



CHAPTER 1



An Overview of Services Marketing

The dark side of tanning


A public service health campaign, conducted by the New South Wales Government and Cancer Institute NSW, was developed to change the attitudes of people about the dangers of melanoma that arise from prolonged exposure to the sun's UV rays. The objective of that campaign was to cause a long-term change in the behaviour of people towards suntanning. Australia has the highest levels of melanoma in the world and it is the most common cancer among men aged 25 to 54 and women aged 15 to 20. The challenge for those health providers was not the lack of public awareness, but that familiarity with skin cancer had bred a sense of public complacency about its adverse effects.

Australia is famous for its outdoor lifestyles—especially its beach culture—where a tan is considered desirable, and the removal of skin cancers is an accepted part of the tanning process. Previous public efforts to promote the need for protection from the sun, such as the 'Slip, Slop and Slap' campaign, were not successful in raising people's perception that skin cancer was a significant threat to their health.

This time a campaign was developed to increase awareness of the dangers of melanoma and to reduce the desirability of a tan. The 'Dark Side of Tanning' campaign was based on a communications strategy of rational facts to explain what happens when skin is exposed to the sun and the subsequent damage that happens at cellular level—all without the person being any the wiser. Based on analysis of the campaign, it was the most effective way to create personal

FIGURE 1.1 An advertisement from the 'Dark Side of Tanning' campaign'





relevance by portraying accurate and believable images of what occurs when skin is exposed to the sun's UV rays.

The public service health campaign produced a decrease in pro-tanning attitudes as people became more knowledgeable about melanoma as a health issue. Those changes in attitudes led to behavioural changes: 60% of the teenage respondents—probably the most reluctant demographic who saw the advertisements—reported that they had increased or intended to increase their levels of sun protection.²

INTRODUCTION

Services play an important role in the study of marketing because they are products that have distinctive and defining characteristics that set them apart from traditional physical goods. Services influence the everyday activities of Australian consumers, so it is important to recognise the distinctions that exist between services as core service products, peripheral services that support the core service products, and customer service, which is an essential element of all products. To understand the differences between those different types of services and physical goods requires identifying the characteristics that differentiate those two broad categories of products, and then knowing how consumers evaluate the differences.

Services consist of a broad and diverse range of activities that are intangible and often difficult for customers to evaluate. Services are similar to physical products in that they have a brand, consist of desirable attributes, and offer benefits to customers in a form that represents value. In other words, like the traditional concept of marketing, the service encounter between a service provider and an identified customer should satisfy that customer's needs, wants and expectations, and do so better than competing service organisations. For some specialised types of services, such as orthopaedic surgery, the surgeon is the principal service provider, while for other more standardised services, such as downloading an iPhone application from the internet, the service is provided by electronic means.

The first section of this chapter discusses the theoretical issues associated with understanding services marketing, then the evolution of the service industry in Australia and the various macro environmental forces that have transformed the service economy. The later sections present a broad outline of the challenges of marketing services, and how service encounters influence customer perceptions of value after they have consumed a service product.

LEARNING OBJECTIVES

After reading this chapter you should be able to:

- + explain how the four defining characteristics of services influence customers' behaviour
- + outline the differences between customer service and service encounters
- + explain the importance of the service industries to the Australian economy
- + discuss the challenges of marketing a service product
- + explain the differences between goods and services.

UNDERSTANDING SERVICES

A service is an act, performance or experience—an encounter—that provides some form of value in the production and delivery of a product, but that may result in a customer owning nothing tangible. For example, if you go to a football match, you will be entertained by the experience of watching two teams trying to gain possession of the ball, and ultimately of your team winning the game. You will barrack for your team and be involved with its victory, but at the end of the game you do not take anything physical away from the ground.

A service can also be considered as an economic process that provides time, place and form value in solving consumers' problems. For example, the value of those solutions may be derived from *saving time* by catching a taxi to the airport or using BPay as a convenient *distribution channel* to pay your phone account, while *form value* can be created by having your hair cut and styled by a hairdresser. These economic processes deliver value to customers, but do not transfer the ownership of anything tangible.

Services, as products, are often confused with **customer service**. Customer service is a universal marketing requirement whether the product is as tangible as a motor vehicle or as intangible as your education. To gain a competitive advantage, a car manufacturer may offer a 100 000-kilometre warranty for its vehicles, with roadside assistance; the end product, however, is not an act or performance: it's a car. Universities, on the other hand, offer tertiary education courses that are intangible products supported by some forms of equally intangible student services, such as the university library, that enable you to achieve the learning objectives of the various academic programs. The end result of your education is a degree; the library is a student service.

CUSTOMER SERVICE

Those actions undertaken by organisations to maximise customer satisfaction and the customer's lifetime value to an organisation.

A TRADITIONAL VIEW OF SERVICE VALUE

The key to understanding services is to compare the similarities that service organisations share with manufacturers, and to contrast the manufacturing differences that services have with other forms of production.³ The traditional approach to determining value for customers grew from a manufacturing perspective that viewed value as being an integral part of the organisation's production process; that is, customer value is the result of an exchange between customers and the organisation. An alternative approach to understanding customer value has evolved from the idea that value is co-created by customers when they interact with an organisation's value-generating processes to satisfy their needs, wants and expectations, rather than merely receiving a standardised value from the service process.⁴ These approaches to understanding customer-generated value are not mutually exclusive; to effectively market a service requires knowing both the *what* and *how* of a service. The *what* refers to the production process that is the end result, while the *how* is a customer's evaluation of the service process that created value.

