CREATING VALUE IN THE SERVICE ECONOMY
(SERVICE MARKETING SEMINAR)

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WHY STUDY SERVICE MARKETING
SERVICES DOMINATE THE GLOBAL ECONOMY

Figure 1.4 Changing structure of employment as an economy develops

Figure 1.5 Contribution of services industries to GDP globally

Source
International Monetary Fund, 1997

Source
SERVICES DOMINATE THE GLOBAL ECONOMY

<table>
<thead>
<tr>
<th>Country</th>
<th>Services as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jersey</td>
<td>96%</td>
</tr>
<tr>
<td>Bermuda</td>
<td>94%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>93%</td>
</tr>
<tr>
<td>Bahamas</td>
<td>91%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>86%</td>
</tr>
<tr>
<td>Barbados</td>
<td>83%</td>
</tr>
<tr>
<td>Singapore</td>
<td>80%</td>
</tr>
<tr>
<td>USA</td>
<td>79%</td>
</tr>
<tr>
<td>U.K.</td>
<td>79%</td>
</tr>
<tr>
<td>France</td>
<td>79%</td>
</tr>
<tr>
<td>Panama</td>
<td>78%</td>
</tr>
<tr>
<td>Belgium</td>
<td>77%</td>
</tr>
<tr>
<td>Australia</td>
<td>75%</td>
</tr>
<tr>
<td>Germany</td>
<td>74%</td>
</tr>
<tr>
<td>Japan</td>
<td>73%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>73%</td>
</tr>
<tr>
<td>Canada</td>
<td>70%</td>
</tr>
<tr>
<td>Fiji</td>
<td>70%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>69%</td>
</tr>
<tr>
<td>Croatia</td>
<td>69%</td>
</tr>
<tr>
<td>South Africa</td>
<td>68%</td>
</tr>
<tr>
<td>Brazil</td>
<td>68%</td>
</tr>
<tr>
<td>Israel</td>
<td>66%</td>
</tr>
<tr>
<td>Turkey</td>
<td>64%</td>
</tr>
<tr>
<td>Poland</td>
<td>63%</td>
</tr>
<tr>
<td>Argentina</td>
<td>61%</td>
</tr>
<tr>
<td>Chile</td>
<td>61%</td>
</tr>
<tr>
<td>Mexico</td>
<td>60%</td>
</tr>
<tr>
<td>Russia</td>
<td>58%</td>
</tr>
<tr>
<td>South Korea</td>
<td>58%</td>
</tr>
<tr>
<td>India</td>
<td>57%</td>
</tr>
<tr>
<td>Philippines</td>
<td>57%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>54%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>48%</td>
</tr>
<tr>
<td>China</td>
<td>46%</td>
</tr>
<tr>
<td>Thailand</td>
<td>44%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>39%</td>
</tr>
<tr>
<td>Laos</td>
<td>38%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>36%</td>
</tr>
</tbody>
</table>

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

Source
MOST NEW JOB 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
  
    Examples:
    Restaurants, call center, professional & business services, education, healthcare, etc.

• Many manufacturing firms too have moved from just building supplementary services with their physical products to marketing certain elements as standalone services
  
    Example:
    Rolls-Royce, IBM transform their activities from manufacturer to services provider such as management consulting, system integration, application management services.
UNDERSTANDING SERVICES OFFERS PERSONAL COMPETITIVE ADVANTAGE

Learning about the distinctive characteristics of services and how they affect both customer behavior and marketing strategy will give you importance insights and perhaps create a competitive advantage for your own career.
WHAT ARE THE PRINCIPAL INDUSTRIES OF THE SERVICE SECTOR?

![Pie chart showing the contribution of various service industries to US GDP]

- Agriculture, Forestry, Fishing, & Mining: 7.7%
- Manufacturing: 12.1%
- Real Estate: 13%
- Business and Professional Services: 11.8%
- Wholesale & Retail Trade: 11.8%
- Transport, Utilities, & Communications: 9.1%
- Finance & Insurance: 7.2%
- Healthcare Services: 7.1%
- Accommodation & Food Services: 2.7%
- Arts, Entertainment, & Recreation Service: 1%
- Other Private Sector Services: 3.3%
- Government Services: 13.2%

*Figure 1.8 Value added by service industry categories to US GDP.*
POWERFUL FORCES ARE TRANSFORMING SERVICE MARKETS
POWERFUL FORCES ARE TRANSFORMING SERVICE MARKETS

Social Changes
- New markets and product categories
- Increase in demand for services
- More intense competition

Business Trends

Advances in IT

Government Policies

Globalization

Innovation in service products & delivery systems, stimulated by better technology

Customers have more choices and exercise more power

Success hinges on:
- Understanding customers and competitors
- Viable business models
- Creation of value for customers and firm
POWERSFUL FORCES ARE TRANSFORMING SERVICE MARKETS

- Social Changes
- Business Trends
- Advances in IT
- Government Policies
- Globalization

- Changes in regulations
- Privatization
- New rules to protect customers, employees, and the environment
- New agreement on trade in services
POWERFUL FORCES ARE TRANSFORMING SERVICE MARKETS

- Social Changes
  - Rising consumer expectations
  - Ubiquitous social network
  - More affluence
  - More people short time
  - Increased desire for buying experiences vs. things
  - Rising consumer ownership of high tech equipment
  - Easier access to more information
  - Immigration
  - Growing but aging population

- Business Trends
- Advances in IT

- Government Policies

- Globalization
POWERSFUL FORCES ARE TRANSFORMING SERVICE MARKETS

- Social Changes
- Advances in IT
- Government Policies
- Globalization

Business Trends

- Push to increase shareholder value
- Emphasis on productivity and cost savings
- Manufacturers add value through service and sell services
- More strategic alliances
- Focus on quality and customer satisfaction
- Growth of franchising
- Marketing emphasis by non-profits
POWERFUL FORCES ARE TRANSFORMING SERVICE MARKETS

