

9.14: Classification of Services

Learning Objectives

By the end of this section, you will be able to

- Define services.
- List the classification of services.
- Describe the characteristics of services.

Services Defined

You may have heard that the U.S. economy is primarily considered a service economy. But do you know why this is? Figure 9.11.2 provides the answer. It outlines the percentage each industry contributed to the gross domestic product (GDP) in 2020. (A quick refresher from your economics course: GDP measures the total monetary value of all finished goods and services generated within a country's borders during a specified period.) Which industries are the largest contributors to the GDP? Service industries. (Note that this figure does not include smaller industries such as utilities or mining and agriculture.) When you total the service industries, they make up a whopping 67% of GDP versus only 10.8% for manufacturing.

Industry Percentages, 2020

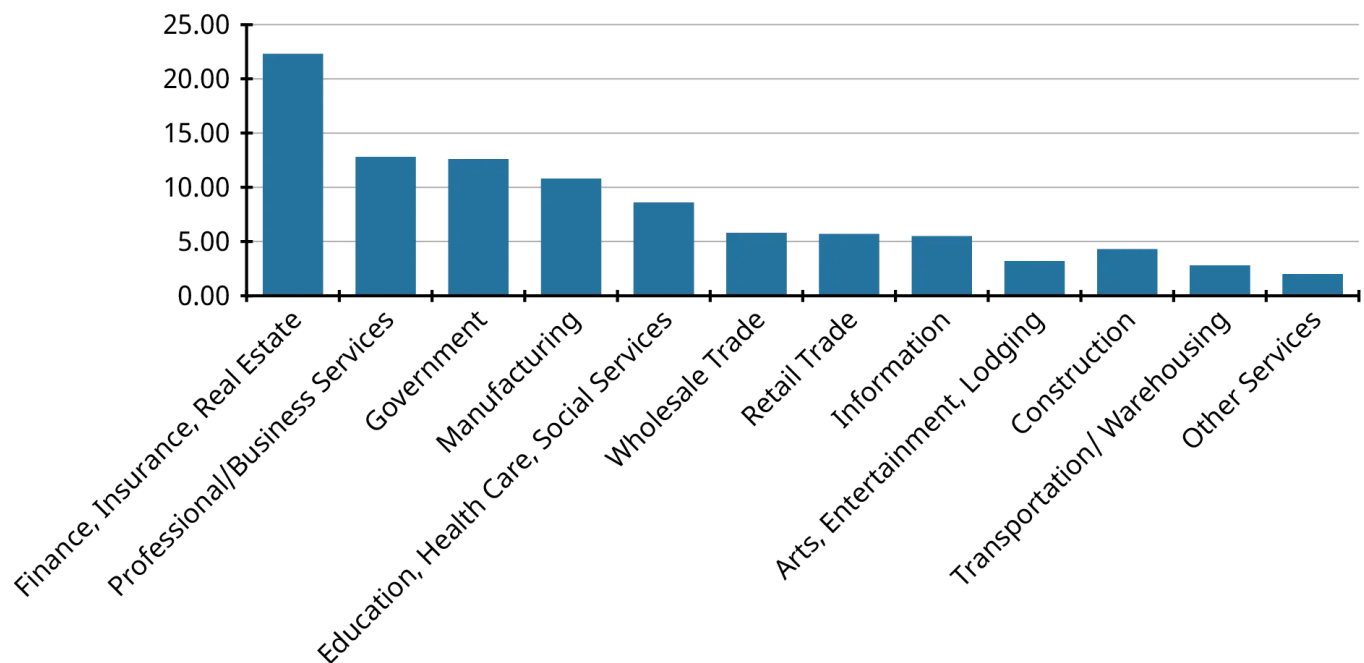


Figure 9.11.2 Percentages Added by Industry to the US GDP in 2020 (data source: BEA; US Department of Commerce; attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In a nutshell, services are the nonphysical, intangible economic activities. On the other hand, physical goods are the things we can touch or handle, commonly called tangibles. Do you realize that, as you read this textbook, you're participating in the services sector of the economy? That's because education is considered part of the service sector. The service sector also includes banking, medical treatment, transportation, insurance, and many more categories. Based on the fact that the majority of contributions to the GDP in the United States are services, and more than half of the country's workforce is employed in producing "intangibles," it's critical to understand this important sector from a marketing perspective.

