



Marketing-controlling in the service sector

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Abstract: The aim of this paper is to explore whether there are any differences between companies in the service sector and those in the manufacturing sector, in terms of the planning and evaluation tools employed in marketing-controlling. An overview is given, of the set of marketing tools applied by enterprises providing services as well as their characteristics and differences between these and what is applied in the manufacturing sector are explored. The characteristics of the service sector and the set of marketing tools used will be described based on the relevant literature. In order to demonstrate the differences with figures, the results of a survey carried out by the author is presented, with special emphasis on the application areas of marketing-controlling tools and their characteristics.

Keywords: (M31): marketing, marketing-controlling, planning, service provision, service marketing

1 Definition and characteristics of service provision

In a broad interpretation, service can be considered as a physically tangible product, since although from the physical point of view its characteristics clearly differ from those of a product – service could be defined from the marketing point of view, “as problem solving of a non-physical nature” (Veres, 2009, p. 33.) -, however, from the perspective of the purpose, they are similar, because both types aim to satisfy customer needs and achieve profits.

Of course this only applies for business enterprises. According to Chikán (1997) the purpose of business enterprises is to satisfy customer needs and achieve profits.

Services differ from physically-tangible products in many of their characteristics. One of the differences is the material or non-material nature of the product. The latter case applies to services. Due to the intangible nature of services, prior to purchasing, potential customers only have an impression of the service or information received from previous customers, they can only become familiar with the product based on previous

information delivered by the company, there is no opportunity to sample it in advance, therefore it of major importance to establish a positive image through appropriate communication about the product. (Bauer and Berács, 1992).

Several products include both tangible and intangible elements. Service provision may, in some cases, include tangible elements; however the transfer of ownership does not take place. (Jobber, 2002).

Another important characteristic of service provision is that the production and the delivery of the product take place at the same time, thus the customer can only get to know the product while utilising it. Therefore, in the case of service provision, the set of criteria has to be adjusted to customers' needs (for example opening hours) (Bauer and Berács, 1992). Since the customer takes place in the „production” process, he/she has the opportunity to affect the process. Furthermore, since he is involved in the process, the results will more likely be accepted, since he has the opportunity to shape the end product. The necessary presence of the service provider also enhances customer trust.

More importance is given to the service provider because the satisfaction of the customer and the quality of the product depends on the individual providing the service. (Bauer and Berács, 1992)

Furthermore „packaging” could be considered a special characteristic, since it takes completely different forms for both types. In the case of service provision, „packaging” is basically the physical environment, the business facility where the customer meets encounters the service provider.

Therefore an appropriate setting for the business facility could contribute to the differentiation of the service. Obviously it is also important what sort of services is provided, emphasis should be put on different factors in case of restaurant or coffee shop, compared to a beauty salon.

Several solutions could be applied to solve the problems originating from the intangible nature of service provision (Kenesei and Kolos, 2007). One such solution could be the promotion of word of mouth, since in the case of services, there are few objective factors to support the perception of the product and therefore the customers often rely on the perception comments, observations of their friends or colleagues. Thus personal information is of major importance. This applies even more in the case of services that are considered to carry more risk, such as medical services. Also in the case of services bearing less risk, for example hairdressers, cosmeticians, leisure venues, people rely on the opinions of others. Obviously the word of mouth also bears some risk, due to its unreliability and the subjectivity of the opinion-formers. Other solutions impose much lower risks, for example free trials, or provision of guarantees. Examples of the former include open days at educational institutions, free services provided by hairdressers and significant discounts provided by restaurants (Gluttonous Thursday) free admission to cultural institutions, (night of museums). A typical example of providing guarantees is the reimbursement of rail ticket fees if departure is significantly delayed.

1.1 The basic model of marketing services

The model below is based on the Eiglier and Langeard (1991) approach to services marketing, which models the main actors of the process and their relations. This includes the service provider's back office where the behind-the-scenes operations necessary to the smooth running of the operation, take place.

The front-line services (front office) which includes the peoples and equipment that are in direct contact with the service's customers.

The third element of the process is the product of the service itself, which may appear in multiple examples at the same time (e.g. Bank, Post Office), as shown in the diagram, (Figure 1.)

The following players are active participants, and the other participants are passive participants or are participating in the process in parallel.

