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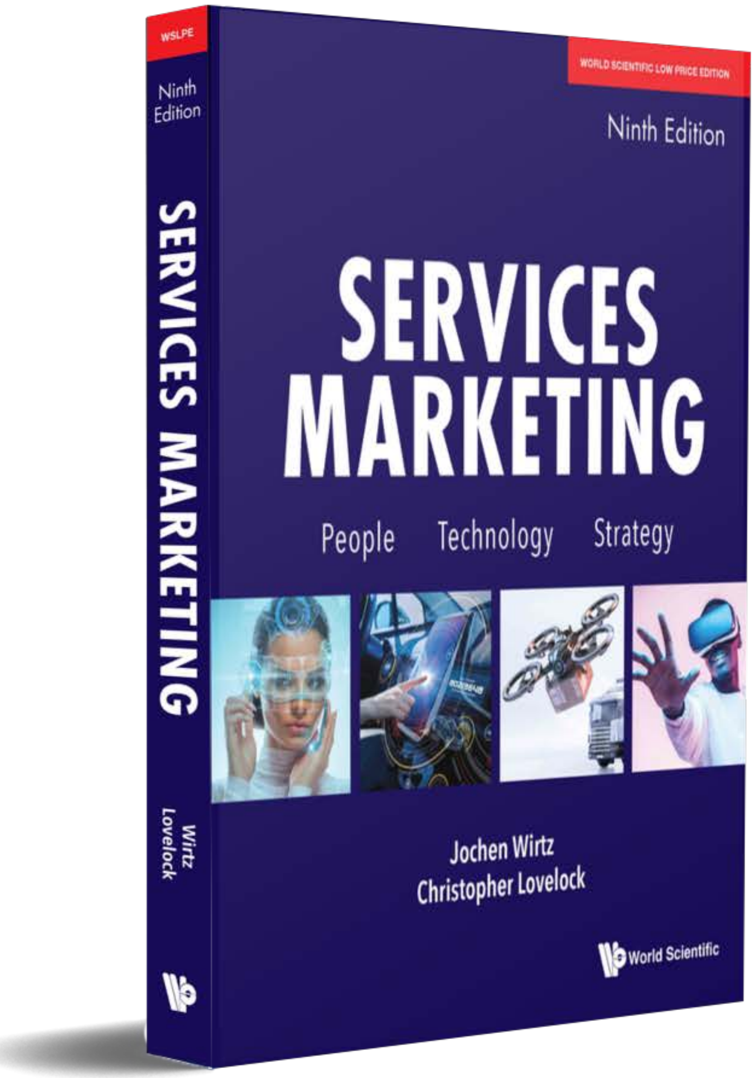

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SERVICES MARKETING

People, Technology, Strategy, 9th Edition

By Jochen Wirtz & Christopher Lovelock

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Services Marketing: People, Technology, Strategy (9th Edition)

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.

This book takes on a strong managerial approach presented through a coherent and progressive pedagogical framework rooted in solid academic research. It features cases and examples from all over the world and is suitable for students who want to gain a wider managerial view.

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This text is designed for advanced undergraduates in Bachelor of Business Administration, Bachelor of Marketing and Bachelor of Business, as well as 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 EMBAs and executive program participants who are combining their studies with ongoing work in managerial positions.

WHAT ARE THE BOOK'S DISTINGUISHING FEATURES?

- 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.

Each chapter features an organizational framework that provides a quick overview of the chapter's core concepts, and...

"... ends with a chapter summary in concise bullet points..."

