

Economic competition is not war, but  
competition in mutual service.

EDWIN CANON

# Marketing services

CHAPTER

fifteen

## Chapter objectives

*After reading this chapter, you should be able to:*

- Define a *service*.
- Describe the characteristics that affect the marketing of services.
- Identify the additional marketing considerations that services require.
- Define service marketing strategies for improving firms' differentiation, quality and productivity.

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# Prelude case Stena Line: sailing out of troubled waters

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Stena Line, the Swedish international transport and travel service company, is among the world's largest organisations for ferry traffic. With a modern fleet of 33 ships, Stena Line operates a network of 17 strategically located ferry routes in Scandinavia and around the UK. Annually, between these routes, some 12.6 million passengers travel with Stena Line, while nearly 1.1 million units of freight and 2.4 million cars are carried by its fleet.

Stena Line started out in 1962 as a small local company, when it launched the Gothenburg–Fredrikshaven route, followed by the Gothenburg–Kiel route in 1967. In 1980, Stena Line merged with its local competitor, Sessanlinjen, which gave it a local ferry monopoly in Gothenburg. This merger was the start of a rapid expansion programme which was sustained over the 1980s, mainly through the organic growth of ferry routes and introduction of new services. By 1987 Stena Line had become the seventh largest service export company in Sweden. However, by the 1990s, Stena Line had to face some critical decisions regarding its future.

When Sweden became a member of the EU in 1995, one important consequence for Stena Line's operations was the abolition of the duty-free licences. On-board sales contributed approximately 45 per cent to Stena Line's profit, and the duty-free sales generated most of this profit. Mainly due to the high cost of alcohol and tobacco in the domestic market, for many passengers duty-free shopping on board was a reason to travel on short cruises on the Gothenburg–Fredrikshaven route. Competitively priced alcoholic beverages, gambling and entertainment on board and shopping in Denmark were also part of the motivation to travel with Stena Line.

It was expected that passenger numbers, revenue and profit margins would decrease when the duty-free licences were abolished. Also, the Scandinavian market was saturated and the rapid expansion and modernisation of the fleet had put pressure on the organisation's profitability and finances. Stena Line's response was to continue its geographic expansion into The Netherlands and the UK to counteract the expected losses in duty-free licences in Scandinavia. The company invested in new and larger vessels, added new routes and acquired more

competitors. The coordination and restructuring of the international acquisitions, subsequent rationalisation of the Scandinavian operations, and the effects of the recession in the early 90s almost took their toll. However, Stena Line continued to battle through these hard times.

Stena Line articulated a vision – to become its clients' first-choice operator for both travel and freight. To achieve this vision, it had to offer an attractive service – a route network where every route has an optimum geographical location and enjoys market-dominance and high traffic frequency. The fleet of vessels operating the routes must be modern, well maintained and adapted to suit well-defined customer groups. A wide range of products and services catering to the needs, wants and desires of well-defined customer groups needs to be provided. The service offered should be perceived by the customers as providing value for money and service delivery staff are seen to be friendly and positive. Staff policy has to create an attractive workplace where employees are motivated to deliver high-quality service.

Over time, the level of competition has also increased. Stena Line's main competitors have traditionally been other ferry companies, but low-price airlines, the English Channel tunnel and the bridge across Öresund have become direct competitors. Haulage companies, business travellers and holidaymakers now have more choices of transportation services. The challenge for Stena Line, therefore, is to continuously strive to improve the level of efficiency and to be more efficient than competitors in all spheres of their operation. In addition, the provision of excellent service is a key success factor in this highly competitive market.

As part of the aim to provide excellent service and products, the company recognises that a market-oriented approach is required. In recent years, customer relation management programmes, staff training and internal marketing strategies have been implemented throughout the organisation to complement the market-oriented strategy. An annual employee survey is conducted to measure employee attitudes towards their jobs and the organisation. Training and development courses are used as tools to increase the level of efficiency, knowledge and confidence of the employees. Internal marketing tools are used to communicate relevant and important information to employees.

Stena Line also recognises that individual business units should be given the autonomy to innovate and to implement their own strategies. Hence, Stena Line is a decentralised organisation with autonomous business units. Unit managers have the

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Stena Line has articulated a vision – to become its clients' first-choice operator for both travel and freight.

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authority to do what it takes to achieve planned marketing and customer satisfaction objectives, providing these are consistent with wider corporate values. Operational managers and their teams are, in turn, empowered and held accountable for their tasks and to deliver results according to set objectives.

Stena Line's investments in service quality improvements, its service operations strategy and service delivery systems have started to pay off. By 2003, the net income per guest on board passenger ferries had increased by 5 per cent. Service quality and customer satisfaction ratings are also improving, with some routes even receiving more incoming letters of praise than complaints!

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\*Adapted from original case by Anna Ackfeldt with permission.

## Questions

1. What constitutes the service offering for travellers with Stena Line and is this the same for truck drivers, business travellers and holidaymakers? In your answer, identify the tangible and intangible aspects of the service and the criteria that these different customer groups might consider when selecting Stena Line over alternative modes of transport.
2. What are the main aspects of the service that distinguish it from physical products?
3. What is internal marketing and why is this practice important to Stena Line? Discuss how the company's staffing policy, internal marketing strategy and customer relations programme affect service quality, customer satisfaction and profits.



# Introduction

One of the major trends of recent years has been the phenomenal growth of services. This shift towards a service economy is largely attributed to rising affluence, more leisure time and the growing complexity of products that require servicing. Moreover, as companies find it harder to differentiate their physical products, they increasingly turn to service differentiation, seeking to win and retain customers through delivering superior services. The questions posed in the prelude case get us to think about the nature of the service offering. For example, there are the tangible aspects (e.g. a modern fleet, duty-free shops, restaurants) and intangible elements (entertainment value, friendliness of service staff, availability of ferry routes) of the total service experience. In this chapter, we will address the many aspects of service delivery that make service marketing different from marketing physical goods and the implications for service management.

Many developed countries have seen a dramatic increase in the importance of services to national economies and to the individual consumer.<sup>1</sup> In the major European countries, the US and Japan, more people are employed in services than in all other sectors of the economy put together. Both public and private sector services in these countries account for between 60 and 75 per cent of gross domestic output. In international trade, services make up a quarter of the value of all international trade.<sup>2</sup> In fact, a variety of service industries – from banking, insurance and communications to transportation, travel and entertainment – now account for well over 60 per cent of the economy in developed countries around the world. In some countries, service occupations have been forecast to contribute to all net job growth in the next five years.<sup>3</sup>

Service jobs include not only those in service industries – hotels, airlines, banks, law firms, telecommunications and others – but also those in product-based industries, such as corporate lawyers, medical staff and sales trainers. Product-based companies also market tangible goods with accompanying services. BMW and Ford offer more than just motor vehicles. Their offer also includes repair and maintenance services, warranty fulfilment, showrooms and other support services. Consumer services are marketed to individuals and households, while industrial services are those offered to business and other organisations.

The increase in demand for consumer and industrial services has been attributed to a number of factors. First, rising affluence has increased consumers' desire to contract out mundane tasks such as cleaning, cooking and other domestic activities, giving rise to a burgeoning convenience industry. Second, rising incomes and more leisure time have created greater demand for a whole array of leisure services and sporting activities. Third, higher consumption of sophisticated technologies in the home (e.g. home computers, multimedia entertainment equipment, security systems) has increased the need for specialist services to install and maintain them. In the case of business customers, more complex markets and technologies have triggered companies' need for the expertise and knowledge of service organisations, such as market research agencies, marketing and technical consultants. Furthermore, the rising pressure on firms to reduce fixed costs means that many are buying in services rather than incurring the overheads involved in performing specialised tasks in-house. The need to remain flexible has also led to firms hiring services that provide use without ownership. Finally, an increasing number of firms are keen to focus on their core competences. They are beginning to contract out non-core activities, such as warehousing and transportation, thus stimulating the growth of specialist business service organisations. All these developments have, in turn, led to a growing interest in the special problems of marketing services.

Service industries vary greatly. In most countries, the *government sector* offers services: for example, legal, employment, healthcare, military, police, fire and postal services, schools and regulatory agencies. The *private non-profit* sector offers services such as museums, charities,

churches, colleges, foundations and hospitals. A large part of the *business organisations* sector includes profit-oriented service suppliers like airlines, banks, hotels, insurance companies, consulting firms, medical and law practices, entertainment companies, advertising and research agencies and retailers.

As a whole, selling services presents some special problems calling for special marketing solutions. Let us now examine the nature and special characteristics of service organisations that affect the marketing of services.

## Nature and characteristics of a service

### Defining services and the service mix

A service is any activity or benefit that one party can offer to another which is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.

Activities such as renting a hotel room, depositing money in a bank, travelling on a ferry or an aeroplane, visiting a doctor, getting a haircut, having a car repaired, watching a professional sport, seeing a movie, having clothes cleaned at a dry cleaner and getting advice from a solicitor all involve buying a service. Service businesses are also popping up on the Internet. Everything from online betting and video replays of crucial scores of Manchester United to real-time stocks and shares information feeds are new services that people seem to be willing to pay for. According to the market research company Datamonitor, in 2002 the e-services market worldwide was worth some \$1 billion, with Europe accounting for around 12 per cent of the global market for Internet-based customer service solutions.<sup>4</sup>

Generally, a company's offering to customers often includes some services. The service component can be a minor or a major part of the total offering. As such, there is rarely such a thing as a pure service or pure good. In trying to distinguish between goods and services, it may be more appropriate to consider the notion of a goods–service continuum, with offerings ranging from tangible-dominant to intangible-dominant (see Figure 15.1).

Firms can create a differential advantage by moving along the continuum, seeking to alter the balance of tangible and intangible elements associated with their offering. Five categories of offerings can be distinguished:

**Service**—Any activity or benefit that one party can offer to another which is essentially intangible and does not result in the ownership of anything.

