Service Positioning and Design

Desperately Seeking Service Strategies

The basics of a travel agency's business have traditionally been quite straightforward. Customers call for flight, train, hotel, or cruise reservations.[1] The agent finds out what's available, maybe provides a bit of advice, books the transaction, and delivers the tickets. For decades, commissions on airline tickets provided about 60 percent of a typical agency's revenues. But that situation changed when Delta Airlines announced that it would no longer pay a 10-percent commission on every ticket sold. Regardless of the purchase price, there would be caps of $25 one-way and $50 round-trip for all domestic tickets. Other major airlines soon followed suit.

These commission caps were only the start of trouble for the travel agent industry. Other marketplace changes began to impact the roles that travel agents filled as information brokers and distributors of other companies' services. Travel agents are like stockbrokers, real estate agents, or consultants—their value is in what they know and what they can find out for customers. But access to information is being completely reshaped these days by computers and Web-based technologies. Customers can access travel information directly on the Internet at any time, and can handle their own bookings, too—either through a carrier's own Web site or through such Internet-based services as Travelocity or Priceline.

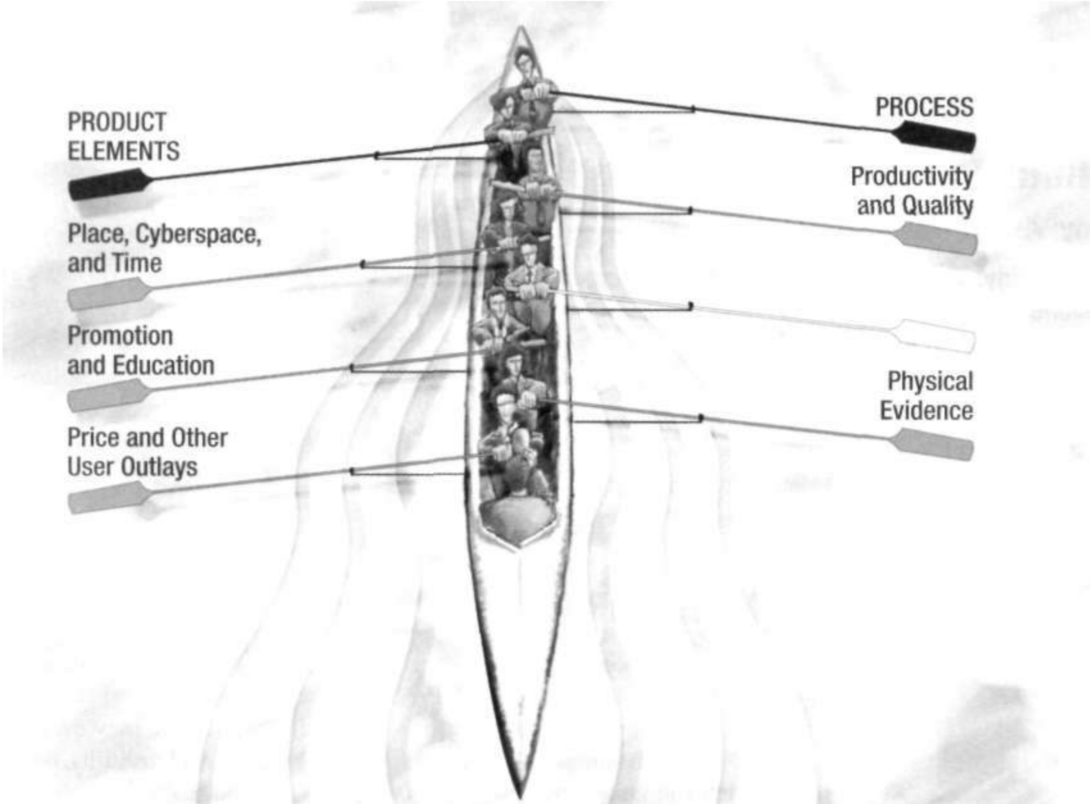
So what's a travel agent to do in this challenging new world? Many have closed, others are trying to survive by cutting costs or seeking to add value by doing the same things better. But a few moved quickly to create totally new service strategies. Here are three service revolutionaries—see what you think of their innovative approaches to establishing a secure competitive position!

THE MERCHANDISER

Company: ***Travelfest***

Service Strategy: ***Revamp the way travel is sold***

Gary Hoover likes to call his Austin, Texas-based travel agency the Home Depot of the travel industry. His goal was to "yank travel out of the retail Stone Age" by designing a travel superstore where customers could shop for tickets and travel-related products in an entertaining and educational environment. Fourteen monitors play travel videos simultaneously in Travelfest stores, and backlit walls show slides from around the world. Customers can browse for travel information in the Europe room, the Africa room, the Asia room, and kids have their own special room to explore. Visa and passport applications are available, and customers can check out the Hotel and Travel Index (a resource used by most travel agents but rarely available to their clients). There are also 10,000 travel-related items for sale, including books, videos, maps, luggage and clothing, water purifiers, and language guides. Oh yes—the store is also open from 9 A.M. to 11 P.M. seven days a week, and it accepts mail, Internet, and telephone orders.



THE CONTRACTOR

Company: *Capital Prestige Travel*

Service Strategy: ***Change the service-delivery model***

Derek Messenger, owner of Capital Prestige Travel, spends $1 million a year on statewide travel ads and infomercials about discount cruise sailings. His biggest challenge is having enough trained people to take all those calls his advertising generates. Messenger has solved this problem creatively by using independent contractors who work out of their homes and pay for the privilege of affiliating with a well-known travel agency, which routes calls to them. Each home-based contractor pays $7800 to Capital Prestige. In return, contractors get a computer, software that connects them to Sabre (a national computerized reservations system), a hookup to Capital Prestige phone lines, and eight days of training. They also get paid 35 to 70 percent of the agency's ticket commissions. Capital Prestige takes care of all of the marketing and backup services like handling tickets, collecting money, and providing a help line for home agents who run into problems. With its innovative home-agent system, the company has turned fixed costs into variable costs—which saves enough money to generate more business by doing large-scale promotions and advertising.

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© Learning Objectives

After reading this chapter, you should be able to

=^> describe the four different focus approaches

=£> explain the elements of competitive positioning strategy

=£> discuss how perceptual maps help identify competitors' positions in a specific market

=£> understand how branding relates to individual offerings within a product line

=4^ define the different types of service innovation

THE NICHE PLAYER

Company: *Aspen Travel*

Service Strategy: *Specialize in one service-intensive market niche*

Aspen Travel started out as a traditional travel agency. Its customer base was largely limited to Jackson Hole, Wyoming, whose isolated mountain location seemed an unlikely spot for building a large corporate clientele. Then a film production company from Los Angeles shot a movie in Jackson Hole, and Aspen did such a great job of handling its travel that the company retained Aspen's services for trips to other locations. Owners Randle Feagin and Andy Spiegel had discovered the perfect niche—and today they do 85 percent of their business with production companies from Los Angeles, New York, and Miami. Word of mouth in the tightly knit film production industry takes care of Aspen's marketing, while faxes, e-mail, and remote ticket printers allow the agency to operate from Jackson Hole. Aspen's specialized knowledge helps it outperform would-be competitors. After all, how many travel agents know how to get an AT&T phone booth to a film site in Belize or transport penguins to the deserts of Moab, Utah, without having them collapse from heatstroke?

THE NEED FOR FOCUS

If you ask a group of managers from different service businesses how they compete, many will simply say, "on service." Press them a little further, and they may add "value for money," "convenience," or "our people are the key." Some may even respond to the question "What makes your service different?" by saying "Truthfully, nothing. We're all pretty much the same." But no two services are ever exactly alike. It would be impossible for companies to be identical in the design of their servicescapes, the employees they attract, the personalities of their leaders, or the cultures they create. As competition intensifies for many businesses in the service sector, cultivating and communicating *meaningful* differences is becoming increasingly important for long-term profitability.

