Negotiations in the Services Sector

11

*Having money is beautiful, as long as you haven't lost the joy of
things that money can't buy*
—Salvador Dali (1904–1989)

Contents

Summary

The 4 Ps (product, price, place and promotion) are known from conventional marketing theory (Heskett, Sasser, Schlesinger, The Service Profit Chain: How Leading Companies Link Profit and Growth to Loyalty, Satisfaction, and Value, Free Press, New York, 1997). Product is about product and program policy decisions; price is about price policy decisions; place is about distribution policy decisions, and promotion is about communication policy decisions (Meffert, Burmann, Kirchgeorg, Marketing: Grundlagen marktorientierter Unternehmensführung, Gabler, Wiesbaden, 2012).

However, the concept of the 4 Ps of marketing cannot be transferred one-to-one to services marketing, as there are special challenges in marketing services that result from the nature of the services.

11.1   Characteristics of Services

The *4 Ps (product, price, place* and *promotion) are* known from conventional marketing theory (Heskett et al. 1997). *Product* is about product and program policy decisions; *price is* about price policy decisions; *place is about* distribution policy decisions, and *promotion is about* communication policy decisions (Meffert et al. 2012). However, the concept of the *4 Ps of* marketing cannot be transferred one-to-one to services marketing, as there are special challenges in marketing services that result from the nature of the services.

11.1.1 Special Features of Services Marketing

Such special challenges in the context of service provision relate in particular to the fact that services can only be experienced when they are provided (Scheuer 2015). A service can therefore only be claimed and consumed at the moment it is provided. The customer must be actively involved in the service creation process in order for the service to be provided at all (Haller 2015). The participation of the consumer in the creation process is therefore referred to as the *integration of the external factor* (Haller 2015; Meffert et al. 2012). Thus, the service provider is dependent on the customer and his participation; the customer participates in the service process as a "co-producer" (Haller 2015). This complicates any kind of standardization of services because "[d]a the customer participates in the service production, the process is unpredictable" (Haller 2015), as is the outcome. This can lead to problems in service delivery, as customers may behave unexpectedly, making service delivery difficult or even impossible (Haller 2015).

Services are also "characterised by the feature of immateriality" (Meffert et al. 2015), because the service as such cannot be represented materially (Scheuer 2015). This results in two further characteristics of services: Non-storability and non-transportability (Meffert et al. 2012, 2015).

Services are neither storable nor transportable, as they are created or produced at the point of use only at the moment of use, which is referred to as the "Uno-Actu principle" (Meffert et al. 2012, 2015).

Contrary to the characteristics of other products that can be grasped with the human senses, services are initially an abstract product that can only be illustrated initially and prior to its use by means of service descriptions and promises (Scheuer 2015, p. 83). Services are thus intangible and difficult to grasp, as they practically do not exist at all before their creation and simultaneous use and cannot be tested before purchase (Haller

2015). Service providers can counteract this problem by materialising services, for example through external, tangible factors such as personnel or equipment (Meffert et al. 2015), because "[t]angibles help convey the value of the service transaction's intangible aspects" (Thomas and Applegate 2010).

11.1.2   The 7 Ps

The concept of the *4 Ps of* marketing is heavily discussed as well as criticized especially in the field of services marketing and extended by additional components, since the dimensions of the *4 Ps do* not do justice to the special characteristics of services marketing (Rafiq and Ahmed 1995).

Rafiq and Ahmed (1995) therefore introduce the concept of *7 Ps*, where the original *4 Ps (product, price, promotion, place)* are extended to include the additional dimensions of *personnel, physical facilities* and *process* (Beibst 2011).

Managers in all industries today should heed these *7 Ps* because every company, regardless of product, provides service to the customer in some way, and impeccable service delivery continues to become a differentiator, whether in new customer acquisition, sales, or after sales or support (Goldsmith 1999).

Personnel policy is aimed at the internal customers, the employees of a company, and includes topics such as personnel recruitment, personnel development, employee satisfaction and internal communication (Beibst 2011). In the context of service provision, human resources policy plays a central role, as services can usually only be experienced through personal, interpersonal interaction. On the part of the employees, a pronounced customer and service orientation is therefore a prerequisite for performing convincingly in the context of service provision and achieving a high quality of service.

Physical facilities, the equipment policy, is another relevant dimension in the context of service marketing, through which the otherwise invisible and intangible services at the service location can be materialized through tangible equipment or visible design and thus made more accessible (Beibst 2011). The inclusion of the service environment in the marketing of services plays an important role here, because services that are not visible and intangible can stand out from the competition by working on this component accordingly (Beibst 2011).

