appendix

B services marketing

introduction

The marketing of services is becoming increasingly important to marketers as the significance of services in the world economy intensifies. It is the intangibility and perishability of services and the reliance on direct customer–employee interaction that differentiates products consisting mainly of services, such as fast foods, from those that are categorised as goods (e.g. furniture). The evolution of new technologies—especially information technology—has driven the development of new and innovative service industries; and this trend will only accelerate in the future.

Marketing: Creating and Delivering Value is a book based on the premise that, fundamentally, all marketing is dependent on similar principles; and, therefore, services marketing components, where relevant, have been integrated into each chapter of the book. To assist lecturers who choose to dedicate a specific lecture to the topic of services marketing, this appendix (supported by lecture slides) is an accumulation of sections of the book that are relevant to the marketing of services.

customer satisfaction and customer value

Customer satisfaction is heavily dependent on customers' perceptions of the quality and cost of the service received and may be based on a single transaction/encounter or on a longer-term relationship with the organisation. For example, consider a student who has just finished an exam and is thinking about getting a cup of mocha latte from Starbucks. Our coffee lover might see this as a great-tasting snack, a personal reward, a quick 'pick-me-up' or even as a way of breaking the ice and getting to know an attractive classmate. Clearly, there are different needs associated with these different benefits. The cost of acquiring these benefits would include the price of the coffee, but there might also be other non-dollar costs. There could be convenience costs, such as the time taken to travel to the shop and the difficulty of finding a parking space. Once there, the customer may have a further cost—aggravation—due to slow service.

A service that does not meet a consumer's needs results in low customer value, even if the price is low. A higher price may be more acceptable if the desired benefits are obtained. Think again about the Starbucks example. A cup of coffee may cost less elsewhere, but Starbucks offers more than just a cup of coffee.

Because delivering a service is so personally intensive, everyone in the organisation should strive to satisfy consumer needs thereby ensuring a profit for the company.

non-profit organisations

Public and private non-profit organisations are service providers that are using marketing tools to an increasing extent in order to achieve their goals. They range from health-care and aged-care organisations to charities, religious groups and fine-arts organisations. As with any company a non-profit organisation needs resources and support to achieve its objectives and it must raise as much money as it spends.

The Royal Society for the Prevention of Cruelty to Animals (RSPCA), for example, protects animals. If supporters of the RSPCA are not satisfied that the benefits to animals are worth what it costs to provide them, they will, and should, put their time and money elsewhere.

Just as most companies face competition for customers, most non-profit organisations face competition for the resources and support they need. A shelter for the homeless may fail if supporters decide to focus on some other cause, such as AIDS education. A community theatre group that decides to perform a play that is favoured by the actors and the director—without considering the preferences of the audience—may find that the theatre is empty.

providers of services

The service sectors of the Australian and New Zealand economies are large and they are experiencing rapid growth. Service operations are also growing in many other countries. There may be attractive opportunities in providing service companies with products that they require to maintain their operations, but there are also some challenges.

The service sector in Australia accounts for 68 per cent of gross 'value added' and was the fastest growing sector—22 per cent, from 1997 to 2003. The service sector in New Zealand accounts for 46 per cent of GDP, which is 2.5 times as large as the manufacturing sector and eight times larger than the agricultural sector. Approximately 73 per cent of the work force is employed in the service sector in both countries.[1]

Many non-profit organisations operate in a different paradigm to those companies seeking profits. Although these organisations can often benefit from the adoption of business practices, even if their aim is not to generate profit, these organisations are often wary of business behaviour, which they consider either predatory or unethical. A ballet group, for instance, may loathe the fact that tickets must be sold in order to cover the cost of running their dance company. They may feel that their creativity is dampened and that they are not free to experiment with less popular forms of their art. This of course is true, as the public seldom wants to see performances that they find too 'avant-garde'. Likewise, charities know that people would prefer to forget about disease or poverty. Managers of the performing arts understand that segmentation can work for them—resulting in 'crowd pleasing' shows that can help support the more daring shows that are aimed at a more restricted and sophisticated audience. Charities that develop a plan around the idea that donors often buy 'a good conscience' and a better self-image may also be able to target specific markets with better results, or they may be able to approach other businesses that could benefit from an association with such a cause.

Society profits greatly from the activities of these non-profit organisations, only the profits are not primarily of a monetary kind. For example, political marketing, which is often categorised as non-profit, seeks a specific outcome measure in votes. Other organisations are trying to minimise the incidence of smoking or achieve a reduction of drink driving. Such outcomes are not financially neutral—smoking-related diseases and car crashes represent a considerable financial burden in most countries.

As with goods, marketing planning and the skilful management of the four Ps form the basis for successful marketing of services; but, because services are produced and consumed simultaneously, are intangible and consumers interact directly with an organisation's personnel, there is a need to address these areas.

1. Regardless of the service offered, the service provider plays an important role; and appearance, attitude and behaviour are important. Organisations must select staff carefully and ensure that they are adequately trained.
2. The environment where the service is offered (e.g. restaurants) and the tangible symbols that accompany the service (i.e. crockery, menus etc) are all areas where the consumer will make quality judgements.
3. The actual procedure that takes place also allows the consumer to judge the service. For example, Virgin Blue with its 'no-frills' flights and Qantas with its full-service flights are both consistent with their market position and are judged by consumers according to these positions.

identifying opportunities in service markets

It is important for marketers of services to recognise that corporate objectives—the overall aim and purpose of the organisation—are instrumental in providing strategic guidelines and that they may constrain the range of marketing opportunities available to marketers.

A company must make a profit to survive, but competition in a particular industry may be so fierce that failure may be almost guaranteed. In 2000, Virgin and Impulse Airlines entered the Australian commercial aviation market and, in doing so, substantially increased domestic competition. The increased competition placed great pressure on prices. A combination of unrealistic ticket prices and other structural problems in the Australian airline industry led to the demise of Impulse Airlines and, in 2001, Ansett. By 2002 only Qantas and Virgin remained in operation. In 2003, as Virgin's plan for the inclusion of some Pacific destinations took shape, Qantas started an in-bound international service under the Australian Airlines name to which it added, in November 2004, several outbound destinations such as Singapore, Hong Kong and Japan. At the same time, in May 2004, Qantas relaunched Impulse, which it had purchased, as its own low-fare carrier—Jetstar. Such upheaval in a single industry demonstrates how competition can dictate very expensive and risky moves.

Good relations with established intermediaries, or control of good locations, can be important resources in reaching some target markets. In the banking sector, Westpac avoided the cost of opening new branches by increasing the number of ATM locations and introducing EFTPOS facilities in many retail outlets. With more than 200 in-store branches, Westpac is able to service smaller country towns and new geographical markets without the real estate and personnel expenditures of traditional branches.[2] In the meantime, other banks decided to enter into a strategic alliance with Australia Post, which now offers a number of banking services on their behalf. This is clearly mutually beneficial, with banks gaining a cost-effective presence in the tiniest townships and the local post offices ensuring their long-term survival by improving their profitability.

Recent technological developments affect service industries. Communication and information technologies, in particular, already affect the way some services are delivered and will impact significantly on the future of many service providers. For example, many educational institutions are delivering all, or part, of their service offering via the Internet.

The Internet is also providing different approaches to the pricing of a range of services. Airlines now auction seats online that might otherwise go unsold. If every seat is sold to the 'highest bidder', prices are precisely matched with supply and demand.

evaluating opportunities

When a company has many possibilities to evaluate, it must usually compare quite different options and the calculations can become extremely complex. General Electric's strategic planning grid (see Figure 3.6 on page 109) forces company managers to make three-level judgments (high, medium and low) about the business strengths and industry attractiveness of all proposed or existing product-market plans.

In service companies, factors that will be determinant may be slightly different from those relevant to a manufacturer of goods, but the same principles apply and the GE grid can be just as useful. What defines industry attractiveness would still involve a compound assessment of elements, such as size and growth rate, competitive structure and identification of the major environmental trends that are likely to influence the future of the industry. In the case of a service company, the business strengths would probably involve more emphasis on the human and staff elements within the organisation, as well as on the actual process of service delivery.

strategic planning in multi-service companies

Most companies deal with multiple products, be they goods, services or a combination of both. Multi-service companies, such as ANZ or AMP, obviously have a more difficult strategic planning task than a company with few products or product lines that are aimed at the same or similar target markets. They must develop strategic plans for very different businesses and try to balance the plans and necessary resources in such a way that the whole company reaches its objectives.

Top management may handle strategic planning for a multi-product company with an approach called portfolio management. This concept treats alternative products, divisions or strategic business units as though they were financial investments to be bought and sold using financial criteria. The most famous method of portfolio management is the one developed in the 1960s by the Boston Consulting Group (BCG) in the form of a matrix (see Figure 3.7 on page 111).

For service providers, a similar approach is possible. In the case of a bank offering a number of financial products, such as student loans or retirement 'nest egg' plans, demographic trends may indicate the sector where growth is strongest. This information, coupled with data on the bank's market share for these services and those of competitors, might enable the bank to decide whether its student loans service is a 'cash cow' or a 'dog' and whether the savings plan for future retirement falls into the 'problem child' or 'star' category. Obviously, in order to assess its position accurately, the bank would need to map all its services on the matrix, to ascertain whether its current portfolio involves too much risk or, alternatively, too little scope for future growth.

segmenting service markets

Single target market approach segmenting the market and selecting a homogeneous segment as the company's target market.

Multiple target market approach segmenting the market and choosing two or more segments, then treating each as a separate target market that requires a different marketing mix.

Segmentation is as important for service organisations as for goods manufacturers, and is approached in the same way.

The small size of many service organisations necessitates the use of a **single target market approach**—segmenting the market and selecting one of the homogeneous segments as the company's target market. Some gymnasiums cater exclusively for professional athletes.

