



SERVICES MARKETING

K. Douglas Hoffman • John E. G. Bateson

CONCEPTS,
STRATEGIES,
& CASES

FIFTH EDITION





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& CASES

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K. DOUGLAS HOFFMAN

*Professor of Marketing &
University Distinguished Teaching Scholar
Colorado State University*

JOHN E. G. BATESON

*Visiting Professor of Management,
Cass Business School,
City University,
London*



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**Services Marketing: Concepts, Strategies
& Cases, Fifth Edition**

K. Douglas Hoffman and
John E. G. Bateson

Vice President, General Manager:
Erin Joyner

Product Director: Jason Fremder

Product Manager: Mike Roche

Content Developer: Jamie Mack

Marketing Manager: Jeff Tousignant

Manufacturing Planner: Ron Montgomery

Art and Cover Direction, Production
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To Brittain, Emma, Madeline, Anne Price, and Edith
Doug Hoffman

In Memory of Orson Bateson Bellis 3–5th September, 2014
John Bateson

Preface

The primary objective of *Services Marketing: Concepts, Strategies & Cases* is to provide materials that not only introduce the student to the field of services marketing but also acquaint the student with specific customer service issues. The business world now demands, in addition to traditional business knowledge, increasing employee competence in developing effective service processes, constructing meaningful servicescapes, and measuring customer satisfaction and service quality, as well as service recovery skills that are essential to growing and sustaining the existing customer base.

Approach

Following the same philosophical approach as earlier editions, the fifth edition of *Services Marketing: Concepts, Strategies & Cases* purposely examines the use of services marketing as a competitive weapon from a broader perspective. Consequently, we view services marketing not only as a marketing tool for service firms, but also as a means of competitive advantage for those companies that market products on the tangible side of the product continuum. As a result, business examples used throughout the text reflect a wide array of firms that represent the nine service economy supersectors, including education and health services, financial activities, government, information, leisure and hospitality, professional and business services, transportation and utilities, wholesale and retail trade, and other services as well as firms that produce tangible products.

Ultimately, the *service sector* is one of the three main categories of a developed economy—the other two being *industrial* and *agricultural*. Traditionally, economies throughout the world tend to transition themselves from an *agricultural economy* to an *industrial economy* (e.g., manufacturing, mining, etc.) to a *service economy*. The United Kingdom was the first economy in the modern world to make this transition. Several other countries including the United States, Japan, Germany, and France have made this transition, and many more will join this group at an accelerated rate.

We continue to live in interesting times! The increased rate of transformation from an agricultural to a manufacturing to a service-based economy has generally been caused by a highly competitive international marketplace. Simply stated, goods are more amenable to international trade than services, thereby making them more vulnerable to competitive actions. In other words, countries that industrialized their economies first eventually come under attack by other countries that are newly making the transition from an agricultural to an industrial economy. These “newcomer” countries offer lower production costs (especially labor), which is attractive to industry. Consequently, as industrial sectors flow from one country to the next, the countries they abandon begin to more heavily rely on the growth of their service sectors as the mainstay of their economies. This whole process repeats itself over and over again as other less developed countries enter the fray, facilitating the transformation from agriculture to industrial to service-based economies.

Structure of the Book

Services Marketing: Concepts, Strategies & Cases is divided into three main sections.

Part I: An Overview of Services Marketing

Part I concentrates on defining services marketing and discusses in detail the fundamental concepts and strategies that differentiate the marketing of services from the marketing of tangible goods. The primary objective of Part I is to establish a core knowledge base that will be built upon throughout the remainder of the text.

Chapter 1, *An Introduction to Services*, provides an introduction to the field of services marketing. It establishes the importance of the service sector in the world economy and the need for services marketing education. Chapter 2, *The Service Economy: Supersectors and Ethical Considerations*, provides an overview of the service sector and focuses on the nine service industry supersectors and the most substantial changes taking place within the service sector. In addition, Chapter 2 takes an in-depth look at ethics in the service sector. Because of the differences between goods and services, unique opportunities arise that may encourage ethical misconduct. Chapter 3, *Fundamental Differences between Goods and Services*, focuses more deeply on the differences between goods and services, namely intangibility, inseparability, heterogeneity, and perishability, and their corresponding managerial implications. Possible solutions to minimize the negative consequences of these unique service characteristics are also discussed.

Thus far, Chapters 1, 2, and 3 introduce the fundamentals of the service experience, provide an overview of service industries and ethical considerations, and detail the unique challenges associated with the marketing of services. At the heart of services marketing must be the consumer and Chapter 4, *Services Consumer Behavior*, focuses on building your understanding of the behavior of service consumers as they select service providers and then evaluate their satisfaction with the service that they have received. Chapter 4 provides concepts and frameworks that permeate the rest of this book as service firms adapt their marketing mixes to reflect the changing needs of their customers.

