

Services Marketing

Characteristics of Services

Services are said to have four key characteristics which impact on marketing programs.

These are:

- Intangibility
- Inseparability
- Heterogeneity or variability
- Perishability i.e. simultaneous production/consumption

1. Intangibility

Unlike physical products, services are said to be intangible i.e. they cannot be seen, tasted or touched.

The intangible nature of the service holds many special implications in marketing:

- Determining and assessing standards of quality in a service situation is very difficult
- The customer relies more on subjective impressions and less on concrete evidence
- The customers ought to have faith in the person providing the service
- It is not possible to judge the quality and value in advance by sampling in advance as possible in case of a physical product.
- It becomes impossible to patent service or have copyright for it.
- Services cannot be readily displayed, advertised or communicated.

Thus the intangibility of services can cause lack of confidence on the part of the consumers and it is also difficult for the companies to communicate and display exactly what the service is. To overcome this, consumers tend to look for evidence of quality and other attributes, for example in the décor and surroundings of the beauty salon, or from the qualifications and

professional standing of the consultant. For a hospital that wants to position itself as the superspeciality hospital, it could make this positioning strategy tangible through a number of marketing tools such as place, availability of experts, equipments communication, symbol and price.

2. Inseparability or Simultaneity or lack of Replicability

This refers to the fact that production and consumption of the service are inextricably intertwined. Services are produced and consumed simultaneously. This is not so with physical products, which are manufactured at one point of time and location, and consumed at another point of time and location. In between this, they are stored somewhere and transported to places where customers are located. Services on the contrary are marked by two kinds of inseparability:

a) Inseparability of production and consumption.

b) Inseparability of the service from the person who possesses the skill and performs the service.

This means that the service provider organization and its employees becomes an integral part of the service itself. For example, the waitress in the restaurant, or the cashier in the bank, is an inseparable part of the service offering. The clients may also participate to some extent in the service, and can affect the outcome of the service. This may be a positive aspect of the benefits delivered (in a theatre or club), or it may be a potential negative aspect (waiting in queues at the post office).

So the inseparability factor tends to localize the production and marketing of services. Consequently it tends to limit the market quantitatively as well as in the geographical sense. Inseparability also limits the scope in the matter of distribution and restricts the use of marketing channels/intermediaries. Due to inseparability factor, customers form their opinions about service through their interaction with the service personnel who directly come in contact with them. They also form their impressions based on the physical surroundings, in which they receive the service. They tend to equate the service quality with the quality of this interaction.

3. Heterogeneity or variability

Because a service is produced and consumed simultaneously, and because individual people make up part of the service offering, it can be argued that a service is always unique; it only exists once, and is never exactly repeated. This can give rise to concern about service quality and uniformity issues. Personnel training and careful monitoring of customer satisfaction and feedback can help to maintain high standards.

Services depend on who provides them and when and where they are provided, services are highly variable, and this is so because of three reasons:

- First, the inseparability of the service from the provider leads to some variability. Variability automatically enters in the picture depending on the person performing the service.
- Secondly, services are highly people intensive. And anything that is people intensive is bound to be marked by variability. Services are often categorised on the basis of the type of the people who provided them like unskilled services, skilled services and complete professional services. In the case of physical products, who produces the product is immaterial.
- Thirdly, in services, the effect varies dependent on when and where the service is provided.

As a combined result of the three factors, services are marked by a high degree of variability. Thus variability factor often leaves the consumer confused. He feels that service performance is a non-standard affair. Varying widely and is dependent on who actually performs the service.

4. Perishability or Transience

Services are perishable and cannot be stored, which implies simultaneous occurring of production and consumption. The significances of this trait are:

- Customers participate and affect the production and transaction of the services
- Customers could affect each other
- Decentralization is a necessary condition of smoothly running the service delivery

- Employees of the service organization may also affect the service outcome
- Mass production is difficult
- It is difficult to synchronize supply and demand of services
- Services cannot be returned or resold

If a seat is unfilled when the plane leaves or the play starts, it cannot be kept and sold the next day or next week; hence opportunity to earn revenue from that particular seat is lost forever. To overcome this, restaurants are now charging for reservations, which are not kept. Perishability does not pose too much of a problem when demand for a service is steady, but in times of unusually high or low demand or when demand fluctuates frequently, service organizations can have severe difficulties. For example, the transportation companies have to own more equipment because of rush hour demand than if demand were even throughout the day. Some doctors charge patients for missed appointments because the service value existed only at that point.