Social Changes
Business Trends
Advances in IT
Government Policies
Globalization

- Growth of Internet
- Wireless networking and technology
- Digitalization of text, graphics, audio, video
- Cloud technology
- User-generated content
- Location-based services
- Big data
- Artificial intelligence
- Improve predictive analysis
POWERFUL FORCES ARE TRANSFORMING SERVICE MARKETS

- Social Changes
- Business Trends
- Advances in IT
- Government Policies

Globalization

- More companies operating on transnational basis
- Increased international travel
- International mergers and alliances
- “Offshoring” of customer service
- Foreign competitors invade domestic markets
B2B SERVICES AS A CORE ENGINE OF ECONOMIC DEVELOPMENT

Figure 1.10 Outsourcing is an important driver for the growth of the service sector.

WHAT ARE SERVICES?
DEFINITION OF SERVICES

- **Services** provide benefits without ownership
- **Services** are economic activities performed by one party to another. Often time-based, these performances bring about desired results to recipients, objects, or other assets. In exchange for money, time, and effort, service customers expect value from access to labor, skills, expertise, goods, facilities, networks, and systems.
BENEFIT WITHOUT OWNERSHIP

- Labor, skill, and expertise rentals
- Ranted goods services
- Defined space and facility rentals
- Access to shared facilities
- Access and use of network and system
## Four Board Categories of Services: A Process Perspective

<table>
<thead>
<tr>
<th>Nature of the Service Act</th>
<th>People</th>
<th>Possessions</th>
</tr>
</thead>
</table>
| **Tangible Actions**     | People-processing (services directed at people’s bodies):  
                          • Barbers  
                          • Health care | Possession-processing (services directed at physical possessions):  
                          • Refueling  
                          • Disposal / recycling |
| **Intangible Actions**   | Mental stimulus processing (services directed at people’s mind):  
                          • Education  
                          • Advertising / PR | Information processing (services directed at intangible assets):  
                          • Accounting  
                          • Banking |
<table>
<thead>
<tr>
<th>Differences</th>
<th>Implications</th>
<th>Marketing-related Topics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most service products cannot be inventoried (i.e., output is perishable)</td>
<td>Customers may be turned away or have to wait</td>
<td>Smooth demand through promotions, dynamic pricing, and reservations</td>
</tr>
<tr>
<td>Intangible elements usually dominate value creation (i.e., service is physically intangible)</td>
<td>Customers cannot taste, smell, or touch these elements and may not be able to see or hear them</td>
<td>Make services tangible through emphasis on physical clues</td>
</tr>
<tr>
<td>Services are often difficult to visualize and understand (i.e., service is mentally intangible)</td>
<td>Customers perceive greater risk and uncertainty</td>
<td>Educate customers to make good choices, explain what to look for, document performance, offer guarantees</td>
</tr>
<tr>
<td>Customers may be involved in co-production (i.e., if people processing is involved, the service is inseparable)</td>
<td>Customers interact with providers’ equipment, facilities, and systems</td>
<td>Educate customers to make good choices, explain what to look for, document performance, offer guarantees</td>
</tr>
<tr>
<td>People may be part of the service experience</td>
<td>Appearance, attitude, and behavior of service personnel and other customers can shape the experience and affect satisfaction</td>
<td>Recruit, train, and reward employees to reinforce the planned service concept</td>
</tr>
<tr>
<td>Operational inputs and outputs tend to vary more widely (i.e., services are heterogeneous)</td>
<td>Harder to maintain consistency, reliability, and service quality or to lower costs through higher productivity</td>
<td>Set quality standards based on customer expectations, redesign product elements for simplicity and failure-proofing</td>
</tr>
<tr>
<td>The time factor often assumes great importance</td>
<td>Customers see time as a scarce resource to be spent wisely, dislike wasting time waiting, want service at times that are convenient</td>
<td>Institute good service recovery procedures</td>
</tr>
<tr>
<td>Distribution may take place through non-physical channels</td>
<td>Information-based services can be delivered through electronic channels such as the Internet or voice telecommunications, but core products involving physical activities or products cannot</td>
<td>Automate customer-provider interactions, perform work while customers are absent</td>
</tr>
</tbody>
</table>

**SERVICE POSE DISTINCT MARKETING CHALLENGES**

- Marketing management tasks in the service sector differ from those in the manufacturing sector.
- The eight common differences are:
  - Most service products cannot be inventoried
  - Intangible elements usually dominate value creation
  - Services are often difficult to visualize and understand
  - Customers may be involved in co-production
  - People may be part of the service experience
  - Operational inputs and outputs tend to vary more widely
  - The time factor often assumes great importance
  - Distribution may take place through nonphysical channels
VALUE ADDED BY PHYSICAL, INTANGIBLE ELEMENTS HELPS DISTINGUISH GOODS AND SERVICES
THE 7PS OF MARKETING

- Product elements
- Place and time
- Price and other user outlays
- Promotion and education

The traditional marketing mix applied to service

- Process
- Physical Environment
- People

The extend services marketing mix for managing the customer interface
MARKETING MUST BE INTEGRATED WITH OTHER MANAGEMENT FUNCTIONS
THE SERVICE-PROFIT CHAIN

A conceptual framework that shows how to marketing, operations, HR and IT are integrated in high-performance service organization.
A FRAMEWORK FOR DEVELOPING EFFECTIVE SERVICE MARKETING STRATEGIES

Figure 1.27 Integrated model of Services Marketing
Thank you in various languages:

спасибо
GRACIAS
THANK YOU
ありがとう
MERCI
danke
धन्यवाद
شكرًا
OBRIGADO