Larger service providers may use a **multiple target market approach**, which involves segmenting the market and choosing two or more segments, each of which is treated as a separate target market that requires a different marketing mix. Most airlines, while they serve their business and economy passengers simultaneously, treat these segments quite differently using distinct strategies.

B1 ethical dilemma

is segmentation unethical?

When undertaking segmentation, marketing managers face several ethical dilemmas. This is because segmentation, by its very nature, involves the inclusion of some consumers and the exclusion of others. Both inclusion and exclusion can be problematic from an ethical point of view.

The issue of exclusion, which is intrinsic to segmentation, is difficult from an ethical point of view. For example, some private hospitals only want to serve patients who have private health insurance, while others discourage parents from bringing sick children to casualty in the middle of the night. Banks sometimes offer attractive marketing mixes to wealthy customers, but disadvantage low-income consumers.

DISCUSS

1 / Why is it sometimes unethical to advertise to young children?
2 / When do sexy outdoor advertisements become unethical?
3 / Do organisations have a right to be selective regarding whom they offer their services?

A **combined target market approach** involves combining two or more submarkets into one larger target market as a basis for one marketing strategy. For instance, hairdressers in Australia and New Zealand often use a combined target market approach—they provide their services to both male and female customers and operate by using a similar strategy for both segments. In other countries, such as France, it would be unthinkable for a female customer to have her hair cut in the same salon as a male customer.

Combined target market approach combining two or more submarkets into one larger target market as a basis for one marketing strategy.

Segmenting and tailoring services to meet customers' needs has recently resulted in the increase in the National Australia Bank's overall market share in the Australian consumer-banking sector. By promoting its ability and willingness to 'Tailor banking to your needs', different financial models are being adapted to a variety of circumstances. The different financial situations of customers are reflected in different banking product features. This approach can be extremely effective, but may be impossible for a smaller company with more limited resources. A smaller company might need to use the single target market approach and aim all its efforts at the one submarket niche in which it identifies the best opportunity.[3]

differentiation and positioning

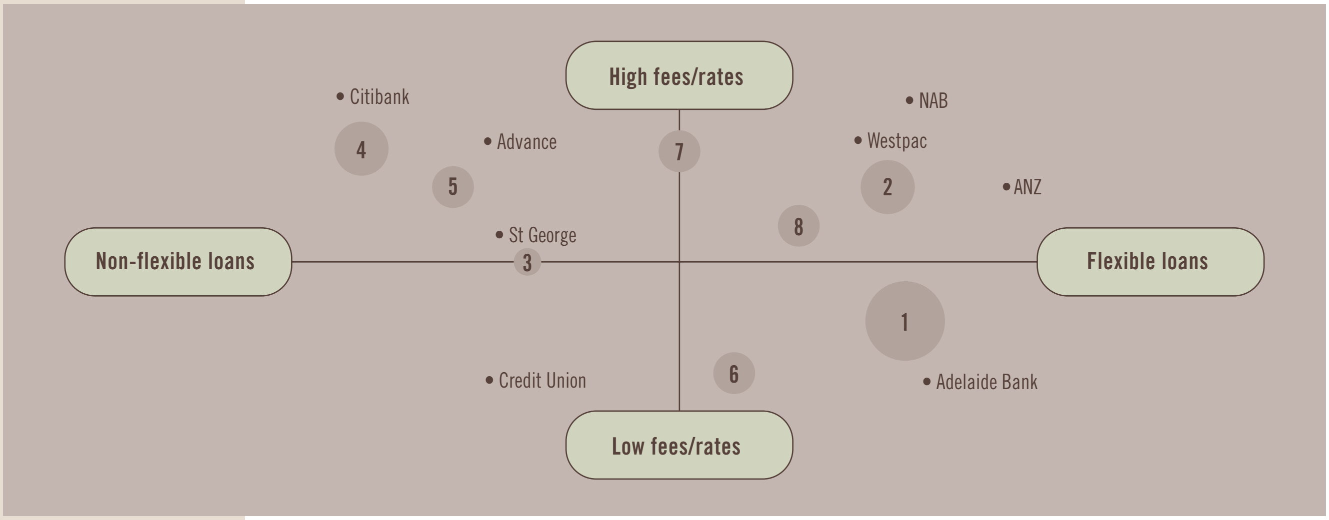
The reason for focusing on a specific target market—by using marketing segmentation approaches, or a tool such as cluster analysis, is to finetune the marketing mix to provide a group of potential customers with superior value. 'Differentiating' the marketing mix to better meet customers' needs allows the company to build a **competitive advantage**.

Positioning refers to how customers regard proposed and/or present brands in a market. Positioning issues are especially important when competitive products appear to be similar—for example, hamburgers at McDonald's and Hungry Jack's. 'Perceptual mapping' may assist a marketer in positioning decisions. The following example illustrates how this technique may be used in a service industry.

SMAB Figure 1 overleaf shows the 'product space' for different home loans by using the two positioning dimensions that are considered most important by consumers—fees and interest rates, and flexibility of terms and ease of application. Consumers view NAB home loans as relatively expensive, but they also view them as providing a lot of flexibility and ease of application. Australia and New Zealand Banking Corporation (ANZ) and Westpac

Competitive advantage exists when the marketing mix of the company is perceived by the target market as superior to those of the company's competitors.

Positioning refers to how customers regard proposed and/or present brands in a market.



SMAB Figure 1 *Hypothetical 'product space' map representing consumers' perceptions of different home loans*

home loans are close together, implying that consumers think of them as having similar fees and interest rates, and flexibility of terms and ease of application. Credit union loans are viewed as different and they are located well away from bank lenders on the graph. Positioning maps are based on customers' perceptions, and the actual characteristics of the products (as determined by a financial expert) can be very different.

The circles in SMAB Figure 1 represent the different sets (submarkets) of consumers who are clustered near their 'ideal' home-loan preferences. Groups of respondents with a similar ideal product are circled to show apparent customer concentrations. In this graph, the size of the circles indicates the relative size of the segments for the different ideals.

Clusters one and two are the largest and are close to two popular home loans. It appears that customers in cluster one want lower fees and interest rates than those available in NAB or St. George home loans. Marketing managers responsible for these financial services can leave their products unchanged, but they can promote their competitive fees and rates more aggressively to make a strong appeal to these consumers. A marketing manager taking this approach could simply refer to it as 'positioning the loan as fee- and rate-competitive'. Newer entrants in the loan sector, such as AMP (formerly an insurance-only company) and RAMS, have filled some of the gaps revealed in SMAB Figure 1.

Some loans appear unable to satisfy any of the consumer clusters. The marketing departments of those institutions might try to reposition these loans through image changes. Alternatively, any special features of value to particular consumers, such as insurance in the case of disability or accident, should be promoted. This encourages consumers to think more about this feature with the expectation that the home loan will be viewed more favourably. This approach would be equivalent to including another positioning dimension (represented by a Z-axis on the positioning map) in the analysis.

Note that consumer cluster six is not close to any of the present brands. This may suggest an opportunity for introducing a new product.

It is often necessary to use several relevant dimensions (rather than only two) in a perceptual mapping exercise for those loans that are not a good fit for any of the consumer clusters. Indeed, it may be necessary to identify and use all factors that represent major determining dimensions for significant groups of customers. Marketers often prefer to reduce the number of dimensions to two or three, perhaps in a summary of the analysis, so that the perceptual mapping can be presented graphically and, therefore, be more easily understood.

Positioning analysis can lead a company towards combining, rather than segmenting, if managers believe they can make several general appeals to different parts of a combined market. Offering one product and varying the promotional strategies might allow a provider of home loans to appeal to clusters eight, one and two. These clusters are fairly similar (reasonably close together) with regard to what they prefer in an ideal brand.

Alternatively, there could be clearly defined submarkets—some sectors of the market being occupied by one product or brand. In this case, segmentation efforts may be practical, moving the organisation's own product into another segment of the general market area in which competition is weaker.

Positioning helps managers understand how customers perceive their market—it is a visual aid to understanding a market. Marketing managers are often surprised, when they first undertake such analysis, to discover how much customers' perceptions of a market differ from their own. Positioning can be very useful as part of a broader analysis of target markets. But positioning analysis usually focuses on specific product/service features and is, therefore, product-oriented. As a result, there is a risk that important customer-related dimensions, including needs and attitudes, may be overlooked.

Premature emphasis on product/service features can be dangerous in other ways. If a product-oriented definition of a market is the starting point, as in the home-loan example, it leads to positioning bank loans against bank loans. This can cause an organisation to miss more fundamental shifts in the market. For example, insurance companies are providing

B2 relationship marketing

Virgin Blue—maintaining the image[5]

Virgin Blue, the friendly airline with the 'cheeky' and irreverent identity, is focused on capturing a large share of the corporate travellers' market, while maintaining its status as the low-cost carrier with the friendly helpful staff. But the needs of business travellers are more demanding and complex than those of the travelling public and building ongoing and long-term relationships with corporate travellers requires constant vigilance in this highly competitive environment.

Business travellers are not being wooed with unwanted 'freebies', but a user-pays system exists for add-on options. Five dollars per flight buys access to Live 2 Air—a service exclusive to Virgin—travellers can enjoy live Foxtel and Austar programs during flight. Many travellers enjoy seeing the news as it happens and appreciate being entertained by their preferred programs while in transit. For passengers with a preference for added comfort, $30 buys a seat with extra leg room. Of considerable interest to business flyers is the new 'Blue Room' fare with a refund on cancellation and free entry to Virgin's 'Blue Room' lounges, where movies, massages and multimedia access are available.

But, as Richard Branson admitted, Virgin Blue needed an incentive program to effectively compete with Qantas. In conjunction with business telecom service provider M2 Telecommunications, the 'Boarding Calls' program was developed. This allows business travellers to earn up to 15 cents of 'flight cash' for every dollar spent on fixed calls through M2 and to spend the money on Virgin Blue and Pacific Blue flights. A typical small business that spends up to $1000 per month on phone calls could earn up to $150 a month, or $1800 a year, in 'flight cash'. This program offers benefits to the customers of both Virgin Blue and M2 and is the answer to operationally expensive frequent flyer incentives.

