

Managing Services for Business Markets

The important and growing market for business services poses special challenges and meaningful opportunities for the marketing manager. This chapter explores the unique aspects of business services and the special role they play in the business market environment. After reading this chapter, you will understand:

1. the value of systematically monitoring the customer experience and the central role that business services assume in customer solutions.
2. the roles that service quality, customer satisfaction, and loyalty assume in service market success.
3. significant factors to consider in formulating a service marketing strategy.
4. the determinants of new service success and failure.

FedEx Corporation, the global package delivery service, mobilizes for trouble before it occurs: Each night, five empty FedEx jets roam over the United States.¹ Why? So the firm can respond on a moment's notice to unexpected events such as overbooking of packages in Atlanta or an equipment failure in Denver. FedEx excels by making promises to its customers and keeping them. The first major service organization to win the Malcolm Baldrige National Quality Award, FedEx makes specific promises about the timeliness and reliability of package delivery in its advertising and marketing communications. More importantly, FedEx aligns its personnel, facilities, information technology, and equipment to meet those promises. Says Scot Struminger, vice president of information technology at FedEx, "We know that customer loyalty comes from treating customers like you want to be treated."²

As this example demonstrates, *services* play a critical role in the marketing programs of many business-to-business firms, whether their primary focus is on a service (FedEx) or whether services provide a promising new path for growth. Indeed, high-tech brands, like IBM or Hewlett-Packard, are built on a promise of value to customers, and service excellence is part of the value package customers demand. In fact, over half of IBM's massive revenue base now comes from services—not products. Clearly, many product manufacturers are now using integrated product and service solutions as a core marketing strategy for creating new growth opportunities; moreover, a vast array of "pure service" firms exist to supply organizations with everything from office cleaning to management consulting and just-in-time delivery to key customers.³

This chapter examines the nature of business services, the key buying behaviors associated with their purchase, the major strategic elements related to services marketing, and the new-service-development process.

Understanding the Full Customer Experience

The traditional product-centric mindset rests on the assumption that companies win by creating superior products and continually enhancing the performance of existing products. But services are fundamental to the customer experience that every business-to-business firm provides. Customer experience encompasses every dimension of a company's offering—product and service features, advertising, ease of use, reliability, the process of becoming a customer, or the way problems are resolved—not to mention the ongoing sales relationship.⁴

The Customer Experience Life Cycle

Recent research highlights the importance of examining the customer's experience. A survey of the customers of 362 firms by Bain & Company revealed that only

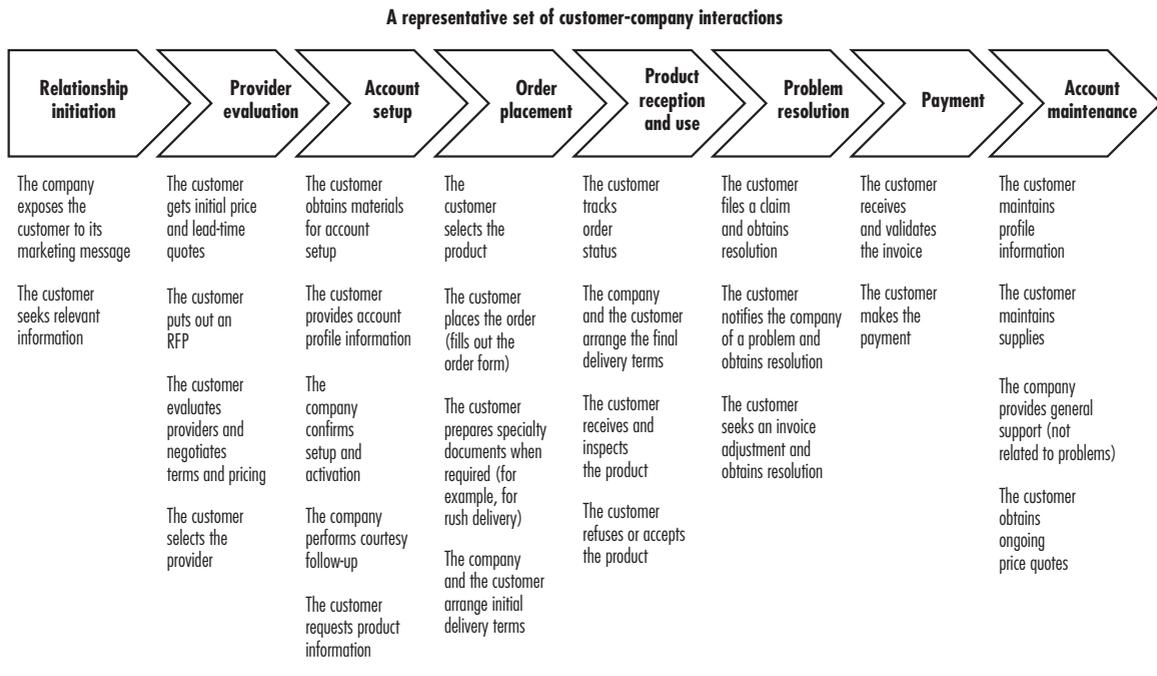
¹David Leonhardt, "The FedEx Economy," *New York Times*, October 8, 2005, p. B1.

²Don Peppers and Martha Rogers, *Return on Customer: Creating Maximum Value from Your Scarcest Resource* (New York: Currency Doubleday, 2005), p. 144.

³Kristian Möller, Risto Rajala, and Mika Westerlund, "Service Innovation Myopia? A New Recipe for Client-Provider Value Creation," *California Management Review* 50 (Spring 2008): pp. 31–48.

⁴Christopher Meyer and Andre Schwager, "Understanding Customer Experiences," *Harvard Business Review* 85 (February 2007): pp. 116–127.

FIGURE 10.1 | THE FIRST STEP IN UNDERSTANDING A CUSTOMER'S EXPERIENCE IS TO DEVELOP A LIFE CYCLE MAP



SOURCE: David Rickard, "Winning by Understanding the Full Customer Experience," The Boston Consulting Group, Inc., 2007, p. 6. Accessed on July 26, 2008 at <http://www.bcg.com>. All rights reserved. Reproduced by permission.

8 percent described their experience as "superior," yet 80 percent of the companies surveyed believed that the experience that they were delivering was indeed superior.⁵ By focusing narrowly only on core-related product elements and overlooking the full customer experience, companies "can end up losing customers without understanding why. Moreover, such companies are missing out on some powerful opportunities to create value and cement their customers' loyalty," says David Rickard, vice president, The Boston Consulting Group.⁶

Customer experience represents the internal and subjective response a business customer has to any direct or indirect contact with a company. We will devote special attention to **touchpoints**—those instances where the customer has direct contact with either the product or service itself or with representatives of it by a third party, such as a channel partner. A customer experience map provides a valuable tool for diagnosing key touchpoints or interactions between the company and the customer from the moment contact is made with a potential customer through the maintenance of an ongoing relationship (see Figure 10.1). Developed from interviews with customers, the map provides a foundation for defining what's most important in your customers' experience.

⁵Ibid., p. 117.

⁶David Rickard, "Winning by Understanding the Full Customer Experience," The Boston Consulting Group, Inc., 2006, p. 1, accessed at <http://www.bcg.com> on May 15, 2008.

Applying the Customer Experience Map

The map was developed by the Boston Consulting Group for a large industrial-goods company that faced this dilemma: Traditional measures of product quality continued to indicate superb performance, but customer satisfaction remained stagnant and the company was losing market share.⁷ Once the customer experience map is developed, the next step is to meet with customers and pare down the list to a smaller set of the most critical interactions and product and service characteristics. The ultimate goal of the analysis is to identify (1) the value that customers place on different levels of performance (for example, high, average, low) for each element of their experience, (2) the customers' minimal expectations for each element, and (3) the customers' perception of the firm's performance versus that of key competitors.

