

SERVICES MARKETING: THE MISCONSTRUED DISTRIBUTION VARIABLE

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ABSTRACT

Services marketing has become increasingly important in recent years to both marketing practice and marketing theory. Despite the heightened interest in services, when the marketing mix variables are considered, product, price, and promotion are singled out for examination, while distribution receives scant attention. The minimal attention given to distribution stems from the non-physical nature of services and the apparent inseparability between the producer, provider, and user of services. This paper challenges both physical distribution and inseparability assumptions and offers a reformulation of distributive service networks. The paper demonstrates the important multi-level distributive functions performed by service providers and service parents. Through this discussion marketing theorists are provided with an expanded and more sophisticated perspective on the distribution variable in services marketing.

INTRODUCTION

Interest in services marketing has blossomed among marketers in recent years. This interest stems, in part, from the growing services nature of the American economic system. Various estimates suggest that close to 50 cents out of every dollar spent in this country is allocated to services. Yet, despite the heightened interest in services, much of marketing thought is still mired in the tradition of the sale and distribution of tangible goods. To a great extent, this orientation stems from the historical roots of marketing thought. Early contributors to the discipline were especially interested in the distribution process. These authors focused on the roles of middlemen or intermediaries in moving goods (particularly commodities) from producers to consumers. Services received minimal attention since they do not move physically through distribution channels.

This long standing goods orientation colors the way that marketers view services even to this day. Even with the obvious significance of services, this area of the discipline is still approached from the perspective of product marketing. Using the product marketing base, writers proceed to simply note where services differ from goods. This in effect forces square pegs into round holes, and implicitly results in services marketing being treated as a subset of goods or product marketing.

In noting some of the unique features of services, marketers often use the marketing mix variables as a framework. Product, price, and promotion are singled out for special consideration. Distribution, on the other hand, receives scant attention. There are at least two reasons why the distribution variable is downplayed in the literature. The first reason was noted earlier in the sense that marketing's beginnings focused on the physical distribution of goods. Since services are not moved physically, there are few, if any, distribution considerations surrounding their marketing. This perspective, of course, is too limiting in that the distribution of services includes more than just a physical dimension. While services do not move physically through distribution channels, other marketing flows--e.g., information, risk taking--are performed by intermediaries within services channels. A health maintenance organization, for example, facilitates the flow of health information between the provider of the services, the medical doctor, and the consumer of the service, the patient. Although no physical flows exist, the HMO facilitates the exchange relationship between the doctor and the patient.

A second and perhaps more significant reason for minimizing the distribution variable is associated with the widely held inseparability assumption. This assumption simply holds that production and consumption are inseparable for services. This suggests that no middlemen are needed in services marketing and that the consumer cannot be separated from the production process (Bateson 1979; Bessom 1973; and Rathmell 1974). Lovelock's observations are representative of this position. He argues that services do not travel through channels of distribution and that the "service outlet is, in reality, a factory (1979)."

The thrust of much of this paper rests upon a challenge to the inseparability assumption. Our argument is that the producer of a service is not always the party responsible for dispensing the service to the consumer. In other words, intermediaries often do exist between the producers and users of many services not only to facilitate service distribution but also to accommodate consumer demands for the service offering. Sasser, Olsen and Wyckoff (1978) argue that consumers cannot benefit from a service without a distribution system. They add that this delivery component is often separate from the production of the service. The substantiation of this thesis would advance services marketing into this vital, and yet untapped, area of distribution in service industries.

In the next section of this paper the inseparability assumption is more directly challenged. This discussion is succeeded by an examination of the important distributive functions performed in services marketing. The existence of significant distributive functions is illustrated by the presence of two system entities, (referred to as service providers and service parents)¹ discussed later in the paper.

CHALLENGING THE INSEPARABILITY ASSUMPTION

Many examples exist of distribution channels and their associated intermediaries in service industries. These intermediaries perform a variety of roles and clearly refute the inseparability assumption.

