Chapter 1:
New Perspectives On Marketing in the Service Economy

Overview of Chapter 1

- **Why Study Services?**

- **What are Services?**

- **Marketing Challenges Posed by Services**

- **Extended Marketing Mix Required for Services**

- **Integration of Marketing with Other Management Functions**

- **Developing Effective Service Marketing Strategies**

Why Study Services?

Why Study Services?

- **Services dominate most economies and are growing rapidly:**

  ➔ Services account for more than **60% of GDP worldwide**

  ➔ Almost all economies have a substantial service sector

  ➔ Most **new employment** is provided by services

  ➔ Strongest **growth area** for marketing

- **Understanding services offers you a personal competitive advantage**

Services Dominate the Global Economy

## Contribution of Service Industries to GDP Globally

Manufacturing 32%

Services 64%

Agriculture 4%
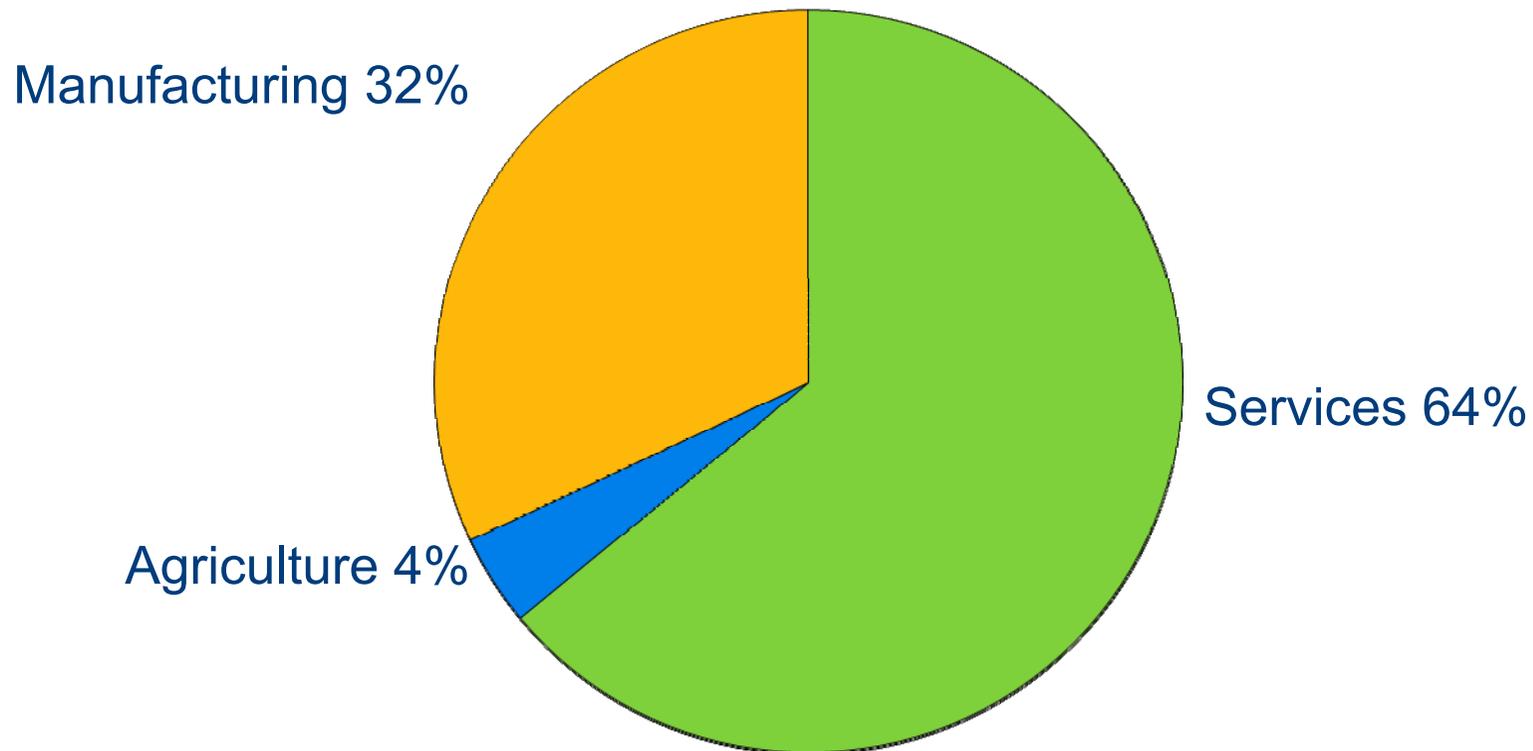
Source: The World Factbook 2008, Central Intelligence Agency

Estimated Size of Service Sector in Selected Countries

Jersey (97%), Cayman Islands (95%), Hong Kong (92%)

Bahamas (90%), Bermuda (89%), Luxembourg (86%)

USA (79%), Fiji (78%), Barbados (78%), France (77%), U.K. (76%)

Japan (72%), Taiwan (71%), Australia (71%), Italy (71%)

Canada (70%), Germany (69%), Israel (67%)

South Africa (65%), Brazil (66%), Poland (66%)

Turkey (63%), Mexico (62%)

Argentina (57%), Russia (55%)

Malaysia (46%), Chile (45%)

Indonesia (41%), China (40%)

Saudi Arabia (35%)

Services as Percent of GDP

10   20   30   40   50   60   70   80   90
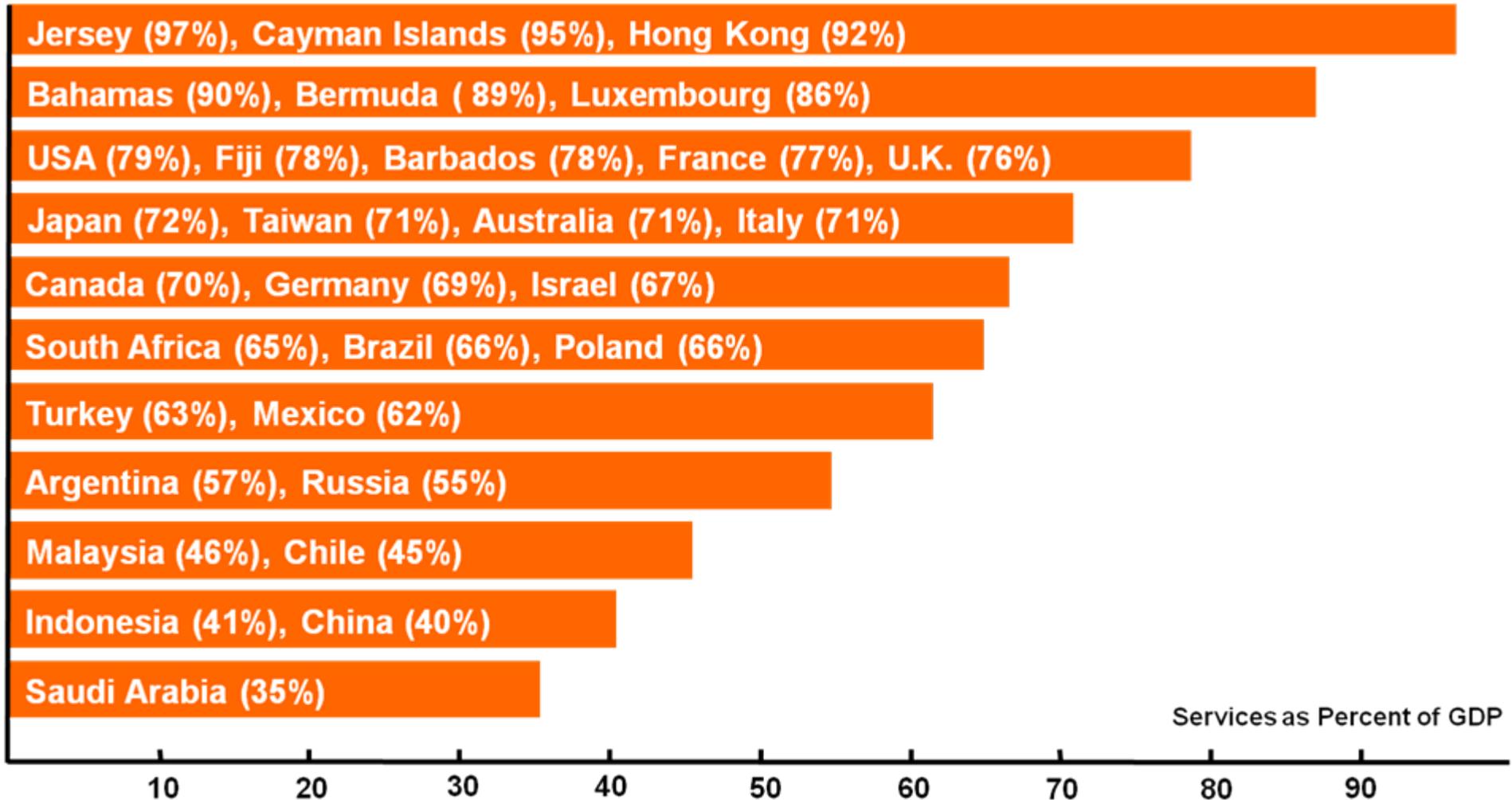
Source: The World Factbook 2008, Central Intelligence Agency

Value Added by Service Industry Categories to U.S. GDP

Business Services
12%

Transport, Utilities
& Communications
9%

SERVICES

Wholesale & Retail
Trade 12%
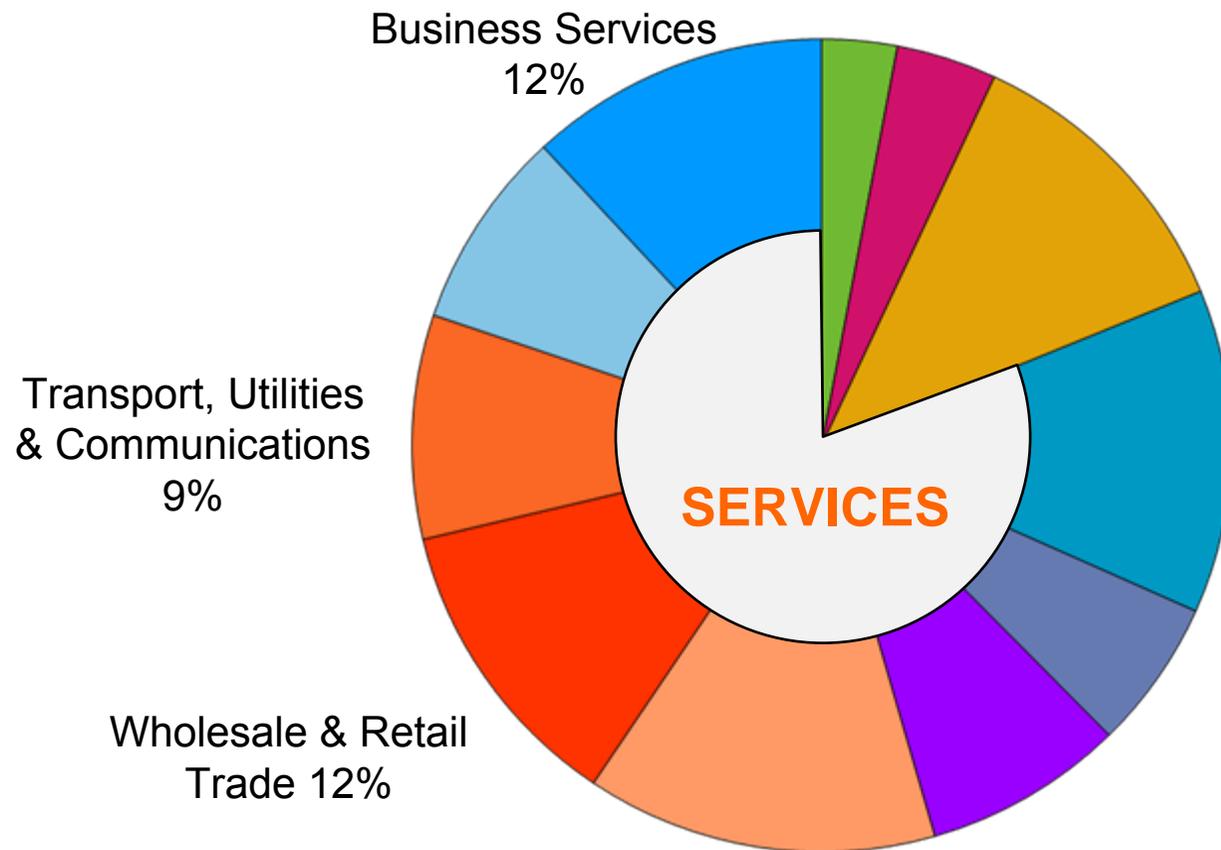
Source: US Bureau of Economic Analysis, Industry Economics Accounts, 2007

NAICS: New Way to Classify & Analyze the Service Economy

- **NAICS—North American Industry Classification System**

  ➔ Classifies industries in the economic statistics of USA, Canada & Mexico

  ➔ Replaces old SIC codes in USA

  ➔ Captures huge array of new service industries, each with its own NAICS code

- **NAPCS—North American Product Classification System**

  ➔ Assigns codes to thousands of service products

  ➔ Particularly useful for looking at rented goods services

# NAICS Codes of Newer Service Industries Not Profiled By SIC

- ❖ Casino Hotels

- ❖ Continuing Care Retirement Communities

- ❖ Diagnostic Imaging Centers

- ❖ Diet and Weight Reducing Centers

- ❖ Environmental Consulting

- ❖ Golf Courses, Country Clubs

- ❖ Hazardous Waste Collection

- ❖ HMO Medical Centers

- ❖ Industrial Design Services

- ❖ Investment Banking and Securities Dealing

- ❖ Management Consulting Services

- ❖ Satellite Telecommunications

- ❖ Telemarketing Bureaus

- ❖ Temporary Help Services

Why Study Services?

- **Most new jobs are generated by services**

  ➔ **Fastest growth expected in** knowledge-based **industries**

  ➔ **Significant training and educational qualifications required, but employees will be** more highly compensated

  ➔ **Will service jobs be lost to lower-cost countries? Yes, some** service jobs can be exported

Changing Structure of Employment as Economies Develop
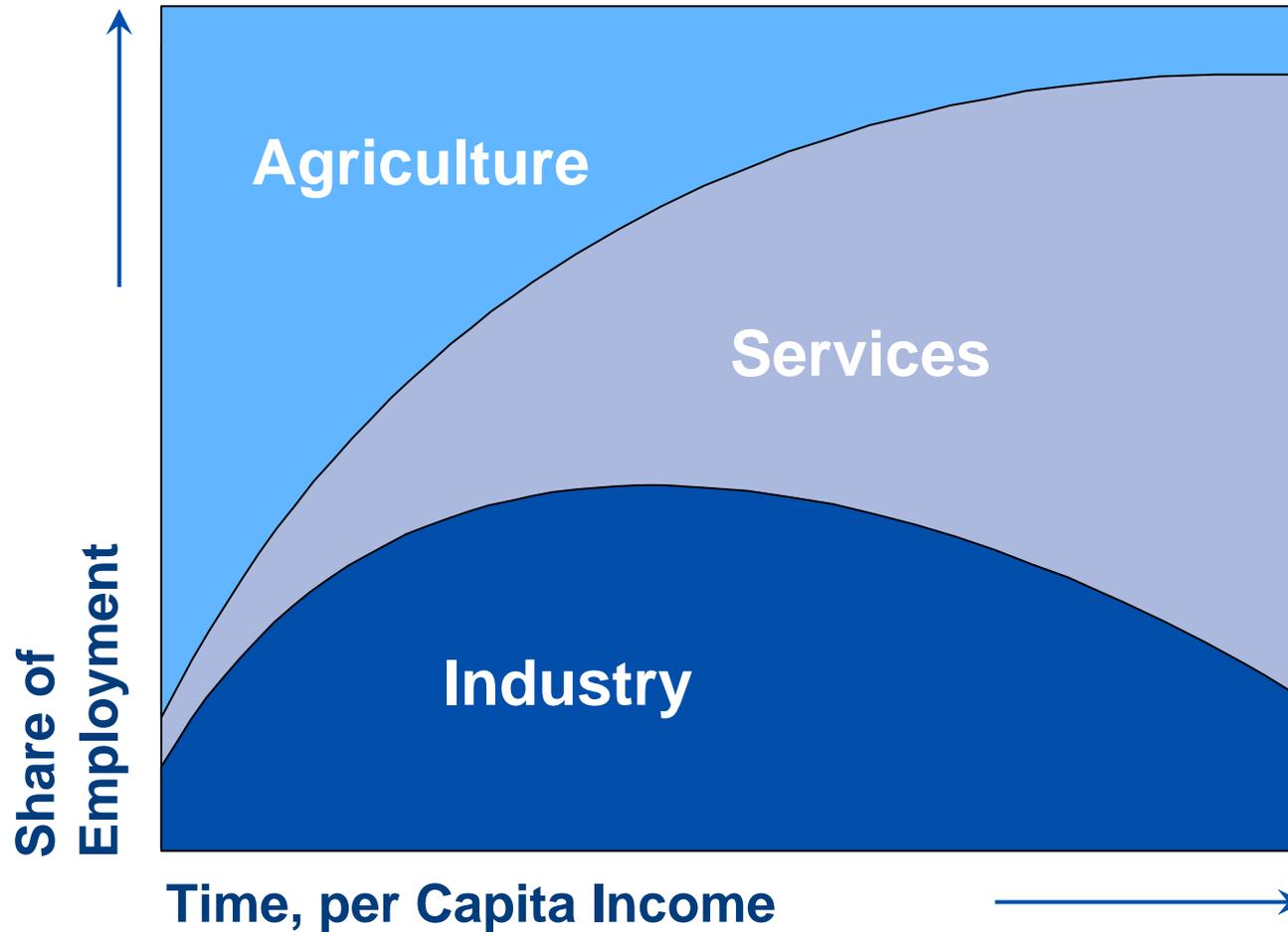
Source: IMF, 1997

Why Study Services?

- **Powerful forces are transforming service markets**
  - ➔ Government policies, social changes, business trends, advances in IT, internationalization

- **Forces that reshape:**
  - ➔ Demand
  - ➔ Supply
  - ➔ The competitive landscape
  - ➔ Customers' choices, power, and decision making

Transformation of the Service Economy
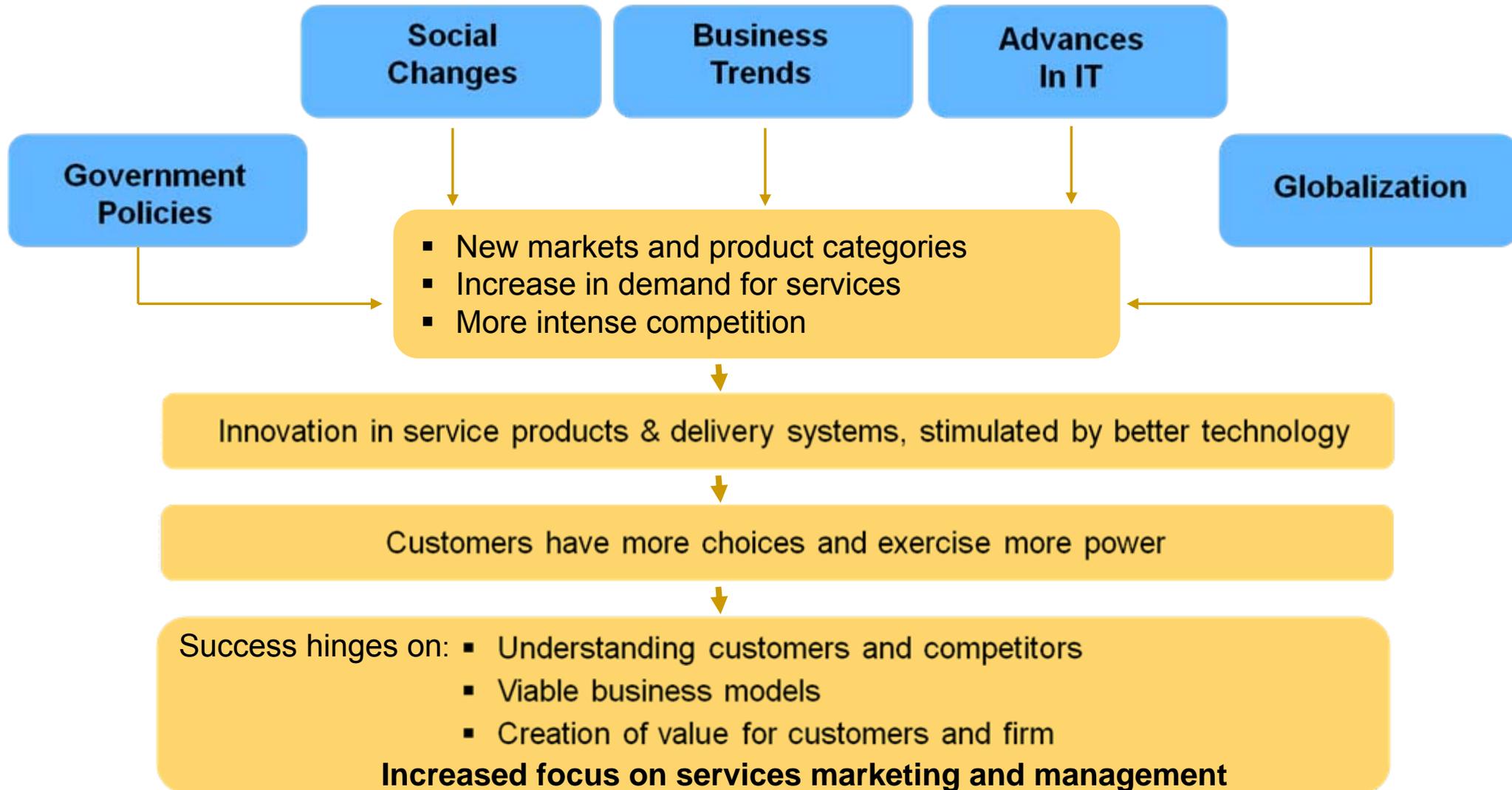
Social Changes

Business Trends

Advances In IT

Government Policies

Globalization

- New markets and product categories
- Increase in demand for services
- More intense competition

Innovation in service products & delivery systems, stimulated by better technology

Customers have more choices and exercise more power

Success hinges on:
- Understanding customers and competitors
- Viable business models
- Creation of value for customers and firm

Increased focus on services marketing and management

Factors Stimulating Transformation of the Service Economy

Social Changes

Business Trends

Advances In IT

Government Policies

Globalization

- Changes in regulations
- Privatization
- New rules to protect customers, employees, and the environment
- New agreement on trade in services

Factors Stimulating Transformation of the Service Economy

Social Changes

Business Trends

Advances In IT

Government Policies

Globalization

- Rising consumer expectations
- More affluence
- More people short of time
- Increased desire for buying experiences vs. things
- Rising consumer ownership of high tech equipment
- Easier access to information
- Immigration
- Growing but aging population

Factors Stimulating Transformation of the Service Economy

- Social Changes
- Business Trends
- Advances In IT
- Government Policies
- Globalization

Business Trends:

- Push to increase shareholder value
- Emphasis on productivity and cost savings
- Manufacturers add value through service and sell services
- More strategic alliances and outsourcing
- Focus on quality and customer satisfaction
- Growth of franchising
- Marketing emphasis by nonprofits

Factors Stimulating Transformation of the Service Economy

Social Changes

Business Trends

Advances In IT

Government Policies

Globalization

- Growth of Internet
- Greater bandwidth
- Compact mobile equipment
- Wireless networking
- Faster, more powerful software
- Digitization of text, graphics, audio, video

Factors Stimulating Transformation of the Service Economy

Social Changes

Business Trends

Advances In IT

Government Policies

Globalization

- More companies operating on transnational basis
- Increased international travel
- International mergers and alliances
- "Offshoring" of customer service
- Foreign competitors invade domestic markets

What are Services?