To maintain and strengthen relationships, Virgin Blue constantly updates information for the benefit of existing customers using 'V-Mail'—the company's email newsletter. New initiatives in the area of business travel have not changed the airline's image—friendly flying is still Virgin Blue's key marketing magic.

As PR manager Amanda Bolger says, 'Our service and the way staff interact with people is what sets us apart. Just because you wear a business suit doesn't mean you don't have a personality'.

DISCUSS

1 / How is Virgin Blue differentiating its service to the corporate market from that of its competitor, Qantas?

2 / Will the service offered by Virgin Blue result in ongoing and long-term relationships with corporate clients? Why or why not? Give reasons for your answer.

3 / What other means could Virgin Blue employ to further differentiate its product from that of Qantas? Remember that Virgin Blue wants to retain its status as 'the low-cost carrier with the friendly staff'.

many services related to 'financial wellbeing', including means of financing purchases and investments. Other products, such as shares, might also become part of the relevant competition, if they are acceptable as collateral for the purchase of a house. Such shifts would not be discernible if alternative bank loans were the only consideration—the focus would be too narrow.

Positioning a service strategically often requires an understanding of the needs of the market as well as the gaps that may exist in the competitive offering. For example, business travellers have become tired of the leading hotel chains offering good but standardised and impersonal service. As a result, an opportunity emerged for smaller, boutique hotels to offer something different. Many boutique hotels have attempted to position themselves as hip, urbane and more like a fashionable restaurant than a traditional deluxe hotel They are generally small, exclusive and well designed. The Establishment Hotel in Sydney has just 33 rooms and each guest receives a very high level of service at its restaurant, public bar, various lounges, nightclubs and private rooms. The Hotel Lindrum is a 59-room boutique hotel located in Melbourne, and it relies on corporate travellers who comprise from 60 to 65 per cent of its guests. Importantly, almost half of them are repeat customers who come back because of the relationship that exists between them and the staff.[4]

purchasing by service organisations

Among the thousands of service companies in Australia and New Zealand, some are large organisations with international operations. These include QBE Insurance, ANZ bank, Brambles Industries, TNT and Air New Zealand. These companies have purchasing departments similar to those in large manufacturing organisations. But the majority of service organisations are small. Service providers are also more dispersed around the country than manufacturing companies. Factories tend to locate where raw materials and transportation facilities are available and where high-volume production is less costly. Service operations, in contrast, usually locate close to their customers.

Purchases by small service organisations are typically handled by whoever is in charge. This may be a doctor, lawyer, a local insurance broker or a hotel manager. Suppliers who usually deal with purchasing specialists in large organisations must adjust to this market. Personal selling is still an important part of promotion, but reaching these customers may require more advertising. Small service organisations may need more assistance in buying than a large corporation.

marketing services to business and organisational customers

As with physical goods, some services are more important to organisational customers than others. Some services are purchased in relatively small quantities and have no significant impact on organisational performance. Cleaning services are likely to fall into this category and organisational buyers are likely to purchase on the basis of price, convenience or personal relationships—but without substantial cost or effort being devoted to the buying process.

Other services might have the potential to significantly impact on company operations, directly or indirectly. The services provided by an advertising agency are likely to be considered important to an organisation for which advertising is the major form of promotion. For such services, organisational customers—especially the users of the service—are likely to purchase on the basis of expertise and expected performance. Substantial effort might be devoted to the selection of an appropriate advertising agency, and price might be considered to be of secondary importance. Unlike the purchase of raw materials or components, the purchase of an important service is likely to be influenced by perceptions of expertise and quality performance, rather than price.

Services are prone to rapid change and adaptation. For example, legal services must follow constant changes in law and are obliged to adapt to changes in society such as the emergence of new technologies. Due to the intangibility of services, it is important for the seller to reassure prospective customers of its ability to provide a particular type of service in an effective manner.

the service product

The idea of a product as a potential customer satisfaction or benefit is very important. Business managers think of services in terms of technical details such as bank fees or insurance policy clauses. These are product attributes—features or characteristics of the service. Customers think of the product (service) in terms of the total satisfaction it provides. That satisfaction may require a 'total' product offering that is a combination of excellent service, a physical good with the right features, useful instructions, a convenient package and perhaps a familiar name that has satisfied the consumer in the past, plus additional features such as a trustworthy warranty and free delivery. Travellers purchasing a flight ticket from an airline company are buying a safe and comfortable journey, with a timely arrival at their destination.

differences between goods and services

The principles and concepts of marketing apply equally to most products, but it is useful to consider the differences between goods and services, as these may suggest additional opportunities, as well as potential threats, for managers involved in marketing services. SMAB Table 1 summarises the marketing implications involved in the four major areas of difference.

product tangibility

Because a good is a physical thing, it can be seen and touched—you can try on a Quicksilver shirt, thumb through the latest *Cleo* magazine or smell Vittoria coffee as it brews. A **good** is a tangible item. Buying it creates ownership, and it is easy to see exactly what you have purchased.

Good a tangible item, it can be seen and touched.

SERVICE CHARACTERISTIC	MARKETING IMPLICATIONS	EXAMPLES
Intangibility	Must reduce customer's perceived risk. Provide physical evidence.	'Singapore girl'; Commonwealth Bank logo; McDonald's 'golden arches'.
Simultaneous production	Service provided in customer's presence. Opportunity for direct feedback. Importance of staff training.	Counter banking services; restaurant meals; haircuts.
Perishability	Aim to balance supply and demand as services cannot be stored.	International phone calls; tax returns; cinema seats.
Variability	Service is performed for each customer. Importance of staff training and quality assurance. Must reduce perceived risk and encourage repeat business.	Doctors; travel agents; hotels.

SMAB Table 1 *The four characteristics of services and their implications for marketing*

Service a deed performed by one party for another.

A **service** is a deed performed by one party for another. When provided with a service, the customer cannot retain it. Rather, a service is experienced, used or consumed immediately. You see a movie, but all you retain is a memory. Services are not physical, they are intangible, and it is more difficult to know exactly what is being purchased.

Service companies aim to compensate for this lack of tangibility by placing some emphasis on tangible elements. Staff uniforms, the decor of the outlets in which the service is delivered and the visual symbols and colours associated with the company are an attempt to provide evidence of its ability to deliver satisfaction. Managing the 'physical evidence' is part of services marketing and many companies, from banks to airlines, have succeeded in creating strong visual imagery around their names.

The introduction of new communication and information technologies has led to an increased use of service elements in product mixes, such as the upgrading of in-flight entertainment facilities and flight reservation services.

simultaneous production

Goods are usually produced in a factory and then stored in a warehouse or retail store awaiting a buyer. In contrast, services are often sold first and produced later. Moreover, services are produced and consumed simultaneously. Producers of goods may be far away from the customer, but service providers often work in the customer's presence.

A worker in a Sony TV factory can be in a bad mood and the quality of the product may suffer, but customers will never know because a quality control inspector will identify a faulty TV. Conversely, a rude bank teller can upset customers and drive them away forever. The growing use of computers and machines in service businesses is part of an attempt to avoid this problem.

The instant feedback obtained from a service encounter is a unique opportunity for marketers to identify and record complaints, often revealing problem areas and potential improvements that can be implemented swiftly.

perishability of services

The perishable nature of services, and their inability to be stored, makes it harder to balance supply and demand.

Telstra (**www.telstra.com**) and Optus (**www.optus.com.au**) are suppliers of long-distance telephone services. Even when demand is high, such as during peak business hours or on Mother's Day, customers expect the service to be available. They do not want to hear a recorded message telling them that 'all lines are busy'. As a result, these companies must have enough equipment and staff to deal with peak demand levels. When customers make fewer calls, the telephone facilities become idle. Both companies could save money by reducing capacity (equipment and people), but then they would sometimes fail to satisfy their customers.

Overcoming extreme situations of peak demand and oversupply can be achieved in a number of ways. The tourism industry attempts to regulate its volume of business over time. It often uses price as an incentive for people, who have more flexibility in terms of travelling dates, to purchase its services. Holiday catalogues reveal great disparity between the prices of the same package at different times of the year. A campervan in Tasmania costs twice as much to rent over the Christmas break as it does in September.

It is difficult to achieve economies of scale when the product emphasis is on service. Services cannot be produced in large, economical quantities and then transported to customers, and services must often be produced in the presence of the customer. Service suppliers often duplicate equipment and people at places where the service is actually provided. For example, H & R Block (**www.hrblock.com.au**) specialises in income tax advice throughout the nation. This service could be supplied more economically from a single building in Brisbane, Melbourne or Sydney or made available only on its web site; but H & R Block uses small facilities, both company-owned and franchised, throughout

Australia and other countries. The company understands the need for the personal touch from the agent who is assisting in the preparation of customers' tax returns.

variability

Some services are performed anew with each customer and the result can differ, to some extent, each time the service is performed. Two people who ask a skilled hairdresser for the same haircut will step out of the hairdressers with a different result, if only because of the different nature of their hair. The notion of variability introduces some degree of risk for the consumer. Many service marketers refer to a 'leap of faith' that customers are required to take when engaging a service provider.

The aim of marketers is to reduce this risk and to reassure consumers that outcomes will be favourable. The offer of a money back guarantee, and the regular reinforcement and recall of previous satisfactory encounters is a positive stimulus to repeat purchases. One of the most effective strategies available to service marketers is to reduce the potential variability of their product by undertaking a continuous and comprehensive staff training program. Many service companies regularly undertake shadow shopping or mystery shopping exercises, whereby investigators or market researchers, posing as customers, test the service provided by presenting a standard request to different staff at different times or in different situations.[6]

service mix and service lines

Providing the right product when, where and how the customer wants it is a challenge. This is true whether the product is primarily a service, a good, or a blend of both. Some companies marketing services offer a 'product assortment' or a 'product line' of closely related services.

