

2 The nature of services marketing

So far, much of what has been said could be equally applicable to either a product or a service. So, is there anything special about services marketing?

At one level, the theory of marketing has universal application – the same underlying concerns and principles apply whatever the nature of the business. However, the nature of a particular service business may dictate a need to place much greater emphasis on certain marketing elements, which in turn could lead to different marketing approaches.

It is frequently argued that services have unique characteristics that differentiate them from goods or manufactured products. The four most commonly ascribed to services are:

Intangibility – services are to a large extent abstract and intangible.

Heterogeneity – services are non-standard and highly variable.

Inseparability – services are typically produced and consumed at the same time, with customer participation in the process.

Perishability – it is not possible to store services in inventory.

From the 1980s these characteristics, known as 'THIP' (intangibility, heterogeneity, inseparability and perishability) were widely discussed in the academic literature and textbooks in services marketing. However, the huge diversity of types of service businesses suggests that it is difficult to fit services into a neat definition. The universality of these characteristics has been increasingly challenged over recent years.¹⁻³ As we comment on shortly, not all services possess all of the above characteristics and some even possess high levels of the opposite of these characteristics (tangibility, homogeneity, separability and durability). However, most services do not involve the transfer of ownership in the way that occurs with physical goods.

Services possess other special qualities of importance to marketers. Services offer significant opportunity for resource sharing, such as through line-rental or timeshare agreements, where personalized access to

telecommunications or a holiday home is kept at an affordable level by sharing access to goods, physical facilities, systems and expertise. The duration of usage, or time element, extends the perspective for pricing strategy beyond relative quality and value. Thus, while activity-based costing is widely used in manufacturing, time-based pricing may be a desirable option in the provision of services. Further scope for competitive differentiation may exist where price-sensitive customers can take advantage of lower cost time periods and time-sensitive customers are willing to pay extra for speed or last-minute convenience.

Arguably, marketing's traditional emphasis on the provision of goods as the basis for economic exchange is being replaced by an emphasis on the provision of services – elevating the importance of marketing planning for service businesses.

One of the issues in defining a service is to do with the fact that, whereas a product is seen to be tangible and a service intangible, there are in reality many variations on the degree of tangibility.

Kotler⁴ has identified four categories, varying from a 'pure' product to a 'pure' service.

(a) A pure tangible product	A tangible offer, such as sugar, coal, or tea. No services are bought with the product.
(b) A tangible product with accompanying services such as commissioning, training, maintenance	Here, the offer has built-in services to enhance its customer appeal, e.g. computers, machine tools.
(c) A service with accompanying minor goods (or services)	Here, the offer is basically a service but has a product element, e.g. property surveyors, whose expert inspection is encapsulated in a report. Similarly, airlines offer in-flight meals, or entertainment.
(d) A pure service, where one buys expertise	Here, the offer is a stand-alone service such as psychoanalysis.

These categories can be placed on a continuum which embraces all possible degrees of intangibility.

Figure 2.1 identifies the continuum of tangible–intangible possibilities. Point (a) on the left-hand side of this figure illustrates an offer where

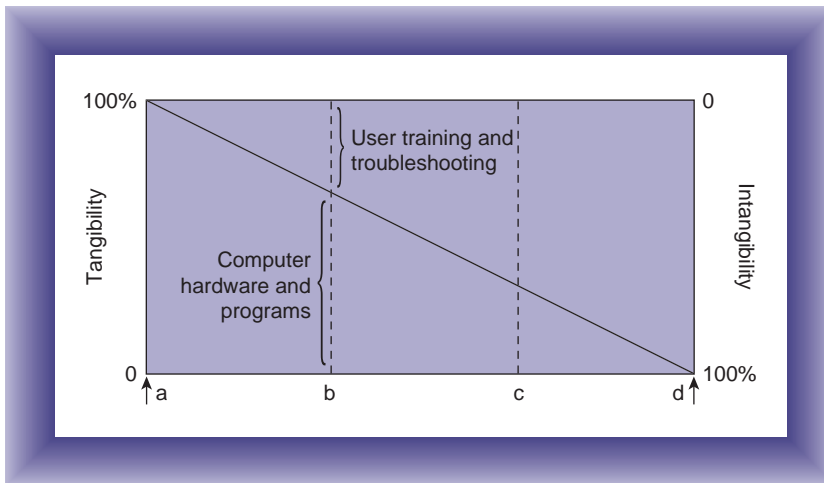


Figure 2.1
Continuum of
tangible–intangible
possibilities

there is no service element and so the product is highly tangible. At the other end of the continuum, point (d) illustrates a product which is entirely a service and is therefore highly intangible. Points (b) and (c) show varying mixes of tangibility/intangibility. For example, point (b) illustrates the mix of tangibility and intangibility for a computer company. Computer hardware and programs are highly tangible and can be regarded as commodities; however, the service elements of user training and troubleshooting are largely intangible.

Viewed in this way, the difference between a product and a service becomes far less discrete. The distinction between services and manufactured products has become increasingly blurred as many manufacturing companies have seen the opportunity to add services to their portfolios.⁵ Many manufacturing organizations now have substantial service businesses. Rolls-Royce and IBM stand out as two exemplar organizations that have embraced services. Both these organizations have achieved huge growth in the services component of their businesses.

Jet engine manufacturer Rolls-Royce introduced their 'power by the hour' initiative which provides airline operators with a service that involves a fixed engine maintenance cost over an extended period of time. Typically Rolls-Royce retains ownership of the engines and airline operators are assured of an accurate cost projection by buying 'power by the hour' with guaranteed performance standards. They also avoid the costs associated with unexpected engine breakdowns.

IBM, once primarily a manufacturer of large computers, has significantly increased the share of its business derived from services. IBM has shifted its focus from commoditized hardware to higher-margin services and software. This is being achieved by both organic growth and purchase of service businesses like the consulting division of PricewaterhouseCoopers. IBM's Global Services organization is the world's largest business and technology services provider. It is

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the fastest growing part of IBM, with over 190,000 workers serving customers in more than 160 countries.⁶

In addition to organizations operating solely in the service sector and manufacturing companies with a substantial component of service activity in the businesses, there is also a substantial amount of internal services undertaken by companies in all sectors. These internal services include accounting and payroll administration, legal services, recruitment, transport and logistics, cleaning and catering. Increasingly these services are being incorporated to form subsidiaries or outsourced to external service providers, thus adding further to the growth of the 'formal' service sector.

Service marketing does not only apply to service industries services

Theodore Levitt, recognized as one of the world's leading marketing experts, has commented that 'everybody is in service'. He points out that all industries are in services, although some have a greater or less service component than other industries.⁷ Services scholar Evert Gummesson makes a similar point when he points out that: 'The former special case of the service sector has now become the universal case.'⁸

It follows that to define services as being confined only to service industries is not strictly true.