Based on the analysis, strategists at the industrial-goods company were surprised to learn that only 40 percent of customers' most critical experiences were tied to the core product, whereas 60 percent were related to softer considerations (for example, the ease of making invoice corrections and resolving problems). This revelation proved crucial to understanding why the company was losing market share even though its customers' ratings of product quality were improving.

Customer Experience Management

Recall from Chapter 4 that customer relationship management captures what a company knows about a particular customer. Christopher Meyer and Andre Schwager persuasively argue that there is a corresponding need for well-developed **customer experience management** processes that capture customers' subjective thoughts about a particular company.⁸ Such an approach requires surveys and targeted studies at points of customer interaction that identify gaps between customer expectations and their actual experience. "Because a great many customer experiences aren't the direct consequence of the brand's message or the company's actual offerings . . . the customers themselves . . . must be monitored and probed."⁹

*A Solution-Centered Perspective*¹⁰

As global competition intensifies and product differentiation quickly fades, strategists at leading firms from General Electric and IBM to Staples and Home Depot are giving increased attention to services, particularly a solution-centric mindset. Rather than starting with the product, a solution-centered approach begins with an analysis of a *customer problem* and ends by identifying the products and services required to solve the problem. Rather than transaction based, the focus of the exchange process is interaction based, and value is co-created by the firm in concert with the customer (Table 10.1). So, customer offerings represent an "integrated combination of products and services designed to provide customized experiences for specific customer segments."¹¹ Services, as a critical feature of the solution, become a valuable basis for competitive advantage and an important driver of profitability.

⁷This illustration is based on Rickard, *ibid.*, p. 5.

⁸Meyer and Schwager, "Understanding Customer Experiences."

⁹*Ibid.*, p. 116.

¹⁰Except where noted, this section draws on Mohanbir Sawhney, "Going Beyond the Product: Defining, Designing, and Delivering Customer Solutions," Working Paper, Kellogg School of Management, Northwestern University, December 2004, pp. 1–10.

¹¹*Ibid.*, p. 4.

TABLE 10.1 | FROM A PRODUCT TO A SOLUTIONS PERSPECTIVE

	Product Perspective	Solutions Perspective
Value Proposition	Win by creating innovative products and enriching features of existing products	Win by creating and delivering superior customer solutions
Value Creation	Value is created by the firm	Value is co-created by the customer and the firm
Designing Offerings	Start with the product or service, and then target customer segments	Start with the customer problem, and then assemble required products and services to solve the problem
Company-Customer Relationship	Transaction-based	Interaction-based and centered on the co-creation of solutions
Focus on Quality	Quality of internal processes and company offerings	Quality of customer–firm interactions

SOURCE: Adapted from Mohanbir Sawhney, “Going Beyond the Product: Defining, Designing, and Delivering Customer Solutions,” Working Paper, Kellogg School of Management, Northwestern University, December 2004; and C. K. Prahalad and Venkat Ramaswamy, *The Future of Competition: Co-Creating Unique Value with Customers* (Boston: Harvard Business School Press, 2004).

UPS Solutions United Parcel Services of America began by mastering a narrow set of activities involved in the package delivery system—picking up, shipping, tracking, and delivering packages. Adopting a solution-centered focus, UPS tapped new market opportunities:¹²

- Designing transportation networks that reduced the time Ford needed to deliver vehicles from its plants to dealers by up to 40 percent;
- Managing the movement of National Semiconductor’s products from its manufacturing plants to customers around the world and helping the customer reduce shipping and inventory costs by 15 percent;
- Partnering with Nike and managing all the back-office processes for direct selling from order management and delivery to customer support.

Determine Unique Capabilities In developing solutions, business marketing firms must define their unique capabilities and determine how to use them to help customers reduce costs, increase responsiveness, or improve quality. In some cases, this may involve taking in some of the work or activities that customers now perform. To illustrate, DuPont first sold paint to Ford but now runs Ford’s paint shops. “DuPont, which is paid on the basis of the number of painted vehicles, actually sells less paint than before because it has an incentive to paint cars with the least amount of waste. But the company makes more money as a result of the improved efficiency.”¹³ The

¹²Mohanbir Sawhney, Sridhar Balasubramanian, and Vish V. Krishnan, “Creating Growth with Services,” *MIT Sloan Management Review* 45 (Winter 2004): pp. 34–43.

¹³*Ibid.*, p. 39.

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Do Service Transition Strategies Pay Off?

To improve their competitive position in the era of intense global competition and the increasing commoditization that characterizes many product markets, a host of manufacturing firms have added services to their existing product offerings. If successful, such service transition strategies could make the firm's value proposition more unique, difficult for rivals to duplicate, and valuable to customers, thereby enhancing profitability and firm value. Do these service transition strategies pay off? A recent study by Eric Fang and his colleagues provides the answers.

- Before they can expect positive effects on firm value, business marketing firms should recognize that service transition strategies typically require achieving a critical mass in sales, estimated to be 20 to 30 percent of total sales.
- Transitioning to services is significantly more effective for companies that offer services related to their core product business. Sales of unrelated services demonstrate little impact on firm value.
- Adding services to a core product offering increases firm value for companies in slow growth and turbulent industries. However, "firms in high growth industries can destroy firm value by shifting their focus . . . to service initiatives. In stable (low turbulence) industries, adding services has a negative effect on firm value. . . ."

SOURCE: Eric (Er) Fang, Robert W. Palmatier, and Jan-Benedict E. M. Steenkamp, "Effect of Service Transition Strategies on Firm Value," *Journal of Marketing*, forthcoming.

DuPont example demonstrates a central point about solutions marketing: *Products provide the platform for the delivery of services.*¹⁴

A recent research study suggests that companies can deliver more effective solutions at profitable prices if they adopt a stronger relationship focus.¹⁵ The authors suggest that business marketers mistakenly view a solution as a customized and integrated combination of products and services for meeting a customer's business needs. In sharp contrast, customers view a solution as a set of customer–company relational processes that involve "(1) customer requirements definition, (2) customization and integration of goods and/or services and (3) their deployment, and (4) postdeployment customer support, all of which are aimed at meeting customers' business needs."¹⁶ Once again, this highlights the importance of moving beyond a mere focus on transactions to consider the full set of customer experiences.

Benefits of Solution Marketing

By shifting from a product to a solutions strategy, business-to-business firms gain two important benefits, namely, new avenues for growth and differentiation.

Creating Growth Opportunities Solutions create fresh opportunities for increasing the amount of business or share-of-wallet that a company receives from its customer base. An expanded portfolio of service-intensive offerings makes this possible. Often, services represent a far larger market opportunity than the core product market.

¹⁴Stephen L. Vargo and Robert F. Lusch, "Evolving to a New Dominant Logic for Marketing," *Journal of Marketing* 68 (January 2004): pp. 1–18.

¹⁵Kapil R. Tuli, Ajay K. Kohli, and Sundar R. Bharadwaj, "Rethinking Customer Solutions for Product Bundles to Relational Process," *Journal of Marketing* 71 (July 2007): pp. 1–17.

¹⁶*Ibid.*, p. 1.

