

Chapter 5: Distributing Services Through Physical And Electronic Channels



Overview Of Chapter 5



Services Marketing

- **Distribution in a Services Context**
- **Options for Service Delivery**
- **Place and Time Decisions**
- **Delivering Services in Cyberspace**
- **The Role of Intermediaries**
- **The Challenge of Distribution in Large Domestic Markets**
- **Distributing Services Internationally**

Distribution in a Services Context

Distribution in a Services Context



Services Marketing



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- In a services context, we often don't move physical products
- Experiences, performances, and solutions are not being physically shipped and stored
- More and more informational transactions are conducted through electronic and not physical channels

Applying the Flow Model of Distribution to Services



The three interrelated elements of distribution are:

- **Information and promotion flow**
 - ➔ To get customer interested in buying the service
- **Negotiation flow**
 - ➔ To sell the right to use a service
- **Product flow**
 - ➔ To develop a network of local sites

Distinguishing between Distribution of Supplementary and Core Services



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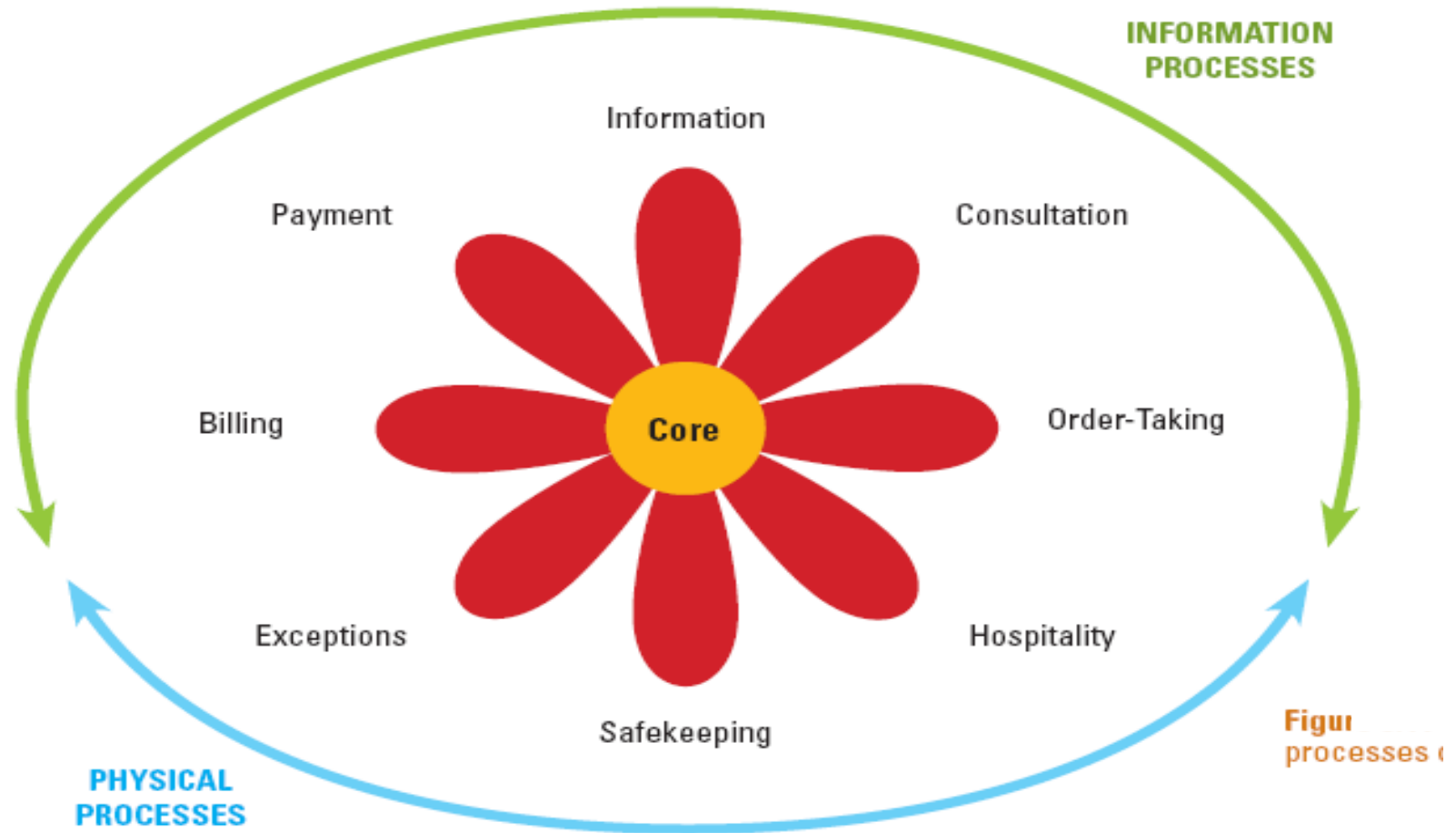
- Most core services require physical locations
- Many supplementary services are informational; can be distributed widely and cost-effectively via other means

