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Services Marketing

Concepts,
Strategies,
& Cases

Sixth
Edition



Hoffman
Bateson



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**Services Marketing: Concepts,
Strategies, & Cases, Sixth Edition**
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Cover Image Source and Interior image Source:
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Library of Congress Control Number: 2022922656

ISBN: 978-0-357-71830-8

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Printed in the United States of America

Print Number: 01

Print Year: 2023

To Brittain, Emmy, and Maddy

Doug Hoffman

To Dori, Lorna, Jonathan, Thomas, Arlan, Niamh, Harriet, and Eirlys

John Bateson

Preface

Reflecting the latest trends and issues, *Services Marketing: Concepts, Strategies, & Cases 6e* delivers comprehensive, cutting-edge coverage that equips readers with a solid understanding of today's dynamic service-related market sectors. Utilizing a reader-friendly, streamlined structure, the text explores services marketing not only as an essential focus for service firms, but also as a competitive advantage for companies that market tangible products. With its complete and timely treatment of services marketing, *Services Marketing: Concepts, Strategies, & Cases 6e* minimizes the overlap with other marketing courses. Cutting-edge examples and end-of-chapter cases address current global issues (such as environmental, social, and governance (ESG) issues), service-based technological advancements (such as robotics and artificial intelligence), and the future dominance of ageing consumer markets, thus providing students valuable insights for business success. Given the emphasis on technology, ESG issues, and international considerations, this is the perfect text for students and instructors who desire a global perspective and have a genuine interest in how service marketers can positively impact the well-being of society as a whole.

Approach

The primary objective of *Services Marketing: Concepts, Strategies, & Cases 6e* is to provide materials that not only differentiate the field of services marketing from traditional goods marketing, but also acquaint students and instructors with specific customer service issues that are not typically addressed in conventional marketing curriculums.

In addition, the sixth edition embraces the mantra of *Services for a Better World* by purposely supplementing essential services, marketing concepts, and practices with a healthy dose of global, technological, and environmental, social, and governance (ESG) applications that have the potential to positively impact the human condition. The business world now demands, in addition to traditional business knowledge, increasing employee and employer competence in developing effective service processes, effectively managing human resources, and developing and managing a compelling customer experience (CX). Accordingly, the text is written from the viewpoint that the provision of services is a tripartite relationship; consequently, the text content seamlessly integrates the provision of services from marketing, operations, and human resource perspectives.

We continue to live in interesting times! Due to the COVID-19 pandemic and its subsequent domino effects on most everything else, service firms and customers have adapted to changes in the marketplace by modifying their strategies and behavior. Many of these adaptations are likely

to continue long after the pandemic. As such, service marketers should not expect a “return to normal” and must adapt their approach to “the new normal” and adjust their service marketing strategies accordingly. The sixth edition specifically addresses many of these issues.

Structure of the Book

Services Marketing: Concepts, Strategies, & Cases 6e is divided into the following three main sections.

Part I: An Overview of Services Marketing

Part I concentrates on defining services marketing and discusses in detail the fundamental concepts and strategies that differentiate the marketing of services from the marketing of tangible goods. The primary objective of Part I is to establish a core knowledge base that will be built upon throughout the remainder of the text.

Chapter 1, *An Introduction to Social*, provides an introduction to the field of services marketing. The chapter defines service, explores the major components of the service experience, establishes the importance of the service sector in the world economy, and discusses the need for services marketing education.

Chapter 2, *Fundamental Differences between Goods and Services*, focuses more deeply on the differences between goods and services, namely intangibility, inseparability, heterogeneity, and perishability, and their corresponding managerial implications. Challenges presented and possible solutions to minimize the negative consequences of these unique service characteristics are also discussed.

Chapter 3, *Environmental, Social, and Governance (ESG) and Ethical Issues in Services Marketing*, focuses on select ESG factors and ethical issues that impact service marketer decision making. Ultimately, the primary purpose of this chapter is to encourage service marketers to look beyond their traditional functional marketing duties and responsibilities and consider their impact and potential social contributions on a much broader scale.

At the heart of services marketing must be the consumer and Chapter 4, *Consumer Behavior in Service Marketing*, focuses on building your understanding of the behavior of service consumers as they select service providers and then evaluate their satisfaction with the service that they have received. Chapter 4 provides concepts and frameworks that permeate the rest of this book as service firms adapt their marketing mixes to reflect the changing needs of their customers.

Part II: The Tactical Services Marketing Mix

One of the most basic ideas in marketing is the marketing mix. The marketing mix represents the levers that the

organization controls. These levers can be used to adapt to macroenvironmental forces and to influence consumers' choice processes as well as their evaluation of service satisfaction. The traditional marketing mix is often expressed as the four Ps—product, place, price, and promotion. Due to the fundamental differences between goods and services, the services marketing mix can be redefined and expanded, offering the three additional marketing mix variables of *process*, the *physical environment*, and *people*.

Given the importance of the services marketing mix, Part II of this text focuses upon *The Tactical Services Marketing Mix* and focuses on the marketing mix variables that must be the most modified when competing in service marketing environments. More specifically, Chapter 5 focuses on *The Service Delivery Process*, Chapter 6 examines *The Pricing of Services*, Chapter 7 investigates *Developing the Service Communication Strategy*, Chapter 8 addresses *Managing the Firm's Physical Evidence*, and Chapters 9 and 10 explore the people issues surrounding services marketing, including *Managing Service Employees* and *Managing Service Customers*, respectively.

Part III: Assessing and Implementing Successful Service Strategies

Marketing's role with the rest of the organization is the theme for Part III of the book, which focuses on *Assessing and Implementing Successful Service Strategies*. Marketing is at the heart of each of these strategies, but their execution is dependent on harnessing all of the functions: operations, human resources and marketing. As such, Chapter 11, *Defining and Measuring Customer Satisfaction*, expands the consumer behavior chapter to explore how it is possible to satisfy a customer in a particular service experience and how to measure and manage satisfaction. Chapter 12, *Defining and Measuring Service Quality*, builds upon Chapter 11 and increases our understanding of how customers evaluate services and the longer-term concept of service quality. Due to the complexity of the various relationships that comprise a typical service encounter, service failures are inevitable, but because of inseparability it is often possible to recover from failure situations during the service encounter. Chapter 13 discusses how to successfully master *The Art of Service Failure and Recovery Management*.

