GENERIC MARKETING STRATEGIES FOR ENTERPRISES IN SERVICES MARKET

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Abstract

The purpose of the paper is to present the result of studies and research on strategies in services sector. The starting point is the review of traditional approaches to the essence of services as market products, including the so called Scandinavian School of Services. An author considers as an alternative in: intangibility versus process nature of services. Next part of a paper contains the revision of classical approach to product in the context of the mainstream of marketing theory, including Philip Kotler's teaching. Later, the idea of marketing mix in services sector is revised.

An author assumes that strategies in services sector need to be compliant with both the nature of the very service sector and specifics of small enterprises. On such bases some typology of strategies is developed. Special focus in the final part of the paper is on the problems of time horizons of strategies in services organisation. The results of studies should be useful in the process of teaching marketing students and also as an inspiration for service enterprises.

Key words: *services, physical products, dynamic concept of product, niche strategy, coopetition strategy, symbiotic strategy*

1. Introduction

Services marketing evolved in mid 70' of last century as field different from goods marketing. The basic premise for interpretation of services marketing as a separate managerial concept were specific features of the very services. Evolution of both services marketing and strategic marketing provokes thesis that generic strategies are to high extent the same for physical goods as for services companies.

2. An essence of service

Marketing as a theory evolved basically as a concept concerned with markets of physical goods (Shostack,1977,pp.73-80). These were especially consumption goods markets, like: cosmetics, beverages etc. The reason for this was that those markets used to be difficult for companies to deal with, because of high level of competition and because of irrational factors contributing to consumers' choices. Services were not the main point of interests of marketing experts because of some practical reasons:

- services were traditionally local products. So as a result, producers of services were less exposed to natural marketing problems that used to trouble big mass goods producers: touch with consumers and the knowledge about consumers.
- services were performed by smaller producers who traditionally were less interested in employing specific scientific managerial concepts.
- the importance of the whole services sector in an economy was discovered quite late.

When possibilities of adopting the theory of marketing were found, the main focus of authors was on non-materiality or intangibility of services as the most important feature making services different from goods (Rushton and Carson, 1985). Intangibility used to be listed as the first feature of services before such feature like:

- utmost heterogenity,
- direct touch of producer and the buyer,

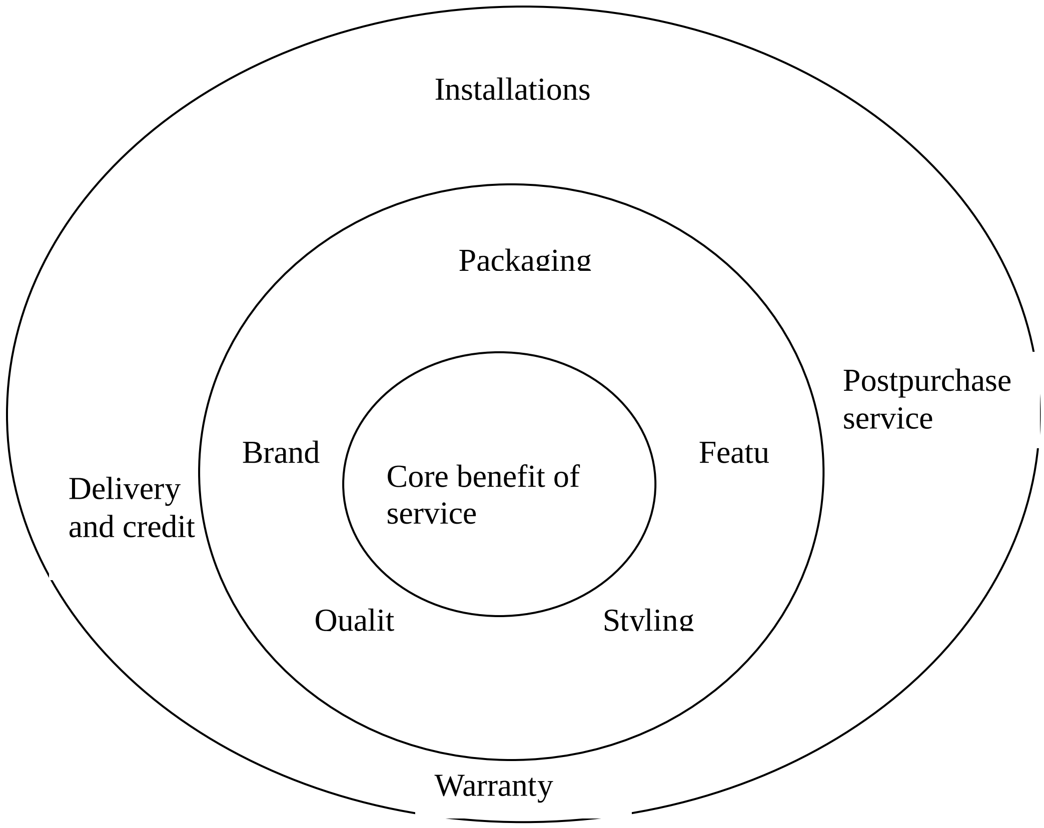
- simultaneous production and consumption,
- utmost perishability (Zeithmal et.al., 1985, Gronroos,1982 and 1997, Rushton, 1985).

