

# SERVICES MARKETING

==== A =====  
*Strategic  
Approach*  
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KAREN P. GONÇALVES

# *Services Marketing*

## A Strategic Approach

**Karen P. Gonçalves**



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To Bert, Michelle and Mike,  
for their ongoing patience and support  
of this book.

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# Preface

Marketing services is different than marketing products, partly because services are not the same as products and partly because the issues addressed by services marketing professionals encompass the entire firm—not just the issues traditionally included in the study of marketing. Services now account for three-fourths of the Gross National Product, so the majority of students will spend at least part of their careers working in the service sector. Despite this, most undergraduate marketing texts focus primarily on consumer products. This book addresses concepts, innovations, challenges, and strategic marketing issues unique to the service sector, in a format that encourages students to apply the concepts they are learning while they are learning them.

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## **RATIONALE AND TARGETING**

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This book was written to meet the needs of undergraduate marketing majors and other undergraduate business students. When I started teaching this course, I found myself supplementing the text every semester to meet the specific needs of undergraduate business students. After several semesters of unsuccessfully searching for a published set of teaching materials that included text, cases, in-class exercises, term-length student projects and other support that would allow me to vary the course from one semester to the next, I decided to write a book myself.

This book includes material and teaching tools my students found both useful and interesting when learning about marketing and management within the service sector. It is my hope that: a) faculty will find this text to be both comprehensive and flexible enough to allow them to become and remain excited about teaching this course; and b) it provides students with the building blocks they need to develop a solid understanding of the strategic issues facing executives in the service sector, along with enthusiasm for a career in the field. In the spirit of continuous improvement, I welcome comments and suggestions from faculty and students who use this book, so that later editions can include meaningful improvements.

Three key themes throughout this book are the role of quality in services, the need to constantly innovate and search for ways to improve the entire enterprise, and

the need to meet the sometimes conflicting needs of several entirely different constituencies. Marketing and management are complex and challenging in any business, but particularly so for service businesses. Every industry within the service sector is becoming more competitive, and many are now mature or approaching maturity. This necessitates a focus on excellence throughout the enterprise and in meeting the needs of many types of “customers.” To help students understand, appreciate, absorb and remember these themes, this book provides students with a combination of conceptual and practical material that they can readily apply to the businesses in which they will work.

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## **ORGANIZATION**

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This book is organized into four parts: the first three are text and the last consists of seven cases. Part 1 (chapters 1 through 3) provides the foundation for the rest of the course—definitions, introduction of concepts, brief historical perspective, and themes to be explored throughout the rest of the course.

Part 2 (chapters 4 through 7) includes chapters on the traditional elements of the marketing mix, along with a discussion of three elements unique to services—processes, participants/people and physical evidence. It also introduces a new way of thinking about the role of the marketing department in a service environment.

Part 3 (chapters 8 through 10) provides an analytical framework for applying the concepts in parts 1 and 2. Chapter 8 focuses on segmentation, targeting and positioning through the use of formal and informal research. Chapter 9 provides a framework for developing service sector strategies and frameworks for handling future uncertainty. Chapter 10 offers a few of this author’s ideas about what the service sector will be like in five to ten years. Chapter 10 was included to provoke discussion and debate among students and to help them focus on the evolving nature of services.

There are several discussion questions at the end of each chapter designed to be used as verbal or written assignments, or as examination questions.

Part 4 includes seven cases, each of which was specifically designed for use with this course. Most link directly to one of the chapters; all seven require that students address issues from more than one chapter. The cases vary in length and complexity, and all except one have been successfully used with many undergraduate students. The Bread & Circus Whole Foods Market case was written during the summer of 1997, so it has not been tested with students. Cases allow students to analytically link the conceptual material from the text to the practical issues facing businesses. Some of the companies are identified and others are not.

The Instructor’s manual includes sample syllabi for courses taught at semester and quarter length schools, and for several other variations in teaching style and format. The manual also includes additional discussion questions for each chapter as well as suggestions for outside student research, descriptions of individual and team assignments, in-class exercises, guest speakers, videos and other live course components. Instructional support, including chapter outlines, is provided for every chapter.

