



Counting the “P”s

Product.

In the purest sense, a product is a set of features and the benefits they confer to the consumer. In the case of service marketing, the “product” or service is the set of activities (in some cases, accompanied by tangible features) and the benefits they confer. Just as physical products have to meet a consumer need and fit within a particular category niche (relative to its competitors); a service must meet a specific need and fit into its category relative to its competitors.

The “product” is no-frills tax preparation for a no-frills price. The benefits are convenience and a degree of assurance that the taxes were completed within certain standards.

Within the range of tax preparers, Block’s niche is evident. They fall between CPAs who provide a variety of services for an hourly rate (but whom some consumers might consider overkill for a basic tax

what the
service
marketing mix
looks like.



Remember last time, PART I of this series mentioned the four P’s of the traditional marketing mix: Product, Price, Place, and Promotion. This structure, created for the mass marketing of mass-produced goods, is a great starting place for a service marketing strategy. But it gives a simplistic view of services as they are bought and sold in the real marketplace. Philip Kotler, one of our most respected marketing academics, suggests a service marketing mix with seven P’s, adding the components of *people*, *processes*, and *physical evidence* to the original four.

You might argue that *people* and *processes* are merely extensions of *product* and that *physical evidence* is part of *promotion*. Fine, have it your way. However you structure it, *people*, *processes*, and *physical evidence* require special attention in developing strategies for service marketing.

So the mix goes something like this:

H&R Block

H&R Block is a great example of a service product, because it offers a clear set of features (activities), which confer a clear set of benefits. And it fills a clear need and fits within a niche among accounting firms.

H&R Block provides a basic tax preparation service, by which trained specialists follow specific guidelines for completing tax returns. The mass-market nature of the service enables Block to provide it for an affordable price to mainstream consumers who do not have time to prepare their taxes, or who are intimidated by the tax return process.

return) and the guy down the street who would prepare your taxes for 100 bucks, but who would make no guarantees about its correctness.

Processes.

By systematizing the processes for producing and delivering a service, you can control the inevitable *variability* of the service. This solves the problem of mass producing a service, since any number of qualified service providers can be trained to follow a particular service brand's process. The larger the role of service in a brand's value proposition, the more important it is to systematize its processes.

For example, if you are selling a commodity (say rock salt), in which service plays no role in the value proposition, you need pay very little attention (as a marketing issue) to the processes you use to mine, refine, package, or deliver the salt. Nor will your consumer be terribly interested in the exact make-up of the product or how it was bagged and shipped, as long as it melts the ice and snow on his sidewalk.

On the other hand, if you're in the ice and snow removal business





(a nearly pure service), you can expect your customer to be much more concerned with processes as part of her buying decision. She will have process questions like what kinds of equipment will you use (will it be loud, unsightly, or otherwise inconvenient)? What kind of response time will you have to new-fallen snow or ice (how long will she have to stay in her house waiting for you to come and clear the sidewalk)? How long will the sidewalk remain passable after you have cleared it (do you have any kind of salt treatment to keep blown snow from sticking and rendering the surface slippery)?

People.

Unlike a product, the qualities of a service are specifically dependent on the person(s) who provides it. So it makes perfect sense that any successful “product” strategy for a branded service must include a “people strategy.”

The implementation of a people strategy generally involves two elements: recruiting and training.

An effective people strategy should spring from the overall brand strategy, and should begin by considering

FedEx

FedEx built

its empire on a

simple promise, “When it absolutely, positively has to be there overnight.” Their ability to deliver on this promise was based on a very clever, systematic process. By building a complex system of coordinated tasks, and by developing a delivery program around a centralized hub, FedEx was able to promise that it could deliver any package from almost anywhere in the U.S. to almost anywhere else in the U.S. overnight.

Some experts believe that the FedEx promise is unique, because its processes cannot be duplicated. This is true because of two factors: complexity and *ambiguity*.

