



Global Edition

# Services Marketing

PEOPLE, TECHNOLOGY, STRATEGY

Seventh Edition

Christopher Lovelock  
Jochen Wirtz



*This page is intentionally left blank.*

# Services Marketing: Global Edition

## Table of Contents

Cover

About the Authors

About the Contributors of the Cases

Brief Contents

Contents

Preface

Acknowledgments

Part I: Understanding Service Products, Consumers, and Markets

Chapter 1: New Perspectives on Marketing in the Service Economy

Why Study Services?

Services Dominate the Economy in Most Nations

Most New Jobs Are Generated by Services

Understanding Services Offers a Personal Competitive Advantage

What Are the Principal Industries of the Service Sector?

Contribution to Gross Domestic Product

Powerful Forces are Transforming Service Markets

What are Services?

The Historical View

A Fresh Perspective: Benefits without Ownership

Defining Services

Intangible Elements Dominate Value Creation

Service Products versus Customer Service and After-Sales Service

Four Broad Categories of ServicesA Process Perspective

People Processing

Possession Processing

Mental Stimulus Processing

Information Processing

Services Pose Distinct Marketing Challenges

The 7 Ps of Services Marketing

The Traditional Marketing Mix Applied to Services

Product Elements

Place and Time

Price and Other User Outlays

Promotion and Education

The Extended Services Marketing Mix for Managing the Customer Interface

Process

Physical Environment

People

Marketing Must Be Integrated with Other Management Functions

A Framework for Developing Effective Service Marketing Strategies

# Table of Contents

Part I: Understanding Service Products, Consumers, and Markets

Part II: Applying the 4 Ps of Marketing to Services

Part III: Managing the Customer Interface

Part IV: Implementing Profitable Service Strategies

Conclusion

Chapter Summary

Review Questions

Application Exercises

Endnotes

## Chapter 2: Consumer Behavior in a Services Context

The Three-Stage Model of Service Consumption

Prepurchase Stage

Need Awareness

Information Search

Evaluating Alternatives

Purchase Decision

Service Encounter Stage

Service Encounters Are "Moments of Truth"

Service Encounters Range from High Contact to Low Contact

The Servuction System

Theater as Metaphor for Service Delivery: An Integrative Perspective

Role and Script Theories

Postencounter Stage

Customer Satisfaction with Service Experiences

Service Expectations

Are Expectations Always the Right Comparison Standard?

Customer Delight

Links between Customer Satisfaction and Corporate Performance

Conclusion

Chapter Summary

Review Questions

Application Exercises

Endnotes

## Chapter 3: Positioning Services in Competitive Markets

What is Required for Positioning Services Effectively?

Achieve Competitive Advantage Through Focus

Market Segmentation Forms the Basis for Focused Strategies

Identifying and Selecting Target Segments

Service Attributes and Levels

Important versus Determinant Attributes

Establishing Service Levels

Positioning Distinguishes a Brand from its Competitors

Developing an Effective Positioning Strategy

Market, Internal, and Competitor Analyses

# Table of Contents

## Using Positioning Maps to Plot Competitive Strategy

An Example of Applying Positioning Maps to the Hotel Industry

Mapping Future Scenarios to Identify Potential Competitive Responses

Positioning Charts Help Executives Visualize Strategy

## Changing Competitive Positioning

Changing Perceptions through Advertising

Innovation in Positioning

## Conclusion

## Chapter Summary

## Review Questions

## Application Exercises

## Endnotes

## Part II: Applying the 4 Ps of Marketing to Services

### Chapter 4: Developing Service Products: Core and Supplementary Elements

#### Planning and Creating Service Products

Service Product

Designing the Service Concept

#### The Flower of Services

Facilitating Supplementary Services

Enhancing Supplementary Services

Managerial Implications

#### Branding Service Products and Experiences

Branding Strategies for Services

Tiering Service Products with Branding

Offering a Branded Experience

#### New Service Development

A Hierarchy of New Service Categories

Reengineering Service Processes

Physical Goods as a Source of New Service Ideas

Using Research to Design New Services

Achieving Success in New Service Development

## Conclusion

## Chapter Summary

## Review Questions

## Application Exercises

## Endnotes

### Chapter 5: Distributing Services Through Physical and Electronic Channels

#### Distribution in a Services Context

What Is Distributed?

