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Winning in Service Markets Series: Vol. 3

Developing Service Products and Brands

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



**YOUR CULTURE
IS YOUR BRAND**

All service organizations face choices concerning the types of products to offer and how to deliver them to customers. Designing a service product is a complex task that requires an understanding of how the core and supplementary services should be combined, sequenced, and delivered to create a value proposition that meets the needs of target segments. *Developing Service Products and Brands* is the third 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 — Vol. 3
DEVELOPING SERVICE PRODUCTS AND BRANDS

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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 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

All service organizations face choices concerning the types of products to offer and how to deliver them to customers. Designing a service product is a complex task that requires an understanding of how the core and supplementary services should be combined, sequenced, and delivered to create a value proposition that meets the needs of target segments. *Developing Service Products and Brands* is the third 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 3

Developing Service Products and Brands

Each and every one of you will make or break the promise that our brand makes to customers.

An American Express manager speaking to his employees

CREATING SERVICE PRODUCTS

In recent years, more and more service firms have started talking about their *products* — a term previously largely associated with manufactured goods. What is the distinction between these two terms in today’s business environment? A product implies a defined and consistent “bundle of output” as well as the ability to differentiate one bundle of output from another. In a manufacturing context, the concept is easy to understand and visualize. Service firms can also differentiate their products in a similar fashion using the various “models” offered by manufacturers. For example, fast-food restaurants display a menu of their products, which are, of course, highly tangible. If you are a burger connoisseur, you can

Figure 1: Organising Framework

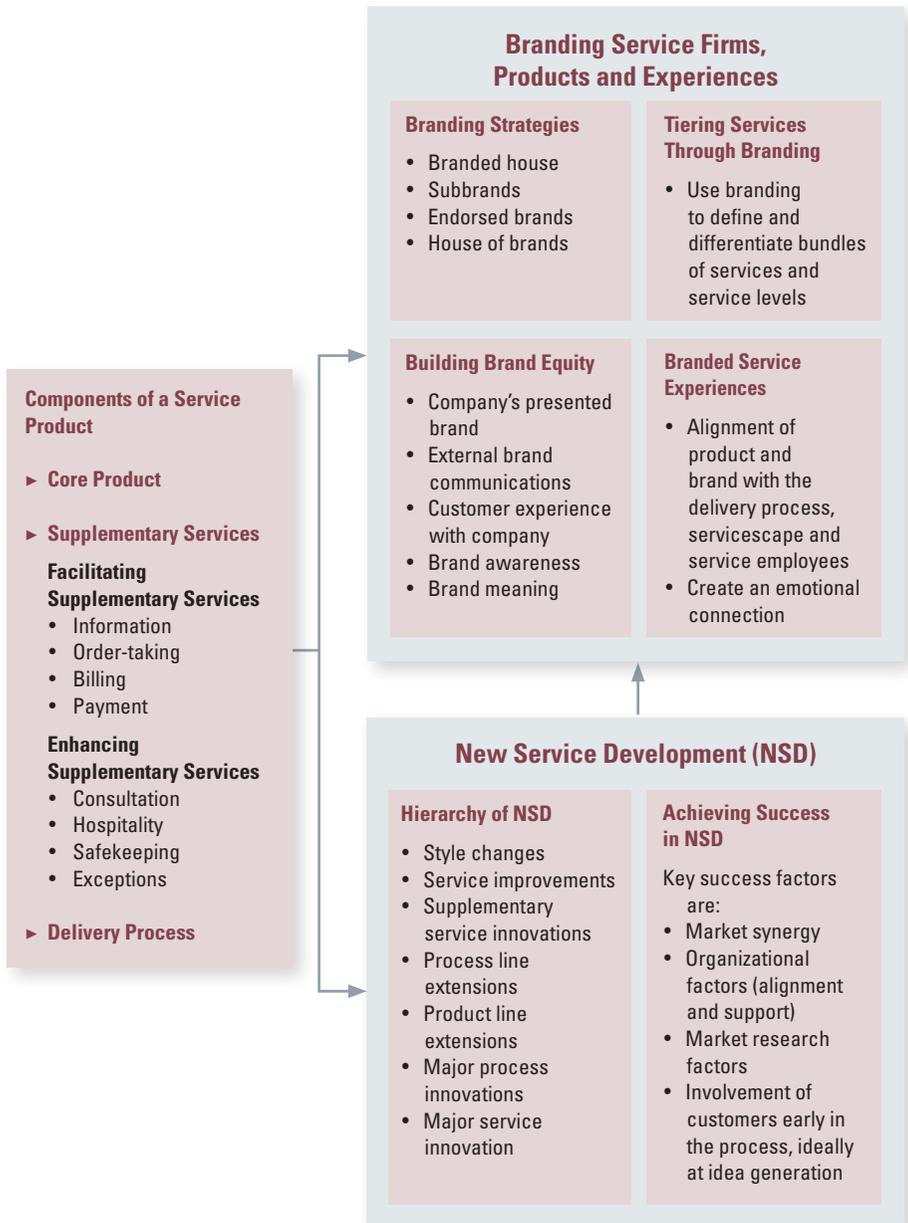
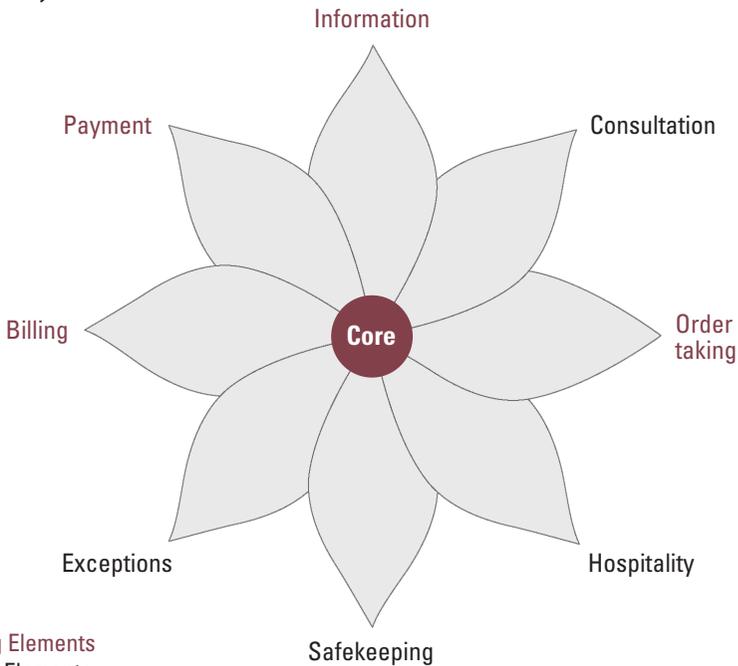


