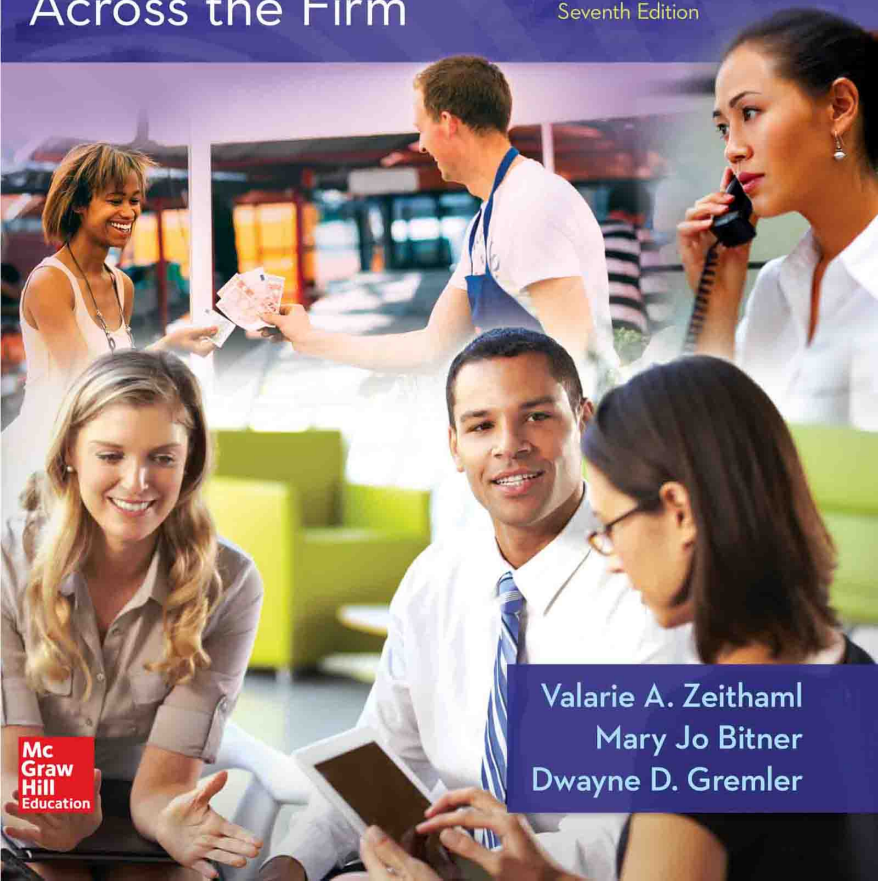


Services Marketing

Integrating Customer Focus
Across the Firm

Seventh Edition



Valarie A. Zeithaml
Mary Jo Bitner
Dwayne D. Gremler

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Services Marketing

**Integrating Customer Focus
Across the Firm**

Seventh Edition

Valarie A. Zeithaml

*University of North Carolina at
Chapel Hill*

Mary Jo Bitner

Arizona State University

Dwayne D. Gremler

Bowling Green State University





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Aan mijn alleriefste, Jan Benedict Steenkamp—soul mate, inspiration, and biggest supporter. And to the three sparkling lights in my life: Jaiman, Milan, and Leela.

—V.A.Z.S.

To my husband, Rich, for his unending love and support.

—M.J.B.

To my wife, Candy, and daughters, Samantha and Mallory, for their many years of love, support, and encouragement.

—D.D.G.

About the Authors



Mary Jo Bitner (left), Dwayne Gremler,
and Valarie Zeithaml

Valarie A. Zeithaml *University of North Carolina–Chapel Hill*

VALARIE ZEITHAML is the David S. Van Pelt Family Professor of Marketing at the Kenan-Flagler Business School of the University of North Carolina at Chapel Hill. Since receiving her MBA and PhD in marketing from the Robert H. Smith School of Business at the University of Maryland, Dr. Zeithaml has devoted her career to researching and teaching the topics of service quality and services management. She is the co-author of *Delivering Quality Service: Balancing Customer Perceptions and Expectations* (The Free Press, 1990), now in its 20th printing, and *Driving Customer Equity: How Customer Lifetime Value Is Reshaping Corporate Strategy* (The Free Press, 2000). In 2002, *Driving Customer Equity* won the first Berry–American Marketing Association Book Prize for the best marketing book of the past three years. In 2014, she published *Profiting from Services and Solutions: What Product Companies Need to Know* with Mary Jo Bitner, Stephen Brown, and Jim Salas.

In 2008, Dr. Zeithaml won the Paul D. Converse Award from the American Marketing Association. The Converse Award, granted every four years to one or more persons, acknowledges enduring contributions to marketing through one or more journal articles, books, or a body of work. This work created the Gaps Model of Service Quality on which this textbook is based. In 2009, she received the American Marketing Association/Irwin/McGraw-Hill Distinguished Marketing Educator Award for lifetime leadership in marketing education and extensive contributions to the field of marketing. She won the 2012 Bullard Research Impact Award in recognition of the broad impact of research on the field, industry, and society, and was appointed an American Marketing Association Lifetime Fellow in 2015. The 2014 List of Thomson Reuters included her in the “2014 World’s Most Influential Scientific Minds,” reflecting citation data over the last 11 years that identified those scholars who published the highest impact work.

Dr. Zeithaml has won five teaching awards, including the Gerald Barrett Faculty Award from the University of North Carolina and the Fuqua School Outstanding MBA Teaching Award from Duke University. She is also the recipient of numerous research awards, including the Robert Ferber Consumer Research Award from the

Journal of Consumer Research; the Harold H. Maynard Award from the *Journal of Marketing*; the MSI Paul Root Award from the *Journal of Marketing*; the Jagdish Sheth Award from the *Journal of the Academy of Marketing Science*; and the William F. O'Dell Award from the *Journal of Marketing Research*. She has consulted with more than 60 service and product companies. Dr. Zeithaml served on the Board of Directors of the American Marketing Association from 2000 to 2003 and was an Academic Trustee of the Marketing Science Institute between 2000 and 2006. She is currently Chairperson of the Board of the American Marketing Association.

