

## **NEW SERVICE BUSINESS MODEL AND MARKETING MIX OF THE SERVICES<sup>1</sup>**

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### **Abstract**

The development of society and ICT creates a need for a new service paradigm, a paradigm for the 21st century. The service market was never wider, and competition between services has never been greater. The service business model defines the creation of a service as a "production of service". Therefore, strategy, planning and optimization of processes, as well as personalization of the service, is needed.

The services have their own specific characteristics that significantly differentiate them from the products. The specifics of the service in relation to the product imply that the elements of the marketing mix of the product "4Ps" extend with four more elements of the marketing mix of the service.

Behavior management models represent a systemic and efficient approach to the development of the marketing service of a service company that helps managers in setting up an adequate marketing strategy and program.

**Key words:** model, services, marketing, mix, users

### **INTRODUCTION**

The new economy implies changing the paradigm for service activities. The development of marketing strategies based on knowledge for the

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<sup>1</sup> review scientific paper

marketing of production goods are insufficient and inefficient to develop a successful marketing strategy for services.

The old paradigm of services must be changed. It implies that<sup>2</sup>: products do not differ from the services; all things are observed from the perspective of production; suggests inappropriate strategies.

Many services in the old paradigm have opposite characteristics: tangibility, divisibility, heterogeneity, and sustainability.

The old paradigm of services is determined by the following conditions: lack of PC, Internet and website; lack of mobile phones; state regulation of competition and reduced intensity of innovation; limited use of insignificant service activities; lack of knowledge for improving the quality of the service; the application of a technology-based self-service is at an early stage.

The development of society and ICT creates a need for a new service paradigm, a paradigm for the 21st century. However, replacing one paradigm with another is suddenly a rejection of the previous scientific achievements as a whole<sup>3</sup>. It is therefore necessary to gradually simultaneously change the paradigm of service activities.

The new paradigm should include marketing transactions that do not involve the transfer of ownership.

### NEW SERVICE BUSINESS MODEL

The new paradigm should be useful and meaningful. The evaluation criteria are as follows: identifying the needs / priorities for academic research; incorporating the previous concept and useful conclusions; creating competitive strategies and opportunities for their implementation; determining the wishes of the user of the service in order to gain more value.

The new paradigm will allow the user to receive services as follows: related to the product: cars, furniture, appliances, equipment; related to place and space: hotel, office, table in restaurant, seat in airplane; work and expertise: technical maintenance, cleaning, consultant; assistance in physical access and use: museum, theme parks, zoo; network access and usage: credit cards, insurance, telecom.

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<sup>2</sup> Vargo,L.,&Luch.F Evolving a Services dominant logic, Journal of Marketing 68, 1-17, 2004

<sup>3</sup> Kuhn,T., :The Structure of Scientific Revolution, p. 113, 1970

The new paradigm of service activities provides benefits for managers. These are the following: finding new opportunities for market appearance as well as creating new strategies, finding new partners; creating relational marketing with the user of the service and the user's loyalty strategies; full utilization of resources; the user receives the service on time; complex service involves a mix of physical, human, and network elements, but the time of use of each of these elements varies differently.

The service market was never wider, and competition between services has never been greater.

The new paradigm provides new benefits for service users, such as:

- Production goods can be the basis for the services, for example, the car is issued rentacar, the user receives instructions for use, the way of reservation, the location of the facility, privileges from the program for loyal users;

- Services include the sale of a wider physical entity and there is a desire and opportunity for users to choose a seat on the plane, a table in the restaurant, a room in the hotel. In some cases, contact with other users is an alternative to a more expensive offer of services;

- Expertization is unbearable but the benefits of it can be maintained by the user of the service;

- Time plays a central role in most services;

- The price of the service gets a new aspect and it must be in relation to the quality and value that the user receives;

- More users have the opportunity to share the service, it can increase the quality of life and reduce the cost of the service and also to solve the problem of limited resources.

The service business model defines the creation of a service as a "production of service" and therefore it is about the industrialization of the service business model. Strategy, planning and optimization of processes is needed. Also as a result of the fact that most users want "personal touch" comes to personalize the service.

#### SPECIFIC CHARACTERISTICS OF THE SERVICES

The services have their own specific characteristics that significantly differentiate them from the products. They are:

### 1. Untouchability

-Services are ideas and concepts that are part of the process;  
-The user trusts the service provider, his reputation and that trust helps him to predict the quality of the service and make the right choice. Untouchability is the most commonly mentioned feature of services. Services are difficult to offer, but the service is difficult to understand because the service can not be seen, tried, touched. But services have properties that are experienced. Experience, attention, satisfaction are measured after using the service. Experiencing and expectation is subjective. The users dedicate special attention to the touching elements of the service: appearance and behavior of employees, the equipment used, the company name. On the basis of these, the user forms the perception of the quality of the service.

