

## **TEACHING INSIGHTS FOR THE CHAPTERS**

### **OVERVIEW**

In this section, you'll find the following teaching material for each of the 15 chapters:

- Learning objectives.
- Teaching suggestions.
- Brief answers to the end-of-chapter review questions and comments on what to expect of students from each of the application exercises. Note that review questions can either form the basis for in-class discussions or be assigned as written work. Many review questions and application exercises would work well for quizzes or exams.

Additional teaching resources can be found in Section 4. Table 4-1 provides suggestions on which exercises could be used with the chapters, which will encourage students to get actively involved with the course material.

# **CHAPTER 1**

## **INTRODUCTION TO SERVICES MARKETING**

### **LEARNING OBJECTIVES**

By the end of this chapter, students should be able to

- ➔ (LO 1) Understand how services contribute to a country's economy.
- ➔ (LO 2) Know the principal industries of the service sector.
- ➔ (LO 3) Identify the powerful forces that are transforming service markets.
- ➔ (LO 4) Understand how B2B services improve the productivity of individual firms and drive economic development.
- ➔ (LO 5) Define services using the non-ownership framework.
- ➔ (LO 6) Identify the four broad "processing" categories of services.
- ➔ (LO 7) Be familiar with the characteristics of services and the distinctive marketing challenges they pose.
- ➔ (LO 8) Understand the components of the traditional marketing mix applied to services.
- ➔ (LO 9) Describe the components of the extended marketing mix for managing the customer interface.
- ➔ (LO 10) Appreciate that marketing, operations, and human resource management functions need to be closely integrated in service businesses.

- (LO 11) Understand the implications of the service–profit chain for service management.
- (LO 12) Know the framework for developing effective services marketing strategies.

## **CHAPTER OUTLINE**

### ***(L01) Understand how services contribute to a country's economy***

Services dominate almost all types of economies today. The service sector accounts for a majority of the gross domestic product in all industrialized countries and provides most of the new jobs in many developing and highly developed nations worldwide.

### ***(L02) Know the principle industries of the service sector***

The service sector is a very diverse sector with contributions from various industries that target individual and business customers. Key industries are:

- Government services
- Real Estate
- Wholesale and Retail trade
- Business and Professional service
- Finance and Insurance
- Healthcare services
- Transport, utilities and communication services
- Accommodation and food services
- Arts, entertainment and recreation services

### ***(L03) Identify the powerful forces that are transforming service markets***

- Changes in government policies
- Social changes
- Business trends like productivity and cost savings, franchising etc.
- Advances in information technology
- Internationalization and globalization

Customer needs are evolving, markets and competition are changing rapidly, and effective strategic leadership is vital to success. Students should recognize that understanding the threats and opportunities

posed by these challenges is a vital first step in developing effective strategies. In particular, the increasingly competitive nature of many service industries places a premium on effective marketing strategy.

***(LO4) Understand how B2B services improve the productivity of individual firms and drive economic development***

Many manufacturing firms outsource their non-core support activities to independent service providers that focus on providing those activities in cost-efficient structures. This development leads to an increased specialisation with significant improvements in overall productivity and living standards.

***(LO5) Define services using the non-ownership of service framework***

- Services are distinguished as benefits without ownership.
- 5 broad categories within the non-ownership framework
  - Rented goods services – provides customers with temporary right to exclusive use of physical good
  - Defined space and place rentals – obtain a defined portion of a larger space and sharing its use with other customers, under varying degrees of privacy
  - Labor and expertise rentals – hire others to work that they either choose not to do, or lack the necessary expertise and tools to do
  
  - Access to shared physical environments – may be located indoors or outdoors or a combination
  - Systems and networks: access and usage – rent the right to participate in specified networks like telecommunications, utilities etc.

