Winning in Service Markets Series, Vol. 2: Positioning Services in Competitive Markets

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Winning in Service Markets Series: Vol. 2

Positioning Services in Competitive Markets

Jochen Wirtz

Winning in Service Markets is a highly practical book. I love the comprehensive coverage of services marketing and the rigor. Also, it is easy to read and full of interesting, best practice examples. I recommend this book to everyone working in a service organization.

Jan Swartz
President, Princess Cruises

Winning in Service Markets provides a set of useful frameworks and prescriptions rooted in both practice and research. As such, it represents a refreshing alternative to the prevailing literature available to managers who are looking for insights rooted in sound theory. A must read for any practicing manager in the service economy.

Leonard A. Schlesinger
Baker Foundation Professor, Harvard Business School

What makes consumers or institutional buyers select, and remain loyal to, one service provider over another? Without knowing which product features are of specific interest to customers, it is hard for managers to develop an appropriate strategy. As competition intensifies in the service sector, it is becoming more important for service organizations to differentiate their products in ways meaningful to customers. *Positioning Services in Competitive Markets* is the second book in the Winning in Service Markets series by services marketing expert Jochen Wirtz to cover the key aspects of services marketing and management based on sound academic evidence and knowledge.

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Winning in Service Markets Series

Series Editor: Jochen Wirtz *(National University of Singapore, Singapore)*

The Winning in Service Markets Series covers the key aspects of services marketing and management based on sound academic evidence and knowledge. The books in this series is written by services marketing expert Jochen Wirtz, author of globally leading textbook for Services Marketing. Each book in the series covers different themes in the study of services marketing and management, is accessible, practical and presented in an easy-to-read format for busy practitioners and eMBA students.

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by Jochen Wirtz

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Winning in Service Markets Series: Vol. 2

Positioning Services in Competitive Markets

Jochen Wirtz

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Winning in Service Markets Series — Vol. 2
POSITIONING SERVICES IN COMPETITIVE MARKETS

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Dedication

To my past and future EMBA and Executive Program participants.

I have been teaching EMBA and Executive Programs for over 20 years. This Winning in Service Markets Series is dedicated to you, the participants from these programs. You brought so much knowledge and experience to the classroom, and this series synthesizes this learning for future EMBA candidates and managers who want to know how to bring their service organizations to the next level.

Preface

The main objective of this series is to cover the key aspects of services marketing and management, and that is based on sound academic research. Therefore, I used the globally leading text book I co-authored with Professor Christopher Lovelock (Title: *Services Marketing: People, Technology, Strategy*, 8th edition) as a base for this series, and adapted and rewrote it for managers. This is a unique approach.

This series aims to aims to bridge the all-too-frequent gap between cutting edge academic research and theory, and management practice. That is, it provides a strongly managerial perspective, yet is rooted in solid academic research, complemented by memorable frameworks.

In particular, creating and marketing value in today's increasingly service and knowledge-intensive economy requires an understanding of the powerful design and packaging of intangible benefits and products, high-quality service operations and customer information management processes, a pool of motivated and competent front-line employees, building and maintaining a loyal and profitable customer base, and the development and implementation of a coherent service strategy to transform these assets into improved business performance. This series aims to provide the knowledge required to deliver these.

Winning in Service Markets comprises of the following volume:

Vol 1: Understanding Service Consumers
Vol 2: Positioning Services in Competitive Markets
Vol 3: Developing Service Products and Brands
Vol 4: Pricing Services and Revenue Management
Vol 5: Service Marketing Communications
Vol 6: Designing Customer Service Processes
Vol 7: Balancing Capacity and Demand in Service Operations
Vol 8: Crafting the Service Environment
Vol 9: Managing People for Service Advantage
Vol 10: Managing Customer Relationships and Building Loyalty
Vol 11: Designing Complaint Handling and Service Recovery Strategies
Vol 12: Service Quality and Productivity Management
Vol 13: Building A World-Class Service Organization

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Introduction

What makes consumers or institutional buyers select, and remain loyal to, one service provider over another? Without knowing which product features are of specific interest to customers, it is hard for managers to develop an appropriate strategy. As competition intensifies in the service sector, it is becoming more important for service organizations to differentiate their products in ways meaningful to customers. *Positioning Services in Competitive Markets* is the second book in the Winning in Service Markets series by services marketing expert Jochen Wirtz to cover the key aspects of services marketing and management based on sound academic evidence and knowledge.

VOLUME 2

Positioning Services in Competitive Markets

To succeed in our over-communicated society, a company must create a position in the prospect's mind, a position that takes into consideration not only a company's own strengths and weaknesses, but those of its competitors as well.

Al Reis and Jack Trout
Thought leaders who coined the term "positioning" as related to marketing

The essence of strategy is choosing to perform activities differently than rivals do.

Michael Porter
Professor at Harvard Business School and leading authority on competitive strategy

CUSTOMER-DRIVEN SERVICES MARKETING STRATEGY

As competition intensifies in the service sector, it is becoming more important for service organizations to differentiate their products in ways meaningful to customers. This is especially true for many mature service industries (e.g., banking, insurance, hospitality, and education), where for a firm to grow, it has to take market share from its competitors or expand into new markets. However, ask a group of managers from different service businesses on how they compete, and chances are many will say simply, "on service". Press them a little further, and they may add words and phrases such as "value for money," "service quality," "our people," or "convenience." None of this is very helpful to a marketing specialist who is trying to develop a meaningful value proposition and a viable business model for a service product that will enable it to compete profitably in the marketplace.

What makes consumers or institutional buyers select — and remain loyal to — one supplier over another? Terms such as "service" typically subsume a variety of specific characteristics, ranging from the speed with which a service is delivered to the quality of interactions between customers and service personnel; and from avoiding errors to providing desirable "extras" to supplement the core service. Likewise, "convenience" could refer to a service that is delivered at a convenient location, available at convenient times, or easy to use. Without knowing which product features are of specific interest to customers, it is hard for managers to develop an appropriate strategy. In a highly competitive environment, there is a risk that customers will perceive little real difference between competing alternatives and therefore make their choices based on who offers the lowest price.

Managers thus need to think systematically about all aspects of the service offering and to emphasize competitive advantage on attributes that will be valued by customers in their target segment(s). A systematic way to do this typically starts with an analysis of *c*ustomers, *c*ompetitors and *c*ompany, collectively often referred to as the 3 'C's. This analysis then helps a firm to determine the key elements of its services positioning strategy, which are *s*egmentation, *t*argeting and *p*ositioning, frequently called ***STP*** by marketing experts. The basic steps involved in identifying a suitable market position are shown in Figure 1. The desired positioning has wide-reaching implications on firm's services marketing strategy,

Figure 1: Developing a services marketing positioning strategy

including the development of its 7 'P's of Services Marketing (as discussed in Parts II and III of this book), its customer relationship strategy (as discussed in Part IV), and its service quality and productivity strategies (as discussed in Part V).

