

## Chapter 2 The Nature of Services

### **TEACHING NOTE**

The chapter begins by answering the question “why study services” with a discussion of the distinctive characteristics of service operations that provides an opportunity to motivate students by reflecting on their own personal experiences. Then non-ownership character of services follows with a classification that includes examples and management challenges. The question of “what a service is” is answered with the service package. Grouping services by delivery process is captured by the "service process matrix." Classifying services for strategic insight provides views of service that can be used to create competitive advantage. Service-dominant logic is an alternative paradigm to the traditional goods-centered view of value creation. The open systems view of service management represents a departure from the traditional role of the operations management found in manufacturing.

### **SUPPLEMENTARY MATERIALS**

James L. Heskett, "Lessons in the Service Sector", *Harvard Business Review*, March-April 1987, pp. 118-129.

This is a classic article articulating the need to integrate marketing and operations to achieve excellence in services. The author formulates a strategic service vision that is both internally directed (employees) and externally directed (customers).

Case: Scandinavian Airlines System SAS (A)

Jan Carlzon led a remarkable turn-around of SAS with the dual goals of improving service and cutting costs by targeting business travelers. The reorganization, focusing on the "moments of truth" in the service process, involved redeployment of aircraft, a new marketing emphasis, empowerment of front-line workers, and rewarding initiatives in the service of customers. Having achieved the "First Wave," management is faced with the challenge to consolidate gains and avoid the return of complacency.

Case: Willow Creek Community Church (HBS Case 9-691-102)

Case describes the historic evolution and current positioning of a Christian church that focuses on the attraction of “unchurched” individuals. This case describes the church’s strategic service vision and its current growth and leadership problems.

### **LECTURE OUTLINE**

#### I. Distinctive Characteristics of Services (Table 2.1)

Customer participation in the service process

Simultaneity

Perishability

Intangibility

Heterogeneity

Non-ownership Characteristic of Services (Table 2.2)

II. The Service Package (Figure 2.1 and Table 2.3)

III. Grouping Services by Delivery Process (Figure 2.2 and Figure 2.3)

IV. Classifying Services for Strategic Insights

Nature of the Service Act (Figure 2.4)

Relationship with Customers (Figure 2.5)

Customization and Judgement (Figure 2.6)

Nature of Demand and Supply (Figure 2.7)

Method of Service Delivery (Figure 2.8)

VI. Service-Dominant Logic (Table 2.4)

V. An Open Systems View of Services (Figure 2.9)

## **TOPICS FOR DISCUSSION**

1. *What are the characteristics of services that will be most appropriate for Internet delivery?*

- Physical presence not necessary
- Privacy and anonymity valued
- Information or expert advice valued
- Customization facilitated by coproduction
- Internet delivery viewed as more convenient than physical alternative

2. *When does the collection of information from service membership become an invasion of privacy?*

Customers may provide information to a service provider as part of the process of obtaining the desired service. When that initial provider passes on such information to other organizations for its own purposes, the customer's privacy may be compromised. In some cases, the customer may benefit, e.g., when he or she expresses an interest in a particular activity, and that information is then "passed along" to a company that provides a service or good related to that interest. But, in other cases, the information provided by customers may be used unethically to take unfair advantage. In general, any private information about the customer, including finances, spending habits, personal habits and interests, that is used without the customer's knowledge or consent can be construed as an invasion of the customer's privacy.

3. *What are some of the management problems associated with allowing service employees to exercise judgment in meeting customer needs?*

Some consistency and, therefore, perceived quality of service may be lost when different employees handle situations in different ways. Much more training of customer contact personnel is required to develop their decision-making skills and to provide them with the confidence to use their own judgment. Service personnel also need to be trained in the limits of the service that should be provided.

4. *Illustrate the "distinctive characteristics of service operations" for a service with which you are familiar.*

#### **Nursing home example**

Customer participation in the service process Some ways in which the client can influence the service process include being either cooperative or uncooperative and providing some self-care. One component of a nursing home's quality is the degree to which it recognizes individual differences in the clients' abilities to participate in the service process.

Simultaneity In nursing homes, this means that round-the-clock staffing is necessary.