Consider the challenges to marketers when selling services as opposed to products. A consumer can't touch or see the service before purchasing, so examining or evaluating benefits is difficult. Think about it: you can't take a service out for a test drive the way you might if you were buying a new car. Yet, it's just as crucial for organizations that provide services to build brand awareness and loyalty.

Classification of Services

Services are classified as people-based services or equipment-based services. And within those classifications, there are subcategories (see Figure 9.11.3).

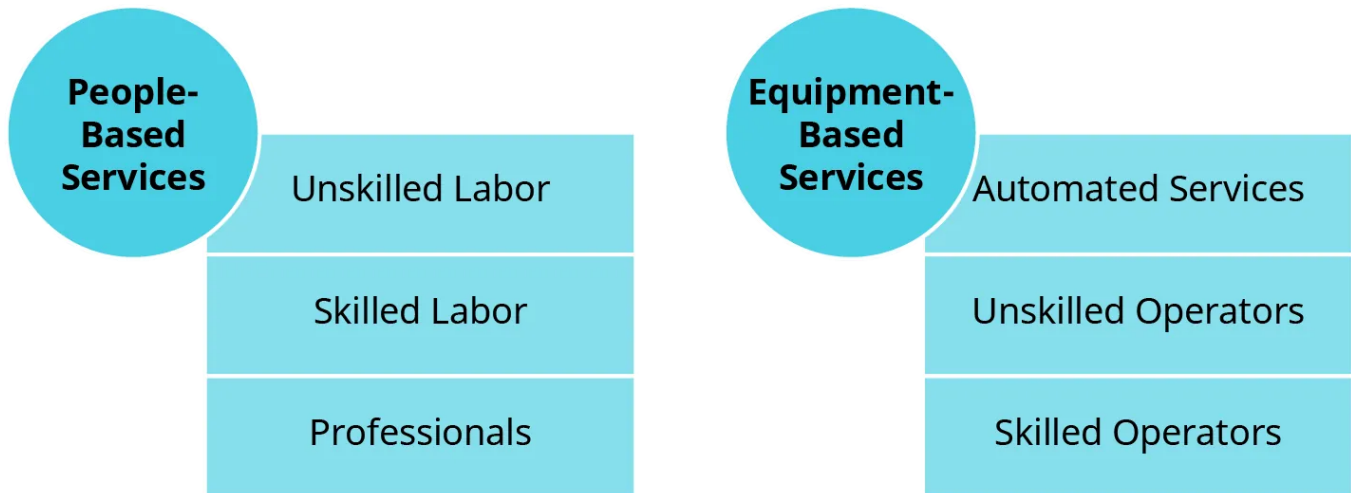


Figure 9.11.3 Services Classifications (CC BY 4.0; Rice University & OpenStax)

People-Based Services

People-based services are those where people primarily deliver the service rather than equipment or machinery (see Figure 9.11.4 for examples). It's the individuals delivering the service, and the knowledge and skills that they possess, that add value and allow the service to be performed. People-based services can be broken down further into these subcategories:

- services provided by unskilled labor: parking lot attendants, babysitters, and janitors
- services provided by skilled labor: plumbers, caterers, and hairstylists
- services provided by professionals: doctors, attorneys, college professors, and accountants