Customer, Competitor and Company Analysis (3 'C's)

Customer Analysis

A customer analysis is typically done first and includes an examination of overall market characteristics, followed by an in-depth exploration of customer needs and related customer characteristics and behaviors.

Market analysis tries to establish the attractiveness of the overall market and potential segments within. Specifically, it looks at the overall size and growth of the market, the margins and profit potential, and the demand levels and trends affecting the market. Is demand increasing or decreasing for the benefits offered by this type of service? Are certain segments of the market growing faster than others? For example, in the travel industry, perhaps there is a growing segment of wealthy retirees who are interested in traveling, but want customized tours with personal guides and not too taxing itineraries. Alternative ways of segmenting the market should be considered, and an assessment of the size and potential of different market segments should be made.

The customer-needs analysis involves answering a few questions. Who are the customers in that market in terms of demographics and psychographics? What needs or problems do they have? Are there potentially different groups of customers with differing needs and therefore require different service products or different levels of service? What are the benefits of the service each of these groups values most? Using the travel industry example, the wealthy retirees may value comfort and safety most, and are much less price sensitive compared to young families.

Sometimes research shows that certain market segments are "under-served." This means that their needs are not well met by existing suppliers. Such markets are often surprisingly large. For example, in many emerging-market economies, huge numbers of consumers have incomes that are too small to attract the interest of service businesses used to focusing on the needs of more affluent customers. Collectively, however, small wage earners represent a very big market.

Competitor Analysis

Identification and analysis of competitors can provide a marketing strategist with a sense of competitors' strengths and weaknesses. Relating these to the company analysis in the next section should suggest what the opportunities for differentiation and competitive advantage might be, thereby enabling managers to decide which benefits could be emphasized to which target segments.

Company Analysis

In an internal corporate analysis, the objective is to identify the organization's strengths in terms of its current brand positioning and image, and the resources the organization has (financial, human labor and know-how, and physical assets). It also examines the organization's limitations or constraints, and how its values shape the way it does business. Using insights from this analysis, management should be able to select a limited number of target market segments that can be served with either existing or new services. The core question is how well can a company and its services address the needs and problems faced by each customer segment?

Segmentation, Targeting and Positioning (STP)

Linking customer and competitor analysis to company analysis allows the service organization to develop an effective positioning strategy. Here, the basic steps involved in identifying a suitable market position and developing a strategy to reach it are:

- *Segmentation* refers to the dividing of the population of possible customers into groups. A market segment is composed of a group of buyers who share common characteristics, needs, purchasing behavior, and/or consumption patterns. Effective segmentation groups buyers into segments in ways that result in as much similarity as possible on the relevant characteristics within each segment. Once customers with similar needs are grouped together, demographic, geographic, psychographic, and behavioral variables can be used to describe them. Customers in the same segment should have as similar needs as possible, but between segments, their needs should be as different as possible.

Table 1: Elements and Key Concepts of a Services Positioning Strategy

Elements of a Positioning Strategy	Key Concepts
Segmentation	• Segmenting service markets • Service attributes and service levels relevant for segmentation – Important versus determinant attributes – Establishing service levels
Targeting	• Targeting service markets through four focus strategies: – Fully focused – Market focused – Service focused – Unfocused
Positioning	• Positioning services in competitive markets • Using positioning maps to plot competitive strategy • Developing an effective positioning strategy

- *Targeting* refers to when a firm decides which segment(s) would most likely be interested in its service after segmenting and assessing the attractiveness of each segment, and focusing on how to serve them well.
- *Positioning* refers to the unique place that the firm and/or its service offerings occupy in the minds of its consumers. Before a firm can create a unique position for its service, it must first differentiate the service from that of their competitors. Hence, differentiation is the first step towards creating a unique positioning for a service.

Table 1 shows the key elements of services positioning strategy on the left-hand side and related concepts on the right-hand side. We will discuss each concept in the remainder of this volume.

SEGMENTING SERVICE MARKETS

Segmentation is one of the most important concepts in marketing. Service firms vary widely in their abilities to serve different types of customers. Hence, rather than trying to compete in an entire market, perhaps

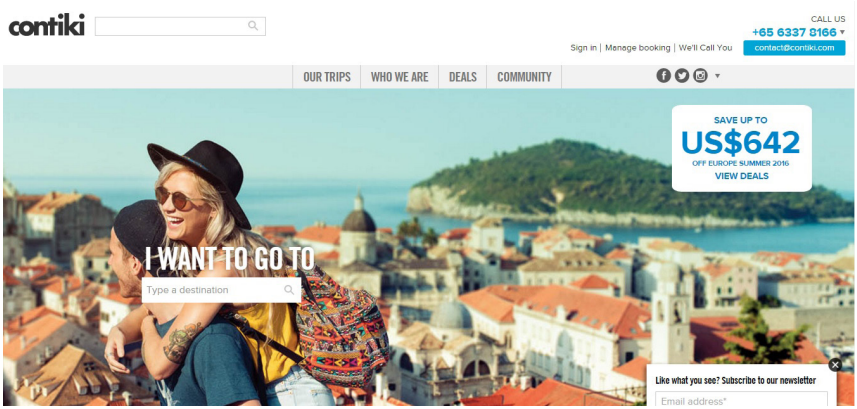
against superior competitors, each firm should adopt a strategy of market segmentation, identifying those parts, or segments, of the market that it can serve best.

There are many ways to segment a market, and marketing experts typically combine and integrate several approaches. Traditionally, demographic segmentation (e.g., based on age, gender, and income) has frequently been used. However, this often does not result in meaningful segmentation as two people in the exact same demographics can exhibit very different buying behaviors (e.g., not all 20-year-old middle-class males feel and behave the same way). As a result, *psychographic segmentation* has become more popular as it reflects people's lifestyles, attitudes, and aspirations. Psychographic segmentation can be very useful in strengthening brand identity and creating an emotional connection with the brand, but may not necessarily map to behaviors and sales. *Behavioral segmentation* addresses this shortcoming as it focuses on observable behaviors, such as people being non-users, light users, or heavy users. *Needs-based segmentation* focuses on what customers truly want in a service and maps closely to the multi-attribute decision models discussed in Volume 1, "Understanding Service Consumers" (e.g., a time and quality sensitive segment versus a price-sensitive segment). In addition, people often have different needs and their decision-making criteria vary according to:

- Purpose of using the service,
- Who makes the decision,
- Timing of use (time of day/week/season),
- Whether the individual is using the service alone or with a group, and if the latter, the composition of that group.

Consider the criteria that you might use when choosing a restaurant for lunch when you are (1) on vacation with friends or family, (2) meeting with a prospective business client, or (3) going for a quick meal with a co-worker. Given a reasonable selection of alternatives, it is unlikely that you would choose the same type of restaurant in each instance, let alone the same one. It is possible too, that if you left the decision to another person in the party, he or she would make a different choice. It is therefore important to be quite specific about the occasion and context a service is

Figure 2: Contiki targets young and fun-loving travelers



purchased for, and explicitly include that in the segmentation analysis.