Perishability Unfortunately, this means that highly trained professionals (such as physicians) are seldom available for patient care, because their expensive services are not needed a large proportion of the time. The property of time perishable capacity also gives rise to scheduling problems. For example, a nursing home policy may say that each client will be bathed each morning. In order to accomplish this goal it may be necessary to begin the baths at 4:00 a.m. so that they will all be finished by noon.

Intangibility Nursing homes are regulated because their clients often are not in a position to judge the quality of a home before they enter it and usually have difficulty changing homes if the services they receive are unsatisfactory.

Heterogeneity Every patient is an individual with unique patient care requirements. As a result of the difficulty of measuring acceptable care, for example, Texas regulatory agencies only recently have formulated widely accepted standards for the quality of care in nursing homes.

5. *What factors are important for a manager to consider when attempting to enhance a service organization's image?*

First, the manager must define the service package. Because workers interact with the customers, the staff must be in tune with this service package as well as versed in the appropriate methods of dealing with the customer. This can be accomplished through continuous on-the-job training, special training programs, standard operating procedures, specific job descriptions, and establishing responsibility for doing the job. Once the training program is in motion, the manager must receive feedback on the workers' performances. This may be possible through direct observation, complaints from consumers, or a formal audit. The implicit service feature is particularly important to the organization's image. For example, customer waiting definitely affects the image of the organization. The waiting room should be aesthetically designed with sufficient seating, and appropriate diversions should be provided so that the time will pass more pleasantly. Pictures, magazines, music, and possibly videocassettes of interesting facts about the organization could be provided.

6. *Critique the "Distinctive Characteristics of Service Operations" by arguing that the characteristics of customer participation, simultaneity, perishability, intangibility, and heterogeneity, may apply to goods as well.*

The following analysis is based upon the article "The Four Service Marketing Myths: Remnants of a Goods-Based, Manufacturing Model," *Journal of Service Research*, 6, no. 4, (May 2004), pp. 324-335 by Stephen L. Largo and Robert F. Lusch. Note how the arguments are a precursor of Service-Dominate Logic.

Customer participation in the service process This characteristic was not one of the original four unique characteristics of services offered by our colleagues in marketing. In taking a process perspective customer participation should be expanded beyond a physical presence in the process, for example, providing health history to a physician, investing savings in a bank, or intrusting ones automobile to a repair shop. Customer participation in the service delivery process is the hallmark of all services but could be found in collaborative product design in manufacturing. Interestingly the attempt to reduce customer-employee interaction through the promotion of self-service just reinforces the customer role as co-producer.

Simultaneity In an attempt to achieve manufacturing efficiencies, some services can decouple part of the delivery process from the customer. The typical example is auto repair that involves processing a customer's tangible possession in a factory setting not requiring the simultaneous presence of the customer. Most services such as restaurants, banks, and hotels have a front and back office operation with part of the service produced in the back office where customer demand can be batched and processed with manufacturing efficiency.

*Inseparability myth*

- The ability to tailor and customize goods to the customers' demands and preferences means that many goods also have that inseparability characteristic.
- The customer is also involved in the evolution of many tangible goods (e.g., automobile, houses, and personal computers). The customer's involvement in tailoring the good to meet his or her needs suggests that goods (like services) also have the inseparability characteristic.

Perishability The concept that services cannot be produced at one point in time, inventoried, and later sold upon demand lead to the concept of service perishability. However, service capability can be stored in systems, databases, knowledge, and people to be used when called upon. In fact, service capacity as measured, for example, in hotel rooms or airline seats is routinely referred to as inventory to be sold at a later date. Unlike manufacturing, service capacity is inventoried prior to production rather than after. Finally, when customers form a queue waiting for service, one might consider this an inventory of raw material.

*Perishability myth*

- Services are stored in systems, buildings, machine, knowledge, and people.
- Customers that participate in some service process acquire knowledge which represents part of the stored service's value.

Intangibility With few exceptions essentially all goods have a service component, whereas all services have some facilitating goods in the service package. Thus, goods and services can be placed on a continuum according to the relative degree of tangibility. For example, in the purchase of a home entertainment center the financing offered by the store is a service. On a domestic airline flight, passengers in coach are offered a drink and peanuts.

