Chapter 13 Summary – Designing and Managing Services


During this chapter we systematically analyze services and how to market them most effectively, considering that it is critical to understand the special nature of services and what that means to marketers.

❖ The Nature of Services

Some reports like the Bureau of Labor Statistics reports that the service-producing sector will continue to be the dominant employment generator in the economy, adding about 20 million jobs by 2014. Employment in the service-producing sector is expected to increase by 17% over the 2004--2014 period, whereas manufacturing employment is expected to decrease by 5%. In fact, manufacturing's share of total jobs is expected to decline from around 10% in 2004 to 8% in 2010. These numbers and others have led to a growing interest in the special problems of marketing services.

❖ Service Industries are Everywhere

We can observe services wherever you imagine, like the government sector, with its courts, employment services, hospitals, loan agencies, military services, police and fire departments, postal service, regulatory agencies, and schools, is in the service business. The private nonprofit sector, with its museums, charities, churches, colleges, foundations, and hospitals, is in the service business. A good part of the business sector also is in the service business. Many workers in the manufacturing sector are really service providers.

**Definition of service:**

A service is any act or performance one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Increasingly, however, manufacturers, distributors, and retailers are providing value-added services, or simply excellent customer service, to differentiate themselves.

❖ Categories of Service Mix

The service component can be a minor or a major part of the total offering. There are distinguishing five categories of offerings:

1. **Pure tangible good.** The offering consists primarily of a tangible good such as soap, toothpaste, or salt. No services accompany the product.
2. **Tangible good with accompanying services.** The offering consists of a tangible good accompanied by one or more services. Typically, the more technologically advanced the product, the greater the need for a broad range of high-quality supporting services. Services are often crucial for cars, computers, and cell phones.
3. **Hybrid.**  
The offering consists of equal parts goods and services. For example, people patronize restaurants for both the food and its preparation.

4. **Major Service with accompanying minor goods and services.**  
The offering consists of a major service along with additional services or supporting goods. For example, though the trip includes a few tangibles such as snacks and drinks, what airline passengers buy is transportation. This service requires a capital-intensive good—an airplane—for its realization, but the primary item is a service.

5. **Pure service.**  
The offering consists primarily of a service. Examples include babysitting, psychotherapy, and massage.

The range of service offerings makes it difficult to generalize without a few further distinctions.

- Services vary as to whether they are equipment based (automated car washes, vending machines) or people based (window washing, accounting services).
- Service companies can choose among different processes to deliver their service. Restaurants have developed cafeteria-style, fast-food, buffet, and candlelight service formats.
- Some services need the client's presence.
- Services may meet a personal need (personal services) or a business need (business services). Service providers typically develop different marketing programs for personal and business markets.
- Service providers differ in their objectives (profit or nonprofit) and ownership (private or public). These two characteristics, when crossed, produce four quite different types of organizations.

Customers cannot judge the technical quality of some services even after they have received them. Because services are generally high in experience and credence qualities, there is more risk in purchase. This factor has several consequences: First, service consumers generally rely on word of mouth rather than advertising. Second, they rely heavily on price, personnel, and physical cues to judge quality. Third, they are highly loyal to service providers who satisfy them. Fourth, because switching costs are high, consumer inertia can make it challenging to entice a customer away from a competitor.

- **Distinctive Characteristics of Services**

  Services have four distinctive characteristics that greatly affect the design of marketing programs: intangibility, inseparability, variability, and perishability.

1) **INTANGIBILITY**

Unlike physical products, services cannot be seen, tasted, felt, heard, or smelled before they are bought. To reduce uncertainty, buyers will look for evidence of quality by drawing inferences from the place, people, equipment, communication material, symbols, and price. Therefore, the service provider's task is to "manage the evidence," to "tangibilize the intangible."

Service companies can try to demonstrate their service quality through physical evidence and presentation.
Service marketers must be able to transform intangible services into concrete benefits and a well-defined experience.

2) INSEPARABILITY

Whereas physical goods are manufactured, put into inventory, distributed through multiple resellers, and consumed later, services are typically produced and consumed simultaneously. Because the client is also often present as the service is produced, provider-client interaction is a special feature of services marketing.

In the case of entertainment and professional services, buyers are very interested in the specific provider. When clients have strong provider preferences, the provider can raise its price to ration its limited time.

