

# SOME THEORITICAL CONSIDERATIONS IN MARKETING OF SERVICES

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## ABSTRACT

*Despite the fact that in most countries today the service sector has become important little attention has been paid to the marketing of services by marketing authorities. Marketing courses and even the marketing discipline itself are heavily biased towards the marketing of physical goods. Literature on marketing has invariably always stressed that marketing applies to both goods and services but have tended to focus primarily on marketing of goods alone. This article begins with a review of the various definitions of services and examines their characteristics from a general and from a marketing point of view. It also highlights the differences in the marketing of goods and services and suggests some new and modified concepts for service marketing.*

### Introduction

Both goods and services fall in the general category of products. A product can be defined as a complex of tangible and intangible attributes and retailer's prestige which the buyer may accept as offering satisfaction of wants or needs. Kotler, (1991) one of the authorities in the field of marketing, defined a product as "anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need."<sup>1</sup> The idea behind this definition is that the buyer is acquiring a want satisfaction rather than a set of chemical, physical and psychological attributes. The physical good is a tangible economic good which is identifiable when you can feel, move, taste, smell, drive, live in or use it to produce components for other goods.

Defining and understanding services is a more difficult and complex task for the issue is to try to deal with what is meant by the term services and their essential characteristics.

Ruthmell (1985) defines a service as any intangible product purchased and sold in the market place. According to this definition the nature of the buyer or seller does not have any effect provided that a market transaction occurs. This definition does not seem correct as it does

not cover all services. Gas for example while can be smelled, electricity can be touched. The American Marketing Association on the other hand defines services as, activities, benefits or satisfactions which are offered for sale or are provided in connection with the sale of goods. This definition, although improved is not complete. Kotler (1991) offers a better definition by defining a service as "any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything..."<sup>2</sup> Buell (1986) argues that even this definition is not complete because ownership alone is not adequate for a precise definition of services. Buying meat, in the market place for example assumes ownership; but doesn't eating the same meat in a restaurant assume ownership too?

The review of the above definitions shows that no matter how precise and careful the definitions are, since the issue at hand concerns immutable physical characteristics there must be some exceptions and grey areas. Furthermore, it is apparent that in those definitions, intangible benefits independent from other goods or services e.g. insurance and intangible activities requiring support of tangible goods e.g. house rental and intangible activities purchased jointly with goods or other intangible activities e.g. credit, are also

included which makes the problem of finding a precise definition of services even more difficult. This paper is divided into four sections. Apart from the introduction of the paper, section two discusses some essential marketing characteristics of services. In section three, the paper focuses its analysis on whether or not services are different and in the final section are the concluding remarks.

### General Characteristics of Services

The concept of services becomes clearer if we examine four basic characteristics of services i.e intangibility, inseparability, heterogeneity and perishability.

The intangibility of services refers to the fact that the buyer cannot taste, feel, see, hear, or smell services. Shostack (1977) argues that services are doubly intangible, that is, they are impalpable (they cannot be touched) as well as they cannot be grasped mentally. The other characteristic of services is that they are inseparable.

This means that services often cannot be separated from the person of the seller and also often services are produced (offered or created) and marketed or consumed simultaneously. For a service to exist there must be a direct relationship between the service provider and the client. Production is not possible without the client and consumption or use is not possible without the seller. Services are heterogeneous - meaning that there are different varieties of them ranging from diverse activities such as fast food and medical care. Also as services are intangible, it is very difficult to standardise their quality and output levels. For example hair-dressers create basically the same service but their quality varies and even for the same seller it is difficult to control his quality. Consider for example the car industry and the car repair industry in particular - all repair jobs a car mechanic does are not of equal quality. Another linked problem here is the difficulty of judging the quality of something intangible.

Finally, services are said to be perishable: This means that most services can not be stored, for long. Empty seats in an aeroplane or idle repairmen in a garage all represent business lost for ever. The problem that many service firms face (because of their high perishable nature) becomes more serious when the firm is faced with seasonal and fluctuating demand which must be met with fixed capacity, and without inventories and buffer stocks. Even these basic characteristics it has been argued by Shostack (1977) are not unique to services and they can be applied in some form to the marketing of goods as well. In section 2.1 the paper focuses its analysis on marketing characteristics of services.

