

Marketing Strategies For Small Businesses: Applications Of Expectations/ Performance Gaps

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ABSTRACT

Service businesses have been especially attractive as small businesses. Researchers and practitioners agree that service quality involves a comparison of perceptions of performance and expectations prior to consuming the service. A simple technique is illustrated that may be used to capture the essence of the "expected" versus "actual" quality gap that frequently exists in services and appears to be overlooked in establishing small service business strategies. Establishment of a particular marketing strategy that was developed in an SBI case as a consequence of this approach is discussed.

INTRODUCTION

Service-producing industries continue to dominate the U.S. economy in terms of both employment and output, and because of growth rates this dominance over goods-producing businesses is likely to continue into the next century (13,15). Further, services have been especially attractive as small businesses. The very nature of services imply that capital investments tend to be low, and because of the close relationship between service provider and client, individuals tend to have a very good chance of succeeding. Additionally, production skills learned by individuals within corporate structures translate very well when these individuals elect to form their own firms. Due to classification schemes, these individuals frequently become "service" providers of these same skills in their own small businesses.

Clearly, due to expected continued growth in this sector, strategies appropriate for small businesses should be of concern, and marketing strategies, in particular, should receive attention. Bradley and Saunders, for instance, in a study of bankruptcies over an eight year period concluded that lack of marketing skills could be listed as a major cause of most of these

NOTE: A portion of this study was part of a cooperative SBI project. The contributions of the students in conducting the work is thus acknowledged, and the authorization of the supporting firm to publish this paper is greatly appreciated. Also, the work was conducted while one of the authors was on a sabbatical stay at Michigan Technological University. The combined financial support of the School of Business and the Bureau of Industrial Development is therefore noted.

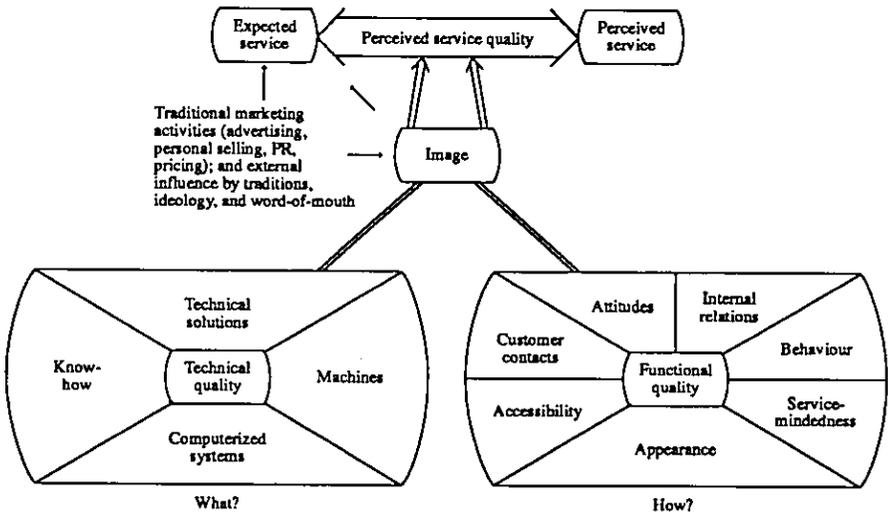
bankruptcies (3). Likewise, other studies have cited marketing problems as the most numerous for SBI clients (4,18,19). Fortuitously, the development of service marketing theory and practice has evolved with this need. Although there is some question about where to start measurement of service development, publications over the past two decades have been appreciable (5). Nevertheless, it is not clear that this body of literature has found its way into current small business strategy.

Reasons might be cited for this apparent deficiency. Hartman indicated that there are differences between planning as it is done in large versus small businesses. Small business planners appeared to have a preference for simple techniques that fit the specific needs of the small business (10). The purpose of this paper is to illustrate the application of a simple technique that is believed to be useful in directing strategic marketing efforts. The technique is directly oriented toward understanding customers, which is acknowledged as essential in service design (2). In particular, customer satisfaction receives focus, which has been identified as one element essential in successful ventures (17). Implications conceivably could be dramatic; Sonfield indicated that 72 percent of the firms studied could identify a specific strategic decision as being important in their success, and of this portion, 61 percent said that a specific change in marketing focus, operations, services, or product was the specific strategic move that was important (16).

