



11

Services: The Intangible Product

Figure 11.1 Services are intangible, nonphysical products, such as childcare, and they make up the majority of the US GDP. (credit: "DSC_1551" by Josh Ward/flickr, CC BY 2.0)

Chapter Outline

- 11.1 Classification of Services
- 11.2 The Service-Profit Chain Model and the Service Marketing Triangle
- 11.3 The Gap Model of Service Quality
- 11.4 Ethical Considerations in Providing Services



In the Spotlight

Services are acts a consumer is willing to pay for, and there are hundreds of different types. One such service is day care. According to the US Chamber of Commerce, 88 percent of two-parent families and 83 percent of single-parent families relied on non-parental care prior to the COVID-19 pandemic and spent approximately \$42 million on early care and education.¹

Sara Bullock, who has a background in early childhood education and four children of her own, owned a childcare business in Maryland for more than 10 years. When her husband was required to move to Tennessee for his job, she closed her business and started a new childcare business using a different business model. She changed it from a conventional daycare center to a "drop-in" center, allowing parents to bring in their children for short periods of time (anywhere from one to seven hours) without requiring them to make a monthly commitment. That was the birth of **MeTime Drop-In Child Care**. The concept has been so successful that Bullock has already begun plans to open a second location.²

11.1 Classification of Services

Learning Outcomes

By the end of this section, you will be able to:

- LO 1** Define services.
- LO 2** List the classification of services.
- LO 3** Describe the characteristics of services.

Services Defined

You may have heard that the United States' economy is primarily considered a service economy. But do you know why this is? [Figure 11.2](#) provides the answer. It outlines the percentage each industry contributed to the gross domestic product (GDP) in 2020.³ (A quick refresher from your economics course: the GDP is a measure of the total monetary value of all finished goods and services generated within a country's borders during a specified period of time.) Which industries are the largest contributor to the GDP? Service industries. (Note that this figure does not include smaller industries such as utilities, or mining and agriculture.) When you total the service industries, they make up a whopping 67 percent of GDP versus only 10.8 percent for manufacturing.

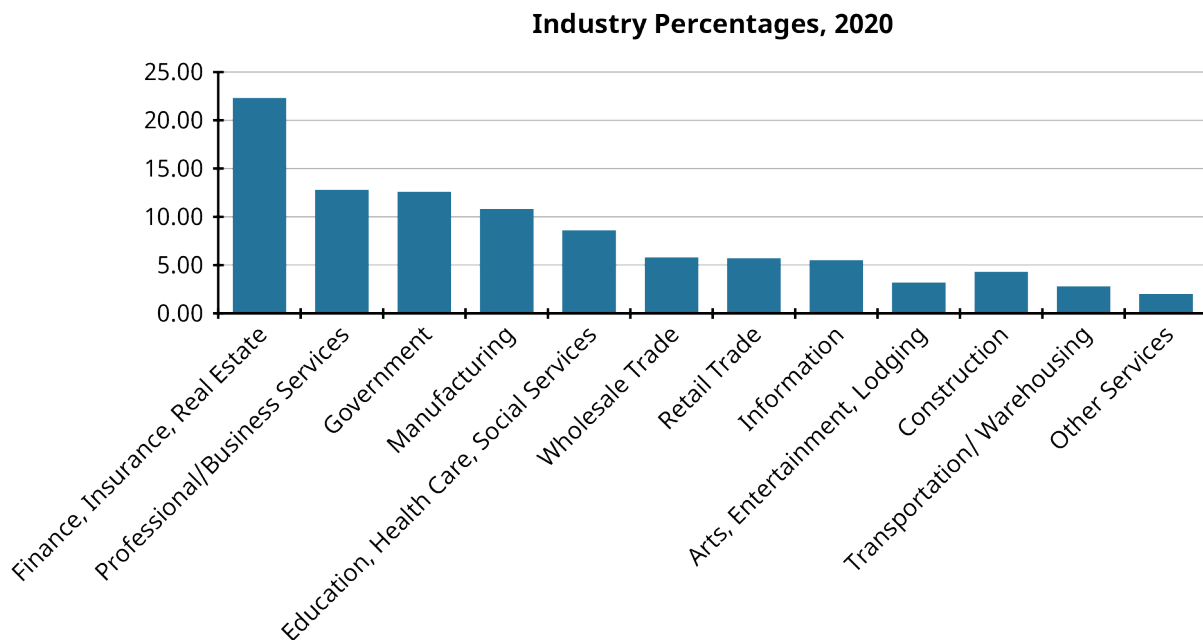


Figure 11.2 Percentages Added by Industry to the US GDP in 2020 (data source: BEA; US Department of Commerce; attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In a nutshell, **services** are the nonphysical, intangible economic activities. On the other hand, physical goods are the things we can touch or handle, commonly called tangibles. Do you realize that, as you read this textbook, you're participating in the services sector of the economy? That's because education is considered part of the service sector. The service sector also includes things like banking, medical treatment, transportation, insurance, and many more categories. Based on the fact that the majority of contributions to the GDP in the United States are services, and more than half of the country's workforce is employed in producing "intangibles," it's critical to understand this important sector from a marketing perspective.

Consider the challenges to marketers when selling services as opposed to products. A consumer can't touch or see the service before they purchase, so it's difficult to examine or evaluate benefits. Think about it: you can't take a service out for a test drive the way you might if you were buying a new car. Yet it's just as crucial for organizations that provide services to build brand awareness and brand loyalty.

Classification of Services

Services are classified as people-based services or equipment-based services. And within those classifications, there are subcategories (see [Figure 11.3](#)).

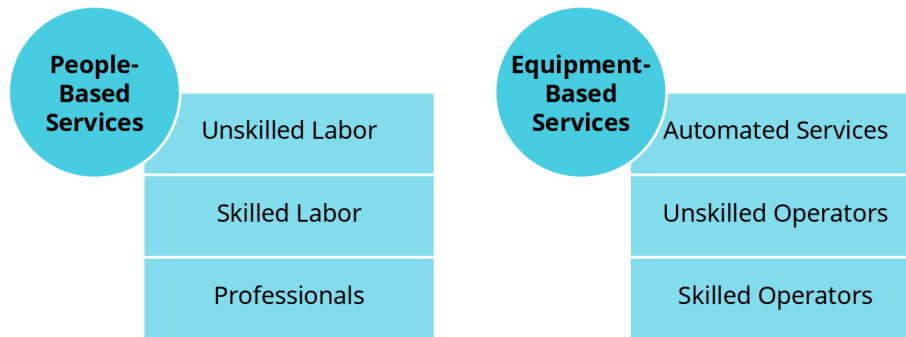


Figure 11.3 Services Classifications (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

People-Based Services

People-based services are when people primarily deliver the service, rather than equipment or machinery (see [Figure 11.4](#) for examples). It's the individuals delivering the service, and the knowledge and skills that they possess, that add value and allow the service to be performed. People-based services can be broken down further into these subcategories:

- services provided by unskilled labor: parking lot attendants, babysitters, and janitors
- services provided by skilled labor: plumbers, caterers, and hairstylists
- services provided by professionals: doctors, attorneys, college professors, and accountants

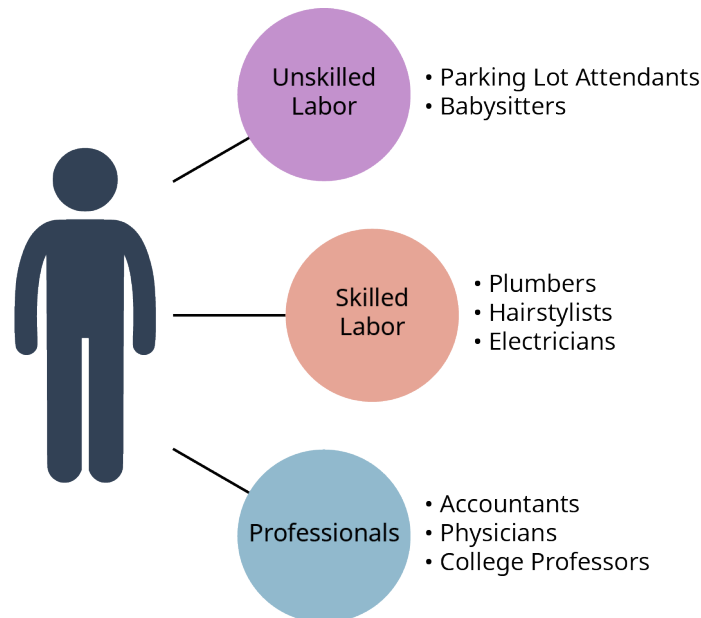


Figure 11.4 People-Based Services (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Equipment-Based Services

Equipment-based service firms utilize equipment, machinery, and other forms of technology to perform service tasks (see [Figure 11.5](#)). Similar to people-based services, equipment-based services can be further broken down into subcategories:

- automated services: car washes and parking meters
- equipment-based services operated by relatively unskilled operators: dry-cleaning equipment

- equipment-based services operated by skilled operators: X-ray machines and ultrasound equipment

