OBJECTIVES:

1. Explain the marketing of people, places, and ideas.
2. Describe the four characteristics of services and understand how services differ from goods.
3. Explain how marketers create and measure service quality.
4. Explain marketing strategies for services.
Meet Julie Sanoff, a Decision Maker at American Express

CURRENT POSITION: Senior Manager, Business Alliances Division, American Express Consumer Card Services Group.

CAREER PATH: 1992 B.S. in Marketing, Rutgers University.
December 1994–August 1998: Manager, Sales Promotion, L'Oréal USA. In charge of all in-store advertising and promotion of the Lancome brand for northeastern U.S. retail stores and specialty accounts (Saks Fifth Avenue, Neiman Marcus, Bloomingdale's, and Nordstrom) across the country.
August 1998–Present: American Express

WHAT I DO WHEN I'M NOT WORKING: Spend time with my husband and young twins.

FIRST JOB OUT OF SCHOOL: Sales rep for a computer company.

HERO: My father.

MOTTO: Live for the moment!

MANAGEMENT STYLE: Autonomy. Give it to people and watch them flourish!

PET PEEVE: Being late.

The Rewards of Membership: Don’t Leave Home Without Them!

The AMEX Membership Rewards Program has given enrollees the opportunity to earn points for every dollar they charge on their American Express credit card. They can then redeem these points for travel, retail products, and gift certificates good at participating retail merchants. Enrollees pay a fee to join the program, which has been selectively marketed to about 4 million high-spending card members.

Membership Rewards is a valuable way for American Express to create and maintain loyalty both among the merchants who accept American Express and the cardholders—important in the highly competitive credit card industry. The roster of participating merchants is crucial to the success of the program, because cardholders won’t be motivated to participate (and use their American Express cards) if their points can’t be redeemed for products and services they want. The participating retail merchants have included Saks Fifth Avenue, Linens-n-Things, Gap, Coach, Tourneau, Dell, and Crate and Barrel.

However, the problem was that most enrollees were redeeming their points for travel rewards, which are much more expensive to American Express than retail rewards because the company tends to get greater discounts from the retailers than from the airlines. Julie Sanoff had to find a way to make the retail category more attractive to cardholders. She needed to understand whether members were not redeeming enough points with the participating retailers because there were not enough choices or if something else was causing the problem.
Julie and her team researched how enrollees make decisions about redeeming points and what products and services they might add to the program. They sent cards listing product rewards to a sample of about 350 enrollees, including some who had never redeemed points for rewards. Julie asked enrollees to rank these rewards in order of interest. A number of respondents liked the idea of adding restaurant and entertainment awards to AMEX’s current mix of retailers.

Based on these results, Julie considered her options:

Option 1: Add new rewards categories.
Expand into new categories such as dining and entertainment to satisfy the respondents interested in these types of rewards. Doing so would give the program more breadth and depth and bring it in line with competitors’ programs that are for smaller-ticket items, meaning that competitors’ members need less points to get rewards. And if more consumers were attracted to these new categories, it might pull them away from more expensive travel rewards. But Julie wasn’t sure it would be worth the time and cost to sign on these new merchants if not enough members would redeem their points in these categories.

Option 2: Focus marketing efforts on the most popular rewards.
Streamline the existing rewards to reduce overlap and lack of appeal of certain rewards, redirecting marketing resources to promote the most popular offerings. Julie discovered significant duplication across reward categories (for example, both Sony and Toshiba offered stereos) and realized she could optimize American Express’s offerings by removing certain rewards from the program altogether and including only the most appealing ones. But removing some partners might inadvertently take away some specialized products that appealed to American Express’s highest spenders, such as the Richard Petty Driving Experience at Disney World. Although this reward interests only a few high spenders, it adds to the appeal of the program and cements the strong relationship AMEX has with Disney.

Option 3: Reduce breadth of reward selection while increasing the depth of certain reward categories.
Streamline the partners in the program and just offer more rewards from this select group. This would make the program a bit more manageable, and it would be less expensive to market a smaller group of partners. However, the program would lose some breadth and its reputation of having many choices for enrollees. Competitive programs might benefit by seeming to provide more offerings. In addition, dropping a member from the Membership Rewards program might alienate a company that has a strong relationship with American Express.

Now, put yourself in Julie Sanoff’s shoes: Which option would you pick, and why?

Marketing What Isn’t There

At one level, American Express is just selling a little piece of plastic you keep in your wallet. But, of course, this particular little card is much more than that—for some, it’s the ticket to a dream, for others a way to show off. Julie Sanoff understands the challenges of marketing what people can’t see. As an executive for a major financial services company, she realizes that a customer’s decision to patronize one firm’s card over others is a complex one that includes the company’s image, its “snob appeal,” incentives to be loyal (such as membership rewards), pricing, and emotional attachment to a trusted company.

These challenges apply to many different kinds of consumer experiences. For example, what do a Pearl Jam concert, a college education, and a football game have in common? Like the AMEX Membership Rewards Program, each is a product that combines experiences with physical goods to create an event that the buyer consumes. You can’t have a concert without instruments, a college education without textbooks (frat parties don’t count), or a pigskin showdown without the pigskin. But these tangibles are secondary to the primary product, which is some act that, in these cases, produces enjoyment, knowledge, or excitement.

This chapter will consider some of the challenges and opportunities facing marketers such as Julie Sanoff whose primary offerings are intangibles, experience-based products that cannot be touched.
be touched. The marketer whose job it is to build and sell a better football, automobile, or MP3 player—all tangibles—must deal with different issues than someone such as Julie who must find ways to make a credit card more attractive.

We will spend a lot of time on services, a type of intangible that also happens to be the fastest-growing sector in our economy. As we’ll see, all services are intangible, but not all intangibles are services. So let’s start by considering some types of intangibles other than services before moving into the nuts and bolts of services marketing.

DOES MARKETING WORK FOR INTANGIBLES?

Obviously, the credit cards you keep are more than mere pieces of plastic. They are tickets to a dream because you can use them to obtain many things. But they can also be free admission to a nightmare if you charge yourself into debt! Even the color of the card becomes a status symbol—that green card is cool to have, but not quite as cool as that gold one, and just watch the eyebrows rise around the table when that lucky guy whips out his platinum! These complex meanings attached to a little piece of plastic remind us that we need to expand the marketing concept and recognize that it applies to many types of “products,” including politicians, the arts, and the places we live and visit.

Even an intangible such as electric power, normally thought of as a commodity, is now branded and marketed directly to consumers. In an increasing number of states, customers are allowed to pick an electricity supplier from several competitors as deregulation of the industry continues. The first national energy brand was EnergyOne, introduced in 1995 by UtiliCorp United. Cinergy Corp. of Cincinnati paid $6 million to gain brand exposure by renaming the city’s Riverfront Stadium to Cinergy Field. Energy company Enron, at the time the seventh largest firm in the United States, later paid to have a stadium in Houston named after it. The subsequent bankruptcy and scandal surrounding the energy giant prompted the Astros in 2002 to pay Enron $2.1 million to buy back the naming rights to the stadium. The Enron name had to be removed from all brochures, the stadium Web site, and all publicity photos of the Astros team. (The only consolation is that the firm’s demise may have been the fault of the accountants, the CEO, and the former CEO, but not the marketers.)

Sound marketing concepts don’t apply only to companies looking to make a buck or two. Indeed, not-for-profit organizations including symphonies, charities, zoos, museums, and youth organizations increasingly are thinking about branding and image building. The
The not-for-profit sector consists of 546,000 organizations with 9.7 million employees, so competition for customers and donors is fierce. These organizations have to come up with new marketing strategies all the time. When Goodwill wanted to increase donations to its clothing bins, it redesigned its smiling face logo and added a new headline, “Helping Create a Better Community.” Clothing donations increased by 10 percent after the change.3

The Internet is becoming an increasingly important way to market some charities. The American Red Cross raised nearly $140,000 for Turkey’s earthquake victims in one day and Catholic Relief Services raised $350,000 from 2,000 donors for Kosovar refugees in only two weeks.4 How do these organizations use the Internet? Most will use a variety of news media vehicles to inform potential donors of a need and to request donations. Without the Internet, it can be a complicated process to give a donation—you first have to find out who and how and where to send money and then you have to write a check or send cash to the designated address. The Internet makes it easy for donors to contribute as much or as little as they want 24 hours a day.

Still, some producers of intangibles have been slow to accept the idea that what they do should be marketed. Many people who work in health care, the legal profession, or the arts resist the notion that the quality of what they produce and the demand for their services are affected by the same market forces driving the fortunes of paper producers, food canners, or even power utilities.