The process contains many, many documented steps, coordinated with split-second accuracy (ever try to get a FedEx driver to accept a package even *one minute* after the deadline?). But more importantly, the process has evolved through constant repetition, so it now includes tasks that are not part of the documented process (tacit knowledge), but are known by the people within the culture and are passed from employee to employee.

Because of this tacit knowledge, *no single individual fully understands* the FedEx process (even top executives). So there is ambiguity between the process and the result it yields. You could hire 500 people away from FedEx and still not be able to duplicate the unique process, or its remarkable results.

what types of people personify key brand elements. For example, if you are a no-nonsense corporate defense litigation firm, you probably do not want a warm, fuzzy image. You would, therefore, have a people strategy that calls for people with characteristics like “goal oriented,” “bottom line,” “competitive,” “serious,” “focused,”—“corporate.”

At Gibbons|Peck, our own people strategy seeks out people who exemplify key cultural definers: curiosity (teaching and learning), pragmatism (client-centric; function over flash, strategy over execution), holistic approach, educated—smart.

Cultural definers can be broken into a set of core competencies. These may include *cultural competencies*, *cognitive competencies*, and *task skills*. A cultural competency might be something like *empathy*. This may manifest itself within a brand culture as a cognitive competency such as *query guests as to their comfort level regarding internal and external climate and offer each guest a climate appropriate beverage—hot drink on a cold day and cold on hot day*. This might further manifest itself as a task skill, such as *pouring and mixing cocktails or fruit smoothies or making espresso drinks*.

Of the three levels of competencies, the most teachable are task skills. The commercial success of cookbooks is based on the assumption that by giving a reader a list of ingredients and tasks, you enable him to bake a cake. A people strategy regarding task competencies might focus on breaking activities into defined tasks, and then training all personnel in the authorized method for completing each task. Unfortunately, while these are the most teachable competencies, they are the least relevant in communicating a service brand’s culture (which has the greatest impact on customer perception of the value proposition). That they are so teachable makes them a commodity within an industry (all electricians know how to install a light switch).

The next level of competency above task skill is *cognitive skill*. These would include “skills” like the ability to interpret the principles and precedents of tort law in order to construct a defense for a specific client in a specific lawsuit. While these are much more difficult to teach, and may require specific mental aptitudes and years of training, they are still, generally speaking, quite teachable. A people strategy regarding *cognitive competencies* might revolve around



the recruitment of people who possess cultural competencies, who also possess most of the required cognitive competencies, with a training component to teach the remaining cognitive competencies. For example, a company might recruit attorneys with specific personality traits (recruitment), then subsidize the individuals' studies toward an M.B.A.

The highest level of competency, in terms of service brand communication, is *cultural skills*. These are rooted in personality traits and personal values and govern how people interact with other team members, clients, and vendors. Some cultural skills may be empathy, gentility, gregariousness, hospitality, curiosity, tenacity, boldness, patience, frugality, flamboyance, formality, and many more. It is crucial that a brand culture be populated with people who possess cultural competencies consistent with the brand's character. Otherwise, the human interactions will fail to deliver on the brand's implicit promise, and each transaction will generate cognitive dissonance. The serious-business litigation firm might look for people who are believable to juries not necessarily because they are personable, but because they are so certain of themselves that it is hard to con-

ceive that they could be mistaken, and so serious about the topic at hand that it is hard to conceive that they would not tell the truth.

One author refers to the collective cognitive skills (and the surrounding processes for supporting those skills) as *Brand Manners*. Managers often marginalize cultural skills as "soft skills." But these skills have everything to do with the personality of a service brand and how a brand community experiences the brand. A culture defines itself (either by design or by default) by the cultural skills that exemplify it.

The thing to remember about people strategy is that cultural fit needs to come first. Cognitive and task skills, by their nature, can be taught, given the right set of personal traits and values. Recruit first for cultural skills as a qualifier, then for cognitive aptitudes and task skills. Build your training plan around gaps in the desired cognitive skill set and any task skills that are required.