Mary Jo Bitner *Arizona State University*

MARY JO BITNER is the co-executive director of the Center for Services Leadership, Edward M. Carson Chair in Service Marketing, and professor of marketing at the W. P. Carey School of Business, Arizona State University (ASU). In her career as a professor and researcher, Dr. Bitner has been recognized as one of the founders and pioneers in the field of service marketing and management worldwide. At ASU she was a founding faculty member of the Center for Services Leadership and has been a leader in its emergence as the premier university-based center for the study of services marketing and management. Her professional leadership in the discipline includes serving on the Board of the American Marketing Association from 2011–2014, and serving as Editor in Chief of the *Journal of Service Research* from 2013–2017.

Dr. Bitner led the development of the W. P. Carey MBA marketing and service leadership specialization, a unique full-year focus within the nationally ranked W. P. Carey MBA. The degree specialization has existed for nearly 20 years, and alumni now work in companies worldwide, leading the implementation of service and customer-focused strategies.

Dr. Bitner has received several teaching awards and research recognition for her contributions to the discipline. Dr. Bitner was awarded the Career Contributions to the Service Discipline Award presented by the American Marketing Association. She was also named an IBM Faculty Fellow and received the inaugural International Society for Service Industry Professionals (ISSIP) Fellow Award for Lifetime Achievement in Service Science in 2013, and the Marketing Innovator Award from the Marketing Management Association in 2014. At ASU, Dr. Bitner has received the W. P. Carey School of Business Graduate Teaching Excellence Award and the award for Outstanding Professor, PhD Programs. She served as a Distinguished Faculty member at Fudan University, Shanghai, China and taught for many years in ASU's EMBA program in China.

Dr. Bitner has taught and consulted with numerous service and manufacturing businesses who seek to excel and compete through service. Her current research is concerned with service infusion strategies in goods-dominant companies and the strategic roles of technology and contact employees in determining customer satisfaction with services. In 2014 Dr. Bitner published a trade-oriented book entitled *Profiting from Services and Solutions: What Product Companies Need to Know*, with co-authors Valerie Zeithaml, Stephen Brown, and Jim Salas. She has published articles relevant to service marketing and management in the *Journal of Marketing*, *Journal of Service Research*, *Journal of Marketing Research*, *Journal of Retailing*, *Journal of Service Management*, *Journal of the Academy of Marketing Science*, *Sloan Management Review*, the *Academy of Management Executive*, and others.

Dwayne D. Gremler *Bowling Green State University*

DWAYNE D. GREMLER is professor of Marketing at Bowling Green State University (BGSU). He received his MBA and PhD degrees from the W. P. Carey School of Business at Arizona State University. Throughout his academic career, Dr. Gremler has been a passionate advocate for the research and instruction of services marketing issues. He has served as chair of the American Marketing Association's Services Marketing Special Interest Group and has helped organize services marketing conferences in Australia, The Netherlands, France, Portugal, Finland, and the United States. Dr. Gremler has been invited to conduct seminars and present research on services marketing issues in several countries. Dr. Gremler's research addresses customer loyalty in service businesses, customer–employee interactions in service delivery, service guarantees, and word-of-mouth communication.

Dr. Gremler has been invited to conduct seminars and present research on service marketing issues in more than a dozen countries. He has published over 40 peer-reviewed journal articles and book chapters. His articles have appeared in the *Journal of Marketing*, *Journal of the Academy of Marketing Science*, *Journal of Service Research*, *Journal of Retailing*, *Journal of Business Research*, *Journal of Service Management*, and *Journal of Marketing Education*. Seven of Dr. Gremler's articles have won awards, including the Best Service Research Paper published in 2011 (awarded by AMA's SERVSIG) for an article published in the *Journal of Marketing* and Outstanding Research Paper Award for the best article published in the *Journal of Service Research* in 2002. In 2014 he received the Christopher Lovelock Career Contributions Award from the American Marketing Association's SERVSIG. Dr. Gremler is a former Fulbright Scholar, having received a grant from the U.S. government to teach service marketing courses at the University of Maastricht, Netherlands, in spring 2006. Dr. Gremler's recent research has been concerned with customer-employee interactions in service delivery, service guarantees, servicescapes, word-of-mouth communication, and customer loyalty in service businesses.

Dr. Gremler has been teaching Service Marketing courses for 20 years, and has been identified as having taught more undergraduate classes on this subject during this time than anyone in the United States. He is the recipient of several teaching awards, including the *Academy of Marketing Science* Outstanding Marketing Teacher Award (2009), the Alumni Undergraduate Teaching Award from the College of Business at Bowling Green State University (2010), the Hormel Teaching Excellence Award from the *Marketing Management Association* (2011), and the College of Business Teaching Excellence Award from BGSU (2015). In 2015 Dr. Gremler was appointed *Distinguished Teaching Professor* by the Bowling Green State University Board of Trustees.

Preface

This text is for students and businesspeople who recognize the vital role that services play in the economy and its future. The advanced economies of the world are now dominated by services, and virtually all companies view service as critical to retaining their customers today and in the future. Manufacturing and product-dominant companies that, in the past, have depended on their physical products for their livelihood now recognize that service provides one of their few sustainable competitive advantages.

We wrote this book in recognition of the ever-growing importance of services and the unique challenges faced by service managers.

WHY A SERVICE MARKETING TEXT?

