

# Chapter

# 1

## Introduction to Services

### THIS CHAPTER'S OBJECTIVES ARE TO

- ➔ 1. Explain what services are and identify important trends in services.
- ➔ 2. Explain the need for special services marketing concepts and practices and why the need has developed and is accelerating.
- ➔ 3. Explore the profound impact of technology on service.
- ➔ 4. Outline the basic differences between goods and services and the resulting challenges and opportunities for service businesses.
- ➔ 5. Introduce the expanded marketing mix for services and the philosophy of customer focus, as powerful frameworks and themes that are fundamental to the rest of the text.

### NEW WAVE OF SERVICES: IBM TRANSFORMS INTO A SERVICES POWERHOUSE

IBM ([www.ibm.ca](http://www.ibm.ca)) has transformed itself into a service provider. Like many businesses that were once viewed as manufacturing giants, IBM is shifting its focus. Back in 2001, Louis Gerstner, IBM's former CEO, predicted that soon "hardware and software will be sold inside a services wrapper." A headline in *eWeek* in early 2005 confirmed his prediction, proclaiming that IBM now sells services first, boxes second.

In a company brochure, IBM states that it is the largest *service* business in the world. Through its Global Services Canada division, IBM offers

product support services, professional consulting services, and network computing services around the world. Many businesses have outsourced entire service functions to IBM. IBM Canada has won major multiyear service contracts with Scotiabank (worth about \$900 million), TD Bank Financial Group (\$720 million), and National Bank (\$200 million). Although service are less lucrative than its other lines—operating margins are about 25 percent, as against 31 percent in hardware and a heady 87 percent in software—only services are capable of delivering the growth the company wants.

Going forward, IBM's strategy is to focus on total solutions and to be a truly valued, trusted, and indispensable partner for its key clients. This strategy means providing clients with total service solutions in such wide-ranging areas as human resources, marketing, product design, and customer relationship management.

No one in IBM would suggest that these positive results have been easily achieved. Switching from a manufacturing to a service and customer focus requires changes in management mindset, culture, and the way people work and are rewarded, and requires finding new ways of implementing customer solutions. At IBM this change has evolved over decades. It is suggested that Lou Gerstner's legacy at IBM may well be the definitive switch that the company has made from hardware to services and the strategic focus on customers.

Many of IBM's competitors have viewed the company's success and are attempting to make the same transformation. Underscoring its own commitment to the service sector, Hewlett-Packard recently signed a seven-year \$2 billion outsourcing contract with CIBC. The agreement, at the time, was the largest in HP's history. Switching to services is not as easy as it looks, though. In moving into services, companies discover what service businesses such as hospitality, consulting, health care, financial services, and telecommunications have known for years: services marketing and management are different—not totally unique, but different. Selling and delivering a computer is not the same as selling and delivering a service that solves a customer's problem.<sup>1</sup>

Source: IBM. The IBM logo is a registered trademark of IBM in the United States and other countries and is used under license.



As the opening vignette suggests, services are not limited to service industries, services can be very profitable, and services are challenging to manage and market. Services represent a huge and growing percentage of the world economy; yet customer perceptions of service are not good.<sup>2</sup> Given the economic growth in services, their profit and competitive advantage potential, and the overall decline in customer satisfaction with services, it seems that the potential and opportunities for companies who can excel in services marketing, management, and delivery have never been greater.

This text will give you a lens with which to approach the marketing and management of services. What you learn can be applied in a company like IBM with a traditional manufacturing history or in pure service businesses. You will learn tools, strategies, and approaches for developing and delivering profitable services that can provide competitive advantage to firms. At the base of services marketing and management you will find a strong customer focus that extends across all functions of the firm—hence the subtitle of this book, “Integrating Customer Focus Across the Firm.”

## ➔ WHAT ARE SERVICES?

---

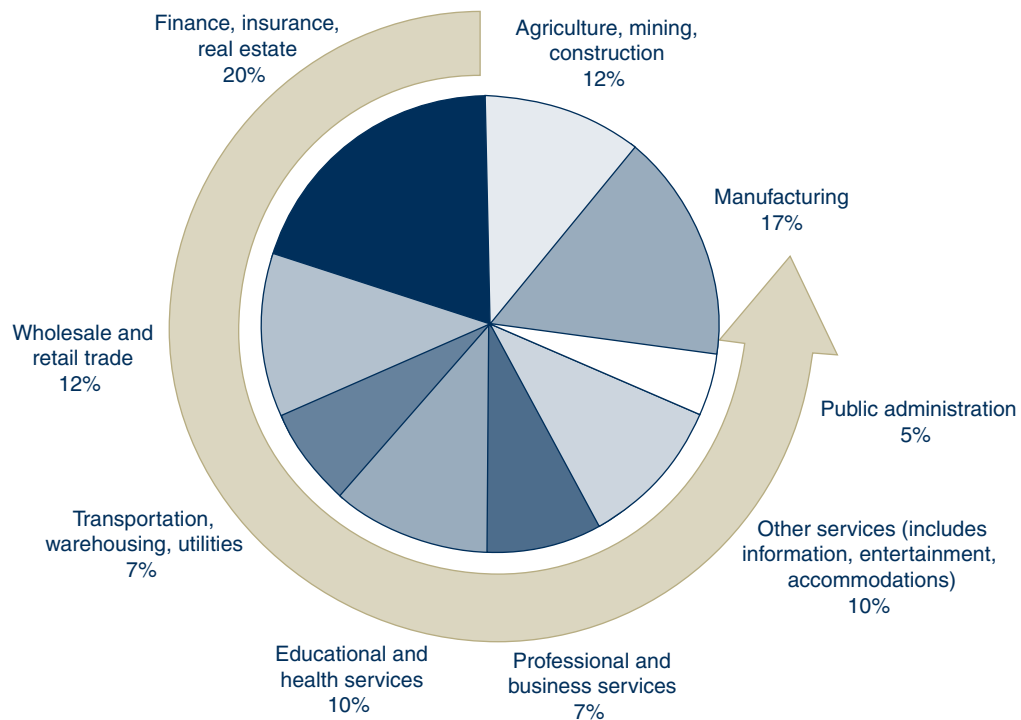
Put in the most simple terms, *services are deeds, processes, and performances*. Our opening vignette illustrates what is meant by this definition. The services offered by IBM are not tangible things that can be touched, seen, and felt, but rather are intangible deeds and performances. To be concrete, IBM offers repair and maintenance service for its equipment, consulting services for IT and e-commerce applications, training services, Web design and hosting, and other services. For the most part, the entire service is represented to the client through problem analysis activities, meetings with the client, follow-up calls, and reporting—a series of deeds, processes, and performances. Similarly, the core offerings of hospitals, hotels, banks, and utilities comprise primarily deeds and actions performed for customers.

Services include “all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort, or health) that are essentially intangible concerns of its first purchaser.”<sup>3</sup> The breadth of industries making up the service sector of the Canadian economy is illustrated in Figure 1.1.

### Service Industries, Services as Products, Customer Service, and Derived Service

As we begin our discussion of services marketing and management, it is important to draw distinctions between *service industries and companies*, *services as products*, *customer service*, and *derived service*. Sometimes when people think of service, they think only of customer service, but service can be divided into four distinct categories. The tools and strategies you will learn in this text can be applied to any of these categories.

**Service industries and companies** include those industries and companies typically classified within the service sector whose core product is a service. All of the following companies and organizations can be considered pure service companies: Marriott International (lodging), WestJet (transportation), Sun Life Financial (financial services), Athabasca University (education). The total services sector comprises a wide range of service industries, as suggested by Figure 1.1. Companies in these industries sell services as their core offering.

**FIGURE 1.1** Contributions of Service Industries to Canadian Gross Domestic Product, 2004

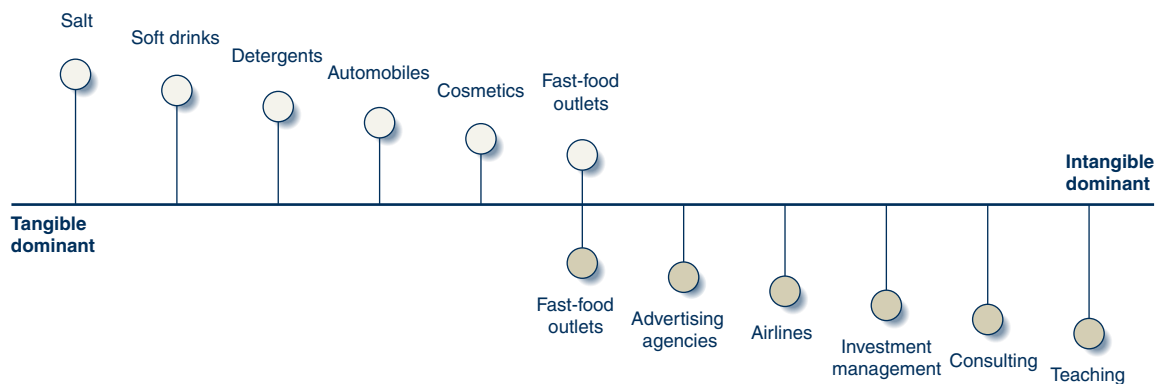
Source: Adapted from Statistics Canada website: [www.statcan.ca](http://www.statcan.ca). Accessed August 8, 2006.