Brand X Consulting

We know of a very well-known and well respected consulting organization, headed by a superstar with several best-selling books. The firm also has a large team of equally qualified (some even more qualified) but less known consultants. The firm prices the superstar at a premium price, offering him more for celebrity speaking engagements than for actual consulting. This way, he is able to generate maximum revenue for his limited time, and he is able to cultivate the firm's brand equity through his speaking engagements. This creates work for the other consultants, who are able to charge a lesser daily rate, but still a premium rate because of their association with the celebrity brand name. This is an example of variable pricing based on the demand for an individual.

Price.

In general there are two approaches to pricing:

- 1) cost or competitive pricing and
- 2) value pricing.

The basic principle of cost pricing is that the price is set as a direct function of the cost of providing the service (if it costs you \$20/hour in salary and overhead to provide a service, you might charge \$40 per hour or a \$100 mark-up). Within a competitive category, cost-based pricing is further determined by the competitive environment. The major competitors establish the benchmark prices, and other brands set prices relative to the major players. In this environment, there are four basic strategies:

Basic cost-based pricing strategies.

- *More for more.* Your brand offers benefits others don't, for which you charge a premium.
- *More for the same.* Your brand offers benefits others don't, for which you do not charge a premium, but for which you expect to shorten your selling cycle, retain your current customers longer, generate additional sales from current customers, or increase your market share (or some combination of the above).
- *More for less.* Your brand offers benefits others don'ts, or a greater combination of benefits than any



other single brand, and you charge less. This is typically a category killer strategy, employed by a category leader leveraging operational superiority. The greatest example is WAL-MART.

- *The same for less.* Your brand offers equivalent services to others, but for a lower price.
- *Less for much less.* You offer fewer benefits than others, for a significantly lower price.

Applied to service brands, cost or competitive pricing generally favors large providers, since their economies of scale and volume of transactions enable them to realize acceptable profits on lower margins and for a lower cost per transaction. If you are not the category leader, you have two motivations for pursuing a cost or competitive strategy—you want to gain share; or you want to benefit from your competitors' promotions (thus reducing your own costs) to realize an acceptable profit at a lower price per transaction.

Since no two services are identical, branded services have a greater opportunity than branded goods to employ *value price strategies*, in which the service is priced based on its specific value to the specific consumer within the

Gibbons | Peck Small Client Promotions

In the advertising | marketing communications business, there are standard peaks and valleys. In general, agencies staff in a way that leaves us slightly understaffed for the peaks, which leaves us with low enough overhead to get through the valleys. However, even with this staffing strategy, Gibbons | Peck has still discovered that it has a surplus of inventory (available professional man-hours) during certain times of the year.

To use up this excess inventory, we have developed special products available to qualified clients only at certain times of the year.

These include:

- ***annual planning for small clients*** (who need annual planning, but who might not normally purchase the service)
- ***start-up package for new clients*** (this is designed to bring clients on-board at a time when we can afford to give them plenty of special attention); and
- ***entrepreneur package*** (for people looking to start new ventures and who need business planning help).

By bundling services associated with these three types of clients, we are able to offer attractive pricing, secure our base with clients who are likely to grow into cornerstones, and use up valuable and perishable professional staff time. And since it's time that might normally go to waste, it is in our interest to offer generous payment terms for these packages (it's better to be paid in October for work done in July than not to do work in July).

This is an example of peak and off-peak pricing strategy to level out cash flow | work flow peaks and valleys.

specific purchase situation. Also, pricing is a great tool for off-setting the cash-flow consequences of variability and perishability of services.

Place (Distribution).

Since a service is produced when and where it's consumed, service distribution breaks into two basic categories. Either the consumer comes to the place where the service is rendered (auto repair, haircuts, in-patient surgery), or the service provider comes to the consumer (tow truck, lawn service, bookmobile).

A few services have differentiated themselves by bringing a service to the consumer that normally would require the consumer to come to the services. Auto detailers and custom clothiers are two examples that come to mind.