For companies to effectively segment a market, it is often best to start with a deep understanding of customers' needs. The availability of *big data* and marketing analytics on the cloud enables marketers to collect accurate and detailed information at the individual consumer level, allowing for very narrow and specific segmentation analyses.[1] Marketers can then overlay this understanding with demographic, psychographic, behavioral, and consumption context variables to further define and describe key segments in a market.[2]

Contiki Holiday is an example of a company that uses needs-based segmentation as a foundation, and then fine-tunes it with other types of segmentation. It found that some singles do not want to join tours where there are families. They prefer holidays where they can meet others with similar preferences (*needs-based segmentation*). Contiki serves this special group of people. In fact, it is a worldwide leader in holidays for the 18–35 age group (*demographic segmentation*) (Figure 2). Some of its holiday packages are aimed at fun-loving youths. Contiki further segments its packages by catering to different lifestyles and budgets (*psychographic segmentation*). For example, those going to Europe can choose "High Energy" (for people who are outgoing and want event-packed day and night itineraries), "Camping" (for the budget-conscious exploring the same Europe for less), or "Discovery Plus" (with lots of sightseeing, extra excursions and more choices of accommodation and destinations).

Important versus Determinant Service Attributes

It is important to select the right needs and their corresponding service attributes for segmentation. Consumers usually make their choices among alternative service offerings on the basis of perceived differences between them. However, the attributes that distinguish competing services from one another may not always be the most important ones. For instance, many travelers rank "safety" as a very important attribute in their choice of an airline and avoid traveling in airlines with a poor safety reputation. However, after eliminating such alternatives from consideration, a traveler flying on major routes is still likely to have several choices of carriers available that are perceived as equally safe. Hence, safety is not usually an attribute that influences the customer's choice at this point.

Determinant attributes (i.e., those that actually determine buyers' choices among competing alternatives) are often lower on the list of service characteristics important to purchasers. However, they are the attributes where customers see significant differences among competing alternatives. For example, convenience of departure and arrival times, availability of frequent flyer miles and related loyalty privileges, quality of in-flight service, or the ease of making reservations might be determinant characteristics for business travelers when selecting an airline. For budget-conscious vacation travelers on the other hand, price might assume primary importance.

Consumers may use different decision rules and therefore arrive at different decisions even though the important attributes are all the same. For example, the most important attribute is the quality of dry cleaning. However, if the consumer uses the conjunctive rule, depending on what the cut-offs are, the determinant attribute may actually be price, which is the third most important variable. Identifying determinant attributes is therefore crucial for effective positioning to make a firm's service stand out in the minds of its target customers.

Segmentation Based on Service Levels

Apart from identifying attributes to be used for segmentation, decisions must also be made on the service levels to offer on each attribute.[3] Some service attributes are easily quantified, while others are qualitative. For instance, price is a quantitative attribute. Punctuality of transport services

can be expressed in terms of the percentage of trains, buses, or flights arriving within a specified number of minutes from the scheduled time. Both of these attributes are easy to understand and are therefore quantifiable. However, characteristics such as the quality of personal service or a hotel's degree of luxury are subject to individual interpretation. To facilitate both service design and performance measurement, each attribute needs to be operationalized and standards established. For instance, if customers say they value physical comfort, what does that mean for a hotel or an airline, beyond the size of the room or the seat? In a hotel context, does it refer to ambient conditions, such as absence of noise? Or to more visible, tangible elements such as the bed (e.g., Westin Hotels & Resorts use their "Heavenly Bed" to tangibalize their superior beds). In practice, hotel managers need to address both the ambient conditions and tangible elements.

Customers can often be segmented according to their willingness to give up some level of service for a lower price. Price-insensitive customers are willing to pay a relatively high price to obtain higher levels of service on each of the attributes important to them. In contrast, price-sensitive customers will look for an inexpensive service that offers a relatively low level of performance on many key attributes.

Segmentation helps to identify potential attributes and service levels that have different degrees of relevance for key market segments. Once the segment structure of a market is understood, the firm can then move on to determine which of those segments should be targeted.

TARGETING SERVICE MARKETS

Service firms vary widely in their abilities to serve different types of customers well. Hence, achieving competitive advantage usually requires a firm to be more focused, which will be discussed in the next section.

Achieving Competitive Advantage through Focus

It is usually not realistic for a firm to try to appeal to all potential buyers in a market, because customers are varied in their needs, purchasing behavior, and consumption patterns, and are often too numerous and geographically widespread. Service firms also vary widely in their abilities

Figure 3: Basic focus strategies for services

		Breadth of Service Offerings	
		Wide	**Narrow**
Numbers of Markets Served	**Few**	Market focused	Fully focused (Service and market focused)
	Many	Unfocused (Everything for everyone)	Service focused

to serve different types of customers well. Hence, a company needs to focus its efforts on customers it can serve best.

In marketing terms, *focus* means providing a relatively narrow product mix for a particular target segment. Nearly all successful service firms apply this concept. They identify the strategically important elements in their service operations and concentrate their resources on them. The extent of a company's focus can be described along two dimensions: market focus and service focus.[4] Market focus is the extent to which a firm serves few or many markets, while service focus describes the extent to which a firm offers few or many services. These two dimensions define the four basic focus strategies (Figure 3)

- *Fully focused.* A fully focused organization provides limited range of services (perhaps just a single core product) to a narrow and specific market segment. For example, private jet charter services may focus on the high net-worth individuals or corporations. Developing recognized expertise in a well-defined niche may provide protection against would-be competitors and allows a firm to charge premium prices. An example of a fully focused firm is Shouldice Hospital.

The hospital performs only a single surgery (hernia) on otherwise healthy patients (mostly men in their 40's to 60's). Because of their focus, their surgery and service quality are superb.

There are key risks associated with pursuing the fully focused strategy. The market may be too small to get the volume of business needed for financial success, and the firm is vulnerable should new alternative products or technologies substitute their own.

- *Market-focused.* In a market-focused strategy, a company offers a wide range of services to a narrowly defined target segment. *Service Insights 3.1* features the example of Rentokil Initial, a provider of business-to-business services. Rentokil has profited from the growing trend in outsourcing of services related to facilities maintenance, which has enabled it to develop a large range of services for its clients.

  Following a market-focused strategy often looks attractive because the firm can sell multiple services to a single buyer. However, before choosing a market-focused strategy, managers need to be sure their firms are capable of doing an excellent job of delivering each of the different services selected.

- *Service-focused.* Service-focused firms offer a narrow range of services to a fairly broad market. Lasik eye surgery clinics and Starbucks coffee shops follow this strategy, serving a broad customer base with a largely standardized product. However, as new segments are added, the firm needs to develop expertise in serving each segment. Furthermore, this strategy is likely to require a broader sales effort and greater investment in marketing communication, particularly in B2B markets.

- *Unfocused.* Many service providers fall into the unfocused category, because they try to serve broad markets and provide a wide range of services. The danger with this strategy is that unfocused firms often are "jacks of all trades and masters of none". In general, it is not a good idea, although public utilities and government agencies may be obliged to do so. A few departmental stores followed this strategy, and as a result, have been struggling against more focused competitors (e.g., hypermarkets and specialty stores).

