

**MBA Third Year
(Marketing) Paper V**

SERVICES MARKETING



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SYLLABI-BOOK MAPPING TABLE

Services Marketing

Syllabi	Mapping in Book
UNIT-I: The Emergence of Service Economy, Nature of Services, Goods and Services Marketing	Unit-1: Introduction to Services (Pages 3-17)
UNIT-II: Marketing Challenges in Service Business, Marketing Framework for Service Businesses, The Service Classification, Service Product Development; The Service Encounter.	Unit-2: Marketing Challenges and Framework (Pages 19-71)
UNIT-III: The Service Consumer Behaviour, Service Management Trinity; Service Vision and Service Strategy.	Unit-3: Services and Consumer Behaviour (Pages 73-87)
UNIT-IV: Quality Issues and Quality Models; Demand-Supply Management; Advertising, Branding and Packaging of Services. Recovery Management and Relationship Marketing.	Unit-4: Quality, Branding and Advertising (Pages 89-146)
UNIT-V: Service marketing; Origin and Growth-Classification of Services-Marketing of Financial Services-The Indian Scene-Designing of Service Strategy.	Unit-5: Overview of Services Marketing (Pages 147-182)



CONTENTS

INTRODUCTION	1
UNIT 1 INTRODUCTION TO SERVICES	3-17
1.0 Introduction	
1.1 Objectives	
1.2 Definition and Nature of Services	
1.2.1 The Emergence of the Service Economy	
1.3 Goods and Services Marketing	
1.4 Answers to ‘Check Your Progress’	
1.5 Summary	
1.6 Key Terms	
1.7 Self-Assessment Questions and Exercises	
1.8 Further Reading	
UNIT 2 MARKETING CHALLENGES AND FRAMEWORK	19-71
2.0 Introduction	
2.1 Objectives	
2.2 Marketing Challenges in Service Business	
2.3 Marketing Framework for Service Businesses	
2.3.1 Marketing Segmentation	
2.4 The Service Classification	
2.5 Service Product Development	
2.5.1 Pricing a Service Product	
2.6 The Service Encounter	
2.7 Answers to ‘Check Your Progress’	
2.8 Summary	
2.9 Key Terms	
2.10 Self-Assessment Questions and Exercises	
2.11 Further Reading	
UNIT 3 SERVICES AND CONSUMER BEHAVIOUR	73-87
3.0 Introduction	
3.1 Objectives	
3.2 The Service Consumer Behaviour	
3.2.1 Customer Decision Making	
3.2.2 Customer Expectations and Perceptions	
3.3 Service Management Trinity	
3.4 Service Vision and Service Strategy	
3.5 Answers to ‘Check Your Progress’	
3.6 Summary	
3.7 Key Terms	
3.8 Self-Assessment Questions and Exercises	
3.9 Further Reading	

UNIT 4 QUALITY, BRANDING AND ADVERTISING

89-146

- 4.0 Introduction
- 4.1 Objectives
- 4.2 Quality Issues and Quality Models
- 4.3 Demand Supply Management
- 4.4 Advertising
- 4.5 Branding and Packaging of Services
- 4.6 Relationship Marketing
- 4.7 Recovery Management
- 4.8 Answers to ‘Check Your Progress’
- 4.9 Summary
- 4.10 Key Terms
- 4.11 Self-Assessment Questions and Exercises
- 4.12 Further Reading

UNIT 5 OVERVIEW OF SERVICES MARKETING

147-182

- 5.0 Introduction
- 5.1 Objectives
- 5.2 Service Marketing
- 5.3 Origin of Services
 - 5.3.1 Growth of Services
 - 5.3.2 Classification of Services
- 5.4 Marketing of Financial Services
- 5.5 The Indian Scene
- 5.6 Designing of Service Strategy
- 5.7 Answers to ‘Check Your Progress’
- 5.8 Summary
- 5.9 Key Terms
- 5.10 Self-Assessment Questions and Exercises
- 5.11 Further Reading

INTRODUCTION

The process of transforming an intangible product into a valuable, memorable and beneficial experience for a customer is the main crux of service marketing. Service marketing is different from product marketing due to its element of intangibility. The same quality is responsible for the presence of the additional three Ps in the service marketing mix. Unlike product marketing where the marketing mix consists of product, price, promotion and place, service marketing involves people, process and physical evidence as well. The ‘people’ aspect is related to the training and grooming of relevant staff to ensure proper delivery of service, the ‘process’ aspect is related to the availability of proper systems to deliver the service on time and in the form desired, whereas physical evidence is associated with the material aspect of the service offered, such as packaging, brochures, etc.

The main advantage of physical evidence is that it helps create a good impression on the customers. The credibility of the service provider goes up and the productivity of the employee increases. The personal exchange that takes place between the customers and the service providers forms the essence of services marketing.

This book, *Services Marketing*, has been written in the Self-Instructional Mode (SIM) wherein each unit begins with an Introduction to the topic followed by an outline of the Objectives. The detailed content is then presented in a simple and an organized manner, interspersed with Check Your Progress questions to test the understanding of the students. A Summary along with a list of Key Terms and a set of Self-Assessment Questions and Exercises is also provided at the end of each unit for effective recapitulation.

NOTES



UNIT 1 INTRODUCTION TO SERVICES

Structure

- 1.0 Introduction
- 1.1 Objectives
- 1.2 Definition and Nature of Services
 - 1.2.1 The Emergence of the Service Economy
- 1.3 Goods and Services Marketing
- 1.4 Answers to 'Check Your Progress'
- 1.5 Summary
- 1.6 Key Terms
- 1.7 Self-Assessment Questions and Exercises
- 1.8 Further Reading

NOTES

1.0 INTRODUCTION

A service is the action of doing something for someone. Today, the service sector is seen as a factor enhancing business of all kinds. For example, a restaurant is not only judged by the quality of food it offers but also the kind of ambience, music and behaviour of the employees. The service sector forms the backbone of social and economic development of a region. It has emerged as the largest and fastest growing sector in the world economy, making the highest contributions to global output and employment. It covers a wide range of activities, such as trading, transportation and communication, financial, real estate and business services, as well as community, social and personal services. In the first unit of the book, we will examine various basic concepts related to services, such as its definition, nature, the difference between goods and services, and so on.

1.1 OBJECTIVES

After going through this unit, you will be able to:

- Define services
- Describe the nature and characteristics of services
- Examine the factors that led to the emergence of the service economy
- Discuss goods and services marketing

1.2 DEFINITION AND NATURE OF SERVICES

It is difficult to provide a single definition of service. Most attempted definitions are incomprehensible. The concept of service has to be understood either as an exclusive offering from a company that is primarily intangible, or as a part of the service-product mix that a company offers.

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At one level, service is an intangible offering with little or no transfer of physical products to the customer. Car rentals, insurance and education are examples of such services. The physical goods associated with the offering do not matter to the customer and he is primarily interested in the service part of the offering.

At another level service is one part of the product-service mix being offered to customers. Restaurants are examples of such services. The physical goods are as important as the service part of the offering and customers have to be satisfied with both parts.

At the third level, the main offering is the product, but the supplier also provides some services. Car service and installation of equipment are some such services. The product is the main consideration when a customer is evaluating such an offering but in times of increasing product-parity such ancillary services become the differentiating factor between offerings of competitors.

At the fourth level every product or service or any combination of a mix of the two ultimately is supposed to provide service for customers. Thus, a customer buys a car because it provides him transportation services. This idea is gaining ground as companies are increasingly trying to become customer-oriented.

Definitions of services

1. Service(s) mean products, such as a bank loan or home security that are intangible or at least substantially so. If totally intangible, they are exchanged directly from producer to user, cannot be transported or stored, and are almost instantly perishable. Service products are often difficult to identify, because they come into existence at the same time they are bought and consumed. They comprise intangible elements that are inseparable; they usually involve customer participation in some important way; they cannot be sold in the sense of ownership transfer; and they have no title. Today, however, most products are partly tangible and partly intangible, and the dominant form is used to classify them as either goods or services (all are products). These common, hybrid forms, whatever they are called, may or may not have the attributes just given for totally intangible services.
2. Services, as a term, are also used to describe activities performed by sellers and others that accompany the sale of a product and aid in its exchange or its utilization (e.g., shoe fitting). Such services are either presale or post-sale and supplement the product, not comprise it. If performed during sale, they are considered to be intangible parts of the product.

The American Marketing Association defines services as:

‘Activities, benefits and satisfactions which are offered for sale or are provided in connection with the sale of goods.’

All principles of marketing apply to services

By their very nature, services impact customers more directly than products do. A customer walks into a restaurant and realizes immediately whether the ambience is pleasant or not. Few minutes into the facility, and most customers have already

decided whether they have made the right choice of the service provider or not. Some services are more urgently needed than products. Patients may need the immediate attention of doctors. And again due to its very nature, service providers come in more frequent and intimate contact with customers, and therefore providers have more opportunities to please customers or disappoint them. For these reasons, marketing of services has to be more deliberate and considered.

A service provider has to carefully audit his resources and competencies, and then conduct market research to locate the segment which it can serve best. And when it comes to positioning, the provider has to be focused. The customer stays on the premises of the provider for long periods and has more chances of discovering discrepancies and inconsistencies in the provider's positioning plank. Customers are very clear about the quality of the service that they want. They walk into the premises expecting a certain level of service, and are disappointed if these expectations are not met. Such expectations are very precise. Positioning of services has to be razor sharp.

Services are more intractable than products because they come in various shades and hues. The provider has to define his service very precisely and also design the appropriate service-product mix. The basic service, like eating in a restaurant, is just one part of the entire service offering. The ambience, the music and the behaviour of the employees are other vital components of the service. Decisions have to be made very precisely as to how and in what degree the ancillary elements will be incorporated into the main service.

Representing services in promotional methods like advertising is extremely challenging due to its intangible and variable nature. Services need more creativity and focus to get the positioning plank depicted accurately. Service providers are in frequent touch with customers. A doctor has to be good at his primary task and he also has to be a good marketer, since his attitude and behaviour, besides his ability to cure, will determine his patients' opinion about the medical facility. The employees of service organizations come in frequent contact with customers, who make them important in the promotion and brand building exercises of the company. The service provider has to be an expert both in operations and marketing.

The same basic service, like surgery, can be provided in vastly different service facilities offering different levels of amenities and luxuries. Service offerings lend themselves to differentiation easily and the same basic service can be combined with other auxiliary services and priced differently. The service providers have huge price flexibility and charging the right price becomes a very important decision.

The same service can be delivered in various ways. With a proliferation of new technologies, the different ways that a service can be availed is only increasing. A customer can go to the bank and withdraw money, he can use an ATM to do the same job, he can use the phone, or engage in Internet banking. Even medical services will see a revolution with the establishment of new channels of delivery. Even critically-ill patients can stay at home while equipment attached to their bodies would transmit vital information about the functioning of their organs to doctors in hospitals who can prescribe suitable remedies.

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Marketing mix conveys the positioning of a service or a product. In cases of services all the 4Ps are very flexible, i.e., many number of combinations of the 4Ps are possible to arrive at a marketing mix. But the segmentation criteria has to be very well-defined and the positioning has to be very sharp, because a customer is impacted instantly and very perceptibly as soon as he comes into contact with a service provider or enters a service facility. Service marketers face tremendous challenge in getting the marketing mix right to be able to convey their positioning plank because the marketing mix is flexible but the positioning has to be very pointed.

Nature of Services

It needs to be understood that services are different from products and this difference warrants a change in the way services are marketed. Services are intangible, perishable, and inseparable from the provider, and highly variable each time they are delivered. These characteristics of services have to be thoroughly understood so that appropriate operations and marketing structures are created to be able to produce and sell services profitably.

- **Intangibility:** Customers cannot see, taste or touch pure services prior to purchasing them. A service is a deed, performance or effort. Services are experiential by nature. Evaluating a service prior to purchasing it is difficult for a customer; yet, the quality has to be assessed before the act of purchase. One cannot decide whether a vacation would be enjoyable or not before going on it. It is not possible for patients to know for sure whether they would be cured until they have been operated upon. For some offerings such as getting a car serviced, its tangible nature makes it difficult for the service to be evaluated even after being consumed. Therefore, the service provider must utilize tangible cues to indicate service quality. For instance, travel agencies could display photographs of the destinations, show testimonials from satisfied clients and provide details of the kind of entertainment they offer. Similarly, garages could provide checklists of operations performed in the course of a particular service. The main task is to give evidence of service quality by providing tangible cues for an otherwise intangible offering, so that customers can evaluate the quality of services before purchase. A restaurant may thus convey quality by creating a great ambience, a clean kitchen, well-dressed and well-mannered staff, good table layout, great aroma of food to convey quality. Cues have to be provided by all service organizations to give customers an opportunity to judge the quality of the service offerings pre-purchase.
- **Inseparability:** Services involve simultaneous production and consumption. Service providers form an important element of the service and play a significant role in satisfying consumers. The manner in which a service provider conducts himself has a critical influence on the business being repeated beyond the service task's technical efficiency. In the eyes of the consumer, the provider, like the insurance representative or the doctor, is the organization. Rewarding the frontline staff, training, selection, etc. are of great importance in the achievement of service quality.

In services, individual providers such as doctors in medical services are better assurance for the customer than the service facility itself. Customers trust the individual service provider. It is important that individual service providers are promoted and their achievements are given wide publicity.

- **Presence of other consumers:** The service may be consumed while other consumers are present. Potential sources of nuisance such as noise must be identified by service providers and proper arrangements made to prevent conflict among the customers. Hence, the service provider should target the right segment so that only the customers seeking similar benefits interested in the offering. Customers may stay together in the service facility for long periods of time and they can be a big nuisance for each other. If customers do not like the company of other customers, they will discredit the service provider. A service provider should be very careful about who he takes as his customer if he does not want to invite the wrath of other customers in the facility. The marketing mix should be so adjusted that it is attractive to customers who want to enjoy the service in a similar way.
- **Variability:** It is difficult to standardize the provision of services. Service providers with varying skills and attitudes conduct their services at a number of different locations so that the service is produced and consumed at the same time. Unlike physical products, it is not possible to quality check a service fault such as rudeness and correct between the processes of production and consumption. Since service quality is variable, it becomes important to rigorously select, train and reward the staff of a service firm. The emphasis of training should be on the standard of behaviour expected of the employees when they deal with customers. In this regard, firms should develop and put in place some kind of evaluation system that enables the customers to report their evaluation of the personnel to the organization.

But the variability of services has a silver lining too. Service providers can anticipate the precise requirements and moods of the customers as they start interacting with them. An empathetic service provider will ensure that he customizes his service and his behaviour according to the requirement and mood of the customer. In fact, a service provider can publicize his ability to customize services for his customers.

The problem of variability can be tackled with the help of service standardization, which can be achieved by using reliable equipment such as vending machines and ATM instead of people. The efficiency and reliability of the equipment must be taken care of. The service demand and supply must be matched. When an individual service provider fails to perform his task, the customer takes it out on him and the provider has an opportunity to placate him. But when equipment like an ATM does not work, the customer straightaway believes that the service is not good and may stop going to the service provider without any hint. Whenever equipment is being used to provide a service, the service provider should ensure that it is working to the satisfaction of customers availing the services.

- **Perishability:** Services cannot be stored for the future and hence their consumption cannot be deferred. Therefore, once a certain supply of

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services such as number of rooms on a hotel premises or number of seats in an airline have been created, there must exist adequate demand for them. Another problem involves having to cater to peak demand at the time of insufficient supply.

A key marketing task is to provide incentives when demand is low. Deep discounts should be offered to entice customers when the service facility is underutilized. Service facilities incur huge fixed costs while the variable cost of serving a customer is low. So even if customers are acquired by offering heavy discounts, they may still be profitable for the service provider.

It is possible to vary supply by using part time employees at the time of peak demand. In this case too, pricing and promotion play a very important role. Customers should be encouraged to avail the service at non-peak hours by charging them lower fees at these hours. It is important to remember that since services cannot be inventoried for future use, matching supply and demand becomes very important. Extra demand results in customers walking away without availing the services, and low demand results in the service provider not being fully utilized. Leading to loss of revenue and profit in both cases. Service providers should use promotion and pricing to shift demand from peak periods to non-peak periods to balance demand and supply.

- Shifting employees to tasks having higher demand is facilitated by multi-skilling.
- Customers could be encouraged to participate in the process of production, as in the concept of self-service.
- It may be possible to smoothen demand by means of differential pricing to persuade customers to visit the service provider at a time other than during peak demand. Off-peak demand could be stimulated through special events.
- If delay is unavoidable, then a comfortable waiting area should be provided for customers with proper seating and free refreshments.
- Service providers may also use a reservation system to balance demand and supply.

Distinguishing Characteristics of a Service

There are numerous distinctive features that distinguish pure services from goods and that affect the manner of marketing them. These characteristics are as follows:

1. Services cannot be assessed

Services are essentially intangible in nature. Goods, on the other hand, are tangible. Tangibility allows customers to assess quality by using various senses and choice criteria. For instance, quality of products can be assessed by touching, feeling, smelling, or seeing them. Services, being intangible cannot be touched, felt, seen or owned. Since services are essentially experiential in nature, customers can judge them only after purchase. But this raises the perceived risk associated with them. Therefore, marketers use various tangible elements and quality cues, such as

infrastructure in hotels, advertisements, qualifications of doctors in hospitals etc. to convey quality.

2. Production and consumption are inseparable

It is not possible to separate the production and consumption of services. They occur simultaneously. This raises the issue of managing demand. Companies must be able to predict likely demand for a certain period as accurately as possible. If demand forecasting is not very accurate, it can lead to long waiting periods, or lean periods. Either of these situations results in losses for the company.

3. Services cannot be stored

If service organizations do not have the ability to accurately estimate demand, there would either be idle capacity that would perish (for instance, hotels during lean periods), or there would be too much pressure on existing capacity (for instance, the same hotels during peak tourist seasons). Capacity needs to be utilized as and when it is generated. Therefore, marketers should try to even out demand by using various strategies such as promotional pricing, advance appointments, and so on.

4. Services are variable

Variability in services occurs due to the one-on-one interaction between an employee and a customer. Most services encounters involve interactions between an employee and a customer, both of whom are subject to vagaries. Therefore, service encounters cannot be standardized completely. Goods are produced of a certain quality that can be specified, and since machines are involved in the process of production, goods of exactly the same quality can be produced every time. However, due to the involvement of human beings in services, variability invariably creeps into the service delivery process. This affects the perceptions about service quality. In order to reduce variability, companies have used various methods such as extensive training for employees and customers, usage of technology as a substitute for employees, etc. However, it is not possible to completely substitute technology in case of most services. Some services such as those of a hairdresser or that of a surgeon cannot be substituted with technology.

Other features of Services

A wide range of services are provided on a very small scale where economics of scale are minimal. Hairdressing, plumbing, legal services are usually provided by small units. These small players are less likely to undertake marketing research or have formalized marketing planning process.

There is presence of many public sector suppliers, because market mechanisms fail to distribute services effectively. The nature of service supply often creates potential monopoly problems.

Marketing environment of service organizations is subject to much more regulation than the goods sector. The fact that a service is intangible makes it more difficult for a potential customer to examine fully before purchase. Service supply involves a greater degree of trust than the supply of goods and consequently, regulations often seek to ensure that service delivery meets specification.

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NOTES

Highly intangible services such as banking, insurance and holidays are regulated by a combination of voluntary and statutory measures. In some sectors, customers seek to reduce their perceived risk by selecting only organizations that agree to have their relationship governed by trade association's code of conduct.

Services marketing is marketing based on relationship and value. It may be used to market a service or a product that are defined under service activities discussed earlier. Marketing a service-based business is different from marketing a goods-based business. For one, it is not easy to put a price to the service. Also, service firms are organized in a different manner in terms of structure. Determining costs becomes even more difficult in the non-profit sector wherein there are many limitations. All these reasons make it essential for marketing of services to be done in a different manner.

Service marketing also includes the service people tending to but not limited to the aesthetic appearance of the business from the outside, the inside, and the general appearance of the employees themselves. Service marketing has been relatively gaining ground in the overall spectrum of educational marketing as developed economies move farther away from industrial importance to service oriented economies. Marketing is the flow of goods and services from the producer to consumer. In common parlance it is the distribution and sale of goods and services.

'Managing the evidence' refers to the act of informing customers that the service encounter has been performed successfully. It is best done in subtle ways like providing examples or descriptions of good and poor service that can be used as a basis of comparison. The underlying rationale is that a customer might not appreciate the full worth of the service if they do not have a good benchmark for comparisons.

In particular, developing a marketing strategy is much the same for products and services, in that it involves selecting target markets and formulating a marketing mix. Thus, Theodore Levitt suggested that 'instead of talking of "goods" and of "services", it is better to talk of "tangibles" and "intangibles"'. Levitt also went on to suggest that marketing a physical product is often more concerned with intangible aspects (frequently the 'product service' elements of the total package) than with its physical aspects. After-sales service is very important in service sector. Arguably, service industry marketing merely approaches the problems from the opposite end of the same spectrum.

1.2.1 The Emergence of the Service Economy

The following factors are responsible for stimulating the transformation of service economy:

1. **Government policies:** It includes variation in regulation, i.e., making changes in the price of services in different geographical boundaries with a well-versed distribution strategy. In some cases, it is necessary to define the features of the product. In the last few years, the government has reduced control over various hospitality industries, for example, hospitals, banking

and insurance, tourism, telecom industries, and aviation. It has given industries a chance to expand their service structure. The industries are getting privatized rapidly as barriers have been reduced and privatization is taking place mostly in the countries of Europe and Asia. In many countries, consumer protection law has gained great momentum and significance. It basically protects the rights of employees, maintains the standards of health and safety, and safeguards the environment. Fresh agreements on trade and services in international trade have been mutually signed between some neighbouring countries like Canada, Mexico and the United States. The World Trade Organization (WTO) is a platform for relaxing trade restrictions between countries.

NOTES

2. **Social changes:** The rising expectations of consumers in terms of services from different service providers have been increased and there is dual income. The number of service providers has increased and everybody needs the kind of service that penetrates the core of their comfort zone within a short period of time or the time when they need it most. The affluence of people has increased because of more disposable income and there is a drastic increase in the purchase of new and different types of services and experiences. As there is an enhancement in technology, reduction in prices and increase in the purchasing power of people, the demand and supply for digital equipment has also increased. Due to improved medical facilities, the death rate has reduced and the life expectancy of people has increased. Most of the first world countries like USA, UK, Australia and Canada have an increasing immigrant population.
3. **Business trends:** Many manufacturing companies have concentrated on customer services in order to maintain their customer loyalty and attract more sales. Public organizations such as BMTC along with some NGOs have focused on the business which is related to their operations in order to give attention to consumer needs and other activities influencing it. There are certain standards and criteria which have been mandated by the government for the practitioner and professionals. The government has given relaxation in terms of advertisement and also revoked the ban on advertising there services. The best example is Dr. Batra's Homeopathy Clinic. They have enhanced their financial status within a short span of time due to advertisement policies. Their market focuses on increasing their productivity and also save the real cost for providing the service. Nowadays, in large organizations, the main focus is on the quality of services. In order to provide good quality services, companies have started franchising in order to ease operations and have a wider network, granting ownership to different proprietors. Companies like to hire innovative people in order to improvise new methods for conducting their business.
4. **Advanced information technology:** There is no doubt that the rapid innovation and advancement in Information Technology has brought a revolution in the service industries. Nowadays, most of the marketing can be done through the internet. Digitalization is a boom to service industries

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as well as other industries. The increased bandwidth and innovation of divergent software has made life easier.

5. **Globalization:** Globalization is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. The concept of MNCs, TNCs and FDI have taken centre-stage due to globalization. International trade has become easier and more convenient with the advent of globalization.

Check Your Progress

1. List the various distinguishing characteristics of a service.
2. Why is representing services in promotional methods like advertising extremely challenging?
3. In terms of service marketing, what do you understand by the term 'managing the evidence'?
4. What is globalization?

1.3 GOODS AND SERVICES MARKETING

Businesses offer products or services. Goods/products are tangible and follow a routine cycle of production involving processing of raw materials, production of finished goods, marketing and then consumption of the goods. On the other hand, the production process of services is complex and involves no clear demarcation between production and consumption stage. The differences between goods and services have been illustrated in Table 1.1.

Table 1.1 Difference between Goods and Services

GOODS	SERVICES
Goods are tangible.	Services are intangible.
Have defined production cycles.	Complex production process.
Finished goods can then be stocked.	Services cannot be stocked/stored.
Do not impact customers directly.	Impact customers more directly.
Positioning the product is rather technical.	More creativity required for positioning.
Marketing of products can be handled separately from the production process.	Marketing of services cannot be separated from its operation.
Goods are first produced, then sold and finally consumed.	Services are first sold, then they are produced and consumed simultaneously.
Production and consumption are separate activities. Producer and consumer need not meet.	Production and consumption are inseparable. It is necessary for producer and consumer to interact/meet.

The above-mentioned differences between goods and services result in corresponding implications when it comes to marketing the services. These implications pose several marketing challenges, which include the following:

- (a) **Intangibility:** Intangibility of services implies that the services, unlike goods, cannot be inventoried or stocked. One major challenge that it poses to the marketing process is that the fluctuations in demand cannot be managed by storing additional stock. Secondly, on account of its tangibility, a service lends itself to easy copying by the competitors. Thirdly, there is no physical attribute to the services on offer; hence it becomes difficult for the marketers to communicate the actual value of the service to their customers. This also serves as an impediment when it comes to justifying the pricing of the services.
- (b) **Perishability:** The intangibility of services has another implication—that of perishability. This implies that while a sold good, if the customer does not find it satisfactory, can be returned or exchanged for another, sold or performed services cannot be returned or resold. Hence, if a service is found to be lacking or unsatisfactory by the customer, for instance, a haircut or a guided tour, it cannot be undone. The marketing implication of this is that the resources gone into the performance of the service cannot be recovered. Secondly, the goodwill of the customer has to be restored with the help of quick recovery strategies.
- (c) **Heterogeneity:** Services are essentially performances and hence more directly dependent on human interaction than objects. No two human beings are alike and the performance of an individual may vary on a daily basis. Service is heterogeneous in terms of all its constituents, i.e., time, place and most importantly, people. Lack of consistency in the production and the delivery of the services pose major challenges in the marketing of the same. This directly impacts the quality of the service. The quality depends on the factors, which cannot be objectively controlled.
- (d) **Interaction between the producers and the consumers:** In case of goods production, the products are produced separately and are consumed later. The producer and the consumer do not meet. On the other hand, the services are produced and consumed at the same time and place. The simultaneous production and consumption of the services result in interaction between the producer of the service and the consumer of the same. Often, the consumer also becomes the part of production process. For example, in a restaurant setting, some customers like to be too involved in the process of what is being served to them and how. This also leads to another marketing challenge, that of handling customer behaviour in service settings, a topic that will be dealt in detail in later units.
- (e) **Non-Ownership:** Unlike goods, the customers do not gain ownership over the services bought by them. A major marketing implication of this is that the pricing of the services has to be justified to the customers. The value of the services needs to be emphasized by the marketers. For instance, a weekend get-away to a hill station can be marketed by focusing on the memories that the customers will bring back from the place, that will last much longer than the trip.

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NOTES**Servitization of Products**

Nowadays, the manufacturing companies have adopted an integrated approach that involves providing value-added services along with the core product. This is called the servitization of products. By offering value added services along with the product, the manufacturers diffuse the customer's unease with the overall cost. This enables the manufacturers to increase the sales along with the price of the product. For example, Apple Computers offer access to a helpdesk and computer classes along with every computer they sell. Even service firms use a similar approach to increase revenues, by offering supplementary services. For instance, nowadays, gyms and fitness studios offer to provide in-house babysitting and child care services, thereby attracting more working parents to avail of their primary services.

Similarly, service companies can offer goods supplementing the services they offer. For instance, beauty parlours and hair salons may retail specialty products to those who avail of their services. Thus, an integrated approach lends more value to the product, which may be a service or a good, and generates more revenue.

Check Your Progress

5. What are products?
6. What do you understand by intangibility of services?
7. What is perishability of services?

1.4 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The various distinguishing characteristics of a service are as follows:
 - (a) Services cannot be assessed
 - (b) Production and consumption are inseparable
 - (c) Services cannot be stored
 - (d) Services are variable
2. Representing services in promotional methods like advertising is extremely challenging due to its intangible and variable nature.
3. Managing the evidence refers to the act of informing customers that the service encounter has been performed successfully. It is best done in subtle ways like providing examples or descriptions of good and poor service that can be used as a basis of comparison.
4. Globalization is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture.
5. Goods/products are tangible and follow a routine cycle of production involving processing of raw materials, production of finished goods, marketing and then consumption of the goods.

6. Intangibility of services implies that the services, unlike goods, cannot be inventoried or stocked.
7. The intangibility of services has another implication—that of perishability. This implies that while a sold good, if the customer does not find it satisfactory, can be returned or exchanged for another, sold or performed services cannot be returned or resold.

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1.5 SUMMARY

- The concept of service has to be understood either as an exclusive offering from a company that is primarily intangible, or as a part of the service-product mix that a company offers.
- At one level, service is an intangible offering with little or no transfer of physical products to the customer.
- At another level service is one part of the product-service mix being offered to customers.
- At the third level, the main offering is the product, but the supplier also provides some services.
- At the fourth level every product or service or any combination of a mix of the two ultimately is supposed to provide service for customers.
- The American Marketing Association defines services as activities, benefits and satisfactions which are offered for sale or are provided in connection with the sale of goods.
- Services are more intractable than products because they come in various shades and hues. The provider has to define his service very precisely and also design the appropriate service-product mix.
- Marketing mix conveys the positioning of a service or a product. In cases of services all the 4Ps are very flexible, i.e., many number of combinations of the 4Ps are possible to arrive at a marketing mix.
- Services are intangible, perishable, and inseparable from the provider, and highly variable each time they are delivered. These characteristics of services have to be thoroughly understood so that appropriate operations and marketing structures are created to be able to produce and sell services profitably.
- Customers cannot see, taste or touch pure services prior to purchasing them. A service is a deed, performance or effort. Services are experiential by nature.
- Customers cannot see, taste or touch pure services prior to purchasing them. A service is a deed, performance or effort. Services are experiential by nature.
- Services involve simultaneous production and consumption. Service providers form an important element of the service and play a significant

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role in satisfying consumers.

- Services are essentially intangible in nature. Goods, on the other hand, are tangible. Tangibility allows customers to assess quality by using various senses and choice criteria.
- It is not possible to separate the production and consumption of services. They occur simultaneously. This raises the issue of managing demand.
- The following factors are responsible for stimulating the transformation of service economy:
 - o Government policies
 - o Social changes
 - o Business trends
 - o Advanced information technology
 - o Globalization
- Goods/products are tangible and follow a routine cycle of production involving processing of raw materials, production of finished goods, marketing and then consumption of the goods.
- On the other hand, the production process of services is complex and involves no clear demarcation between production and consumption stage.
- Intangibility of services implies that the services, unlike goods, cannot be inventoried or stocked.
- The intangibility of services has another implication—that of perishability. This implies that while a sold good, if the customer does not find it satisfactory, can be returned or exchanged for another, sold or performed services cannot be returned or resold.
- Nowadays, the manufacturing companies have adopted an integrated approach that involves providing value-added services along with the core product. This is called the servitization of products.
- By offering value added services along with the product, the manufacturers diffuse the customer's unease with the overall cost. This enables the manufacturers to increase the sales along with the price of the product.
- Service companies can offer goods supplementing the services they offer. Thus, an integrated approach lends more value to the product, which may be a service or a good, and generates more revenue.

1.6 KEY TERMS

- **Service:** A service is the production of an essentially intangible benefit, either in its own right or as a significant element of a tangible product, which through some form of exchange, satisfies an identified need.

- **Products:** Products are tangible and discernible items that the organization produces, including digital file-based output.
- **Servitization of Products:** Servitization of products is an integrated approach adopted by the manufacturing companies that involves providing value-added services along with the core product.
- **Heterogeneity:** It is the quality or state of being diverse in character or content.
- **International trade:** It is the exchange of capital, goods, and services across international borders or territories because there is a need or want of goods or services.

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1.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Define services.
2. Write a short note on the nature of services.
3. What is the difference between goods and services?
4. What do you understand by servitization of products?

Long-Answer Questions

1. Discuss the various distinguishing characteristics of a service in detail.
2. Examine the factors responsible for the emergence of the service economy.
3. Describe the various features of services.
4. Explain the challenges related to the marketing of services.

1.8 FURTHER READING

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UNIT 2 **MARKETING CHALLENGES AND FRAMEWORK**

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Structure

- 2.0 Introduction
- 2.1 Objectives
- 2.2 Marketing Challenges in Service Business
- 2.3 Marketing Framework for Service Businesses
 - 2.3.1 Marketing Segmentation
- 2.4 The Service Classification
- 2.5 Service Product Development
 - 2.5.1 Pricing a Service Product
- 2.6 The Service Encounter
- 2.7 Answers to ‘Check Your Progress’
- 2.8 Summary
- 2.9 Key Terms
- 2.10 Self-Assessment Questions and Exercises
- 2.11 Further Reading

2.0 INTRODUCTION

In the previous unit, you were introduced to the basic concepts of services. In this unit, we will examine the framework of services marketing. You must already be familiar with the 4Ps of marketing—product, price, place, promotion. They are often referred to as the marketing mix. The services marketing mix adds three new P’s—participants, physical evidence, and process of service assembly—to the four P’s of the traditional marketing mix. By carefully integrating all of these marketing strategies into a marketing mix, organizations can ensure they have a visible, in-demand product or service that is competitively priced and promoted to their customers. These aspects will be examined in the unit. The unit will begin with a discussion on the challenges of service marketing.

2.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the challenges in marketing of services
- Examine the framework for marketing of services
- Describe how to classify services
- Explain the development of a service product
- Discuss service encounters

2.2 MARKETING CHALLENGES IN SERVICE BUSINESS

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The challenges of marketing services are various. As you learnt in Unit 1, the marketing of services is very different from the marketing of products. The challenges one faces in services marketing are as follows:

- 1. Intangibility:** A product can be sold easily as compared to the service. A product can be classified as tangible while services are intangible. Intangible means that it cannot be touched or seen. But customer can see and examine the product, they can judge its character, shade, structures, dimensions, and the value of material and then they can take the decision of purchase immediately. Consumers in India prefers to feel the product before the purchase decision, especially in the case of the purchase of clothing and personalised products. However, in the case of service which is intangible, the consumer cannot feel or own the service like they can with a product. Thus, the consumer takes a longer time to get convinced about buying a service. There is a famous saying in marketing that the entry point to the funnel takes longer. The service provider is not selling something to the customer that can be owned by them, rather it is the concept that they are selling where a consumer is sold what it consumes at a time. For example, the tourism industry the experiences to the people through their advertisements. The way a consumer can provide their reviews is only through looking at the photographs, reading the reviews of other people and by listening to the other travellers who have been to those places. If we take another example of the education industry, which is also an important aspect of service providing, the consumer can pick their choices by seeing reviews and also listening to the experience of friends or relatives who are already part of the educational institute. There are certain other utility services which we consume such as electricity, gas, telecom, and the Internet. The consumer focuses on the factor of quality of service apart from the pricing criteria of the service. This challenge of marketing a service can be overcome by certain practices. The first practice is that one can concentrate on customer testimonials. The service provider can take written testimonials from existing customers and display them on the website or on the brochure of the organisation. The second approach can be the use of consumer photos and their reviews which can be displayed on the website as well. One can also use social media and social media influencers who have followers that can become potential customers.
- 2. Inseparability:** There are different ways or platforms from where a product can be purchased such as online, in a mall, or in any convenience store and so on. However, in a service, there is only one point of purchase. One deals directly with the seller or the distributor of the service. The consumer visits that particular place when they are in need of that service or are interested in utilization of the service. For example, when there is a need of a haircut,

only then one visits the salon. Further, the consumer demands the same serviceman who regularly provides the service to the customer as that particular person is familiar with a customer's comfort and choice. Hence, the relationship between the consumer and the service provider is inseparable. The solution to this challenge is that when the service provider is dealing with a limited number of customers so then there can be a chance of getting to know them well. The provider can gain knowledge about the customer's choices, preferences and their level of satisfaction with the service. However, this cannot be done if there are thousands of customers.

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- 3. Perishability:** Goods are classified into perishable and non-perishable products. Food items are termed as perishable as they have a shorter life cycle. For such items, the vendor knows that they need to be sold in a few hours or days so they offer discounts to clear stocks. If they are unable to sell their stocks, there is wastage and revenue loss. Services are classified as perishable. There is need to sell the maximum capacity of service so that the service provider can earn a profit. For example; in the airlines industry, if the flight is going half empty then the revenue generated from the ticket prices is not sufficient to cover their operational costs. There is need to adopt some different strategy to fill the airplanes. One way to solve this issue is that one can club the flights for the particular route or one can use code sharing arrangements with the partner sharing airlines or join an alliance of airlines such as the star alliance. So it is a matter of balancing demand with supply. The result of these measures is that business losses are minimised and there is an increase in the profit of the airlines. These measures are not suitable when there are periods of high demand of airlines during the holiday season and periods of sales decline due to low demand. The service providers follow a couple of marketing strategies in the period of less demand. Some of the measures are aggressive promotion, discounts, loyalty programs with points and sales. Sometimes marketers tend to create false urgency and a false demand which results in a rush of people to take the services. They do this by offering discounted pricing for a limited period.
- 4. Variability:** There is little variability in a product, since each unit of the specific model is manufactured identically. If one purchases a specific model of a car and another person purchases the same model, it is possible the services of the product will be same in most of the aspects. There may be some differences in customised options such as colour, seat material, and so on. However, the product will essentially be the same. On the other hand, there will be lot of variations in the dealer services provided with the car. There will be variations depending on who offers the service, and at what location. This can be achieved through standard processes and frequent audits. Customer surveys and feedback provide inputs. Frequent improvements, in response to customer feedback, can lead to increased customer satisfaction. A very good example is that of the McDonald's restaurant chain. McDonald's has a Big Mac burger which has the same taste at all the outlets of McDonald's situated around the world. McDonald's

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has the same equipment in kitchens and the procedure and the recipe is same for the burgers at all global outlets. Thus, McDonald's has the same taste, same recipe and same varieties of dishes at all other outlets, but the pattern of service changes with the change in outlets. That is why there people prefer going to some specific outlet of McDonald's in some cases.

- 5. Interactivity:** Delivery of service is directly determined by the chain of communication between the customer and the service provider. It also considers the connection between the people working inside and the service provider. The customer is the most important element in the process and all the activities planned are executed keeping in mind the satisfaction of the consumer.
- 6. Prosumership:** For the service to be delivered, the consumer needs to cooperate and coordinate with the service provider. For example, if there one needs to pay the Internet bill over the Internet, the consumer needs to have a verified payment method and an Internet service in working condition and be able to use both of them. Service marketing experts call it 'prosumership'. Service consumers (or *prosumers*) have to proactively participate in the service delivery process. The degree of this cooperation will vary among different types of services. But it must be present to make service delivery possible. No such cooperation is required for delivering physical products.

2.3 MARKETING FRAMEWORK FOR SERVICE BUSINESSES

The traditional 4Ps of product, promotion, price and place remain but three additional variables—people, physical evidence and process are included to produce a 7Ps framework. The need for extension is due to high degree of direct contact between the firm and the customer, the highly visible nature of the service production process, and simultaneous production and consumption of services.



Fig. 2.1 The Service Marketing Mix

1. Service product

Physical products can be inspected and tried before buying but pure services are intangible. A customer cannot go to a showroom to see a medical operation that he is considering. This means that customers of services suffer higher perceived risk in their decision-making process. They do not know whether they have purchased the right service until they have used it and in some cases like medical

service and car service, they cannot be sure whether they have received the right service long after they have consumed the service. The three elements of the extended marketing mix—people, physical evidence and processes provide cues about the quality of the service to the customer, and are crucial in influencing the customers' perception of service quality.

Brand name of a service can also influence the perception of a service. It is sad that service providers do not expend necessary resources and efforts in building strong brands. In situations where customers are unsure of the quality of their purchases, strong brands provide an assurance to customers that the company has a history of good quality. Customers spend lot of time, money and effort in ascertaining the likely quality of service they propose to buy and the providers do the same in assuring the customers of high quality of their offering. Both parties would be greatly served if service providers build strong brands. Customers would be less unsure of the quality that they will get. Besides promoting its service, a provider should provide high quality of services consistently so that customers applaud it. A strong service brand is built by a combination of advertising and positive word-of-mouth publicity. Both are necessary. Positive word-of-mouth publicity without being supplemented with advertising will create a strong local brand. Customers from distant locations would not be attracted to it. Advertising without being supplemented with positive word-of-mouth publicity will create awareness but customers will still look for an affirmation from customers who have actually availed the service.

For some services, trial is possible. Some hotels invite key decision makers of communities to visit their hotels free of charge to sample the facilities and services. The hotels hope that they will recommend the hotel to their members.

2. Promotion and communication of services

The intangible elements of service are difficult to communicate. It may be difficult to represent courtesy, hard work and customer care in an advertisement. The idea then is to use tangible cues that will help customers understand and judge the service. A hotel can display the building, swimming pool, friendly staff and happy customers. Testimonials from satisfied customers can be used to communicate service benefits. Personal selling can also be effective in services marketing because of the high perceived risk inherent in many service purchases. A salesperson can explain the details of a personal health plan, can answer queries and provide reassurance.

High perceived risk inherent in buying services encourages sales people develop lists of satisfied customers to be used in reference selling. Sales people need to be trained to ask for referrals. Customers should be asked if they know of other people or organizations that might benefit from the service. The customer can then be used as an entry and point of reference when approaching and selling to the new prospect.

Word-of-mouth publicity is critical to success because of the experiential and experiential nature of services. Talking to people who have visited a resort is more convincing than reading holiday brochures.

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Personal influences play a dominant role in the choice process of services. Therefore, it is important that the service provider takes deliberate steps to engender word-of-mouth communication. A company can follow the following approaches:

- A company can persuade satisfied customers to inform others about their satisfaction. The company can identify customers who have been especially pleased with its service and maintain relationships with them by offering them special deals. The customers are subtly asked to recommend the services to people they know. The company can have schemes in which it rewards customers who recommend and introduce others to their service. But such schemes should be played down because prospective customers will be wary of such recommendations if it comes to be widely believed that companies pay for eliciting recommendations. In any case, the rewards should just act as triggers. Customers should feel that the service is worth recommending. And not many customers would be willing to stake their reputations for paltry sums, i.e., it is unlikely that a customer will recommend an inappropriate service to his friend or relative.
- A company can develop materials that the customers can pass on to others. Customers who are extremely satisfied with the services of a particular provider recommend the provider to their acquaintances because they genuinely feel that the service provider is good and feel that they will be helping out their friends by recommending a genuinely good service provider. When a company leaves information material with their most satisfied customers, it becomes convenient for them to pass on information about the service provider to their friends. It is very convenient to send such information via email.
- A company can target opinion leaders in its advertising campaign. Heavy users of a service are good prospects. Corporate clients of repute can also sway opinions in the provider's favour. Celebrities are useful in this context if they are not involved with too many endorsements.
- A service provider encourages potential customers to talk to current customers. Educational institutes find this exercise very useful. Prospective students seek out current students to find facts about the institute. They trust current students to give true information. When current students talk well about the institute, prospective students' inclination to join the institute increases. Opportunities have to be created for current and prospective students to meet. But the effectiveness of this exercise is based on the belief of the potential customers that current customers do not have any interest in projecting a false image of the institute. But when such exercises are doctored, they lose their credibility.

