

# 1 Marketing and services

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## The growing importance of the service sector

Since the Second World War, North America and Western Europe have seen a steady and unrelenting decline in their traditional manufacturing industries. Their place has been taken by numerous service-based enterprises that were quick to spot the opportunities created by both organizational needs and by the increased personal affluence and the consequent raised lifestyle expectations of the population.

There has been very substantial growth in services over the last two decades. This growth has been widespread but is now especially pronounced in developing countries where services represent the engine of their economic growth.

So successful has been this transition from an essentially industrial society that today more than 70 per cent of most Western economies are now in the service sector, whether measured in terms of income or numbers employed.

Figure 1.1 shows estimates of the size of the service sector as a percentage of gross national product (GNP) for different countries. These statistics, published by the US Central Intelligence Agency in 2011,<sup>1</sup> show the dramatic transformation of the global service landscape. Hong Kong leads the world with 92% of its economy in the service sector. China's economy a few decades ago was principally an agricultural economy. The service sector in China has grown by 191% over the last 25 years. Today, services represent over 44% of China's GNP.

As Jim Spohrer, the director of IBM Almaden Services Research Centre, has observed, 'This shift to services represents the single largest labour force migration in human history. Global communications, business and technology growth, urbanization, and low labour costs in the developing world, are all in part responsible for this dramatic shift.'

The service-led  
'second industrial  
revolution'

This shift in emphasis has been so pronounced that some observers refer to it as the 'second industrial revolution'. As individuals spend

## 2 Marketing Plans for Services

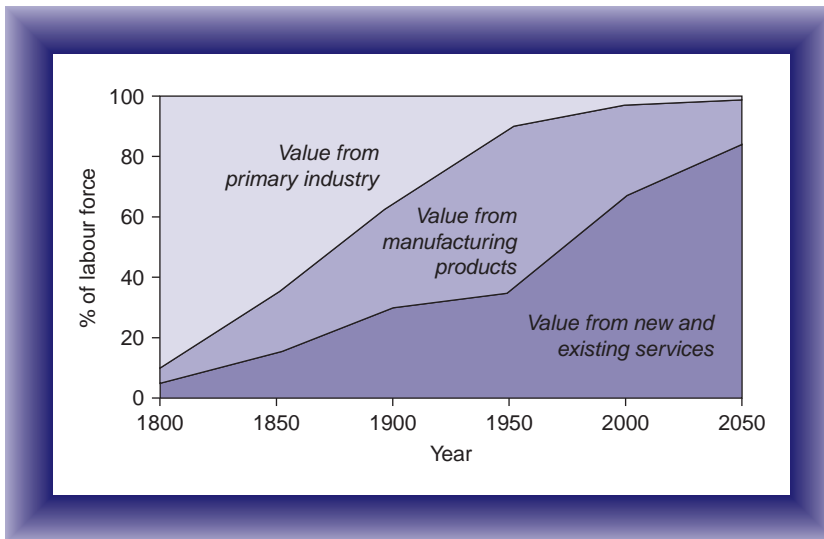


**Figure 1.1**  
Size of the service sector as % of GNP for different countries

greater proportions of their income on travel, entertainment and leisure, postal and communication services, restaurants, personal health and grooming and the like, so has the service sector responded by creating businesses and jobs. In addition, the growing complexity of banking, insurance, investment, accountancy and legal services has meant that these areas of activity showed a similar inclination to expand, in terms of their impact on the economy as a whole.

Although there is a realization that it is essential for a country to have some kind of industrial base, there is little to suggest that this trend towards the service sector is slowing down. Based on research by IBM,<sup>2</sup> Figure 1.2 shows the projected growth of employment in services in the USA to the year 2050 and demonstrates the anticipated strong growth in services over the next few decades.

Indeed, the manufacturing industry itself is showing a greater propensity to subcontract out a wide range of service-related activities which at one time were carried out in-house.



**Figure 1.2**  
Projected growth of  
employment in  
services in USA to 2050

For example, outsourcing is continuing to increase in areas such as cleaning, catering, recruitment, deliveries, computer services, advertising, training, market research and product design. These are all areas where it has been found that external specialists can provide a cost-effective alternative to a company's own staff. More and more companies are choosing to contract out for specialist services and concentrate attention on their core activities.

## Service businesses and marketing effectiveness

For many years business schools and consultancy firms have emphasized how important it is for companies to develop a marketing orientation. At first sight this message would appear to have hit home, because today many companies claim to be market-led and customer-focused. However, from our position of working with senior managers and marketing staff from a wide range of companies, we can see that this so-called 'marketing orientation' has, for most of them, not been accomplished.

Marketing has not yet stormed the citadels of many service organizations

There is more emphasis on rhetoric than actions. In fact, we estimate that less than one service organization in five has a deep understanding of its customer base and an effective strategic marketing plan based on this understanding.

One of the major UK banks recruited hundreds of consumer goods-trained marketing personnel, yet still has no observable differential advantage in any of its operations. It is clear that such organizations have confused marketing orientation with selling and promotion. The

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## 4 Marketing Plans for Services

result is that they have merely succeeded in creating a veneer and a vocabulary of marketing.

Research by the authors into marketing effectiveness across a variety of service organizations suggests that many of the companies studied operated well below their potential marketing effectiveness.

One of the authors, in his work conducting courses for executives from service businesses, has demonstrated this by asking many groups of senior managers from different service organizations these two simple questions:

1. To what extent does your chief executive in your service organization declare publicly: 'we are a customer-driven firm'; or 'we are a customer-oriented organization'; or 'we are market-focused and customer-centric as a business'; or some similar statement?
2. What percentage of the service businesses that you deal with, either as a company executive or as an individual consumer, is truly market oriented?

In answering this latter question, these executives were asked to consider all their firm's service suppliers, including: transportation and logistics companies; IT suppliers; accountants; solicitors; banks and financial services organizations; as well as training organizations. They were also asked to consider those services they used as a consumer, including hotels, banks, utilities such as water, electricity and gas, their mobile and fixed line telephone companies, and so on.

We have now put these questions to over 1,500 managers on executive programmes. The answers have been remarkably consistent. For large service organizations, in excess of 90% of chief executives claim their organization is market-oriented or customer-focused. However, when executives were asked about their experience with their service suppliers, they considered only 5–10% of the organizations they dealt with were market-focused. This confirms much work remains to be done in developing a customer-oriented culture in service firms.

