

## SERVICE MARKETING COMPETITIVENESS IN THE NEW ECONOMY

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**Abstract:** *In the new economy the basic characteristics of services determine service consumption, just as customer relationship management impacts on the approach to services marketing. Contemporary service customers perceive service quality in service encounters and in ongoing relationships as well. The perception of service quality may be presented as a basic model of perception, known in service marketing reference sources as The Perceived Service Quality Model.*

*Service marketers and marketing managers in the new economy have a real need for instruments for measuring service quality, in order to identify the characteristics and determinants of service quality. The SERVQUAL model is based on attribute approach to service quality, and describes five basic determinants of service quality: tangibles, reliability, responsiveness, assurance and empathy.*

*Competition in the contemporary service business is intensifying, and it is now increasingly important for service companies to understand service quality as a factor of marketing competitiveness. Therefore, service quality should be viewed as a distinctive approach to service competition in the new economy. Competitive service strategies may be different, but they should be based on service quality, considering variance in servicing customers' needs, purchasing behaviour and consumption patterns.*

*Service companies in the new economy need to focus their efforts on developing and improving service quality in order to satisfy the customers they can serve best. This means that service companies should conduct internal, market and competitor analyses. The results of suggested analyses show that service quality is an ongoing factor of marketing competitiveness in the new economy.*

**Key words:** *service marketing competitiveness, new economy, service quality.*

**Apstrakt:** *U novoj ekonomiji osnovne karakteristike usluga određuju uslužnu potrošnju kao što potrošački relationship menadžment utiče na pristupe marketingu usluga. Savremeni uslužni potrošači opažaju uslužni kvalitet u uslužnom susretu i u izgrađivanju, odnosno unapređenju odnosa. Percepcija uslužnog kvaliteta može se predstaviti u vidu modela percepcije, poznatog u referentnoj literaturi marketinga usluga pod nazivom Model opaženog kvaliteta usluge.*

*Uslužni marketari i marketing menadžeri u novoj ekonomiji imaju realnu potrebu za instrumentima pomoću kojih je moguće merviti kvalitet usluge, da bi se identifikovale karakteristike i determinante kvalitete usluge. SERVQUAL model kvaliteta usluge bazira se na atributskom pristupu kvalitetu usluge i opisuje pet osnovnih determinanti kvaliteta usluge: opipljivost, pouzdanost, odgovornost, sigurnost i empatija.*

*Konkurencija u savremenom uslužnom poslovanju je sve intenzivnija, zbog čega je uslužnim kompanijama sve značajnije razumevanje kvaliteta usluge kao faktora marketing konkurentnosti, zbog čega kvalitet usluge treba posmatrati kao distinktivni pristup uslužnoj konkurenciji u novoj ekonomiji. Konkurentske uslužne strategije mogu da budu različite, ali trebaju da budu zasnovane na kvalitetu usluge, imajući u vidu promenljivost potreba uslužnih potrošača, njihovo ponašanje prilikom kupovine usluga i primere potrošnje usluga.*

*Uslužne kompanije u novoj ekonomiji trebaju fokusirati napore na razvijanju i unapređenju kvaliteta usluge, kako bi u što većoj meri ostvarile satisfakciju potrošača. To znači da uslužne kompanije trebaju da sprovedu interne, tržišne i analze konkurencije. Rezultati navedenih analiza pokazuju da je kvalitet usluge sve značajniji faktor marketing konkurentnosti u novoj ekonomiji.*

**Ključne reči:** *uslužna marketing konkurentnost, nova ekonomija, kvalitet usluge.*

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## 1. Introduction

Studying the factors of marketing competitiveness increasingly raises the issue of service quality, which is acquiring decisive importance in designing a competitive service product. In the new economy customer relationship management approach, service quality is the basis for customer attraction and retention, as service quality and service delivery in modern business practices are very often the source of long-term and sustainable competitive advantage.

