Chapter Summaries

# Chapter 8 – Service marketing strategies

## Introduction

Services are by nature intangible, heterogeneous, inseparable, and perishable; they create unique strategic challenges. While an understanding of industry structure can aid the service strategist to streamline service delivery and improve profitability, it is also vital to achieve sustainable competitive advantage (SCA) through customer satisfaction and the creation of perceived value. The challenge for service firms is to create a position of perceptual value and power that cannot be easily copied by competitors. This requires a constant balancing of operational efficiency and customer relationship building. This chapter will focus on the distinctive nature of services, operational efficiency and profitability, and the nature of the service experience and the creation of customer value.

## The distinctive nature of services

### Intangibility

Since services cannot be held in the hand, felt, and touched, they present a challenge for strategic marketing decision-making as competitive differentiation has to be experienced by users and there really are no strategies for product disposal of unsold stock.

### Heterogeneity

Heterogeneity means that it is difficult to be a low-cost provider or to differentiate for positioning purposes. Each time there is an interaction between service personnel and the consumer, the service is being provided, and impressions are built in the mind of the consumer regarding the quality of that service offering.

### Inseparability

Inseparability means that customers are co-producers/designers of the service and therefore can experience the strategy directly (i.e., low cost or differentiation).

### Perishability

Perishability means that it is essential to get cost and/or differentiation strategies right as compared to product companies as if you are unsuccessful the opportunity is lost; whereas product companies can hold stock and reposition on price.

## The seven Ps of services

In addition to the normal marketing mix elements (product, price, place, and promotion), services are normally associated with three additional mix elements: people, process, and physical evidence. Each is discussed in detail in the chapter.

## Customer experience strategies

### SERVQUAL: measuring the quality of the customer experience

Parasuraman et al. (1991) have done extensive work examining the concept of service quality, and they found that service quality is a multi-faceted construct with five distinctive dimensions: reliability (dependability and accuracy), responsiveness (helpfulness and promptness), empathy (customer understanding and individualized attention), assurance (employee competence, courtesy, and trustworthiness), and tangibles (condition of physical evidence). The authors created a survey instrument, SERVQUAL, to assess customer perceptions of service quality along these five-dimensional themes that they named SERVQUAL.

### Service-dominant logic: enhancing the customer experience through the customer as co-producer

From the definition of ‘product’ often used in marketing, most now interpret the word to mean anything that has value for the consumer. This could relate to a product, a place, a person (e.g., a political candidate), or a location (holiday destination), as well as a service. Vargo and Lusch (2004) introduced a valuable perspective for marketing which they call service-dominant logic, in which the organization uses the customer as a co-producer of the service or good created.

### The service lens for value creation

An important addition to service-dominant logic and the notion of ‘jobs-to-be-done’ has been the creation of a ‘service lens’ to provide a helpful foundation for assessing the various aspects of the service provision. While service-dominant logic provides an excellent foundation for envisioning value creation, jobs-to-be-done then makes the vision actionable. This is discussed in detail in the chapter.

### Customer experience innovation

With the diffusion of digital technologies and media, customers have been enabled to personalize their purchasing experiences which has influenced the creation and delivery of the services that they engage with. To remain competitive, companies must invest in technologies that allow them to personalize and enhance customer journeys and the overall customer experience. The chapter discusses how this can be achieved with the development of four interconnected capabilities: automation, proactive personalization, contextual interaction, and journey innovation.

### Service as drama

A unique perspective-enhancing approach to understanding the service experience was suggested in 1983 by Grove and Fisk. They proposed the value of the strategic use of dramaturgy whereby a service is thought of as a drama with three important components: a stage, actors, and an audience:

The stage: The stage refers to the physical setting for the delivery of the service.

The actors: A play has a series of actors who perform for the audience.

The audience: The audience refers to the service customers.

These are discussed in detail in this section of the chapter.

### Great performances and emotional engagement

So, what is it that will make service companies profitable and ensure their success? One promising approach involves an extension of the dramaturgy concept as applied to services. Stuart (2006) argues that just any performance will not create the appropriate emotional engagement with the customer to build an emotional bond, and that the service provider must ensure that the presentation creates a “great performance.” The idea is that customer loyalty, which is imperative for long-term profitability and gains in market share, is something which is fostered not by perceptions of service quality, but by very high levels of customer satisfaction and service reliability.

## Operational efficiency and profitability

Since services are basically intangible, difficult to legally protect, and have relatively low barriers to entry, they are easy to copy. Operational excellence is one way in which service firms can achieve strategic success. Operational excellence can be garnered in a number of different ways: streamlining and cost cutting, creative strategic alliances, and internal employee culture creation and enhancement. Strategic successes provide excellent opportunities for service firms to improve operations and raise profit margins.

