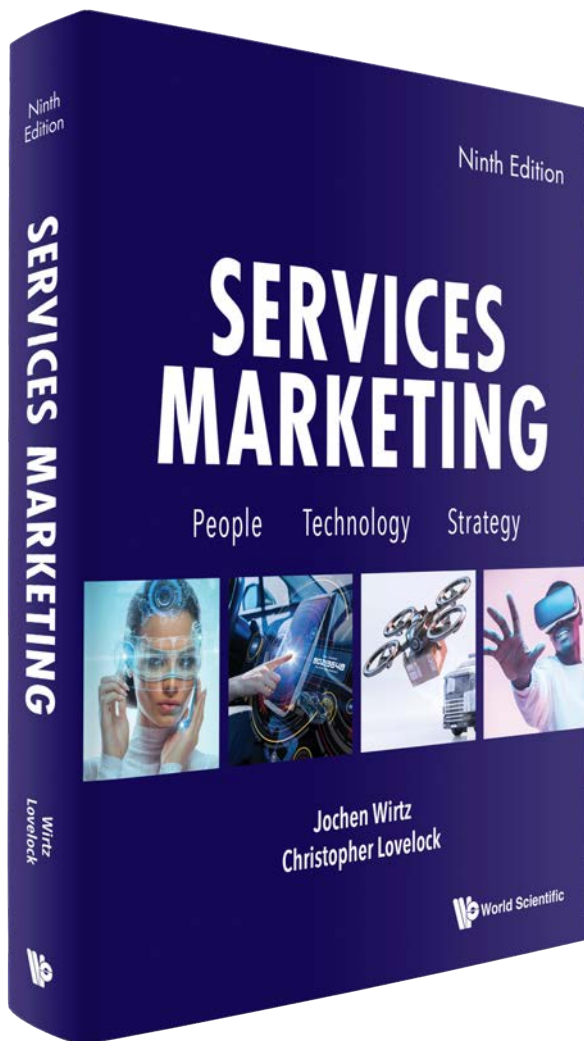


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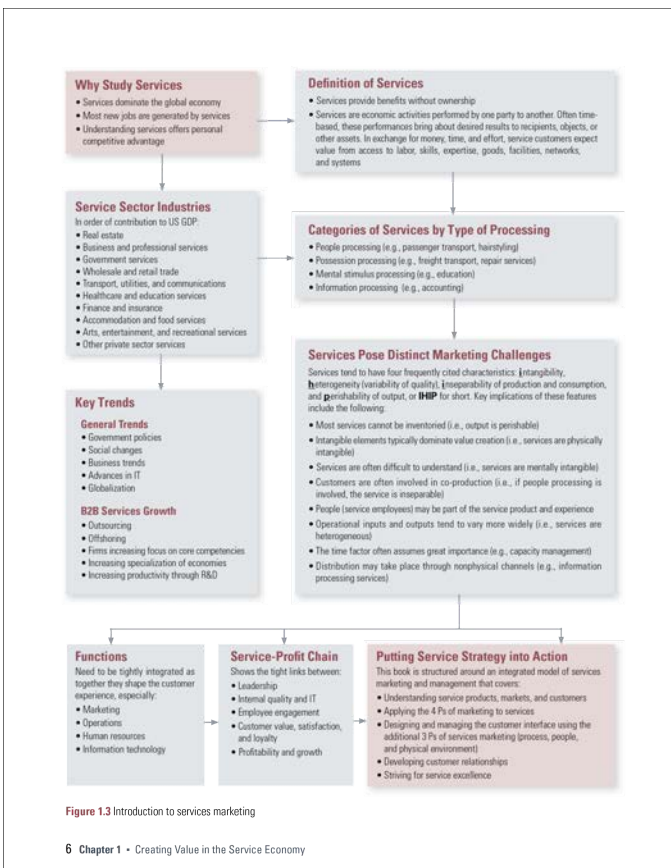
This text is designed for advanced undergraduates in Bachelor of Business Administration, Bachelor of Marketing and Bachelor of Business, as well as MBA and EMBA students. *Services Marketing* places marketing issues within a broader general management context. The book will appeal to both full-time students headed for a career in management and EMBA and executive program participants who are combining their studies with ongoing work in managerial positions.