**Services as products** represent a wide range of intangible product offerings that customers value and pay for in the marketplace. Service products are sold by service companies and by nonservice companies such as manufacturers and technology companies. For example, IBM and Hewlett-Packard offer information technology consulting services to the marketplace, competing with firms such as EDS and Accenture, which are traditional pure service firms. Other industry examples include department stores, like Chapters, that sell services such as gift wrapping and shipping, and pet stores, like Petcetera, that sell pet grooming and photography and training services.

**Customer service** is also a critical aspect of what we mean by “service.” Customer service is the service provided in support of a company’s core products. Companies typically do not charge for customer service. Customer service can occur onsite (as when a retail employee helps a customer find a desired item or answers a question), or it can occur over the phone or via the Internet. Many companies operate customer service call centres, often staffed around the clock. Quality customer service is essential to building customer relationships. It should not, however, be confused with the services provided for sale by the company.

**Derived service** is yet another way to look at what service means. In a recent article in the *Journal of Marketing*, Steve Vargo and Bob Lusch argue for a new dominant logic for marketing that suggests that all products and physical goods are valued for the services they provide.<sup>4</sup> Drawing on the work of respected economists, marketers, and philosophers, the two authors suggest that the value derived from physical goods is really the service provided by the good, not the good itself. For

FIGURE 1.2 Tangibility Spectrum



Source: G. Lynn Shostack, "Breaking Free from Product Marketing," *Journal of Marketing* 41 (April 1977), pp. 73–80. Reprinted with permission of the American Marketing Association.

example, they suggest that a pharmaceutical provides medical services, a razor provides barbering services, and computers provide information and data manipulation services. Although this view is somewhat abstract, it suggests that in the future we may think even more broadly about services than we currently do.

### Tangibility Spectrum

The broad definition of services implies that intangibility is a key determinant of whether an offering is a service. Although this is true, it is also true that very few products are purely intangible or totally tangible. Instead, services tend to be *more intangible* than manufactured products, and manufactured products tend to be *more tangible* than services. For example, the fast-food industry, while classified as a service, also has many tangible components such as the food, the packaging, and so on. Automobiles, while classified within the manufacturing sector, also supply many intangibles, such as transportation. The tangibility spectrum shown in Figure 1.2 captures this idea. Throughout this text, when we refer to services we will be assuming the broad definition of services and acknowledging that there are very few "pure services" or "pure goods." The issues and approaches we discuss are directed toward those offerings that lie on the right side, the intangible side, of the spectrum shown in this figure.

## ➔ WHY SERVICES MARKETING?

Why is it important to learn about services marketing, service quality, and service management? What are the differences in services versus manufactured-goods marketing that have led to the demand for books and courses on services? Many forces have led to the growth of services marketing, and many industries, companies, and individuals have defined the scope of the concepts, frameworks, and strategies that define the field. The field of services marketing and management has evolved as a result of these combined forces.

## Service-Based Economies

First, services marketing concepts and strategies have developed in response to the growth of service industries and their increased importance to Canadian and other world economies. Although Canada has traditionally been viewed as a production-based economy that relies heavily on natural resources processing, our service sector is far more substantial than many may think, and it has recently been increasing in importance. Today, service industries in Canada account for almost 75 percent of our country's output and employment, having increased from a 50 percent share of each in the 1960s, and are attracting significantly more research and development dollars.<sup>5</sup>

Another indicator of the economic importance of services is that trade in services is growing worldwide and Canada's share of international share of service trade is increasing accordingly. The United States is the world's largest exporter of services and Canada's largest services trading partner as well. While, in contrast to the U.S., which generates a large trade surplus in services, Canada generates slight deficits, we are still the 12th-largest service exporter worldwide and our export rates have been increasing steadily since the 1980s.<sup>6</sup> And Canadian-based services available internationally may be more important still; many of our services are sold and delivered by affiliates based in foreign countries that are not accounted for in the trade balance calculation.

Finally, there is an increasing dominance of services in economies worldwide, as Table 1.1 indicates. The tremendous growth and economic contributions of the service sector have drawn increasing attention to the issues and challenges of service sector industries worldwide.

## Service as a Business Imperative in Manufacturing and IT

Early in the development of the field of services marketing and management, most of the impetus came from service industries such as banking, transportation, and health care. As these traditional service industries evolve and become more competitive, the need for effective services management and marketing strategies continues. Now, however, manufacturing and technology industries such as automobiles, computers, and software are also recognizing the need to provide quality service and revenue-producing services in order to compete worldwide.

**TABLE 1.1**

**Service Sector  
Contribution to  
Selected Economies  
Worldwide**

**Source:** Central Intelligence Agency, *The World Factbook 2004*, available [www.umsl.edu/services/govdocs/wofact2004/index.html](http://www.umsl.edu/services/govdocs/wofact2004/index.html), accessed September 14, 2006.

Country	Percent of GDP Attributed to Services
Bahamas	90
United States	79
Japan	74
United Kingdom	73
France	73
Canada	71
Sweden	69
Australia	68
Germany	68
Singapore	67
Brazil	51
India	48
China	33

From IBM and HP to President's Choice Financial, and General Motors, companies are recognizing the opportunity to grow and profit through services.<sup>7</sup> Why? Because the quick pace of developing technologies and increasing competition make it difficult to gain strategic competitive advantage through physical products alone. Plus, customers are more demanding. Not only do they expect excellent, high-quality goods and technology, they also expect high levels of customer service and total service solutions along with them.

At GE the services strategy began in the mid-1990s under then-CEO Jack Welch when he launched what has been termed the "third revolution." A major thrust of the third revolution was to push GE's growth strategies even deeper into services such as aftermarket services, financial services, broadcasting, management consulting, and other services as far afield as health care and utilities. GE now generates more than 75 percent of its revenues from services.<sup>8</sup> At General Motors, the services strategy is absolutely critical. Since 2002, GM has *lost* US\$5.2 billion manufacturing vehicles but *earned* US\$9.8 billion selling loans, insurance, and (even) mortgages. As noted by the *Globe and Mail*, during that time the Bank of GM made more money than the Bank of Nova Scotia!

Besides differentiating themselves with financial services such as GMAC Automotive, Insurance, and Mortgages, full-featured online banking, and educational loans, GM offers their On-Star in-vehicle safety and security system.<sup>9</sup> (See Figure 1.3.) Visit GM's website for a tour of its varied services ([www.gm.com/company/financial\\_svc](http://www.gm.com/company/financial_svc)).

As manufacturers such as GM and IT companies such as IBM (see the opening vignette) transition to become services organizations, the need for special concepts and approaches for managing and marketing services is increasingly apparent.<sup>10</sup>

## Deregulated Industries and Professional Service Needs

Specific demand for services marketing concepts has come from deregulating industries and professional services as both these groups have gone through rapid changes in the ways they do business. Over the past several decades, many very large service industries have been deregulated. While this is more pronounced in the United States than in Canada, the impacts are international. At the time of the publication of this book, major uncertainty existed in Canada related to possible bank mergers, CRTC reviews of digital services, and a whole spectrum of possible regulatory changes regarding telecommunications. Deregulation typically means that marketing decisions once made by the government are now partially or totally controlled by the industry.

Providers of professional services (such as physicians, lawyers, accountants, engineers, and architects) have also demanded new concepts and approaches for their businesses as these industries have become increasingly competitive and as professional standards have been modified to allow advertising. Whereas traditionally the professions avoided even using the word *marketing*, they are now seeking better ways to understand and segment their customers, to ensure the delivery of quality services, and to strengthen their positions amid a growing number of competitors.