THE DEFINING CHARACTERISTICS OF SERVICES

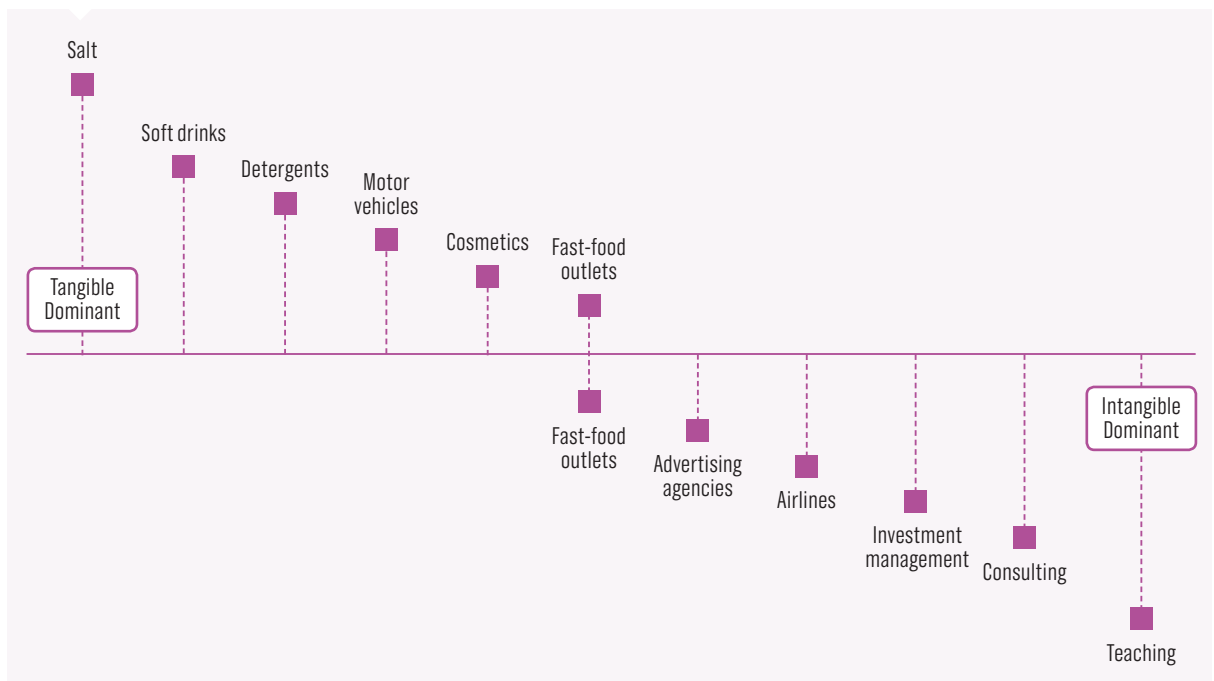
The characteristics that define the nature of services had their origins in Berry's research,⁵ which argued that services are different from physical goods because services have four defining characteristics: they are *intangible*, *inseparable*, *variable* and *perishable*.

INTANGIBILITY

The intangible elements of a service means that it may be difficult for customers to evaluate the quality of a service because often they cannot touch, taste or smell, or even see and hear, a service. The intangibility of a service can make it difficult to evaluate a service before purchase and therefore introduces an element of perceived risk that is associated with the purchase. You cannot, for example, take a service for a test drive, and that means customers may find it difficult to determine the value of a service. There are, however, some tangible elements of a service, such as the desk in your tutorial, or the engine oil that is changed when your car is serviced—both of which are of course tangible elements of service encounter.

It is often useful to consider the intangibility of services as a continuum by comparing services with physical goods rather than considering them as separate categories. As you can see in Figure 1.1, at one end of the continuum are the 'intangible dominant' services, such as teaching, while at the other end of the continuum there are 'tangible dominant' products, such as salt.⁶

FIGURE 1.2 Physical versus intangible elements of goods and services⁷



INSEPARABILITY

When a manufacturer produces physical products, the production process is usually separated from the end consumer. Unlike the production of physical goods, however, it is difficult to separate the service performance from the service provider and the end consumer because both co-produce the service product—the *what* of the service. The service also consists of the interaction—the *how* of the service—that takes place between the service provider and the consumer. Both the *what* and the *how* dimensions influence the consumer’s perceptions of the service, and overall, determine the customer’s satisfaction with it.

VARIABILITY

The variability of a service relates to the difficulty of maintaining a uniform standard of service quality. Variability occurs in service encounters because while different service providers may perform the same service, not all perform it in the same way, and not all service providers are the same. Service organisations often attempt to eliminate the variability of their services by substituting technology for the service delivery, thereby removing the variable human responses. Banks, for example, use widespread ATM networks to offer a non-variable, simple banking service using technology rather than bank tellers for the standardised services.

PERISHABILITY

Services are performances or experiences, which means that they cannot be stored after production to be used later to satisfy customer demand. Perishability has the greatest influence on demand and yield management. The inputs that are required to produce the service product, such as the physical facilities and personnel, are the organisation’s productive capacity, but they are not the service product. That means that if there is no customer demand for the service, that productive capacity is unused and the service organisation does not create income from those assets. On the other hand, if customer demand is greater than the organisation’s service capacity, many customers may have to wait longer for the service or may have to accept a reduced level of service quality.

CUSTOMER SERVICE AND SERVICE ENCOUNTERS

Customer service is a series of interactions undertaken by both the service provider and the customer, and include the core and supplementary services. Customer service is, however, not limited to being offered only by service organisations. The role of customer service is to directly support an organisation’s core product, which may be a tangible good or a service. Computer manufacturers offer online customer service, but their core product is a physical good, and while airlines provide customer service, their core product is air transportation.

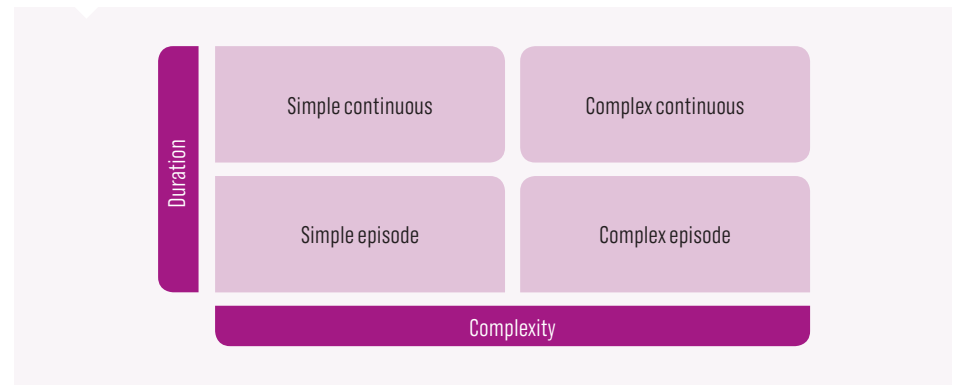
Service encounters include delivery of the core and supplementary services, as well as an outcome from the service transaction, which together should satisfy a customer's needs, wants and expectations. Those particular encounters can take different forms according to their duration and complexity.

