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The Structure of Service Firms and Their Marketing Policies

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Summary

There is a growing interest in understanding the way in which firms' marketing and manufacturing policies interact. The studies carried out so far have almost entirely concerned themselves with goods-producing organizations. However this paper suggests that these studies also provide useful insights into the problems faced by service firms in organizing themselves efficiently. Furthermore it suggests that a distinctive problem faced by such firms is that adaption of their organizations may have a significant effect upon consumers' perceptions of the service they offer. The paper first outlines some investigators' views of the link between marketing and manufacturing and follows this by discussing the concept of 'production', 'delivery' and 'consumption' of services.

A brief consideration of the pressures for change which particularly impinge upon service firms precedes a discussion of the problems, and apparent contradictions, which are linked with the concepts of standardization and personalization of services. The paper concludes with three examples of the issues discussed.

One of the particular problems of trying to develop knowledge about marketing is the variety of situations to which it is applied. Furthermore, as marketing is involved with the organization's relationship with parts of its environment the detailed problems of the moment change quite rapidly. A consequence of this is that there is a danger that marketing knowledge is expressed either as broad generalizations or alternatively as situation-specific statements. However, there are a number of generalizations which, when applied in specific situations, raise significant questions and therefore are powerful and influential concepts.

THE CONCEPT OF DISTINCTIVE COMPETENCE

One of these generalizations is that of 'distinctive competence'—this is the idea that a company should identify the resources which distinguish it from its competitors and also those things it does differently than its competitors. Once identified, this distinctive competence can be used to establish policies which will give a company a competitive advantage over its competitors. Although this concept is well known and understood, one of the problems of applying it to particular cases is that the features which provide this competence change over time. There are two reasons for this. First competitors will identify the basis of the distinctive competence and

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often imitate it. Second changes in the organization's environment may make what is currently a significant advantage of less relevance and even in extreme cases a disadvantage.

A number of commentators (Hayes and Wheelwright, 1979; Shapiro, 1979; Blois, 1980a; Utterback and Abernathy, 1975) have recently suggested that a particular basis for establishing a competitive advantage is the ability to establish and maintain marketing policies which are consistent with manufacturing policies. Among those who have provided analyses of this problem there has been a pre-occupation with tangible goods.[1] However close examination of their ideas shows that they are equally applicable to intangible products.

Consider, for example, the analysis presented by Hayes and Wheelwright (1979). Its foundation is their contention that the relationship between 'the product life cycle' and 'the process life cycle' provides a new basis for exploring strategic options. The 'process life cycle' concept recognizes that the production process used in manufacturing a product develops in a characteristic evolutionary pattern from a very 'fluid' or highly flexible process, through increasing standardization and mechanization to culminate in a 'systemic' process which is capital intensive, interrelated and relatively inflexible. Hayes and Wheelwright suggest that this process can be considered as having four stages to which they have attached the following labels:[2]

(i) jumbled flow (job shop)
(ii) disconnected line flow (batch)
(iii) connected line flow (assembly line)
(iv) continuous flow

These are incorporated into a product-process matrix as in Figure 1. Companies can be characterized as occupying a particular region on this matrix and it is argued that those companies which occupy positions on the diagonal are matching a product stage with a

Process life cycle stage	Product life cycle stage: Low volume–low standardization, one of a kind	Multiple products, low volume	Few major products, higher volume	High volume–high standardization, commodity products
Jumbled flow (job shop)	Commercial printer			
Disconnected line flow (batch)		Heavy equipment		
Connected line flow (assembly line)			Automobile assembly	
Continuous flow				Sugar refinery

Figure 1. Hayes and Wheelwright's Analysis

[1] Shapiro (1979) is an exception, using phrases such as 'product line or line of services', 'product, services, or materials' throughout his paper but the examples he provides and emphasis of his article is on tangible goods.

[2] It is perhaps unfortunate that the labels used are more specific in their meanings than the underlying process described by Hayes and Wheelwright and others. Thus a systemic process does not have to be one involving continuous flow.