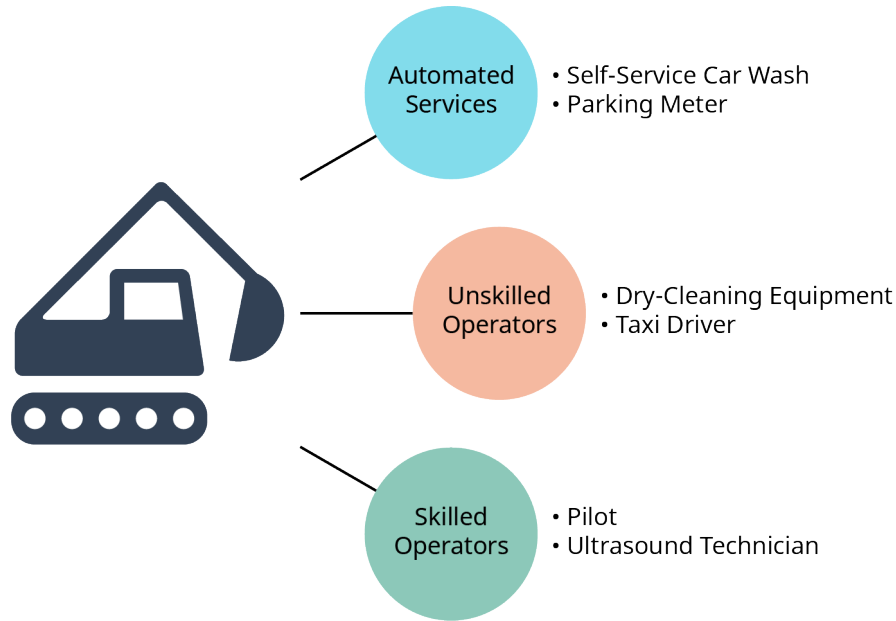


Figure 11.5 Equipment-Based Services (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

There is another way to categorize services, according to well-known author and professor Christopher Lovelock (1940–2008). He proposed four broad categories of services:

- people processing: services toward people's bodies
- possession processing: services toward possessions
- mental stimulus processing: services toward people's mind
- information processing: services toward intangible assets⁴

In [Figure 11.6](#), the categories are defined on a two-dimensional matrix, wherein one of the dimensions is the direct recipient of the service and the other is the nature of the service act.⁵

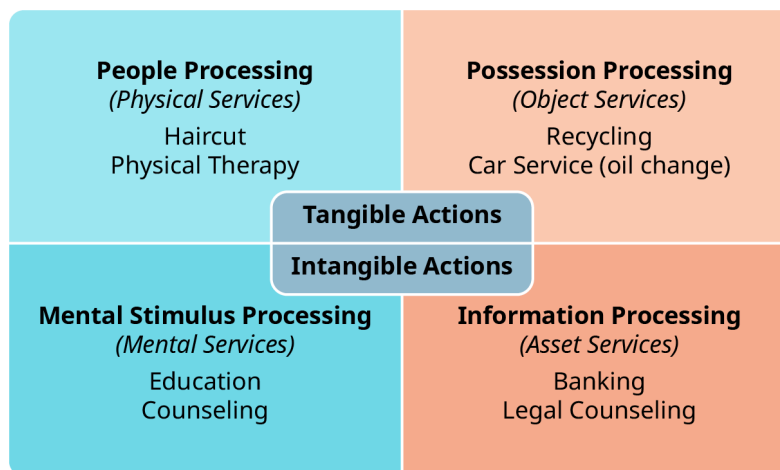


Figure 11.6 Lovelock's Categories of Service (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

LINK TO LEARNING



Lovelock

If you plan to continue toward a marketing degree, you'll want to familiarize yourself with Christopher Lovelock's work. You can run a search on Amazon.com for his books or a search in your browser for articles and more information. Start by reading his [Wikipedia page \(https://openstax.org/r/christopherlovelock\)](https://openstax.org/r/christopherlovelock) to learn about his academic background and achievements.

Let's look at each of these categories in more depth. The first two categories (people processing and possession processing) involve tangible actions directed toward a person's physical body or property, whereas mental stimulus processing and information processing involve intangible actions directed toward a person's mind or information. We'll expand on this in the following sections.

People Processing

In **people processing** services, the customer is a direct recipient of the service, and the production and consumption of the service are simultaneous. Consider examples of services where you must be present in the service facility in order to interact with the service provider and receive the service, such as barbershops or hair salons, physical therapists' offices, or restaurants.

Possession Processing

The difference between people processing and **possession processing** is that the service is directed toward the customer's physical possessions. In other words, production and consumption are separate. Your only involvement is dropping off the item that requires service or repair and explaining the problem. For example, once you have taken your car in for an oil change, you do not need to be physically at the location for the oil change to occur. Similarly, once you've dropped your clothes off at the dry cleaner's, you don't need to be physically present when the cleaning process is performed. These services are tangible because the direct recipient is one of your possessions rather than you as a person.

Mental Stimulus Processing

In its simplest explanation, **mental stimulus processing** is when the services interact with your mind rather than your body. Time and mental effort are required from the customer to receive this type of service. What you're doing right now—reading this textbook—is a prime example of mental stimulus processing. Other examples include psychotherapy or counseling services. The key here is that services rendered in this category are intangible.

Information Processing

Information processing is the most intangible form of service, although it can be transformed into a tangible service output like reports, books, letters, DVDs, etc. Some examples of information processing services are things like meeting with your financial advisor regarding investment advice, legal services, and banking.⁶

LINK TO LEARNING



Service Industry Stats and a Changing Industry

If you'd like more insight into service industries, check out the [US Bureau of Labor Statistics website \(https://openstax.org/r/blsgov\)](https://openstax.org/r/blsgov). It categorizes industries and provides interesting statistics on employment.

Companies are launching new services every day. Think about it—services like Uber didn't exist 20 years ago. As a marketer, understanding services and their business models is critical. [Start here and read about on-demand service companies \(https://openstax.org/r/serviceindustries\)](https://openstax.org/r/serviceindustries) and how services—and apps—are changing the industry. And also check out this [article about the top 15 service businesses for 2022 \(https://openstax.org/r/articlesmallbusiness\)](https://openstax.org/r/articlesmallbusiness).

Characteristics of Services

As outlined in [Figure 11.2](#), service industries contribute the major percentage of the US GDP. It's important to understand that this shift from the manufacturing sector to the service sector isn't limited to the United States. Increasingly, the world economy is being characterized as a service economy. Looking at economic history, we can see a natural evolution in developing countries from the agricultural industry to the service sector as the mainstay of the economy. That's why it's critical for marketers to understand the characteristics of services.

As we pointed out above, some services come from physical products, such as getting a haircut or having your income tax return prepared by a professional. But other services are completely intangible. When you rent a hotel room, travel on an airplane, visit your doctor, attend a professional sporting event, or get advice from a lawyer or an accountant, you're buying a service, so a marketer needs to consider the characteristics of services in order to get the right marketing messages to the right target market (see [Figure 11.7](#)).

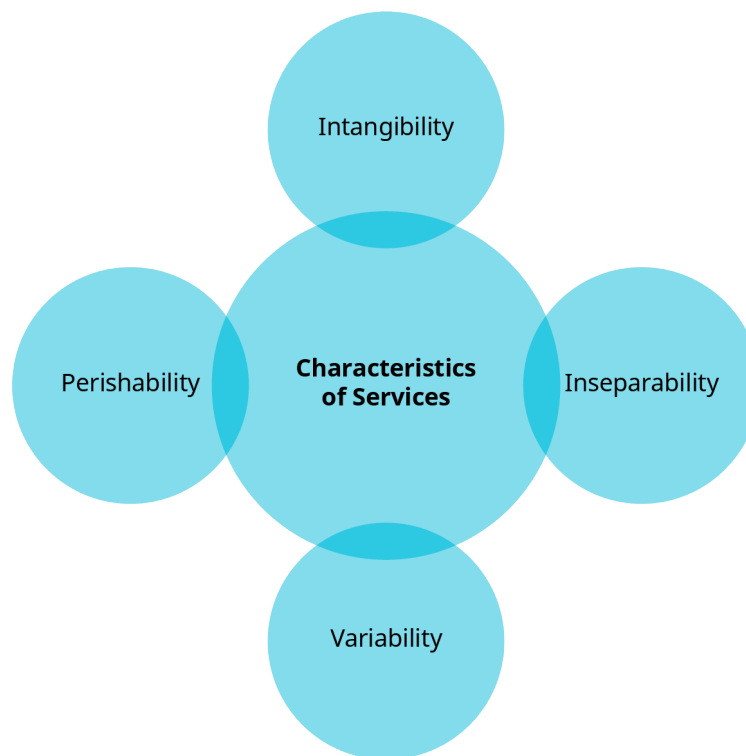


Figure 11.7 Characteristics of Services (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Service Intangibility

By their very nature, services are **intangible**. This means they can't be seen, tasted, felt, smelled, or heard before they are purchased. Consider the last time you purchased automobile insurance for your car. Other than the physical policy the company sends you (the only tangible asset), what you've paid for is completely intangible—it's the company's promise to pay claims against the policy.

Intangible services have a number of implications in marketing. The very fact that there's nothing to touch, hear, smell, and so on typically increases the level of uncertainty that a consumer faces when choosing

between services offered by your organization or those of competitors. Intangible services can seldom be tried out, inspected, or even given a “test drive” by a customer. Customers have to rely on the word of the marketers in order to assess what they’re actually going to get in return for what they’ve paid. In effect, they are buying a promise.