### Marketing characteristics of Services

Focussing more specifically now at the marketing characteristics of services the following factors have been singled out either from theoretical research or from the empirical observation in the market place. Service prices are usually quoted in terms of rates, fees, charges, admission, tuition, and interest. In most services the buyer is a client rather than a customer. The client puts himself in the hands of the service providing firm, he/she is not free to use the service as he/she wishes and often he/she must follow rules and instruction. Student in a college, a passenger in the train are examples showing how customers are dependent on the service firms rules. Similarly service firms tend to be highly differentiated in terms of marketing system. Marketing system of a hairdresser, are for instance distinctive from those of a hospital, electricity company or a recreational facility.

Since a service is an act or process, it is normally offered and consumed simultaneously and it cannot be stored. Thus, there can be very few (if any) middlemen involved and direct selling through salesmen or agents is widely used. The economic nature of certain services can be questioned as they compete for the consumer's money. Consider for instance non-profit educational institutions, funds for charities and religious bodies. All these services compete for consumer's money. In some services a more

formal or professional approach to their marketing has been observed. Services of banks, legal services and education services the normally provided by a body of professionals. Mass production of services is rare and also maintaining consistent standards of performance and quality is very difficult. However, in recent years with the help of technology some service firms are able to standardize output and move towards mass production. This trend is likely to increase in the near future mainly at the expense of personalised service. Pricing procedures vary substantially within the service sector. Take the case of rates and charges from for instance electricity, transportation, telephone and those applying to highly qualified doctors. The pricing of these services may differ significantly in these sectors. Most of the fringe benefits provided by the employers to their employees tend to take the form of services. If they are provided internally by the employer, e.g. pension schemes, medical care, the seller and his employees are his market segment. If the services are provided externally e.g. unemployment benefits etc. the employer is acting as an agent of a service providing organisation. As there is no possession of services, symbolism and satisfaction derives to a great extent from performance.

In situation that demand the provision of care service e.g. hotel beds, this is usually supported and improved by the provision of a group of peripheral services. Peripheral services in the case of a hotel may be a restaurant, bar, room service or laundry facilities. Services need long term research to forecast tastes and could take as long as 10 years. This is a very difficult task mainly because of the intangibility characteristic of services. Changing a service or developing a new one obviously means communicating it to the client in the same way as with goods. In addition, the change or the development of a new service must be communicated to the organisation itself and usually staff retraining is required. The demand for most services tends to be inelastic. Increasing the premium on motor insurance for example would not necessarily lead to an increase in the quality of insurance demanded. The use of

traditional marketing mix components to shift the demand for a service may create problems. For example, advertising for some services is not allowed and for others price is subject to constraints as is the case in some professional services and railway services.

In contrast with goods, if a service has been performed well then it will not be purchased again. For example Rentokill services that are aimed at terminating destructive insects in a house hold, once performed well will take a long time before such services are demanded again.

The image of a service firm and the word of mouth are very important variables in marketing services. Opinion leaders play an important role in marketing services. A good is produced, sold and then consumed. A service is sold first, produced and later consumed simultaneously. As most services are paid for after they have been produced, the seller is much more dependent on the good faith of the buyer because a service cannot be repossessed and possession cannot be maintained until payment has been made. Services as a rule cannot be purchased and then resold. Since services cannot be owned, there can be no pride or status of possession. The pride or status is derived from the reputation of the seller. For example, the status of a B.A degree taken at Oxford University in England and that obtained at the University of Dar es Salaam in Tanzania could be different depending on the reputations of the two universities. Likewise, services tend to be purchased from rational rather than emotional motives and tend to be purchased after planned rather than impulse purchasing decisions.

Services are either completely uniform (e.g. electricity services) or unique to match the individual needs of each client. Similarly, services are rarely bought by a person for consumption by another person. They tend to be personalized. But heterogeneity of services calls for quite varied promotional media. In many cases a very high price is perceived by the customer as an indication of high quality.

Local and state regulation is more common in services than in goods. Because of the seller-buyer interaction, the sale and purchase of services tends to be localized. The marketing of goods means meeting existing need with a suitable good or create a need or desire (that might lead to purchase) and then meet this need in the same way. Goods however, could be produced even though need is not there. Goods could be purchased even though they are not needed immediately and sometimes irrespective of their quality. In contrast a need must always exist first and then a service can be provided and for many service firms the need must be met with quality performance if the service firm is to remain in business.

