

# **An Applied Service Marketing Theory**

by Christian Grönroos

## **Introduction**

Both academicians and practitioners have been surprisingly uninterested in the marketing problems of service businesses. As Bessom observed in 1973: "It is ironic that service businesses, which are necessarily in the most direct contact with consumers, seem to be the last kind of firm to adopt a consumer-oriented marketing concept"[1]. One reasonable explanation of this state of affairs may be the fact that the manufacturing sector of Western economies, starting back in the 19th century with the industrial revolution in England, until the last decades has counted for most of the economic development. This sector of business has been the interesting one, and therefore, to an overwhelming extent, drawn the attention of academicians and practitioners from other sectors of the economy[2].

Today theories of service marketing have been proposed, and there is now an ongoing development of the area. One could say that service marketing now stands at the same point as industrial marketing did some ten years ago.

The first comprehensive service marketing theory or frame of reference was probably the one published by Rathmell in 1974[3]. He tried to use traditional concepts and models from consumer marketing theory in service marketing. His own conclusion was, however, that "definitions, classifications, data, and concepts are lacking, noncomparable, or unreal from a marketing perspective. Moreover, as one attempts to integrate marketing terms, concepts, and practices with firms, institutions, and professions having their own traditions, customs, and practices which are quite foreign to conventional marketing (and much older), the linkage appears awkward and even improper." [4] Rathmell's findings and reports on the lack of marketing-orientation of service firms[5] point out the need for development of service marketing theory, if service businesses are to be supported in their market-orientation and marketing-orientation efforts.

The development of general theories or frameworks for service marketing seems to have followed two quite different paths. According to one approach, the services offered by service companies ought to be changed in a more product-like manner, so that existing marketing theories could be applied[6]. The other approach starts from a notion that services are different in comparison with physical products and holds that marketing concepts and models have to be developed in a more service-like direction[7].

My own view, based on a substantial amount of empirical research in northern Europe, is that although there are similarities between services and physical products, services do have some basic characteristics which make them fundamentally different from a marketing point of view. It seems inappropriate to try to change the services—for example, to make them more tangible and more impersonal—just in

order to be able to apply conventional marketing knowledge. Although service development certainly is a fruitful means of making a service business more profitable, there must be alternative ways to go for the service firm. Developing service offerings in a more product-like direction is only one strategy. There are certainly occasions where service firms will be better off if they apply another strategy, where the offering perhaps is moved even further away from the product-like direction. Therefore, it is my opinion that service marketing could be developed in such a manner that it is geared to the basic characteristics of services and to the marketing situation of service firms, thus making it possible to apply marketing strategies, which involve either product-like development of offerings and product-like marketing activities or some other, maybe more “service-like” development[8].

In line with my view of service marketing development, the purpose of this article is to put forward a service marketing theory or frame of reference which is based on the basic characteristics of services and on the service firm’s customer relation and marketing situation. Thus, conventional consumer goods marketing theory and concepts are not the starting point of this theory development, but they are, of course, used whenever appropriate. Only the service firm’s means of competition are considered, whereas other areas of marketing—such as market segmentation and market analysis—are omitted.

The findings reported in this article are based on both theoretical and empirical research. This service marketing theory is the result of an on-going research project, which started in 1976. Because of the limited space, the empirical material is not presented in this context. In English some of it has been published elsewhere[9].

### **Characteristics of Services and the Nature of Service Marketing**

There is a range of characteristics of services, some of which are more important to some service industries and some to other service industries[10]. However, there seem to be at least *three basic characteristics*: the service itself is *physically intangible*, it is an *activity* rather than a thing, and *production and consumption are*, at least to some extent, *simultaneous activities*.

Although there may be a lot of documents, physical equipment, machines or tools connected with the service, the service itself is physically intangible. This goes for a bank’s deposit box services as well as for a full-service restaurant’s offerings. Like many physical products services are also mentally intangible[11]. Moreover, the service happens, the service-rendering firm does something for the customer. This holds even for situations where there are no human representatives of the firm involved; then the firm uses physical or technical resources and the co-operation of the customer instead, in order to be able to do something for its customers. This activity—for example, a bank service, a restaurant service, or an airline trip—is produced, at least partly, often to a great extent, in the presence of the consumer, with his co-operation, and moreover, while he simultaneously consumes the service.