The perishable character of services accentuates the risk and uncertainty that is generally associated with any business. It enhances the problem of demand and supply mismatch, in the first place fluctuation is particularly striking in service. Added to that, service supply cannot be easily increased or decreased so as to match the changes in demand. As a combined effect of perishability factor and the fluctuating nature of demand, service marketing has to face special problem in product planning, capacity planning and scheduling and pricing.

The above characteristics of services are generally referred to as being what makes services marketing so different. However, like all generalizations, the generalizations concerning services marketing do not always represent the full picture. Consider the question of tangibility. In the main, services can be broken down into three main classifications:

- Rented goods services
- Consumer-owned goods services
- Non-goods services

Some of these categories involve goods which are physical, and which contribute in some way to the service offering. This gives rise to questions about the degree to which services can be classed as intangible.

Another way of classifying services is to consider the distinction between equipment-based services and people-based services. Examples of equipment-based services would include:

- Vending machines
- Car rental
- Airlines

People-based services would include:

- Nursery and crèche
- Architects
- Legal services
- Management consultancy

Yet another distinction can be made between consumed services, which are offered on a personal basis, and business-to-business or industrial services. Some service providers may operate in both these market sectors. Hotels may cater for both the tourist and the business market. The health care institutions and banks cater to both the personal (sometimes referred as retail) and corporate clients providing different services with different rates. On the other hand, some services such as industry-specific consultancy services operate in quite closely defined market sectors.

Whichever means of classifying services is used, services must provide benefits and satisfactions through its offerings. Consider the following breakdown of service offerings:

- Utilities like the supply of gas, power or water
- Transport and communications services
- Recreation and leisure like hotels, restaurants, resorts clubs
- Financial institutions like insurance, banking or share broking firm

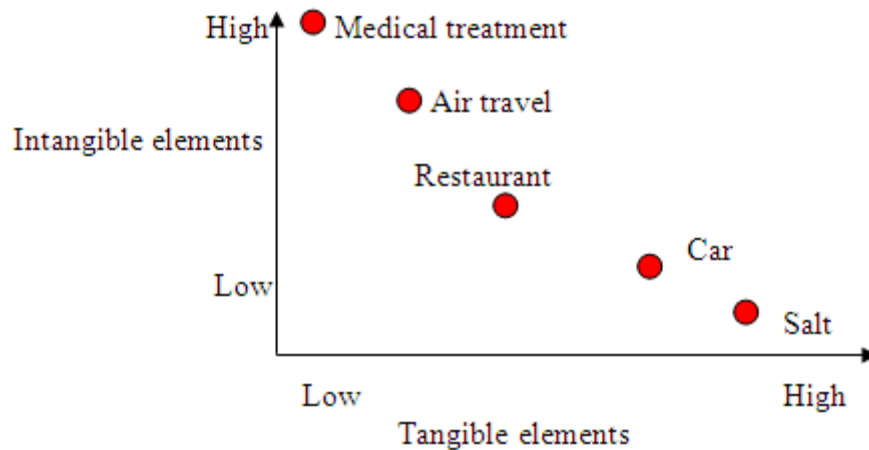
Categories of Service Mix

A company's offering to the marketplace includes some services. The service component can be a major or minor part of the total offering. 5 categories of offerings can be distinguished:

1. Pure tangible good: The offering consists primarily of a tangible good such as soap, toothpaste etc. and no services should accompany the product.
2. Tangible good with accompanying services: The offering consists of a tangible good accompanied by one or more services. Theodore Levitt observes that the more technologically sophisticated the generic product (cars, computers) is, the more dependent is its sales on the quality and availability of its accompanying customer services. This is the reason why Maruti stresses on its intensive dealer network and after-service centres while pitching for its cars.
3. Hybrid: The offering consists of equal parts of goods and services. Restaurants or hotels are examples of such products where you both want to have goods (like food in restaurants or clean bed in hotels) and services (pleasant services of waiters or room attendants).
4. Major service with accompanying minor goods and services: The offering consists of a major service along with additional services or supporting goods. For instance, airline passengers buy transportation service, but the trip also includes some tangibles such as food or drink.
5. Pure service: The offering consists primarily of a service. Medical treatment with ayurvedic massage is such an example.