## Services Marketing Is Different

As the forces described above coincided and evolved, businesspeople realized that marketing and managing services presented issues and challenges not faced in manufacturing and packaged goods companies. These differences and challenges were captured in a series of interviews by management consultant Gary Knisely in 1979.<sup>11</sup> For example, when a firm's core offering is a deed performed by an employee (such

FIGURE 1.3

Services such as OnStar are critical to GM's future success.

Source: Reprinted with permission of OnStar magazine.



as engineering consulting), how can the firm ensure consistent product quality to the marketplace? As service businesses began to turn to marketing and decided to hire marketing people, they naturally recruited from the best marketers in the world—Procter & Gamble, General Foods, Kodak. People who moved from marketing in packaged goods industries to marketing in health care, banking, and other service industries found that their skills and experiences were not directly transferable. They faced issues and dilemmas in marketing services that their experiences in packaged goods and manufacturing had not prepared them for. These people realized the need for new concepts and approaches for marketing and managing service businesses.

### Service Equals Profits

A dedication to quality service has been the foundation for success for many firms, across industries. In his book *Discovering the Soul of Service*, Leonard Berry describes in detail 14 such companies.<sup>12</sup> The companies featured in his book had been in business an average of 31 years in 1999 when the book was written. These companies had been profitable in all but five of their combined 407 years of existence due to nine common service themes, among them values-driven leadership, commitment to investments in employee success, and trust-based relationships with customers and other partners at the foundation of the organization.

Researchers are building a convincing case that service strategies, implemented appropriately, can be very profitable. Work sponsored by the Marketing Science Institute



suggests that corporate strategies focused on customer satisfaction, revenue generation, and service quality may actually be more profitable than strategies focused on cost cutting or strategies that attempt to do both simultaneously.<sup>13</sup> Research out of the Harvard Business School builds a case for the “service–profit chain,” linking internal service and employee satisfaction to customer value and ultimately to profits.<sup>14</sup> And considerable research shows linkages from customer satisfaction (often driven by service outcomes) to profits.<sup>15</sup> From the University of Michigan American Customer Satisfaction Index (ACSI) even comes data suggesting that customer satisfaction is directly linked to shareholder value. Firms in the top 50 percent of the ACSI rankings show significantly higher shareholder value than firms in the bottom 50 percent.<sup>16</sup> Finally, research from Canada’s National Quality Institute (NQI) found that from 1990 to 2005, CAE winners achieved a 143.1 increase in shareholder value. This is in contrast to an overall gain of 88.1 for the TSE 300 index.<sup>17</sup>

An important key to these successes is that the right strategies are chosen and that these strategies are implemented appropriately and well. Much of what you learn from this text will guide you in making such correct choices and in providing superior implementation. Throughout the text we will point out the profit implications and tradeoffs to be made with service strategies. In Chapter 18 we will come back to this issue by providing integrated coverage of the financial and profit impact of service.

### But “Service Stinks”

Despite the importance of service and the bottom-line profit potential for service, consumers perceive that overall the quality of service is declining.<sup>18</sup> We see *BusinessWeek* magazine blatantly condemning service in its cover story “Why Service Stinks.”<sup>19</sup> And although there are exceptions in every industry, American Customer Satisfaction Index (ACSI) scores for service industries are generally lower than the average for all industries. Particularly low are ACSI scores in the transportation, communications, and utilities sectors. For example, whereas the national ACSI average across all industries has risen to 74.4, cable and satellite television and the wireless telecommunication industries overall receive ratings in the low-to-mid-60s, and most airlines score in the mid-60s.<sup>20</sup>

Halifax-based author Laura Penny, in her book *Your Call Is Important to Us: The Truth About Bullshit*, expresses the mood well: “If my call is so important, why isn’t anyone answering the damn phone?”<sup>21</sup>

This condemnation of service is troubling when, at some level, service has never been better. For example, think of just one industry—health care. The ability to prevent and treat diseases has never been greater, resulting in an ever-increasing life expectancy in most industrialized countries. So clearly, in some ways and in many industries, services are better than ever.

Despite these obvious improvements, there is hard evidence that consumers perceive a lower quality of service overall and are less satisfied. There are many theories as to why this decline in customer satisfaction with services has occurred. Plausible theories include:

- With more companies offering tiered service based on the calculated profitability of different market segments, many customers are in fact getting less service than they have in the past.
- Increasing use by companies of self-service and technology-based service is perceived as less service, because no human interaction or human personalization is provided.

- Technology-based services (automated voice systems, Internet-based services, technology kiosks) are hard to implement, with many failures and with poorly designed systems in place.
- Customer expectations are higher because of the excellent service they receive from some companies. Thus, they expect the same from all and are frequently disappointed.
- Organizations have cut costs to the extent that they are too lean and too understaffed to provide quality service.
- The competitive job market results in less-skilled people working in front-line service jobs; talented workers soon get promoted or leave for better opportunities.
- Many companies give lip service to customer focus and service quality, but they fail to provide the training, compensation, and support needed to actually deliver quality service.
- Delivering consistent, high-quality service is not easy, yet many companies promise it.

For managers, students, and teachers of services marketing and management, the message is clear: services can be profitable, and yet overall quality perceptions and customer satisfaction are declining. In this text we will provide many examples of best practices—companies that understand how to get it right and are succeeding with service. We will also delineate many tools, concepts, and strategies that can help to reverse the “service stinks” mindset.

## ➔ SERVICE AND TECHNOLOGY

---

The preceding sections examined the roots of services marketing and the reasons why the field exists. Another major trend—technology, specifically information technology—is currently shaping the field and profoundly influencing the practice of services marketing. In this section we explore trends in technology (positive *and* negative) to set the stage for topics that will be discussed throughout this text. In each chapter you will find a Technology Spotlight box that highlights the influence of technology on issues related to the particular chapter. We will also raise technology and service issues as appropriate throughout the general discussion in the text and have included several cases that explore the opportunities and challenges of services and technology. Together with globalization, the influence of technology is the most profound trend affecting services marketing today.

### Potential for New Service Offerings

Looking to the recent past, it is apparent how technology has been the basic force behind service innovations now taken for granted. Automated voice mail, interactive voice response systems, fax machines, ATMs, and other common services were possible only because of new technologies. Just think how dramatically different your world would be without these basic technology services.

More recently, people have seen the explosion of the Internet, resulting in a host of new services. Internet-based companies like Amazon.ca and eBay offer services previously unheard of. And established companies find that the Internet provides a way to offer new services as well.<sup>22</sup> For example, the *Globe and Mail* offers an interactive version

called *Insider Edition* that allows customers to organize the newspaper's content to suit their individual preferences.

Many new technology services are on the horizon. For example, some researchers project that the "connected car" will allow people to access all kinds of existing and new services while on the road. Already many cars are equipped with map and routing software that direct drivers to specific locations. In the future, in-car systems may provide recommendations for shopping by informing drivers when they are within a certain number of kilometres of their preferred retailer. On a road trip, the system may provide weather forecasts and warnings, and when it is time to stop for the night, the car's system might book a room at a nearby hotel, recommend a restaurant, and make dinner reservations.<sup>23</sup>

### New Ways to Deliver Service

In addition to providing opportunities for new service offerings, technology is providing vehicles for delivering existing services in more accessible, convenient, productive ways. Technology facilitates basic customer service functions (bill paying, questions, chequing account records, tracking orders), transactions (both retail and business-to-business), and learning or information seeking. Our Technology Spotlight traces how, through history, evolving technologies have changed customer service forever. Companies have moved from face-to-face service to telephone-based service to widespread use of interactive voice response systems to Internet-based customer service and now wireless service. Interestingly, many companies are coming full circle and now offer human contact as the ultimate form of customer service.

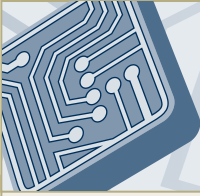
Technology also facilitates transactions by offering a direct vehicle for making purchases. Technology giant Cisco Systems offers virtually all its customer service and ordering functions to its business customers via technology. Over 90 percent of its transactions with customers are completed online. On the consumer side, online shopping and transactions have already revolutionized the music and book businesses. Predictions suggest that online ordering will also rewrite the rules for purchasing jewellery, real estate, hotel rooms, and software.