What Are Services?

- **The historical view**

  ➔ **Smith (1776): Services are different from goods because they are** **perishable**

  ➔ **Say (1803): As services are immaterial, consumption cannot be separated from production**

- **A fresh perspective: Benefits without Ownership**

  ➔ **Rental of goods:**

  (a) Payment made for using or accessing something – usually for a defined period of time – instead of buying it outright and

  (b) Allows participation in network systems that individuals and organizations could not afford

What Are Services?

Five broad categories within non-ownership framework of which two or more may be combined

- Rented goods services
- Defined space and place rentals
- Labor and expertise rentals
- Access to shared physical environments
- Access to and usage of systems and networks

Definition of Services

- **Services**
  - ➔ are **economic activities** offered by one party to another
  - ➔ most commonly employ **time-based performances** to bring about desired results

- **In exchange for their money, time, and effort, service customers expect to obtain value from**
  - ➔ access to goods, labor, facilities, environments, professional skills, networks, and systems;
 - ➔ normally **do not take ownership** of any of the physical elements involved.

Value Creation is Dominated by Intangible Elements

Physical Elements

High

Salt
Detergents
CD Player
Wine
Golf Clubs
New Car
Tailored clothing
Fast-Food Restaurant

Plumbing Repair
Health Club
Airline Flight
Landscape Maintenance
Consulting
Life Insurance
Internet Banking

Low
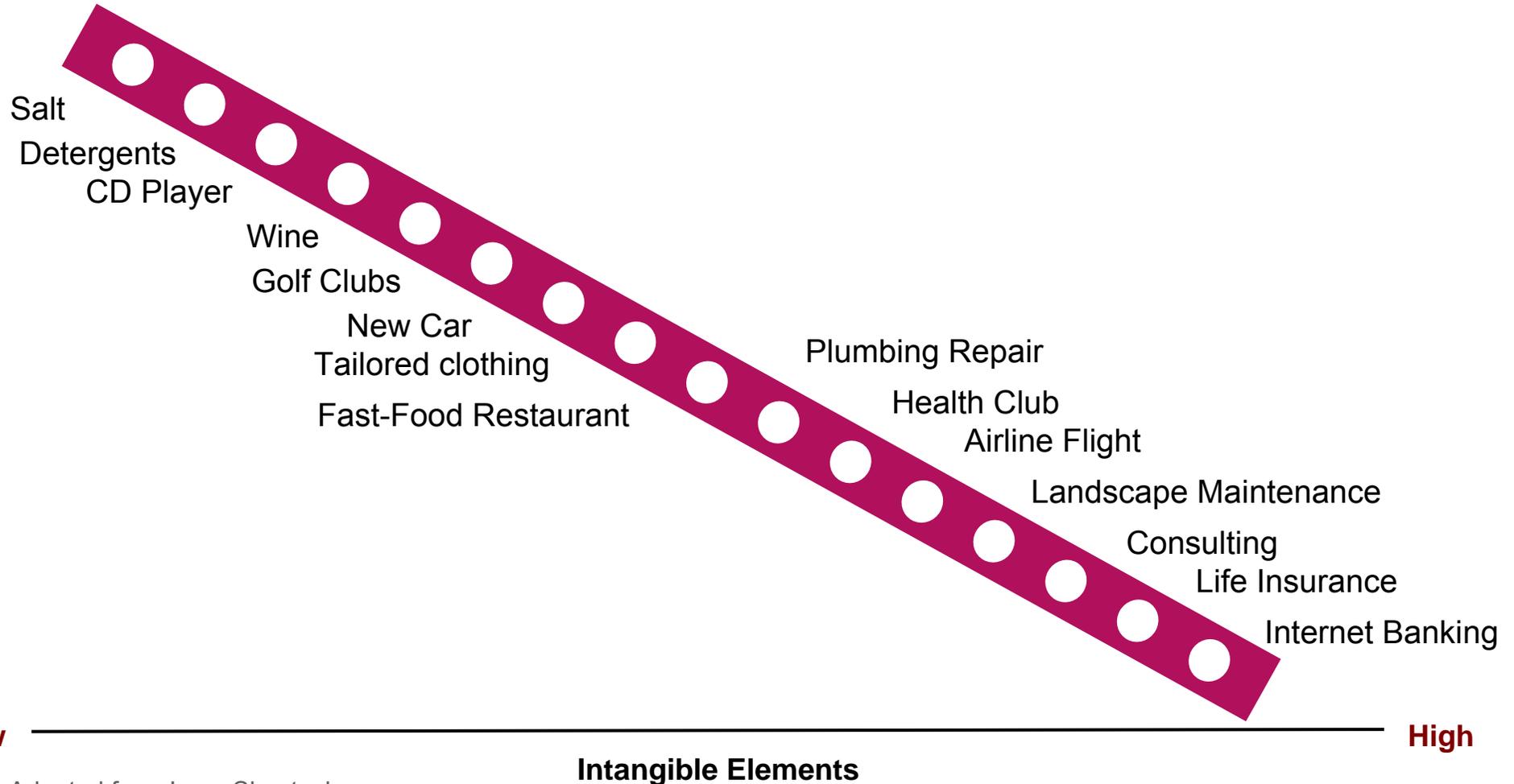
High

Intangible Elements

Source; Adapted from Lynn Shostack

Service Products vs. Customer Service & After-Sales Service

- A firm's market offerings are divided into core product elements and supplementary service elements

- Need to distinguish between:

  ➔ Marketing of services – when service is the core product

  ➔ Marketing through service – when good service increases the value of a core physical good

- Manufacturing firms are reformulating and enhancing existing added-value services to market them as stand-alone core products

Service – A Process Perspective

- **Differences exist amongst services depending on what is being processed**

- **Classification of services into**

  ➔ **People processing**

  ➔ **Possession processing**

  ➔ **Mental stimulus processing**

  ➔ **Information processing**

4 Categories of Services

Nature of the Service Act	Who or What is the Direct Recipient of the Service?	
	People	**Possessions**
Tangible Actions	**People-processing** (services directed at people's bodies): • Barbers • Health care	**Possession-processing** (services directed at physical possessions): • Refueling • Disposal / recycling
Intangible Actions	**Mental stimulus processing** (services directed at people's mind): • Education • Advertising / PR	**Information processing** (services directed at intangible assets): • Accounting • Banking

People Processing

Who or What is the Direct Recipient of the Service?

Nature of the Service Act	People	Possessions
Tangible Actions	People-processing (services directed at people's bodies): • Barbers • Health care	Possession-processing (services directed at physical possessions): • Refueling • Disposal / recycling
Intangible Actions	Mental stimulus processing (services directed at people's mind): • Education • Advertising / PR	Information processing (services directed at intangible assets): • Accounting • Banking

- **Customers must:**

  ➔ **physically enter the service factory**

  ➔ **cooperate actively with the service operation**

- **Managers should think about process and output from the customer's perspective**

  ➔ **to identify benefits created and non-financial costs: Time, mental and physical effort**

Possession Processing

- **Involvement is limited**

- **Less physical involvement**

- **Production and consumption are separable**

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Mental Stimulus Processing

- **Ethical standards required:**

  ➔ **Customers might be manipulated**

- **Physical presence of recipients not required**

- **Core content of services is information-based**

  ➔ **Can be 'inventoried'**

Information Processing

Nature of the Service Act	Who or What is the Direct Recipient of the Service?	
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Tangible Actions	People-processing (services directed at people's bodies): • Barbers • Health care	Possession-processing (services directed at physical possessions): • Refueling • Disposal / recycling
Intangible Actions	Mental stimulus processing (services directed at people's mind): • Education • Advertising / PR	Information processing (services directed at intangible assets): • Accounting • Banking

● **Most intangible form of service**

● **May be transformed:**

➔   **Into enduring forms of service output**

● **Line between information processing and mental stimulus processing may be unclear**

Marketing Challenges Posed by Services

Services Pose Distinctive Marketing Challenges

- Marketing management tasks in the service sector differ from those in the manufacturing sector.

- Eight common differences between services and goods but they do not apply equally to all services

  What are marketing implications of these differences?

Differences, Implications, and Marketing-Related Tasks

Difference

- Most service products cannot be inventoried

- Intangible elements usually dominate value creation

- Services are often difficult to visualize & understand

- Customers may be involved in co-production

Implications

- Customers may be turned away

- Harder to evaluate service & distinguish from competitors

- Greater risk & uncertainty perceived

- Interaction between customer & provider; poor task execution could affect satisfaction

Marketing-Related Tasks

- Use pricing, promotion, reservations to smooth demand; work with ops to manage capacity

- Emphasize physical clues, employ metaphors and vivid images in advertising

- Educate customers on making good choices; offer guarantees

- Develop user-friendly equipment, facilities & systems; train customers, provide good support

Differences, Implications, and Marketing-Related Tasks

Difference

- People may be part of service experience

- Operational inputs and outputs tend to vary more widely

- Time factor often assumes great importance

- Distribution may take place through nonphysical channels

Implications

- Behavior of service personnel & customers can affect satisfaction

- Hard to maintain quality, consistency, reliability
- Difficult to shield customers from failures

- Time is money; customers want service at convenient times

- Electronic channels or voice communications

Marketing-Related Tasks

- Recruit, train employees to reinforce service concept
- Shape customer behavior

- Redesign for simplicity and failure proofing
- Institute good service recovery procedures

- Find ways to compete on speed of delivery; offer extended hours

- Create user-friendly, secure websites and free access by telephone

Extended Marketing Mix for Services

Services Require
An Extended Marketing Mix

- **Marketing can be viewed as:**

  ➔ A strategic and competitive thrust pursued by top management

  ➔ A set of functional activities performed by line managers

  ➔ A customer-driven orientation for the entire organization

- **Marketing is only function to bring operating revenues into a business; all other functions are cost centers**

- **The "7 Ps" of services marketing are needed to create viable strategies for meeting customer needs profitably**

The 7Ps of Services Marketing

- **Traditional Marketing Mix Applied to Services**

  ➔ **Product** *(Chapter 4)*

  ➔ **Place and Time** *(Chapter 5)*

  ➔ **Price** *(Chapter 6)*

  ➔ **Promotion and Education** *(Chapter 7)*

- **Extended Marketing Mix for Services**

  ➔ **Process (** *Chapter 8 & 9)*

  ➔ **Physical Environment** *(Chapter 10)*

  ➔ **People** *(Chapter 11)*

Integration of Marketing with Other Management Functions

Marketing to be Integrated with Other Management Functions

Three management functions play central and interrelated roles in meeting needs of service customers

Operations Management		Marketing Management
	Customers	
	Human Resources Management	
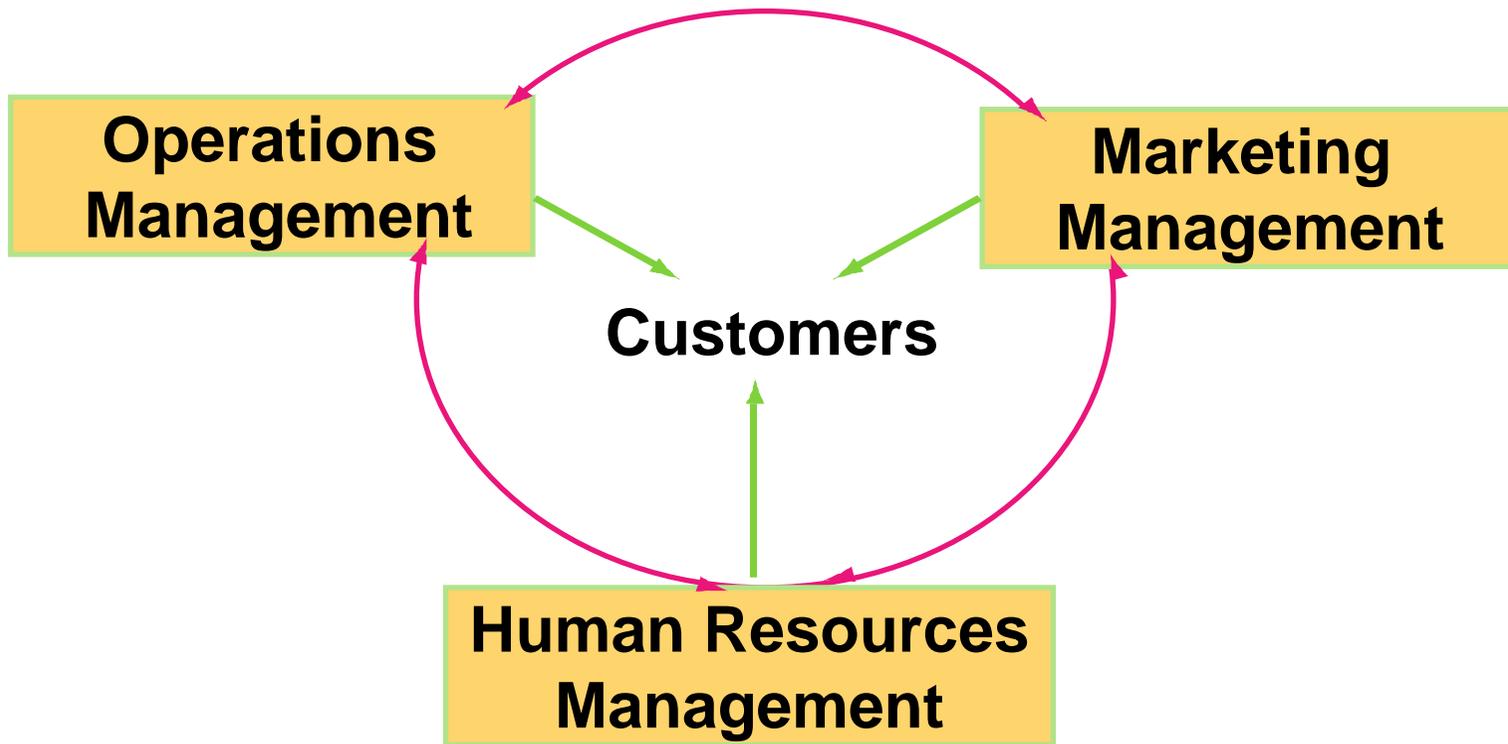
Developing Effective Service Marketing Strategies

Overview of Framework

Understanding Service Products, Consumers and Markets
Part I: Chapters 1-3

Applying the 4 P's of Marketing to Services
Part II: Chapters 4-7

The Extended Services Marketing Mix for Managing the Customer Interface
Part III: Chapters 8-11

Implementing Profitable Service Strategies
Part IV: Chapters 12-15

Framework - Part I
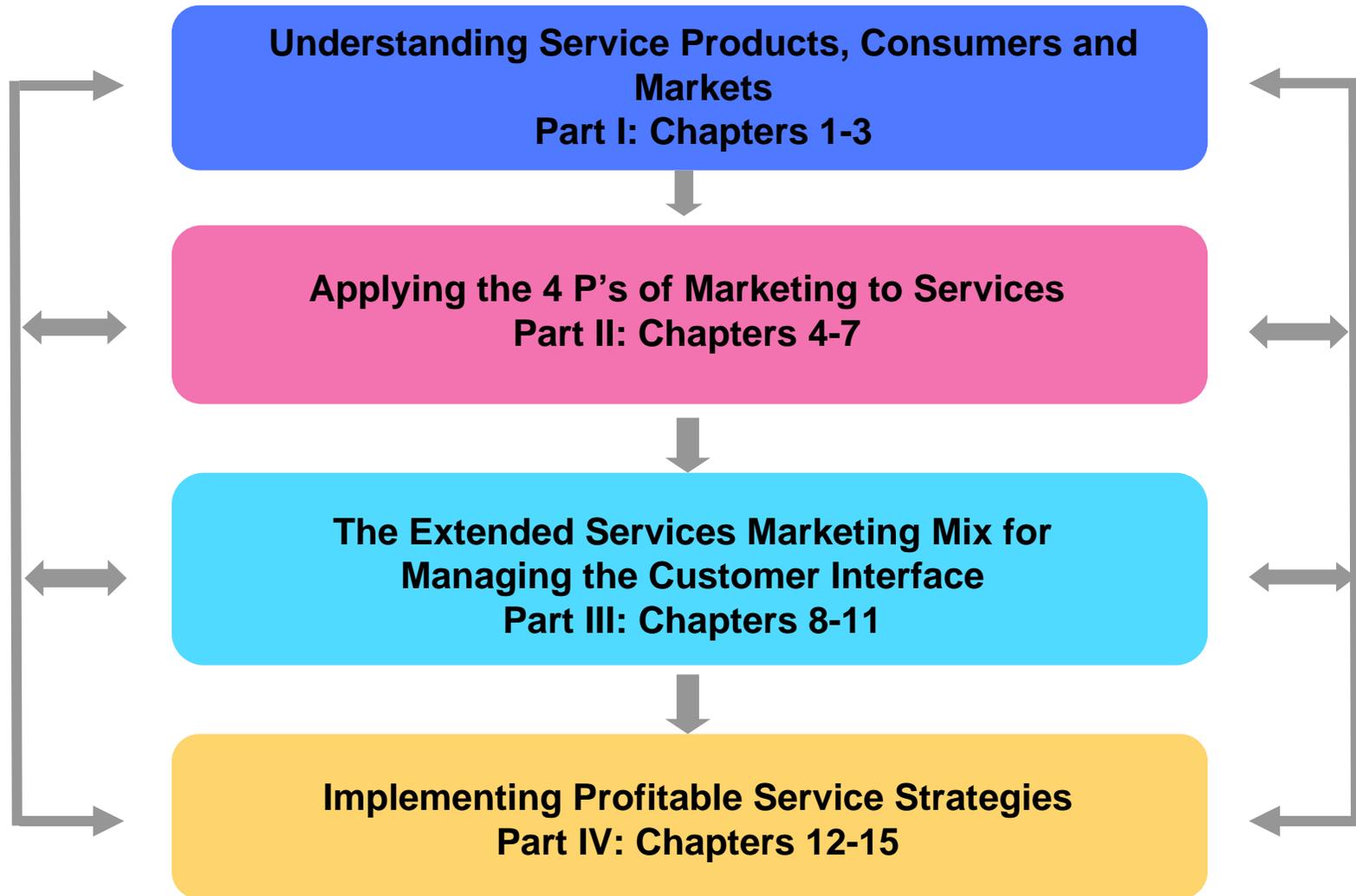
Understanding Service Products, Consumers, and Markets

Chapter 1   New Perspectives on Marketing in the Service Economy

Chapter 2   Consumer Behavior in a Services Context

Chapter 3   Positioning Services in Competitive Markets

Framework - Part II

Applying the 4 P's of Marketing to Services

Chapter 4   Developing Service Products: Core and Supplementary Elements

Chapter 5   Distributing Services through Physical and Electronic Channels

Chapter 6   Setting Prices and Implementing Revenue Management

Chapter 7   Promoting Services and Educating Customers

Framework - Part III

The Extended Services Marketing Mix for Managing the Customer Interface

Chapter 8	Designing and Managing Service Processes
Chapter 9	Balancing Demand and Productive Capacity
Chapter 10	Crafting the Service Environment
Chapter 11	Managing People for Service Advantage

Framework - Part IV

Implementing Profitable Service Strategies

Chapter 12   Managing Relationships and Building Loyalty

Chapter 13   Complaint Handling and Service Recovery

Chapter 14   Improving Service Quality and Productivity

Chapter 15   Striving for Service Leadership

Summary

Services dominate the economy in many nations. The majority of jobs are created in the service sector.

