**CHAPTER 1: AN INTRODUCTION TO SERVICES**

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"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 Objectives:**

This chapter provides an introduction to the field of services marketing. The chapter discusses the basic differences between goods and services and the factors necessary for the creation of the service experience. In addition, the chapter establishes the importance of the service sector in the world economy and the need for services marketing education.

**Learning Objectives:**

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After reading this chapter, you should be able to

**1. Understand the basic difference between goods and services.**

* In general, goods are defined as objects, devices, or things, whereas services are defined as deeds, efforts, or performances (The term product refers to both goods and services and is used in such a manner throughout the remainder of this text).

**2. Develop an appreciation for how service can be used as a competitive advantage for both intangible and tangible products.**

* The scale of market entities displays a continuum of products based on their tangibility where goods are tangible dominant and services are intangible dominant. The core benefit of a tangible dominant product typically involves a physical possession that contains service elements to a less degree. In contrast, intangible dominant products do not involve the physical possession of a product and can only be experienced.

**3. Appreciate the factors that create the customer's service experience and why it is important to manage the overall experience.**

* The Servuction model is constructed of two parts: that which is visible to the consumer and that which is not. The visible part of the Servuction model consists of three parts: the inanimate environment, the contact personnel/service providers, and other customers. The invisible component of the model consists of the invisible organization and systems**.**

**4. Comprehend the driving forces behind the importance of the study of services marketing.**

* There are a number of reasons why the study of services marketing is important: (1) consumers evaluate services differently than goods, and service marketers must effectively manage the experiential aspects of the service product; (2) services can be effectively used as a differential advantage for tangible dominant products; (3) the growth of the global service economy in terms of contributions to gross domestic product (GDP) has increased dramatically; (4) the growth of the global service workforce has also increased accordingly; (5) the emergence of technologically based e-services has transformed many service industries; and (6) knowledge is needed in the area of developing sustainable services marketing business practices.
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**Opening Vignette: “The Burj al Arab Hotel**

* The world’s only 7-star hotel offers guests a remarkable service experience:
  + Magnificent views
  + Large rooms
  + Rain showers and Jacuzzis standard
  + Fleet of chauffeur-driven Rolls-Royces
  + Finest in personal service
* The concepts provided in this text are the keys for delivering a truly remarkable service experience.

**Lecture Outline:**

I. Introduction

A. Traditional goods producers are turning to the service aspects of their operation to establish a differential advantage in the marketplace

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B. New “global services era” characterized by:

1. Economies and labor force dominated by the service sector

2. More customer involvement in strategic business decisions

3. Products that are increasingly market-focused

4. The development of technologies that assist in the provision of services

5. Employees with more discretionary freedom

6. The emergence of new service industries and the “service imperative”

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

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II. What Is a Service?

1. The distinction between goods and services is not perfectly clear.  
     
   Examples include General Electric and IBM, generally thought of as major goods producers, who now generate more than half of their revenues from services.  
   1. Goods - is described *as objects, devices, or things*.
   2. Services - is described *as deeds, efforts, or performances*.
   3. Product – refers to *both goods and services.*

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1. Scale of Market Entities  
   1. Helps illustrate how products fall along a continuum that ranges from tangible dominant to intangible dominant. (See Figure 1.1)

*-*Tangible dominant: *products that possess physical properties that can be felt, tasted, and seen prior to the consumer’s purchase decision.*

-Intangible dominant*: products that lack the physical properties that can be sensed by consumers prior to the purchase decision*

* 1. Defining service businesses too narrowly, firms can develop classic cases of marketing myopia.

*-is the practice of too narrowly defining one’s business by overlooking the service aspects of one’s products.*

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1. The Economic Value of Transforming Goods into Services  
   1. The economic value of products, like the coffee bean, progresses from *commodities* to *goods* to *services* to *experiences.* (See Figure 1.2)

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1. Molecular Model  
   1. *A conceptual model of the relationship between tangible and intangible components of a firm’s operations.* (See Figure 1.3)
   2. Understanding the importance and components of the service experience is critical.