As wrote Zeithaml et al. (1985) intangibility is universally cited difference between goods and services. It is intangibility and other features that looked to be fundamental condition for formulation specific marketing strategies: partnership or relationship strategy, influencing seasonability of demand, communicational strategies stressing material context of services etc. It is remarkable that even if as Kotler et.al. (2007, p.9) declare that thinking in marketing moved from a strategy that conceives of either a product or a service to one which sees both product and services dimension in any marketing offering, they still assume the difference between services and goods. In their proposals any offering may consist of goods and services associated. So that offering is a set of goods and services. What will be shown in the next chapter, in fact the very difference between goods and services disappears.

3. The structure of a product

That theory of marketing was predominantly concerned with physical goods was evident in the development of theoretical concept of a product. To be precise, very popular, original concept of the structure of product by Levitt allowed for the inclusion of both goods and services as products (Levitt,1980). Unfortunately later concepts of the structure of products, like, first of all, the concept of levels of product proposed by Kotler (Kotler 1988) were concerned mostly with goods. It is interesting that Kotler idea of levels of product, for long has enjoyed common acceptation. If fact the concept represents important disadvanteges.

Figure 1 Three levels of a product



Source: Kotler Ph:Marketing Management. Analysis, Planning, Implementation and Control. Prentice Hall, New Jersey 1988 s.445

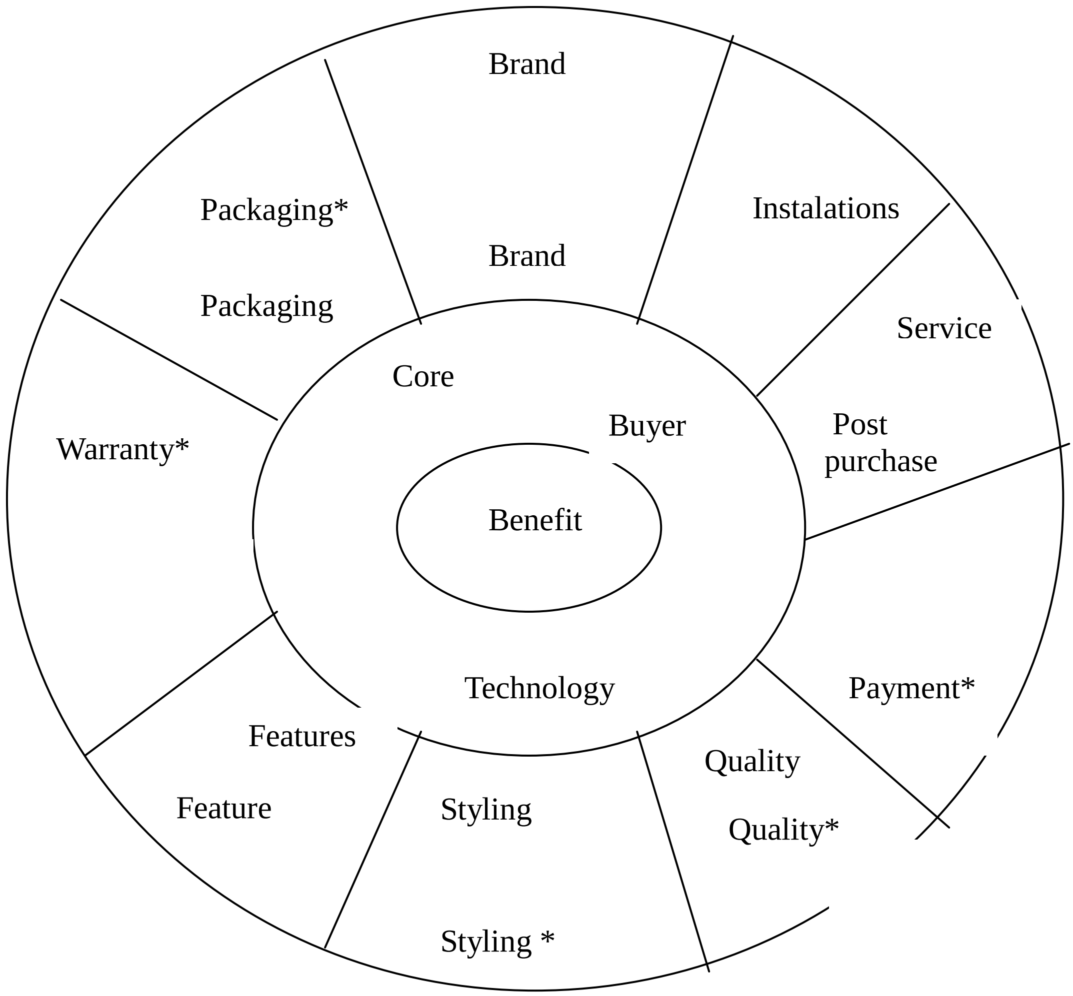
One disadvantage was that particular product attributes were expected to appear at different levels that evolved in time passing. For instance Kotler suggested that some product attributes like brand name or packaging, would be deliberated later than other product attributes. The other disadvantage was that the proposed attributes were specifically concerned with physical goods, not with any offerings (installations, packaging etc.).