Different target markets could see the same service differently. Each of these markets could require a different marketing mix. Motels represent an example of a service that can be seen differently by consumers, ranging from a convenience product to a specialty product. Perhaps one motel could satisfy all potential customers, but it would be hard to produce a marketing mix that is attractive to all—easy access for convenience, good facilities at the right price for shopping product buyers, and qualities special enough to attract specialty product travellers. Different motels may seem to be competing with each other when they are actually aiming at different markets.

branding of services

Branding is as important for a service organisation as for a goods manufacturer. Good brands can improve the company's image by accelerating acceptance of new services that are marketed under the same name. Service companies can also use the strategy of brand extension in order to gain marketing advantages. When AMP, known for its insurance products, offered other finance products, such as personal loans and credit cards, it did so under its own name, in order to capitalise on its customers' recognition and acceptance of a familiar brand name.

packaging for services

The appearance of service providers, and the area in which a service is provided, is a form of packaging. Theme park operators send the message that their parks are a good place for family holidays by keeping them spotless. Major banks' logos are displayed high on city-centre commercial buildings in order to build prestige and public visibility. Lawyers display their awards and diplomas on their walls so that clients know they provide a high-quality service. For some service companies, packaging their services means providing a tangible

B3 relationship marketing

what do you expect from a great brand?[7]

Australian consumers no longer believe that the longevity of a brand, or the power of the organisation behind it, make it a worthy recipient for their trust and support. Brands that display entrepreneurial attitudes, personality and innovation are being embraced by brand-savvy consumers.

Richard Branson, with his irreverent attitude to big business, has changed consumer attitudes towards entrepreneurship. Virgin Blue has reinvented the Australian domestic airline industry and forays into other product areas have made the 'big guns' sit up and take notice.

Consumers, who perceived that banks were developing an arrogant attitude and were distancing themselves from their customers, were only too happy to move their business to the Bank of Queensland. The rebuilding of a branch banking structure, with friendly and efficient staff who are led by a branch manager with autonomy to make lending and other decisions at a local level, has succeeded in building trust in the brand.

Banks were attacked from another source. Aussie Loans, founded by John Symond, started a trend towards non-bank lending in the residential mortgage market. Like Branson, Symond had a cavalier attitude towards big business, together with an honest personal image. Australians quickly accepted his 'We'll save you' slogan and trusted his offering of a genuine alternative to bank home loans.

New entrepreneurial innovators who are willing to take on big market players with an innovative product are winning the hearts and minds of consumers, who are looking to individuals with energy and flair to create future wealth in this country.

DISCUSS

1 / Richard Branson is now taking on operators in product classes other than airlines. Choose one of these products and discuss how he is achieving brand recognition and acceptance.

2 / How do consumers benefit from a strong branch banking structure?

3 / Today, brands are not easy to establish and maintain. How do the attitudes of today's consumers differ from those of consumers in the 1950s and 1960s?

reminder of the product. The American Express Gold Card sends a signal that is understood around the world (**home3.americanexpress.com/newzealand/homepage.asp**).

Marketers see the management of these 'physical' elements of the service as an important aspect of the marketing mix. In many ways, the emphasis is placed on all visual and tangible elements of the service in an attempt to reassure customers who are faced with the near absolute intangibility of what they are about to purchase. These tangible cues contribute to reducing the perceived risk of the purchase and can act as a form of reinforcement, thereby increasing the chance of repeat purchases in the future.

service warranties

Service providers make use of warranties to position products. Customers' service guarantees are becoming more common as a way to attract, and keep, customers—hairdressers guarantee satisfaction by offering to do a customer's hair again, if the customer is dissatisfied. There is more risk in offering a service guarantee than a warranty on a physical product. Because of the variability of services, a service breakdown can create large expense. But, there is no guarantee that management will become aware of customer dissatisfaction—customers may just leave without complaining. When customers collect on a guarantee, the company can clearly identify the problem and remedy it.[8]

managing services over their life cycles

A particular company's marketing mix usually changes during the product life cycle, due to changes in customers' attitudes and needs.

When a company's product has won loyal customers, it can remain successful for a long time, even in a mature or declining market.

Continued improvements to products and services may be necessary to keep customers satisfied, especially if their needs change or shift, and this can help extend the life cycle of the product. For service providers, it may be necessary to add to the core service, in order to satisfy existing customers.

Banking services in Australia and New Zealand are in the market maturity stage. As automatic teller machine (ATM) use increased, most banks added electronic card options to their basic accounts; and, to maintain the popularity of credit cards, banks often raise the credit limit and provide additional benefits, such as travel insurance or access to wine clubs. Banks are attempting to increase the value of their Internet banking sites for their customers by offering the ability to view and manage accounts from all sources (even their competitors) on one single site—currency exchange and financial market information, Bill Pay and taxation payment facilities.

The same service may be in different life cycle stages in different markets, so a company may simultaneously pursue different strategies for a particular service. Companies that deal with services, such as advertising agencies and banks, are faced with both the problem of maintaining their product's relevance and its extension into new areas of the market. Many advertising agencies offer services in relation to direct-response campaigns, sponsorship or sales promotions and also the development of advertising in new media such as fax machines or the Internet.

Service providers should regularly review services to identify those that are used infrequently and, therefore, no longer justify the costs involved in delivering them.

new-service planning

Organisations must endeavour to develop new services to replace those that are in decline if they are to remain competitive and profitable in the longer term. They cannot afford to limit themselves to their current service portfolio in their current markets.

Although the front-end cost of the unsuccessful launch of a new service may not be as high as for a physical product, substantial costs can be involved and it can have a major long-term impact if dissatisfied customers turn elsewhere for assistance.[9] If an insurance company designs and launches a new insurance product, it must print documents, seek financial advice and spend executive time in development, possibly with the added expense of market research. Staff training will be required and may, in some cases, interfere with other duties, thus resulting in lost business. All this effort and expense could be wasted if the new service fails to attract customers.

The rapid rate of change for many services means that swift entry into the market may be the key to a competitive advantage. Many Internet service companies, such as E*Trade (**https://www.etradeaustralia.com.au**) and Yahoo! (**au.yahoo.com**), are working to accelerate their new-product development processes.[10] Some service companies are presenting themselves as capable of adapting their product on request. They promise instant product development—educational providers will develop in-house courses tailored to the needs of individual companies.

new-product development process

Although there are significant differences, the general new-product development process (see Figure 9.5 on page 340) is similar for both goods and services.

Ideas for new service concepts can come directly from the analysis of consumer complaints. No company can always be first with the best new ideas. The search for ideas should include attention to the activities of current or potential competitors. British Airways talks to travel agents to learn about new services offered by its competitors.[11]

The screening process for services should consider social responsibility—focusing on providing long-run consumer welfare. Product liability is another area of concern for marketers of services. Liability settlements may exceed not only the company's insurance coverage, but also its total assets! In 2002 many patients had their surgery cancelled due to the exorbitant increase in liability insurance for doctors and other medical personnel, which stemmed from the collapse of the insurance company, HIH.

Before a bank develops a new financial product, it would be well advised to discuss the concept with financial market experts and other interested parties to ensure the feasibility of the terms and conditions to be offered—to evaluate the idea.

Service ideas that survive the screening and evaluation steps require further analysis.

In the case of a new service offering, the company will develop the details of what training, equipment and the like will be required to deliver the service idea. Input from the earlier steps helps guide this technical work.

Testing may lead to revision of service specifications for different markets. For example, AMR Corporation had plans for a new reservation system that would allow travel agents, hotels and airlines to provide better customer service. Tests revealed many problems with the service and it had to be revised. These changes can be quite complex.

It is essential that the company test the whole marketing mix—a hotel chain may test a new service offering at one location to assess how it is accepted.

A service idea that survives to this stage is ready to be placed on the market. Service providers can accelerate the adoption process by enabling low-risk trials. For example, many gyms and fitness centres offer a free trial or circuit session in order to encourage potential members to familiarise themselves with the facilities and join the club.

research and development

The relationship between marketing and R&D is vitally important. Many new-product ideas come from scientific discoveries and new technologies. Service companies may use technical specialists for development work. A bank considering a new set of investment options for customers must be certain that it can meet its promises.

Technical creativity in itself is insufficient—it must be guided by a market-oriented new-product development process. In the case of services, the R&D activities may involve developing a system that will enable the delivery of benefits to customers. The desire and need for electronic Bill Pay forced Australia Post (**www.australiapost.com.au**) to redesign its information management and computer systems to cope with the dramatic increase in capacity that the new service required.

managing service distribution channels

Channels of distribution and decisions regarding channel selection are as relevant to services as they are to physical goods; and a number of place variations may be required if different target markets have different needs.

In recent years, the range of services provided at consumers' homes, such as car maintenance and financial advice, has increased.

Producers, rather than use an independent intermediary, may prefer to undertake service delivery through their own wholesale or retail outlets. A group of solicitors might open a branch office in another suburb or town, with one or more partners being responsible for the new branch. This arrangement enables the partnership to retain complete control over branch operations. Control is especially important for professional services where effective delivery is crucial to client outcomes. There are relatively few independent intermediaries in areas such as accounting, architectural services, banking, management consulting and medical services (although, in some areas, subcontracting may occur on a regular basis).

Service organisations often use direct channels. There may be little advantage in using intermediaries if the service must be produced in the presence of customers. An accounting or legal practice must deal directly with its clients; a hairdressing salon is in the same situation.

physical distribution strategy

The importance of distributing the right product to the right customers in the right quantity at the right place and at the right time cannot be overemphasised.

Traditionally, it is considered that physical distribution relates only to physical goods or other products that incorporate physical goods as an element of the product. Services are viewed as intangible; and, therefore, they are unable to be stored or transported. Logistics, or physical distribution issues, are often overlooked when distribution channels are designed for services, but physical distribution is also relevant to some services.

