

Ninth Edition

# SERVICES MARKETING

People    Technology    Strategy



Jochen Wirtz  
Christopher Lovelock

# SERVICES MARKETING

People, Technology, Strategy

*Services Marketing: People, Technology, Strategy* is the ninth edition of the globally leading textbook for Services Marketing by Jochen Wirtz and Christopher Lovelock, extensively updated to feature the latest academic research, industry trends, and technology, social media and case examples.

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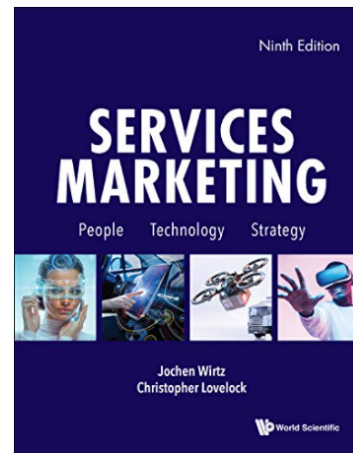


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## About the Authors



**Jochen Wirtz** is Vice Dean MBA Programmes and Professor of Marketing at the National University of Singapore (NUS). He is also an international fellow of the Service Research Center at Karlstad University, Sweden, an Academic Scholar at the Cornell Institute for Healthy Futures (CIHF) at Cornell University, USA, and a Global Faculty of the Center for Services Leadership (CSL) at Arizona State University, USA. Previously, Professor Wirtz was the founding director of the dual degree UCLA–NUS Executive MBA Program from 2002 to 2014, an Associate Fellow at the Saïd Business School, University of Oxford from 2008 to 2013, and a founding member of the NUS Teaching Academy (the NUS think tank on education matters) from 2009 to 2015.

Professor Wirtz holds a PhD in services marketing from London Business School. His research focuses on services marketing and has been published in over 300 academic articles, book chapters, and industry reports. He is an author of more than 20 books, including *Services Marketing — People, Technology, Strategy* (World Scientific, 9<sup>th</sup> edition, 2022) and *Essentials of Services Marketing* (Prentice Hall, 4<sup>th</sup> edition, 2022), which have become two of the world's leading services marketing textbooks, translated and adapted for more than 26 countries and regions, and with combined sales of some 1 million copies. His other books include *Intelligent Automation: Learn How to Harness Artificial Intelligence to Boost Business & Make Our World More Human* (2021) and *Winning in Service Markets* (World Scientific, 2017).

In recognition of his excellence in teaching and research, Professor Wirtz has received more than 50 awards, including the prestigious Christopher Lovelock Career Contributions to the Services Discipline Award in 2019 (the highest recognition of the American Marketing Association (AMA) service community), the Academy of Marketing Science (AMS) 2012 Outstanding Marketing Teacher Award (the highest recognition of teaching excellence of AMS globally), and the top university-level Outstanding Educator Award at NUS. He was also the winner of the inaugural Outstanding Service Researcher Award 2010, and the Best Practical Implications Award 2009, both by Emerald Group Publications. He serves on the editorial review boards of more than 10 academic journals, including the *Journal of Service Management*, *Journal of Service Research*, and *Cornell Hospitality Quar-*

*terly*. Professor Wirtz hosted the American Marketing Association's Frontiers in Services Conference in 2019 and the SERVSIG Conference in 2005.

Professor Wirtz has been an active management consultant, working with international consulting firms including Accenture, Arthur D. Little, and KPMG, and major service firms in the areas of strategy, business development, and customer feedback systems. He has been involved in a number of start-ups including Accellion (Accellion.com; exit in 2020) and TranscribeMe (TranscribeMe.com). Originally from Germany, Professor Wirtz spent 7 years in London before moving to Asia. Today, he shuttles between Asia, the United States, and Europe. For further information, see [JochenWirtz.com](http://JochenWirtz.com).



The late **Christopher Lovelock** was one of the pioneers of services marketing. He consulted and gave seminars and workshops for managers all around the world, with a particular focus on strategic planning in services and managing the customer experience.

He obtained a BCom and an MA in economics from the University of Edinburgh, an MBA from Harvard, and a PhD from Stanford. Professor Lovelock's distinguished academic career included 11 years on the faculty of Harvard Business School, and 2 years as a visiting professor at IMD in Switzerland. He has also held faculty appointments at Berkeley, Stanford, and the Sloan School at Massachusetts Institute of Technology (MIT), as well as visiting professorships at INSEAD in France and the University of Queensland in Australia. He was the author of more than 60 articles, 100 teaching cases, and 27 books. Widely acknowledged as a thought leader in services, Professor Lovelock was honored by the American Marketing Association's (AMA) prestigious Award for Career Contributions in the Services Discipline. This award has been renamed the Christopher Lovelock Career Contributions to the Services Discipline Award in his honor. His article with Evert Gummesson "Whither Services Marketing? In Search of a New Paradigm and Fresh Perspectives" won the AMA's Best Services Article Award in 2005. Earlier, he received a best article award from the *Journal of Marketing*. Recognized many times for excellence in case writing, he had twice won top honors in the *Business Week's* "European Case of the Year" Award.

## Preface

Services dominate the expanding world economy like never before, and technology continues to evolve in dramatic ways. Established industries and their often famous and old companies decline, and may even disappear, as new business models and industries emerge. Competitive activity is fierce. This book has been written in response to the global transformation of our economies to services. Clearly, the skills in marketing and managing services have never been more important!

Creating and marketing value in today's increasingly service and knowledge-intensive economy requires an understanding of the powerful design and packaging of "intangible" benefits and products, high-quality service operations and enabling technologies, motivated and competent frontline employees, a loyal and profitable customer base, and the development and implementation of a coherent service strategy to transform these assets into improved business performance. This textbook provides this knowledge. Specifically, its main objectives are to:

1. Provide an appreciation and understanding of the unique challenges inherent in the marketing, management, and delivery of service excellence at a profit. Readers are introduced to and have the opportunity to work with tools and strategies that address these challenges.
2. Develop an understanding of the "state of the art" services marketing and management thinking.
3. Promote a customer service-oriented mindset.

As the field of services marketing has evolved, so too has this book, with each successive edition representing a significant revision over its predecessor. The new ninth edition is no exception. You can be confident that it captures the reality of today's world, incorporates recent academic and managerial thinking, and illustrates cutting-edge service concepts.

Preparing this new edition has been an exciting challenge. Services marketing, once a tiny academic niche championed by just a handful of pioneering professors, has become a thriving area of activity for both research and teaching. There's growing student interest in taking courses in this field, which makes good sense from a career standpoint as most business school graduates will be going to work in service industries.

## WHAT'S NEW IN THIS EDITION?

The ninth edition represents a significant revision. Its contents reflect ongoing developments in the service economy, dramatic developments in technology, and new research findings.

### New Topics, New Research

- Each of the 15 chapters has been revised. All chapters incorporate **new examples** and the **latest academic research**.
- Key topics have **Master Class Videos** linked to the respective chapters that are accessible via QR codes.
- New **applications of technology** are integrated throughout the text, ranging from service robots, artificial intelligence (AI), and intelligent automation (IA), to peer-to-peer sharing platforms and digital business models.
- Chapter 3 "Positioning Services in Competitive Markets" has a new section on digital services and platform business models.
- Chapter 4 "Developing Service Products and Brands" has now a tighter focus on productizing services, an expanded section on branding of services, and a new section on service design thinking.
- Chapter 8 "Designing Service Processes" has a new in-depth coverage of service robots and AI-powered self-service technologies (SSTs).
- Chapter 14 "Improving Service Quality and Productivity" features a heavily revised section on customer feedback systems and collection tools to reflect the rapid development of automated rating systems, user-generated content on review sites and third-party (social) media, and their analysis using natural language processing, image processing, and other technologies.
- Chapter 15 "Building a World-Class Service Organization" features new sections on the strategic pathways toward achieving cost-effective service excellence and the Wallet Allocation Rule.

## WHAT TYPES OF COURSES CAN THIS BOOK BE USED?

This text is designed for advanced undergraduates, MBA, and EMBA students. *Services Marketing* places marketing issues within a broader general management context. The book will appeal to both full-time students headed for a career in management and EMBA and executive program participants who are combining their studies with ongoing work in managerial positions.

Whatever a manager's specific job may be, we argue that he or she has to understand and acknowledge the close ties that link the functions of marketing, human resources, operations, and information technology. With that in mind, we've designed this book so that instructors can make selective use of chapters and cases to teach courses of different lengths and formats in either services marketing or service management.

## WHAT ARE THE BOOK'S DISTINGUISHING FEATURES?

Key features of this highly readable book include:

- A **strongly managerial perspective**, yet it is **rooted in solid academic research**, complemented by memorable frameworks. Our goal is to bridge the all-too-frequent gap between theory and the real world.
- Each chapter is structured around an **organizing framework** that provides a pictorial overview of the chapter's contents and line of argument.
- Text that is **clear, readable, and focused**.
- A **global perspective**, with examples carefully selected from around the world.
- A **systematic learning approach**, with each chapter having clear **learning objectives**, an **organizing framework** and **chapter summaries in bullet form** that condense the core concepts and messages of each chapter.
- **Opening vignettes** and **boxed inserts** within the chapters are designed to capture student interest and provide opportunities for in-class discussions.

We've designed this textbook to complement the materials found in traditional marketing management texts. Recognizing that the service sector can best be characterized by its diversity, we believe that no single conceptual model suffices to cover marketing-relevant issues among organizations ranging from huge international corporations (in fields such as airlines, banking, telecommunications, and professional services) to locally owned and operated small businesses such as restaurants, laundries, optometrists, and many business-to-business services. In response, this book offers a carefully designed "toolbox" for service managers. The reader will learn how the different concepts, theories, and frameworks can best be used to analyze and resolve the varied challenges faced by managers in service organizations.

## Acknowledgments

Over the years, many colleagues in both the academic and business worlds have provided us with valuable insights into the marketing and management of services through their publications, conference and seminar discussions, and stimulating individual conversations. In addition, both of us have benefited enormously from in-class and after-class discussions with our students and executive program participants.

We're much indebted to those researchers and teachers who helped to pioneer the study of services marketing and management, and from whose work we continue to draw inspiration. Among them are John Bateson of Cass Business School; Leonard Berry of Texas A&M University; Mary Jo Bitner and Stephen Brown of Arizona State University; David Bowen of Thunderbird Graduate School of Management; Richard Chase of the University of Southern California; Bo Edvardsson of University of Karlstad; Raymond Fisk of Texas State University; Christian Grönroos of the Swedish School of Economics in Finland; Stephen Grove of Clemson University; Evert Gummesson of Stockholm University; James Heskett and Earl Sasser of Harvard University; A. "Parasu" Parasuraman of University of Miami; Roland Rust of the University of Maryland; Benjamin Schneider formerly of the University of Maryland; and Valarie Zeithaml of the University of North Carolina. We salute, too, the contributions of the late Pierre Eiglier, Robert Johnston, Eric Langeard, and Daryl Wyckoff.

Although it's impossible to mention everyone who has influenced our thinking, we particularly want to express our appreciation to the following: Lerzan Aksoy of Fordham University; Linda Alkire of Texas State University; Tor Andreassen of Norwegian School of Management; Steve Baron of University of Liverpool; Sabine Benoit of Surrey Business School; Ruth Bolton of Arizona State University; Elisabeth Brügggen, Gaby Odekerken-Schröder, and Jos Lemmink, all of Maastricht University; John Deighton, Theodore Levitt, and Leonard Schlesinger, all currently or formerly of Harvard Business School; Michael Ehret of University of Graz; Martin Fritze of University of Cologne; Thorsten Gruber of Loughborough University; Anders Gustafsson of BI Norwegian Business School; Jens Høgreve of Katholische Universität Eichstätt-Ingolstadt; Jay Kandampully of Ohio State University; Ron Kaufman, Customer Experience & Service Culture Expert; Tim Keiningham of St. John's University; Sheryl Kimes of Cornell University; Werner Kunz of

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It takes more than authors to create a book and its supplements. My daughter Lorraine worked through the manuscript from cover to cover and was one of my most ardent critics. Her many questions and pushing me to explain things better made the book much easier to read. Thank you, Lorraine!

Warm thanks are due to the editing and production team who worked hard to transform our manuscript into a handsome published text. They include Chua Hong Koon, Acquisitions Editor; Jiang Yulin and Lai Ann, Desk Editors; and Loo Chuan Ming, Graphic Designer.

I'd like to thank you, our reader, for your interest in this exciting and fast-evolving field of services marketing. If you are interested in forthcoming research, master class videos, and latest developments in technology, do follow me on the social media listed below.

Finally, if you have any feedback, interesting research, examples, stories, cases, videos, or any other materials that would look good in the next edition of this book, please contact me via [JochenWirtz.com](http://JochenWirtz.com). I'd love to hear from you!

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<https://JochenWirtz.com>



## The Services Marketing Framework

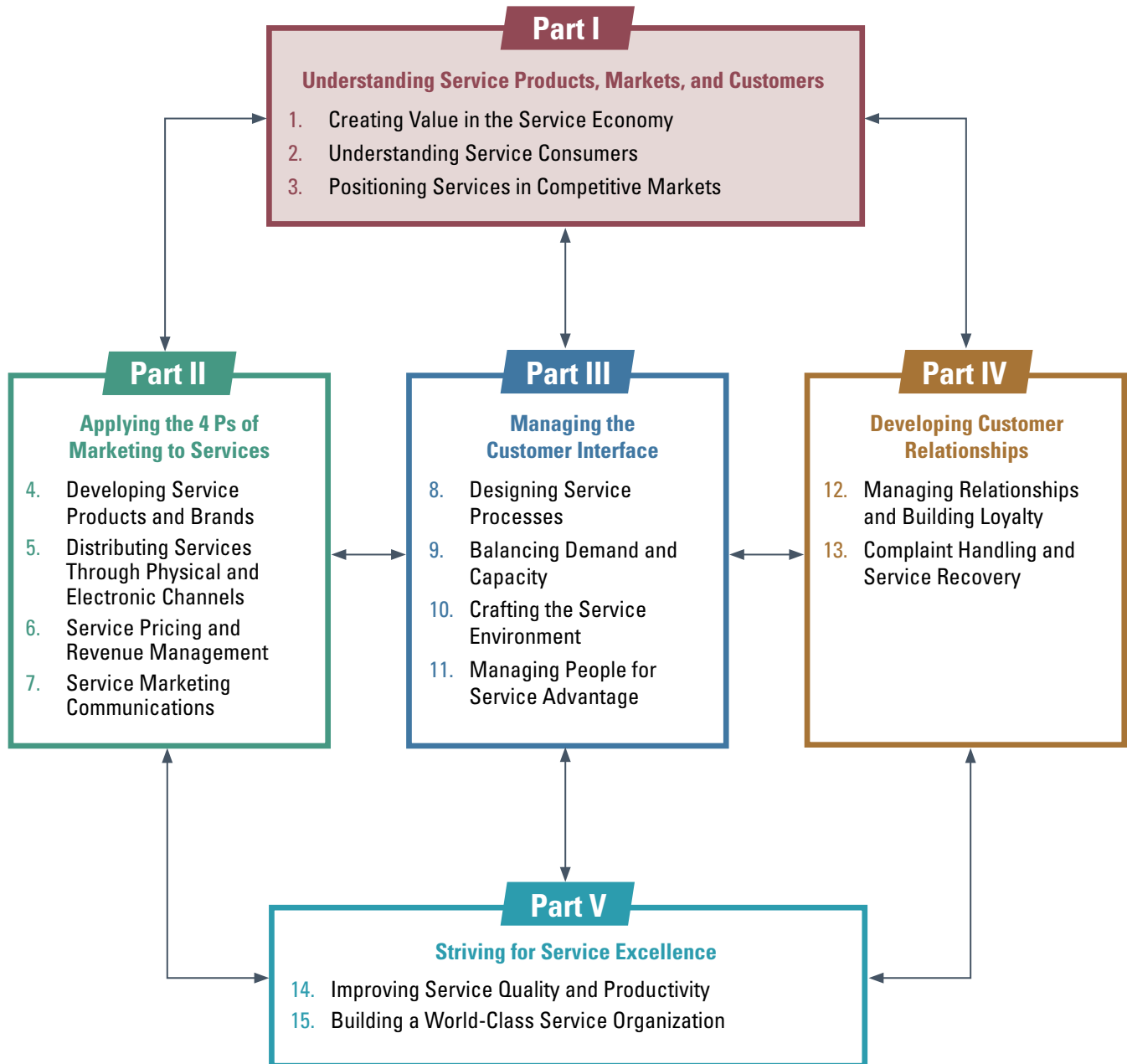


Figure I Organizing framework for services marketing

# UNDERSTANDING SERVICE PRODUCTS, MARKETS, AND CUSTOMERS

Part I lays the building blocks for studying services and learning how one can become an effective service marketer. It consists of the following three chapters:

## CHAPTER 1

### Creating Value in the Service Economy

Chapter 1 highlights the importance of services in our economies. We also define the nature of services and how they create value for customers without transfer of ownership. The chapter highlights some distinctive challenges involved in marketing services and introduces the 7 Ps of services marketing.

The framework shown in Figure I on the facing page will accompany us throughout as it forms the basis for each of the five parts in this book. It systematically describes what is involved in developing marketing strategies for different types of services. The framework is introduced and explained in Chapter 1.

## CHAPTER 2

### Understanding Service Consumers

Chapter 2 provides a foundation for understanding consumer needs and behaviors related to services. The chapter is organized around the three-stage model of service consumption. This model explores how customers search for and evaluate alternative services, make purchase decisions, experience and respond to service encounters, evaluate service performance, and finally, develop loyalty.

## CHAPTER 3

### Positioning Services in Competitive Markets

Chapter 3 discusses how to develop a customer-driven services marketing strategy and how a value proposition should be positioned in a way that creates competitive advantage for the firm. This chapter first links the customer, competitor, and company (commonly referred to as “3 Cs”) analysis to a firm’s positioning strategy. The core of the chapter is then organized around the three key elements of positioning — segmentation, targeting, and positioning (commonly referred to as “STP”) — and shows how firms can segment a service market, position their value proposition, and finally focus on attracting their target segment.



# Creating Value in the Service Economy

Ours is a service economy and has been for some time.

**Karl Albrecht and Ron Zemke,**  
Thought leaders in business and service

In today's marketplace, consumers have the power to pick and choose as never before.

From the article "Crowned At Last",  
published in **The Economist**, 31 March 2005

It's never enough to just tell people about some new insight... Instead of pouring knowledge into people's heads, you need to help them grind a new set of eyeglasses so that they can see the world in a new way. That involves challenging the implicit assumptions that have shaped the way people have historically looked at things.

**John Seely Brown,**  
Thought leader in innovation

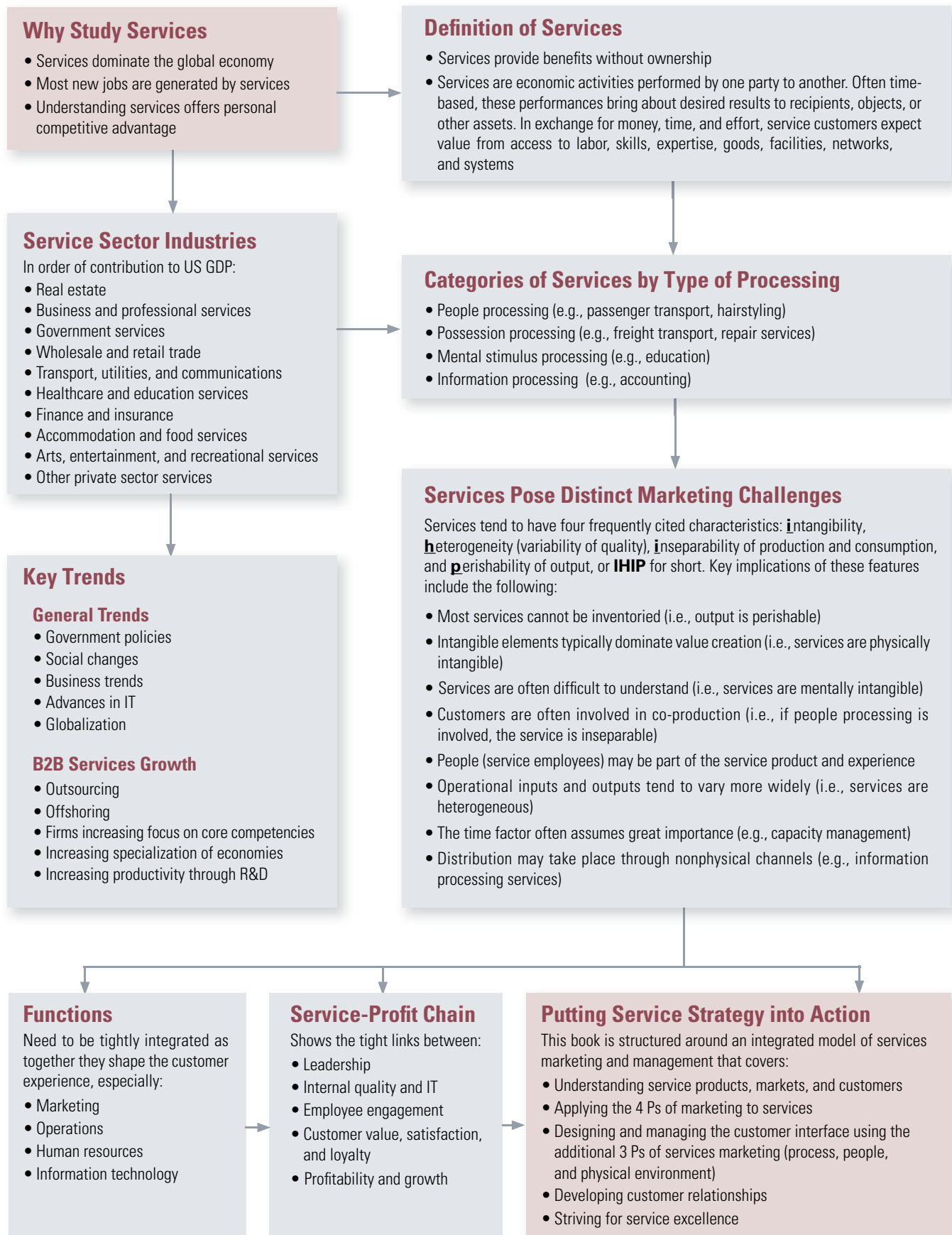
## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ **LO 1** Understand how services contribute to a country's economy.
- ➔ **LO 2** Know the principal industries of the service sector.
- ➔ **LO 3** Identify the powerful forces that are transforming service markets.
- ➔ **LO 4** Understand how business-to-business services improve the productivity of their client organizations and drive economic development.
- ➔ **LO 5** Be familiar with the difference between outsourcing and offshoring of services.
- ➔ **LO 6** Define services using the non-ownership framework.
- ➔ **LO 7** Identify the four broad "processing" categories of services.
- ➔ **LO 8** Be familiar with the characteristics of services and the distinctive marketing challenges they pose.
- ➔ **LO 9** Understand the components of the traditional marketing mix applied to services.
- ➔ **LO 10** Describe the components of the extended marketing mix for managing the customer interface.
- ➔ **LO 11** Appreciate that the marketing, operations, human resources, and information technology functions need to be closely integrated in service businesses.
- ➔ **LO 12** Understand the implications of the Service-Profit Chain for service management.
- ➔ **LO 13** Know the five-part framework for developing effective service marketing strategies.



**Figure 1.1** Tertiary education may be one of the biggest service purchases in life



**Figure 1.3** Introduction to services marketing

Figure 1.3 provides an overview of Chapter 1. In this chapter, we describe today's ever-changing service economy, define the nature of services, and highlight some challenges involved in marketing services. We conclude the chapter with a framework for developing and implementing service marketing strategies. This framework also establishes the structure for this book.

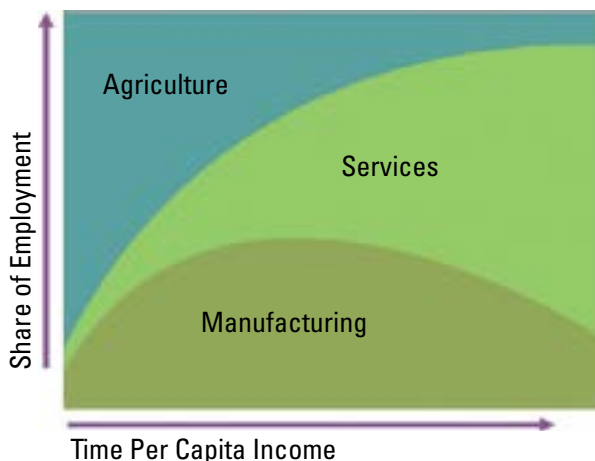
## WHY STUDY SERVICES?

**LO 1** Understand how services contribute to a country's economy.

Consider this paradox: While we live in a service-driven economy, most business schools continue to teach marketing from a manufacturing perspective. If you have already taken a course in marketing, you would have most likely learned more about marketing manufactured products, especially consumer goods, rather than marketing services. Fortunately, a growing and enthusiastic group of scholars, consultants, and educators, including the authors of this book, has chosen to focus on services marketing and build on the extensive research conducted in this field over the past four decades. This book aims to provide you with the knowledge and skills that are necessary and relevant in tomorrow's business environment.

## Services Dominate the Global Economy

The size of the service sector is increasing in almost all countries around the world. As an economy develops,

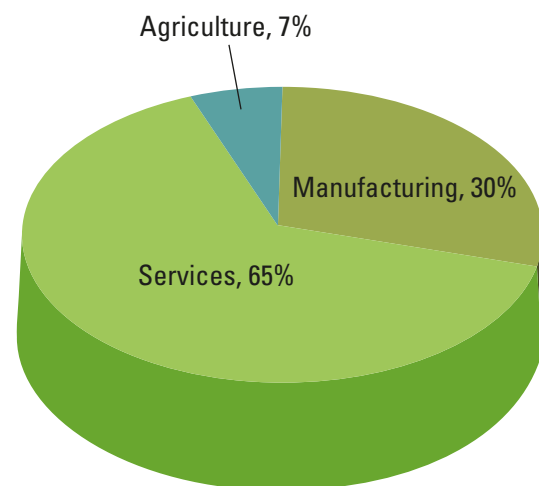


**Figure 1.4** Changing structure of employment as an economy develops

Source: International Monetary Fund, 1997.

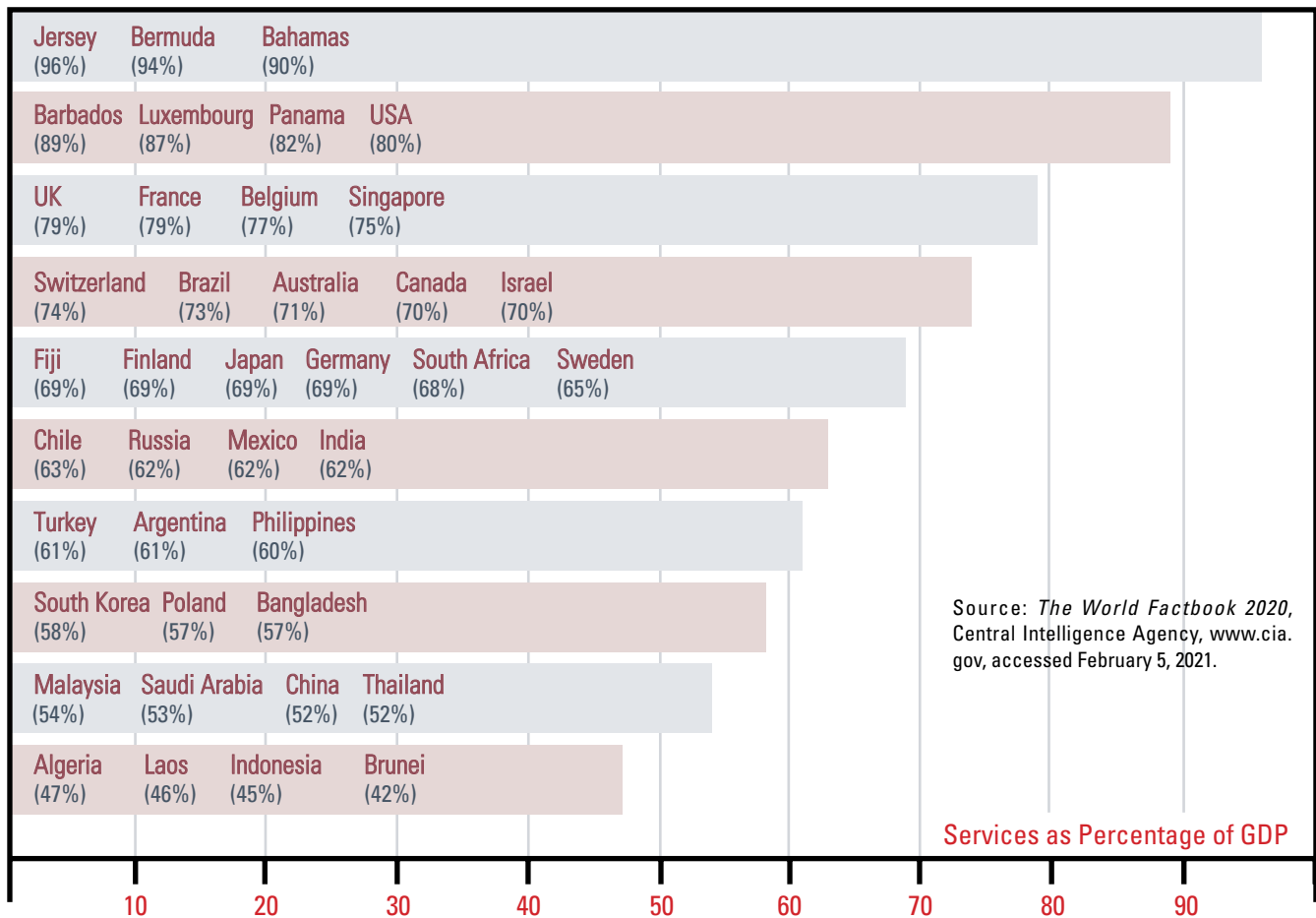
the relative share of employment between agriculture, industry (including manufacturing and mining), and services changes dramatically.<sup>1</sup> Even in emerging economies, the service output is growing rapidly and often represents at least half of the gross domestic product (GDP). Figure 1.4 shows how the evolution of a service-dominated economy is likely to take place over time as the per capita income rises. In developed economies, knowledge-based services — defined as having intensive users of high technology or relatively skilled workforces — have been the most dynamic component.<sup>2</sup> Figure 1.5 shows that the service sector already accounts for almost two-thirds of the value of the global GDP.

Figure 1.6 shows the relative size of the service sector in various large and small economies. For most of the highly developed nations, services account for 65–80% of the GDP. One exception is South Korea, a manufacturing-oriented country with its service sector contributing only 58% to the GDP. Which are the world's most service-dominated economies? The answer would be Jersey, Bermuda, and the Bahamas — all small islands with a similar economic mix — which are equally service-dominated. Luxembourg (87%) has the most service-dominated economy in the European Union. Panama's strong showing (82%) reflects not only the operation of the Panama Canal, which is widely used by cruise ships as well as freight vessels, but also related services such as container ports, flagship registry, and a free port zone, as well as financial services, insurance, and tourism (Figure 1.7).



