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Service Marketing Management An Introduction

Wouter de Vries Jr, Piet van Helssingen, Ton Borchert

First Edition

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Ton Borchert

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Preface

You are now leafing through a book entitled *Services Marketing Management, an Introduction*, which is a bit of a mouthful. In order to manage your expectations somewhat, some explanation follows. A book is, of course, tangible, in that you can drop it on your foot, yet there is also something rather intangible about a textbook. For example, what are you going to learn if you study it, or perhaps even prescribe it to students? Both the student and teacher can quickly suffer from a feeling of unease, and this perceived risk might potentially evolve into undesired behaviour. For instance, it is undesirable that you now put the book back! If you find some of the sentences of this introduction to be rather vague or if you don't fully understand it, you should just continue reading because in that case this book was written for you.

We therefore assume a certain degree of interaction on your part. Services can be described on the basis of four basic characteristics, the most familiar of which is the degree of intangibility. Services don't fit in a jar and they cannot be put on a shelf. Likewise, a service is not usually your property. The Western European economy is a clear example of a services economy, since 60-70% of the working population is employed as a service provider. We could cite a number of examples to back this up: the Port of Rotterdam, Copenhagen airport, all accountants and solicitors, hospitals, schools and universities, employment agencies and transport companies, cleaners and architects, etc. From Randstad recruitment and employment services to Air France-KLM, from insurance company Allianz to the London Underground system, from Mojo Concerts to the Tax Department, and from Google to internet banking.

Services and the corresponding service delivery processes entail a certain degree of interactivity between the organisation and the customer. A barber cuts his customers' hair, an airline transports passengers and an insurer agrees a policy with an insured person. Invariably, a certain level of contact is required in order to provide a service – and face-to-face, written and/or digital contact takes place. The level of contact is the second characteristic, namely interactive consumption. Common outcomes of interactive consumption are queues and waiting time. Whenever you have to wait, it is likely that interaction is taking place. This interaction can be managed: by means of more people, capacity management, simple price reductions or yield management. (If this is hard to follow or if you feel it is going too quickly, then this book is just right for you!)

Perishability is another basic characteristic and thus the third major theme. The capacity of an unsold hotel room will be lost at midnight. 'Bad luck', you might think, but many service providers see their total profit margin evaporate if the issues surrounding perishability are not properly managed. Of course, operating theatres have to be used in order for them to make money.

And other kinds of theatres have to be full too, since once the play has started a seat no longer has any commercial value. Insight into service delivery processes and knowledge of price policy and dynamic pricing are thus indispensable.

The fourth, and final, aspect is heterogeneity. How does an organisation deliver the requisite quality on a daily basis, while dealing with a variety of employees as well as a range of very different customers? It sounds complicated, but we can help with theories and models on quality and satisfaction. SERVQUAL and the Gap model, in particular, are often applied by consultants who act every day as advisors in all kinds of service-providing organisations. We are perhaps getting ahead of ourselves here, but this is the good thing about this book. It's practical for the teacher and good for any student who wants to learn something about services, marketing and management. Chapter two, in particular, provides a straightforward, readable perspective on the world of management, including the strategies of Ansoff, Kim and Mauborgne, Hamel and Prahalad, and Treacy and Wiersema. If any of these names are unknown to you, you should purchase this book, as it will teach you a great deal.

In short, this is a useful publication, structured according to the four basic features of services - and after reading it you will be ready to start working in a service-providing organisation. The final chapter also offers a guide on how to write a (marketing) plan. We even provide a ready-to-use chapter layout of such a plan, which you only have to fill in. The book also touches on a great many themes without getting bogged down, as we only discuss the basic principles. This is why the book is called *Services Marketing Management, an Introduction*.

Further support in the form of test questions, cases and presentations may be found on the website, www.servicesmarketingmanagement.noordhoff.nl.

Rich history

The title may be new, but the authors have proven track records in this field. The names Wouter de Vries Jr. and Piet van Helsdingen have been featured on the covers of well-known textbooks for years, and both are linked to VU University Amsterdam. Their 'bible' is already in its fifth impression and has born the name *Services Marketing Management (Dienstenmarketing-management)* for 15 years. The idea for this new edition came from Ton Borchert, of the Economics and Management Faculty of HU University of Applied Sciences Utrecht. Ton has a number of marketing books to his name as well.

This edition is, in fact, a concise and considerably revised version of the book *Services Marketing Management*, and is an introduction to this interesting area of study. Furthermore, a number of useful concepts, models and views have been added to make this a compact and complete edition, meticulously tailored to the needs of professional training. And we have, of course, communicated with our target group: Dimitri, Jeroen, Aljan, Claire and Leonie - thank you for your input.

We assume that this book will take its place at entry level, a starting point for explaining the theory of Services Marketing Management. It would be good for this edition to be prescribed for beginners, while the other, more comprehensive book would then be used to explore the topic at greater depth. With the services sector increasingly gaining importance and professionalism more in demand than ever, the business world desperately needs well-trained managers and marketers.

In conclusion

Services marketing is an exciting subject and working in the services sector is incredibly interesting. The force of innovation within the various business sectors is enormous and new working methods and solutions are the order of the day, so we hope you will enjoy reading this book. We also hope that some of its models will become part of your store of available knowledge. How much insight can you have without any knowledge? It's not easy working out the product of 6 x 5 without using the five or six times tables. Likewise, you should not attempt to develop a marketing plan without having properly mastered the most important theories.

As a (future) service provider, you should realise, after reading this book, that rather than doing your customer a favour by serving them, your customer is actually doing you a favour by allowing you to serve them! You should, above all, view the service delivery process through the customer's eyes; this should not be too difficult, since you are also a regular consumer of various services – so you already have insight. And ultimately, as a consumer, you also take part in production.

We suggest you make the most of the knowledge presented here, and apply it with insight. We are, of course, open to any comments or suggestions regarding our publication. In fact, we would be happy to interact with you!

Almere Hout / Amsterdam / IJsselstein

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1

Services Marketing Management

- 1.1 Service delivery, marketing and management
- 1.2 Basic model for service delivery
- 1.3 Aspects of services marketing
- 1.4 Defining services marketing management

This chapter will introduce you to the subject of services marketing management and the corresponding services sector. Besides a number of essential models, we will also introduce the typical features of service delivery. After studying this chapter you will:

- Understand the importance of the services sector
- Be able to describe the four basic features of services
- Know what the concept of services entails
- Understand the lifecycle of services
- Be able to explain the position of services marketing within other types of marketing
- Understand the composition of the services mix
- Be able to complete the basic model for any service delivery organisation
- Be able to work with the DNA model for service delivery processes

1.1 Service delivery, marketing and management

1.1.1 Importance of the services sector

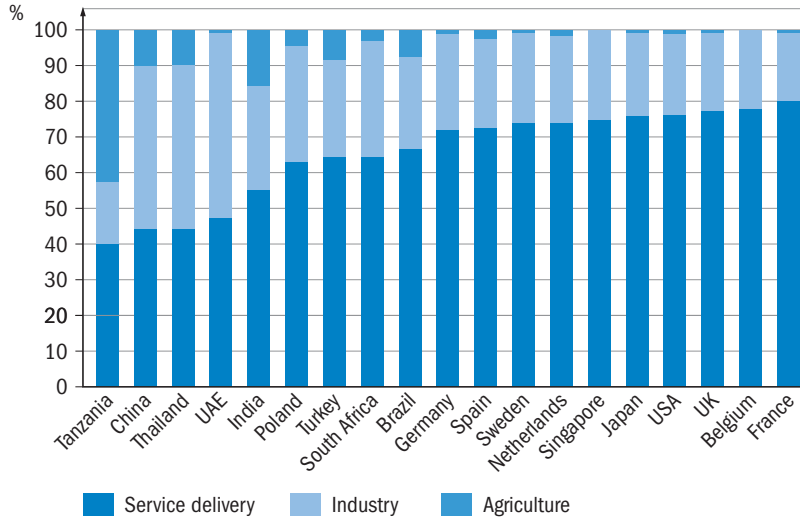
You were perhaps woken up this morning by the sounds of your favourite radio station. Maybe you remembered that you had a good weekend and went to the pub with a friend - or to a favourite club. Perhaps on the way home you had something to eat at a fast food place. You turn up the heating (or switch on a fan) and check your iPhone - which you got as part of an all-inclusive contract with Vodafone. While you're online you have a quick glance at the weather forecast and check the news using a handy app. Later in the day, you take a bus to the station, where you subsequently board a train. All around you, you see various advertisements on billboards and bus shelters. You read the *Metro* on the train. In the afternoon you think about arranging a holiday using cheaptickets.com, booking.com and Hertz. You register for a Groupon campaign, because one of those all-in wellness weekends looks really appealing. In fact, as a digital native in Western society, you like using the endless range of services on offer from a broad variety of service providers.