Communication should also be targeted at employees because of their importance in maintaining and creating service quality. Internal communication should define the management's expectation from employees, reinforce the need to please the customer and explain the rewards that follow from giving excellent service. External communication that depicts service quality also influences employees if

they include employees and show how they take exceptional care of their customers. Care should be taken not to exaggerate promises in promotional material since this may build up unachievable expectations among customers. Such exaggerated promises also demotivate employees and makes them cynical as they know that the company is not in a position to live up to its promises. It is very important that the employees like the way their company is projected to the outside world, so that they feel proud of being a part of it and strive to live up to its promises made in the advertisements.

3. Price of the service

Price is an important tool in marketing of service. Since it is often difficult to evaluate a service before purchase, price acts as an indicator of perceived quality. For example, a patient expects a surgeon to charge high fees, otherwise he cannot be good. Price is also an important tool in managing demand. Bars charge higher rates in the evenings when they expect a lot of rush. They charge lower price during day-time expecting some customers, who otherwise would have visited in the evenings. Less number of customers have to be turned away in the evening. Low prices can also attract new customers who cannot afford to or do not want to pay the high prices charged in the evenings. The facility is more evenly utilized throughout the day. Matching demand and supply is critical in services because services cannot be stored. A less utilized facility at some part of the day or year means lost revenue which cannot be compensated. But the price difference has to be significant to be able to shift customers, as enjoyment of some services is closely related to the time at which they are consumed. The experience of watching a movie in a theatre at the weekend is very different from watching it on a weekday. People would prefer going to a hill-station in summers than at any other time of the year.

Price sensitivity is a key segmentation variable in service sector. Some customers are willing to pay a much higher price than others. Time is often used to segment price sensitive and insensitive customers. Long-distance phone calls are cheaper at some part of the day than others. Some customers may be willing to pay more to get the service early or whenever they want it. It is often debatable if a patient willing to pay more than the normal fees should be allowed access to a doctor before another patient who has been waiting for his turn. But it is slowly being accepted that customers who pay more can have faster access to the service. But the discrimination has to be done in a discreet and subtle manner, especially when both set of customers are in the same place, as it often happens in entertainment parks, where two queues of guests move at different paces toward the rides. The guests who pay more are in the faster moving queue and wait for less time than those who pay less. It is often wise to design facilities and operations in a way that the two sets of customers are not in sight of each other.

Five techniques used when setting fee levels are as follows:

(i) Offset

A company charges low fees for the core service but charges higher prices for other add-on services. A restaurant may charge low price for food but will charge higher prices for drinks. But after a while, customers would know the provider's

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tactics and customers who are primarily interested in having meals would be visiting but customers who want to enjoy their drinks will look for a place which follows the opposite practice. An entertainment park may charge low price for rides on swings but may charge high price for food.

(ii) Inducement

A company charges low fees to attract new customers or to help retain existing customers. Since price is a strong cue for quality in services, low price may make the customers believe that the quality of the service is not good.

(iii) Divisionary

A company charges low basic fees on selected services to develop the image of a provider which offers value for money. The services with low prices should be accessed more often by customers. The price of other services should not be very high as customers will then be able to see the price discrepancy between the services. The low priced services give an image of being low-priced but the very high prices of other services will make the customers suspicious about the true nature of the service facility.

(iv) Guarantee

The company allows the customers to pay the full fee only on achievement of agreed results. Most customers are generous enough to pay for the service that they have already consumed though they may not be fully satisfied with it. They will crib about the deficiencies in the service at the time of paying and will be assuaged with polite words. There is not much loss of revenue due to this clause. But inspite of most customers not availing the 'no-payment if not satisfied' option, they feel good availing the option and normally trust such providers to provide good service. Providers who give such guarantees make more efforts to provide fault-free services and their operations become better. They become more alert.

(v) Predatory

The company charges low prices to undercut competition's fees to remove them from the market. They plan to charge higher fees when competitors quit. But the events following a player's price cut does not normally follow this script. Competitors too reduce their price and a few adventurous ones among them even undercut the initiator. The result is low profits for every player in the industry.

4. Place (service location and channels)

Distribution channels for services are more direct. There is no storage of services. Production and consumption is simultaneous, and hence direct contact between the customer and service provider is essential for most services. Growth for many service companies means opening new facilities in new locations, due to simultaneous production and consumption. The evaluation of locations is a critical skill for such services. Expansion often means a multi-point strategy because the whole setup for service production and marketing has to replicated. Success of many service providers has been due to their ability to choose profitable new sites and replicating their operations at the new sites.

New technologies permit service companies to provide services without customers coming to their facility. Information and financial services are leading this revolution. A customer can carry out transactions with a bank through ATMs, internet, or the phone. Information products can be widely distributed through internet. But there are many other services where contact between the provider and the customer is still essential. But service companies should be looking for an alternative to personal contact with customers for at least a part of the service. Should education be provided solely through teacher-student interaction in a classroom or can at least a few of these sessions be substituted by a recorded lecture? Should a patient visit a doctor each time he feels unwell? Or can he have a monitoring system at his house which can transmit information about his body's functioning to the hospital, from where a doctor will prescribe medicines over the phone? It is not being suggested that all this is possible. But service companies should be experimenting with various alternatives to deliver services. Personal contact between a service provider and a customer is costly, cumbersome and full of interpersonal complications. If it can be avoided without sacrificing customer satisfaction, it should be.

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5. People

Service quality is inseparable from quality of service providers. The company has to set standards to improve the quality of service provided by employees and monitor their performance. Without training and control, employees tend to be variable in their performance leading to variable service quality. Training is crucial so that employees understand the appropriate norms of behaviour. A service provider trains its employees to identify and categorize different personality types of customers, and modify their behaviour accordingly. Employees need to understand the extent of discretion so as to be able to talk to customers informally. They also need to control their own behaviour so that they are not intrusive, noisy or immature. They need to adopt a customer-first attitude rather than putting their own convenience and enjoyment before those of their customers.

Employees of service organizations have to be adept in multiple roles. They have to be good in their primary task and interpersonal skills. They also should have empathy to judge the service requirement and mood of the customer, and modify their service and behaviour accordingly. A service professional has to have the combined skills of an operations man, a marketer and a human resource manager. It is not easy to find employees with such diverse skills.

The company has to examine the role played by customers in service environment and seek to eliminate harmful interactions. The enjoyment of a restaurant meal or air travel will depend upon actions of other customers as well. The service facility's marketing mix should be such that it attracts customers desiring similar benefits from the provider. The target market has to be very homogeneous and the positioning very precise.

6. Physical evidence

Physical evidence is about the environment in which the service is delivered and includes any tangible goods that facilitate the performance and communication of

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the service. Customers look for cues to have an idea about the likely quality of a service by inspecting the tangible evidence. Prospective customers may peep through a restaurant window to check the appearance of the waiters, the décor and the furnishings. The layout of a service operation has to balance the operational need for efficiency and marketing desire for effectively serving the customer.

Customers do not know what is in store for them when they decide to consume a service as they cannot examine it before using it. The whole facility is important to the customer as a source for cues, by which he will try to gauge the quality of the service he is going to consume. Service providers should research the concerns of the customer regarding the service and also find out the cues that the customer will be searching to get an idea of that part of the service which is of concern to him. The service provider should strengthen those cues.

7. Process

These are the procedures, mechanisms and flow of activities by which a service is delivered to customers. Self service cafeteria is very different from a restaurant. The company needs to research the requirements of its customers and set its processes accordingly so that the required service is delivered. Since requirements of customers vary widely, processes cannot be standardized. But if a process is allowed too much flexibility, the efficiency of the facility goes down. Therefore, customer requirements should not be allowed to vary widely. Through targeting the smaller segment of customers, variations in their requirements can be controlled.

The process is important because in some services, they are visible to customers. Sometimes the effectiveness of a process can be compromised in the effort to make it look good to the customer. Some patients feel good when they are extensively examined by the doctor though it may not be necessary. Some processes in personal grooming and hair care saloons are not really required but service professionals have to carry them out because customers have come to expect them. Classroom lectures are largely ineffective but students will feel that they have not been taught at all if such lectures are not held. The idea is that customers have to be educated about the need or irrelevance of certain processes. A process should be employed only when it is required to provide a service and not because customers have come to expect it.

2.3.1 Marketing Segmentation

Segmentation is the process of dividing the market of a product or service in smaller groups of customers. The customers in one group should (i) buy the product for the same purpose, or (ii) use the product in the same way, or (iii) buy the product in the same way. But customers of one segment should be different from customers of any other segment in one or more of the above parameters. Segmentation of a market makes sense only when the company has to design a separate value proposition for each segment.

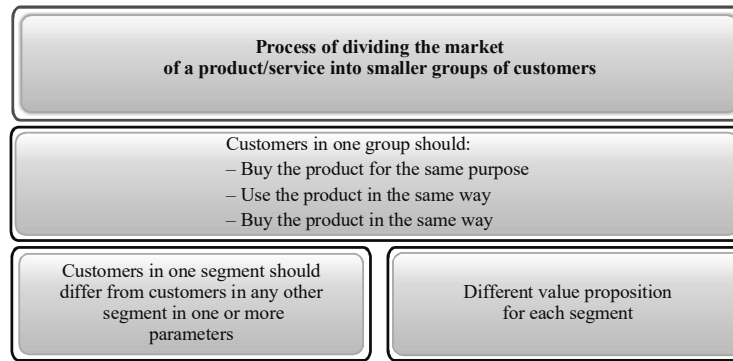


Fig. 2.2 Fundamentals of Segmentation

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Rationale for Segmentation

Different product and service offerings must be made to the diverse groups that typically comprise a market. Segmentation involves identification of groups of individuals or organizations that have significant implications for determination of a marketing strategy. Segmentation is dividing a diverse market into a number of smaller, more similar sub-markets. The objective is to identify groups of customers with similar requirements so that they can be served effectively while being of a sufficient size for the product to be supplied efficiently. It is the basis by which marketers understand their markets and develop strategies for serving their chosen customers better than the competition.

- Selection of target markets:** A company divides the market into segments, so that it can select one or more segments as its target market. A company's target market is the set of customers that it has chosen to serve through its marketing mix. Customers in the target market desire similar features and benefits in their product and want to buy in a particular way. Therefore, the company can design a unique marketing mix to serve its target market. There is no one defined way to segment a market. An ingenious company can segment a market in ways that reveal segments whose needs are underserved, and hence can be lucrative target markets for it. A new entrant should never believe that the existing segments are the only ones that they can serve. The existing segments have been created by incumbents who identified customer needs that they can serve well. Similarly, the new entrant should identify customer needs that are not being served well by incumbents, but can be served well by it. Segmentation is the art of understanding and identifying nuanced customer needs, and hence it is never ever static. Customer needs evolve, and customers become sophisticated and refined as a society evolves. Thus, companies should always be on the lookout to change the existing bases of segmentation.
- Designing marketing mix for each target market:** A segment is a group of customers whose needs are similar, and who buy in the same way. A company develops an insightful and sophisticated understanding of its target market, and hence is able to design a unique marketing mix for its target market. It is important to remember that while this marketing mix serves its

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target market very well, it is singularly unsuitable for any other target market. The underlying premise of segmentation is that while customer needs vary, it is possible to club customers whose needs are similar, and serve them with a unique marketing mix. The marketing mix will not serve the precise needs of every customer in the segment, and will serve the needs of some customers better than those of others. An alternative to segmentation is creating a unique marketing mix for every customer, which can be prohibitively expensive. Another alternative is to treat the entire market as a single segment and serve it with a single marketing mix, which is ineffective as it results in the needs of most customers not being served well. Segmentation allows customer needs to be served reasonably well, and at a reasonable cost to the company.

- **Differentiation:** Segmentation allows a company to develop a unique marketing mix for each of its target markets, and therefore it has as many marketing mixes as it has target markets. Within a target market, it can design its marketing mix in ways that make its marketing mix different from those of its competitors. The success of the company will depend on whether its marketing mix serves the needs of its target market better than the marketing mix of its competitors. Marketing mix is a source of competitive advantage. A company which develops a more sophisticated understanding of customer needs is able to design a more appropriate marketing mix for its target market. In most cases, the bottleneck is lack of understanding of customer needs, rather than lack of resources to design an effective marketing mix.
- **Opportunities and threats:** Markets evolve. Customers' incomes change, and so do their needs and aspirations. Customers of some segments change faster than those of others, and companies whose target markets are such segments, should be extremely diligent in sensing emerging needs, and extremely agile in designing new marketing mix. Sometimes, there may be dramatic changes in a society that warrant companies to revisit their existing bases of segmentation, and segment the market all over again.

A smart company is always on the lookout for an underserved segment for which it designs a more appropriate marketing mix. It is also on the lookout for an overserved segment, for which it designs a simpler marketing mix and offers the product at a lower price. A company also has to learn to manage its portfolio of target markets. A company may find one of its target markets to be less lucrative, and may not devote sufficient resources to serve its customers well. A competitor can design a unique marketing mix for this segment and take away its customers. The company may not rue the going away of not-so-lucrative customers, but the competitor gets a foothold in the market, and it may slowly start preying on its more lucrative target markets.

A company may choose to exit a target market as a well-considered move if such an exit is in line with its long-term goals, but it should not leave a target market unattended just because it is no longer very profitable to serve it. It should

continue to serve its less profitable target market to prevent it from becoming a beachhead from where a competitor may attack its lucrative target markets.

Selecting Bases for Segmenting Markets

A company can segment a market in many ways. Segmentation variables are the criteria that a company uses to segment its market. The criteria that a company chooses should be good predictors of differences in customer needs and the way they buy. Three important segmentation variables to segment a consumer market are— behavioural, psychographic and profile variables.

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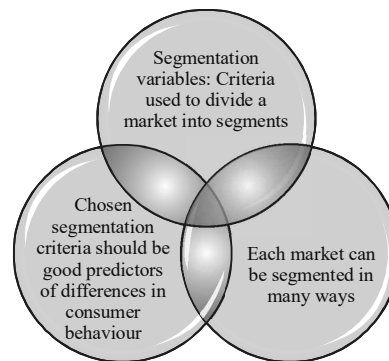


Fig. 2.3 Segmenting Consumer Markets

- Behavioural variables are the fundamental basis of segmentation of consumer markets. Behavioural variables include benefits sought from the product, and buying patterns such as frequency and volume of purchase.
- Increasingly, consumers with different personalities or lifestyles prefer different products and buy differently, and they need different marketing mixes to serve them effectively. A company uses psychographic variables when the buying behaviour of its customers is closely linked to their personality or lifestyle.
- After a company has identified the segments, it needs to describe them in terms of who they are and where they are located, i.e., it needs to profile them. Therefore, profiling is not a criteria for segmentation. Profile variables such as socio-economic group or geographic locations describe the customers of each segment. For instance, after identifying a segment which likes powerful bikes, the bike company profiles the segment in terms of age and socio-economic group—the target customers belong to the age group of 18–25 years, are predominantly located in urban and metro cities of India, and are from the upper socio-economic class. Therefore, the idea is to identify and locate the customers in the target market, so that the company can reach them with its messages and products.

A company may not always follow the above sequence in segmenting its market. A company may identify profile variables first, and then identify segments on the basis of the chosen profile variables. It then checks if the identified segments show different buying behaviour. For example, a company segments the market on the basis of income, and comes up with different segments—low income group,

medium income group and high income group. It then checks if the members of the three groups have different needs and buy differently, and whether such a difference, if any, warrants designing a new marketing mix for each of the groups.

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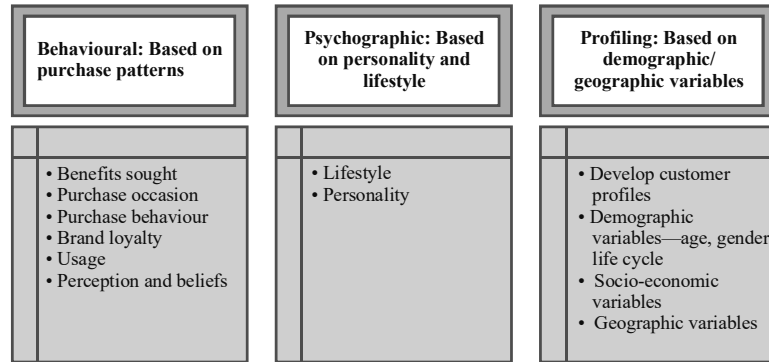


Fig. 2.4 Bases for Segmenting Consumer Markets

1. Behavioural segmentation

A company segments its market on the basis of the buying behaviour of customers. It tracks customer purchases to identify patterns of buyer behaviour, which it then uses to segment its market.

- **Benefits sought:** Customers may seek different benefits from a product. For example, customers may seek benefits of energy efficiency and rapid cooling in air conditioners. It is important that a company carries out benefit segmentation diligently, because a company exists only till it serves customer needs. It then profiles its segment in terms of age, income, and so on, so that the company can reach them easily. A brand will position itself to serve a benefit or some combination of benefits, and therefore there are brands targeting each segment. A company that conducts benefit segmentation gets a comprehensive understanding of customers' choice criteria. It then chooses choice criteria that it will serve, and designs a marketing mix to provide exaggerated performance on the chosen choice criteria. For example, a company may choose to serve the segment which prefers rapid cooling. It designs an air conditioner which provides very rapid cooling, but which is not very energy efficient. Some companies choose to serve more than one choice criteria in the mistaken belief that all customers seeking the different choice criteria that the company is trying to fulfil, will buy the product. But, it does not happen that way. In competitive markets, focused competitors excel in serving single choice criteria, and customers prefer products of such focused competitors because their products excel in the choice criteria that are important to them.
- **Purchase occasion:** A customer can buy a product to replenish a depleted stock or he can buy to take care of an emergency. A customer is less price sensitive when he buys to take care of an emergency.
- **Purchase behaviour:** Customers exhibit different buying behaviour in terms of the time of their purchase relative to the launch of the product. When a

company launches a new product, it has to identify the segment of innovators who would be willing to take the risk of buying the new product as soon as it is launched. The initial communication is targeted at this segment of innovators, so it is important to know them and their sensibilities. Other segments will evaluate the product rigorously and wait for the feedback from innovators before they buy the product. Some other segments will buy only when the product is firmly established in the market and hence face no risk in buying it.

- **Brand loyalty:** Brand loyalty is an important basis for segmenting consumer markets. Some consumers buy only one brand in a product category, and hence are totally brand loyal. But, most consumers switch brands. Some consumers buy one particular brand at most times, but also buy other brands. There are a large number of customers who do not have any brand preference, and they buy a brand depending on the concessions that it may be providing. And then there are variety seeking consumers who buy a different brand whenever they buy one. A company profiles each group of customers, and selects one or more of them as its target market. It may also be that almost all types of groups are its customers, and it has to either discourage one or more groups to buy its products, or design separate marketing mix for each group.

It is difficult to believe that some consumers are inherently loyal and that they will continue to buy a brand even if they are dissatisfied with its performance. But there are definitely some consumers who, if satisfied with a brand's performance, will continue to buy it. Such customers should be a company's most valuable customers and it should go out of its way to keep them satisfied. Weaker brands can try to lure 'deal making' and 'variety seeking' consumers by offering them concessions and exotic benefits respectively. It is also important to remember that customers have become fickle in their brand choice because companies are forever trying to lure customers by deals rather than by the intrinsic worth of the brands that they sell.

In consumer durables market, there are three types of buyers: first time buyers, replacement buyers and switchers from other brands. Since there is a considerable time gap between two purchases, and also since the product is expensive, the replacement buyer and the switcher will evaluate the alternatives as rigorously as the first time buyer. Therefore, it is important that consumer durable companies maintain the performance of their products and also keep advertising. It is also important that they keep their product technologically updated, because a replacement buyer will buy another brand if the brand that he is using, is now selling products which are technologically inferior to those of other brands.

- **Usage:** A company can segment its market on the basis of its consumers being heavy users, light users and non-users. Most companies target heavy users and provide concessions to retain them. The result is that heavy consumers are expensive to serve. Light users are not targeted by large

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companies, and hence small companies can more easily attract them and retain them. A company can target non-users without the fear of competitor retaliation, but it has to find out as to why the non-users are not using the product. The company may have to make some changes in the product to make it useful to non-users, or it has to communicate articulately to make them aware of the usefulness of the product.

- **Perceptions and beliefs:** A customer's behaviour is influenced by the perceptions and beliefs that he holds of issues and events. A company can conduct perceptual segmentation by grouping customers who have similar views about a product, and it can conduct belief segmentation by grouping customers who have similar beliefs about a product. For instance, when iPod was launched, it appealed more to consumers who were passionate about their music and were also technology savvy.

In the early 90s, large number of Indian consumers held negative perceptions about microwave ovens. It was believed that since Indian food is rich in oil and spices, it cannot be cooked in a microwave oven, and that the waves emanating from inside were harmful to health. But, there was a segment which was well aware of the functioning of microwave ovens, and how it enabled faster and healthier cooking of a large range of cuisines. This segment of aware and health-conscious customers adopted microwave ovens wholeheartedly. Therefore, marketers initially focused on the second segment.

2. Psychographic segmentation

The psychological make up of a customer is analysed to unearth deeper motivations for purchasing specific products or brands. The process often involves studying a customer's values, opinions, activities and lifestyles. The idea is to establish patterns, which can be used as a basis for clustering similar customers.

- **Lifestyle:** A company groups people according to their way of living as reflected in their activities, interests and opinions. The company identifies groups of people with similar patterns of living. The company that practices lifestyle segmentation relates a brand to a particular lifestyle. But, it is doubtful whether general lifestyle patterns are predictive of purchasing behaviour in specific markets.
- **Personality:** In some product categories like cars and garments, customers prefer brands which reflect their personalities. Therefore, companies have to endow their brands with values that are cherished by consumers of such products. There is a strong relationship between personality of the brand and personality of customers, when the brands that the customers select showcase their personal values. In most categories of products, customers buy from a repertoire of brands, and hence there is considerable brand switching happening in most categories of products. But when brand choice is a reflection of self-expression, with the brand making public an aspect of customers' personality, customers would find it difficult to switch brands. Therefore, companies can lock-in customers by creating brands whose personality matches with the personality of the target market.

3. Segment profiling

Once a company has identified its segments, it needs to profile them in terms of variables such as age, occupation, socio-economic status, place of residence, gender, etc. Profiling will help companies in identifying the segments and focusing their attention on them.

- **Demographic variables:** Age is used to segment many consumer markets, like food and clothing.
 - *Gender:* Differing tastes and customs between men and women are reflected in specialist products aimed at these market segments.
 - *Life cycle:* Disposable income and purchase requirement vary according to life cycle stage. Young couples without children may be a prime target for consumer durables, whereas couples with grown children may be prime target for education loans. Presence of children and family responsibilities shape customers' purchase priorities more than age, and therefore segmentation of consumer market by customers' stage in life cycle leads to more valid segments. The use of life cycle analysis to segment consumer markets gives a comprehensive understanding of customers' changing requirements and priorities as they move through different life cycle stages.
- **Socio-economic variables:** Social class is a good predictor of what a customer buys and how he buys, even though many customers who have similar occupations live life differently and hence exhibit different buyer behaviour. A company can also use educational qualifications and income of customers to segment consumer markets, and when they are used together with customers' occupation, the process yields more valid segments.
- **Geographic variables:** A customer's place of residence also affects the products that he buys and how he buys. A customer's eating and dressing habits are strongly influenced by the place he belongs to, and it continues to be a strong determinant of buyer behaviour even when he leaves his original place of residence. Geographic segmentation is easy to carry out in terms of identifying the segments, but the segments have to be thoroughly studied to find their needs, and how they would like their needs to be served.

Both the geographic and demographic variables help a marketer to identify his segments more precisely.

Market Segmentation Process

A target market is a group of people or organizations for which a company designs, implements and maintains a marketing mix intended to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges. Selection of target markets is a three step process.

- (i) A company carries out extensive marketing research to get a comprehensive understanding of the requirements and characteristics of its potential customers. Customers are then grouped according to their requirements and/or characteristics into segments.

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- (ii) Customer choice criteria is often used to segment a market, but there is no single, prescribed way of segmenting a market³. A car market can be segmented according to the type of buyer (individual/organization), by major benefits sought in the car (functionality/status) or by family size (empty nester/family with children). There are no rules which lay down how a market should be segmented. The only limitation to the ways in which a market can be segmented is the marketer's ingenuity.

The selection of the choice criteria on which the market will be segmented is the most important decision that the company will have to make. The choice criteria should be able to bring out meaningful differences among customers, which the company can exploit by designing a unique value proposition. It is important that a company uses different choice criteria to segment the market, because each time a market is segmented on a new choice criteria, a different set of segments will emerge. Using a new criteria or using a combination of well known criteria will throw up hitherto unknown segments, which the company can choose to serve. Therefore, the choice criteria which are chosen to segment the market determine the type and number of segments that the market will have.

- (iii) The company chooses one or more segments as its target markets and designs a unique marketing mix to serve them. To be successful, its marketing mix should serve needs of its target market better than those of its competitors.

Check Your Progress

1. What is delivery of service determined by?
2. List the 7 Ps of the service marketing mix.
3. Why is word-of-mouth publicity critical to the success of services?
4. What is physical evidence and what does it include?
5. Define segmentation.
6. What is psychological segmentation?

2.4 THE SERVICE CLASSIFICATION

The service sector covers a diverse range of activities. This diversity is apparent in the distinction between a complex global travel agency and a small, local plumbing service. It is important to identify the smaller service categories and subject them to analytical frameworks that are suitable for that particular service category. Services are usually classified on the basis of the type of activity they perform. Classifications such as hotels, shipping and banking have their basis in similar methods of production. But marketers do not find such simple classifications very useful. A wide range of activities having distinct marketing needs can be covered by a single production sector. For instance, five star hotels and small lodges come within the purview of the same sector, but have different marketing needs.

Moreover, the majority of services usually combine numerous other services; for instance, retail stores provide banking services. Further, a specific production-based subsector might have certain marketing needs in common with some other unrelated subsector instead of the other subsectors within its own sector. Subsectors must be identified by the marketer in terms of similar marketing needs. For instance, providing hotel services and carrying out shipping operations are similar in that the process by which customers arrive at buying decisions and interact with a company's employees is similar. Reducing the number of categories has been complicated by the diversity of service offerings. The following are the bases for classifying services:

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1. Marketable vs Unmarketable Services

Services are often categorized into marketable and unmarketable services. The latter refers to those services for which the distribution of benefits is considered desirable through non-market based mechanisms due to the prevalent economic and social environment of the time. For instance, a number of government services are offered with the aim of providing benefits to the public, without any charges. This happens because excluding individuals from benefiting from the service (e.g., footpath) is not possible. The benefits are external. This means that confining the distribution benefits only to those who have agreed to some mutual exchange relationship is impossible. A number of public services do not cause rivalry in consumption. In other words, one individual's indulgence in the service does not come in the way of another individual's enjoyment of the same.

The other important service group that is considered unmarketable by a number of cultures includes domestic activities such as child rearing and cooking. Though some of these services are commonly marketed, some still consider that for the proper functioning of a family unit, these services should be internally provided.

Between these two extremes lies an entire array of services that are dynamically classified and reflect the alterations in the technological, social, economic and political environment. Many have attempted to internalize the external benefits of public services in order to make them marketable. There are proposals for toll roads based on the marketing principles of selling relatively uncongested road space to motorists.

2. Producer vs Consumer Services

Producer services are the services provided to businesses to enable them to produce services having economic benefits. Customer services are the services used by individuals for their own benefit or gratification. The consumption of consumer services does not result in any economic benefit (e.g., hairdresser).

A number of services are simultaneously provided to both the producer and consumer markets. Marketing needs should be adapted for meeting the distinctive requirements of each user group. For instance, the service provided by airlines is primarily similar for both the consumer and producer markets; however, their marketing programme may be such that better short notice availability and quality may be emphasized for the former and lower price may be emphasized for the latter.

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The status of the service in product offering

Some elements of both goods and services are combined in the majority of products. It is possible to classify services on the basis of their role in the total offerings. There are three principal roles that services perform:

- Pure services exist in cases where the evidence of tangible goods is minute; for instance, a management consultancy service or insurance policy services. The minimal tangible element that does exist performs the role of supporting the intangible service; for example, the intangible service of transport is supported by the tangible aircraft.
- The role of the second group of services is the addition of value to tangible products. This occurs when the core tangible products of a manufacturer are supplemented by extra service benefits such as after sales services. Services may also be sold as discrete products that are purchased by customers for adding value their own goods (e.g., car insurance).
- Some value may be added to products by the third group of services simply by means of making them available in the market. Services such as delivering tangible goods from the point of production to the final destination required by the customer and providing some means of purchasing the tangible good through extension of credit (mortgage houses and transport) are facilitated by this group of services.

3. Tangible vs Intangible Services

A grey area exists between pure services at one extreme and pure goods at the other. Much of the intermediate greyness can be explained in terms of the extent to which the offer includes tangible elements. The degree to which intangibility is present in the service offers is derived primarily from the following three sources:

- Tangible evidence of service performance
- The physical environment in which the service is produced or consumed
- The inclusion of tangible goods in the service offer and the consumers' consumption of them

In cases where goods make up a significant element of the service offer, it becomes possible to apply to the service offer a number of practices having to do with the marketing of goods. For instance, both intangible services and tangible goods are represented by restaurants. It is possible to separate the production of goods from its consumption, and its perishability also assumes less significance than the perishability of an empty table. Customers are given an opportunity to judge the restaurant's quality on the basis of the visible evidence of the tangible components.

The physical environment in which the service encounter occurs and the goods that are exchanged comprise the tangible elements of a service offer. The staff's appearance, their cleanliness, the building's design, etc. are the significant tangible evidence that form the criteria for differentiating one service provider from another. Whereas certain services abound in such tangible uses, others such as insurance do not.

Evidence of the method of producing the service also provides tangibility. A number of services allow customers to be present during the production process. Customers see this tangible evidence before arriving at a conclusion about purchasing a service either by observing directly or by watching while it is performed for someone else or indirectly by means of hearing someone else's description of it. However, very few tangible cues are provided by certain services regarding the nature of the process of producing the service. Portfolio management services are not only produced without the customer being able to view the production process, but specifying the outcome of the service too may be extremely difficult.

Intangibility tends to increase the levels of uncertainty that consumers perceive in making purchase decisions. Marketers should compensate for this by focussing on the management of the tangible evidence of the service offer. Heightened uncertainty resulting from intangibility is often also addressed by developing strong brands to provide reassurance.

Extent of customer involvement

While it is possible to provide services such as personal care only with the full participation of customers, other service processes ask for little more than the initiation of the service by the customer. The customers are fully involved in the process of producing and delivering the service. For instance, when a hairdressing service is being performed, the interactive nature of the service requires that a set of questions related to the emerging style and length of the hair be answered by the client. For these customers, the quality of the process of producing the service is as important as the outcome. On the other hand, a customer listening to the radio does not have to be so involved.

The level of customer participation is usually lower in the case of services that are performed on the customers' possessions (car service) rather than directly on their body or mind. Here, the primary task that the customer performs is initiating the service and monitoring its performance. One way of monitoring a service would be to examine the physical tangible evidence of its performance; for instance, examining whether a piece of cloth has been stitched in the manner required by the customer. It is also possible to monitor the performance of a service by looking at the intangible evidence; for instance, checking the statement made on behalf of a client regarding an investment.

Because it is relatively more difficult to maintain consistent production standards for services, many service providers reduce the level of customer involvement in the production process. This has been made possible by simplifying the service production process and by addressing distant communication by mail or telephone.

Degree of variability

The following two dimensions of variability can be used for classifying services:

- The extent to which it is possible to deliberately vary services for meeting individual customer requirements.
- The extent to which the standards of production vary from the norms, in terms of both the production process and the outcome.

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In the case of services that require customer to actively participate in the process of production, variability in producer standards assumes importance; for instance, a one-to-one situation such as hairdressing that involves the provision of labour-intensive personal services. Greater scope is allowed for quality control checks during the process of production by certain services. This ensures that a superior level of service is consistently provided. This holds good for machine-based services.

In the present day, the general tendency is to regard equipment-based services as having less variability than the services that involve a high level of personal interference in the process of production. A number of service firms adopt equipment-based methods of production for reducing variability and building a strong brand. Some of the most common steps taken by firms in this regard include computerizing the voice systems to replace human telephone operators and automating the banking service. At times, personal variability can be decreased by transferring some portion of the production process to the customer. An example of this would be a self servicing petrol pump that is independent of the variability of the serving staff.

Variability also has to do with the degree to which it is possible to deliberately customize a service for meeting individual customer requirements. Given that the creation and consumption of services is a simultaneous process and that the consumer takes part in the process of production, manufactured goods afford more opportunities for customization than services. The degree to which it is possible to customize a service depends on the methods of production that are use. Thus, little scope is offered for individual customization by services that are produced for numerous customers at the same time. For instance, individual customer requirements cannot be taken care of in the structured methods of production of a railway system, unlike the more flexible methods of taxi drivers.

The degree to which it is possible to customize services is a function of the decisions taken by the management about the level of authority they wish to delegate to the front line staff. Encounters with customers are often industrialized by service organizations. This means that standardized processes are followed during every encounter. Although the flexibility of the producers in meeting customer needs is reduced by industrialization, the consequence is a reduction in the outcome and process variability.

It is in services with low variability in both dimensions that brand building by service forms assumes great importance.

Pattern of service delivery

Service delivery has the following two aspects:

- (i) Whether a service is supplied as a series of discrete transactions or on a continuous basis
- (ii) Whether a service is supplied within an ongoing buyer-seller relationship or casually

In terms of continuity of supply, the first set of services is bought only when there is a requirement for them as a series of discrete transactions. This is often the

case for undifferentiated services carrying a low value, and which can be impulsively purchased or without much conscious research (e.g., cafes, taxis, etc.). This also holds true for specialized services having a high value that are bought only when they are needed (e.g., wedding services). There are other services where supplying the services on a casual basis is an impractical idea. This is usually the case for services whose methods of production come in the way of offering the service only when it is required (e.g., telephone lines cannot be provided only when they are required), or when there is a continuous need for the benefits provided by the service (e.g., insurance policies).

It is common to associate continuous service supply with a buyer-seller relationship. This happens when the service is produced/consumed over a long period of time (medical treatment), when the benefits can be enjoyed only at the end of a long period (investments), or when a high degree of perceived risk is encountered by the purchaser. It is possible to diminish the transaction cost of searching for and ordering services afresh every time they are required (annual maintenance) by opting for supply through an ongoing relationship instead of discrete transactions.

At times, supplying the essential elements of a particular service through an ongoing relationship, but supplying the supplementary service benefits only when required makes sense.

Attempts are made by service marketers towards moving customers into categories where the provision of services is continuous and not discrete and as part of ongoing relationships instead of casually. It is possible to achieve the former if incentives are offered for purchasing a continuous stream of services benefits (e.g., attractively priced annual travel plan, seasonal tickets, etc.).

Pattern of demand

Only a few services have a stable demand pattern over a period of time. A number of them display considerable variations, in daily (bars), weekly (weekend rush), seasonal or cyclic terms. The pattern of demand may also be unpredictable. The perishability of the services can pose serious problems for services facing a very uneven pattern of demand.

Significance of the service to the purchaser

There are certain services that are frequently purchased, carry a low value, are rapidly consumed and are likely to be bought impulsively without any pre-purchase activities. Only a minor portion of the buyer's total expenses may be represented by such services and matched by the goods marketer's description of fast moving consumer goods. On the other hand, long lasting services are not bought very frequently, and if at all they are bought, it takes longer and requires the participation of more people to arrive at a decision (e.g., packaged tours).

Numerous measures have been identified in order to classify services; however, in practical terms, it is necessary to simultaneously classify services by a number of criteria in order to facilitate the identification of groups of similar types of services.

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2.5 SERVICE PRODUCT DEVELOPMENT

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The 'product' is a tricky element in case of services as it is essentially intangible. Hence, marketers need to identify and select key features of the service in relation to the benefits sought by the customers. In the case of service marketing, even the product element is dependent on the human influence and subjectivity, meaning how the service product is perceived also depends on how it is delivered.

Service Offer

Tangible goods offerings as well as intangible service offerings are both used to define the term product. In other words, a product is a combination of tangible and intangible attributes that is inclusive of functional, social and psychological utilities and benefits. A product can be an idea, a service, a good, or any combination of these three. Four categories of product offers are (i) Pure tangibles (ii) Tangibles with accompanying services (iii) Major services with accompanying minor goods (iv) Pure services.

Essentially, most products are a combination of goods and services. The service provision is often appended by support goods that offer the tangible aspects. Moreover, facilitating goods are those which must exist for the service to be provided in the first place, a car for hire service can be taken as example. Customers, often purchase not just a product but the benefits that come with the product.

Service concept comprises three elements:

- (i) *Physical items*: Any tangible elements which are the facilitating or support goods (food, drink served in restaurant).
- (ii) There are sensual benefits, those that can be defined by one or more of the five senses (Taste, aroma).
- (iii) *The psychological benefits of a service purchase bundle*: These are benefits which cannot be clearly defined and are determined by the customer subjectively.

Service offers can be distinguished from goods offers by their inseparability. The fact that a service cannot be separated from the person who provides it, nor from the place where it is provided, results in services being consumed as soon as they are produced and this means a high degree of buyer/supplier interaction.

Services cannot be resold and value can be added only at one level. Organization/client interface and user participation are critical elements influencing the consumer's perception of a service product.

There are three different levels of an individual product:

- (i) **Core product level**: This is an underlying need which a product satisfies (Transport).
- (ii) **Tangible produce level**: The core product is made available to consumers in some tangible form, expressed in terms of products features, styling.

- (iii) **Augmented product level:** Besides the tangible product, additional services and benefits are included to satisfy additional needs of consumers and/or to differentiate a product from its competitors. Many of these additional features are services.

In contrast to what consumers believe, a product is a lot more than the physical item that is bought in the market. In order to understand this better, we may consider it as three different products – the core product, the actual product and the augmented product. Also known as the three levels of a product, the core product is different from the tangible product as it cannot be touched. This is so because the core product is the outcome or the benefit of the product that gives it its value. As an example, the benefit of owning a car is not just convenience but speed as well. The actual product is by and large the tangible, physical product that one can touch and see. Taking the example of a car, one can first take it for a test drive before buying. Finally, the augmented product is the non-physical part of the product which comprises added value. As a result for a car, the augmented product will be the warranty. It may also be perceived to be the ways in which the core or the actual product gets tailored to the customer's needs. The features of augmented product can be changed to fit the individual benefits of customers.

Service-Product Continuum

There is no clear distinction between a 'pure' tangible product and a service. Most products contain some of both. For example, a computer is a tangible product, but is often accompanied by warranty and software updates. Product-services continuum helps marketers to understand the differences and similarities between goods and services.

The goods and services continuum help marketers to see the relative goods/ services composition of total products. The position of the product on the continuum enables marketers to spot opportunities. Goods that have no related services are positioned at the pure goods end of the continuum. At the pure services end are services that are not associated with physical products. Products which have a combination of goods and services fall between the two ends. For example, goods such as furnaces, which require accompanying services such as delivery and installation, are situated toward the pure goods end. Products that involve the sale of both goods and services, such as auto repair, are near the centre. Products that are primarily services and which rely on physical equipment, such as taxis, are located toward the pure services end.

A few observations of the Continuum model are given below:

- A firm usually offers a range from pure goods to pure services.
- Goods that are tangible are very easy to evaluate by the consumer (like fabrics, jewellery, and a house). It becomes difficult for the consumer to evaluate offers which are mostly services because of their intangible nature (like legal and counselling advice, medical diagnosis, etc).
- The range of offers has different qualities in themselves and the customer looks for or seeks these qualities.

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Those that are mostly goods show search qualities. Customers know exactly what they want and look for those features in the offer. A marketer can advertise their product by putting the search quality features on display prominently so that the customers are able to get details or access easily to the product or services they are looking for. If the customers are unable to find these features in their search then they may become anxious and not buy or might go for rival products.

Offers that are mostly service oriented will not have any tangible features for the customer to search for. Customers will then look for credo qualities in the offer. Reputation of the offer will then become the decisive factor. For example, a patient would choose his/her doctor or surgeon on the basis of his/her reputation. We tend to give our computers for repair on the basis of the reputation of the repairman. A marketer of such offers needs to be doubly careful in highlighting the credibility of the service provider. Thus, in the product-service continuum, services can be classified in three ways:

- 1. Highly tangible services:** They have high degree of tangibility. This is mainly because the services are rendered over certain goods, for example car rentals. Car rentals are service based entirely on cars. Car rentals exist only because cars exist. The marketer only has to include the car in his communication and the customers will easily understand the service concept easily. If the car has a good brand image then the car rental will bask in the reflected glory. If the car rental mentions in its advertisements about the type of cars in its pool, then the consumers will accordingly perceive the quality of the company. If by chance the car breaks down during a rental service, then the consumer will form a poor impression of the car rental company. The consumer at this point will not care that the car has broken down but will feel that the car rental company was not able to give good services.
- 2. Service linked to tangible products:** Here the service is linked to goods, either independently, or as part of the marketer's offer. If it is the latter, the service becomes a part of the total product concept. For example, a home appliance company includes repair as part of its marketing mix. Even if it is not included, then also home appliance repair is a service that is forever linked to goods. If there were no home appliances in the world, such services would be non-existent.
- 3. Highly intangible services:** In this classification under the continuum model, service is highly intangible. The services cannot be touched, felt or seen, for example, counselling, consultancy, psychotherapy, physiotherapy, or a guest lecture.

Service Life Cycle

In the life cycle of product and services, there are different stages that are more or less similar and have common characteristics. They are as follows:

- **Introduction:** In this stage, the service has just been launched and hence is new. As such, the rate of its usage will be low. The cost of production is high at this stage but the sales being less, the revenue obtained is low. Until the growth stage, the service provider operates mainly from one location.

- **Growth:** At this stage, a rapid increase in the sales can be witnessed. The consumers observe the benefits the service offers. This results in sales increasing at an increasing rate. Extensive promotions take place at this stage with a focus to attract new users and retain repeat customers. The firm may even improve service quality and add some new features to attract customers.
- **Maturity:** As the rate of growth slows down, the product/services enter the stage of maturity. In this stage, the sales will increase but at a decreasing rate. The sales touch their peak and then saturates at this level for a long period of time. There is intense competition prevails among the firms. The firms, in order to keep their market share, may modify and try to improve the service quality.
- **Decline:** With advancement in technology and changing consumer tastes, the usage rate of services diminishes. Different strategies are used by the service provider uses at this stage. Some firms withdraw the current service they are offering and switch over to new ventures with prospects for better opportunities. However, some firms in order to cater to the needs of a few loyal customers retain the services but still diversify to other services.

Just as businesses, products and services go through various stages. The product or service life cycle is determined by how long it is marketable. For instance, the life cycle of the TV cathode ray tube (CRT) is coming to an end as people are purchasing more and more flat screens. The life cycle of voice-over IP telephone service is entering its growth phase as more and more people try it out.

The common stages that a product or service goes through during its life are — introduction, growth, maturity, and decline or innovation.

- **Introduction stage** — In this stage, profits are low because research and development, production, and marketing costs are high. High prices are set on the product or service to recover some of the development and introduction costs. For example, microwave ovens, when they were first introduced were priced between \$2,000 and \$3,000. Now that can be purchased for \$50. In this stage, you'll want to keep a close watch on the market's reaction to your products and services and be ready to make changes. It is sometimes helpful to experiment with several different product and service configurations to see what works in these early stages.
- **Growth stage** — Sales tend to increase with the increase in demand for the product. This brings about an improvement in the cash flow and profits reach their peak. When real estate is being developed, there is an increased demand for construction and the products and services that support the development. It is essential to build product and service development capabilities with the cash one gets from increasing sales.
- **Maturity stage** — Sales may continue to increase or level off. At this stage, profits decrease since prices are continually lowered to compete in the market. However, a substantial amount of cash flow is generated through sales. It is advisable to conduct market research to determine

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trends, to invest in research and development and to adapt one's product or service to meet the coming trends. If a producer doesn't look for new opportunities in new markets and new products, then in the decline stage he will be left with products and services that no longer sell.