Let’s take a quick look at how some basic marketing concepts would apply to an artistic product. Suppose a local theater company wanted to increase attendance at its performances. Remembering the basics of developing a strategic plan (Chapter 2) here are some marketing actions the organization might take to realize its goals.5

• The organization could develop a mission statement, such as “We seek to be the premier provider of quality theater in the region.”

• A SWOT analysis could include an assessment of the organization’s strengths and weaknesses and the environmental threats and opportunities. The arts marketer is, after all, competing for the consumer’s discretionary dollar against other theater groups. The marketer is also up against other forms of entertainment the consumer might desire instead of going to a play at all, from attending a Destiny’s Child concert to a Tom Cruise movie to a pro wrestling match.

• The theater company should use information obtained in the SWOT analysis to develop a number of concrete measurable objectives, such as to “increase the number of season ticket holders by 20 percent over the next two years.”

• Next, the organization must develop marketing strategies. For example, it must consider which target markets it wishes to attract. If audience levels for its plays have been fairly stable for several years, it should consider developing new markets for its performances. This might lead to product modifications, as some opera companies do when they project English translations above the stage to draw new patrons who are unfamiliar with opera’s foreign tongues.

MARKETING PEOPLE, PLACES, AND IDEAS

As we’ve discussed, even a small theater company can benefit by applying some basic marketing principles to its activities. In addition to the arts, people, places, and ideas often need to be “sold” by someone and “bought” by someone else. Let’s consider how marketing is relevant to each of these.

Marketing People As we saw in Chapter 1, people are products, too. If you don’t believe that, you’ve never been on a job interview, nor spent a Saturday night in a singles bar. Many of us find it distasteful to equate people with products. In reality, though, a sizable number of people hire personal image consultants to devise a marketing strategy for them, and others undergo plastic surgery, physical conditioning, or cosmetic makeovers to improve their “market position” or “sell” themselves to potential employers, friends, or lovers.6 Let’s briefly touch upon a few prominent categories of people marketing.

Politicians are created and marketed by sophisticated consultants who “package” candidates and compete for “market share” of votes. This perspective can be traced back to the 1952
These clips are taken from the classic “flower girl” commercial of the Lyndon Johnson presidential campaign. The atomic explosion in the background was meant to arouse fears about what might happen if conservative rival Barry Goldwater was elected instead.

and 1956 presidential campaigns of Dwight Eisenhower, when advertising executive Rosser Reeves repackaged the bland but amiable Army general by inventing jingles, slogans, such as “I like Ike,” and contrived man-on-the-street interviews to improve the candidate’s market position. For better or worse, Reeves’s strategies revolutionized the political landscape as people realized that the same selling tactics used to sell soap could sell candidates. A famous 1964 political ad on behalf of presidential candidate Lyndon Johnson juxtaposed a child plucking the petals from a daisy with an atomic explosion to reinforce the belief that opponent Barry Goldwater would be too quick to start a nuclear war. That’s a strong fear appeal.

From actors and musicians to superstar athletes and supermodels, the famous and near-famous jockey for market position in popular culture. Celebrities are carefully packaged by agents who connive to get them exposure on television shows such as Oprah, starring roles in movies, recording contracts, or product endorsements. Like other products, celebrities even rename themselves to craft a “brand identity” using the same strategies marketers use to ensure that their products make an impression on consumers, including memorability (Evel Knievel), suitability (fashion designer Oscar Renta reverted to his old family name of de la Renta because it sounded more elegant), and distinctiveness (Steveland Morris Hardaway became Stevie Wonder).

In addition to these branding efforts, there are other strategies marketers use to “sell” a celebrity as shown in Figure 11.1. One such strategy is the pure selling approach in which an agent presents a client’s qualifications to potential “buyers” until he finds one who is willing to act as an intermediary. The agent might send a singer’s tapes to talent scouts at record companies or photos of an aspiring model to beauty magazines. In this case, the celebrity is sold to distributors, just as the representative of a snack foods company tries to get grocery retailers to give her product adequate shelf space.
### FIGURE 11.1
**Strategies to Sell a Celebrity**

There is more than one approach to selling an intangible—even for selling a celebrity. Successful marketing has to determine the best approach to take for each product.

<table>
<thead>
<tr>
<th>Marketing Approach</th>
<th>Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure Selling Approach</td>
<td>Agent presents a client to record companies, to movie studios, to TV production companies, to talk show hosts, to advertising agencies, to talent scouts</td>
</tr>
<tr>
<td>Product Improvement Approach</td>
<td>Client is modified</td>
</tr>
<tr>
<td></td>
<td>New name, New image, Voice lessons, Dancing lessons, Plastic surgery, New back-up band, New music genre</td>
</tr>
<tr>
<td>Market Fulfillment Approach</td>
<td>Agent seeks market opening, Identify unmet need, Develop a new product (band, singer) to the specifications of consumer wants</td>
</tr>
</tbody>
</table>

Another strategy is the *product improvement approach* in which the agent works with the client to modify certain characteristics that will increase market value. This means changing the person’s repertoire or image to conform to whatever is currently in demand. For example, Madonna’s image changed over consecutive albums from East Village punk to lacy virgin to Marilyn Monroe clone, to country cowgirl, and she continues to change with each succeeding release.10

Yet another strategy is the *market fulfillment approach*. The agent scans the market to identify unmet needs. After identifying a need, the agent finds a person or a group that meets a set of minimum qualifications and develops a new “product.” These “manufactured stars” are

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Madonna successfully employs a product improvement approach, changing her image to match, and sometimes introduce, trends.
common, for example, in the music world. The Monkees, The New Kids on the Block, The Spice Girls, and more recently O-Town, Nsync, and the Back Street Boys were successfully formed by auditioning hundreds of photogenic young singers and musicians until producers discovered the right combination of teen idols.

**Marketing Places**  
**Place marketing** strategies regard a city, state, country, or other locale as a brand and attempt to position this location so that consumers choose to visit. Because of the huge amount of money associated with tourism, the competition to attract people is fierce. There are about 1,600 visitors bureaus in the United States alone that try to brand their locations. In addition almost every town or city has an economic development office charged with luring new businesses or residents.

These efforts have intensified in the wake of September 11, 2001, because many Americans now are more interested in going to smaller towns with simpler (and presumably safer) lifestyles. So, in some cases what used to be a negative factor now is viewed as a competitive advantage. The city of Buffalo, New York, decided to revamp its brand image to change perceptions that it’s just a place covered in snow. Researchers found that the area’s biggest advantage is the quality of its workforce: It boasts one of the lowest turnover and absentee rates in the country. Its 30 colleges turn out well-trained graduates ready to take on skilled jobs. The city’s tag line, “Buffalo Niagara: Available. Productive. People” now emphasizes these assets. Web sites such as [www.iambuffaloniagarajobs.com](http://www.iambuffaloniagarajobs.com) tell people more about employment possibilities.

In turn, big cities are fighting back: After the attack on the World Trade Center, New York City unveiled a new tourism advertising campaign in November with the slogan “The New
Many religious organizations use a variety of marketing strategies to grow their organizations.

You can see people. You can stand in a city. So how do you market something you can’t see, smell, or feel? **Idea marketing** is about gaining market share for a concept, philosophy, belief, or issue. As we saw in Chapter 3, this means using elements of the marketing mix to create or change a target market’s attitude or behavior.

A project conducted in Latin America by the Johns Hopkins School of Public Health illustrates how marketing tools can bring about dramatic changes in how people conduct their daily lives. To promote sexual responsibility among young people, the popular Latin pop duo Tatiana and Johnny sang a song promoting abstinence. The record was produced by researchers and went on to become a Top 10 hit in Latin American countries. The record jacket folded out to become a poster with information about obtaining birth control.

In a more recent and controversial cause marketing effort, Italian clothing maker Benetton campaigned against the death penalty by using portraits of American death row inmates in its advertising. The series, called “Looking Death in the Face,” had little to do with fashion but was created to ignite debate about capital punishment—even at the potential cost of turning off American customers who support the death penalty.

Even religious organizations market ideas about faith and desirable behavior by adopting secular marketing techniques to attract young people. Evangelists use the power of television to convey their messages. So-called “megachurches” are huge steel and glass structures, with acres of parking and slickly produced services complete with live bands and professional dancers to draw huge audiences. Some even offer aerobics classes, bowling alleys, and multimedia Bible classes inspired by MTV to attract “customers” turned off by traditional approaches to religion. Of course, not all religious leaders endorse the use of such marketing techniques. One official at a divinity school rejected the marketing concept by stating, “Church is not supposed to be a place where everybody’s needs are met. It’s supposed to be a place where we’re transformed by God’s grace into something we’re not.”

