

third edition

> Services Marketing

CONCEPTS, STRATEGIES, & CASES



- > K. Douglas Hoffman
- > John E.G. Bateson

SERVICES MARKETING: CONCEPTS, STRATEGIES, & CASES

Third Edition

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To Brittain, Emmy, Maddy and my parents

Doug Hoffman

For Dori, Lorna, and Jonathan

John E. G. Bateson

> STRUCTURE OF THE BOOK

Services Marketing: Concepts, Strategies, and Cases is divided into four main parts. The first part, “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. The primary objective of Part 1 is to establish a core knowledge base that will be built upon throughout the remainder of the text.

Chapter 1 provides an introduction to the field of services marketing. It establishes the importance of the service sector in the world economy and the need for services marketing education. Chapter 2 focuses more deeply on the fundamental differences between goods and services and their corresponding managerial implications. Chapter 3 provides an overview of the service sector and focuses on the nine service industry supersectors and the most substantial changes taking place within the service sector. New concepts such as the “graying of America” and the “outservicing of America” are presented, and predicted keys to success within the service encounter are also discussed. Chapter 4 focuses on consumer purchase decision issues as they relate to the services field. Consumers often approach service purchases differently from the way they approach the purchase of goods. The first part of the book concludes with Chapter 5, which takes an in-depth look at ethics in the service sector. Because of the differences between goods and services, unique opportunities arise that may encourage ethical misconduct.

The second part of the book, “Service Strategy: Managing the Service Experience,” is dedicated to topics that concern the management of the service encounter. Due to the consumer’s involvement in the production of services, many new challenges are presented that do not frequently occur within the manufacturing sector. The primary topics in Part 2 are strategic issues related to the marketing mix as well as the Servuction Model including process, pricing, promotion, physical evidence, and people (employee and customer) issues.

Chapter 6 provides an overview of service operations, pinpointing the areas where special managerial attention is needed in the construction of the service process. In addition, the importance of balancing operations and marketing functions in service operations is discussed. Chapters 7 and 8 focus on pricing and communication issues as they relate specifically to service firms. Chapter 9 examines the development and management of the service firm’s physical environment. Chapter 10 discusses the many challenges associated with managing employees within the service experience. The service business, by its very definition, is a people business and requires talented managers who can navigate the thin line between the needs of the organization, its employees, and its customers. Part 2 concludes with Chapter 11 where the art of managing service consumers is explored. Due to the impact of inseparability, the consumer’s role in service production can both facilitate and hinder the exchange process. Hence, developing a strategic understanding of how the consumer can be effectively managed within the service encounter is critical. Chapter 11 also introduces the fundamental components as well as the advantages and disadvantages associated with customer relationship management (CRM) systems.

Part 3, “Assessing and Improving Service Delivery,” focuses on customer satisfaction and service quality issues. Methods are presented for tracking service failures and employee recovery efforts, as well as customer retention strategies. Ideally, assessing

Preface

The primary objective of *Services Marketing: Concepts, Strategies, and Cases* is to provide materials that not only introduce you to the field of services marketing but also acquaint you with specific customer service issues. The business world now demands, in addition to traditional business knowledge, increasing employee competence in customer satisfaction, service quality, and customer service, skills that are essential in growing and sustaining the existing customer base.

> APPROACH OF SERVICES MARKETING: CONCEPTS, STRATEGIES, AND CASES

The third edition of *Services Marketing: Concepts, Strategies, and Cases* purposely examines the use of services marketing as a competitive weapon from a broader perspective. Consequently, we view services marketing not only as a marketing tool for service firms, but also as a means of competitive advantage for those companies that market products on the tangible dominant side of the continuum. As a result, business examples used throughout the text reflect a wide array of firms representing the nine service economy supersectors including education and health services, financial activities, government, information, leisure and hospitality, professional and business services, transportation and utilities, wholesale and retail trade, and other services.

Ultimately, the *service sector* is one of the three main categories of a developed economy—the other two being *industrial* and *agricultural*. Traditionally, economies throughout the world tend to transition themselves from an *agricultural economy* to an *industrial economy* (e.g., manufacturing and mining) to a *service economy*. The United Kingdom was the first economy in the modern world to make this transition. Several other countries including the U.S., Japan, Germany, and France have made this transition and many more are expected to do so at an accelerated rate.

We live in interesting times! The increased rate of transformation from an agricultural to a manufacturing to a service-based economy has generally been caused by a highly competitive international marketplace. Simply stated, goods are more amenable to international trade than services, making them more vulnerable to competitive actions. In other words, countries that industrialized their economies first eventually come under competitive attack by other countries that are newly making the transition from an agricultural to an industrial economy. These newcomer countries offer lower production costs (especially labor), which is attractive to industry. Consequently, as industrial sectors flow from one country to the next, the countries they abandon begin to more heavily rely on the growth of their service sectors as the mainstay of their economies. This whole process repeats itself over and over again as other less developed countries enter the fray; consequently, facilitating the transformation from agriculture to industrial to service-based economies.

