

Understanding Service Processes

Susan Munro, Service Consumer

Susan Munro, a final-year business student, had breakfast and then clicked onto the Internet to check the local weather forecast. It predicted rain, so she grabbed an umbrella before leaving the apartment and walking to the bus stop for her daily ride to the university. On the way, she dropped a letter in a mailbox. The bus arrived on schedule. It was the usual driver, who recognized her and gave a cheerful greeting as she showed her commuter pass. The bus was quite full, carrying a mix of students and office workers, so she had to stand.

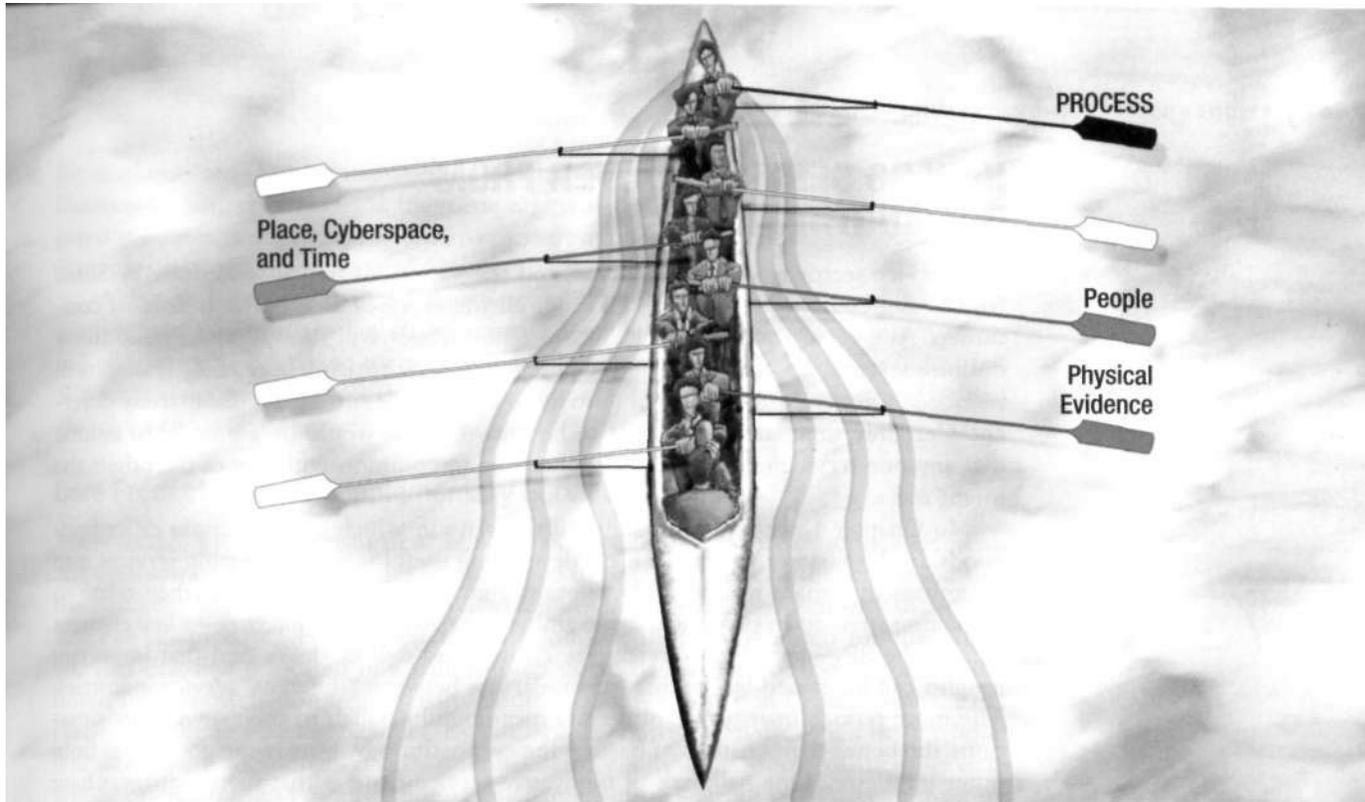
Arriving at her destination, Susan left the bus and walked to the College of Business. Joining a throng of other students, she took a seat in the large classroom where her finance class was held. The professor lectured in a near monotone for 75 minutes, occasionally projecting charts on a large screen to illustrate certain calculations. Susan reflected that it would be just as effective—and far more convenient—if the course were transmitted over the Web or recorded on videotapes that students could watch at their leisure. She much preferred the marketing course that followed because this professor was a very dynamic individual who believed in having an active dialog with the students. Susan made several contributions to the discussion and felt that she learned a lot from listening to others' analyses and opinions.

She and three friends ate lunch at the recently modernized Student Union. The old cafeteria, a gloomy place that served boring food at high prices, had been replaced by a well-lit and colorfully decorated new food court, featuring a variety of small kiosks. These included both local suppliers and brand-name fast-food chains, which offered choices of sandwiches, as well as health foods and a variety of desserts. Although she

had wanted a sandwich, the line of waiting customers at the sandwich shop was rather long, so Susan joined her friends at Burger King and then splurged on a *caffè latte* from the adjacent Hav-a-Java coffee stand. The food court was unusually crowded today, perhaps because of the rain now pouring down outside. When they finally found a table, they had to clear off the dirty trays. "Lazy slob!" commented her friend Mark, referring to the previous customers.

After lunch, Susan stopped at the cash machine, inserted her bank card, and withdrew some money. Remembering that she had a job interview at the end of the week, she telephoned her hairdresser and counted herself lucky to be able to make an appointment for later in the day because of a cancellation by another client. Leaving the Student Union, she ran across the rain-soaked plaza to the Language Department. In preparation for her next class, Business Spanish, she spent an hour in the language lab, watching an engaging videotape of customers making purchases at different types of stores, then repeating key phrases and listening to her own recorded voice. "My accent's definitely getting better!" she said to herself.

With Spanish phrases filling her head, Susan headed off to visit the hairdresser. She liked the store, which had a bright, trendy decor and well-groomed, friendly staff. Unfortunately, the cutter was running late and Susan had to wait 20 minutes, which she used to review a chapter for tomorrow's human resources course. Some of the other waiting customers were reading magazines provided by the store. Eventually, it was time for a shampoo, after which the cutter proposed a slightly different cut. Susan agreed, although she drew the line at the



suggestion to lighten her hair color. She sat very still, watching the process in the mirror and turning her head when requested. She was pleased with the result and complimented the cutter on her work. Including the shampoo, the process had lasted about 40 minutes. She tipped the cutter and paid at the reception desk.

The rain had stopped and the sun was shining as Susan left the store, so she walked home, stopping on the way to pick up clothes from the cleaners. This store was rather gloomy, smelled of cleaning solvents, and badly needed repainting. She was annoyed to find that although her silk blouse was ready as promised, the suit she would need for her interview was not. The assistant, who had dirty fingernails, mumbled an apology in an insincere tone without making eye contact. Although the store was convenient and the quality of work quite good, Susan considered the employees unfriendly and not very helpful.

