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THE MARKETING OF SERVICES: WHY AND HOW IS IT DIFFERENT?

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Summary:

This paper points out 4 key differences between products and services and presents a set of 13 propositions concerning the marketing implications of these differences. The propositions represent an effort to "pull together" many of the useful but fragmented notions about service marketing.
THE MARKETING OF SERVICES: WHY AND

HOW IS IT DIFFERENT?

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A review of the literature in marketing reveals that a fair amount of attention has been given to the marketing of services. The material has offered some useful insights into particular differences between products and services, and the special marketing considerations. The major shortcoming of the existing knowledge is that there has been little comprehensive discussion of the conceptual underpinnings, except by Eiglier and Langeard (1977). Various writings on service marketing have focused on capacity problems in services (Sasser 1976; Lovelock and Young 1977), promotional problems related to intangible market offerings (Shostack 1977), distribution problems (Donnelly 1976; Rathmell 1974; Stern and El-Ansary 1977), and how to deal with the particular marketing problems of particular service industries such as legal and accounting services (Kotler and Connor 1977), banking (Rathmell 1974; Wilson 1972), health services (Rathmell 1974; Zaltman and Vertinsky, 1971), and retail services in general (Juud 1968; George 1977).

These papers have made some useful, if fragmented, contributions. However few of them have been based on sufficiently comprehensive theoretical foundations and a strong definitional base that clearly delineates between products and services. As a result, notions about service differences and the resulting marketing implications reflect considerable disagreement (see, for example, Bonoma and Mills 1979; Wyckham, Fitzroy and Mandry 1975) and fragmentation.

Purpose

The purpose of this paper is to (a) identify and classify the major differences that exist between products and services, and (b) suggest a
set of propositions for service marketing that reflect the implications of these differences. The ultimate objective of this paper is to provide a basis for the development of additional theories and research that will contribute to a better understanding and more effective management of service marketing.

A Definition of Services

To facilitate exposition of these issues, a definition of services is offered. In addition, a discussion of criteria used to delineate between services and products is provided.

Two fairly broad definitions of services have been suggested dealing specifically with the intangibility of services. Juud (1964) defines a service as the object of a transaction which does not entail the transfer of ownership of a tangible commodity. Rathmell (1974) defines a service as an intangible product bought and sold in the marketplace. Although neither of these definitions wrongfully characterize services, a more comprehensive definition is needed for further discussion. This definition emphasizes a number of the unique aspects of services which makes them different from products.

A service is any task or work performed for another and/or the provision of any facility, product, or activity for another's use and not ownership which arises from an exchange transaction. It is intangible and is, therefore, incapable of being stored or transported. It can be recalled for further use only through enacting an additional exchange transaction. There may be an accompanying sale of a product.

Meaning of Terms

Task or work means physical labor like repairing a car, cutting hair or driving a bus. It also includes mental efforts such as the thought put into a case by physician, accountant or attorney.
Provision of a facility could be the rental of a house, a motel room or admission to a swimming pool or amusement park.

Provision of a product could be the rental of a power saw, a car or a computer.

Provision of an activity could be the right to view a sporting event, an opera or to receive instruction at a university.

Use and not ownership means an activity or a tangible object is available, with restricted use rights, to the buyer, but only for duration specified in the exchange transaction. Further use calls for an additional exchange transaction.

Intangible means lacking physical properties. Services cannot be touched or felt. Some services, however, are translated in a tangible form—for example, a tax return or a consultant's report represent services. The services themselves are intangible. Electricity and natural gas have commonly been misclassified as services. They are tangible. They are products.

Incapable of being stored or transported indicates that the user of a service is a recipient only as it is being produced. For example, a barber or a hotel has capacity to provide haircuts or lodging, but actually provide the services only as hair is being cut or someone has use of the room. This means services cannot be stored.

Furthermore, the unused capacity of a service producer is lost forever. It cannot be recalled for use at some later time. Empty hotel rooms, seats on an airline flight, in a barber shop, or at an opera, or unused hours of an accountant's time cannot be stored and recalled for use in future periods of peak demand. Because services are intangible and cannot be stored they cannot be produced and then transported.