Since the beginning of our academic careers in marketing, we have devoted our research and teaching efforts to topics in service marketing. We strongly believe that service marketing is different from goods marketing in significant ways and that it requires strategies and tactics that traditional marketing texts do not fully reflect. This text is unique in both content and structure, and we hope that you will learn as much from it as we have in writing and revising it now for over 20 years. Over this time period we have incorporated major changes and developments in the field, keeping the book up to date with new knowledge, changes in management practice, and the global economic trend toward services.

Content Overview

The foundation of the text is the recognition that services present special challenges that must be identified and addressed. Issues commonly encountered in service organizations—the inability to inventory, difficulty in synchronizing demand and supply, challenges in controlling the performance quality of human interactions, and customer participation as cocreators of value—need to be articulated and tackled by managers. Many of the strategies include information and approaches that are new to managers across industries. We wrote the text to help students and managers understand and address these special challenges of service marketing.

The development of strong customer relationships through quality service (and services) are at the heart of the book's content. The topics covered are equally applicable to organizations whose core product is service (such as banks, transportation companies, hotels, hospitals, educational institutions, professional services, telecommunication) and to organizations that depend on service excellence for competitive advantage (high-technology manufacturers, automotive and industrial products, information-intensive technology firms, and so on). The topics covered also apply equally to large, well-established companies, and to smaller entrepreneurial ventures. Rarely do we repeat material from marketing principles or marketing strategy texts. Instead, we adjust, when necessary, standard content on topics such as distribution, pricing, and promotion to account for service characteristics.

The book's content focuses on knowledge needed to implement service strategies for competitive advantage across industries. Included are frameworks for

customer-focused management and strategies for increasing customer satisfaction and retention through service. In addition to standard marketing topics (such as pricing), this text introduces students to entirely new topics that include management and measurement of service quality, service recovery, the linking of customer measurement to performance measurement, service blueprinting, current ideas related to “value in use,” and the cocreation of value by customers. Each of these topics represents pivotal content for tomorrow’s businesses as they structure around process rather than task, engage in one-to-one marketing, mass customize their offerings, cocreate value with their customers, and attempt to build strong relationships with their customers. The cross-functional treatment of issues through integration of marketing with disciplines such as operations information systems, and human resources is a constant underlying theme.

New Features

This seventh edition of the text includes the following new features:

1. New or updated chapter openers in all chapters.
2. New research references and examples in every chapter with greater coverage of new business model examples such as Airbnb, Uber, OpenTable, Mint/Intuit, and others.
3. Greater emphasis on technology and how it is transforming service businesses; for example, the book includes examples from application services (“apps”), the “Gig” economy, the sharing economy, and the Internet of Things as a service.
4. Inclusion of current theories and best practices on customer satisfaction, loyalty, and the wallet allocation rule.
5. Increased coverage of the two current logics of marketing: service dominant logic and service logic, both of which focus on customers as creators and cocreators of value and value in use.
6. Focus on digital and social marketing in the communication chapter as well as greater coverage and examples of these topics throughout the book.
7. Increased coverage of Big Data as a source of customer information and data analytics as a service.
8. More discussion and examples of strategic service initiatives and service business models in business-to-business firms, including the trend toward service infusion in goods-dominant companies.
9. New or improved global, technology, and strategic service features in nearly every chapter and updated data in key charts and examples throughout the text.

Distinguishing Structure and Content Features

The text features a structure completely different from the standard 4P (marketing mix) structure of most marketing texts. The text is organized around the gaps model of service quality, which is described fully in Chapter 2. Beginning with Chapter 3, the text is organized into parts around the gaps model. For example, Chapters 3 and 4 each deal with an aspect of the customer gap—customer expectations and perceptions, respectively—to form the focus for service marketing strategies. The managerial content in the rest of the chapters is framed by the gaps model using part openers that build the model gap by gap. Each part of the book includes multiple chapters

with strategies for understanding and closing these critical gaps. Specific distinguishing content features of the book include:

1. The only services marketing textbook based on the Gaps Model of Service Quality framework, which departs significantly from other marketing and services marketing textbooks.
2. Greater emphasis on the topic of service quality than existing marketing and service marketing texts.
3. Introduction of three service Ps to the traditional marketing mix and increased focus on customer relationships and relationship marketing strategies.
4. Significant focus on customer expectations and perceptions and what they imply for marketers.
5. A feature called “Strategy Insight” in each chapter—a feature that focuses on emerging or existing strategic initiatives involving services.
6. Increased coverage of business-to-business service applications.
7. Coverage of the increasing influence of technology in services, including a current Technology Spotlight in every chapter.
8. A chapter on service recovery that includes a conceptual framework for understanding the topic.
9. A chapter on the financial and economic impact of service quality.
10. A chapter on customer-defined service standards.
11. Cross-functional treatment of issues through integration of marketing with other disciplines such as operations and human resource management.
12. Consumer-based pricing and value pricing strategies.
13. Description of a set of tools that must be added to basic marketing techniques when dealing with services rather than goods.
14. An entire chapter that recognizes human resource challenges and human resource strategies for delivering customer-focused services.
15. A full chapter on service innovation and design with a detailed and complete introduction to service blueprinting—a technique for describing, designing, and positioning services.
16. An entire chapter on customers’ roles in service that recognizes the central role that customers play in creating and cocreating value.
17. A chapter on the role of physical evidence, particularly the physical environment, or “servicescape.”
18. “Global Feature” boxes in each chapter and expanded examples of global services marketing.

Conceptual and Research Foundations

We synthesized research and conceptual material from many talented academics and practitioners to create this text. We rely on the work of researchers and businesspeople from diverse disciplines such as marketing, human resources, operations, information systems, and management. Because the field of services marketing is international in its roots, we also have drawn from work originating around the globe. We have continued this strong conceptual grounding in the seventh edition by integrating new research into every chapter. The framework of the book is

managerially focused, with every chapter presenting company examples and strategies for addressing issues in the chapter.