'natural' process structure. Hayes and Wheelwright point out that when companies are not on a diagonal position they find that co-ordinating marketing and manufacturing grows more difficult, because the two areas face increasingly different opportunities and pressures.

As the manufacturing and marketing skills required vary a great deal according to the company's position on the matrix it is important for it to make a conscious decision as to which location on the matrix best suits its skills, resources and opportunities. Thus this matrix helps a company to identify the basis of its distinctive competence and enables it 'to concentrate its attention on a restricted set of process decisions and alternatives, as well as a restricted set of marketing alternatives' (Hayes and Wheelwright, 1979:137).

Although this analysis has been developed within the context of organizations producing tangible items, it is equally applicable to producers of intangibles. Indeed the following types of organizations (usually considered to be providers of services) can be substituted for those in Figure 1:

Original product	Substitute
Commercial printer	Restaurant offering à la carte menu
Heavy equipment	Hospital outpatient clinics
Automobile assembly	Issuer of letters of credit
Sugar refinery	Fast food restaurant

As will be seen, such substitution provides useful insights into the organizational and managerial problems faced by such organizations.

Thus a fast-food franchise, although clearly not using a continuous process in the sense that a sugar refinery does,[2] it does use a 'capital intensive, inter-related and relatively inflexible' system. Indeed Levitt's description of the McDonald's operation includes terms such as 'systematic substitution of equipment for people', 'the quantity is controlled', 'a highly sophisticated piece of technology', 'everything is built integrally into the machine', etc. (Levitt, 1972:44–46). At the other extreme, a restaurant offering an à la carte menu will be using a very fluid system of production. It must deal with different sized parties and with a wide variety of combinations of items from the menu and orders for particular items which may come in single or multiple units.

Similar substitutions can also be made in other writers' analyses without their arguments being disrupted. This suggests that the relationship between marketing policies and production policies is as crucial for service firms as it is for firms producing tangible products.

The value of analyses such as Shapiro's, Hayes and Wheelwright's and others is that, whatever the impetus for change in a company's strategy, they emphasize the need to take account of the interdependence of manufacturing and marketing activities. However, writers concerned with the marketing of services, in so far as they do discuss the organization of the provision or production of services, regard it as an inflexible factor. This view apparently arises because of their acceptance of the commonly expressed opinion that, for services, production and consumption are simultaneous.[3] Acceptance of this view then leads them to concentrate their attention upon short channels of distribution with multisite operations (Carmen and Langeard, 1980:8) and to ignore other modes of operation. However, this claimed simultaneity of production and consumption needs careful examination.

[3] See Bateson (1977) for a summary of various views of the distinctive features of service marketing including the simultaneous nature of production and consumption.

The view that the production and consumption of services are simultaneous creates many difficulties and constraints in the study of service marketing. This is because there is lack of clarity as to what is meant by the terms 'production' and 'consumption' but also because, even where in specific cases the meaning of one or other term is clear, there is doubt as to their simultaneity. The following two examples illustrate these points.

When is a life insurance policy consumed? Surely it is being consumed at every moment of its existence, in the sense that it satisfies the holder's need for a feeling of being responsible for their dependent's financial well-being (indeed as most life insurance policies are terminated prior to the holder's death there is no other product). The question of when a life insurance policy is produced is difficult to answer but it is questionable whether, in any meaningful sense, it is being produced throughout the life of the policy. By comparison, consider hairdressing, a service whose production is a well-defined event both in the physical acts involved and its timing. When is a haircut consumed—surely not entirely within the hairdressing salon. These and other examples raise questions about the meaning of 'production' and 'consumption' in the context of services and certainly question the claim that they are always simultaneous.

This is not to deny that, as for products, the process of production may be a significant element in the consumer's perception of the product. Levitt (1981) considers this in his discussion of 'Marketing intangible products and product intangibles' where he lays considerable stress on the way the good or service is 'delivered'—a term which Carmen and Langeard also use quite extensively—stating that 'manufacturing an intangible product is generally indistinguishable from its actual delivery' (Levitt, 1981:98). Again, the term 'delivery' is not defined and the examples provide a wide range of the possible interpretations.