It is recommended that firms have some sort of focus, whether on market segments and/or on services. How then should a firm select which of the three "focused" strategies to pursue? This decision relates back to the 3 'C's, segmentation, and targeting analyses. For example, a market-focused strategy may be appropriate if (a) customers value the convenience of one-stop-shopping, (b) the firm has the capabilities of delivering these multiple services better than competition, and/or (c) there are significant synergies in selling multiple services to the same customer (as is often the case in B2B services, see Rentokil Initial in *Service Insights 3.1*), which then enables the firm to either lower its price or provide better service.

A service-focused strategy can work best if the firm has a unique set of capabilities and resources to deliver a particular service exceptionally well or cost effectively. The firm may then want to ride on its advantage to deliver the service to a broad market (i.e., many customer segments at the same time).

Finally, a fully focused strategy may work well if a particular segment has very specific needs and requires unique design of the service environment, service processes, and interaction with the firm's frontline employees. Here, a fully focused strategy can deliver superb quality and at low costs because of its focus and experience. The Shouldice Hospital is a good example. The entire hospital is designed around the needs of hernia patients, making it the perfect hospital for people who are otherwise well and do not have to stay in bed. Patients get their perfect hospital experience and outstanding surgery quality all at a low price. However, this hospital cannot deal with any other types of patients.

The decision on focus is very important for service firms as they have distributed operations (i.e., each Starbuck's café is like a mini-factory), and any additional service offered increases the complexity of processes and the costs of the operation significantly. Likewise, even if a firm wants to sell the same basic service to different segments, it will find often that each additional segment may require some changes to the facility and processes to cater to their different needs and requirements. They also need to understand customer purchasing practices and preferences. In a B2B context, when trying to cross-sell additional services to the same client, many firms have been disappointed to find that decisions on purchasing the new service are made by an entirely different group within the client company.[5]

Inherent in focus and excellence are trade-offs. According to Frances Frei and Anne Morriss, there are a lot of heroic people in service organizations who feel compelled to be the best at everything. However, trying to do that will almost inevitably lead to mediocrity. The authors argue that excellence requires sacrifice (another way of looking at focus), and service firms should excel where it matters. For example, the Mayo Clinic decided to focus on reducing the time it takes for patients from scheduling an examination, to being examined by a doctor, and receiving a diagnosis in 24 hours or less. That is important for anxious patients who want to know fast what is wrong with them. However, focusing on speed does not allow patients to select a specific physician. Therefore, it is important to decide on areas where the firm does not have to perform as well (i.e., where their customers care less about) with the knowledge that it gives it the resources to excel where it matters most to their target customers.[6]

SERVICE INSIGHTS 1

Market-Focused Brand Across Multiple Services at Rentokil Initial

With revenue for 2015 at over £2.3 billion, Rentokil Initial is one of the world's largest business support service companies. The company has about 27,000 employees in over 50 countries where the "Rentokil" and "Initial" brands have come to represent innovation, deep expertise, and consistent quality of service. The UK-based firm has grown and developed from its origins as a manufacturer of rat poison and pesticide for killing wood-destroying beetles. When the firm realized it could make more money by providing a service to kill rodents than by selling products customers would use, it shifted to pest control and extermination services.

Through organic growth and acquisitions, Rentokil Initial has developed an extensive product range that includes testing and safety services, security, package delivery, interior plants landscaping (including sale or rental of tropical plants), specialized cleaning services, pest control, uniform rental and cleaning, clinical waste collection and disposal, personnel services, and a

washroom solutions service that supplies and maintains a full array of equipment, dispensers, and consumables. The firm sees its core competence as "the ability to carry out high-quality services on other people's premises through well-recruited, well-trained, and motivated staff".

Promoting use of additional services to existing customers is an important aspect of the firm's strategy. Initial Integrated Services offers clients the opportunity to move beyond the established concept of "bundling" services — bringing together several free-standing support services contracts from one provider — to full integration of services. Clients purchase sector-specific solutions that deliver multiple services, but feature just "one invoice, one account manager, one help desk, one contract, and one motivated service team".

According to former chief executive, Sir Clive Thomson: "Our objective has been to create a virtuous circle. We provide a quality service in industrial and commercial activities under the same brand-name, so that a customer satisfied with one Rentokil Initial Service is potentially a satisfied customer for another.

Although it was considered somewhat odd at the time, one of the reasons we moved into [providing and maintaining] tropical plants [for building interiors] was in fact to put the brand in front of decision makers. Our service people maintaining the plants go in through the front door and are visible to the customer. This contrasts with pest control where no one really notices unless we fail… The brand stands for honesty, reliability, consistency, integrity and technical leadership.

Investment in research and development (R&D) ensures constant improvement in its many service lines. For example, the company has built the RADAR intelligent rodent trap. RADAR attracts rats and mice into a sealable chamber and kills them humanely by injecting carbon dioxide. Using Rentokil's unique "PestConnect" technology, the trap causes emails to be sent to the customer and the local branch when a rodent is caught, and a Rentokil technician receives a text message identifying which unit has been activated at which customer's premises, and its precise location. PestConnect checks each individual RADAR unit every 10 minutes, 24/7. Getting information in real time enables technicians to remove dead rodents promptly and to control future infestation better.

Rentokil Initial's success lies in its ability to position each of its many business services in terms of the company's core brand values, which include providing superior standards of customer care and using the most technologically advanced services and products. The brand image is strengthened through physical evidence in terms of distinctive uniforms, vehicle color schemes, and use of the corporate logo.

Sources: Clive Thompson, "Rentokil Initial: Building a Strong Corporate Brand for Growth and Diversity," in F. Gilmore (ed.) *Brand Warriors* (London: HarperCollinsBusiness, 1997), pp. 123–124; http://www.rentokil-initial.com/, accessed 3 February 2016.

PRINCIPLES OF POSITIONING SERVICES

Positioning strategy is concerned with creating, communicating, and maintaining distinctive differences that will be noticed and valued by

customers the firm would most like to develop a long-term relationship with. Successful positioning requires managers to understand their target customers' preferences, their conception of value, and the characteristics of their competitors' offerings. Price and product attributes are the two of the 4 'P's of marketing most commonly associated with positioning strategy. For services, however, positioning often relates also to other 'P's of the services marketing mix, including service processes (e.g., their convenience, ease of use), distribution systems, service schedules, locations, services environment, and service personnel. Competitive strategy can take many different routes. George Day observes:

> *The diversity of ways a business can achieve a competitive advantage quickly defeats any generalizations or facile prescriptions… First and foremost, a business must set itself apart from its competition. To be successful, it must identify and promote itself as the best provider of attributes that are important to target customers.*[7]

Jack Trout distilled the essence of positioning into the following four principles:[8]

Figure 4: Visa has one simple message globally

Reprinted with permission from Visa

Figure 5: For powerful positioning, a firm needs to set itself apart from its competitors

"In hindsight, I'd say my first mistake was letting my competitors advertise on my website."

