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The diversity of the service sector makes it difficult to come up with managerially useful generalizations concerning marketing practice in service organizations. This article argues for a focus on specific categories of services and proposes five schemes for classifying services in ways that transcend narrow industry boundaries. In each instance insights are offered into how the nature of the service might affect the marketing task.

Classifying Services to Gain Strategic Marketing Insights

Introduction

DEVELOPING professional skills in marketing management requires the ability to look across a broad cross-section of marketing situations, to understand their differences and commonalities, and to identify appropriate marketing strategies in each instance. In the manufacturing sector many experienced marketers have worked for a variety of companies in several different industries, often including both consumer goods and industrial firms. As a result, they have a perspective that transcends narrow industry boundaries.

But exposure to marketing problems and strategies in different industries is still quite rare among managers in the service sector. Not only is the concept of a formalized marketing function still relatively new to most service firms, but service industries have historically been somewhat inbred. The majority of railroad managers, for instance, have spent their entire working lives within the railroad industry—even within a single company. Most hoteliers have grown up in the hotel industry. And most hospital or college ad-

ministrators have remained within the confines of health care or higher education, respectively. The net result of such narrow exposure is that it restricts a manager's ability to identify and learn from the experience of organizations facing parallel situations in other service industries—and, of course, from marketing experience in the manufacturing sector. Conversely, marketers from the manufacturing sector who take positions in service businesses often find that their past experience has not prepared them well for working on some of the problems that regularly challenge service marketers (Knisely 1979, Lovelock 1981, Shostack 1977).

This article argues that development of greater sophistication in services marketing will be aided if we can find new ways to group services other than by current industry classifications. A more useful approach may be to segment services into clusters that share certain relevant marketing characteristics—such as the nature of the relationship between the service organization and its customers or patterns of demand relative to supply—and then to examine the implications for marketing action.

After briefly reviewing the value of classification schemes in marketing, the article summarizes past proposals for classifying services. This is followed by presentation and discussion of five classification

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schemes based on past proposals or on clinical research. In each instance examples are given of how various services fall into similar or different categories, and an evaluation is made of the resulting marketing insights and what they imply for marketing strategy development.

The Value of Classification in Marketing

Hunt (1976) has emphasized the usefulness of classification schemes in marketing. Various attempts have been made in the past by marketing theorists to classify goods into different categories. One of the most famous and enduring is Copeland's (1923) classification of convenience, shopping and specialty goods. Not only did this help managers obtain a better understanding of consumer needs and behavior, it also provided insights into the management of retail distribution systems. Bucklin (1963) and others have revised and refined Copeland's original classification and thereby been able to provide important strategic guidelines for retailers. Another major classification has been between durable and nondurable goods. Durability is closely associated with purchase frequency, which has important implications for development of both distribution and communications strategy. Yet another classification is consumer goods versus industrial goods; this classification relates both to the type of goods purchased (although there is some overlap) and to product evaluation, purchasing procedures and usage behavior. Recognition of these distinctions by marketers has led to different types of marketing strategy being directed at each of these groups. Through such classifications the application of marketing management tools and strategies in manufacturing has become a professional skill that transcends industry divisions.

By contrast, service industries remain dominated by an operations orientation that insists that each industry is different. This mind set is often manifested in managerial attitudes that suggest, for example, that the marketing of airlines has nothing at all in common with that of banks, insurance, motels, hospitals or household movers. But if it can be shown that some of these services do share certain marketing relevant characteristics, then the stage may be set for some useful cross-fertilization of concepts and strategies.

How Might Services Be Classified?

Various attempts have been proposed in the past for classifying services and are outlined, with brief commentaries, in Table 1. But developing classification schemes is not enough. If they are to have managerial value, they must offer strategic insights. That is why it is important to develop ways of analyzing services

that highlight the characteristics they have in common, and then to examine the implications for marketing management.

This article builds on past research by examining characteristics of services that transcend industry boundaries and are different in degree or kind from the categorization schemes traditionally applied to manufactured goods. Five classification schemes have been selected for presentation and discussion, reflecting their potential for affecting the way marketing management strategies are developed and implemented. Each represents an attempt to answer one of the following questions:

1. What is the nature of the service act?
2. What type of relationship does the service organization have with its customers?
3. How much room is there for customization and judgment on the part of the service provider?
4. What is the nature of demand and supply for the service?
5. How is the service delivered?