A service is an act requiring the interaction of a number of things including; physical environment, service, personnel and a client. The client is actively involved in the process and most of the time it is impossible to separate him/her from the production process. Thus, the delivery system of the service must either go to the client or bring the client to it. That implies (taking into account the lack of patent protection) good market locations, multisite operations, and many relatively small service firms (excluding utilities) operating in highly competitive industries. The physical setting (e.g. furniture and decoration) can influence the clients perception of the service firm and its quality. In contrast with goods where product differentiation is the basis for competitive strategies, in a service firm it is difficult to differentiate its offerings.

In relation to services clients have attitudes, behaviour and evaluation different to those they have in relation to goods. For example, clients must have confidence in the service firm before they buy a service. However, clients cannot try a service before they buy it. Thus, the search process is more difficult and takes a long time. It is more difficult to build clientele. A service is hazy in the clients' mind hence it is very difficult for a client to assess it. A service calls for different psychological involvements, that is, the client seeks personalised relations

effectively, being known and recognised. Brand Loyalty is greater for goods than service. But because the client develops habits and great effort is needed in order to change a service, sophisticated means for finding clients are used by service firms and the notion of a captive service clientele is widely accepted. On the other hand those habits create barriers to change and innovation of services as consumers don't want changes. This calls for studying the client's propensity to cooperate.

### **In marketing : Can services be differentiated?**

Authors who have dealt with marketing of services support the idea that the characteristics of services makes them different from physical goods in one way or another. In addition authors are also divided into those who believe that although services are different they should not be marketed in different ways and conventional marketing methods are equally good for goods and services.

Rathmell (1966) does not make it clear whether services are different or not. The author asks the same question and believes that any comprehensive approach to the study of services marketing must begin at the conceptual level. Sasser (1976), on the other hand argues that services differ from goods because of their immediacy, that is, for example airline seats must be empty when the customers want to fly, hotel rooms must be available when people are checking in. The major problem (or key to success) service firms are faced with is how to match their demand and supply given a fixed capacity.

Kotler (1991) argues that fundamentally there is no difference between goods and service marketing. At the same time however, significant differences often do exist between goods marketing planning, strategies and tactics often must be different, so the marketing of services does deserve separate attention. Services possess distinctive characteristics. These characteristics often call for marketing programs which are quite

different from those used in goods marketing. Rathmell (1966) maintains that services have characteristics which differentiate them from goods. The service product is different, the reasons for buying services are different, the means of selling them are different thus, it follows that the marketing of services is sufficiently different from the marketing of goods and therefore needs special consideration. Wilson supports the idea that services have nothing to do with goods and if we use in service marketing methods and techniques used in goods marketing the probable result will be failure. Shostack (1977) argues that services and goods are not all intangible or tangible but there can be tangible or intangible dominant, the distinguishing factor being the degree of dominance. She also recognises a lack of suitable techniques and concepts for services and she suggests that new concepts are needed, if service marketing is to succeed.

Differences also exist in terms of the "consumer benefit concept" (that is, the true nature of a good or service can only be perceived by the customer in terms of a bundle of functional affectual and psychological attributes). For a goods producing firm these attributes can be implemented via the physical good and the image of advertising. For a service firm these attributes cannot be provided by a physical good but by the service delivery system instead.<sup>3</sup> A service firm cannot exist without the service delivery system. The service level is the qualitative and quantitative measure of the utility given to the client. In services, this can only be measured by the client whereas in goods the manufacturer has at least some control (e.g. goods leaving the factory). In terms of quality control the service firm has little control since a service is judged by the client and standard quality output cannot be prearranged and measured.

Wyckham, Fitzroy and Mandry (1977) argue that the goods versus services taxonomy is weak and so can be the associated statements regarding precise tactics and strategies based only on this taxonomy. They suggest that separating goods from services on the basis of the distinct

characteristics of services is not applicable, difficult to sustain and could be dysfunctional. To prove this they examined the four characteristics of services, namely heterogeneity, intangibility, inseparability and perishability, and they found out that they are not unique to services and that they can also apply to goods. Instead they argue, we should consider both goods and services as offerings and/or sets of need satisfiers e.g. intrinsic needs, social, psychological, ownership etc. Differences in need satisfaction and characteristics of goods and services as offerings appears to be a better taxonomy, they argue. These differences manifest themselves in service marketing strategy e.g. formal contracts designed to give assurance that the need satisfaction offered will be delivered.

They propose a new multidimensional taxonomy of consumer offerings which differentiates not just on the basis of the characteristics of goods and services but also includes market characteristics. We must look at and understand services as offerings in order for this taxonomy to be operational. Thus, a theory of service marketing could develop based not on goods versus services distinction but on an understanding of the interaction of services offerings and market characteristics. The paper considers this in section 3.1.