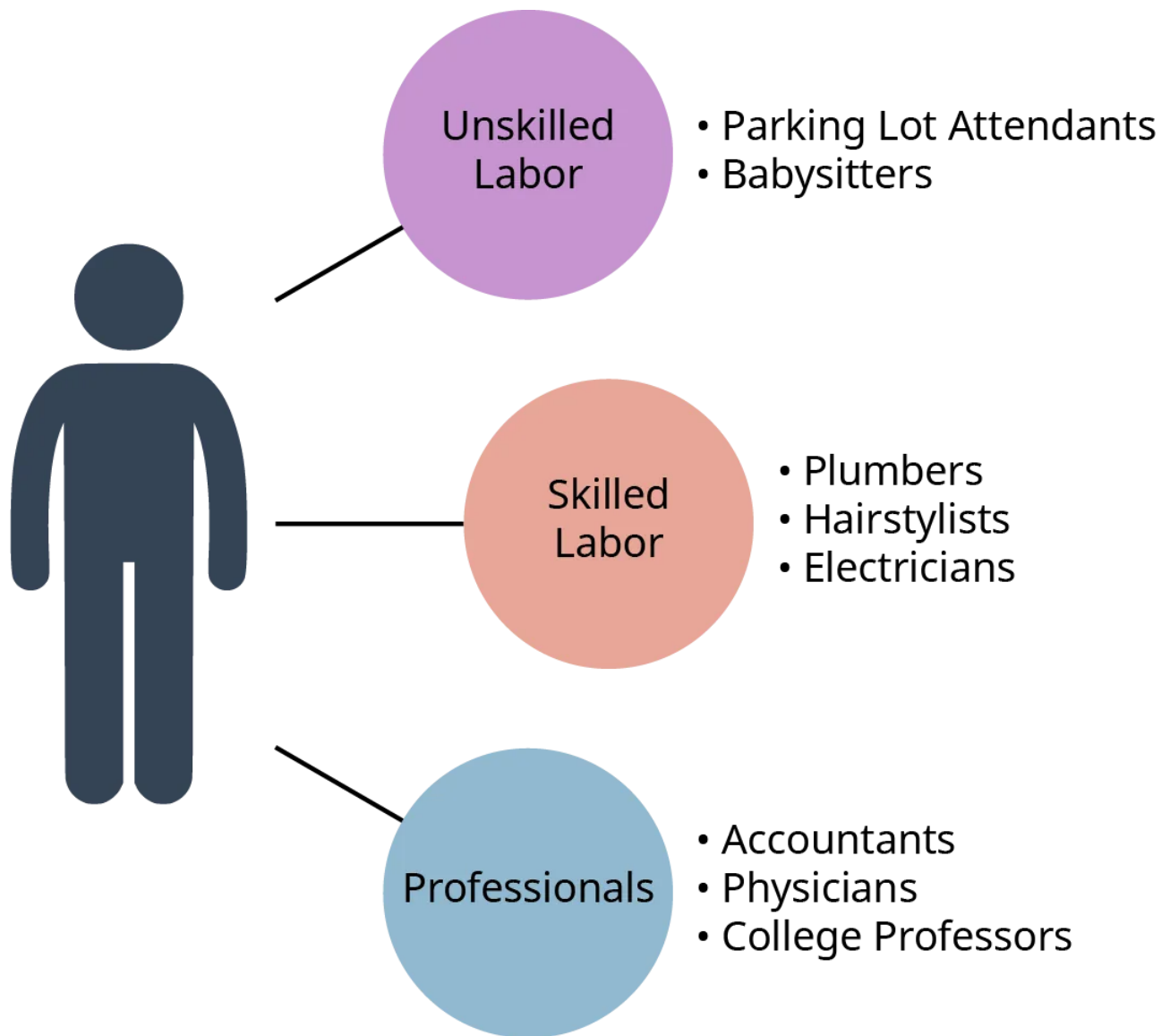


Figure 9.11.4 People-Based Services (CC BY 4.0; Rice University & OpenStax)

Equipment-Based Services

Equipment-based service firms utilize equipment, machinery, and other forms of technology to perform service tasks (see Figure 9.11.5). Like people-based services, equipment-based services can be further broken down into subcategories:

- automated services: car washes and parking meters
- equipment-based services operated by relatively unskilled operators: dry-cleaning equipment
- equipment-based services operated by skilled operators: X-ray machines and ultrasound equipment