Given the current competitive situation among many service firms, Chapter 14 explores the concepts of *Customer Loyalty and Retention* as critical components to long-term success. Concluding the text, Chapter 15, *Pulling the Pieces Together: Creating a World-Class Service Culture*, examines the role of marketing within the service organization. It juxtaposes the industrial management model and the market-focused model and shows how important the latter is for a service business. This final chapter also discusses the key components of creating a world-class service culture and strategies utilized to effectively change the culture of established service organizations.

Key Components in the Sixth Edition

- **Now a 15-Chapter Version:** The sixth edition of Hoffman and Bateson has been streamlined to fit perfectly with semester or quarter university schedules. As a result of this revision, Hoffman and Bateson provide an effectively integrated service marketing textbook that incorporates technological, global, ESG, and ethical considerations within one text while providing the latest in service marketing concepts and practices. The table of contents for *Services Marketing: Concepts, Strategies, & Cases 6e* is provided below:

Table of Contents:

Ch 1:	An Introduction to Services
Ch 2:	Fundamental Differences Between Goods and Services
Ch 3:	Environmental, Social, and Governance (ESG) and Ethical Issues in Services Marketing
Ch 4:	Consumer Behavior in Services Marketing
Ch 5:	The Service Delivery Process
Ch 6:	The Pricing of Services
Ch 7:	Developing the Service Communication Strategy
Ch 8:	Managing the Firm's Physical Evidence
Ch 9:	People as Strategy: Managing Service Employees
Ch 10:	People as Strategy: Managing Service Customers
Ch 11:	Defining and Measuring Customer Satisfaction
Ch 12:	Defining and Measuring Service Quality
Ch 13:	The Art of Service Failure and Recovery Management
Ch 14:	Customer Loyalty and Retention
Ch 15:	Pulling the Pieces Together: Creating a World-Class Service Culture

- **Learning Objectives:** Learning objectives establish the framework for every chapter, and chapter content is organized and presented within each objective. Learning objectives enable instructors to more effectively organize their class lectures and assist students in organizing and integrating class materials as they study for assessments.
- **Revised Chapters:** Every chapter has been updated and/or significantly revised to deliver the latest in service marketing concepts and practices. As mentioned previously, in addition to updating essential services marketing content, the sixth edition embraces the mantra of *Services for a Better World* by purposely supplementing essential services marketing concepts and practices with a healthy dose of global, technological, and environmental, social, and governance (ESG) applications that have the potential to positively impact the human condition. Moreover, the challenges faced by the service sector and the strategic adjustments made to offset the effects of the pandemic are considered throughout.

- **Opening Vignettes:** Every chapter opens with a vignette that spotlights service issues in real companies. These real-life situations draw readers in and set the stage for the chapter topics. These vignettes represent a variety of global service providers as well as relevant customer service issues including:

Chapter Opening Vignettes:

- Ch 1: Semester at Sea: The World is Your Classroom
- Ch 2: Ski Dubai
- Ch 3: The Origins and Growth of “Green”
- Ch 4: The 2020s: Post-Pandemic Changes in Consumer Behavior
- Ch 5: Chippy, the AI Robotic Arm, Finds a Job at Chipotle
- Ch 6: Service Pricing and the Minimum Wage
- Ch 7: Multidirectional Promotions: McDonald’s “Thank you Crew” Initiative
- Ch 8: An Extraordinary Servicescape in the Caribbean: The Katitche Point Greathouse
- Ch 9: The Great Resignation: Employees on the Move
- Ch 10: Feeling the Pressure: The Self-Checkout Brigade
- Ch 11: The American/International Customer Satisfaction Index (ACSI)
- Ch 12: Establishing Service Expectations: What Viking Cruise Line is Not
- Ch 13: Cancellations and Delays: Troubles in the Skies Above
- Ch 14: Customer Loyalty Programs: The Best of the Best
- Ch 15: Healthy Corporate Cultures

- **Services for a Better World in Action Box Features:** Perhaps the first services marketing textbook to incorporate environmental, social, and governance (ESG) considerations throughout the text, Hoffman and Bateson specifically address ESG practices across a variety of industries throughout the globe. Industries and topics include:

Services for a Better World in Action Box Features:

- Ch 1: Doing Well by Doing Good: Nine Business Models for Social Enterprise
- Ch 2: Marriott International Inc. Serve 360: Doing Good in Every Direction
- Ch 3: Pimalai Resort and Spa
- Ch 4: Socially Responsible Financial Institutions
- Ch 5: Microsoft: AI for Earth
- Ch 6: Pay What You Want (PWYW) Restaurants
- Ch 7: The Use of Cause-related Marketing (C-RM) as a Promotional Strategy: A Note of Caution
- Ch 8: Design Considerations for Ageing Consumers
- Ch 9: Is Teleworking the Answer to Improve Work-Life Balance?
- Ch 10: The Psychology of Waiting Lines: Managing the Hurry Up and Wait!

- Ch 11: Balancing Customer Satisfaction with Employee Safety Concerns
- Ch 12: Black-owned Businesses and Critical Success Factors
- Ch 13: Matching Recovery Options with Customer Preferences
- Ch 14: Mission-Driven Loyalty Programs
- Ch 15: Cultivating a Caring Corporate Culture

- **Global Services in Action Box Features:** In response to the growth of service economies throughout the world, Hoffman and Bateson provide box features of global services marketing practices throughout the text. These features demonstrate the often subtle adjustments to international services marketing strategy that are necessary to become a world-class service organization. Companies and concepts featured include:

Global Service Box Features:

- Ch 1: The Burj Al Arab Hotel: Dubai’s Iconic Hotel
- Ch 2: The World’s Top 10 Airlines: International Air Carriers Dominate Rankings
- Ch 3: Ethical Dilemmas in Global Business
- Ch 4: How Cultural Differences Impact the Customer Experience (CX)
- Ch 5: Global Franchising Considerations
- Ch 6: Global Tipping Practices
- Ch 7: Adapting Global Promotional Messages
- Ch 8: Dinner in the Sky: Astonishing Views the Worldwide
- Ch 9: With Regards to ESG Concerns, Global Workers are Demanding More!
- Ch 10: U.S. Customs Adopts Facial Recognition Biometrics
- Ch 11: Cultural Difference and Net Promoter Scores (NPS)
- Ch 12: In Pursuit of Excellence: Global National Quality Awards
- Ch 13: Service Failures and Recovery Strategies: A Chinese Perspective
- Ch 14: Global Trends in Customer Loyalty Programs
- Ch 15: Corporate Culture Differences Around the Globe

- **E-Services in Action Box Features:** Technology-based content and box features in every chapter pertaining to trends such as the growth of artificial intelligence and the present and future use of robotics in the provision of services. The E-Service box features provided below demonstrate the purposeful integration of technology’s impact on service marketers throughout the course. In addition to informing students of the latest technological trends in services marketing, this coverage along with global and ESG materials typically aligns with and advances the strategic mission of the instructor’s college and/or university.