Why Study Services?

Unique Characteristics

Services are often intangible, difficult to visualize and understand, and customers may be involved in co-production.

CHAPTER 1

Services are a form of rental (not ownership). They are performances that bring about a desired result.

What are Services?

Extended Marketing Mix

Product, Place & Time, Price, Promotion & Education, Process, Physical Environment, People

Chapter 2:
Consumer Behavior in a Services Context

Overview Of Chapter 2

Customer Decision Making: The Three-Stage Model of Service Consumption

Pre-purchase Stage

⬇

Service Encounter Stage

⬇

Post-encounter Stage
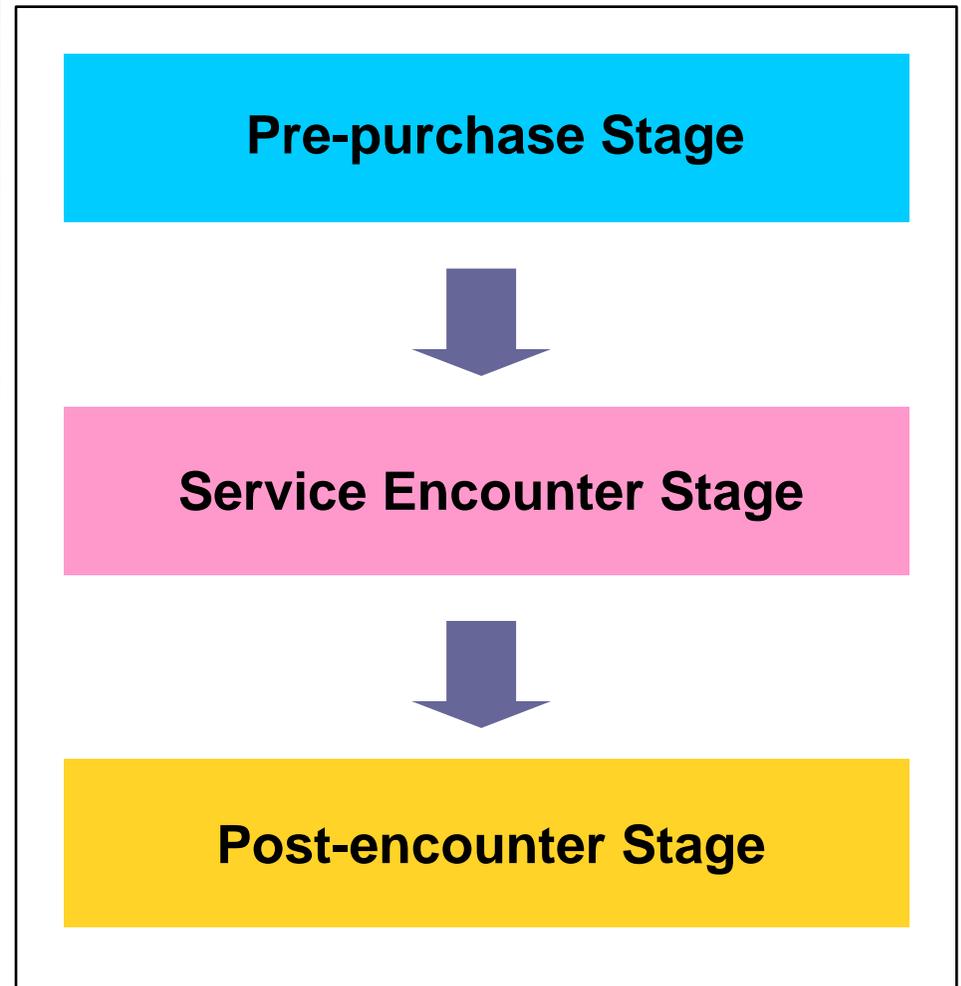
Pre-purchase Stage

Pre-purchase Stage - Overview

Pre-purchase Stage

⬇

Service Encounter Stage

⬇

Post-encounter Stage

- Customers seek solutions to aroused needs
- Evaluating a service may be difficult
- Uncertainty about outcomes Increases perceived risk
- What risk reduction strategies can service suppliers develop?
- Understanding customers' service expectations
- Components of customer expectations
- Making a service purchase decision
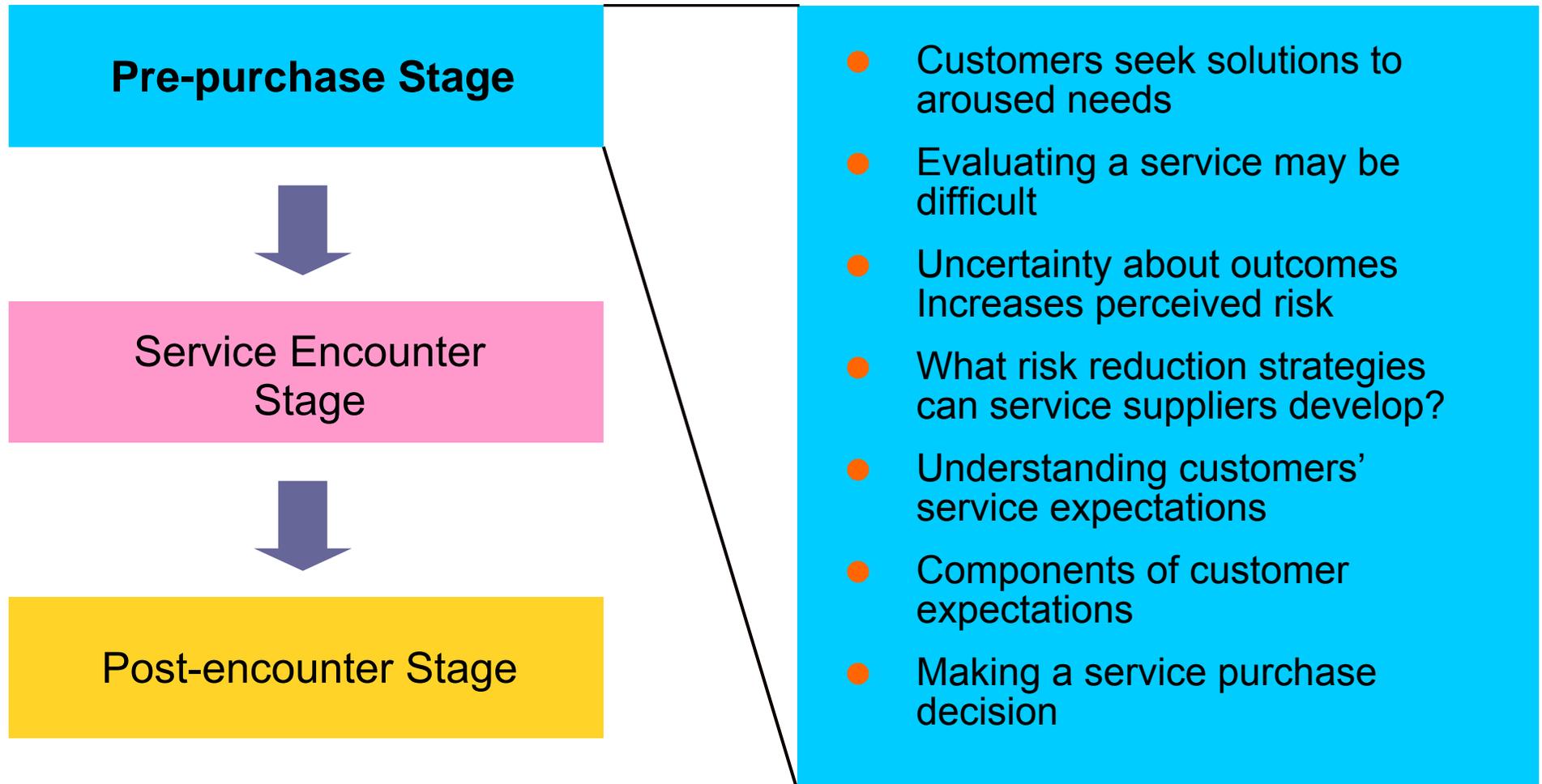
Need Arousal

- **Decision to buy or use a service is triggered by need arousal**

- **Triggers of need:**
  - ➔ **Unconscious minds (e.g., personal identity and aspirations)**
  - ➔ **Physical conditions (e.g., hunger)**
  - ➔ **External sources (e.g., a service firm's marketing activities)**

- **Consumers are then motivated to find a solution for their need**

Courtesy of Masterfile Corporation

Information Search

- **Need arousal leads to attempts to find a solution**

- **Evoked set – a set of products and brands that a consumer considers during the decision-making process – that is derived from past experiences or external sources**

- **Alternatives then need to be evaluated before a final decision is made**

Evaluating Alternatives – Service Attributes

- **Search attributes help customers evaluate a product before purchase**

  ➔ **E.g., type of food, location, type of restaurant and price**

- **Experience attributes cannot be evaluated before purchase**

  ➔ **The consumer will not know how much s/he will enjoy the food, the service, and the atmosphere until the actual experience**

- **Credence attributes are those that customers find impossible to evaluate confidently even after purchase and consumption**

  ➔ **E.g., hygiene conditions of the kitchen and the healthiness of the cooking ingredients**

How Product Attributes Affect Ease of Evaluation

Most Goods   **Most Services**

Easy To Evaluate

Difficult To evaluate

Clothing

Chair

Motor Vehicle

Foods

High In Search Attributes

Restaurant Meals

Lawn Fertilizer

Haircut

Entertainment

High In Experience Attributes

Computer Repair

Education

Legal Services

Complex Surgery

High In Credence Attributes
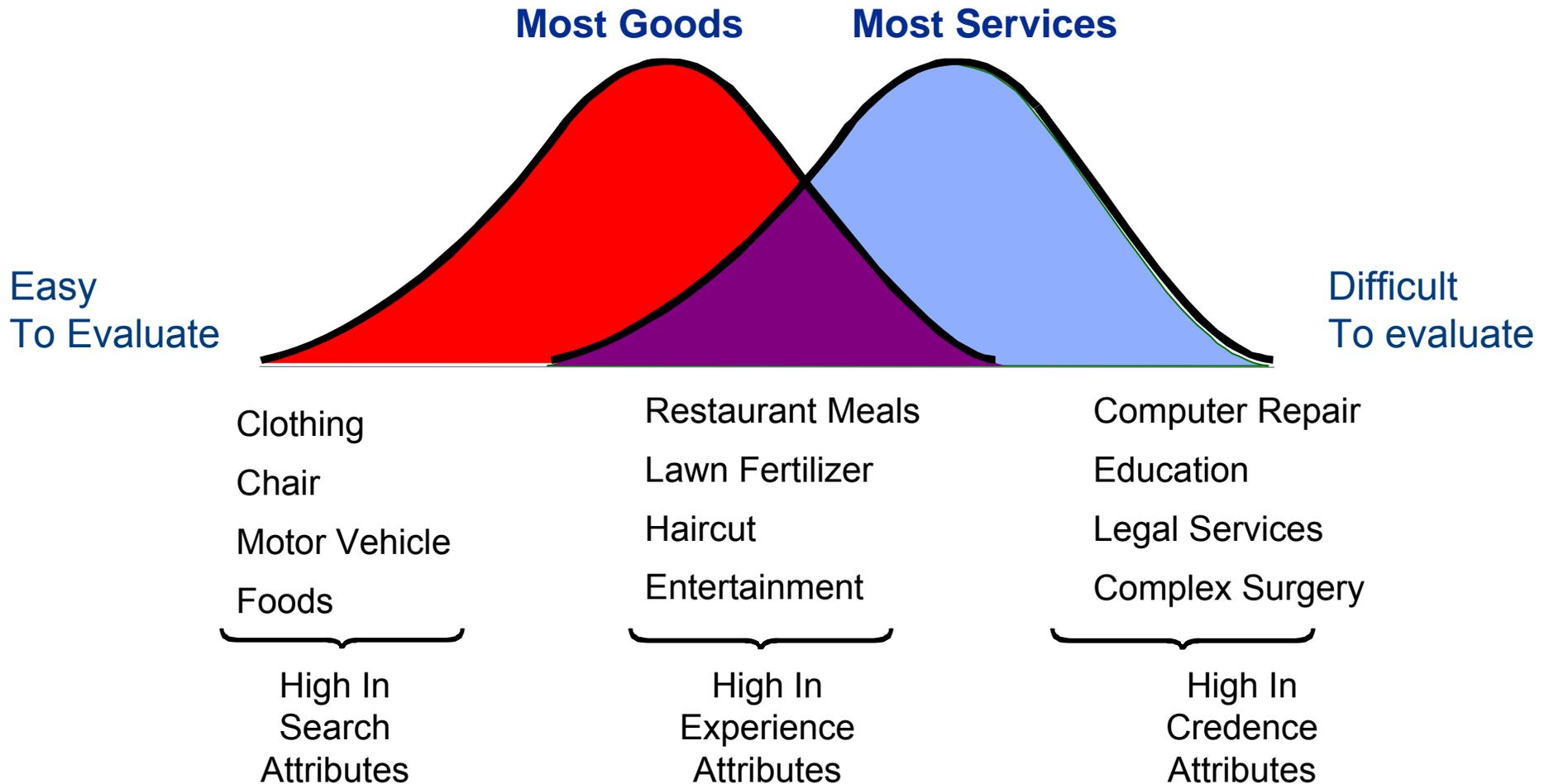
Source: Adapted from Valarie A. Zeithaml , "How Consumer Evaluation Processes Differ Between Goods & Services," in J.H. Donelly and W. R. George, Marketing of Services (Chicago: American Marketing Association, 1981)

Perceived Risks of Purchasing and Using Services

- *Functional* – unsatisfactory performance outcomes

- *Financial* – monetary loss, unexpected extra costs

- *Temporal* – wasted time, delays leading to problems

- *Physical* – personal injury, damage to possessions

- *Psychological* – fears and negative emotions

- *Social* – how others may think and react

- *Sensory* – unwanted impact on any of five senses

How Might Consumers Handle Perceived Risk?

- Seek information from respected personal sources

- Compare service offerings and search for independent reviews and ratings via the Internet

- Relying on a firm with good reputation

- Looking for guarantees and warranties

- Visiting service facilities or going for trials before purchase and examining tangible cues or other physical evidence

- Asking knowledgeable employees about competing services

Strategic Responses to Managing Customer Perceptions of Risk

Free trial (for services with high experience attributes)

Advertise (helps to visualize)

Display credentials

Use evidence management (e.g., furnishing, equipment etc.)

Offer guarantees

Encourage visit to service facilities

Give customers online access about order status

# Understanding Customers' Service Expectations

- **Customers evaluate service quality by comparing what they expect against what they perceive**

  ➔ Situational and personal factors also considered

- **Expectations of good service vary from one business to another, and differently positioned service providers in same industry**

- **Expectations change over time**

Factors Influencing Customer Expectations of Service
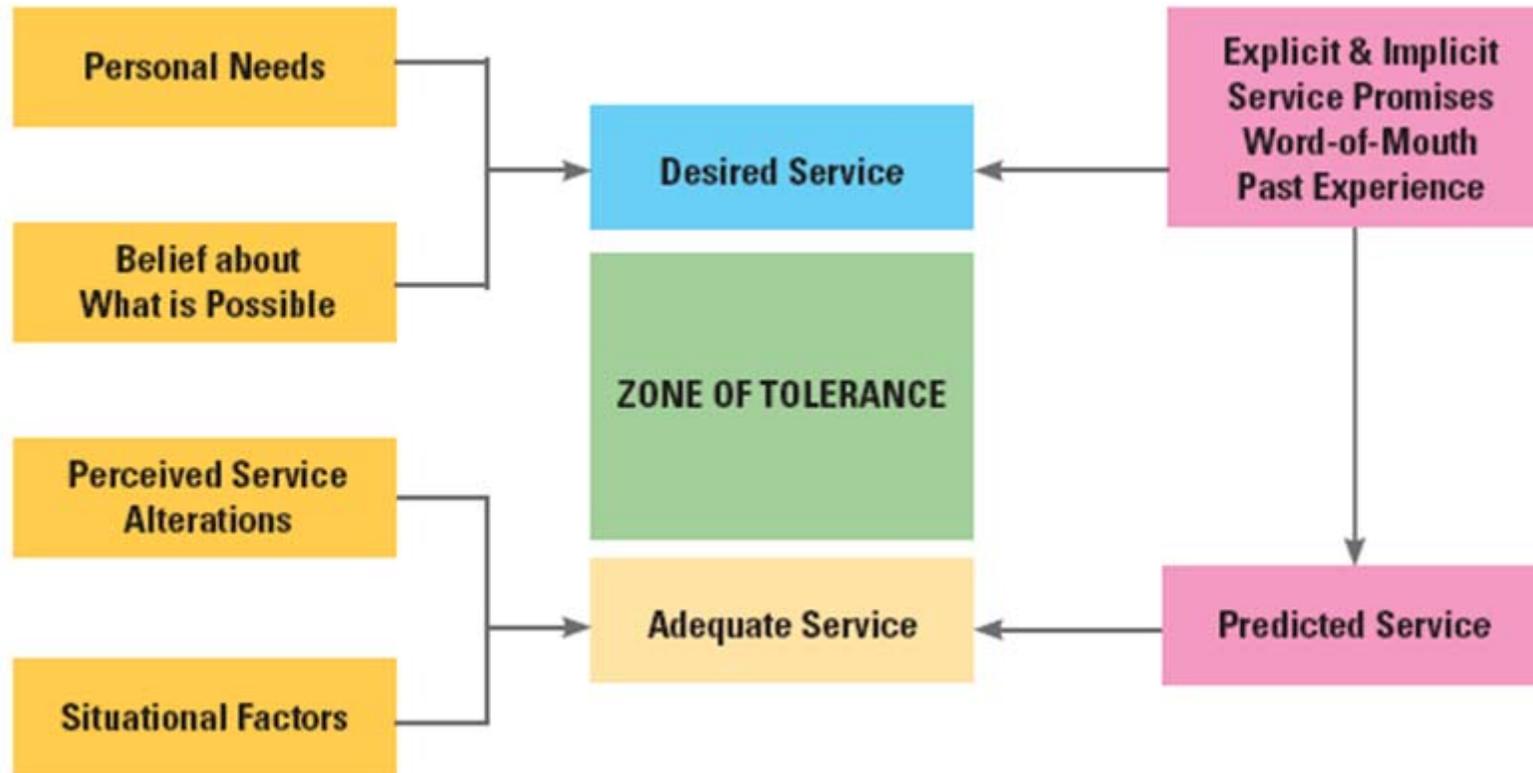
Source: Adapted from Valarie A. Zeithaml, Leonard A. Berry, and A. Parasuraman, "The Nature and Determinants of Customer Expectations of Service," *Journal of the Academy of Marketing Science* 21, no. 1 (1993): 1-12

Components of Customer Expectations

Desired Service Level

- wished-for level of service quality that customer believes can and should be delivered

Adequate Service Level

- minimum acceptable level of service

Predicted Service Level

- service level that customer believes firm will actually deliver

Zone of Tolerance

- Acceptable range of variations in service delivery

Purchase Decision

● **Purchase Decision: Possible alternatives are compared and evaluated, whereby the best option is selected**

➔ Simple if perceived risks are low and alternatives are clear

➔ Complex when trade-offs increase

● **Trade-offs are often involved**

● **After making a decision, the consumer moves into the service encounter stage**

Service Encounter Stage

Service Encounter Stage - Overview

Pre-purchase Stage

↓

Service Encounter Stage

↓

Post-encounter Stage

- Service encounters range from high- to low-contact

- Understanding the servuction system

- Theater as a metaphor for service delivery: An integrative perspective

  → Service facilities

  → Personnel

  → Role and script theories

Service Encounter Stage

- **Service encounter – a period of time during which a customer interacts directly with the service provider**

  - ➔ **Might be brief or extend over a period of time (e.g., a phone call or visit to the hospital)**

- **Models and frameworks:**

  1. **"Moments of Truth" – importance of managing touchpoints**

  2. **High/low contact model – extent and nature of contact points**

  3. **Servuction model – variations of interactions**

  4. **Theater metaphor – "staging" service performances**

Moments of Truth

"[W]e could say that the perceived quality is realized at the moment of truth, when the service provider and the service customer confront one another in the arena. At that moment they are very much on their own… It is the skill, the motivation, and the tools employed by the firm's representative and the expectations and behavior of the client which together will create the service delivery process."