*Intangibility myth:*

- Most services processes involve some goods which implies that services have a tangible characteristic.
- The focus should be shifted from whether there is a tangible representation (or outcome) to the services and instead toward the satisfaction expressed by the customer, i.e., whether the service created value for the customer with the correct quality attributes.

Heterogeneity Process variability destroys efficiency and consistency in quality both in manufacturing and services. Standardization in services, such as limited menus at fast-food restaurants, is an attempt to reduce input

variability. In the medical field, standardization of procedures has a major impact on reducing infection and recurrence.

*Heterogeneity myth:*

- Although services and their qualities are usually perceived differently from customers that do not automatically mean that there cannot be homogeneous delivery of some services. In many cases the perceived heterogeneity is due to the customer's tailoring or quality perception rather than the delivery process. For example, the homogeneous delivery of a university lecture to all students.
- The homogeneous perception of quality due to customer preference idiosyncrasies (or due to customization) can also benefit goods manufacturers. For instance, computer manufacturers (e.g., Dell and Apple) allow customers to specify their options at purchase time resulting in just-in-time manufacturing of heterogeneous goods that meet the customers' needs.

## **INTERACTIVE CLASS EXERCISE**

*The class breaks into five groups and each group is assigned one of the service classifications (e.g., nature of act, relationship with customer, customization, nature of demand, or method of delivery) to come up with an example for each of the four quadrants in the matrix.*

One copy each of Figures 2.3, 2.4, 2.5, 2.6, and 2.7 should be prepared before class. During class, the figures are distributed randomly.

## **CASE: VILLAGE VOLVO**

### *1. Describe Village Volvo's service package.*

The following descriptions address the four elements of Village Volvo's service package: supporting facility, facilitating goods, explicit services, and implicit service.

Supporting facility The new Butler building with ample service bays (two bays per mechanic) and comfortable waiting room promotes the customer's positive perception of the organization. The suburban location could mean difficult access and the possible need for a shuttle.

Facilitating goods Specialized tools and an inventory of select auto parts are obvious items in this element.

Information The unique and possibly differentiating feature is the Custom Care Vehicle Dossier (CCVD), which serves as a powerful information tool for both mechanic and customer. The CCVD acts as a prompt to the customer to seek continuing service in a pattern (mileage or time). Analysis of customer patterns can assist Village Volvo in predicting demand and scheduling its operations to make full use of capacity.

Explicit services The two owners of Village Volvo are former authorized Volvo dealer mechanics and have 22 years of combined experience between them. They have earned a respected reputation and satisfied customer following. Service availability is enhanced by the use of "express times" when customers can come in and get quick, routine jobs done while they wait.

Implicit services The owners' attitudes and emphasis on customer satisfaction is illustrated by encouraging inspection of replaced parts. The policy of confirming work prior to commencement is essential to the customer's perception of reliability and participation in the service process.

### *2. How are the distinctive characteristics of a service firm illustrated by Village Volvo?*

Village Volvo exemplifies many characteristics of a service firm, one of which is that the inputs are the customers themselves. Listed below are the distinguishing characteristics of a service firm and the specific attributes of Village Volvo, which exemplify those characteristics.

### **Customer participation in the service process**

The client brings his or her car to Village Volvo for specific needs or routine services during scheduled times. There is continuous interaction between the client and the service manager and the assigned mechanic as evidenced by the discussion of problems and the test drive of the vehicle prior to the time when the repair work is done. Once the repair is complete, the client does the quality control inspection and is furnished with the worn parts.

### **Simultaneity**

For routine repairs, customers may wait in the attractively furnished waiting area. In most cases the customers drop off their vehicles early in the morning and return for pickup at the end of the day. This allows Village Volvo some latitude in scheduling the daily work. For repair services, production and consumption of the service need not occur simultaneously, because the service is performed on the customer's property, which can be inventoried.

### **Perishability**

Village Volvo is aware of this problem and has taken action to smooth demand, first by encouraging clients to make appointments for diagnosis and repair of specific problems and then by scheduling "drop in" times for Wednesday afternoon and Thursday morning. During peak hours, all mechanics are asked to deal with customers to reduce customer-waiting time.