G. Lynn Shostack distinguished between goods and services by placing them on a scale from tangible-dominant to intangible-dominant shown as below.

The comparative analysis of goods and services



W. Earl Sasser, R. Paul Olsen and D. Daryl Wyckoff suggested that an acid test of whether a product is a service is to determine whether more than half the value of the product comes from the service elements.

Some services are different from each other in the following ways:

- Services vary as to whether they are equipment based vending machine as Fountain Pepsi or people based such as accounting services that vary by whether provided by unskilled, skilled or professional workers
- Some services require the client's presence such as medical check-up and some do not such as car repair.
- Services differ as to whether they meet a personal need such as personal services (retail client of bank) or a business need such as business services (corporate client of banks).

Service providers differ in their objectives (profit or non-profit) and ownership (private or public) resulting in profitable private organization such as private nursing home, non-profit private charitable dispensary, non-profit public organization such as government hospital and profitable government organizations such as nationalized bank

Because of the above varying mix it is difficult to generalize about services.

- First, services vary as to whether they are equipment based or people based. People based services vary by whether they are provided by unskilled, skilled or professional workers.
- Second, some services require the client's presence and some do not. Heart surgery involves the client's presence, but a car repair does not. If the client must be present the service provider has to be considerate of his/her needs.
- Third, service differs as to whether they meet a personal need or a business need. Service providers typically develop different marketing programs for personal and business markets.

Fourth, service providers differ in their objectives and ownership. These two characteristics, when crossed, produce four quite different types of organizations. The marketing programs of a private investor hospital will differ from those of a private charity hospital or a government hospital.



One of the most basic concepts in marketing is the marketing mix, defined as the elements an organization controls that can be used to satisfy or communicate with customers.

In addition to 4 P's of traditional marketing, B.H. Booms and M.J. Bitner suggested 3 more P's for service marketing:

- **People:** The selection, training and motivation of employees can make huge evidence in customer satisfaction. The employees should exhibit competence, caring attitude, responsiveness, initiative, problem-solving ability and goodwill.
- **Process:** Service companies can choose among different processes to deliver their service. Restaurants develop fast-food counter, cafeteria section, buffet corner

- Physical evidence: the service quality can be enhanced through proper physical evidence and presentation. A hotel can develop a look and observable style of dealing with the customers that carry out its intended customer value proposition in cleanliness, speed or some other benefits.

The importance of selecting and balancing the right marketing mix elements has been stressed in relation to professional services marketing. Creating and fine-tuning the marketing mix is a task for management, which will produce unique outcomes for every organization and their individual activities within target markets. Some key issues, which do have particular relevance for professional service organizations are raised here:

1st P: Product (the service package)

The service offering needs to be looked at carefully to ensure it meets customer needs as closely as possible. The range of services offered may require extending or updating in response to new developments within the market. Some large accountancy firms now receive only a small proportion of their income from audit and accounting work as the revenue from their other specialist services has grown as these have developed. Anderson, including Anderson Consulting, is one such example, earning less than twenty per cent of revenue from audit and accountancy in 1994 with the remainder coming from other specialist services.

In order to carry out successful service delivery, the service marketer must have a good grasp of the following ideas:

- Service benefits
- Service expectations
- Service offer
- Service elements
- Service form
- Service level/quality/standard

2nd P: Pricing

The perishability nature of service makes pricing of services difficult since fluctuation in demand cannot be met through inventory. Hence variation in price depending on time/season of demand/consumption becomes the natural strategy. Hotels offering the lower tariffs in off-season and telephone service providers offering lower tariffs for after peak hour calls are examples of how service markets can offset the perishable characteristics of service through a pricing strategy.

It is well recognized that price also represents other factors in addition to simply costs and is often used by prospective clients as a guide to quality. For this reason, as well as profitability concerns, pricing or fee setting should be regarded as a strategic element of the overall marketing program rather than a basic costing exercise. Many professional fees are charged at hourly rates although other alternatives include fixed fees for fairly standard jobs (for example, house convincing or health screening checks offered at set fees) and tendering or quotation schemes for contracts. The competitive situation should also be considered in relation to pricing with regard to possible provider substitution.

