Learning objectives

1. To differentiate goods from services

2. To present the nature and distinctive characteristics of services
1.2 Nature of services

- Customer’s presence, varying demands which cannot be stocks and intangible nature of service required by the customers in any service system makes the service environment unique. We cannot apply the knowledge or experience from manufacturing techniques to the services directly. We need to devise specialized and different managerial techniques for services.

- The main challenge in understanding the services is that companies provide products to the customers which are a package of goods and services. At the same time many companies provide pure services and pure goods as shown in figures 1.7a and 1.7b.

- It is important to understand the differences between goods and services so that the service operations can be managed using appropriate tools and methods. The distinguishing factors which differentiate goods from services are presented in Table 1.1.

- We need to define the distinctive characteristics of services.
FIGURE 1.7 a: PRODUCTS ARE “BUNDLES” OF GOODS AND SERVICES

FIGURE 1.7 b: PRODUCTS ARE “BUNDLES” OF GOODS AND SERVICES WITH FURTHER CLASSIFICATIONS
### TABLE 1.1: DISTINGUISHING FACTORS BETWEEN GOODS AND SERVICES

<table>
<thead>
<tr>
<th>GOODS</th>
<th>DISTINGUISHING FACTOR</th>
<th>SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible</td>
<td>Output</td>
<td>Intangible</td>
</tr>
<tr>
<td>Uniform</td>
<td>Demand per product</td>
<td>Variable</td>
</tr>
<tr>
<td>Possible</td>
<td>Ownership</td>
<td>Not possible</td>
</tr>
<tr>
<td>Yes</td>
<td>Storable Inventory</td>
<td>No</td>
</tr>
<tr>
<td>Separate both in time and in place</td>
<td>Production and consumption</td>
<td>Takes place simultaneously in time and place</td>
</tr>
<tr>
<td>Low or no involvement</td>
<td>Customer involvement</td>
<td>High involvement and many times customer act as producer also</td>
</tr>
</tbody>
</table>
1.3 Service Package

Defines a product as a bundle of goods and services

- Service organizations sell bundle of goods and services. Any service bundle is composed of explicit physical items having sensual benefits and Implicit intangibles having psychological benefits which is better represented with the help of Service Package
- Service Package
  - Supporting facility
  - Facilitating goods
  - Information
  - Explicit services
  - Implicit Services

**Supporting facility**
Physical resources where services are offered such as college building, a hospital and an airplane.

**Facilitating goods**
The materials or items purchased or consumed by the buyer and/ or provided by the customer, for example are food items in airplane and legal documents to real estate.

**Information**
Any data or information provided by the customer to enable efficient and customized service, for example records of past medical history of patient and availability of movie tickets.

**Explicit services**

Benefits readily observable by the senses and that consist of essential or intrinsic features of the services, for example, removal of pain after tumor surgery

**Implicit Services**

Psychological benefits that can be sensed vaguely or the extrinsic features of the services, for example, status of IIT degree.

**1.4 Distinctive Characteristics of Service**

- Customer Participation
- Intangibility
- Simultaneity
- Perishability
- Heterogeneity
- Transferability
- Cultural Specificity

**1.4.1 Customer Participation**

- Physical presence of customer in service process many times is inevitable.
- What a customer notices when he/she enters the service process?
  - Physical surroundings of service facility
  - Matching the service facility design of physical surroundings as per customer’s perceptions (Interior decoration, Layout, Noise)
Customer participates in the service system by providing right information, by acquiring knowledge about utilizing the self-service technologies and by being motivated to learn advance technologies which are substitutes of labor intensive services

- The effective treatment of a patient depends on the right and correct medical record provided by the customer
- Effective learning at school depends on the efforts of students
- Customer must learn how to use internet to perform web check-in well in advance of flight departure to avoid any delay at check-in counters at airport

1.4.2 Intangibility

- We cannot touch service, feel service and test the performance of service with objective measures like we do for goods
- Intangible service outcomes: Feelings of anxiety and joy, convenience, personal satisfaction
- Services are ideas, concept and performance
- Difficult to obtain patents for services and hence innovations can be copied easily and quickly.
- Due to intangibility, companies need to materialize the service to make the customer aware that he has been served.
- How to measure?
  - Reputation of service firm
  - Government regulations

Managing Intangibility
➢ Address customer’s psychological needs
  • India’s successful airline Indigo always provide services which are on time performance, clean, neat aircraft and good onboard service. Indigo believe that on-time flights means on-time meetings
➢ Avoid being copied by the competitors by introducing innovations which are highly dependent on infrastructure of services like information systems
  • Implementing flexible expensive information systems where new services can be introduced with ease can prevent companies from being copied
➢ Materialize the service by using some symbols and slogans, offering gifts
  • Some hotels give a fruit basket, some cookies and drinks on the arrival of guest just to convey the guest that he is being cared by the hotel.