Figure 4: The Flower of Service: Core product surrounded by cluster of supplementary services



by customers. In a well-designed and well-managed service product, the petals and core are fresh and well-formed. A badly designed or poorly delivered service is like a flower with missing, wilted, or discolored petals. Even if the core is perfect, the flower looks unattractive. Think about your own experiences as a customer (or when buying on behalf of an organization). When you were dissatisfied with a particular purchase, was it the core that was at fault, or was it a problem with one or more of the petals?

Facilitating Supplementary Services

Information

To obtain full value from any good or service, customers need relevant information, which includes the following:

- Direction to service site
- Schedules/service hours

Figure 8: The spectrum of branding alternatives



Source: Adapted from James Devlin "Brand Architecture in Services: The Examples of Retail Financial Services." *Journal of Marketing Management*, No. 19, 2003, 1046.

the distinctive experiences and benefits associated with a specific service concept to the target market. In short, it helps marketers to establish a mental picture of the service in customers' minds and clarify the nature of the value proposition.

Branding individual service products helps to differentiate one bundle of output from another. One example is prepackaged solutions offered by hotels, which carefully crafted specified products for various target segments branded as Heavenly Honeymoon, Spa Indulgence, or Intimate Moments, etc. The latter was a product specially created for couples who may celebrate their wedding anniversary. It is presented as a surprise to the partner or spouse when guests return to find their villas decorated with lit candles, incense burning, flower petals spread throughout the room, satin sheets on the decorated bed, chilled champagne or wine, and a private outdoor pool decorated with a variety of aromatic massage oils to further inspire those intimate moments. Having "packaged" and "branded" this product allows Banyan Tree to sell it via its website, distributors, and reservations centers, and train it at the individual hotels. Without specifying exactly what this product means, giving it a name, marketing, selling, and delivery would not be effective. Next section describes alternative branding strategies for services.