Digital native

The services sector is becoming increasingly visible, particularly in Western society. In fact, services dominate the global economy: 60% to 70% of the gross national product of Western European countries is generated by the services sector (CIA, The World Factbook, June 2011). In 2011, the Amsterdam AEX stock market index included the share prices of major service providers like AEGON, Air France-KLM, Ahold, Boskalis, Fugro, ING, KPN and Randstad. The services delivery element is also playing an ever-increasing role in the marketing of tangible products, for instance in the provision of brand experiences. Moreover, in many areas, intangible substitutes are taking over the role of tangible products - consider, for example, the MP3 format that has largely made compact disks redundant, which in turn is now succeeded by iTunes and Spotify, or digital versions of books and magazines. There are also major changes taking place in the retail sector, with bol.com going from strength to strength - while traditional shops, for example music stores, are encountering major problems and some have even had to close their doors for good. Service providing organisations generate don't just generate added value, they also provide a substantial share of employment opportunities. This applies not only to Western Europe and the United States (see figure 1.1). The field of services marketing is becoming increasingly important, with the activities of service providers making up a major part of Western economies.

Brand experience

Banks, insurers, airlines, consultancies, the media, cleaning companies, hospitals and education are all service providers. They have to be optimally managed in order to create value for the customer as well as for the rest of the stakeholders. A thorough knowledge of services marketing is indispensable for this. The chance that someone studying commerce or economics ends up working in the services sector is at least 70%, while for those studying health, real estate, transport, hotel management, the creative industries or accountancy - the future is already determined: it will be in the services sector.

FIGURE 1.1 International importance of the services sector

The central theme of this book is the marketing and management of services. We will look at both the theoretical approach and at practical management applications.

1.1.2 What is a service?

Describing a service is not straightforward, since the term lacks a single, all-encompassing definition and the dictionary provides around ten meanings of the word 'service'. What we understand by the term 'service' is the following:

Services are intangible activities that perish relatively quickly and which, during interactive consumption, satisfy direct needs rather than the desire for material possession.

Services

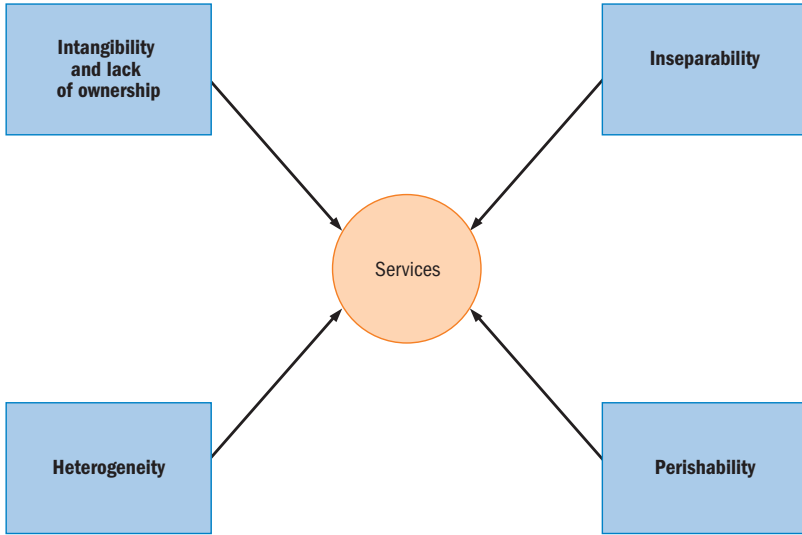
From our definition of services (taken from the *NIMAS Marketing Lexicon*, 1999) we can derive four basic characteristics, for discussion below. We will then deal with the issue of supply and demand and, finally, look at the lifecycle of services.

Basic characteristics of services

The basic characteristics of services (see figure 1.2):

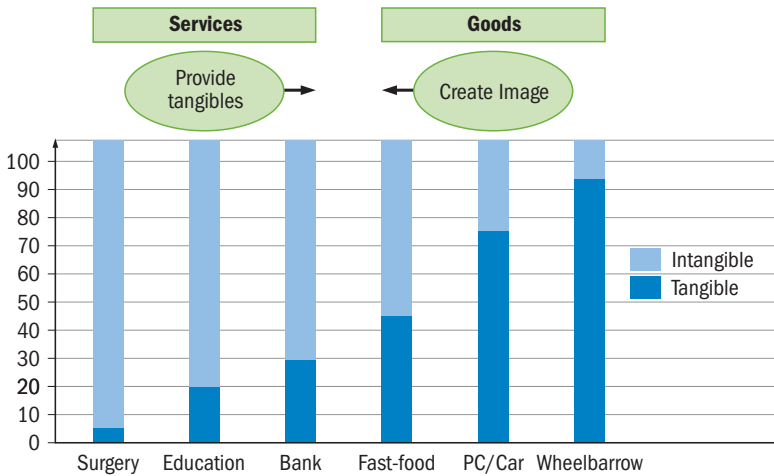
- 1 Intangibility and lack of ownership
- 2 Perishability
- 3 Heterogeneity
- 4 Interactive consumption

FIGURE 1.2 Aspects of services



Each of these four aspects may be considered a continuum (see, for example, figure 1.3). Since a service is never either 100% intangible nor 100% heterogeneous, it is better to discuss the degree to which one or more of these aspects occur.

FIGURE 1.3 Shostack's intangibility continuum



Ad 1 Intangibility and lack of ownership

A service is an experience rather than a thing or a commodity and thus, by its nature, not physically present. Nevertheless, a service is not always entirely intangible.

On the right of Shostack's intangibility continuum (see paragraph 4.1) are the purely tangible goods. A wheelbarrow is a good example of this: no image, no financing opportunities, just a wheel, two handles and a container. However, many goods move more towards the left of the continuum, which makes it clear that many, originally tangible goods are no longer exclusively tangible but also possess intangible properties, such as service, a guarantee, aftersales service, financing and branding.

Consider a car - or a central heating system - for which you may have taken out an annual maintenance contract. The added value is often determined by the supplementary services that are added to the tangible product. At the middle of the continuum lies the fast-food sector. The service-providing aspect of this sector is reflected nicely in its name, i.e. customers are not just buying tangible food, but 'fast food'. The emphasis here is evidently on both the tangible (the hamburger) and the speed (intangible) with which it is acquired. The service delivery process is therefore significant for the fast-food sector. On the far left of the continuum are the originally, purely intangible services. Service providers often attempt to add potentially tangible components to their services. One would perhaps stop studying if the educational institution decided to do away with the tangible diploma.

Besides being *physically* intangible, services are often also *mentally* intangible. Mental intangibility is closely associated with a buyer's limited capacity to predict exactly how a service will be performed. The customer is often hardly in a position to objectively assess service delivery, especially with complex services, such as psychiatric treatment or computer repair. This mental uncertainty often leads to a feeling of uncertainty (*perceived risk*). If a customer wishes to limit this as much as possible, he/she is often prepared to pay extra. Insurance brokers can make a good living out of this, as can photographers shooting wedding albums. This demonstrated willingness to pay more shows that customers often want to avoid risk.

Services can also involve a lack of ownership. When a customer has purchased a physical product, he/she then becomes its owner and will, in principle, possess it for an unlimited time. The product could also be sold on. Services usually have limited availability for the customer, namely as long as the service lasts. Consider, for example, a theatre performance or a train journey. It might also be that a service is only owned for as long as the premium or the contribution is paid, such as with financial services or a gym membership. In chapter 4 we look further into managing intangibility and the lack of ownership.

Ad 2 Perishability

As intangibility increases, the opportunities for a producer to create inventory and for the consumer to assume ownership decrease. The service then often becomes temporary or *perishable*. We describe how this can be managed in chapter 7. The intangible nature of a service and the required consumer participation mean that 'production for stock' is not usually possible. A barber, for instance, cannot start cutting before the customer has arrived. The same reasoning applies to dentists, teachers or social workers. The aim is therefore to have as little unused production capacity as possible in quiet

Experience

Physical
intangibilityMental
intangibilityLack of
ownership

periods and/or minimise non-sales – in effect, these measures amount to 'stock management' for a perishable service. Ideally, production capacity should correspond more or less exactly with demand. This again involves a type of continuum, since ICT developments have made it possible to create service inventory in line with demand. An example of this is the virtual bookshop, www.amazon.com, which is able to manage both supply and demand in the short term. Airlines (Lufthansa, Air France-KLM, British Airways) and international hotel chains (Hilton, Marriott) try to manage their perishable capacity using international booking systems (see also subparagraph 7.1.2). This is because an empty seat on a 'plane that is taking off can no longer be sold, much the same as a night in an hotel room after a certain time of day. While the room itself is, of course, not perishable, the night that you could spend there is.



Perishability: an empty seat on a plane taking off can no longer be sold

Ad 3 Heterogeneity

People are often part of the service-delivery process. As a consequence, it is not always feasible to simply standardise the service - from the point of view of both the consumer and the service provider. As many services are produced by individuals, differences between service providers can easily arise. And a provider that strives for identical services and service delivery could find that the consumer is the variable in the service. Heterogeneity (or variability) arises primarily due to human interaction - between employees, between employees and customers, and mutually between customers. This becomes even more complicated when one takes into account that consumers use both *objective* and *subjective criteria* when assessing the quality of a service. And the assessment can involve more than just technical aspects: while one person may like the service in a restaurant, another may complain about it. The McDonald's and Campanile restaurants attempt to standardise service delivery by making personnel work on the basis of a set procedure or script.

However, a subjective factor such as appetite remains 'unmanageable' and this can play a significant role in the assessment of a restaurant, since patience and hunger are an awkward combination. Managing heterogeneity and achieving quality are dealt with more extensively in chapter 6.