The process policy *(process) refers to* the business processes within a company and includes, among others, the service and relationship process (Beibst 2011). Since the customer is usually part of the creation process when providing services, efficient, targeted and customer-oriented business processes should be the focus of every company, since the quality of the business processes is decisive for the service quality to be expected (Beibst 2011). This results in a simple chain of effects: the more efficient the processes on the company side, the higher the perceived service quality on the customer side, the greater the customer satisfaction, the more recurring business, the more personal recommendations, the larger the customer base and the more revenue.

Goldsmith (1999) names "personalisation" (p. 178) as an *eighth P*, since personalised service is becoming increasingly important and is becoming more and more the focus of marketing decisions. In fact, personalisation should be seen as the most important component in the future and therefore firmly anchored in the marketing mix (Goldsmith 1999). In product development, decisions regarding the other *Ps* should be aligned with the desired degree of personalization in order to meet today's customer needs (Goldsmith 1999).

On the other hand, *after a* product has been used or a service has been provided, it is too late to take the customer's opinion into account because the product has already been developed or the service has already been defined and provided. The customer's point of view should therefore be obtained, researched and taken into account *before* the product or service is developed, so that customer wishes and expectations can be adequately taken into account during product or service development (Goldsmith 1999).

11.1.3 The 3 Rs

Heskett et al. (1997) supplement the conventional *4 Ps of* marketing with the "three Rs of lifetime customer value" (p. 60): *retention, related sales* and *referrals* (p. 59). Central to this is Reichheld and Sasser's (1990, p. 105 f.) assumption that customers become increasingly profitable the longer the business relationship with a company lasts, also referred to by Heskett et al. (1997, p. 60) as the "lifetime customer value" concept. As a result, market share is no longer the sole criterion for defining the success of a company, but rather "market share quality" (Heskett et al. 1997), i.e. how many profitable customers a company has and how profitable these customers are calculated over the entire time they are in contact with the company.

Retention is defined as a "continuing, active relationship with a customer that yields a stream of revenue from the sale of the initial product or service" (Heskett et al. 1997) and represents the first pillar of increased customer profitability. The longer a customer is in a business relationship with a company, the more profitable the customer becomes over time from a marketing perspective, as marketing costs are allocated over a longer period of time and not as much marketing effort is needed to get the customer excited about the product or service. Especially at the beginning of a customer relationship, marketing costs are much higher to attract customers to a company and to familiarize them with the product or service specifications (ibid). In this context, Heskett et al. (1997) also speak of the "get acquainted marketing effort", which is the largest expenditure at the beginning of a business relationship.

In many companies, however, the main focus is still on the acquisition of new customers and not on retaining and binding existing customers, although the costs of customer loyalty measures are considerably lower than the costs of acquiring new customers (Heskett et al. 1997). By aligning employee reward systems appropriately, the wrong incentives are sometimes set and all efforts are focused only on acquiring new customers. The negative effects of churning customers on the overall performance of a company are thus neglected

at this point and opportunities for securing long-term success are neither considered nor perceived (Reichheld and Sasser 1990).

Heskett et al. (1997) therefore recommend focusing on customer loyalty measures to be able to realize *lifetime customer value* over time.

Related Sales is based on the assumption that it is easier to sell new products and services to existing customers than to new customers (Heskett et al. 1997) and represents the second pillar of increased customer profitability. Again, much less *get* acquainted *marketing effort is* required because the company is already known with its products and services. By selling new products and services to existing customers, higher margins can be achieved, as these customers are not quite as price sensitive as new customers (Heskett et al. 1997; Reichheld and Sasser 1990). Another effect is that additional sales can also reduce unit operating costs (Heskett et al. 1997; Reichheld and Sasser 1990).

Feedback management plays a central role, especially in the area of *related sales*, since product and service improvements can be achieved much more easily thanks to customer feedback, new products and services can be developed much more specifically for the target group, and customers can be served more efficiently (Heskett et al. 1997; Reichheld and Sasser 1990). Feedback from existing customers enables the company to identify up-selling and cross-selling potentials and to react accordingly.

Referrals refers to the additional business generated by recommending the product or service to others (Heskett et al. 1997; Reichheld and Sasser 1990) and forms the third pillar of increased customer profitability. However, the basic prerequisite for this is satisfied customers, so that a recommendation takes place at all (Heskett et al. 1997; Reichheld and Sasser 1990). A study by McKinsey & Company showed that satisfied customers who are emotionally attached to a company are three times more likely to recommend or repurchase a product (Bhattacharjee et al. 2016).