**Figure 1.5** Contribution of services industries to GDP globally

Source: *The World Factbook 2020*, Central Intelligence Agency, [www.cia.gov](http://www.cia.gov), accessed February 5, 2021.



**Figure 1.6** Estimated size of service sector in selected countries as a percentage of GDP

On the opposite end of the scale is China (52%), an emerging economy dominated by a substantial agricultural sector, booming manufacturing and construction industries. However, China's economic growth is now leading to an increase in demand for business and consumer services. China's government is investing heavily in service infrastructure, including its shipping facilities and new airport terminals. Among the relatively affluent countries is Brunei with its oil-dominated economy, where services account for only 42% of the GDP.

## Most New Jobs are Generated by Services

Since the service sector is growing so rapidly in virtually all countries around the world, new job creation comes mainly from services. In fact, this shift in employment to the service sector has been seen as one of the longest and most stable of economic trends.<sup>3</sup> Service jobs do not just refer to relatively lowly paid frontline jobs such as in restaurants or call centers. Rather, some of

the fastest economic growth is in knowledge-based industries — such as professional and business services, education, and health care.<sup>4</sup> These jobs tend to be well-paid, require good educational qualifications, and offer attractive careers.

Many manufacturing firms, too, have moved from just bundling supplementary services with their physical products to marketing certain elements as standalone services. See *Service Insights 1.1* to find out how Rolls-Royce achieved that transformation.

Just like Rolls-Royce, IBM was also previously mainly known as a manufacturer. The company made the transformation to a service provider and has become the world's largest business and technology service provider offering management consulting, systems integration, and application management services as part of IBM Global Services.<sup>5</sup> Not only has IBM moved into delivering services, it is also at the forefront of the movement to ensure that it trains workers for the service economy. Reflecting the ever tighter



**Figure 1.7** The Panama Canal forms the backbone of Panama's service economy

integration of value creation in the service economy, IBM coined the term Service Science, Management and Engineering (SSME), often called **service science** for short, which integrates key disciplines required to design, improve, and scale service systems. To be effective in today's service-driven economies, IBM believes future graduates should be 'T'-shaped. That is, they need a deep understanding of their own discipline, such as business, engineering, or computer science (the vertical part of the T), as well as a basic understanding of service-related topics in other disciplines (the horizontal part of the T).<sup>6</sup>

Leading research centers have followed IBM's call and have increasingly focused on the integration of key disciplines to better equip future service professionals. Some of the leading centers that have embraced service science include (in alphabetical order): the Center for Excellence in Service of Robert H. Smith School of Business at University of Maryland ([www.rhsmith.umd.edu/ces](http://www.rhsmith.umd.edu/ces)), the Center for Services Leadership at the W. P. Carey School of Business at Arizona State University (<http://wpcarey.asu.edu/csl>), and The Service Research

Center at Karlstad University in Sweden ([www.ctf.kau.se](http://www.ctf.kau.se)). Recently, even an academic journal called *Service Science* has been launched to provide a publication outlet for service science research.<sup>7</sup>

### Understanding Services Offers Personal Competitive Advantage

This book is in response to the global transformation of our economies toward services. Learning about the distinctive characteristics of services and how they affect both customer behavior and marketing strategy will give you important insights and perhaps create a competitive advantage for your own career. Unless you are predestined to work in a family manufacturing or agricultural business, there is a high probability that you will spend most of your working life in service organizations. You may also find yourself serving as a volunteer or board member for a nonprofit organization. The knowledge gained from studying this book may even encourage you to think about starting your own service business!

## SERVICE INSIGHTS 1.1

### Rolls-Royce Sells Power by the Hour

Many manufacturing firms increase their competitive edge by providing superior value to their customers in the form of service. Rolls-Royce is one such example. Rolls-Royce, which makes world-class aircraft engines, is a successful company because it focuses on technical innovation. Rolls-Royce engines power about half of the latest wide-bodied passenger jets and a quarter of all single-aisle aircrafts in the world. A very important factor for its success has been the move from manufacturing to selling “power by the hour”— a bundle of goods and services that keeps the customers’ engines running smoothly.

Imagine this — high above the Pacific, passengers doze on a long-haul flight from Tokyo to Los Angeles. Suddenly, there is a bolt of lightning. Passengers may not think much of it, but on the other side of the world in Derby, England, engineers at Rolls-Royce get busy. Lightning strikes on jets are common and usually harmless, but this one has caused some problems in one of the engines. The aircraft will still be able to land safely and could do so even with the affected engine shut down. The question is whether it will need a full engine inspection in Los Angeles, which would be normal practice but would also inconvenience hundreds of passengers waiting in the departure lounge.



A stream of data is beamed from the plane to Derby. Numbers dance across screens, graphs are drawn, and engineers scratch their heads. Before the aircraft lands, word comes that the engine is running smoothly, will not need a physical inspection, and the plane will be able to take off on time.

Industry experts estimate that manufacturers of jet engines can make about seven times the revenue from servicing and selling spare parts than they do from just selling the engines. Since it is so profitable, many independent servicing firms compete with companies like Rolls-Royce and offer spare parts for as low as one-third of the price charged by the original equipment manufacturers (OEMs). This is where Rolls-Royce has used a combination of technology and service to make it more difficult for competitors to steal its clients. Instead of selling engines first and parts and service later, Rolls-Royce has created an attractive bundle, which it branded TotalCare®. Customers are charged for every hour that an engine runs. Its website advertises it as a solution ensuring “peace of mind” for the lifetime of an engine. Rolls-Royce promises to maintain the engine and replace it if it breaks down. The operations room in Derby continuously monitors the performance of some 3,500 engines, enabling it to predict when engines are likely to fail and let airlines schedule engine changes efficiently, reducing repairs and unhappy passengers. Today, about 80% of the engines shipped to its customers are covered by such contracts! Although Rolls-Royce had engine troubles on its A380, they fixed the problem quickly and bounced back from the incident with many more orders for their engines.



Sources: *The Economist* (January 10, 2009), “Briefing Rolls-Royce. Britain’s Lonely High Flyer,” pp. 58–60; *The Economist* (February 5, 2011), “Per Ardua,” p. 68; [www.roll-royce.com](http://www.roll-royce.com), accessed February 5, 2021. Source of photo: [www.roll-royce.com](http://www.roll-royce.com)

## WHAT ARE THE PRINCIPAL INDUSTRIES OF THE SERVICE SECTOR?

**LO 2** Know the principal industries of the service sector.

What industries make up the service sector and which are the biggest? The latter may not be the ones you would imagine at first, because this diverse sector includes many services targeted at business customers, some of which are not very visible unless you happen to work in that industry. National economic statistics are a useful starting point. To provide a better understanding

of today's service-dominated economy, government statistical agencies have developed new ways to classify industries. In the United States, the manufacturing-oriented Standard Industrial Classification (SIC) system, developed in the 1930s, has been replaced by the new North American Industry Classification System (NAICS),<sup>8</sup> with Canada and Mexico adopting it too (*Service Insights 1.2*).

### Contribution to Gross Domestic Product

To see how much value each of the major service industry groups contributes to the United States gross domestic product (GDP), take a look at *Figure 1.8*. Would you have guessed that real estate and rental and leasing

## SERVICE INSIGHTS 1.2

### NAICS: A New Way to Classify the Economies of North America

The North American Industry Classification System (NAICS) — jointly developed by the statistical agencies of Canada, Mexico, and the United States — offers a new approach to classifying industries in the economic statistics of the three North American Free Trade Agreement (NAFTA) countries. It replaces previous national systems, such as the Standard Industrial Classification codes formerly used in the United States.

NAICS (pronounced “nakes”) includes many new service industries that have emerged in recent decades and also reclassifies services as “auxiliary” establishments that provide services to manufacturing industries — examples include accounting, catering, and transportation. Every sector of the economy has been restructured and redefined. NAICS includes 358 new industries that the SIC did not identify, 390 that are revised from their SIC counterparts, and 422 that continue substantially unchanged. These industries are grouped into sectors and further subdivided into subsectors, industry groups, and establishments.

Among the new sectors and subsectors devoted to services are: Information, which recognizes the emergence and uniqueness of businesses in the “information economy”; Health Care and Social Assistance; Professional, Scientific, and Business

Services; Educational Services; Accommodation and Food Services; and Arts, Entertainment, and Recreation (which includes most businesses engaged in meeting consumers’ cultural, leisure, or entertainment interests).

NAICS uses a consistent principle for classification, grouping businesses that use similar production processes. Its goal is to make economic statistics more useful and to capture developments that encompass applications of high technology (e.g., cellular telecommunications), new businesses that previously did not exist (e.g., environmental consulting), and changes in the way business is done (e.g., warehouse clubs).

NAICS codes are set up in such a way that researchers can drill down within broad industry sectors to obtain information on tightly defined types of service establishments. For instance, the NAICS code 71 designates arts, entertainment, and recreation. Code 7112 designates spectator sports, and code 711211 designates sports teams and clubs. By looking at changes over time in “real” dollars (adjusted for inflation), it’s possible to determine which industries have been growing and which have not. The NAICS codes are also being used to categorize employment statistics and the number of establishments within a particular industry. And a new North American Product Classification System (NAPCS) thus defines thousands of service products. If you want to research service industries and service products, NAICS data is a great place to start.

would be the largest for-profit service industry sector in the United States, accounting for 13.3% in 2018, almost one-eighth of GDP? Over 90% of this figure comes from activities such as renting residential or commercial property; managing properties on behalf of their owners; providing realty services to facilitate purchases, sales, and rentals; and appraising property to determine its condition and value. The balance is accounted for by renting or leasing a wide variety of other manufactured products, ranging from heavy construction equipment (with or without operators) to office furniture, tents, and party supplies. A fast growing cluster are professional and business services that contribute 12.5% to GDP.

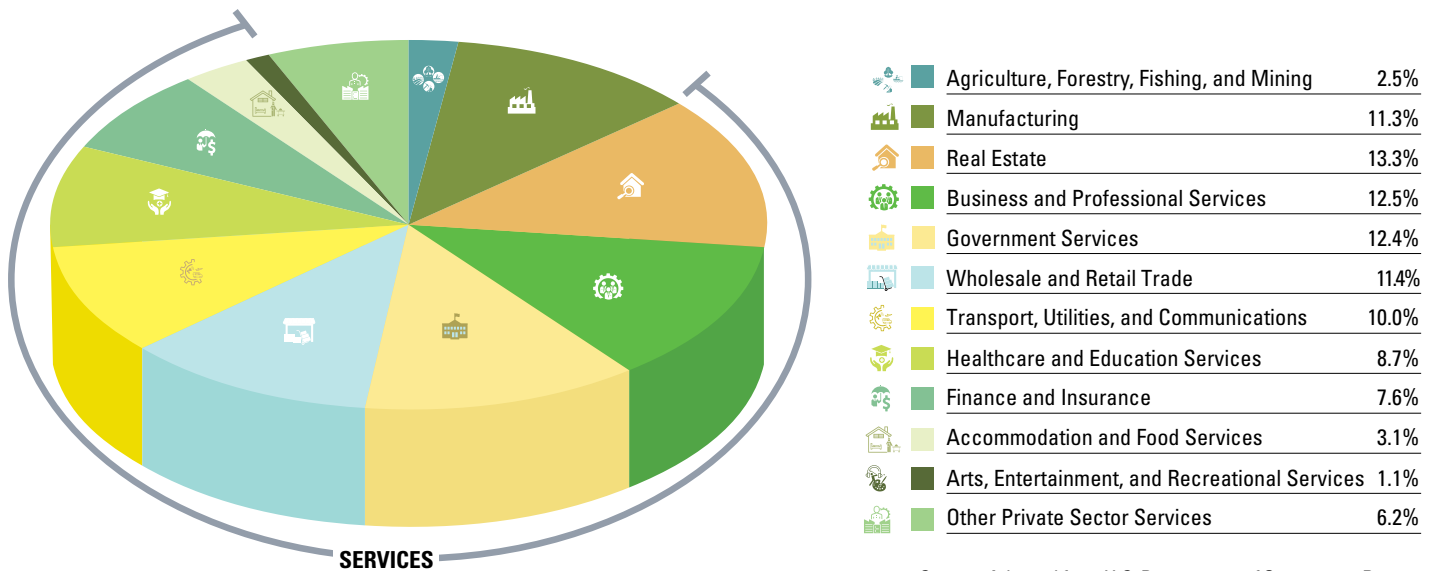
Other substantial industry sectors or subsectors are the wholesale and retail trade (11.4%); transportation, utilities, and communications (10%); healthcare and education services (8.7%); and finance and insurance (7.6%).

## POWERFUL FORCES ARE TRANSFORMING SERVICE MARKETS

**LO 3** Identify the powerful forces that are transforming service markets.

What are the factors causing this rapid growth of the service sector? Government policies, social changes, business trends, globalization, and advances in information technology and communications, in particular, are among the powerful forces transforming today's service markets (Figure 1.9). Collectively, these forces reshape demand, supply, competitive landscape, and even the way customers buy and use services.

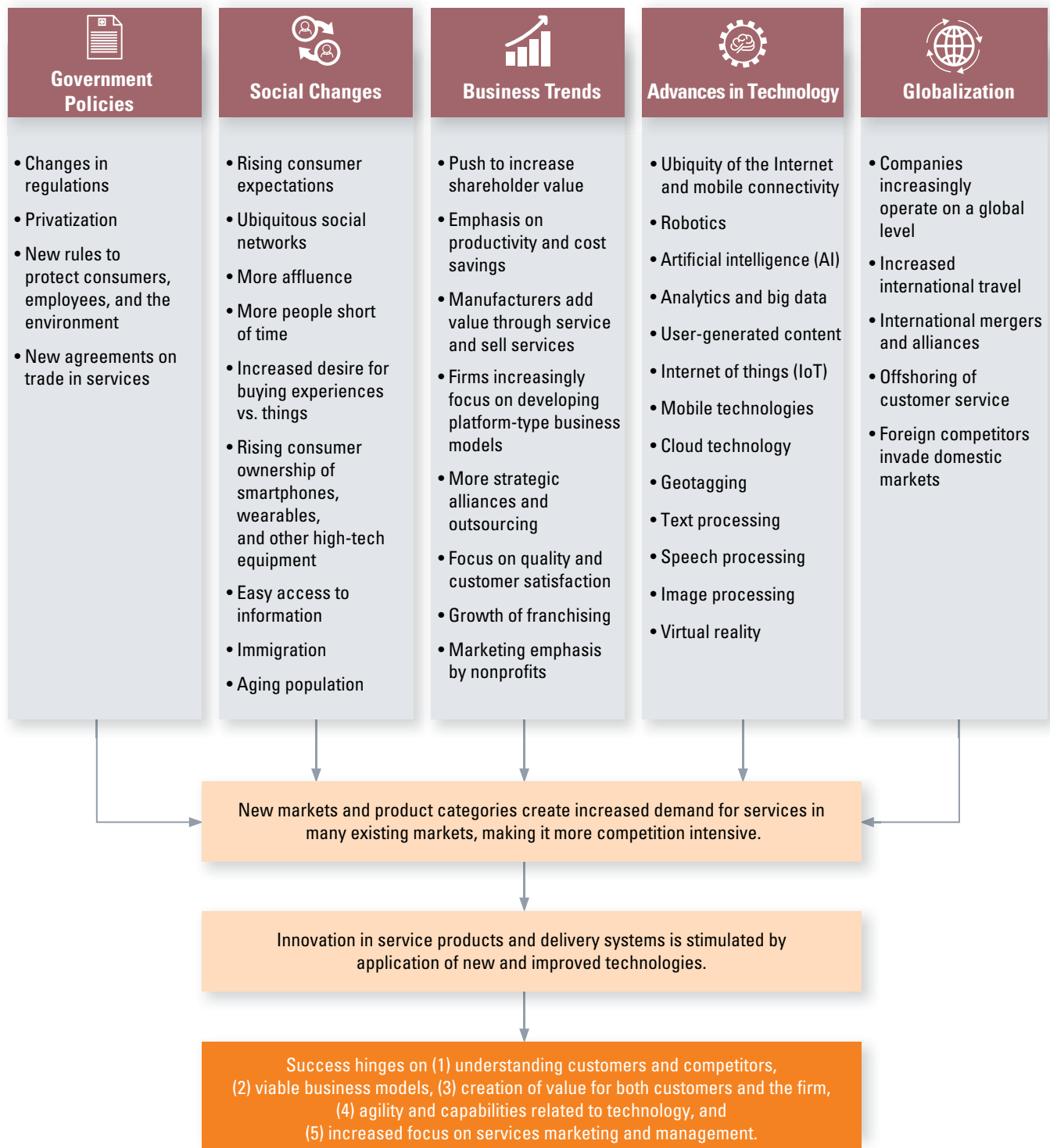
Of these forces, the dramatic development of information technology and communications is perhaps the



**Figure 1.8** Value added by service industry categories to United States GDP

(7.6%). Accommodation and food services constitute 3.1%, while the arts, entertainment, and recreation services — which include high-profile consumer services such as spectator sports, fitness centers, skiing facilities, museums and zoos, performing arts, casinos, golf courses, marinas, and theme parks — collectively represent a mere 1.1% of GDP. Nevertheless, in an economy with an output of over \$20.6 trillion, this last group of services was still valued at an impressive \$227 billion in 2019.

most important at the moment. Innovations in big data, cloud computing, user-generated content, mobile communications, networking technologies, artificial intelligence, and increasingly app-based self-service technologies (SSTs) bring their own service revolution. These technologies enable firms to deepen the relationships with their customers, offer multi-way information flow and more personalized services, improved analytics, and increase productivity and profitability.<sup>9</sup> More importantly, these new technologies also lead to a vast array of highly innovative business models, ranging from peer-to-peer services (e.g., Airbnb for short-term accommodation and Lending Club




**Figure 1.9** Factors stimulating the transformation of the service economy

is difficult for customers to visualize the experience in advance of purchase and to understand the value and benefits they will be getting, while physical intangibility is that which cannot be touched or experienced by the other senses.<sup>39</sup> It is often the intangible elements — such as processes, Internet-based transactions, and the expertise and attitudes of service personnel — that create the most value in service performances. When customers can't taste, smell, or touch these elements and may not be able to see or hear these elements (i.e., they are physically intangible), it may be more difficult for them to assess important service features in advance of purchase and evaluate the quality of the service performance itself (*Table 1.1*).

Therefore, an important role of a service firm's communications is to create confidence in the firm's experience, credentials, and expertise of its employees. For example, firms can use physical images and metaphors to promote service benefits and demonstrate the firm's competencies (*Figure 1.23*). In personal interactions, the role of well-trained service employees in communications is crucial in reducing the perceived risk of purchase by helping prospective customers to make good choices, educating them on what to expect both during and after service delivery, and helping them to move smoothly through the service process. Documenting performance, explaining what was done and why, and offering guarantees are additional ways to reassure customers and reduce anxiety. Service firms have much to gain from helping customers to appreciate the service offering and become more competent and productive.<sup>40</sup> After all, if you know how to use a service well, you'll not only have a better service experience and outcome, but your greater efficiency may boost the firm's productivity, lower its costs, and even enable it to reduce the price you pay.

**Customer–Customer Interactions Affect the Service Experience.** When you encounter other customers at a service facility, they too can affect your satisfaction. How they're dressed, who they are, and how they behave can reinforce or negate the image a firm is trying to project and the experience it is trying to create. The implications are clear: we need to use marketing communications to attract the right customer segments to the service facility, and once there, also to educate them on the proper behavior.

## THE EXTENDED SERVICES MARKETING MIX FOR MANAGING THE CUSTOMER INTERFACE

 **LO 10** Describe the components of the extended marketing mix for managing the customer interface.

### Process

Smart managers know that where services are concerned, **how** a firm does things is as important as **what** it does. Therefore, creating and delivering product elements requires design and implementation of effective processes. Badly designed service processes lead to slow, bureaucratic, and ineffective service delivery; wasted time; and a disappointing experience for customers. Poor service process design also makes it difficult for frontline employees to do their jobs well, resulting in low productivity and employee dissatisfaction. The following three sections show how service processes differ from manufacturing.

**Operational Inputs and Outputs Can Vary Widely.** Operational inputs and outputs tend to vary more widely for services, and can make customer service process management a challenge (*Table 1.1*). When a service is delivered face-to-face and consumed as it is produced, final “assembly” must take place in real time. However, operations are often distributed across thousands of sites or branches. When operations are distributed (rather than centralized in a factory), it is difficult for service organizations to ensure reliable delivery, control quality, and improve productivity. As a former packaged goods marketer once observed after moving to a new position at Holiday Inn:

*We can't control the quality of our product as well as a Procter and Gamble control engineer on a production line can... When you buy a box of Tide, you can reasonably be 99 and <sup>44/100</sup> percent sure that it will work to get your clothes clean. When you reserve a Holiday Inn room, you're sure at some lesser percentage that it will work to give you a good night's sleep without any hassle, or people banging on the walls and all the bad things that can happen in a hotel.<sup>41</sup>*

Nevertheless, the best service firms have made significant progress in reducing variability by carefully designing customer service processes, adopting standardized procedures and equipment, implementing rigorous

management of service quality, training employees more carefully, and automating tasks previously performed by humans.

**Customers are Often Involved in Co-Production.** Some services require customers to participate actively in co-producing the service product (*Table 1.1*). For example, you're expected to help the investment banker understand what your needs are, how much you want to invest financially, the kind of risks you are willing to take, and the expected returns. This will enable the banker to advise you on what to invest in. In fact, service scholars argue that customers often function as **partial employees**.<sup>42</sup> Increasingly, your involvement takes the form of self-service, often using self-service technologies (SSTs) facilitated by smart machines, apps, and the Internet.<sup>43</sup> Whether customers co-produce or use SSTs, well-designed customer service processes are needed to facilitate service delivery.

**Demand and Capacity Need to be Balanced.** Manufacturing can ensure a smooth process flow by having an inventory of materials and parts ready for use. For services, such buffering means having customers wait in the service process! Therefore, areas closely related to service process management involve the balancing of demand and capacity, design of waiting and queuing systems, and management of the impact of waiting on the customer's psychology.

## Physical Environment

If your job is in a service business that requires customers to enter the service factory, you'll also have to spend time thinking about the design of the physical environment or servicescape.<sup>44</sup> The appearance of buildings, landscaping, vehicles, interior furnishings, equipment, staff members' uniforms, signs, printed materials, and other visible cues provide tangible evidence of a firm's service quality. The servicescape also facilitates service delivery and guides customers through the service process. Service firms need to manage servicescapes carefully, since they can have a profound impact on customer satisfaction<sup>45</sup> and service productivity.

## People

Despite advances in technology, many services will always need direct interaction between customers and service employees (*Table 1.1*). You must have noticed many times how the difference between one service supplier and another lies in the attitude and skills of their employees. Service firms need to work closely with



**Figure 1.24** Hospitality is shown through employees wearing a ready smile and being ready to serve customers

their human resources departments and devote special care in selecting, training, and motivating their service employees (*Figure 1.24*). In addition to possessing the technical skills required by the job, these individuals also need good interpersonal skills and a positive attitude. HR managers who think strategically recognize that having loyal, skilled, and motivated employees who can work well independently or together in teams represent a key competitive advantage.

## MARKETING MUST BE INTEGRATED WITH OTHER MANAGEMENT FUNCTIONS

➔ **LO 11** Appreciate that the marketing, operations, human resources, and information technology functions need to be closely integrated in service businesses.

In the previous section, we described the **7 Ps** as the strategic levers of services marketing. As you think about these different elements, it should quickly become clear that marketers working in a service business cannot expect to operate successfully in isolation from managers in other functions. In fact, four management functions play central and interrelated roles in meeting the needs of service customers: marketing, operations, human resources, and information technology (IT). *Figure 1.25* illustrates this interdependency. One of the top management's responsibilities is to ensure that managers

and other employees in each of these functions don't operate in departmental silos.

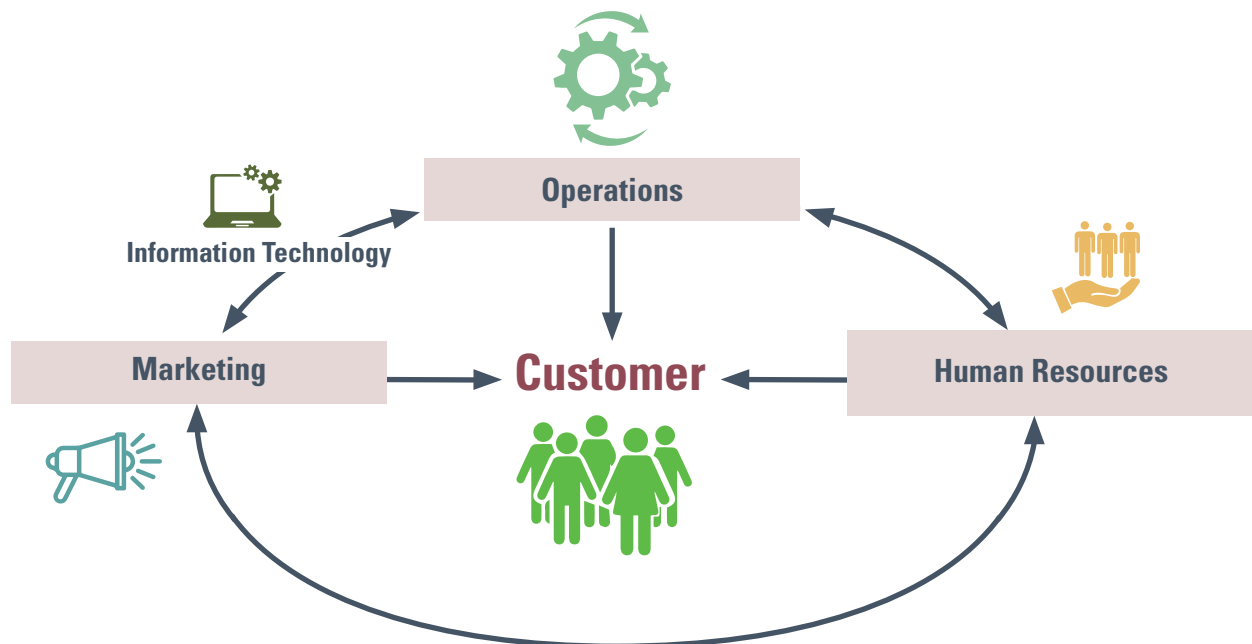
Operations is the primary line function in a service business responsible for managing service delivery through equipment, facilities, systems, and many tasks performed by customer-contact employees. In most service organizations, you can also expect to see operations managers actively involved in product and process design, many aspects of the physical environment, and implementation of productivity and quality improvement programs.

Human resources (HR) is often seen as a staff function, responsible for job definition, recruitment, training and development, reward systems, and quality of work life — all of which are, of course, central to the people element. But in a well-managed service business, human resources managers view these activities from a strategic perspective. They understand that the quality and commitment of the front line have become a major source of competitive advantage. Service organizations cannot afford to have human resources specialists who do not understand customers. When employees understand and support the goals of their organization, have the skills and training needed to succeed in their jobs, and recognize the importance of creating and maintaining customer satisfaction, both marketing and operations activities are easier to manage and are more likely to be successful.

IT is a key function as service processes are information-heavy — at almost every customer touch point, real-time information is needed (from customer data to prices and available capacity). Operations, human resources, and marketing are critically dependent on IT to manage their functions and create value for the organization's customers.

For these reasons, we don't limit our coverage exclusively to marketing in this book. In many of the chapters you'll also find us referring to service operations, human resources, and IT. Some firms deliberately rotate their managers among different job functions, especially between marketing and operations positions, precisely so that they will be able to appreciate different perspectives. Your own career in services might follow a similar path.

Imagine yourself as the manager of a small hotel. Or, if you like, think big and picture yourself as the chief executive officer (CEO) of a major bank. In both instances, you need to be concerned about satisfying your customers on a daily basis, operational systems running smoothly and efficiently, and making sure that your employees are not only working productively, but are also delivering good service. In short, integration of activities between these functions is the name of the game in services. Problems in any one of these areas can negatively affect the execution of tasks in other functions and might result in dissatisfied customers.



**Figure 1.25** Marketing, operations, human resources, and information technology departments must collaborate to serve the customer

Only a minority of people who work in a service firm are employed in formal marketing positions. However, all those whose work affects the customer in some way — either through direct contact or the design of processes, systems, and policies that shape customers’ experiences — need to think of themselves as **part-time marketers**.<sup>46</sup>

satisfied, loyal, and productive employees, and supported by customer- and employee-centric operations and technology:

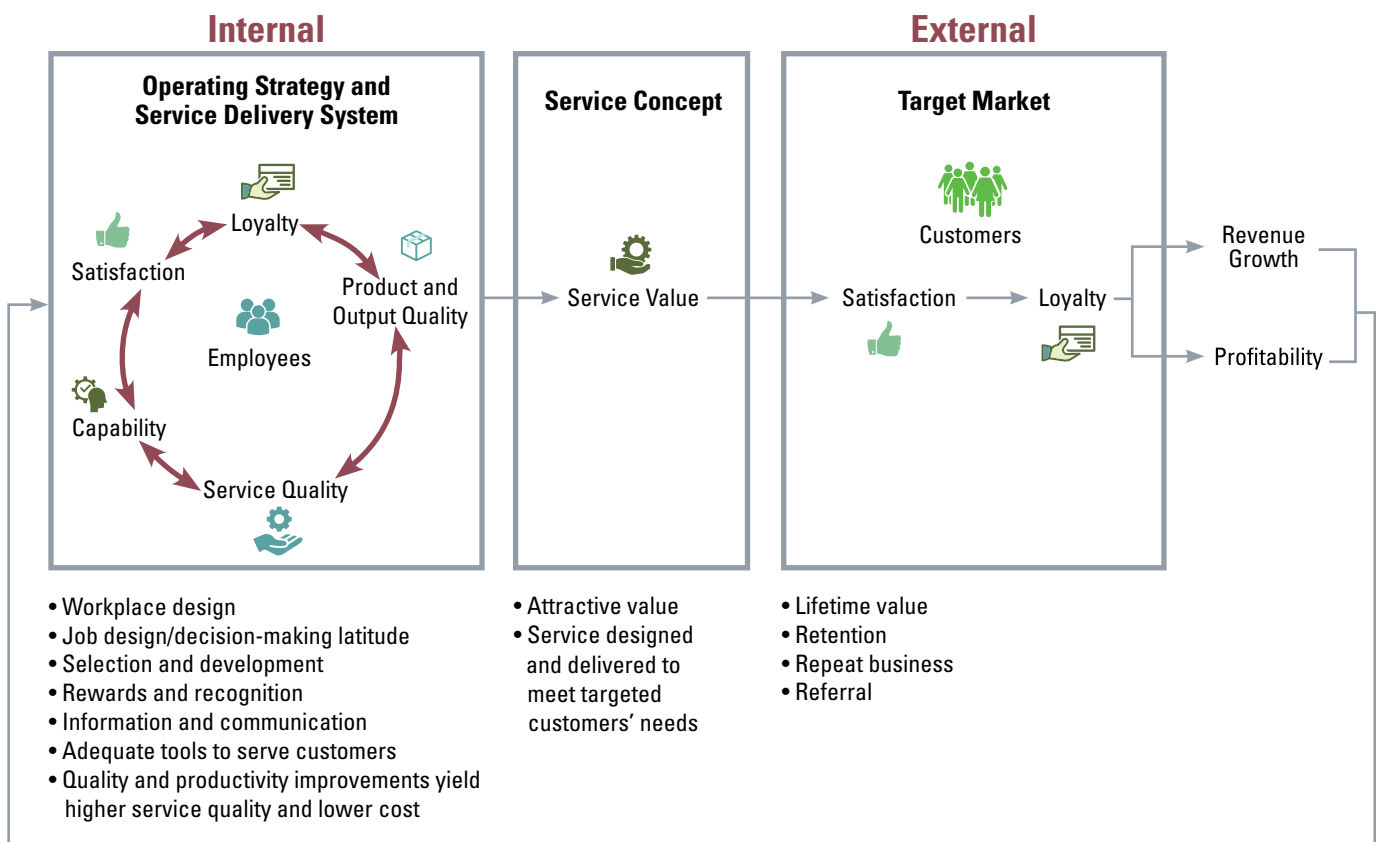
*Top-level executives of outstanding service organizations spend little time setting profit goals or focusing on market share... Instead they understand that in the new economics of service, frontline workers and customers need to be the center of management concern. Successful service managers pay attention to the factors that drive profitability... investment in people, technology that supports frontline workers, revamped recruiting and training practices, and compensation linked to performance for employees at every level.*

*The Service-Profit Chain, developed from analyses of successful service organizations, puts “hard” values on “soft” measures. It helps managers target new investments to develop service and satisfaction levels for maximum competitive impact, widening the gap between*

## THE SERVICE-PROFIT CHAIN

➔ **LO 12** Understand the implications of the Service-Profit Chain for service management.

