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**Paper: 10, Services Marketing**

**Module: 1, Definition and nature of Services**



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## Definition and nature of Services

### 1.0 Introduction:

The global economy nowadays is recognised as a service economy due to increasing importance and contribution of the service sector in the economies of most countries. All developing nations have witnessed a shift from agriculture to industry and then to the service sector as the mainstay of the economy. Services account for most of the growth in new jobs. The size of the service sector has been increasing fast and new services are being added everyday e.g. airlines, banking, insurance, telecommunications and hotels. The scope of the service sector is increasing across the world. As an economy grows, the relative share of employment among agriculture, industry and services changes dramatically.

Many modern day economies are dominated by services, however the United States and other countries did not become service economies overnight. As early as 1929, 55 percent of the working population was working in the United States, and out of that approximately 54 percent of the gross national product was generated by services in 1948. The trend towards services has been unpuccuated. There is a growing market for services and increasing dominance of services world widely.

Services stimulate the economic activity in any society. The welfare of people and economy are now based on services. Almost all countries look fascinated in utilising this sector of the economy. For the developing countries like India, the need of the hour is to assign due weightage to the development of service sector. The service sector is getting more and more attention in the Indian economy. In the present day world the service sector is growing at a phenomenal rate and termed as 'sunrise sector of the economy'. This growth is apparent in established economies as well as emerging economies such as china, where the central government has placed a priority on service sector growth. Due to increased growth of service sector, service providers are facing some very real and distinctive challenges.

**1.1 Learning Objectives** - This chapter goes through the introduction and concept of services. The readers go through:

- Introduction of services
- Myths of services
- Meaning and definition of services
- Nature of services

**1.2 Key Words**- Service, Service Economy, Goods.

### 1.3 Myths about service industries

There are certain myths about service sector. These are discussed below:

- 1) **Services are produced at the expense of other sectors** – The first myth is that, a service economy produces services at the expense of other sectors. But it is not true, services plays a complementary role in the economy.
- 2) **Service production is labour intensive** – Service production is primarily labour intensive but in fact a number of service sectors like health care, hospitality, etc., are

capital intensive. Productivity is therefore equally important in service organisations as returns on investment will be one of the major determinants of success.

- 3) **People satisfy their product needs first** – The third myth says that people will satisfy their product needs before the needs for services. This is also not true. Research says that people value services as like as products especially in contemporary environment. Services plays vital role in everybody's life.
- 4) **Services are low paying jobs** – Many people believe that service employees are primarily small retailers, fast-food employees, hairdressers, and low skilled workers. But the truth is different, many service workers are in highly skilled, white collar occupations such as law, accounting, education, banking and medicine. And much of the growth in service jobs has come in the more highly skilled sectors. People in these professional service jobs are not at the low pay end of the wage scale.

#### **1.4 Meaning of Services:**

The term services can't be only personal services like auto repairing, services of dentists, legal consultants and so on. The marketing analysts view services in a wider way. They sense that the content of services are much more extensive. A service is known as an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is transitory, often intangible in nature, and does not normally result in ownership of any of the factors of production. In other words, services are deeds, processes, and performances.

Often, customers show their dissatisfaction regarding the quality and value of the services. They complain about late deliveries, rude or incompetent personnel inconvenient service hours, poor performance, and needlessly complicated procedures. They crib about the difficulty of finding sales staff to help them in retail stores, express frustration about mistakes on their credit card bills or bank statements, the complexity of new self-service equipment, mutter about poor value, and sigh as they are forced to wait in line almost everywhere they go. Supplier of services appears to have a very different set of concerns than the consumer. Suppliers of often complain that it is very difficult to make a profit and very hard to find skilled and motivated employees, or how difficult it has become to please customers. Some firms tend to believe that the assured route to achieve the zenith of financial success lies in cutting costs and eliminating "unnecessary" frills. A few even give the impression that they could run a much more efficient operation if it weren't for all the stupid customers who keep making unreasonable demands and messing things up! Fortunately, in almost every industry there are service suppliers who know how to please their customers while also running a productive, profitable operation staffed by pleasant and competent employees.

#### **1.5 Definitions**

In order to develop clarity on service as a concept, it is desirable to look at the way various researchers and scholars have defined it over the years.

- According to **American Marketing Association**, Services are “activities, benefits, or satisfactions which are offered for sale, or provided in connection with the sale of goods”.

This definition took a very limited view of services as it proposed that services are offered only in connection with the sale of goods.

The other definition which was proposed in 1963 by Regan suggested that

- “services represent either intangible yielding satisfactions directly (transportation, housing etc.), or intangibles yielding satisfactions jointly when purchased either with commodities or other services (credit, delivery, etc.)”.

For the first time services were considered as pure intangibles - capable of providing satisfaction to the customer and can be marketed like tangible products.

- Robert Judd defined service as “a market transaction by an enterprise or entrepreneur where the object of the market transaction is other than the transfer of ownership of a tangible commodity”.
- In 1973 Bessom proposed that “for the consumer, services are activities offered for sale that provide valuable benefits or satisfactions; activities that he cannot perform for himself or that he chooses not to perform for himself”.
- Kotler and Bloom in 1984, defined service as, “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product”.