➔ Telephone

➔ Internet

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Information and Physical Processes of Augmented Service Products



Using Websites for Service Delivery



Information

Read brochure/FAQ; get schedules/
directions; check prices

Payment

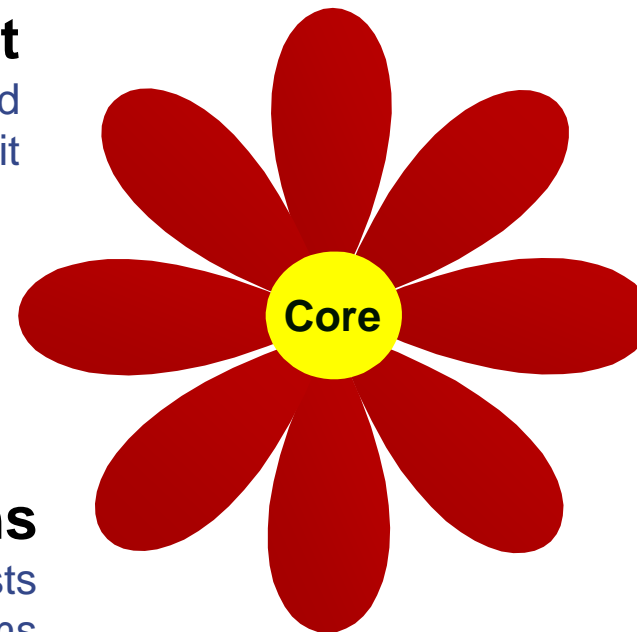
Pay by bank card
Direct debit

Billing

Receive bill
Make auction bid
Check account status

Exceptions

Make special requests
Resolve problems



Consultation

Conduct e-mail dialog
Use expert systems

Order-Taking

Make/confirm reservations
Submit applications
Order goods, check status

Hospitality

Record preferences

Safekeeping

Track package movements
Check repair status

CORE: Use Web to deliver information-based core services

Options for Service Delivery

Distribution Options for Serving Customers



- **Customers visit service site**
 - ➔ Convenience of service factory locations and operational schedules important when customer has to be physically present
- **Service providers go to customers**
 - ➔ Unavoidable when object of service is immovable
 - ➔ More expensive and time-consuming for service provider
- **Service transaction is conducted remotely**
 - ➔ Achieved with help of logistics and telecommunications

Six Options For Service Delivery



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Type of Interaction between Customer and Service Organization	Availability of Service Outlets	
	Single Site	Multiple Sites
Customer goes to service organization	Theater Hair salon	Bus service Fast-food chain
Service organization comes to customer	House painting Mobile car wash	Mail delivery Banking branch network
Customer and service organization transact remotely (mail or electronic communications)	Credit card company Local TV station	Broadcast network Telephone company

Channel Preferences Vary Among Customers



- **For complex and high-perceived risk services, people tend to rely on personal channels**
- **Individuals with greater confidence and knowledge about a service/channel tend to use impersonal and self-service channels**
- **Customers with social motives tend to use personal channels**
- **Convenience is a key driver of channel choice**



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Place and Time Decisions

Place Decisions of Service Delivery



- **Cost, productivity, and access to labor are key determinants to locating a service facility**
- **Location constraints**
 - ➔ **Operational requirement (e.g., airports)**
 - ➔ **Geographic factor (e.g., ski resorts)**
 - ➔ **Need for economies of scale (e.g., hospitals)**

Place Decisions of Service Delivery



● **Ministores**

- **Creating many small service factories to maximize geographic coverage**
- **Separating front and back stages of operation**
- **Purchasing space from another provider in complementary field**

● **Locating in Multipurpose Facilities**

- **Proximity to where customers live or work**
 - *Service Stations*
 - *Service Perspectives 5.2*