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“... ends with a chapter summary in concise bullet points...”



CHAPTER SUMMARY

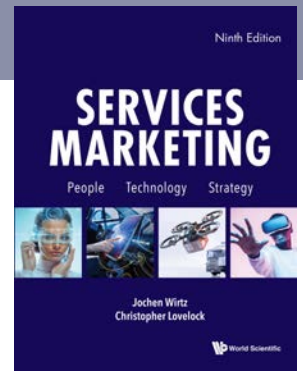
- LO 1 Services represent an important and growing contribution to most economies in the world. As economies develop, services form the largest part of the gross domestic product (GDP) of those economies. Globally, most new jobs are generated in the service sector.
- LO 2 The principal industries of the service sector include (in order of contribution to US GDP):
 - Real estate services
 - Business and professional services
 - Government services
 - Wholesale and retail trade
 - Transport, utilities, and communications services
 - Healthcare services
 - Finance and insurance
 - Accommodation and food services
 - Arts, entertainment, and recreation services
- LO 3 Many forces are transforming our economies, making them more services-oriented. They include government policies, social changes, business trends, advances in technology, and globalization.
- LO 4 Business services allow manufacturing firms and other service organizations to outsource noncore activities, processes, and assets. What used to be a neglected support activity in a client organization has become the management focus and core competency of an independent service provider. The benefits include:
 - Economies of scale and scope, an operation that is way down the learning curve and therefore operates at high quality and productivity levels.
 - Tight cost and quality control (performance can be benchmarked across many sites).
 - Process improvements and research and development (R&D) are applied to these services as the benefits can be reaped across multiple sites.
 - The rapid growth of business services leads to an increasing specialization of advanced economies with significant gains in overall productivity and standards of living.
- LO 5 Outsourcing refers to the contracting of services that were previously conducted internally in an organization to an external service provider. Offshoring refers to services that are conducted in one country and consumed in another. Outsourcing and offshoring are independent (e.g., firms can outsource without offshoring to a domestic service provider; or offshore without outsourcing to a foreign subsidiary), but often work in tandem (e.g., a US-based firm outsources a customer contact center to a service provider in the Philippines).
- LO 6 What exactly is a service? The key distinguishing feature of a service is that it is a form of rental rather than ownership. Service customers obtain the rights to hire the labor, skills, and expertise of personnel; use a physical object or space; or access shared facilities, networks, and systems. Services are performances that bring about the desired results or experience for the customer.
- LO 7 Services vary widely and can be categorized according to the nature of the underlying process: Is the service directed at customers or their possessions? Are service actions tangible or intangible in nature? These distinctions have important marketing implications and lead to four broad categories of services:
 - People processing
 - Possession processing
 - Mental stimulus processing
 - Information processing

Mental stimulus and information processing can be combined into what is called information-based services.
- LO 8 Services have unique characteristics that make them different from goods, including the frequently cited four characteristics of intangibility, heterogeneity (variability of quality), inseparability of production and consumption, and perishability of output, or HIMP for short. These characteristics lead to the following marketing and management challenges:
 - Intangible elements usually dominate value creation (i.e., physically intangible).
 - Services often are difficult to visualize and understand (i.e., mentally intangible).
 - Most service products cannot be inventoried (i.e., are perishable).
 - Operational inputs and outputs tend to vary widely (i.e., heterogeneous).
 - People may be part of the service experience.