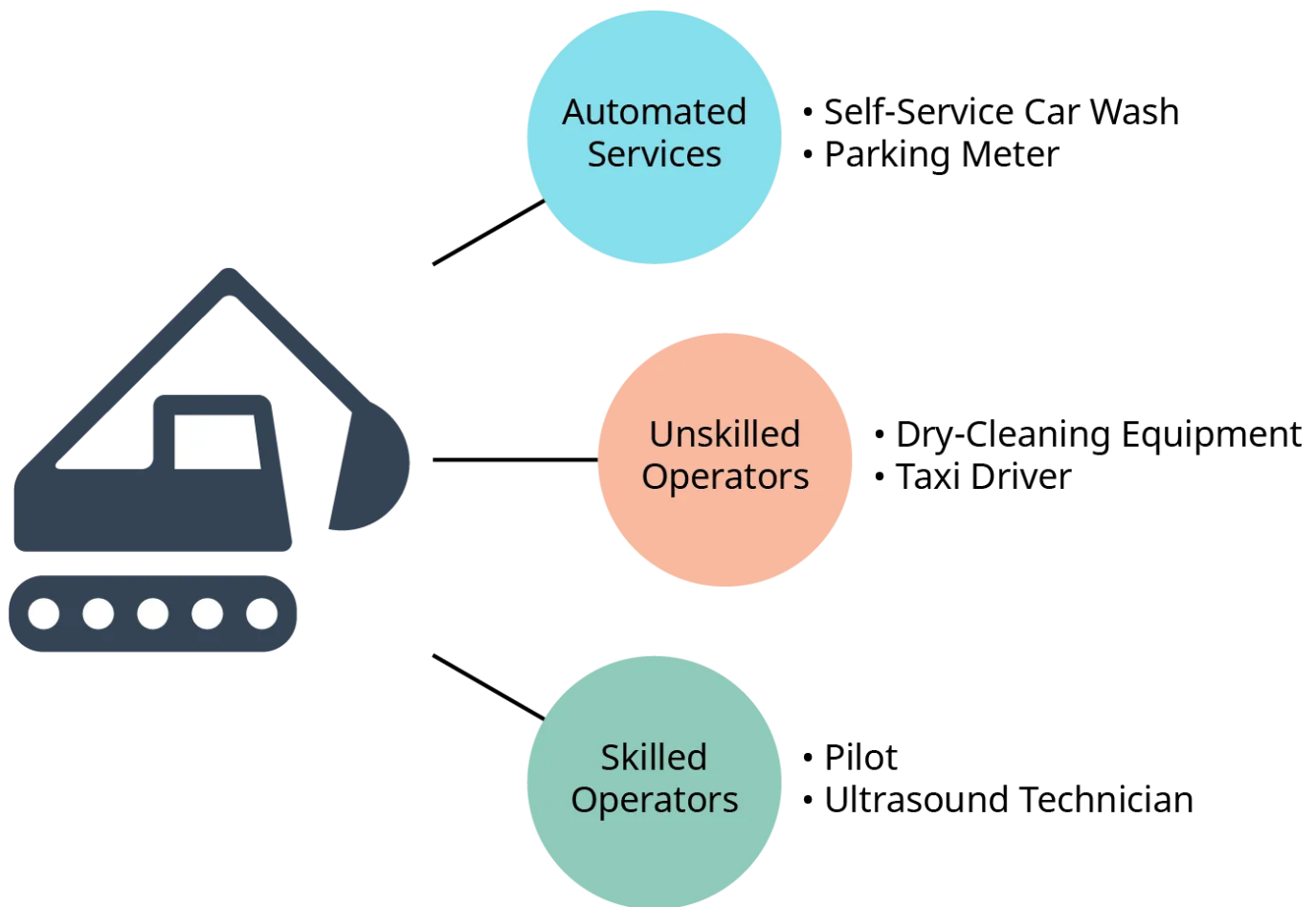


Figure 9.11.5 Equipment-Based Services (CC BY 4.0; Rice University & OpenStax)

There is another way to categorize services, according to well-known author and professor Christopher Lovelock (1940–2008). He proposed four broad categories of services:

- people processing: services toward people's bodies
- possession processing: services toward possessions
- mental stimulus processing: services toward people's mind
- information processing: services toward intangible assets (Saxena, 2015).

In Figure 9.11.6, the categories are defined on a two-dimensional matrix, wherein one of the dimensions is the direct recipient of the service, and the other is the nature of the service act (Panchal, 2014).