A conceptual framework that shows how marketing, operations, human resources, and information technology (IT) are integrated in high-performance service organizations is the Service-Profit Chain. James Heskett and his colleagues at Harvard argue that when service companies put employees and customers first, there is a major change in the way they manage and measure success. They relate profitability, customer loyalty, and customer satisfaction to the value created by



**Figure 1.26** The Service-Profit Chain

Source: Reprinted with permission of Harvard Business Review: James L. Heskett, Thomas O. Jones, Gary W. Loveman, W. Earl Sasser, Jr., and Leonard A. Schlesinger (March–April 1994), “Putting the Service-Profit Chain to Work,” *Harvard Business Review*, p. 166. Copyright © 1994 by the Harvard Business School Publishing Corporation; all rights reserved.

**Table 1.2** Links in the Service-Profit Chain

1. Customer loyalty drives profitability and growth
2. Customer satisfaction drives customer loyalty
3. Value drives customer satisfaction
4. Quality and productivity drive value
5. Employee loyalty drives service quality and productivity
6. Employee satisfaction drives employee loyalty
7. Internal quality as delivered by operations and IT drives employee satisfaction
8. Top management leadership underlies the chain's success

Source: James L. Heskett, Thomas O. Jones, Gary W. Loveman, W. Earl Sasser Jr., and Leonard A. Schlesinger (March–April 1994), "Putting the Service-Profit Chain to Work," *Harvard Business Review*, James L. Heskett, W. Earl Sasser, and Leonard L. Schlesinger (1997), *The Service Profit Chain*. Boston: The Free Press.

*service leaders and their merely good competitors.*<sup>47</sup>

The Service-Profit Chain (*Figure 1.26*), shows the links in a managerial process that are proposed to lead to success in service businesses.

*Table 1.2* provides a useful summary highlighting the behaviors required of service leaders in order to manage their organizations effectively. Working backward, from the desired end results of revenue growth and profitability, links 1 and 2 focus on customers. The links include an emphasis on identifying and understanding customer needs, making investments to ensure customer retention, and having a commitment to adopt new performance measures that track variables such as satisfaction and loyalty among both customers and employees. Link 3 focuses on the value for customers created by the service concept and highlights the need for investments to continually improve both service quality and productivity.

Another set of service leadership behaviors (links 4–7) relates to employees and include organizational focus on the front line. The design of jobs should offer greater freedom for employees. Managers with potential should be developed. This category also stressed the idea that paying higher wages can actually decrease labor costs because of reduced turnover, higher productivity, and higher quality. Underlying the chain's success (link 8) is

top management leadership. The Service-Profit Chain is an important guiding philosophy for this book, with core chapters explaining how to successfully implement the Service-Profit Chain.

## A FRAMEWORK FOR DEVELOPING EFFECTIVE SERVICE MARKETING STRATEGIES



**LO 13** Know the five-part framework for developing effective service marketing strategies.

The **7 Ps** and the Service-Profit Chain are integrated into the wider organizing framework of this book. It shows how each of the chapters fits together with the others as they address related topics and issues. *Figure 1.27* presents the organizing framework for this book, which is divided into five parts: (1) understanding service products, markets, and customers; (2) applying the **4 Ps** of marketing to services; (3) designing and managing the customer interface (i.e., the additional **3 Ps** of services marketing); (4) developing customer relationships; and (5) striving for service excellence. Note that the arrows link the different boxes in the model. They stress the interdependences between the different parts. Decisions made in one area must be consistent with those taken in another, so that each strategic element will mutually reinforce the rest.



**Figure 1.28** Advances in technology are changing the ways in which the service industry works

## CONCLUSION

Why study services? Because modern economies are driven by individual service businesses operating within a remarkable array of industries. Collectively, services are responsible for the creation of a substantial majority of all new jobs, both skilled and unskilled, around the world. Many of these industries are undergoing dramatic transformations, driven by advances in technology (*Figure 1.28*), globalization, changes in government policies, evolving consumer needs, and lifestyles. In such an environment, effective marketing plays a vital role in determining whether an individual organization survives and thrives — or declines and fails.

In this chapter, we've demonstrated that services require a distinctive approach to marketing because the context

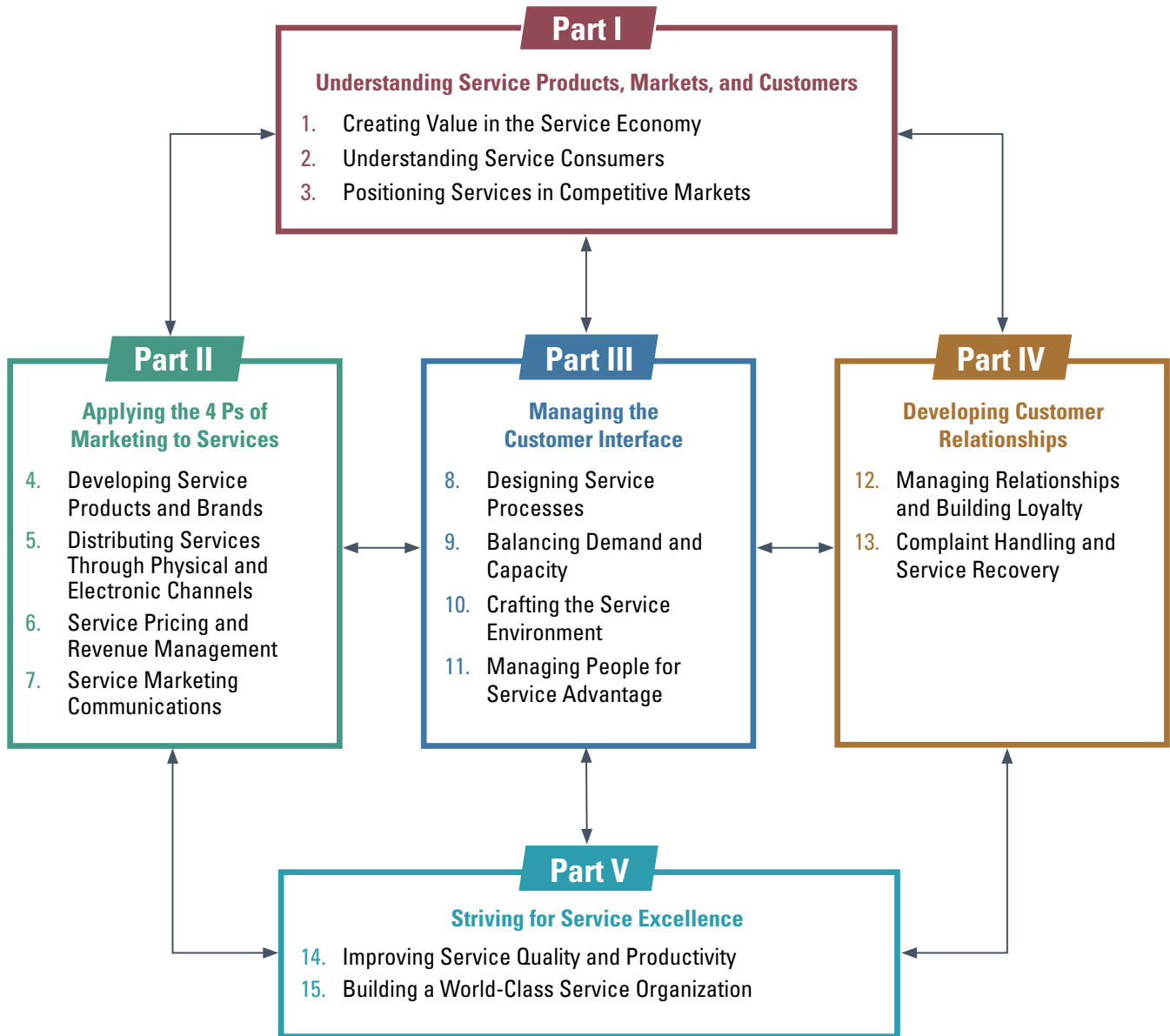
and the tasks often differ in important aspects from those in the manufacturing sector. Succeeding as a marketing manager in a service business requires you not only to understand key marketing concepts and tools, but also know how to use them effectively. Each of the **7 Ps** — the strategic levers of services marketing — has a role to play, but it's how well you tie them together that will make the difference. As you study this book, attend classes, and undertake projects, remember that the winners in today's highly competitive service markets succeed by continually rethinking the way they do business, looking for innovative ways to serve their customers better, taking advantage of developments in technology, and embracing a disciplined and well-organized approach to developing and implementing service marketing strategies.

### Introduction to the Author and Overview of the Development of the Services Marketing Discipline



If you are interested to learn more about the first author of this book and his view on the development of Services Marketing as a discipline, watch the 9-minute video titled "Introduction to Jochen Wirtz & the Past, Present & Future of Services Marketing."

<https://www.youtube.com/watch?v=U3yq7llcQGk>



**Figure 1.27** Integrated model of services marketing

## CHAPTER SUMMARY

- ➔ **LO 1** Services represent an important and growing contribution to most economies in the world. As economies develop, services form the largest part of the gross domestic product (GDP) of those economies. Globally, most new jobs are generated in the service sector.
- ➔ **LO 2** The **principal industries of the service sector** include (in order of contribution to US GDP):
- Real estate services
  - Business and professional services
  - Government services
  - Wholesale and retail trade
  - Transport, utilities, and communications services
  - Healthcare services
  - Finance and insurance
  - Accommodation and food services
  - Arts, entertainment, and recreation services
- ➔ **LO 3** Many forces are transforming our economies, making them more **services-oriented**. They include government policies, social changes, business trends, advances in technology, and globalization.
- ➔ **LO 4** **Business services** allow manufacturing firms and other service organizations to outsource noncore activities, processes, and assets. What used to be a neglected support activity in a client organization has become the management focus and core competency of an independent service provider. The benefits include:
- Economies of scale and scope, an operation that is way down the learning curve and therefore operates at high quality and productivity levels.
  - Tight cost and quality control (performance can be benchmarked across many sites).
  - Process improvements and research and development (R&D) are applied to these services as the benefits can be reaped across multiple sites.
  - The rapid growth of business services leads to an increasing specialization of advanced economies with significant gains in overall productivity and standards of living.
- ➔ **LO 5** **Outsourcing** refers to the contracting of services that were previously conducted internally in an organization to an external service provider. Offshoring refers to services that are conducted in one country and consumed in another. Outsourcing and offshoring are independent (e.g., firms can outsource without offshoring to a domestic service provider; or offshore without outsourcing to a foreign subsidiary), but often work in tandem (e.g., a US-based firm outsources a customer contact center to a service provider in the Philippines).
- ➔ **LO 6** **What exactly is a service?** The key distinguishing feature of a service is that it is a form of rental rather than ownership. Service customers obtain the rights to hire the labor, skills, and expertise of personnel; use a physical object or space; or access shared facilities, networks, and systems. Services are performances that bring about the desired results or experience for the customer.
- ➔ **LO 7** Services vary widely and can be categorized according to the nature of the underlying process: Is the service directed at customers or their possessions? Are service actions tangible or intangible in nature? These distinctions have important marketing implications and lead to **four broad categories of services**:
- People processing
  - Possession processing
  - Mental stimulus processing
  - Information processing
- Mental stimulus and information processing can be combined into what is called information-based services.
- ➔ **LO 8** Services have unique characteristics that make them different from goods, including the frequently cited four characteristics of **intangibility**, **heterogeneity** (variability of quality), **inseparability** of production and consumption, and **perishability** of output, or **IHIP** for short. These characteristics lead to the following marketing and management challenges:
- Intangible elements usually dominate value creation (i.e., physically intangible).
  - Services often are difficult to visualize and understand (i.e., mentally intangible).
  - Most service products cannot be inventoried (i.e., are perishable).
  - Operational inputs and outputs tend to vary widely (i.e., heterogeneous).
  - People may be part of the service experience.

- Customers may be involved in co-production (i.e., if people processing is involved, the service is inseparable).
- Time factor often assumes great importance.
- Distribution may take place through nonphysical channels (especially for information processing services).

➔ **LO 9** Due to the unique characteristics of services, the traditional marketing mix of the **4 Ps** needs to be amended. Some important amendments include:

- Product elements include more than just the core elements. They also include supplementary service elements such as the provision of consultation, hospitality, and handling of exceptions.
- Place and time elements refer to the delivery of the product elements to the customer; many information-processing elements are delivered electronically.
- Pricing includes nonmonetary costs to the consumer and revenue management considerations.
- Promotion is also viewed as a form of communication and education that guides customers through service processes, rather than focusing mainly on advertising and promotion to generate sales.

➔ **LO 10** Services marketing requires **three additional Ps** that cover management of the customer interface:

- **Process** refers to the design and management of customer service processes, including managing demand and capacity and related customer waits.
- **Physical environment**, also known as the servicescape, facilitates process delivery, and provides tangible evidence of a firm's image and service quality.
- **People** covers the recruiting, training, and motivating of service employees to deliver service quality and productivity.

➔ **LO 11** To be successful, the marketing, operations, human resources, and information technology (IT) functions need to be tightly integrated and work closely together in well-coordinated ways.

- Integration means that the key deliverables and objectives of the various functions are not only compatible but also mutually reinforcing.

➔ **LO 12** The **Service-Profit Chain** shows how successful service firms integrate key management functions and deliver high performance in several related areas:

- Customer relationships need to be managed effectively and there must be strategies in place to build and sustain loyalty.
- Value should be created and delivered to target customers in ways that lead them to see the firm's offering as superior to competing offerings.
- Service quality and productivity need to be continuously improved through better processes, systems and tools, and IT.
- Service employees must be enabled and motivated.
- Top management's leadership needs to drive and support all the components of the Service-Profit Chain.

➔ **LO 13** A framework for service marketing strategy forms the underlying structure of this book. The framework consists of the following five interlinked parts:

- Part I begins with the need for service firms to understand their markets, customers, and competition.
- Part II shows us how to apply the traditional **4 Ps** to services marketing.
- Part III covers the **3 Ps** of the extended services marketing mix and shows how to manage the customer interface.
- Part IV illustrates how to develop lasting customer relationships through a variety of tools ranging from the Wheel of Loyalty and customer relationship management to effective complaint management and service guarantees.
- Part V discusses how to improve service quality and productivity. This part closes with a discussion on how change management and leadership can propel a firm to become a service leader.

## Review Questions

1. What are the main reasons for the growing share of the service sector in all major economies of the world?
2. What are the five powerful forces that are transforming the service landscape and what impact do they have on the service economy?
3. Is it possible for an economy to be almost entirely based on services? Is it a sign of weakness when a national economy manufactures few of the goods that it consumes?
4. Why would growth in business services help individual firms and entire economies become more productive?
5. “A service is rented rather than owned.” Explain what this statement means and use examples to support your explanation.
6. Describe the four broad “processing” categories of services and provide examples for each.
7. What is so special about services marketing that it needs a special approach?
8. “The **4 Ps** are all a marketing manager needs to create a marketing strategy for a service business.” Prepare a response that argues against this and support it with examples.
9. What types of services do you think are (a) most affected and (b) least affected by the problem of variable inputs and outputs? Why?
10. Why do the marketing, operations, human resources, and information technology (IT) functions need to be closely coordinated in service organizations?
11. What are the implications of the Service-Profit Chain for service management?
12. What are the key elements in the framework for developing effective service marketing strategies?



## Application Exercises

1. Visit the websites of the following national statistical bureaus: U.S. Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov)), Eurostat (<https://ec.europa.eu/eurostat>), and the respective websites for your country if they are not covered here. In each instance, obtain data on the latest trends in services as (a) a percentage of the gross domestic product (GDP), (b) the percentage of employment accounted for by services, (c) breakdowns of these two statistics by type of industry, and (d) service exports and imports. Looking at these trends, what are your conclusions for the main sectors of these economies, and within services, for specific service sectors?
2. Legal and accounting firms now advertise their services in many countries. Search for a few advertisements and review the following: What do these firms do to cope with the intangibility of their services? What could they do better? How do they deal with consumer quality and risk perceptions, and how could they improve this aspect of their marketing?
3. Review IBM’s annual report, [www.ibm.com/annualreport](http://www.ibm.com/annualreport); recent quarterly reports, [www.ibm.com/investor](http://www.ibm.com/investor); and other information on its website describing its different businesses. What conclusions can you draw about future opportunities in different markets? What do you see as competitive threats?
4. Give examples of how Internet and telecommunications technologies [e.g., mobile commerce (m-commerce) and apps] have changed some of the services you use.
5. Choose a service company you are familiar with and show how each of the **7 Ps** of services marketing applies to one of its service products.
6. Explain how concepts in Chapter 1 are relevant to the marketing of a religious institution, or a nonprofit organization such as World Wildlife Fund.

## Endnotes

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# Understanding Service Consumers

I can't get no satisfaction.

From the song "(I Can't Get No) Satisfaction"  
**Mick Jagger**, lead singer of The Rolling Stones

An individual who seeks out the necessary information and chooses wisely has a better chance of getting satisfaction than Mick Jagger.

**Claes Fornell**,  
Distinguished Donald C. Cook Emeritus Professor of  
Business at the University of Michigan and Founder of  
the American Customer Satisfaction Index (ACSI)

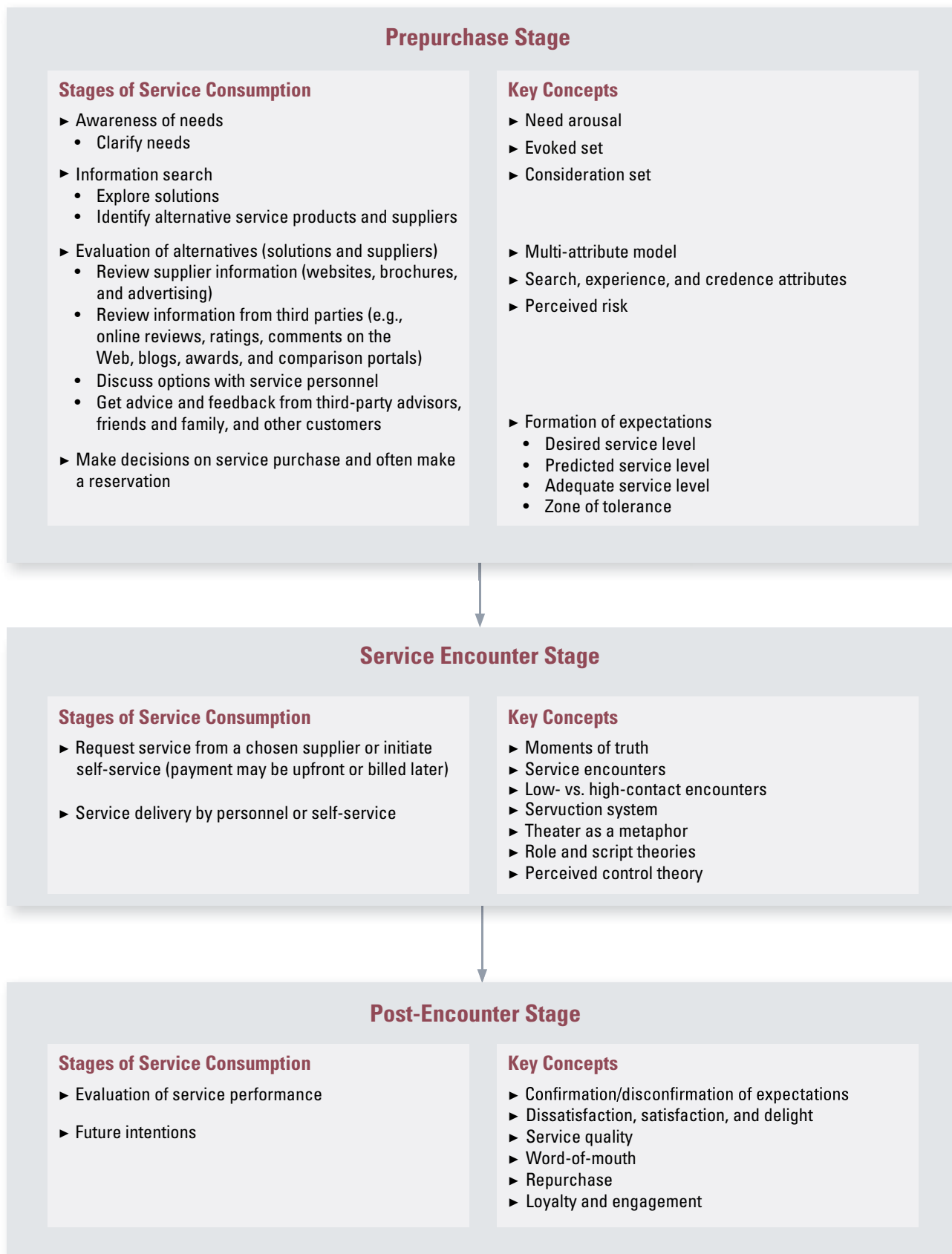
## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ **LO 1** Understand the three-stage model of service consumption.
- ➔ **LO 2** Use the multi-attribute model to understand how consumers evaluate and choose between alternative service offerings.
- ➔ **LO 3** Learn why consumers often have difficulties evaluating services, especially those with many experience and credence attributes.
- ➔ **LO 4** Know the perceived risks customers face in purchasing services and the strategies firms can use to reduce consumer risk perceptions.
- ➔ **LO 5** Understand how customers form service expectations and the components of these expectations.
- ➔ **LO 6** Know the moment-of-truth metaphor.
- ➔ **LO 7** Contrast how customers experience and evaluate high- versus low-contact services.
- ➔ **LO 8** Be familiar with the servuction model and understand the interactions that together create the service experience.
- ➔ **LO 9** Obtain insights from viewing the service encounter as a form of theater.
- ➔ **LO 10** Know how role, script, and perceived control theories contribute to a better understanding of service encounters.
- ➔ **LO 11** Describe how customers evaluate services and what determines their satisfaction.
- ➔ **LO 12** Understand service quality, its dimensions, and measurement, and how quality relates to customer loyalty.
- ➔ **LO 13** Know why customer loyalty is important.



**Figure 2.1** New York University is the gateway for a brighter future for students like Susan Munro



**Figure 2.3** The three-stage model of service consumption

10. Describe a low-contact service encounter via an app and phone, respectively, and a high-contact, face-to-face encounter that you had recently. How satisfied were you with each of the encounters? What were the key drivers of your overall satisfaction with these encounters? In each instance, what could the service provider have done to improve the service?
11. Describe an unsatisfactory encounter you experienced recently with (a) a low-contact service and (b) a high-contact, face-to-face service. What were the key drivers of your dissatisfaction? In each instance, what could the service provider have done to improve the service?
12. Review the five dimensions of service quality. What do they mean in the context of (a) an industrial repair shop, (b) an online bank, and (c) a 'Big 4' accounting firm?
13. How would you define "excellent service quality" for an enquiry/information service provided by your cell phone or electricity service provider? Call a service organization and go through a service encounter and evaluate it against your definition of "excellence."



## Endnotes

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# Positioning Services in Competitive Markets

To succeed in our overcommunicated society, a company must create a position in the prospect's mind, a position that takes into consideration not only a company's own strengths and weaknesses, but those of its competitors as well.

**Al Reis and Jack Trout,**

Thought leaders who coined the term "positioning" as related to marketing

The essence of strategy is choosing to perform activities differently than rivals do.

**Michael Porter,**

Professor at Harvard Business School and leading authority on competitive strategy

## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

➔ **LO 1** Understand how the customer, competitor, and company analysis (i.e., the **3 Cs**) helps to develop a customer-driven services marketing strategy.

➔ **LO 2** Know the key elements of a positioning strategy (i.e., segmentation, targeting, and positioning; **STP**), and explain why these elements are so crucial for service firms to apply.

➔ **LO 3** Segment customers on needs first before using other common bases to further identify and profile the segments.

➔ **LO 4** Distinguish between important and determinant attributes for segmentation.

➔ **LO 5** Use different service levels for segmentation.

➔ **LO 6** Target service customers using the four focus strategies for competitive advantage.

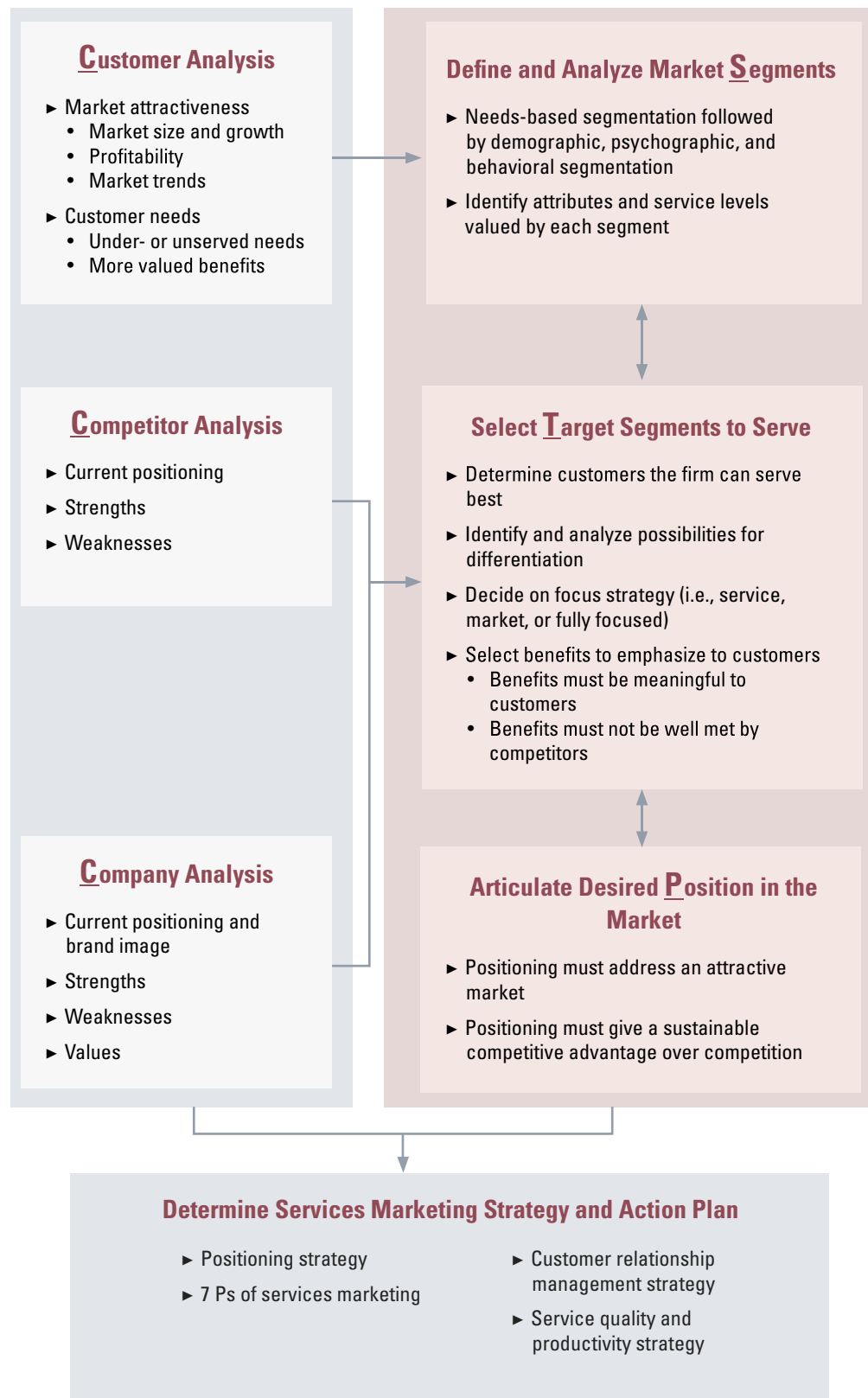
➔ **LO 7** Position a service to distinguish it from its competitors.

➔ **LO 8** Understand how to use positioning maps to analyze and develop competitive strategy.