With organizations paying only lip-service to being marketing-oriented, the results suggest a dramatic need for improvement in marketing effectiveness.

Philip Kotler has developed an audit to help provide organizations with a measure of their marketing effectiveness.<sup>3</sup> This audit is generic to all organizations, but can be adapted to a specific service sector or organization. We have modified this audit for use in a range of service sectors including banking, professional service firms, not-for-profit services and schools.

We use an audit developed for professional service firms as an illustration here. The audit identifies five attributes that can be used to audit the marketing effectiveness of the organization. Adapting these to reflect a professional firm environment, they include:

1. *Customer philosophy* – to what extent does the senior partner acknowledge the importance of the market place and client needs and wants in shaping the firm's plan and activities?
2. *Integrated marketing organization* – to what extent is the firm staffed for market analysis, competitive analysis, planning, implementation and control?
3. *Adequate marketing information* – does management receive the kind and quality of information necessary to conduct an effective marketing programme?
4. *Strategic orientation* – does the firm management generate innovative marketing strategies and plans for long-term growth and profitability, and to what extent have these proved successful in the past?
5. *Operational efficiency* – does the firm have marketing plans which are implemented cost effectively, and are the results monitored to ensure rapid action?

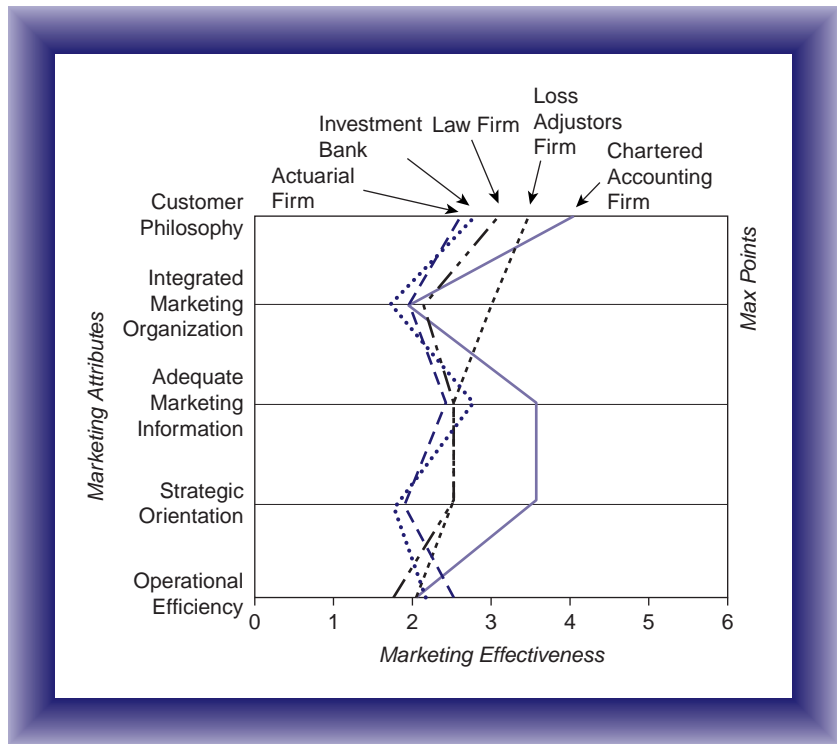
The audit rates the firm on each of these five attributes. The five sections of the audit each include three questions with a maximum score of six points being possible for each of the attributes.

Each of the five attributes has several questions. For example, under 'adequate marketing information' the following questions are asked:

- When were the last market research studies of clients, referrals, sources, premises and their location and competitiveness conducted?
- How well does the firm's management know its sales potential and the profitability of different market segments, clients, territories, services and forms of marketing promotion?
- What effort is expended to measure the cost effectiveness of different marketing expenditures?

To find full details of this audit, refer to this chapter's references.<sup>3</sup> (References for all the chapters appear towards the end of the book.) We have used this modified audit with over 25 professional service firms. The results we have obtained suggest that most professional firms are operating well below their potential in terms of marketing effectiveness. The results for a number of different professional service firms are shown in Figure 1.3 which shows each firm's ranking on the five attributes.

We have chosen professional service firms simply as an illustration of the use of the marketing effectiveness audit. Interestingly these firms



**Figure 1.3**  
Marketing effectiveness ratings for professional service firms

are all larger ones and are considered leaders in their sphere of professional services.

We have used this audit over many years with a large number of service organizations. These have included banks, insurance companies, airlines, retailers, hotel chains, industrial plant hire, motoring clubs, not-for-profit organizations and charities to name a few. While the concepts in this book apply equally to a wide range of service organizations, some modification of them may be necessary, given that service covers such a huge range of organizational types. We explore the nature of different types of services in the next chapter.

An audit's primary purpose is to find and communicate to senior executives the perceived level of marketing effectiveness within the firm. It provides useful evidence of the need for a programme to improve the firm's marketing orientation. These are its primary functions; it is not intended to replace the rigorous marketing audit that is carried out as part of the marketing planning process and which is discussed in detail in Chapter 7.

From our consulting work with a wide range of service organizations, and surveys of executives in service organizations and from our extensive use of this audit we conclude that the vast majority of enterprises in the service sector have much distance to travel to improve their marketing effectiveness. Somewhat depressingly, this does not appear to have improved much over the past 15 years.

What is clear is that many service companies are misdirecting their energies and resources and thereby are failing to create competitive advantage and capitalize on market opportunities.

## The purpose of this book

This book sets out to demonstrate how service businesses and other service organizations can formulate strategic marketing plans which contribute to the creation of competitive advantage. It focuses on *how* world-class strategic marketing plans should be developed, as this process results in an output – a plan – which encapsulates the resulting objectives, strategies and actions.<sup>4</sup>

It examines the marketing planning process in some detail and shows how successful companies tackle its difficult elements. Where necessary, relevant marketing theory, techniques and research results are introduced so that the reader can better understand the implications of taking particular actions at various stages of the process. In addition, it is important to consider the demands a new approach to planning places on the organization.

For marketing planning to take root, not only must new skills be learned, but often new attitudes have to accompany them. Indeed, many of the barriers that hamper the acceptance of marketing planning can be attributed to outmoded or inappropriate organizational behaviour.

