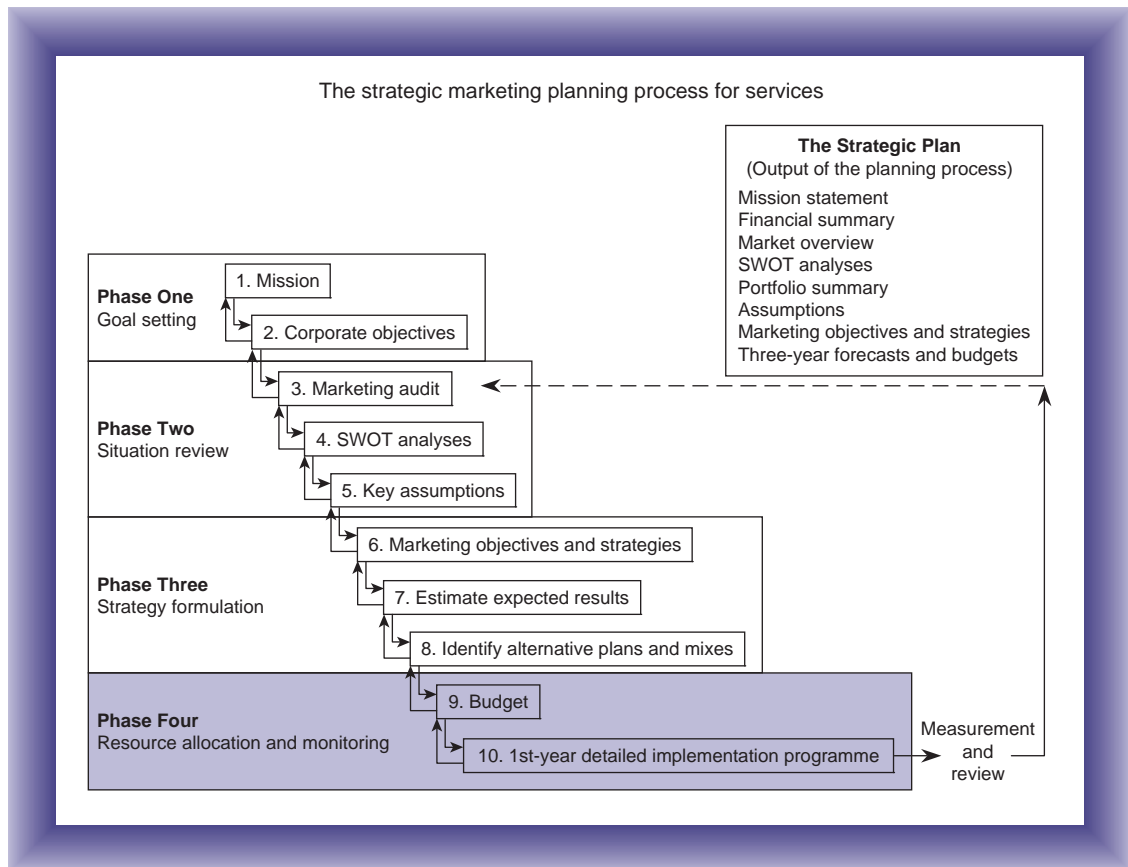


10 Marketing planning Phase Four: resource allocation, monitoring and detailed planning (Part 2: price, place, people, processes and customer service)



Chapter 9 addressed the budget and the first two components of the first year detailed implementation programme for marketing planning – the service product plan and the communications (promotion) plan. In this chapter we look at the remaining elements of this final phase of the marketing planning process for services. We start by addressing the pricing

plan and then consider the remaining four elements in the detailed implementation programme for services marketing planning; the place plan – getting the service to customers; the people element; the process element; and the customer service element of the marketing mix.

Mix element 3: The pricing plan

Pricing is addressed as a separate element of the marketing mix because this provides a sensible way for the complex issues relating to pricing to be considered. In fact, the company may choose not to have a separate plan for pricing, and subsume pricing decisions into the individual service/segment plans. Whether or not the pricing element appears as a separate plan, careful thought will have to be given to the pricing structure.

The pricing decision is important for two main reasons:

- It affects the margin through its impact on revenue.
- It affects the quantity sold through its influence on demand.

It must, therefore, be seen as part of a consciously defined initiative, whose objectives have been clearly defined.

The terms used to describe the price charged to customers in service businesses vary considerably across different parts of the service sector. We pay fares for an airline or train ticket, fees for professional services, tariffs for mobile phone use, room rates for a hotel, premiums for an insurance policy and an honorarium for speaking at a conference. For convenience, we will use the terms ‘price’ and ‘pricing’ in this chapter.

Pricing decisions for services are particularly important, given the intangible nature of the service product. The price charged to customers signals information to them about the quality that they are likely to receive. Also, because they cannot be stored, services may attract premium prices when demand is high and discounts when demand is low.

Pricing is further complicated in that it is sometimes the subject of conflict between the accounting and marketing departments. On the one hand, the traditional accountant’s viewpoint is concerned with covering costs and charging prices to get a fixed margin over and above these costs. Sometimes opposing them is the marketer, who recognizes that price is an important determinant of how much will be sold. The marketer may see the need for holding prices, or even reducing them, so as to maintain, or to increase, market share and thereby build the share needed for long-term success.

High-quality services have an intrinsic value for the customer and it is this value, rather than the cost of providing the service, that pricing decisions need to consider.

Prices need to reflect value

Pricing decisions need to reflect the strategic opportunities for the organization. A simple cost-plus approach to pricing disregards the advantages which can be gained by a well-researched and well-managed pricing policy.

Pricing objectives

The different pricing methods or approaches for services are broadly similar to those used for goods. The pricing method to be used should commence with a review of pricing objectives. These might include:

- *Survival* – In adverse market conditions the pricing objective may involve foregoing desired levels of profitability to ensure survival.
- *Profit maximization* – Pricing to ensure maximization of profitability over a given period. The period concerned will be related to the lifecycle of the service.
- *Sales maximization* – Pricing to build market share. This may involve selling at a loss initially in an effort to capture a high share of the market.
- *Prestige* – A service company may wish to use pricing to position itself as exclusive. High-priced restaurants and the first class 'suites' offered by Singapore Airlines in the A380 aircraft are examples.
- *ROI* – Pricing objectives may be based on achieving a desired return on investment.

These are some of the most common, but by no means all, pricing objectives. The decision a service organization makes on pricing will be dependent on a range of factors including:

- Prevailing economic conditions and service capacity
- Positioning of the service
- Corporate objectives
- Demand and demand elasticity

- Cost structures
- The nature of competition
- Lifecycle of the service(s).

Economic conditions and service capacity

Clearly factors such as the prevailing economic conditions and the capacity of the service firm will have an impact on pricing. In times of economic difficulty, service firms may need to adjust their prices downwards. For example, companies supplying electricity and other utilities in times of economic recession may have downward pressure on the pricing of their services as a result of either government intervention and consumer activism.

The capacity of a service firm will influence how a service company sets its prices. If it provides high-quality services and has limited capacity, a service business such as a restaurant or boutique hotel may be able to charge premium prices. If the firm has substantial capacity the organization's services is unlikely to be able to put their services into inventory. Thus, the firm may wish to discount its services, especially in times of low demand. Over recent years most international airlines have become particularly adept at what is termed 'yield management', which enables them to balance variations in demand at different times, their capacity and their pricing in order to optimize profitability.

Positioning of the service

The meaning of the term 'service product positioning' was explained in Chapter 7. For pricing, the concept of the positioning of the service product is a highly relevant concept. It is important to match the price to the positioning of the service. It is clearly inappropriate to position a service company's offer to customers as a high-quality exclusive service and then price the service at too low a level. We find many examples where there is a mismatch between the positioning of the service product and its price.

For example, some university business schools claim their courses for executives are among the best in the world, then they charge lower prices than their competitors. Research indicates that, for directors and very senior managers in industry, a low price charged for such executive courses is more likely to be counterproductive, because in this particular product field a high fee charged for such a course is considered by them to be an indicator of quality. Most services are largely intangible, so the price needs to accurately reflect the positioning of the service.

Corporate objectives

Unfortunately many arguments within firms about pricing take place in the sort of vacuum that is created when no-one has bothered to

specify the objectives to which pricing is supposed to be contributing. We now know that it is important that the company should have a well-defined hierarchy of objectives to which all its activities and actions, including pricing, can be related, for example corporate objectives may well dictate achievement of short-term profits, long-term profit maximization, or some other requirement. Corporate objectives can also influence marketing objectives. This may result in the need to place emphasis on, say, market share rather than profitability and this will in turn likely impact the pricing strategy.

Where a company markets multiple services, decisions on pricing may be a function of its service's position compared to that of others within the portfolio. For example, it may well be that a financial services company chooses to heavily promote one service at the expense of another in order to gain market share. As a consequence relative margins and resulting prices may vary markedly across these two products.

Demand and demand elasticity

Service companies need to understand that there is a relationship between price and demand. Further, demand varies at different pricing levels. It may also vary by market segment. A useful framework to help understand this relationship is the 'elasticity of demand'. This concept helps service managers understand whether demand is elastic (a given percentage change in price produces a greater percentage change in demand) or inelastic (a significant change in price produces relatively little change in levels of demand). These different characteristics of demand are shown in Figure 10.1.

It is important to know if demand is elastic or inelastic

Pricing levels are especially important if demand for the service is elastic. Examples where demand for services is elastic include airlines, railways, cinemas and package tours. Other services such as medical care and electricity supply exhibit more inelastic behaviour.