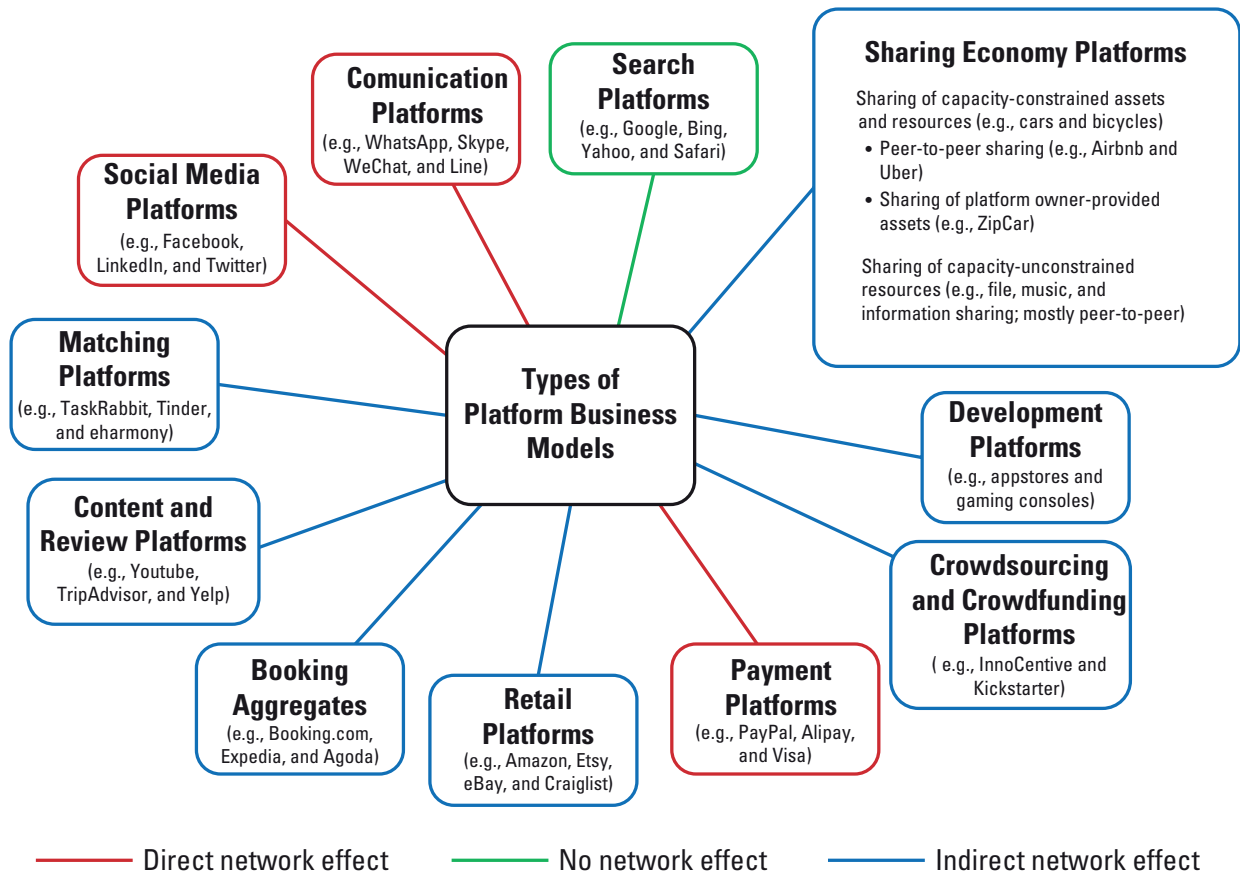
➔ **LO 9** Know how to apply positioning to digital services and platform business models.

➔ **LO 10** Develop an effective positioning strategy.





**Figure 3.2** Developing a services marketing positioning strategy



**Figure 3.16** Direct network effects do not provide a competitive advantage to all types of platforms

Legend: The importance of network effects is indicated by the line color. Red means that primary network effects are critical, blue means that indirect network effects are critical, and green suggests that service performance (e.g., quality of search results) and other attributes are important for a platform's competitive edge.

Source: Adapted from Jochen Wirtz, Kevin Kam Fung So, Makarand Mody, Stephanie Liu, and Helen Chun (2019), "Platforms in the Peer-to-Peer Sharing Economy," *Journal of Service Management*, Vol. 30, No. 4, pp. 452–483.

pronounced for social media and communication platforms (see *Figure 3.16*), where network size and resultant direct network effects can become an effective competitive barrier for smaller platforms.

Second, **indirect network effects** (also called cross-side effects) relate to two- or more-sided platforms where the value for users increases when a new user of a different group joins. For example, an additional driver on Uber will generate additional value for riders as it will be easier and quicker to get a ride. At the same time, each additional rider increases the value to drivers as their income opportunities increase. For such platforms, a critical mass has to be built, also known as the chicken and egg problem. That is, "to attain a critical mass of buyers, you need a critical mass of suppliers, but to attract suppliers, you need a lot of buyers."<sup>17</sup>



**Figure 3.17** Ride sharing businesses such as Uber have indirect network effects

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# Developing Service Products and Brands

Each and every one of you will make or break the promise that our brand makes to customers.

*An American Express manager speaking to his employees*

Your brand is what other people say about you when you're not in the room.

**Jeff Bezos,**  
CEO of Amazon

What we need is the clear view that we want to create, market, and deliver concrete service products rather than something fuzzy that is poorly specified, poorly understood, and poorly communicated.

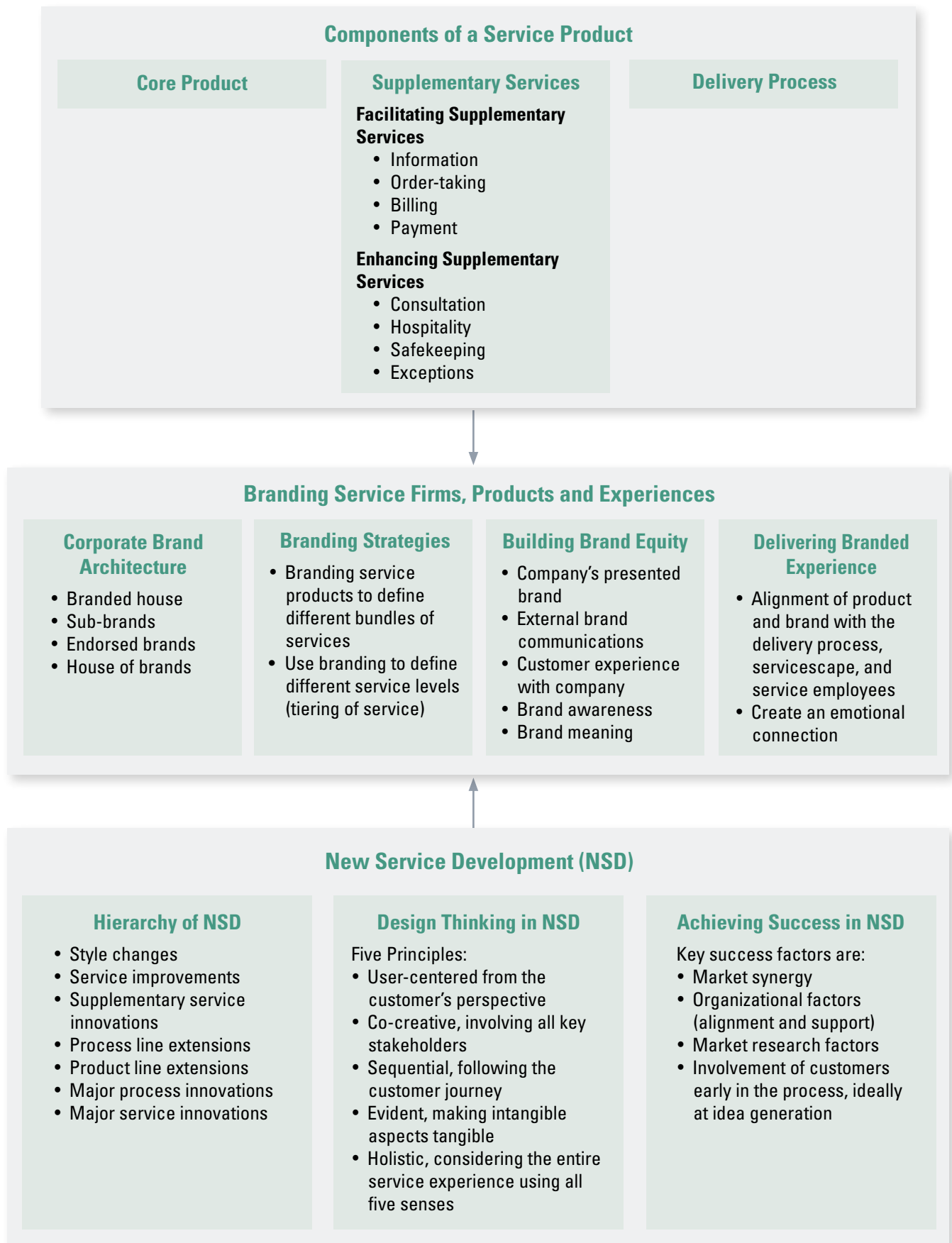
**Jochen Wirtz,**  
Author and Service Expert

## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ **LO 1** Understand what a service product is.
- ➔ **LO 2** Understand the benefits of having well-defined service products.
- ➔ **LO 3** Know the three components of a service product.
- ➔ **LO 4** Be familiar with the Flower of Service model.
- ➔ **LO 5** Know how facilitating supplementary services relate to the core product.
- ➔ **LO 6** Know how enhancing supplementary services relate to the core product.
- ➔ **LO 7** Understand service branding.
- ➔ **LO 8** Know the four brand architecture options at the corporate level.
- ➔ **LO 9** Understand how individual services and experiences can be branded.
- ➔ **LO 10** Understand how branding can be used to tier service levels.
- ➔ **LO 11** Discuss how service firms can build brand equity.
- ➔ **LO 12** Understand what is required to deliver branded service experiences.
- ➔ **LO 13** List the categories of new service development, ranging from simple style changes to major innovations.
- ➔ **LO 14** Know how design thinking applies to new service design.
- ➔ **LO 15** Describe how firms can achieve success in new service development.





**Figure 4.1** Service products, branding, and new service development

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# Distributing Services Through Physical and Electronic Channels

Think globally, act locally.

**John Naisbitt,**

American author of best-seller *Megatrends*

One thing we're not trying to drive is the proliferation of more and more apps... customers don't want that. We want to create that single platform that's device agnostic.

**Simon Pomeroy,**

Former Chief Digital Officer, Westpac New Zealand Limited

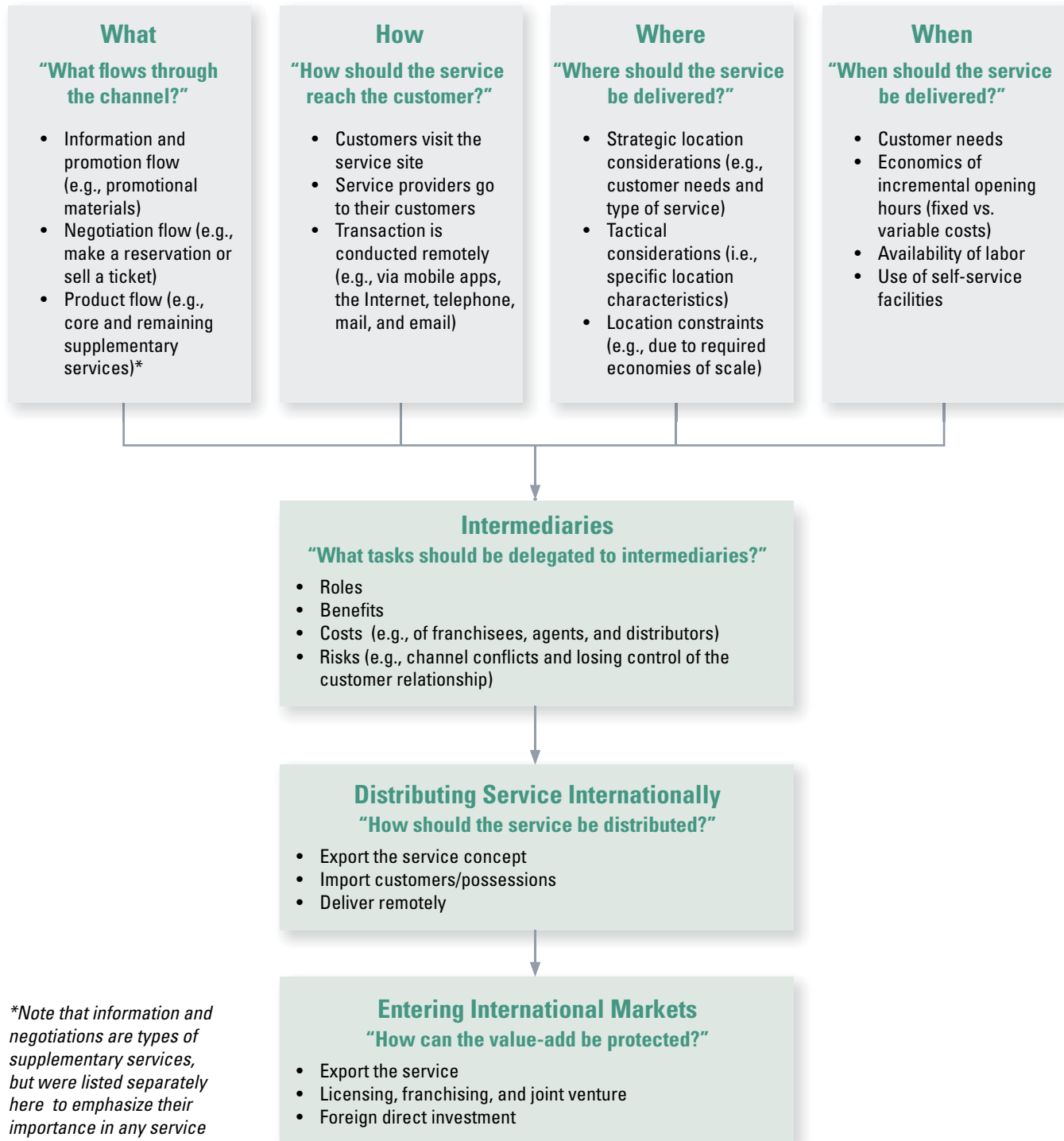
## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ **LO 1** Know the four key questions that form the foundation of any service distribution strategy: What, How, Where, and When.
- ➔ **LO 2** Describe the three interrelated flows that show what is being distributed.
- ➔ **LO 3** Be familiar with how services can be distributed using three main options, and understand the importance of distinguishing between distributing core and supplementary services.
- ➔ **LO 4** Recognize the issues of delivering services through electronic channels and discuss the factors that have fueled the growth of service delivery via cyberspace.
- ➔ **LO 5** Understand the determinants of customers' channel preferences.
- ➔ **LO 6** Know the importance of channel integration.
- ➔ **LO 7** Describe the where (place) decisions of physical channels and be familiar with the strategic and tactical location considerations.
- ➔ **LO 8** Describe the when (time) decisions of physical channels and the factors that determine extended operating hours.
- ➔ **LO 9** Understand the role, benefits, and costs of using intermediaries in distributing services.
- ➔ **LO 10** Know why franchising is a common way of delivering services to end users.
- ➔ **LO 11** Understand the challenges of distributing services in large domestic markets.
- ➔ **LO 12** Be familiar with the forces that drive service firms to go international.
- ➔ **LO 13** Appreciate the special challenges of distributing services internationally.
- ➔ **LO 14** Understand the key barriers to international trade in services.
- ➔ **LO 15** Explain the determinants of international market entry strategies.



### Key questions for designing an effective service distribution strategy:



**Figure 5.2** The Flow Model of Service Distribution

## Application Exercises

1. An entrepreneur is thinking of setting up a new service business (you can choose any specific business). What advice would you give regarding the distribution strategy for this business? Address the **What? How? Where? When?** of service distribution.
2. Think of three services you buy or use either mostly or exclusively via the Internet or a mobile app. What is the value proposition of this channel over alternative channels (e.g., phone, mail, or branch network)?
3. What advice would you give to (a) a weight reduction clinic, (b) a pest control company, and (c) a university offering undergraduate courses about going international?
4. Select three different service industries, one each for people-processing, possession-processing, and information-based services. For each, assess the five globalization drivers and their impact on these three industries.
5. Obtain recent statistics for international trade in services for the United States and another country of your choice. What are the dominant categories of service exports and imports? What factors do you think drive trade in specific service categories? What differences do you see between the countries?
6. Which market entry strategy into a new international market should the following businesses consider and why: (1) an architectural design firm, (2) an online discount broker, and (3) an advertising-funded travel app?



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# Service Pricing and Revenue Management

What is a cynic? A man who knows the price of everything and the value of nothing.

**Oscar Wilde,**  
Irish author, playwright, and poet (1854–1900)

There are two fools in any market: One does not charge enough. The other charges too much.

**Russian proverb**

Excellent organizations compete on value, not price.

**Leonard L. Berry,**  
Professor and thought leader

## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ **LO 1** Recognize that effective pricing is central to the financial success of service firms.
- ➔ **LO 2** Outline the foundations of a pricing strategy as represented by the pricing tripod.
- ➔ **LO 3** Define different types of financial cost and explain the limitations of cost-based pricing.

- ➔ **LO 4** Understand the concept of net value and how gross value can be enhanced through value-based pricing and reduction of related monetary and nonmonetary costs.
- ➔ **LO 5** Describe competition-based pricing and situations where service markets are less price competitive.
- ➔ **LO 6** Define revenue management and describe how it works.
- ➔ **LO 7** Discuss the role of rate fences in effective revenue management.
- ➔ **LO 8** Be familiar with the issues of ethics and consumer concerns related to service pricing.
- ➔ **LO 9** Understand how fairness can be designed into revenue management policies.
- ➔ **LO 10** Discuss the six questions marketers need to answer to design an effective service pricing strategy.



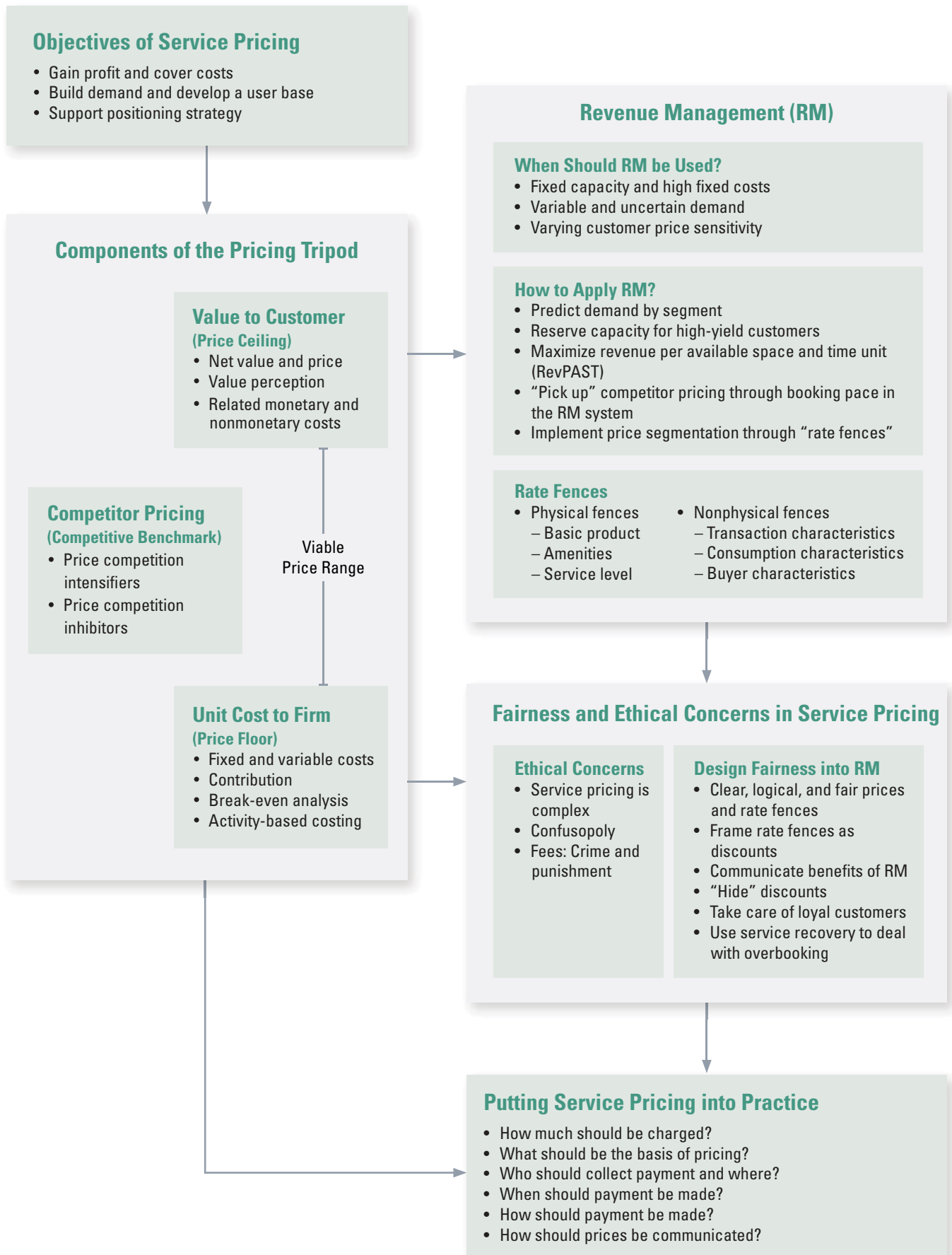


Figure 6.2 Organizing framework for pricing of services

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# Service Marketing Communications

Life is for one generation; a good name is forever.

Japanese proverb

We don't have a choice on whether we do social media; the question is how well we do it.

Erik Qualman,  
Author of *Socialnomics*

## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ LO 1 Know the 5 Ws of the Integrated Service Communications Model, i.e., **Who**, **What**, **How**, **Where**, and **When**.
- ➔ LO 2 Be familiar with the three broad target audiences ("**Who**") for any service communications program.
- ➔ LO 3 Understand the most common strategic and tactical service communication objectives ("**What**").
- ➔ LO 4 Be familiar with the Service Marketing Communications Funnel and key objectives in that funnel.
- ➔ LO 5 Know a few important specific roles service marketing communications can assume.
- ➔ LO 6 Understand the challenges of service communications and how service communications can overcome those ("**How**").
- ➔ LO 7 Be familiar with the marketing communications mix in a services context ("**Where**").
- ➔ LO 8 Know the communications mix elements of the traditional marketing communication channels.
- ➔ LO 9 Know the role of the Internet, mobile, apps, quick response (QR) codes, and other electronic media in service marketing communications.
- ➔ LO 10 Know the communications mix elements available via service delivery channels.
- ➔ LO 11 Know the communications mix elements that originate from outside the firm.
- ➔ LO 12 Understand when communications should take place ("**When**"), how to set budgets for service communications programs, and how to evaluate these programs.
- ➔ LO 13 Appreciate ethical and consumer privacy-related issues in service marketing communications.
- ➔ LO 14 Understand the role of corporate design in communications.
- ➔ LO 15 Know the importance of integrated marketing communications to deliver a strong brand identity.



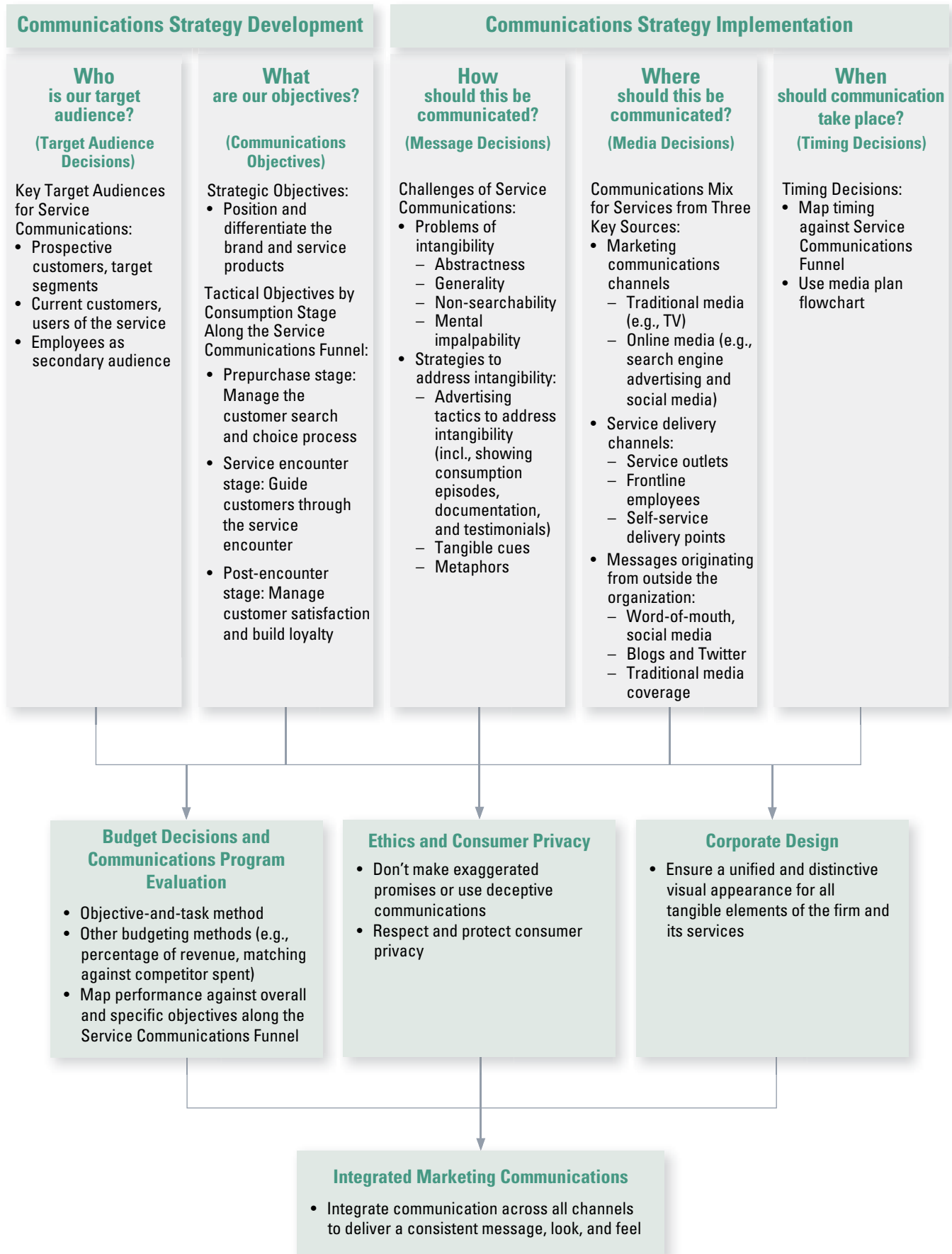
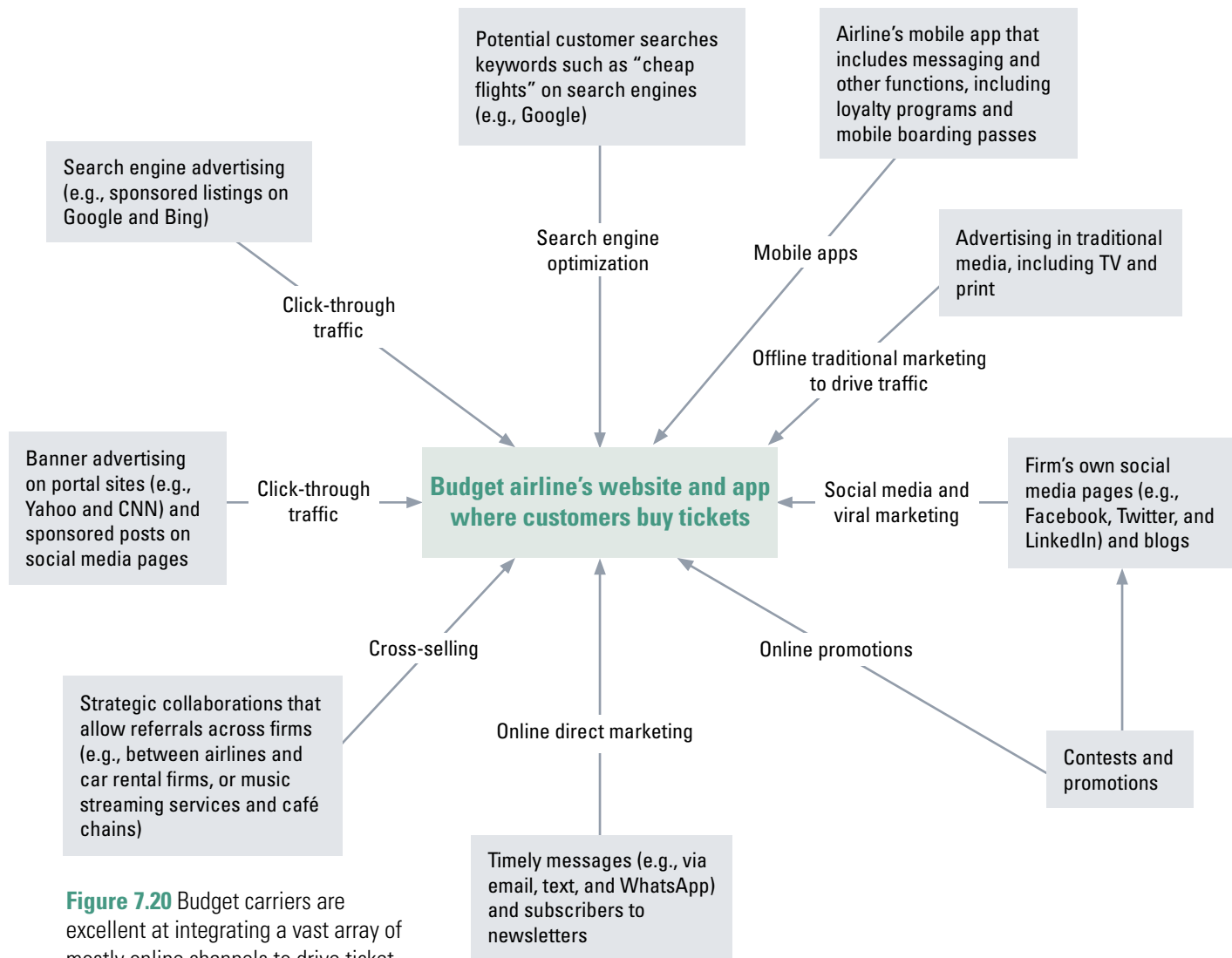


Figure 7.2 Integrated Service Communications Model



**Figure 7.20** Budget carriers are excellent at integrating a vast array of mostly online channels to drive ticket sales on their websites

**Frontline Employees.** Employees in frontline positions may serve customers face-to-face, by telephone, chat, or via e-mail. Communication from frontline staff takes the form of the core service and a variety of supplementary services, including providing information, giving advice,<sup>27</sup> taking reservations, receiving payments, and solving problems. New customers, in particular, often rely on service personnel for help in learning to use a service effectively and to solve problems.

Frontline employees have a very important part to play. As discussed in Chapter 4, brand equity is created largely through a customer's personal experience with the service firm rather than through mass communications, which is more suitable for creating awareness and interest. Furthermore, many service firms encourage their customer service staff to cross-sell additional services, or to up-sell to higher value services. Tony Hsieh, the former chief executive officer (CEO) of



*Bodegas Salentein – Uco Valley – Argentina*  
**Figure 7.21** The Selentein Winery in Argentina has a very unique servicescape

## Endnotes

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**47** The European Union’s General Data Protection Regulation (GDPR) can be accessed at <https://gdpr-info.eu/>. If you would like to lodge a complaint with your national Data Protection Authority, see: [https://edps.europa.eu/data-protection/our-role-supervisor/complaints\\_en](https://edps.europa.eu/data-protection/our-role-supervisor/complaints_en).

Recent research advances that the protection for consumers needs to extend beyond privacy and has to cover the entire life cycle of data. It ranges from creation of data (e.g., capturing data through cameras and biometric identification and collecting data from wearable devices), developing variables based on the data (e.g., credit scores or a healthiness of lifestyle metric), making decisions based on the variables (e.g., whether to approve a loan and if yes, at what interest rate), and finally the retirement of these data (e.g., the “right to be forgotten” in the European Union); see: Lara Lobschat, Benjamin Müller, Felix Eggers, Laura Brandimarte, Sarah Diefenbach, Mirja Kroschke, and Jochen Wirtz (January 2021), “Corporate Digital Responsibility,” *Journal of Business Research*, Vol. 122, pp. 875–888.

**48** If you live in the United States and do not want telemarketers to call you on your home or mobile phone, simply register your numbers at the The National Do Not Call Registry at <https://www.donotcall.gov>. If you want to reduce unwanted direct mailers, register your email at the Direct Marketing Association’s DMAChoice.or at <https://www.dmachoice.org/>. If you want to opt out from targeted online advertising and advertisers tracking your browsing behavior, see AdChoices at <https://youradchoices.com>.