#### Distribution Options for Servicing Customers: Determining the Type of Contact

Customers Visit the Service Site

Service Providers Go to Their Customers

The Service Transaction Is Conducted Remotely

Channel Preferences Vary among Consumers

# Table of Contents

## Place and Time Decisions

Where Should Service Be Delivered in a Brick-and-Mortar Context?

When Should Service Be Delivered?

## Delivering Services in Cyberspace

Service Delivery Innovations Facilitated by Technology

E-Commerce: The Move to Cyberspace

## The Role of Intermediaries

Franchising

## The Challenge of Distribution in Large Domestic Markets

## Distributing Services Internationally

Factors Favoring Adoption of Transnational Strategies

Barriers to International Trade in Services

## Conclusion

## Chapter Summary

## Review Questions

## Application Exercises

## Endnotes

## Chapter 6: Setting Prices and Implementing Revenue Management

### Effective Pricing is Central to Financial Success

Objectives for Establishing Prices

### Pricing Strategy Stands on Three Foundations

Cost-Based Pricing

Value-Based Pricing

Competition-based Pricing

### Revenue Management: What it is and how it works

Reserving Capacity for High-yield Customers

Price Elasticity

Designing Rate Fences

### Ethical Concerns in Service Pricing

Service Pricing Is Complex

Piling on the Fees

Designing Fairness into Revenue Management

### Putting Service Pricing into Practice

How Much to Charge?

What Should Be the Specified Basis for Pricing?

Who Should Collect Payment?

Where Should Payment Be Made?

When Should Payment Be Made?

How Should Payment Be Made?

How Should Prices Be Communicated to the Target Markets?

## Conclusion

## Chapter Summary

## Review Questions

## Application Exercises

# Table of Contents

Endnotes

## Chapter 7: Promoting Services and Educating Customers

### The Role of Marketing Communications

Position and Differentiate the Service

Promote the Contribution of Service Personnel and Backstage Operations

Add Value through Communication Content

Facilitate Customer Involvement in Service Production

Stimulate or Dampen Demand to Match Capacity

### Challenges of Services Communications

Problems of Intangibility

Overcoming the Problems of Intangibility

### Marketing Communications Planning

Defining the Target Audience

Specifying Communication Objectives

### The Marketing Communications Mix

Communications Originate from Different Sources

Messages Transmitted through Traditional Marketing Channels

Messages Transmitted through the Internet

Messages Transmitted through Service Delivery Channels

Messages Originating from Outside the Organization

Ethical and Consumer Privacy Issues in Communications

### The Role of Corporate Design

### Integrating Marketing Communications

Conclusion

Chapter Summary

Review Questions

Application Exercises

Endnotes

## Part III: Managing the Customer Interface

### Chapter 8: Designing and Managing Service Processes

#### Flowcharting Customer Service Processes

Flowcharting is a Simple Tool to Document Service Processes

Insights from Flowcharting

#### Blueprinting Services to Create Valued Experiences and Productive Operations

Developing a Blueprint

Blueprinting the Restaurant Experience: A Three-Act Performance

Identifying Fail Points

Failure Proofing to Design Fail Points Out of Service Processes

Setting Service Standards and Target

#### Service Process Redesign

Service Process Redesign Should Improve Both Quality and Productivity

#### The Customer as Co-Producer

Levels of Customer Participation

Reducing Service Failures Caused by Customers



# Table of Contents

Customers as Partial Employees

## Self-Service Technologies

Psychological Factors in Customer Self-Service

What Aspects of SSTs Please or Annoy Customers?