However, for services, it does seem that 'delivery' is an activity where production and consumption at least overlap. Thus delivery for a haircut would include the physical process of cutting the hair and also the environment within which the process is carried out. Both these factors will influence a customer's feelings of satisfaction with the product even though the consumption of the product goes on after its production. Similarly, for an insurance policy, delivery includes the process of issuing the policy to the customer and the way any queries or claims are treated—both these being production activities and both affecting consumers' satisfaction but only representing a part of the consumption process.

There is, though, an additional aspect of the marketing of services which, although it is part of the production of the service, is not always part of the process of consumption. This is the 'signal' which the consumer accepts as an indication that the service will be performed satisfactorily. Such a 'signal' may be a document, a verbal statement, that part of the service organization which is visible to the customer[4] or any number of things and will not necessarily involve personal contact. To use insurance as an example again, for the average individual the acceptable signal is physical possession of a policy issued by a recognized insurance company accepting the risk to be covered. For a businessman a verbal commitment from an authorized representative of an insurance company may be the acceptable signal.[5] In the latter case personal contact has occurred—in the former the policy may be obtained from a slot machine!

Such signals may arise from various stages of the production process and the nature of the acceptable signal will vary with the needs and experience of the potential customer. Thus, the

[4] This is termed 'the servuction system' by Langeard *et al.* (1981:16).

[5] The author knows of many cases where insurance cover has been arranged by phone and the policy and premium exchanged after the event to be insured was completed.

decor of a restaurant may be the signal which determines whether a potential new customer enters the restaurant. In the case of an established customer the signal may be the contents of that day's menu.

In those cases where delivery and manufacturing are inextricably linked (e.g. in the case of hairdressing) then the Hayes and Wheelwright type of analysis is directly applicable. Where delivery of the service is separable from other stages of production then the analysis is applicable to the least flexible part of the production process, for modern technology now increasingly makes it feasible to achieve economies of scale and yet still offer a customized product. Thus, even where the delivery of the product requires personal contact it is sometimes possible to do so without moving to a job-shop production process. Citibank's ability to maintain a flow line production of letters of credit while offering a personalized and customized service illustrates this. Indeed they claim to have flow-line manufacturing and yet 'are delivering the personalized service of the "old days" via sophisticated technology and management thinking' (Matteis, 1979:159).

There are of course problems which arise from attempting to standardize parts of the production system and simultaneously offer a personal and non-standardized delivery system. The major problem comes from the difficulty of containing the variations offered to customers within the range of the production system's efficient operations. This is analogous to the difficulty faced by firms which manufacture a standard range of tangible goods and yet are willing to manufacture 'specials'. Many such firms admit that such a situation produces two difficulties. First, being able to ensure that the specials offered are not so dissimilar from the standard as to create manufacturing problems. Second, being able to limit the proportion of total production accounted for by such specials. A firm failing to deal with either of these issues is likely to find its operating costs rising rapidly (Blois, 1980b: 358–363). In such circumstances the 'signal' issued by the company may be very important, for it will help create consumer's expectations. Unless these expectations match the organization's production capabilities difficulties will arise.

It would seem therefore that the simultaneity of production and consumption, claimed by many writers to occur with regard to services, does not exist in all cases. This means that short channels of distribution and multisite operations do not represent the only possible organizational structures for services industries. Furthermore, even where such structures are currently appropriate, technological advances may make other forms of organization feasible.[6] The importance of this is that as environmental changes both alter the nature of demand for services and the cost pressures on service producers (see below) the possible response of service providing firms can include reorganization of the process of production. This though, as Hayes and Wheelwright point out, will cause problems unless the selection of an appropriate production process is carried out in conjunction with consideration of the marketing possibilities.

PRESSURES FOR CHANGE IN SERVICE PROVIDING FIRMS

It has, of course, always been the case that marketing management's function is to match the organization's resources and the market's needs—profitability. This is 'an incredibly complex task' (Shapiro, 1979:138) but the problems for those responsible for marketing services seem at

[6] For example, the development of 'Fireside Banking' (*Financial Times*, 9th September 1982) which will reduce the number of bank branches required.

present to be particularly difficult. The reasons for this lies with the rapidly increasing demand for many services, the particular cost pressures on the provision of services, and the relationship between concepts of standardization and personalized service.