In this chapter, we show how to find answers to the questions: *How can we differentiate our service product from the competition's?* and *How should we go about designing new services'?*

Four Focus Strategies

It's not usually realistic for a firm to try to appeal to all actual or potential buyers in a market, because customers are too numerous, too widely scattered, and too varied in their needs, purchasing behavior, and consumption patterns. Firms themselves vary widely in their abilities to serve different types of customers. So rather than attempting to compete in an entire market, each company needs to focus its efforts on those customers it can serve best. In marketing terms, **focus** means providing a relatively narrow product mix for a particular market segment—a group of customers who share common characteristics, needs, purchasing behavior, or consumption patterns. Successful implementation of this concept requires firms to identify the strategically important elements in their service operations and concentrate their resources on these factors.

focus: the provision of a relatively narrow product mix for a particular market segment.

market focus: the extent to which a firm serves few or many markets.

service focus: the extent to which a firm offers few or many services.

The extent of a company's focus can be described on two different dimensions—market focus and service focus. **Market focus** is the extent to which a firm serves few or many markets, while **service focus** describes the extent to which a firm offers few or many services. These dimensions define the four basic focus strategies shown in Figure **10.1.**

A *fully focused* organization provides a very limited range of services (perhaps just a single core product) to a narrow and specific market segment. For example, Aspen Travel serves the specific needs of the film production industry. A *market-focused* company concentrates on a narrow market segment but has a wide range of services. Each Travelfest store serves a limited geographic market, appealing to families and individuals planning vacation trips rather than to business travelers, but offers a broad array of services. *Service-focused* firms offer a narrow range of services to a fairly broad market. Thus, Capital Prestige Travel specializes in the narrow field of discount cruise sailings, but reaches customers across a broad geographic market through a telephone-based delivery

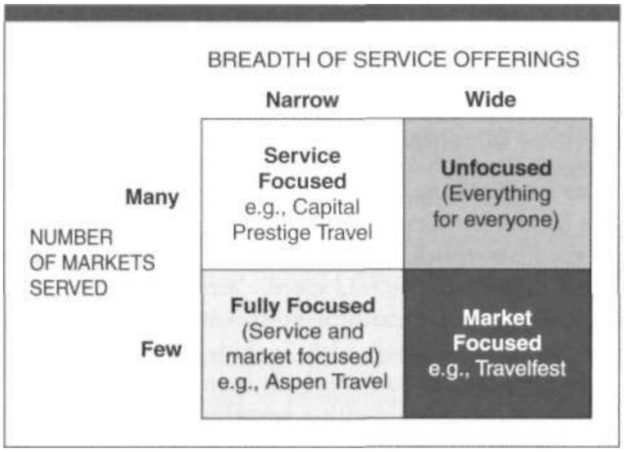

FIGURE 10.1
Basic Focus Strategies for Service Organizations

Source: Adapted from Robert Johnston, "Achieving Focus in Service Organizations," *The Service Industries Journal* 16 (January 1996): 10-20.

system. Finally, many service providers fall into the *unfocused* category because they try to serve broad markets and provide a wide range of services.

As you can see from Figure 10.1, focusing requires a company to identify the market segments that it can serve best with the services it offers. Effective market segmentation should group customers in ways that result in similarity *within* each segment and dissimilarity *between* each segment on relevant characteristics.

CREATING A DISTINCTIVE SERVICE STRATEGY

Once a company has decided which market segment(s) to target, the next task is to establish an overall strategic direction—a service strategy—in order to achieve and maintain a distinctive competitive position. Leonard Berry emphasizes the importance of these service strategies:

> *All great service companies have a clear, compelling service strategy. They have a "reason for being" that energizes the organization and defines the word "service. "A service strategy captures what gives the service value to customers. To forge a path to great service, a company's leaders must define correctly that which makes the service compelling. They must set in motion and sustain a vision of service excellence, a set ofguideposts that point to the future and show the way.*[5]

A company's service strategy can usually be expressed in a few sentences or words that guide and energize its employees. The best service strategies address basic human needs that don't change much over time. For example, Taco Bell's service strategy is to offer the best value fast meal whenever and wherever customers are hungry. While this statement sounds simple enough, it actually symbolizes a major change in the way the company defines itself and its operations. Club Med's basic service concept could be described as "a fully paid vacation package where you make your arrangements and pay the bill in advance in return for a well-managed program in which you don't need to worry much about money, transportation, food, activities or clothes."

Dial-a-Mattress appeals to its target market's need for both convenience and risk reduction by selling brand-name bedding like Sealy, Serta, or Simmons over the telephone 24 hours a day, 7 days a week. Orders are delivered as soon as the customer wants them, and old mattresses are removed at no extra cost. The company's core service strategy makes buying a mattress so simple that new customers are often amazed. Founder and CEO Napoleon Barragan explains, "Buying a mattress is not a pleasurable experience; it's a chore. If you can make it easy for the customers, if you give them what they want, the way they want it, and when they want it, you can do business."[7]

Creating a Sustainable Competitive Advantage

The first step in establishing a service strategy is to focus on customers' needs. Important service needs that are not being met by competitors provide opportunities for a company to move into an "open" position in the marketplace. Two questions should be asked about the needs and expectations of a target market relative to a specific service offering: What attributes are absolutely essential to this group of customers? And what attributes will delight them? The service strategy can then be designed to include both the essential attributes and those features that have the potential to exceed customer expectations.

sustainable competitive advantage: a position in the marketplace that can't be taken away or minimized by competitors in the short run.

The best service strategies provide organizations with a **sustainable competitive advantage**—a way of meeting customer needs in a specific market segment better than other competitors. (By *sustainable,* we mean a position in the marketplace that can't be taken away or minimized by competitors in the short run.) Obtaining and keeping such an advantage presents a significant challenge, because it's hard for a firm to protect innovations legally and competitors can quickly copy many service attributes. Consider how Amtrak positions its high-speed rail service in the Boston-Washington corridor against competing air service.

Transporting Business Travelers Into the Twenty-First Century

Amtrak, America's national passenger railroad, illustrates a service strategy based on customers' needs related to travel in the 500 mile (800 km) Northeast Corridor that links Boston, Providence, New York, Newark, Philadelphia, Baltimore, and Washington, D.C. Over the years, air shuttles departing at 30-minute intervals on the Boston-New York and New York-Washington routes, as well as commuter flights serving other airports, had severely eroded the railroad's position in the business traveler segment of the market. The problem was particularly challenging between Boston and New York, where rail service was slow and not very reliable. But Amtrak's market research showed that in addition to speed, business travelers wanted both convenience *and* comfort at levels not currently available on most flights.

To address these unmet needs, Amtrak obtained funds to upgrade the track on the Northeast Corridor and electrify the line all the way to Boston. In December 2000, it introduced a new, high-speed rail service, named Acela Express. Acela—a new brand name that suggests both acceleration and excellence—promises fast, comfortable, reliable, and safe transportation. Amtrak's futuristic-looking, Canadian-built electric trains can transport passengers at speeds of up to 150 miles per hour (240 km/h), making travel times between city centers competitive with the airlines, once ground travel from airport to city center is included.

While seeking to match the airlines on essential attributes like convenience, reliability, and travel time, Amtrak plans to beat them on such features as customer service, spaciousness, and comfort. The company has extended its definition of the "Amtrak travel experience" beyond the core product of transportation to include elements that have the potential to delight its customers—including the service provided by on-board staff, the reservations and ticketing processes, and the train station environment. While waiting at the station, first-class passengers are entitled to use of a special lounge.

The trains' interior decor reflects customer preferences for attractive modern design, appealing colors, and more space than the cramped conditions found on air shuttles. The windows of the cars are large and the seats in first and business class are bigger and more comfortable than those on short-haul aircraft. There's plenty of space for stowing baggage and even the toilets are large and attractively designed. Lighting is bright enough to work by but still soft and unobtrusive. Acela Express also offers passengers the chance to stretch their legs and obtain food and drink in a new, upscale "bistro" car; those traveling in first class can dine at their seats, enjoying meals served on chinaware.

Source: Based on Ian R Murphy, "Amtrak Enlists Customers' Help to Bring Service Up to Speed," *Marketing News,* 27 October 1997, 14; information from the Amtrak corporate Web site, www.amtrak.com, February 2001, and news reports.

SERVICE POSITIONING

After a service strategy has been identified, a company must decide how to position its product most effectively. The concept of **positioning** involves establishing a distinctive place in the minds of target customers relative to competing products. In *The New Positioning:The Latest on the World's #1 Business Strategy,* Jack Trout distills the essence of positioning into the following four principles:[8]

positioning: establishing a distinctive place in the minds of customers relative to competing products.