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III. Creating the Service Experience

1. Benefit concept

*-the encapsulation of the benefits of a product in the consumer’s mind*

* 1. Services deliver a bundle of benefits through the experience that is created for the consumer.
  2. For example, most consumers of an orange will never see the orange grove, will most likely never interact with the grove workers who harvest the fruit nor with the management staff that directs the workers; and they will also generally not consume the orange in the company of other consumers at the grocery store.
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1. Servuction Model

-*a model used to illustrate the factors that influence the service experience, including those that are visible to the consumer and those that are not.* (See Figure 1.4)

Consists of four factors that directly influence consumers’ service experience: (visible) servicescape, contact personnel/service providers, other customers, and (invisible) organizations and systems

* 1. Servicescape

*-the physical evidence used to design service environments.*

* + 1. Plainly visible to consumers.
    2. Consists of ambient conditions, inanimate objects, and other physical evidence.
  1. Contact Personnel/Service Providers

*-*Contact Personnel *- employees other than the primary service provider who briefly interact with the customer.*

*-*Service Providers *- the primary providers of a core service, such as a waiter or waitress, dentist, physician, or college instructor.*

* + 1. Plainly visible to consumers.
    2. Interaction between consumers and contact personnel/service providers are commonplace.
  1. Other Customers  
     1. Plainly visible to consumers.
     2. Many customers may be served simultaneously. The influence of other customers can be active or passive.
  2. Invisible Organization and Systems

*-reflects the rules, regulations, and processes upon which the organization is based.*

* + 1. Invisible to consumers.
    2. Have a very profound effect on the consumer’s service experience.
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IV. Why Study Services?

1. Growth of the global service economy  
   1. Caused by a highly competitive international marketplace
   2. Higher disposable incomes have led to a proliferation of personal services   
      1. Particularly in the entertainment sector

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  + 1. Breakdown of U.S. Service Supersectors and their respective contributions to GDP (see Figure 1.5)
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  + 1. End result has been phenomenal growth in service industries, shown clearly in Worldwide GDP (see Figure 1.6)

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1. Growth of the global service labor force
2. (See Figure 1.7) The growth and shifting of employment from agriculture to manufacturing to services
3. U.S. Bureau of Labor Statistics expected service occupations to account for more than 96% of all new job growth for the period 2002–2012.
4. The bulk of new jobs created in America over the last 30 years have been white-collar jobs, in higher-level professional, technical, administrative, and sales positions.
5. Read Global Services in Action – Ski Dubai

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1. Emergence of e-services?

- *an electronic service available via the Net that completes tasks, solve problems, or conducts transactions*

* 1. Phenomenal developments in technology – particularly the Internet
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  + 1. In 2014, over 3 billion people representing 42.3% of the world’s population had access to the Internet. (See Figure 1.8)
  1. Growth of e-services   
     1. Including self-service technologies  
        1. *Technologically based services that help customers help themselves.*
        2. Including local bank’s online account services, ATMs, UPS package tracking service, Schwab’s stock trading services, Travelocity’s online purchasing options, a grocery store’s self-check-out
     2. Read E-Service In Action – Restaurants Ride the Social Media Wave
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1. Developing sustainable service marketing business practices

-*the ability to meet current needs without hindering the ability to meet the needs of future generations in terms of economic, environmental, and social challenges*

* 1. Why would a service provider want to embrace sustainable practices?  
     1. When the social good can overlap with business opportunity
     2. The overlap is known as the “sweet spot”
  2. There are four areas in which a company can achieve a source of competitive advantage: eco-efficiency, environmental cost leadership, beyond compliance leadership, and eco-branding.
  3. Read Sustainability & Service in Action – The Origins and Growth of “Green”

V. Summary

Ultimately, service marketing is about managing the compromising relationships that must exist among marketing, operations, and human resources.

