

Trends in Marketing Services

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ABSTRACT

SERVICE DIFFERS FROM product marketing due to the fact MARKETING that services are intangible and typically require personal interaction with the customer. Yet an understanding of this type of marketing is important since service jobs generate 74 percent of gross domestic product. Even though many of the tactics of product marketing (e.g., advertising) require only minor adaptation to be applied to services, the role of interpersonal relationships distinguishes service and product marketing in strategic vision and organizational considerations. This article explores some of the trends in service marketing as they relate to strategic vision, operational and organizational changes, and marketing tactics. Even though many of the tactics of product marketing (e.g., advertising) require only minor adaptation to be applied to services, the role of interpersonal relationships distinguishes service and product marketing in strategic vision and organizational considerations. These are discussed later. In terms of strategic vision, examples are provided of companies that have successfully redefined their business as broader systems of services built on competitive core competencies. Customer service activities are a critical and inseparable part of doing business for any offering along the continuum. It then goes on to describe the need for a market-driven culture, the use of training and incentives in making the transition, the role of product management in enabling a crossfunctional perspective necessary for quality service to become a reality, and the significance of "mood" or climate. Finally, it presents comments on new service development, segmentation, database marketing, channels, and advertising as these relate to marketing in the service sector.

1. INTRODUCTION

Marketing, as the term is commonly understood today, developed initially in connection with the selling of consumer packaged goods and later with the selling of industrial goods. Yet one of the major megatrends in America has been the phenomenal growth of services. Service jobs generate 74 percent of gross domestic product and 79 percent of all jobs. In fact, the Bureau of Labor Statistics expects service professions to account for any net job growth through 2005 (Henkoff, 1994, p. 49). These jobs go beyond what is characteristically considered the low-paid service position to include professionals in a variety of fields including medical, financial, telecommunications, and information services.

Due to the importance of the relationship between the service provider and consumer, quality customer service is increasingly being viewed as a key subset of service marketing. Even though many of the tactics of product marketing (e.g., advertising) require only minor adaptation to be

applied to services, the role of interpersonal relationships distinguishes service and product marketing in strategic vision and organizational considerations. These are discussed later.

STRATEGIC TRENDS

Levitt (1960), in his article "Marketing Myopia," wrote that the railroad industry foundered because it considered itself in the railroad business rather than in the transportation business. This fundamental shift in business definition would have dictated a very different approach to planning and growth.

Services are faced with the same challenge to redefine their businesses as broader systems of services built on competitive core competencies. Progressive Corporation is an example of an organization that has redefined its business from a company that sells automobile insurance to a "mediator of human trauma" (Henkoff, 1994). Its CAT (catastrophe) team flies to the scene of major accidents, provides support, and handles claims quickly. Contact is made with 80 percent of accident victims within nine hours after learning of the crash. To be able to provide support effectively, Progressive pays for training its agents not only in insurance matters but also in grief counseling (since part of the job involves dealing with the relatives of accident victims). This approach has earned Progressive one of the highest margins in the property and casualty insurance industry, which has notoriously low margins.

Health care is another industry being forced to reexamine its direction. Hospitals emerged during the Industrial Revolution to treat long-term chronic diseases on an inpatient basis. Their facilities were designed to accomplish that strategic mission or goal. Today's environment has shifted, and hospitals are challenged to deal with preventive medicine and outpatient services. A visible trend has been for hospitals to redesign their layout, policies, and signage to better "fit" the needs of the increasing number of outpatients. "Ambulatory services are the fastest growing part of the hospital," with outpatient admissions exceeding inpatient admissions by ten to one (Goldsmith, 1989).

In addition, hospitals have become more active in their role of promoting health maintenance. For example, Condell Memorial Hospital in Libertyville, Illinois, has recognized its mission of promoting health wellness and physical fitness by opening a 70,000 square-foot health club located on the hospital's grounds. The difference between Condell's health club and others is that health education and preventive medicine are part of the "service package" offered to members (Teschke, 1989).

The costly service innovations mentioned earlier may imply that the service vision approach is only for "expensive" services. It is not. Fryar (1991) suggests that McDonald's is not in the hamburger business but in the service business. Its slogans ("you deserve a break today" and "we do it all for you") demonstrate its service-oriented positioning. Competitors use product-oriented positioning ("flame-broiled versus fried") and are not as effective.

Taco Bell is another example frequently cited in the literature of a service company reorganizing to “fit” a broadened service vision. When the company changed the way it thought about itself—from preparing food to feeding hungry people—a change in structure became necessary. Taco Bell had moved from a product (manufacturing) orientation to a market (service) orientation. It reduced the size of its kitchens by outsourcing many of the operations. This freed up space and employees to serve customers better (Henkoff, 1994).