Several strategies exist for getting around the limitations of inseparability. The service provider can learn to work with larger groups. The service organization can train more service providers and build up client confidence.

3) VARIABILITY

Because the quality of services depends on who provides them, when and where, and to whom, services are highly variable.

Service buyers are aware of this variability and often talk to others before selecting a service provider. To reassure customers, some firms offer service guarantees that may reduce consumer perceptions of risk. Here are three steps service firms can take to increase quality control.

a) Invest in good hiring and training procedures. Recruiting the right employees and providing them with excellent training is crucial, regardless of whether employees are highly skilled professionals or low-skilled workers. Better-trained personnel exhibit six characteristics: Competence, Courtesy, Credibility, Reliability, Responsiveness and Communication.

b) Standardize the service-performance process throughout the organization. A service blueprint can simultaneously map out the service process, the points of customer contact, and the evidence of service from the customer's point of view. Service blueprints can be helpful in developing new service, supporting a "zero defects" culture, and devising service recovery strategies.

c) Monitor customer satisfaction. Employ suggestion and complaint systems, customer surveys, and comparison shopping. Recognizing how customer needs may vary in different geographical areas can allow firms to develop region-specific programs to improve total customer satisfaction. Firms can also develop customer information databases and systems to permit more personalized, customized service, especially online.

4) PERISHABILITY

Services cannot be stored, so their perishability can be a problem when demand fluctuates.
Demand or yield management is critical—the right services must be available to the right customers at the right places at the right times and right prices to maximize profitability.

Several strategies can produce a better match between demand and supply in a service business.

On the demand side:
- Differential pricing will shift some demand from peak to off-peak periods
- Non Peake demand can be cultivated.
- Complementary services can provide alternatives to waiting customers.
- Reservation systems are a way to manage the demand level.

On the supply side:
- Part-time employees can serve peak demand.
- Peake-time efficiency routines can allow employees to perform only essential tasks during peak periods.
- Increased consumer participation can be encouraged.
- Shared services can improve offerings.
- Facilities for future expansion can be a good investment.

❖ Marketing Strategies for Service Firms

At one time, service firms lagged behind manufacturing firms in their use of marketing because they were small, or they were professional businesses that did not use marketing, they faced large demand or little competition. This has certainly changed.

- A Shifting Customer Relationship
  Not all companies, however, have invested in providing superior service, at least not to all customers. Customers complain about inaccurate information; unresponsive, rude, or poorly trained personnel; and long wait times. Even worse, many customers find their complaints never actually successful reach a live human being because of slow or faulty phone or online customer service.
  It doesn’t have to be that way.

  E-mail response must be implemented properly to be effective. One expert believes companies should:
  (1) Send an automated reply to tell customers when a more complete answer will arrive (ideally within 24 hours);
  (2) ensure the subject line always contains the company name;
  (3) Make the message easy to scan for relevant information; and
  (4) Give customers an easy way to respond with follow-up questions.

PROFIT TIERS

Firms have decided to raise fees and lower service to those customers who barely pay their way and to coddle big spenders to retain their patronage as long as possible.

Customers in high-profit tiers get special discounts, promotional offers, and lots of special service; customers in lower-profit tiers may get more fees, stripped-down service, and voice messages to process their inquiries.
CUSTOMER EMPOWERMENT

Customers are becoming more sophisticated about buying product-support services and are pressing for "services unbundling." They may want separate prices for each service element and the right to select the elements they want. Customers also increasingly dislike having to deal with a multitude of service providers handling different types of equipment.

Most important, the Internet has empowered customers by letting them vent their rage about bad service—or reward good service—and have their comments beamed around the world with a mouse click. Ninety percent of angry customers reported that they shared their story with a friend. Now, they can share their stories with strangers via the Internet, or "word of mouth on steroids" as some says.

Most companies respond quickly, some within an hour. More important than simply responding to a disgruntled customer, however, is preventing dissatisfaction from occurring in the future. That may mean simply taking the time to nurture customer relationships and give customers attention from a real person.

COPRODUCTION

The reality is that customers do not merely purchase and use services; they play an active role in the delivery of that service every step of the way. Their words and actions affect the quality of their service experiences and those of others, and the productivity of frontline employees. One study estimated that one-third of all service problems are caused by the customer. With an increasing shift to self-service technologies, this percentage can be expected to rise. Preventing service failures from ever happening to begin with is crucial, as service recovery is always challenging. One of the biggest problems is attribution—customers will often feel that the firm is at fault or, even if not, that it is still responsible for righting any wrongs.