Defining quality in service economy is more complex in comparison to tangible products, bearing in mind the complexity, and even lack of possibility to standardize a major number of services. Reference sources offer various approaches and starting points in defining service quality, resulting in different definitions of service quality. Basically, there are five basic approaches to defining the notion of service quality (Kasper 2006, p. 177):

- the transcendent approach to defining service quality;
- production-based definition of service quality;
- service customer-based definition of service quality
- process-based definition of service quality;
- value-based definition of service quality.

Service quality is therefore differently defined depending on the approach and starting points, where the customer perception of services rendered, i.e. delivered, is the increasingly manifest factor. Consumers make service purchase decisions because their delivery provides them with certain benefits, satisfying their needs, demands and expectations.

## 2. Service quality

Defining the notion of service quality in the new economy, therefore, starts from customers, as quality is all that it implies for consumers, and the basis of their perceptions. This results in the fact that service quality is achieved if customer expectations are satisfied, or exceeded. In the new economy, service quality is undoubtedly a significant element of service product design process, as it influences the volume of demand for a given service product, as well as customer profile of this service product. It is believed that service quality represents the most significant positioning tool of service providers and their offer on the contemporary service market.

It is very important in services marketing to understand the impact of quality service on profit

and financial indicators of business performance (Gronroos 2006, p. 98). Service quality in the new economy must be viewed as a strategic force, but also as the key problem of service marketing management. One must bear in mind that service quality is a significant source of sustainable competitive advantage, as it affects the constant improvement of service performance by increasing market share and profit growth. Such a view of service quality yields an increase in financial results and achieving sustainable competitive advantage.

Quality-based service marketing strategy is sustainable in the new economy, as practice has shown that not all competitors can achieve the expected service quality. As a rule, service companies basing their marketing strategies on quality have a recognisable image on the service market, which competitors cannot appropriate or copy. Such a service marketing strategy therefore poses a barrier to developing competitive copycat marketing strategies.

Service quality is defined and attained by the service providers, while consumers perceive quality during the service delivery process. Quality-based service company management in the new economy should especially focus on four key areas important for achieving quality:

- service encounters (moments of truth);
- service design;
- service productivity; and
- service provider's corporate culture.

The way consumers perceive moments of truth is directly reflected on the evaluation of total quality service, especially in services whose deliveries are repeated, which implies highly professional approach to moments of truth, aimed at building and maintaining long-term consumer relations. Improving service quality and building long-term consumer relations requires good knowledge of moments of truth, i.e. activities carried out within those, as well as the customer perception of those.

Service exchange on the market is not possible without the appropriate design of service provision systems, whose functioning enables efficient service delivery. In service design decision-making, the key dilemma is related to the choice between the service personnel and the technological support to service delivery process, depending on whether the service provider is focussed on achieving maximum efficiency of full satisfaction of customer needs. Valid service design decision-making implies distinguishing between operative efficiency and consumer contacts.

Service productivity implies a relationship between the quality and quantity of service delivery, and the amount of engaged resources in the service delivery process. Productivity is much harder to achieve in new service economy, bearing in mind the labour intensity of services and their general characteristics. As consumers are active participants in the service delivery process, it is possible to develop consumer participation strategies aimed at increasing service productivity.

A service provider's corporate culture is also significantly reflected on the quality of services. Human resources and their organisation patterns may be significant competitive advantages of service providers in the new economy. Service providers' corporate culture affects both internal and external relations in service provision. Moreover, an appropriate service provider corporate culture also implies appropriate management style, corporate confidence, loyalty, as well as generally adopted working environment. A high degree of employees' trust in their management is the first precondition for building recognisable service provider's corporate culture.

Defining service quality is still a source of disagreement among experts and practitioners, primarily due to different understanding of:

- the nature of service quality, i.e. the dilemma whether quality is the perception of service performances or (non)confirmation of the presumed;
- the dimensions of service quality, in terms of a unique concept with a single dimension, or adopting the multidimensionality of service quality.