- New B2B Services in Action features in every chapter provide B2B business examples of service marketing concepts and strategies. Companies and topics featured in B2B Services in Action boxes include the following:

IBM	Airbus A380
Hotel Business Customers	Private Banks
Business Class Travelers	Customer Relationship Management
Citigroup	J. D. Power and Associates
American Nursing Services	ISO 9000
Verizon Enterprise Solutions Group	Service Recovery Audit
Private Jet Service	B2B Customer Loyalty
Law Practice Marketing	State Farm Insurance

- New E-Services in Action features in every chapter provide eBusiness examples of service marketing concepts and strategies. Companies and topics featured in E-Services Services in Action boxes include the following:

Self-service Technologies	Google.com
Cellular Service	Online Complaint Sites
Hewlett-Packard	The 7Cs of Customer Interface
E-Consumer Decision Process	Humanizing the Net
Confidentiality Issues on the Net	Dimensions of E-Qual
E>Returns	E-failures Online
E-Pricing	Online Customer Retention
Online Advertising	RateMyProfessor.com

- Expanded coverage of e-business, global service, and B2B issues
- Updated service industry examples
- Expanded test bank
- Redesigned PowerPoint slides

> INSTRUCTOR RESOURCES

The instructor resources for *Services Marketing: Concepts, Strategies, and Cases*, 3e provide a variety of valuable resources for leading effective classroom discussions and assessing student learning. The following instructor resources are available for this text.

> INSTRUCTOR'S RESOURCE CD-ROM

The Instructor's Resource CD-ROM includes the Instructor's Manual, the Test Bank, PowerPoint Lecture Slides, and Examview.

- The Instructor's Manual for *Services Marketing: Concepts, Strategies, and Cases*, 3e includes a summary of the goals of each chapter, detailed lecture outlines, key terms

and improving the service delivery system will lead to “seamless service”—provided without interruption, confusion, or hassle to the customer.

Chapter 12 presents an overview of the importance and benefits of customer satisfaction and the special factors to consider regarding measurement issues. Chapter 13 builds from the materials presented in Chapter 12 and discusses conceptual and measurement issues pertaining to service quality and service quality information systems. Chapter 14 presents methods for tracking service failures and employee service recovery efforts. Chapter 15 focuses on the often forgotten benefits of customer retention and discusses strategies that maximize a firm’s customer retention efforts. Chapter 16 concludes this section of the text as well as the entire text with “Putting the Pieces Together: Creating the Seamless Service Firm.” Chapter 16 is dedicated to pulling the ideas in the book together in a manner that demonstrates the delivery of flawless customer service.

Part 4 of the book consists of cases that are specifically relevant to each of the chapters and also integrates other topics discussed throughout the text. The cases are to be used at the instructor’s discretion to give students realistic practice in using the concepts presented in the textbook. Many of these cases have been purposely written to include an international and/or e-business flavor to reflect the changing business climate and the wide variety of issues that face service marketers today.

> WHAT’S NEW IN THE THIRD EDITION?

- New Opening Vignettes in every chapter represent a variety of firms and relevant customer service issues from the nine service economy supersectors. These firms include the following:

Private Escapes	Westin’s Heavenly Bed
GEICO	Wegman’s Grocery Store
UPS	“Yours is a Very Bad Hotel”
Skype	American Customer Satisfaction Index
Vail Resorts	Malcolm Baldrige National Quality Award
Build-A-Bear Workshop	Wendy’s International Inc.
Airline Pricing	Loyalty Gadgets
Aflac	The Katitche Point Great House

- New Global Services in Action features in every chapter provide international examples of service marketing concepts and strategies. Companies and topics featured in Global Services in Action boxes include the following:

Service Exports	Hong Kong Disneyland
Importing American Standards	Dell Offshore Technical Support
Cuba’s Hotel Industry	Cultural Expectations
Finland Tourism	Global Customer Satisfaction
Global Health Care Perceptions	The Global Communication Gap
Delighting Global Customers	Mitsubishi Motors
Ethnic Pricing	BMO Bank of Montreal
Marriott International Inc.	Ethnic Marketing

stories, indexed by topic for your convenience. Each Marketing News summary contains a headline, subject category, key words, a three- to five-paragraph summary of a news article, article source line, and questions to spur further thought. The URL for the Instructor Support Web site is <http://hoffman.swlearning.com>.