While services themselves are intangible, many 'pure' services have some tangible aspects. Financial services are facilitated by the use of tangible items such as cash, cheque books and credit cards, as well as ATMs and EFTPOS terminals. Airline travel is expedited by the issuing of tickets and, for extended trips, travel itineraries to intending travellers—the customer deals with an intermediary (a travel agent) in making his or her travel arrangements, and the intermediary provides the customer with the tangible items (the airline ticket, the flight itinerary and perhaps brochures and documentation relating to the trip).

Producers of services, such as banks and airline companies, need to consider the logistics of providing clients with the tangible items that facilitate the provision of their services. Just as for physical goods, the customer service level is directly related to the effectiveness of the physical distribution system in making those tangible items easily accessible and readily available to customers. Intermediaries are often used, both to sell the service itself and to facilitate the physical distribution of the tangible elements of the product. Passengers would be inconvenienced—and on-ground airline staff would be burdened with extra work—if travel agents were unable to provide passengers with proper documentation associated with their flight bookings.

Innovation is just as relevant to logistics for services as it is to logistics for physical goods. Examples include the use of information technology and telecommunications (IT&T) that provide access to banking services by using the telephone or the Internet and utilising a personal computer, modem and telephone. Utilising IT&T systems, banks now offer telebanking services that enable clients to make enquiries and undertake some transactions via the telephone—no contact with bank employees is required. Flight bookings via the Internet are convenient, and cost savings are often passed on to customers in the form of cheaper fares. Using Internet communication facilities, organisations such as universities and private training institutions can provide teaching materials and facilitate 'virtual classroom' discussions between remote students via electronic 'bulletin boards' or 'newsgroups', or via sophisticated and very 'user-friendly' software packages such as Lotus Notes® or Blackboard®.

The installation of satellite-based and microwave transmission systems, such as SkyChannel and Galaxy, provide television and related services to the hospitality industry and consumers. The massive cable-laying programs that commenced in the mid-1990s by Optus (**www.optus.com.au**) and Telstra (**www.telstra.com**) represent attempts to provide greater access to those companies' telecommunications services.

Innovation is not limited to 'high-technology' applications, but it may be based on improvements to 'low-technology' activities. For example, improvements in the scheduling of delivery drivers could result in significant reductions in response times for home-delivery pizza orders.

pricing of services

The price of a service is often called different things in different settings—universities charge tuition fees; landlords collect rent; banks ask for interest on loans; bus and airline companies charge fares; museums collect an entrance fee; and employees want a salary or wage. People may call price different things, but any business transaction in a modern economy involves an *exchange of payment* (the price) for 'something'.

Prestige pricing setting a relatively high price to suggest high quality or high status.

Apart from the economic dimension, price is often used by customers as an indicator of product or service quality. **Prestige pricing** involves setting a relatively high price to suggest high quality or high status. It is common in service industries where the customer cannot view the product in advance and relies on price to judge its quality.

pricing objectives

Many private and public non-profit organisations set price levels that just recover costs—their target return objective is zero. A government department may charge motorists a toll for using a bridge, but it may drop the toll once the cost of the bridge has been recouped.

Profit maximisation objective seeks to achieve as much profit as possible.

Sales growth objective setting prices so that sales volumes increase.

Many service industries set **profit maximisation objectives**, that is charge 'what the market will bear'. As more people eat out more regularly, the cost of restaurant meals decreases. Chains such as Pizza Hut and Fasta Pasta capitalise on this trend.

Managers of some non-profit organisations use **sales growth objectives**, setting prices so that sales volumes increase. They set prices to increase market share because they do not aim to earn a profit. In an effort to encourage the use of public transport, many cities set low subsidised fares to increase passenger usage of buses and trains. The cost is the same, whether buses and trains operate empty or full, and there are added benefits—such as convenience, reduced traffic congestion and reduced pollution—when these services are well patronised, even if the total revenue is unchanged.

Service providers must be careful when pursuing such pricing objectives. Their product presents the challenge of simultaneous production and consumption, making an adequate matching of supply and demand even more critical. Hairdressers and beauticians, charging a reasonably low price for a haircut or a facial must perform many more of these services to achieve the same profit as the high-priced prestigious salons that apply higher mark-ups. Care must be taken to avoid situations in which staff cannot adequately service individual customers, or long waiting periods occur. Any increase in sales would be short lived, as consumers would be dissatisfied and avoid a repeat purchase.

Market-share price objective seeking to gain some specific share (percentage) of a market.

Non-price competition aggressive action on one or more of the four Ps, other than price.

Large companies, such as AMP and McDonald's, often use **market-share objectives**—that is, seeking to gain some specific share (percentage) of a market. The advantage of a market-share price objective is that it forces a manager to pay attention to the performance of competitors.

Fast-food chains, such as McDonald's, experienced very profitable growth for many years by focusing on **non-price competition**—that is, aggressive action on one or more of the four Ps, other than price. When new chains offered similar services at lower prices, the established chains turned to price competition.[12]

B4 relationship marketing

banks, brokers and home loans[13]

The explosion in home loan choice has created a boom in the mortgage brokering industry. The prospect of investigating the vast number of mortgage products available in the market is a daunting prospect for any would-be property owner. Brokers can save clients time (and money) by curtailing the range of choices, assisting with paperwork and helping to secure finance if traditional lenders dismiss a customer's credentials.

The slowing home loan market and the involvement of new players are forcing the major banks to adjust to a more challenging environment. Local banks were only offering 'more of the same', so ING DIRECT took the opportunity to offer consumers a genuine choice—Internet accounts have proven remarkably successful. This prompted aggressive competition from Scottish-owned Bank West—its philosophy is based on the 'right brand for the right customer base'. Dutch-owned Rabobank joined the competition as a niche operator servicing the farming community. The main focus for many farmers is succession. The establishment of financial planning and wealth management products assisted farmers in working through these issues.

International banks are offering high interest rates for deposits and local banks have been forced towards higher rates to protect their market share. Their relationship with brokers is also under review with most banks signalling a tougher attitude and lower commissions. As conditions get tougher in the banking sector, banks will be forced to change their strategies. Price wars on brands, interest income, margins and market share will all be a part of these changes.

DISCUSS

1 / Choose (a) a bank mortgage product and (b) a similar product from a non-bank organisation. Compare the marketing mix each organisation offers. In your opinion, which is the better product? Why?
2 / Discuss the main strategy changes you think banks will need to make in order to remain competitive in the future.
3 / How will the role played by mortgage brokers change over the next decade, as overseas banks and non-bank financial organisations enter the market?

flexible-price policy

Implementing a **flexible-price policy** means offering the same products and quantities to different customers at different prices. Many organisations have learned that they can negotiate the prices of services that are provided by their advertising agency, market research company or consultants.

Flexible-price policy offering the same products and quantities to different customers at different prices.

When computers are used to implement flexible pricing, the decisions focus more on what type of customer will be given a price break. Various forms of flexible pricing are more common now that prices are maintained in a computer database. Frequent changes are easier. For example, when organisations such as social and sporting clubs offer club members reduced prices for drinks, meals and the use of facilities, the computer selects either the club price or the usual price—depending on whether a club card is scanned.

A more recent development is the relationship some marketing managers have developed with Internet companies whose advertisements invite customers to 'set your own price'. For example, ebay, an auction web site (**www.ebay.com.au**), invites visitors to bid for a range of items. Visitors to the web site specify the maximum price they are willing to pay and ebay informs people who have been 'outbidded', through email. Bidding for an individual item ceases after one week and the highest bidder is informed of their successful purchase.

It may appear that companies such as ebay have given up on administering prices. Just the opposite is true. They are carefully administering a flexible price. Most airlines set a very high price list. Few people pay this price—travellers who plan ahead, or accept non-peak flights, earn a discount. Conversely, business travellers who require high demand flights on short notice pay higher prices. It is senseless to fly a plane half empty, so airlines continually adjust prices depending on the number of seats that are to be filled. Flexible pricing does have disadvantages. A customer who learns that others have paid lower prices for the same marketing mix will obviously be unhappy.

competitive pricing

Most organisations face competition sooner or later in the product life cycle; and when this happens, deciding how high or low a price is set may be relative not only to the market demand curve, but also to the prices charged by competitors.

In general, if the organisation's service marketing mix is well differentiated from those of its competitors, the organisation is under less pressure to meet its competitors' prices.

There is little choice in industries where a few organisations are dominant. Pricing at the market level—that is, meeting competition—may be the only sensible policy. To raise prices might lead to a large loss in sales, unless competitors also adopt the higher prices. Reducing prices could lead to similar reductions by competitors and could result in a decrease in total revenue or, at least, a decrease in total profit for the industry and each organisation—depending on the shape of the demand curve. For example, the major domestic airlines in Australia faced such problems in late-1999 with the announcement that Virgin Blue was about to enter the Australian domestic market in mid-2000. Virgin's press releases indicated that discount fares would be available on major domestic routes. Following the Virgin Blue announcement, Qantas chose to reduce current prices by up to 30 per cent in order to foster customer loyalty before the arrival of the new carrier. Once Virgin Blue hit the skies, both Ansett and Qantas competed directly in a price war that ended in 2001 with Ansett's demise. Virgin Blue currently holds close to 33 per cent of the Australian domestic market, despite Qantas introducing their low-cost fighter brand—Jetstar.

B5 e-marketing

music—legal versus illegal downloading[14]

The music industry needs to find new revenue streams. Pirated CDs, illegal downloading of music and Internet file sharing are eroding revenues and encouraging 'Generation Y' consumers to believe that music should be free, or at least extremely cheap.

Listeners are tired of paying for uninspired songs, preferring the music of lesser-known bands released by smaller record labels. The development of Napster allowed these bands to reach a much wider audience by using person-to-person networks.

