SERVICE MARKETING: THE RELATIONSHIP FACTOR

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Service Marketing: The Relationship Factor

By Jeffrey Tarter

Geoff Moore, one of our favorite marketing gurus, many years ago wrote a wise and now-famous book about the "chasms" that exist in marketplace behavior. Moore was most concerned with the gap between early adopters and mainstream buyers, which forces marketers to change strategies as soon as their product categories mature. But there are other, equally deep chasms that turn once-successful sales tactics into clunkers. We've now learned, for instance, that traditional packaged-goods messages almost invariably fall flat with enterprise technology buyers. And we've seen a good many savvy PC hardware vendors—including Apple, Tandy, IBM, Hewlett-Packard, Canon, and Sun—crash and burn as soon as they try to cross over to the software business.

Now that the software world is beginning to migrate from selling tangible products to delivering intangible services, we shouldn't be surprised to see yet another chasm open up. In fact, almost everything that software product marketers have learned about their craft—pricing, sales messages, customer relationships, channels, promotions—will need fresh thinking and testing on the far side of this new chasm. The customers who buy new software services may be the identical folks who once bought software products, but there's no assurance that their buying behavior will be the same.

So what can the experts tell us about service marketing? Surprisingly little, it turns out. There's almost no research or big-picture analysis of the selling of services—no Geoff Moore, no Reis and Trout, no David Ogilvy, no Cluetrain Four. Services may be the driving force of the New Economy, but the best conceptual thinkers are still bogged down in the old-fashioned world of product marketing.

Fortunately, services are so ubiquitous that we can still learn by simply observing seat-of-the-pants tactics of the thousands of people who sell services—contract programmers and system integrators, airlines, accountants, auto mechanics, and the like. Here are some of the insights we've picked up by watching good service marketers:

■ SEARCHING FOR SIEGFRIED

It was Geoff Moore's thesis, in essence, that customers don't approach buying decisions with a one-size-fits-all mental model. Rather, a sales message that easily attracts one kind of buyer may be a complete turnoff to someone with a different mindset about the value of technology and innovation. So a good place to start a discussion of service marketing is with a basic question: When we buy services, do we *think differently* than we do when we buy products? And one way to zero in on this question is to drag out the technology world's favorite analogy, the process of buying a car.

Let's imagine a would-be car buyer has read reviews and brochures and has finally decided he's especially interested in a Volvo. His next step is probably to clip a few ads like this from his newspaper's automotive classifieds:

President's Day Special!

VOLVO 2000 Model V70 SE w/ a-c, sunroof, leather seats.

Priced to move at $27,900!

Hurry on down to Springfield Volvo today!

It's no accident that this brief ad covers the key sales messages that product marketers have learned are most persuasive—a list of features, a value statement based on price, and a time-sensitive call to action. The ad also implies something about the buying process: The dealership's corporate name appears in the ad and a salesman will try to close the deal, but the actual decision to buy will be made largely on the basis of *impersonal* factors like price and features. If the dealership's employees behave like Mafia rejects, there's still a good chance that our buyer will drive off in a brand-new Volvo.

Now look at what happens when our buyer starts looking for an automotive *service* provider—say, a mechanic to fix his new Volvo. Suddenly the whole buying process changes. Very likely, our car owner won't bother looking at ads (even the Yellow Pages listings under "Mechanics, Auto" don't seem to generate much confidence). Instead, he'll probably rely on recommendations from knowledgeable friends:

> "I found this great Volvo mechanic named Siegfried—he's not cheap, but he does truly great work. And he really seems to care about his customers. Go check him out."

Again, most of what we want to know about a potential service provider is summed up in this brief conversation. We get a quick and explicit description of Siegfried's services (he's a "Volvo mechanic who does great work"). And we learn something about his reputation and personality, which probably matter more to us than his shop's hourly billing rate or even the specific services he performs. Moreover, it's assumed that we won't make a final buying decision until we actually meet Siegfried. If the personal chemistry is poor, we'll look elsewhere.

From a product marketing perspective, of course, this whole process looks primitive and irrational. Traditional marketers expect customers to make "objective" evaluations of service providers, and they'd probably advise Siegfried to hire an ad agency to "productize" his business if he ever hopes to build a national chain of Volvo repair shops.

