What is a service?
-
a look at different service definitions, characteristics, categorizations, and the goods vs. services debate

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Lecture objectives

- Give an overview of services definitions and characteristics

- Discuss goods vs. services dichotomy

- Discuss some frameworks and categorizations of services

Outline

- Service definitions

- Service characteristics

- Services vs. goods

- Service categorizations

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What is a service?

Some service definitions…

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What is a service?

- Wikipedia:
- "In economics and marketing, a service is the non-material equivalent of a good."
- "Service provision has been defined as an economic activity that does not result in ownership, and this is what differentiates it from providing physical goods."
- "It is claimed to be a process that creates benefits by facilitating either a change in customers, a change in their physical possessions, or a change in their intangible assets."
- "By supplying some level of skill, ingenuity, and experience, providers of a service participate in an economy without the restrictions of carrying stock (inventory) or the need to concern themselves with bulky raw materials. On the other hand, their investment in expertise does require marketing and upgrading in the face of competition which has equally few physical restrictions."

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What is a service?

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- "It is claimed to be **a process** that creates benefits by **facilitating** either **a change** in customers, a change in their physical possessions, or a change in their intangible assets."
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What is a service?

- "A service is a *process* consisting of a series of a more or less intangible *activities* that normally, but not necessarily always, take place in *interactions between the customer and* service employees and/or physical resources or goods and/or systems of *the service provider*, which are provided as solutions to customer problems" (Grönroos 2000, p. 46)

- "A service is a time-perishable, intangible experience performed for customer acting in the role of co-producer" (Fitzsimmons & Fitzsimmons, 2004, p. 4)

- "Services are deeds, processes, and performances" (Zeithaml & Bitner, 1996, p.5)

- "Anything that cannot be dropped on your feet"

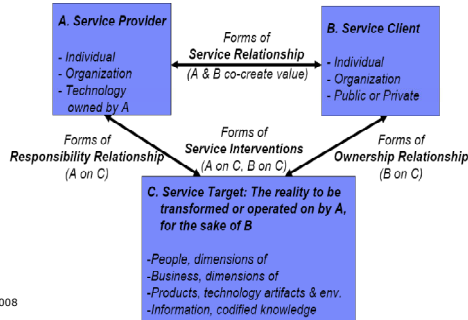13.3.2008   7

What is a service?

- Services are usually understood in literature along two lines:
  - as a process and/or the outcomes of the process

- Process: "activities, deeds, performances"
- Outcomes: "intangible experience", "change in customers, in their physical possessions, or in their intangible assets"

- Considerations:
  - Customer satisfaction and perception of service quality are influenced by both the outcomes (what received) of the service and how it is delivered (how received)
  - Management implications

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Service as systems of relationships

A. Service Provider
- Individual
- Organization
- Technology owned by A

Forms of
Service Relationship
(A & B co-create value)

B. Service Client
- Individual
- Organization
- Public or Private

Forms of
Responsibility Relationship
(A on C)

Forms of
Service Interventions
(A on C, B on C)

Forms of
Ownership Relationship
(B on C)

C. Service Target: The reality to be transformed or operated on by A, for the sake of B

-People, dimensions of
-Business, dimensions of
-Products, technology artifacts & env.
-Information, codified knowledge

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Maglio:based on Gadrey 2002

Characteristics of services

Characteristics of services

- Intangibility
- Heterogeneity
- Inseparability of production and consumption
- Perishability
- Customer participation
- Transfer of ownership
- Value production
- Labour intensity
- Demand fluctuations

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Characteristics of services

- **I**ntangibility
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- **I**nseparability of production and consumption
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Intangibility

- Services are ideas and concepts that are part of a process
- Physical intangibility
    - Non-physical, incapable of being perceived by the senses
- Mental intangibility
    - How easy to precisely define/describe a service (what you will receive and how?)
- Considerations:
    - Testing and comparing services before purchase?
        - Reputation important for service companies
            - (eBay reputation rankings)
        - How realistic are customer expectations? Managing customer expectations meeting and/or exceeding them?
    - Patenting, IPR?

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Heterogeneity

- Relative difficulty/inability to standardize service outcomes or processes
- Variability in individual units of service production
    - Customer participation with workers, both are individuals
    - Customers have individual, subjective expectations
- Customers each subjectively evaluate the outcomes and delivery of service (against their expectations)
    - Similar, consistent – even identical – service performances may result in differing evaluations from customer to customer – or even from the same customer on another identical service encounter
- Customers expect to be treated fairly and receive the same service as others receive

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Inseparability (aka simultaneity)

- Services are produced and consumed simultaneously
    - Services cannot be stored
- Significant parts of the service delivery process cannot begin until after customer inputs have been presented by the customer
- Customer is often present:
    - consumption begins during delivery
- Quality-control inspections before delivery difficult
    - Services fail in the presence of the customer!
- Not all services are fully produced in the presence of the customer; e.g. insurance claims handling