Part II: The Tactical Services Marketing Mix

One of the most basic ideas in marketing is the marketing mix. The marketing mix represents the levers that the organization controls. These levers can be used to influence consumers' choice processes as well as their evaluation of service satisfaction. The traditional marketing mix is often expressed as the four Ps—product, place, price, and promotion. Due to the fundamental differences between goods and services, the services marketing mix can be redefined and expanded, offering the three additional marketing mix variables of *process*, the *physical environment*, and *people*.

Given the importance of the services marketing mix, Part II of this text focuses upon *The Tactical Services Marketing Mix* and focuses on the marketing mix variables that must be the most modified when competing in service marketing environments. More specifically, Chapter 5 focuses on the *Service Delivery Process*, Chapter 6 examines the *Pricing of Services*, Chapter 7 investigates the *Service Communication Strategy*, Chapter 8 addresses *Managing the Firm's Physical Evidence*, and Chapters 9 and 10 explore the people issues surrounding services marketing, including *Managing Service Employees* and *Managing Service Consumers*, respectively.

Part III: Assessing and Implementing Successful Service Strategies

Marketing's role with the rest of the organization is the theme for Part III of the book, which focuses on *Assessing and Implementing Successful Service Strategies*. Marketing is at the heart of each of these strategies, but their execution is dependent on harnessing all of the functions: operations, human resources and marketing. As such, Chapter 11, *Defining and Measuring Customer Satisfaction*, expands the consumer behavior chapter to explore how it is possible to satisfy a customer in a particular service experience and how to

measure and manage satisfaction. Chapter 12, *Understanding and Measuring Service Quality*, builds upon Chapter 11 and increases our understanding of how consumers evaluate services and the longer-term concept of service quality. Due to the complexity of the various relationships that comprise a typical service encounter, service failures are inevitable, but because of inseparability it is often possible to recover from failure situations during the service encounter. Chapter 13 discusses how to successfully master the art of *Complaint and Service Recovery Management*.

Given the current competitive situation among many service firms, Chapter 14 deals with *Customer Loyalty and Retention* as an important strategy for service firms to seriously consider. Finally Chapter 15, *Pulling the Pieces Together: Creating a World-Class Service Culture*, examines the role of marketing within the service organization. It juxtaposes the industrial management model and the market-focused model and shows how important the latter is for a service business. This final chapter also discusses the key components of creating a world-class service culture.

Key Components in the Fifth Edition

15-Chapter Version: The fifth edition of Hoffman and Bateson has been streamlined to fit perfectly with semester or quarter university schedules. As a result of this revision, Hoffman and Bateson provide an effectively integrated service marketing textbook that incorporates online, global, sustainability, and ethical considerations within one text while providing the latest in service marketing concepts and practices.

Opening Chapter Quotes: Every chapter begins with a managerially oriented, thought-provoking quote that is directly pertinent to chapter content. Quotes such as “Washrooms will always tell if your company cares about its customers” and “The bitterness of poor quality is remembered long after the sweetness of low price has faded from memory” set the practical application tone for each chapter.

Learning Objectives: Learning objectives establish the framework for every chapter, enabling instructors to more effectively organize their class lectures. In addition, past students have found the learning objectives useful for organizing class notes as they study for essay-oriented exams.

Revised Chapters: Every chapter has been updated and/or significantly revised to deliver the latest in service marketing concepts and practices. Most significantly, chapters pertaining to the introduction of service marketing, managing employees, managing service customers, implementing service recovery programs, understanding service supersectors and ethical considerations, and creating a world-class service culture have undergone the greatest transformations.

Opening Vignettes: Every chapter opens with a vignette that spotlights service issues in real companies. These real-life situations draw readers in and set the stage for the chapter topics. These vignettes represent a variety of firms, as well as relevant customer service issues including: Burj al Arab Hotel, GetAway2Give, Qatar Airlines, Planet Fitness, Chipotle Mexican Grill, Pay What You Can Restaurants, TripAdvisor, Harrah’s, Google, Dinner in the Sky, and RateMyProfessor.com.

Sustainability and Services in Action Box Features: Perhaps the first services marketing textbook to incorporate sustainability throughout the text, Hoffman and Bateson specifically address sustainable services marketing practices across a variety of industries throughout the globe. Despite the intangible nature of service products, the companies that produce these services are some of the world’s largest consumers of the earth’s natural resources. Hoffman and Bateson provide box features that describe sustainable service marketing practices in every chapter. Industries and topics include

green hotels, banking, airlines, restaurants, universities, Vail Resorts, TerraPass, Starbucks, and more.

Global Services in Action Box Features: In response to the growth of service economies throughout the world, Hoffman and Bateson provide box features of international services marketing practices throughout the text. These features demonstrate the often subtle adjustments to international services marketing strategy that are necessary to become a world-class service organization. Companies and concepts featured include: medical tourism, Katitche Point Great House, tipping etiquette, ethnic pricing, dark dining, personal selling approaches around the world, international considerations for creating world-class service cultures, and many more.