Finally, technology, specifically the Internet, provides an easy way for customers to learn and research. Access to information has never been easier. For example, over 20,000 websites currently offer health-related information. Many provide answers to specific disease, drug, and treatment questions.<sup>24</sup>

### Enabling Both Customers and Employees

Technology enables both customers and employees to be more effective in getting and providing service.<sup>25</sup> Through self-service technologies, customers can serve themselves more effectively. Via online banking, customers can access their accounts, check balances, apply for loans, shift money among accounts, and take care of just about any banking need they might have—all without the assistance of the bank's employees. All of Canada's financial institutions have moved increasing amounts of their business online. These services are just one example of the types of self-service technologies that are proliferating across industries.

For employees, technology can provide tremendous support in making them more effective and efficient in delivering service. Customer relationship management and sales support software are broad categories of technology that can aid front-line employees in providing better service. By having immediate access to information about their product and service offerings as well as about particular customers, employees



# Technology Spotlight

## *The Changing Face of Customer Service*

Excellent customer service—the daily, ongoing support of a company’s offerings—is critical in creating brand identity and ultimate success. It includes answering questions, taking orders, dealing with billing issues, handling complaints, scheduling appointments, and similar activities. These essential functions can make or break an organization’s relationships with its customers. The quality of customer care can significantly impact brand identity for service, manufacturing, and consumer products companies. Because of its importance in creating impressions and sustaining customer relationships, customer service has sometimes been called the “front door” of the organization or its “face.”

So how has the “face” of customer service changed with the influx of technology? Long ago all customer service was provided face-to-face through direct personal interaction between employees and customers. The telephone changed this, allowing customers to call companies and speak directly with employees. Customer service became less personal, but without a doubt more efficient. With the evolution of computer technology, customer service representatives (CSRs) became even more efficient. Through computer information systems and customer data files, CSRs are able to call up customer records at their workstations to answer questions on the spot.

Over time, because communication and computer technologies allowed it, large organizations began to centralize their customer service functions, consolidating into a few large call centres that could be located anywhere in the world. For example, a large percentage of IBM’s customer service calls in North America are handled out of its sales and service centre in Toronto, 24 hours a day. But still, in these types of call centres, customer service is for the most part an interpersonal event with customers talking directly, one-on-one with an employee.

The advent and rapid proliferation of the efficient, but much-maligned, automated voice response systems have changed personal customer service in many organizations into menu-driven, automated exchanges. In almost every industry, consumers encounter these types of systems, and many are quite frustrating—for example, when a system has a long, confusing set of

menu options or when no menu option seems to fit the purpose of the call. Similarly, consumers become angry when they cannot get out of the system easily, or when there is no option to speak to a live person.

Some companies have overcome these obstacles, however, and have well-designed automated telephone systems that work well for customers. For instance, Rogers has recently redesigned their Customer Service Phone Line on the basis of customer feedback. The new system is available 24 hours a day, is easier to navigate, and allows callers to connect with a human when necessary. At Charles Schwab, the vice-president of retail voice technology occupies a senior management position, thereby communicating the importance of this function throughout the company. This may be partly why their customer satisfaction is rated among the highest in any industry.

Beyond automated telecom systems, the explosion of the Internet is also dramatically changing customer service for many companies. Service can now be provided on the Internet via email, website robots, FAQs, and online chats. In these cases there is no direct human interaction, and customers actually perform their own service. Ford Motor Company’s dealership customers can set their own service appointments, send messages regarding their specific repair needs, and monitor the status of their vehicles, all online.

Why do companies continue to invest? One answer is that customers are demanding choice in how they get customer service. However, the cost to companies cannot be ignored. The typical service phone call involving human interaction is estimated to cost \$7. Internet transactions involving human response cost \$2.25. But a self-service phone call—no human interaction—costs less than \$0.50. Although customers often enjoy technology-based service, and even demand it in many cases, it often doesn’t work reliably,

*continued*



Source: Reproduced/used with permission of Rogers Communications Inc.



## Technology Spotlight

### *The Changing Face of Customer Service—continued*

doesn't seem to have any advantages over the interpersonal service alternatives, and lacks systems to recover from failures. Interestingly, when things don't work as they are supposed to on an Internet site or through an automated response system, customers are quick to look for more traditional interpersonal (in-person or via telephone) options, coming back to where they started!

**Sources:** J. A. Nickell, "To Voice Mail Hell and Back," *Business 2.0*, July 10, 2001, pp. 49–53; D. Ward, "The Web's Killer App: A Human Being," *Revolution*, March 2000, pp. 82–88; M. L. Meuter, A. L. Ostrom, R. I. Roundtree, and M. J. Bitner, "Self-Service Technologies: Understanding Customer Satisfaction with Technology-Based Service Encounters," *Journal of Marketing* 64 (July 2000), pp. 50–64; B. Horovitz, "Whatever Happened to Customer Service?" *USA Today*, September 25, 2003, available [www.usatoday.com/money/economy/services/2003-09-25-services-frontcover\\_x.htm](http://www.usatoday.com/money/economy/services/2003-09-25-services-frontcover_x.htm), accessed September 14, 2006.

are better able to serve them. This type of information allows employees to customize services to fit the customer's needs. They can also be much more efficient and timely than in the old days when most customer and product information was in paper files or in the heads of sales and customer service representatives.

### Extending the Global Reach of Services

Technology infusion results in the potential for reaching out to customers around the globe in ways not possible before. The Internet itself knows no boundaries, and therefore information, customer service, and transactions can move across countries and across continents, reaching any customer who has access to the Web. Technology also allows employees of international companies to stay in touch easily—to share information, to ask questions, to serve on virtual teams together. All this technology facilitates the global reach as well as the effectiveness of service businesses. Our Global Feature focuses on the migration of service jobs and the ability to produce services almost anywhere.

### The Internet Is a Service

An interesting way to look at the influence of technology is to realize that the Internet is just "one big service." All businesses and organizations that operate on the Internet are essentially providing services—whether they are giving information, performing basic customer service functions, or facilitating transactions. Thus all the tools, concepts, and strategies you learn in studying services marketing and management have direct application in an Internet or e-business world. Although technology and the Internet are profoundly changing how people do business and what offerings are possible, it is clear that customers still want basic service. They want what they have always wanted: dependable outcomes, easy access, responsive systems, flexibility, apologies, and compensation when things go wrong. But now they expect these same outcomes from technology-based businesses and from e-commerce solutions.<sup>26</sup> With hindsight it is obvious that many dot-com startups suffered and even failed because of lack of basic customer knowledge and failure of implementation, logistics, and service follow-up.<sup>27</sup>

## Global Feature

### *The Migration of Service Jobs*

With the ever-growing sophistication of information technology, the global reach of organizations is increasing at a spectacular rate. Activities that used to require close proximity and personal contact can now often be accomplished via the Internet, video, and telecommunication technologies. This advancement means that the jobs that produce and support these activities can be done almost anywhere in the world. The result has been referred to as a “migration of service jobs” out of countries such as Canada, the United States, and the United Kingdom to countries such as India, Pakistan, the Philippines, and Eastern European countries.

This globalization of services is in many ways inevitable, but it comes with considerable controversy. One clear concern is that some of the highest-paying service jobs are being “lost” to lower-wage countries, and this concern is very real for the individuals whose jobs are lost. However, the numbers are not as large as perhaps imagined. Critics of the global outsourcing of service jobs tend to be much more vocal in the United States than in Canada, though the Canadian media has not been silent on the issue. Some of the difference in concern noted between the two countries may be warranted. U.S.-based companies account for 70 percent of services outsourcing, and Forrester Research estimates that by the year 2015, 3.3 million high-tech and service jobs will move from the United States. Similarly, PricewaterhouseCoopers warns that 75,000 Canadian IT service jobs could be exported by 2010. However, in contrast with the United States, Canada is viewed as a “prime destination” for outsourced service jobs, and it currently ranks third worldwide as an outsourcing destination for information technology and business processes totalling \$5.7 billion. Global outsourcing of service jobs can also be viewed as beneficial, because doing so can increase gross domestic product through increased innovation and job creation in other areas.

Although the specific outcomes of service job migration are not totally known, it is safe to say that the globalization of services will continue, resulting in further shrinking of the boundaries among people and countries.

Why is service job migration happening now? The root of the acceleration is the rapid development and accessibility of sophisticated information technologies. Services are information-intensive, and information can now be shared readily without direct personal contact. For example, researchers worldwide can work on a project simultaneously and share information instantaneously. Other services can easily be performed without regard for national boundaries. Canadian Imperial Bank of Commerce outsources its credit card processing to the United States; Indian financial analysts digest the latest disclosures of U.S. companies and file reports the next day; and other workers in India sort through mounds of consumer data provided by non-Indian company clients to determine behaviour patterns and develop ideas for marketing. In each of these cases, *where* the work is done is not important or meaningful to the client as long as it is done well and on time.

