Course Outline
MKT3412 - Services Marketing

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Venue: Conference Room F (BIZ2 04-01b)
Time: Tuesday 12 noon - 3 p.m.

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Course Overview

This course is designed for students interested in understanding services and helping organizations leverage service for value creation, market differentiation and competitive advantage. Services, for the purpose of this course, will be interpreted to include all activities in which a service is provided (possibly including a physical tangible product as part of it).

As statistics go, services account for 70%+ of the GNP in most developed economies. In a typical year, a majority of the business graduates go to work for service organizations. In the OECD countries, four out of every five members of the workforce holds a service sector job. Yet, the business curriculum generally focuses on the manufacturing sector of the economy and management theories relate largely to manufacturing firms.

Service management presents unique challenges that reflect the fundamental differences between products and services. For instances, services involve greater intangibility, variability, consumer participation and so on. These give rise to singular problems in service design, delivery and control. Successful management of these challenges requires threading together the functional disciplines of marketing, operations and human resources.

The set of topics covered in the course include:

- Analysis of Customer Purchase Process – Customer Activity Cycle, Flowcharting and Service Process Mapping
- Understanding of Service Experience – Customer Expectations and Perception of Services
- Customer Relationship Marketing (CRM)
- Understanding and Managing Service Quality
- Pricing of Services and Yield Management
- Using Internet for Service Distribution Growth Strategy
- Globalization of Services

To give the participants a broad and varied exposure to the different segments of the service sector, we have selected 10 cases spanning the following service industries:

- Telecom
- Airlines
- Tourism & Hospitality
- Banking and Financial Services
- Consulting and Professional Services
- Health Care Services

Course Pedagogy & Reading Material

Class sessions will consist of case discussions, in-class exercises, lectures and group presentations.

Since I use material from several sources, there is **NO** required textbook for the course. However, I strongly recommend either of the books (a) *Services Marketing in Asia* (by Christopher H. Lovelock, Jochen Wirtz, Hean Tat Keh and Xiongwen Lu, 2nd ed., 2005, Prentice Hall), or (b) *Services Marketing: Integrating Customer Focus across the Firm* (by Valarie Zeithaml and Mary Jo Bitner, 3rd ed, 2003, McGraw Hill) as a nice supplement to the course material. These books serve well as detailed reference documents and are quite encyclopedic in scope.

Additional reading materials and cases will be distributed in class and will also be available on IVLE.

Course Objectives, Expectations & Assessment

Objectives of this course are:

- To develop an integrated understanding of the relationship between various aspects of marketing and management in successful creation and delivery of value added services; and,

- To provide a set of analytical frameworks, concepts and tools for critical thinking about service and service related activities.

Expectations from Participants:

- Come to each class well prepared to be able to discuss the required readings and assigned cases in detail. For each case discussion in class, write up your analysis and recommendations beforehand.

- Actively participate in lectures and tutorials as much of the learning will come from discussions during class. Display a name sign in all lectures!

- Internalise the concepts covered in the course, and be able to creatively use them in an applied context. This course is all about understanding and application to the real world.

- 'House Rules' for everyone to follow:

    - Do not come late for class
    - Switch off your pager and/or hand phone during class
    - Do not pack up your notes until class is dismissed
    - Do not talk while fellow students are presenting or asking questions
    - Respect everyone's opinion

Method of Assessment:

During the course, the students will be evaluated based on their performance in each of the following activities:

- Individual Component   85%
    - Class Participation   10%
    - Individual Assignments (15%×2 + 25%)   55%
    - Quiz (10%×2)   20%

- Group Component   15%
    - Case Presentation   15%

Outline of Lectures

Session   **Topic**

1   Introduction to Services Marketing
          – Importance of Services
          – Unique Features of Services Marketing
          – Administrative Details

2   Understanding & Managing the Service Experience – I
          – Consumer Purchase Process for Services
          – Consumer Behaviour in Service Encounters
          – Consumer Expectation & Perception of Services