Time of Service Delivery



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- Traditionally, schedules were restricted
 - ➔ Service availability limited to daytime, 40-50 hours a week
- Today
 - ➔ For flexible, responsive service operations: 24/7 service, 24 hours a day, 7 days a week, all around the world

Delivering Services in Cyberspace

Service Delivery Innovations Facilitated by Technology



● Technological Innovations

- Development of “smart” mobile telephones and PDAs, and presence of Wi-Fi
 - Voice-recognition technology
 - Websites
 - Smart cards
 - *Store detailed information about customer*
 - *Act as electronic purse containing digital money*
-
- Electronic channels can be offered together with physical channels, or replace physical channels

E-Commerce: Move to Cyberspace



- **What are the factors that encourage you to use virtual stores?**
 - ➔ **Convenience**
 - ➔ **Ease of search**
 - ➔ **Broader selection**
 - ➔ **Potential for better prices**
 - ➔ **24-hour service with prompt delivery**

E-Commerce: Move to Cyberspace



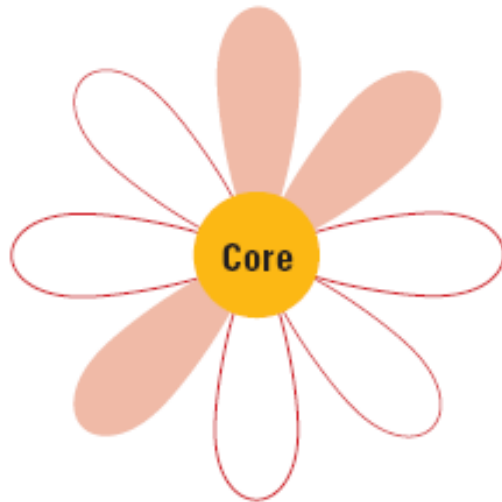
- **Recent developments: websites, customer management (CRM) systems, and mobile telephony**
- **Integrating mobile devices into the service delivery infrastructure can be used as means to:**
 - ➔ **Access services**
 - ➔ **Alert customers to opportunities/problems**
 - ➔ **Update information in real time**

Role of Intermediaries

Splitting Responsibilities for Service Delivery



As created by
originating firm



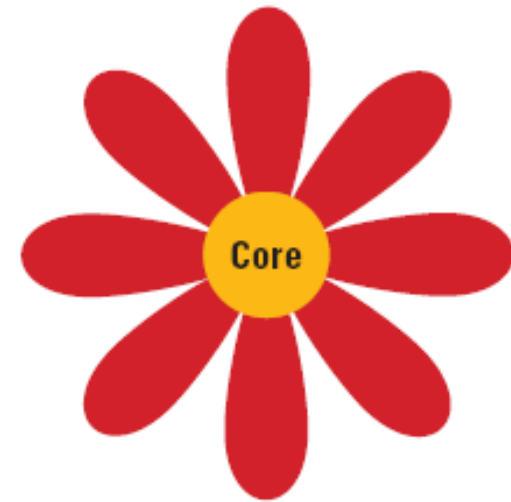
Core Product

As enhanced
by distributor



Supplementary
services

As experienced
by customer



Total experience
and benefits

Challenges for original supplier

- Act as guardian of overall process
- Ensure that each element offered by intermediaries fits overall service concept

Franchising



- **Franchisor provides training, equipment, and support marketing activities.**
- **Franchisees invest time and finance, and follow copy and media guidelines of franchisor.**
- **Advantages:**
 - ➔ **Expand delivery of effective service concept without a high level of monetary investment**
 - ➔ **Franchisees are motivated to ensure good customer service and high-quality service operations**



- **Disadvantages of franchising**
 - ➔ **Loss of control over delivery system and how customers experience actual service**
 - ➔ **Effective quality control is difficult**
 - ➔ **Conflict between franchisees may arise especially as they gain experience**
- **Alternative: license another supplier to act on the original supplier's behalf to deliver core product**
 - ➔ **Trucking companies**
 - ➔ **Banks selling insurance products**

Challenge of Distribution in Large Domestic Markets

The Challenge of Distribution in Large Domestic Markets



- **Distributing services (i.e., physical logistics) faces challenges due to:**
 - ➔ **Distances involved**
 - ➔ **Multiple time zones**
 - ➔ **Multiculturalism**
 - ➔ **Differences in laws and tax rates**