We may conclude service as, “an activity or series of activities rather than things which has some element of intangibility associated with it, which involves some interaction between the customer and the service provider, and does not result in a transfer of ownership. Customer has a vital role to play in the production process as the services are provided in response to the problems of customers as solution. The production of the service may or may not be closely associated with a physical product”.

**Check your progress:**

1. What do you mean by services?
2. Give any one definition of services?
3. Do you agree that services are only labour intensive?

**1.6 Nature and characteristics of Services:**

It is supreme important to explore the distinctive features of services, because acknowledgment of these special characteristics will provide insights for enlightened and

innovative management. One biggest reason for the poor quality of service levels is that managers often tend to solve service marketing problems with tools and techniques that are essentially meant for tangible products. It occurs because of inappropriate knowledge about the nature of services. As our knowledge of the characteristics of services grows, so does our ability to deal with them from both an economic and marketing perspective. Services have a number of unique characteristics that make them different from products.

Some of most commonly accepted characteristics are as follows:

**(i) Intangibility:**

The most basic and universally quoted characteristic of services is intangibility, because services are performances or actions rather than objects. They cannot be seen, felt, tasted, or touched in the same manner as we can do with tangible goods. For example, when we buy a cake of soap, we can see, feel, smell and use to check its effectiveness in cleaning. But, when we pay fees for a semester in the university, we are paying for the benefits of deriving knowledge, skills and education which is delivered to students by teachers where as teaching is an intangible service. When we travel by a plane, the benefit which we are deriving is a service (transportation) but, it has some tangible aspects such as the particular plane in which we fly (Boeing, Avro, Concorde, etc.) and the food and drink which are served.

**(ii) Inseparability:**

Service cannot be distinct from the person or firm who provides it. A service is provided by a person who possesses a particular skill (singer, doctor, etc.), by using equipment to handle a tangible product (dry cleaning) or by allowing access to or use of a physical infrastructure (hotel, train, etc.). Services are typically produced and consumed at the same time. The relationship between production and consumption, therefore, dictates that production and marketing are highly integrated processes. The telephone company produces telephone service while the telephone user consumes it. A plumber has to be physically present to provide the service, the beautician has to be available to perform the massage. The service provider and the client are often physically present when consumption takes place.

Generally, most goods are produced first, then sold and consumed. On the other hand, services are usually sold first and produced and consumed simultaneously. Sasser, observed that the firm is unable to store or transport services, that only direct distribution is possible, thereby potentially limiting the number of markets that firm can cover. Apart from the stress laid on 'right place' and 'right time' in case of distributing goods, there is additional importance given to the performance of service in the 'right way' as well. Another outcome of simultaneous production and consumption is that service producers find themselves playing a role as part of the product itself and as an essential ingredient in the service experience for the consumer.

Since services often are produced and consumed at the same time, mass production is difficult if not impossible. The quality of service and customer satisfaction will be highly dependent on actions of employees and the interactions between employees and customers. It is not usually possible to gain significant economies of scale through centralization. Usually operations need to be relatively decentralised so that the service can be delivered directly to the consumer at convenient locations. Since the customer is involved in and observes the production process, and thus may affect (positively or negatively one and we may have to spend more time for the same activity. This is despite the fact that) the outcome of the service transaction.

**(iii) Heterogeneity:**

As services are performances, created by human beings, no two services will be same. It is very difficult to have standardization in services because human element is involved in it. The doctor who gives us complete attention in one visit may behave a little differently in next visit. The new bank clerk who encashes our cheques may not be as efficient as the previous rules and procedures have been laid down to reduce the role of the human element and ensure maximum efficiency. Airlines, banks, hotels, etc. have a large number of standardized procedures.

Human contact is minimal where services are delivered through Information Technology system, but when we go to the hotel there will be a person at the reception to hand over the key of the reserved room. The way that person interacts with us will be an important factor in our overall assessment of the service provided by the hotel. The rooms, the food, the facilities may be all perfect, but it is the people interacting with us who make all the difference between a favourable and unfavourable perception of the hotel.

Heterogeneity also results because no two customers are precisely same; each customer have unique demands. Thus, the heterogeneity connected with services is largely the result of human interaction (between and among employees and customers).

Levitt argues that owing to the industrialisation of services, their production can no longer be viewed as being heterogeneous. Attempts have been made to improve productivity in the service sector by introduction of technology. Uniformity can be achieved by substituting equipment and machinery for labour. Hostage suggested that service firms could also reduce variability by training the service providers in appropriate responses to each customer situation. They can also monitor customer satisfaction through suggestion and complaint system so that poor service can be detected and corrected. Services are heterogeneous across time, organisations, and people and as a result, it is very difficult to ensure consistent service quality. Quality actually depends on many factors that cannot be fully controlled by the service supplier, such as the ability of the consumer to articulate his or her needs, the ability and willingness of personnel to satisfy those needs, the presence (or absence) of other customers, and the level of demand for the service. Because of these complicating factors, the service manager cannot always know for sure that the service is being delivered in a manner consistent with what was originally planned and promoted.

