

Marketing in the Service Economy: New perspective

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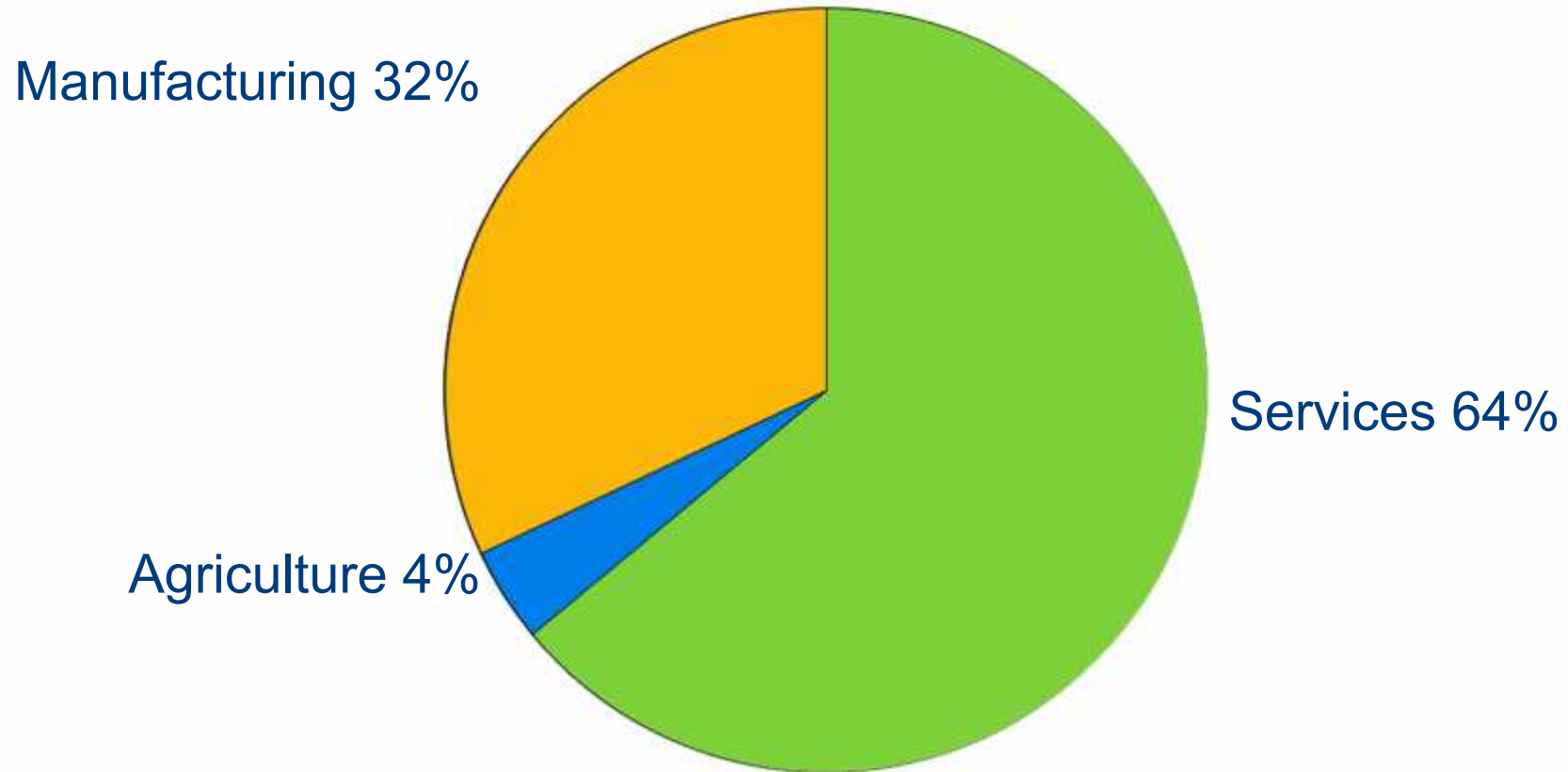
Why Study Services?

- Services dominate most economies and are growing rapidly:
 - Services account for more than **60% of GDP worldwide**
 - Almost all economies have a substantial service sector
 - Most **new employment** is provided by services
 - Strongest **growth area** for marketing