### *The Marketing Mix of Services*

The marketing manager has five weapons in his set of strategies which enable her/him to market (profitably) the products or services of his/her company or firm. These include:- **M a r k e t** analysis and market planning, product development, promotion, distribution and pricing. In the following section the paper deals with on analysis of how these five variables can be used successfully in the marketing of services.

As the focus of the discussion hinges on services that are intangible, the task of determining the marketing mix ingredients for a total marketing program in a service firm is perhaps more difficult and it requires more skill than is true in goods producing firms. However, procedural considerations, involved in market analysis and planning are essentially the same

for a goods and for a services firm. The only difference being the degree of emphasis on various market and customer psychological determinants of buying behaviour including market segmentation, attitudes and perception.

**Marketing Analysis and Market Planning.**

Considerations, procedures and analysis of markets are almost the same for a goods or

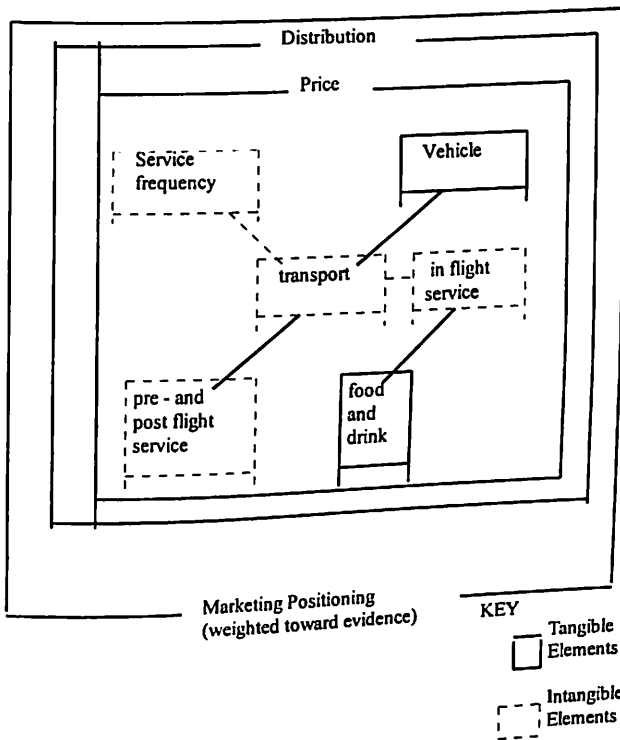
positioning to reach that segment can equally be adopted by goods and service offering firms.

**Product Development**

A good is produced whereas a service is performed. Further- more, the performance of a service depends on the buyer as well as the seller, (the extent of dependency varies with the service).

DIAGRAM 1: THE MOLECULAR MODEL

Airlines



Source: Shostack, G. L. "Breaking Free From Product Marketing" in Journal of Marketing, April 1977 p. 78.

services firm. Factors including population characteristics, income distribution, buying patterns, social class structure and reference groups, are as pertinent in the marketing of services as in goods marketing. The same market segmentation and the use of appropriate marketing strategies such as advertising and

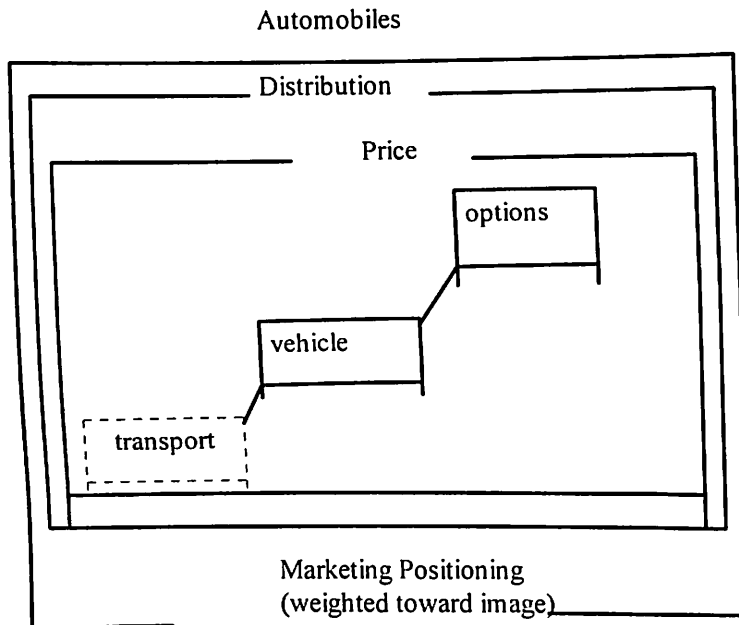
Hence the control of planning and developing of a service does not rest solely on the service offering firm. New services happen as a result of an idea, vision, hard work, entrepreneurship and willingness to risk. Many constraints including limited financial and manpower resources, and government regulations prevent services from