Distributing Services Internationally

Factors Favoring Adoption of Transnational Strategies



Transnational strategy involves integration of strategy formulation and its implementation across all countries in which company elects to do business

- **Market Drivers**

- Common customer needs across countries
- Corporate customers seek to standardize and simplify suppliers used in different countries – ad agencies, logistics suppliers, Big 4 accounting firms

- **Government Drivers**

- Favorable trade policies, compatible technical standards, common marketing regulations

Factors Favoring Adoption of Transnational Strategies



● Competition Drivers

- Competitors from overseas; interdependence of countries
- Firms may be obliged to follow competitors into new markets to protect own positions elsewhere

● Technology Drivers

- Advances in information technology – miniaturization and mobility of equipment, digitization of voice

● Cost Drivers

- Economies of scale
- Lower operating costs

How Service Processes Affect International Market Entry



- **People processing services require direct contact with customers**
 - ➔ **Export service concept**
 - *Acting alone or in partnership with local suppliers*
e.g., chain restaurants, hotels, car rental firms
 - ➔ **Import customers**
 - *Inviting customers from overseas to firm's home country*
e.g., hospitals catering to “medical tourism”
 - ➔ **Transport customers to new locations**
 - *Passenger transportation (air, sea, rail, road)*

How Service Processes Affect International Market Entry



- **Possession processing involves services to customer's physical possessions**
 - *Repair and maintenance, freight transport*
- **Information-based services include mental processing services and information processing services**
 - ➔ **Export the service to a local service factory**
 - *Hollywood film shown around the world*
 - ➔ **Import customers**
 - ➔ **Export the information via telecommunications and transform it locally**
 - *Data can be downloaded via CDs or DVDs*

Impact of Globalization Drivers on Various Service Categories



Globalization Drivers	People Processing	Possession Processing	Information Based
Competition	Simultaneity of production and consumption limits leverage of foreign competitive advantage, but management systems can be globalized.	Technology drives globalization of competitors with technical edge.	Highly vulnerable to global dominance by competitors with monopoly or competitive advantage in information.
Market	People differ economically and culturally, so needs for service and ability to pay may vary.	Level of economic development impacts demand for services to individually owned goods.	Demand for many services is derived to a significant degree from economic and educational levels.

Impact of Globalization Drivers on Various Service Categories



Globalization Drivers	People Processing	Possession Processing	Information Based
Technology	Use of IT for delivery of supplementary services may be a function of ownership and familiarity with technology.	Need for technology-based service delivery systems depends on possessions requiring service and the cost trade-offs in labor substitution	Ability to deliver core services through remote terminals may be a function of investment in computerization, etc.
Cost	Variable labor rates may impact pricing in labor-sensitive services.	Variable labor rates may favor low-cost locations.	Major cost elements can be centralized and minor cost elements localized.
Government	Social policies (e.g., health) vary widely and may affect labor cost, etc.	Policies may decrease/increase cost and encourage/discourage certain activities	Policies may impact demand and supply and distort pricing

Barriers to International Trade in Services



- **Passage of free-trade legislation is important facilitator of transnational operations**
 - ➔ **Notable developments: NAFTA, Latin American economic blocs, EU**
- **Despite efforts of WTO and GATT, barriers still exist:**
 - ➔ **Restrictions on international airline operating rights**
 - ➔ **Heavy taxation**
 - ➔ **Legal restrictions**
 - ➔ **Lack of broadly agreed upon accounting standards**
 - ➔ **Cultural issues**

Summary



- **Distribution relates to both core and supplementary services and embraces three interrelated elements**
 - ➔ **Information and promotion flow, negotiation flow, product flow**
- **Channel options include:**
 - ➔ **Customers visit the service site**
 - ➔ **Service providers go to their customers**
 - ➔ **Service transaction is conducted remotely**
- **Place and time decisions include where services should be delivered in bricks-and-mortar context, when it should be delivered**

Summary



- **Delivery in cyberspace is facilitated by technology; e-commerce allows 24-hour delivery, saving time and effort**
- **Intermediaries play roles in distributing services**
- **Service processes (people processing services, possession processing services, and information-based services) affect international market entry via the drivers:**
 - ➔ **Market drivers**
 - ➔ **Cost drivers**
 - ➔ **Competition drivers**
 - ➔ **Government drivers**
 - ➔ **Technology drivers**