What do you think?
What Is a Service?

So far we’ve seen that marketing can help sell all kinds of intangibles, from theater performances to ideas about birth control. Now that (hopefully) you are convinced that marketing is equally as important for a dance company as it is for a company that sells ballet slippers, it’s time to look more specifically at an important type of intangible.

**Services** are acts, efforts, or performances exchanged from producer to user without ownership rights. Like other intangibles, a service satisfies needs by providing pleasure, information, or convenience. Services generate 74 percent of the U.S. gross domestic product and account for 79 percent of all jobs. According to the Bureau of Labor Statistics, service occupations will be responsible for all job growth through the year 2005. If you pursue a marketing career, it’s likely that you will work in some aspect of services marketing. Got your interest?

Of course, the service industry includes services provided for consumers such as dry cleaning and a great rock concert. But it also includes a vast number of services provided for organizations. Some of the more commonly used business services include vehicle leasing, insurance, security, legal advice, food services, consulting, cleaning, and maintenance. In addition, businesses also purchase some of the same services as consumers such as electricity, telephone service, and gas.

The market for business services has grown rapidly because it is often more cost-effective for organizations to hire outside firms that specialize in these services than to try to hire a workforce and handle the service themselves. In other instances, firms buy business services because they do not have the expertise necessary to provide the service.

**CHARACTERISTICS OF SERVICES**

Services come in many forms, from those done to you, such as a massage or a teeth cleaning, to those done to something you own, such as having your CD player repaired or getting a new paint job on your classic 1965 Mustang. Regardless of whether they affect our bodies or our possessions, all services share four characteristics: intangibility, perishability, inseparability, and variability. Figure 11.2 shows how marketers can meet the potential problems related to these characteristics.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Marketing Response</th>
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<tbody>
<tr>
<td>Intangibility</td>
<td>Provide tangibility through</td>
</tr>
<tr>
<td></td>
<td>Physical appearance of the facility</td>
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<tr>
<td></td>
<td>Furnishings</td>
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<td></td>
<td>Employee uniforms</td>
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<tr>
<td></td>
<td>Logo</td>
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<tr>
<td></td>
<td>Web sites</td>
</tr>
<tr>
<td></td>
<td>Packaging</td>
</tr>
<tr>
<td></td>
<td>Advertising</td>
</tr>
<tr>
<td>Perishability</td>
<td>Adjust pricing to influence demand</td>
</tr>
<tr>
<td></td>
<td>Capacity management: adjusting services to match demand</td>
</tr>
<tr>
<td>Variability</td>
<td>Gap analysis for identifying gaps in quality</td>
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<tr>
<td></td>
<td>Employee empowerment</td>
</tr>
<tr>
<td></td>
<td>Improving service delivery processes</td>
</tr>
<tr>
<td></td>
<td>Service guarantees</td>
</tr>
<tr>
<td>Inseparability</td>
<td>Employee training</td>
</tr>
<tr>
<td></td>
<td>Disintermediation</td>
</tr>
</tbody>
</table>

**FIGURE 11.2**

Marketing Strategies for Different Service Characteristics

By understanding the characteristics of services, marketers are better able to develop strategies to lead to success.
Intangibility  Service intangibility means that customers can’t see, touch, or smell good service. Unlike the purchase of a good, services cannot be inspected or handled before the purchase is made. This makes many services much more difficult for consumers to evaluate. Although it may be easy to evaluate your new hair cut, it is far less easy to determine if the dental hygienist has done a great job cleaning your teeth. And how is a manufacturer to know that its security service is doing a good job?

Because they’re buying something that isn’t there, customers look for reassuring signs before purchasing, and marketers must ensure that these signs are available when consumers look for them. That’s why the service provider’s appearance and the “look” of the facility, its furnishing, logo, employee uniforms, and even the packaging you carry your dry cleaning home in can make or break a service business. As we’ll see shortly, when we talk about how customers decide if a service is giving them what they want, marketers overcome the problem of intangibility by providing physical cues to reassure the buyer. These cues include uniforms, brand logos, and carefully designed Web sites.

Perishability  Service perishability means that a firm can’t store its services—it’s a case of use it or lose it. When rooms go unoccupied at a ski resort, there is no way to make up for the lost opportunity to rent them for the weekend. Marketers try to avoid these problems by using the marketing mix to encourage demand for the service during times when it would otherwise be low. One option a service provider has to address the perishability problem is to reduce prices to increase demand. Airlines do this by offering more lower-priced seats in the final weeks before a flight. TV stations offer advertisers low-priced airtime at the last minute. We’ll talk more about these pricing tactics in Chapter 13.

Capacity management is the process by which organizations adjust their offerings in an attempt to match demand. This, of course, means accurate forecasting of the need for services, something that is not always easy to accomplish. In the summer, for example, the Winter Park Ski Resort in Colorado combats its perishability problem by opening its lifts to mountain bikers
who tear down the sunny slopes. Some service providers find pricing strategies an effective tool for demand management. Airlines, for example, offer specially priced tickets on days of the week when business travel is low and many hotels offer special weekend packages to increase weekend occupancy rates.

**Variability** Service variability refers to the inevitable differences in a service provider’s performances from one day to the next, just as an NFL quarterback may be “hot” one Sunday and ice cold the next. Even the same service performed by the same individual for the same customer can vary. It’s rare when you get exactly the same cut from a hair stylist.

It is difficult to standardize services because service providers and customers vary. Your experience in college classes is an example. A college can standardize its offerings to some degree—course catalogs, course content, and classrooms are fairly controllable. Professors, however, vary in their training, life experiences, and personalities, so there is little hope of being able to make teaching uniform (not that this would necessarily be desirable anyway). And because students with different backgrounds and interests vary in their needs, the lecture that one finds fascinating might put another to sleep (trust us on this). The same is true for organizational services customers. Differences in the quality of security guards or cleaning personnel mean variability in these services.

For many services purchased by both consumers and organizational customers, standardization is not even desirable. Most of us want a hairstyle that fits our face and personality and a personal trainer who will address our personal physical training needs. And businesses such as McDonald’s, Wendy’s, and Burger King want unique advertising campaigns. Because of the nature of the tasks performed in services, customers often appreciate the firm that customizes its service for each individual (as Burger King used to promise, “Have it your way . . .”). Of course, all customers want the same level of quality. Thus, service firms need to make sure that customized services have consistency in quality.

One solution to the problem of variability is to institute total quality management programs for continuous improvement of service quality. And offering a guarantee assures consumers that if service quality fails, they will be compensated. We’ll talk later in the chapter about how service marketers can provide greater quality and consistency in service delivery through gap analysis and employee empowerment.
Creating the Value Offer

Many financial services are now available online to provide greater convenience for consumers. The site www.getsmart.com helps consumers manage their bills online, consolidate debt, and find a good deal on a credit card.

Inseparability Although a firm can manufacture goods prior to sale, a service can only take place at the time the service provider performs an act on either the customer or the customer’s possession. It’s hard to take notes on a lecture when the professor doesn’t show! In some cases, of course, the service can be sold prior to delivery, such as a ticket to a Lilith Fair concert months before attending the event.

Still, the expertise, skill, and personality of a provider, or the quality of a firm’s employees, facilities, and equipment cannot be detached from the offering itself. The central role played by employees in making or breaking a service underscores the importance of the service encounter, or the interaction between the customer and the service provider. The most expertly cooked meal is just plain mush if a surly or incompetent waiter brings it to the table. We’ll talk more about the service encounter later in this chapter.

To minimize the potentially negative effects of bad service encounters and to save on labor costs, some service businesses are experimenting with disintermediation, which eliminates the need for customers to interact with people. Examples include self-service gas tanks and bank ATM machines. Even salad and dessert bars reduce reliance on a waiter or waitress. Although some consumers resist dealing with machines, pumping their own gas, or fixing their own salad, most prefer the speed and efficiency provided by disintermediation. The remaining consumers who want the personal attention or a Caesar salad prepared table-side by a salad chef or a fill-up that includes an oil check and a clean windshield provide marketing opportunities for full-service restaurants and a few gas stations that provide these higher levels of service at a higher price.