To illustrate, Deere & Company, the agricultural equipment manufacturer, found that the proportion of each dollar farmers spend on equipment has been declining for years and that the bulk of that spending now goes for services. Moreover, by centering on that profit pool, Deere is tapping into a market opportunity that is 10 times larger than the equipment market. To that end, Deere provides a range of services for its customers (for example, health insurance and banking) and is employing innovative technologies to make the farmer's life easier and more productive. For example, Deere is experimenting with global positioning systems (GPS) and biosensors on its combines. C. K. Prahalad and Venkat Ramaswamy describe the initiative:

Imagine driverless combines and tractors with onboard sensors that can measure the oil content of grain or distinguish between weeds and crops. The benefits are enormous. Farmers can ration herbicide according to soil conditions. GPS-guided steering ensures repeatable accuracy, eliminates overtreatment of crops . . . thereby reducing time, fuel, labor, and chemical costs. . . . Farmers can be more productive, minimizing the cost per acre.¹⁷

Sustaining Differentiation and Customer Loyalty As farmers view more and more products as commodities, business marketers who emphasize solutions can sustain differentiation more effectively than rivals who maintain a strict focus on the core product offering. Why? According to Mohanbir Sawhney, "Solutions offer many more avenues for differentiation than products because they include a variety of services that can be customized in many unique ways for individual customers."¹⁸ Likewise, by developing a rich network of relationships with members of the customer organization, co-creating solutions with the customer, and becoming directly connected to the customer's operations, they enhance customer loyalty and throw up severe barriers to competing firms when they attempt to persuade the customer to switch suppliers.

Business Service Marketing: Special Challenges

The development of marketing programs for both products and services can be approached from a common perspective; yet the relative importance and form of various strategic elements differ between products and services. The underlying explanation for these strategic differences, asserts Henry Assael, lies in the distinctions between a product and a service:

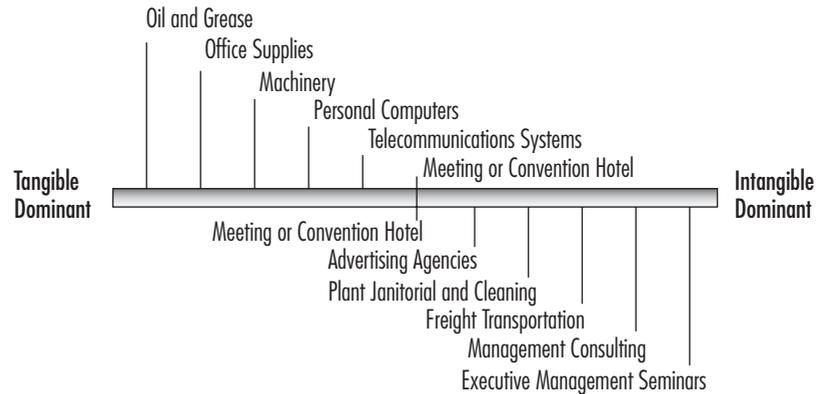
Services are intangible; products are tangible. Services are consumed at the time of production, but there is a time lag between the production and consumption of products. Services cannot be stored; products can. Services are highly variable; most products are highly standardized. These differences produce differences in strategic applications that often stand many product marketing principles on their head.¹⁹

¹⁷C. K. Prahalad and Venkat Ramaswamy, *The Future of Competition: Co-Creating Unique Value with Customers* (Boston: Harvard Business School Press, 2004), pp. 93–94.

¹⁸Mohanbir Sawhney, "Going Beyond the Product," p. 6.

¹⁹Henry Assael, *Marketing Management: Strategy and Action* (Boston.: Kent Publishing, 1985), p. 693.

FIGURE 10.2 | BUSINESS PRODUCT—SERVICE CLASSIFICATION BASED ON TANGIBILITY



SOURCE: Adapted from G. Lynn Shostack, "Breaking Free from Product Marketing," *Journal of Marketing* 41 (April 1977): p. 77. Published by the American Marketing Association.

Thus, success in the business service marketplace begins with understanding the meaning of *service*.

Services Are Different

There are inherent differences between goods and services, providing a unique set of marketing challenges for service businesses and for manufacturers that provide services as a core offering. Put simply, services are deeds, processes, and performances.²⁰ For example, a management consultant's core offerings are primarily deeds and actions performed for customers. The most basic, and universally recognized, difference between goods and services is *intangibility*. Services are more intangible than manufactured goods, and manufactured goods are more tangible than services. Because services are actions or performances, they cannot be seen or touched in the same way that consumers sense tangible goods.

Tangible or Intangible?

Figure 10.2 provides a useful tool for understanding the product–service definitional problem. The continuum suggests that there are very few *pure products* or *pure services*. For example, a personal computer is a physical object made up of tangible elements that facilitate the work of an individual and an organization. In addition to the computer's physical design and performance characteristics, the quality of technical service support is an important dimension of the marketing program. Thus, most market offerings comprise a combination of tangible and intangible elements.

Whether an offering is classified as a good or as a service depends on how the organizational buyer views it—whether the tangible or the intangible elements dominate. On one end of the spectrum, grease and oil are tangible-dominant; the essence of what is being bought is the physical product. Management seminars, on the other

²⁰Valarie A. Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler, *Services Marketing: Integrating Customer Focus across the Firm*, 5th ed. (Boston: McGraw-Hill Irwin, 2009), p. 2.

hand, are intangible-dominant because what is being bought—professional development, education, learning—has few, if any, tangible properties. A convention hotel is in the middle of the continuum because the buyer receives an array of both tangible elements (meals, beverages, notepads, and so on) and intangible benefits (courteous personnel, fast check-ins, meeting room ambiance, and so forth).

The concept of tangibility is especially useful to the business marketer because many business offerings are composed of product and service combinations. The key management task is to evaluate carefully (from the buyer's standpoint) which elements dominate. The more the market offering is characterized by intangible elements, the more difficult it is to apply the standard marketing tools that were developed for products. The business marketer must focus on specialized marketing approaches appropriate for services.

The concept of tangibility also helps the manager focus clearly on the firm's *total market offering*.²¹ In addition, it helps the manager recognize that a change in one element of the market offering may completely change the offering in the customer's view. For example, a business marketer who decides to hold spare-parts inventory at a central location and use overnight delivery to meet customer requirements must refocus marketing strategy. The offering has moved toward the intangible end of the continuum because of the intangible benefits of reduced customer inventory and fast transportation. This new "service," which is less tangible, must be carefully explained, and the intangible results of lower inventory costs must be made more concrete to the buyer through an effective promotion program.

In summary, business services are market offerings that are predominantly intangible. However, few services are totally intangible—they often contain elements with tangible properties. In addition to tangibility, business services have other important distinguishing characteristics that influence how they are marketed. Table 10.2 summarizes the core characteristics that further delineate the nature of business services.

Simultaneous Production and Consumption

Because services are generally *consumed as they are produced*, a critical element in the buyer-seller relationship is the effectiveness of the individual who actually provides the service—the IBM technician, the UPS driver, the McKinsey consultant. From the service firm's perspective, the entire marketing strategy may rest on how effectively the individual service provider interacts with the customer. Here the actual service delivery takes place and the promise to the customer is kept or broken. This critical point of contact with the customer is referred to as **interactive** or **real-time marketing**. Recruiting, hiring, and training personnel assume special importance in business service firms.

Service Variability

Observe in Table 10.2 that service is *nonstandardized*, meaning that the quality of the service output may vary each time it is provided.²² Services vary in the amount of

²¹Arun Sharma, R. Krishnan, and Dhruv Grewal, "Value Creation in Markets: A Critical Area of Focus for Business-to-Business Markets," *Industrial Marketing Management* 30 (June 2001): pp. 391–402.

²²Valarie A. Zeithaml, A. Parasuraman, and Leonard R. Berry, "Problems and Strategies in Services Marketing," *Journal of Marketing* 49 (Spring 1985): p. 34; see also Zeithaml, Berry, and Parasuraman, "Communication and Control Processes in the Delivery of Service Quality," *Journal of Marketing* 52 (April 1988): pp. 35–48.