TYPES OF SERVICE ENCOUNTERS

Service encounters cover a range of interactions between customers and various service organisations. The four possible types of service encounters are based on their *duration* and *complexity* and range from straightforward single activities, such as using a mobile telephone service, to more complex continuous activities, such as managing your financial affairs.

The four types of possible service encounters are shown in Figure 1.2.

FIGURE 1.3 Four types of service encounters⁸



THE EVOLUTION OF AUSTRALIA'S SERVICE MARKETS

There are four principal macro-environmental forces that have influenced the transformation of the services markets in Australia: the political or regulatory forces, economic trends, social changes and changes in technology. Together these forces are changing the competitive environment and reshaping consumers' buying and consumption behaviour. The major macro-environmental forces, and examples of their impact on Australia's service economy, are as follows.

POLITICAL OR REGULATORY FORCES

The pre-eminent legislation to enforce competition in Australia is the *Competition and Consumer Act 2010*. For the purposes of consumer protection, the relevant provisions are now found in

Schedule 2 to the *Trade Practices Amendment (Australian Consumer Law) Act (No 2) 2010*—which is now known as the *Australian Consumer Law* ('ACL'). For example, ss 52 and 53 of the former *Trade Practices Act 1974* became ss 18 and 29 respectively of the ACL.

Other changes in the regulatory environment overturned the restrictions that controlled the aviation, banking and telecommunications industries by allowing higher levels of foreign ownership and greater commercial freedom to operate companies in those industries. The effect has been to give consumers greater choice and in some cases cheaper service products.

ECONOMIC TRENDS

Australia is a world-class provider of a range of services such as telecommunications, travel, banking and insurance. Services also play an increasingly important role in Australia's international trade, with services exports growing over the period 2002–07 by an average of 6.1%. In 2007, Australia's services exports outperformed this average, increasing by 9.4% to \$48 billion (22% of a record total exports of \$218 billion), while services imports reached \$46 billion.⁹

SERVICES IN ACTION

Growth in Asian service economies

Although Australia is experiencing a resources boom, in the longer term it will be to the country's advantage to participate in the economic opportunities presented by the growth in Asia's middle-class consumers, who will spend more on services. In China, for example, middle-class consumers are spending more on medical services, transportation, communications, education, and cultural and recreational services.¹⁰ China's twelfth five-year economic

development plan is focused on developing services as the drivers for its success.

In India the growth in services is associated more with programs designed to reduce poverty, because the services sector pays higher wages than manufacturing and has greater potential for export growth. Similarly, Malaysia's New Economic Model has been designed to drive a high-income economy that is focused on developing the services sector.¹¹

CONTRIBUTIONS TO THE AUSTRALIAN ECONOMY

The service industry has always had a significant impact on the Australian economy. The share of the services sector grew from about 43% of national GDP in 1950–51 to about 78% in July 2007. During the same period, the contribution of the mining sector to GDP has doubled, while manufacturing has nearly halved and agriculture contributed approximately a sixth to the national account.¹²

The continuing growth in the services sector of the national economy reflects the strong growth in communications, property and business services, transport and storage, health services, and finance and insurance.¹³

EMPLOYMENT IN THE SERVICE INDUSTRY

Since the 1980s the services sector has accounted for nearly all net job growth and now accounts for 85% of total employment in Australia. About four in five, or more than 8.6 million, Australian employees work in service industry jobs. Employment has grown in the property and business services industry, while mining is the only goods-producing industry sector to have grown at an average annual rate of 1.5% over the period 1986–2006. At the same time the employment rate of growth for the service industry was slightly more than 2.5%.¹⁴

THE COMPOSITION OF AUSTRALIAN TRADE IN SERVICES

The categories of Australia's services exports have widened recently, reflecting strong growth in education, tourism and other professional services.

In 2007, the six largest categories of services exports were:

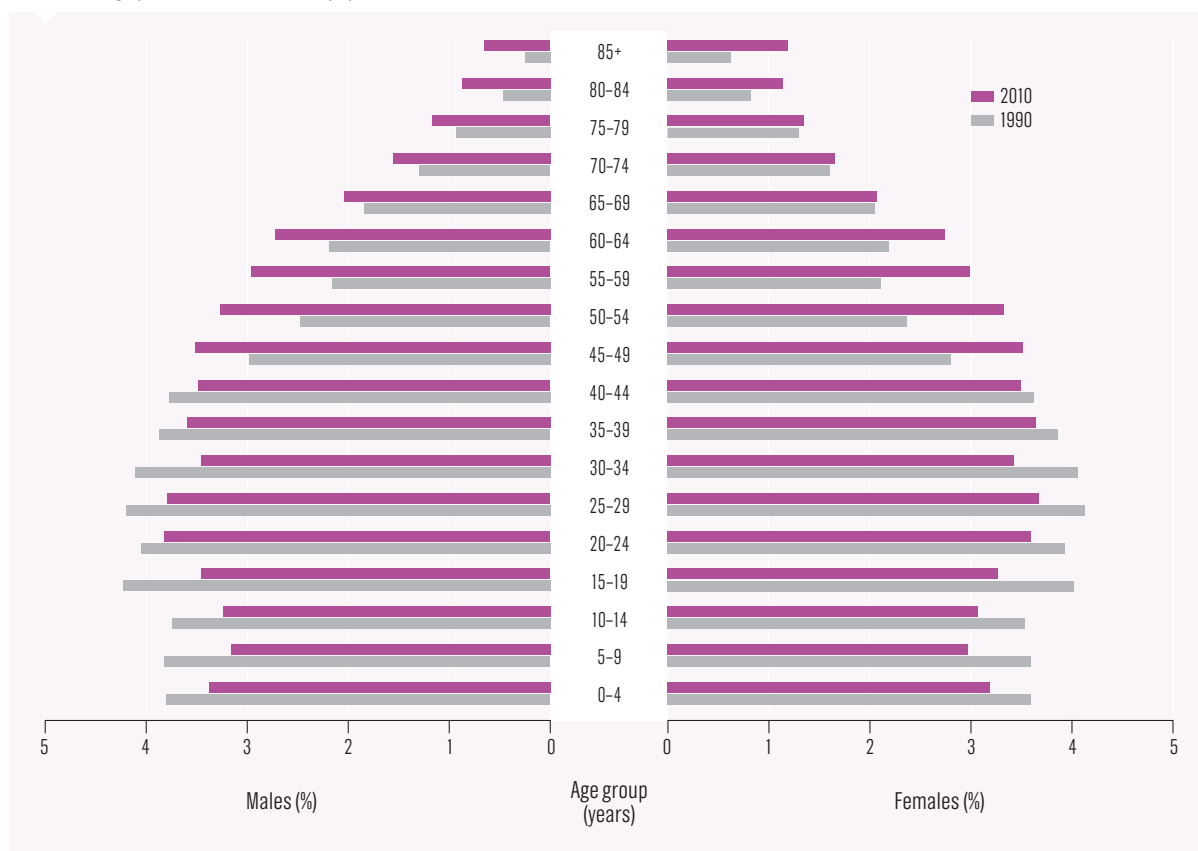
- » education (\$12.2 billion)
- » tourism (\$11.8 billion)
- » financial and insurance services (\$1.7 billion)
- » computer and information services (\$1.5 billion)
- » architecture and engineering services (\$1.5 billion)
- » legal, accounting and management consultancy services (\$1.1 billion)
- » agricultural and on-site mining services (\$379 million).¹⁵