***(LO6) Identify the four broad "processing" categories of services***

Figure 1.14 highlights the four broad categories of services, such as:

- 1) people processing
- 2) possession processing
- 3) mental stimulus processing
- 4) information processing

***(LO7) Be familiar with the characteristics of services and the distinctive marketing challenges they pose***

The most common characteristics of services are often cited as intangibility, heterogeneity, inseparability and perishability. These can

be translated further into eight common differences between products and services:

- Most goods cannot be inventoried
- Intangible elements dominate value creation
- Services are often difficult to visualise
- Customers may be involved in co-production
- People may be part of the service experience
- Operational inputs and outputs tend to vary more widely
- The time factor often assumes great importance
- Distribution may take place through non-physical channels.

It is important to note that these differences are useful generalisations and do not apply equally to all services.

Table 1.1 gives managerial implications and challenges these differences pose.

### ***(L08) Understand the components of the traditional marketing mix applied to services***

Strategies to market manufactured goods usually address the traditional four elements of the marketing mix—product, price, place, and promotion. These four Ps, when applied to services, have additional considerations:

- 1) ***Product elements:*** All components of the service performance that create value for customers.
- 2) ***Place and time:*** When, where, and how to deliver services to customers.
- 3) ***Price and other user outlays:*** All the outlays incurred by customers in obtaining benefits from the service product costs of service, including money, time expenditures, physical and mental effort, and exposure to negative sensory experiences.
- 4) ***Promotion and education:*** All communications activities and incentives designed to inform and educate customers, build preference for a particular service, and encourage them to take action.

### ***(L09) Describe the components of the extended marketing mix for managing the customer interface***

In addition to the traditional 4Ps, services include the following additional Ps in their marketing mix:

Processes: It is *how* a firm does things by designing and implementing processes for the creation and delivery of services. Since services are variable, the operational inputs and outputs can vary widely also and often customers are involved in co-production to design a suitable process. In services processes are often not a smooth flow because services cannot be inventoried, thus wait systems are built into the service process.

Physical Environment: The “servicescape” of the service is its physical environment including building, vehicles, landscape, interior and all other visible cues.

People: Services are often delivered through people therefore the selection, training and motivation of the service employees is essential.

***(LO10) Appreciate that marketing, operations, and human resource management functions need to be closely integrated in service business.***

The key deliverables and objectives of these various functions need to be compatible and mutually reinforcing and tightly integrated. In service organisations, operations functions are actively involved in the design of products and processes to improve productivity and quality. HR provides quality front-line service providers to ensure the service experience and IT provides real-time information at every customer touch-point to create value with updated customer data.

***(LO11) Understand the implications of the Service-Profit Chain for Service Management***

Figure 1.27 provides the Service-Profit chain and explains how internal operating strategies of workplace design, rewards and recognition, adequate employee training yield higher service quality and this in turn leads to revenue growth and profitability through customer loyalty and satisfaction.

***(LO12) Know the framework for developing effective service marketing strategies***

The framework for services marketing strategies is the same as the structure of this book. The 5 parts of this structure are provided on Pages 28 and 29 and involve understanding of services, applying 4Ps to services, using the additional 3Ps to design and manage customer interface, developing customer relationships and quality management in services using Gaps model to move to higher levels of performance.

## TEACHING SUGGESTIONS

Chapter 1 provides students with an introduction to some of the basic concepts of service marketing and management. It's important to spend enough time to make sure students really comprehend this material, because conceptual frameworks and background information introduced in this chapter will underlie topics discussed in later chapters.

**Forces for change.** There are several interesting ways to approach this topic. You can ask students to find a print ad illustrating one of the forces for change in service management (see Figure 1.9) and to write a one-page paper discussing the ad and the applicable force(s). If students turn in their ads and papers in advance of class, you can make overheads of the best ads and ask the students who submitted them to describe why they chose the ads.

**Non-ownership of services.** This is a fresh perspective on services and advances our thinking in this area. This should be impressed upon students and they can be encouraged to challenge this view to see if they can find exceptions.

**Differences between goods and services.** It's very helpful to use services that are familiar to students to illustrate the distinguishing characteristics of services. Banking, insurance, airlines, service garages, hotels, and broadcasting/cable provide good starting points. As the course proceeds, however, you should start introducing professional and business-to-business services.