E-Services in Action Box Features: E-Services in Action boxes highlight the dynamic nature of online service marketing practices. Examples of companies and topics include: Zappos.com; hotel marketing; Google.com; social media sites such as Facebook, Twitter, and LinkedIn; online airline pricing, and the ins and outs of online customer satisfaction.

End-of-Chapter Review Questions: Every chapter concludes with 10 review questions that are intentionally written to further reinforce students' understanding and application of chapter content. Answers for review questions are provided in the Instructor's Manual for adopters.

Marginal and End-of-Chapter Glossaries: Key terms, provided in every chapter, are highlighted within the text and defined in the adjacent margin. For student study purposes, key terms are again presented collectively at the end of each chapter in order of appearance and defined in the end-of-chapter glossary.

End-of-Chapter Cases: The fifth edition of Hoffman and Bateson contains a set of end-of-chapter cases that further illustrate, deepen, and extend the concepts developed in each chapter. These cases, purposely brief in nature but long on application, representing a variety of service industries, provide students with an opportunity to further internalize services marketing concepts. Answers for end-of-chapter cases are provided in the Instructor's Manual for adopters.

Video Library: Especially prepared for adopters, Hoffman and Bateson provide over 50 video links that illustrate key service concepts that are cross referenced by chapter. The videos, a mix of humorous and serious, bring services marketing practices alive in the classroom, creating a much more interactive atmosphere for learning.

Updated Instructor's Manual: The updated Instructor's Manual provides updated chapter outlines, PowerPoints, answers to all end-of-chapter review questions and end-of-chapter cases, and an updated test bank.

MindTap

Online resources are transforming many aspects of everyday life, and learning is not immune to the impact of technology. Rather than simply taking the pages of *Services Marketing* and placing them online, we have reimagined the content to fully utilize the engagement and interactivity that the medium allows.

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Instructor Support Website

The Instructor Support website provides access to downloadable supplements such as the Instructor's Manual, Test Bank, and PowerPoint Slides. The URL for the Instructor Support website is www.cengage.com/marketing/hoffman

Student Resources

The Student Support Website (www.cengage.com/marketing/hoffman) enriches the learning experience with a variety of interactive tools and Web resources such Flash Cards, Interactive Quizzes, PowerPoint Slides, and more.

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Finally, we would also like to thank the Cengage sales force for supporting this project. We truly appreciate your efforts in bringing this package to the marketplace and offer our assistance in support of your efforts.

In closing, we hope that you enjoy the book and your services marketing class. It will likely be one of the most practical courses you will take during your college career. Education is itself a service experience. As a participant in this service experience, you are expected to participate in class discussions. Take advantage of the opportunities provided you during this course, and become an integral component of the education production process. Regardless of your major area of study, the services marketing course has much to offer.

We would sincerely appreciate any comments or suggestions you would care to share with us. We believe that this text will heighten your sensitivity to services, and because of that belief, we leave you with this promise: We guarantee that after completing this book and your services marketing course, you will never look at a service experience in the

same way again. This new view will become increasingly frustrating for most of you, as you will encounter many experiences that are less than satisfactory. Learn from these negative experiences, relish the positive encounters, and use this information to make a difference when it is your turn to set the standards for others to follow. As apostles of services marketing, we could ask for no greater reward.

K. Douglas Hoffman
Professor of Marketing
Marketing Department
Colorado State University
Fort Collins, Colorado 80523
Doug.Hoffman@colostate.edu

John E. G. Bateson
The Hale,
Wendover,
Bucks,
HP22 6QR
United Kingdom
john@johnbateson.net

About the Authors

K. Douglas Hoffman is a professor of marketing and a University Distinguished Teaching Scholar at Colorado State University. He received his B.S. from The Ohio State University, and his M.B.A. and D.B.A. from the University of Kentucky. Doug's teaching experience at the undergraduate and graduate levels spans nearly 30 years while holding tenure track positions at Colorado State University, the University of North Carolina at Wilmington, and Mississippi State University. In addition, Doug has taught as a visiting professor at the Helsinki School of Business and Economics (Helsinki, Finland), the Institute of Industrial Policy Studies (Seoul, South Korea), Thammasat University (Bangkok, Thailand), and Cornell-Nanyang Technological University (Singapore).

Professor Hoffman is an accomplished scholar in the services marketing area. In addition, Doug has written many articles for journals and conference proceedings that have appeared in a variety of publications. His teaching and scholarship have extended to the coauthorship of three textbooks, including *Services Marketing: Concepts, Strategies & Cases*, fifth edition, published by Cengage. He has been the recipient of numerous teaching awards at the college, university, and national discipline levels, including the prestigious Board of Governors Excellence in Undergraduate Teaching Award at Colorado State, and he was named University Distinguished Teaching Scholar—a lifetime appointment—in 2007. Professor Hoffman is a former editor of *Marketing Education Review*.

Doug's current research and consulting activities are primarily in the areas of sales/service interface, customer service/satisfaction, service failure and recovery, and services marketing education.