SOCIAL CHANGES

A major social change that is occurring in Australia is a growing but ageing population. The Australian population is ageing because of increased life expectancy and a sustained low level of fertility, which has resulted in proportionally fewer children in the population. The estimated resident population at 30 June 2009 was over 22 million, with a median age of 38 (that is, half the population was older than 38 and half were younger). The 2006 census data indicated that the proportion of working-age people (aged 15–64) was 67%, while the proportion of those aged over 65 was 13% of the population.¹⁶ The population structure by age and gender is shown as an age cone profile in Figure 1.3.

The implications of an ageing population are that older Australians will need more specialised health care and retirement facilities, and that these services will need more trained service providers.

There is an increase in the number of households buying more household services, such as cleaning, lawn mowing and walking dogs, because of rising consumer expectations and higher disposable incomes derived from increases in the number of two-income families. Easier access to technology and greater reliance on it for information services have given service organisations new direct communication channels that allow them to focus on developing closer relationships with their customers.

FIGURE 1.4 Age profile of the Australian population¹⁷

CHANGES IN TECHNOLOGY

Growth in the speed of internet and broadband access, especially information technology, is changing the nature of services marketing. The technology behind service innovations such as ATMs has become common, and providing consumer accessibility, convenience and efficiency is now taken for granted. Technology has also transformed industries. Typically, music and entertainment companies use the internet to offer search facilities that enable consumers to find the price and availability of their products. Those organisations use the internet to provide basic customer service and product information, and a direct distribution channel for online retailing.

Technology has influenced the service diffusion process and facilitated the widespread adoption of new digital delivery systems. New markets and product categories, such as online newspapers and personal Global Positioning Systems, have been more readily adopted because of the rapid take-up of technology. Technology enables both customers and service organisations to be effective in receiving and providing service.¹⁸ The major banks, for example, offer BPay, an online banking service that allows the bank's customers to serve themselves more effectively when they want to check their balances, pay accounts or transfer money.

INDUSTRY INSIGHT

A new service for the technology-ready



Optus has expanded its digital media offering with the launch of the Optus TV Now service that allows customers to schedule, record and play back free-to-air TV on their mobile phones or computers. Optus is claiming an Australian first for a telecommunications company with the new service that will enable its customers to schedule, record and play back programs from their 3G mobile devices or home computers.

Customers will be able to browse the 15 free-to-air channels through an electronic program guide. All of the telcos' mobile subscribers will receive 45 minutes of free storage every month with the services basic plan. Options to expand storage space to five hours, for \$6.99 a month, or to 20 hours, for \$9.99 a month, are also available. Users will be able to clear their recorded content and re-record as many times as they like per month.¹⁹

Customer adoption of this technology-based mobile TV service will depend to a large extent on the 'technology-readiness' of consumers. The technology-readiness construct is based on consumers' propensity to adopt and use new technology to satisfy their needs, wants and expectations. The dimensions of technology-readiness are shown in the table below.

TABLE 1.1
Personal dimensions of
technology-readiness²⁰

Components	Description	Dimensions
Optimism	A positive belief that technology offers consumers increased control, flexibility and efficiencies.	Technological positivism
Innovativeness	A tendency to be an early adopter of the technology.	Technological positivism
Discomfort	A perceived inability to control technology; a sense of being overwhelmed by it.	Technophobia
Insecurity	A distrust of technology; a disbelief in the ability of technology to work properly.	Technophobia

It has been claimed that Optus TV Now is the first service that allows customers across Australia to record free-to-air TV using their mobile phone and play it back on a mobile or personal computer.²¹

As discussed above in the Industry Insight, more services are being delivered to customers by technological inseparability. There is also a greater degree of competition, in both the number and structure of online service providers, as a result of the widespread adoption of information technology. The internet, for example, is not restricted by international boundaries, and the global reach of service organisations is rapidly increasing.

Service encounters that used to require personal contact can now be performed anywhere in the world using the internet and video conferencing. Advances in technology have also led to an exodus of service skills from countries that have high labour costs, like Australia, to low-labour-cost countries like India and Pakistan. That migration of service employment covers a range of employment skills, from call-centre management to the development of computer programs and financial analysis.

THE CHALLENGES OF MARKETING A SERVICE

THE MARKETING MIX FOR SERVICES

The best known of the marketing mix variables for marketing products are the four Ps: *product*, *price*, *promotion* (marketing communications) and *place* (distribution and logistics). Understanding the distinctive characteristics of services, however, requires three additional elements: *people*, *processes* and *physical facilities*.

Products

Service products are the foundation of a service organisation's marketing strategies and are based on the service's benefits, attributes and brand. Product planning for a service begins with developing a service concept that represents a value proposition for the organisation's identified target market. That service product consists of core, supplementary and experiential attributes that together satisfy the target market's needs, wants and expectations.