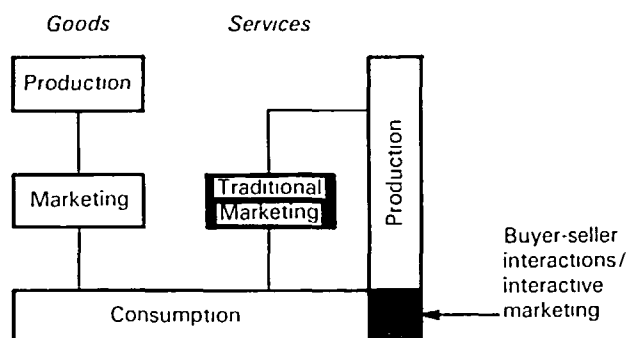
These basic characteristics of services make the marketing situation and the customer relation of service firms fundamentally different from that of a consumer goods company. The customers of the latter kind of business normally see only the product itself and the marketing mix activities—place, price and promotion—of the firm and of the distribution channels. One could say that the consumers’ opinion of

the product is based mainly on the traditional marketing mix activities of the firm.

The consumer of a service firm faces an entirely different situation. For a consumer goods company, production and consumption have no contact with each other, and thus no influence on one another. The service consumer, however, enters the production process of the service firm. He can be influenced by the production resources and the production process. Because the service itself is both physically and mentally intangible and is difficult to evaluate as such, he certainly will be influenced by what happens in the simultaneous consumption and production process, and moreover, he will, by his behaviour, have an impact on the production process itself.

Figure 1 illustrates a fundamental difference between the nature of service marketing and that of consumer goods marketing. The *objective of marketing* should be to manage all resources that influence the market's preferences towards products and services on the market. For a consumer goods company these resources are more or less those managed by a marketing department as a bridge between production and consumption. This is indicated by the left part of the figure. The right part of the figure demonstrates how the preferences of a service consumer are influenced. There are separate marketing activities, for example, advertising and other non-interactive means of promotion, in service marketing, too. These are, however, only part of the company's *total marketing function* because the consumer's opinion of the service firm and its services and his future buying behaviour are also determined by what happens in the *buyer-seller interactions* of the simultaneous production and consumption. Therefore, managing these interactions is also part of the total marketing function.

**Figure 1. The Relationship between Production, Marketing and Consumption**



Source: The illustration is developed from a figure in John Rathmell, *Marketing in the Service Sector*, Winthrop Publishers, Cambridge, Mass., 1974, p. 7.

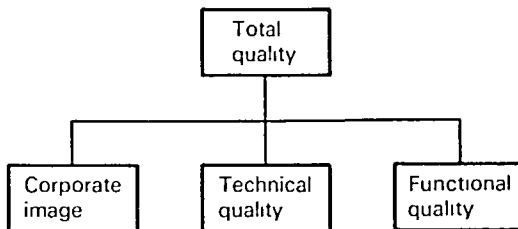
Thus, the service company has two marketing functions, which are quite different from each other in nature: the *traditional marketing function* and the *interactive marketing function*, where the latter function is concerned with what happens in the

interface between production and consumption in Figure 1, i.e., in the buyer-seller interactions.

### The Quality of a Service

Because the consumer of a service can and will evaluate a vast amount of different resources and activities in connection with the production resources and the production process when forming his opinion of the service, the quality of a service will be complicated in nature. Figure 2 illustrates a model of service quality. According to this model the total quality of a service is a function of three different components: corporate image, technical quality, and functional quality.

Figure 2. A Model of Service Quality



Of course, it is important to the consumer that the service is technically acceptable, i.e., it has *technical quality*. This means that the use of a safe deposit box in a bank, spending a night at a restaurant, having a haircut, etc., must lead to a correct result: the bonds and equities are safe, the consumer has had a good meal, has been able to dance or listen to good music, the style of hairdressing is acceptable. On the other hand, it is also important how the technical quality is transferred to the consumer. The service must have *functional quality*. How the safe deposit service is rendered, what happens during a night at the restaurant, how and in what milieu the haircut is done can be as important to the consumer's opinion as the more technical quality; in many cases the functional quality may be the more important one.