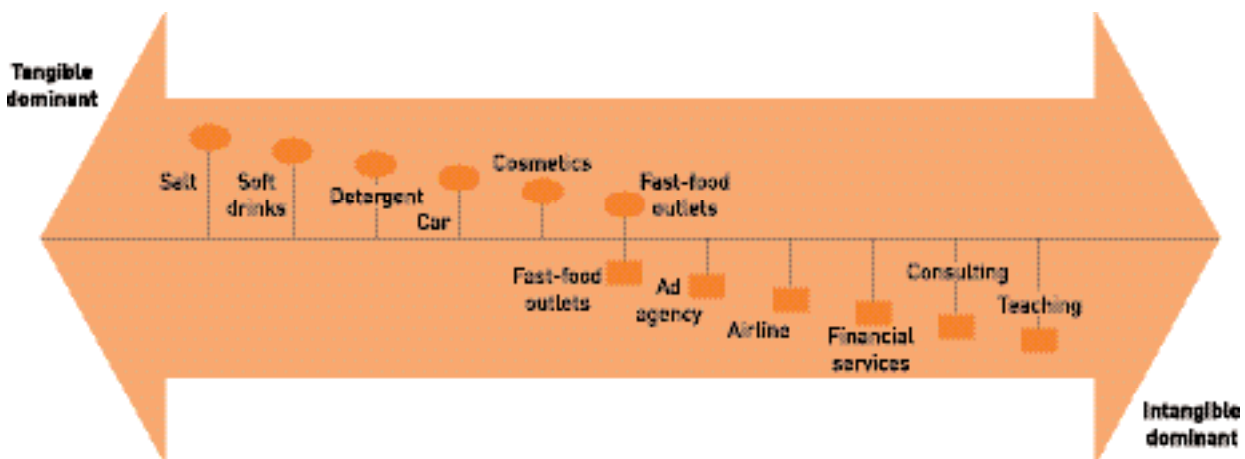


Figure 15.1 The tangible-intangible continuum for goods and services

1. The offering consists of a *pure tangible good*, such as soap, toothpaste or salt – no services accompany the product.
2. The offering consists of a *tangible good accompanied by one or more services* – the sales of technologically sophisticated products such as computers and cars are often dependent on the quality and availability of accompanying customer services (e.g. display rooms, delivery, repair and maintenance, user training programmes, installation advice and warranty fulfilment). In a sense, car manufacturers such as Mercedes and Ford are more service intensive than manufacturing intensive, with a rising proportion of their revenues coming from the financial services (e.g. leasing packages, purchase loans) they offer to buyers.
3. Many service providers also supply physical products along with their basic service. A *hybrid offer* consists of equal parts of goods and services. Examples include restaurants that provide both food and service, and retailers that supply a range of manufactured goods in relation to their special role as channel intermediaries.
4. A *service with accompanying minor goods* consists of a major service along with additional services and supporting goods. For example, British Airways and other airline passengers primarily buy transportation service, but the trip also includes some tangibles such as food, drinks, headphones and an airline magazine. The service also requires a capital-intensive good – an aircraft – but the primary offer is a service.
5. The offering is a *pure service*, consisting primarily of a service such as a haircut, babysitting or financial services.<sup>5</sup>

Because the service mix varies, it is difficult to generalise about services without further distinctions. One distinction is the nature of ownership – that is, whether they are private (e.g. warehousing and distribution firms, banks) or public (e.g. police, state-run hospitals) sector organisations. Another is the type of market – consumer (e.g. household insurance policy provider, retailer) or industrial (e.g. computer bureaux). Services can also involve high customer contact, where the service involves the customer's presence, as in the case of hairdressing and healthcare. Or there is low customer contact, as in dry cleaning and car repair, where the services are directed at objects. Services can be people-based (e.g. consultancies, education) or equipment-bound (e.g. automated car washes, vending machines, automatic cash dispensers). People-based services can be further distinguished according to whether they rely on highly professional staff, such as legal advisers and medical practitioners, or unskilled labour, such as window cleaning, porters and caretakers.

The wide variety of service offerings means that service providers must address the problems specific to their particular service in order to create and maintain a competitive advantage. Despite this variety across sectors, there are a number of characteristics that are unique to services that affect the design of marketing programmes.

## Service characteristics

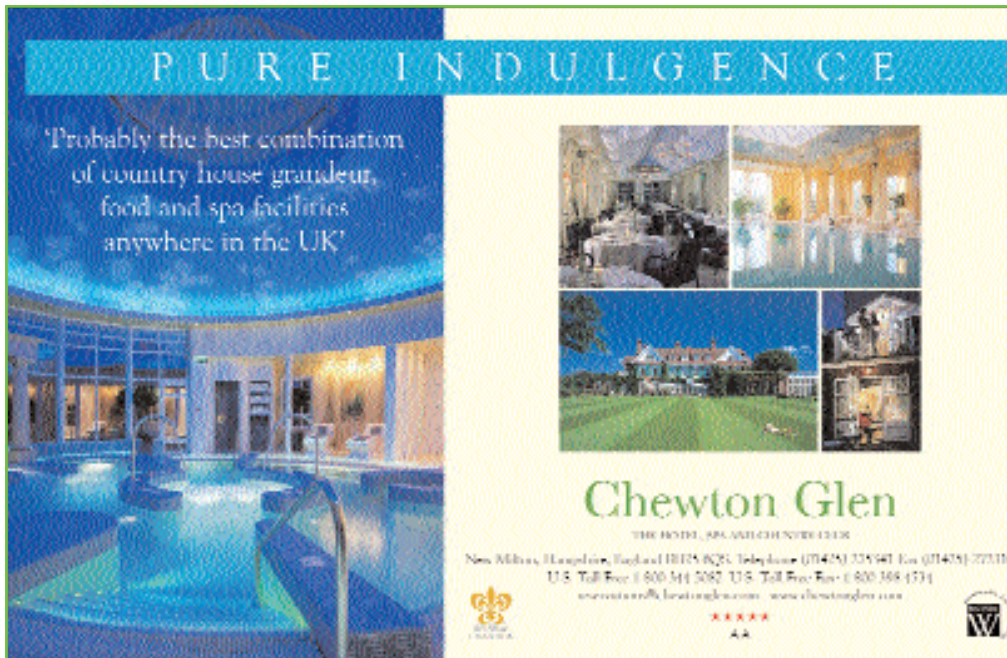
A company must consider five main service characteristics when designing marketing programmes: *intangibility*, *inseparability*, *variability*, *perishability* and *lack of ownership*. We will look at each of these characteristics in the following sections.<sup>6</sup>

### Service intangibility—

A major characteristic of services – they cannot be seen, tasted, felt, heard or smelt before they are bought.

### Intangibility

**Service intangibility** means that services cannot be readily displayed, so they cannot be seen, tasted, felt, heard or smelt before they are bought. A buyer can examine in detail before purchase the colour, features and performance of an audio hi-fi system that he or she wishes to buy. In contrast, a person getting a haircut cannot see the result before purchase. Airline



A hotel like Chewton Glen tangibilises its service offering by advertising the grandeur of its country house setting and its fine dining and spa facilities.

SOURCE: Chewton Glen.

passengers have nothing but a ticket and the promise that they and their luggage will arrive safely at the intended destination, hopefully at the same time.

Because service offerings lack tangible characteristics that the buyer can evaluate before purchase, uncertainty is increased. To reduce uncertainty, buyers look for 'signals' of service quality. They draw conclusions about quality from the place, people, equipment, communication material and price that they can see. Therefore, the service provider's task is to 'manage the evidence' – they try to 'tangibilise the service' or to provide concrete evidence of the benefits offered. Whereas product marketers are challenged to add intangibles (e.g. fast delivery, extended warranty, after-sales service) to their tangible offers, service marketers try to add tangible cues suggesting high quality to their intangible offers.<sup>7</sup>

Consider a bank that wants to convey the idea that its service is quick and efficient. It must make this positioning strategy tangible in every aspect of customer contact through a number of marketing tools. The *place* or bank's physical setting must suggest quick and efficient service: its exterior and interior should have clean lines; internal traffic flow should be planned carefully; and waiting lines should seem short. The bank's staff (i.e. *people*) should be busy and properly dressed. There should be a sufficient number of staff to manage the workload. The *equipment* – computers, photocopiers, desks – should look modern. The bank's *communication materials* should suggest efficiency, with clean and simple designs and carefully chosen words and photos that communicate the bank's positioning. The bank should choose a name and *symbol* for its service that suggest speed and efficiency. Because service intangibility increases purchase risk, buyers tend to be more influenced by word-of-mouth, which gives credibility to the service, than by advertising messages paid for by the service provider. As such, the service marketer (the bank in this case) should stimulate word-of-mouth communication by targeting opinion leaders who could be motivated to try its services, and satisfied customers who could be encouraged to recommend its service(s) to peers and friends. Its *pricing* for various services should be kept simple and clear. Although retail bank branches on high streets have traditionally served as conduits for delivering banking services to consumers, the problem presented by service intangibility is increasingly exacerbated by a fast-changing market environment.

Consider the challenges presented by the Internet and new wireless technology. The latter technologies are creating new virtual banks, and together with increasing deregulation, have opened the floodgates to non-banks, which are making inroads into traditional banking sectors. Until recently, retail banks had to have a physical presence close to the customer in the form of a branch network where financial transactions were done. Thanks to the Internet, digital television and mobile telephones, online and virtual banking are now a reality. Traditional banks face increasing pressure to ask what makes them visible in a virtual world. Financial transactions are for the most part intangible. And, as people do not see a credit card payment, touch a mortgage or feel a fund transfer, what features are there left in traditional banks to allow them to survive in the long run? Moreover, technology is making it easier for non-banks, like retailers, and new Internet banks, like Egg (UK) and UnoFirst (Spain), to enter the business. What makes banks special any more? As Bill Gates of Microsoft said: 'the world needs banking but it does not need banks'. In response to these challenges, traditional 'brick-and-mortar' banks are having to rethink their business. Much of the time, a bank's role is not as much about managing money, but processing information. It may be that, one day, they will be relegated to the back-room, providing systems for supermarkets, airlines or television channels. Or branches will be transformed from transaction to information and advisory centres. Those that fear the worst are fast expanding into offering new services. For example Finland's MeritaNordbanken now runs a virtual shopping mall and Spanish bank BBVA sells everything from books to groceries.<sup>8</sup>



### Inseparability

Physical goods are produced, put into inventory, distributed through multiple intermediaries, later sold to users and, still later, consumed. In contrast, services are first sold, then produced and consumed at the same time and in the same place. **Service inseparability** means that services cannot be separated from their providers, whether the providers are people or machines. If a service employee provides the service, then the employee is a part of the service. A rock concert is an example. The pop group or band is the service. It cannot deliver the service without the members of the band being present. A school or college teacher is a part of the education service provided and has to be present to deliver the service to students. Moreover, the rock group cannot deliver the service without the consumers (the audience) being present. A teacher cannot conduct the teaching session if there are no students attending class. Because the customer is also present as the service is produced, *provider-customer interaction* is a special feature of services marketing. Both the provider and the client affect the service outcome. How a doctor treats her patient or how a legal adviser relates to his client, for example, influences the client's judgement of the overall service delivered. The extent to which a teacher is able to develop a rapport with her students will influence the quality of their learning experience. Thus, it is important for service staff to be trained to interact well with clients.

#### Service inseparability—

A major characteristic of services – they are produced and consumed at the same time and cannot be separated from their providers, whether the providers are people or machines.