Price

The price of a service must satisfy two requirements: the target market must be willing, and able, to pay the asking price because it facilitates an exchange based on customer perceived value, and the price of the service generates income and future profits. Pricing strategies for services are developed based on the relationships that exist between the different segments of the market, the time and place of delivery, customer demand, and available operating capacity. Customers, on the other hand, often see price as being the costs, and time and effort, they must expend to receive the benefits they want. Airlines, for example, have different price structures based on the seasonality of demand for air travel.

Promotion

For simplicity, promotion has traditionally been used as a generic label for integrated marketing communications (IMC) because it fits with the other Ps of the marketing mix. A more up-to-date definition of IMC brings together two essential organisational activities: marketing and communication. Marketing is the set of strategies that organisations develop to deliver value, through service encounters, to the identified target consumers, while communication is a process that conveys shared meaning between individuals, or between organisations and individuals. Marketing communications represents all the elements of an organisation's

marketing mix that facilitate exchanges by communicating the service's benefits, attributes and brand, positioning the brand as distinctively different from competitive brands, and sharing the brand's meaning and differences with identified target consumers.²²

Place

When services are delivered to customers there are several elements of the distribution process that must be considered. The first is decisions about *where* and *when*, as well as *what* distribution channels will be used and *how*. The service delivery systems are dependent on the type of service being offered. A delivery system may use physical channels, which include the *where* and *when* of interpersonal activities with service providers for customised services, or it may use the *what* and *how* of electronic channels for more routine or standardised services, such as internet banking.

The second important element associated with the effective and efficient delivery of services is convenience, in terms of both location and time. Many customers value convenience because they believe it saves their time and reduces the effort needed to purchase the service.

People

People are an interactive part of many service encounters; there are services, such as medical procedures, that can only be delivered by direct interaction between patients and medical practitioners, while other encounters, such as hotel accommodation, may be delivered indirectly to groups of customers. The intensity of the human interactivity of many service encounters often influences customers' perceptions of *how* the service was delivered rather than *what* was delivered, and this will determine the degree of satisfaction that customers derive from the encounter. Customers also play a part in service encounters and may cause some other customers to experience less than satisfactory service—for example, in crowded or noisy service environments.

Processes

Service processes are closely aligned with delivery procedures and specify how an organisation's marketing activities deliver value to customers. Some service processes are similar to interactive service delivery activities, while other activities that are part of the service process take place away from and out of sight of the customers. Those two different types of process activities are separated by what has been called a 'line of visibility'.²³

Processes can be examined in terms of *complexity* and *divergence*. *Complexity* consists of the number and operational intricacy of the activities that are required to deliver the service, while *divergence* relates to the degree of variability or situational latitude allowed in each step of the process.²⁴

Physical facilities

The physical facilities of a service organisation are all those tangible cues that communicate the value of the service, and help consumers to evaluate the quality of that service. The physical facilities associated with a service, including an organisation's buildings, signage, interior furnishings, staff uniforms, printed materials, and even its business cards, all shape consumers' perceptions of the organisation's image and its competitive position. The physical facilities also help consumers to evaluate a service that is performed beyond their line of visibility.

TYPES OF SERVICES

Service products consist of two different layers of service: primarily the *core* and the *peripheral* services. The value of a service to customers is determined by their evaluations of those core and peripheral services, together with their perceptions of the service delivery processes.

CORE SERVICES

CORE SERVICE

The main service providing customers with a solution to their needs, such as transportation or financial security.

The **core service** is the reason that customers are willing to purchase the product—because it provides a solution to their needs. Successful completion of your university degree, for example, will provide you with the skills and expertise to develop a well-paid and satisfying career in marketing.

PERIPHERAL SERVICES

PERIPHERAL SERVICES

Supplementary services that facilitate the core service and are often the factors that differentiate and position the core service.

Peripheral services, as their name suggests, facilitate the use of the core service, and are often the factors that differentiate and position the core service. For example, the core service of Qantas and Virgin Australia is passenger air transportation; the peripheral services, such as the cabin staff, the provision of food and beverages, and the flight performance, are the service activities that differentiate the two airlines and allow one to charge a higher price for the same service.

Examples of core service products and their supporting services are shown in Table 1.2.

TABLE 1.2
Examples of core and peripheral services²⁵

Core services	Peripheral services
Airlines (Core service is air transportation)	Ground services (Online bookings, baggage handling) Flight services (Food and beverage service, in-flight entertainment)
Banks (Core service is security of customers' funds)	ATM network (Convenience, 24/7 access) Credit cards (Reliability, security)
Hospitals (Core service is health care and facilities)	Radiology services Pathology services
Telecommunications (Core service is personal communication)	Mobile communications Broadband data services
5-Star hotels (Core service is accommodation)	Comfortable rooms and facilities Room service
Sporting events (Core service is entertainment)	Sports teams, sporting venues
Accounting and tax services (Core service is management of clients' funds)	Accounting, tax returns and financial advice

THE DIFFERENCES BETWEEN GOODS AND SERVICES

Service organisations face different marketing challenges to those organisations that manufacture tangible products. As you saw in Figure 1.1, most products have varying degrees of tangibility; some, like a laptop, are tangible-dominant while others are a combination of physical facilities and services, such as travelling by aircraft to a holiday destination. It is important to note that the following differences between goods and services are not common to all service categories.

SERVICES CANNOT BE STORED

Most service products are performance acts or experiences that exist in the present, which makes it next to impossible to store them for later sales or consumption. As in most marketing assertions, there are exceptions; some service activities can be stored in electronic form for later use, while other service products, such as a concert, can be recorded.

In general, however, when hotel rooms are unoccupied or aircrafts seats are not sold, it is difficult to make up for the lost opportunity of having no customer demand—the inseparability of service and consumer does not allow the service to be rented. Although the staff and physical facilities may be available to create the service, the staff and facilities represent the service organisations' productive capacity, not accommodation or air travel. Perishability is therefore a consequence of inseparability.²⁶ Similarly, a service cannot be returned after it has been purchased. For example, after you have used a service, such as making a mobile phone call, it cannot be returned to the vendor in the same way that you can return a physical product to a retailer.