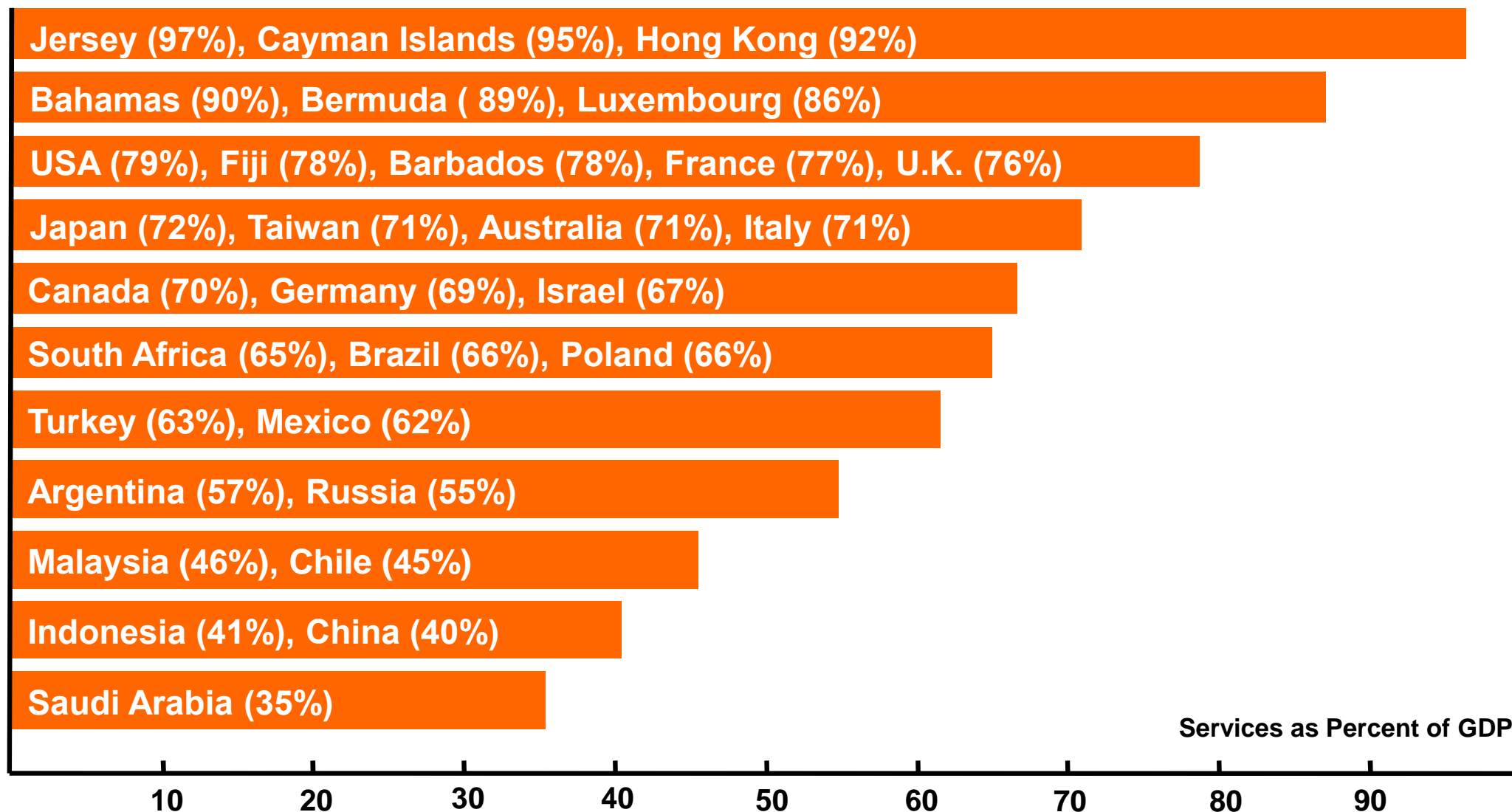
- Understanding services offers you a personal competitive advantage

Services Dominate the Global Economy

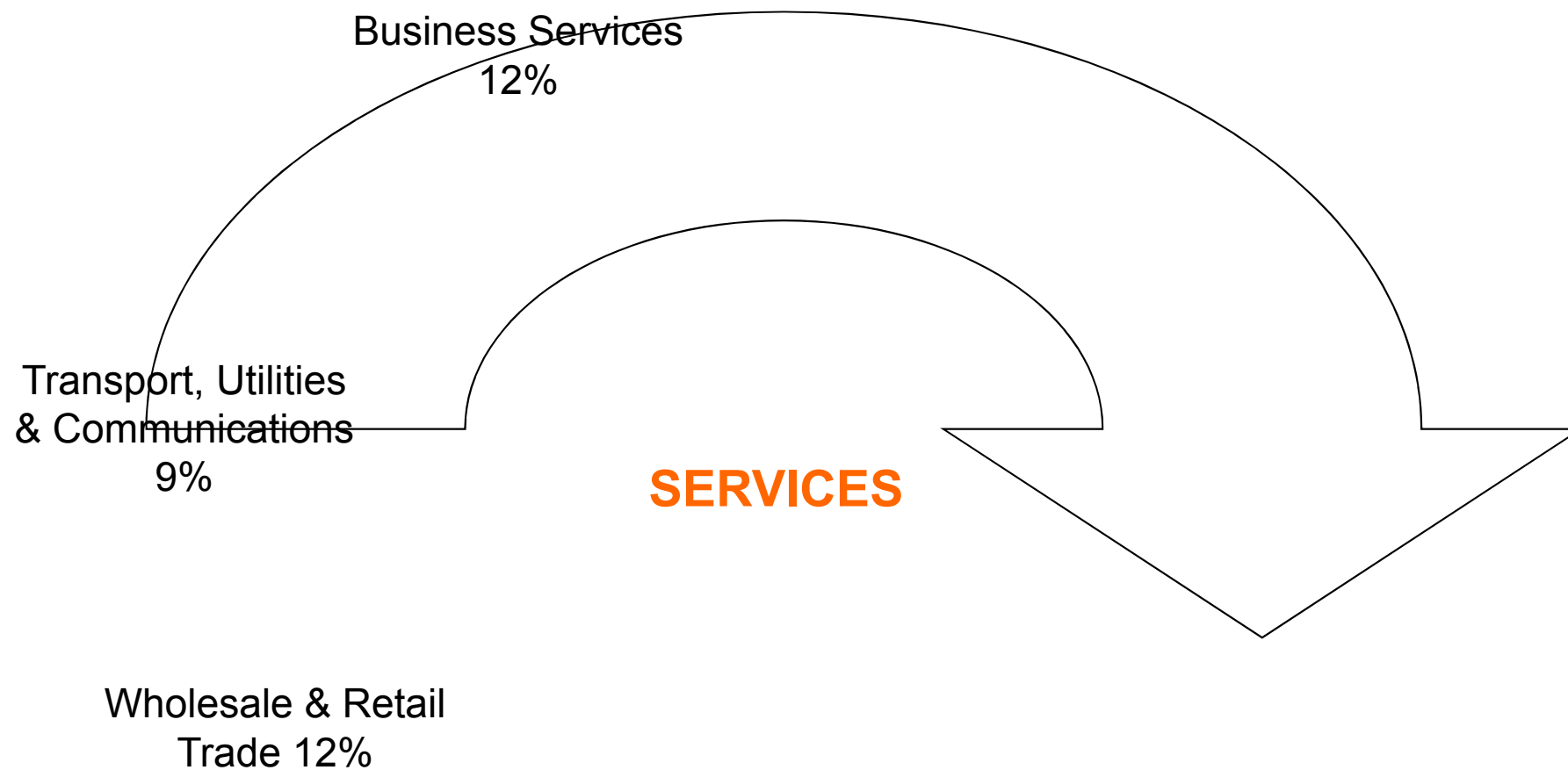
Contribution of Service Industries to GDP Globally