- **Decline or innovation stage** — In this stage, sales drop rapidly even though prices continue to fall. Profits generated at this stage are extremely low but the product or service has generated sufficient cash flow. When a product or service reaches this stage, many entrepreneurs re-introduce it with a new feature or with new benefits. For instance, increasing the size of a candy bar by 33 per cent can start its life cycle all over again. A producer should consider making changes to his product or service or the way he markets it. A producer may as well decide to discontinue his product or service before losses eat into the cash flow generated by sales.
- A producer must have the knowledge as to where his products or services stand in their life cycle. This will help him to determine refinements or adjustments he might need to make to align them with the vision and strategy he have already developed.

Service Quality Models

Let us discuss the various service quality models.

(I) Gronroos Model

In Gronroos's 'perceived service quality model', expectations are a function of market communications, image, word of mouth, consumer needs and learning. On the other hand, experience is a product of a technical and functional quality, which is filtered through the image. Gronroos highlights the existence of a gap in perception. However, there is no suggestion of narrowing the gap. The model is more viable in its practical application for it shows factors that contribute to each side of the gap. The model denotes that the supplier can affect both sides of the gap, mainly by managing the expectations of the customers. In addition, it illustrates that the experience of a customer is a product of the image of quality of the supplier. Marketing as well as process and technical quality has an effect on the perception gap.

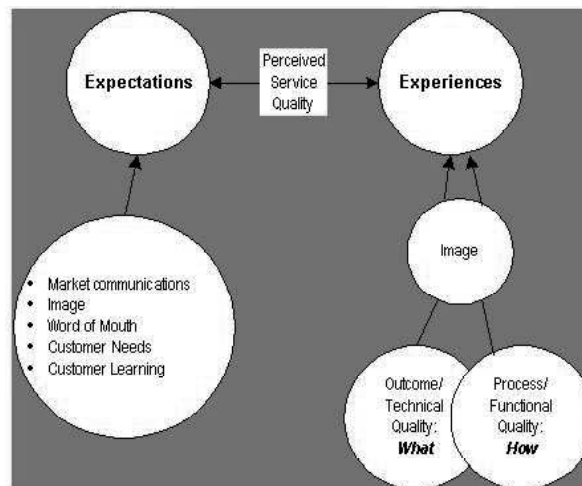


Fig. 2.5 Gronroos Model

(II) PZB GAPS Model

A. Parasuraman, VA Zeitham and LL Berry have identified five major gaps that organizations face to meet its customer's expectations.

The five gaps that organizations should measure, manage and minimize are:

- **Gap 1** is the distance between what customers expect and what managers think they expect – Survey research is a key way to narrow this gap.
- **Gap 2** is between management perception and the actual specification of the customer. In this the managers should make sure that the organization is giving the service they believe in.
- **Gap 3** is from the experience specification to the delivery of the experience. In this the managers need to audit the experience of the customer that their organization is delivering according to specifications.
- **Gap 4** is the gap between the delivery of the customer experience and what is communicated to the customers. In this the organizations promise more than what they can deliver which raises the expectations of the customers and thereby harms the customer perception.
- **Gap 5** is the gap between a customer's perception of the experience and the customer's expectation of the service. Expectations of the customers are shaped by word of mouth, their personal needs and their own past experiences. Therefore, routine surveys are important for an organization to measure customer perceptions of service.

Each gap in the customer experience can be closed through diligent attention from management.

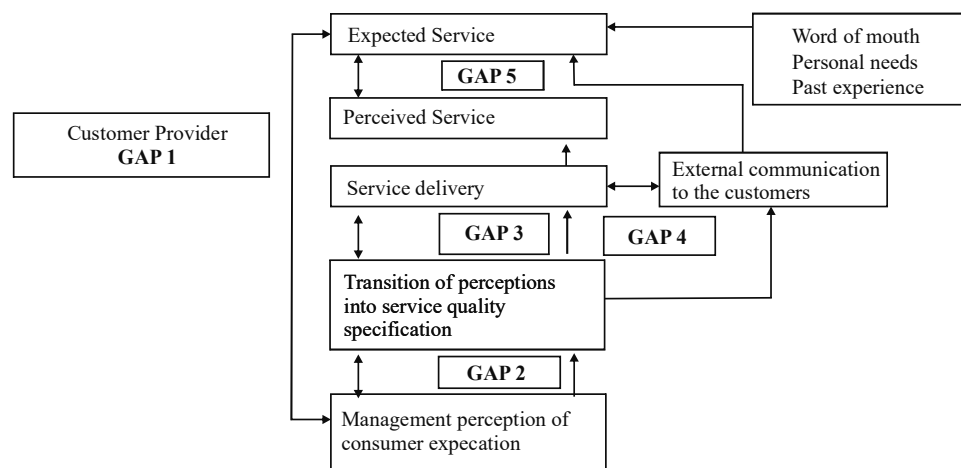


Fig. 2.6 GAPS Model

(III) SERVQUAL and SERVPERF

SERVQUAL is a research tool that is based on extensive surveys. It was developed by Zeithaml, Berry and Parasuraman in 1988. The chief logic behind this tool is that the quality of a service can only be evaluated by the customers in relation to their own expectations and the level of conformance achieved by the firm.

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SERVQUAL draws five dimensions that may be identified as the parameters to measure service quality. These five dimensions, as shown in Figure 2.7, are:

- (a) Tangibility
- (b) Reliability
- (c) Responsiveness
- (d) Assurance
- (e) Empathy

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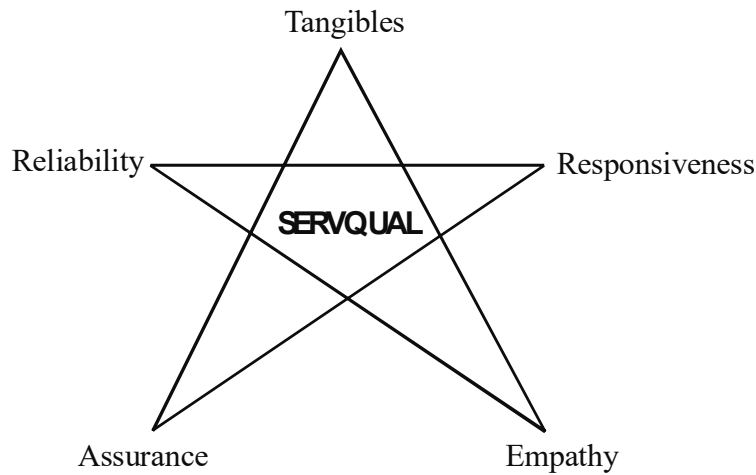


Fig. 2.7 Five Dimensions of SERVQUAL Scale

Most of these dimensions are people-oriented. Tangibility, as per SERVQUAL, is characterized by the appearance and packaging of the physical elements of the service being offered. Reliability is directly related to the customer-employee interaction. It entails the relationship of trust that the firm manages to build with the customers. It deals with the accuracy in the service performance. Responsiveness is about degree of promptness and helpfulness that service personnel show while handling customer requests, orders and complaints, if any. Assurance is an extension of responsiveness; it is about courtesy and consideration that the service personnel show while dealing with the customers. It also entails the level of security that firm offers its customers. Empathy is an important element that people-oriented services must take into consideration. Sincere attempt to understand customers' needs and problems, a good communication channel and easy access to the service producer at all stages of the service process constitute the empathy element.

Elements of SERVQUAL scale

SERVQUAL elements form the basis of a questionnaire that is filled by the customers of the target segment. The questionnaire includes several statements under the five dimensions just discussed. The respondents are required to agree or disagree with the given statements and number the same in a scale of 1 to 7. These questions may be based on the points mentioned. However, they may be modified in relation to specific services that a firm offers:

1. Tangibles

- The building and equipment of an excellent service provider are high tech and modern looking.
- The ambience is visually appealing.
- At an excellent service providing firm, the service personnel look neat and their uniforms/ dress clean and crisp.
- Material imparting information, e.g., pamphlets, help book/ software, billing details or brochures are comprehensive as well as easy to read and visually appealing.

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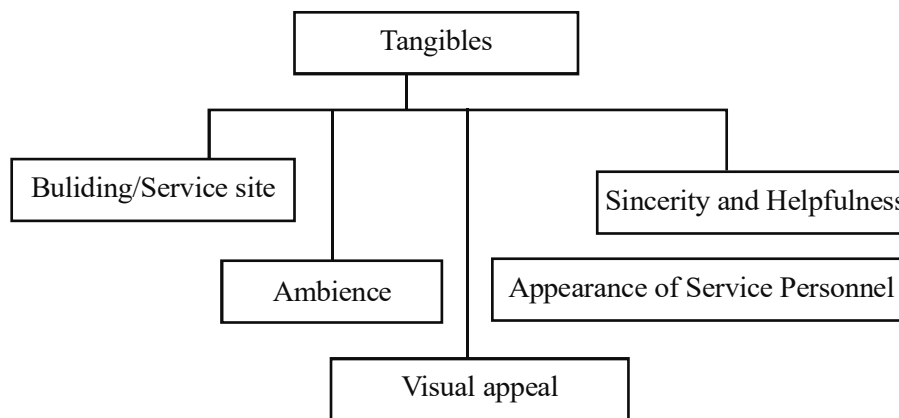


Fig. 2.8 Tangible Dimension of the SERVQUAL

2. Reliability

- When an excellent service provider sets a time frame and promises to deliver the service within it, it does so without fail.
- In case of a complaint, the service personnel are as cooperative and courteous as they are at the time of purchase.
- Excellent service providers aim at providing the best possible service at first attempt.
- An excellent service provider ensures that there are no errors anywhere in the service process.

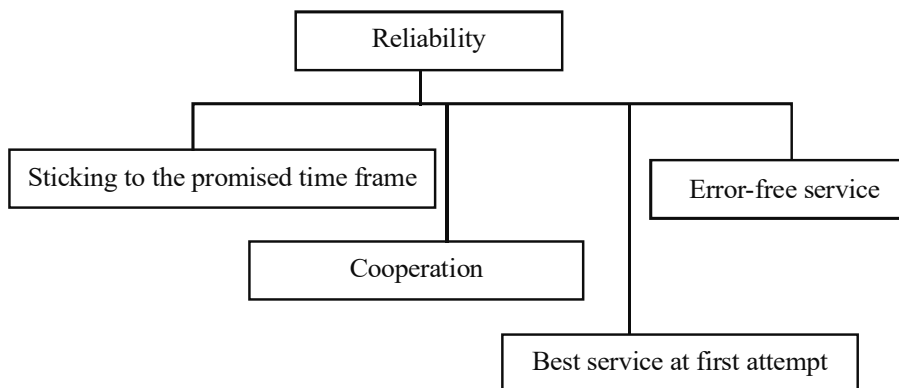


Fig. 2.9 Reliability Dimension of SERVQUAL

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3. Responsiveness

- The service personnel of an excellent service provider are clear about what the service entails as well as does not entail from the beginning.
- An excellent service provider provides quick and prompt service.
- The service personnel at an excellent service providing firm are very responsive towards customers' queries and concerns of the customers.
- The service personnel of an excellent service provider are extremely helpful and never too busy to respond to the customers.

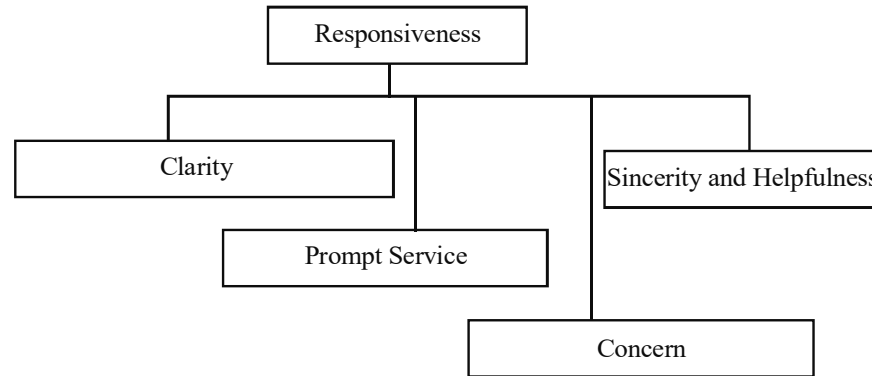


Fig. 2.10 Responsiveness Dimension of SERVQUAL

4. Assurance

- An excellent service provider builds up confidence in the customers regarding every element of service process.
- Customers feel safe and assured of promised quality/ security while dealing with an excellent service provider.
- At an excellent service firm, the personnel can be depended on for being consistent in terms of performance, courtesy and attitude towards the customers.
- At an excellent service firm, the personnel can be depended on for providing answers to the queries of the customers.

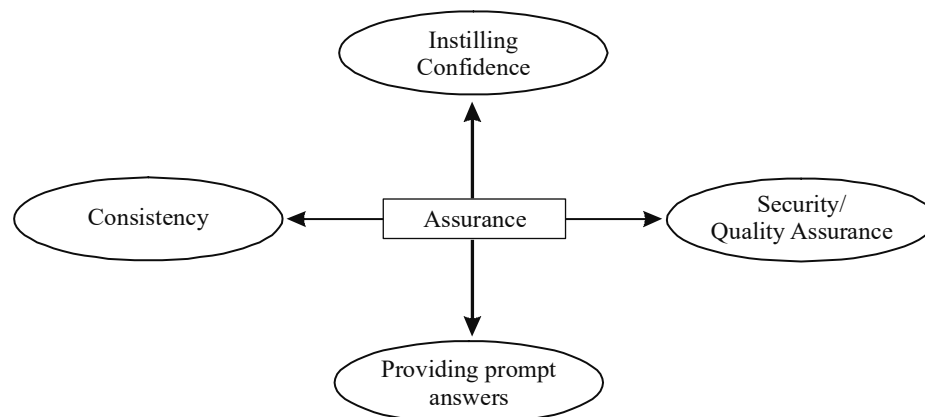


Fig. 2.11 Assurance Dimension of the SERVQUAL

5. Empathy

- An excellent service provider pays individual attention to the customers.
- An excellent service provider operates during the time that suits its customer the most.
- Each customer is treated uniquely by its employees.
- The employees have genuine concern towards customer's needs and are sincere about meeting customers' expectations of the customers.

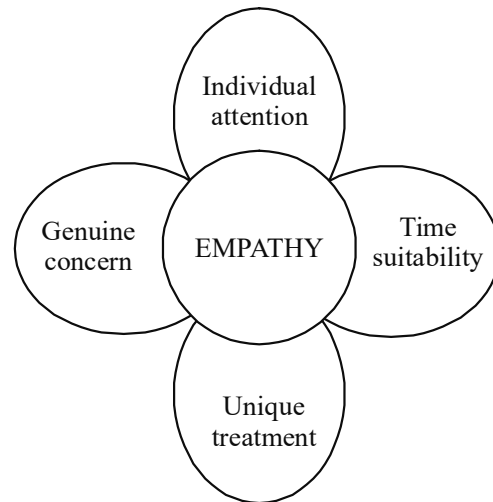


Fig. 2.12 Empathy Dimension of SERVQUAL

These characteristics that define each dimension are in no way intended to be exclusive. The service marketers add, remove and modify them as per the nature of the service and requirements of the customers.

SERVPERF Scale

The SERVQUAL scale was attacked by many researchers but the ones who levelled maximum attack on it were Cronin and Taylor (1992). According to them the expectation component (E) should be discarded and replaced by the performance (P) component and hence the term SERVPERF. Besides theoretical arguments, Cronin and Taylor (1992) provided empirical evidence across four industries (namely banks, pest control, dry cleaning, and fast food) to corroborate the superiority of their 'performance-only' instrument over disconfirmation-based SERVQUAL scale.

Being a variant of the SERVQUAL scale and containing perceived performance component alone, 'performance only' scale is comprised of only twenty-two items. A higher perceived performance implies higher service quality. It can also be explained in an equation form:

Where, SQ_i = perceived service quality of individual 'i'

k = number of attributes/items

P = perception of individual 'i' with respect to performance of a service firm on attribute 'j'

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Going by the method, the SERVPERF scale represents marked improvement over the SERVQUAL scale. Not only is the scale more efficient in reducing the number of items to be measured by 50 per cent, it has also been empirically found to be superior to the SERVQUAL scale for being able to explain greater variance in the overall service quality measured through the use of single-item scale.

Though still lagging behind the SERVQUAL scale in application, researchers have increasingly started making use of the performance-only measure of service quality. Also when applied in conjunction with the SERVQUAL scale, the SERVPERF measure has outperformed the SERVQUAL scale. Even, Zeithaml, the founder of SERVQUAL scale has observed that: ‘...Our results are in-compatible with both the one-dimensional view of expectations and the gap formation for service quality. Instead, we find that perceived quality is directly influenced only by perceptions (of performance)’. This admittance cogently lends a testimony to the superiority of the SERVPERF scale.

2.5.1 Pricing a Service Product

Price is a very crucial tool in marketing of service. As it is not easy to assess a service before buying it, price serves as an indicator of perceived quality. For instance, a patient may feel that a doctor who charges a low fee is not good. Price also serves as a tool to manage demand. Bars charge higher rates in the evenings when they expect a lot of rush. They charge lower price during day-time expecting some customers, who otherwise would have visited in the evenings, to visit during day-time due to the lower prices. Less number of customers have to be turned away in the evening. Low prices can also attract new customers who cannot afford or do not want to pay the high prices charged in the evenings. The facility is more evenly utilized throughout the day. It is critical to match demand and supply, especially in case of services because it is not possible to store services. A less utilized facility at some part of the day or year means lost revenue which cannot be compensated. But the price differential has to be significant to be able to shift customers, as enjoyment of some services is closely related to the time at which they are consumed. The experience of watching a movie in a theatre at the weekend is very different from watching it on a weekday. People would prefer going to a hill-station in summers than at any other time of the year.

Price sensitivity is a key segmentation variable in service sector. Some customers are willing to pay a much higher price than others. Time is often used to segment price sensitive and insensitive customers. Long-distance phone calls are cheaper at some part of the day than others. Some customers may be willing to pay more to get the service early or whenever they want it. It is often debatable if a patient willing to pay more than the normal fees should be allowed access to a doctor before another patient who has been waiting for his turn. But it is slowly being accepted that customers who pay more can have faster access to the service. However, the discrimination has to be done in a discreet and subtle manner, especially when both set of customers are in the same place, as it often happens in entertainment parks, where two queues of guests move at different paces toward the rides. The guests who pay more are in the faster moving queue and wait for

less time than those who pay less. It is often wise to design facilities and operations in a way that the two sets of customers are not in sight of each other.

Factors Affecting Pricing

An organization's objectives determine the desired results of pricing policies. Four important factors that influence pricing decisions are:

- (i) What it costs to produce a service
- (ii) The amount that consumers are prepared to pay for it
- (iii) The competitors' price
- (iv) Pricing limitations imposed by external agencies

The cost entailed in service production signifies the lowest price accepted by a commercial organization over the long term for providing it. The highest price achievable is that which the consumers are willing to pay for a particular service. This factor is subject to the level of competition in the market that aims at customer satisfaction. The organizations may be prevented from charging the highest price for a service by government regulations, even if the consumers are willing to pay for it.

In services, cost is the most dominant factor for price determination. A simple cost-plus pricing system works by using historical cost information to calculate a unit cost for each type of input used in a service production process. Price decisions for specific service outcomes are based on the number of units of inputs used, multiplied by the cost per unit, plus a profit margin. Services like accountancy, catering and vehicle servicing mostly use this method for setting prices.

Advantages of cost-plus pricing method

There are many reasons why cost-plus type of pricing methods assumes great importance in the service sector:

- It facilitates delegation of decisions pertaining to pricing of services that are customized according to the needs of consumers. It also allows easy calculation of prices. For example, the services provided for vehicle repair are likely to be distinctive and the price for each job can be calculated by using standard unit costs at a preset profit margin.
- In the beginning, when the service agreement is prepared, the precise nature of the service actually provided to the customer is ambiguous. The service contract would specify that the costs incurred during the service would be included in the final price. Therefore, a vehicle service manager would not be able to quote a specific price for a mysterious engine noise until he has completely examined and assessed the engine.
- Professional and trade associations sometimes include codes of conduct, facilitating the service provider to augment their prices on the basis of the actual costs incurred during the service.

The upper limit to the price of a service is determined by what customers are prepared to pay for it. In fact, different customers often put differing ceiling on the price for a service. Successful demand-oriented pricing is therefore based on effective segmentation of markets to achieve the maximum price from each segment.

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Price discrimination can be carried out on the basis of:

- Segmentation between different groups of users
- Segmentation between different points of use
- Segmentation between different types of use

Five techniques used when setting fee levels are as follows:

(i) Offset

A company charges low fees for the core service but charges higher prices for other add-on services. A restaurant may charge low price for food but will charge higher prices for drinks. But after a while customers would know the provider's tactics and customers who are primarily interested in having meals would be visiting but customers who want to enjoy their drinks will look for a place which follows the opposite practice. An entertainment park may charge low price for rides on swings but may charge high price for food.

(ii) Inducement

A company charges low fees to attract new customers or to help retain existing customers. Since price is a strong cue for quality in services, low price may make the customers believe that the quality of the service is not good.

(iii) Divisionary

A company charges low basic fees on selected services to develop the image of a provider which offers value for money. The services with low prices should be accessed more often by customers. The price of other services should not be very high as customers will then be able to see the price discrepancy between the services. The low priced services give an image of being low-priced but the very high prices of other services will make the customers suspicious about the true nature of the service facility.

(iv) Guarantee

The company allows the customers to pay the full fee only on achievement of agreed results. Most customers are generous enough to pay for the service that they have already consumed though they may not be fully satisfied with it. They will crib about the deficiencies in the service at the time of paying and will be assuaged with polite words. There is not much loss of revenue due to this clause. But inspite of most customers not availing the 'no-payment if not satisfied' option, they feel nice having the option and normally trust such providers to provide good service. Providers who give such guarantees make more efforts to provide fault-free services and their operations become better. They become more alert.

(v) Predatory

The company charges low prices to undercut competition's fees to remove them from the market. They plan to charge higher fees when competitors quit. But the events following a player's price cut does not normally follow this script. Competitors too reduce their price and a few adventurous ones among them even undercut the initiator. The result is low profits for every player in the industry.

Demand Variation

Votter has identified eight different demand situations:

1. **Negative demand** occurs where most or all segments in a market possess negative feeling towards a service, to the extent that they may even be prepared to pay to avoid receiving that service. Many medical services are perceived as unpleasant and are purchased only in distress, even though they may be beneficial to individuals from receiving regular preventive treatments. There is criticism of increase in medical charges on the grounds that this will reinforce the negative states of demand for regular check-ups, possibly at a greater long-term cost to the individual. The task of marketing is to identify the cause of negative feeling and to counter it with a marketing programme. The introduction of an appealing interior design of surgery rooms, background music, friendly personnel and promotion campaigns stress both the pleasantness of modern surgeries and the valuable long term health benefits that may overcome the problems of negative demand. Any animal-tested product may be studied as an example of negative demand.
2. **No demand** occurs when a product is perceived by certain segments as being of no value. For example, young people in the financial services sector see no use for policies such as old age retirement plans or pension plans. The task of marketers seeking to create demand in such segments is to reformulate the product offering and promotional methods used so that the product's benefits are more readily comprehended by the target segments.
3. **Latent demand** occurs where an underlying need for a service exists but there is no product that can satisfy this need at an affordable price to consumers. New products have to be developed or made available at a price that would allow latent demand to be turned into actual demand. This is heavily dependent on adequate media exposure. Mobile phones can be studied as examples of this wherein, needs are created based on heavy research and demographics. The mobile phone industry is constantly trying to get ahead of market competition by tapping into the latent demand category.
4. **Faltering demand** is characterized by a steady fall in sales which is more than a temporary downturn. Task of management is to identify the causes of this downturn and to develop a strategy for reviving demand. The used car market can be seen as an example of faltering demand. New cars are being positioned in such a way that customers are being lured to purchase brand new cars as opposed to second-hand cars.
5. **Irregular demand** is characterized by uneven distribution of demand through time. The inability to store services from a period of low demand to others of high demand means that this pattern of demand poses major problems for many service industries. It can be overcome by combination of demand management, designed to reduce the irregularity of demand and supply management, aimed at meeting demand as closely as practical. Dental works may be seen as an example of irregular demand.

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6. **Full demand** exists where demand is currently at a desirable level and one which allows the organization to meet its objective. The management's task shifts from increasing the volume of demand to improving its quality by concentrating on high value activities aimed at high spending segments. Demand for medicine is always considered as a potent example of full demand. Irrespective of season, month, day or time, people always require medical attention.
7. **Overfull demand** occurs where there is excess demand for a service on a permanent basis. The marketing task is to stifle demand in a manner which does not cause long-term harm for e.g., stifling demand by high prices alone may build an exploitative image which may be harmful in the future should demand need to be stimulated. It also involves increasing supply where this is possibility and does not detract from the exclusive image of the product. Luxury products that not only meet but over exceed customer needs may be described as examples of overfull demand. Apple products currently occupy the status of overfull demand.
8. **Unwholesome demand** occurs when an organization receives demand which it would prefer not to have. It may be forced to decrease demand because of legal requirement (the post office cannot refuse to deliver letters for customers who are very expensive to service or because of a long-standing commitment to supply a service to a customer. Marketing task here is to try to eliminate new demand through, among other things, reduced promotional activity and higher prices. Tobacco is the most common example of unwholesome demand.

Managing Irregular Demand

Where demand levels are stable and predictable, the fact that services cannot be stored does not generally cause a problem. Also, most services experience demand shows significant temporal changes or changes that occur due to changes in time- and other related factors.

Peaks in demand can take a number of forms:

1. Daily variation (Commuter train services in the morning and evening peaks.)
2. Weekly variation (night club of Saturday night, intercity trains on Friday evening).
3. Seasonal variation (department stores stock more on goods during Diwali).
4. Cyclical variation (demand for architectural services).
5. Unpredictable variation (demand for building repairs following storm damage).

Many services experience demand practices follow these variations. It is an imperative for services organizations to take a strategic view of demand levels which they seek to target and subsequently cater to. In particular, they must decide to what extent they should even attempt to meet peak demands rather than turn business away.

The precise cut-off point is influenced by a number of factors:

1. Occasional surges in demand may prove to be expensive to cater to. This can happen for two reasons; first, the organization may find it difficult to search complex technological support or personnel. The second challenge would include knowing how to utilize the same during slack periods. Some countries have developed bigger platforms to meet the demands of rush hour each day.
2. It has been observed that peaks in demand often bring in a high number of poor quality customers. Hoteliers in tourist areas consider seasonal customers to be of less value as compared to those who visit regularly round the year. This category includes local residents as well.
3. When an organization stretches its output capacity beyond its optimal level then the quality of service suffers.
4. Catering to customer demands during peak hours is a must as some organizations run the risk of losing core business if they cannot provide competent services. For instance, a bank which faces the problem of overcrowding during lunchtime may lose the possibility of a long-term relationship with a customer. The risk arises when customers decide to shift allegiance to some other bank.

The optimum capacity is defined as that for which a facility has been designed. That maximum available capacity is the upper technical limit of a service to handle customers (A 70-seat railway carriage can in process carry up to 200 people in rush conditions). At the peak, business is lost when demand is satisfied above the optimum capacity level; customer service suffers, while in the slack period, resources are wasted. Once a strategic decision has been made about the level of demand it is desirable to meet it and tactics must be developed to bring about a match between supply and demand for each time period.

The task can be broken into two components:

- (i) Managing the supply of service to match patterns of customer demand
- (ii) Managing the state of demand to even out peaks

Managing the Pattern of Customer Demand

In a situation where an organization has been unable to meet demands, it has allowed questions to be answered about its service. This however, harms the long-term impact on relationships with customers. In non-competitive environments, a simple queuing method is most popular. In competitive markets, to manage demand order adequately, more proactive strategies are needed.

Most common methods are:

- It is possible to see demand at its highest even during the off- season. This can be stimulated by exercising the elements of the marketing mix. Prices often get reduced during the off-season in several tactful ways. Examples of this can be seen in the hospitality industry that slashes prices during off-season. Train and airlines fares also get reduced. The same can be seen during various end-of-season sales in retail stores. Even the

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service can be entirely re-fashioned by being appended to some other service (to fill room space, many business hotels extend activity breaks over weekends). During slack periods, it is possible to make service distribution more customer-friendly. During slots that are going vacant either during the day or season, some hotels may extend services that can incorporate some extra features such as free home delivery. Many service companies depend on off-seasons in order to boost promotion. Promotion for many service companies focuses on creating demand during slack periods. For services that are consumed in the public sphere, creating demand during slack periods may prove to be beneficial as it may result in improving the quality of the service itself. Taking the example of theatres, more customers not only signify more income but also result in creating better ambience.

- Just as demand is generated during off-season using the marketing mix, similarly using the same, demand can also be suppressed during peak season. Typical strategies for this are increasing prices on Friday evenings vis-à-vis the entertainment sphere where large portions of the populace will be expected to spend income. As opposed to this, an indirect approach is when retail outlets remove schemes, special offers and discounts on merchandize and services. Promotion of services during peak demand is often reduced. Product distribution and offering are kept at a minimum during peak season. For example, during peak hours, restaurants may turn away customers that are not of any high value to the restaurant.

Strategies to Manage Perishability

Services cannot be stored for the future and hence their consumption cannot be deferred. Therefore, once a certain supply of services such as number of rooms on a hotel premises or number of seats in an airline have been created, adequate demand for them must exist. Another problem involves having to cater to peak demand at the time of insufficient supply.

A key marketing task is to provide incentives when demand is low. Deep discounts should be offered to entice customers when the service facility is underutilized. Service facilities incur huge fixed costs while the variable cost of serving a customer is low. So even if customers are acquired by offering heavy discounts, they may still be profitable for the service provider.

It is possible to vary supply by using part time employees at the time of peak demand. In this case too, pricing and promotion play a very important role. Customers should be encouraged to avail the service at non-peak hours by charging them lower fees at these hours. It is important to remember that since services cannot be inventoried for future use, matching supply and demand becomes very important. Extra demand results in customers walking away without availing the services, and low demand results in the service provider not being fully utilized. This leads to loss of revenue and profit in both cases. Service providers should

use promotion and pricing to shift demand from peak periods to non-peak periods to balance demand and supply.

- Shifting employees to tasks having higher demand is facilitated by multi-skilling.
- Customers could be encouraged to participate in the process of production, as in the concept of self-service.
- It may be possible to smoothen demand by means of differential pricing to persuade customers to visit the service provider at a time other than during peak demand. Off-peak demand could be stimulated through special events.
- If delay is unavoidable, then a comfortable waiting area should be provided for customers with proper seating and free refreshments.
- Service providers may also use a reservation system to balance demand and supply.

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Check Your Progress

7. What are unmarketable services?
8. State the three levels of an individual product.
9. Why is the core product different from the tangible product?
10. State the five techniques used when setting fee levels.

2.6 THE SERVICE ENCOUNTER

A service encounter occurs when the producer and the consumer meet so that the latter can receive the benefits that the former can provide with the resources he has. It is a period during which consumers interact directly with service providers. It may happen at times that the whole production and consumption of the service takes place in the course of this encounter. These services are described as 'high contact' services since from the consumer's perspective, the encounter is the only way the quality of the service can be assessed. In the case of 'low-contact' services, the service encounter forms just a single component of the process of producing and consuming the service; some of the other functions of the production process can be carried out without involving the customers directly. From the point of view of the customers, two factors determine the form that the interaction takes:

- (i) The significance given to the service encounter is affected by whether the service benefits the customer himself or his possessions.
- (ii) The degree to which tangible components are present in the service offering influences the nature of the service encounter.

The most significant type of service encounter occurs when the consumer directly receives the service and the degree of tangibility of the service offering is high. An example of this is the field of healthcare, where a necessary prerequisite for carrying out tangible operations is the physical presence of a customer's body.

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These service encounters that require the producer and the consumer to physically meet to perform the service are the most intense types of service encounters.

This carries numerous implications for the process of delivering the service:

- Quality control assumes a lot of importance, because the concern of the consumer is for the service production process as well as the final outcome. Given that the production of a number of services belonging to this category takes place in one-on-one situations that call for the service provider to exercise his judgement, the implementation of quality control checks prior to the consumption of a service becomes difficult.
- Since consumers have to be present during the service production process, some importance has to be given to the location of the service encounter as well. For instance, a doctor who is not conveniently located or who does not make home visits may not enter into any interaction at all.
- Managing the demand for this group of services is extremely crucial. The service outcome as well as the consumer's judgement of the service process can be adversely affected by delays in service production.

The nature of the service encounter changes in the second category of services, that is, the services that are performed on the customers' minds. The consumer directly receives the service but there is no requirement for him to be physically present for receiving largely intangible benefits such as broadcasting or telephone services. The intangible nature of the benefit makes it possible to separate the process of producing the service from the process of consuming it. For example, there is no need for any interaction to take place between TV viewers and the staff of the TV manufacturing company for receiving the benefit.

A third pattern of service encounters is observed where services are offered on customers' objects (automobile repair). A major portion of the process of producing the service may not be seen by the customer, whose role is merely to initiate the service process and collect the results. For example, in getting an automobile repaired, the customer merely has to deliver the vehicle to the garage and pick it up once it has been repaired. The actual process of repairing the vehicle may not matter much to the customer as long as satisfactory results are delivered. However, the manner of handling it during the pre and post service stages carries much significance. Technical skills are vital for the staff that carry out the substantive service and interpersonal skills for interacting with the clients are vital for the staff engaged in consumer encounters. Given that the consumers are not physically present at the time of the substantive service production process, service providers are afforded more flexibility in the location and timing of this segment of the process. Thus, the vehicle can be collected from the customer's residence by the car mechanic and processed at his workshop, which offers more convenience to both the customer and the service provider. If the service provider completes the service job on time, it does not really matter to the customer whether there were any delays during the substantive production process or not. But this would not be the case if the customer were to be personally delayed while the service was being produced.

The final category of service encounters consists of the services that are carried out on the intangible belongings of the customers. Some tangible evidence is always present in the process of service production. Customers need not be physically present while a service is being produced (e.g., solicitors, fund managers). It may be possible to undertake a major portion of the substantive service production process with minimal service provider-customer contact. Such service encounters negate the need for physical contact between the service provider and the customer and can be located at any distance. They carry much less significance from the customer's perspective. Transactions are judged by the customers not on the basis of the quality of the service encounter but on the basis of the outcomes of the process.

Critical incidents

Incidents take place whenever customers and producers are brought together in a service encounter. While a number of these may be may have rather trivial outcomes for the customers, other may be so significant that they assume crucial importance for the success of the service encounter. These are specific interactions between the service staff and the customers that can be particularly dissatisfying. Though the employees play an important role in the creation of critical incidents, they may also arise out of the interaction between the customer and the service provider's apparatus. The service provider is evaluated and an opinion of the quality of the service formed by the customer at every instance of a critical incident. The service production process can be quite complex and result in numerous critical incidents, a number of which may involve the frontline staff. In the case of Scandinavian Airlines, it was estimated that 50 million critical incidents occurred each year between the airline staff and the customers. It is possible to judge the quality of the service encounter and the quality control problems that emerged from it through an examination of the number of critical incidents that occur. In the case of any airlines, it may have to do with the issuance of a boarding pass, ticket inspection, check-in baggage, ticket issuance, ticket reservations, initial telephone enquiry and so on. It is the customers' judgement and not the producer's technical description that determines the degree of criticality. The quality of the service encounter is judged by the customers at every stage of the service process. For successfully accomplishing a number of the critical elements, the support staff that is not in direct contact with the customers too must perform satisfactorily. As such, everyone within a service firm must be treated as part-time marketers.

Industrializing the service encounter

Service firms may at times find themselves in a quandary—they have to bring down the variability in their service outcomes for ensuring consistency in brand values while simultaneously maximizing the flexibility and choice of service availability. Some technique to reduce the cost and amount of skilled labour used in the production process and increase productivity also needs to be pursued by them.

Diverse and complex service offerings require the service personnel to be knowledgeable enough about the vast variety of services. However, it has been observed that many service sectors that allow the service personnel too much

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leeway in making judgements have had to face high service variability that is not compatible with consistency in brand development. Offering multiple choices can make it more expensive to train the service staff about all the options available, often coupled with the generation of a minimal level of income as far as some services are concerned. Therefore, the services offered by a service firm must be simplified and the jobs carried out by the front line staff 'de-skilled'. The idea is to offer a limited service variety with a consistently high standard. The industrialization of services can take many forms, which include:

- (i) ***Simplifying the service variety available:*** Some of the services offered by the service organization may be bought only by a comparatively smaller number of customers. The monetary returns may not justify the effort that goes into providing the service. The staff may not be familiar with these services that are demanded only rarely and this may make them deficient in the proficiency required to handle the service request, with the result that the customer perceives a poor service encounter, which in turn tarnishes the company as a whole. If peripheral services do not generate enough net revenue, and in fact leave a lot of room for errors, the company might consider getting rid of them. Delivery services have been offered by retailers at an extra charge, but which have led only to minimal demand and that too from a minor section of the customers. In addition, when the sales personnel are often not well-trained and the general process of the delivery operation is itself so complex (for example, making certain that someone is home to receive the goods), the company may prefer to drop the service. Simplifying the service variety so that only the basic retail services are offered could assist the company in avoiding a vast variety of negative service encounters while at the same time ensuring that fewer customers are driven to rival service firms. This also aids the service staff in concentrating their activities that they perform the best.
- (ii) ***Providing scripts for role performance:*** Role expectations are acted out by the service staff in an informally scripted manner. The service personnel can perform the expectations associated with their roles more precisely if more formal scripting is done. Such formal scripting may consist of exact specifications regarding the actions to be taken by the service personnel in specific situations, frequently using machine-based systems. Telephone salespersons may be instructed on what should be said with the help of messages on their computer screens. Training can help the staff to understand how they should handle a service encounter.
- (iii) ***Tightly specifying the operating procedure:*** Setting out the operating procedures in detail for handling every service encounter may be difficult at times. Some personal services like hairdressing require the staff to display creativity and innovativeness; in such cases, only the general conduct can be described in the operating procedure. But in a number of services, it is possible to specify the operations in

a far more detailed manner. At the level of the management, a number of tasks can be deskilled by means of instituting formalized procedures that take the place of the judgement that was required of managers earlier. Now, a lot less judgement is required of bank managers in deciding whether credit can be advanced to a customer or not; the decision is made by computer-based credit scoring systems. Very little leeway is given to local managers in fields such as hospitality and retail regarding the kinds of facilities to be offered, the appearance of their outlet, etc. the head office specifies these details and expects the branch manager to follow them. Organizations can thus ensure that certain aspects of the service encounter are identical across different times and places.

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(iv) **Substituting machine-based inputs for human inputs:** Humans are usually less predictable in the service delivery than machines. The latter offer more cost saving, thus giving a firm price advantage. Though the breakdown of machines is a possibility, as long as function, there is less variability in them than in human beings, who may add to the variability of the service outcome due to boredom, inattentiveness or tiredness. Additionally, numerous other advantages are offered by machine-based service encounters:

- A far wider variety of encounter possibilities can be provided by the service provider. For example, ATMs enable customers to transact some of their business with the bank at a place and time convenient to themselves.
- Machinery may be programmed for providing a wide variety of services in a reliable manner that would have been impossible in a human-based service encounter. For example, numerous automatic telephone services are offered by telephone companies nowadays.
- With automated encounters, clients feel that they enjoy a higher degree of control over the encounters. A caller to an automated banking information system can feel in complete control when dealing with the computer.

Scripting

Scripting is another approach that helps in successful management of service encounters between the customer and the employees. Under this technique, the employees are trained or pre-programmed to respond in a certain way in a given situation during the service interface. It is based on the presumption that the professional roles like an attendant, a waiter, a receptionist, etc. can be conceptualized in the form of a series of tasks and behaviour. Hence, a script is prepared for the customer-employee interface that includes typical greetings, formal enquiries, small conversations, etc. However, there are several drawbacks to this method:

- (a) Every encounter is unique and must be treated uniquely.

- (b) It emphasizes on the memorization of routine categories of interaction and hence does not encourage flexibility in the employee.
- (c) There is no scope for the development of the employee's observation and innovation during a service encounter.

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Employee's Viewpoints

From the customer's point of view, service encounter (actual use of the service) brings the 'moment of truth'. At this stage, the customer interacts with the firm (employee). Since the service encounter comprises two parties, i.e., customer and the employee, it becomes imperative to examine the encounter from multiple perspectives. Initially the studies on service encounters were done from the perspective of customers only (Bitner, Broome and Tetreault, 1990). The same group of scholars studied the issue from the employee's perspective and compared it with the earlier study to analyze the differences in perspectives.

Frontline personnel in service firms are a very valuable source of information about customers. Such information can be used by the employees themselves in order to facilitate interaction with the customers. Further, it can be used to make strategies to improve the customer satisfaction. It can be safely assumed that contact personnel (Schneider, 1980) are in a best position to evaluate the customers' reaction to services. Since they are in regular contact with the customers, they play a boundary-mapping role in the organization. Given this fact, they have more realistic chances of realizing the customer needs and requirements. Researchers now accept the necessity of an open communication between frontline personnel and the managers to improve the quality of service.

Researches have given enough proofs that most of the frontline employees possess a real customer orientation. In service encounter situations, they are in a good position to identify with and understand the needs of the customers. They possess respect as well as desire to deliver best services. However, the failure to do so is born of factors like inappropriately designed systems, insufficient recovery strategies or lack of knowledge. Researches have proved that many customers can become the cause of their own dissatisfaction because of inappropriate behaviour or getting illogically demanding. Service employees face a tough task against the dissatisfactory incidents caused by these problem customers. Most of the forward-looking organizations believe in the concept of 'customer is king'. However, employee's viewpoints are equally crucial in strengthening and cultivating customer relationships.

High Contact Services and Low Contact Services

High contact services are the kind of services where the customer and the service provider coordinate with each other and discuss the capital which is involved while providing the service. High contact services occur during the period of time in which a consumer interacts directly with a service and in some cases the entire service is produced and consumed during the course of this encounter. The service encounter becomes the only means by which consumers can assess the service quality. High contact services can be the services provided by hospitals, hotels, etc.

Low contact services do not involve the consumer in the system. The example of low contact services can be the call centres where there is not much involvement of the customer care executive in dealing with the services provided to consumers. E-banking is also an example of low contact services as the customers are guided through some recorded system or a digital system.

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Check Your Progress

11. List the different forms of industrialization of services.
12. State the various advantages of machine-based service encounters.
13. What are the drawbacks of scripting?

2.7 ANSWERS TO CHECK YOUR PROGRESS

1. Delivery of service is directly determined by the chain of communication between the customer and the service provider.
2. The 7 Ps of the service marketing mix are: product, promotion, price, place, people, physical evidence and process.
3. Word-of-mouth publicity is critical to the success of services because of the experiential and experiential nature of services.
4. Physical evidence is about the environment in which the service is delivered and includes any tangible goods that facilitate the performance and communication of the service.
5. Segmentation is the process of dividing the market of a product or service in smaller groups of customers.
6. The psychological segmentation make up of a customer is analysed to unearth deeper motivations for purchasing specific products or brands. The process often involves studying a customer's values, opinions, activities and lifestyles. The idea is to establish patterns, which can be used as a basis for clustering similar customers. This process refers to psychological segmentation.
7. Unmarketable services refers to those services for which the distribution of benefits is considered desirable through non-market based mechanisms due to the prevalent economic and social environment of the time.
8. The three different levels of an individual product are:
 - (i) Core product level
 - (ii) Tangible produce level
 - (iii) Augmented product level
9. The core product is different from the tangible product as it cannot be touched. This is so because the core product is the outcome or the benefit of the product that gives it its value.
10. The five techniques used when setting fee levels are — Offset, inducement, divisionary, guarantee and predatory.

