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## Designing and Managing Services

**As companies find it harder to differentiate their physical products, they turn to service differentiation, whether that means on-time delivery, better and faster response to inquiries, or quicker resolution of complaints. Top service providers know these advantages well and also how to create memorable customer experiences.<sup>1</sup> One service business that understands how to better satisfy customers' needs is USAA.<sup>2</sup>**



*USAA Insurance sells auto and other insurance products to current and former members of the military and their families. The company has increased its share of each customer's business by launching a consumer bank, issuing credit cards, opening a discount brokerage, and offering no-load mutual funds. Its legendary quality of service has led to the highest customer satisfaction in the industry. USAA subscribers will often relate how the company looks out for them, even counseling them not to take out more insurance than they need. With such levels of trust, the company enjoys high customer loyalty and significant cross-selling opportunities. It cross-trains its call center reps to answer investment queries as well as insurance-related calls, increasing productivity and reducing the need to transfer customers between agents. With servicemen and women needing remote access to financial products earlier and more often than civilians, USAA has become a technological leader in the financial services industry. It was the first bank to allow iPhone deposits for its military customers and to conduct face-to-face video chats with soldiers in the field. Whether a customer is using a tablet, smart phone, or computer or visiting one of its financial centers—located mostly near military bases—USAA is committed to providing exemplary service.*

**Because it is critical to** understand the special nature of services and what that means to marketers, in this chapter we systematically analyze services and how to market them most effectively.

## The Nature of Services

The Bureau of Labor Statistics reports that the service-producing sector will continue to be the dominant employment generator in the future economy, adding about 18 million jobs between 2010 and 2018, or about 88 percent of the expected increase in total employment. By 2020, the goods-producing sector is expected to account for 11.9 percent of total jobs, down from 12.4 percent in 2010 and 16.8 percent in 2000. Manufacturing lost a staggering 5.7 million jobs from 2000 through 2010.<sup>3</sup> These numbers and others have led to a growing interest in the unique opportunities of marketing services.<sup>4</sup>

### SERVICE INDUSTRIES ARE EVERYWHERE

The *government sector*, with its courts, employment services, hospitals, loan agencies, military services, police and fire departments, postal service, regulatory agencies, and schools, is in the service business. The *private nonprofit sector*—museums, charities, churches, colleges, foundations, and hospitals—is in the service business. A good part of the *business sector*, with its airlines, banks, hotels, insurance companies, law firms, management consulting firms, medical practices, motion picture companies, plumbing repair companies, and real estate firms, is in the service business. Many workers in the *manufacturing sector*, such as computer operators, accountants, and legal staff, are really service providers. In fact, they make up a “service factory” providing services to the

“goods factory.” And those in the *retail sector*, such as cashiers, clerks, salespeople, and customer service representatives, are also providing a service.

A **service** is any act or performance one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Increasingly, manufacturers, distributors, and retailers are providing value-added services, or simply excellent customer service, to differentiate themselves. Many pure service firms are now using the Internet to reach customers; some operate purely online.

## CATEGORIES OF SERVICE MIX

The service component can be a minor or a major part of the total offering. We distinguish five categories of offerings:

1. A **pure tangible good** such as soap, toothpaste, or salt with no accompanying services.
2. A **tangible good with accompanying services**, like a car, computer, or cell phone, with a warranty or specialized customer service contract. Typically, the more technologically advanced the product, the greater the need for high-quality supporting services.
3. A **hybrid** offering, like a restaurant meal, of equal parts goods and services. People patronize restaurants for both the food and its preparation.
4. A **major service with accompanying minor goods and services**, like air travel with supporting goods such as snacks and drinks. This offering requires a capital-intensive good—an airplane—for its realization, but the primary item is a service.
5. A **pure service**, primarily an intangible service, such as babysitting, psychotherapy, or massage.

Restaurants are good examples of hybrid offerings combining products and services. One of the more successful restaurant brands is Panera Bread.<sup>5</sup>

**PANERA BREAD** Founded by Ron Shaich as a Boston bakery called the Cookie Jar in 1980, Panera Bread has emerged over time as a leader, with Chipotle, in the “fast casual” restaurant category. Panera combines the speed and convenience of fast food with the quality and menu variety of waiter-service dining. The chain targets “food people who understand and respond to food or those on the verge of that” by selling fresh “real” food at full prices customers are more than willing to pay. An unpretentious atmosphere—no table service, but no time limit—encourages customers to linger. The brand is seen as family-oriented but also sophisticated, offering fresh-baked artisan bread and a full menu of healthy, good-tasting sandwiches, salads, soups, and breakfast foods. Panera has innovated in a number of different ways, infusing a strong social conscience in much that it does. With the slogan “Live Consciously. Eat Deliciously,” CMO Michael Simon leads a number of social and community initiatives such as the Panera Bread Foundation, collaborations with Feeding America, and donations to local hunger relief agencies and charities. The company has opened five “pay-what-you-can” Panera Cares stores. In other marketing areas, it has boosted its digital spend and boasts a loyalty program with 14 million members, accounting for almost half its transactions.

The range of service offerings makes it difficult to generalize without a few further distinctions.

- Services are *equipment-based* (automated car washes, vending machines) or *people-based* (window washing, accounting services). People-based services vary by whether unskilled, skilled, or professional workers provide them.
- Service companies can choose among different *processes* to deliver their service. Restaurants offer cafeteria-style, fast-food, buffet, and candlelight service formats.
- Some services need the *client's presence*. Brain surgery requires the client's presence; a car repair does not. If the client must be present, the service provider must be considerate of his or her needs. Thus beauty salon operators will invest in décor, play background music, and engage in light conversation with the client.
- Services may meet a *personal need* (personal services) or a *business need* (business services). Service providers typically develop different marketing programs for these markets.
- Service providers differ in their *objectives* (profit or nonprofit) and *ownership* (private or public). These two characteristics, when crossed, produce four quite different types of organizations. The marketing programs of a private investor hospital will differ from those of a private charity hospital or a Veterans Administration hospital.



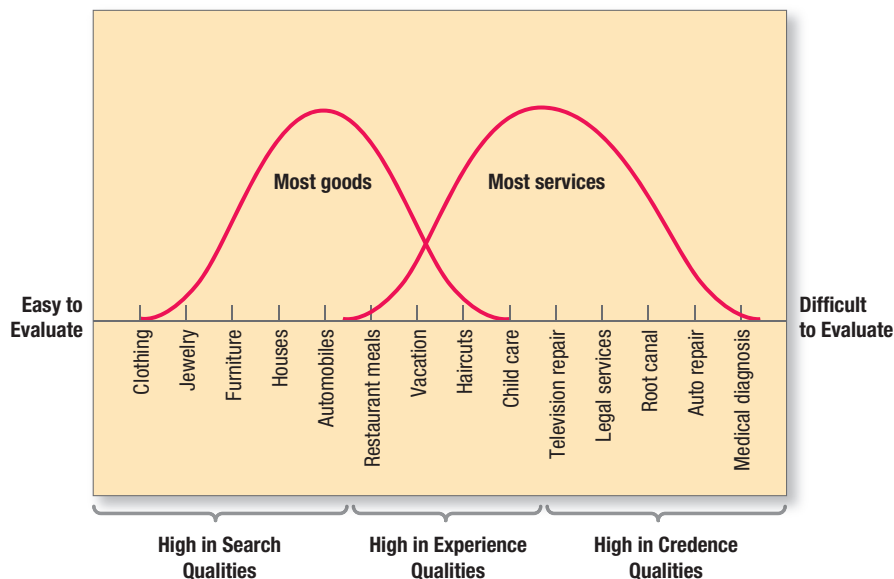
Source: © ZUMA Press, Inc./Alamy

A leader in the “fast casual” restaurant category, Panera Bread has also opened some “pay-what-you-can” Panera Cares stores.

Customers typically cannot judge the technical quality of some services even after they have received them. Figure 14.1 shows various products and services according to difficulty of evaluation.<sup>6</sup> At the left are goods high in *search qualities*—that is, characteristics the buyer can evaluate before purchase. In the middle are goods and services high in *experience qualities*—characteristics the buyer can evaluate after purchase. At the right are goods and services high in *credence qualities*—characteristics the buyer normally finds hard to evaluate even after consumption.<sup>7</sup>

Because services are generally high in experience and credence qualities, there is more risk in their purchase, with several consequences. First, service consumers generally rely on word of mouth rather than advertising. Second, they rely heavily on price, provider, and physical cues to judge quality. Third, they are highly loyal to service providers who satisfy them. Fourth, because switching costs are high, consumer inertia can make it challenging to entice business away from a competitor.

Although customer loyalty can be strong with services, in today’s modern communications environment, a service failure can be a PR nightmare and undermine that loyalty, as Carnival Cruises found.<sup>8</sup>



**| Fig. 14.1 |**

### Continuum of Evaluation for Different Types of Products

Source: Valarie A. Zeithaml, “How Consumer Evaluation Processes Differ between Goods and Services,” James H. Donnelly and William R. George, eds., *Marketing of Services* (Chicago: American Marketing Association, 1981). Reprinted with permission of the American Marketing Association.

An on-board disaster on one of Carnival's cruise ships created longer-term problems for the company.



Source: © Greg Balfour Evans/Alamy

**CARNIVAL** The Carnival Triumph was on the third day of a four-day cruise from Galveston, Texas, to Mexico when an engine room fire set the boat adrift and disabled, leaving 3,100 passengers with little access to food, water, and toilets. Waste spilled into the hallways, and decks below became insufferably hot. When the boat returned to shore after a long five days, the CEO greeted passengers as they disembarked, given them each \$500, a free flight home, a refund for the trip, and credit for another cruise. Nevertheless, given the publicity surrounding what the media called the “poop cruise,” the damage had been done. Public opinion of cruises as a whole dropped. Carnival found its bookings declining by a hefty 20 percent, forcing the company to pass along steep discounts to fill boats. To avoid future problems, the cruise line invested \$600 million to upgrade its fleet and hired a new VP of Technical Operations to oversee its safety initiatives.

## DISTINCTIVE CHARACTERISTICS OF SERVICES

Four distinctive service characteristics greatly affect the design of marketing programs: *intangibility*, *inseparability*, *variability*, and *perishability*.<sup>9</sup>

**INTANGIBILITY** Unlike physical products, services cannot be seen, tasted, felt, heard, or smelled before they are bought. A person getting cosmetic surgery cannot see the results before the purchase, and the patient in the psychiatrist's office cannot know the exact outcome of treatment. To reduce uncertainty, buyers will look for evidence of quality by drawing inferences from the place, people, equipment, communication material, symbols, and price. Therefore, the service provider's task is to “manage the evidence,” to “tangibilize the intangible.”<sup>10</sup>

Service companies can try to demonstrate their service quality through *physical evidence* and *presentation*.<sup>11</sup> Suppose a supermarket wants to position itself as the “fast” supermarket. It could make this positioning strategy tangible through any number of marketing tools:

1. **Place**—The layout of the checkout area and the traffic flow should be planned carefully. Waiting lines should not get overly long.
2. **People**—Checkout staff should be busy, but there should be a sufficient number to manage the workload.
3. **Equipment**—UPC scanners, credit card readers, and electronic registers should all be state of the art.
4. **Communication material**—signage and brochures—text and photos—should suggest efficiency and speed.
5. **Symbols**—The supermarket's name and symbol could suggest fast service, for instance, “Speedy Shop.”
6. **Price**—The supermarket could advertise a \$10 rebate if customers have to wait in line more than five minutes.

Disney is a master at “tangibilizing the intangible” and creating magical fantasies in its theme parks; so are retailers such as Toys “R” Us and Bass Pro Shops.<sup>12</sup> Table 14.1 measures brand experiences along sensory, affective, behavioral, and intellectual dimensions. Applications to services are clear.