Estimated Size of Service Sector in Selected Countries



Value Added by Service Industry Categories to U.S. GDP



NAICS: New Way to Classify & Analyze the Service Economy

- **NAICS—North American Industry Classification System**
 - Classifies industries in the economic statistics of USA, Canada & Mexico
 - Replaces old SIC codes in USA
 - Captures huge array of new service industries, each with its own NAICS code
- **NAPCS—North American Product Classification System**
 - Assigns codes to thousands of service products
 - Particularly useful for looking at rented goods services

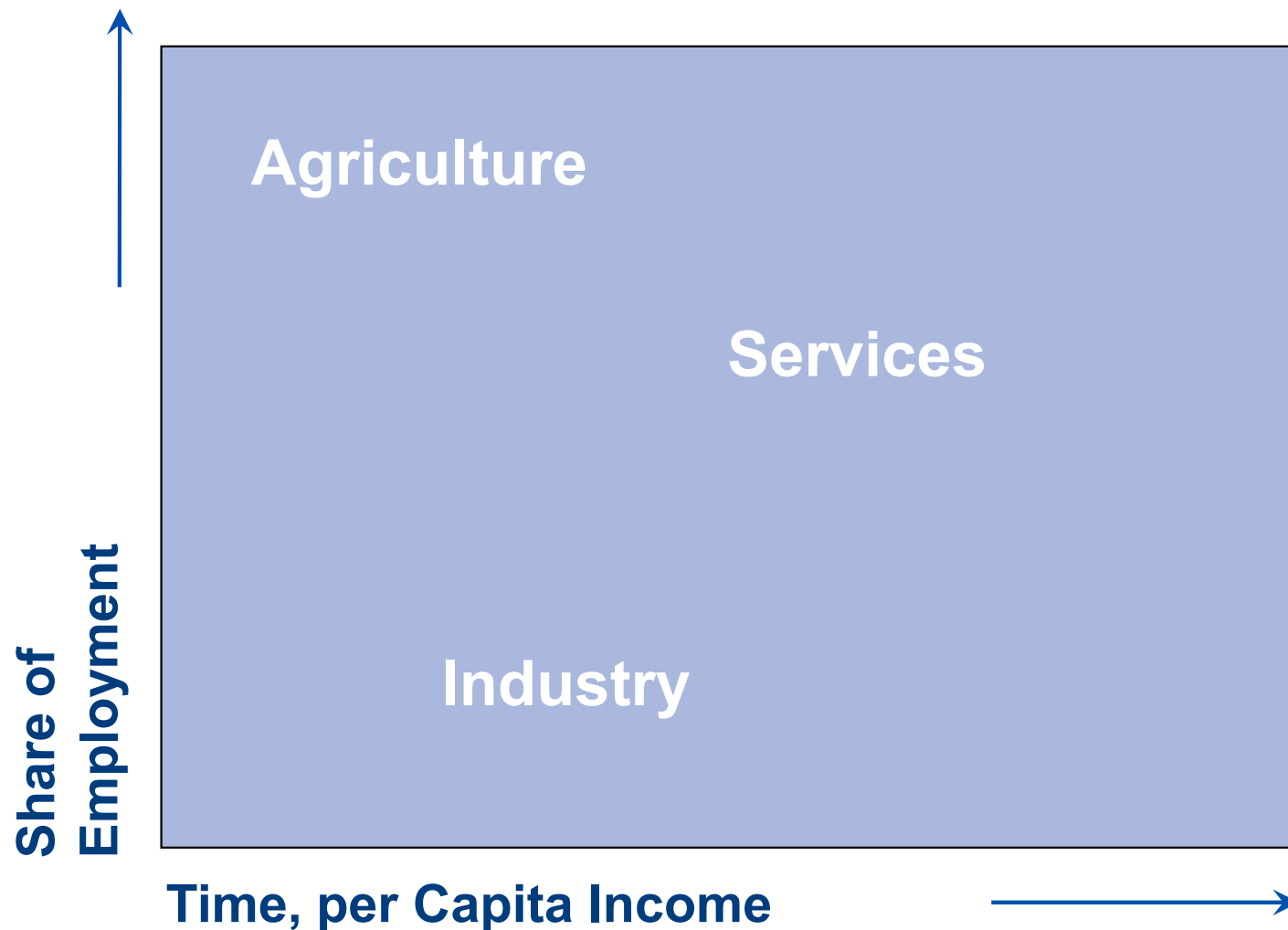
NAICS Codes of Newer Service Industries Not Profiled By SIC

- ❖ Casino Hotels
- ❖ Continuing Care Retirement Communities
- ❖ Diagnostic Imaging Centers
- ❖ Diet and Weight Reducing Centers
- ❖ Environmental Consulting
- ❖ Golf Courses, Country Clubs
- ❖ Hazardous Waste Collection
- ❖ HMO Medical Centers
- ❖ Industrial Design Services
- ❖ Investment Banking and Securities Dealing
- ❖ Management Consulting Services
- ❖ Satellite Telecommunications
- ❖ Telemarketing Bureaus
- ❖ Temporary Help Services

Why Study Services?

- Most new jobs are generated by services
 - Fastest growth expected in **knowledge-based** industries
 - Significant training and educational qualifications required, but employees will be **more highly compensated**
 - Will service jobs be lost to lower-cost countries? Yes, some **service jobs can be exported**