1. A company must establish a position in the minds of its targeted customers.
2. The position should be singular, providing one simple and consistent message (Figure 4).
3. The position must set a company apart from its competitors (Figure 5).
4. A company cannot be all things to all people — it must focus its efforts.

These principles apply to any type of organization that competes for customers. Firms must understand the principles of positioning in order to develop an effective competitive position. The concept of positioning offers valuable insights by forcing service managers to analyze their firm's existing offerings and provide specific answers to the following six questions:

1. What does our firm currently stand for in the minds of current and potential customers?
2. What customers do we serve now, and which ones would we like to target in the future?

3. What is the value proposition for each of our current service offerings, and what market segments is each one targeted at?
4. How does each of our service products differ from those of our competitors?
5. How well do customers in the chosen target segments perceive our service offerings as meeting their needs?
6. What changes do we need to make to our service offerings in order to strengthen our competitive position within our target segment(s)?

One of the challenges in developing a viable positioning strategy is to avoid the trap of investing too much in points of difference that can easily be copied. As researchers Kevin Keller, Brian Sternthal, and Alice Tybout note: "Positioning needs to keep competitors out, not draw them in".[9] When Roger Brown and Linda Mason, founders of the Bright Horizons chain of childcare centers were developing their service concept and business model, they took a long, hard look at the industry.[10] Discovering that for-profit childcare companies had adopted low-cost strategies, Brown and Mason selected a different approach that competitors would find very difficult to copy. In an industry with low barriers of entry and a lot of competition, Bright Horizons managed to find a niche position and differentiate itself from the competition. They linked up with employers instead of individual parents, emphasized service quality, and used accreditation as a selling point (see *Service Insights 2*)

SERVICE INSIGHTS 2

Positioning a Chain of Child Care Centers Away from the Competition

Roger Brown and Linda Mason met at business school, following previous experience as management consultants. After graduation, they operated programs for refugee children in Cambodia and then ran a "Save the Children" relief program in East Africa. When they returned to the US, they saw a need for childcare centers that would provide caring, educational environments, and give parents confidence in their children's well-being.

Through research, they discovered an industry that had many weaknesses. There were no barriers to entry, profit margins were low, the industry was labor intensive, there were low economies of scale, there was no clear brand differentiation, and there was a lack of regulation in the industry. Brown and Mason developed a service concept that would allow them to turn these industry weaknesses into strengths for their own company, Bright Horizons. Instead of marketing their services directly to parents — a one-customer-at-a-time sale — Bright Horizons formed partnerships with companies seeking to offer an on-site day-care center for employees with small children. The advantages included:

- A powerful, low-cost marketing channel.
- A partner/customer who supplied the funds to build and equip the center and would therefore want to help Bright Horizons to achieve its goal of delivering high-quality care.
- Benefits for parents who would be attracted to a Bright Horizons center (rather than competing alternatives) as a result of its nearness to their own workplace, thus decreasing traveling time and offering a greater peace of mind.

Bright Horizons offered a high pay and benefits package to attract the best staff so that they could provide quality service, one aspect that was lacking in many of the other providers. Since traditional approaches to childcare either did not have a proper teaching plan, or had strict, cookie-cutter lesson plans, Bright Horizons developed a flexible teaching plan. It was called "World at Their Fingertips" and had a course outline, but it also gave teachers control over daily lesson plans.

The company sought accreditation for its centers from the National Association for the Education of Young Children (NAEYC) and actively promoted this. Bright Horizons' emphasis on quality meant that it could meet or exceed the highest local and state government licensing standards. As a result, the lack of regulation became an opportunity, not a threat, for Bright Horizons and gave it a competitive edge.

With the support and help from its clients, which included many high-tech firms, Bright Horizons developed innovative technologies such as streaming video of its classrooms to the parents' desktop computers; digitally scanned or photographed artwork; electronic posting of menus, calendars, and student assessments; as well as online student assessment capabilities. All of these served to differentiate Bright Horizons and helped it to stay ahead of the competition.

Bright Horizons sees labor as a competitive advantage. It seeks to recruit and retain the best people. In 2014, it had been listed for the 14th time as one of the "100 Best Companies to Work for in America" by FORTUNE magazine. By then, Bright Horizons had some 20,000 employees globally, and was operating for more than 700 clients organizations in the US, Canada, and Europe. These clients are the world's leading employers, which included corporations, hospitals, universities, and government offices. Clients want to hire Bright Horizons as a partner because they know they can trust the staff.

Source: Roger Brown, "How We Built a Strong Company in a Weak Industry", *Harvard Business Review*, February 2001, pp. 51–57; www.brighthorizons.com, accessed 3 February 2016.

USING POSITIONING MAPS TO PLOT COMPETITIVE STRATEGY

Positioning maps are great tools to visualize competitive positioning along key aspects of its services marketing strategy, to map developments over time, and to develop scenarios of potential competitor responses. Developing a positioning map — a task sometimes referred to as perceptual mapping — is a useful way of representing consumers' perceptions of alternative products graphically. A map usually has two attributes, although three-dimensional models can be used to show three of these attributes. When more than three dimensions are needed to describe product performance in a given market, a series of separate charts needs to be drawn.

Information about a product (or company's position relative to any one attribute) can be inferred from market data, derived from ratings by

representative consumers, or both. If consumer perceptions of service characteristics differ sharply from "reality" as defined by management, then communications efforts may be needed to change these perceptions7.

An Example of Applying Positioning Maps to the Hotel Industry

The hotel business is highly competitive, especially during seasons when the supply of rooms exceeds demand. Within each class of hotels, customers visiting a large city find that they have many alternatives to choose from. The degree of luxury and comfort in physical amenities will be one choice criterion; others may include attributes such as location, safety, availability of meeting rooms, business center, restaurants, swimming pool and gym, and loyalty programs for frequent guests.

The following is a real-world situation of how to apply the use of positioning maps. Managers of The Palace, a successful four-star hotel, developed a positioning map showing their own and competing hotels, to get a better understanding of future threats to their established market position in a large city that we will call Belleville.

Located on the edge of the booming financial district, The Palace was an elegant old hotel that had been renovated to a great extent and modernized a few years earlier. Its competitors included eight four-star establishments, and one of the city's oldest hotels The Grand, which had a five-star rating. The Palace had been very profitable in recent years and has had an above average occupancy rate. For many months of the year, it was sold out on weekdays, reflecting its strong appeal to business travelers, who were very attracted to the hotel because of their willingness to pay a higher room rate than tourists or conference delegates. However, the general manager and his staff saw problems on the horizon. Planning permissions had recently been granted for four large new hotels in the city, and The Grand had just started a major renovation and expansion project, which included the construction of a new wing. There was a risk that customers might see The Palace as falling behind.

To better understand the nature of the competitive threat, the hotel's management team worked with a consultant to prepare charts that displayed The Palace's position in the business traveler market both before and after the entrance of new competition. Four key attributes were

selected for study: room price, level of personal service, level of physical luxury, and location.