**Seven Ps.** When you introduce the 7 Ps, you should clarify how this framework differs from the 4 Ps of the traditional marketing mix (especially if students have previously taken an introductory marketing management course). Students should be advised that the 7 Ps framework will be revisited in subsequent chapters. In fact, each component of the 7 Ps forms the topic of a separate chapter.

Students can be assigned Application Exercise 3, which asks them to show how each of the 7 Ps relates to a specific service.

**Service-Profit Chain.** Service-profit chain is an important guiding philosophy of this book and it demonstrates the links in the managerial process that are essential for success in service business. Figure 1.27 describes these links that are both internal and external to the organization. Application Exercise 4 can be assigned to the students to discuss service quality improvements suggested through Service-Profit Chain.

## QUESTIONS AND EXERCISES

### *Review Questions*

**1. What are the main reasons for the growing share of the service sector in the major economies of the world?**

Increased productivity and automation in agriculture and industry, combined with growing demand for both new and traditional services, have jointly resulted in a continuing increase over time in the percentage of the labor force that is employed in services. Increased international trade and tourism drives demand for freight and passenger transportation, international finance, communications, and hotel entertainment, and food services. Increased spending on services by individuals is often associated with higher standards of living. People eat out more, take more vacations, spend more on entertainment, and employ other people to undertake household chores they used to undertake for themselves.

Similarly, as companies become larger and more sophisticated, they may choose to outsource so-called internal services such as recruitment, legal and accounting services, payroll administration, office cleaning, landscape maintenance, supply-chain management, advertising, etc. to specialist subcontractors. When such tasks are outsourced, they become part of the competitive marketplace and are therefore more easily identifiable as contributing to the services component of the economy. Technology has resulted in the creation of entire new service industries.

**2. What are the five powerful forces transforming the service landscape and what impact do they have on the service economy?**

The five powerful forces are:

- Government policies
- Social changes
- Business trends
- Advances in information technology
- Globalization

Refer to Figure 1.6 and Table 1.1 for more detailed explanations.



### **3. Why would growth in business services help individual firms and entire economies become more productive?**

A key driver of successful economies is their ecosystem of advanced, competitive and innovative business services. Many manufacturing firms have recognised the importance of outsourcing their non-core support activities to other specialised service providers that have more cost-efficient structures. This development results in the growth of B2B service sector and helps these specialised firms run successful businesses and in the broader perspective, better economic productivity creates more jobs and improves the overall standard of living.

### **4. Describe the four broad "processing" categories of services, and provide examples for each of them.**

Figure 1.9 highlights the four broad categories of services, such as:

- People processing (directed at people's bodies): hair stylists, healthcare
- Possession processing (directed at physical possessions): refueling, recycling
- Mental stimulus processing (directed at people's minds): education, training, advertising/ PR consultancy
- Information processing (directed at intangible assets): accounting, financial

### **5. What is so special about services marketing that it needs a special approach?**

Each of the eight distinctive characteristics of services listed in Table 1.2 has important implications for marketing strategy.

- **No ownership**
  - Customers obtain temporary rentals, hiring of personnel, or access to facilities and systems.
  - Pricing often based on time.
  - Customer choice criteria may differ for renting versus purchase—may include convenience, quality of personnel.
  - Can't own people (no slavery!) but can hire expertise and labor.
- **Services cannot be inventoried after production**
  - Service performances are ephemeral—transitory, perishable.
  - *Exception*—some information-based output can be

recorded in electronic/printed form and reused many times.

- Balancing demand and supply may be vital marketing strategy.
- Targeting right segments at right times at right price is often key to profitability.
- Marketers must determine whether benefits are perishable (e.g., meal, entertainment, hotel night) or durable (e.g., many surgeries, education).

- **Customers may be involved in production process**

- Customer involvement includes self-service and cooperation with service personnel.
- Think of customers in these settings as “partial employees.”
- Customer behavior and competence can help or hinder productivity, so marketers need to educate, train customers.
- Changing nature of service delivery process may affect role played by customers in that process.
- Design service facilities, equipment, and systems with customers in mind: user-friendly, convenient locations/schedules.