The purpose of this opening chapter is briefly to examine the importance of services in the global economy and the critical notion of the marketing concept. In the next chapter we explore to what extent the marketing of services differs from the marketing of products. We will also look at the diverse range of services in terms of establishing some threads of 'commonality'. In doing this, it makes it possible for the service manager to learn from other companies which may not necessarily be in the same business field. The next chapter will also develop reasons why the service marketer must formulate an enlarged and more sophisticated marketing mix than has traditionally been the case, and why focusing solely on customer markets will not prove to be enough for a guaranteed long-term marketing success.

## The marketing concept

Marketing as a source of competitive advantage

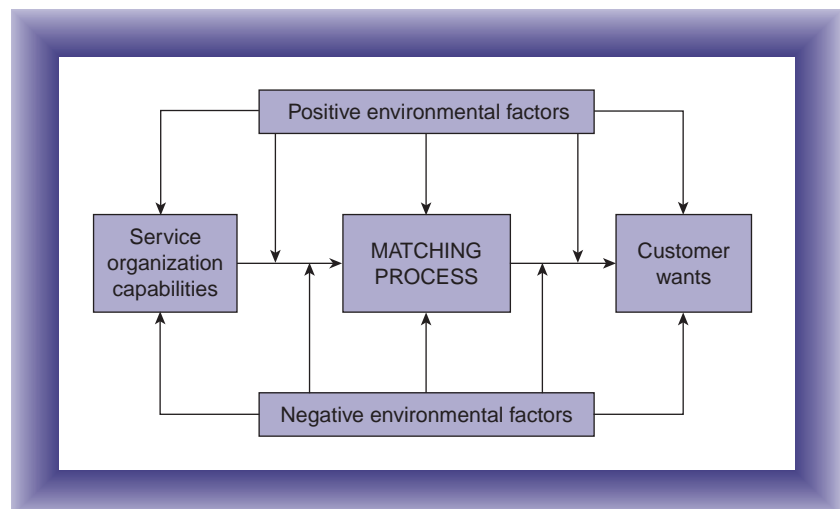
The central idea of marketing is to match the organization's capabilities with the needs of customers in order to achieve the objectives of both parties. If this matching process is to be achieved, then the organization has to develop strengths, either from the nature of the services it offers or from the way it exploits these services, in order to provide customer satisfaction.

The matching process is complicated by the ever-changing business environment

Since very few companies can be equally competent at providing a service for all types of customers, an essential part of this matching process is to identify those groups of customers whose needs are most compatible with the organization's strengths and future ambitions. It must be recognized that the limitations imposed by an organization's resources, and the unique make-up of its management skills, make it impossible to take advantage of all market opportunities with equal facility. Companies who fail to grasp this fundamental point, which lies at the heart of marketing, are courting commercial disaster.

This matching process is further complicated in that it takes place in a business environment which is never stable for any length of time. External factors continue to have a major impact on the company's attempts to succeed. For example, new competitors might enter the business, existing ones may develop a better service, government legislation may change and as a result alter the trading conditions, new technology may be developed which weakens their current skills base – the possibilities are almost endless. However, not every external factor will pose a threat. Some environmental developments will undoubtedly provide opportunities.

Figure 1.4 provides a visual summary of the matching process, which is the essence of marketing. As it shows, the environment has an impact not only on the matching process, but also on the 'players'. So,



**Figure 1.4**  
Marketing: a matching process



for example, local labour conditions might limit the company in recruiting a workforce with the appropriate skill levels. Equally, changed levels of unemployment can have a drastic impact on customer demand, making it either much greater or much less.

## Misunderstandings about marketing

One of the biggest areas of misunderstanding is that concerned with customer wants. Many people, unfortunately some of them in marketing, have a naive concept of customers. They see customers as people, or organizations, who can be manipulated into wanting things that they do not really need.

In the long run, customers always have the final say

However, commercial life is not really that simple. Customers are not prepared to act so unthinkingly at the request of the supplier, as evidenced by a very high proportion of new products and services that fail to make any impact in the market place. All the evidence suggests that it would be foolish to deny that the customer, in the end, always has the final say. Moreover, customers invariably have a choice to make about how they satisfy their particular requirements.

In the final analysis, they will choose those services that they perceive to offer the benefits they seek, at the price they can afford.

Another area of misunderstanding is the confusion of marketing with sales. Some ill-informed organizations actually believe that marketing is the new word for what was previously called sales. Others perceive marketing to be a mere embellishment of the sales process. That such companies exist is a sad reflection on the standard of management and suggests that marketing education has been less than effective. By failing to recognize that marketing is designed to provide a longer-term strategic, customer-driven orientation rather than a short-term tactical triumph, such an organization is certain to under-achieve. Not surprisingly, the chief executive of one such company was overheard to say: 'There is no place for marketing in this company until sales improve!'

Marketing should not be confused with sales

Marketing should not be confused with advertising

A similar misunderstanding occurs which confuses marketing with advertising. Here, gloss is seen as the magic formula to win business. However, without integrating advertising into an overall strategic marketing plan, hard-earned budgets can be completely wasted. Throwing advertising funds at a problem is no way to resolve an underlying issue which might have its roots in the fact that the service on offer has been superseded by another superior offer.

Marketing should not be confused with having a good service or product

Another misconception is that it is enough to have a high-quality service or product to succeed. Sadly, this has proved not to be the case

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## 10 Marketing Plans for Services

Marketing should not be confused with customer service

time and time again. No matter how good the service or product, unless it is appropriately priced and promoted it will not make any lasting impact.

The final area of confusion, and one to which we will return in more detail later, is to think that marketing is synonymous with customer service. With misguided enthusiasm, many organizations subscribing to this belief have rushed into organizing 'customer service' programmes for their staff.

Had they bothered to find out what their customers really wanted, perhaps they would have responded differently.

Train passengers might have travelled in less dirty and cramped conditions, and might have arrived at their destination on time more frequently. Those customers using banks might have found them open at more convenient times, and with more than one cashier on duty during the busy lunch period (the only time working customers can get there!). Instead, customers have been treated to cosmetic 'smile campaigns', where, regardless of their treatment, they were thanked for doing business with the supplier and encouraged to 'have a nice day'. Most people can recall an incident of this nature.

This is not to say that 'customer care' programmes are not important. What we contend is that unless the core service and the associated intangibles are right such programmes will fail. Such programmes ought to be part of the overall integrated set of marketing activities, not a substitute for them. The warning signs are there for those who care to look for them.