Intertwining of Services and Products

The total market offering to a customer often contains a service as well as a product component. In fact, few services occur without the use or sale of products and vice versa. The market offerings are usually classified as products when the major component of the "total product" is a tangible, corporeal good. They are classified as services when the major component is intangible or noncorporeal.

Shostack (1977) has suggested a "molecular" model to aid in classifying market offerings as products or services. Shostack notes that classifying a market offering as a product or a service depends on the degree to which
the ownership of tangible or corporeal goods is transferred from buyer to seller. A purchase of a package of salt in a grocery store is an example of a transaction where the exchange is almost totally dominated by a tangible object. In contrast, an airline flight is almost totally devoid of any exchange of products (except food and drinks).

Such a distinction, while not necessary to delineate services, can be useful to help managers decide whether to market a particular offering as a service, a product, or as a hybrid mixture. Perhaps it will clarify that natural gas, water, and electricity are really products but are sufficiently intertwined with service components that in some situations they are best marketed as services.

Propositions for the Marketing of Services

The remainder of the paper focuses on the marketing meaning of four major differences between products and services. These differences relate to (1) tangibility; (2) ability to be stored; (3) ability to be transported, and (4) ability to be mass-marketed. A set of propositions is offered relating these differences to the special marketing efforts required to effectively market services.

Managing Intangibility

Marketers of services and products both attempt through their marketing strategies to attract the attention of prospective users, suggest the nature and the quality of their offerings, and provide support or evidence that benefits will be forthcoming. Product marketing, because of the presence of tangible products and the need to identify products to customers, focuses on the products and their unique superior features. Product features are spotlighted. They provide evidence to customers that benefits will be forthcoming.
Service marketers have no tangible service features to spotlight. In contrast, service marketing needs to first and foremost establish the tangible capabilities to offer services. With this in place, the intangible services and their benefits can effectively be presented. Shostack (1977) has referred to such efforts as the "management of evidence". Others have alluded to the need for service firms to establish an image by substituting an emphasis on tangible aspects such as physical setting and contact personnel for the lack of tangible product features (Eiglier and Langeard 1977). This leads to the first general proposition.

Proposition 1: In the marketing of services, tangible production capabilities are of major importance in attracting the attention of prospective users, suggesting the quality and the nature of the services, and providing support or evidence that benefits will be forthcoming.

Different services and situations appear to call for the focus of marketing on different capabilities. Services like data processing, air travel, car and equipment rental, and lodging are dominated by physical facilities or equipment. The rendering of these services involves people, but the bulk of the service is based on the organizations' facilities or equipment.

Professional services such as dental and medical treatment and legal and accounting advice are dominated by people. This is also true for insurance, barbering, and advertising services. Some facilities and equipment are involved, but the services are heavily people centered.

Banks, savings and loans associations and other financial organizations have yet another orientation. They, like issuers of insurance, are obligated to their customers for large financial payments. These are all organizations that depend on being entrusted with other peoples' savings or financial well-being. This set of observations leads to a second
general proposition.

Proposition 2: Three principal production capabilities are available to service organizations to attract customers. They are: facilities and equipment, people, and financial stability-ability.

Initially it might seem that facilities and equipment intensive service organizations would build their marketing programs around their facility or equipment capabilities. This should be the case, however, only when they can secure and maintain unique, superior facilities or equipment not possessed by their competitors. A few airlines took this action, for example, when they secured the extra long range 747 aircrafts. Hilton and Hyatt can do this when they first build new advance designed and equipped hotels. However, equipment advantages are not available to such service organizations as Hertz and Budget.