## Chapter 15 Marketing services

A second feature of the inseparability of services is that other customers are also present or involved. The concert audience, students in the class, other passengers in a train, customers in a restaurant, all are present while an individual consumer is consuming the service. Their behaviour can determine the satisfaction that the service delivers to the individual customers. For example, an unruly crowd in the restaurant would spoil the atmosphere for other customers dining there and reduce satisfaction. The implication for management would be to ensure at all times that customers involved in the service do not interfere with each other's satisfaction.

Because of the simultaneity of service production and consumption, service providers face particular difficulty when demand rises. A goods manufacturer can make more, or mass-produce and stock up in anticipation of growth in demand. This is not possible for service operators like restaurants or a law firm. Service organisations have therefore to pay careful attention to managing growth, given the constraints. A high price is used to ration the limited supply of the preferred provider's service. Several other strategies exist for handling the problem of demand growth. First, the service provider can learn to work with larger groups, so that more customers are serviced simultaneously. For example, bigger sites or premises are used by retailers to accommodate larger numbers of customers, and a pop concert will cater for a larger audience if held in an open-air sports arena than in an enclosed concert hall. Second, the service provider can learn to work faster. Productivity can be improved by training staff to do tasks and utilise time more efficiently. Finally, a service organisation can train more service providers.

### Variability

As services involve people in production and consumption, there is considerable potential for variability. **Service variability** means that the quality of services depends on who provides them, as well as when, where and how they are provided. As such, service quality is difficult to control. For example, some hotels have a reputation for providing better service than others. Within a given hotel, one registration-desk employee may be cheerful and efficient, whereas another, standing just a few metres away, may be unpleasant and slow.

The ability to satisfy customers depends ultimately on the behaviour of frontline service employees. A brilliant marketing strategy will achieve little if they do their job badly and deliver poor-quality service. Service firms can take several steps towards quality control.<sup>9</sup> First, they invest in good hiring and training procedures. Airlines, banks and hotels, for example, invest large sums of money in recruiting the right employees and training them to give good service. They train their front-line people so that they are empowered to take actions or do what is necessary to ensure that customers are treated well and to deal with customer complaints satisfactorily. However, training in many companies often boils down to little more than pep talks. In order for training to make a real difference to employees' behaviour, companies ensure that training focuses on helping employees to develop essential skills to do their jobs well. Consider the following example:

Denmark's ISS is one of the world's leading international commercial cleaning businesses. In an industry characterised by low-skilled workers and high staff turnover, ISS trains its staff relentlessly. Commercial cleaning involves far more than just running a vacuum cleaner over the carpet. ISS serves big clients – factories, hospitals and offices. To do this well and profitably, employees must do their job efficiently. This means conserving time and

**Service variability**—A major characteristic of services – their quality may vary greatly depending on who provides them and when, where and how.

cleaning supplies, improving quality and avoiding accidents and injuries. This is difficult enough in ordinary office buildings. At hospitals, chemical plants and factories, the equipment and skills needed can be tricky. Employees must also be able to spot and deal instantly with idiosyncratic customers they come across in the job. In the first six months on the job, employees are given training in cleaning techniques, such as knowing which chemicals to use for specific stains and surfaces, and in safety. In the next six months, employees move on to applied economics – they learn to interpret clients' contracts, how profitable a contract is and how the client's profitability contributes to that of ISS's local branch. This is invaluable if the employee is promoted to team leader, which can occur after a year. Once employees become team leaders, they receive training on how to deal with customers, coach junior staff in the team and learn management techniques that will help them meet performance targets, based on both profitability and customer retention. All this training helps ISS staff to do their jobs well.



Knowing how to do something well and being motivated to do it are different things. The second step towards quality control is to motivate staff by providing employee incentives that emphasise and reward quality, such as employee-of-the-month awards or bonuses based on customer feedback.

ISS relies on a number of mechanisms to motivate its staff. One is the use of teamwork and peer pressure to motivate employees to do their best. For example, although most of the clients can be handled by a single person, ISS groups its cleaners into two- or three-person hit-squads rather than sending one person to each site. The squad works together and travels from site to site. Although seemingly inefficient, the extra motivation more than offsets the costs. ISS also encourages employees to stay loyal to the firm by paying them a little more. Managers are sometimes asked not to compete on wage costs even if it means that the division will lose some bids. The company believes that by retaining staff, all the training it has invested is not wasted. As quality improves, the company continues to win new business, despite the higher costs. A major account won recently includes a contract to clean hotel rooms at Disneyland Paris.



A third mechanism to improve quality is by making service employees more visible and accountable to consumers – car dealerships can let customers talk directly with the mechanics working on their cars. A firm can check customer satisfaction regularly through suggestion and complaint systems, customer surveys and comparison shopping. When poor service is found, it is corrected.

In the case of ISS, management views contact between ISS supervisors and its clients' site managers as crucial. If clients are dissatisfied with the service, superiors get to know about it. In order to generate more contact with customers, ISS rescheduled many of its clients so that its teams overlap for half an hour or so with office workers, making it easier for clients to voice their complaints.<sup>10</sup> ”

Fourth, service firms can increase the consistency of employee performance by substituting equipment for staff (e.g. vending machines, automatic cash dispensers), and through standardising the service-performance process throughout the organisation. This is done by developing a service blueprint which delineates events and processes or job procedures in a flowchart, which alerts employees to potential fail points with the aim of ensuring activities are done properly (e.g. Walt Disney's theme parks, McDonald's restaurants and Club Med vacation resorts).

### Perishability

**Service perishability** means that services cannot be stored for later sale or use. Some dentists and general practitioners charge patients for missed appointments because the service value existed only at that point and disappeared when the patient did not show up. The perishability of services is not a problem when demand is steady. However, when demand fluctuates, service firms often have difficult problems. For example, public transportation companies have to own much more equipment because of rush-hour demand than they would if demand were even throughout the day.

Service firms can use several strategies for producing a better match between demand and supply. On the demand side, differential pricing – that is, charging different prices at different times – will shift some demand from peak periods to off-peak periods. Examples are cheaper early-evening movie prices, low-season holidays and reduced weekend train fares. Airline companies offer heavily discounted 'standby' tickets to fill unbooked seats. Or non-peak demand can be increased, as in the case of business hotels developing mini-vacation weekends for tourists.

Complementary services can be offered during peak times to provide alternatives to waiting customers, such as cocktail lounges to sit in while waiting for a restaurant table and automatic tellers in banks. Reservation systems can also help manage the demand level – airlines, hotels and doctors use them regularly.

On the supply side, firms can hire part-time employees to serve peak demand. Schools add part-time teachers when enrolment goes up, and restaurants call in part-time waiters and waitresses to handle busy shifts. Peak-time demand can be handled more efficiently by rescheduling work so that employees do only essential tasks during peak periods. Some straightforward tasks can be shifted to consumers (e.g. packing their own groceries). Or providers can share services, as when several hospitals share an expensive piece of medical equipment. Finally, a firm can plan ahead for future expansion, as when an airline company buys more wide-bodied jumbo jets in anticipation of future growth in international air travel or a theme park may buy surrounding land for later development. Service firms have to consider using any of the above strategies for achieving a better match between demand and supply. Some businesses have come up with novel solutions to perishability problems. Consider the following examples:

#### **Service perishability—**

A major characteristic of services – they cannot be stored for later sale or use.

Services are perishable: empty seats at slack times cannot be stored for later use during peak periods.



Club Med operates hundreds of Club med 'villages' (resorts) around the world. Unsold rooms and airline packages mean lost revenues. In addition to relying on travel agents to sell last-minute packages, the company now uses email to notify people in its database early to midweek on rooms and air seats available for travel that weekend. These 'unsold inventory' are heavily discounted – typically 30 to 40 per cent below the standard package.<sup>11</sup> ”

The Dutch flower auctions in Holland provide an example of state-of-the-art auctions, where nearly 60 per cent of the world's cut flowers are sold annually. Because flowers are perishable, these auctions are designed for speed. Daily, millions of flowers are shipped to Amsterdam's Schiphol airport. They are swiftly taken to nearby auction centres. By the end of the day, over 34 million flowers and 3 million potted plants will have been purchased, covering some 60,000 transactions. Most of the flowers will then be rushed to the airport for immediate export. Over a 24-hour period, flowers are shipped to an auction centre, purchased by a wholesaler, sold to a retailer and bought by a New Yorker! The key to the process is to start with a high price set by the auctioneer, unlike the English auction in which bidders push the price up from below. The price then drops until a buyer signals he wants the goods. Each transaction takes only about four seconds. The speed is ideal for selling a large quantity of easily evaluated goods that are perishable and must be sold quickly. Since 1995, the auction houses have established an electronic system, allowing buying-at-a-distance. Online buyers can participate in several

auctions simultaneously and gain a better feel for pricing and supply. The Dutch auction has been adopted by a number of e-businesses. Intermodalex.com, for example, uses the system to lease container space on oceangoing vessels. Container space, like flowers, is perishable and is lost once the vessel casts off.<sup>12</sup>

### Lack of ownership

When customers buy physical goods, such as cars and computers, they have personal access to the product for an unlimited time. They actually own the product. They can even sell it when they no longer wish to own it. In contrast, service products lack that quality of ownership. The service consumer often has access to the service for a limited time. An insurance policy is yours only when you have paid the premium and continue to renew it. A holiday is experienced and, hopefully, enjoyed, but after the event it remains ephemeral, unlike a product that the consumer owns after purchase. Because of the lack of ownership, service providers must make a special effort to reinforce their brand identity and affinity with the consumer using one or more of the following methods:

- They could reinforce the service brand identity and affinity with the customer. For example, SAS offers frequent travellers a ticketless Travel Pass, preloaded with 10, 20, 30 or an unlimited number of business-class flights to a choice of Scandinavian cities.
- They could offer incentives to consumers to use their service again, as in the case of frequent-flyer schemes promoted by British Airways and Travel Passes offered by Scandinavian Airlines.
- They could create membership clubs or associations to give a sense of belonging and ownership (e.g. British Airways' executive clubs for air travellers).

Where appropriate, service providers might turn the disadvantage of non-ownership into a benefit: for example, an industrial design consultant might argue that, by employing his or her expertise, the customer would actually be reducing costs, given that the alternative would be for that customer to employ a full-time designer with equally specialised knowledge. Paying for access to services rather than performing the activities in-house (e.g. warehousing) reduces capital cost, while also giving greater flexibility to a business.

## Marketing strategies for service firms

Until recently, service firms lagged behind manufacturing firms in their use of marketing. Many service businesses are small (shoe repair shops, barber shops, dry cleaners) and often consider formal management and marketing techniques unnecessary or too costly. Some service organisations (e.g. schools, churches) were at one time so much in demand that they did not need marketing until recently. Others (e.g. legal, medical and accounting practices) believed that it was unprofessional to use marketing. However, successful service organisations recognise that the specific nature of services requires tailored marketing approaches and that traditional product-based marketing is unlikely to be effective if principles are transferred without adaptation. This does not mean that new marketing principles and theory should be developed for services, rather that the existing principles should be adapted to the service environment.<sup>13</sup>

Reinforcing service brand identity and affinity with customers: SAS offers frequent travellers a ticketless Travel Pass, preloaded with 10, 20, 30 or an unlimited number of business class flights to a choice of Scandinavian cities. SOURCE: Scandinavian Airlines. Agency: Admaker.