One US study showed that, while 77% of service industry companies had some form of customer service programme in operation, less than 30% of chief executives in these companies believed that it had any significant impact on profit performance.

### A definition of marketing

Before outlining the nature of services marketing, we need to move from what we have described as the marketing concept to a meaningful definition of marketing which will be used as the basis for this book.<sup>5</sup>

Marketing is a specialist function, just like HR, or Logistics, or IT, or Finance, or Manufacturing, and Business Schools and marketing practitioners really must stop the trend towards aggrandizing what is, in effect, a relatively simple if vital role.

The need to define marketing more tightly arose from a Cranfield research club ‘Improving Marketing Effectiveness through IT’. Clearly, if managers were to understand what kind of marketing tasks needed to be supported by what kind of IT applications, a tight definition and a map were needed to help managers navigate this domain.

Surprisingly, in spite of literally hundreds of definitions of marketing, most of them hopelessly wrong, we couldn’t find such a map anywhere, so we started with our *own* definition of marketing. But, before giving it, let us stress once again that, wherever the function of marketing is located in the organization and no matter what it is called, it will be ineffective unless the whole company is market-driven (‘customer-driven’, ‘customer-needs driven’, ‘demand-driven’, are other expressions for the same thing). This market-driven philosophy has to be led from the board downwards.

On the assumption that this is in place – a mega assumption indeed! – let us turn to our definition of marketing.

Marketing is a process for:

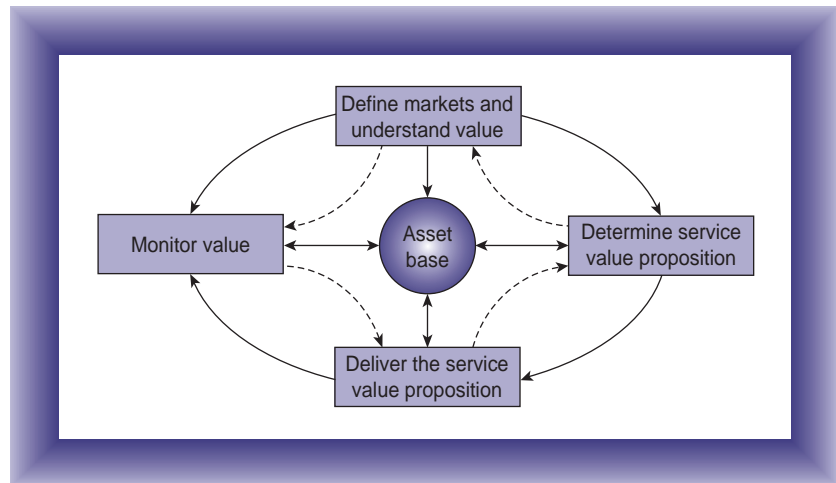
- Defining markets
- Quantifying the needs of the customer groups (segments) within these markets
- Determining the value propositions to meet these needs
- Communicating these value propositions to all those people in the organization responsible for delivering them and getting their buy-in to their role
- Playing an appropriate part in delivering these value propositions to the chosen market segments
- Monitoring the value actually delivered.

But marketing never has been, nor ever will be, responsible for delivering customer value, for this is the responsibility of everyone in the organization, but particularly those who come into contact with customers, which is a central difference between service organizations and manufacturing organizations, as in the former it is often people who make up the actual product – but more about this later.

## **An overview of the new marketing process**

With this in mind, we can now examine a map of this process – see Figure 1.5.

This process is clearly cyclical, in that monitoring the value delivered will update the organization’s understanding of the value that is required by its customers. The cycle may be predominantly an annual one, with a marketing plan documenting the output from the



**Figure 1.5**  
Overview of  
marketing map

'Understand service value' and 'Develop service value proposition' processes, but equally changes throughout the year may lead to an accelerated iteration around the cycle so the organization can respond to particular opportunities or problems.

We have used the term 'Determine service value proposition' to make plain that we are here referring to the decision-making process of deciding what the offering to the customer is to be – what value the customer will receive, and what value (typically the purchase price and ongoing revenues) the organization will receive in return. The process of delivering this value, such as by making and delivering a physical product or by delivering a service, is covered by 'Deliver service value proposition'.

Thus, it can be seen that the first two boxes (top and right-hand) are concerned with strategic planning processes (in other words, developing market strategies), while the third and fourth boxes (bottom and left-hand) are concerned with the actual delivery in the market of what was planned and then measuring the effect. Throughout, we use the word 'proposition' to indicate the nature of the offer from the organization to the market.

It is well known that not all of the value proposition delivering process will be under the control of the marketing department, whose role varies considerably between organizations. The marketing department is likely to be responsible for the first two processes, 'Understand value' and 'Determine service value proposition', although even these need to involve numerous functions, albeit coordinated by specialist marketing personnel. The 'Deliver service value' process is the role of the whole company, including, for example, product development, operations, purchasing, sales promotion, direct mail, distribution, sales and customer service.

The various choices made during this marketing process are constrained and informed not just by the outside world, but also by the

organization's asset base. Whereas an efficient service organization with much spare capacity might underpin a growth strategy in a particular market, an organization running at full capacity would cause more reflection on whether price should be used to control demand, unless the potential demand warranted further capital investment. As well as physical assets, choices may be influenced by financial, human resources, brand and information technology assets, to name just a few.

We are using this framework in order to position this book firmly within the total marketing process of service organizations, albeit most of the book is about only the first two of these boxes.

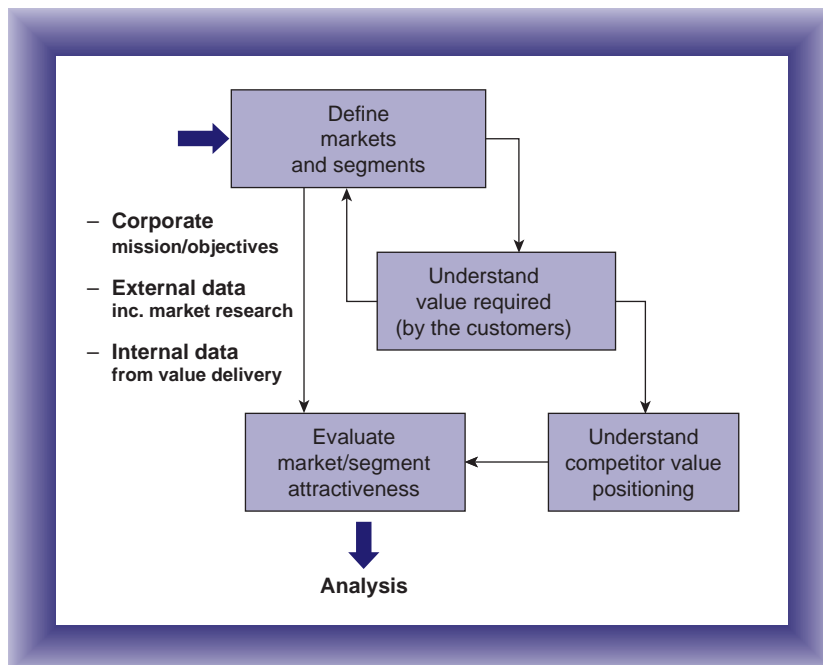
## Define markets and understand value

Inputs to this process will commonly include:

- The corporate mission and objectives, which will determine which markets are of interest
- External data such as market research
- Internal data which flows from ongoing operations.

The process involves four major subprocesses, shown in Figure 1.6.

First, it is necessary to define the markets the organization is in, or wishes to be in, and how these divide into segments of customers with similar needs. The choice of markets will be influenced by the corporate objectives as well as the asset base. Information will be collected



**Figure 1.6**  
Define markets and understand value

about the markets, such as the market's size and growth, with estimates for the future.

Once each market or segment has been defined, it is necessary to understand what value the customers within the segment want or need. This value is most simply thought of as the benefits gained from the offer, but it can also encompass the value to the customer of surrounding services such as maintenance or information. This step also encompasses what the customer is prepared to give in exchange, in terms of price and other criteria, such as lifetime cost or convenience of a purchase. One way of expressing customer value requirements is via a critical success factor analysis which might list such criteria as offers specification, quality or reliability, the quality and range of services, price and the ease of purchase, and which might also include weights to illustrate their relative importance to the customer in the buying decision. This step of 'Understand value required' also includes predicting the value which will be required in the future. We will discuss this more in Chapter 9.

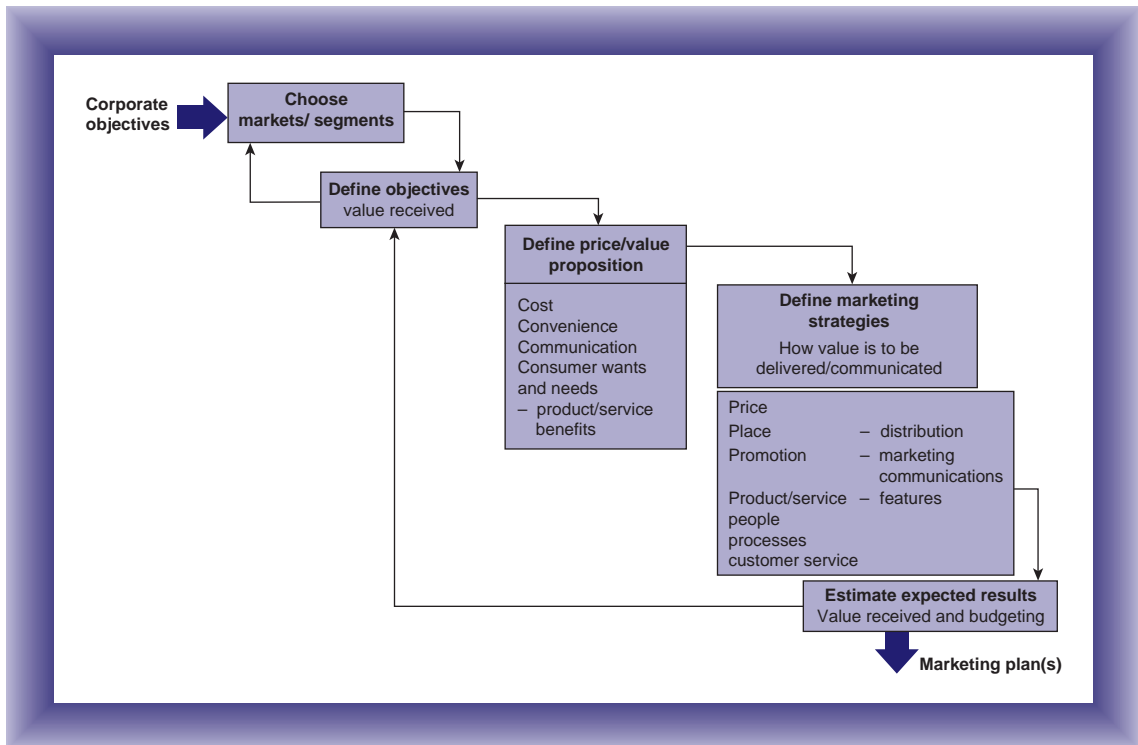
In performing this step, it may emerge that subsets of the customers within a market have very different requirements. In this case, the market may need to be further segmented to represent these subsets. Hence there is an important feedback loop from this step to the 'Define markets' step.

'Understand competitor value positioning' refers to the process of establishing how well the organization and competitors currently deliver the value that the customers seek. To illustrate in terms of critical success factors, this process would correspond to scoring the organization and its competitors on each of the customers' success factors. (We will show an example of this analysis later in the book.) Again, it involves looking into the future to predict how competitors might improve, clearly a factor in planning how the organization is to respond. SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis is one tool used here.

From these three processes, the relative attractiveness of the different markets or segments can be evaluated in order to determine where to prioritize the organization's resources.

### **Determine Value Proposition**

The definition of the value proposition to the customer contains five subprocesses, shown in Figure 1.7 (more commonly referred to by us as strategic marketing planning). Unfortunately, the term value proposition is typically tossed about casually and applied in trivial fashion in companies, rather than in a much more strategic, rigorous and actionable manner.<sup>6</sup> To obtain an overview of the use of the term value propositions in industry, we survey groups of managers attending five executive events on three continents. Some 265 senior and mid-level



**Figure 1.7** Determine value proposition

managers participated in this study. Two questions were addressed: first, 'Is the term "value proposition" one that is in regular use within your organization?'; second, 'If so, is the term just used in a general sense without specific meaning attached to it, or is there a structured underlying process resulting in a clearly articulated written customer value proposition within your organization?' On average, the term was used within 65% of the organizations. However, only 8%, of those who were using the term value propositions, stated they had a formal process for developing them and that written value propositions were developed and communicated within their organization.<sup>7</sup> This survey confirms that the term appears to have little substance in most organizations.