indulging into organised service product planning and development. Although it is true that few Research and Development (R & D) departments exist in the service sector, marketing techniques such as exploration, screening, business analysis product development, testing and commercialisation apply to services as well as products. Unfortunately planning and development in the service industry has been a neglected activity in the majority of services until recently and it is still ignored in too many cases, mainly because of lack of marketing orientation of the service firms.

Shostack (1977) starts from the basis that there is really neither a pure service nor a pure good but facilitating goods to a service or facilitating services to a good (e.g. airlines) and developed a molecular model (diagram 1). This model offers opportunities for visualisation and management of a "total market entity". The model entity will be partly tangible and partly intangible and the visualisation will show their interrelation and the dominance of either service or physical goods.

In the airline example, food, drink and the aircraft are the tangible parts of the airline product while there is a dominance of such intangible elements of transport, service, comfort etc. In the automobile example, the tangible elements predominate.

Diagram 2: THE MOLECULAR MODEL



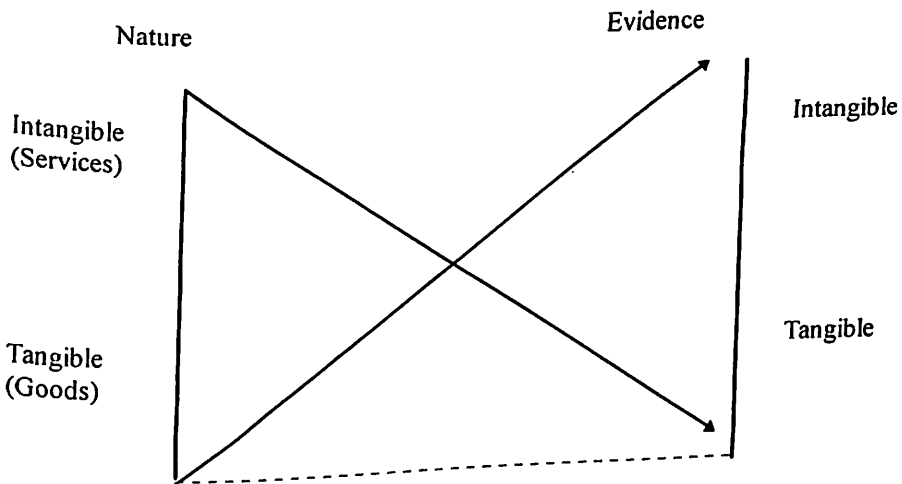
Source: Shostack, G. L. "Breaking Free From Product Marketing" in *Journal of Marketing*, April 1977 p. 78

**Promotion:**

No distinction need to be made between the promotion of goods and promotion of services. They are equally relevant to both. But because of the intangibility of the services, buyer-seller dependability, simultaneous production and consumption and other characteristics of services, the promotion of services is focused on fewer promotional methods and it is less extensive. The promotion of services differs from the promotion of goods rather in terms of objectives than in significance and quantity. Since brands are not used widely and brand loyalty cannot be depended upon, personal selling is of high importance in the promotion of services mainly because of the greater interaction between sellers and buyers. Thus, good quality of salesmen and careful training is required. Advertising is also used although the motions and appeals to be communicated may vary in the service sector. Doctors, lawyers and insurance agents, may participate in welfare and community affairs in order to bring their names in front of the public and gain valuable publicity. Publicity is very important for some services like travel, entertainment, spectators sports etc, and in fact in many cases publicity is the most important and senior communications tool with advertising being a subsidiary activity. The promotional goals of a service can be summarised into two categories viz; (a) To exhibit the benefits desired from a service either by promoting the facilitating goods and services and not the core service itself (e.g. airlines) or by putting across a very simple idea which receives universal approbation and (b) to build a good image and reputation of the service firm by stressing quality of performance.