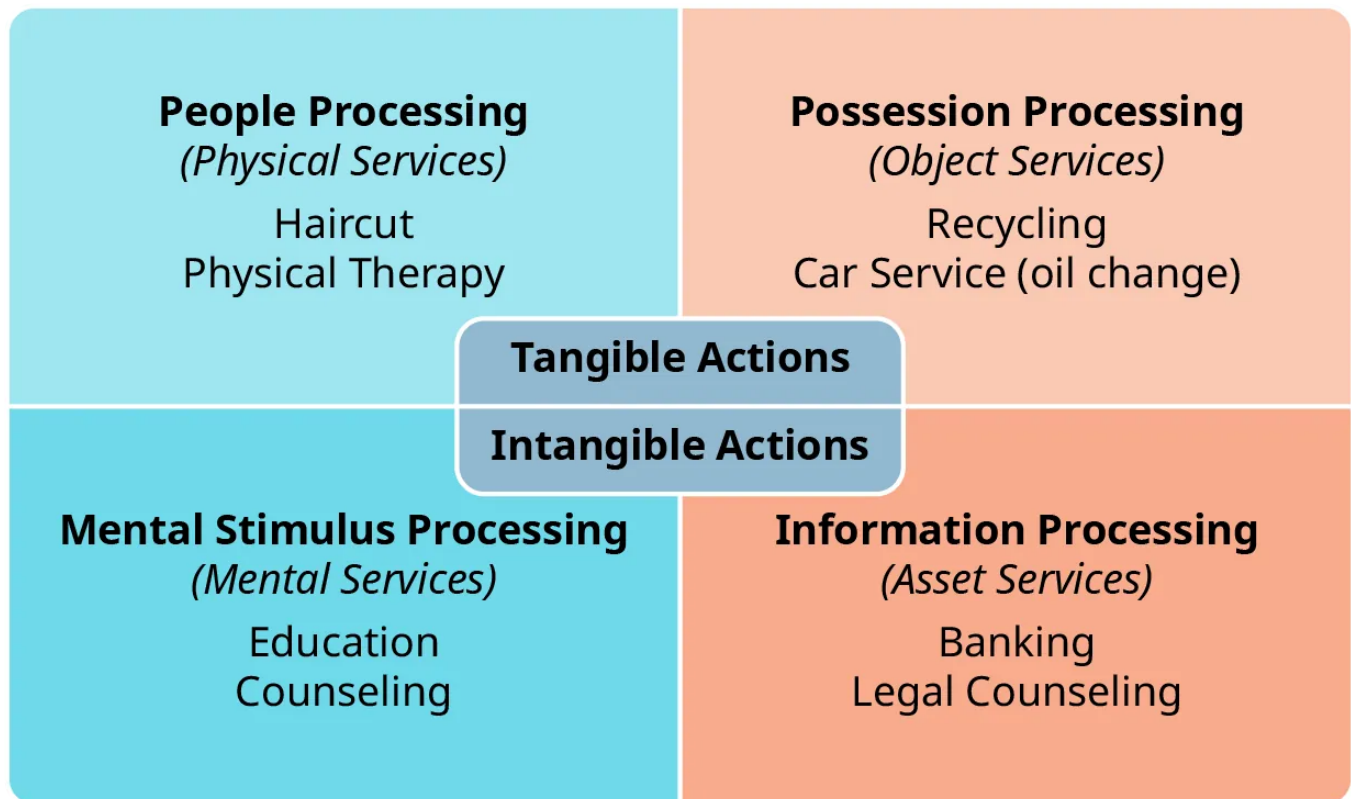


Figure 9.11.6 Lovelock's Categories of Service (CC BY 4.0; Rice University & OpenStax)

Link to Learning: Lovelock

If you plan to continue toward a marketing degree, you'll want to familiarize yourself with Christopher Lovelock's work. You can run a search on Amazon.com for his books or a search in your browser for articles and more information. Start by reading his [Wikipedia page](#) to learn about his academic background and achievements.

Let's look at each of these categories in more depth. The first two categories (people processing and possession processing) involve tangible actions directed toward a person's physical body or property, whereas mental stimulus processing and information processing involve intangible actions directed toward a person's mind or information. We'll expand on this in the following sections.

People Processing

In people processing services, the customer is a direct recipient of the service, and the production and consumption of the service are simultaneous. Consider examples of services where you must be present in the service facility to interact with the service provider and receive the service, such as barbershops or hair salons, physical therapists' offices, or restaurants.

Possession Processing

The difference between people processing and possession processing is that the service is directed toward the customer's physical possessions. In other words, production and consumption are separate. Your only involvement is dropping off the item that requires service or repair and explaining the problem. For example, once you have taken your car in for an oil change, you do not need to be physically at the location for the oil change to occur. Similarly, once you've dropped your clothes off at the dry cleaners, you don't need to be physically present during the cleaning process. These services are tangible because the direct recipient is not you but one of your possessions.

