




What's so special about services?

The goods bias in marketing theory.
When you think about the origins of marketing theory as it is practiced today, it becomes obvious why common terms and techniques of marketing reveal a bias toward tangible goods. Marketing principles common today come from the science of *mass marketing*, which was born out of a need created by *mass production*.

Industrialization at the turn of the last century gave us the ability to mass produce goods at very low cost per-piece. This gave industrialists like P&G a huge economic opportunity. Make a million bars of soap at an eighth of the cost per bar of previous manufacturing techniques. Sell those bars of soap to a million consumers at half the price they are accustomed to paying. Provide a satisfactory product to a satisfied customer at a better-than-ever price. And walk away about 75.3 percent ahead. Beautiful! But there was one catch.

In order to sell those million bars of soap to those million consumers, you had to find the consumers, you had

How can
you
sell what you
cannot see?



According to the Bureau of Labor Statistics, service occupations now account for 79 percent of all jobs in the United States and 74 percent of our gross domestic product. For about the next five years, service jobs will account for *all* net job growth in our economy. When you think about these facts—and reflect on the idea that they were predictable 30 years ago and inevitable 20 years ago—it's easy to see why the service sector is clamoring for marketing efforts, structures, and results similar to those historically enjoyed by practitioners of *product* marketing.

Service categories are beginning to encounter stiff competition (just like consumer products, living side-by-side on supermarket shelves, have contended with for decades). Marketing tools such as branding, positioning, differentiation, strategic selling, sales support, ... sales promotion—tools which once seemed like superfluous, superficial, undignified fluff to service businesses—are now becoming necessary for services to compete.

This edition of *Ideas at Work* is the first of a three-part series exploring the topic of *service marketing*. In this issue, we'll touch on the roots of marketing as it is now practiced, the peculiarities of services (from a marketer's perspective), the role of *branded service* thinking in most

businesses, and how products can differentiate themselves using affiliated branded services. In the following issues we'll explore two more parts of service marketing:

PART II: *Counting the P's: what the service marketing mix looks like* focuses on the traditional marketing mix as it applies to service marketing and proposes a slight retooling of the traditional "Four P's" for service applications.

And **PART III: *Gaps and guarantees—success and failure factors in service marketing*** talks about some of the success factors and failure factors in service marketing.

Of course, there is no way we could cover everything there is to say about service marketing in this short series. So we invite you to read with a critical (even cynical) eye, and give us your thoughts, questions, and observations.



The
four
P's
of the marketing
mix

to tell the consumers about the soap, and you had to get the soap to the consumers consistently.

Being smart people, the soap guys branded their soap and differentiated it from everybody else's (PRODUCT strategy). Recognizing that a penny here and a penny there would add up to some real dollars on a million bars of soap, they devised approaches to pricing that remained at or near equilibrium price (the price at which supply equals demand) thus optimizing aggregate margins over time (PRICE strategy).

They developed processes for identifying and servicing lines of distribution in order to move product at a rate similar to their manufacturing process (PLACE or distribution strategy). And they learned to support their sales/service team with packaging, in-store signs, and advertising (PROMOTION strategy). Just like that, modern marketing was born!

Product, Price, Place, and Promotion remain the four P's around which product marketing still revolves. The mix works for cars, boats, commodities, clothing, food products, ... just about any *thing* you can buy. The four P's are taught as a part of every Marketing 101 course in America. They are like the gospel of marketing as we practice it. Yet they are clearly biased toward *goods*. And they provide an incomplete framework for marketing services.



The peculiar nature of services

The basic elements of marketing theory are based on assumptions that apply neatly to tangible goods, and specifically mass-produced goods. With the advent of mass customization and database technology, marketers can now personalize their communication in order to create a synthesized *personal relationship* with a mass-market consumer, so applying the four P's is less simplistic than it once was. Still, to market branded services with the same methodical discipline with which goods have been marketed for years, we have to come to grips with the idea that services are fundamentally different from tangible goods.

The difference lies in the four peculiarities of services: that they are intangible; that their production, delivery, and consumption are inseparable from one another; that a given service varies widely from one time to the next; and that services are perishable. Let's take a closer look at each of these qualities, and the implications of each on the marketing process.

Intangibility. You can't see a facelift. You can't test drive a hair cut. Unlike tangible products, you cannot see, touch, taste, or smell a service before you buy it. So how do consumers shop for services? In general, they look for tangible evidence that the service is right for them. They look at history, and symbols, and packaging, and prices, and other cues in order to find the service that gives them the *impression* that it's right for them.

Providers of branded services can use this information to help brand the services by "packaging the evidence" or "tangibilizing the intangible." Consider the imagery used to brand some of the least tangible products in the world—"You're in good *hands* with Allstate" or "Own a piece of *the rock*."

Why do you suppose Realtors drive Cadillacs and BMW's? Why do you think securities brokers wear Rolexes? Why do you think companies like John Hancock and Transamerica spend SO MUCH MONEY on architecture? In every case, the service is intangible, and the provider is



The
four
peculiarities
of
services

Example: Orange and Purple.

