

C.9 Customer Service

CUSTOMER SERVICE AS PART OF THE PRODUCT VARIABLE

Customer service is an intangible portion of the product bundle that facilitates use of the product by the customer. Customer service is considered in this entry as a part of the product, a marketing mix variable. Closely related to customer service are those marketing logistics services that help a customer acquire a product. Marketing logistics decisions are considered as a part of the distribution variable. Decisions included in the marketing logistics system that also affect service to the customer include **inventory level** (GLOSSARY entry C.15), **warehouse location** (GLOSSARY entry C.41), and **transportation method** (GLOSSARY entry C.40).

The Product-Service Mix. In GLOSSARY entry C.25, the product variable was described as a bundle of need-satisfying attributes. The product bundle, or augmented product as it is sometimes called, includes both tangible elements and service or intangible elements. The mix or proportion of tangible and intangible elements in a product varies. Some products, like household package goods, are mostly tangible, while other products, like personal services, are mostly made up of intangible elements. Figure C.9-1 illustrates variations in the product-service mix. Designing and delivering the product-service mix is one of the marketer's marketing mix decisions.

The service elements of the product bun-

dle differ in important ways from the physical product elements. Services are intangible and thus cannot be held, examined, and analyzed in the same way as tangible elements. In addition, the production of services cannot be separated from their consumption. For example, production and consumption of a haircut or a manicure are part of a single process and take place at the same location. Finally, services are difficult to standardize and control because they are intangible and thus difficult to measure, they are frequently produced off-site, and they are often customized to individual customer needs.

Customer service is made up of elements that are delivered to the customer after the sale. Variations are endless, but common customer services include product repair, user training, installation, customization, warranties, service contracts, parts, troubleshooting, and retro-fitted enhancements.

The Role of Customer Service in Marketing Strategy. In recent years, stimulated by marketers' concerns with product quality, there has been increasing emphasis on customer service. Customer service programs have become an essential part of the marketing mix for several reasons.

- *Rising Expectations.* For many years, sellers of products have promised, "We service what we sell," and as a result consumers have rising expectations that service will be delivered as part of the sale of the product. The fact that some



FIGURE C.9-1

Variations in the Product-Service Mix

competitors have delivered on this promise and have found competitive advantage in it forces others to deliver to meet consumers' service expectations.

- *Product Quality Influence.* Product quality is the consumer's perception of how reliably a product performs its intended function. Consumer perception of product quality is influenced by the availability of customer service because it works to improve product performance. Marketers have learned from the Japanese and other international marketers that product quality is a highly marketable product advantage and that customer service is a part of building a quality perception.
- *Relationship Building.* In most product categories, marketing success comes not from an initial sale, but from building a relationship with the customer that will result in repeat business. Personal selling today is increasingly viewed as a relationship building process (see GLOSSARY entry C.20). Customer service programs that offer assistance to customers after the sale are designed to assure satisfaction with the product as it is used. Such programs are essential to gaining repeat purchases and a long-term relationship.¹
- *Product Design.* Customer service is inseparable from **product design** and should be considered at the same time as more traditional physical product design (see GLOSSARY entry C.25 on product design). Designing serviceability and ease of use into a product reduces the burdens placed on a customer service program and results in an enhanced perception of product quality. Feedback from a customer service program helps pinpoint product design weaknesses and product quality problems.²

Customer Service Decisions. The marketer faces several issues in developing or evaluating a customer service program.

- *The Service Mix.* The marketer must decide on the mix of product and service to be offered

to consumers. In addition to the physical product, what customer services will be offered?