Part of the impetus for service organizations to change their missions has been the dramatic increase in competition. Competition has increased not only in number but also in form. Many segments of the retail industry are facing competition from “category killers” such as Whole Foods and Fresh Fields in natural foods; Wal-Mart in general merchandise; and Home Depot in do-it-yourself outlets. Hospitals are losing patients to walk-in clinics. Insurance companies are facing pressure from corporate clients who choose to self-insure. Telephone companies are waging competitive battles with cable companies. Universities are finding corporations setting up their own on-site campuses. Libraries are facing competition from corporate libraries, electronic search and retrieval firms, and other suppliers of information services.

These shifts have altered the service/price/value equation. Because customers have been exposed to more and varied services, their expectations have escalated. They now demand more quality for a lower price. The business press refers to the 1990s as the “value decade.” Companies that provide more value for the dollar than the competition will be winners in this period. Southwest Airlines has been a consistently profitable airline, even though it has taken a “no-frills” approach to operation (Heskett, 1994). It has been profitable for twenty-one consecutive years and was the most profitable airline in the industry in 1992, demonstrating that a low price for solid consistent service is valued by customers. However, value does not necessarily mean low price. Progressive Corporation, as mentioned earlier, increased the perceived value by providing exceptional services with a higher premium.

All of these changes force service providers to take a fresh look at their offerings in terms of the superior benefits they are providing their customers. In today’s world, customers have almost limitless options available in goods and services. A strong mission of service is a good starting point, but successful service companies have also been changing operational policies and organizational structures to achieve their marketing strategies.

OPERATIONAL AND ORGANIZATIONAL TRENDS

Service organizations that have increased their involvement in marketing realize that it is not simply enough to hire a marketing director; the entire corporate culture must change to be more market-driven. As Berry and Parasuraman (1991) write in their book *Marketing Services*: “In service businesses the least effective marketing department executives strive to be clever marketers; the most effective executives strive to turn everyone else in the organization into clever marketers”.

An appropriate culture is one of the most important ingredients for successfully marketing services. Bowen and Schneider (1988) cite several references stressing the importance of creating and sustaining cultures that enhance employee attachment to organizational service values (p. 63). Therefore, a market-driven “vision” is a precursor to marketing strategy. Webster (1992) provides a thirty-four-item instrument for assessing the marketing culture of a service organization to help service firms understand this aspect of strategy.

The link between satisfied customers and a culture of motivated market-driven employees has been cited in several studies. Jones (1991) describes a study conducted by Barnett Banks. The organization simultaneously conducted a survey of employees at twenty-one branches and a survey of current and former customers. They discovered that the branches to which customers gave higher ratings were the same branches where employees felt more positive and motivated. The researchers found similar findings at other banks, concluding that higher customer satisfaction was associated with offices where employees felt their work was “facilitated”. In a similar study where home health agencies were surveyed, job satisfaction was positively correlated with customer-oriented behavior (Hoffman & Ingram, 1992). In a proprietary study in the insurance industry, low employee turnover was linked closely to high customer satisfaction. This study also found that a primary source of job satisfaction was the employee’s perception of an ability to satisfy the customer (Heskett, 1994).

This has significant implications for marketing strategy. Since the attainment of a strategic vision for service organizations depends on employee/customer interaction to an even greater degree than is true for product marketers, training and organizational functions become critical components in the implementation of the marketing program. Heskett (1987) argues that a strategic service vision requires marketing and operations to be operated as one function:

The need of most service organizations to plan as well as direct marketing and operations as one function has led to the formation in leading companies of what I call a strategic service vision. Its elements consist of identification of a target market segment, development of a service concept to address targeted customers’ needs, co-deification of an operating strategy to support the service concept, and design of a service delivery system to support the operating strategy.

One of the marketing organization forms that bring together marketing and operations (although in a matrix structure rather than direct line authority) is the product management function. Product management, like many of the marketing approaches, grew up in the consumer packaged goods industry. In this organizational form, product managers were given responsibility for specific brands or product lines. They forecast sales volumes, developed long- and short-term plans, recommended new products and product changes, developed marketing strategies to accomplish the plans, and served as the liaison among the customer, the sales force, and the varied internal departments on issues related to the product. In most cases, the product manager was charged with the responsibility for assuring bottom-line results without having direct authority over the internal departments producing and selling the product. The work had to be handled cooperatively in a cross-functional team fashion.

Product management then moved into consumer durables, into industrial products, and is now common in service organizations. In some cases, the product manager manages a line of service products, very similar to the approach used in product companies. However, many service organizations have product managers responsible for specific market segments. Although the product manager typically still operates through referent authority rather than explicit authority, the position enables the cross-functional perspective necessary for quality service to become a reality. When the product/market manager focuses on satisfying the needs of a specific target market segment, the service “product” and customer service activities are brought together into a quality package.