Richard Normann

Service Encounters Range from High-Contact to Low-Contact
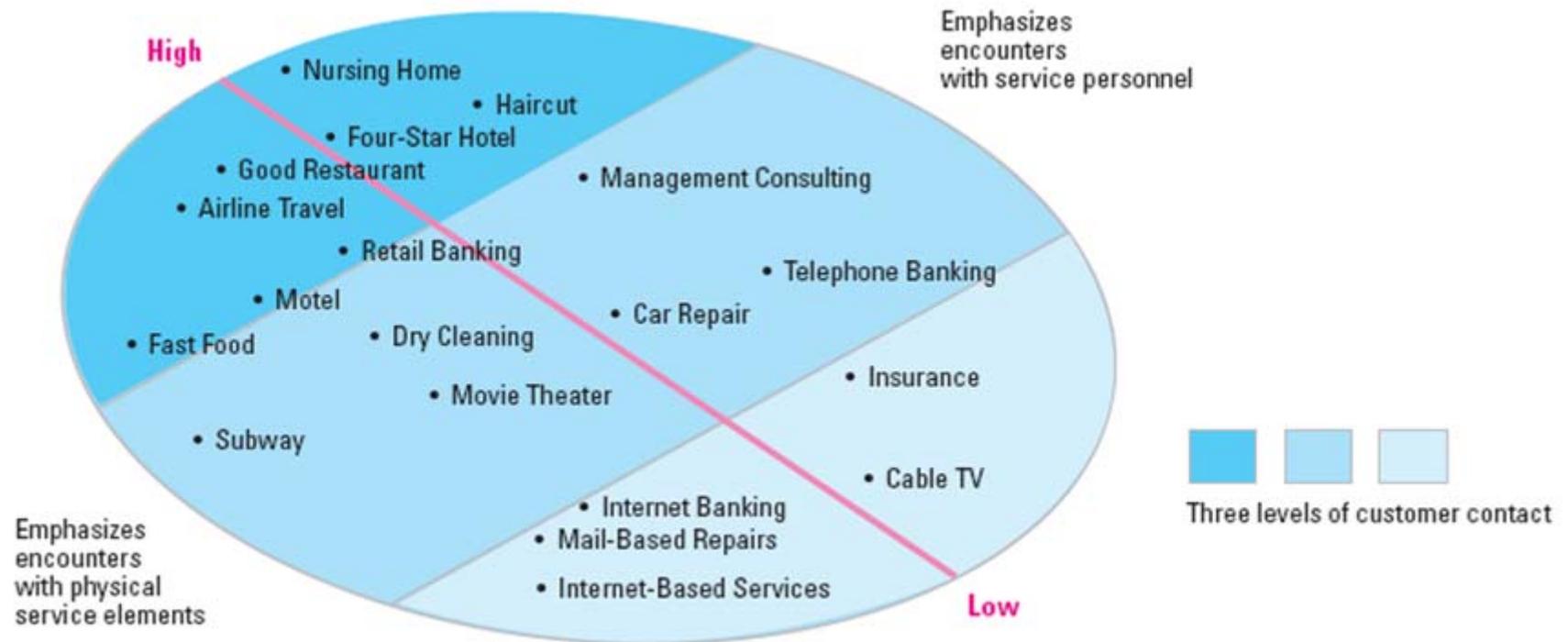
Distinctions between High-Contact and Low-Contact Services

- **High-Contact Services**
  - ➔ Customers visit service facility and remain throughout service delivery
  - ➔ Active contact
 - ➔ Includes most people-processing services

- **Low-Contact Services**
  - ➔ Little or no physical contact
  - ➔ Contact usually at arm's length through electronic or physical distribution channels
  - ➔ Facilitated by new technologies

The Servuction System

Service Delivery System

Service Operations System

Technical Core

Inanimate Environment

Contact Personnel

Back Stage (Invisible)

Front Stage (Visible)

Customer A

Customer B
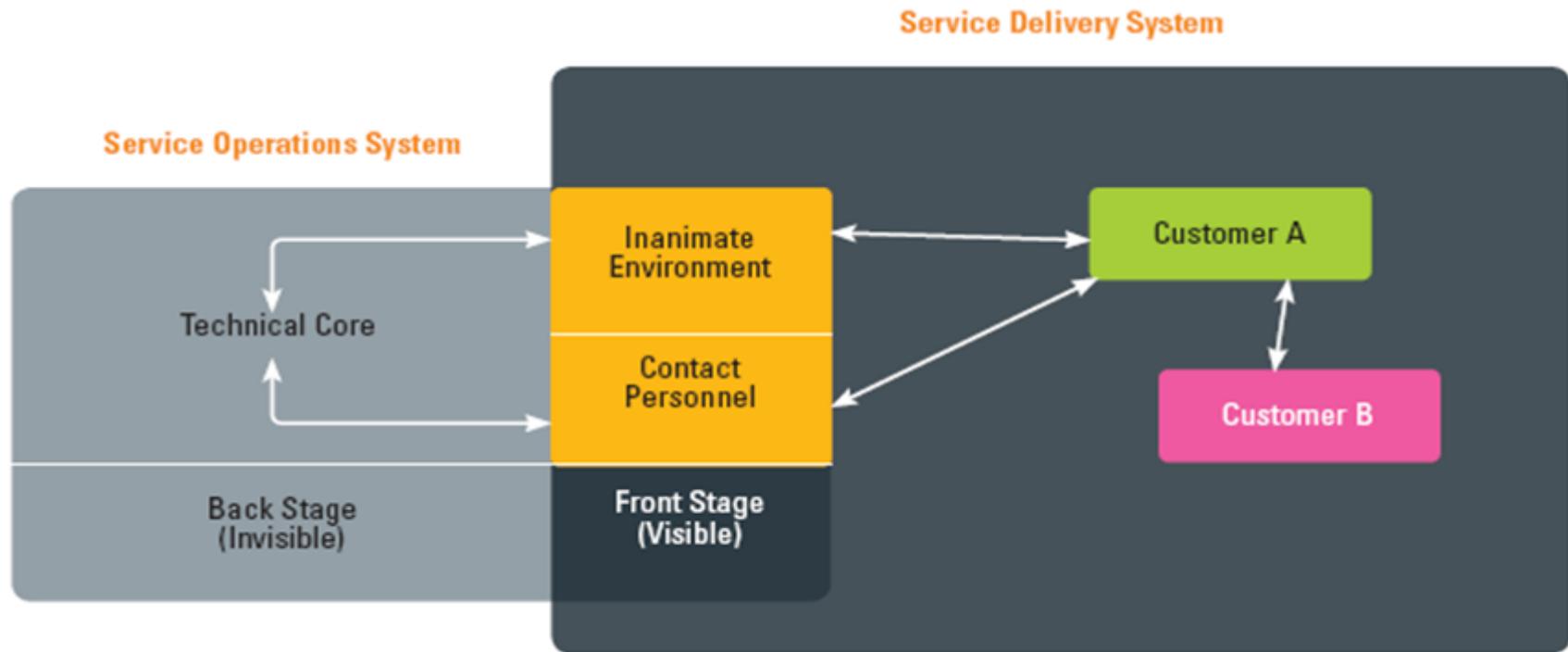
Source: Adapted and expanded from an original concept by Eric Langeard and Pierre Eiglier

The Servuction System:
Service Production and Delivery

- **Servuction System: visible front stage and invisible backstage**

- **Service Operations**

  - ➔ **Technical core where inputs are processed and service elements created**

  - ➔ **Contact people**

  - ➔ **Inanimate environment**

- **Service Delivery**

  - ➔ **Where "final assembly" of service elements takes place and service is delivered**

  - ➔ **Includes customer interactions with operations and other customers**

Theater as a Metaphor for Service Delivery
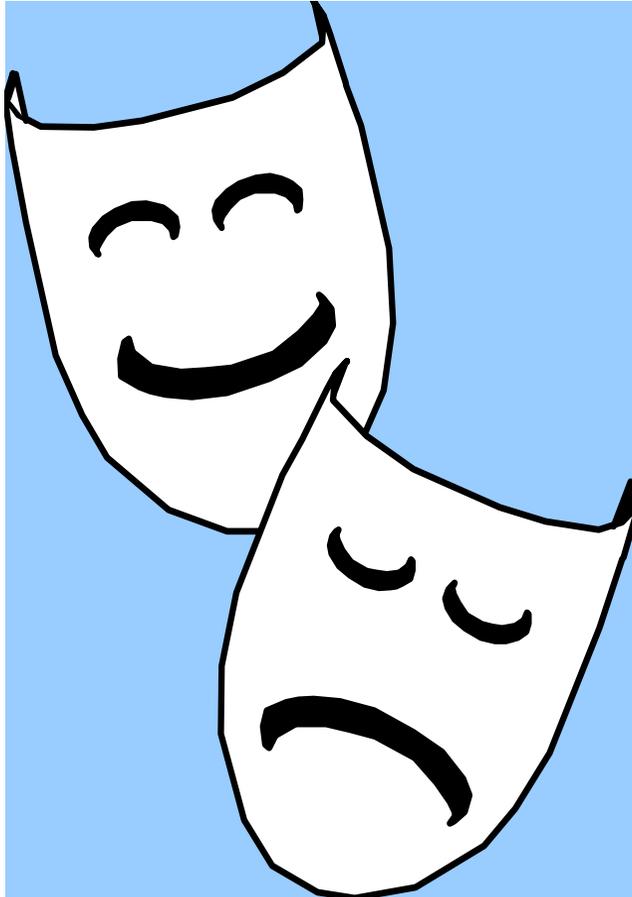
"All the world's a stage and all the men and women merely players. They have their exits and their entrances and each man in his time plays many parts."

William Shakespeare

As You Like It

Theatrical Metaphor:
an Integrative Perspective

Good metaphor as service delivery is a series of events that customers experience as a performance

Service facilities
- Stage on which drama unfolds
- This may change from one act to another

Personnel
- Front stage personnel are like members of a cast
- Backstage personnel are support production team

Roles
- Like actors, employees have roles to play and behave in specific ways

Scripts
- Specifies the sequences of behavior for customers and employees

Implications of Customer Participation in Service Delivery

- **Greater need for information/training**

    ➔ Help customers to perform well, get desired results

- **Customers should be given a realistic service preview in advance of service delivery**

    ➔ This allows them to have a clear idea of their expected role and their script in this whole experience

    ➔ Manages expectations and emotions

Post-Encounter Stage

Post-purchase Stage - Overview

Pre-purchase Stage

↓

Service Encounter Stage

↓

Post-encounter Stage

- ● Evaluation of service performance
- ● Future intentions

Customer Satisfaction with Service Experience

- **Satisfaction: attitude-like judgment following a service purchase or series of service interactions**

  ➔ Whereby customers have expectations prior to consumption, observe service performance, compare it to expectations

- **Satisfaction judgments are based on this comparison**

  ➔ Positive disconfirmation (better)

  ➔ Confirmation (same)

  ➔ Negative disconfirmation (worse)

Customer Delight:
Going Beyond Satisfaction

- Research shows that delight is a function of three components

  ➔ Unexpectedly high levels of performance

  ➔ Arousal (e.g., surprise, excitement)

  ➔ Positive affect (e.g., pleasure, joy, or happiness)

- Strategic links exist between customer satisfaction and corporate performance

  ➔ By creating more value for customers (increased satisfaction), the firm creates more value for the owners

Customer Delight:
Going Beyond Satisfaction

BEST PRACTICE IN ACTION 2.1

Progressive Insurance Delights Its Customers

Progressive Insurance Corp. prides itself on providing extraordinary customer service—and its accomplishments in the area of claims processing are particularly impressive. To lower its costs and simultaneously improve customer satisfaction and retention, the company introduced its Immediate Response service, offering customers 24/7 access to claims handling. Adjusters work out of mobile claims vans rather than offices, and Progressive has a target of nine hours for an adjuster to inspect a damaged vehicle. In many instances, claims representatives actually arrive at the scene of an accident while the evidence is still fresh.

Consider the following scenario. The crash site in Tampa, Florida, is chaotic and tense. Two cars are damaged and, although the passengers aren't bleeding, they are shaken up and scared. Lance Edgy, a senior claim representative for Progressive Corp., arrives on the scene just minutes after the collision. He calms the victims and advises them on medical care, repair shops, police reports, and legal procedures. Edgy invites William McAllister, Progressive's policyholder, into an air-conditioned van equipped with comfortable chairs, a desk, and two cell phones. Even before the tow trucks have cleared away the wreckage, Edgy is able to offer his client a settlement for the market value of his totaled Mercury. McAllister, who did not appear to have been at fault in this accident, later stated in amazement: "This is great—someone coming right out here and taking charge. I didn't expect it at all."

The shortened time cycle has advantages for Progressive, too. Costs are reduced, there's less likelihood that lawyers will become involved when settlement offers are made promptly, and it's easier to prevent fraud. Progressive continues to find new ways to delight its customers. Its website, www.progressive.com, has been consistently been rated as the top overall among Internet-based insurance carriers by Gómez.com (an Internet quality measurement firm), which places a priority on a site's educational, purchasing, and servicing capabilities. Progressive has also been cited for pleasantly surprising its customers with consumer-friendly innovations and extraordinary customer service.

Source: Ronald Henkoff, "Service Is Everybody's Business," *Fortune*, June 27, 1994, 50; Michael Hammer, "Deep Change: How Operational Innovation Can Transform Your Company," *Harvard Business Review* 82, April 2004, 84–95; www.progressive.com, accessed December 12, 2005.

- **Best Practice in Action 2.1: Progressive Insurance Delights Its Customers**

  ➔ **Provided excellent customer service which allowed them to lower costs and also increase customer satisfaction and retention**

Summary

Pre-purchase Stage

Service Encounter Stage

Post-encounter Stage

- Key Steps
  1. Need arousal
  2. Information search
  3. Evaluation of alternative solutions
  4. Purchase decision

- Customers face perceived risks which marketers should reduce with some strategic responses

- Zone of tolerance: Adequate to desired. Dissatisfaction if service level falls below adequate level.

- Moments of Truth: importance of effectively managing touchpoints

- High/low contact service model – understanding the extent and nature of contact points

- Servuction model – variations of interactions

- Theater metaphor – "staging" service performances

- In evaluating service performance, customers can have expectations positively disconfirmed, confirmed, or negatively disconfirmed

- Unexpectedly high levels of performance, arousal, and positive affect are likely to lead to delight

Chapter 9:
Balancing Demand and Productive Capacity

Overview of Chapter 9

- **Fluctuations in Demand Threaten Service Productivity**

- **Managing Capacity**

- **Analyze Patterns of Demand**

- **Managing Demand**

- **Inventory Demand Through Waiting Lines and Queuing Systems**

- **Customer Perceptions of Waiting Time**

- **Inventory Demand Through Reservation Systems**

Fluctuations in Demand Threaten Service Productivity

Defining Productive Capacity?

- **Productive capacity can take several forms in services**

  ➔ **Physical facilities designed to contain customers**

  ➔ **Physical facilities designed for storing or processing goods**

  ➔ **Physical equipment used to process people, possessions, or information**

  ➔ **Labor**

  ➔ **Infrastructure**

- **Financial success in capacity-constrained business is a function of management's ability to use productive capacity as efficiently and profitably as possible.**

From Excess Demand to Excess Capacity

Excess demand	Too much demand relative to maximum capacity
Demand exceeds optimum capacity	Service quality is perceived to have deteriorated
Optimum capacity	Staff is not overworked and customers receive good service
Excess capacity	Too much capacity relative to demand
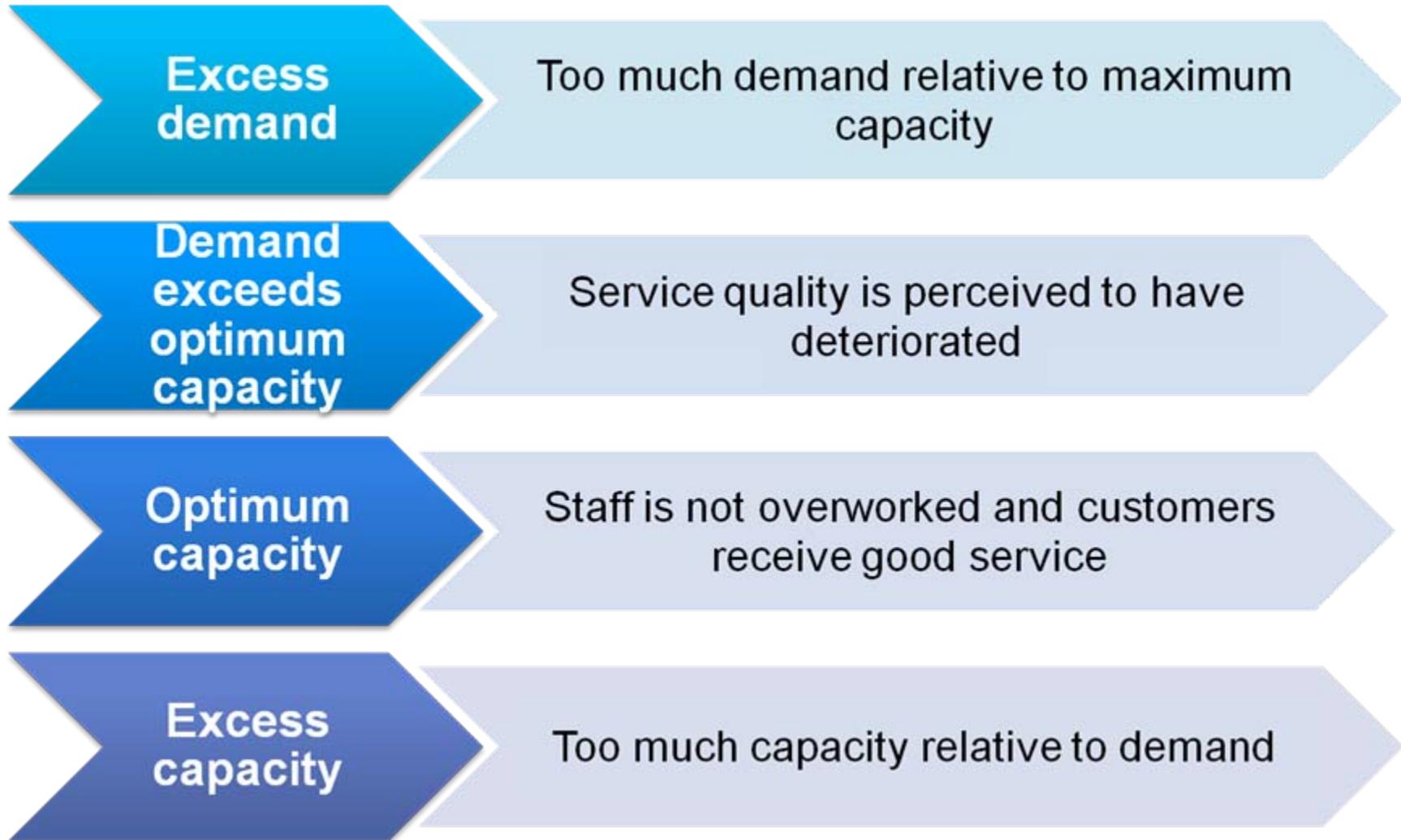
Variations in Demand Relative to Capacity

VOLUME DEMANDED

CAPACITY UTILIZED

Maximum Available Capacity

Optimum Capacity
(Demand ≈ Supply)

Low Utilization
(may send bad signals)

Demand > Capacity
(business is lost)
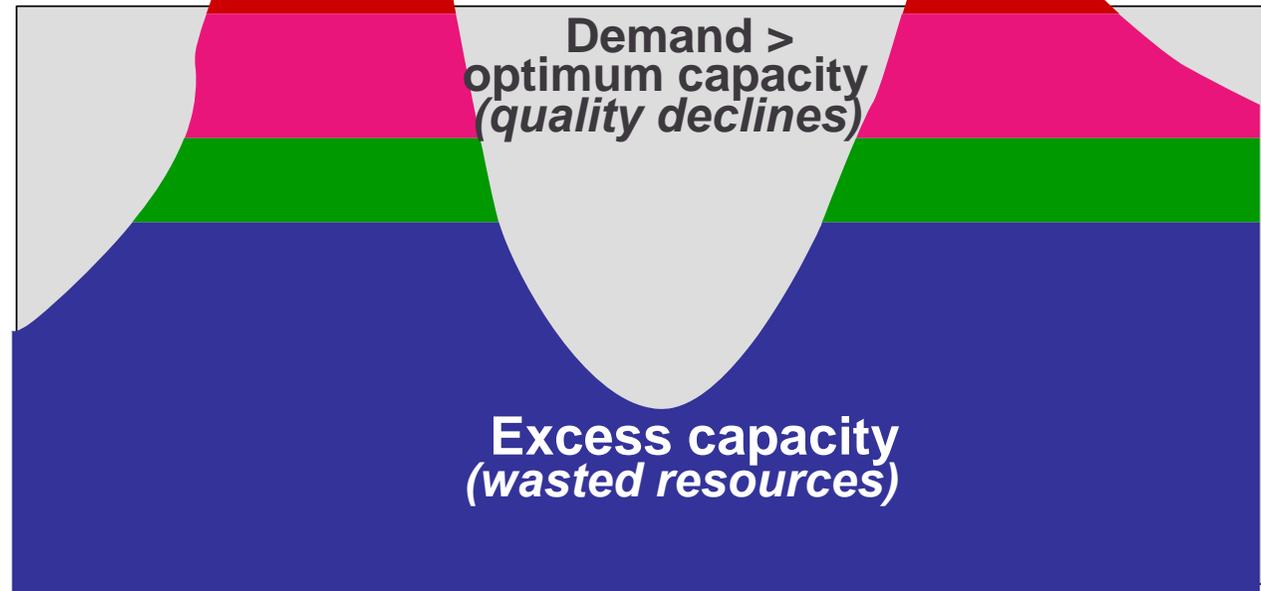
Demand > optimum capacity
(quality declines)

Excess capacity
(wasted resources)

TIME CYCLE 1

TIME CYCLE 2

Addressing Problem of Fluctuating Demand

Two basic approaches of which most firms use a mix of:

- **Adjust level of capacity to meet demand**
  - ➔ Need to understand productive capacity and how it varies on an incremental basis

- **Manage level of demand**
  - ➔ Use marketing strategies to smooth out peaks, fill in valleys
  - ➔ Inventorying demand until capacity becomes available

Managing Capacity

Managing Capacity

- **Enables more people to be served at same level of capacity**

- **Stretch and shrink:**
  - ➔ **Offer inferior extra capacity at peaks (e.g., bus/train standees)**
  - ➔ **Use facilities for longer/shorter periods**
  - ➔ **Reduce amount of time spent in process by minimizing slack time**

- **Adjusting capacity to match demand**
  - ➔ Rest during low demand
  - ➔ Cross-train employees
  - ➔ Use part-time employees
  - ➔ Customers perform self-service
  - ➔ Ask customers to share
  - ➔ Create flexible capacity
  - ➔ Rent/share facilities and equipment

Analyze Patterns of Demand

Demand Varies by Market Segment

- **Understand why customers from specific market segments select this service**

- **Keep good records of transactions to analyze demand patterns**

  ➔ **Sophisticated software can help to track customer consumption patterns**

- **Record weather conditions and other special factors that might influence demand**

# Predictable Demand Patterns and Their Underlying Causes

Predictable Cycles of Demand Levels

- ➜ day
- ➜ week
- ➜ month
- ➜ year
- ➜ other

Underlying Causes of Cyclical Variations

- ➜ employment
- ➜ billing or tax payments/refunds
- ➜ pay days
- ➜ school hours/holidays
- ➜ seasonal climate changes
- ➜ public/religious holidays
- ➜ natural cycles (e.g., coastal tides)
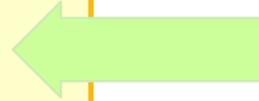
Causes of Seemingly Random Changes in Demand Levels

Question: Which of these events can be predicted?