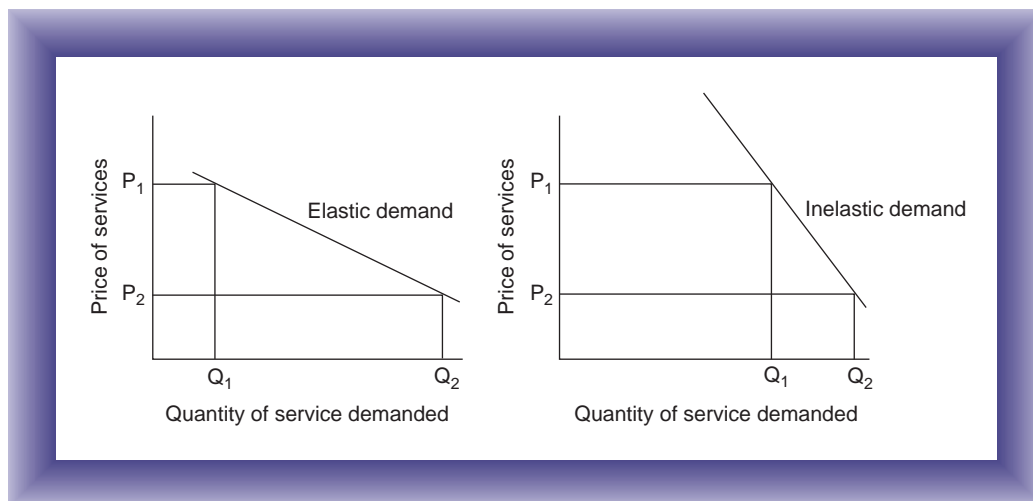


Figure 10.1 Elastic and inelastic demand for services

Understanding and measuring fixed and variable costs is critical in pricing

Cost structures

The costs of providing services and how these vary over time and with the level of demand also need to be understood. Two major types of costs, fixed costs and variable costs, need to be identified. In addition, some costs may be semi-variable. Fixed costs are those which do not vary with the level of output. They remain fixed over a given period and include buildings, furniture, staff costs, maintenance, etc. Variable costs vary according to the quantity of the service provided or sold. They include part-time employees' wages, expendable supplies, postage, etc. It should be noted that some costs have elements which are partly fixed and partly variable. These include telephone costs and salaried staff used for overtime work. If costs allocation appears to be assigned arbitrarily by accountants it will need to be re-examined. Activity-based costing can provide better insight into the cost structure as well as those factors that impact on costs.¹

Many service businesses, such as airlines, have high levels of fixed costs because of the expense of the equipment and staff needed to operate them. For example, in financial services, fixed costs can represent more than 60% of total costs.

Total costs represent the sum of the fixed, variable and semi-variable costs at a given level of output. Service managers need to understand how cost behaviour will vary at different levels of service output. This has important implications for decisions to expand capacity, as well as for pricing.

A useful tool to help managers understand cost behaviour in a service industry is the experience curve. The experience curve is an empirically derived relationship which suggests that as accumulated sales or output doubles, costs per unit (in real terms) typically fall by between 20 and 30%. Many financial service organizations have moved from paper-based processing, which offers no real economies of scale, to mechanization and use of electronic processing, which offer considerable potential for scale economies. Figure 10.2 shows an experience curve for electronic banking compared with paper processing of cheques.²

In retail banking, the use of automatic teller machines (ATMs) has had a profound effect on lowering costs. Although the cost of installing an ATM can be high, once installed the 'per transaction cost' is considerably less than using a human bank teller in the transaction. For many years volumes of ATM transactions have increased. While wage costs have risen with inflation, the cost of ATMs has fallen in real terms.

The experience curve can help service managers understand the potential to use scale to improve their firm's cost position. To date,

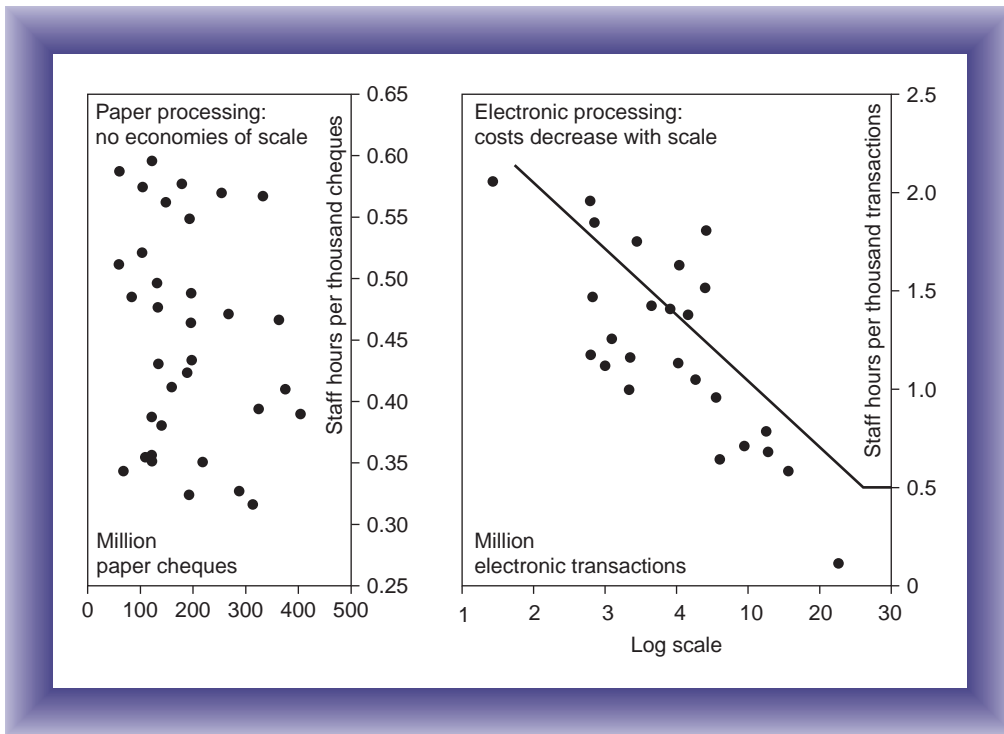


Figure 10.2 Experience curve for electronic banking

there has been relatively little published work dealing with the application of the experience curve to the service sector. One study that does explore experience curves in services was undertaken by Stuart Chambers and Robert Johnson.³ These researchers examined a financial services organization and an airline and found strong experience curves existed in these firms. In particular, service firm 'back office' repetitive tasks and high-volume, high-customer contact operations such as call centres and supermarket checkouts are likely to benefit from the experience curve effect.

Competition

It is also essential to understand the costs and pricing behaviour of competitors. As well as seeking information about the prices of key competitors in each major segment, the cost position of major competitors needs to be considered.

An understanding of competitors' costs helps the service marketing manager to make a realistic assessment of competitors' ability to change their pricing structure.

For example, organizations such as Citibank in its US retail operations have sought to gain competitive advantage by achieving the lowest cost position in clearing transactions.

Benchmarking of competitors should be undertaken to determine their costs, prices and profitability. This can be done by a range of techniques including competitive shopping and market research and should include a price–quality comparison of each major competitor’s offer. The competitors’ positions in terms of profitability, cost position and market share, in each segment, can then be considered when making the pricing decision.

Some firms launch new services at high prices to recover their investment costs, only to find that they have provided a price umbrella to entice competitors into the market. Competitive firms that launch similar products at much lower prices can move down the experience curve more quickly, often taking the originating service company’s market away from them in the process. A low launch price, with potentially a faster rate of diffusion and hence a greater rate of gaining experience (by achieving a more favourable position on the experience curve), may make it more difficult for a potential competitor to enter the market profitably.

Lifecycle of the service(s)

The importance of lifecycles has already been stressed in Chapter 7. For example, for a service estimated to be in the maturity stage of the lifecycle, with only a short time to run before it is replaced, it would usually be unwise to set market share growth as the marketing objective. Profit contribution would probably be a more appropriate goal, providing of course market share did not slip to a point below which it would jeopardize the service firm’s ability to introduce a new or replacement service. It should be remembered that when the market reaches saturation level we may well have a very profitable cash cow on our hands for many years to come.

It is also important to stress that the role of pricing will change over a service’s lifecycle. For example, during the high growth phase in the service’s lifecycle, price may not to be the customer’s primary consideration, since demand is growing at such a rapid rate and the service is still relatively new. Here there are plenty of opportunities, which have to be carefully balanced against market share considerations.

Pricing methods

When the basic pricing objectives have been considered and a review made of demand, costs, competitors’ prices and costs, and other relevant factors, the services marketer needs to consider the method by which prices will be set.

Methods for setting prices vary considerably in the services sector and typically include:

- *Cost-plus pricing*, where a given percentage mark-up is sought.
- *Rate of return pricing*, where prices are set to achieve a given rate of return on investments or assets. This is sometimes called ‘target return’ pricing.
- *Competitive parity pricing*, where prices are set on the basis of following those set by the market leader.
- *Loss leading pricing*, usually done on a short time basis, to establish a position in the market or to provide an opportunity to cross-sell other services.
- *Value-based pricing*, where prices are based on the service’s perceived value to a given customer segment. It represents a market-driven approach which reinforces the positioning of the service and the benefits the customer receives from the service.
- *Relationship pricing*, where prices are based on considerations of future potential profit streams over the lifetime of customers.

Most of these pricing methods are fairly straightforward. However, relationship pricing and value-based pricing merit some further discussion.

Relationship and value-based pricing

It is obvious that cost-plus-based pricing is often unacceptable, as customers are interested in their own costs, not those of their suppliers. Further, costs in many service businesses can be extremely hard to estimate, as companies offer a range of services and typically have a high level of resource sharing.

Cost-plus pricing is rarely appropriate

Relationship pricing is the appropriate form of pricing where there is an ongoing contact between the service provider and the customer.

Relationship pricing can be a major source of competitive advantage

Relationship pricing follows closely the market-oriented approach of value-based pricing, but takes the lifetime value of the customer into account.

Relationship pricing is based on value considerations of all the services provided to the customer and makes an assessment of the potential profit stream over a given period of time – often the lifetime of the customer. While value-based pricing, which emphasizes benefits, drives this pricing philosophy, it allows the firm to use loss-leader,

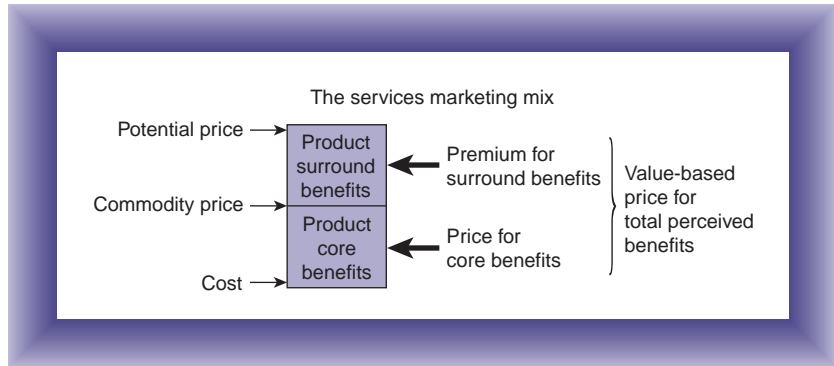


Figure 10.3
Value-based pricing

competitive or marginal costing at appropriate points in time, on relevant services, for both strategic and tactical purposes.

A value-based relationship approach to pricing aims at helping to position the service and reflects the fact that customers are prepared to pay extra for the perceived benefits provided by both the core product and the product surround. This concept is shown in Figure 10.3 and suggests that customers will pay a premium for perceived benefits and especially those supplied by the product surround in terms of brand image, brand values and service quality.

The size of the price premium is not meant to be to scale in Figure 10.3. In fact, the premium provided by the surround could be greater than the price for the core product or service benefit.