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## **ACKNOWLEDGMENTS**

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This book would not have been possible without the support of many people, a few of whom deserve special thanks. I gratefully acknowledge the assistance of Sandra Steiner, my first editor at Prentice Hall. She convinced me that I could and should undertake this project and shepherded this first-text author through the helpful responses to my many questions throughout the production process. I would also like to thank Michelle Rich for her assistance and Donna King, whose staff completed the final copy edit and production. Thank you all for your support and high quality work.

I also thank the many students who suffered through early typed and hand written versions of the book and exhibits, particularly those whose insightful comments and suggestions helped make the book “student-centered” without losing content. Without formal and informal student feedback and reactions, I would not have known what was and was not working, and what needed revision.

I am eternally grateful to my daughter Michelle, who as a very bright and literate college student herself, spent many days reading, reworking and copy editing the supposedly final manuscript before it was sent to Prentice Hall. By the time Michelle began work I had spent so much time with the book that I was no longer objective and could no longer reliably see inconsistencies or gaps in the logic, definitions, or other details that make a book workable. She suggested a new organization for Part 1, and many other changes throughout to make this book more accessible and interesting to students.

Finally, I would like to thank the faculty reviewers throughout the country who anonymously and generously gave of their time to review both early and recent versions of the manuscript. Their comments and suggestions were invaluable in making final decisions about what conceptual material to include, the tone that would work best with undergraduates, and the types of cases and other non-textual material that are most likely to be useful in a variety of classroom settings.

**Karen P. Gonçalves**



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## *About the Author*

Dr. Karen P. Gonçalves is president of Delphi Market Research, Inc., a market research and planning consulting firm she founded, that works extensively with clients in the service sector. The firm's clients include several of the largest service sector providers in the world and in the United States, as well as start-ups and very small businesses.

For many years Dr. Gonçalves was on the faculty at Babson College, Wellesley, MA, Bentley College, Waltham, MA and Northeastern University, Boston, MA where she taught a wide range of marketing and strategy courses, including services marketing.

Throughout her career she has worked in several service businesses, in retailing, law, banking and venture capital. She has founded several businesses, most of which operate in the service sector, and continues to manage a marketing consulting business. At any given time she is active as a volunteer in at least one not-for-profit organization, including higher education, independent schools, fine arts and religious organizations, and business networking organizations.

She holds an Ed.D. in Higher Education Administration with a minor in Research Design, and both MBA and Bachelor of Science in Business degrees from Northeastern University.



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# **CHAPTER I**

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## *A Definition of Services Marketing*

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### **OBJECTIVES**

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1. Define services (versus products) from a marketing standpoint.
2. Provide descriptions of key characteristics of services.
3. Help students understand how services are different from products, from both the company's and customer's perspective.
4. Introduce the services marketing mix.

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### **AN INTRODUCTORY DEFINITION**

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To discuss marketing in the service sector, one must begin with a clear definition of a service sector business. For the purposes of this book, a service business is one in which the perceived value of the offering to the buyer is determined more by the service rendered than the product offered. This includes businesses that provide an almost entirely intangible offering; such as cleaning services, legal services, and health care. It also includes businesses that offer both services and products, such as restaurants and shopping services. In other words, any company or institution in which a large portion of the perceived offering is a service, is in the service sector. In this chapter a series of tests and criteria are provided to help make this determination easier.

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### **THE SERVICE COMPONENT**

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Almost every item consumers buy, and almost every item bought by businesses, includes a service component. An example of purchases that include both products and services can be found in the supermarket: When we buy groceries we also buy convenience in the form of store hours, short lines, merchandise selection, prepared ready-to-eat food, or the ability to pay by check, credit, or debit card. Although much of the offering consists of products, there are several very important service components.

In some industries, the relative importance of this service can change vastly from one customer to another, so it must be considered from the point of view of many types of customers. For example, two people may pay the same rate for the same type of room at the same hotel, but for very different reasons:

Alan, a retiree from New England has decided to visit some friends in Miami. He looks around for a hotel with all the comforts of his country club at home. While at

## 2 PART I Background, Introduction to Services Marketing

the hotel he uses a full range of hotel services such as room service, concierge, cable TV, dining rooms, sauna, and golf course.