Yet Siegfried has an practical understanding of customer psychology that's right on target. In fact, Siegfried will probably develop his list of ad agency candidates by listening to friends who say, "I've found this great advertising guy..." And the agency reps who come to pitch him will almost certainly stress exactly the qualities that attract Siegfried's own clients—chemistry, personality, expertise, the potential for a long-term relationship. Intuitively, they recognize that the model for selling professional services is profoundly different from how they sell Volkswagens or memory chips.

Do service buyers approach all decisions with a Siegfried-like model? Probably not, especially when they're buying truly depersonalized commodity services like airline tickets and hotel rooms (though even here the service provider's people play a key role). But overall, it's clear that the service buying process has its own set of rules. If we ignore this difference in crafting marketing messages and sales campaigns, there's a deep chasm just waiting to swallow up the whole effort.

■ PEOPLE ARE THE BRAND

"People buy from people."
—Pat Sullivan, Interact Commerce

When we buy services, we generally buy the time and skills of a live person—a lawyer, an accountant, an auto mechanic. So personal chemistry quite reasonably plays a role in our choice of service providers. But we also realize that most services involve a good deal of behind-the-scenes collaboration. Siegfried the auto mechanic doesn't personally fix every car in his shop: Much of the actual work will be done by employees we'll never meet, whose expertise and methods we know nothing about.

So why do we feel compelled to meet Siegfried in person before we take our car to his shop? Because Siegfried, unlike his services, is tangible: We can meet him, shake hands with him, talk to him about cars. If we like and trust Siegfried, we take for granted that the intangible services his shop provides will reflect the same qualities we see in him as an individual. Siegfried literally personifies his company's brand.

In fact, human qualities often define service brands even when there's no obvious Siegfried to personify the service. We "fly the friendly skies" of an airline and we rent cars from a company that "tries harder." We look for a bank that's "cooperative," a law firm that's "trustworthy," a "competent and knowledgeable" system integrator. Our perception of the service company's people largely defines how we feel about the service itself.

Moreover, we sometimes form strong opinions about a service based on fairly trivial encounters with people, especially if those people are rude or incompetent. For most cable TV subscribers, for instance, the service they buy is virtually flawless: The picture is sharp, there are plenty of channels, and signal outages are extremely rare. Yet consumers typically feel very negative about their cable company's performance, largely because of a few frustrating encounters with cable installers and customer service employees. From a cable customer's perspective, one jerk in the billing office has more impact on brand image than years of near-perfect service delivery.

In terms of marketing strategy, the "people as brand" concept has several important implications:

- **Name the company after a person:** It's usually an ego trip to put the boss's name on a product company, but many of the strongest service brands are simply the names of founders—Arthur Andersen, Katherine Gibbs, Charles Schwab, Nordstrom's, Walt Disney, Jenny Craig. Names like these suggest that the company is guided by the founder's personal values and respects personal expertise and accountability. (Sadly, the current fashion is to make service firms seem even more intangible and impersonal by giving them completely empty names like Accenture and iXL.)

- **If necessary, invent a character:** When there's no real person to embody an abstract service, marketers sometimes create fictional people to personify brand attributes. The Maytag repair man, General Motors' Mr. Goodwrench, the MicroWarehouse customer service rep, Dell's Uncle Dudley—these characters help us visualize service qualities (such as "reliable" and "responsive") that otherwise might not come across as credible. Of course, invented characters can also backfire: Microsoft's intrusive Office paperclip figure personifies much of what users find obnoxious about Microsoft itself.

- **Showcase top talent:** Founders and chief executives are the natural spokespeople for service companies, but customers also like to see that a company has genuine depth of talent. Top consultants and managers should play a prominent role at seminars and user group meetings, they should come along on sales calls, and they should be highly visible on the company Web site (especially if the competition downplays its own key people). People are the power features of a service product.

- **Don't overlook rank-and-file employees:** Service brands are also shaped by our day-to-day dealings with support technicians, installers, trainers, and account managers. It's no accident that FedEx employees almost always seem trim-looking and eager, while their counterparts at the Post Office are more likely to look out of shape and unmotivated. If rank-and-file employees don't consistently embody the values in a service brand, the brand will very quickly lose its meaning.

■ LIFE-CYCLE MARKETING

To a product marketer, success is measured in terms of single sales transactions. To a service marketer, the goal is more often an open-ended *relationship*—a series of assignments, a subscription, perhaps a long-term contract. Siegfried the mechanic wants to sell us more than a one-time tuneup: He hopes to become "our mechanic."