TABLE 10.2 | UNIQUE SERVICE CHARACTERISTICS

Characteristics	Examples	Marketing Implications
Simultaneous production and consumption	Telephone conference call; management seminar; equipment repair	Direct-seller interaction requires that service be done “right”; requires high-level training for personnel; requires effective screening and recruitment
Nonstandardized output	Management advice varies with the individual consultant; merchandise damages vary from shipment to shipment	Emphasizes strict quality control standards; develop systems that minimize deviation and human error; prepackage the service; look for ways to automate
Perishability: inability to store or stockpile	Unfilled airline seats; an idle computer technician; unrented warehouse space	Plan capacity around peak demand; use pricing and promotion to even out demand peaks and valleys; use overlapping shifts for personnel
Lack of ownership	Use of railroad car; use of consultant’s know-how; use of mailing list	Focus promotion on the advantages of nonownership: reduced labor, overhead, and capital; emphasize flexibility

equipment and labor used to provide them. For example, a significant human element is involved in teaching an executive seminar compared with providing overnight airfreight service. Generally, the more labor involved in a service, the less uniform the output. In these labor-intensive cases, the user may also find it difficult to judge the quality before the service is provided. Because of uniformity problems, business service providers must focus on finely tuned quality-control programs, invest in “systems” to minimize human error, and seek approaches for automating the service.

Service Perishability

Generally, services *cannot be stored*; that is, if they are not provided at the time they are available, the lost revenue cannot be recaptured. Tied to this characteristic is the fact that demand for services is often unpredictable and widely fluctuating. The service marketer must carefully evaluate capacity—in a service business, **capacity** is a substitute for inventory. If capacity is set for peak demand, a “service inventory” must exist to supply the highest level of demand. As an example, some airlines that provide air shuttle service between New York, Washington, and Boston offer flights that leave every hour. If, on any flight, the plane is full, another plane is brought to the terminal—even for one passenger. An infinite capacity is set so that no single business traveler is dissatisfied. Obviously, setting high capacity levels is costly, and the marketer must analyze the cost versus the lost revenue and customer goodwill that might result from maintaining lower capacity.

Nonownership

The final dimension of services shown in Table 10.2 is that the service buyer uses, but *does not own*, the service purchased. Essentially, payment for a service is a payment for the use of, access to, or hire of items. Renting or leasing is “a way for customers to enjoy use of physical goods and facilities that they cannot afford to buy, cannot justify

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To Sell Jet Engines, Teach Your Customer How to Sell Aircraft

A major segment of GE Transportation is the General Electric Aircraft Engines division. This unit is the world's largest manufacturer of jet engines, ranging from small 14,000-pound thrust engines up to the giant GE90, a 115,000-pound thrust engine that powers the Boeing 777. As important as these engines are to GE's profitability, the real profits come from the *service package* surrounding the sale of an engine. A jet engine lasts years, and what often clinches a sale and leads to long-term profits for GE is the full-service "package" that accompanies the engine over its lifespan. One GE marketing manager claims that "jet engines are almost commodities; the key differentiator is the lifetime service we offer our customers."

Interestingly, the airline that buys a new aircraft is generally the decision-making unit that chooses the engine brand to be installed—not the aircraft manufacturer, namely Boeing or Airbus. Recognizing the importance of the airline in the purchase process for jet engines, GE embarked on a creative strategy. Several new aircraft manufacturers began operations in China in the early 2000s as a result of that country's major economic growth. One manufacturer, specializing in small, regional jets (50- to 70-passenger capacity), selected GE as the engine supplier in 2004, although the firm

would not produce an airplane until at least 2008. The company was starting from scratch when it selected GE engines for its planes.

GE immediately began working with the firm to refine the plane's design and engineering, and these valuable services were one reason it selected GE as the supplier. More importantly, GE assigned one manager and a team of sales, engineering, and marketing specialists to work with the firm. One of GE's first efforts was to bring 25 sales and marketing managers from the Chinese aircraft company to the United States for two weeks of training. These managers represent the personnel who will be selling the aircraft to airline executives in China, as well as in many other parts of the world. The two-week training program centered on the basics of business-to-business marketing—something the Chinese knew little about. GE brought in experienced faculty to teach the Chinese and provided GE managers to follow up on the training at later dates. What is unique about this approach is that a supplier was actually teaching the customer how to market and sell! Of course, the benefits to GE are huge: If the Chinese aircraft firm is effective at business-to-business selling to airlines, then more GE engines will be demanded in the future.

purchasing, or prefer not to retain after use."²³ The service marketer must feature the advantages of nonownership in its communications to the marketplace. The key benefits to emphasize are reductions in staff, overhead, and capital from having a third party provide the service.

Although there may be exceptions, these characteristics provide a useful framework for understanding the nature of business services and isolating special marketing strategy requirements. The framework suggests that different types of service providers should pursue different types of strategies because of the intangibility and heterogeneity of their services. In this case, providers of professional services (consulting, tax advising, accounting, and so on) should develop marketing strategies that emphasize word-of-mouth communication, provide tangible evidence, and employ value pricing to overcome the issues created by intangibility and heterogeneity.²⁴

²³Christopher Lovelock and Evert Gummesson, "Whither Services Marketing? In Search of a New Paradigm and Fresh Perspectives," *Journal of Services Research* 7 (August 2004): p. 36.

²⁴Michael Clemes, Diane Mollenkopf, and Darryl Burn, "An Investigation of Marketing Problems across Service Typologies," *Journal of Services Marketing* 14 (no. 6–7, 2000): p. 568; see also, Möllar, Rajala, and Westerlund, "Service Innovation Myopia," pp. 34–46.

Service Quality

Quality standards are ultimately defined by the customer. Actual performance by the service provider or the provider's perception of quality are of little relevance compared with the customer's perception. "Good" service results when the service provider meets or exceeds the customer's expectations.²⁵ As a result, many management experts argue that service companies should carefully position themselves so that customers expect a little less than the firm can actually deliver. The strategy: underpromise and overdeliver.

Dimensions of Service Quality

Because business services are intangible and nonstandardized, buyers tend to have greater difficulty evaluating services than evaluating goods. Because they are unable to depend on consistent service performance and quality, service buyers may perceive more risk.²⁶ As a result, they use a variety of prepurchase information sources to reduce risk. Information from current users (word of mouth) is particularly important. In addition, the evaluation process for services tends to be more abstract, more random, and more heavily based on symbology rather than on concrete decision variables.²⁷

Research provides some valuable insights into how customers evaluate service quality. From Table 10.3, note that customers focus on five dimensions in evaluating service quality: reliability, responsiveness, assurance, empathy, and tangibles. Among these dimensions, reliability—delivery on promises—is the most important to customers. High-quality service performance is also shaped by the way frontline service personnel provide it. To the customer, service quality represents a responsive employee, one who inspires confidence, and one who adapts to the customer's unique needs or preferences and delivers the service in a professional manner. In fact, the performance of employees who are in contact with the customer may compensate for temporary service quality problems (for example, a problem reoccurs in a recently repaired photocopier).²⁸ By promptly acknowledging the error and responding quickly to the problem, the service employee may even strengthen the firm's relationship with the customer.

Customer Satisfaction and Loyalty

Four components of a firm's offering and its customer-linking processes affect customer satisfaction:

1. The basic elements of the product or service that customers expect all competitors to provide;

²⁵William H. Davidow and Bro Uttal, "Service Companies: Focus or Falter," *Harvard Business Review* 67 (July–August 1989): p. 84.

²⁶Valarie A. Zeithaml, "How Consumer Evaluation Processes Differ between Goods and Services," in *Marketing of Services*, James H. Donnelly and William R. George, eds. (Chicago: American Marketing Association, 1981), pp. 200–204.

²⁷Ibid.

²⁸Christian Gronroos, "Relationship Marketing: Strategic and Tactical Implications," *Management Decision*, 34 (no. 3, 1996): pp. 5–14.