An approach increasingly being used by service firms to enhance their product surround and achieve premium prices is the unconditional service guarantee. ‘Bugs’ Burger Bug Killers (BBBK) are a US pest-extermination company who have charged up to 600% more than some of their competitors and have a high market share with clients who have severe pest problems. The company was so successful that it was purchased by S.C. Johnson Wax, which subsequently changed the name of the company to Prism. The significant price premium charged by BBBK for their services and the unconditional service guarantee do not imply staggeringly high costs. In the year it was purchased by S.C. Johnson, BBBK paid out only \$120,000 in claims on their unconditional service guarantee, on sales of \$33 million.⁴ S.C. Johnson subsequently sold its Prism division. In 2003, the Burger family purchased the trade name back from S.C. Johnson Wax and ‘Bugs’ Burger Bug Killers is now operating again in the original family’s ownership. The service guarantee offered to clients in the hotel and restaurant sectors in 2011 promises:

- You do not pay our initial charges until we totally eliminate every roach, rat or mouse nesting on your premises.
- If you are ever dissatisfied with the results and want to cancel our service, we will: (a) refund up to a one year’s

service charge, and (b) pay the cost of another exterminator of your choice for one year.

- Should a roach or rodent be seen by one of your guests, we will pay their bill, send them a letter of apology and invite them back as our guest.
- We will pay all fines that may be levied against your hotel or restaurant by the health authorities for the presence of roaches or rodents, and further . . .
- Should your hotel restaurant be closed by the health authorities for the presence of roaches or rodents, 'Bugs Burger' will pay profits lost while you were closed, plus \$5,000.

Service guarantees such as this can impact greatly on the premium customers are willing to pay for product surround benefits. Service guarantees are used in a wide range of service industries including hotels, financial services and management consultancy.

As firms consider an appropriate pricing method, they need to take into account the potential pricing range at which they may finally set the prices. The pricing range a typical service company might consider is shown in Figure 10.4. As this figure shows, the usual discretionary pricing range for a company will be set by the lowest and the highest feasible price that could be charged. However, on occasion, the company may choose to price outside this pricing range. For example, the company may price close to its marginal cost when it has excess capacity, or it wishes to break into a new price-sensitive market. It may also do this for competitive reasons. The company may also offer a discount when the customer undertakes a trial of its services.

As the previous discussion has shown, there is a large range of pricing options. However, many of these can be simplified into what is referred to as either a skimming policy or a penetration policy. It is easiest to

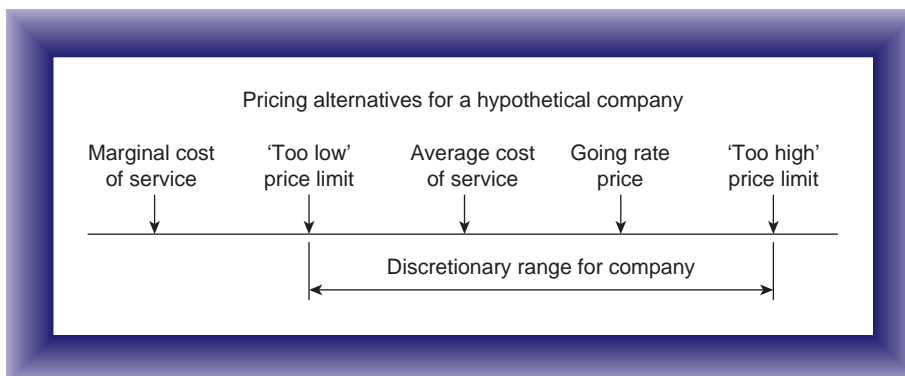


Figure 10.4 Pricing range for a service company

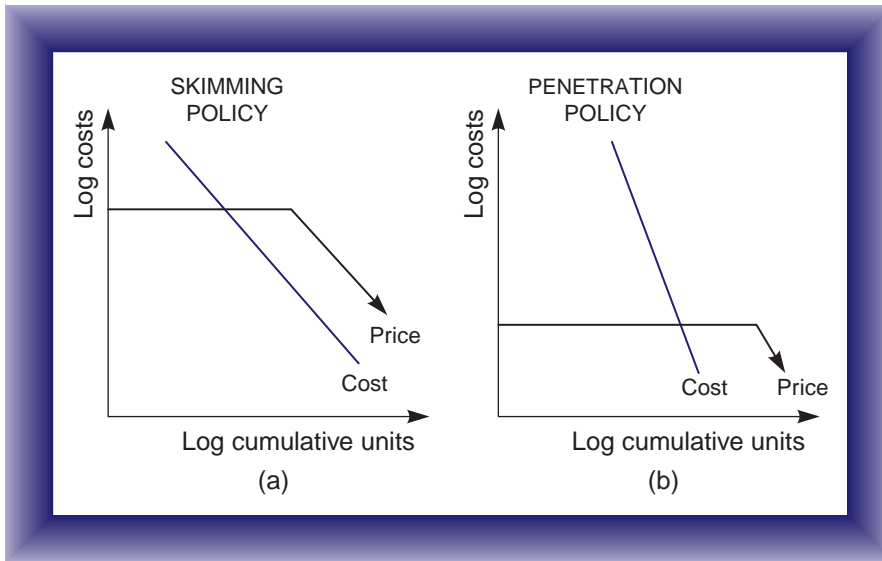


Figure 10.5 Skimming and penetration pricing policies

think about these policies in the context of the launch of the new service. Essentially a skimming pricing policy involves setting a high initial price and moving down the experience curve at a slower rate. A penetration pricing policy involves setting a lower initial price and seeking a much faster rate of service adoption, hence moving down the experience curve at a faster rate. These policies are illustrated in Figure 10.5.

The circumstances favouring a *skimming* pricing policy are as follows:

1. Demand is likely to be price inelastic.
2. There are likely to be different price–market segments, thereby appealing to those buyers in a segment that is keen to use the service first and who are less price sensitive.
3. Little is known about the costs of producing and marketing the service.

The circumstances favouring a *penetration* policy are as follows:

1. Demand is likely to be price elastic.
2. Competitors are likely to enter the market quickly.
3. There are no distinct and separate price–market segments
4. There is the possibility of large savings in operations and marketing costs if a large sales volume can be generated (experience curve effect).

In conclusion, it must be emphasized that pricing policy should only be determined after account has been taken of all factors which impinge on the pricing decision. The key factors that need to be taken into account in determining the pricing plan are shown in Figure 10.6.

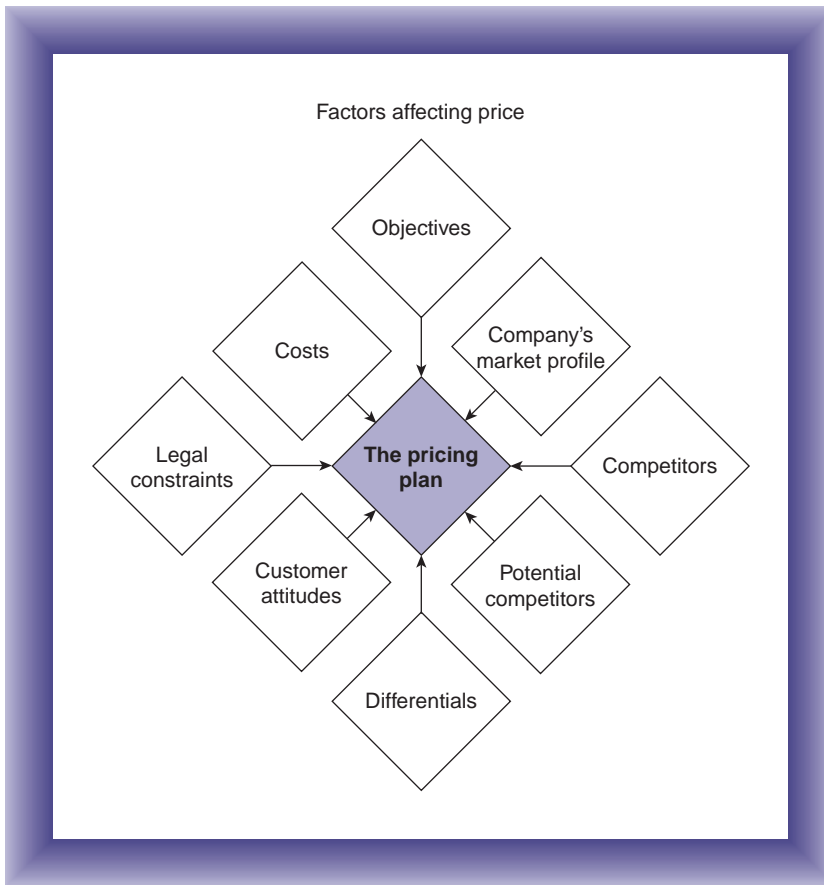


Figure 10.6
Factors to consider in
the pricing plan

Mix element 4: The place plan – getting the service to the customers

Deciding on the location and channels for supplying services to target customers determines how the service will be delivered and where this should take place. Between them, these service delivery factors offer the prospect of establishing a competitive advantage, since they influence both the level of service to the customer and the cost of providing it.

Location decisions

The importance of location will, to a large extent, depend upon the nature of the service provided and the type of interaction it sets up between the suppliers and the customer. (These were discussed earlier in Figure 2.6 in Chapter 2.) There are three possibilities:

1. *The customer goes to the service provider* – In these circumstances, site location is very important. For some service businesses, like a restaurant or holiday centre, location may be the prime reason behind its success. Moreover, there is always a prospect of further growth from offering the service at more than one location, as long as each catchment area is well chosen. Indeed, some multisite operators

have developed sophisticated computer programs in order to optimize their location strategy.

2. *The service provider goes to the customer* – Here, site location is a far less critical issue, providing the service company remains sufficiently close to be able to maintain a quality service to its customers. In some cases, the supplier has no discretion in terms of going to the customer. This could be in businesses like plumbing, window cleaning, landscape gardening and so on. In other cases, the service company might have some discretion whether or not they provide the service at the customer’s premises or their own. Such business could include personal fitness, hairdressing and TV repair. Some dry cleaning and laundry firms have even found that it is more effective to close down expensive high-street outlets and move their operations to a low-cost out-of-town location. They could maintain their business by providing a pick-up and delivery service.
3. *The service provider and customer transact business at arm’s length* – Here, the location is largely irrelevant and so least cost might be the deciding factor. There will, of course, need to be a suitable communications infrastructure available, depending upon the nature of the service. Thus, an accountant offering low-cost Internet-based services will need an attractive website with good navigation and appropriate functionality; a mail-order company will need access to a reliable mail service; likewise an express parcels service will need good access to motorways and airports.