The *3 Rs* are interdependent: If the customer is satisfied with the service provision and service quality, he or she remains loyal to the company or service provider *(retention)*. This makes the customer more receptive to other products from the same provider *(related sales)*. If the service provider convinces the customer at several touchpoints and throughout the entire *customer journey* (Maechler et al. 2016), the customer will recommend the product to others *(referral)*. Customers thus remain with the company for longer and continuously generate sales, which increases lifetime customer value (Reichheld and Sasser 1990).

The optimization of existing performance is becoming increasingly relevant due to higher operational costs, for example caused by wages (Ernst & Young 2017). Through the targeted use of the *3 Rs*, such optimization can be achieved and made sustainable.

11.1.4 Negotiation of Services

The special characteristics of services have already been presented. These have a particular impact on negotiations of services, since such negotiations are usually conducted in the

abstract about those services that have not yet been provided and that therefore do not yet exist in fact.

In the context of negotiations, tangible framework conditions can also be used to draw conclusions about the quality of service to be expected. The initiation of negotiations, the communication beforehand, the quantity and quality of any preparations made, the premises of the negotiations and, finally and decisively, of course, the competence and professionalism of the negotiating partner are just some of several possible indicators that can be used as additional evaluation criteria alongside the content of the negotiations.

11.1.5 Negotiations in Purchasing

When purchasing services, it is also important to estimate the expected service quality as accurately as possible, especially because the purchase of services involves large order values (e.g. wholesalers in tourism). When negotiating the purchase of services, it is advisable to define a catalogue of criteria of obligatory and optional negotiation points in advance. Due to the intangibility of services, the obligatory criteria in particular should be contractually assured in the course of negotiations. Since the services purchased in the wholesale trade are passed on to a large number of end customers, there is often no direct feedback between the expected and the actual service, since the purchaser does not always obligatorily use the products himself or test them before purchasing. It is therefore recommended that the responsible purchaser obligatorily tests the negotiated service before purchasing it in large quantities and passing it on to the end customers. This is particularly useful for sustainable quality assurance, as it allows the seller to detect and correct any discrepancies between the expected and actual service before passing it on to the end customer. This approach is particularly worthwhile in view of the fact that wholesalers can demand certain service characteristics due to the size of the order. For example, a service buyer may require a hotel to set up and offer 24-h room service, otherwise the buyer will not purchase contingents for the next season. By improving quality accordingly, existing customers can be retained and new customers can be attracted. However, this presupposes that the purchasing department is also aware of the customer's needs and takes these into account in the negotiations. The importance of customer feedback in the context of service negotiations is described in detail at the end of the chapter. At this point, reference is made only to the relevance of regular communication and to the importance of a close exchange between the purchase of the relevant service and the opinion of the users. Through feedback from customer feedback management, purchasing can take better account of customer needs in order to offer services that are better accepted, thus leading to higher customer satisfaction, a higher recommendation rate and sustainably secured sales.

11.1.6 Negotiations at Events

Similar to purchasing, event negotiations are also primarily about communicating expectations prior to using the service. This plays a key role as there is often only one opportunity for the supplier to provide the service, for example weddings in a hotel. The importance of feedback in purchasing negotiations has already been highlighted, but in purchasing customer feedback can be taken into account for the next purchases. If a wholesaler buys a room contingent at a hotel where customer feedback indicates that it is not well received by guests, either the hotel can be renegotiated to remedy guest-identified criticisms for the next season, or purchasing can contract with another hotel. If the guest books the hotel through the buyer a second time, they can benefit from the improved service. However, for a wedding, if the expectations of the bride and groom were not communicated clearly enough to the hotel, or if the hotel did not diligently note the expressed wishes and does not implement some points at the event, the actual service provided differs from that expected and unintended differences arise. In this case, however, the possibilities of redress are limited, because the hotel, unlike when purchasing hotel rooms, is unlikely to be able to offer the bride and groom to rectify the mistakes at the next wedding celebration. Thus, negotiations are of particular importance for events in order to establish a clear horizon of needs and expectations in the run-up to the event, if possible.

11.1.7 Negotiations in the Context of Customer Feedback Management

Customers can express their dissatisfaction after buying a product or using a service in a variety of ways, such as making complaints directly to the company or a *third party*, moving to a competitor, negative word of mouth, or continuing to use the product or service but being dissatisfied or becoming increasingly dissatisfied.

In a study by Svari and Olsen (2012), the two authors investigated the influence of emotions on the complaint behaviour of customers who have experienced a negative service irregularity. In doing so, they identified three distinct complaint behaviors: "complaining to the company, switching, and engaging in negative word-of-mouth communication" (Svari and Olsen 2012). These three behaviors represent the overarching main complaint behaviors of dissatisfied customers.