### 2. Inseparability

-Services are created and consumed at the same time;  
-Services can not be entered into inventory;  
- The service can not be separated from the service provider (in the restaurant you order the food, and people and the object are indivisible from the quality service you need to get);  
- The demand fluctuation can not be achieved before consumption.

The user perceives all the visible elements of the service during its use, therefore it is difficult to control the provision of the service (transport by bus or restaurant service when there is a huge crowd).

### 3. Heterogeneity

- From the perspective of the client there is a wide variation of the service offer;  
-Personalization of services increases their heterogeneity;  
- The perceived quality of service varies from one user to another (air travel can vary significantly because of the different training of flight crew; the concert is different for two evenings);

Heterogeneity creates problems in standardization and quality control of services. The solution to this problem is required in the education and motivation of the employees in the service company.

### 4. Short duration

-Every service is short-lived;  
- The service can not be stored because if the service capacity is not used, the provider will lose opportunities;

- Service capacity assessment and planning are key aspects of service management.

Short duration is a consequence of the previous characteristics. The excess of the service that is not used can not be stored (night accommodation in a hotel at lower weekend prices can not be realized later in another period). It is necessary to develop a system of services that takes into account the changing demand according to the seasonal and time factor (crowding in the public city transport during the morning when traveling on the workplace or at noon when returning, hotel accommodation in the season and off season ).

#### 5. Lack of ownership

- The service can not be owns as a product;

-The user has access to the service for a limited period of time (insurance policy for a certain period for which he has paid, airline billet for a certain period).

Buying a service does not end with the transfer of its ownership to the user.

### INSTRUMENTS OF THE MARKETING OF SERVICES "8P's"

Services marketing have certain specifics and they are: the marketing mix has multiple variables; closer links between marketing and operations; user interface; inventive management; determined prices.

Service marketing differs from product marketing primarily with the necessity of the user's participation in the process of creating the service.

This process requires perceiving the need for: user perceptions management; educating the user; understanding what the user perceives as value; expectation management; management of the promises for the service from the service company. "With the rise in service activities and the increase in the value addition of services from productive goods, the line of division between services and the product sometimes becomes obscure"<sup>4</sup> "There are no service industries. There are only industries whose

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<sup>4</sup> Oliva,R., Kallenberg, R. : "Managing the Transition form Products to Services", International Journal of Service Industry Management 14, no. 2: 160-172 (2003)

service components are more or less than those of other industries. Everyone is in the service area." <sup>5</sup>

The specifics of the service in relation to the product impose the elements of the marketing mix of the product "4P" expand with four more elements of the marketing mix of the service.

Thus elements of the marketing mix of the service are: service product; place and time; promotion; price; service ambient; process; people; productivity and quality.

The service offer is the first variable for which a decision is made when deciding on the marketing mix of the service. Service companies rarely offer only one service. Most often, the offer covers several or more services.

The simultaneous provision and use of the service as well as the inability to store the services are the basic features of the service that should be taken into account when making the decision about the place and time as a variable in the marketing mix of the service.

The top service, although price is affordable and easily accessible, will not be used if potential users do not inform us about its existence, features and advantages offered, the price and the place where it is offered.

The cost of the service is a particularly important variable in the marketing mix of services. The specificity of the service due to its intangibility gives strategic importance to the price of the service and sets it as one of the most important factors for achieving the competitive advantage of the service company.

The service ambient is a "raw material" for the production of the service. <sup>6</sup> In this way, it becomes part of the service and an important variable in the marketing mix of the service.

With the elements of the service ambient, it tries to compensate for the untouchability of the service.

The service company product does not constitute only the set of elements that constitute the service, but it is also the results that are achieved by giving the service.

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<sup>5</sup> Levitt, T. : "Marketing for Business Growth", New York, Mc Graw-Hill, pp5 (1974)

<sup>6</sup> Dosen, Dj.: "Marketing usluga", Mikrorad, Zagreb, 2002, pp108

The results largely depend on the impact of that part of the service-producing process that is transparent to the user.

The process of providing a service for the user is part of the service itself. This process consists of elements such as: procedures, mechanisms, methods, tasks, steps, routine activities, as well as the order of their execution.

The people (employees) in the service company involved in the process of providing and using the service are an important element of the service marketing mix.

They represent an important factor for differentiating from competition. It is necessary to understand their place and role in the service company, but also their personal attitudes and values.

Employees in the service company have a dual interaction, such as: the surroundings and the internal organization and structure.