1. A company must establish a position in the minds of its targeted customers.
2. The position should be singular, providing one simple and consistent message.
3. The position must set a company apart from its competitors.
4. A company cannot be all things to all people—it must focus its efforts.

Cirque du Soleil is an example of a company that has taken these four principles to heart. Most Americans can't even pronounce the name (which is French for "circus of the sun"), and fewer than one in five know what Cirque offers. But the goal of the Quebec-based founders is to become a worldwide brand—a Circus Without Boundaries. Cirque provides a mystical mixture of stunningly choreographed dance, original music, exotic costumes, and amazing acrobatics that is more art than traditional circus entertainment. And the atmosphere is intimate, since the audience for most performances is limited to a few thousand people compared to crowds of ten thousand or more at typical circus events. Cirque's extravagant shows—with ticket prices of $60 to $100 per seat—are produced at multimillion dollar theaters on three different continents. The company is extremely profitable, and its long-term strategy is to become a megabrand targeted at the wealthy. Cirque has already cashed in on its brand equity with a licensed wallpaper line (a top seller in the United States), a Cirque du Soleil watch marketed by Swatch, and a $12 million IMAX film about the company that recently debuted in Berlin.

Positioning and Marketing Strategy

Companies use positioning strategies to distinguish their services from competitors and to design communications that convey their desired position to customers and prospects in the chosen market segments. There are a number of different dimensions around which positioning strategies can be developed, including:

1. *Product attributes*—America Online's e-mail service is "so easy to use, no wonder it's #1" (see Figure 10.2)
2. *Price I'quality relationship*—Supercuts sells good haircuts at a "reasonable" price
3. *Reference to competitors*—"You'd better take your Visa card, because they don't take American Express"
4. *Usage occasions*—Ski resorts offer downhill and cross-country skiing in the winter; hiking and mountain biking in the summer
5. *User characteristics*—Cheap Ticket's online ticketing service is for travelers who are comfortable with both Internet usage and self-service
6. *Product class*—Blue Cross provides a variety of different health insurance packages for its corporate customers to choose from in putting together their employee benefit plans

Marketers often use a combination of these positioning approaches. Whatever strategy a firm chooses, the primary goal is to differentiate itself from competitors by emphasizing the distinctive advantages of its service offerings. If the core benefits are similar to those of the competition, the company may decide to stress different advan-

FIGURE 10.2
AOL E-Mail Emphasizes Ease of Use and Its Market Leadership

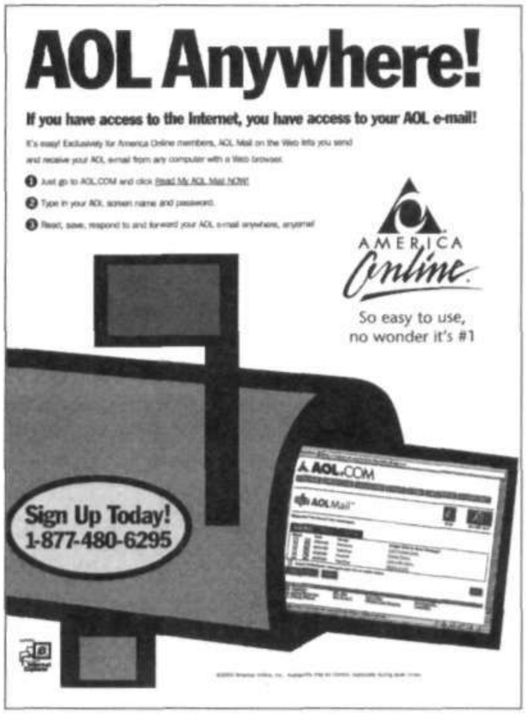

TABLE 10.1
Principal Uses of Positioning in Marketing Management

Provide a useful diagnostic tool for defining and understanding the relationships between products and markets:

a. How does the product compare with competitive offerings on specific attributes?
b. How well does product performance meet consumer needs and expectations on specific performance criteria?
c. What is the predicted consumption level for a product with a given set of performance characteristics offered at a given price?

Identify market opportunities:

a. *Introduce new products*
   - What segments should be targeted?
   - What attributes should be offered relative to the competition?
b. *Redesign (reposition) existing products*
   - Should we appeal to the same segments or to new ones?
   - What attributes should be added, dropped, or changed?
   - What attributes should be emphasized in advertising?
c. *Eliminate products that*
   - Do not satisfy consumer needs
   - Face excessive competition

Make other marketing mix decisions to preempt or respond to competitive moves:

a. *Distribution strategies*
   - Where should the product be offered (locations and types of outlet)?
   - When should the product be available?
b. *Pricing strategies*
   - How much should be charged?
   - What billing and payment procedures should be used?
c. *Communication strategies*
   - What target audience(s) are most easily convinced that the product offers a competitive advantage on attributes that are important to them?
   - What message and attributes should be emphasized and which competitors, if any, should be mentioned as the basis for comparison on those attributes?
   - Which communication channels should be used, personal selling or different advertising media (selected not only for their ability to convey the chosen message to the target audience but also for their ability to reinforce the desired image of the product)?

tages in its promotional efforts. For example, at one point Sprint was stressing the price and value of its long-distance services, while AT&T emphasized reliability and expertise. Table 10.1 summarizes how positioning strategies relate to critical marketing issues like service development and delivery, pricing, and communications.

Service Repositioning

Market positions are rarely permanent. Competitive activity, new technologies, and internal changes may cause a company to reposition itself and its services. **Repositioning** involves changing the position a firm holds in a consumer's mind relative to competing services. This may be necessary to counter competitive attacks, remain attractive and appealing to current customers, or target new and additional segments. Repositioning can involve adding new services or abandoning certain offerings and withdrawing completely from some markets. In response to major changes in its business environment, Andersen Consulting recently repositioned itself and changed its name to Accenture to reflect its "accent on the future" (see the boxed story "Repositioning a Consulting Firm").

repositioning: changing the position a firm holds in a consumers mind relative to competing services.

PERCEPTUAL MAPS AS POSITIONING TOOLS

Many companies use perceptual mapping to help finalize their positioning strategies. **Perceptual maps**—also called positioning maps—help managers identify the most critical attributes of their own and competing services, as viewed by customers. These maps provide a visual picture of a service's distinctive characteristics, identify the nature of competitive threats and opportunities, and highlight gaps between customer and management perceptions about competing services (as the Palace Hotel example in the next section illustrates).

perceptual map: a visual illustration of how customers perceive competing services.

Repositioning a Consulting Firm

Andersen Consulting, a management consulting firm whose clients include more than 5,000 companies worldwide, recently repositioned itself to reflect a new business strategy with an emphasis on cutting-edge technologies. On January 1, 2001, the company was officially "Renamed. Redefined. Reborn as Accenture." The company's name change reflects the new brand identity and repositioning strategy that it had been working on since early in 2000. According to Dave Seibel, the Canadian Managing Partner for Accenture:

> We are repositioning our firm in the marketplace to better reflect our new vision and strategy for becoming part of the fabric of the new economy and our strategy for getting there. We are creating new businesses through joint ventures that will help us provide our traditional consulting clients and the market with the latest technological innovations. We are also investing in emerging technology providers with applications that will benefit our clients. We are moving beyond a traditional consulting firm, delivering innovations that improve the way the world lives and works.

To create awareness of its new name and its extended capabilities, Accenture implemented an integrated marketing communications program in 48 different countries at an estimated cost of $175 million. The campaign included four 30-second Super Bowl spots in addition to 6,000 other television commercials, print ads in newspapers and business journals, and extensive online advertising.

Source: Scotty Fletcher, "Accenture Buys Four Super Bowl Spots," localbusiness.com, 20 November 2000; Larry Greenemeier, "Andersen Consulting Changing Name to Accenture," informationweek.com, 26 October 2000; the company's Web sites www.ac.com and www.ac.ca, December 2000 and www.accenture.com, January 2001; and conversations with Accenture consultants.