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11. The different forms of industrialization of services are:
 - Simplifying the service variety available
 - Providing scripts for role performance
 - Tightly specifying the operating procedure
 - Substituting machine-based inputs for human inputs
12. The various advantages of machine-based service encounters are as follows:
 - (a) A far wider variety of encounter possibilities can be provided by the service provider.
 - (b) Machinery may be programmed for providing a wide variety of services in a reliable manner that would have been impossible in a human-based service encounter.
 - (c) With automated encounters, clients feel that they enjoy a higher degree of control over the encounters.
13. The drawbacks of scripting are as follows:
 - (a) Every encounter is unique and must be treated uniquely.
 - (b) It emphasizes on the memorization of routine categories of interaction and hence does not encourage flexibility in the employee.
 - (c) There is no scope for the development of the employee's observation and innovation during a service encounter.

2.8 SUMMARY

- The challenges one faces in services marketing are as follows:
 - o Intangibility
 - o Inseparability
 - o Perishability
 - o Variability
 - o Interactivity
 - o Prosumership:
- The traditional 4Ps of product, promotion, price and place remain but three additional variables—people, physical evidence and process are included to produce a 7Ps framework.
- The need for extension is due to high degree of direct contact between the firm and the customer, the highly visible nature of the service production process, and simultaneous production and consumption of services.
- Physical products can be inspected and tried before buying but pure services are intangible. A customer cannot go to a showroom to see a medical operation that he is considering.

- The intangible elements of service are difficult to communicate. It may be difficult to represent courtesy, hard work and customer care in an advertisement. The idea then is to use tangible cues that will help customers understand and judge the service.
- Price is an important tool in marketing of service. Since it is often difficult to evaluate a service before purchase, price acts as an indicator of perceived quality.
- Distribution channels for services are more direct. There is no storage of services. Production and consumption is simultaneous, and hence direct contact between the customer and service provider is essential for most services.
- Service quality is inseparable from quality of service providers. The company has to set standards to improve the quality of service provided by employees and monitor their performance.
- Physical evidence is about the environment in which the service is delivered and includes any tangible goods that facilitate the performance and communication of the service.
- Process are the procedures, mechanisms and flow of activities by which a service is delivered to customers.
- Segmentation is the process of dividing the market of a product or service in smaller groups of customers.
- The customers in one group should (i) buy the product for the same purpose, or (ii) use the product in the same way, or (iii) buy the product in the same way.
- Segmentation involves identification of groups of individuals or organizations that have significant implications for determination of a marketing strategy.
- A company can segment a market in many ways. Segmentation variables are the criteria that a company uses to segment its market.
- A company segments its market on the basis of the buying behaviour of customers. It tracks customer purchases to identify patterns of buyer behaviour, which it then uses to segment its market.
- The psychological make up of a customer is analysed to unearth deeper motivations for purchasing specific products or brands.
- Once a company has identified its segments, it needs to profile them in terms of variables such as age, occupation, socio-economic status, place of residence, gender, etc.
- A target market is a group of people or organizations for which a company designs, implements and maintains a marketing mix intended to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges.
- The service sector covers a diverse range of activities. This diversity is apparent in the distinction between a complex global travel agency and a small, local plumbing service.

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- Services are often categorized into marketable and unmarketable services. The latter refers to those services for which the distribution of benefits is considered desirable through non-market based mechanisms due to the prevalent economic and social environment of the time.
- Producer services are the services provided to businesses to enable them to produce services having economic benefits.
- A grey area exists between pure services at one extreme and pure goods at the other. Much of the intermediate greyness can be explained in terms of the extent to which the offer includes tangible elements.
- The 'product' is a tricky element in case of services as it is essentially intangible. Hence, marketers need to identify and select key features of the service in relation to the benefits sought by the customers.
- Tangible goods offerings as well as intangible service offerings are both used to define the term product. In other words, a product is a combination of tangible and intangible attributes that is inclusive of functional, social and psychological utilities and benefits.
- In the life cycle of product and services, there are different stages that are more or less similar and have common characteristics. They are as follows:
 - o Introduction
 - o Growth
 - o Maturity
 - o Decline
- In Gronroos's 'perceived service quality model', expectations are a function of market communications, image, word of mouth, consumer needs and learning. On the other hand, experience is a product of a technical and functional quality, which is filtered through the image.
- SERVQUAL is a research tool that is based on extensive surveys. It was developed by Zeithaml, Berry and Parasuraman in 1988. The chief logic behind this tool is that the quality of a service can only be evaluated by the customers in relation to their own expectations and the level of conformance achieved by the firm.
- SERVQUAL elements form the basis of a questionnaire that is filled by the customers of the target segment.
- The SERVQUAL scale was attacked by many researchers but the ones who levelled maximum attack on it were Cronin and Taylor (1992). According to them the expectation component (E) should be discarded and replaced by the performance (P) component and hence the term SERVPERF.
- Price is a very crucial tool in marketing of service. As it is not easy to assess a service before buying it, price serves as an indicator of perceived quality.
- An organization's objectives determine the desired results of pricing policies. Four important factors that influence pricing decisions are:

- (i) What it costs to produce a service
- (ii) The amount that consumers are prepared to pay for it
- (iii) The competitors' price
- (iv) Pricing limitations imposed by external agencies

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- Where demand levels are stable and predictable, the fact that services cannot be stored does not generally cause a problem. Also, most services experience demand shows significant temporal changes or changes that occur due to changes in time-and other related factors.
- In a situation where an organization has been unable to meet demands, it has allowed questions to be answered about its service. This however, harms the long-term impact on relationships with customers.
- A service encounter occurs when the producer and the consumer meet so that the latter can receive the benefits that the former can provide with the resources he has.
- The most significant type of service encounter occurs when the consumer directly receives the service and the degree of tangibility of the service offering is high.
- Service firms may at times find themselves in a quandary—they have to bring down the variability in their service outcomes for ensuring consistency in brand values while simultaneously maximizing the flexibility and choice of service availability.
- Scripting is another approach that helps in successful management of service encounters between the customer and the employees. Under this technique, the employees are trained or pre-programmed to respond in a certain way in a given situation during the service interface.
- From the customer's point of view, service encounter (actual use of the service) brings the 'moment of truth'. At this stage, the customer interacts with the firm (employee).
- Since the service encounter comprises two parties, i.e., customer and the employee, it becomes imperative to examine the encounter from multiple perspectives.
- High contact services are the kind of services where the customer and the service provider coordinate with each other and discuss the capital which is involved while providing the service.
- High contact services occur during the period of time in which a consumer interacts directly with a service and in some cases the entire service is produced and consumed during the course of this encounter.

2.9 KEY TERMS

- **Product:** A product is a combination of tangible and intangible attributes that is inclusive of functional, social and psychological utilities and benefits.

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A product can be an idea, a service, a good, or any combination of these three.

- **Personal selling:** Personal selling consists of verbal communication between a salesperson or selling team and one or more prospective purchasers with the objective of making or influencing a sale.
- **Segmentation:** Segmentation is the process of dividing the market of a product or service in smaller groups of customers.
- **Empathy:** It refers to the action of understanding, being aware of, being sensitive to, and vicariously experiencing the feelings, thoughts, and experience.
- **Target market:** A target market is a group of people or organizations for which a company designs, implements and maintains a marketing mix intended to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges.

2.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. List the techniques used to set fee levels.
2. What is the rationale for segmentation?
3. Write a short-note on the process of market segmentation.
4. What is the Gronroos Model?
5. Write a short-note on the SERVQUAL research tool.
6. When does negative demand occur?
7. What are the strategies to manage perishability?

Long-Answer Questions

1. Describe the challenges in the marketing of services.
2. Examine the 7Ps for marketing services.
3. Examine how to segment consumer markets.
4. Explain the ways in which one can classify the services business.
5. Describe the development of the service product.
6. Discuss the ways to price a service product.
7. Explain how to manage irregular demand.
8. Describe service encounters.

2.11 FURTHER READING

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UNIT 3 SERVICES AND CONSUMER BEHAVIOUR

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Structure

- 3.0 Introduction
- 3.1 Objectives
- 3.2 The Service Consumer Behaviour
 - 3.2.1 Customer Decision Making
 - 3.2.2 Customer Expectations and Perceptions
- 3.3 Service Management Trinity
- 3.4 Service Vision and Service Strategy
- 3.5 Answers to 'Check Your Progress'
- 3.6 Summary
- 3.7 Key Terms
- 3.8 Self-Assessment Questions and Exercises
- 3.9 Further Reading

3.0 INTRODUCTION

The marketing concept starts with the consumer needs and ends in consumer behaviour in meeting these needs. Every action of a person is based on needs. The real problem is to learn what a customer takes into consideration when he chooses a particular brand. Such a study is concerned with consumer behaviour. Customer behaviour is that subset of human behaviour that is concerned with decision and acts of individuals in purchasing and using products. Consumer behaviour is a sub-set of customer/buyer behaviour and is concerned with decisions that lead up to the act of purchase.

The modern marketing concept makes customer at the centre-stage of organization efforts. The focus, within the marketing concept to reach the target customer, sets the ball rolling for analysing each of the conditions of the target market. The first being to find out interest of such persons as would become prospective customers. Then comes the willingness of such interested persons to buy the offered product. But since customer needs come first and then the organization offers the product, as imperative of the marketing concept, customer's willingness to buy cannot be studied in isolation of the interest of such prospects to satisfy a basic need from different satisfiers. Customer's needs recognition, their involvement level, the available alternatives, the decision to buy and post-purchase behaviour, all are part of the overall consumer behaviour. Every consumer is unique and this uniqueness is manifest in search, purchasing, consuming, reacting, etc. Thus, consumer behaviour must be properly understood by marketers. In this unit, we will examine consumer behaviour in the services industry.

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3.1 OBJECTIVES

After going through this unit, you will be able to:

- Examine the customer decision making process in the service industry
- Describe the components of customer expectations
- Discuss the service management trinity
- Explain the concepts of service vision and service strategy

3.2 THE SERVICE CONSUMER BEHAVIOUR

For successful services marketing, there is a considerable need to understand the customer behaviour. Appropriate strategies can be made on the basis of understanding the product as well as the behaviour of the customers. Strategies are required for various stages right from identifying the market and the product elements, figuring out the right marketing mix, managing the service encounter, and managing the customer demand, to pricing, distribution and promotion of the product. Different product and service offerings must be made to the diverse groups that typically comprise a market. Segmentation involves identification of groups of individuals or organizations that have significant implications for determination of a marketing strategy. The objective of segmentation is to identify groups of customers with similar requirements so that they can be served effectively.

Positioning of services is the first step in services marketing in order to identify the best target segment to which services can be provided in the most efficient and effective manner. A company has to justify its services by assessing the reason for buyers choosing them over their competitors. Evaluation of services is much more tedious than evaluating physical products, since products and goods can be examined before purchase while it is very difficult to examine services before experiencing them. It is necessary to identify a suitable market position and develop strategies to achieve that position. These strategies include analyses of the market, the competition and the internal corporate environment. Positioning of services in the market helps in clarifying one's queries about the concept of the service provided, the firm's vision about the potential success of the service and the steps they would have to take in order to achieve the desired effect. Positioning strategies have to be formulated at every level to maintain a high level quality and to ensure customer satisfaction.

3.2.1 Customer Decision Making

The decision to buy a product or service involves, namely, six distinct phases, stimulus, awareness of the problem, information search, alternative evaluation, purchase and post-purchase behaviour.

1. Stimulus

A stimulus is a trigger that makes a person act. There are three types of stimuli:

- (a) **Social cue:** When interacting with friends and family, we get signals and messages that make us think about a particular product or event. For example, a friend talking about the high mileage of a Maruti 800 can make one think about the advantage of having a four-wheeler with a high mileage. Such cues could be negative too. If somebody passes a negative comment about a company, a potential customer mentally strikes off the company from his list. All such cues may not lead to purchase but some start the process.
- (b) **Commercial cue:** Retailers give such triggers by creating interest in a particular product. Such cues are generally in the advertisements or in the store itself. Ads in the billboards announcing an end of sale can be a cue. Inside the store, the display of a particular dress in an attractive fashion can be another. However, cues coming from friends and relatives are more powerful than those coming from companies.
- (c) **Physical cue:** When we feel hungry, we end up buying a food item. Thus, hunger is a physical drive that leads to purchase. The intensity of the drive is important. While customers act when the intensity is high, they may decide to ignore weak drives.

All cues may act together or separately. Generally, a cue becomes stronger when reinforced. For example, a friend talking about a new restaurant and you feeling hungry one day may lead you to have a dinner at the place. However, with a strong cue a customer goes to the next step in the buying process, i.e., problem awareness.

2. Problem awareness

Sensing a cue, sometimes a customer becomes aware of a problem or a shortage. The shortage may have already existed; the cue just hastens the process. For example, you need to fill petrol. You see a petrol pump on your way and decide to buy petrol. But all problems are not so easy to gauge. The shortage may be emotional. Seeing a diamond ring and getting a good offer may make a woman feel that she needs one to complement her dress. Had the cue (special promotional offer) been not there, the feeling would have been absent. The shortage may be of experiences. A customer who has never tried go-carting goes for it because he had heard about it and feels that some adventure is missing in his life. So, a retailer can hardly estimate how a product is seen or perceived by the customer. At best, through market research, they can identify some shortages in the target customer group and try to highlight that both in advertisements and in store promotions or displays. As a manager, you need to focus more on providing commercial cues highlighting different aspects of a product. Once you have done that and the customer has become aware of his need for a product, there comes the next stage in the buying process—information search.

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3. Information search

Once a customer feels that there is a shortage and he needs to act on it, he starts looking for more information on the product and service. Information search is a long and complicated process. The customer, at this stage, becomes sensitive to all information pertaining to his need. If he is planning to buy a computer, he takes care to consult the relevant section in his newspaper or a website. The retailer's role becomes important in this phase of the buying process. Information about the product, its performance, its features, benefits, etc., need to be highlighted. Generally, television ads or hoardings are not suitable for detailed information. Many retailers use print ads. The most important medium of providing information in the retail scenario is packaging and knowledgeable salespersons. Many customers make their decisions to buy a product after entering the store. For them all the six stages of buying happen within the store. This is what makes retail buying unique. Many retailers operate on a self-service format with very few store assistants on the floor. Hypermarkets like Wal-Mart are examples. Retailers have realized that they have to create their own store-specific communication programme to give customers more information on products. They have in some cases come out with their own packaging too. Where assistants are available, it is of utmost importance to train them with adequate product knowledge. After a customer gathers adequate information, he goes to the next phase of the buying process: evaluation of alternatives.

4. Evaluation of alternatives

While a customer evaluates the different alternatives, his personal priority comes into play. Some buy a car for mileage, some for its engineering and some for its looks. Retailers can help customers in this process. While the priorities are determined by the customer, floor salespersons can offer their suggestions. For this, retailers have to have a good understanding of consumer buying behaviour. Multi-brand retailers need to help customers make the right choice by giving them more information about products and helping them evaluate the alternatives. Efforts should be more on giving the right advice rather than making the sale. Customers develop store loyalty when they know that they get the right advice for their purchase.

5. Purchase

Once the customer has evaluated the alternatives, he decides to buy the product. The act of purchasing signifies satisfaction of a need. Here, special attention should be given to the place of purchase. The purchase process should be made easy. A retailer needs to make the process comfortable by arranging for seats, creating counters to avoid queues and quickly handling the billing process. Many customers are put off by the long queues at retail outlets. There is little retailers could do to forecast rush. In 2006, on Thanksgiving Day, many Wal-Mart stores ran out of merchandise by 10 a.m. in spite of their forecasting abilities. What matters more is the flexibility to handle rush. On 26 January 2006, Big Bazaar had to close many of its stores as it was unable to handle the high-volume traffic. Retailers generally solve this problem by having separate counters for regular and loyal customers.

Purchase also means availability and delivery of the product. This should be made comfortable too. Market survey shows that many customers are unhappy with the alteration services provided by apparel retailers. Initially, retailers like Shopper's Stop charged for this service. Later it was made free but the customer had to come back at later period of time to collect the material. Retailers make the purchase process easier by accepting credit and debit cards too.

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6. Post-Purchase behaviour

When a customer makes a purchase from a store, at times he is not sure whether he has made the right choice. This is particularly true for high-value purchases. For example, a customer who has bought a flat for ' 20 lakh may not understand how it is different from another flat of the same size. Branded jewellery is another example. Products, which have very little difference among them, often cause this post-purchase confusion. Retailers should understand this behaviour and take appropriate action. Calling the customer, meeting him or even sending him regular mails will convince the customer that he has indeed made the right choice. Otherwise, his confusion will get converted to dissatisfaction that will spread through word of mouth. Retailers must be careful not to make big promises through their cues and communication channels to avoid any confusion in the first place.

3.2.2 Customer Expectations and Perceptions

It is important to understand and meet customer expectations. A company should have a clear picture of the criteria that customers will use to evaluate whether his expectations have been met or not. The company should understand that consumers of services value not only the outcome of the service encounter but also the experience of taking part in it. Evaluation of a face massage depends on not only the quality of the massage but also on the experience of having it done. Customers use the following criteria when evaluating outcome and experience of service encounters:

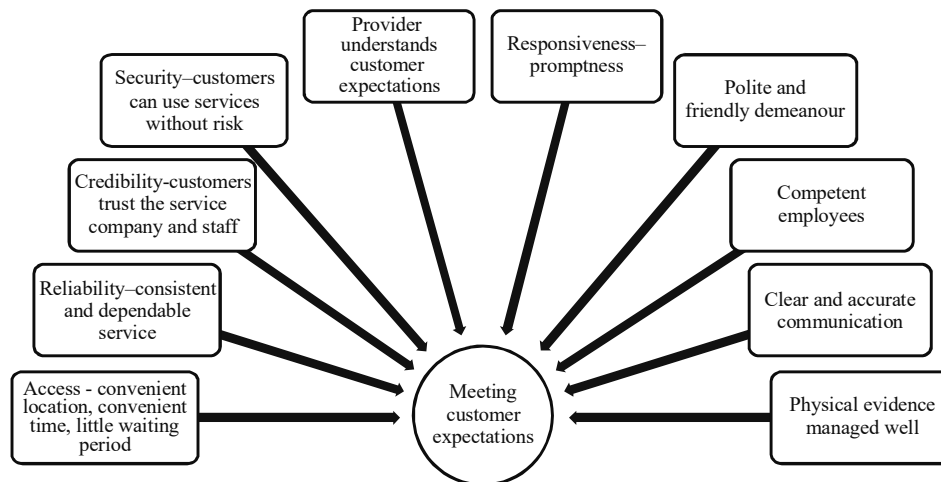


Fig. 3.1 Meeting Customer Expectations

Components of Customer Expectations

The various components of customer expectations are as follows:

1. Access

Is the service provider able to provide the service at convenient locations and at convenient times, with little or no waiting period in availing the service? A customer can travel to distant locations to get a service if the service is urgent, critical and is not available locally. Patients travel overseas to get treated for serious ailments. Sometimes the facility for treatment may be available locally, but affluent customers do not trust such local facilities. Another factor is the reputation of the service provider. Students have been going out of their countries to study. Even some retail outlets have been able to attract customers from other countries.

Traditionally, service facilities have been able to attract only local customers. But if service companies spend resources on building strong brands, they can attract customers from distant locations. In addition, some like financial services, can be delivered electronically, and therefore distance between the service facility and customers does not really matter, but the existence of strong brands do. Traditionally, service facilities were not too keen on customers from distant locations and were content to serve the local population. Therefore there was not much emphasis on brand building and advertising. Promotion was mostly through word-of-mouth communication. But with international travel increasing and customers scouting for best services and deals internationally, it has become sensible to devote attention and resources on building brands and advertising.

2. Reliability

Is the service consistent and dependable? The service provider should be able to deliver the promised service each time the customer decides to avail of it. The process to produce the service should have been tested for effectiveness, the equipment should be well maintained so that they do not malfunction when in service, and service professionals should be competent in their basic task, and should also demonstrate proper behaviour. It is important to remember that while a customer may use many criteria to evaluate a service, he does not compromise with the primary service he is seeking. Therefore if a patient has to be operated upon, he will not check in even if the best facilities are available but the doctors are not competent.

3. Credibility

Can customers trust the service company and its staff? In most services, customers and service professionals come in frequent contact and customers are in a position to form an opinion about the service professionals. It is important that such opinions are positive. Customers also spend time in the service facility, so they rapidly learn about its systems and processes and their effectiveness. Service providers have very little hope of maintaining a façade of being a good place when they are not. What customers expect and what they get should match closely in services. The difference, if any, is quickly known to the customer. Most service facilities depend on repeated visits of their customers for their business. So every encounter between the customer and the service provider matters. Credibility of the service provider

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becomes very important when the business is dependent on repeat customers. Service providers will build credibility by being consistent in providing good services.

4. Security

Can the services be used without risk? Some, like medical services can be risky to the life of the customer. Some others like financial services, have personal information about the customer. It will be damaging to the customer if such information is leaked or passed on. The company should demonstrate that it understands customer concerns about their security and that it has adequate safeguards in place to prevent any mishap from happening. It will help if the service provider is candid about the risks involved in doing business with it and the precautions it takes to eliminate or reduce the risk. Customers would not take kindly to being exposed to certain risks without their knowing about it.

5. Understanding the customer

Does it appear that the service provider understands customer expectations? If the company understands the expectations and also has the capability to serve them, the customer is satisfied with the service outcome. If the company understands the expectations of customers but does not have the capability to serve them, it should politely decline to serve the customers. Customers have good opinions about companies which decline business because they cannot do it well. It is very dangerous to engage with a customer when the provider knows that he cannot serve the customer effectively. Such a customer will spread malicious stories about the company, ruining its credibility. But if the company is not able to gauge the customer's expectation, it is actually in the dark. The customer will be unhappy with the company as he does not get what he expected but he will be confused as to why a competent company is not able to deliver. In such a situation, customers who have long-term relationships with the company will be patient, and will make efforts to make the company understand their requirements. But new customers will leave disgruntled.

6. Responsiveness

How quickly does service staff respond to customer problems, requests and questions? Customers go to a service facility with the sole purpose of availing the service. So they should be served promptly. Customers should always be encouraged to take appointments to avoid waiting. But if a customer needs an urgent service like immediate medical attention, it should be provided by taking the turn of some other customer. The company should specify and make known the exigencies under which a customer would be served out of turn so that the affected customer is not angry. In medical services, critical patients are treated ahead of less critical ones without anyone making much fuss over it.

7. Behaviour of employees

Does service staff act in a friendly and polite manner? A customer is a guest in the service facility and should be treated as such in all circumstances. But friendly and polite demeanour of service professionals is more than adherence to etiquette. Such behaviour adds to the value the customer is getting from the service facility. In a hospital when a patient or his family is stressed, the politeness of the staff

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helps them in coping with the situation. In a holiday resort, the friendly nature of employees adds to the enjoyment of the customers. Behaviour of the service provider is an integral part of the service offering.

8. Competence

Does service staff have the requisite skills and knowledge? The performance of the primary service will depend on the knowledge and competencies of the service providers. It is important that their professional credentials are prominently displayed for customers to see and feel reassured. It is also important that the service providers are seen as updating their knowledge and skills. Their participation in seminars and courses should be well publicized. In the knowledge economy, the competence of service professionals will drive business and service companies would do well to keep their employees abreast with the latest knowledge in their respective fields and let their customers know about it.

9. Communication

Is the service described clearly and accurately? In most cases, a customer travels to the service facility to avail the service. If the service is not appropriately represented and described in the communications emanating from the company, customers may walk in expecting services that the company would not be able to perform. Such customers vent their disappointments, which can damage the company.

10. Physical evidence

How well managed are the tangible aspects of service? Since most services have high levels of intangible elements, it is important that the company provide physical evidence to customers, which will assure them that they will be provided a good service. The uniform of the doctor and his attendants, the confidence with which they converse among themselves and with the patient, the sophisticated look of the operation theatre give assurance to a patient as he is being wheeled in the operation room.

These criteria form a useful checklist for service providers wishing to understand how their customers judge them.

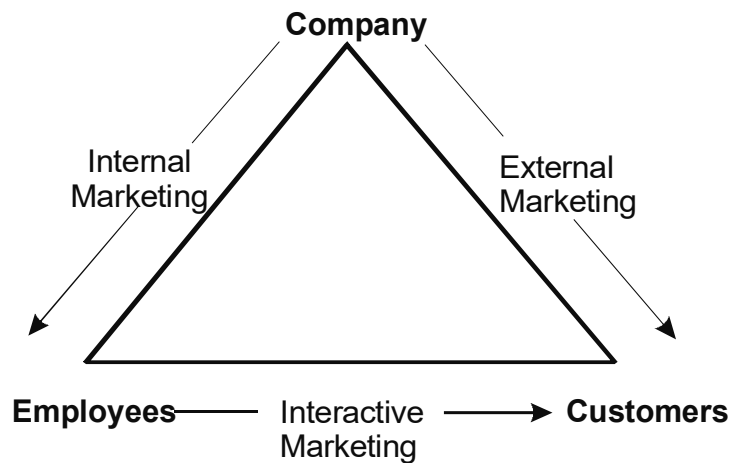
Check Your Progress

1. What is the objective of segmentation?
2. List the six stages of a customer decision-making process.
3. What are the three types of stimuli?

3.3 SERVICE MANAGEMENT TRINITY

Marketing of services requires interaction of a few specific components, that is, customers, staff and the organization. These three elements have to work together in tandem to deliver a service in a satisfactory manner. The interaction amongst these three elements occurs in the form of marketing that takes place internally, externally and interactively. This interaction is responsible for making the process

of service delivery up-to-the mark. Christian Grönroos gave the following model in which he divides the service marketing into three components, viz, internal marketing, interactive marketing and external marketing.



The Service Marketing Triangle

Fig. 3.2 The Service Marketing Triangle

According to this model, internal marketing has to be managed by the company’s leaders. Interactive marketing refers to the interaction between the clients and customers and external marketing is what takes place between the company’s management and the customers.

Internal marketing, here, refers to the involvement of the top management of an organization in training and motivating their employees to become ‘customer conscious’. It includes all those activities that are planned in order to train the employees to this end. The interactive marketing plays an important role as it constitutes direct contact between the customers and the employees. It includes all the planning and activities that deal with the first interaction between the customer and the employees and follows up through the intermediate phase to post-sales phase. It is a very crucial stage in service marketing as it is during this stage that the company-customer relationship is built and maintained. At this stage, the sphere of marketing overlaps with that of relationship management.

Lastly, external marketing is the stage where most of the marketing communication happens between the company and its customers. Various tools like advertisements, websites, brochures, etc. are employed for this purpose.

3.4 SERVICE VISION AND SERVICE STRATEGY

Let us begin this section by discussing service vision.

Service Vision

The service vision is created by the ability of integrating various types of information. The creation of vision needs foresight so that the vision is suitable in a future

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environment while ensuring that traditional methods and the culture of the organization is not entirely violated. The idea of service vision is to capitalize on the impact of the new trends and developments, visualising the viewpoint and the expected responses from the competitors. The process must also include a mechanism for revision, so that the vision will reflect future changes in the environment. Service vision can be clearly articulated as simple or complex, however, the best definition of service vision is brief, clear and abstract in representing a common idea instead of being specific in showing achievement, challenges, and so on. Service leaders constantly and visibly express their commitment to service employees on whom they depend on for the execution of the vision.

Leader and Service Vision

Promoting commitment to the service vision is critical if leaders are to translate service vision into specific actions. The leader must also engage in other actions and activities to implement the vision, including structuring the organization, selecting, acculturating and training employees, motivating employees, managing information, building teams, and promoting change, innovation, and risk-taking.

Service Strategy

The service strategy concentrates on providing practices, procedures and other imperceptible services to consumers and not physical goods. It includes the emphasis on all roles simultaneously.

Different company functions like selling, marketing, operations, human resources and all other functions must be done efficiently to develop an exceptional service strategy. The service strategy is concentrated consumers and their relations. Many service sector industries like hospitality, healthcare, transportation depend on customer buying their service for revenue generation. The other category of the service industry is customer service which talks about providing technical support about the product of the company to customers and providing assistance to customers with required technicalities. Customers act as a segment of an organization which is not generating the income, but instead there is a type of troubleshooting service which gives answers and solutions to the problems of the consumers. Services are termed as the matter of addition in the value of the company.

When the service industry is taken into consideration, there is the need for 7Ps of marketing rather than the 4Ps, which are product, price, promotion, place, people, process and physical evidence as the 4Ps are not enough to explain the internal aspects of marketing a service. This is because unlike a product, the consumption and production of services are done at the same time. There is need for taking care of personnel and individual presence and the other small factors which encourages consumer perception towards the service. There is also a need for an efficient calculation method of the service to come at the equal position of the standards of the industry.

Often, there is a gap between the perception of the company and the expectations of the customer. Companies performs at their best level to create a

service strategy in a way that the gap is at the minimum level. The wider the gap is, the more difficult it is for the company to survive in the market. The service strategy used by the organization differs on the nature of the theme of the business. However, service strategy should be formed in such a way that it satisfies customer expectations or comes closest to it. The success of a company is measured in terms of the service that they provide, which is why it is crucial for organizations to not only make good products but also provide excellent service.

Companies which are exclusive in service industries like the hotel business or hospitality or entertainment should constantly upgrade themselves and should modify their offerings in order to meet the change in demand from customers.

Importance of Service Strategy

It is very important in a highly competitive business environment that there is a service strategy present in order to address customer needs and wants. The following are a few of the reasons which elaborate on the importance of service strategy:

1. Getting a new customer involves huge cost which is more than the retention of the existing customer. There is need of synchronization of the strategy of the customer in service strategy and the marketing strategy of the company.
2. It is a known fact that engaging with a new customer involves cost that is 5 to 10 times more than dealing with the existing customer. But mostly customers are lost due to poor services and ill treatment which they get and become unsatisfied. It is also been researched that a customer who is unhappy will share his dissatisfaction from potential customers at least 8 to 16 in number. If one were to add the effect of social media, a dissatisfied customer's voice can reach thousand's people which is why customer retention is of crucial importance to the organization.
3. If the other side of the service strategy is analysed, the satisfied customer who is happy shows his loyalty towards the service organization. This does not cost the company even a single amount whereas it will increase the value of the company by word of mouth. This will lead to a company getting free publicity worth millions of rupees from loyal customers. This is the reason why every customer should be satisfied with the service strategy.
4. It is also said that the loyalty of customer has much more impact on the growth of the business. Creation of new customers for a business is as important as customers who continue with the service in spite of the increasing competition. Higher customer loyalty translates into higher customer retention and better competitive advantage.
5. Companies need to make sure that the strategies of the service industry should be synchronized with the vision and mission of the company. The overall strategy of the company and the service strategy should be complementary. Companies should take time in order to develop and implement an efficient service strategy which will be responsible for the retention of existing customers.

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Check Your Progress

4. How did Christian Grönroos divide service marketing in his model?
5. What does internal marketing in the service marketing triangle refer to?
6. What does the service strategy concentrate on?

3.5 ANSWERS TO CHECK YOUR PROGRESS

1. The objective of segmentation is to identify groups of customers with similar requirements so that they can be served effectively.
2. The six stages of a customer decision-making process are as follows:
 - i. Stimulus
 - ii. Awareness of the problem
 - iii. Information search
 - iv. Alternative evaluation
 - v. Purchase
 - vi. Post-purchase behaviour
3. The three types of stimuli are as follows:
 - (i) Social cue
 - (ii) Commercial cue
 - (iii) Physical cue
4. Christian Grönroos gave a model in which he divides the service marketing into three components, viz, internal marketing, interactive marketing and external marketing.
5. Internal marketing in the service marketing triangle refers to the involvement of the top management of an organization in training and motivating their employees to become 'customer conscious'. It includes all those activities that are planned in order to train the employees to this end.
6. The service strategy concentrates on providing practices, procedures and other imperceptible services to consumers and not physical goods. It includes the emphasis on all roles simultaneously.

3.6 SUMMARY

- The marketing concept starts with the consumer needs and ends in consumer behaviour in meeting these needs. Every action of a person is based on needs.
- Customer/Buyer behaviour is that subset of human behaviour that is concerned with decision and acts of individuals in purchasing and using products.

- Appropriate strategies can be made on the basis of understanding the product as well as the behaviour of the customers.
- Strategies are required for various stages right from identifying the market and the product elements, figuring out the right marketing mix, managing the service encounter, and managing the customer demand, to pricing, distribution and promotion of the product.
- Positioning of services is the first step in services marketing in order to identify the best target segment to which services can be provided in the most efficient and effective manner.
- A company has to justify its services by assessing the reason for buyers choosing them over their competitors.
- Positioning of services in the market helps in clarifying one's queries about the concept of the service provided, the firm's vision about the potential success of the service and the steps they would have to take in order to achieve the desired effect.
- Positioning strategies have to be formulated at every level to maintain a high level quality and to ensure customer satisfaction.
- The decision to buy a product involves, namely, six distinct phases, stimulus, awareness of the problem, information search, alternative evaluation, purchase and post-purchase behaviour.
- It is important to understand and meet customer expectations. A company should have a clear picture of the criteria that customers will use to evaluate whether his expectations have been met or not.
- The company should understand that consumers of services value not only the outcome of the service encounter but also the experience of taking part in it.
- The various components of customer expectations are as follows:
 - o Access
 - o Reliability
 - o Credibility
 - o Security
 - o Understanding the customer
 - o Responsiveness
 - o Behaviour of employees
 - o Competence
 - o Communication
 - o Physical evidence
- Marketing of services requires interaction of a few specific components, that is, customers, staff and the organization. These three elements have to work together in tandem to deliver a service in a satisfactory manner.

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- The interaction amongst these three elements occurs in the form of marketing that takes place internally, externally and interactively.
- Internal marketing refers to the involvement of the top management of an organization in training and motivating their employees to become 'customer conscious'.
- External marketing is the stage where most of the marketing communication happens between the company and its customers. Various tools like advertisements, websites, brochures, etc. are employed for this purpose.
- The service vision is created by the ability of integrating various types of information. The creation of vision needs foresight so that the vision is suitable in a future environment while ensuring that traditional methods and the culture of the organization is not entirely violated.
- Promoting commitment to the service vision is critical if leaders are to translate service vision into specific actions.
- The leader must also engage in other actions and activities to implement the vision, including structuring the organization, selecting, acculturating and training employees, motivating employees, managing information, building teams, and promoting change, innovation, and risk-taking.
- The service strategy concentrates on providing practices, procedures and other imperceptible services to consumers and not physical goods. It includes the emphasis on all roles simultaneously.
- When the service industry is taken into consideration, there is the need for 7Ps of marketing rather than the 4Ps, which are product, price, promotion, place, people, process and physical evidence as the 4Ps are not enough to explain the internal aspects of marketing a service.
- Often, there is a gap between the perception of the company and the expectations of the customer.
- Companies perform at their best level to create a service strategy in a way that the gap is at the minimum level. The wider the gap is, the more difficult it is for the company to survive in the market.
- The service strategy used by the organization differs on the nature of the theme of the business.
- It is very important in a highly competitive business environment that there is a service strategy present in order to address customer needs and wants.
- Getting a new customer involves huge cost which is more than the retention of the existing customer. There is need of synchronization of the strategy of the customer in service strategy and the marketing strategy of the company.
- It is also said that the loyalty of customer has much more impact on the growth of the business.
- Companies need to make sure that the strategies of the service industry should be synchronized with the vision and mission of the company.

- The overall strategy of the company and the service strategy should be complementary. Companies should take time in order to develop and implement an efficient service strategy which will be responsible for the retention of existing customers.

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3.7 KEY TERMS

- **Stimulus:** It is a thing that arouses activity or energy in someone or something; a spur or incentive.
- **Perception:** It means the way in which something is regarded, understood, or interpreted.
- **Competence:** It means the ability to do something well.
- **Service Vision:** A service vision is a statement that clearly defines the type of customer service employees are expected to provide.

3.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. How does a leader promote service vision?
2. What is the service marketing triangle?
3. Define service vision.

Long-Answer Questions

1. Describe the consumer-decision making process in detail.
2. Explain the components of a customer's perception.
3. What is service strategy? Discuss its importance.

3.9 FURTHER READING

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UNIT 4 QUALITY, BRANDING AND ADVERTISING

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Structure

- 4.0 Introduction
- 4.1 Objectives
- 4.2 Quality Issues and Quality Models
- 4.3 Demand Supply Management
- 4.4 Advertising
- 4.5 Branding and Packaging of Services
- 4.6 Relationship Marketing
- 4.7 Recovery Management
- 4.8 Answers to 'Check Your Progress'
- 4.9 Summary
- 4.10 Key Terms
- 4.11 Self-Assessment Questions and Exercises
- 4.12 Further Reading

4.0 INTRODUCTION

In the previous unit, you learnt about customer behaviour in the service industry. In this unit, we will discuss branding and advertising. The unit will begin with a discussion on service quality.

Quality is an important element in defining a service offered. It is a significant criteria which customers use for differentiating between competing services. For tangible goods, quality can be assessed by examining the goods in question. With services, quality is less testable, and it can only be assessed once a service has been consumed. For this reason, the purchase decision process for a service involves more risk than in the case of goods. It is difficult to understand the specific dimensions of quality that customers consider important in evaluating services. It is not sufficient for companies to make assumptions and deliver quality standards in accordance with their own assumptions of customer expectations. One problem faced by service providers is that the significance attached by customers to the quality of the service is different from the significance attached to their services. However, unlike goods, it is difficult to separate the two in case of services.

Advertising is a marketing communication that employs an openly sponsored, non-personal message to promote or sell a product, service or idea. Sponsors of advertising are typically businesses wishing to promote their products or services. The final sections of the unit will examine relationship marketing and recovery management.

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4.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe the importance of service quality
- Discuss the significance of maintaining service quality
- Examine the various strategies for improving service quality
- Explain how demand is managed in the service sector
- Discuss branding and advertising in the service business
- Examine the concept of relationship marketing and building customer loyalty
- Discuss the relationship between CRM and customer loyalty
- Analyze the methods and techniques of achieving service recovery

4.2 QUALITY ISSUES AND QUALITY MODELS

Quality refers to conforming to the requirements. Therefore, the first task of a service firm must be the establishment of specifications and requirements, following which, the goal set by the various functions of the organization in terms of quality must be strict compliance to these specifications. But the problem with this definition of quality is, 'whose requirement and whose specifications'. According to another definition, quality has to do with 'fitness for use'. This definition has its primary basis in the satisfaction of customer requirements.

It is possible to unite these two concepts in the concept of customer perceived quality. As such, only customers define quality, which occurs where services are supplied by a firm to specifications that satisfy customer requirements. Efforts are made to differentiate the objective measures of quality from those measures which have their basis in more subjective customer perceptions. The expressive aspect and instrumental quality are the two significant dimensions of service quality. The former is associated with the psychological or intangible aspects of the service and the latter refers to the physical aspects of service.

More recent studies identify technical quality and functional quality as the two principal components of quality. The former has to do with the relatively quantifiable service aspects, which both the supplier and the customer can measure. For instance, the waiting time at a super market, check-out, reliability of train services, etc. However, because the producer and the consumer directly interact in case of services, the manner in which the technical quality is delivered also influences the consumer. This is functional quality, and unlike the elements of technical quality, it is impossible to measure it objectively. For example, factors such as the perception of the customer with regard to the staff's handling of queries and the environment in which the queue is formed influence the functional quality of a check-out queue at a super market. The customers' perception of service quality is also affected by the corporate image of the services, which has its basis in both functional and technical quality.

The definition of quality as the degree to which customer requirements are matched by a service does not clarify exactly what those specifications are. Due to the lack of easily identifiable criteria for evaluating service quality, it becomes more difficult to articulate customer needs and communicate the degree of quality that is being offered. The quality of services is a far more abstract concept than the quality of goods, in which case, the technical aspects of quality are emphasized more. In other words, consumers hold abstract expectations with regard to quality. Consequently, they judge the quality of a service as the degree to which these initial expectations are matched by the perceived delivery of the service. Thus, if the expectations are low to begin with, then even a service of mediocre standard might be perceived as of high quality and if the expectations are high, then the same degree of quality may be considered low. More research needs to be carried out before the processes that determine the formation of service expectations among customers can be understood. Quality is usually evaluated against three levels of expectation: the desired level of service (what the customer wishes for), the adequate level of service (the standard that might be accepted by the customer) and the predicted level of service (what the customers believe to be the most likely possibility of the actual occurrence).

The quality of the service is antecedental to customer satisfaction, which in turn is important in terms of its effect on the customers' purchase intentions. It is evident from empirical evidence that purchase intentions are affected more by customer satisfaction than quality.

Since services are usually produced and consumed at the same time, it becomes difficult to analyse service quality. There are two interfaces between the production and consumption of services. One is via the standard marketing mix, and the other is through buyer-seller interaction.

Consumers who buy manufactured goods encounter the variables of only the conventional marketing mix of the manufacturer. Since the process of production of goods cannot always be seen by a consumer, it cannot be utilized as a criterion for assessing the quality. Contrarily, the result of service inseparability is that the process of production is viewed as a criterion for quality assessment. Since services are intangible, variable and inseparable, they create a problem for the management of service quality in that a set of buyer/seller exchanges emerges and no two services are performed in the exact similar manner.

Importance of Service Quality

Research, analysis and quality standards are some of the important elements of service quality.

(a) Service Quality Research

An important factor resulting in the poor performance of service firms is lack of knowledge of the expectations of the customer. Although a number of firms are eager to provide service quality, they fall short because they do not accurately understand the customer requirements. This understanding is complicated still further by the lack of well-defined cues, unlike in the case of goods. Marketing research elicits some information about customer expectations and service perceptions.

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Service organizations should ask the following key questions about their customers: how is service delivery perceived by customers, what service levels are expected by the customers with regard to the features of a service, what are the service features that are regarded by the customers as important, etc.

For the effective management of service quality, the marketing research programme should be:

- (i) **Shared with employees:** It becomes possible to improve the performance of employees in terms of delivering service quality by acquainting them with the outcomes of the customer expectation studies and complaint analyses.
- (ii) **Undertaken with employees:** Since in the service sector, the staff are closer to the customers than the management, asking them about their problems, encouraging them to suggest ways to improve the services and identifying their requirements and finding out their personal motivational sources becomes an important task.
- (iii) **Ongoing:** In view of the constantly changing customer expectations and perceptions and the evolving nature of the services provided, it becomes necessary to continuously administer a service research process in order to identify and immediately act on any change, if required.
- (iv) **Varied:** Each research is limited in its own way. Therefore, a variety of quantitative and qualitative techniques are used for achieving comprehensive insight into a problem.

Regular customer surveys

Surveys measure the level of satisfaction that customers experience from service providers. The growing variety of competing services available now as well as the customers' increasing awareness of the fact that they are in receipt of a service for which they pay a price whether directly or by means of taxes has led them to expect a consultation with them on the part of the service provider. In this way they can clearly voice their opinions about the degree of satisfaction provided.

Members of the public are in constant receipt of literature from an extensive variety of service providers requesting feedback on the quality of service received by them. For instance, the passengers of an aircraft are asked to fill out questionnaires while returning from a vacation. The recipients of such surveys are usually asked to set down the complaints they might have regarding the service offered and suggest ways for improvement. The people assume that the service provider will use this data for taking remedial action in case of expectations not being met. However, a number of such surveys are spurious and characterized by a lip service approach to marketing research and the issue of quality service.

