

What Is Meant by Services?

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The marketing discipline has been concerned primarily with GOODS. Yet SERVICES are claiming an increasing share of the consumer's dollar. This author argues that marketing people should direct more of their attention to the services sector.

What are the marketing characteristics of services? Are goods solely goods—services solely services? Is not the marketing of services by government agencies an appropriate province for marketing analysis? These are some of the questions considered here.

Journal of Marketing, Vol. 30 (October, 1966), pp. 32-36.

CERTAIN CONCEPTS and phrases still exist in conventional marketing thought without their meaning being challenged, even though conditions surrounding their origin have changed. The classification of consumer goods into convenience, shopping, and specialty categories is one example;¹ channels of distribution is another.²

The ubiquitous phrase "goods and services" is a special example. Most marketers have some idea of the meaning of the term "goods"; these are tangible economic products that are capable of being seen and touched and may or may not be tasted, heard, or smelled.

But "services" seem to be everything else; and an understanding of them is not clear. For example, convenience foods have "built-in-services." Are they services in contrast with goods? A business publication refers to a giant retailer's new services: leased beauty salons and restaurants, telephone ordering, and in-home selling. Are these institutional rearrangements really services?

And what about service businesses that do not require heavy investment in plant and equipment? Railroads? Light and power utilities?

Marketing's "Goods" Orientation

The marketing discipline has a strong "goods" orientation. In academic courses in marketing, tangible goods are considered, but rarely services to any extent. Yet services represent an area of economic activity that accounts for 30 to 40% of consumer dollar expenditures!

Similarly, many retailers and manufacturers tend to think only in terms of tangible goods; relatively few have broadened their conception of a product to include services. There are exceptions, of course: Sears, Roebuck & Company's entry into the insurance industry, mutual funds, and interior-decorating; the automobile manufacturer's interest in repairing, financing, and leasing.

So, it is refreshing that in recent years American Marketing Association national conferences have included sessions on utility and financial marketing, and that the Association also has sponsored special-interest conferences in these areas of marketing.

Also, others have prescribed usage of terms rightfully marketing's responsibility. Thus, the U.S. Department of Agriculture continues

¹ Richard H. Holton, "The Distinctions Between Convenience Goods, Shopping Goods, and Specialty Goods," *JOURNAL OF MARKETING*, Vol. 23 (July, 1958), pp. 53-56, and "What is Really Meant by 'Specialty Goods?'" *JOURNAL OF MARKETING*, Vol. 24 (July, 1959), pp. 64-66; David J. Luck, "On the Nature of Specialty Goods," *JOURNAL OF MARKETING*, Vol. 24 (July, 1959), pp. 61-64.

² Phillip McVey, "Are Channels of Distribution What the Textbooks Say?" *JOURNAL OF MARKETING*, Vol. 24 (January, 1960), pp. 61-65.

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TABLE 1
PERSONAL CONSUMPTION EXPENDITURES
BY TYPE OF PRODUCT^a

	1959 %	1964 %
Food and tobacco:		
Goods	100.0	100.0
Services	0.0	0.0
Clothing, accessories, and jewelry:		
Goods	89.1	89.8
Services	10.9	10.2
Personal care:		
Goods	55.3	56.8
Services	44.7	43.2
Housing:		
Goods	0.0	0.0
Services	100.0	100.0
Household operation:		
Goods	59.1	57.9
Services	40.9	42.1
Medical care and death expenses:		
Goods	23.3	21.4
Services	76.7	78.6
Personal business:		
Goods	0.0	0.0
Services	100.0	100.0
Transportation:		
Goods	75.5	77.2
Services	24.5	22.8
Recreation:		
Goods	66.4	68.5
Services	33.6	31.5
Private education and research:		
Goods	0.0	0.0
Services	100.0	100.0
Religious and welfare activities:		
Goods	0.0	0.0
Services	100.0	100.0
Foreign travel and remittances <i>net</i> :		
Goods	50.3	39.5
Services	49.7	60.5
Total personal consumption expenditures:		
Goods	61.4	59.2
Services	38.6	40.8

^aDerived from *Survey of Current Business*, Vol. 45 (November, 1965), pp. 20-23.

to include food-processing costs as a marketing expense, even though this practice was challenged many years ago.³ The U.S. Department of Commerce has assumed responsibility for blocking out the "services" category, and thus has made a useful contribution to our knowledge of economic activity. However, does its distinction between "goods and services" hold up from the marketing viewpoint?⁴ How about the following distinctions?

³Theodore N. Beckman and Robert D. Buzzell, "What Is the Marketing Margin for Agricultural Products?" *JOURNAL OF MARKETING*, Vol. 20 (October, 1955), pp. 166-168.

⁴*Survey of Current Business*, Vol. 44 (July, 1964), p. 16.

- Food and clothing are goods; housing is a service.
- Automobiles are goods; airline tickets represent a purchase of a service.
- Fuel oil is a good; gas is a service.
- Religious and welfare activities contributions are services.