E-Services Box Features:

- Ch 1: Coming Soon (If Not Already There) to a Store Near You: Customer Service Robots
 - Ch 2: Telesurgery: Surgery from a Distance
 - Ch 3: Artificial Intelligence (AI) and Societal Impacts
 - Ch 4: Touchscreens, Haptic Feedback, and Consumer Choice Decisions
 - Ch 5: E-Procurement Options Streamline Operations
 - Ch 6: Contactless Payment: Changing the Way We Pay
 - Ch 7: Content Marketing: What, How and Why?
 - Ch 8: Passenger Information Holograms
 - Ch 9: Technology Trends for the Workplace
 - Ch 10: Just Walk Out: Customers Rule at Amazon Go Stores
 - Ch 11: Using AI to Track What Customers Really Think and Feel
 - Ch 12: AI Chatbots and Service Quality
 - Ch 13: United Smartphone App: Pushing Recovery Options to Passengers
 - Ch 14: Gamification: Incentivizing Your Customer Loyalty Program
 - Ch 15: Developing a Remote Workforce Culture
- **End-of-Chapter Review Questions:** Every chapter concludes with ten review questions that are intentionally written to further reinforce students' understanding and application of chapter content. Answers for review questions are provided in the Instructor's Manual for adopters.
 - **Marginal and End-of-Chapter Glossaries:** Key terms, provided in every chapter, are highlighted within the text and defined in the adjacent margin. For student study purposes, key terms are again presented collectively at the end of each chapter in order of appearance and defined in the end-of-text glossary.
 - **End-of-Chapter Cases:** The sixth edition of Hoffman and Bateson contains a set of end-of-chapter cases that further illustrate, deepen, and extend the concepts developed in each chapter. Seven of the fifteen cases are new for the sixth edition and all cases have been updated and/or revised. These cases, purposely brief in nature but long on application, representing a variety of service industries, provide students with an opportunity to further engage with and internalize services marketing concepts. Answers for end-of-chapter cases are provided in the Instructor's Manual for adopters. End-of-Chapter Case include:

End-of-Chapter Cases:

- Ch 1: The Twins' First Service Encounter
- Ch 2: Quaker Steak & Lube: Making the Transition from Manufacturers to Service Providers
- Ch 3: Starbucks Commitment—People, Planet, Coffee
- Ch 4: United, Southwest, or Frontier: Which Airline to Fly Out of DIA?
- Ch 5: Build-A-Bear Workshops: Calculating the Service Cost per Bear
- Ch 6: MDVIP: Become a Priority, Not Just a Patient

- Ch 7: Marketing to Older Consumers: Creating a Content Marketing Campaign
- Ch 8: Developing an Orthodontic Servicescape: Dr. Crane's Dilemma
- Ch 9: That's It, I'm Done
- Ch 10: Managing Uncooperative Customers
- Ch 11: The Bluegrass Inn
- Ch 12: Service Quality at Secrets Rivera Resort
- Ch 13: Part I: Is This Any Way to Run an Airline?
Part II: World Airline's Response
- Ch 14: Loyalty Considerations for Woodhouse Spa
- Ch 15: Assessing Culture: Go for a Culture Walk

Instructor Resources

Additional instructor resources for this product are available online. Instructor assets include:

- An Instructor's Manual
- PowerPoint® slides
- A test bank powered by Cognero®
- End-of chapter cases

Sign up or sign in at www.cengage.com to search for and access this product and its online resources.

Acknowledgments

We would like to extend our heartfelt thanks to the many good folks at Cengage, many of whom we have had the pleasure of knowing for many years through our other text projects. Special thanks to Erin Joyner, Senior Vice President of Cengage Academic Product; Jason Fremder, Portfolio Product Director; Heather Thompson, Portfolio Product Manager; Sheila Moran, CL VCM Project Manager and Shreya Tiwari of MPS Limited for generating and maintaining the level of support and enthusiasm associated with this project throughout the entire process.

Finally, we would also like to thank the Cengage sales force for supporting this project. We truly appreciate your efforts in bringing this package to the marketplace and offer our assistance in support of your efforts.

In closing, we hope that you enjoy the text and your services marketing class. It will likely be one of the most practical courses you will take during your college career. Education is itself a service experience. As a participant in this service experience, you are expected to engage and co-produce the educational customer experience (CX). Take advantage of the opportunities provided to you during this course and become an integral component of a compelling educational experience. Regardless of your major area of study, the services marketing course has much to offer.

We would sincerely appreciate any comments or suggestions you would care to share with us. We believe that this text will heighten your sensitivity to services, and because of that belief, we leave you with this promise: We guarantee that after completing your services marketing course, you will never look at a service experience in the same way again. This new view will become increasingly

frustrating for many of you, as you will encounter many experiences that are less than satisfactory. Learn from these negative experiences, relish the positive encounters, and use these experiences to make a difference when it is your turn to set the standards for others to follow. As apostles of services marketing, we could ask for no greater reward.

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Dr. Bateson was actively involved with the formation of the services division of the American Marketing Association. He served on the Services Council for four years and has chaired sessions of the AMA Services Marketing Conference.

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Part 1

An Overview of Services Marketing



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Service experiences are ubiquitous throughout our everyday lives. This text is dedicated to the effective management of service encounters for the betterment of employee livelihoods, the customer experience, organizational success, and the human condition.

Chapter 1

An Introduction to Services

Chapter 2

The Fundamental Differences Between Goods and Services

Chapter 3

Environmental, Social, and Governance (ESG) and Ethical Issues in Services Marketing

Chapter 4

Consumer Behavior in Services Marketing

Services Marketing: Concepts, Strategies and Cases is divided into three main sections:

- Part I: An Overview of Services Marketing (Chapters 1–4);
- Part II: The Tactical Services Marketing Mix (Chapters 5–10); and
- Part III: Implementing Successful Service Strategies (Chapters 11–15)

Part I, An Overview of Services Marketing, concentrates on defining services marketing and discusses in detail the fundamental concepts and strategies that differentiate the marketing of services from the marketing of tangible goods. Part I also examines social and ethical issues as they relate to the field of services marketing. Finally, Part I concludes with a discussion pertaining to how consumers of services make purchase decisions, focusing once again on the primary differences between goods and services. The primary objective for Part I is to establish a core knowledge base that will be built upon throughout the remainder of this text.