In diagram 3 below a conceptualization of the theoretical promotion aspects of goods and services is made by examining the nature of the product and the promotional evidence required to sell it successfully.

**Diagram 3      The Product; its nature and evidence:**



Source: Michelides, H: Lecture notes on Marketing of Services at Mim Cyprus April, 1994.



Goods which are of tangible nature must be promoted using intangible evidence such as fantasies, imagination, love and happiness. Cosmetics for example are being promoted as offering youth and making people beautiful. A camera is promoted as something giving you lasting memories of holidays, happiness, or any other memorable activity.

Services on the other hand which are of intangible nature have to be promoted using tangible evidence. Thus an insurance sale can be made easier if the client sees an actual contract, visits the offices of the company and generally sees evidence of what the customer is buying. A packaged holiday in Tanzania should not be promoted by stressing only beauty, history and hospitality of the people but by showing high quality finished hotels, good roads, good beaches, wildlife and reliable aircraft.

#### ***Distribution:***

Distribution or location (i.e. the distribution of people and facilities prepared to perform services) and delivery or channel (ie the network designed to deliver services to the client) are equally relevant to the services. Some characteristics of services (e.g. it is easier to postpone the purchase of a service or discard a planned purchase completely) make the location of services a very critical and important marketing element because services which are not appropriately located may not be performed at all. If services cannot be delivered to the client, then the seller should select a convenient and accessible location where there is maximum customer traffic. This is very true in the case of small and independently owned services e.g. hotels, restaurants etc. For some services however, where the use of middlemen, branches, agents, brokers etc. is possible, location of the head-office is not material at all. Nevertheless, the inability of many service firms, to use middlemen to a great extent, limits the geographic market of services.

It is true and often stated that services are marketed through shorter channels than goods. The trend is either direct selling or use of one middleman mainly because in many instances the service cannot be separated from the seller.

#### ***Pricing:***

Pricing of services calls for greater creativity, skill and imagination than the pricing of goods. Basically the methods of price determination for services are the same as those for goods. However, service firms do not use pricing as a direct short-term strategy to generate sales. Public regulation, strong ethical consideration, inelastic demand, lack of knowledge of pricing methods by numerous performance oriented small service firms and the existence of non-profit service organisations limit the adoption of pricing strategies of varying degrees. It is more difficult to establish a price for service than prices for goods because of the difficulty to measure the exact time and cost spent on the production of services and also because of the difficulty in the allocation of overheads. This explains partly the reason why prices of the same service can vary considerably. The same methods for pricing goods could be used in the service sector. These are either cost oriented or market oriented and they are not mutually exclusive. Thus, combinations are often used. Prices for some services are however set using goods sector methods whereas others appear to be set through techniques unique to services. Also some pricing methods used in the goods sector have limited application in the pricing of services.

Price determination is of crucial importance in services because of the discretionary nature of clients. Mark downs loss leaders, discounts, special offers etc. are not widely used in the service sector. Prices based on the cost of services, on a desired return on investment (ROI), on the competition and on demand are also used in services. Follow the price leader policy, variable price policy, and one-price to all under certain conditions are also used in services. Nevertheless, whether the attempt to adapt prices of service to methods and techniques which originated in the goods sector is appropriate can be questioned and, is a question that future research on this subject may concentrate on.

### Concluding remarks

Most of the literature tries to establish actual differences between goods and services and upon these findings the existence or not of differences in their marketing is established. However, little effort has been made to examine their difference in marketing applications instead concentration has been on marketing management terms.

Some authors argue that there are differences between services marketing and goods marketing. While others do not see significant differences between them. There are however some characteristics that distinguish services from goods but generalizations must not be made. There can always be exceptions to every rule or definition thus, every case should receive separate attention and treatment. For some services conventional marketing methods can be employed as they exist or with some degree of modification, emphasizing and focusing on some aspects and defocusing on others. For some other services, we cannot use conventional marketing methods and either quite modified or new concepts have to be used. As some services are close to physical goods and it is difficult to draw a line between goods and services and the problem is one of definition. There are several definitions, classifications and ways of looking at services. Thus, before concluding as to whether there are any differences between the marketing of goods and services, a way must first be found and agreed upon on definition and classification of services. Having done this then an analysis of the marketing of services has to be made. This is what this paper has attempted to do.

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### NOTES

- 1 See Kotler, P. (1991) p.429
- 2 Kotler, P. (1991) P. 455
- 3 Delivery system is the process that creates and delivers the product simultaneously to the client.