Because of the intangible nature of services, *corporate image* is also vital to the service firm. As one writer observes, "because a service customer will, in part, judge the quality and nature of the service he is to purchase on the basis of outward appearance, the service business must not only be good, it must look good"[12]. If the image is unattractive, the customers may not even expose themselves to the marketing and operational activities of the firm, which, therefore, never will be allowed to prove its high technical and functional quality. Moreover, an outstanding image will be an excuse for minor problems in the other quality components, whereas a bad image easily may lead to definite and negative reaction to accidental troubles with the technical quality or with the functional quality.

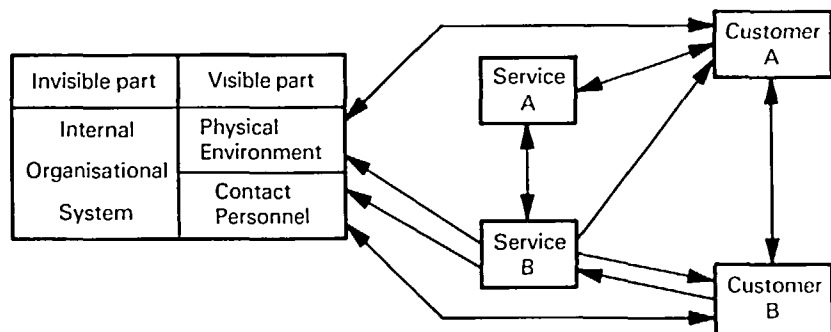
When planning the buyer-seller interaction, i.e., the interactive marketing function of the service firm, it is important to recognise all quality components. Otherwise

the resources may easily be developed only in order to guarantee good technical quality. This may lead to production-oriented operations and dissatisfied customers. Frequently, it is relatively easy to develop good technical quality, which means that no unique selling proposition can be based on this quality aspect. However, the way of transferring the undifferentiated technical quality may be difficult to duplicate. In such situations, an outstanding functional quality may be a successful means of differentiating the service offering.

### Resources in the Buyer-Seller Interactions

The objective of the interactive marketing function is to manage the resources involved in the buyer-seller interactions. The critical resources involved, and the consumer relation of service firms, are excellently illustrated by Eiglier and Langeard[13]. As can be seen from Figure 3, they divide the service company into two parts: one part which is invisible to the customer, and another part which is visible to him. The invisible part consists of the internal organisational system of the firm, the purpose of which is at least twofold: to give physical and management support to the people working in contact with the customers.

**Figure 3. A Model of the Service Firm's Customer Relation**



Source: Pierre Eiglier and Eric Langeard, *Principes de politique marketing pour les entreprises de services*, L'Institut d'Administration des Entreprises, Université d'Aix-Marseille, December 1976, p. 11.

The right side of Figure 3 illustrates the resources which are critical to the firm's customer relation. There are three main categories of resources: the physical environment where the service is consumed; the contact personnel, i.e., the employees or other representatives of the firm which are in contact with the customers; and the consumers who take part in the production process.

Traditionally, service industries are very personnel intensive, and this goes for most service businesses even today. As Sasser and Arbeit put it, "At McDonalds", the technology provides a supportive environment—but to the customer the service is sold, produced and delivered by the service employee. Even if the hamburger is

succulent, if the employee is surly, the customer will probably not return. The same is true whether the service is rendered by a consultant, a medical technician, or a kennel keeper.”[14] The quality, service-mindedness, and customer sensitivity of the *contact personnel* is of vital importance to the opinion of the service firm and its services which its consumers form[15]. Consider, for instance, the impact on the service caused by a bank teller, a restaurant waiter, a tour guide, a business consultant or a bus driver.

The other resource category, *the physical environment*, consists of, for example, the exterior and interior of a restaurant, the computer systems of a bank, the aircrafts of an airline company, the documents used by an insurance company, the tools and equipment used by a plumber or electrician. An overall name for these different kinds of resources is the service firm’s *physical/technical resources*. The customer experiences such resources either when he comes to the service company to buy and consume a service or when the service employee comes to him to deliver the service.

The third resource category consists of the *consumers*. They do not passively consume the service, but they take part in the production process in an active manner, thus influencing the process. Moreover, consumers may also influence each other.