*continued*



Source: Indranil Mukerjee/Getty Images.



## Global Feature

### *The Migration of Service Jobs—continued*

A major reason that this movement of jobs is possible is that countries outside the developed world are now producing highly skilled, well-educated workforces, particularly in China and India. These workers typically work for far less compensation, allowing global companies to reduce labour costs on the one hand and increase overall productivity on the other. The quality of the work can be very high as well, with many companies citing quality

and performance among their reasons for moving service jobs overseas.

**Sources:** U. Karmarkar, "Will You Survive the Services Revolution?" *Harvard Business Review*, June 2004, pp. 100–107; D. Goldfarb, "How Canada Wins from Global Services Outsourcing," *Commentary* (C. D. Howe Institute), November 2004, p. 1. M. Kripalani and P. Engardio, "The Rise of India," *BusinessWeek*, December 8, 2003; "Mapping Offshore Markets," white paper by neoIT, at [www.neoIT.com](http://www.neoIT.com); S. A. Teicher, "A Not So Simple Path," *Christian Science Monitor*, February 23, 2004; M. N. Baily and D. Farrell, "Exploding the Myths of Offshoring," *The McKinsey Quarterly*, online at [www.mckinseyquarterly.com](http://www.mckinseyquarterly.com), July 2004.

### The Paradoxes and Dark Side of Technology and Service

Although there is clearly great potential for technology to support and enhance services, there are potential negative outcomes as well. Mick and Fournier, well-regarded consumer researchers, have pointed out the many paradoxes of technology products and services for consumers, as shown in Table 1.2.<sup>28</sup> This section highlights some of the general concerns.

Customer concerns about privacy and confidentiality raise major issues for firms as they seek to learn about and interact directly with customers through the Internet. These types of concerns are what have stymied and precluded many efforts to advance technology applications in the health care industry, for example. Nor are all customers equally interested in using technology as a means of interacting with companies. Research exploring "customer technology readiness" suggests that some customers are simply not interested or ready to use technology.<sup>29</sup> Employees can also be reluctant to accept and integrate technology into their work lives—especially when they perceive, rightly or wrongly, that the technology will substitute for human labour and perhaps eliminate their jobs.

With technology infusion comes a loss of human contact, which many people believe is detrimental purely from a quality of life and human relationships perspective. Parents may lament that their children spend hours in front of computer screens, interacting with games, seeking information, and relating to their friends only through instant messaging without any face-to-face human contact. And workers in organizations become more and more reliant on communicating through technology—even communicating via email with the person in the next office!

Finally, the payback in technology investments is often uncertain. It may take a long time for an investment to result in productivity or customer satisfaction gains. Sometimes it never happens. For example, McKinsey & Company reports that a firm projected a \$40 million savings from moving its billing and service calls to the Web. Instead it suffered a \$16 billion loss as a result of lower usage by customers than projected, unanticipated follow-up calls and emails to the call centre from those who

TABLE 1.2 Eight Central Paradoxes of Technological Products

Paradox	Description
Control/chaos	Technology can facilitate regulation or order, and technology can lead to upheaval or disorder.
Freedom/enslavement	Technology can facilitate independence or fewer restrictions, and technology can lead to dependence or more restrictions.
New/obsolete	New technologies provide the user with the most recently developed benefits of scientific knowledge, and new technologies are already or soon to be outmoded as they reach the marketplace.
Competence/incompetence	Technology can facilitate feelings of intelligence or efficacy, and technology can lead to feelings of ignorance or ineptitude.
Efficiency/inefficiency	Technology can facilitate less effort or time spent in certain activities, and technology can lead to more effort or time in certain activities.
Fulfills/creates needs	Technology can facilitate the fulfilment of needs or desires, and technology can lead to the development or awareness of needs or desires previously unrealized.
Assimilation/isolation	Technology can facilitate human togetherness, and technology can lead to human separation.
Engaging/disengaging	Technology can facilitate involvement, flow, or activity, and technology can lead to disconnection, disruption, or passivity.

Source: D. G. Mick and S. Fournier, "Paradoxes of Technology: Consumer Cognizance, Emotions, and Coping Strategies," *Journal of Consumer Research* 25 (September 1998), pp. 123–47. © 1998 University of Chicago Press. Reprinted by permission.

had used the Web application initially, and loss of revenue from lack of cross-selling opportunities.<sup>30</sup>

## ➔ CHARACTERISTICS OF SERVICES COMPARED TO GOODS

There is general agreement that there is a difference between goods and services and that the distinctive characteristics discussed in this section result in challenges (as well as advantages) for managers of services.<sup>31</sup> But it is also important to realize that each of these characteristics can be arranged on a continuum similar to the tangibility spectrum shown in Figure 1.1. That is, although services tend to be more heterogeneous, more intangible, more difficult to evaluate than goods, the differences between goods and services are not black and white by any means.<sup>32</sup>

Table 1.3 summarizes the differences between goods and services and the implications of these characteristics. Many of the strategies, tools, and frameworks in this text were developed to address these characteristics, which, until the 1980s, had been largely ignored by marketers. Recently it has been suggested that these distinctive characteristics should not be viewed as unique to services but that they are also relevant to goods, that "all products are services," and that "economic exchange is fundamentally about service provision."<sup>33</sup> Although this view is rather abstract, it does suggest that all types of organizations may be able to gain valuable insights from services marketing frameworks, tools, and strategies.

### Intangibility

The most basic distinguishing characteristic of services is intangibility. Because services are performances or actions rather than objects, they cannot be seen, felt, tasted,



TABLE 1.3 Goods vs. Services

Goods	Services	Resulting Implications
Tangible	Intangible	Services cannot be inventoried. Services cannot be easily patented. Services cannot be readily displayed or communicated. Pricing is difficult.
Standardized	Heterogeneous	Service delivery and customer satisfaction depend on employee and customer actions. Service quality depends on many uncontrollable factors. There is no sure knowledge that the service delivered matches what was planned and promoted.
Production separate from consumption	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.
Nonperishable	Perishable	It is difficult to synchronize supply and demand with services. Services cannot be returned or resold.

**Source:** A. Parasuraman, V. A. Zeithaml, and L. L. Berry, "A Conceptual Model of Service Quality and Its Implications for Future Research," *Journal of Marketing* 49 (Fall 1985), pp. 41–50. Reprinted by permission of the American Marketing Association.

or touched in the same manner that you can sense tangible goods. For example, health care services are actions (such as surgery, diagnosis, examination, and treatment) performed by providers and directed toward patients and their families. These services cannot actually be seen or touched by the patient, although the patient may be able to see and touch certain tangible components of the service (like the equipment or hospital room). In fact, many services such as health care are difficult for the consumer to grasp even mentally. Even after a diagnosis or surgery has been completed the patient may not fully comprehend the service performed, although tangible evidence of the service (e.g., incision, bandaging, pain) may be quite apparent.

*Resulting Marketing Implications* Intangibility presents several marketing challenges. Services cannot be inventoried, and therefore fluctuations in demand are often difficult to manage. For example, there is tremendous demand by Canadians to visit Florida in the winter, and much less demand in July. Yet resort owners have the same number of rooms to sell year-round. Services cannot be easily patented, and new service concepts can therefore easily be copied by competitors. Services cannot be readily displayed or easily communicated to customers, so quality may be difficult for consumers to assess. Decisions about what to include in advertising and other promotional materials are challenging, as is pricing. The actual costs of a "unit of service" are hard to determine, and the price–quality relationship is complex.

## Heterogeneity

Because services are performances, frequently produced by humans, no two services will be precisely alike. The employees delivering the service frequently are the service in the customer's eyes, and people may differ in their performance from day to day or even hour to hour. Heterogeneity also results because no two customers are precisely alike; each will have unique demands or experience the service in a unique way. Thus

the heterogeneity connected with services is largely the result of human interaction (between and among employees and customers) and all of the vagaries that accompany it. For example, a tax accountant may provide a different service experience to two different customers on the same day depending on their individual needs and personalities and on whether the accountant is interviewing them when he or she is fresh in the morning or tired at the end of a long day of meetings.

*Resulting Marketing Implications* Because services are heterogeneous across time, organizations, and people, ensuring consistent service quality is challenging. Quality actually depends on many factors that cannot be fully controlled by the service supplier, such as the ability of the consumer to articulate his or her needs, the ability and willingness of personnel to satisfy those needs, the presence (or absence) of other customers, and the level of demand for the service. Because of these complicating factors, the service manager cannot always know for sure that the service is being delivered in a manner consistent with what was originally planned and promoted. Sometimes services may be provided by a third party, further increasing the potential heterogeneity of the offering.