As it happens, service customers also believe in the value of long relationships, which they expect will lead to trust, familiarity, and cost savings. But customers are hesitant to make impulse purchases of services because the consequences of a bad choice are so hard to escape. Unsatisfactory products can be returned or tossed out; switching from one service to another (whether it's a simple credit card or a complex outsourcing contract) is almost always a hassle. The hassle becomes even more complicated because we're often unable to define service quality in clearcut terms: Do we switch mechanics if Siegfried does beautiful tuneups but never seems to finish a job on time?

Since fear of commitment is such a powerful factor in service marketing, service companies have come up with a variety of ways to get a foot in the door with new customers. Deep promotional discounts, guarantees, premiums, trial periods, pilot projects—all of these tactics help reduce the customer's perception of risk and get the relationship under way. (The actual cost of a service is usually not a key commitment issue, incidentally: Even free Web-based services have relatively low signup rates unless they're aggressively promoted.)

Overcoming commitment anxiety is expensive, and so service companies almost always experience painfully high customer acquisition costs. Once a true customer relationship exists, however, the marketing economics change radically. The cost of selling renewals and add-ons usually drops almost to zero, and price becomes a fairly minor issue. Moreover, entrenched customers can become remarkably tolerant of service glitches and may even recommend a mediocre service to their friends. Over time, service margins tend to become increasingly profitable.

Eventually, of course, service customers do drift away. Some leave because of job changes, mergers, relocation, and the like. But often the true reason is simple neglect: Their service provider took their loyalty for granted, failed to stay in touch, and finally lost a high-margin customer to a competitor who showed more interest and enthusiasm.

What kind of marketing tactics are appropriate for building life-cycle relationships? A few suggestions:

- **Progressively disclose the sales portfolio:** Rather than confront new customers with a confusing array of services, payroll outsourcers like ADP and Paychex start by signing customers up for a basic, competitively-priced payroll-handling service. Then their telesales reps begin to make regular calls to introduce additional reports and services that customers "might find helpful." Over the course of a year, it's not unusual for such add-ons to double or triple the revenue that a payroll company generates from new customers.

- **Build retention campaigns:** Airline frequent flier plans are a model of how to design a service retention program: They target high-volume customers, offer enhanced services instead of cash discounts, and give the airlines an excuse to contact customers every month. Most service companies don't need retention programs that are this sophisticated; usually, a monthly newsletter, an occasional personal call, a survey, or a "private" invitation to a seminar are enough to remind customers that the service relationship is still alive.

- **Appoint relationship managers:** Product companies typically hire sales reps to close deals and then hand off customers to a support team. Service companies are more likely to rely on "account managers" who deal continuously with customers through the whole relationship, and who are compensated for ongoing profitability. Especially in high-end service industries like banking, advertising, and consulting, account managers have substantially more real authority than product sales reps, and they often carry titles like "principal," "vice president," or "account executive."

- **Treat renewal rates as a key metric:** Since margins are generally low on first-time customers, service profitability is usually a function of the *length of the customer relationship*. For most services, a renewal rate of 60% to 80% is a reasonable benchmark; if the rate is much lower, it's usually a sign that customers are seriously unhappy with service quality, or that customer retention efforts aren't getting enough attention. Some service businesses achieve even higher renewal rates: Charles Schwab has a retention rate of 88%, which means that some of its clients will be generating commissions and fees for upwards of 30 years.

SERVICE POSITIONING AND SALES MESSAGES

Siegfried may impress us as a likable, trustworthy guy, but before we bring our car to his shop we'll almost certainly have a few questions that go beyond personal chemistry. Is Siegfried really a certified Volvo expert? Is his shop part of a national chain? Can he fix dents, install a stereo system, and get us an inspection sticker?
Surprisingly, service companies often do a poor job of answering basic positioning questions like these. Walk the floor of a services-intensive trade show or browse the Web sites of well-known consulting firms: Most of the self-descriptions are literally meaningless without close study or a few hints from a company representative. (One of our favorites is the Gartner Group, which says it "provides unrivaled thought leadership... helping clients achieve their business objectives." Huh?)

In fairness, service companies mostly deal with *repeat* customers who presumably know what they're buying. But even repeat customers may have a hard time describing intangible technology-based services, and often their descriptions are so incoherent that word-of-mouth becomes useless as a source of leads.