The Internet has provided some opportunities for disintermediation, especially in the financial services area. Banking customers can access their accounts, transfer funds from one account to another, and pay their bills with the click of a mouse. Many busy consumers can check out mortgage interest rates and even apply for a loan at their convenience—a lot better option than taking an afternoon off from work to sit in a mortgage company office. Online brokerage services are increasingly popular as many consumers seek to handle their investments themselves and cut out much of the high cost associated with traditional brokerage firms.

service encounter ■ The actual interaction between the customer and the service provider.

disintermediation (of service delivery) ■ Eliminating the interaction between customers and salespeople so as to minimize negative service encounters.
CLASSIFICATION OF SERVICES

By understanding the characteristics of different types or classifications of services, marketers are better able to develop marketing strategies that will provide customer satisfaction and success for the service provider firm. As shown in Figure 11.3, services may be classified as to their inputs and whether the service consists of tangible or intangible actions. Inputs may be the customers themselves or their possessions. Customers themselves receive tangible services to their bodies—a haircut or a heart transplant. The education you are receiving in this course is an intangible service directed at the consumer. The customer’s possessions are the recipient of such tangible services as repair of a favorite carpet. Intangible services directed at a consumer’s possessions include insurance and a house security service.

THE GOODS/SERVICES CONTINUUM

In reality, most products are a combination of goods and services. The purchase of a “pure good” like a Porsche still has service components, such as bringing it to the dealer for maintenance work. The purchase of a “pure service” like a makeover at a department store has product components, for example, lotions, powders, and lipsticks the cosmetologist uses to create the “new you.”

The service continuum in Figure 11.4 shows that some products are dominated by either tangible or intangible characteristics, for instance, salt versus teaching, whereas others tend to include a mixture of goods and services, such as flying in an airplane. A product’s placement on this continuum gives some guidance as to which marketing issues are likely to be most relevant. As the product approaches the tangible pole of this continuum, there is fairly little emphasis on service. The physical product itself is the focal point and people will choose one over others based on the product’s function or image. But, as the product gets near the intangible pole, the service encounter plays a key role in shaping the service experience. In the middle of the continuum, both goods and services contribute substantially to the quality of the product because these products rely on people to satisfactorily operate equipment that will deliver quality service. Let’s consider each of these three positions as we move from products dominated by tangibles to those dominated by intangibles.

**Good-Dominated Products**  
Many tangible products are accompanied by supporting services, even if this only means that the company maintains a toll-free telephone line for questions or provides a 30-day warranty against defects. Including a service with the purchase of a physical good is termed **embodying**. Embodying is a strategy in the computer industry, especially for companies that are trying to break into international markets saturated with cheap products but with insufficient guidance in their use. As millions of people buy their first computers, they are apt to find it difficult to navigate the maze of setup instructions and next to impossible to cope with machines that crash. Indeed, a survey by PC Magazine found that 28 percent of its readers needed technical support in the first year of owning a personal computer. What’s more, in grading manufacturers’ service performance, they gave two-thirds of them C’s and D’s. Companies with the resources to do so find that embodying follow-up service is a potent marketing tool when competing with “clone” manufacturers. As an executive at Compaq observed, “The bad guys give us an opportunity to differentiate.”

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**FIGURE 11.3**  
Classification of Services by Inputs and Tangibility

Services can be classified according to whether the customer or his possessions are the recipient of the service and as to whether the service itself consists of tangible or intangible elements.

<table>
<thead>
<tr>
<th>Tangible Services</th>
<th>Intangible Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer</strong></td>
<td></td>
</tr>
<tr>
<td>Hair cut</td>
<td>College education</td>
</tr>
<tr>
<td>Plastic surgery</td>
<td>A religious service</td>
</tr>
<tr>
<td>Manicure</td>
<td>A TV program</td>
</tr>
<tr>
<td>Personal trainer</td>
<td>A flower arranging course</td>
</tr>
<tr>
<td></td>
<td>Marriage counseling</td>
</tr>
<tr>
<td><strong>Possessions</strong></td>
<td></td>
</tr>
<tr>
<td>Dry cleaning</td>
<td>Banking</td>
</tr>
<tr>
<td>Auto repair</td>
<td>Accounting services</td>
</tr>
<tr>
<td>Housecleaning</td>
<td>Insurance</td>
</tr>
<tr>
<td>Package delivery</td>
<td>Home security service</td>
</tr>
</tbody>
</table>
PART III
CREATING THE VALUE OFFER

FIGURE 11.4
The Service Continuum

Products vary in their level of tangibility. Salt is a tangible product, teaching is an intangible product, and the products offered by fast-food restaurants include both tangible and intangible elements.


**Equipment- or Facility-Based Services** As seen in Figure 11.4, some products require a mixture of tangible and intangible elements. Many hospitals and restaurants fall in the middle of the continuum because they rely on expensive equipment or facilities and skilled personnel to deliver a product. Facility-driven services, such as automatic car washes, amusement parks, museums, movie theaters, health clubs, tanning salons, and zoos, must be concerned with the three factors.22

- **Operational factors:** Technologies must move customers smoothly through the service. Clear signs and other guidelines must show customers how to use the service. In particular, firms need to minimize waiting times. Marketers have developed a number of tricks to give impatient customers the illusion that they aren’t waiting too long. One hotel chain, responding to complaints about the long wait for elevators, installed mirrors in the lobby: People tend to check themselves out until the elevators arrive, and lo and behold protests decreased.23 Burger King’s research showed that multiple lines create stress in customers—especially if one moves faster than the
CHAPTER 11
MARKETING WHAT ISN’T THERE

For frequently purchased items, location is very important. Blockbuster says 70 percent of the U.S. population lives near a Blockbuster outlet.©

others—so it shifted to single lines in which customers at the head of the line order at the next available register.

- **Locational factors**: These are especially important for frequently purchased services, such as dry cleaning or retail banking, that are obtained at a fixed location. Blockbuster Entertainment estimates that 70 percent of the U.S. population lives within a 10-minute drive of a Blockbuster store.

- **Environmental factors**: Service managers who operate a storefront service requiring people to come to their location realize they must create an attractive environment to lure customers. That’s why NFL stadiums are upgrading their facilities by offering plush “sky boxes” to well-heeled patrons and a better assortment of food and merchandise to the rest of us. One trend is for such services to adopt a more retail-like philosophy, borrowing techniques from clothing stores or restaurants to create a pleasant environment. Banks, for example, are creating signature looks for their branches through the use of lighting, color, and art.

**People-Based Services** At the intangible end of the continuum are people-based services. Take the Great American Backrub store in Manhattan, for instance. To experience this service (no appointment necessary), customers sit in a specially designed chair and for $7.95 get a massage that lasts exactly 8 minutes. The owner of the store explained, “To get Americans to buy massages, I realized you had to solve three problems. You had to come up with something that was quick, inexpensive and most important, and you had to find a way to do it without asking people to take their clothes off.” In effect, the Great American Backrub has created a competitive advantage by providing a benefit consumers want.

Because people have less and less time to perform various tasks, the importance of people-based services is increasing. Self-improvement services such as those offered by wardrobe consultants and personal trainers are becoming increasingly popular, and in some cities even professional dog walkers do a brisk business. Many of us hire someone to do our legal work, repair our cars and appliances, and do our tax returns.

**CORE AND AUGMENTED SERVICES**

Another issue in defining a service is understanding that when we buy a service, we may in fact be buying a set of services. The **core service** is a benefit that a customer gets from the service. For example, H&R Block stresses the benefit of the peace of mind you’ll get by letting the

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**Bookmark It!**

Assume you are the marketing manager for a health club. Make a list of the ways you would design operational factors, locational factors, and environmental factors to improve the service received by the customer.
augmented services ■ The core service plus additional services provided to enhance value.

Safe transportation is an airline’s core benefit. But to remain competitive, airlines offer a host of other benefits as augmented products. In most cases, though, the core service alone just isn’t enough. To attract customers, a service firm often tries to offer augmented services, which are additional service offerings that differentiate the firm from the competition.