Alice, staying at the same hotel on business, stays one night, arrives late, leaves early, and only eats breakfast at the hotel. She chose this hotel for its proximity to the conference facility where she is running a meeting.

Both guests have purchased a service—the right to use a hotel room for a fixed period of time, along with the right to purchase and use other services offered by the hotel—and both may have paid the same room rate. However, the value that Alan and Alice placed on these services is different. Alan placed greater value on services and amenities, whereas Alice placed greater emphasis on location. Both might agree that the hotel is in the service business, but they would view the services provided very differently.

Sometimes, what appears to be a simple product sale includes a range of services, making it difficult to decide if a company is in the product or service sector. Buying a computer is an example. When some people buy a computer they are buying only the computer. For others, the purchase may include helpful staff at the store, a hotline service for installing programs on a new computer, workshops, and a variety of other services. For knowledgeable computer users, these services may be useless features that simply add to the price of the computer; however, for those with limited computer knowledge, these services may be decisive in determining which retail store and manufacturer will get their business.

The fact that the **offering**—the computer plus the services associated with it—includes both products and services makes it hard to determine whether the offering is a product or a service, because different buyers have different motives when making purchases. For this reason, there are a series of tests and criteria for making a final decision about where an offering belongs.

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## THE SPECTRUM OF GOODS AND SERVICES

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A useful qualitative concept in defining products and services is to consider them as a spectrum of offerings as shown in Figure 1-1. If one thinks about a spectrum that ranges from *only products offered for sale* to *only services offered for sale*, we can accurately place the industries that fall toward one end or the other.\* One can judgmentally place industries that fall near the middle of the spectrum by applying a series of tests to decide where they belong. This method may never yield complete agreement on the exact position for each industry, but it does accomplish two important goals:

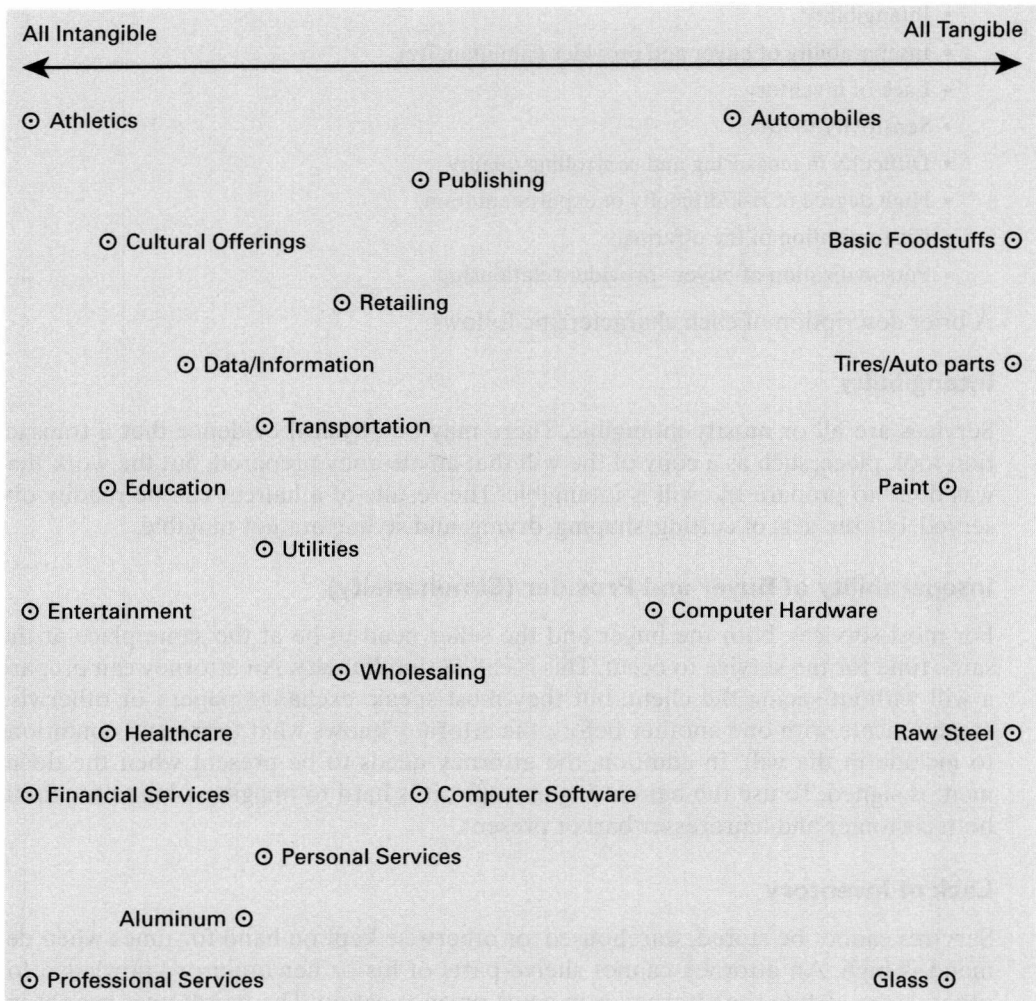
1. It allows us to decide which industries should be included in the service sector.
2. It highlights the need for goods sector firms to think about the services they offer and how to tailor these services to effectively meet customers' needs.