The currently dominant interpretation of the nature of service quality is that consumer perception of service quality is connected to certain benchmarks, if a given service can be standardised. Disagreements regarding the nature of service quality are mostly related to the relationship between satisfaction and service quality, where one group of authors deem that, in addition to quality, satisfaction is affected by a larger number of factors.

Diversity of definitions of service quality is even greater when it comes to understanding its dimensions. Multidimensionality of service quality has resulted in the development of a large number of service quality models, especially in the past twenty years or so. The complexity of service quality definition requires its decompositions, aimed at clear definition and efficient management.

### 3. The dimensions of service quality

Reference sources accept the position that perceived service quality has two basic dimensions, manifested in (Ljubojević, 2002, p. 130):

- technical or resulting dimensions and
- functional, i.e. service delivery process related dimensions.

The technical or resulting dimensions of service quality are associated to what the consumer receives in interaction with a service provider, as the consumers assess quality based on the benefits they receive from the service. One must bear in mind that consumer benefit represents only one dimension of service quality, in the form of technical quality, resulting from the service delivery process. However, numerous interactions between service companies and consumers within the moments of truths confirm that the technical quality dimension does not represent the only value of the total service quality.

The functional quality dimension is processual in character, and includes the ways in which a consumer receives, uses, pays for and perceives a certain service. This service quality dimension essentially includes all aspects of service delivery process, meaning that the delivery of services to consumers is as important as the result of service.

The two above mentioned service quality dimensions refer to what kind of service a consumer accepts and in what way. It is therefore the technical result, i.e. process outcome, and the functional dimension of the process. The consumer assesses the technical dimension of service quality much more objectively in comparison to functional, where the consumer's subjectivity in perceiving the service is manifest.

In the new economy, service quality may represent a significant source of competitive advantage, with the existent dilemma of which quality dimension decisively influences the achievement of superior quality. The previous period has seen more focus placed on the technical quality dimension, which is a good choice if a service provider develops advanced technical solutions unattainable by competitors. Favourizing the functional quality dimension is currently convenient for the majority of service companies, as practice points to the growing tendency of enhancing interactions between service providers and consumers, resulting in increased consumer perception of received service value.

The recent research in service quality dimensions have analysed a total of 19 service quality models, developed between 1984 and 2003. The model

evaluation placed special consideration on the following factors (Nitin 2005, p. 915):

- identification of factors relevant to achieving service quality;
- adaptability to different types of services;
- flexibility of response to ongoing changes in consumer perception;
- alternative options of service quality enhancement;
- developing consumer satisfaction measurement methods;
- identifying service providers' needs for employee training and education
- flexibility of response to changes in the environment;
- quality improvements initiated downstream and upstream;
- identifying service providers' future needs for resources;
- adopting contemporary information technologies in service provision;
- applying benchmarking in service provision.

The detailed analysis and evaluation of 19 service quality models, the consideration of the impact of the above factors on service quality, and the appreciation of various expert opinions did not enable the authors to select the best service quality model. However, the highest degree of agreement was reached in relation to the GAP model of service quality perception and the SERVQUAL model of perceiving service quality dimension. One must bear in mind that these are not generally adopted service quality models, but have served as a basis for developing new service quality models.

#### 4. Servqual model of service quality dimension

Service providers in the new economy aim for competitive satisfaction of consumer needs, demands and expectations, which gives the issue of service quality strategic importance. Strategic approach to service quality enables service providers to achieve the following positive effects:

- achieving sustainable competitive advantage;
- building and improving service provider image;
- affirmation of relation marketing;
- building consumer loyalty;
- optimum combination of service marketing mix instruments;
- enhancing service value, etc.

The knowledge of service quality dimensions greatly facilitates meeting consumer needs, demands and expectations, which is further reflected on achieving customer satisfaction (Hoffman 2006, p. 341). One must, however, bear in mind that the specific character of services (intangible, non-material, perishable, heterogeneous, simultaneous in production and consumption) results in a specific approach to analyzing service quality dimensions in comparison with material products.