To create a perceptual map, researchers first identify attributes that are important to customers and then measure how the firm and its competitors are performing on each attribute. The results can then be plotted on a chart, using the horizontal axis for measures of one attribute and the vertical axis for a second. Since charts are two-dimensional, perceptual maps are usually limited to two attributes. Sometimes, three-dimensional models are built so that a third dimension can be included. When marketers need to feature more than three dimensions to describe service positioning, they can create a series of two-dimensional maps or use computerized models to handle numerous attributes simultaneously. Some commonly used attributes include:

- Convenience
- Industry-specific characteristics that offer a unique benefit
- Level of personal service
- Price
- Quality of physical elements
- Reliability
- Speed
- Trustworthiness

In most cases, an attribute can be delivered at several different levels. Some of these variations are easy to measure. For instance, travel times can be faster or slower and prices can be higher or lower. Reliability—a key element in service quality—can be measured by how often a service fails to perform against predefined standards (for instance, errors in posting banking deposits or late arrival of flights). Evaluation of other attributes may be more subjective. For instance, researchers may ask customers to evaluate the level of convenience, comfort, or quality of personal service they encounter in a specific context.

A perceptual map is only as good as the quality of the information used in constructing it. Dynamic markets require that research be repeated periodically and perceptual maps redrawn to reflect significant changes in the competitive environment. New market entrants and repositioning of existing competitors may result in the disappearance of a formerly distinctive positioning advantage. Separate maps will have to be drawn for different market segments if research shows that there are sharp variations between segments. In the case of airlines, for instance, vacationers and business travelers may have different service priorities and vary in their willingness to pay extra for higher classes of service.

Using Perceptual Maps to Evaluate Positioning Strategies

To demonstrate the value of perceptual mapping, let's look at how the Palace—a successful four-star hotel in a large city that we'll call Belleville—used perceptual maps to develop a better understanding of potential threats to their established market position. The Palace was an elegant old hotel located on the edge of Belleville's booming financial district. Its competitors included 8 four-star establishments and the Grand Hotel, which had a five-star rating. The Palace had been very profitable for its owners in recent years and boasted an above-average occupancy rate. It was sold out on weekdays most of the year, reflecting its strong appeal to business travelers (who were very attractive customers because of their willingness to pay higher room rates than vacationers or convention participants). But the general manager and his staff saw problems on the horizon. Permission had recently been granted for four large new hotels in the city, and the Grand Hotel had just started a major renovation and expansion project.

To better understand these competitive threats, the hotel's management team worked with a consultant to prepare perceptual maps that displayed the Palace's position in the business traveler market both before and after the arrival of new competition. Four attributes were selected: room price; level of physical luxury; level of personal service; and location. Information on competing hotels was not difficult to obtain. The locations were known, the physical structures were relatively easy to visit and evaluate, and the sales staff kept informed on competitors' pricing policies and discounts. The ratio of rooms per employee was a convenient surrogate measure for service level; this was easily calculated from the published number of rooms and employment data filed with city authorities. Data from travel agents provided additional insights about the quality of personal service at each of the competing hotels.

The Palace's management team created scales for each attribute. Price was simple, since the average price charged to business travelers for a standard single room at each hotel was already known. The rooms per employee ratio formed the basis for a service-level scale, with low ratios indicating high service. This scale was then modified slightly to reflect what was known about the level of service actually delivered by each major competitor. The level of physical luxury was more subjective. The management team identified the Grand Hotel as the most luxurious hotel and decided that the Airport Plaza was the four-star hotel with the least luxurious physical facilities. The other four-star hotels were then rated relative to these two benchmarks.

The location scale was based on each hotel's distance from the stock exchange (which was in the heart of the financial district), since past research had shown that a majority of the Palace's business guests were visiting destinations in this vicinity. The set of 10 hotels lay within an area that extended from the stock exchange through the city's principal retail area (where the convention center was also located) to the inner suburbs and the nearby metropolitan airport.

Two positioning maps were created to portray the existing competitive situation. The first (Figure 10.3) showed the hotels on the dimensions of price and service level; the second (Figure 10.4) displayed them on location and degree of physical luxury.

A quick glance at Figure 10.3 shows a clear correlation between price and service. That's no surprise: Hotels offering higher levels of service can command higher prices. The shaded bar running from the upper left to the lower right highlights this relationship, and we would expect it to continue diagonally downward for three-star and lesser-rated establishments. Further analysis indicates that there appear to be three clusters of hotels within what is already an upscale market category. At the top end, the four-star Regency is close to the five-star Grand. In the middle, the Palace is clustered with four other hotels. Another set of three hotels is positioned at the lower end. One surprising insight from this map is that the Palace appears to be charging significantly more (on a relative basis) than its service level seems to justify. But since its occupancy rate is very high, guests are evidently willing to pay the present rate. What's the secret of its success?

In Figure 10.4, we see how the Palace is positioned relative to the competition on location and physical luxury. We would not expect these two variables to be directly related and they don't appear to be so. A key insight here is that the Palace occupies a relatively empty portion of the map. It's the only hotel located in the financial district—a fact that probably explains its ability to charge more than its service level (or degree of physical luxury) would normally command. There are two clusters of hotels in the vicinity of the shopping district and convention center: a relatively luxurious group of three, and a second group of two offering a moderate level of luxury.

After mapping the current situation, the Palace's management team turned to the future. Their next task was to predict the positions of the four new hotels being constructed in Belleville, as well as the probable repositioning of the Grand (see Figures 10.5 and 10.6). The construction sites were already known. Two would be in the

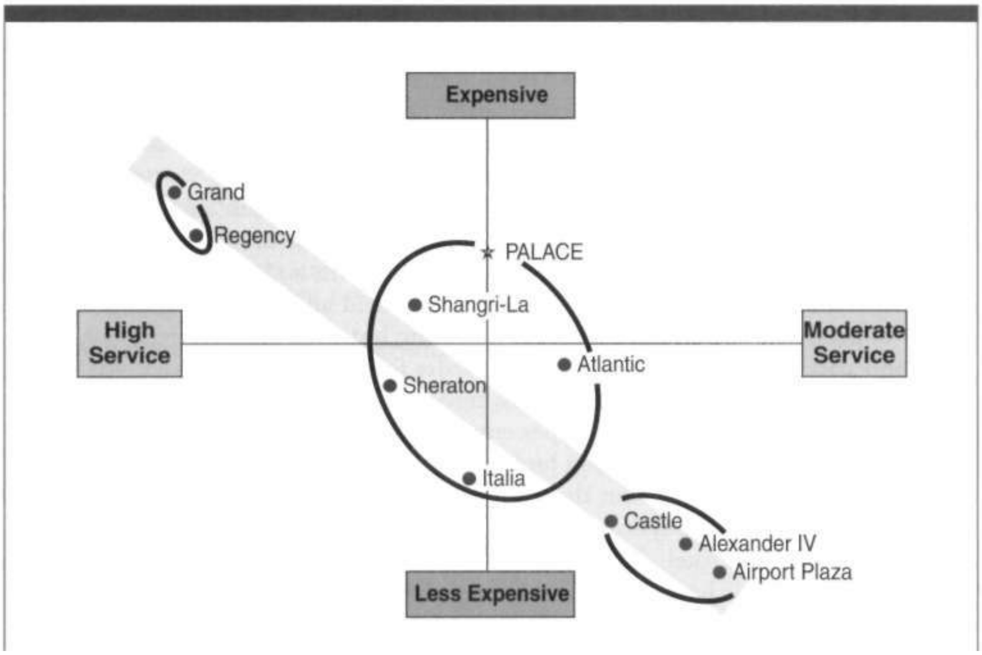

FIGURE 10.3
Belleville's Principal Business Hotels: Positioning Map of Service Level Versus Price Level

financial district and the other two in the vicinity of the convention center. Predicting the positions of the four new hotels was not difficult since preliminary details had already been released. The owners of two of the hotels intended to aim for five-star status, although they admitted that this goal might take a few years to achieve. Three of the newcomers would be affiliated with international chains. Their strategies could be guessed by examining hotels these same chains had opened recently in other cities. Press releases distributed by the Grand had already declared

