LESSON 2: SPECIAL CHARACTERISTICS OF SERVICES

The Objective of this Lesson is to have an insight into
• Special characteristics of service marketing
• Service Marketing Mix
• Service Marketing triangle

Let’s understand the special characteristics of services ….

Special Characteristics of Services
Services are said to have four key characteristics which impact on marketing programmes. These are:

Intangibility
Inseparability
Heterogeneity variability
Perishability (simultaneous production/consumption)

It is helpful to consider each of these characteristics briefly:

Intangibility
Services are said to be intangible - they cannot be seen or tasted, for example. This can cause lack of confidence on the part of the consumer. As was apparent earlier, in considering pricing and services marketing, it is often difficult for the consumer to measure service value and quality. To overcome this, consumers tend to look for evidence of quality and other attributes, for example in the decor and surroundings of the beauty salon, or from the qualifications and professional standing of the consultant.

Inseparability
Services are produced and consumed at the same time, unlike goods which may be manufactured, then stored for later distribution. This means that the service provider becomes an integral part of the service itself. The waitress in the restaurant, or the cashier in the bank, is an inseparable part of the service offering. The client also participates to some extent in the service, and can affect the outcome of the service. People can be part of the service itself, and this can be an advantage for services marketers.

Heterogeneity Invariability
Because a service is produced and consumed simultaneously, and because individual people make up part of the service offering, it can be argued that a service is always unique; it only exists once, and is never exactly repeated. This can give rise to concern about service quality and uniformity issues. Personnel training and careful monitoring of customer satisfaction and feedback can help to maintain high standards.

Perishability
Services are perishable; they cannot be stored. Therefore an empty seat on a plane, for example, is a lost opportunity forever. Restaurants are now charging for reservations which are not kept, charges may be made for missed appointments at the dental clinic. Perishability does not pose too much of a problem when demand for a service is steady, but in times of unusually high or low demand service organisations can have severe difficulties.

The above characteristics are generally referred to in many texts as being what makes services marketing so different. However, this assumption should be queried on a number of grounds.

Like all sweeping generalizations, generalizations concerning services marketing do not always represent the full picture. Consider the question of tangibility. In the main, services can be broken down into three main classifications:

Rented goods services
Consumer-owned goods services
Non-goods services

Some of these categories involve goods which are physical, and which contribute in some way to the service offering. This gives rise to questions about the degree to which services can be classed as intangible.

Another way of classifying services is to consider the distinction between equipment-based services and people-based services. Examples of equipment-based services would include:

Vending machines
Car and tool hire
Airlines

People-based services would include:

Nursery infant care
Architects
Legal services

Yet another distinction can be made between consumed services, which are offered on a personal basis, and business-to-business or industrial services. Some service providers may operate in both these market sectors:

Franchised child care services may offer local services to parents, and operate in-company schemes. Hotels may cater for the tourist and the business or conference market. Private health care programmes generally offer personal and corporate rates. On the other hand, some services such as industry-specific consultancy services or marine salvage operate in quite closely defined market sectors.

The Nature of the Service Product
Whichever means of classifying services is used, and whether or not there is agreement that the unique characteristics of services really represent unique distinctions, ultimately both physical goods and services provide benefits and satisfactions - both goods and services are ‘products’ or offerings. Consider the following breakdown of service offerings:

Utilities: gas, power, water
Transport and communications
Recreation and leisure
Insurance, banking and finance
MARKETING OF SERVICES

For most of these categories it is easy to think of 'products' associated with them; insurance policies, heating and light, package holidays and so on. This has implications for services marketing management.

As in traditional marketing concerned with 'tangible products, the services marketing manager needs to look closely at marketing strategy, including such aspects as:

The service element of the augmented product - the characteristics which help distinguish a product from its competitors - is now a key factor in long-term success. Rapid developments in technology which mean that firms can no longer sustain a leading edge position in the marketplace by technological superiority alone has led to the development of service as a marketing tool for competitive advantage. The impact on profitability can be two-fold: profitability can increase not only through superior competitive positioning, but many service divisions now represent profit centres in their own right.