Many face-to-face services companies have successfully transferred to arm’s-length transactions. For example, insurance and banking can now be done via the Internet, the telephone or mail.

Channel decisions

These decisions influence who participates in the service delivery, in terms of either organizations or people. A channel will consist of:

- The service provider
- Intermediaries (if appropriate), e.g. agents, brokers, franchisees
- Customers.

Whereas traditionally services were delivered by direct sales (e.g. professional services), increasingly intermediaries are now being used. For example, travel agencies act as middlemen for airlines, hotels and leisure services. Similarly, recruitment agencies provide a link between employers and potential employees.

The broad channel options are outlined in Figure 10.7. The ultimate choice of channel will depend upon a number of different factors, which can influence singly or in combination:

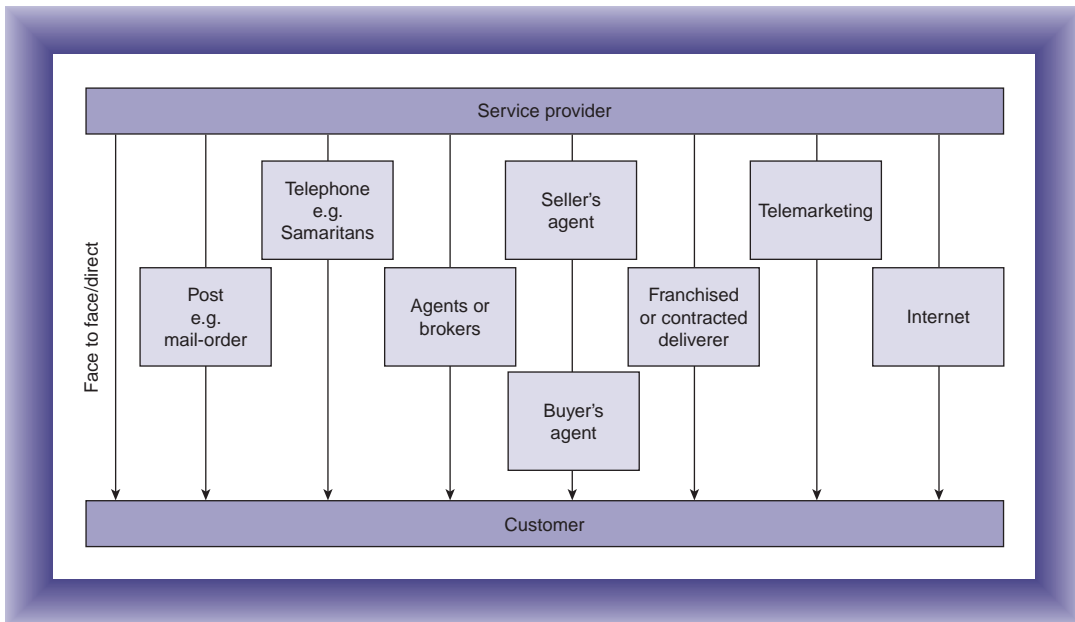


Figure 10.7 Channel options for service companies

- Ease and accessibility for customers
- The added value they provide
- The margins they seek
- The coverage they provide
- Their reputation and reliability
- Their compatibility with the supplier.

In strategic terms, the supplier should be concerned with:

- Understanding the distribution channels of its competitors
- Understanding the strengths and weaknesses of these channels
- Identifying how the company can avoid the problems experienced by competitors in existing channels, or creating alternative channel strategies by changing the type of intermediaries or what they traditionally do.

However, the choice of channel strategy can rarely be made in isolation from the issue of location. So, for example, a decision by a bank to switch to electronic systems, which require fewer face-to-face contacts, reduces the need for high-street premises. Instead, customer convenience is enhanced by having cash machines sited in, say, busy out-of-town superstores.

New channels

When deciding on a channel strategy, the starting point must be the customers themselves. If we do not offer them the channels they would prefer to use, a competitor will.

The starting point in determining customers’ channel preferences is to identify customers’ buying criteria, or the factors which determine which supplier gets their business. These may include cost, convenience (e.g. geographical proximity, ease of access, immediacy of response, home delivery, etc.), and reputation (e.g. service specialization, brand image or how well established the service provider is).

The ability of each current or future channel to deliver against each factor is then assessed judgementally on, say, a 1–10 basis (see Figure 10.8). In this hypothetical example, the various means by which a holiday can be purchased are compared. It can be seen that taking all the factors together, the Internet and physical stores have the best matches to this particular segment. In reality, different segments of the holiday market are clearly best matched to different channels.

The score of a channel against price-related factors, such as ‘cost’ in this example, will be affected by the channel economics, which will determine the price which any competitor using the channel chain will be able to offer. One factor in assessing the channel economics is the transaction costs involved. The TPN Network business-to-business exchange set up by General Electric, the first significant e-hub, saved

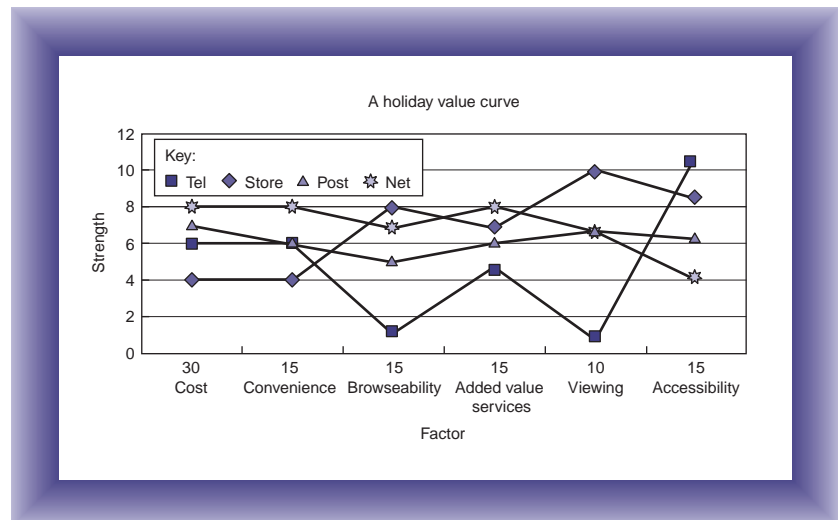


Figure 10.8
Choosing channels – the value curve

GE 50–90% on processing costs for each order. But acquisition and retention costs should not be forgotten. The dotcom arm of one retail chain recently discovered that customer acquisition through a substantial investment in the Internet and banner advertising was costing approximately \$900 per customer, when the average sale was only \$75 – while the store-based arm of the retailer could acquire customers for its physical stores for around one quarter of this amount.

How channels work together

This example of a retailer using both physical stores and the Internet illustrates a complicating factor. In many markets, customers do not use a single channel. Rather, they use a number of channels in combination to meet their needs at different stages of their relationship with the supplier. To help define how this can best be done, we suggest the use of a tool we term channel chain analysis, which we illustrate in Figure 10.9.

Channel chain analysis involves describing which channels are used at which stages of the purchasing and value delivery process. The stages of the process are listed on the left of the diagram, and the channels used to accomplish the stage are listed against each stage. The

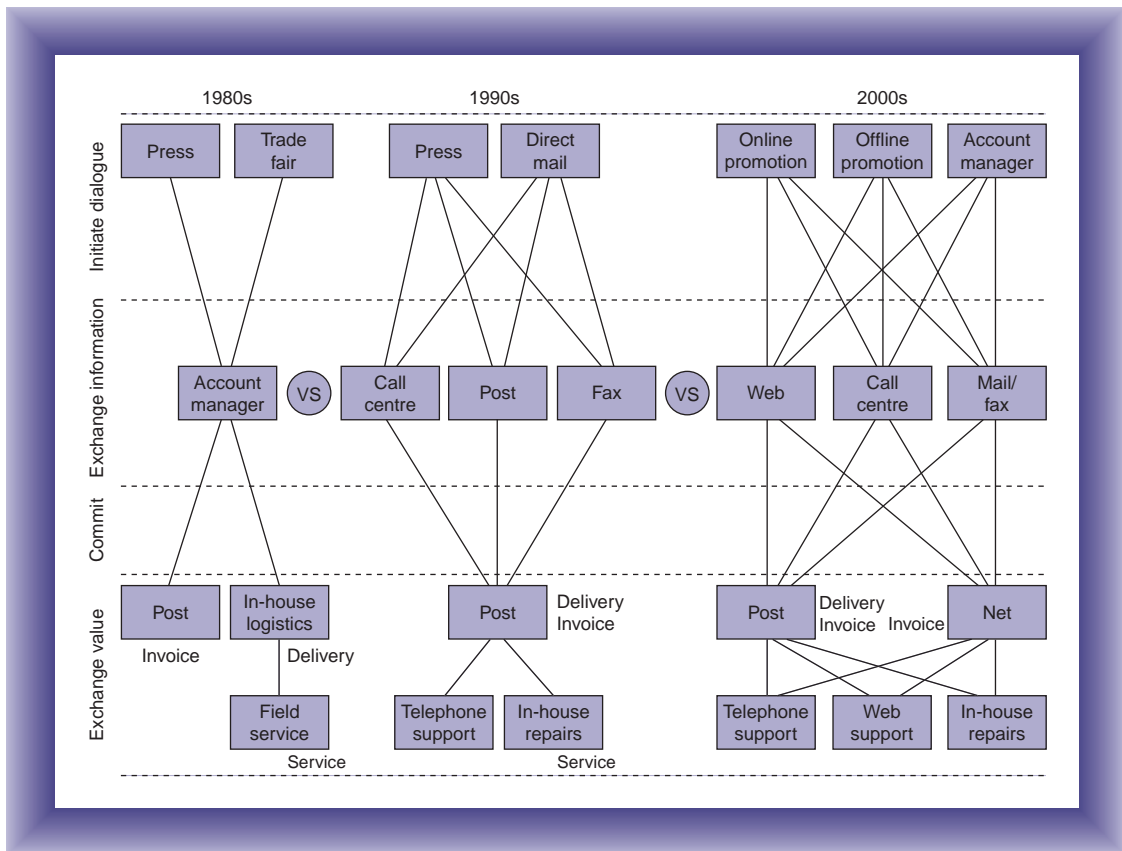


Figure 10.9 Channel chain analysis: the PC market

channel used for one stage will often affect which channel is likely to be used at the next stage, so the relevant boxes are joined with a line.

In this example from the business-to-business PC market, three of the common channel chains being offered by the various competitors are illustrated. The channel chain on the left shows the traditional account management approach, as used by most competitors at the start of the 1980s, when the sales process was largely handled face to face by account managers. Still a model used for larger computers or major contracts, it has tended, though, to be complemented by other channel chains which offer better channel economics for smaller deals.