This view has been increasingly recognized since the publication of Stephen Vargo and Robert Lusch's award-winning research on service-dominant (S-D) logic.⁹ This research, first summarized in an article in 2004, provides a new perspective on goods and services. Although a detailed review of service-dominant logic and the closely related area of service science¹⁰ work are beyond the scope of this book, some brief comments should be made on this important topic.

Vargo and Lusch contend that services are more prevalent than goods and goods need to be considered as a 'medium' for a firm's service. They consider all firms are in the business of providing services. Companies that produce goods only, such as an automobile manufacturer, are in fact creating a service for their customers – in this case a 'service' that enables customers to go from 'point A' to 'point B'. Many of the issues addressed by Vargo and Lusch have appeared previously within the services and relationship marketing literatures. However, what they present in their work is an integration of many of the somewhat disparate concepts and principles of services marketing.

Central to this work is the recognition of the need for a shift from a firm perspective to a customer perspective. S-D logic emphasizes that companies need to become continuous learning organizations working more closely with their customers and that communication with customers should be characterized by conversation and dialogue. By adopting this perspective the customer shifts from being a passive

audience to an active player whether engaged more deeply in joint value creation or 'value co-creation'.¹¹

There is an increasing trend towards differentiating what were once considered to be tangible products by exploiting the intangible service elements of the offer. The service elements can be added to provide unique features matching customer needs. For example, in the highly competitive photocopier business, service has become a major factor in the buying decision. Photocopiers are leased or sold with service contracts which tie customers to the supplier.

Nevertheless, it will be difficult to proceed without attempting to define a service in some way. Therefore, while recognizing that any definition might prove to be unduly restrictive, and that somewhere a service may exist which does not conform to what we say, our definition is:

A service is an activity which typically has some element of intangibility associated with it. It involves some interaction with customers or property in their possession, and does not result in a transfer of ownership. A change of condition may occur and provision of the service may or may not be closely associated with a physical product.

Services encompass a wide range of organizations dealing with both consumers and businesses. Within the for-profit sector they include airlines, banking and finance, insurance, telecommunications, utilities, hotels, restaurants, travel and tourism, transportation and many more. Firms operating in the areas of accounting, architecture, legal services and management consulting and market research are generally referred to as professional services. The services sector also include most organizations operating in the not-for-profit sector including schools, libraries, health care services, public hospitals, the opera and ballet and a wide range of government and municipal services. Government at all levels has grown in size in most countries, creating a huge infrastructure of service departments. Today, non-profit making organizations such as charities, hospitals and government departments are discovering the need for services marketing planning.

As discussed above, the universality of the service characteristics of intangibility, heterogeneity, inseparability and perishability have been increasingly put under scrutiny in recent years. While it is true that these characteristics describe the context of many services, when compared to traditional goods, there are many exceptions. Evert Gummesson provides the following examples of where these characteristics do not apply¹²:

Intangibility – a surgeon operating in the health care sector. The surgeon cuts you open, performs invasive surgery and sutures you back together. This could not possibly be perceived by the provider or the patient as something intangible!

Heterogeneity – a withdrawal from an automatic teller machine. This is an example of a highly standardized mass production service activity which is highly homogeneous, except perhaps when the cash machine runs out of money.

Inseparability – a substantial number of services are separable ones that do not involve the customer’s direct participation. Such services include transporting freight, laundry of clothes, lawn mowing services and parcel delivery.

Perishability – while many services are perishable, others are not. For example, live performances such as entertainment, music and religious services can be recorded for subsequent broadcast or can be developed into physical goods in the form of tapes or DVD or electronic media.

While the universality of the service characteristics of intangibility, heterogeneity, inseparability and perishability has been challenged, we conclude that while many services possess the IHIP characteristics, others do not. Further, they may exhibit these characteristics to different degrees. Clearly there is a continuum of tangibility ranging from highly intangible to highly tangible. This concept of a continuum is useful when considering the other characteristics discussed above. Services can only be described as having a tendency towards a higher degree of the intangibility, heterogeneity, inseparability and perishability characteristics. For any given service there is, potentially, a different combination of each of the four factors. This suggests a continuum for each of the four characteristics, as shown in Figure 2.2.

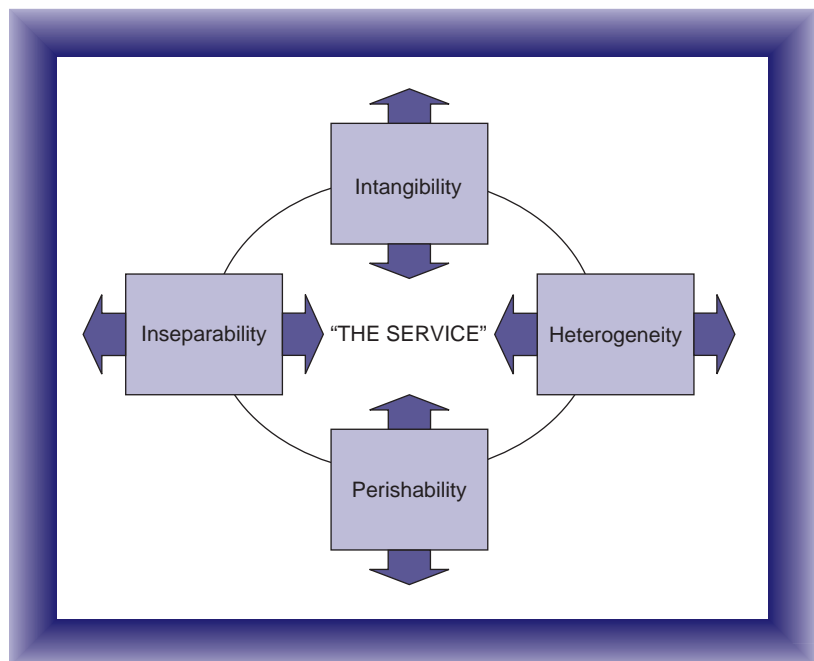


Figure 2.2
A continuum for each of the four service characteristics

The concept of a continuum for each of the four characteristics of services recognizes that emphasis on each of these characteristics can vary for a given service, and can also provide a source of competitive differentiation. Understanding the positions of a particular service on each continuum, along with the position of competitors, is an important means of considering potential sources of competitive advantage. In the same way, manufacturers of products can seek competitive advantage by focusing on 'service' elements. The services marketer should consider the extent to which each of these characteristics might be addressed. For example, the service marketer may wish to make the service more tangible by providing testimonials and elaborate documentation with a customer's pension plan. On the other hand, a marketer could seek to intrigue customers by making an offer less tangible and surrounding it with mystique, such as a surprise luxury holiday destination. Of course, marketers generally will seek to make their offers more tangible.