WHAT COURSES AND STUDENTS CAN USE THE TEXT?

In our years of experience teaching services marketing, we have found that a broad cross section of students is drawn to learning about services marketing. Students with career interests in service industries as well as goods industries with high service components (such as industrial products, high-tech products, and durable products) want and need to understand these topics. Students with an interest or background in software, technology-based businesses, online applications, and “data as a service” are also drawn to the course since each of these new business models is a form of service, demanding understanding of service concepts and tools. Students who wish to become consultants and entrepreneurs want to learn the strategic view of marketing, which involves not just physical goods but also the myriad services that envelop and add value to these goods. Virtually all students—even those who will work for packaged goods firms—will face employers needing to understand the basics of service marketing and management.

Although service marketing courses are usually designated as marketing electives, a large number of enrollees in our classes have been finance students seeking to broaden their knowledge and career opportunities. Business students with human resource, information technology, accounting, and operations majors also enroll, as do nonbusiness students from such diverse disciplines as health administration, recreation and tourism, public and nonprofit administration, law, sports management, and library science.

Students need only a basic marketing course as a prerequisite for a service marketing course and this text. The primary target audience for the text is service marketing classes at the undergraduate (junior or senior elective courses), graduate (both masters and doctoral courses), and executive student levels. Other target audiences are (1) service management classes at both the undergraduate and graduate levels and (2) marketing management classes at the graduate level in which a professor wishes to provide more comprehensive teaching of services than is possible with a standard marketing management text. A subset of chapters would also provide a concise text for use in a quarter-length or mini-semester course. A further reduced set of chapters may be used to supplement undergraduate and graduate basic marketing courses to enhance the treatment of services.

HOW MANY PARTS AND CHAPTERS ARE INCLUDED IN THE BOOK, AND WHAT DO THEY COVER?

The text material includes 16 chapters divided into seven parts. Part 1 includes an introduction in Chapter 1 and an overview of the gaps model in Chapter 2. Part 2 considers the customer gap by examining customer expectations and perceptions. Part 3 focuses on listening to customer requirements, including chapters covering marketing research for services, building customer relationships, and service recovery. Part 4 involves aligning service strategy through design and standards and includes chapters on service innovation and design, customer-defined service standards, and physical evidence and the servicescape. Part 5 concerns the delivery and performance of service and has chapters on employees’ and customers’ roles

in service delivery, as well as managing demand and capacity. Part 6 focuses on managing services promises and includes chapters on integrated services marketing communications and pricing of services. Finally, Part 7 examines the financial and economic effect of service quality.

WHAT DO WE PROVIDE EDUCATORS WHO TEACH SERVICES MARKETING?

As a team, we have accumulated more than 80 years of experience teaching the subject of services marketing. We set out to create a text that represents the approaches we have found most effective. We incorporated all that we have learned in our many years of teaching services marketing—teaching materials, student exercises, case analyses, research, and PowerPoint slides, which you can find online at connect.mheducation.com, along with a comprehensive instructor’s manual and test bank.

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This seamless integration of reading, practice, and assessment ensures that the focus is on the most important content for that individual.

Instructor Library

The Connect Management Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture.

The Library for the seventh edition includes the following resources:

- **Instructor’s Manual:** The *Instructor’s Manual* includes sample syllabi, suggestions for in-class exercises and projects, teaching notes for each of the cases included in the text, and answers to end-of-chapter discussion questions and exercises. The *Instructor’s Manual* uses the “active learning” educational paradigm, which involves students in constructing their own learning experiences and exposes them to the collegial patterns present in work situations. Active learning offers an educational underpinning for the pivotal workforce skills required in business, among them oral and written communication skills, listening skills, and critical thinking and problem solving.
- **PowerPoint:** We have provided PowerPoint slides online for each chapter and case, including figures and tables from the text that are useful for instructors in class. The

full-color PowerPoint slides were created to present a coordinated look for course presentation.

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The Seventh Edition of Services Marketing is available with LearnSmart, the most widely used adaptive learning resource, which is proven to improve grades. To improve your understanding of this subject and improve your grades, go to McGraw-Hill Connect® connect.mheducation.com, and find out more about LearnSmart. By helping students focus on the most important information they need to learn, LearnSmart personalizes the learning experience so they can study as efficiently as possible.

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We remain indebted to Parsu Parasuraman and Len Berry, who have been research partners of Dr. Zeithaml's since 1982. The gaps model around which the text is structured was developed in collaboration with them, as was the model of customer expectations used in Chapter 3. Much of the research and measurement content in this text was shaped by what the team found in a 15-year program of research on service quality.

Dr. Zeithaml is particularly indebted to her long-time colleague A. "Parsu" Parasuraman, who has been her continuing collaborator over the 30 years she has been in academia. An inspiring and creative talent, Parsu has always been willing to work with her—and many other colleagues—as a mentor and partner. He is also her treasured friend. She also thanks the W. P. Carey School of Business at Arizona State University and the Center for Services Leadership, from which she has benefited from interactions with her colleagues there. She also thanks her colleagues, Phd and MBA students at the University of North Carolina. The students' interest in the topic of service marketing, their creativity in approaching the papers and assignments, and their continuing contact are appreciated. As always, she credits the Marketing Science Institute (MSI), of which she was a researcher and an academic trustee, for the support and ongoing inspiration from

its many executive members, conferences, and working papers. She is especially indebted to David Reibstein and Leigh McAllister, both of whom served as MSI academic directors, for their leadership and talent in bridging the gap between academia and practice.