Some offerings are clearly services: the enjoyment of a good movie, art exhibition, or athletic event; the use of operating and recovery rooms at a hospital; the ser-

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\*Sandra Vandermerwe and Michael Chadwick, "The Internationalization of Services," *The Service Industries Journal* (January 1989): 79–93.





**FIGURE I-1** Degree of Tangibility of Selected Goods and Services

vices of a lawyer or accountant; house cleaning; or a manicure. Most service offerings also have a product component. When purchasing prescription eye glasses or contact lenses the eye examination and evaluation of how to correct the patient's vision are clearly a service, but there is also a product associated with this purchase—the glasses or contact lenses. The same holds true for many other combination offerings, such as a catered meal or floral delivery. In each instance, the key question is: "How much value does each consumer place on the various services offered?" Rather than rely on a haphazard guess, the following tests can be applied to determine whether an offering is a product or a service.

Eight characteristics can be used to differentiate products from services and will be referred to and used throughout this book. These characteristics serve as tests to see if an offering accurately belongs in the service sector:

## 4 PART I Background, Introduction to Services Marketing

- Intangibility.
- Inseparability of buyer and provider (simultaneity).
- Lack of inventory.
- Sensitivity to time.
- Difficulty in measuring and controlling quality.
- High degree of risk/difficulty of experimentation.
- Customization of the offering.
- Personalization of buyer–provider relationship.

A brief description of each characteristic follows.

### **Intangibility**

Services are all or mostly intangible. There may be physical evidence that a transaction took place, such as a copy of the will that an attorney prepared, but the work that was done to prepare the will is intangible. The results of a haircut can be readily observed, but the acts of cutting, shaping, drying, and styling are not tangible.

### **Inseparability of Buyer and Provider (Simultaneity)**

For most services, both the buyer and the seller need to be at the same place at the same time for the service to occur. This is called **simultaneity**. An attorney can prepare a will without seeing the client, but they must speak, exchange papers, or otherwise communicate with one another before the attorney knows what terms and conditions to include in the will. In addition, the attorney needs to be present when the document is signed. To use the haircutting example, it is hard to imagine a haircut without both customer and hairdresser/barber present.

### **Lack of Inventory**

Services cannot be stored, warehoused, or otherwise kept on hand for times when demand is high. An attorney cannot shelve parts of his or her brain or knowledge for others to use while the attorney is in court or on vacation. The hairdresser cannot inventory haircuts so that when a rush occurs at 3:00 p.m. on Saturday all customers can have their hair cut at once.

### **Sensitivity to Time**

Just as services cannot be inventoried, they also cannot be backordered. Sunday customers at a restaurant cannot be told to come back on Tuesday when the cook has had time to finish the special sauce; and an injured person cannot be told by emergency room staff that her broken leg will be set in a week when the orthopedic surgeon returns.

### **Difficulty in Measuring and Controlling Quality**

Most services are highly intangible, so it is difficult to measure and control quality. People provide services; people are not manufactured the way a car is produced, and people cannot operate as reliably as machines. This makes it very difficult for customers to evaluate quality and for employers to measure and control quality. It can be