- *The Level of Service.* The marketer must also decide what level of each service will be offered. This requires allocating funds among the physical and service product elements.
- *Who Will Provide?* The marketer must decide who is best able to provide the customer services. The marketing firm may be its own service provider or it may use an outside provider.
- *Location of Service.* The marketer must also decide where the service is to be performed. The major alternatives are to provide centralized service, such as at the manufacturer's plant, or decentralized service at the buyer's location.
- *Other Related Decisions.* There are further decisions related to product service that can utilize other marketing decision-making concepts. Other decisions include how services should be priced and whether they should be separately sold (unbundled) or sold as part of the product package (bundled). Design of the marketing logistics system also affects customers' perception of service. Elements to be decided include **inventory levels**, **warehouse location**, and **transportation methods**. Decisions on the product-service mix are interrelated with **product design** decisions and are influenced by product design decision criteria. Figure C.9-2 suggests appropriate GLOSSARY concepts for each of these related decisions.

MAKING CUSTOMER SERVICE DECISIONS

In this section, factors that should be considered in developing or evaluating a customer service program are presented.

Service Mix and Level of Service Decisions. Deciding what customer services to include in the product bundle and what level of each service to offer are usually made jointly and thus are considered together here. Factors to be considered in making these two decisions are these.

- *How Does Cost Compare with Expected Return?* If costs and returns could be quantified, customer service elements could be evaluated by comparing returns with costs. While costs can

¹See Theodore Levitt, "After the Sale Is Over . . .," *Harvard Business Review* (September-October 1983), pp. 87-93.

²See Hirotaka Takeuchi, "Quality Is More Than Making a Good Product," *Harvard Business Review* (July-August 1983), pp. 139-45.

FIGURE C.9-2
Customer Service Related Decision-Making Concepts

<i>Decision</i>	<i>Decision-Making Concept</i>
Customer Service	
Service mix	Customer service C.9
Level of service	Customer service C.9
Service provider	Customer service C.9
Location of service	Customer service C.9
Service Pricing	
Price level	Pricing objectives C.23
Bundling	Pricing objectives C.23
Order Fulfillment	
Availability of product	Inventory level C.15
Location of stock	Warehouse location C.41
Delivery of product	Transportation methods C.40
Product Design	Product design C.25
Customer Relationship Building	Personal selling techniques C.20

be estimated and must be to form a budget, it is often not possible to separate the returns generated by one customer service element from those generated by other marketing mix elements. It is generally considered that returns from customer service expenditures are subject to diminishing returns. Beyond this, however, if returns cannot be quantified, they are usually evaluated qualitatively in terms of the criteria suggested below.

- *What Are Customer Service Expectations?* In keeping with the **marketing concept**, the customer service mix and the level of services provided should meet customer expectations. In purchasing a product, customers anticipate that certain levels of service will accompany the product. If these service expectations are not met, the customer will become dissatisfied and repurchase is unlikely. Determining customer service needs and the importance of those needs may require surveying a sample of customers. The importance of customer service depends on the costs incurred by the customer in the event of product failure. This varies with the product and usage situation.³
- *What Are Product Characteristics?* The need for customer service varies with the product and the usage situation. As products increase in

complexity, the need for service increases. The need for service also increases with the cost of the product and the perceived risk in the purchase. Customers seek the reassurance of a strong service program to relieve the risk. Products that are critical to a production process or products whose failure could affect health or safety require higher levels of service. The **consumer and industrial goods classification systems** (see GLOSSARY entries A.3 and A.7) can help to define customer service needs. For consumer products, shopping goods, especially heterogeneous shopping goods, require higher levels of customer service. In the industrial goods classification system, installations, accessory equipment, and component parts require substantial customer service programs.

- *Is Customer Service Marketable?* In some cases the addition of a customer service program enhances a product and makes it more marketable. For some products, especially those that tend to be homogeneous, customer service attributes may provide competitive advantage to the product and a basis for positioning.
- *What Are Competitive Service Offerings?* Before deciding on a customer service program, there should be careful analysis of competitive service offerings. Customer service expectations are formed by competitively prevailing services. The customer service program should not be blindly patterned on competition, but neither should a competitive disadvantage be created by offering an inferior service package.

³For more on defining customer service needs, see Milind M. Lele and Uday S. Karmarker, "Good Product Support Is Smart Marketing," *Harvard Business Review* (November–December 1983), pp. 124–32.