Dr. Bitner expresses special thanks to the W. P. Carey School of Business at Arizona State University, in particular to Professor Emeritus Stephen W. Brown and the Center for Services Leadership staff and faculty. Their support and encouragement have been invaluable throughout the multiple editions of this book. Dr. Bitner also acknowledges the many ideas and examples provided by the approximately 50 member companies of the Center for Services Leadership that are committed to service excellence and from which she has the opportunity to continually learn. She also acknowledges and thanks the approximately 80 Faculty Network members of the Center for Services Leadership from around the world, whose ideas, energy, and creativity keep the discipline vital in many ways. For this edition, Dr. Bitner wants to again acknowledge the leadership of the IBM Corporation through its research divisions, in particular Dr. James Spohrer, for inspiring academics, government employees, and businesspeople around the world to begin focusing on the science of service. She is also grateful to Buck Pei, Associate Dean at the W. P. Carey School, for providing the opportunity to teach a course on service excellence in ASU's China EMBA. The experience has enriched this book and provided tremendous learning. She also acknowledges and thanks her colleague Amy Ostrom for her support and invaluable assistance in sharing examples, new research, and creative teaching innovations. Finally, Dr. Bitner is grateful to the fine group of Arizona State services doctoral students she has worked with, who have shaped her thinking and supported the text: Lois Mohr, Bill Faranda, Amy Rodie, Kevin Gwinner, Matt Meuter, Steve Tax, Dwayne Gremler, Lance Bettencourt, Susan Cadwallader, Felicia Morgan, Thomas Hollmann, Andrew Gallan, Martin Mende, Mei Li, Shruti Saxena, Nancy Sirianni, Helen Si Wang, and Kathryn Eaton.

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Valarie A. Zeithaml

Mary Jo Bitner

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Part One

Foundations for Service Marketing

Chapter 1 Introduction to Services

Chapter 2 Conceptual Framework of the Book: The Gaps Model of Service Quality

This first part of the text provides you with the foundations needed to begin your study of services marketing. The first chapter identifies up-to-date trends, issues, and opportunities in service as a backdrop for the strategies addressed in remaining chapters. The second chapter introduces the gaps model of service quality, the framework that provides the structure for the text. The remaining parts of the book include information and strategies to address specific gaps, giving you the tools and knowledge to become a service marketing leader.

Chapter One

Introduction to Services

This chapter's objectives are to

1. Explain what services are and identify important trends in services.
2. Explain the need for special service marketing concepts and practices and why the need has developed and is accelerating.
3. Explore the profound impact of technology on service.
4. Outline the basic differences between goods and services and the resulting challenges and opportunities for service businesses.
5. Introduce the expanded marketing mix for services and the philosophy of customer focus as powerful frameworks and themes that are fundamental to the rest of the text.

All Businesses are Service Businesses¹

It is frequently said that “everything is a service” and “all businesses are service businesses.” Clearly no one would argue that brand icons like Disney, Marriott, and Starbucks are service companies—service is the core of their business and service excellence is a key to their success. Companies like Siemens, IBM, Cardinal Health, and General Electric are also service providers. They compete effectively in their industries by providing essential services like training, repair, and distribution associated with their products, but also more sophisticated services like consulting, data and technology services, and business process outsourcing in their areas of expertise. Even consumer product companies like Apple and Samsung are service providers. For these companies, services are embedded in the products themselves, with smart phones and tablets providing essential services and solutions that many of us find critical to our daily lives—even though smart phones have existed for a very short time, and we obviously managed without them before. Finally, most of the new business models that are popping up are service models, many based in technology. Some, like Uber and Airbnb, are disrupting entire service industries.

These examples illustrate the diversity of service companies that we will feature in the text and the kinds of businesses you will learn about.

Marriott

Marriott is always a leader in lists of “best service companies” in the United States and the company is also high overall on Fortune’s Most Admired Company lists. One reason for these high rankings is Marriott’s focus on commitment to its employees and customers. At Marriott, people come first, and their first core value is “take good care of your people, they will take good care of the customers and the customers will come back.” This value has translated into a worldwide well-known brand name that is the parent to 19 distinct brands of hotels. Being excellent at service—both for customers and employees—has been one of the keys to Marriott’s success for decades.

General Electric

Many traditional manufacturers and high-technology companies have evolved over several decades to become service providers, and now a number of them are evolving further into data-driven service businesses. General Electric (GE) is prime example of a company that is transitioning its core growth strategies to focus on digital services and services built around data spun off from its products. Just as Jack Welch, former CEO, transformed the company into a service giant, its current CEO Jeff Immelt is focused on a digital transformation of the company to make it a top 10 software and digital services company by 2020. A popular GE ad campaign featuring a young man named Owen demonstrates the company’s commitment to digital transformation of industries and its desire to hire people like Owen to move it forward.

Apple

In many industries, products are becoming a vehicle for service provision. Nowhere is this more obvious than in consumer electronics. Every app that you have on your smart phone promises to provide you with information, entertainment, purchasing opportunities, or unique solutions for your everyday life—all of these are services. The phone itself is really just a “container” for the services it provides. Apple’s status as a service business was recognized when the company was ranked third for service among all companies by *24/7 Wall Street*. Apple continues to stay on the forefront of technology and product design, but it is always geared to providing customers with the innovative services and solutions they have come to expect and depend on from the company.

Uber

Technology, collaboration, and the sharing economy are giving rise to many new services today. Some are short-lived, while others seem to have real staying power. Uber’s rapid rise as a prominent, disruptive business model in the personal transportation industry is one of the best known examples. Technology has made Uber’s business model possible, and consumer willingness to collaborate underlies its success. Through technology Uber is able to link individual drivers, driving their own personal cars, with customers who are seeking a ride. The technology tracks locations, availability, payment, and evaluations of both drivers and riders, making the service extremely efficient and yet customized. Although it is facing challenges from regulated taxis and others, Uber’s rapid expansion globally is a testament to the robustness of the service model.