Quite obviously, consumers will find it much harder to objectively assess service quality in comparison with material products, as services have significantly fewer tangible elements. In addition, consumer perception of service quality is the result of subjective comparison between expectations and achieved service performance. And finally, consumer assessment of service quality refers both to benefits received, i.e. service outcome, and to service delivery process.

Despite sporadic divergence, most widely accepted service quality model in reference sources is SERVQUAL. This model was developed in the early 1990s, and initially included ten basic service quality dimensions: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, empathy and tangibles.

Before purchasing and using a service, consumer can assess only two of the listed quality dimensions – tangibles and credibility, while the other quality dimensions represent the perceived service characteristics and consumers' beliefs. As the 10 service quality dimensions are too numerous for efficient service quality management, their number was subsequently reduced to 5 generally accepted service quality dimensions (Lovelock 2007, p. 420):

- Reliability, meaning that the service promised is to be delivered accordingly;
- Responsiveness, or care for timely delivery of services to the customer;
- Assurance, referring to service staff knowledge and courtesy, resulting in consumer confidence;
- Empathy, i.e. individual customer care;
- Tangibles, or service materialization based on physical elements, equipment, etc.

SERVQUAL is in fact a questionnaire of 22 questions, covering the above five basic service quality dimensions. This model is a specific multidimensional scale, comparing consumer perception to expectations related to service quality. Perception measurement is conducted on a scale of 1 (disagree completely) to 7 (agree completely). The basic service

quality dimensions are assessed by asking 4-5 questions in the questionnaire. In the meantime, the number of questions on the questionnaire was reduced, so that the service consumers are expected to respond to 21 statements.

The received customer responses on a given service provider are further compared with the expectations from 'world class companies', i.e. 'benchmark companies' providing the given type of services. Questions related to the work of a given service providers supply answers on the services rendered by the given provider, which serves as a basis for defining consumer perceptions. Questions related to the operation of an ideal service provider enable the consideration of consumer preferences and expectations in terms of delivery of a certain type of service. SERVQUAL model allows for general comparison of results, resulting in the identification of the highest discrepancy between service delivered and consumer expectations.

Testing the basic service quality dimensions on the example of a given service provider and comparison of those with the service quality dimension of a benchmark service provider enables the collection of a large amount of useful information that can be used in service provision. Such information is used when:

- determining the average consumer perception discrepancy score in relation to expectations from each of the observed service quality dimensions;
- assessing service quality of a given service provider, based on all five service quality dimensions;
- monitoring changes in consumer expectations and perceptions of all or individual service quality dimensions;
- identifying and analysing individual segments of service consumers that are significantly different from the service provider's performance assessment;
- comparing internal service quality standards with the discrepancies in the work of the service provider's individual branches, subsidiaries, or organisational units.

The SERVQUAL model of service quality dimensions is applied in various cultures, both on corporate and end user markets, equally in profit and non-profit sector. This model is applied in services related to property business, public sector leisure industry, educational services retailing, financial services, healthcare services, power supply services, maintenance services, hospitality industry etc.

## 5. Gap model of service quality

The second service quality model widely accepted in reference sources is the GAP quality model. This model was developed in 1985 by Parasuraman *et al.*, highlighting that service quality is a function of consumer perception, i.e. the way how consumers perceive a service, and expectations formed before purchasing a given service. In GAP model, service quality is represented by the following formula (Veljković 2006, p. 256):

$$SQ = \sum_{j=1}^k (P_{ij} - E_{ij}),$$

where:

SQ = service quality;

P<sub>ij</sub> = Performance perception of stimulus i with respect to attribute j

E<sub>ij</sub> = Expectations of the organisation for item i in dimension j.

GAP model was originally based on ten basic service quality dimensions, pointing to the initial influence of SERVQUAL service quality. The development of GAP service quality model has led to the reduction of the initial number of service quality dimension to five basic ones.