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# Designing Service Processes

Well done is better than well said.

**Benjamin Franklin,**  
One of the Founding Fathers  
of the United States, 1706–1790

The technology you use impresses no one. The experience you create with it is everything.

**Sean Gerety,**  
User experience expert

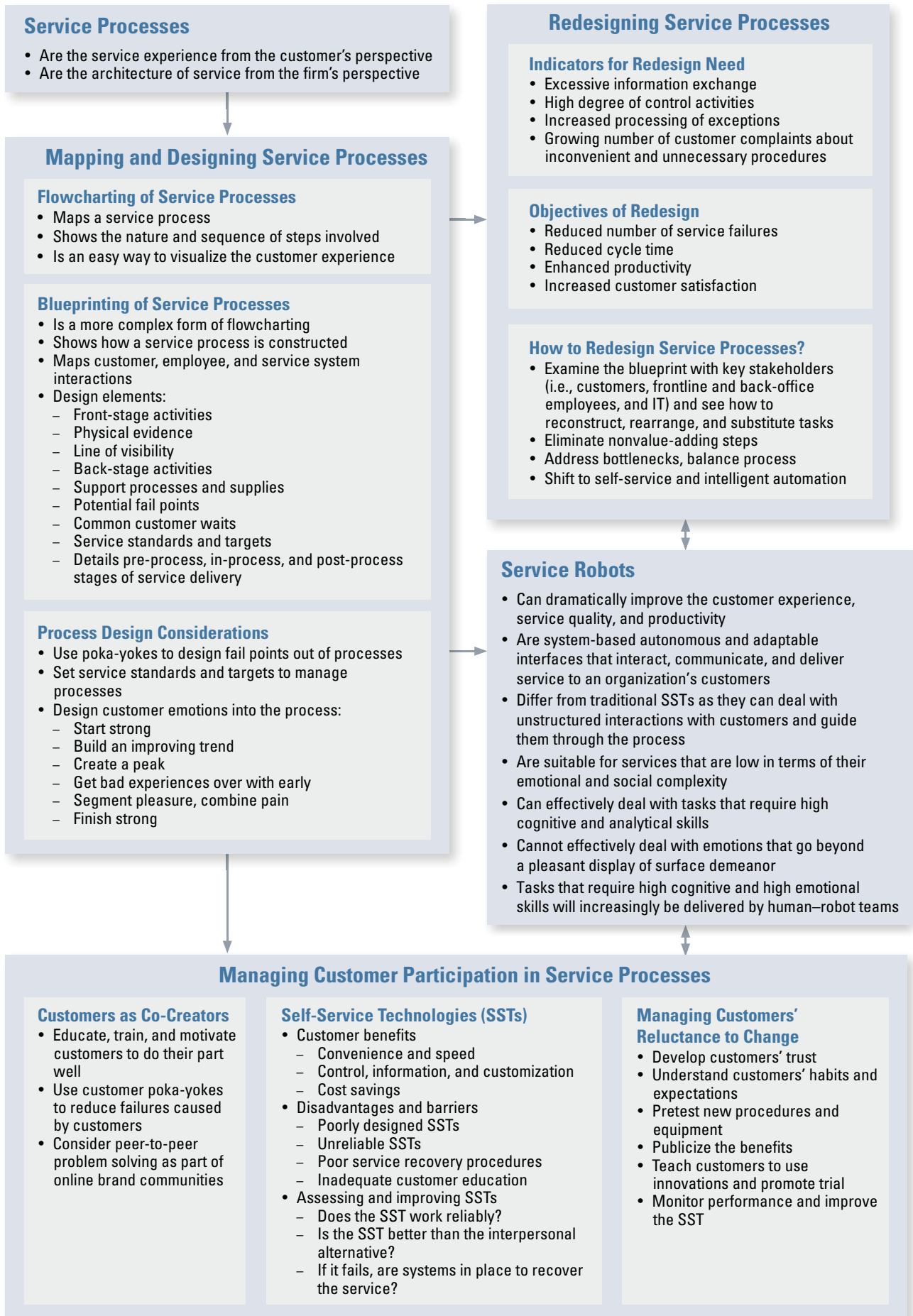
Ultimately, only one thing really matters in service encounters — the customer’s perceptions of what occurred.

**Richard B. Chase and Sriram Dasu,**  
Professors at University of Southern California

## LEARNING OBJECTIVES (LOs)

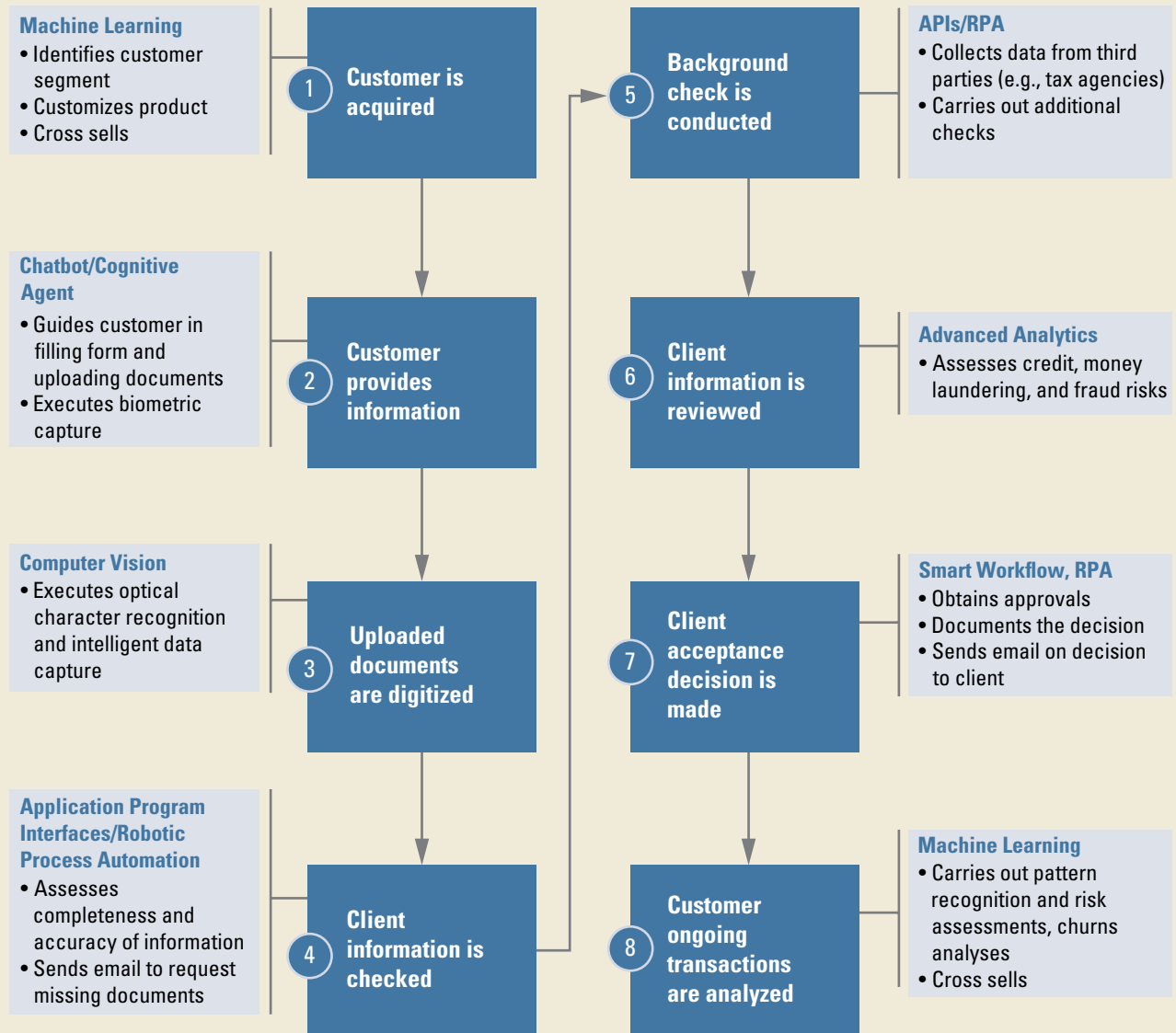
**By the end of this chapter, the reader should be able to:**

- ➔ **LO 1** Know the difference between a service experience and service process.
- ➔ **LO 2** Tell the difference between flowcharting, blueprinting, and customer journey mapping.
- ➔ **LO 3** Develop a blueprint for a service process with all the typical design elements in place.
- ➔ **LO 4** Understand how to use fail-proofing to design fail points out of service processes.
- ➔ **LO 5** Know how to set service standards and performance targets for customer service processes.
- ➔ **LO 6** Appreciate the importance of consumer perceptions and emotions in service process design.
- ➔ **LO 7** Explain the necessity for service process redesign.
- ➔ **LO 8** Understand how service process redesign can help improve both service quality and productivity.
- ➔ **LO 9** Understand the levels of customer participation in service processes.
- ➔ **LO 10** Be familiar with the concept of service customers as “co-creators” and the implications of this perspective.
- ➔ **LO 11** Understand the factors that lead customers to accept or reject new self-service technologies (SSTs), and service robot- and artificial intelligence (AI)-delivered services (e.g., chatbots).
- ➔ **LO 12** Know how to manage customers’ reluctance to change their behaviors in service processes, including the adoption of new technologies.
- ➔ **LO 13** Appreciate the dramatic impact service robots and artificial intelligence will have on customer service processes.
- ➔ **LO 14** Understand the differences between service robots and traditional self-service technologies.
- ➔ **LO 15** Know the type of services that can best be delivered by service robots, service employees, and service employee–robot teams.



**Figure 8.1** Chapter overview — designing and managing service processes

## A typical customer onboarding process leveraging intelligent automation



**Figure 8.26** Using intelligent automation to redesign a mortgage sale and onboarding process

and conditions. The customer's questions about the product, application process, and bank itself are answered by the chatbot. The chatbot refers more complex questions to a human agent who will call the customer during office hours.

- Once the client has selected an offer, the chatbot guides the customer to fill in his information on the online loan application platform. Some of this information is pre-filled using data bridges created with other platforms such as government or social media sites. This helps to save the customer time

and ensures data accuracy. Potentially missing or wrong information is identified instantaneously to avoid back-and-forth communications. The customer's data is entered step by step, following a series of user-friendly screens. After receiving the minimum information required, the platform provides the customer with a pre-assessment of his loan application with an in-principle approval. This is designed to happen within the first 5 minutes of a customer interaction in order to maintain the customer's interest and avoid losing this prospect.

## Endnotes

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# Balancing Demand and Capacity

Balancing the supply and demand sides of a service industry is not easy, and whether a manager does it well or not makes all the difference.

**W. Earl Sasser,**  
Professor at Harvard Business School

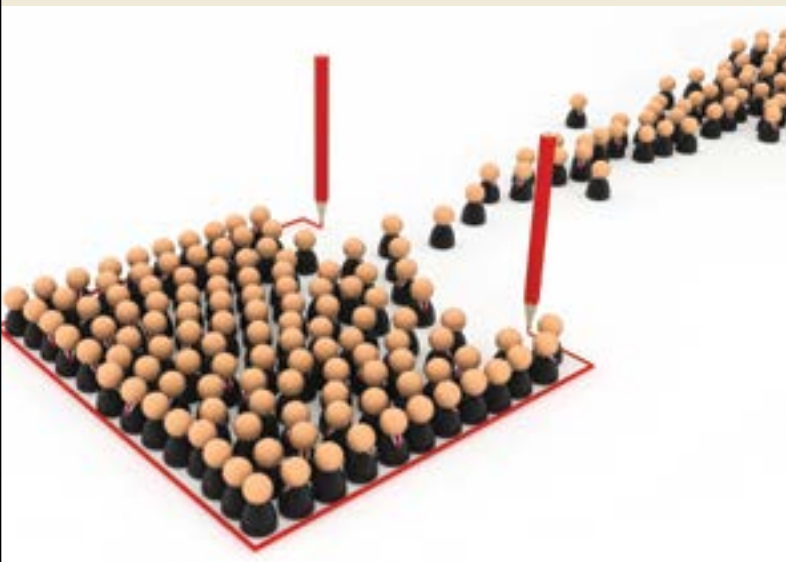
They also serve who only stand and wait.

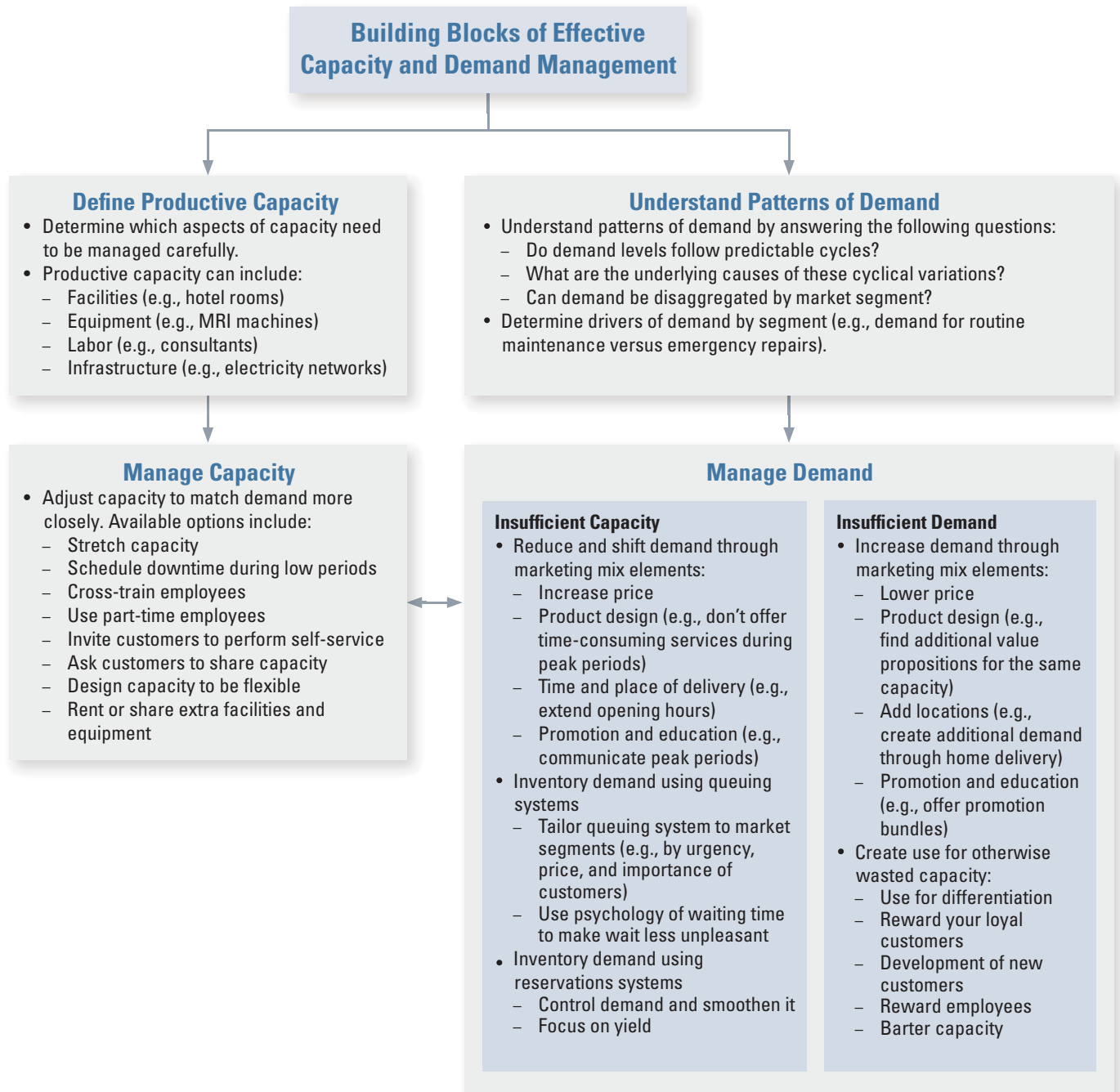
**John Milton,**  
English poet, 1608–1674

## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ **LO 1** Know the different demand–supply situations that fixed capacity firms may face.
- ➔ **LO 2** Describe the building blocks of dealing with the problem of fluctuating demand.
- ➔ **LO 3** Understand what is meant by productive capacity in a service context.
- ➔ **LO 4** Be familiar with the basic ways to manage capacity.
- ➔ **LO 5** Recognize that demand patterns vary by segment, so that segment-specific variations in demand can be predicted.
- ➔ **LO 6** Be familiar with the five basic ways to manage demand.
- ➔ **LO 7** Understand how to use the marketing mix elements of price, product, place, and promotion to smooth out fluctuations in demand.
- ➔ **LO 8** Know how to use waiting lines and queuing systems to inventory demand.
- ➔ **LO 9** Understand how customers perceive waits and how to make waiting less burdensome for them.
- ➔ **LO 10** Know how to use reservation systems to inventory demand.
- ➔ **LO 11** Be familiar with strategic approaches to utilize residual surplus capacity even after all other options of matching demand and capacity have been exhausted.





**Figure 9.2** Building blocks of effective capacity and demand management

out variations in demand. Most service firms use a mix of both approaches.<sup>1</sup>

Figure 9.2 shows the four building blocks that provide an integrative approach to balancing capacity and demand. The remainder of this chapter is organized along these four building blocks.

## Marketing Mix Elements Can be Used to Shape Demand Patterns

**LO 7** Understand how to use the marketing mix elements of price, product, place, and promotion to smooth out fluctuations in demand.

Several marketing mix variables can be used to stimulate demand during periods of excess capacity and decrease or shift demand during periods of insufficient capacity. Price is often the first variable to be proposed for bringing demand and supply into balance. However, changes in product, distribution strategy, and communication efforts can also be used to reshape demand patterns. Although each element is discussed separately, effective

demand management efforts often require changes in several elements concurrently.<sup>5</sup>

**Use Price and Nonmonetary Costs to Manage Demand.** One of the most direct ways to balance supply and demand is through the use of pricing. The lure of lower prices may encourage at least some people to change the timing of their behavior, whether for shopping, traveling, or sending in equipment for repair. Nonmonetary costs may have a similar effect too. For instance, customers who dislike spending time waiting in crowded and unpleasant conditions will try to come during less busy periods.

For the monetary price of a service to be effective as a demand management tool, managers must have some

**Table 9.2** Alternate Demand Management Strategies for Different Capacity Situations

Four Approaches to Managing Demand	Capacity Situation	
	Excess Demand (Insufficient Capacity)	Insufficient Demand (Excess Capacity)
Take no action	<ul style="list-style-type: none"> <li>Results in unorganized queuing (may irritate customers and discourage future use).</li> </ul>	<ul style="list-style-type: none"> <li>Capacity is wasted (customers may have a disappointing experience for services such as theater).</li> </ul>
Manage demand through marketing mix elements	<p>Reduce demand in peak periods:</p> <ul style="list-style-type: none"> <li>Higher prices will increase profits.</li> <li>Change product elements (e.g., don't offer time-consuming services during peak times).</li> <li>Modify time and place of delivery (e.g., extend opening hours).</li> <li>Communication can encourage use in other time slots. Consider focusing this effort on less profitable and less desirable segments.</li> <li>Note that demand from highly profitable segments should still be stimulated, and priority to capacity should be given to those segments. Demand reduction and shifting should primarily be focused on lower yield segments.</li> </ul>	<p>Increase demand in low periods:</p> <ul style="list-style-type: none"> <li>Lower prices selectively. Try to avoid cannibalizing existing business and ensure that all relevant costs are covered.</li> <li>Change product elements (find alternative value propositions for service during low seasons).</li> <li>Use communications and variation in products and distribution but recognize extra costs, if any, and make sure that appropriate trade-offs are made between profitability and use levels.</li> </ul>
Inventory demand using a queuing system	<ul style="list-style-type: none"> <li>Match appropriate queue configuration to service process.</li> <li>Consider priority system for most desirable segments.</li> <li>Consider separate queues based on urgency, duration, and premium pricing of service.</li> <li>Shorten customer's perceptions of waiting time and make their waits more comfortable.</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable, but the queuing system can still collect data on number and type of transactions and customers served. The same can be applied to reservation systems below.</li> </ul>
Inventory demand using a reservation system	<ul style="list-style-type: none"> <li>Focus on yield and reserve capacity for less price-sensitive customers.</li> <li>Consider a priority system for important segments.</li> <li>Make other customers shift to off-peak periods.</li> </ul>	<ul style="list-style-type: none"> <li>Clarify that capacity is available and let customers make reservations at their preferred time slot.</li> </ul>

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# Crafting the Service Environment

Managers... need to develop a better understanding of the interface between the resources they manipulate in atmospherics and the experience they want to create for the customer.

**Jean-Charles Chebat and Laurette Dubé,**  
Professors of Marketing at HEC Montréal Business School and McGill University, Montréal, respectively

Restaurant design has become as compelling an element as menu, food, and wine... in determining a restaurant's success.

**Danny Meyer,**  
New York City restaurateur  
and CEO of Union Square Hospitality Group

## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

➔ **LO 1** Recognize the four core purposes service environments fulfill.

➔ **LO 2** Know the theoretical foundation from environmental psychology that helps us understand how customers and employees respond to service environments.

➔ **LO 3** Be familiar with the integrative service-scape model.

➔ **LO 4** Know the three main dimensions of the service environment.

➔ **LO 5** Discuss the key ambient conditions and their effects on customers.

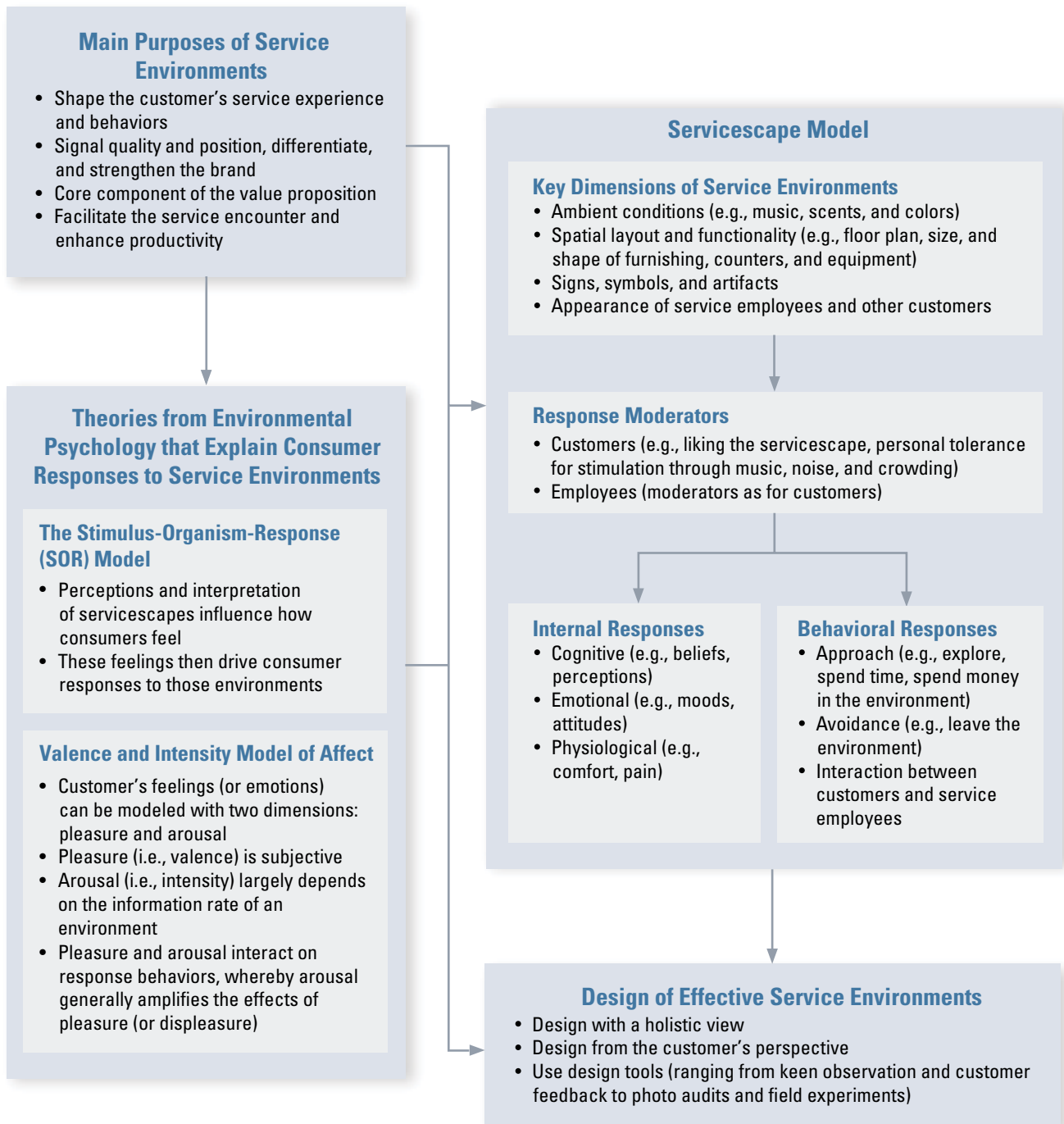
➔ **LO 6** Determine the roles of spatial layout and functionality.

➔ **LO 7** Understand the roles of signs, symbols, and artifacts.

➔ **LO 8** Know how service employees and other customers are part of the servicescape.

➔ **LO 9** Explain why designing an effective servicescape has to be done holistically and from the customer's perspective.





**Figure 10.2** Organizational framework for designing service environments

## Endnotes

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# Managing People for Service Advantage

Quintessentially we are a people-based company. You couldn't find another consumer brand as dependent on human behavior.

**Howard Schultz,**  
CEO of Starbucks

The old adage "people are your most important asset" is wrong. The right people are your most important asset.

**Jim Collins,**  
Consultant, teacher, and author of  
best-selling book *Good to Great*

Customer satisfaction results from the realization of high levels of value compared to competitors... Value is created by satisfied, committed, loyal, and productive employees.

**James I. Heskett, W. Earl Sasser, Jr.,  
and Leonard L. Schlesinger,**  
Current and former professors at  
Harvard Business School

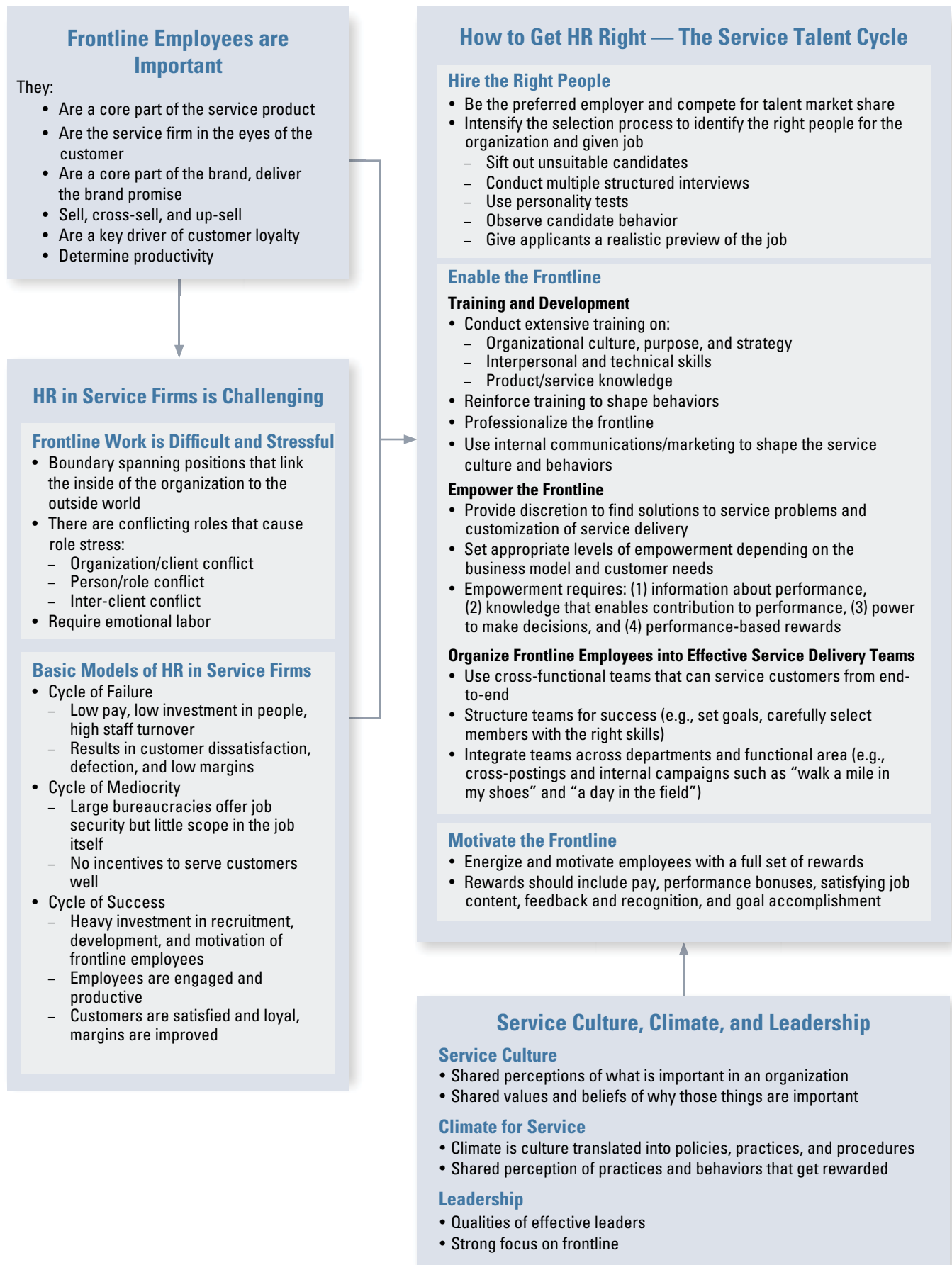
## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ **LO 1** Explain why service employees are so important to the success of a firm.
- ➔ **LO 2** Understand the factors that make the work of frontline staff so demanding and often difficult.
- ➔ **LO 3** Describe the cycles of failure, mediocrity, and success in human resources for service firms.
- ➔ **LO 4** Understand the key elements of the Service Talent Cycle of successful human resources management in service firms.