More logical and objective concept of a product was one considering products as bundle of attributes (Solomon and Stuart,1997,p.294). The very process of creating the product is in fact nothing but elastic composing of bundle of attributes. The practical suggestion coming from Kotler's idea was that a creator of a product is not thinking about product attributes like product or brand name, installation, delivery etc., when it launches new product.

So an alternative to Kotler's proposal (fig.1) should be the idea of a structure of a product shown at the figure 2.

The concept proposed can be named dynamic concept of a product.

Figure 2. The dynamic concept of a product



**- attributes subjecting to modifications with time passing*

Source: Prymon, 2011

Enquiry into the nature of products leads to conclusion that intangibility is not what makes services different from goods, because any products are a bundle of elements both tangible and intangible. Observation of any goods turns attention to their intangible nature- whole psychological context of goods (for instance product image, brand image etc.).

Practical experience of successful services companies today, show that it is material aspects of services that are crucial for successful strategies. For instance, in the past they believed that services are not concerned with distribution because it is impossible to store or transport what is non-material. Today in hotel business, fast food chains it is, it is perfect logistics that ensures competitive advantages.

What is really important as a feature of services is the process. Process is real core of a product-service (Lehtinen, 1983). Competitive advantage can be found on today's services markets in improvising the process. In such prospering service companies like Irish Ryanair, British Travelodge, British Weatherspoon, the process is the core.

4. Marketing mix for goods and services

Marketing mix is on one side, just a bundle of strategic tools and a source of strategic inspirations on the other. The concept is sometimes interpreted in simplified manner, as a set of instruments. In fact marketing mix represented once a kind of intelectual revolution. The idea was that what consumers want from a company is not mere product with its obvious functions. Instead, they want a set of utilities. So, it was the core of the concept – utilities or values, not the list of instruments. One of pioneers of idea of marketing mix, McCarthy defined marketing mix as the controlable variables that the company puts together to satisfy a target group (McCarthy and Perreault,1990 p. 728). The whole idea subjected with time passing to partly artificial development. One of the most popular idea concerned with services marketing- 7 P' proposed by Boom and Bittner (1981).Probably the most known impact of services marketing on marketing mix, is concerned with the so called fifth P'- people. Though the role of service company's staff is very important, the very inclusion of fifth P was not revolution. From the very beginning personal selling, broadly interpreted, used to be included in promotion or communication mixes. The role of a personel is very important, as a part of promotion of both goods and services. Other thing is, that in narrow interpretation, personal selling is sometimes reduced to activities by salesmen or to acquisition, as a method of selling.

The next, the so called sixth P, physical evidence is really useful form of marketing mix innovations. Not as much intangibility of the very service but big load of intangibility, necessitates some special approach to communicating the service.