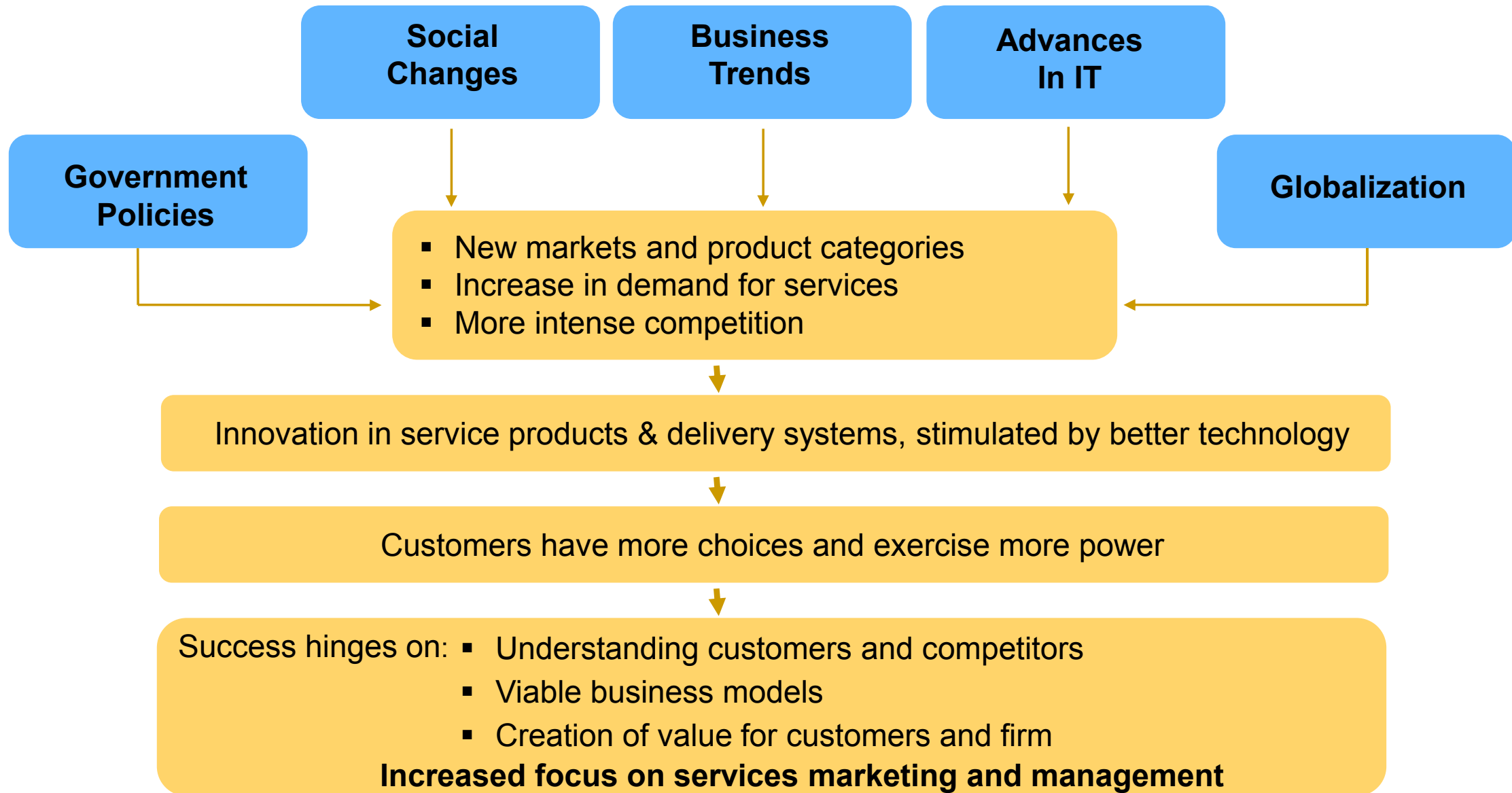
Changing Structure of Employment as Economies Develop



Why Study Services?

- Powerful forces are **transforming** service markets
 - Government policies, social changes, business trends, internationalization
 - advances in IT,
- Forces that reshape:
 - Demand
 - Supply
 - The competitive landscape
 - Customers' choices, power, and decision making