- **Intangible elements dominate value creation**

- Understand value added by labor and expertise of service personnel.
- Effective HR management is critical to achieve service quality.
- Try to make highly intangible services more “concrete” by creating and communicating physical images or metaphors and tangible clues.

- **Other people are often part of the service product**

- Achieve competitive edge through perceived quality of employees.
- Ensure job specs and standards for front-line service personnel reflect both marketing and operational criteria.
- Recognize that appearance and behavior of other customers can influence service experience positively or negatively.
- Avoid inappropriate mix of customer segments at same time.

- Manage customer behavior (the customer is *not* always right!).
- **Greater variability in operational inputs and outputs**
  - Must work hard to control quality and achieve consistency.
  - Seek to improve productivity through standardization, and by training both employees and customers.
  - Need to have effective service recovery policies in place because it is more difficult to shield customers from service failures.
- **Often difficult for customers to evaluate services**
  - Educate customers to help them make good choices, avoid risk.
  - Tell customers what to expect, what to look for.
  - Create trusted brand with reputation for considerate, ethical behavior.
  - Encourage positive word-of-mouth from satisfied customers.
- **Time factor assumes great importance**
  - Offer convenience of extended service hours, even 24/7.
  - Understand customers' time constraints and priorities.
  - Minimize waiting time.
  - Look for ways to compete on speed.
- **Distribution channels take different forms**
  - Tangible activities must be delivered through physical channels.
  - Use electronic channels (e.g., the Internet, telephone) to deliver intangible, information-based activities, expand geographic reach, and achieve instantaneous delivery, anywhere.

**6. "The 4 Ps are all a marketing manager needs to create a marketing strategy for a service business." Prepare a response that argues against this and support it with examples.**

The traditional 4 Ps provides a starting point for marketing services but falls short of providing the full array of tools and strategic elements needed. We have to recast the existing 4 Ps (for instance, speaking of time as well as place) and introduce new elements that address management of the *physical environment* to create differentiation and shape service experiences, *people* management to account for the important role of both service providers and other

customers in the service experience, and *process* to help us understand and manage the customer's involvement in service delivery. Management must look into the other 3 Ps as well: process and productivity, people and physical environment in order to stay ahead of the competition. Students need to elaborate on the advantages/strengths of concentrating on the other 3 Ps in their argument.

**7. What types of services do you think are (a) most affected and (b) least affected by the problem of variable inputs and outputs? Why?**

Services that require high contact in which customers experience the tangible actions of the service providers would be most affected. Customers are directly in contact with service providers most of the time to receive the service. The evaluation of the overall experience would depend on the mood and personal beliefs of the customer, as well as the skills of the service provider. However, service execution often differs among employees, between the same employee and different customers, and even from one time of day to another. Attitudes, transaction speed, and quality of performance can vary widely. This wide variability accounts for the difficulties in people processing services. On the contrary, services that process people's possessions and which occurs at an arm's length are least affected by the variability. For example, services that involve utilities, telecommunication and internet-based transactions. This may be achieved by adopting standardized procedures, implementing rigorous management of service quality, training employees, and automating tasks previously performed by human beings. Services that involve intangible actions may be able to make more extensive use of information technology and to deliver the core service through the Internet or other telecommunications. Customers receive more standardized services, which may reflect perceived fairness. However, using too much technology makes the service more impersonal.

**8. Why do the marketing, operations, human resource management and IT functions need to be closely coordinated in service organizations?**

The integrated model of service marketing in Figure 1.28 requires a close coordination between operations, human resource management and IT for it to be fully productive. Figure 1.26 presents the interdependency of these functions to meet customer needs. In service organisations, operations functions are actively involved in the design of products and processes to improve productivity and quality. HR provides quality front-line service providers to ensure the service experience and IT provides

real-time information at every customer touch-point to create value with updated customer data.