One of these new channel chains, under way in the 1990s, was the direct model, illustrated in the middle of the figure. Here, press advertising formed the dominant marketing tool, with further information provided by product/service brochures and call centre staff. The actual order could be placed by a number of means – often a traditional fax or post order placed by the accounts department.

More recently, in the 2000s, many competitors have added the Internet to the channel mix, as illustrated on the right. But most of these are far from pureplay Internet providers. Account managers might serve major accounts, building relationships and negotiating discount levels. The account managers are freed from the details of product configuration and pricing by the website, while the order itself is as likely to be placed by fax or post as it is on the Web.

Different channels, then, are needed at different points in the sales cycle, and different competitors may adopt different approaches. A fourth, pureplay Web channel chain which has a low-cost structure and is appropriate to certain price-sensitive segments has become increasingly common. Service companies in many sectors have now got competitors adopting this approach.

Having drawn the channel chains in current use, the next step is to consider possible future channel chains. This requires experimentation with channel chain diagrams to think through not just how the sale is to be made, but also how every other aspect of the customer's needs will be satisfied. Will a mobile phone purchaser buying over the Web be able to upgrade their service package at a nearby store?

The trick is to offer a channel chain that is appropriate to the differing needs of a company's target segments. In other words, the acid test as to whether a channel chain will flourish is whether it represents a better value proposition to some group of customers. To test this, we recommend drawing the value curve we described earlier, but comparing channel chains rather than individual channels.

There is a timing issue to be considered as well. Even if a channel chain offers a theoretically better proposition to customers, they may not yet be ready for it. A channel chain innovation, like a product or service innovation, is likely to proceed along the lines of Everett Rogers's bell-shaped diffusion of innovation curve.⁵ If one hopes to convert customers to the Internet, for example, it is clearly necessary to consider what proportion of the customer base has Internet access and how mature their use of it is. We recall one department store which wasted millions on an aborted Web service in the mid-1990s because it was simply too far ahead of its market.

Our research suggests that service businesses can select from the following broad channel strategy options:

- A *single channel provider* provides at least the bulk of the customer interaction through one channel. Direct Line and First Direct both started as primarily telephone operations, while in the Internet world the approach is referred to as 'pureplay', represented by Amazon, eBay and so on.
- A *channel migrator* started with one single channel, but is attempting to migrate its customer base onto another channel on the grounds of increased value or reduced cost. easyJet initially sold tickets by telephone, but now provides financial incentives to its price-sensitive customers to buy online, most of whom now do so.
- An *activity-based strategy* uses different channels in combination to perform different tasks in the customer's lifecycle. Thomas Cook's corporate foreign exchange business uses the Internet to generate leads, a direct sales force to sign up new clients, and a call centre or the Internet to take orders.
- An *integrated multi-channel* approach involves offering different channels to the customer without attempting to influence which ones the customer uses. UK bank First Direct provides both telephone and Internet banking as an integrated service. While the Internet has much lower unit costs and also has proved better for cross-selling, First Direct chooses to position itself on customer service and accept the higher costs from those customers who primarily use the telephone without penalizing them or rewarding Internet users.
- A *needs-based segmentation strategy* offers different channels to different customer groups to meet their varying needs. The European insurance company Zurich Financial Services has strengths in different routes to market – the direct sales force, independent financial advisers and company pension schemes – in order to serve customer groups with differing needs and attitudes. Each of these routes to market may use the same brand name, or different names.
- A *graduated customer value strategy* uses channels selectively according to the financial value of the customers. Many IT firms use

account managers for high-value customers, and steer smaller customers to lower-cost channels such as the Internet, call centres or value-added resellers. Many retail banks, though, are in danger of doing the precise opposite, offering the high-cost branch network to the lower-value customers who prefer not to bank by phone or Internet.

In brief, routes to market are being reconfigured in five main ways:

1. *Substitute/reconfigured products or services* (such as emails instead of physical post)
2. *Disintermediation* (e-commerce can make intermediaries redundant)
3. *Re-intermediation* (a previous intermediary is replaced by a new online intermediary)
4. *Partial channel substitution* (an intermediary's role may be reduced, but not eliminated – as in the case of a car retailer providing customer information, but pointing customers to particular outlets)
5. *Media switching/addition* (the links in the chain may remain the same, but communication between them may be partially or fully switched to the Internet from the previous mechanisms).

When the routes to market are being considered and potentially reconfigured it is important to review the channel intermediaries. We conclude our discussion on the 'place' plan with some evaluation criteria for channel intermediaries.

Evaluation criteria for channel intermediaries

Regardless of the type of intermediary to be used, there are a number of basic evaluation criteria, for example:

- Do they now, or will they, sell to our target market segment?
- Is their sales force large enough and trained well enough to achieve our regional sales forecasts?
- Is their regional location adequate in respect of the retail (and other) outlets serviced?
- If intermediaries rely on Internet channels, is their web platform attractive, easy to navigate and, if a significant increase in volume is likely in the channel, is it scalable?
- Are their promotional policies and budgets adequate?
- Do they satisfy customer after-sales requirements?
- Are their product policies consistent with our own?
- Do they sell competitive services?

- What are their policies regarding cover of the market?
- Are they creditworthy?
- Is distributor management receptive, aggressive and flexible?

All the above factors, and others, have to be considered when making specific decisions on choice of intermediaries, which in turn is part of the overall channel selection issue.

Mix element 5: The people element of the marketing mix

Another issue for the supplier is to ensure that the service received by the customer is of the same high quality, regardless of how it is delivered. This is particularly true where a franchised delivery system is used. Setting rigorous selection standards and providing training are two methods which can help to maintain quality in most situations. The difficult areas are where the service providers are of low education and tend not to remain in one job for very long, such as in the hotel and catering trades. Here, quality control is largely in the hands not of the operatives themselves, but of their supervisors and managers.

It is the people element, above all, that differentiates services marketing from product marketing

People in services

It is clear that people loom large in the delivery of services. As indicated above, in the final analysis, it is largely a matter of how people are selected, trained, motivated and managed that influences the consistency of its quality. As more companies come to recognize this, so they are paying more attention to the different roles which people might play, both in customer contact and marketing in general.

One way of looking at roles is shown in Figure 10.10. This categorization, developed by Judd,⁶ results in four groups:

- *Contactors* have frequent or regular customer contact and are typically heavily involved with conventional marketing activities. They hold a range of positions in service firms, including selling and customer service roles. Whether they are involved in planning or execution of marketing strategy, they need to be well versed in the marketing strategies of the firm. They should be well trained, prepared and motivated to serve the customers on a day-to-day

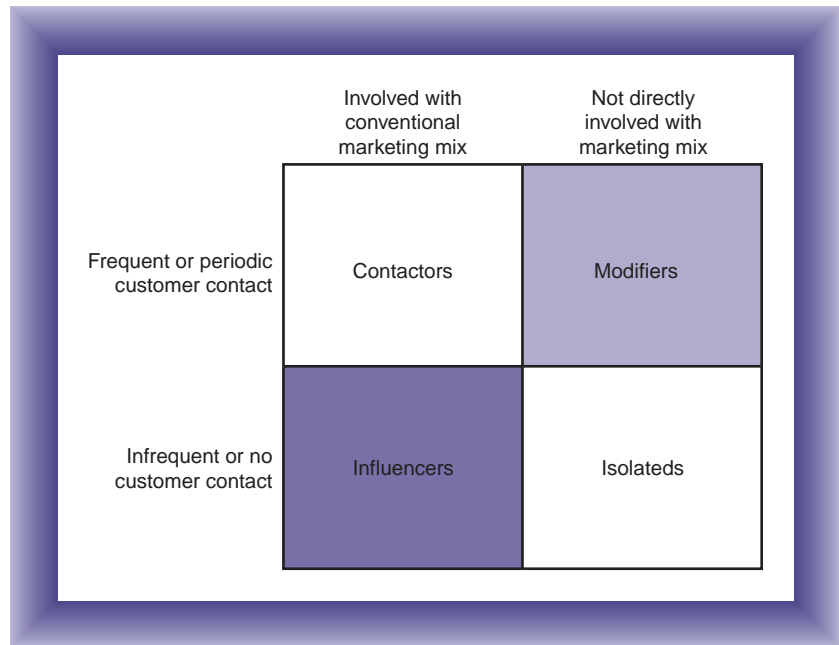


Figure 10.10
Employees and their influence on customers

basis in a responsive manner. They should be recruited based on their potential to be responsive to customer needs and be evaluated and rewarded on this basis.

- *Modifiers* are people such as receptionists, credit department and switchboard personnel, and while they are not directly involved with conventional marketing activities to a great degree, they nevertheless have frequent customer contact. As such, they need to have a clear view of the organization’s marketing strategy and the role that they can play in being responsive to customers’ needs. They have a vital role to play especially, but not exclusively, in service businesses. Modifiers need to develop high levels of customer relationship skills. Training and monitoring of performance are especially important here.
- *Influencers*, while involved with the traditional elements of the marketing mix, have infrequent or no customer contact. However, they are very much part of the implementation of the organization’s marketing strategy. They include roles such as product development and market research. In recruitment of influencers, people with the potential to develop a sense of customer responsiveness should be pursued. Influencers should be evaluated and rewarded according to customer-oriented performance standards, and opportunities to enhance the level of customer contact should be programmed into their activities.

- *Isolateds* are the various support functions which have neither frequent customer contact nor a great deal to do with the conventional marketing activities. However, as support people, their activities critically affect performance of the organization's activities. Staff falling within this category include purchase department, personnel and data processing. Such staff need to be sensitive to the fact that internal customers as well as external customers have needs which must be satisfied. They need to understand the company's overall marketing strategy and how their functions contribute to the quality of delivered value to the customer.

This type of analysis illustrates that not only do people play an important part in the transactions between the supplier and the customer, but also that they can be a source of differentiation for the service.

By adding value in the way they perform and by maximizing the impact of their activities, people have the capacity to give the company a competitive edge.

Internal marketing

It is now widely recognized that for service organizations to be successful in their external marketing, they also need to practise internal marketing.

Internal marketing was discussed in Chapter 2 in the context of internal markets. There are at least two key elements to internal marketing:

- Every employee and every department within an organization have roles both as internal customers and internal suppliers. To help ensure high-quality external marketing, every individual and department within a service organization must provide and receive excellent service.
- People need to work together in a way that is aligned with the organization's stated mission, strategy and goals. This is obviously a critical element within high-contact service firms where there are high levels of interaction between the service provider and customer.