John E. G. Bateson is a visiting professor of management at the Cass Business School and an independent consultant and company chairman. Previously he was group chief executive of the SHL Group, the global leader in psychometric testing for jobs. SHL was listed on the London Stock Exchange and was taken private by Dr. Bateson in 2006. He was a senior vice president with Gemini Consulting and a member of the Group Executive Committee of the Cap Gemini Group. He was associate professor of marketing at the London Business School, England, and a visiting associate professor at the Stanford Business School. Prior to teaching, he was a brand manager with Lever Brothers and a marketing manager with Philips.

Dr. Bateson holds an undergraduate degree from Imperial College, London, a master's degree from London Business School, and a doctorate in marketing from the Harvard Business School. He has published extensively in the services marketing literature, including the *Journal of Marketing Research*, the *Journal of Retailing*, *Marketing Science*, and the *Journal of Consumer Research*. He is also the author of *Managing Services Marketing: Text and Readings* (South-Western) and *Marketing Public Transit: A Strategic Approach* (Praeger).

Dr. Bateson was actively involved with the formation of the services division of the American Marketing Association. He served on the Services Council for four years and has chaired sessions of the AMA Services Marketing Conference.

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PART I

An Overview of Services Marketing



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The marketing of services differs from the marketing of goods. The bundle of benefits delivered to customers is derived from the service experience that is carefully created by the service organization.

Chapter 1 An Introduction to Services

Chapter 2 The Service Economy: Supersectors and Ethical Considerations

Chapter 3 Fundamental Differences Between Goods and Services

Chapter 4 Services Consumer Behavior

Services Marketing: Concepts, Strategies and Cases is divided into three main sections:

- *Part I: An Overview of Services Marketing (Chapters 1–4);*
- *Part II: The Tactical Services Marketing Mix (Chapters 5–10); and*
- *Part III: Implementing Successful Service Strategies (Chapters 11–15)*

Part I, *An Overview of Services Marketing*, concentrates on defining services marketing and discusses in detail the fundamental concepts and strategies that differentiate the marketing of services from the marketing of tangible goods. Part I also introduces the service supersectors and discusses ethical issues as they relate to the field of services marketing. Finally, Part I concludes with a discussion pertaining to how consumers of services make purchase decisions, focusing once again on the primary differences between goods and services. The primary objective for Part I is to establish a core knowledge base that will be built upon throughout the remainder of this text.

“It’s just the little touches after the average man would quit that makes the master’s fame.”

*Orison Swett Marden,
Founder, Success magazine*

CHAPTER 1

An Introduction to Services

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

- Understand the basic difference between goods and services.
- Develop an appreciation for how service can be used as a competitive advantage for both intangible and tangible products.
- Appreciate the factors that create the customer’s service experience and why it is important to manage the overall experience.
- Comprehend the driving forces behind the importance of the study of services marketing.

This chapter provides an introduction to the field of services marketing. As such, this chapter introduces the basic differences between goods and services and highlights the importance of managing the customer’s overall service experience. In addition, this chapter establishes the importance of the service sector in the global economy,

introduces the concept of technologically based e-services, and discusses the need to develop sustainable service business practices.



THE BURJ AL ARAB HOTEL: THE WORLD’S ONLY 7-STAR HOTEL

Every now and then an iconic structure is built that captures the cultural spirit of its surroundings. Paris has the Eiffel Tower, Sydney has its Opera House, Moscow has Saint Basil’s Cathedral, and now Dubai has the Burj al Arab Hotel. Towering over 1,000 feet and overlooking the warm blue waters of the Arabian Gulf, the Burj al Arab is the fourth tallest hotel in the world. The exterior architectural design of the hotel is striking as it has been purposely built to resemble the billowing sail of a dhow—a type of Arabian trading vessel. At night, the hotel is illuminated by a choreographed light show. Not surprisingly, the Burj al Arab is one of the most photographed structures in the world.¹

Upon entering the hotel, guests are dazzled by its opulence. The views start in the hotel lobby, where a 590-foot-tall atrium greets guests as they are escorted to one of 202 two-story suites. The smallest suite in the hotel offers over 1,800 square feet of living space, while the largest suite is 8,400 square feet. As one

guest remarked, “The room is so large that coming to the door is a chore—so they have remote controls that allow you to see who is at the door from every television (there are several) and unlock the door for [them].” Rain showers and Jacuzzis are standard in every suite. Flowers and exotic fruits are provided to the suites daily by a brigade of personnel that offer the finest in personal service.

Each floor has its own reception desk, allowing guests to acquaint themselves with the hotel’s personnel. Personalized and private, check-in services are performed within each guest suite. All suites offer a two-story panoramic view of the hotel’s surroundings and are immaculately maintained by a butler service that is available 24 hours a day. If needed, the Burj al Arab maintains a fleet of chauffeur-driven Rolls-Royce automobiles that deliver guests to their destination in style. Given that the hotel is built on an island, the Burj al Arab is connected to the mainland by the hotel’s private bridge.