Digital downloads are becoming big business overseas, but in Australia the legal download market is very small. Local download stores are incompatible with iPod, which controls about 90 per cent of the digital player market. The imminent opening of Apple's iTunes Oz is creating interest among iPod owners.

Price is going to be a major determinant in the success, or otherwise, of the new download store. Other sites, such as Soundbuzz's Creative Music Store, focus on setting prices to ensure their product is always better value than the available physical product. The wholesale price is set by the recording industry and this should preclude any dramatic variations in price among key retail players.

Major labels must face the reality that their product and the means of delivering it need to change—harnessing the power of the Internet to reach consumers and releasing music that listeners appreciate must be their goal.

DISCUSS

1 / Revenues are being eroded by the illegal actions of companies and consumers. What remedies are available and how effective are they?
2 / iTunes Oz must compete with existing download stores. What strategies will be important?
3 / What changes in delivery must be made by major labels in order to retain or increase market share?

marketing communication for services

Having the right service in the right place, at the right time and at the right price is what every marketer tries to achieve, but there is little chance of success unless customers know about the service. As in the case of goods marketing, this is the task of the marketing communications component of the marketing mix, also referred to as ‘promotion’. Despite the intangibility and perishability of services, all communication tools that are used to promote goods may be used to promote services.

integrating marketing communications

One of the difficult aspects of marketing communications management results from the wide variety of tools available, as well as the likely interactions that result from the combined use of several tools at once.

Sometimes, the integration results from a progressive extension from one communication method into others, as a result of the unexpected success of some aspects of the campaign. For example, Telecom New Zealand was able to use, in many aspects of its marketing communications program, a device initially developed for its television advertisement. Telecom New Zealand briefed its advertising agency, Saatchi and Saatchi, to come up with a campaign that would set it apart from its competition and establish it as a quality provider of a wide range of innovative products and services.

B6 ethical dilemma

should advertising of fast food be banned?[15]

Promotion is one of the most frequently criticised areas of marketing, and many of the criticisms focus on whether or not the messages are honest and fair. A recent debate has focused on the influence that advertising fast food may have on society. Critics accuse fast-food companies that target children of being the source of the obesity epidemic that is now observed in countries such as Australia and the US. Would banning such advertising make children slimmer?

A study undertaken in the UK would appear to suggest that banning fast-food advertising from television would have little or no effect. One of the reasons is that 70 per cent of the time, children watch TV outside of the time dedicated to children’s programs. Another is that being overweight or obese is the result of several lifestyle variables, of which television viewing is only one. Indeed, the increase in ready-meal consumption (+44% in the UK between 1990 and 2002) is the result of parents not having time to prepare ‘proper’ meals. According to an Ofcom report, entitled ‘Child obesity—food advertising in context’, while television advertising has an impact, it is small compared to the impact of other influences.

These results have been welcomed by the Advertising Federation of Australia, which has been under considerable pressure because of the issue. At the same time, the federal government has announced its own plan to fight childhood obesity, including a campaign to promote an ‘Eat well, play well, live well’ theme.

The fast-food industry is fighting other critics as well. For example, there are those who argue that the use of attractive models in advertisements for fast foods is misleading—given the excessive energy intake of many fast foods.

DISCUSS

1 / Would banning advertisements for fast food solve the obesity problem?

2 / Do you believe that there should be more regulations for fast-food advertising?

3 / Do you believe that advertising fast food should be banned?

The agency recommended the use of a visual device in order to symbolise exactly what the service does and how it works. The device was called SPOT, for 'Services and Products of Telecom', and took the shape of a little black and white Jack Russell terrier. SPOT became a household name and a real star, visiting schools and hospitals around the country and taking part in all Telecom public-relations activities for a number of years. Research showed the Telecom SPOT and Telecom animals campaigns to have consistently been ranked among consumers' favourite advertisements.

Integrated marketing communications programs can benefit goods or services equally; and even certain types of professional services, previously prevented from using some marketing communications methods due to legal constraints, have found that they can now use these to great advantage.

advertising

Corporate or institutional advertising aims to promote an organisation's image, reputation or ideas, rather than a specific product.

Horizontal cooperation involves cooperation between several members who are at the same level of a distribution channel; often occurs in relation to advertising.

Informing a large number of consumers about a company's services usually requires the use of advertising. Advertising is particularly important in certain markets, especially final consumer markets.

Corporate or **institutional advertising**, which aims to promote an organisation's image, reputation or ideas, rather than a specific product or service, may be particularly important for service companies, due to the intangible nature of their service offerings. For example, New Zealand and Australia have used corporate advertising to promote themselves as tourism destinations. Tourism NZ has seized the opportunity to capitalise on the world exposure afforded to its scenery by the international success of *The Lord of the Rings*—integrating this carefully has connected with its '100% Pure New Zealand' campaign, which is aimed at increasing the desirability of New Zealand as a holiday destination.[16]

Sometimes, two or more companies with complementary products may join together, **horizontal cooperation**, in a common advertising effort. For example, joint advertisements may

B7 creating and delivering value

Optus opts for new ways to communicate[17]

Animals of all shapes and sizes are now expected from telecommunication company, Optus. Topping all its previous efforts, however, are the 10m × 15m 3D geckos that are scaling buildings located in Fortitude Valley, Brisbane, and Sydney's Parramatta Road.

The giant outdoor sign, complete with illumination and moving eyes, is part of a major outdoor push by Optus to refresh its brand. According to Optus corporate marketing director, Stephen Cameron, 'Optus is a challenger brand and we want to be distinctive and bold in the way we execute the brand identity'. The nature advertising theme, which has been used by Optus since 1999, now has a high level of association with consumers and so the outdoor campaign must tap into it. At the same time, it needs to break new creative grounds in order to come to consumers' notice.

In addition to these attention-grabbing efforts, Optus is active in the area of sponsorship, having selected to focus its efforts on three pillars: the arts, with Cirque du Soleil, which toured Australia with its latest sell-out show 'Quidam' in 2005; sport, with Tennis Australia; and community with Kids Helpline. With these specific properties, Optus aims to work on different levels, from financial contribution to staff participation and support. Stephen Cameron says that Optus does use tactical advertising to support these sponsorship programs and it is careful to evaluate the impact of each of these activities through brand tracking, differentiation and response rate to any promotion run as part of the partnership.

DISCUSS

1 / How does sponsorship benefit a brand?
2 / Do you think the nature advertising theme is appropriate for Optus?
3 / What are the problems with mass marketing?

encourage travellers to stay at a Hyatt hotel and handle their expenses with an American Express card, or to enjoy a Coke at Hungry Jack's.

Major media attract the vast majority of advertising media budgets, but advertising specialists are always searching for new cost-effective media that will help advertisers reach their target markets. Hotels and car rental companies buy space on advertising boards that are placed in the toilets on aeroplanes. Even telephone cards and rail tickets are now used as advertising media—while these may have a limited reach, they can also provide special market appeal.

sales promotion

Undertaking effective sales promotion is a learned skill, not a peripheral activity for amateurs. Even large and experienced companies can get it wrong. In 1999 a competition that was based on the board game 'Monopoly' was organised by McDonald's and generated much ill will. Hundreds of consumers believed that they were entitled to a car due to a printing mix-up, which resulted in many more winners than anticipated.[18] The previous Monopoly competition, run in 1998, was such a success that management at McDonald's may have inadvertently paid less attention to detail the second time around.

Service-oriented companies, such as hotels and restaurants, now use sales promotions targeted at their employees. Some, for example, provide a monthly cash prize for the employee who provides the best service, and display the employee's picture to provide individual recognition.[19]

sponsorship

Service companies are becoming involved in sponsorship in order to associate their names with a number of identified activities that are regarded as consistent with their desired image. Telstra was the named sponsor for the 1996, 1998 and 2000 Adelaide Festival of the Arts, thereby positioning itself as serving the state of South Australia, while at the same time benefiting from the national and international clout of the event. Sponsorship is becoming so prevalent that it has developed as a separate promotional category.

In some instances, the company may have genuine philanthropic objectives, as when SGIC, an Adelaide-based insurance company, sponsors the cranio-facial unit of the Royal Adelaide Hospital. Cause-related marketing, which occurs when a company sponsors a known cause such as preventing net fishing or preserving certain animal species, can be differentiated from philanthropy by determining whether there is a commercial objective sought in the project. However, even if these objectives are not openly discussed, companies professing purely philanthropic aims may also assume that being seen as a good corporate citizen could, in time, also result in improved consumer goodwill and, eventually, profits.

selling services

Aspects in the selling of services are similar to those relating to the selling of physical goods. Some differences do occur when the service provider is also the salesperson—at least on a de facto basis. In such situations, the service provider can improve the prospect of making additional sales by ensuring that the initial service is provided in a manner that wins the confidence of the client.

For example, a hairdresser not only cuts or styles a client's hair, but he or she is also the appropriate person to 'suggest' some additional services to the client. Such suggestions may appear to be spontaneous, yet be part of a prepared sales presentation. If the client has confidence in the hairdresser, he or she is more likely to agree to the suggestion. Therefore, it is important for the hairdresser to provide the initial service in a manner that is likely to win the confidence of the client—partly to encourage the client to make a future appointment, and partly to assist in selling additional services or products during the current appointment.

Even when different people provide and sell the service, there are often opportunities for the service provider to assist in the selling function. In many cases, the service provider has more contact with the client than he or she does with the salesperson and has more opportunity to influence the client. A metropolitan courier company may have a telephone salesperson who makes the initial sale to a client, but the company's drivers will have regular contact with the clients during pickups and deliveries. If trained and motivated, the drivers can develop some degree of rapport with staff from client organisations and positively influence client perceptions of the courier company.

Similarly, a business development manager might secure a new client for a private training organisation, but the training facilitators can influence client decision-makers when planning or reviewing specific training programs—their success being partly dependent on the client's perceptions of the quality of their initial training program.