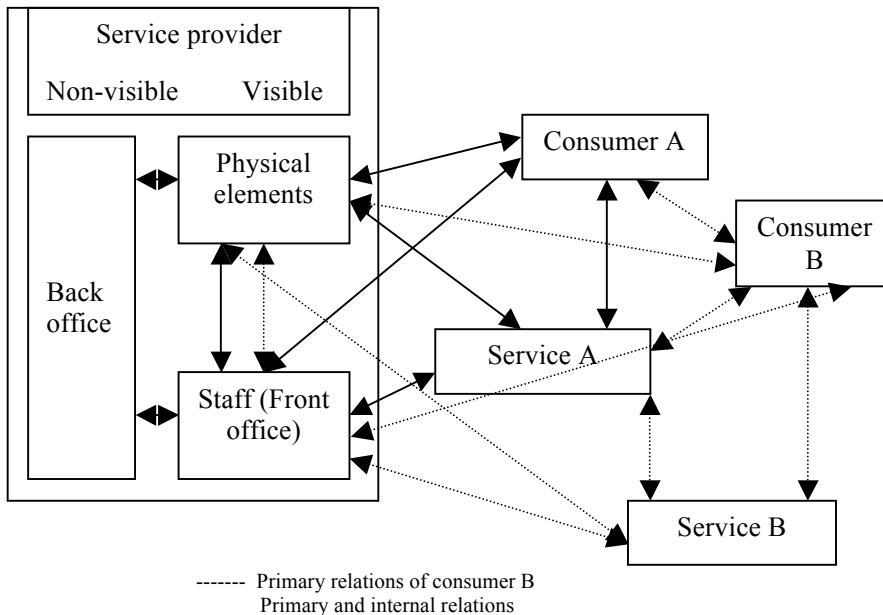


Figure 1.
The basic model of service marketing
Source: Eiglier and Langeard, 1991, p. 18.; cite: Veres, 1998, p. 33

1.2 Marketing characteristics of service provision

The different characteristics of products and services have been discussed earlier, a well known approach to summarise these is the so-called HIPI principle, identifying the four main characteristics of services. These are as follows (Zeithaml et al, 1985):

Heterogeneous: services vary based on the different performance of the service providers and the experience of the customer. The critical element is the human factor, the performance of which can vary – even in the case of the same person providing the same service – in time, as a result of various factors such as fatigue, pain, mood, etc. An additional risk concerning a standard quality is if several people provide a certain service. Furthermore, the person evaluating the service is very subjective; different customers might evaluate the same service completely differently, therefore, the assessment of a service is problematic.

Intangibility: since services cannot be touched or tasted, we cannot gather information about them through our senses. In order for the customer to be able to get to know it, he/she has to „consume” it.

Perishability: the next significant difference between products and services is that services cannot be kept in stock, since the service is consumed by the customer while it is produced. Or, because those who did not consume it at a certain time, lose it (e.g. hotel rooms, theatre tickets).

Inseparability: the provision and the consumption of service takes place at the same time and place, therefore the „production” and the „consumption” requires both the customer and the service provider.

1.3 Marketing-mix of service provision

The set of marketing tools applied in case of services may be significantly different. A good example of this is that three elements were identified in addition to the four traditional elements of the marketing-mix, which were then named the 7P's of service provision by Booms and Bittner (1981). The main idea of the method is that in addition to product, price, place and promotion, the following elements were identified:

- People (human factor): everyone involved in the service provision in some form (e.g. part of the service provider), or in the consumption.
- Physical perception: every environmental factor, where service provision takes place or part of the physical environment of the service.
- Process: every activity and procedure aiming at „producing” the service.

2 Research Methodology and Features of the Sample

The following chapter presents the results of a survey focusing on Hungarian SME's. It was carried out in 2010. The questionnaires were filled out by the respondents, in some cases with help from the interviewers, and in some cases alone. About 1/3 of those filled out alone were actually sent back by email. The sample is not considered as random sampling, in terms of the statistical methodology employed. The response rate is not

precisely, but the rejection ratio was very low, due to the predominance of personal contacts and enquiries. The questionnaires included primarily closed questions.

The survey is based on the result of 106 questionnaires processed. Nearly 2/3 of the respondent enterprises are located either in Budapest or in Pest County. 61% of the companies have a headcount of less than 20, 14% have between 20 and 49 persons. Consequently, 3/4 of the respondents are micro-, and small enterprises, and 1/4 are medium-sized or large companies. Of the companies surveyed, an average of 40% of the companies was owned by management and 35% were in the hands of domestic private owners. 27% of companies involved in retail or wholesale trade, 18% in construction, 13% in manufacturing, 8% were in healthcare and another 8% in the transportation industry. Respondents in other sectors ranged from 0 to 5%.

