

# PRINCIPLES OF MARKETING / 13C

IBMS /  
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*Based on Ph. Kotler's Principles of marketing / international edition, and miscellaneous designer's lecturing materials*



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## MARKETING SERVICES

### Nature & characteristics of services

- **Defining services and the service mix**
  - One of the major trends in recent years has been the **enormous growth of services**. The shift towards a service economy has mainly arisen because of our **growing wealth, more leisure time** and the **growing complexity of products** that require servicing.
  - In most W.-European countries, the U.S.A. and Japan, **more people are employed in services** than in all other sectors of the economy put together. Both public and private sector services in these countries account for approx. **>70% of the gross domestic output**.

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## MARKETING SERVICES

### Nature & characteristics of services

- **Defining services and the service mix**
  - **What is a service?** Any activity or benefit that one party can offer to another which is essentially **intangible** (= non-material) and **does not result in the ownership of anything**. These activities can be focused on persons or on goods. A service is a specific, intangible type of appearance of (a part of) a product.
  - Generally, a firm's offering to customers often includes some services. This service component can be a minor or a major part of the total offering. As such, there is rarely such a thing as a pure service or a pure good.

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**MARKETING SERVICES**

**Nature & characteristics of services**

- **Products / services continuum**

Products / services continuum  
(G. Lynn Shostack)

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**MARKETING SERVICES**

**Nature & characteristics of services**

- **Products / services continuum**
  - Firms can create a **differential advantage** by moving along the continuum by altering the balance of tangible and intangible elements associated with their offering.

**5 categories of offerings can be distinguished:**

- 1/ the offering consists of a **pure tangible good**, such as salt, soap or toothpaste: no services accompany the product.
- 2/ the offering consists of a **tangible good with some accompanying services**, such as is the case with cars and computers.

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**MARKETING SERVICES**

**Nature & characteristics of services**

- **Products / services continuum**
  - 5 categories of offerings (cont'd)

- 3/ a **hybrid offering, consisting of equal parts of goods and services**, for example: the offering of a restaurant.
- 4/ the offering consists of a **service with some accompanying minor goods**, such as is the case with airlines that primarily offer a transportation service, along with foods, drinks, etc.
- 5/ the offering involves a **pure service**, for example: babysitting, or a doctor's examination.

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**
  - A firm should consider 6 main service characteristics when designing marketing programs: **intangibility, inseparability, variability, perishability, lack of ownership** and **direct interaction**.
  - **Intangibility:**  
services can't be held, touched or seen before the purchasing decision.  
Because services tend to be a performance rather than an object, they are much more difficult for consumers to evaluate.

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**
  - 6 main service characteristics: (cont'd)
    - **Intangibility** (cont'd):  
Due to this intangibility consumers will feel uncertain about the quality and the performance of the service, resulting in consumer's **perceived risk!**  
To help consumers assess and compare services marketers try to make them tangible in some aspect or show the benefits of using the service, for instance Korean Air emphasizing its sleeper seats, in-seat phones and personal TV's.

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**
  - 6 main service characteristics: (cont'd)
    - **Inseparability:**  
In most cases, consumers cannot (and do not) separate the deliverer of the service from the service itself.  
For example, to receive an education, a person may attend a university. The quality of this education might be high, but if the student has difficulty interacting with instructors, or does not receive adequate study assistance, the student may not be satisfied with the educational experience.

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**

- 6 main service characteristics: (cont'd)

- **Inseparability** (cont'd):

The amount of interaction between the consumer and the service provider depends on the extent to which the consumer must be physically present to receive the service. Some services such as haircuts, medical diagnoses and food service require a large amount of personal participation. Others, such as car repair and dry cleaning require less personal involvement or none at all (banking, insurance).

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**

- 6 main service characteristics: (cont'd)

- **Inseparability** (cont'd):

Another aspect of this service characteristic has to do with the extent to which the consumer needs to help 'produce' the service provided.

Tangible products are usually manufactured according to the needs and wants of consumers. Services, on the other hand, are usually 'produced' in close cooperation with the consumer (for instance: accountancy, advertising services, physiotherapy, etc.).

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**

- 6 main service characteristics: (cont'd)

- **Variability** (inconsistency):

The quality of a service is often inconsistent; many services are also hard or even almost impossible to standardize.