A pattern appears to be present among facility and equipment intensive services. Sequential stages are frequently followed. First, marketing strategies are built around superior facilities or equipment capabilities as these advantages are available. Second, as comparable facilities or equipment become more common among competitors, the marketing effort evolves to focus more on the ability of people to interact with the facilities and equipment to provide, in combination, a set of unique and desired capabilities and benefits. Finally, when no unique superior facilities and equipment capabilities remain, the focus is on the organizations' people and their capabilities to provide benefits. These observations lead to the third proposition.

Proposition 3: In the marketing of facility or equipment intensive services--

a. facilities/equipment capabilities are featured when uniquely superior facilities or equipment are present.

b. person-facilities/equipment interaction capabilities are featured when the major facilities/equipment are less unique, but still not commonly available.
c. people or organization capabilities are featured when facilities/equipment capabilities are common among the competitive service suppliers.

People intensive services—professional, personal and business—frequently involve extensive and expensive equipment. However, the major marketing strategies appear to be built around the key people in the organizations. This seems to be common both in the acquisition of new clients and the expansion of additional services to present clients. It seems true when professional traditions and ethics involve the use of centers of influence. It also appears common of personal and business services which make extensive use of more visible promotional media.

Impressive facilities, equipment and prestigious locations also appear to be used to help market people intensive services. Quite prominent are well appointed reception areas, open chart rooms and libraries, sumptuous offices, certificates of degrees and awards, and other accouterments. They seem to be present to provide tangible cues about the capabilities of the people and their organizations. For instance, as part of the Bank of America's early efforts to attract small depositors and borrowers, loan officers' offices were placed in an open area rather than behind closed doors. This more open and friendly atmosphere set the tone for the interior design of many banks. These observations suggest a fourth proposition.

Proposition 4: In the marketing of people intensive services, major attention is focused on the producers, their capabilities (experience and training), and the immediate environment that can convey cues as to their successes.

Marketing strategies for organizations that depend on being entrusted with other peoples' savings or financial well-being involve establishing financial stability-ability capabilities. This includes such organizations as banks and savings and loan associations. Also included are issuers of
insurance and other organizations which are obligated for large financial payments to their customers. They typically appear to emphasize their financial stability--ability capabilities by focusing attention on balance sheets, financial size, worldwide operations, years of existence and continued growth. Large and prestigious home office buildings seem to be used in reinforcing roles. For example, not very subtle is promotion such as that used by the Prudential Company--"The Rock." These types of organizations, when they are people intensive, also appear to emphasize their people capabilities once the matter of financial ability/stability is established. These observations lead to a fifth proposition.

Proposition 5: Organizations that market financial intensive services whereby they are entrusted with other peoples' savings or future financial well-being, focus initial major marketing attention on their financial stability-ability capabilities.

Implications of the Inability to Store Services
Managing Supply Without Storage Capability

A second major difference between products and services is ability to store. Products, being tangible, can be stored with perishability being largely a function of use and age. Services cannot be stored for any length of time. They are consumed when and where they are produced. Haircuts, appendectomies, motel lodgings, travel, live entertainment -- none of these, nor any other service, can be produced one year and consumed the next. As has been pointed out by others, this total lack of storage capability creates the need for a more exacting match between supply and demand for services than for products (Sasser 1976). The following example will, hopefully, further illustrate this point.

A typical automobile dealer markets both cars and maintenance and repair services. Because of storage, a 25 percent over or under - order
of cars usually can be met without serious consequences. Cars not sold one week can be sold the next. Furthermore, although a larger inventory causes some increase in costs, the larger selection aids sales. This over-supply situation also can be remedied by transporting cars to other dealers. When demand exceeds supply dealers can purchase additional cars being stored by other dealers or by the manufacturer.

A 25 percent over or undercapacity in maintenance-repair services, however, can greatly impair profitability. Service capacity not used one week cannot be stored and used in weeks where demand exceeds capacity. Service capacity, unlike automobiles, is not easily transported to other dealers experiencing higher levels of demand. This overcapacity is idle capacity and adds to costs and not revenues. It also is more difficult (at least in the short term) to obtain additional service capacity (e.g. equipment, facilities and trained personnel) when demand exceeds supply than to acquire additional automobiles (i.e., assuming that the entire industry is not experiencing product shortages).