(b) Analysis of complaints

Customers usually voice their dissatisfaction by complaining about the service provided. Customers can make complaints directly to the provider or indirectly through intermediaries or watchdog bodies. Customer complaints referring to

instances of what is deemed poor quality service are dealt with constructively as they double as a source of data, based on which policies are formulated to improve the quality of the service. At the same time, it must be recognized that the complaints made by customers are not an adequate source of information. This is because a majority of customers refrain from complaining and continue to wallow in their dissatisfaction and communicate this dissatisfaction to others. Some customers simply switch to other suppliers and fail to provide any potentially valuable data regarding the factors that resulted in their switching over to another company.

In truly market-oriented service firms, complaint analysis forms a useful indicator of the point at which the service delivery process seems to be breaking down. Complaint analysis performs a significant role as a part of the overall programme to stay in contact with the customers. Constantly keeping track of the complaints can be a comparatively cheaper source of data that enables companies to review the matters of concern most important to customers on a continuous basis and take remedial action for any apparent problem. Once the complaints are received by the company, the staff can directly contact the customers and interact with them about issues that are of concern to them. Besides extracting the views of the customers on these specific concerns, the company can also attempt to elicit their opinion about customer services in general. British Airways set up a facility for customers to air their grievances on videotape at Heathrow Airport, allowing them to alleviate their pent-up feelings, while at the same time acquiring useful information on which to act.

Employee research

Undertaking research amongst employees gives them an opportunity to air their views regarding the provision of services and their perception of how they are received by the customers. Formal feedback can be obtained from the staff through staff suggestion schemes. The suggestions made by the staff with regard to providing the service more effectively/efficiently play a significant role in enhancing the quality of the service. Researching the employee requirements can be useful in identifying the policies that can enhance their motivation to deliver high quality service. Thus, focus groups and interviews could be utilized to collect qualitative data on the motivations, wants and needs of the employees and their attitudes towards policies, benefits, working conditions, etc. This can be followed up with appropriate quantitative analysis that involves the personnel in the research process. For instance, videos of interviews and group discussions with customers could be shown to them and then circulated along with the research findings to aid in improving their appreciation of the issues concerned with the quality of a service.

Intermediary research

Service intermediaries have a valuable role to play in the service delivery process. The focus of research into intermediaries has been on the following two aspects:

- In cases of the intermediaries forming a significant part of the process of service delivery, it is the intermediaries' performance that determines the quality perceived by the customers. For instance, the perceived indifference or slowness of ticket agents can tarnish the perceived quality of an airline.

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The mystery shopper research methodology can be used for monitoring the standard of quality that the intermediaries deliver.

- The position of intermediaries in terms of their being co-producers of services is further down in the channel of distribution, and this places them in a position that is closer to the customers. This enables them to present valuable feedback about customers' perceptions and expectations.

Quality is a complex concept which cannot be satisfactorily measured by a series of isolated ad hoc studies. Service organizations need to acquire more knowledge about their customers with the help of a market research oriented approach that focusses on customer perceptions and expectations. There are two basic dimensions of service provision, namely, outcomes and processes. The only factors that are relevant in determining service quality are those that customers perceive as being important. Customers alone can be the judge of quality; no other judgements are relevant. Determining what is expected by a customer from a service as well as identifying the characteristics that describe service in general (i.e., the definition of service in the customer's mind) is important. Instruments must be developed for measuring the customers' perception of the quality of a service against their expectations.

(c) Setting quality standards

Service level specification has an important role to play in conveying the standard of quality that may be expected by the consumers. It communicates the standards that the service organization expects from its personnel. The way an organization promotes itself conveys a general notion about the level of quality that is sought to be delivered by it. The following ways assist in stating more specific standards:

- Organizations rely on their business terms to provide a basis for the determination of the level of service that they must deliver to the customers. Usually, they function with the aim of protecting customers from extraordinarily poor services instead of promoting high standards of excellence proactively. For instance, very few promises are made by tour operators about the quality of their service except to compensate for delays that go beyond specified levels.
- Customer charters that are worded generally exceed the minimum level of business terms as the performance standards that are sought to be achieved in dealing with the customers are stated in them. Charters are usually published by banks specifying (in general terms) how they will conduct accounts and handle complaints.
- The organization may offer specific service performance guarantees in terms of service outcome. For instance, parcel delivery firms frequently guarantee the delivery of a parcel within a specific number of days and if they are unable to come up to this standard, they agree to compensate the client. At times, the focus of the guarantee is on how the service is produced instead of the final outcome. For instance, standards are set by building societies for the time that will be taken by them to arrive at a decision on mortgage applications. Although the publication of specific guaranteed performance

to the customers can provide numerous benefits, there may also be adverse consequences in the form of claims for misleading advertisement or heavy compensation claims in case of failure to perform. Therefore, a number of highly-specific targets find themselves confined to performing the internal function of controlling and monitoring the staff instead of providing guarantees to prospective customers. For instance, though targets are set by a bank with respect to quality standards such as making available functioning ATM machines and short customer-queuing times, no guarantees are given about the specified level of service to be provided to the customer.

- A number of service organizations are members of professional or trade associations and integrate the code of conduct set by the association into their own offerings (e.g., doctors, solicitors). Certain minimum standards are specified by them and attempts are made to ensure that the quality of the service provided does not fall below this level. These codes of conduct reassure prospective customers and set the minimum standard for employee performance.
- The adoption of the Indian standard (ISI), ISO, etc., has more applicability. High service quality levels are not guaranteed by most of these standards. This is granted to organizations that have a management system in place to ensure consistency in the quality standards. However, deciding whether this consistent standard is high or low is a matter of subjective opinion.
- In the case of some public sector services operating in monopolistic environments, the standards of quality may be externally imposed. There may be a regulatory authority possessing the authority for setting specific service targets (e.g., regulatory bodies for electricity, telephone etc.).

Managing the Marketing Mix for Quality

Service quality management ensures that the gap between consumer expectations and the perceived services delivery is as small as possible. There are a number of important dimensions to this task. First, the marketing mix formulation and its communication to potential customers must be as realistic as possible. Exaggerated claims lead to high expectations that an organization may not be able to meet and thus the service is likely to be perceived as being of poor quality.

Secondary non-marketer dominated factors such as word-of-mouth information, customer tradition, etc. also need to be considered as their presence may have the effect of increasing expectations. There exists a dynamic relation between the perception of customers and their expectations. It is not enough to merely maintain the customers' level of perceived quality, particularly in the face of rising expectations. Therefore, the task of marketing mix management is to close the quality gap over a period of time either through an improvement in the service offering or by keeping down the expectations of the customers.

Every aspect of the marketing mix is affected by quality. It is not possible to isolate the decisions regarding service specifications from the decisions having to do with the other components of the marketing mix. All decisions affect the perceived standard of service delivery as well as the level of customer expectation.

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The expectations of consumers in terms of the quality of the service are affected by the promotion decisions of the company. In the instances of competing services being evaluated and selected based on marketer-dominated sources of promotion, the communication medium and the message itself could go a long way in meeting customer quality expectations. Promotions set expectations which organizations struggle to meet.

But sometimes, the image that the promotion creates can in fact supplement the perceived service quality. This usually happens in the case of goods where the products are supplemented by the intangible image. For instance, customers may believe that a certain cold drink is of higher quality than another cold drink having the same technical quality, but promoted differently.

This happens less frequently in the case of services because customers are more involved in the process of producing and consuming a service and are therefore afforded better opportunities for judging the quality of the service. Nevertheless, the promotion activity does supplement the perceived service quality for certain publicly-consumed services. For example, promoting the gold credit card may add to a customer's sense of having bought a prestigious and exclusive facility, the value of which would not have been recognized if the additional prestigious value of the card had not been promoted.

The expectations of customers as well as their perception of the quality of a service are affected by the pricing decisions of the service firm. All other factors being equal, prospective customers can use price as the criterion to judge the quality of a service. For instance, if two restaurants outwardly appear similar, but different prices are charged by them for the same meal, customers would assume that higher service quality would be provided by the restaurant charging the higher price, which they would then come to expect in the service delivery. They would then proceed to assess the service delivery against this benchmark.

The level of quality that can be built by a service firm into its offerings can be influenced by the price that is charged for the service. In terms of price positioning, it is feasible to conceive of a line from high price/high quality to low price/low quality, but it is not possible to sustain high price/low quality and low price/high quality for long. Low prices result in inadequate margins for providing high service quality.

The quality expectation of the customers and the actual service performance can also be influenced by the place decision. High quality agents selling low quality services may give rise to heightened quality expectations and if this is followed by poor delivery, the agent's own image may get tarnished. The customer's perceived quality of the service can be affected by how the service delivery is initiated, processed and followed up by the intermediary. Recruiting and monitoring the network of intermediaries to encourage them to share the principal service organization's commitment to service quality is an important aspect of the quality management process. The employees form a significant element in the manner in which consumers perceive functional quality. Therefore, the interaction between the buyer and the seller assumes importance in service quality management. As

such, it becomes necessary to recruit, train, motivate and control the employees as part of the marketing mix as the personnel who directly perform a service are in the best possible position to observe and identify any impediments to quality.

Before formulating any marketing strategy, a firm must clearly define what quality means for it. The next step is to come up with a method that measures quality in quantifiable terms, so that any deficit towards achieving the same may be identified and accordingly rectified.

Service elements are different from those of manufactured goods. The logic behind producing and marketing a good or service product is to achieve conformance, i.e., to pre-empt customers' needs and expectations and strive to meet them. In case of manufacturing, it is relatively easier to measure customers' needs, as there is homogeneity of need over large segments. For instance, customers value a blanket in terms of its core value, that is, to impart warmth, irrespective of their class, gender, personality traits, etc. Since the manufactured goods can be owned and endure for a long time, it is comparatively easier for the marketers to set the price and justify it to the target customers.

On the other hand, a service is intangible and perishable involving no ownership on the part of the customers. Hence, it becomes extraordinarily difficult for the marketers to put across the value of a service to the customers. Hence, quality takes on a completely different implication here. It may be translated as perceived quality, that is, the quality as perceived by the customers. The assessment of quality, therefore, more or less lies on the customers and not the producers. A restaurant may believe that it serves the most authentic Thai food in the city, but unless customers think so, the quality would not be translated into perceived quality, which in turn will not fetch results in terms of revenue and more customers. Service market analysts have come up with several models and approaches that aim at defining parameters for measuring and imparting service quality. One of the most widely recognized methods is SERVQUAL.

Measuring Service Quality

Service quality cannot be measured. It is difficult to measure the quality of services as they are not tangible and are based on individual experiences. Even if the organization and the employees give their best, the customer can remain unsatisfied. The main points to be considered to measure quality service are:

1. Generating answers from the consumer about the quality of services. After the experience of the customer, a survey should be conducted to assess the success of the service. There should be a receipt or a feedback form to be given to the customers to get the customer feedback for improvement in services.
2. The organization should possess complete knowledge about the product, business or the particular salesperson, it should question the knowledge of the person who is providing the service, and should check whether they are behaving well with the customers as well as their colleagues.
3. To assess the consumer's feelings about the company and other employees.

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4. The trustworthiness of the company or employee can also be taken into consideration by questioning whether the employee or company performs the service in an efficient manner. They should also ascertain whether the customer feels that the company or employee would be able to perform the service in the future in an effective manner.
5. The responsiveness of the employee or organization can be taken care by questioning, whether employees are able to respond to the customer's needs with interest or not. Whether service provided is quick enough or not.
6. The tangible aspects of a customer's experience can be calculated by knowing the function of all the equipment appropriately, whether the product or business appears to be satisfactory or not.

Service Quality Gap Model

The difference between SERVQUAL and SERVPERF have been highlighted. Let us discuss the various gaps that occur during the service process.

Zeithaml, Berry and Parasuraman came up with four gaps that occur during service processing within the organization. They all lead to the most severe gap, that is, the gap between what the customers expected out of a service and what, according to the customers' perceptions, was eventually delivered. Later market analysts modified this gap model and added three more gaps that can possibly occur during a service process. These gaps (shown in Figure 4.1) have been discussed as follows:

1. **Knowledge gap:** This gap may occur at the beginning of the service process, when marketers assess what the customers' needs and expectations are from a particular service. The gap happens when there is disparity between the customers' needs/expectations and what the marketers believe them to be.
2. **Standards gap:** The next step of the service process is management's definition of what the target segment needs and expects. This translates into setting down standards to ensure that the service delivery meets those expectations. The gap occurs when there is a disparity between the management's perceptions and the actual delivery standards that are established by the service provider.
3. **Delivery gap:** The next step for the service provider is to strive to deliver the service according to its set delivery standards. The delivery gap takes place when the actual performance ability of the service provider does not match the standards set down for service delivery.
4. **Internal communications gap:** The next step is for the marketing team to formulate marketing and promotional campaigns. They promote the service on the basis of specific features, quality level and so on. The internal communication gap happens when the campaigns overpromise. In other words, the promotional campaigns provide more in terms of features, quality, and performance than what the service provider can actually deliver.

5. **Perceptions gap:** The next step entails the delivery of the service to the customers. The possible gap that may occur at this stage is in terms of what is actually delivered and how customers perceive what is delivered.
6. **Interpretation gap:** In advance of delivery, the service providers try to communicate certain promises to the customers. The interpretation gap happens when the communication between the customer and the service provider is done at cross-purpose. In other words, when what the service provider promises is interpreted differently by the customers.
7. **Service gap:** It is the most severe gap that undermines the entire service process. In a way, it is a culmination of the other six kinds of gaps. When there is a disparity between what the customer expected from the service and how he or she perceived the eventual service delivery.

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Knowledge gap, perception gap, interpretation gap and service gap are external gaps, that is, they take place between the service providing organization and the customer. The remaining three are internal gaps, as they take place along the organizational hierarchy.

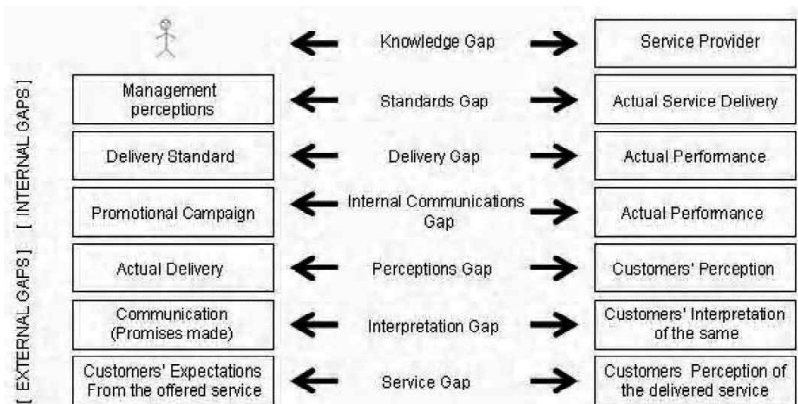


Fig. 4.1 The Gap Model

The key to maximizing customers' satisfaction and their perception of quality in relation to the delivered service is to identify these gaps at appropriate stages and implement measures to close them as much as possible. The following guidelines may be put to use to achieve the desired objective:

- A comprehensive research must be undertaken to find out what the customers expect.
- Organizations that already have a customer base may consider forming customer panels and forums so that the relevant information in terms of expectations and needs that they have from particular services may be obtained.
- A careful analysis of the assembled data is extremely important. An erroneous reading of the data may lead to wrong conclusion and hence knowledge gap.
- The analysis must be incorporated within the action plan.

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- The management must be focused towards providing high level of service quality.
- The management must establish clear, logical and realistic goals for the desired service quality.
- The management should prioritize those elements, and the corresponding jobs, of service process that have the highest impact on the service quality.
- There must be regular feedbacks to measure the service quality.
- The role of each employee must be clarified in terms of its contribution to creating highest service quality.
- The people hired for interacting with the customer must be carefully selected.
- Regular reward programs must be organized so as to motivate the employees to deliver best possible service quality.
- Empowering employees and managers encourages quick decision-making and improvisation in case of a service failure.
- The customers may be treated as partial employees.
- Customers play specific roles in service delivery. It is important to make them understand their role in achieving service quality.
- The advertising campaigns must be created not in isolation but by taking inputs from operational level employees also.
- Internal communication between all departments, especially human resource, marketing and operations must be facilitated.
- It helps to clarify before the purchase, what the customers should expect and what not to expect.
- The clarification on the part of service firm helps build trust in the customers and closes service gaps.
- All advertising campaigns must be tested first on a small segment of ordinary people in order to understand what and how they interpret the message. This helps close down the interpretation gap.
- In order to close down the perception gap, it helps to offer as many physical evidences and tangibles to the customers as possible.
- Each organization must develop its own gap identifying model and work towards closing those gaps.

Strategies for Improving Service Quality

The quality of a service is not a matter of chance. Strategies that ensure high quality standards and consistency in the service delivery need to be developed by service organizations. The following requirements are necessary for this:

- A customer-focussed strategic concept.

- A track record of the top management's commitment to quality, i.e., giving the importance to quality indicators as the financial ones.
- The setting of high standards and communicating these expected standards to employees.
- Systems for monitoring performance. Top service firms regularly evaluate their own and their competitors' performance.
- System for satisfying complaining customers. It is important to respond quickly and appropriately to customer complaints.
- Satisfying employees as well as customers. The significance of contact personnel and the role of 'internal marketing' are understood by successful service firms, i.e., (i) The best possible people can be employed and retained (ii) The best possible work will be done by them.

Service management entails maintaining a consistent standard of quality. In labour-based service, this becomes difficult on account of inherent variability of personnel as compared to manufactured goods. Inseparability of most services does not generally allow an organization to undertake quality-control checks between the points of production and consumption.

Total Quality Management (TQM)

TQM is an approach to improve the effectiveness and flexibility of an organization as a whole. It is a multi-disciplinary approach. TQM organizes and involves all employees in all activities, and all functions and at all levels. The activities of every staff member has an impact on the quality received by customers, including non-contact personnel, whose actions in activities such as processing invoices or orders could nevertheless have implications for customer satisfaction.

An important aim of TQM is the generation of widespread awareness of customer needs among employees, and standards of quality that are expected by customers. In addition to meeting customer requirements effectively, TQM is concerned with the efficiency with which these requirements are met. TQM lays stress on reduction of waste – defined as anything that neither adds value nor contributes towards meeting customer requirements. One target for cost reductions is transaction cost which represents the cost of governing production systems.

Within services sector, the concept of just-in-time (JIT) can be extended to the deployment of staff whereby extra personnel are brought in at short notice to meet peak demands. TQM encourages employees and functions areas to regard themselves as providers and customers of other departments.

Quality Circles (QC)

Quality circles often work within a TQM framework and consist of small groups of employees meeting together under supervisors or group leaders for discussing their work in terms of standards of service production and delivery. In case QCs are used in the delivery of services, the marketing aims of the service organization must be incorporated into the TQM package and QC agenda. QCs are best suited for high-contact services requiring substantial personnel-consumer interaction.

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The idea is to bring together the front-line staff, who are better positioned for identifying the quality weaknesses in terms of their effect on the customers, and the operational staff that can impact service quality though they do not directly interact with the customers. By collaborating with each other the personnel can recognize problems and suggest solutions for them. For example, QCs for garages could include the reception staff interacting with the customers and the mechanics responsible for producing the services.

To achieve success, it is necessary for the QC leader to display an inclination towards listening and acting on the concerns brought to the group's attention by any of the QC members. This is imperative for the sustenance of the QC. The QC can continue functioning only if the members sense that their involvement is effective and real. For this, a two-way communication process is a must within the circle. The purpose of the quality circle is defeated if it functions merely as a routinized listening session. This could lead to circle member suspecting it of being only another tool for management control. In such a situation, the active involvement of the members in actually improving the quality of the service may be lacking, even if they agree to be subject to managerial control.

Quick and accurate feedback is required by the QC members on the ideas they might have come up with for solving certain operational problems. Once the reasons for failure in attaining the marketing objectives have been identified by the QC, the members should then comment on the suggestions in a constructive manner. The effectiveness of QCs can be improved if staff-reward mechanisms are linked to performance.

Reducing dependency on human resources

In most service industries, opportunities exist to replace potentially variable human inputs with relatively predictable machine-based ones. While this may result in a loss of customization to meet the needs of individual customers, the quality of service outcomes and processes can generally be made more predictable. At one extreme, human contact personnel can be dispensed with completely (telephone banking) while in other cases equipment is used to moderate the behaviour of contact personnel (scripted computer-generated messages used by many airline reservation staff).

Monitoring Service Quality

Monitoring service quality based on prior experience of the service provided, assessing how the consumer feels about it, the demand of the consumer, etc. is of great significance in a service organization. A good technical service provided to the consumer is not enough to sustain the customer.

Service Quality Monitoring (SQM) must be attained by the service providers. SQM is nothing but the qualities and abilities that permit tracking customers and his experiences, forecasting the trends, and improving and optimizing the products in advance to increase the level of customer satisfaction.

Research based on industry reveals that customers experience brand loyalty over a period of time as a result of overall expectations which has gained experience and understanding of various characteristics of the service offering, from its activation and delivery to the billing agreements.

The SQM framework which has to be followed in order to deliver an effective service by the service provider to the customer can be explained as follows:

- Identifying the key quality of the service
- Quantifying service quality through usage of information such as billing, effectiveness of the customer support team, etc.
- Assuring service to the customer
- Defining judicious service levels so that customers can realize the real time complexity faced by the company.

Components of Service Quality

The various components of service quality are discussed below:

- **Employees:** Companies should plan in advance to hire people who are friendly, helpful, caring and responsible. At least some service representatives should have prior experience dealing directly with customers either by phone or written communications. The people who are new to the industry but have desirable personality traits should be trained by those with more experience.
- **Training:** All new employees should be trained to familiarize them with the company's principles for dealing with customers. They should be taught the communication methods they are expected to use, such as phone call scripts or written protocols for different levels of customer concerns. For example, if a customer complaining about a delay in the delivery of services calls, the employee should know the exact chain of command and the responsible department so he can either contact supervisors on behalf of the customer or give that contact information directly to the customer.
- **Practices:** A company should make it a daily priority to ensure good quality customer service. Each department should take care of this for better management and constant customer satisfaction. That means hiring experienced and professional personnel, having product or service quality assurance, and emphasizing it in all marketing and advertising campaigns. Customers must be made aware of benefits or distinguishing characteristics of the company and its products and services. These daily practices help maintain a better relationship with the customers.
- **Considerations:** Every company should know what it wants its customers to experience, and ensure that responsible and well-trained employees deliver it. The goal of every customer interaction should be to provide value with the price and quality of the products and a positive overall company experience.

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Factors Influencing Service Quality

The various factors that influence service quality are discussed below:

- **Attitude:** Attitude is a very vital factor that reflects the thoughts and perceptions of people towards something. According to Gibson's definition of attitude – an attitude is 'a positive or negative feeling or mental state of readiness, learned and organized through experience, that exerts specific influence on a person's response to people, objects and situations'. Attitude of the customer, manufacturer as well as the customer service agent is integral to services marketing.
- **Health:** There are many important jobs that require good skills and significant amount of strength to be able to perform at the high level and long hour work. Physical health is very critical in today's work place. In today's high-end technology world it is necessary to work smart and possess great skills. Your performance depends on your physical health. It helps to improve the efficiency of the employee to deliver service quality, leading to greater performance.
- **Language Proficiency:** A non-native English speaker will tend to take more time in completing the task that a native English speaker. If most of the work language is English, choosing the right person should be a top priority. One of the early studies of English used as the lingua franca, Hildebrandt (1973) found that non-native speakers feverously rehearsed their oral presentations in English before public presenting and needed more time to prepare written materials, thus investing more time in communication preparation than native English speaker.
- **Workload:** Long-term heavy workload can affect an employee's physical or mental health, performance, or productivity including service quality. Consequently, heavy workloads have been shown to have a negative impact on turnover. High employee turnover carries with it the problems of both a high labour cost and quality issues that affect the performance and growth of a company.
- **Working Environment:** Several attributes of the work environment influence work effectiveness and organizational performance. Facilities with more effective leadership, communication/coordination, and conflict management are expected to have greater staff collaboration and higher perceived work effectiveness. When these factors are fulfilled, there is definitely a better working environment and hence a better service quality.
- **Equipment and Machines:** Successful operations are possible only when proper equipment and machines are available. Man and machines are associations that work together to achieve a goal in many businesses. New technologies are emerging day by day. It is important to update ones database and machinery for proper implementation of service quality.

- **Quality Control:** Quality control is an important tool of service quality. Quality check can be regarding the employees' knowledge, the product, the quality of customer service, etc.

*Quality, Branding
and Advertising*

Check Your Progress

1. Why is employee research important to maintain service quality?
2. Which is the most widely recognized model for measuring and imparting service quality?
3. Quality is usually evaluated against three levels of expectation. What are they?
4. List four requirements for improving the service quality in service organizations.
5. What are quality circles (QCs)?
6. What is SQM?

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4.3 DEMAND SUPPLY MANAGEMENT

The task of managing markets and ensuring a good fit between supply and demand is more complex for service than for goods. Most of the strategies for managing the supply and demand, which are available to goods manufacturers, are not available to service producers. The perishability and inseparability of the service often means that it is not sufficient to match supply and demand over longer terms within a broadly defined geographical market. Instead, supply and demand must be matched temporally and spatially. An excess of production capacity in one time period cannot be transferred to another period when there is shortage; nor can excess demand in one area normally be met by excess supply located in another.

Managing Irregular Demand

The fact that services cannot be stored does not generally cause a problem where demand levels are stable and predictable. Most services experience demand which show significant temporal variation.

Peaks in demand can take a number of forms:

- Daily variation: Commuter train services in the morning and evening peaks
- Weekly variation: Night club of Saturday night, intercity trains on Friday evening
- Seasonal variation: Department stores in run up to Diwali
- Cyclical variation: Demand for architectural services
- Unpredictable variation: Demand for building repairs following storm damage

In practice, many services experience demand patterns which follow a number of these peaks. A restaurant may have a daily peak (at mid days) and

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weekly peak (Fridays). Hence, it should have the capacity to match supply with demand at a cost that is lower than that of its competitors or with a standard of service which is higher or both. Service organizations must take a strategic view on the level of demand for which they seek to cater. In particular, they must decide to what extent they should even attempt to meet peak demands rather than turn business away.

The precise cut off point is influenced by a number of factors:

- Infrequently occurring peaks in demand may be very expensive to provide for where they require the organization to supply a high level of equipment or personnel which cannot be laid off or found alternative uses during slack periods. Enlarged platforms at terminals may be required in order to cater for just a few additional peak trains each day.
- Peaks in demand may bring in a high level of poor quality customers. Restaurants in tourist areas may regard the once only demand brought by holiday trippers to be of less long term value than catering for the relatively stable all year round trade from local residents.
- Quality of service may suffer when an organization expands its output beyond optimal level.
- Some organizations may lose valuable core business if they do not cater for peaks. A bank which frequently suffers lunchtime queues for cash-chequing facilities may risk losing an entire relationship with customers if they transfer not only their cheque facility to a competing bank but also their mortgage and insurance business.

The optimum capacity is defined as that for which a facility was designed. Any additional demand is likely to result in discomfort. That maximum available capacity is the upper technical limit of a service to handle customers (A 70-seat railway carriage can in process carry up to 200 people in rush conditions). At the peak, business is lost when demand is satisfied above the optimum capacity level; customer service suffers, while in the slack period, resources are wasted. Once a strategic decision has been made about the level of demand it is desirable to meet it and tactics must be developed to bring about a match between supply and demand for each time period.

The task can be broken into two components:

- (i) Managing the supply of service to match patterns of customer demand
- (ii) Managing the state of demand to even out peaks

Identifying and Charting Demand Patterns

One way in which firms plan to meet the challenges posed by fluctuating demands is to identify and understand demand patterns. A firm needs to take into consideration a lot of interrelated factors that determine and predict demand patterns.

An organization begins by studying and evaluating the demand graph for a particular service over a given period of time. Firms maintain extensive databases

for this purpose. Manual records can also be maintained on a daily, weekly, monthly, or yearly basis, depending on the nature of the service. Some services are season specific, for instance, hotels and other tourist-based services. Their demand graphs must be charted over a number of years to obtain clear demand patterns.

Causes for Demands

In some services, it is important to identify particular causes that lead to fluctuations in demand. For instance, the number of theatre goers increases during weekends. Hence, during holidays, the tickets are priced at higher rates. Similarly, demand may also vary during different time of a day. The tickets for the morning show cost less than the ones in the evening. Thus, service providers anticipate the customer traffic and price their services accordingly. Some services are highly unpredictable in nature. For example, the emergency medical cases can come in any day or any hour of the day. The main drivers of demand may be identified by preparing a table that raises relevant points and considerations.

Unpredictability of Demands

As illustrated in Table 4.1, some of the demand fluctuations may be unpredictable and hence, difficult to manage. However, attempts can be made to identify and anticipate the causes of such demand fluctuations. For example, factors that seem unrelated may also contribute towards demand fluctuation. A sudden pleasant change in weather may encourage people to go out for dinner or shopping. Threats of war or natural calamities lead to more requests for health and life insurance. A major accident increases the traffic on all communication channels. Similarly, natural disasters give rise to increase in the need for health care, ambulance services, insurance, and so on.

Table 4.1 Causes and Patterns of Demand

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- I. Can a demand cycle be discerned?
 - II. How frequently does the cycle repeat itself?
 - Hourly basis
 - Daily basis
 - Weekly basis
 - Fortnightly basis
 - Monthly basis
 - Quarterly basis
 - Yearly basis
 - Seasonal basis
 - III. Can any causes be identified for these cycles?
 - Employment hours
 - Payment/ refund cycles
 - School/ business hours
 - Festivals

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- Seasonal holidays
- Climate
- Natural cycles
- Others

IV. Is there a possibility of sudden and random changes in the level of demand?

V. If yes, what are the possible causes for these sudden changes?

- Change in weather
- Natural calamity (earthquakes, floods, and so on)
- Accidents, fire, etc
- Random health emergency

Demands and Market Segment

Within a broad market segment, further sub-groups can be discerned in terms of their purchasing pattern and behaviour. For instance, a retail shop may witness random customer traffic every day. However, a close observation of the same may throw up some recurring patterns. There may be a group of customers who buys items like snacks and newspapers every day, while another group may come back on weekly basis for certain items like paper napkins.

Such observations help in charting demand patterns for smaller groups of customers within a large market segment. For this purpose, a close daily record must be prepared and updated. Similarly, for mobile service providers, it is found out that mobile usage for particular age group subscribers is more during certain hours of the day, while it may be different for other age groups.

Management of Demand Capacity

Marketers follow various approaches to manage the fluctuations in demand. The following are the five basic responses on the part of service firms for the management of demand vis-à-vis capacity:

- **No action:** At times, service providers take no action regarding the rise in demand. They let the customers evaluate the levels of service and then manage it themselves accordingly. However, this involves risk as the customers may find another alternative.

In case of underutilization of resources, this approach does not work as prompt action must be taken to prevent the firm from incurring losses.

- **Divert demand:** In order to manage increase in demands, service marketers attempt to divert some of the demands by increasing the rates of the services and cutting down the same for a slow period with low demands.
- **Increase demand:** When the capacity exceeds the demand considerably, service marketers try to increase the demand by offering the services at reduced prices. However, while cutting down the cost of the service, the marketers must ensure that all the costs incurred during the production of services are covered.

- **Create a demand inventory:** Although services are intangible and perishable, it creates inventory of demands through reservation systems. In this system, the desired segment of customers—the loyal or the highest-paying customers—are given preferences while delivering services. Other segments are given reservations for a later off-peak period.

In case of capacity being in excess of demand, it is made known that no reservations are needed and the services are now available.

- **Create a queuing system:** This approach also involves the creation of demand inventory. Instead of reservation system, marketers make use of queuing systems that involve making customers wait at the service site. The waiting line system should be implemented only when there is a proper provision of managing customer lines.

In order to manage fluctuations in demand with respect to capacity, a service provider can follow one of the following approaches:

- Distribution of demand to match supply/capacity
- Adjustment of capacity to match demands

Distribution of Demands

One of the biggest challenges for service marketers is to create demands during period of excess capacity and low levels of demand. This is done by adjusting the corresponding price of the services for varying demand and capacity. Some changes can also be made in the product or the distribution strategy to distribute demand more evenly over a given period of time. The various strategies are discussed as follows:

- **Change in the service product:** Some service providers that offer services that are season-specific change the nature of the service product so as to meet low demands during off-peak seasons. For example, a skiing resort in Canada, Whistler Mountain, offers its premises on rent during summer. Some airlines change their business class seats into economy class to accommodate the rise in demands for the latter.
- **Communication with the customers:** One approach is for the service firms to honestly communicate the situation to their customers. For instance, a bank may advise customers to come on a particular weekday instead of weekend. This way, the customers become aware of the peak periods and then make their decisions regarding the timing of the service delivery accordingly.
- **Rescheduling/adjusting time and location of service delivery:** In order to distribute demand for a particular service over a particular period, some service providers adjust the time and location of service production and delivery. For instance, a consultancy firm may stay open on Saturdays, while some banks keep their branches open till late in the night.
- **Price differentiation:** Increasing or decreasing the price of a service automatically brings about a shift in customer traffic. This is the basic premise upon which the equation of demand and supply rests. A service provider

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must, however, be acutely aware of the degree of price sensitivity in its customers for this strategy to be successful.

In case of low demand, prices are cut down to attract customers. This is the reason due to which theatre tickets cost less during business/office hours. Similarly, in order to diffuse demand during peak hours, services are priced at higher rates. Weekend tickets for matinee cost more than a weekday ticket.

Flexing the Capacity

Another strategy adopted to match supply and demand emphasizes on the adjustment of capacity. Here, it is not the demand that is shifted to match capacity. The main idea here is to not merely adjust but also align capacity in such a way that it matches the demand of the customer. When the demand is very high, organizations attempt to stretch their capacity as far as they possibly can.

When the demand is low, these organizations try to do just opposite—instead of stretching, they try to avoid wasting resources and shrink capacity. The existing capacity of organizations can be flexed in many ways:

- **The current capacity is stretched:** In order to match demand, the current capacity of people, machinery, time and other facilities can be stretched for a short while till the demand is met. In situations like these, it may not be necessary to add new service resources in terms of additional people, machines and facilities. The existing resources may be required to work extra time.
- **The time/availability of services is stretched:** In order to meet demand, working hours could be extended for a short while. When there is an epidemic, hospitals and clinics may remain open for long hours or may even operate 24×7. Similarly, during festive seasons, retail marts remain open till late at night to cater to the increased demand of shoppers. Even in various organizations, the accounts department works late to set their records right before the closing of the financial year.
- **Human resources are stretched:** Carrying on with the examples just cited, retail marts remaining open for longer hours during peak season, would naturally ask their employees also to stay back and work over time. Hotels and restaurants, for instance, require their employees to work late in order to cater to the increasing number of tourists and customers in the holiday season.
- **Physical facilities are stretched:** Depending on the nature of the company, facilities can be stretched to accommodate demand. In order to produce more, it is possible to add more machines. In tutorials, for instance, closer to the exams, classrooms may need to accommodate more students. Extra chairs, stools and tables may be added to accommodate the increasing number of students. In India, during festivals, sweet shops set up extra counters, at times encroaching on to the road too, to cater to the sharp rise in the number of customers.

- **Related equipment and machines are added:** During peak time of demand, additions can be made to existing equipment to smoothen operations. Call centres may go in for additional lines and workstations if there is a sharp rise in calls. During audits and financial closure of accounts, additional laptops may be provided to the relevant staff to meet deadlines and speed up work.

Of course, all this stretching and expanding will take its toll on quality of work and service. This is because the equipment as well as the people involved are putting in extra hours and efforts, beyond their normal capacity. The equipment would need maintenance and people would need some rest. Therefore, such strategies should not be used for long periods and capacities should not be stretched too far. They should be employed only to meet peak demand.

Aligning Capacity to Match Fluctuations in Demand

A certain amount of creativity, if used intelligently to adjust resources such as facilities, time, labour and equipment, can help organizations match capacity and customer demand. Since it is the demand being chased to meet capacity, this strategy is often referred to as the 'chase demand' strategy, as discussed in earlier sections. The emphasis is obviously on facilities, time, labour and equipment. This strategy would involve the following steps:

- 1. Outsourcing work:** The moment an organization discovers that the demand has reached a peak and it is unable to perform the service without external help, it can opt to outsource the service.

This is often seen in companies offering IT-related services. On receiving a new project, an organization may engage the services of some other firm to see the project through. This is done because the organization lacks the technology, resources and skills required to fulfil the needs of that project on its own. There are certain firms who specialize in providing assistance to other firms. Their association lasts only till the completion of the project.
- 2. Hiring part-time staff:** There are situations when an organization finds that it needs additional hands to complete a particular project or fulfil a certain demand. It may not need to maintain a very high level of employees at all times, but at certain times when the demand is high it may feel the need for additional resources. The most common strategy is to recruit employees on a part-time basis. Hotels and resorts, for instance, employ temporary staff during peak season to cater to the tourist rush. Some organizations, especially call centres, add people in each shift to tackle the extra load.
- 3. Renting out facilities and equipment:** Some organizations prefer to rent additional equipment, machines or facilities to see them through the peak demand period. Organizations providing express delivery services, for instance, may hire additional trucks during peak periods. At times, organizations often share space with other organizations with complimentary demands. There are many cases of two offices functioning from the same location. One may use it in the first half whereas the second may use it in the

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second half. Sometimes offices with working hours strictly from 9 to 5:30 often rent out their facilities to tutorial centres where students come in the evening.

- 4. Scheduling downtime:** During peak time, if there is maximum utilization of facilities, equipment and people, then the lean period should be put to good use for maintenance. Machines can be oiled and serviced during off-peak season. This time can also be used to train workers. Repairs, wherever required can be done during this time. All these steps will ensure that the facilities and machinery, etc. are in good condition and perform well during peak time. Trained employees will also rise to the occasion in times of high demand.
- 5. Cross-training to increase flexibility in employees:** Employees should be given sufficient training to enable them to perform many tasks. This way, it is possible for a particular employee to be used elsewhere if the need arises. A fast food outlet, for instance, should have service staff who are good at serving, packing as well as manning counters so that when the crowd is too much to handle, they can lend a hand wherever required, at the cash counter or back in the kitchen.
- 6. Modifying facilities and moving equipment:** Sometimes, facilities can be moved to locations where they are most needed. Mobile food stalls are the best examples. During a pandemic, mobile blood donation facilities and medical vans are made available where most required. Similarly, in times of great demand, a big room is often split into two units by locking the connecting door. In some aircrafts, there is a facility to reallocate the seats to keep up with the demand.

Managing the Pattern of Customer Demand

Where demand is at peak, and organizations can do nothing about it, they allow questions to be asked about their service. But this harms the long-term development of relationships and in denying short term opportunities, which peaks and troughs can present. A simple queuing strategy is most typical of service operating in non-competitive environments. In competitive markets a more proactive market-oriented strategy is needed to manage the pattern of demand.

Most commonly used methods are:

- Demand is frequently stimulated during off peak periods using all the elements of the marketing mix. Prices are often reduced during slack periods in a number of tactical forms (off-peak train tickets, 'happy hour' in pubs, money-off vouchers valid only during slack periods). The product offering can itself be reformulated by bundling with other products (activity breaks offered at weekends in business hotels to fill spare room capacity). Distribution of a service could be made more favourable to customers during slack periods. During quiet times of the day or season, a takeaway restaurant may offer a free home delivery. Promotion for many service companies is concentrated on stimulating demand during slack periods. For some services where consumption

takes place in public, stimulating demand in quiet periods may be important as means of improving the quality of the service itself. In the case of theatres, more customers result not only in increased income but also in greater ambience for all customers who come for the atmosphere which the interaction of a live performer and audience creates.

- Similarly, demand is suppressed during peak periods using a reformulation of the marketing mix. Prices are often increased either directly (surcharge for rail travel on Friday evenings, higher package holiday prices in August) or indirectly (removing discounting during peak periods). Promotion of services associated with peak demands is often reduced. Distribution and the product offering are often simplified at peak periods (restaurants may turn away low value business).

Queuing and Reservation Systems

Where demand exceeds the supply capacity of a service, and demand and supply management measures have failed to match the two, some form of queuing or reservation system is called for. A formal queuing or reservations system is preferable to a random free-for-all for following reasons:

1. Advance reservation system allows a company to identify when peaks in demand occur. Where there is reasonable mid- to short-term supply elasticity, supply can be adjusted to meet demand, either by bringing in additional capacity or by laying it off where demand looks like falling below the expected level. Advance reservations allow a charter airline to schedule its fleet to accommodate as many potential passengers as possible.
2. Reservation and queuing systems allow organizations to develop a relationship with their customers from an early stage. The relationship can be formed at the simplest level by using a telephone enquiry to gain some degree of commitment from a potential customer and to offer them a service at a time when both customer and supplier can be assured of achieving their objectives. Alternatively, the relationship can be developed from the time when a potential customer walks into a service outlet and joins a queue. For customers, the way they are handled in the queue forms part of their assessment of total service quality.

A number of techniques are used to manage the waiting line:

- Companies should be careful about promises they make with regard to queuing time. When expectations of a short wait are held out, any lengthening of waiting time will be perceived as a service failure. This could have serious implications for customers' perceptions of subsequent stages in the service which they are about to receive. It may be better to warn customers to expect a long delay; if the actual delay is shorter, customers will perceive this as exceeding their expectations. They will enter the next stage of service process with a more positive approach.
- Waiting time will appear to pass by more quickly where the customers can perceive that progress is being made for example, by seeing that a queue is moving steadily. Uncertainty about length of waiting time causes

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anxiety and makes perceived time longer. Customers should be able to perceive that the queue is being processed fairly.

- Attempts can be made during the pacing process to take customers' minds off their wait. Customers who are waiting for their cars to be serviced can be provided with a comfortable TV lounge.
- Where delay is of uncertain duration, regular communication to customers makes time pass faster. The hardship caused by delay in waiting for a train can be lessened by appropriate communication to customers explaining the cause of delay.
- A queue represents an opportunity for a firm to make its customers more familiar with other services, which may be of interest to them at some other time. Diners waiting for a meal may have the time and interest to read about a programme of special events that associated hotels are offering.
- Sometimes the companies may be able to use a queue for one service to cross-sell a higher-value service. In this way a potential customer for an economy class ticket may be persuaded to buy a first class ticket rather than wait for the next available economy class seat.

Check Your Progress

7. What is the meaning of the demand management strategy of flexing the capacity?
8. How do service marketers face the challenge of creating demand during periods of excess capacity?

4.4 ADVERTISING

Promotion, advertising and communication hold immense importance in the service marketing mix. The promotional marketing for a service in the absence of a visual, physical product to be used in promotion, relies heavily upon the communication with the prospective customers about the services and the additional benefits.

Promotional campaigns are used for customer acquisition, customer retention, creating or consolidating customer base, and increasing brand awareness. If used in the right way, it can also serve as a tool for customer education, leading to reduced perceived risk and instil trust and confidence in customers. Communication and the right kind of communication play an important role in effective promotional campaigns.

A service organization comprises both internal customers as well as external customers. The communication tools should be created and implemented in a way that addresses both kinds of customers. While establishing communication tools through which promotional campaigns will reach the customers, it is important to take into consideration possible lapses that might occur, for instance, technological

glitches, issues regarding the appropriateness of content or even budget-related concerns.

Before embarking on a promotional campaign, the marketers must first set down the objectives and goals that the promotion aims at. They should also specify the segment the firm is targeting. Marketers must utilize various elements of promotion mix and formulate an effective promotional campaign.