The Burj al Arab truly offers guests a remarkable service experience. It is a must stop for the world’s rich and famous and for those who like to splurge for special occasions. Prices range from approximately \$2,000 per night to over \$18,000 per night for the hotel’s Royal Suite.

The pages that follow provide the keys for delivering a truly remarkable service experience. As you will soon discover, effectively and efficiently managing a service experience is a complicated yet fascinating undertaking. However, the same complexities that comprise a service encounter also provide opportunities to deliver a truly exceptional service experience that benefits consumers, employees, the organization, and society itself.

Source: <http://www.jumeirah.com>.

1-1 Introduction

Services are everywhere we turn, whether it be travel to an exotic tourism destination, a visit to the doctor, a church service, a trip to the bank, a meeting with an insurance agent, a meal at our favorite restaurant, or a day at school. More and more countries, ironically the so-called “industrialized countries” of the world, are finding that the majority of their gross domestic products are generated by their service sectors. However, the growth of the service sector does not just lie within traditional service industries such as leisure and hospitality services, education and health services, financial and insurance services, and professional and business services. Traditional goods producers such as automotive, electronics, and numerous other manufacturers are now turning to the service aspects of their operations to establish a differential advantage in the marketplace as well as to generate additional sources of revenue for their firms. In essence, these companies, which used to compete by marketing “boxes” (tangible goods), have now switched their competitive focus to the provision of unmatched, unparalleled customer services.

Ample evidence exists that documents this transition from selling “boxes” to service competition. Traditional goods-producing industries such as the automotive industry now emphasize the service aspects of their businesses, such as low APR financing, attractive lease arrangements, bumper-to-bumper factory warranties, prepaid maintenance, and free shuttle

services for customers. Simultaneously, less is being heard about the tangible aspects of vehicles such as acceleration and vehicle styling. Similarly, the personal computer industry promotes in-home repairs, 24-hour customer service, and leasing arrangements; and the satellite television industry now boasts the benefits of digital service, pay-per-view alternatives, and security options to prevent children from viewing certain programming.

Overall, this new “global services era” is characterized by:

- *economies and labor force figures that are dominated by the service sector;*
- *more customer involvement in strategic business decisions;*
- *products that are increasingly market-focused and much more responsive to the changing needs of the marketplace;*
- *the development of technologies that assist customers and employees in the provision of services;*
- *employees who have been provided with more discretionary freedom to develop customized solutions to special customer requests and solve customer complaints on the spot with minimal inconvenience; and*
- *the emergence of new service industries and the “service imperative,” where the intangible aspects of the product are becoming more and more the key features that differentiate products in the marketplace.*

service imperative

Reflects the view that the intangible aspects of products are becoming the key features that differentiate products in the marketplace.

It is clear that the service sectors in many countries are no longer manufacturing’s poor cousin. Services provide the bulk of the wealth and are an important source of employment and exports for many countries. In addition, there are countless examples of firms using the service imperative to drive their businesses forward to profit and growth. Many of these examples are highlighted in the “Services in Action” features located throughout the remainder of the text. As world economies continue to transform themselves from agriculture to manufacturing to services, the service sector boom looks set to continue throughout the world.

1-2 What Is a Service?

Admittedly, the distinction between goods and services is not always perfectly clear. In fact, providing an example of a pure good or a pure service is very difficult, if not impossible. A pure good would imply that the benefits received by the consumer contained no elements supplied by service. Similarly, a pure service would contain no tangible elements.

In reality, many services contain at least some tangible elements, such as the menu selections at The Cheesecake Factory, the monthly statement from Bank of America, or a car insurance policy from State Farm. Also, most goods at least offer a delivery service. For example, simple table salt is delivered to the grocery store, and the company that sells it may offer innovative online invoicing services that further differentiate it from its competitors.

The distinction between goods and services is further obscured by firms that conduct business on both sides of the fence. For example, General Motors, the “goods” manufacturing giant, generates a significant percentage of its revenue from its financial and insurance businesses, and the car maker’s biggest supplier is Blue Cross-Blue Shield, not a parts supplier for steel, tires, or glass as most people would have thought.² Other examples include General Electric and IBM, generally thought of as major goods producers, who now generate more than half of their revenues from services. The transition from goods producer to service provider can be found to varying degrees throughout much of the industrial sector. One of the world’s largest steel producers now considers its service-related activities to be the dominant force within its overall business strategy.³



David Young-Wolff/Alamy

Although a service such as education is intangible dominant, tangibles such as buildings and open spaces are frequently used to differentiate one education setting from another.

goods Objects, devices, or things.

services Deeds, efforts, or performances.

product Either a good or a service.

intangibility A product that lacks physical substance.

