CHAPTER-2
MARKETING OF SERVICES
SERVICES MARKETING

“SERVICES are deeds processes and performances” for example. Hospitality provided by hotels, transport by airlines, communication by Internet Service Providers, etc.

Services are produced not only by service businesses but are also integral to the offerings of many manufactured-goods producers. For example, car manufacturers offer warranties and repair services for their cars; computer manufacturers offer warranties, maintenance contracts, and training; industrial equipment producers offer delivery, inventory management, and maintenance services.

A broad definition of service is that, “Services include all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort, or health) that are essentially intangible concerns of its first purchaser.” The following industries have been classified within the service sector:

**Industries Classified within the Service Sector**

1. **Hotels & Hospitality Services**

2. **Transportation & public utilities**

2. (a) **Transportation**
   
   *Railroad transportation*
Local & interurban passenger transit

Trucking and warehousing

Water transportation

Air transportation

Pipelines, except natural gas

Transportation services

2. (b) Communication

Telephone & telegraph

Radio & television broadcasting

2. (c) Electric, Gas & Sanitary Services

3. Wholesale Trade

4. Retail Trade

5. Finance, insurance, & real estate

 Depository institutions

 Non-depository institutions

 Security & commodity brokers, and services

 Insurance agents, brokers, and services

 Real Estate

 Holding and other investment companies
6. **Other Services**

   
   Personal Services

   Business services

   Auto repair, services, and parking

   Miscellaneous repair services

   Motion Pictures

   Amusement and recreation services

   Health services

   Legal services

   Educational services

   Social services

   Membership organizations

   Miscellaneous services

   Private household services

7. **Central Government**

8. **State and local Government**

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*Table 2.1*

The tremendous growth of the service sector in the past two decades had led to emphasis on services marketing. The marketing of services is different from the marketing of products/goods, because of the differences in the *nature of services* and *manufactured goods*.
NATURE OF SERVICES

1. Intangibility

The most basic, and universally cited, difference between goods and services is intangibility. Because services are performances or actions rather than objects, they cannot be seen, felt, tasted, or touched in the same manner that we can sense tangible goods. For example, health care services are actions (e.g., surgery, diagnosis, examination, treatment) performed by providers and directed towards patients and their families. These services cannot actually be seen or touched by the patient, although the patient may be able to see and touch certain tangible components of the service (e.g., equipments, hospital room, etc). In fact, many services such as health care are difficult for the consumer to grasp even mentally. Even after a diagnosis or surgery has been completed the patient may not fully comprehend the service performed.

Resulting Marketing Implications

Intangibility presents several marketing challenges: Services cannot be inventoried, and therefore fluctuations in demand are often difficult to manage. For example, there is tremendous demand for resort accommodations in Goa in December, but little demand in July. Yet resort owners have the same number of rooms to sell year-round. Services cannot be patented legally, and new service concepts can therefore easily be copied by competitors. Services cannot be readily displayed or easily communicated to customers, so quality may be difficult for consumers to assess. Decisions about what to include in advertising and other promotional materials are challenging, as is pricing. The actual costs of a “unit or service” are hard to determine and the price/quality relationship is complex.
2. Heterogeneity

Because services are performances, frequently produced by humans, no two services will be precisely alike. The employees delivering the service frequently are the service in the customer's eyes, and people may differ in their performance from day to day or even hour to hour. Heterogeneity also results because no two customers are precisely alike; each will have unique demands or experience the service in a unique way. Thus, the heterogeneity connected with services is largely the result of human interaction (between and among employees and customers) and all of the vagaries that accompany it. For example, a tax accountant may provide a different service experience to two different customers on the same day depending on their individual needs and personalities and on whether the accountant is interviewing them when he or she is fresh in the morning or tired at the end of a long day of meetings.

**Resulting Marketing Implications**

Because services are heterogeneous across time, organizations, and people, ensuring consistent service quality is challenging. Quality actually depends on many factors that cannot be fully controlled by the service supplier, such as the ability of the consumer to articulate his or her needs, the ability and willingness of personnel to satisfy those needs, the presence (or absence) of other customers, and the level of demand for the service. Because of these complicating factors, the service manager cannot always know for sure that the service is being delivered in a manner consistent with what was originally planned and promoted. Sometimes services may be provided by a third party, further increasing the potential heterogeneity of the offering. For example, a consulting organization may choose to subcontract certain elements of its total offering. From the customer's perspective, these subcontractors still represent the consulting organization, even though their actions cannot be totally predicted or controlled by the contractor.
3. *Simultaneous Production and Consumption*