TABLE 10.3 | THE DIMENSIONS OF SERVICE QUALITY

Dimension	Description	Examples
Reliability	Delivering on promises	Promised delivery date met
Responsiveness	Being willing to help	Prompt reply to customers' requests
Assurance	Inspiring trust and confidence	Professional and knowledgeable staff
Empathy	Treating customers as individuals	Adapts to special needs of customer
Tangibles	Representing the service physically	Distinctive materials: brochures, documents

SOURCE: Adapted from Valarie A. Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler, *Services Marketing: Integrating Customer Focus across the Firm*, 5th ed. (Boston: McGraw-Hill Irwin, 2009), pp. 116–120.

2. Basic support services, such as technical assistance or training, that make the product or service more effective or easier to use;
3. A recovery process for quickly fixing product or service problems;
4. Extraordinary services that so excel in solving customers' unique problems or in meeting their needs that they make the product or service seem customized.²⁹

Leading service firms carefully measure and monitor customer satisfaction because it is linked to customer loyalty and, in turn, to long-term profitability.³⁰ Xerox, for example, regularly surveys more than 400,000 customers regarding product and service satisfaction using a 5-point scale from 5 (high) to 1 (low). In analyzing the data, Xerox executives made a remarkable discovery: Very satisfied customers (a 5 rating) were far more loyal than satisfied customers. Very satisfied customers, in fact, were *six times* more likely to repurchase Xerox products than satisfied customers.

Service Recovery

Business marketers cannot always provide flawless service. However, the way the firm responds to a client's service problems has a crucial bearing on customer retention and loyalty. **Service recovery** encompasses the procedures, policies, and processes a firm uses to resolve customer service problems promptly and effectively. For example, when IBM receives a customer complaint, a specialist who is an expert in the relevant product or service area is assigned as "resolution owner" of that complaint. On being assigned a customer complaint or problem, the IBM specialist must contact the customer within 48 hours (except in the case of severe problems, where the required

²⁹Thomas O. Jones and W. Earl Sasser Jr., "Why Satisfied Customers Defect," *Harvard Business Review* 73 (November–December 1995): p. 90.

³⁰The Xerox illustration is based on James L. Heskett, Thomas O. Jones, Gary W. Loveman, W. Earl Sasser Jr., and Leonard A. Schlesinger, "Putting the Service-Profit Chain to Work," *Harvard Business Review* 72 (March–April 1994): pp. 164–174.

response is made much faster). Larry Schiff, a marketing strategist at IBM, describes how the process works from there:

They introduce themselves as owners of the customer's problem and ask: What's it going to take for you to be very satisfied with the resolution of this complaint? . . . Together with the customer, we negotiate an action plan and then execute that plan until the customer problem is resolved. The problem only gets closed when the customer says it is closed, and we measure this [*that is, customer satisfaction with problem resolution*] as well.³¹

Service providers who satisfactorily resolve service failures often see that their customer's level of perceived service quality rises. One study in the ocean-freight-shipping industry found that clients who expressed higher satisfaction with claims handling, complaint handling, and problem resolution have a higher level of overall satisfaction with the shipping line.³² Therefore, business marketers should develop thoughtful and highly responsive processes for dealing with service failures. Some studies have shown that customers who experienced a service failure and had it corrected to their satisfaction have greater loyalty to the supplier than those customers who did not experience a service failure!

Zero Defections

The quality of service provided to business customers has a major effect on customer “defections”—customers who do not come back. Service strategists point out that customer defections have a powerful effect on the bottom line.³³ As a company's relationship with a customer lengthens, profits rise—and generally rise considerably. For example, one service firm found that profit from a fourth-year customer is triple that from a first-year customer. Many additional benefits accrue to service companies that retain their customers: They can charge more, the cost of doing business is reduced, and the long-standing customer provides “free” advertising. The implications are clear: Service providers should carefully track customer defections and recognize that continuous improvement in service quality is not a cost but, say Frederick Reichheld and W. Earl Sasser, “an investment in a customer who generates more profit than the margin on a one-time sale.”³⁴

Return on Quality

A difficult decision for the business-services marketing manager is to determine how much to spend on improving service quality. Clearly, expenditures on quality have diminishing returns—at some point, additional expenditures do not increase profits. To make good decisions on the level of expenditures on quality, managers must justify

³¹Larry Schiff, “How Customer Satisfaction Improvement Works to Fuel Business Recovery at IBM,” *Journal of Organizational Excellence* 20 (Spring 2001): p. 12.

³²Srinivas Durvasula, Steven Lysonski, and Subhash C. Mehta, “Business-to-Business Marketing: Service Recovery and Customer Satisfaction Issues with Ocean Shipping Lines,” *European Journal of Marketing* 34 (no. 3–4, 2000): p. 441.

³³Frederick F. Reichheld and W. Earl Sasser, “Zero Defections: Quality Comes to Services,” *Harvard Business Review* 68 (September–October 1990): p. 105; see also, Frederick F. Reichheld, *Loyalty Rules! How Today's Leaders Build Lasting Relationships* (Boston: Harvard Business School Press, 2001).

³⁴Reichheld and Sasser, “Zero Defections,” p. 107.

quality efforts on a financial basis, knowing where to spend on quality improvement, how much to spend, and when to reduce or stop the expenditures. Roland Rust, Anthony Zahorik, and Timothy Keiningham have developed a technique for calculating the “return on investing in quality.”³⁵ Under this approach, service quality benefits are successively linked to customer satisfaction, customer retention, market share, and, finally, to profitability. The relationship between expenditure level and customer-satisfaction change is first measured by managerial judgment and then through market testing. When the relationship has been estimated, the return on quality can be measured statistically. The significant conclusion is that quality improvements should be treated as investments: They must pay off, and spending should not be wasted on efforts that do not produce a return.

Marketing Mix for Business Service Firms

Meeting the needs of service buyers effectively requires an integrated marketing strategy. First, target segments must be selected, and then a marketing mix must be tailored to the expectations of each segment. The business marketing manager must give special consideration to each of the key elements of the service marketing mix: development of service packages, pricing, promotion, and distribution.

In terms of the overall approach that firms develop to interact with their customers, business-to-business service firms are more likely to emphasize *relationship* strategies as opposed to *transactional* strategies.³⁶ Because the transactional mode involves an arm’s-length relationship, success in marketing business services hinges on the business marketer’s ability to develop close and long-lasting ties with customers—based on buyer-seller dependence. The emphasis in marketing business services is on managing the total buyer-seller interaction process.

Segmentation

As with any marketing situation, development of the marketing mix is contingent on the customer segment to be served. Every facet of the service, as well as the methods for promoting, pricing, and delivering it, hinges on the needs of a reasonably homogeneous group of customers. The process for segmenting business markets described in Chapter 5 applies in the services market. However, William Davidow and Bro Uttal suggest that customer service segments differ from usual market segments in significant ways.³⁷

First, service segments are often narrower, often because many service customers expect services to be customized. Expectations may not be met if the service received is standardized and routine. Second, service segmentation focuses on what

³⁵Roland T. Rust, Anthony J. Zahorik, and Timothy L. Keiningham, “Return on Quality (ROQ): Making Service Quality Financially Accountable,” *Journal of Marketing* 59 (April 1995): pp. 58–70; see also Roland T. Rust, Katherine N. Lemon, and Valarie A. Zeithaml, “Return on Marketing: Using Customer Equity to Focus Marketing Strategy,” *Journal of Marketing* 68 (January 2004): pp. 109–127.

³⁶Nicole E. Coviello, Roderick J. Brodie, Peter J. Danaher, and Wesley J. Johnston, “How Firms Relate to Their Markets: An Empirical Examination of Contemporary Marketing Practices,” *Journal of Marketing* 66 (Summer 2002): p. 38.