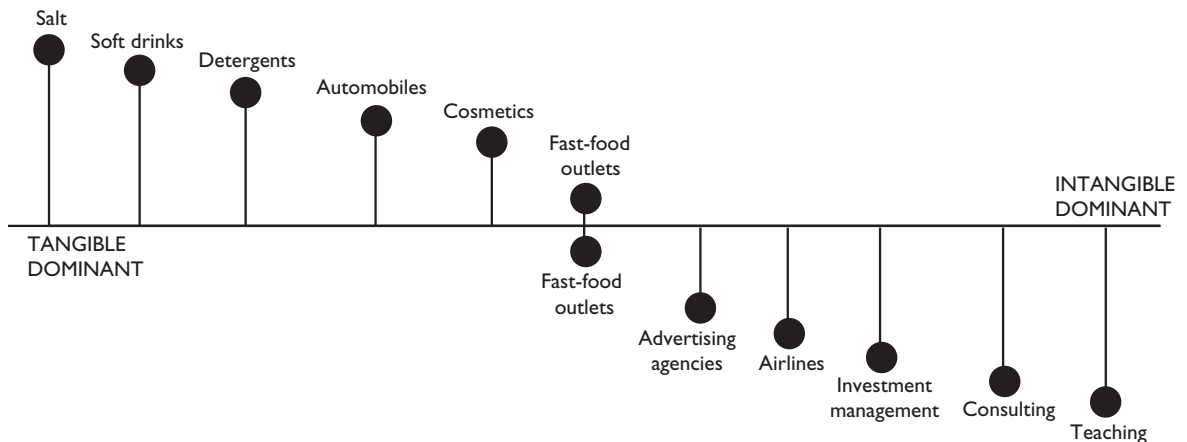
scale of market entities The scale that displays a range of products along a continuum based on their tangibility, ranging from tangible dominant to intangible dominant.

Despite the confusion, the following definitions should provide a sound starting point in developing an understanding of the differences between goods and services. In general, **goods** can be defined as *objects, devices, or things*, whereas **services** can be defined as *deeds, efforts, or performances*.⁴ Moreover, we would like to note that when the term **product** is mentioned, it refers to both goods and services and is used in such a manner throughout the remainder of this text. For our purposes, *product* includes goods (washer, dryer), services (financial, healthcare), people (politicians, celebrities), places (tourist destinations), and ideas (energy conservation). Ultimately, the primary difference between goods and services is the property of **intangibility**. By definition, intangible products lack physical substance. As a result, intangible products face a host of services marketing problems that are not always adequately solved by traditionally recommended goods-related marketing solutions. These differences are discussed in detail in Chapter 3.

1-2a The Scale of Market Entities

An interesting visual perspective regarding the differences between goods and services is provided by the scale of market entities as seen in Figure 1.1.⁵ The **scale of market entities** displays a continuum of products based on their tangibility, where goods are

FIG 1.1 Scale of Market Entities



Source: Adapted from G. Lynn Shostack, “Breaking Free from Product Marketing,” *The Journal of Marketing* (April 1977), p. 77.

tangible dominant

Goods that possess physical properties that can be felt, tasted, and seen prior to the consumer's purchase decision.

intangible dominant

Services that lack the physical properties that can be sensed by consumers prior to the purchase decision.

service marketing

myopia Condition of firms that produce tangible products and overlook the service aspects of their products.

labeled as **tangible dominant** and services as **intangible dominant**. The core benefit of a tangible dominant product typically involves a physical possession that contains service elements to a lesser degree. For example, an automobile is a tangible dominant product that provides transportation. As the product becomes more and more tangible dominant, fewer service aspects are apparent. In contrast, intangible dominant products do not involve the physical possession of a product and can only be experienced. Like the automobile, an airline provides transportation, but the customer does not physically possess the plane itself. The airline customer experiences the flight; consequently, service aspects dominate the product's core benefit, and tangible elements are present to a lesser degree. In comparison, fast food businesses, which contain both a goods (e.g., the food) and service component (e.g., a service provider takes the customer's orders, another service provider cooks the food, the food is then personally presented to the customer) fall in the middle of the continuum.

The scale of market entities reveals two important lessons. First, there is no such thing as a pure good or pure service! Ultimately, products are a bundle of tangible and intangible elements that combine to varying degrees. Second, the tangible aspects of an intangible dominant product and the intangible aspects of a tangible dominant product are an important source of product differentiation and new revenue streams. For example, businesses that produce tangible dominant products and ignore, or at least forget about, the service (intangible) aspects of their product offering are overlooking a vital component of their businesses. By defining their businesses too narrowly, these firms have developed classic cases of **service marketing myopia**. For example, the typical family pizza parlor may myopically view itself as being in the pizza business and primarily focus on the pizza product itself. However, a broader view of the business recognizes that it is providing the consumer with a reasonably priced food product in a convenient format surrounded by an experience that has been deliberately created for the targeted consumer. Interestingly, adding service aspects to a product often elevates the product from a commodity into an experience, and, by doing so, increases the revenue-producing opportunities of the product dramatically.