As the chapter opener suggests, services are prevalent across industries, service strategies can be very profitable, and technology and digital transformation of companies and industries is driving growth and innovation in services. Yet, the University of Michigan's American Customer Satisfaction Index has consistently shown lower scores for services when compared to other products.² Given the economic growth in services, their profit and competitive advantage potential, and the overall lower levels of customer satisfaction for services, it seems that the potential and opportunities for companies that can excel in service marketing, management, and delivery have never been greater.

This text will give you a lens with which to approach the marketing and management of services. What you learn can be applied in a company like GE with a traditional manufacturing history or in pure service businesses. You will learn tools, strategies, and approaches for developing and delivering profitable services that can provide competitive advantage to firms. At the base of service marketing and management you will find a strong customer focus that extends across all functions of the firm—thus the subtitle of this book, “integrating customer focus across the firm.”

WHAT ARE SERVICES?

Put in the most simple terms, *services are deeds, processes, and performances* provided, coproduced, or cocreated by one entity or person for and/or with another entity or person. Our chapter opener and the four company examples illustrate the range of meanings and types of companies that offer services today. Although we will rely on the simple, broad definition of *services*, you should be aware that over time *services* and the *service sector of the economy* have been defined in subtly different ways. The variety of definitions can often explain the confusion or disagreements people have when discussing services and when describing industries that constitute the service sector of the economy. Compatible with our simple, broad definition is one that defines services to include “all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort, or health) that are essentially intangible concerns of its first purchaser.”³ The breadth of industries making up the service sector of the U.S. economy is illustrated in Figure 1.1.

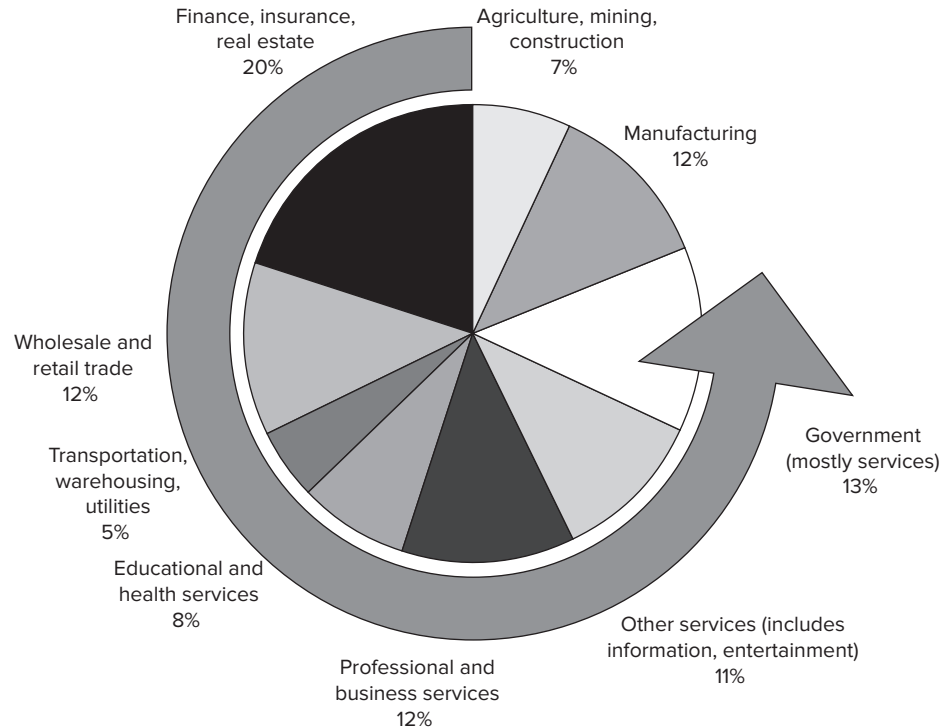
Service Industries, Service as a Product, Customer Service, and Derived Service

As we begin our discussion of service marketing and management, it is important to draw distinctions between *service industries and companies*, *service as a product*, *customer service*, and *derived service*. The tools and strategies you will learn in this text can be applied to any of these categories.

Service industries and companies include those industries and companies typically classified within the service sector where the core product is a service. All of the following companies can be considered pure service companies: Marriott International (lodging), American Airlines (transportation), Charles Schwab (financial services), and Mayo Clinic (health care). The total services sector comprises a wide range

FIGURE 1.1
Contributions of
Service Industries to
U.S. Gross Domestic
Product, 2016

Source: *Survey of Current Business*, Online, April 2016.



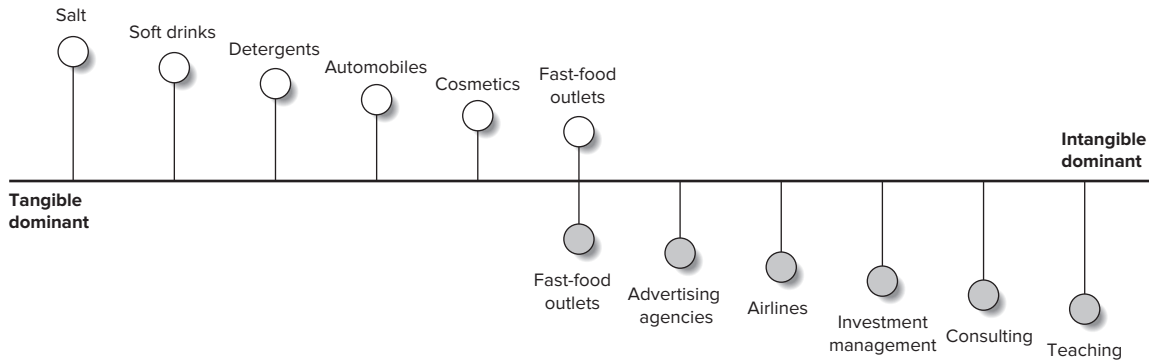
of service industries, as suggested by Figure 1.1. Companies in these industries sell services as their core offering.