Savvy marketers reduce this uncertainty by creating physical “evidence” that allows the consumer to picture the service before it is purchased. For example, a hair salon may have imaging software that predicts how you would look with different hairstyles or colors. Companies like **Zenni** and **Eyebuydirect** have a virtual mirror that allows you to “try on eyeglasses” and see how the selected frames look on your face before you purchase.⁷

Service Inseparability

The order of production and consumption between a physical product and a service differs. Think about a box of Girl Scout cookies, a physical good or product. The cookies were produced, stored, sold, and finally consumed. That’s not the way it works with services. Like goods, services are sold, but they are produced and consumed simultaneously. They can’t be separated from the service providers, whether they are people or equipment.⁸ For example, try to get money out of your bank on a weekend or evening without an ATM, or try to get a haircut without the physical presence of your stylist. That’s the concept of **service inseparability**—you can’t separate the delivery of the service from the presence of the customer. In other words, the service provider is physically connected to the service and is evaluated on the basis of their communication skills, language, demeanor, personal hygiene, and clothing.

The impact to the marketer in these services—in which the service provider and customer must both be present—is how service providers (sometimes called frontline employees) conduct themselves in the presence of the customer because it may determine the likelihood of repeat business.⁹ There are also other marketing implications with this concept, such as customer cooperation and participation, not to mention the influence from other customers who may be present.

Service Variability

Have you ever gone to a restaurant and had stellar customer service? You were seated promptly by a cheerful hostess; the busser filled up your water glass and refilled it several times during the evening; the waitstaff was attentive but not to the point of being annoying; and your dirty dishes were cleared promptly. But perhaps the next time you visit the same restaurant, your experience isn’t quite as amazing. The hostess isn’t as cheerful, and it takes her several minutes to seat you. It takes a while for someone to refill your water glass. The waitstaff isn’t nearly as attentive as they were during your first visit. What went wrong?

Perhaps what you’ve experienced is what’s known as **service variability**—the quality of the service depends on who provides it, when it is provided, and how it is provided. For example, **Delta Air Lines** prides itself on improving peoples’ lives and exceeding customer expectations.¹⁰ However, because services are provided by humans who have human experiences where they may not be feeling well or they are having a bad day, the service may be variable between employees. One Delta employee may be cheerful and efficient, while another lags due to their energy and state of mind.

This is a challenge to marketers because products generally have little variability: each unit is built to certain specifications. For example, if you buy an **Apple iPad Pro** and your classmate purchases the same model, it’s likely that the two iPads will be virtually identical. The case color may be different, but otherwise they are the same. That’s not the case with a service, where there will undoubtedly be variations in the quality of the service depending on who offers the service, when it is offered, and at which location. Service-based companies need to rely on standardizing processes to the extent possible, frequent audits, customer surveys, and most importantly, customer feedback.

Service Perishability

Unlike most goods, services can’t be produced and stored for later use or sale. Services are, in effect,

performances by the service provider. That's the concept of **service perishability**. Did you miss tonight's concert because of traffic? Too bad, because a ticket for tonight's concert can't be used for tomorrow night's performance. Hotel rooms that are not occupied, airline seats that are not purchased, and unused gym memberships cannot be reclaimed.¹¹ Because these items can't be stored for later use, they are considered a perishable service. This is particularly important for marketers because the perishability factor and the fluctuating demand poses special problems in capacity planning, scheduling, product planning, and pricing.¹²

One way that marketers deal with this problem is by manipulating demand. Consider how many restaurants offer "happy hours" with discounted food and drinks during the late afternoon or early evening. Restaurants do this because this time is typically the period where there is a lull before the start of the dinner rush.

CAREERS IN MARKETING



Salaries

You might be curious about the salaries of marketing jobs. There are numerous online resources that provide guides, but the best step to take is to check out popular sites like Monster, Indeed, and LinkedIn to view current job positions. They may not all include the salary, but most will include salary ranges. The following is a list of a few of resources to get you started.

- Monster: "[High-Paying Marketing Jobs](https://openstax.org/r/highpayingmarketingjobs)" (<https://openstax.org/r/highpayingmarketingjobs>)
- Acadium: "[How Much Do Marketers Make? Marketing Job Salaries in 2022](https://openstax.org/r/marketingjobsalaries)" (<https://openstax.org/r/marketingjobsalaries>)
- All Business Schools: "[Marketing Manager Salaries and Job Outlook](https://openstax.org/r/allbusinessschools)" (<https://openstax.org/r/allbusinessschools>)
- Indeed: "[Entry Level Marketing Salary in United States](https://openstax.org/r/entrylevelmarketing)" (<https://openstax.org/r/entrylevelmarketing>)

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1. You purchased an airline ticket to go on vacation, but on the way to the airport, you get a flat tire and miss your flight. Which characteristic of service does this example illustrate?
 - a. Service variability
 - b. Service inseparability
 - c. Service perishability
 - d. Service intangibility
2. You go to a new hairstylist, and he suggests that you add highlights to your hair, cut off a few inches, and add some layers. You're hesitant to do so because you can't imagine what you're going to look like with your new hairstyle. What characteristic of service does this example illustrate?
 - a. Service intangibility
 - b. Service variability
 - c. Service perishability
 - d. Service inseparability
3. You go to the spa to get a massage, but your regular massage therapist is off for the day. The massage therapist to whom you're assigned does an adequate job, but they don't have the same technique as your regular massage therapist. What characteristic of service does this example illustrate?

- a. Service inseparability
 - b. Service perishability
 - c. Service variability
 - d. Service intangibility
4. You go to your Certified Public Accountant (CPA) to have your tax return prepared and filed for the year. How would this service be characterized in terms of classifications of services?
- a. People-based services: unskilled labor
 - b. Equipment-based services: unskilled operator
 - c. People-based services: professionals
 - d. Equipment-based services: skilled operator
5. You're headed to lunch with friends at a downtown restaurant. Because there is no restaurant parking lot, you have to park on the street and feed the parking meter or risk getting a parking ticket. How would the service provided to you by the parking meter be classified?
- a. Equipment-based services: unskilled operator
 - b. People-based services: professionals
 - c. People-based services: skilled labor
 - d. Equipment-based services: automated service

11.2 The Service-Profit Chain Model and the Service Marketing Triangle

Learning Outcomes

By the end of this section, you will be able to:

- LO 1** Define and explain the purpose of the service-profit chain model.
- LO 2** Describe the steps in the service-profit chain model.
- LO 3** Explain the Services Marketing Triangle.

Definition and Purpose of the Service-Profit Chain Model

Just like goods-producing businesses, service firms use marketing to position themselves in selected markets. These businesses position themselves in the market through marketing mix activities (i.e., product, price, place, and promotion). However, because of the inherent differences between services and tangible products, different marketing approaches may be required. Consider a product like a laptop or smartphone. The products are fairly standardized, so they can be produced and shipped to retailers and then sit on shelves in the store until purchased by a consumer. However, if you're a service business, it takes the interaction of the frontline employee and the customer to literally create the service. The interaction between the employee and customer is important in creating the value of that service.

The **service-profit chain model**, created by a group of Harvard researchers in the 1990s, establishes relationships between profitability, employee satisfaction, loyalty, and productivity. The concept is reasonably simple: happy workers make happy customers who keep coming back and tell their friends. The model itself is a little more complicated and states the following:

- Internal service quality (the support received by frontline employees from the rest of the organization) leads to employee satisfaction.
- Employee satisfaction results in employee loyalty, productivity, and the willingness to go that “extra mile” for the customer, which creates value.
- Value contributes to customer satisfaction, resulting in customer loyalty.
- Customer loyalty translates to profitability and growth for the organization.

Perhaps the most critical aspect of this model is that all of these points link together, are equally important,

and depend on one another. There are no shortcuts to increasing profitability. Didn't quite follow that? Refer to [Figure 11.8](#) for a visual depiction.