Data Sources

In this instance, management did not conduct new consumer research. Instead, they got their customer perceptions data from various sources such as:

- published information,
- data from past surveys done by the hotel, and
- reports from travel agents and knowledgeable hotel staff members who frequently interacted with guests.

Information on competing hotels was not difficult to obtain, because the locations were known. Information was obtained through:

- Visiting and evaluating the physical structures.
- Sales staff who kept themselves informed on pricing policies and discounts.
- To evaluate service level, they used the ratio of rooms per employee. It is easily calculated from the published number of rooms and employment data provided to the city authorities.
- Data from surveys of travel agents conducted by The Palace provided additional insights on the quality of personal service at each competitor.

Scales and Hotel Ratings

Scales were then created for each attribute, and each hotel was rated on each of the attributes so the positioning maps could be drawn:

- Price was simple because the average price charged to business travelers for a standard single room at each hotel was already quantified.
- The rooms-per-employee ratio formed the basis for a service level scale, with low ratios equated to high service. This rating was then fine-tuned because of what was known about the quality of service actually delivered by each major competitor.

- Level of physical luxury was more subjective. The management team identified the hotel that the members agreed was as the most luxurious (The Grand) and then the four-star hotel they viewed as having the least luxurious physical facilities (the Airport Plaza). All other four-star hotels were then rated on this attribute relative to these two benchmarks.
- Location was defined using the stock exchange building in the heart of the financial district as a reference point. Past research had shown that a majority of The Palace's business guests were visiting destinations in this area. The location scale plotted each hotel in terms of its distance from the stock exchange. The competitive set of 10 hotels lay within a four-mile, fan-shaped radius, extending from the exchange through the city's principal retail area (where the convention center was also located) to the inner suburbs and the nearby airport.

Two positioning maps were created to portray the existing competitive situation. The first (Figure 6) showed the 10 hotels on the dimensions of price and service level; the second (Figure 7) displayed them on the location and the degree of physical luxury.

Findings

Some findings were intuitive, but others provided valuable insights:

- A quick glance at Figure 6 shows a clear correlation between the attributes of price and service: Hotels that offer higher levels of service are relatively more expensive. The shaded bar running from upper-left to lower-right highlights this relationship, which is not a surprising one (and can be expected to continue diagonally downward for three-star and lesser-rated establishments).
- Further analysis shows there appears to be three groups of hotels within what is already an upscale market category. At the top end, the four-star Regency is close to the five-star The Grand. In the middle, The Palace is clustered with four other hotels, and at the lower end, there is another group of three hotels. One surprising insight from this map is that The Palace appears to be charging a lot more (on a relative basis) than its service level would seem to justify. However,

Figure 6: Positioning map of Belleville's principal business hotels: Service Level versus Price Level

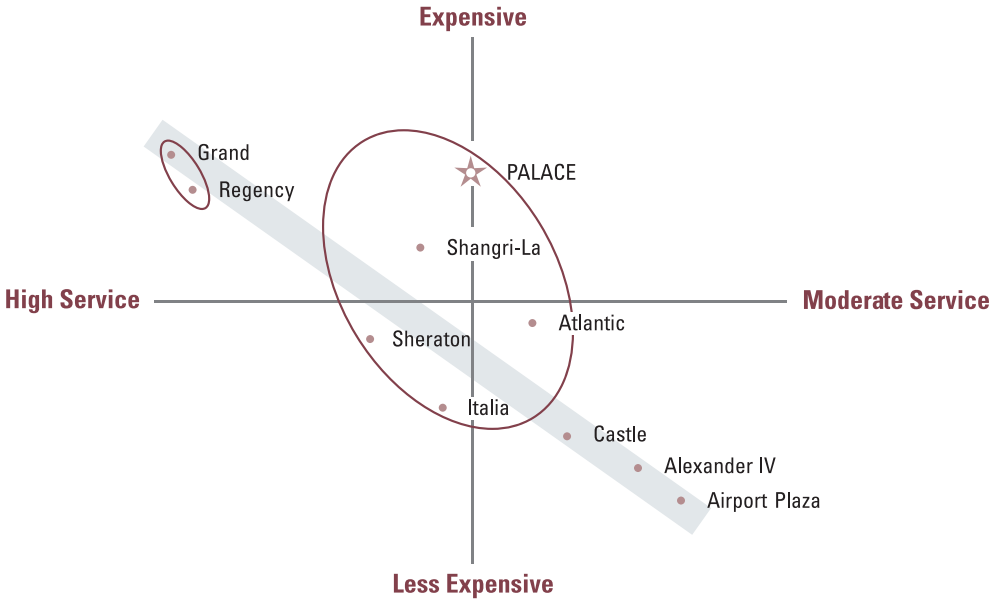


Figure 7: Positioning map of Belleville's principal business hotels: Location versus Physical Luxury

since its occupancy rate is very high, guests seem willing to pay the going rate.

- Figure 7 shows how The Palace is positioned relative to the competition on location and degree of luxury. These two variables are not expected to be related, and they do not appear to be so. A key insight here is that The Palace occupies a relatively empty portion of the map. It is the only hotel in the financial district — a fact that probably explains its ability to charge more than its service level (or degree of physical luxury) seems to justify.
- There are two groups of hotels in the vicinity of the shopping district and convention center (Figure 7). There is a relatively luxurious group of three, led by The Grand, and a second group of two offering a moderate level of luxury.

Mapping Future Scenarios to Identify Potential Competitive Responses

What about the future? The Palace's management team next sought to anticipate the positions of the four new hotels being constructed in Belleville as well as the probable repositioning of The Grand (see Figures 8 and 9). Predicting the positions of the four new hotels was not difficult for experts in the field, especially as preliminary details of the new hotels had already been released to the city planners and business community.

The construction sites were already known; two would be in the financial district and two in the vicinity of the convention center, under expansion. Press releases distributed by The Grand had already declared its management's intentions: The "New" Grand would be not only larger, the renovations would be designed to make it even more luxurious, and there were plans to add new service features. Three of the newcomers would be linked to international chains and their strategies could be guessed by examining recent hotels opened in other cities by the same chains. The owners of two of the hotels had declared their plan to position their new properties as five-star hotels.

