

Essentials of Services Marketing

3rd Edition



 Pearson

Jochen Wirtz
Christopher Lovelock

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To Lorraine, Alexander, and Stefanie, the cool gang who brings
Jeannette and me so much love and joy. Wishing you all the
happiness and success in life!

JW

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About the Authors



As a team, Christopher Lovelock and Jochen Wirtz provide a blend of skills and experience that's ideally suited to writing an authoritative and engaging services marketing text. They have worked together on a variety of projects, including cases, articles, conference papers, as well as *Services Marketing: People, Technology, Strategy* and *Essentials of Services Marketing*.



Jochen Wirtz is Professor of Marketing and Vice Dean, Graduate Studies, at the National University of Singapore (NUS) and an international fellow of the Service Research Center at Karlstad University. Furthermore, he is the founding director of the dual degree UCLA-NUS Executive MBA Program (ranked globally #6 in the *Financial Times* 2016 EMBA rankings), international fellow of the Service Research Center at Karlstad University, and Academic Scholar at the Cornell Institute for Healthy Futures (CIHF) at Cornell University. Dr. Wirtz holds a PhD in services marketing from the London Business School and has worked in the field of services for over 25 years.

Previously, Professor Wirtz was an associate fellow at the Saïd Business School, University of Oxford, from 2008 to 2013, and a founding member of the NUS Teaching Academy (the NUS think tank on education matters) from 2009 to 2015.

Professor Wirtz's research focuses on services marketing and has been published in over 200 academic articles, book chapters, and industry reports. He is an author or co-author of over ten books, including *Services Marketing: People, Technology, Strategy* (8th edition, World Scientific, 2015), co-authored with Professor Lovelock, which has become one of the world's leading services marketing textbooks and has been translated and adapted for over 26 countries and regions, with sales of approximately 800,000 copies. His other books include *Winning in Service Markets* (World Scientific, 2015) and *Flying High in a Competitive Industry: Secrets of the World's Leading Airline* (McGraw Hill, 2009).

In recognition of his excellence in teaching and research, Professor Wirtz has received over 40 awards, including the prestigious Academy of Marketing Science (AMS) 2012 Outstanding Marketing Teacher Award (the highest recognition of teaching excellence by AMS globally) and the top university-level Outstanding Educator Award at NUS. He was also the winner of the inaugural Outstanding Service Researcher Award 2010 and the Best Practical Implications Award 2009, both by Emerald Group Publications. He serves on the editorial review boards of over ten academic journals, including the *Journal of Service Management*, *Journal of Service Research*, *Journal of Service Science*, and *Cornell Hospitality Quarterly*, and is also an ad hoc reviewer for the *Journal of Consumer Research* and *Journal of Marketing*. Professor Wirtz chaired the American Marketing Association's biennial Service Research Conference in 2005 when it was held for the first time in Asia.

Professor Wirtz was a banker and took the banking exam at the Chamber of Commerce and Industry in Munich. He has since been an active management consultant, working with international consulting firms including Accenture, Arthur D. Little, and KPMG as well as major service firms in the areas of strategy, business development, and customer feedback systems. He has also been involved in a number of start-ups, including in Accellion (www.accellion.com), AngelLoop (www.angelloop.com), TranscribeMe (www.transcribeme.com), and UP! Your Service (www.upyourservice.com).

Originally from Germany, Professor Wirtz spent seven years in London before moving to Asia. Today, he shuttles between Asia, the United States, and Europe. For further information, visit www.jochenwirtz.com.



The late **Christopher Lovelock** was one of the pioneers of services marketing. He consulted and gave seminars and workshops for managers around the world, with a particular focus on strategic planning in services and managing the customer experience. From 2001 to 2008, he was an adjunct professor at the Yale School of Management, where he taught services marketing in the MBA program.

After obtaining a BCom and an MA in economics from the University of Edinburgh, he worked in advertising with the London office of J. Walter Thompson Co. and then in corporate planning with Canadian Industries Ltd. in Montreal. Later, he obtained an MBA from Harvard and a PhD from Stanford, where he was also a postdoctoral fellow.

Professor Lovelock's distinguished academic career included 11 years on the faculty of the Harvard Business School and two years as a visiting professor at IMD in Switzerland. He has also held faculty appointments at Berkeley, Stanford, and the Sloan School at MIT, as well as visiting professorships at INSEAD in France and The University of Queensland in Australia.

Author or co-author of over 60 articles, more than 100 teaching cases, and 27 books, Professor Lovelock has seen his work translated into 16 languages. He served on the editorial review boards of the *Journal of Service Management*, *Journal of Service Research*, *Service Industries Journal*, *Cornell Hospitality Quarterly*,

and *Marketing Management* and was also an ad hoc reviewer for the *Journal of Marketing*.

Widely acknowledged as a thought leader in services, Professor Lovelock has been honored by the American Marketing Association's prestigious Award for Career Contributions in the Services Discipline. This award has been renamed as the SERVSIG Christopher Lovelock Career Contribution Award in his honor. His article co-written with Evert Gummesson, "Whither Services Marketing? In Search of a New Paradigm and Fresh Perspectives," won the AMA's Best Services Article Award in 2005. He had previously also received a best article award from the *Journal of Marketing*. Recognized many times for excellence in case writing, he has twice won top honors in the *BusinessWeek* "European Case of the Year" Award. For further information, visit www.lovelock.com.

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The following cases are available for free download and class distribution on the Instructor's Resource Website for courses that adopt *Essentials of Services Marketing*.