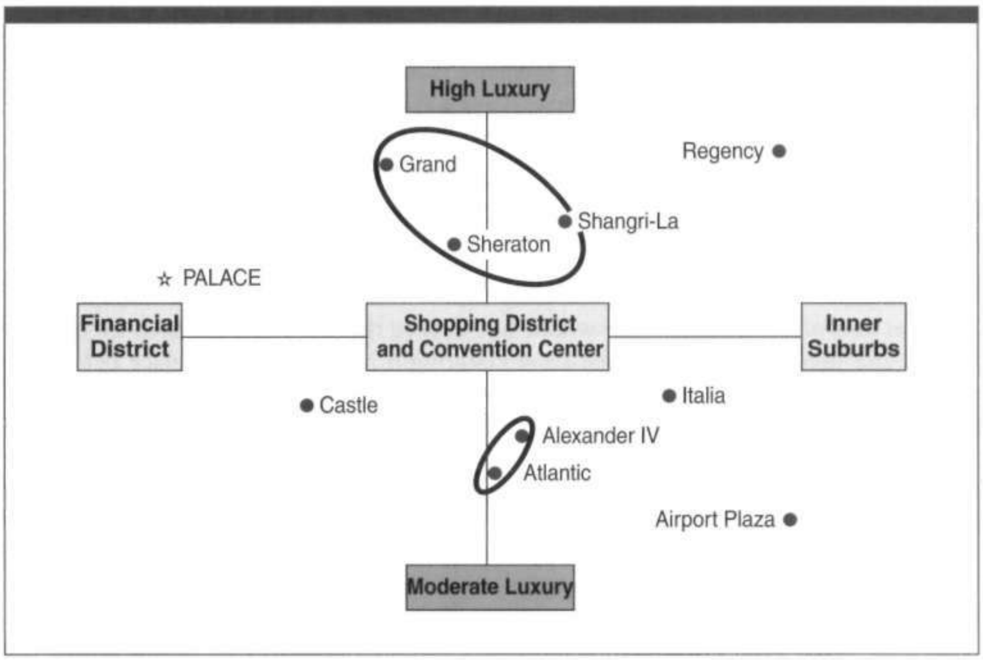

FIGURE 10.4
Belleville's Principal Business Hotels: Positioning Map of Location Versus Physical Luxury

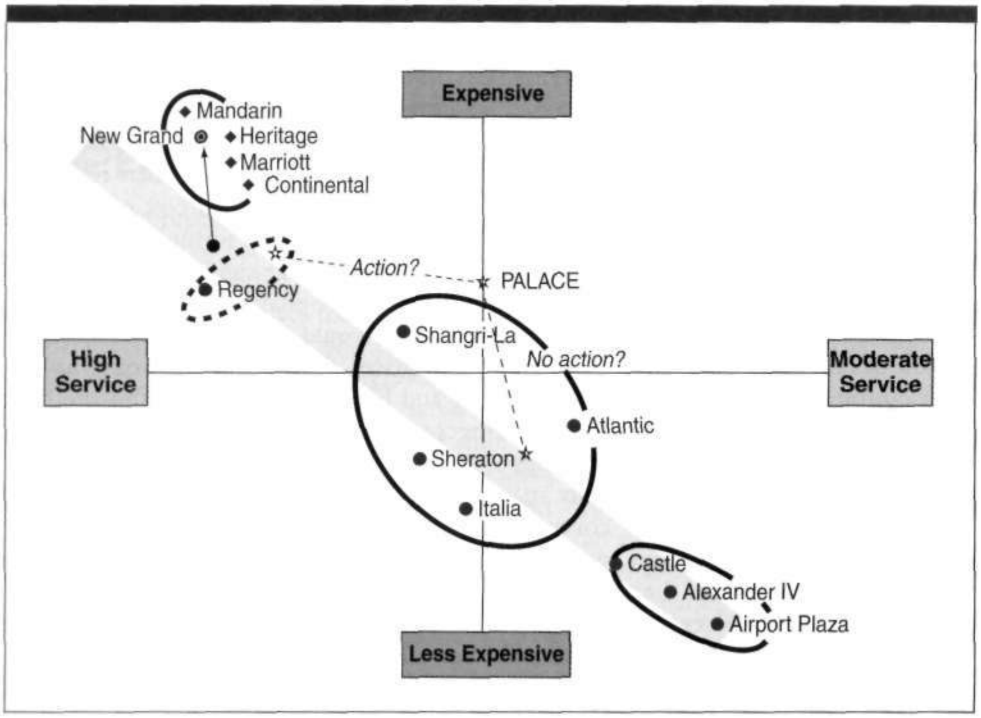

FIGURE 10.5

Belleville's Principal Business Hotels, Following New Construction: Positioning Map of Service Level Versus Price Level

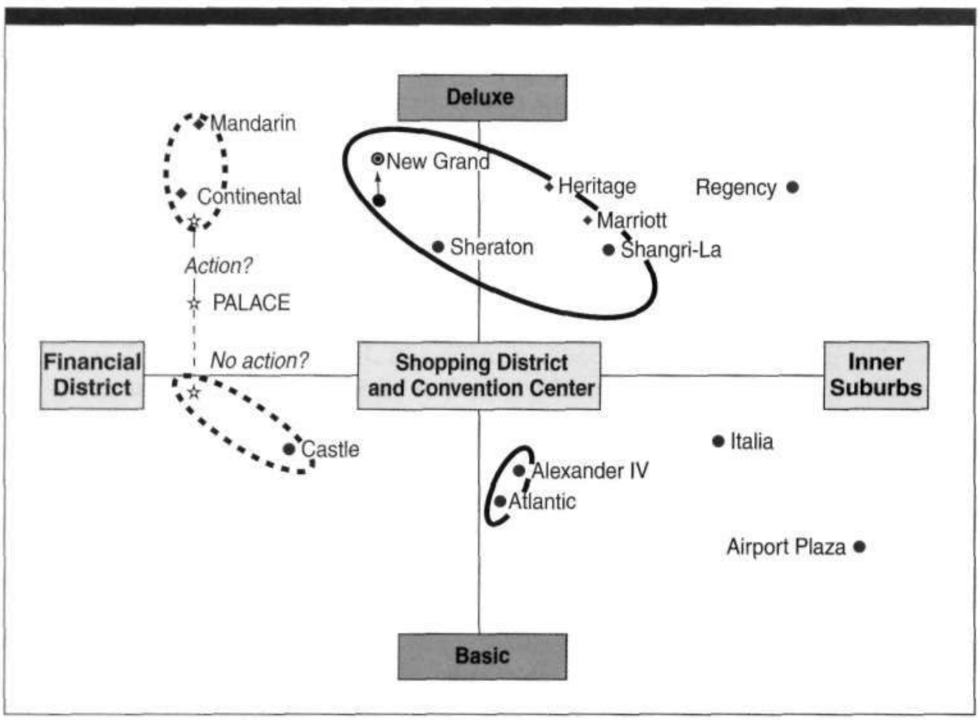

FIGURE 10.6

Belleville's Principal Business Hotels after New Construction: Positioning Map of Location Versus Physical Luxury that the "New Grand" would be larger and even more luxurious, and its management planned to add new service features.

Pricing was easy to project because new hotels use a formula for setting posted room prices (the prices typically charged to individuals staying on a weekday in high season).This price is linked to the average construction cost per room at the rate of $1 per night for every $1000 of construction costs. Thus, a 500-room hotel that costs $100 million to build (including land costs) would have an average room cost of $200,000 and would need to set a price of $200 per room night. Using this formula, Palace managers concluded that the four new hotels would have to charge significantly more than the Grand or the Regency. This would have the effect of establishing what marketers call a "price umbrella" above existing price levels and would give other competitors the option of raising their prices. To justify the high prices, the new hotels would have to offer customers very high standards of service and luxury. At the same time, the New Grand would need to increase its prices to recover the costs of renovations, new construction, and enhanced service offerings.

Assuming that no changes "were made by either the Palace or the other existing hotels, the impact of the new competition clearly posed a significant threat to the Palace. It would lose its unique locational advantage and become one of three hotels in the immediate vicinity of the financial district (see Figure 10.6). The sales staff believed that many of the Palace's existing business customers would be attracted to the Continental and the Mandarin and would be willing to pay higher rates in order to obtain superior benefits. The other two newcomers were seen as more of a threat to the Shangri-La, Sheraton, and New Grand in the shopping district/convention center cluster. The New Grand and the other entrants would create a high price/high service and luxury cluster at the top end of the market, leaving the Regency in what might prove to be a distinctive—and therefore defensible—space of its own.