**TABLE 14.1** Dimensions of Brand Experience**Sensory**

- This brand makes a strong impression on my visual sense or other senses.
- I find this brand interesting in a sensory way.
- This brand does not appeal to my senses.

**Affective**

- This brand induces feelings and sentiments.
- I do not have strong emotions for this brand.
- This brand is an emotional brand.

**Behavioral**

- I engage in physical actions and behaviors when I use this brand.
- This brand results in bodily experiences.
- This brand is not action-oriented.

**Intellectual**

- I engage in a lot of thinking when I encounter this brand.
- This brand does not make me think.
- This brand stimulates my curiosity and problem solving.

**Source:** Joško Brakus, Bernd H. Schmitt, and Lia Zarantonello, "Brand Experience: What Is It? How Is It Measured? Does It Affect Loyalty?," *Journal of Marketing* 73 (May 2009), pp. 52–68.

Because there is no physical product, the service provider's facilities—its primary and secondary signage, environmental design and reception area, employee apparel, collateral material, and so on—are especially important. All aspects of the service delivery process can be branded, which is why Allied Van Lines is concerned about the appearance of its drivers and laborers, why UPS has developed such strong equity with its brown trucks, and why Doubletree by Hilton hotels offers fresh-baked chocolate chip cookies to symbolize care and friendliness.

Service providers often choose brand elements—logos, symbols, characters, and slogans—to make the service and its key benefits more tangible—for example, the "friendly skies" of United, the "good hands" of Allstate, and the "bullish" nature of Merrill Lynch.

**INSEPARABILITY** Whereas physical goods are manufactured, then inventoried, then distributed, and later consumed, services are typically produced and consumed simultaneously.<sup>13</sup> A haircut can't be stored—or produced without the barber. The provider is part of the service. Because the client is also often present, provider–client interaction is a special feature of services marketing. Buyers of entertainment and professional services are very interested in the specific provider. It's not the same concert if Taylor Swift is indisposed and replaced by Beyoncé or if a corporate legal defense is supplied by an intern because antitrust expert David Boies is unavailable. When clients have strong provider preferences, the provider can raise its price to ration its limited time.

Several strategies exist for getting around the limitations of inseparability. The service provider can work with larger groups. Some psychotherapists have moved from one-on-one therapy to small-group therapy to groups of more than 300 people in a large hotel ballroom. The service provider can work faster—the psychotherapist can spend 30 more efficient minutes with each patient instead of 50 less-structured minutes and thus see more patients. The service organization can train more service providers and build up client confidence, as H&R Block has done with its national network of trained tax consultants.

**VARIABILITY** Because the quality of services depends on who provides them, when and where, and to whom, services are highly variable. Some doctors have an excellent bedside manner; others are less empathetic. Service firms know that variability in their performance puts them at risk. Hilton initiated a major program to create more uniformity in guest experiences.<sup>14</sup>





Hilton's H360 program created higher and more uniform service standards for its properties all over the world.

**HILTON HOTELS** Between 1964 when Hilton Hotels sold its foreign licensee Hilton International Co. and 2006 when it bought it back, the two companies operated largely independently, and as a result, the Hilton brand was no longer providing customers with a uniform high-quality experience. Nomura research analyst Harry Curtis said, "The brand standards in Europe were always very different from those in the U.S. I think they were, quite frankly, a bit slacker in Europe." Chris Nassetta, appointed CEO in 2008, initiated H360, a project to review everything from breakfast fare to bath amenities, the décor of lobbies, Wi-Fi service, hotel architecture, and handling of customer complaints at all the company's hotels. Nassetta said, "There was a huge amount of inconsistency in the granular standards that travelers care about." As a result of H360, independent owners of Hilton-branded hotels in the United States and abroad have been forced to upgrade to Hilton standards where necessary or be dropped from the Hilton system. Protecting the brand seems to have served the company well—by 2010, the company had the highest brand equity of nearly 40 hotel chains.

Service buyers are aware of potential variability and often talk to others or go online to collect information before selecting a specific service provider. To reassure customers, some firms offer *service guarantees* that may reduce consumer perceptions of risk.<sup>15</sup> Here are three steps service firms can take to increase quality control.

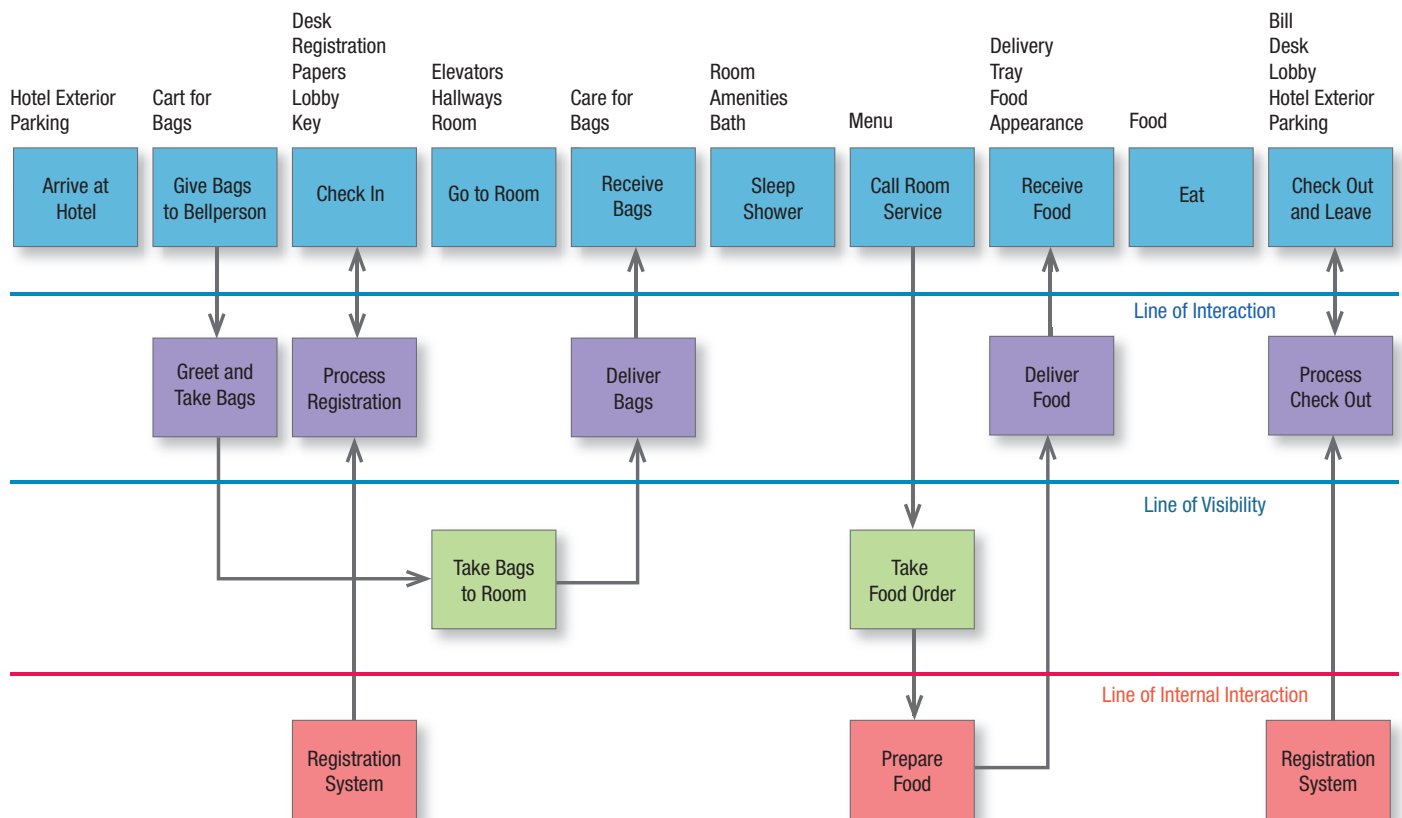
1. **Invest in good hiring and training procedures.** Recruiting the right employees and giving them excellent training are crucial, whether they are highly skilled professionals or low-skilled workers. Better-trained people exhibit six characteristics that improve service quality: competence, courtesy, credibility, reliability, responsiveness, and communication skill.
2. **Standardize the service-performance process throughout the organization.** A *service blueprint* can map out the service process, the points of customer contact, and the evidence of service from the customer's point of view.<sup>16</sup> Figure 14.2 shows a service blueprint for an overnight guest at a hotel.<sup>17</sup> Behind the scenes, the hotel must skillfully help the guest move from one step to the next. Service blueprints can be helpful in identifying potential "pain points" for customers, developing new services, supporting a zero-defects culture, and devising service recovery strategies.
3. **Monitor customer satisfaction.** Employ suggestion and complaint systems, customer surveys, and third-party comparison shopping. Customer needs may vary in different areas, allowing firms to develop region-specific customer satisfaction programs.<sup>18</sup> Firms can also develop customer information databases and systems for more personalized service, especially online.<sup>19</sup>

Service firms can also design marketing communication and information programs so consumers learn more about the brand than what their subjective experience alone tells them.

**PERISHABILITY** Services cannot be stored, so their perishability can be a problem when demand fluctuates. To accommodate rush-hour demand, public transportation companies must own more equipment than if demand was even throughout the day. Some doctors charge patients for missed appointments because the service value (the doctor's availability) exists only at the time of the appointment.

Demand or yield management is critical—the right services must be available to the right customers at the right places at the right times and right prices to maximize profitability. Several strategies can produce a better match between service demand and supply.<sup>20</sup> On the demand (customer) side:

- **Differential pricing** will shift some demand from peak to off-peak periods. Examples include low matinee movie prices and weekend discounts for car rentals.<sup>21</sup>
- **Nonpeak demand** can be cultivated. McDonald's pushes breakfast service, and hotels promote minivacation weekends.



| Fig. 14.2 |

## Blueprint for Overnight Hotel Stay

Source: Valarie Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler, *Services Marketing: Integrating Customer Focus across the Firm*, 4th ed. (New York: McGraw-Hill, 2006).

- **Complementary services** can provide alternatives to waiting customers, such as cocktail lounges in restaurants and automated teller machines in banks.
- **Reservation systems** are a way to manage the demand level. Airlines, hotels, and physicians employ them extensively.

On the supply side:

- **Part-time employees** can serve peak demand. Colleges add part-time teachers when enrollment goes up; stores hire extra clerks during holiday periods.
- **Peak-time efficiency routines** can allow employees to perform only essential tasks during peak periods. Paramedics assist physicians during busy periods.
- **Increased consumer participation** frees service providers' time. Consumers fill out their own medical records or bag their own groceries.
- **Shared services** can improve offerings. Several hospitals can share medical-equipment purchases.
- **Facilities for future expansion** can be a good investment. An amusement park might buy surrounding land for later development.

For fast-food chains, drive-through windows are a way to expand selling opportunities beyond sit-down meals. An impressive 70 percent of revenue for the fast-food industry comes via drive-through windows. According to QSR magazine, Taco Bell operates some of the fastest and most accurate drive-through windows. The company aims for 3 minutes and 30 seconds per order and is constantly looking at ways to shave seconds and cut costs.<sup>22</sup>

A huge source of revenue for fast food chains, Taco Bell has excelled in its drive-through speed and accuracy.



Source: Taco Bell Corp.