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An effective communication program involves the following considerations:

- The foremost step is to specify a target segment, profile the various customer groups in the form potential buyers, existing customers and so on.
- As stated above, the objective of the communication programs should be specified beforehand, e.g., increasing customer knowledge/ educating customers in case of a new service launch, or differentiating one's service from those offered by the competitors, when there are a number of service providers in the same market segment.
- The firm should allocate a specific sum for promotional purposes.
- The firm should decide what message it wants to communicate through its communication program.
- It is important to use the right medium for the communication program. It could be direct media (personalized mails, customer-specific magazines, etc) or it could be mass media, e.g., television, radio, newspapers and so on.
- The last step, and probably the most important, is to procure feedback on the overall communication program from a small cross-section of the target segment. For example, VLCC has one of the most robust advertisements in print media. Different products, services and centres are announced through advertisements.

Below the Line Promotion

In general, an advertising strategy in which a product is promoted in mediums other than radio, television, billboards, print, film and the internet is called below the line promotion. Types of below the line advertising commonly include direct mail campaigns, trade shows and catalogues; this advertising type tends to be less expensive and more focused. Below the line advertising seeks to reach a consumer (instead of a mass audience) directly rather than through an intermediary, such as would be the case with a commercial during a television show. This type of advertising is often centred on specific localities and is used to promote products that a consumer will want to see in person. It can be coupled with in-store sales help in order to explain the features of the product. The different below-the-line promotion methods are — public relations, direct marketing, events, promotional campaigns.

Role of Internet

The technology used for assessing information has changed in the last few years with the internet becoming a useful source of information for customers to assess

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the transport service sector. Internet plays an important role in marketing, promotional and sale activities. Like electricity, IT has impacted all facets of life and, in fact, its usage is so ubiquitous that it is hard for today's generation to even visualize how generations before lived without computers and Internet. It is the function of marketing to make comprehensive websites or web pages about their services giving complete and detailed information to customers and help them make informed decisions. This process is inexpensive and can target a large segment of customers at the same time. With the changing technology, companies should focus on developing new products and services to increase profits and obtain maximum return on the company's investment in the network. Recent changes in networks which provide multiple services that are based on the Internet Protocol (IP) technology enhances services on a wider scale on the same network, rather than the traditional voice networks.

A lot of the old products and services that we have been used to in their physical form, like newspapers, have now converted to their digital form. Consumers, as well as organizations are now equipped with computers and other hand-held devices that offer them the chance to access the Internet. The Internet has made the world smaller and blurred international boundaries because of the easy access and penetration it provides for information. This universal benefit has given a large boost to Internet marketing in the 21st century.

Internet marketing refers to all activities that are undertaken to market a product or service on the Internet. Some common techniques currently used are banners, video or textual ads or more strategic moves like Search Engine Optimization (SEO), Social Media Marketing (SMM), Search Engine Marketing (SEM) and emailing. Usually, the aim of all these activities is to increase revenue and maintain a presence in the customer's mind. These techniques have all become pretty standard in today's world. In fact, those sellers who do not apply these techniques are likely to slowly fade away from the customers' minds. It has become imperative for sellers to have a presence on the Web.

Internet marketing has been steadily gaining in importance, because it is an ideal way of fulfilling the three main goals of a business — generating revenue, maintaining customer relationships and ensuring customer's loyalty. The points of importance of internet marketing are:

1. The key point is that it has a vast reach and is available to people in all corners of the world. Also, the mass appeal of the Internet because of its convenience and comfort is well-known. Other traditional media like TV and print advertising have a limited reach and also are slower to get results than marketing on the Internet.
2. Internet marketing is flexible, measurable and affordable.
 - o **Flexibility:** Internet marketing offers a wide range of options such as relevant websites, emails, forums, blogs and articles where a seller can make a pitch for his product/service. Additionally, the seller can portray the product in best possible way using images, videos, sounds as well as text.

- o **Measurability:** The number of hits on a site or page is easily recorded in Internet marketing. Not only this, it can also record data like the demographic and region to which the visitor belonged.
 - o **Affordable:** It is also notable that Internet marketing costs very little compared to placing ads on TV or in print media. Most websites take payment in the form of pay-per-clicks which is fair and less of a gamble than advertising on TV or radio or magazine where a blanket price has to be paid in advance and there is no certainty about how many people actually saw the advertisement.
3. Internet marketing is also interactive. The customers can provide feedback and comments and ask questions about the service and at the same time, the seller can gather data about the customer and contact them as required.
 4. Internet marketing allows the option of targeting the right consumers, based on their age, location, interests, needs and so on.

The Internet marketing arena has become highly competitive in the last 5 years. This is because sellers and marketers are highly aware of the importance of Internet marketing. So much so, that organizations are continually trying to come up with newer and more innovative ways of reach and gain more and more customers.

Personal Selling

Personal selling consists of verbal communication between a salesperson or selling team and one or more prospective purchasers with the objective of making or influencing a sale. Many companies feel that personal selling is a better strategy to manage the interface of buyer and seller and therefore annual expenditures on personal selling are larger than advertising. However, advertising and personal selling strategies share some common features, including creating awareness of the product, transmitting information, and persuading people to buy. Personal selling is an expensive way of persuading the buyers as compared to most other ways of advertising. Salespeople can interact with buyers to answer questions and overcome objections, they can target buyers, and they have the capacity to accumulate market knowledge and provide feedback. Sales promotion consists of various promotional activities, including trade shows, contests, samples, point-of-purchase displays, trade incentives, and coupons. Sales promotion expenditures are substantially greater than the amount spent on advertising. Direct marketing includes the various communication channels that enable companies to make direct contact with individual buyers. The common direct marketing techniques are catalogues, direct mail, telemarketing, television commercials, radio, magazine, newspaper, electronic shopping and kiosk shopping, etc. The distinguishing feature of direct marketing is the opportunity for the marketer to gain direct access to the buyer. Direct marketing expenditures account for a large portion of promotion expenditures. Electronic shopping is one of the newer forms of direct marketing. Publicity or public relations for a company's product, service, or idea involves communications placed

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commercially in the media. The objective of public relations is to encourage the media to include company-released information in media communication.

A variety of factors should be considered to determine the correct promotion mix in a particular product/market situation. These factors may be classified as product factors, market factors, customer factors, budget factors, marketing mix factors, etc., as outlined in Table 4.2. Development of an optimum promotion mix is by no means easy. Many companies often undermine the roles of advertising, personal selling, and sales promotion in a given product or market situation. Decisions about the promotional mix are often diffused among the decision makers, impeding the formation of a unified promotion strategy.

Table 4.2 Criteria for Determining Promotion Mix

<i>Product Factors</i>	<i>Market Factors</i>	<i>Customer Factors</i>	<i>Budget Factors</i>	<i>Marketing Mix Factors</i>
<ul style="list-style-type: none"> • Nature of product • Perceived risk • Durable versus non-durable • Typical purchase amount 	<ul style="list-style-type: none"> • Position in its life cycle • Market share • Industry concentration • Intensity of competition • Demand perspectives 	<ul style="list-style-type: none"> • Household versus business customers • Number of customers • Concentration of customers 	<ul style="list-style-type: none"> • Financial resources of the organization • Traditional promotional perspectives 	<ul style="list-style-type: none"> • Relative price/relative quality • Distribution strategy • Brand lifecycle • Geographic scope of the market

Recent research conducted by the Strategic Planning Institute for Cahners Publishing Co. identified the following decision rules that can be used in formulating ad budgets. These rules may be helpful in finalizing promotion mix decisions.

- **Market share:** A company that has a higher market share must generally spend more on advertising to maintain its share.
- **Sales from new products:** If a company has a high percentage of its sales resulting from new products, it must spend more on advertising compared to companies that have well-established products.
- **Market growth:** Companies competing in fast-growing markets should spend comparatively more on advertising.
- **Plant capacity:** If a company has a lot of unused plant capacity, it should spend more on advertising to stimulate sales and production.
- **Unit price (per sales transaction):** The lower the unit price of a company's products, the more it should spend on advertising because of the greater likelihood of brand switching.
- **Importance of product to customers (in relation to their total purchases):** Products that constitute a lower proportion of customers' purchases generally require higher advertising expenditures.
- **Product price:** Either very high-priced (or premium) products and very low-priced (or discount) products require higher advertisement expenditures because in both the cases, price is an important factor in

the buying decision and the buyer must be convinced (through advertising) that the product is a good value.

- **Product quality:** Higher-quality products require a greater advertising effort because of the need to convince the consumer that the product is unique.
- **Breadth of product line:** Companies with a broad line of products must spend more on advertising compared to companies with specialized product lines.
- **Degree of standardization:** Standardized products produced in large quantities should be backed by higher (brand positioning) advertising outlays because they are likely to have more competition in the market.

The expansion of product market largely depends on the way the product sales are organized. There are many techniques adopted in organizing effective sales. They are—departmental stores, supermarkets, mobile sale units, emporia, exhibitions and fun sales. Among these systems, departmental stores and supermarkets have received considerable attention in towns, urban and semi-urban areas, while mobile shops and fun sales have induced the buyers in the rural areas. The fun sales are organized in less developed areas through the entertainment programme. Such a system is being observed in different Asian countries. In future, more flexible methods of sales may appear to cover larger consumer segments under the product market.

Advertising and Sales Promotion in Service Industry

Advertising is meant to make consumers buy products. It is a medium of information and persuasion. The effectiveness of an advertisement can be best judged by its ability to enhance sales. Advertisements can enhance sales only if they promise a benefit to the consumer. The promise must be persuasive, unique and relevant to the consumer. It is extremely important to define the target audience with clarity and precision. The advertisement must be intended only for the target audience, and not for others, even if other customers in the periphery are interested in the offering. Else, the organization can feel tempted to reformulate its advertisements for customers who are not a part of the target audience, thus losing focus. A company that wants to focus on the youth audience may find takers for its products among other customers who are older. The advertisement cannot be reformulated to include these older consumers, even though they can be an attractive revenue making proposition. The mid-path would not be attractive to the intended target audience, the youth. Once the target audience has been identified, it needs to be understood better. Buyer motives and choice criteria need to be analysed.

Most companies erroneously focus almost exclusively on advertising to convey their messages. But there are companies like Body Shop which have been able to build strong brands and garner large market shares without any advertising. They have used other methods of communication like publicity, sponsorship, and word-of-mouth promotion to convey their brand ideas. The question is not whether a company should primarily rely on advertising or any or more of other communication methods like sales promotion, publicity, and sponsorship. The real issue is how a company can use communication methods holistically so that it is

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able to convey ideas and messages that register in the minds of customers and make an impression. Often, a prudent mix of communication methods will leave a more lasting impression in the customers' minds than any one method alone. A marketer's challenge is to devise the appropriate communication mix that will serve his purpose. Therefore, it becomes important to understand other methods of marketing communication besides advertising.

The task of communication is not to get one's ideas across to the other party. The real purpose of communication is to elicit the desired response from the target audience. Eloquence, sophistication and suave demeanour are pleasing to the communicator himself, but serve absolutely no purpose in changing the attitudes and the behaviour of the target audience.

The target audience looks for conviction in the communicator. The target audience feels that if the communicator himself does not believe in the idea, he has no right to preach. The intent of the communicator is more important to the audience. The communicator should be focused on the interests of the target audience. Howsoever shoddily made an advertisement may be, or howsoever clumsy may a speaker be, the audience will sit up and take note when they hear their interests being discussed. It is what an advertisement or a speaker says that matters to the audience and not really how he says it. Especially in situations where one individual talks to another individual or a group, effectiveness of communication is directly dependent on the intent, knowledge and conviction of the communicator. The most reticent of men became verbose when they are knowledgeable and convinced about an idea.

The world of communication has for long been concentrating on polishing the medium of communications, like speech and advertisement, and somewhere down the line ignored the content that the message was supposed to carry. The audience too has been impressed with the slickness of the ad and the eloquence of the speaker, but the message never really registered in his mind. The purpose of communication is to elicit the desired response from the target audience.

Check Your Progress

9. What are promotional campaigns used for?
10. What does personal selling consist of?

4.5 BRANDING AND PACKAGING OF SERVICES

The key to success for a services organization is by safeguarding the means for services development and packaging. Packing of services is the detachment of services that have been delivered into diverse materials, which keeps a record of the service and then gets circulated for reuse. Where on one hand, services development is about generating the service itself, on the other hand services packaging is the act of apprehending and characterizing the service for the delivery function. The requirements for service packaging investment are a business case

that drafts the target market, an overview of the business plan, competition and differentiation.

For a steady approach to selling and delivering services, organizations should ensure a cross-functional manner to work together. A change should be brought from the traditional ways a company sells and delivers services and for this purpose organizations should adopt the process of service packaging. Service packaging should be seen as a new and better option to bring about a change in the value system by developing behavioural transformation. Promising the exact services and resources and recruiting the right people in the best roles is one of the main factors for the success of a service packaging. The result of false commitments and promises of services can be dissatisfaction with the service packaging efforts and lack of productivity.

‘Productizing’ services is difficult. But it is essential in a period of greater service complexity, global competition, economic indecision and a more knowledgeable client base. Proper management, investments in service ‘productization’ can function amazingly with significant improvement in margin, revenue per person and ability to manage larger projects.

Branding

Branding is the process by which companies distinguish their product offerings from competition. Marketers develop their products into brands which help to create a unique position in the minds of customers. A brand is created by developing a distinctive name, packaging and design, and arousing customer expectations about the offering. By developing an individual identity, branding permits customers to develop associations like prestige and economy with the brand. Buying a brand reduces the risk of the customer and eases his purchase decisions. Branding shapes customer perceptions about the product. Brand superiority leads to high sales, the ability to charge price premiums, and the power to resist distribution power.

A brand is both abstract and real. At one level, it represents customer expectations, and at another level it encapsulates whatever the company has to offer through the brand.

A brand is not a name, term, sign, symbol, or any combination of these. A brand is an assurance or guarantee that the product will perform as the customer thinks it should, which means that the brand has already shaped the expectations of the customer about itself. The brand embodies some values that remain consistent over a period of time. The customer expects these values to be delivered to him, during each encounter he has with the brand. Therefore, the company must realize that building a brand is not a short term activity. Consistency is the most valued quality of a brand. It takes a long time to build a consistent brand image and it is extremely hard to sustain this image. After a period of consistent performance, the brand is in the customer’s memory as an accumulation of associations. These associations are summations of the customer’s interactions with the brand over a period of time.

Branding should be an indispensable activity of any organization. However, it is imperative for organizations to remember that branding is only an outcome of

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various other activities in an organization. A brand is an external manifestation of what happens inside the organization. It is important to align all activities in an organization, and behaviour of all employees towards the values embodied in the brand. Many companies believe that branding only comprises the product and communication. Hence, it is also believed that branding is the responsibility of the marketing department only. It is the duty of every department and each individual to shape the perception of the customers in sync with the desired brand values. Every department and individual of the company has to identify as to how he will contribute to shape the perceptions of the customers. Branding is too important to be the sole prerogative of marketing department.

The sole purpose of branding is to create differentiation, and the brand name by itself cannot act as a differentiator. The brand as a label merely acts as a distinguished name to convey this differentiation. Therefore, the brand is the culmination of all activities of an organization. The brand name conveys the set of values and attributes embodied in the brand. As soon as a customer hears the brand name, the attributes and values of the brand should conjure before his eyes like a motion picture. This can only happen if the brand has lived its values for a long time. Strong brands just cannot be created overnight. Human behaviour is inherently distrustful. A brand has to live up to its promises consistently before customers start taking its values and attributes for granted.

The strength of the brand is directly proportional to the expectations of the customer about it. Therefore, the first task of branding should be to raise customer expectations about the product. The communication efforts of the company do raise expectations and thus contribute to branding, but personal usage of the product by the customer or recommendations from a personal source are decisive sources for raising expectations. It means that, ensuring that the product performs well is the most important branding exercise. But companies have to exercise some caution. In an effort to raise expectations about the brand, a company may hype the brand in its communications effort and customers can form exaggerated expectations from the brand. If the brand does not deliver the heightened expectations of the customers, customers become disappointed and they can tarnish the image of the brand by talking badly about it. Such a brand will find it difficult to be accepted until the market forgets the fiasco. Any renewed bout of advertising will only enhance the cynicism of the customers towards the brand. The company should wait for a considerable period of time before renewing the effort to arouse expectations among customers again.

But if the company is too conservative in making claims, customer expectations would not be aroused and they will not buy the brand. It is a delicate balance but companies will have to manage it. The communication efforts of the company should arouse just enough expectations among customers that they become interested in buying the brand. And when the brand delivers more than what the customers expected, they generate positive word-of-mouth publicity, thus starting the spiral of 'moderate expectation-superior delivery' which will ultimately create a strong brand.

One interaction alone cannot build or tarnish the brand image, unless it is particularly strong. The whole idea of giving consistent performance is that if once

in a while the brand does not perform up to expectations, customers do not start feeling negatively about the brand. Customers should be willing to give benefit of doubt to the brand if its performance slips once in a while. It is very important that a brand owns up to such one-time lacklustre performance and promises to make amends. A brand which chooses to remain in a state of denial or ignorance about its bad performance gives the signal that the brand no more cares about living the values embodied in the brand, and nor does it care about customers' sentiments. It is usually useless arguing with customers. Customers will interpret a brand's performance in their own way and the company's interpretation of the situation has no relevance to the customer. Instead of arguing against customer's interpretations of the brand's performance, a company should try to understand the process by which the customer arrived at the interpretation. This would often include an impartial assessment of the brand's performance and the customer's existential situation in which he was using the brand. A customer should never be allowed to have a perception about the brand which is different from the perception that the company wants its customers to have. A company's first task is to manage the perceptions of customers about the brand and not let customers develop their own perception. Every activity of the company should be assessed in terms of its influence on customer's perception about the brand.

An important aspect of branding is customer loyalty.

Building customer loyalty is the basic platform of relationship formation. In a highly competitive and challenging business environment, organizations are finding it increasingly difficult to have loyal customers in their customer inventory. With a backup of loyal customers, the organization is able to enjoy a number of advantages. In short, having loyal customers serves as a sustainable competitive edge for the organization over its competitors. In service industry, customer loyalty is built along two attributes:

- Service product design
- The execution of the operations so as to achieve conformance

The first step towards building a customer loyalty research programme is to set down clear goals and objectives. The firm must document the existing state of the customers in terms of their satisfaction. Relevant data is put together to determine these factors. For these, comprehensive feedback forms and questionnaires must be developed to serve the purpose. These data also help reveal customers who might be defecting. The feedback must be analyzed and incorporated to improve services and engender loyalty among the customers.

Why do Organizations Need Loyal Customers?

Loyal customers are assets to an organization. Loyal customers play six important roles in a service firm, and through each role they contribute effectively towards the betterment of the organization.

Loyal customers enable the organizations to increase productivity and overall profits by inducing less operational cost. As loyal customers gain more experience, the organization has to spend less on them as they need less assistance with the service process. There is no acquisition cost or very little acquisition cost from the

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view-point of recruiting customers for new products, as the existing loyal customers will yield themselves as customers. The diffusion process is also short and smooth. Above all, loyal customers themselves act as major publicity source for promoting the image of the organization. In this context, the organization is ensured sustainable growth.

Customer Loyalty and Types of Customer Loyalty

Loyalty in the marketing context may be defined as a wilful, voluntary, repeated choice of a specific brand or type of service. Loyalty caters to fulfilling a particular category of need. In the case of one-time purchase, loyalty could be explained in terms of the extent of commitment to the service brand selected; the positive attitude developed towards using the same and the positive image the customer projects about the brand he or she owns.

Loyalty may be explained further. In case of unavailability of a particular service brand, a buyer may prefer not to avail of the same service offered by other brands. He or she would rather wait for the brand of his or her own preference. Loyalty in a sense is a wilful commitment to the service brand in view of perceived satisfaction. Thus loyalty entails is a positive, repeated behaviour of preferring one brand of a service from among the several brands available.

Customer loyalty may fall into several types that include:

- Loyalty towards service organization
- Loyalty towards a particular service setting (store/ branch)
- Loyalty towards salespersons/ personnel
- Loyalty towards any other related aspect in the process of purchase and consumption of the service

The process of brand loyalty is illustrated as follows:

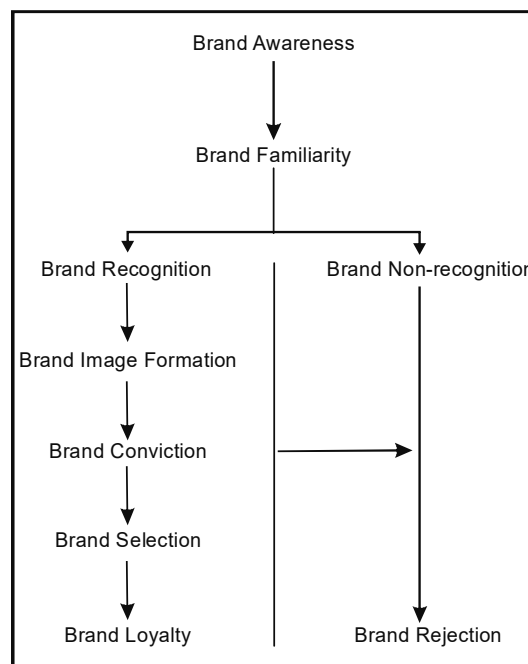


Fig. 4.2 Process of Brand Loyalty

The process of attainment of brand loyalty starts with awareness of the fact that the service is available. Creating such sense of brand awareness is one of the major responsibilities of the marketer. In the contest of brand proliferation, where there is a battle of brands, unless the brand maintains very strong brand identity, it would be very difficult to create a mark in the mind of the prospective buyers. Developing a strong brand identity is therefore an obvious need. Brand identity is a non-transferable means to establish the uniqueness of the brand in terms of various tangible and intangible attributes of the brand. The essence of brand identity is all about what a brand stands for and how it differs from the competitor brand. The brand identity plays a key role towards creating brand awareness. The identity so created must be repeatedly communicated so that, it helps in building awareness among target customers and make them familiar with the brand.

In the matter of creating brand familiarity, the brand name, symbols, design and marks have a definite role to play. A good brand name must be simple, suggestive, memorable, unique, meaningful, understandable, related to the service it is selling and should have retention, recognition and recall values.

Brand recognition is the end result of brand familiarity. In the process of developing loyalty towards a service organization, how the brand is positioned is another important aspect. Each brand assumes a brand personality and each customer tends to match his or her self-image with the brand personality. For example, the decision to hold a meeting of the business delegates at the Taj Hotel has as much to do with the brand image of the Taj as the self-image of the businesspersons. How the service brand is positioned reflects the specific image of the brand which different prospective customers would perceive differently. Having perceived the brand in their own way, the prospective customers move further in the selection process, namely, brand acceptance which means accepting the various tangible and intangible benefits offered by the brand along with the core service. The brand acceptance would lead to brand selection and based on satisfactory performance, the customer will keep availing the same service from the same service firm that will eventually turn him or her into a loyal customer.

In the above process, it is likely that at any stage in view of the dissatisfaction accumulated or may be due to the competitors' pressure, the customer may not join brand loyal group and may get out of the chain to join with brand rejection group.

Check Your Progress

11. What does packing of services mean?
12. Define branding.

4.6 RELATIONSHIP MARKETING

Customer relationship management (CRM) has to be focused on aligning the business processes with customer strategies employed by the firm. Customer relationship management can be very useful if it works. It allows companies to

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gather customer data and identifies the most valuable customers over time and increases customer loyalty by providing customized products and services. It also reduces the cost of serving these customers and makes it easier to acquire similar customers. But a CRM can not only fail to deliver its intended benefits, it can also damage longstanding customer relationships. The biggest problem is the assumption that CRM is a software tool that will manage customer relationship of the company. CRM is the bundling of customer strategy and processes supported by relevant software for the purpose of improving customer loyalty and in the long term, the profitability of the company. It is important to understand accurately the concept and implementation of CRM, as it is one initiative that most companies will be tempted to pursue sooner rather than later.

- Create a customer strategy before implementing CRM – Customer relationship management is based on a rigorous segmentation analysis. It is designed to achieve specific marketing goals. CRM cannot be implemented without conducting segmentation analyses and determining marketing goals. Sometimes companies make the error of delegating customer relationship management to the chief information officers. It is important to have a strategy of customer acquisition and retention in place and see if a CRM software package would be helpful in implementing the strategy.
- Before CRM technology is installed, the focus of the organization must be oriented towards catering to the customer. If a company wants to develop better relationships with its more profitable customers, it is advisable for the company to have processes in place which will help meet customer needs in a better way. CRM also affects the existing relationships in and among various departmental structures, product, or even different internal structures and these structures should accordingly be restructured to focus on the customers. It is important to simplify customer interface and improve the old processes. So before CRM is rolled out, the company should have adopted customer centric philosophies, changed the structures and processes so that they are focused on customer needs and in general make the whole organization more sensitive and oriented to customer needs.
- It is assumed that CRM has to be technology-intensive. Objectives of CRM can be fulfilled without installing a high-tech solution if a company has highly motivated employees who are aware of and sensitive to customer needs. Smart companies employ low-tech, mid-tech and high-tech solutions to implement their customer strategy. It may send a hand-written thank you note to customers after they have used their service; it may install a system to answer customer queries; and it may design products that will repair themselves. A company should start by adopting the lower-tech alternatives and gradually use more sophisticated technologies. Individual software solutions should be so sequenced that each step reinforces the next. A company should be doing whatever it can to strengthen relationships with customers – with or without technology.
- In their fervent quest to build relationships with their customers, companies end up building relationships with the wrong customers or build relationships

with the right customers the wrong way. It is not prudent to try and build relationships with all existing and potential customers. A company may want to build relationship with affluent customers, but these customers may not want to build relationships with the company, and any effort to pursue them will alienate them further. It is important to tailor the communication method and the type of relationship to each customer that the company wants to pursue. Companies have made many mistakes in implementing CRM. They did not research what customers wanted and only focused on the processes they could perform faster. They assumed that the initiative did not require top-management involvement and cross functional coordination and that it could be handled by IT managers. They believed that the software would sell itself to employees and would automatically cause the required organizational change.

If companies can avoid these pitfalls, implementation of CRM can be profitable for the company as well as its customers. The automobile industry is one where examples of successful CRM implementation are plenty in number. General Motors for example has improved its CRM drastically to secure its prices. Renault is using integrated loyalty programs to identify brands that are securing positive reviews. Daimler Chrysler conducted a similar integrated CRM project with the help of a European call centre which collected data on sales canvassing and loyalty program. CRM within the automobile industry has become synonymous with ensuring maximum customer satisfaction. Contingent on customer requirements, CRM highlights the importance of catering to the needs of customers and ensuring maximum value added returns. Failure to do so will lead to dissatisfied customers. American Express and Barclays Bank have been able to improve customer profitability by no less than five percent resulting in a 25–30 percent rise in profit.

Types of CRM

Customer service has evolved into a primary functional area, from an area that received only marginal attention. As a response to customer demands for responsive and reliable service, innovative methods and processes are being designed to strengthen service levels. These innovations include:

1. **Increased customer self-service:** A dominant trend in customer service is to make customers active participants in solving service issues. Retail industries practice this method whereby, self-service ranges from customers placing grocery items into shopping bags and helping themselves out after payment. Further, customers who do need more information are being encouraged by companies to first visit certain company-provided information areas. Only once these channels have been exhausted are customers encouraged to contact customer service.
2. **Revenue generators:** Companies that have a customer service staff have arrived at the conclusion that people not just help others by solving customer issues, but they are also equally useful in convincing customers to purchase more. A basic function of customer service representatives is to ask customers if they would be interested in knowing about other services. If a customer

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shows interest then the call will get transferred to a sales associate. The final stage of this process involves the executive attempting the customer to purchase additional services thereby directly contributing to the revenue.

3. **Outsourcing:** Establishing customer service stations overseas is considered to be one of the most coveted strategies through which companies aim to reduce costs. Also known as outsourcing, this allows companies to expand service coverage. For example, having several service outlets around the world would give customers the comfort of approaching a service personnel at any given time of day. To be able to move service to another country requires technological support but even these have raised concerns on two major fronts. These include: job cuts within the home country and the possibility of the appointed service personnel lacking sufficient training to manage customer queries. In other words, knowing the dynamics of the local market is crucial and the service staff should be well equipped to deal with customer problems. At an extreme scenario, a poorly managed shift to outsourcing can lead to a considerable decrease in customer satisfaction, thereby affecting sales figures.

Strategic Goals of CRM

Organizations geared to deal one-on-one with customers will need to conduct a thorough research of all valuable customers. One-on-one marketing means being able to change one's behaviour as per individual customer needs or what feedback is given to the organization. The dynamics of this kind of marketing are complex. Moreover training staff is quite different from making sure that the right customers are being identified and pursued (only then can products and services be reconfigured and sold as per the needs of the customer). Relationship marketing is grounded in the idea of establishing an interactive relationship with the customer; starting with the ones that are most beneficial for the organization. With each interaction the organization learns more and becomes valuable to the customer. The ideal situation is one where the customer tells the company of some need and the company responds to it by customizing its products to meet the demand. The biggest advantage of this is when customers do not show the same degree of loyalty towards competitive firms. For them, the lessons that have already been taught to their current service providers cannot be repeated to another service provider. The process is time consuming and the same level of confidence is hard to forge. There are four important steps that service providers should bear in mind while implementing one-to-one marketing. They are as follows:

- **Identifying customers:** A fair number of customers must be identified by an organization as target customers. It is equally crucial to understand them and their needs in as much detail as possible. The portfolio should ideally contain more than the name and address, it must also include information regarding their preferences, likes, dislikes etc. In other words, a snapshot will not suffice; a company must strive to know its customer well if it wants to establish a long profitable relationship.
- **Differentiating the customers:** Customers are different in two ways. They represent different levels of value to the company and they have different

needs as well. Once each customer's needs and values have been established, it is possible to tailor the company's behaviour to each customer in order to reflect those values and needs.

- **Interacting with customers:** It is important to be both cost-efficient and effective when the company is interacting with its customers. Cost-efficiency improves by directing customer interaction towards more automated channels. Providing information on its website would be more economical than supporting a call centre. Effectiveness improves by generating timely, relevant information which provides either better insight into a customer's needs or a more accurate picture of customer's value to the company. Every interaction with a customer should take place in the context of all previous interactions with that customer. A conversation should always aim to pick up the threads of the last conversation.
- **Customizing the company's behaviour:** In the final step, to lock a customer into a learning relationship, some aspects have to synchronize with the customer's individually expressed needs. This could either mean mass customizing a product that has been manufactured or it could also include reshaping some aspects of the service that is part of the product. This may include the way in which the invoice is prepared.

It is possible that managers may dismiss one-to-one marketing as tedious and unrealistic. They may find the seamless integration of several data banks and other contact points, futile in generating a compact customer portfolio. Tracking each customer may appear risky as there is no surety of the customer buying the service. But the benefits emanating from successful implementation of relationship marketing should justify investment of time and money in the endeavour. One-to-one marketing increases cross-selling as customer's requirements are known more intimately, it reduces customer attrition as the company learns of increasingly more sophisticated and effective ways to serve the customer's evolving needs, it reduces transaction costs as the customer's requirements are known and can be promptly served, and it leads to higher levels of customer satisfaction as the company's total offering is tailored to are designed to cater to need specific behaviour.

Customer Information Management (CIM)

The choice of routes to customer interaction management, methods, structure and other related aspects depend on various factors connected to the organization concerned. Some of the related factors are presented as follows:

- The cost to be incurred, and benefit to be accrued
- Nature of service
- Size of organization
- Number of customers
- Types of customers
- Geographical spread of customers
- Frequency of contact

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- Technical support available
- Presales interaction required
- After sales interaction required
- Service settings
- Competitor's practice of interaction
- Extent of loyalty
- Status of customers in the relationship process
- Life cycle of customers

Salesforce is considered to be the best CRM software. It provides all the features and tools that the top CRM software choice should offer. It also has certain tools that are unique to this application alone. It is simple and responds to individual CRM needs. As an example, Salesforce offers Chatter, unique software that the company and co-workers use to interact and stay informed on fresh leads, contacts, opportunities and deals. Even though this CRM software is available as a web-hosted solution, each feature is carefully detailed and for these reasons Chatter is considered to be the most popular choice for business CRM.

Effective customer interaction management requires the essential presence of certain key aspects. It is commonly applicable, irrespective of the route opted for CIM, viz., online, off line, or outsourcing. Some of those key aspects are summarized as follows:

- Customer database:** Customer database containing accurate, adequate, authentic and up-to-date data pertaining to the customers of the organization.
- Customer profiling:** Organizations should have the technology of customer profiling, which would provide rewarding interaction with customers. Profiling indicates the behavioural pattern, perceptions, expectations, attitudes, and personality traits related to the organizations' customers (and the prospects). Profiling would provide a strong platform for effective CIM.
- Audit of internal system and resources:** It is necessary to have an in-depth audit of internal systems, the customer contact programmes already in use, and the resources available within an organization and the same is to be benchmarked against competitors in terms of their adequacy. Before an organization builds up its own CIM programme, this type of an audit would give an insight as regards the budgetary requirements in terms of cost, time, and other needful aspects essential for the setting up of an effective CIM or to re-engineer the CIM in case it is already available.

In addition to the commonly required managerial skills in general and marketing skills in particular, a set of specialized skills is desirable for the purpose of CIM.

Those specialized skills are presented in the following list. The list contains essential and desirable skills applicable for online and offline CIM. The list is not a conclusive list and only indicative.

- Skill to communicate
- Skill to listen
- Skill to tolerate
- Skill to foresee
- Skill to convince
- Skill to advice

Customer Loyalty

Building customer loyalty is the basic platform of relationship formation. In a highly competitive and challenging business environment, organizations are finding it increasingly difficult to have loyal customers in their customer inventory. With a backup of loyal customers, the organization is able to enjoy a number of advantages. In short, having loyal customers serves as a sustainable competitive edge for the organization over its competitors.

Loyal customers are assets to an organization. Loyal customers play six important roles in a service firm, and through each role they contribute effectively towards the betterment of the organization. The roles played by loyal customers are those of:

- The partner
- The advisor
- The custodian
- The resource provider
- The change driver
- The experience shaper

As partners and advisors, the loyal customers involve themselves in the organization's regular activities. Many companies recruit loyal customers as their customer panel members and tap their creativity for application in various activities such as new product development, new promotion strategy formulation, pack-ages' design, developing incentive schemes, etc. Loyal customers serve as their major idea sources.

As advisors, the loyal customers give advice about the potential customer's expectations, their expected prices, competitor offerings, and other similar aspects. These advisors further help in increasing the strength of the organization, working towards reducing its weaknesses, making maximum use of the available opportunities and safeguarding against the threats the organization may face.

As custodians, the loyal customer projects the image of the service brand and the service organization. Loyal customers see that the brand maintains its uniqueness and contributes in every way towards better performance of the organization. Loyal customers play key roles in developing total customer care

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programs of an organization. Their experiences as customers help the organization to anticipate the expectations and problems that new customers may face. This is done in order to devise customer care programs which are proactive and reactive.

Loyal customers are resources in the sense that the organization can depend on them with respect to new service brands and brand extension programs. If there are a number of hardcore loyal customers in the customer inventory, the risk in relation to all marketing decisions reduces considerably. The loyal customer provides a simulated experience to prospective customers and thereby helps companies hone their customer service skills.

The roles of change drivers and experience shapers are more significant. In view of cultural, social, technological back-ground of the loyal customers, they are in a position to show new directions in which the organization could diversify in future. On the whole the organization emerges as a customer-driven responsive organization capable of providing customers with services meant for catering to requirements of maintenance as well as other additional services.

Loyal customers enable organizations to increase productivity and overall profits by inducing less operational cost. As loyal customers gain more experience, the organization can spend less on them as they need less assistance with the service related processes. There is no acquisition cost or very little acquisition cost from the view-point of recruiting customers for new products, as the existing loyal customers will yield themselves as customers. The diffusion process is also short and smooth. Above all, loyal customers themselves act as a major publicity source for promoting the image of the organization. In this context, the organization is ensured of sustainable growth if it succeeds in retaining its loyal client base.

Examples of customer loyalty programs are as follows:

- (a) Using a simple points system is perhaps the oldest loyalty programme in the book. This method allows frequent customers to earn points which translate into a reward of sorts such as a freebie or a discount.
- (b) VIP Benefits should have an additional charge. A one-time annual fee that allows customers to skip several tedious purchase processes is considered to be highly beneficial for the company and customer alike. Amazon for example, had to confront the e-commerce shopping cart abandonment phenomenon. Triggered by the 'sticker shock' which is the inclusion of tax and other shipping charges, customers began discontinuing the use of e-commerce sites, Amazon being the most badly hit. However, no sooner than this began that Amazon started a customer loyalty program called Prime. For an annual fee of \$79, all Prime users are entitled to a 2-day shipping on millions of products with no minimum-purchase barrier.
- (c) Non-monetary programmes should be structured around customer values. A thorough understanding of customers implies understanding their worth. Every company offers promotional discounts and coupons, but enterprises that have the vision and creativity to offer something more have chances of retaining customers for longer durations.

- (d) Collaborating with another company to provide all-inclusive offers also helps in establishing effective loyalty programmes. Strategic partnerships can prove to be highly beneficial.
- (e) Scratch the Programme. Often taking a radical position helps companies to gain extra edge in the market. Often dissolving the idea of providing incentives to customers also helps. If a company can build loyalty by providing first-time users with grand benefits thereby getting them hooked to the idea of receiving something spectacular may yield positive results not just in terms of boosting sales figures but also building brand image and retaining customers.

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Relationship between CRM and Customer Loyalty

Traditional marketing theory has looked upon encounters as being a series of discrete events, viewed in isolation from preceding and proceeding exchanges and without analysis adequately on the basis of a series of discrete casual encounters. Most people ordering taxis or seeking a teashop would have little need for a relationship with a supplier. A relationships based series of encounters is useful for both customer and producer in the following circumstances:

1. Some services involve a multi-stage production process and it is not wise for a customer to switch services procedure during production, thereby requiring the new supplier to establish what had already been carried out during previous stages. A surgeon who keeps records is able to perform an operation with the benefit of the knowledge gained during previous examinations and operations. A newly-introduced surgeon may have to begin with a fresh diagnosis.
2. The service provider may be required to monitor the results of a service after it has been delivered and therefore needs to engage in some form of relationship. An engineer who has installed a new heating unit may need to check its operation after a period of operation.
3. Legislation may require that some form of relationship exists between buyer and seller before a service can be provided. Sometimes a license allows a company to supply only bona fide members of a club. In other cases, legislation may require that a supplier has taken steps to establish the true needs of the buyer before a service is agreed. Financial services act requires many categories of financial intermediaries to undertake an audit to customer's financial circumstance before any commitments are made.
4. Where services are complex in nature or involve significant adaptations to meet the different needs of customers, customers are more likely to seek a direct relationship with suppliers. Risk tends to increase with complexity and customers seek to reduce the perceived risk by relying on the established relationship.
5. In some markets, customers may seek the reassurance which a relationship can bring in terms of the ability to obtain preferential treatment or semi-automatic responses to requests for services. Customers signing up for a regular maintenance contract on domestic appliances avoid the need to

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formally initiate service requests each time a service is needed. By entering into such a relationship, buyers can also avoid significant transaction costs associated with multiple service ordering.

6. Both suppliers and customers seek the security of relationships where the market environment is turbulent.
7. To the supplier of services, the development of strong relationships helps to facilitate loyalty from customers. By developing a relationship with customers, suppliers add to the differentiation of their products and give their customers a reason to remain loyal. In highly competitive markets, suppliers may be able to attract new users to their services only at a high cost in terms of promotional activity and price incentives. For many services the cost of recruiting new customers exceeds the revenue earned from the first transaction. It is only by pursuing and sustaining a long term relationship that an organization is able to make profits.
8. A more formal relationship with customers facilitates the suppliers' task of collecting feedback from their customers. The aim is to move away from delivering goods and services by a series of discrete transactions towards continuous delivery through an on-going relationship.

There are five stages of relationship development:

- (a) Awareness
- (b) Exploration
- (c) Expansion
- (d) Commitment
- (e) Dissolution

The model proposes that a relationship begins to develop significance in the exploration stage, when it is characterized by attempts of the seller to attract the attention of the other party. The exploration stage includes attempts by each party to bargain and to understand the nature of the power, norms and expectations held by the other. The expansion phase of relationship results from the successful conclusion of the initial exploratory interaction between the parties. Exchange outcomes in the exploratory stage provide clues to the suitability of long term exchange relationship. The commitment phase of a relationship implies some degree of exclusivity between the parties and information search for alternatives is much reduced. The dissolution stage marks the point where buyer and seller recognize that they would be better able to achieve their respective aims outside the relationship.

Different strategies are used to help customers progress through various stages of the development process. The service provider must be aware of the customer's requirements in order to be able to establish a beneficial long-term relationship. It is important for service providers to understand that customers need a reason (and a good one at that) to show disloyalty to their current service provider. In some cases, offering low prices (albeit introductory for most services) helps in capturing the customer's attention. While low pricing can be catalogued

as one strategy, another can be identified as direct contact comprising emails, telephone calls, advertisements etc. This strategy is applied where companies aim to target those segments with whom they seek to establish a long-lasting valuable relationship (this includes customers who are not just looking for a cheaper service). Many service providers face a high level of risk while exercising this strategy as they are required to accurately identify and target that segment of the population which may be willing to switch service providers at a point when their current service might be on the verge of fetching large benefits and returns.

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- In marketing, it is a well-known fact that buyers and sellers enter into a relationship that is rife with promises (ranging from optimum satisfaction levels to on-going uninterrupted services). These promises allow customers to imagine or anticipate the level of service quality and the gap between the two (i.e. the promised levels of services and the actual service delivery) is what actually determines service quality for the customer. The first encounter is when the service organization archives details of customers. The objective is to anticipate the future needs of customers in order to make their approach more focused and exclusive. In other words assessing future needs is of prime importance.
- Short to medium loyalty can be developed by providing users with lucrative incentives.
- Companies aim to establish relationships by turning discrete service delivery into continuous delivery. As an example, Bus companies announce season tickets valid at all times to dissuade customers from switching to another bus operator.
- More often than not, financial offers are most useful in retaining customers. They can be anything, ranging from a simple voucher valid that can be redeemed at the time of the next service. Another example can be of a service that may extend relaxed offers at a restaurant or club. However, purely financial incentives have a poignant problem which is that they might undermine the very purpose for which the incentives have been offered. Also, it may prove to be very expensive for the service provider who may end up spending a lot of money without securing the long-term valuable customer relationship. A tempered way of exercising financial incentives would be by giving membership discounts as well as store cards. In this scenario the customer will be able to avail of benefit after showing a sustained period of loyalty. Having invested in membership schemes, customers are unlikely to go anywhere else.
- Sometimes, offering non-financial schemes are equally beneficial. Many retailers offer special previews to customers to have recently joined. The objective here is to establish a valuable relationship in addition to the desired longevity. Culling customer information is of prime importance here where preferences, likes and dislikes are all recorded. Based on this, service retailers then proceed to design exclusive services (or at least give the impression of exclusivity). In other words, a service can

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be closely tailored to fill the customer's requirement; an example of this can be the booking agent who based on previous transactions knows the client's tastes and books accordingly.

- A more intensive relationship can develop where customers assign considerable responsibility to a service provider for identifying their needs. In this way, a car service station attempts to move away from offering a series of discrete services initiated by customers to a situation where it takes total responsibility for maintaining a customer's car including diagnosing problems and initiating routine service appointments. In some low-contact service industries the development of relationships focuses on interaction with a very limited number of people i.e. organization's sales force. Two important elements used to explain relationship quality are trust in the sales person and satisfaction with their performance so far. The role of the salesperson as a risk-reducer is in terms of a sales person's ability to reduce the perceived risk of a highly intangible service purchase. The emerging relationship between buyer and seller is first and foremost based on trust which is a belief that a party is reliable and will fulfil its obligations in an exchange of a long term affiliation. Trust is a crucial function in a relationship which allows tensions to be worked out. Relationship marketing emphasizes the producer's perspective on a relationship, but it can be argued that with more knowledge and confidence consumers are increasingly happy to venture outside a long term relationship with a service provider. With increased knowledge of financial services, consumers are more willing today to venture to other banks which offer the best personal loan at a minimum rate of interest. Also, a long term relationship often begins with attractive introductory discounts and significant segments of many service markets are prepared to move customers regularly to the service provider offering these.