BACKGROUND

Researchers and practitioners agree that service quality involves a comparison of perceptions of performance and expectations prior to consuming the service (12). Gronroos has described a model that relates service quality perception to a gap that exists between expected service and perceived service. This formulation implies that the provider of a service will have to match the perceived service with the expected service in order to achieve customer satisfaction (7). Both technical quality (know-how) and functional quality (attitudes and appearances) impact service image, which relates to this gap. Traditional marketing activities (advertising, public relations and word-of-mouth communications) reflect on expectations and thereby impact any gap that may exist. This model is shown in Figure 1.

Figure 1. Gronroos Model Of Service Perceptions (7)



This model has a solid intuitive base and has tended to receive experimental confirmation. Garland, although results were not interpreted in terms of this model, has provided confirmatory evidence that users of a specific service in fact do make post-usage evaluations and these evaluations are associated with the functional and technical quality of the offering (6). Likewise, Parasuraman's work on quality was built on an expectation/perception gap and exploratory research offered insight into consumers' perceptions of service and quality (14).

Performance versus expectations that relate directly to the model can be evaluated if it assumed that respondent interpretation of measurement scales for preference and performance are identical, the usual assumption. A simple diagram that illustrates the rating of meaningful parameters on a Likert type scale is frequently used to facilitate comparisons. This type diagram is used in this paper to illustrate the present results (Figure 2). Depending on the author, and/or approach, these diagrams receive different names, but they are most frequently referred to as image diagrams or perceptual maps. The graphic manner in which they make comparisons possible among competitors, or potential user expectations, accounts for their popularity in positioning services (11,20).

METHODOLOGY

The particular study used to illustrate expected versus actual service differences as a basis for marketing strategy was brought to our attention by the Office Manager of a local health center. This center was one of two clinics run by a group of local physicians who collectively staffed these installations on a rotating basis. This particular clinic was unique insofar as it was subcontracted by a university to service the needs of students. Five years previously the university had operated the center itself, but had made the decision to get out of this type of operation. Although changes had been made in clinic operation during the five years of private management, an evaluation had not been made of its operation. This study was, thus, part of an initial evaluation.

The attributes that were to be evaluated were developed after discussions with the Office Manager and a Committee of University representatives. Five items were thought essential in evaluating the performance of the clinic in addition to an overall rating of the services rendered. The five items that were evaluated were:

- Staff Treatment of Clients** - was it courteous and professional?
- Personal Demeanor of Physicians** - was it courteous and professional?
- Discussion of Ailment or Problem** - was it full and complete?
- Services Offered by the Clinic** - were they full and complete?
- Prices charged for services** - were they within expected range?

With regard to the particular attributes selected, it is worth noting that Berkowitz has identified these five attributes, at least, as being important in selection decisions (1). Bowen has further substantiated this selection by noting that employees, employee/customer contact, and person-oriented services were most important of nine characteristics rated for both physician examinations and hospital stays (2).

A questionnaire was developed that incorporated basic semantic differential scales for the five attributes that were to be studied into five objective questions plus an overall quality rating item. A sixth question, "Would you recommend the health center to others?" on a "definitely" to "never" scale was included because it was anticipated that word-of-mouth communication might be important in publicizing the capabilities of the health care center. Additionally, demographic information on the respondents was collected.

The student enrollment of the university was the population selected for survey because health center users were invariably students—files showed 2900 clients, of which 2800 were students, the rest were spouses and children of students. Demographics of interest were the year of present enrollment, sex, housing location (on or off campus), and usage (Had the center been used by the respondent?).