- Case 18 Susan Munro, Service Consumer
- Case 19 Bouleau & Huntley
- Case 20 Hotel Imperial
- Case 21 Jollibee Foods Corporation
- Case 22 TLContact: Care Pages Service (A + B)
- Case 23 Giordano: Positioning for International Expansion
- Case 24 Revenue Management at Prego Italian Restaurant
- Case 25 Managing Word-of-Mouth: Referral Incentive Program
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- Case 26 Menton Bank
- Case 27 Massachusetts Audubon Society
- Case 28 Bossard Asia Pacific: Can It Make Its CRM Strategy Work?
- Case 29 The Broadstripe Service Guarantee
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Preface

Services dominate the expanding world economy as never before, and technology continues to evolve in dramatic ways. Established industries and old, illustrious companies decline and may even disappear as new business models and industries emerge. Competitive activity is fierce, with firms often using new strategies and technologies to respond to changing customer needs, expectations, and behaviors. This book has been written in response to the global transformation of our economies to services. Clearly, the skills in marketing and managing services have never been more important!

As the field of services marketing has evolved, so too has this book. This new edition has been revised significantly since the 2nd edition. It captures the reality of today's world, incorporates recent academic and managerial thinking, and illustrates cutting-edge service concepts.

This book is based on *Services Marketing: People, Technology, Strategy*, 8th edition (World Scientific, 2015). It has been significantly condensed and sharpened to provide a crisp introduction to key topics in services marketing. In addition, the case selection, visuals, and design are meant to appeal to undergraduate and polytechnic students.

WHAT'S NEW IN THIS EDITION?

The 3rd edition represents a significant revision. Its contents reflect ongoing developments in the service economy, dramatic developments in technology, new research findings, and enhancements to the structure and presentation of the book in response to feedback from reviewers and adopters.

New Structure, New Topics

- ▶ Almost all chapters are now structured around an **organizing framework** that provides a pictorial overview of the chapter's contents and line of argument.
- ▶ New **applications of technology** are integrated throughout the text, ranging from apps, M-commerce and social networks, to robots, artificial intelligence, and biometrics.
- ▶ Each of the 15 chapters has been revised. All chapters incorporate **new examples** and references to **recent research**. Significant changes in chapter content are highlighted below.
- ▶ Chapter 1, "**Introduction to Services Marketing**," now explores the nature of the modern service economy more deeply and covers B2B services, outsourcing, and offshoring. Furthermore, the Service-Profit Chain was moved here to serve as a guiding framework for the book (it was featured in Chapter 15 in the previous edition).
- ▶ Chapter 2, "**Consumer Behavior in a Services Context**," also covers the post-consumption behaviors, including service quality, its dimensions and measurement (including SERVQUAL), and how quality relates to customer loyalty. This section was in Chapter 14 in the previous edition.

- ▶ Chapter 7, “**Promoting Services and Educating Customers,**” is now tightly organized around the 5 Ws model, a new section on the services marketing communications funnel was added, and the coverage of new media (including social media, mobile, apps, and QR codes) was significantly expanded.
- ▶ Chapter 8, “**Designing Service Processes,**” has a new section on emotionprints and covers service blueprinting in more depth.
- ▶ Chapter 11, “**Managing People for Service Advantage,**” has new sections on a service-oriented culture, how to build a climate for service, and effective leadership in service organization and leadership styles. Part of this content was previously covered in Chapter 15.
- ▶ Chapter 14, “**Improving Service Quality and Productivity,**” now integrates key concepts in the main body of the chapter instead of the appendix as in the earlier edition. These are TQM, ISO 9000, Six Sigma, and the Malcolm-Baldrige and EFQM.
- ▶ Chapter 15, “**Building a Service Organization that Wins,**” was completely restructured to provide a recap and integration of the key themes of *Services Marketing*, 8th edition. It now features an auditing tool to assess the service level of an organization. It emphasizes the impact of customer satisfaction on long-term profitability and closes with a call to action.



Figure 6.25 Shipment of goods are typically charged by a combination of distance (miles, kilometers, or nautical miles) and weight or size (such as cubic volume).

In B2B markets in particular, innovative business models charge on the basis of outcomes rather than on services provided. For example, Rolls-Royce's Power-by-the-Hour service does not charge for services such as maintenance, repairs, and materials. Its charges are based on the outcome of these activities, that is, the number of flying hours.²² In effect, generated cost savings are shared between the provider and their client.

Price Bundling. An important question for service marketers is whether to charge an inclusive price for all elements (referred to as a “bundle”) or to price each element separately. If customers prefer to avoid making many small payments, bundled pricing may be best. In other cases, itemized pricing is preferable. Bundled prices offer firms a certain level of guaranteed revenue from each customer while providing customers a clear idea in advance of how much they can expect to pay. Unbundled pricing provides customers with the freedom to choose what to buy and pay for. However, customers may be angered if they discover that the actual price of what they consume, inflated by all the “extras,” is substantially higher than the advertised base price that attracted them in the first place.²³

Discounting. Selective price discounting targeted at specific market segments can offer important opportunities to attract new customers and fill capacity that would otherwise go unused. However, unless it is used with effective rate fences that would specific segments to be targeted cleanly, a strategy of discounting should be approached with caution.

FOR WHAT TYPES OF COURSES CAN THIS BOOK BE USED?

This text is suitable for courses directed at undergraduate and polytechnic students equally. *Essentials in Services Marketing* places marketing issues within a broader general management context. The book will appeal to students heading for a career in the service sector, whether at the executive or management level.

Whatever the job is in the services industry, a person has to understand the close ties that link the marketing, operations, and human resources functions in service firms. With that perspective in mind, we have designed the book so that instructors can make selective use of chapters and cases to teach courses of different lengths and formats in either services marketing or services management.

WHAT ARE THE BOOK'S DISTINGUISHING FEATURES?

The third edition of *ESM* retains some of the key features that have made it successful, and improves on other aspects of the textbook to help students understand services marketing more effectively. These features include the following:

- ▶ You'll find that this text takes a ***strongly managerial perspective***, yet is ***rooted in solid academic research***, complemented by memorable frameworks. Our goal is to bridge the all-too-frequent gap between theory and the real world.
- ▶ The text is ***organized around an integrated framework*** the reader immediately can relate to. The framework cascades across the entire book. Furthermore, each chapter provides a succinct ***chapter overview in pictorial form***.
- ▶ We worked hard to create a text that is ***clear, readable, and focused***.