Each question will be examined on two dimensions, reflecting my conclusion in an earlier study (Lovelock 1980) that combining classification schemes in a matrix may yield better marketing insights than classifying service organizations on one variable at a time.

What Is the Nature of the Service Act?

A service has been described as a "deed, act or performance" (Berry 1980). Two fundamental issues are at whom (or what) is the act directed, and is this act tangible or intangible in nature?

As shown in Figure 1, these two questions result in a four-way classification scheme involving (1) tangible actions to people's bodies, such as airline transportation, haircutting and surgery; (2) tangible actions to goods and other physical possessions, such as air freight, lawn mowing and janitorial services; (3) intangible actions directed at people's minds, such as broadcasting and education; and (4) intangible actions directed at people's intangible assets, such as insurance, investment banking and consulting.

Sometimes a service may seem to spill over into two or more categories. For instance, the delivery of educational, religious or entertainment services (directed primarily at the mind) often entails tangible actions such as being in a classroom, church or theater; the delivery of financial services may require a visit to a bank to transform intangible financial assets into hard cash; and the delivery of airline services may affect some travelers' states of mind as well as physically moving their bodies from one airport to another.

TABLE 1
Summary of Previously Proposed Schemes for Classifying Services

Author	Proposed Classification Schemes	Comment
Judd (1964)	<ul style="list-style-type: none"> (1) Rented goods services (right to own and use a good for a defined time period) (2) Owned goods services (custom creation, repair or improvement of goods owned by the customer) (3) Nongoods services (personal experiences or "experiential possession") 	First two are fairly specific, but third category is very broad and ignores services such as insurance, banking, legal advice and accounting.
Rathmell (1974)	<ul style="list-style-type: none"> (1) Type of seller (2) Type of buyer (3) Buying motives (4) Buying practice (5) Degree of regulation 	No specific application to services—could apply equally well to goods.
Shostack (1977) ^a Sasser <i>et al</i> ^a (1978)	Proportion of physical goods and intangible services contained within each product "package"	Offers opportunities for multiattribute modeling. Emphasizes that there are few pure goods or pure services.
Hill (1977)	<ul style="list-style-type: none"> (1) Services affecting persons vs. those affecting goods (2) Permanent vs. temporary effects of the service (3) Reversibility vs. nonreversibility of these effects (4) Physical effects vs. mental effects (5) Individual vs. collective services 	Emphasizes nature of service benefits and (in 5), variations in the service delivery/consumption environment.
Thomas (1978)	<ul style="list-style-type: none"> (1) Primarily equipment based <ul style="list-style-type: none"> (a) automated (e.g., car wash) (b) monitored by unskilled operators (e.g., movie theater) (c) operated by skilled personnel (e.g. airline) (2) Primarily people-based <ul style="list-style-type: none"> (a) unskilled labor (e.g., lawn care) (b) skilled labor (e.g., repair work) (c) professional staff (e.g., lawyers, dentists) 	Although operational rather than marketing in orientation, provides a useful way of understanding product attributes.
Chase (1978)	Extent of customer contact required in service delivery <ul style="list-style-type: none"> (a) high contact (e.g., health care, hotels, restaurants) (b) low contact (e.g., postal service, wholesaling) 	Recognizes that product variability is harder to control in high contact services because customers exert more influence on timing of demand and service features, due to their greater involvement in the service process.
Kotler (1980)	<ul style="list-style-type: none"> (1) People-based vs. equipment-based (2) Extent to which client's presence is necessary (3) Meets personal needs vs. business needs (4) Public vs. private, for-profit vs. nonprofit 	Synthesizes previous work, recognizes differences in purpose of service organization.
Lovelock (1980)	<ul style="list-style-type: none"> (1) Basic demand characteristics <ul style="list-style-type: none"> —object served (persons vs. property) —extent of demand/supply imbalances —discrete vs. continuous relationships between customers and providers (2) Service content and benefits <ul style="list-style-type: none"> —extent of physical goods content —extent of personal service content —single service vs. bundle of services —timing and duration of benefits (3) Service delivery procedures <ul style="list-style-type: none"> —multisite vs. single site delivery —allocation of capacity (reservations vs. first come, first served) 	Synthesizes previous classifications and adds several new schemes. Proposes several categories within each classification. Concludes that defining object served is most fundamental classification scheme. Suggests that valuable marketing insights would come from combining two or more classification schemes in a matrix.