Back at her apartment building, she opened the mailbox in the lobby. Her mail included a bill from her insurance company, which required no action since payment was deducted automatically from her bank account. There was also a postcard from her optometrist, reminding her to schedule a new eye exam. Susan made a mental note to call for an appointment, anticipating that she might need a revised prescription for her contact lenses. She was about to discard the junk mail when she noticed a flyer promoting a new dry-cleaning store and including a coupon for a discount. She decided to try the new firm and pocketed the coupon.

Since it was her turn to cook dinner, she looked in the kitchen to see what food was available. Susan sighed—there wasn't much. Maybe she would make a salad and call for delivery of a large pizza.

Learning Objectives

After reading this chapter, you should be able to

- appreciate the value of classification in services marketing
- understand useful ways of classifying differences between various types of services
- define a service process
- describe four different types of service processes and their strategic implications
- recognize that the nature of a customer's contact with a service varies according to the underlying process

HOW DO SERVICES DIFFER FROM ONE ANOTHER?

The service sector is amazingly varied, and the variety of transactions made by Susan Munro represents only a small sample of all the services directed at individual consumers. As a review of the listings in the Yellow Pages will show, there are also many business services directed at corporate purchasers. It's surprising how many managers in service businesses consider their industries to be unique—or at least distinctively different. Certainly, there are distinctions to be drawn, but it would be a mistake to assume that any one service used by Susan has nothing in common with any of the others she might use.

In Chapter 1, we looked at some of the ways in which services might differ from goods. In this chapter, our focus is on developing useful ways of grouping services into categories that share managerially relevant characteristics, especially as they relate to marketing strategy. In particular, we examine the nature of the *processes*—a key element among the 8Ps—by which services are created and delivered. We find that important insights can be gained by looking for similarities between "different" service industries. The more service managers can identify meaningful parallels to their own firms' situations, the better their chances of beating the competition by borrowing good ideas from other businesses. One hallmark of innovative service firms is that their managers have been willing to look outside their own industries for useful ideas that they can try in their own organizations. We start our search for useful categorization schemes by examining how goods have traditionally been classified.

The Value of Classification Schemes

Classification schemes are the primary means used by researchers to organize items into different classes or groups for the purpose of systematic investigation and theory development. They are as useful in management research as in pure science. Marketing practitioners have long recognized the value of developing distinctive strategies for different types of goods. One of the most famous classification schemes divides goods into convenience, shopping, and specialty categories, according to how frequently consumers buy them and how much effort they are prepared to put into comparing alternatives and locating the right product to match their needs.² This scheme helps managers obtain a better understanding of consumer expectations and behavior and provides insights into the management of retail distribution systems. This same classification can also be applied to retail service institutions, from financial service providers to hair salons.

Another major classification is between durable and nondurable goods. Durability is closely associated with purchase frequency, which has important implications for the development of both distribution and communications strategies. Although service performances are intangible, the durability of benefits is relevant to repurchase frequency. For example, you probably purchase a haircut less often than you buy a *caffè latte* (at least if you are a typical student or a coffee connoisseur).

Yet another classification is consumer goods (those purchased for personal or household use) versus industrial goods (those purchased by companies and other organizations). This classification relates not only to the types of goods purchased—although there is some overlap—but also to methods for evaluating competing alternatives, purchasing procedures, size of purchase orders, and actual usage. Once again, this classification is transferable to services. For example, you may be the only one involved in a decision about whether to purchase America Online (AOL) or another Internet provider for your own computer, but a corporate decision about what online services to select

for employees may involve managers and technical specialists from several departments. Business-to-business services, as the name suggests, include a large group of services targeted at corporate customers and may range from executive recruiting to security and from payroll management to sandblasting.

Although these goods-based classification schemes are helpful, they don't go far enough in highlighting the key strategic issues. We need to classify services into marketing-relevant groups, looking for points of similarity among different service industries. We can use the insights from these classifications to focus on marketing strategies that are relevant to specific service situations.

Core Products versus Supplementary Services

Many service products consist of a "bundle" that includes a variety of service elements and even some physical goods. It's important to distinguish between the *core product* that the customer buys and the set of *supplementary services* that often accompany that product. For instance, the core product of the lodging industry is a bed for the night, whether that bed is located in a youth hostel dorm or in a luxury room at a five-star hotel. Youth hostels don't offer many additional services beyond reservations, basic meals, and simple washing facilities. By contrast, as shown in Figure 2.1, a luxury hotel will offer many additional services to enhance its guests' visits. Some of these services will be offered free and others will carry a charge, but they are all secondary to the core service of overnight sleeping accommodation that defines the lodging industry.

When we speak of services in this chapter, we are referring to the core service that the customer is buying—such as taking an airline flight, attending a concert, hiring an accounting firm to prepare an audit of a company's accounts, or purchasing a homeowner's insurance policy. A cluster of supplementary services that are intended to add value to the core also accompanies most services. Examples include meals and baggage

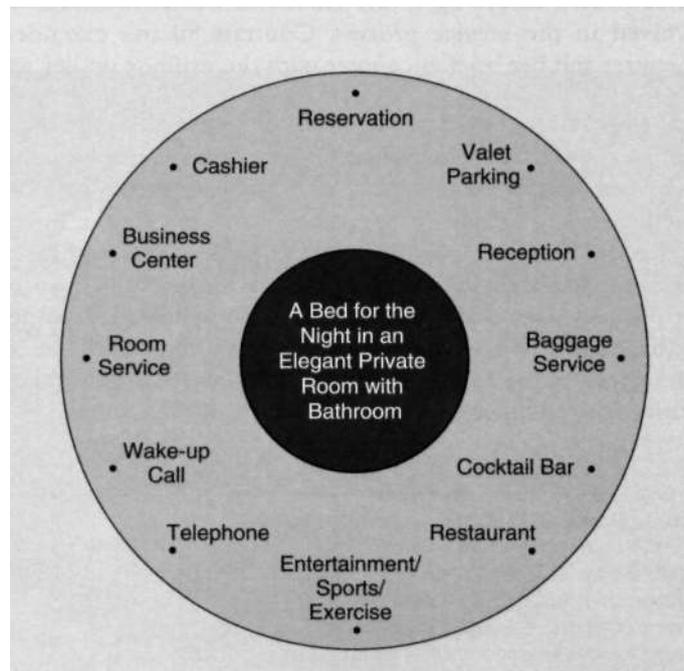


FIGURE 2.1
Core Product and
Supplementary Services for a
Luxury Hotel

service on an airline flight, refreshments at a concert, professional advice from an experienced auditor, or a helpful booklet from an insurance company with suggestions on how to protect your home.

How Might Services Be Classified?

The traditional way of grouping services is by industry. Service managers may say, "We're in the transportation business" (or hospitality, banking, telecommunications, or repair and maintenance). These groupings help us define the core products offered by the firm and understand both customer needs and competition. However, they may not capture the true nature of each business because service delivery can differ widely even within a single category (i.e., food can be provided to customers in settings that range from airport Taco Bells to four-star restaurants).