Another important area which is receiving increasing attention from marketers is the not-for-profit service sector. Not-for-profit organisations engage in a broad sphere of activity ranging from cultural, educational and political interests to social and leisure activities. The size of these organisations ranges from very small, local concerns to large, multi-national operations.
MARKETING OF SERVICES

The Services Marketing Mix
Another way to begin addressing the challenges of services marketing is to think creatively about the marketing mix through an expanded marketing mix for services.

Traditional Marketing Mix
One of the most basic concepts in marketing is the marketing mix, defined as the elements an organization controls that can be used to satisfy or communicate with customers. The traditional marketing mix is composed of the four P's: product, price, place (distribution), and promotion. These elements appear as core decision variables in any marketing text or marketing plan. The notion of a mix implies that all of the variables are interrelated and depend on each other to some extent. Further, the marketing mix philosophy implies that there is an optimal mix of the four factors for a given market segment at a given point in time.

Key strategy decision areas for each of the four P's are captured in the first four columns in Table 1-3. Careful management of project, place, Promotion and price will clearly also be essential to the successful marketing of services. However, the strategies for the four P's require some modifications when applied to services. For example, traditionally promotion is thought of as involving decisions related to sales, advertising, sales promotions, and publicity. In services, these factors are also important, but because services are produced and consumed simultaneously, service delivery people (such as clerks, ticket-takers, nurses, phone personnel) are involved in “real-time” promotion of the service “even if their jobs are typically defined in terms of the operational function they perform. Pricing also becomes very complex in services where “unit costs” needed to calculate prices may be difficult to determine, and where the customer frequently uses price as a cue to quality.

Expanded Mix for Services
Because services are usually produced an consumed simultaneously, customers are often present in the firm’s factory, interact directly with the firm’s personnel, and are actually part of the service production process. Also, because services are intangible customers will often be looking for any tangible cue to help them understand the nature of the service experience. These facts have led services marketers to conclude that they can use additional variables to communicate with and satisfy their customers. For example, in the hotel industry.

Implications of Simultaneous Production and Consumption
- Customers participate in and affect the transaction
- Customers affect each other
- Employees affect the service outcome
- Decentralization may be essential
- Mass production is difficult

Implications of Perishability
- It is difficult to synchronize supply and demand with services
- Services cannot be returned or resold
Services Marketing Mix: 7 Ps for Services

- Traditional Marketing Mix
- Expanded Mix for Services: 7 Ps
- Building Customer Relationships Through People, Processes, and Physical Evidence
- Ways to Use the 7 Ps

Expanded Mix for Services -- the 7 Ps

- Product
- Price
- Place
- Promotion
- People
- Process
- Physical Evidence

Traditional Marketing Mix

- All elements within the control of the firm that communicate the firm’s capabilities and image to customers or that influence customer satisfaction with the firm’s product and services:
  - Product
  - Price
  - Place
  - Promotion

Expanded Marketing Mix for Services

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>PLACE</th>
<th>PROMOTION</th>
<th>PRICE</th>
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<tbody>
<tr>
<td>Physical need features</td>
<td>Channel type</td>
<td>Promotion blend</td>
<td>Flexibility</td>
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<tr>
<td>Quality level</td>
<td>Exposure</td>
<td>Salespeople</td>
<td>Price level</td>
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<td>Accessories</td>
<td>Intermediaries</td>
<td>Advertising</td>
<td>Terms</td>
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<tr>
<td>Packaging</td>
<td>Outlet location</td>
<td>Sales promotion</td>
<td>Differentiation</td>
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<tr>
<td>Warranties</td>
<td>Transportation</td>
<td>Publicity</td>
<td>Allowances</td>
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<td>Product lines</td>
<td>Storage</td>
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The Services Marketing Triangle

The services marketing triangle (Figure 1-5) shows the three interlinked groups that work together to develop, promote, and deliver services. These key players are labeled on the points of the triangle: the company (or SBU or department or “management”), the customers, and the providers (whoever it is that actually deliver the service to customers). Between these three points on the triangle, there are three types of marketing that must be successfully carried out for a service to succeed: external, internal, and interactive marketing. All these activities revolve around making and keeping promises to customers. For services, all three types of marketing activities are essential for building and maintaining relationships with customers. Each is now discussed in more detail.