Gives you control around the clock



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Just like manufacturing firms, smart service businesses use marketing to create powerful brands which are positioned strongly in chosen target markets. Budget-priced airlines like Ryanair and easyJet position themselves as no-frills, low-cost carriers. Global data communications service provider NTT positions itself as a 'trusted partner' that can bring one-stop network solutions to western businesses operating in Asia. These and other service firms establish their positions through traditional marketing-mix activities.

However, because service firms differ from tangible products, they require additional marketing approaches. In a product business, products are fairly standardised and can sit on the shelves waiting for customers. But in a service business, the customer and front-line service employee interact to create the service. Thus service providers must work to interact effectively with customers to create superior value during service encounters. Effective interaction, in turn, depends on the skills of front-line service staff, and on the service production and support processes backing these employees.

## The service-profit chain

Successful service companies focus their attention on both their employees and customers. They understand the *service-profit chain*, which links service firms' profits with employee and customer satisfaction. This chain consists of five links:<sup>14</sup>

1. Internal service quality – superior employee selection and training, a quality work environment and strong support for those dealing with customers, which results in . . .
2. Satisfied and productive service employees – more satisfied, loyal and hardworking employees, which results in . . .



Figure 15.2 Three types of marketing in service industries

3. Greater service value – more effective and efficient customer value creation and service delivery, which results in . . .
4. Satisfied and loyal customers – satisfied customers who remain loyal, repeat purchase and refer other customers, which results in . . .
5. Healthy service-profits and growth – superior service firm performance.

Therefore, reaching service profits and growth goals begins with taking care of those who take care of customers. All of this suggests that, in order to achieve favourable service outcomes, service marketing requires more than just traditional external marketing using the four Ps. Figure 15.2 shows that service marketing also requires both *internal marketing* and *interactive marketing*.

**Internal marketing** means that the service firm must invest heavily in employee quality and performance. It must effectively train and motivate its customer-contact employees and all the supporting service people to work as a *team* to provide customer satisfaction. For the firm to deliver consistently high service quality, everyone must practise a customer orientation. It is not enough to have a marketing department doing traditional marketing while the rest of the company goes its own way. Marketers must also encourage everyone else in the organisation to be customer-centred. In fact, internal marketing must *precede* external marketing. It makes little sense to advertise excellent service before the company’s staff is ready, willing and able to provide it. Thus, the service organisation must orient its employees carefully, instill in them a sense of pride and motivate them by recognising and rewarding outstanding service deeds.

**Interactive marketing** means that perceived service quality depends heavily on the quality of the buyer–seller interaction. In product marketing, product quality often depends little on how the product is obtained. But in services marketing, especially in high-contact and professional services, service quality depends on both the service deliverer and the quality of the delivery. Effective service deliverer–customer interaction is important for achieving a satisfactory service transaction. Service marketers cannot assume that they will satisfy the customer simply by providing good technical service. This is because the customer judges service quality not just on *technical quality* (e.g. the success of the surgery, the tastiness of the food served in the restaurant), but also on its *functional quality* (e.g. whether the surgeon showed concern and inspired confidence, whether the waiter was friendly and polite). Also, each interaction is a ‘moment of truth’ for the provider, where not just the service encounter, but also the organisation, will be decisively judged by the customer. Thus, professionals cannot assume that they will satisfy the client simply by providing good technical service. They have to master interactive marketing skills or functions as well.<sup>15</sup>

Effective buyer–seller interaction may help to secure a satisfied customer. However, to retain customers over the long term, many service providers have to develop *relationship marketing* skills for managing customer relationships. The topic of relationship marketing is addressed in greater detail in Chapter 11.

**Internal marketing—** Marketing by a service firm to train and effectively motivate its customer-contact employees and all the supporting service people to work as a team to provide customer satisfaction.

**Interactive marketing—** Marketing by a service firm that recognises that perceived service quality depends heavily on the quality of buyer–seller interaction.

Shangri-la Hotels are renowned worldwide for their opulent hotels. But, as this ad suggests, deep down the hotel chain's success is due to their legendary service from warm, caring employees.  
 SOURCE: Shangri-La International Hotel Management Limited/TBWA Hong Kong.



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Today, as competition and costs increase, and as productivity and quality decrease, more marketing sophistication is needed. Service companies face three major marketing tasks: they want to increase their *competitive differentiation*, *service quality* and *productivity*.

### Managing differentiation

In these days of intense price competition, service marketers often complain about the difficulty of differentiating their services from those of competitors. To the extent that customers view the service of different providers as similar, they care less about the provider than the price. Witness, for example, the recent growth in online banking. Customers are lured to bank online not only because of the advantages of 24-hour service but also because of the tempting deals (for example, higher savings rates or lower transaction costs) that the online banks can offer them. Similarly, budget airlines are mushrooming because many fliers



## Chapter 15 Marketing services

care more about travel costs than service. Service providers therefore often use pricing to differentiate their offering. However, pricing strategies (e.g. price cuts) are quickly emulated by competitors. Furthermore, intense price competition erodes margins and does not create a sustainable differential advantage over the long term.

Service differentiation poses particular challenges. Service intangibility and inseparability mean that consumers rarely compare alternative service offerings in advance of purchase in the way that potential buyers of products do. Differences in the attractiveness or value of competing services are therefore not readily obvious to the potential buyer. However, services can be differentiated. The solution to price competition is to develop a differentiated *offer*, *delivery* or *image*. The offer can include *innovative features* that set one company's offer apart from its competitors' offers.

For example, British Airways offered international business and first-class travellers a sleeping compartment, hot showers and cooked-to-order breakfasts. Virgin Atlantic Airways was among the first to introduce innovations such as in-flight movie menus, advance seating, air-to-ground telephone service and frequent-flyer awareness programmes to differentiate their offers. Following British Airways, Virgin Atlantic also introduced reclining business-class seats that convert into a bed. The ability to offer this extra luxury to business travellers put these two carriers into a dimension of comfort way beyond all other competitors. In addition, Virgin Upper Class cabin has a private area for its beauty and massage treatments.<sup>16</sup>

Unfortunately, service differentiation exposes a second problem – service innovations cannot be patented and are easily copied. Still, the service company that innovates regularly will usually gain a succession of temporary advantages over competitors. Moreover, an innovative reputation may help it keep customers who want to go with the best.

Third, the variability of services suggests that standardisation and quality are difficult to control. Consistency in quality is generally hard to obtain, but firms that are customer-oriented and have sound internal marketing schemes will increase their ability to differentiate their brand by offering superior-quality service *delivery*.

The service company can differentiate its service *delivery* in three ways: through *people*, *physical environment* and *process*. These are often referred to as the additional *three Ps* in service marketing.<sup>17</sup>

Because many services are provided by people, it is these people who can make a huge difference to customer satisfaction. The company can distinguish itself by having more able and reliable customer-contact people to deliver its service. The enthusiasm and smart appearance of front-line customer-contact staff also helps. More importantly, as mentioned earlier, the service business that selects the right people as well as emphasising internal marketing, combined with customer-focused staff training and education, can succeed in improving employee quality and performance that will sustain superiority in service delivery. Ultimately, the commitment and performance of front-line staff, backed by the support of people involved in the operational processes, are vital to the success of service production and delivery. In turn, these affect customer relationships and the organisation's success.

The firm can develop a superior physical environment in which the service product is presented and delivered. Hotels and restaurants, for example, will pay a great deal of attention to interior décor and ambience to project a superior service to target customers. Some retailers, such as The Body Shop and Harrods, have effectively managed the physical environment, giving very distinctive identities to their outlets.

Or it can design a superior delivery process. For example, banks offer their customers home banking as a better way to use banking services than by having to drive, park and wait in line. Service companies can choose among different service processes to deliver their service: restaurants can use different modes of delivery ranging from fast-food and self-service to buffet, silver or candle-light service. Alternatively, some service providers have learnt to exploit new technologies to differentiate the way in their services are provided. For example, British Airways introduced new speech recognition services to improve the efficiency of their customer flight enquiry and confirmation services, while making it easier and more pleasant for customers to access flight information (see Marketing Insights 15.1).

Finally, service intangibility and variability mean that a consistent service brand image is not easily built. Brand image also takes time to develop and cannot be copied by competitors. Service companies that work on distinguishing their service by creating unique and powerful images, through symbols or branding, will gain a lasting advantage over competitors with lack-lustre images. For example, the Ritz, Sheraton and Hard Rock Café all enjoy superior brand positioning which has taken years to develop. Organisations such as Lloyds Bank (which adopted the black horse as its symbol of strength), McDonald's (personified by its Ronald McDonald clown) and the International Red Cross have all differentiated their images through symbols. Amidst a technological revolution and rising competition, differentiation through branding has also become a priority for both traditional and mobile telecommunication service companies such as BT and Orange.

One has only to look at success stories like Orange to appreciate the value of superior brand recognition in the telecoms market. The mobile network operator has built one of Europe's strongest telecoms brands. When Orange was launched in 1995, the concept of branding in mobile phones was virtually non-existent. Rather, it was the handset manufacturers like Nokia, Ericsson and Motorola that had the greater brand recognition. Crucially, Orange created an interesting brand, which was about service to customers, not technology. Orange was, and still is, about lifestyle, freedom, choice and independence – the Orange proposition is a wirefree handset that could be used by anyone, to keep in touch any time, any place. The promise was something new, unconventional, special and optimistic, conveyed through advertising using visual images of birth and awakening. Orange became an offering with a distinctive brand name, a vision (the future), a look and a set of values which quickly captured the imagination of users. Within nine months of launch, the brand's spontaneous awareness soared ahead of the established mobile network operators, Vodafone and Cellnet. Over the years, Orange has also protected the brand name despite its involvement in partnerships and joint ventures around the world, while attracting a premium of £26 billion when acquired by France Télécom. How is it done? 'Developing the Orange brand is not rocket science', according to Hans Snook, chief executive of Orange. 'It's very simple. It's about treating people with respect and giving them what they want in ways they can understand. Brands are about values. . . . Brands are particularly important in telecommunications because when everything is the same, how you feel about a service is what makes you choose one over another.'<sup>18</sup> ”

## British Airways: no long haul for callers!

15.1

FT

Customers calling British Airways flight enquiries and confirmation services need no longer endure the endless choices, frustrations or delays typical of 'traditional' interactive voice recognition (IVR) systems. Instead they are greeted by Claire, the voice of the new speech recognition service. British and US-based customers use voice commands rather than keypads to negotiate their way through the system – keying in long flight numbers or destinations is a thing of the past.