Various proposals have been made for classifying services.³ Among the meaningful ways in which services can be grouped or classified are those listed in Table 2.1.

Degree of Tangibility or Intangibility of Service Processes Does the service do something physical and **tangible** (like food services or dry cleaning), or do its processes involve a greater amount of **intangibility** (like teaching or telephoning)? Different levels of intangibility in service processes shape the nature of the service delivery system and also affect the role of employees and the experience of customers. Susan's burger was a very tangible outcome of Burger King's service process. But the effects of Susan's experiences in her finance and marketing classes are highly intangible and thus much more difficult to evaluate.

Direct Recipient of the Service Process Some services, like haircutting or public transportation, are directed at customers themselves. Customers also seek services (like dry cleaning) to restore or improve objects that belong to them, but they remain uninvolved in the process of service delivery and do not consume the benefits until later. The nature of the service encounter between service suppliers and their customers varies widely according to the extent to which customers themselves are integrally involved in the service process. Contrast Susan's extended interactions with the haircutter and her brief encounter with the mailbox on her way to school.

Place and Time of Service Delivery When designing delivery systems, service marketers must ask themselves whether customers need to visit the service organization at its own sites (as Susan did with the university, the hair salon, and the cleaners) or whether service should come to the customer (like the Internet weather information service and the pizza delivery to her apartment). Or perhaps the interaction can occur through physical channels like mail (as with her insurance) or electronic channels (as with her ATM banking transaction). These managerial decisions involve consideration of the nature of the service itself, where customers are located (both home and workplace may be relevant), their preferences relating to time of purchase and use, the relative costs of different alternatives, and—in some instances—seasonal factors.

tangible: capable of being touched, held, or preserved in physical form over time.

intangibility: a distinctive characteristic of services that makes it impossible to touch or hold on to them in the same manner as physical goods.

TABLE 2.1
Selected Ways of Classifying
Services

- degree of tangibility or intangibility of service processes
- direct recipient of the service process
- place and time of service delivery
- customization versus standardization
- nature of the relationship with customers
- extent to which demand and supply are in balance
- extent to which facilities, equipment, and people are part of the service experience

Customization versus Standardization Services can be classified according to the degree of **customization** or **standardization** involved in service delivery. An important marketing decision is whether all customers should receive the same service or whether service features (and the underlying processes) should be adapted to meet individual requirements. Susan's insurance policy is probably one of several standard options. The bus service is standardized, with a fixed route and schedule (unlike a taxi), but passengers can choose when to ride and where to get on and off. By encouraging student discussion and debate, Susan's marketing professor is offering a more customized course than her finance professor. Her haircut is customized (although other women may wear the same style), and although her future eye exam will follow standardized procedures, the optometrist's analysis of the results will result in a customized prescription for new contact lenses to correct her vision.

customization: tailoring service characteristics to meet each customer's specific needs and preferences.

standardization: reducing variation in service operations and delivery.

Nature of the Relationship with Customers Some services involve a formal relationship, in which each customer is known to the organization and all transactions are individually recorded and attributed (like Susan's bank or optometrist). But in other services, unidentified customers undertake fleeting transactions and then disappear from the organization's sight (for instance, the phone company has no record of her call from the pay phone). Some services lend themselves naturally to a "membership" relationship, in which customers must apply to join the "club" and their subsequent performance is monitored over time (as in insurance or college enrollment). Other services, like buses, hair salons, dry cleaners, and restaurants, need to undertake proactive efforts to create an ongoing relationship. Although the bus company does not record Susan's rides, it could keep records of all monthly pass holders so that it can mail out passes every month, plus a newsletter describing service improvements or route and schedule changes. Sometimes companies create special club memberships or frequent user programs to reward loyal customers. For instance, both the hair salon and the dry cleaner could record customers' names and addresses and periodically make them special offers. Similarly, Internet sites can be designed to record visits from a specific user address.



To enjoy the services of a Whitewater rafting company, you have to go to a suitable river at the right time of the year.

Extent to which Demand and Supply Are in Balance Some service industries face steady demand for their services, whereas others encounter significant fluctuations. When the demand for service fluctuates widely over time, capacity must be adjusted to accommodate the level of demand or marketing strategies must be implemented to predict, manage, and smooth demand levels to bring them into balance with capacity. Some demand fluctuations are tied to events that marketers can't control. For example, more students eat lunch in the Student Union at Susan's university on a rainy day, resulting in a long line at the sandwich shop and a shortage of empty tables.

Extent to which Facilities, Equipment, and People Are Part of the Service Experience Customers' service experiences are shaped, in part, by the extent to which they are exposed to tangible elements in the service delivery system. The bus that Susan rides is very tangible; so are her classrooms, the table and chairs in the food court, and the VCR in the language lab. In contrast, the physical evidence of her insurance company may be limited to occasional letters, and she may see little more of her bank than monthly statements and the ATM that she uses at the Student Union.

The cheerful bus driver humanizes Susan's bus ride. She appears to think better of her dynamic marketing professor than of her dull finance professor. She likes her trendy hair salon and the friendly cutter but not the smelly dry-cleaning store and its unfriendly employees, even though the quality of cleaning is good. When the cleaner fails to deliver her suit on time and, coincidentally, she receives a discount coupon in the mail from a competitor, she's ready to switch.