Branding Strategies for Services

Most service organizations offer a line of products rather than just a single product. As a result, they must choose from four broad branding

programs are often used to encourage this, whereby loyalty points are collected in one sub-brand when on business travel, but are then redeemed through another brand on leisure trips.

House of Brands

At the far end of the spectrum is the *house of brands* strategy. A good service example is Yum! Brands Inc., which owns more than 40,000 restaurants in 125 countries with a sales of US\$13 billion. While many may not have heard of Yum! Brands, people certainly are familiar with their restaurant brands — Taco Bell, KFC, Pizza Hut, and WingStreet. Prior to 2011, Yum! also owned Long John Silver’s and A&W Restaurants (Figure 9).

Tiering Service Products with Branding

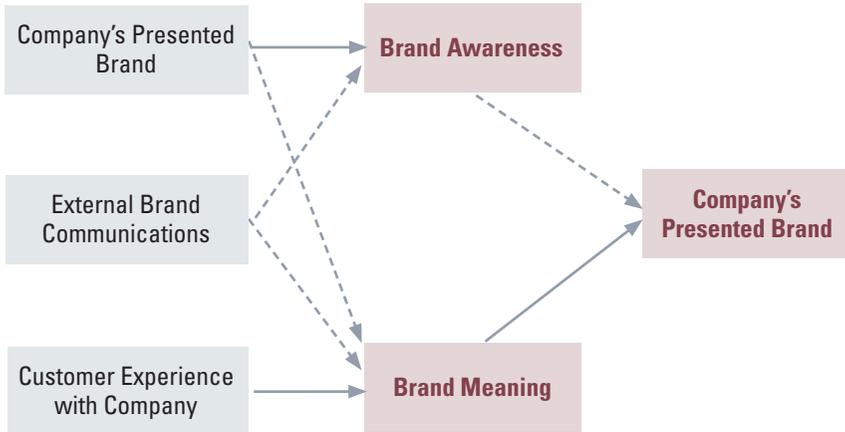
In a number of service industries, branding is not only used to differentiate core services, but also to clearly differentiate service levels. This is known

Table 1: Examples of Service Tiering

Industry	Tiers	Key Service Attributes and Physical Elements Used in Tiering
Lodging	Star or diamond rating (5 to 1)	Architecture; landscaping; room size; furnishings, and décor; restaurant facilities and menus, room service hours; array of services and physical amenities; staffing levels’ caliber and attitudes of employees
Airline	Classes (Intercontinental); first, business, premium economy, economy ^a	Seat pitch (distance between rows), seat width, and reclining capability; meal and beverage service, staffing ratios; check-in speed; departure and arrival lounges; baggage retrieval speed
Car rental	Class of vehicle ^b	Based on vehicle size (from subcompact to full size), degree of luxury, plus special vehicle types (minivan, SUV, convertible)
Hardware and software support	Support levels	Hours and days of service; speed of response; speed of delivering replacement parts; technician-delivered service versus advice on self-service; availability of additional services

a Only a few airlines offer as many as four classes of intercontinental service; domestic services usually feature one or two classes.
 b Avis and Hertz offer seven classes based on size and luxury, plus several special vehicle types

Figure 10: A Service-Branding Model



Source: Adapted from Leonard L. Berry, "Cultivating Service Brand Equity," *Journal of the Academy of Marketing Science*, Vol. 28, No. 1, pp. 128–137.

- Silver: Basic support with on-site service from Monday to Friday, 8 a.m. to 5 p.m., telephone service from Monday to Friday, 8 a.m. to 8 p.m., and a four-hour response time.
- Bronze: Self-support with phone service 8 a.m. to 5p.m.

Building Brand Equity

To build a strong brand, we need to understand what contributes to brand equity. Brand equity is the value premium that comes with a brand. It is what customers are willing to pay for the service, beyond what they are willing to pay for a similar service that has no brand. Figure 10 shows the following six key components:

- *Company's presented brand* — mainly through advertising, service facilities, and personnel.
- *External brand communications* — from word of mouth and publicity. These are outside of firm's control.
- *Customer experience with the company* — what the customer has gone through when they patronized the company.
- *Brand awareness* — the ability to recognize and recall a brand when provided with a cue.
- *Brand meaning* — what comes to the customer's mind when a brand is mentioned.

SUMMARY

1. The Service Product

The service product consists of three components:

- Core product delivers the principle benefits and solutions customers seek.
- Supplementary services facilitate and enhance the core product.
- Delivery processes determine how the core and supplementary service elements are being delivered to the customer.