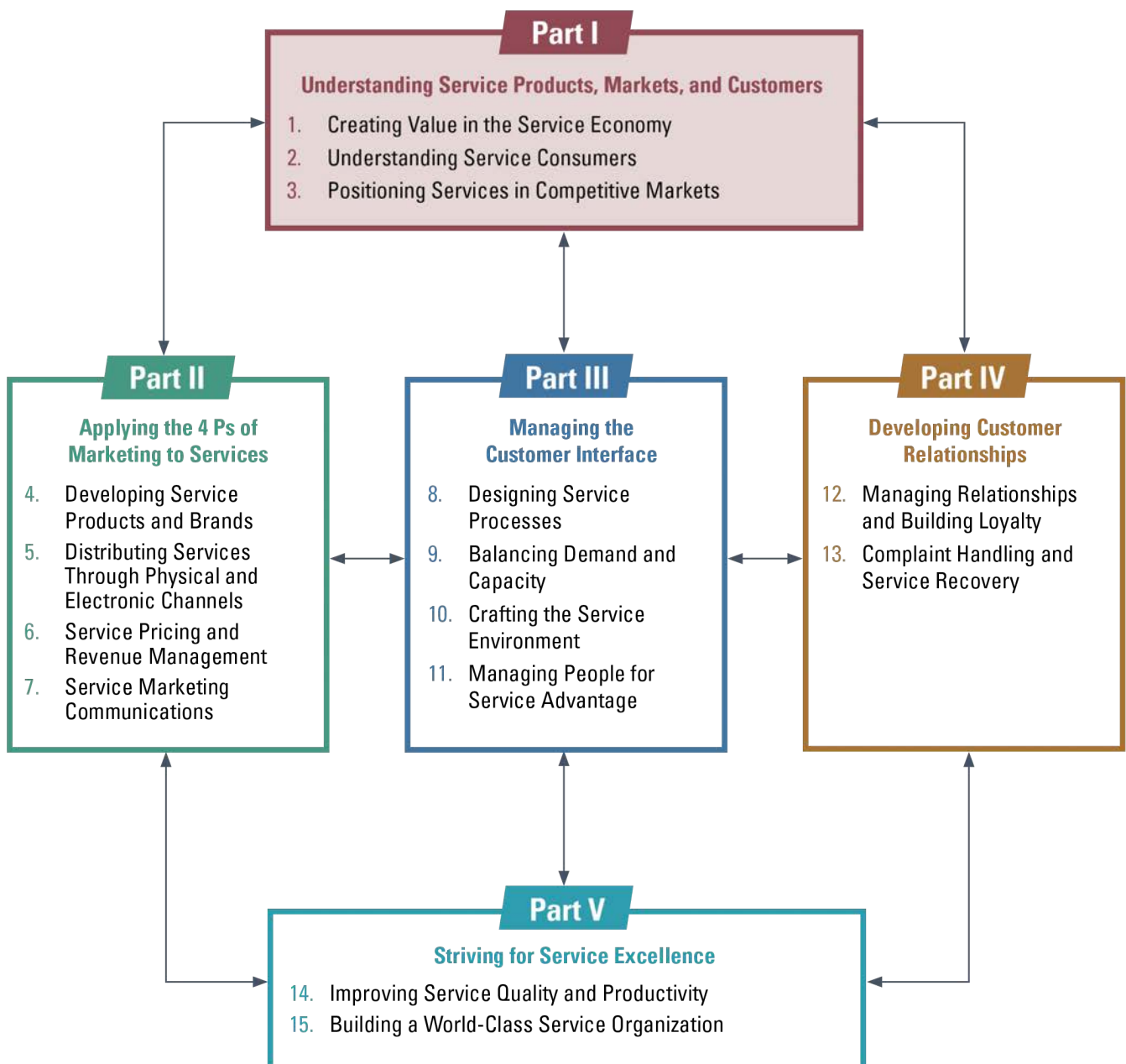
34 Chapter 1 • Creating Value in the Service Economy

"It is a superbly researched and comprehensive work, witnessed by the extraordinary list of acknowledgements of contributions by global colleagues. It presents a well-developed managerial and global perspective, organization and inclusive content that makes it the exemplar among services marketing texts that should well serve both professional and advanced academic needs. It is the premier services marketing source for university marketing faculty, advanced undergraduate and graduate students, and marketing professionals."