Mental Stimulus Processing

In its simplest explanation, mental stimulus processing is when the services interact with your mind rather than your body. Time and mental effort are required from the customer to receive this type of service. What you're doing right now—reading this textbook—is a prime example of mental stimulus processing. Other examples include psychotherapy or counseling services. The key here is that services rendered in this category are intangible.

Information Processing

Information processing is the most intangible form of service, although it can be transformed into a tangible service output like reports, books, letters, DVDs, etc. An example of information processing services would be meeting with your financial advisor regarding investment advice, legal services, and banking (Panchal, 2014).

Link to Learning: Service Industry Stats and a Changing Industry

If you'd like more insight into service industries, check out the U.S. Bureau of Labor Statistics website. It categorizes industries and provides interesting statistics on employment.

Companies are launching new services every day. Think about it—services like Uber didn't exist 20 years ago. As a marketer, understanding services and their business models is critical. [Start here and read about on-demand service companies](#) and how services—and apps—are changing the industry. Also, check out this article about the top 15 service businesses for 2022.

Characteristics of Services

As outlined in Figure 9.11.2, service industries contribute the major percentage of the US GDP. It's important to understand that this shift from the manufacturing sector to the service sector isn't limited to the United States. Increasingly, the world economy is being characterized as a service economy. Looking at economic history, we can see a natural evolution in developing countries from the agricultural industry to the service sector as the mainstay of the economy. That's why marketers must understand the characteristics of services.

As we pointed out above, some services come from physical products, such as getting a haircut or having your income tax return prepared by a professional. But other services are completely intangible. When you rent a hotel room, travel on an airplane, visit your doctor, attend a professional sporting event, or get advice from a lawyer or an accountant, you're buying a service, so a marketer needs to consider the characteristics of services to get the right marketing messages to the right target market (see Figure 9.11.7).