3rd P: Place (or distribution)

Location decisions are important in professional services marketing as many clients use convenience as a key factor in provider selection, effectively walking in off the street to make an appointment for an eye test or for legal advice. Location may be less important for highly complex or specialist services where the service provider may actually visit the client to perform the service in any case, thus making accessibility and availability more important than physical location. Some services, such as accounting audits or building surveying, have to be carried out at the client's premises. Professional service organizations seldom have channels as such, usually dealing directly with clients and being more likely to open branch offices and subsidiary operations when moving into new market areas.

4th P: Promotional programs

Promotional objectives need to be clearly defined before a strategic promotional program can be designed. Many professional service providers may have more than one promotional objective and will use a variety of messages and media to communicate with target audiences.

Advertising can increase awareness "Of the organization and its services. Cosmetic surgery clinics advertise widely, using a mixture of informative, details of the various services provided together with visual images of the possible results to attract customers.

Newsletters or house magazines can be a useful tool for communicating with existing customer and other public. Sponsorship, PR and publicity can be used to attract attention and inform target audiences about changes and innovations within the organization. A higher profile and enhanced corporate identity will not only make the organization more attractive to customers but also to potential recruits - an important issue in areas of highly qualified and skilled expertise.

5th P: People

Because most services are provided by people and service delivery quality depends on the person delivering the service, hence the selection, training and motivation of employees can make huge difference in customer satisfaction. Ideally employees should exhibit competence a caring attitude, responsiveness, initiative, problem solving ability and goodwill. Hence, while catering to the service markets, an organization needs to invest its time and money in human element appropriately, to enhance service quality and customer satisfaction. For this, internal marketing and staff development programs should be carried out effectively to optimize staff performance by allowing individuals to understand their role in the organization and to fulfil their potential.

6th P: Process design

The arrangement through which the customer actually receives delivery of the service constitutes the process. For example in a hospital, the service comprises of getting appointment at the reception, consulting the doctor etc. There are many aspects of the process design, which can play an important role in creating and delivering a quality service, even in highly customized specialist services. Administration quality, customer care, appointments systems, methods of communication, office opening hours and operating efficiency in terms of delegation or team working are all examples of aspects of the service delivery process which may be improved or revised. Primary nursing, where a nurse takes responsibility for a patient from the time, they arrive in the hospital until they leave, is an example of a process change

with apparent benefits for both parties. Efficient appointment systems at the doctor or the dentist with queuing systems so that it is clear whose turn is next can help improve satisfaction levels and help the service to operate more smoothly. In long drawn-out legal cases, brief regular updates can be sent to clients to let them know the case is still progressing or being monitored.

7th P: Physical evidence

Credence plays an important role in customer assessments of professional service quality. Customers will base their judgment on the physical evidence available to them. For example appearance and cleanliness of a hospital influence a customer perception of the service. In many cases, professional qualifications, certifications and affiliations are listed on company literature, stationary or the service delivery site.

In addition to above-mentioned 7 P's of service marketing, Dr. Patrick Low Kim Cheng recently suggested 3 more Ps to be added to service marketing mix.

8th P: Professionalism

It refers to the way the service company runs its business. The professionalism demands rationality, commitment and ethical practices from the service providers.

9th P: Productivity

It refers to the rate of production maintaining a proper quality standard. The service business will not be profitable until the service delivery process is productive in order to be able to cater to a wide range of customers timely and accurately.

10th P: Pro-activeness

It refers to the way a service provider and its employees must anticipate what the customers want and provide them before they ask to make them surprised and delighted. This could involve many strategies like:

- Introducing new services to match the latent needs of the customers
- Informing, consulting or reminding customers about the appropriate services
- Building and continuing the relationships with the customers

Importance of Services in Customer Satisfaction

Customer care programmes

Service organizations are particularly dependent on levels of customer care. For customer care programs to be successful, they need to span the entire organization. Training will not work if it is carried out on a piecemeal basis and should be supported all the way from top management. Superficial attempts to develop customer care levels will undoubtedly lead to failure.

Customer care training may initially be a very lengthy and expensive process. The activities that are likely to start as a direct result of customer care programs include the publication of internal newsletters, the establishment of incentive schemes and new ways of conducting staff appraisals. For example, Rank Xerox has introduced a scheme whereby future pay rises for managers throughout Europe will be based on the results of a survey of customers.