Campaile
HOTEL RESTAURANT



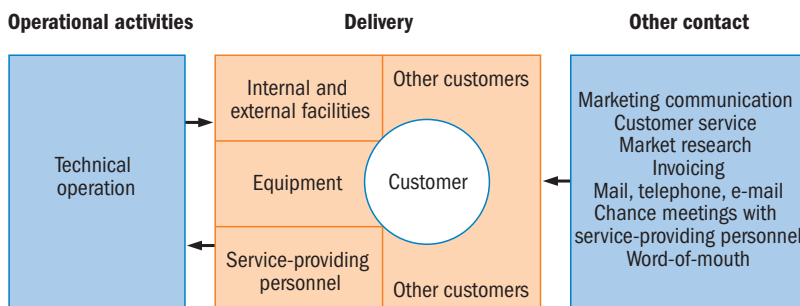
Ad 4 Interactive consumption

The perishable nature of a service often requires a certain amount of cooperation on the part of the consumer before service delivery can take place. A certain degree of interaction takes place between customer and service provider. The customer is central to the service delivery process within the services marketing system. This model views a service-providing organisation as a system, comprising three elements:

- **Operations, operational activities:** Here the input is processed and the elements of the service delivery are created. Certain elements are not visible to the customer and are known as *back office*, while the visible parts are called *front office*. The arrows in figure 1.4 depict the interaction between front office and back office.
- **Delivery:** This is where the components are assembled and the actual service is delivered to the customer. A distinction can be made between *contact-intensive services* (such as a personal interview with a bank's account manager) and *low-contact services* (home banking).
- **Marketing and other contact.** This mainly involves the communication activities and all other methods of contact with the customer, including advertising, website, invoicing and even market research.

Services
marketing
system

FIGURE 1.4 Services marketing system



Service encounter

In fact, the customer only experiences the front office, which is where the *service encounter* takes place and where the service can be delivered and potentially consumed. A service provider must therefore ensure that the front office has the right appearance, and that customers are attended to in an expert and friendly manner.

Without realising it, many people contribute to producing dozens of services every day, while their involvement in producing tangible goods is minimal. The average consumer is often hardly aware of who actually produces everyday goods such as toothpaste, detergent or plastic rubbish bags. However, as intangibility increases, the names and addresses of many service providers become more familiar (bank, barber, dentist, restaurant, etc). In fact, someone using a service might well know the provider of the service personally. This is because, in many cases, production of the service only commences when the consumer is present. This is known as interactive consumption or a *service encounter* – but one in which the *inseparability* of provider and consumer is evident.

Interactive consumption

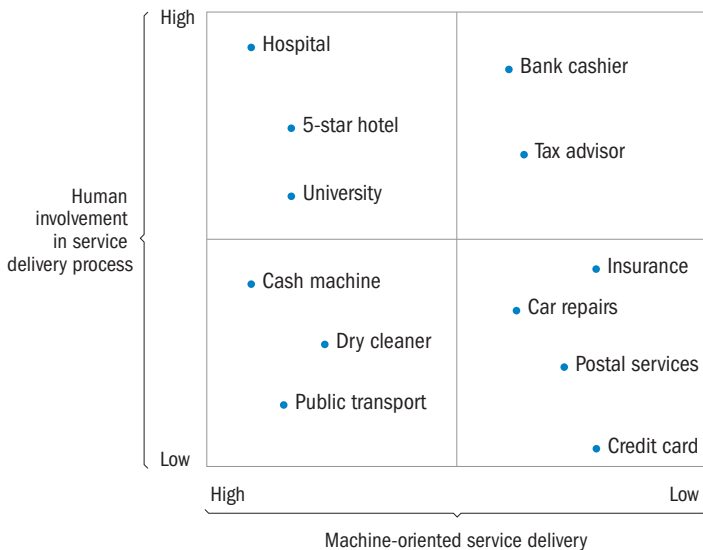
There are also considerable differences between the various types of service. Services are not intangible to the same degree, meaning that interaction can also differ significantly. For instance, services might differ in the degree to which they are equipment-based (*mainly machine oriented*) or people-based (*mainly people oriented*). An ATM or cash dispenser is a good example of machine-oriented service delivery, while a visit to the cashier at a bank is an example of people-oriented service delivery. This visit to the cashier entails advantages (friendliness, a chat, understanding) – and possible disadvantages (the chat with the person before you goes on a bit too long or the cashier has a poor sense of humour).

**Machine oriented
People oriented**

Service delivery innovation can be derived from figure 1.5: Management could ask itself, for instance, what opportunities exist for shifting services and service delivery – for instance, moving those in the box at bottom left towards the box at bottom right.

Innovation of service delivery

FIGURE 1.5 Degrees of interactive consumption, according to Lovelock



Or perhaps moving them to the upper left. This process applies to all matrices: Not only is it important to determine where an organisation is within the matrix, but also where it could be - and what it has to do to get there. This thought process sharpens analytical thinking and can drive product renewal and innovation. We will look at this more closely in chapter 4.

Interactive consumption not only implies that the consumer is involved in producing a service, but also that the customer has an idea of how the service is produced and delivered. We can describe customers as *prosumers*, since the involvement required of them often involves a contribution towards *producing* the service, while they also *consume it*. This is particularly evident with internet-based service delivery. Being able to order something from Amazon.com requires a certain competence with computers. The customer first has to enter a number of details before the items can be ordered. Production precedes consumption here. It is thus important that the customer knows what role he/she is deemed to be playing within the service delivery process. Managing interactivity is further discussed in chapter 5.

Prosumer

The service concept

What is the customer actually buying? A service, or something more than that? Conventional marketing emphasises the four marketing variables of product, promotion, price and place (distribution). These allow marketers to manage the interface between the market and the company to a significant degree. On the intangibility continuum - from (hard) products such as semi-manufactured products and cars to (soft) services such as insurance and legal advice - such marketing management involves tangible products. In services marketing, the task of marketers is much broader. This involves not only selecting customers, planning the product and then bringing the two together but, above all, what takes place during the interaction period. After all, the core of prosumership is the major involvement of the customer, while (software) systems take over part of the role of the personal producer. Customers base their choices on questions such as 'what can this service do for me?' and 'do I understand the role I have to fulfil so that I can consume the service?' Service delivery involves much more than objectively assessing the product. When developing the service, the organisation should take prosumership fully into account. This applies to the activities themselves, the location and the moments at which the interaction occurs.

Prosumership

Self-service

We therefore define the service concept as follows:

A service concept encompasses the entire presentation of the service package (possibly in combination with a physical product) in the experience of the consumer or the organisation.

Service concept

This presentation consists of the acquisition of specific benefits by the target group as well as their engaging in role-fulfilment. The concept also takes into account the brand, the design, the specific content of the marketing mix (and, therefore, also the other Ps), and the positions on the continuum of the four basic characteristics of services.

Value proposition

A value proposition is also necessary. This states the points on which the strategic services concept will differentiate itself from the group of main competitors (per group). Insight into the desired *service benefits* and the how the service will provide consumer role fulfilment is also required, before we can develop the service concept. A service concept is therefore defined in terms of the results that are relevant to customers.

The demand side: user benefit and service benefits

The essence of user benefit is in the answer to the question ‘what’s in it for me?’ Whether this involves a marketing lecture or a cinema ticket, the (personal) advantage for the (future) user should be clear. In other words, in services marketing, a product should be defined in terms of its benefit for users. This user benefit can only arise if the service is accessible to consumers, i.e. if the service can be delivered. The design and the operation of the service delivery system are therefore a vital element in defining a specific service. The user benefit also determines which elements should be considered for quality control within the service delivery system. Specifically, the desired quality level of the elements in the service delivery system that are important for the user’s final assessment (critical success factors), should be verified. The definition of the term ‘service benefit’ is:

Service benefits

Service benefits are the total advantage that a customer derives from the performance and features of the various components of a service delivered by an organisation.

However, creating benefits is not always straightforward. Converting expected or desired benefits into profitable services can be difficult for the following reasons:

- It is not always easy to assess the user requirements and benefits.
- Advantages for users change over time, for various reasons: these include experiences gained in the past and/or environmental influences.
- Measuring these benefits will not always be possible.

Features Benefits

With regard to user benefit, it is furthermore important to distinguish between the attributes or features and the benefits of a service. A (potential) user associates a service with attributes. For instance, a comic book’s features are one or more images on a page. Benefits involve the advantages a service offers the user. With comics, this is reading pleasure, as the story is easy to follow.

The difference between features and benefits is significant, because a service provider attempts to formulate the advantages of its product in such a way that these correspond with the needs of the user. A credit card has various benefits that appear to differ little between different providers. American Express and MasterCard offer roughly the same benefits. Credit cards include good examples of features. The huge variety of colours and other tangible aspects make it possible for clients to identify themselves with the card, and are perhaps even a source of pride.



Credit cards: roughly the same benefits, but different features

If current services no longer fulfil customer expectations, or if environmental changes (such as new technology) provide opportunities, innovating services (developing new services) can offer the solution (see paragraph 4.4).