Nearly 75% of the enterprises surveyed, carried on their activities only on the domestic market, while 25% of them were also engaged in export. In the export market, the two most popular destinations were Western Europe (18%) and Eastern Europe (16%).

3 Marketing techniques used by companies, broken down by industry

This section examines the answers to the question: „In the preparation of marketing plans for the next year, what kind of analytical techniques has your company used?”

The results show that a large number of companies do not utilise marketing planning tools. Here there were rather larger differences between the manufacturing and the service sector companies; while in the service sector, „only” 40% did not employ marketing tools, this figure was 48% for those in the manufacturing sector. The most commonly used marketing analysis techniques were SWOT analysis, benchmarking and analysis of the profitability index. 25% of companies used the former, while the other two types were each used by 24% of companies. The popularity of the above three analysis tools is probably related to how well-known they are, and these tools may be used by firms that only employ such techniques to a small extent, or only occasionally, and not as part of a complex analytical solution. So, in this case, we are not thinking of detailed planning processes, a formalised strategic tool system, but rather mostly ad-hoc, occasional solutions, often confined to the comparisons made by the company’s leader, „in his head” of the firm’s and their competitors’ market position, competitive advantages and profitability conditions, in the search for the strengths and weaknesses as well as opportunities and risks, for the company and its competitors.

During the analysis, some justified doubts arose, that whether the calculation of the profitability index really aims to explore the impact of the marketing plan on profitability, and not only the assessment of the company’s past and future profitability.

In the case of the analysis techniques described above, the SWOT analysis and benchmarking were applied significantly more often by companies active in the service

sector, than in the manufacturing sector. The difference between the sectors was 27% compared to 19% in the case of the SWOT analysis, and 27% compared to 14% in the case of benchmarking. For the profitability index, the difference between the sectors was less; 26% for the service sector, where 21% of the manufacturing sector companies used it during planning. It can be assumed that the above differences are partly due to the difference in the intensity of competition; namely competition is fiercer in the service sector, therefore these companies are forced to establish a marketing plan and utilise a wide range of marketing tools.

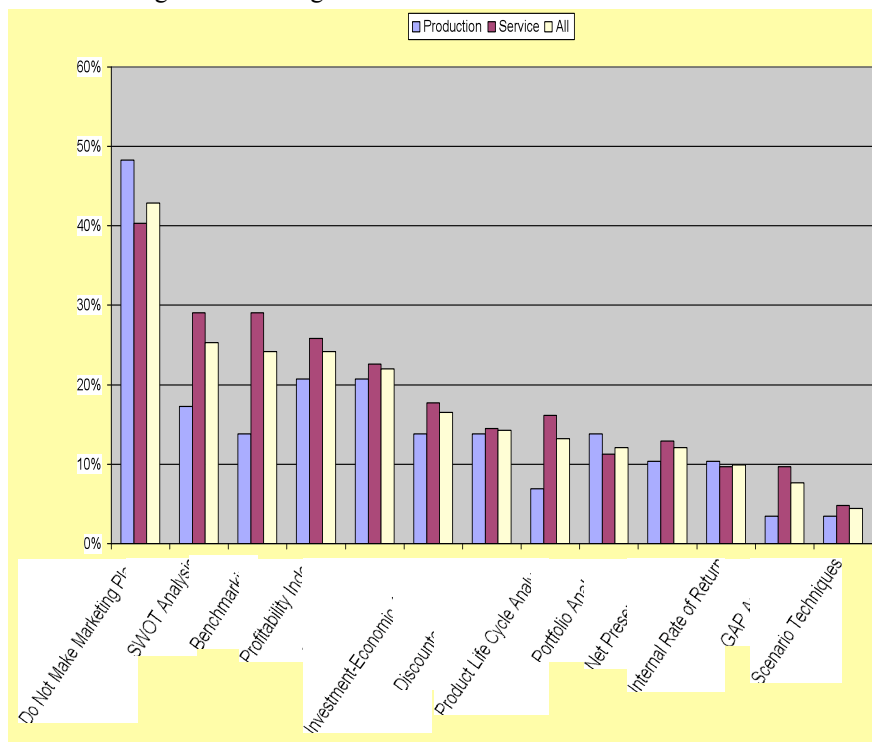


Figure 2
Analysis techniques used in planning marketing activities
Source: Own Primary Research

The next most popular analysis tool was the payback period, with altogether 22%.