The service, as it is perceived by the consumer, is the outcome of the various interactions between the resources indicated by Eiglier and Langeard’s model of the customer relation of a service business. These interactions, the buyer-seller interactions, are:

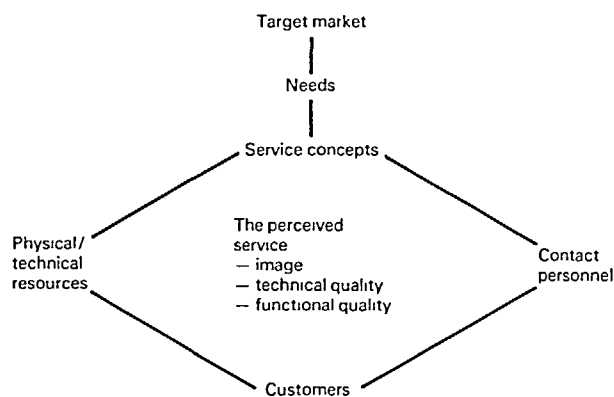
- consumer versus the physical/technical resources;
- consumer versus the contact personnel; and
- consumer versus consumers.

However, if the interactive marketing function is to be successful and managed in a market-oriented manner, there must be a clear conception of the needs or wants of the target groups of consumers. The buyer-seller interactions and the resources involved in them cannot be developed without a customer-oriented statement of the company’s *service concepts or service ideas*. Only if the company explicitly knows what kinds of needs it could attempt to satisfy, can the resources be planned and used in a truly customer-oriented manner. Otherwise the buyer-seller interactions easily become operations-oriented instead of being customer-oriented. Thus, the resources in the model by Eiglier and Langeard need a planning agent, which determines how the physical/technical resources, the contact personnel, the consumers, and their various interactions should be developed in order to become customer-oriented, and thus successfully and profitably used. This is illustrated by Figure 4, where the service concept is the planning agent. Moreover, as indicated by the figure, one should consider the impact of the resources on image and technical quality as well as on functional quality.

One should observe, however, that a customer-oriented interactive marketing may or may not involve contact personnel. In some cases, for some target groups of consumers no human resources are involved, but only physical/technical resources are needed in order to turn the service concept into a concrete and successful service offering. That is why, for example, automatic teller machines and self-service

restaurants also are successful, whereas other segments look for other, more contact personnel intensive services. In all cases there are buyer-seller interactions involving a range of resources, and the management of these resources and interactions does have an impact on the consumers' preferences and future buying behaviour, which often may be of vital importance to the firm's success on the market.

**Figure 4. Planning the Interactive Marketing Resources**

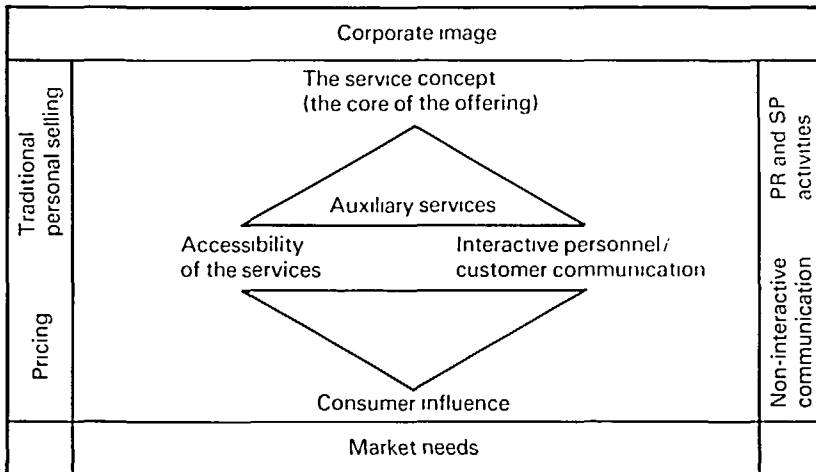


### A Service Marketing Model

Figure 4, derived from Eiglier and Langeard's model of the service firm's customer relation resources, illustrated the planning tools, which a service firm can use in order to develop customer-oriented services, and thus, a successful interactive marketing function. When using these tools, i.e., planning the resources in the buyer/seller interactions, five variables seem to be important: the service concept, the accessibility of the service, the interactive personnel/customer communication, auxiliary services, and consumer influence[16]. These variables are the means of competition related to the service firm's interactive marketing function. In Figure 5, the central part of the figure shows these interactive marketing variables. These are also the components of the service offering, which the consumer gets and evaluates. In Figure 1 they are the marketing activities related to the interface between production and consumption.