FIGURE 1.6 Attributes (features) and advantages (benefits) of a credit card

Attributes (features)	Advantages (benefits)
<ol style="list-style-type: none"> 1 Small 2 Plastic 3 Method of payment 4 Can be used abroad 5 Distinctive colour 6 Monthly statements 7 Possibility of credit 8 Can be used in many places 9 Insured against loss and theft 10 A record of each transaction is provided 	<ol style="list-style-type: none"> 1 Easy to carry in wallet or purse 2 Durable 3 Buy now, pay later 4 Less money in pocket, thus better cash management 5 No traveller's cheques and less cash to carry on holiday 6 Prestige: colour is linked to income and creditworthiness 7 Proper administration of expenses and purchasing power 8 Increased purchasing power, you determine the amount of credit you use 9 Increased in-use value 10 More security than with cash. Damage as a consequence of theft/fraud is limited. 11 Full control of all financial obligations

Many service providers think in terms of user benefits involving issues such as convenience, self-service, speed, trust or low costs. These customer themes and the service benefits are intertwined with the value concept or the value proposition, as perceived by the customer.

The supply side: the concept or service concept

As a marketer, you have to ask yourself which superior resources (including people, management, ICT and access to finance) and core competencies (including distribution power and product/market knowledge) your organisation currently has at its disposal - and which resources and competencies it wants to have in, say five years' time. This is an initial step towards formulating the service concept from the supply side (the organisation and its competition). This concept should be based on a distinct set of (core) values and a clear strategy.

It is not usually possible to copyright services. If it is feasible, such as in the case of software and music, illegal copies may become a problem. For service providers, it is therefore no mean feat to devise a sustainably different (distinctive in the long term) competitive benefit, although developing a service concept and a brand (legally protected by a patent, combined with a trademark) can help with this. We often come across business formulas or business concepts in broader, strategic terms. Thus Ryanair has a business formula that is focused on 'low costs' at a fine level of detail. This can be seen everywhere - even its headquarters (and their furnishings) are kept very simple. The message here is that they don't waste any of their customers' money. Ryanair flies to and from less well-known airports, such as Maastricht (The Netherlands), Charleroi (Belgium), Montpellier (France) or Leeds (UK). These airports are considerably cheaper than, for example, Schiphol, Zaventem, Charles de Gaulle or Heathrow. Moreover, they are able to comply with Ryanair's desire to 'turn over' within 25 minutes. In this 'turnover time,' the plane has to be refuelled, cleaned and the passengers have to disembark and board. A service concept such as this - steeped at every level in the low-cost concept - is difficult for the established order, such as Air France-KLM, British Airways or Lufthansa, to imitate. They are compelled to follow a different service concept. The P of product - the service itself - is an essential part of a service concept. Yet, on its own, the service or service package is not capable of encapsulating a service concept, since this is jointly determined by various elements. Service providers can, for example, opt for bundling, where all services are offered in a single package (as on the well-known airlines, where food and drink are included) or - as Ryanair does - opt for unbundling. This means that passengers pay for each service separately: the flight, the meal on board and the inflight TV programme are all charged separately. Ryanair is now Europe's biggest airline, after Lufthansa, in terms of the number of passengers carried.

A well-thought-out business formula, in the form of a service concept, increases the service provider's defences against imitation by competitors. This is because competitors have to properly assemble the various elements of the service, and then be able to execute them as a consistent whole, on an ongoing basis. This is by no means easy, as many *me-too service providers* have discovered.

There are numerous definitions of the service concept in circulation, with various books and articles stressing different approaches. Here we discuss four ways of explaining the services concept, namely:

- 1 In terms of the marketing mix (four, six or seven Ps)
- 2 In terms of the perception of service delivery
- 3 By using the elements of the services package
- 4 By using a mental image

Business
format

Bundling

Unbundling

Ad 1 Marketing mix

The first notion derives from the marketing mix, with the service concept being the sum of the services marketing mix (see also subparagraph 1.13). In the original application, this mix only contains four Ps (product, place, promotion and price). In this book we have added two further Ps (personnel and process), while some authors additionally sometimes cite a P for physical evidence. The composition of the marketing mix (four, six or seven Ps), in this first notion, therefore determines the final service concept.

Ad 2 Perception of service delivery

The second approach to defining the service concept involves the perception of service delivery. Here, the service concept is split into the service delivery process (and in particular the delivery, or the way the service is provided) and the service experience (the customer's primary experience, or the way in which the organisation would like its services perceived by its customers, personnel, shareholders and other stakeholders). This involves the organisation's *business proposition*.

Ad 3 Elements of the service package

A third description entails the service concept as element of the service package (also known as the *customer benefit package*). This approach is based on the aspects that the customer acquires and sees as valuable. The service concept is the detailed description of the customer's needs and wants that the organisation really wants to satisfy. Important questions in this approach to the service concept are:

- In what way should customer needs and wants be satisfied?
- What can customers (and the organisation) do with the experience that the service provides?
- What is the service outcome: what are the benefits and results for the customer?

This notion therefore requires a great deal of insight, on the part of the organisation, into customers' needs and wants.

Ad 4 Mental image

The fourth and final notion views the service concept as a mental image. This is the service in the minds of customers – as well as employees and other stakeholders. The main issue here is the need to align the image of the service concept for all involved, throughout the service concept. The hoped-for result is a service concept that the entire organisation understands, and which is shared by both employees and customers. The aim is to reduce the gap between expectations and (perceived) service delivery. We will look at this in more detail when we discuss the Gap model (see sub-paragraph 6.6.2). The organisation launches the *market offer* onto the market, consisting of both the design and execution of the service. This complete product is the sum of the customer's experiences with the service provider. The service concept must always be as differentiated from those of the competition as possible, to maximise the service provider's chance of achieving a competitive benefit. However, this is not always possible, as many services are strikingly similar, or extremely easy to copy.

**Market
offer**

The lifecycle of services

People, organisations, services and relationships all have their own lifecycles – everything has a start, as well as an end. Very few of the organisations and services that were around at the start of 1900 are with us today; and those that do still exist have changed radically over time. Many organisations grow by continually adding services and activities to their product range. In short, the market opportunity for service concepts appears almost unlimited. As an example, while legal firms are growing and becoming more international, more and more specialists are also starting up offices with just a few colleagues.

The lifecycle stage of a service can be determined at each level of the services hierarchy - and can differ at every level. This means that one service family, class or form might be at the start of the lifecycle (such as internet banking), while other service variants or brands are already approaching the end of the cycle. Moreover, introducing new services or service variants can provide a new boost to turnover (profit) and/or extend the service lifecycle. The organisation must make a number of choices regarding its services policy and engage in managing lifecycles.

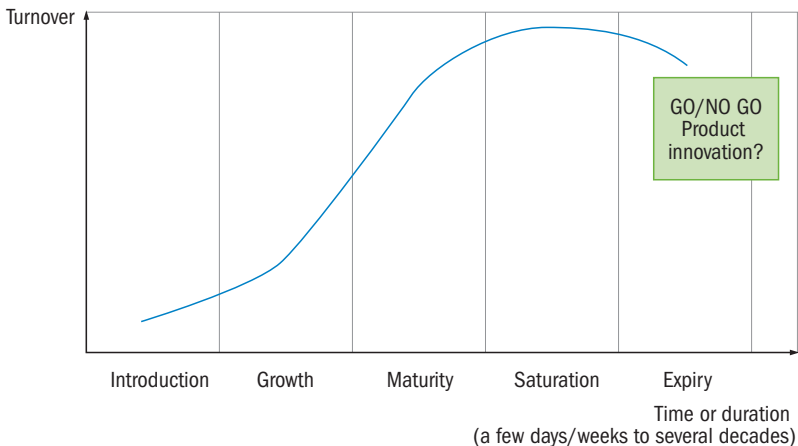
The concept of a product or service lifecycle is strategically important because, at company level, there must obviously be a balance between investment (mostly at the start) and revenue (in later phases) in relation to a product or service. This often involves a combination of various, successive lifecycles that together form a curve. The objective is to achieve a rising line, which is indicative of the company's growth.

The services lifecycle (see figure 1.7), in which five phases are differentiated, is a somewhat adapted version of the familiar product lifecycle (PLC):

PLC Lifecycle for services

- 1 Introduction phase
- 2 Growth phase
- 3 Maturity phase
- 4 Saturation phase
- 5 Expiry phase

FIGURE 1.7 The services lifecycle



In the introduction phase the emphasis will mainly be on developing primary demand for the service (category). Various price strategies can be pursued in this phase. When establishing a new restaurant, for instance, the service provider often opts for a relatively low price during the introduction phase, to attract a sufficient number of new customers. Once a regular group of customers is established, prices can (slowly) start to increase. Both the service category and the target group may be characterised as (very) small, with specific wants.

Introduction phase

The main feature of the growth phase is rapid turnover growth, with opinion leaders and early adopters increasingly using the service. Competitors are also attracted by these new opportunities, and since many services are relatively easy to copy, the competition will attempt to attract customers by offering extra features in the form of additional services. The original service provider should now focus on perfecting his service concept and on finding new target groups and distribution channels. Promotion (marketing communication) – which in the previous phase was focused on the service (such as single-premium policies, supplementary pension plans and cash machines) – should now be more focused on the brand (variant).

Growth phase

During the maturity phase, the service will have grown to maximum turnover level. The market is optimally served and the service can be considered a real cash cow. This phase is, of course, the aim of every service and service provider. Then the growth slows and, while adding supplementary services might still be profitable, the emphasis in this phase is more on optimising the service. Business Process Redesign (BPR) might be a good idea at this stage (see also sub-paragraph 6.8.4).