Service as a product represents a wide range of intangible product offerings that customers value and pay for in the marketplace. Service products are sold by service companies and by nonservice companies such as manufacturers and technology companies. For example, IBM and Hewlett-Packard offer information technology consulting services to the marketplace, competing with firms such as Accenture, a traditional pure service firm. Other industry examples include department stores like Macy's that sell services such as gift wrapping and shipping, pet stores like PetSmart that sell pet grooming and training services, and distributors like VWR who offer services such as instrument calibration, equipment maintenance, and inventory management to their research lab customers.

Customer service is also a critical aspect of what we mean by "service." Customer service is the service provided in support of a company's core products. Companies typically do not charge for customer service. Customer service can occur on-site (as when a retail employee helps a customer find a desired item or answers a question), or it can occur over the phone or via the Internet through chat in real time. Many companies operate customer service call centers, often staffed around the clock. In other cases, customer service is provided remotely, through machine-to-machine communication without any human interaction. Regardless of the method, quality customer service is essential to building customer relationships. It should not, however, be confused with the services provided for sale by the company.

FIGURE 1.2 Tangibility Spectrum

Source: L. G. Shostack, "Breaking Free from Product Marketing," *Journal of Marketing* 41 (April, 1977), pp. 73–80, American Marketing Association.



Derived service is yet another way to look at what service means. In an award-winning article in the *Journal of Marketing*, Steve Vargo and Bob Lusch argue for a logic for marketing that suggests that all products and physical goods are valued for the services they provide.⁴ Drawing on the work of respected economists, marketers, and philosophers, they suggest that the value derived from physical goods is really the service provided by the good, not the good itself. For example, they suggest that a pharmaceutical drug provides medical service, a razor provides barbering service, and computers provide information and data manipulation service. Although this view is somewhat abstract, it suggests an even broader, more inclusive, view of the meaning of *service*.

Tangibility Spectrum

The broad definition of service implies that intangibility is a key determinant of whether an offering is a service. Although this is true, it is also true that very few products are purely intangible or totally tangible. Instead, services tend to be *more intangible* than manufactured products, and manufactured products tend to be *more tangible* than services. For example, the fast-food industry, while classified as a service, also has many tangible components such as the food, the packaging, and so on. Automobiles, while classified within the manufacturing sector, also supply many intangibles, such as transportation and navigation services. The tangibility spectrum shown in Figure 1.2 captures this idea. Throughout this text, when we refer to services we will be assuming the broad definition of services and acknowledging that there are very few “pure services” or “pure goods.” The issues and approaches we discuss are directed toward those offerings that lie on the right side, the intangible side, of the spectrum shown in Figure 1.2.

Trends in the Service Sector

Although you often hear and read that many modern economies are dominated by services, the United States and other countries did not become service economies overnight. As early as 1929, 55 percent of the working population was employed in the service sector in the United States, and approximately 54 percent of the gross national

FIGURE 1.3
Percentage of U.S.
Labor Force by
Industry

Sources: Bureau of Labor Statistics, Online, December 2015; *Survey of Current Business*, Online, March 2011; *Survey of Current Business*, February 2001, Table B.8, July 1988, Table 6.6B, and July 1992, Table 6.4C; E. Ginzberg and G. J. Vojta, "The Service Sector of the U.S. Economy," *Scientific American* 244 (1981), pp. 31–39.

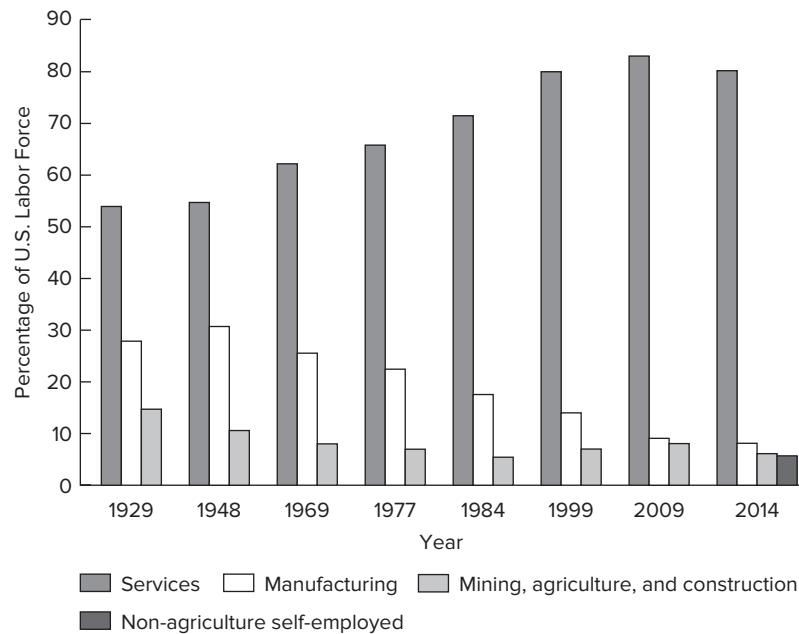
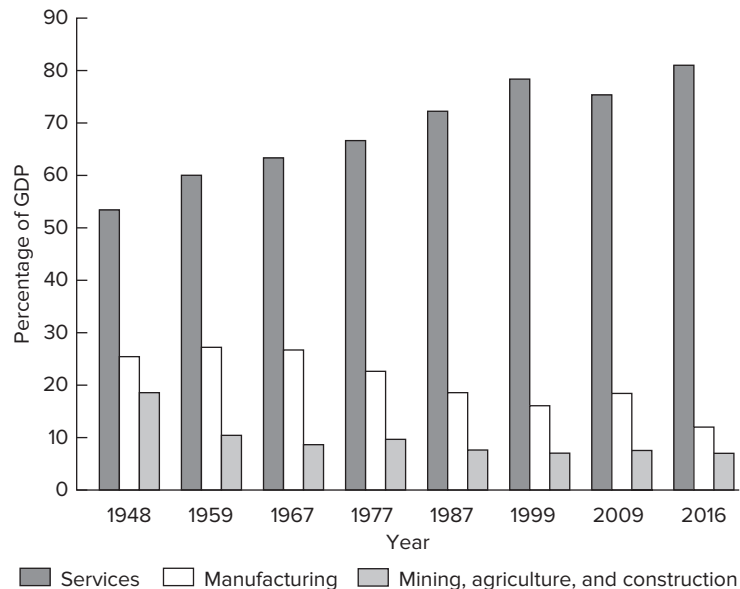