For example, think about the core service bought with an airline ticket: transportation. Yet airlines rarely stress the basic benefit of arriving safely at your destination (other than making you wait in long lines to get through antiterrorist security checks). Instead, they emphasize augmented services such as frequent flyer miles, speedy checkin, laptop connections and inflight movies. In addition, augmented services may be necessary to deliver the core service. In the case of air travel, airports have added attractions to encourage travelers to fly to one site rather than another. Here are some augmented services now available at airports around the world:

- London Gatwick: Internet café, Planet Hollywood restaurant, personal shopper services
- Amsterdam Schiphol: casino, airport television station, sauna, dry cleaner, grocery store
- Frankfurt International: supermarket, disco, sex shop
- Singapore Changi: fitness center, karaoke lounge, putting green

If differentiation is so important, how can a service stand out? One obvious way to compete by offering superior augmented services is to develop conveniences or innovations competitors lack. The highly competitive market for air passengers has caused competitive airlines to experiment with various innovations in an attempt to make their services stand out. For a while Northwest Airlines provided a buffet meal service in which passengers could choose their own meals instead of distributing the same “gourmet fare” to everyone.
SERVICES ON THE INTERNET

From video rentals to fine restaurant cuisine, anything that can be delivered can be sold on the Web. In some cities, Web site companies will arrange to have your dry cleaning picked up, your family photos developed, or your shoes repaired.28

Here are some of the most popular Web services:

- Cyberbanking customers can check their account and credit card statements, pay bills, transfer money, and balance their accounts 24 hours a day whether they’re at home or traveling around the globe. Some banks offer Internet customers higher rates on deposits, lower rates on loans, free electronic bill payment, products from mortgage companies, and insurance carriers and brokerage services.29
- Online-only travel and tourism companies, such as travelocity.com and expedia.com, provide information and purchase tickets for consumers and corporate customers. With priceline.com, consumers bid the price they want to pay for airline tickets, hotel rooms, and other travel products. Many believe travel agencies as we know them eventually will disappear.
- Online real estate brokers, such as datatrac.net, offer consumers assistance in buying and selling a house, maps, mortgage rate comparisons, and even automates the closing of real estate transactions.
- Stock trading: Online discount brokerage houses such as etrade.com offer lower fees for consumers. Other sites give consumers information on stocks and allow them to keep track of their personal portfolios online.
- Career-related sites: Employment agencies and recruiting firms such as hotjobs.com (remember Chapter 1) provide important job services and a less expensive way for applicants and employers to advertise their availability.
- Distance learning: Many think it’s an important part of our future. Columbia, Stanford, Chicago, Carnegie Mellon, and the London School of Economics have teamed up to create Unext.com, a new Internet university.30
- Medical care online: An increasing number of physicians are available to patients through e-mail. Nearly 40 percent of all physicians now have some kind of Web presence and 25 percent of them use e-mail to communicate with patients.31

To remain competitive, marketers of such services must adjust their strategies in a number of important ways. If current or prospective customers want services available on the Internet, they must develop an Internet presence; effective Internet sites not only allow customers to access the services online but also provide information for those customers who still want a personal contact. Because customers seek access to Internet-based services for convenience, firms must make sure Internet sites are fast, simple, and easy to navigate to meet customer’s needs and they must be continuously updated to provide customer satisfaction. In addition, service providers such as banks must continue to offer their traditional services for those consumers who are not interested in cyber services. And information about the firm’s cyber service offerings must be included in all marketing communications.

THE SERVICE ENCOUNTER

The moment of truth for services is when the customer comes into contact with the organization through its employees or the results of its employees’ activities. It is this contact that causes that consumer to have a positive or negative impression of the service. Our interactions with service providers can range from the most superficial, such as buying a movie ticket, to telling a psychiatrist (or bartender) our most intimate secrets. In each case, though, the quality of the service encounter can play a big role in determining how we feel about the service we receive.

Service Encounter Dimensions The service encounter has several dimensions.32 First, there is the social contact dimension—one person interacting with another person. As such there are certain social expectations. Customers expect employees to be courteous and some even expect employees to engage in friendly small talk. For example, although many banking
customers like the speed of ATM transactions, others like to deal directly with a teller who knows them by name and inquires about their health, their children, and so on. The service encounter also has an economic dimension, as there is an exchange of economic value. And there is the production dimension. Something is produced whether it is a haircut, a good meal, or a successful advertising campaign.

**Elements of the Service Encounter: Employees and Customers** Although a service encounter may include a variety of equipment, supplies, and the impact of physical surroundings, the two most important elements of the service encounter are the employee and the customer. Because services are intimately tied to company employees who deliver the service, the quality of a service is only as good as its poorest employee. The employee represents the organization. The actions, words, physical appearance, courtesy, professionalism—or a lack of it—are seen by the customer as those of the organization. Customers entrust themselves and/or their possessions into the care of the employee so it is important that employees look at the encounter from the customer’s perspective.

The customer is also an important element of the service encounter—the most important element. And the customer often has an important role in ensuring that a quality service will be the result of the encounter.

The customer must supply the service provider with correct information, follow directions, and provide the needed input. When you visit a doctor, the quality of the health care you receive depends not only on the physician but also on your ability to accurately and clearly communicate the problems you are experiencing. When you need a haircut, you must be able to explain to the stylist exactly how you’d like your hair to look or suffer the consequences. The business customer must provide accurate information to the accounting firm. And even the best personal trainer is not going to make the desired improvements in a client’s body condition if the client refuses to stay on the exercise and diet regimen prescribed for her.

**Providing Quality Service**

If a service experience isn’t positive, it could turn into a disservice with nasty consequences. That’s why the Saturn Corporation is serious about its goal “to be the friendliest, best-liked car company in the United States.” When it recalled some Saturns for faulty wiring, the automaker converted this potential negative into a publicity bonanza by extending its dealerships’ hours, providing door-to-door pickups, and giving away free car washes, coffee, doughnuts, and soft
drinks to customers while repairing their cars. In this way, Saturn turned an aggravating experience into a pleasurable one. The company’s strategy of creating loyal customers by providing a better experience than expected has paid off in surveys showing high customer satisfaction among Saturn owners.33

JUDGING SERVICE QUALITY

Saturn’s strategy illustrates the power of expectations. Many of us have come to expect nothing but aggravation when dealing with a car company, so a pleasant experience comes as a nice surprise that can leave a lasting impression. As we saw in Chapter 3’s profile of Subaru, satisfaction or dissatisfaction is more than a reaction to the actual performance quality of a product or service. It is influenced by prior expectations regarding the level of quality.34 When an offering is as we expected it, we may not think much about it. If, though, it fails to live up to expectations, we will not be happy. And on those rare occasions when it is better than we expect, we turn into loyal customers. We expect a waiter at a fine restaurant to be attentive to our every culinary need, but when we get the same (unexpected) treatment at a local greasy spoon we’re customers for life.

Quality Is About Exceeding Expectations Quality service ensures that customers are satisfied with what they have paid for. However, as we’ve seen, satisfaction is relative because the service recipient compares the current experience to some prior set of expectations. That’s what makes delivering quality service tricky. What may seem like excellent service to one customer may be mediocre to another person “spoiled” by earlier encounters with an exceptional service provider. So, marketers must identify customer expectations and then work hard to exceed them.

Meeting or exceeding expectations is not always so easy. These expectations can be influenced by stories people hear from friends and acquaintances, and they are not always realistic in the first place.35 In some cases, there is little marketers can do to soothe ruffled feathers. Exaggerated customer expectations, such as providing a level of personal service impossible for a large company to accomplish, account for about 75 percent of the complaints reported by service businesses. However, providing customers with logical explanations for service failures and compensating them in some way can reduce dissatisfaction substantially.36

Ironically, the employees who have the biggest impact on service perceptions are among the lowest-ranking individuals in the company. This makes it extra important for management to engage in internal marketing in which efforts are made to sell the firm’s own employees on the idea that they work for a superior company of which they can be proud. If the service provider doesn’t believe in the job and the company, this attitude will quickly be apparent to the customer.

The Ritz-Carlton hotel chain is legendary for anticipating guests’ desires and one reason is the company’s extensive internal marketing efforts. New employees receive an intensive two-day orientation, 100 additional hours of training, plus a daily appearance inspection. In 1992 the chain became the first hotel to win the Malcolm Baldrige National Quality Award we discussed in Chapter 3. To ensure that attentiveness to guests’ needs remains at a peak, the company regularly surveys customers and even hires outside auditors to pose as guests.37

Evaluative Dimensions of Service Quality Because services are inseparable in that they are not produced until the time they are consumed, it is difficult to make a prepurchase evaluation of quality. Most service businesses cannot offer a free trial. Because services are variable, it is hard to predict consistency of quality and there is little or no opportunity for comparison shopping. The selection process for services is somewhat different than with goods, especially for services that are highly intangible, such as those on the right end of the continuum in Figure 11.1.38 Service marketers have to come up with creative ways to illustrate the benefits their service will provide.

Search qualities are the characteristics of a product that the consumer can examine prior to purchase. These include color, style, price, fit, smell, and texture. Tangible goods, of course, are more likely to have these characteristics, so services need to build them in by paying attention to such details as the style of flight attendants’ uniforms or the decor of

internal marketing
Marketing activities aimed at employees in an effort to inform them about the firm’s offerings and their high quality.
Service marketers such as this Italian undertaker have come up with creative ways to illustrate the benefits their service will provide.

**Service Experience Blueprint**

Firms often build in cues their customers can easily see because service quality is often difficult to determine. Grocery stores such as this one often use a variety of cues to convince consumers of superior quality.

**Experience qualities**

Product characteristics that customers can determine during or after consumption.

**Credence qualities**

Product characteristics that are difficult to evaluate even after they have been experienced.