3   Understanding & Managing the Service Experience – II
          – Designing the Service Product
          – Augmented Service Product – "Flower of Service" Framework

CASE: Euro Disney – France

By November 1994, the Euro Disneyland theme park and resort near Paris has been in business for 2 ½ years. The results since the park opened in April 1992 have been financially disastrous causing serious problems for the parent company, Euro Disney SCA. Annual attendance is well below the 11 million predicted (and has actually fallen in the 1993-94 fiscal year), revenues per visitor are lower than expected, there have been difficulties in getting the workforce to share the Disney ethos, and the cold wet winters of northern France have resulted in very low attendance during the off-season.

Management is evaluating the situation and trying to develop a marketing strategy for 1995. Among the issues to be debated are how to boost French attendance, whether to increase or decrease prices, and whether to change the name of the park to Disneyland Paris. In addition to describing the overall situation, the case also follows two visitors, who have a mixed experience at Euro Disneyland on a wet September day.

CASE DISCUSSION QUESTIONS:

1.   Evaluate the experience of the two visitors to the park. Create a flowchart of their visit, indicating points at which
   - Euro-Disney is doing well.
   - Euro Disney is in trouble

        What recommendations would you make to management based on the insights from your analysis?

4   Understanding & Managing the Service Experience – III
               – Designing the Service Delivery Process
               – Service Blueprinting
               – Customer as Co-Producer – Managing Customer Participation

CASE: Baxter (A) + (B)

The two-case sequence discusses the dilemma facing Baxter Renal Division in the UK specifically, and in Europe generally. The division – part of Baxter International, the world's largest supplier of medical products and services – had long been in the vanguard of developing and marketing products and services for patients with kidney disorders. It was the market leader in the early 1990's, with 80% of the market for one form of dialysis treatment. The bags and solutions for this procedure comprised Baxter Renal's main source of revenue and profit. However, two major threats emerged in the mid-1990s: (1) a competing form of dialysis and (2) market share erosion. When case (A) opens in January 97, an unprecedented crisis confronted Peter Leyland, recently appointed UK Business Director: five key hospital accounts had been lost. Leyland was convinced that the only route to long term growth and profitability was not by trying to beat the competition at the same old game, but rather by taking the lead and changing the way the industry operated. Case (B) describes how Leyland was able to reverse the steady deterioration in results. Instead of competing for market share of bags based on price, Leyland creates and leads in a newly articulated "market space" – "renal insufficiency management" – where providing results over time through a series of value added services, for all customers – hospital and health authorities and senior management, economic buyers and patients - would become the key measure of success.

CASE DISCUSSION QUESTIONS:

1.   How does Baxter grow the market for PD?

2.   How does Baxter sell more bags?

3.   How does Baxter maximize their competitiveness and income potential?

4.   How does Baxter implement the needed strategy?

5   Understanding & Managing the Service Experience – IV
               – Integrative Framework for Understanding Impact of Service
                 Environment on Customer Satisfaction
               – Planning the Service Environment & Servicescape Design

CASE: Alaska Airlines

The case describes Alaska's recent $15 million program to develop and implement technological advances, focusing on technology enabled self-service throughout the process of ticketing, checking-in, baggage check-in and boarding. The case places the company's situation in the context of its history. The question facing management is whether self-service through technology represents value to consumers? Does this represent a path to competitive advantage?

CASE DISCUSSION QUESTIONS:

1. When does self-service imply better value? Does this apply here? Why? Why not?

2. What influences the adoption of self-service?

3. Is this a good idea for Alaska? Is this a good idea for any and all airlines? What is sustainable?

4. Can Alaska capture part, or all, of the value created by these innovations?

6   Managing Relationship and Building Customer Loyalty – I
        – Lifetime Value of Customer (LVC)
        – "Churn Diagnostics" & Customer Retention
        – Cross-selling

CASE & ASSIGNMENT #1: Pilgrim Bank (A)

The case analyzes customer profitability in a retail banking setting. It puts students in the position of a recently hired analyst who has data on a sample of customer and who must make recommendations about the entire customer base regarding the effect of online banking on customer profitability. The data consist of customer-level information on demographics, online channel use, and profitability. Tailored to teach how specific analytic techniques can be used to address widely varying managerial challenges.