FIGURE 1.4
Percentage of U.S.
Gross Domestic
Product by Industry

Sources: Survey of Current Business, Online, April 2016; *Survey of Current Business*, Online, March 2011; *Survey of Current Business*, February 2001, Table B.3, and August 1996, Table 11; E. Ginzberg and G. J. Vojta, "The Service Sector of the U.S. Economy," *Scientific American* 244 (1981), pp. 31–39.



product was generated by services in 1948. The data in Figures 1.3 and 1.4 show that the trend toward services has continued, until in 2016 services represented 81 percent of the gross domestic product (GDP), and in 2014, 80 percent of employment. Note also that these data do not include services provided by manufacturing companies. The number of employees and value of the services they produce would be classified as manufacturing sector data.

WHY SERVICE MARKETING?

Why is it important to learn about service marketing, service quality, and service management? What are the differences in services versus manufactured-goods marketing that have led to the demand for books and courses on services? Many forces have led to the growth of services marketing, and many industries, companies, and individuals have defined the scope of the concepts, frameworks, and strategies that define the field.

Service-Based Economies

First, service marketing concepts and strategies have developed in response to the tremendous growth of service industries, resulting in their increased importance to the U.S. and world economies. As was noted, the service sector represented more than 80 percent of total employment in 2014 and 81 percent of gross domestic product of the United States in 2016. Almost all the absolute growth in numbers of jobs and the fastest growth rates in job formation are in service industries, particularly health care and IT professional services.

Another indicator of the economic importance of services is that trade in services is growing worldwide. In fact, while the U.S. balance of trade in goods remains in the red, exports of services have jumped 84 percent since 2000 and there was a \$227 billion trade surplus in services in 2015. In fact, the U.S. ranks number one in the world in sales of services abroad.^{5,6}

There is a growing market for services and increasing dominance of services in economies worldwide (see the accompanying table). This growth is apparent in established economies as well as emerging economies such as China, where the central government has placed a priority on service sector growth. The growth of the service sector has drawn increasing attention to the challenges of service sector industries worldwide.

Country	Services GDP as of 2015
Hong Kong	93
UK	80
Netherlands	80
France	79
United States	78
Singapore	76
Japan	72
Brazil	72
Canada	71
Germany	69
New Zealand	69
Australia	67
Sweden	65
Mexico	62
India	54
China	48

Source: *The CIA World Fact Book*, 2015.

Service as a Business Imperative in Goods-Focused Businesses

Early in the development of the field of service marketing and management, most of the impetus came from service industries such as banking, transportation, hospitality, and health care. As these traditional service industries have evolved and become even more competitive, the need for effective service management and marketing strategies has continued. Now, however, companies across industries have discovered the value of service innovation and service growth strategies.⁷ Manufacturers (e.g., GE, Caterpillar), technology companies (e.g., Avnet, Xerox, IBM), retailers (e.g., PetSmart), and even packaged goods companies (e.g., Procter & Gamble) have begun to discover the potential for service-led growth. (See Chapter 8 and the Strategy Insight in that chapter.) All of these companies have realized that an excellent product alone is not a guarantee for long-term success.

For example Xerox now provides a document management service, whereby it can take over the management of all documents (digital and paper) within an organization. This type of service lies far beyond its traditional printer repair and maintenance service business. In a different industry, PetSmart, a very large pet retailer, attributes nearly all of its growth in recent years to its services, including pet hotels, grooming, and training. Procter & Gamble has also begun a push into services tied to a few of its renowned brands, including Mr. Clean Car Wash, a franchise model for Tide Dry Cleaners, and a new laundry service called “Tide Spin.” Knowing the tremendous value of these brands, Procter & Gamble has been very meticulous and careful in its extension of these brands into services. To expand their service business expertise, many technology companies have partnered with or purchased service businesses. IBM purchased PricewaterhouseCoopers, Hewlett-Packard purchased EDS, and Dell acquired Perot Systems, to name just a few.

Why are all these companies choosing to focus on services? There are a number of reasons. First, the commoditization of products in many industries has resulted in price and margin pressures on many physical goods. Services can help firms to customize their offerings, adding value for customers. Second, customers are demanding services and solutions, especially in business-to-business markets. In many situations, customers demand a solution to their problem or challenge that involves multiple products and services. They look to their providers to create and deliver these product-service solutions. Third, services often have higher profit margins than products and can thus provide platforms for firm profitability. As you will learn in later chapters, customer loyalty and customer satisfaction are driven in large part by service quality and service offerings. Again, this knowledge provides firms with another reason to develop services and cement customer loyalty through high-quality service. Finally, many industries are highly competitive today and service can be a differentiator in a crowded market.

As firms transition into services, they often encounter serious challenges in terms of culture change, sales and channel issues, and a need for expertise in designing and delivering services. These companies are typically engineering, technology, science, or operations driven. Their expertise is anchored in what they produce. As these companies transition and seek to grow through service, they find they need a new service logic, and the special concepts and approaches for managing and marketing services become increasingly apparent.⁸