Goods and Services Distinguished

A useful distinction can be made between (1) *rented-goods services*; (2) *owned-goods services*; and (3) *non-goods services*. Also we might think of *marketed services* as market transactions by an enterprise or entrepreneur where the object is other than the transfer of ownership of a tangible commodity.⁵

One implicit distinction is to consider a good to be a noun and a service a verb—a good is a thing and a service is an act. The former is an object, an article, a device, or a material . . . whereas the latter is a deed, a performance, or an effort. When a good is purchased, the buyer acquires an asset; when a service is purchased, the buyer incurs an expense.

Another test to distinguish a good from a service is the nature of the product's utility. Does the utility for the consumer lie in the physical characteristics of the product, or in the nature of the action or performance?

Applying this test, there are very few pure products and pure services. The satisfaction, or utility, deriving from a work of art, such as a painting or sculpture, lies solely in the good itself. The benefit, or utility, arising from legal counsel proceeds exclusively from the service rendered. In the former, no act is performed; in the latter, no good is involved.

Apart from these extremes, most goods, whether consumer or industrial, require supporting services in order to be useful; most services require supporting goods in order to be useful.

Goods-Services Continuum

Economic products lie along a goods-service continuum, with pure goods at one extreme and pure

⁵Robert C. Judd, "The Case for Redefining Services," *JOURNAL OF MARKETING*, Vol. 28 (January, 1964), pp. 58-59, at p. 59.

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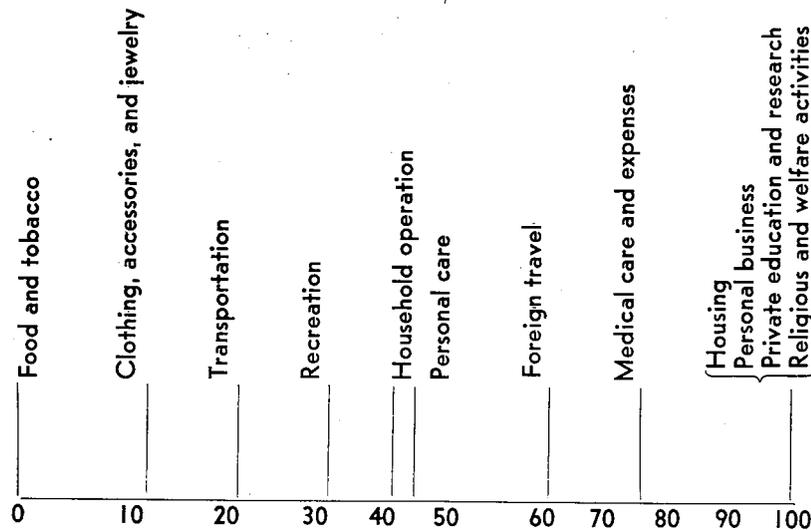


FIGURE 1. Per cent of major classes of personal consumption expenditures allocated to services—1964. (Source: *Survey of Current Business*, Vol. 45 (November, 1965), pp. 20-23).

services at the other, but with most of them falling between these two extremes.

This mixed characteristic is suggested by both Table 1 and Figure 1, even though quite broad categories are considered. Some are primarily goods with service support, whereas others are primarily services with goods support. Most goods are a complex of goods and facilitating services; most services are a complex of services and facilitating goods.

This mixed nature of most economic products is well illustrated by the leasing transaction. If a product is purchased, it is a good; but if it is rented or leased, the rentee or lessee acquires a service.

Yet for the service to have any meaning whatever, a goods component must also be present. Service would contribute time and place utility; the good would be the physical commodity made available and the service would be the act of making it available for a prescribed period of time as an alternative to outright purchase.

Marketing Characteristics of Services

The basic question is—*what are the marketing characteristics of services?* Here are 13 answers:

1. Unlike a good, where monetary values are stated in terms of a price, services are more likely to be expressed as *rates, fees, admissions, charges, tuition, contributions, interest, and the like.*

2. In many types of service transactions, *the buyer is a client rather than a customer of the seller*; the client, when buying a service, figuratively or literally places himself "in the hands" of the seller of the service. Consider, for example, the relationship between the student and the college, the patient and the hospital or physician, the passenger and the carrier. The buyer is not free to

use the service as he wishes, as would be the case in the purchase of a good; he must abide by certain precepts laid down by the seller in order for the service to make any contribution.⁶

3. The various marketing systems in the services category have taken on *highly differentiated characteristics*. Although contrasts do exist in those marketing systems that have evolved for different types of physical goods, they are primarily differences of degree. In the case of services, the marketing of recreation bears little resemblance to the marketing of medical service. As additional examples, there is no apparent relationship between the marketing system for shoe-repair service and for hospital service.

4. Since services are acts or processes and are produced as they are consumed, they *cannot be inventoried*, and there can be no merchant middleman since only "direct" sales are possible. In a number of instances, agent intermediaries are utilized in the marketing of services: insurance and travel agents, for example.

5. The question may be raised as to *the economic nature* of certain products in the services category, for example, payments to charitable and religious bodies and non-profit educational institutions. Are the church on the corner, the college on the hill, and the United Fund Agency downtown economic entities on the supply side? Certainly they compete for the consumer's dollar.