Maturity phase

In the saturation phase, the market is fully subscribed. Competition is tough, and this bears heavily on the profit margins. The service has lost its power of attraction and, at some point, enters the expiry phase. This might be due to innovations that make the service superfluous and/or outdated. It might also be that an automated service becomes considerably cheaper than a service provided by employees.

Saturation phase

The expiry phase might be the final phase of a service, but the provider can also decide to breathe new life into the service by changing or replacing a number of features and/or attributes. If the service is capable of innovation, the lifecycle may be extended and the maturity and saturation phases repeated. A 'no go' decision means the service slowly disappears from the service provider's portfolio, and perhaps from the market if there are no remaining providers.

Expiry phase

The duration of a PLC can vary from a few days/weeks to several decades.

1.1.3 What is marketing?

Many forms of marketing have arisen over the course of time. The study of marketing started out with the exploration of consumer markets, the subject of Consumer Marketing. At the start of the 1980s, the average higher education institution or university-educated person saw the subject based on the 'needs and wants' of the consumer, with the customer being central. The most important themes at this time were the detection of needs by means of market research, the use of marketing concepts and push/pull strategies.

Consumer Marketing

We will first look closely at the development of marketing over time and then discuss the various types of marketing. Finally, we will deal with marketing strategy and implementation.

Development of marketing

Marketing 1.0

The period in which factory products were mainly sold by sales staff was named 'marketing 1.0' by the world's best-selling marketing author, Kotler. Before 1930 there was the *production concept*, in which production and product-oriented management philosophies dominated commercial thought. At that time, the focus was on the production process and the physical product, and not on the (potential) purchasers of the product. Increasing mass production was accompanied by an equivalent growth in demand for products. Between 1930 and 1950 the *selling concept* – with the emphasis on increased turnover – was the dominant management philosophy. In fact, up until 1950 the supplier decided on the availability and usefulness of products – there was still no real service delivery at that time. Around 1950 marketing, as we know it today, slowly started to take shape, with organisations putting the desires and requirements of consumers in the central position. The target group – that part of the market the organisation focused its attention and efforts on – was now important. The product or service was henceforth adjusted to the buyer's needs and wants, with the focus shifting away from the product and the exchange or transaction becoming crucial. The 'classic' marketing concept then developed considerably and the marketing playing field started to expand to include more variables. Decisions in the field of purchases, logistics and product development came to be included. The *societal marketing concept* now went beyond short-term aims such as customer satisfaction and added long-term thinking in the form of striving for *long-term consumer and public welfare*. Organisations no longer had to focus solely on the buyer, but also on other interest groups (*long term*). This would mean that profit became less important than the so-called *social goals*. At the start of the 21st century, companies now want to profile themselves as socially responsible, using the idea of *corporate social responsibility*. This aspect is increasingly receiving attention. In strategic marketing, organisations focus on *sustainable competitive advantages* and the long-term interest the buyer has in these advantages. Building up and maintaining relationships with interest groups and others outside the organisation is becoming ever more important, in order to retain and build a strong competitive position. The arrival of information technology, and in particular databases and the internet, gave rise to 'marketing 2.0'. Consumers were now much more able to orientate themselves and choose from the broad selection available from various suppliers. Marketers attempted to use differentiation and positioning to get through to their customers' hearts and minds via target group segmentation. Database marketing techniques are used to create one-on-one marketing relationships. Marketing 2.0 is characterised by consumer-orientation, yet it is still largely one-way traffic.

Corporate social responsibility

Sustainable competitive advantages

Marketing 2.0

Marketing 3.0

We now find ourselves at 'marketing 3.0'. This still involves meeting customers' needs, but the customer is now approached as a fully rounded person with heart, mind and spirit. This is also the age of participation, with consumers talking back to providers.

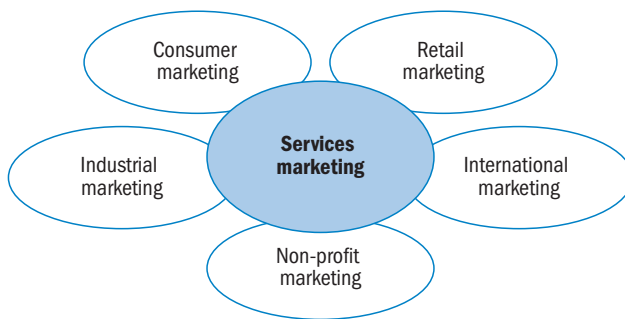
Values, as well as the perceived company vision, mission and values, now play a decisive role in consumer selection of product, service and, above all, brand. *Social media*, *crowd sourcing* and *user generated content* can help marketers to launch innovations, while platforms such as Facebook, Hyves, LinkedIn, Foursquare and Twitter, as well as blogs and communities, facilitate communication between users and with suppliers. Consumers are even taking over some of the marketing tasks.

Different types of marketing

Over the last 30 years the subject of Marketing has acquired many, disparate branches that appear to focus specifically on particular features of organisations, consumers and/or products. As a result, marketing has not remained restricted to organisations aiming to maximise profits. New directions have emerged that specialise in the marketing of ideas (social marketing), the marketing of organisations in relation to the community (societal marketing) and the marketing of non-profit organisations (non-profit marketing). New, separate marketing subjects (see figure 1.8) have also arisen, such as:

- 1 Industrial marketing
- 2 Retail marketing
- 3 Non-profit marketing
- 4 International marketing
- 5 Services marketing

FIGURE 1.8 Various forms of marketing



Ad 1 Industrial marketing

Industrial marketing is also known as *business marketing* (B2B, business-to-business) or *organisation marketing*. In contrast to consumer marketing, these marketing activities are not directed at private individuals but at other organisations and companies. Rational purchase decisions – often in the context of tailor-made offers, unusual pricing and considerable variety and flexibility in the actual offer – require a separate marketing approach. Industrial marketing involves derived demand, where the demand for industrial goods depends on the demand for consumer items.

**Business
marketing**

**Derived
demand**

The Dutch company Boon Edam, for instance, supplies revolving doors, and the demand for these is largely determined by the extent of (new) construction. This means that it mainly targets architects and developers.



Derived demand: (new) construction determines the demand for revolving doors

It is essential for marketers to gain insight into customer type. Are the customers B2B or B2C (business-to-consumer), or should both customer types be taken into account and approached? The temporary employment industry, or recruitment and selection market, is an example of an industry in which both B2B and B2C target groups apply. This sector focuses on companies that employ temporary workers - and the companies' demand for candidates can be viewed as a B2B demand. Temporary workers are often the first to leave or, when the economy picks up, the first to be taken on. The temporary employment industry thus reacts relatively quickly to economic dips and recovery. For this reason the sector is also known as 'the barometer of the economy'. Nevertheless, recruitment and selection cannot take place without a temporary workforce or candidates. This is the 'product' - often approached and addressed by organisations as an individual person. This approach is more typical of B2C.

Ad 2 Retail marketing

In retail marketing, distribution does not apply as an element of the marketing mix, but as an independent element in an industry sector with so much power that it can exert considerable influence on both consumers and manufacturers. The rapid, international development of retail chains (Media Markt, Hornbach, Aldi) has added a new dimension to this marketing area. Many B-brands have been pushed off the shelves by house brands, whether these are self-manufactured or not. Store profiles, location, store fittings and on-pack communication have expanded the field of marketing. Service providers such as estate agents, hairdressers and gyms are also retail marketers.

Ad 3 Non-profit marketing

Non-profit marketing originated in the United States political arena with the marketing of presidential candidates. It was then extended into the areas of *public relations* and *public affairs*. The development of communication as a separate field, taught also in colleges and universities, and the extension of the concept 'consumer' to include interest groups, often with conflicting internal interests, defined the field in which this form of marketing operated. Non-profit organisations do sometimes make profit, but this is not their reason for being. (Not-for-profit is perhaps a better description.) Many organisations engage in non-profit marketing. These include well-known institutions (Amnesty International, the Red Cross and GreenPeace), hospitals and also relatively unknown service providers such as water boards and housing associations (Ymere).

Ad 4 International marketing

Increasing internationalisation and practical barriers to operating abroad from a single base country form the basis for international marketing. Developments in both production and turnover in third world countries and the Far East are further factors that have caused the involvement of marketing in this field. Marketing crossed the border, so to speak, at the start of the 1980s. The most striking feature of this is that national borders are no longer absolute in the delineation of a geographical market segment. Cultural differences and customary behaviour are also determinants in international marketing. Many a thesis on international marketing has included reference to Geert Hofstede. His cultural model is known globally and has been cited countless times.

Ad 5 Services marketing

The four basic characteristics of services are central to the discipline of services marketing. This form of marketing continues to grow, and increasingly overlaps the other forms of marketing, described above. The importance of the services sector gives rise to this, as does the shift of production to low-wage countries – a shift associated with internationalisation. The nature of services, as opposed to products, results in change, adjustment and rethinking of the success factors involved in marketing. Services marketing is now the marketing playing field on which customers and competitors operate together to provide and consume services. And a third party should be added here, namely suppliers. Suppliers play a vital and increasing role in the creation of services (and tangibles). Increased outsourcing (catering, security, call centres, internet servers) and the use of services provided by third party organisations means that the influence of suppliers on marketing policy is on the rise. In a new approach to business models (paragraph 3.7), they are known as *key partners*.