Transformation of the Service Economy



Factors Stimulating Transformation of the Service Economy

**Social
Changes**

**Business
Trends**

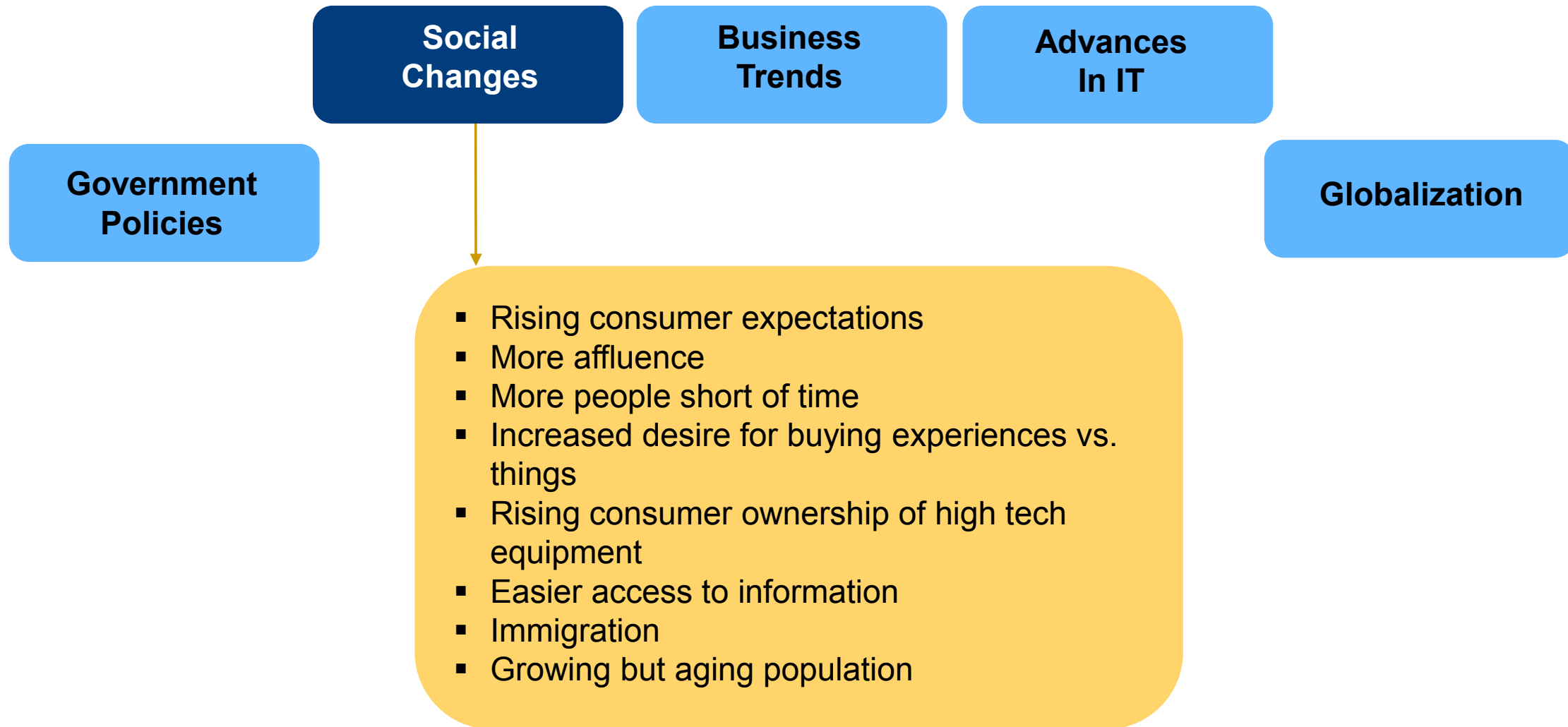
**Advances
In IT**

**Government
Policies**

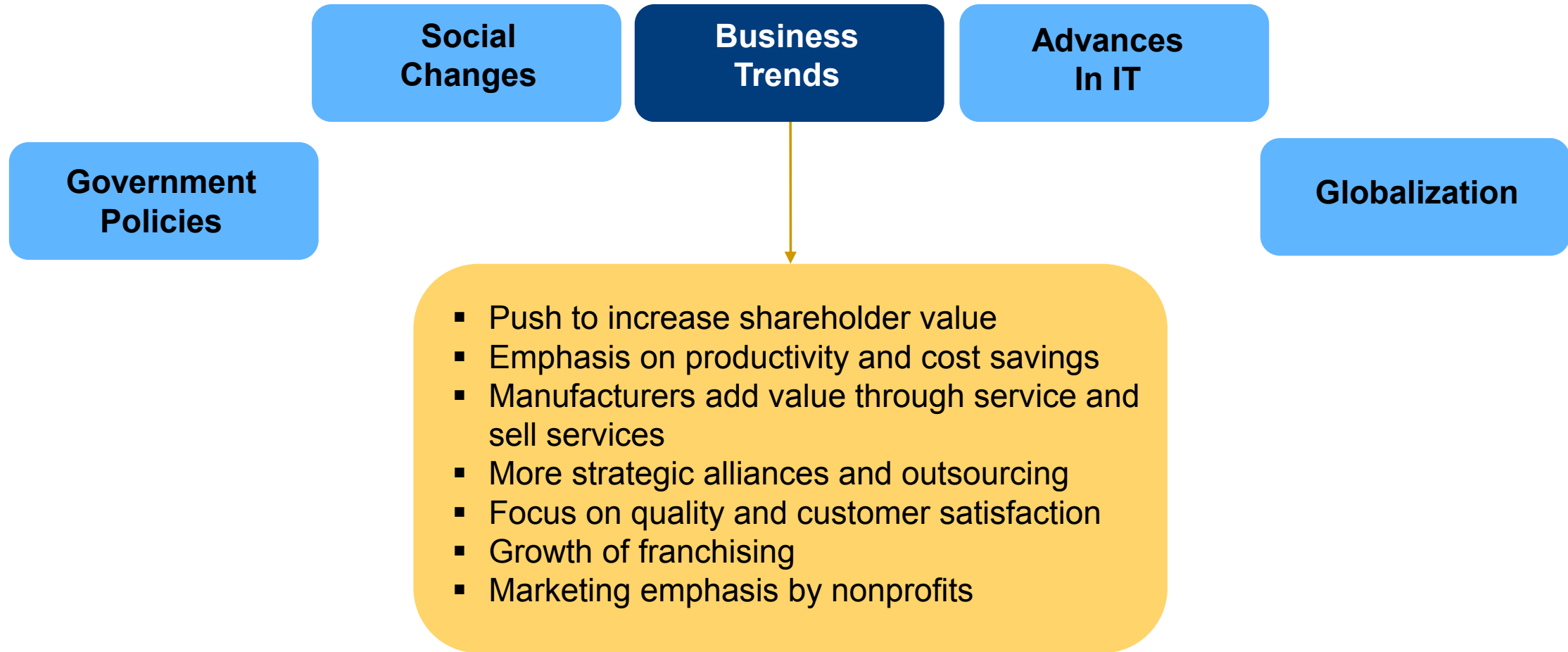
Globalization

- Changes in regulations
- Privatization
- New rules to protect customers, employees, and the environment
- New agreement on trade in services

Factors Stimulating Transformation of the Service Economy



Factors Stimulating Transformation of the Service Economy



Factors Stimulating Transformation of the Service Economy

Social Changes

Business Trends

Advances In IT

Government Policies

Globalization

- Growth of Internet
- Greater bandwidth
- Compact mobile equipment
- Wireless networking
- Faster, more powerful software
- Digitization of text, graphics, audio, video

Factors Stimulating Transformation of the Service Economy

Social Changes

Business Trends

Advances In IT

Government Policies

Globalization

- More companies operating on transnational basis
- Increased international travel
- International mergers and alliances
- “Offshoring” of customer service
- Foreign competitors invade domestic markets

What are Services?

What Are Services?

- The historical view
 - Smith (1776): Services are different from goods because they are **perishable**
 - Say (1803): As services are **immaterial**, consumption **cannot be separated** from production
- A fresh perspective: **Benefits without Ownership**
 - Rental of goods:
 - (a) Payment made for using or accessing something – usually for a defined period of time – instead of buying it outright and
 - (b) Allows participation in network systems that individuals and organizations could not afford

What Are Services?