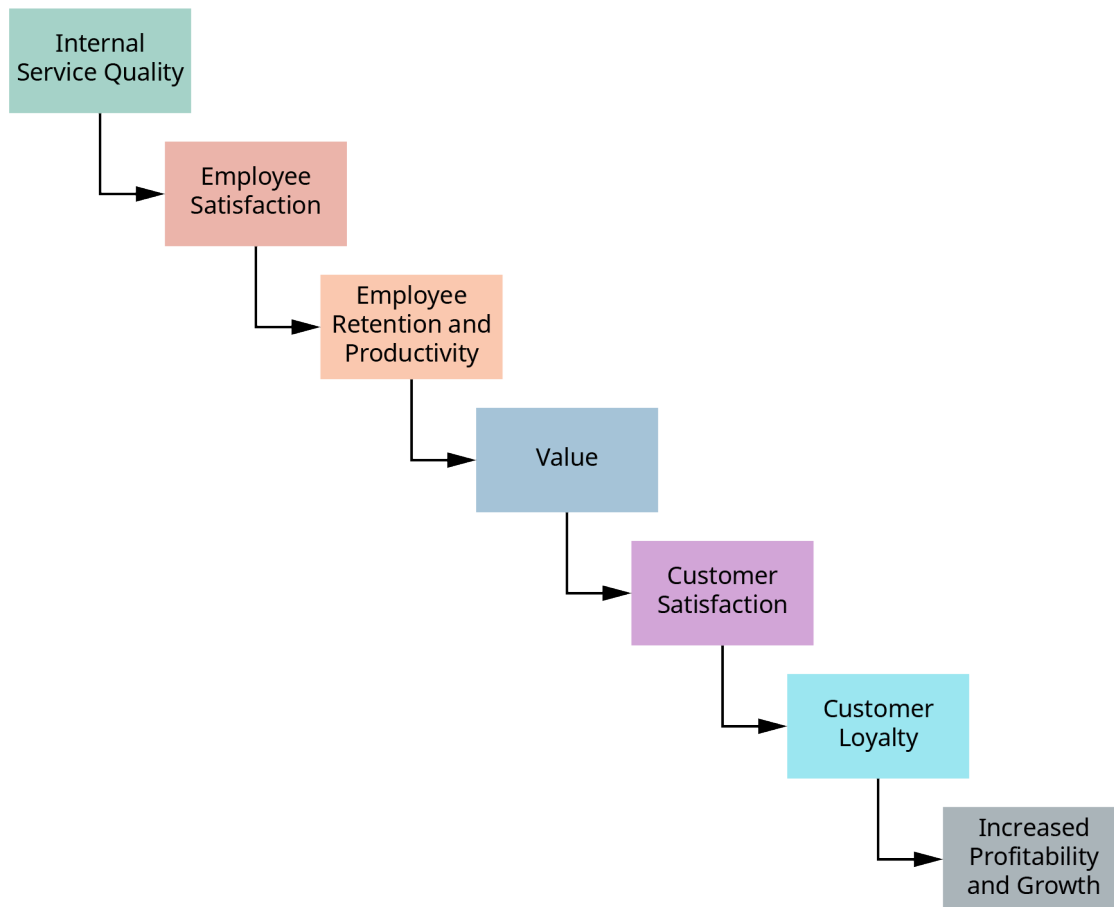


Figure 11.8 The Service-Profit Chain Model (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Steps in the Service-Profit Chain Model

The service-profit chain model connects the interworkings and relationships between the different parts of a business. It impacts employee satisfaction and retention, customer satisfaction, customer loyalty, and profitability. Let's take a closer look.

Internal Service Quality

Internal service quality refers to the perceived satisfaction frontline employees experience when they are supported by effective policies and service from the organization. If you've ever worked in a restaurant, you'll be familiar with the terms "back of house" and "front of house." Front-of-house employees are "guest-facing" roles like hosts/hostesses and servers—those who intentionally interact with the customer. Back-of-house employees like bussers, dishwashers, and cooks typically don't have direct interaction with the customer. Rather, it's their work that supports the front-of-house employees. Even if your server may be friendly, attentive, and efficient, if your silverware is dirty or your steak isn't prepared as ordered, the overall dining experience is going to be less than optimal. In addition to the customer dissatisfaction, server/employee satisfaction will also suffer due to the lack of support from the back-of-house staff.

Consider another example. Your flight was delayed, and it took forever to get your luggage and rental car. By the time you get to your hotel, you're tired and cranky, and you just want to check in and get some rest. The front desk clerk is cordial and efficient. However, your room isn't available because the housekeeping staff hasn't cleaned the room yet. Who gets the brunt of your anger? Imagine the lack of job satisfaction on the part of the front desk clerk who's tried to do everything right and was thwarted by the lack of support from

housekeeping.

One of the ways that this problem can be alleviated within an organization is to create an employee feedback loop in which frontline employees can communicate problems that hurt productivity, satisfaction, and loyalty. The feedback loop is a critical element because, as consultant Sidney Yoshida reports in his study “The Iceberg of Ignorance,” 4 percent of an organization’s frontline problems are known by top management, 9 percent are known by middle management, 74 percent are known by supervisors, and 100 percent are known by employees.¹³

Employee Satisfaction

Employee satisfaction is the level of happiness or contentment employees have with their jobs and work environment. It’s often the direct result of company policies and support services that empower employees to deliver quality products and services. If employees are satisfied with the company’s policies, it’s easier to facilitate a happy attitude that helps consumers have pleasurable experiences with the organization.

For several years, **Zappos** has made Fortune’s list of “100 Best Companies to Work For.” The late CEO Tony Hsieh focused so much on the happiness of his team and customers that he wrote a series of books about it, including *Delivering Happiness: A Path to Profits, Passion, and Purpose*. He recognized that the only person-to-person contact a customer would have with an online retailer would be with customer service personnel, so he encouraged his employees to go above and beyond for the customer.¹⁴

Employee Retention and Productivity

Employee turnover is one of the most frustrating and recurring problems that organizations face. Turnover is costly regardless of whether it’s involuntary (such as termination due to poor performance) or voluntary (such as employee-decided resignation or retirement). The conservative estimate from the Society of Human Resource Management (SHRM) is that it costs six to nine months of an employee’s annual salary to replace that person.¹⁵ That’s why **employee retention**—keeping employees motivated so that they choose to remain with the company—is so critical.

The good news is that employee satisfaction is inversely related to employee turnover. In other words, an increase in employee satisfaction brings about a decrease in employee turnover. Perhaps even more importantly, studies have shown that low turnover leads to an increase in organizational **productivity** (the efficiency and output of employees) and performance. For example, some time ago, **Taco Bell** discovered that its restaurants with high employee retention had twice as many sales as other stores and had 55 percent higher profits than restaurants with high turnover. In response to these findings, the company enhanced its internal service quality by giving employees more latitude for on-the-job decision-making.¹⁶

LINK TO LEARNING



The Great Resignation

You may be aware of the Great Resignation, in which employees are leaving their jobs in large numbers. Because of the cost to hire, train, and retain employees, employee retention is a major concern for organizations. There are many reasons why this is happening, and there are ways companies can improve to help them retain their employees. Read these articles from the [Pew Research Center](https://openstax.org/r/majorityofworkers) (<https://openstax.org/r/majorityofworkers>), [Forbes](https://openstax.org/r/workersarequitting) (<https://openstax.org/r/workersarequitting>), and [Mashable](https://openstax.org/r/2022greatresignation) (<https://openstax.org/r/2022greatresignation>) about this shift in employee thinking.

There are corporate strategies companies can take to counteract this resignation trend. Learn about these strategies from [LinkedIn](https://openstax.org/r/talentengagement) (<https://openstax.org/r/talentengagement>) and [Family Business](https://openstax.org/r/familybusinessmagazine) (<https://openstax.org/r/familybusinessmagazine>).

External Service Value Proposition

Customer value is also known as **external value proposition**. It's the promise of value that a customer expects a business to deliver.¹⁷

Think about your last haircut. Why did you choose to get your hair cut at that particular salon versus a competitor? Certainly, the quality of the haircut itself was important, but the customer value you experienced from your stylist played a role. What else factored into your experience? How about the other behind-the-scenes employees who made it easy for you to book an appointment or who checked you in efficiently, the person who kept the salon clean and attractive, and the person who made it easy for you to pay and perhaps book another appointment when you were leaving?

That's why employees (both frontline and behind the scenes) play a major role in ensuring customer value. Satisfied, motivated employees generally (and genuinely) care about the company and the services it provides and can convey this to consumers in an honest, positive manner.¹⁸

Customer Satisfaction

The next two steps (customer satisfaction and customer loyalty) in the service-profit chain model are related and directly linked. A dissatisfied customer will not be loyal and will likely not do business with the company in the future. Conversely, **customer loyalty**—the ongoing positive relationship between a customer and business—is a result of **customer satisfaction**—or the measure of how happy customers are with the company's products, services, and capabilities.

The greater the satisfaction from a customer, the more likely they will return. Additionally, satisfied customers often serve as unofficial “ambassadors” of the company and will spread the word about their positive experience.¹⁹

Customer Loyalty

The definition of customer loyalty is when a person goes to the same company for subsequent services, even if that service is more expensive than those of the competitor. The customer makes a deliberate choice to do repeat business with a company with which they have had positive experiences, resulting in growth and higher profits for the company.²⁰

Profit and Growth

In terms of the service-profit chain model, profit isn't the goal; it's the result. The formula is really quite simple:

- Happy employees result in happy customers.
- Happy customers mean repeat business and spreading the word about your organization.
- Repeat (and new) business mean profit and growth for the organization.

The key is to keep employees happy because it leads to company profits.

LINK TO LEARNING



Putting the Service-Profit Chain to Work

Learn from this [Harvard Business Review article \(https://openstax.org/r/puttingtheservice\)](https://openstax.org/r/puttingtheservice) about the connectivity of the service-profit chain links.

Interested in understanding how the model works in other industries? Read this [Hospitality News and Business \(https://openstax.org/r/serviceprofitchain\)](https://openstax.org/r/serviceprofitchain) article about why the service profit chain is important in the hospitality industry.

MARKETING IN PRACTICE



Ritz-Carlton



Figure 11.9 The Ritz-Carlton Hotel directly impacts its service-profit model by empowering its employees to provide a positive experience for customers. (credit: “Cannes” by Fred Romero/flickr, CC BY 2.0)

Employee empowerment is one of those buzzwords that has become popular over the last few decades. It's defined as the ways in which an organization provides its employees with some autonomy and freedom to make decisions and have some control in their day-to-day activities. For example, a supermarket may empower its cashiers to match competitors' ads without approval from a manager for up to a certain dollar amount.