The last – the seventh P- the process, is not really separated part of marketing mix but represents the core of the product as a crucial element of marketing mix. Simply if product is a service so product mix consists basically of the process.

So it can be said that the idea of seven elements of marketing mix in services market was not really new concept.

The very idea of 7 P' was criticised by services marketing expert Cowell (1981). He indicated the 7 P' can be included within the idea of 4P'.

Some more practicable proposal about new eight element of marketing mix was proposed Lovelock (2001).He proposed to include "productivity and quality".

5. Services sector and SMEs

If services create specific sector within economy they also in part belong to the group of small and medium sizes enterprises. It is necessary to look for services firms from the view point of strategic characteristics of SMEs.

Provided that services company is simultaneously a type of SMEs, does it need typical of big company long term strategies? Are there any reason for smaller service company to base its activities on long term concepts?

If a strategy is highly influenced by internal and external conditions, so there is a need to compare those conditions concerning both big and smaller companies. Differences between companies of different sizes with respect to internal conditions could be evaluated using following criteria:

- resources disposable,

-the level of elasticity,

-size of a company: simplicity /complexity of management,

-ability of gaining synergy either between activities or between assets,

-general business motives.

Resources disposable. It used to taken for granted that the an advantage of big company are bigger resources. In fact the size of resources should be measured against the scale of potential strategic goals. So there could be some equilibrium between companies of different sizes. Of course, looking from the view point of market goals, no doubt that some goals are beyond the scope of small company's resources.

The level of elasticity. It used to be taken for granted that smaller organization or more elastic than bigger one. However no evidence for this. Wang et.al. calculate that only 5% to 10% of SMEs are „gazelles", it is dynamic enterprises (Wang et.al., 2007).The rate of bancrupcies is probably higher for small companies. What can be added is that elasticity may require to be supported by special resources that are not available for small company. What should be mentioned here is that direct comparison between logevity of big and small companies is hardly possible because of different fates of both types of companies of their closures. In the case of smaller companies it is justifiable to assume that an owner of failing enterprise will start " something new".

The size of a company. The size of a company can make managerial problems. For instance the very choice of strategic options would require to set compromise between various groups within a big company. So small size of a firm could be an advantage. Smaller company is not under the pressure of many groups of stakeholders typical of big companies. Als the process of strategy implementation can be easier.

General business motives. The role of strategy can, to the extent, be resultant of general business motives of a company. For regular company the assumption can be made that its general motive is, if not classical profit maximisation, it is growth. In broader sense it can be growth of value for stakeholders, including customers. For small companies it is also possible to assume growth as a motive. However as point Wand et al., majority of owner-managers do not pursue profit/growth maximising goals.This is explanation for the lack of strategic planning in many SMEs (Wang et al.,2007). As an alternative for profit/growth can be personal fulfilment goals. As state Jennings and Beaver (1997), personal financial fortune is not as significant as the desire for personal involvement, responsibility and the independent quality and style of life.

Ability to gain synergy effect. This factor is favourable for bigger company. Some goals strategic goals can be easier accomplished by a company that can use synergy effects and for a time, at least,to leverage some ventures by potential earned on other ventures.

Regarding external conditions,differences between big and small companies can be observed using following criteria:

-the level of influence on an environment,

-resources needed to influence an environment,

-abilities to enjoy effects of scale,

-ability of enjoy experience curve,

-power in relations with environmental actors.

The level of influence on environment. It is especially stressed that big company is more influential upon an environment. However the very influence should not be taken for granted. Assuming strong competition in oligopolistic market, no reason to believe in special comfort for big company. It is just bankruptcy rate in the most developed countries that show the scale of the problem.

Resources needed to influence an environment. It is resources that can be necessary to influence the market, that creates an advantage of big company.

Effects of scale and experience curve. The effects of the scale and experience curve allow for financing long term strategic ventures in big companies. For small companies there are no equivalents for such advantages. More specifically, what can be real problem for smaller services companies could be high costs.

Power in environmental relations. Finally what can be added is that bigger companies have better opportunities for dealing with the market risk. It is more possible for big company to secure a kind of monopolistic position. This is, especially, better opportunities to lobby, in order to gain some exclusive rights in the market. Also some long run contracts make some comfort and after all justify long range strategies.

6. Marketing strategies for services companies

So what is an answer for the strategy in small and medium size services enterprises? It is commonly practised to consider typical classifications of strategies as applicable also to SMEs. It could be, for instance, Porter's strategies of cost leadership, differentiation or concentration (Porter,1999) and Ansoff's strategies concerned with product-market choices (Kipley and Lewis, 2007).