- ➔ **LO 5** Know how to attract, select, and hire the right people for service jobs.
- ➔ **LO 6** Explain the key areas in which service employees need training.
- ➔ **LO 7** Understand the role of internal marketing and communications.
- ➔ **LO 8** Understand why empowerment is so important in many frontline jobs.
- ➔ **LO 9** Explain how to build high-performance service delivery teams.
- ➔ **LO 10** Know how to integrate teams across departments and functional areas.
- ➔ **LO 11** Know how to motivate and energize service employees so that they will deliver service excellence and productivity.
- ➔ **LO 12** Understand what a service-oriented culture is.
- ➔ **LO 13** Know the difference between service climate and culture, and describe the determinants of a climate for service.
- ➔ **LO 14** Explain the qualities of effective leaders in service organizations.
- ➔ **LO 15** Understand different leadership styles, the importance of role modeling, and focusing the entire organization on the frontline.<sup>1</sup>



**Figure 11.1** Organizing framework — managing people for service advantage

## Application Exercises

1. An airline runs a recruiting advertisement for cabin crew that shows a picture of a young boy sitting in an airline seat and clutching a teddy bear. The headline reads: “His mom told him not to talk to strangers. So what’s he having for lunch?” Describe the types of personalities you think would be (a) attracted to apply for the job by that ad and (b) discouraged from applying.
2. Consider the following jobs: emergency department nurse, bill collector, computer repair technician, supermarket cashier, dentist, kindergarten teacher, prosecuting attorney, waiter in a family restaurant, waiter in an expensive French restaurant, stockbroker, and undertaker. What type of emotions would you expect each of them to display to customers in the course of doing their job? What drives your expectations?
3. Use the Service Talent Cycle as a diagnostic tool on a successful and an unsuccessful service firm you are familiar with. What recommendations would you prescribe to each of these two firms?
4. Think of two organizations you are familiar with, one with a very good climate for service and one with a poor service climate. Describe the factors that contributed to shaping those climates. What factors do you think contributed most and why?
5. Which issues do you see as most likely to create boundary-spanning problems for employees in a customer contact center at a major cable service provider? Select four issues and indicate how you would mediate between operations and marketing to create a satisfactory outcome for all three groups (i.e., including customers).
6. Identify the factors needed to make service teams successful in (a) an airline, (b) a restaurant, and (c) a customer contact center.
7. Profile an individual whose leadership skills have played a significant role in the success of a service organization and identify personal characteristics that you consider important.



## Endnotes

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# Managing Relationships and Building Loyalty

The purpose of business is to create and keep a customer.

**Peter Drucker,**  
Management consultant, educator, and author

There is only one boss, the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.

**Thomas Edison,**  
Inventor and businessman

The first step in managing a loyalty-based business system is finding and acquiring the right customers.

**Frederick F. Reichheld,**  
Author, strategist, and fellow of Bain & Company

Strategy first, then CRM.

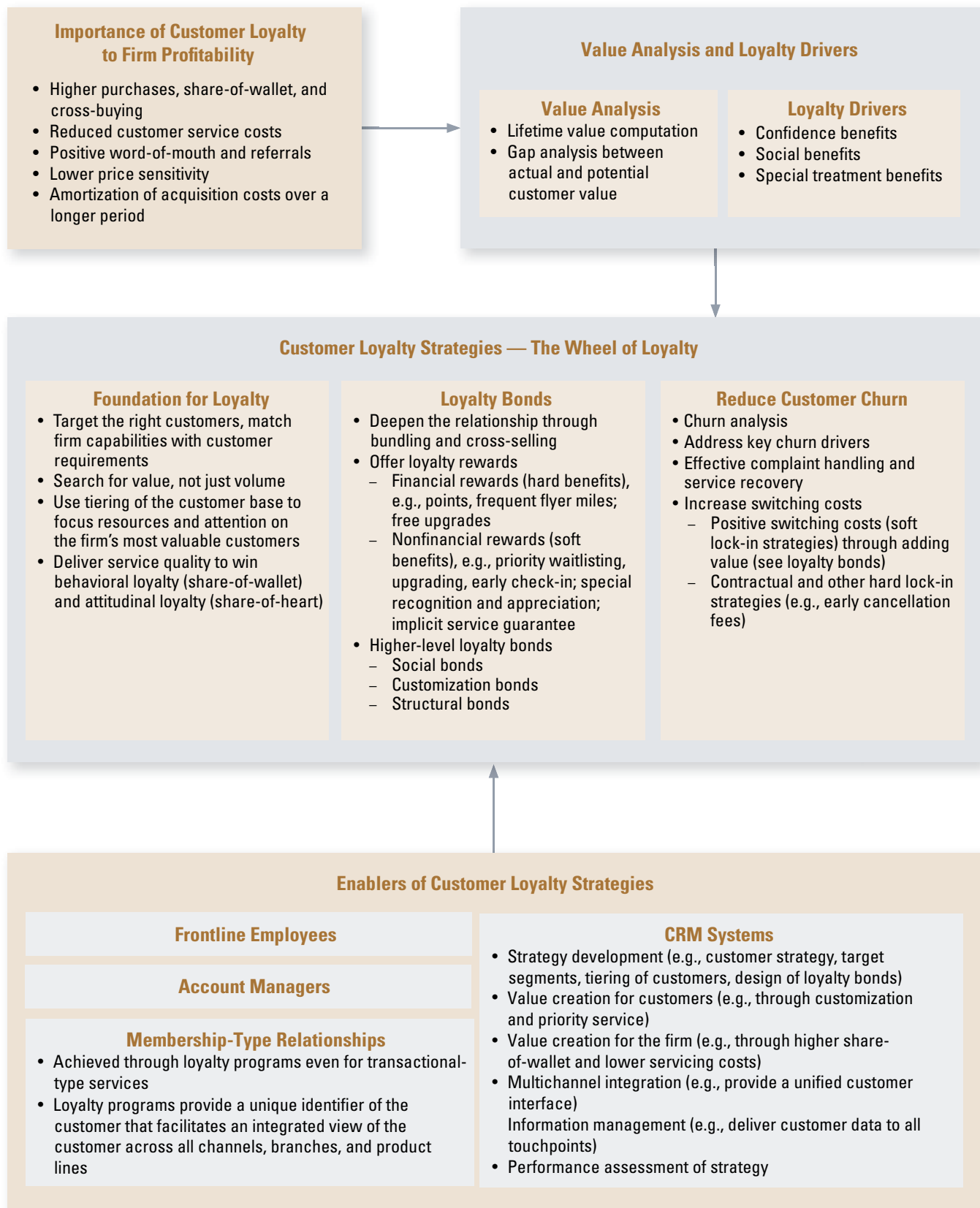
**Steven S. Ramsey,**  
Former senior partner with Accenture, current executive vice president with IRI

## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ **LO 1** Recognize the important role customer loyalty plays in driving a service firm's profitability.
- ➔ **LO 2** Calculate the lifetime value of a loyal customer.
- ➔ **LO 3** Understand why customers are loyal to a particular service firm.
- ➔ **LO 4** Know the core strategies of the Wheel of Loyalty that explain how to develop a loyal customer base.
- ➔ **LO 5** Appreciate why it is so important for service firms to target the "right" customers.
- ➔ **LO 6** Use service tiering to manage the customer base and build loyalty.
- ➔ **LO 7** Understand the relationship between customer satisfaction and loyalty.
- ➔ **LO 8** Know how to deepen the relationship through cross-selling and bundling.
- ➔ **LO 9** Understand the role of financial and non-financial loyalty rewards in enhancing customer loyalty.
- ➔ **LO 10** Appreciate the power of social, customization, and structural bonds in enhancing loyalty.
- ➔ **LO 11** Understand what factors cause customers to switch to a competitor and how to reduce such switching.
- ➔ **LO 12** Know why loyalty programs and customer relationship management (CRM) systems are important enablers of delivering loyalty strategies.
- ➔ **LO 13** Understand the part played by customer relationship management (CRM) systems in delivering customized services and building loyalty.





**Figure 12.1** Organizing framework for managing customer relationships and building loyalty

## Application Exercises

1. Identify three service businesses you buy from on a regular basis. For each business, complete the following sentence: “I am loyal to this business because...”
2. What conclusions do you draw about (a) yourself as a consumer and (b) the performance of each of the businesses in Exercise 1? Assess whether any of these businesses managed to develop a sustainable competitive advantage through the way it won your loyalty.
3. Identify two service businesses that you used several times but have now stopped buying from (or plan to stop patronizing soon). Complete the sentence: “I stopped using (or will soon stop using) this organization as a customer because...”
4. What conclusions do you draw about yourself and the firms in Exercise 3? How could each of these firms avoid your defection?
5. Evaluate the strengths and weaknesses of two loyalty programs, each one from a different service industry. Assess how each program could be improved further.
6. Design a questionnaire and conduct a survey asking about two loyalty programs. The first is about a membership/loyalty program your classmates or their families like best and keeps them loyal to that firm. The second should be about a loyalty program that is not well-perceived and does not seem to add value to the customer. Use open-ended questions such as “What motivated you to sign up in the first place?,” “Why are you using this program?,” “Has participating in the program changed your purchasing/usage behavior in any way?,” “Has it made you less likely to use competing suppliers?,” “What do you think of the rewards available?,” “Did membership in the program lead to any immediate benefits in the use of the service?,” “What are the three things you like best about this loyalty program?,” “What do you like least?,” and “What are some suggested improvements?.” Analyze what features make loyalty/membership programs successful and what features do not achieve the desired results. Use the Wheel of Loyalty framework to guide your analysis and presentation.
7. Approach service employees in two firms with implemented customer relationship management (CRM) systems. Ask the employees about their experience interfacing with these systems, and whether or not the CRM systems (a) help them understand their customers better and (b) lead to improved service experiences for their customers. Ask them about potential concerns and improvement suggestions they may have about their organizations’ CRM systems.

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CHAPTER  
13

# Complaint Handling and Service Recovery

A complaint is a gift.

**Claus Møller,**  
Management consultant and author

Customers don't expect you to be perfect. They do expect you to fix things when they go wrong.

**Donald Porter,**  
Former V. P. British Airways

To err is human; to recover, divine.

**Christopher Hart, James Heskett, and Earl Sasser,**  
Professors at Harvard Business School  
(paraphrasing 18<sup>th</sup>-century poet Alexander Pope)

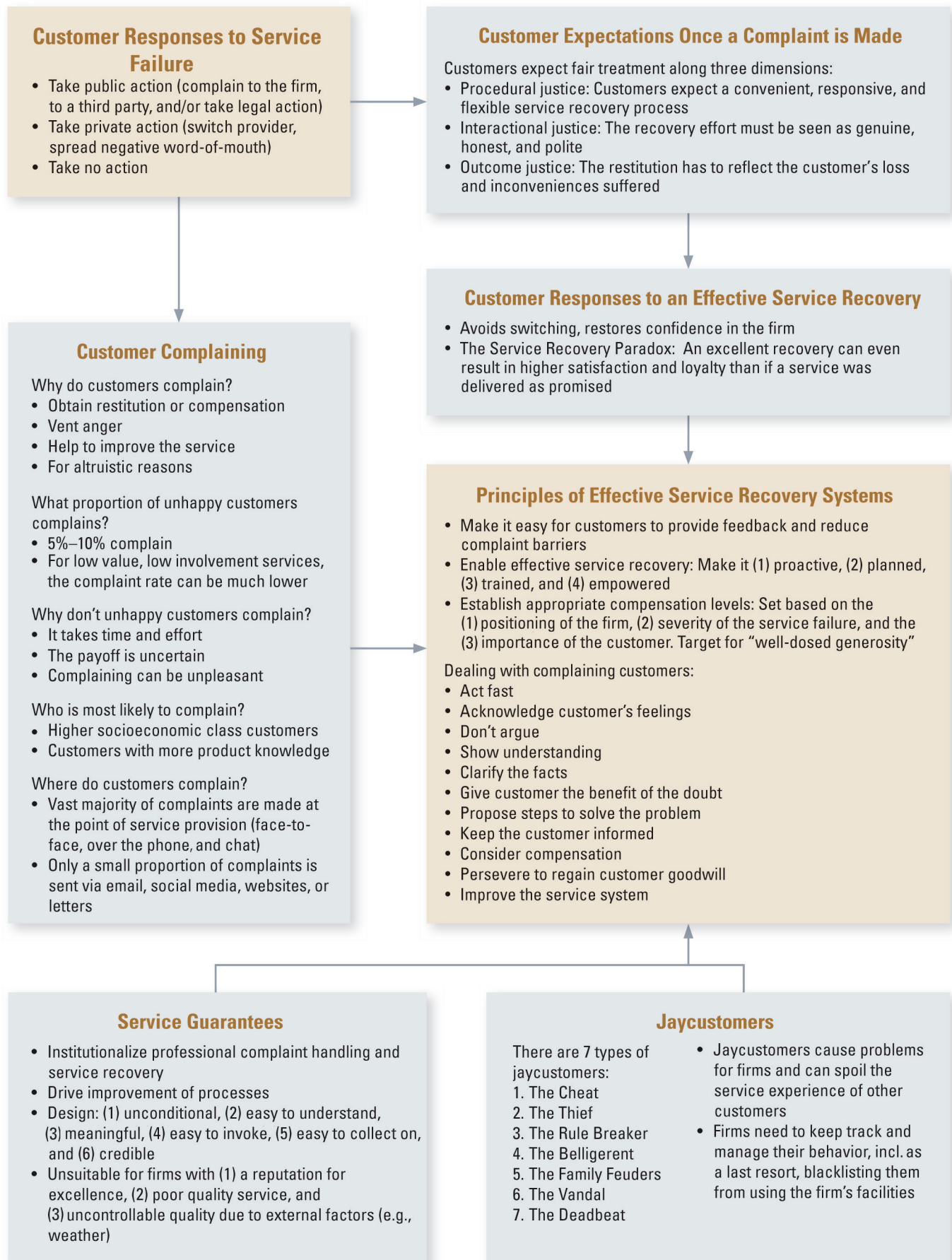
## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ **LO 1** Recognize the actions that customers may take in response to a service failure.
- ➔ **LO 2** Understand why customers complain.

- ➔ **LO 3** Know what customers expect from the firm when they complain.
- ➔ **LO 4** Understand how customers respond to effective service recovery.
- ➔ **LO 5** Explain the service recovery paradox.
- ➔ **LO 6** Know the principles of effective service recovery systems.
- ➔ **LO 7** Be familiar with the guidelines for frontline employees on how to handle complaining customers and recover from a service failure.
- ➔ **LO 8** Recognize the power of service guarantees.
- ➔ **LO 9** Understand how to design effective service guarantees.
- ➔ **LO 10** Know when firms should not offer service guarantees.
- ➔ **LO 11** Be familiar with the seven types of jaycustomers and understand how to manage them effectively.





**Figure 13.2** Organizing framework for managing complaints and service recovery

## Endnotes

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# Improving Service Quality and Productivity

Not everything that counts can be counted, and not everything that can be counted, counts

**Albert Einstein,**  
Theoretical physicist and Nobel Prize winner

Without data you're just another person with an opinion.

**W. Edwards Deming,**  
Engineer, statistician, professor, and  
management consultant  
Father of the Total Quality Management movement

Our mission remains inviolable: Offer the customer the best service we can provide, cut our costs to the bones, and generate a surplus to continue the unending process of renewal.

**Joseph Pillay,**  
Former chairman, Singapore Airlines

## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ **LO 1** Explain the relationships between service quality, productivity, and profitability.
- ➔ **LO 2** Be familiar with the different perspectives of service quality.
- ➔ **LO 3** Demonstrate how to use the Gaps Model for diagnosing and addressing service quality problems.
- ➔ **LO 4** Differentiate between hard and soft measures of service quality.
- ➔ **LO 5** Explain the common objectives of effective customer feedback systems.
- ➔ **LO 6** Describe key customer feedback collection tools.
- ➔ **LO 7** Be familiar with hard measures of service quality and control charts.
- ➔ **LO 8** Select suitable tools to analyze service problems.
- ➔ **LO 9** Understand return on quality and determine the optimal level of reliability.
- ➔ **LO 10** Define and measure service productivity.
- ➔ **LO 11** Understand the difference between productivity, efficiency, and effectiveness.
- ➔ **LO 12** Recommend the key methods to improve service productivity.
- ➔ **LO 13** Know how productivity improvements impact quality and value.
- ➔ **LO 14** Understand how to integrate all the tools to improve the quality and productivity of customer service processes.
- ➔ **LO 15** Explain how Total Quality Management, ISO 9000, Six Sigma, and the Malcolm-Baldrige and European Foundation for Quality Management approaches relate to managing and improving service quality and productivity.



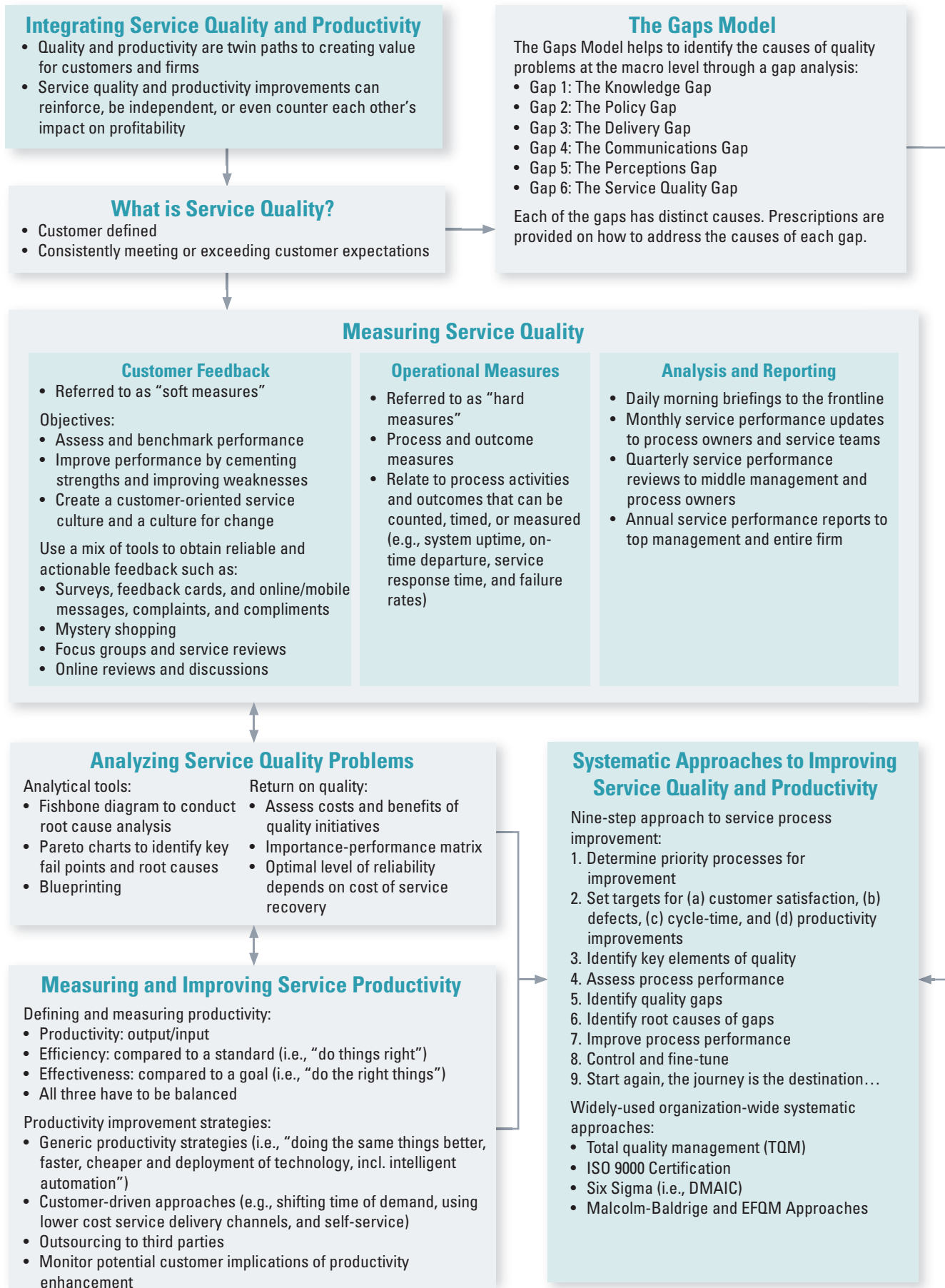


Figure 14.1 Improving service quality and productivity

## Endnotes

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# Building a World-Class Service Organization

Marketing is so basic that it cannot be considered a separate function... It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise.

**Peter Drucker,<sup>1</sup>**

Management consultant, educator, and author  
Described as a founder of modern management

[T]he more short-term a company's focus becomes, the more likely the firm will be to engage in behavior that actually destroys value.

**Don Peppers and Martha Rogers,**  
Founding partners of Peppers & Rogers Group,  
a customer-centric management consulting firm

Big things are accomplished only through the perfection of minor details.

**John Wooden,**  
Legendary former University of California, Los Angeles  
basketball team coach

## LEARNING OBJECTIVES (LOs)

By the end of this chapter, the reader should be able to:

- ➔ **LO 1** Understand the long-term impact of customer centricity and firm-level customer satisfaction on profitability and shareholder value.
- ➔ **LO 2** Know the relationship between relative customer satisfaction and share-of-wallet, and be familiar with the Wallet Allocation Rule.
- ➔ **LO 3** Know the characteristics of world-class service organizations and be familiar with the four levels of service performance.
- ➔ **LO 4** Understand what is required to move a firm from service loser to service leader.
- ➔ **LO 5** Be familiar with the three strategic pathways that allow organizations to achieve cost-effective service excellence.
- ➔ **LO 6** Know the dual culture strategy of cost-effective service excellence and its implementation challenges.

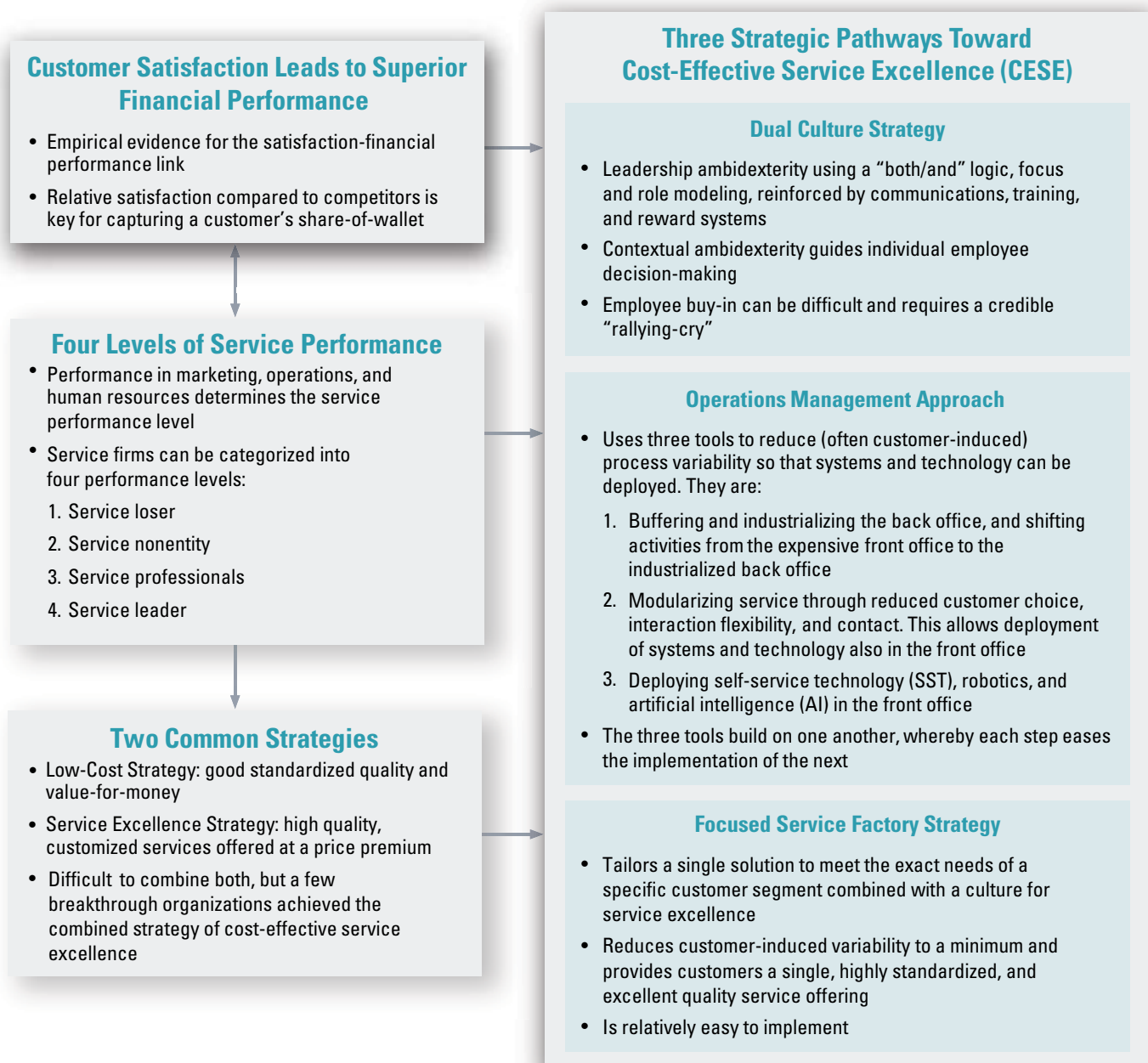
- ➔ **LO 7** Be familiar with the operations management approach for achieving cost-effective service excellence.
- ➔ **LO 8** Appreciate the focused service factory strategy that allows a relatively easy way of implementing cost-effective service excellence.
- ➔ **LO 9** Understand business model considerations related to the pathways toward cost-effective service excellence.



## INTRODUCTION

You are almost at the end of this book and presumably also at the tail-end of your services marketing course. We hope the module exceeded your expectations, gave you new insights into the marketing (and management) of services, provided you with the tools and skills you need to succeed in our service economy of the future, as well as motivated and excited you to become a service champion yourself.

In this final chapter, we discuss the financial impact of being a service leader, how to become a service leader, and finally three strategic pathways toward cost-effective service excellence (CESE). See *Figure 15.1* for the chapter overview.



**Figure 15.1** Paths toward becoming a world-class service organization

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- Joseph Michelli (2019), *The Airbnb Way: 5 Leadership Lessons for Igniting Growth through Loyalty, Community, and Belonging*. McGraw-Hill Education. Note that this author published a number of excellent books on outstanding service organizations including the Ritz Carlton, Zappos, and Starbucks.
- Richard L. Oliver (2010), *Satisfaction: A Behavioral Perspective on the Consumer*, 2<sup>nd</sup> ed. M. E. Sharpe.
- Roland T. Rust, Katherine N. Lemon, and Das Narayandas (2005), *Customer Equity Management*. Pearson Prentice Hall.
- Stephen L. Vargo and Robert F. Lusch (2018), *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*. Routledge.
- Valarie A. Zeithaml, Mary Jo Bitner, and Dwayne D. Gremler (2017), *Services Marketing: Integrating Customer Focus Across the Firm*, 7<sup>th</sup> ed. McGraw Hill.

#### Leading service research centers and their websites (in alphabetical order):

- Cambridge Service Alliance at the University of Cambridge in England (<http://cambridgeservicealliance.eng.cam.ac.uk>).
- Center for Excellence in Service of Robert H. Smith School of Business at University of Maryland ([www.rhsmith.umd.edu/ces](http://www.rhsmith.umd.edu/ces)).
- Centre for Relationship Marketing and Service Management (CERS) at Hanken School of Economics in Finland (<https://www.hanken.fi/en/departments-and-centres/department-marketing/cers>).
- Center for Service Innovation (CSI) at NHH Norwegian School of Economics (<https://www.nhh.no/en/research-centres/digital-transformation-hub>).
- Center for Service Intelligence at Ghent University in Belgium (<https://www.ugent.be/eb/mio/csi/en>).
- Centre for Service Management at Loughborough University in the United Kingdom (<https://www.lboro.ac.uk/departments/sbe/csm>).
- Center for Services Leadership at the W. P. Carey School of Business at Arizona State University ([www.rhsmith.umd.edu/ces](http://www.rhsmith.umd.edu/ces)).
- Institute of Service Excellence at the Singapore Management University (<https://ise.smu.edu.sg>).
- ServCollab (<https://www.servcollab.org>).
- Service Research Center at Karlstad University in Sweden (<https://www.kau.se/ctf>).
- Service Science Factory (SSF) at Maastricht University in the Netherlands (<https://servicesciencefactory.com>).

## Endnotes

**1** Peter Drucker did not regard himself as a marketer, yet his writing has had profound impact on the marketing field and discipline. The opening quote is discussed further in Frederick E. Webster Jr. (2009), “Marketing IS Management: The Wisdom of Peter Drucker,” *Journal of the Academy of Marketing Science*, Vol. 37, No. 1, pp. 20–27.

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5 There is a stream of research that shows that relative satisfaction (or ranked satisfaction) is more important than absolute satisfaction scores; see: Timothy L. Keiningham, Lerzan Aksoy, Alexander J. Buoye, and Bruce Cooil (October 2011), “Customer Loyalty isn’t Enough. Grow Your Share of Wallet,” *Harvard Business Review*, Vol. 89, pp. 29–31; Timothy L. Keiningham, Lerzan Aksoy, Luke Williams, and Alexander J. Buoye (2015), *The Wallet Allocation Rule: Winning the Battle for Share*. New York, NY: John Wiley & Sons; Timothy L. Keiningham, Bruce Cooil, Edward C. Malthouse, Alexander J. Buoye, Lerzan Aksoy, Arne De Keyser, and Bart Larivière (2015), “Perceptions are Relative: An Examination of the Relationship Between Relative Satisfaction Metrics and Share of Wallet,” *Journal of Service Management*, Vol. 26, No. 1, pp. 2–43; Alexander J. Buoye, Yuliya Komarova Loureiro, Sertan Kabadayi, Mohammad G. Nejad, Timothy L. Keiningham, Lerzan Aksoy, and Jason Allsopp (2016), “Is Share of Wallet Exclusively About Making Customers Happy or Having More Customers? Exploring the Relationship Between Satisfaction and Double Jeopardy,” *Journal of Service Management*, Vol. 27, No. 4, pp. 434–459.

6 The operations perspective was originally developed by Richard B. Chase and Robert H. Hayes (1991), “Beefing up Operations in Service Firms,” *Sloan Management Review*, Vol. 33, No. 1, pp. 15–26. The framework shown in this chapter has been significantly extended to incorporate the marketing and human resources functions, and has been updated.

7 For an excellent discussion on how to build successful low-cost or high-differentiation service strategies, see: Alex Hill, Richard Cuthbertson, Benjamin Laker, and Steve Brown (2017), “Service Fitness Ladders: Improving Business Performance in Low Cost and Differentiated Markets,” *International Journal of Operations & Productions Management*, Vol. 37, No. 10, pp. 1266–1303.

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14 James L. Heskett, W. Earl Sasser, Jr., and Leonard A. Schlesinger (2015), *What Great Service Leaders Know & Do*. Oakland, CA: Berrett-Koehler Publishers, p. 77.

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18 Jochen Wirtz (2020), “Strategic Pathways to Cost-Effective Service Excellence,” in Eileen Bridges and Kendra Fowler, eds. *The Routledge Handbook of Service Research Insights and Ideas*. Abingdon-on-Thames, United Kingdom: Routledge, pp. 423–440.

# PART 6

## Case Studies

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CASE  
03

# Digital Luxury Services: Tradition versus Innovation in Luxury Fashion

*Jonas Holmqvist, Jochen Wirtz, and Martin P. Fritze*

The world of luxury is undergoing rapid changes as many classic luxury brands embark on markedly different strategies to deal with an increasingly digital economy. Some luxury brands such as Chanel and Bottega Veneta have deliberately chosen to minimize the impact of digitization and instead focus even more heavily on the traditional service encounter in their boutiques. Other luxury brands like Dior, Saint Laurent, and Hermès follow a different strategy as they push innovative new digital services, which led to rapidly growing online sales. At their core, all these brands continue to sell luxury fashion, yet their approach to digitization of the service encounter could not be more different while they all wish to remain exclusive. How can luxury fashion brands develop their digital service strategy and at the same time retain the exclusive and personalized service their customers expect?