Suppliers

Marketing strategy and implementation

Market orientation is an integral part of marketing. A market-oriented organisation must closely monitor consumer and competitive activities and incorporate the results into its strategic planning.

**Market
orientation**

Implementation

Market orientation is a skill that focuses on translating environmental variables into organisational and marketing strategies, and eventually attempts to implement these strategies. This final step - converting strategic plans into actual activities, as effectively and efficiently as possible - is known as the implementation phase. We will look more closely into developing a (services) marketing plan in chapter 8.

Some important strategic issues in this regard are:

- What are the organisation's mission and long-term objectives?
- Does the organisation plan to grow in the next few years and, if so, how?
- Which skills do the organisation need to develop in the next few years?
To what extent are these differentiated with regard to the competition?
- Should the organisation (radically) innovate?
- What quality level is the organisation aiming for?
- What image should it create?
- In what way does it fulfil the relationship with its customers?
- What are the objectives in the area of corporate social responsibility and what sustainable values do marketing aim to create?

Strategic issues

Management must regularly address such strategic questions - for instance: How should Air France-KLM grow over the next few years? Does a rising price of oil (an environmental variable) mean that it should look to other forms of air transport (radical innovation)? Every service provider has to wrestle with issues such as these. What strategy should ING Bank (in The Netherlands) adopt if interest rates increase to 8% and/or inflation to 7%? These might seem like doomsday scenarios, but changes in the organisation's (immediate) environment can alter markets entirely. Do TomTom and Garmin have a reason to exist in the long term, when Samsung and Apple are incorporating navigation systems into their smartphones?

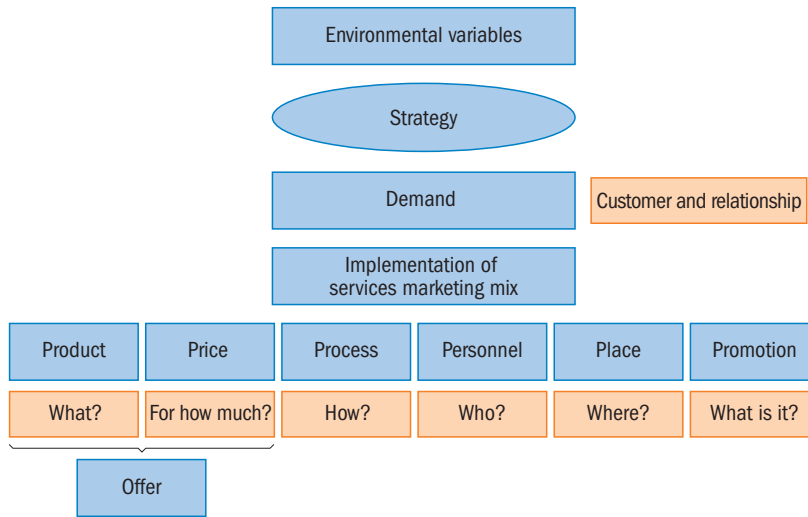
Environmental variables

Various environmental variables are possible, and in an environmental analysis we distinguish between the micro (internal), the meso (transactional) and the macro (contextual) environment. We class significant macro-environmental factors under the acronym DRETS, which stands for demographic, regulatory, economic, technological and socio-cultural trends and developments. Other authors use the classification DESTEP (demographic, economic, socio-cultural, technological, ecological and politico-legal). In English-speaking countries PESTLE (political, economic, social, legal and ecological) is a current term for macro analysis. Organisations may have varying degrees of susceptibility to the same trend, e.g. the demographic trend of population ageing affects the life insurance sector considerably more than the transport sector. The extent to which a trend influences an organisation is known as impact. A proper environmental analysis should therefore define the impact of the relevant trends on the organisation.

Impact

These strategic plans should, of course, be further elaborated. They are - so to speak - translated through to the personnel active in the service delivery processes that serve the various customer groups. A marketer performs this translation on the basis of the marketing mix (see figure 1.9).

FIGURE 1.9 Services marketing mix further elaborated



The services marketing mix can be further elaborated, in detail, according to the 'Ps':

- 1 Personnel
- 2 Process
- 3 Product
- 4 Place
- 5 Price
- 6 Promotion

**Services
marketing mix**

Ad 1 Personnel

A service provider's personnel can either make or break a service. The founder of Marriott hotels once famously said: "You cannot make people happy with unhappy people." Under the P of personnel, the marketer has to define 'who' is going to do the work. How many people do we need in the front office and how much effort is required in the back office for the new plans to take shape? This human effort is often expressed in FTEs – *full time equivalents*. Three FTEs equal three, full-time positions. However, three FTEs can also equal six employees who are only 50% active. The cost of three FTEs logically amounts to 'three times their annual salary plus employment expenses.' Internet technology can ensure that physical contact between customers and personnel is minimised or non-existent in certain service delivery processes. This, of course, greatly reduces staffing costs - but a properly-functioning, digital, service delivery process is then necessary. This is elaborated under the P of process.



Personnel: 'Happy people'

Ad 2 Process

Giving content to the P of process requires an answer to the following questions:

- Where do the actions take place: back office or front office?
- What actions should the customer perform in the service delivery process?
- What actions does the organisation perform?
- Do these steps fit in with the organisation's culture?

Service delivery process

In the initial phase of a plan, the service delivery process can be subdivided into five to seven steps, which make it clear 'how' the service is being delivered. For example, a transport organisation that wants to make weekly deliveries to a supermarket could differentiate the following phases: order acquisition, loading, driving, unloading and invoicing. In order to implement this systematically, it is essential to provide overall insight into these activities. Personnel costs can often be saved if all work is restricted to the back office, but a larger promotion budget is then necessary – otherwise no one knows that the company exists. Many websites, in particular, are 'lost in the crowd' and barely receive any visitors. A front office focus, on the other hand, puts a great deal of pressure on personnel. The majority of temp agencies, besides having branches with counter personnel (front office), also have extensive websites, where job seekers do not require physical contact with personnel (back office). This means it is vital for job seekers to know that the temping agency exists. A high ranking in search engine results is therefore crucial. Likewise, advertising in newspapers and on radio and television is essential.

Ad 3 Product

The P of product indicates which products the organisation provides. This P answers the question 'what'? In fact, in this book, this P should not be called 'product', but 'service'. In particular, this P provides an overview of the most important services that the organisation delivers. For instance, temporary employment organisations and recruiters deal with fluctuations in supply and demand, and they really notice when things are going either well or

badly for the economy. When unemployment is high they will attract more customers than when unemployment is low. There is sometimes a surplus of job seekers in a sector in which few jobs are available. In order to react to this, Randstad employment and recruitment agency – for example – offers re-integration projects. There is guidance throughout the project and a profile is created containing the job seeker's interests, desires and potential. Different services may each have their own processes in this regard, with their own, specialised personnel. This makes an overview rather complicated.

Ad 4 Place

The 'where' is central to 'place'. The choice of location is an important aspect of this P, since locations vary considerably in cost. These cost differences are associated with the quantity of customer traffic experienced at a location. The high price of a square meter is not such a major problem if a vast number of potential customers are expected. The questions to be asked are:

- How intensively do I want to offer my services (at how many locations)?
- Who is present in my physical environment (personnel, customers, or both)?
- Do I offer one service to one target group, or do I opt for hybrid forms?
- Should I also sell my services in a virtual environment?

A variety of answers is possible, and certain choices need to be made. A lecture room, for instance, has to be in a distinct place that is accessible for both the personnel and the customer (student), while the location of a temping agency, for example, could be determined on different grounds.

Ad 5 Price

When putting together a marketing plan, calculations are vital. It is not simply a matter of earnings (revenue) having to cover costs. With regard to the P of price, the following issues are relevant:

- What objective do I want to achieve by manipulating price?
- What costs do I incur as a service provider? What is the break-even revenue?
- What costs does my customer incur in acquiring the service?

These plans are then translated into euros and the cost of providing the service is calculated. Striving for quality often entails higher costs, which have to be included in the price.

Ad 6 Promotion

The last P – and usually the most expensive – is the P of promotion. This P communicates all of the above marketing mix information to the customer, and every service provider should implement this P with the greatest of care. The stimulation of word-of-mouth is a particularly important aspect in the services sector, but it is also very difficult to directly influence. The entire communication mix must be addressed under the P of promotion. The most important communication disciplines are advertising, personal sales (note the consequences for personnel), sales promotion, public relations, direct marketing and sponsoring.

**Communication
mix**

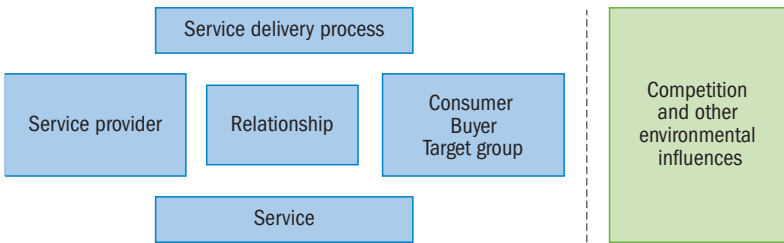
Additional disciplines are internet-based social media marketing, mobile marketing, experience marketing tools, etc. The combinations are endless, and it is nearly always expensive. You therefore have to carefully plan your communication mix - for each month, or even per day. This allows accurate calculation of costs and, consequently, profitable price setting, etc.