Programmed to understand 47 different English accents and approximately 42 combinations for UK airports and terminals, Claire gives users a more human touch. It is also possible to interrupt her to get faster answers. 'The dialogue is crafted to guide callers through the system via a series of questions', explains Nick Applegarth, director for Europe at Nuance Communications, the California-based speech recognition software developer. By repeating the caller's request and asking for confirmation, Claire is approximately 95 per cent accurate. If the system cannot recognise the voice or question or if the flight is delayed, calls are automatically routed to a centre agent. 'It was important not only to make Claire "human" but related to the airline – the voice had to be clear, easy to understand and sound intelligent without putting callers off', says Mr Applegarth.

If not convinced by the faster and more personal service Claire offers, even the most ardent of sceptics might be persuaded by economic and efficiency statistics. Installed within 16 weeks, Claire achieved a 100 per cent return on investment within six months and call costs have dropped from £2 to 10p each. Since flight enquiry call times are shorter, more calls can be processed through the system, which routinely handles more than 12,000 enquiries per day from mobile phones and/or fixed lines.

But it is not all about money. It is also about helping customers intelligently, fast and efficiently to minimise their frustration and/or anxiety. British Airways believes that speech recognition can make a difference to the way in which it provides the services its customers need while making it easier and more pleasant to access information. In common with other airlines, BA has been hit by the industry-wide recession and is looking at ways of making its business more efficient. It considers speech recognition to be a mature, reliable technology which can be used to automate and therefore reduce costs on the approximately three million routine calls handled via its call centres each year.

Having successfully implemented Claire, British Airways is considering the possibility of using speech recognition on other services, making the time callers are 'on hold' more productive. The necessary personal information can be gathered while they are waiting and made available to agents when they take the call. Such

## ...15.1

a system would further release employees from routine tasks, ensuring their time is spent more productively and adding value to customers and the airline.

Whatever the future plans to use speech recognition, Paul Coby, chief information officer and head of IT at British Airways, does not believe in duplicating effort: 'Our golden rule is to build things once, so software created for our website BA.com can be used for voice recognition. When developing flight information for the website, we can use the same code and turn it into voice, which makes integrating online and voice services cost effective and easy. . . . To create Claire, we only had to do limited development work and buy the licences from Nuance and switching gear from Aspect Communications [a US call centre solutions provider].'

Mr Coby says customers will always want to talk to people for complex transactions and booking, or if they are not happy using speech recognition. 'This is a mature technology which is simple for the public to use and makes it easy for us to provide the services our customers need. People like being able to interrupt and move through the system to get routine information fast', he says.

SOURCES: A reproduction of Priscilla Awde, 'British Airways. Claire cuts the long haul for callers', *Financial Times FT-IT Review Speech Recognition 3* (16 April 2003), p. IV; article accessed online at [www.ft.com/ftit](http://www.ft.com/ftit), December 2003.

## Managing service quality

One of the major ways a service firm can differentiate itself is by delivering consistently higher quality than its competitors. Like manufacturers before them, many service industries have now joined the customer-driven quality movement. In Scandinavian countries, and particularly Sweden, service quality management is a topic of national concern, with the government taking a lead role through initiatives such as the Swedish Customer Satisfaction Barometer. Elsewhere, such as in the UK, local authorities or councils are also facing increasing pressure to deliver higher quality services to the local communities they serve. Initiatives such as the 'Best Value programme' had been introduced and aimed at achieving continuous improvements in local council performance. Ongoing pressure exists to 'revolutionise' and 'modernise' the management of local community services and to focus on customer satisfaction. For the public, the ultimate test of a local authority is whether its services are any good. Importantly, for initiatives like Best Value to succeed, the councils involved have to improve their understanding of what their public values, to better involve the public in the services they receive and to enhance their 'power as consumers'. Radical though it may sound, the days of consumer power are here to stay. The search for value begins with the needs of people in the community, and then giving them the quality services they want and value.<sup>19</sup>

Top service companies recognise that outstanding quality gives them a potent competitive advantage that leads to superior sales and profit performance. True, offering greater service quality results in higher costs. However, investments usually pay off because greater customer satisfaction leads to increased customer retention and sales.<sup>20</sup>

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The key is to exceed the customer's service quality expectations. As the chief executive at American Express puts it, 'Promise only what you can deliver and deliver more than you promise!'<sup>21</sup> Customers' service expectations are formed from past encounters and experiences, word-of-mouth and the firm's advertising. If *perceived service* of a given firm exceeds *expected service*, customers are apt to use the service provider again. Customer retention is, perhaps, the best measure of quality and reflects the firm's ability to hang on to its customers by consistently delivering value to them. Thus, where the manufacturer's quality target might be 'zero defects', the service provider's goal is 'zero customer *defections*'.

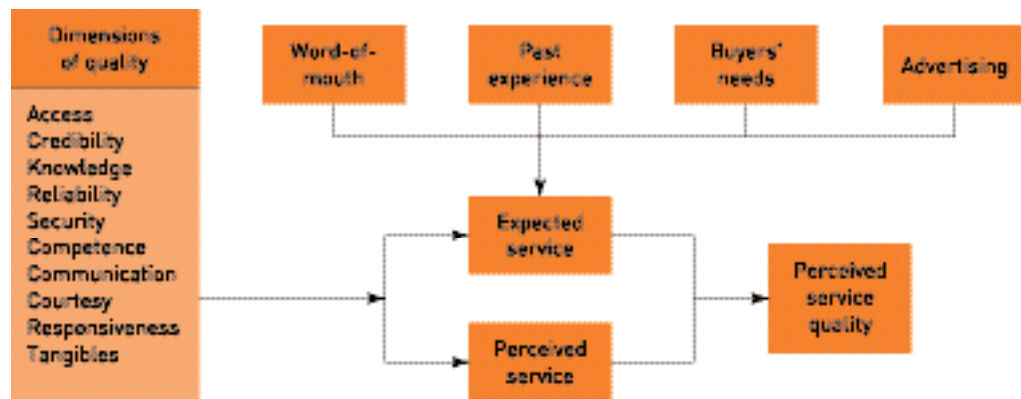
Therefore, to meet quality targets, the service provider needs to set quality goals through identifying the expectations of target customers concerning service quality. Unfortunately, quality in service industries is harder to define, judge or quantify than product quality. It is hard to quantify service quality because intangibility means that there are seldom physical dimensions, like performance, functional features or maintenance cost, which can be used as benchmarks and measured. It is harder to get agreement on the quality of a haircut than on that of a hair dryer, for instance. The inseparability of production and consumption means that service quality must be defined on the basis of both the process in which the service is delivered and the actual outcome experienced by the customer. Again, it is difficult to quantify standards or reference points against which service delivery process and performance outcomes are measured.

Despite the difficulty, service organisations can measure quality. In practice, the provider has to determine how customers of the service *perceive* quality. Studies suggest that customer assessments of service quality are the result of a comparison of what they expect with what they experience.<sup>22</sup> Any mismatch between the two is a 'quality gap'. There are a number of quality gaps that cause unsuccessful service delivery:

1. The gap between consumer expectations and management perception. Management might not correctly perceive what customers want. Mobile phone service providers might think that customers want sophisticated technology, but users may be more attracted to low price and simplicity.
2. The gap between management perception and service quality specification. Management might correctly perceive customers' wants but not set a performance standard. The restaurant manager may tell staff to deliver a 'fast' service to customers but does not specify this in minutes.
3. The gap between service quality specification and service delivery. Personnel might be poorly trained or are incapable or unwilling to meet the set standard. Or they may be working to conflicting standards, such as taking time to listen to customers and serving them quickly.
4. The gap between service delivery and external communications. The service provider's advertising and presentations by its sales representatives influence customers' expectations. A hotel brochure emphasises its wide range of guest services and beautiful bedrooms, but the guest arrives to find that the room he's been given is plain and tacky looking, while the very service he expects to use – the gym – is closed for maintenance until further notice. Here, external communications have distorted the customer's expectations.
5. The gap between perceived service and expected service. Customers may misperceive service quality. For example, the helpful clothing store attendant may follow the customer round the store, pointing to the 'new arrivals', while constantly asking the customer if she could assist him in choosing an item. The customer basically expects to be left to his own devices while he makes up his own mind. Although the store assistant is trying to show care, the customer will interpret this level of attention as a source of annoyance and irritation.

The service quality manager's goal is therefore to narrow the quality gap, taking into account that what is being measured is perceived quality, which is always a judgement by

**Figure 15.3** Key determinants of perceived service quality



the customer. Hence, what the customer thinks is reality, is reality; quality is whatever the customer says it is.

To improve quality, service marketers have to identify the key determinants of service quality (that is, the key criteria customers use to judge quality), what target customers' expectations are, and how customers rate the firm's service in relation to these criteria against what they expected. We have already addressed issues surrounding the determination of customer expectations. Next, we look at the criteria that reflect service quality.

An important study highlights 10 key determinants of perceived service quality.<sup>23</sup>

Figure 15.3 summarises these dimensions: *access* (is the service easy to get access to and delivered on time?); *credibility* (is the company credible and trustworthy?); *knowledge* (does the service provider really understand customers' needs?); *reliability* (how dependable and consistent is the service?); *security* (is the service low-risk and free from danger?); *competence* (are staff knowledgeable and in possession of the skills required to deliver good service?); *communication* (how well has the company explained its service?); *courtesy* (are staff polite, considerate and sensitive to customers?); *responsiveness* (are staff willing and quick to deliver the service?); and *tangibles* (do the appearance of staff, the physical environment and other tangible representations of the service reflect high quality?). The first five are concerned with the quality of the *outcome* of service provided, while the last five are related to the quality of the delivery *process*. By focusing on the dimensions that are important to customers, the service firm can ensure that customers' expectations are fully met.

To a large extent, aspects such as good understanding of customers' needs and the ability to provide consistent and dependable service are achieved through internal marketing and continual investment in employee quality and performance. The reputation and credibility of the service provider and customers' perceived risk are interrelated. If the consumer trusts the service provider, he or she expects that the service is free from danger or perceives little risk in using the service. Credibility can be improved through effective communication of service quality through advertising and/or satisfied customers. Access can be improved by having multi-site locations while waiting times can be reduced through synchronising supply and demand and/or tackling staff productivity problems.

Various studies have shown that well-managed service organisations share a number of common practices. These are summarised below.

1. Customer obsession. Top service companies are '*customer obsessed*'. They have a clear sense of their target customers and their needs. They have developed a distinctive strategy for satisfying customer needs that wins enduring customer loyalty.
2. Top management commitment. The best service organisations persistently show *top management commitment to quality*. Management at companies such as Marks & Spencer, American Express and McDonald's look not only at financial performance, but also at

service performance. They develop a quality culture that encourages and rewards personnel for good service delivery.