2. The Flower of Service

The flower of service consists of two main components”

- Core product delivers the main benefits and solutions customers look for.
- Supplementary services facilitate and enhance the value of the core product. The core product often becomes commoditized, and supplementary services can then play an important role in differentiating and positioning the core product.

3. Facilitating Supplementary Services

The Flower of Service concept categorizes supplementary services into facilitating and enhancing supplementary services:

- Facilitating supplementary services such as information, order-taking, billing, and payment are needed for service delivery or they help in the use of the core product.

4. Enhancing Supplementary Services

Enhancing supplementary services add value for the customer. They include consultation, hospitality, safekeeping, and dealing with exceptions.

5. Branding

Branding is used at the corporate and individual service levels:

- The *corporate brand* is not only easily recognized but also has meaning for the customer by representing a particular way of doing business.

- *Branding of individual service* products helps firms to differentiate one bundle of output from another. Most service firms offer a line of products, with each one having a different combination of service attributes and their respective performance levels. Branding of individual service products is used to increase the tangibility of the service offering and value proposition.

6. Branding Strategies

The variety of branding strategies include the following:

- *Branded house*: Applying a brand to multiple, often unrelated services (e.g., Virgin Group).
- *Sub-brands*: Using a master brand (often the firm name) together with a specific service brand (e.g., FedEx Ground service).
- *Endorsed brands*: The product brand dominates but the corporate brand is still featured (e.g., Starwood Hotels & Resorts).
- *House of brands*: Individual services are promoted under their own brand name without the corporate brand (e.g., KFC of Yum! Brands).

7. Service Tiering

In many industries, branding is not only used to differentiate core services, it also differentiates service levels, called service tiering. There are some industries where service tiering is common and they include hotels, airlines, car rentals, and credit cards.

8. Building Brand Awareness

Branding is not just about applying distinctive brand names and market communications:

- A service firm's presented brand (e.g., through advertising, facilities, and service employees) is more effective in building brand awareness rather than brand equity.
- The customer's service experience with the brand (i.e., the "moments of truth") is more powerful in building brand equity. To build great brands, firms need to align processes, servicescapes, and people with its brand positioning.

9. A Branded Service Experience

A branded service experience transforms a series of service elements and processes into a consistent and recognizable service experience. It aligns the service product and brand with its delivery process, servicescape and people with the brand proposition.