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The “Service Experience Blueprint™” shown in Figure 11.5 illustrates how one design firm tried to build in such cues for a grocery chain. The company planned an upgraded, freshly painted parking lot that included a special preferred parking space for expectant mothers (complete with a stork logo) to signal that the company cares. Attention to detail makes a difference.

**Experience qualities** are product characteristics that customers can determine during or after consumption. For example, we can’t really predict how good a vacation we’ll have until we have it, so marketers need to reassure customers before the fact that they are in for a positive experience. A travel agency may invest in a slick presentation complete with alluring images of a tropical resort and perhaps even supply enthusiastic recommendations from other clients who had a positive experience.

**Credence qualities** are attributes we find difficult to evaluate even after we’ve experienced them. For example, most of us don’t have the expertise to know if our doctor’s diagnosis is correct. Evaluations here are difficult, and to a great extent the client must trust the
service provider. That is why tangible clues of professionalism, such as diplomas or an organized office, count toward purchase satisfaction.

MEASURING SERVICE QUALITY

Because the customer’s experience of a service is crucial to determining future patronage, service marketers feel that measuring positive and negative service experiences is the “Holy Grail” for the services industry. Indeed, one-third of the business of marketing research firms is now devoted to measuring customer satisfaction after the sale.41

Marketers can gather consumer responses in a variety of ways (see Chapter 5). For example, some companies hire “mystery shoppers” to check on hotels and airlines and report back. These shoppers usually work for a research firm, although some airlines reportedly recruit “spies” from the ranks of their most frequent flyers. Some firms also locate “lost customers” (former patrons) so they can find out what turned them off and correct the problem.

Gap Analysis  Gap analysis is a measurement tool that gauges the difference between a customer’s expectation of service quality and what actually occurred. By identifying specific places in the service system where there is a wide gap between what is expected and what is received, services marketers can get a handle on what needs improvement. Some major gaps include:42

- **Gap between consumer expectations and management perceptions.**
  A major quality gap can occur when the firm’s managers don’t understand what its customers’ expectations are. Many service organizations have an operations orientation rather than a customer orientation. For example, a bank may close its branches at midday to balance transactions because that’s more efficient, even though it’s not convenient for customers who want to go to the bank on their lunch hour.

- **Gap between management perception and quality standards set by the firm.**
  Quality suffers when a firm fails to establish a quality control program. Successful service firms, such as American Express and McDonald’s, develop written quality goals. American Express found that customers complained most about its responsiveness, accuracy, and timeliness. The company established 180 specific goals to correct these problems, and it now monitors how fast employees answer phones in an effort to be more responsive.

- **Gap between established quality standards and service delivery.**
  One of the biggest threats to service quality is poor employee performance. When employees do not deliver the service at the level specified by the company, quality suffers. Teamwork is crucial to service success. Unfortunately, many companies don’t clearly specify what they expect of employees. Merrill Lynch addressed this problem by assembling its operations personnel into quality groups of 8 to 15 employees each to foster teamwork among workers and clarify its expectations for how the workers should interact with clients.

- **Gap between service quality standards and consumer expectations.**
  Sometimes a firm makes exaggerated promises or does not accurately describe its service to customers. When the Holiday Inn hotel chain developed an advertising campaign based on the promise that guests would receive “No Surprises,” many operations personnel opposed the idea, saying that no service organization, no matter how good, can anticipate every single thing that can go wrong. Sure enough, the campaign was unsuccessful. A services firm is better off communicating exactly what the customer can expect and what will happen if the company doesn’t deliver on its promises.

- **Gap between expected service and perceived service.**
  Sometimes consumers misperceive the quality of the service. Thus, even when communications accurately describe what service quality is provided and can be expected, consumers are less than satisfied. Some diners at fine restaurants are so demanding that even their own mothers couldn’t anticipate their every desire!
The Critical Incident Technique The critical incident technique is another way to measure service quality. The company collects and closely analyzes very specific customer complaints. It can then identify critical incidents—specific contacts between consumers and service providers that are most likely to result in dissatisfaction.

Some critical incidents happen when the expectations of customers cannot be met by the service organization. For example, it is impossible to satisfy a passenger who says to a flight attendant: “Come sit with me. I don’t like to fly alone.”

In other cases, though, the firm is capable of meeting these expectations but fails to do so. For example, the customer might complain to a flight attendant, “My seat won’t recline.” A potentially dissatisfied customer can be turned into a happy one if the problem is addressed, or perhaps even if the customer is told why the problem can’t be solved at this time. Customers tend to be fairly forgiving if they are given a reasonable explanation for the problem.

### Strategies for Developing and Managing Services

We’ve seen that quality is the goal of every successful service organization. What can the firm do to maximize the likelihood that a customer will choose its service and become a loyal customer?

With services differing from goods in so many ways, decision makers struggle to market something that isn’t there. However, many of the same strategic issues apply. For example, Table 11.1 illustrates how three different types of health care practitioners can devise

<table>
<thead>
<tr>
<th>Health Care Marketing Strategies</th>
<th>Psychologist</th>
<th>Orthodontist</th>
<th>Chiropractor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marketing Objective</strong></td>
<td>Add 10 billable hours per week</td>
<td>Attract five new adult patients; increase awareness of practice in community to generate referrals</td>
<td>Increase new patients by 50% within one year</td>
</tr>
<tr>
<td><strong>Target Markets</strong></td>
<td>Inactive clients</td>
<td>Primary market: Women 25–55, middle income and above; Secondary market: Male executives over 40</td>
<td>25- to 50-year-olds, 65% blue collar, 60% female within a four-mile radius of my office</td>
</tr>
<tr>
<td><strong>Benefits Offered</strong></td>
<td>Feel happy; Solve problems</td>
<td>Beauty; Professional self-confidence</td>
<td>Relief of back, neck, shoulder, head pain; convenience</td>
</tr>
<tr>
<td><strong>Strategy</strong></td>
<td>Write a letter to former patients; remind them that if they have learned the basics of turning their lives around, they may just need some short-term assistance now</td>
<td>Talk to 200 people in two days at a local health fair; position myself as the community specialist in cosmetic dentistry</td>
<td>Change location to a new shopping center—locate between a supermarket and a fitness center that attracts a large female clientele. Give seminars at the health club and place articles in its newsletter</td>
</tr>
</tbody>
</table>

marketing strategies to improve their practices. In this section, we’ll review ways that a service business can determine its best prospects and design a service experience that will be distinctive.

### SERVICE FAILURE AND RECOVERY

Of course, sometimes service quality does fail. Some failures, such as when your dry cleaner places strategic red spots on your new white sweater, are easy to see at the time the service is performed. Others, such as when the dry cleaner shrinks your sweater, are less obvious and are only recognized at a later time when you’re running late and get a “surprise.”

But no matter when or how the failure is discovered, the important thing is that the firm takes fast action to resolve the problem. Quick action means that the problem won’t occur again (hopefully) and that the customer’s complaint will be satisfactorily resolved. The key is speed; research shows that customers whose complaints are resolved quickly are far more likely to buy from the same company again than when complaints take longer to be resolved.45

To make sure service failures are at a minimum and that recovery is fast, managers should first understand the service and the potential places where failures are most likely to occur and then make plans ahead of time to recover.46 In addition, employees should be trained to listen for complaints and be empowered to take appropriate actions immediately.

### SERVICES AS THEATER

One way to think about developing a services strategy that lets the firm stand out from the competition is to think about a service as a show put on for an audience. Whether it’s a visit to a doctor’s office or a meal at a fine restaurant, each service contact can be thought of as a dramatic performance—complete with actors, props, and costumes. A service performance often takes place in two areas, the back stage and the front stage. The back stage is behind the scene where the service is produced and the front stage is where it gets delivered to the customer.

Think of the activities that occur in a fancy restaurant. On the front stage, waiters, wine stewards, and the maitre’d “perform” for diners by reciting daily specials, opening bottles with a flourish, or even bringing flaming delicacies to the table without burning down the place. The fine restaurant will take great care to elegantly set its tables and play appropriate music softly in the background. Back stage in the kitchen is another story. The elegant waiter with the French accent may slip in to grab a smoke and make jokes about the diners (maybe even revert back to his “real” accent!).

In addition, like the scenes in a play, a service usually happens in steps, so service marketers can anticipate the points at which problems may arise. A look at the flowchart of a hotel service in Figure 11.6 shows the many different operations on stage and behind the scenes.

### TARGETING AND POSITIONING STRATEGIES FOR SERVICES

Like any other product, perhaps the most crucial strategic decisions for a service revolve around its definition in the market: Who are the target customers, and how do they perceive the service? As we saw in Chapter 8, the target marketing process is an essential part of many marketing strategies. Let’s see how these concepts apply to service businesses.