This service quality model is used in the new economy problem source analysis related to service quality, and enables the management of service companies to consider of ways of enhancing service quality. Its key features refer to pinpointing gaps in service quality (Zeithaml 2006, pp. 34 – 43). Gaps in service quality appear in the relation between the service consumer and provider, and are determined by consumer perceptions and expectations. The analysis of gaps results in the consideration of activities to be taken so as to remove the shortcomings in service quality. Essentially, GAP model shows the process of the emergence of creating service quality.

The basic gap in such a quality model is the consumer gap, occurring due to differences between consumer expectations and consumer perception in a given service transaction. Consumer expectations are determined by previous experience, knowledge of certain services, but also by promotional support to the exchange of the given service. Consumer gap arises due to the action of one of the four gaps in the service provider, as a result of discrepancy in the creation and delivery of services to consumers.

The first service provider gap is the discrepancy between consumer expectations and consumer perception management. It is about the lack service provider management's failure to understand the real

consumer expectations. This gap arises as a consequence of inaccurate conformation gathered in market research, competition analysis, demand analysis, etc.

The second gap occurs due to discrepancy between management perceptions and service quality perceptions. Discrepancies occur between the ways consumer expectations are perceived and the creation of services, i.e. definition of quality standards that should respond to consumer preferences.

The third gap refers to the disharmony between quality specifications and performances in the production and delivery of services. In other words, there is a discrepancy between the definition, i.e. design of services and the way the services are delivered to consumers.

The fourth gap represents the difference between service delivered and what was promised to consumers through various communication forms. Marketing communication makes promises to consumers which are not consistent with the service delivered, i.e. much more is promised than the service provider has given to the consumer.

One must bear in mind that each of the above gaps is reflected on the total service quality perception, as well as the consumer satisfaction. These discrepancies may have extremely detrimental consequences for service quality, requiring timely response and corrections in observed discrepancies in the design and delivery of service.

## 6. The perceived service quality model

In the new economy there are significant differences in measuring the satisfaction of service consumers and physical product consumers. Physical product consumer satisfaction is measured with instruments describing the significant features of these products. The Perceived Service Quality model was developed as the concept framework for understanding the features of a service. This model includes the outcome of a service, the service process and the service provider's image.

Service management in the new economy involves various opinions on what comes first: consumer perception of quality of consumer satisfaction? Despite the stated differences of opinion on priorities, there is significant similarity among experts related to perceived service quality. The Perceived Service Quality Model is not a model for measuring service quality, but a basis for developing service supply of a certain quality.

The tenet of the Perceived Quality Model is that consumers first perceive service quality based on

its basic dimensions, followed by consumer satisfaction with the delivery of certain services. This means that consumers first perceive service quality, and then comes the perception of the satisfaction of delivered service.

The analysis of various service quality models can define the seven criteria of good perceived service quality:

- professionalism and skills;
- attitudes and behaviour;
- accessibility and flexibility;
- reliability and trustworthiness;
- service recovery;
- serviscape;
- reputation and credibility.

Professionalism and skills are reflected on the outcome of service and represent the technical dimension of service quality. Reputation and credibility are reflected on the image of service providers and result in the screening of service quality. Attitudes and behaviour, accessibility and flexibility, reliability and trustworthiness, and service recovery are the criteria reflecting on the servicing process and represent the functional dimension of service quality. The impact of the serviscape is a relatively recent criterion, defined by Bitner, Rust and Oliver, which is also reflected on the servicing process, and ranges among the functional service quality dimensions.

The listed seven criteria of good perceived service quality may be useful principles in the new economy service quality management. Of course, these are not the only criteria of good perceived service quality bearing in mind the heterogeneity of services and differences in service consumer expectations. Their relative role in and importance varies depending on the specificity of indifical situations in the service exchange process.

## 7. Conclusion

Service marketing competitiveness in the new economy implies the consideration of the impact of a large number of factors. Undoubtedly, price represents a significant factor of service competitiveness, but with the increase of consumers' income, there is a noticeably growing role of service quality as a factor of marketing competitiveness.