Who Should Provide Customer Services? Where? Deciding who should be the service provider and where the service should be provided are interdependent issues and should be considered together. The alternatives are for the marketing firm to provide the service, use dealers for the product to provide service, or utilize independent servicing firms. Geographically, the alternatives are to do servicing at the customer location or centrally at the manufacturing site. Combinations of these alternatives are possible.

- **What Level of Control Is Needed?** The major reason for centralizing service offerings and for the marketing firm to provide services itself is to maintain control. Centralized services are easier to standardize and can be directly supervised, making them easier to control. It is also easier to exert control over the firm's own employees than it is over dealers or independent service providers. The firm can train its own employees and make them specialists in the company's own products. This same degree of specialization is difficult to achieve among dealers or independent service providers handling the products of several firms.
- **How Important Is Customer Convenience?** The major tradeoff in gaining control over service offerings is customer convenience. Centralizing service increases control, but decreases customer convenience. Ideally, most customers would like services provided at their location, saving time, travel, and shipping costs. The need for on-site service is increased if the product is installed or if shipping costs would be great. Customers usually find it more convenient to receive services through the dealer from which the product was purchased. Such dealers tend to be numerous, local, and have an established reputation. Independent ser-

vice providers, if geographically close, may also offer greater convenience to customers. Offsetting convenience is the realization that dealers and independent servicers may not have the experience, technical equipment, and expertise of "factory trained" service providers.

- **How Do Costs Compare?** The investment required and the expected costs of alternative means of supplying customer services must be determined on a case-by-case basis and will influence the final decision. Investment will likely be higher for the firm serving as its own service provider because of the facilities, equipment, and training costs required in setting up the program. Return on that investment will depend on the pricing policy adopted, revenue realized, and costs incurred in providing the services. There is no evidence to suggest that dealer or independently provided services can expect to command a different price or will realize different costs than if the service were factory provided.

SUGGESTIONS FOR FURTHER READING

- ANTHONY, E. A. "Establishing Service Policies for Consumer Goods." In *Handbook of Modern Marketing*, 2d ed., ed. Victor P. Buell. New York: McGraw-Hill Book Co., 1986, pp. 89-111.
- LELE, MILIND M., and UDAY S. KARMARKER. "Good Product Support Is Smart Marketing." *Harvard Business Review* (November-December 1983), pp. 124-32.
- LEVITT, THEODORE. "After the Sale Is Over . . ." *Harvard Business Review* (September-October 1983), pp. 87-93.
- TAKEUCHI, HIROTAKA. "Quality Is More Than Making a Good Product." *Harvard Business Review* (July-August 1983), pp. 139-45.

COPYRIGHT NOTICE

The reproduction of this material was copied with permission of the copyright holder. In an educational setting it is especially necessary to operate within the bounds of the copyright laws. The impropriety of much unauthorized copying is all too often overlooked by users in an educational environment.

Although copying all or part of works without obtaining permission is quite easy to do, such unauthorized copying is a violation of the rights of the publisher or copyright holder.

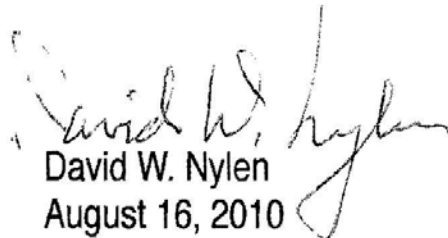
All fees and royalties have been waived by David W. Nylén and he has given Stephen Barnett expressed permission to produce this electronic version of the *Marketing Decision-Making Handbook* for use in his business courses

Any attempt to duplicate this material without obtaining the appropriate authorization is prohibited.

This book was previously published by
Prentice-Hall, Inc. A Division of Simon & Schuster
Englewood Cliffs, New Jersey 07632
Copyright 1990 by David W. Nylén, Ph.D.

Permission to reproduce copyright text

Professor Stephen Barnett has my express permission to produce an electronic version of the text *Marketing Decision-Making Handbook*, copyright 1990 by David W. Nylén, for his use in graduate or undergraduate business courses.


David W. Nylén
August 16, 2010