"Productivity and quality of service are interconnected and indivisible as the two sides of the same banknote." <sup>7</sup> Productivity of the service is measured as a degree of effective utilization of the entry into the service process in the output that needs to satisfy the expectations of the users for the service. Quality of service is the extent to which the service meets the expectations of the user.

#### MODELS FOR MANAGING WITH BEHAVIORS OF USERS OF THE SERVICE

User behavior management models represent a systemic and efficient approach to the development of the marketing service of a service company that helps managers in setting up an adequate marketing strategy and program.

However, in order for these models to be used, two conditions must be met.

The first condition based on the given marketing objectives must be to develop a multi-phase model for user behavior that is necessary for the committed company.

Second condition - the frequency of performance of user behavior must be measured in order to gather basic data and information.

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<sup>7</sup> Ja}oski, B. : "Marketing na uslu`ni dejnosti", Skopje, srp 260, 2006

The characteristic behavior management model for users consists of the following stages:

1. Identifying a behavioral problem;
2. An analysis of the unplanned costs of the user;
3. Development and implementation of a behavior change strategy;
4. Measurement of behavioral change;
5. Acceptance of behavioral change;
6. Maintenance of behavior;
7. Implementation of the strategy;
8. Assessment for strategy advancement.

The first phase defines a problem that is not sufficiently used in terms of marketing. The problem may be to refrain from purchasing certain services because they are not appropriately represented and can not contact them.

In the second phase, when the problem is defined, one must analyze the interdependence of the behavior of users and the environment.

The development and application of the strategy for changing customer behavior are covered in the third phase of the model.

The fourth and fifth stages take into account that once the strategy has been applied, the behavior must be re-measured to determine whether the problem is solved successfully. In the event that the behavior of users is not significantly changed, it is necessary to return from the beginning in order to re-analyze all possibilities and to develop new strategies. Sometimes a very small change in behavior is sufficient for the marketing strategy to be successful.

In the sixth phase of the model, if the strategy proves to be successful, it is going to maintain the behavior of users.

In the seventh phase, the service company must, after developing and maintaining the behavior, reconsider whether such behavior is being met adequately and often enough to achieve the intended goals. In the event that a new problem occurs in the behavior of users, then the further implementation of the model is blocked and the entire procedure is returned from the beginning. This is repeated until behavior is brought in line with the goals of the service company.

Finally, in the eighth phase, the marketing strategy is reconsidered from the point of view of its possible advancement, for which there is always an interest and objective conditions.

The "Servuction"<sup>8</sup> model specifies the creation value for the user in a specific way.

The user of the service acquires a value through an interactive process of his experience gained from the use of the service.

The servuction system of the service company is defined as "System and coherent organization of all physical and human elements in the user-service relationship that is required for the organization of service provision with certain commercial features and a certain quality".<sup>9</sup>

According to the model, the service company is divided into two parts: a visible part and an invisible part for the user of the service.

The visual part consists of the physical environment and the contact staff of the service company<sup>10</sup> (employees who come in contact with the user in the process of providing the service). The invisible part is necessary support of the visible part.

Users A and B are also parts of the model.

The basic message of the model is that the set of values for the user A stems from the interaction with the visible physical environment, the persons who provide the service and the user B, which means that it arises from the interactive process or experience.

The relationship between the elements of the Servuction system is reciprocal and acts in two directions. There are three sets of relationships between the elements:

1. Primary relations - represent an interaction between the service company and the market;

2. Internal relations - represent an interaction between the elements of the service company and link its visible and invisible part (to the user);

3. Relationships that arise due to the simultaneous use of the service by two or more users - represent an interaction between users A and B and determine the consequences that such mutual relations of users have on the perceived service on the side of each of them.

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<sup>8</sup> Eiglier, P., Langeard, E. : "Servuction -Le marketing des services", McGraw-Hill, Paris, 1987

<sup>9</sup> Eiglier, P., Langeard, E. : "Servuction -Le marketing des services", McGraw-Hill, Paris, 1987

<sup>10</sup> Shostack, L. : "Service Positioning Through Structural Change", Journal of Marketing, Vol 51 No.1, 1987, pp 34-43

Blueprinting concept is used to effectively manage the behavior of users of the service. The development of a detailed graphical representation of the logical order of operations in the process of providing services is called Blueprinting.

The identification of the steps and their duration in the service delivery process enables the detection of bottlenecks, the identification of the places of the user's contact with the service, and the change in the user's behavior. All this enables diversification and differentiation of the service.

Such an overview allows the service company to "look inside", but it also gives users the opportunity to participate in its creation. The users describe the process of providing a service, that is, the role they have in the process, as well as the process of using the service

The value of the Blueprinting concept consists of the possibilities it offers to better understand the location and duration of the user's contact with the service.

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