Whereas most goods are produced first, then sold and consumed, most services are sold first and then produced and consumed simultaneously. For example, an automobile can be manufactured in Gurgaon shipped to Mumbai, sold two months later, and consumed over a period of years. But restaurant services cannot be provided until they have been sold, and the dining experience is essentially produced and consumed at the same time. Frequently this also means that the customer is present while the service is being produced and thus views and may even take part in the production process. This also means that frequently customers will interact with each other during the service production process and thus may affect each other's experiences. For example, strangers seated next to each other in an airplane may well affect the nature of the service experience for each other. That passengers understand this fact is clearly apparent in the way business travelers will often go to great lengths to be sure they are not seated next to families with small children. Another outcome of simultaneous production and consumption is that service producers find themselves playing a role as part of the product itself and as an essential ingredient in the service experience for the consumer.

*Resulting Marketing Implications*

Because services often are produced and consumed at the same time, mass production is difficult if not impossible. The quality of service and customer satisfaction will be highly dependent on what happens in "real time," including actions of employees and the interactions between employees and customers. Similarly, it is not usually possible to gain significant economies of scale through centralization. Usually operations need to be relatively decentralized so that the service can be delivered directly to the consumer in convenient locations. Also because of simultaneous production and consumption, the customer is involved in and observes the production process and thus may affect (positively or negatively) the outcome of the service transaction. In a related vein, "problem customers" (those who
disrupt the service process) can cause problems for themselves or others in the service setting, resulting in lowered customer satisfaction. For example, in a restaurant setting, an over-demanding and intoxicated patron will command extra attention from the service provider and negatively impact the experiences of other customers.

4. **Perishability**

*Perishability* refers to the fact that services cannot be saved, stored, resold, or re-turned. A seat on an airplane or in a restaurant, an hour of a lawyer's time, or telephone line capacity not used cannot be reclaimed and used or resold at a later time. This is in contrast to goods that can be stored in inventory or resold another day, or even re-turned if the consumer is unhappy.

**Resulting Marketing Implications**

A primary issue that marketers face in relation to service perishability is the inability to inventory. Demand forecasting and creative planning for capacity utilization are therefore important and challenging decision areas. The fact that services cannot typically be returned or resold also implies a need for strong recovery strategies when things do go wrong. For example, while a bad haircut cannot be returned, the hairdresser can and should have strategies for recovering the customer's goodwill if and when such a problem occurs.

**The Services Marketing Triangle**

There are three types of marketing that must be successfully carried out for a service to succeed: *external, internal*, and *interactive marketing*. All these activities revolve around making and keeping
promises to customers. For services, all three types of marketing activities are essential for building and maintaining relationships with customers.

1. **External Marketing: Making Promises**

Through its external marketing efforts, a company makes promises to its customers regarding what they can expect and how it will be delivered. Traditional marketing activities such as advertising, sales, special promotions, and pricing facilitate this type of marketing. But for services, other factors also communicate the promise to customers. The service employees, the design and decor of the facility, and the service process itself also communicate and help to set customer expectations. Service guarantees
two-way communication (especially in situations where promises can be negotiated and expectations can be managed on an individual basis) are additional ways of communicating service promises. Unless consistent and realistic promises are set via all of these external communication vehicles, a customer relationship will be off to a shaky beginning. Further, if there is a tendency to over-promise, the relationship may also be off to a weak beginning.

2. **Interactive Marketing: Keeping Promises**

External marketing is just the beginning for services marketers: Promises made must be kept. Keeping promises, or *interactive marketing*, is the second type of marketing activity captured by the triangle-and is the most critical from the customer's point of view. Service promises are most often kept or broken by the employees of the firm or by third-party providers, most often in real time. Sometimes service promises are even delivered through technology. Interactive marketing occurs in the moment of truth when the customer interacts with the organization and the service is produced and consumed. Interestingly, promises are kept or broken and the reliability of service is tested every time the customer interacts with the organization.

3. **Internal Marketing: Enabling Promises**

A third form of marketing, internal marketing, takes place through the enabling of promises. In order for providers and service systems to deliver on the promises made, they must have the skills, abilities, tools, and motivation to deliver. In other words, they must be enabled. This essential services marketing activity has become known as internal marketing. Promises are easy to make, but unless providers are recruited, trained, provided with tools and appropriate internal systems, and rewarded for good service,
promises may not be kept. Internal marketing also hinges on the assumption that employee satisfaction and customer satisfaction are inextricably linked.

Aligning the Sides of the Triangle

In a triangle, all three sides are essential to complete the whole. For services all three marketing activities, represented by the sides of the triangle, are critical to success; without one of the sides in place, the triangle, or the total marketing effort, cannot be optimally supported. Each side represents significant challenges, and as we proceed through the text we will find approaches and strategies for dealing with all three.

