should be designed differently.

⇒ Overall, **as customer contact increases**, the efficiency of the operation **decreases**.

- Possible solutions: effectively manage consumers

- ⇒ The goal of effectively managing consumers that share a service experience is to **minimize the negative aspects and maximize the positive aspects** of “other customers.”
- ⇒ E.g. Separating smokers from nonsmokers is an example of one way to minimize the impact of other customers.
- ⇒ E.g. providing delivery service may eliminate the need for consumers come into the store and improve firm’s operating efficiencies and delivery speed.

- **‘Other customers’** are involved in the production process

- ⇒ Because production and consumption occur simultaneously, several customers often share a common service experience.
- ⇒ This “shared experience” can be negative or positive.
- ⇒ Overall, the primary challenge concerns **effectively managing different market segments with different needs within a single service environment**.
- ⇒ Other consumers can be positive as well.
 - A happy crowd may make a concert an even more pleasurable event.
 - As social creatures, humans tend to frequent places of business and feel more comfortable in places that have other customers in them. In fact, the lack of other customers may act as a tangible clue that the impending experience may be less than satisfactory.

- Possible solution: develop multisite location

- ⇒ To **offset the effects of inseparability** pertaining to challenges associated with centralized mass production, service firms that mass produce do so by setting up **multiple locations**.
- ⇒ e.g. H & R Block accounting services, Hyatt Legal Services, Marriott Hotels
- ⇒ **Multisite locations** serve at least two purposes.
 - First, because the consumer is involved in the production process, multisite locations **limit the distance** the consumer must travel to purchase the service.
 - Second, each multisite location is staffed by different service providers, each of whom can produce their own supply of services to serve their local market. Ultimately, multisite locations act as **factories in the field**.

- **Perishability**

- Services cannot be saved; unused capacity in services cannot be reserved, and services themselves cannot be inventoried. Thus, it is difficult to match demand and capacity.
- They are remembered as we take away our memories of the service.
- Possible challenges and solutions refer to lecture 7.

Managerial Challenges

- Reducing perceived risk giving we ask people to buy promises
- Motivating/training staff to reach uniform levels of service provision
- Motivating/socialising customers to follow their scripts. So, everyone's experience is pleasurable one
- Estimating demand
- Collaborate with human resource and operations

Service – as Defined by Service Dominant-Logic - Definition:

- “the application of specialized competences (skills and knowledge), through deeds, processes, and performances for the benefit of another entity or the entity itself” (self-service)
- The primary role of marketers is to deliver service – there is no difference between goods and services.
- Implies **unit of output, rather than a process** as implied by the singular word service.
- Both goods and services render service.
 - Service is sometimes provided directly and sometimes it is provided **indirectly** through the provision of tangible goods.
 - ⇒ E.g. buying a car, not just getting A to B, but also about the prestige, power
 - The importance of tangible goods lies not so much in owning them as in obtaining the service they render. As the individual uses and consumes the good over time, value is derived from the consumption experience.

Value

- **Value creation** is the unit of analysis
 - Goods-centered view “value is embedded in output”
 - Service-centered view “value is defined and co-created with the consumer”
 - Move from ‘make-and-sell’ strategy to ‘sense-and-respond’
- With a service-dominate approach, value is defined by consumers and it is depending on consumer resource and context – what they can benefit from using the product

Traditional VS Eco-system of exchange

- **Traditional market logic:** passive => consumer is disconnected
 - The service provider is the one who creates value and then deliver to consumer, consumer is the passive recipient of that value and their job is to destroy value and acquire value again.
 - They are passive. We find their needs and create value.
 - The consumer is disconnected.
 - Consumer- destroy – acquire
- **Eco-system of exchange**

- Co-creation, marketer provides the platform for consumer, to integrate your resources – knowledge and skills and network and context, for you to create value for yourself.
 - Value is not created by the service provider, not only from consumer, but together.
- Customers' ability to co-create value is governed by the amount of information, knowledge, skills and other resources that they can access and use

Value

- Firms provide their customers with value propositions that constitute experiences and/or solutions
- However, it is only through the interactive co-creation process that the customer is enabled to evaluate this proposition and assess its actual value (as a value-in-context).
- The role of the marketer is delivering value proposition – a promise
- The success of value proposition depends on co-creation process. As consumers, we don't whether we derive value from your service until we consume it, so **value in-use**.
- Consumption is accepted by consumer's context. E.g. go to restaurant with ex-husband, then the experience / value of that restaurant will be affected by that context. **Value in-context**.

Co-creation of value

- The focus on marketing should be on value co-creation rather than value distribution.
- Marketing needs to facilitate and support the customers' value-creating process rather than simply distributing ready-made value to consumers.
- How?
 - The best way to co-create value is to focus on the **experiences** of the customer rather than **needs**
 - Enjoyable and engaging experiences provide intrinsic value. They offer a state which people try to maintain and seek to repeat

Lecture 2 – Service Encounter

Three stages service model

- The extent consumer going through the buying-decision process depend on
 - Level of involvement
 - Types of service
 - Frist / repeat purchase