Questionnaires were distributed in the evenings in two different locations—residence dormitories and the student union. Dormitories were accessed to obtain on-campus resident responses whereas student union responses primarily accessed off-campus respondents—it was common for off-campus residents to meet at the union to do assignments in the evening. This sampling approach also helped to balance enrollment year responses—underclassmen tended to live in the dorms while upperclassmen tended to live off campus and congregate in the union. Response rates were high—over 90 percent. This response was undoubtedly helped by the fact that the questionnaire was only one page long and the students handling the assignment waited in the vicinity until the questionnaire was completed. The relatively few rejections to participation were primarily accompanied with comments concerning a need to complete work and not any rejection of cause. Possibility of duplicate responses was low because an approach question was used to determine if potential respondents had previously completed a questionnaire.

Responses were collected over a three week period in which actual data were collected in several evenings. The total sample size was 347 respondents and tended to reflect the demographics of the university population. Actual results are shown in Table 1 along with information supplied by the health care center. The enrollment balance tended to be reflected in the sample; results at worst were two percentage points off the population base. Sample responses, however, tended to contain a few more female and resident hall inputs, which probably was responsible for the reversal in the user/non-user ratio that was obtained in the sample as compared to the student population at large. Despite the possible bias, results were thought usable—especially as they reflected user/non-user perceptions. In this context, responses of non-users have been labeled as “expected” perceptions and user responses as “actual” perceptions of service in subsequent discussions.

Table 1. Demographics Of Sample In Comparison With University Population And Clinic Users

Year	University		Clinic		Sample	
	No.	%	No.	%	No.	%
1	1715	26	980	35	94	27
2	1433	22	840	30	76	22
3	1507	23	560	20	80	23
4+	1985	30	420	15	97	28
Sex						
Female	1588	24	1120	40	97	28
Male	5052	76	1680	60	250	72
Residence						
On campus	2374	36	1008	36	163	47
Off campus	4266	64	1792	64	184	53
Usage						
Users	2800	42	2800	100	201	58
Non-users	3840	58	0	0	146	42
Totals	6640		2800		347	

RESULTS

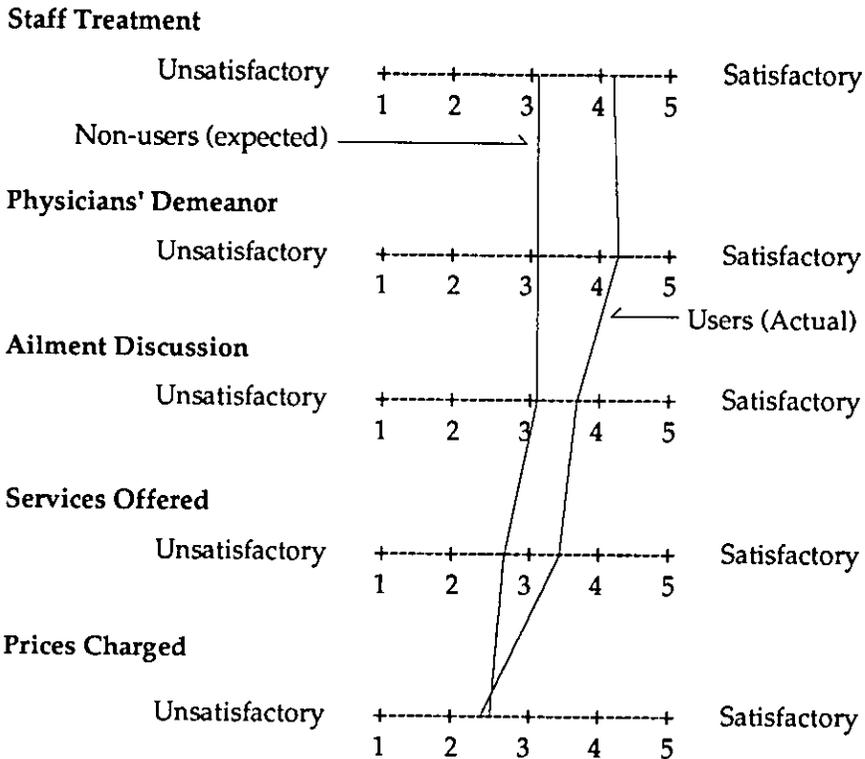
Results of the survey indicated surprising satisfaction with actual service quality among users of the clinic. The personal demeanor of the physicians was ranked highest among the attributes surveyed (4.28 where 5.00 = perfect), followed by staff treatment of clients (4.13), ailment or problem discussion (3.75) and services offered (3.55). All these items were above the "average" rating of 3.00. Only price, among the five attributes studied tended to have a negative association. At 2.35, prices were perceived to be higher than might be expected. These average ratings, along with calculated standard deviations, are shown in Table 2.