Many car dealers have put their best management on the more glamorous and possibly more profitable product side, but still poorly manage the difficult service side of the business. Not surprisingly, they have traditionally made money on car sales and lost money on maintenance and repair services. This leads us to Proposition 7.

Proposition 7: In the marketing of services, close coordination of production capacity with market stimulation and demand is used to offset problems caused by the inability to store services.

How, then, do or should service firms attempt to achieve the close coordination of supply (i.e. service capacity) and demand necessitated by the inability to store services? Coordination of supply and demand may involve adjustments to supply, demand or both. Proposition 8 suggests
which supply-adjusting mechanisms seem to be most popular for services.

Proposition 8: The management of short run production capabilities for services is largely a function of flow-through rates, service postponements, facility extensions and shared capacities.

Some service organizations can quickly alter their supply up and down. Others face more fixed supply situations in the short run. In any case, the altering of supply to match demand has traditionally been accomplished through a number of methods. Reduction in the time spent servicing individual customers (i.e., increasing flow-through rates) is one means of increasing the amount of customers a facility can handle. Restaurants may accomplish this by faster and more attentive service.

Service firms can, of course, add capacity such as temporary help or rental equipment in peak periods. Capacity also can be expanded by merely extending the hours of operation of the firm to times that seem to be more convenient for certain customer segments. One dental partnership doubled its patient volume by employing two shifts extending from early morning to 7:30 in the evening (Smith 1976). Some service needs, not requiring immediate attention can be postponed until later periods when demand has slackened. Accounting firms handle tax preparation at tax time and work on estate and tax planning between May and January.

Apart from traditional demand-stimulation activities, another increasingly used method of extending service capacity is to ask the consumer to assume more responsibility in the purchase of the service. Self-service gasoline stations, automated cafeterias and automated bank tellers are prime examples of attempts to substitute the consumer's effort for the effort of a salaried employee. This substitution enables the service firm to reduce their labor force or divert it to other activities. It also provides
benefits to the consumer such as more flexible service times or lower prices. However, it is obvious that not all customer segments will be willing to increase their own input in the acquisition of a service.

Service firms also can overcome over or underutilization of capacity by sharing capacity with other firms. Airlines share gates, ramps and baggage handling equipment, personnel and even airplanes with other airlines (Sasser 1976). Firms may share computer time with other firms.

Matching Demand to Level of Supply

The other means of equating demand and supply is to alter demand to match supply. Many of the demand-adjusting mechanisms used by service firms (e.g. pricing up or down) are identical to those used by product firms. However, some methods are fairly unique and their use arguably more important given the more severe problems of under or over capacity in services. This leads us to Proposition 9.

Proposition 9: The management of short run demand for services is largely a function of pricing, promotion, inhouse alternative services, and demand deflecting activities.

Peak-load pricing is one of the most familiar means of demand management. Low prices at slack periods and high prices at peak periods have been used extensively by resort hotels, telephone companies, movie theaters and airlines. Promotions such as double-stamp days, free parking days and bat days also have been used to bolster demand in slack time. Ski resorts alter their prices and service mix and offer golf, tennis, horseback riding and even grass skiing to attract customers in nonwinter months.

Such demand-adjusting mechanisms work well when buyers are price sensitive, have consumption time flexibilities and do not perceive time differences in provision of the service as quality differences. However,
such mechanisms are not effective demand adjusters for medical services, roadside repair and burial services. Also, they may not be effective if buyers perceive no additional benefits from purchasing services during slack times. A lack of perceived quality differences caused problems for a cargo airline attempting to fill empty cargo space by offering lower rates for 2nd and 3rd day deliveries. Because the airline had over-capacity even with the promotion, much of the increased load was delivered on the first day. Shippers were quick to discover this and shifted most of their shipments to the lower-priced alternatives. The company experienced increased sales volume but lower profits (Sasser 1976).