Customer care programs will typically be comprised of six main stages, as follows:

- i) Objectives setting: It defines the program objectives
- ii) Current situation analysis: This involves conducting a customer service audit, both internally and externally
- iii) Strategy development: This step develops a strategy for raising levels of customer service from the current to the desired standard

- iv) Functional planning: This step defines training needs and other requirements (such as problem-solving sessions or team-building) to execute the strategy
- v) Implementation: In this stage, training and other initiatives are implemented through workshops, seminars, on-job-activities etc.
- vi) Promote the program both internally and externally. Develop internal marketing programs.
- vii) Monitoring: This is the last stage, where results are tested through customer and employee surveys, evaluate the training methods. Improve and update the program on a continuous basis.

Evaluating customer care programs can be extremely difficult, in terms of their overall value to the company or their impact on profitability. Methods include using customer and employee satisfaction surveys and monitoring customer complaints. More tangible evidence of the value of customer care programs may be seen in the balance sheet.



Real Life Case Scenario

British Airways

British Airways went from a loss-making situation to turn in a healthy profit following its putting 'people first' campaign. The campaign itself was a substantial investment, which involved training over 36,500 personnel at a reported cost of over £23 million.

Managing the Brand Action Triangle

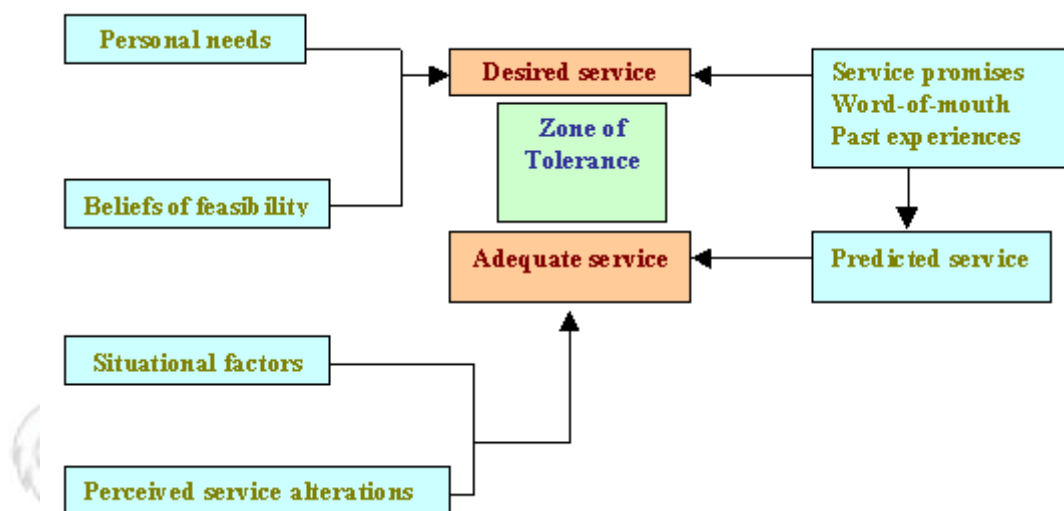
There are mainly 3 types of costs involved in service consumption.

- **Search cost:** information search, awareness building
- **Purchase cost:** money, time, physical effort (fatigue, discomfort), psychological burdens (mental effort, feeling of inadequacy, fear or dissonance), sensory burdens (unpleasant sensations affecting any of the five senses)
- **After-purchase cost:** follow-up, problem solving

The components of customer expectations

Customer expectations are made up of several elements, including desired service, adequate service, predicted service, and a zone of tolerance that falls between the desired and adequate service levels. The following model adapted from Zeithmal, Berry and Parasuraman shows how expectations for desired service and adequate service are formed.

The components of customer expectations



Desired service is the type of service the customers hope to receive. At this service level, customers want the services to be made up of as a combination feasibility (i.e. what they believe that service can be of) and instrumentality (i.e. what and how much they demand from the service that should be delivered). However, most customers are realistic and understand that companies cannot always deliver the level of service that they wish and hence they form a threshold level of expectations, termed *adequate service*, which is defined as the minimum level of service that the customers will accept without being dissatisfied. The factors that set this expectation are situational factors affecting service performance (like time, individual affordability) and the level of service that might be anticipated from the competitors (like discount offer, better quality, prompt service delivery). The levels of both desired and adequate service expectations are determined by the explicit and implicit promises made by the service providers, word-of-mouth comments, and also from the customer's past experience (if any) with this service organization and the type of service in consideration. Lastly, the level of service that the customers actually anticipate they are receiving is known as *predicted service*. This perception has direct influence on how they define adequate service on a particular occasion.