When Federal Express went into business, there were a lot of delivery services. They wanted to separate themselves from the pack. Their centralized hub enabled them to deliver anywhere in the United States overnight. This unique benefit let them position themselves as the ideal delivery service for businesses working in a hurry.

As they began to make inroads into the business delivery market, they wanted to have a visible presence in the offices where their services were being provided. In order to have this presence they developed the *gaudy* orange and purple delivery pouch. This color combination made a FedEx package impossible to ignore on an otherwise sedate desktop.

The result was that this relatively generic service (package delivery) began to stand out among its key customers (businesses in a hurry), because of its loud package. This, along with a powerful logistical process and a bold claim, “when it absolutely, positively has to be there overnight,” enabled FedEx to take and hold a large piece of the delivery service business.

using physical objects to “manage evidence.” The Realtor wants you to know she is serious and successful. The broker wants to communicate that he is comfortable with big money (and the things it can buy). And banks and insurance companies want to communicate security, stability (and even opulence).

Tangiblizing the intangible is a big part of service marketing, so we’ll come back to it several times in this article, and in the next two in the series.

Inseparability. Unlike tangible goods, which are manufactured, put into inventory, distributed through a network of resellers, and consumed later (sometimes much later), services are consumed as they are being produced. For service for which the provider and the client are both present when the service is rendered, the personal interaction becomes part of the service, and builds itself into the client’s expectation.

In some cases, the provider of the service is so integral to the service itself that to substitute another provider would make it a totally different service. A great example of this is the difference in television ratings between two PGA golf



matches, one with Tiger Woods and one without. Clearly, golf viewers consider a Tiger match a different, and more valuable service than a non-Tiger match.

Variability. Depending on when and where a service is provided, and who provides it, the service can vary widely. A particular accountant may be very good at talking with clients. Another may be a recluse who prepares tax returns using data received by email. One accounting firm may be two people in a basement. Another may be a Big Five firm with offices around the world.

Managing variability as a service marketer requires three considerations:

- *people* (invest in a program to hire the right people and train them correctly)
- *standardizing the service* (build a service plan, which enables everyone providing the service on your behalf to work within specific guidelines and specifications)
- *monitoring customer satisfaction* (create a systematic approach to gauge and manage customer expectations and satisfaction).



you
can address the
limitations
created by
inseparability
using:

price (by increasing the price of services with greater demand)

support systems (such as dental hygienists freeing the *high-value dentist* to provide only the necessary tasks, thus enabling him to care for more patients at a given time)

efficiencies (such as a therapist taking half-hour appointments rather than one-hour appointments)

larger scale (such as a popular performer playing stadiums rather than concert halls).



Example: Bank Hours

A few years ago we worked with a large Atlanta bank. The bank discovered that it was spending a great deal on overtime, because of operations requirements that kept branch employees after hours (sometimes as late as 6:00, when the branches closed at 4:00).

To help compensate for this cost, the bank created a new service, After-hours Banking, which offered in-lobby and drive-through banking from 4:00 to 6:00 every afternoon, and for three hours on Saturday morning. The program enabled the bank to hire part-time employees to cover the additional 16 or so hours per week, thus eliminating the need for overtime.

In essence, by creating off-peak demand, the bank was able to generate revenue during a time in which the offices had previously been closed. By using part-time employees to fill the *planned* gaps, rather than paying overtime for full-time employees to fill an unpredictable need, they saved a great deal on overtime payments. The planned result was to generate incremental revenue in combination with overtime savings sufficient to pay for the cost of the program.

Peripheral benefits would be increased customer satisfaction and increased employee satisfaction.

In Part II of this series, we'll talk more about the marketing tools for managing variability.

Perishability. You can't store services. Once the opportunity passes for a service to be provided, it's gone forever. This is why some doctors charge patients for missed office visits. Perishability limits the potential revenue for a service, and renders it extremely important that you capture the maximum potential.

A barbershop can't use downtime to whip up some extra haircuts to have on hand for the next rush. To generate maximum revenue, capacity must match demand, hour for hour.

To manage perishability, consider these approaches:

- *peak and off-peak pricing* (this shifts demand to use up excess off-peak capacity, such as night-time phone rates)
- *create non-peak programs* (offer non-core services to use off-peak capacity, such as a fast-food chain offering a breakfast program)
- *provide complimentary service during peak times* (such as cocktail lounges in restaurants and ATMs at banks)



- *take reservations* (this enables you to channel your customer demand, evening the flow of services)
- *use part-time employees* (this gives you more flexibility to staff up only during high-demand periods)
- *employ peak-time efficiency programs* (develop a routine in which employees perform only essential tasks during peak times)
- *increase consumer participation in the service* (self-help checkout lines in some grocery stores)
- *shared services* (a company we know of has a “document center” at the center of their offices, where all of the company’s copiers and printers are located, enabling them to print and copy with maximum efficiency during peak times)
- *purchase ahead for future expansion* (It’s common knowledge that Disney bought hundreds of acres around their intended site for Disney World in order to be prepared for expansion which was to come decades later).