³⁷Davidow and Uttal, “Service Companies,” p. 79.

the business buyers expect as opposed to what they need. Assessing buyer expectations plays a major role in selecting a target market and developing the appropriate service package. This assessment is critical because so many studies have shown large differences between the ways customers and suppliers define and rank different service activities.³⁸

Because service-quality expectations play such an important role in determining ultimate satisfaction with a service, they can be used to segment business-to-business markets. One study in the mainframe software industry revealed significant differences between “software specialists” (software experts) and “applications developers” (users of software) in the same firm regarding their expectations of new software. The developers (users) had higher expectations about the quality of a supplier’s equipment, its employees’ responsiveness, and the amount of personal attention provided.³⁹ The study concluded that different buying-center members may well have different perspectives and different expectations of service quality. The business marketer should carefully evaluate the possibility of using service-quality expectations as a guide for creating marketing strategy.

Finally, segmenting service markets helps the firm adjust service capacity more effectively. Segmentation usually reveals that total demand is made up of numerous smaller, yet more predictable, demand patterns. A hotel can individually forecast and adjust its capacities to the demand patterns of convention visitors, business travelers, foreign tourists, or vacationers.

Service Packages

The **service package** can be thought of as the product dimension of service, including decisions about the essential concept of the service, the range of services provided, and the quality and level of service. In addition, the service package must consider some unique factors—the personnel who perform the service, the physical product that accompanies the service, and the process of providing the service.⁴⁰ A useful way to conceptualize the service product is shown in Figure 10.3.

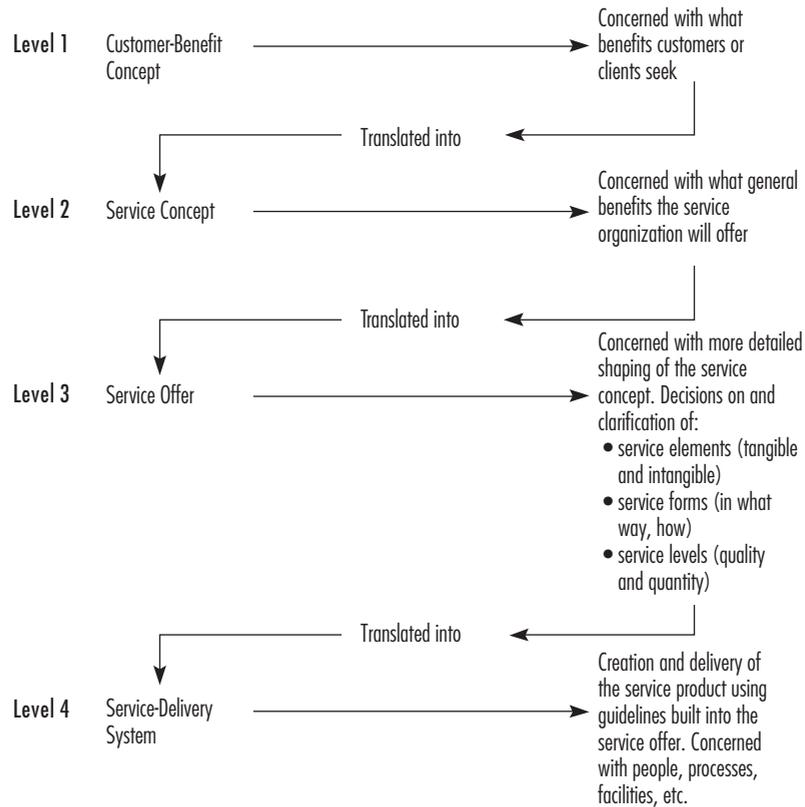
Customer-Benefit Concept Services are purchased because of the benefits they offer, and a first step in either creating a service or evaluating an existing one is to define the **customer-benefit concept**—that is, evaluate the core benefit the customer derives from the service. Understanding the customer-benefit concept focuses the business marketer’s attention on those attributes—functional, effectual, and psychological—that must be not only offered but also tightly monitored from a quality-control standpoint. For example, a sales manager selecting a resort hotel for an annual sales meeting is purchasing a core benefit that could be stated as “a successful meeting.” The hotel marketer must then assess the full range of service attributes and components necessary to provide a successful meeting. Obviously, a wide variety of service elements come into play: (1) meeting-room size, layout, environment,

³⁸Ibid., p. 83.

³⁹Leyland Pitt, Michael H. Morris, and Pierre Oosthuizen, “Expectations of Service Quality as an Industrial Market Segmentation Variable,” *Service Industries Journal* 16 (January 1996): pp. 1–9; see also Ralph W. Jackson, Lester A. Neidell, and Dale A. Lunsford, “An Empirical Investigation of the Differences in Goods and Services as Perceived by Organizational Buyers,” *Industrial Marketing Management* 24 (March 1995): pp. 99–108.

⁴⁰Donald Cowell, *The Marketing of Services* (London: William Heinemann, 1984), p. 73.

FIGURE 10.3 | CONCEPTUALIZING THE SERVICE PRODUCT



SOURCE: Adapted from Donald Cowell, *The Marketing of Services* (London: William Heinemann, Ltd., 1984), p. 100.

acoustics; (2) meals; (3) comfortable and quiet sleeping rooms; (4) audiovisual equipment; and (5) staff responsiveness.

Service Concept Once the customer-benefit concept is understood, the next step is to articulate the **service concept**, which defines the general benefits the service company will provide through the bundle of goods and services it sells to the customer. The service concept translates the customer-benefit concept into the range of benefits the service marketer will *provide*. For a hotel, the service concept might specify the benefits that it will develop: flexibility, responsiveness, and courteousness in providing meeting rooms; a full range of audiovisual equipment; flexible meal schedules; message services; professional personnel; and climate-controlled meeting rooms.

Service Offer Intimately linked with the service concept is the **service offer**, which spells out in more detail those services to be offered; when, where, and to whom they will be provided; and how they will be presented. The service elements that make up the total service package, including both tangibles and intangibles, must be determined. The service offer of the hotel includes a multitude of tangible elements (soundproof meeting rooms, projection equipment, video players, slide projectors,

flip charts, refreshments, heating and air-conditioning, meals) and intangible elements (attitude of meeting-room setup personnel, warmth of greetings from desk clerks and bellhops, response to unique requests, meeting-room ambiance). Generally, management finds it easier to manage the tangible (equipment and physical) elements of the service than to control the intangible elements.

Service Delivery System The final dimension of the service product is the service delivery system—how the service is provided to the customer. The delivery system includes carefully conceived jobs for people; personnel with capabilities and attitudes necessary for successful performance; equipment, facilities, and layouts for effective customer work flow; and carefully developed procedures and processes aimed at a common set of objectives.⁴¹ Thus, the service delivery system should provide a carefully designed blueprint that describes how the service is rendered for the customer.

For physical products, manufacturing and marketing are generally separate and distinct activities; for services, these two activities are often inseparable.⁴² The service performance and the delivery system both create the product and deliver it to customers. This feature of services underscores the important role of people, particularly service providers, in the marketing process. Technicians, repair personnel, and maintenance engineers are intimately involved in customer contact, and they decidedly influence the customer's perception of service quality. The business service marketer must pay close attention to both people and physical evidence (tangible elements such as uniforms) when designing the service package.

Lean Consumption James Womack and Daniel Jones suggest that the concept of "lean consumption" provides an effective way to think about how services are used.⁴³ **Lean consumption** is focused on providing the full value that buyers desire from their goods and services, with the greatest efficiency and least trouble. When a business buys a computer system, for example, this is not a one-time transaction. The company has embarked on the arduous process of researching, obtaining, integrating, maintaining, upgrading, and finally, disposing of this product. For computer manufacturers (whether employees, managers, or entrepreneurs), developing lean consumption processes requires determining how to configure linked business activities, especially across firms, to meet customer needs without wasting their own—or the customer's—time, effort, and resources. These favorable results are achieved by tightly integrating and streamlining the processes of provision and consumption. This approach has been pursued effectively by Fujitsu Services, a leading global provider of outsourced customer service. Companies that contract with Fujitsu to manage their in-house information technology help desks find that the number of calls their desks receive about a recurring problem—say, malfunctioning printers—often falls to near zero. What Fujitsu does is identify and fix the source of the problem—for example, replace the flawed printers with new ones. By seeking the root cause of the problem somewhere up the value stream (often involving multiple companies), Fujitsu has pioneered a way to eliminate problems and reduce costs.⁴⁴

⁴¹James L. Heskett, *Managing in the Service Economy* (Boston: Harvard Business School Press, 1986), p. 20.