Creation of a strong value proposition is critical for service organizations.

The key input to this process is the prioritization of target markets, based on an analysis of customer needs and the relative attractiveness of different customer segments, which was produced by the previous process.

The next two subprocesses define the core of the value proposition to the customer. While they can occur in either order, organizations typically start by defining the value they hope to receive from the segment: 'Define objectives'. This involves defining marketing objectives in terms, for example, of market share, volume, value or contribution by segment.

The other half of the equation is defining the value to be delivered to the customer in return. This price/value proposition can be thought of as using the four 'Cs': 'Cost', 'Convenience', 'Communications' and 'Consumer wants and needs'. These translate what the organization does in terms of the marketing mix to what the customer cares about. For example, the customer is concerned with 'convenience' of purchase, which influences how the organization will make the service available. Similarly, instead of 'product' or 'service', we have the 'consumer wants and needs' which are met by the product or service. The customer is interested in the total 'cost' to them, not necessarily just the upfront 'price'. And finally, 'promotion' translates into the two-way 'communications' in which customers declare their requirements and learn about the organization's offerings.

The fourth subprocess may involve iterations with the third one since, in defining the marketing strategies – how the value is to be delivered and communicated – it may be necessary to reconsider what the value can actually be. We have listed the four traditional aspects of this process – the four 'Ps' – as well as three additional marketing mix elements: people; processes; and customer service. These additional elements are discussed in Chapter 2. While separate plans, or plan sections, may be produced for each of these, the decisions are closely intertwined: for example, the choice of 'place' will impact what communications are feasible, what surrounding services can be delivered and what price can be charged.

Once these issues have been resolved, an estimate of the expected results of the marketing strategies can be made, in terms of the costs to the organization and the impact of the price/value proposition on sales. This final step closes the loop from the original setting of objectives, as it may be that iteration is required if it is considered that the strategies that have been defined are not sufficient to meet the financial objectives.

The output from the 'Determine value proposition' process is typically a strategic marketing plan, or plans, covering a period of at least three years. In some cases, specific plans are produced for aspects of the particular 'Ps', such as a pricing plan, a distribution plan, a customer service plan or a promotions plan. However, even when no plans are produced, the organization is implicitly taking decisions on the offer to the customer and how this offer is to be communicated and delivered. The content of these plans has to be communicated to and agreed with all departments or functions responsible for delivering the customer value spelled out in the plans.



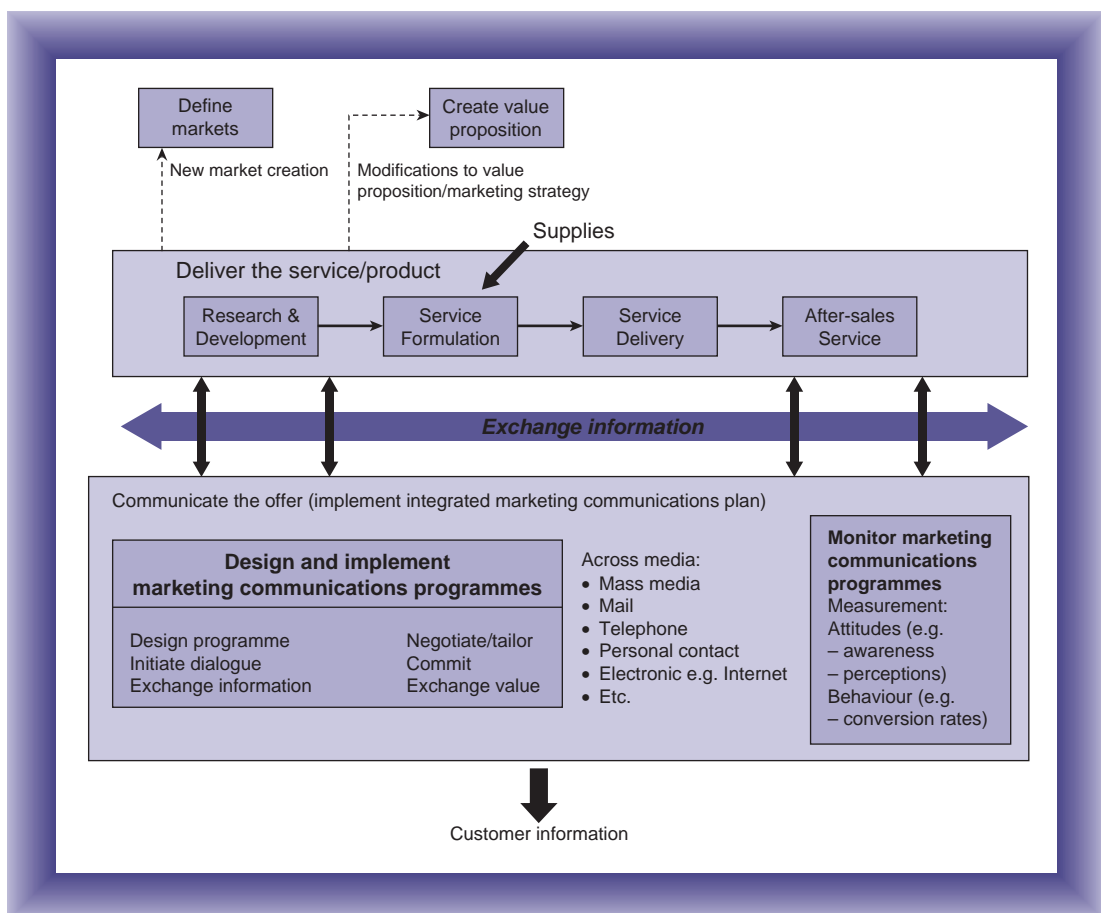
## Deliver value proposition

The third major process is to deliver the value proposition. This is illustrated in Figure 1.8.

The major input to this process is the strategic marketing plan(s) derived from the previous stage.

It will be seen that the top line is an adaptation of Michael Porter's value chain. However, we suggest that there are a number of marketing activities which shadow these value chain activities, under the general heading of 'Communicating the offer'. In today's one-to-one world, these communications often occur in parallel with all the tasks involved in value delivery. One might, for example, check a service offer with customers at the R&D stage. The offer may be tailored by the customer, resulting in changes and so on.