Increased demand

The overall demand for services in most developed economies has increased rapidly and is expected to continue to grow. Although, clearly, there are some individual services whose demand has fallen (public transport, for example), many others have grown very rapidly. The individual causes of this increase are often difficult to isolate but include such factors as the increased affluence of sectors of the population, changes in the population's age structure, changes in fashion, tastes, etc., and the increased complexity of modern life.

Where substantial increases in demand have arisen, many organizations have found it difficult to handle this new level of demand and some have changed their procedures to handle the increase, others have found a mechanism to limit the demand and some have just muddled on!

Increasing costs

In common with all industries, services have faced rapidly increasing costs in recent years. However, it does seem that services have suffered more, on average, from cost increases than other ranges of goods (Balassa, 1964, 1973; *Economist*, 1979:74). As a consequence companies in the service sector have sought various ways of compensating for these increases in costs, including trying to find ways of raising the productivity of their employees.[7] The methods used can be classified into five categories as follows but, as will be seen, a major difficulty in many cases has been to raise productivity without changing the character of the service offered.

First, some service providers have increased the range of products offered, hoping by doing so to increase their total revenue with relatively little additional costs. Attractive though this policy might appear to be, it is not often easy to identify additional services which are compatible with existing resources and staff skills and which produce substantial extra revenue. Indeed Carmen and Langeard (1980:11) report that a leading French bank recently found that of its eleven groups of services, the fourth most important did not attract even five per cent of the total number of customers. Even where such services are identified there is a danger of over-extending staff capabilities.

Second, and conversely, some service firms are trying to increase productivity by rationalizing the range of services offered or offered at particular locations. Thus currently, as is discussed below, the Midland Bank is beginning a reorganization which will limit the range of services provided at their local branch offices to only those required by the 'average' customer. It is claimed that this reorganization will enable them to offer such customers a more efficient service with existing staff levels.

Third, some service firms are seeking to standardize the product which they offer. This opens the possibility of reducing costs in a variety of ways if there is sufficient demand for the standardized products. For example, Berni Inns, by offering a limited standard menu, is able to use less skilled staff, work to a high level of capacity (because limited stocks of pre-prepared food can be built up) and have less waste than restaurants offering wider menus.

Fourth, technological developments have enabled employees to increase their output in a direct sense. Such developments now enable insurance clerks to quote a rate for insurance in much less time than previously, because they have immediate access to computers.

[7] For a discussion of American experience see Lovelock and Young (1977).

Fifth, the consumer can be encouraged to behave in a manner which reduces the work required by the supplier's staff and/or enable the supplier to avoid uneven patterns of demand on his organization's resources. (This latter point is often critically important because of the difficulty in providing 'stocks' of services in advance of demand.) Thus, many hotels now offer their customers the facilities for making morning tea themselves and also for cleaning their own shoes. Provision of such facilities reduces the number of staff required, particularly those working early in the morning—a time increasingly regarded as 'unsocial' and therefore costly.

The National Westminster Bank, as reported by Haslam (1979), provides a dramatic illustration of an organization raising its staff productivity using a mixture of these approaches. Its number of employees increased by about seven per cent between 1970 and 1979, whereas the volume of business increased by seven per cent per annum and the range of services offered was widened.

Standarization and personalization

Changing the method of providing a service is particularly difficult when personal service is a critical element in the customer's purchase. However, in some situations, failure to distinguish between 'standardization of service offered' and 'personal service' (e.g. individual contact between customer and supplier) creates unnecessary difficulties.

Consider the case of an insurance company. It can write policies designed specifically to meet the needs of each individual customer. Alternatively it could offer a range of standard policies to which various minor amendments can be made or it may offer a completely standard policy on a 'take it or leave it' basis. As far as marketing these services is concerned it is possible for the customer to meet a representative of the company, the customer can communicate by form or letter, or a policy can be sold through a vending machine! Obviously, when a special policy is being written personal contact will be necessary—at the very least personal contact in the form of individually prepared correspondence. As far as the standardized policies are concerned their existence makes impersonal service possible.