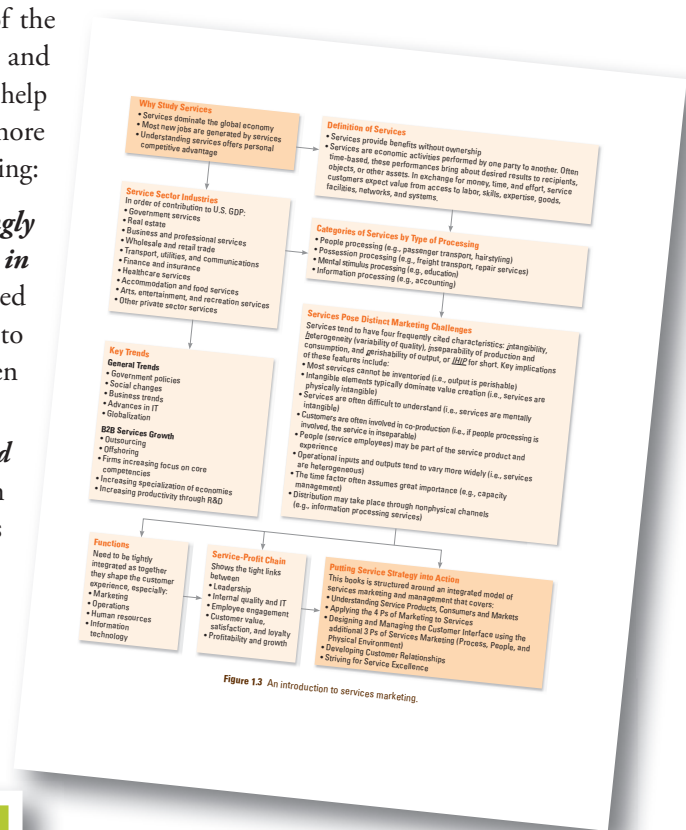


Figure 1.3 An introduction to services marketing.

OPENING VIGNETTE

Too Little, Too Late—JetBlue's Service Recovery¹

A terrible ice storm in the East Coast of the United States caused hundreds of passengers to be trapped for 11 hours inside JetBlue planes at the John F. Kennedy International Airport in New York. These passengers were furious because JetBlue personnel did not seem to get them off the planes. In addition, JetBlue cancelled more than 1,000 flights over six days, leaving even more passengers stranded. This incident cancelled out much that JetBlue had done right to become one of the strongest customer service brands in the United States. The company was going to be ranked number four by *Business Week* in a list of top 25 customer service leaders but was pulled from the rankings due to this service failure. What happened?

There was no service recovery plan. No one—not the pilot, the flight attendants, or the station manager—had the authority to get the passengers off the plane. JetBlue's offer of refunds and travel vouchers did not seem to reduce the anger of the passengers who had been stranded for so many hours. David Neelaman, JetBlue's CEO at the time, sent a personal e-mail to all customers in the company's database to explain what caused the problem, apologize profusely, and detail its service recovery efforts. He even appeared on late-night television to apologize, and he admitted that the airline should have had better contingency planning. However, the airline still had a long way to go to repair the damage done.

Gradually, JetBlue rebuilt its reputation, starting with its new Customer Bill of Rights. The bill required the airline



Figure 13.2 JetBlue's new Customer Bill of Rights and publicity campaigns involving the Simpsons were measures taken to win customers back.

to provide vouchers or refunds in certain situations when flights were delayed. Neelaman also changed JetBlue's information systems to keep track of the locations of its crew and trained staff at the headquarters to help out at the airport when needed. All these activities were aimed at helping the company climb its way back up to the heights it fell from. By 2014, JetBlue Norway was back on the list of U.D. Power Customer Service Champions for many consecutive years. U.D. Power and Associates conducts customer satisfaction research based on survey responses from millions of customers worldwide. This showed that JetBlue's customers had finally forgiven its service failure and were supporting its efforts to deliver continued service excellence.



- ▶ An ***easy-to-read text*** that works hand-in-hand with visuals that make important concepts accessible.
- ▶ A ***global perspective***. Examples were carefully selected from America, Europe and Asia.
- ▶ ***Systematic learning approach***. Each chapter has clear ***learning objectives***, an ***organizing framework that provides a quick overview*** of the chapter's contents and line of argument, and ***chapter summaries in bullet form*** that condense the core concepts and messages of each chapter.
- ▶ ***Opening vignettes*** and ***boxed inserts*** within the chapters are designed to capture student interest and provide opportunities for in-class discussions. They describe significant research findings, illustrate practical applications of important service marketing concepts, and describe best practices by innovative service organizations.

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The following table links the cases to the chapters in the book.

CASES		PRIMARY CHAPTERS
1	Sullivan Ford Auto World	1
2	Dr. Beckett's Dental Office	All chapters
3	Uber	3
4	Banyan Tree	3, 4
5	Kiwi Experience	4, 5, 7
6	The Accra Beach Hotel	6
7	Revenue Management of Gondolas	6
8	Aussie Pooch Mobile	7
9	Shouldice Hospital Limited (Abridged)	8, 9, 10
10	Red Lobster	11
11	Singapore Airlines	11, 15
12	Dr. Mahalee Goes to London	12
13	The Royal Dining Membership Program Dilemma	12
14	Customer Asset Management at DHL in Asia	13
15	Starbucks	11, 12, 14, 15
16	Lux Resorts*	11, 12, 14, 15
17	KidZania	All chapters

**SECONDARY
CHAPTERS****CONTINENT****COUNTRY****INDUSTRY**

2, 10	Americas	United States	Automobile Servicing
	Americas	United States	Medical
4, 5, 7, 12	Asia/Americas	China/United States	Transportation
5, 11	Asia/Global		Resort
3, 11	Oceania	New Zealand	Tourism
9	Americas	Barbados	Resort
	Europe	Italy	Tourism
5	Australia	Australia	Pet Grooming
11, 14	Americas	Canada/United States	Medical
	Americas	United States	Food & Beverage
3, 4, 8	Global		Airline
8	Europe	United Kingdom	Private Banking
6	Asia	Hong Kong	Food and Beverage
	Asia		Logistics
4, 5, 8, 9, 10, 11	Global		Food and Beverage
2, 3	Asia/ Global	Mauritius	Resort
	Global		Edutainment Park