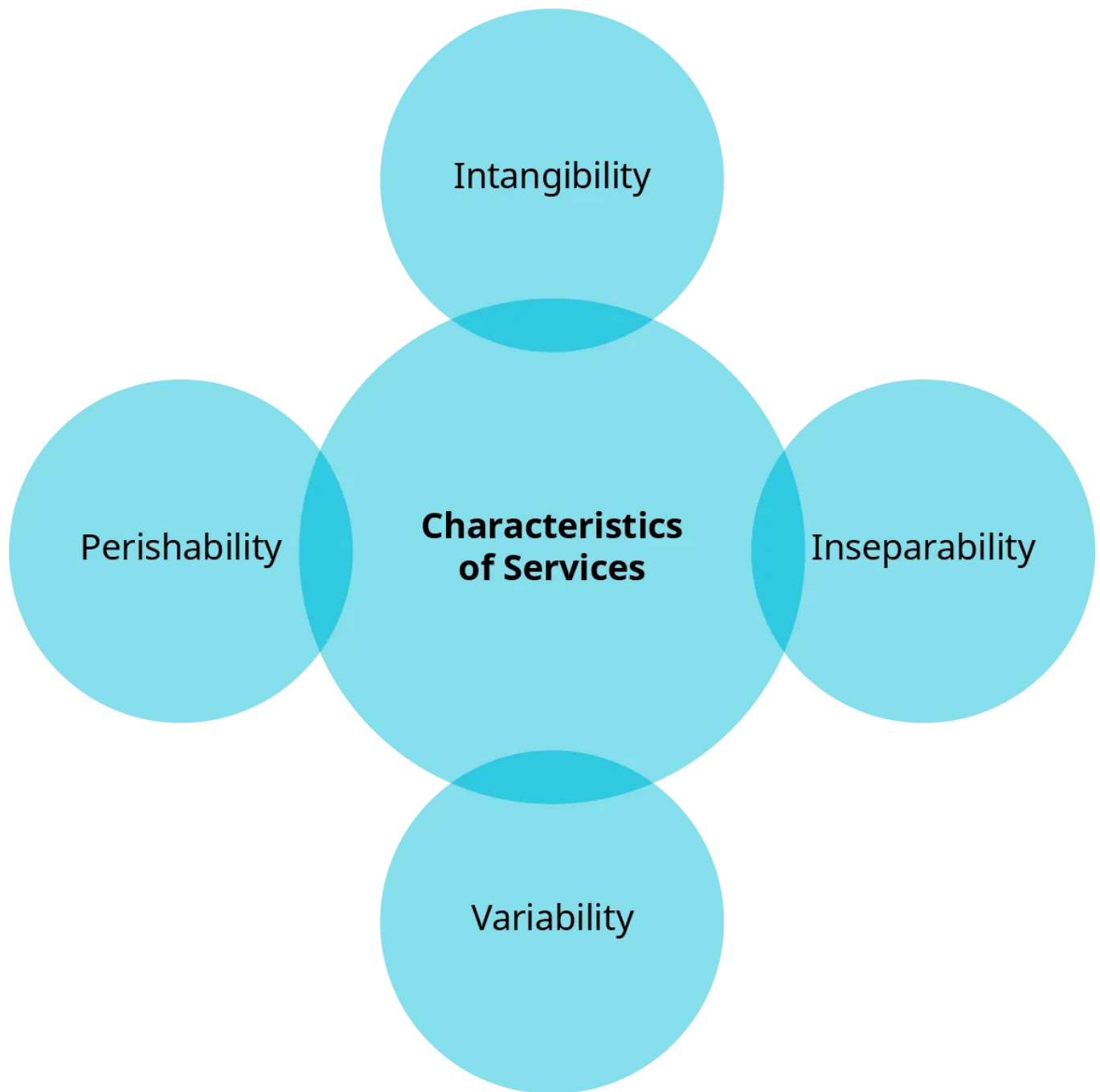


Figure 9.11.7 Characteristics of Services (CC BY 4.0; Rice University & OpenStax)

Service Intangibility

By their very nature, services are intangible. This means they can't be seen, tasted, felt, smelled, or heard before they are purchased. Consider the last time you purchased automobile insurance for your car. Other than the physical policy the company sends you (the only tangible asset), what you've paid for is completely intangible—it's the company's promise to pay claims against the policy.

Intangible services have a number of implications in marketing. The very fact that there's nothing to touch, hear, smell, and so on typically increases the level of uncertainty that a consumer faces when choosing between services offered by your organization or those of competitors. Intangible services can seldom be tried out, inspected, or even given a "test drive" by a customer. Customers have to rely on the word of the marketers to assess what they're actually going to get in return for what they've paid. In effect, they are buying a promise.

Savvy marketers reduce this uncertainty by creating physical "evidence" that allows the consumer to picture the service before it is purchased. For example, a hair salon may have imaging software that predicts how you would look with different hairstyles or colors. Companies like Zenni and Eyebuydirect have a virtual mirror that allows you to "try on eyeglasses" and see how the selected frames look on your face before you purchase (Jake, 2024).

Service Inseparability

The order of production and consumption between a physical product and a service differs. Think about a box of Girl Scout cookies, a physical good or product. The cookies were produced, stored, sold, and finally consumed. That's not the way it works with services. Like goods, services are sold, but they are produced and consumed simultaneously. They can't be separated from the service providers, whether people or equipment (Muntasir, 2024). For example, try to get money out of your bank on a weekend or evening without an ATM or get a haircut without the physical presence of your stylist. That's the concept of service inseparability—you can't separate the delivery of the service from the presence of the customer. In other words, the service provider is physically connected to the service and is evaluated based on their communication skills, language, demeanor, personal hygiene, and clothing.

The impact to the marketer in these services—in which the service provider and customer must both be present—is how service providers (sometimes called frontline employees) conduct themselves in the customer's presence because it may determine the likelihood of repeat business (Muntasir, 2024). There are also other marketing implications with this concept, such as customer cooperation and participation, not to mention the influence from other customers who may be present.

Service Variability

Have you ever gone to a restaurant and had stellar customer service? You were seated promptly by a cheerful hostess; the busser filled up your water glass and refilled it several times during the evening; the waitstaff was attentive but not annoying; and your dirty dishes were cleared promptly. But perhaps the next time you visit the same restaurant, your experience isn't quite as amazing. The hostess isn't as cheerful, and it takes her several minutes to seat you. It takes a while for someone to refill your water glass. The waitstaff isn't nearly as attentive as they were during your first visit. What went wrong?