This example demonstrates what is true in the case of many services, namely that there really is nothing about the benefits which customers seek by purchasing them which makes individual attention from the supplier essential. Even when personal contact is perceived as essential this does not mean that a customized product must be offered. A supplier of services must therefore consider how standardized the service should be and, if the product is standardized, whether the service should be sold with or without individual contact. In the case where a standardized product is to be offered, the decision as to whether or not individual contact is necessary may involve assessing how much of the cost of the service the consumer is willing or able to undertake—are customers willing or able to complete a standardized insurance proposal form, are they able to select from a range of completely standard forms of insurance policy the one which fits their circumstances, etc?

Currently a number of services are in a difficult transition stage because a significant proportion of their customers did, in the past, receive individual attention. In some cases such customers have not yet come to accept new methods of providing the service, or alternatively, to accept the increased cost of continuing to receive personal service. The clearing banks are still in this position with large numbers of customers expecting individual attention and resistant to the use of cash dispensers, etc. even though one of their most common uses of the banks is the standardized activity of withdrawing cash. In consequence the banks' customers can use either a cashier or a cash dispenser for the same purpose—namely getting cash. However, such dual systems of supply involve the supplier in extra costs.

Thus, service firms with changing demand and rapidly rising costs have responded in a variety of ways in an attempt to increase productivity. In a number of cases failure to distinguish between the concepts of standardization and personalization of the service offering have made for unnecessary difficulties in achieving increases in productivity. However, in all cases where changes in the method of producing the services are involved, their effect on the firm's marketing strategies must be incorporated into the decision making process. This will in turn, as illustrated below, affect consumers' perceptions of the services.

ORGANIZATIONAL DEVELOPMENT IN THE SERVICE INDUSTRIES

The rapid growth of service industries and their anticipated future development poses some critical questions for the way in which companies supplying this market organize themselves. For example, each of the five methods of coping with increasing costs illustrated above may involve the firm in making movements, in Hayes and Wheelwright's terms, along but not necessarily down the process axis of the 'product process matrix'. Similarly changes in the nature of consumers' needs may result in a firm moving its position on the product axis of the matrix. The difficulties which are thus highlighted by considering the matrix is that a change in a firm's position on either axis of the matrix without a corresponding change on the other axis will create problems of co-ordinating manufacturing and marketing—thus lowering overall efficiency.

There is however an additional aspect of the problem which is distinctively applicable to service firms. This is that changes in the method of producing a service are very likely to change the consumers' perception of the service especially because 'delivery' and 'the signal' are part of the production process.

These issues are illustrated by the following three examples.

A high-class restaurant

This restaurant, which only seated 30 people, had established a reputation for an exceptionally high standard of cuisine and offered an extensive and expensive à la carte menu. A high proportion of its customers dined there regularly and most of the remaining customers were drawn to the restaurant as a result of recommendations in various 'good food' guides.

Faced with rapidly rising costs the management attempted to increase its revenue by introducing some discreet increases in prices (apparently particularly easy with a menu which constantly changed). This led, however, to a gradual loss of some regular customers, a reduced frequency of dining by some and a third group who simply spent no more than previously by the expedient of choosing the cheaper items on the menu and wine list.

The management then considered the possibility of reducing the range of items offered on its menu but this seemed unlikely to produce significant economies. Another alternative was to have a standard menu with one or two items changing daily as the 'chef's recommended dish'. In other words, they were considering moving from a 'job shop' towards a 'flowline' production arrangement. This change was never made, as the management believed that it would be unacceptable to their regular clients who would eat elsewhere, and also lead the restaurant to compete with a large number of establishments offering similar restricted menus but with the disadvantage, in such circumstances, of its reputation for being quite expensive. The management was thus accepting that a change in its production methods could not be made without affecting the market it was operating in.