## The New Services Realities

Service firms once lagged behind manufacturers in their understanding and use of marketing because they were small or they faced large demand or little competition. This has certainly changed. Some of the most skilled marketers now are service firms. One that wins consistent praise for its brand-building success is Singapore Airlines.<sup>23</sup>

**SINGAPORE AIRLINES** Singapore Airlines (SIA) has been consistently recognized as the world's "best" airline, in large part due to its stellar marketing. The carrier wins so many awards, it has to update its Web site monthly to keep up to date. Famous for pampering passengers, it continually strives to create a "wow effect" and surpass customers' expectations. SIA was the first to launch on-demand entertainment systems in all classes, Dolby sound systems, and a book-the-cook service that allows business- and first-class passengers to order meals before boarding. Thanks to a first-of-its-kind \$1 million simulator the airline built to mimic the air pressure and humidity inside a plane, it found that taste buds change in the air and that, among other things, it needed to cut back on spices in its food. New SIA recruits receive four months of training, twice the industry average, and existing staff get nearly three weeks of refresher training a year (costing \$70 million). With its stellar reputation, the carrier attracts some of the best local graduates and staffs each flight with more attendants and other cabin crew members than other airlines. SIA applies a 40–30–30 rule: 40 percent of resources go to training and motivating staff, 30 percent to reviewing process and procedures, and 30 percent to creating new product and service ideas.

## A SHIFTING CUSTOMER RELATIONSHIP

Because U.S. consumers generally have high expectations about service delivery, they often feel their needs are not being adequately met. A 2013 Forrester study asked consumers to rate 154 companies on how well they met their needs and how easy and enjoyable they were to do business with. Almost two-thirds of the companies were rated only "OK," "poor," or "very poor." Retail and hotel companies were rated the highest on average, and Internet, health service, and television service providers were rated the worst. The highest-ranking companies were Marshalls, USAA (bank), Amazon.com, Kohl's, Target, Courtyard by Marriott, Sam's Club, Rite Aid, Costco, Lowe's, TJ Maxx, JCPenney, and Marriott Hotels & Resorts.<sup>24</sup>

Service providers receive low marks for many reasons. Customers complain about inaccurate information; unresponsive, rude, or poorly trained workers; and long waits. Even worse, many find their complaints never reach





Source: AFP/Getty Images

Singapore's exemplary service quality starts with its famed flight attendants.

a human ear because of slow or faulty phone or online reporting systems. They say companies mishandle online complaints by responding selectively or inconsistently (or not at all) and by “cutting and running,” appearing insincere, or attempting to just “bribe” the consumer.<sup>25</sup>

It doesn't have to be that way. Fifty-five operators on Butterball Turkey's 800 number handle 100,000 calls a year about how to prepare, cook, and serve turkeys; 12,000 people call on Thanksgiving Day alone. Trained at Butterball University, the operators have all cooked turkeys dozens of different ways and can handle any queries that come their way, including why you shouldn't stash turkeys in snow banks and how to tell when the turkey is done.<sup>26</sup>

Savvy services marketers are recognizing the new services realities, such as the importance of the newly empowered customer, customer coproduction, and the need to engage employees as well as customers.

**CUSTOMER EMPOWERMENT** The digital era has clearly altered customer relationships. Customers are becoming more sophisticated about buying product-support services and are pressing for “unbundled services” and the right to select the elements they want. They increasingly dislike having to deal with a multitude of service providers handling different types of products or equipment. With that in mind, some third-party service organizations now service a greater range of equipment. A plumbing business may also service air conditioners, furnaces, and other components of a household infrastructure.

Most importantly, the Internet has empowered customers by letting them send their comments around the world with a mouse click. A person who has a good customer experience is more likely to talk about it, but someone who has a bad experience will talk to more people.<sup>27</sup> Ninety percent of angry customers reported sharing their story with a friend; now, they can share it with strangers too. At PlanetFeedback.com shoppers can send a complaint, compliment, suggestion, or question directly to a company, with the option to post comments publicly on the site as well. Online sites such as Angie's List, Yelp, Google Places, and Urbanspoon are other popular means to spread the word on customer service adventures.

Even more challenging for firms, unhappy customers may choose to download a damaging video to share their customer service miseries with others. “Marketing Memo: Lights! Camera! Customer Service Disasters!” describes some notable customer service disasters brought to light with online videos.

When a customer complains, most companies now respond quickly. Comcast allows contact 24/7 by phone and e-chat but also reaches out to customers and monitors blogs, Web sites, and social media. If employees see a customer report a problem on a blog, they get in touch and offer help. Clear, helpful e-mail replies to customers' queries can be effective too.<sup>28</sup> Delta Airlines introduced Delta Assist to monitor customer Twitter tweets and Facebook posts around the clock with a 10-person team and to provide real-time replies to any queries or problems.<sup>29</sup>

More important than simply responding to a disgruntled customer, however, is preventing dissatisfaction from occurring in the future. That may mean simply taking the time to nurture customer relationships with attention from a real person. Solving a customer's problem quickly and easily goes a long way toward winning long-term loyal customers.<sup>30</sup>

**CUSTOMER COPRODUCTION** The reality is that customers do not merely purchase and use a service; they play an active role in its delivery. Their words and actions affect the quality of their service experiences and those of others as well as the productivity of frontline employees.<sup>31</sup>

marketing  
memo

## Lights! Cameras! Customer Service Disasters!

The explosion of videos online has posed many challenges to firms. Not only customers but also employees can damage the firm's reputation, and the Internet greatly magnifies the impact.

Many fast-food chains have had to deal with unflattering or inappropriate behavior their employees capture on video as a prank. Online clips have shown a Wendy's worker with his mouth wide open under a Frosty machine, a Domino's employee putting cheese up his nose and mucus on food meant for delivery, and a Taco Bell employee licking a stack of empty taco shells.

Any service organization may pay the price for a service breakdown. When Canadian singer Dave Carroll faced \$1,200 in damages to his \$3,000 Gibson guitar after a United flight, he put his creative energy to good use and launched a humorous YouTube video, *United Breaks Guitars*, with this catchy refrain:

"United, you broke my Taylor guitar. United, some big help you are. You broke it, you should fix it. You're liable, just admit it. I should have flown with someone else or gone by car 'cuz United breaks guitars."

Carroll's follow-up video about his frustrating efforts to get United to pay for the damage was viewed more than 5 million times. The airline got the message and donated a check for \$1,200 to a charity Carroll designated. It now uses the incident to train baggage handlers and customer-service representatives.

After a security camera caught a FedEx driver delivering a computer monitor by throwing it over a six-foot fence instead of ringing the doorbell, the 21-second YouTube video placed by the irate customer received millions of views and heaps of negative publicity. FedEx cut a YouTube apology of its own, titled "Absolutely, Positively Unacceptable"—a play on its old advertising slogan, though with only a fraction of the views. FedEx not only replaced the customer's computer monitor free of charge, it also has shared the video internally with employees.

Critics credit the companies for attempting to deal with their problems quickly and forcefully, while often faulting them too for their hiring and training practices and for not creating a stronger, brand-supportive climate with employees.

**Sources:** "Bruce Horovitz, 'Wendy's Is Latest to See Gross Photo Go Viral,'" *USA Today*, June 13, 2013; Bruce Horovitz, "Photo of Taco Bell Worker Licking Shells Sends Shudders," *USA Today*, June 3, 2013; Chad Brooks, "Caught on Video: Employees Behaving Badly," *Business News*, March 28, 2012; Chunka Mui, "The 5 Most Brand-Damaging Viral Videos of 2011," *Forbes*, December 28, 2011; Laurent Belsie, "FedEx Delivery Video: Package Thrown. FedEx Apologizes on YouTube," *Christian Science Monitor*, December 23, 2011; Dan Reed, "United Makeover Aims to Refresh and Renew," *USA Today*, September 17, 2009, pp. 1B–2B; Elisabeth Sullivan, "Happy Endings Lead to Happy Returns," *Marketing News*, October 30, 2009, p. 20.

Customers often feel they derive more value, and feel a stronger connection to the service provider, if they are actively engaged in the service process. This coproduction can put stress on employees, however, and reduce their satisfaction, especially if they differ from customers culturally or in other ways.<sup>32</sup> Moreover, one study estimated that one-third of all service problems are caused by the customer.<sup>33</sup> The growing shift to self-service technologies will likely increase this percentage.

Preventing service failures is crucial because recovery is always challenging. One of the biggest problems is attribution—customers often feel the firm is at fault or, even if not, that it is still responsible for righting any wrongs. Unfortunately, although many firms have well-designed and executed procedures to deal with their own failures, they find managing *customer* failures—when a service problem arises from a customer's mistake or lack of understanding—much more difficult. Solutions come in all forms, as these examples show:<sup>34</sup>

1. **Redesign processes and redefine customer roles to simplify service encounters.** Staples transformed its business with its "Easy" program to take the hassle out of ordering office supplies.
2. **Incorporate the right technology to aid employees and customers.** Comcast, the largest U.S. cable operator, introduced software to identify network glitches before they affected service and to better inform call-center operators about customer problems. Repeat service calls dropped 30 percent as a result.
3. **Create high-performance customers by enhancing their role clarity, motivation, and ability.** USAA reminds enlisted policyholders to suspend their car insurance when they are stationed overseas.
4. **Encourage "customer citizenship" so customers help each other.** At golf courses, players can not only follow the rules by playing and behaving appropriately, they can encourage others to do so.

**SATISFYING EMPLOYEES AS WELL AS CUSTOMERS** Excellent service companies know that positive employee attitudes will strengthen customer loyalty.<sup>35</sup> Instilling a strong customer orientation in employees can also increase their job satisfaction and commitment, especially if they have high customer contact. Employees thrive in customer-contact positions when they have an internal drive to (1) pamper customers, (2) accurately read their needs, (3) develop a personal relationship with them, and (4) deliver high-quality service to solve customers' problems.<sup>36</sup>

Consistent with this reasoning, Sears found a high correlation between customer satisfaction, employee satisfaction, and store profitability. The downside of not treating employees right is significant. A survey of 10,000 employees from the largest 1,000 companies found that 40 percent of workers cited “lack of recognition” as a key reason for leaving a job.<sup>37</sup>

Given the importance of positive employee attitudes to customer satisfaction, service companies must attract the best employees they can find. They need to market a career rather than just a job. They must design a sound training program and provide support and rewards for good performance. They can use an intranet, internal newsletters, daily reminders, and employee roundtables to reinforce customer-centered attitudes. Finally, they must audit employee job satisfaction regularly.

The Panda Express restaurant chain has management turnover that’s half the industry average, due in part to a combination of ample bonuses and health benefits with a strong emphasis on worker self-improvement through meditation, education, and hobbies. Special wellness seminars and get-to-know-you events outside work help create a caring, nurturing atmosphere.<sup>38</sup>

Zappos has built a customer-focused organization admired by many.<sup>39</sup>

**ZAPPOS** Online retailer Zappos was cofounded by Tony Hsieh in 1999 with superior customer service at the core of its culture. With free shipping and returns, 24/7 customer service, and fast turnaround on the numerous products offered on the site from thousands of brands, the company works hard to create repeat customers. Unlike many other companies, it has not outsourced its Zappos.com call centers, and half the interview process is devoted to finding out whether job candidates are sufficiently outgoing, open-minded, and creative to be a good cultural fit. Zappos empowers its customer service reps to solve problems. When a customer called to complain that a pair of boots was leaking after a year of use, the rep sent a new pair even though the company’s policy is that only unworn shoes are returnable. Every employee has a chance each year to contribute to the company’s Culture Book, about life at Zappos and how each department implements superior customer service from selling to warehousing, delivery, pricing, and billing. Bought by Amazon.com in 2009 for a reported \$850 million but still run separately, the company now also sells clothing, handbags, and accessories. Thanks to its success, it even offers two-day seminars to business executives eager to learn the secrets behind Zappos’s unique corporate culture and approach to customer service.



Source: Zappos.com Inc

Founder Tony Hsieh's customer service practices at online retailer Zappos are widely-admired and studied.

## Achieving Excellence In Services Marketing

The increased importance of the service industry has sharpened the focus on what it takes to excel in the marketing of services.<sup>40</sup> Here are some guidelines.