**Targeting: Defining the Service Customer or Audience** Most service companies can identify a target customer that they can serve well, and in some cases a company may develop a separate strategy for multiple segments. To understand how this process works, consider how a local theater troupe might go about identifying desirable market segments and targeting them. Depending on the strategic goal of the troupe, here are some targeting actions it might take:47
FIGURE 11.6
Flowcharting a Hotel Visit

By developing a flowchart of the services it provides, a firm can identify both the back stage and front stage activities that go into the production of the service encounter. Understanding these different operations allows firms to improve service quality.

Source: Christopher H. Lovelock, Services Marketing, 2nd ed. (Upper Saddle River, NJ: Prentice Hall, 1991): 22, Fig. 2.4.
• **Audience maintenance:** Encourage current customers to deepen their commitment by developing newsletters for subscribers or sending letters thanking them for their patronage.

• **Audience enrichment:** Enhance the experience of attendees to ensure their ongoing loyalty by improving augmented services, such as parking, lighting, or temperature control in the theater.

• **Audience expansion:** The troupe can conduct research to generate a profile of the people who now attend and target others with similar characteristics. The manager might attach a postage-paid survey to the back of a play program and ask audience members to complete and return it so she can build a profile.

• **Audience development:** Convince nonattenders that the productions are something they would enjoy. The troupe could expose people to productions through school programs, corporate events, and group sales. The Canadian Opera Company went a step farther by running racy ads to entice people to try the opera. An ad for a production of Strauss’s *Elektra* suggested that the troubled characters from the Greek tragedy would feel at home on the *Jerry Springer Show*.46

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**Real People, Other Voices:**Advice for American Express

**Kristin Firkins, Student, Western Kentucky University**

I would choose option 1 because the customer's perception of service quality is related to expectations; streamlining the existing rewards or partners could result in a service gap. AMEX consumers are used to receiving particular rewards; not providing options could result in disappointed or lost customers. The market research reveals some consumers desire to have the dining and entertainment option added. Indeed, one can only have so many stereos or pieces of luggage but can never have enough memories. Instead of running full force with the addition, Julie might do some market testing. She could continue to run the existing rewards, add the new category in small increments, then analyze this demand before investing significant time and money.

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**Kathy Winsted, Marketing Professor, Pace University**

Julie's best choice is option 1. The membership rewards program is an important customer relationship management tool for American Express. The last thing American Express should do is to “disenfranchise” some customers by taking away their favorite rewards. By offering more rewards, rather than less, American Express can exceed cardholders’ expectations. A customization program could offer the biggest spenders the opportunity to contact a customer service rep and request something not in the catalog. To deal with the limited marketing “real estate” issue, specialized catalogs could be tailored to customer preferences and distributed to select groups based on type of rewards preferred. Additionally, cardholders could be directed to the Internet to look at any rewards that can’t be put in the printed catalogs.

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**SUBHA RAMESH, VICE PRESIDENT OF REAL ESTATE, IBI THE LIMITED**

I would choose option 1 because 1) the other two options modify current award choices (travel or products), while option 1 is a substantive change, which may catch the attention of the card user; 2) consumer research suggests card members would like dining and entertainment awards, although this finding needs more research; and 3) dining and entertainment, presumably, require less points than travel to claim awards—thus, more frequent cashing of points, resulting in increased loyalty. Regardless of the option, I recommend streamlining awards and doing more research on what awards consumers value.

Weigh in with your thoughts! Visit the Live Laboratory at www.prenhall.com/solomon for extended Other Voices replies, exercises, and more.
Positioning: Defining the Service to Customers  As we saw in Chapter 8, positioning is a process of creating a specific image for a product that differentiates it from competitors.

Researchers have identified five dimensions that successfully position a service, whether it’s a theater troupe, a baseball team, or a credit card company like American Express.49

- **Tangibles:** As we touched on earlier, services often rely heavily on physical evidence, such as apparel, facilities, graphics, and other visible signals of product quality to communicate a desired position. Such cues as the facility (modern decor versus traditional), distinctive colors (the dependable dark brown of UPS versus the bright purple and orange of Federal Express), and logos (the lion of the Dreyfus Corporation versus the bull of Merrill Lynch) all communicate the underlying characteristics of the service organization. One of the most powerful ways to create physical evidence for a service is to adopt a branding strategy, much as a marketer...

**Real People, Real Choices:**

Julie chose a combination of all three options. She eliminated those partners that had little or no interest to card members as well as many of the rewards that overlapped and didn’t add incremental value to the program. And she targeted certain marketing efforts and rewards to different segments of the enrollee population based on their profiles. American Express is able to track card member spending behavior—where they shop and how much they spend at specific merchants. The company then is able to target certain rewards to certain customer segments based on demographics, geography, card type, and so on.

Since Julie made these changes, American Express has seen an increase in retail redemptions. Ironically, the events of September 11, 2001, significantly affected these decisions because more people are redeeming their points for retail rewards than for travel rewards. Over time, though, Julie thinks that travel will regain its popularity and that she must stay alert to changing preferences to keep cardholders from defecting to other credit card loyalty programs. Staying alert is just one of the challenges of marketing what isn’t there.

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**physical evidence**  ■ A visible signal that communicates not only a product’s quality but also the product’s desired market position to the consumer.
of a tangible product would do. Services marketers such as American Express, the tax preparation firm H&R Block, and the Century 21 realty company have essentially branded their services to create a unique identity. Consumers feel as if they “know” the service.

- **Reliability**: Firms that perform their designated service accurately and dependably create an important competitive advantage. Lawyers that call back when they say they will, restaurants that cook your steak just the way you want it, dry cleaners that get your favorite sweater clean the first time, and banks that you can count on to keep your account free from errors are always winners.

- **Responsiveness**: Some services emphasize the speed and care with which they respond to customers’ requests. Domino’s Pizza was known for its promise to deliver a pizza within 30 minutes—until a jury awarded more than $78 million to a woman who was hit by a driver rushing to make a delivery. So, don’t overdo it.

- **Empathy**: An organization that says it genuinely cares about its customers’ welfare can gain a competitive edge. Recall the long-standing motto of State Farm insurance: “Like a good neighbor, State Farm is there.” And health insurance company Cigna promotes itself with “The Power of Caring.” Of course, for such appeals to work, the company’s actions have to support the image created. Following the World Trade Center attack in 2001, most of the financial services companies that had offices there got a lot of favorable press by rushing to take care of their employees—but a few got black eyes when they instead acted callously toward the families of employees killed in the bombing.

- **Assurance**: An organization can emphasize the competence of its employees. This is a good strategy to minimize risk, especially for services in which the customer finds it difficult to evaluate quality. For years Texaco proudly proclaimed, “You can trust your car to the man who wears the star.”

## Chapter Summary

1. **Explain the marketing of people, places, and ideas.**

   Managers follow the steps for marketing planning when marketing intangibles as well. People, especially politicians and celebrities, are often packaged and promoted. Place marketing aims to create or change the market position of a particular locale, whether a city, state, country, resort, or institution. Idea marketing (gaining market share for a concept, philosophy, belief, or issue) seeks to create or change a target market’s attitude or behavior. The marketing of religion, aimed at both increasing primary demand and at individual “brand” choice, has gained in popularity as evidenced by the increased use of religious broadcasts and religious advertising.

2. **Describe the four characteristics of services and understand how services differ from goods.**

   Services are products that are intangible and that are exchanged directly from producer to customer without ownership rights. Generally services are acts that accomplish some goal and may be directed either toward people or toward an object. Both consumer services and business-to-business services are important parts of the economy. Important service characteristics include (1) intangibility (they cannot be seen, touched, or smelled), (2) perishability (they cannot be stored), (3) variability (they are never exactly the same from time to time) and (4) inseparability from the producer (most services are produced, sold, and consumed at the same time). In reality, most products are a combination of goods and services. Some services are goods dominant (i.e., tangible products are marketed with supporting services). Some are equipment or facility based (i.e., elaborate equipment or facilities are required for creation of the service). Other services are people based (i.e., people are actually a part of the service marketed). Like goods, services include both a core service or the basic benefit received and augmented services including innovative features and convenience of service delivery.
3. Explain how marketers create and measure service quality.

The customer’s perception of service quality is related to prior expectations. Because services are intangible, evaluation of service quality is more difficult and customers often look for cues to help them decide whether they received satisfactory service. Gap analysis measures the difference between customer expectations of service quality and what actually occurred. Using the critical incident technique, service firms can identify the specific contacts between customers and service providers that create dissatisfaction.

