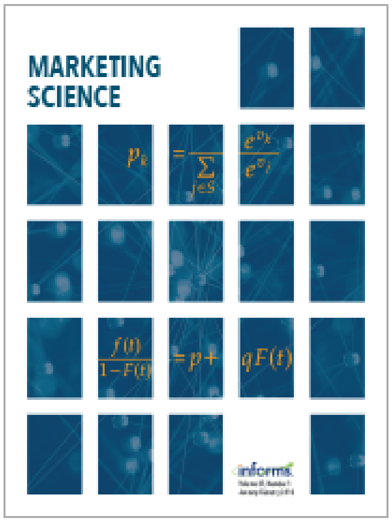

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Invited Commentary—Linking Service and Finance

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Invited Commentary

Linking Service and Finance

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I am delighted to have an opportunity to comment on Rust and Chung's (2006) timely and insightful article. This article does an excellent job of summarizing the evolution of marketing models of service and relationships. Rust and Chung (2006) rightly attribute increasing interest in such models to ongoing changes in information technology—an ancient trend with an extremely high likelihood of continuing into the future. Their eloquent and provocative observations on the implications of this trend for future research and practice should dramatically influence both.

The purpose of this note is to build on Rust and Chung's thoughtful and sound foundation by highlighting certain research priorities, elaborating on the types of research questions that warrant attention, and further exploring the implications of their work for marketing science and the marketing field as a whole.

Making Sense to Finance

Perhaps the single most important step for future research is to develop a coherent body of knowledge that links service and marketing efforts to financial outcomes and models. Both researchers and practitioners need to better understand how service and marketing efforts affect financial statements and market valuation. In the absence of such knowledge, senior management and shareholder ambivalence toward marketing efforts is likely to increase, and discontent with service management may follow—especially in firms dominated by a finance- or operations-oriented mindset.

To coexist with finance and operations, service managers must develop credible approaches to mapping service-related expenditures and investments into the size, timing, and risk associated with anticipated future cash flows resulting from those investments. Financially oriented managers and companies need to be able to assess whether the size and timing of anticipated cash flows provide an acceptable return given the required resources, as well as whether expected returns offer adequate compensation for the inherent level of risk.

Developing concepts and tools to link service efforts to financial returns requires service researchers and practitioners to clearly understand financial statements and financial approaches to valuation, the chain of effects that lead from investments in service to customer behaviors beneficial to the firm, and the mapping from current and potential customer behavior into the size, timing, and risk of anticipated financial returns.

With regard to integrating service and finance perspectives, some potential areas of inquiry might include the following:

- How do service investments affect the size and timing of anticipated cash flows from customers?
- How might we capture the efficacious effects of service and marketing efforts on the risk associated with anticipated future cash flows from customers?
- How do we provide a reasonable valuation of anticipated future cash flows that goes beyond current customers and current offerings to capture three other important types of anticipated future cash flows: (1) spending by new customers on current offerings, (2) purchases of future offerings by current customers, and (3) future offerings to future customers.
- What is the appropriate discount rate and time horizon? How and why do these parameters vary across customers?
- How do we handle heterogeneity in the risk of cash flows from different customers?

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• How do we best capture the value of service investments on financial statements (e.g., income statement, balance sheet)?

• What is the relative impact of service and marketing efforts on the value of anticipated cash flows, as opposed to efforts in areas such as operations, R&D, or human resources?

Streamlining the Service-Profit Chain

To fully map the influence of service efforts on financial returns, we must also solidify our understanding of the chain from service and marketing effort to financial outcome—the service-profit chain. Currently there are a host of attitudinal (e.g., brand awareness, brand preference, willingness to pay, customer satisfaction, perceived value, service quality, trust) and behavioral metrics (e.g., customer acquisition, customer retention, share of requirements, price tolerance, recommendations) vying for a role in this chain of effects. Many of these constructs compete to capture the same underlying phenomena, and it has become a confusing landscape for both researchers and practitioners alike. Both academics and practitioners would benefit from a clearer understanding of the right set of such "leading indicators" best suited to linking service investment to financial outcomes. A list of possible questions for research might include the following:

• What attitudinal constructs work best in terms of prediction of behavioral and financial outcomes?