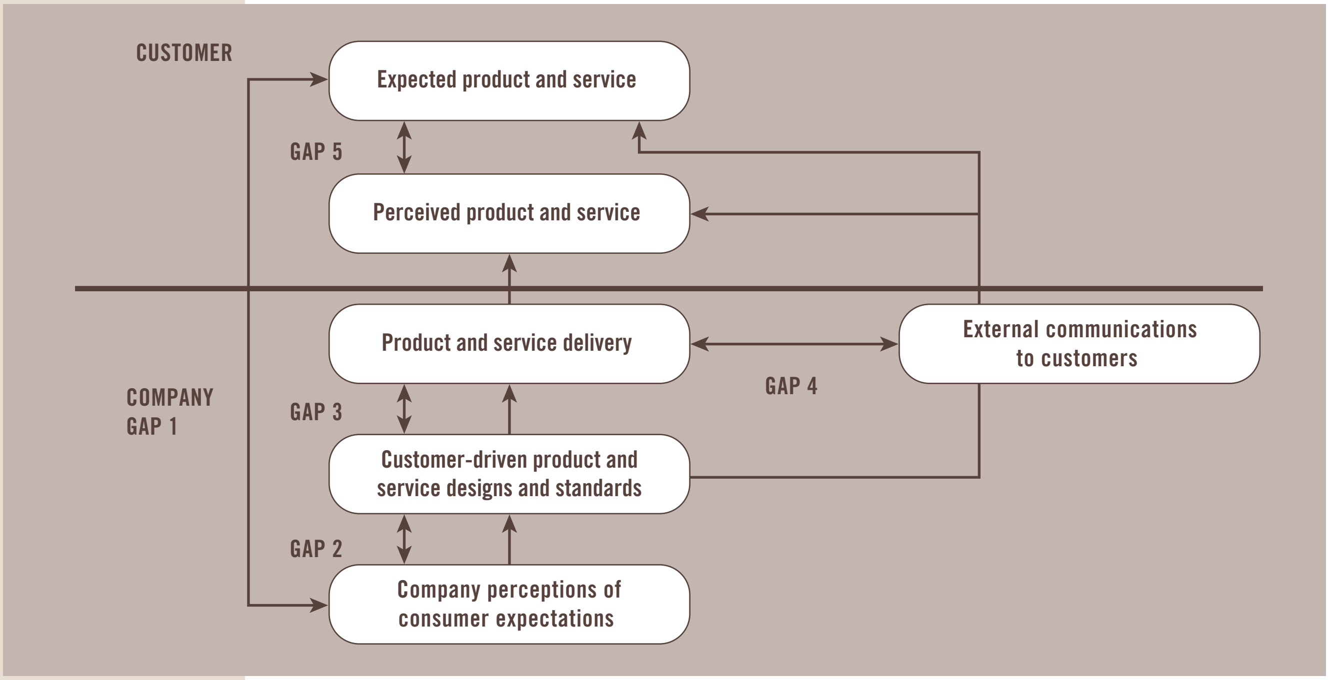
customer dissatisfaction—the GAPs model

There are many reasons why customers may be dissatisfied with the service they have received. Basically, a consumer is dissatisfied if the service provided does not meet his or her expectations. This is represented by Gap 5 in the model in SMAB Figure 2.

gap 5

Gap 5 the difference between a customer's expectation and his or her perception of what he or she actually receives.

Customers have an expectation regarding the product and service. If their perception of what they actually receive does not meet expectations, they will be dissatisfied. **Gap 5** is the difference between a customer's expectation and his or her perception of what he or she actually receives. Customer expectations evolve from many criteria, including the company's



SMAB Figure 2 *The GAPs model of service quality*

Source: Adapted from Bitner and Zeithaml, *Services Marketing*, McGraw-Hill, Sydney, 1996, p. 48

marketing actions, such as sales promises, pricing and advertising, and other factors that the company cannot control, such as the customer's personal needs, word-of-mouth communication and competitors' offerings. Thus, Gap 5 exists because one (or more) of the other four gaps depicted in SMAB Figure 2 on page 56 exists. If the company can identify which gap (or gaps) exists and work to close it (or them), Gap 5 will also close and the company will achieve customer satisfaction.

gap 1

Gap 1 occurs when the company does not fully understand the customer's expectations of the service required. There are many reasons for this—the sales representative may not pass on all customer expectations to the appropriate service providers within the company. Alternatively, other people in the organisation who have the responsibility for setting priorities may not fully understand the customer's expectations and may not allocate resources appropriately to meet these expectations.

Gap 1 the company does not fully understand the customer's expectations of the product or service required.

The most important first step in closing this gap is to acquire accurate information about customers' expectations. The company needs to use technology and any other means necessary to stay close to its customers and to monitor changes in expectations.

Focusing on developing and strengthening long-term customer relationships will also lead to increased knowledge of customer expectations and a narrowing of Gap 1.

gap 2

Gap 2 occurs when managers or others have difficulty in translating their understanding of customer expectations into service specifications. These specifications must reflect customer expectations rather than company concerns. This gap may occur if a manager believes that customers' expectations are unreasonable or unrealistic, or if management sacrifices quality standards to meet short-term financial commitments.

Gap 2 managers or others have difficulty in translating their understanding of customer expectations into product and service specifications.

To overcome Gap 2, service standards must be based on customer-defined performance standards. Management must be visibly committed to meeting customer expectations, and customer satisfaction levels must be measured regularly with employee evaluation and compensation tied to the outcome.

gap 3

Gap 3 is a discrepancy between customer-driven service standards and those actually delivered by the company. Company resources and employees, intermediaries or the customers themselves may be responsible for creating this gap. The company needs to employ the appropriate resources—people, processes and technology—to meet the customer standards. Constant evaluation of employee performance must be undertaken and compensation must be tied to the outcome.

Gap 3 a discrepancy between customer-driven product and service standards and those actually delivered by the company.

Many producers rely on intermediaries—franchisees, agents and brokers—to deliver services to customers. Although service quality may be essential to customer satisfaction, the manufacturer may have limited control. This is more of a problem when the intermediaries' goals and values are not consistent with those of the producer. The company must develop ways to either control intermediaries or motivate them to meet company goals and standards.

Customers themselves may create this gap by failing to provide all necessary information, or not reading or following instructions. Some customers may interfere with the provision of services to others. For example, rowdy patrons in a nightclub will affect the service experience of others. Companies need to develop education or communication strategies aimed at teaching consumers to be 'good customers'.

gap 4

Gap 4 occurs when a difference exists between what is promised by a company's external communications and what is actually delivered. Promises made by a company through

Gap 4 a difference between what is promised by a company's external communications and what is actually delivered to the customer.

advertising, salespeople or other methods of communication may raise customer expectations and the standards by which customers judge company performance.

Companies may 'overpromise', or there may be inadequate coordination between marketing and the people providing the service. Obviously, companies should not promise what they cannot deliver, and should coordinate actual service delivery with external communications. Steps must also be taken to ensure consistency between outlets through training and motivation.

The ability to identify service gaps and the development of strategies to close them is the key to customer satisfaction.[20] It is inevitable that customer satisfaction will not be achieved 100 per cent of the time, and a company must develop strategies to deal with these situations.

recovering from customer dissatisfaction

The most important step in the recovery process is determining as early as possible when a service has failed to meet customer expectations. Many customers who are dissatisfied and who do not report their dissatisfaction to the company concerned take other actions that harm the company. Losing a customer is harmful enough, but if that customer tells friends and colleagues about their dissatisfaction, many more customers, or potential customers, may be lost. If complaints are brought to public attention, the results can be devastating!

If a company is unaware of customer dissatisfaction, the company has no opportunity to make amends. Unlike some cultures, complaining does not come naturally to Australians and New Zealanders. Therefore, it is essential to develop a strategy to encourage customers to comment on service provision. For example, putting a comment card on the table in a restaurant is unlikely to elicit a response, but a five per cent discount on the bill will ensure many more customer comments.

Following complaints, offers of compensation must be made quickly and fairly. Compensation should be appropriate for the dissatisfaction incurred. Staff who are in direct contact with the customer must be able to empathise with the customer, have the ability to decide on the appropriate type of action that is best suited to the needs of the customer and must be empowered to take such action.[21]

It is particularly important to deal with customers' complaints quickly and effectively if they are part of the core 20 per cent who account for the major portion of an organisation's profit. These are the customers with whom a company should be aiming to develop a long-term relationship.

relationship marketing

Developing enduring relationships with customers can be a source of competitive advantage. This is of extreme importance in the case of services marketing. **Relationship marketing** focuses on keeping, and improving, relationships with current customers, rather than on acquiring new customers. Relationship marketing is based on the premise that customers prefer an ongoing relationship with one company, rather than continually switching from one supplier to another. Moreover, it is from five to 10 times more expensive, depending on the industry, for a company to win a new customer than to retain an existing one.[22]

Relationship marketing focusing on keeping, and improving, relationships with current customers, rather than acquiring new customers.

The goal of relationship marketing is to attract customers who are likely to become long-term relationship customers. Consistently high-quality products and services must be provided to meet their expectations and create value. These customers are then less likely to be attracted by the offers of competitors and, importantly, they tend to attract other customers with the same potential for loyalty. These long-term relationships benefit not only the company but also the customer.

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service—first and foremost[24]

Make a call to customer support at iiNet and you will probably not speak to someone who has a technical background. Employing staff with people skills rather than those with technical 'savvy' is a key point of difference between iiNet and rival Internet service providers. Michael Malone, iiNet's founder and chief executive, learned early that business not only involves technical excellence, but it is also about how you relate to people—treating customers as human beings is a market winner.

Automatic Telephone Answering Systems (ATAS), with their electronic voice that gives callers a number of options, have been embraced by banks and service providers who regard 24-hour access and convenience as the main criteria for customer satisfaction. But customers fail to be impressed and most of the benefits accrue to the providers themselves in the form of convenience and reduced costs.