> STUDENT RESOURCES

STUDENT SUPPORT WEBSITE

The Student Support Website (<http://hoffman.swlearning.com>) enriches the learning experience with a variety of interactive tools and Web resources:

- Flash Cards
- Crossword Puzzles
- Interactive Quizzes
- PowerPoint Slides
- Marketing in the News
- Marketing Resources
- Marketing Careers

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and definitions, answers to discussion questions, case teaching notes, and other resources to reduce lecture preparation time. This new edition also includes a list of suggested Harvard Business School cases.

- The Test Bank has been expanded to include an abundant number of multiple-choice questions and new short-answer essay questions.
- PowerPoint lecture slides highlight the key concepts of each chapter.
- Examview (Windows/Macintosh) Computerized Testing allows you to create, deliver, and customize tests in minutes with this easy-to-use assessment and tutorial system. Using ExamView's complete word processing capabilities, you can enter an unlimited number of new questions or edit existing questions.

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INSTRUCTOR SUPPORT WEBSITE

The Instructor Support website provides access to downloadable supplements (Instructor's Manual, Test Bank, and PowerPoint Slides), and a variety of marketing resources including "Marketing in the News," summaries of the latest marketing-related news

About the Authors

K. Douglas Hoffman is a Professor of Marketing at Colorado State University. He received his B.S. from The Ohio State University, and his M.B.A. and D.B.A. from the University of Kentucky. Over the last twenty years, Doug has taught courses such as Principles of Marketing, Services Marketing, E-Marketing, Retail Management, and Marketing Management. His primary teaching and research passion is in the Services Marketing area where he has started the first Services Marketing classes at Mississippi State University, The University of North Carolina at Wilmington, and Colorado State University. He has also taught courses as a visiting professor at the Helsinki School of Economics and Business Administration in Helsinki, Finland; The Institute of Industrial Policy Studies in Seoul, South Korea; and Thammasat University in Bangkok, Thailand.

Doug has been formally recognized for teaching excellence at Colorado State University and the University of North Carolina at Wilmington. In addition, he has served as the Education Coordinator for the Services Marketing Special Interest Group of the American Marketing Association. Doug has published a variety of articles in academic and practitioner journals and is the co-author of three textbooks:

Services Marketing: Concepts, Strategies, and Cases, Third Edition, Thomson South-Western

Managing Services Marketing, Fourth Edition, Thomson South-Western

Marketing Principles and Best Practices, Third Edition, Thomson South-Western

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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. He also serves on the steering committee of the Marketing Science Institute. Dr. Bateson consults extensively in the services sector.

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Gene W. Murdock, University of Wyoming
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Louis Turley, Western Kentucky University

In closing, we hope that you enjoy the book 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 participate in class discussions. Take advantage of the opportunities provided you during this course, and become an integral component of the education production process. 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 this book and 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 most of you, as you will encounter many experiences that are less than satisfactory. Learn from these negative experiences, relish the positive encounters, and use this information to make a difference when it is your turn to set the standards for others to follow. As evangelists of services marketing, we could ask for no greater reward.

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Contents in Brief

PART 1	AN OVERVIEW OF SERVICES MARKETING	1
Chapter 1	An Introduction to Services	2
Chapter 2	Fundamental Differences Between Goods and Services	26
Chapter 3	An Overview of the Services Sector	55
Chapter 4	The Consumer Decision Process in Services Marketing	80
Chapter 5	Ethical Issues in Services Marketing	105
PART 2	SERVICE STRATEGY: MANAGING THE SERVICE EXPERIENCE	131
Chapter 6	Service Delivery Process	132
Chapter 7	The Pricing of Services	165
Chapter 8	Developing the Service Communications Mix	192
Chapter 9	Managing the Firm's Physical Evidence	222
Chapter 10	People Issues: Managing Service Employees	251
Chapter 11	People Issues: Managing Service Customers	276
PART 3	ASSESSING AND IMPROVING SERVICE DELIVERY	299
Chapter 12	Defining and Measuring Customer Satisfaction	300
Chapter 13	Defining and Measuring Service Quality	330
Chapter 14	Service Failures and Recovery Strategies	359
Chapter 15	Customer Retention	388
Chapter 16	Putting the Pieces Together: Creating the Seamless Service Firm	418
PART 4	CASES	445
Glossary		563
Index		577

Contents

Preface V

PART 1 AN OVERVIEW OF SERVICES MARKETING 1

Chapter 1 An Introduction to Services 2

What Is a Service?	5
Framing the Service Experience: The Servuction Model	8
Why Study Services?	13
The Services Revolution: A Change In Perspective	17
Summary	23