So 22% of the companies responded that they consider the payback period in their marketing plan. There is no major difference between the service and manufacturing sectors in terms of applying this tool, in the case of the former 23% and the latter 21% of firms employ this technique.

Considering the results according to types of business (Figure 4.) it can be seen that types of business putting most emphasis on the payback period are the following: real estate, financial, other services, processing industry and wholesale companies. In these

cases, companies indicating that they used this tool amount to 10-15% within their sector.

Concerning investment economical analysis, 16% of companies indicated that they apply this tool. Out of this, service companies amount to 18%, whereas the manufacturing sector companies represented 14%. Looking at the sectoral breakdown of the application of investment economic analysis, it can be seen that this tool plays a crucial role in the following type of businesses: processing industry, trade, financial services and telecommunications. Those who indicated that they apply investment economic analysis tools also gave examples which support the fact that these assessments/calculations actually took place during the planning.

The majority of the managers are aware of the meaning of the product life cycle chart, however it is surprising they do not realise the importance of this analytical tool. Depending on which phase of the life cycle the product is in, completely different responses are required to the challenges imposed by the customers, and to the change in environment, etc.

13% of the companies sampled, indicated the use of the product life cycle analysis tool.

More interesting than the rather low value, is that for companies involved in service provision, this figure was 16%, whereas in the case of manufacturing companies, it was only 7%. In terms of types of business, trade and hospitality businesses were found to make the most use of this analytical tool.

Use of the Discounted Cash Flow method in marketing planning (14%) was overall similar to that of the previous tool, however there were no significant differences between the service (15%) and manufacturing (13%) sectors.

The next two tools in line are the portfolio analysis techniques and the net present value calculation, both amounting to 12%. Although they are equally regularly used, they represent very different techniques. They seem to be somewhat neglected by companies. There are no significant differences according to sectors. Surprisingly, the portfolio analysis was indicated more by manufacturing firms, specifically 14%, while it was only employed by 11% of the service providers.

In the course of planning a marketing action, 10% of companies apply the internal rate of return. There is no difference in the application rate between the manufacturing and the service sector. Concerning the types of businesses, application is more common for companies involved in financial services, hospitality, retail and processing industry.

8% of companies apply GAP analysis. Interestingly, this tool is applied by 10% of service providers and only 3% of manufacturers.

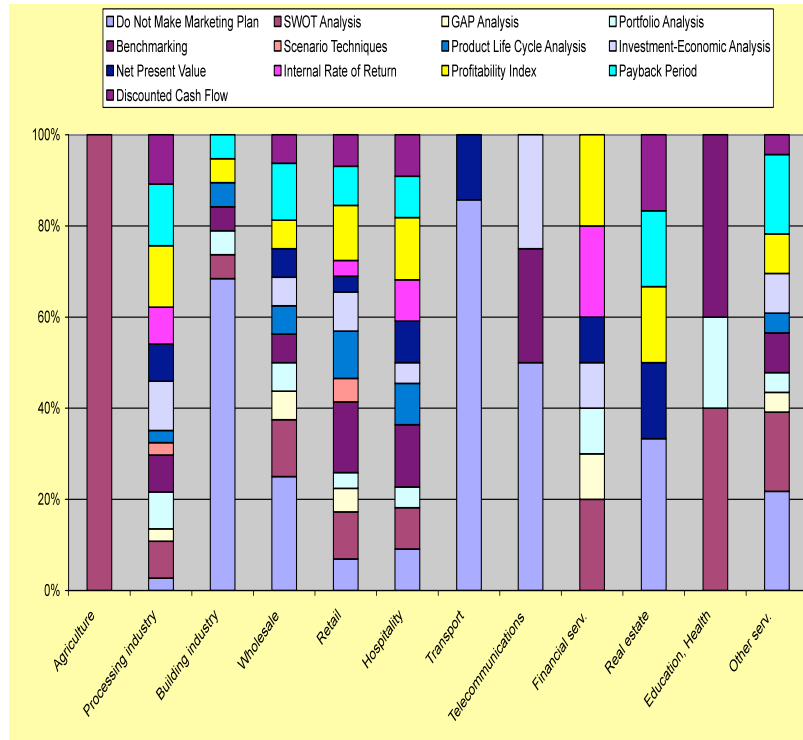


Figure 3
Analytical techniques applied
Source: Own Primary Research

4 Analysis of marketing actions in each sector

In this section the results of the following questions will be analysed: „What sort of indexes are used to analyse the efficiency and effectiveness of a marketing or advertisement activity?“

