

### Learning Outcomes

- LO<sup>1</sup>** Discuss the importance of services to the economy
- LO<sup>2</sup>** Discuss the differences between services and goods
- LO<sup>3</sup>** Describe the components of service quality and the gap model of service quality
- LO<sup>4</sup>** Develop marketing mixes for services

© 2015 by Cengage Learning Inc. All Rights Reserved. 2

### Learning Outcomes

- LO<sup>5</sup>** Discuss relationship marketing in services
- LO<sup>6</sup>** Explain internal marketing in services
- LO<sup>7</sup>** Describe nonprofit organizational marketing
- LO<sup>8</sup>** Discuss global issues in services marketing

© 2015 by Cengage Learning Inc. All Rights Reserved. 3

## The Importance of Services

**Discuss the importance  
of services to the  
economy**

LO<sup>1</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved. 4

## The Importance of Services

Service industries accounted for 68 percent of U.S. GDP in 2012.

Services involve:

- Deeds
- Performances
- Efforts
- A service is the result of applying human or mechanical efforts to people or objects.
- In 2012, service industries accounted for 68 percent of U.S. GDP and four out of five U.S. jobs.

LO<sup>1</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

5

## How Services Differ from Goods

Discuss the differences  
between services and  
goods

6

© 2015 by Cengage Learning Inc. All Rights Reserved.

LO<sup>2</sup>

## How Services Differ from Goods

### Intangible

No physical object makes it hard to communicate benefits.

### Inseparable

Production and consumption are simultaneous, meaning the consumer takes part in production.

### Heterogeneous

Services depend on their employees for quality, which makes consistency difficult to achieve.

### Perishable

Services cannot be saved, and it is challenging to synchronize supply and demand.

LO<sup>2</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

7

## When Services are Assessed

- Search quality: More often applied to goods, assessed before purchase
- Experience quality: Assessed after purchase
- Credence quality: Assessed only with appropriate knowledge.

LO<sup>2</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

8

## Service Quality

**Describe the components of service quality and the gap model of service quality**

9

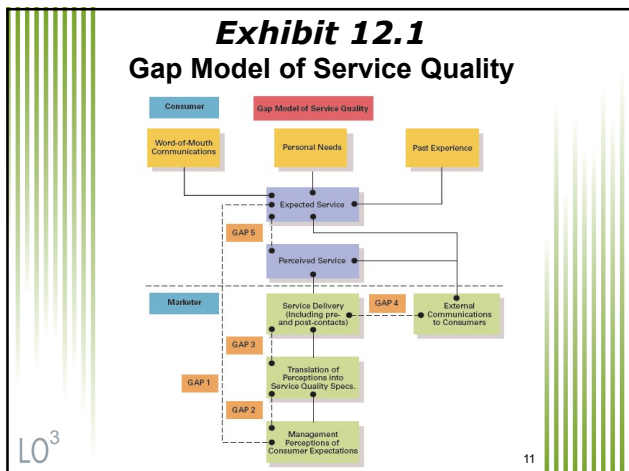
© 2015 by Cengage Learning Inc. All Rights Reserved. LO<sup>3</sup>

## Components of Service Quality

<b>Reliability</b>	The ability to perform the service right the first time.
<b>Responsiveness</b>	The ability to provide prompt service.
<b>Assurance</b>	The knowledge and courtesy of employees.
<b>Empathy</b>	Caring, individualized attention to customers.
<b>Tangibles</b>	The physical evidence of the service.

LO<sup>3</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved. 10



## Gap Model

A model of service quality called the "gap model" identifies five gaps that can cause problems in service delivery and influence customer evaluations of service quality.

1. Gap 1: The gap between what customers want and what management thinks customers want. This gap results from a lack of understanding or a misinterpretation of customers' needs or wants. To close gap 1, keep in touch with what customers want by doing research on customer needs and customer satisfaction.
2. Gap 2: The gap between what management thinks customers want and the quality specifications that management develops to provide the service.

LO

### Gap Model (continued)

Gap 3: The gap between the service quality specifications and the service that is actually provided. If gaps 1 and 2 are closed, gap 3 is due to the inability of management and employees to do what should be done. To close gap 3, employees need the skills, training, and tools to perform their jobs.

Gap 4: The gap between what the company provides and what the customer is told it provides. This is a communication gap, caused by such things as misleading or deceptive advertising campaigns. To close gap 4, companies need to create realistic customer expectations through honest, accurate, realistic communication.

Gap 5: The gap between the service that customers receive and the service they want. This gap can be positive or negative. As the gaps shrink, service quality improves.

LO

### Marketing Mixes for Services

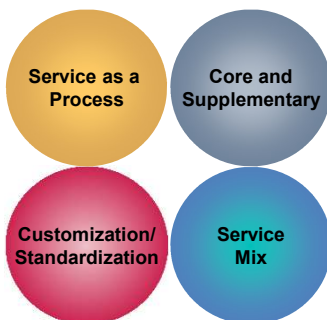
Develop marketing mixes  
for services

14

© 2015 by Cengage Learning Inc. All Rights Reserved.