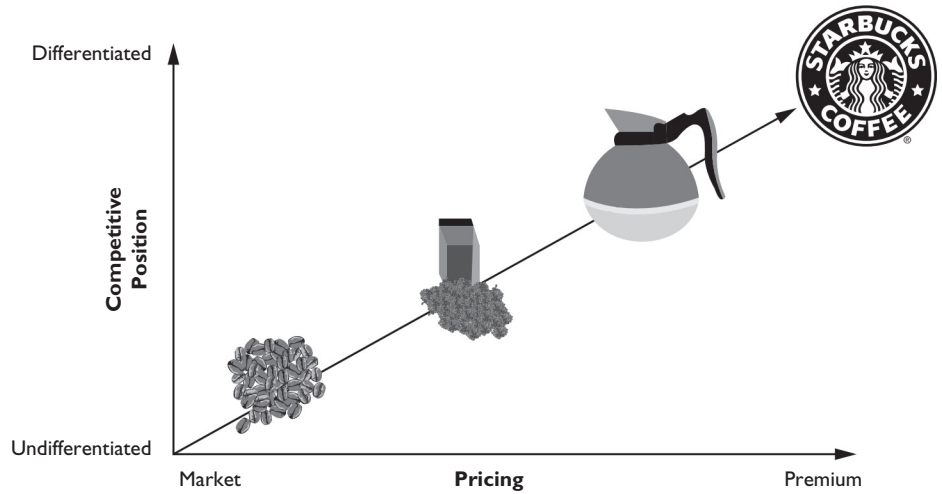
1-2b The Economic Value of Transforming Goods into Services

When priced as a raw *commodity*, coffee beans are worth little more than \$1 per pound.⁶ When processed, packaged, and sold in the grocery store as a *good*, the price of coffee jumps to between 5 and 25 cents a cup. When that same cup is sold in a local restaurant, the coffee takes on more *service* aspects and sells for \$1 to \$2 per cup. However, in the ultimate act of added value, when that same cup of coffee is sold within the compelling *experience* of a five-star restaurant or within the unique environment of a Starbucks, the customer willingly stands in queue and pays \$4 to \$5 per cup. In this instance, the ordering process, the creation of the cup of coffee, and the actual consumption of the coffee becomes “a pleasurable, even theatrical” experience. Hence, the valuable lesson to learn is that the economic value of products, like the coffee bean, progresses from *commodities* to *goods* to *services* to *experiences* (see Figure 1.2). In the preceding example, coffee is transformed from a raw commodity valued at approximately \$1 per pound to \$4 to \$5 per cup—a markup as much as 5,000 percent! Clearly, adding services aspects to tangible products can greatly enhance the value of the product provided to consumers!

1-2c The Molecular Model

As discussed previously, products are comprised of a blend of tangibles and intangibles. The molecular model provides marketing managers with a very useful tool for discovering and understanding the specific tangible and intangible components of their product offerings.

FIG 1.2
The Progression of Value



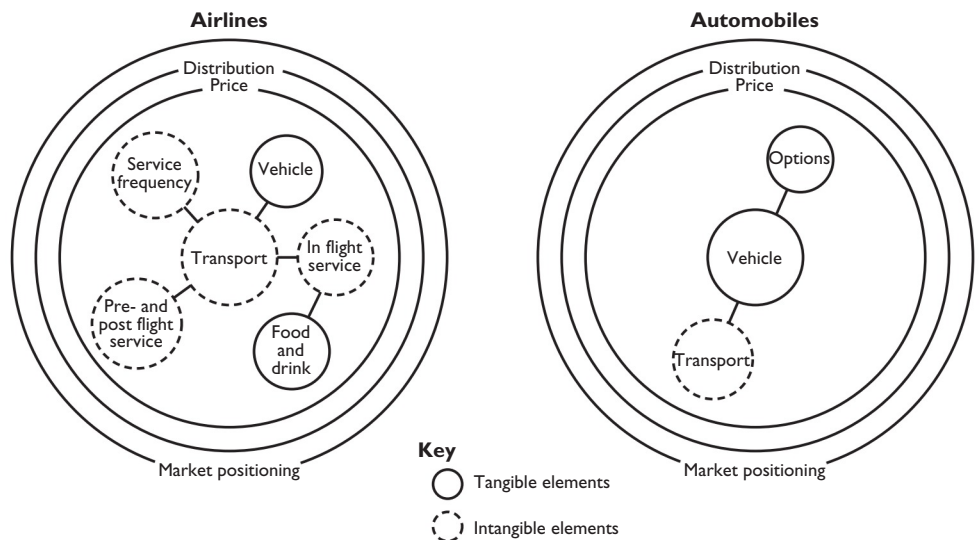
Source: <http://www.google.com>.

molecular model

A conceptual model of the relationship between the tangible and intangible components of a firm's operations.