CASES

PRIMARY CHAPTERS

Cases Available on the Instructor's Resource Website (IRW)

18	Susan Munro, Service Consumer	2
19	Bouleau & Huntley	2, 3
20	Hotel Imperial	3, 4
21	Jollibee Foods Corporation	3, 4
22	TLContact: Care Pages Service (A + B)	4
23	Giordano: Positioning for International Expansion	3, 5
24	Revenue Management at Prego Italian Restaurant	6, 8, 9
25	Managing Word-of-Mouth: Referral Incentive Program that Backfired	5
26	Menton Bank	11
27	Massachusetts Audubon Society	17
28	Bossard Asia Pacific: Can It Make Its CRM Strategy Work?	12
29	The Broadstripe Service Guarantee	13
30	NLB	8, 11, 14

**SECONDARY
CHAPTERS****CONTINENT****COUNTRY****INDUSTRY**

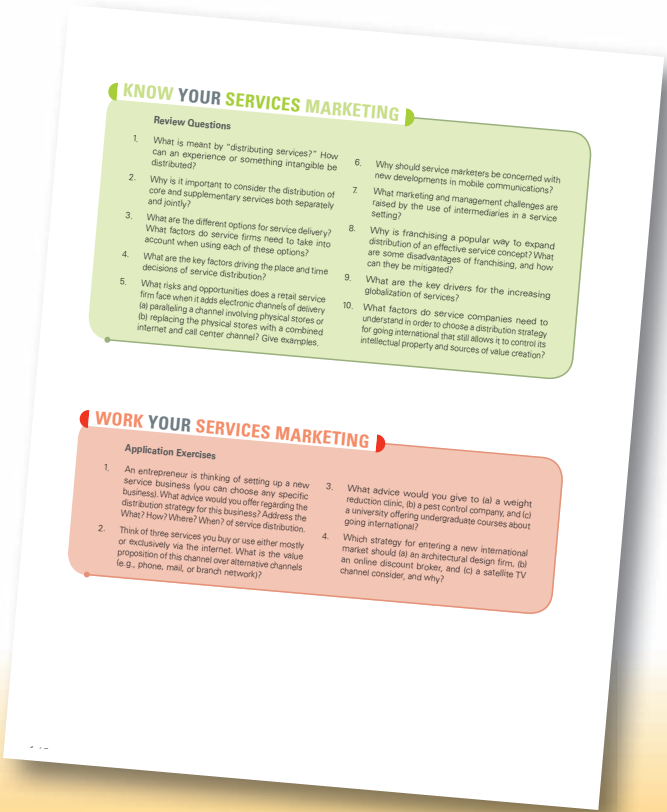
3	Americas	United States	Range of B2C Services
	Asia/Americas	Philippines/United States	Management Consulting/Auditing
	Europe	Eastern Europe	Hotel/Hospitality
11	Asia	Philippines	Fast Food
	Global		Online Service
	Asia/Global		Clothing Retailing
	Asia	Singapore	Food and Beverage
	Asia	Vietnam	Insurance
3	Americas	United States	Banking
	Americas	United States	Nature Conservation
	Asia	Singapore	Industrial Supplies
15	Americas	United States	Cable Service
	Continent Asia	Singapore	Library

What Aids Are Available for Instructors?

We have developed pedagogical aids to help instructors develop and teach courses built around this book and to create stimulating learning experiences for students both in and out of the classroom.

Teaching Aids within the Text

- ▶ An opening vignette, which highlights key issues discussed in the chapter
- ▶ Learning objectives and milestone markers for these when a section provides material that meet these learning objectives
- ▶ Boxed inserts throughout the chapters, which often lend themselves well to in-class discussion
- ▶ Interesting graphics, photographs, and reproductions of advertisements, which enhance student learning, provide opportunities for discussion, and add a visual appeal
- ▶ Key words, which help to reinforce important terms and concepts
- ▶ Chapter summaries, which meet each chapter's learning objectives
- ▶ Review Questions and Application Exercises located at the end of each chapter



Pedagogical Materials Available from the Publisher

Case Bank: A large set of additional cases that can be used in courses that adopt this textbook. Available in both Word and PDF versions as a resource for instructors. A table shown in the textbook will suggest which cases to pair with which chapters.

Instructor's Manual: A repository of detailed course design and teaching hints, including sample course outlines; chapter-by-chapter teaching suggestions, plus discussion of learning objectives and sample responses to study questions and exercises; suggested student exercises and comprehensive projects (designed for either individual or team work); detailed case teaching notes, including teaching objectives, suggested study questions, in-depth analysis of each question, and helpful hints on teaching strategy designed to aid student learning, create stimulating class discussions, and help instructors create end-of-class wrap-ups and “takeaways.”

Test Bank: Multiple choice True/False, short-answer, and essay questions, with page references and difficulty level provided for each question. Contents are classified into general and application. This is available in TestGen format, a test-generating program, which allows instructors to add, edit, or delete questions from the test item file; analyze test results; and organize a database of exams and student results.

PowerPoint Slides: The slides are linked to each chapter and featuring both “word” slides and graphics. All slides have been designed to be clear, comprehensible, and easily readable.

Image Bank: A collection of images in the textbook.

Video Bank: A list of website links that features corporate videos and advertisements to relate concept to application.

EBook: Electronic version of the text that includes useful features such as highlighting and search. It can be viewed on a variety of browsers and devices.