⁴²Cowell, *The Marketing of Services*, p. 110.

⁴³James Womack and Daniel Jones, "Lean Consumption," *Harvard Business Review* 83 (March 2005): p. 60.

⁴⁴*Ibid.*, p. 61.

Service Personnel A first step in creating an effective service package is to ensure that all personnel know, understand, and accept the customer-benefit concept. As Donald Cowell states, “So important are people and their quality to organizations and . . . services that ‘internal marketing’ is considered to be an important management role to ensure that all staff are customer conscious.”⁴⁵ In short, the attitudes, skills, knowledge, and behavior of service personnel have a critical effect on the customer’s level of satisfaction with the service.

Pricing Business Services

Although product and service pricing policies and strategies share many common threads, the unique characteristics of services create some special pricing problems and opportunities.

Perishability and Managing Demand/Capacity The demand for services is rarely steady or predictable enough to avoid service perishability. An extremely difficult decision for the business service marketer is to determine the capacity (inventory) of the system: Should it meet peak demand, average demand, or somewhere in between? Pricing can be used to manage the timing of demand and align it with capacity.

To manage demand, the marketer may offer off-peak pricing schemes and price incentives for service orders placed in advance. For example, resort hotels, crowded with pleasure travelers during school vacations and holidays, develop special packages for business groups during the off-season. Similarly, utilities may offer significant rate reductions for off-peak usage. It may also be possible, depending on demand elasticity and competition, to charge premium rates for services provided at peak demand periods. Interestingly, however, a recent study showed that many service firms do not reduce prices to increase business during slow periods.⁴⁶

Service Bundling Many business services include a core service as well as various peripheral services. How should the services be priced—as an entity, as a service bundle, or individually? **Bundling** is the practice of marketing two or more services in a package for a special price.⁴⁷ Bundling makes sense in the business service environment because most service businesses have a high ratio of fixed costs to variable costs and a high degree of cost sharing among their many related services. Hence, the marginal cost of providing additional services to the core service customer is generally low.

A key decision for the service provider is whether to provide pure or mixed bundling.⁴⁸ In **pure bundling**, the services are available only in bundled form—they cannot be purchased separately. In **mixed bundling**, the customer can purchase one or more services individually or purchase the bundle. For example, a public warehouse firm can provide its services—storage, product handling, and clerical activities—in a price-bundled form by charging a single rate (8 cents) for each case the warehouse receives from its manufacturer-client. Or the firm may market each service separately and provide a rate for each service individually (3 cents per case for storage, 4 cents

⁴⁵Cowell, *The Marketing of Services*, p. 110; see also, Francis X. Frei, “The Four Things a Service Business Must Get Right,” *Harvard Business Review* 86 (April 2008): pp. 70–80.

⁴⁶Zeithaml, Parasuraman, and Berry, “Problems and Strategies in Services Marketing,” p. 41.

⁴⁷Joseph P. Gultinan, “The Price Bundling of Services: A Normative Framework,” *Journal of Marketing* 51 (April 1987): p. 74.

⁴⁸*Ibid.*, p. 75.

per case for handling, and 1 cent per case for clerical). Additionally, a multitude of peripheral services can be quoted on an individual basis: physical inventory count, freight company selection and routing, merchandise return and repair, and so on. In this way, the customer can choose the services desired and pay for each separately.

Creating a Service-Savvy Sales Force⁴⁹ As companies move away from product-related services into more elaborate customer solutions, a new set of challenges are presented to salespeople: Services require a long sales cycle and a complex sales process that often involves the participation of senior executives on both the buying and selling sides. To develop a focused strategy, the sales force at GE Healthcare includes both product and service specialists. The product salespeople are called “hunters,” centering their attention on securing customer orders for new equipment. Service salespeople are “farmers”; GE expects them to nurture and develop relationships, growing the service business over time.

Isolate Service Profitability In many industries, firms often supply customers with myriad services such as next-day delivery, customized handling, and specialized labeling. However, not all companies track the real costs of the many services they offer and they have no concrete data on net profit margins. As a result, the high-volume customers who receive the lion’s share of these services may be far less profitable than companies think. As business marketers develop and price service offerings, they should give special attention to *cost-to-serve* particular customers and market segments⁵⁰ (see Chapter 4). By incorporating cost-to-serve data into the calculation of gross margin, business marketing strategists are better equipped to price services, identify unprofitable customers, and take action to restore profitability.

Services Promotion

The promotional strategies for services follow many of the same prescriptions as those for products. However, the unique characteristics of business services pose special challenges for the business marketer.

Developing Tangible Clues Service marketers must concentrate either on featuring the physical evidence elements of their service or on making the intangible elements more tangible. Physical evidence plays an important role in creating the atmosphere and environment in which a service is bought or performed, and it influences the customer’s perception of the service. Physical evidence is the tangible aspect of the service package that the business marketer can control. Attempts should be made to translate the image of a service’s intangible attributes into something more concrete.

For business service marketers, uniforms, logos, written contracts and guarantees, building appearance, and color schemes are some of the many ways to make their services tangible. An equipment maintenance firm that provides free, written, quarterly inspections helps make its service more tangible. Xerox, IBM, and FedEx offer service guarantees for selected offerings. The credit card created by car rental companies is another example of an attempt to make a service more tangible. A key concern for the service marketer is to develop a well-defined strategy for managing physical evidence—to enhance and differentiate service evidence by creating tangible clues.

⁴⁹Werner Reinartz and Wolfgang Ulaga, “How to Sell More Services Profitably,” *Harvard Business Review* 86 (May 2008): pp. 90–96.

⁵⁰Remko Van Hoek and David Evans, “When Good Customers Are Bad,” *Harvard Business Review* 83 (September 2005): p. 9.

Services Distribution

Distribution decisions in the service industry are focused on how to make the service package available and accessible to the user. Direct sale may be accomplished by the user going to the provider (for example, a manufacturer using a public warehouse for storing its product) or, more often, by the provider going to the buyer (for example, photocopier repair). Services can also be delivered over the Internet or provided by channel members.

Delivering Services Through the Internet The Internet provides a powerful new channel for a host of services. For example, application service providers serve business market customers by allowing them to rent access to computer software and hardware, often providing the access over the Internet.⁵¹ To illustrate, for Dunn and Bradstreet, IBM pulls together credit information on 63 million companies, handles customer support and electronic credit-report distribution, and identifies good customer prospects with its analytic software.⁵²

Channel Members Some manufacturers simply rely on their channel members to provide the services associated with the product. Because wholesalers and distributors are much closer to the customer, this arrangement can be a cost-effective way to deliver installation, repair, and maintenance services. IBM, although well known for its physical products, transformed itself into a services firm as a way to gain competitive advantage. While using a direct sales force to sell its services to large corporate customers, IBM found it difficult to cover the vast middle market in a cost-effective way. The middle market comprises customers with fewer than 2,000 employees or less than \$500 million in revenue. IBM's solution was to rely on business partners (channel members) to sell its services to these customers and to provide continuous support to partners and customers via the Internet. In this way, IBM expands its market coverage, responds to the service needs of customers, and increases the profitability and loyalty of its partners.⁵³

Developing New Services⁵⁴

In line with our discussion of the new-product-development process (see Chapter 9), research suggests that there are a small set of success factors that drive the outcome of new service ventures. Included here are ensuring an excellent fit to customer needs, involving expert front-line service managers in creating the new service and in helping customers appreciate its distinctive benefits, and implementing a formal and planned launch for the new service offering. Moreover, the study found, for new-to-the-world business services, the primary distinguishing feature impacting performance is the corporate culture—one that actively promotes entrepreneurship, encourages creativity, and includes the direct involvement of senior managers in the new-service-development process.