Chapter 2 Fundamental Differences Between Goods and Services 26

Intangibility: The Mother Of All Unique Differences	28
Inseparability	32
Heterogeneity	41
Perishability	44
Summary	52

Chapter 3 An Overview of the Services Sector 55

What Is The Service Economy?	57
Service Classification Schemes:	
What Can Service Industries Learn From One Another?	64
Service Economy Growth: Key Influences and Concerns	68
Predicted Keys of Success Within The Service Sector	75
Summary	77

Chapter 4 The Consumer Decision Process in Services Marketing 80

The Consumer Decision Process: An Overview	82
Special Considerations Pertaining to Services	91
Summary	102

Chapter 5 Ethical Issues in Services Marketing 105

What Are Ethics?	107
The Opportunity For Ethical Misconduct In Services Marketing	109

	Methods For Ethical Decision Making	113
	Issues That Create Ethical Conflict	115
	Factors That Influence Ethical Decision Making	119
	The Effects of Ethical Misconduct	124
	Controlling Ethical Decision Making	125
	Summary	127
PART 2	SERVICE STRATEGY: MANAGING THE SERVICE EXPERIENCE	131
Chapter 6	Service Delivery Process	132
	Stages of Operational Competitiveness	135
	Marketing And Operations: Balance Is Critical	136
	In A Perfect World, Service Firms Would Be Efficient	141
	Applying The Efficiency Models To Service Firms	143
	The Art Of Blueprinting	150
	Summary	162
Chapter 7	The Pricing of Services	165
	Perception Of Value	168
	Special Considerations Of Service Pricing	169
	Emerging Service Pricing Strategies	186
	Summary	189
Chapter 8	Developing the Service Communications Mix	192
	Developing A Communications Strategy: The Basics	194
	The Communications Mix As It Relates To Consumer Behavior Considerations	203
	Special Problems Of The Service Communications Mix	206
	General Guidelines For Developing Service Communications	210
	Special Considerations Of Professional Service Providers	214
	Communications Tips For Professionals	216
	Summary	220
Chapter 9	Managing the Firm's Physical Evidence	222
	The Strategic Role Of Physical Evidence	225

	The Development of Servicescapes	231
	Specific Tactics For Creating Service Atmospheres	238
	Design Considerations For High-Versus Low-Customer-Contact Service Firms	246
	Summary	248
Chapter 10	People Issues: Managing Service Employees	251
	The Importance Of Service Personnel	254
	Service Personnel As Boundary Spanners	256
	The Importance of Human Resources For Service Firms	262
	Pulling It All Together	270
	Summary	272
Chapter 11	People Issues: Managing Service Customers	276
	Managing Customer Participation	278
	Managing Consumer Waits	282
	Managing Uncooperative Customers	286
	Customer Relationship Management—An Introduction	291
	Summary	295
PART 3	ASSESSING AND IMPROVING SERVICE DELIVERY	299
Chapter 12	Defining and Measuring Customer Satisfaction	300
	The Importance Of Customer Satisfaction	303
	What Is Customer Satisfaction/Dissatisfaction	304
	The Benefits Of Customer Satisfaction	306
	Measuring Customer Satisfaction	307
	Understanding Customer Satisfaction Ratings	309
	Are Customer Satisfaction Surveys Worth It?	314
	Customer Satisfaction: How Good Is Good Enough?	315
	Does Customer Satisfaction Translate Into Customer Retention?	317
	Customer Satisfaction: A Closer Look	320
	Summary	327
Chapter 13	Defining and Measuring Service Quality	330
	What Is Service Quality?	333

	The Difference In Quality Perspectives Between Goods And Services	333
	Diagnosing Failure Gaps In Service Quality	334
	Measuring Service Quality: Servqual	341
	Servqual: Some Final Thoughts	348
	Service Quality Information Systems	349
	Summary	356
Chapter 14	Service Failures and Recovery Strategies	359
	Types of Service Failures	361
	Customer Complaining Behavior	366
	The Art Of Service Recovery	370
	Evaluating Recovery Efforts: Perceived Justice	373
	Service Failure And Recovery Analysis: A Restaurant Industry Example	374
	Summary	383
Chapter 15	Customer Retention	388
	What Is Customer Retention?	390
	The Benefits Of Customer Retention	395
	Customer Retention Tactics	398
	Emerging Customer Retention Programs	403
	Defection Management	410
	Summary	415
Chapter 16	Putting the Pieces Together: Creating the Seamless Service Firm	418
	The Historical Weakness Of Marketing In Service Firms	421
	Moving Beyond Departmentalization And Functionalization: The Three-Tiered Model Of Service Firm	425
	Building The Service Logic Through Cultural Change	432
	The Tactical Questions Relating To Seamlessness: Conducting A Service Audit	437
	Summary	442