If customers perceive a good service, then obviously the adequate level will be higher than that of if poor service is predicted. For example, from past experience you expect to see larger crowds on Sunday evening show of a recently released Shah Rukh Khan than a noon or night show of a previously released movie. Hence, waiting in a long queue for the first occasion will not fall below the adequate service level (but obviously in the second case) and you would not mind waiting for some extra minutes to buy tickets. Understanding this, the concept of **Zone of tolerance** is very important, which signifies the extent to which the customers are willing to accept the variation between desired service and adequate service. For the services, which remain in this zone, customers are not that bothered about service performance and do not possess any feeling of satisfaction or dissatisfaction. But the service that falls below the adequate level makes the customers dissatisfied whereas the service that exceeds the desired service will create customer delight. The zone of tolerance can increase or decrease for individual customers depending on factors such as competition, price or importance of specific service attributes. For example, when we go to a local tailor for a shirt, our expectation is that it would be made within 3 days. But before a festive time like Durga pujo or Id, we know that we have to wait for a few days more for delivery. In this case, although our desired service level does not change, but the zone of tolerance for delivery time is much broader because we reduce our adequate service standard understanding the rush of demands during festive season. Richard L. Oliver proposed a theory where he argued that confirmation or disconfirmation of pre-consumption product standards is the essential determinant of satisfaction. The customers have certain service standards in mind prior to consumption and expectations and during after the purchase and consumption of service, they compare the service level with their standards and then form satisfaction (or dissatisfaction) judgments based on this comparison. Now 3 cases could occur considering comparisons between consumed service standard (C) and expected service standard (E):

- **Simple confirmation**, if $C = E$
- **Positive confirmation**, if $C > E$
- **Negative confirmation or disconfirmation**, if $C < E$

In case of consumer delight, the standard that the service companies must try to achieve, the service offer should include positive disconfirmation resulted from unexpected high levels of

performance along with elements of positive emotional outcome (e.g. pleasure, joy or happiness) and arousal of emotions (e.g. excitement and surprise).

The service purchase process

The perceived risks in purchasing and using services include following risks:

- **Functional risks:** These come from unsatisfactory performance of service outcomes.
- **Financial risks:** These come from the fear of monetary costs or unexpected costs resulting from the purchase and use of service.
- **Temporal risks:** These types of risks include the fear of delay of service delivery.
- **Physical risks:** These include the personal injury or damage to possessions of the service products.
- **Psychological risks:** These include personal fears, emotional orientations or fears associated with the purchase and use of services.
- **Social risks:** These risks occur when the customers start to think of how others would react to his or her possession of the service product.
- **Sensory risks:** These involve any undesirable impacts on any of the 5 senses.

In order to assess the potential of a loyalty program (the commonest example is *frequent flyer programs* implemented in the airline industry) to alter normal patterns of behaviour and reinforce loyalty towards a product or brand, Dowling and Uncles argue that marketers need to examine three psychological effects.

- **Brand loyalty versus deal loyalty:** This explains the extent of customers' loyalty to the core service (or brand) rather than to the loyalty program itself. Marketers should focus on loyalty programs that directly support the value proposition and positioning of the product in question, rather than just creating a point of differentiation.
- **Buyers' value towards rewards:** Several elements combine to determine a loyalty program's value to customers: (1) the cash value of the redemption rewards (if customers had to purchase them); (2) the range of choice among rewards-for instance,

a selection of gifts rather than just a single gift; (3) the aspirational value of the rewards- something exotic that the consumer would not normally purchase may have greater appeal than a cash-back offer; (4) whether the amount of usage required to obtain an award places it within the realm of possibility for any given consumer; (5) the ease of using the program and making claims for redemption; and (6) the psychological benefits of belonging to the program and accumulating points.

- ***The time gap of obtaining benefits:*** This indicates how soon the customers get the benefits as promised from participating in the rewards program. Deferred gratification tends to weaken the appeal of a loyalty program.