Classification of services

There have been a number of approaches used to develop a classification scheme for services. The intention behind this work was to provide service managers with a means of identifying other companies who, though operating in different types of industries, shared certain common characteristics.

Some of these early approaches were not always helpful in aiding the development of service marketing strategies. In some cases, the fault lay in the oversimplification of the classification scheme used, which did not offer enough strategic marketing insights to be of much value. In other cases, service managers were not open-minded enough to recognize where similarities with other industries could exist. This led Christopher Lovelock, a distinguished services researcher and former Harvard Business School professor, to develop a more substantial classification framework.

His framework yields valuable marketing insights in response to five crucial questions¹³:

Much can be learned
by looking at other
types of service
organizations

1. What is the nature of the 'service act'?
2. What style of relationship does this service organization have with its customers?
3. How much room is there for customization and judgement?
4. What is the nature of supply and demand for the service?
5. How is the service delivered?

Lovelock examines each of these questions in a series of two-dimensional matrices. Based on his work, each of the five questions and the matrices associated with them are now examined in more detail. (For a review of other services classification schemes, see the work by Sandy Ng and her colleagues.¹⁴)

1. What is the nature of the service act?

The primary considerations here are whether or not the service is largely tangible or intangible and if it is addressed essentially to people or to 'things', be they property, systems or equipment. Not only can these factors be combined in the matrix shown in Figure 2.3, but they also raise further issues for the inquisitive service manager, such as:

- What benefits does the service provide?
- Does the customer need to be present as the service is delivered?
- Is the customer changed as a result of the service?
- Does the customer have to come out to receive the service, or can it be provided at home (or at the office)?

Exploring possible answers to these questions might enable the service manager to gain new insights, thereby repositioning the service by making it more beneficial or convenient to the customer. For example, a hairdressing salon might develop an 'at-home' service for customers who are incapacitated or who find travelling difficult. If this proved to be successful, it could reduce the need for having an expensive high street establishment. Indeed, it might eventually lead to withdrawing from fixed premises entirely.

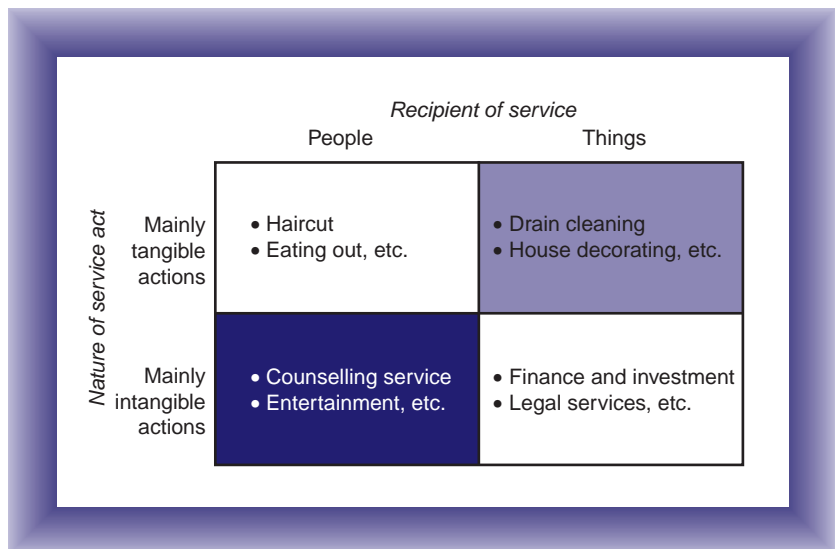


Figure 2.3
Nature of service matrix

2. What style of relationship does the service organization have with its customers?

The prime factors which underpin this question concern whether or not the customer has some type of formal relationship with the provider of the service, and whether the service itself is provided continuously or in discrete transactions. These considerations lend themselves to the matrix in Figure 2.4.

Clearly, there are advantages for the service provider to have customers as ‘members’, whether this is done in a contractual sense or just by mutual agreement. By knowing personal details about the customers, it becomes easy to contact them via direct marketing and to tailor special offers around their particular needs. Thus, market segmentation becomes relatively straightforward and it is possible to build up customer loyalty by trading on the special relationship that membership brings.

In contrast, when the relationship is informal, next to nothing is known about the customer. Another problem is assessing how to charge for a continuous delivery, informal relationship type of service. In the examples provided in the matrix, they come ‘free’, but are of course funded by the taxpayer.

The key questions this matrix raises for service managers are:

- Can anything be done to move ‘informal’ into ‘member’ relationships (e.g. random cinema visitors become cinema club members; regular tool hirers get a privilege card; etc.)?
- Where can there be trade-offs between pricing and usage rates (e.g. season ticket holders for theatre or sports entertainment; book clubs that give price incentives for membership)?

		Type of relationship	
		‘Member’	Informal
Nature of service delivery	Continuous	<ul style="list-style-type: none"> • Credit card • Insurance • Public utilities 	<ul style="list-style-type: none"> • Health service • Police
	Discrete transactions	<ul style="list-style-type: none"> • Season ticket • Record or book club 	<ul style="list-style-type: none"> • Tool hire • Babysitting

Figure 2.4
Style of relationship matrix

3. How much room is there for customization and judgement?

Here, the issues centre on the degree to which the service can be tailored to meet specific needs, and the degree of judgement required by staff who come into contact with the customer. This is illustrated in Figure 2.5.

The questions this matrix raises for the service manager are, on the whole, bound up with cost and the availability of the right calibre of staff. For example:

- Is it desirable to limit the degree of customization and thereby benefit from 'standardization' and economies of scale?
- Should customization be increased in order to reach a wider range of customers?
- Should services be simplified so that less judgement is required by contact staff?
- Should the service be updated in order to capitalize on the expertise of staff?

In answer to questions like these, a general management consultancy firm might start to specialize in just one or two specific areas. Similarly, the landscape gardener might focus on paths and patios.