Communicating the offer is typically managed by designing, implementing and monitoring a number of marketing communications



**Figure 1.8** Deliver the service value proposition

## 18 Marketing Plans for Services

programmes. A communications programme could be, for example, a direct mail campaign; an advertising campaign; a series of sales seminars; an in-store promotion; and so on. We have also extended the term 'marketing communications programmes' to include management of such media as the sales force, which may be managed in a more continuous way, with annual targets broken down by quarter or month.

Figure 1.9 illustrates traditional views of the sales and purchasing process, with our revised interaction perspective between the two. The tasks may have an unfamiliar look: in order to represent the interactive, one-to-one nature of today's marketing, we have renamed the classic steps in the sales process.

Traditional 'push-based' models of marketing, in which, after the product is made, prospects are found and persuaded to buy the product, are illustrated on the left. The delivery and service that follow are operational functions with little or no relationship to marketing.

Traditional models of buyer behaviour, illustrated on the right of the figure, assume more rationality on the part of buyers, but underplay

Service supplier perspective		Interaction perspective		Service buyer perspective	
Advertising	Selling	Marketing activity	Interaction	Decision theory	Consumer behaviour
Brand awareness	Prospecting	Define markets/ understand value	Recognize exchange potential	Problem recognition	Category need
Brand attitude • info re benefits • brand image • feelings • peer influence	Provide information	Create value proposition	Initiate dialogue	Information search	Awareness Attitude
Trial inducement	Persuade	Negotiate/tailor	Exchange information	Evaluation of alternatives	Information gathering and judgement
	Close sale	Commit	Exchange value	Choice/purchase	Purchase process
Reduce cognitive dissonance	Deliver Service	Exchange value ↓	Monitor	Post-purchase behaviour	Post-purchase experience

**Figure 1.9** Rethinking the sales process for service businesses

the importance of what the buyer communicates back to the seller. The seller's offer is assumed to be predetermined, rather than developed in conjunction with the buyer.

The stages of the process of communicating value are therefore re-described as follows:

- 'Recognize exchange potential' replaces 'category need' or 'problem recognition'. Both sides need to recognize the potential for mutual exchange of value.
- 'Initiate dialogue' replaces 'Create awareness' or 'Prospecting'. The dialogue with an individual customer may be begun by either party. One feature of the Web, for example, is that on many occasions new customers will approach the supplier rather than vice versa.
- 'Exchange information' replaces 'Provide information'. If we are to serve the customer effectively, tailor our offerings and build a long-term relationship, we need to learn about the customer as much as the customer needs to learn about our products.
- 'Negotiate/tailor' replaces 'Persuade'. Negotiation is a two-way process which may involve us modifying our offer in order better to meet the customer's needs. Persuading the customer instead that the square peg we happen to have in stock will fit their round hole is not likely to lead to a long and profitable relationship.
- 'Commit' replaces 'Close sale'. Both sides need to commit to the transaction, or to a series of transactions forming the next stage in a relationship, a decision with implications for both sides.
- 'Exchange value' replaces 'Deliver' and 'Post-sales service'. The 'post-sales service' may be an inherent part of the value being delivered, not simply as a cost centre, as it is often still managed.

One-to-one communications and principles of relationship marketing, then, demand a radically different sales process from that traditionally practised in service organizations. This point is far from academic, as an example will illustrate.

The company in question provides business-to-business financial services. Its marketing managers relayed to us their early experience with a website which was enabling them to reach new customers considerably more cost-effectively than their traditional sales force. When the website was first launched, potential customers were finding the company on the Web, deciding the products were appropriate on the basis of the website, and sending an email to ask to buy. So far, so good.

But stuck in the traditional model of the sales process, the company would allocate the 'lead' to a salesperson, who would telephone and make an appointment, perhaps three weeks hence. The customer would by now probably have moved on to another online supplier who could sell the product today, but those that remained were

subjected to a sales pitch, complete with glossy materials, which was totally unnecessary, the customer having already decided to buy. Those that were not put off would proceed to be registered as able to buy over the Web, but the company had lost the opportunity to improve its margins by using the sales force more judiciously.

In time, the company realized its mistake, and changed its sales model and reward systems to something close to our 'interaction perspective' model. Unlike those prospects which the company proactively identified and contacted, which might indeed need 'selling' to, many new Web customers were initiating the dialogue themselves, and simply required the company to respond effectively and rapidly. The sales force were increasingly freed up to concentrate on major clients and on relationship building.

The changing nature of the sales process clearly raises questions for the design of marketing communication, such as: Who initiates the dialogue, and how do we measure the effectiveness of our attempts to do so across multiple channels? How do we monitor the effectiveness not just of what we say to customers but what they say back? And how about the role of marketing communications as part of the value that is being delivered and paid for, not just as part of the sales cost?

### Monitor value

Monitoring the value delivered to the customer, and received from the customer, is the purpose of 'Monitor value' illustrated in Figure 1.10.

There are four main areas where monitoring can occur, corresponding to the main types of information dealt with in the planning process of 'Understand value' and 'Determine service value proposition'.