Following the three behaviours identified by Svari and Olsen (2012) in relation to complaint behaviour, these are visualised again in Fig. 11.1 and supplemented by the two dimensions "chance of success of redress" and "impact on the company".

Figure 11.1 shows that, compared to the alternative complaint behaviours, the chances of success of redress are highest and the impact on the company is lowest when the customer complains directly to the company. Therefore, management should always encourage customers to direct their feedback to the company. If the customer has already switched providers, the chances of success in making amends are already lower and the impact on the company more noticeable. If the customer has already switched to a
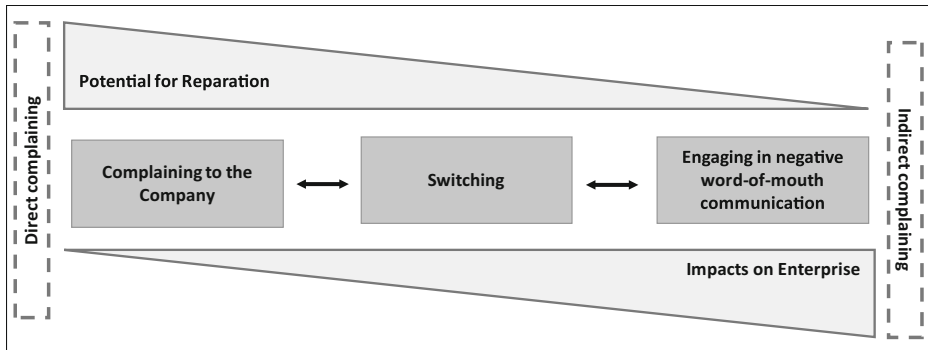
Fig. 11.1   Different complaint behaviour

competitor and then spreads negative word-of-mouth, the chances of success in making amends are the lowest and the impact on the company the greatest, because in addition to lost sales, there is also bad word-of-mouth, which not only damages sales but also the company's image.

In their study, Svari and Olsen (2012) also investigated the relationship between the cause of the complaint and complaint behaviour. They found that the likelihood of customers making a complaint directly to the company or telling family and friends about it is correspondingly lower if the customers are (at least proportionally) partly to blame, as in such a case the likelihood of the contributory negligence being discovered and a loss of face is much greater Svari and Olsen (2012). Nevertheless, the emotions in connection with the negative service experience must be ventilated (ibid., p. 276, 278), for which the form of the online complaint is often used, since these can be expressed anonymously on the web (ibid.) and complainants can thus express themselves negatively but save face Svari and Olsen (2012).

Consequently, online complaint behavior plays a special role, especially via social media channels and on relevant online portals, which enable ratings and thus a comparison of providers. Because these reviews can influence potential future buyers in their purchasing decisions, companies must not only respond to complaints *on property*, but increasingly also develop a strategy for *online service recovery*, even if not every online complaint is based exclusively on the fault of the company. Nevertheless, a company must respond to such online complaints because of the involvement of the digital public (Svari and Olsen 2012). This is because the report of a negative experience can reach thousands of potential customers in real time via social media, who may reconsider their purchase decision as a result.

The processing of online feedback and online complaints can, in turn, also be seen as an opportunity, since successful complaint processing signals to potential buyers that the feedback is taken seriously and responded to accordingly—also online. The focus should nevertheless be on obtaining, recording, processing and reacting to the feedback directly on site, as the chances of success are greatest on *property*.

11.1.8 Salary Negotiations in the Service Sector

The special features of the service sector have already been presented in more detail at the beginning. Unlike in the manufacturing sector, labour success in the service sector is much more difficult to measure. If factors such as costs and productivity can be determined in the primary and secondary sectors on the basis of, for example, unit numbers, material consumption and directly attributable costs, comparable key figures for determining the position within the service sector are difficult to apply across the board.

Employees in the manufacturing industry can thus fall back on tangible and tangible key figures in salary negotiations, for example, in order to push through a higher wage. Instead of sewing ten pairs of jeans per day, the worker can now sew twelve pairs of jeans per day through increasing experience and skill. If the target is ten jeans per day, her performance gives her the opportunity to negotiate a higher salary.

In the service sector, on the other hand, an increase in productivity is possible, but not easy to measure. First of all, key figures must be defined with which the service provided can be measured in the first place. This raises the question of the immediacy of the influence of the service provided on those indicators. In the manufacturing sector, the influence of the labour used is direct; in the example of the jeans mentioned above, an employee sews X amount of trousers per unit Y (hour, day, etc.). In the tertiary sector, on the other hand, the impact of the service provided is usually not directly identifiable or traceable and usually still represents the sum of various services provided.