1. **Weather**

2. **Health problems**

3. **Accidents, Fires, Crime**

4. **Natural disasters**

Managing Demand

Managing Demand

- **Take no action**

  - ➜ **Let demand find its own levels**

- **Interventionist approach**

  - ➜ **Reduce demand in peak periods**

  - ➜ **Increase demand when there is excess capacity**

- **Inventorying demand until capacity becomes available**

  - ➜ **Formal wait and queuing system**

  - ➜ **Reservation system**

Marketing Mix Elements to Shape Demand Patterns

- **Use price and other nonmonetary costs to manage demand**

- **Change product elements**

- **Modify place and time of delivery**
    - ➔ **No change**
    - ➔ **Vary times when service is available**
    - ➔ **Offer service to customers at a new location**

- **Promotion and Education**

Hotel Room Demand Curves by Segment and Season

Price per room night

B_l B_h

T_h

T_l

T_h

B_h

B_l T_l

Quantity of rooms demanded at each price
by travelers in each segment in each season
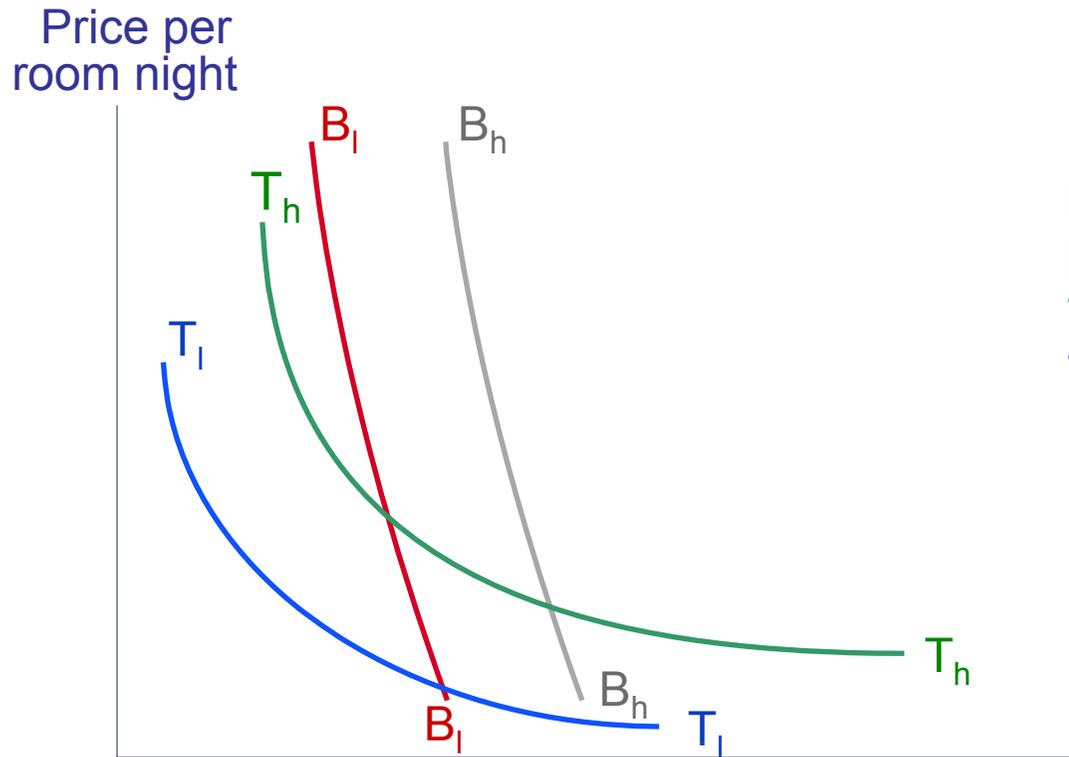
B_h = business travelers in high season
B_l = business travelers in low season
T_h = tourist in high season
T_l = tourist in low season

Note: hypothetical example

Inventory Demand Through Waiting Lines and Queuing Systems

Waiting Is a Universal Phenomenon!

- An average person may spend up to 30 minutes/day waiting in line—equivalent to over one week per year!

- Nobody likes to wait

- It's boring, time-wasting, and sometimes physically uncomfortable

Why Do Waiting Lines Occur?

- **Because number of arrivals at a facility exceeds capacity of system to process them at a specific point in the process**

- **Queues are basically a symptom of unresolved capacity management problems**

- **Not all queues take form of a physical waiting line in a single location**

  - ➔ **Queues may be physical but geographically dispersed**

  - ➔ **Some are virtual (e.g., phone)**

Managing Waiting Lines

- **Rethink design of queuing system**

- **Install a reservations system**

- **Tailoring the queuing system to different market segments**

- **Manage customer behavior and perceptions of wait**

- **Redesign processes to shorten transaction time**

Single Line/Single Server/Single Stage

Single Line/Single Servers at Sequential Stages

Parallel Lines to Multiple Servers

Designated Lines to Designated Servers

Single Line to Multiple Servers ("snake")

"Take a Number" (single or multiple servers)
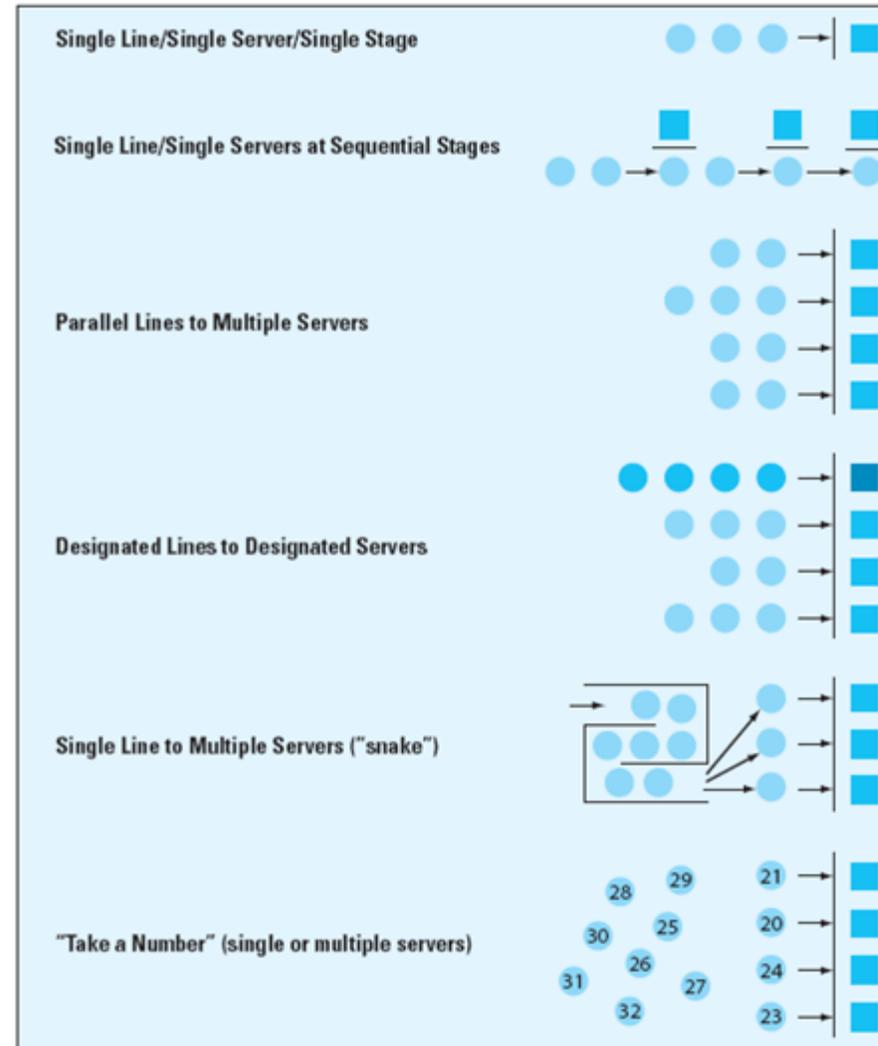
Queuing Systems can be Tailored to Market Segments

- **Urgency of job**

  ➔ **Emergencies vs. non-emergencies**

- **Duration of service transaction**

  ➔ **Number of items to transact**

  ➔ **Complexity of task**

- **Payment of premium price**

- **Importance of customer**

  ➔ **Frequent users/high volume purchasers vs. others**

Customer Perceptions of Waiting Time

Ten Propositions on Psychology of Waiting Lines

Feels longer than	
Unoccupied time	Occupied time
Solo waits	Group waits
Physically uncomfortable waits	Comfortable waits
Pre- and post-process waits	In-process waits
Unexplained waits	Explained waits
Unfamiliar waits	Known, finite waits
Unfair waits	Fair waits
Anxious waits	Calm waits
Monotonous waits	Valued waits

Sources: Maister; Davis & Heineke; Jones & Peppiatt

Inventory Demand Through Reservations System

Benefits of Reservations

- **Saves customers from having to wait in line**

- **Helps to control and manage the demand (e.g., leave time for emergency jobs)**

- **Pre-sells the service and can be used to prepare and educate the customer for the service encounter**

- **Data captured helps organizations to understand their demand patterns and to plan their operations and staffing levels**

Characteristics of Well-Designed Reservations System

- Fast and user-friendly for customers and staff

- Responsive to customer queries and needs

- Offers options for self service (e.g., through an online reservations system)

- Accommodates preferences (e.g., room with a view)

- Deflects demand from unavailable first choices to alternative times and locations

# Reservations Strategies Should Focus on Yield

- Yield analysis helps managers recognize opportunity cost of allocating capacity to one customer/segment when another segment might yield a higher rate later

- Decisions need to be based on good information

  ➔ Detailed records of past usage

  ➔ Current market intelligence and good marketing sense

  ➔ Realistic estimate of the chances of obtaining higher rated business

- When firms overbook to increase yield,

  ➔ Victims of overbooking should be compensated to preserve the relationship

Setting Hotel Room Sales Targets by Segment and Time Period

Capacity (% rooms)

Week 7 (Low Season)

- 100%
- 50%

Out of commission for renovation

Loyalty Program Members

Transient guests

Weekend package

Groups and conventions

Airline contracts

Week 36 (High Season)

Loyalty Program Members

Transient guests

W/E package

Groups (no conventions)

Airline contracts

Time   Nights: M   Tu   W   Th   F   S   Su   M   Tu   W   Th   F   S   Su
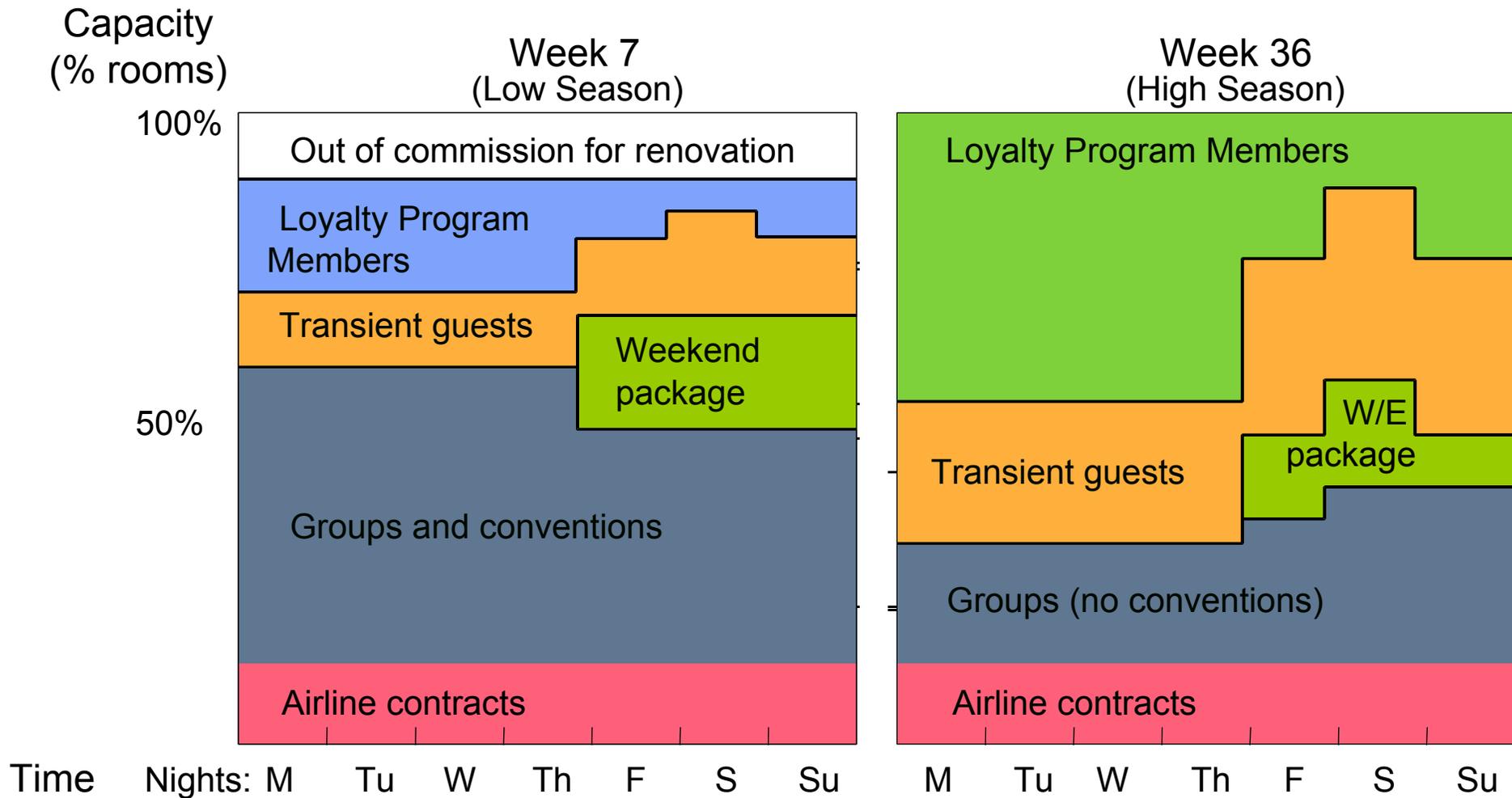
Creating Alternative Use For Otherwise Wasted Capacity

- **Use capacity for service differentiation**

- **Reward your best customers and build loyalty**

- **Customer and channel development**

- **Reward employees**

- **Barter free capacity**

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Information Needed for Demand and Capacity Management Strategies

Historical data on demand level and composition, marketing variables

Demand forecasts by segment under specified conditions

Segment-by-segment data

Fixed and variable cost data, profitability of incremental sales

Meaningful location-by-location demand variations

Customer attitudes towards queuing

Customer opinions of quality at different levels of capacity utilization

Summary

- **At any moment in time, a fixed-capacity service may face**
  - ➔ **Excess demand**
  - ➔ **Demand exceeding optimum capacity**
  - ➔ **Demand and supply well-balanced at the level of optimum capacity**
  - ➔ **Excess capacity**

- **To balance demand and capacity, a firm can:**
  - ➔ **Manage capacity**
  - ➔ **Take no action and let demand find its own levels**
  - ➔ **Reduce demand in peak periods**
  - ➔ **Increase demand when there is excess capacity**
  - ➔ **Inventory demand using wait & queuing, and reservation systems**

- **Capacity can be managed through:**
  - ➔ **Stretching or shrinking capacity levels**
  - ➔ **Adjusting capacity to match demand**
  - ➔ **Creating flexible capacity**

Summary

- **Demand can be managed through**
  - ➔ **Analysis of patterns**
  - ➔ **To be reshaped by marketing strategies**

- **Waiting is a universal phenomenon. Waits can be reduced by**
  - ➔ **Rethinking and redesigning the queuing system**
  - ➔ **Managing customers' behavior and their perceptions of the wait**
  - ➔ **Installing an effective reservation system focused on yield**

Chapter 3:
Positioning Services in Competitive Markets

Overview of Chapter 3

- **Focus Strategies for Services**

- **Market Segmentation**

- **Service Attributes and Levels**

- **Positioning Distinguishes a Brand from its Competitors**

- **Developing an Effective Positioning Strategy**

- **Using Positioning Maps to Analyze Competitive Strategy**

- **Changing Competitive Positioning**

Focused Strategies for Services

Standing Apart from the Competition

"A business must set itself apart from its competition. To be successful it must identify and promote itself as the best provider of attributes that are important to target customers."

George S. Day

Basic Focus Strategies for Services

BREADTH OF SERVICE OFFERINGS

	Wide	Narrow
Few	Market Focused	Fully Focused (Service and market focused)
Many	Unfocused (Everything for everyone)	Service Focused

NUMBERS OF MARKETS SERVED
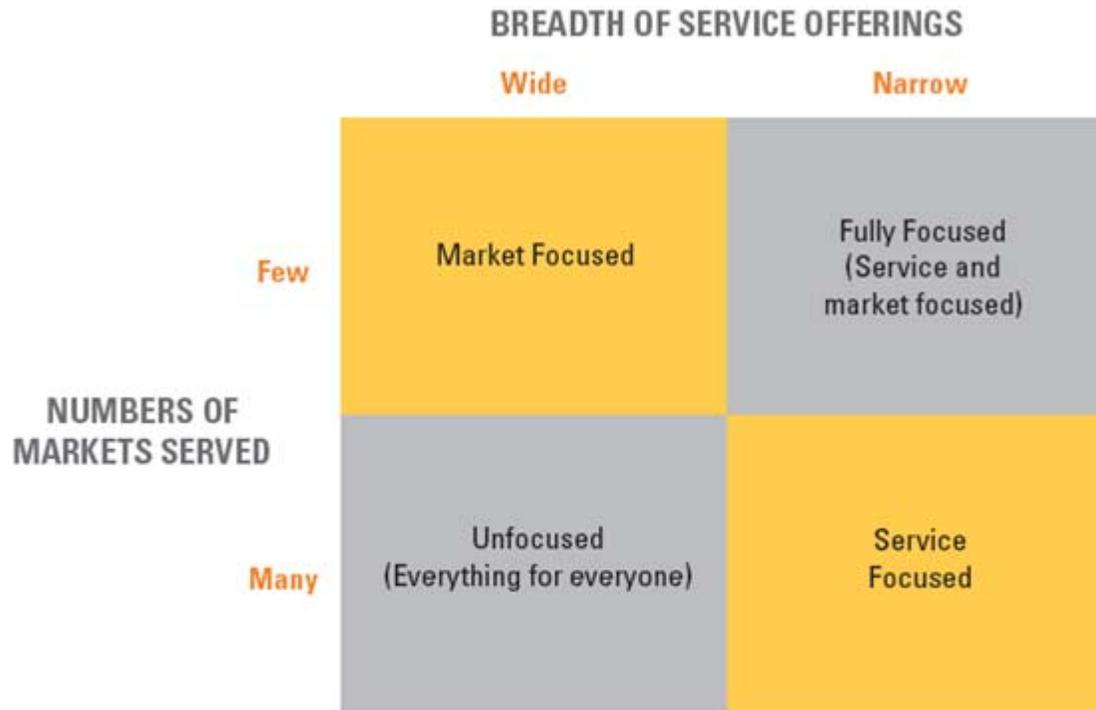
SOURCE

Johnston, R. (1996). Achieving focus in service organizations. *The Service Industries Journal*, 16 (January), pp.10–20.