4. Explain marketing strategies for services.

As with strategies for marketing physical goods, service strategies include targeting segments of service customers and positioning the service to differentiate it from competitors’ offerings. This can be done by emphasizing such dimensions as tangibles (including employee appearance, design of facilities, and company logos), responsiveness, empathy, and assurance. Internet marketing is often an effective way to market a service because it’s an easy way for consumers to compare core and augmented services.

Chapter Review

■ MARKETING CONCEPTS:
TESTING YOUR KNOWLEDGE

1. What are intangibles? How do basic marketing concepts apply to the marketing of intangibles?
2. What do we mean by marketing people? Marketing places? Marketing ideas?
3. What is a service? What are the important characteristics of services that make them different from goods?
4. What types of services are used by organizational customers?
5. What is the goods/services continuum? What are product-related services, equipment- or facility-based services, and people-based services?
6. How do marketers create augmented services to increase market share?
7. Describe the growth of the marketing of services on the Internet.
8. What dimensions do consumers and business customers use to evaluate service quality? How do marketers work to create service quality?
9. What is gap analysis? What is the critical incident technique of measuring service quality?
10. How does target marketing apply to the marketing of services?

■ MARKETING CONCEPTS:
DISCUSSING CHOICES AND ISSUES

1. Sometimes service quality may not meet customers’ expectations. What problems have you experienced with quality in the delivery of the following services? What do you think is the reason for the poor quality? (a) hotel accommodations, (b) dry cleaning, (c) a haircut, (d) your college education.
2. There have been a lot of criticisms of the way politicians have been marketed in recent years. What are some of the ways marketing has helped our political process? What are some ways the marketing of politicians might have an adverse effect on our government?
3. Many not-for-profit and religious organizations have found that they can be more successful by marketing their ideas. What are some ways that these organizations market themselves that are similar to and different from the marketing by for-profit businesses?
4. Many businesses purchase services rather than provide the services themselves. What are the benefits to the business of this practice? What criteria should an organization use to decide whether to purchase services or provide them itself?

■ MARKETING PRACTICE:
APPLYING WHAT YOU’VE LEARNED

1. Because of increased competition in its community, you have been hired as a marketing consultant by a local bank. You know that the characteristics of services (intangibility, perishability, and so on) create unique marketing challenges. You also know that these challenges can be met with creative marketing strategies. Outline the challenges for marketing the bank created by each of the four characteristics of services. List your ideas for what might be done to meet each of these challenges.
2. Assume you are a physician. You are opening a new family practice clinic in your community. You feel that you have the best chance of being successful if you can create a product that is superior to that offered by competing businesses. Put together a list of ways in which you can augment the basic service offering to develop a better product. List the advantages and disadvantages of each.

3. You are currently a customer for a college education, a very expensive service product. You know that a service organization can create a competitive advantage by focusing on how the service is delivered after it has been purchased—making sure the service is efficiently and comfortably delivered to the customer. Develop a list of recommendations for your school for improving the delivery of its service. Consider both classroom and nonclassroom aspects of the educational product.

4. Assume you have been hired as a campaign manager for a local candidate for mayor. In other words, you have been asked to create and manage a plan for marketing a person. Prepare an outline for your marketing plan. First list the special problems and challenges associated with marketing a person rather than a physical product. Then outline your ideas for product, price, and promotion strategies.

5. Assume you have been recently hired by your city government to head up a program to create 100 percent compliance with recycling regulations. Develop a presentation for the city council in which you will outline the problems in “selling” recycling. Develop an outline for the presentation. Be sure to focus on each of the four Ps.

■ MARKETING MINI-PROJECT:
LEARNING BY DOING
1. Select a service that you will purchase in the next week or so.
2. As you experience the service, record the details of every aspect, including (a) people, (b) physical facilities, (c) location, (d) waiting time, (e) hours, (f) transaction, (g) other customers, (h) tangible aspects, (i) search qualities, and (j) credence qualities.
3. Recommend improvements to the service encounter.

■ REAL PEOPLE, REAL SURFERS:
EXPLORING THE WEB
Fast-food restaurants fall in the middle of the goods/services continuum—half goods and half services. To be successful in this highly competitive market, fast-food chains must carefully develop targeting and positioning strategies. Visit the Web sites of the three top fast-food chains: McDonald’s (www.mcdonalds.com), Wendy’s (www.wendys.com), and Burger King (www.burgerking.com). Thoroughly investigate each site.
1. How is the Web site designed to appeal to each restaurant’s target market?
2. How does each restaurant position its product? How is this positioning communicated through the Web site?
3. What changes or improvements would you recommend for each Web site?

■ PLAN IT!
DEVELOPING A MARKETING PLAN
As your instructor directs, create a marketing plan (using Marketing Plan Pro software or a written marketing plan format) to document your marketing decisions or answer these questions in a written or oral report.

Although CFS markets tangible products, it must provide customer service for any problems that resellers or consumers experience with the software and toys—which has implications for next year’s marketing plan.
1. Where on the service continuum would you place CFS’s products?
2. How can CFS use the critical incident technique to check on the quality of its customer service?
3. How can CFS use internal marketing to support superior service delivery among its customer service representatives?

Key Terms

augmented services, (324)
capacity management, (318)
core service, (323)
credence qualities, (328)
critical incident technique, (330)
disintermediation (of service delivery), (320)
embodying, (321)
experience qualities, (328)
gap analysis, (329)
idea marketing, (316)
tangibles, (310)
internal marketing, (327)
physical evidence, (334)
place marketing, (315)
search qualities, (327)
service encounter, (320)
services, (317)
REAL CHOICES FOR O-TOWN

(This case was written by Vassilis Dalakas and Mary Jo Thornton, Berry College, Rome, Georgia.)

It’s reality TV with a twist: a television show that has documented the conception, birth, and development of O-Town, a musical pop group rising to stardom. The idea was simple—show how a musical group was selected and lived as a television program in the tradition of reality TV shows that MTV’s “Real World” made so popular. Here’s how O-Town became a reality.

In the late 1990s, “boy bands,” reminiscent of 1970s’ groups the Monkees and the Archies, reemerged in the pop music scene. Nsync and the Backstreet Boys became teen idols overnight. The market seemed right for the development of new products patterned after these success stories.

Louis Pearlman saw the potential of creating a new band for this market through a unique and unusual way. The first step was to get hundreds of young men to audition for the opportunity to be part of the new band. The lucky finalists would live together. They would practice their music, but more importantly film crews would record the time they spent together. The resulting footage would be broadcast every week on the ABC prime network television show Making the Band. This program became quite successful and was the number-one program in its Friday night time slot among women ages 18 to 34 years old.

During the course of selecting the band members, and before releasing their first song, O-Town made numerous public appearances. They attended the MTV Music Video Awards, were guests on the popular MTV show Total Request Live, and sang at the Miss America Pageant. As a result, fans became even more aware of them and eagerly anticipated their album. The new band quickly became a household name among its loyal fan base of young women.

Aided by this advance publicity, O-Town’s first single called “Liquid Dreams” entered the Hot 100 singles sales chart at number one, a music success story never before achieved by a new artist. Their debut album called simply “O-Town” sold 145,000 copies the first week and 790,000 copies in 19 weeks. A second single, “All or Nothing” reached number three on the Hot 100. In January 2002 the television show devoted to the band began airing on MTV.

Despite the band’s favorable start, keeping its success moving forward remained a challenge. Given the way it originated, O-Town is viewed by many as a manufactured band, an image that may keep the band from being able to sustain success in the long run. Skeptics also pointed to the fact that the O-Town musicians don’t write their own songs or play any instruments. Moreover, given how previous boy bands (like New Kids on the Block) faded out of the music scene, the future remained uncertain.

Several options might help extend the product life cycle of O-Town. One possible route would be to gain even more TV exposure through development of an O-Town TV show, a formula that fueled the Monkees’ incredible popularity three decades earlier. Of course, although the popularity of O-Town had been driven almost exclusively by television, most new music artists rely on radio programmers to give them the exposure they need to stay in front of the public. Perhaps O-Town’s marketers should consider this more traditional route and court these influential programmers. Or it might be necessary to try to reinvent the band as fans become fickle and develop an appetite for new “hunk” idols.

http://archive.nextwerk.com/newsarchive21.nsf/237c30a68537751c862567e60025588ae/8625666b000ce7b16625694df0036f4e1?OpenDocument

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THINGS TO THINK ABOUT

1. What is the decision facing O-Town’s marketers?
2. What factors are important in understanding this decision situation?
3. What are the alternatives?
4. What decision(s) do you recommend?
5. What are some way to implement your recommendation(s)?