Acknowledgments

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JOCHEN WIRTZ
CHRISTOPHER LOVELOCK

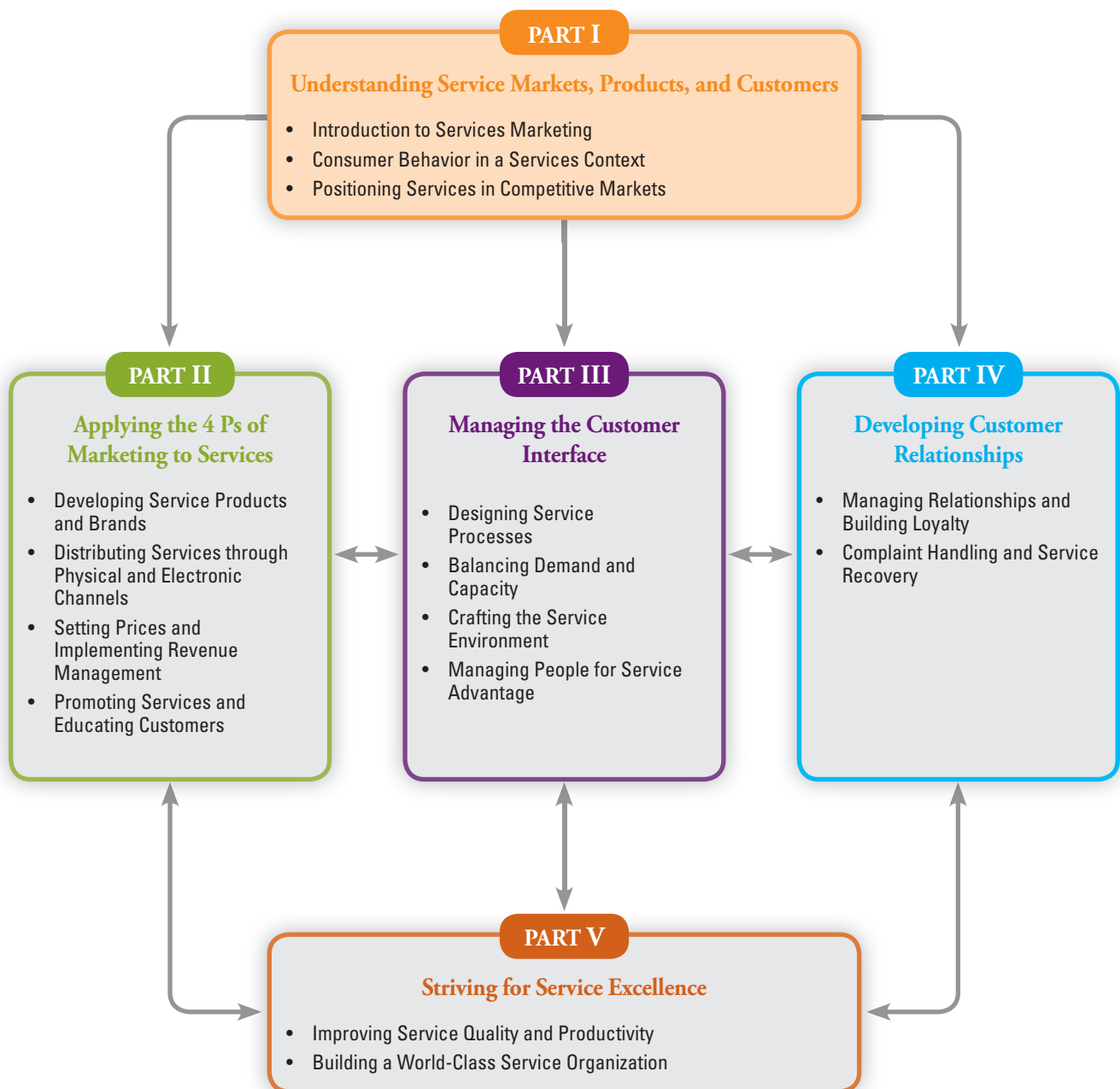
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Essentials of Services Marketing





THE *ESM* FRAMEWORK



Understanding Service Markets, Products, and Customers

Part I lays the building blocks for studying services and learning how one can become an effective service marketer. It consists of the following three chapters:



PART

Chapter 1 Introduction to Services Marketing

Chapter 1 highlights the importance of services in our economies. We also define the nature of services and how they create value for customers without transfer of ownership. The chapter highlights some distinctive challenges involved in marketing services and introduces the 7 Ps of services marketing.

The framework shown in Figure 1.1 on the facing page will accompany us throughout as it forms the basis for each of the four parts in this book. It describes in a systematic manner of what is involved in developing marketing strategies for different types of services. The framework is introduced and explained in Chapter 1.

Chapter 2 Consumer Behavior in a Services Context

Chapter 2 provides a foundation for understanding consumer needs and behavior related to services. The chapter is organized around the three-stage model of service consumption that explores how customers search for and evaluate alternative services, make purchase decisions, experience and respond to service encounters, evaluate service performance, and finally, develop loyalty.

Chapter 3 Positioning Services in Competitive Markets

Discusses how to develop a customer-driven services marketing strategy and how a value proposition should be positioned in a way that creates competitive advantage for the firm. This chapter first links the customer, competitor, and company (commonly referred to as 3 Cs) analysis links to a firm's positioning strategy. The core of the chapter is then organized around the three key elements of positioning—segmentation, targeting and positioning (commonly referred to as “STP”)—and shows how firms can segment a service market, position their value proposition and finally focus on attracting their target segment.

SERVICES

MARKETING

LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ▶ **LO 1** Understand how services contribute to a country's economy.
- ▶ **LO 2** Know the principal industries of the service sector.
- ▶ **LO 3** Identify the powerful forces that are transforming service markets.
- ▶ **LO 4** Understand how B2B services improve the productivity of individual firms and drive economic development.
- ▶ **LO 5** Define services using the non-ownership framework.
- ▶ **LO 6** Identify the four broad "processing" categories of services.
- ▶ **LO 7** Be familiar with the characteristics of services and the distinctive marketing challenges they pose.
- ▶ **LO 8** Understand the components of the traditional marketing mix applied to services.
- ▶ **LO 9** Describe the components of the extended marketing mix for managing the customer interface.
- ▶ **LO 10** Appreciate that marketing, operations, and human resource management functions need to be closely integrated in service businesses.
- ▶ **LO 11** Understand the implications of the Service–Profit Chain for service management.
- ▶ **LO 12** Know the framework for developing effective services marketing strategies.