Considerations for using Focused Strategies

Fully focused: Limited range of services to narrow and specific market

- **Opportunities**

  - → Developing recognized expertise in a well-defined niche may provide protection against would-be competitors

  - → Allows firms to charge premium prices

- **Risks**

  - → Market is too small to generate needed volume

  - → Demand may be displaced by generic competition from alternative products

  - → Purchasers in chosen segment may be susceptible to economic downturn

Considerations for using Focused Strategies

- **Market focused**
  - ➔ Narrow market segment with wide range of services
  - ➔ Need to make sure firms have operational capability to do and deliver each of the different services selected
  - ➔ Need to understand customer purchasing practices and preferences

- **Service focused**
  - ➔ Narrow range of services to fairly broad market
  - ➔ As new segments are added, firm needs to develop knowledge and skills in serving each segment

Considerations for Using Focus Strategies

- **Unfocused**

  ➔ **Broad markets with wide range of services**

  ➔ **Many service providers fall into this category**

  ➔ **Danger – becoming a "jack of all trades and master of none"**

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Market Segmentation

Market Segmentation

- **Firms vary widely in their abilities to serve different types of customers**

- **A market segment is composed of a group of buyers sharing common characteristics, needs, purchasing behavior, and consumption patterns**

- **Target segments should be selected with reference to**

  - **Firm's ability to match or exceed competing offerings directed at the same segment**

  - **Not just profit potential**

Service Attributes and Levels

Developing Right Service Concept for a Specific Segment

- Use research to identify and prioritize which attributes of a given service are important to specific market segments

- Individuals may set different priorities according to:
  - ➔ Purpose of using the service
  - ➔ Who makes decision
  - ➔ Timing of use
  - ➔ Whether service is used alone or with a group
  - ➔ Composition of that group

Important vs. Determinant Attributes

- **Consumers usually choose between alternative service offerings based on perceived differences between them**

- **Attributes that distinguish competing services from one another are not necessarily the most important ones**

- **Determinant attributes determine buyers' choices between competing alternatives**

    ➔ **service characteristics that are important to purchasers**

    ➔ **customers see significant differences between competing alternatives on these attributes**

Establishing Service Levels

- **Make decisions on service levels – level of performance firm plans to offer on each attribute**

  ➔ Easily quantified attributes are easier to understand – e.g., vehicle speed, physical dimensions

  ➔ Qualitative attributes subject to individual interpretation – e.g., physical comfort, noise levels

- **Can often segment customers according to willingness to trade off price versus service level:**

  ➔ Price-insensitive customers willing to pay relatively high price for high levels of service

  ➔ Price-sensitive customers look for inexpensive service with relatively low performance

Positioning Distinguishes a Brand from its Competitors

Four Principles of Positioning Strategy

- **Must establish position for firm or product in minds of customers**

- **Position should be distinctive, providing one simple, consistent message**

- **Position must set firm/product apart from competitors**

- **A company cannot be all things to all people – must focus its efforts**

Principles of Positioning

What customers do we serve now, and which ones would we like to target?

What is value proposition for our current service products, and market segments?

How does each of our service products differ from competitors'?

How well do target customers perceive our service products as meeting their needs?

What does our firm stand for in the minds of current and potential customers?

Avoid trap of investing too heavily in points of differences that are easily copied!

What changes must we make to strengthen our competitive position?

Developing an Effective Positioning Strategy

Developing an Effective Positioning Strategy

- **Positioning links market analysis and competitive analysis to internal corporate analysis**

- **Market Analysis**

  ➔ **Focus on overall level and trend of demand and geographic locations of demand**

  ➔ **Look into size and potential of different market segments**

  ➔ **Understand customer needs and preferences and how they perceive the competition**

Developing an Effective Positioning Strategy

● **Internal Corporate Analysis**

➔ **Identify organization's resources, limitations, goals, and values**

➔ **Select limited number of target segments to serve**

● **Competitor Analysis**

➔ **Understand competitors' strengths and weaknesses**

➔ **Anticipate responses to potential positioning strategies**

Market, Internal, and Competitive Analyses

MARKET ANALYSIS
- Size
- Composition
- Location
- Trends

INTERNAL ANALYSIS
- Resources
- Reputation
- Constraints
- Values

COMPETITIVE ANALYSIS
- Strengths
- Weaknesses
- Current Positioning

Define, Analyze Market Segments

Select Target Segments To Serve

Articulate Desired Position in Market

Select Benefits to Emphasize to Customers

Analyze Possibilities for Differentiation

Marketing Action Plan

Anticipating Competitive Response

- **Competitors might pursue same market position**

  ➔ Independently do same positioning analysis and arrive at similar conclusions

  ➔ Threatened by new strategy, take steps to reposition own service

  ➔ New entrant plays "follow the leader"

- **Conduct internal corporate analysis for challengers and analyze possible effects of alternative moves**

  ➔ Impact of price cut on demand, market share, and profits

  ➔ Responses of different segments to changes in service attributes

Using Positioning Maps to Analyze Competitive Strategy

Using Positioning Maps to Plot Competitive Strategy

- Great tool to visualize competitive positioning and map developments of time

- Useful way to represent consumer perceptions of alternative products graphically

- Typically confined to two attributes, but 3-D models can be used to portray positions on three attributes simultaneously

- Information about a product can be obtained from market data, derived from ratings by representative consumers, or both

Positioning of Hotels in Belleville: Price vs. Service Level

Expensive

Grand

Regency

PALACE

Shangri-La

High Service

Moderate Service

Atlantic

Sheraton

Italia

Castle

Alexander IV

Airport Plaza

Less Expensive

Positioning of Hotels in Belleville: Location vs. Physical Luxury

High Luxury

● **Grand**

Regency ●

● **Shangri-La**

● **Sheraton**

⭐ **PALACE**

Financial District ———— **Shopping District and Convention Center** ———— **Inner Suburbs**

● **Castle**

● **Italia**

● **Alexander IV**

● **Atlantic**

Airport Plaza ●

Moderate Luxury

Positioning After New Construction: Price vs. Service Level
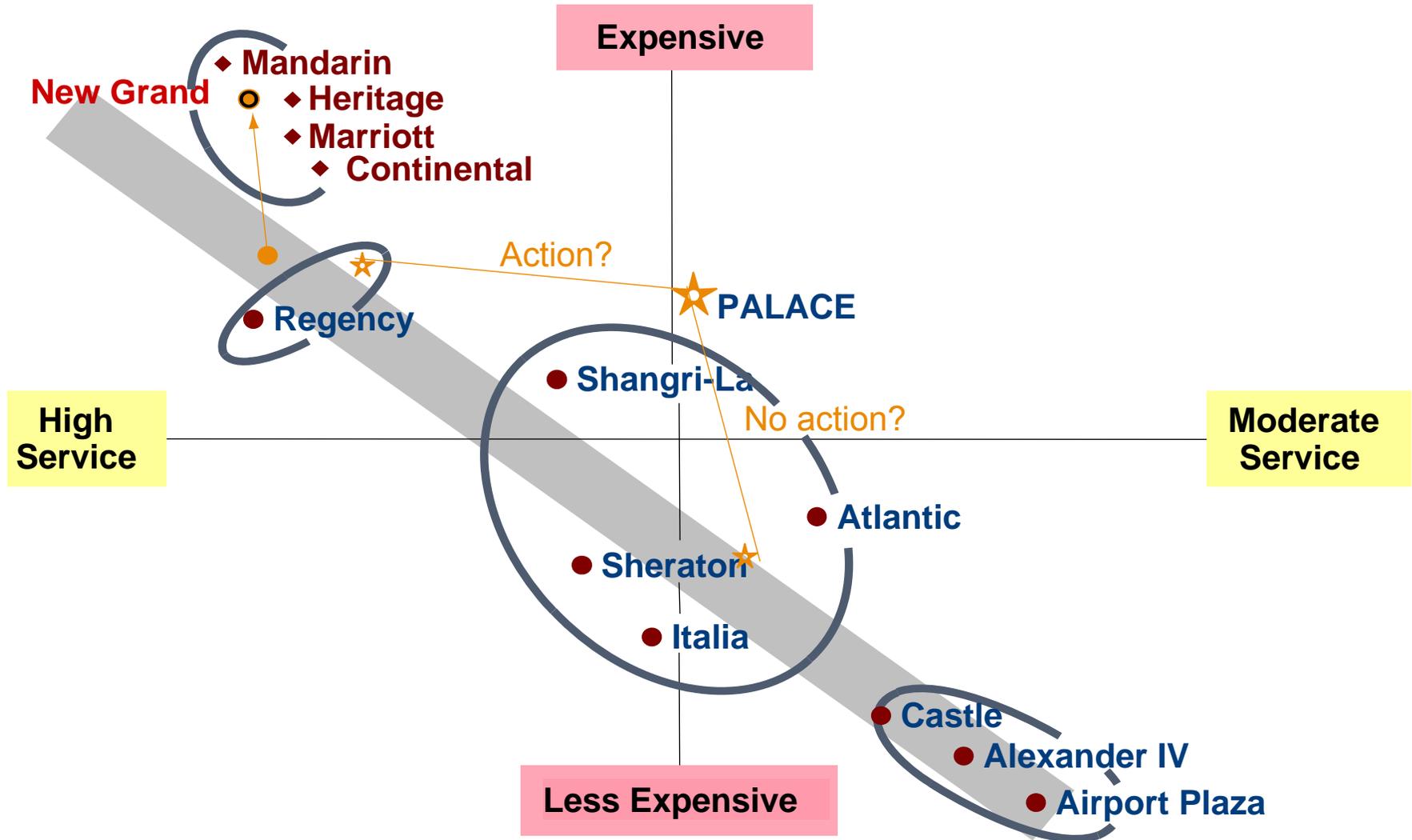
Positioning After New Construction: Location vs. Physical Luxury

High Luxury

- ◆ **Mandarin**
- ◆ **Continental**
- ☆
- **Action?**
- ★ **PALACE**
- **No action?**

Financial District

- ⊙ **New Grand**
- ◆ **Heritage**
- ◆ **Marriott**
- ● **Regency**
- ● **Sheraton**
- ● **Shangri-La**

Shopping District and Convention Center

Inner Suburbs

- ● **Castle**
- ● **Italia**
- ● **Alexander IV**
- ● **Atlantic**
- ● **Airport Plaza**

Moderate Luxury
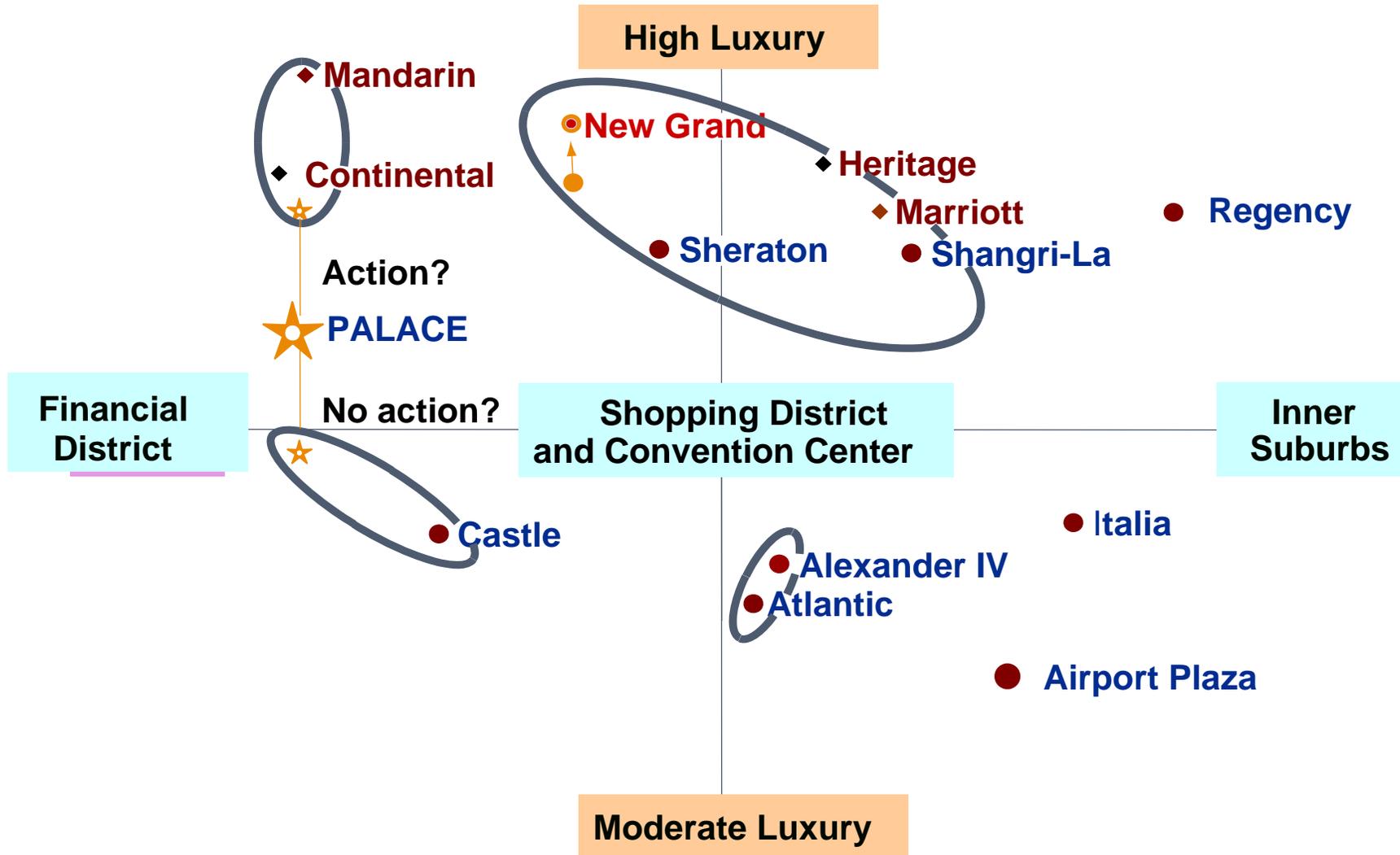
Positioning Maps Help Managers to Visualize Strategy

- **Research provides input to development of positioning maps – challenge is to ensure that**

  - ➔ **Attributes employed in maps are important to target segments**

  - ➔ **Performance of individual firms on each attribute accurately reflects perceptions of customers in target segments**

- **Predictions can be made of how positions may change in light of future developments**

- **Charts and maps can facilitate "visual awakening" to threats and opportunities, suggest alternative strategic directions**

Changing Competitive Positioning

Repositioning

- **Firm may have to make significant change in existing position**

  ➔ Revising service characteristics; redefining target market segments; abandoning certain products; withdrawing from certain market segments

- **Improving negative brand perceptions may require extensive redesign of core product**

- **Repositioning introduces new dimensions into positioning equation that other firms cannot immediately match**

Summary

- **Focus Strategies:**

  ➔ **Fully focused**

  ➔ **Service focused**

  ➔ **Market focused**

  ➔ **Unfocused**

- **Market Segmentation – buyers share common characteristics, needs, purchasing behavior & consumption patterns**

- **Service attributes – determinant attributes are often the ones most important to customers**

Summary

- **Positioning links:**

  ➔ **Market Analysis**

  ➔ **Internal Analysis**

  ➔ **Competitive Analysis**

- **Positioning maps are useful for plotting competitive strategy:**

  ➔ **Identify potential competitive responses**

  ➔ **Help executives to visualize strategy**

Chapter 4: Developing Service Products: Core and Supplementary Elements

Overview of Chapter 4

- **Planning and Creating Services**

- **The Flower of Service**

- **Branding Service Products and Experiences**

- **New Service Development**

Planning and Creating Service Products

Service Products

A service product comprises of all elements of service performance, both tangible and intangible, that create value for customers.

Service products consist of:

- **Core Product** ➔ central component that supplies the principal, problem-solving benefits customers seek

- **Supplementary Services** ➔ augments the core product, facilitating its use and enhancing its value and appeal

- **Delivery Processes** ➔ used to deliver both the core product and each of the supplementary services

Designing a Service Concept

- **Service concept design must address the following issues:**

  - ➔ **How the different service components are delivered to the customer**

  - ➔ **The nature of the customer's role in those processes**

  - ➔ **How long delivery lasts**

  - ➔ **The recommended level and style of service to be offered**

Documenting Delivery Sequence Over Time

- Must address sequence in which customers will use each core and supplementary service

- Determine approximate length of time required for each step

- Information should reflect good understanding of customers, especially their:

  ➔ needs

  ➔ habits

  ➔ expectations

SUPPLEMENTARY SERVICES OFFERED AND HOW THEY ARE CREATED AND DELIVERED

DELIVERING CONCEPT FOR CORE PRODUCT

Scheduling

Nature of Process

Service Level

Customer role
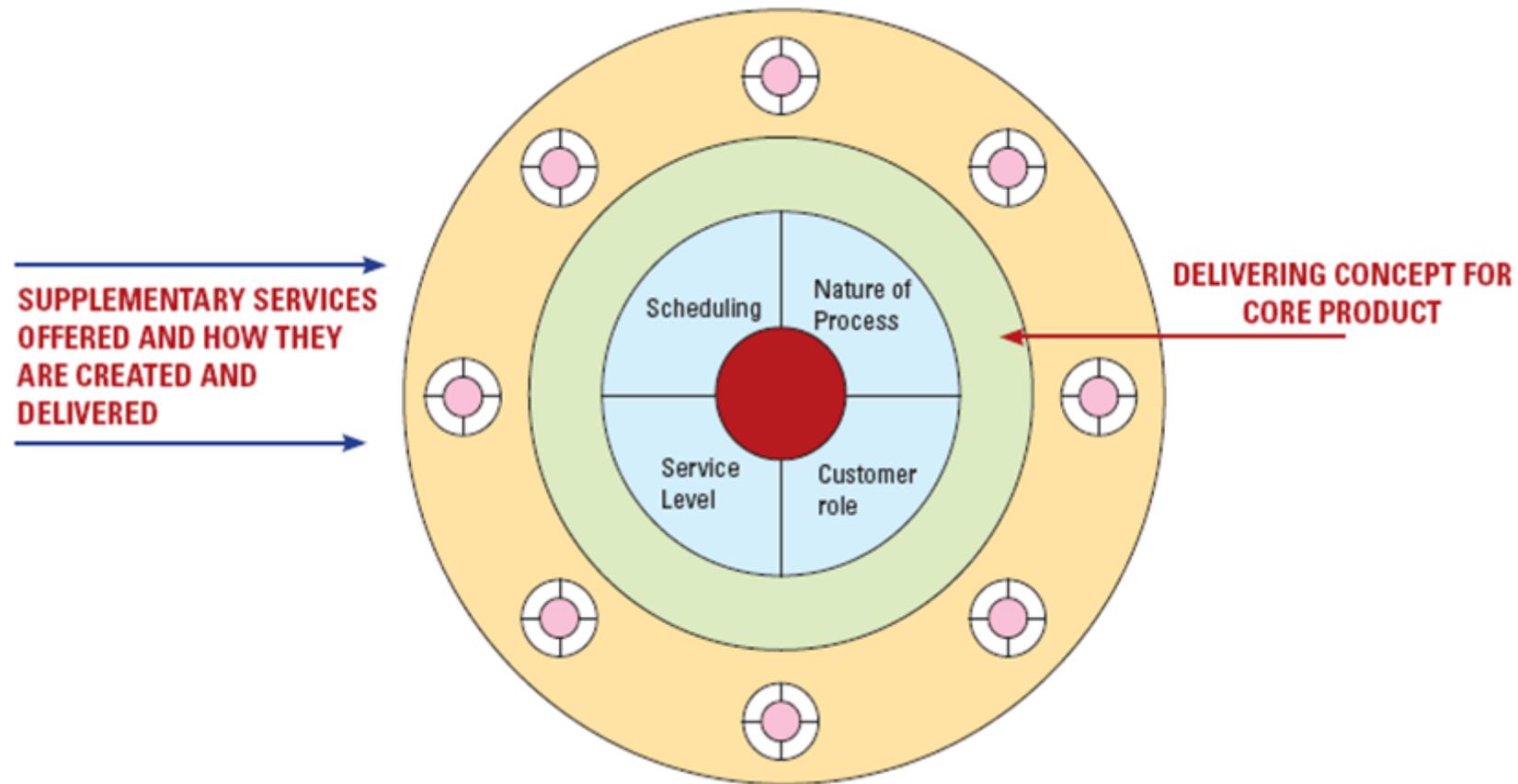
Temporal Dimension to Augmented Product

Reservation

Before Visit

Parking

Check in

Internet

Use Room

Porter

Meal

Pay TV

USE GUESTROOM OVERNIGHT

Get car

Check out

Internet

Room service

Time Frame of an Overnight Hotel Stay (real-time service use)
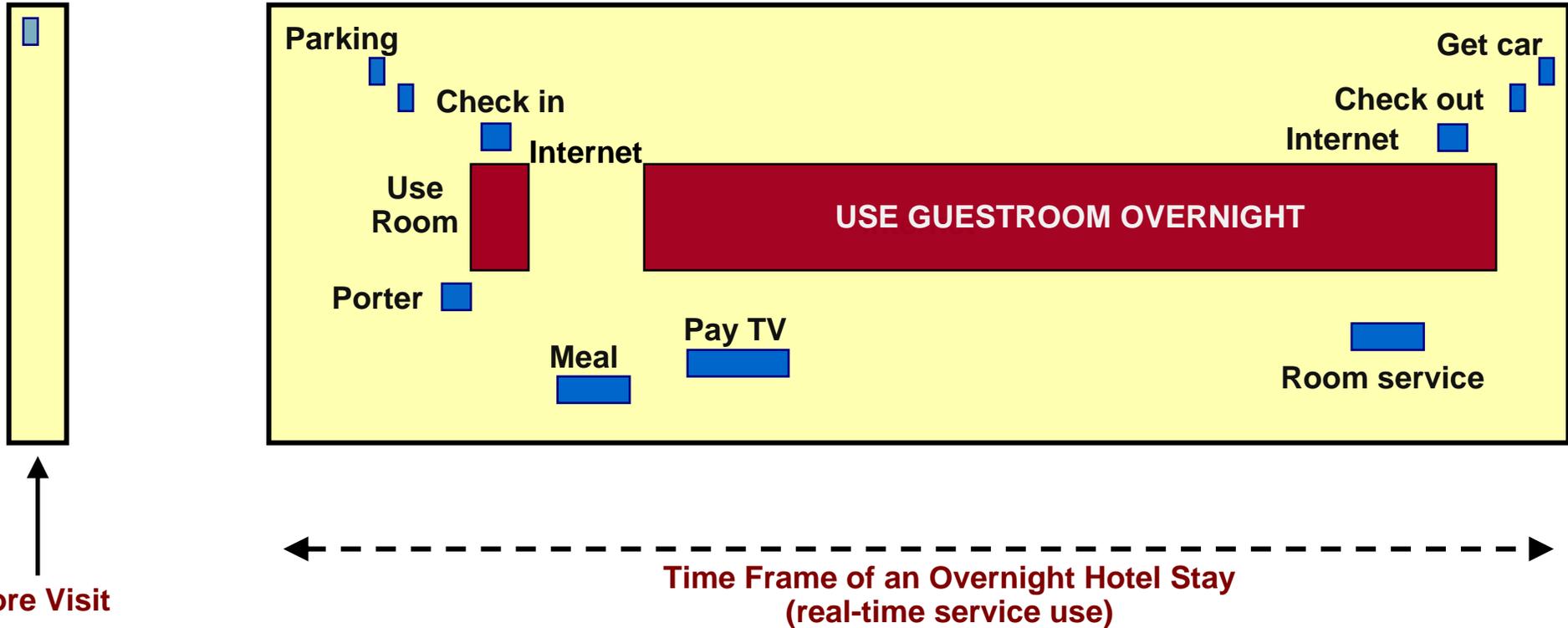
The Flower of Service

