

PART IIA 2005
3E2: Marketing
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MODULE 3E2
MARKETING
2005 EXAM CRIBS

Datasheet: None

1 How do customers evaluate service quality? [40 %] What additional marketing mix tools are available to services marketers, how can they be used to build perceptions of service quality, and how might this change as the product life cycle matures? [60 %]

Crib

- Outline the means by which consumers evaluate service quality
 - i. Define and distinguish between technical and functional quality
 - ii. Augment this discussion by drawing upon the SERVQUAL dimensions (technical = reliability, responsiveness, functional = assurance, empathy, tangibles)
- Outline the elements of the marketing mix, taking time to emphasise the additional elements of the marketing mix for service products. Apply your understanding of these elements to the service and discuss how they are likely to influence consumer perceptions
 - Some examples include but are not limited to
 - i. *Physical evidence* (e.g., the service environment) provides a tangible representation of service likely to be received, which will be particularly important for credence services (e.g., legal, medical, consulting).
 - ii. A transparent *process* might help build customer perceptions of technical quality.
 - iii. *People* involved in delivering the service have a large role to play in building customer perceptions of empathy and assurance.
- Discuss some examples of how the importance of technical and functional service quality will change given increases in consumer expertise (a natural consequence of maturing markets) and increasing competitiveness
 - Some example might include (but are not limited to)
 - i. As consumers become more expert within a product market, they will increasingly be able to assess *technical* quality. This has implications for the process improvements in the service (i.e., reliability and responsiveness)
 - ii. As markets mature, and the number of competitors providing parity services increase, customer-keeping differentiation is more difficult to achieve. *Physical evidence* may become more important (i.e., slightly wider seats on a plane, gold/platinum cards signaling status, cleaner offices).
 - iii. In mature markets, the relationship with the service provider (i.e. *people*) may increase in importance. In other words, consumers will differentiate between competitive alternatives on the basis of the relationship they have established with service staff

2 Discuss some of the factors that influence the rate of new product adoption. [40 %]
How might marketers use distribution channels to facilitate faster diffusion of their product within a market? [60 %]

Crib

- Review the factors affecting the consumer adoption/diffusion of innovations
 - i. Relative advantage
 - ii. Compatibility
 - iii. Complexity
 - iv. Divisibility
 - v. Communicability
- Review the importance of distribution channels in creating value for customer. This might include a discussion of factors such as *convenience*, *product positioning* and *customer service support*.
- How does the distribution channels affect diffusion/adoption?
Some examples include (but not limited to):
 - i. The sales function within channel partners will play an important role in communicating the *relative advantage* of the product and also helping to match the consumer (based on articulated values) with a *compatible* version of the product.
 - ii. *Divisibility* is enhanced by the merchandising and display of products at point of sale as well as a returns policy (i.e., allows consumers to try the product without risk). Divisibility is also enhanced by channel members' willingness to break bulk.
 - iii. *Complexity* is reduced by the ability to train customers in how to use the product at point of sale or through sales support provided by channel members.
 - iv. *Communicability* may be more clearly demonstrated in a personal selling situation (e.g., retail employees), where product attributes are easy to explain and the salesperson can help the consumer in their trial of the product
 - v. *Compatibility* might be greater in a personal selling situation due to the salesperson's ability to articulate the benefits of a product. The retail environment (e.g., in-store merchandising) might also communicate values that are compatible with those of the buyer.