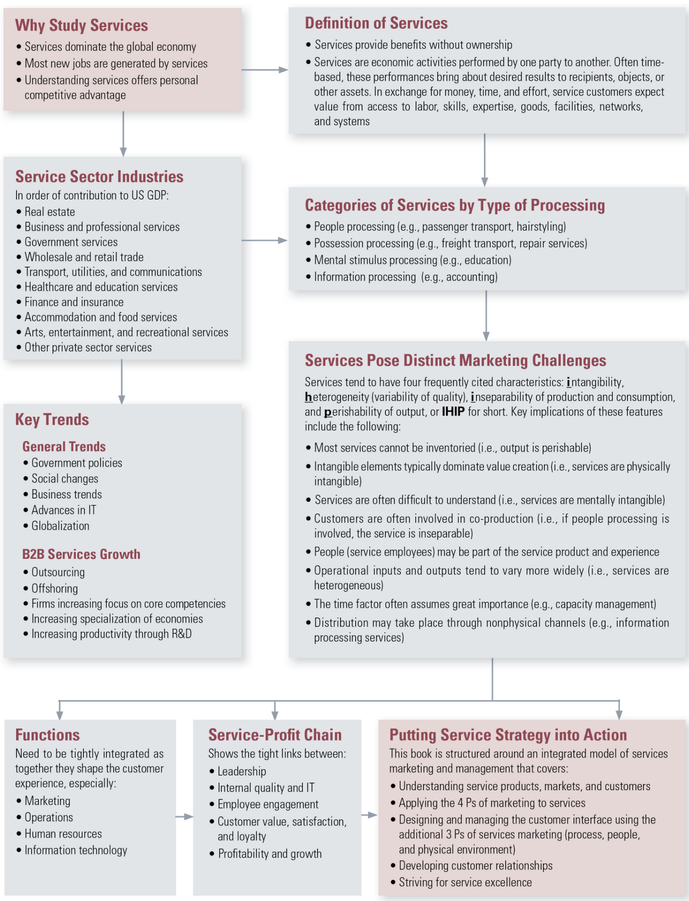


Figure 1.3 Introduction to services marketing

6 **Chapter 1** ▪ Creating Value in the Service Economy

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:**

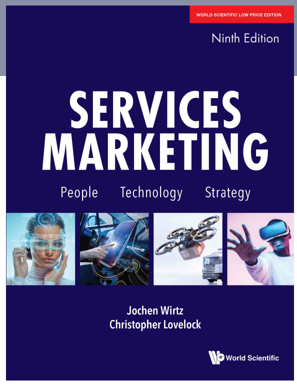
- People processing
- Possession processing
- Mental stimulus processing
- Information processing

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.

34 **Chapter 1** ▪ Creating Value in the Service Economy



"It is a superbly researched and comprehensive work, witnessed by the extraordinary list of acknowledgements of contributions by global colleagues. It presents a well-developed managerial and global perspective, organization and inclusive content that makes it the exemplar among services marketing texts that should well serve both professional and advanced academic needs. It is the premier services marketing source for university marketing faculty, advanced undergraduate and graduate students, and marketing professionals."

Professor Emeritus Merlin Simpson
Pacific Lutheran University

The Services Marketing Framework

Part I

Understanding Service Products, Markets, and Customers

1. Creating Value in the Service Economy
2. Understanding Service Consumers
3. Positioning Services in Competitive Markets

Part II

Applying the 4 Ps of Marketing to Services

4. Developing Service Products and Brands
5. Distributing Services Through Physical and Electronic Channels
6. Service Pricing and Revenue Management
7. Service Marketing Communications

Part III

Managing the Customer Interface

8. Designing Service Processes
9. Balancing Demand and Capacity
10. Crafting the Service Environment
11. Managing People for Service Advantage

Part IV

Developing Customer Relationships

12. Managing Relationships and Building Loyalty
13. Complaint Handling and Service Recovery

Part V

Striving for Service Excellence

14. Improving Service Quality and Productivity
15. Building a World-Class Service Organization

CASE STUDIES

Case Studies 20–31 are Available for Download
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PART 6

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.[1] 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.[2] 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[3] 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

Endnotes

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Study Questions

1. How could Uber retain its dominant position in the US market? Are there services and/or geographic niche markets where Uber should have accommodated Lyft?
2. How should Uber have competed with Lyft and other providers? Was the two-sided price competition (i.e., incentivizing drivers and riders alike to join and use its services) the right approach? How else could Uber have enhanced its competitive position?
3. Its customers and drivers were multihoming (i.e., they signed up with its competitors). Should Uber have aimed at exclusivity (i.e., a 100% share-of-wallet) or was it more realistic to aim to become the preferred provider with a high share-of-wallet?

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