In the case of the companies included in the survey, over one third (37%) stated that they do not measure the efficiency of their marketing actions at all. Considering the composition of the sample (high proportion of SME's) the result was at least partly expected, since the majority of the companies only apply other marketing tools to a minor extent, therefore the chances of having planned marketing actions and structured analysis of their effect is further reduced. The result are even more extreme, if the difference between the manufacturing and the service sector is evaluated, since 32% of service providers do not apply indexes analysing the efficiency of marketing actions, this is 48% in the case of manufacturers.

The most commonly used index is the increase of income (37%). The figure for the manufacturing sector was 28%, while the service sector stood at 42%.

The second most popular index is the increase of customers' satisfaction shows a much lower number of application; only 20% of companies indicated that they apply it. There is an insignificant difference between the manufacturing (21%) and the service (19%) sector. Concerning the types of businesses, the highest level of application of the customers' satisfaction index can be observed in trade and in other services.

The third most popular index in terms of application, amounting to 15%, is the analysis of awareness of the company and products. There is a significant difference in the case of this index; 10% of manufacturers and 18% of service providers apply it.

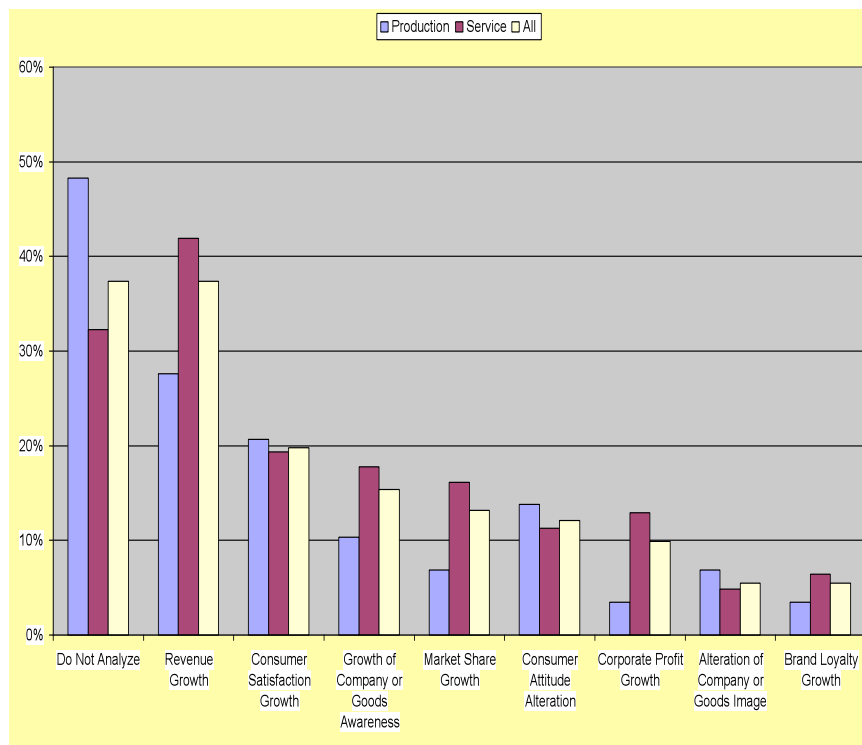


Figure 4
Index numbers used by companies for analysing efficiency
Source: Own Primary Research

The fourth most popular indicator is the analysis of the market share increase, amounting to 13%. It could be interesting to analyse the reason for this; it is likely connected to the fact that the majority of the respondents are those in small enterprises, who do not see any justification to analyse the trends in their small market share. However, the application of this analysis is more significant in the service sector,

amounting to 16%, compared to the 7% in the manufacturing sector. Comparing the types of businesses, analysing the indicator of market share is applied mostly in education, health care, financial services and other services. However, only limited observations can be made in connection with the type of business, since the number of companies included in the survey does not allow a deep analysis of the differences.