Unfortunately, although many firms have well-designed and executed procedures to deal with their own failures, they find that managing customer failures is much more difficult.

- Holistic Marketing for Services

The service outcome, and whether people will remain loyal to a service provider, is influenced by a host of variables. One study identified more than 800 critical behaviors that cause, customers to switch services.

Holistic marketing for services require external, internal, and interactive marketing. External marketing, describes the normal work of preparing, pricing, distributing, and promoting the service to customers. Internal marketing describe training and motivating employees to serve customers well. The most important contribution the marketing department can make is arguably to be "exceptionally clever in getting everyone else in the organization to practice marketing."

Interactive marketing describes the employees' skill in serving the client. Clients judge service not only by its technical quality but also by it functional quality. Teamwork is often key, and delegating authority to frontline employees can allow for greater flexibility and adaptability in service delivery through better problem solving, closer employee cooperation, and more efficient knowledge transfer.
Technology also has great power to make service workers more productive.

Companies must avoid pushing productivity so hard; however, that they reduce perceived quality. Some methods lead to too much standardization. Service providers must deliver "high touch" as well as "high tech."

The Internet lets firms improve their service offerings and strengthen their relationships with customers by allowing for true interactivity, customer-specific and situational personalization, and real-time adjustments of the firm's offerings. But as companies collect, store, and use more information about customers, concerns have arisen about security and privacy. Companies must incorporate the proper safeguards and reassure customers about their efforts.

**Managing Service Quality**

The service quality of a firm is tested at each service encounter. If service personnel are bored, cannot answer simple questions, or are visiting with each other while customers are waiting, customers will think twice about doing business again with that seller.

- **Customer Expectations**
  Customers form service expectations from many sources, such as past experiences, word of mouth, and advertising. In general, customers compare the perceived service with the expected service. If the perceived service falls below the expected service, customers are disappointed. Successful companies add benefits to their offering that not only satisfy customers but surprise and delight them. Delighting customers is a matter of exceeding expectations.

The service-quality model in figure below highlights the main requirements for delivering high service quality.
It identifies five gaps that cause unsuccessful delivery:

1. **Gap between consumer expectation and management perception.** Management does not always correctly perceive what customers want.
2. **Gap between management perception and service-quality specification.** Management might correctly perceive customers’ wants but not set a performance standard.
3. **Gap between service-quality specifications and service delivery.** Personnel might be poorly trained, or incapable of meeting the standard; or they may be held to conflicting standards, such as taking time to listen to customers and serving them faster.
4. **Gap between service delivery and external communications.** Consumer expectation is affected by statements made by company representatives and ads.
5. **Gap between perceived service and expected service.** This gap occurs when the consumer misperceives the service quality the physician may keep visiting the patient to show care but the patient may interpret this as an indication that something really is wrong.

Based on this service-quality model, researchers identified the following five determinants of service quality, in order of importance:

I. **Reliability:** The ability to perform the promised service dependably and accurately
II. **Responsiveness:** The willingness to help customers and to provide prompt service.
III. Assurance: The knowledge and courtesy of employees and their ability to convey them and confidence.

IV. Empathy: The provision of caring, individualized attention to customers.

V. Tangibles: The appearance of physical facilities, equipment, personnel, and communication materials.

- Best Practices of Service-Quality Management
Various studies have shown that well-managed service companies share the following common practices: a strategic concept, a history of top-management commitment to quality high standards, self-service technologies, systems for monitoring service performance an customer complaints, and an emphasis on employee satisfaction.

STRATEGIC CONCEPT

Top service companies are "customer obsessed." They have a clear sense of their target customers and their needs. They have developed a distinctive strategy for satisfying these needs.

TOP MANAGEMENT COMMITMENT

Many companies have a thorough commitment to service quality. Their managements look not only at financial performance on a monthly basis, but also at service performance.

HIGH STANDARDS

The best service providers set high service-quality standards. The standards must be set appropriately high. We can distinguish between companies offering "merely good" service and those offering "breakthrough" service, aimed at being 100% defect-free.

A service company can differentiate itself by designing a better and faster delivery system. There are three levels of differentiation. The first is reliability: Some suppliers are more reliable in their on-time delivery, order completeness, and order-cycle time. The second is resilience: Some suppliers are better at handling emergencies, product recalls, and answering inquiries. The third is innovativeness: Some suppliers create better information systems, introduce bar coding and mixed pallets, and in other ways help the customer.