If you were the owner of a business, how much latitude would you give your employees in helping customers? A lot? A little? None? The **Ritz-Carlton**, considered a gold standard for hospitality (see [Figure 11.9](#)), allows its employees to spend up to \$2,000 to solve customer problems without manager approval.²¹

You might be shaking your head right now, trying to understand this. Two thousand dollars seems like a lot of money to be left to the discretion of employees, doesn't it? But you may not realize that the average Ritz-Carlton customer will spend approximately a quarter of a million dollars with the hotel chain over their lifetime. When you consider that the customer lifetime value (CLV) of a Ritz-Carlton guest is \$250,000, that \$2,000 doesn't seem hard to believe, does it?²²

For more information about Ritz-Carlton and its commitment to customer service, watch this brief video with Ritz-Carlton founder Horst Schulze and Yahoo! Finance where he discusses the importance of and value in caring for customers.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/11-2-the-service-profit-chain-model-and-the-service-marketing-triangle\)](https://openstax.org/books/principles-marketing/pages/11-2-the-service-profit-chain-model-and-the-service-marketing-triangle)

The Service Marketing Triangle

The **Service Marketing Triangle** is a visual image of a model that speaks to the importance of people in a company's ability to keep its service promises (see [Figure 11.10](#)). It might help to imagine the Service Marketing Triangle as a three-legged stool. Take out one of the legs, and the stool won't stand for long. That's the premise and the importance of the Service Marketing Triangle—all three aspects must be achieved or exceeded for the customer to be delighted.

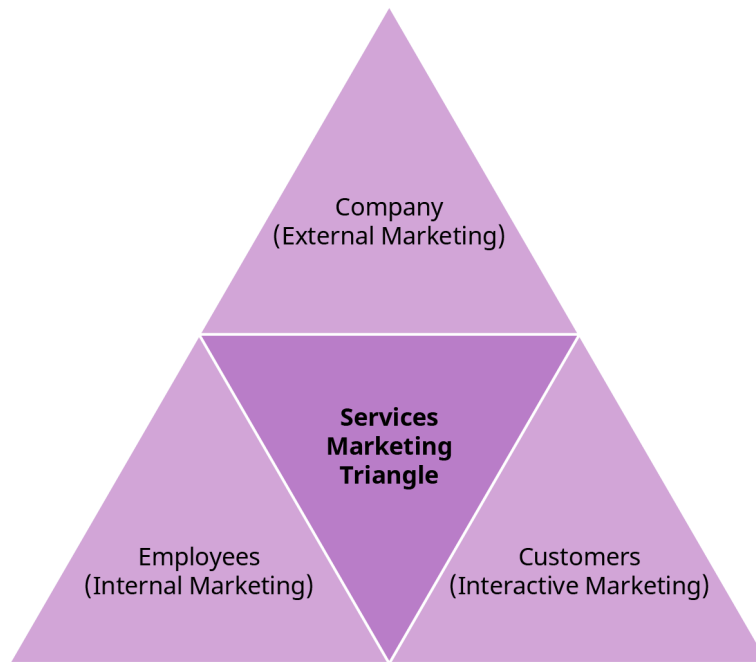


Figure 11.10 The Services Marketing Triangle (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

External Service Marketing—Making Promises

External service marketing refers to the promotion of an organization's services in an external environment where the company promotes its services to customers through various traditional techniques like pricing, advertising, direct marketing, public relations, and personal selling. These marketing techniques are intended to achieve multiple aims, such as creating and increasing awareness, setting price expectations, and setting expectations for the level of service to be delivered.²³

Internal Service Marketing—Enabling Promises

In a service business, employees are seen as “internal customers.” As you’ve seen from the discussion on the service-profit chain model, if a company wants to better serve its customers, it has to start with satisfying its employees so that they’re committed to delivering the best service possible to external customers. That’s the essence of internal service marketing.

Internal service marketing is the process of motivating employees to deliver customer value and ensure customer satisfaction by acting as a team. While that is obviously true for frontline employees who interact with the customer, it is equally applied to all employees, including those behind-the-scenes employees who support the frontline employees. In other words, all employees of an organization need to be empowered so they can deliver great customer service.

Key components of internal service marketing include motivating employees, training them in customer satisfaction techniques, ongoing communication of company goals and objectives, and (of course) good pay and working conditions.²⁴

Interactive Service Marketing—Keeping Promises

Interactive service marketing is the communication between the service provider and the customer, called a **service encounter**. The service encounter is where external marketing promises are either upheld, exceeded, or broken by employees.

Interactive service marketing is critical because it sets short-term and long-term customer satisfaction. In its simplest terms, when a customer is happy in the short term, they are more likely to be happy over the long term.²⁵

Let's review the elements of the Service Marketing Triangle with an example of a fine-dining restaurant in a major metropolitan area. The three "parties" involved in the Service Marketing Triangle are the owner of the restaurant, the restaurant employees, and the diners. As part of *internal marketing*, the owner may offer training to servers about the pairing of certain dishes on the menu with wines offered by the restaurant or hold a "huddle" at the beginning of each shift to train servers about daily specials and wine pairings. As part of *external marketing*, diners might be lured to the restaurant through the restaurant's Facebook page, which touts its extensive list of wines and the fact that servers are experienced in recommending wines to enhance the flavor of the menu items. Finally, as part of interactive marketing, servers are encouraged to give diners full descriptions of all menu items and daily specials and recommend which wines to pair with their food choices, leading to a more satisfying dining experience.²⁶

LINK TO LEARNING



Service Marketing Triangle

Check out this brief video about the Service Marketing Triangle model to gain a better understanding.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/11-2-the-service-profit-chain-model-and-the-service-marketing-triangle\)](https://openstax.org/books/principles-marketing/pages/11-2-the-service-profit-chain-model-and-the-service-marketing-triangle)

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

- According to the service-profit chain model, what drives organizational profitability and growth?
 - Internal service quality
 - Employee satisfaction
 - Customer loyalty
 - Value
- The extent to which employees are happy or content with their work environment is known as which of the following in the service-profit chain model?
 - Employee satisfaction
 - Internal service quality
 - External value proposition
 - Customer loyalty
- Which two steps in the service-profit chain model are related and directly linked?
 - Internal service quality and value
 - Value and customer satisfaction
 - Customer satisfaction and customer loyalty
 - Internal service quality and increased productivity and growth
- In the Service Marketing Triangle, _____ occurs when employees and customers associate and communicate.
 - internal marketing
 - external marketing
 - interactive marketing
 - customer satisfaction

5. In the service-profit chain model, there is a(n) _____ relationship between employee satisfaction and employee turnover.
- behavioral
 - equivalent
 - parallel
 - inverse

11.3 The Gap Model of Service Quality

Learning Outcomes

By the end of this section, you will be able to:

- LO 1** Describe the Gap Model of Service Quality.
LO 2 List and describe the dimensions of service quality.

Dimensions of Service Quality

While we're still on the subject of customer satisfaction, let's take a look at still another model that aids marketers in better understanding customer satisfaction: the **Gap Model of Service Quality** (sometimes also known as the Customer Service Gap Model or the Five-Gap Model), first proposed in 1985. The importance of this model is that it demonstrates that customer satisfaction is essentially a function of perception. In other words, if the service provided meets or exceeds customers' expectations, they will be satisfied; if not, they will be dissatisfied, likely as a result of one of the customer service gaps presented below.²⁷

According to the model (see [Figure 11.11](#)), there are five major gaps or potential inconsistencies organizations encounter in seeking to meet customers' expectations of the customer experience.²⁸

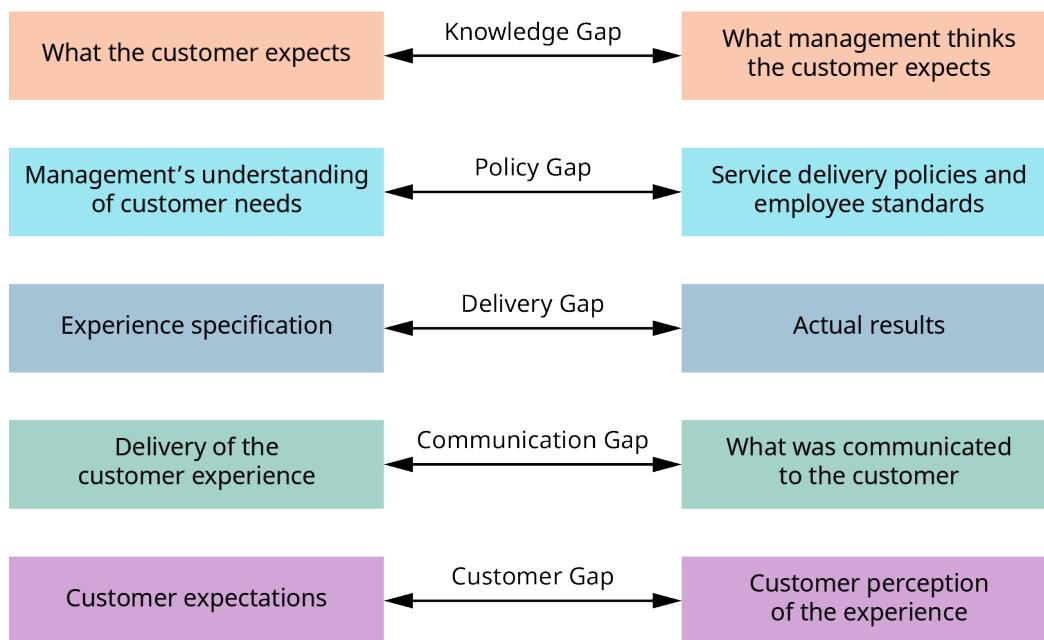


Figure 11.11 Gap Model of Service Quality (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

The gaps are:

- Gap 1—knowledge gap: the difference between customer expectations and what managers *think* they expect
- Gap 2—policy gap: the difference between management's understanding of the customer's needs and how they translate that understanding into service delivery policies and standards for employees
- Gap 3—delivery gap: the difference between the experience specification and the actual results of the

service

- Gap 4—communication gap: the difference between the delivery of the customer experience and what is communicated to the customer
- Gap 5—customer gap: the difference between the customer's expectations of the service or experience and their perception of the experience

Let's look at each one of these gaps in a little more detail.