The level of customization will often create friction between the marketing and operations function. Service market managers will often

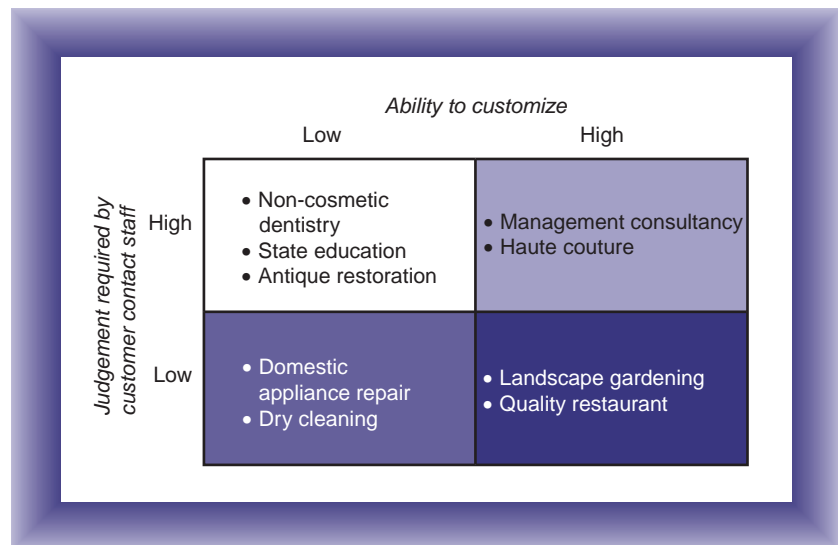


Figure 2.5
Customization and staff judgement matrix

see the need for a high level of customization which poses greater demand on operational staff. Higher levels of service customization often require employees at the point of service delivery to make decisions based on their own judgement. This means that employees require greater levels of training and a wider skill base. For example, a waiter who prepares food at the customer’s table requires a higher level of training than one who delivers food from the kitchen to the table.

4. What is the nature of supply and demand for the service?

In other words, are demand fluctuations large or small, and can peak demands be met relatively easily? The matrix these questions provide is shown as Figure 2.6.

As was stated earlier, a service usually cannot be stored, so if demand exceeds supply it is an invitation for another supplier to step in. This indicates that it is important for the service manager to understand demand patterns over time, knowing why and when peaks occur, and taking steps to work out what alternative strategies might be used for ‘smoothing’ them. Some examples of how this works in practice would be:

- The DIY store, whose busiest time is weekends, expands ‘capacity’ by employing temporary staff.
- Railway companies provide reduced price ‘off-peak’ travel.
- Restaurants provide a reduction for early evening diners during the week, but restore normal pricing at weekends.

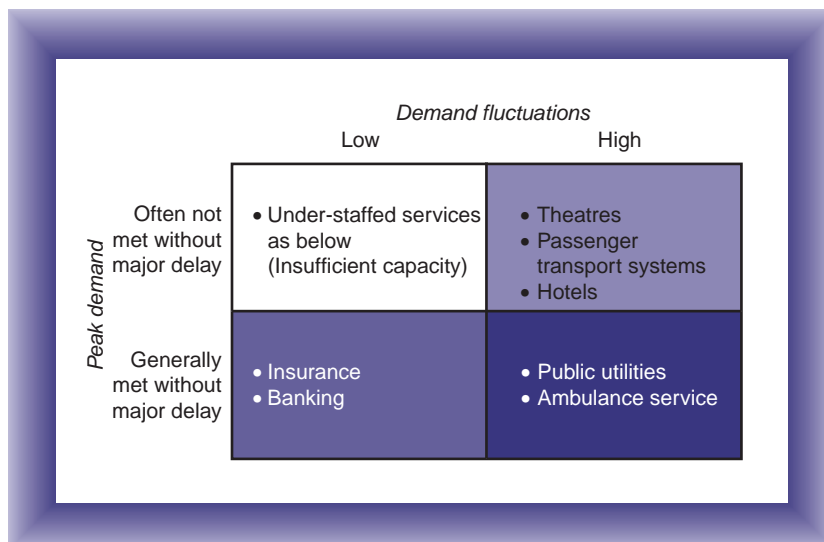


Figure 2.6
Supply and demand matrix

Typical of the questions that supply and demand prompt in the minds of service managers are:

- How susceptible to peaks and troughs is the business?
- To what extent can peaks be coped with?
- Should alternative strategies be adopted for creating capacity?
- Should alternative strategies be adopted for introducing differential pricing?
- Should a new mix of strategies be experimented with, involving both capacity and pricing?

Coping with demand fluctuation can cause serious problems for service managers. Computer technology helps delivery scheduling for services. For example, on the underground train network in Singapore, the passenger flow is constantly monitored via a computer-linked ticketing system. If passenger flow suggests additional trains are required, the system will immediately trigger action to correct the situation.

5. How is the service delivered?

The method by which the service is delivered to customers can be another area where a change of marketing strategy could pay dividends. The factors to consider are shown in Figure 2.7.

		Service outlet	
		Single site	Multiple
Types of interaction	Customer goes to supplier	<ul style="list-style-type: none"> • Sports centre • Hospital 	<ul style="list-style-type: none"> • Public transport • Prontaprint • Estate agents (chain)
	Supplier comes to customer	<ul style="list-style-type: none"> • Garden services • Plumber 	<ul style="list-style-type: none"> • AA/RAC • Postal deliveries
	Neither meet directly	<ul style="list-style-type: none"> • Credit card • First Direct Banking (Telephone banking) 	<ul style="list-style-type: none"> • Telephone • Mail order

Figure 2.7
Service delivery matrix

This matrix raises another set of questions for the service manager:

- Should the service be delivered at a single site or through multiple outlets?
- What is the most convenient type of transaction for customers?
- If the type of interaction changed, would the service quality improve or deteriorate?
- Can suitable intermediaries be used in order to achieve multiple outlets (e.g. franchises)?

Service delivery is of great importance to the customer's overall perception of service quality. Services that generally require the customer to come to the supplier have a greater opportunity to control the delivery experience. For example, a client visiting a lawyer's office will gain an impression of competence and professionalism from the 'atmosphere' of the waiting area and the friendliness and efficiency of the receptionist. However, increasingly, many services are being delivered without the customer and supplier meeting. For example, telephone banking and the use of email, the Internet, fax machines and EDI (electronic data interchange) have been introduced within many service sectors.

Lovelock's five questions (and the associated matrices) clearly raise a number of important issues for the service provider. The advantage of this particular method of classification is that it can cut across service industry barriers, thus enabling comparisons to be made with, and lessons learned from, service companies in other business fields. They also highlight key issues that need to be addressed in the marketing plans of service organizations.

The strategic value of services in manufacturing

As was shown earlier, the 100% tangible product is a rarity. Apart from a few commodity items or foodstuffs, most products have an element of service attached to them.

Many manufacturers have been quick to realize that, although their basic product might be in the 'me-too' category, they can bring about some differentiation from the way they manage the service element of the product.