TABLE 1 (continued)
Summary of Previously Proposed Schemes for Classifying Services

Author	Proposed Classification Schemes	Comment
	<ul style="list-style-type: none"> —independent vs. collective consumption —time defined vs. task defined transactions —extent to which customers must be present during service delivery 	

*These were two independent studies that drew broadly similar conclusions.

But in most instances the core service act is confined to one of the four categories, although there may be secondary acts in another category.

Insights and Implications

Why is this categorization scheme useful to service marketers? Basically it helps answer the following questions:

1. Does the customer need to be *physically* present:
 - (a) throughout service delivery?
 - (b) only to initiate or terminate the service transaction (e.g., dropping off a car for repair and picking it up again afterwards)?
 - (c) not at all (the relationship with the service supplier can be at arm's length through the mails, telephone or other electronic media)?
2. Does the customer need to be *mentally* present during service delivery? Can mental presence be maintained across physical distances through mail or electronic communications?

3. In what ways is the target of the service act "modified" by receipt of the service? And how does the customer benefit from these "modifications"?

It's not always obvious what the service is and what it does for the customer because services are ephemeral. By identifying the target of the service and then examining how it is "modified" or changed by receipt of the service act, we can develop a better understanding of the nature of the service product and the core benefits that it offers. For instance, a haircut leaves the recipient with shorter and presumably more appealingly styled hair, air freight gets the customer's goods speedily and safely between two points, a news radio broadcast updates the listener's mind about recent events, and life insurance protects the future value of the insured person's assets.

If customers need to be physically present during service delivery, then they must enter the service "factory" (whether it be a train, a hairdressing salon, or a hospital at a particular location) and spend time there while the service is performed. Their satisfac-

FIGURE 1
Understanding the Nature of the Service Act

	Who or What is the Direct Recipient of the Service?	
	People	Things
What is the Nature of the Service Act?	Services directed at people's bodies: <ul style="list-style-type: none"> ● health care ● passenger transportation ● beauty salons ● exercise clinics ● restaurants ● haircutting 	Services directed at goods and other physical possessions: <ul style="list-style-type: none"> ● freight transportation ● industrial equipment repair and maintenance ● janitorial services ● laundry and dry cleaning ● landscaping/lawn care ● veterinary care
Tangible Actions		
Intangible Actions	Services directed at people's minds: <ul style="list-style-type: none"> ● education ● broadcasting ● information services ● theaters ● museums 	Services directed at intangible assets: <ul style="list-style-type: none"> ● banking ● legal services ● accounting ● securities ● insurance

tion with the service will be influenced by the interactions they have with service personnel, the nature of the service facilities, and also perhaps by the characteristics of other customers using the same service. Questions of location and schedule convenience assume great importance when a customer has to be physically present or must appear in person to initiate and terminate the transaction.

Dealing with a service organization at arm's length, by contrast, may mean that a customer never sees the service facilities at all and may not even meet the service personnel face-to-face. In this sort of situation, the outcome of the service act remains very important, but the process of service delivery may be of little interest, since the customer never goes near the "factory." For instance, credit cards and many types of insurance can be obtained by mail or telephone.

For operational reasons it may be very desirable to get the customer out of the factory and to transform a "high-contact" service into a "low-contact" one (Chase 1978). The chances of success in such an endeavor will be enhanced when the new procedures also offer customers greater convenience. Many services directed at *things* rather than at people formerly required the customer's presence but are now delivered at arm's length. Certain financial services have long used the mails to save customers the inconvenience of personal visits to a specific office location. Today, new electronic distribution channels have made it possible to offer instantaneous delivery of financial services to a wide array of alternative locations. Retail banking provides a good example, with its growing use of such electronic delivery systems as automatic teller machines in airports or shopping centers, pay-by-phone bill paying, or on-line banking facilities in retail stores.