The Flower of Service

- **There are two types of supplementary services**

  ➔ **Facilitating: either needed for service delivery, or help in the use of the core product**

  ➔ **Enhancing: add extra value for the customer**

- **In a well-managed service organization, the petals and core are fresh and well-formed**

- **Market positioning strategy helps to determine which supplementary services should be included**

The Flower of Service

Information

Payment

Consultation

Billing

Core

Order-Taking

Exceptions

Hospitality

Safekeeping
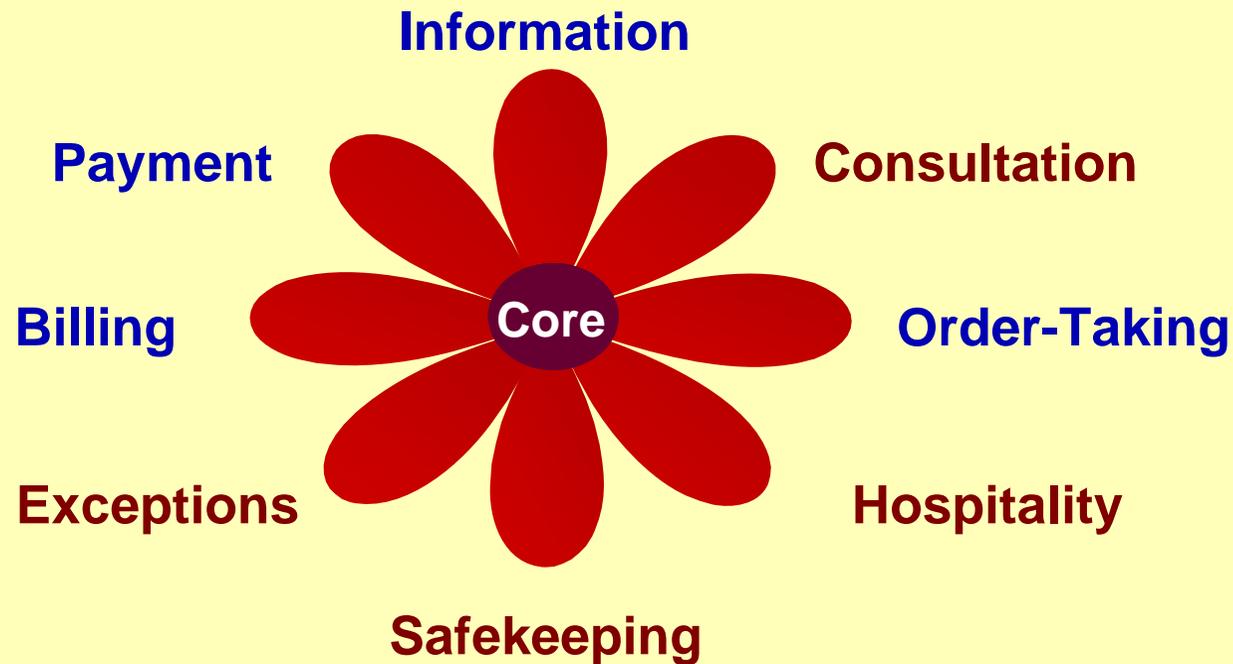
KEY:
Enhancing elements
Facilitating elements

Facilitating Services – Information

CORE
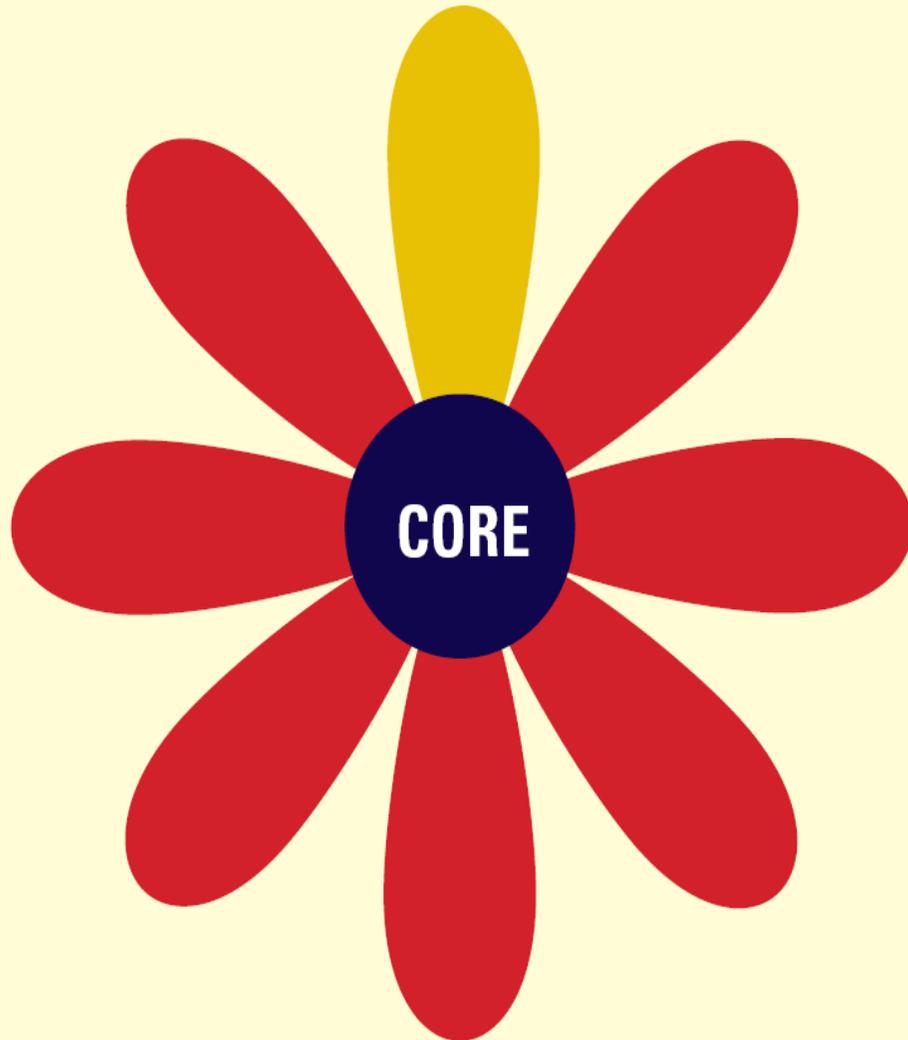
- Directions to service site
- Schedules/service hours
- Prices
- Reminders
- Warnings
- Conditions of sale/service
- Notification of changes
- Documentation
- Confirmation of reservations
- Summaries of account activities
- Receipts and tickets

Facilitating Services – Order-Taking
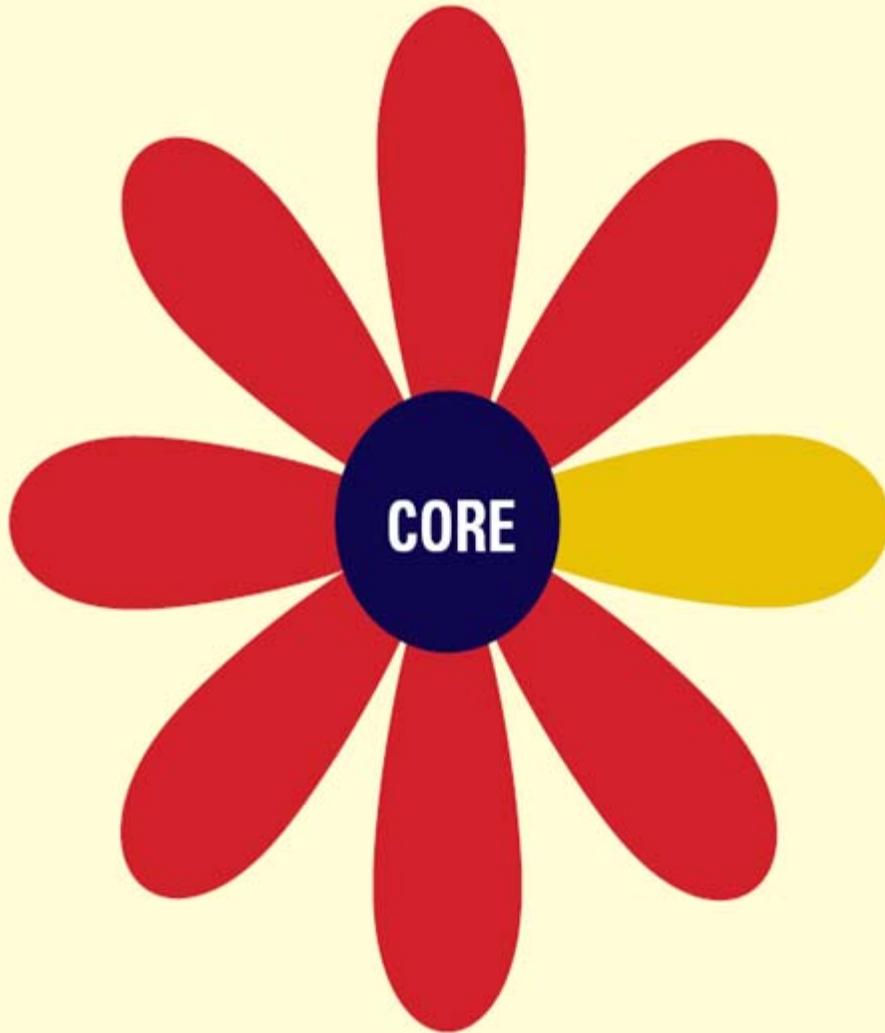
Applications
- Memberships in clubs/programs
- Subscription services
    (e.g., utilities)
- Prerequisite based services
    (e.g., financial credit,
    college enrollment)

Order Entry
- On-site order fulfillment
- Mail/telephone/e-mail/web order

Reservations and Check-in
- Seats/tables/rooms
- Vehicles or equipment rental
- Professional appointments

Facilitating Services – Billing
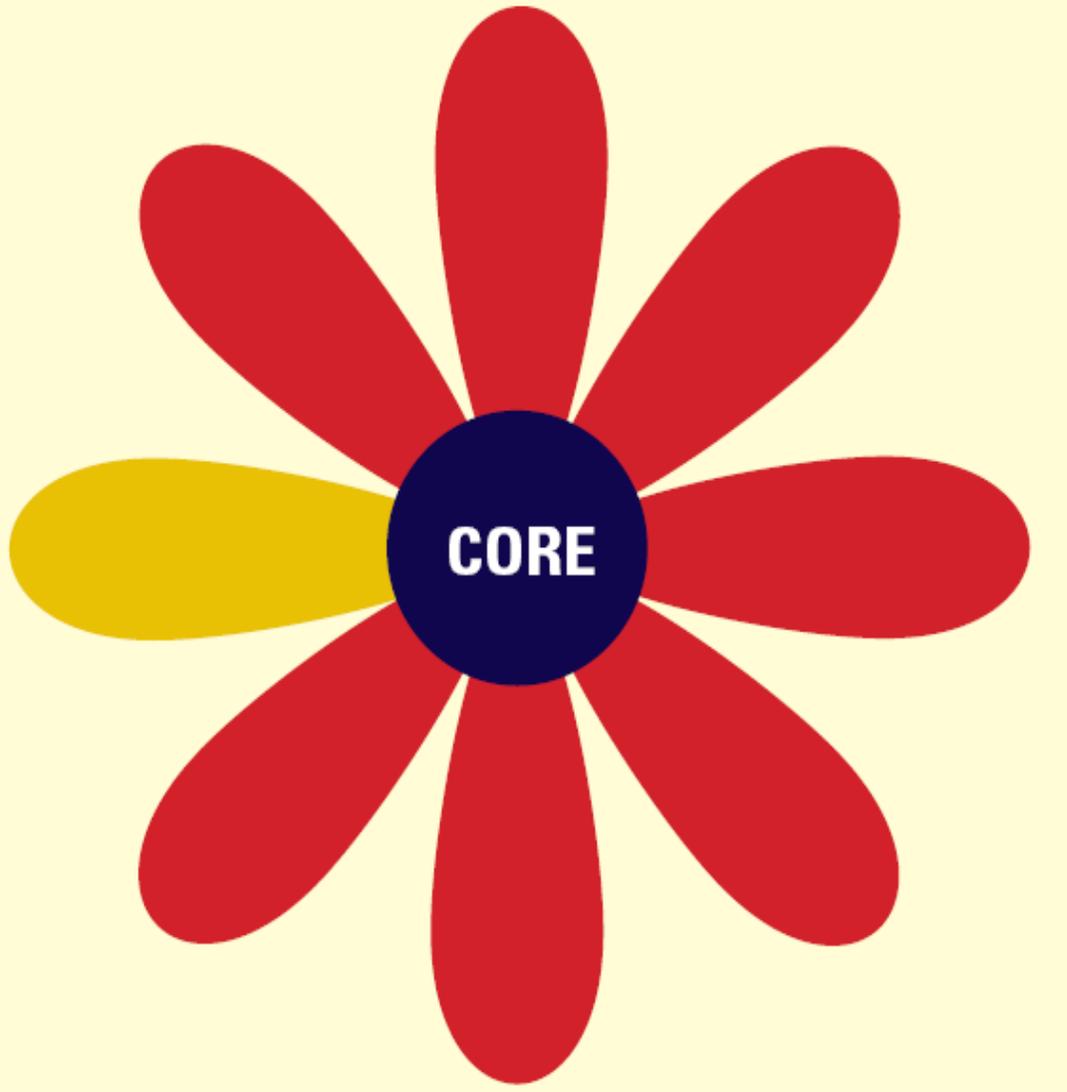
- Periodic statements of account activity
- Invoices for individual transactions
- Verbal statements of amount due
- Self-billing (computed by customer)
- Machine display of amount due

Facilitating Services – Payment
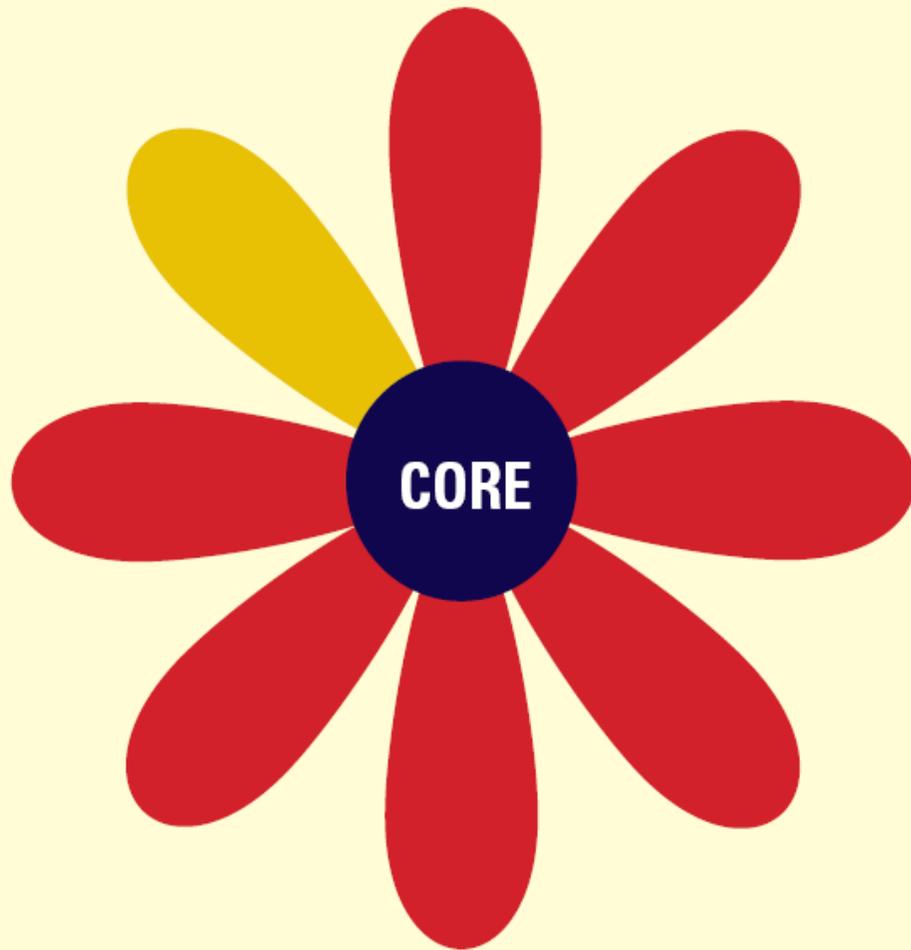
Self-Service
- Insert card, cash or token into machine
- Electronic funds transfer
- Mail a check
- Enter credit card number online

Direct to Payee or Intermediary
- Cash handling or change giving
- Check handling
- Credit/charge/debit card handling
- Coupon redemption

Automatic Deduction from Financial Deposits
- Automated systems (e.g., machine-readable tickets that operate entry gate)
- Human systems (e.g., toll collectors)

Enhancing Services – Consultation
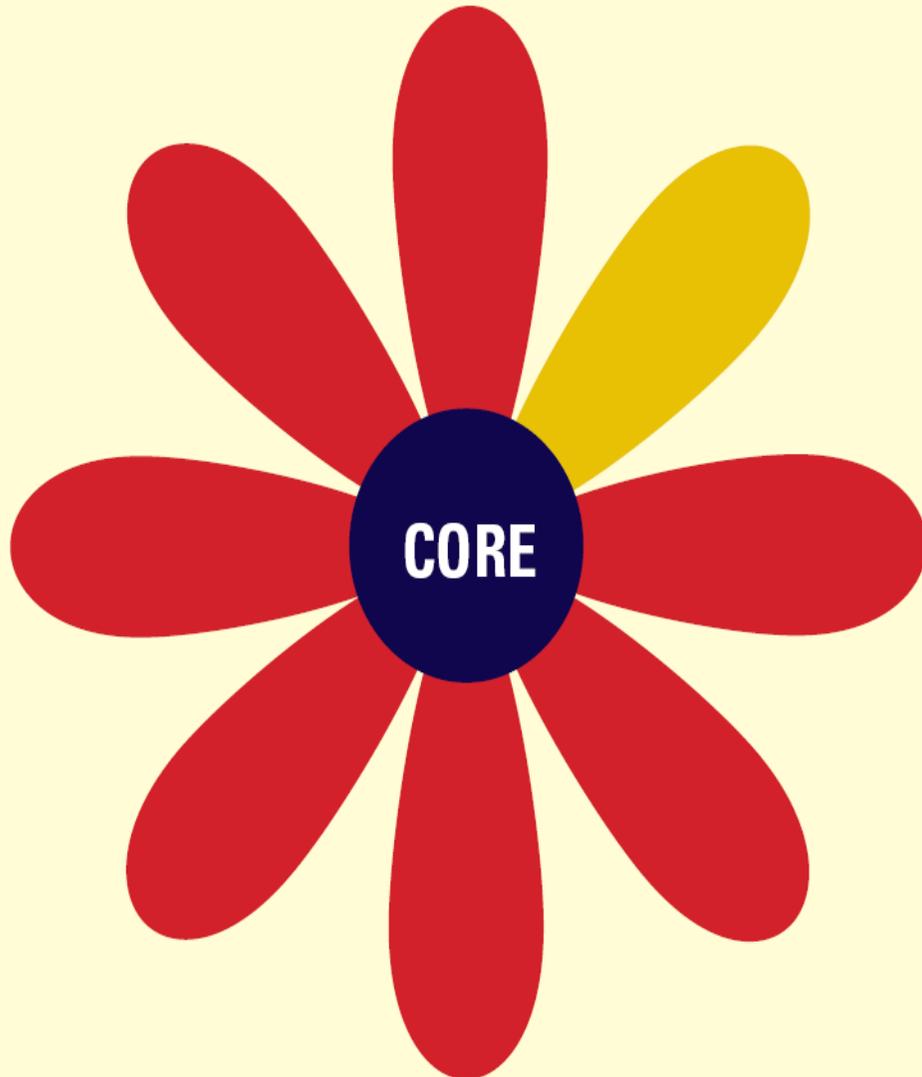
- Customized advice
- Personal counseling
- Tutoring/training in product use
- Management or technical consulting