The types of services that can feature in an expanded 'product package' are:

- Training
- Consultancy
- Service contracts
- Customization
- Fast-moving troubleshooting
- Help with financing
- Special delivery arrangements
- Stockholding or inventory control for the customer
- No-quibble guarantees

Adding services can become a major source of differential advantage in the manufacturing sector

As manufacturing companies become more sophisticated and as technological advantages become ever more transitory, services begin to represent an area of significant profit potential. This trend has even earned itself a new piece of jargon, 'servitization of business', coined by Sandra Vandermerwe and Juan Rada.¹⁵ Not surprisingly, manufacturing is now looking more and more at the service sector in order to learn from its experience. As a result, what was once a clear divide between two quite different types of businesses is becoming increasingly blurred.

This section on the nature of services was prompted by a seemingly simple question about the difference between marketing a product and a service. As we have seen, not only is it not easy to define where a product finishes and a service begins, but even the difference between manufacturing as an industry and the traditional notion of a service industry is becoming ever less clear.

This discussion was important, because it should help the reader to have a much clearer idea about how a business should be defined in terms of the intangibility of its service and the other characteristics that give it a particular identity. Knowing this makes it easier to recognize how the marketing planning process can be best adapted for particular circumstances.

The marketing mix

Earlier, marketing was described as being a process which matches the supplier's capabilities with the customer's wants. We also saw that this matching process took place in a business environment which could pose threats for the supplier, but which also created opportunities.

The marketing mix is, in effect, the 'flexible coupling' between the supplier and customer which facilitates the matching process. Traditionally it was said to consist of four elements, namely:

- *Product* – The product or service being offered.
- *Price* – The price or fees charged and the terms associated with its sale.
- *Promotion* – The communications programme associated with marketing the product or service.
- *Place* – The distribution and logistics involved in making the product/service available.

From this, the shorthand term for the marketing mix became the 4Ps, for reasons which are obvious. However, it must be remembered that within each 'P' is subsumed a number of subelements pertinent to that heading. So, for example, promotion will include not only face-to-face communications provided by contact staff, but also indirect communications such as advertising, sales promotions, publications and direct mail.

Services and the marketing mix

In recent years, those charged with developing the application of marketing in the service sector have questioned whether the 4Ps approach to the marketing mix was sufficiently comprehensive. As a result, there has been a marked shift of opinion and most service marketers now consider that an expanded marketing mix is appropriate for service businesses – one that ensures that all important elements are not overlooked.

In services marketing, the 4Ps need to be expanded

Added to the original 4Ps are:

- *People* – Since people are an essential element in the production and delivery of services, the quality of the service is largely determined by the quality and behaviour of the company's staff. This is particularly true in respect of those whose jobs involve high levels of customer contact.
- *Processes* – The procedures, routines and policies, which influence how a service is created and delivered to customers, can clearly be instrumental in determining how 'customer friendly' the company is perceived to be.
- *Customer service* – As customers demand higher levels of service, this element becomes a competitive weapon with which a company can differentiate itself. In the longer term it helps to build closer and more enduring relationships with customers.

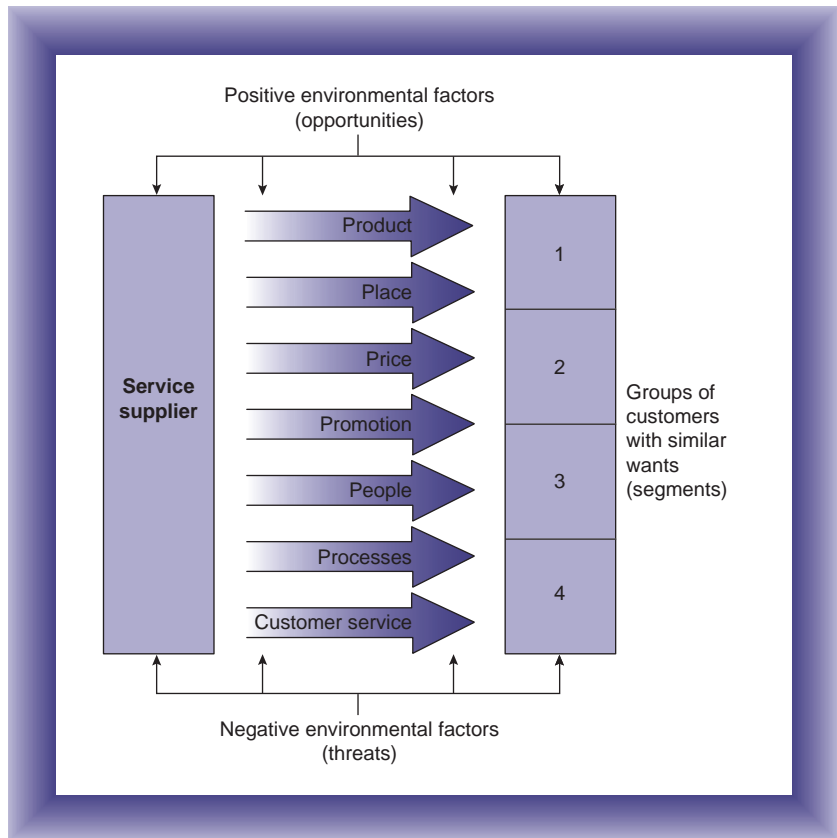


Figure 2.8
The marketing process

This expanded marketing mix is robust enough to cover most service marketing situations. Figure 2.8 provides a more detailed representation of how the marketing process for services works.

It should be noted that some authors argue that physical evidence should form a separate element of the services marketing mix.¹⁶ While its importance is undoubted, so too is that of advertising and personal selling. Just as advertising and personal selling are sub-elements of the promotion element of the marketing mix, we consider physical evidence should be viewed as a sub-element of the product element of the mix. However, it is important that the significance of physical evidence is recognized, and attention directed at it, regardless of whether it is viewed a sub-element of product or a marketing mix element in its own right.

The output of the service provider results from the effort it puts into its services marketing mix.¹⁷ Most service organizations now divide their customers into customer segments and provide a different marketing mix best suited to the needs of each one, as shown in Figure 2.8.

Success depends on careful market segmentation

Across these segments, perhaps the service product provided is slightly different, perhaps the pricing varies from segment to segment, perhaps the promotion is different with, say, one segment influenced

by indirect communications and another by face-to-face methods, perhaps the place element of the mix is different for each segment, or perhaps it is customer service which is differentiated.

There is, in reality, a tremendous range of options open to the marketer who chooses to explore all of the services marketing mix possibilities, but of course the whole marketing process really hinges on how accurately the needs and wants of customers are known, and how astutely they are grouped into segments which meet the following criteria:

- They are adequate in size to provide the company with a good return for its effort.
- Members of each segment have a high degree of similarity, yet are distinct from the rest of the market.
- Criteria for describing the segments are relevant to the purchase situation.
- Segments are capable of being reached through communications.