Most authors regard price and quality as the most important factors of service competitiveness in the new economy. However, the relation between the price and quality of services is not always completely clear. In most cases prices of services correspo-

nd to consumers' quality expectations or previously perceived service quality. In certain situations, price may be also regarded as a service quality criterion, which is especially manifest in professional and other highly intangible services.

Considering service quality as a factor of marketing competitiveness has also influenced the development of the total quality management (TQM) concept, which is a significant breakthrough in understanding the role and importance of service quality in achieving marketing competitiveness.

Service quality as a factor of marketing competitiveness in the new economy is the basis for developing efficient and effective strategies of contemporary services marketing, i.e. avenues of corporate rivalry on the competitive service market. Service quality is not only a factor of marketing competitiveness, but also a source of sustainable competitive advantage on the contemporary service market, as it represents the recognisable and relatively greater strength of one service provider in comparison with others. Service quality-based competitive advantage in the new economy implies constant improvements in quality and increasing total service consumer value, i.e. benefits.

Finally, one must bear in mind that service quality is a dynamic marketing competitiveness factor, although most service quality models are static. As services are processes by definition and inherently relationship oriented, service providers in the new economy need to consider changes in consumer qua-

lity perceptions, serving as a basis for developing relationship service quality.

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### **USLUŽNA MARKETING KONKURENTNOST U NOVOJ EKONOMIJI**

**Zaključak:** *Uslužna marketing konkurentnost u novoj ekonomiji podrazumeva sagledavanje uticaja većeg broja faktora. Nesumnjivo je da cena predstavlja značajan faktor konkurentnosti usluga, ali sa porastom prihoda potrošača primećuje se rastuća uloga kvaliteta usluge kao faktora marketing konkurentnosti.*

*Većina autora za najznačajnije faktore konkurentnosti usluga u novoj ekonomiji smatra upravo cenu i kvalitet. Međutim, veza između cena i kvaliteta usluga nije uvek potpuno jasna. Najčešće, cene usluga odgovaraju očekivanjima potrošača od kvaliteta ili prethodno opaženom kvalitetu usluge. U određenim situacijama cena se može posmatrati i kao kriterijum kvaliteta usluge, a to znači da viša cena podrazumeva i viši kvalitet usluge, što naročito dolazi do izražaja kod profesionalnih usluga i drugih usluga koje su krajnje neopipljive.*

*Sagledavanje kvaliteta usluge kao faktora marketing konkurentnosti uticalo je i na razvoj koncepta totalnog menadžmenta kvalitetom (TQM), koji predstavlja značajan pomak u shvatanju uloge i značaja kvaliteta usluge u ostvarivanju marketing konkurentnosti u novoj ekonomiji.*

*Kvalitet usluga kao faktor marketing konkurentnosti u novoj ekonomiji predstavlja osnov za razvijanje efikasnih i efektivnih strategija savremenog marketinga usluga, odnosno načina nadmetanja kompanija na konkurentnom tržištu usluga. Kvalitet usluge nije samo faktor marketing konkurentnosti, nego i izvor*

*održive konkurentske prednosti na savremenom tržištu usluga, jer predstavlja prepoznatljivu i relativno veću snagu jedne uslužne kompanije u odnosu na druge. Konkurentska prednost nastala na kvalitetu usluge u novoj ekonomiji podrazumeva stalno poboljšanje kvaliteta i povećanje ukupnih vrednosti, odnosno koristi koje se pružaju uslužnim potrošačima.*

*Na kraju, treba imati u vidu, da je kvalitet usluge dinamički faktor marketing konkurentnosti, iako je većina modela kvaliteta usluge statička. Budući da su usluge po definiciji procesi i suštinski relationship orijentisane, uslužne kompanije u novoj ekonomiji trebaju da uvažavaju promene u potrošačkim percepcijama kvaliteta, na osnovu kojih se razvija relationship kvalitet usluge.*