⁵¹Jon G. Auerbach, "Playing the New Order: Stocks to Watch as Software Meets the Internet," *The Wall Street Journal*, November 15, 1999, p. R28.

⁵²Steve Hamm, "Beyond Blue," *Business Week*, April 18, 2005, pp. 68–76.

⁵³Craig Zarley, Joseph Kovar, and Edward Moltzen, "IBM Reaches," *Computer Reseller News* 26 (February 2001): p. 14.

⁵⁴Ulrike de Brentani, "Innovative versus Incremental New Business Services: Different Keys for Achieving Success," *Journal of Product Innovation Management* 18 (no. 3, 2001): pp. 169–187; see also, Adegoke Oke, "Innovation Types and Innovation Management Practices in Service Companies," *International Journal of Operations & Production Management* 27 (no. 6, 2007): pp. 564–587.

Summary

Customer satisfaction represents the culmination of a set of customer experiences with the business-to-business firm. A customer experience map provides a powerful platform for defining the most critical customer–company interactions, uncovering customer expectations, and spotting opportunities to create value and strengthen customer loyalty. Rather than selling individual products and services, leading-edge business-to-business firms focus on what customers really want—solutions. To design a solution, the business marketing manager begins by analyzing a customer problem and then identifies the products and services required to solve that problem. Because solutions can be more readily customized for individual customers, they provide more avenues for differentiation than products can offer.

Business services are distinguished by their intangibility, linked production and consumption, lack of standardization, perishability, and use as opposed to ownership. Together, these characteristics have profound effects on how services should be marketed. Buyers of business services focus on five dimensions of service quality: reliability, responsiveness, assurance, empathy, and tangibles. Because of intangibility and lack of uniformity, service buyers have significant difficulty in comparing and selecting service vendors. Service providers must address this issue in developing their marketing mix.

The marketing mix for business services centers on the traditional elements—service package, pricing, promotion, and distribution—as well as on service personnel, service delivery system, and physical evidence. The goal of the services marketing program is to create satisfied customers. A key first step in creating strategies is to define the customer-benefit concept and the related service concept and offer. Pricing concentrates on influencing demand and capacity as well as on the bundling of service elements. Promotion emphasizes developing employee communication, enhancing word-of-mouth promotion, providing tangible clues, and developing interpersonal skills of operating personnel. Distribution is accomplished through direct means, intermediaries, or the Internet. Firms, large and small, are using the Internet to forge closer relationships with customers and to deliver a vast array of new services. New service marketing can improve effectiveness by creating an organizational culture that fosters risk taking and innovation. Successful new services respond to carefully defined market needs, capitalize on the strengths and reputation of the firm, and issue from a well-planned new-service-development process.

Discussion Questions

1. Local contractors who handle home remodeling and other building projects turn to Home Depot or Lowe's for many products, tools, and materials. Describe how these retailers could adopt a solutions marketing focus to serve those customers.
2. When a company buys a high-end document processor from Xerox or Canon, it is buying a physical product with a bundle of associated services. Describe some of the services that might be associated with such a product. Develop a list of the elements or points of interaction that might be reflected in a customer experience map. How can buyers evaluate the quality or value of these services?

3. Explain why the growth opportunities for many firms, such as IBM or GE, are far greater in services than they are in products.
4. Leading service companies such as American Express and FedEx measure customer satisfaction on a quarterly basis across the global market. Discuss the relationship between customer satisfaction and loyalty.
5. Many firms have a recovery process in place for situations when their products or services fail to deliver what has been promised to the customer. Illustrate how such a process might work.
6. A new firm creates Web sites and electronic commerce strategies for small businesses. Describe the essential elements to be included in its service product.
7. What is the role of physical evidence in the marketing of a business service?
8. As a luxury resort hotel manager, what approaches might you utilize to manage business demand for hotel space?
9. Critique this statement: “A key dimension of success in services marketing, as opposed to products marketing, is that operating personnel in the service firm play a critical selling and marketing role.”
10. What steps can a manager take to enhance the chances of success for a new business service?

Internet Exercise

1. Autodesk, Inc., a leading design software and digital content company, provides online collaborative services for the building industry that enables more effective management of all project information. Go to <http://www.buzzsaw.com> and describe the service solutions Autodesk provides for architects and engineers.

SafePlace Corporation⁵⁵

In February 2002, a guest staying at the Hilton in Cherry Hill, New Jersey, died while attending a convention. Several other guests were sent to the hospital amid fears of an outbreak of Legionnaires' disease or an anthrax attack. Later, it was determined that the guest had died from pneumonia and a blood infection unrelated to the hotel. The alarm surrounding this incident illustrates how important safety has become to a hotel's business.

In response to this need, John C. Fannin III, a fire protection and industrial security expert, formed and is the president of the SafePlace Corporation. The firm is an independent provider of safety accreditation of lodging, health care, educational, and commercial buildings and other occupancies where the safety of people is a concern. Like the "Good Housekeeping Seal of Approval," SafePlace[®] Accreditation requirements are based on the security, fire protection, and health and life safety provisions of selected nationally recognized codes, standards, and best practices.

The Hotel duPont in Wilmington, Delaware, was the first lodging facility in the United States to receive the SafePlace seal of approval. Such an accreditation process involves a rigorous inspection of the facility and identifies the best practices the hotel should employ, such as the use of key cards (as opposed to keys), self-closing doors, smoke detectors and sprinklers in the guest rooms, throw-bolt locks on the doors, excellent water quality, and safe work and food-handling practices among the hotel staff. The Hotel duPont, which paid a \$45,000 fee for the inspection and consulting services, displays the SafePlace seal in the lobby and plans to feature the credential on all of the hotel's marketing materials. Other early adopters of the SafePlace program are New Orleans' Hotel Monteleone and the Sagamore in Bolton Landing, New York. Both report that their approvals have led to increased business.

Tricia Hayes, director of marketing at The Sagamore said that SafePlace has brought meeting-planner attention to her facility and management comfort in adopting best risk-management practices. "Our accreditation has had a big impact on meeting professionals. Our sales managers use it as a sales tool."

Since launching its program, SafePlace is doing particularly well with independent hotels that, according to Fannin, are "quicker to respond to customer preferences than a chain would be." In turn, Fannin feels that there is a huge opportunity in the education market, particularly with colleges and universities (for example, the accreditation of dormitories).

Discussion Questions

1. Describe the core service concept and benefits that SafePlace provides to a hotel and its guests. How would you describe these benefits in the body of an ad?
2. What steps could John Fannin take to fuel the growth of SafePlace?
3. Assess the prospects for SafePlace in the education market and suggest a potential strategy the firm might follow to penetrate this market.

⁵⁵Maureen Milford, "Hotel Safety Rises to a New Standard," *The News Journal*, May 13, 2002, p. i, accessed at <http://safeplace.com> on September 27, 2002; , and "SafePlace Makes Hospitality Inroads," *Lodging Hospitality*, February 2005, accessed at <http://www.safeplace.com> on October 15, 2005; and Ruth Hill, "What Hotel Guests Want Today: A Safe Haven in a Secure Property," *HSM&I Marketing Review*, Fall 2005, accessed at <http://www.safeplace.com> on July 22, 2008.