Chapter 1

An Introduction to Services



Chapter Objectives

After reading this chapter, you should be able to:

1. Contrast the fundamental difference between goods and services
2. Explain the growing dominance of services
3. Outline the anatomy of a service experience
4. Recognize the driving forces behind the importance of the study of services marketing

This chapter introduces the basic differences between goods and services and highlights the importance of managing the service experience. In addition, this chapter establishes the significance of the study of services marketing.

Semester at Sea: The World Is Your Classroom¹

Students have a wide variety of service delivery formats available to them as they pursue their education including online options, hybrid classes, flipped classrooms, face-to-face instruction, and semester abroad programs. Perhaps the most experiential service delivery format of them all is Semester at Sea (SAS). Founded in 1963 and managed by the nonprofit Institute for Shipboard Education in conjunction with rotating host universities, SAS is open to all students of all majors while emphasizing global comparative study across a broad curriculum of classes.

Imagine spending a semester (four months long) voyage on the World Odyssey (seven decks, 590-foot ship) with 600+ classmates from all over the United States plus

international students embarking in San Diego, the United States and then sailing to Mexico, Honolulu, Hawaii, Kobe, Japan, Shanghai, China, Hong Kong, Ho Chi Minh City, Vietnam, Rangoon, Myanmar (former Burma), Cochin, India, Mauritius, Cape Town, South Africa, Accra, Ghana, Casablanca, Morocco, and disembarking in Lisbon, Portugal. This is just one of Semester at Sea's typical itineraries. Classroom instruction takes place while the ship is at sea. Organized field classes and free time to explore are available at every 3–5-day port stay. Climb the steps of the Great Wall of China, touch the marble walls of the Taj Mahal, experience an African safari or homestay, and/or travel by camel through the Moroccan desert all the while interacting with locals and fellow SASers. It is a semester beyond compare.

SAS programs are best known for building a community of global-minded students who learn from each other as well as from global-based classroom and field study instruction. Voyagers become global citizens while developing a deep appreciation for the interconnectivity of all nations and the challenges facing the world's various populations. Quite simply, Semester at Sea offers students a transformative experienced-based educational opportunity where lessons-learned and friendships-made last a lifetime.

1-1 Introduction

Effective service marketers engage in strategic decision making much like a game of chess would be played in a thunderstorm. Analogous to moving chess pieces into position on the chess board itself, the service marketer strategically maneuvers a set of controllable variables (i.e., target market selection, positioning strategy, and marketing mix components) in a coordinated attempt to conquer the opposition and rule the marketplace. However, unlike a traditional game of chess, the service marketer must consider a very complex and constantly changing set of forces that complicate this particular chess match—the raging thunderstorm that surrounds the marketplace!

Consisting of a dynamic array of macroenvironmental forces (i.e., natural forces, competitive forces, political/legal forces, economic forces, technological forces, and socio-cultural forces), the storm introduces changes (sometimes chaos) in the marketplace to which the service marketer must alter their current strategic direction to survive and thrive. Recent events regarding the impact of macroenvironmental forces (e.g., pandemics, climate change, deteriorating trade relations, economic disparity, evolving social consciousness, and continued technological developments) have further demonstrated the differences and challenges involved in the provision of services in comparison to the provision of goods. Our purpose is to highlight the challenges involved in the marketing of services and provide strategic solutions for the betterment of employee livelihoods, the customer experience, organizational success, and the human condition.

1-2 The Growing Dominance of Services

Services are everywhere we turn, whether it be travel to an exotic tourism destination, establishing a business relationship with a financial institution, acquiring medical care, enjoying a meal at a favorite restaurant, or receiving a college education. Indeed, services are prevalent everywhere including the business-to-business (B2B), business-to-consumer (B2C), and government (G2B and G2C) sectors. The provision of services involves large multinational corporations as well as local small independent businesses and are provided by and to nonprofit and for-profit firms.

More and more countries, ironically the so-called “industrialized countries” of the world, are finding the majority of their gross domestic products are generated by their service sectors. However, the growth of the service sector does not just lie within traditional service industries such as leisure and hospitality services, education and health services, financial and insurance services, and professional and business services. Traditional goods producers such as automotive, electronics, and numerous other manufacturers are now turning to the service aspects of their operations

to establish a differential advantage in the marketplace as well as to generate additional sources of revenue for their firms. In essence, these companies, which used to compete by marketing “boxes” (tangible-dominant goods), have now switched their competitive focus to the provision of unmatched, unparalleled customer services.

Ample evidence exists that documents this transition from selling “boxes” to service competition. Rolls-Royce Holdings, the second largest aero engine maker in the world, does not make its money from selling engines but from repair and maintenance services. The company is paid based on engine utilization which is based on the number of hours the engines are used in the air.² Toyota, one of the largest automobile manufacturers in the world, is now charging subscription fees for services such as remote engine start/stop, door lock/unlock, and concierge travel assistance.³ Charging reoccurring fees for services provided as opposed to charging a onetime fee for goods purchased, creates a revenue stream that is difficult for manufacturers to ignore.

Overall, this new “global services era” is characterized by:

- economies and labor force figures that are dominated by the service sector;
- more customer involvement in strategic business decisions;
- products that are increasingly market-focused and much more responsive to the changing needs of the marketplace;
- the development of technologies that assist customers and employees in the provision of services;
- employees who have been provided with more discretionary freedom to develop customized solutions to special customer requests and solve customer complaints on the spot with minimal inconvenience; and
- the emergence of new service industries and the “**service imperative**,” where the intangible aspects of the product are becoming more and more the key features that differentiate products in the marketplace.