Pricing was also easy to estimate. New hotels used a formula for setting posted room prices (the prices typically charged to individuals staying on a weeknight during high season). This price is linked to the average construction cost per room at the rate of $1 per night for every

Figure 8: Future positioning map of Belleville's business hotels: Service Level versus Price Level

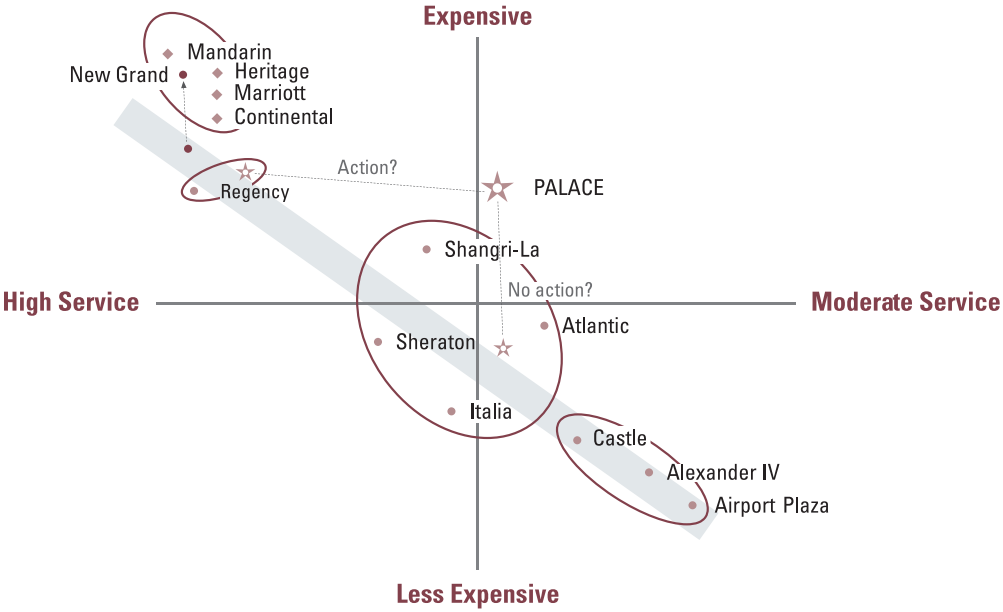


Figure 9: Future positioning map of Belleville's business hotels: Location versus Physical Luxury

$1,000 of construction costs. Thus, a 200-room hotel that costs $80 million to build (including land costs) would have an average room cost of $400,000 and would need to set a price of $400 per room per night. Using this formula, The Palace managers concluded that the four new hotels would have to charge a lot more than The Grand or Regency. This would establish a *price umbrella* above existing price levels, thereby giving competitors the option of raising their own prices. To justify their high prices, the new hotels would have to offer customers very high standards of service and luxury. At the same time, the New Grand would need to raise its own prices to recover the costs of renovation, new construction, and enhanced service offerings (Figure 8).

Assuming no changes by either The Palace or other existing hotels, the effects of the new competition in the market clearly posed a significant threat to The Palace:

- It would lose its unique location advantage and, in future, be one of three hotels in the immediate vicinity of the financial district (Figure 9).
- The sales staff believed that many of The Palace's existing business customers would be attracted to The Continental and The Mandarin, and would be willing to pay the higher rates to obtain the superior benefits offered.

The other two newcomers were seen as more of a threat to the Shangri-La, Sheraton, and New Grand in the shopping district/convention center cluster. Meanwhile, the New Grand and the newcomers would create a high-price/high-service (and high-luxury) cluster at the top end of the market, leaving The Regency in what might prove to be a distinctive — and therefore defensible — space of its own.

Positioning Charts Help Executives Visualize Strategy

The Palace example demonstrates the insights that come from visualizing competitive situations. One of the challenges that strategic planners face is to ensure that all executives have a clear understanding of the firm's current situation before discussing changes in strategy. Chan Kim and Renée Mauborgne argue that graphic representations of a firm's strategic profile and product positions are much easier to grasp than tables of

quantitative data or paragraphs of text. Charts and maps can help achieve "visual awakening". By allowing senior managers to compare their business with that of competitors and understand the nature of competitive threats and opportunities, visual presentations can highlight gaps between how customers (or prospective customers) see the organization and how management sees it, and thus help confirm or dispel beliefs that a service or a firm occupies a unique niche in the marketplace.[11]

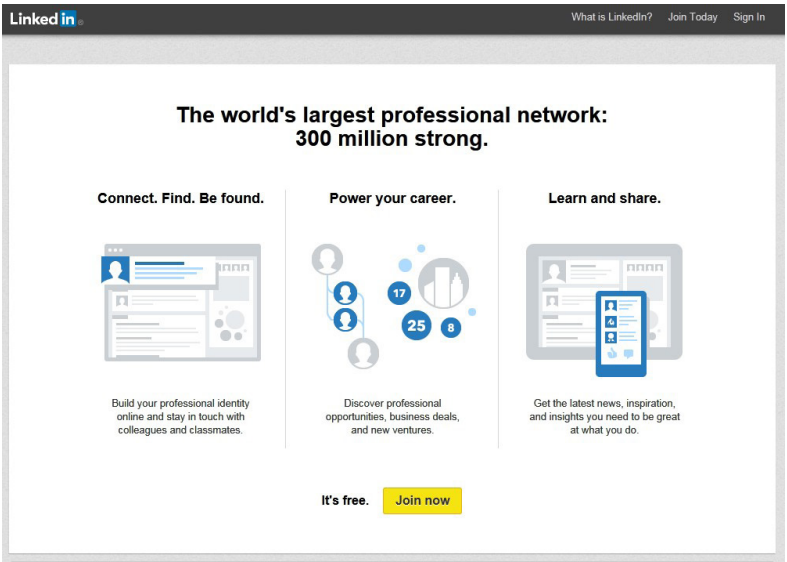
By examining how anticipated changes in the competitive environment would literally redraw the current positioning map, the management team at The Palace could see that the hotel could not hope to remain in its current market position once it lost its location advantage. Unless they moved proactively to enhance their level of service and physical luxury, and raising prices to pay for such improvements, the hotel was likely to find itself being pushed into a lower price bracket that might even make it difficult to maintain current standards of service and physical upkeep.

DEVELOPING AN EFFECTIVE POSITIONING STRATEGY

After understanding the importance of focus, the principles of positioning, and having used positioning maps to visualize competitive positioning, developing an effective positioning strategy can be discussed. As shown in Figure 1 at the beginning of this volume, ***STP*** links the 3 'C's (i.e., customer, competitor, and company) analyses to services marketing strategy and action plan. From what is found, a position statement can be developed that enables the service organization to answer the questions: "What is our service product? Who are our customers? What do we want it to become? What actions must we take to get there?"

For example, LinkedIn has worked hard to focus on the professional networking space and to position itself away from other social networks such as Facebook. LinkedIn focuses on building a user's work experience profile, rather than a repository of holiday and party snapshots (Figure 10). It also has steered clear of games and inane updates that seem to plague its social network brethren. Instead, LinkedIn has opted for a cleaner layout that resembles an online curriculum vitae. This focus on professionals as its primary customers is closely tied to its revenue generation model, which charges recruiters for access to its member base, and advertisers for

Figure 10: LinkedIn positioned itself away from social networks by focusing exclusively on professional networking and career development



highly targeted placement ads to a senior and professional target audience that is difficult to reach via other channels.[12] This strategy clearly worked. As of 2015, LinkedIn had more than 300 million members in over 200 countries and territories, significantly ahead of its competitors Viadeo from France and XING from Germany which had 70 million and 10 million members, respectively.