### Simultaneous Production and Consumption

Whereas most goods are produced first, then sold and consumed, most services are sold first and then produced and consumed simultaneously. For example, an automobile can be manufactured in Windsor, shipped to Vancouver, sold two months later, and consumed over a period of years. But restaurant services cannot be provided until they have been sold, and the dining experience is essentially produced and consumed at the same time. Frequently this situation also means that the customer is present while the service is being produced and thus views and may even take part in the production process. Simultaneity also means that customers will frequently interact with each other during the service production process and thus may affect each others' experiences. For example, strangers seated next to each other in an airplane may well affect the nature of the service experience for each other. That passengers understand this fact is clearly apparent in the way business travellers will often go to great lengths to be sure they are not seated next to families with small children. Another outcome of simultaneous production and consumption is that service producers find themselves playing a role as part of the product itself and as an essential ingredient in the service experience for the consumer.

*Resulting Marketing Implications* Because services often are produced and consumed at the same time, mass production is difficult. The quality of service and customer satisfaction will be highly dependent on what happens in "real time," including actions of employees and the interactions between employees and customers. Clearly the real-time nature of services also results in advantages in terms of opportunities to customize offerings for individual consumers. Simultaneous production and consumption also means that it is not usually possible to gain significant economies of scale through centralization. Often, operations need to be relatively decentralized so that the service can be delivered directly to the consumer in convenient locations, although the growth of technology-delivered services is changing this requirement for many services. Also, because of simultaneous production and consumption, the customer is involved in and observes the production process and thus may affect (positively or negatively) the outcome of the service transaction.

## Perishability

Perishability refers to the fact that services cannot be saved, stored, resold, or returned. A seat on an airplane or in a restaurant, an hour of a lawyer's time, or telephone line capacity not used cannot be reclaimed and used or resold at a later time. Perishability is in contrast to goods that can be stored in inventory or resold another day, or even returned if the consumer is unhappy. Wouldn't it be nice if a bad haircut could be returned or resold to another consumer? Perishability makes this action an unlikely possibility for most services.

*Resulting Marketing Implications* A primary issue that marketers face in relation to service perishability is the inability to inventory. Demand forecasting and creative planning for capacity utilization are therefore important and challenging decision areas. The fact that services cannot typically be returned or resold also implies a need for strong recovery strategies when things do go wrong. For example, although a bad haircut cannot be returned, the hairdresser can and should have strategies for recovering the customer's goodwill if and when such a problem occurs.

## Challenges and Questions for Service Marketers

Because of the basic characteristics of services, marketers of services face some very real and distinctive challenges. Answers to questions such as the ones listed here still elude managers of services:

*How can service quality be defined and improved when the product is intangible and nonstandardized?*

*How can new services be designed and tested effectively when the service is essentially an intangible process?*

*How can the firm be certain it is communicating a consistent and relevant image when so many elements of the marketing mix communicate to customers and some of these elements are the service providers themselves?*

*How does the firm accommodate fluctuating demand when capacity is fixed and the service itself is perishable?*

*How can the firm best motivate and select service employees who, because the service is delivered in real time, become a critical part of the product itself?*

*How should prices be set when it is difficult to determine actual costs of production and price may be inextricably intertwined with perceptions of quality?*

*How should the firm be organized so that good strategic and tactical decisions are made when a decision in any of the functional areas of marketing, operations, and human resources may have significant impact on the other two areas?*

*How can the balance between standardization and personalization be determined to maximize both the efficiency of the organization and the satisfaction of its customers?*

*How can the organization protect new service concepts from competitors when service processes cannot be readily patented?*

*How does the firm communicate quality and value to consumers when the offering is intangible and cannot be readily tried or displayed?*

*How can the organization ensure the delivery of consistent quality service when both the organization's employees and the customers themselves can affect the service outcome?*

## → SERVICES MARKETING MIX

The preceding questions are some of the many raised by managers and marketers of services that will be addressed throughout the text through a variety of tools and strategies. Sometimes these tools are adaptations of traditional marketing tools, as with the services marketing mix presented here. Other times they are radically new, as in the case of service blueprinting presented in Chapter 9.

### 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 Ps: *product*, *price*, *place* (distribution), and *promotion*.<sup>34</sup> These elements appear as core decision variables in any marketing text or marketing plan. The notion of a mix implies that all the variables are interrelated and depend on each other to some extent. Further, the marketing mix philosophy implies 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 Ps are captured in the first four columns in Table 1.4. Careful management of product, place, promotion, and price will clearly also be essential to the successful marketing of services. However, the strategies for the four Ps require some modifications when applied to services. For example,

**TABLE 1.4**

Expanded Marketing Mix for Services

<b>Product</b>	<b>Place</b>	<b>Promotion</b>	<b>Price</b>
Physical good features	Channel type	Promotion blend	Flexibility
Quality level	Exposure	Salespeople	Price level
Accessories	Intermediaries	Selection	Terms
Packaging	Outlet locations	Training	Differentiation
Warranties	Transportation	Incentives	Discounts
Product lines	Storage	Advertising	Allowances
Branding	Managing channels	Media types	
		Types of ads	
		Sales promotion	
		Publicity	
		Internet/Web strategy	
<b>People</b>	<b>Physical Evidence</b>	<b>Process</b>	
Employees	Facility design	Flow of activities	
Recruiting	Equipment	Standardized	
Training	Signage	Customized	
Motivation	Employee dress	Number of steps	
Rewards	Other tangibles	Simple	
Teamwork	Reports	Complex	
Customers	Business cards	Customer involvement	
Education	Statements		
Training	Guarantees		

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, and 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.

## Expanded Mix for Services

Because services are usually produced and 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. For example, in the hotel industry the design and decor of the hotel as well as the appearance and attitudes of its employees will influence customer perceptions and experiences.

Acknowledgment of the importance of these additional variables has led services marketers to adopt the concept of an expanded marketing mix for services shown in the three remaining columns in Table 1.4.<sup>35</sup> In addition to the traditional four Ps, the services marketing mix includes *people*, *physical evidence*, and *process*.

**People** All human actors who play a part in service delivery and thus influence the buyer's perceptions: namely, the firm's personnel, the customer, and other customers in the service environment.

All the human actors participating in the delivery of a service provide cues to the customer regarding the nature of the service itself. How these people are dressed, their personal appearance, and their attitudes and behaviours all influence the customer's perceptions of the service. The service provider or contact person can be very important. In fact, for some services, such as consulting, counselling, teaching, and other professional relationship-based services, the provider *is* the service. In other cases the contact person may play what appears to be a relatively small part in service delivery—for instance, a telephone installer, an airline baggage handler, or an equipment delivery dispatcher. Yet research suggests that even these providers may be the focal point of service encounters that can prove critical for the organization.

In many service situations, customers themselves can also influence service delivery, thus affecting service quality and their own satisfaction. For example, health care patients greatly affect the quality of service they receive when they either comply or don't comply with health regimens prescribed by the provider.

Customers not only influence their own service outcomes, but they can influence other customers as well. In a theater, at a ball game, or in a classroom, customers can influence the quality of service received by others—either enhancing or detracting from other customers' experiences.

**Physical evidence** The environment in which the service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service.

The physical evidence of service includes all the tangible representations of the service such as brochures, signage, and equipment. In some cases it includes the physical facility where the service is offered—the “servicescape”—for example, the retail bank branch facility. In other cases, such as telecommunication services, the physical facility may be irrelevant. In this case other tangibles such as billing statements and appearance of the repair truck may be important indicators of quality. Physical evidence cues provide

## WestJet: Aligning People, Processes, and Physical Evidence

WestJet, founded only 10 years ago, has quickly come to occupy a solid position in the minds of Canadian travellers. Modelled on the success of Southwest Airlines, WestJet positions itself on value, and all aspects of its services marketing mix must sing from the same page if it hopes to remain successful.

Since its inception as a regional carrier flying to five cities with three used planes, WestJet now flies to more than 30 cities across North America with five times as many planes—many of which are new 737-700s. Besides expansion itself, other tangible demonstrations of its successful service strategy include being named Canada's third-most-respected corporation in a 2004 survey conducted by Ipsos Reid (it placed second in the same survey a year earlier).