It is clear that the service sectors in many countries are no longer manufacturing’s poor cousin. In the past, goods manufacturing was viewed as king, and services were viewed as subservient to goods. In fact, the term **materialismo snobbery** was coined to reflect the superiority of manufactured goods. In more recent times, this viewpoint has shifted nearly 180° in the form of an idea referred to as

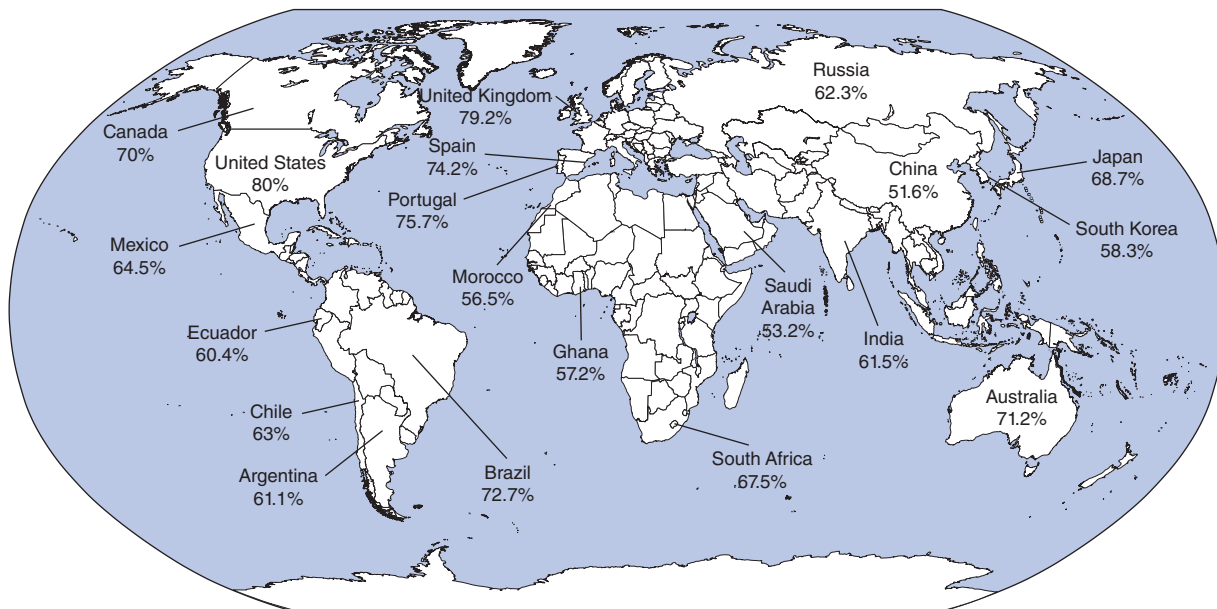
service imperative

Reflects the view that the intangible aspects of products are becoming the key features that differentiate products in the marketplace.

materialismo snobbery

A viewpoint where manufacturing is king, and services are viewed as subservient to goods.

Figure 1-1 Service Economies Around the World



Source: Image obtained https://en.wikipedia.org/wiki/File:World_Map_Blank_with_blue_sea.svg; Data: <https://www.cia.gov/the-world-factbook/countries/>

service-dominant (S-D) logic. S-D logic is based on a number of principles, two of which are: (1) “Service is the fundamental basis of exchange; and (2) Goods are a distribution mechanism for service provision.”⁴ In other words, (1) services in the form of knowledge and skill are the fundamental components of all manufactured goods; and (2) manufactured goods are simply physical manifestations that facilitate the provision of services. For example, a Tesla Model S simply facilitates transportation, an Apple iPhone provides a means of communication, and Viking kitchen appliances assist in the service of meal preparation. Hence, S-D logic proposes that the entire business world is either directly or indirectly involved in the provision of services.

Services provide the bulk of the wealth and are an important source of employment and exports for many countries (see Figure 1-1). In addition, there are countless examples of firms using the service imperative to drive their businesses forward to profit and growth. For example, Tesla not only builds electric vehicles but is also involved in clean energy generation and information storage products.⁵ Peleton Interactive manufactures stationary exercise bicycles that are internet-connected enabling customers to subscribe to exercise classes remotely via streaming media.⁶ Hewlett-Packard (HP), best known for their laptops and printers, also markets HP Instant Ink—a monthly subscription service where customers receive ink and toner, free delivery,

and cartridge recycling.⁷ As world economies continue to transform from the primary sector to the secondary sector to the tertiary sector (see Figure 1-2), the service sector boom looks set to continue throughout the world.

1-3 The Anatomy of a Service

To begin, throughout this text, the term **product** is used as an umbrella descriptor for *goods* (e.g., automobiles, smartphones), *services* (e.g., financial, health care), *people* (e.g., politicians, celebrities), *places* (e.g., tourist destinations), and *ideas* (energy conservation, sustainability). Furthermore, all products consist of a **bundle of benefits** that are communicated, delivered, and consumed by the customer. For example, hiring a private service for airport transportation is a purchase that provides benefits much more than just the core benefit of transportation. The private transportation service provides conveniences of home pick-up and home delivery, assistance with baggage, stress free driving, curbside drop-off/pick-up at the airport, elimination of the need to purchase

product

The term product is used as an umbrella descriptor for *goods*, *services*, *people*, *places*, and *ideas*.

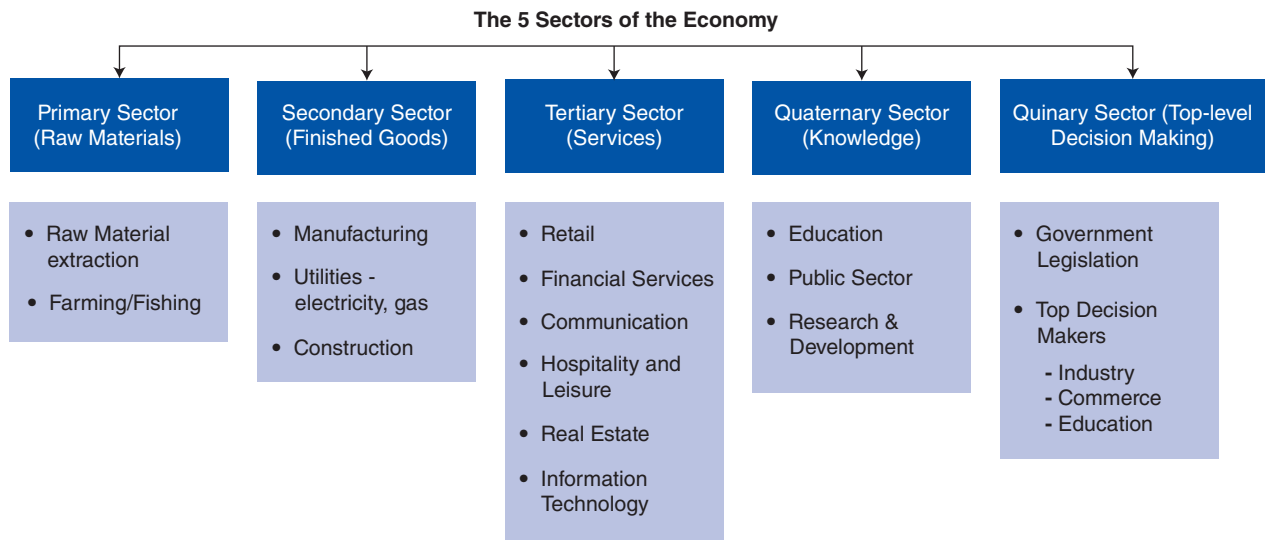
bundle of benefits

All products are comprised of a bundle of benefits that include the core benefit plus secondary benefits such as convenience, cost savings, energy savings, reduced risk, etc.

service-dominant (S-D) logic

A viewpoint that the entire business world is either directly or indirectly involved in the provision of services.