LO<sup>4</sup>

### Product Strategies for Services



LO<sup>4</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

15

### Service as a Process

Two things get processed in service organization: people and objects. In some cases, the process is physical, while in others the process is intangible. There are 4 types of service processing categories:

#### People Processing

The service is directed at a customer.  
Examples include health care and hairstyling.

#### Possession Processing

The service is directed at customers' physical possessions.  
Examples include lawn care, car repair, and dry cleaning.

#### Mental Stimulus Processing

Services directed at people's minds.  
Examples include spectator sports events, theater performances, and education.

#### Information Processing

Services that use technology or brainpower directed at a customer's assets.  
Examples include insurance, consulting, and banking.

LO<sup>4</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

16

## The Service Offering

<b>Core Service</b>	The most basic benefit the consumer is buying.
<b>Supplementary Service</b>	A group of services that support or enhance the core service.

LO<sup>4</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

17

## Customization/Standardization

Elements of customized and standardized services are found in mass customization.

<b>Mass Customization</b>	A strategy that uses technology to deliver customized services on a mass basis.
---------------------------	---

LO<sup>4</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

18

## The Service Mix

- ◆ Determine which new services to introduce
- ◆ Determine the target market
- ◆ Decide which existing services to maintain and which to eliminate

LO<sup>4</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

19

## Place (Distribution) Strategy

<b>Convenience</b>	A key factor influencing the selection of a service provider.
<b>Number of outlets</b>	The intensity of distribution should meet the target market's needs and preferences.
<b>Direct or indirect distribution</b>	Many service firms use direct distribution or franchising. The newest form of direct distribution is the Internet.
<b>Location</b>	The location of a service reveals the relationship between its target market strategy and distribution strategy.
<b>Scheduling</b>	The most important factor for time-dependent service providers like airlines, physicians, and dentists.

LO<sup>4</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

20

## Promotion Strategy

**Stress tangible cues**

**Use personal information sources**

**Create a strong organizational image**

**Engage in postpurchase communication**

LO<sup>4</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

21

## Price Strategy

### Pricing Challenges for Services

- ◆ Define the unit of service consumption e.g. Do we charge for hours used, units used, etc.
- ◆ Determine if multiple elements are “bundled” or priced separately

LO<sup>4</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

22

## Pricing Objectives

**Revenue-Oriented Pricing**

Maximize the surplus of income over costs

**Operations-Oriented Pricing**

Match supply and demand by varying price

**Patronage-Oriented Pricing**

Maximize the number of customers by varying price

LO<sup>4</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

23

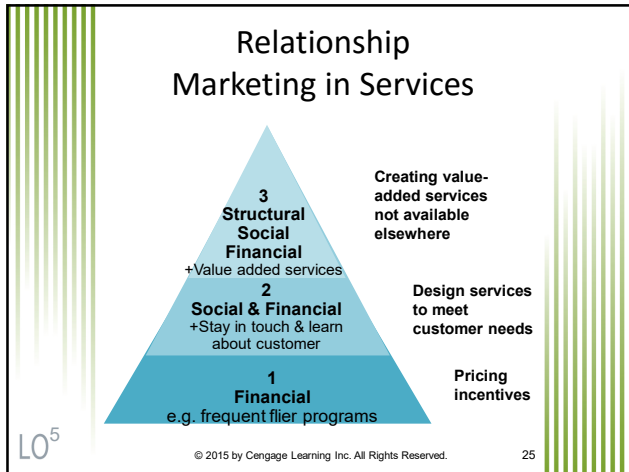
## Relationship Marketing in Services

**Discuss relationship marketing in services**

24

© 2015 by Cengage Learning Inc. All Rights Reserved.

LO<sup>5</sup>



**Internal Marketing in Service Firms**

**Explain internal marketing in services**

LO<sup>6</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

**Internal Marketing**

Treating employees as customers and developing systems and benefits that satisfy their needs.

LO<sup>6</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

27

**Nonprofit Organization Marketing**

**Describe nonprofit organization marketing**

LO<sup>7</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

### Nonprofit Organization

An organization that exists to achieve some goal other than the usual business goals of profit, market share, or return on investment.

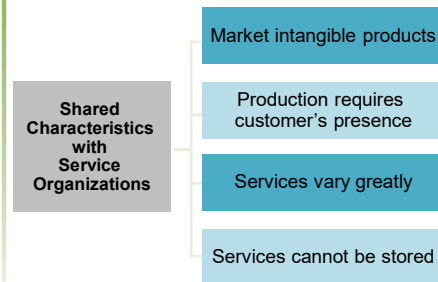
- Governments
- Museums
- Theaters
- Schools
- Churches

Nonprofits account for more than 20% of all U.S. economic activity.

LO<sup>7</sup>

29

### Nonprofit Organization Marketing



LO<sup>7</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

30

### Nonprofit Organization Marketing Activities

Identify desired customers  
(Target market may not want the product!)