Leading service companies such as Southwest Airlines, Virgin Atlantic, Disney and Nordstroms have recognized the importance of internal marketing and have developed organizational philosophies along

these lines. They subscribe to all members of staff providing the best possible contribution to the marketing activities, and engaging in all telephone, mail, electronic and personal encounters in a manner which adds value to the service. Such internal marketing initiatives are not passing gimmicks, but are backed up with rigorous and frequent training programmes, codes of behaviour, dress standards and awards for outstanding performers. This involvement of staff, in what for many organizations is a new and liberating policy, can set up an irreversible thrust, which only wanes when the organization's culture and climate change in a fundamental way.

Our research suggests that relatively few *formal* internal marketing programmes exist within service organizations. However, there are many service companies who have adopted elements of internal marketing. The research shows that, in companies practising internal marketing:

- Internal marketing is generally not a discrete activity, but is implicit in quality initiatives, customer service programmes and broader business strategies.
- Structured activities are accompanied by a range of less formal ad hoc initiatives.
- Communication is critical to successful internal marketing.
- Internal marketing performs a critical role in competitive differentiation.
- Internal marketing has an important role to play in reducing conflict between the functional areas of the organization.
- Internal marketing is an experiential process, leading employees to form their own conclusions.
- Internal marketing is evolutionary: it involves the slow erosion of barriers between departments and functions. It has an important role in helping with the balancing of marketing and operations – a problem that is discussed under the processes element of the marketing mix.
- Internal marketing is used to facilitate a spirit of innovation.
- Internal marketing is more successful when there is commitment at the highest level, when all employees cooperate, and an open management style prevails.

Internal marketing in all its forms should be recognized as an important activity in contributing to the people element of the marketing mix and in developing a customer-focused organization (see Chapter 11).

In practice, internal marketing is concerned with communications, with developing responsiveness, responsibility and unity of purpose. The fundamental aims of internal marketing are to develop internal and external customer awareness and remove functional barriers to organizational effectiveness.

The service–profit chain

Researchers at the Harvard Business School coined the term service–profit chain to describe a significant body of research carried out by them relating to service companies.⁷ The generalized service–profit chain shown in Figure 10.11 clearly shows that there is a linkage between the people element of the marketing mix and the internal marketing activities associated with them and customer satisfaction and financial performance. These researchers found ‘direct and strong’ relationships between profit; growth; customer loyalty; customer satisfaction; the value of goods and services delivered to customers; employee capability, satisfaction, loyalty and productivity.

The important role of leaders in internal marketing has only recently been examined in any depth.⁸ As suggested by Figure 10.11, when the leaders and managers of a company exhibit strong and positive management behaviour and provide high-quality support to employees as well as policies that enable employees to deliver results to customers, the people at all levels in organizations are more likely to be satisfied, loyal and productive employees. Loyal and empowered people in service organizations are motivated to fulfil their responsibilities and this has a direct positive impact on customer satisfaction. Highly satisfied customers are more likely to remain loyal to the company and will engage in repeat buying behaviour. Further, highly satisfied customers act as advocates of the company recommending it to friends, colleagues and acquaintances. This growing base of satisfied customers leads to improved financial performance in terms of profits, growth and reputation.

The service profit chain demonstrates how the people element of the marketing mix can make a profound impact on the success of the organization. Internal marketing is still at a relatively early stage of development. Readers wishing to explore internal marketing in greater detail should refer to the references for this part of the chapter.⁹

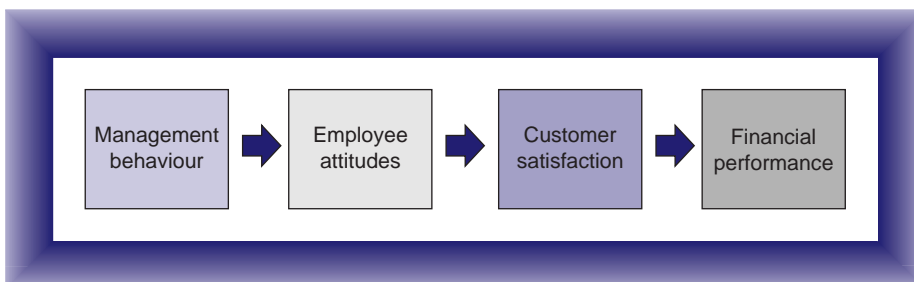


Figure 10.11 The service–profit chain

Mix element 6: The processes element of the marketing mix

The processes by which services are created and delivered to the customer can be a major factor within the services marketing mix, for customers perceive the delivery system as part of the service itself. This means that operations management decisions can be of great importance regarding the competitive position of the service.

Process, in the sense it is used here, means work activity. Thus, any procedure, task, schedule, mechanism or routine which helps to deliver the service to the customer will fall under this heading. From this it follows that any policy decisions that are made about customer involvement or employee discretion have a direct impact on the processes element of the marketing mix.

Processes play a crucial role in service delivery

While people play a critical role in the mix, they will be severely handicapped if the process performance is inherently flawed. So, for example, if the processes supporting delivery cannot quickly respond and repair a service fault, or if the hotel kitchen takes too long to prepare a meal, all the initial positive impact of the contact staff is destroyed. This suggests that close cooperation is required between marketing and those who are involved in process management.

Furthermore, any improvements in processes will inevitably lead to an improvement in service quality.

If the service runs efficiently, the service provider will have a clear advantage over less effective competitors.

Decision-making processes are also important in the context of this element of the marketing mix. Some service providers give their service deliverers the autonomy to make decisions up to a certain level. For example, an airline can give its staff powers to upgrade a passenger who is aggrieved about his or her treatment, thereby enabling them to defuse a situation on the spot in a satisfying way. Similarly, many service companies are now empowering junior staff to correct service errors, on the spot, up to a given limit. Not all services can lend themselves to this approach, however. For example, a waiter can only bill for food at the published price. Any discretionary powers are inevitably held by the restaurant manager, which means that customers have to demand to see the manager if their grievance is to be resolved.

It can be seen from these examples that, in general, the more specialized the service, the more decision-making is entrusted to the service provider. This allows for greater customization and personalization of the service. Less specialized services, on the whole, have less scope for doing this.

The 'process plan', therefore, needs to address two main issues:

- How can processes be improved in order to help achieve an improved competitive positioning strategy?
- How can marketing and operations be managed in a way that is synergistic?

Analysing the processes

US academic Lynn Stostack¹⁰ has developed a simple three-step approach for analysing a process:

1. Break down the process into logical steps and sequences.
2. Identify those steps which introduce the highest prospect of something going wrong because of judgement, choice or chance.
3. Set deviation or tolerance standards for these steps, thereby providing a performance band for functioning. (It will be unrealistic to expect process steps to be performed with complete precision every time.)

By adopting this approach, errant processes can be made to fulfil their purpose in a more consistent and service-enhancing way.

Processes can also be considered in terms of their *complexity*, i.e. the number or nature of the steps and sequences, and *divergence*, i.e. the latitude or variability involved. Thus, for example, a beach ice-cream salesperson has a delivery process which is neither complex nor divergent. In contrast, a bookkeeper's job might be quite high in complexity, but relatively modest in divergence. Another example, say a surgeon, would be high on both parameters.

Using this approach for looking at processes, four improvement strategies are possible:

- ***Reduce divergence*** – This option would tend to standardize the service and limit the extent to which it might be customized. While this offers the prospects of reducing costs and

improving productivity, it could also alienate those customers for whom customization was a considerable benefit.

- *Increase divergence* – This would allow for greater customization and flexibility, for which it might be possible to charge premium prices. This may be a suitable strategy for niche positioning of the service, where high volume sales would not be anticipated.
- *Reduce complexity* – Here, steps and activities are omitted from the service process. This has the effect of making distribution and control easier, since some peripheral activities disappear.
- *Increase complexity* With this approach, more services are added to the core service product, usually with the intention of creating a competitive advantage and gaining market penetration. Financial services companies and supermarkets frequently use this approach.

All of these options carry with them advantages and disadvantages. In that sense, no single approach is any better than another. What is significant, however, is that the chosen process strategy will impact on customers' perceptions, in effect causing the service to be repositioned (Figure 10.12).

Assuming that the existing general management consultancy shown in Figure 10.12 could be positioned roughly in the centre of the map,

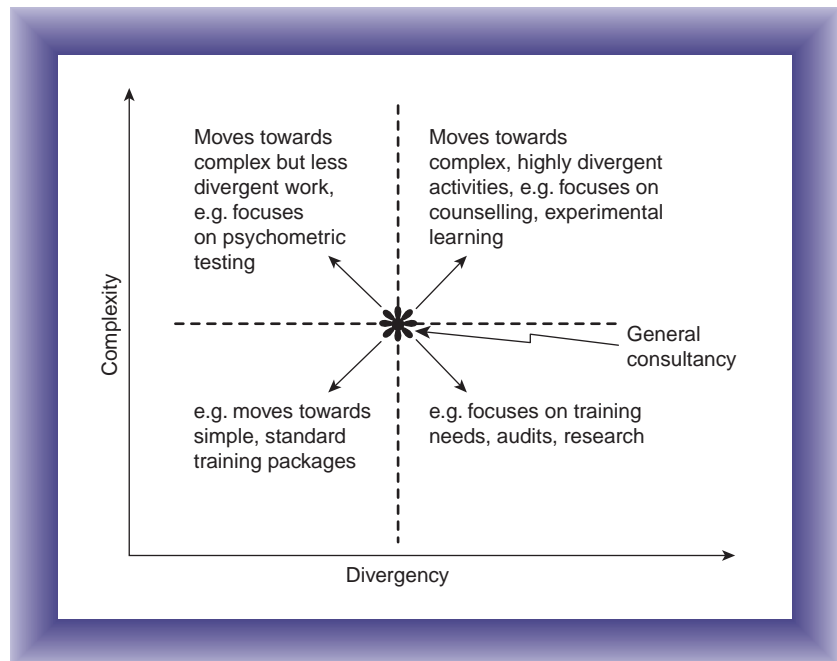


Figure 10.12
Example of service positioning through changing complexity and divergence (a management training consultancy)

repositioning could be achieved broadly in line with the suggestions in this figure. The alteration in complexity and divergence is analogous to changing elements of design of a product, thus their impact on the marketing mix is both obvious and influential.

Service blueprinting/process analysis

Service companies who wish to provide high levels of service quality and customer satisfaction need to understand all the factors which may impact on service processes. 'Blueprinting', or service process analysis, is a concept which breaks down the basic systems and structures of an organization to develop a greater understanding of the service process.

The approach requires identifying all of the points of contact between the customer and the service provider and documenting them in a service map or 'blueprint'. Possible breakdowns in the service experience can then be identified. These can then be acted upon and improved, thereby improving service quality.