By thinking creatively about the nature of their services, managers of service organizations may be able to identify opportunities for alternative, more convenient forms of service delivery or even for transformation of the service into a manufactured good. For instance, services to the mind such as education do not necessarily require attendance in person since they can be delivered through the mails or electronic media (Britain's Open University, which makes extensive use of television and radio broadcasts, is a prime example). Two-way communication hook-ups can make it possible for a physically distant teacher and students to interact directly where this is necessary to the educational process (one recent Bell System advertisement featured a chamber music class in a small town being taught by an instructor several hundred miles away). Alternatively, lectures can be packaged and sold as books, records or videotapes. And programmed learning exercises can be developed in computerized form, with the terminal serving as a Socratic surrogate.

What Type of Relationship Does the Service Organization Have with Its Customers?

With very few exceptions, consumers buy manufactured goods at discrete intervals, paying for each purchase separately and rarely entering into a formal relationship with the manufacturer. (Industrial purchasers, by contrast, often enter into long-term relationships with suppliers and sometimes receive almost continuous delivery of certain supplies.)

In the service sector both household and institutional purchasers may enter into ongoing relationships with service suppliers and may receive service on a

FIGURE 2
Relationships with Customers

		Type of Relationship between the Service Organization and Its Customers	
		"Membership" Relationship	No Formal Relationship
Nature of Service Delivery	Continuous Delivery of Service	insurance telephone subscription college enrollment banking American Automobile Association	radio station police protection lighthouse public highway
	Discrete Transactions	long-distance phone calls theater series subscription commuter ticket or transit pass	car rental mail service toll highway pay phone movie theater public transportation restaurant

continuing basis. This offers a way of categorizing services. We can ask, does the service organization enter into a "membership" relationship with its customers—as in telephone subscriptions, banking and the family doctor—or is there no formal relationship? And is service delivered on a continuous basis—as in insurance, broadcasting and police protection—or is each transaction recorded and charged separately? Figure 2 shows the 2×2 matrix resulting from this categorization, with some additional examples in each category.

Insights and Implications

The advantage to the service organization of a membership relationship is that it knows who its current customers are and, usually, what use they make of the services offered. This can be valuable for segmentation purposes if good records are kept and the data are readily accessible in a format that lends itself to computerized analysis. Knowing the identities and addresses of current customers enables the organization to make effective use of direct mail, telephone selling and personal sales calls—all highly targeted marketing communication media.

The nature of service relationships also has important implications for pricing. In situations where service is offered on an ongoing basis, there is often just a single periodic charge covering all services contracted for. Most insurance policies fall in this category, as do tuition and board fees at a residential college. The big advantage of this package approach is its simplicity. Some memberships, however, entail a series of separate and identifiable transactions with the price paid being tied explicitly to the number and type of such transactions. While more complex to administer, such an approach is fairer to customers (whose usage patterns may vary widely) and may discourage wasteful use of what are perceived as "free" services. In such instances, members may be offered advantages over casual users, such as discounted rates (telephone subscribers pay less for long-distance calls made from their own phones than do pay phone users) or advance notification and priority reservations (as in theater subscriptions). Some membership services offer certain services (such as rental of equipment or connection to a public utility system) for a base fee and then make incremental charges for each separate transaction above a defined minimum.

Profitability and customer convenience are central issues in deciding how to price membership services. Will the organization generate greater long-term profits by tying payment explicitly to consumption, by charging a flat rate regardless of consumption, or by unbundling the components of the service and charging a flat rate for some and an incremental rate for others? Telephone and electricity services, for in-

stance, typically charge a base fee for connection to the system and rental of equipment, plus a variety of incremental charges for consumption above a defined minimum. On the other hand, Wide Area Telephone Service (WATS) offers the convenience of unlimited long-distance calling for a fixed fee. How important is it to customers to have the convenience of paying a single periodic fee that is known in advance? For instance, members of the American Automobile Association (AAA) can obtain information booklets, travel advice and certain types of emergency road services free of additional charges. Such a package offers elements of both insurance and convenience to customers who may not be able to predict their exact needs in advance.