The luxury sector is in many ways remarkably different from most other business fields, not least as its focus remains solidly on exclusivity rather than trying to reach as many customers as possible. Luxury brands are well aware of the inverted price–demand curve: contrary to other brands, luxury brands often see increased demand for their products as prices go up. A key definition of luxury is the exclusivity that combines with quality in order to become something desirable for many customers. Well aware of the importance of exclusivity, many luxury brands actively want to keep the number of customers limited. In the words of Patrick Thomas, former chief executive officer (CEO) of French luxury brand Hermès: “The luxury industry is built on a paradox: the more desirable a brand becomes, the more it sells but the more it sells, the less desirable it becomes.”

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© 2021 by Jonas Holmqvist, Jochen Wirtz, and Martin P. Fritze.

Note: This case is based on expert interviews, media reports, and the following publications: Jonas Holmqvist, Jochen Wirtz, and Martin P. Fritze (December 2020), “Luxury in the Digital Age: A Multi-Actor Service Encounter Perspective,” *Journal of Business Research*, Vol. 121, pp. 907–931; Jochen Wirtz, Jonas Holmqvist, and Martin P. Fritze (2020), “Luxury Services,” *Journal of Service Management*, Vol. 31, No. 4, pp. 665–691.



In line with this paradox, most luxury brands are only available in a few selected places; their flagship stores are often found in the fashion capitals, and customers from all over the world travel to visit them. The servicescape in these boutiques is carefully and exquisitely designed to appeal to all senses to reinforce the desired brand positioning. The service encounter itself should match the high expectations of the customer. As part of the service experience, customers are often served champagne or other beverages and receive personalized and attentive service.

CASE  
04

# Uber's Unintended Burdens

Christopher S. Tang and Jochen Wirtz

On August 13, 2020, Uber chief executive officer (CEO) Dara Khosrowshahi explained that Uber is backing Proposition 22 that would exempt it from Assembly Bill 5 (AB5), a California law that would require Uber to treat its drivers as employees with benefits effective January 1, 2020.<sup>1</sup> To win over California voters, Uber and Lyft were considering to shut down their services “temporarily” in California as a means to appeal to voters who vote on Proposition 22 in the November ballot.

Given Uber lost over \$8 billion in 2019 and was expected to lose \$6 billion by October 2020, the AB5 law was expected to increase Uber's operating cost dramatically. Also, it would be a major blow to Uber and other gig economy (e.g., Uber Eats, Grubhub, Deliveroo) if other states in the United States and other countries were to propose labor laws similar to AB5. In that case, Khosrowshahi's premonition that Uber may never be profitable when it filed for an initial public offering (IPO) in 2019 would come true.<sup>2</sup> Was this law to become the beginning of the end for Uber?



## THE BEGINNING

Uber had been hailed as the disruptive force of transportation that could put taxi services out of business. Ever since Travis Kalanick and Garrett Camp founded Uber in 2009, this multinational ride-hailing company has expanded its services from ride-hailing (UberX, Uber Black, Uber Pool) to food delivery (Uber Eats), freight transportation (Uber Freight), and electric bikes and motorized scooter rental (through a partnership with Lime).

Uber's smartphone app was well-designed. By downloading the app and linking it with a credit card, a rider could immediately hail a ride by specifying the destination and pickup location. The app provided the

estimated price. Once agreed, the app would match the rider with nearby drivers and then provide the name; customer rating; the make, model, and license plate number of the car; the estimated time for the pickup; as well as real-time tracking information about the location of the driver. At the end of the ride, the rider could leave a tip and rate the driver. This seamless service had been well-received by riders.

Uber operated in a two-sided market. Its success hinged upon massive rider and driver participation. To reduce waiting time for riders, Uber needed many drivers. At the same time, to reduce idle time and increase earnings for drivers, Uber needed many riders. To entice both riders and drivers to participate, Uber was able to use venture capital funds<sup>3</sup> to capture market share in many markets by heavily subsidizing drivers and riders, getting them to switch from taxi to Uber (*Exhibit 1*). Investors had valued Uber over \$70 billion even though Uber had been losing billions of dollars every year except in 2018 — the year before it filed for an initial public offering (IPO) (*Exhibit 2*).

## THE INITIAL PUBLIC OFFERING

Uber celebrated its initial public offering (IPO) in May 2019 with huge fanfare, while many investors were nervous about Uber's profitability in the near future. To calm nervous investors, Khosrowshahi provided

# Service Robots in the Frontline: How Will Aarion Bank's Customers Respond?

*Jochen Wirtz, Stefanie Paluch, and Werner Kunz*

The top management at Aarion Bank was pushing for a rapid digital transformation and intelligent automation. That included customer service with the aim of moving almost all routine transactions, services, and enquiries to cost-effective but high-quality, cutting-edge digital delivery channels. These included smart artificial intelligence (AI)-powered self-service technologies and service robots. Nikita Jones, the vice president of customer service, was worried about how some customer segments would respond to this strategic direction the bank was to embark upon and how she could prepare her team and its various customer segments for this digital transformation.

“I’m concerned about the speed and scope top management pushes our digital transformation,” said Nikita Jones to Antony Lee, her deputy head of customer service. She and Lee were having a follow-up discussion after the board meeting, where the chief executive officer (CEO) outlined the bank’s aggressive push toward rapid digitization of its retail banking division. The board and top management expected significant cost savings, better service quality, higher compliance, and easy scalability of its operations. However, Jones worried how the bank’s customers, many of them being wealthy baby boomers and Gen X, would respond. After the meeting, the CEO had sent an email to share his vision; it clearly shows his enthusiasm for this accelerated push. It included the following:

*Central for almost all businesses to survive is the digital and technological revolution we are all currently living through. I am convinced that the service sector is at an inflection point with regard to productivity gains and service industrialization, similar to the Industrial Revolution in manufacturing that started in the 18<sup>th</sup> century. Virtually all service sectors will be transformed by rapidly developing technologies that become better, smarter, smaller, and cheaper. This applies especially to technologies that are relevant in retail banking, such as AI, chatbots, analytics, machine learning, mobile technologies, apps, geo-tagging, biometrics, and text processing, speech processing, image processing, and so much more.<sup>1</sup>*

*In combination, these technologies and service innovations have the potential to dramatically improve the customer experience and productivity all at the same time. Furthermore, many of these technologies have almost zero incremental cost. For example, AI and virtual*

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© 2021 by Jochen Wirtz, Stefanie Paluch, and Werner Kunz.

Note: This case is based on expert interviews, focus groups conducted with consumers, and the following publications: Jochen Wirtz, Werner Kunz, and Stefanie Paluch (January–February 2021), “The Service Revolution, Intelligent Automation and Service Robots,” *The European Business Review*, pp. 38–44; Jochen Wirtz, Paul Patterson, Werner Kunz, Thorsten Gruber, Vinh Nhat Lu, Stefanie Paluch, and Antje Martins (2018), “Brave New World: Service Robots in the Frontline,” *Journal of Service Management*, Vol. 29, No. 5, pp. 907–931.

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<sup>1</sup> The integration of these and other advanced technologies to automate end-to-end processes is referred to as intelligent automation (IA). IA also includes artificial intelligence (AI) as one of its technologies.

CASE  
18

# What Drives Share of Streaming Video? The Launch of HBO Max

*Alexander Buoye, Luke Williams, Timothy Keiningham, and Lerzan Aksoy*

HBO Max launched its streaming service in May 2020. At the time of the launch, streaming services were already well established and dominated by a few large, well-established competitors (e.g., Netflix, Amazon Prime, Disney+, Hulu, etc.). In the face of intense competition, HBO Max's initial launch was widely characterized as "underwhelming" despite its large content library and a rise in streaming due to the COVID-19 pandemic.

A survey of streaming service customers demonstrated why in large part HBO Max's launch was deemed underwhelming. HBO Max's Net Promoter Score (NPS), a measure of customers' satisfaction with the brand, was well below its two largest competitors, Amazon Prime and Netflix.

Despite the low NPS, HBO Max's share of streaming by its customers was a respectable 38%. One of the big issues for HBO Max post launch was to find a way to increase its share of streaming. NPS, however, provides little guidance in improving share as the results of the survey found it to be very weakly correlated to share of streaming.

By using Wallet Allocation Rule (WAR) analysis, however, data regarding customers' perceptions of HBO Max and competitors were strongly linked to customers' share of streaming. As a result, it was possible to identify what HBO Max must do to gain share in the competitive video streaming market.

Video streaming services were a major entertainment delivery platform. Often, the rise in streaming services came at the expense of traditional cable and broadcast delivery platforms. As a result, traditional video content providers had to adapt to the streaming environment or risk becoming obsolete.

The subscription streaming video market was dominated by only a few major players. Netflix and Amazon Prime had been the acknowledged leaders in the vertical, with media giant Disney competing on a robust but more fragmented basis through its family of subsidiary content offerings (Disney+ and Hulu, as well as the sports specialty service, ESPN+). In May 2020, AT&T's WarnerMedia introduced its HBO Max streaming service as another alternative, replacing and/or enhancing

previous incarnations (e.g., HBO Go, HBO Now) of their streaming platform. The investigation examined the launch of HBO Max.

At the time of the HBO Max launch, the legacy HBO streaming services (HBO Go, HBO Now) claimed only about 8 million subscribers. However, when including all traditional HBO cable/satellite subscribers, the combined number reached 35 million. By comparison, Netflix boasted 183 million subscribers, Amazon Prime 150 million, Disney+ 50 million, Apple TV+ 33 million, and Hulu 30 million.<sup>1</sup> YouTube, a more general, nonsubscription-based streaming video platform claimed well over 1.6 billion users globally.<sup>2</sup> YouTube's premium subscription service, YouTube Premium (formerly YouTube Red), however, claimed only about 20 million subscribers.<sup>3</sup> Sling TV (a subsidiary of Dish Network) was a minor player with fewer than 2.5 million subscribers as of May 2020.<sup>4</sup>

© 2021 by Alexander Buoye, Luke Williams, Timothy Keiningham, and Lerzan Aksoy.

# LUX\*: Staging a Service Revolution in a Resort Chain

*Jochen Wirtz and Ron Kaufman*

LUX\* was a successful hospitality group operating in the Indian Ocean as well as other locations. In its previous incarnation, the company suffered from poor financial performance, poor service quality, and a weak brand. A change in the leadership of the company led the group through a transformation, which showed positive results within 12 months. This case study describes a service revolution that has led to rapid improvements in service culture and guest experience, which in turn has led to sustained financial improvements on a quarter-on-quarter and long-term growth.

With its headquarters in Mauritius, the LUX\* hospitality group operated a portfolio of eight resorts and a private island in the Indian Ocean (*Exhibit 1*). The brand promised guests a celebration of life through its new value proposition — luxury resort hospitality that is Lighter.Brighter.

What is the Lighter.Brighter hospitality? Established luxury hotels have come to be associated with stiff upper-lipped service and stuffy opulence. Lighter hospitality meant breaking away from these to offer a more effervescent experience without compromising on its upscale sensibilities. At the same time, LUX\* wanted to brighten up guest experiences. For example, instead of having high prices for items from the mini-bar, LUX\*

wanted to encourage guests to enjoy themselves and just take from it what they fancy. To encourage this, LUX\* lowered the prices of items in the mini-bar significantly. By being smarter in the way LUX\* operated, both guests and business benefited.

Within a short period after the launch of LUX\*, the group's resorts had been doing exceptionally well. Within a short span of time, LUX\* successfully transformed its service culture. The group had seen 16 consecutive quarter-on-quarter improvements in its financial performance. The group's resorts also enjoyed a higher occupancy rate than the industry average in the destinations they operated in (measured quarterly by the Market Penetration Index, which compares the hotel's occupancy against its competitive set). The group's financial performance was mirrored by winning multiple accolades for service excellence, including "Indian Ocean Leading Hotel" for LUX\* Maldives from World Travel Awards, "Best Resort Hotel Mauritius" for LUX\* Belle Mare from International Hospitality Awards, and "Reunion Island's Leading Hotel" for LUX\* Ile de la Réunion from World Travel Awards.

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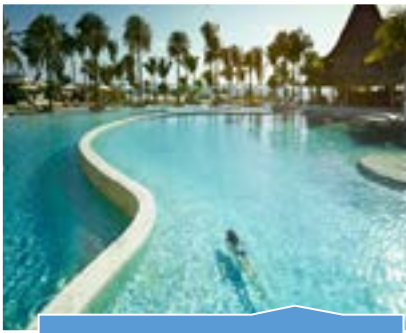
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The support and feedback of the management of The Lux Collective is gratefully acknowledged, including Paul Jones, Chief Executive Officer; Julian Hagger, Executive Vice President; Dominik Ruhl, Chief Operating Officer — EMEA; Nitesh Pandey, Chief Operating Officer — APAC; Marie-Laure-Ah-You, Chief Strategy Officer; Nicolas Autrey, Chief Human Resources Officer; Ashish Modak, Regional General Manager LUX\* Belle Mare, LUX\* Grand Gaube and LUX\* Grand Baie at The Lux Collective; Smita Modak, Group Training Manager; and Piers Schmidt, Founder of Luxury Branding. The authors also thank Arthur Lee who provided excellent assistance with the data collection, analysis, and the writing of this case study while he was a student at the National University of Singapore Business School; today, he is a Management Associate at MasterCard.

All dollar amounts referred to in the text are in US Dollars unless otherwise indicated. The exchange rate used for all currency conversions is MUR100 to USD2.845.

## THE DARK AGES

However, things were not always this rosy. Before LUX\* was launched in 2011, the group was known as Naiade Resorts and the company suffered from poor financial health. None of its hotels were on the list of top 10 hotels on TripAdvisor in their geographic competitive sets. To top it off, the Naiade brand lacked clarity. Its brand



LUX\* Belle Mare's Pool



LUX\* Belle Mare's Beach



LUX\* Belle Mare's Villa



LUX\* Le Morne



LUX\* Le Morne's Beach

### Exhibit 1 Some of the LUX\* resorts in the Indian Ocean

name was used for nine different properties, ranging from three to five stars, creating an unclear positioning in the minds of consumers. Problems in its positioning became apparent when the global financial crisis struck in 2008–2009. This led to a large drop in occupancy and room rates (*Exhibit 2*). The group's troubles culminated in 2011 with a criminal case involving the high-profile murder of an Irish hotel guest.

Having witnessed prolonged economic turmoil and a criminal case, the motivation and morale of hotel employees were unprecedentedly low. Financially, the impact of these troubles cumulated in a downward trajectory in the company's performance from 2008 to 2010 (*Exhibit 3*). The company reported a loss in 2010.

After hitting rock bottom, management had to move fast, and Naiade Resorts achieved a turnaround within a very short span of time. By mid-2011, Naiade Resorts saw an improvement in its service and this quickly translated into improved financial performance. Since then, the company had witnessed substantive and consistent service culture improvement and financial performance

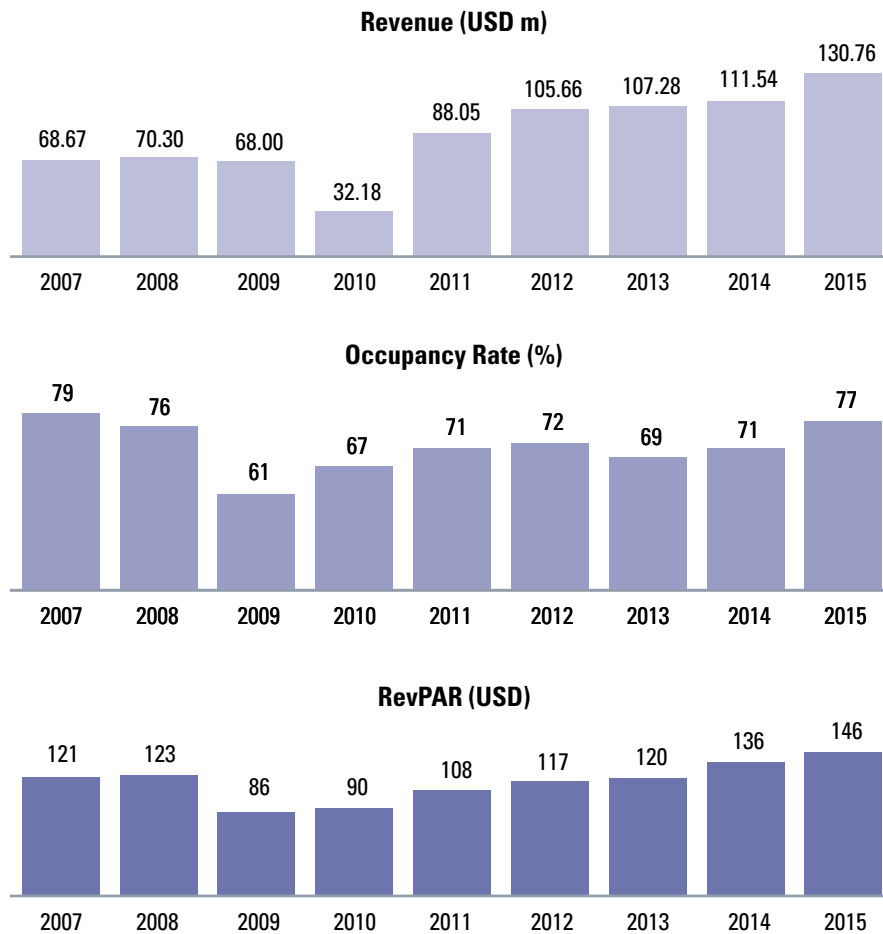
*Note: LUX\* owns eight seaside resorts by the Indian Ocean. Each of them is fitted with an expansive infinity pool, stylish bars, and ocean themed furnishings.*

growth. How did the group manage this turnaround so quickly?

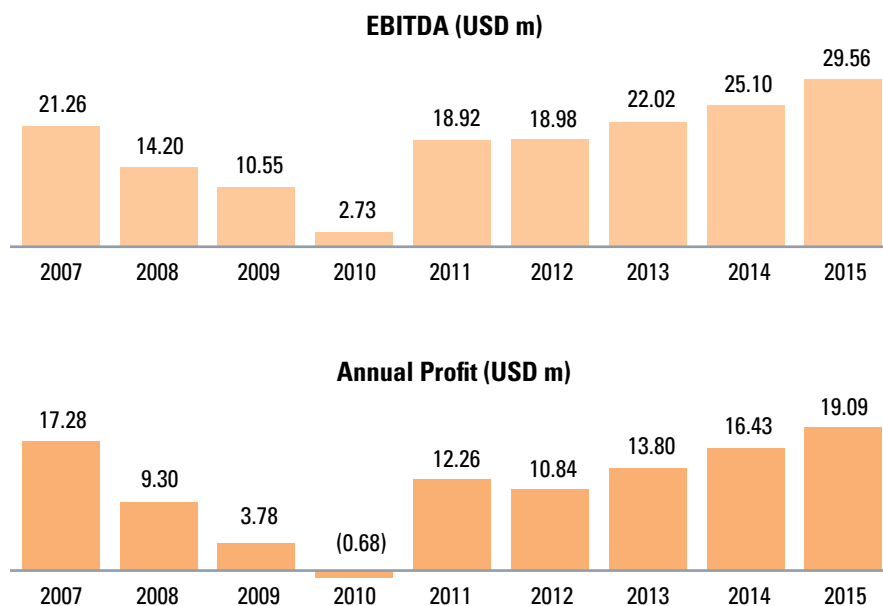
## LUX\* TRANSFORMATION

The very first step in Naiade's transformation can be traced back to the second half of 2010. In dire straits then, the board of directors of Naiade Resorts made changes to the company's leadership and appointed Paul Jones as chief executive officer (CEO) in October 2010.

Under Jones's leadership, many changes were introduced to the organization within the first 12 months of his appointment. They were aimed at rapidly improving the profitability of the business and creating a world-class brand so that it could expand internationally. However, this marked a difficult transitional period for Naiade Resorts, which was in financial doldrums. Every month, Naiade Resorts struggled to pay salaries. Some employees even wondered if the changes would sink the company further.



**Exhibit 2** Revenue, occupancy rates, and RevPAR



*Note: Up till 2009, the financial year ended on December 31. For 2010, all financial figures reported are for 6 months ending on June 30, 2010. From 2011 onwards, the financial year ended on June 30.*

**Exhibit 3** Financial performance of LUX\*

Observing how dire the situation was, Jones commented, “The numbers pre-2010 were alarming and the company was sinking fast and would have been bankrupt had it not been for the capital injection from shareholders. In addition, the properties were in poor shape and staff morale was exceedingly low.”

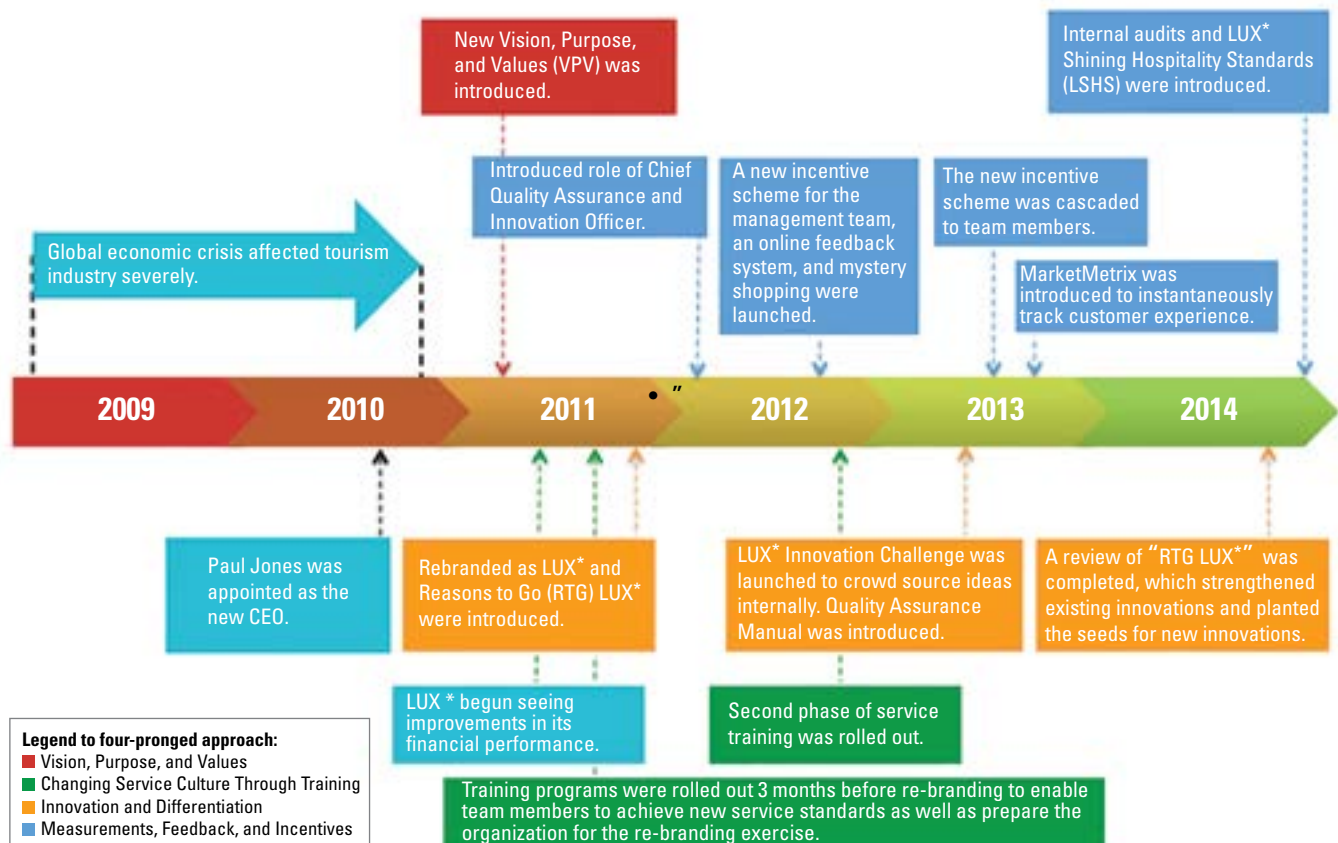
Together with his team, Jones focused transformation efforts on four main areas through an integrated and congruent strategy (*Exhibit 4*). First, he looked into the company’s core strategy as well as company values. Naiade Resorts’ business model was shifted from one of owning hotels to managing them, following an asset-light strategy. Amongst others, the new model would reduce the company’s cash outlay as owning hotels can be highly capital extensive. For example, buying a modest-sized resort in Mauritius is estimated to cost upwards of 15 million. The new business model would reduce the company’s risk exposure and allow it to expand at a faster rate. This shift provided a critical impetus for the company to concentrate on improving its service delivery.

To decide how to go forward, Paul Jones flew in the general managers from its resorts and the group’s senior

management from all over the world. The managers and executives from various levels made important decisions on the company. These include the company’s new Vision, Purpose, and Values (VPV), a new name for the business, and redefining service standards. Many of these changes were implemented almost immediately after being agreed upon. This allowed for a progressive rollout of the company’s new strategy.

Second, to engage and reinvigorate its staff in the transformation, the top management decided it had to build the company’s service culture from scratch. This included extensive training across all levels of the organization, an alignment of expectations of service standards, and a psychological and tangible breakaway from the old Naiade Resorts.

Third, Jones leveraged a fledgling spirit of innovation to build an organization that is bold and open to ideas; one that is open to experimentation and accepting of failure. This was aimed at enabling LUX\* to differentiate its value proposition.



**Exhibit 4** LUX\*’s four-pronged approach

Lastly, as CEO, Jones also embedded various performance management tools to sustain transformation. These tools included the measurement of service and employee incentive schemes to realign a transformed organization.

In the review of this four-pronged approach, the first major change was the introduction of the new VPV.

## Vision, Purpose, and Values

Before any transformation could occur, Jones needed a guiding compass that would provide a foundation for the new Naiade Resorts. A professional credo would expound the company's aspirations and provide a fundamental rallying zeitgeist for the staff. The Vision, "We Make Each Moment Matter" and the Purpose, "Helping People Celebrate Life" were crafted, and the Values of "People, Passion, Integrity, Leadership, and Creativity" were selected to tie in closely to how staff was expected to behave and interact with guests.

Between February and August 2011, every team member of Naiade was called upon to participate in the Vision, Purpose, and Values (VPV) foundation course. The course was rolled out over three phases. In the first phase, the chief executive officer (CEO) personally visited each hotel to share with team members about the new VPV. Hand in hand with the CEO's visits, the general managers of the resorts rolled out engagement workshops to all team members, ensuring that everyone understood the VPV as the foundation of the group's operations. Finally, in the third phase, all staff members were asked to pledge to abide by the ideology.

To support this rollout process, Naiade Resorts developed communication collaterals to support what the staff had heard from its leaders. For example, a visual mnemonic representing the new values in the form of an open hand was created. Also, the ideology of the group was translated into French, Creole, and Mandarin, the mother tongues of the majority of the employees. Beyond these initiatives, team members were encouraged to incorporate VPV into their lives outside of their work, such as making each moment matter for the staff's family and loved ones.

Even after its initial launch, VPV continued to be emphasized on a day-to-day basis. In many companies, mission and values are rarely looked at. But at LUX\*, they were lived out daily. Post launch, team members from each resort shared actionable examples of how they lived

the values by listing down behaviors they should engage in as well as avoid. These items were selected based on observations of what is needed to drive the new culture and which behaviors have to stop (*Exhibit 5*). Another way in which this was operationalized was through Quote of the Day. Every day, a quote linked to one of LUX\*'s values was sent to team members to inspire them (*Exhibit 6*). This initiative was so well received that team members had even asked why they did not receive the quote when there were some operational hiccups during the initial roll-out. This new VPV formed the foundation of the changes at LUX\* that were to follow.

## Changing the Service Culture Through Training

Guided by the Vision, Purpose, and Values (VPV), a pervasive overhaul of Naiade Resorts' service culture was carried out in preparation for its rebranding. Extensive training was conducted across all levels of the company, efforts were made to internally align on service delivery expectations, a rebranding exercise also provided a much needed psychological and tangible fresh start for the employees, and initiatives were introduced to sustain the transformation.

Comprehensive training permeated throughout the company. Apart from the senior managers who met to deliberate on the desired service standards — benchmarking against different industries — LUX\* partnered with an external service provider to design and deliver training on fundamental service principles. The first course delivered an actionable service education that enabled team members to deliver service valued by guests. As part of the course, employees were introduced to the building blocks of an uplifting service culture. By breaking down an abstract concept like culture into smaller and more tangible parts, it was easier for the organization to achieve its desired culture. Such a training helped LUX\* look beyond standard procedures to interact with guests to find out what they truly value. In doing so, LUX\* was eventually able to deliver a unique experience to its guests.