Standard customer service surveys are often an inadequate measure of customer satisfaction and can be extremely misleading—they indicate that a company is 'doing things right', but not that it is 'doing all the right things'. Businesses need to create a lasting impression on customers with a 'special experience factor' that captures the emotional element of a customer's experience. Expressing emotional issues is difficult—they are unlikely to show up when using a standard survey. Face-to-face interviews can overcome this difficulty.

Managers need to identify things that matter most to customers and measure satisfaction levels to these, relative to the satisfaction experienced by customers using another supplier for the same service.

DISCUSS

1 / Compare the benefits of 24-hour access using ATAS with the customer support provided by iiNet. Make a case in support of each of them.
2 / Face-to-face interviews are more expensive than standard surveys. Describe a case where this extra cost would be (a) worthwhile and (b) not worthwhile.
3 / Relationship marketing is aimed at developing long-term relationships with customers. Discuss the reasons as to why this is important.

customer benefits

A customer benefits by dealing with a company that, over a period of time, shows a willingness to keep abreast of the customer's changing needs—creating trust in the relationship, which reduces stress for the customer and means that the financial, psychological and time-related costs of switching companies increases.

organisational benefits

Relationship marketing means that a company is not faced with the high costs of continually attracting new customers. In addition, the costs involved in maintaining a relationship diminish over time. Not only do loyal customers tend to spend more over time with the company, but they also provide free, highly credible word-of-mouth communication.

Many companies, from retailers to manufacturers, realise the importance of the **lifetime value of a customer**—the value or profit a customer is worth to an organisation over the lifetime of a relationship. According to research, an increase in customer retention of only five percentage points can lead to changes in profits from 35 to 95 per cent over the customer's lifetime. Therefore, companies should focus more on customer relationship building and the creation of profit over the lifetime of the customer—instead of treating each transaction as a profit-driven isolated occurrence.[23]

Lifetime value of a customer the value or profit a customer is worth to an organisation over the lifetime of a relationship.

implementation and control

If good strategies and plans are developed, the marketing manager and everyone else in the organisation are aware of what is required in order to achieve favourable outcomes. Forecasting target market potential and sales is important, not only in evaluating opportunities during the planning stage, but also to provide a framework for ensuring effective implementation and control.

effective implementation

Implementation is critical in mature and highly competitive markets. When several companies follow similar strategies and quickly imitate competitors' innovations, customers are often won or lost due to differences in the quality of implementation.

Consider the car rental business. Hertz (**www.hertz.com.au**) has a strategy that targets business travellers with a choice of quality cars, convenient online reservations, fast pick-up and drop-off, accessories such as car phones, availability at most major airports and premium prices. A major component of the company's success is the quality of its implementation. Hertz service is both convenient and reliable. When a Hertz 'Gold' customer calls to make a reservation, the company already has the standard information about that customer in its computer database, so the reservation is made quickly and accurately. At the airport, the customer collects a pre-completed rental contract and goes directly to a Hertz car.

It is not easy to ensure such a high standard on a regular basis, but Hertz has established appropriate systems to implement its plan and to maintain customer loyalty.[26]

Marketing implementation usually involves decisions and activities related to both internal and external matters. Internal issues are invisible to the customer if they work as

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pay TV—the ups and downs[25]

Pay television subscriptions grew by about 15 per cent in 2004 to about 1.5 million; and, for the month of October, Pay TV achieved new ratings records in subscription-television homes. Fast-growing take-up of digital subscription-television services, new digital interactive features and unique and comprehensive content all contributed towards these records.

Foxtel, Australia's leading subscription-television provider, offers Australian viewers the choice of more than 100 digital channels. In recent months, services have been enriched with the launch of interactive voting, enhanced weather-channel interactive applications, additional sports active applications and closed captioning to assist the deaf and hearing impaired.

Foxtel and Optus have reached an agreement for Optus to sell the Foxtel Digital service. This agreement is an extension of the content supply agreement between the two companies. Optus has agreed to invest in the upgrade of its cable network to offer its customers the full complement of services within Foxtel Digital. It will also act as a non-exclusive agent where Foxtel Digital does not have its own cable.

The purchase by News Corporation of a major stake in New Zealand's Sky Network Television has raised speculation about the future of Foxtel. Sky pay TV is a well-run business with 600 000 subscribers in the small New Zealand market, compared with Foxtel's less than 1 million in the larger Australian market. Operating two businesses with overlapping infrastructure in this part of the world is not economic and benefits could accrue to both companies and subscribers, if Foxtel and Sky were to merge.

DISCUSS

1 / What factors are relevant to the growth in pay television subscriptions?
2 / Will there be benefits to consumers if there is a merger between Foxtel and New Zealand's Sky pay TV? Why or why not?
3 / In your opinion, where will Optus stand if such a merger takes place?

planned. External issues involve the customer—for example, the Hertz contract being available when the customer arrives to collect a car, which has been cleaned and filled with fuel.

implementing quality service

Recently, marketers in service organisations have been paying a great deal of attention to improving service quality. Every organisation must implement service quality as part of its plan, whether its product is a service, a physical good, or a blend of both. Providing quality service to customers depends on a number of important criteria.

training and empowering staff

There are two approaches to improving the implementation of quality service—*training* and *empowerment*. How an employee treats a customer is as important as how well a functional task is performed. Employees who have any contact with customers require **training** that shows customer-contact employees how the rest of the business operates, so they learn how their contribution fits in with the total effort and it usually includes role-playing that is related to the handling of requests and problems from different customers.

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Empowerment giving employees the authority to correct problems without first having to check with management.

Quality cannot be 'inspected'; it comes from people who undertake the service tasks. Organisations that commit to service quality empower employees to satisfy customers' needs. **Empowerment** means authorising employees to correct problems without first having to check with management. An empowered room-service employee knows it is acceptable to undertake an errand for a hotel guest.

managing customer expectations

The implementation effort sometimes leaves customers dissatisfied because they expect more than the company can deliver. Research in the service quality area suggests that problems often disappear if marketers clarify what is being offered. Customers will be satisfied when the service matches their expectations, and careful communication leads to reasonable expectations.

Customers will often tolerate a delay and be satisfied with the service when they are given a full explanation. Most airline passengers become annoyed at an announcement of a delay in departure, but are happy to wait if told that the delay is due to a thunderstorm high above the airport.

responding to customer needs

Implementation usually involves routine services and other non-routine services (e.g. return of unsatisfactory or damaged goods) that require special attention. Customer satisfaction is increased when routine and non-routine services are separated. Banks often set up special windows for enquiries and commercial transactions, and supermarkets have 'less than 10 items' express lanes.

In developing the marketing plan, it is important to analyse the services that customers require, and to plan for all types of situations. In some cases, completely different strategies may be required.

Increasingly, organisations are using computers and other equipment to handle routine services. Automatic teller machines (ATMs) are a quick and convenient method for dispensing cash. Qantas (**www.qantas.com.au**), Air New Zealand (**www.airnewzealand.com/gateway.jsp**) and other major airlines operate 24-hour flight information services that allow customers to telephone for instant arrival and departure times. DHL set up an Internet web site (**www.dhl.com.au**) that makes it easy for customers to check the status of a delivery.

Organisations that analyse special service requests can use training to ensure that even unusual customer requests become routine. Every day, hotel guests lose their keys, bank customers run out of cheques and supermarket shoppers leave their wallets at home. A well-run service operation anticipates these special events so service providers can respond in a manner that satisfies customers' needs.

ethical services marketing

One area of ethical concern is that of privacy. While focusing on consumers' needs, marketers also must be sensitive to their consumers' rights, including that of privacy.

Technical change will bring new challenges in this area. As DNA fingerprinting becomes more readily available, such information about individual consumers may be stored and may, in turn, restrict consumers' choice of products or services.

For example, insurance companies may be able to decline insurance to young women whose mothers have had breast cancer because of the proven genetic link for the condition. Someone with a higher than average probability of having a stroke may soon be precluded from the purchase of a car, or may be prevented from insuring the car, lest they lose consciousness at the wheel. These 'Big Brother' scenarios are not as improbable as they sound and consumers must remain vigilant about what type of information they provide and to whom they provide this information.

The **fair trade practices legislations and acts** are relevant to marketers in Australia and New Zealand. They aim to protect consumers from misleading and unfair marketing practices. The ***Trade Practices Act 1974*** applies to Australia. In particular, Section V of the Act defines what is misleading or deceptive conduct—a behaviour now punishable by fines of up to $1.1 million. In New Zealand, the relevant legislation is the ***Fair Trading Act 1986***.

Importantly, the ACCC is not the only body able to take action under Section V of the *Trade Practices Act*, with consumers now increasingly taking companies to court—a right which has now been extended for up to six years after they have been misled or deceived.[27]

The Act defines **misleading** or **deceptive conduct** as anything that could give another party the wrong impression or idea about the real situation. This is relevant to any area of negotiation or communication and may include the information provided by a call centre; predictions made by salespeople about risk, profitability or value; claims of associations with other products or people; labelling and packaging; or any financial mortgage or insurance documentation. Given the heavy penalties that apply, marketers must ensure that all aspects of the marketing mix contribute to a 'fair and honest presentation of what the product or service is or does, in a way that a lay person can understand'.[28]

Fair trade practices legislations and acts laws in Australia and New Zealand aiming to protect consumers from misleading and unfair marketing practices.

Trade Practices Act 1974 Australian law aimed at ensuring that companies behave in a competitive manner so that consumers are offered a genuine choice in terms of both price and quality; and Australian law aimed at protecting consumers from misleading and unfair marketing practices.

Fair Trading Act 1986 New Zealand law aimed at protecting consumers from misleading and unfair marketing practices

Misleading or deceptive conduct anything that could give another party the wrong impression or idea about the 'real' situation.

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