External Marketing: Making Promises

Through its external marketing efforts, a company makes promises to its customers regarding what they can expect and how it will be delivered. Traditional marketing activities such as advertising, sales, special promotions, and pricing facilitate this type of marketing. But for services, other factors also communicate the promise to customers. The service employees, the design and decor of the facility, and the service process itself also communicate and help to set customer expectations. Service guarantees and two-way communication (especially in situations where promises can be negotiated and expectations can be managed on an individual basis) are additional ways of communicating service promises. Unless consistent and realistic promises are set via all of these external communication vehicles, a customer relationship will be off to a shaky beginning. Further, if there is a tendency to overpromise, the relationship may also be off to a weak beginning.

Interactive Marketing: Keeping Promises

External marketing is just the beginning for services marketers: Promises made must be kept. Keeping promises, or interactive marketing, is the second type of marketing activity captured by the triangle and is the most critical from the customer’s point of view. Service promises are most often kept or broken by the employees of the firm or by third-party providers, most often in real time. Sometimes service promises are even delivered through technology, as discussed a bit later. Interactive marketing occurs in the moment of truth when the customer interacts with the organization and the service is produced and consumed. Interestingly, promises are kept or broken and the reliability of service is tested every time the customer interacts with the organization.

Internal Marketing: Enabling Promises

A third form of marketing, internal marketing, takes place through the enabling of promises. In order for providers and service systems to deliver on the promises made, they must have the skills, abilities, tools, and motivation to deliver. In other words, they must be enabled. These essential services marketing activity has become known as internal marketing. Promises are easy to make, but unless providers are recruited, trained, provided with tools and appropriate internal systems, and rewarded for good service, the promises may not be kept. Internal marketing also hinges on the assumption that
employee satisfaction and customer satisfaction are inextricably linked.

**Aligning the Sides of the Triangle**

In a triangle, all three sides are essential to complete the whole. For services all three marketing activities, represented by the sides of the triangle, are critical to success; without one of the sides in place, the triangle, or the total marketing effort, cannot be optimally supported. Each side represents significant challenges, and as we proceed through the text we will find approaches and strategies for dealing with all three.

FedEx Corporation is an example of a company that has all sides of the triangle well aligned. 13 With respect to external marketing, FedEx is a master. They understand their customers, do extensive market research (2,400 customer survey’s per quarter), measure customer satisfaction daily (through their service quality indicator, or SQI), and listen to customers. Promises are communicated effectively to the marketplace through await-winning advertising messages and consistent statements by their people.

Interactive marketing—keeping promises—is at the heart of FedEx’s strategy. The book-length “Manager’s Guide,” given to every FedEx manager, states that “Each customer contact is a moment of truth that conveys an image of Federal Express.” A shared goal within the company is that every one of these service encounters be flawless from the customer’s point of view. The folks that deliver FedEx’s premises directly (drivers, front-line telephone people, business logistics consultants) all know that 100 percent success in interactive marketing is the goal.

FedEx also knows that 100 percent success is not possible unless all of these providers are enabled to provide quality service through technology, rewards, support systems, and empowerment. Open communication with employees is another key to successfully rallying them around new initiatives and opportunities aimed at building business. As a result of its support and fair treatment of employees, employee loyalty at FedEx is very high, and promises to customers can be kept.

**Technology and the Services Marketing Triangle**

With the impact of technology on all dimensions of service and service delivery, it has been suggested that the services triangle be expanded to explicitly include technology-turning the triangle into a pyramid, as shown in Figure 1-6.14 The pyramid suggests that interactive marketing can be the result of customers, providers, and technology (or some subset of the three) interacting in real time to produce the service. It also suggests that management has the responsibility to facilitate not only the delivery of service through human providers, but also the delivery through technology. Finally, the pyramid suggests that customers will, at times, interact only with technology and
Ways to Use the Services Marketing Triangle

Overall Strategic Assessment
- How is the service organization doing on all three sides of the triangle?
- Where are the weaknesses?
- What are the strengths?

Specific Service Implementation
- What is being promoted and by whom?
- How will it be delivered and by whom?
- Are the supporting systems in place to deliver the promised service?

Tutorials
- Discuss the special characteristics of Service marketing.
- What do you mean by Service triangle. Discuss.
- Discuss the difference between the Traditional and expanded marketing mix.

Notes