Ultimately, a **molecular model** is a pictorial representation of the relationship between the tangible and intangible elements of a firm's operation.⁷ For example, Figure 1.3 depicts two molecular models that continue our earlier discussion about the differences between automobile ownership (a tangible dominant product) and purchasing an airline ticket (an intangible dominant product). As previously discussed, airlines differ from automobiles in that consumers typically do not physically possess the airline. Consumers in this case purchase the core benefit of transportation and all the corresponding tangible (shown as solid-lined circles) and intangible benefits (denoted by dashed-lined circles) that are associated with flying. In contrast, a consumer who purchases an automobile primarily benefits by the ownership of a physical possession that renders a service—transportation.

FIG 1.3
The Molecular Model



Source: Adapted from G. Lynn Shostack, "Breaking Free from Product Marketing," *The Journal of Marketing* (April 1977), p. 76.

Admittedly, the illustrations provided in Figure 1.3 are oversimplifications of the bundle of benefits that ultimately comprise the airline experience and car ownership. From a managerial perspective, molecular models identify the tangible and intangible product components that need to be effectively managed, for they illustrate contact points between the customer and the organization. For example, the successful airline experience is not just determined by the safe arrival of passengers to their selected destinations. The airline molecular model could easily be expanded to include:

- *long-term and short-term parking (intangible element)*
- *shuttle services (intangible element)*
- *rental car availability (intangible element)*
- *flight attendants (tangible elements)*
- *gate attendants (tangible elements)*
- *baggage handlers (tangible elements)*

Similarly, the automobile model could be expanded to include:

- *salespersons on the showroom floor (tangible element)*
- *financing arrangements (intangible element)*
- *finance manager (tangible element)*
- *maintenance and repair services (intangible element)*
- *mechanics and service representatives (tangible elements)*

The overriding benefits obtained by developing molecular models are twofold. First, molecular models provide managers with an appreciation for the intangible and tangible elements that comprise most products. Once managers understand this broadened view of their products, they can do a much better job of understanding customer needs, servicing those needs more effectively, and differentiating their product offerings from those of competitors. The second benefit of molecular models is that they effectively demonstrate that consumers evaluate goods and services differently. For example, consumer evaluations of goods are primarily based on the *physical aspects* of the product itself.



"As you can see from the flow chart, the problem stems from a lack of direction."

The servuction model provides the direction necessary for service companies to create a compelling service experience.

In contrast, consumers evaluate services based on the *experiential aspects* that are provided to the consumer. As a result, marketers who develop a keen understanding of creating and managing compelling service experiences have a clear competitive advantage.

1-3 Creating the Service Experience

How do marketers create compelling service experiences? They do so by understanding how a product's bundle of benefits is delivered to and received by the customer. All products, whether they are goods or services, deliver a bundle of benefits to the consumer. In fact, it is the bundle of benefits that will ultimately define a company's success. Firms that fail to provide benefits to their customers really have no reason to exist! Referred to as the **benefit concept**, a product's bundle of benefits is the encapsulation of the tangible and intangible components of a product in the consumer's mind. For example, consider purchasing a simple piece of fruit, such as an orange from a typical grocery store. If placed on the scale of market entities, an orange would certainly be described as tangible dominant. Consumers can see the orange, they can touch the orange, smell its fragrance, taste the orange, etc. Hence, when consumed in isolation (at home for breakfast), there are few experiential aspects associated with the consumption of an orange. For example, typical consumers of an orange will never see the orange grove where the orange was grown, nor will they see the inside of the processing plant where the orange was prepared for shipping. Customers for the orange will most likely never interact with the grove workers who plucked the fruit from the tree or with the management staff that directs the workers. In addition, customers for oranges will also generally not consume the orange at the grocery store in the presence of other customers. Consequently, given the orange's tangible dominant nature, the bundle of benefits consumers receive from the orange are mostly encapsulated within the orange itself.

In contrast to goods, services are intangible dominant and lack physical components that are easily evaluated. Consequently, consumer evaluation of services is much more complex as services deliver their bundle of benefits through the experience that is created for the consumer. In comparison to our orange example, college students are physically present in the "factory" where "knowledge" is produced; students do interact with a variety of contact personnel (e.g., instructors, administrators, advisors) who deliver a wide array of advice. Moreover, students consume knowledge in the presence of other students, where they may influence one another's service experience. Furthermore, the ambiance of the classroom setting, including the lighting, temperature, and overall décor, will influence the student's educational experience. Hence the bundle of benefits that comprise the education experience and the subsequent evaluation of the quality of education will be based primarily on the experience that is created for the student.

1-4 The Servuction Model

Given the importance of the experiential nature of services, marketing managers would certainly benefit from understanding the main forces that influence the customer's overall service experience. The **servuction model** depicted in Figure 1.4 provides a simple but powerful illustration of the four factors that influence a customer's service experience. The four factors of the servuction model include:

1. The servicescape
2. Contact personnel/service providers
3. Other customers
4. Invisible organizations and systems

benefit concept

The encapsulation of the benefits of a product in the consumer's mind.

servuction model

A model used to illustrate the four factors that influence the service experience, including those that are visible to the consumer and those that are not.