### **Intangibility**

Most customers are unable to judge the quality of an automobile repair service and thus, reputation becomes very important. If Village Volvo did not have such a good reputation, it would be difficult to persuade customers to use the private garage rather than the dealership. Village Volvo tries to reduce this intangibility by providing customers with their worn out parts.

### **Heterogeneity**

Village Volvo is a service shop with the capability to handle a variety of auto repair problems. The mechanics treat each customer's problem individually by explaining to the customer exactly what has occurred and what will happen.

*3. Characterize Village Volvo in regard to the nature of the service act, the relationship with customers, customization and judgment, the nature of demand and supply, and the method of service delivery.*

- Car repair represents a tangible action performed on an object and therefore, is a service directed at a physical possession.
- By keeping a Custom Care Vehicle Dossier (CCVD) on customers' vehicles, Village Volvo is attempting to develop a "membership" relationship. The repair service itself is a discrete transaction, but sending reminders for routine maintenance gives the appearance of continuous monitoring.
- For routine maintenance (e.g., oil changes) customization and judgment are limited in scope. However, for major repairs the opposite is true.

- Demand for emergency auto repairs can vary considerably, but reservations for work is common and a loaner car can be provided for extended repairs. Routine maintenance can be scheduled to fill low demand periods.
- Village Volvo has a single site and requires customers to bring their cars (or have them towed) to the facility.

4. *How could Village Volvo manage its back office (i.e., repair operations) like a factory?*

After receiving the cars for repair at the beginning of the day, the scheduling of repairs can be planned in accordance with the availability of the mechanics and the promised delivery times. Thus, the back office can be run much like a manufacturing job shop. Routine work like brake pad replacement and minor tune-ups can be delegated to apprentice mechanics in order to achieve cost savings.

5. *How can Village Volvo differentiate itself from Volvo dealers?*

Dealers have traditionally neglected their service departments because more money was made in the sale of vehicles. The turnover of dealer mechanics has also been high because good mechanics leave to open their own shops such as Village Volvo. The appeal of the independent mechanic is the personal relationship and trust that develops between vehicle owner and mechanic. The Custom Care Vehicle Dossier is a method that Village Volvo uses to establish the customer's loyalty.

## **CASE: XPRESSO LUBE**

[Students Robert Ferrell, Greg Miller, Neil Orman, and Trent Reynolds prepared this analysis.]

1. *Describe Xpresso Lube's service package?*

- **Supporting facility:** Xpresso Lube has a fixed amount of operational capacity because it has a limited number of service lifts – two to be exact. Other components of its supporting facility are tools and equipment, an equipment storage area, a spacious waiting room, chairs, a service counter, street access and parking.
- **Facilitating goods:** oil, filters, auto parts, coffee, snacks, cups, napkins, sugar and milk.
- **Information:** for regular customers a reminder card could be sent for routine maintenance.
- **Explicit services:** a car with new oil and filter, maintenance checks of the car, and a cup of coffee.
- **Implicit services:** trust, a feeling of not “getting screwed,” a feeling of keeping the car maintained, the satisfaction that comes from taking care of one's car, the good feeling that comes from recycling the old oil, a caffeine lift, and the satisfaction of drinking good coffee while you wait.

2. *How are the distinctive characteristics of a service operation illustrated by Xpresso Lube?*

- **Customer Participation in the Service Process:** Customers bring their car to Xpresso Lube and wait for the oil change. Customers are invited to inspect the car while on the lift to observe other needed repairs.
- **Simultaneity:** Using the coffee shop as a pleasant diversion allows Xpresso Lube to partially reduce the need for immediately working on arriving cars. Providing a shuttle service to nearby University and State Capital would further allow scheduling oil changes.
- **Perishability:** the number of car lifts at the shop limits Xpresso Lube's capacity. This oil change business also owns an auto repair facility next door so the two businesses can deploy mechanics between them to best utilize labor capacity.

- **Intangibility:** When an oil change is done in a typical pit, the customer cannot actually see the process and, after the service, the car's performance probably will not be noticeably different. In this situation, customers rely on the word of the oil change service person. Xpresso Lube's car lift design allows customers to watch its service, which gives customers more assurance that their needs are being met.
- **Heterogeneity:** Different cars provide some variability in the oil change routine. Some customers even come for only the coffee.