As was indicated by the traditional marketing function box in Figure 1, more traditional marketing activities can be applied by the service firm, too. In the service marketing model these variables are labelled traditional personal selling, non-interactive communication, PR and SP activities, and pricing. In this context these elements of the model will not be commented upon in any detail. Instead the means of competition of the interactive marketing function will be discussed.

Figure 5. A Service Marketing Model



The *service concept* is the core of the service offering, and it must be derived from the needs or wants of a specified target group of consumers. A company will usually have a *general* service concept: for example, offering solutions to people's temporary transportation problems as one Swedish car hire company stated it. Moreover, it should have *specific* service concepts, which are the cores of specific services, e.g., offering candlelight dinners or oriental food may be specific service concepts for restaurants.

The service concept is the core of the service offering, or the product of the service firm, but it is intangible as such. By developing the other four elements of the interactive marketing function this intangible core is turned to a concrete service offering. First of all the *accessibility* of the service has to be considered. The service should be made accessible to the target customers in an attractive and convenient manner, so that they will be satisfied with the way in which they can *both buy and consume* the service. For example, external resources like travel agencies and internal resources like computerised booking systems are purchase-oriented accessibility resources, which can be applied in order to make a hotel's services accessible. These services must, however, also be made accessible during the consumption process, because production and consumption are simultaneous activities. The hotel's internal resources, both the employees and physical/technical resources like the hotel building itself, the rooms, registration forms, etc., are also accessibility resources, which must be considered in the interactive marketing of the hotel's services.

The distribution concept of consumer goods marketing cannot successfully be applied to service marketing, because distribution is too limited a concept. The objective of distribution activities is to make physical goods accessible to the market during the purchasing

ing the purchasing process, whereas only the product itself can guarantee good accessibility during the consumption process. Distribution is a useful management concept in consumer goods marketing, but in service marketing the wider concept of accessibility is needed. Otherwise the important task of making services truly accessible during consumption is not thought of as a marketing problem[17].

Obviously, both the contact personnel and the physical/technical resources can be developed in order to improve the accessibility of services. Moreover, the consumers should also be considered. Consumers may, for instance, cause queues in a bank, thus causing the functional quality of the bank's services to deteriorate, or they may be part of the atmosphere in a music hall, thus improving the quality of the concert.

Clearly, the accessibility of a service has an impact on all the quality aspects of services, i.e., image, technical quality, and functional quality.

*The interactive customer/personnel communication* concept is an important means of planning the interactive marketing function, because the customers will in most cases see and meet some representatives of the service firm in the buyer/seller interactions. Nearly all employees will, on the other hand, sometimes get in touch with the customers. Therefore, the manner in which the bank manager, the teller, the travel agency representative, and air stewardess, the telephone receptionist, the consultant, or the waiter treat the customers, what they say and how they behave are critical to the view of the service which the customers get. The contact personnel of a service firm are therefore, acting as salesmen and are engaged in the personal market communication efforts of the company.

There is, however, a distinction between this customer/personnel communication and the personal selling efforts by professional salesmen. The latter group of employees are marketing professionals, usually managed by the marketing manager, and their main goal is to create sales. The employees engaged in the customer/personnel communication, on the other hand, are also part of the production system, and usually consider themselves production resources rather than marketing resources. Moreover, what is most important, they are immediately responsible for the customers' satisfaction during consumption and have, therefore, an immense impact on future buying behaviour.

It is obvious that all quality aspects are influenced by the communication activities of the contact personnel. However, their impact on the functional quality seems to be the most critical one to success in a competitive market situation.

The core service can be made more attractive to the customers by *auxiliary services*. These are services used as means of competition. Such auxiliaries are, for example, hotel booking and inclusive tours arrangements offered by airline companies, or TV sets in hotel rooms and a sauna department in the hotel. These services are not necessarily needed in order to turn the core service into a concrete offering, but they may be the "extra" which makes the service outstanding in comparison with the services of competitors. The auxiliary services easily become an integral part of the service offering in the mind of the consumers, and therefore, one should be extremely careful in removing such "extras", for example in order to cut costs. The result may be disastrous.

The *consumer influence* on the service offering and on the interactive marketing function is twofold. The consumer himself takes part in the production process and,

consequently, has an impact on what he gets in return. On the other hand, the other customers simultaneously buying or consuming a service also influence the service offering. Queues and, for example, pleasant or unattractive company during a cruise may make the service quality either increase or decrease. The accessibility of the service is affected. Moreover, consumers may also have a desirable or undesirable impact on the customer/personnel communication. A consumer may, for example, tell potential consumers of a restaurant of a hotel that he, by experience, knows that it is a dull place, thus changing the communication about the restaurant in an unfavourable manner.