Figure 1.1 Tertiary education may be one of the biggest service purchases in life.

OPENING VIGNETTE

Introduction to the World of Services Marketing

Like every reader of this book, you're an experienced service consumer. You use an array of services every day, although some—like talking on the phone, using a credit card, riding a bus, downloading music, using the Internet, or withdrawing money from an ATM—may be so routine that you hardly notice them unless something goes wrong. Other service purchases may involve more thought and be more memorable—for instance, booking a cruise vacation, getting financial advice, or having a medical examination.

Enrolling in college may be one of the biggest service purchases you will ever make. The typical university is a complex service organization that offers not only educational services, but also libraries, student accommodation, health-care, athletic facilities, museums, security, counseling, and career services. On campus, you may find a bookstore, a bank, a post office, a photocopying shop, Internet cafes, a grocery store, entertainment, and more.

Your use of these services is an example of service consumption at the individual or business-to-consumer (B2C) level. Organizations also use many business-to-business (B2B) services, which usually involve purchases on a much larger scale than those made by individuals or households.

Unfortunately, consumers aren't always happy with the quality and value of the services they receive. Both individual and corporate consumers complain about broken promises, poor value for money, rude or incompetent personnel, inconvenient service hours, bureaucratic procedures, wasted time, malfunctioning self-service technologies, complicated websites, or a lack of understanding of their needs.

Suppliers of services, who often face stiff competition, appear to have a very different set of concerns. Many owners and managers complain about how difficult it is to find skilled and motivated employees, to keep costs down and make a profit, or to satisfy

customers who, they sometimes grumble, have become unreasonably demanding. Fortunately, there are service companies that know how to please their customers even as they run productive and profitable operations. Often, their services are made available through user-friendly self-service technologies, websites, and apps.

You probably have a few favorite firms whose services you like to purchase. Have you ever stopped to think about the way they succeed in delivering services that meet and sometimes even exceed your expectations? This book will show you how service businesses can be managed to satisfy customers and generate profits at the same time. In addition to studying key concepts, organizing frameworks, and tools of services marketing, you will also be introduced to many examples from firms across the United States and around the world. From the experiences of other firms, you can draw important lessons on how to succeed in increasingly competitive service markets.



Figure 1.2 Happy vacationer on a cruise vacation.

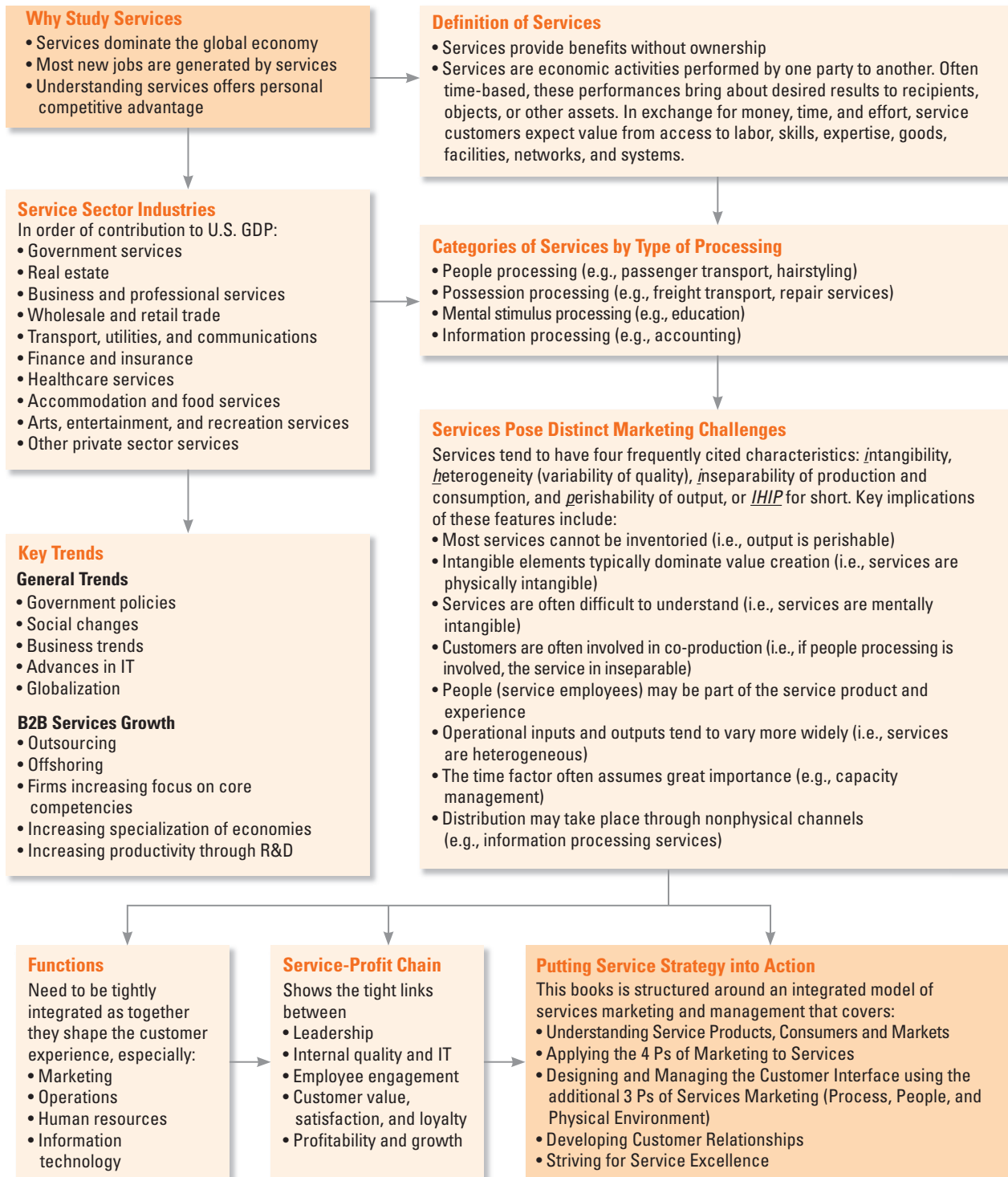


Figure 1.3 An introduction to services marketing.