A few thoughts about how to fine tune service marketing messages:

- **Create an idiot-proof service description:** Service companies regularly get in trouble because they try to cram their entire business plan into a few words of text. That's unnecessary: A good description simply identifies *one core service* that customers seem to find especially compelling. Ideally, this description should be summed up in two or three words that identify tasks we can imagine real people performing—"payroll processing," "data recovery," "support outsourcing," "Web site design." Once customers clearly understand what the company does, they'll have a framework for understanding the details.

- **Seize the high ground:** When we shop for tangible products, we usually discover "good values" across the whole price spectrum, from a Yugo to a Porsche. When we shop for services, however, we almost invariably seek out the top expert in the category. No one brags about finding a "discount lawyer" or "the hospital's cheapest surgeon." If we can't afford the top expert, we look for a less-expensive service from the top firm before compromising on second-tier provider. (We'd rather fly coach class on Southwest Airlines than first class on Value Air.) In short, the only service market position worth claiming is "best and smartest."

- **Talk and write like a human being:** Product companies get away with sounding bland and corporate in their marketing communications because it doesn't much matter if we think their employees are boring dullards. Service companies are held to a much higher standard: We expect personality, candor, enthusiasm, humor, and perhaps a flash of eccentricity when service firms communicate with us. These are qualities we find in people who know they're the best in their field, and they should be part of every marketing message and company presentation.

- **If possible, tokenize the service:** One way to make an abstract service seem more tangible is to sell a tangible "token" that embodies the value of the service. We buy stamps at the Post Office, tickets for airlines and movies, CD-ROMs that convey access rights to software-based services. Service tokens also help boost renewal rates: Attendees at seminars and training classes are more likely to sign up again if they've been given a binder and an impressive certificate to display.

REFERRAL NETWORKS

For better or worse, service companies rarely manage to build indirect sales channels. Web pages, advertising, and direct mail can generate useful sales leads, but it usually takes some form of personal interaction—a seminar conversation, say, or a telesales call—to win over a new service customer. Moreover, service customers seem reluctant to deal with resellers and other intermediaries: They expect to talk directly to the home office.

(The one exception is services that have been successfully tokenized—that is, turned into tangible products. Most of us feel comfortable about buying stamps from a vending machine or airline tickets from a travel agency because these services are entirely depersonalized. Our letters won't get delivered faster if we're buddies with the mailman.)

Thus, the tough challenge for service marketers is: How do we get our message into the marketplace? There's no easy answer, but one of the best approaches is to encourage word-of-mouth referrals. Some tactics:

- **Inspire gossip:** As *Anatomy of Buzz* author Emanuel Rosen points out, people talk constantly about products and services. But not all topics are equally buzz-worthy, he notes. We're more likely to spread the word about newsworthy topics, celebrities, and unusual personal experiences, and we ignore subjects that are complicated or routine. (The tale of how Nordstrom's took back a tire it hadn't originally sold has achieved folklore status, but that doesn't mean that people will gossip about returns policies at Sam's Hardware Store.) Often, the best way to inspire gossip is to do something *regularly* that customers think is amazing—for instance, making a followup call to see if a tech support solution worked out, or visiting a customer's office to see if a project was done right.

- **Encourage customers to talk to each other:** Like a nuclear reaction, referral activity goes up dramatically when there's a critical mass of talkers. User group meetings, seminars, and online forums are especially important for creating an environment where the host company is a natural focus of discussion. Since disgruntled customers rarely show up, moreover, the buzz is almost always positive; "insiders" are eager to tell prospects and other newcomers about their great experiences as customers.

- **Treat company champions especially well:** A few "maven" customers will always be especially eager to spread positive stories about companies they work with. Champions don't expect financial rewards, but they're strongly motivated by any kind of special recognition—T-shirts and jackets, sneak previews, invitations to events, advisory board memberships, and the like. In turn, these incentives give company champions fresh news to pass on to their friends. ("Boy, do they listen to their customers! I was just appointed to the advisory board!")

- **Burrow from within:** Large, decentralized organizations are especially valuable candidates for referral sales. Once a solid relationship exists with one division, it's usually easy to get permission to promote seminars and user group meetings that are open to the company at large—again, an opportunity to get champions and prospects together, and to showcase the service company's top people.

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