Decades ago, it was the norm for physicians to make house calls. Now, it almost never happens. How much of a premium would

an affluent patient pay for this service to be revived? Enough to cover the additional liability? Who knows?

Promotion.

The promotion mix for services is similar to the promotion mix for goods: direct sales, merchandising, sales promotion, advertising, and publicity.

Direct sales is as important with services as with goods—more so in some cases. The difference is that in many cases, the provider of the service is also the person best suited to sell the services. For example, for CPA firms, each prospect's situation is unique. The laws, regulations, and professional standards governing CPAs are complex. It is, therefore, nearly impossible for a sales person to understand either the product or the prospect well enough to do the selling. One firm we know of uses a commissioned sales force simply to qualify prospects and set up sales meetings between these prospects and CPA firm partners. This puts the sales professional in the position of setting up the sale (a skill in and of itself), and the CPA partner in the position of closing the sale (which is a special skill that must be acquired by senior CPAs).





Merchandising is so important to the promotion of a service, that it has been given its own place in the overall service marketing mix—the seventh “P”—Physical evidence. We’ll talk more about that in just a couple of paragraphs.

Sales promotion is the part of the promotion mix in which offers such as price incentives, rebates, premium items, free product, are used to manipulate the purchase behavior of a consumer. Sales promotion is useful in:

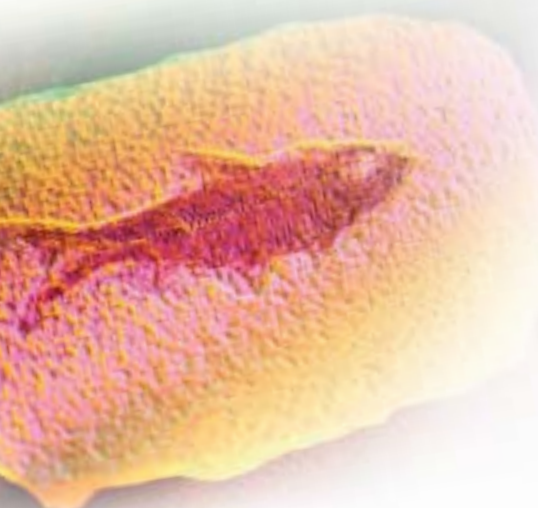
- moving a sale from later to sooner (limited time offer)
- moving excess inventory by generating larger sales (two for the price of one)
- generating trial (buy Edge Gel shaving cream and get a free, trial size pack of Schick disposable razors)
- temporarily stealing share (by offering a half-price coupon on Folgers, P&G steals one purchase cycle away from Maxwell House, since most consumers are going to buy one or the other, but not both). The danger of sales promotion as a tactical tool is that it can become addictive. If you can’t come up with any other way to sell your product, you can always offer it two-for-one. But if you do

always offer it two-for-one, you will eventually reduce its perceived value by half—along with all of its competitive brands.

Advertising of a service serves four basic roles. First of all, it supports the service brand, and positions a branded service relative to its competitors. Secondly, it secures the base of loyal customers|clients (this is frequently done with direct mail or newsletters such as *Ideas at Work*). Third, it presents offers to consumers in order to generate sales, or to create opportunities to sell. Finally, it makes special offers in order to flatten peaks and valleys.

For small services, such as a general contractor with whom we have a relationship, word of mouth tends to be a major part of the de facto promotion mix. Technically, word of mouth is a form of publicity. Since services are so dependant on people trusting individuals, publicity is a valuable part of almost any service promotion mix.





Service providers, such as CPAs, gain great benefit from publicized community activity. The more closely the community activity can be related to the professional service, the better — it's better for a CPA to be known for his pro bono debt counseling to low income individuals than for him to be known for his coaching of a little league baseball team—although both are fine things to do. As a promotional activity, community work and professional association work should be chosen based on its ability to contribute to the credibility of the service. And it should be promoted to the media via a comprehensive media relations plan.

Physical evidence.