**Table 2. Summary Of Observations
(Standard Deviations In Parentheses)**

Attribute	Users	Non-users	T-test
Staff Treatment of Clients	4.13 (1.01)	3.12 (1.07)	0.005
Personal Demeanor of Physicians	4.28 (1.04)	3.26 (1.53)	0.005
Ailment or Problem Discussion	3.75 (1.20)	3.26 (0.98)	0.005
Services Offered	3.55 (1.08)	2.87 (1.04)	0.025
Prices Charged	2.35 (1.20)	2.44 (1.07)	n.s.

Table 2 also shows the relative ratings of non-users, which represents "expectations" of the clinic. All attributes except price tended to receive lower ratings among non-users; price perceptions were virtually identical for the two segments. The lower ratings on non-users of the other four attributes were statistically significant. Thus, the expectation among non-users was that the clinic offered a fairly low quality service. In fact, among non-users "services offered" received a below average rating. Among other items both staff treatment and personal demeanor illustrated the largest variation from actual perceptions. The profiles of service quality perceptions, which capture these observations, are shown in Figure 2.

Figure 2. Image Diagram Of SBI Clinic



Clearly the clinic had an "expectations" problem, which was further reflected in Table 3. Although users gave the service a better than average rating, non-users perceived it to be less than adequate. These ratings were reflected in the tendency to recommend the services offered by the clinic. Although users would tend to recommend usage, non-users showed a statistically significant lower tendency.

Table 3. Overall Ratings And Recommendations

Mean of Means	3.61	2.99	0.005
Overall Rating	3.42 (1.05)	2.82 (0.07)	0.005
Would Recommend	3.52 (1.19)	2.92 (1.42)	0.025

It might be noted with regard to Table 3 that there was a degree of internal consistency in the study. The "mean of means", the average of individual attribute ratings, and the overall quality rating for each segment surveyed were about the same. Likewise, the overall rating and "recommendation" ratings were nearly identical. These observations indicate some validity in

supposing the attributes used in the questionnaire did capture the items that go into the overall evaluation, and that the ratings do affect the decision to recommend. In this regard, the overall perceptions of price, which received the lowest rating among each segment, cannot be overlooked and must be factored into the recommended marketing strategy for the clinic.

DISCUSSION

The purpose of this paper was to illustrate the use of this approach in developing a marketing strategy for a small service firm. The clinic in this case appeared to have two major problems. First, non-users appeared to have consistently lower perceptions of service quality than users had. This problem had two ramifications. It had the potential of delaying trial—potential clients might literally lie sick before using the facility, and second, the relatively large portion of non-users (approximately 58 percent in the population) undoubtedly led to bad word-of-mouth communications concerning the service offering. The second major problem concerned the perception of price, and its implication on the overall evaluation of the service. Prices on the offering were actually very reasonable in terms of regional comparisons; in this context, purchases by inexperienced consumers probably contributed to their relatively negative perceptions.

With the problems recognized, solutions were fairly straightforward. A five-fold communication strategy was recommended. It was primarily educational in content and fairly general in coverage. It would serve primarily to educate the non-user, while serendipitously serving as a reminder for users.

An apparent reasonable set of elements in a communication strategy would focus on:

1. testimonial ads from satisfied users,
2. "expert" ads from physicians on staff concerning ailments of timely interest,
3. "real friends don't let their friends lie sick" campaign,
4. direct mail to parents, and
5. direct marketing to hall counsellors.