What action should the Palace take under these circumstances? One option would be to do nothing in terms of service enhancements or physical improvements. But the loss of its locational advantage would probably destroy the hotel's ability to charge a price premium, leading to lower prices and profits. Some of the best staff might be enticed away by the new hotels, leading to a decline in service quality. And without renovations, there would be a gradual decline in physical luxury, too. The net result over time might be to shift the Palace into a new cluster with the Castle, serving guests who want to visit destinations in the financial district but are unable (or unwilling) to pay the high prices charged at the Mandarin and Continental. As you can see, doing nothing would have significant strategic implications! If other existing hotels decided to upgrade and the Palace did nothing, it would eventually slide even further down the scales on luxury and service, risking reclassification as a three-star hotel.

An alternative strategy would be to implement renovations, service improvements, and programs to reinforce the loyalty of current guests before the new hotels are completed. The price umbrella these hotels create would allow the Palace to raise its rates to cover the additional costs. The hotel might then move to a new position where it is clustered with the Regency on the dimensions of price and service. On the dimensions of luxury and location, it would be clustered with the Mandarin and Continental but with slightly lower prices than either competitor.

So what did the Palace actually do? Management selected the second option, concluding that the future profitability of the hotel lay in competing against the Continental (and to a lesser extent against the Mandarin) for the growing number of business travelers visiting Belleville's financial district. The Palace also tried to retain the loyalty of frequent guests by recording their preferences and special needs on the hotel database so that staff could provide more personalized service. Advertising and selling efforts promoted these improvements, and frequent guests were sent personalized direct mailings from the general manager. Despite the entrance of new and formidable competition, the Palace's occupancy levels and profits have held up very well.

CREATING AND PROMOTING COMPETITIVE ADVANTAGE

Creating a competitive advantage presents special challenges for service providers, who are often forced to compete with goods and customers' self-service options in addition to other service providers. Since customers seek to satisfy specific needs, they often evaluate reasonable alternatives that offer broadly similar benefits. For example, if your lawn desperately needs mowing, you could buy a lawn mower and do it yourself—or you could hire a lawn maintenance service to take care of the chore for you.

Customers may make choices between competing alternatives based on their skill levels or physical capabilities and their time availability, as well as on factors like cost comparisons between purchase and use, storage space for purchased products, and anticipated frequency of need. As you can see, direct competition between goods and services is often inevitable in situations where they can provide the same basic benefits. This concept is illustrated in Figure 10.7, which shows four possible delivery alternatives for both car travel and word processing. These alternatives are based on choices between ownership or rental of physical goods and self-service or hiring other people to perform the tasks.

Of course, many businesses rely on a mixture of both goods and services to satisfy customer needs. "Quasi-manufacturing" operations like fast-food restaurants sell goods supplemented by value-added service. At each site, customers can view a menu describing the restaurant's products, which are highly tangible and easily distinguishable from those of competitors. The service comes from speedy delivery of freshly prepared food items, the ability to order and pick up food from a drive-in location without leaving the car, and the opportunity to sit down and eat a meal at a table in a clean environment.

Providers of less tangible services also offer a "menu" of products, representing a bundle of carefully selected elements built around a core benefit. For instance, universities provide many types of undergraduate education, ranging from two-year certification programs to the completion of bachelors' degrees, and from full-time residency to evening extension programs. Most also offer graduate studies and nondegree continuing education classes. The supplementary service elements include advising, library and computer resources, entertainment opportunities like theater and sports events, food and health care services, and a safe, pleasant campus environment.

	Own a Physical Good	Rent the Use of a Physical Good
Perform the Work Oneself	• Drive own car • Type on own word processor	• Rent a car and drive it • Rent a word processor and type on it
Hire Someone to Do the Work	• Hire a chauffeur to drive car • Hire a typist to use word processor	• Hire a taxi or limousine • Send work out to a secretarial service

FIGURE 10.7

Services as Substitutes for Owning and/or Using Goods

The Power of Service Brands

Because of the difficult competitive challenges faced by service providers, especially the problem of differentiating an intangible performance, branding plays a special role in defining and positioning a company's service offerings. As Leonard Berry states:

> *Strong brands enable customers to better visualize and understand intangible products. They reduce customers' perceived monetary, social or safety risk in buying services, which are difficult to evaluate prior to purchase. Strong brands are the surrogate when the company offers no fabric to touch, no trousers to try on, no watermelons or apples to scrutinize, no automobile to test-drive.'"*

brand: a name, phrase, design, symbol, or some combination of these elements that identifies a company's services and differentiates it from competitors.

While the product is the primary brand for packaged goods, the company itself serves as the brand for services. But what *is* a brand? Harry Beckwith argues in his book *Selling the Invisible* that for a service, a **brand** is more than a name or a symbol. It is an implicit promise that a service provider will perform consistently up to customer

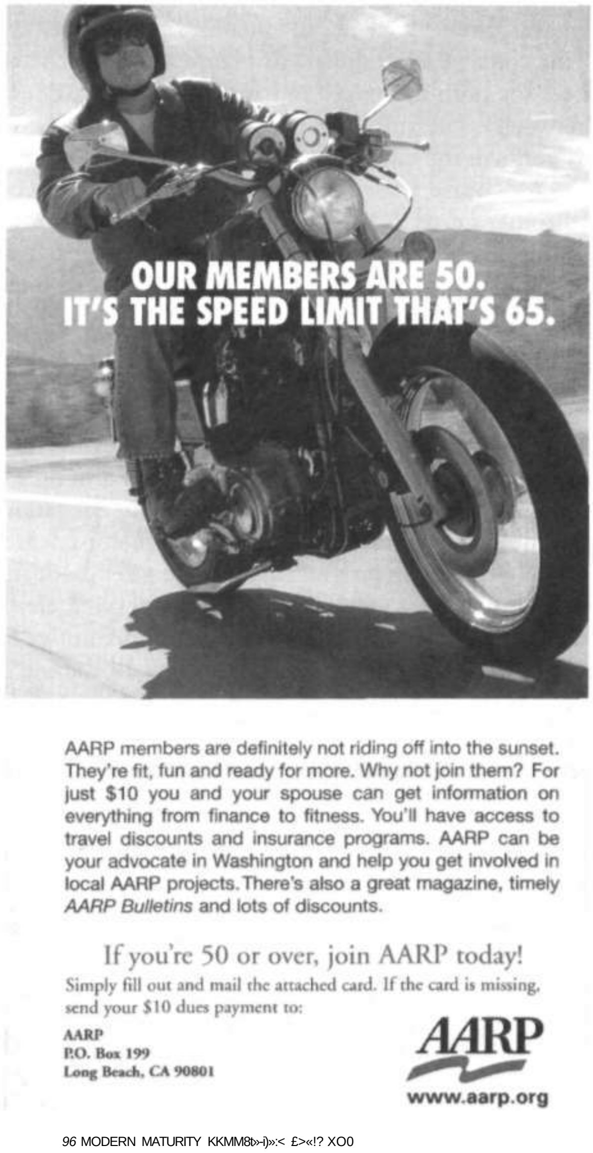

FIGURE 10.8
AARP Promotes a Fit, Fun Image to Attract New Members in Their Fifties

expectations over time. Brands are very important to service customers, because few services have warranties—in part because they are typically difficult to guarantee. For example, how do you guarantee that a doctor's diagnosis will be accurate? That a professor's class will be educational? That a tax accountant will find every legal deduction? Customers can't experience service quality in advance of purchase, so most of the time they have to rely on the service provider's brand image as a promise of future satisfaction.

Ritz-Carlton promises a particular type of luxury hotel experience; Motel 6 stands for something simpler and more affordable. Similarly, Southwest Airlines and Singapore Airlines, both respected as leaders in their industry, offer very different air travel experiences. Brands that offer good value on a consistent basis gain the trust and respect of their customers. In fact, when traveling on business or vacation, people who value consistency often seek out the same service providers that they patronize at home. Perhaps you're among them.

Advertising and other marketing communications play an important role in creating a positive brand image and establishing expectations. Even nonprofit organizations like AARP have developed brand image campaigns. Figure 10.8 shows an advertisement from a campaign designed, in part, to dispel misperceptions that the AARP (formerly the American Association of Retired Persons) consisted only of inactive, elderly individuals—in fact, membership is open to anyone over the age of 50. And the Chicago Symphony Orchestra experienced a 10-percent increase in donations following a communications program that introduced a modernized logo and sought to create a consistent, upbeat image for the orchestra.