Even
a product
is a
service

It’s not news that every product has a service mix, which defines the benefit bundle. The jewel in the crown of IBM has, for decades, been their service-oriented sales force. And P&G has consistently beaten up its competitors because of its brand management approach, in which services surrounding each brand are managed as a primary driver of decisions regarding the brand itself. To some degree, service has always been the source of differential advantage for successful products. But as mass customization and robotics close the gap between the best products and the “merely-average” products, service is becoming even more of a factor.

All products/services fall within a continuum of service mixes:

- *pure tangible good* (products such as rock salt might fall into this category; they are few and far between)
- *tangible good with accompanying services* (products such as cars and computers are good examples of





Even a
product
is a
service

“Every business is a service business: you are not a chemical company, you are a chemical services business.”

—Philip Kotler, *Kotler on Marketing*.

“...(E)xperience provides meaning, which then modifies behavior, and it is behavior that creates deeply felt attitudes. ... (T)he successor to the brand image...will be the ‘brand experience.’ The ‘brand experience’ goes beyond the attributes of a product. It... includes the advertising, the package, where and how the product is sold, the price, the consumer’s satisfaction from using the product, the *service* provided...and the development of an interactive relationship that bonds the buyer and seller after the sale is made.”

—Lester Wunderman

(the father of direct marketing), *Being Direct*.

this; products in which the quality and availability of services are key factors in the purchase decision)

- *hybrid* (equal part goods and services; restaurants, in which people come for food, service, and atmosphere are an example)
- *major service with accompanying minor goods* (an example is airline travel, where the primary benefit is transportation, but the service is accompanied by things like food and ticket stubs, etc; generally a large capital-intensive good, such as an airplane is involved)
- *pure service* (legal representation, baby-sitting, psychotherapy, massage, etc.)

In an era when technology makes it harder and harder to build a clearly and demonstrably superior product, smart manufacturers are turning to accompanying services as a way of differentiating themselves. In the automotive industry, the quality difference between a mid-range family sedan and a top-of-the-line luxury car is shrinking. Better materials, better manufacturing techniques, and inexpensive processes have taken away much of the advantage of the handcrafted approach. So why buy the Cadillac?



In the past, Cadillac could have maintained its advantage through old-fashioned brand marketing—hit consumers over the head with the message that it's a better car, and they believe it. Consumers are better shoppers now, and they have access to better information. Now, more than ever, consumer claims have to be backed by real supports.

One solution might be to use services to help build what Wunderman calls the brand experience. This can be done by investing some of the price difference between a \$20,000 car and a \$60,000 car in things like personal service representatives, extended service plans, free towing, owner-only publications and events, a private waiting lounge for certain high-end car owners.

Carrying the idea all the way out, a manufacturer could sign affluent customers (or perhaps we could call them clients) up for life-long automotive services. You pay a monthly fee, and the local dealer provides you with the appropriate luxury vehicle. So you have the car you drive to work. Then, on Friday afternoon, you walk to your parking place and find that your luxury sedan has been replaced with the sports convertible for the weekend.

When you look at it as a service, rather than an auto sales proposition, it becomes easy to imagine a lifetime of never “owning” a vehicle, but always “having” exactly the right vehicle. You have children—you have a mini-van. Your children grow up a little, and you have a luxury sedan. Your children go off to college, you get something a little sportier, and they get a safe, economical car (all under the same, lifelong automotive service plan).

In the future, everything will be a service. Because in the future, brands will be driven by the brand experience, and the experience will be differentiated by types and levels of services provided.





May the best service win

Contrary to popular thinking among marketing traditionalists, a service is not just another type of product. It is another type of marketing proposition all together. In this brief exploration of the peculiarities of services, it is obvious that services differ from goods in almost every way:

- they are produced differently
- they cannot be stored
- much of their value comes from the person who performs the service
- profitability is much more dependent on time and process management
- perceived value of a service has almost nothing to do with the cost of providing a service.

Not only are services fundamentally different from goods, but as manufacturing becomes more sophisticated, service will actually become an important part of the *value proposition* of products. In fact, the

day may come when the associated services are the most important differentiator of many products.

The next edition of *Ideas at Work* will examine the implications of these fundamental differences in the marketing mix of branded services. Then, the following issue will wrap up the discussion with a look at failure factors and success factors in branded service marketing.

It's hard to express ideas in just a few pages. And there's certainly a lot more to say about the marketing of branded services. If you'd like to discuss these topics further, please give me a call at 1-864-232-0927, extension 106, or email me at jgibbons@gibbonspeck.com.

This is a publication of Gibbons | Peck Marketing Communication, a full service advertising agency, serving financial, high technology, consumer products, retail, furniture, sporting goods, apparel, multiple-site retail, business-to-business, and professional services clients.