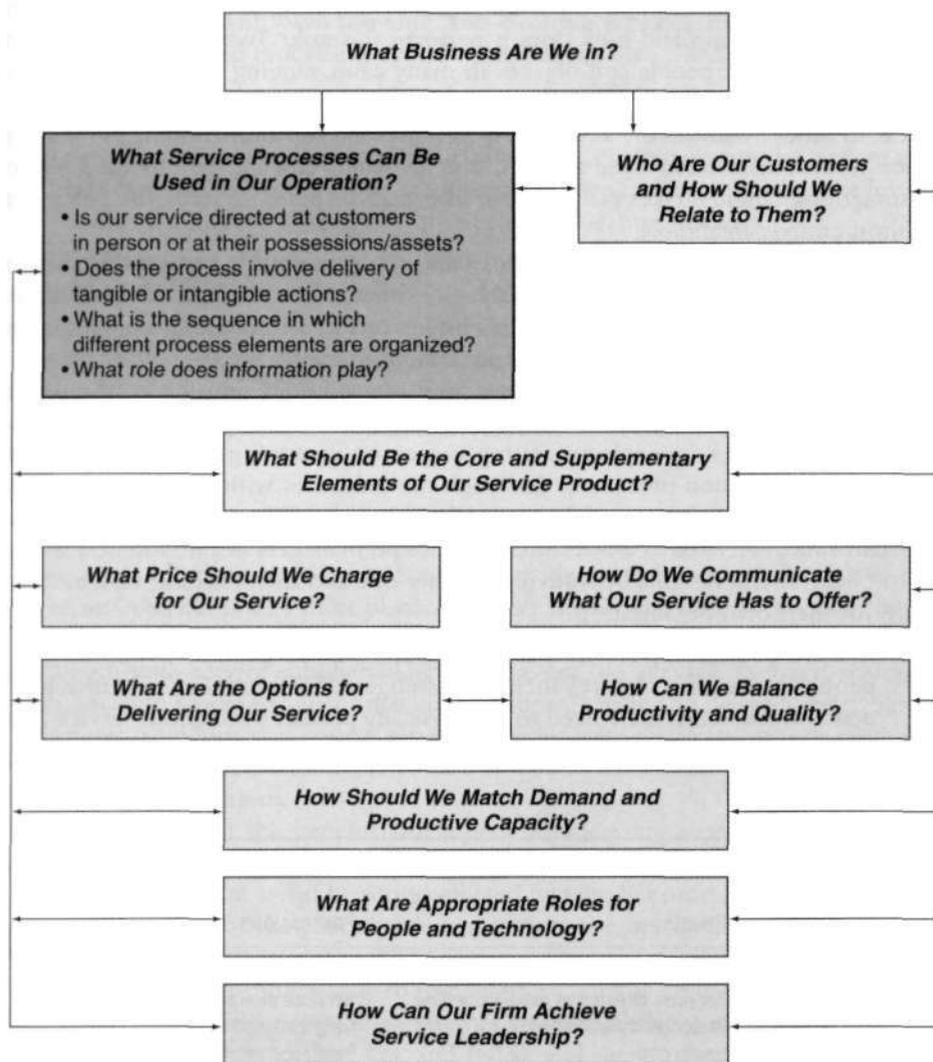
The service classification strategies we've just discussed can help managers address the following questions: What does our service operation actually do? What sorts of processes are involved in creating the core product that we offer to customers? And speaking of customers, where do they fit into our operation? The answers will differ, depending on the nature of the underlying service process required to create and deliver a particular service. So now we turn to the most fundamental of the 8Ps of integrated service management—the *processes* by which service products are created and delivered.

SERVICE AS A PROCESS

Marketers don't usually need to know the specifics of how physical goods are manufactured—that responsibility belongs to the people who run the factory. However, the situation is different in services. Because their customers are often involved in service production and may have preferences for certain methods of service delivery, marketers do need to understand the nature of the processes through which services are created and delivered. Furthermore, they should be involved in any decisions to change the nature of a given process if that change will affect customers.

A process is a particular method of operation or a series of actions, typically involving multiple steps that often need to take place in a defined sequence. Think about the steps that Susan went through at the hair salon: phoning in advance to make an appointment, arriving at the store, waiting, having a shampoo, discussing options with the cutter, having her hair cut and styled, tipping, paying, and finally leaving the store. Service processes range from relatively simple procedures involving only a few steps—such as filling a car's tank with fuel—to highly complex activities like transporting passengers on an international flight.

The characteristics of the processes that might be used in a particular service operation necessarily reflect the nature of the business. Within certain constraints, the choice

FIGURE 2.2Service Decision Framework
as It Relates to Processes

of processes may also be shaped by customer expectations and preferences. Looking at the processes *currently* used is only part of the story, since alternative processes may be available for exploration. As indicated by our service decision framework (Figure 2.2), it's important for marketers to understand: (1) whether the service is directed at customers themselves or at their possessions, (2) whether service entails delivery of tangible or intangible actions, (3) the sequence in which different elements of service delivery need to be organized, and (4) the role played by information.

The answers to be gained from such analysis can help managers to identify the service benefits offered by the service product, consider options for improving productivity and quality, clarify how customer involvement relates to design of service facilities, evaluate alternative channels for service delivery, and determine if there will be problems in balancing demand for the service against our organization's productive capacity. Finally, understanding these service processes helps managers to evaluate the strategic roles that might be played by people and technology.

Categorizing Service Processes

A process involves transforming input into output. But what is each service organization actually processing and how does it perform this task? Two broad categories are processed in services: people and objects. In many cases, ranging from passenger transportation to education, customers themselves are the principal input to the service process. In other instances, the key input is an object like a malfunctioning computer or a piece of financial data. In some services, as in all manufacturing, the process is physical and something tangible takes place. But in information-based services, the process can be almost entirely intangible.

By looking at services from a purely operational perspective, we see that they can be categorized into four broad groups. Table 2.2 shows a four-way classification scheme based on tangible actions either to people's bodies or to customers' physical possessions and intangible actions to people's minds or to their intangible assets.⁴

Each of these four categories involves fundamentally different forms of processes, with vital implications for marketing, operations, and human resource managers. We refer to the categories as people processing, possession processing, mental stimulus processing, and information processing. Although the industries within each category may appear at first sight to be very different, analysis will show that they do, in fact, share important process-related characteristics. As a result, managers in one industry may be able to obtain useful insights by studying another one and then creating valuable innovations for their own organization.

people processing: services that involve tangible actions to people's bodies.

1. **People processing** involves tangible actions to people's bodies. Examples of people-processing services include passenger transportation, haircutting, and dental work. Customers need to be physically present throughout service delivery to receive its desired benefits.

TABLE 2.2

Understanding the Nature of the Service Act

What Is the Nature of the Service Act?		Who or What Is the Direct Recipient of the Service?	
		People	Possessions
<i>Tangible</i>	<i>Actions</i>	<p><i>(People Processing)</i> Services directed at people's bodies: Passenger transportation Health care Lodging Beauty salons Physical therapy Fitness centers Restaurants/bars Haircutting Funeral services</p>	<p><i>(Possession Processing)</i> Services directed at physical possessions: Freight transportation Repair and maintenance Warehousing/storage Janitorial services Retail distribution Laundry and dry cleaning Refueling Landscaping/lawn care Disposal/recycling</p>
	<i>Intangible Actions</i>	<p><i>(Mental Stimulus Processing)</i> Services directed at people's minds: Advertising/PR Arts and entertainment Broadcasting/cable Management consulting Education Information services Music concerts Psychotherapy Religion Voice telephone</p>	<p><i>(Information Processing)</i> Services directed at intangible assets: Accounting Banking Data processing Data transmission Insurance Legal services Programming Research Securities investment Software consulting</p>

2. **Possession processing** includes tangible actions to goods and other physical possessions belonging to the customer. Examples of possession processing include airfreight, lawn mowing, and cleaning services. In these instances, the object requiring processing must be present, but the customer need not be.
3. **Mental stimulus processing** refers to intangible actions directed at people's minds. Services in this category include entertainment, spectator sports, theater performances, and education. In such instances, customers must be present mentally but can be located either in a specific service facility or in a remote location connected by broadcast signals or telecommunication linkages.
4. **Information processing** describes intangible actions directed at a customer's assets. Examples of information-processing services include insurance, banking, and consulting. In this category, little direct involvement with the customer may be needed once the request for service has been initiated.

possession processing: tangible actions to goods and other physical possessions belonging to customers.

mental stimulus processing: intangible actions directed at peoples minds.

information processing: intangible actions directed at customers' assets.

Let's examine why these four different types of processes often have distinctive implications for marketing, operations, and human resource strategies.