1.2 Basic model for service delivery

The customer is central. Everything the organisation does is better than the competition. Now all this has to be translated into activities within the business, taking into account the unique character of the organisation's culture. This means that an organisation also has to consider a number of significant aspects that (might) play a role in each internal and external transaction or service delivery process.

The basic model of the components of service delivery (De Vries & Dekker, 2007) provides insight into the total situation (see figure 1.10). Both the individual components and the cohesive whole that they form are important.

FIGURE 1.10 The components of service delivery



The figure illustrates clearly that any form of service provision implies the offer of services and goods to (various) consumers, who also play a particular role in the service delivery process. The services and goods can be seen as the *what*, while the service delivery process is the *how*. After concluding an initial transaction, the customer and the service provider may develop a relationship. *Who* is delivering the service is then important. Both parties enter into this relationship in order to decrease risks, reduce uncertainty and/or boost social satisfaction. Every analysis starts by recording the initial situation. The diagram is then completed in response to a number of basic questions. This creates a convenient overview of the situation.

Service provider

Every service-providing organisation deals with an initial situation: the employees (how many?), the equipment and the dominant culture within the organisation (what?). These are the pre-existing conditions of the organisation and will not easily submit to change. A culture is invisible – but it can emerge as a very real stumbling block to those wanting to change it. Many questions need to be answered in the process of formulating a strategy for a service-providing organisation.

The following, initial departure points are relevant to this process:

- *Size*: How large is the organisation? (The number of FTEs, the number of divisions/sites, the number of people per division, etc.)
- *Financial situation in terms of revenue and/or profit*: If the actual figures are not available they may be estimated, based on a general feeling for and knowledge of the business. Revenue/profit can be estimated using the following categories: under €10,000, between €100,000 and €1 million, between €1 and €10 million, between €10 and €100 million, between €100 million and €1 billion, over €1 billion.
- *Organisational culture*: Describe the organisation's culture. Examples are commercial - or not-for-profit, international or national, country of origin (a Japanese organisation has a different culture from a German one), bureaucratic, family business, franchise, etc.

These departure points can often be established by means of a brief inventory. The website of the organisation being analysed usually provides sufficient information. The annual report and the Chamber of Commerce or companies' register are also useful. And a visit or a telephone call to the organisation can yield results.

Services

Service is ultimately about fulfilling customer needs. Every service provider exploits this with their offer of goods or services – these being essentially 'what' the customer eventually receives. In many instances, these are not standard services. An organisation's service package therefore requires description.

The service package of Ernst & Young (www.ey.nl) could be described as in example 1.11.

EXAMPLE 1.11

At Ernst & Young five services (accountancy, tax advice, legal advice, management advice and transaction advisory services) are the major components of the service package. Ernst & Young also offers its customers support in a number of specific areas, such as

eDP (electronic data processing) audit, actuarial advice, security management, forensic services, policy investigation, human capital, site-location advice and documentary information systems. Legal services are subcontracted to trusted third parties.

Information on service delivery components is often easy to obtain.

The *service provider* details in example 1.12 are from the company's website.

EXAMPLE 1.12

In 2010, on a global basis, Ernst & Young had 130,000 employees spread over 140 countries.

Ernst & Young is among the global market leaders in its field. Revenue per employee is \$162,000 and global revenue in 2010 amounted to \$21 billion.

Transferring these details to figure 1.10 helps to build a clear picture of this organisation and its services.

Consumer

Of course, the consumer cannot be omitted from this analysis. The demand-side party in a service market can be the customer (in a shop), a buyer (in an industrial organisation), a colleague (in the case of internal customers) and/or a client (. Whatever name the consumer goes by, a certain level of customer insight is essential. The basic questions to be asked in this initial phase of the analysis are:

- Are these B2B (business-to-business) customers, end consumers (B2C), or a combination of both?
- Roughly how many customers does the organisation have (tens, hundreds, thousands or millions)?
- Does the organisation deal with a few, very large customers, or customers that are all more or less the same size in terms of revenue? What is the approximate invoiced amount, or turnover, per customer?

Answering these questions is fairly straightforward. For example, the ING has around 8 million banking customers. Of course, it also has organisations as customers (B2B), but a large number of the 8 million customers are consumers (B2C), and these differ from each other in many respects, including size. A nursing home also has to deal with both types of customer. The patient is obviously B2C, yet the healthcare insurer that ultimately pays the bill is B2B. The person visiting the patient is, again, B2C. Organisations therefore often have to serve both types of customer, although a nursing home has a relatively small number of customers. A recruitment and selection agency also has to deal with both types of customer.

Service delivery process

Consumers often take part in the service delivery process themselves. This participation ranges from frustrated waiting (for a late train), to acceptable waiting (in a restaurant), to typing in details (e.g. entering your ATM code), to exerting physical effort (standing a long time at a live concert) or mental effort (such as during a seminar). This role is described as *prosumership*. Consumers often have to cooperate in the development of a process, in order to be able to actually consume the process or its underlying service. This is an essential characteristic of the service delivery process. A key question is which role must the customer play in prosumership? Should you treat all consumers of a service in the same way - or in specific, individual ways?

How do customers notice that you are paying them specific attention? What role does the customer play: active or passive? Would the customer appreciate an active role? These are typical of the questions to be asked about prosumership.

Although it is often quite difficult to analyse an organisation's service delivery process, one must assess whether this process involves a lot of interaction with the customer (a front office focus) or little contact (mainly back office). In fact, these same questions are put in relation to the P of process.

Relationship

The fifth and final component is the relationship between the organisation and the customer. We will discuss the impact of a relationship on the customer's perception of quality in chapter 6. For instance, what role does image play? Whether relationships can be formalised is also of importance - the essential question being whether the customer is bound by any laws, rules or conditions. So how does a good relationship influence a customer's perception of quality? Many characteristics of the relationship affect the answer, the most important being:

- What is the frequency of contact (one-off, annual, monthly - or more often)?
- Can the customer leave (fairly) easily, or is he bound by some sort of contract?
- Does the customer (in)frequently switch?

A relationship with a life insurer, like Axa (operating in France, USA, UK), would typically have the characteristics of infrequent contact, a formal contract, and infrequent switching - which should amount to an 'easy' customer relationship. Axa only has to focus on preventing customer dissatisfaction, a potential source of problems in this otherwise easy relationship. Conversely, supermarket chain Colruyt (Belgium) has to deal with frequent, non-contracted customers who, despite the fact they can easily go elsewhere, remain fairly loyal.

Once these questions have been answered, an initial picture of the organisation's customer relationships begins to emerge, and can be used to populate the basic figure. Completion of the figure may be repeated a number of times for the same organisation if, for example, it has a range of completely different services and/or strategic business units, each with very different customers. In any event, one must ensure that the initial situation or departure point is clear, and that this is used as a benchmark for later analysis and for drawing conclusions that are relevant to the strategic plan. A brief description of the key competitors

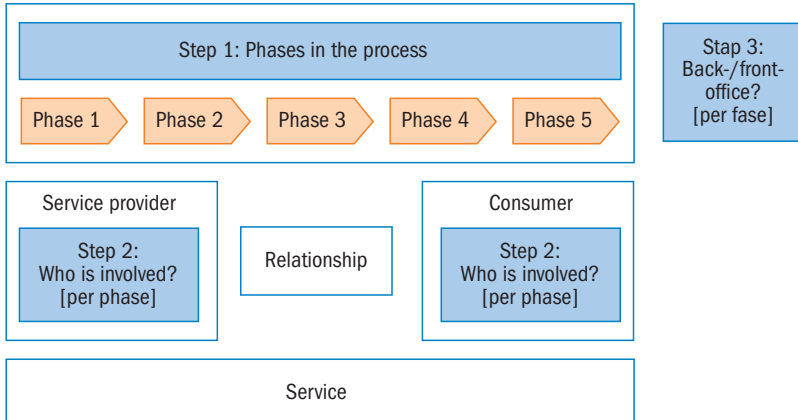
1.3 Aspects of services marketing

The DNA model is an elaboration of the basic model and often applied in practice. It is clear that both the service provider and the customer determine the service delivery process. It is therefore logical that both are informed as to the role they are expected to fulfil. For this reason, insight into the different phases of the service delivery process is important for an understanding of how the service delivery process actually operates. These phases may be analysed in three steps, using the DNA model of De Vries Jr. and Dekker (see figure 1.13) as follows:

- Step 1: What are the phases of the service delivery process?
- Step 2: Who must be involved in these phases? (This applies to both the organisation and the customer.)
- Step 3: Which phases take place in the back office and which in the front office?

DNA model

FIGURE 1.13 The DNA model according to De Vries Jr. and Dekker



Step 1 What are the phases of the service delivery process?

In the first step of the DNA model, the service delivery process is divided into five (or at most seven) phases. These phases are different for each service provider.

Our first example is the logistics organisation, the Jan de Rijk Group (www.janderijk.com). See example 1.14, below.

EXAMPLE 1.14

The logistics business, the Jan de Rijk Group (The Netherlands), is active in transport, storage and distribution in Europe. This logistics service provider takes care of the transport of high-value goods with its fleet of 400 trucks and also coordinates around 300 charters. The group's central planning is available 24/7 as a non-stop service to clients. Jan de Rijk uses advanced IT systems and applications in order to synchronise service delivery with the needs of its global clientele.