3. *Characterize Xpresso Lube in regard to nature of the service act, relationship with customers, customization and judgment, nature of demand and supply, and method of service delivery.*

- Changing the oil is the primary function of Xpresso Lube. This is a tangible action performed on the car, but the secondary service is serving coffee, which recognizes the personal needs of the owners.
- Xpresso Lube's service relationships consist of discrete, one-time transactions, but the company's focus on fostering customer trust and a pleasant waiting environment might lead to more long-term customers.
- Fairly low customization is possible, but the accessibility of the service area and the mechanics can lead to customization opportunities if there are problems with the cars.
- There is a significant demand fluctuation based on the obvious convenience of having the work performed after work or during the weekend. This peaked demand pattern can easily exceed Xpresso Lube's capacity. But Xpresso Lube's service environment encourages people to accept longer waits and, by providing transportation, it enables customers to drop off their cars in the morning and retrieve them later in the day. The supply of the service cannot be altered very easily, given the company's fixed number of two carports and lifts.

4. *What elements of Xpresso Lube's location contribute to its success?*

Xpresso Lube is located on the main thoroughfare leading to the University of Texas and thus provides excellent visibility. The immediate business area is a bustling and diverse that attracts a broad spectrum of visitors. It's also an area where customers don't mind waiting because they can walk to a variety of popular shops (e.g., Wheatville Co-Op and Half-Priced Books).

5. *Given the example of Xpresso Lube, what other services could be combined to "add value" for the customer?*

Many examples exist in today's business environment. One common service combination is selling concessions – candy, popcorn or beer, for example – with showing movies, sports events or concerts. Others include the combination of bookstores and coffeehouses, gaming activities such as pool or bowling with alcohol sales and prepared food (e.g., Dave & Busters), fast food and gasoline (e.g., Exxon and McDonald's).

All of these combinations support one another and marry related customer needs. In the case of gas and hamburgers, for example, customers are in a hurry and the service combination provides them additional reasons to stop. Other examples take advantage of unfilled waiting time. By locating in a shopping mall, a one-hour eyeglass store provides its customers something to do while they wait for their glasses (i.e., shop at other mall stores).

## **CHAPTER QUIZ QUESTIONS**

True/False

1. Just as the lessons and techniques from agriculture were applied to manufacturing the same is true with the application of factory techniques to service organization. (F)



2. The fact that the role of the service manager is viewed from an open-system perspective implies that the environment can be ignored safely in dealing with service systems. (F)
3. The consumer participates in the service process, which is not the case in manufacturing. (T)
4. The classification of service systems using the "service process matrix" is based on two considerations: degree of labor intensity, and the degree of service customization. (T)
5. From an open-systems view, the output of a service system consists of satisfied customers. (T)
6. The main difficulty with services is that the product is intangible, and in many cases it is not even identifiable as any one particular aspect of the service package. (T)
7. A study of service systems must begin with the fundamental idea that the basic inputs are supporting facility, facilitating goods, labor, and capital. The output is the service offered. (F)
8. In contrast to manufacturing, the aesthetics of the environment play a major role in the customer's perception of the service. (T)
9. The fact that services can be inventoried is an important characteristic, which distinguishes them from manufacturing. (F)
10. Reduction of the role played by the consumer is an effective way of improving productivity and decreasing the cost of the service. (F)
11. Services are time-perishable. An opportunity to provide a service, if forgone, is lost forever. (T)
12. In one respect, manufacturing and services are alike, i.e., both can suffer from technological obsolescence. (T)
13. The fact that services are labor intensive ensures that the service is fair and equal for all customers. (F)
14. From a marketing perspective, services, unlike goods, involve transfer of ownership. (F)
15. It is convenient and often necessary to combine the operations and marketing functions for service organizations. (T)
16. Sharing service resources among customers presents a challenge for managers. (T)
17. Little or no interaction between customer and service provider is required when the service is customized (F)
18. Personnel training is a criterion for evaluating the explicit services feature of the service package. (T)
19. In services, opportunities for quality control intervention are increased due to simultaneous production and consumption. (F)
20. Marketing helps smooth demand to match capacity in service operations. (T)
21. Service-dominant logic is the foundation of "service science." (T)
22. The heart of service science is the transfer and sharing of resources within and among service systems. (T)