Several approaches have been suggested to carry out a blueprinting exercise¹¹:

1. *Blueprinting/cycle of service analysis* – The concept suggests that each contact with the customer is a 'moment of truth', each being an opportunity to either increase or decrease customer satisfaction. The perception of the customer is a continuous stream of experiences which together determine service quality. The company will very often not perceive the service in this way as their employees are constrained in their view by the particular part of the overall service with which they are involved. The blueprinting/cycle of service approach enables a service company to shift its employee's perception to better understand their customer's experience of their service.
2. *Value chain analysis* – This important analytical tool involves breaking down each of the activities of a firm into its various activities, and showing where value is added for its customers. Each activity can be analysed to determine its contribution to customer satisfaction and service quality.
3. *Storyboarding* – This concept was developed by the Walt Disney organization in designing its theme parks in order to engineer the customer experience and ensure the greatest customer satisfaction. When a film is made, each scene is outlined in advance, using a series of sketches arranged in a sequence known as a storyboard. Similarly, sketches of each contact a customer has with the service provider can be used to identify points for improvement in customer service. Scenes can be rearranged to improve the quality of the customer experience.

Blueprinting involves flow charting the service delivery system of each aspect, including both front office and back office, of the service process. It involves a number of steps¹²:

- The first step in blueprinting is to diagram all the components of a service so that the service can be clearly and objectively seen.
- The next important task in blueprinting is the identification of failure points – that is, the areas most likely to cause operational or consistency problems.
- Setting execution standards is the third critical part of the blueprint. These represent the main quality targets for the service. Execution standards not only define the costs of a service, they also define the performance criteria and tolerances for the completion of each service step.
- Finally, the manager must identify all of the evidence of the service that is available to the customer. Each item that is visible to the customer represents an encounter point, during which interaction with the service will occur.

Blueprinting involves identification and management of ‘encounter points’, ‘pressure points’, or ‘moments of truth’. Moments of truth is a term used by Jan Carlzon of SAS to describe every interaction between the service provider and the customer. Karl Albrecht, a noted US commentator on service businesses, has outlined the typical moments of truth in the context of an airline:

1. Customer calls the airline for information
2. Customer books the flight with the airline representative
3. Customer arrives at airport counter
4. Customer waits in line
5. Ticket agent invites customer to the counter
6. Ticket agent processes payment and issues ticket
7. Customer goes looking for the departure gate
8. Gate agent welcomes customer to the flight, validates boarding pass
9. Customer waits in departure lounge for flight to depart
10. Boarding agent takes customer’s ticket and invites customer on board
11. Customer boards aeroplane, is greeted by flight attendant
12. Customer looks for his/her assigned seat
13. Customer looks for a place to stow carry-on luggage
14. Customer takes his/her seat
15. Etc.

Each moment of truth represents a point where the service provider demonstrates elements of both functional and technical quality in

different proportions. Every individual moment of truth adds to or detracts from the overall image of the service provider. Every moment of truth reinforces the quality of service or lack of it.

Virgin Atlantic has consciously adopted this approach in designing its service products. Its 'Upper Class' service is positioned between the business class and the first class service of other major airlines. Virgin Atlantic exemplifies seeing things from the customer's point of view and creating processes in line with customers' needs and desires. In many cities they have a limousine service that collects passengers from their home or office and drives them to the airport free of charge. At certain major airports around the world, including the airline's home capital city of London, they have a dedicated drive-in service where passengers may check their bags, have their passport inspected and received their boarding pass in the comfort of the limousine and then proceed immediately to Virgin Atlantic's business lounge without getting involved in long queues. The Virgin business lounge has high levels of customer intimacy and you feel like you are in a friendly restaurant with staff who are interested in helping you. This is unlike the more usual reception you get in a business class lounge where there is an offhand receptionist, stale sandwiches and disinterested catering staff.

The service blueprint is a valuable tool to help visualize the service process, understand what can go wrong and set performance standards for improvement in service quality. This helps not just with solving potential problems but also in designing ways to deal with service recovery. Many service companies are now using service blueprinting methods to improve their service quality.

Conflict between operations and marketing

While this might not be obvious in most service companies, there may be elements of conflict implicit in the way that operations and marketing people would view the same issue. Figure 10.13 illustrates some common areas of contention.¹³

Clearly, all of the issues listed in the figure affect both operations and marketing. However, where operations management is a more traditional part of the organizational fabric and marketing less deeply rooted, decision-making may be skewed in favour of operations. This is particularly likely to be the case if the organization tends to operate with a financial 'orientation', where everything is measured in terms of short-term profit or loss.

The message for marketers is quite clear. They must take the initiative and make greater impact on operational decisions by providing cost-benefit trade-offs to back up their arguments.

<i>Operational issues</i>	<i>Typical operations goals</i>	<i>Common marketing concerns</i>
Productivity improvement	Reduce unit cost of production	Strategies may cause decline in service quality
Standardization versus customization	Keep costs low and quality consistent; simplify operations tasks; recruit low-cost employees	Consumers may seek variety, prefer customization to match segmented needs
Batch versus unit processing	Seek economies of scale, consistency, efficient use of capacity	Customers may be forced to wait, feel one of a crowd, be turned off by other customers
Facilities layout and design	Control costs; improve efficiency by ensuring proximity of operationally related tasks; enhance safety and security	Customers may be confused, shunted around unnecessarily, find facilities unattractive and inconvenient
Job design	Minimize error, waste and fraud; make efficient use of technology; simplify tasks for standardization	Operational-oriented employees with narrow roles may be unresponsive to customer needs
Management of capacity	Keep costs down by avoiding wasteful underutilization of resources	Service may be unavailable when needed; quality may be compromised during high-demand periods
Management of queues	Optimize use of available capacity by planning for average throughput; maintain customer order, discipline	Customers may be bored and frustrated during wait, see firm as unresponsive

Figure 10.13 Potential sources of conflict between operations and marketing on operational issues

Mix element 7: The customer service element of the marketing mix

As customers become more sophisticated and demand higher standards, so must companies improve customer service in order to remain competitive.

In most marketing literature, customer service has been subsumed under the broad heading of ‘place’ in the marketing mix. The reasoning for this is that since reliability and speed of delivery were thought to be the main elements of customer satisfaction, the way that services were delivered was seen to be a distribution and logistics problem. However, in the light of experience in recent years, service companies have developed a different perspective on customer service. For customer-centric organizations, customer service is a critical component of the marketing mix, and is not just about looking at customers or addressing complaints.

In their comprehensive text on services marketing, Lovelock, Patterson and Wirtz point out that customer service should be an integral part of the service firm's DNA. They define customer service as follows¹⁴:

Customer service involves task-oriented activities [other than proactive selling] that involve interactions with customers in person or by technology for the purposes of service 'manufacture', delivery and service support. This function should be designed, performed and communicated with two goals in mind: customer satisfaction and operational efficiency.

Customer service is concerned with the building of bonds with customers and other markets or groups to establish long-term, mutually advantageous relationships which reinforce the other marketing mix elements.

In this context, and in the pursuance of time and place utilities for customers, customer service must take into account all activities which relate to customers before, during and after the transaction (Figure 10.14). The implication for the company operating in this comprehensive manner is that it must fully understand the reasons why customers buy, and recognize how additional value can be added to the offer.

Customer service takes into account all activities which relate to customers before, during and after the transaction

Many service companies have instinctively recognized this and have focused on their existing client base as never before. By increasing their

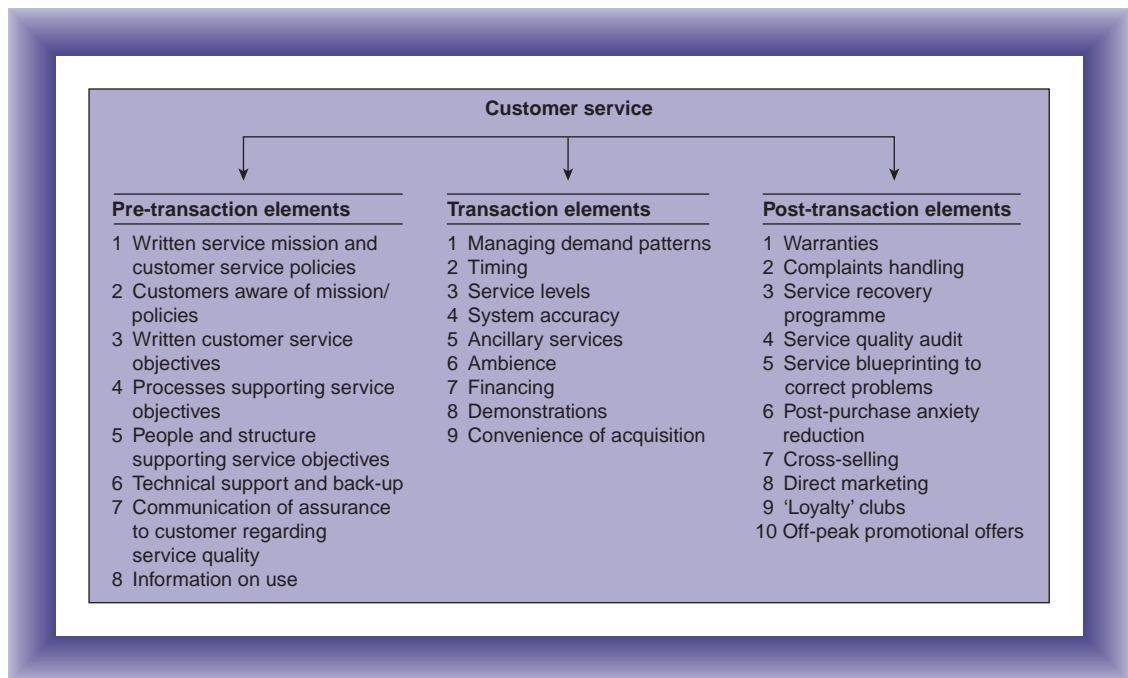


Figure 10.14 Illustration of key elements of customer service

understanding of client needs, they invariably find opportunities for additional cross-selling, thereby tying their customers even more closely to the company. However, because many services require close personal contact between the provider and the customer, improving customer service often hinges on the attitudes and behaviour of the contact staff. It is, therefore, essential that these key people are selected with great care and then given training which reflects the importance of their work.

Creating a customer service strategy

Recognizing the importance of customer service as a weapon, it is incumbent upon the marketer to be clear about how it will be created and used. There are four main steps in creating a customer service strategy¹⁵:

1. *Identify a service mission* – Just as there is a need for a corporate mission statement to clarify the organization's values and general sense of direction, so is there a need for a separate customer service mission. This will distil into a few words the company's philosophy and commitment to customer service.