Because services depend on people who provide them, their quality will vary with each service provider's capabilities and day-to-day job performance. This is the reason why many organizations try to **reduce variability through training and standardization of processes.**

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**
  - 6 main service characteristics: (cont'd)
    - **Variability: steps towards quality control:**
      - 1/ hire and train personnel carefully, especially in view of customer care and customer satisfaction;
      - 2/ motivate staff by providing **employee incentives** that emphasize quality (such as through bonuses, awards, etc.);
      - 3/ make **service employees more visible and accountable** to consumers;
      - 4/ if possible: **substitute equipment for staff.**

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**
  - 6 main service characteristics: (cont'd)
    - **Perishability:**

Services cannot be stored for later sale or use. This perishability of services is not a problem when demand is steady. However, when demand fluctuates, service providers often experience major difficulties. For example, public transportation firms have to own much more equipment because of rush-hour demand, than they would if demand were even throughout the day.

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**
  - 6 main service characteristics: (cont'd)
    - **Perishability:**

Service firms can use several strategies for producing a better match between demand and supply. On the **demand side:**

      - application of **differential pricing**
      - **development of demand during off-peak periods** (mini-vacation weekends for tourists)
      - offering of **complementary services**, such as ATM's in banks
      - use of **reservation systems** (airlines, hotels).

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**
  - 6 main service characteristics: (cont'd)
    - **Perishability:**

Strategies for producing a better match between demand and supply.

On the **supply side:**

      - employment of **part-time employees**
      - increase of **efficiency** (doing the right job)
      - enlargement of **customer-participation** (McDonald's, grocery stores, etc.)
      - **sharing of services** (hospital equipment)
      - **anticipation of future growth** (investments in larger airplanes, more facilities, etc.).

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**
  - 6 main service characteristics: (cont'd)
    - **Perishability:**

As indicated earlier, the desired degree of participation by customers is one of the most important strategies a service firm can develop.

As customers are encouraged to participate more frequently (McDonald's), the firm will be more able to achieve a **higher degree of standardization**. Opposite to this, less participation by customers will require a **higher degree of customization**.

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**
  - 6 main service characteristics: (cont'd)
    - **Lack of ownership:**

When customers buy **physical goods**, they have **personal access** to that product for an unlimited time, because they actually own the product.

The consumer of a service often has **access to the service for a limited time** (for example, a holiday).

Because of this lack of ownership, service firms can experience **problems concerning brand identity and affinity with the consumer**.

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**
  - 6 main service characteristics: (cont'd)
    - **Lack of ownership:**

In order to reduce the problems involving brand identity and affinity with the customer, firms can:

      - **offer incentives to consumers** to use their service again (frequent flyer schemes)
      - **create membership clubs** (IKEA's family club)
      - **turn the disadvantage of non-ownership into a benefit**, for instance, by hiring a less well-known firm instead of an expensive one.

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## MARKETING SERVICES

### Nature & characteristics of services

- **Characteristics of services**
  - 6 main service characteristics: (cont'd)
    - **Direct interaction:** due to the fact that (most) services are focussed on individual persons. This characteristic usually leads to (the pursuit of) building *trust* and developing *relationship management*. Besides conducting direct interaction, customers are often also instigated to interact in other ways with the service firm (example: banking and insurance companies through the Internet). However, this practice could *threaten* the service firm involved!

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## MARKETING SERVICES

### Nature & characteristics of services

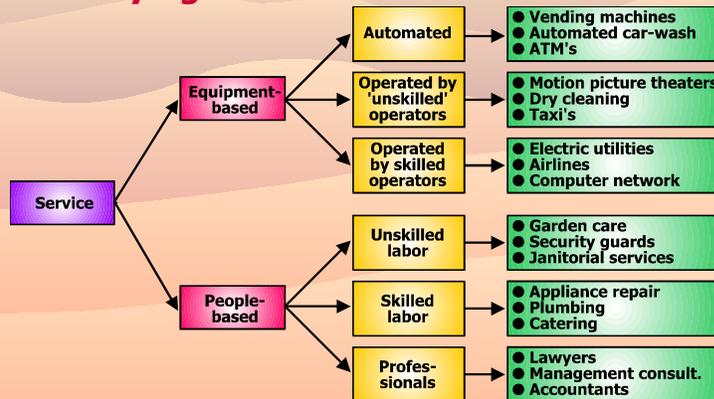
- **Classifying services**
  - Services can be classified in several ways, for instance according to:
    - 1/ whether they are **delivered by people or equipment**
    - 2/ whether they are **profit or non-profit** driven
    - 3/ whether or not they are **government sponsored** (subsidized).