It goes without saying that a company should not try to work with too many different segments. There is a danger that some will be too small but, more importantly, the company will not be capable of managing its dealings with too many different segments without diluting its efforts.

Like an individual, a company cannot be all things to all people. It must learn to focus on its strengths and on markets where it has the best chance of succeeding.

Market segmentation is discussed in more detail in Chapter 6.

A brief history of marketing in the service industry

It would be fair to say that professional marketing does not have an especially long history in the service sector. An early study in 1970 compared 400 service and manufacturing companies and discovered that the service companies were:

- Less likely to have marketing mix activities carried out in the marketing department.
- Less likely to do comparative analysis of service products.

- Less likely to use outside agencies for their advertising (they showed a preference to do it themselves).
- Less likely to have an overall sales plan.
- Less likely to have sales training programmes.
- Less likely to use market research firms and marketing consultants.
- Less likely to spend as much on marketing as a percentage of gross sales

More service businesses should study best practice from other organizations

In general, the service industry has demonstrated considerable growth over the past four decades. However, with increasing globalization and deregulation, competition has also become far more intense. Today, we find a sector that has grown, but one that in general marketing terms still lags behind best practice in consumer goods and the industrial sector. However, the picture is not all bad, for many service companies have become very sophisticated in their marketing and would compare favourably with examples of best practice anywhere in the world.

It was only in the 1980s that serious attention was given to service marketing. Some of the work developed since then has suggested that service companies alter their 'marketing' focus as they evolve and develop. These different phases are shown in Figure 2.9. However, it should be noted that this is a general pattern that companies follow. Some individual companies might have reached these focus points in a slightly different sequence, or indeed might have jumped some of the steps completely.

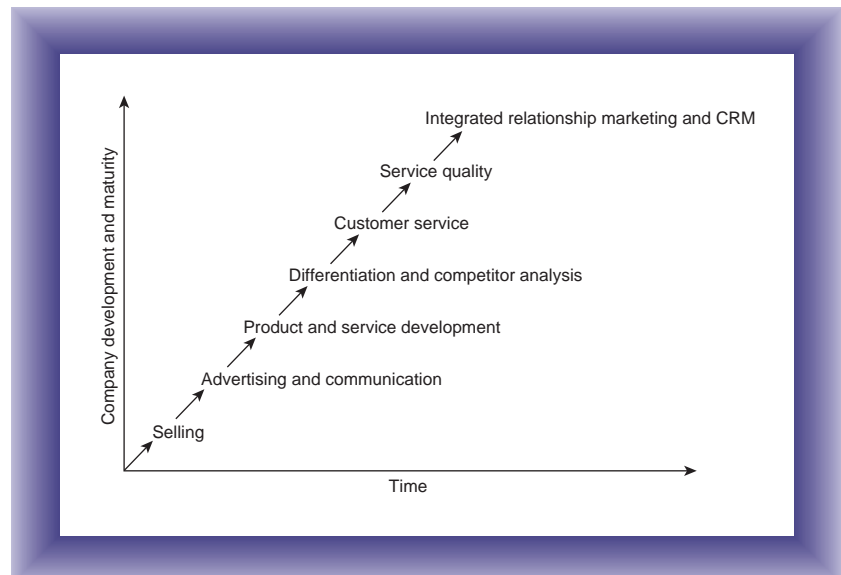


Figure 2.9
General development pattern of marketing approaches

The pattern shown in Figure 2.9 is not surprising, because it conveys a learning process whereby each step is almost a natural extension of moving forward. In fact, it could be argued that this sequence closely follows the various phases of activity which certain kinds of service companies exercised from their activities in the 1970s to the present day. Those wishing to gain a deeper perspective of service marketing should see the 2010 contribution by Ray Fisk and Stephen Grove who survey the evolution of the services field.¹⁸

Seeking to reach the final stage requires the service company to:

- Integrate all marketing activities
- Develop a realistic and focused approach to marketing planning
- Develop a marketing-oriented culture
- Recognize the importance of quality transactions both inside the company and with customers
- Capitalize on the use of database marketing techniques
- Engage in appropriate digital marketing and social media activities
- Explore greater engagement with customers through co-creation
- Develop a Customer Relationship Management (CRM) strategy that focuses on shareholder value creation rather than on the adoption of IT solutions
- Increase profitability through balancing customer acquisition and customer retention.

This last point is not always fully appreciated by service companies and it merits some further elaboration.

Customer retention and profitability

Acquiring customers can be expensive. Usually it involves certain one-off costs, such as, for example, advertising, promotion, the salesperson's time, and even the cost of entering data into the company's data bank. Thus, every customer represents an investment, the level of which will vary from business to business.

Retaining customers
is extremely
profitable

If they are treated correctly and remain customers over a long period, there is strong evidence that they will generate more profits for the organization each year they maintain the relationship. Across a wide range of businesses this pattern is the same (Figure 2.10).¹⁹

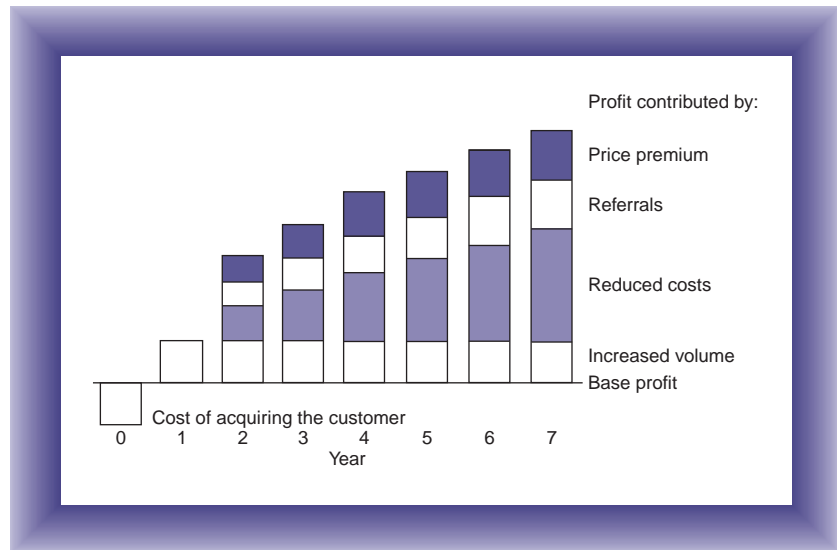


Figure 2.10
Retaining customers
pays off

For example, an industrial laundry almost doubled its profits per customer over five years. A car servicing business expects fourth-year customers to generate three times the profit of a first-year customer. A distributor of industrial products found that net sales per account continued to rise even into the nineteenth year of the relationship.