INTANGIBLE ELEMENTS GENERALLY CREATE THE SERVICE VALUE PROPOSITION

The core element of most services is produced by the interaction between customers and service organisations' physical facilities, such as hotel rooms, aircraft seats and mobile phones. It is the intangible elements associated with how the service is provided, such as the process of booking into a hotel, the online booking system for a flight or the staff expertise of a mobile phone company, that put value into the service encounter and in turn create customer satisfaction. Those intangible elements also make it difficult for service customers to assess the quality of the service, and to evaluate competing service organisations, prior to the service encounter. That means that there may be a risk in purchasing a high-involvement service because it cannot be returned or replaced if a customer is not satisfied.

SERVICES ARE MORE DIFFICULT TO EVALUATE

Services are more difficult to evaluate because service organisations generally provide few tangible product cues. The ease of evaluating goods and services depends to a large extent on three product characteristics: the search, experience and credence dimensions.²⁷

SEARCH DIMENSIONS

The tangible attributes that allow consumers to try, taste or assess a product before they purchase.

The **search dimensions** of a product are the tangible attributes that allow consumers to try, taste or assess a product before they purchase. Services tend to have few search dimensions. Most physical goods can be physically evaluated by their search characteristics, which helps to reduce any risks associated with their purchase. But search dimensions are not automatically excluded from services. Consumers can assess some service attributes in terms of price, while other services, such as health clubs, may be evaluated by a brief trial of the facilities.

Experience dimensions

Experience dimensions are those product characteristics that can only be evaluated during and after the service processes have been performed. Consumers must experience a concert, football match or holiday resort before they can judge the excellence or otherwise of those services. Marketing communications can describe a holiday resort but consumers need to experience the joy of sailing a catamaran or scuba diving in order to feel the effects of those activities. Even your friends may not be able to describe their holiday experiences because many people do not respond to a similar event in the same way.

Credence dimensions

In some cases, even after purchase and consumption, consumers are unable to evaluate the outcome of a service experience because the nature of the service requires that they trust the service provider to perform certain expected tasks. When the consumers cannot evaluate the outcome, they must rely on the service provider to provide the expected benefits. These are the **credence dimensions** of service. Successful service organisations that provide high-credence services rely on developing trusting relationships to engender consumer confidence in their skills. For example, if you have limited mechanical knowledge it is not easy to determine whether the mechanic has fixed the problem you were having with your car; you must trust him.

EXPERIENCE DIMENSIONS

Those product characteristics that can only be evaluated during and after the service processes have been performed.

CREDENCE DIMENSIONS

Those product characteristics that require consumers to trust the service provider to perform certain expected tasks, or to provide expected benefits.

CUSTOMERS USUALLY CO-PRODUCE THE SERVICE PRODUCT

The service characteristic of inseparability by definition requires customers to at least be present during a service encounter. In fact, for some services customers must be involved in the service process to co-produce the desired outcome. For example, to achieve the education result you want, you must interact with your lecturer and the subject learning materials to co-create the desired level of knowledge. The same is true of many service providers, such as hairdressers and dentists; even taxi drivers take you where you want to go. Advances in computer-based service applications have to a large extent increased customers' acceptance of self-service technology. That technology has made it easier for customers to co-produce the service they want; customers use ATMs to conduct simple banking transactions rather than go into a bank, they use self-service kiosks in airports to check in for their flights, and they download applications from the internet for their mobile phones.

TABLE 1.3
The common
differences between
goods and services

Difference	Marketing implications	Marketing tasks
Most service products cannot be stored.	Customers may not be served or may have to wait.	Balance supply with demand using pricing, queues or reservations.
Intangible elements of the service dominate value creation.	Intangible elements are hard to evaluate; it is more difficult to distinguish service providers from competitors.	Emphasise tangible elements and use concrete images in marketing communications.
Services can be difficult to visualise and understand.	Customers may be more uncertain and perceive a greater risk in purchasing a service.	Explain the benefits of the service; offer service guarantees.
Customers may be involved in co-production.	Customers interact with processes and providers in producing the service.	Design user-friendly process and physical facilities; provide customer support services.
Other people may be part of the service encounter.	Service providers and other customers shape the service experience and customer's satisfaction.	Shape customers' behaviour.
Operational processes tend to vary between service organisations.	It is harder to maintain service consistency and reliability; service recovery strategies are important in maintaining customer satisfaction.	Design service processes to maintain quality; design service recovery procedures.
Temporal factors are often important to customers.	Customers dislike having to wait—they believe time spent in queues is a waste.	Develop processes that minimise waiting times; offer extended service hours.
Distribution often occurs through non-physical channels.	Information-based services can be delivered through electronic channels.	Offer safe and reliable electronic channels.

Source: C. Lovelock & J. Wirtz (2007), *Services Marketing: People, Technology, Strategy* (6th edn), Upper Saddle River, NJ: Pearson Education Inc., 17.

In terms of efficiency, self-service technology offers service organisations the benefits of being able to offer their service 24/7, often at lower operating costs, and customers gain the benefits of saving time on routine tasks and at convenient locations.

MAINTAINING SERVICE QUALITY CAN BE A PROBLEM

The variability and inseparability of service, coupled with the effects of other customers in the service process, influence the quality of the service encounter. Each encounter has a different level of quality compared to previous performances because of the differing levels of customer involvement. It is difficult to apply consistent quality standards to each service encounter because customer expectations vary, and the appearance, actions and personality of employees can also influence customers' perceptions of the service performance. Delivering a high-quality service is an important corporate objective because improvements in customers' perceptions of service quality have been shown to increase the likelihood of repeat purchase behaviour, a consumer willingness to pay a price premium for a quality service, and lower marketing and administrative costs.²⁸

THE TIME FACTOR INFLUENCES CUSTOMERS' PERCEPTIONS OF VALUE

Many services can only be performed when customers are physically involved in the service encounter, and that process takes time to deliver the service. There is a general perception among consumers that they do not have time to waste on non-productive tasks and believe that wasted time is a cost that should be avoided. Consumers have been promised that services will be available to them when they want them rather than when the service organisation can provide them, which has had a ratchet effect on their expectations. For example, when one organisation can offer its services 24/7, competitors will usually follow.

Customers' perceptions of value may also be influenced by their service experiences. If they have used the service previously, they will have formed expectations about the length of time the service should take. Successful service organisations tend to adopt strategies that minimise customer waiting time by using self-service technology or queuing systems, or simply taking reservations. There are of course some very simple things that organisations can do to minimise customers' perceptions of waiting times—for example, distracting them with televisions tuned to sporting events, or placing large mirrors in areas where customers congregate, such as lift lobbies.