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## MARKETING SERVICES

### Nature & characteristics of services

#### ● Classifying services



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## MARKETING SERVICES

### Nature & characteristics of services

#### ● Classifying services

- **Services delivered by people or equipment:** Companies can offer services provided by professionals (such as lawyers and consultants), by skilled labor (for instance appliance repair, or catering service), or by 'unskilled' labor (such as shop security service, or garden care).

Equipment-based services do not have the marketing concerns of inconsistency (quality fluctuations), because people are removed from provision of the service: the service depends fully or to a great extent on machinery.

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## MARKETING SERVICES

### Nature & characteristics of services

#### ● Classifying services

- **Profit or non-profit organizations:** In contrast to profit organizations, non-profit organizations' excesses in revenue over expense ('profit') are not taxed or distributed to shareholders. This excess revenue goes back to the organization's treasury to allow continuation of the service. Although most non-profit organizations used to not believe in marketing practices, now non-profit organizations, such as hospitals, universities and museums have increasingly turned to marketing to expand their revenues.

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## MARKETING SERVICES

### Nature & characteristics of services

- **Classifying services**
  - **Government sponsored or not:**

Although there is no direct ownership and they are non-profit organizations, governments in the national, federal, state, and local levels provide a wide range of services. Many national postal services, for instance, have adopted various marketing activities, often to promote new parcel delivery services.

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## MARKETING SERVICES

### Marketing strategies for service firms



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## MARKETING SERVICES

### Marketing strategies for service firms

- **The service-profit chain**
  - **Successful service firms focus their attention on both their employees and their customers.** They understand the **service-profit chain**, which links service firms' profits with employee and customer satisfaction.

This chain consists of **5 links**:

    - **Internal service quality**, regarding superior employee selection, training & support
    - **Satisfied and productive service employees**
    - **Greater service value**: more efficient & effective customer value creation and service delivery
    - **Satisfied and loyal customers**
    - **Healthy service-profits and growth**

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## MARKETING SERVICES

### Marketing strategies for service firms

- **The service-profit chain**
  - Obtaining service profits and growth goals starts with care of those who take care of customers.  
Therefore, service marketing requires **internal marketing, interactive marketing and relationship marketing**.
  - **Internal marketing**: marketing by service firms, based on training and effectively motivating their customer-contact employees and all the supporting service people (the 'internal market') to work as a team to provide better customer satisfaction.

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## MARKETING SERVICES

### Marketing strategies for service firms

- **The service-profit chain**
  - **Interactive marketing, relationship marketing**:
    - **Interactive marketing**: marketing by service firms that recognize that perceived service quality depends heavily on the quality of buyer-seller interaction.
    - **Relationship marketing**: the strategy of service firms that focus on establishing relationships with customers that continue well beyond the first purchase.

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## MARKETING SERVICES

### Marketing strategies for service firms

- **Capacity management**
  - **Managing demand and supply**:  
Most services have a **limited capacity** due to the **inseparability of the service** from the service provider and the **perishable nature of the service**.  
For instance, a patient must be in the hospital at the same time as the surgeon to 'buy' an operation, and the surgeon can only help one patient at a time.  
Service firms must manage the availability of the offering so that demand matches capacity over the duration of the demand cycle, and so that the firm's assets are used most effectively.

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## MARKETING SERVICES

### Marketing strategies for service firms

- **Capacity management**
  - **Managing demand and supply:**

Depending on the demand fluctuations, management of service firms can take appropriate measures by:

    - **influencing the supply**, through:
      - employing part-time employees
      - increase of efficiency
      - increase of customer-participation
      - using and combining capacities of other firms
      - anticipating further expansion of operations.

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## MARKETING SERVICES

### Marketing strategies for service firms

- **Capacity management**
  - **Managing demand and supply:**

Also, service firms can choose to take measures by:

    - **influencing the demand**, through:
      - applying price differentiation (off-peak pricing, for instance)
      - development of off-peak demand
      - addition of complementary services (airlines & lodging, for example)
      - utilization of a reservation-system.

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