People Processing

From ancient times, people have sought out services directed at themselves (e.g., being transported, fed, lodged, restored to health, or made more beautiful). To receive these types of services, customers must physically enter the service system. Because they are an integral part of the process, they cannot obtain the benefits they desire by dealing at arm's length with service suppliers. They must enter the **service factory**, which is a physical location where people or machines (or both) create and deliver service benefits to customers. Sometimes, of course, service providers are willing to come to customers, bringing the necessary tools of their trade to create the desired benefits in the customers' choice of locations.

service factory: the physical site where service operations take place.

If customers want the benefits that a people-processing service has to offer, they must be prepared to cooperate actively with the service operation. For example, Susan cooperates with her hair stylist by sitting still and turning her head as requested. She will also have to be part of the process when she visits the optometrist for her next eye exam. The level of involvement required of customers may entail anything from boarding a city bus for a five-minute ride to undergoing a lengthy course of unpleasant treatments at a hospital. In between these extremes are such activities as ordering and eating a meal; having one's hair washed, cut, and styled; and spending some nights in a hotel room. The output from these services (after a period of time that can vary from minutes to months) is a customer who has reached her destination or satisfied his hunger or is now sporting clean and stylishly cut hair or has had a good night's sleep away from home or is now in physically better health.

It's important for managers to think about process and output in terms of what happens to the customer (or the physical object being processed) because it helps them to identify what benefits are being created. Reflecting on the service process itself helps to identify some of the nonfinancial costs—such as time, mental and physical effort, and even fear and pain—that customers incur in obtaining these benefits.

Possession Processing

Often, customers ask a service organization to provide treatment for some physical possession—which could be anything from a house to a hedge, a car to a computer, or a dress to a dog. Many such activities are quasi-manufacturing operations and do not always involve simultaneous production and consumption. Examples include cleaning, maintaining, storing, improving, or repairing physical objects—both live and inanimate—that belong to the

customer in order to extend their usefulness. Additional possession-processing services include transport and storage of goods; wholesale and retail distribution; and installation, removal, and disposal of equipment—in short, the entire value-adding chain of activities that may take place during the lifetime of the object in question.

Customers are less physically involved with this type of service than with people-processing services. Consider the difference between passenger and parcel transportation. In the former you have to go along for the ride to obtain the benefit of getting from one location to another. But with package service, you drop the package off at a mailbox or post office counter (or request a courier to collect it from your home or office) and wait for it to be delivered to the recipient. In most possession-processing services, the customer's involvement is usually limited to dropping off the item that needs treatment, requesting the service, explaining the problem, and later returning to pick up the item and pay the bill (like Susan's visit to the cleaners to pick up her blouse and suit). If the object to be processed is something that is difficult or impossible to move, like landscaping, installed software, heavy equipment, or part of a building, the service factory must come to the customer, with service personnel bringing the tools and materials necessary to complete the job on-site.

The service process could involve applying insecticide in a house to get rid of ants, trimming a hedge at an office park, repairing a car, installing software in a computer, cleaning a jacket, or giving an injection to the family dog. The output in each instance should be a satisfactory solution to the customer's problem or some tangible enhancement of the item in question. In Susan's case, the cleaners disappointed her because her suit wasn't ready when promised.

Mental Stimulus Processing

Services that interact with people's minds include education, news and information, professional advice, psychotherapy, entertainment, and certain religious activities. Anything touching people's minds has the power to shape attitudes and influence behavior. So, when customers are in a position of dependency or there is potential for manipulation, strong ethical standards and careful oversight are required.

Receiving these services requires an investment of time on the customer's part. However, recipients don't necessarily have to be physically present in a service factory—just mentally in communication with the information being presented. There's an interesting contrast here with people-processing services. Passengers can sleep through a flight and still arrive at their desired destination. But if Susan falls asleep in class or during an educational TV broadcast, she will not be any wiser at the end than at the beginning!

Services like entertainment and education are often created in one place and transmitted by television, radio, or the Internet to individual customers in distant locations. However, they can also be delivered to groups of customers at the originating location in a facility such as a theater or lecture hall. We need to recognize that watching a live concert on television in one's home is not the same experience as watching it in a concert hall in the company of hundreds or even thousands of other people. Managers of concert halls face many of the same challenges as their colleagues in people-processing services. Similarly, the experience of participating in a discussion-based class through interactive cable television lacks the intimacy of people debating one another in the same room.

Because the core content of all services in this category is information based (whether music, voice, or visual images), it can easily be converted to digital bits or analog signals; recorded for posterity; and transformed into a manufactured product, such as a compact disc, videotape, or audiocassette, which may then be packaged and marketed

much like any other physical good. These services can thus be "inventoried" because they can be consumed at a later date than when they were produced. For instance, Susans Spanish videotape can be used over and over again by students visiting the language lab.

Information Processing

Information processing, one of the buzzwords of our age, has been revolutionized by computers. But not all information is processed by machines. Professionals in a wide variety of fields also use their brains to perform information processing and packaging. Information is the most intangible form of service output, but it may be transformed into more enduring, tangible forms as letters, reports, books, tapes, or CDs. Among the services that are highly dependent on the effective collection and processing of information are financial services and professional services like accounting, law, marketing research, management consulting, and medical diagnosis.

The extent of customer involvement in both information and mental stimulus processing is often determined more by tradition and a personal desire to meet the supplier face to face than by the needs of the operational process. Strictly speaking, personal contact is quite unnecessary in industries like banking or insurance. Why subject your firm to all the complexities of managing a people-processing service when you could deliver the same core product at arm's length? As a customer, why go to the service factory when there's no compelling need to do so? Susan appears comfortable dealing at arm's length with both her bank and her insurance company, using a self-service ATM for her banking transactions and receiving mail communications from her insurance company.

Habit and tradition often lie at the root of existing service delivery systems and service usage patterns. Professionals and their clients may say they prefer to meet face to face because they feel that in this way they learn more about each other's needs, capabilities, and personalities. However, experience shows that successful personal relationships, built on trust, can be created and maintained purely through telephone or e-mail contact.



Customers don't need to be present while their cars are being serviced.

DIFFERENT PROCESSES POSE DISTINCTIVE MANAGEMENT CHALLENGES

The challenges and tasks facing managers who work in each of the four different service categories just described are likely to vary to some extent. The classification of processes displayed earlier is central in understanding these differences and developing effective service strategies. Not only does it offer insights into the nature of service benefits in each instance, but it also provides an understanding of the behavior that is required of customers. As suggested in Figure 2.2, there are also implications for designing the service delivery system, balancing demand and capacity, applying technology to service processes, and managing people as part of the service product.

Balancing Productivity and Quality Concerns

Managers need to recognize that operational processes, however important, are basically just a means to an end. The key is to understand the specific benefits that a service provides for its users. Many firms bundle together lots of different activities as part of their effort to provide good service. But innovation in service delivery requires constant attention to the processes underlying delivery of the core product—a bed for the night in the lodging industry, fast transportation of people in the airline industry, or cleaning and pressing clothes in the laundry industry.