Five broad categories within non-ownership framework of which two or more may be combined

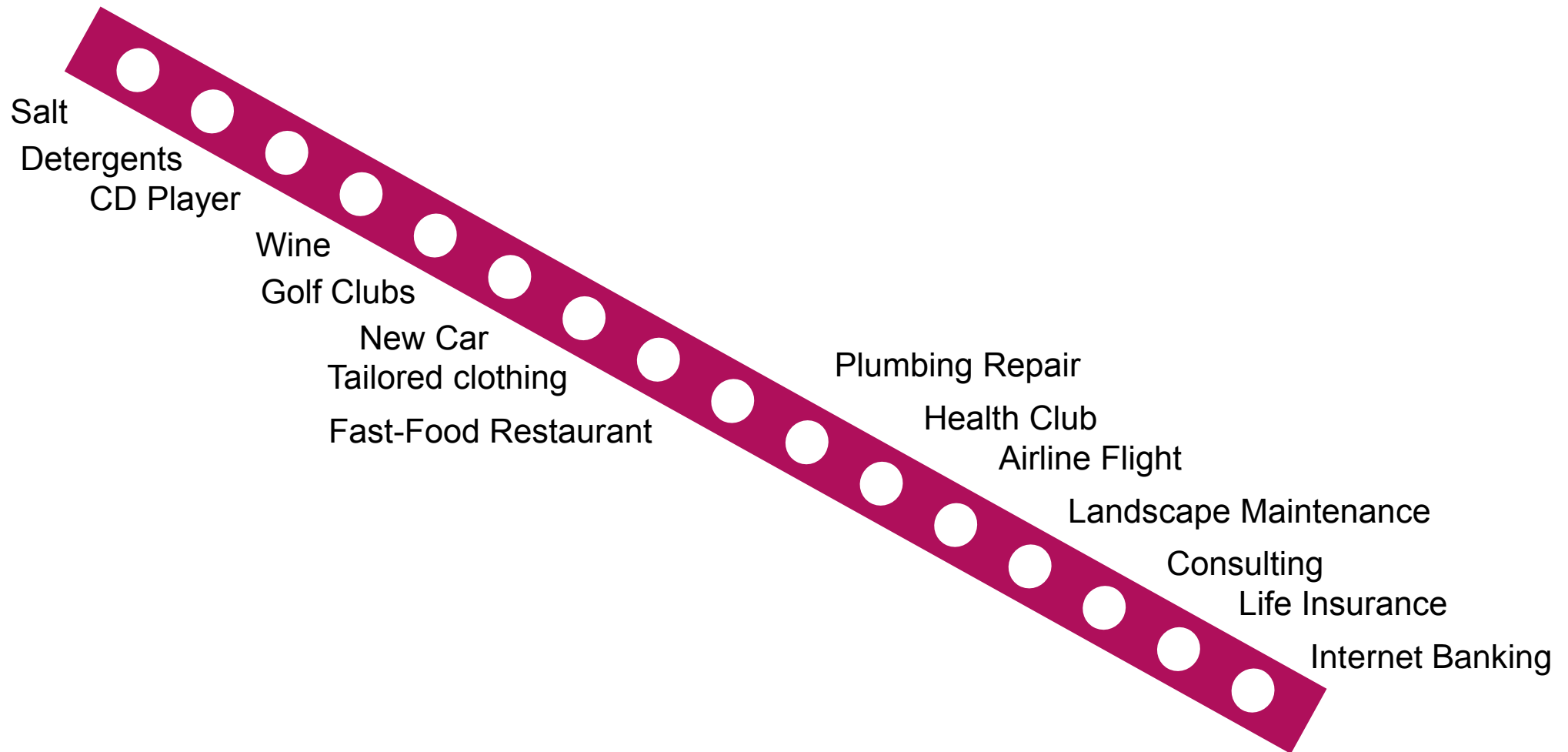
Definition of Services

- Services
 - are **economic activities** offered by one party to another
 - most commonly employ **time-based performances** to bring about desired results
- In exchange for their money, time, and effort, service customers expect to obtain value from
 - access to goods, labor, facilities, environments, professional skills, networks, and systems;
 - normally **do not take ownership** of any of the physical elements involved.

Value Creation is Dominated by Intangible Elements

Physical Elements

High



Low

Intangible Elements

High

Service Products vs. Customer Service & After-Sales Service

- A firm's market offerings are divided into core product elements and supplementary service elements
- Need to distinguish between:
 - Marketing **of** services – when service is the core product
 - Marketing **through** service – when good service increases the value of a core physical good
- Manufacturing firms are reformulating and enhancing existing added-value services to market them as stand-alone core products

Service – A Process Perspective

- Differences exist amongst services depending on what is being processed
- Classification of services into
 - People processing
 - Possession processing
 - Mental stimulus processing
 - Information processing

4 Categories of Services

	Who or What is the Direct Recipient of the Service?	
Nature of the Service Act	People	Possessions
Tangible Actions	People-processing (services directed at people's bodies): <ul style="list-style-type: none">• Barbers• Health care	Possession-processing (services directed at physical possessions): <ul style="list-style-type: none">• Refueling• Disposal / recycling
Intangible Actions	Mental stimulus processing (services directed at people's mind): <ul style="list-style-type: none">• Education• Advertising / PR	Information processing (services directed at intangible assets): <ul style="list-style-type: none">• Accounting• Banking

People Processing

- **Customers must:**

- physically enter the service factory

- cooperate actively with the service operation

- **Managers should think about process and output from the customer's perspective**

- to identify benefits created and non-financial costs: Time, mental and physical effort

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Possession Processing

- **Involvement is limited**
- **Less physical involvement**
- **Production and consumption are separable**

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Mental Stimulus Processing

- **Ethical standards required:**

- **Customers might be manipulated**

- **Physical presence of recipients not required**

- **Core content of services is information-based**

- **Can be ‘inventoried’**

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Information Processing

- Most **intangible form** of service

- May be transformed:

➔ Into enduring forms of service output

- Line between information processing and mental stimulus processing may be unclear

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Marketing Challenges Posed by Services

Services Pose Distinctive Marketing Challenges

- Marketing management tasks in the service sector differ from those in the manufacturing sector.
- Eight common differences between services and goods but they do not apply equally to all services

What are marketing implications of these differences?