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Perishability

- Service provider's capacity to deliver a service is time-perishable
  - E.g. Movie theater seat, consultant time; cannot be resold and is wasted if not utilized
  - Capacity to deliver a service at a given time is wasted, not the service offering itself or the resource for the service
  - A consequence of inseparability; customer inputs necessary

- Matching demand and capacity important
  - Try to smooth demand
  - Adjust capacity

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Customer participation (aka co-production)

- Customers are often active participants in the service process
  - E.g. university teaching, lunch cafeterias

- Service design must accommodate for customer participation
  - Front-office vs. back-office, line of visibility

- Customer participation must be managed in order to ensure smooth service process
  - Expectations, how to act in the service process

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Characteristics of services

- Transfer of ownership
  - Service purchase does not result in a transfer of ownership
  - Although it may result in a right to receive a service
- Value production
  - Core value in services is produced in provider-client interactions, "value co-creation", "co-production"
- Labor intensity
  - Services usually involve considerable human activity, rather than a precisely determined process
- Demand fluctuations
  - Service demand often fluctuates
    - Season, time of day, business cycles, etc.

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Distinguishing services from goods

Distinghuishing goods and services

- Goods ~= physical, tangible products

- Goods are things that can be owned, traded, and distributed to different places at different times without changing their identity

- Services ~= non-physical, intangible products

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Goods vs. services dichotomy

Goods	Services
Tangible	Intangible
Homogenous	Heterogeneous
Production and distribution separated from consumption	Production, distribution, and consumption simultaneous
Nonperishable, can be kept in stock	Perishable, cannot be kept in stock
A thing	An activity or process
Core value produced in a factory	Core value produced in buyer-seller interactions
Customers do not (normally) participate in production	Customers participate in production
Transfer of ownership	No transfer of ownership

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Distinguishing goods and services

- The **IHIP** characteristics have been...
  - used to distinghuish services from goods and...
  - considered as detrimental

- However, these views have been recently questioned
  - Vargo, S.L. & Lusch, R.F. (2004). The Four Service Marketing Myths. Journal of Service Research, 6(4), 324-335.
  - Vargo, S.L. & Lusch, R.F. (2004). Evolving to a New Dominant Logic for Marketing. Journal of Marketing, 68, 1-17.
  - And many followers…

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Challenging intangibility

- Intangibility as a distinguishing factor
  - Many services produce tangible outcomes or involve tangibles, facilitating goods in the service process
    - Dental root canal procedure is sure to be "sensed"
    - Dentist chair, needles, etc.
  - Many goods are at least as mentally intangible as services
    - Customers can have difficulties in evaluating or comparing goods before purchase as well, mentally or physically
    - Services can to some extent be sampled before purchase
      - Turning away from a restaurant door
      - Not being convinced by references of a consultancy firm
  - Goods have a service component, be it as little as delivery

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Challenging intangibility

- Intangibility as detrimental
  - Customers do not buy goods for the sake of having something physical – rather they buy solutions to their problems, benefits
    - People don't buy hammers and nails, they buy means to hang up their paintings on the wall
    - People don't buy virus protection software, they buy sense of security, protection from malware
  - Brands are increasingly important factors in buying decisions – brands are very intangible
  - The focus should be shifted toward the satisfaction expressed by the customer, i.e. whether the service created value for the customer
    - Instead of whether there was a tangible representation or outcome to the service

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Challenging heterogeneity

- **Heterogeneity as a distinguishing factor**
  - Services involve humans as production inputs, so do many goods (craftsmen)
  - In many services outcomes can be standardized by automation, IT – although customer expectations and evaluations may still vary
    - Customer expectations and evaluations vary for goods as well
- **Heterogeneity as a detrimental trait of services**
  - Achieving homogenous, standard output is often desirable for manufacturing processes – efficient from the manufacturer's perspective
  - However, customers actually probably prefer a product customized to their preferences

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Challenging inseparability

- **Inseparability as a distinguishing factor**
  - Many services are produced separately from customer, at least in part
    - Freight transport, routine cleaning, equipment maintenance
  - Many goods take on significant customer inputs
    - E.g. tailored clothes
- **Inseparability as detrimental**
  - From production efficiency viewpoint, moving tasks to "back-office" may be desirable
  - However, might it be so that products produced without customer involvement are at an disadvantage?
    - Deeper customer relationships, better match with customer needs, mass customization
    - Should goods companies become more service-like?

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Challenging perishability

- **Perishability as a distinguishing factor**
  - Many goods are perishable
    - Foodstuff rots, cars rust, fashion products, last year's car model, etc.
  - Service capacity is the inventory of services and does not perish – although it may be left unused at times
    - Services (capacity) can be inventoried *prior* to purchase and production – but services are not inventoried after production
    - Productive capacity is perishable in both goods and services and wasted if not utilized in full
  - Service outcomes are often very long lasting
    - You will remember the IHIP characteristics and this lecture for years to come, right?
- **Perishability as detrimental**
  - Who wants inventory anyway?!
    - (Production mgr might, but excess and unsold inventory = costs)

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