Exhibit 1 illustrates three services and their use of distributive intermediaries. Throughout the 1970s, banks used retailers to encourage customers to apply for and use credit cards. Most insurance companies provide financial protection to individuals and businesses through a network of independent insurance agents. These intermediaries typically represent a variety of companies and are the primary marketing vehicle to the buyer. In the health care industry, hospitals have begun to provide care to outlying areas via free standing ambulatory and emergency care centers. Some of these centers are independent of the hospital, while others have a direct financial and organizational tie. In either case, the hos-

¹The term "service parent" is used in this paper to refer to all functions performed by the central distributive component of the services network. It is not intended to connote necessarily that a "parenting role" must be fulfilled by this entity.

pital provides resource support (e.g., personnel, equipment), but the free standing center is where the actual care is distributed to consumers.

EXHIBIT 1

INTERMEDIARIES USED IN THE DISTRIBUTION OF SELECTED SERVICES

<u>Service</u>	<u>Producer</u>	<u>Intermediary</u>
Credit Card	Bank	Retailer
Financial Protection	Insurance Company	Independent Insurance Agent
Health Care	Hospital	Free-standing Emergency and Ambulatory Care Center

The service related characteristics of inseparability and perishability have consistently been cited as unyielding barriers to the application of product channel/distribution concepts (Bateson 1978; Levitt 1981; Rathmell 1974; and Sasser, Olsen, and Wyckoff 1978). The simultaneous nature of both the production and consumption of services along with the inability to inventory services have resulted in very few efforts to address the distribution challenges in the services area. Donnelly (1976) argued that service marketers must make the distinction conceptually between the production and distribution of services; furthermore, he cites examples of distribution channels in a number of service industries (e.g., financial, health care, insurance, communication).

The true meaning of inseparability in services marketing is found quite simply in the term "service delivery system." A generic service such as credit, automobile maintenance, or lodging is provided at the point of contact with the consumer; hence, in a limited sense, service consumption and production are simultaneous. However, the actual service received may be considerably removed from the service originator in that service use/consumption may be only one component of the service exchange process. An example of this is home repair service exchanges, where plumbers, carpenters, painters and other skilled workers pay a fee to join the exchange and then benefit through the exchange's promotion and referral system. Although consumers, for instance, receive plumbing services, they also receive the service of an informational/referral system which also guarantees the quality of the job performed. All the exchange provides is the transfer of information from consumers to its membership, both in terms of consumer needs and quality of performance. The originator, therefore, takes on the responsibilities of a distribution system much like that of a voluntary chain.

EXPANDING THE DISTRIBUTION FOCUS

The problems associated with the inseparability assumption come into even clearer focus in considering the perspective of both the consumer and provider of services. Considering both of these perspectives expands the scope of the distribution of services while also refuting the inseparability assumption.

Based upon the design of a number of existing service networks, it appears that service organizations have identified that consumers encounter and purchase services at two levels. At one level the consumer must make a decision regarding the overall system network. Decisions at this level pertain to assurances by some distributive entity as to the quality of the providers within the service network, the availability/location of these service providers, and the overall nature of the service mix. The consumers' decision to commit themselves to the service network is a necessary first step to building repeat patronage and/or long-run satisfaction with service consumption. Numerous examples of distributive entities exist, includ-

ing time share condominiums, hotel chains, home maintenance exchanges, and automobile safety organizations. In all of these cases, the distributive entity provides (a) a fully integrated information network between the service providers and the distributive entity, (b) assurance of quality at the service offering level, and (c) through aggregate shared services a broader mix of services than could be provided by individual provider units.

The second level of the consumer decision process is the actual buying/consumption activity. A specific service provider is selected by the consumer in this process. At this level the service provider and the consumer are inseparable with a few exceptions (e.g., automatic tellers, sale by retailers of third party credit, travel insurance vending). This decision to select a particular service provider does not necessitate a service network decision on the part of the consumer. In other words, the consumer can choose to patronize an individual place of lodging without considering whether the local hotel is affiliated with a hotel chain. On the other hand, in failing to consider the existence and nature of a service network(s), the consumer increases the risk of experiencing poor service quality, inadequate information as to the availability of the service and misconceptions as to the extent of the service mix.

The services distribution networks described above can be dichotomized into two major bodies as follows:

1. Services Parent--this is typically the service originator to whom the consumer relies upon for adequacy in the service mix, assurance of satisfactory service quality, and information about the nature and availability of the service.
2. Services Consumption Provider--those facilities/services which directly interface with the consumer at the point of consumption and which are part of an overall distributive network.