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The following sections examine in more detail three major roles played by customers in service delivery such as:

- Customers as predictive resources
- Customers as contributors to quality and satisfaction
- Customers as competitors

1) Customers as Productive Resources

If customers contribute effort, time, or other resources to the service production process, they should be considered as part of the organization and may be referred as "partial employees" of the organization's human resources. Customer inputs can affect the organization's productivity through both the quality of what they contribute and the resulting quality and quantity of output generated. For example, self-service restaurants depend on the level of participation and efficiency of the customers as they are supposed to get their own food, and seat themselves.

Customer participation in service production raises a number of issues for organizations. Because customers can influence both the quality and quantity of production, some

management experts believe the delivery system should be isolated as much as possible from customer inputs in order to reduce the uncertainty they can bring into the production process. This view sees customers as a major source of uncertainty-the timing of their demands, and the uncontrollability of their attitudes and actions. The logical conclusion is that any service activities that do not require customer contact or involvement should be performed away from customers-the less direct contact there is between the customer and the service production system, the greater the potential for the system to operate at peak efficiency. The introduction of ATM machines, automated customer service telephone lines (phone banking) and use of Internet (net banking) in the banking industry are the examples of ways to reduce direct customer contact in that industry, resulting in greater efficiencies and reduced costs.

Other experts believe that services can be delivered most efficiently if customers are truly viewed as partial employees and their participative roles are designed to maximise their contributions to the service creation process. The logic in this case is that organizational productivity can be increased if customers learn to perform service related activities they currently are not doing or are educated to perform more effectively the tasks they are already doing.

For example, self-service restaurants or fast food joints by having customers perform the tasks that require fewer employees.

2) Customers as Contributors to Service Quality and Satisfaction

Another role customers can play in services delivery is that of contributor to their own satisfaction and the ultimate quality of the services they receive. Customers may care little that they have increased the productivity of the organization through their participation, but they likely care a great deal about whether their needs are fulfilled. Effective customer participation can increase the likelihood that, needs are met and that the benefits the customer seeks are actually attained. In services such as health care, education, personal fitness, and weight loss, where the service outcome is highly dependent on customer participation, unless the customer performs his or her role effectively, the desired service outcome is not possible.

3) Customers as Competitors

The final role played by service customers is that of potential competitor. If self-service customers can be viewed as resources of the firm, or as "partial employees," self-service customers could in some cases partially perform the service or perform the entire service for

themselves and not need the provider at all. Customers thus in a sense are competitors of the companies that supply the service.

Similar internal versus external exchange decisions are made by organizations. Firms frequently choose to outsource service activities such as payroll, data processing, research, accounting, maintenance, and facilities management. They find that it is advantage to focus on their care businesses and leave these essential support services to others with greater expertise. Alternatively, a firm may decide to stop purchasing services externally and bring the service production process in-house.

Whether a household or a firm chooses to produce a particular service for itself or contract externally for the service depends on a variety of factors.

- Expertise capacity: The likelihood of producing the service internally is increased if the household or firm possesses the specific skills and knowledge needed to produce it. Having the expertise will not necessary result in internal service production however because other factors (e.g., available resource, and time) will also influence the decision.
- Resource capacity: To decide to produce a service internally, the household or firm must have the needed resources including people, space, money, and materials-If the resources are not available internally, external exchange is more likely.
- Time capacity: Time is a critical factor in internal/external exchange decisions. Households and firms with adequate time capacity are more likely to produce services internally than are groups with time constraints.
- Economic rewards: The economic advantages or disadvantages of a particular exchange decision will be influential in choosing between internal and external options. The actual monetary costs of the two options will be factors that sway the decision.
- Psychic rewards: Rewards of a non-economic nature have a potentially strong influence on exchange decisions. Psychic rewards include the degree of satisfaction, enjoyment, and gratification, or happiness that is associated with the external or internal exchange.
- Trust: In this context trust means the degree of confidence or certainty the households or firms have in the various exchange options. The decision will depend to some extent the level of self-trust versus trust of others in the particular context.

- Control: The household or firm's desire for control over the process and outcome of the exchange will also influence the internal/external choice'. Entities that desire and can implement a high degree of control over the tasks are more likely to engage in external exchange.

Thus we see that from service provider's point of view, the important thing to remember is that in many service scenarios, customers may choose to fully or partially produce the service themselves. Thus in addition to recognizing that customers can be productive resources and co-creators of quality and value, organizations also need to recognize the customer's role as a potential competitor.