The use of advertising without sales promotion has been used by the U.S. Post Office to get people to mail early at Christmas time. The Internal Revenue Service urges people to file early to lessen their peak load in April. These efforts and others have had impressive results in increasing the productivity of the respective services involved (Lovelock and Young 1977).

Many service firms have adjusted demand by offering in-house alternatives for the heavily demanded service. Many fast food restaurants with limited seating capacity have added drive-up windows or home delivery services. One resort solved a problem of overcrowded tennis facilities in peak hours by diverting guests to surfing, sailing and other activities while they were waiting for tennis courts (Sasser 1976).

Many service firms manage demand through appointment scheduling or reservations. Certain times, are, of course, "left open" for emergency needs such as occur for medical services. Some service firms also offer standby or walk-in services to take more customers should existing appointments or reservations fail to fully utilize existing capacity or when "no
shows" may be a problem.

Altering the timing of demand for services not only helps the service provider (i.e. in terms of better utilization of capacity and fewer lost customers due to lack of capacity or crowded facilities), but also may have a favorable impact on the consumer. Consumers receive more and better attention when service providers are in more favorable circumstances to provide that attention.

Implications of the Inability to Transport Services

Products, can be produced in one or more places and then transported to middlemen or final consumers for sale. Services, being intangible, cannot be produced in one place and then transported to another. For most all services, either the consumer must go to the production facility or the production facility brought to the consumer. The latter situation is exemplified by the ability of lawyers, accountants and sports teams or performers to be transported to where they are needed.

This inability to be transported has implications for the location of service outlets and the marketing and production functions performed at those outlets. However, the effects of lack of transportability are mediated by the "convenience" or "nonconvenience" nature of the service.

As with convenience products, consumers are less willing to travel long distances or spend a great degree of search time for such convenience services as hair care, some banking services, dry cleaning, minor repair services, car washes and fast food service. This suggests that the distribution of such services be intensive -- i.e., that the service be provided in numerous localities. As with convenience products, there are a large number of retail service outlets for convenience services. However, unlike
a retailer selling products, the service retailer — whether owned independently or by a parent service firm — must promote and produce the service being offered. Because of the inability to transport services, intermediaries in service channels cannot take title to an already-produced service, store it and then offer it for resale. This leads us to Proposition 10.

Proposition 10: Convenience-type services require the presence of numerous market oriented facilities that combine both marketing and production activities.

Not all services face the requirement for numerous local service outlets combining production and promotional activities. Nonconvenience-type services — i.e. those that are not purchased frequently and, for which, consumers are willing to spend considerably more search and/or travel time (as compared to convenience-type services) — can utilize more centralized production facilities. Customers are willing to travel considerable distance to reach such nonconvenience services as long-distance air travel, professional theater, and highly specialized professional services.

Since the actual production facilities for nonconvenience services are located long distances from most customers, the use of brokers and agents (e.g., travel agents or doctors) to promote, schedule, and negotiate the sale of such services is more common. Obviously, customers are less willing to travel long distances for a service without some prior indication that they will be able to obtain it.

Some nonconvenience services such as life insurance, stock brokering and some legal services may be produced at locations far from the consumer and may not require local agents. Through the use of mail or telephone, customers for these services can convey the necessary information for the service provider to act upon. Furthermore, the capability to provide
nonconvenience services can be transported. Firefighters, auditors, and consultants regularly provide on-site assistance. This leads us to the following proposition concerning nonconvenience services.

Proposition 11: Non-convenience type services facilities can be located at considerable distances from intended customers because: (1) the services can be sold through the use of market located sales offices, salespersons, telephone or mail activities, (2) customers will seek more pre-purchase information, (3) customers will travel considerable distances for the service, and/or (4) the service capability can be transported to the customer.

Limitations on the Ability to Mass Market Services

Organizations can mass market products because centralized production, which allows for production economies and product quality control, is possible due to storage and transportation. Because services are intangible and cannot be stored or transported, there are limits on the ability to mass market services -- i.e. mass produce the service and promote it on a mass basis.