1.4.3 Simultaneity

➢ Services are produced and consumed at the same time hence service production and service consumption are inseparable.
➢ Service is a experience, which cannot be stored as inventory unlike goods which can be inventoried.
  • Goods inventory can act as buffer to meet varying demand
  • Customer’s demand for goods is met quite late after the production of goods in some factory from the stored inventory
  • Goods can be inspected for quality before delivering to the customer because of time gap between production and consumption
➢ We cannot inspect services before the consumption of service by the customer
➢ We do not get any opportunity to check the quality of service before it is delivered because the perception of a customer may change during the service is being delivered.

➢ Once a service provider commits a mistake, it may be very difficult to correct the mistake in services.
1.4.4 Perishability

- Service is a perishable commodity and cannot be inventoried.
- In contrast to services, tangible goods can be stored for long and can be used at the later date. Fluctuations of demand can be accommodated by keeping inventory. During the lean demand periods inventory can be held for later periods when demand rises.
- Services cannot stock its inventory. During less demand periods or no demand periods the idle capacity leads to opportunity loss. The opportunity lost is a loss forever in services.

EXAMPLES

- Can we measure the cost involved in
  - Unoccupied room during Off season in a hotel?
- Can we store a service and retrieve it for later use?
  - An hour of lawyer or a doctor

Perishability occurs due to highly varying customer demand and due to fixed capacity of services.

Example of Perishable Airline Seats

- An airline opened booking of 100 tickets 3 months in advance on June 15, 2011 for the flight to depart on September 15, 2011. On September 10, 2011 the airline realizes all tickets sold. They stopped entertaining further reservation.
On September 15, 2011, three hours before the departure of flight, airline realized that 5 passengers cancelled their trip. After deducting reservation charges, airline had to refund back some amount to the passengers.

- Can Airline get 5 new passengers within three hours of flight departure?
- What would be the loss of flying with 5 empty seats?
- Can we adjust capacity (in terms of number of seats) of airplane?

### 1.4.5 Heterogeneity

- Services provided by humans for other humans
- Inconsistent behavior of service provider
- Consistent performance of service provider can be experienced differently by different customers due to varying perceptions as shown in figure
- Same service provider may perform differently due to physical and psychological conditions
  - Due to lack of proper training and employee retaining policies
  - Due to nonstandard working environment
  - Due to lack of proper evaluation of performance of employee during customer is getting served
- All above points lead to Inconsistent service delivery
1.4.6 Transferability

- Customer expectations are transferable from one type of service to another type of service or from one service sector to other service sector.

- Can we compare two goods: A Car and A T-shirt?

- Diverse services tend to have more in common because of similar elements.

- EXAMPLES: Level of personal contact, length of time spent, assistance provided by sales person and guarantee of satisfaction
  
  - Customers compare a particular service not only with direct competitors but with the other similar non related services.
1.4.7 Cultural Specificity

Culture is very important attribute of service

- Culture influences the expectations and behavior of customers and service providers
- Existing gaps between service provider’s and customer’s cultural orientation can either enhance or detract from the service encounter
- **EXAMPLE**: In India people like to buy the grocery items in a way local grocery (Kirana) stores provide that is in a customized amount and packing (loose grocery items like grains, lentils etc.). Many upcoming retail shops with multinational presence are accounting for this factor, which were earlier selling the grocery items in a fixed quantity and in pre-defined packaging.
## Examples of service industries exhibiting distinctive characteristics

<table>
<thead>
<tr>
<th>Distinctive characteristics</th>
<th>Service Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Healthcare</strong></td>
<td><strong>IT</strong></td>
</tr>
<tr>
<td><strong>Customer Participation</strong></td>
<td>Patients fill registration form and provide medical history</td>
</tr>
<tr>
<td><strong>Simultaneity</strong></td>
<td>The doctor diagnoses the problem from test reports and gives treatment to the patient simultaneously.</td>
</tr>
<tr>
<td><strong>Intangibility</strong></td>
<td>Treatment of disease or relief from pain</td>
</tr>
<tr>
<td><strong>Perishability</strong></td>
<td>Unutilized bed and</td>
</tr>
<tr>
<td><strong>Heterogeneity</strong></td>
<td>Different behavior of different doctors/nurses due to skill, number of shifts, general behaviour</td>
</tr>
<tr>
<td>------------------</td>
<td>--------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Cultural Specificity</strong></td>
<td>Desire of being seen by a lady doctor for gynecological problems in India</td>
</tr>
</tbody>
</table>
Example of the service package in hospitality sector

Supporting facility
The physical resources that are necessary to provide the services include hotel rooms, dining area, recreational area and overall building.

Facilitating goods
The facilitating goods which are purchased by the buyer includes the food and beverages consumed.

Information
The information required to facilitate the service for example the type of room required, date and time of arrival, requirement of taxi services, preferences and choices regarding the rooms services.

Explicit services
The explicit services expected to be must by the customer. The swiftness of the room service, cleanliness in room and hotel, behaviour of the staff are some of the explicit services that are readily observable by senses and create an impact on the efficiency of the overall service.

Implicit services
Psychological benefits that customer gets include comfort level during the entire stay.