
Finance, Operations, and Marketing Conflicts in Service Firms

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The insightful observations of V&L should dramatically influence academic research in marketing and other disciplines. Vargo and Lusch eloquently and provocatively detail why the mainstream marketing disci-

pline must react to obvious dramatic changes in the world economy. It must be recognized that (1) the service sector dominates most developed economies in the world and employs nearly all marketing students; (2) the systems that deliver manufactured products (i.e., service) often provide more value-added for the customer than do the delivered manufactured products themselves; (3) managing company–consumer service interactions requires adaptation, dynamic strategies, and learning new competences; and, consequently, (4) marketing research requires reinvention.

The spirit of V&L is undeniable. As service-dominated economies replace manufacturing-dominated economies, most transactions involve government, high-end business services, health care (e.g., Kahn and Luce 2003), legal services, transportation services, evolving communications, multichannel retailing, financial services, and personal services.

Three questions emerge, the answers to which might dictate the station, and perhaps survival, of the marketing discipline. Although survival seems a hyperbole, consider the following: First, stagnant consumer packaged-goods manufacturers rather than lucrative financial services or rapidly expanding business services predominantly employ marketing's best students. Second, although top corporate officers of consumer packaged-goods firms often have marketing pedigrees, other backgrounds (e.g., finance, law, operations) prevail for most service firms (Doyle 2000; Fredman 2003; Pasa and Shugan 1996). Third, although new marketing faculty members enjoy increased starting salaries this year, their salaries still lag those of hires in information systems, operations, accounting, and finance (AACSB 2002–2003 Salary Survey). Fourth, the gap between academic research and the content of basic marketing textbooks is growing. Fifth, knowledge of the marketing literature is less of a competitive advantage for marketing doctoral students who face competition from nonmarketing doctoral students.

What Are the Risks of Doing Research with a Service Orientation?

Many authors (e.g., V&L) justifiably advocate implementing radical new research directions, but nontrivial impediments and perilous obstacles await researchers. First, much of the marketing discipline concerns itself with developing and refining tools for analyzing numeric data, which historically have been cross-sectional survey data. These data endowed marketing groups with unique advantages: having valuable information not available elsewhere in the organization and having homegrown techniques with which to analyze it. A shift to longitudinal transaction data makes the techniques less valuable. Moreover, longitudinal transaction data are well understood by finance, operations (e.g., the airlines), accounting, information systems, and other business disciplines, which have analyzed the transaction data for years and have developed their own decision-making tools that employ that data. The marketing discipline's distinctive competency in this domain is unclear.

Second, generality is a traditional holy grail of academic research. The developers and zealous stewards of existing methods and theories will enthusiastically proclaim that new methods are unnecessary. Their current treasured methods

are equally applicable to data on soap sales or data on surgery.

Third, services (as defined by the U.S. Census Bureau) possess neither entirely unique nor mutually common properties. For example, although psychiatric services are intangible, setting broken bones is no less tangible than the scent of manufactured perfumes. Although consulting services require clients, airplanes fly without passengers. Although inventorying empty airline seats after departure is difficult, many manufactured goods are also highly perishable. Although dry-cleaning services require some customer participation, driving manufactured automobiles requires greater degrees of customer involvement.

Is the Marketing Function Important to Service-Oriented Firms?

Marketing is certainly an essential activity that is worthy of serious academic research. However, for service industries, other disciplines make compelling claims to greater relevancy. In the airline industry, marketing might take a backseat (no pun intended) to maintenance- and safety-related functions. For many public utilities (e.g., electricity, water, emergency services), marketing might take a backseat to legal concerns and regulatory obligations. Do pilots require a customer orientation or flight training? Are restaurant servers more important than the quality of meals? Do deficiencies in marketing or operations explain the high rate of bankruptcies among service providers? Was the titanic battle between Kmart and Wal-Mart resolved on the operations battlefield or on the marketing battlefield (Muller 2002)?

The fundamental marketing concept of a customer orientation can be vague. For example, who is the customer of a hospital? Is it the patient who receives the service, the insurer who pays for the service, the admitting physician who refers the patient, the government regulator who specifies the service, or the employer who chooses the health-care provider? Are the customers of colleges the students, the parents who pay the tuition, the taxpayers who provide subsidies, the donors who provide funding, the corporations who hire the students, the grant providers, the government, or society at large?

Despite the significant role of marketing, modesty is appropriate. Marketing must coexist with finance and operations. Researchers in marketing must recognize and contemplate the impact of marketing activities on operations as well as their financial impact. For example, complex or confusing promotions might tax servers, thereby causing a dramatic detrimental impact on server time per customer. Moreover, marketing must be accountable to finance and justify marketing activities by measuring both customer satisfaction and the consumption of precious organizational resources. For example, it must be considered how marketing activities affect scarce resources (e.g., server time, space, administrator attention) during times of peak capacity.

What Service-Related Research Problems Crave Attention?

Rather than directly attacking existing views as simply inadequate (despite justification) or arguing for the universal

dominance of the marketing function, perhaps a more humble approach is possible. Scholars might focus on overcoming concrete problems and daily challenges commonly faced by particular service industries (Shugan 2003). The primary concern is the implementation of marketing activities, including their financial impact (e.g., Rust, Moorman, and Dickson 2002) and impact on operations (e.g., Evangelist 2002).

As extensions of prior work, further research should explore the following challenges:

- Implementing marketing strategy in an operations-dominated environment (e.g., Eliashberg et al. 2001);
- Measuring the impact of marketing strategies on short- and long-term profits (e.g., Leeflang and Wittink 2000);
- Managing demand and enhancing profits, given capacity constraints;
- Developing new services in which implementation is more critical than design;
- Developing recovery systems for mitigating almost-certain failures in service delivery systems (e.g., Hart, Heskett, and Sasser 1990);
- Making personal selling more effective by adding service;
- Developing marketing strategies for exploiting seasonality and diminishing its deleterious impact on server capacity (e.g., Radas and Shugan 1998);

- Increasing sales and profits when teams deliver the service;
- Marketing when third parties pay for the service or evaluate it (Eliashberg and Shugan 1997);
- Using marketing to train effectively and to retain employees;
- Marketing more effectively information services, entertainment, and services with low marginal costs;
- Developing highly profitable ancillary services to complement low-margin core services (e.g., concessions at movie theaters);
- Balancing self-service and employee-delivered service;
- Determining the optimal amount of customization (e.g., Anderson, Fornell, and Rust 1997) in a rate-based pricing environment;
- Developing internal marketing programs to motivate service employees;
- Determining when and how to advance sell services (Moe and Fader 2002; Xie and Shugan 2001);
- Developing creative pricing ideas for services (e.g., Biyalogorsky and Gerstner 2004);
- Building network externalities for services (e.g., Basu, Mazumdar, and Raj 2003); and
- Measuring the impact of more service on customer welfare (e.g., Liu, Putler, and Weinberg 2004).

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