Figure 1-2 The Five Sectors of the Economy Traditionally, economic sectors typically consist of the Primary, Secondary, and Tertiary sectors (where the Tertiary sector is inclusive of the Quaternary and Quinary sectors).



Source: Adapted from <https://www.economicshelp.org/blog/12436/concepts/sectoreconomy/>

airport parking, and perhaps the added-value benefit of establishing a long term, trusting relationship between the client, the private transportation firm, and their employees.

So, what is a service? Admittedly, the distinction between goods and services is not always perfectly clear. In fact, providing an example of a pure good or a pure service is very difficult, if not impossible. A pure good would imply that the benefits received by the customer contained no elements supplied by service. Similarly, a pure service would contain no tangible elements.

In reality, the majority of services contain tangible elements such as the campus of a university, the terminal at an airport, the architectural design and layout of an upscale hotel, or the amenities on a cruise ship. Similarly, most goods contain intangible service elements. For example, simple



Although a service such as education is intangible dominant, tangible aspects of campuses such as buildings and open spaces are frequently used to differentiate one education setting from another.

table salt is delivered to the grocery store, and the company that sells the salt may offer innovative online invoicing services that further differentiate it from its competitors.

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 10 percent of its revenue which equates to \$14 billion from its financial businesses, and the car maker’s biggest supplier is Blue Cross-Blue Shield, not a parts supplier for steel, tires, or glass as most people would have thought.⁸ Other examples include General Electric and IBM, generally thought of as major goods producers, who now generate more than half of their revenues from services.⁹ The transition from goods producer to service provider can be found to varying degrees throughout much of the industrial sector.

Despite the confusion, the following definitions should provide a sound starting point in developing an understanding of the differences between goods and services. In general, **goods** can be defined as *objects, devices, or things*, whereas **services** can be defined as *deeds, efforts, or performances*. Ultimately, the primary difference between goods and services is the property of **intangibility**. By definition, intangible products lack physical substance. As a

goods

Objects, devices, or things.

services

Deeds, efforts, or performances.

intangibility

A product that lacks physical substance.

result, intangible products face a host of services marketing problems that are not always adequately solved by traditionally recommended goods-related marketing solutions.

1-3a The Scale of Market Entities¹⁰

An interesting visual perspective regarding the differences between goods and services is provided by The Scale of Market Entities depicted in Figure 1-3. The **Scale of Market Entities** displays a continuum of products based on their tangibility, where goods are labeled as **tangible dominant** and services as **intangible dominant**. The core benefit of a tangible dominant product typically involves a physical possession that contains service elements to a lesser degree. For example, an automobile is a tangible dominant product that provides transportation. As the product becomes more and more tangible dominant, fewer service aspects are apparent. In contrast, intangible dominant products do not involve the physical possession of a product and can only be experienced. Like the automobile, an airline provides transportation, but the customer does not physically possess the plane itself. The airline customer experiences the flight;

consequently, service aspects dominate the product’s core benefit, and tangible elements are present to a lesser degree. In comparison, fast food businesses, which contain both a goods (e.g., the food) and service component (e.g., service providers takes the customer’s orders, cooks the food, and the food is then personally presented to the customer) fall in the middle of the continuum.

Lessons Learned The Scale of Market Entities reveals two important lessons. First, there is no such thing as a pure good or pure service! Ultimately, products are a bundle of tangible and intangible elements that combine to varying degrees. Second, 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. For example, businesses that produce tangible dominant products and ignore, or at least forget about, the service (intangible) aspects of their product offering are overlooking a vital component of their businesses. By defining their businesses too narrowly, these firms have developed classic cases of **marketing myopia**. For example, the typical family pizza parlor may myopically view itself as being in the pizza business and primarily focus on the pizza product itself. However, a broader view of the business recognizes that it is providing the consumer with a reasonably priced food product in a convenient format surrounded by an experience that has been deliberately created for the targeted consumer. Interestingly, adding service aspects to a product often elevates the product from a

Scale of Market Entities

The scale that displays a range of products along a continuum based on their tangibility, ranging from tangible dominant to intangible dominant.

tangible dominant

Goods that possess physical properties that can be felt, tasted, and seen prior to the consumer’s purchase decision.

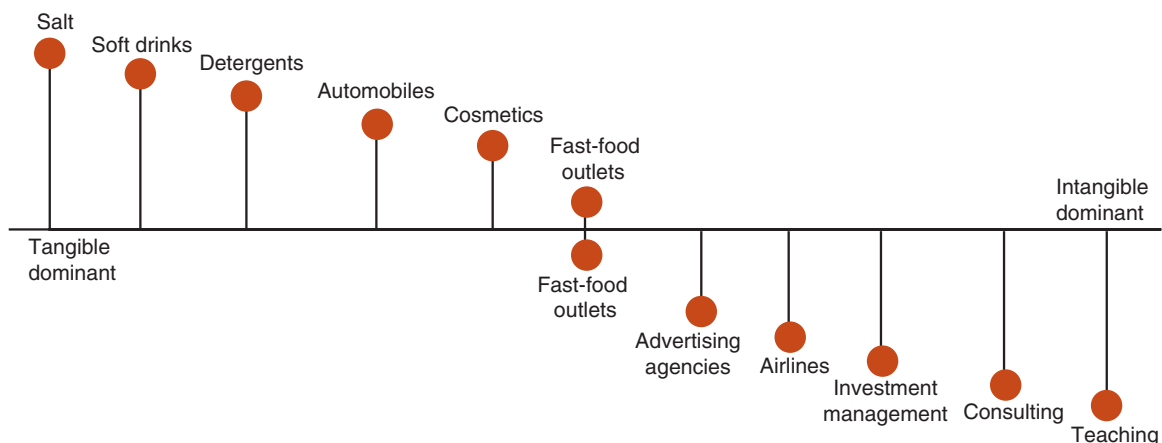
intangible dominant

Services that lack the physical properties that can be sensed by consumers prior to the purchase decision.

marketing myopia

Condition of firms that define their businesses too narrowly such as firms that produce tangible products and overlook the service aspects of their products.