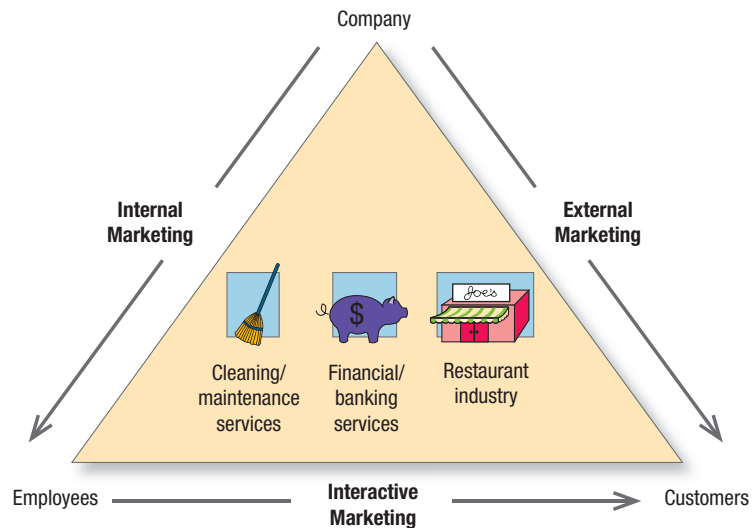
### MARKETING EXCELLENCE

Marketing excellence in services requires excellence in three broad areas: external, internal, and interactive marketing (see Figure 14.3).<sup>41</sup>

- **External marketing** describes the normal work of preparing, pricing, distributing, and promoting the service to customers.

| Fig. 14.3 |

### Three Types of Marketing in Service Industries



- **Internal marketing** describes training and motivating employees to serve customers well. Arguably the most important contribution the marketing department can make is to be “exceptionally clever in getting everyone else in the organization to practice marketing.”<sup>42</sup>
- **Interactive marketing** describes the employees’ skill in serving the client. Clients judge service not only by its *technical quality* (Was the surgery successful?), but also by its *functional quality* (Did the surgeon show concern and inspire confidence?).<sup>43</sup> In interactive marketing, teamwork is often key. Delegating authority to frontline employees can allow for greater service flexibility and adaptability because it promotes better problem solving, closer employee cooperation, and more efficient knowledge transfer.<sup>44</sup>

A good example of a service company achieving marketing excellence is Charles Schwab.<sup>45</sup>

**CHARLES SCHWAB** Charles Schwab, one of the nation’s largest discount brokerage houses, uses the telephone, Internet, and wireless devices to create an innovative combination of high-tech and high-touch services. One of the first major brokerage houses to provide online trading, the company today serves more than 8 million individual and institutional accounts. It offers account information and proprietary research from retail brokers, real-time quotes, an after-hours trading program, the Schwab learning center, live events, online chats with customer service representatives, a global investing service, and market updates delivered by e-mail. It has also been adding a slew of mobile capabilities to satisfy its customer on the go. Schwab grew during the financial crisis by offering new products for sophisticated investors, such as managed portfolio ETFs and fixed income funds. Besides the discount brokerage, the firm offers mutual funds, annuities, bond trading, and now mortgages through its Charles Schwab Bank. Its success has been driven by its efforts to lead in three areas: superior service (online, via phone, and in local branch offices), innovative products, and low prices. Its long-running “Talk to Chuck” marketing campaign reinforces how the firm is always there to help its customers.

## TECHNOLOGY AND SERVICE DELIVERY

Technology is changing the rules of the game for services in a very fundamental way. Banking, for instance, is being transformed by the ability to bank online and via mobile apps—some customers rarely see a bank lobby or interact with an employee anymore.<sup>46</sup> Technology also has great power to make service workers more productive. When USAirways deployed handheld scanners to better track baggage, mishandled baggage decreased almost 50 percent. The new technology paid for itself in the first year and helped contribute to a 35 percent drop in complaints.<sup>47</sup>



Sometimes new technology has unanticipated benefits. When BMW introduced Wi-Fi to its dealerships to help customers pass the time more productively while their cars were being serviced, more chose to wait rather than use loaner cars, an expensive item for dealers to maintain.<sup>48</sup>

Companies must avoid pushing technological efficiency so hard, however, that they reduce perceived quality.<sup>49</sup> Some methods lead to too much standardization, but service providers must deliver “high touch” as well as “high tech.”<sup>50</sup> Amazon has some of the most innovative technology in online retailing, but it also keeps customers extremely satisfied when a problem arises even if they don’t actually talk to an Amazon employee.<sup>51</sup> More companies are introducing “live chat” features to blend technology with a human voice.<sup>52</sup>

As Chapter 5 reviewed, the Internet lets firms improve their service offerings and strengthen their relationships with customers by allowing for true interactivity, customer-specific and situational personalization, and real-time adjustments of the firm’s offerings. But as companies collect, store, and use more information about customers, they have also raised concerns about security and privacy. Companies must incorporate the proper safeguards and reassure customers about their efforts.

## BEST PRACTICES OF TOP SERVICE COMPANIES

Well-managed service companies that achieve marketing excellence have in common a strategic concept, a history of top-management commitment to quality, high standards, profit tiers, and systems for monitoring service performance and customer complaints.

**STRATEGIC CONCEPT** Top service companies are “customer obsessed.” They have a clear sense of their target customers and their needs and have developed a distinctive strategy for satisfying them. At the Four Seasons luxury hotel chain, employees must pass four interviews before being hired. Each hotel also employs a “guest historian” to track guest preferences. With more than 10,000 branches in the United States, more than any other brokerage firm, Edward Jones stays close to customers by assigning a single financial advisor and one administrator to each office. Although costly, maintaining such small teams fosters personal relationships.<sup>53</sup>

**TOP-MANAGEMENT COMMITMENT** Companies such as Marriott, Disney, and Ace Hardware have a thorough commitment to service quality. Their managers look monthly not only at financial performance, but also at service performance. Ray Kroc of McDonald’s insisted on continually measuring each McDonald’s outlet on its conformance to QSCV: quality, service, cleanliness, and value. Some companies insert a reminder along with employees’ paychecks: “Brought to you by the customer.” Sam Walton of Walmart required the following employee pledge: “I solemnly swear and declare that every customer that comes within 10 feet of me, I will smile, look them in the eye, and greet them, so help me Sam.” Allstate, Dunkin’ Brands, Oracle, and USAA have high-level senior executives with titles such as Chief Customer Officer, Chief Client Officer, or Chief Experience Officer who have the power and authority to improve customer service across every customer interaction.<sup>54</sup>



Source: © ZUMA Press, Inc./Alamy

Edward Jones has invested in an extensive branch network to foster closer customer relationships.

**HIGH STANDARDS** The best service providers set high quality standards. In the highly regulated banking industry, Citibank still aims to answer customer phone calls within 10 seconds and letters within two days; it has been an industry leader in using social media for customer service.<sup>55</sup> The standards must be set *appropriately* high. A 98 percent accuracy standard may sound good, but it would result in 64,000 lost FedEx packages a day; six misspelled words on each page of a book; 400,000 incorrectly filled prescriptions daily; 3 million lost piece of USPS mail each day; no phone, Internet, or electricity for eight days per year or 29 minutes per day; 1,000 mislabeled or (mispriced) products at a supermarket; and 6 million people unaccounted for in a U.S. census.

**PROFIT TIERS** Firms have decided to coddle big spenders to retain their patronage as long as possible. Customers in high-profit tiers get special discounts, promotional offers, and lots of special service; those in lower-profit tiers who barely pay their way may get more fees, stripped-down service, and voice messages to process their inquiries.

When the recent recession hit, Zappos decided to stop offering complimentary overnight shipping to first-time buyers and offer it to repeat buyers only. The money saved was invested in a new VIP service for the company's most loyal customers.<sup>56</sup> Companies that provide differentiated levels of service must be careful about claiming superior service, however—customers who receive lesser treatment will bad-mouth the company and injure its reputation. Delivering services that maximize both customer satisfaction and company profitability can be challenging.

**MONITORING SYSTEMS** Top firms audit service performance, both their own and competitors', on a regular basis. They collect *voice of the customer (VOC) measurements* to probe customer satisfiers and dissatisfiers and use comparison shopping, mystery or ghost shopping, customer surveys, suggestion and complaint forms, service-audit teams, and customers' letters.

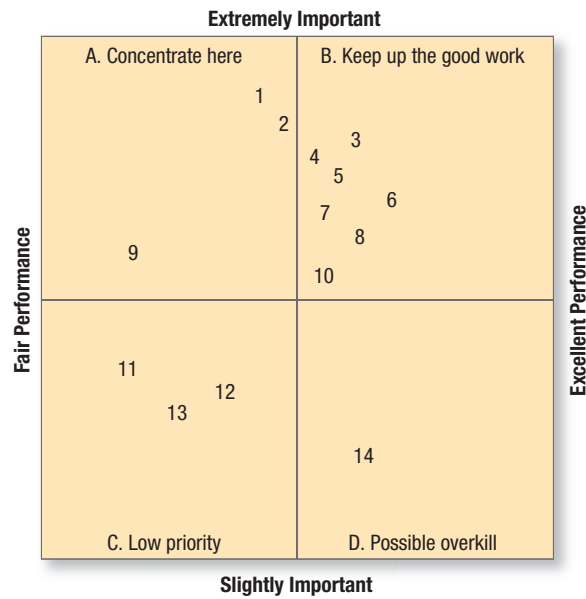
We can judge services on *customer importance* and *company performance*. *Importance-performance analysis* rates the various elements of the service bundle and identifies required actions. Table 14.2 shows how customers rated 14 service elements or attributes of an automobile dealer's service department on importance and performance. For example, "Job done right the first time" (attribute 1) received a mean importance rating of 3.83 and a

**TABLE 14.2** Customer Importance and Performance Ratings for an Auto Dealership

Number Attribute	Attribute Description	Mean Importance Rating <sup>a</sup>	Mean Performance Rating <sup>b</sup>
1	Job done right the first time	3.83	2.63
2	Fast action on complaints	3.63	2.73
3	Prompt warranty work	3.60	3.15
4	Able to do any job needed	3.56	3.00
5	Service available when needed	3.41	3.05
6	Courteous and friendly service	3.41	3.29
7	Car ready when promised	3.38	3.03
8	Perform only necessary work	3.37	3.11
9	Low prices on service	3.29	2.00
10	Clean up after service work	3.27	3.02
11	Convenient to home	2.52	2.25
12	Convenient to work	2.43	2.49
13	Courtesy buses and cars	2.37	2.35
14	Send out maintenance notices	2.05	3.33

<sup>a</sup> Ratings obtained from a four-point scale of "extremely important" (4), "important" (3), "slightly important" (2), and "not important" (1).

<sup>b</sup> Ratings obtained from a four-point scale of "excellent" (4), "good" (3), "fair" (2), and "poor" (1). A "no basis for judgment" category was also provided.



| Fig. 14.4 |

### Importance-Performance Analysis

mean performance rating of 2.63, indicating that customers felt it was highly important but not performed well. The ratings of the 14 elements are divided into four sections in Figure 14.4.

- Quadrant A in the figure shows important service elements that are not being performed at the desired levels; they include elements 1, 2, and 9. The dealer should concentrate on improving the service department's performance on these elements.
- Quadrant B shows important service elements that are being performed well; the company needs to maintain this high performance.
- Quadrant C shows minor service elements that are being delivered in a mediocre way but do not need any attention.
- Quadrant D shows that a minor service element, "Send out maintenance notices," is being performed in an excellent manner.

Perhaps the company should spend less on sending out maintenance notices and use the savings to improve performance on important elements. Management can enhance its analysis by checking on competitors' performance levels on each element.<sup>57</sup>

**SATISFYING CUSTOMER COMPLAINTS** On average, 40 percent of customers who suffer through a bad service experience stop doing business with the company.<sup>58</sup> But if those customers are willing to complain first, they actually offer the company a gift if the complaint is handled well.