**(iv) Perishability:**

Perishability refers to the fact that services cannot be saved, stored, resold, or returned. Since services are performances whose production and consumption takes place simultaneously, they tend to expire in the absence of consumption. Goods can be stored and sold at a later date in the absence of a customer. But not in the case with services, because it go waste if they are not consumed. A seat on an airplane or in a restaurant, an hour of a professor's time, or telephone line capacity not used cannot be regained and used or resold at a later time.

A major issue that marketers face in relation to service perishability is the incapability to hold inventory. Demand forecasting and creative planning for capacity utilisation are, therefore, important and challenging decision areas. Services cannot typically be returned or resold also implies a need for strong recovery strategies when things do go wrong.

Kurtz and Boone observed that the utility of most services is short lived; therefore, they cannot be produced ahead of time and stored for periods of peak demand. The perishability of services is not a problem when demand is steady because it is easy to staff for the service in advance. When there are wide fluctuations in demand there should be a highly flexible production system or idle productive capacity.

Sasser has described several strategies for producing a better match between demand and supply in a service business. On the demand side, the firm can make use of differential

pricing, cultivating non-peak demand and developing complementary services. On the supply side, for effective matching with demand, the firm may hire part time employees to serve peak demand; peak-time efficiency routines can be introduced, facilities for future expansion can be developed, and increased consumer participation can be encouraged.

**(v) No Transfer of Ownership:**

After buying a product, we become its owner whether it a mobile phone, book, shirt, TV or Car. But in case of services, we may pay for its use, but we never own it. By buying a ticket one can see the evening film show in local cinema theatre; by paying wages one can hire the services of a chauffeur who will drive his car; by paying the required charges we can have a marketing research firm survey into the reasons for our product's poor sales performance, etc. In case of a service, the payment is not for purchase, but only for the use or access to or for hire of items or facilities; and transfer of ownership does not take place.

**Check your progress:**

1. Define why services are intangible in nature.
2. Ownership is also transferred in services. Do you agree?
3. Services are performances or act. Explain.

### **1.7 The 7 P's of Services Marketing**

The first four elements in the services marketing mix are the same as those in the traditional marketing mix. However, given the unique nature of services, the implications of these are slightly different in case of services.

1. **Product:** In case of services, the 'product' is intangible, heterogeneous and perishable(as discussed above). Moreover, its production and consumption are inseparable. Hence, the marketer can have more scope for customizing the offering as per their requirements. However, too much customization would compromise the standard delivery of the service and adversely affect its quality. Hence particular care has to be taken in designing the service offering.
2. **Pricing:** Pricing of services is tougher than pricing of goods. While the latter can be priced easily by taking into account the raw material costs, in case of services attendant costs - such as labour and overhead costs - also need to be factored in. Thus a restaurant not only has to charge for the cost of the food served but also has to calculate a price for the ambience provided. The final price for the service is then arrived at by including a mark up for an adequate profit margin.
3. **Place:** Since service delivery is concurrent with its production and cannot be stored or transported, the location of the service product assumes importance. Service providers have to give special thought to where the service would be provided. Thus, a fine dine restaurant

is better located in a busy, upscale market as against on the outskirts of a city. Similarly, a holiday resort is better situated in the countryside away from the rush and noise of a city.

4. **Promotion:** Since a service offering can be easily replicated promotion becomes crucial in differentiating a service offering in the mind of the consumer. Thus, service providers offers identical services such as airlines or banks and insurance companies invest heavily in advertising their services. This is crucial in attracting customers in a segment where the services providers have nearly identical offerings. Promotion of services plays important role in service market,

We now look at the three new elements of the services marketing mix - people, process and physical evidence - which are unique to the marketing of services.

5. **People:** People plays substantial role in a service delivery process, since a service is attached from the person providing it. Thus, a restaurant is known as much for its food as for the service provided by its staff. The same is true of banks and department stores. Consequently, customer service training for staff has become a top priority for many organizations today.
6. **Process:** The process of service delivery is crucial since it ensures that the same standard of service is repeatedly delivered to the customers. Therefore, most companies have a service blue print which provides the details of the service delivery process, often going down to even defining the service script and the greeting phrases to be used by the service staff.
7. **Physical Evidence:** Services are intangible in nature most service providers strive to incorporate certain tangible elements into their offering to increase customer experience. Thus, there are salons that have well designed waiting areas often with magazines and plush sofas for patrons to read and relax while they wait for their turn. Similarly, restaurants invest heavily in their interior design and decorations to offer a tangible and unique experience to their guests.

### **Conclusion:**

It is now obvious that most economies, the world over, are increasingly becoming service economies and, therefore, there is a need to manage services in the best possible way.

Services are activities which are intangible in nature, therefore, standardization is one of the major issues in services. Also, services are typically delivered by employees of the service providers, therefore, there is also a need to manage the human resources. In addition, unlike in the manufacturing sector where production, distribution and consumption are separate activities, in service sector these three are simultaneous processes. In fact services are so varied and diverse that one needs to classify them to identify selected areas which need to be managed strategically.