Where no formal relationship exists between supplier and customer, continuous delivery of the product is normally found only among that class of services that economists term "public goods"—such as broadcasting, police and lighthouse services, and public highways—where no charge is made for use of a service that is continuously available and financed from tax revenues. Discrete transactions, where each usage involves a payment to the service supplier by an essentially "anonymous" consumer, are exemplified by many transportation services, restaurants, movie theaters, shoe repairs and so forth. The problem of such services is that marketers tend to be much less well-informed about who their customers are and what use each customer makes of the service than their counterparts in membership organizations.

Membership relationships usually result in customer loyalty to a particular service supplier (sometimes there is no choice because the supplier has a monopoly). As a marketing strategy, many service businesses seek ways to develop formal, ongoing relations with customers in order to ensure repeat business and/or ongoing financial support. Public radio and television broadcasters, for instance, develop membership clubs for donors and offer monthly program guides in return; performing arts organizations sell subscription series; transit agencies offer monthly passes; airlines create clubs for high mileage fliers; and hotels develop "executive service plans" offering priority reservations and upgraded rooms for frequent guests. The marketing task here is to determine how it might be possible to build sales and revenues through such memberships but to avoid requiring membership when this would result in freezing out a large volume of desirable casual business.

How Much Room Is There for Customization and Judgment?

Relatively few consumer goods nowadays are built to special order; most are purchased "off the shelf." The

same is true for a majority of industrial goods, although by permutating options it's possible to give the impression of customization. Once they've purchased their goods, of course, customers are usually free to use them as they see fit.

The situation in the service sector, by contrast, is sharply different. Because services are created as they are consumed, and because the customer is often actually involved in the production process, there is far more scope for tailoring the service to meet the needs of individual customers. As shown in Figure 3, customization can proceed along at least two dimensions. The first concerns the extent to which the characteristics of the service and its delivery system lend themselves to customization; the second relates to how much judgment customer contact personnel are able to exercise in defining the nature of the service received by individual customers.

Some service concepts are quite standardized. Public transportation, for instance, runs over fixed routes on predetermined schedules. Routine appliance repairs typically involve a fixed charge, and the customer is responsible for dropping off the item at a given retail location and picking it up again afterwards. Fast food restaurants have a small, set menu; few offer the customer much choice in how the food will be cooked and served. Movies, entertainment and spectator sports place the audience in a relatively passive role, albeit a sometimes noisy one.

Other services offer customers a wide choice of options. Each telephone subscriber enjoys an individual number and can use the phone to obtain a broad array of different services—from receiving personal calls from a next-door neighbor to calling a business

associate on the other side of the world, and from data transmission to dial-a-prayer. Retail bank accounts are also customized, with each check or bank card carrying the customer's name and personal code. Within the constraints set down by the bank, the customer enjoys considerable latitude in how and when the account is used and receives a personalized monthly statement. Good hotels and restaurants usually offer their customers an array of service options from which to choose, as well as considerable flexibility in how the service product is delivered to them.

But in each of these instances, the role of the customer contact personnel (if there are any) is somewhat constrained. Other than tailoring their personal manner to the customer and answering straightforward questions, contact personnel have relatively little discretion in altering the characteristics of the service they deliver: their role is basically that of operator or order taker. Judgment and discretion in customer dealings is usually reserved for managers or supervisors who will not normally become involved in service delivery unless a problem arises.

A third category of services gives the customer contact personnel wide latitude in how they deliver the service, yet these individuals do not significantly differentiate the characteristics of their service between one customer and another. For instance, educators who teach courses by lectures and give multiple choice, computer scored exams expose each of their students to a potentially similar experience, yet one professor may elect to teach a specific course in a very different way from a colleague at the same institution.

However, there is a class of services that not only involves a high degree of customization but also re-

FIGURE 3
Customization and Judgment in Service Delivery

Extent to Which Customer Contact Personnel Exercise Judgment in Meeting Individual Customer Needs	Extent to Which Service Characteristics Are Customized	
	High	Low
High	legal services health care/surgery architectural design executive search firm real estate agency taxi service beautician plumber education (tutorials)	education (large classes) preventive health programs
Low	telephone service hotel services retail banking (excl. major loans) good restaurant	public transportation routine appliance repair fast food restaurant movie theater spectator sports

quires customer contact personnel to exercise judgment concerning the characteristics of the service and how it is delivered to each customer. Far from being reactive in their dealings with customers, these service personnel are often prescriptive: users (or clients) look to them for advice as well as for customized execution. In this category the locus of control shifts from the user to the supplier—a situation that some customers may find disconcerting. Consumers of surgical services literally place their lives in the surgeon's hands (the same, unfortunately, is also true of taxi services in many cities). Professional services such as law, medicine, accounting and architecture fall within this category. They are all white collar "knowledge industries," requiring extensive training to develop the requisite skills and judgment needed for satisfactory service delivery. Deliverers of such services as taxi drivers, beauticians and plumbers are also found in this category. Their work is customized to the situation at hand and in each instance, the customer purchases the expertise required to devise a tailor-made solution.