DISTRIBUTING A SERVICE PRODUCT TENDS TO USE NON-PHYSICAL CHANNELS

The manufacturers of tangible goods need physical distribution channels to move their products through intermediaries from the factory to a wholesaler's warehouse and then into a retailer's store. Distributing a service, however, can be achieved using electronic channels such as the internet. The internet is changing the distribution systems of different types of information-based services. There are core services that satisfy customers' primary needs, and there are supplementary services that facilitate the purchase of physical products.²⁹ Core services, for example, include the online external study programs offered by universities, while airlines such as Qantas use online supplementary services to enable their customers to access their flight schedules and fares, and book flights at their website.

CATEGORISING SERVICE ENCOUNTERS

Identifying the core service is the most difficult part of categorising a service encounter. In many cases, because customers can touch and see the physical facilities that deliver the service, they assume that those tangible elements of the service are the reason why they are using the service. The physical elements associated with the service facilitate those core activities that satisfy customers' needs. For example, when you use your mobile phone to call your friends you generally do not consider the processes and equipment that are involved in transmitting your phone call—you key the required number into the handset, and when the your friend answers you commence a conversation. The core service in this case is your ability to access the mobile telecommunications network in most locations when you like, wherever you

are using the handset, which is a tangible element of the service. After the conversation, you will have experienced the core service, which is an intangible activity.

There are several aspects of service activities that should be considered when categorising services, because the service providers, processes and physical facilities that form the delivery system create and transfer value to customers. The types of service processes that deliver value depend to a large extent on the nature of the service and on where and to whom that service is directed.

From a customer's perspective, the form of the service encounter is dependent on two principal factors:

- » the degree of involvement—the personal relevance—of the service encounter, the importance of which is determined by whether the customers, or their possessions, are the recipient of the service
- » the extent to which the service encounter is influenced by the tangible elements of the service.

Figure 1.4 depicts the four primary types of interactive service encounters: services requiring customers' physical presence; services performed on customers' possessions; services involving customers' minds; and services performed on customers' intangible assets.³⁰

SERVICES REQUIRING CUSTOMERS' PHYSICAL PRESENCE

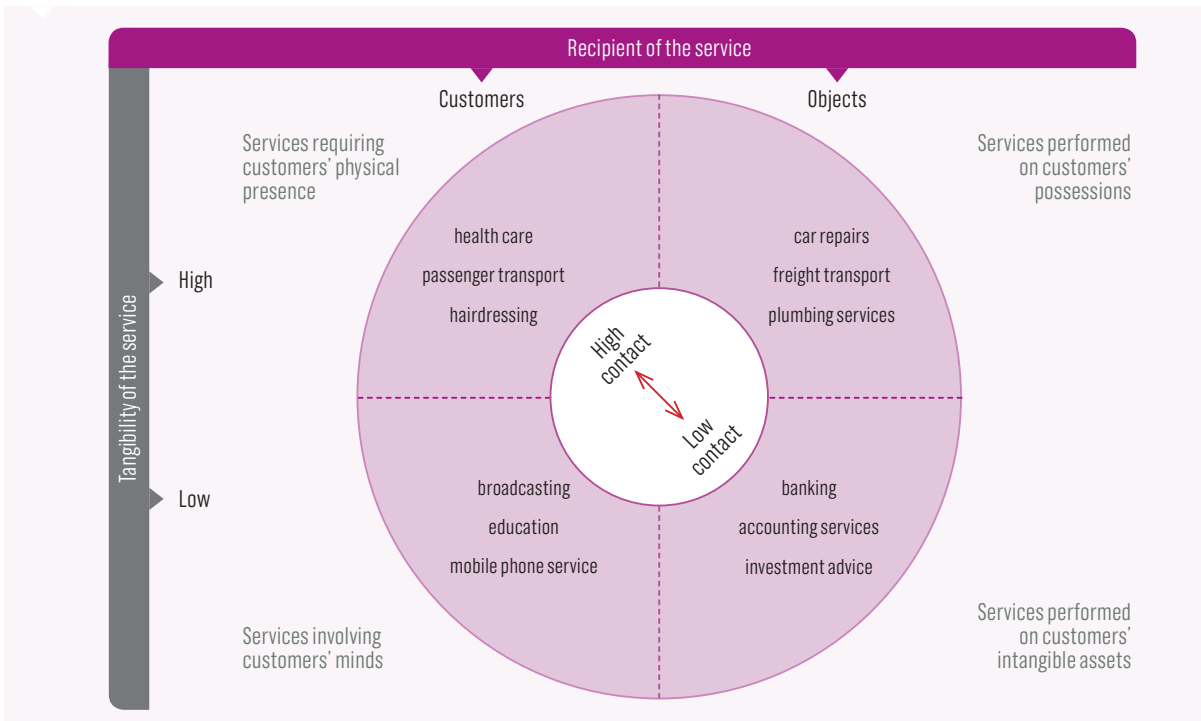
Service encounters that require the physical presence of customers, where the customers are the direct recipients of the service, are high-contact encounters with a high degree of tangibility. For example, health care, passenger transport and hairdressing services require customers to be physically present to co-produce the service products because the customers are an integral part of service. Customers must actively participate in the service production process. If you want to have your hair cut, you must cooperate with the hairdresser by saying what you want done, and then sit in a chair while your hair is cut.

The close physical contact between customers and the service provider has a number of implications for this type of encounter. Quality control is a major factor for high-contact services because the service performance can be variable and the customer is a co-producer of the end result. A one-on-one service encounter often makes it difficult for customers to evaluate service quality before consuming the service. The location of the service provider is also important because consumers may not be prepared to travel a great distance merely to have their hair cut.

From the service provider's perspective, this kind of encounter can present problems in managing the service processes because any delays in the process can adversely influence the outcome and have an unfavourable impact on customer satisfaction.

SERVICES PERFORMED ON CUSTOMERS' POSSESSIONS

In this type of service encounter the service is performed on customers' possessions rather than on the customers. Many of these activities are production-type services that do involve simultaneous production and consumption. If your car needs to be repaired you probably will

FIGURE 1.5 Categorising service encounters³¹

not be directly involved in the process because a large part of the procedure does not require your presence. In most situations where the service is performed on customers' possessions, the customer's involvement is, in the example just cited, limited to dropping the car off at the mechanic's workshop, explaining the problems and returning later to pick up the vehicle and pay the bill.