All such strategies apply to services sector however are less applicable providing conditions of SMEs.

Traditionally they thought that specific strategies for services sector was: partnership and relationship marketing (Gordon, 1999). It is true, however today no doubts that these strategies are applicable to any company. Smaller and local services companies have however special conditions to rely on such strategies. Other marketing services strategy that was adopted from goods market is standarization strategy. This strategy is necessary in the light of heterogeneity of services. It helps to control quality and plays important communicational role for consumers.

It seems that what should be common for strategies for both big and small companies, is opportunity of gaining competitive advantage that comes from the value for consumers. Since the process is the core of the value in services sector, so fundamental strategy should be process based strategy. Details of these service processes are potential sources of strategic advantages.

Taking into account conditions of smaller services companies, following generic strategies should be recommended (see Prymon, 2014):

-the niche strategy. This strategy looks to be accessible for many firms and one that requires shorter time horizons. However,the niche is not safe in long run. For instance after years of competition between big chains of gas stations with small individual gas stations, small shops stopped to be asylum when chains invaded with chains of small gas stations. The same situations could be observed in such services like: self service xeroxing points, tax advising, car rentals etc.

So niche strategy is safe if a company is capable of offering really unique value, including unique personel. In part this strategy is also natural in markets in which bigger firms cannot economically enter or are reluctant to enter because of unattractive risk-return considerations (Brouthers et al.,1998).

-the horizontal integration strategy. This strategy is designed to join resources of smaller organisations within the same sector. These resources may be reduced to promotional budgets but also cover many other assets like supplies (equipment, parts etc). Horizontal integration can create more power in relations with partners. For instance in tourist business it can be an access to wholesale tourist market. In car rental market it can be common logistics, common supplies of cars. These accumulated resources can help firms to compete with big companies.

-the vertical integration strategy (Kotler 1988). This is cooperation of independent firms within the framework of value chain. The chain strategy is formulated by bigger companies. Since then what remains for smaller companies is adopting a kind of symbiotic strategy (Varadarajan and Rajaratnam,1986, Adler 1966).

-the coopetition strategy (Asaro, 2012; Morris et al., 2007). Such strategy includes cooperation with companies that, generally, are competitors. This strategy can include both servicing other bigger organisations and joining existing chains. It is possible that some assets of small service company is valuable for bigger companies.

If strategies applicable for small services companies are similar to those of any SMEs, the question is about services companies regardless of their sizes.

The most general assumption about contemporary sources of competitive advantage is creation the value in cooperation with stakeholders, first of all customers. It seems that any more specific strategies can be built from the view point of this value or values.

Traditional propositions concerned with strategies in services sector were developed on the assumption of specifics of services. It is especially direct touch with customers that encouraged ideas of interrelationship marketing Some authors like Gordon, believe even that what is the core for marketing theory –marketing mix should be replaced by relationship marketing (Gordon 1999, p. 336). If interrelationship strategies are useful in services, their applicability is not reduced to services. New communicational tool make it more realistic for giants to developed direct links with customers. On the other side close touch with customers is not longer advantage of services companies. Direct personal contacts of companies with customers are frequently substituted by digital contacts. So situation of enterprises becomes more similar regardless of what is business: goods or services. Nonetheless, wherever a services company has contacts with customers it should cooperate with them. What is however the problem with interrelationship is unfounded assumption about high elasticity of a company.

Since the most distinct feature of services as products are processes, so the most fundamental strategy for service company can be process based strategy. As was stated at the beginning of a paper detailed analysis of service processes can be the source of new competitive advantages. No doubt that it is in services sector that the value for consumers is created mostly through basic services processes.

High perishability of services and high impact of seasons on demand for services. This was the reason to propose the of elastic influencing the demand. This strategy requires combination of elastic pricing of logistic in order to keep sales high without wasting the company's potential. This strategy can directly lead creation of value. For instance effectively managed services can became available for customers who before could not afford buying those services.

Conclusion

It becomes more and more clear that basic concepts used in services sector should be based on well interpreted general marketing theory. What is really specific about service enterprises is that most of them are of small or at best of medium size. So generic marketing strategies for services firms should follow strategies of SMEs. The very nature of services can lead to proposals to pursue process based strategies and elasting influencing the demand.

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