Companies that encourage disappointed customers to complain—and also empower employees to remedy the situation on the spot—have been shown to achieve higher revenues and greater profits than companies without a systematic approach for addressing service failures.<sup>59</sup> Frontline employees who adopt *extra-role behaviors* and who advocate the interests and image of the firm to consumers, as well as taking initiative and engaging in conscientious behavior in dealing with customers, can be a critical asset in handling complaints.<sup>60</sup> Customers evaluate complaint incidents in terms of the outcomes they receive, the procedures used to arrive at those outcomes, and the nature of interpersonal treatment during the process.<sup>61</sup>

Companies also are increasing the quality of their *call centers* and their *customer service representatives* (CSRs). "Marketing Insight: Improving Company Call Centers" illustrates what top companies are doing.

## DIFFERENTIATING SERVICES

Finally, customers who view a service as fairly homogeneous care less about the provider than about the price. Marketing excellence requires service marketers to continually differentiate their brands so they are not seen as a commodity. Consider how JetBlue and Southwest Airlines have succeeded through differentiation.<sup>62</sup>

## marketing insight

### Improving Company Call Centers

Many firms have learned the hard way that empowered customers will not put up with poor service. After Sprint and Nextel merged, they set out to run their call centers as cost centers, rather than a means to enhance customer loyalty. Employee rewards were based on keeping customer calls short, and when management started to monitor even bathroom trips, morale sank. With customer churn spinning out of control, Sprint Nextel adopted a plan to emphasize service over efficiency. The company appointed its first chief service officer and started rewarding operators for solving problems on a customer's first call rather than for keeping their calls short. After a year, the average customer was contacting customer service only four times instead of eight.

Some firms, such as AT&T, JPMorgan Chase, and Expedia, have established call centers in the Philippines rather than India because Filipinos speak lightly accented English and are more steeped in U.S. culture than Indians, who speak British-style English and may use unfamiliar idioms. Others are getting smarter about the type of calls they send to off-shore call centers, *homeshoring* by directing more complex calls to highly trained domestic customer service reps. These work-at-home reps often provide higher-quality service at less cost with lower turnover.

Firms have to decide how many customer service reps they need. One study showed that cutting just four reps at a call center of three dozen sent the number of customers put on hold for four minutes or more from zero to eighty. Firms can also try to reasonably get more from each rep. Marriott and other firms such as KeyBank and Ace Hardware have consolidated call center operations into fewer locations, allowing them to maintain their number of reps in the process.

Hiring and training are influential too. An extensive study by Xerox demonstrated that a good call-center worker with a high probability to stay the six months necessary to recoup the company's \$5,000 investment was likely to have a creative rather than an inquisitive personality. Rather than emphasizing prior experience in hiring for its roughly 50,000 call-center jobs, Xerox now factors in answers to questions like "I ask more questions than most people do" and "People tend to trust what I say."

Some firms are taking advantage of Big Data capabilities to match individual customers with the call center agent best suited to meet their needs. Using something like the methods of online dating sites, advanced analytics technology mines transaction and demographic information about customers (products or services they've purchased, contract terms and expiration date, record of complaints or average call wait time) and call center agents (average call handling time and sales efficiency) to identify optimal matches in real time.

Finally, keeping call center reps happy and motivated is obviously a key to boosting their ability to offer excellent customer service. American Express lets call center reps choose their own hours and swap shifts without a supervisor's approval.

**Sources:** Claudia Jasmand, Vera Blazevic, and Ko de Ruyter, "Generating Sales while Providing Service: A Study of Customer Service Representatives' Ambidextrous Behavior," *Journal of Marketing* 76 (January 2012), pp. 20–37; Kimmy Wa Chan and Echo Wen Wan, "How Can Stressed Employees Deliver Better Customer Service? The Underlying Self-Regulation Depletion Mechanism," *Journal of Marketing* 76 (January 2012), pp. 119–37; Joseph Walker, "Meet the New Boss: Big Data," *Wall Street Journal*, September 20, 2012; Vikas Bajaj, "A New Capital of Call Centers," *New York Times*, November 25, 2011; Michael Shroock, "Why the Customer Call Center Isn't Dead," *Forbes*, March 15, 2011; Michael Sanserino and Cari Tuna, "Companies Strive Harder to Please Customers," *Wall Street Journal*, July 27, 2009, p. B4; Spencer E. Ante, "Sprint's Wake-Up Call," *BusinessWeek*, March 3, 2008, pp. 54–57; Jena McGregor, "Customer Service Champs," *BusinessWeek*, March 5, 2007.

**JETBLUE AND SOUTHWEST AIRLINES** In an industry often characterized by bankruptcies and unhappy customers, two exceptions are JetBlue and Southwest Airlines. The companies have followed very different paths on their way to financial and marketplace success. Southwest, the older of the two, developed an unusual business model for an airline: short hauls only, no travel agents, no meals, no gates at major airports, and no fees. Although the carrier has changed some of those practices, it remains determined to avoid the bag, ticket change, and other fees adopted by competing airlines, believing it would lose \$1 billion in revenue from lost bookings otherwise. A true discount airline, Southwest has been able to offer low fares by virtue of a disciplined cost structure that keeps planes in the air and seats filled, all with an informal, friendly style. The company hires employees with outgoing personalities who like to work with people and empowers them to do so. JetBlue also started with a very different business model, primarily targeting leisure travelers at its JFK hub in New York City. Another discount carrier with a low-cost structure, the company had the advantage of offering comfy seats, live TV, and choice of snacks. It is building a \$25 million lodge at JetBlue University in Orlando to foster culture and camaraderie among employees and exploring options for business travelers, including fancier, more expensive seating on its transcontinental routes.

**PRIMARY AND SECONDARY SERVICE OPTIONS** Marketers can differentiate their service offerings in many ways, through people and processes that add value. What the customer expects is called the *primary*



Source: Photo courtesy of Stephen Tomblom/JetBlue



Source: © Jim West/Alamy

Although they have very different business models, discount airlines JetBlue and Southwest Airlines have both experienced great marketplace success.

*service package.* Vanguard, one of the world's largest no-load mutual fund company, has a unique client ownership structure that lowers costs and permits better fund returns. Strongly differentiated from many competitors, the brand grew through word of mouth, PR, and viral marketing.<sup>63</sup>

The provider can also add *secondary service features* to the package. In the hotel industry, various chains have introduced such secondary service features as merchandise for sale, free breakfast buffets, and loyalty programs. Seaside Luxe has transformed sleepy gift shops into profitable revenue generators for various resorts by making them a more engaging shopping experience that reflects their particular customers and locale.<sup>64</sup>

Many companies are using the Internet to offer primary or secondary service features that were never possible before. Salesforce.com uses cloud computing—centralized computing services delivered over the Internet—to run customer-management databases for companies. Häagen-Dazs estimated it would have had to spend \$65,000 for a custom-designed database to stay in contact with its retail franchises across the country. Instead, the company spent only \$20,000 to set up an account with Salesforce.com and pays \$125 per month for 20 users to remotely monitor franchises via the Internet.<sup>65</sup>

The service company that regularly introduces innovations can intrigue customers and stay a step ahead of any competitors.<sup>66</sup> Sometimes it can even reinvent a service category, as Cirque du Soleil did.<sup>67</sup>

**CIRQUE DU SOLEIL** In its more than 25-year history, Cirque du Soleil (French for “circus of the sun”) has repeatedly broken loose from circus convention. The company takes traditional ingredients such as trapeze artists, clowns, muscle men, and contortionists and places them in a nontraditional setting with lavish costumes, new age music, and spectacular stage designs. And it eliminates other common circus elements—there are no animals. Each production is loosely tied together with a theme such as “a tribute to the nomadic soul” (Varekai) or “a phantasmagoria of urban life” (Saltimbanco). The group has grown from its Quebec street-performance roots to become a half-billion-dollar global enterprise, with 3,000 employees on four continents entertaining audiences of millions annually. Part of its success comes from a company culture that encourages artistic creativity and innovation and carefully safeguards the brand. One new production is created each year—always in-house—and is unique: There are no duplicate touring companies. In addition to Cirque's mix of media and local promotion, an extensive interactive e-mail program to its million-plus-member Cirque Club creates an online community of fans—20 percent to 30 percent of all ticket sales come from club members. Generating \$800 million in revenue annually, the Cirque du Soleil brand has expanded to encompass a record label, a retail operation, and resident productions in Las Vegas (five in all), Orlando, Tokyo, and other cities.

**INNOVATION WITH SERVICES** Innovation is as vital in services as in any industry.<sup>68</sup> After years of losing customers to its Hilton and Marriott hotel competitors, Starwood decided to invest \$1.7 billion in its Sheraton chain of 400 properties worldwide to give them fresher décor and brighter colors, as well as more enticing lobbies, restaurants, and cafés. In explaining the need for the makeover, one hospitality industry expert noted, “There was a time when Sheraton was one of the leading brands. But it lagged in introducing new design and service concepts and developed a level of inconsistency.”<sup>69</sup>

Cirque du Soleil defied conventions to create a totally unique and non-traditional circus experience.



Source: © Nathan King/Alamy

On the other hand, consider how these relatively new service categories emerged and how, in some cases, organizations found creative solutions in existing categories.

- **Online travel.** Online travel agents such as Expedia and Travelocity offer customers the opportunity to conveniently book travel at discount prices. However, they make money only when visitors go to their Web sites and book travel. Kayak successfully entered the category later by applying the Google business model of collecting money on a per-click basis. Kayak's marketing emphasis is on building a better search engine by offering more alternatives, flexibility, and airlines. Hipmunk is a newer online travel agency that tries to make things even simpler for the savvy traveler by fitting all search results on one easy-to-navigate page—with fewer ads—ranking flights on an “agony algorithm” that factors in price, duration, and number of stops and offering information about and discounts on nearby hotels.<sup>70</sup>
- **Retail health clinics.** One of the hardest areas in which to innovate is health care. But whereas the current health care system is designed to treat a small number of complex cases, retail health clinics address a large number of simple cases. Retail health clinics such as Quick Care, RediClinic, and MinuteClinic are often found in drugstores and other retail chain stores such as Target and Walmart. They typically use nurse practitioners to handle minor illnesses and injuries such as colds, flu, and ear infections; offer various health and wellness services such as physicals and exams for high school sports; and administer vaccinations. They seek to offer convenient, predictable service and transparent pricing, without an appointment, seven days (and evenings) a week. Most visits take no more than 15 minutes, and costs vary from \$25 to \$100.<sup>71</sup>
- **Private aviation.** Initially, private aviation was restricted to those who could own or charter a private plane. Fractional ownership, pioneered by NetJets, allowed customers to pay a percentage of the cost of a private plane plus maintenance and a direct hourly cost, making it more affordable for a broader customer base. Marquis Jets came up with the simple idea of prepaid time on the world's largest, best-maintained fleet, offering the consistency and benefits of fractional ownership without the long-term commitment. The two companies merged in 2010. Along with competitor Flight Options, private aviation firms are capitalizing on business executives' increasing dissatisfaction with commercial airline service and need for efficient travel options.<sup>72</sup>

New service categories are constantly being introduced to satisfy unmet needs and wants: Examples include drybar, the new “blow-dry bar” salon concept created around the simple promise “No Cuts. No Color. Just Blowouts for Only \$40”; Reddit, a giant online digital bulletin board with tens of thousands of active forums where registered users can post content or links; and online start-up Carelinx, which functions as a matchmaking site for families with at-home elderly and nonmedical caregivers who can provide home care.<sup>73</sup>

Innovation in existing services can also have big payoffs. When Ticketmaster introduced interactive seat maps that allowed customers to pick their own seats instead of being given one by a “best seat available” function, the conversion rate from potential to actual buyers increased by 25 percent to 30 percent. Persuading a ticket buyer to add an “I’m going...” message to Facebook adds an extra \$5 in ticket sales on average; adding reviews of a show on the site doubles the conversion rate.<sup>74</sup>



Source: Getty/The Washington Post

New service categories are always being created as with drybar, a blow-dry only chain of salons founded by Alli Webb.