3 “*Price is more difficult to manage for service products than for physical goods.*”
Using your understanding of the four problems encountered by services marketers and your knowledge of pricing theory, evaluate the correctness of this statement. [50 %]
What are the implications of your analysis for managing other aspects of the marketing mix? [50 %]

Crib

- Students should begin with a definition of price and its four components
 - i. Money
 - ii. Time
 - iii. Behavioural effort
 - iv. Cognitive activity
- Students should then review the four additional problems that services marketers face over physical goods marketers while illustrating how pricing decisions are made more complicated
 - i. *Intangibility*. The intangible nature of services means that price will be increasingly considered as a means of assessing product quality. In other words, price may be used as a positioning device.
 - ii. *Inseparability of production & consumption*. The fact that customers must be present at the time of service production means that goods cannot be stockpiled. In other words, services marketers cannot manage supply to maintain a consistent price. In order to utilize their assets (e.g., hotel beds, airplane seats), price needs to be carefully adjusted to manage demand
 - iii. *Variability (heterogeneity)*. The variability in service means that price will be perceived differently based on the different experiences of customers (both within & between customers). For example, delays in service (e.g., queues) increase the opportunity cost of time
 - iv. *Perishability*. Similar to the implications of inseparability, perishability of a service implies that demand must be managed through price fluctuations to ensure optimal capacity usage. This however, must be managed in line with brand positioning issues (e.g., 5-star hotels would prefer to leave some rooms empty rather than discount deeply—hence affecting customers’ perceptions of quality—just to fill a room)
- Students should then outline the additional elements of the marketing mix for service products and discuss how they are likely to influence consumer perceptions of price.
Some examples include but are not limited to
 - i. *Physical evidence* (e.g., the service environment) provides a tangible representation of service likely to be received, and may help reduce consumers’ perception of price.

- ii. A transparent *process* might help build customer perceptions of technical quality and reduce perceptions of risk. A clear and simple process will also reduce behavioural and cognitive activity required of the customer.
- iii. *People* involved in delivering the service have a large role to play in building customer perceptions of responsiveness. Again, this has an impact on the customers' perception of time and effort.

4 Discuss the reasons why many organisations are pursuing long-term relationships with their customers and other stakeholders (e.g., suppliers and competitors). [50%]
Using what you know of consumer behaviour, explain why some groups of consumers are more appropriate than others as targets for relationship marketing. [50%]

Crib

- Students should begin with a discussion of the logic of relationship marketing. This might include consideration of;
 - i. Recognition of market failure (e.g., need for idiosyncratic investments)
 - ii. Improved understanding of consumer value
 - iii. Improved understanding of the value chain
 - iv. Customer relationship economics
- From this, students can support the view that decreasing customer turnover (i.e., achieving high levels of customer loyalty) is a desirable business objective.
- A brief review of how relationships with competitors, suppliers and other stakeholders such as channel members, universities and government benefit the organization. Some level of collaboration with competitors, for example, might lead to agreement on 'product platform' design such that there is not duplication of effort and the potential for redundancy (e.g., Betamax vs. VHS). Collaboration with universities and government can lead to breakthroughs in innovation which stronger relationships with suppliers and retailers lead to better integration into the value creation process (e.g., more effective components/better representation by retailers of the company's brand).
- Students should then review the aspects of consumer behaviour that determine the extent to which customers will value relationships. These might include
 - i. *Involvement* of the product and purchase situation – consider extent to which customers value learning about, and interacting with, the product and representatives of the brand (e.g., company and channel sales representatives). Many high involvement customers will seek relationships with brands.
 - ii. *Perceived Risk* – consider the various aspects of risk and how they might lead to a relationship-seeking tendency (e.g., social risk in

fashion leads to customers desiring strong relationships with consistently fashionable brands).

- iii. *Information asymmetry* – ill-informed customers might seek a relationship with an organization as a means for managing risk.
- iv. *Brand loyalty* – a history of satisfactory transactions might lead to customers seeking a deepening of a relationship with a firm (in the expectation that they will continue to be satisfied).
- v. *Value-added through the relationship* – simply understanding what customers value might suggest that elements of a relationship (e.g., friendly and personal interactions with a service provider) are a genuine source of value themselves.
- vi. *Habit formation* – some customers more than others have a proclivity to form habits. For these people, relationship marketing efforts are likely to be valued (and hence profitable for the firm).