CORE
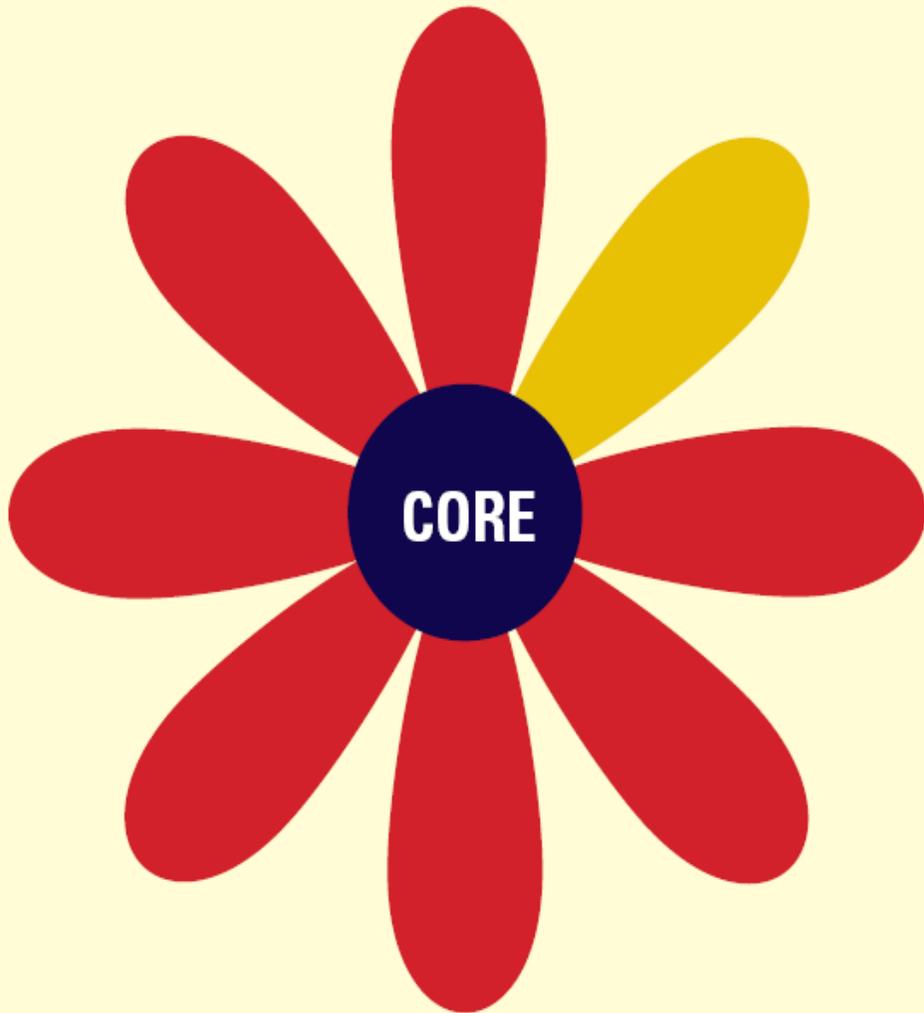
Greeting
Food and beverages
Toilets and washrooms
Waiting facilities and amenities
- Lounges, waiting areas, seating
- Weather protection
- Magazines, entertainment, newspapers

Transport
Security
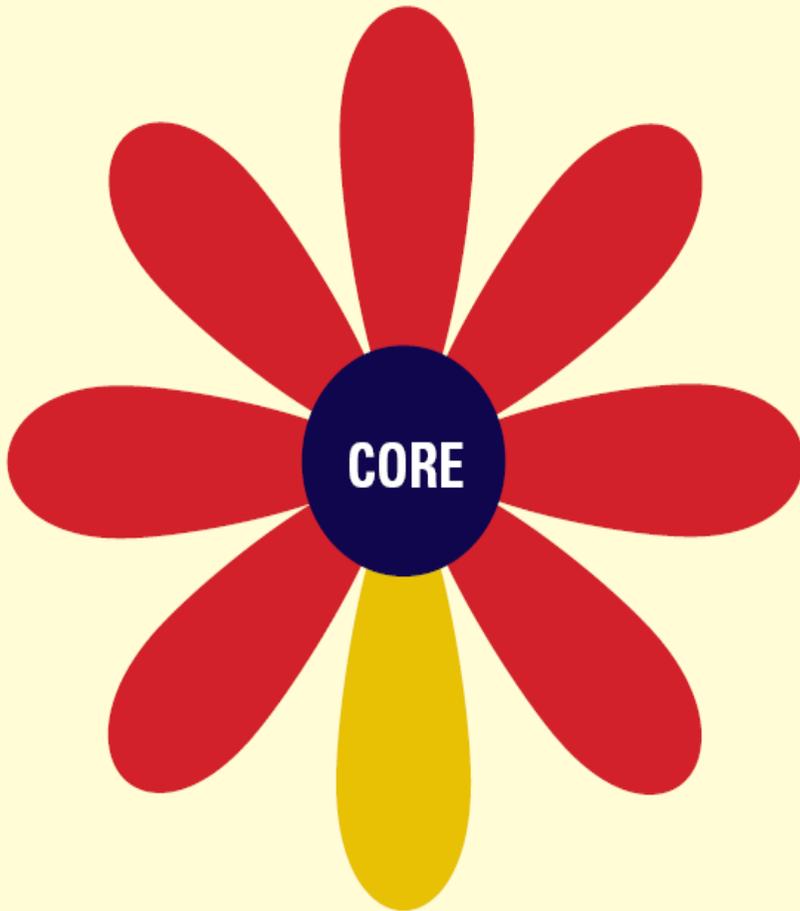
Caring for Possessions Customer Bring with Them

- Child care, pet care
- Parking for vehicles, valet parking
- Coat rooms
- Baggage handling
- Storage space
- Safe deposit boxes
- Security personnel
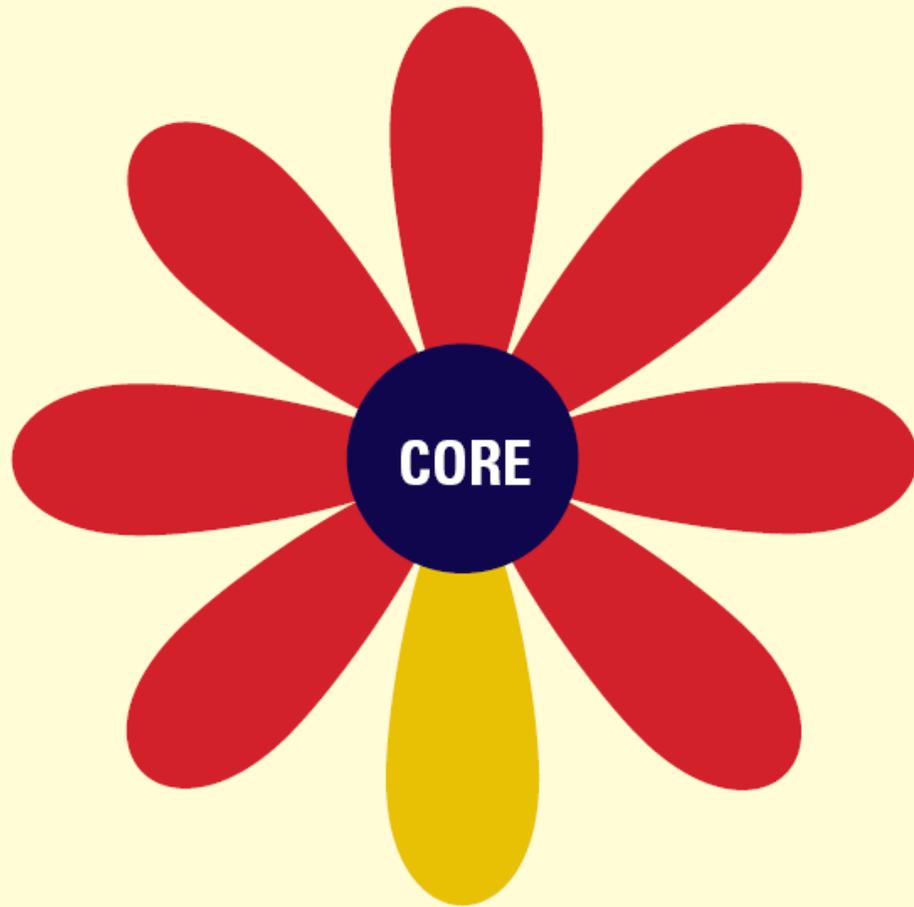
Caring for Goods Purchased (or Rented) by Customers

- Packaging
- Pickup
- Transportation and delivery
- Installation
- Inspection and diagnosis
- Cleaning
- Refueling
- Preventive maintenance
- Repair and renovation

Enhancing Services – Exceptions
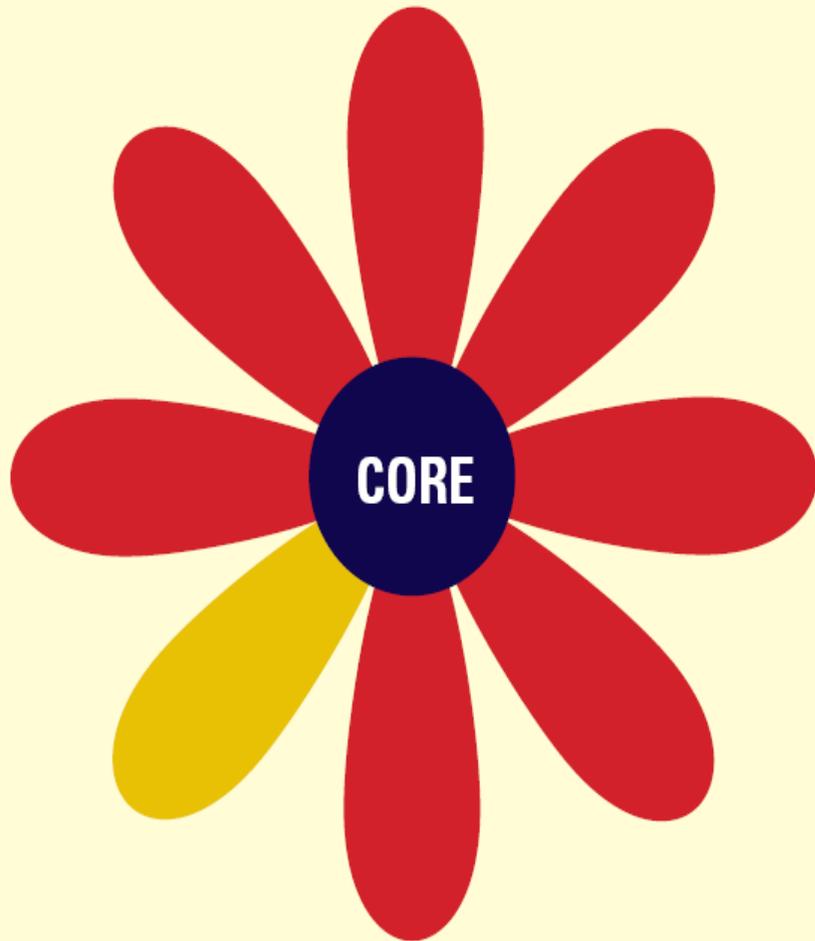
Special Requests in Advance of Service Delivery
• Children's needs
• Dietary requirements
• Medical or disability needs
• Religious observances

Handling Special Communications
• Complaints
• Compliments
• Suggestions
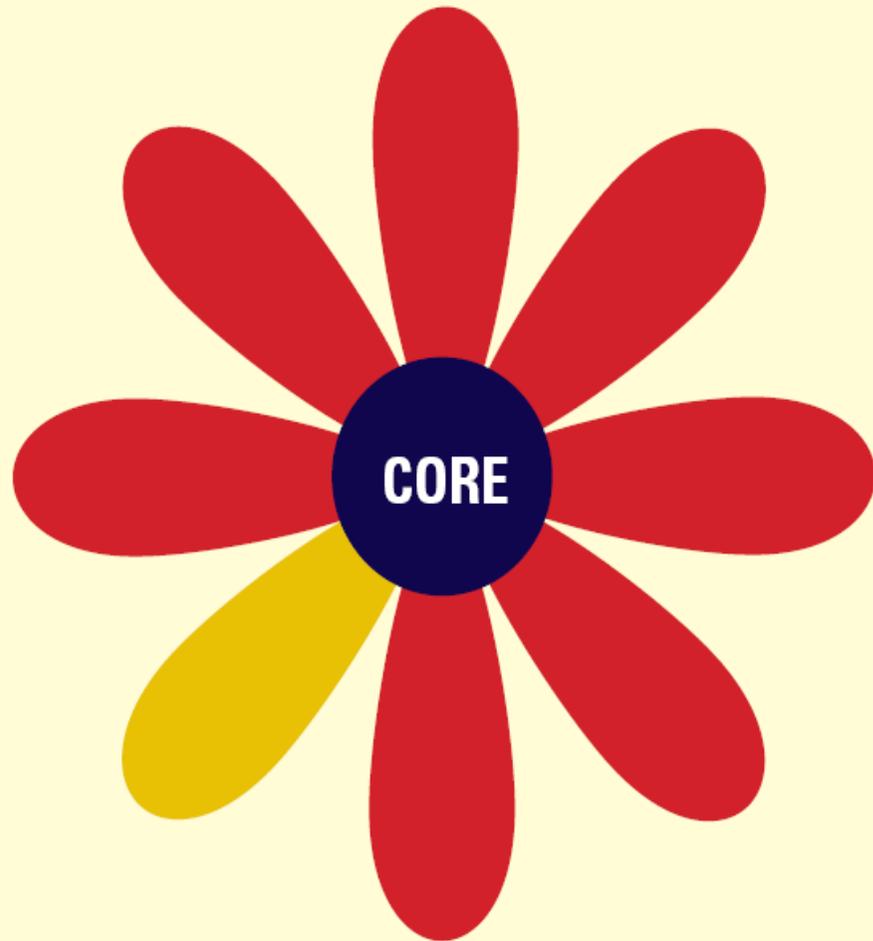
Problem Solving
- Warranties and guarantees
- Resolving difficulties that arise from using
  the product
- Resolving difficulties caused by accidents,
  service failures
- Assisting customers who have
  suffered an accident or a
  medical emergency

Restitution
- Refunds and compensation
- Free repair of defective goods

Managerial Implications

- **Core products do not have to have supplementary elements**

- **Nature of product helps determine supplementary services offered to enhance value**

- **People-processing and high contact services have more supplementary services**

- **Different levels of service can add extra supplementary services for each upgrade in service level**

- **Low-cost, no-frills basis firms needs fewer supplementary elements**

# Branding Service Products and Experiences

Service Products, Product Lines, and Brands

- *Service Product*: A defined and consistent "bundle of output"

  ➔ Supported by supplementary services (assembly of elements that are built around the core product)

  ➔ Differentiated by bundle of output

- *Product Line*: Most service organizations offer a line of products rather than just a single product.

- There are three broad alternatives for product lines:

  ➔ Single brand to cover all products and services

  ➔ A separate, stand-alone brand for each offering

  ➔ Some combination of these two extremes

Spectrum of Branding Alternatives

CORPORATE BRANDING ←————————————————————→ INDIVIDUAL PRODUCT BRANDING

"Branded House" e.g., Virgin Group

Subbrands e.g., Raffles Class at Singapore Airlines

Endorsed Brands e.g., Starwood Hotels & Resorts

"House of Brands" e.g., Yum! Brands

Source: Derived from Aaker and Joachimsthaler
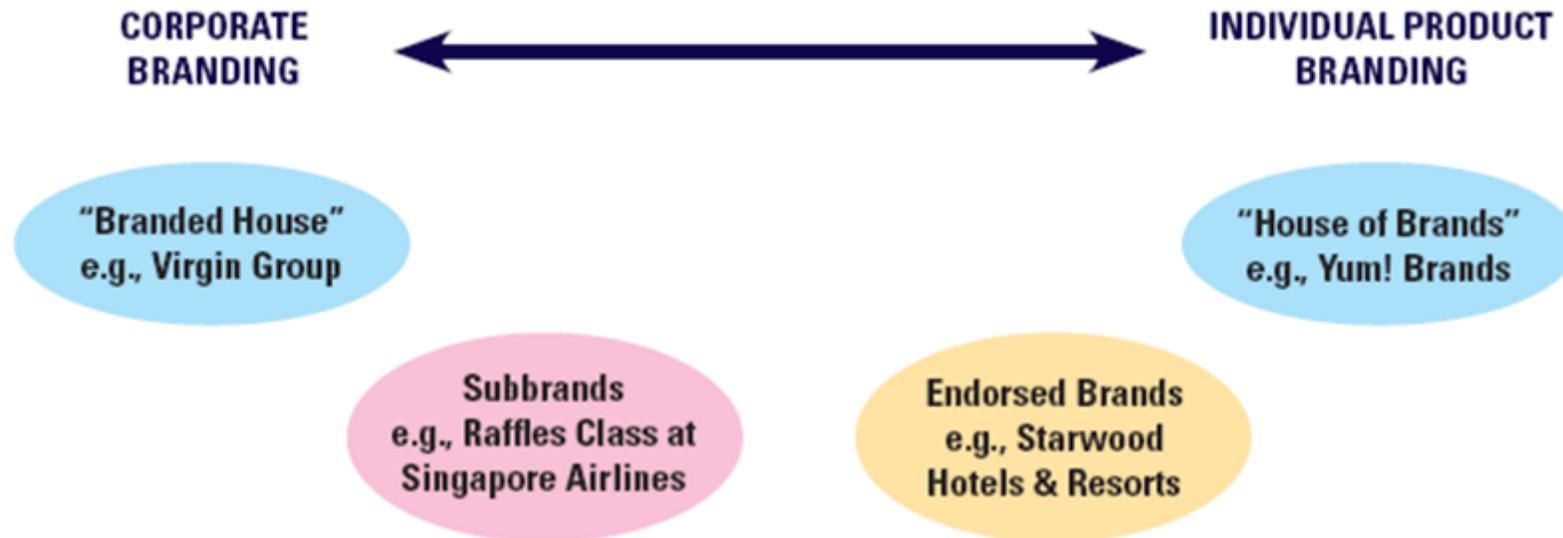
Example:
British Airways Subbrands

British Airways offers seven distinct air travel products

Intercontinental Offerings

- First (Deluxe Service)
- Club World (Business Class)
- World Traveller Plus (Premier economy)
- World Traveller (Economy)

Intra-European Offerings

- Club Europe (Business Class)
- Shuttle
- Euro-Traveller (Economy)

Offering a Branded Experience

Branding can be employed at corporate and product levels

- **Corporate brand:**
  - ➔ **Easily recognized,**
  - ➔ **Holds meaning to customers,**
  - ➔ **Stands for a particular way of doing business**

- **Product brand:**
  - ➔ **Helps firm communicate distinctive experiences and benefits associated with a specific service concept**

Create brand promise

Shape truly differentiated customer experience

Give employees skills, tools, and supporting processes to deliver promise

Measure and monitor

Offering A Branded Experience

"The brand promise or value proposition is not a tag line, an icon, or a color or a graphic element, although all of these may contribute.

It is, instead, **the heart and soul of the brand**."

Don Schultz

New Service Development

A Hierarchy of New Service Categories

Major Service Innovations: New core products for previously undefined markets

Major Process Innovations: Using new processes to deliver existing products with added benefits

Product Line Extensions: Addition to current product lines

Process-line Extensions: Alternative delivery procedures

Supplementary Service Innovations: Additions of new or improved facilitating or enhancing elements

Service Improvements: Modest changes in the performance of current products

Style Changes: Visible changes in service design or scripts

Reengineering Service Processes

- Service processes affect customers and also cost, speed, and productivity

- Reengineering – analyzing and redesigning processes to achieve faster and better performance

- Examination of processes can lead to creation of alternative delivery methods:

  ➔ Add or eliminate supplementary services

  ➔ Re-sequence delivery of service elements

  ➔ Offer self-service options

Physical Goods as a Source of New Service Ideas

- Goods and services may become competitive substitutes if they offer the same key benefits

- Provides an alternative to owning the physical good that can attain the desired outcome

- Any new good may create need for after-sales services now and be a source of future revenue stream

Creating Services as Substitutes for Physical Good

	Own a Physical Good	**Rent Use of Physical Good**
Perform Work Oneself	▪ Drive Own Car ▪ Use Own Computer	▪ Rent a Car and Drive it ▪ Rent Use of Computer
Hire Someone to Do Work	▪ Hire a Chauffeur to Drive ▪ Hire a Typist to Type	▪ Hire a Taxi or Limousine ▪ Send Work out to a Secretarial Service

Achieving Success in Developing New Services

- Services are not immune to high failure rates that plague new manufactured products

- In developing new services:

  ➔ core product is often of secondary importance, many innovations are in supplementary services or service delivery

  ➔ ability to maintain quality of the total service offering is key

  ➔ accompanying marketing support activities are vital

  ➔ Market knowledge is of utmost importance

Success Factors in New Service Development

- **Market synergy**

  ➔ Good fit between new product and firm's image

  ➔ Advantage in meeting customers' needs

  ➔ Strong support from firm during and after launch

  ➔ Understands customer purchase decision behavior

- **Organizational factors**

  ➔ Strong inter-functional cooperation and coordination

  ➔ Internal marketing to educate staff on new product and its importance

Success Factors in New Service Development

- **Market research factors**

  ➔ **Scientific studies conducted early in development process**

  ➔ **Product concept well defined before undertaking field studies**

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Summary

● **Creating services involve:**

➔ **Designing the core product, supplementary services, and their delivery processes**

● **Flower of service includes core product and two types of supplementary services: facilitating and enhancing**

➔ **Facilitating services include information, order taking, billing, and payment**

➔ **Enhancing services include consultation, hospitality, safekeeping, and exceptions**

Summary

- **Spectrum of branding alternatives exists for services**
  - ➔ **Branded house**
  - ➔ **Subbrands**
  - ➔ **Endorsed brands**
  - ➔ **House of brands**

- **To develop new services, we can**
  - ➔ **Reengineer service processes**
  - ➔ **Use physical goods as a source of new service ideas**
  - ➔ **Use research to design new services**
  - ➔ **Understand how to achieve success in new service development**