Differences, Implications, and Marketing-Related Tasks

Difference

- **Most service products cannot be inventoried**
- **Intangible elements usually dominate value creation**
- **Services are often difficult to visualize & understand**
- **Customers may be involved in co-production**

Implications

- **Customers may be turned away**
- **Harder to evaluate service & distinguish from competitors**
- **Greater risk & uncertainty perceived**
- **Interaction between customer & provider; poor task execution could affect satisfaction**

Marketing-Related Tasks

- **Use pricing, promotion, reservations to smooth demand; work with ops to manage capacity**
- **Emphasize physical clues, employ metaphors and vivid images in advertising**
- **Educate customers on making good choices; offer guarantees**
- **Develop user-friendly equipment, facilities & systems; train customers, provide good support**

Differences, Implications, and Marketing-Related Tasks

Difference

- **People may be part of service experience**
- **Operational inputs and outputs tend to vary more widely**
- **Time factor often assumes great importance**
- **Distribution may take place through nonphysical channels**

Implications

- **Behavior of service personnel & customers can affect satisfaction**
- **Hard to maintain quality, consistency, reliability**
- **Difficult to shield customers from failures**
- **Time is money; customers want service at convenient times**
- **Electronic channels or voice communications**

Marketing-Related Tasks

- **Recruit, train employees to reinforce service concept**
- **Shape customer behavior**
- **Redesign for simplicity and failure proofing**
- **Institute good service recovery procedures**
- **Find ways to compete on speed of delivery; offer extended hours**
- **Create user-friendly, secure websites and free access by telephone**

Extended Marketing Mix for Services

Services Require An Extended Marketing Mix

- Marketing can be viewed as:
 - A strategic and competitive thrust pursued by top management
 - A set of functional activities performed by line managers
 - A customer-driven orientation for the entire organization
- Marketing is **only function** to bring operating revenues into a business; all other functions are cost centers
- The “**7 Ps**” of services marketing are needed to create viable **strategies for meeting customer needs profitably**

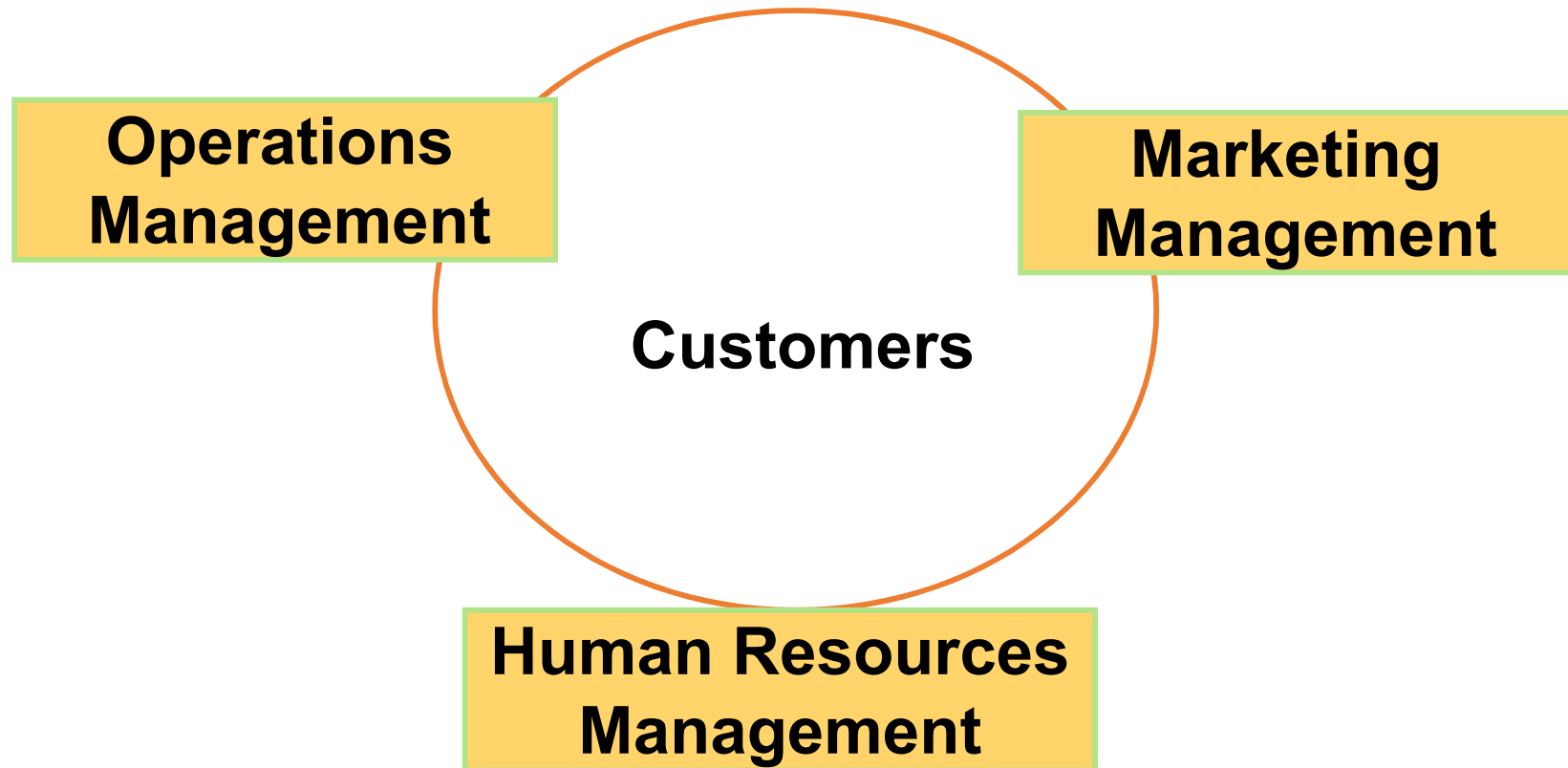
The 7Ps of Services Marketing

- Traditional Marketing Mix Applied to Services
 - Product (*Chapter 4*)
 - Place and Time (*Chapter 5*)
 - Price (*Chapter 6*)
 - Promotion and Education (*Chapter 7*)
- Extended Marketing Mix for Services
 - Process (*Chapter 8 & 9*)
 - Physical Environment (*Chapter 10*)
 - People (*Chapter 11*)