There are four basic elements to writing a good positioning statement,[13] and this is illustrated in the LinkedIn example:

- *Target audience* — the specific group(s) of people that the brand wants to sell to and serve (e.g., professionals as primary target customers, and employers and advertisers as secondary target audiences).
- *Frame of reference* — the category that the brand is competing in (e.g., in the social networking space).
- *Point of difference* — the most compelling benefit offered by the brand that stands out from its competition (e.g., largest network of professionals and recruiters to help advance your career, develop your business acumen, industry knowledge, and personal development).

- *Reason to believe* — proof that the brand can deliver the promised benefits (e.g., our network is many times bigger than that of our nearest competitor).

Developing a positioning strategy can take place at several different levels, depending on the nature of the business in question. Among other multi-site, multi-product service businesses, a position can be established for the entire organization, for a given service outlet or for a specific service offered at that outlet. There must be consistency between the positioning of different services offered at the same location, because the image of one may spill over the others, especially if it is perceived to be related. For instance, if a hospital has an excellent reputation for warm and competent obstetrical services, it may enhance perceptions of its services in gynecology and pediatrics. By contrast, it would be detrimental to all three services, if their positioning was conflicting.

The outcome of integrating the 3 'C's and the ***STP*** analyses is the positioning statement that defines the desired position of the organization in the marketplace. With this understanding, marketers can now develop a specific plan of action that includes its positioning strategy along the 7 'P's of services marketing, its customer relationship management and loyalty strategies, and its service quality and productivity strategies.

CONCLUSION

Most service businesses face active competition. Marketers need to find ways of creating meaningful value propositions for their products that stake a distinctive and defensible *position* in the market against competing alternatives. The nature of services introduces a number of distinctive possibilities for competitive differentiation, going beyond price and physical product features to include: location and scheduling, performance levels such as speed of service delivery and the caliber of service personnel, and a range of options for customer involvement in the production process.

Nearly all successful service firms pursue a focus strategy. They identify the strategically important elements in their service operations and concentrate their resources on them. They target segments which they can serve better than other providers, offering and promoting a

higher level of performance on those attributes particularly valued by their target customers.

SUMMARY

1. Customer, Competitor, and Company Analysis

Developing an effective positioning strategy links c*ustomer, competitor, and company analysis*, often called the 3 'C's.

- *Market analysis* looks at the market attractiveness (e.g., market size and growth, and trends) and customer needs (e.g., desired service levels, level of contact, delivery channel, time of consumption, and price sensitivity).
- *Competitor analysis* examines the competitors' current positioning, strengths and weaknesses to spot opportunities for the firm.
- *Company analysis* focuses on a firm's brand positioning and image, the firm's strengths and weaknesses (e.g., its resources and constraints), and how its values shape the way it does business.\

2. The 'STP' Elements

The key elements of developing a customer-driven services marketing strategy are *segmentation*, *targeting*, and *positioning*, commonly referred to as 'STP'.

3. Segmentation

Segmentation is the division of a market into groups. Those customers within the same segment share common service-related needs. Segmentation is often based on customer needs first to focus the firm on what customers truly want and what drives their purchase decision. Subsequently, demographic, psychographic and behavioral variables can be used to further define and describe key segments.

4. Important versus Determinant Attributes

It is crucial for segmenting customers to understand the difference between important and determinant attributes for consumer choice.

- *Important attributes* are important to the consumer, but may not be important for the buying decisions (e.g., safety is important, but all airlines a traveler considers are seen as safe). If that is the case, such an attribute should not be used as a basis for segmentation.
- *Determinant attributes* often are further down on the list of service

characteristics important to customers. However, they are attributes where customers see significant differences between competing alternatives (e.g., convenience of departure times, or quality of in-flight service), and will determine the final purchase. Differences between customers regarding determinant attributes are therefore crucial for segmentation.

5. Differentiating Customer Segments

Once the important and determinant attributes are understood, management needs to decide which *service level* different customers prefer on each of the attributes. Service levels often are used to differentiate customer segments according to their willingness to trade off price and service level.

6. Achieving Competitive Advantage

Next, each company needs to focus its efforts on those customers it can serve best — its *target segment*. Firms must have a competitive advantage on attributes valued by their target segment. To achieve competitive advantage, firms need to be focused. There are three focused strategies firms can follow to achieve competitive advantage. They are:

- *Fully-focused*: A firm provides a limited range of services (perhaps only one) to a narrow target segment (e.g., Shouldice Hospital).
- *Market-focused*: A firm concentrates on a narrow market segment, but offers a wide range of services to address the many diverse needs of that segment (e.g., Rentokil).
- *Service-focused*: A firm offers a narrow range of services to a fairly broad market (e.g., Lasik eye surgery clinics, Starbucks cafés, or LinkedIn).
- There is a fourth, the *unfocused* strategy. However, it is generally not advisable for firms to choose an unfocused strategy as they might spread themselves too thin to remain competitive (e.g., some departmental stores).

7. The Essence of Positioning

Once we have understood determinant attributes and related service

levels of our target segment(s), we can decide how to best position our service in the market. *Positioning* is based on establishing and maintaining a distinctive place in the market for a firm's offerings. The essence of positioning is:

- A company must establish a position in the minds of its targeted customers.
- The position should be singular, providing one simple and consistent message.
- The position must set a company apart from its competitors.
- A company cannot be all things to all people — it must focus its efforts.

8. Positioning Maps

Positioning maps are an important tool to help firms develop their positioning strategy. They provide a visual way of summarizing customer perceptions of how different services are performing on determinant attributes compared to competition. They can help firms to see where they might reposition themselves and also to anticipate competitors' actions.

9. The Positioning Strategy

The outcome of these analyses is the position statement that articulates the desired position of the firm's offering in the marketplace. With this understanding, marketers can then develop a specific plan of action that includes its *positioning strategy* along the 7 'P's of services marketing, its customer relationship management and loyalty strategies, and its service quality and productivity strategies.

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In recognition of his excellence in teaching and research, Professor Wirtz has received more than 40 awards, including the prestigious Academy of Marketing Science (AMS) 2012 Outstanding Marketing Teacher Award (the highest recognition of teaching excellence of AMS globally), and the top university-level Outstanding Educator Award at NUS. He was also the winner of the inaugural Outstanding Service Researcher Award 2010, and the Best Practical Implications Award 2009, both by Emerald Group Publications.

Professor Wirtz was a banker and took the banking exam at Chamber of Commerce and Industry in Munich. He has since been an active management consultant, working with international consulting firms including Accenture, Arthur D. Little and KPMG, and major service firms in the areas of strategy, business development and customer feedback systems. He has also been involved in several start-ups including in Accellion (www.accellion.com), Angeloop (https://angeloop.co), TranscribeMe (www.transcribeme.com), and Up! Your Service (www.upyourservice.com).

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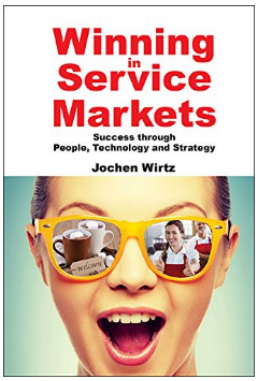

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