This trend holds true for many types of service companies. As the relationship extends, the initial 'contact' costs, such as checking credit-worthiness, no longer figure on the balance sheet. In addition, the more that is known about the customer as the relationship develops, the more offers can be tailored effectively to meet their needs. Thus, the customer gets greater value, which in turn encourages more frequent and larger purchases.

It follows, therefore, that when a company lowers its customer defection rate, average customer relationships last longer and profits climb. Viewed in this way, the costs of providing enhanced customer service could be seen as an investment in customer retention.

Integrated relationship marketing and CRM

For an organization to reach the last level of sophistication shown in Figure 2.9 it needs to reappraise the way it relates, not only to customers, but also to all other areas which have an impact on the business. It

involves a recognition that in order to achieve success, the organization is dependent upon the outside world for everything: its skills (through the workforce), its materials, the equipment it uses and, as we saw earlier, the trading conditions under which it operates. Of course relationship marketing is not about having a deep relationship with each and every customer. Rather it is a process that involves determining the *appropriate* relationship with customers and customer segments. This relationship marketing approach for customers applies equally to other 'non-customer' stakeholders.

There are six 'markets domains' or stakeholder groups that need to be considered within this broader vision of relationship marketing,²⁰ as shown in Figure 2.11. Only the central area is concerned with traditional customer markets and it is on this that the remainder of this book will focus. It is in its customer markets that the company's services, which are the *raison d'être* for the organization's existence, have special currency.

There are six 'market domains' that need to be managed by the organization

All of the six markets are interrelated and influence each other, but it is the customer market which is the central focus of the organization's goal.



Figure 2.11
Relationship marketing – a broadened view of markets

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Relationship marketing is more profitable than one-off transactions

An organization needs to successfully engage with all these stakeholder groups or market domains. However, while it is important to understand this concept, it is equally important to understand that it is not the primary role or function of an organization's marketing department to prepare 'marketing plans' for these other five 'satellite' market domains. (However, the tools and methodologies of marketing planning outlined in this book can be used to develop market plans for these other satellite markets.) Clearly, managing these other markets is the ultimate responsibility of the board of directors, through both the functional chiefs who manage each area and the management of cross-functional activities within the service organization. For example, the recruitment and internal market domains should be managed by the human resources function, the shareholders and external analysts within the influence market domain by the corporate affairs function and the supplier market domain by the procurement function. All these non-customer market domains need to be managed with a view to achieving success within the customer market, since this is the whole point of what we call 'relationship marketing'.

With customers being the prime focus of the organization's marketing efforts, this new orientation calls for there to be a switch from seeking 'one-off' transactions with any customer who can be inveigled to buy, to building long-term relationships. This change from 'transaction marketing' to 'relationship marketing' has very real implications for the organization. Some of these are listed below.

<i>Transactional marketing focus</i>	<i>Relationship marketing focus</i>
● Single sale	● Customer retention
● Service features	● Service benefits
● Short timescale	● Long timescale
● Little emphasis on customer service	● High emphasis on service customer
● Moderate customer contact	● High customer contact
● Limited customer commitment	● High customer commitment
● Quality is the concern of 'production'	● Quality is the concern of all

A similar shift in orientation needs to accompany this change of focus with respect to the other 'markets domains' shown in Figure 2.11. Thus, a more open, long-lasting and committed relationship is called for in the organization's dealings with what we have termed internal markets, referral markets, influence markets, recruitment markets and supplier markets.

By building longer-term quality relationships in this way, the organization can establish stability in the restless, ever-changing business environment.

Not only is this mutually beneficial to the parties involved in the short term, but it also makes it easier to plan ahead with greater accuracy.

Not all 'satellite' markets are equally important

Clearly, not all of these satellite markets are going to be of equal importance to companies. Therefore, each organization will have to make decisions regarding what levels of attention and resources they devote to each one. The corporate thinking process is likely to follow these steps:

1. Which of these areas has the greatest impact on our future success?
2. Who are the key participants in these markets?
3. What are the expectations and requirements of these participants?
4. To what extent is the company currently meeting these expectations and requirements?
5. What strategy needs to be formulated to bring these relationships to the desired level?
6. Are any of these strategies sufficiently complex or resource intensive to justify the need for a formal written plan?

As an aid to these deliberations, a relationship marketing network diagram or 'radar chart', as illustrated in Figure 2.12, can be used. This has two axes representing customer markets – existing and new – and five axes representing the 'satellite' markets. Each axis has a scale ranging from 0 to 10 on which it is possible to plot the current and desired levels of emphasis on each market.

In the example shown of the changing emphasis of the management of an international airline, the greatest improvement is required in influence and internal markets, whereas the other markets call for more modest changes in emphasis.

Of course, the more the measurements on the radar chart diagram are based on research or objective criteria, the more accurate and useful the finished diagram becomes regarding policy-making.