6. There appears to be a *more formal or pro-*

⁶ For an interesting discussion of relations between clients and client-serving organizations see Charles E. Bidwell and Rebecca S. Vreeland, "Authority and Control in Client-serving Organizations," *The Sociological Quarterly*, Vol. 4 (Summer, 1963), pp. 231-242.

TABLE 2
MAGNITUDE OF SOME INDUSTRIAL SERVICES*

Type of service	Gross and personal expenditures	Industrial expenditures
Engineering and other professional services		\$ 2,966,000,000
Business services (not elsewhere classified)		\$ 8,492,000,000
Corporate sales: telephone, telegraph, etc.	\$10,929,000,000	
Less personal consumption expenditures: telephone, telegraph, etc.	—4,720,000,000	\$ 6,209,000,000
Corporate sales: electric and gas utilities	\$20,197,000,000	
Less personal consumption expenditures: electricity and gas	—8,422,000,000	\$11,775,000,000
Corporate sales: railroads	\$10,382,000,000	
Less personal consumption expenditures: railway (including commutation)	—454,000,000	\$ 9,928,000,000

*Survey of Current Business, Vol. 44 (July, 1964), pp. 16 and 28. Net figures represent corporate sales not only to business but also to government, institutions, agriculture, etc.

professional approach to the marketing of many services (not all, by any means)—for example, financial, medical, legal, and educational services.

7. Because services cannot be mass-produced, standards cannot be precise. Although service procedures may be standardized, their actual implementation will vary from buyer to buyer. Perhaps there will be a standardization of services through the increasing use of service technology at the expense of personalized service, especially in medicine and education; and this would mean that services will follow goods from custom to mass production and standardization.⁷

8. "Price-making" practices vary greatly within the services category. Utility and transportation rates are rigidly controlled by public agencies; interest rates display characteristics of price leadership; and some service charges are established on the basis of what the traffic will bear.

9. Economic concepts of supply and demand and costs are difficult to apply to a service because of its intangible nature. Moreover, values of some services are difficult to fix. What is the value of the service of a lawyer or a physician in a losing cause as compared with a successful one?

10. Most fringe benefits take the form of services: pensions, insurance, unemployment benefits, eye and

dental care, psychiatric service; seldom are benefits in the form of goods (such as turkeys at Christmas).⁸ If benefits are created by the employer, in a marketing sense he is selling a product (in lieu of higher wages) to a market segment, his own employees. If the service is created by an outside specialist, such as a life insurance company, the employer is an agent (in a marketing sense) between the seller-creator of the service and the buyer-consumer.

11. There appears to be limited concentration in the services sector of the economy. There are few service chains; carriers and utilities are regulated.

12. Until recently, service firms failed to differentiate between the production and marketing of services. Performance was equivalent to marketing the service.

13. In the case of services, symbolism derives from performance rather than from possession.

Industrial Services

The significance of industrial services in the economy is indicated in the data in Table 2.

Services of Government

The greatest marketer of services in the United States is government. The public sector is becoming a major supplier of that which was once the domain

⁷ William J. Regan, "The Service Revolution," JOURNAL OF MARKETING, Vol. 27 (July, 1963), pp. 57-62, at pp. 61-62.

⁸ "Why Union Eyes Are on Fringes," Business Week (September 12, 1964), p. 60.

of private enterprises or private institutions. Consider Medicare, urban renewal and slum clearance, public parks and recreational areas, public higher education, and publicly-owned utilities.

Moreover, private sellers of many services are much more controlled by public agencies than are private sellers of goods. It is not much of an exaggeration to say that the mixed economy is divided on a goods-service axis. It is conceivable that most consumer services (excluding personal-care services) eventually will be purchased from public bodies, whereas consumer goods will continue to be purchased from private enterprise.

The Service Challenge for Marketing

Table 1 shows, services are a major component in the economy. McKittrick sees them not only diverting income flow away from manufacturing but also pressuring wages upward because of their relatively greater price increases.⁹ Others have cited the lower efficiency in the personal-services sector because of the lower quality of labor in services production, as compared with goods production,

⁹ J. B. McKittrick, "The Nature of the Involvement of Marketing Management in the Profit Failure," in Charles H. Hendersman, Editor, *Marketing Precision and Executive Action* (Chicago: American Marketing Association, 1962), pp. 75-88, at pp. 81-82.

and because of the limited opportunities for mechanization.¹⁰

The distribution of goods is within the province of marketing. But is there the same consensus regarding amusements, health services, and hotels? Should they be treated vertically, within their respective industries and professions—or horizontally, under the marketing umbrella?

In this connection: How are public services marketed? Are there public marketing institutions and procedures? When is the transaction completed? What is the price? What are the terms of sale? The recent promotion campaign to sell the voluntary provision in Medicare to 20 million eligible citizens represents one of the first major attempts to market a government service.

In Conclusion

The increasing percentage of consumer expenditures allocated to intangibles deserves special attention. This is especially true of the marketing of services by public agencies.

But what are services? Certainly any comprehensive approach to the study of services marketing must begin at the conceptual level.

¹⁰ "Why Service Workers are Less Productive," *Business Week* (November 14, 1964), p. 156.

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