Gap 1: The Knowledge Gap

The **knowledge gap** is the difference between what customers expect and what the company *thinks* they expect.²⁹ The bottom line here is that the company doesn't know exactly what customers want. This could be due to a variety of factors—lack of communication between frontline employees and management, inadequate market research, or simply a failure to listen to customer feedback, including complaints. For example, a hotel manager may think that guests want a hot breakfast instead of a continental breakfast, but the reality is that guests are more concerned with the cleanliness of their rooms or the speed of the Internet service at the hotel than they are with breakfast.

Gap 2: The Policy Gap

The **policy gap** reflects the difference between management's perception of the customer's needs and the translation of that understanding into its service delivery policies and standards. Typically, management has an accurate understanding of what the customer wants, but performance standards haven't been established that ensure the appropriate employee behaviors are displayed.³⁰ Using the hotel example again, assume that a number of customers have complained that the phone rings innumerable times before it is answered. Management wants to address this issue, so it establishes a policy that phones must be answered "quickly." What's your interpretation of the word *quickly*—two rings, four rings, six rings? Specificity here is the key.

Gap 3: The Delivery Gap

The **delivery gap** is the difference between service standards and policies and the actual delivery of the service. In this situation, frontline service workers *know* what to do to delight the customer; they simply aren't doing it. For instance, management may have established a policy that the front desk phones get answered on or before the second ring, but the front desk employees are allowing phones to ring much longer before answering. This gap may arise due to improper training, lack of capability on the part of employees, unwillingness to meet the established service standards, or staff shortages.

Southwest Airlines is a great example of this. According to its website, the mission of the company is "dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride and Company Spirit."³¹ The company doesn't "overhype" its service, so there is no delivery gap—the difference between the experience specification and the actual delivery of its service. This is demonstrated by the fact that, compared to other airlines, Southwest has the greatest customer service rating, earning a 33.9 percent excellence rating.³²

Gap 4: The Communication Gap

If marketers are doing an effective job in terms of their promotion efforts, the customer is likely to be highly influenced by that promotion. The problem now becomes, the company had better deliver. The **communication gap** is the difference between the delivery of the service and what is communicated to the customer. In other words, what did the company promise versus what did it deliver?

For example, if your coffee shop asserts in its advertising and on its menu that its food is gluten-free, and it isn't, customer expectations won't be met. Failure to deliver on a promise hurts the company's credibility. Former US President Donald Trump wrote, "A brand is two words: the 'promise' you telegraph, and the 'experience' you deliver."³³

Gap 5: The Customer Gap

The **customer gap** is the difference between the customer's expectations of the service or experience and their perception of the experience itself. In an ideal world, the customer's expectations would be nearly identical to their perception, but customer perception is totally subjective and has been shaped by word of mouth, their personal needs, and their own past experiences. The problem here is that each individual perceives their world through their own eyes, and everyone perceives reality differently. In other words, while reality is a fixed factor, perception of reality is a variable.

LINK TO LEARNING



Understanding the Gap Model

Watch this video and learn more about quality of service and the gap model from Jochen Wirtz, a well-known marketing author.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/11-3-the-gap-model-of-service-quality\)](https://openstax.org/books/principles-marketing/pages/11-3-the-gap-model-of-service-quality)

Also check out this [article from Indeed about the GAP Model of Service Quality \(https://openstax.org/r/careerdevelopmentgapmodel\)](https://openstax.org/r/careerdevelopmentgapmodel), with examples.

The RATER Model

In their book *Delivering Quality Service*, researchers Valerie Zeithaml, A. Parasuraman, and Leonard Berry identified five dimensions of service that customers use when evaluating service quality. Their research pointed to the fact that these five dimensions result in service excellence and lead to higher customer loyalty. This model is sometimes known as the **RATER framework of service quality**.³⁴ Refer to [Figure 11.12](#) for a visual representation of the RATER framework.

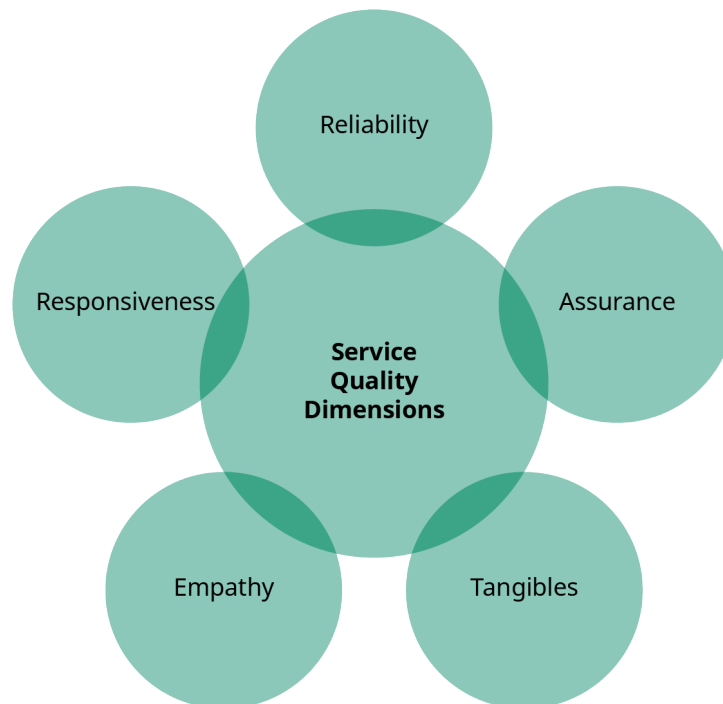


Figure 11.12 The RATER Framework of Service Quality (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

Let's explore each of these dimensions (represented by the acronym RATER) in some detail:

Reliability

R, for **reliability**, depicts the organization's capability to provide accurate, dependable, and on-time service.³⁵ Consistency is critical. Companies that provide on-time, error-free service to customers tend to have repeat customers. Research has shown that service reliability is three times more important to customers than the latest equipment or flashy uniforms.³⁶ The bottom line when it comes to service reliability and quality is: Do you deliver as promised?

Assurance

A, for **assurance**, is the degree to which the organization inspires trust in its customers. For example, when you take your sick pet to a veterinarian or have your income tax return prepared (or any other service, for that matter), you expect the service provider to be an expert in the service they're delivering. Research has shown that communicating this expertise to customers is important. If customers aren't aware of that expertise, they often have less confidence in that provider, which can lead to a low assessment of that provider's service.³⁷

Does your organization inspire confidence in its service providers? Whether you're a hairstylist, a physical therapist, a tattoo artist, or any number of other service professions, it's important to communicate your expertise *before* you do the work. For example, a plumber's business card may contain the words "licensed, bonded, and insured." Hairstylists generally display their state licenses in their work space. Doctors often have framed diplomas in the office from medical school, residencies, and fellowships. These are all ways in which these service providers communicate their competencies. Communicating these competencies to customers helps shape expectations and influence assessments in advance of the service.³⁸

Tangibles

When we talk about **tangibles** in the RATER model, we're focusing on factors such as the physical appearance of both the physical facility and employees. Does your organization present itself professionally? This is one of the factors in the RATER metric that is hard to define because it takes into account customers' perceptions, and different customers may respond in different, subjective ways to the environment created.

Let's imagine that you're taking that special someone out for a romantic or special-occasion dinner at a fine-dining restaurant. What tangibles contribute to that experience? You may expect a knowledgeable, uniformed staff; soft lighting and background music; an appealing menu; and clean restrooms. All of these tangibles will factor into your overall perception of the quality of service you receive.

Another good example of tangibles in terms of the RATER model is the Mayo Clinic in Rochester, Minnesota, where tangibles include Warhol prints on the wall, Chihuly sculptures hanging from the ceiling, and a professionally attired staff that projects a sense of caring and expertise. There are 500 original pieces of art from 70 US artists on display throughout the hospital.³⁹

Customer perception isn't the only challenge marketers face in terms of tangibles. It's also the fact that, done right, customers may not even notice and point out the tangibles unless their feedback is negative. That's why listening and acting on customer complaints is critical in improving an organization's tangibles and promoting a strong customer service image.⁴⁰

Empathy

Empathy in terms of the RATER model means focusing on customers attentively to ensure that they receive caring and distinguished service. It isn't enough to be efficient and thorough in delivering service to customers—it's also about service providers "connecting" with customers during delivery of the service and making them feel valued.