The necessity for numerous local production facilities for convenience-type service reduces opportunities for economies of mass production. Just as important, it increases the difficulty of producing services of uniform quality -- which is necessary for successful branding, advertising and other mass marketing activities. There is little occasion to gain meaningful economies of mass production. However, uniform quality can be achieved through the use of tightly controlled franchise, partnership, or chain ownership arrangements. Thus, mass marketing can be used. The prerequisite for meaningful mass marketing of convenience-type services are noted in the following proposition.

Proposition 12: Organizations can mass market convenience-type services (without meaningful economies of mass production) when organizational and control methods can be used to knit
numerous market oriented production-marketing facilities together in such ways to: (1) install and maintain a uniform quality of services, (2) identify individual service outlets as members of the larger group, and (3) engage in and gain the economic benefits of large scale advertising and other mass marketing activities.

Many of the economies of both mass production and mass marketing can be attained when services can be provided through centralized production facilities. However, this is typically limited to two types of non-convenience-type services. First, are services for which people will journey long distances. Second are services that are not dependent on the physical coming together of customers and the production facilities. Illustrative of the former services are major league sports entertainment, amusement such as that offered by Disney World, and specialized medical services. Illustrative of the latter kind of services are some types of insurance. These observations lead to the last proposition.

Proposition 13: Organizations can mass market nonconvenience type services, with some meaningful economics of mass production, when: (1) they can attract large numbers of customers to their production facilities or (2) the services are not dependent on the physical coming together of the service customer and the production facility.

Summary

This paper has suggested that services as compared to products possess the following four unique characteristics.

1. Services are intangible.
2. Because services are intangible they cannot be stored.
3. Because services are intangible they cannot be transported.
4. Because services are intangible and cannot be stored or transported there are limits on the ability to mass market services.

In the form of propositions, the marketing implications of each of these characteristics were outlined.
Suggestions for Further Study

This paper has attempted to show that there are major differences between products and services and that these differences do lead to differences in marketing. However, the propositions for service marketing just discussed are only propositions. Accordingly, they need to be subjected to empirical testing and rigorous thought by scholars and practitioners. Several of the propositions seem amenable to hypothesis formulation and empirical testing. Others may be best verified by extensive observations of actual service marketing strategies with case by case support or rejection noting exceptions and reasons for those exceptions. Of course, the mere fact that many firms are observed to be using a strategy does not mean that they should be using that strategy. Clearly more propositions are needed, some of which might be specific to particular types of services such as public accounting, legal services, transportation services, etc.

Fundamental research which focuses on the tangible cues consumers use when evaluating services is very limited (for exceptions see Anderson, Cox and Fulcher 1976; Sarkar and Saleh 1974). In order to do such research, however, standard research techniques which involve asking consumers direct questions about the attributes they look to most in evaluating a service may not be adequate. Indirect measures (e.g. projective techniques) may be required to uncover decision criteria that consumers are unable or unwilling to articulate.

There also is a need for consumer research dealing with the acceptability or effectiveness of various demand-adjusting activities by service firms. The appropriateness and effectiveness of peak/load pricing, promotions and in-house alternative services is certainly contingent on the type of service and service customers involved. Research-based models
relating the type of service and/or market segments to the appropriateness of individual demand management tactics would be useful. Similar efforts also could be made with respect to the appropriateness/effectiveness of efforts to alter short-run supply to meet demand. For instance, for some types of services, efforts to get the consumer to put forth greater effort may backfire. The use of such efforts should be based on a firm understanding of consumer behavior in terms of the benefits sought in the purchase of a particular service.

It is hoped that this paper has furthered the argument that service marketing is different from product marketing. While many of the differences and implications of these differences involve differences of degree rather than kind, they are important differences. It is also hoped that this attempt to integrate existing knowledge as to the implications of these differences and to develop a set of general principles for service marketing will help persons interested in service marketing to organize their thinking and experiences. Such a result should, in turn, lead to better theory and practice concerning the marketing of services.
REFERENCES


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