## Managing Service Quality

The service quality of a firm is tested at each service encounter. If employees are bored, cannot answer simple questions, or are visiting each other while customers are waiting, customers will think twice about doing business there again. Wells Fargo has succeeded in the banking industry by focusing on its customers and delivering superior service.<sup>75</sup>

**WELLS FARGO** Through acquisitions and steady growth, Wells Fargo has become the largest U.S. bank. Marketing has also played a key role. The company's stagecoach symbol reinforces heritage and experience, but it's the way Wells Fargo operates that ensures continued success, beginning with a customer-focused corporate culture that aims to "treat the customer right." The bank also sees a financial benefit to its customer focus. As its values handbook notes:

The core of our vision and our strategy is "cross-selling." ... The more we give our customers what they need, the more we know about them. The more we know about their other financial needs, the easier it is for them to bring us more of their business. The more business they do with us, the better value they receive, the more loyal they are.

Given the diverse nature of its customer base in California, Wells Fargo actively seeks and trains a diverse workforce. The average customer uses 5.2 different bank products, roughly twice the industry average, thanks in part to the teamwork of the company's highly motivated staff. Wells Fargo's market share declined from 2003 to 2006, but because it also avoided issuing risky mortgages, its stock has delivered a 25 percent return over the past 10 years, comparable to Goldman Sachs and better than many other large banks.

Service outcome and customer loyalty are influenced by a host of variables. One study identified more than 800 critical behaviors that cause customers to switch services; see the eight categories of those behaviors in Table 14.3.<sup>76</sup> A more recent study honed in on the service dimensions customers would most like companies to measure. Knowledgeable frontline workers and the ability to achieve one-call-and-done rose to the top.<sup>77</sup>

Flawless service delivery is the ideal output for any service organization. "Marketing Memo: Recommendations for Improving Service Quality" offers a comprehensive set of guidelines to which top service marketing organizations can adhere. Two top activities are managing customer expectations and incorporating self-service technologies.



**TABLE 14.3** Factors Leading to Customer Switching Behavior**Pricing**

- High price
- Price increases
- Unfair pricing
- Deceptive pricing

**Inconvenience**

- Location/hours
- Wait for appointment
- Wait for service

**Core Service Failure**

- Service mistakes
- Billing errors
- Service catastrophe

**Service Encounter Failures**

- Uncaring
- Impolite
- Unresponsive
- Unknowledgeable

**Response to Service Failure**

- Negative response
- No response
- Reluctant response

**Competition**

- Found better service

**Ethical Problems**

- Cheat
- Hard sell
- Unsafe
- Conflict of interest

**Involuntary Switching**

- Customer moved
- Provider closed

**Source:** Susan M. Keaveney, "Customer Switching Behavior in Service Industries: An Exploratory Study," *Journal of Marketing* (April 1995), pp. 71–82. Reprinted with permission from *Journal of Marketing*, published by the American Marketing Association.

## MANAGING CUSTOMER EXPECTATIONS

Customers form service expectations from many sources, such as past experiences, word of mouth, and advertising. In general, they compare perceived and expected service. If the perceived service falls below the expected service, customers are disappointed. Successful companies add benefits to their offering that not only satisfy customers but surprise and delight them by exceeding expectations.<sup>78</sup> One company that has built its business around exceeding customer expectations is American Express.<sup>79</sup>

### AMERICAN EXPRESS

Under the direction of Executive VP Jim Bush, American Express has embraced a relationship-building approach in which customer service reps are judged in part on whether customers say they would recommend the brand to friends or family (NPS or Net Promoter Score; see Chapter 5). Reps—called customer care professionals—can see all kinds of relevant data on their screen when a customer calls, including name, age, address, and buying and payment habits. Whether a cardmember loses a wallet or purse while traveling or needs assistance finding a missing child in a foreign country, American Express has empowered its customer care professionals to do whatever it takes to help. This exemplary customer service brings financial benefits too. Cardmembers designated promoters on the basis of NPS score increase their AmEx card spending 10 percent to 15 percent and are four to five times more likely to remain customers, increasing shareholder value. Not least, because of its strong service culture and support, American Express boasts some of the highest employee retention rates in the industry.

The service-quality model in Figure 14.5 highlights the main requirements for delivering high service quality.<sup>80</sup> It identifies five gaps that prevent successful delivery:

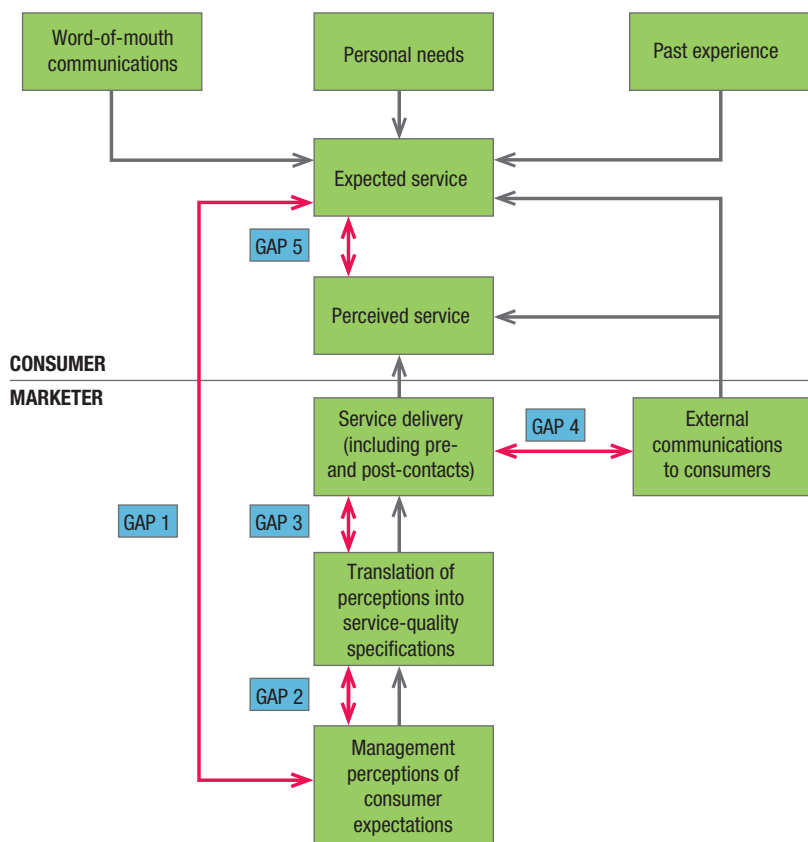
1. **Gap between consumer expectation and management perception**—Management does not always correctly perceive what customers want. Hospital administrators may think patients want better food, but patients may be more concerned with nurse responsiveness.



Pioneers in conducting academic service research, Berry, Parasuraman, and Zeithaml offer 10 lessons they maintain are essential for improving service quality across service industries.

1. *Listening*—Service providers should understand what customers really want through continuous learning about the expectations and perceptions of customers and noncustomers (for instance, by means of a service-quality information system).
2. *Reliability*—Reliability is the single most important dimension of service quality and must be a service priority.
3. *Basic service*—Service companies must deliver the basics and do what they are supposed to do—keep promises, use common sense, listen to customers, keep customers informed, and be determined to deliver value to customers.
4. *Service design*—Service providers should take a holistic view of the service while managing its many details.
5. *Recovery*—To satisfy customers who encounter a service problem, service companies should encourage customers to complain (and make it easy for them to do so), respond quickly and personally, and develop a problem-resolution system.
6. *Surprising customers*—Although reliability is the most important dimension in *meeting* customers' service expectations, process dimensions such as assurance, responsiveness, and empathy are most important in *exceeding* customer expectations, for example, by surprising them with uncommon swift-ness, grace, courtesy, competence, commitment, and understanding.
7. *Fair play*—Service companies must make special efforts to *be* fair, and to *demonstrate* fairness, to customers and employees.
8. *Teamwork*—Teamwork is what enables large organizations to deliver service with care and attentiveness by improving employee motivation and capabilities.
9. *Employee research*—Marketers should conduct research with employees to reveal why service problems occur and what companies must do to solve problems.
10. *Servant leadership*—Quality service comes from inspired leadership throughout the organization; from excellent service-system design; from the effective use of information and technology; and from a slow-to-change, invisible, all-powerful, internal force called corporate culture.

**Sources:** Leonard L. Berry, A. Parasuraman, and Valarie A. Zeithaml, "Ten Lessons for Improving Service Quality," *MSI Reports Working Paper Series, No.03-001* (Cambridge, MA: Marketing Science Institute, 2003), pp. 61–82. See also Leonard L. Berry, Venkatesh Shankar, Janet Parish, Susan Cadwallader, and Thomas Dotzel, "Creating New Markets through Service Innovation," *Sloan Management Review* (Winter 2006), pp. 56–63; and Leonard L. Berry, Kathleen Seiders, and Dhruv Grewal, "Understanding Service Convenience," *Journal of Marketing* (July 2002), pp. 1–17.



**| Fig. 14.5 |**  
Service-Quality Model

Sources: A. Parasuraman, Valarie A. Zeithaml, and Leonard L. Berry, "A Conceptual Model of Service Quality and Its Implications for Future Research," *Journal of Marketing* (Fall 1985), p. 44. The model is more fully discussed or elaborated in Valarie Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler, *Services Marketing: Integrating Customer Focus across the Firm*, 6th ed. (New York: McGraw-Hill/Irwin, 2013).

2. **Gap between management perception and service-quality specification**—Management might correctly perceive customers' wants but not set a performance standard. Hospital administrators may tell the nurses to give "fast" service without specifying speed in minutes.
3. **Gap between service-quality specifications and service delivery**—Employees might be poorly trained or incapable of or unwilling to meet the standard; they may be held to conflicting standards, such as taking time to listen to customers and serving them fast.
4. **Gap between service delivery and external communications**—Consumer expectations are affected by statements made by company representatives and ads. If a hospital brochure shows a beautiful room but the patient finds it cheap and tacky-looking, external communications have distorted the customer's expectations.
5. **Gap between perceived and expected service**—The consumer may misperceive the service quality. The physician may keep visiting the patient to show care, but the patient may interpret this as an indication that something is really wrong.

Based on this service-quality model, researchers identified five determinants of service quality, in descending order of importance:<sup>81</sup>

1. **Reliability**—The ability to perform the promised service dependably and accurately.
2. **Responsiveness**—The willingness to help customers and provide prompt service.
3. **Assurance**—The knowledge and courtesy of employees and their ability to convey trust and confidence.
4. **Empathy**—The provision of caring, individualized attention to customers.
5. **Tangibles**—The appearance of physical facilities, equipment, staff, and communication materials.

Based on these five factors, the researchers developed the 21-item SERVQUAL scale (see Table 14.4).<sup>82</sup> They also note there is a *zone of tolerance*, or a range in which a service dimension would be deemed satisfactory, anchored by the minimum level consumers are willing to accept and the level they believe can and should be delivered.

**TABLE 14.4** SERVQUAL Attributes

#### Reliability

- Providing service as promised
- Dependability in handling customers' service problems
- Performing services right the first time
- Providing services at the promised time
- Maintaining error-free records
- Employees who have the knowledge to answer customer questions

#### Empathy

- Giving customers individual attention
- Employees who deal with customers in a caring fashion
- Having the customer's best interests at heart
- Employees who understand the needs of their customers
- Convenient business hours

#### Responsiveness

- Keeping customer informed as to when services will be performed
- Prompt service to customers
- Willingness to help customers
- Readiness to respond to customers' requests

#### Tangibles

- Modern equipment
- Visually appealing facilities
- Employees who have a neat, professional appearance
- Visually appealing materials associated with the service

#### Assurance

- Employees who instill confidence in customers
- Making customers feel safe in their transactions
- Employees who are consistently courteous

**Source:** A. Parasuraman, Valarie A. Zeithaml, and Leonard L. Berry, "A Conceptual Model of Service Quality and Its Implications for Future Research," *Journal of Marketing* (Fall 1985), pp. 41–50. Reprinted by permission of the American Marketing Association.