New processes may allow service organizations to deliver the same (or improved) benefits to customers through distinctly different approaches. But firms need to be clear about their objectives and the implications for customers. Sometimes, adopting a new process improves productivity by cutting costs at the expense of service quality. In other instances, customers are delighted to encounter faster, simpler, and more convenient procedures. So, operations managers need to beware of imposing new processes, in the name of efficiency, on customers who prefer the existing approach (particularly when the new approach replaces personal service by employees with automated procedures that require customers to do much of the work themselves). By collaborating with marketing personnel, operations specialists will improve their chances of designing new processes that deliver the benefits desired by customers in user-friendly ways. Among other things, customers may need to be educated about the benefits of new procedures and how to use them.

How Customer Involvement Affects Design of the Service Factory

Every service has customers (or hopes to find some), but not every service interacts with them in the same way. Customer involvement in the core activity may vary sharply for each of the four categories of service process. Nothing can alter the fact that people-processing services require the customer to be physically present in the service factory. If you're currently in New York and want to be in London tomorrow, you simply can't avoid boarding an international flight and spending time in a jet high above the Atlantic. If you want your hair cut, you can't delegate this activity to somebody else's head—you have to sit in the haircutter's chair yourself. If you have the misfortune to break your leg, you will personally have to submit to the unpleasantness of having the bone X-rayed, reset by an orthopedic surgeon, and then encased in a protective cast for several weeks.

When customers visit a service factory, their satisfaction will be influenced by such factors as:

- >- encounters with service personnel,
- *- appearance and features of service facilities—both exterior and interior,

- >• interactions with self-service equipment, and
- >• characteristics and behavior of other customers.

If customers are required to be physically present throughout service delivery, the process must be designed around them from the moment they arrive at what we call the "service factory." The longer they remain at that site, the more likely they are to need other services, including hospitality basics like food, beverages, and toilets. Service delivery sites that customers visit must be located and designed with their convenience in mind. Furthermore, the nature of the facilities offers important physical evidence of the service itself. If the service factory is ugly, noisy, smelly, confusingly laid out, and in an inconvenient location, customers are likely to have negative impressions. Marketing managers need to work closely with their counterparts in operations to design facilities that are both pleasing to customers and efficient to operate. At Susan's college, the redesigned food court at the Student Union replaced a cafeteria that provided a less attractive experience (as well as worse food). The exterior of a building creates important first impressions, whereas the interior can be thought of as the "stage" on which the service performance is delivered. The interior of Susan's hair salon appeals to her but that of the dry cleaner does not.

Marketers need to work with human resource managers, too. Here the task is to ensure that those employees who are in contact with customers present an acceptable appearance and have both the personal and technical skills needed to perform well. The workers at the dry-cleaning store Susan uses appear to lack such skills. If service delivery requires customers to interact with employees, both parties may need some basic training or guidance on how to work together cooperatively to achieve the best results. If customers are expected to do some of the work themselves—as in self-service—facilities and equipment must be user-friendly.

Evaluating Alternative Channels for Service Delivery

Unlike the situation in people-processing services, managers responsible for possession processing, mental stimulus processing, and information processing need not oblige their customers to visit a service factory. Instead, they may be able to offer a choice of several alternative delivery channels: (1) letting customers come to a user-friendly factory, (2) limiting contact to a small retail office that is separate from the factory, (3) coming to the customer's home or office, and (4) conducting business at arm's length.

Let's consider the cleaning and pressing of clothes—a possession-processing service—as an example. One approach is to do your laundry at home. If you lack the necessary machines, you can pay to use a laundromat, which is essentially a self-service cleaning factory. If you prefer to leave the task of laundry and dry cleaning to professionals, as Susan chose to do with her best clothes, you can go to a retail store that serves as a drop-off location for dirty clothes and a pickup point for newly cleaned items. Sometimes, cleaning is conducted in a space behind the store; at other times, the clothing is transported to an industrial operation some distance away. Home pickup and delivery is available in some cities, but this service tends to be expensive because of the extra costs involved. Innovation in service delivery sometimes takes the form of changing the delivery location to offer customers greater convenience (see the box, "Entrepreneur Sells Mobile Oil Changes").

Both physical and electronic channels allow customers and suppliers to conduct service transactions at arm's length. For instance, instead of shopping at the mall, you can study a printed catalog and order by telephone for mail delivery; or you can shop on the Internet, entering your orders electronically after reviewing your choices at a Web site. Information-based items, like software, research reports, or real estate listings can be downloaded immediately to your own computer.

Entrepreneur Sells Mobile Oil Changes

His market is busy delivery fleets and people on the go

By MIKE KARATH
Staff Writer

HYANNIS—Andrew Todoroff discovered oil on Cape Cod.

For people who don't have time to take their car in for an oil change, Todoroff brings the auto shop to them.

About two years ago he opened Lube On Location, which services commercial fleets and personal autos across the Cape. It provides oil changes for \$26.95; tire rotation for \$21.15; wiper blades starting at \$15 and air filter changes starting at \$12, tax included.

In the next several months he will add a vacuum system to his van and offer complete interior cleanings for about \$30.

Todoroff popped up from beneath a red Mazda recently after finishing an oil change in the parking lot of a Main Street Hyannis business. A drop of motor oil ran down his face as he wiped his hands.

"The woman who owns the car, her husband called and said she wasn't really taking care of it," Todoroff said. "I had been doing work on his truck, so he asked if I could do his wife's car while she was at work." He added, "People at the bank saw me doing her car, and I got more business from it."

Lube On Location specializes in fleets like courier companies. Todoroff services them early in the morning while the trucks are being loaded and in the late afternoon while they are being unloaded.

"He saves me a ton of money," said Edward Matz, fleet manager of Cape Allied Transit in West Yarmouth, a courier service. "Just in manpower alone he saves me a lot because I don't have to pay a guy to take the truck to a station, sit and wait for an oil change."

Matz said Todoroff is so "efficient and clean" with the company's 70 trucks that he hired him for the company's New Hampshire and Rhode Island terminals as well.

Todoroff is registered with the state Environmental Protection Agency to carry waste oil, which is burned at a Hyannis car dealership's waste oil furnace. He also has a general insurance policy that covers accidents or spills.

Todoroff, 27, a Poughkeepsie, N.Y., native is married and is the father of a one-year-old son and another on the way. In 1989 he moved to the Cape to be near his brother.

He had been working as a cook and a carpet cleaner when a friend suggested he start an auto maintenance business.

"I've always worked on my own cars," Todoroff said. "He got me thinking about it, and soon after that, I read about a guy in Entrepreneur magazine who manufactures equipment to do oil changes on location."

Todoroff sold his car to buy used equipment he saw in a trade magazine classified ad.

The business has about 600 clients, Todoroff said, but he would not disclose his yearly sales. He plans to hire his first employee in May as sales continue to climb.

Despite Todoroff's success, skeptics like John Paul, a spokesman for the American Automobile Association in Rockland, don't see on-location businesses as a hot new trend.