You may have heard the old saying that it's not *what* was said, it's *how* it was said. The same is true of providing service. For example, let's go back to the example of that special dinner in the fine-dining restaurant. Imagine that you accidentally spill your beverage all over the table. A busser is called to clean the spill, change

the tablecloth, and provide you with new silverware and napkins. That busser may have taken care of those tasks effectively and efficiently but didn't make eye contact, smile, or ask you if you needed anything else. In this hypothetical situation, the busser's tasks were performed fully, but you didn't feel that they cared about your predicament.⁴¹

Responsiveness

A service staff's desire to treat customers with respect and provide satisfactory and quick service speaks to their **responsiveness**. This dimension focuses on promptness and willingness. Accordingly, the organization has to ensure that customers are getting quick service, without delay, and with an effort that makes customers believe the company genuinely wants to help them.⁴²

Responsiveness is directly in line with the amount of time that customers wait for an answer or a solution. Have you ever called an organization with a service question and had to play "20 Questions" with the company's automated phone system? You know the drill—press 1 for option A, press 2 for option B, press 3 for option C, etc. The chances are that your patience evaporated after about the fourth telephone prompt and you were left screaming "Representative" into your phone. That's a classic example of a company that needs to focus on its responsiveness if it wants to generate customer loyalty.

LINK TO LEARNING



Applying the RATER Model to Real-World Companies

Check out this video about Disney guest service and the RATER model.

[Click to view content \(https://openstax.org/books/principles-marketing/pages/11-3-the-gap-model-of-service-quality\)](https://openstax.org/books/principles-marketing/pages/11-3-the-gap-model-of-service-quality)

Also look at this [article that applies the RATER model \(https://openstax.org/r/ratermodel\)](https://openstax.org/r/ratermodel) to Amazon, Thermomix, Apple, and a bank.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

- Which gap in the Gap Model of Service Quality represents the difference between what customers expect and what the company thinks they expect?
 - Communication gap
 - Customer gap
 - Knowledge gap
 - Policy gap
- Management in a hotel perceives that the biggest problem in customer service is the length of time that it takes to check in guests, so they have established a policy that check-in will take no more than 5 minutes. Which gap in the Gap Model of Service Quality does this action illustrate?
 - Policy gap
 - Delivery gap
 - Communication gap
 - Customer gap
- In the Gap Model of Service Quality, which dimension is the difference between the customer's expectation of the service and their perception of the experience?

- a. Communication gap
 - b. Delivery gap
 - c. Customer gap
 - d. Knowledge gap
4. The acronym RATER in the RATER framework of service quality stands for which dimensions of service quality that result in service excellence and lead to higher customer loyalty?
- a. Responsibility, accuracy, tangibles, empathy, and responsiveness
 - b. Risk, acceptance, transparency, earnings, and revenue
 - c. Reliability, assurance, tangibles, empathy, and responsiveness
 - d. Revenue, appreciation, trust, efficiency, and responsibility
5. Which dimension in the RATER model represents the physical facilities, employees' appearance, equipment, machinery, and information systems?
- a. Assurance
 - b. Responsiveness
 - c. Transparency
 - d. Tangibles

11.4 Ethical Considerations in Providing Services

Learning Outcomes

By the end of this section, you will be able to:

- LO 1** Describe the ethical considerations in providing services to customers.
- LO 2** Discuss how ethics contribute to customer satisfaction.

How Do Ethics Contribute to Customer Satisfaction?

In 2019, **AT&T** ran a series of TV commercials featuring a variety of professionals who don't quite "make the grade." These commercials included a surgeon who has "almost" been reinstated and a tax professional who will get your taxes into an "okay" place when his audit is over. The catchphrase in each of these commercials was "Just OK is not OK." The same is true of an organization's ethical culture. Do you want your ethical culture to be "just OK"?

In this chapter, we've been talking about the importance of building customer loyalty, which drives profitability and growth. But what about the link between ethics and customer loyalty? Ethics are becoming central to consumers, employees, and a company's reputation (and hence its ability to gain customer loyalty). New research from **Mintel**, a market intelligence agency, reveals that over half of US consumers stop buying from companies they perceive to be unethical.⁴³ Talk about a wake-up call!

Service Excellence through Ethics

Obviously, ethics matter. But how do you ensure that those ethics are instilled and demonstrated by your employees, particularly those frontline employees who interact directly with the customer? The National Ethics Association (NEA) has two suggestions. First, within your ethics program, make customer service a core component. Second, promote values and ethics, and include them within the rules for your frontline workers along with the consequences if they aren't followed.⁴⁴

According to the NEA, steps can include the following:

- Identifying customer service behaviors that are unethical, like lying to customers or failing to display sensitivity to customers with problems.
- Training employees on an ongoing basis in desired behaviors.

- Ensuring customers know that promises aren't empty words but rather a commitment to their satisfaction.
- Monitoring interactions between frontline employees and customers to spot ethical gaps, especially in times of high stress and work volume.
- Leading by example. It's not enough to just "talk the talk" when it comes to ethical behavior within the organization; managers also need to "walk the talk." It's important to "walk the talk" of ethical behavior as a model for employees when dealing with customers' complaints and problems.⁴⁵

Royal Caribbean Group is another company that takes its ethical behavior seriously. It has a Code of Business Conduct and Ethics decree that connects its core values (fairness, integrity, honesty, and trustworthiness) to all of its actions. Chairman and CEO Richard Fain reaffirms its commitment to integrity and an ethical culture and states, "Simply complying with the law is not enough; we need to be ABC (Above and Beyond Compliance)."⁴⁶ Beyond just words, however, the company has established an ethics hotline managed by **The Network**, a leading third-party hotline provider. Through the use of this ethics hotline, employees can anonymously report their concerns about ethics violations 24 hours a day, 7 days a week, by either telephone or the Internet.⁴⁷

LINK TO LEARNING



Royal Caribbean

Read more about [Royal Caribbean's Code of Business Conduct and Ethics on its website \(https://openstax.org/r/2019cleanfinal\)](https://openstax.org/r/2019cleanfinal).

Also, [read this article on the potential ethical issues \(https://openstax.org/r/potentialeticalissues\)](https://openstax.org/r/potentialeticalissues) specific to service marketing.

COMPANIES WITH A CONSCIENCE



Nasco Gulf



Figure 11.13 Ethics are becoming increasingly more important to customers and the services they use, so companies like Nasco Gulf, an insurance company, are focusing more on trust as a way to develop long-term loyalty. (credit: "WOCinTech Stock - 81" by WOCinTechChat.com/flickr, CC BY 2.0)

You may not be familiar with **Nasco Gulf**, a leading insurance agent in Dubai, but the company stands out in its Customer Service Code of Conduct (see [Figure 11.13](#)). The "customer service mission is to provide

customers with timely, responsive service with integrity, simplicity, and a passion for excellence while meeting or exceeding the customer's expectations."⁴⁸

The principles upon which Nasco serves its customers are trust, understanding, and resolve. The following is from its Customer Service Fundamental Principles:

- "Trust—I work hard to gain and maintain customer trust in us . . .
- Understand—I understand our customers and their needs . . .
- Resolve—I solve our customer's problems, even if the solution is difficult"⁴⁹

Nasco lists its values on its website for all to see. The company outlines that its word is good, it is a bold partner, it works to earn loyalty, and it focuses on what matters. For more information about Nasco Gulf, [visit the Nasco Gulf website. \(https://openstax.org/r/nascogulf\)](https://openstax.org/r/nascogulf)

LINK TO LEARNING



When It Goes Wrong

We have all heard the stories where companies poorly handled a customer issue, and you can easily find numerous videos where customers have recorded a company's poor customer service. Here are a few articles that share some of the more well-known stories:

- [CBS News \(https://openstax.org/r/shockingviralvideos\)](https://openstax.org/r/shockingviralvideos)
- [RingCentral \(https://openstax.org/r/badcustomerservice\)](https://openstax.org/r/badcustomerservice)
- [Forbes \(https://openstax.org/r/unethicalmarketing\)](https://openstax.org/r/unethicalmarketing)



Chapter Summary

In this chapter, we explore services. One of the first concepts is that services are intangible, meaning that they cannot be felt, tasted, heard, or smelled before purchase. Customer satisfaction is dependent upon many factors, the first one being the communication of what can be expected by the customer and the actual customer experience. It can be considered a communication gap when customer expectations and experiences do not match. This gap is the first point in the Gap Model of Service Quality. The second point is based on the perception of service received versus customer expectations. Other issues covered in this model are service quality, knowledge, and policies.

Service goes a long way in building customer satisfaction and loyalty; without returning customers, a business is doomed to struggle and fail.

Employees are responsible for a sizable amount of what goes into satisfaction at the customer level. One of the key points is employee satisfaction and retention. A more engaged, happier employee delivers a higher level of customer service. This is an additional point that employers are measuring. The act of internal service marketing is a concept that many have not experienced. This covers the activities that the company engages in to keep employees involved with delivering the desired level of service.

External service marketing is the act of promoting or selling services to the customer. This is a well-known concept both inside and outside the company.

Services can be further examined with the understanding of the following concepts: Services are inseparable; they are produced and consumed at the same time. They are intangible, which means that they cannot be touched, felt, heard, tasted, or smelled before purchase. They are perishable, so they cannot be stored in inventory for future use or sale. They are variable, meaning that the service depends on who provides them, as well as when, where, and how. These concepts help to explain the complexities of marketing services and satisfying the consumer.