To maintain a well-defined brand identity, a firm must reinforce key brand attributes in all of its communications—from service encounters to television advertising. Marketing messages may vary by target audience, but there should be a consistent theme. This includes Web sites, which can be powerful communication links with customers if managed effectively. Companies like FedEx, UPS, Kinko's, and Sir Speedy use the Internet to provide online information and delivery options for their customers. These value-added services help to enhance customers' overall brand experiences.

The "Branded Customer Experience"

Customer satisfaction—the deep kind of satisfaction that builds loyalty—doesn't result from any one thing. A customer's decision to stay with a particular supplier or defect to another is often the result of many small encounters. Successful firms recognize this and design distinctive service strategies to ensure that ordinary events will be perceived as extraordinary. The Forum Corp., a consulting and training group in Boston, calls this creating a "branded customer experience."[12] According to the Forum, the promise of the service brand should be reinforced at every point of contact between a company and its customers. Forum senior vice president Scott Timmins says: "The question is, what is our brand of customer delight—what are we known for, what do customers expect us to deliver reliably, where's our wow?"

Southwest Airlines has mastered the branded service experience—with a twist. Its brand stands for the opposite of extravagant treatment, but passengers are not expecting that. Instead, the airline delights its customers by making and keeping a promise to provide simple, convenient, inexpensive service, with a little humor on the side. Southwest's positioning strategy is designed to reinforce its image as the "No Frills" carrier. This theme is emphasized in its clever advertising campaigns, the reusable plastic boarding passes, and the casual appearance and demeanor of its flight attendants.

Changing Brand Perceptions

halo effect: the tendency for consumer ratings of one prominent product characteristic to influence ratings for many other attributes of that same product.

Customers' perceptions about specific brands often reflect the cumulative impact of different service encounters. These experiences can result in a **halo effect**—either positive or negative—that makes it difficult for customers to assess the specific strengths and weaknesses of competing services.[13] For instance, reported customer dissatisfaction with one attribute of a particular service may be real (and thus need corrective action) or could be the result of a negative halo effect caused by a high dissatisfaction with a second attribute or even by a high overall dissatisfaction with the brand.

One problem in consumer satisfaction research is that respondents often complete survey questionnaires quickly, without carefully considering each of the different dimensions on which they are rating a service firm's performance. If they are unhappy with a service in general, they may rate all attributes poorly rather than identifying those that are actually dissatisfying. In-depth personal interviews usually offer a more reliable way to probe customers' evaluations and obtain more carefully considered responses. However, this type of research is time consuming and more expensive to administer.

Improving negative brand perceptions may require extensive redesign of the core product and/or supplementary services. However, weaknesses are sometimes perceptual rather than real. Ries and Trout describe the case of Long Island Trust, historically the leading bank serving this large suburban area to the east of New York City.[14]

After laws were passed to permit unrestricted branch banking throughout New York State, many of the big banks from neighboring Manhattan began invading Long Island. Research showed that Long Island Trust was rated below banks like Chase Manhattan and Citibank on such key selection criteria as branch availability, full range of services offered, service quality, and capital resources. However, Long Island Trust ranked first on helping Long Island residents and the Long Island economy.

The bank's advertising agency developed a campaign promoting the "Long Island position," playing to its perceived strengths rather than seeking to improve perceptions on attributes where it was perceived less favorably. The tenor of the campaign can be gauged from the following extract from a print ad:

> *Why send your money to the city if you live on the Island? It makes sense to keep your money close to home. Not at a city bank but at Long Island Trust. Where it can work for Long Island. After all, we concentrate on developing Long Island. Not Manhattan Island or some island off Kuwait—*

Other advertisements in the campaign promoted similar themes, such as, "The city is a great place to visit, but would you want to bank there?"

When identical research was repeated 15 months later, Long Island Trust's position had improved on every attribute. The campaign had succeeded in reframing its brand image by changing its customers' frame of reference from a global to a local perspective. Although the firm had not changed any of its core or supplementary services, the perceived strength of being a Long Island bank for Long Islanders now had a strongly positive halo effect on all other attributes.

NEW SERVICE DEVELOPMENT

Competitive intensity and customer expectations are increasing in nearly all service industries. Thus success lies not only in providing existing services well, but also in creating new approaches to service. Because the outcome and process aspects of a service often combine to create the experience and benefits obtained by customers, both aspects must be addressed in new service development.

A Hierarchy of Service Innovation

The word "new" is popular in marketing because it's a good way to attract people's attention. However, there are different degrees of "newness" in new service development. In fact, we can identify seven categories of new services, ranging from major innovations to simple style changes.

1. *Major service innovations* are new core products for markets that have not been previously defined. They usually include both new service characteristics and radical new processes. Examples include FedEx's introduction of overnight, nationwide, express package delivery in 1971, the advent of global news service from CNN, and eBay's launch of online auction services.

2. *Major process innovations* consist of using new processes to deliver existing core products in new ways with additional benefits. For example, the University of Phoenix competes with other universities by delivering undergraduate and graduate degree programs in a nontraditional way. It has no permanent campus; instead its courses are offered online or at night in rented facilities. Its students get most of the core benefits of a college degree in half the time and at a much lower price than other universities.[15] The existence of the Internet has led to the creation of many start-up businesses employing new retailing models that exclude the use of traditional stores, saving customers time and travel costs. Often, these models add new, information-based benefits such as greater customization, the opportunity to visit chat rooms with fellow customers, and suggestions for additional products that complement what has already been purchased.

3. *Product line extensions* are additions to current product lines by existing firms. The first company in a market to offer such a product may be seen as an innovator, but the others are merely followers who are often acting defensively. These new services may be targeted at existing customers to serve a broader array of needs, designed to attract new customers with different needs, or both. Starbucks, known for its coffee shops, has extended its offerings to include light lunches (Figure 10.9).

   Major computer manufacturers like Compaq, Hewlett-Packard, and IBM are going beyond their traditional business definitions to offer integrated "e-solutions" based on consulting and customized service. Telephone companies have introduced numerous value-added services such as caller ID, call waiting, and call forwarding. Cable television providers are starting to offer broadband Internet access. Many banks sell insurance products in the hope of increasing the number of profitable relationships with existing customers. American Express, too, offers a full range of insurance products, including auto, home, and umbrella policies. And at least one insurance company—State Farm Insurance—has gone into the banking business, relying on its well-established brand name to help draw customers.

4. *Process line extensions* are less innovative than process innovations. But they do often represent distinctive new ways of delivering existing products, either with the intent of offering more convenience and a different experience for existing customers or of attracting new customers who find the traditional approach unappealing. Most commonly, they involve adding a lower-contact distribution channel to an existing high-contact channel, as when a financial service firm develops telephone-based or Internet-based services or a bricks-and-mortar retailer adds catalog sales or a Web site. For example, Barnes and Noble, the leading bookstore chain in the United States, added a new Internet subsidiary,

FIGURE 10.9
Starbucks Promotes Its Expanded Service Offering

BarnesandNoble.com, to help it compete against Amazon.com. Creating self-service options for customers to complement delivery by service employees is another form of process line extension.

5. *Supplementary service innovations* involve adding new facilitating or enhancing service elements to an existing core service, or significantly improving an existing supplementary service. Low-tech innovations for an existing service can be as simple as adding parking at a retail site or agreeing to accept credit cards for payment. Multiple improvements may have the effect of creating what customers perceive as an altogether new experience, even though it is built around the same core. Theme restaurants like the Rainforest Cafe are examples of enhancing the core with new experiences. The cafes are designed to keep customers entertained with aquariums, live parrots, waterfalls, fiberglass monkeys, talking trees that spout environmentally related information, and regularly timed thunderstorms, complete with lightning.[17]
6. *Service improvements* are the most common type of innovation. They involve modest changes in the performance of current products, including improvements to either the core product or to existing supplementary services. For instance, a movie theater might renovate its interior, adding ergonomically designed seats with built-in cup holders to increase both comfort and convenience for customers during the show or an airline might add power sockets for laptops in its business-class cabins.
7. *Style changes* represent the simplest type of innovation, typically involving no changes in either processes or performance. However they are often highly visible, create excitement, and may serve to motivate employees. Examples include

repainting retail branches and vehicles in new color schemes, outfitting service employees in new uniforms, introducing a new bank check design, or making minor changes in service scripts for employees.

As you can see, service innovation can occur at many different levels. It's important to recognize that not every type of innovation has an impact on the characteristics of the core product or results in a significant change in the customer's experience.