EXPANDED MARKETING MIX FOR SERVICES

One of the most basic concepts in marketing is the *marketing mix*. The traditional marketing mix is composed of the *four P’s:* *product, price, place* and *promotion*. These elements appear as *core decision variables* in any marketing plan.

The careful management of *product, price, place* and *promotion* will also be essential to the successful marketing of services. However, the strategies for the *four P’s* require some modifications when applied to services.

Because services are usually *produced* and *consumed simultaneously*, customers are often present in the firm’s factory, interact directly with the firm’s personnel and are actually part of the service production process. Also, because services are intangible customers will often be looking for any tangible cue to
elp them understand the nature of the service experience. These facts have led services marketers to conclude that they can use additional variables to communicate with and satisfy their customers. For example, in the hotel industry the *ambience*, *design* and *decor* of the hotel as well as the *appearance* and *attitudes* of its employees will influence customer perceptions and experiences.

Acknowledgment of the importance of these additional communication variables has led services marketers to adopt the concept of an *expanded marketing mix* for services. In addition to the traditional *four P’s*, the services marketing mix includes *people*, *physical evidence*, and *process*.

*Expanded Marketing Mix for Services*
4. **PRICE**

- Flexibility
- Price level
- Terms
- Differentiation
- Discounts
- Allowances

5. **PEOPLE**

- Employees
  - Recruiting
  - Training
  - Motivation
  - Rewards
  - Teamwork
- Customers
  - Education
  - Training
The traditional marketing mix consists of four Ps, i.e., product, place, promotion and price. The nature of services are different from product so when the question comes to services marketing, then the 4 marketing Ps become 7 Ps because of the addition of more 3 Ps which are, people, physical evidence and process.
Services marketing can not be successfully executed without being giving major importance to these 3 Ps i.e., people, physical evidence and process. This fact can be made clear by explaining these elements of services marketing mix.

1. **People**: All human beings who play a part in service delivery and thus influence the buyer’s perceptions; namely, the firm’s personnel, the customer, and the other customers in the service environment.

   All of the human beings participating in the delivery of a service provide cues to the customer regarding the nature of the service itself. How these people are dress, their personal appearance, and their attitudes and behaviours all influence the customers’ perceptions of the service. The service provider or contact person can be very important. In fact, for some services, such as consulting, counseling, teaching, and other professional relationship-based services, the provider is the service. In the other cases the contact person may play what appears to be a relatively small part in service delivery, for instance, a telephone installer, an airline baggage handler, or a room service boy. Yet even these providers may be the focal point of service encounters that can prove critical for the organization.

   In many service situations, customers themselves can also influence service delivery, thus affecting service quality and their own satisfaction. For example, a client of a consulting company can influence the quality of service received by providing needed and timely information and by implementing recommendations provided by the consultant. Similarly, health care patients greatly affect the quality of service they receive when they either comply or don’t comply with health regimens prescribed by the provider.
Even the strong influence they can have on service quality and service delivery, employees, the customer, and other customers are included within the *people* element of the *services marketing mix*.

2. **Physical evidence:** The environment in which the service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service.

The physical evidence of service includes all of the tangible representations of the service such as *brochures, letterhead, business cards, report formats, signage, and equipment*. In some cases it includes the physical facility where the service is offered – the service space – for example, the retail bank branch facility. In other cases, such as telecommunication services, the physical facility may be irrelevant. In this case other tangibles such as billing statements and appearance of the repair truck may be important indicators of quality. *Physical evidence* cues provide excellent opportunities for the firm to send consistent and strong messages regarding the organization’s purpose, the intended market segments, and the nature of the service.

3. **Process:** The actual *procedures, mechanisms, and flow of activities* by which the service is delivered – the service delivery and operating systems.

The actual delivery steps the customer experiences, or the operational flow of the service, will also provide customers with evidence on which to judge the service. Some services are very complex, requiring the customer to follow a complicated and extensive series of actions to complete the process.
Another distinguishing characteristic of the process that can provide evidence to the customer is whether the service follows a production-line/standardized approach or whether the process is an empowered/customized one. None of these characteristics of the service is inherently better or worse than another. Rather, the point is that these process characteristics are another form of evidence used by the consumer to judge service.

These three new marketing mix elements, *people, physical evidence,* and *process,* are included in the marketing mix as separate elements because they are within the control of the firm and any or all of them may influence the customer’s initial decision to purchase a service, as well as the customer’s level of satisfaction and repurchase decisions.