CASE DISCUSSION QUESTIONS:

1. How do retail bank make money from their customers? How much variation is there in profit across customers? Based on this, what do you recommend the bank do in terms of matching service levels to customer profit levels?

2. Based on the sample of customer data for 1999 (**Pilgrim Bank A Customer Data.xls**), what can Green conclude about average profitability for Pilgrim Bank's entire customer population?

3. Is the difference between online and offline customers in the sample indicative of a meaningful difference in profitability across these groups for Pilgrim Bank's entire customer population?

4. What role do customers demographics play in analyzing customer profitability for online and offline customers?

5. What is your recommendation to the senior management in terms of Pilgrim Bank's online channel pricing strategy? Should the bank charge fees, offer rebates, or do nothing in regards to pricing for online channel use?

6. How do retail bank make money from their customers? How much variation is there in profit across customers? Based on this, what do you recommend the bank do in terms of matching service levels to customer profit levels?

INDIVIDUAL ASSIGNMENT #1 DUE

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7   Special Issues in Pricing of Services
        – Tariff Design for Telecommunication Services
        – Pricing of Digital Products / Services

CASE: Omnitel Pronto Italia

Describes the situation faced by Omnitel soon after launching its mobile telecommunication services in Italy in December 1995. Competing against the Italian monopoly, TIM, Omnitel had positioned its services to be better on the quality dimension. However, sales were significantly below expectations. In order to develop a new strategy, Omnitel conducted extensive marketing research. This research identified the varying needs of different customer segments. Omnitel now had to decide whether to attack a new segment with a new service plan, "LIBERO," to improve on past performance.

CASE DISCUSSION QUESTIONS:

1. What was Omnitel's competitive advantage when it launched its service in Dec 1995? What were the key features of its launch strategy?

2. Why did the launch not perform to expectations?

3. What do you learn from consumer research? What do you learn from the Conjoint Analysis results (Ex 5-8)?

4. Why is the "churn rate" so high for many European countries?

5. What are the key features of LIBERO? How would it impact total revenues? Do you expect the churn rate to increase or decrease with the launch of LIBERO?

6. If you were Fabrizo Bona, what changes would you make to LIBERO and why?

8   Balancing Capacity and Demand
        – Queuing, Waiting Time and Capacity Planning
        – Managing Demand through Yield Management

CASE: Lufthansa Cargo – Germany

This case presents, for the example of Lufthansa Cargo AG, the status quo of yield management in the air cargo industry. It provides insights into the general structure and provides an overview of the competitive forces in the air cargo business. In particular, it presents Lufthansa Cargo AG as the market leader of the world air cargo market and describes its products and strategic view of the industry. It also shows how the company manages capacity utilization by allocating space for high-margin express products, standard rate bookings, and long-term contracts. It focuses on the types, terms, and pricing of contracts offered and illustrates how the industry's thinking is moving more and more to a paradigm of flexible contract forms and dynamic pricing.

CASE DISCUSSION QUESTIONS:

1. How does air cargo differ from the passenger business in terms of revenue management? Which areas are more complex, which can be managed more easily?

2. What is the purpose of selling long-term capacity contracts? Does Lufthansa Cargo effectively reach its business and risk-sharing objectives?

3. How would current reservation and pricing practices at Lufthansa Cargo be improved? How does the introduction of dynamic pricing effect capacity buyers, i.e., freight forwarders?