Specify objectives

Develop, manage, eliminate programs and services

Decide on prices

Schedule events or programs

Communicate their availability  
(Public service advertising? PSA)

LO<sup>7</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

31

### Unique Aspects of Nonprofit Organization Marketing Strategies

- Setting of marketing objectives
- Selection of target markets
- Development of marketing mixes

LO<sup>7</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

32



## Objectives

*Provide services that respond to the wants of:*

- ◆ Users
- ◆ Payers
- ◆ Donors
- ◆ Politicians
- ◆ Appointed officials
- ◆ Media
- ◆ General Public

- Must meet needs not covered by the private sector.
- Often focus on generating enough funds to cover expenses.

LO<sup>7</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

33

## Target Markets

**Apathetic or strongly opposed targets**

**Pressure to adopt undifferentiated segmentation**

**Complementary positioning**

***Unique Issues of Nonprofit Organizations***

LO<sup>7</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

34

## Product Decisions

**Distinctions between Business and Nonprofit Organizations**

- ◆ **Benefit complexity**-- Nonprofit organizations often market complex behavior or ideas, such as the need to quit smoking.
- ◆ **Weak or indirect benefit strength** -- The benefit strength of many nonprofit offerings may be weak or indirect.
- ◆ **Low involvement** -- Many nonprofit organizations market products that elicit low involvement, such as "Prevent forest fires," or very high involvement, such as "Stop smoking."

LO<sup>7</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

35

## Promotion Decisions

**Professional volunteers**

Donated services create goodwill, personal contacts, and general awareness of the organization.

**Sales promotion activities**

Sales promotion activities that make use of existing services to draw attention to the offerings of nonprofit organizations.

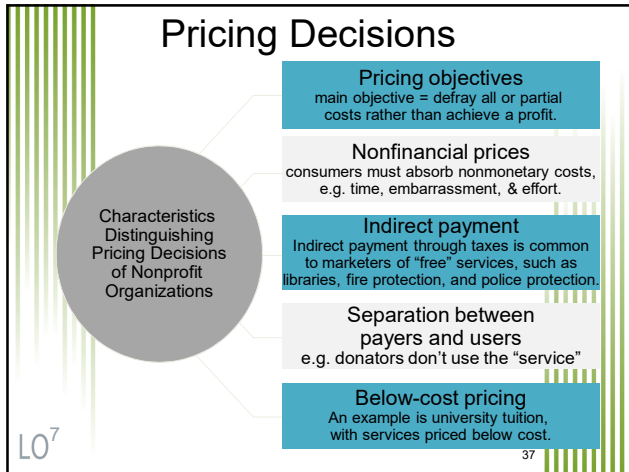
**Public service advertising**

Public service advertising that is donated by a sponsor, so the public service advertiser does not pay for the time or space.

LO<sup>7</sup>

© 2015 by Cengage Learning Inc. All Rights Reserved.

36



### Global Issues in Services Marketing

- The U.S. is the world's largest exporter of services. (e.g. banking)
- The marketing mix must reflect each country's cultural, technological, and political environment.

LO<sup>8</sup> © 2015 by Cengage Learning Inc. All Rights Reserved. 39

### Chapter 12 Video

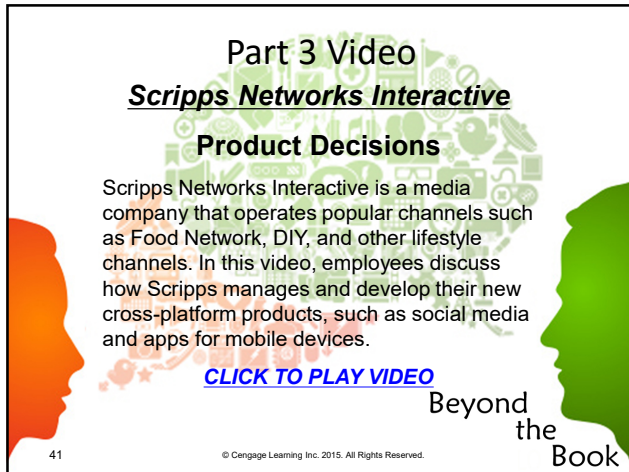
#### ***Pepe's Pizzeria***

Pepe's is a family owned and operated pizzeria in Connecticut. The original Pepe earned the nickname "Old Reliable" for his customer service, and his grandchildren carry out that value today. This video discusses the various ways that Pepe's Pizzeria works to provide great, consistent service and why it is important.

[CLICK TO PLAY VIDEO](#)

Beyond the Book

40 © 2015 by Cengage Learning Inc. All Rights Reserved.



Part 3 Video

**Scripps Networks Interactive**

**Product Decisions**

Scripps Networks Interactive is a media company that operates popular channels such as Food Network, DIY, and other lifestyle channels. In this video, employees discuss how Scripps manages and develop their new cross-platform products, such as social media and apps for mobile devices.

[CLICK TO PLAY VIDEO](#)

Beyond  
the  
Book

41

© Cengage Learning Inc. 2015. All Rights Reserved.