Figure 1-3 The Scale of Market Entities



Source: Adapted from G. Lynn Shostack, “Breaking Free from Product Marketing,” *The Journal of Marketing* (April 1977), p. 77.

commodity into an experience, and, by doing so, increases the revenue-producing opportunities of the product dramatically. For example, consider the enhanced value of a Starbucks coffee shop as it markets the experiential aspects of their product as well as the product itself.

1-3b The Economic Value of Transforming Goods into Services¹¹

When priced as a raw *commodity*, coffee beans are worth little more than \$1 per pound. When processed, packaged, and sold in the grocery store as a *good*, the price of coffee jumps to approximately 25 cents a cup. When that same cup is sold in a local restaurant, the coffee takes on more *service* aspects and sells for roughly \$2 per cup. However, in the ultimate act of added value, when that same cup of coffee is sold within the compelling *experience* of a five-star restaurant or within the unique environment of a Starbucks, the customer willingly often waits in long queues and pays \$4 to \$5 per cup. In this instance, the ordering process, the creation of the cup of coffee, and the actual consumption of the coffee become “a pleasurable, even theatrical” experience. Hence, the valuable lesson to learn is that the economic value of products, like the coffee bean, progresses from *commodities* to *goods* to *services* to *compelling experiences* (see Figure 1-4). In the preceding example, coffee is transformed from a raw commodity valued at approximately \$1 per pound to \$4 to \$5 per cup—a markup as much as 5,000 percent! Clearly, adding services aspects to tangible products can greatly enhance the value of the product provided to customers!

1-3c The Molecular Model¹²

As previously discussed, the Scale of Market Entities demonstrates that products fall along a continuum ranging from tangible-dominant to intangible-dominant. The molecular

model assists service marketers by further breaking down (dissecting) products into their specific tangible and intangible components. Ultimately, a **molecular model** is a pictorial representation of the relationship between the tangible and intangible elements of a firm’s operation as experienced by the consumer.

For example, Figure 1-5 depicts a molecular model that provides an overview of some of the customer touchpoints associated with air travel. As previously discussed, airlines differ from automobiles in that customers typically do not physically possess the airline. Customers in this case purchase the core benefit of transportation and experience all the corresponding tangible (shown as solid-lined circles) and intangible benefits (denoted by dashed-lined circles) that are associated with flying.

Admittedly, the illustration provided in Figure 1-5 is an oversimplification of the bundle of benefits that ultimately comprise the air travel experience; however, from a managerial perspective, molecular models identify the tangible and intangible product contact points between the customer and the service organization that need to be effectively managed. For example, a successful airline experience is not just determined by the *outcome* of the flight—the safe arrival of passengers to their selected destinations. The airline molecular model expands our understanding of the customer experience by also documenting the *process* the customer must navigate during preflight, in-flight, and postflight stages of the experience.

molecular model

A conceptual model of the relationship between the tangible and intangible components of a firm’s operations as experienced by the consumer.

Figure 1-4 The Progression of Value

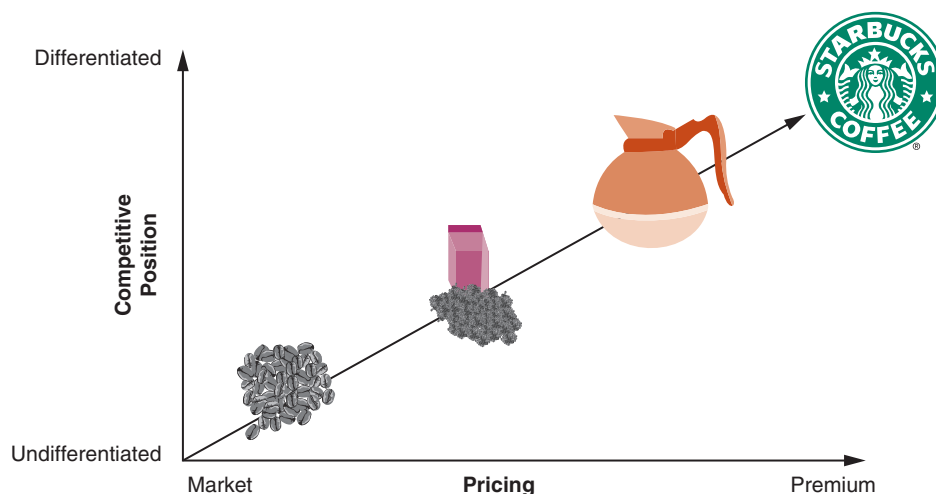
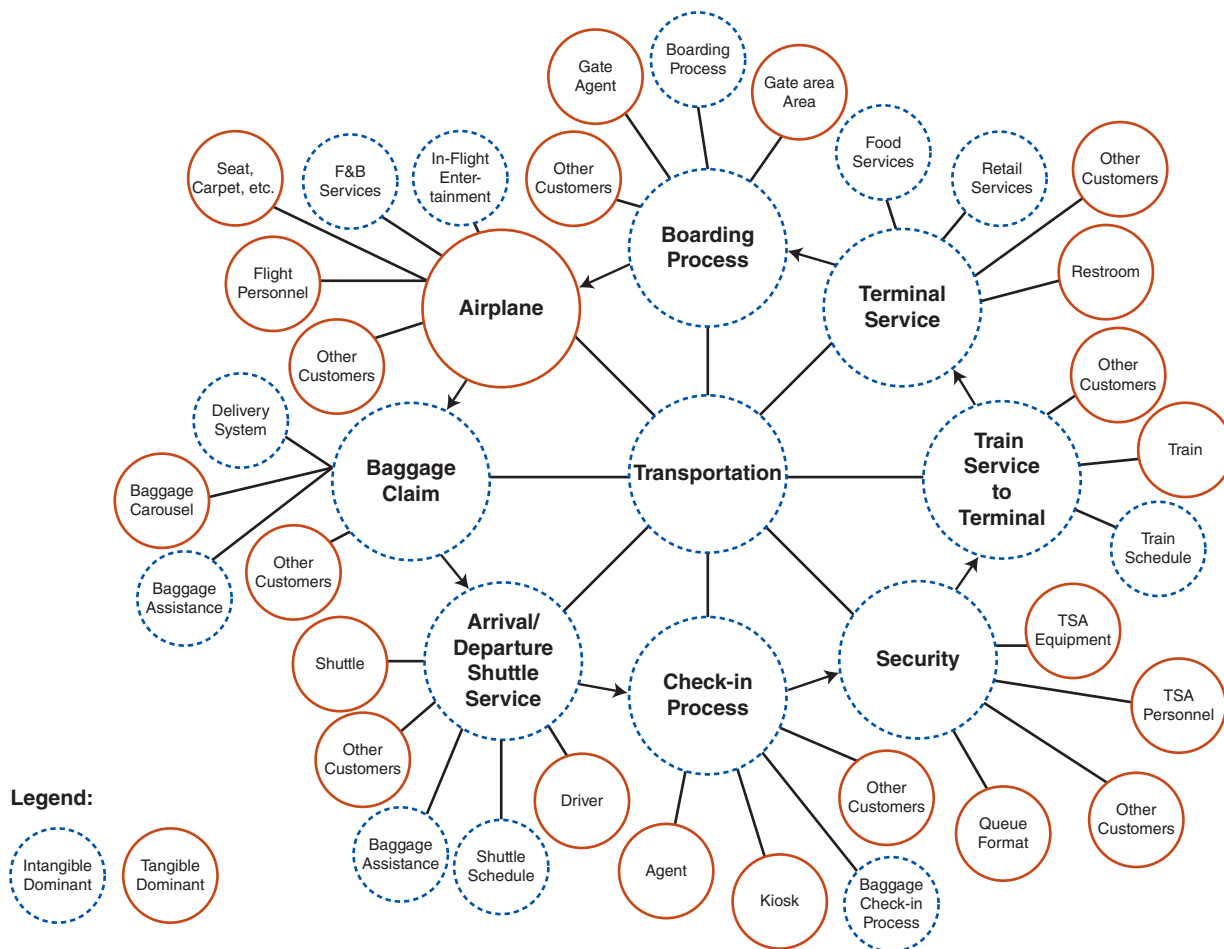