Subsequent research has extended the service-quality model. One *dynamic process model* of service quality was based on the premise that customer perceptions and expectations of service quality change over time, but at any one point they are a function of prior expectations about what *will* and what *should* happen during the service encounter, as well as the *actual* service delivered during the last contact.<sup>83</sup> Tests of the dynamic process model reveal that the two different types of expectations have opposite effects on perceptions of service quality.

1. *Increasing* customer expectations of what the firm *will* deliver can lead to improved perceptions of overall service quality.
2. *Decreasing* customer expectations of what the firm *should* deliver can also lead to improved perceptions of overall service quality.

Much work has validated the role of expectations in consumers' interpretations and evaluations of the service encounter and in the relationship they adopt with a firm over time.<sup>84</sup> Consumers are often forward-looking with respect to their decision to keep or drop a service relationship in terms of their likely behavior and interactions with a firm. Any marketing activity that affects current or expected future usage can help to solidify a service relationship.

With continuously provided services, such as public utilities, health care, financial and computing services, insurance, and other professional, membership, or subscription services, customers have been observed to mentally calculate their *payment equity*—the perceived economic benefits in relationship to the economic costs. In other words, customers ask themselves, “Am I using this service enough, given what I pay for it?” A negative response will lead to change in behavior and possible termination of an account.

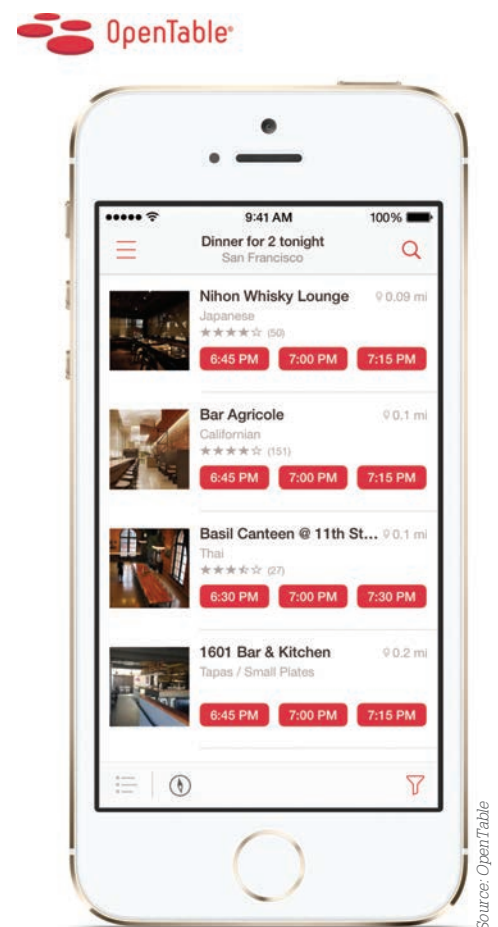
Long-term service relationships can have a dark side. An ad agency client may feel that over time the agency is losing objectivity, becoming stale in its thinking, or beginning to take advantage of the relationship.<sup>85</sup>

## INCORPORATING SELF-SERVICE TECHNOLOGIES (SSTS)

Consumers value convenience in services,<sup>86</sup> and many person-to-person service interactions are being replaced by self-service technologies (SSTs) intended to provide that convenience. To traditional vending machines we can add automated teller machines (ATMs), self-pumping at gas stations, self-checkout at hotels, and a variety of activities on the Internet, such as ticket purchasing, investment trading, and customization of products.

Chili's is installing tabletop computer screens in its restaurants so customers can order directly and pay by credit card. The restaurant found users of the service spend more per check, in part because they buy more desserts and coffee when the screen is present.<sup>87</sup> You can add an app like WaitAway to your cell phone and be contacted by text message when your table is ready at a restaurant—and monitor the length of the line in the process.<sup>88</sup> OpenTable lets you easily book the reservation ahead of time.<sup>89</sup>

**OPENTABLE** OpenTable has become the world's largest online reservation system, letting users book a reservation on its Web site or with its smart-phone app at thousands of restaurants around the world. A new deal with Facebook allows users to book on a restaurant's Facebook page. For a fairly modest setup charge and monthly fee—\$249 a month for software to manage bookings plus \$1 for every diner seated through the Web site—a restaurant can tap into OpenTable's vast customer base. With half of all restaurants in North America signed up and more than 15 million people seated monthly via the Web site, the service has been adding functionality. For instance, the acquisition of Foodspotting for \$10 million allows users to search menu images by dish. Now more than 40 percent of its reservations are booked via phone or tablet, OpenTable is beefing up its mobile strategy and adding payment services with a new app. Its new priority is to take the massive amounts of data it has collected on users' dining preferences to offer customized dining recommendations.



Source: OpenTable

OpenTable, the market leader in online restaurant reservations, is investing heavily in its mobile offerings.

Not all SSTs improve service quality, but they can make service transactions more accurate, convenient, and faster. Obviously, they can also reduce costs. One technology firm, Comverse, estimates the cost to answer a query through a call center at \$7, but online at only 10 cents. One of Comverse's clients was able to direct 200,000 calls a week through online self-service support, saving \$52 million a year.<sup>90</sup>

Every company needs to think about improving its service using SSTs. Comcast can offer less customer service because 40 percent of its installations are done by the customer and 31 percent of customers now manage their accounts completely online.<sup>91</sup>

Successfully integrating technology into the workforce thus requires a comprehensive reengineering of the front office to identify what people do best, what machines do best, and how to deploy them separately and together.<sup>92</sup> Some companies have found the biggest obstacle is not the technology itself, but convincing customers to use it, especially for the first time.

Customers must have a clear sense of their roles in the SST process, must see a clear benefit, and must feel they can actually use it.<sup>93</sup> SST is not for everyone. Although some automated voices are actually popular with customers—the unfailingly polite and chipper voice of Amtrak's "Julie" has been generally well-received by callers—many can incite frustration and even rage.<sup>94</sup>

## Managing Product-Support Services

No less important than service industries are product-based industries that must provide a service bundle.<sup>95</sup> Manufacturers of equipment—small appliances, office machines, tractors, mainframes, airplanes—all must provide *product-support services*, now a battleground for competitive advantage. Many product companies also have a stronger online presence than before and must ensure they offer adequate—if not superior—service online as well.

Chapter 13 described how products could be augmented with key service differentiators—ordering ease, delivery, installation, customer training, customer consulting, maintenance, and repair. Some equipment companies, such as Caterpillar Tractor and John Deere, make a significant percentage of their profits from these services.<sup>96</sup> In the global marketplace, companies that make a good product but provide poor local service support are seriously disadvantaged.

### IDENTIFYING AND SATISFYING CUSTOMER NEEDS

Traditionally, customers have had three specific worries about product service:<sup>97</sup>

- They worry about reliability and *failure frequency*. A farmer may tolerate a combine that will break down once a year, but not one that goes down two or three times a year.
- They worry about *downtime*. The longer the downtime, the higher the cost. The customer counts on the seller's *service dependability*—the ability to fix the machine quickly or at least provide a loaner.
- They worry about *out-of-pocket costs*. How much does the customer have to spend on regular maintenance and repair costs?

A buyer takes all these factors into consideration and tries to estimate the **life-cycle cost**, which is the product's purchase cost plus the discounted cost of maintenance and repair less the discounted salvage value. A one-computer office will need higher product reliability and faster repair service than an office where other computers are available if one breaks down. An airline needs 100 percent reliability in the air. Where reliability is important, manufacturers or service providers can offer guarantees to promote sales.

To provide the best support, a manufacturer must identify the services customers value most and their relative importance. For expensive equipment, manufacturers offer *facilitating services* such as installation, staff training, maintenance and repair services, and financing. They may also add *value-augmenting services* that extend beyond the functioning and performance of the product itself. Johnson Controls reached beyond its climate control equipment and components business to manage integrated facilities, offering products and services that optimize energy use and improve comfort and security.

A manufacturer can offer, and charge for, product-support services in different ways. One specialty organic-chemical company provides a standard offering plus a basic level of services. If the customer wants additional services, it can pay extra or increase its annual purchases to a higher level. Many companies offer *service contracts*



(also called *extended warranties*), in which sellers agree to provide maintenance and repair services for a specified period of time at a specified contract price.

Product companies must understand their strategic intent and competitive advantage in developing services. Are service units supposed to support and protect existing product businesses or grow as an independent platform? Are the sources of competitive advantage based on economies of scale (size) or economies of skill (smarts)?<sup>98</sup>

## POSTSALE SERVICE STRATEGY

The quality of customer service departments varies greatly. At one extreme are those that simply transfer customer calls to the appropriate person for action with little follow-up. At the other extreme are departments eager to receive customer requests, suggestions, and even complaints and handle them expeditiously. Some firms even proactively contact customers to provide service after the sale is complete.<sup>99</sup>

**CUSTOMER-SERVICE EVOLUTION** Manufacturers usually start by running their own parts-and-service departments. They want to stay close to the equipment and know its problems. They also find it expensive and time consuming to train others and discover they can make good money from parts and service if they are the only supplier and can charge a premium price. In fact, many equipment manufacturers price their equipment low and compensate by charging high prices for parts and service.

Over time, manufacturers switch more maintenance and repair service to authorized distributors and dealers. These intermediaries are closer to customers, operate in more locations, and can offer quicker service. Still later, independent service firms emerge and offer a lower price or faster service. A significant percentage of auto-service work is now done outside franchised automobile dealerships by independent garages and chains such as Midas Muffler and Sears. Independent service organizations handle mainframes, telecommunications equipment, and a variety of other equipment lines.

**THE CUSTOMER-SERVICE IMPERATIVE** Customer-service choices are increasing rapidly, however, and equipment manufacturers increasingly must figure out how to make money on their equipment, independent of service contracts. Some new-car warranties now cover 100,000 miles before customers have to pay for servicing. The increase in disposable or never-fail equipment makes customers less inclined to pay 2 percent to 10 percent of the purchase price every year for service. A company with several hundred laptops, printers, and related equipment might find it cheaper to have its own service people on-site.

## Summary

- 
1. A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. It may or may not be tied to a physical product.
  2. Services are intangible, inseparable, variable, and perishable. Each characteristic poses challenges and requires certain strategies. Marketers must find ways to give tangibility to intangibles, to increase the productivity of service providers, to increase and standardize the quality of the service provided, and to match the supply of services with market demand.
  3. Marketing of services faces new realities in the 21st century due to customer empowerment, customer coproduction, and the need to satisfy employees as well as customers.
  4. Achieving excellence in service marketing calls not only for external marketing but also for internal marketing to motivate employees, as well as interactive marketing to emphasize the importance of both “high tech” and “high touch.”
  5. Top service companies adopt a strategic concept, have a history of top-management commitment to quality, commit to high standards, establish profit tiers, and pay attention to their systems for monitoring service performance and customer complaints. They also differentiate their brands through

- primary and secondary service features and continual innovation.
6. Superior service delivery requires managing customer expectations and incorporating self-service technologies. Customers' expectations play a critical role in their service experiences and evaluations. Companies must manage service quality by understanding the effects of each service encounter.
  7. Even product-based companies must provide post-purchase service. To offer the best support, a manufacturer must identify the services customers value most and their relative importance. The service mix includes both presale services (facilitating and value-augmenting services) and postsale services (customer service departments, repair and maintenance services).