• What behavioral constructs, in turn, best predict financial outcomes?

• Which attitudinal and behavioral constructs are most actionable for managers (i.e., can be measured, traced back to specific controllable actions, etc.)?

• How should attitudinal measures be linked to one another, to behavioral outcomes, and ultimately to financial outcomes?

• How does the appropriate set of attitudinal and behavioral outcomes vary across industries? Across firms with different strategies?

• Are attitudinal constructs always relevant? Are behavioral constructs? What factors influence the relative importance of using each?

• How do we handle heterogeneity across a firm's different customers in terms of the relative importance of these constructs and their associations?

• How do competitive forces influence the service-profit chain and, consequently, the impact of service investments on financial returns?

Developing Models Managers Can Use

As academics, perhaps our greatest impact on business and society comes from developing models that managers will actually use. To do this, we need to better understand managers' use of service and relationship models, as well as identify the means by which the best use of such models can be made. In this regard, it might also be useful to consider several key organizational issues related to service and relationship models:

• How well are managers actually developing and implementing models of service and relationships?

• What do managers see as the biggest challenges in their own efforts to model service and relationships? In what areas do managers see the greatest opportunities?

• How do we encourage firms to invest in systematic modeling of service efforts and their impact on financial outcomes, as mapped through attitudinal and behavioral constructs?

• How do we encourage dissemination and use of what is learned from such systems throughout the firm?

• For what level of the organization are such systems best devised?

• How can ownership and support for service modeling be achieved?

• How can we model the impact of service efforts on not just financial outcomes but also on other areas of the firm, such as operations and human resources?

• How do we best communicate the effect of service investments on financial outcomes? To the finance function? To senior management? To shareholders?

Meeting the Challenge to Marketing Science and Marketing

As Rust and Chung (2006) so eloquently argue, the importance of models of service and relationships has grown dramatically and will continue to do so as the service-based portion of the world economy increases relative to goods. Modeling in marketing science must continue to evolve from a goods-based, transaction-specific perspective that asks how marketing can best influence individual purchase decisions to a service-based perspective of customer value creation and relationships that asks how service and marketing efforts influence customers and value creation dynamically. Without creating greater intellectual capital in this important area, marketing science may find itself increasingly less relevant to management practice and, consequently, less relevant to business research and education.

In addition to creating the right intellectual capital for academic journals, we must also provide our students—doctoral, master's, and undergraduate—with the right training to compete in this world. For our professional students, what proportion of their education is grounded in a goods context? Are the concepts and tools developed based on the marketing of nondurable and durable goods as relevant in a world dominated by service? In our doctoral seminars, how much time is spent on research focused on service and relationships, as opposed to concepts and tools primarily developed and tested in a goods-based context? Are students receiving appropriate training in theory and methods from the basic disciplines that will be most relevant to addressing business problems in an economy dominated by service? For both groups, we need to work to ensure that we have a competitive advantage among business school faculties in training both future managers and future scholars for such a world.

Marketing science is shifting its focus toward a world in which service and relationships dominate. Mainstream marketing in the future is likely to bear a closer resemblance to today's business-to-business marketing, direct marketing, relationship marketing, and/or service marketing, than to the previously dominant context and perspective of marketing durable and nondurable goods. This ongoing trend presents an important opportunity for marketing science to help the marketing academic field as a whole increase its value to the many different audiences we serve. Rust and Chung's insightful analysis of existing research and the implications for future research should help to accelerate our collective contribution in these important areas.

Reference

Rust, Roland T., Chung Tuck-Siong. 2006. Marketing models of service and relationship. *Marketing Sci.* **25**(6) 560–580.