If an employee wants to negotiate a better salary in a hotel, for example, he or she cannot justify this wish by saying that more guests will come back thanks to his or her commitment, because the guest usually has to deal with more than one employee during his or her stay, so that from this point at the latest the allocation or traceability becomes difficult and the wish for a higher salary is invalidated due to the lack of a direct influence of work performance on success.

When negotiating salaries in the service sector, it is therefore advisable to always take the overall picture into account and to attribute it to the entire workforce or to a specific team. A reduction to individual employees is difficult and therefore does not make much sense, especially since the motivation of the entire team may suffer as a result.

11.1.9 The Importance of Feedback in Service Negotiations

It was pointed out that negotiations are usually conducted in the abstract about those services that have not yet been provided and do not even exist. This makes feedback meetings after the agreed service has been provided all the more important. Only then can a comparison be made between expected and actual quality. At this point, the relevance of realistic expectation management should be mentioned, through which a company can already influence how a service is perceived by the consumer from the moment it is used. It

is essential that all departments of a company work together cross-functionally so that there are no unwanted divergences between expected and actual service quality.

For example, if the marketing department runs an advertising campaign highlighting a particular feature of the service, but the campaign is not agreed with the operational departments, they may not be able to fully meet customer expectations regarding that one particular service feature, expectations will not be met, customers will be disappointed, which in turn will affect customer satisfaction, referral rates and in the long run the performance of the respective company.

By implementing a holistic feedback management system, companies can succeed in reflecting on and retrospectively evaluating the service that was initially negotiated and finally provided. In this way, any discrepancies can be identified and eliminated for future service provision.

Hatz (2018) has developed a twelve-step model for this purpose, in which he uses the example of the luxury hotel industry to show how a sustainable competitive advantage can be achieved through holistic customer feedback management.

The model is based on the customer process of perceived complaint handling by Stauss and Seidel (2007, p. 192) and consists of three phases: *pre-complaint, complaint* and *post-complaint*. In the main phase of the model, the *Complaint phase*, feedback is provided on the service provided. In this phase, the focus is on how the company responds to the feedback and what solution it presents. At this point, it is important to place this main phase in the overall model, because "[w]hile handling individual complaints is an important part of complaint management, it tends to address symptoms rather than causes." Only by placing it in this larger, superordinate context can the feedback received be processed further. In particular, complaints should be investigated so that they are not only treated symptomatically, but the main causes are identified. Thus, the model of Hatz (2018) represents a holistic approach and presents in the two other phases *pre-complaint* and *post-complaint* respectively the upstream and downstream phases to the actual core phase *Complaint*.

Figure 11.2 takes into account the necessity of such a holistic handling of feedback in negotiations and depicts the individual interrelationships of effects. By integrating feedback into the negotiation process, it can be supplemented by the component of the continuous improvement process (CIP).

In conclusion, Chap. 11 can be summarised to the effect that negotiations in the service sector are partly subject to other determinants. These are taken into account by the 7P model, as Table 11.1 shows. Finally, a feedback system should be supplemented with a continuous improvement process for the constant improvement of performance and customer satisfaction.
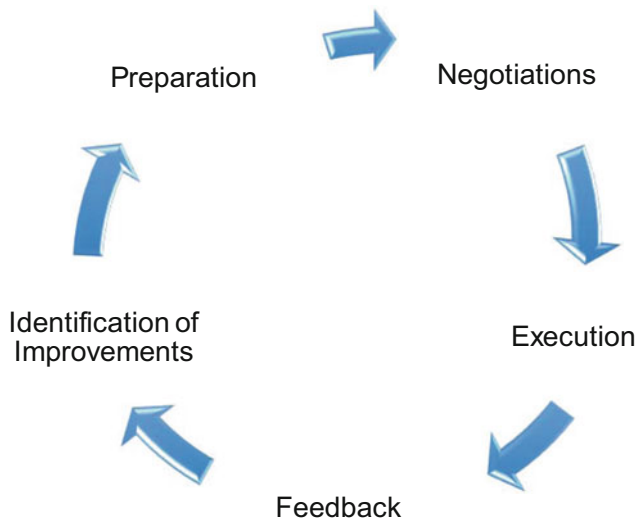
Fig. 11.2 Integration of feedback into the improvement process

Table 11.1 Negotiations in the services sector

Recommendations for negotiations on services
Consideration of special features in the service sector by 7 Ps or 3 Rs
Use of social media
Implementation of a holistic feedback management system
Identification of improvement potentials
Introduction of a performance measurement system

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