Creating a New Service to Fill an Empty Market Position

As we noted earlier, positioning research sometimes reveals new opportunities in the marketplace. Perceptual maps can highlight positions where there is expressed or latent demand for a certain type of service but none of the existing offerings have attributes that closely meet potential customers' requirements. When a firm uncovers such an opportunity, the only way to take advantage of it is to develop a new service with the desired characteristics.

Service design is not typically a simple task. Most new services involve compromises, because there are usually limits to what most prospective customers are willing to pay. And service providers must be careful not to lose control of their costs in coming up with superior performance levels on the product characteristics that customers desire. So how can product planners determine what features and price will create the best value for target customers? It's hard to know without asking prospective users—hence the need for research. Let's examine how the Marriott Corporation employed market research to help develop a new service concept in the lodging industry.

Marriott had identified a niche in the business travel market between full-service hotels and inexpensive motels. The opportunities were seen as especially attractive in locations where demand was not high enough to justify a large full-service hotel. Having confirmed the presence of a niche where there was unmet market demand, Marriott executives set out to develop a product to fill that gap. As a first step, the company hired marketing research experts to help establish an optimal design concept.[18] Since there are limits to how much service and how many amenities can be offered at any given price, Marriott needed to know how customers would make trade-offs in order to arrive at the most satisfactory compromise in terms of value for money. The intent of the research was to get respondents to trade off different hotel service features to see which ones they valued most.

A sample of 601 consumers (who were part of the business travel market) from four metropolitan areas participated in the study. Researchers used a sophisticated technique known as conjoint analysis that asks survey respondents to make trade-offs between different groupings of attributes. The objective is to determine which mix of attributes at specific prices offers the highest degree of utility. The 50 attributes in the Marriott study were divided into the following seven factors (or sets of attributes), each containing a variety of different features based on detailed studies of competing offerings:

1. *External factors*—building shape, landscaping, pool type and location, hotel size
2. *Room features*—room size and decor, climate control, location and type of bathroom, entertainment systems, other amenities
3. *Food-related services*—type and location of restaurants, menus, room service, vending machines, guest shop, in-room kitchen
4. *Lounge facilities*—location, atmosphere, type of guests
5. *Services*—reservations, registration, check-out, airport limo, bell desk, message center, secretarial services, car rental, laundry, valet

FIGURE 10.10

Sample Description of a Hotel Offering

ROOM PRICE PER NIGHT IS $44.85

BUILDING SIZE, BAR/LOUNGE

Large (600 rooms), 12-story hotel with:
- Quiet bar/lounge
- Enclosed central corridors and elevators
- All rooms have very large windows

LANDSCAPING/COURT

Building forms a spacious outdoor courtyard
- View from rooms of moderately landscaped courtyard with:
  —many trees and shrubs
  —the swimming pool plus a fountain
  —terraced areas for sunning, sitting, eating

FOOD

Small, moderately priced lounge and restaurant for hotel guests/friends
- Limited breakfast with juices, fruit, Danish, cereal, bacon and eggs
- Lunch—soup and sandwiches only
- Evening meal—salad, soup, sandwiches, six hot entrees including steak

HOTEL/MOTEL ROOM QUALITY

Quality of room furnishings, carpet, etc. is similar to:
- Hyatt Regency Hotels
- Westin "Plaza" Hotels

ROOM SIZE AND FUNCTION

Room one foot longer than typical hotel/motel room
- Space for comfortable sofa-bed and 2 chairs
- Large desk
- Coffee table
- Coffee maker and small refrigerator

SERVICE STANDARDS

Full service including:
- Rapid check in/check out systems
- Reliable message service
- Valet (laundry pick up/deliver)
- Bellman
- Someone (concierge) arranges reservations, tickets, and generally at no cost
- Cleanliness, upkeep, management similar to:
  —Hyatts
  —Marriotts

LEISURE
- Combination indoor-outdoor pool
- Enclosed whirlpool (Jacuzzi)
- Well-equipped playroom/playground for kids

SECURITY
- Night guard on duty 7 P.M. to 7 A.M.
- Fire/water sprinklers throughout hotel

"X" the ONE box below which best describes how likely you are to stay in this hotel/motel at this price:

Would stay there almost all the time	Would stay there on a regular basis	Would stay there now and then	Would rarely stay there	Would not stay there
☐	☐	☐	☐	☐

Source: Jerry Wind et al., "Courtyard by Marriott: Designing a Hotel Facility with Customer-Based Marketing Models," *Interfaces,* January/February 1989, 25-47.

6. *Leisure facilities*—sauna, whirlpool, exercise room, racquetball and tennis courts, game room, children's playground
7. *Security*—guards, smoke detectors, 24-hour video camera

For each of these seven factors, respondents were presented with a series of stimulus cards displaying different levels of performance for each attribute. For instance, the "Rooms" stimulus card displayed nine attributes, each of which had three to five different levels. Thus, *amenities* ranged from "small bar of soap" to "large soap, shampoo packet, shoeshine mitt" to "large soap, bath gel, shower cap, sewing kit, shampoo, special soap" and then to the highest level, "large soap, bath gel, shower cap, sewing kit, special soap, toothpaste, etc."

In the second phase of the analysis, respondents were shown cards depicting a number of alternative hotel profiles, each featuring different levels of performance on the various attributes contained in the seven factors. They were asked to indicate on a five-point scale how likely they would be to stay at a hotel with these features, given a specific room price per night. Figure 10.10 shows one of the 50 cards that were developed for this research. Each respondent received five cards.

The research yielded detailed guidelines for the selection of almost 200 features and service elements, representing those attributes that provided customers in the target segment with the highest utility for the prices they were willing to pay. An important aspect of the study was that it focused not only on what travelers wanted, but also identified what they liked but weren't prepared to pay for. (There's a difference, after all, between wanting something and being willing to pay for it!) Using these inputs, the design team was able to meet the specified price while retaining the features most desired by the study participants, who represented the desired business traveler market.

Marriott was sufficiently encouraged by the findings to build three prototype hotels that were given the brand name, "Courtyard by Marriott." After testing the concept under real-world conditions and making some refinements, the company developed a large chain whose advertising slogan became "Courtyard by Marriott—the hotel designed by business travelers." The new hotel concept filled a gap in the market with a product that represented the best balance between the price customers were prepared to pay and the physical and service features they most desired. The success of this project subsequently led Marriott to develop additional customer-driven products—Fairfield Inn and Marriott Suites—using the same research methodology.

Conclusion

Service companies must find ways to create meaningful competitive advantages for their products by responding to specific customer needs and developing a distinctive service strategy that responds to those needs better than any competing product. Successful positioning strategies are based on relating the opportunities (and threats) uncovered by market and competitive analysis to the firm's own strengths and weaknesses.

In this chapter, we introduced perceptual mapping, an important tool that companies can use to help define their competitive positions. Perceptual maps present a visual display of how competing firms perform relative to each other on key service attributes. This technique can be used to analyze opportunities for developing new services or repositioning existing ones so that companies can establish and maintain a sustainable competitive advantage by effectively addressing the needs and expectations of their target markets.

Because of the difficult challenge faced by service providers in differentiating intangible performances, branding plays a special role in defining and positioning a company s service offerings. Creating a distinctive branded service experience for customers requires consistency at all stages of the service delivery process. In designing services, managers should be aware of the importance of selecting the right mix of supplementary service elements—no more and no less than needed—and creating synergy to ensure that they contribute to a consistent, positive brand image.

Study Questions and Exercises

1. Give examples of companies in other industries that are facing challenges similar to those of the travel agents in the opening story. Describe what service strategies these companies might use to compete effectively.
2. Why should service firms focus their efforts? What options do they have for doing so?
3. In a sentence or two, describe Amtrak's service strategy for its new Acela Express service (refer to the boxed example on page 218).
4. Describe what is meant by the term "positioning." Choose an industry you are familiar with (like fast-food restaurants or movie theaters) and create a perceptual map showing the competitive positions of different companies in the industry.
5. Explain why branding is particularly important for services. Which service brands are you familiar with? What do they tell you about the companies they are associated with?
6. Discuss how a company's product attributes (including the core and supplementary services), price, and marketing communications all work together to create a branded customer experience. Provide an example of a service firm that you think has integrated these elements particularly well.
7. Define the seven categories of new services. Provide your own example for each category.

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