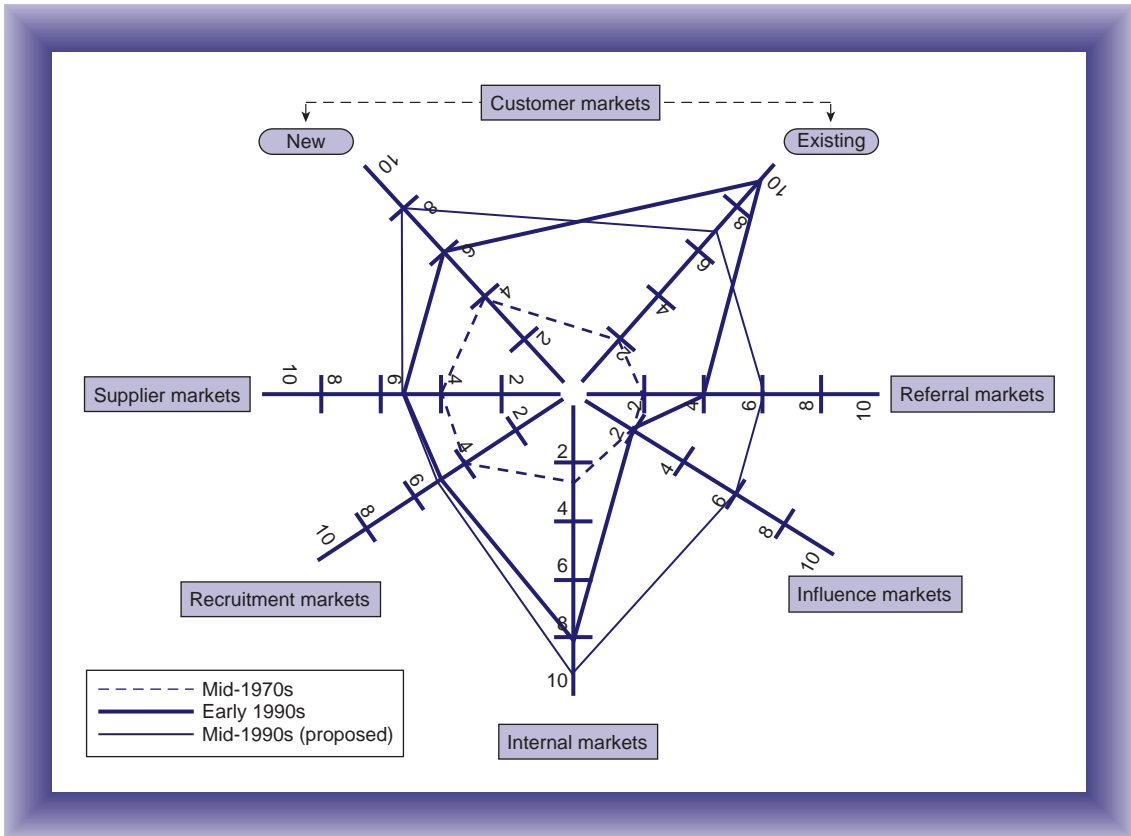


Figure 2.12 Relationship marketing network diagram for a major international airline

While this is not intended to be a book specifically about relationship marketing and strategies for customer retention,²⁰ it should be obvious that in preparing a strategic marketing plan the only real justification for giving up resources to complete this task is if the final result spells out clearly how the organization is going to get and keep customers.

The services plan, then, will show clearly what it is that your organization is offering to your target customers that makes them want to buy from your organization, rather than from any other that happens to be in the market. This involves true relationship marketing.

Summary

Although products and services are on the surface quite different, closer inspection reveals that a 'pure' service or product rarely exists. Most services contain a tangible product element and most products have an intangible service element. The relative weight of tangibility to intangibility in a company's offer will indicate whether or not the service can be marketed much like a traditional product or if a new approach is required. Indeed, such is the range and diversity of services that service managers can

often learn from other industries where services are provided which, although different, have some of the same inherent characteristics as their own.

Marketing was described as a matching process which tries to optimize the company's capabilities in the context of meeting customer needs. The 'flexible coupling' in this matching process is the marketing mix, which consists of the product/service, price, promotion, place, people, processes and customer service. While many organizations claim to subscribe to a marketing approach, there is considerable evidence to show that they do in fact misunderstand some of the basic principles that should be followed. Indeed, such has been the evolution of marketing over recent years that only the more mature and sophisticated organizations have grasped the fact that the more traditional approach, which we called 'transaction marketing', is no longer likely to bring lasting success. Instead, 'relationship marketing' is more in keeping with the times in which we live.

However, in order to adapt to the principles behind relationship marketing, the organization needs to look afresh not only at its customer markets, but also at what we have termed 'market domains' or satellite markets – the internal, influence, referral, recruitment and supplier markets. In fact, what this new approach demands is an entirely new kind of marketing orientation, which in turn often requires that there is a change in the organizational climate and the attitudes of staff throughout the company.

Finally, as we have seen, there is a potential problem of confusing customer markets with satellite markets, thereby causing a blurring of focus of the company's efforts. The satellite markets are aimed at supporting the customer market and the delivery of shareholder value. This problem can be avoided by remembering that, whatever else might be provided, the organization's key output, the service(s) upon which its very existence depends, are directed and tailored to meet the needs of customer markets. In order not to compound any confusion about this, for the remainder of this book we will use the term 'service product' to indicate the main output and to distinguish it from the array of other supporting services the company might provide. Figure 2.13 puts into perspective what constitutes the service product and the product surround.

Having discussed the specific nature of services and the need for services businesses to shift to a relationship orientation, we will now proceed to examine the processes and problems in developing marketing plans for service businesses.

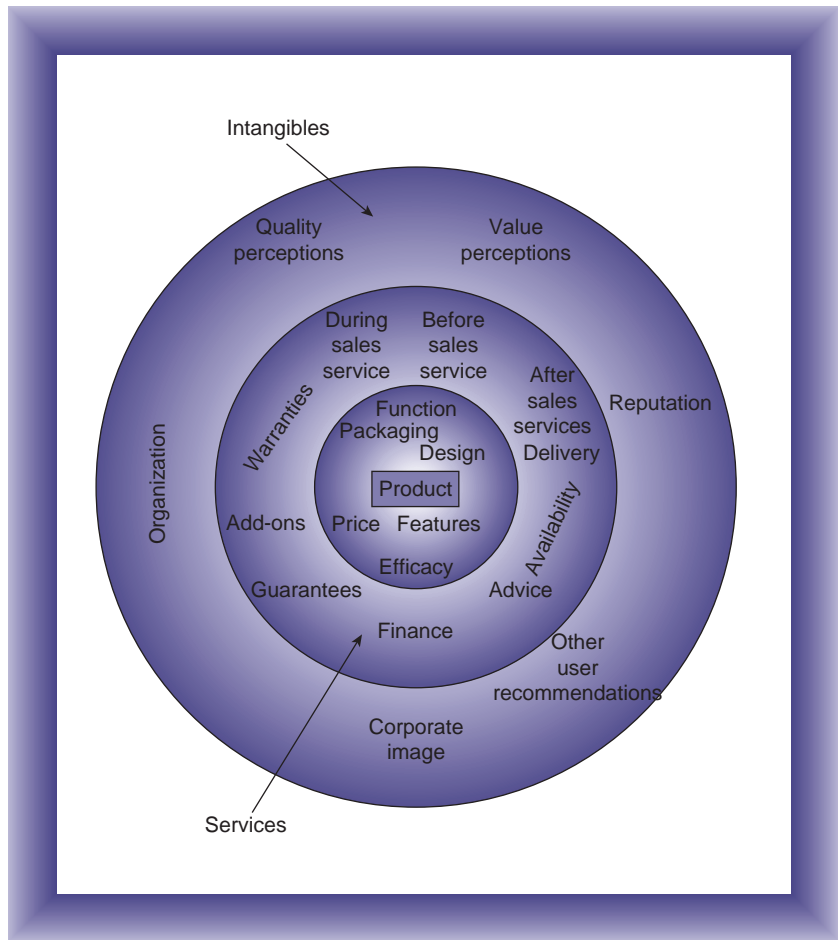


Figure 2.13
The 'service product'
and the product
surround