Managing Customers Reluctance to Change

Conclusion

Chapter Summary

Review Questions

Application Exercises

Endnotes

## Chapter 9: Balancing Demand and Productive Capacity

### Fluctuations in Demand Threaten Profitability

Defining Productive Capacity

From Excess Demand to Excess Capacity

### Managing Capacity

Capacity Levels Can Sometimes Be Stretched or Shrunk

Adjusting Capacity to Match Demand

### Analyze Patterns of Demand

Demand Varies by Market Segment

Understanding Patterns of Demand

### Managing Demand

Marketing Mix Elements Can Be Used to Shape Demand Patterns

### Inventory Demand Through Waiting Lines and Queuing Systems

Waiting Is a Universal Phenomenon

Why Waiting Lines Occur

Managing Waiting Lines

Different Queue Configurations

Virtual Waits

Queuing Systems Can Be Tailored to Market Segments

### Customer Perceptions of Waiting Time

The Psychology of Waiting Time

### Inventory Demand Through Reservations Systems

Reservations Strategies Should Focus on Yield

Create Alternative Use for Otherwise Wasted Capacity

Effective Demand and Capacity Management Requires Information

Conclusion

Chapter Summary

Review Questions

Application Exercises

Endnotes

## Chapter 10: Crafting the Service Environment

### What is the Purpose of Service Environments?

Shape Customers Experiences and Behavior

For Image, Positioning, and Differentiation



# Table of Contents

The Servicescape as Part of the Value Proposition  
Facilitate the Service Encounter and Enhance Productivity

## The Theory Behind Consumer Responses to Service Environments

Feelings are a Key Driver of Customer Responses to Service Environments  
The Servicescapes Model: An Integrative Framework

## Dimensions of the Service Environment

The Effect of Ambient Conditions  
Spatial Layout and Functionality  
Signs, Symbols, and Artifacts  
People are Part of the Service Environment, Too

## Putting it All Together

Design with a Holistic View  
Design from a Customer's Perspective  
Tools to Guide Servicescape Design

## Conclusion

## Chapter Summary

## Review Questions

## Application Exercises

## Endnotes

## Chapter 11: Managing People for Service Advantage

### Service Employees are Crucially Important

Service Personnel as a Source of Customer Loyalty and Competitive Advantage  
The Frontline in Low-Contact Services

### Frontline Work is Difficult and Stressful

Boundary Spanning  
Sources of Conflict  
Emotional Labor  
Service Sweat Shops?

### Cycles of Failure, Mediocrity, and Success

The Cycle of Failure  
The Cycle of Mediocrity  
The Cycle of Success

### Human Resources Management: How to Get It Right

Hire the Right People  
Tools to Identify the Best Candidates  
Train Service Employees Actively  
Empower the Frontline  
Build High-Performance Service-Delivery Teams  
Motivate and Energize People  
The Role of Labor Unions

### Service Leadership and Culture

Internal Marketing

## Conclusion

## Chapter Summary

## Review Questions

# Table of Contents

Application Exercises

Endnotes

## Part IV: Implementing Profitable Service Strategies

### Chapter 12: Managing Relationships and Building Loyalty

#### The Search for Customer Loyalty

Why is Customer Loyalty Important to a Firm's Profitability?

Assessing the Value of a Loyal Customer

The Gap between Actual and Potential Customer Value

Why are Customers Loyal?

#### Understanding the Customer-Firm Relationship

Transactional Marketing

Relationship Marketing

Creating "Membership" Relationships

#### The Wheel of Loyalty

#### Building a Foundation for Loyalty

Targeting the Right Customers

Searching for Value, Not Just Volume

Managing the Customer Base through Effective Tiering of Service

Customer Satisfaction and Service Quality Are Prerequisites for Loyalty

#### Strategies for Developing Loyalty Bonds with Customers

Deepening the Relationship

Encouraging Loyalty through Financial and Nonfinancial Rewards

Building Higher-Level Bonds

#### Strategies for Reducing Customer Defections

Analyze Customer Defections and Monitor Declining Accounts

Address Key Churn Drivers

Implement Effective Complaint Handling and Service Recovery Procedures

Increase Switching Costs

#### CRM: Customer Relationship Management

Common Objectives of CRM Systems

What Does a Comprehensive CRM Strategy Encompass?

Common Failures in CRM Implementation

How to Get CRM Implementation Right

Conclusion

Chapter Summary

Review Questions

Application Exercises

Endnotes

### Chapter 13: Complaint Handling and Service Recovery

#### Customer Complaining Behavior

Customer Response Options to Service Failures

Understanding Customer Complaining Behavior

What Do Customers Expect Once They Have Made a Complaint?