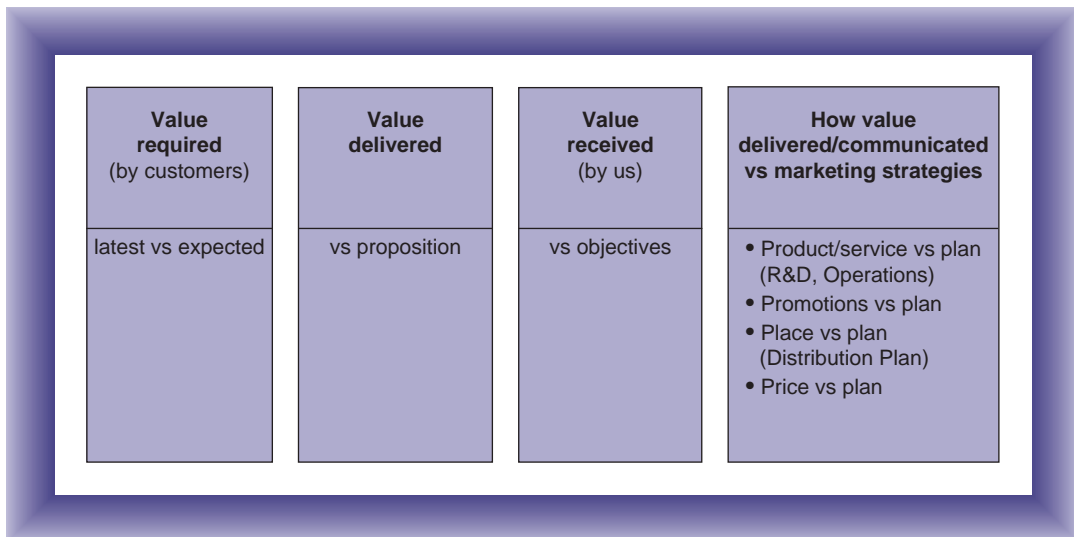


Figure 1.10 Monitor value

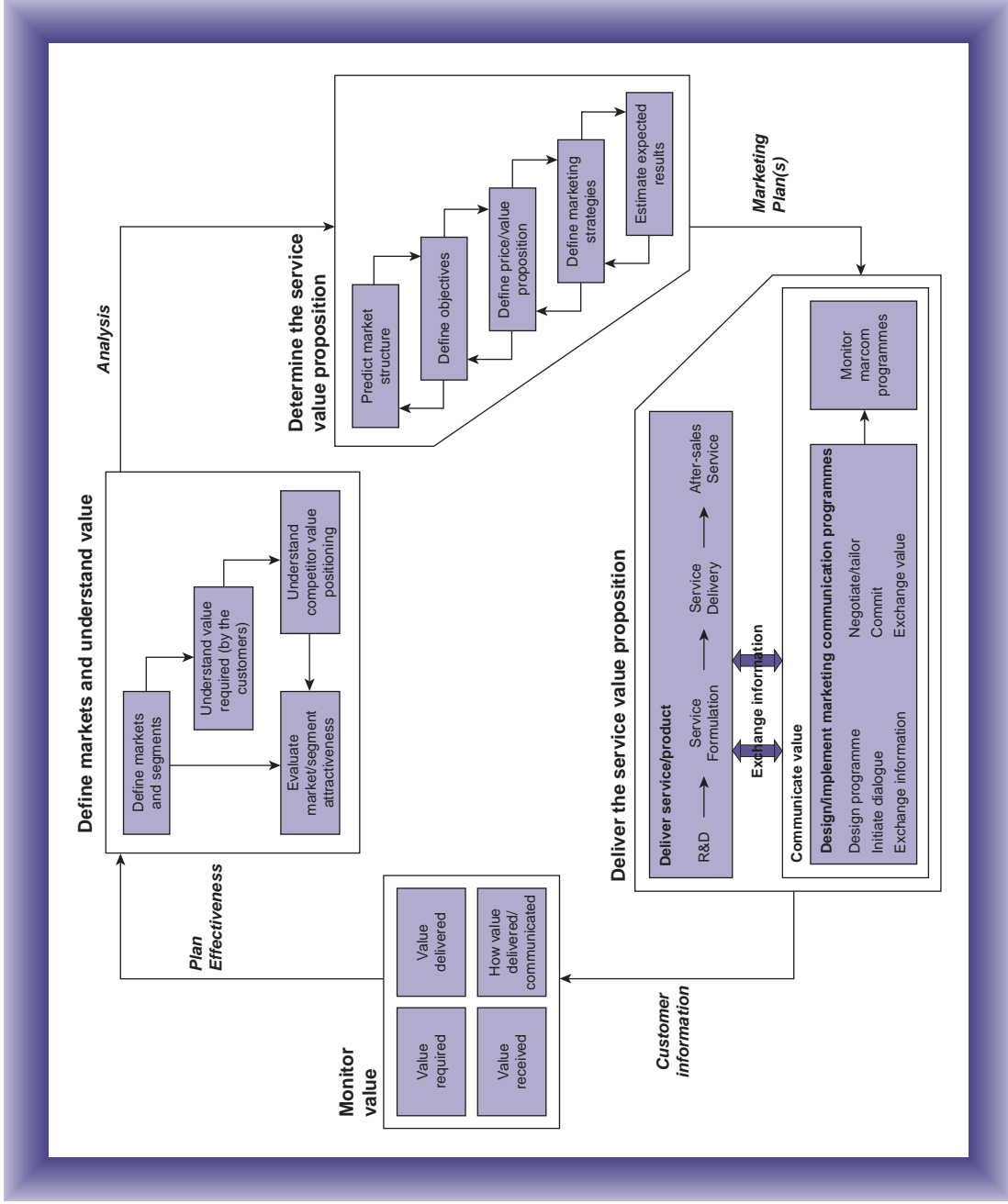


Figure 1.11 Summary of marketing map

First, the organization can monitor whether the value the customers actually require corresponds to the previous analysis of customer requirements carried out as part of 'Understand value'. The information for this may be gathered partly from the information gained in the 'Deliver service value proposition' process, or it may require special activity such as market research.

Second, the value delivered can be monitored against the value proposition which was defined during the 'Determine service value proposition' process. As all aspects of value are as measured by the customer's perception, this will again involve asking the customer by some means.

The organization will also wish to monitor the value it receives against the marketing objectives defined during the 'Develop service value proposition'. This is the area that most organizations are best at, through monthly analysis of sales by product, channel and so on (though analysis by segment or customer is often poorer than analysis by product, with customer profitability or lifetime value generally difficult to obtain). But as the financial results are a result of customer satisfaction, monitoring the value delivered to the customer is equally important, and for many organizations one of the simplest ways of improving performance.

Finally, the overall effectiveness of marketing strategies by which the value was delivered may be evaluated.

Figure 1.11 shows a consolidated summary of the marketing process.

From here, this book deals in the main with Box 2, 'Determine the service value proposition', as it is this above all else that defines the service offer and how the organization intends to create value for all its markets. Box 1, 'Define markets and understand value', is dealt with as part of the marketing planning process in Chapter 9.

### Summary

In this chapter, we have taken a broad-ranging review of marketing and services. The spectacular growth in service businesses in the last few decades in all developed economies has been largely due to the favourable business environment which prevailed over this period. Today, the business environment is more competitive and this calls for a more analytical and strategic approach that only thorough and detailed marketing planning can provide.

We then outlined a detailed map of marketing which highlights the point that marketing is a professional function needing high-level skills. This map of marketing addresses four key related activities: define market and deliver value; determine the service value proposition; deliver the service value proposition; and monitor value.

While this book covers most of the marketing domain, we particularly emphasize the development of the service value proposition as it is at the heart of the strategic marketing plan for a service business.