### **9. What are the implications of the service-profit chain for service management?**

One of the biggest implications of the service-profit chain is how the leadership role from top management underlies the chain's success. This leadership role will be the driver for internal quality delivered by operations, IT and other departments to improve employee satisfaction which can lead to employee loyalty and can drive the quality and productivity of service upwards resulting in higher customer satisfaction and loyalty that will eventually result in growth and profitability.

## **APPLICATION EXERCISES**

- 1. Visit the websites of the following national statistical bureaus: U. S. Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov)); Statistics Canada ([www.statcan.ca](http://www.statcan.ca)); National Bureau of Statistics of China ([www.stats.gov.cn/english/](http://www.stats.gov.cn/english/)); Eurostat (<http://europa.eu.int/en/comm/eurostat/>); Japanese Statistics Bureau ([www.stat.go.jp](http://www.stat.go.jp)); Central Bureau of Statistics (Indonesia) ([www.bps.go.id](http://www.bps.go.id)); Statistics South Africa ([www.statssa.gov.za](http://www.statssa.gov.za)) and the respective websites for your home country if it is not covered here. In each instance, obtain data on the latest trends in services as (a) percentage of gross domestic product; (b) the percentage of employment accounted for by services; (c) breakdowns of these two statistics by type of industry; and (d) service exports and imports. Looking at these trends, what are your main conclusions for the main sectors of these economies, and within services, for specific service sectors.**

This exercise will help students learn how to access and analyze data from different national statistical agencies. Note that as of late 2003, the United States had not yet converted its industrial statistics to the new NAICS format, but progress is being made toward this goal.

Canada's statistics are further along in this conversion process. Canadian data tend to be more recent than those in the United States (this probably reflects the country's much smaller economy and population). Comparison of service statistics across these three countries can provide the basis for in-class discussion and debate you

wish. Additional national statistical agencies can be added as desired, but you should first check out the extent of the data being presented on the Web site in question.

- 2. *Legal and accounting firms now advertise their services in many countries. Search for a few advertisements and review the following: What do these firms do to cope with the intangibility of their services? What could they do better? How do they deal with consumer quality and risk perceptions, and how could they improve that aspect of their marketing?***

Legal and accounting firms form part of the Information Processing category. Information is the most intangible form of service output. However, it can be transformed into more permanent and tangible forms like letters, reports, books, CD-ROMs, or DVDs. Some of the services that are most highly dependent on the effective collection and processing of information are financial and professional services like accounting, law, marketing research, management consulting and medical diagnosis.

To deal with consumer quality and risk perceptions, such firms must try and provide consistent quality of service, a good understanding of their product knowledge and what their clients need and want. It is important to keep these clients informed and educated about what these legal and accounting firms can do for them.

- 3. *Give examples of how Internet and telecommunications technologies (e.g., Interactive Voice Response Systems [IVRs] and mobile commerce [M-commerce]) have changed some of the services that you use.***

Students should be able to provide many interesting examples, including: the proliferation of Web-based services (such as reservations, entertainment, and medical help); the use of email to interact with customers and build long-term relationships; satellite TV and digital cable; special effects in movies; the increased ease of communication through cellular phones, etc.

- 4. *Explain how the concepts in Chapter 1 are relevant to the marketing of a religious institution, or a non-profit organization such as World Wildlife Fund.***

Students can relate Service-Profit chain to explain unique marketing of religious institution or non-profit organisations such as WWF by explaining how these services do not measure their success by the profitability rather they view growth of their ideology as the main measure of success. Students can also discuss the additional 3Ps of service

- *People*: The imam of a mosque and pastor of a church are critical to the delivery of service.
- *Processes*: Although for non-profit firms like WWF, or an adoption centre, profit is not the main aim, nevertheless, poorly designed service process will lead to wasted time and ineffective service delivery. This can reduce the social support and funds that are so essential for such businesses.
- *Physical Environment*: As in any service, physical features like building of a church and office of the non-profit firm will reflect its values and beliefs. Religious symbology, or ideological depictions like pictures of animals or WWF projects to save wildlife will be the key feature of physical environment.