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# Applications

## Marketing Debate

### Is Service Marketing Different from Product Marketing?

Some service marketers maintain that service marketing is fundamentally different from product marketing and relies on different skills. Some traditional product marketers disagree, saying “good marketing is good marketing.”

**Take a position:** Product and service marketing are fundamentally different *versus* Product and service marketing are highly related.

## Marketing Discussion

### Educational Institutions

★ Colleges, universities, and other educational institutions can be classified as service organizations. How can you apply the marketing principles developed in this chapter to your school? Do you have any advice for how it could become a better service marketer?

## Marketing Excellence

### >> Club Med

Club Méditerranée or Club Med is a French company founded in 1950 by Gérard Blitz and Gilbert Trigano with the objective of offering holidays to customers with an innovative “all-inclusive” formula. The idea of happiness was at the heart of the concept. Today, Club Med has 72 resorts in more than 30 countries, including the Mediterranean, the tropics, and even the snow-covered Alps. In 2013, more than 1.5 million customers chose Club Med for their holidays.

Club Med has revolutionized holidays with its all-inclusive formula. At the time of its creation, the company aimed to give people a sense of freedom through nature

and sports that allowed them to be happy and one with the others. Club Med proposed a new social link that was more festive and less binding on the client. It wanted to reconcile individual liberty and social life. At that time, in the holiday villages, customers could do what they wanted without the concept of money being present. Upon arrival, customers were provided with necklaces made out of beads that allowed customers to pay for their drinks (which would later be patented). Big tables allowed customers to share their meals and get acquainted with each other. The notions of freedom and equality were and still remain fundamental to the culture of Club Med. Since its creation, Club Med has never ceased to innovate. New and unknown destinations were added to the portfolio—Tahiti in 1955 and Leysin in Switzerland in 1956. In 1967, Club Med created the first mini clubs for children.

In the years 1980–1990, decline of the attractiveness of the concept of holiday homes and the sharp rise of competition at lower prices weakened Club Med's position. The company's strategy at that point was unclear—it was neither a volume nor a value strategy.

In addition, the economic crisis of 1993, a result of the Gulf war, and the events of September 2001 severely affected Club Med in the same way it affected all kinds of tourism.

In 2004, Club Med decided to redirect to a value strategy in order to target an international clientele that wanted comfort, elegance, service, and customization. The holiday package offer was therefore repositioned with the closure of entry-level vacation villages (classified 2 trident), renovation of other villages in 4 trident to 5 trident, and the creation of a new range of luxury 5 trident (villages, villas, and chalets).

Club Med now offers an all-inclusive premium with a high range of services and an extension of the à la carte services that come with gourmet food and high-quality drinks. Starting at 4 trident, all clubs offer a spa in partnership with a famous brand. The shows in the resorts are all designed by specialized companies. Clubs for children have dedicated spaces with an emphasis on nature and local culture. The sports schools offer up to 10 different disciplines with qualified coaches and quality equipment.

For its 5 trident resorts, Club Med chooses sites of exception in the most beautiful destinations of the world, such as Cancun in Mexico, Punta Cana in the Dominican Republic, and Kani in the Maldives. The development of these resorts is entrusted to renowned architects and designers. The services developed are high-end with all-day room service, a concierge service, and champagne offered after 6 p.m. Private villas come with a butler.

In the 5 trident resorts in the Maldives, the villas are placed on stilts; clients have private access to the sea, and can observe marine life through a transparent floor in the room.

This repositioning to the high-end has also necessitated a change in the relationship between customers, called Gentle Members, and staff, called Gentle Organizers. Club Med has 15,000 Gentle Organizers of 100 different nationalities to meet the requirements of its international clientele. They are qualified in various fields and specialize in cooking, sport, amusement, and client-servicing. Trainings to inculcate precision and a sense of premium service have been developed. A resort school has even been created in Vittel, France; it welcomes 10,000 trainees every year. Club Med is always looking to recruit real talent and unique personalities.

The organization's customer relationship has also evolved through the development of customer relationship management tools for a finer segmentation of customers. In some agencies, a concept of sale side-by-side has been developed to allow clients to customize their holiday packages along with the sellers. Club Med's communication campaign "and what's your idea of happiness?" highlights this upmarket strategy. This campaign has been deployed in 47 countries and in 22 languages.

The positioning of Club Med's resorts, from 3 trident to 5 trident, allows for a broader coverage of the competition field—from standardization, and luxury services to all-inclusive offers. No other company offers this. Club Med's 4 trident resorts are in competition with the Swiss Mövenpick (69 hotels in 23 countries) and the Jamaican Sandals (12 resorts in Jamaica and the Bahamas). Club Med's 5 trident resorts compete with the Singaporean Banyan Tree (30 hotels and 60 spas all over the world). Finally, the Club Med luxury villas are in competition with the villas of the Mauritius company Beachcomber that works on the philosophy "dream is a serious thing" (9 hotels, resorts, and luxury villas), Aman Resorts (25 hotels in 15 countries), and the Ritz-Carlton (80 hotels in 27 countries).

With the range and quality of its service, Club Med turns holidays into a one-of-a-kind experience. The focus on a globalized customer strategy helped Club Med grow and ensured its unique positioning in the market. As of January 2015, the proposed takeover of Club Med by the Chinese investor Fosun will help accelerate the internationalization of the brand and its development in Asia.

### Questions

1. How did Club Med reach an upscale positioning and achieve excellence in the quality of service?
2. Was Club Med's upmarket positioning the only one viable strategy?
3. Do you think that Club Med takes a risk by not in specializing in a particular range level, such as 4 trident or 5 trident?

**Sources:** Marcel Michelson, "The Battle For Tourism Firm Club Med, Sharks Or Saviors?" *Forbes*, August 2, 2014; Julia Pimsleur, "Reinventing a 50-Year-Old Brand: Lessons From Le Club Med," *Forbes*, January 15, 2013; David Jolly, "Chinese Investors Raise Their Bid for Club Med," *The New York Times*, December 19, 2014; "La transformation du Club Med en une marque mondiale de tourisme haut de gamme," *Le Hub*, October 14, 2011; "Le haut-de-gamme, la stratégie payante du Club Med face à la concurrence," *Paris Tribune*, July 25, 2014; Martin Soma, "Club Med, Leader des vacances tout compris, l'empire du soleil levant change d'orbite," *Management Magazine*, Novembre 2014, pp. 30–34; Club Med, [www.clubmed.com](http://www.clubmed.com).

## Marketing Excellence

### >> Parkway Group Hotels

Parkway Group Healthcare, headquartered in Singapore, was founded by Dr. Lim Cheok Peng and others in 1987 and has grown internationally by annexing other hospitals. For example, Parkway's joint venture with Apollo Hospitals in India has facilitated its expansion into that market. Parkway's hospitals provide exceptional patient care and offer specialty clinics in areas, including oncology, neurology, optometry, and fertility. Its radiology department serves hospitals regionally, its laboratories serve inpatients and outpatients in Singapore, and it runs a physical rehabilitation service. In 2013, the Medical Travel and Health Tourism Quality Alliance (MTQVA) ranked Singapore's Gleneagles Hospital, Parkway's flagship facility, as ninth highest on its list for medical tourism in 2013. According to the MTQVA, Gleneagles provides top-quality medical services in a top-quality location. This high acclaim is testament to Parkway Group's primary mission, which is to make a difference in people's lives through a high level of patient care.

Parkway's focus on providing excellent service starts with its pre-admission procedure and continues through post-surgical care. To take patients' needs fully into account, the company applies a different set of service standards in different hospitals. In all its hospitals, however, patients can just approach the reception counter and ask for assistance instead of making appointments beforehand. Doctors on duty make the preliminary recommendations, then hospital administrators bring in appropriate specialists to provide the necessary care.

Parkway operates 18 hospitals with over 3,500 beds in Singapore, Malaysia, Brunei, India, China, and the United Arab Emirates. Patients are treated like five-star hotel guests. At Danat Al Emarat Women & Children's Hospital in Abu Dhabi, patient rooms are fully equipped with high-speed Internet, video-on-demand, and video games for children. The Royal Suites at Danat Al Emarat have dedicated medical staff exclusive to each suite. But Parkway attends to more than just a patient's comforts. At Singapore's flagship Gleneagles Hospital, post-surgical care insurance provides coverage for treatment of postsurgical complications for all

patients. Coverage begins from the moment initial surgery is completed and ends 24 hours after a patient has been discharged.

Parkway's Pantai Hospital in Penang, Malaysia, caters to patients at all socioeconomic levels. At the lowest price range, beds in the open ward, painted a cool lavender, begin at \$40. However, a Deluxe Room costing \$110 per night has the feel of a luxury chalet. It is fully air-conditioned and features a lounge area with a dining table and private bathroom. A refrigerator is provided as well: patients in Pantai Penang's Deluxe suites are meant to feel as much at home as possible.

Gleneagles Singapore has a novel way of attracting new patients. The hospital invites specialists to purchase or rent rooms on its premises. Then, because of proximity, these doctors tend to admit their patients to Gleneagles, the admissions desk operates around the clock to accommodate every patient that walks in through the door. A patient is allowed to proceed to the admissions desk at any time of day, without the need for a referral, and be guaranteed a bed. Gleneagles has 700 doctors and, across the whole of Singapore, the group has around 4228 doctors.

Parkway understands that patients have the right to be treated with dignity, respect, and be kept fully apprised of the progress of their treatment, via a translator if needed. A patient in a Parkway hospital is also always entitled to request a second opinion from an accredited doctor; the company believes every patient must be allowed to participate in, and understand, their own health care needs. Parkway Patient Assistance (PPA), one of the Gleneagles Singapore's initiatives, provides a one-stop service for international patients looking for specialist expertise, personalized care, and cutting-edge technology. PPA staff also provides advice on estimated costs of treatments and procedures.

The CEO of Parkway Holdings, Dr. Tan See Leng, has noted that Asia is becoming a hub for patient treatment. He believes that the next 1–2 years will see great benefits for Asian health care providers, as long as high-quality service is provided. Parkway Group's biggest strength lies in its ability to capture the market for medical tourists in the Asian region, expected to be worth at least \$10 billion by 2015. Low-cost, high-quality health care in Asia is estimated to attract over 10 million tourists a



year. If Parkway Group continues to expand its reach and maintain the world-class quality of its medical establishments, then the sky is the limit for what it can achieve.

### Questions

1. With many hospitals in Asia competing in the medical tourism market, how can Parkway position itself in order to attract more patients?
2. Parkway hospitals do not employ many doctors but depend on the use of the hospital services by private specialists. What are the risks in this approach?

**Sources:** "Moving Up the Value Chain," *Business Times*, November 10, 2009; "Patient Guide," Parkway Health, [www.parkwayhealth.com](http://www.parkwayhealth.com); "Overview," Pantai Holdings Berhad, [www.pantai.com](http://www.pantai.com); "Sustainable Design," Danat Al Emarat Women & Children's Hospital, [www.danatalemarat.ae](http://www.danatalemarat.ae); "Gleneagles Hospital," Parkway Health, [www.parkwayhealth.com](http://www.parkwayhealth.com).

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## In This Chapter, We Will Address the Following **Questions**

1. How can new products be categorized? (p. 451)
2. What challenges does a company face in developing new products and services? (p. 453)
3. What organizational structures and processes do managers use to oversee new-product development? (p. 456)
4. What are the main stages in developing new products and services? (p. 458)
5. What is the best way to manage the generation of new ideas? (p. 460)
6. What is the best way to manage concept and strategy development? (p. 467)
7. What is the best way to manage the commercialization of new products? (p. 472)
8. What factors affect the rate of diffusion and consumer adoption of newly launched products and services? (p. 476)

The unique features of General Motors' innovative OnStar in-car communication system are highly valued by GM's customers.

*Source: General Motors, LLC 2011*

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