Insights and Implications

To a much greater degree than in the manufacturing sector, service products are "custom-made." Yet customization has its costs. Service management often represents an ongoing struggle between the desires of marketing managers to add value and the goals of operations managers to reduce costs through standardization. Resolving such disputes, a task that may require arbitration by the general manager, requires a good understanding of consumer choice criteria, particularly as these relate to price/value trade-offs and competitive positioning strategy. At the present time, most senior managers in service businesses have come up through the operations route; hence, participation in executive education programs may be needed to give them the necessary perspective on marketing to make balanced decisions.

Customization is not necessarily important to success. As Levitt (1972, 1976) has pointed out, industrializing a service to take advantage of the economies of mass production may actually increase consumer satisfaction. Speed, consistency and price savings may be more important to many customers than customized service. In some instances, such as spectator sports and the performing arts, part of the product experience is sharing the service with many other people. In other instances the customer expects to share the service facilities with other consumers, as in hotels or airlines, yet still hopes for some individual recognition and custom treatment. Allowing customers to reserve specific rooms or seats in advance, having contact personnel address them by name (it's on their ticket or reservation slip), and providing some latitude for

individual choice (room service and morning calls, drinks and meals) are all ways to create an image of customization.

Generally, customers like to know in advance what they are buying—what the product features are, what the service will do for them. Surprises and uncertainty are not normally popular. Yet when the nature of the service requires a judgment-based, customized solution, as in a professional service, it is not always clear to either the customer or the professional what the outcome will be. Frequently, an important dimension of the professional's role is diagnosing the nature of the situation, then designing a solution.

In such situations those responsible for developing marketing strategy would do well to recognize that customers may be uneasy concerning the prior lack of certainty about the outcome. Customer contact personnel in these instances are not only part of the product but also determine what that product should be.

One solution to this problem is to divide the product into two separate components, diagnosis and implementation of a solution, that are executed and paid for separately. The process of diagnosis can and should be explained to the customer in advance, since the outcome of the diagnosis cannot always be predicted accurately. However, once that diagnosis has been made, the customer need not proceed immediately with the proposed solution; indeed, there is always the option of seeking a second opinion. The solution "product," by contrast, can often be spelled out in detail beforehand, so that the customer has a reasonable idea of what to expect. Although there may still be some uncertainty, as in legal actions or medical treatment, the range of possibilities should be narrower by this point, and it may be feasible to assign probabilities to specified alternative outcomes.

Marketing efforts may need to focus on the process of client-provider interactions. It will help prospective clients make choices between alternative suppliers, especially where professionals are concerned, if they know something of the organization's (or individual's) approach to diagnosis and problem-solving, as well as client-relationship style. These are considerations that transcend mere statements of qualification in an advertisement or brochure. For instance, some pediatricians allow new parents time for a free interview before any commitments are made. Such a trial encounter has the advantage of allowing both parties to decide whether or not a good match exists.

What Is the Nature of Demand and Supply for the Service?

Manufacturing firms can inventory supplies of their products as a hedge against fluctuations in demand. This enables them to enjoy the economies derived from operating plants at a steady level of production. Ser-

vice businesses can't do this because it's not possible to inventory the finished service. For instance, the potential income from an empty seat on an airline flight is lost forever once that flight takes off, and each hotel daily room vacancy is equally perishable. Likewise, the productive capacity of an auto repair shop is wasted if no one brings a car for servicing on a day when the shop is open. Conversely, if the demand for a service exceeds supply on a particular day, the excess business may be lost. Thus, if someone can't get a seat on one airline, another carrier gets the business or the trip is cancelled or postponed. If an accounting firm is too busy to accept tax and audit work from a prospective client, another firm will get the assignment.