If we divide the service delivery process into five phases, the following picture emerges:

- Phase 1: order acceptance
- Phase 2: planning and loading
- Phase 3: driving
- Phase 4: unloading
- Phase 5: invoicing

This process assumes that the vehicles are actually engaged in delivery. Where a load is only collected the process changes. It is also conceivable that Jan de Rijk offers storage, in which case another phase should be added.

Vision correction (see example 1.15) requires a process description that is completely different to that in example 1.14.

EXAMPLE 1.15

Undergoing vision correction at Care Vision (www.care-vision.com) also involves a number of phases. According to their website, the Lasik treatment consists of a painless intervention with a short recovery time. On the day of the treatment, you are welcomed by one of the employees and once again receive an explanation and instructions, followed by the treatment. After the operation you receive instructions for the recovery period from one of the consultants and you can go home immediately. Your vision recovers on the same day and is usually optimal within a week.

This clinic therefore has the following phases:

- Phase 1: preliminary interview
- Phase 2: intake for treatment
- Phase 3: treatment
- Phase 4: discharge from the clinic
- Phase 5: recovery period
- Phase 6: invoicing

The phases of preparation, delivery, consumption and use at Care Vision are easy to differentiate.

For a third example we look at a holiday, booked through www.fox.nl (see example 1.16).

EXAMPLE 1.16

Fox Holidays employs a totally unique concept: complete packages are offered on www.fox.nl and can be booked online. In addition, the majority of package holidays can be extended. If we analyse this process, the following phases are evident:

- Phase 1: creation of offer + website
- Phase 2: booking received
- Phase 3: confirmation received
- Phase 4: payment received
- Phase 5: reception at airport
- Phase 6: holiday at location
- Phase 7: return home

There are a great many parties involved in this process: airlines, airports, tour operators, hotels and taxis, to name but a few. Any link in this chain can either make your holiday or ruin it. And who gets blamed if the guide is unfriendly, or if the group always arrives late? The organisation through which the holiday was booked and paid.

Step 2 Who must be present in these phases?

We will now use the above examples (1.14 to 1.16) to look at who gets involved in the various phases. Differences can arise, based, for example, on the way the internet is involved in the process. An order could be placed digitally, for instance, or registered via an employee. However, if customers have to order everything digitally, they then have to register and remember a password. And may, of course, forget it. Example 1.17 is based on the logistics provider, the Jan de Rijk Group.

EXAMPLE 1.17

As Jan de Rijk (see example 1.14) uses advanced IT systems and applications in order to optimally synchronise the needs of its global clientele, we assume that the order is or can be made online. For the sake of argument, we will ignore the fact that the order might also have been accepted by telephone. Thus, in phase 1, there are no simultaneously active people. The customer enters the order and Jan de Rijk receives it digitally. The organisation thus only has (digital) contact with a buyer or person placing an order. Employees at Jan de Rijk then plan the orders, arranging routes and trucks and prepare freight forms (phase 2). This phase ends with loading and unloading the vehicles.

Only the driver is active during the journey although, if they want to, customers can monitor these activities using a track-and-trace programme. This means that customers are not necessarily involved in this phase, though they must be active in the unloading phase. The driver will have to gain access to the delivery site and/or warehouse, and someone must be present to confirm receipt of the goods. The driver thus has contact with the warehouse personnel and potentially the buyer. The (virtual) warehouse form then goes to the administration department of Jan de Rijk, which takes care of the financial settlement with the customer's administration department.

The service delivery process can be explained on the basis of its five phases. An error can occur in any phase, because of employees not acting in accordance with the process rules. Example 1.18 concerns Care Vision.

EXAMPLE 1.18

At Care Vision (see example 1.15) there are also various people involved in the service delivery process. The patient, of course, goes through all phases, the final one being the possible exception. If a health insurer is paying the bill, it is invoiced - and the customer doesn't see a bill. If the patient is insured, Care Vision will also have to treat the health insurer as a customer, since it is the source of payment. With regard to revenue, it is very important for Care Vision to satisfy this second customer. As far as the patient is concerned, the clinic also has to take into account that there may also be a third 'customer' present, such as a spouse or another involved party. This third customer literally does nothing but wait during phases 2 to 4. This person's perception of quality may be heavily influenced by a pleasant waiting room experience.

A luxurious waiting area, fresh coffee and up-to-date reading matter can be decisive in this regard. Care Vision uses various employees: The doctor is most involved in phases 1 (preliminary interview) and 3 (treatment). One of the employees will be active during phases 1, 2 and 4. It is important here to designate one person for this role, who becomes as familiar to the customer as possible. In phase 5 the customer has returned home and an 'How are you?' over the telephone is the only possible contact. Care Vision does the right thing by planning this contact as standard and having it performed by the familiar employee. In short: various employees, three customers and the end result can all determine the patient's level of customer satisfaction.

At Fox Holidays the process is, again, different. (See example 1.19)

EXAMPLE 1.19

The situation at Fox is quite complex (see example 1.16). A successful group holiday in Thailand – a family destination – is determined by various external parties (airline, hotel, restaurant, transport organisation - and let's not forget the other guests on the trip) and only to a very small degree by Fox personnel.

These personnel are active in all phases of the process, but the intensity of this interaction does not outweigh the prosumership involved in phase 6: the holiday at the location. In fact, we could say that the quality of Fox is largely determined by people who are not really involved with Fox.

Step 3 Which phases take place in the back office - and which in the front office?

Once the first steps of the DNA model have been completed, it can be ascertained whether each phase is front office (in the presence of the customer) or back office (out of sight of the customer). Front office activities deserve particular attention, since these often determine the customer's quality perception.

When delivery and consumption occur at the same time, both service provider and customer are influenced by a variety of factors. The provider must put its best foot forward - this is after all the moment of truth. The service provider is well aware that the customer will be evaluating the service, both during delivery and afterwards. And the customer's evaluation is not restricted to the service. The customer's evaluation extends to include a variety of factors. Among which the opportunity for service provider error is constantly present!

In a worst-case scenario it might be that a customer has just been given a speeding ticket, his wife has just left him and, to top it all, his less-than-successful haircut was subjected to a downpour at the moment he stepped out of his car to attend the meeting with the service provider. What should the service provider do? For a start, keep smiling: the service provider's duty is to put a lot, if not everything, right.

It will be clear that the prosumership that takes place when the customer is in the front-office situation is heavily determined by: the nature of the service procedures; interactions with personnel; the effect of the physical environment on the customer's mood and on his memory of the service; the customer's evaluation and the customer's behaviour. A mood model has been developed, based on the variables of Procedures, Interactions and Physical Environment.

Procedure determines the way the service is rendered and describes what takes place within a process. A procedure can be seen from the point of view of either the service provider or the customer. A service provider may decide, for instance, to formally record a certain procedure. (The ISO handbook is full of such process descriptions.) Strictly prescribed actions and procedures for the front office can make for stern and inflexible personnel, inadequate reactions to problem situations and a negative influence on the customer's mood. In addition, there are procedures that involve the customer during service delivery. Minimisation of such involvement can make the procedure more pleasant for the customer. An example of a rather unpleasant customer

Procedures

procedure can be seen at airports the world over in the form check-in queues, passport control and waiting times when boarding. (See also subparagraph 5.12 as regards waiting times.) Customers want an efficient service delivery process with clear procedures. A lack of clarity regarding procedures means that many people give up and/or change their mood. For many service providers, preventing the negative customer mood that arises from too many procedures and/or irritating procedures is more important than just making the procedure more pleasant. Internet service providers, in particular, see website visitors give up when the procedure is unclear or too irritating.

1.4 Defining services marketing management

We use the following definition of management:

Management

Management is the continuous process of analysing, planning, implementing and evaluating the activities (to be) used to achieve the organisation's objectives.

This definition implies the PDCA cycle:

- 1 *Plan*: set goals and make plans for achieving them
- 2 *Do*: implement plans
- 3 *Check*: evaluate the results and check to what extent the objectives have been reached
- 4 *Act*: check where and what improvements are needed and take action on this; retain or standardise aspects that are successful.

A great deal of time and attention is often given to the first two phases, while the third and fourth phases of the cycle are subsequently neglected. This means that although plans are made and implemented, they are not generally evaluated and fine-tuned. Learning experiences are therefore not properly exploited when setting up new plans.

The final step involves a proper assessment of whether the various forms of management are relevant for the organisation. These forms of management are a function of the basic characteristics of services: intangibility and lack of ownership, perishability, heterogeneity and interactivity. The degree to which such features occur determines whether an organisation should put time, money and effort into these forms of management. If we link together the terms 'services', 'marketing' and 'management' we arrive at the term 'services marketing management', which we define as follows:

Services marketing management

Services marketing management is an area of marketing and management in which the intangibility of products and the issues resulting from this are central. It requires management of five components of service provision the organisation, the service, the consumer/buyer, the service delivery process and the customer relationship.

This concept of services marketing management is central - and the structure of this book (see figure 1.20) therefore involves extensive environmental analysis. We will attempt to interpret environmental trends in terms of the impact they have on the organisation. We then focus on strategy, offering a variety of strategies that will ultimately lead to the desired positioning. In the following chapters we will discuss various areas that are closely associated with the four basic characteristics of services. We conclude by explaining how service concepts are developed and provide a structure for the services marketing plan.

FIGURE 1.20 Services marketing management as a strategic process