2. *Setting customer service objectives* – This involves asking questions such as:

- How important is customer service compared to other elements of the marketing mix?
- Which are the most important customer service elements?
- How do these vary by market segment?

The answers to these questions will reflect such service quality variables as reliability, responsiveness and assurance. They will also take into account the nature of competitive offers.

The customer service objectives which emerge from this type of analysis need to be considered in the context of pre-transaction, transaction, and post-transaction activities.

3. *Customer service strategy* – Not all customers will require the same level of service, therefore appropriate service packages have to be created for different market segments. In order to do this the company must:

- Identify the most important services and segments
- Prioritize service targets
- Develop the service packages.

The most appropriate service packages will be those which offer greater benefits to customers than those of competing services. Such benefits may be real or perceived.

4. *Implementation* – The selected service packages are then introduced into the marketing mix. Often, the benefits they provide can be used as part of the promotional campaign.

A key element of the customer service element of the marketing mix is the setting of service standards and key performance indicators (KPIs). This involves identifying the most important customer expectations and developing measures of these so the customer service performance can be measured on these key dimensions. We discuss this in the next section of the chapter.

It is important to remember that, just like the service product itself, customer service strategies can have a limited life. With this in mind, the forward-looking service company keeps customer satisfaction levels under constant review and stays in touch with the changing needs of its customers in terms of providing service.

The need for an overall marketing mix strategy

It is clear from the foregoing discussion about the seven elements of the marketing mix that they are closely related to each other. Such is the way they interact that to change one element is to impact on the others. It is essential, therefore, that an overall marketing mix is developed which ensures that all elements are mutually supportive and synergistic. This means that the interaction between the marketing mix elements should be¹⁶:

- *Integrated*, i.e. there is harmonious interaction
- *Consistent*, i.e. there is a logic behind how the major elements of the mix fit together
- *Leveraged*, i.e. each element is used to best advantage in support of the total marketing mix.

This process can be likened to the way that, in optics, a prism can split white light into its seven constituent colours of the rainbow. However, here it operates in reverse and the seven elements of the mix are focused into a distinctive output which determines the service quality and how the offer is positioned (Figure 10.15).

At this point, some comments should be made on service quality. (Positioning has already been discussed in Chapter 7.) Service quality is the ability of the service organization to meet or exceed customer expectations. The measure of performance is essentially a measure of *perceived* performance. Thus it is the customers' perceptions of performance which count, rather than the reality of performance. It has been argued that the quality of a service has two important components:

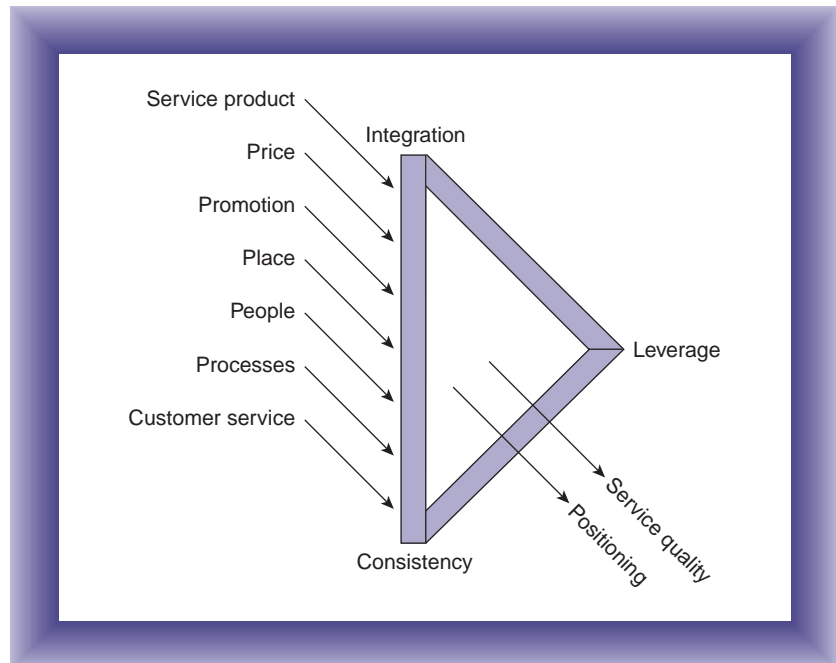


Figure 10.15
The marketing mix
'prism'

- *Technical quality* – the outcome dimension of the service operations process.
- *Functional quality* – the process dimension in terms of the interaction between the customer and the service provider.

These two dimensions of service quality highlight the subjective nature of quality assessments. Some authors refer to this as process quality and outcome quality. Generally, clients of professional service firms such as management consultants or insurance brokers have difficulty in distinguishing between good and outstanding technical quality of the service; thus judgements are often made on the subjective basis of how the client was treated. In the context of electronic commerce, Joel Collier and Carol Beinstock suggest that e-service quality in online service transactions involves process quality, outcome quality and recovery quality.¹⁷

Recently, research has been undertaken in an effort to try to understand the factors which influence service quality. Research by 'Parsu' Parasuraman, Len Berry and Valerie Zeithaml has focused on developing a conceptual model of service quality called 'SERVQUAL' in which service quality perceptions are influenced by a series of distinct gaps and empirical work, which identifies the importance of five key service areas.¹⁸ These five key areas are:

- *Tangibles* – the physical facilities, equipment, appearance of personnel.
- *Reliability* – the ability to perform the desired service dependably, accurately and consistently.
- *Responsiveness* – willingness to provide prompt service and help customers.
- *Assurance* – employees’ knowledge, courtesy, and ability to convey trust and confidence.
- *Empathy* – caring, individualized attention to customers.

While their empirical research in a number of service industries showed that all the above factors were important, two findings were especially important. First, tangibles have a relatively less important score than other dimensions. Second, reliability emerged as by far the most important dimension across all the services studied.

This work on SERVQUAL has recently been extended so that it can be utilized in the online context. This involved the development of an instrument with multiple scale items, called ‘E-S-QUAL’, for measuring service quality delivered on the Internet with a particular focus on shopping sites.¹⁹

The message for the service marketer seems clear. Above all, be reliable and deliver what is promised to the customer. Further, human performance plays a critical role in the customer’s perception of service quality. Three of the five dimensions outlined above – assurance, empathy and response – result directly from human performance; and a fourth factor, reliability, is also largely dependent on human performance.

In developing the marketing mix that delivers service quality, it will be necessary to consider the impact of each marketing mix element on the target market segments. This implies that the marketer must ensure:

- A good fit between the marketing mix and each segment.
- A good fit between the marketing mix and the company’s strategic capabilities, thus playing to its strengths and reducing the negative influences of its weaknesses.
- A recognition of competitors’ capabilities, strategically avoiding their strengths and capitalizing on their weaknesses.

The optimum services marketing mix strategy, therefore, involves organizing marketing resources, deciding upon levels of marketing expenditure, and being clear about the expected results.

Monitoring, control and review

The marketing programmes which are formulated for each element of the marketing mix should:

- Have an established timetable which indicates what activities have to be achieved at what time.
- Indicate the priority tasks and activities.
- Identify the resources and people needed to carry them out.
- Provide for monitoring and control of performance.

This last point is vital if the marketing plan is to succeed, yet it is often overlooked. Without some means of monitoring, controlling and reviewing the programmes, it will be impossible to ensure that the short-term strategies of both small and large service organizations are working towards the planned long-term objectives.

One of the reasons that monitoring and control is not covered very well in many companies is because they have been weak at setting quantifiable objectives in the first place. Without clearly measurable targets, monitoring progress becomes an extremely difficult, if not impossible, task.

Our work with smaller service companies, as well as academic research studies, suggests small firms often have poorer control procedures than larger ones. They also do a poorer job of setting objectives and monitoring them and often fail to analyse costs, evaluate advertising or examine sales force reports.

Tim Ambler, a leading researcher on performance metrics, identifies two key problems with larger companies. First, large companies frequently have too many measures, leading to confusion. Second, important control metrics such as customer satisfaction and customer retention often do not reach top management. In his research, he found customer satisfaction measures only reached the board of directors in 36% of companies and customer retention measures only reached the board of directors in 51% of companies.²⁰

It is clear that accurate, timely and appropriate control data will not arrive by chance. Greater discipline is required by firms of all sizes to develop and monitor appropriate metrics to provide timely and better control for the leadership of the organization.

A conscious effort must be made to set up information and reporting systems so that the right information for monitoring, control and review reaches the right people at the right time.

The level of detail, the format and the frequency of reporting will, to a large extent, be determined by the nature of the business, and the service markets in which it operates. In some companies, daily feedback will be required; in others, weekly, or even monthly, reporting periods might be perfectly adequate.

In a similar way, the performance criteria against which the market efforts are measured will need to be company specific, making sense only in the context of its marketing plan and particular business environment. Typical performance measures which might be monitored and controlled could include:

- Revenues
- Market share
- Marketing costs
- Overhead costs
- Profits
- Return on investments
- Consumer attitudes
- New customers
- Sales visits
- Conversion of visits to orders
- Complaints
- Customer retention
- Net promoter scores
- Bad debts
- Shifts in channel use
- Sales by service product
- Advertising effectiveness
- Service quality

The introduction of marketing planning can be a learning process for the whole organization. Its ultimate success comes from the willingness of everyone, from the boardroom down, to learn, to be prepared to experiment, and to adopt the planning system so that it delivers success to the company, regardless of its particular circumstances.

Summary

In this chapter we continued our examination of the first year detailed implementation programmes to address issues of: price; place; people; processes; and customer service, making sure that, in each of them, the ultimate choice of actions was designed to provide the service company with a competitive advantage. The challenge of responding to the opportunities and threats of new channels was given particular emphasis. Successful

companies such as eBay, Amazon, Google and First Direct bank all compete by exploiting IT-enabled channels to add value, reduce costs or both. Channel selection and channel integration form key issues in marketing planning.

We also saw that the components of the marketing mix were interrelated in such a way that decisions made in one area could limit or enhance options in another. Therefore, it was important that all marketing programmes had an overall coherence which ensured that they were consistent and integrated with each other.

Finally, we saw that to wait until the end of the plan and only then discover that it had failed was no way to run a business. By monitoring progress as the plan unfolds, and taking corrective action whenever it proves necessary, the company not only brings the plan to fruition, but also learns from experience how to improve its planning and control processes.

In the last five chapters we have provided an overview of the marketing planning process and then looked at each of the four phases in detail. In the final three chapters we now examine some key organizational aspects relating to the introduction of marketing planning, consider how to measure the effectiveness of marketing plans and provide a step-by-step marketing planning system for service organizations which shows how the approach outlined in the previous chapters can be successfully implemented through the creation of structured three-year strategic and one-year tactical marketing plans.