Success has come for a number of reasons. The cornerstone of the value proposition is, of course, low pricing, which is made possible by having the lowest cost structure coupled with an engaged, high-performing staff. The combination makes for great value. It is clear that all of WestJet's marketing mix is aligned around this value proposition. The three new marketing mix variables all reinforce the same message:

- **People.** WestJet has a unique employee culture—so unique that it placed first in the 2005 Canadian Corporate Culture study conducted by *Canadian Business* magazine and Waterstone Human Capital, Ltd. It was especially singled out for its “entrepreneurial spirit,” “delivering what they promise,” and “winning attitude.” Employees are carefully selected, well trained, and empowered to get the job done. The company celebrates its success, provides the necessary tools and training, promotes from within, shares its profits, and encourages employees to become owners through a generous matching share-purchase program. All advertisements seem to be targeted as much at its own employees (“An Important Message from an Owner”) as its customers. In 2004, WestJet was rated first in customer service.
- **Processes.** The service delivery process must also reinforce value. Like Southwest, WestJet reduces pilot training and maintenance costs by buying only one type of aircraft. They also focus on short average flight durations and quick airport turnaround times, permitting them to fly more people more cheaply. WestJet does not transfer

baggage to connecting flights, charges for all food, and encourages “guests” to buy their tickets online and use Web Check-In or Self-Serve Check-In Kiosks. Unlike Southwest, though, they do permit travellers to pre-select their seats. To date, WestJet's processes have been rated first in providing high-quality products and services, and on-time performance hovers in the low 90 percent range—good enough to be ranked number two in North America. Even its Investors Relations group is well regarded for its efficiency, being voted “Best Communication within the Retail Industry” by *IR Magazine*.

- **Physical evidence.** WestJet's tangible evidence reinforces its low-cost, fun atmosphere. Employees dress casually to reinforce the fun and to further emphasize the airline's commitment to its employee's comfort; advertisements stress the corporate culture and the key role of the employee; and the website plays up the fun image with amazing trivia—did you know for instance, that Canadians eat more KD (Kraft Dinner) per capita than any other nation on earth or that WestJet has 31 Karens, 39 Lisas, 61 Jens, 67 Davids, 46 Michelles, 86 Michaels, and 1 Yoga?

But as it continues to expand, WestJet's services marketing mix is gradually changing. Some observers are beginning to wonder if these changes are putting WestJet's strategy at risk. Consider the following decisions: purchasing new Boeing 737-700s; leather seats; seatback ExpressVu TVs; and Air Miles rewards and the launch of an expensive TV campaign rather than continuing to rely on print and radio. As well, with the addition of long-haul flights (including Honolulu, Maui, Miami, and Orlando), the company is moving away from its strategy of short-haul, point-to-point, rapid turnaround, no-layover flights. With Air Canada bringing down its services (removal of free meals and blankets in economy class) and WestJet increasing its services, is WestJet at risk of losing its differentiation?

**On the Horizon**  
Sure it's been one heck of a decade, but WestJet isn't sitting pretty. Look for these exciting new initiatives on the horizon...

**Aircraft deliveries**  
• 10 Next-Generation 737-600s and two Next-Generation 737-700s in 2006

**WestJet Vacations**  
• The ability to book packages including flights, hotel accommodation and rental cars, which will increase load factor on existing scheduled routes

**New reservation, scheduling and check-in system, enabling...**  
• Partnerships with other airlines  
• Multiple fares with various benefits, fully refundable tickets  
• Enhanced inventory control and yield management

**And now, some parting shots and a medley from your friendly, neighbourhood WestJetters...**

**What did one woman say to the other woman?**  
Do you smell carrots?  
How do you know if there is a pilot at a party?  
Don't worry—they will tell you.  
**Why do people in Winnipeg wash their clothes in Tide?**  
Because it is too cold "nd Tide!"  
—Shelley Jordan  
Airport Standards & Procedures Coordinator  
WestJet start date: February 25, 1996

**How do you introduce a hamburger?**  
Meet party!  
—Dad Elyson  
Airport Standards & Procedures Coordinator  
WestJet start date: January 30, 1996

**Clap to the tune of the Barney song!**  
We love you, you love us  
We're got style and personality  
Many one of us  
And you'll fly for free  
—Other song by WestJet flight attendants onboard

28 © 2006 WestJet

Source: Courtesy of WestJet.

**Sources:** CcnMatthews, “WestJet Corporate Culture Most Admired in Canada Independent Study Reveals,” news release, October 20, 2005, available [www2.ccnmatthews.com/scripts/dnrrp/release.asp?d=/cnrpxml/2005/10/20/292445\\_1\\_1020200583810AM.xml&t=WJA](http://www2.ccnmatthews.com/scripts/dnrrp/release.asp?d=/cnrpxml/2005/10/20/292445_1_1020200583810AM.xml&t=WJA), accessed September 14, 2006; N. Ramage, “WestJet on the Fly,” *Marketing* 110, no. 22 (June 20, 2005), p. 13; [www.westjet.com](http://www.westjet.com).

excellent opportunities for the firm to send consistent and strong messages regarding the organization's purpose, the intended market segments, and the nature of the service.

**Process** The actual procedures, mechanisms, and flow of activities by which the service is delivered—the service delivery and operating systems.

The actual delivery steps that the customer experiences, or the operational flow of the service, also give customers evidence on which to judge the service. Some services are very complex, requiring the customer to follow a complicated and extensive series of actions to complete the process. Another distinguishing characteristic of the process that can provide evidence to the customer is whether the service follows a production-line/standardized approach or whether the process is an empowered/customized one. For example, two successful airline companies, WestJet and Singapore Airlines, follow very different process models. WestJet is a no-frills, low-priced airline that offers mostly frequent, relatively short flights. All the evidence it provides is consistent with its vision and market position, as illustrated in Exhibit 1.1. Singapore Airlines, on the other hand, focuses on the business traveller and is concerned with meeting individual traveller needs. Thus, its process is highly customized to the individual, and employees are empowered to provide nonstandard service when needed. Both airlines have been very successful.

The three new marketing mix elements (people, physical evidence, and process) are included in the marketing mix as separate elements because any or all of them may influence the customer's level of satisfaction and repurchase decisions. The traditional elements as well as the new marketing mix elements will be explored in depth in future chapters.

## → STAYING FOCUSED ON THE CUSTOMER

A critical theme running throughout this text is *customer focus*. In fact, the subtitle of the book is “Integrating Customer Focus Across the Firm.” From the firm's point of view, all strategies are developed with an eye to the customer, and all implementations are carried out with an understanding of their impact on the customer. From a practical perspective, decisions regarding new services and communication plans will integrate the customer's point of view; operations and human resource decisions will be considered in terms of their impact on customers. All the tools, strategies, and frameworks included in this text have customers at their foundation. The services marketing mix just described is clearly an important tool that addresses the uniqueness of services, keeping the customer at the centre.

In this text, we also view customers as assets to be valued, developed, and retained. The strategies and tools we offer thus focus on customer relationship building and loyalty as opposed to a more transactional focus in which customers are viewed as one-time revenue producers. This text looks at customer relationship management not as a software program but as an entire architecture or business philosophy. Every chapter in this text can be considered a component needed to build a complete customer relationship management approach.

### SUMMARY

This chapter has set the stage for further learning about services marketing by presenting information on changes in the world economy and business practice that have driven the focus on service: the fact that services dominate the modern economies of the world; the focus on service as a competitive business imperative; specific needs of

the deregulated and professional service industries; the role of new service concepts growing from technological advances; and the realization that the characteristics of services result in unique challenges and opportunities. The chapter presented a broad definition of services as deeds, processes, and performances, and it drew distinctions between pure services, value-added services, customer service, and derived service.

Building on this fundamental understanding of the service economy, the chapter went on to present the key characteristics of services that underlie the need for distinct strategies and concepts for managing service businesses. These basic characteristics are that services are intangible, heterogeneous, produced and consumed simultaneously, and perishable. Because of these characteristics, service managers face a number of challenges in marketing, including the complex problem of how to deliver quality services consistently.

The chapter ended by describing two themes that provide the foundation for future chapters: the expanded marketing mix for services; and customer focus as a unifying theme. The remainder of the text focuses on exploring the unique opportunities and challenges faced by organizations that sell and deliver services and on developing solutions that will help you become an effective services champion and manager.