Check Your Progress

13. What is the basic platform of relationship formation?
14. List the five stages of relationship development.

4.7 RECOVERY MANAGEMENT

Service companies inevitably fail at some critical incidents. At this point, organizations need a strategy to recover from their failures. Certain methodologies are employed by service firms for recovering from unfavourable critical incidents and rebuilding strong relationships. The foremost step in this regard is finding out as early as possible when the customers' expectations have not been fulfilled by a particular service. Dissatisfied customers who fail to report their complaints to the service provider may not approach the company again for a service and may even communicate their dissatisfaction to others. Hence, it is necessary for service organizations to persuade customers to convey their feedback so that amends can be made. Service recovery may be in terms of monetary compensation that the

customer may deem to be fair, or free supplementary services that provide the organization with a chance to project itself in a favourable light. For achieving service recovery following an occurrence proper compensation offers must be made in a fair and speedy manner. Lengthy arguments can result in the dissatisfied customers rationalizing their motives for not using that particular service firm ever again and communicating their dissatisfaction not just with the service but the post service conduct as well to others.

Instead of waiting for a long time following the occurrence of the critical incident, service organizations must consider service recovery at some point in the production process itself. If customers' expectations of a service encounter have not been met at an early stage in the service process, there is the possibility that it may be recovered by significantly exceeding expectations later. A tour operator who has warned his customers about a long delay at the departure airport may subsequently exceed their expectations by treating them to a well-planned meal or entertainment as a pleasant alternative to waiting.

Service firms can turn unsuccessful critical incidents into a gain with the customer. In unfavourable situations, the ability of a service organization to display empathy with the customer may be instrumental in creating a more enduring attachment than if the service encounter had not failed. For instance, a coach tour operator who reaches a hotel with his customers only to find it fully booked may recover the situation by trying to sort out the situation to the best advantage of his customers. Negotiating with the management of the hotel to arrange for some other sort of accommodation with better standards but at no extra cost would be appreciated by the customers. If rearranging the accommodation takes time, some form of alternate enjoyable activity may be arranged by the tour operator.

Two factors determine the degree of possibility of service recovery:

- Front line employees should be capable of empathizing with the customers. The first step towards this would be to identify service failure from the customer's perspective and not in some technical production-oriented terms. The front line staff can also demonstrate their empathetic attitude by taking the action that satisfies the customer's requirements in the best possible manner.
- The front line personnel of service firms must be empowered to take corrective steps at the critical place and time. This might require the service firm to authorize and even expect the employees to depart from the predetermined service schedule and utilize the company's resources, where necessary, for the purpose of service recovery. In case a tour operator is faced with the problem of a fully booked hotel, inviting the customers for a complimentary drink might turn a service failure into service recovery. In case the company does not give the tour operator the authority to spend money thus or he has to wait for approval, then the company may lose the opportunity for service recovery.

Other customers also play a role in the service encounter. It may only be possible to produce a number of service offerings in large quantities, whereas it may be bought only in individual units by the customers. For example, meals are

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consumed in a restaurant while other customers too are present there and a major portion of the service is consumed simultaneously by multiple customers in public trains. In such instances, joint consumption of service benefits takes place. This creates an environment in which the behavioural pattern of a single customer in the course of the service process can have a direct bearing on the pleasure that the other customers might take in the service. For instance, the ringing of a single mobile phone in a cinema hall can spoil the rest of the audience's delight in the movie.

The activities of fill-on consumers form a significant component of the service encounter and the interaction among the various customers must be well managed by the service company. Some of the more commonly used techniques in managing customer-customer encounters are as follows:

- (a) ***Choosing customers based on their flair for positive interaction with other customers:*** The service company must put in place some informal or formal criteria for ensuring that only those customers are chosen who can make a positive contribution to the service encounter. For instance, the informal selection criterion for tour operators would be setting age groups for some tours so that youngsters looking for a vacation package would not be disturbed by having to vacation with senior citizens whose taste in music may not be the same as theirs. Similarly, the formal selection criterion for a restaurant could be a dress code that preserves the ambience of the location where the service encounter takes place. The aim of the informal selection criteria is to encourage certain groups that supplement the satisfaction the customer feels with the service environment and simultaneously discourage those who detract from it. High priced bars provide a comfortable environment and exclude that group of people who only aim to get drunk at the cheapest possible cost.
- (b) ***Determining the behavioural rules expected of customers:*** A single customer's activities can have a bearing on the pleasure that other customers might take in a service. For instance, talking loudly on the cell phone while in a movie theatre. The best way to influence the behaviours of customers in such instances is to clearly articulate to the customers the standard of behaviour that is expected of them and rely on their goodwill to adhere to these standards. In cases of the rules being disobeyed, it may be necessary for the service personnel to intervene. If this is not done, the affected client may perceive a negative service encounter, which in turn could lead to the impression that the company does not care to enforce its rules. However, an overly heavy-handed intervention may annoy the offender, particularly if the offence is in violation of a rather unpopular rule. It works best when the intervention gently reminds the offender and the other customer too perceives it as an adequate remedial action.

- (c) **Enabling positive interaction among the customers:** In the case of a number of services, positive interaction with fellow customers forms a significant portion of the benefit obtained from a service. People like vacationers, attendees at conferences, etc. receive considerable pleasure from interacting with their peers. If no one were to converse with the others on a tour, may detract from the pleasure that the tour may otherwise afford. Attempts may be made by the service provider to establish some kind of a bond among the various customers. For example, all the individuals on a tour may be introduced to each other by the tour operator.

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Check Your Progress

15. What is the foremost step in the recovery strategy of a service firm?
16. List some of the more commonly used techniques in managing customer-customer encounters.

4.8 ANSWERS TO CHECK YOUR PROGRESS

1. Undertaking research amongst employees gives them an opportunity to air their views regarding the provision of services and their perception of how they are received by the customers.
2. The most widely recognized model for measuring and imparting quality service is the SERVQUAL model.
3. Quality is usually evaluated against three levels of expectation: the desired level of service, the adequate level of service and the predicted level of service.
4. The requirements for improving the service quality in service organizations are as follows:
 - A customer-focused strategic concept.
 - A track record of the top management's commitment to quality, i.e., giving the importance to quality indicators as the financial ones.
 - The setting of high standards and communicating these expected standards to employees.
 - Setting systems for monitoring performance.
5. Quality Circles (QCs) often work within a TQM framework and consist of small groups of employees meeting together under supervisors or group leaders for discussing their work in terms of standards of service production and delivery.
6. SQM is nothing but the qualities and abilities that permit tracking customers and his experiences, forecasting the trends, and improving and optimizing the products in advance to increase the level of customer satisfaction.

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7. Flexing capacity a strategy adopted to match supply and demand emphasizes on the adjustment of capacity. Here, it is not the demand that is shifted to match capacity. The main idea here is to not merely adjust but also align capacity in such a way that it matches the demand of the customer.
8. One of the biggest challenges for service marketers is to create demands during period of excess capacity and low levels of demand. This is done by adjusting the corresponding price of the services for varying demand and capacity.
9. Promotional campaigns are used for customer acquisition, customer retention, creating or consolidating customer base, and increasing brand awareness.
10. Personal selling consists of verbal communication between a salesperson or selling team and one or more prospective purchasers with the objective of making or influencing a sale.
11. Packing of services is the detachment of services that have been delivered into diverse materials, which keeps a record of the service and then gets circulated for reuse.
12. Branding is the process by which companies distinguish their product offerings from competition. Marketers develop their products into brands which help to create a unique position in the minds of customers. A brand is created by developing a distinctive name, packaging and design, and arousing customer expectations about the offering. By developing an individual identity, branding permits customers to develop associations like prestige and economy with the brand.
13. Building customer loyalty is the basic platform of relationship formation. In a highly competitive and challenging business environment, organizations are finding it increasingly difficult to have loyal customers in their customer inventory. With a backup of loyal customers, the organization is able to enjoy a number of advantages.
14. There are five stages of relationship development:
 - (a) Awareness
 - (b) Exploration
 - (c) Expansion
 - (d) Commitment
 - (e) Dissolution
15. The foremost step in a recovery strategy is finding out as early as possible when the customers' expectations have not been fulfilled by a particular service.
16. Some of the more commonly used techniques in managing customer-customer encounters are as follows:
 - Choosing customers based on their flair for positive interaction with other customers.

- Determining the behavioural rules expected of customers.
- Enabling positive interaction among the customers.

4.9 SUMMARY

- Quality refers to the conforming to requirements. Therefore, the first task of a service firm must be the establishment of specifications and requirements, following which, the goal set by the various functions of the organization in terms of quality must be strict compliance to these specifications.
- The quality of the service is antecedent to customer satisfaction, which in turn is important in terms of its effect on the customers' purchase intentions. It is evident from empirical evidence that purchase intentions are affected more by customer satisfaction than quality.
- Since services are usually produced and consumed at the same time, it becomes difficult to analyze service quality. There are two interfaces between the production and consumption of services. One is via the standard marketing mix, and the other is through buyer-seller interaction.
- Service level specification has an important role to play in conveying the standard of quality that may be expected by the consumers. It communicates the standards that the service organization expects from its personnel. The way an organization promotes itself conveys a general notion about the level of quality that is sought to be delivered by it.
- Service quality management ensures that the gap between consumer expectations and the perceived services delivery is as small as possible.
- Every aspect of the marketing mix is affected by quality. It is not possible to isolate the decisions regarding service specifications from the decisions having to do with the other components of the marketing mix. All decisions affect the perceived standard of service delivery as well as the level of customer expectation.
- The quality of a service is not a matter of chance. Strategies that ensure high quality standards and consistency in the service delivery need to be developed by service organizations.
- TQM is an approach to improve the effectiveness and flexibility of an organization as a whole. It is a multi-disciplinary approach. TQM organizes and involves all employees in all activities, and all functions and at all levels.
- The task of managing markets and ensuring a good fit between supply and demand is more complex for service than for goods. Most of the strategies for managing the supply and demand, which are available to goods manufacturers, are not available to service producers.
- The perishability and inseparability of the service often means that it is not sufficient to match supply and demand over longer terms within a broadly defined geographical market. Instead, supply and demand must be matched temporally and spatially.

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- The fact that services cannot be stored does not generally cause a problem where demand levels are stable and predictable. Most services experience demand which show significant temporal variation.
- In some services, it is important to identify particular causes that lead to fluctuations in demand. Demand may also vary during different time of a day.
- One of the biggest challenges for service marketers is to create demands during period of excess capacity and low levels of demand. This is done by adjusting the corresponding price of the services for varying demand and capacity.
- Another strategy adopted to match supply and demand emphasizes on the adjustment of capacity. Here, it is not the demand that is shifted to match capacity. The main idea here is to not merely adjust but also align capacity in such a way that it matches the demand of the customer.
- A certain amount of creativity, if used intelligently to adjust resources such as facilities, time, labour and equipment, can help organizations match capacity and customer demand.
- Where demand is at peak, and organizations can do nothing about it, they allow questions to be asked about their service. But this harms the long-term development of relationships and in denying short term opportunities, which peaks and troughs can present.
- Where demand exceeds the supply capacity of a service, and demand and supply management measures have failed to match the two, some form of queuing or reservation system is called for.
- Promotion, advertising and communication hold immense importance in the service marketing mix.
- The promotional marketing for a service in the absence of a visual, physical product to be used in promotion, relies heavily upon the communication with the prospective customers about the services and the additional benefits.
- Promotional campaigns are used for customer acquisition, customer retention, creating or consolidating customer base, and increasing brand awareness. If used in the right way, it can also serve as a tool for customer education, leading to reduced perceived risk and instil trust and confidence in customers.
- Before embarking on a promotional campaign, the marketers must first set down the objectives and goals that the promotion aims at. They should also specify the segment the firm is targeting.
- The technology used for assessing information has changed in the last few years with the internet becoming a useful source of information for customers to assess the transport service sector.
- Internet marketing has been steadily gaining in importance, because it is an ideal way of fulfilling the three main goals of a business — generating revenue, maintaining customer relationships and ensuring customer's loyalty.

- Personal selling consists of verbal communication between a salesperson or selling team and one or more prospective purchasers with the objective of making or influencing a sale.
- A variety of factors should be considered to determine the correct promotion mix in a particular product/market situation. These factors may be classified as product factors, market factors, customer factors, budget factors, marketing mix factors, etc.
- Advertising is meant to make consumers buy products. It is a medium of information and persuasion.
- The effectiveness of an advertisement can be best judged by its ability to enhance sales. Advertisements can enhance sales only if they promise a benefit to the consumer. The promise must be persuasive, unique and relevant to the consumer.
- The key to success for a services organization is by safeguarding the means for services development and packaging.
- Packing of services is the detachment of services that have been delivered into diverse materials, which keeps a record of the service and then gets circulated for reuse.
- Branding is the process by which companies distinguish their product offerings from competition. Marketers develop their products into brands which help to create a unique position in the minds of customers.
- A brand is created by developing a distinctive name, packaging and design, and arousing customer expectations about the offering. By developing an individual identity, branding permits customers to develop associations like prestige and economy with the brand.
- Buying a brand reduces the risk of the customer and eases his purchase decisions. Branding shapes customer perceptions about the product. Brand superiority leads to high sales, the ability to charge price premiums, and the power to resist distribution power.
- Branding should be an indispensable activity of any organization. However, it is imperative for organizations to remember that branding is only an outcome of various other activities in an organization.
- Building customer loyalty is the basic platform of relationship formation. In a highly competitive and challenging business environment, organizations are finding it increasingly difficult to have loyal customers in their customer inventory.
- Loyalty in the marketing context may be defined as a wilful, voluntary, repeated choice of a specific brand or type of service. Loyalty caters to fulfilling a particular category of need.
- In the case of one-time purchase, loyalty could be explained in terms of the extent of commitment to the service brand selected; the positive attitude developed towards using the same and the positive image the customer projects about the brand he or she owns.

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- Brand recognition is the end result of brand familiarity. In the process of developing loyalty towards a service organization, how the brand is positioned is another important aspect. Each brand assumes a brand personality and each customer tends to match his or her self-image with the brand personality.
- Customer relationship management (CRM) has to be focused on aligning the business processes with customer strategies employed by the firm.
- Customer relationship management can be very useful if it works. It allows companies to gather customer data and identifies the most valuable customers over time and increases customer loyalty by providing customized products and services.
- Customer service has evolved into a primary functional area, from an area that received only marginal attention. As a response to customer demands for responsive and reliable service, innovative methods and processes are being designed to strengthen service levels.
- The choice of routes to customer interaction management, methods, structure and other related aspects depend on various factors connected to the organization concerned.
- Building customer loyalty is the basic platform of relationship formation. In a highly competitive and challenging business environment, organizations are finding it increasingly difficult to have loyal customers in their customer inventory.
- Loyal customers enable organizations to increase productivity and overall profits by inducing less operational cost. As loyal customers gain more experience, the organization can spend less on them as they need less assistance with the service related processes.
- Service companies inevitably fail at some critical incidents. At this point, organizations need a strategy to recover from their failures.
- Certain methodologies are employed by service firms for recovering from unfavourable critical incidents and rebuilding strong relationships. The foremost step in this regard is finding out as early as possible when the customers' expectations have not been fulfilled by a particular service.
- Service firms can turn unsuccessful critical incidents into a gain with the customer. In unfavourable situations, the ability of a service organization to display empathy with the customer may be instrumental in creating a more enduring attachment than if the service encounter had not failed.

4.9 KEY TERMS

- **Service Quality:** Service quality is a comparison of expectations with performance.
- **Total Quality Management (TQM):** Total Quality Management is an approach to improve the effectiveness and flexibility of an organization as a whole.

- **Quality Circles (QCs):** Quality circles often work within a TQM framework and consist of small groups of employees meeting together under supervisors or group leaders for discussing their work in terms of standards of service production and delivery.
- **Branding:** It refers to the promotion of a particular product or company by means of advertising and distinctive design.
- **Customer Relationship Management:** It is a process in which a business or other organization administers its interactions with customers, typically using data analysis to study large amounts of information.
- **Feedback:** It refers to information about reactions to a product, a person's performance of a task, etc. which is used as a basis for improvement.

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4.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. How is service quality measured in organizations?
2. Write short notes on:
 - (a) Total Quality Management (TQM)
 - (b) Quality Circles (QCs)
3. What marketing research programme is effective for management of service quality?
4. What are the factors that influence service quality?
5. Write a short-note on the various distribution of demand strategies.
6. What is the role of the Internet in the promotion of services?
7. What is a brand?
8. List the various types of customer loyalty.
9. What are the innovative methods and processes designed to strengthen service levels as a response to customer demands for responsive and reliable service?
10. Write a short-note on the key aspects that are necessary for effective CIM.
11. Briefly explain the five stages of relationship development.

Long-Answer Questions

1. Why is maintaining service quality important to services marketing?
2. How does the Gap Model help in identifying various gaps that occur during the service process? Elucidate.
3. What are the components of service quality? Discuss.
4. Discuss the factors that influence service quality. Can an effective management of these factors help in improving service quality?

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5. Discuss how demand capacity is managed.
6. Examine advertising and sales promotion in the service industry.
7. Why should branding be an indispensable activity of any organization? Discuss.
8. Discuss why organizations need loyal customers.
9. What are the strategic goals of CRM? Explain the four important steps that service providers should bear in mind while implementing one-to-one marketing.
10. Discuss the relationship between CRM and customer loyalty.
11. Examine the various strategies implemented by organizations for service recovery.
12. Explain the commonly used techniques in managing customer-customer encounters.

4.11 FURTHER READING

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UNIT 5 OVERVIEW OF SERVICES MARKETING

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Structure

- 5.0 Introduction
- 5.1 Objectives
- 5.2 Service Marketing
- 5.3 Origin of Services
 - 5.3.1 Growth of Services
 - 5.3.2 Classification of Services
- 5.4 Marketing of Financial Services
- 5.5 The Indian Scene
- 5.6 Designing of Service Strategy
- 5.7 Answers to 'Check Your Progress'
- 5.8 Summary
- 5.9 Key Terms
- 5.10 Self-Assessment Questions and Exercises
- 5.11 Further Reading

5.0 INTRODUCTION

The marketing of services has now become a separate entity and functions independent of the marketing of products and goods. There is an invariant need of services marketing in today's world with it being more necessary than products at some point. Services offered to consumers are intangible in nature, without any physical transfer of products from a manufacturer to the end consumer. For successful marketing of services, a service provider needs to carefully assess his capabilities as well as the resources available to him, after which he can conduct a market survey and decide upon a segment to provide the required service.

The service industry in India has grown at a considerable rate after the economic reforms of 1991. Globalization has brought with itself a vast change in the Indian service sector and the infrastructure of our country. Service industries such as aviation, hospitality, communication, etc. have reached new heights since then. Providing services has proved to be successful among consumers since they are involved on a personal basis with the service. The provision of many services facilitates interaction between the service provider and the service purchaser. Therefore, the marketing of services is an important segment of marketing, gaining more popularity among consumers due to the ease and comfort it provides to them. The final unit of the book will examine service marketing and its various concepts in detail.

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5.1 OBJECTIVES

After going through this unit, you will be able to:

- Define service marketing
- Discuss the origin and growth of services
- Examine the marketing of financial services
- Explain how to design service strategy

5.2 SERVICE MARKETING

Customers buy services, not products. They buy products for the services that they provide. When a customer buys a car, he is buying the service of transportation. When another customer buys an air-conditioner, he is essentially buying cool atmosphere. Some customers may buy a car or an air-conditioner for the prestige that the ownership of these products provides, but for most products, the main reason for the customers buying them is the service that these products provide.

Marketers have known this fact for long but have not ceased to insist on customers buying their products. Their focus has been to ensure transfer of ownership from the company to the customer. But does the customer really want the ownership of the product, or will it be sufficient for him if he gets the required service but ownership of the product remains with company?

A company and its customers would be greatly benefited if the company took it upon itself to provide the service that its product is supposed to provide. For example. A potential customer is to build an office premise. The air conditioner company proposes to take responsibility for maintaining the desired temperature in the premise for 50 years or for the lifetime of the premise for an annual fee. If the customer agrees to this proposal, he will not have to make a huge upfront payment for buying the air conditioners. He does not have to bother about day-to-day maintenance of the equipment or its replacement. All he has to do is to pay an annual fee and get the cool ambience that he desires. The air conditioner company gets an assured stream of revenue for 50 years or more. The company selling the air conditioners does not spend any money on sales task with this company ever again. Since the equipment belongs to the company, it is responsible for its maintenance and it also pays for the electricity consumption of these equipment. Now this company has an incentive to design and build air conditioners which will require minimum maintenance and will consume minimum electricity. Further, the air conditioner company can get in collaboration with architects and builders to design the premise in such a manner and use such materials which will require less cooling. The air conditioner company can even share some construction cost as it will save a huge amount of money on account of lesser electricity consumption.

Another company with responsibility for lighting of the premise and under a similar contract can also join the collaboration and share the costs and benefits.

The net result is that the same benefit that the buying of air conditioners gave, can now be had at a much lower price and with more profits for the air conditioning company, only because the two parties get into a contract for provision of a service rather than selling a product. This type of model can be easily applied in businesses like automobiles, carpeting, furnishing and for most consumer durable items.

In most economies, expenditure on services is growing due to:

- Advances in technology that has led to more sophisticated products that require more services.
- Growth in per capita income has given rise to a greater percentage of income being spent on luxuries such as in restaurants, overseas holidays, and weekend breaks.
- Greater discretionary income also fuels demand for financial services such as personal pensions.
- A trend towards outsourcing means that manufacturers are buying services that are outside the firm's core expertise (warehousing, catering).
- Deregulation has increased the level of competition in certain service industries like telecom. This has resulted in expansion with more customers availing the services as prices are going down due to competitive actions. Simultaneously, companies are advertising more and wooing customers more stridently further fuelling demand for services.
- Due to growth in per capita income, people are buying more goods, which has contributed to making retailing an important service.

Marketing Principles Apply to Services

Services marketing is a specialized branch of marketing which emerged as a separate field of study in the early 1980s, following the recognition that the unique characteristics of services required different strategies compared with the marketing of physical goods.

Customers are more affected by services than by products. When a customer walks into a store, he immediately makes up his mind if he has made the right choice by coming there. His perception is based on whether he feels that the ambience is pleasant or not. A few emergency services such as medical help are needed more urgently than the products. For these services, providers have a greater chance to either please or displease the customers as they come in more frequent and close contact with customers. Therefore, these involve deliberate and focused marketing of services.

To market itself, a service provider needs to find its core competencies and customer segment, which it should target. Further, it should rely on market research to understand the needs of the particular customer segment that it targets. The service provider also needs focused positioning. Most customers have a clear understanding of the quality of service that they need. As the customer stays for a long time within the premise of the provider, he has more opportunity of finding inconsistencies and discrepancies and in the provider's positioning plank. When

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they walk in a premise expecting a certain level of service, they get very disappointed if their expectations are not met, because such expectations are very precise.

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5.3 ORIGIN OF SERVICES

The present era is known as the service era. The service sectors provides employment to millions of people in India. In the reform period, the Indian economy has emerged as a service economy as the service sector provides more than 50% of the GDP of the country. The service sector also contributes majorly to the national income. As a result, services are no longer classified as by-product of manufacturing industries.

Post reform, this sector has undergone a boom. People cannot imagine life without these services. Services aids in the suitability of our commercial activities and regular and daily life. Banking, health care, insurance, transportation, communication, entertainment, beauty-care, education, repairing, electricity, and a congregation of product-related services are considered to be an important part of the day to day life. Service is defined by different economists and marketing experts as follows:

1. **Philip Kotler:** ‘A service is any activity or benefit that one can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.’
2. **The American Marketing Association (AMA):** ‘Services are activities, benefits, or satisfactions which are offered for sale or provided in connection with the sale of goods.’
3. **William Stanton:** ‘Services are separately identifiable, intangible activities which provide want satisfaction when marketed to consumers and/or industrial users and which are not necessarily tied to the sale of a product or another service.’

In general, it can be said that any service or assistance, whether it is pure like banking, insurance, transportation, etc., or a product related services like installation, repairing, inspection and demonstration, and so on, when offered to some people that provides satisfaction to any type of need or expectations can be termed as service. In a nutshell, it can be said that a group of activities, its benefits, facilities and conveniences which is offered to someone to satisfy the need of any person can be called as service.

Booming Service Sectors in India

India is a developing country and it is experiencing a boom in the service sector. For a long time now, there has been exponential growth in various service industries such as insurance, transportation, telecommunication, IT sector, electricity, postal services, tourism, banking, health care, entertainment, education and consultancy business. The reasons for the boom in the service sector in India are as follows:

1. Economic Prosperity

Economic prosperity is the key element to quality of life for individual and country. It helps to resist competition in the world economy. In India, the shift from production based to service based economy in our major cities has provided more employment opportunities and also boosted up economic investments. This has helped in increasing wealth and standard of living of the people. It has also promoted sustainability, innovation, competition and entrepreneurship.

2. Development of Agriculture Sector

The service sector has led to the development of the agricultural sector. The growth and development of technology has resulted into the use of easy practice of agricultural methods and led to the easy supply of agricultural inputs.

3. Changing Role of Women

Large scale research has been done on finding the reasons and the effects of empowerment of women's inclusion in the labour market. The proposed theories behind the changing role of women are the increasing investment in human capital, advances in medical science, technological upgradation in the household sector, wider availability of child care, and evolving gender norms.

4. Cultural Transformation

The booming service sector has transformed the culture of India with people being more driven to the technology based environment and people becoming more prone to the use of the services rendered in the economy in India. Life cannot be imagined without the services provided in the economy.

5. Revolution in Information Technology

There is a revolution in information technology in the economy of India. This revolution has led to the development and extension of the boundaries of digital transformations due to the introduction of artificial intelligence, robotics, the Internet of Things, 3D printing, genetic engineering, quantum computing and many other technological development.

6. Improvement of Marketing System

With the development of the service sector, there has been an introduction of the various new methods of marketing. It is now easy to connect with consumers and learn about their choices, needs and wants. This leads to high consumer satisfaction.

7. Growth of MNCs

The booming service sector has led to the growth of multinational companies (MNCs) and there are certain services which an MNC can outsource like communication service, advertisement. There is an increase in investment by multinational companies in the service sector due to its growing importance.

There are certain other reasons which has led to the booming of service sector like there is an increase in health care consciousness, liberalization of the economy, there is growth in international trade and also there is a huge rise in internal and external migration.

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Goods-Service Relationship

The good and service relationship is categorised into five product categories which are as follows:

- 1. Pure Physical Goods:** These are the products or the physical goods which are pure goods that are not associated with any intangible service. For example, sugar, detergent cake, etc.
- 2. Tangible Goods with Accompanying Service:** The offering consists of a tangible good accompanied by one or more services. For example, more technologically sophisticated goods (cars and computers) are more dependent for its sales on quality and availability of its accompanying customer services.
- 3. Hybrid Goods:** These are the combination of two types of goods or services. They are the type of goods which satisfies more than one utility at a time. For example, hotel and restaurant services.
- 4. Services with Accompanying Goods:** The offering consists of a major service along with additional services or supporting good. For example, airline passengers buy transportation service and also get food, drinks. etc.
- 5. Pure Services:** Any supply which is either deemed as services under Schedule II of CGST Act or which is not covered under the definition of goods is categorized as pure services. Services without involving any supply of goods are treated as supply of 'pure services'. For example, consultancy, education, idea selling, etc.

5.3.1 Growth of Services

In most industrialized economies, expenditure on services is growing due to:

- Advances in technology that has led to more sophisticated products that require more services.
- Growth in per capita income has given rise to a greater percentage of income being spent on luxuries such as restaurant meals, overseas holidays, weekend holiday breaks. Greater discretionary income also fuels demand for financial services such as personal pensions.
- A trend towards outsourcing means that manufacturers are buying services that are outside the firm's core expertise (warehousing, catering).
- Deregulation has increased the level of competition in certain service industries like telecom. This has resulted in expansion with more customers availing of the services as prices are going down due to competitive actions. Simultaneously, companies are advertising more and wooing customers more stridently, further fuelling demand for services.
- Due to growth in per capita income, people are buying more goods, which have, in turn, contributed to making retailing an important service.

Services indeed are an important concept within marketing. Let us take a closer look at the hospitality industry in order to understand how deeply it is

entrenched in the final outcome, which in this case is the abstract, subjective and intangible target of achieving customer satisfaction.

Indian hotels define peak season as high demand for hotels during October–April. Typically, December and March months are responsible for bringing in most of the revenue within this particular service sector. Of late, contingency on seasonality has been made less intense by introducing off-season exciting offers and packages. In addition to this, manpower is vital to the hospitality sector. The industry provides lucrative job options to skilled, semi-skilled labour. As per a 2008–2009 research, in India, the average employee-to-room ratio is 1:6. With regard to competition from other parts of the world, hotel owners in India need to rethink and restructure their staffing requirements. Also, the Indian hotel industry is highly fragmented. Large numbers of small and unorganized hotels often divert the lion’s share. Taj, ITC Hotels and Oberoi are a few well-recognized names within the hospitality sector.

Services have a greater and more direct impact on customers. Resources and competencies have to be carefully audited and a subsequent market research has to be launched in order to locate the best possible segment. When the time comes for positioning, the provider must be focused and in a position to anticipate market trends. With regard to these factors, positioning has to be accurate as customers know exactly what they want and may change allegiance instantly if services provided are not up to expectations.

Service Models

Services marketing is marketing based on relationship and value. Marketing a service-based business is different from marketing a goods-based business. For one, it is not easy to put a price to a service. Also, service firms are organized in a different manner in terms of structure. Determining costs becomes even more difficult in the non-profit sector wherein there are many limitations. All these reasons make it essential for marketing of services to be done in a different manner.

Service marketing has been rapidly gaining ground in the domain of educational market as developed economies move further away from industrial importance to service oriented economies. Marketing, simply put, is the flow of goods and services from the producer to consumer. In our day-to-day lives, it is the distribution and sale of goods and services.

5.3.2 Classification of Services

We have already discussed the classification of services earlier on in the book.

Check Your Progress

1. Define marketing.
2. How did William Stanton define services?
3. What are pure services?

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5.4 MARKETING OF FINANCIAL SERVICES

The services provided by the finance sector are known as financial services. These services include a large spectrum of activities like deposits, loan, investments, insurance, securities and all form of financial products. These services are provided by different types of organizations like banks, insurance companies, financial institutions, investment funds, stock brokerages, government enterprises etc. All these firms manage money in the form of cash or credit and provide investment related services.

Financial services are a powerful economic force as they also drive the success of other industries in the country. Mostly each and every type of organisation or sector uses some kind of financial service for their internal business purpose or for dealing with customers. Financial services have the largest resource market in terms of earnings. Even though risk and various market and regulatory pressures hugely affect the financial services market, the sector is constantly growing and enhancing their shareholder values.

Financial sector forms the backbone of a nation and it is true for India as well. An efficient and effective financial system is a necessity for higher economic growth of the country. A rise in the growth rate of the financial sector also means that the economy is growing at a good pace. The finance sector affects everyone in the country as it is interlaced with all the economic activities. It has been one of the fastest growing sectors in the country and proves how services play an important role in the economic growth. In spite of the challenges it faces, India is one of the world's growing capital market and has a bright future. It is expected to become the fifth largest banking sector in the world by 2020 as per a report by KPMG and CII.

Some examples of leading financial institutions are DSP Merrill Lynch Ltd, which caters to wealth management, financial consulting, capital market, merchant banking, underwrite or security, L & T Finance which is a subsidiary of L & T Finance Holdings Ltd, Bajaj Capital, SBI Capital Markets Ltd, a wholly owned subsidiary and the investment banking arm of the State Bank of India (SBI), the largest commercial bank in the country.

Factors Governing Customer Behaviour and Psychology

What a customer buys, how he buys, where and when he buys, in how much quantity he buys depends on the customer's perception, self-concept, social and cultural background, age and family cycle, attitude, beliefs, values, motivation, personality, social class and many other factors that are both internal and external. Everything revolves around the customer thus understanding the customer behaviour becomes a necessity. Therefore it becomes important for the marketers to understand the factors governing the customer behaviour and psychology and accordingly formulate their marketing strategies.

The *Dictionary of Marketing and Advertising* defines consumer behaviour as 'Observable activities chosen to maximize satisfaction through the attainment

of economic goods and services such as choice of retail outlet, preference for particular brands and so on.’

Consumer behaviour can be most simply explained as the decision-making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services. It means that the process of buying starts when the first thought of buying a good or service comes in the customer’s mind, followed by looking for alternatives, comparing them and arriving at a purchase decision.

Even though marketers have always worked towards satisfying the customer needs it becomes all the more important today for the marketer to understand the factors that influences consumer behaviour. This is due to increased competition and diminishing global boundaries. The success of a firm depends on its effectiveness in satisfying the consumer needs. We cannot take the consumer for granted. Also marketing cannot be standardized as each consumer is different; this is why understanding consumer behaviour becomes important.

Some benefits of understanding consumer behaviour are that it helps in:

- Planning and implementing market strategies
- Adopting appropriate marketing mix
- Targeting and segmenting markets

There can be various factors which govern customer behaviour and psychology. They can be environmental factors including social, cultural, ecological and technological factors. Marketers must study the impact of these factors on the market in which they wish to sell their product or service. Failing to understand the factors properly can lead to failure in selling the product and incurring losses. Environmental factors can be broadly categorized into:

- External Factors
- Internal Factors

1. External environment: An organization operates in the external environment. The external environmental factors are out of the scope of the control of the organisation but they can affect the ability of an organisation to function and serve its customers. It is necessary to understand the external environment in order to respond accordingly to the market situations. The external macro-environment consists of all the outside institutions and forces that have an actual or potential interest or impact on the organization’s ability to achieve its objectives, which are: competitive, economic, technological, political, legal, demographic, cultural, and ecosystem.

(i) Demographics: By demography we mean the study of humans in terms of age, size, gender, income, nationality, marital status, religion etc. It helps the marketer understand who are its potential customers and what are the chances of him selling the product to the target segment. Some demographic trends which may act as opportunities or threats for the organization can be explosive

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population growth, changing age and ethnic mix, education, geographical shifts etc.

- (ii) **Natural Environment/Ecosystem:** It includes the natural factors like availability of raw materials, weather conditions, natural calamities, etc which can impact the market conditions.
- (iii) **Technological:** Rapid technological advancements greatly affect all the organisations today. The organizations need to be aware of the new technologies and understand how it can impact them. The right use of technology can also help grant a competitive edge to the organisation and use it as a profit making opportunity.
- (iv) **Cultural factors:** Cultural values differ from country to country, region to region and religion to religion. It is the way of life the people live in a society and consists of habits, skills and values of a group of people at a particular place and time. Marketers need to be very sensitive to the cultural norms and values of the place and people they are selling their product in. It is important for marketers to understand and appreciate the cultural values of the environment in which they operate. The cultural environment is made up of forces that affect society's basic values, perceptions, preferences, and behaviours. Values and beliefs include equality, achievement, youthfulness, efficiency, practicality, self-actualization, freedom, humanitarianism, patriotism, religious and moral orientation, etc. Changes in social/cultural environment affect customer behaviour, which affects the sale of products.
- (v) **Economic factors:** The economic environment consists of factors that affect consumer purchasing power and spending patterns. Economic factors include business cycles, inflation, unemployment, interest rates, and income. Changes in major economic variables have a significant impact on the marketplace. For example, income affects consumer spending which affects sales for organizations. People spend, save, invest and try to create personal wealth with differing amount of money. How people deal with their money is important to marketers. Trends in the economic environment show an emphasis on global income distribution issues, low savings and high debt, and changing consumer-expenditure patterns.
- (vi) **Political factors:** Organizations must operate within a framework of governmental regulation and legislation. Government relationships with organizations encompass subsidies, tariffs, import quotas, and deregulation of industries. The political environment includes governmental and special interest groups that influence and limit various organizations and individuals in a given society. The major purposes of business

legislation includes protection of companies from unfair competition, protection of consumers from unfair business practices and protection of the interests of society from unbridled business behaviour. The legal environment becomes more complicated as organizations expand globally and face governmental structures quite different from those within India.

(vii) **Social factors:** Social factors influence buying decisions. Buying behaviour is influenced by social classes. A social class is a relatively permanent and ordered division in a society whose members share similar values, interests, and behaviours. Variables that define social class include education, occupation, and type of residential neighbourhood. Different social classes respond differently to a seller's marketing program.

2. Internal environment: An organization takes inputs (labour, money, materials and equipment) from the external environment (i.e., the world outside the boundaries of the organization), and internally converts them into useful products, goods, and services, and makes them available to customers as outputs. The organization must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell profound threats or new opportunities. The successful organization will identify, appraise, and respond to the various opportunities and threats in its environment.

Psychological Factors

The four major psychological factors influencing buying choices are motivation, perception, learning, and personality.

- 1. Motivation:** All human desires are guided by motive. These desires then convert into action reflecting their purchasing decisions. Consumer motivation is based primarily on the notions of consumer needs and wants. The word 'motivation' is derived from the Latin word, 'movere', meaning 'to move'. It is an inner urge that impels an individual to act or not act in certain ways.
- 2. Perception:** Perception is the process of selecting, organizing, and interpreting information to form a meaningful picture of the world. What the customers perceive depends on their experiences. Selectivity limits perceptions. When people have selective attention, they only perceive a subset of the information to which they are exposed. Selective distortion means that consumers tend to interpret information to support their existing beliefs and attitudes. Selective retention means that consumers only retain part of the information they have selectively perceived. Due to these reasons the marketers need to work very hard to attract the consumer's attention.
- 3. Learning:** The process by which a person acquires the purchasing and consumption knowledge and experience to apply to future buying behaviour is known as learning. It refers to the changes in consumer behaviour through experience and observation. According to the stimulus-response learning theory, learning occurs through the interplay of stimuli, responses, and

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reinforcement. Learning occurs as a person responds to some stimulus and is rewarded with need satisfaction for a correct response. When the same correct response is repeated in reaction to the same stimulus, learning is established. Once the person responds by making a purchase, the future behaviour will be influenced by whether the original behaviour was appropriately reinforced that is the customer is satisfied.

- 4. Personality:** According to Morgan & King, personality can be defined as ‘The characteristics and distinctive trait of an individual, the stable and shifting pattern of relationship between these traits interact to help or hinder the adjustment of a person to other people and situation.’ Personality is an individual’s pattern of traits that influence behavioural responses. Traits such as self-confidence, dominance, sociability, defensiveness, and adaptability are used to describe personality. Sigmund Freud originated psychoanalysis, which seeks to explain the working of the human mind.

Consumer of Financial Services

It is essential for the financial services marketers to understand how the consumers decide on the brands and institutions from which to buy a financial product or service. For example while choosing a bank, the factors which influence the customer are its location, size of the branch, accessibility, courtesy and professionalism of staff, services offered and ease of transactions, etc.

Also, initially the financial services consumer is more influenced about the functional aspects of the services – how the service is delivered rather than the actual results i.e. how it performs in the market. Customers also tend to form long term relationships with financial institutions so it is important to understand the needs of the customer and respond to them accordingly.

The customer today is knowledgeable and has access to all the information needed at a click. His demand and expectations are constantly changing and it is important for the banking institutions to keep up with them. Also there is intense competition in this sector with the entry of many new private players and even the public sector trying hard to win the customers. The organizations need to be more customer focussed, improve the quality of their services, and be more professional and innovative in order to get more business from customers. The current marketing environment is ever changing and dynamic with increase regulatory controls from the government. The transactions and processes need to be transparent and ethical. Even the financial services are becoming more complex these days making it further difficult for the financial institutions. All these factors make it crucial for the financial service providers to understand the customer behaviour and form long lasting relationships to sustain and earn profits. Forming long lasting relationships is beneficial both for the customer and the financial institution. For the customer he develops a level of trust and commitment with the institute and gets in a comfortable space; for the financial institutions it is important as it takes some time for them to get returns on the money invested and the customer may not be immediately profitable.

Having financial products and services which are flexible enough to the different demands of different customers and which can operate in real time can

help the organization emerge as winner. Also it is necessary to have efficient risk managing capabilities and the ability to use the regulations as a catalyst to strengthen their position in the market. It is also necessary to have a mechanism in place to listen to the customer grievances and handle them to their satisfaction. Customer defection can be prevented if the organization listens to their customers.

Customer loyalty depends on their degree of preference and perceived product differentiation. If a customer is satisfied that the service he is getting from his current provider is better than that of the competitor's then he will not switch.

It is necessary for the marketers to understand the consumer behaviour in order to anticipate, determine and influence their buying behaviour. There are a wide variety of products and services offered in the financial services sector which makes it difficult for the average consumer to make a buying decision. It is noticed that the consumers who are young, have just started earning and are less educated are less knowledgeable when it comes to buying financial products and services. They do not do a complete research and mostly rely on the advice of their parents, peers or financial advisor. Financial products often involve a certain element of risk and a customer may need to wait for long periods in order to see a return on their investments. This is why trust is one of the key factors when it comes to buying financial services. Also along with trust, persuasion is also needed to make the customer invest in the financial services market. The financial advisor or the sales person needs to induce a sense of trust in the potential customer and influence him by making a positive connection.

Marketing Mix of Financial Services

India has come a long way from being an agricultural economy to the service sector contributing to more than 50 per cent to India's GDP. With the increasing contribution of services to the economy, marketing of services has become an important subject. Various social, economic, political and demographic factors influence the growth of service sector. As the competition increases, the different players in the service industry have realized the importance of marketing and started focusing on customer satisfaction. The different nature of services makes it important for the marketers to adopt a different approach for marketing of services. Service marketing consists of three major components: the customer, the company and the employees.

One of the most basic concepts in marketing is the marketing mix. The concept of marketing mix is used by marketing professionals to attract and retain their customers. The four Ps of marketing namely, product, price, place and promotion have been used in the marketing industry since long to market goods.

Marketing of services is different from marketing of goods due to the inherent characteristics of services like intangibility, perishability, heterogeneity and inseparability. Marketing of services depends on people as there is no tangible product on offer. The customer has to interact with the service provider to get the service and both cannot be separated. Since each customer is different, the type of service offered cannot be consistent thus making the services heterogeneous. Additionally service cannot be stored for future use thus making them perishable. Due to these reasons the service marketing mix also includes three additional Ps:

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process, people and physical evidence in addition to the traditional marketing mix of four Ps: product, price, place and promotions. Below are the seven Ps which can be used to develop the marketing mix of financial services:

Components of Marketing Mix

- **Product:** A product can be a good or a service which provides value to the customer. It is the primary basis on which the customer satisfaction is created. In case of financial services the product offered is a service which is intangible in nature. For example, insurance companies sell services and services are their product. A customer when buying a service also gets assistance and advice of an agent which are also part of the service being bought. When customers spend money they expect some value and reasonable returns on their investments. Hence companies offering financial services should create their product mix of services in a manner which motivates the customer to buy their service.

- **Price:** Price is a very important component of marketing mix as it is the revenue generating component of the service. In the past, price was not used as the primary weapon to beat competition but with liberalisation of economic norms the financial service sector has become more sensitive to price. Customers have become less loyal and are quick to change their preferences to get the best price.