Insurance companies frequently have product managers assigned to specific lines of products. Many major financial institutions have product managers for specific markets such as small businesses. Health care organizations may have product managers for women’s services, covering offerings from weight maintenance, prenatal care, birthing options, menopause, and other related issues. The success of the organizational structure depends on a variety of issues as it does for manufacturers of physical products. However, there have been some studies which indicate that a product management organizational structure can improve the bottom line for the service organization.

Naidu, Kleimenhagen, and Pillari (1993) cite survey data collected from a random sample of hospitals which indicate that hospitals with product line management outperformed those without on virtually all performance indicators, including occupancy rate, gross patient-revenue per bed, average profit margin, and return on assets. Not surprisingly, the implementation of product line management increased with level of competition and hospital bed size. In referencing previous studies, the authors found that product line management in hospitals offered the benefits of increased accountability, elimination of duplication of services, and a better market orientation. The limitations cited included a possible increase in costs since functional management was not eliminated, and there was an increased need for more timely and accurate data.

Whether or not product management is instituted in an organization, employee hiring, training, and incentives are critical to the realization of a strategic service vision. Henkoff (1994) suggests that “[the changing nature of customer service demands a new breed of worker-one who is empathetic, flexible, inventive, and able to work with minimal supervision”. The author cites ServiceMaster’s Merry Maids subsidiary as an example of careful employee selection. They reject nine out of ten applicants for entry-level positions because they are looking for employees who fit their commitment and values.

Training can be in the classroom and/or on the job. Classroom training should provide information on both company policies and procedures and interpersonal skills. Disneyland provides extensive training for its street sweepers-not just to do the physical job better but also to “empower” them to answer any questions customers may have about the facilities.

Training employees in several jobs-called multiskilling-has been a growing trend in several organizations. For many, it started in response to labor shortages, but the result has been more

satisfying work, increased knowledge of the overall company, and faster response to customers. Lechmere, Inc., a retail chain owned by Dayton Hudson, tested multiskilling in a store it opened in Sarasota where workers were in short supply. It offered raises to workers based on the number of jobs they learned to perform. By having employees with transferable skills, Lechmere could redeploy workers when needs changed.

According to corporate management, this store was more productive and had more full-time employees than the rest of the chain (Alster, 1989).

Retraining employees in conjunction with technological improvements has been a growing and significant trend in service organizations. USAA, a San Antonio, Texas, insurance and financial services firm, has used a combination of training and technology to improve employee efficiency. Customer service representatives now assume broader responsibilities by handling the insurance application process from start to finish, a process that used to require the work of several departments. A new office automation system allows them to complete the work through a telephone and terminal, accessing the necessary pieces of information immediately (Alster, 1989).

Schneider National, facing a deregulated transportation market, realized the need to transform the company. First, it attempted major cultural change to refocus the organization to be more market driven.

The company became less bureaucratic, encouraging its “associates” to act on behalf of the customer. Second, capital was invested in a satellite computer system to track and make the most efficient assignment of trucks and drivers (Magnet, 1992).

ServiceMaster augments education with research and development. By studying how people work; the company develops better equipment and chemicals so its employees can do the job better and more comfortably.

Training provides the knowledge employees need (and may also provide the motivation), but companies are increasingly using incentives based on customer satisfaction as part of the service culture. At Xerox, sales, service, and customer administration executives receive bonuses indexed to responses to customer satisfaction surveys (“Indexing Bonuses to Customer Satisfaction,” 1988). Domino’s pays “mystery customers” to buy pizzas and evaluate the service. Managers’ compensation is tied partially to the results of those surveys (Sellers, 1989).

A service guarantee is another tool for assessing service quality. The existence of a guarantee makes it easier for a customer to let you know when a service did not meet expectations and why. With more information on mistakes, a company has more opportunities to learn and more opportunities to improve its service. Hart (1988) lists five reasons a guarantee is valuable for both marketing service quality and achieving it:

First, it pushes the entire company to focus on the customers’ definition of good service—not on executives’ assumptions. Second, it sets clear performance standards, which boost employee

performance and morale. Third, it generates reliable data (through payouts) when performance is poor. Fourth, it forces an organization to examine its entire service-delivery system for possible failure points. Last, it builds customer loyalty, sales, and market share.

In addition to the above operational and organizational issues, Knowles, Grove, and Pickett (1993) suggest that “mood” may affect customer satisfaction and the perception of service quality. The authors maintain that environmental and interpersonal influences may be more critical in the evaluation of services than in the evaluation of goods. The physical surroundings (cleanliness, appearance), ambient conditions (music, lighting), and procedures affect the mood of employees and customers. Although the mood of customers obtaining a service cannot be controlled, the authors suggest that environmental conditions can play a role in modifying the mood.