WHY STUDY SERVICES?

Consider this paradox: we live in a service-driven economy, yet most business schools continue to teach marketing from a manufacturing perspective. If you have already taken a course in marketing, you have probably learned about marketing manufactured products rather than services. Fortunately, a growing and enthusiastic group of scholars, consultants, and educators, including the authors of this book, has chosen to focus on services marketing. This book aims to provide you with the knowledge and skills that are necessary and relevant in tomorrow's business environment.

LO 1

Understand how services contribute to a country's economy.

Services Dominate the Global Economy

The size of the service sector is increasing in almost all countries around the world. As an economy develops, the relative share of employment between agriculture, industry, and services changes dramatically.¹ Even in emerging economies, the service output represents at least half of the Gross Domestic Product (GDP). Figure 1.4 shows how an economy becomes increasingly service-dominated over time as the per capita income rises. In Figure 1.5, we see that the service sector already accounts for almost two-thirds of the value of the global GDP.

Figure 1.6 shows the relative size of the service sector in various large and small economies. Services account for 65% to 80% of the GDP in most developed nations. One exception is South Korea, a manufacturing-oriented country, whose service sector contributes only 58% to the GDP. Jersey, the Bahamas, and Bermuda—all small islands with a similar economic mix—are home to the world's most service-dominated economies. Luxembourg (86%) has the most service-dominated economy in the European Union. Panama's strong showing (78%) reflects not only the operation of the Panama Canal, but also related services such as container ports, flagship registry, and a free port zone, as well as financial services, insurance, and tourism (Figure 1.7).

On the opposite end of the scale is China (46%), an emerging economy dominated by a substantial agricultural sector as well as booming manufacturing and construction industries. However, China's economic growth is now leading to an increase in demand for business and consumer services.

Most New Jobs Are Generated by Services

Due to the rapid growth of the service sector in virtually all countries around the world, new job creation comes mainly from services. Service jobs do not just refer to relatively

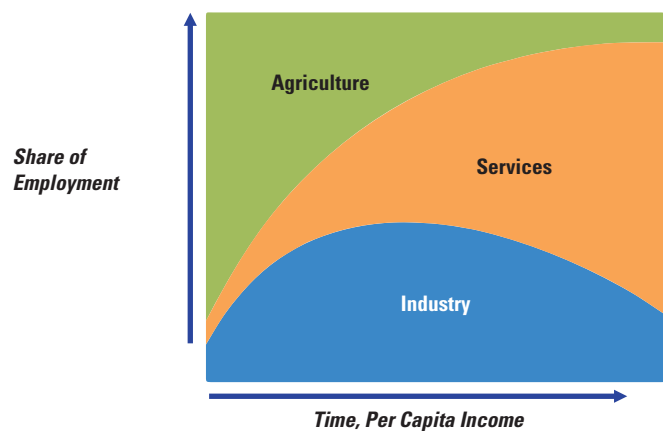


Figure 1.4 Changing structure of employment as an economy develops.

SOURCE

International Monetary Fund, 1997.

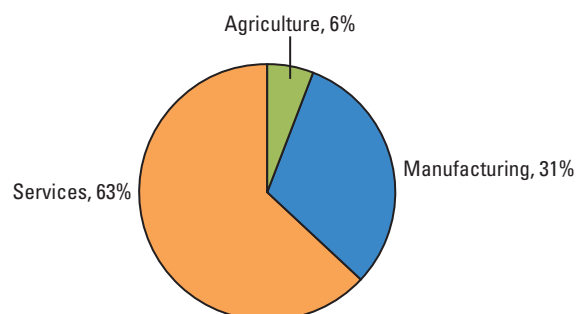


Figure 1.5 Contribution of services industries to GDP globally.

SOURCE

Data from *The World Factbook 2015*, Central Intelligence Agency, www.cia.gov, accessed January 22, 2015.