#### Multiple Choice

1. The service package consists of five features. Which one of the features listed below is not included in the package?
  - a. Explicit services
  - b. Supporting facility
  - c. Information
  - d. Cost of service\*

2. The major input into a large public hospital from a service point of view would be:
- a. physicians' services.
  - b. patients.\*
  - c. nursing services.
  - d. federal reimbursement (Medicare/Medicaid).
3. Which of the following is not true of services?
- a. The customer is the input.
  - b. The customer takes an active part in the service.
  - c. A service can be inventoried.\*
  - d. Production and consumption occur simultaneously.
4. Which of the following is not a type of service in the non-ownership classification?
- a. Goods rental
  - b. Information\*
  - c. Labor and expertise
  - d. Network usage
5. The service process matrix classification consists of four categories of services. Which one of the four features listed below is not included in this classification?
- a. Service factory
  - b. Service shop
  - c. Public service\*
  - d. Professional service
6. Which service offering is best described by the following service mix: a high degree of customer interaction and a high degree of labor intensity?
- a. Public university
  - b. Cruise ship
  - c. Plumbing repair
  - d. Chiropractor\*
7. Transactional analysis refers to:
- a. accounting entries.
  - b. counting customers served.
  - c. measuring change in customers from input to output.\*
  - d. measuring the activity of contact personnel.
8. An empty airline seat or hotel room not occupied best illustrates the characteristic of a service's
- a. time perishability.\*

- b. labor intensity.
  - c. intangibility.
  - d. simultaneous production and consumption.
9. Which type of service falls under the category of "high labor/low customization?"
- a. Service factory
  - b. Service shop
  - c. Mass service\*
  - d. Professional service
10. Which one of the following is not a classification scheme for strategic service insight?
- a. Nature of the service act
  - b. Relationship with customers
  - c. Method of service delivery
  - d. Degree of interaction and customization\*
11. Which of the following is not a challenge for a manager of a high labor-intensive service?
- a. Scheduling service delivery.\*
  - b. Controlling services in far-flung locations.
  - c. Methods development and control.
  - d. Managing growth.
12. A hospital is an example of a service processes that has
- a. high degree of labor intensity and low degree of customization.
  - b. low degree of labor intensity and low degree of customization.
  - c. high degree of labor intensity and high degree of customization.
  - d. low degree of labor intensity and high degree of customization.\*
13. Capital decisions, technological advances, and managing demand are some managerial challenges for a
- a. service factory. \*
  - b. service shop.
  - c. mass service.
  - d. professional service.
14. Which among the following strategies is used by fast-food restaurants to reduce costs?
- a. Increase advertising via the Internet.
  - b. Allowing the customer to play an active part in the service process. \*

- c. Increase prices.
  - d. Increasing menu items to cater to varying tastes.
15. \_\_\_\_\_ and \_\_\_\_\_ are among many of the unique characteristics of services that are interrelated
- a. Inventory stockout, time
  - b. Supply, demand
  - c. Customer participation, perishability \*
  - d. Capacity, time
16. Gaining employee loyalty is a managerial challenge that would most likely be associated with which type of industry?
- a. retailing
  - b. hospitals
  - c. airlines
  - d. consulting \*
17. The presence of a friendly desk clerk in a budget hotel is an example of which of the four features of a service package?
- a. supporting facility
  - b. facilitating goods
  - c. explicit services
  - d. implicit services \*
18. Which of the following is not included in the criteria for evaluating facilitating goods?
- a. facility layout \*
  - b. selection
  - c. consistency
  - d. quantity
19. Distinctive characteristics of service operations include which of the following?
- a. customer participation and perishability
  - b. intangibility and heterogeneity
  - c. (a) and (b) \*
  - d. none of the above
20. \_\_\_\_\_ is a foundation premise of Service-Dominant Logic
- a. The customer is always right
  - b. Only post-industrial economies are service economies

- c. Goods are distribution mechanisms for service provision\*
- d. Money is the fundamental basis of exchange

21. What type of service industry is high in judgment exercised by customer contact personnel and low in customization?

- a.college food service \*
- b.professional services
- c.telephone services
- d.fast-food restaurant