Pricing for financial services is based on various factors like sales volume, customer perceptions, profitability, approach of the company, expenses, interest rates, annual investment earnings, factors pertaining to individuals like mortality, net-worth etc. For example, for banks the revenue sources are annual charges on their services, commissions, charges for payment of utility bills, interest rates etc. Additionally the customer feedback and competitor's pricing must also be taken into consideration while deciding the price or initiating a price change. To attract customers, some discounts and offers can also be given as part of the pricing strategy of the service.

- **Place:** The place element of the marketing mix refers to a place where the customer can buy the service. In other words it is making the services available and accessible to customers. This component also includes the channels of distribution (direct or indirect) and people who are involved in the sale of goods and services. Additionally, for financial services it includes managing the service personnel and locating the branch where the service can be procured. The employees providing the service should be managed and motivated properly. The company also needs to take care of various factors like accessibility, availability of infrastructure, cost, size, etc while setting up their office. Technological innovations have given rise to modern channels like the internet, phones, etc., which have helped banks increase business volume and attract new customers. Offering new facilities like ATMs, debit cards and credit cards offers convenience to the customer and help the banks tackle the challenge of service marketing.

- **Promotion:** Unless the prospective customers know what the company has to offer, they cannot make a purchasing decision. Promotion refers to the ways in which the company communicates its offering to the customers. Services should communicate the benefit of using them and how can they improve the life of the customer. Financial institutions like insurance firms rely a lot on effective promotional measures to create impulsive buying. It is necessary to use the appropriate promotional tool for each type of financial service offering. In the financial services sector, promotional strategies include advertising, personal selling, discounts, publicity etc. Promotional efforts help stimulate the customer and motivate them to get interested in the service and create a positive buying environment. An effective promotional strategy along with other components of marketing mix helps beat the competition. Some of the key advantages of promotion are:
 - o **Gaining new customers:** Promotion creates an awareness and image about the company which helps acquire new customers. When the promotional strategy outlines the key benefits offered in comparison to the competitors it also helps in gaining switching customers.
 - o **Retaining customers:** Apart from attracting new customers, retaining customers also plays an important role in building and maintaining a loyal customer base. As customers enter the appropriate life stage, the company can also engage in cross selling of additional products as per the customer's need.
 - o **Boosting morale:** A good promotional strategy acts as a support system for the employees as it boosts their morale and strengthen the image of the company. It makes it easier for the sales personnel to sell their products and services.
 - o **Building corporate image and brand:** It creates an atmosphere of corporate stability and instils confidence in the customers. It helps establish the brand as credible and also act as a medium of spreading awareness about the company.
- **People:** People includes all the parties involved in the selling and buying of the service meaning the customers, employees, management and everybody else involved in it. Even though the role of people has been eclipsed by technology, people are one of the most important components of services marketing mix as it involves a high level of people interaction. The resources of the firm should be trained and groomed to manage the customers professionally and effectively. They need to be customer oriented and develop interpersonal skills to provide the customer with the best service experience. Financial services involve a lot of one-to-one interaction making it necessary to form one-to-one relationship with the customers. Bankers have converged into retail sales people and need to acquire the selling skills. Especially the front line staff acts as a direct link between the bank and the customer and thus needs to be more customer oriented. Quality of the service provided is directly related to quality of the service provider and thus it forms an important component of the marketing mix.

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- **Process:** Services needs to be provided to the customer and thus the process of providing the service forms an essential component of the marketing mix. It is important to ascertain that the service is provided in the right manner, at the right time with the required speed and accuracy to the customer. The processes should be customer friendly and easy to use. Processes determine the level of service quality and efficiency of operations in a firm. Thus, effective processes help improve customer satisfaction and makes it easy to retain them thus increasing the profitability of the company.
- **Physical (evidence):** This component of the marketing mix refers to the experience of using the service. Also the environment in which the service is being sold like the office space, the ambience, the service personnel, the brand of the company and the like add to the physical evidence of the service. For financial institutions, it even includes the quality of documents, certificates, cheque books, etc., which are provided to the customers. A comfortable waiting space and a nice friendly ambience add to the positive customer experiences and improve the level of satisfaction.

Marketing of Financial Services in Indian Environment

With the liberalization of economic reforms there have been many changes which made a deep impact on the Indian financial services sector. Since the nineties, the government has initiated many reforms which have helped meet the complex demands of a developing financial sector. Over the last decade there has been a significant broadening and widening of the financial markets in India. It has allowed the financial sector to emerge as a strong and resilient system contributing to the development of the economy.

With globalization, the competition also increased in the sector consequently bringing better quality services and prices to the customers. Many new products and services have been introduced by the banking and financial institutions. Also the market has been opened up to many private and foreign players who brought with them many modern technologies and international level best practices. There has been increased involvement of the private sector and foreign banks in the financial sector who are providing a variety of services like insurance, mutual funds, venture capital, investment banking etc. Institutions have started following the internationally acceptable norms like asset classification, income recognition etc. Together they offer a wide range of financial services to the individual, corporate and retail customer in India.

Additionally the regulatory bodies like RBI in India have also contributed to the sector by introducing new guidelines and regulations which promote the growth of the financial services sector. The government is also working towards providing a robust regulatory policy framework where the industry can thrive further. There still are vast areas which are under penetrated and offer huge opportunities to the financial services sector. The government has formulated fiscal and monetary policies which help sustain a stable growth rate. All these factors have given a great boost to the Indian financial industry.

Challenges of Marketing Financial Services

With the ever changing economic environment, technological advancements, convergence of financial institutions, the finance service industry has become very competitive now. Financial services are impacted by several factors like customers, technology and increasing competition. Managing finance is an everyday activity and requires instantaneous interpretation of financial markets and anticipating the movements of funds. Technological advancements have transformed the distribution channels making them more flexible and mobile.

Today, the Indian customer has become more demanding and sensitive to the products and services that are being offered to them. This has happened because they now have exposure to the global practices and are more knowledgeable. They tend to get attracted to institutions which offer them the desired services with flexibility, innovation and are the most cost effective. This makes it important for the firms to become more customer focussed and provide a better value.

Earlier the financial services industry consisted of banks and some other institutions which dealt in money. The services provided included loans, personal savings, mortgages, checking accounts, stocks, bonds, mutual funds, credit facilities etc. But over the years, with the availability of volatile cash flows the customers are looking for one stop shop. This has led to the convergence of companies providing financial services thus merging the boundary line between banks, stock brokerages, insurance companies etc. Today the financial services sector together provides a vast portfolio of integrated financial services to the customers. One such example is the Citigroup, one of the largest financial service provider, who provides services in banking, insurance, stockbrokerage, mutual funds, and more.

Competition also intensified in the market leading way for better services, innovation, customer service and efficiency. India has seen a diversification and broadening of the financial market with introduction of new products and instruments in banking, insurance and capital market. It also opened up to private and foreign players which brought with them international practices and modern technology. They offered a wide range of financial services to individuals and corporate. With the entry of many new players the banking and insurance industry is being challenged competitively and have to face issues like customer loyalty, government regulations and the like.

Financial organizations are constantly trying to adopt newer technology and business models, streamline their processes and improve customer service to win new customers.

Digital advancements due to rapid technological changes are affecting the business operations across all industries and the financial service sector is also affected by it. It also brings with it various new regulations to manage their communication. For example, most financial institutions restrict access to social networking and do not allow their employees to engage on social media for business. These institutions are still sceptic of social media in spite of the big business building opportunities offered by the media. Marketing strategy for social media needs frequent attention and fresh content. Social media marketing proves to be effective

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when it engages the target audience with a personal touch. Social media campaigns should be presented as an extension of the firms' personality and should reinforce the brand.

Selling financial services is a highly unique and specialized field of marketing. The market environment of financial services is very dynamic, complex and competitive which makes marketing them a challenging task. Financial services cannot be advertised very visually and due to their intricate nature it is difficult to make it exciting and interesting. It involves making a considerably big decision of investing money on part of the customer thus making it further difficult to attract them. Some of the factors which make marketing a challenging for financial services are:

- **Dynamic environment:** The market environment of financial services is ever changing making the scenario quite tough for the marketers to implement and plan their marketing strategy. New reforms and regulations, liberalizations, entry of new players, privatisation, etc., are some factors which contribute to the ever changing market environment.
- **Consolidation of industry:** Since the relaxation of economic policies, the industry has seen a consolidation of the financial services market leading to increased competition.
- **New entrants:** There has been a surge of new entities entering the financial services market which is further increasing the competition. Apart from the new entrants the existing range of products and services has also been amplified.
- **Disparity in the consumer base:** It is noticed that there is a huge disparity in the customer base of financial services. There is a huge population who does not even have a bank account while the other side has numerous investments and portfolios. There are people suffering from bankruptcies and an increase in consumer indebtedness and delinquency rates for credit card and loans. It suggests that there is a huge number of people who are struggling for their financial survival. On the other hand there has been a rise in high net worth individuals, people taking more loans, keeping more credit and debit cards and the like which also shows an improvement in the financial stability. Due to this fragmentation the marketer of the financial services needs to design strategies which are diverse in nature to suit the different market segments.
- **Winning customer trust:** A feeling of distrust can affect both the customer and the company as they may feel uncertain about the intentions of the other party, thus it is very important to secure a sense of mutual trust between the consumer and the financial institution.

Elements of Financial Services Marketing

There are certain elements of financial services marketing which should be taken into consideration for formulating the overall marketing strategy of the financial services:

- **Pricing:** Pricing is one of the critical factors which affects a buyer's decision of investing his money. Though the pricing can have different forms depending on the financial product, it mostly is linked to the returns. For example, for banks the price might be the interest rates and for an insurance company it might be the premium to be paid. While deciding on the cost of the financial service or product various factors like incentives, interest rates, commissions, brokerage, etc., also need to be considered. The customers are mostly affected by the expected returns and the competitive prices offered.
- **Product planning:** The financial companies should keep working on creating new products and modifying the existing ones to meet the changing demands of the customer. Since the core product offered by most of the financial institutions is the same, it is all the more important to have some product differentiation by offering innovative features and efficient delivery. Proper market research should be done and decisions should be taken accordingly while doing product planning and development.
- **Branding:** It is necessary to create and maintain the brand identity of the financial service companies as it creates a recall value in the customer.
- **Place:** Services need to be offered from a place and its necessary to setup the branch at a place which is easily accessible by the target customers. Some of the other criteria involved in selecting the place are parking, transportation, power backups, communications and other infrastructural facilities necessary for its smooth functioning.
- **Customer service:** As with all other services, the quality of services provided is an important factor for marketing. How effectively and efficiently the service is provided is significant for the customers. Efforts to establish a personal relationship, providing timely services, showing empathy, etc., make a distinct impression on the customer and helps develop a loyal customer base.
- **Promotions:** With increased competition, it is important to promote the business and help stimulate the potential customer. Various promotional strategies like advertising, discounts, road shows, displays, contests and the like can be used to attract the customers and motivate them for impulse buying.
- **Segmentation:** There are various categories of customers in the financial industry like rural, urban, corporate, retail, high net worth individual, etc. Each of these have different requirements and preferences which makes it difficult for the marketers to plan their marketing strategies. To resolve this, identification of different market segments is very helpful. The segmentation can be done on the basis of the benefits offered, nature of the product, customer behaviour etc. When the market segmentation is done appropriately, the task of satisfying the customer gets easier.
- **Distribution:** It is important to determine a proper channel of distribution for marketing of a financial product or service. The idea is to make the

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product accessible to the customer and choose a channel which has a direct reach.

Financial service market is a complex market which has to deal with an overwhelming set of heavy terms, topics and also changing regulations. The ability to match with the fast pace of the market, manage competition and using the technology can help firms bring in huge profits and avoid catastrophic losses. The overall marketing strategy of a financial service provider may include defining the target customer, developing the appropriate marketing mix, planning, organization and administration. While developing the marketing strategy the marketing personnel should evaluate their threats, strengths, weaknesses and opportunities

The financial sector in India consists of commercial banks, financial institutions, mutual funds, cooperatives, insurance companies, pension funds etc. It can be categorised in many sub-sectors like banking, asset management, insurance, portfolio management services, securities trading and distribution etc. Let us study some of them in more detail and understanding the marketing strategies followed:

Banking

The bank is a financial institution which accepts deposits and lends that money to its customers. Banking sector in India is very extensive and forms the core of the financial sector. The commercial banks account for about sixty-nine percent of the total financial assets of the country. Banking has gone a major transformation over the past few decades. The entry of private and foreign banks, facilities such as internet banking, phone banking and core banking have made it more user friendly and easy for the customers. An increase in disposable income of the population has led consumers to be willing to take credit which has also given a boost to the sector. The opening of the economy to foreign and private banks has also helped to improve the working of the public sector banks. This in turn has resulted in improved service to the customers of the banking industry. Increased competition and technology have enhanced the quality of service offered to the customers and also improved the returns for bankers.

Based on different types of customers the banks have segmented their market in retail banking, corporate banking, personal banking etc. Investment banks helps the business generate funds from other firms, on the other hand commercial banks provide the following services:

- Providing different type of loans: mortgage, auto, education, personal.
- Keeping money safe for individuals.
- Allowing different mode of payments via chequebooks, demand drafts, ATM, credit card, net banking, online fund transfers, ECS etc.

Investment banking services include:

- Private banking service like wealth management and tax planning provided to HNIs (high net worth individuals).
- Capital market services to assist mergers and acquisitions, underwriting debt and equity, advisory services, etc.

- Other service like brokerage which assist the financial securities transactions.

They also provide services like asset and hedge fund management. These services mainly focus on creating capital through their client investments. Another service provided is the custody service for safe keeping and processing of world's securities trade. Apart from their core services banks also provided some augmented services like internet banking, ATMs, 24 hour customer service etc. These services help the banks gain a competitive advantage and differentiate their service offering from that of their competitors.

Banking is a high involvement service as it deals with customer finances. It is very important for the banks to win the trust of their customers. They need to effectively manage their marketing mix in order to derive maximum returns and establish their market position.

Based on the customer profiles, banks segment their market into retail banking, corporate banking, personal banking etc. Depending on customer needs for finance, the market can also be segmented into trade finance, consumer finance, etc. For the banker to derive maximum returns and enhance his market position the marketing mix has to be effectively managed. The products offered by a bank may be in the core or augmented form.

Insurance

Insurance agencies provide financial services in an economy. Insurance is done for property, casualty, life, etc., for the customers. Since the economic reforms, the market has opened up and both the private and foreign players see a lot of potential in the insurance sub sector. There are opportunities for newer markets and custom made products in insurance. Some of the major services provided by insurance agencies are:

- Finance and insurance: It includes the financing and insuring of assets sold by a dealer.
- Reinsurance: Insurance also suffers from major losses and reinsurance protects the insurers against these losses.
- Insurance underwriting: This service is provided by agents, insurance brokers to underwrite insurance for individuals which may include health insurance, casualty insurance, life insurance, retirement insurance, property insurance etc.

With globalisation, many private and foreign players have also entered the market thus reinforcing the need for innovation and creativity while marketing their products.

Insurance business needs to effectively segment the market in order to define and execute their market strategy. In insurance industry there are various market segments like individuals, industries, trade customers and institutions. Specialised services are needed to cater to the needs of these segments.

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Mutual Funds

Mutual funds can be described as a pool of funds collected from investors for the purpose of investing in securities such as stocks, bonds, money market instruments etc. It is commonly applied to those collective investment vehicles which are regulated. Mutual funds offer a safe avenue for investment at a reduced cost within a diverse range of securities which are spread across varied industries and sectors. Mutual funds are open ended, meaning the investor can buy or sell his share at any time or close ended, depending on the type of fund. Based on the customer's requirement and objective, mutual funds can be classified into income funds, balanced funds, money market funds etc. Mutual funds offer the customers a way to optimize their returns, capital appreciation, liquidity and safety.

The Indian mutual fund market is relatively new and still has a lot of scope of growth. A majority of Indian households are still to invest in mutual funds due to lack of information on how mutual funds work and thus the perceived risk. This gap can be fulfilled by correct marketing to educate the customer and boost the sales of mutual funds. With the entry of foreign and private players, the industry has become very competitive. Moreover new technological inventions and the development of the equity market has made mutual funds an attractive investment option for the customers.

Mutual fund products must be designed to suit the risk profile of the customer and fulfil his objective. The price of the fund depends on the stock market trends and the performance of the underlying stock. The performance of the company allows redemption of prices and to charge a load on the purchase. Companies use different channels of distribution like agents, banks, employee, post offices, online transactions, etc.

Portfolio Management

Investment portfolios refers to a group of investments rather than investing in a single security. Portfolios help generate return while reducing the risk. Portfolio management is the process of creating and managing investment portfolios. It is a complex process which involves taking decisions about the investment mix as per the customer objectives, allocation of assets and balancing the risk against performance. Portfolio management services refer to the services rendered to the customer for managing his portfolio as per his short and long term needs. All customers do not have the required knowledge, time or skills to manage their funds. So they hire portfolio managers to manage their assets by investing in various financial products like bonds, stocks, insurance etc.

As the income levels of Indians have risen over the years, the portfolio management service business has started to pick up with more players entering the market. Today all major asset management companies and brokerage firms provide this service. Every investor has his own financial needs, risk taking capabilities and financial goals. The only thing common in all investors is that everyone wants to maximise the return on their investments. This requires a professional handling of the funds to achieve the desired financial objectives and relieve the customer from the hassles of worrying about his investments.

Portfolio management service is a specialized service customised to offer a variety of investment strategies to capitalise on the opportunities available in the market. Portfolio management differs from mutual funds because in mutual funds the investment of many people are pooled together and then invested as a whole while in portfolios the individuality of each client is preserved and investments are made specific to their requirement.

A good portfolio manager provides various benefits like a balanced portfolio, professional research, advice on best investment options, minimum risks, maximum returns, awareness of market trends., continuous monitoring of markets and management of investments. The stock market is unpredictable and managing portfolio while reducing the risk and maximising the returns is a complex task. It requires experience, knowledge, time and constant monitoring of the market to manage the investments effectively. For all these reasons portfolio managers are needed to help manage the investments of the clients.

A standard product might not suit all type of investors. Portfolio management services need to be defined as per the individual needs of the investor. Similarly the price of portfolio management services also varies at is calculated as a percentage of the net asset value or a percentage of the returns or profits earned on the investment portfolio. People form a critical component of these services as they do the actual investments for the customer and determine their profits and losses. Similarly like with any other service, processes also play a vital role in understanding the customer needs, building his portfolio and evaluating the performance of the portfolio. For providing physical evidence the service provider's certificates, accomplishments, etc., can be used along with creating a nice ambience for the customer.

Check Your Progress

4. What are financial services?
5. What is perception?
6. What do you understand by portfolio management service?

5.5 THE INDIAN SCENE

The services sector is a vital component of the Indian economy. The sector, which accounts for around 60 per cent of the country's gross domestic product (GDP), has emerged as one of the largest and fastest-growing sectors not just in the country but in the global landscape; subsequently, its contribution towards global output and employment has been substantial.

The share of services in India's GDP at factor cost (at current prices) rose from 33.3 per cent (1950–1951) to 56.5 per cent in 2012–13. In 2020-21, based on 2011-12 prices, the Agriculture & allied, Industry, and Services sector's composition was 16.38%, 29.34%, and 54.27%, respectively. During FY 2014–15, the service sector grew at a healthy 5.6 per cent, according to National Council

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of Applied Economic Research (NCAER). In 2019-20, before the onset of the Covid-19 pandemic, the service sector grew by 5.5 per cent.

The service sector in India comprises a wide range of activities, including trading, transportation, communication, financial, real estate and business services, and community, social and personal services. The growth story overall and services of world and India in the 2000s began from almost the same level of around 4-5 per cent in 2000. But over the years, India's overall and services growth rates have outpaced those of the world. Interestingly, unlike world services growth, which has been moving in tandem with its overall growth with mild see-saw movements over the years, India's services growth has been consistently above its overall growth in the last decade except for 2003 (when the former was marginally lower than the latter). Thus, for more than a decade, this sector has been pulling up the growth of the Indian economy with a great amount of stability. The share of services in India's GDP at factor cost (at current prices) increased from 33.3 per cent in 1950-1 to 56.5 per cent in 2012-13. Including construction, the share would increase to 64.8 per cent in 2012-13. With an 18.0 per cent share, trade, hotels, and restaurants as a group is the largest contributor to GDP among the various services sub-sectors, followed by financing, insurance, real estate, and business services with a 16.6 per cent share. Both these services showed perceptible improvement in their shares over the years.

Community, social, and personal services with a share of 14.0 per cent is in third place. Construction, a borderline services inclusion, is at fourth place with an 8.2 per cent share. The CAGR of the services sector GDP at 10 per cent for the period 2004-5 to 2011-12 has been higher than the 8.5 per cent CAGR of overall GDP during the same period. However, in 2011-12 and 2012-13, there was a deceleration in growth rate of services sector at 8.2 per cent and 6.6 per cent, respectively. Among the major broad categories of services, 'financing, insurance, real estate, and business services', which continued to grow robustly both in 2010-11 and 2011-12 decelerated to 8.6 per cent in 2012-13. While in 2011-12 growth in 'trade, hotels, and restaurants' and 'transport, storage, and communication' slowed down to 6.2 per cent and 8.4 per cent respectively, in 2012-13 'trade, hotels, and restaurants' and 'transport, storage, and communication' combined grew by an estimated 5.2 per cent.

A comparison of the services performance of the top 15 countries for the 11 year period from 2001 to 2011 showed that the increase in share of services in GDP is the highest for India with 8.1 percentage points. These 15 top countries include major developed countries along with Brazil, Russia, India and China. While China's highest services compound annual growth rate (CAGR) stood at 11.1%, India's very high CAGR of 9.2% was second highest and also accompanied by highest change in its share. This is a reflection of the fact that India's growth has been powered mainly by the services sector.

Market size

The HSBC Markit Services Purchasing Managers' Index (PMI), which measures business activity from a survey of more than 400 companies including banks and hospitals, stood at 48.5 points in April 2014 as against 47.5 during the previous

month. The logistics sector of the country is valued at \$160 billion and is projected to touch \$215 billion by 2022.

India's total export of software services and IT-enabled services during 2012–13 was estimated to be ₹ 3.41 trillion (\$56.74 billion), registering a growth of 37 per cent over the previous year, according to a report by Reserve Bank of India (RBI). In 2020-21, India's exports of software services (excluding exports through commercial presence) are estimated at USD 133.7 billion, registering 4.0 per cent growth over the previous year. The services sector in India received foreign direct investment (FDI) worth \$39,416.86 million during the period April 2000–February 2014, as per data released by Department of Industrial Policy and Promotion (DIPP). Indian insurance companies spent ₹ 12,100 crore (\$2.01 billion) on IT products and services in 2014, a 12 per cent increase over the previous year, according to Gartner Inc.

Road Ahead

The country's banking industry would be the world's third largest in asset size by 2025, as per a report by the Boston Consulting Group (BCG) India, prepared in collaboration with a leading industry organisation and Indian Banks Associations (IBA). Also, Life Insurance Council, the industry body of life insurers in India, projects a compound annual growth rate (CAGR) of 12–15 per cent over the next few years for the segment, with India's insurable population projected to touch 750 million by FY 2020.

Numerous reasons can be attributed to the growth of services in the Indian economy; however, the chief one would perhaps be the continuation of the reform process in spite of the change in the government. Along with this reform process, the outsourcing boom, the growth in urban consumption and the investment cycle upturn have contributed to the economic growth witnessed in recent years. The South East Asian economies that have grown largely due to their exports offer an absolute contrast to this.

Communication, transportation, the hotel industry and trade have been the primary contributors (contributing about 60 per cent) behind the sector's remarkable growth. The rise in imports and exports too escalated the growth rate of the trade sector. An improvement was also seen in the activities of the hotel industry as a result of the progress in tourism, especially leisure and business travel. A robust growth was recorded by the transport sector as well, consequent on the increased production of vehicles for commercial use and heightened cell phone usage. The development of the insurance business through the private and public sectors, the rise in the revenue expenditure of the government and bank deposits and the extension in non-food credit, abetted the growth of the financial and insurance sectors. A huge potential for employment generation has been fostered by the advances in tourism and tourism-related services. The growth in IT-enabled services like knowledge and business process outsourcing is expected to continue. India has now become a key exporter of software professionals and services due to the increase in the number of English-speaking skilled manpower.

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5.6 DESIGNING OF SERVICE STRATEGY

Strategy involves the selection of a unique set of activities to be performed efficiently by a company. A company can perform better than its competitors if it cannot only create a difference but also maintain it. It must deliver greater value to customers, or provide greater value at a lesser cost. A company can charge more from the customers if it delivers a greater value and lessen its costs if it increases its efficiency. The differentiation arises from the way of performing the activities as well as from the choice of activities that are performed. Thus, the overall advantage or disadvantage that a company has over its competitors depends upon the work processes and the activities done by a company. Operational effectiveness results when a company performs similar activities in a better way than its rivals. Strategic positioning results when a company performs activities which are different from its competitors, or does similar activities in different and efficient ways thus leading to a cost advantage.

Constant improvement in operational effectiveness through new technologies and better practices is necessary to achieve high profitability. But a competitive advantage in operational effectiveness is not sustainable because technologies and best practices diffuse fast and every company comes to have them after some time. All the players of an industry become more efficient and start competing on the same parameters as they benchmark with one other. The profitability of the industry goes down as firms reduce price to attract customers and spend money on new technologies and benchmarking. The extra value generated due to improved operational effectiveness is captured by customers and suppliers of technologies and equipment.

Strategy requires a tailored set of activities. Strategy is the creation of a unique and valuable position, involving a different set of activities. The essence of strategy is to choose activities that are different from rivals. In choosing the set of activities, a company will have to make trade-offs because some of the activities that it could choose are incompatible. An airline can choose to serve meals but the result will be higher costs and slow turnaround time at the gate. Different positions require different product configurations, different equipment, different employee behaviour, different skills and different management systems. Value is destroyed when an activity is overdesigned or under-designed for its use.

If a given salesman was capable of providing high level assistance to one customer and none to the other, the salesman's talent would be wasted on the second customer. Moreover, productivity can improve by limiting the variation of an activity. By providing a high level of assistance all the time, the salesperson can achieve efficiencies of learning and scale. By clearly choosing to compete in one way and not other, the management makes organizational priorities clear and employees can take appropriate day-to-day operating decisions. Making trade-offs also helps in providing consistent image to customers.

Companies dangerously believe that they can avoid making trade-offs. They believe that they can provide high quality of product and lot of associated services

to customers at a low price. They cannot. The essence of strategy is choosing the activities, which the company will not do. A company has to categorically choose the activities it will do and the ones which it will not do, depending on the strategy it has chosen.

The chosen activities should fit each other and reinforce each other. Every activity matters. Southwest's remarkable turnaround happened because of an efficient and well-paid ground crews, cutting costs on meals, seat assignment and interline baggage transfers. Southwest selects airports and routes, which help it to avoid congestion that leads to delays. Purchasing standardized aircrafts is possible because of its limits on the length and types of routes. All Southwest aircrafts are Boeing 737. Its different activities complement one another to create competitive advantage and real economic value. The cost of one activity is lowered because of the efficiency with which the other activities are done. The value of one activity for a customer increases by a company's other activities.

Operating in coordination, the activities provide a sustainable advantage over competitors. A competitor can imitate one activity but cannot imitate interlocked activities such as a particular approach towards salesforce, technology used in processes, or other product features.

Strategy, which is based on a set of activities, gives more competitive advantage, and is more sustainable than a strategy, which is only based on individual activities. A set of coordinated activities is difficult to imitate. If a competitor imitates one activity without understanding its significance and connect to the whole process, the company's performance may even decline.

A particular strategy should be implemented for a decade or more than that. Continuity enhances better performance. Frequent changes in strategy are not cost-effective. This is because all the related activities have to be changed.

Companies, which serve one group of customers and exclude others, place a limit on their revenue growth. Strategies, which highlight low prices, result in loss of sales with customers who are sensitive to the quality of a particular service or feature. Though companies are always tempted to adopt such steps, these may spoil a company's strategy. Therefore, a strategy has to be adopted to extend product lines, add novel features, make acquisitions and match processes. Each unit will have a unique strategy.

Market-Oriented Service Product Strategies

Few service organizations can service with just one specialized service. A mix is usually provided. Product mix is the combination of products that an organization offers to customers. Product depth refers to the number of different products in a product line. Product width is the number of product lines offered by an organization. A product line is a group of related product items.

In order to remain competitive in the face of declining demand for its principal service line, a service company may need to widen its product mix. On the other hand, some services may need to be deleted from the mix where consumer tastes have changed or competitive pressures have made the continuing provision of a

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service uneconomical. Product mix extension and deletion decisions are continually made so that organizations can provide services more effectively, i.e., supplying the right services in response to consumers' changing needs and more efficiently, i.e., providing those services for which the firm is able to make the most efficient use of its resources. For any service organization, its service offering will be constrained by the capabilities, facilities and resources at its disposal. Service firms should constantly examine their capability and their objectives to ensure that the range of services provided meets the needs of the consumer as well as that of the organization.

Service product audit ensures that the right services are provided in order to meet strategic objectives. Key questions in the audit are:

- (i) What benefits do customers seek from services?
- (ii) What is the current and continuing availability of the resources required to provide the service?
- (iii) What skills and technical knowhow are required?
- (iv) What benefits are offered over and above those of competition?
- (v) Are competitors causing the organization to lose revenues?
- (vi) Does each service provided earn sufficient financial returns?
- (vii) Do services meet the targets which justify continued funding?

Developing the Product Mix

Four main service product strategies are:

- (i) **Market penetration:** An organization continues to supply its existing services to its existing customer segments but seeks to increase sales from them. This may be achieved by increasing their total consumption, or by taking consumers from competitors.
- (ii) **Market expansion:** New types of consumers are found for existing services. A restaurant chain of India may extend its operations to a new overseas market.
- (iii) New or modified services are developed to sell to the current market.
- (iv) **Diversification:** New services are offered to new markets.

Each of these strategies involves different levels of risk. Market penetration has lowest risk as it deals with familiar services and consumers. Services development and market expansion involve greater degrees of risk as the organization is dealing with something new in each situation. Degree of risk depends on the organization's strengths vis-à-vis its competitors and on the potential opportunities available. Diversification involves greatest risk of all, involving an organization with both new services and new markets.

- **Option 1:** Attempting to sell more of its existing range of services to existing customers means that greater use of existing resources and facilities is required. Market positioning is an important resource.

- **Option 2:** Attempting to sell existing services to new customers requires the use of existing resources and facilities. But no market based resource is available as the firm is entering a new market.
- **Option 3:** Attempting to sell new services to existing customers' means that a firm can use market resources but there may be lack of existing capability or resources to produce a new service.
- **Option 4:** Attempting to sell new services in new markets makes it less likely that there are any existing resources available.

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Service Life Cycle Concept

Services go through some form of life cycle, and organizations should have a strategy to maintain a balance in its portfolio of services offerings.

The concept is based on the premise that total sales and profitability of products fluctuates according to some pattern during the product's life. This concept can be used for individual product items, product classes and whole industries.

- **Phase I – Introduction:** New products are costly to produce and launch, and may have teething problems. People may be wary of trying something new, especially a new service whose intangibility prevents prior evaluation. Sales are slow and restricted to those who like trying out new products or who believe they can gain status or benefits by having it.
- **Phase II – Growth:** Product has been tested and any teething problems have been resolved. The product is now more reliable and more readily available. People now see the benefits that can be gained by using the product. Sales start to increase greatly and there is signal for competitors to start entering the market.
- **Phase III – Maturity:** Almost everyone who wants to acquire the product has done so although some people may now be updating the product having purchased it earlier in the life cycle. The number of competitors has risen.
- **Phase IV – Saturation:** There are too many competitors and no further growth in the market. Competitors compete with each other on the basis of price.
- **Phase V – Decline:** With falling demand and new substitute products appearing, organizations drop out of the market.

Marketing activity for a service should be closely related to the stage in the lifecycle that a service has reached. Promotional planning is closely related to the lifecycle, with emphasis placed in the launch phase on raising awareness through public relations activity; building on this through the growth phase with advertising; resorting to sales promotion incentives as the market matures and becomes more competitive; and finally allowing promotional activity to fall as the service is allowed to go into decline. Distribution and pricing decisions are also related to the stage which a service has reached in its lifecycle.

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Different products move through the lifecycle in different phases. Some products have been in the maturity/saturation stage for many years whereas others disappear very soon after introduction. There are a variety of lifecycle modifications and mutations.

- (i) The product has achieved a high sales level early on but there is a failure to increase sales further, although there is no sign of maturity or decline.
- (ii) The product constantly increases its sales volume in each period. New customers are gained and present ones increase their purchase of the product.
- (iii) The product starts from a strong position but experiences falling sales due to better competition entering the market.
- (iv) In certain circumstances a product entering decline can be saved from the depths of decline through product reformulation or sales promotion or by some external factors such as change in customers' taste. The product now displays a new lease of life. Having developed a second cycle, decline is on the way again although at a higher level of sales than existed previously.
- (v) Product is again saved at the decline stage but the new cycle is at a lower level of sales than originally.

Studies have reinforced the existence of life cycle among services (for instance, air transportation) Instead of speaking of the life cycle of a product, the inseparability of services make it more appropriate to discuss the lifecycle of services.

- **Stage I – Entrepreneurial:** An individual identifies a market need and offers a service to a small number of people usually operating from one location. Most entrepreneurs stay at this stage but some move to large and/or additional sites.
- **Stage II – Multi-stage rationalization:** Successful entrepreneurs start to add to the limited number of facilities. Skills required for being a multi-site operator are developed. Franchising is considered.
- **Stage III – Growth:** The concept has been accepted as a profitable business idea. Expansion is through purchase of competitors, franchising/licensing, developing new company operated facilities, or a combination of the three. Growth is influenced by the founder's desire to succeed and financial pressures placed upon the company.
- **Stage IV – Maturity:** The number of new outlets decline and revenues of individual facilities stabilize and in some cases also decline. This may be due to changing demographics within the firm's market, changing needs and tastes of consumers, increased competition and cannibalization of older services by firm's newer products.

- **Stage V – Decline/regeneration:** Firms can become complacent and unless a new concept is developed or new markets found, decline follows.

Difficulties in applying the life cycle concept

The service lifecycle concept is more useful for strategic planning and control than for developing short-term forecasts. In reality, lifecycle patterns are too variable in both shape and duration for any realistic predictions to be made. Marketers are unable to predict accurately where in the lifecycle a product actually is at any time. For instance, a stabilization of sales may be a movement into maturity or simply a temporary plateau due to external causes. It is also possible that the shape of the lifecycle is a result of an organization's marketing activity rather than an indication of environmental factors to which the organization should respond.

Duration of the stages will depend upon whether it is a product class, form or brand which is being considered. Most service organizations have only a very small number of core services and there should be a degree of caution in using the lifecycle concept for services.

Check Your Progress

7. What is the share of the service sector to India's GDP?
8. What is necessary to achieve high profitability?

5.7 ANSWERS TO CHECK YOUR PROGRESS

1. Services marketing is a specialized branch of marketing which emerged as a separate field of study in the early 1980s, following the recognition that the unique characteristics of services required different strategies compared with the marketing of physical goods.
2. According to William Stanton, 'services are separately identifiable, intangible activities which provide want satisfaction when marketed to consumers and/or industrial users and which are not necessarily tied to the sale of a product or another service.'
3. Any supply which is either deemed as services under Schedule II of CGST Act or which is not covered under the definition of goods is categorized as pure services. Services without involving any supply of goods are treated as supply of 'pure services'. For example, consultancy, education, idea selling, etc.
4. The services provided by the finance sector are known as financial services. These services include a large spectrum of activities like deposits, loan, investments, insurance, securities and all form of financial products.
5. Perception is the process of selecting, organizing, and interpreting information to form a meaningful picture of the world.
6. Portfolio management service is a specialized service customised to offer a variety of investment strategies to capitalise on the opportunities available in the market.

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7. The share of services in India's GDP at factor cost (at current prices) rose from 33.3 per cent (1950–1951) to 56.5 per cent in 2012–13. In 2020-21, based on 2011-12 prices, the Agriculture & allied, Industry, and Services sector's composition was 16.38%, 29.34%, and 54.27%, respectively.
8. Constant improvement in operational effectiveness through new technologies and better practices is necessary to achieve high profitability.

5.8 SUMMARY

- The marketing of services has now become a separate entity and functions independent of the marketing of products and goods.
- There is an invariant need of services marketing in today's world with it being more necessary than products at some point.
- Customers buy services, not products. They buy products for the services that they provide. When a customer buys a car, he is buying the service of transportation. When another customer buys an air-conditioner, he is essentially buying cool atmosphere.
- Marketers have known this fact for long but have not ceased to insist on customers buying their products. Their focus has been to ensure transfer of ownership from the company to the customer.
- Services marketing is a specialized branch of marketing which emerged as a separate field of study in the early 1980s, following the recognition that the unique characteristics of services required different strategies compared with the marketing of physical goods.
- To market itself, a service provider needs to find its core competencies and customer segment, which it should target. Further, it should rely on market research to understand the needs of the particular customer segment that it targets.
- The present era is known as the service era. The service sectors provides employment to millions of people in India.
- In the reform period, the Indian economy has emerged as a service economy as the service sector provides more than 50% of the GDP of the country. The service sector also contributes majorly to the national income.
- It can be said that a group of activities, its benefits, facilities and conveniences which is offered to someone to satisfy the need of any person can be called as service.
- The reasons for the boom in the service sector in India are as follows:
 - o Economic Prosperity
 - o Development of Agriculture Sector
 - o Changing Role of Women
 - o Cultural Transformation

- o Revolution in Information Technology
- o Improvement of Marketing System
- o Growth of MNCs
- In most industrialized economies, expenditure on services is growing due to advances in technology that has led to more sophisticated products that require more services.
- Services marketing is marketing based on relationship and value. Marketing a service-based business is different from marketing a goods-based business. For one, it is not easy to put a price to a service. Also, service firms are organized in a different manner in terms of structure.
- The services provided by the finance sector are known as financial services. These services include a large spectrum of activities like deposits, loan, investments, insurance, securities and all form of financial products.
- Financial services are provided by different types of organizations like banks, insurance companies, financial institutions, investment funds, stock brokerages, government enterprises etc.
- What a customer buys, how he buys, where and when he buys, in how much quantity he buys depends on the customer's perception, self-concept, social and cultural background, age and family cycle, attitude, beliefs, values, motivation, personality, social class and many other factors that are both internal and external.
- Consumer behaviour can be most simply explained as the decision-making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services.
- There can be various factors which govern customer behaviour and psychology. They can be environmental factors including social, cultural, ecological and technological factors.
- Marketers must study the impact of these factors on the market in which they wish to sell their product or service. Failing to understand the factors properly can lead to failure in selling the product and incurring losses.
- The four major psychological factors influencing buying choices are motivation, perception, learning, and personality.
- It is essential for the financial services marketers to understand how the consumers decide on the brands and institutions from which to buy a financial product or service.
- Customer loyalty depends on their degree of preference and perceived product differentiation. If a customer is satisfied that the service he is getting from his current provider is better than that of the competitor's then he will not switch.
- Marketing of services is different from marketing of goods due to the inherent characteristics of services like intangibility, perishability, heterogeneity and inseparability.

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- Marketing of services depends on people as there is no tangible product on offer. The customer has to interact with the service provider to get the service and both cannot be separated.
- With the liberalization of economic reforms there have been many changes which made a deep impact on the Indian financial services sector. Since the nineties, the government has initiated many reforms which have helped meet the complex demands of a developing financial sector.
- With the ever changing economic environment, technological advancements, convergence of financial institutions, the finance service industry has become very competitive now.
- Financial services are impacted by several factors like customers, technology and increasing competition. Managing finance is an everyday activity and requires instantaneous interpretation of financial markets and anticipating the movements of funds.
- Selling financial services is a highly unique and specialized field of marketing. The market environment of financial services is very dynamic, complex and competitive which makes marketing them a challenging task.
- Financial services cannot be advertised very visually and due to their intricate nature it is difficult to make it exciting and interesting. It involves making a considerably big decision of investing money on part of the customer thus making it further difficult to attract them.
- Financial service market is a complex market which has to deal with an overwhelming set of heavy terms, topics and also changing regulations. The ability to match with the fast pace of the market, manage competition and using the technology can help firms bring in huge profits and avoid catastrophic losses.
- The bank is a financial institution which accepts deposits and lends that money to its customers. Banking sector in India is very extensive and forms the core of the financial sector.
- Insurance agencies provide financial services in an economy. Insurance is done for property, casualty, life, etc., for the customers.
- Mutual funds can be described as a pool of funds collected from investors for the purpose of investing in securities such as stocks, bonds, money market instruments etc. It is commonly applied to those collective investment vehicles which are regulated.
- Portfolio management service is a specialized service customised to offer a variety of investment strategies to capitalise on the opportunities available in the market.
- Portfolio management differs from mutual funds because in mutual funds the investment of many people are pooled together and then invested as a whole while in portfolios the individuality of each client is preserved and investments are made specific to their requirement.

- The services sector is a vital component of the Indian economy. The sector, which accounts for around 60 per cent of the country's gross domestic product (GDP), has emerged as one of the largest and fastest-growing sectors not just in the country but in the global landscape.
- Strategy involves the selection of a unique set of activities to be performed efficiently by a company.
- A company can perform better than its competitors if it cannot only create a difference but also maintain it. It must deliver greater value to customers, or provide greater value at a lesser cost.
- A company can charge more from the customers if it delivers a greater value and lessen its costs if it increases its efficiency. The differentiation arises from the way of performing the activities as well as from the choice of activities that are performed.
- Strategy is the creation of a unique and valuable position, involving a different set of activities. The essence of strategy is to choose activities that are different from rivals. In choosing the set of activities, a company will have to make trade-offs because some of the activities that it could choose are incompatible.
- Strategy, which is based on a set of activities, gives more competitive advantage, and is more sustainable than a strategy, which is only based on individual activities.
- Four main service product strategies are:
 - o Market penetration:
 - o Market expansion
 - o New or modified services are developed to sell to the current market.
 - o Diversification
- Services go through some form of life cycle, and organizations should have a strategy to maintain a balance in its portfolio of services offerings.
- The service lifecycle concept is more useful for strategic planning and control than for developing short-term forecasts. In reality, lifecycle patterns are too variable in both shape and duration for any realistic predictions to be made.

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5.9 KEY TERMS

- **Financial Services:** Financial services are the economic services provided by the finance industry, which encompasses a broad range of businesses that manage money, including credit unions, banks, credit-card companies, insurance companies, accountancy companies, consumer-finance companies, stock brokerages, investment funds, individual managers, and some government-sponsored enterprises.
- **Consumer Behaviour:** It refers to observable activities chosen to maximize satisfaction through the attainment of economic goods and services such as choice of retail outlet, preference for particular brands and so on.

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- **Motivation:** It is the process that initiates, guides, and maintains goal-oriented behaviours. It is what causes one to act, whether it is getting a glass of water to reduce thirst or reading a book to gain knowledge.
- **Personality:** According to Morgan & King, personality can be defined as ‘The characteristics and distinctive trait of an individual, the stable and shifting pattern of relationship between these traits interact to help or hinder the adjustment of a person to other people and situation.’
- **Mutual Funds:** It is a professionally-managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities.

5.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Define service marketing.
2. What are hybrid goods?
3. Write a short-note on the growth of services in India.
4. Write a short-note on marketing financial services in the Indian environment.
5. What are the challenges of marketing financial services?
6. What are mutual funds?

Long-Answer Questions

1. Describe the reasons why the service sector is booming in India.
2. Examine the marketing of financial services.
3. Explain the factors governing consumer behaviour.
4. Discuss the elements of financial services marketing.
5. Explain how one can design a service strategy.

5.11 FURTHER READING

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