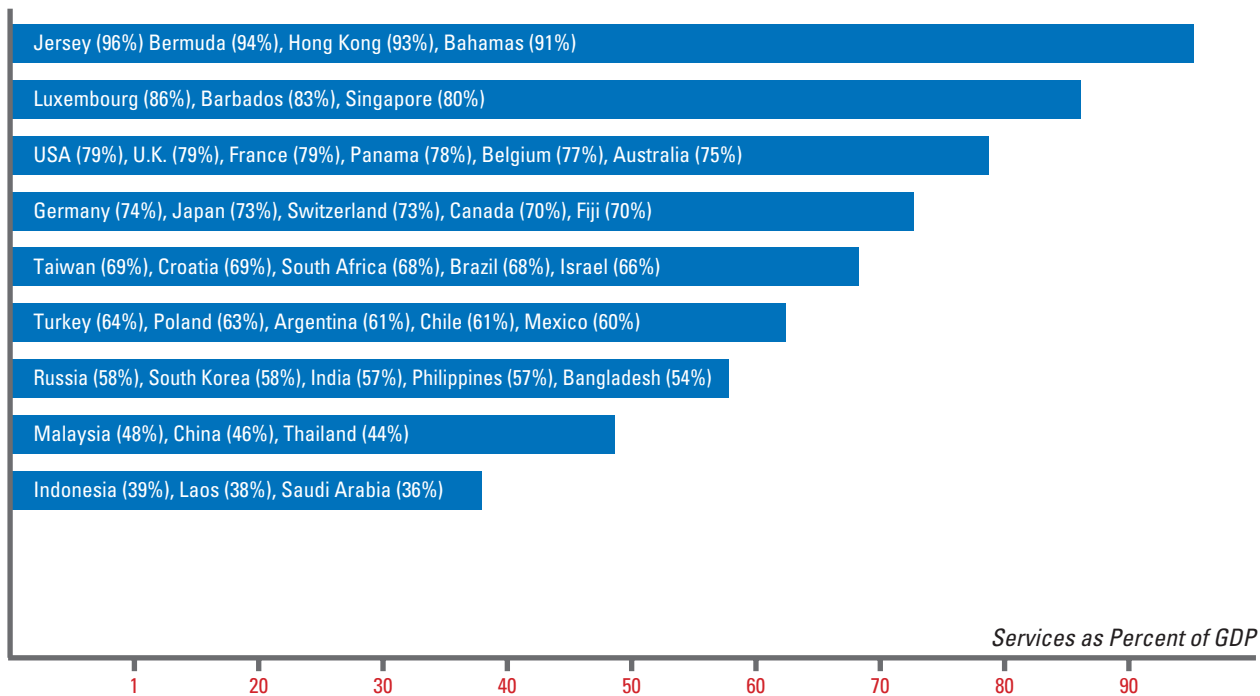


Figure 1.6 Estimated size of the service sector in selected countries as a percentage of GDP.

SOURCE

Data from *The World Factbook 2015*, Central Intelligence Agency, www.cia.gov, accessed January 22, 2015.



Figure 1.7 The Panama Canal forms the backbone of Panama's service economy.

low-paid front-line jobs. Rather, some of the fastest economic growth is in knowledge-based industries, such as professional and business services, education, and healthcare.² These well-paid jobs require good educational qualifications and offer attractive careers.

Understanding Services Offers Personal Competitive Advantage

This book is in response to the global transformation of our economies toward services. It discusses the distinctive characteristics of services and the ways in which they affect both customer behavior and marketing strategy. There is a high probability that you will spend most of your working life in service organizations. The knowledge gained from studying this book may create a competitive advantage for your own career, and even encourage you to think about starting your own service business!

LO 2

Know the principal industries of the service sector.

WHAT ARE THE PRINCIPAL INDUSTRIES OF THE SERVICE SECTOR?

What industries make up the service sector, and which are the biggest? The latter may not be the ones you would imagine at first, because this diverse sector

includes many services targeted at business customers. Some of these are not very visible unless you happen to work in that industry.

Contribution to Gross Domestic Product

Look at Figure 1.8 to see how much value each of the major service industry groups contributes to the U.S. GDP. Would you have guessed that real estate, rental, and leasing constitute the largest for-profit service industry sector in the United States, accounting for 13% (almost one-eighth) of the GDP in 2013? Over 90% of this figure comes from such activities as renting residential or commercial property; providing realty services to facilitate purchases, sales, and rentals; and appraising property to determine its condition and value. The remaining 10% involves the renting or leasing of a wide variety of other manufactured products, ranging from heavy construction equipment (with or without operators) to office furniture, tents, and party supplies. Another large cluster of services provides for the distribution of physical products. Wholesale and retail trade accounts for about 11.8% of the GDP.

Other substantial industry sectors or subsectors are professional and business services (11.8%), finance and insurance (7.2%), and healthcare (7.1%). Accommodation and food services constitute 2.7% of the GDP. The arts, entertainment, and recreation subsector—which includes such high-profile consumer services as spectator sports, fitness centers, skiing facilities, museums and zoos, performing arts, casinos, golf courses, marinas, and theme parks—collectively represents a mere 1% of the GDP. Nevertheless, in an economy worth over \$17.1 trillion, this last group of services was still valued at an impressive \$164 billion in 2013.

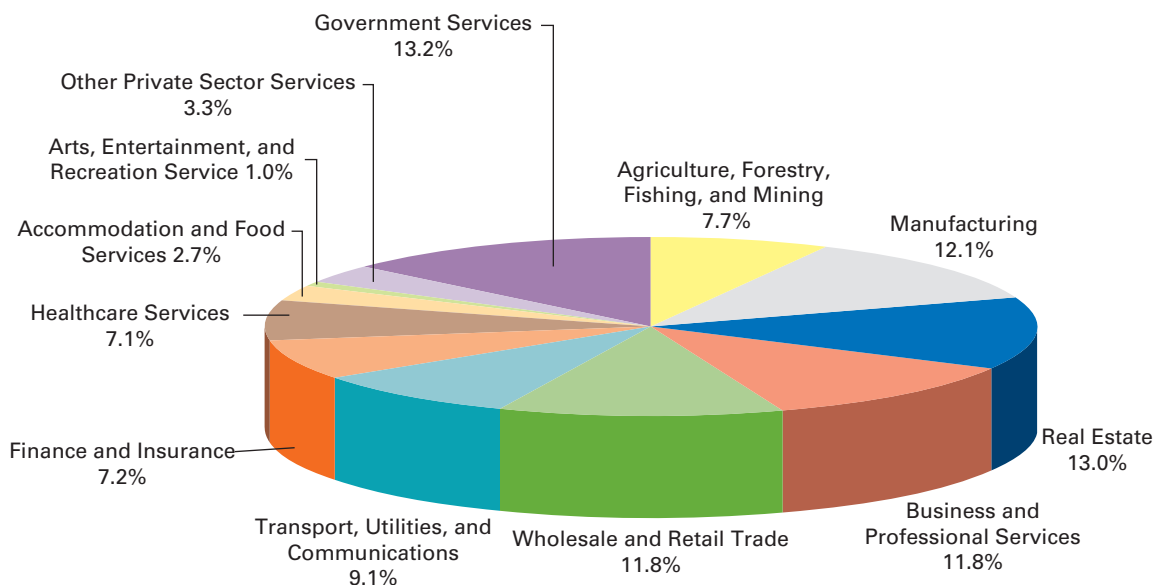


Figure 1.8 Value added by service industry categories to U.S. GDP.

SOURCE

Data from U.S. Department of Commerce, Bureau of Economic Analysis, GDP by Industry Accounts for 2013.