But demand and supply imbalances are not found in all service situations. A useful way of categorizing services for this purpose is shown in Figure 4. The horizontal axis classifies organizations according to whether demand for the service fluctuates widely or narrowly over time; the vertical axis classifies them according to whether or not capacity is sufficient to meet peak demand.

Organizations in Box 1 could use increases in demand outside peak periods, those in Box 2 must decide whether to seek continued growth in demand and capacity or to continue the status quo, while those in Box 3 represent growing organizations that may need temporary demarketing until capacity can be increased to meet or exceed current demand levels. But service organizations in Box 4 face an ongoing problem of trying to smooth demand to match capacity, involving both stimulation and discouragement of demand.

Insights and Implications

Managing demand is a task faced by nearly all marketers, whether offering goods or services. Even where

the fluctuations are sharp, and inventories cannot be used to act as a buffer between supply and demand, it may still be possible to manage capacity in a service business—for instance, by hiring part time employees or renting extra facilities at peak periods. But for a substantial group of service organizations, successfully managing demand fluctuations through marketing actions is the key to profitability.

To determine the most appropriate strategy in each instance, it's necessary to seek answers to some additional questions:

1. What is the typical cycle period of these demand fluctuations?
 - predictable (i.e., demand varies by hour of the day, day of the week or month, season of the year).
 - random (i.e., no apparent pattern to demand fluctuations).
2. What are the underlying causes of these demand fluctuations?
 - customer habits or preferences (could marketing efforts change these)?
 - actions by third parties (for instance, employers set working hours, hence marketing efforts might usefully be directed at those employers).
 - nonforecastable events, such as health symptoms, weather conditions, acts of God and so forth—marketing can do only a few things about these, such as offering priority services to members and disseminating information about alternative services to other people.

One way to smooth out the ups and downs of demand is through strategies that encourage customers

FIGURE 4
What is the Nature of Demand for the Service Relative to Supply?

Extent to Which Supply is Constrained	Extent of Demand Fluctuations over Time	
	Wide	Narrow
Peak Demand Can Usually Be Met without a Major Delay	1 electricity natural gas telephone hospital maternity unit police and fire emergencies	2 insurance legal services banking laundry and dry cleaning
Peak Demand Regularly Exceeds Capacity	4 accounting and tax preparation passenger transportation hotels and motels restaurants theaters	3 services similar to those in 2 but which have insufficient capacity for their base level of business

to change their plans voluntarily, such as offering special discount prices or added product value during periods of low demand. Another approach is to ration demand through a reservation or queuing system (which basically inventories demand rather than supply). Alternatively, to generate demand in periods of excess capacity, new business development efforts might be targeted at prospective customers with a countercyclical demand pattern. For instance, an accounting firm with a surfeit of work at the end of each calendar year might seek new customers whose financial year ended on June 30 or September 30.

Determining what strategy is appropriate requires an understanding of who or what is the target of the service (as discussed in an earlier section of this article). If the service is delivered to customers in person, there are limits to how long a customer will wait in line; hence strategies to inventory or ration demand should focus on adoption of reservation systems (Sasser 1976). But if the service is delivered to goods or to intangible assets, then a strategy of inventorying demand should be more feasible (unless the good is a vital necessity such as a car, in which case reservations may be the best approach).

How Is the Service Delivered?

Understanding distribution issues in service marketing requires that two basic issues be addressed. The first relates to the method of delivery. Is it necessary for the customer to be in direct physical contact with the service organization (customers may have to go to the service organization, or the latter may come to the former), or can transactions be completed at arm's length? And does the service organization maintain just a single outlet or does it serve customers through multiple outlets at different sites? The outcome of this analysis can be seen in Figure 5, which consists of six different cells.

Insights and Implications

The convenience of receiving service is presumably lowest when a customer has to come to the service organization and must use a specific outlet. Offering service through several outlets increases the convenience of access for customers but may start to raise problems of quality control as convenience of access relates to the consistency of the service product delivered. For some types of services the organization will come to the customer. This is, of course, essential when the target of the service is some immovable physical item (such as a building that needs repairs or pest control treatment, or a garden that needs landscaping). But since it's usually more expensive to take service personnel and equipment to the customer than vice versa, the trend has been away from this approach to delivering consumer services (e.g., doctors no longer like to make house calls). In many instances, however, direct contact between customers and the service organization is not necessary; instead, transactions can be handled at arm's length by mail or electronic communications. Through the use of 800 numbers many service organizations have found that they can bring their services as close as the nearest telephone, yet obtain important economies from operating out of a single physical location.