9   Managing Relationship and Building Customer Loyalty – II
        – Membership & Loyalty Marketing Programs
        – Customer Relationship Management

CASE: Grand Optical (A)

Grand Optical is a unique super-optical store, first launched in France in May 1989. Six years later, the company is faced with the dual challenge of how to retain current customers and generate new customers. This case examines customer satisfaction and Grand Optical's desire to move towards customer loyalty. Two different types of customer loyalty programs are discussed - a discount card versus a privilege card.

CASE DISCUSSION QUESTIONS:

1.   What should Grand Optical do to ensure that its existing customers repurchase glass wear from Grand Optical?

2.   What are the advantages and disadvantages of a reward-based discount card? What are the advantages and disadvantages of a recognition-based privilege card?

3.   What should Grand Optical do to generate new customers with a limited budget and a high dependency on word of mouth promotion?

10   Managing Relationship and Building Customer Loyalty – III
        – Complaint Management, Service Guarantee & Service Recovery
        – Implementing Effective Customer Feedback Systems

ASSIGNMENT #2: Exercise in Assessing Customer Profitability

INDIVIDUAL ASSIGNMENT #2 DUE

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11   Improving Service Quality and Productivity
        – Defining & Measuring Service Quality
        – The Quality Model – Diagnosing Service Quality Failure
        – Customer Service Process Redesign & Six Sigma
        – TQM Tools Applicable to Services

CASE: Toronto Dominion

Market researchers at Canada's fifth largest bank, whose almost 1000 branches stretch form the Atlantic to the Pacific, have developed a new tool to measure service quality levels as perceived by customers of the bank. Three years (1986-89) have been devoted to developing and field testing the Customer Service Index (CSI). It is now time to persuade the senior vice presidents responsible for each of the ten autonomous regions in Canada to adopt the CSI and use it to measure service quality in all the branches

within each of those regions. One problem is that branch managers have traditionally been evaluated through the Branch Work Measurement (BWM) report, which measures productivity and is administered by the autonomous Position Review Department. How can this department be persuaded to incorporate CSI measures in its evaluation procedures?

CASE DISCUSSION QUESTIONS:

1.   Evaluate the BWM. Is it an appropriate measure of productivity? What changes, if any, would you recommend concerning this measure?

2.   Evaluate the way in which the CSI was developed and its current design (both scales and survey methodology). Does is actually measure service quality? What changes, if any, would recommend?

3.   In its present form, does the CSI provide useful, actionable information on service quality? Is there any additional information you would like to have?

12   Growth Strategies and Globalization of Services
                – Moving from Domestic to Trans-national Marketing
                – Trans-national Strategy for Services Marketing Mix
                – Using Internet as the Service Distribution Growth Strategy

CASE: Ernst & Young – USA

"Ernie," Ernst & Young's web-based consulting service, went online in May of 1996 and was designed to be a an information source to businesses in the entrepreneurial phase of their existence – "big enough and fast-growing enough to need a wide range of information, but too small to have their own staffs develop the information."

Reflecting on the creation of Ernie, Brian Baum, E&Y Director of Market Development for Online Consulting said:

> "Companies in the $25 million-to-$200 million revenue range don't always look to a Big Six accounting firm for support. We needed to break down the stereotypes and make us seem more readily accessible."

For a more reasonable payment than traditional consulting fees, businesses can now access via the Internet an almost complete range of E&Y's services including: tax, accounting, personnel management, operations, corporate finance and technology.

CASE DISCUSSION QUESTIONS:

1.   Evaluate the Ernie model for service delivery? Is this the right model for leveraging technology within the firm?

2.   Is there any sustainable competitive advantage in this service delivery model? In other words, does the much bandied about "first-mover advantage" hold in this context?

3.   In its present form, Ernie seems to be gravitating towards big business? What would be your recommendation? What criteria drive your decision-making?

13   Course Review and Wrap Up

HAND OUT: ASSIGNMENT #3
24 HOURS TO WRITE YOUR REPORT