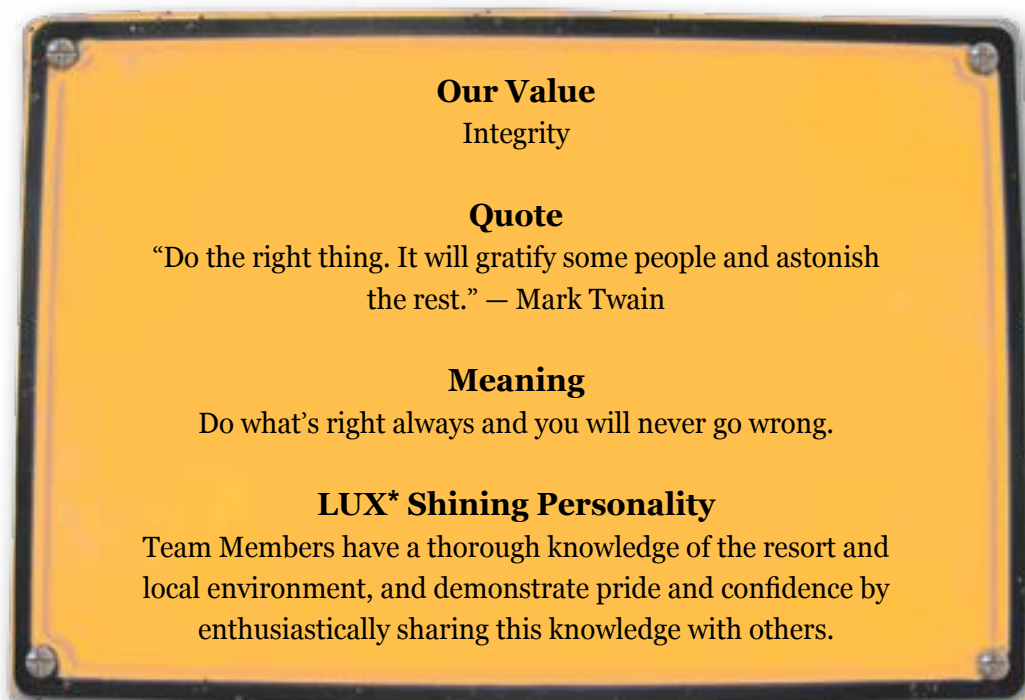
Adarsh Grewal, human resources and training manager at LUX\* Le Morne, was one of the many employees who benefited from the training. Adarsh commented on the training:

*When you break down everything you do daily and look at it from the eyes of your customer — internal or external; you begin to realize the*

**Exhibit 5** Actionable Examples from Employees on How They Live by LUX\*'s Values

People		Passion		Integrity		Leadership		Creativity	
Should Do	Should Not Do	Should Do	Should Not Do	Should Do	Should Not Do	Should Do	Should Not Do	Should Do	Should Not Do
Always thank guests when they are leaving	Argue/bad attitude/rude	Go beyond expectations	Allow laziness to take over	Report any wrongdoing	Participate in any wrongdoings, no matter how insignificant they are	Always taking action	Act irresponsibly	Apply your own final touch	Dismiss colleagues' ideas disrespectfully
Be available to replace sick co-worker	Challenge the guest	Try to meet every guest request	Act in a frustrated or angry manner	Always say the truth regardless of circumstances	Not taking responsibility for a mistake	Attentive and prompt to act	Blame others when things go wrong	Surprise guests	Enter into a routine
Always be polite, caring, and attentive	Ignore colleagues because you are busy	Care for the guest	See problems instead of opportunities in situations	Reporting every item found	Be involved in dishonest acts	Lead by example, be a role model and coach the employees, colleagues, and team members	Behave in an autocratic manner	Go the extra mile by thinking out of the box and trying to be innovative	Merely copy and replicate others' ideas

*Note: After the introduction of the new Vision, Purpose, and Values (VPV), employees from each resort listed behaviors that they considered to epitomize LUX\*'s values. A sampling of the examples provided is shown above, in no particular order of importance.*



*Note: A ‘Quote of the Day’ is sent to employees every day to remind them of LUX\*'s values as well as to motivate and inspire them.*

**Exhibit 6** An example of a Quote of the Day

*value of every little step and the loopholes their absence might leave. Soon enough it becomes a habit to break down every service transaction and when it starts happening subconsciously, that is when we really start to “Make Each Moment Matter.”*

Nagassen Valadoo, Villa Manager of LUX\* Belle Mare, shared his reflections on the training, echoing the change in culture at LUX\*:

*As a team member who has gone through the course, I would say that it has been a very rich experience. I have learnt that “Taking Personal Responsibility” in everything that I undertake in my daily duties is of utmost importance. I have understood, we need to adapt our service according to each guest needs in order to offer them an Unbelievable experience of their stay. I have also learnt that the contribution of each of the team members in making “Each Moment Matter” for our guests is essential in making an experience memorable for them.*

The training kicked off with an initiation workshop held for all 2,800 employees across the group. To roll out the training, more than 30 team members underwent a workshop to become certified course leaders. Hailing from diverse backgrounds, the trainers developed entirely in-house a customized version of the generic course materials from an external provider. This created the perception of the training as an internal LUX\* product, improving receptivity from team members.

To make the materials more relatable for team members, the examples used were from best practice organizations in the hospitality industry. For instance, case studies of companies such as Disney, The Ritz-Carlton, and Singapore Airlines were used to illustrate service excellence.

The way the training was structured also contributed to the success of re-building the company’s service culture. The course was rolled out in two phases with a gap of 4 months between the end of the first phase and the start of the second (*Exhibit 7*). Structuring the course in such a manner facilitated buy-in from staff as they were able to try out what they learnt in the first phase and then tried it out in their day-to-day work to see the value of the training. An example of this is the Perceptions Points analysis, which taught employees to focus on

delivering service by first understanding guests’ point of views and what they value rather than be bound by internal procedures. This analytical tool was applied to what is now known as Reasons to Go (RTG) LUX\*, explaining the importance of different touch points that contribute to overall guest experience for each reason. The usefulness of tools such as this set the stage for a successful roll out of the second phase of training.

A common service language is an example of one of the building blocks of an uplifting service culture that employees were trained on. During the training, employees were introduced to a “Levels of Service” framework which maps out different levels of service that LUX\* can render. This served to provide employees with a common frame of reference when communicating with each other about service standards. As a case in point, when general managers (GMs) say, “Let’s give that guest an ‘Unbelievable’ experience,” team members understand exactly what they need to do. Notably, LUX\* also added a seventh level of service, titled “LUX\* SHINING is beyond Unbelievable” to the original framework (*Exhibit 8*). In doing so, LUX\* clearly communicated to employees its vision for its service levels. Beyond communicating desired service standards, LUX\* helped employees to connect VPV to service standards, explaining why they needed to deliver on certain service standards based on their company beliefs. This took the form of a pledge that elegantly weaved VPV with service standards (*Exhibit 9*).

Three months after the launch of the course, Naiade Resorts was re-branded as LUX\* Resorts and Hotels. On December 3, 2011, LUX\* opened its doors to journalists and invited the finest magazines from around the world to stay in its resorts. A whole week of events was organized in Mauritius to celebrate the occasion. The launch of LUX\* generated a very positive response from its key partners and the media, which helped to generate word-of-mouth.

Over time, the training became more comprehensive and covered five core areas (*Exhibit 10*). Service training continued to be delivered to both new team members as well as veterans. New hires were introduced to the content of the course as part of LUX\*’s orientation program. Almost 60%–65% of the orientation’s content was dedicated to service delivery and preparing new team members to blend in seamlessly with experienced staff. For veterans, continual training on service culture helped to reinforce the learning. In follow-up sessions, participants shared how they had put the core learning to practice. Together, these revamped and intensified

**PHASE 1**

- Introduction to six different levels of service.
- Understand why service must continually improve.
- Identify actions to improve service.



- Learn to enhance service delivery by prioritizing customers' point of view and what they value.
- Analyze and improve service transactions in terms of critical touch points.



- Pledge to "Take Personal Responsibility" to set the stage for team members to fully contribute to re-branding efforts.

**PHASE 2**

- Introduction to LUX\* Shining Level of Service.



- Understand how guests derive value in four different areas: primary product, delivery system, service mindset, and on-going relationships.
- Understand that the overall service experience is not just delivering service to guests when they are on the resort, but also when they interact prior to and after their stay.



- Appreciate the use of appropriate communication styles in different contexts.

*Note: To prepare the company for its new direction, employees underwent training in two different phases to learn more about building an uplifting service culture.*

**Exhibit 7** Training on service culture



## OUR COMMON SERVICE LANGUAGE

### The 7 Levels of Service at LUX\*

**LUX\* SHINING** is beyond Unbelievable

**UNBELIEVABLE** is WOW

**SURPRISING** is something special

**DESIRED** is what guests prefer

**EXPECTED** is just average

**BASIC** is the bare minimum

**CRIMINAL** is below the bare minimum

*Note: LUX\* adapted the Levels of Service framework from its training partner, UP! Your Service College, and added a seventh Level of Service.*

**Exhibit 8** The 7 Levels of Service

As I believe in **‘Consideration for People;’** I will always avoid **CRIMINAL** levels of service to my Guests and Colleagues.

As I believe in **‘Serving with Passion;’** I cannot be satisfied with just giving **BASIC** level of service.

As I have pledged to **‘Make Each Moment Matter’** for my Guests and Colleagues towards achieving our purpose of **‘Helping People Celebrate Life;’** I must go beyond delivering only the **EXPECTED** level of service.

I expect myself and my colleagues always to be **Honest, Fair, Sincere and Authentic.** Together we will always **‘Insist on Integrity.’**

Our belief **‘Responsibility of Leadership;’** will Inspire me to **Lead by Example** in always delivering **DESIRED** level of service to my guests and colleagues.

My Curiosity and Imagination will drive my **‘Creativity’** to deliver; when the opportunity arises; **SURPRISING** and **UNBELIEVABLE** levels of service to my guests and colleagues.

To uphold our promise and become a winning brand; I aim to deliver **LUX\* SHINING** level of service to all our guests. I want to convince them that they have made a perfect choice for their vacation.

**Exhibit 9** Weaving Vision, Purpose, and Values into Levels of Service

**Exhibit 10** LUX\*’s Areas of Focus for Training

Area of Focus	Description
General Training	Ensured that team members were equipped to deal with operations and guest issues.
Service Culture	A large part of LUX*’s training efforts focused on building an uplifting service culture to deliver service that is truly world class.
Technical	Focused on training needed for staff to perform their jobs efficiently in different departments. A large part of the technical training was done in-house.

Leadership	Specific leadership development programs were targeted at different leadership levels in the company. Training was customized and delivered in partnership with training providers that had a strong focus in leadership.
Language	Language training was important to ensure that LUX* was able to customize their service experience to changing market mix — especially since the Chinese and Russian markets had seen fast growth in recent years.

training and coaching programs helped to develop a strong learning culture and better-trained team members who contributed significantly to LUX\*’s success.

## Innovation and Differentiation

In order to deliver a truly Lighter.Brighter luxury resort experience, LUX\* had to cultivate a service DNA that embraced the invariable experimentation failures along the way and promote a culture that continually innovated and differentiated itself from the competition (see *Exhibit 11* on how employees embraced creativity).

During the development of LUX\*, the management was bold and open to ideas. Paul Jones sought to instill in the LUX\* DNA a spirit that is open to experimentation, continually innovating, and accepting of failure. This meant that there were many ideas put to the test when the company re-branded, and even after the launch of LUX\*. The company saw continual improvement of its service and performance as an imperative.

At the inception of LUX\*, one idea that was experimented with is the use of theater as an analogy to think about the hotel. Team members of the hotel were thought of as actors who performed while the general managers were producers who directed the show. LUX\* intended to use this analogy to motivate staff to give more of themselves to guests. However, they soon realized that it was difficult to bring this idea to fruition. The analogy was confusing to guests, as well as team members.

On this matter, Sydney Pierre, head of worldwide sales, shared:

*The theater analogy was a great concept and a game changer in terms of innovative operational approaches; however, the practicality of implementation was low and did not really make any difference to our tour operators.*



**Exhibit 11** Employees exercise their own creativity in making guests feel special

Echoing Sydney's thoughts was Caroline Gaud, marketing communication manager, who said:

*It was confusing for our partners and our guests; some of them expected to see a “show” playing at the resorts and were disappointed. The analogy was misunderstood and created too much confusion, therefore, we decided to get rid of it. Simplifying the brand concept was critical at this stage to raise awareness and attract guests.*

The team coined the term RTG LUX\*, which stands for “reasons to go to LUX\*” and refers to the unique selling points of LUX\* resorts. It bore testament to LUX\*'s willingness to try and its innovative spirit. When creating LUX\*, the leadership team had initially set a bold target of creating 50 RTG. This ambitious goal was met with difficulty as there were many other initiatives that were concurrently being rolled out.

One RTG LUX\* that was dropped was the Secret Bar, a pop-up bar. The bar was found in different parts of the resort at different times of the day and worked on an honor system — guests poured their own drinks and recorded what they consumed. Conceptually, the idea was brilliant but it was beset by operational challenges. One such challenge is that while serving themselves, spillage sometimes occurred, impacting the experience of subsequent guests. Although some properties were able to control the quality of the guest experience, it was difficult to achieve this across all properties. As a result, it had to be retired as a RTG LUX\*. Nonetheless, it continues to be offered as a service in some properties

that had managed to make it work.

Apart from quality, some RTG LUX\* were withdrawn for reasons such as budget and logistics. Eventually, the list of RTG LUX\* was organically narrowed down to 20. Some of these reasons became iconic and resonated very well with guests. One of the most documented RTG on social media and TripAdvisor was “Message In A Bottle.”

XLuo, a TripAdvisor user, described his experience with Message In A Bottle as follows:

*We found a total of four secret bottles around the island that include free bottle of wine, free pizza for in-villa dining, and free cocktails. We woke up every day around 6.00 a.m. to jog around the island and spend time to find these bottles hidden all around the island, and it was really a fun way to start every day on the island.*

Epitomizing its emphasis on innovation was the decision to introduce the role of a chief quality assurance and innovation officer. To stimulate innovation, the incumbent introduced the LUX\* Innovation Challenge. Each year, a theme that revolves around business needs such as increasing the loyalty of guests and team members, and improving revenue is set. Teams in each resort as well as the head office then propose ideas, which are rolled-out upon approval. Toward the end of the year, the teams reconvene to present the results of their ideas to a jury. Subsequently, the winning idea is rolled-out across all resorts along with other promising ideas that had come out of this challenge.

A particularly impactful idea was FIESTA, which came in first place in the 2014 challenge on innovating to increase

the loyalty of team members. FIESTA is a wide-ranging high engagement program that allows employees to benefit from activities in the following areas: *Fitness, Innovation, Etiquette and Morale Week, Spa, Thank you, and Award.*

For example, Etiquette and Morale Week, the main highlight of the program and also the world's first, brings together young children of team members for 3 days for a series of activities. Examples of these activities are tennis classes, mocktail classes, recycling of plastic products, and dedicating poem writings to their parents to express gratitude. All in all, the event created a sense of pride and respect amongst the children for the work their parents do. This ground-up initiative had a significant impact on team member satisfaction (*Exhibits 12a and 12b*) and also went on to win the Best Initiative in Human Resources at the 15<sup>th</sup> Edition of the Worldwide Hospitality Awards.

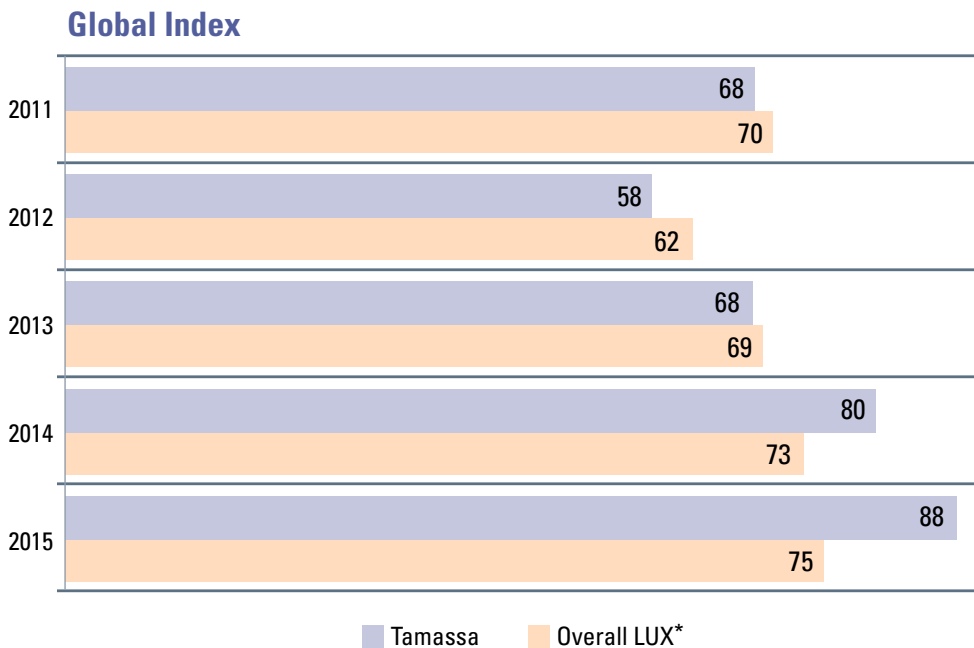
LUX\* was cognizant of the need to stay different and keep ahead of its competition. This spirit of constant innovation is also exemplified by the decision to review its RTG LUX\* 3 years after its launch. The review served to formally define what a RTG LUX\* is and critically

evaluate the RTG — by identifying what was done well, what was not so successful, and how to improve further. The value of each RTG was assessed using a 5D system (*Exhibit 13*) developed by LUX\*.

After the review, the management decided to focus on 11 RTG LUX\* (*Exhibit 14*). They each appealed to different types of guests — families, couples, the young, and young at heart, as well as niche audiences. These RTG made guests feel different and special. While one single reason may not have triggered guests to choose LUX\*, the various reasons worked together to deliver an attractive proposition.

Another outcome of the review was an augmentation of the successful RTG. With Message In A Bottle (*Exhibit 15*), numerous improvements were made in various areas. Execution-wise, bottles were placed at different times to cater to guests with different sleep cycles.

To capture, develop, and disseminate new ideas, LUX\* created the LUX\* Ideas Bank, a depository where ideas could be placed, shared, discussed, measured, and tested. Ideas were contributed by team members and scored.



*Note: FIESTA was introduced in Tamassa and its impact on the loyalty of team members is reflected in the trend in its Global Index in comparison to other LUX\* resorts.*

*The Global Index is a weighted index of 5 Dimensions of well-being at the workplace that are measured by LUX\* through its Team Member Satisfaction Survey. The higher the score of the index, the better the performance on these dimensions.*

**Exhibit 12a** The impact of FIESTA

Promising ideas were developed into prototypes and evaluated again. Those ideas that passed the rigorous testing process were finally screened by a senior operator task force that selected them for implementation. This process created an innovation pipeline, allowing the company to launch three new RTG LUX\* every quarter and thereby drove continual innovation.

## Measurement, Feedback, and Incentives

In the transformation journey, measurement of service performance became a priority. Prior to Jones' tenure at LUX\*, Naiade Resorts collected guest feedback using written forms and a quality assurance coordinator was appointed in each resort. This system placed certain limitations on what the company could do with feedback. These include delays in terms of consolidating feedback, a lack of central coordination of quality assurance, and hence, low visibility among top management, as well as difficulty in measuring service performance within and between the different properties of the group.

While a basic customer feedback system was in place, service measurement and feedback had become much more sophisticated under Jones' leadership. Within a month of recruiting the chief quality assurance and innovation officer, LUX\* went online with its feedback form. Although LUX\* could not afford to invest heavily in an online feedback system at that point in time, it saw a basic online platform as a step in the right direction. With an online platform, LUX\* had visibility on how each resort was performing in terms of service quality and it also motivated employees to provide better service. Soon after, LUX\* launched a quality assurance manual based on standards of global best practices in hotel and hospitality management. It spelt out clear service targets in all areas of operations right down to micro-moments such as the amount of time the restaurant should take to hand guests the restaurant menu. This was accompanied by a mystery-shopping audit to check that standards were met.

In terms of external measurements, the company paid close attention to customer feedback and ratings on TripAdvisor (*Exhibit 16*). For instance, qualitative feedback on TripAdvisor was monitored and responded to by the management personally. The feedback was also discussed with department heads within LUX\* when it concerned their line of work. The ratings were even monitored and tracked as part of selected employees' key performance indicators (KPIs).

Throughout the transformation, the impact of the changes introduced was seen in the improvements in their financial performance such as the growth in their publicly reported quarterly revenue. This provided satisfaction for staff in the form of indirect feedback for what they had accomplished. In 2012, however, LUX\*'s management also realized that there were only a few incentive schemes in place. Sometimes the incentives did not serve the purpose of getting team members to focus on where they should. This prompted the management to review incentive plans to align the company in achieving its targets.

The new incentive schemes focused on three important things — Guest Experience, Team Member Engagement, and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). This was rolled-out first to the general managers (GMs) of each resort in 2012. Subsequently, various schemes were developed for different groups of employees. A sample of the KPIs include targeted EBIDTA, targeted TripAdvisor scores, guest satisfaction related metrics, and a team member satisfaction index. In Mauritius, an incentive scheme was extended to all Team Members. Under this scheme, the performance of individual hotels was linked to rewards for 2,000 frontline employees in Mauritius. By 2015, team members were given targets for EBITDA, TripAdvisor ratings, as well as MarketMetrix score (a measure of guest satisfaction). A bonus of 8% of the team member's basic monthly salary was paid when the KPIs were met. Paid out on a monthly basis, the bonus served as a tangible incentive to further motivate frontline staff to meet the company's goals.

While these tools served LUX\* well, the group's ambitions have in a short few years evolved from turning around the company to becoming a leading international player. This also meant that some of its management tools had to evolve.

One tool that evolved was how LUX\* measured customer satisfaction. In 2013, the LUX\*'s online system evolved from a fairly basic system to one that is much more sophisticated. By partnering with MarketMetrix, LUX\* was able to track customer experience almost instantaneously on a daily basis. Aspects of customer experience that were tracked included Check In and Check Out, Room, Food and Beverage, as well as Facilities and Amenities. Customer feedback was also taken so seriously that the chief executive officer (CEO) received metrics on customer satisfaction on his smartphone on a daily basis. LUX\*'s partnership with MarketMetrix

**Exhibit 12b** The Global Index — 5 Dimensions of Well-Being at the Workplace


Dimension	Description
Vital Dimension	Team Member Morale. (State of mind: tense, depressed, happy, etc.)
Existential Dimension	Personal and Professional Accomplishment. (Training, workload, and resources)
Social Dimension	Interrelationships, Sense of Belonging, and Recognition.
Material Dimension	Physical Comfort at Work, Ergonomics, Salary, Benefits, Fun, and Excitement.
Organizational Dimension	Internal Organization Perception and Degree of Engagement with LUX* Resorts' Vision, Purpose, and Values.

**Exhibit 13** The 5D System: Reasons to Go LUX\*

Evaluation Filter	Guiding Questions
1. Does it <b>DELIVER</b> the brand experientially on property?	<ul style="list-style-type: none"> <li>• Vision — Does it make a moment that matters?</li> <li>• Purpose — Does it help people to celebrate life?</li> <li>• Does it substantiate the promise of hospitality that is "Lighter.Brighter"?</li> </ul>
2. Does it <b>DEMONSTRATE</b> our creative principles?	<ul style="list-style-type: none"> <li>• Does it banish thoughtless patterns?</li> <li>• Is it simple, fresh, and sensory?</li> </ul>
3. Does it <b>DRAMATIZE</b> the brand concept?	<ul style="list-style-type: none"> <li>• Does it celebrate "Locale Life", our nature, and culture?</li> <li>• Is it Light Luxury: lightweight and light-hearted?</li> </ul>
4. Does it <b>DIFFERENTIATE</b> us from our competitors?	<ul style="list-style-type: none"> <li>• Is it quirky, charming, or cool?</li> <li>• Is it generous, thoughtful, or surprising?</li> </ul>
5. How well does it <b>DISSEMINATE</b> the word?	<ul style="list-style-type: none"> <li>• Is it PR-able?</li> <li>• Is it sellable?</li> <li>• Is it shareable?</li> </ul>

*Note: The 5D system was developed by LUX\* to evaluate current and future Reasons to go LUX\*.*

**Exhibit 14** Eleven Reasons to Go LUX\*

Reasons to go LUX*	Description
<p>Ici</p>  <p><b>Exhibit 14a</b></p>	<p>A holiday without ice cream isn't a holiday at all so we created our own brand called "ici." An array of exotic island flavors are served from retro-styled parlors and mobile carts while a fresh waffle cone is baked right in front of your eyes. Crunch. Munch. Perfect after lunch. (<i>Exhibit 14a</i>)</p>
Café LUX*	<p>We believe that great coffee is a must and not a luxury so at the heart of each resort, you'll find a Café LUX*. Enjoy our organic Island Blend, freshly roasted on-site, in a truly different café setting. Flat White or FrappeLux — they're perfect for a seaside sip and surf.</p>
Phone Home	<p>We believe that holidays should be stress and hassle-free, which is why if you explore our resorts you'll find a telephone box and inside a vintage VOIP phone. Here you can make local and international calls free of charge. We just ask one thing: Please do not call the office!</p>
LUX* Me	<p>LUX* Me is an integrated philosophy of well-being offering a step by step path to an altogether healthier way of life. Naturally, in addition to al fresco classes, our personal trainers specialize in pilates, yoga and meditation classes, as well as tailoring programs to you and your requirements. Now stretch!</p>
Scrucap	<p>We love a good Burgundy or vintage Bordeaux but the Indian Ocean's a long way from the vineyards of France so we've tapped South Africa for its most exciting contemporary wines. Cape blends survive the short journey in mint condition. Introducing "Scrucap" and "Popcap". Not a corked wine in sight.</p>

Reasons to go LUX*	Description
Cinema Paradiso	A large screen, fastened between two palms, flickers into life and you're transported to another world — of blockbusters, family classics, and world cinema. It wouldn't be the movies without the nibbles, so there's fresh popcorn on the house, 'ici' ice cream, and drinks served right to your beanbag. Curtain Up! (Exhibits 14b and 14c)
Reasons to go LUX*	Description
Message In A Bottle	You spot a lonely bottle hidden in a bush beside a sandy path. Inside this mysterious vessel you find a scroll of paper which reveals a special treat waiting for one lucky guest. Stay alert because it's only if you find the bottle that this daily surprise can be yours.
Thread Lightly	We can't always promise clear skies but, with your help, we can guarantee a clear conscience. LUX* cares about the destinations that are home to its properties. After all, memorable holidays shouldn't cost the earth and that's why we are doing our best to "Thread Lightly" by offsetting 100% of the carbon emitted during your stay. It's one of a number of measures we're putting in place to help us leave a lighter footprint.
Mamma Aroma	<p>For as long as any of us can remember, amenities have been a staple in every hotel and resort bathroom around the world.</p> <p>Imagine hair lovingly nourished by deep conditioners; lazy baths scented with tropical oils; bodies gently burnished with a patina of sea salt scrub and sun-kissed skin glowing with the natural moisturizing properties of the island's products.</p>




Exhibit 14b



Exhibit 14c

Reasons to go LUX*	Description
Mamma Aroma	LUX* Resorts & Hotels offers you, for your bath experience, something different: an element of surprise, a gasp of pleasure, and a nod to simplicity are behind our selection. And being considerate to the environment, our products and their packaging are as light on the planet as they are on the body.
Mamma Aroma	We have also worked with renowned aromatherapist Shirley Page to create an exclusive range of essential oils using island ingredients—essences, flowers, and spices that combine to create a magical world of fragrance. Used in our LUX* Me spa, the oils are also present in interior and linen scents.

Reasons to go LUX*	Description
<p data-bbox="159 216 305 241">Tree of Wishes</p>  <p data-bbox="159 722 267 747">Exhibit 14d</p>	<p data-bbox="479 216 776 359">At every LUX* Resort &amp; Hotel, you'll find a specially commissioned Tree of Wishes sculpture made by local artisans.</p> <p data-bbox="479 390 781 905">Upon check-in, you'll be handed a unique ribbon featuring your initials and the date of your visit. Although not compulsory, you are invited to make a donation which will be made annually to a local children's charity. Tie the ribbon around one of the branches whilst making a wish. Whilst we can't guarantee your wish will come true, we can promise that once a year one lucky ribbon will be selected and the lucky person who placed it there will win a free holiday to LUX*. (Exhibit 14d)</p>



*Note: LUX\* staff places coupons for complimentary spa treatments, pedicure, facial, or massages, in bottles around the beach. Some messages are written clues directing guests toward the Secret Bar or offer an opportunity to enjoy a special dining experience for two on the beach. Guests who serendipitously stumble upon these bottles on the beach are in for a treat.*

#### Exhibit 15 Message In A Bottle

allowed it to not just benchmark itself across its resorts but also with its key competitors. This strong focus on customer satisfaction helped the company to better monitor and track its performance on a resort by resort basis, and within resorts, on a department by department level.

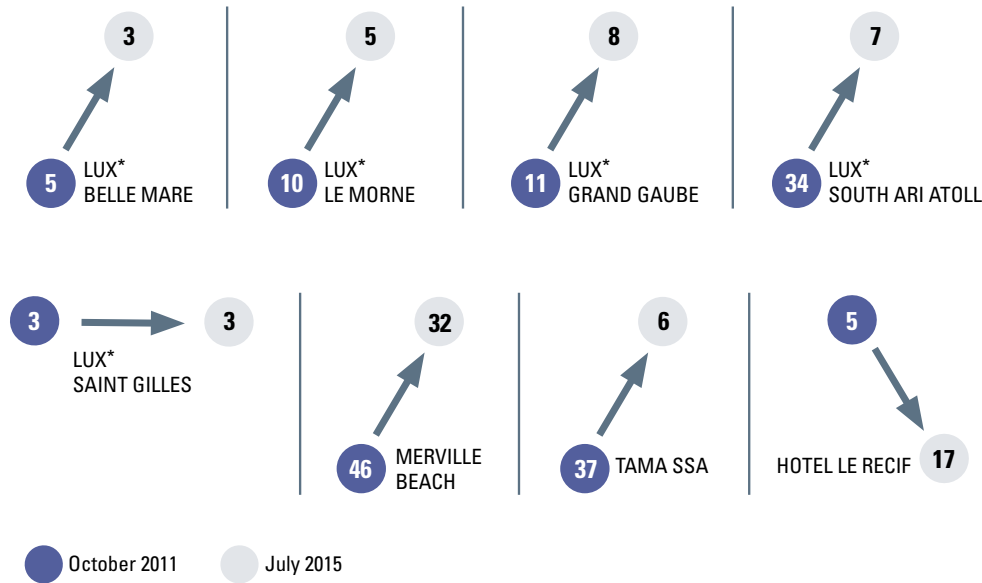
More recently, LUX\* fine-tuned its internal quality standards and developed LUX\* Shining Hospitality Standards (LSHS) which served as LUX\*'s brand operational standards. In comparison to the LUX\* quality assurance manual, LSHS represented a shift from benchmarking against competitors to delivering service that was distinctively LUX\*. For example, LSHS provided guidance to employees in terms of grooming and how they should interact with guests. A company-wide standard, LSHS was adapted to each resort in the form of standard operating procedures. Along with these changes in standards, LUX\* also changed the way they tracked these standards such as using internal audits in place of mystery shopping.

## FUTURE PLANS

Having successfully revolutionized its service through a four-pronged approach, LUX\* was in 2015 in a much better position to implement its asset-light strategy. It already had signed a number of long-term management agreement for upcoming hotels in the Maldives and China.

The strong service and innovation culture built by The Lux Collective (TLC) during its service revolution created a lasting foundation for rapid development. TLC launched new brands targeted at different consumers (e.g., SALT and Tamassa), split the company into a hospitality management company called The Lux Collective (see <https://www.theluxcollective.com>), headquartered in Singapore, and Lux Island Resorts, an asset owning company that owns some of the LUX\* operated resorts and is listed on the Mauritius stock exchange.

By 2021, TLC did not just survive the COVID-19 crisis much better than many of its competitors, it scaled quickly even during the crisis. In China alone, it opened during or shortly after the crisis seven additional properties on the legendary Tea Horse Road and a luxury resort in Chongzuo, Guangxi.



*Note: This chart illustrates the change in ranking of LUX\*'s resorts from 2011 to 2015. The resorts are segmented by country with the relevant LUX\* resort ranked against other resorts listed on TripAdvisor. Note that TripAdvisor's ranking methodology changed in 2015 for LUX\* Saint Gilles and Hotel Le Recif, using a much wider geographic region for the ranking. This leads to many more resorts being included in the ranking and it explains the drop for Hotel Le Recif.*

**Exhibit 16** LUX\*'s TripAdvisor rankings within each country (2011 vs. 2015)

### Study Questions

1. What were the main factors that contributed to LUX\* Resort's successful service revolution?
2. What key challenges do you see in what LUX\* did in carrying out its transformation? How were they addressed and what else could have been done?
3. What next steps do you think LUX\* should take to cement its strong service culture, continue service innovation, and maintain its high profitability?

### Additional Resources

Video interviews with Paul Jones, CEO of LUX\* Resorts & Hotels



Read the Harvard Business Review article related to this case with an interview of Paul Jones

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