SELF·SERVICE TECHNOLOGIES (SSTs)

Consumers value convenience in services. Many person-to-person service interactions are being replaced by self-service technologies. To the traditional vending machines we can add Automated Teller Machines (ATMs), self-pumping at gas stations, self-checkout at hotels, and a variety of activities on the Internet, such as ticket purchasing, investment trading, and customization of products.

Not all SSTs improve service quality, but they can make service transactions more accurate, convenient, and faster. Obviously they can also reduce costs. Every company needs to think about improving its service using SSTs.

Some companies have found that the biggest obstacle is not the technology itself, but convincing customers to use it, especially for the first time. Customers must have a clear sense of their roles in the SST process, must see a clear benefit to SST, and must feel they have the ability to actually use it.
MONITORING SYSTEMS

Top firms audit service performance, both their own and competitors', on a regular basis. They collect voice of the customer (VOC) measurements to probe customer satisfiers and dissatisfiers. They use comparison shopping, ghost shopping, customer surveys, suggestion and complaint forms, service-audit teams, and letters to the president.

We can judge services on customer importance and company performance. Importance-performance analysis rates the various elements of the service bundle and identifies what actions are required. Perhaps the company should spend less on sending out maintenance notices and use the savings to improve performance on important elements. Management can enhance the analysis by checking on the competitors' performance levels on each element.

SATISFYING CUSTOMER COMPLAINTS

Every complaint is a gift if handled well. Companies that encourage disappointed customers to complain and also empower employees to remedy the situation on the spot have been shown to achieve higher revenues and greater profits than companies that do not have a systematic approach for addressing service failures. Getting frontline employees to adopt extra-role behaviors and to advocate the interests and image of the firm to consumers, as well as take initiative and engage in conscientious behavior in dealing with customers can be a critical asset in handling complaints.

SATISFYING EMPLOYEES AS WELL AS CUSTOMERS

Excellent service companies know that positive employee attitudes will promote stronger customer loyalty. Instilling a strong customer orientation in employees can also increase their job satisfaction and commitment, especially if they're in service settings that allow for a high degree of customer-contact time. Employees thrive in customer-contact positions when they have an internal drive to (1) pamper customers, (2) accurately read customer needs, (3) develop a personal relationship with customers, and (4) deliver quality service to solve customers' problems.

Given the importance of positive employee attitudes to customer satisfaction, service companies must attract the best employees they can find. They need to market a career rather than just a job. They must design a sound training program and provide support and rewards for good performance. They can use the intranet, internal newsletters, daily reminders, and employee roundtables to reinforce customer-centered attitudes. Finally, they must audit employee job satisfaction regularly.

Managing Service Brands

Some of the world's strongest brands are services—consider financial service leaders. Like any brand, service brands must be skillful at differentiating themselves and developing appropriate brand strategies.

Differentiating Services

Service marketers frequently complain about the difficulty of differentiating their services. The deregulation of several major service industries—communications, transportation, energy, banking—has resulted in intense price competition. To the extent that customers view a service as fairly homogeneous, they care less about the
provider than about the price. Marketers, however, can differentiate their service offerings in many ways, through people and processes that add value. The offering can include innovative features. What the customer expects is called the primary service package. Vanguard, the second-largest no-load mutual fund company, has a unique client ownership structure that lowers costs and permits better fund returns. Strongly differentiated from many competitors, the brand grew through word of mouth, PR, and viral marketing.

The provider can add second my service features to the package. Many companies are using the web to offer secondary service features that were never possible before. Conversely, other service providers, are adding a human element to combat competition from online businesses.

Sometimes the company achieves differentiation through the sheer range of its servil offerings and the success of its cross-selling efforts. The major challenge is that most servil offerings and innovations are easily copied. Still, the company that regularly introducing innovations will gain a succession of temporary advantages over competitors.

- **Developing Brand Strategies for Services**
  Developing brand strategies for a service brand requires special attention to choosing brand elements, establishing image dimensions, and devising the branding strategy.

**CHOOSING BRANDING ELEMENTS**

Because services are intangible, and because customers often make decisions and arrangements about their away from the actual service location itself (at home or at work), brand recall becomes critical important. So an easy-to-remember brand name is critical.