Perhaps what you've experienced is what's known as service variability—the quality of the service depends on who provides it, when it is provided, and how it is provided. For example, Delta Air Lines prides itself on improving peoples' lives and exceeding customer expectations (Mission Statement Academy, 2024). However, because services are provided by humans who have human experiences where they may not be feeling well or are having a bad day, the service may vary between employees. One Delta employee may be cheerful and efficient, whereas another lags due to their energy and state of mind.

This is a challenge to marketers because products generally have little variability: each unit is built to certain specifications. For example, if you buy an Apple iPad Pro and your classmate purchases the same model, the two iPads will likely be virtually identical. The case color may be different, but otherwise, they are the same. That's not the case with a service, where there will undoubtedly be variations in the quality of the service depending on who offers the service, when it is offered, and at which location. Service-based companies need to rely on standardizing processes to the extent possible, frequent audits, customer surveys, and most importantly, customer feedback.

Service Perishability

Unlike most goods, services can't be produced and stored for later use or sale. Services are, in effect, performances by the service provider. That's the concept of service perishability. Did you miss tonight's concert because of traffic? Too bad, because a ticket for tonight's concert can't be used for tomorrow night's performance. Hotel rooms that are not occupied, airline seats that are not purchased, and unused gym memberships cannot be reclaimed (Muntasir, 2024). Because these items can't be stored for later use, they are considered a perishable service. This is particularly important for marketers because the perishability factor and the fluctuating demand pose special problems in capacity planning, scheduling, product planning, and pricing (Rao, 2007).

One way that marketers deal with this problem is by manipulating demand. Consider how many restaurants offer "happy hours" with discounted food and drinks during the late afternoon or early evening. Restaurants do this because this is typically the period where there is a lull before the start of the dinner rush.

Careers In Marketing: Salaries

You might be curious about the salaries of marketing jobs. Numerous online resources provide guides, but the best step to take is to check out popular sites like Monster, Indeed, and LinkedIn to view current job positions. They may not all include the salary, but most will include salary ranges. The following is a list of a few resources to get you started.

- Monster: "[High-Paying Marketing Jobs](#)"
- Acadium: "[How Much Do Marketers Make? Marketing Job Salaries in 2022](#)"
- All Business Schools: "[Marketing Manager Salaries and Job Outlook](#)"
- Indeed: "[Entry Level Marketing Salary in United States](#)"

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

You purchased an airline ticket to go on vacation, but on the way to the airport, you get a flat tire and miss your flight. Which characteristic of service does this example illustrate?

- a. Service variability
- b. Service inseparability
- c. Service perishability
- d. Service intangibility

2.

You go to a new hairstylist, and he suggests that you add highlights to your hair, cut off a few inches, and add some layers. You're hesitant to do so because you can't imagine what you'll look like with your new hairstyle. What characteristic of service does this example illustrate?

- a. Service intangibility
- b. Service variability
- c. Service perishability
- d. Service inseparability

3.

You go to the spa to get a massage, but your regular massage therapist is off for the day. The massage therapist to whom you're assigned does an adequate job, but they don't have the same technique as your regular massage therapist. What characteristic of

service does this example illustrate?

- a. Service inseparability
- b. Service perishability
- c. Service variability
- d. Service intangibility

4.

You go to your Certified Public Accountant (CPA) to have your tax return prepared and filed for the year. How would this service be characterized in terms of classifications of services?

- a. People-based services: unskilled labor
- b. Equipment-based services: unskilled operator
- c. People-based services: professionals
- d. Equipment-based services: skilled operator

5.

You're headed to lunch with friends at a downtown restaurant. Because there is no restaurant parking lot, you must park on the street and feed the parking meter or risk getting a parking ticket. How would the service provided to you by the parking meter be classified?

- a. Equipment-based services: unskilled operator
- b. People-based services: professionals
- c. People-based services: skilled labor
- d. Equipment-based services: automated service

This page titled [9.14: Classification of Services](#) is shared under a [CC BY 4.0](#) license and was authored, remixed, and/or curated by [Elisabeth Dellegrazie](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [11.1: Classification of Services](#) by [OpenStax](#) is licensed [CC BY 4.0](#). Original source: <https://openstax.org/details/books/principles-marketing>.