"I don't know if you're going to see it take off," Paul said. "The idea never really caught on in this part of the country because it is contingent on good weather. I'd also say that if it wasn't for places like Jiffy Lube, it would be a service whose time had come."

But Todoroff may have the edge over those businesses. Jiffy Lube in Hyannis charges \$28 including tax for an individual oil change. That is \$1.39 more than what Lube On Location charges.

"My target customer during the day is someone who doesn't want to waste a Saturday to get an oil change done," Todoroff said. "They have such busy work weeks that when the weekend comes, they'd rather go for a ride or spend their time doing something fun or interesting."

Service on the go

Lube On Location oil change includes:

Change oil and oil filter, lube ail fittings; check and fill antifreeze, automatic transmission fluid, power steering fluid, brake fluid, windshield washer fluid; check battery, wipers, belts, radiator hoses, air pressure in tires, and headlights.

Price: \$26.95 (including tax)

Jiffy Lube in Hyannis:

Change oil and oil filter, lube the chassis, check and top off all fluids except antifreeze, vacuum interior, check tires, and clean front and rear outside windows.

Price: \$28.34 (including tax)

Today's managers need to be creative, because information technology and modern package transportation services offer many opportunities to rethink the place and time of service delivery. Some manufacturers of small pieces of equipment allow customers to bypass retail dealers when a product needs repair. Instead, a courier will pick up the defective item, ship it to a repair site, and return it a few days later when it has been fixed. Electronic distribution channels offer even more convenience because transportation time can be eliminated. For instance, using telecommunication links, engineers in a central facility (which could even be on the other side of the world) may be able to diagnose problems in defective computers and software at distant customer locations and send signals to correct the defects. As we noted in Chapter 1, advances in telecommunications and in the design of user-friendly terminals have played an important role in creating new services and new delivery channels for existing services.

Rethinking service delivery procedures for all but people processing may allow a firm to get customers out of the factory and transform a high-contact service into a low-contact one. When the nature of the process makes it possible to deliver service at arm's length, the design and location of the factory can focus on purely operational priorities. For example, some industry observers predict that the traditional bank branch will eventually cease to exist and we will conduct most of our banking and credit union transactions through ATMs, telephones, or personal computers (PCs) and modems. The chances of success in such an endeavor will be enhanced when the new procedures are user-friendly and offer customers greater convenience.

Balancing Demand and Capacity

In general, services that process people and physical objects are more likely to face capacity limitations than those that are information based. Radio and television transmissions, for instance, can reach any number of homes within their receiving area or cable distribution network. In recent years, capacity in such industries has been vastly increased by greater computer power, digital switching, and the replacement of coaxial cables with broadband fiber-optic ones. Yet technology has not found similar ways to increase the capacity of those service operations that process people and their physical possessions without big jumps in cost. As a result, managing demand effectively is essential to improve productivity in services that involve tangible actions. Either customers must be given incentives to use the service outside peak periods or capacity must be allocated in advance through reservations. For example, a golf course may employ both of these strategies by discounting greens fees during off-peak hours and requiring reservations for the busier tee times.

Sharp fluctuations in demand pose a problem for many organizations, although manufacturing firms can inventory supplies of their product as a hedge against fluctuations in demand. This strategy enables manufacturers to enjoy the economies derived from operating factories at steady production levels. Few service businesses can easily do the same. For example, the potential income from an empty seat on an airliner is lost forever once that flight takes off. Hotel rooms are equally perishable, and the productive capacity of an auto repair shop is "wasted if no cars come in for servicing on a day when the shop is open. Conversely, when demand for service exceeds supply, the excess business may be lost. If someone cannot get a seat on one flight, another carrier gets the business or the trip is canceled. In other situations, customers may be forced to wait in line until sufficient productive capacity is available to serve them.

Unfortunately, in people-processing services there are limits to how long customers will wait in line. They have other things to do and become bored, resentful, tired, and hungry. Susan was not willing to wait for a sandwich at the food court, so she chose a burger instead. One strategy for reducing or eliminating the need for waiting is to insti-

tute a reservations system, but the times offered should be realistic. (Note that Susan's hair salon offered appointments but was not running on schedule the day that she visited it.) In contrast, physical possessions rarely suffer if they have to wait (unless they are highly perishable). In this case, customers are most concerned with the cost and inconvenience associated with delays. For example, Susan worries about what she'll do if her only suit is not returned from the dry cleaner in time for her job interview!

Applying Technology to Service Processes

In Chapter 1, we mentioned six types of technologies that have important implications for services: biotechnology, power and energy technology, methods technology (how people work and how processes are organized), materials technology, physical design technology, and information technology. The extent to which any of these technologies can be applied to the core product of a specific service business depends on the process underlying the creation and delivery of that product.

People-Processing Services Because customers interact directly with the physical organization, this category of service is particularly concerned with the physical design of front-stage facilities and supporting equipment, as well as with the materials employed to construct them and the power sources used to drive them. Customer satisfaction with these facilities may be as important as internal operational concerns. For instance, the new food court at Susan's university, featuring a variety of different food vendors, represents innovation in physical design and in food preparation and delivery methods for institutional food services. It not only looks more appealing but also offers more choice. As such, the food court probably attracts more customers than the old cafeteria. But improved physical features alone may not suffice for an organization to achieve its productivity and quality goals. The right choice of methods technologies plays a key role in determining how employees, customers, and physical elements interact on-site to create the desired service.

Many technologies have been refined to serve the needs of specific industries. All transportation industries are shaped by new developments in power technologies, since these affect speed, fuel consumption, and both noise and air pollution. Hospitals are the beneficiaries of advances in the physical design of new equipment needed to diagnose and treat patients, as well as biotechnology. Methods of treatment in health care are constantly evolving, too, requiring both human and technical skills that are often practiced in a team setting. Restaurants have improved their productivity by investing in new food-related technologies (such as preprocessed meals and improved strains of vegetables derived from biotechnology research) as well as in devices to simplify food preparation and cooking.

Possession-Processing Services These services also emphasize power, design, materials, and methods technologies, since the core products tend to involve physical activities ranging from transport to storage, from installation to cleaning, and from fueling to repair. But there's a key difference between people and "things." Unlike human beings, whose size and shape are more or less a given, physical possessions can be redesigned to make them easier to service. In fact, the first and best service that manufacturers and architects can give their customers is to design *serviceability* into physical goods and facilities. Unfortunately, this goal is often ignored. There are many examples of equipment that is difficult to package and transport; machines that have to be totally disassembled by an expert to replace a simple part; electronic controls that only an 11-year-old video-game specialist understands how to operate; and buildings that are hard to clean and maintain.

Mental Stimulus-Processing Services Strategic developments in this category are driven primarily by information technology (IT). Advances in telecommunications, from cellular phones to satellite links and addressable cable TV, have opened up significant new possibilities for the information, news, entertainment, and education industries. However, making the most of advances in IT often requires development of innovative equipment that is, in turn, dependent on advances in physical design and materials technologies. For instance, miniaturization of power sources (such as tiny batteries) facilitates creation of smaller and lighter devices like flat screens, lightweight modems, portable faxes, cellular telephones, and pocket-size hard disks. Combining portability with wireless networks frees users from the constraints of fixed-site installations and dramatically extends the usefulness of the Internet and World Wide Web. In turn, making use of new applications requires changes in methods technology for both employees and customers.