These communications would serve to narrow the expectations gap—especially as it related to staff. Because of technical content, print ads would receive primary use, but radio ad would receive complementary utilization to add a certain degree of "warmth" to the campaign as conditioned by human voices. In the particular circumstances, readership and listenership were well known and campus instruments fit well the needs of this campaign.

The general appreciation of the importance of advisory personnel in the election to seek health care suggested an additional element for this campaign, which incorporated some two-stage communications. The "real friends" campaign would encourage former users, in particular, to have their friends seek help when it was required. All three of these ads were to receive first of term, plus heavy illness periods, emphasis.

Both price and "advisor" inputs were approached through a direct marketing campaign. Mailings were directed to parents during the first of term with reminders during cold and flu seasons. It turns out that students frequently call home for advice in times of duress, so information on services, staff and fees could be put to timely use in this situation if the informa-

tion was in the proper hands. Fees were especially attractive in comparison to downstate rates. Thus, no recommendation was made to lower fees. Rather, it was left up to someone more experienced in health care purchases, in this case the parent, to explain the realities of life to the student.

Tours, seminars and educational pamphlets were recommended for hall counselors to acquaint entry students of facility availability and capabilities. Counselors were recognized as an important link in establishing early trial, and efforts were thus directed toward communicating expectations of their role.

It might be noted that although these strategic elements were very specific to this case, these elements came from a very general treatment, which is believed to be essential in establishing marketing strategies for small service firms. It also might be noted that these efforts were external to the firm. Gronroos, in the development of the model, was much concerned with internal communications, the communications to the providers of services within the firm (7,8,9). Internal communications are never to be overlooked. They are essential to controlling quality, but become critical when "actual" perceptions are lower than expected—the opposite of what was observed in this case.

In fact, a situation where expectations exceed actual may be the more common case—especially among small service firms. It is this case that Gronroos treats in his three stage purchasing process. In the third stage, the consumption process, the customer's final move is determined. If the firm fails to render an acceptable total service offering, the perceived service quality may not be good enough and the customer does not return. On the other hand, a customer-oriented and successful management of the contacts during this third process of the customer relation life cycle may lead to repeat purchases, enduring customer contacts, increasing cross-selling opportunities, and moreover, improved internal relations. During the consumption process the technical quality of Figure 1 is transferred to the customer. Likewise, the functional quality, which is frequently even more important as a means of competition, is produced and felt by the customer (7).

Whereas marketing departments can exist as separate entities in goods-producing companies, Gronroos argues that the marketing function has to be truly integrated into operations if service companies are to excel. Case studies from a bank, a shipping company, and a cleaning company were used to illustrate this point (7). Marketing managers in these idealistic systems must become coordinators—internal training is important and all employees must be put in touch with customer expectations. Coaching is important so that actual and expected performance do coincide.

Results in this paper were, of course, affected by sample selection and possible biased results. Hence, limitations exist on use of the paper. The authors certainly would not suggest that the implied strategies be used generally, or indiscriminately, in service businesses. The paper is written instead to illustrate use of a technique. The paper suggests that small service business managers consider the four step approach that was used:

- identify those characteristics essential in describing service performance from the customer's viewpoint;
- develop an instrument that will permit measurement of service perceptions among users and non-users in the relevant market;

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- conduct a significant study in the relevant market to distinguish perceptual differences;
 - establish a strategy that promises to narrow significant perceptual gaps.

It is believed that strategies developed and implemented from this platform will tend to be successful.

CONCLUSION

An image analysis approach has been used to assess the status of a small service business. Once problems were understood, a basis for a marketing strategy appeared straightforward. Although the elements of the strategy were very specific with regard to the case, the approach has generality. It is felt that this approach in one form or another is essential in suggesting meaningful marketing strategies for small service businesses. The convenience aspect of sample selection used here is not suggested by the authors. Instead, techniques that will lead to a more random selection are suggested.

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