Figure 1-5 Example of a Molecular Model: Air Travel



Source: Original Artwork

Lessons Learned The overriding benefits obtained by developing and examining molecular models are threefold. First, molecular models provide managers with an appreciation for the intangible and tangible customer touchpoints that comprise how the customer directly and indirectly interacts with the service organization. Once managers understand this broadened view of their products, they can do a much better job of understanding customer needs and servicing those needs more effectively.

The second benefit derived from developing and examining a molecular model is that this exercise may identify new product development opportunities. These new ventures may enable a service provider to differentiate their product offerings from those of competitors as well as create new revenue-producing opportunities for the firm. For example, recognizing the customer need for seamless and hassle-free pre- and postflight transportation and baggage handling, United Airlines now offers an airline/landline bundled product offering that includes air transportation, motorcoach bus service, and baggage handling from the customer's point of departure to their Colorado ski resort final destination.¹³

Finally, a molecular model effectively demonstrates that customers evaluate goods and services differently. For example, customer evaluations of goods are primarily based on the *outcomes* associated with the physical (tangible) aspects of the product itself. In other words, did the good perform as it was manufactured to do so? In contrast, customer service evaluations are based both on the *outcomes* associated with the purchase as well as the *process* (experiential aspects) that is involved as the service is being produced and consumed. As a result, service marketers who develop a keen understanding of creating and effectively managing compelling service experiences have a clear competitive advantage.

1-4 Creating and Managing Compelling Service Experiences

All products, whether they are goods or services, etc., deliver a bundle of benefits to the consumer. In fact, it is the bundle of benefits that will ultimately define a company's

success. Firms that fail to provide benefits to their consumers really have no reason to exist! Referred to as the **benefit concept**, a product's bundle of benefits is the encapsulation of the tangible and intangible components of a product in the consumer's mind. Astute service marketers understand how the benefit concept associated with the purchase of goods is evaluated differently by consumers compared to how the benefit concept is evaluated by consumers of services.

Consider purchasing a simple piece of fruit, such as an orange from a typical grocery store. If placed on The Scale of Market Entities, an orange would certainly be described as tangible dominant. Customers can see the orange, they can touch the orange, smell its fragrance, taste the orange, etc. Hence, when consumed in isolation (at home for breakfast), there are few experiential aspects associated with the consumption of an orange. For example, a typical consumer of an orange will never see the orange grove where the fruit was grown, nor will they see the inside of the processing plant where the fruit was prepared for shipping. Additionally, consumers of the orange will most likely never interact with the grove workers who plucked the fruit from the tree or with the management staff that directs the workers. Furthermore, the consumer will generally not consume the orange at the grocery store in the presence of other customers. Consequently, given the orange's tangible dominant nature, the bundle of benefits consumers receive from the orange are mostly encapsulated within the orange itself.

In contrast to goods, services are intangible dominant and lack physical components that are easily evaluated. Consequently, consumer evaluation of services is much more complex as services deliver their bundle of benefits through the experience that is created for the consumer. In comparison to our orange example, college students who pay tuition to purchase educational services are physically present in the "factory" where "knowledge" is produced. As such, college students do interact with a variety of contact personnel (e.g., instructors, administrators, advisers) who deliver a wide array of information and knowledge. Moreover, students consume knowledge in the presence of other students, where they (other customers) may influence (for better or worse) one another's service experience. Furthermore, since students typically consume education within the walls of educational institutions (the service factory), the ambiance of the classroom setting, including the lighting, temperature, and overall decor, will influence the student's learning experience. Hence the benefit concept for educational services is delivered via the educational experience that is created for students and the subsequent evaluation of the quality of education will be based primarily on the experience as well.

benefit concept

The encapsulation of the benefits of a product in the consumer's mind.

Lessons Learned In summary, the delivery system associated with the benefit concept for goods is encapsulated within the good itself. As such, customers of goods typically evaluate the benefit concept based on the *outcome* associated with consuming (using) the good. In comparison, the benefit concept associated with services is delivered through the experience that is created for the customer. Consequently, service customers evaluate the bundle of benefits associated with services based on both the *outcome* and the *process* involved while consuming (using) the service. Astute service marketers understand that customer evaluations of services involve far more characteristics as compared to the evaluation of goods. As a result, effectively managing all the components of the service experience is of paramount importance.

1-4a The Servuction Model: The Four Components of the Service Experience¹⁴

Given the importance of the experiential nature of services, service marketers benefit from understanding and purposely managing the main factors that influence the customer's overall service experience. The **servuction model**, depicted in Figure 1-6, provides a simple but powerful illustration of the



"As you can see from the flow chart, the problem stems from a lack of direction."

Managing service experiences effectively requires operations, human resources, and marketing to all be on the same page. The Servuction Model provides the direction necessary to create compelling service experiences.

servuction model

A model used to illustrate the four factors that influence the service experience, including the servicescape, contact personnel/service providers, other customers, and the invisible parts of the organization and systems.