3. High service quality standards. The best service firms *set high service quality standards*. Swissair, for example, aims to have 96 per cent or more of its passengers rate its service as good or superior; otherwise, it takes action. The standards must be set *appropriately* high. A 98 per cent accuracy standard may sound good, but using this standard, 64,000 Federal Express packages would be lost each day, 10 words would be misspelt on each page, 400,000 prescriptions would be misfilled daily, and drinking water would be unsafe eight days a year. Top service companies do not settle merely for 'good' service, they offer 'breakthrough service', aiming at being 100 per cent defect-free.<sup>24</sup>
4. Monitoring systems. Top service firms monitor service performance. They *watch service performance closely* – both their own and that of competitors. They communicate their concerns about service quality to employees and provide performance feedback. They use methods such as comparison shopping, customer surveys, suggestion schemes and customer complaint programmes. During the past decade, many service companies have invested heavily to develop streamlined and efficient service delivery systems. They want to ensure that customers will receive consistently high-quality service in every service encounter.
5. Good service recovery. Customers like to see things right first time. Unlike product manufacturers, which can adjust their machinery and inputs until everything is perfect, service quality will always vary, depending on the interactions between employees and customers. Problems will inevitably occur. Mistakes are a critical part of every service. Hard as they try, even the best service companies can't prevent the occasional late delivery, burnt steak, or grumpy employee. The fact is, in services, often performed in the customer's presence, errors are inevitable. If things go wrong, customer complaints are an opportunity for companies to remedy poor service. *Good service recovery* can turn angry customers into loyal ones. In fact, good recovery can win more customer purchasing and loyalty than when things had gone well in the first place. When companies are responsive and deal with poor service promptly and effectively, they can win back customer confidence and loyalty. Therefore companies should take steps to recover from service mistakes when they do occur.<sup>25</sup>

Most firms, however, are bad at handling customer complaints, if indeed they deal with them at all. Leading firms, on the other hand, view customer care in service-recovery situations as a source of unrivalled competitive advantage. The first step is to empower front-line service employees – that is, to give them the authority, responsibility and incentives they need to recognise, care about and tend to customer needs. Such empowered employees can act quickly and effectively to keep service problems from resulting in lost customers.

They also establish effective complaint procedures to capture these opportunities. Because only a small minority of dissatisfied customers ever complain, the firm should proactively attract complaints from disenchanted customers. Channels of communication should be kept open to give customers access and to make it easy for them to offer feedback. Free telephone calls, regular follow-up of customer surveys and staff training all help. Customers themselves may use different channels of complaint: telephone, fax, letter, email or personal visit to the store. Companies also have systems and procedures installed to offer a high level of customer service and care in service-recovery situations, giving the company another chance to offer service and satisfaction to the dissatisfied customer.

Finally, service-conscious organisations develop a non-threatening culture – they do not penalise staff responsible for the 'mistake', in order to encourage them to analyse, resolve and learn from complaints. In addition to practising a 'no-blame policy', staff are rewarded for creating service-recovery opportunities.

6. Satisfying employees and customers. Well-managed service companies *satisfy employees as well as customers*. They believe that good employee relations will result in good customer relations. Management clearly defines and communicates service level targets so that, first, its employees know what service goals they must achieve, and second, its customers know what to expect to receive from their interaction with the service provider.

As mentioned earlier, management also executes internal marketing to create an environment of employee support and to reward good performance. Management regularly monitors employee job satisfaction. For example, the Danish-based international cleaning services giant ISS stresses good working relations and utilisation of human resources. Staff are encouraged to join trade unions. Total quality management is firmly upheld – staff are trained so that they can do their jobs well and derive satisfaction from them. Happy and satisfied customers yield happy employees. ISS has also gone to the extreme of moving into palatial new headquarters in a wooded country estate in northern Copenhagen – an absence of air-conditioning or dust-hugging carpets, together with soothing colours, reflect management’s belief that scientific cleaning can help reduce staff illness.

## Managing productivity

Rapidly rising costs put service firms under great pressure to increase service productivity. The problem is particularly acute where the service is labour intensive. Productivity can be improved in several ways, as follows.

1. The service providers can train current employees better, or they can hire new ones who will work harder or more skilfully for the same pay.
2. The service providers can increase the quantity of their service by giving up some quality (e.g. doctors having to handle more patients by giving less time to each).
3. The provider can ‘industrialise the service’ by adding equipment and standardising production, as in McDonald’s production-line approach to fast-food retailing. Commercial dishwashing, jumbo jets and multiple-unit cinemas (i.e. cineplexes and megaplexes) all represent the use of technological advances to increase service output.
4. Service providers can also increase productivity by designing more effective services. How-to-quit-smoking clinics and health-and-fitness recommendations may reduce the need for expensive medical services later on.
5. Providers can also give customers incentives to substitute company labour with their own labour. For example, business firms that sort their own mail before delivering it to the post office pay lower postal rates. Self-service restaurants are another case in point. Pay-and-display facilities in car parks alleviate the need to employ attendants (as well as reducing waiting time).
6. Service providers can harness the power of technology to save time and costs and make service workers more productive. A well-designed website can allow customers to obtain buying information, narrow their purchase options or even make a purchase directly, saving service provider time. For example, personal computer buyers can visit the Dell website ([www.Dell.com](http://www.Dell.com)), review the characteristics of various Dell models, check out prices and organise their questions ahead of time. Even if they choose to call a Dell telesales representative rather than buying via the website, they are better informed and require less personal service.

However, companies must avoid pushing productivity so hard that doing so reduces perceived quality. Some productivity steps help standardise quality, increasing customer satisfaction. But other productivity steps lead to too much standardisation and can rob consumers of a customised service. Attempts to industrialise a service or to cut costs can



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make a service company more efficient in the short run, but reduce its longer-run ability to innovate, maintain service quality and flexibility, or respond to consumer needs and desires. In some cases, service providers accept reduced productivity in order to create more service differentiation or quality.<sup>26</sup>

In the final analysis, the key to superior service provision is to realise that customer service improvement cannot be made in isolation of the other activities of the business. The experience of Air France illustrates the need for service firms to tackle service quality issues in tandem with a wider drive to redress the shortcomings of a business.

Until recently, few would dispute that the quality of customer care at Air France left a lot to be desired. Besides the usual arrogance – knowing what’s best for the customer – Air France had all the problems of indifferent service quality common under state ownership. However, in September 2002, the now semi-privatised operator became the first global airline to achieve certification for the quality of its service by SGS, the respected Swiss quality assurance group. Back in 1995, the airline’s management team realised that, to turn around the company’s fortune in the face of an aviation downturn, the company had to put the customer at the heart of their programme. They knew that satisfying customers took more than a smile and the enjoiner ‘Have a nice day’. Some of the biggest causes of customer dissatisfaction were flight delays and poor responses from staff. The company had to undertake a ‘root-and-branch’ overhaul. Great efforts were expended to train call-centre staff and ground crew. Aircrew were integrated within the commercial business to improve their awareness of the link between passengers and profit. Customer feedback forms covering some 270,000 customers a year became an essential element of the company’s new monitoring system. This included ‘mystery customers’ from an external company who make 1,300 checks a year on staff responses which are reported to the management. Air France’s efforts have paid off. The benefits are clearly evident, in steadily improving punctuality, higher aircraft occupancy and continued profitability, despite the travails of the aviation sector worldwide.<sup>27</sup>

We have addressed strategies for handling the marketing problems that service organisations face. Importantly, to be successful, service firms must practise internal and interactive marketing, in addition to adopting an external marketing focus. The key lies in management’s ability to develop a quality culture and to operationalise effectively an extended marketing mix that results in superior service differentiation and quality.

## International services marketing

An Italian sportswear manufacturer calls her advertising agency in London to confirm plans for new billboards in Venezuela. A German tourist checks into her hotel room in New York – the hotel is owned by a Singaporean company and managed by an American firm. The Zürich branch of a Japanese bank participates in a debt offering for an aircraft-leasing company in

McDonald's branch in Riyadh, Saudi Arabia. The fast food chain customises its menus to reflect local tastes. McArabia Sandwiches are offered in its branches in the Middle East. SOURCE: Associated Press/Wide World Photos/Hasan Jamali.



Ireland. A British construction firm builds an airport in Japan, and an American insurance company sells its products in Germany. These are just a few examples of the thousands of service transactions that take place each day around the globe.

A lot of trade no longer involves putting things into a crate and sending them abroad on ships! More and more, the global economy is dominated by services. The World Trade Organisation estimates that commercial-service trade is now worth over one trillion euros, almost one-quarter of the value of trade in goods. Indeed, a variety of service industries – from banking, insurance and communications to transportation, travel and entertainment – now account for well over 60 per cent of the economy in developed countries around the world. The worldwide growth rate for services (16 per cent in the past decade) is almost double the growth rate of manufacturing.<sup>28</sup> The internationalisation of services is very apparent when one travels around the world. Service firms like Hertz, Avis, DHL, Deli France, McDonald's, Novotel, Holiday Inn, Ibis and many others are found all over the world. Indeed, there are so many McDonald's restaurants in Budapest that it looks as if you are in the US.<sup>29</sup>

Some industries have a long history of international operations. For example, the commercial banking industry was one of the first to grow internationally. Many banks had to provide global services in order to meet the foreign exchange and credit needs of their home-country clients wanting to sell overseas. The Dutch ABN AMRO Bank established the first foreign bank in Saudi Arabia in response to the demand from Moslem clients in the then Nederlandsch Indië (now Indonesia) to change money in the country on their pilgrimage to Mecca. In recent years, however, as the scope of international financing has broadened, many banks have become truly global operations. Germany's Deutsche Bank, for example, has branches in over 41 countries. Thus, for its clients around the world that wish to take advantage of growth opportunities created by German reunification, Deutsche Bank can raise money not just in Frankfurt, but also in Zürich, London, Paris and Tokyo.



Retailers are among the latest service businesses to go global. Here Asian shoppers buy American products in a Dutch-owned Makro store in Kuala Lumpur, Malaysia. SOURCE: Munshi Ahmed Photography.

The travel industry also moved naturally into international operations. American hotel and airline companies led the way, growing quickly in Europe and the Far East during the economic expansion that followed World War II. Credit card companies soon followed – the early worldwide presence of American Express has recently been matched by Visa and MasterCard. Business travellers and holidaymakers like the convenience and they have now come to expect that their credit cards will be honoured wherever they go.