Key Terms

- assurance** in terms of the RATER model, the degree to which an organization inspires trust in its customers
- communication gap** in the Gap Model of Service Quality, the variance between what is communicated to the customer and their actual experience
- customer gap** in the Gap Model of Service Quality, the variance between the customer's expectations and their perception of the service
- customer loyalty** an ongoing positive relationship between a customer and a business that drives repeat purchases
- customer satisfaction** a measurement that determines how happy customers are with a company's products, services, and capabilities
- delivery gap** in the Gap Model of Service Quality, the difference between the experience specification and the actual delivery of the service
- empathy** in terms of the RATER model, focusing on customers attentively to assure they receive caring and distinguished service
- employee retention** an organization's ability to retain its employees and stop employees from leaving
- employee satisfaction** the level of happiness and contentment employees have about their jobs and the work environment
- equipment-based services** when machinery or equipment plays the primary role in the service delivery
- external service marketing** the action of promoting or selling services to customers and potential customers
- external value proposition** the value companies promise to deliver to customers post-purchase
- GAP Model of Service Quality** theoretical marketing model that helps to identify the gaps between the perceived service and the expected service

information processing intangible actions directed at a customer's assets, such as insurance or consulting

intangible unable to be seen, tasted, felt, smelled, or heard

interactive service marketing the communication between the service provider and the customer; also called a **service encounter**

internal service marketing satisfying employees to motivate them to work as a team to satisfy customers

internal service quality the perceived level of satisfaction an employee experiences with services offered by internal service providers

knowledge gap in the GAP Model of Service Quality, the difference between what customers expect and what managers think they expect

mental stimulus processing situation in which the services interact with the customer's mind rather than the body

people processing services in which the customer is the direct recipient of the service and production and consumption are simultaneous

people-based services tasks in which people, rather than equipment or machinery, play a major role in the delivery of the service

policy gap in the GAP Model of Service Quality, the difference between managers understanding customer needs and being able to turn that into service delivery practices

possession processing services in which the service is directed toward the customer's physical possessions

productivity the efficiency and output of employees

RATER framework of service quality theoretical model that focuses on the five dimensions of service excellence: reliability, assurance, tangibles, empathy, and responsiveness

reliability in terms of the RATER model, the organization's capability to produce an accurate, dependable, and on-time service

responsiveness in terms of the RATER model, promptness and willingness to provide satisfactory and quick service

service encounter a consumer's direct contact with a service provider

service inseparability concept where services must be produced and consumed concurrently

Service Marketing Triangle a visual representation of a strategic model that outlines the importance of people in a company's ability to keep its service promises

service perishability concept that states services cannot be stored in inventory for future use or sale

service variability concept that states the quality of the service depends on who, when, where, and how it is provided

service-profit chain model model that establishes relationships between profitability, employee satisfaction, loyalty, and productivity

services nonphysical, intangible economic activities

tangibles in terms of the RATER model, the physical appearance of both the facility and its employees



Applied Marketing Knowledge: Discussion Questions

1. Review this [Houston Chronicle article about the eight elements of service marketing \(https://openstax.org/r/8elementsservicemarketing\)](https://openstax.org/r/8elementsservicemarketing). Pick two different service-oriented organizations and describe each of these eight elements as they relate to the service each company offers. Conduct additional research if needed to address these eight elements.
2. Take the information that you have learned about internal and external marketing and describe two instances where as a student you have noticed excellent and poor marketing strategies. Are they internal or external, and why did you feel the way you did about them?
3. Consider service variability instances where you were a customer and noticed exceptional service and poor service. For each instance, answer the following questions:
 - a. Were you surprised?

- b. What specifically made you notice?
 - c. Had you had this experience before with this company or another company?
 - d. What response did you have? For instance, did you compliment? Tip? Complain? Do nothing? And why?
 - e. If you were the company owner, what kind of training program would you develop to address the poor service you experienced? What might you implement as a reward for exceptional service? Why?
4. Analyze the differences between internal and external marketing.
- a. Define both terms.
 - b. Consider and list the positive impact that both internal and external marketing can have on an organization.



Critical Thinking Exercises

1. Agree or disagree with the following statement: I tip for service based solely on the amount of the bill, not on things like quality of service, timing, etc. Discuss or make a list of the reasons why you agree or disagree.
2. Nordstrom's reputation was built upon its value proposition of superior service. The company has maintained a high level of service over the years. Research other retailers that have a similar service-oriented value proposition. It could be a car company, restaurant, clothing store, etc. In looking at the changing demographics, do you believe that this level of service will continue to be perceived as value? If not, what will take its place?
3. Have you ever experienced service that was so poor that you did not return? Compare your views with someone that you know. Is this a common service issue?



Building Your Personal Brand

"Communication is the act or process of using words, sounds, signs, or behaviors to express or exchange information or to express your ideas, thoughts, feelings, etc., to someone else."⁵⁰ What type of communicator are you? Analytical? Intuitive? Functional? Personal? Research communication styles and describe which best describes you. Outline a plan on how you might communicate with those who adhere to a different style. To get started, try this free communication style [assessment \(https://openstax.org/r/communicationstyles\)](https://openstax.org/r/communicationstyles). There are also other assessments available online, so try a few and see if there are any differences.

Keep in mind that communication also includes nonverbal signs such as our facial expressions and body language. How does your body position change when communicating a happy story versus a sad story? Try this body language [self-assessment \(https://openstax.org/r/scienceofpeople\)](https://openstax.org/r/scienceofpeople).

A large percentage of our personal brand comes from how we communicate with others. Think about the people you admire; odds are they communicate in a way that you understand and relate to. Work on becoming comfortable in your style and recognizing the styles of others. If you do this, others will be comfortable with you, and they will remember you. Often, a key component to a promotion is being noticed and remembered for the personal brand you exhibit.



What Do Marketers Do?

Considering that "70% of small businesses are operated and owned by a single person," the question arises: Who is doing the marketing?⁵¹

Find at least two small service businesses, one that you know to be successful and one that might be hanging on by a thread (hair salons, dry cleaners, mechanics, party planners, florists, etc.). Call and see if you can arrange a time, either on the phone or in person, to ask questions about their marketing efforts. You might

want to do a bit of homework before you do. Here are questions that will help you gather information:

1. Do they consider what they do to promote their business as marketing?
2. Do they have someone who helps them?
3. Do they have a website or Facebook page?
4. What are the main activities that they do to market their business?
5. Do they have a formal business plan? A budget?
6. How do they figure out what their budget should look like?
7. Are there efforts that they consider successful and anything that seriously did not work?
8. Do they respond to the marketing of their competitors?

Of course, there are additional questions that you can ask as time permits. The idea here is to get a good look at what the challenges are to marketing a small business. Is this something that you see yourself doing—perhaps even as a business of your own?



Closing Company Case

Adventist Health Castle

Adventist Health Castle in Kailua, Hawaii, is an award-winning hospital focused on serving the mind, body, and spirit of its patients. The 300 physicians provide services to the entire island of Oahu, following the mission to “care for the community and share God’s love.”⁵²

Adventist Health Castle offers programs in wellness and lifestyle, cutting-edge weight-loss procedures, and advanced imaging techniques. All programs come with a patient-focused approach with compassion and dedication from its health team. The mission statement of “transforming the health experience of our community by improving health, enhancing interactions and making care more accessible” is accomplished through “integrity, compassion, respect, and excellence.”⁵³ In 2017, it won the Malcolm Baldrige National Quality Award, an award that recognizes the excellent patient care the staff provides to the community.

Adventist Health Castle is proud of its Wellness and Lifestyle Medicine center because of the variety of health education and lifestyle resources it provides for the community. It offers classes, events, and services to the public for a small fee or often for free. Check out more [here \(https://openstax.org/r/adventisthealth\)](https://openstax.org/r/adventisthealth) about the medical services it offers.

Health systems are a product of the community they serve, and Adventist Health Castle is no exception. To help with its cause, it developed a community needs assessment to understand the concerns and needs of the populations within its service area. From that work, it has developed numerous programs and events, including diabetes care classes and improved access to health services. It also added ENT, cardiology, and dental services to its Rural Health Clinic in Laie. With this addition of the new Rural Health Clinic, Adventist’s system served 2,432 unique patients in its first year.⁵⁴

With its work, Adventist Health Castle expanded access to classes to include a center in Kaneohe. Multiple locations allow the health system to extend its reach to the community with more classes and events. And it’s working! Through a postcard mailing, Adventist received a positive response to class enrollment.

Another initiative created around better access to care included having physician practices add more office hours to include evenings and weekends. Through this effort, Adventist has been able to engage with more patients and coordinate care better for the populations it serves.

With this work, the community has seen many positive outcomes including increased overall health due to the greater availability of healthy center resources. Serving a community means adapting to the needs of the community and meeting the populations where they are most vulnerable.

Case Questions

1. Adventist Health Castle is a health system operating to serve the population of Oahu. How would you classify its services?
2. When community members choose to take a class on diabetes management, they are learning about diabetes from a clinical nurse instructor. The instructor informs the participants of the health risks associated with unhealthy lifestyle choices. Different clinical nurse instructors teach the classes each time. Depending on who teaches the course, the participants may learn the risks of a sedentary lifestyle. This is an example of which service characteristic?
3. Adventist Health Castle realized that access to health services was an important need in its community. To provide for that need, it developed a multidisciplinary clinic to serve rural communities. It immediately started seeing and treating patients. How does this fit into the service-profit chain?
4. When Adventist Health Castle added more hours to physician practices, what dimension of service quality was it addressing?



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