Although not all services can be delivered through arm's length transactions, it may be possible to separate certain components of the service from the core product and to handle them separately. This suggests an additional classification scheme: categorizing services according to whether transactions such as obtaining information, making reservations and making payment can be broken out separately from delivery of the core service. If they can be separated, then the question is whether or not it is advantageous to the service firm to allow customers to make these peripheral transactions through an intermediary or broker.

For instance, information about airline flights, reservations for such flights and purchases of tickets can

FIGURE 5
Method of Service Delivery

Nature of Interaction between Customer and Service Organization	Availability of Service Outlets	
	Single Site	Multiple Set
Customer Goes to Service Organization	theater barbershop	bus service fast food chain
Service Organization Comes to Customer	lawn care service pest control service taxi	mail delivery AAA emergency repairs
Customer and Service Organization Transact at Arm's Length (mail or electronic communications)	credit card co. local TV station	broadcast network telephone co.

all be made through a travel agent as well as directly through the airline. For those who prefer to visit in person, rather than conduct business by telephoning, this greatly increases the geographic coverage of distribution, since there are usually several travel agencies located more conveniently than the nearest airline office. Added value from using a travel agent comes from the "one-stop shopping" aspect of travel agents; the customer can inquire about several airlines and make car rental and hotel reservations during the same call. Insurance brokers and theater ticket agencies are also examples of specialist intermediaries that represent a number of different service organizations. Consumers sometimes perceive such intermediaries as more objective and more knowledgeable about alternatives than the various service suppliers they represent. The risk to the service firm of working through specialist intermediaries is, of course, that they may recommend use of a competitor's product!

Discussion

Widespread interest in the marketing of services among both academics and practitioners is a relatively recent phenomenon. Possibly this reflects the fact that marketing expertise in the service sector has significantly lagged behind that in the manufacturing sector. Up to now most academic research and discussion has centered on the issue, "How do services differ from goods?" A number of authors including Shostack (1977), Bateson (1979) and Berry (1980) have argued that there are significant distinctions between the two and have proposed several generalizations for management practice. But others such as Enis and Roering (1981) remain unconvinced that these differences have meaningful strategic implications.

Rather than continue to debate the existence of this broad dichotomy, it seems more useful to get on with the task of helping managers in service businesses do a better job of developing and marketing their products. We need to recognize that the service sector, particularly in the United States, is becoming increasingly competitive (Langeard et al. 1981), reflecting

such developments as the partial or complete deregulation of several major service industries in recent years, the removal of professional association restrictions on using marketing techniques (particularly advertising), the replacement (or absorption) of independent service units by franchise chains, and the growth of new electronic delivery systems. As competition intensifies within the service sector, the development of more effective marketing efforts becomes essential to survival.

The classification schemes proposed in this article can contribute usefully to management practice in two ways. First, by addressing each of the five questions posed earlier, marketing managers can obtain a better understanding of the nature of their product, of the types of relationships their service organizations have with customers, of the factors underlying any sharp variations in demand, and of the characteristics of their service delivery systems. This understanding should help them identify how these factors shape marketing problems and opportunities and thereby affect the nature of the marketing task. Second, by recognizing which characteristics their own service shares with other services, often in seemingly unrelated industries, managers will learn to look beyond their immediate competitors for new ideas as to how to resolve marketing problems that they share in common with firms in other service industries.

Recognizing that the products of service organizations previously considered as "different" actually face similar problems or share certain characteristics in common can yield valuable managerial insights. Innovation in marketing, after all, often reflects a manager's ability to seek out and learn from analogous situations in other contexts. These classification schemes should also be of value to researchers to whom they offer an alternative to either broad-brush research into services or an industry-by-industry approach. Instead, they suggest a variety of new ways of looking at service businesses, each of which may offer opportunities for focused research efforts. Undoubtedly there is also room for further refinement of the schemes proposed.

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