Professional and business services industries such as accounting, management consulting and advertising have only recently started operating on a worldwide scale. The international growth of these firms followed the globalisation of the manufacturing companies they serve. For example, increasingly globalised manufacturing firms have found it much easier to have their accounts prepared by a single accounting firm, even when they operate in two dozen countries. This paved the way for rapid international consolidation in the accounting industry in the late 1980s, as seen in the merging of established accounting companies around the world with America's 'Big Eight' to become the international 'Big Six' almost overnight. Similarly, as their client companies began to employ global marketing and advertising strategies, advertising agencies and other marketing services firms responded by globalising their own operations.<sup>30</sup>

Retailers are among the latest service businesses to go global. As their home markets become saturated with stores, retailers such as Carrefour, Makro, Wal-Mart, Tesco, H&M, The Body Shop, Lush and others have all expanded into faster-growing markets in Europe and Asia. European retailers are making similar moves. Carrefour of France is the leading retailer in Brazil and Argentina. Asian shoppers now buy western products in Dutch-owned Makro stores.<sup>31</sup>

As service industries go global, an interesting trend is emerging which poses unique challenges and opportunities for service providers. The trend is one of outsourcing of highly skilled professional services to overseas locations. The practice is being pursued by an increasing number of companies to improve efficiency and to cut costs (see Marketing Insights 15.2).

## 15.2 Office Tiger

Service industries are going global. Alongside this trend is one that looks set to herald a big change – the restructuring of affluent world economies. From software design and equity research to film animation and medical services, a new breed of skilled professionals are proving that geographic distance poses no obstacle to outsourcing even the highest-paid jobs to lower-cost overseas centres. Consider the following incident. Clutching her side in pain, a woman suspected of appendicitis was rushed to the Crozer-Chester hospital on the outskirts of Philadelphia. Within minutes of her arrival, the recommendation whether to operate or not was being made by a Harvard-trained specialist, reading her computer-aided tomography (CAT) scan from a computer screen 5,800 miles away in the Middle East. The woman had little time to ponder how much her life had become dependent on the forces of globalisation!

The trend, still only a trickle at present, may look to some like a temporary fad pursued by companies seeking to cut costs. But, whether an impending threat or not, the migration of so-called white-collar jobs has ascended the value chain from call-centre operators and back-office clerks to occupations such as investment analysts, accounting and medical, computer software and design specialists.

At the centre of this service revolution is India. Just as China is fast becoming the new workshop of the world for light manufacturing, India has cast its eye on the world's professional services. But we're talking about high-value outsourcing. Office Tiger, an outsourcing company with offices on the sixth floor of a pink stone shopping mall in Chennai, formerly known as Madras, is emerging as the virtual research arm of Wall Street. The business employs postgraduates, financial analysts and business planners. Their average age is 26. Mr Joseph Sigelman founded the company four years ago with Harvard Business School colleague Randy Altschuler, with \$18 million of private equity funding. Currently, Office Tiger generates annual revenues of \$20 million which is forecast to increase fivefold in three years.

With six of the top 12 investment banks as clients, Office Tiger is doubling its capacity in the Chennai arcade. Mr Sigelman himself has spent six years with three banks in London and New York. US banks have led the way in outsourcing to India procedures such as IT systems management and data transactions. According to Nasscom, India's IT lobby group, these pioneers have saved \$8 billion in the past four years.

This new brand of outsourcing is driven by investment banks' efforts to cut costs as well as to overhaul research divisions following recent corporate scandals. Office Tiger's initial outsourcing contracts were limited to desktop publishing. Today, its portfolio includes complicated equity research. For example, one client is a European

## ...15.2

bank which asked the company to investigate 1,000 companies' pension-funding liabilities. Another is a US private equity group that has outsourced its quarterly tracking of fund-of-funds' underlying portfolio investments.

The foundation of Office Tiger's expertise is evident. Among its 1,000 staff, some 75 are PhDs while 300 have other postgraduate qualifications, many with backgrounds in domestic finance or business consultancy, often with foreign companies. One employee, Neeraj Sinha, once helped set up McKinsey's Indian offshore research centres. Others are equally enterprising. Shivakameswari Narayan, a law graduate from Harvard Business School (HBS), declined a job with her family's motorcycle business. She says 'I'm here to do what every HBS graduate wants to do: rise in a sunrise industry.' The most prized employees are headhunted while others have come to know Office Tiger by word-of-mouth or text message. Entry tests for employment are used; these are so rigorous that fewer than 5 per cent of applicants survive the first cut!

Employees are paid above (Indian) market rates, given their education and employment record. Starting salaries are unlikely to be less than 50,000 rupees (\$1,000) a month, which is generous by domestic standards. A similar employee in Manhattan would earn at least \$8,000 a month. Immediate cost-savings for a foreign client of 30–50 per cent are common for most Indian software and contact centre operations.

What about office culture? Office dress code is western business attire; women don't wear saris, the most formal dress in India, and male workers share ties with each other because not everyone owns one. Mr Altschuler explains that this way, the place feels like an investment bank and the staff can empathise with clients. Moreover, employees' hours are based on the US working day, meaning night-time in India. Another thing hasn't changed either – pressure remains intense. A third of Office Tiger's deadlines are less than one hour.

The signs are that companies like Office Tiger in India will take a bigger and growing slice of offshore financial service businesses in the next few years. Put bluntly by Tarun Das, head of the Confederation of Indian Industry, 'There is no economic limit to what can be outsourced to India. The only limit that we can see is a political backlash in the west against migration of jobs to India and elsewhere.'

SOURCES: Adapted and based on Khozem Merchant, 'Business is roaring at Office Tiger', *Financial Times* (20 August 2003), p. 15; see also Dan Roberts and Edward Luce, 'Service industries go global: skilled white-collar jobs are starting to migrate to lower-cost centres overseas', *Financial Times* (20 August 2003), p. 15; 'International:tough call for the US cost-centres. Outsourcing can lead to having too much of a good thing', FT.com site, 21 December 2003.

International expansion opportunities abound for service businesses, including even those that are traditionally viewed as basic public services. Consider the following example:

Post offices are generally regarded as national entities serving communities' postal needs across local and regional centres. Most postal deliveries in the EU are made nationally and only 4 per cent are sent across borders. Postal operators in the EU have typically enjoyed monopolies over all national letter deliveries and parcels up to 350 g. With the move to full liberalisation in 2003, new measures introduced by the European Commission aim to open the letters market in member countries to more competition. There are trends towards the liberalisation of letter delivery around the world. Three operators from different countries – the UK's Post Office, Dutch-owned TNT Post Group (TPG) and Singapore Post – are joining forces to offer a global mail delivery service, in direct competition with national operators. The alliance partners pool their deliveries for letters and piggy-back on each other's infrastructure in order to build a global network. TPG's global network was built up following its acquisition of Australian parcel and logistics company TNT in 1996, while Singapore Post will give the venture a strong Asian base. Although representing a small proportion of mail sent, the market for international mail, currently valued at £4.4 billion (€7.21 billion), is expected to grow. Whereas volume of personal letters is declining due to emails and faxes, the business mailshot market is growing. There are therefore tremendous opportunities for national postal service operators who are quick to take advantage of the increased commercial freedom brought by market liberalisation to expand their operations abroad.<sup>32</sup>

The rapidly expanding international marketplace provides many attractive opportunities for service firms. It also creates some special challenges, however. Service companies wanting to operate in other countries are not always welcomed with open arms. Whereas manufacturers usually face straightforward tariff, quota or currency restrictions when attempting to sell their products in another country, service providers are likely to face more subtle barriers. In some cases, rules and regulations affecting international services firms reflect the host country's traditions. In others, they appear to protect the country's own fledgling service industries from large global competitors with greater resources. In still other cases, however, the restrictions seem to have little purpose other than to make entry difficult for foreign service firms.

Most of the industrialised nations want their banks, insurance companies, construction firms and other service providers to be allowed to move people, capital and technology around the globe unimpeded. Instead they face a bewildering complex of national regulations, most of them designed to guarantee jobs for local competitors. A Turkish law, for example, forbids international accounting firms to bring capital into the country to set up offices

and requires them to use the names of local partners, rather than prestigious international ones, in their marketing. To audit the books of a multinational company's branch in Buenos Aires, an accountant must have the equivalent of a high-school education in Argentinian geography and history. India is perhaps the most [difficult] big economy in the world [to enter] these days . . . New Delhi prevents international insurance companies from selling property and casualty policies to the country's swelling business community or life insurance to its huge middle class.<sup>33</sup>

Clearly, service organisations face many difficulties when seeking to enter foreign markets. In recognition of the problems, recent rounds of the General Agreement on Tariffs and Trade (GATT) (see Chapter 6) have extended international trade rules to cover services in addition to manufactured goods. In time, new service agreements are expected to ease the barriers that limit such trade. Thus, despite the difficulties in international service marketing, the trend towards growth of global service companies will continue, especially in banking, telecommunications and professional services. Today, service firms are no longer simply following their manufacturing customers. Instead, many are taking the lead in international expansion.

## Summary

Marketing has been broadened in recent years to cover services.

As we move towards a *world service economy*, marketers need to know more about marketing services. *Services* are products that consist of activities, benefits or satisfactions offered for sale that are essentially intangible. Services are characterised by five key characteristics. First, services are *intangible* – they cannot be seen, tasted, felt, heard or smelt. Services are *inseparable* from their service providers. Services are *variable* because their quality depends on the service provider as well as the environment surrounding the service delivery. Services are also *perishable*. As a result they cannot be stored, built up or back-ordered. Finally, service products often *do not result in the ownership* of anything. Each characteristic poses problems and requires strategies. Marketers have to find ways to make the service more tangible; to increase the productivity of providers who are inseparable from their products; to standardise the quality in the face of variability; and to improve demand shifts and supply capacities in the face of service perishability. In addition to the four Ps marketing approach, service organisations have to manage three additional Ps: *people*, *physical evidence* and *processes*.

Successful service companies focus attention on *both* customers and employees. They understand the *service-profit chain*, which links service firm profits with employee and customer satisfaction. Services marketing strategy calls not only for external marketing, but also for *internal marketing* to motivate employees, and for *interactive marketing* to create service delivery skills among service providers.

To succeed, service marketers have to excel in creating *competitive differentiation* and in managing service *quality* and *service productivity*. Service organisations can develop differentiated offerings, delivery or image. Service quality is tested at each service encounter. To maintain high service quality, managers have to determine *service quality*

*dimensions* and identify *customers' expectations of service quality*. The gaps that exist between customers' expectations of service quality and the service quality experienced determine customer satisfaction.

Well-managed service organisations also reflect the following common practices: *customer obsession, top management commitment, high quality standards, thorough systems for monitoring service performance and customer complaints (good service recovery) and satisfying employees as well as customers*.

With their costs rising rapidly, service firms face great pressure to increase service productivity through hiring and fostering more skilful workers through *better selection and training, making quantity-quality trade-offs, 'industrialising' the service, creating more effective services, substituting customer labour for service providers' labour and harnessing the power of technology*.