The distinction between the service parent and service provider hinges upon a separation between information dissemination/network control and actual service consumption. This distinction is based on a multilevel view of the service offering. At one level, the parent organization controls the total service network through the accumulation, storage, retrieval and overall control of information which flows to and from its service provider entities. Information processing functions are conducted much like that of physical distribution functions with the parent operating as a distributive hub within the service network. At the other level, service providers participate directly in consumption exchanges with direct users.

REFORMULATING THE DISTRIBUTION VARIABLE

Service providers may be separated both physically and logistically from the service parent. Physical separation makes it possible for the service network to extend its geographic scope without necessitating duplications of information functions which can be cost effective. Illustrations of such networks abound. Samaritan Health Services operates in a southwestern metropolitan area through the use of satellite hospitals which provide general medical care services while the main hospital provides diagnostic and specialized services. Automobile Club of America provides a nationwide network of auto emergency services while dispensing and controlling both customer and provider information at national, regional, and local levels. Logistical separation takes place conceptually with regard to the distinction between parent functions, as they pertain to the service network, and provider functions at the customer level. A primary responsibility of the parent is one of facilitating information flows to and from the service provider and consumers. The provider benefits from this information link and is the party principally responsible for activities

occurring at the user/consumer level.

This revised conceptualization of the distribution function within services marketing depends upon the above stated reformulation. The channel from the service parent to the service provider becomes an information link. The strength of the channel is determined by the ability of the distributive network to construct a system which maintains an adequate level of information input/output to and from the service providers and users. This information link determines the degree of distributive control maintained by the parent and ultimately determines the parent's legitimacy. Furthermore, the effective communication of selected information is a significant determinant in attracting consumer use of the service.

A key feature of this multi-level perspective toward services marketing is that some degree of homogeneity among the service providers can be assured by the parent. This is a key feature of the proposed multi-level orientation in that independent providers can be controlled by the parent which counters previous concerns in the services literature regarding this aspect of distribution applications. Adequate information links, however, from the parent to both the providers and users enhances control by monitoring both channel membership as well as general satisfaction with the service offering. In addition, consumer confidence in the exchange process is enhanced because existing and potential users are dealing with a known service provider.

CONCLUSION

The distribution variable of the marketing mix has been essentially ignored by services marketers. Because of the widespread acceptance of the inseparability assumption marketers have focused on product, price and promotional issues. This limited focus fails to recognize the appearance of an expanding number and variety of distributive networks in services industries.

Physical separation between parent and provider in distributive service networks at the actual consumption level has been facilitated through advances in technology. The primary thrust of this separation has been essentially production rather than marketing in its orientation. There are, however, numerous examples of service organizations which have reached dominant positions in their market due to their ability to conceptually separate their providers from the distributive parent. This separation is based upon information flows and control, guarantees as to service quality, and system-wide abilities to provide a comprehensive service mix.

The reformulated perspective toward distributive service networks presented in this paper has applications for marketing practitioners and scholars. Marketing managers who are able to identify distribution opportunities within their service offerings are capable of seizing a significant advantage in their market. In many cases, managers are utilizing service networks which exhibit many of the characteristics espoused in this paper; however, this service network may not have been the conscious design of a distribution manager, but rather an accidental manifestation of aggressive product management. Marketing theorists may also benefit from this expanded and more sophisticated orientation by realizing that the inseparability of service providers and users is only one level of the total service network. Distributive service networks consist of a multitude of levels and control. The mere offering of the service for consumption is but one level and type of service within the total network.

The argument developed in this paper is a beginning step in reorienting marketers' perspectives toward the distribution issues in services marketing. Additional areas of needed investigation include:

1. consumer decision process(es) in service purchases as they relate to service networks. Investigation into this area may reveal additional opportunities for service channel applications based upon consumer demands for the service network.
2. benefits received by the provider as an affiliate of a service network.
3. behavioral issues among competing service networks.
4. the addressing of distributive networks from a distribution perspective vis-a-vis a product, promotional or pricing perspective by services marketing managers.
5. empirical investigations into distributive service networks' use of storage and retrieval activities both at an information and service level.
6. customer service considerations of service networks with regard to the distribution interface.

Further investigation into these and many other areas of distributive service networks will most assuredly provide a significant contribution to services marketing theory and practice.

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