## → Discussion Questions

---

1. What distinguishes service offerings from customer service? Provide specific examples.
2. How is technology changing the nature of service?
3. What are the basic characteristics of services vs. goods? What are the implications of these characteristics for IBM Global Service or for WestJet?
4. One of the underlying frameworks for the text is the services marketing mix. Discuss why each of the three new mix elements (process, people, and physical evidence) is included. How might each of these communicate with or help to satisfy an organization's customers?
5. Think of a service job you have had or currently have. How effective, in your opinion, was or is the organization in managing the elements of the services marketing mix?
6. Again, think of a service job you have had or currently have. How did or does the organization handle relevant challenges listed in Table 1.3?
7. How can quality service be used in a manufacturing context for competitive advantage? Think of your answer to this question in the context of automobiles or computers or some other manufactured product you have actually purchased.

## → Exercises

---

1. Roughly calculate your budget for an average month. What percentage of your budget goes for services vs. goods? Do the services you purchase have value? In what sense? If you had to cut back on your expenses, what would you cut out?
2. Visit two local retail service providers that you believe are positioned very differently (such as Dollarama and The Bay or Burger King and a fine restaurant). From your own observations, compare their strategies on the elements of the services marketing mix.



3. Try a service you have never tried before on the Internet. Analyze the benefits of this service. Was enough information provided to make the service easy to use? How would you compare this service to other methods of obtaining the same benefits?

## → Notes

---

1. D. Kirkpatrick, "Inside Sam's \$100 Billion Growth Machine," *Fortune*, June 14, 2004, pp. 80–98; D. Kirkpatrick, "IBM, from Big Blue Dinosaur to E-Business Animal," *Fortune*, April 26, 1999, pp. 116–26; W.M. Bulkeley, "These Days, Big Blue Is About Big Services Not Just Big Boxes," *The Wall Street Journal*, June 11, 2001, p. A1; David Kirkpatrick, "IBM Shares Its Secrets," *Fortune* 152, no. 5 (September 5, 2005), p. 128; Darryl K. Taft, "Research to the Rescue: IBM Research Unit Turns to Services to Help Propel High-Value Business Opportunities," *eWeek* 21, no. 26 (June 28, 2004), p. 20; Shane Schick, "IBM Inks TD Desktop Deal for \$720M," *Computing Canada* 29, no. 21, p. 1.
2. D. Brady, "Why Service Stinks," *BusinessWeek*, October 23, 2000, pp. 118–28.
3. J. B. Quinn, J. J. Baruch, and P. C. Paquette, "Technology in Services," *Scientific American* 257, no. 6 (December 1987), pp. 50–58.
4. S. L. Vargo and R. F. Lusch, "Evolving to a New Dominant Logic for Marketing," *Journal of Marketing* 68 (January 2004), pp. 1–17.
5. International Trade Canada, "Canada and Trade in Services," March 29, 2006, available [www.dfait-maeci.gc.ca/tna-nac/TS/canada-ts-en.asp](http://www.dfait-maeci.gc.ca/tna-nac/TS/canada-ts-en.asp), accessed September 14, 2006, and Anonymous, "Meeting the Challenges of a Services Economy," *Micro: The Micro-Economic Research Bulletin* 10, no. 1 (Winter/Spring 2005), p. 1.
6. International Trade Canada, "Canada and Trade in Services"; Industry Canada, "Services Industries," 2003, available [www.strategis.gc.ca](http://www.strategis.gc.ca), accessed November 8, 2005.
7. M. Sawhney, S. Balasubramanian, and V. V. Krishnan, "Creating Growth with Services," *Sloan Management Review*, Winter 2004, pp. 34–43.
8. T. Smart, "Jack Welch's Encore," *BusinessWeek*, October 28, 1996, pp. 155–60; and GE company data, 2000.
9. D. Decloet, "Selling the Bank of GM Is Probably a Sign of Desperation," [GlobeandMail.com](http://GlobeandMail.com), October 20, 2005.
10. J. A. Alexander and M. W. Hordes, *S-Business: Reinventing the Services Organization* (New York: SelectBooks, 2003); R. Oliva and R. Kallenberg, "Managing the Transition from Products to Services," *International Journal of Service Industry Management* 14, no. 2 (2003), pp. 160–72.
11. This discussion is based on interviews conducted by Gary Knisely that appeared in *Advertising Age* on January 15, 1979; February 19, 1979; March 19, 1979; and May 14, 1979.
12. L. Berry, *Discovering the Soul of Service* (New York: The Free Press, 1999).
13. R. T. Rust, C. Moorman, and P. R. Dickson, "Getting Return on Quality: Revenue Expansion, Cost Reduction, or Both?" *Journal of Marketing* 66 (October 2002), pp. 7–24.
14. J. L. Heskett, T. O. Jones, G. W. Loveman, W. E. Sasser Jr., and L. A. Schlesinger, "Putting the Service-Profit Chain to Work," *Harvard Business Review*, March/April 1994, pp. 164–74.

15. E. W. Anderson and V. Mittal, "Strengthening the Satisfaction–Profit Chain," *Journal of Service Research* 3, no. 2 (November 2000), pp. 107–20.
16. "Predictive Capabilities," [www.theacsi.org](http://www.theacsi.org), accessed October 13, 2004.
17. Adam J. Stoehr, "Impressive Stock Performance of CAE Winners from 1990–2005," November 1, 2005, available [www.nqi.ca/articles/article\\_details.aspx?ID=547](http://www.nqi.ca/articles/article_details.aspx?ID=547), accessed September 14, 2006.
18. C. Fishman, "But Wait, You Promised . . . ," *Fast Company*, April 2001, pp. 116–27.
19. D. Brady, "Why Service Stinks," *BusinessWeek*, October 23, 2000, pp. 116–28.
20. "Latest Increase in ACSI Bodes Well for the Economy," [www.theacsi.org](http://www.theacsi.org) releases. Posted June 4, 2004, accessed October 13, 2004.
21. Laura Penny, *Your Call Is Important to Us: The Truth About Bullshit* (Toronto: McClelland & Stewart Ltd., 2005), back cover.
22. L. P. Willcocks and R. Plant, "Getting from Bricks to Clicks," *Sloan Management Review*, Spring 2001, pp. 50–59.
23. "Revolution Digital Tomorrow Report: Technologies That Will Change Marketing," *Revolution*, February 2001, pp. 51–65.
24. S. Fox and L. Rainie, "Vital Decisions," Washington, DC: The Pew Internet & American Life Project, available at [www.pewinternet.org](http://www.pewinternet.org), 2002, accessed September 25, 2006.
25. M. J. Bitner, S. W. Brown, and M. L. Meuter, "Technology Infusion in Service Encounters," *Journal of the Academy of Marketing Science* 28 (Winter 2000), pp. 138–49.
26. M. J. Bitner, "Self-Service Technologies: What Do Customers Expect?" *Marketing Management*, Spring 2001, pp. 10–11.
27. R. Hallowell, "Service in E-Commerce: Findings from Exploratory Research," Harvard Business School, Module Note, N9-800-418, May 31, 2000.
28. D. G. Mick and S. Fournier, "Paradoxes of Technology: Consumer Cognizance, Emotions, and Coping Strategies," *Journal of Consumer Research* 25 (September 1998), pp. 123–47.
29. A. Parasuraman and C. L. Colby, *Techno-Ready Marketing: How and Why Your Customers Adopt Technology* (New York: The Free Press, 2001).
30. D. Khandelwal and S. Kell, "Customer Care in a New World," North American Contact Center Summit, January 23, 2002.
31. Discussion of these issues is found in many services marketing publications. The discussion here is based on V. A. Zeithaml, A. Parasuraman, and L. L. Berry, "Problems and Strategies in Services Marketing," *Journal of Marketing* 49 (Spring 1985), pp. 33–46.
32. For research supporting the idea of goods–services continua, see D. Iacobucci, "An Empirical Examination of Some Basic Tenets in Services: Goods–Services Continua," in *Advances in Services Marketing and Management*, ed. T. A. Swartz, D. E. Bowen, and S. W. Brown (Greenwich, CT: JAI Press, 1992), vol. 1, pp. 23–52.
33. S. L. Vargo and R. F. Lusch, "The Four Service Marketing Myths," *Journal of Service Research* 6 (May 2004), pp. 324–35.
34. E. J. McCarthy and W. D. Perrault Jr., *Basic Marketing: A Global Managerial Approach* (Burr Ridge, IL: Richard D. Irwin, 1993).
35. B. H. Booms and M. J. Bitner, "Marketing Strategies and Organizational Structures for Service Firms," in *Marketing of Services*, ed. J. H. Donnelly and W. R. George (Chicago: American Marketing Association, 1981), pp. 47–51.