The next factor in line is the change in customers' attitude; 12% of the respondents indicated that they apply this analysis. No significant difference can be observed concerning the popularity of this index between the manufacturing and the service sector; however this index is applied by manufacturers more often (14%) than by service providers (11%)

A surprising result was that only 10% of the respondents analyses the profit generated as a result of a certain marketing action. In the hypothesis it was not assumed that the main goal of the marketing activities is to increase profit, however, this low value significantly differs from the general approach to the company's set of targets. Obviously, this might be connected to the reshaping of the companies' strategic goals, indicating that the focus will shift/has shifted from short-term profit maximisation and capital increase towards survival (25%) and increase of market share (36%). The restructuring of preferences is mainly a response to the economic crisis, which could be felt by the majority of the companies during the survey. They are facing the situation now that if they intend to maintain their market share, they have to shift their focus from generating profit to surviving by sustaining or increasing their market share.

The restructuring of long-term objectives is presented in Figure 5.

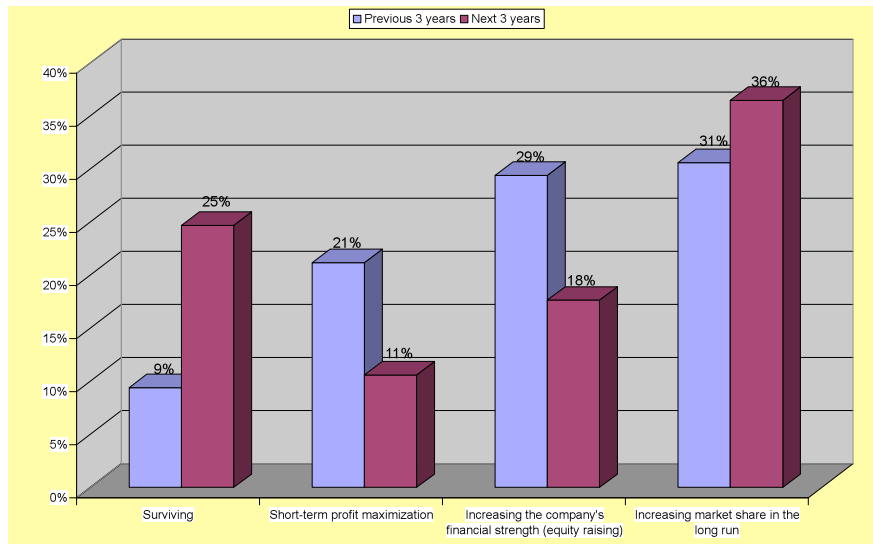


Figure 5
Strategic business objectives
Source: Katona, 2010, p. 257.

Conclusions

This paper aimed at exploring the differences between the manufacturing and service sector in applying marketing-controlling tools. The results seem to support the hypothesis, that there are differences, more, or less significant, in the marketing-controlling planning and evaluating systems between the two sectors. Generally it can be stated that service providers apply marketing tools to a greater extent than manufacturers. This is partly due to the fact that competition is ore fierce in the service sector, however, it can clearly be stated that the application of the marketing planning and analysis techniques makes service providers more competitive on the market.

The results of the survey supported the hypothesis that a large portion of the companies does not apply marketing tools, or only to a small extent. This applies to both marketing planning and analysis systems. Only a few questions of the survey could be dealt with in the frameworks of this paper, however all the other results of the survey are in line with the conclusions presented here.

The characteristics of the application of marketing-controlling tools are analysed through the elements of the tool system; for example the characteristics of the marketing planning system, analytical tools applied, etc. The results showed that even if a company is aware of the significance of these techniques, they do not know their area of application; or if they even know these application opportunities, often they cannot use it due to the size of the company or insufficient resources.

Although the survey serving as a basis for this article only focuses on the set of tools and preferences of companies, it could be interesting to compare these results with research exploring the customers' decision-making process when deciding on a service. Kolos and Demeter (1995) measured these selection aspects on a 7 point Likert-scale. The strictest customers' expectations are in connection with the performance of the service provider's employees, including: delivering the service in time (6,27), expertise of the employees (6,24), speed and helpfulness (6,16), conditions of service provision (6,03) politeness (5,76). Interestingly, respondents gave the lowest importance to the reputation of the service provider, (4,63). This is especially surprising, because in the service sector concrete experience can only be gained after the service has been provided, therefore a risk-reducing factor, such as reputation, should be considered more important in the decision making process. Interestingly, this survey also indicates – in line with the above – that companies do not pay much emphasis on reputation, image, increase of customers' loyalty. Consequently, the values of the two sides, service provider and customer, are more or less in harmony.

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