Services permeate every aspect of our lives; consequently, the need for services marketing knowledge is greater today than ever before.

**REVIEW QUESTIONS:**

**1. Define the following terms: *goods, services, products*.**In general, goods are defined as objects, devices, or things, whereas, services are defined as deeds, efforts, or performances. The term product refers to both goods and services.

**2. What can be learned from the service imperative?**

Today’s business environment is experiencing 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 product in the marketplace. There are countless examples of firms using the service imperative to drive their businesses forward to profit and growth.

**3. Why is it difficult to distinguish between many goods and services? Use the scale of market entities and the molecular model concept to explain your answer.**

The distinction between goods and services is not always perfectly clear. In reality, most services contain some tangible components, while most goods also contain intangible components. It is difficult to say whether a pure service or a pure good even exist. The scale of market entities helps us understand whether the product under consideration is tangible dominant or intangible dominant.

**4. Utilizing the servuction model, describe your classroom experience.**

Answers will vary, but at the core should be a description of the visible servicescape, contact personnel/service providers, other customers, and invisible organization and systems.

**5. How would your servuction model, discussed in question 4, change as you describe the experience at a local restaurant?**Answers will vary, but at the core should be a description of the visible servicescape, contact personnel/service providers, other customers, and invisible organization and systems.

**6. How does the organization and systems dimension of the servuction model differ from the other three dimensions? What is the purpose of the organization and systems dimension?**

The organization and systems dimension is invisible to the customer. Of course, the visible components that comprise the servuction model cannot exist in isolation, and indeed, they have to be supported by invisible components that tie together the organization and its systems. Invisible organization and systems reflects the rules, regulations, and processes upon which the organization is based.

**7. As you consider the table that provides Worldwide GDP information, a mix of countries comprise the top 10 service economies. These countries sometimes differ greatly, yet still generate large service economies. Please explain.**

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 product costs that attract 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. All developed economies now have large service sectors; and Japan, France, and Great Britain have service economies at least as developed as that of the United States. Leading the pack are Hong Kong and the Bahamas.

**8. Discuss the keys to delivering effective self-service technologies.**

Self-service technologies are purposely created to automate routine interactions between customers and providers with the goal of providing convenience and efficiency to both parties. A self-service must provide the customer a benefit (e.g., convenience, an opportunity to customize, cost savings, time savings, etc.). An SST that is implemented purely to decrease the operating cost of the firm will most likely not be well-received.

**9. Describe online services that help humanize the online experience.**

E-services play a critical role in the transformation of the customer’s online experience that progresses over time from a functional experience to a more personalized experience. E-service humanizes the Net by providing various customer service activities while simultaneously reducing the online firm’s operating costs.

**10. Discuss the four approaches to using sustainability as an effective business positioning strategy.**

The four areas include: eco-efficiency, environmental cost leadership, beyond compliance leadership, and eco-branding. Eco-efficiency *focuses on the concept of the “double dividend.” Companies that attempt to reduce wastes and inefficiencies within the system see positive results both financially and environmentally.* Environmental cost leadership *involves developing a radical innovation that will allow the company to be more environmentally friendly while maintaining cost competitiveness*. Beyond compliance leadership *involves companies wanting to increase their sustainability efforts, but also wanting these efforts to be acknowledged by the public. These companies often spend money on environmental certifications, such as LEEDS building certifications. The first-movers in an industry in this case have the greatest advantage. Those who take the first initiative are seen as innovative, while the rest of the companies within the industry are forced to follow suit*. Eco-branding *strategies focus on the use of marketing differentiation based on the environmental attributes (e.g., organic, vegan, or fair-trade status) of products. There are three basic prerequisites that often exist for firms to successfully execute this approach: consumers must be willing to pay for the costs of ecological differentiation; reliable information about the product’s environmental performance must be readily available to the consumer; and the differentiation must be difficult to imitate by competitors.*