### Streamlining and cost cutting

Many service providers have found the need to improve operations to eliminate inefficiencies and improve profit margins. To a certain extent customer value is enhanced when firm cost cutting can be passed along with visible savings for the customer. Four major trends have forced service providers to focus on cost cutting: 1) ever-intensifying competition as industry regulations open competition to new and varied types of competitors (e.g., deregulation and the sanctioning of new and creative strategic alliances), 2) slowing industry growth projections, 3) increasing levels of parity across providers, and 4) increasing levels of customer expectations. Service providers have recently embraced some of the cost-cutting benefits that were experienced by Western manufacturers attempting to remain competitive with the Japanese during the 1990s. This recent use of “lean service management” focuses on reengineering operations to improve profitability. Sometimes technologies become available that allow cost cutting across the entire service while improving the level of the quality of the service provided. When these technologies exist, they should be adopted immediately. When these technologies are not available, they suggest that management should consider “decoupling” service tasks to gain efficiencies. Decoupling involves removing certain low-customer contact tasks from frontline or front office personnel, standardizing them and moving them into remote back office locations.

### Creative strategic alliances

A creative strategic way to improve service profitability involves strategic partnering between different service providers. Alliances can effectively be used to strengthen brands and cut costs. These alliances can take the form of co-branding, co-marketing, outsourcing, licensing, distribution agreements to name a few. Instrumental to any partnering is the need to ensure the best fit between partners in terms of customer demographics and brand image. Customers must readily see the benefit in the pairing of services.

### Customer value and sustainable competitive advantage

Since service organizations do not have the benefit of patents and other high barriers to entry, competitive advantage for them lies in continually exceeding customer expectations and building a perception of exceptional value to the customer. If the customer believes that the quality that they are receiving is the best that it can be, there is no reason to switch to the offerings of another provider. So how does the service organization ensure that it can provide value to the customer and achieve sustainable competitive advantage? One consideration is the definition of the target customer in question. Many service organization failures point to the impossible nature of being ‘all things to all customers.’ Successful segmentation is a necessity for service success. Of course, it is important not to differentiate for the sake of differentiating, but to base differentiation on specific sets of viable customer needs.

### Relationship Building with Customers

Service strategists are quickly accepting the importance of relationship building with customers, which can be facilitated through effective segmentation. Zeithaml, Rust and Lemon (2001) found that a number of successful service firms have actually created customer pyramids which differentiate customers by profit potential and recognize that different groups of customers have different sets of expectations. These firms (like FedEx and Bank of America) cater to the more profitable customers and downplay the strategic efforts to reach the less profitable sgments

### Customer service as a basis for differentiation

When a service company uses customer service as its sole focus for differentiation from its competition, it may face perceptual difficulties. If everyone stands for service, then there is no distinction in centering on customer service as the main foundation for differentiation. The question is whether such companies as BT, British Gas, and British Airways can build strong brands by centering on customer service in its advertising campaigns. Most services build from the standpoint that offering great service is a foundation for creating loyal customers. If people are treated well, they should not want to go anywhere else. Good customer service may be a necessary requirement to be a serious competitor in a service industry, but the company had best focus on other differentiators when building their image.

### The chief experience officer

In an article by James Merlino and Ananth Raman ([2013](#B29)) in *Harvard Business Review*, the authors describe significant improvements in patient-satisfaction surveys at the Cleveland Clinic in Cleveland, Ohio. The improvement was attributed to the development of a new organizational role of chief experience officer (CExO). This person heads up the Office of Patient Experience, with an annual operating budget and a sizeable staff including project managers, data analysts, and service training specialists. The section discusses the specifics of the role the CExO played and how improvements were realized.

## Effects of the Internet and digital technology on customer expectations

Service provision must adapt to extensive and growing consumer reliance on social media mechanisms. These affect what customers expect in a variety of ways. The stage is often set for consumers through apps that are readily available for mobile phones, laptops, and tablets. These apps facilitate access to airline bookings, hotel reservations, car hire, and restaurant reservations, as well as tickets for concerts, festivals, theatre productions, cinemas, and sporting events. The apps give customers valuable information about availability and pricing. People are now able to use their mobiles to get through airport security as their boarding passes or tickets are shown on their screens. While samples of haircuts and cosmetic makeovers are not available online, testimonials and pictures of customers experiencing satisfying service encounters are readily available via apps and websites. These apps are geared towards increasing purchases among customers and breeding loyalty, but they also provide helpful information for consumers such as reviews from other customers to reinforce their satisfaction and maintain loyalty. This section of the chapter provides a number of examples of service providers and their use of social media to enhance customer loyalty.

## The latest thinking: robots and artificial intelligence

The use of robots in the provision of services is an important next step. The idea of a service being made available without human potential for mistakes has appeal. The elimination of the need for employees to be brought into the service setting obviously has the potential to reduce the cost-of-service provision. The growth in service robots is expected to continue its rapid acceleration into the future, but there are issues for consumers that must be faced. Consumers need to develop trust in these robots, which may hinder the true integration of these machines into daily consumer use, according to van Pinxteren et al. ([2019](#B43)). These authors suggest that the most important accommodation that can be made by the robot manufacturers is to add human-like features wherever possible. People will perceive human traits in inanimate objects more readily if they look more like humans. This is discussed in detail in the section of the chapter.