10. Seven Levels of New Service Development

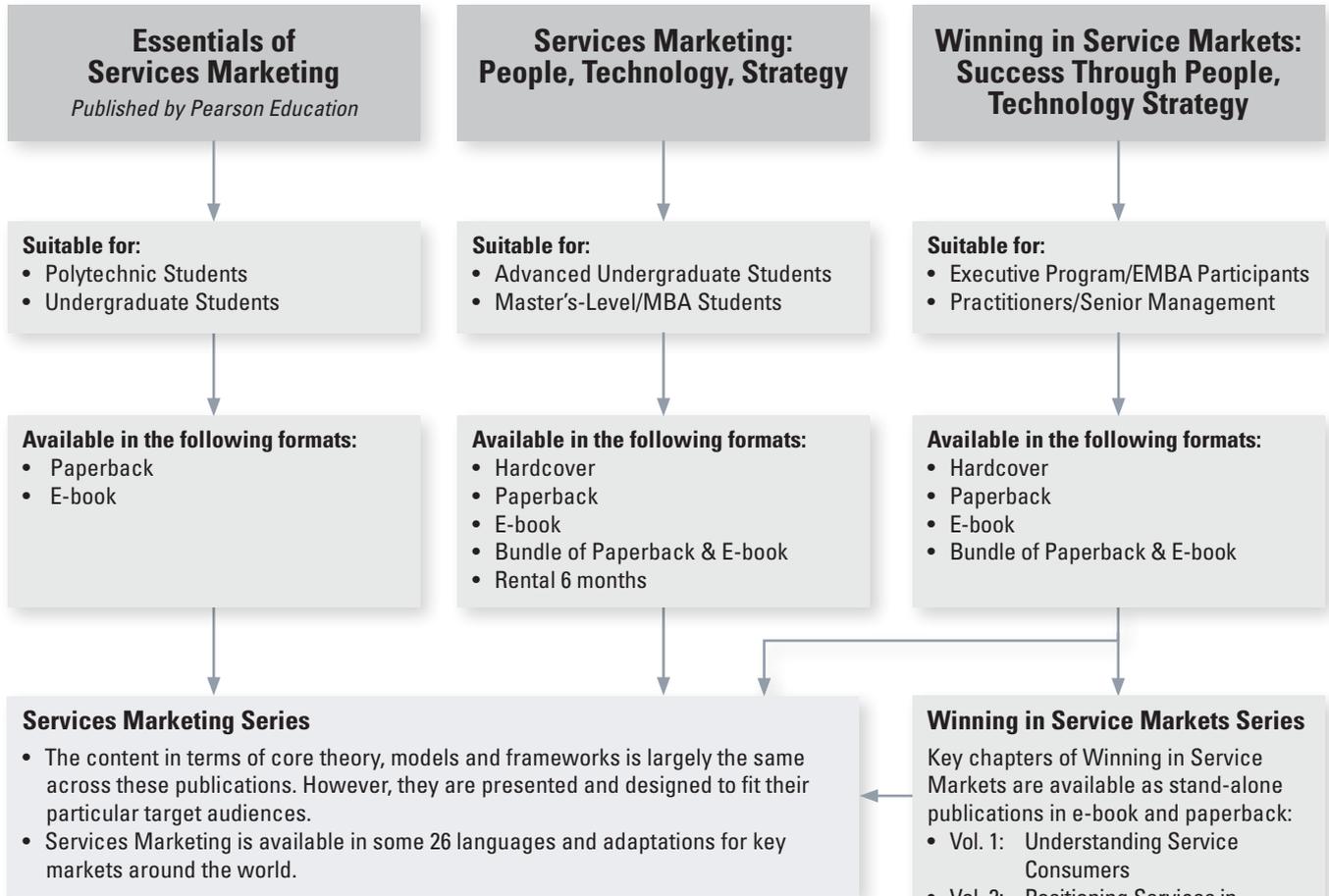
Firms need to improve and develop new services to maintain a competitive edge. The seven levels in the hierarchy of new service development are:

- *Style changes*: Highly visible, create excitement (e.g., repainting retail branches and vehicles in a new color scheme), but typically do not involve changes in service performance or processes.
- *Service improvements*: Involve modest changes in the performance of current products.
- *Supplementary service innovations*: Significantly improving or adding new facilitating or enhancing service elements.
- *Process line extensions*: New ways of delivering existing services products, such as creating self-service options. Product line extensions: adding new services that typically deliver the same core service but are specified to satisfy different needs.
- *Major process innovations*: Using new processes to deliver current products, such as adding online courses to traditional class-room delivered lectures.
- *Major service innovations*: Development of new core products for markets that have not been previously defined. Major service innovations are relatively rare. More common is the use of new technologies to deliver existing services in new ways, enhancing or creating new supplementary services, and greatly improving performance on existing ones through process redesign. However, digital start-ups, quickly improving hardware (from processors to cameras to sensors), and new technologies such as robots, self-driving cars, virtual reality, speech recognition, artificial intelligence, and the Internet of things, bring opportunities for service innovations that will dramatically improve the customer experience, service quality, and productivity.

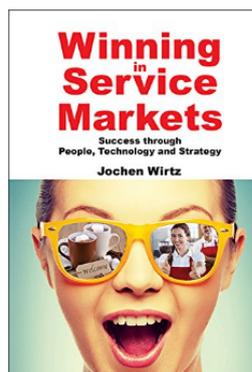
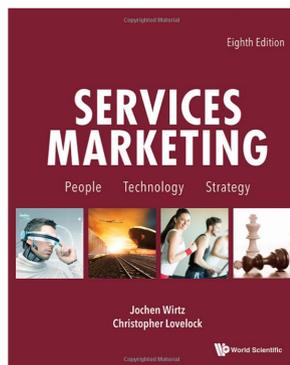
11. Enhancing Success in New Service Development

- *Market synergy*: The new product fits well with the firm's existing image, expertise, and resources, is better at meeting customers' needs over competing services, and receives strong support during and after the launch from the firm and its branches.
- *Organizational factors*: Strong cooperation between the different functional areas in a firm, staff are aware of the importance of the new products in the company, and understand the new product and its underlying processes.
- *Market research*: Customer ideas and research are already incorporated early in the new service design process. There is a clear idea of the type of information to be obtained. A good definition of the product concept is developed before undertaking field surveys.

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