Finally, we addressed the marketing challenges facing service providers in international markets.

## Discussing the issues

1. What are the primary differences between products and services? Use examples to illustrate the differences. Give examples of hybrid offers.
2. How might service organisations deal with the intangibility, inseparability, variability and perishability of the service they provide? In your answer, show how these characteristics impact the organisation's marketing approach.
3. Wresting an apology from an airline for a delayed flight or persuading your telecom service provider that it has overcharged is often easier said than done. Many firms do not have easy channels for customers to register complaints. How important is it for firms to have established procedures for capturing customer complaints? Suggest ways in which firms could improve their capacity to deal with customer complaints and convert dissatisfied customers into satisfied customers through effective service-recovery.
4. What are internal and interactive marketing? Give examples of how service firms or organisations might use these concepts to enhance their service-profit chain.
5. Globalisation presents both opportunities and challenges to service firms. Identify service sectors that are increasingly internationalising or globalising. What do you think are the greatest challenges facing firms within these sectors? Show how service management concepts such as the service-profit chain, internal marketing and interactive marketing should be applied to enhance service quality and delivery outcomes for international service organisations.

## Applying the concepts

1. The core service in the airline industry is transportation. The 'problem-solving' benefit for the customer is travel from one place to another. To differentiate their services, airlines provide many additional benefits. If you intend to fly from one country to another within Europe you might consider KLM Royal Dutch Airlines, British Airways or Lufthansa. Review the websites of these airlines and complete the table to evaluate their services.



	KLM Royal Dutch Airlines www.klm.com	British Airways www.british-airways.com	Lufthansa www.lufthansa.com
Many destinations?			
Attractive frequent-flyer programme?			
Other service features			
Evidence of service quality			
Evidence of competitive positioning strategy			
Ways customers can give feedback to company at site			

- (a) How would you classify airlines using consumer product categories: convenience, shopping, speciality or unsought products?
  - (b) Which airline brand name best conveys a quality image to you?
  - (c) How does each airline differentiate itself from the others: KLM? British Airways? Lufthansa?
  - (d) Which airline would you choose for your European travel? Why?
2. Perishability is very important in the airline industry: unsold seats are gone for ever, and too many unsold seats mean large losses. With computerised ticketing, airlines can easily use pricing to deal with perishability and variations in demand.
- (a) Call a travel agent or use an online service that is accessible to check airline fares. Get prices on the same route for 60 days in advance, two weeks, one week and today. Is there a clear pattern to the fares?
  - (b) When a store is overstocked on ripe fruit, it may lower the price to sell out quickly. What are airlines doing to their prices as the seats get close to 'perishing'? Why? What would you recommend as a pricing strategy to increase total revenues?

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# Concluding concepts

## The Ritz



The Ritz is not just a hotel, it is style, sophistication, wealth, all mixed with fun and gaiety. Since Irving Berlin wrote 'Putting on the Ritz' legions of artists, from Ella Fitzgerald to Judy Garland, have taken up the refrain. Whole albums are still dedicated to the theme that rose in the 1920s but from London to Boston, from Bali to Bahrain, the Ritz retains its glitter. The latest place to savour is the Ritz-Carlton Berlin on the central Potsdamer Platz – offering a special introductory price per room of only €165! The hotel chain achieved this repeated success by continuing to try hard at catering for the needs of the most demanding customers of all – the rich.

The Ritz is now part of the Ritz-Carlton chain of luxury hotels that caters to the top 5 per cent of corporate and leisure travellers. The company's 'Credo' sets lofty customer service goals: 'The Ritz-Carlton Hotel is a place where the genuine care and comfort of our guests is our highest mission. We pledge to provide the finest personal service and facilities for our guests who will always enjoy a warm, relaxed yet refined ambience. The Ritz-Carlton experience enlivens the senses, instils well-being, and fulfils even the unexpressed wishes and needs of our guests.' The company's Web page concludes: 'Here a calm settles over you. The world, so recently at your door, is now at your feet.'

The Credo is more than just words on paper – Ritz-Carlton delivers on its promises. In surveys of departing guests, some 95 per cent report that they've had a truly memorable experience. In fact, at Ritz-Carlton, exceptional service encounters have become almost commonplace. Take the experiences of Nancy and Harvey Heffner of Manhattan, who stayed at the Ritz-Carlton Naples, in Naples, Florida (recently rated the best hotel in the United States, fourth best in the world, by *Travel & Leisure* magazine). As reported in the *New York Times*:

'The hotel is elegant and beautiful', Mrs Heffner said, 'but more important is the beauty expressed by the staff. They can't do enough to please you.' When

the couple's son became sick last year in Naples, the hotel staff brought him hot tea with honey at all hours of the night, she said. When Mr Heffner had to fly home on business for a day and his return flight was delayed, a driver for the hotel waited in the lobby most of the night.

Such personal, high-quality service has also made the Ritz-Carlton a favourite among conventioners. 'They not only treat us like kings when we hold our top-level meetings in their hotels, but we just never get any complaints', comments one convention planner. 'Perhaps the biggest challenge a planner faces when recommending the Ritz-Carlton at Half Moon Bay to the boss, board and attendees is convincing them that meeting there truly is work', says another. 'The . . . first-rate catering and service-oriented convention services staff [and] the Ritz-Carlton's ambience and beauty – the elegant, Grand Dame-style lodge, nestled on a bluff between two championship golf courses overlooking the Pacific Ocean – makes a day's work there seem anything but.'

In 1992, Ritz-Carlton became the first hotel company to win the Malcolm Baldrige National Quality Award. Since its incorporation in 1983, the company has received virtually every major award that the hospitality industry bestows. More importantly, service quality has resulted in high customer retention: more than 90 per cent of Ritz-Carlton customers return. And despite its hefty room rates, the chain enjoys a 70 per cent occupancy rate, almost nine points above the industry average.

Most of the responsibility for keeping guests satisfied falls to Ritz-Carlton's customer-contact employees. Thus, the hotel chain takes great care in selecting its personnel. 'We want only people who care about people', notes the company's vice president of quality. Once selected, employees are given intensive training in the art of coddling customers. New employees attend a two-day orientation, in which top management drums into them the '20 Ritz-Carlton Basics'. Basic number one: 'The Credo will be known, owned, and energized by all employees.'

Employees are taught to do everything they can never to lose a guest. 'There's no negotiating at Ritz-Carlton

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Staff learn that anyone who receives a customer complaint owns that complaint until it's resolved.

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when it comes to solving customer problems', says the quality executive. Staff learn that *anyone* who receives a customer complaint *owns* that complaint until it's resolved (Ritz-Carlton Basic number 8). They are trained to drop whatever they're doing to help a customer – no matter what they're doing or what their department. Ritz-Carlton employees are empowered to handle problems on the spot, without consulting higher-ups. Each employee can spend up to €2,000 to redress a guest grievance, and each is allowed to break from his or her routine for as long as needed to make a guest happy. 'We master customer satisfaction at the individual level', adds the executive. 'This is our most sensitive listening post . . . our early warning system.' Thus, while competitors are still reading guest comment cards to learn about customer problems, Ritz-Carlton has already resolved them.

Ritz-Carlton instils a sense of pride in its employees. 'You serve', they are told, 'but you are not servants.' The company motto states, 'We are ladies and gentlemen serving ladies and gentlemen'. Employees understand their role in Ritz-Carlton's success. 'We might not be able to afford a hotel like this,' says employee Tammy Patton, 'but we can make it so people who can afford it will want to keep coming here.'

And so they do. When it comes to customer satisfaction, no detail is too small. Customer-contact people are taught to greet guests warmly and sincerely, using guest names when possible. They learn to use the proper language with guests – phrases such as *good morning, certainly, I'll be happy to, welcome back, and my pleasure*, never *Hi* or *How's it going?* The Ritz-Carlton Basics urge employees to escort guests to another area of the hotel rather than pointing out directions, to answer the phone within three rings and with a 'smile', and to take pride and care in their personal appearance. As the general manager of the Ritz-Carlton Naples, puts it, 'When you invite guests to your house, you want everything to be perfect.'

Ritz-Carlton recognizes and rewards employees who perform feats of outstanding service. Under its 5-Star Awards program, outstanding performers are nominated by peers and managers, and winners receive plaques at dinners celebrating their achievements. For on-the-spot recognition, managers award Gold Standard Coupons, redeemable for items in the gift shop and free weekend

stays at the hotel. Ritz-Carlton further rewards and motivates its employees with events such as Super Sports Day, an employee talent show, luncheons celebrating employee anniversaries, a family picnic, and special themes in employee dining rooms. As a result, Ritz-Carlton's employees appear to be just as satisfied as its customers are. Employee turnover is less than 30 per cent a year, compared with 45 per cent at other luxury hotels.

Ritz-Carlton's success is based on a simple philosophy: to take care of customers, you must first take care of those who take care of customers. Satisfied employees deliver high service value, which then creates satisfied customers. Satisfied customers, in turn, create sales and profits for the company.

## Questions

1. Most people see a Ritz-Carlton hotel as a swanky building on a prime site, such as London's Piccadilly, but is the structure the essence of the hotel chain's success?
2. What accounts for the Ritz-Carlton's continued success?
3. Even the Ritz does not charge €2,000 to stay, so how can the company justify allowing employees to spend 'up to €2,000 to redress a guest grievance'?
4. What are the key determinants of the service quality perceived by the Ritz-Carlton's customers?
5. To serve its globe-hopping customers the hotel chain has to provide the same level of service 'from London to Boston, from Bali to Bahrain'. What are the barriers to offering services that are 'the same' or of 'the same quality' within so many cultures? How can such uniform service quality be achieved?

SOURCES: Quotes and other information from Edwin McDowell, 'Ritz-Carlton's keys to good service', *New York Times* (31 March 1993), p. D1; Howard Schlossberg, 'Measuring customer satisfaction is easy to do – until you try', *Marketing News* (26 April 1993), pp. 5, 8; Ginger Conlon, 'True Romance', *Sales & Marketing Management* (May 1996), pp. 85–90; 'The Ritz-Carlton, Half Moon Bay', *Successful Meetings* (November 2001), p. 40; *Wall Street Journal* (20 June 2002), p. D1; N.V. Henderson, 'Ritz-Carlton Las Vegas captures AAA Five Diamond Award within months of opening', *Business Wire* (17 November 2003); *Wall Street Journal*, 'Ritz-Carlton tops Four Seasons' (27 August 2003); *AP Worldstream*, 'New Ritz-Carlton opens on Berlin's central Potsdamer Platz' (11 January 2004); 'Putting on the Ritz: Capital sings Irving Berlin', *Capital* (1992); [www.ritzcarlton.com](http://www.ritzcarlton.com) (February 2004).