Professor Emeritus Merlin Simpson
Pacific Lutheran University



The Services Marketing Framework



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- Case 1 Sullivan Ford Auto World
- Case 2 Dr. Beckett's Dental Office
- Case 3 Digital Luxury Services: Traditions versus Innovation in Luxury Fashion
- Case 4 Uber's Unintended Burdens
- Case 5 Kiwi Experience
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- Case 23 Uber: Competing as Market Leader in the US versus Being a Distant Second in China
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- Case 29 Bossard Asia-Pacific: Can It Make Its CRM Strategy Work?
- Case 30 Customer Asset Management at DHL in Asia
- Case 31 The Broadstripe Service Guarantee

CASE
04

Uber's Unintended Burdens

Christopher S. Tang and Jochen Wirtz

PART 6

On August 13, 2020, Uber chief executive officer (CEO) Dara Khosrowshahi explained that Uber is backing Proposition 22 that would exempt it from Assembly Bill 5 (AB5), a California law that would require Uber to treat its drivers as employees with benefits effective January 1, 2020. To win over California voters, Uber and Lyft were considering to shut down their services “temporarily” in California as a means to appeal to voters who vote on Proposition 22 in the November ballot.

Given Uber lost over \$8 billion in 2019 and was expected to lose \$6 billion by October 2020, the AB5 law was expected to increase Uber's operating cost dramatically. Also, it would be a major blow to Uber and other gig economy (e.g., Uber Eats, Grubhub, Deliveroo) if other states in the United States and other countries were to propose labor laws similar to AB5. In that case, Khosrowshahi's premonition that Uber may never be profitable when it filed for an initial public offering (IPO) in 2019 would come true? Was this law to become the beginning of the end for Uber?



THE BEGINNING

Uber had been hailed as the disruptive force of transportation that could put taxi services out of business. Ever since Travis Kalanick and Garrett Camp founded Uber in 2009, this multinational ride-hailing company has expanded its services from ride-hailing (UberX, Uber Black, Uber Pool) to food delivery (Uber Eats), freight transportation (Uber Freight), and electric bikes and motorized scooter rental (through a partnership with Lime).

Uber's smartphone app was well-designed. By downloading the app and linking it with a credit card, a rider could immediately hail a ride by specifying the destination and pickup location. The app provided the

estimated price. Once agreed, the app would match the rider with nearby drivers and then provide the name, customer rating, the make, model, and license plate number of the car; the estimated time for the pickup; as well as real-time tracking information about the location of the driver. At the end of the ride, the rider could leave a tip and rate the driver. This seamless service had been well-received by riders.

Uber operated in a two-sided market. Its success hinged upon massive rider and driver participation. To reduce waiting time for riders, Uber needed many drivers. At the same time, to reduce idle time and increase earnings for drivers, Uber needed many riders. To entice both riders and drivers to participate, Uber was able to use venture capital funds³ to capture market share in many markets by heavily subsidizing drivers and riders, getting them to switch from taxi to Uber (*Exhibit 1*). Investors had valued Uber over \$70 billion even though Uber had been losing billions of dollars every year except in 2018 — the year before it filed for an initial public offering (IPO) (*Exhibit 2*).

THE INITIAL PUBLIC OFFERING

Uber celebrated its initial public offering (IPO) in May 2019 with huge fanfare, while many investors were nervous about Uber's profitability in the near future. To calm nervous investors, Khosrowshahi provided

Case Studies 553

Endnotes

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Study Questions

1. How could Uber retain its dominant position in the US market? Are there services and/or geographic niche markets where Uber should have accommodated Lyft?
2. How should Uber have competed with Lyft and other providers? Was the two-sided price competition (i.e., incentivizing drivers and riders alike to join and use its services) the right approach? How else could Uber have enhanced its competitive position?
3. Its customers and drivers were multithoming (i.e., they signed up with its competitors). Should Uber have aimed at exclusivity (i.e., a 100% share-of-wallet) or was it more realistic to aim to become the preferred provider with a high share-of-wallet?

558 Case 4 • Uber's Unintended Burdens

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