A service doesn't come in a box. You don't go down to a service dealership to test drive the new models. A service doesn't have a tag in the back that reminds you (and everyone else) of the high quality materials and fine workmanship. The value of a service is not usually evident in services themselves (as it is in goods). Further-

more, most of the people who purchase services have no objective way of measuring the value of the service relative to other similar services. For this reason, it is important to create value indicators and reminders in order to merchandise the service. This is known as packaging the physical evidence.

The physical evidence comes in several forms:

- *Service environment.* We did some work a few years back with a very large bank with offices on Peachtree Street in downtown Atlanta. The offices were in a very tall, very opulent building, with marble and granite, and brass, and stainless steel, and lots of plate glass. The idea was that the architecture needed to promote the substantial nature of the bank. Did the granite and brass add any real value to the services the bank provided? Probably not. Did the overall impression make rich people and companies feel secure about doing business with this particular institution? Almost certainly. Was it a worthwhile operations investment? Not likely. Was it a worthwhile marketing investment? You bet!
- *Uniforms.* I don't know anything about tires. But I do know this—the people at the tire place I go to are always dressed in neat, clean uniforms



with the logo above the left-hand pocket. I probably pay a premium for those uniforms, a premium for which I don't get any better tires. But the uniforms tell me that these people know how to run a tire store. And that's important to me, because I don't know anything about tires. Uniforms serve as physical evidence of your brand's core values (in this case, competence).

- *Signage.* Your signage marks your service location. It also promotes your brand in public. In cases like McDonald's golden arches, signage can take on a great deal of cultural significance. In conjunction with other promotional activity, signage serves as an anchor. It says, "This is the place where the promise is fulfilled—this is the place to 'have it your way,' or the place where 'billions have been served,' of the place to go if you 'quiero Taco Bell.'"

- *Vehicles.* Think about "brown." UPS, because it has built its entire brand around a fleet of clean, efficient, competent vehicles, running around the world picking up and delivering packages, and around the color, brown, actually has us noticing brown trucks whenever they drive by, and thinking about how much we trust UPS.

- *Equipment.* Gibbons|Peck uses several commercial printers. The one I trust the most is one that seems to be always going off to Germany to get the latest six-color, Heidelberg press. Now, I really couldn't tell you the difference between a Heidelberg and a Gutenberg (although others here at Gibbons|Peck could), except that this printer has some very expensive, very large, very powerful pieces of machinery in their press room, which they appear to be very capable of operating. Aside from the practical operational value of providing capacity to produce a high-quality product in high quantity, this equipment also serves as physical evidence of dependability.

- *Process documentation and forms.* There is something just plain cool about the little kit that FedEx provides to frequent FedEx users. You get a little box that looks like a suitcase. It has pockets in it. There are manuals and brochures. It has a stack of shipping forms with your return address and account number already printed on them. And there are various tubes, boxes, envelopes, and packets for packaging. Even if you didn't know about the mysteriously efficient FedEx process, this documentation kit would serve as compelling evidence of the credibility of the company.



So those are the “P”s

It’s universal. Show me a successful service company, I’ll show you a case study for packaging the physical evidence. A performing arts venue that uses its lobby as a marketing tool. A general contractor who uses site signage to get positive publicity. A deli that seals each package with a logo sticker.

Maybe you agree that there are seven Ps in the service marketing mix. Maybe you are a traditionalist, and believe that *people* and *processes* are a part of product and *physical evidence* is part of promotion. Either way, the important thing to remember is that services are fundamentally different from goods. And because of the differences (discussed in the previous issue of *Ideas at Work*), it is necessary to pay special attention to the way the product (service) is created, delivered, and consumed, and the way value is attributed by consumers. By breaking it out in terms of seven Ps, you force yourself to look closely at the components that cause branded services to succeed or fail.

The next issue of *Ideas at Work* will explore those success and failure factors in some detail. In that issue, we’ll talk about how consumers assign value. We’ll talk about establishing and managing expectations in order to avoid consumer frustration. And we’ll look at the five components of perceived service excellence.

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 gibbonspeck.com.

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