#### Customer Responses to Effective Service Recovery

# Table of Contents

Impact of Effective Service Recovery on Customer Loyalty

The Service Recovery Paradox

## Principles of Effective Service Recovery Systems

Make It Easy for Customers to Give Feedback

Enable Effective Service Recovery

How Generous Should Compensation Be?

Dealing with Complaining Customers

## Service Guarantees

The Power of Service Guarantees

How to Design Service Guarantees

Is Full Satisfaction the Best You Can Guarantee?

Is It Always Appropriate to Introduce a Service Guarantee?

## Discouraging Abuse and Opportunistic Customer Behavior

Seven Types of Jaycustomers

Consequences of Dysfunctional Customer Behavior

Dealing with Consumer Fraud

## Conclusion

## Chapter Summary

## Review Questions

## Application Exercises

## Endnotes

## Chapter 14: Improving Service Quality and Productivity

### Integrating Service Quality and Productivity Strategies

Service Quality, Productivity, and Marketing

### What is Service Quality?

Different Perspectives of Service Quality

Dimensions of Service Quality

### Identifying and Correcting Service Quality Problems

The Gaps Model in Service Design and Delivery

Core Strategies to Address Gaps in Service Quality

### Measuring and Improving Service Quality

Soft and Hard Service Quality Measures

### Learning from Customer Feedback

Key Objectives of Effective Customer Feedback Systems

Use a Mix of Customer Feedback Collection Tools

Analysis, Reporting, and Dissemination of Customer Feedback

### Hard Measures of Service Quality

### Tools to Analyze and Address Service Quality Problems

Root Cause Analysis: The Fishbone Diagram

Pareto Analysis

Blueprinting A Powerful Tool for Identifying Fail Points

Return on Quality

### Defining and Measuring Productivity

Defining Productivity in a Service Context

Measuring Productivity

# Table of Contents

Service Productivity, Efficiency, and Effectiveness

## Improving Service Productivity

Generic Productivity Improvement Strategies

Customer-Driven Approaches to Improve Productivity

How Productivity Improvements Impact Quality and Value

Conclusion

Chapter Summary

Review Questions

Application Exercises

Appendix 14.1: Measuring Service Quality Using Servqual

Appendix 14.2: Measuring Service Quality in Online Environments

Appendix 14.3: Systematic Approaches to Quality and Productivity Improvement and Process Standardization

## Chapter 15: Striving for Service Leadership

### The Service-Profit Chain

Important Links in the Service-Profit Chain

Getting the Service-Profit Chain Right Creates Shareholder Value

### Integrating Marketing, Operations, and Human Resources

How Are Marketing, Operations, and Human Resources Linked?

Do We Need Additional Skill Sets Besides Marketing, Operations, and Human Resources?

Integrating Functional Areas in Service Firms

### Creating a Leading Service Organization

From Losers to Leaders: Four Levels of Service Performance

Moving to a Higher Level of Performance

Leading Change Toward a Higher Performance Level

### In Search of Human Leadership

Individual Leadership Qualities

Role Modeling Desired Behavior

Leadership, Culture, and Climate

Conclusion

Chapter Summary

Review Questions

Application Exercises

Endnotes

Case 1: Sullivan Ford Auto World

Case 2: Four Customers in Search of Solutions

Case 3: Dr. Beckett's Dental Office

Case 4: Banyan Tree Hotels & Resorts

Case 5: Giordano: Positioning for International Expansion

Case 6: Distribution at American Airlines

Case 7: The Accra Beach Hotel: Block Booking of Capacity During a Peak Period

## **Table of Contents**

Case 8: Revenue Management of Gondolas: Maintaining the Balance Between Tradition and Revenue

Case 9: Aussie Pooch Mobile

Case 10: Shouldice Hospital Limited (Abridged)

Case 11: Red Lobster

Case 12: Menton Bank

Case 13: Dr. Mahalee Goes to London: Global Client Management

Case 14: Hilton HHonors Worldwide: Loyalty Wars

Case 15: Massachusetts Audubon Society

Case 16: TLContact: CarePages Service (A)

Case 17: The Accellion Service Guarantee

Case 18: Starbucks: Delivering Customer Service

Glossary of Service Marketing and Management Terms

Credits

Name Index

Subject Index