A clearing bank

There has been a very rapid growth in the number of personal current accounts held with the clearing banks and this has put tremendous pressure on their ability to cope with the volume of work associated with their most commonly used product, namely 'money transmission'. Furthermore, bank staffing costs have been rising rapidly. At the same time the possession of a cheque book (the visible symbol of possession of a bank account) has lost its significance as an indicator of social status. Linked with this has come greater (though by no means total) acceptance that personal contact is not any longer an essential part of many of the services offered.

One bank (the Midland) is currently committed to a reorganization of its branch network (*Midland Bank Group Newspaper*, 1979). This reorganization is a dramatic break from the traditional branch network structure which had been developed to deal with a lower level of demand and one which offered a personalized service—in other words developed for the banking market of over 20 years ago. Essentially what this reorganization will do is place the more specialized and technical aspects of banking in centralized area offices, with the accounting side (e.g. the whole remittance procedure, including standing orders and customer accounts) being handled in area operations centres. This will leave the branch offices free to deal with most day to day needs of private and business customers.

On the benefit side, for the bank, it is believed that they will be able to cope with the increasing volume of transactions without unacceptably large price increases. Further, the reorganization will permit greater specialization by their staff which it is hoped will increase their efficiency. From the customers' point of view the bank maintains that the average personal customer will be almost unaffected by the changes. However, this substantial and costly reorganization is only being undertaken because the Midland believes it to be essential if the current level of service is to continue to be offered at a reasonable cost. Behind the reorganization will be changed job specifications, different career opportunities, new accounting and control systems and new physical facilities. In other words recognition of the changing nature of the market and increased awareness of rising costs has led to changes in very many aspects of the 'producing' organization's structure and procedures.

In terms of Hayes and Wheelwright's analysis, the Bank has recognized that as it responds to cost pressures, by a movement along the process axis from 'disconnected line flow' to 'connected line flow' at the Branch level, then it confronts a problem. This is that, if co-ordinating production and marketing is not to become more difficult, then a movement along the product axis from 'multiple products in low volume' to 'few major products in higher volume' is needed. However such a movement will only be successful if the majority of its customers can be persuaded to accept that the 'product range' available at their local bank branches will be restricted and do not resent the pressure to use cash dispensers and other automated equipment.

A technical consultancy

This small technical consultancy, because it failed to recognize the organizational implications of its changing market, found itself in severe financial difficulties. One of the services it offered was torque measurement and it developed a substantial expertise and reputation in this activity. However the type of skill it possessed was in carrying out these measurements in unusual circumstances and one-off (typically involving experimental prototypes) situations. When a reduction in this type of work occurred it sought to fill up its spare capacity by offering a calibration service. This, it was felt, would make use of the consultancy's technical skills and much of its equipment. However the typical calibration project involved batches (200 or more units) of equipment.

The consultancy did not change its internal organization in any way to deal with this new type of business. It immediately ran into problems. First it lacked experience of quoting for batches and therefore its prices were considered too high, but it obtained some work by lowering its prices. Second, it lacked the basic managerial experience for organizing the new flow of work efficiently. Third, many of its staff were too well qualified for such routine work and this had two consequences. These were that the costs allocated to the project were high relative to the price obtained and that the staff became bored and worked inefficiently, thus raising costs still further.

What this firm did was to allow itself, in terms of Hayes and Wheelwright's analysis, to move from supplying a market which required a job shop organization to one requiring batch production without making the necessary reorganization.

These three illustrations underline the critical point that reformulation of a service producing company's marketing policies and the restructuring of its organization should be inseparable.

CONCLUSIONS

The study of service marketing has evolved primarily around the question of 'is it different than the marketing of anything else?' The main thrust of these studies has consequently revolved around the nature of services and, because of this, two important issues have received less attention than they justify. These are:

(i) How do consumers perceive individual services?
(ii) How should firms which market services organize themselves?

This paper suggests that consumers' perceptions of a service are tightly linked with the organization adopted by the firm offering the service. If this is the case, it follows that these two questions cannot be considered in isolation from each other.

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