From the consumers' point-of-view, the other consumers who simultaneously are making their purchase decision and/or consuming the service are part of the service itself. The service marketer has to recognise this fact, and include also the role of the consumers in his interactive marketing planning. One should note that the consumer influence has an impact on the company's image as well as on technical quality and functional quality.

#### **A Dynamic Aspect of Service Marketing—The Three Stage Model**

Marketing is, of course, a dynamic process, where the marketer should not only be interested in getting customers, i.e., in sales, but also in keeping the customers, i.e., in resales and enduring customer contacts. This means that marketing activities must be performed throughout the process where the service firm is in contact with its consumers. Marketing must not stop, when sales have been created. Table I illustrates a dynamic view of services marketing labelled the *Three Stage Model*[18].

**Table I. The Three Stage Model**

Stage	Objective of marketing	Marketing function
Internal stage	To get a customer-conscious and sales-minded personnel	The internal marketing function
Initial stage	To create interest in the firm and its services	The traditional marketing function
Purchasing process	To turn the general interest into sales	The traditional and the interactive marketing function
Consumption process	To create resales and enduring customer contacts	The interactive marketing function

The model holds that, in order to satisfy the needs of its target market, the service firm will have to consider three stages in the customer's opinion of the need-satisfying capabilities of the service offering. These are *interest* in the service firm and its offerings, *purchase* of a service, and *repeat purchase* of the same or similar services, respectively. A recognition of these three stages has substantial marketing consequences. At each of the stages the *objective* of marketing and the *nature* of

marketing (the responsible marketing function) will be different.

At the *initial stage* the objective of marketing is to *create interest* in the company and its services. This is best achieved by the traditional marketing function. Advertising, sales promotion and public relations activities, and personal selling especially as far as industrial services are concerned[19], are useful means of competition.

At the second stage, the *purchasing process*, *the general interest should be turned into sales*. Here again the marketing activities mentioned above can be used, but also interactive marketing can be applied whenever the customer gets in contact with the firm's production resources before he has made his final decision.

During the *consumption process*, *resales and enduring customer contacts should be guaranteed*. At this stage the traditional marketing activities have little or no chance to influence the preferences of the customer towards the service. Here the interactive marketing function is responsible for success or failure, i.e., decisions concerning services concepts, accessibility of the services, interactive customer/personnel communication, auxiliary services, and consumer influence are of vital importance, if customers are not to be lost at this final stage.

In Table I, there is also a pre-stage, the *internal stage*, which is concerned with the internal situation of the service company. Because the employees, and especially the contact personnel, frequently are of such importance to the interactive marketing, it is essential that *the personnel are customer-conscious and sales-minded*. As one writer puts it: "...to have satisfied customers, the firm must also have satisfied employees"[20]. The contact personnel are the first market of the service firm[21], and if the firm cannot make them customer-conscious and sell its services, auxiliary services and campaigns to them, it will probably not succeed in its ultimate markets either. Consequently, there is a third marketing function, which must not be forgotten, i.e., the *internal marketing function*, which especially in personnel intensive service businesses is a prerequisite for a successfully implemented interactive marketing.

### Concluding Remarks

According to the service marketing theory which is presented in this article the traditional marketing activities of consumer goods marketing theory can only be applied to part of a service firm's total marketing function. Instead, another kind of marketing effort, the interactive marketing activity, can be of vital importance. The company must continuously demonstrate its capability of handling the buyer/seller interactions throughout the whole purchasing and consumption process. If it fails to do that, it will probably lose customers, whereas a competitor that successfully manages its interactive marketing function will get a positive reputation and a desirable corporate image followed by satisfied customers and enduring customer contacts.

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15. See also Bessom, R.M., *op. cit.*, p. 12.
16. As has been noted earlier in the text, the empirical data in support of these research results are not presented here, because of space limitations.
17. The only innovative attempt to develop the distribution concept in a service-oriented direction seems to be the marketing intermediary concept suggested by James H. Donnelly, Jr. in his article, "Marketing Intermediaries in the Channels of Distribution for Services", *Journal of Marketing*, No. 1, January 1976.
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