Other brand elements logos, symbols characters, and slogans can also "pick up the slack" and complement the brand name to build brand awareness and brand image. These brand elements often attempt to make the service and some of its key benefits more tangible, concrete and real.

Because a physical product does not exist, the physical facilities of the service provider its primary and secondary signage, environmental design and reception area, apparel, collateral material, and so on are especially important. All aspects of the service delivery process can be branded.

**ESTABLISHING IMAGE DIMENSIONS**

Given the human nature of services, it's no surprise that brand personality is an important image dimension for services. Service firms can also design marketing communication and information programs so that consumers learn more about the brand than the information they get from service encounters alone.

**DEVISING BRANDING STRATEGY**

Finally, services also must consider developing a brand hierarchy and brand portfolio that permits positioning and targeting of different market segments. Marketers can brand classes of service vertically on the basis of price and quality. Vertical extensions often require subbranding strategies that combine the corporate name with an individual brand name or modifier.
Managing Service Brands

No less important than service industries are product-based industries that must provide a service bundle. Manufacturers of equipment—small appliances, office machines, tractors, mainframes, airplanes all must provide product-support services. Product-support service is becoming a major battleground for competitive advantage. Chapter 12 described how products could be augmented with key service differentiators ordering ease, delivery, installation, customer training, customer consulting, maintenance, and repair.

Identifying and Satisfying Customer Needs

Customers have three specific worries:

- They worry about reliability and failure frequency. A farmer may tolerate a combine that will break down once a year, but not two or three times a year.
- They worry about downtime. The longer the downtime, the higher the cost. The customer counts on the seller’s service dependability—the seller’s ability to fix the machine quickly, or at least provide a loaner.
- They worry about out-of-pocket costs. How much does the customer have to spend on regular maintenance and repair costs?

A buyer takes all these factors into consideration and tries to estimate the life-cycle cost, which is the product’s purchase cost plus the discounted cost of maintenance and repair less the discounted salvage value. Where reliability is important, manufacturers or service providers can offer guarantees to promote sales.

To provide the best support, a manufacturer must identify the services customers value most and their relative importance. In the case of expensive equipment, manufacturers offer facilitating services such as installation, staff training, maintenance and repair services, and financing. They may also add value-augmenting services that extend beyond the functioning and performance of the product itself.

A manufacturer can offer, and charge for, product-support services in different ways. If the customer wants additional services, it can pay extra or increase its annual purchases to a higher level, in which case additional services are included. Many companies offer service contracts (also called extended warranties), in which sellers agree to provide free maintenance and repair services for a specified period of time at a specified contract price. See figure below for examples of strategies of different service companies.

Product companies must understand their strategic intent and competitive advantage in developing services. Are service units supposed to support or protect existing product businesses or to grow as an independent platform? Are the sources of competitive advantage based on economies of scale or economies of skill?

Postsale Service Strategy

The quality of customer-service departments varies greatly. At one extreme are departments that simply transfer customer calls to the appropriate person or department for action, with little follow-up. At the other extreme are departments eager to receive customer requests, suggestions, and even complaints and handle them expeditiously. Table 13.4 displays one ranking of companies providing the best customer service.
CUSTOMER-SERVICE EVOLUTION

Manufacturers usually start out by running their own parts-and-service departments. They want to stay close to the equipment and know its problems. They also find it expensive and time consuming to train others, and discover that they can make good money running the parts-and-service business, especially if they are the only supplier of the needed parts and can charge a premium price. In fact, many equipment manufacturers price their equipment low and compensate by charging high prices for parts and service.

Over time, manufacturers switch more maintenance and repair service to authorized distributors and dealers. These intermediaries are closer to customers, operate in more locations, and can offer quicker service. Still later, independent service firms emerge and offer a lower price or faster service.

THE CUSTOMER SERVICE IMPERATIVE

Customer-service choices are increasing rapidly, however, and equipment manufacturers increasingly must figure out how to make money on their equipment, independent of service contracts. The increase in disposable or never-fail equipment makes customers less inclined to pay 2% to 10% of the purchase price every year for a service. A company with several hundred personal computers, printers, and related equipment might find it cheaper to have its own service personnel on-site.

Group:

Bárbara Pereira – 14316
Gabriela Matos – 14319
Lays Mendonça – 14328
Marcos dos Santos – 13776
Mariana Azevedo - 14331