Information-Processing Services As with services in the previous category, advances in information-processing services depend heavily on IT. For instance, IT-based telemedicine allows health care providers to transmit real-time patient information—including scans, X rays, and data from monitoring equipment—to a distant expert who can provide immediate consultation and advise local providers on what treatments to offer. Once again, these IT advances are closely allied to physical design, materials, and methods technologies.

Making the Most of Information Technology It's clear that **information-based services** (a term that covers both mental stimulus processing and information processing) have the most to gain from advances in information technology, because they allow the operation to be physically separate from customers. Modern telecommunications and computer technologies enable customers to connect through a computer (or other input-output devices, such as an ATM) with the service provider's system in another location. For example, customers of a brokerage firm, such as Charles Schwab or E-trade, can connect to the company through the Internet and then manage their own portfolios, keying in orders for buying and selling stocks on their own computers.

information-based services; all services in which the principal value comes from the transmission of data to customers (includes both mental stimulus processing and information processing).

The Internet offers new ways to deliver service for a broad array of industries. Many Web sites, however, offer an example of marketing goods through service rather than marketing a core service product. Consider Figure 2.3. In the case of [ofFlooz.com](http://www.ofFlooz.com), the core product—financial services—can be delivered directly via e-mail. In the case of Lands' End, by contrast, the site offers only supplementary services, including information about the goods sold by the company and the opportunity to order and pay for them online. Actual delivery of the clothing sold by Lands' End requires the use of physical channels.

Several of the services used by Susan Munro employ IT applications designed not only to link customers in one location with providers in another, but also to enable customers to perform self-service. For instance, she accessed an Internet site to get a weather forecast, and withdrew money from an ATM. In the case of her Business Spanish course, technology allowed Susan to learn from viewing videotapes that were probably recorded elsewhere several years earlier. The ability to offer customers self-service through automated equipment (such as ATMs), intelligent telephones, and the Internet is of growing importance for service marketing strategy.⁷

Radio and television provide many examples of how technology has transformed the nature of the core product and its delivery system. From studio symphony performances to electronic churches and call-in gardening advice programs, broadcasting—and now interactive cable—has created new ways to bring advice, entertainment, cul-

FIGURE 2.3

Web sites can deliver Flooz.com's electronic gift certificates directly but . . .



ture, and spiritual enlightenment to widely scattered audiences. In many countries, education is offered through electronic channels as an alternative to the traditional mode of face-to-face presentations in a physical classroom.

Entire virtual universities are springing up, such as the University of Phoenix in the United States. One of the oldest and most extensive efforts of this nature is the Open University (OU) in Great Britain. The OU has been offering degree programs to students nationwide through the electronic campus of the British Broadcasting Corporation (BBC) for over 30 years. Anyone can watch or hear the broadcast programs, of course, but students also receive printed course material and videotapes through the mail and communicate with tutors by mail, e-mail, or telephone. In a number of courses, real-time class discussions between instructors and students take place by telephone and a few even use videoconferencing. Yet these techniques still cannot provide all the features and benefits of education on a physical campus, where much of the learning takes place outside the classroom. So, to provide some of the advantages of traditional education, the OU encourages advanced students to participate in short residential programs, often held on a real college campus during vacation periods.

Thanks to advances in technology, distance education has become international in scope. It offers particular potential in Africa, where only 3 percent of 18 to 25 year olds enroll in college and few have any business experience. In 1997, the World Bank launched the African Virtual University, which enables students in 16 African countries to take courses and seminars taught by professors from universities around the world. Instructors deliver lectures in front of cameras in their own classrooms and the video is routed via fiber optics, ISDN lines, or satellite to an uplink in Washington, D.C. From there it is transmitted by satellite to various locations in Africa, where a student in Ghana can talk with the instructor in real time via standard telephone lines while students in Kenya, Tanzania, and Zimbabwe listen to the dialog.



... Lands' End's clothing products require a physical channel to reach the customer.

Managing People as Part of the Service Product

The more involved customers become in the service delivery process, the more visible service personnel and other customers become (this is the *people* element of the 8Ps). In many people-processing services, customers meet lots of employees and often interact with them for extended periods of time. They are also more likely to run into other customers. After all, many service facilities achieve their operating economies by serving large numbers of customers simultaneously. When other people become a part of the service experience, they can enhance it or detract from it. Direct involvement in service production means that customers evaluate the quality of employees' appearance and social skills, as well as their technical skills—concerns that are important for human resource managers and front-line supervisors. And because people also make judgments about their fellow customers, managers find themselves trying to shape customer behavior, too.

Service businesses of this type tend to be harder to manage because of the human element. Susan enjoyed the comments made by other students in her marketing class. But at the food court, lazy customers had failed to clear their table. Even though they had already left, their behavior still detracted in a small way from the experience of Susan and her friends. The poor attitude and appearance of the employee at the dry cleaner compounded the problem of delays in cleaning Susan's suit and may lead to the loss of her business in the future. As a manager, how would you get customers to clear their tables after eating at the food court? How would you make the staff at the dry cleaner more friendly?

Conclusion

We've seen in this chapter that although not all services are the same, many do have important characteristics in common. Rather than focusing on broad distinctions between goods and services, it's more useful to identify different categories of services and to study the marketing, operations, and human resource challenges that they raise.

The four-way classification scheme in this chapter focuses on different types of service processes. Some services require direct physical contact with customers (hair-cutting and passenger transport); others center on contact with people's minds (education and entertainment). Some involve processing of physical objects (cleaning and freight transport); others process information (accounting and insurance). As you can now appreciate, the processes that underlie the creation and delivery of any service have a major impact on marketing and human resources. Process design (or redesign) is not just a task for the operations department. Both managers and employees must understand underlying processes (particularly those in which customers are actively involved) in order to run a service business that is both efficient and user-friendly. In a growing number of situations, those processes are being reshaped by advances in information technology.

Study Questions and Exercises

1. Identify each of the services used by Susan Munro.
 - a. What needs is she attempting to satisfy in each instance?
 - b. What alternative product or self-service could solve her need in each instance?
 - c. What similarities and differences are there between the dry-cleaning store and the hair salon? What could each learn from the other?
2. Review Susan's day and identify which of the 8Ps are evident in her dealings with different services.
3. Make a list of all the services that you have used during the past week and categorize them by type of process.
4. List the different types of service factories that you visit in the course of a typical month and how many times you visit each one.
5. Review each of the different ways in which services can be classified. How would you explain the usefulness of these systems to the manager of a health and fitness center?
6. Identify the strategies used by your long-distance phone company or favorite restaurant to manage demand.
7. What do you see as the major ethical issues for those responsible for creating and delivering mental-stimulus-processing services?
8. How have other customers affected your service experiences either positively or negatively?

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