BOWEN AND SCHNEIDER (1988) REFER TO OTHER RESEARCH WHICH SUPPORTS THIS POSITION

A summary conclusion from this line of research is that the climate for service created in service firms “shows” to both employees and customers. Service firms, then, need to manage and enhance their internal climate for service to positively impact the attitudes and behaviors of the employees who serve the customers. Since it is employees who provide the service to consumers, organizations need to manage all the evidence consumers may use in appraising service. Indeed, as the Intangibility of what the consumer receives is increased, the need to pay attention to the details of service delivery probably also increases.

Fryar (1991) agrees with the importance of this image on customer perception. She points out that McDonald’s employees are trained to look busy-that the service workers are “choreographed” to portray efficiency as an important part of the planned image. Because of the importance of this “choreography,” she asserts that successful service companies make this type of training part of the marketing function.

TACTICAL TRENDS MARKETING

When people think of marketing, they frequently think of advertising and/or selling. When excelling in marketing according to these definitions, a company may be effective in the short term but actually hurt its position in the long term. IBM had a “world class” sales force, but neglected innovative product development which resulted in a loss in competitive standing. Like many large companies, it became a market-share manipulator-its defense of existing markets took precedence over the creation of new ones.

Service providers run this same risk if they limit their “marketing” to advertising and selling. It is not uncommon for the majority of the effort to go toward protecting existing service products based on what they contributed in the past rather than what they are likely to contribute in the future. Service providers must continually challenge themselves to improve their products and develop new innovations as an active part of the marketing program.

Some new product ideas come from rethinking the difference between service products and customer service. Some services that are given away free are valuable to only certain segments of customers who would pay for them rather than not have them available. Banks have redesigned some of their services as a consequence of this finding. Operating services, once viewed as fringe benefits given away to attract credit customers, are now becoming firmly established as profit centers at a growing number of larger banks. Cash management, wire transfer, securities processing, letters of credit, bond services, and payroll processing are some of the items that have moved from unpaid customer services to service products. Today, many of the top fifty banks find noncredit services are providing 40 to 70 percent of the profits generated by their wholesale banking units. Sometimes the emergence of new technology enables new service products to be developed. MCI spent an estimated \$300 million on a new computer system in 1986. This allowed innovative residential calling services such as their Friends & Family Plan, a new service which would not have been possible without the technology.

People frequently think they are doing good marketing when they react to what their customers want. However, the most effective service marketers anticipate customer demands and satisfy them before competitors do. When Fred Smith came up with the idea of overnight delivery of packages, freight forwarders rejected the idea because no one had asked for it. Yet Federal Express became a successful company by anticipating customer needs and proactively creating the services to address them.

Coming up with new service products requires creativity and a certain level of risk. However, there are some things that can be done to minimize risk. Manipulating the new service portfolio is a key action step. Successful companies tend to balance their new product portfolio. They go after the higher big-hit new-to-the-world opportunities along with lower risk line extensions, cost reductions, and product improvements. It is no different from investing in the stock market by mixing high-risk/high-return stocks with lower-risk/ low-return stocks. Combining different levels of risk into the new service plan makes the overall risk of the program lower than it would be for any single new service product.

Many purchases made by consumers are directly influenced by the image an individual has of himself and the image of a product or seller. Since users of consumer services are self-image buyers, a strong and distinct image is essential. Image takes on a greater degree of importance in the service markets, and it should be fully integrated into a firm's marketing programs.

Another critical consideration in advertising services is controlling the "promises" made. Several companies have realized, to their dismay, that positive press about their firm's extraordinary service performance raised customers' expectations to a level beyond that which they could routinely fulfill. Berry, Parasuraman, and Zeithaml(1988) refer to the difference between what customers expect and what companies provide as the service-performance gap.

Customer satisfaction depends more on the size of the gap than on the actual level of service. If customers' expectations are met or exceeded, they are satisfied. If their expectations are not met, they are dissatisfied. As competition escalates, companies try to promise more and more to get

business away from their competitors. Customers begin to expect more and more due to the “promise war” that exists. Eventually, customers become dissatisfied when their expectations are not met.

Advertising plays a role in managing the expectations of customers. Service marketers should be especially careful not to over-promise in their brochures, ads, and television commercials and to ensure that salespeople are not making unrealistic claims.

2. CONCLUSION

Service marketing differs from product marketing due to the fact that services are intangible and typically require personal interaction with the customer. As a result, the quality of this service interaction becomes an important subset of marketing strategy. Marketers are challenged to define their businesses as broad systems of customer benefits; to create a market-driven culture through selection, education and motivation of employees, as well as development of appropriate business procedures and technologies; and to design marketing programs which continually create new benefits and value for the customer, make the offerings more tangible, and control the level of promises so that customers are not led to expect more than can be delivered on a continual basis.

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