The process of fixing the car, which is the core service, may be of little concern to the customer so long as the customer is satisfied with the result. The interpersonal skills of the mechanic may, however, be more important than his technical skills. If the mechanic treats his customers in an offhand or condescending manner, it is likely that they will not return to that mechanic to service their cars.

SERVICES INVOLVING CUSTOMERS' MINDS

The types of services that involve customers' minds, like those that are performed on customers' possessions, do not need the customers to be physically present during the service encounters. Services that involve customers' minds provide intangible benefits, which means that the service encounter can be spatially separated from the customer. These types of services, however, have the power to change attitudes and influence consumers' behaviour. For example, marketing communications that are transmitted via traditional broadcast media such as television do not require the viewers to physically engage with the message but the marketing messages can persuade consumers to purchase the service in question.

The core element in this type of service encounter is information, which can be stored, packaged and then marketed in much the same way as a tangible good. In that way, services that are directed at consumers' minds can be stored for later use rather than being produced and consumed simultaneously. The extent of customer involvement in the production of these information services has traditionally been based on face-to-face encounters. The widespread use of information technology to distribute some services, like distance education, for example, has removed the need for regular face-to-face interactions with the service provider.

SERVICES PERFORMED ON CUSTOMERS' INTANGIBLE ASSETS

Services that are performed on customers' intangible assets are similar to those services that involve the customer's mind: both are dependent on the effective collection and storage of information. For such encounters, there are few tangible elements in the production and consumption process, and that means the customer does not need to be present for the service process to take place. A major part of the service encounter for customers does not require any direct contact with the service provider.

MARKETING IMPLICATIONS OF THE FOUR TYPES OF SERVICE ENCOUNTERS

Marketing services is about providing service products that satisfy customers' needs, wants and expectations more effectively and efficiently than other service organisations. The marketing strategies for services encompass the seven elements of the marketing mix that are used to build long-term relationships between the service organisation and its customers.

An examination of the different categories of service encounters, which include both how the service is produced and the end product, has highlighted some of the similarities between the four categories. The extent of customers' involvement in co-producing a service depends on the type of service, and varies according to whether customers want to be served face to face, or whether they prefer to use self-service facilities.

Customer behaviour also changes according to where and when customers interact with a service provider and whether or not they need to be present and actively participate in the service process. The widely accepted use of information technology for many services has removed the need for customers to be involved in the production of those services, and that has increased the value of those services by providing time-saving benefits and convenience.

SUMMARY

A service product is an activity or a performance that has four general characteristics. It is *intangible*, which makes it difficult for consumers to readily evaluate the product before purchase. It is *inseparable*, which means that the customer and the provider both produce the service together. It is *variable* in that since no two persons are identical, customers and service personnel are not the same, and that means that customers' perceptions of value and satisfaction will vary from one service encounter to another. It is *perishable* because it cannot be stored for later consumption.

Service transactions consist of tangible and intangible actions. When customers have their cars serviced by a mechanic, it is the tangible actions of the mechanic that are directed at their cars. Intangible actions associated with service transactions can be directed towards consumers' minds, which is the case with marketing communication messages, or those actions can be directed to intangible things such as accounting and financial services.

When service organisations consider how they can deliver their services to customers, they need to resolve whether their customers should come to the organisation's premises, or whether the service should go to the customer. Sometimes service transactions can be conducted at some distance using electronic channels such as the internet, which provides added value to customers by offering convenience and saving time.

Professional services, such as medical care, tend to be *customised* to the individual customer's needs, while other services are virtually the same for every customer. An important marketing consideration is whether to offer all customers the same service or whether the organisation should adapt the service attributes, and service delivery processes, to individual needs and wants. Those decisions involve understanding the nature of the service, customer expectations and preferences, and the costs associated with customisation.

The duration of the service relationship can either be *discrete*—involving a single encounter or several separate encounters—or *continuous*—based on multiple encounters between a customer and a service provider.

The level of contact that a customer has with a service provider can be either *high* or *low*. The customer experience provided by the service encounter will, to a large degree, be the result of the interactions of people, service processes and the tangible physical facilities. The inseparability of service encounters suggests that different types of processes will produce different levels of customer involvement and result in the process being perceived as being either a high-contact or low-contact service.

Customer service is a critical element of a service product that involves interactions with customers; it is not, however, sold by an organisation. Customer service is not limited to service products; car manufacturers, for example, offer customer service in the form of guarantees and roadside assistance. Whatever its application, customer service should be designed, performed and communicated with two goals in mind: customer satisfaction and operational efficiency.

Australia's service markets have developed under the influence of political/regulatory, economic, social and technological changes. Those macro-environmental forces are changing the way that service organisations compete and reshaping consumers' buying behaviour. The telecommunications, airline and banking service markets, for example, have been deregulated and opened to competition, requiring them to offer services that satisfy their customers. Long-term socio-demographic changes are being driven by an ageing population needing a greater number of services limited by the decreasing number of working-age people.

The challenges of marketing services are tied to understanding the differences between goods and services. In addition, service marketers must be aware of the two important elements of service processes: *complexity* and *divergence*. Complexity is the number and intricacy of steps, or activities, that are required to deliver a service, while divergence relates to the degree of variability that is allowed in each step of the process. While the various categories of services suggest that they often share many common characteristics, it is important to understand that all services do not always fit standard industry classifications.

REVIEW QUESTIONS

- 1 Reread 'The dark side of tanning' and suggest reasons why state government agencies, such as Cancer Institute NSW, should be involved in public service campaigns.
- 2 How useful to marketers is the classification of services that explain the nature of services? Why?
- 3 Why should the Australian Government be concerned about the economic development of the services sectors in South-east Asia?
- 4 How is self-service technology changing the service delivery systems of service organisations such as trading banks?
- 5 Referring to a service that you have recently experienced, explain how the service provider has applied each of the seven Ps to that service.
- 6 Use examples to explain the differences between service products and customer services.
- 7 Explain the differences between goods and services by comparing a service such as a mobile phone service offered by a telecommunications company, and a consumer good such as hair shampoo.
- 8 Explain the differences between the search, experience and credence dimensions of three different services.

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