Integration of Marketing with Other Management Functions

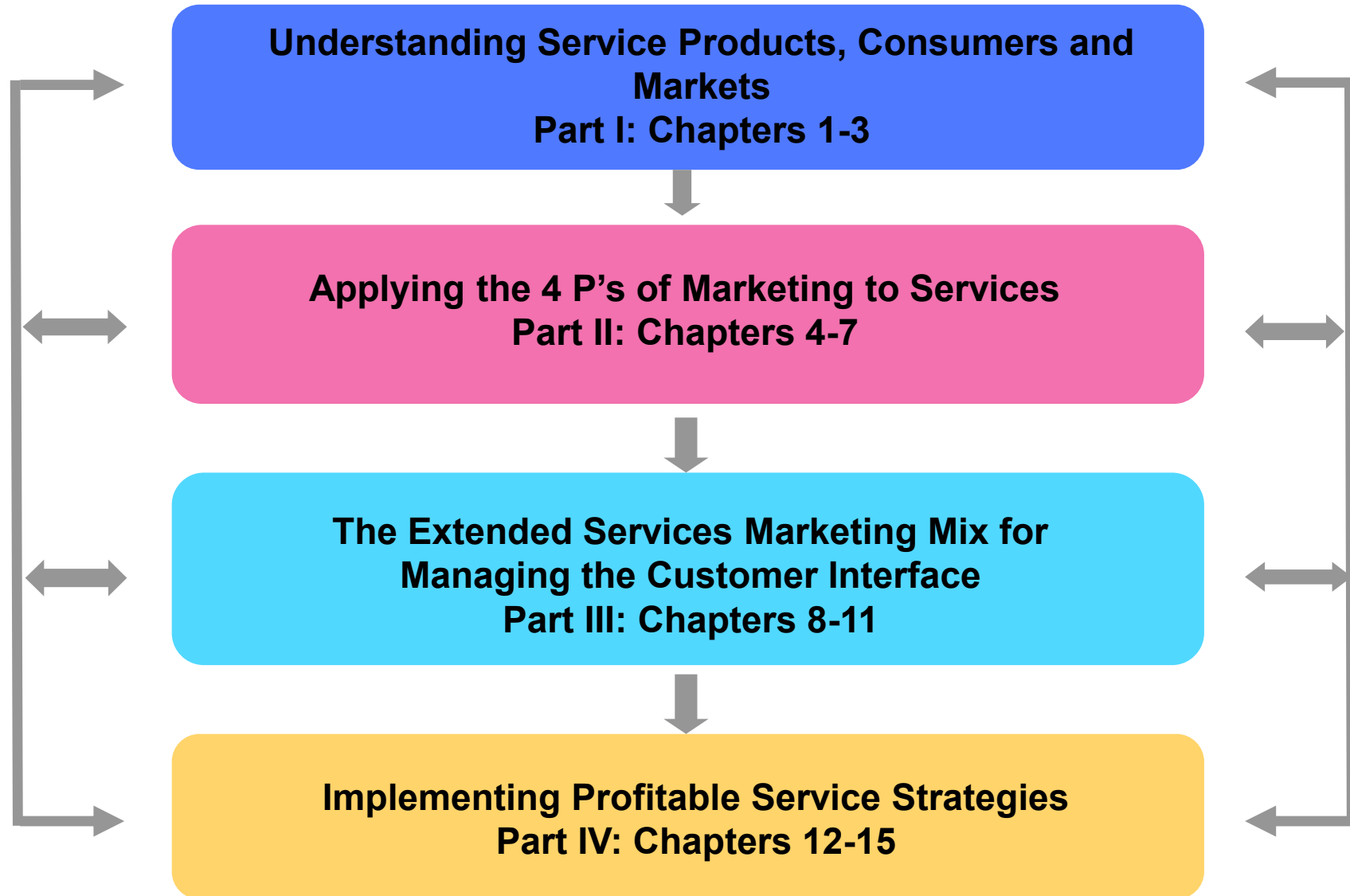
Marketing to be Integrated with Other Management Functions

Three management functions play central and interrelated roles in meeting needs of service customers



Developing Effective Service Marketing Strategies

Overview of Framework



Framework - Part I

Understanding Service Products, Consumers, and Markets

- | | |
|------------------|--|
| Chapter 1 | New Perspectives on Marketing in the Service Economy |
| Chapter 2 | Consumer Behavior in a Services Context |
| Chapter 3 | Positioning Services in Competitive Markets |

Framework - Part II

Applying the 4 P's of Marketing to Services

- | | |
|------------------|--|
| Chapter 4 | Developing Service Products: Core and Supplementary Elements |
| Chapter 5 | Distributing Services through Physical and Electronic Channels |
| Chapter 6 | Setting Prices and Implementing Revenue Management |
| Chapter 7 | Promoting Services and Educating Customers |

Framework - Part III

The Extended Services Marketing Mix for Managing the Customer Interface

- Chapter 8** Designing and Managing Service Processes
- Chapter 9** Balancing Demand and Productive Capacity
- Chapter 10** Crafting the Service Environment
- Chapter 11** Managing People for Service Advantage

Framework - Part IV

Implementing Profitable Service Strategies

- Chapter 12** Managing Relationships and Building Loyalty
- Chapter 13** Complaint Handling and Service Recovery
- Chapter 14** Improving Service Quality and Productivity
- Chapter 15** Striving for Service Leadership

Services dominate the economy in many nations. The majority of jobs are created in the service sector.

Why Study Services?

Unique Characteristics

Services are often intangible, difficult to visualize and understand, and customers may be involved in co-production.

Services are a form of rental (not ownership). They are performances that bring about a desired result.

What are Services?

Extended Marketing Mix

Product, Place & Time, Price, Promotion & Education, Process, Physical Environment, People